

Avoiding an Economic Relapse



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A major concern in global epidemiology is the growing resistance of many communicable diseases to the established therapies that have largely kept them in check. Among the reasons that have facilitated this resistance is the fact that so many patients have not completed the full course of therapy, and have suffered a relapse. As soon as they felt a little better they stopped their medication, and the infection, no longer under attack, reasserted itself. For this reason physicians stress the importance of completing the full course of therapy.

There is a lesson here for Barbadians, with regard to economic policies to restore our economy to robust health. As Dr. Peter Blair Henry reminded us last year, our own history teaches us that it is policies that look to secure sustainable growth in the long run, rather than a short term advantage, which produce the greatest prosperity. A comparison of Barbados' performance with that of its Caribbean neighbours makes the point. In 1981-82, and especially in 1991-92, tough fiscal deficit reduction caused economic contraction in the near term, but the long term benefit is manifest in Barbadians' quality of life today, which remains among the best in the Caribbean.

We need to bear this lesson in mind in the current economic circumstances. When the Barbadian economy was infected by the global economic recession of 2008, Government put in place a medium term adjustment strategy to bring the fiscal accounts back to a sustainable balance. That strategy was blown off course in 2013, and corrective budgets were brought to Parliament in August and December of that year, to cut the record fiscal deficit, and reduce the associated demand for foreign exchange.

However, those fiscal measures, which succeeded in arresting the rapid drain of foreign reserves, were only part of the fiscal package. The other and equally important element was fiscal consolidation measures designed to bring the medium term growth and adjustment strategy back on track, and reduce the deficit further over time to a level which may be sustained over the medium term and longer. The immediate objective is to achieve a deficit which is lower than the rate of growth of GDP, so that the ratio of debt to GDP, which continues to rise, will peak and start to decline.

The fiscal adjustment to which government is committed, and which is needed to fully restore the health of our economy, is therefore incomplete. It is true that one of the indicators of economic health has improved, with the strong growth of tourism last year, and the boost it has given to the overall growth of the economy. But the foreign exchange reserves have not recovered to the levels of January 2013, Government's borrowing requirement still exceeds the surplus funds banks and insurance companies have available to lend to Government, and the public sector debt is still growing at a faster pace than the GDP.

The fiscal therapy is working, but the recovery is incomplete, and the economy has not yet returned to full health. Critical investments that would spur growth are still being delayed. The immediate objective must be to keep the overall fiscal deficit on a downward track, and to continue the process of fiscal rationalisation to achieve greater efficiency and lower costs. So long as we stay the course on the fiscal adjustment measures, the sustainability of the economic recovery will be assured.