The Barbados Economics Society

My Barbados: The Way Forward

Sentiments of the BES President Mr. Shane Lowe

February 2018
Issue 2

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Summary

Growing up in Barbados during the 1990s and early 2000s, I marveled at the Barbados story – a small island in charge of its impressive developmental progress, "punching above its weight" and setting the example for others in CARICOM. Today, Barbados is still the Gem of the Caribbean, but for the second time since 1990, we face a fiscal and potential foreign exchange crisis.

Today, exports of goods and services exceed imports of goods and services as record numbers of tourists flock to our shores. And, lower global oil prices have reduced our fuel imports since 2014. Yet, greater income payments to non-residents and the repayment of foreign debt now consume more of our foreign exchange earnings. These payments, coupled with weaker inward foreign investment and no access to commercial, foreign currency financing at favourable interest rates (due to a poor credit rating) have created a persistent negative gap between foreign exchange inflows and outflows since 2013. Thus, foreign reserve levels stood at just $410 million at December 2017, and with other major debt payments due, the downward trend will likely persist for the foreseeable future.

BES Position

Our immediate concern should be to stabilize our foreign reserves and protect our exchange rate peg – a challenge not dissimilar to that in 1991. Back then, an unsustainably high fiscal deficit, falling tourist arrivals, rising imports and looming debt payments virtually eliminated Barbados' net international reserves.

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However, cuts to government's operating expenses and financial support from the International Monetary Fund (IMF) put reserves back on an upward trajectory and laid the foundation for the years of economic growth which followed. Similar remedies can yield benefits, not necessarily via a sharp reduction in imports, but via the elimination of the deficit between government's tax revenues and operating expenses, which should improve credit ratings. Achieving such will allow us to borrow at favourable rates to finance necessary infrastructure projects and to roll-over large upcoming external debt maturities.

However, after this, then what? How do we accelerate Barbados' economic development? Substantial income earned and taxes collected from globally-earned profits of primarily Canadian-owned, Barbadian-domiciled international business companies boosted foreign exchange earnings and the Government of Barbados' revenues pre-2008 and permitted the country to finance growth in consumption and investment. With changes in Canadian tax laws leading to the departure of some companies and a reduction in the sector's tax rates, that sector now reportedly earns more than $200 million less annually than it did before 2008. To replace these revenues, the tax burden has shifted to domestic consumption. Thus, the distribution sector – the single largest direct contributor to economic activity – has stagnated, as the economy depends on tourism and tourism-related construction for most of its modest economic expansion.

So, beyond the immediate fiscal adjustment, how can we sustainably replace this lost foreign-sourced income?

1. *Barbadians must recognize that a marketplace of 285,000 persons constrains our ability to grow our citizens' wealth.*

   We should not just view our source of wealth as the country's Gross Domestic Product – the value of production in Barbados – but as the Gross National Product – the value of production owned by Barbadian residents irrespective of where production occurs. It is no coincidence that residents of small international financial centres like the Cayman Islands and Bermuda with higher levels of Gross Domestic Product per capita than most in the world, have invested more outside of their countries than non-residents have in those two countries.

2. *We must facilitate more Barbadian investments outside of Barbados to expand and diversify our sources of income and grow our wealth.*

   Currently, Barbadians pay almost twice as much income to non-resident investors than we earn from non-residents. A medium-term push to facilitate private sector investments in other markets creates a scenario where, for example, more Barbadians own businesses involved in agriculture in Guyana, manufacturing in Jamaica or sea transportation in Panama, earning profits in foreign exchange from those investments. Further, even when our economy's growth declines, income from investments in faster-growing economies may cushion the decline in locally-generated revenues. These benefits become more obvious when we consider that, while the IMF expects the Barbadian economy to grow by 0.5% in 2018, they project that Jamaica, Guyana and Panama will expand by 2.3%, 3.6% and 5.6% respectively.

3. *We must reinvigorate the process of regional integration.*

While global investment should be our target, the CARICOM Single Market and Economy, an initiative whose progress has slowed since 2009, appears a good place to start. Developing a closer relationship with regional trading partners will magnify the marketplace available to sell our products and earn higher returns on our capital, without being constrained to local opportunities. Further, any remaining restrictions on accessing foreign exchange approval to invest outside of Barbados must eventually be phased out so that capital can flow towards the most profitable ventures.

Therefore, I emphasize, that while we shouldn't neglect to invest in profitable initiatives in Barbados, we must be brave enough to seek new and exciting opportunities elsewhere if we are to take my Barbados forward.