



## Economic Letter October 2019



### **You Need US Dollars, not Barbados Dollar Savings, in Order to Invest**

One often hears the comment that there are hundreds of millions of dollars of idle funds at commercial banks that ought to be directed to investment projects to create employment and grow our economy. However, we need always to bear in mind that every investment project is going need to computers, cell phones, supplies and equipment that have to be purchased from abroad, in US dollars. A basic feature of economies as small as Barbados is that all business investment, from hairdressers to supermarkets to power plants, has to be financed mainly in foreign currency, not domestic money. That is because the domestic currency cannot be used to acquire essential inputs from abroad, such as equipment, vehicles, materials, fuels and other inputs. This is true whether the project is large or small, private or public, for domestic production or export.

It follows that all investment of necessity requires a substantial proportion of foreign finance. This means that the Barbados dollars in banks cannot be put to use in financing investment projects; for that, the banks will need to receive a larger supply of foreign exchange, from tourism, international business, manufactured exports or other sources. It also means that new investment cannot be funded with the savings of local companies or individuals. Domestic savings are in local currency; in order to do any investment the saver has to acquire foreign currency in addition to (or in exchange for) their savings, so they can pay for the imports they need.

An abundance of local currency finance will have no effect in the absence of investment projects that offer a competitive rate of return, and are undertaken by reputable, well regarded companies. The key to reviving investment and growth is to improve competitiveness. Government services that are tardy, obsolete and of poor quality, along with deteriorating infrastructure, are causing the Caribbean to lose out to the competition. Public sector inefficiency continues to cost the Barbadian economy hundreds of millions of dollars in investment. Meaningful improvement in the efficiency of public administration and the delivery of public services will be rewarded with a recovery in investment. As is well known, there is no shortage of investor interest in Barbados' competitive tourism, and in renewable energy, from Barbadians and foreigners. These investors, local and foreign, have access to the foreign exchange they need for the intended investment. Government administrative difficulties of one kind or another block the way to the realization of this investment.

The truth of the matter is that declining international competitiveness, not finance, is strangling investment in Barbados and the rest of the Caribbean. A significant upgrade in the quality of our public services is not the only factor in economic recovery, but it is the single most important key to unlocking the investment potential of Barbados and the rest of the Caribbean.