



NOVEMBER LETTER

Investors Value Predictability

At a recent seminar I attended in Washington DC, both the President of the Chinese-sponsored Asian Infrastructure Investment Bank (AIIB), and the Chairman of the Swiss international bank UBS highlighted the value investors place on predictability. Investors are well aware that any finance that looks to future profits involves some risk. That is generally accepted. The careful investor balances the unavoidable risk against the returns that are expected: they are willing to take greater risks in search of a better return, within reason.

However, there are uncertainties that countries like Barbados can reduce by appropriate policy. President Li of the AIIB and Chairman Weber of UBS mentioned the need for a stable, predictable legal framework and regulations that are clear and transparent. Investors worry that expected returns from their investment may not materialise because new restrictions are imposed, or existing regulations are amended. Other concerns are that taxes may be increased or losses result from fluctuations in exchange rates or interest rates. These risks may all be lowered or eliminated by official policy changes.

There is much that Barbadian policy makers can do to lend greater confidence to those who are interested in investment in Barbados. The most urgent task is to effectively reduce Government's deficit to relieve pressure on the foreign exchange market. Foreign exchange shortages are still widely reported, and importers and others needing foreign exchange are being placed in a queue. This naturally puts a damper on incoming investment.

Once financial markets are reassured about the stability of the foreign exchange market, government must turn its attention to the regulatory and administrative framework affecting potential investors. Investment markets for hotels, international businesses, energy, spirits and other large projects are now truly global. In all of these areas Barbados is in competition for finance with countries around the world. The country must improve its ranking in the most authoritative indices, issued by the World Economic Forum, the World Bank and other international agencies.

The World Economic Forum's *Global Competitiveness Report (GCR)* and the World Bank's *Doing Business Report* provide frameworks which allow us to identify the factors that affect competitiveness. The *GCR* identifies the most significant impediments as work attitudes of the labour force, the ineffectiveness of the Government bureaucracy, and the availability of finance. That report also highlighted deterioration in Government performance over the past several years. Regulation has become more burdensome, the legal framework less efficient and many of those surveyed for the report believe that Government has been wasteful in its spending.

There is no question that much of the avoidable uncertainty in global financial markets today is due to international regulations and policies in advanced economies. A tide of nationalism and regulatory over-reach by the Group of 20, the OECD and others has distorted the international financial market, to the detriment of all parties. However, even within this environment Barbados may thrive, by taking decisive action to close the budget deficit and improve public sector performance.

Because our country is small, a small capital inflow by international standards, can provide a major boost to our economy. There are investors who are eager to invest in Barbados, the international climate notwithstanding. What they need is a more stable domestic economic environment, without the threat of a devaluation. Also, investors must be reassured that administrative and regulatory systems are on par with major financial centres like New York, London and Switzerland. Finally, they expect a high degree of worker engagement and productivity. These are matters all Barbadians and our government can and must do something about. The country's future growth depends on how well we meet these challenges.