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May 26, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Barbados - Staff Report for the 1983 Article IV Consultation, Review Under Stand-By Arrangement, and Program for 1983

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Barbados, the review under the stand-by arrangement for Barbados, and program for 1983. Draft decisions appear on pages 20 and 21.

This subject has been tentatively scheduled for discussion on Wednesday, June 13, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Martin E. Hardy (ext. 76032) and Mr. Ewart S. Williams (ext. 73750).

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INTERNATIONAL MONETARY FUND

BARBADOS

Staff Report for the 1983 Article IV Consultation, Review Under Stand-by Arrangement, and Program for 1983

Prepared by the Western Hemisphere and Exchange and Trade Relations Departments

(In consultation with the Fiscal, Legal, and Treasurer's Departments)

Approved by E. Wiesner and W. Beveridge

May 25, 1983

I. Introduction

The 1983 Article IV consultation discussions with Barbados were held in Bridgetown during February 15-March 3, 1983. At the same time, the staff conducted a review of performance under the existing 20-month stand-by arrangement and began negotiations on performance criteria for the 12-month period beginning April 1, 1983. Negotiations were completed during a second staff visit in the period April 28-May 1, 1983. The Barbados representatives at these discussions included the Prime Minister, who is also Minister of Finance, the Governor of the Central Bank, the Director of Finance and Planning, and senior officials of the main public enterprises. Discussions also were held with commercial bankers and representatives of the private sector. Staff members participating in one or both missions were E. S. Williams (Head), G. Yadav, P. Habanananda, and J. Zeas (all WHD), R. Johnson (ETR) and F. Manges (Secretary-RES). Mr. R. Joyce, Executive Director for Barbados, participated in the principal policy discussions.

On October 1, 1982, the Fund approved Barbados' request for a purchase under the compensatory financing facility in the lower tranche and a 20-month stand-by arrangement in an amount of SDR 31.875 million, equivalent to 125 per cent of quota. Barbados has made two purchases (amounting to SDR 12.375 million) under this arrangement, which covers the period October 1, 1982 to May 31, 1984. Before further purchases are made Barbados must review with the Fund the progress made in implementing its financial program and must reach understandings to cover the period starting on April 1, 1983. In the annexed letter and accompanying Economic Policy Memorandum, the Minister of Finance and the Governor of the Central Bank of Barbados review the implementation of the financial program so far and the economic and financial policies that the Government of Barbados intends to pursue in fiscal year 1983/84. The quantitative targets for the performance criteria for the 12 months beginning April 1, 1983 are also specified.

As of April 30, 1983, the Fund's holdings of Barbados dollars amounted to 194.47 per cent of Barbados' quota of which 45.94 per cent corresponded to the compensatory financing facility. Full use of the stand-by arrangement would raise the Fund's holdings of Barbados dollars to 274.4 per cent of quota, including 50 per cent of quota under the compensatory financing facility. Further information on Barbados' relations with the Fund is presented in Table 1 and Appendix I. Information on Barbados' relations with the World Bank is presented in Appendix III.

Since joining the Fund in 1970, Barbados has availed itself of transitional arrangements under Article XIV. It maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions. The exchange value of the Barbados dollar is pegged to the U.S. dollar at a rate of BDS$2 = US$1. The last Article IV consultation discussions with Barbados were concluded by the Executive Board on December 7, 1981 (EBM/81/159).

II. Background

The Barbados economy, led by rapid increases in exports of manufactured goods and tourist services, grew at a rate of about 6 per cent a year in 1978-80. During this period the rate of inflation remained fairly high (12 per cent a year as measured by the consumer price index) but the current account deficit of the balance of payments averaged only 3 per cent of GDP and the overall balance of payments showed sizable surpluses; total external debt of the public sector was about 13 per cent of GDP and external debt servicing less than 5 per cent of receipts from merchandise exports and tourism.

In 1980, the recession in the industrial economies led to a decline in the number of tourist arrivals, but the impact on the balance of payments and the level of economic activity was mitigated for a while by a record sugar crop and high sugar prices. In 1981, however, sugar production fell, and with the full impact of the recession on the tourism and manufacturing sectors, real GDP declined by 3 per cent. The rate of inflation rose to 15 per cent and the balance of payments came under severe pressure (Table 2).

In 1981, primarily because of lower sugar shipments following a poor crop, merchandise exports declined by 10 per cent while tourist earnings (which had risen at an annual average rate of about 25 per cent since 1978) rose by a mere 3 per cent. At the same time, imports rose strongly, reflecting expansionary fiscal and credit policies and a large increase in fuel imports occasioned by a temporary decline in local oil production. Reflecting these developments, the current account deficit of the balance of payments rose from US$5 million (1 per cent of GDP) in 1980 to US$91 million (9.3 per cent of GDP) in 1981. Despite the receipt of a US$30 million Eurodollar loan by the Central Government, the overall balance of payments registered a deficit of US$24 million (Table 3).

Table 1. Barbados: Projected Use of Fund Credit Through April 30, 1984

	1982	1982	1983				1984		Total Purchases
	July	Oct.	Jan. 30	June 30	July 30	Oct. 30	Jan. 30	Apr. 30	Oct. '82-May '84
			(In millions of SDRs)						
Total drawings	--	22.2	2.8	3.9	3.9	3.9	3.9	3.9	44.5
CFF	--	12.6	--	--	--	--	--	--	12.6
Stand-by	--	9.6 1/	2.8125	3.9	3.9	3.9	3.9	3.9	31.9
Memorandum items									
Total holdings (end of period)	25.5	46.1	48.9	52.8	56.7	60.6	64.5	68.4	
Total holdings excluding CFF (end of period)	25.5	35.1	37.9	41.8	45.7	49.6	53.5	57.4	
			(In per cent of quota)						
Total holdings (end of period)	100.1	186.9	197.9	213.2	228.4	243.7	259.0	274.4	
Total holdings excluding CFF (end of period)	100.1	137.6	148.6	163.9	179.2	194.5	209.8	225.1	

Source: International Monetary Fund.

1/ Includes SDR 6.4 million from the first credit tranche.

Table 2. Barbados: Principal Indicators

	1978	1979	1980	1981	1982
	(Percentage change)				
Real GDP	4.8	7.9	4.9	-2.7	-4.4
Consumer prices (period average)	9.5	13.2	14.0	14.6	10.3
Wage increases	11.1	9.1	17.8	12.1	9.5
Unemployment rates 1/	13.4	12.8	12.6	10.8	13.6
	(In per cent of GDP)				
Balance of payments deficit on current account	-3.1	-2.8	-0.9	-9.3	9.5
External public debt 2/	14.3	12.5	12.7	21.8	25.3
Debt service ratio 3/	3.3	4.1	5.1	5.2	7.6
Overall deficit of general government	-0.4	-1.6	-3.8	-6.6	-4.0

Source: Central Bank of Barbados; and Fund staff estimates.

1/ In per cent.
2/ Includes debt to the Fund.
3/ Debt service as a percentage of domestic exports and tourism.

Efforts to tighten demand management through fiscal and monetary measures were initiated in the second half of 1981, when the authorities introduced some new revenue measures, reduced budgeted capital outlays, and took steps to rephase or scale down many projects in its multiyear public investment program. In the field of monetary policy, commercial banks were instructed to reduce outstanding personal loans by 10 per cent, by March 1982, and to freeze the level of loans outstanding to the distribution sector. The commercial bank legal reserve requirement that must be met with government securities was increased from 12 to 17 per cent of total deposit liabilities, and the Central Bank's rediscount rate was raised, in two steps, from 10 to 22 per cent. The average lending rate for commercial bank loans was also raised (from 13 per cent to 15 per cent) as was the minimum savings deposit rate (from 7 per cent to 8 per cent). Treasury bill rates were allowed to rise from less than 8 per cent at mid-1981 to 13.8 per cent by year-end.

Further adjustment measures were announced in early 1982. The budget for fiscal year 1982/83 included a tax package designed to yield the equivalent of 1.5 per cent of GDP, and introduced a 4 per cent payroll levy (also yielding about 1.5 per cent of GDP) to fund increases

Table 3. Barbados: Balance of Payments

	1979	1980	1981	Proj. 1982	Prel. 1982	Orig. Proj. 1983	Rev. Proj. 1983	Proj. 1984
	(In millions of U.S. dollars)							
Current account	-21.6	-4.8	-90.8	-100.5	-94.7	-78.0	-89.6	-63.2
Domestic exports, f.o.b. 1/	118.7	168.0	152.0	163.5	170.8	179.5	185.3	203.8
Retained imports, c.i.f.	-374.8	-444.2	-502.5	-525.0	-484.0	-551.0	-499.8	-525.0
Gross tourist receipts 2/	208.0	253.7	261.8	251.5	225.0	288.0	235.9	263.0
Other services (net)	7.5	-6.2	-29.2	-20.0	-28.0	-26.5	-43.0	-40.0
Private transfers (net)	19.0	23.9	27.1	29.5	21.5	32.0	32.0	35.0
Capital account	29.7	5.1	35.1	68.0	87.5	70.5	79.6	63.2
Official transfers	3.0	-2.3	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Official capital (net) 3/	7.3	10.9	19.6	22.5	15.4	27.5	48.1	26.2
Private long-term 4/	5.4	15.4	10.9	60.0	51.9	45.0	37.2	39.0
Commercial banks (net)	-0.4	4.2	18.8	-10.0	-1.8	--	-3.7	--
Other capital (net)	14.4	-23.1	-12.2	-2.5	24.0	--	--	--
SDR allocation 5/	1.6	1.6	1.5	--	--	--	--	--
Balance for official financing	9.6	1.9	-54.2	-32.5	-7.2	-7.5	-10.0	--
Exceptional official borrowing	--	18.0	30.0	--	--	--	--	--
Change in net official reserves (increase -)	-9.7	-19.9	24.2	32.5	7.2	7.5	10.0	--
Reserve related liabilities	-1.9	-7.7	48.0	-8.4	28.2	-6.5	-9.0	...
Change in official reserves (gross)	-7.8	-12.2	-23.8	-40.9	-21.0	14.0	19.0	...
Memorandum items								
Sugar exports (thousand tons)	99.7	110.0	75.9	84.0	80.6	77.0	65.9	70.0
Tourist days (million)	3.78	3.73	3.52	3.29	3.02	3.57	3.17	3.2
External debt 6/	84.5	105.3	203.4	232.8	252.0	314.2	329.2	345.6
Official reserves (gross)	67.5	80.1	103.9	62.6	124.9	68.9	105.9	107.4
	(In per cent)							
Current account deficit/GDP	2.8	0.9	9.3	10.0	9.5	7.2	8.2	5.2
Debt service ratio 7/	4.1	5.1	5.1	13.4	7.6	7.5	8.4	9.7
	(In months)							
Reserve cover ratio 8/	2.2	2.2	2.5	1.5	3.1	1.6	2.5	2.6

Sources: Central Bank of Barbados; and Fund staff estimates.

1/ Includes valuation adjustments of sugar exports to the European community.
2/ Figures differ from official data because of higher estimates of daily expenditure per tourist.
3/ Government and government-guaranteed loans, other than disbursement of exceptional official borrowing (budget support loans); includes amortization of the latter loans.
4/ Includes inflows related to the cement and power projects, recorded at time imports clear Barbados customs.
5/ Includes SDR allocations, and exchange profits and losses on net official international reserves.
6/ Public and publicly guaranteed external debt, including Central Bank reserve-related liabilities.
7/ Interest and amortization of public and publicy guaranteed external debt and Central Bank reserve-related liabilities, as per cent of domestic exports and travel receipts.
8/ Gross official reserves as ratio of retained imports, c.i.f.

in pensions. Current expenditures were curbed by restraining the growth in the wage bill, and further cutbacks in capital outlays were announced. The implementation of these measures was expected to reduce the overall deficit of the general government from the equivalent of 6.6 per cent of GDP in 1981/82 to 3.5 per cent of GDP in 1982/83. With continued moderation in the growth of current and capital outlays, a further reduction in the deficit, to the equivalent of 1.8 per cent of GDP was targeted for 1983/84 (Table 4).

These fiscal measures formed the cornerstone of an adjustment program which was supported by the 20-month stand-by arrangement referred to above. The program envisaged a current account deficit of the balance of payments of about 10 per cent of GDP in 1982 and 7.2 per cent of GDP in 1983. This was predicated on the assumption that foreign exchange earnings from merchandise exports and tourism would stagnate in 1982 and would increase by 14 per cent in 1983, and that merchandise imports would increase by 4 per cent a year in 1982-83 because of imports of capital goods for the two large ongoing projects. The program called for overall balance of payments deficits of US$32.5 million in 1982 (US$25 million in FY 1982/83) and US$7.5 million in 1983 (US$5 million in FY 1983/84). In 1984, the current account deficit was expected to be reduced further to about 6 per cent of GDP and the overall balance of payments was expected to be in equilibrium.

III. Developments and Performance Under the 1982/83 Program

The impact of the international recession on the Barbados economy turned out to be far more severe than originally anticipated. This notwithstanding, Barbados was able successfully to initiate the much needed adjustments in its balance of payments and public finances. In the area of the balance of payments, the decline in the current account was reversed in 1982 and this, combined with unusually large private capital inflows led to a sharp reduction in the overall balance of payments deficit. There was also considerable improvement in the public finances though, because of the Central Government's assumption of certain capital expenditures previously earmarked for a nonfinancial public corporation, the overall fiscal deficit for 1983/84 turned out to be slightly greater than programed. Barbados met all quantitative performance criteria in December 1982 and March 1983, the only two testing dates so far.

Real GDP contracted by close to 5 per cent in 1982 as real value added fell in the tourism industry (14 per cent), the sugar sector (7 per cent), and the construction sector (4 per cent). Manufacturing activity remained virtually unchanged as a decline in production for the local and regional market offset the continued good performance in the enclave industries producing for the U.S. market. With the recession in economic activity, the rate of unemployment rose from an average

Table 4. Barbados: Financial Position of the Consolidated Central Government and National Insurance Fund

	Fiscal Years (April-March)						
				1982/83		1983/84	
	1979/80	1980/81	1981/82	Prog.	Prel. Est.	Orig. Prog.	Rev. Prog.
	(In millions of Barbados dollars)						
Current revenue	380	466	509	591	594	649	652
Current expenditure	316	392	459	541	532	554	572
Current surplus	64	74	50	50	62	95	80
Capital receipts	1	2	2	2	2	2	1
Capital expenditure and net lending	86	139	175	124	140	137	132
Overall deficit	-21	-63	-123	-72	-76	-40	-51
Financing	21	63	123	72	76	40	51
External (net)	12	78	91	35	60	39	31
Domestic	9	-15	32	37	16	1	20
Of which: Banking system	(1)	(9)	(56)	(35)	(19)	(...)	(20)
	(In per cent of GDP)						
Current revenue	28.1	28.1	27.4	29.0	29.8	29.4	30.0
Current expenditure	23.4	23.6	24.7	26.5	26.7	25.1	26.3
Current surplus	4.7	4.5	2.7	2.5	3.1	4.3	3.8
Capital receipts	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Capital expenditure and net lending	6.4	8.4	9.4	6.1	7.0	6.2	6.1
Overall deficit	-1.6	-3.8	-6.6	-3.5	-3.8	-1.8	-2.3
Financing	1.6	3.8	6.6	3.5	3.8	1.8	2.3
External (net)	0.9	4.7	4.9	1.7	3.0	1.8	1.4
Domestic	0.7	-0.9	1.8	1.8	0.8	--	0.9
Of which: Banking system	(--)	(0.5)	(3.0)	(1.8)	(1.0)	(...)	(0.9)

Sources: Ministry of Finance; and Fund staff estimates.

of 10.8 per cent of the labor force in 1981 to 13.6 per cent in 1982. However, the rate of inflation moderated from 14.6 per cent in 1981 to 10.3 per cent in 1982, largely in reflection of markedly lower inflation rates abroad and the appreciation of the U.S. dollar (to which the Barbados dollar is pegged) against European currencies.

The balance of payments deficit on current account was estimated at US$95 million (9.5 per cent of GDP) in 1982 compared with the projected US$101 million (10 per cent of GDP). Merchandise exports increased by 12 per cent on the strength of significant expansion of exports of garments and electronic components, but tourism receipts declined by 14 per cent in 1982 reflecting a similar fall in the number of stay-over visitors. Merchandise imports declined by 4 per cent in 1982 despite a sizable increase (16 per cent) in capital goods imports. Under the impact of declining disposable income and selective credit controls, imports of consumer goods fell by 15 per cent while falling output levels caused imports of intermediate goods to contract by about 11 per cent; in addition, a weakening of international fuel prices and rising local crude oil production led to a reduction of 4 per cent in the value of fuel imports.

Because of the scaling down of the central government investment program, official capital inflows were somewhat lower in 1982 than in 1981. However, private long-term capital inflows rose in 1982 in connection with the construction of the Arawak cement plant (US$4 million), the refurbishing of power generation facilities (US$12 million) and the expansion of the telephone network (US$11 million). There also were sizable short-term capital inflows (including errors and omissions) which may be partly related to an increase in trade credits following the sharp reduction in the differential between domestic and foreign interest rates. Aided by these capital flows the overall balance of payments deficit was limited to US$7 million instead of the programed US$32.5 million.

Wage restraint was considered fundamental to the successful implementation of the program, particularly in the light of the authorities' strong inclination to maintain the present parity of the U.S. dollar. Partial data indicate that there was a marked deceleration in the rate of wage increases in 1982. The wage index for production workers rose by 9.5 per cent in 1982 compared with 12 per cent in 1981; more importantly, wage awards in the major sectors in 1982 were noticeably lower than in the recent past. In the sugar industry, the 1982 wage award provided for 10 per cent a year for two years, compared with a corresponding award of 14 per cent in 1980; government workers received an increase of 7 per cent a year for a two-year contract as against a corresponding increase of 17-1/2 per cent in 1980.1/ In early 1983, hotel workers received increases averaging 8-1/2 per cent a year for two years.

1/ As explained later, the Government announced in the 1983 budget, a supplementary payment equivalent to about 1-1/4 per cent a year.

In the area of the public finances, current revenues of the general government were slightly more than projected in the program. However, total expenditures of the general government, which included BDS$24 million for the purchase of assets of Mobil Barbados Ltd.,1/ also exceeded programed levels. Thus, the overall deficit of BDS$76 million (3.8 per cent of GDP) exceeded the program target of BDS$72 million (3.5 per cent of GDP). If the Mobil transaction is excluded, the overall deficit would have been 2.7 per cent of GDP.

General government operations in 1982/83 generated current savings of BDS$62 million (3.1 per cent of GDP) compared with a projected level of BDS$50 million (2.5 per cent of GDP). The small increase in current revenue, compared with the program, resulted from the fact that shortfalls in consumption and custom duties were more than compensated by higher National Insurance Fund contributions. Current expenditures were 2 per cent below programed levels because of a slower growth in the central government wage bill (due to a small cut in the number of casual workers), and a larger than anticipated reduction in transfers to public enterprises.

Capital outlays in 1982/83 exceeded programed levels by 13 per cent as the unanticipated expenditures for the purchase of the Mobil company were only partly offset by reductions in project-related outlays. These expenditure cuts were achieved through the slowing down of some road and building construction programs. The overall deficit of BDS$76 million was largely financed by net external borrowing of BDS$60 million (of which BDS$24 million was a Eurodollar loan to finance the purchase of Mobil's assets). Borrowing from the domestic banking system was held to BDS$19 million, significantly less than the BDS$35 million permitted under the program.

Monetary developments were characterized by a deceleration in the growth of banking system liabilities to the private sector (from 14 per cent in 1981 to 7 per cent in 1982) and a sharper than programed reduction in credit expansion. In the twelve months ended March 1983, net domestic assets of the Central Bank of Barbados increased by BDS$18 million compared with an increase of BDS$62 million permitted under the program. Credit extended by the monetary authorities to the public sector increased by only BDS$7 million compared to a programed increase of BDS$35 million and, in addition, commercial banks built up large reserves in the Central Bank. During 1982 banking system credit to the private sector expanded by 7 per cent compared with a corresponding increase of 22 per cent in 1980. Outstanding personal loans and installment credit were reduced in accordance with Central Bank instructions, and there was only a modest increase in credit expansion to the tourist sector, manufacturing and sugar industry. Interest rates remained unchanged at the

1/ This purchase had been authorized since early 1982 but was not included in the fiscal program as it was expected to be on the books of the National Petroleum Corporation, a state corporation not included in the definition of General Government.

high end-1981 levels until September 1982 but in the last quarter, the reduction in foreign interest rates prompted the Central Bank to lower the structure of domestic rates by 2 percentage points. By the end of March 1983, domestic interest rates were still marginally higher than rates prevailing abroad.

IV. The Program for 1983/84

Given the prospects for sluggish growth in export earnings, the Government's strategy, as spelled out in the economic policy memorandum, is to continue to restrain domestic demand so as to protect the balance of payments. Accordingly, the program aims at reducing the current account deficit of the balance of payments by another 1.2 percentage points of GDP, and lowering the overall fiscal deficit of the general government by 1.6 percentage points of GDP. These objectives will be supported by a monetary program which severely limits credit expansion to the Central Government and for consumption purposes. The authorities will continue to stress the need to restrict wage increases so as to maintain the international competitiveness of the Barbados dollar.

On the expectation that the recovery in the industrialized countries will not gather momentum until late in 1983, the growth projection has been revised downward: it now calls for virtually no growth in the Barbados economy in 1983, with a moderate pickup the following year. In 1983, real value added is projected to rise by 5 per cent in the tourist industry and by 2 per cent in the sugar sector; manufacturing output, however, is expected to show a small decline as a slower growth in output for nonregional markets is not likely to be offset by an increase in production for the local and regional markets. The rate of unemployment is likely to increase as construction work on major projects winds down but the decline in fuel prices and the continued moderation in domestic costs, should keep the rate of domestic inflation in the 8-10 per cent range.

1. Balance of payments

Export receipts are projected to grow by 8 per cent in 1983, about half as fast as in 1982, reflecting a slower growth in both sugar and other manufacturing exports. The intensification of tourism promotion in the United States helped to raise average hotel occupancy rates in February-March 1983 compared with the corresponding period last year. On the assumption that this trend continues during the remainder of the year, foreign exchange receipts from tourism are projected to increase by about 5 per cent in 1983. Combined receipts from merchandise exports and tourism in 1983 are projected at US$421 million, 10 per cent lower than the original program projections.

Demand policy will aim at an import level of US$500 million in 1983, just 3 per cent higher than actual imports in 1982 (and about 10 per cent less than in the original program projection for 1983). With the decline in international oil prices and a continued increase in domestic oil production, the fuel import bill is projected to be reduced by 10 per cent; imports of capital goods also are expected to fall, following the completion of investment activity in the power and communications sectors and the winding down of construction work on the cement plant; imports of consumer goods and raw materials are expected to show a modest increase thus reversing the sharp reduction in inventories that occurred in 1982. On the basis of these assumptions, the current account is projected to show a deficit of about US$90 million, about 8.3 per cent of GDP, in 1983. The projected deficit is somewhat higher than the original program projections (of US$78 million or 7.2 per cent of GDP).

Identified net capital inflows for 1983 are projected at US$70 million. Private inflows include (1) a US$7.5 million Eurodollar loan (guaranteed by the Government) to cover cost overruns in the construction and refurbishing of two sugar factories; and (2) US$28 million in suppliers' credits to finance the construction of the Arawak cement plant. Foreign borrowing by the public sector includes US$20 million from multilateral lending institutions and US$7 million of concessionary assistance from U.S. AID under the Caribbean Development Facility. One half of this sum is allocated for the financing of the local cost components of certain ongoing projects and the remainder for the financing of raw material imports for the private sector. In addition, the Government has requested concessionary assistance from donor countries in an amount of US$10 million. The projected level of net capital inflows will permit an overall balance of payments deficit of US$10 million in 1983 (and the same in 1983/84) compared with the original target of US$7.5 million in 1983 (and of US$5 million in the program year 1983/84). This deficit implies a level of gross official reserves equal to about 2-1/2 months' imports at the end of 1983.

The financial program includes a limit of US$25 million on the public sector contracting of foreign debt of one to ten years maturity in the remaining period of the stand-by arrangement. This limit would be expected to cover US$7 million in suppliers' credits for the purchase of buses for the state Transport Company, US$8 million for other suppliers' credits now being negotiated, and an amount that would compensate for any shortfall in requested support from donor countries. The outstanding external debt, including private debt with government guarantee, is projected to rise from US$248 million (25 per cent of GDP) at the end of 1982 to US$291 million (27 per cent of GDP) at the end of 1983. Debt service on these loans is projected to increase from US$19 million in 1982 to US$27 million in 1983 or from 7.6 per cent to 8.4 per cent of total merchandise exports and tourism.

2. Fiscal policy

The fiscal program for 1983/84 will aim at reducing the overall deficit of general government operations to 2.3 per cent of GDP compared with the original program target of 1.8 per cent of GDP.

The original program had projected a growth of 10 per cent in the general government revenue in 1983/84, predicated on a modest recovery in economic activity and import growth. The lower projections for both parameters imply only a 5 per cent growth in current revenue in the absence of discretionary tax changes. To improve this revenue performance, the 1983 budget incorporated a tax package covering:1/ (a) a 1 per cent increae in the health levy; (b) a 1 per cent increase in the stamp duty on imports; (c) an increase in consumption duties on cigarettes, gasoline, and soft drinks; (d) a tax on the purchase of airline tickets and an increase in departure taxes; (e) an increase in land transfer taxes; and (f) the introduction of an annual license fee on video sets and an increase in the annual license fee on television sets. To offset some of these tax increases, the Government (a) raised income tax credits for the lower income group; (b) has reduced the highest marginal income tax rate from 70 per cent to 60 pr cent; and (c) reduced consumption duties on kerosene and fuel oil. The net yield of the revenue package is estimated at BDS$26.9 million, the equivalent of 1.2 per cent of GDP. With the aid of these measures current revenue of general government is programed to increase by 10 per cent in 1983/84.

The fiscal program will continue to stress expenditure restraint. Total general government expenditures are programed to increase by 5 per cent in 1983/84, with current expenditures increasing by 8 per cent, compensating for a 6 per cent decline in capital outlays. At the time of the civil service wage award last year, the Government had indicated that it would consider a supplementary wage adjustment if there was some improvement in the fiscal situation. The new budget provides for an across-the-board wage increase of 2-1/2 per cent, on 1981/82 salaries, to take effect from April 1, 1983.2/ This supplementary wage adjustment combined with automatic increments averaging just under 3 per cent is projected to raise the wage bill by 5 per cent in 1983/84. The Government has noted that the sizable tax package and a continuation of a freeze on government employment were specifically introduced to offset the supplementary wage award. Current transfers to nonfinancial public enterprises are to be reduced by 7 per cent through the elimination of payments to the Water Works and the reduction in subsidies (from BDS$14 million in 1982/83 to BDS$10 million in 1983/84) to the Transport Authority. The former was made possible by a 20 per cent rate increase which took effect in April 1983, while the latter is predicated on a 15 per cent fare increase to take effect on May 3, 1983, combined with other actions that are being introduced to improve the efficiency of the Transport Authority. The Government will continue to exercise strict control on nonwage current expenditures by keeping the lid on overtime and traveling allowances, and through the use of monthly expenditure warrants issued by the Ministry of Finance.

1/ A detailed list of the tax measures is presented in Appendix VI.
2/ This supplementary adjustment raises the wage award made for the two-year period beginning April 1, 1982 to about 15-1/4 per cent.

Capital outlays for 1983/84 are programed at BDS$132 million. These outlays make allowance for the completion of major ongoing construction projects, and provide for the resumption of a few small ones that were suspended since late 1981. A government equity contribution of BDS$15 million to the Arawak cement plant is also included in the capital program.

3. Monetary policy

In March 1983 the Central Bank of Barbados announced a further 1 per cent reduction in domestic interest rates--the third since October 1982. The minimum deposit rate was lowered from 6 per cent to 5 per cent and the average lending rate was lowered from 13 per cent to 12 per cent. These reductions are in line with the decline in interest rates abroad. To facilitate the mobilization of long-term funds for the construction industry, the ceiling on mortgage interest rates was kept at 11 per cent. The authorities have indicated that interest rate policy will continue to aim at keeping domestic interest rates competitive with rates abroad so as to discourage short-term capital outflows.

Given the projections of the currency issue, the achievement of the balance of payments target requires that the increase in net domestic assets of the monetary authorities be held to BDS$32 million over the fiscal year. This ceiling allows for BDS$20 million in central bank lending to the Central Government in 1983/84 (the rest of the public sector is not expected to be a net borrower from the domestic banking system), and also restricts the growth in Central Bank special rediscounts (through the Barbados National Bank) to the sugar industry. Selective credit controls on commercial bank lending for consumption purposes are to be maintained by an increase of about 14 per cent in bank credit for productive sectors--agriculture, manufacture, and tourism--is programed.

4. Exchange and trade policy

Since mid-1975, the Barbados dollar has been pegged to the U.S. dollar at a rate of BDS$2 = US$1. Between 1975 and 1980, the Barbados dollar maintained its real value virtually unchanged against a trade-weighted average of currencies of its principal trading partners. Since 1980, however, it has appreciated by over 14 per cent in real terms (Chart 1). Countries which receive about 90 per cent of the tourist volume in the Caribbean region (excluding Mexico) are also pegged to the U.S. dollar and have appreciated by broadly the same amount.

The Barbados' authorities attach great importance to the international competitiveness of the Barbados dollar. They hold the view that the continued strong performance of manufactured exports both in CARICOM and in nonregional markets indicates that the manufacturing sector continues to be competitive. While they concede that Barbados tourism fared worse than that of most of the other Caribbean destinations in 1982, they believe that the adjustments now being introduced in the industry, (particularly the sizable reduction in hotel rates, the reduction in the labor force and some measures to increase productivity) will restore the industry's competitive position. The authorities felt that it was very important to keep stressing the connection between the size of wage settlements and the maintenance of the present exchange rate and reiterated the intention to keep exchange rate policy under review. They also underscored the need for coordination of exchange rate policies with their CARICOM partners.

The exchange system is presently free of restrictions on payments and transfers for current international transactions. Fees on purchases of foreign exchange for certain current transactions which constituted a multiple currency practice have been eliminated with effect from end-May 1983. Barbados has licensing requirements for a wide range of imports but the system is administered liberally. Imports of certain minor agricultural products are restricted in order to encourage production and consumption of domestic substitutes. Import quotas on passenger cars and small commercial vehicles were eliminated in early 1983.

Barbados maintains a fairly elaborate set of controls on capital transactions. There are limits of BDS$1,500 and BDS$6,000 per person a year, respectively, on the amount of foreign exchange authorized dealers may sell for tourist and business travel abroad. The authorities have stated that these limits are designed to restrict capital movements. Requests for travel allowances in excess of these limits are granted provided no disguised transfer of capital appears to be involved.

In response to the establishment of a parallel exchange market in Jamaica, the Central Bank of Barbados ceased settling transactions between Jamaica and Barbados through the CARICOM Multilateral Clearing Facility (CMCF) except for transactions relating to regional institutions, intergovernmental flows, and CARICOM traveler's checks. The Central Bank of Barbados also ceased quoting a rate for the Jamaica dollar vis-a-vis the Barbados dollar but permits Barbados' banks to deal in Jamaica dollars at market-determined rates. At the time of the consultation discussions in Barbados a market for Jamaica dollars had not yet emerged. From information since available to the staff it would appear that sufficient arbitrage possibilities exist between this market and the Jamaican parallel market to confine cross-rate spreads to a narrow range.

5. Energy policy and medium-term strategy

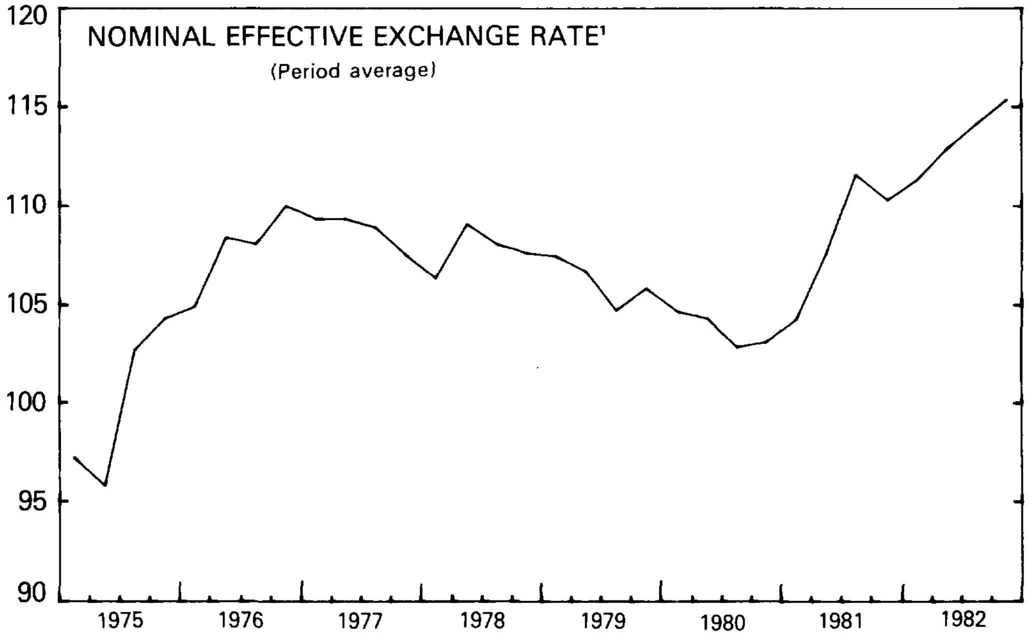
Barbados now produces about one fifth of its crude oil requirements (about 260,000 barrels a year) and plans to intensify exploration activity through the Barbados Petroleum Company. It had been hoped that Barbados could reach virtual self-sufficiency in oil by the end of the 1980s. However, the most recent projections are far more modest and target on output of between 300,000-350,000 barrels a year (about one fourth of total consumption) in the next three to four years.

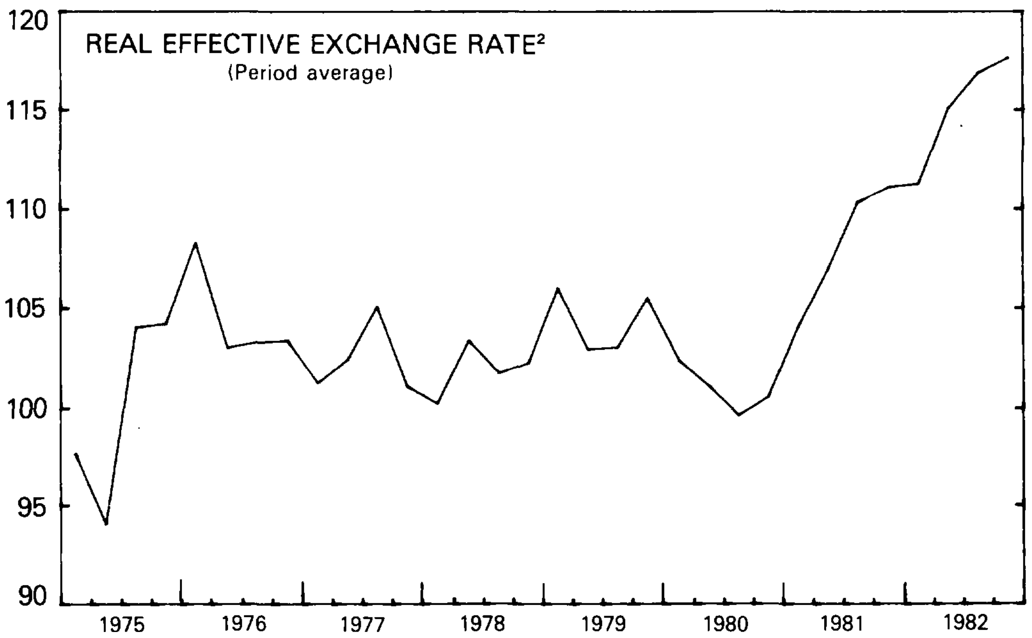
CHART 1

BARBADOS

EXCHANGE RATE MOVEMENTS, 1975-82

(1975 = 100)





[1]Trade weighted average value of partner countries' currencies in terms of Barbados dollars. Increase in index represents an appreciation of the Barbados dollar.

[2]Nominal effective exchange rate adjusted for relative consumer price index. Increase in index represents a real appreciation of the Barbados dollar.

The Barbados Government is committed to a strategy of export-led development and policy is geared toward maintaining a climate favorable to both local and foreign private investment. In the late 1970s, Barbados was successful in attracting a number of new manufacturing industries, particularly in the garment and electronics sectors. While there has been a marked decline in investment applications from manufacturing concerns since 1979, mainly because of the cyclical downturn abroad, Barbados has been able to attract a few foreign high-technology service industries (data processing) in the last two years.

A basic aim of the development strategy is the attainment of balance of payments stability in the medium term. The authorities anticipate that, once the economic recovery in the industrial countries gains momentum, tourism receipts should increase by at least 15 per cent a year (the annual rate of increase was 20 per cent in 1978-80) and merchandise exports by between 10-12 per cent a year. To increase sugar exports, new emphasis is being given to increasing production and productivity in the sugar industry through an increase in mechanization. In addition, cement exports from the Arawak Cement Plant are expected to begin in 1984. Imports are expected to rise by about 8-10 per cent a year; imports of capital goods are expected to decline sharply after 1984, and the value of fuel imports, which is projected to fall in 1983, should grow very slowly thereafter as domestic crude oil production increases and the impact of ongoing conservation measures takes hold. The current account deficit is expected to taper off at about 5 per cent of GDP, a level that should be easily covered by normal capital inflows. The servicing of external debt is projected to rise to 12-1/2 per cent of merchandise exports and tourism by 1986 when Fund repurchases in respect of the 1982 compensatory purchase begin to come due (Table 5). The debt servicing ratio should decline slightly thereafter as the amortization of earlier Eurodollar borrowing is completed.

6. Performance criteria April 1983 - May 1984

The financial program for the period through March 1984 includes three quantitative performance criteria (Table 6). These are: (1) a quarterly ceiling on the net domestic assets of the Central Bank of Barbados; (2) a limit on the net credit of the domestic banking system to the nonfinancial public sector, performance under which will be tested quarterly and; (3) a ceiling on the nonfinancial public sector's contracting and guaranteeing of foreign indebtedness with a maturity range of one to ten years. In addition to these quantitative performance criteria, there is the customary provision on the restrictive system. There is provision for a mid-year review on progress made in implementing the financial program but this will not be performance criterion.

Table 5. Barbados: Outstanding External Debt 1/

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
					Projected					
	(In millions of U.S. dollars)									
Total	79.0	84.5	105.3	203.4	252.0	329.2	391.8	430.7	454.9	453.1
Central Government	51.5	56.8	81.1	128.7	141.8	184.7	201.7	211.0	221.8	231.8
Outstanding previous year	(35.9)	(51.5)	(56.8)	(81.1)	(128.7)	(141.8)	(184.7)	(201.7)	(211.0)	(221.8)
Drawings	(20.6)	(10.2)	(30.8)	(54.0)	(19.7)	(39.3)	(26.4)	(25.4)	(27.1)	(26.3)
Amortization	(-4.4)	(-4.8)	(-6.9)	(-6.4)	(-5.9)	(-6.4)	(-9.4)	(-16.1)	(-16.3)	(-16.3)
Valuation	(-0.6)	(-0.1)	(0.4)	(--)	(-0.7)	(--)	(--)	(--)	(--)	(--)
Government guaranteed	9.0	11.1	15.3	17.8	25.1	63.4	93.9	115.3	138.0	145.0
Central Bank	18.5	16.6	8.9	56.9	85.1	76.1	76.2	79.4	70.1	55.3
Of which: IMF	(8.5)	(8.6)	(2.9)	(0.9)	(24.6)	(40.6)	(44.9)	(44.9)	(33.8)	(17.0)
Other Central Bank liabilities	--	--	--	--	--	5.0	20.0	25.0	25.0	23.0
Total debt servicing	8.4	13.2	21.5	21.3	29.9	35.6	45.2	57.4	75.2	79.8
Total interest payments	3.9	6.2	6.7	12.6	17.5	22.2	26.3	31.3	32.9	32.5
Central Government	(2.4)	(4.6)	(4.5)	(7.7)	(10.0)	(13.0)	(14.4)	(14.8)	(15.5)	(16.0)
Government guaranteed	(0.5)	(0.6)	(1.0)	(1.0)	(1.4)	(5.2)	(6.9)	(10.1)	(11.0)	(12.6)
Central Bank	(1.0)	(1.0)	(1.2)	(3.9)	(6.1)	(4.0)	(5.0)	(6.4)	(6.4)	(4.9)
Total amortization	4.5	7.0	14.8	8.7	12.4	13.4	18.9	26.1	42.3	47.3
Central Government	(4.4)	(4.8)	(6.9)	(6.4)	(5.9)	(6.4)	(9.4)	(16.1)	(16.3)	(16.3)
Government guaranteed	(0.1)	(0.2)	(0.2)	(0.3)	(1.5)	(1.8)	(5.2)	(8.8)	(12.7)	(12.2)
Central Bank	(--)	(2.0)	(7.7)	(2.0)	(5.0)	(4.3)	(4.3)	(1.2)	(13.3)	(18.8)
Domestic exports and tourism	257.5	326.7	421.7	413.8	395.8	371.2	466.8	530.0	602.0	685.0
	(In per cent)									
Total debt/GDP	14.3	12.5	12.7	21.9	25.3	30.3	31.6	28.9	23.8	18.6
Debt service/domestic exports and tourism	3.3	4.0	5.1	5.1	7.6	8.4	9.7	10.8	12.5	11.6
Average interest	4.9	7.3	6.4	6.2	6.9	6.7	6.8	7.3	7.2	7.2

Sources: Central Bank of Barbados; and Fund staff estimates.

1/ End of period.

Table 6. Barbados: Quantitative Performance Criteria
Through March 1984

	1982	1983				1984
	Dec. 31	Mar. 31	June 31	Sept. 30	Dec. 31	March
	(In millions of Barbados dollars)					
Net domestic assets 1/						
Limit	111	97	69	83	74	85
Actual	48	53	...	...	...	...
Margin	63	44	...	...	...	...
Banking system credit to the nonfinancial public sector						
Limit	180	151	154	168	182	156
Actual	159	136	...	...	...	...
Margin	21	15	...	...	...	...
	(In millions of U.S. dollars)					
External debt authorization 2/						
Limit	35.0	35.0	45.5	45.5	45.5	45.5
Actual	20.5	20.5				
Margin	14.5	14.5				

Source: Central Reserve Bank of Barbados.

1/ Defined as currency issue and the counterpart of any new issue of SDRs minus net international reserves.

2/ Growth of external debt authorizations with maturities of one to ten years of the public sector, defined as the Central Government, the public enterprises, and the private sector with government guarantee.

V. Staff Appraisal

In response to the widening external imbalances of 1980-81, Barbados entered into a 20-month stand-by arrangement with the Fund on October 1, 1982. The program, which provided the basis of the arrangement, aimed at reversing the sharp deterioration in the balance of payments by reducing the overall fiscal deficit of the general government and by tightening monetary policy. Wage restraint also was fundamental to the successful implementation of the program, particularly in the light of the authorities' strong desire to maintain the existing parity with the U.S. dollar.

Barbados has complied with all quantitative performance criteria (relating to net domestic assets of the monetary authorities, banking system credit to the public sector, and a limit on authorizations of public and publicly guaranteed foreign debt) in December 1982 and March 1983, the two testing dates. The balance of payments deficit on current account deficit of the balance of payments was held to the equivalent of 9.5 per cent of GDP in 1982, compared with the projected 10 per cent of GDP, and the overall deficit, to US$7 million, compared with the projected US$32.5 million. In the fiscal area, the general government's overall deficit for 1982/83 exceeded program targets by a small margin but this was entirely due to the reallocation of certain capital expenditures from a nonfinancial public corporation to the Central Government.

Real GDP declined in 1982 (by close to 4-1/2 per cent) for the second consecutive year, reflecting the adverse impact of the international recession on the tourism and manufacturing sectors and a drop in sugar production. The economic slowdown also brought a sharp increase in unemployment--from 10.8 per cent in 1981 to 13.6 per cent in 1982. At the same time, the domestic rate of inflation moderated from 14.6 per cent in 1981 to 10.3 per cent in 1982. The rate of wage increases also decelerated--from a range of 30-35 per cent for two-year contracts in 1980-81 to a range of 14-20 per cent for similar contracts in 1982.

The program for the 12 months starting April 1, 1983 envisages a further reduction in the current account deficit of the balance of payments to the equivalent of 8.3 per cent of GDP for 1983 (instead of 7.2 per cent of GDP originally projected) and an overall balance of payments deficit of US$10 million (instead of US$7.5 million). The fiscal program calls for a reduction in the general government's overall deficit to 2.3 per cent of GDP (instead of 1.8 per cent of GDP originally programed) through the implementation of a series of new tax measures and continued restraints on government spending. The Barbados authorities have taken steps to improve the finances of the major public corporations so as to reduce their reliance on central government transfers to finance the operating deficits. The staff urges the authorities to speed up the efforts to improve the profitability of the Transport Board which continues to be heavily subsidized. The staff believes that the revision of the balance of payments and fiscal targets are justified in the light of the slower than anticipated recovery in the international economy.

The staff believes that there is no strong evidence to indicate that a change in Barbados' exchange rate policy is required at the present time. Therefore, in the light of (a) the strong performance on manufacturing exports; (b) the adjustment measures that are being implemented to assist the tourist industry; and (c) the recent marked deceleration in the rate of wage increases; the staff agrees with the decision of the authorities to maintain the present exchange rate and to adopt the measures needed to back up that decision. Continued wage restraint will be of crucial importance in this regard.

The staff considers that the current stance of credit policy and the interest rate strategy (which is geared at keeping domestic rates competitive with foreign rates) are appropriate. It, however, recommends that consideration be given to removing the interest rate ceilings which are already creating distortions in the financial system.

The staff welcomes the authorities' decision to remove the fees on purchases of foreign exchange which constituted a multiple currency practice and to eliminate the import quotas on motorcars.

The staff believes that the economic policies that the Government of Barbados intends to pursue for the remainder of the stand-by arrangement are appropriate to achieve the objectives of balance of payments adjustment and facilitate a resumption of growth. In any event, the program provides for a midyear review which should indicate whether any policy changes are required.

It is recommended that the next Article IV consultation with Barbados be held on the standard 12-month cycle.

VI. Proposed Decisions

(i) 1983 Consultation

The following draft decision is proposed for adoption by the Executive Board in concluding the 1983 consultation with Barbados:

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Barbados, in the light of the 1983 Article IV consultation with Barbados conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (*Surveillance over Exchange Rate Policies*).

2. The Fund notes with satisfaction that Barbados' exchange system is free of restrictions on payments and transfers for current international transactions.

(ii) Review under Stand-By Arrangement

1. Barbados has consulted with the Fund in accordance with paragraph 4(b) of the stand-by arrangement for Barbados (EBS/82/153, Supp. 1, 10/4/82) and paragraph 11 of the letter dated August 23, 1982 attached thereto in order to establish performance criteria subject to which purchases may be made by Barbados during the period after April 29, 1983 through May 31, 1984.

2. The letter from the Minister of Finance and Planning and Governor of the Central Bank of Barbados dated April 29, 1983, together with the annexed memorandum on economic policy for 1983/84, shall be attached to the stand-by arrangement for Barbados and the letter of August 23, 1982 shall be read as supplemented and modified by the letter of April 29, 1983 together with the annexed memorandum.

3. Accordingly, Barbados will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Barbados' currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota:

(a) during any period before May 31, 1984 in which the data at the end of the preceding period indicate that:

(i) the limit on net domestic assets of the monetary authorities described in paragraph 10 of the memorandum annexed to the attached letter dated April 29, 1983; or

(ii) the limit on banking system's credit to the nonfinancial public sector described in paragraph 11 of the memorandum annexed to the attached letter dated April 29, 1983 is not observed; or

(b) If Barbados fails to observe the limit on authorizations of new public and publicly guaranteed foreign indebtedness described in paragraph 12 of the memorandum annexed to the attached letter dated April 29, 1983.

4. Purchases under the stand-by arrangement for Barbados shall not, without the consent of the Fund, exceed the equivalent of SDR 16,275,000 until May 31, 1983, the equivalent of SDR 20, 175,000 until July 20, 1983, the equivalent of SDR 24,075,000 until October 20, 1983, and the equivalent of SDR 27,975,000 until January 20, 1984.

Fund Relations with Barbados
(As of April 30, 1983)

Date of membership: December 29, 1970.

Status: Article XIV.

Quota: SDR 25.5 million.

Fund holdings of Barbados dollars

	Millions of SDRs	Per Cent of Quota
Total	49.59	194.47
Oil facilities	--	--
Compensatory financing facility	11.72	45.94
Stand-by	7.65	30.01
Enlarged access resources	4.72	18.52
Other holdings general account	25.50	100.00

SDR Department

	Millions of SDRs	Per Cent of Allocation
Net cumulative allocation	8.04	100.00
Holdings	0.02	0.21

Direct distribution of profits of gold sales: US$2.09 million.

Gold distribution (four distributions): 11,125.930 fine ounces.

Exchange rate: BDS$2.01375 per U.S. dollar.

Exchange restrictions: On December 7, 1982, the Executive Board extended the approval for the retention by Barbados of an exchange restriction resulting in a multiple currency practice, until the time of the 1983 Article IV consultation mission or May 31, 1983 whichever is earlier.

Recent contacts: The last Article IV consultation discussions were completed by the Executive Board on December 8, 1981. A mission visited Barbados on July 6-11, 1982 and negotiated ad referendum a stand-by arrangement which was approved by the Executive Board on October 1, 1982.

Barbados--Basic Data

Area and population	
Area	166 sq. miles (430 sq. kilometers)
Population (1982)	251 thousand
Annual rate of population increase (1978-82)	0.2 per cent
Unemployment rate (1982)	13.6 per cent
GDP (1982)	SDR 904.3 million US$997.5 million BDS$1,995.0 million
GDP per capita (1982)	SDR 3,603

	1980	1981	Prel. 1982	Proj. 1983
Origin of GDP		(per cent)		
Agriculture and fishing	10	9	9	9
Manufacturing	12	12	12	12
Tourism	14	13	12	12
Construction	7	8	8	8
Government	13	13	14	13
Other	44	45	45	46
Ratios to GDP				
Exports of goods and nonfactor services	71.5	61.7	57.7	52.6
Imports of goods and nonfactor services	75.0	72.8	67.0	62.3
Current account of the balance of payments	-0.6	-9.8	-9.5	-8.2
Central government revenues 1/	25.7	24.2	24.7	24.5
Central government expenditures 1/	31.3	32.6	31.2	29.0
Central government savings 1/	2.8	0.9	0.4	1.5
Central government overall surplus or deficit (-)1/	-5.5	-8.3	-6.4	-4.4
External public and government-guaranteed debt (end of year)	11.6	15.7	16.7	22.8
Gross national savings	19.5	11.3	11.1	11.1
Gross investment	23.0	23.9	22.8	21.6
Money and quasi-money (end of year)	42.1	42.7	42.8	42.9
Annual changes in selected economic indicators				
Real GDP per capita	4.0	-2.9	-4.7	-0.1
Real GDP	4.3	-2.7	-4.4	0.1
GDP at current prices	22.9	12.2	7.2	9.0
Domestic expenditure (at current prices)	20.7	20.5	5.3	9.4
Investment	(26.2)	(16.9)	(2.1)	(3.3)
Consumption	(19.2)	(21.6)	(6.3)	(11.0)
GDP deflator	17.7	15.3	11.5	9.3
Consumer prices (annual averages)	14.0	14.6	10.3	8.8
Central government revenues	24.6	5.8	9.1	7.9
Central government expenditures	33.2	17.1	2.3	1.1
Money and quasi-money	17.1	13.8	7.6	9.0
Money	(15.1)	(-0.1)	(-1.2)	(5.0)
Quasi-money	(18.0)	(20.3)	(1[illegible].9)	(10.5)
Net domestic bank assets 2/	13.4	29.2	7.6	13.3
Credit to public sector (net)	(-1.5)	(6.8)	(4.2)	(6.2)
Credit to private sector	(16.1)	(18.5)	(18.3)	(6.1)
Merchandise exports (f.o.b., in U.S. dollars)	41.5	-11.6	15.0	8.5
Merchandise imports (c.i.f., in U.S. dollars)	18.5	13.1	-3.7	3.3
Travel receipts (gross, in U.S. dollars)	22.0	3.2	-14.1	4.8

Central government finances (fiscal year from April 1)	1980	1981	Est. 1982	Budget 1983
	(millions of Barbados dollars)			
Revenues	427.8	452.7	493.9	533.0
Expenditures	519.2	608.0	622.0	629.0
Current account surplus or deficit (-)	45.8	17.6	7.9	33.0
Overall surplus or deficit	-91.4	-155.3	-128.1	-96.0
External financing (net)	78.7	91.2	60.8	31.0
Internal financing (net) and residual	12.7	64.1	67.3	65.0
Balance of payments	(millions of U.S. dollars)			
Domestic exports (f.o.b.)	168.0	152.0	170.8	185.3
Merchandise imports (c.i.f.) 3/	-444.2	-502.5	-484.0	-499.8
Travel (gross)	253.7	261.8	225.0	235.9
Other services (net)	-6.2	-29.2	-28.0	-43.0
Private transfers (net)	23.9	27.1	21.5	32.0
Balance on current and transfer accounts	-4.8	-90.8	-94.7	-89.6
Official capital (net)	26.6	45.5	11.1	40.9
Private capital (net) and errors and omissions	-3.5	19.6	76.4	38.7
SDR allocations	1.6	1.5	--	--
Change in official net reserves (increase -)	-19.9	24.2	7.2	10.0

International reserve position	Dec. 31 1980	Dec. 31 1981	Dec. 31 1982
	(millions of SDRs)		
Central Bank (gross)	62.7	88.8	113.9
Central Bank (net)	55.7	39.8	36.9

1/ Fiscal years from April.

2/ In relation to liabilities to the private sector at beginning of period. Excludes contra-entry of SDR allocations.

3/ Retained imports.

Barbados: Financial Relations of the World Bank Group with Barbados

(In millions of U.S. dollars)

	Outstanding as of March 31, 1983			
	Disbursed	Undisbursed	Total	Repayments
Total IBRD	15.04	20.66	35.70	--
Education	4.96	4.04	9.00	--
Tourism	5.03	2.97	8.00	--
Industry	3.96	6.04	10.00	--
Power	1.09	4.91	6.00	--
Technical assistance (agriculture and energy)	--	2.70	2.70	--

	Actual			Proj.	
Fiscal year (July 1-June 30)	1979/80	1980/81	1981/82	1982/83	1983/84
Net disbursements	0.23	2.20	5.87	9.68	7.8
Disbursements	0.23	2.20	3.67	11.10	9.8
Repayments	--	--	--	1.42	2.0

Source: IBRD.

Barbados: Selected Economic and Financial Indicators, 1980-84

	1981	1982 Prog.	1982 Prel.	1983 Prog.	1983 Rev. Proj.7/	1984 Proj.
(Annual per cent changes, unless otherwise specified)						
National income and prices						
GDP at constant prices	-2.7	-2.2	-4.4	1.5	0.1	3.5
GDP deflator	13.6	12.5	11.5	8.5	9.3	9.0
Consumer prices	14.6	9.7	10.3	8.5	8.8	7.5
External sector (millions of U.S. dollars)						
Exports, f.o.b.1/	152.0	163.5	170.8	179.5	185.3	206.4
Imports, c.i.f. (retained)	502.5	525.0	484.0	551.0	499.8	525.0
Non-oil imports, c.i.f.	443.0	485.0	439.5	506.0	459.8	483.0
Export volume 1/	-16.8	11.7	12.9	4.7	3.2	4.9
Import volume	3.8	--	-8.6	1.0	-1.3	--
Terms of trade (deterioration -)	-1.3	-4.0	-3.1	1.1	0.3	--
Nominal effective exchange rate (depreciation -)	4.6	2.6	4.5	--	--	--
Real effective exchange rate (depreciation -)	7.2	5.9	6.5	--	--	--
Overall balance of payments deficit (-)2/ (In millions of U.S. dollars)	-24.2	-32.5	-7.2	-7.5	-10.0	--
Gross official reserves (months of retained imports)	2.5	1.5	3.1	1.5	2.5	2.3
External payments arrears	--	--	--	--	--	--
Money and credit						
Domestic credit 3/	30.4	10.0	7.7	15.7	13.4	16.0
Public sector 3/	9.2	4.3	4.3	4.2	4.6	1.0
Private sector 3/	18.3	10.1	6.1	7.6	10.5	15.0
Money and quasi-money (M2)	13.4	11.2	7.4	9.4	9.1	12.0
Velocity (GDP relative to M2)	2.4	2.3	2.3	2.3	2.3	2.3
Interest rate (annual rate one-year savings)	7.2	8.2	9.5	9.2	8.5	8.5
(In per cent of GDP)						
Gross domestic investment	23.9	25.3	22.8	25.3	21.6	20.4
Gross national savings	14.6	14.8	13.3	14.8	12.2	...
Current account deficit (BOP)	-9.8	-10.0	-9.5	-7.2	-8.2	-4.8
External debt						
Inclusive of use of Fund credit 4/	21.8	22.8	25.3	23.8	30.3	32.1
Debt service ratio (in per cent of exports of goods and services)5/	5.2	9.0	7.6	7.5	8.4	9.7
Interest payments (in per cent of exports of goods and services)5/	3.1	3.7	4.4	4.0	5.3	5.7

	Fiscal years ending March					
	1980/81	1981/82	1982/83 Prog.	1982/83 Rev. Est.	1983/84 Program	1983/84 Rev. Prog.
(Annual per cent changes)						
General government budget 6/						
Revenue and grants	22.9	9.1	16.2	16.6	9.7	9.7
Total expenditure	32.2	19.4	4.9	5.9	3.9	4.8
(In per cent of GDP)						
General government overall deficit 6/	-3.8	-6.6	-3.5	-3.8	-1.8	-2.3
Central government savings	2.8	0.9	0.3	0.4	2.4	1.5
Central government budget deficit	-5.5	-8.3	-5.4	-6.4	-3.6	-4.4
Domestic financing	0.8	3.4	3.7	3.4	1.8	3.0
Foreign financing	4.7	4.9	1.7	3.0	1.8	1.4

1/ Domestic exports: excludes re-exports and oil bunker sales.
2/ Includes budget/balance of payments support loans to the Government.
3/ Banking system, excluding counter-entry of SDR allocations; and in relation to liabilities to the private sector at beginning of period.
4/ Includes Central Bank foreign liabilities.
5/ Domestic exports and tourism only.
6/ Defined as the consolidated account of the Central Government and the Social Security system.
7/ Central Bank and IMF staff.

Barbados: Summary of the Financial Program for 1983/84

I. Macro-Economic Assumptions

1. Real GDP is expected to remain flat in 1983 and recover by between 3-4 per cent in 1984. Agricultural production and tourism activity are expected to increase moderately in 1983; manufacturing production is projected to show a small decline. The currency issue is projected to in-increase by 9 per cent (from BDS$128 million to BDS$140 million) over the program period.

2. The ratio of money and quasi-money to GDP in 1983 is projected to remain constant at 43.6 per cent of GDP. The currency issue is projected to increase by 9 per cent (from BDS$128 million to BDS$140 million) over the program period.

3. No change is assumed in the nominal exchange rate of BDS$2 to US$1.
4. Inflation, as measured by the annual rate of increase in the average consumer price index is projected to decline from 10.3 per cent in 1982 to about 9 per cent in 1983.

II. Targets

1. The overall balance of payments deficit, defined in terms of changes in the net international reserves of the monetary authorities, is programed at US$10 million in calendar year 1983 and the same level in fiscal year 1983/84.

2. The current account deficit of the balance of payments is projected at 8.3 per cent of GDP in 1983 compared with 9.5 per cent of GDP in 1982.

III. Principal Elements of the Program

1. Fiscal

a. The overall deficit of the Central Government and National Insurance Fund is to be reduced from BDS$77 million, the equivalent of 3.8 per cent of GDP, in FY 1982/83 to BDS$51 million, the equivalent of 2.3 per cent of GDP in FY 1983/84.

b. To achieve this objective, the Government introduced tax measures estimated to yield BDS$29.5 million, or 1.4 per cent of GDP, and proposed to limit the growth of total expenditures to 5 per cent (see Appendix VI). Current expenditures are projected to increase by 8 per cent and capital outlays are projected to decline by 6 per cent. Current transfers from the Central Government to the Transport Board are to be reduced to BDS$10 million in FY 1983/84 compared with BDS$14 million in FY 1982/83. Measures to achieve this will include (a) an increase in bus fares from 60 cents to 75 cents; (b) increasing revenue collections through the introduction of fare boxes; and (c) reducing employment through attrition. The current transfer to the Water Authority which was BDS$2 million in FY 1982/83 is to be eliminated in FY 1983/84 following the introduction of the second phase of a water adjustment schedule.

2. Monetary measures

Given the projected growth in the currency issue, the achievement of the balance of payments target requires that the growth in net domestic assets of the monetary authorities be held to BDS$32 million, over the program period. The ceiling on net domestic assets provides for Central Bank credit expansion of BDS$20 million to the Central Government and is consistent with a 12 per cent increase in credit to the private sector.

3. Debt authorizations

Foreign debt authorizations of between 1 and 10 years' maturity for the public sector and for private sector with government guarantee (but excluding medium-term liabilititres of the Central Bank), is to be limited at US$25 million.

Barbados: Main Fiscal Measures Included in the 1983/84 Budget

A. Revenue measures (estimated net yield of BDS$26.9 million)

1. Income tax (estimated tax reduction of BDS$2.7 million)

(a) A tax was introduced on payments made on termination of employment, except by retirement (severance pay). The rates of tax are as follows:

(i) up to BDS$25,000 - tax free

(ii) BDS$25,000 to BDS$50,000 - 30 per cent

(iii) BDS$50,000 and above - 50 per cent

(b) The maximum marginal tax rate applicable to incomes above BDS$40,000 was reduced from 70 per cent to 60 per cent.

(c) The tax credit applicable to persons with incomes up to BDS$7,000 was raised from BDS$240 to BDS$360 and for incomes between BDS$7,000 and BDS$8,000 from BDS$120 to BDS$180.

(d) Repair allowances for owners of buildings with architectural interest was raised from 4 per cent to 10 per cent.

2. Company fees (estimated yield BDS$0.4 million)

Company registration fees were increased with effect from May 2, 1983.

3. Registration of professionals (estimated yield BDS$0.2 million)

The two-tier system of registration fees for doctors whereby charges varied between BDS$1,000 to BDS$1,500 per year will be replaced by a standard fee of BDS$1,500 per year with effect from 1984.

4. Health levy (estimated yield BDS$8.0 million)

(a) With effect from May 2, 1983 the existing health service charge was increased by 1 per cent to be shared by employer and employee.

5. Land and property tax (estimated yield BDS$1.5 million)

(a) With effect from Land Tax Year 1983, special rates of land tax will be levied on parcels of land owned by foreign companies. The rates are as follows:

(i) for unimproved land, a tax of 3 per cent on the site value

(ii) for improved land, a tax of 2 per cent on the improved value

(b) the rate of "idle land" levy under the Land Tax Act was increased from BDS$300 per hectare to BDS$500 per hectare.

6. Consumption taxes (projected yield BDS$6.7 million)

(a) An increase in consumption tax on petroleum products (excluding kerosene and fuel oil) to yield an estimated BDS$5.1 million.

(b) An increase in consumption tax on cigarettes and soft drinks to yield an estimated BDS$2.7 million.

(c) Consumption taxes were reduced on kerosene oil and fuel oil used by the electricity company. This will permit a reduction in the retail price of kerosene and in the fuel adjustment charge of the electricity bill. Estimated reduction in government revenue arising from this measure is BDS$0.5 million.

(d) The limit of the chargeable value of motorcars to be subject to a 50 per cent purchase tax was increased from BDS$16,000 to BDS$20,000. The reduction in revenue expected to derive from this measure is estimated at BDS$0.6 million.

7. Stamp duty (estimated yield BDS$7.0 million)

(a) A 1 per cent increase in the stamp duty to be charged on documents processed by the Customs Department.

(b) The introduction of a BDS$10 stamp duty on all Exempt Insurance Documents (documents relating to off-shore transactions).

8. Sales tax (estimated yield BDS$0.4 million)

(a) With effect from June 1, 1983 sales in proprietary clubs will be subject to the restaurant sales tax.

(b) As from April 1, 1983 timeshare operations were made subject to the timeshare tax equivalent to BDS$20 per day for each day a hotel room is rented.

9. Travel tax (estimated yield BDS$2.0 million)

   (a) A 10 per cent tax on airline tickets for journeys originating in Barbados was introduced.

10. Foreign exchange tax

   (a) The specific charge on the purchase of foreign exchange for certain transactions was replaced by a flat 1 per cent tax.

11. Airport charges (estimated yield BDS$1.4 million)

   (a) An increase in departure tax from BDS$8-10 per person to BDS$12 per person.

   (b) An increase in terminal charges from BDS$1.50 per person to BDS$3.00 per person.

12. License fees (estimated yield BDS$1.8 million)

   (a) The annual license fee for utility companies was increased to BDS$500,000 for the Barbados Light and Power Company and the Barbados Telephone Company and BDS$750,000 for the Cable and Wireless Limited.

   (b) Annual license fees for television sets were increased from BDS$20 to BDS$30 for black and white sets and from BDS$30 to BDS$40 for color sets.

   (c) An annual license fee of BDS$30 for video-tape recorders and BDS$500 for operators of video-tape rental companies was introduced.

B. Adjustments in public utility tariffs

1. As from May 3, 1983, bus fares were raised from 60 cents to 75 cents. This along with other measures designed to increase profitability will facilitate a reduction in central government transfers to the Transport Board.

2. Postal charges (estimated yield BDS$0.4 million)

Postal rates were increased with effect from May 3, 1983.

C. Expenditure measures

1. From April 1, 1983 all public officers and persons paid from the Public Treasury will reserve an interim (supplementary) allowance of 2-1/2 per cent paid monthly with the next salary increase. Estimated cost is BDS$6.4 million consisting of BDS$5.8 million

for public servants, BDS$0.6 million for government pensioners and BDS$0.4 million for National Insurance and other miscellaneous charges.

2. Following the 1 per cent rise in the health levy, the Government's contribution as employer is estimated to have increased by BDS$2.7 million.

Bridgetown, Barbados
April 29, 1983

Mr. Jacques de Larosiere
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Larosiere:

1. In our letter of August 23, 1982 requesting a 20-month stand-by arrangement for SDR 31.875 million, we indicated our intention to reach understandings with the Fund no later than April 30, 1983 on the policies to be applied during the remaining period of the arrangement including (1) the limits on the net domestic assets of the monetary authorities; (2) the limits on banking system credit to the nonfinancial public sector; and (3) the limit on authorizations of new public and publicly guaranteed foreign indebtedness. Accordingly, we wish to annex to that letter the enclosed memorandum of the Government of Barbados which summarizes economic developments during 1982, outlines the policies which Barbados will pursue during the remainder of the stand-by arrangement, and sets forth the limits and targets to be applied during the period through May 31, 1984.

2. The Government reconfirms the commitments expressed in paragraph 13 of the letter of August 23, 1982 with respect to consultation with the Fund. In addition, the Government undertakes to consult with the Fund midway through FY 1983/84 on the progress made in the implementation of the program described in the annexed Economic Policy Memorandum and about policy adaptations judged to be appropriate for the achievement of its objectives.

Sincerely yours,

/s/	/s/
J.M.G. Adams Prime Minister and Minister of Finance and Planning	Courtney Blackman Governor Central Bank of Barbados

Annexed: Economic Policy Memorandum of the Government of Barbados for FY 1982/83

Economic Policy Memorandum of the Government of Barbados for 1983/84

1. In 1981, the combined impact of the recession in the industrial countries on the tourism and manufacturing sectors and a poor sugar crop led to a decline of 3 per cent in real GDP. The fall in production was not accompanied by an adjustment in domestic demand and as a result the current account deficit of the balance of payments rose to the equivalent of 9 per cent of GDP. Despite sizable official borrowing, the overall balance of payments registered a deficit of US$25 million compared with annual surpluses averaging close to US$20 million in 1978-80. During the second half of 1981, in an attempt to reduce demand pressures, the Government introduced a tax package with an estimated annual yield equivalent to 1 per cent of GDP and reduced capital outlays substantially. In early 1982 the Government adopted a comprehensive stabilization program, the main objective of which was to restore equilibrium in the balance of payments by means of a phased reduction in the overall fiscal deficit and a tightening of monetary policy.

2. The fiscal package incorporated in the stabilization program included (1) tax measures with an estimated annual yield equivalent to 3 per cent of GDP, (2) strict control over the growth of current expenditure through a freeze in civil service employment and a scaling down of wage increases and (3) a drastic cut in the capital budget. These measures were projected to reduce the overall deficit on general government operations from 6.6 per cent of GDP in 1981/82 to 3.5 per cent of GDP in 1982/83 and to limit government borrowing from the Central Bank to BDS$35 million (about 1.7 per cent of GDP). In the field of monetary policy, liquidity requirements for commercial banks were tightened, banks were required to reduce the level of consumer loans outstanding and lending and deposit rates of the commercial banks were increased. The increase in interest rate levels, of around 5 percentage points from mid-1981 to mid-1982, brought domestic rates broadly in line with rates prevailing abroad and made them positive in relation to current and projected inflation rates. In view of the appreciation of the Barbados dollar on a trade-weighted basis since early 1981 and the consequences for the island's international competitiveness of increasing wage costs, the program also emphasized that the rate of increase in wages must be curbed decisively.

3. The continuing effect of the world recession on the tourism and manufacturing sectors combined with an even sharper fall in sugar output--to the lowest level in 34 years--led to a second successive year of economic decline, as real GDP fell by 4 per cent in 1982. The rate of domestic inflation, as measured by the average annual increase in the retail price index, moderated from 14.6 per cent in 1981 to 10.3 per cent in 1982. The rate of wage increases fell from a range of 25-30 per cent to 14-18 per cent for two-year wage awards, but there was a significant increase in the rate of unemployment (from

10.8 per cent in 1981 to 13.6 per cent in 1982). The fiscal and monetary policies implemented in 1982 succeeded in sharply reducing aggregate demand and facilitated considerable improvement in the balance of payments and the public finances.

4. During 1982, the nominal value of imports declined by 4 per cent despite a sizeable increase in imports of capital goods for two ongoing investment projects; imports of consumer goods fell by 15 per cent and imports of raw materials including fuels fell by 9 per cent. The decline in imports was offset by a 17 per cent reduction in tourism receipts and the current account deficit of the balance of payments rose from US$87 million in 1981 to US$95 million in 1982. The 1982 current account deficit represented 9.5 per cent of GDP slightly less than originally projected. Because of large unanticipated private capital inflows, the overall deficit of the balance of payments turned out at US$7 million, compared to US$33 million originally projected.

5. The operations of the general government in FY 1982/83 produced current account savings of BDS$65 million compared to a programed surplus of BDS$50 million. Project related capital outlays were held below programed levels. However, the Central Government disbursed BDS$24 million (fully financed by an Eurodollar loan) to purchase the assets of Mobil Oil Barbados Limited. The overall deficit of the general government (excluding this purchase) turned out at BSD$52 million (2.6 per cent of GDP), lower than budgeted BDS$72 million (3.6 per cent of GDP). When the purchase of the Mobil Oil facilities is included the overall deficit increases to the equivalent of 3.8 per cent of GDP.

6. Present indications are that the expected recovery in the United States and other OECD countries may not emerge until late 1983. Against this background, the expectations are for a stagnation in real GDP in 1983. Sugar production is expected to rise marginally, tourism activities are expected to remain flat and manufacturing output is anticipated to decline slightly. No significant new job creation is expected during the year as enterprises try to weather the decline in revenues by keeping down labor costs. The rate of wage increase and of domestic inflation should continue to moderate in 1983.

7. The Government believes that the Barbados economy is basically sound and that the development strategy being pursued is well suited to producing sustainable economic growth in the medium term. Economic policy in 1983, as in 1982, would be geared to protecting the balance of payments and minimizing the adverse effect of the international recession on the Barbados economy. At the same time the Government is committed to taking measures to improve the efficiency of the economy so that it may be in a better position to benefit from the upturn in the international economy. In this context new emphasis is being given to: (1) increasing productivity in the sugar sector; (2) the diversification of the agricultural sector to encompass an expansion in domestic food production and non-sugar agricultural exports; (3) reducing costs in the tourist industry; and (4) attracting more foreign high technology industries (both manufacturing and service industries) to Barbados.

8. The balance of payments target will be to limit the decline in net official international reserves in calendar year 1983 (as well as in fiscal year 1983/84) to US$10 million to be financed entirely by the use of Fund resources already allocated under the existing stand-by arrangement. Merchandise exports are projected to rise by 8.5 per cent in 1983, and gross tourist receipts are expected to increase by 5 per cent. Thus, in order to achieve the targeted current account deficit, equivalent to about 8.3 per cent of GDP, the level of imports is programed to increase by only 3 per cent in nominal terms. As capital goods imports in 1983 are expected to be lower than in 1982, a small increase in imports of consumer goods and raw materials is indicated.

9. Fiscal policy in 1983/84 will aim at holding the overall deficit on general government operations to BDS$51 million or 2.3 per cent of GDP. The projection of the overall deficit is predicated on continued expenditure restraint and on an improved revenue performance. The increase in current expenditure will be constrained through an extension of the freeze on government employment and a reduction in government transfers to certain non-financial public enterprises. Central government capital expenditure is projected to increase slightly in nominal terms, in view of the need to complete certain large capital projects. The improved revenue performance will result from an upgrading of the tax collection machinery and revenue measures incorporated in the 1983 central government budget, presented to the Parliament on April 27, 1983. Capital inflows related to ongoing capital projects have been projected at BDS$27 million in 1983/84. To help finance large cost overruns on a few major projects, the authorities are hoping to raise BDS$20 million in concessionary assistance from multilateral agencies and friendly donor countries under the auspices of the Caribbean Group for Cooperation in Economic Development. The financing plan also provides for BDS$20 million from the domestic banking system which is included in the monetary program described in paragraph 10.

10. Credit policies will aim at limiting the Central Bank's loss of net official foreign reserves to US$8.5 million from March 31, 1983 through June 30, 1983; to US$15.0 million through September 1983; to US$2.2 million through December 1983 and US$10.0 million over the 12 months to March 1984. In line with these targets and given the projected increase in currency issue, the net domestic assets of the Monetary Authority (defined as the difference between the currency issue plus the counterpart of any new SDR allocations and its net international reserves) estimated at BDS$53 million at the end of March 1983, will not exceed BDS$69 million through June 1983; BDS$83 million through September 1983; BDS$74 million through December 1983; BDS$85 million through March 1984. Assuming no change in the net foreign asset position of the commercial banks, the programed Central Bank credit expansion is believed consistent with banking system credit expansion of about 14 per cent over the 12 months through March 1984 and with an increase of 12 per cent in credit to the private sector. These credit policies will continue to be reinforced by selective credit controls and restrictions on consumer installment lending. Commercial banks' lending

and deposit rates have been reduced by 3 percentage points since October 1982, in line with the fall in interest rates abroad. Interest rate policy will continue to aim at keeping domestic rates competitive with rates abroad so as to discourage short-term capital outflows.

11. In line with the fiscal and credit programs described above, the net credit of the banking system to the nonfinancial public sector which was estimated at BDS$136.0 million at March 31, 1983 will not exceed BDS$154 million through the end of June 1983; BDS$168 million through the end of September 1983; BDS$182 million through the end of December 1983 and BDS$156 million through the end of March 1984.

12. In order to moderate the growth in external debt, authorization for external debt of the public sector (defined as consisting of the Central Government, the public enterprises and the private sector with government guarantee, with maturities of at least one year and up to and including ten years) will not exceed US$25 million for the remainder of the program period.

13. Given the overriding need for Barbados to remain internationally competitive, the Government considers that wage restraint is critical to the success of the stabilization effort and to minimizing the rise in unemployment. As mentioned earlier the rate of wage increases showed a marked deceleration in 1982. All wage contracts to be negotiated in the public sector in 1983 will be guided by the terms of the Central Government wage settlement (about 15 per cent over two years) which took effect in April 1982. The Government will continue to stress the need for similar wage restraint in the private sector. The Government intends to conduct a comprehensive review of all aspects of its economic program around mid-September 1983.

14. Barbados maintains an exchange system that is free of restrictions on payments and transfers for current international transactions.

15. The Government believes that the policies set forth in this memorandum are adequate to achieve the objectives of the programme, but will take any further measures that may become appropriate for this purpose. As stated in the letter to the Managing Director dated April 29, 1983, Barbados will consult with the Fund on the adoption of any measures that may be appropriate in accordance with the policies of the Fund on such consultation.