



# Economic Letter April 2019



## The US Dollar Fuels the Barbados Economy

The supply of foreign exchange is what fuels the economy of Barbados, the rest of the Caribbean, and all small economies. Everything Barbadians need for our daily lives is brought in from abroad, or uses supplies that are imported. Everything that is produced in Barbados uses imported materials and equipment. We import fuels, vehicles, building materials and spare parts.

All imports must be paid for in US dollars, euro, renminbi or other foreign currency. Since imports are needed for all economic activity, it follows that we need an adequate supply of foreign exchange to keep the economy ticking over. In order to grow the economy, we need to increase the supply of foreign currency.

Most of the foreign currency inflow in Barbados comes from tourism, 45 percent of the total. International business and other services provide 23 percent and physical exports another 10 percent. The remainder comes from overseas income and pension payments to residents of Barbados. In order to revive the growth of our economy, earnings from these sources must be increased.

Investments that enable the country to increase foreign currency earnings are therefore key to renewed economic growth. These investments may be in new hotels and increased capacity, improvements in the quality of services, and adoption of new technology. The critical point is that whatever the investment, foreign sources of finance will be needed, to purchase materials, equipment and expertise. A local investor who has Barbados dollar funding sufficient to cover a prospective investment cannot go forward, unless he can purchase or borrow US dollar resources for the inputs he will need.

The economic reality for all small nations is that they must secure an adequate inflow of foreign exchange to supply the inputs that keep the economy running. The economy grows as the supply of foreign exchange grows. As in other economies, investment is the key to growth. Small nations must attract finance for investment from abroad, because of the imports they need. Local companies and individuals may and should initiate projects, but they will not get far unless they can partner, borrow from or buy from some entity which can access foreign exchange in the amount required to complete the project.

The fact that foreign exchange is crucial for renewed growth in no way limits the economy's potential. What it does require is a focus on actions which increase the appeal of investment and lending to Barbados. The long delays in administrative and legal processes, the lack of timely public reporting, and the poor quality of roads and domestic infrastructure, are among the matters to be addressed. The road to new investment, improved competitiveness and faster growth is by way of a makeover of the public sector.