

Economic Overview of the British Virgin Islands

Economic Growth in the British Virgin Islands

Since the early 1980's, the economy of the British Virgin Islands has experienced rapid economic growth unparalleled in the OECS sub-region. Real GDP grew at an average of 6.1% per annum between 1983 and 2003. Real per capita GDP rose from around \$10,127 in 1983 to over \$38,000 in 2002. The extensive economic growth was accomplished with low inflation averaging 3.55% per annum.

The British Virgin Islands economic performance compares very well with that of the OECS countries, with GDP growth almost twice the OECS growth of 4.2% (1995-2002) and inflation just over 120% of the OECS inflation rate of 2.9%. In addition the British Virgin Islands unemployment rate has consistently stayed below 4.0%, well below the average of the OECS sub-region. Meanwhile, the external position has improved from year to year.

Overtime, the British Virgin Islands' economic strategies have responded to different challenges faced by the economy, establishing priorities accounted for much of the success enjoyed today. The period prior to the establishment of offshore financial services was characterized by tourism as the dominant sector, slow economic growth, importation of high-skilled labour and low savings rate. In view of the small size of land and marine mass, the lack of capacity for agricultural production, the absence of extractable resources and the unavailability of additional labour, the BVI needs economic diversification and foreign direct investment policies. During the course of the review period, the British Virgin Islands pursued an export led services strategy by attracting business and service providers in the offshore financial services industry to create jobs and opportunities. Concurrently, strategies of diversification into marine tourism and incremental expansion of land based tourism were pursued. As a result of this two-pronged development strategy, explosive expansion ensued.

The advent of the strong offshore financial services sector has underpinned the strong contribution of international trade during the period 1985-2003. International trade as a portion of output is unparalleled in the OECS sub-region except may be in the case of Anguilla.

The export of services has averaged 95.6% of GDP since the mid 1980's as imports of services averaged 51%. Tourism and financial services activities have been equally responsible for the international trade performance during the review period. Total export of services activities account for an estimated 101 % of GDP in 2003. A defining feature of the British Virgin Islands international trade performance has the changing composition of exports from relatively low skilled tourist services to high skill products.

Macroeconomic Fundamentals and Policies

The British Virgin Islands' strong economic performance resulted from consistent, targeted and comprehensive policies aimed at mutually benefiting investors and BVI Islanders. Government's policies were predicated on openness to foreign direct investment, importation of foreign labour, procurement of foreign information technology and good governance. The BVI economic success story was as a result of the implementation of policies aimed at maintaining an environment conducive to long-term investment. Equally important in the British Virgin Islands' macroeconomic success was the existing smooth relationship between labour and business revealed in the lack of any serious or frequent occurrence of industrial strife.

Government's fiscal policy at fiscal prudence to generate surpluses targeted for government's supportive role in operations and investment. In this connection Government's objectives were directed at promoting long term economic growth rather than short-term re-distribution of income. Government strategy avoided price support schemes, overburdening unemployment benefits, preferring market oriented solutions and sustained job creation consistent with population growth.

A decade of high economic expansion and prudent fiscal policies in the public sector has generated budget surpluses averaging 3% of GDP (up to 1999). For the period 2000 – 2003 the deficit has been averaging -2.64% of GDP. Government's fiscal policy has contributed to the country high savings rate. Domestic savings rose from 9% of GDP in 1983 to an estimated 48%

in 2003. The British Virgin Islands high domestic savings has financed the highest investment rates in the region while incurring one of smallest foreign debt levels. The high domestic savings rate have boosted investors' confidence and provided some armour against economic shocks.

The balanced approach to fiscal did not prevent Government from improving the physical infrastructure. Over the past two decades, capital investment expenditure has averaged 17% of Government total expenditure on average.

Investments by statutory bodies in electrical power generation/distribution, development banking and port services have contributed to the British Virgin Islands healthy overall fiscal position during most of the last two decades. Government has also been able focus on ensuring price stability and confidence in the financial system.

The Challenges Ahead

The British Virgin Islands strong fundamentals throughout 1990's enabled it to weather the early part of the post 911 global impact on tourism and the global targeting of offshore financial centre (by the OECD) relatively well. The global slow down in tourist demand associated fear of travel and heightened security did not immediately result in a downturn in overall demand for the BVI as a destination. However, there is a definite declining trend in overnight visitors. On the other hand, the robust financial services growth was strong enough to bring GDP in a net positive growth position overall.

To date Government is yet to respond with a comprehensive and co-ordinated strategy to overcome the global challenges to offshore financial services and the impact of terrorism on tourist demand. However, several initiatives in tourism and offshore financial services strategy have been put in place or are in the planning stages. But, there is an overarching strategy in the National Integrated Development (NIDS), sectoral strategies in tourism, environment and public sector development.

To remain competitive in the new global economy, the British Virgin Islands has recognized the continued need for inward investment, attracting foreign high-skilled workers and further accelerated development of human resources. It is absolutely necessary for a shift to a knowledge-based economy.

The Government has already taken actions to liberalize the telecommunications sector, rehabilitate the power sector and diversify the offshore financial services sector. In the telecommunications sector, Government has established a liberalization strategy and the planning for the requisite technical studies, legal framework and administrative machinery are underway. The frequent power outages of the past two years appear to have been overcome and the reliability of the electrical supply has improved significantly.

The offshore financial services sector has had a number of major initiatives including the formation of a Financial Services Commission (FSC) (a Financial Centre to promote and market financial services), an Economic Affairs Unit to deal exclusively with related economic affairs and Financial Services, and an Intelligence Unit to handle intelligence and investigatory matters. In addition, an international consultant and a multi-disciplinary team comprised of public and private sector officials are developing a strategic plan for the financial services sector. Finally, a number of legal initiatives have been put in place to address deficiencies in the sector's legal framework and administrative framework.

The tourism sector has also been targeted recently with a review of the present strategy, a consultancy to broaden the product with the introduction of sports fishing. Steps are being taken for the establishment of a Commission to promote a BVI label in tourism, financial services and part-time residents with homes in the British Virgin Islands.

To shift successfully to a high value export and into a knowledge economy, the British Virgin Islands must further develop its Information technology capabilities as the backbone industries to expand financial services and tourism as well to add new activities in electronic commerce. The government is actively promoting small business, local entrepreneurship, information technology and human resources development. Given that human and intellectual capitals are key

competitive factors in a knowledge based economy, the education system and curricula are being changed to broaden and deepen knowledge early. In this connection, human resources development initiatives including distance learning, online education, industry specific professional training and customized academic programmes have been established. Workforce training and re-training programmes have been put in place through various public and private institutions. Another important component of labour market policies is to develop a comprehensive labour market management legal framework. Together, these measures could effectively position the British Virgin Islands to benefit from the present and anticipated trends in the global economy.