



Publication Announcement



The Barbados Economy: The Road to Prosperity

An essay with this title is published at www.delisleworrell.com.

The Barbados economy is well on the way to a prosperous future, thanks to the competitiveness of tourism. Barbados is the most competitive economy in the Caribbean, according to the published reports of the World Economic Forum. The range, quality and variety of the tourist experience in Barbados is unrivalled, and visitors are full of praise for Barbadian hospitality.

Foreign exchange drives the economy, and about half of the country's foreign earnings come from tourism. Despite its challenges, international business and other services provided another 25 percent of the total foreign earnings in 2016. Manufactured goods and agricultural exports, income from foreign investments and pensions of returning residents provide the rest.

Foreign currency earnings are converted to Barbados dollars, which are used to pay wages, to pay for electricity, water and other services, and to make tax payments. This income circulates within the economy, creating business for small enterprise and providing new jobs.

As people spend their income on food, clothing, transportation and other necessities, they generate a demand for imports. The foreign exchange earned by tourism, international services and exports is used to purchase needed imports.

Ever since 2013, the cost of imports has exceeded the amount of foreign currency inflows, and the Central Bank has been obliged to use foreign currency from its reserves to make up the difference. As a result, foreign reserves have fallen from over \$1,400 million to under \$600 million. This low level of reserves undermines investor confidence. It is the first roadblock on the path to economic prosperity.

A second roadblock is the inefficiency of government bureaucracy. Barbados boasts health and educational services that are in the top tier among countries in the Americas. Security of person and property are adequately maintained. However, tax administration, Treasury management, road maintenance, licensing, legal services and other administrative services have become very inefficient.

The future prosperity of the Barbadian economy is assured, once the twin roadblocks are cleared. Government's expenditures must be reduced to what taxes will support, once the NSRL and foreign exchange fees are removed. That will entail a separation fund for public servants, to allow for job reductions of 1,500 persons each year for 3 years. An affordable scheme would provide each person leaving with about \$60,000. In addition, support for state-owned companies would be reduced by 10 percent a year for three years.

Government should seek the support of the IMF and other international financial institutions to fund the separation package and to oversee a comprehensive programme of public sector reform. As with all IMF programmes, finance would be tied to performance targets. These targets should be based on achieving specific performance thresholds.

With the implementation of expenditure reduction and measures to improve public sector efficiency, GDP growth would reach 3 percent in five years. Foreign reserves would exceed \$2,000 million, including borrowings from international financial institutions. The burden of interest payments on Government debt would be substantially reduced. Government would have a small surplus on the current account, and the overall fiscal position would be sustainable.

What ails the Barbados economy has been an open secret for many years. It is a public sector that our taxes cannot support, and one that does not deliver administrative services efficiently. The remedy is known and inescapable; at this late stage of the game the assistance of the IMF and other international financial institutions is essential to oversee the implementation of reforms. Decisive action clears the path to future prosperity.

DeLisle Worrell

www.delisleworrell.com

November 24, 2017