



Economic Growth Does Not Mean a Return to business as Usual



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The IMF Staff have prepared a report on Barbados which confirms that our economy has turned the corner. We should however be wary of interpreting that to mean that we can return to the free spending ways of the mid-2000's, or that the need for continuing austerity has been relieved.

For one thing, we need to repair the damage the economy has suffered as a result of the battering since the 2008. In particular, we need to compensate for the large fiscal deficits of recent years, and to restore foreign reserves to levels that provide a cushion against future shocks. Both purposes will be served by the Government's strategy to reduce the fiscal deficit in stages. That will reduce the amount that Government needs to borrow and stabilise the national debt. As the economy grows, the ratio of debt to GDP will stabilise and begin to fall.

Secondly, increases in taxes and cuts in Government spending reduce the amount of money people have available for spending. Merchants need fewer imports to re-stock, and the demand for foreign exchange falls. That demand needs to fall below the amount of foreign currency inflows, to generate a surplus that can be used to top up the Central Bank's foreign reserves.

The fact that the economy has turned the corner is not a signal that fiscal austerity is at an end. The first priority is to use the additional foreign currency from tourism to rebuild foreign reserves; only then will it be possible for Government to take off the brakes.

There is a third and overarching reason why things will not revert to what used to be normal: the march of technology has changed our world, and we need to be much more agile and productive to be successful and to remain internationally competitive. The evidence is all around us that the successful companies are those who have moved with the times and the technology, and have upgraded their products and services, reorganized to achieve higher efficiency and greater market impact, and maintained high standards at all times. These companies succeed by measuring their performance against the best in the world, and setting their sights on that level of performance. They understand that excellence is the most effective competitive strategy.

This is the challenge to all businesses as well as to all Government entities in Barbados. Our country has to remain competitive internationally, because we need the foreign exchange that tourism, international business services and exports bring, to finance the imports we need for our standard of living. We must borrow from the world's most competitive businesses, and from the world's most efficient governments, and gain ideas for improving, upgrading and enhancing our own products and services. Already we have entrepreneurs, businesses and institutions that have shown the way. We should recognise and celebrate them, and use them as inspiration for the ongoing quest for greater efficiency, productivity and competitiveness.