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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 81/159

10:00 a.m., December 18, 1981



J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors

A. Buira

B. de Maulde
R. D. Erb
M. Finaish
T. Hirao
J. C. Iarezza
R. K. Joyce
A. Kafka

B. Kharmawan
S. Kiingi

J. J. Polak
A. R. G. Prowse
J. Sigurdsson
Zhang Z.

Alternate Executive Directors

O. Kabbaj
J. F. Williams, Temporary
M. A. Senior
H. G. Schneider
A. Le Lorier
J. E. Leimone, Temporary
T. Alhaimus
A. Nagashima
R. T. Salazar
M. Casey
J. R. Gabriel-Peña
G. Jauregui, Temporary
V. Supinit

G. Winkelmann
C. P. Caranicas
M. K. Diallo, Temporary
A. S. Jayawardena
S. El-Khour

L. Vidvei
Tai Q.

L. Van Houtven, Secretary
J. A. Kay, Assistant

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Member Page 16

Also Present

Exchange and Trade Relations Department: D. K. Palmer, Deputy Director; M. Guitian. External Relations Department: G. P. Newman. Legal Department: W. E. Holder. Western Hemisphere Department: E. W. Robichek, Director; C. E. Sansón, Deputy Director; M. E. Hardy, Y. Ozeki, F. Rubli-Kaiser, S. J. Stephens, E. V. Zayas, J. E. Zeas. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: S. R. Abiad, E. A. Ajayi, C. J. Batliwalla, S. E. Conrado, K. V. Jännäri, S.-W. Kwon, P. D. Peroz, F. A. Tourreilles, F. Yeo T. Y., Wang E. Assistants to Executive Directors: H. Alaoui-Abdallaoui, L. Barbone, L. E. J. Coene, J. L. Feito, Jiang H., P. Kohnert, M. Michelangeli, V. K. S. Nair, Y. Okubo, J. G. Pedersen, C. N. Pinfield, D. V. Pritchett, M. Z. M. Qureshi, J. Reddy, J. Schuijjer, H. Suzuki, O. Üçer, A. Yasserli, A. A. Yousef.

1. BARBADOS - 1981 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1981 Article IV consultation with Barbados (SM/81/215, 11/9/81) together with a proposed decision concluding the 1981 Article XIV consultation. They also had before them a report on recent economic developments in Barbados (SM/81/226, 12/1/81).

The staff representative from the Western Hemisphere Department explained that since the Fund mission had visited Barbados, the authorities had contracted a US\$30 million loan, as was mentioned in SM/81/215, and in addition, the Central Bank had borrowed abroad a further US\$30 million. In the meantime, gross reserves had risen by approximately US\$50 million, which would indicate that the underlying deficit remained about US\$5 million a month, an amount similar to that registered over the previous few months. Second, there had been a major upward movement in interest rates: in particular, treasury bill rates had risen to just over 14 per cent, an increase of 5 percentage points since September 1981.

Mr. Joyce made the following statement:

At the outset, may I, on behalf of my authorities in Barbados, express their thanks to the Fund mission for the warm and helpful way in which the Article IV consultations were conducted. The Government of Barbados is in general agreement with the description of the economic situation set out in the staff report and in the accompanying paper on recent economic developments. They also accept the main thrust of the staff appraisal and the broad policy prescriptions contained in the report.

Barbados is now going through a difficult period and, indeed, will likely suffer a fall in real GDP in the current year. Inflation has remained unacceptably high at close to 14 per cent and there has also been a marked worsening in the balance of payments. At the time of the last Article IV consultation in May 1980, Barbados had been enjoying for some years average annual rates of real growth of 5 per cent, unemployment had fallen sharply, and there was a substantial investment program, especially in the tourist sector. Even then, however, there were signs of overheating, particularly on the wage front, and it was clear that the international economic climate was deteriorating.

As 1980 progressed, the economic slowdown in the industrial countries began to affect both tourism and manufactured exports. But the seriousness of the underlying situation was to some extent masked by a record sugar crop and higher sugar prices. The staff report points out that no such offset exists in 1981. Tourist receipts have shown little growth, there has been a decline in the volume of manufactured exports and, at the same

time, both sugar prices and the volume of sugar production have been weak. As a result, the overall level of exports of goods and services, in nominal terms, remained virtually flat. Meantime, high levels of both residential and nonresidential construction and acceleration in wage settlements and wage costs have further fueled inflation and contributed to the continued expansion of imports. The net effect of all this has been a sharp worsening in the current external deficit, which is likely to exceed 11 per cent of GDP in 1981. The overall balance of payments has also moved sharply into deficit for the first time since 1977. The financing of this deficit precipitated considerably more extensive official borrowing in 1981 than had been anticipated.

In order to bring the situation under control, my authorities this summer increased charges on a number of services, imposed a new transport levy, and also raised taxes on gasoline and diesel oil. These revenue measures will effectively offset the reductions in revenues occasioned by the changes in personal income tax in the June 1981 budget. In addition, the Government has raised water rates, bus fares, and rentals. These steps, together with additional measures now being studied, should help put the nonfinancial public enterprises on a surer footing, although more remains to be done in this area. The Government has also taken steps to cut back the public investment program. Other capital projects, notably in electricity and cement, which would have required foreign borrowing by the Government or borrowing with government guarantees, are also being deferred. These measures will help reduce the size of the overall government deficit by about 2 1/2 percentage points of GDP in the remainder of this fiscal year, limit the Government's calls on bank credit, and effectively constrain foreign borrowing.

The Government attaches particular importance to restraining the growth in foreign indebtedness. While Barbados' debt service is still comparatively low, prudence dictates that it not be allowed to escalate above 8-10 per cent of total exports. This suggests the need for care in incurring new external obligations. The Government believes that the steps already taken or contemplated will reduce demand pressures, restrain the growth in inflation, and contribute to a more sustainable balance of payments situation.

The staff has noted that the steps taken so far to bolster the fiscal situation will not be sufficient to prevent a deterioration in the savings performance of the Government this year and that further action to curb the growth of current expenditure and to raise additional revenues is called for. My authorities do not disagree with this view. Additional revenue-raising measures are under consideration. On the

expenditure side, the Government hopes to be able to restrain the rate of wage increase, particularly in the public sector. Success in this respect would assist in reducing the Government's deficit and would also contribute to a lessening of demand pressures and of the erosion of international competitiveness that could result from continued high levels of inflation.

A word of monetary policy. The Central Bank has already taken steps to tighten credit to consumers and to the distributive trades and raise interest rates. Prime and maximum average lending rates have been moving up over the last several months, although they still remain somewhat below levels in the United States. However, the margin has narrowed considerably since the consultation with the easing in U.S. rates. There have also been increases in deposit rates, although not quite enough to make these rates positive in real terms.

Finally, the authorities, as is noted in the staff papers, attach considerable importance to maintaining a stable relationship between the Barbados dollar and the U.S. dollar. There has been some appreciation in the value of the Barbados dollar on a trade weighted basis during the first eight months of 1981 but my authorities are not convinced that this is necessarily a permanent development, nor do they feel that Barbados' international competitiveness suffered significantly.

Barbados continues to maintain a system of fees on purchases of foreign exchange for certain payments and transfers. These fees are maintained for budgetary reasons and hence constitute a multiple currency practice. My authorities have indicated to me that they intend to look very closely at these measures to see whether they could be modified or replaced by alternate sources of revenue. In the meantime, they would appreciate Fund approval for continuation of these measures at least until the end of 1982.

Mr. Williams stated that he was in broad agreement with the staff appraisal, which provided a perceptive analysis of the causes of the economic problems currently being experienced in Barbados. He could also support the proposed decision giving temporary approval to a multiple currency practice. He was glad to see that the authorities accepted the main thrust of the staff appraisal.

Barbados' economic performance during the 1970s had been commendable, and the authorities' prudent approach to economic management was an example of how to run a small island economy with limited resources, Mr. Williams considered. The marked weakening in economic performance that had taken place during the past 18 months or so had been partly a consequence of the openness of the economy, but it had also been partly

due to the expansionary policies pursued by the authorities prior to the elections in June 1981. The authorities' policy responses to the deterioration in Barbados' economic situation, described in the staff report, seemed appropriate and well conceived as first steps. However, it was crucial that they should persist with corrective policy measures in certain key areas, if the economy was to return to the rates of growth experienced in the past.

On the fiscal side, Mr. Williams went on, the budget prospects were disturbing. It was estimated that the deficit would rise substantially in 1981/82. Although the authorities were taking corrective steps, it was not certain that they would be sufficiently effective to bring about a lasting reduction in the deficit. There seemed for instance to be some doubt whether it would be possible to achieve the full reduction in public capital outlays that was hoped for during the current year; and the surplus in the social security system that had, to some extent, been easing the fiscal situation would shortly begin to diminish. Continuing sluggish economic activity might also affect revenues in 1982. He therefore joined the staff in urging the authorities to implement the various revenue-raising measures currently under consideration as soon as possible, and to intensify efforts to restrain current expenditures. A failure to reduce the fiscal deficit could generate further inflationary pressures, and there was also the risk that the financing of the deficit could crowd out the private sector, a most undesirable state of affairs, given the role foreseen for the private sector in the development strategy.

In view of the importance of reducing the government deficit, he would be interested to know whether further action to cut down the widening current deficits of the nonfinancial public enterprises was under consideration, Mr. Williams stated. Rather modest increases in the tariffs of those enterprises in the past suggested that more substantial action might now be appropriate. He endorsed the staff view that a modest public sector wage settlement in 1982 would be desirable, not only because of the beneficial effect on the budget but also because it might help to constrain the perhaps excessive growth in real wages elsewhere in the economy. The authorities' recognition of the need for a moderate settlement was to be welcomed.

The recent tightening of monetary policy was also welcome, Mr. Williams remarked. He agreed with the staff, however, that despite the authorities' reluctance to raise rates further and their entirely understandable wish to avoid large fluctuations in rates, a somewhat more flexible interest rate policy would be desirable, both to encourage needed savings and to strengthen the capital account, while perhaps reducing the reliance on capital controls. He had been particularly interested in the staff statement that the authorities were not entirely hostile to the idea of freeing lending rates because it was not certain that the rates would rise as a result. He would be interested in knowing whether the staff shared that view; it suggested that the present might be an appropriate time to liberalize controls on interest rates. In addition, he would be interested to hear any comment by the staff or

Mr. Joyce on the authorities' belief that increases in minimum deposit rates would not necessarily result in increased financial savings. Real interest rates had been highly negative until recently, and the relatively expansionary policies followed during the past year seemed likely to have raised inflationary expectations; they in turn could affect the savings rate unless an adjustment was made to the level of interest rates. The development and growth of an unofficial financial market also suggested that an adjustment to official rates would be in order.

Taking up the exchange and trade policies of Barbados, Mr. Williams noted that the recent large rise in external debt had not been matched by any increase in the level of international reserves, which had been relatively low, at least until very recently. The authorities would need to exercise considerable fiscal restraint if their targets for external borrowing and their desire to rebuild foreign exchange reserves were to be achieved. He would also be interested in hearing staff comments on the appropriateness of the level of the exchange rate, in view of the prospects for the balance of payments and increasing labor costs. In particular, he wondered whether some greater independence from the U.S. dollar might not be appropriate.

Finally, Mr. Williams stated, the overall direction of Barbados' development strategy seemed broadly appropriate and realistic. He hoped that as the public investment program was scaled down, the resources thus freed would be directed more toward improving productivity in the directly productive sectors of the economy--such as sugar--and toward stimulating private sector investment in fields that would lead to greater export diversification. The shortages of labor that appeared to exist particularly in the sugar and construction sectors ought not to be allowed to impede the development effort, and he would be glad to know whether the authorities had any specific proposals to overcome them. He welcomed the authorities' oil pricing policy and he hoped that they would continue to develop alternative sources of energy, as further substantial finds of petroleum seemed unlikely.

Mr. Leimone commented that Barbados had made considerable progress since 1975 in achieving a respectable rate of growth at a relatively low level of inflation, in steadily reducing a high rate of unemployment, and in maintaining a comfortable balance of payments position. That progress had been interrupted in 1981 as the external current account deficit had widened significantly, the overall balance of payments had shifted to a large deficit position, and real growth had declined. The unfavorable balance of payments in 1981 reflected a sharp drop in sugar exports resulting from adverse weather and world price trends, and a slowdown in tourism receipts. Nevertheless, a careful analysis of recent economic and financial developments suggested that, even without those external factors, there would still have been a deterioration in the external payments position. In particular, since 1978/79 public sector savings as a percentage of GDP had steadily declined, while the overall fiscal deficit had steadily increased. The impact on domestic demand, reinforced by a liberal expansion of credit, had permitted an acceleration in wage

and price increases, and had resulted in a rapid expansion of imports. Those developments, combined with an effective appreciation of the Barbados dollar by about 6 per cent in 1981, might also have affected Barbados' external competitiveness. Some evidence for that conclusion could be found in the recent stagnation, and even decline, in the volume and manufacture of exports. He would also be interested to know to what extent tourism receipts reflected changes in Barbados' external competitiveness. The deterioration of the current account of the balance of payments had been accompanied by a weakening in the capital account, as relatively low domestic interest rates had encouraged short-term capital outflows in both 1980 and 1981. In the light of the recent balance of payments developments, he welcomed the steps taken or contemplated by the authorities to contain the budget deficit in an effort to restrain the growth of aggregate demand; but further determined efforts to reduce the budget deficit were needed.

The public sector wage increases for 1982 would prove crucial, Mr. Leimone considered, not only because of the significance of budget expenditures, but as a signal to the rest of the economy that the authorities were concerned about the rate of growth of aggregate demand and the upward momentum of wage rates. The recent increases in the central bank rediscount rate and in lending rates were also welcome steps toward the control of domestic credit. Nevertheless, the outflow of short-term capital and the quite sharp drop in the savings rate in 1981, only part of which reflected a decline in the public sector savings rate, pointed strongly toward the need for an upward adjustment in deposit rates as well.

Barbados was at a critical juncture, Mr. Leimone remarked. For the time being it had been able to finance its balance of payments deficit without significant problems. Nevertheless, unless more determined efforts were forthcoming to constrain domestic demand and cost pressures, and to improve external competitiveness, the balance of payments situation was likely to continue to deteriorate, thus jeopardizing the economic progress that had been achieved over recent years.

Mr. Senior remarked that in 1981 the economy of Barbados was expected to suffer a marked deterioration in the external situation after five years of relatively high rates of economic growth, mainly based on the expansion of manufactured exports and tourism. The underlying deterioration in Barbados' economy had begun in 1980, when the situation in the industrial countries had begun to affect both tourism and manufactured exports. The impact of those developments had been temporarily offset until 1981 by a record sugar crop and favorable international sugar prices. During 1981, with a decline in sugar prices and a poor crop, it was expected that real GDP would decline by some 1.4 per cent, and that the deficit on the current account of the balance of payments would increase sharply from that of 1980. At the same time, the inflation rate was expected to decline slightly from 14 per cent in 1980 to about 13.5 per cent in 1981; the unemployment rate was also expected to improve somewhat, falling from 12.6 per cent to about 11 per cent.

The basic causes for the marked deterioration in the economic growth and in the financial situation of Barbados were clearly exogenous, Mr. Senior considered. The Barbadian economy was rather small, very open, and dependent on tourism and foreign trade, which together represented over 70 per cent of gross domestic product. It had therefore been greatly affected by the virtual stagnation or decline in the volume of most manufactured exports, the reduction of some 5 per cent in tourist arrivals, and a 35 per cent fall in the volume of sugar exports. The change was particularly dramatic when it was considered that during the past five years the same items had shown rates of increase of some 25 per cent to 30 per cent a year. In the circumstances it was not surprising that the economy had lost its dynamism, and that the balance of payments had deteriorated sharply.

He would put three questions to the staff, Mr. Senior stated. First, he was rather intrigued by the staff appraisal that the deterioration in the current account of the balance of payments and the growth in imports were both in great part attributable to the continued rapid growth in domestic demand under the impact of expansionary financial policies. On the export side, he had already mentioned the virtual stagnation in manufactured exports, the reduction of 5 per cent in tourist arrivals, and a 35 per cent reduction in the volume of sugar exports. On the import side, the staff had written that imports were expected to increase by some 14 per cent in U.S. dollar terms, and that part of the growth was the result of higher petroleum imports because of a temporary decline in domestic oil production. He wished to know from the staff how much of the 14 per cent increase was due to increased oil imports, and how much to volume or price factors. He noted that price increases in Barbados' trading partners had been between 11 per cent and 12.5 per cent; he therefore wondered how correct it was to say that import growth had been in great part due to expansionary financial policies, and not to exogenous factors.

Second, Mr. Senior observed, given the decline in real gross national product and the temporary character of the shortfalls in sugar and oil, and bearing in mind that the external debt ratio was 6 per cent of domestic exports and tourist earnings, it would be interesting to know what the staff considered to be the appropriate mix of financing and adjustment. Naturally, prudence always dictated caution on the external debt front; but the rather low level of external indebtedness seemed to call for a reliance on financing rather than a contractionary policy that might reduce real gross domestic product still further. Did the staff believe that a debt service ratio of 8 per cent of exports was optimal for Barbados? The average debt service ratio for developing countries was certainly much higher, some of them having ratios of 50 per cent of exports or more.

Third, he would be interested to know what the staff considered to be the optimal policy for Barbados in the present circumstances, Mr. Senior inquired. While he could see a certain need for demand restraint, he wondered whether that alone would be appropriate. A more selective approach combining demand restraint with supply-oriented policies and

investment might be needed to reactivate the economy. He therefore wondered whether the planned reduction of 20 per cent in the capital outlay budget for 1981/82 and 12.5 per cent for 1982/83 were appropriate. What, he wondered, would be the impact of such reductions on future output and on the gross domestic product for 1982/83. Had the staff made an estimate of the changes in real gross national product that were likely to take place in 1982/83?

Naturally, Mr. Senior went on, he did share the staff's view that restraint was needed in public sector wage policy and in other current outlays. He also agreed that a certain amount of demand restraint was necessary; but he cautioned that, in his view, an appropriate mix of demand restraint with selective investment policies might be required to avoid reducing the gross national product still further.

Mr. Jauregui stated that he was in general agreement with the staff appraisal. He had however been interested by the information that the treasury bill rate had been increased by 5 percentage points. While he commended the authorities for their efforts to raise the interest rate, he wondered whether the 5 percentage point increase anticipated an increase in interest rates for other financial assets. Otherwise, merely raising the interest rate on treasury bills would certainly tend to crowd out the private sector of the economy and perhaps unbalance the demand for financial assets.

The staff representative from the Western Hemisphere Department, replying to questions, recalled that Mr. Senior had asked the extent to which the growth in imports was attributable to an increase in domestic demand rather than in prices in the country of origin, and therefore whether a cutback in demand was appropriate in the circumstances; and whether the staff considered that the policy mix being applied in Barbados was correct at the present time. Regarding the growth of imports, it was true that oil imports bulked fairly large in 1981. Table 63 in SM/81/226 showed that some 40 per cent of the growth in imports during 1981 would have been due to fuels. However, excess demand was to be judged in relation to available resources, and in that sense the composition of imports was not the issue but rather the total. The staff estimated the increase in prices in Barbados' trading partners at nearer 8 or 9 per cent rather than the 11 or 12 per cent quoted by Mr. Senior. Consequently, non-oil imports had grown in real terms in a year in which gross domestic product had declined. Furthermore, the two activities that were most heavily dependent on imports--tourism and export manufacturing--had had particularly bad years: thus non-oil, nonexport manufacturing, nontourist imports had risen quite substantially. All those elements would indicate that there was a problem of demand pressure, and that was something that was within the power of the authorities to address.

On the question of whether the optimal policy mix had been achieved, the staff representative mentioned that both the staff and the authorities were aiming at a combination of demand restraint and supply-oriented policies. The authorities had mentioned a proposed cutback of planned

investment by 20 per cent, but it was not entirely assumed that such a cutback would be achieved given the momentum of the investment program. Moreover, even if it were, public investment outlays would still be some 15 per cent above the levels of 1980/81, and double that of 1979/80 in nominal terms.

As to the debt service ratio, the staff representative mentioned that the 8-10 per cent figure was one that the Barbadian authorities themselves considered prudent. In the past the Barbadian authorities had been very careful to avoid placing themselves in a position where their freedom of maneuver might be constrained, particularly when it came to contracting foreign debt. Also, it should be noted that while the debt service ratio was still low, the economy was extremely open, and a debt service ratio related to gross exports--including manufacturing exports and tourist earnings--did not fully express the vulnerability of the country to external disturbances. If the ratio used were external debt to gross domestic product, it would be seen that the figure for Barbados was already higher than the average for non-oil less developed countries as a group, and that it had risen very sharply during the past year.

Answering questions by Mr. Williams, the staff representative mentioned that the staff was not aware of any further concrete steps being planned to improve the financial situation of nonfinancial public enterprises beyond those mentioned in SM/81/215. Regarding shortages of skilled and unskilled labor, the shortage had been apparent in Barbados for some time and the authorities had taken steps to deal with it. The most important was the construction of the Samuel Jackman Prescod Polytechnic Institute, designed to increase the supply of skilled craftspeople. In addition, there was a range of tax incentives for in-service training by enterprises. So far as unskilled labor was concerned, for a number of years there had been an arrangement whereby Barbados imported temporary labor for sugarcane cutting from St. Vincent.

On the monetary side, the staff representative recalled, Executive Directors had raised a number of questions. First, the staff had been asked whether it felt that the liberalization of lending rates would necessarily result in an increase in those rates. Now that the Government was competing much more aggressively for domestic savings, the likelihood was that liberalization of lending rates might result in some increase, particularly if it were accompanied by an effort to raise deposit rates. On the latter issue there was a difference of opinion between the staff and the Barbadian authorities. The staff felt that domestic savings would be responsive to higher domestic deposit rates, but the Barbadian authorities felt that financial savings were more likely to respond to a wide range of socioeconomic factors rather than interest rates in themselves. In the past, indeed, there seemed to have been no very clear link between deposit rates and the size of financial savings in their view.

On the question of the adequacy of the exchange rate, the staff representative from the Western Hemisphere Department noted that since 1975 the nominal effective exchange rate had risen from an index of 100 in 1975 to 104.6 for the period January-August 1981, while the real effective exchange rate had risen from an index of 100 in 1975 to 106.2 for the period January-August 1981. During the intervening period, Barbados had experienced notable success with nontraditional exports and with tourism, increasing its share of Caribbean tourism in each year including 1981. The authorities had a clear preference for the currency to remain pegged to the U.S. dollar, because a large share not only of tourism but also of trade originated in the United States. With the recent modest appreciation in the effective exchange rate, the staff had therefore placed particular emphasis on the control of costs at that time.

Mr. Joyce stated that it was evident that his authorities in Barbados intended to adopt prudent policies and that they were aware of the seriousness of the situation and determined to do something about it. They believed that they were proceeding in an orderly fashion and with some degree of urgency. It was clear that they did not wish to seek to defer adjustment unduly by excessive further resort to foreign borrowing. It was the authorities themselves who had said that they would view a rise in the debt service ratio to the neighborhood of 8-10 per cent as a rather ominous development.

While it was true that the Government had adopted a somewhat unduly expansionary policy, Mr. Joyce went on, his authorities would not agree that the election in the summer of 1981 had played a major role in the timing of the policy shift. They took the view that, while policies pursued since 1979 had been fairly expansionary, it had at that time not been clear that the downturn they had begun to experience, particularly in tourist receipts but also in manufacturing, was necessarily going to be prolonged. In those circumstances, a prudent course of action could have been to resort to interim foreign borrowing with a view to keeping the progress of the economy on course. In practice, events had proved less satisfactory, and both tourist receipts and revenue from exports of manufactured goods had fallen substantially. In the spring of 1981 the authorities had concluded that it would be an error to try to defer the adjustment which had by then become obviously necessary. They had therefore started in the summer of 1981, and continued in the fall, to take measures to correct the government deficit and to restrain excess demand.

There was very little new information on the balance of payments outlook, Mr. Joyce explained. The tourist situation was the most important factor; but it was difficult to assess the extent to which the downturn in tourism in Barbados was the result of a general weakening of tourist demand throughout the world or of the recovery of tourism in some other areas. The Ministry of Tourism in Barbados felt that there were indications that the situation was improving. Both receipts and bookings for the current winter season had begun to rise. However, reservations were only fairly good for the two months ahead, instead of being firm for the next four months, as was the normal situation at the present time of year.

In fact, there was nothing to show that there would be any great improvement in the balance of payments position for the rest of the year, and therefore nothing that would warrant an easing of the restrictive policies already introduced.

It was true that the 20 per cent reduction in capital outlays would be very difficult to achieve, Mr. Joyce conceded. The authorities had stopped new projects being undertaken, and were trying to cut back on those that had barely started. It was of course difficult to cut off projects that were on their way to completion. Consequently, it might not be possible to reach the target for capital project cuts for the current fiscal year, and the policy would be continued into following years. The next major change in fiscal measures could be contemplated at the time when the authorities introduced the budget for fiscal year 1982/83 in April 1982. There was still some room for maneuver with respect to certain licenses and fees, and it might be possible to increase the revenues under the national insurance scheme. Executive Directors had rightly identified the question of wages as being crucial. His authorities agreed with that position, feeling that some of the excess demand that had been generated in the system could be attributed to the fairly massive wage increases that had been agreed to in the last few years, particularly in 1980/81, when increases of between 28 per cent and 35 per cent had been accorded.

The unions in Barbados, Mr. Joyce went on, had not yet submitted formal demands, and the basic contract did not expire until April 1, 1982. Nevertheless, the spokesmen for the unions were beginning to talk in terms of a 30 per cent wage increase over the next two years. The authorities felt that such an increase was unjustified and that it would seriously inhibit Barbados' attempt to achieve a sustained recovery. The labor shortage was a very real problem, particularly as a seasonal problem in the sugar industry, although some seasonal assistance had been obtained from St. Vincent.

Regarding the interest rate policy of the Barbadian authorities, Mr. Joyce noted that some studies had been carried out in the Central Bank of Barbados. The conclusions that had been reached were that marginal changes in deposit rates had in the past not induced substantial increases in savings. Small savers tended to save primarily for reasons other than the rate of return, the main reason being that they found it convenient to deposit their savings in a bank. Those with more substantial funds to place on deposit were more conscious of the income-earning possibilities of savings and tended to place their funds elsewhere. However, there had recently been a successful issue of national savings bonds with higher interest rates; they had been issued for a period of five years, encashable at six-month intervals. The interest rate had been between 9 per cent and 12 per cent, depending upon term, and they had been tax free. Naturally, they had been very rapidly taken up. The authorities were considering the possibility of a further issue of similar savings bonds; but their very success, which had undoubtedly drawn existing savings out of deposits with the banks, clearly implied that the question of interest rates would need to be kept under close review, particularly that of the appropriate level of deposit rates.

On the matter of exchange rates, Mr. Joyce explained that it was the view of the Barbadian authorities that if at all possible, they ought to maintain a stable relationship with the U.S. dollar. They understood clearly that the Barbadian dollar had appreciated in recent months, but they did not believe that the appreciation had materially affected Barbados' competitiveness in world markets. Specifically, they did not believe that a depreciation of the rate for the Barbadian dollar would have led to any substantial increase either in manufactured exports or in tourist earnings. Indeed, they felt that the main effect of the depreciation of the Barbadian dollar might have been merely to contribute to existing inflationary pressures. While they would continue to watch developments closely, they did not feel that any change in the rate of the Barbadian dollar vis-à-vis the U.S. dollar would be appropriate.

The Chairman made the following summing up:

Executive Directors generally supported the thrust of the views expressed in the staff appraisal for the Article IV consultation with Barbados. They noted the heavy foreign borrowing during the past 12 months and the weakening of the balance of payments position. Directors considered that determined measures of domestic adjustment, including tight credit and fiscal policies to restrain the growth of aggregate demand, were required to strengthen the external position. The recent cutback in planned capital outlays was, therefore, appropriate.

The Government was particularly urged to increase public sector savings through a firm public sector wage policy, the adoption of additional revenue-raising measures, actions to reduce the deficits of, and subsidies to, public enterprises, and restraint on other current outlays. Wage policy was seen to be especially relevant at this juncture because, given the fixed exchange rate policy, particular attention must be paid to domestic cost developments.

Directors welcomed the recent steps toward the tightening of monetary policy and the steps taken to raise the structure of interest rates in Barbados. The view was expressed that elimination of the interest rate ceilings on loans and a concomitant rise in deposit rates could contribute toward strengthening the domestic savings performance, reversing the outflow of private capital, and improving the structure of domestic interest rates. Appropriate adjustment policies would be crucial in protecting the country's international competitiveness and in sustaining employment.

The Executive Board then took the following decision:

Decision Concluding 1981 Article XIV Consultation

1. The Fund takes this decision relating to Barbados' exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1981 Article XIV consultation with Barbados, in the light of the 1981 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 that Barbados maintains an exchange system that is essentially free of restrictions on payments and transfers for current international transactions. The imposition by Barbados of fees on certain purchases of foreign exchange, for nonbalance of payments reasons, gives rise to a multiple currency practice. In the circumstances of Barbados, the Fund grants approval for this multiple currency practice until December 31, 1982.

Decision No. 7017-(81/159), adopted
December 18, 1981

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/81/158 (12/16/81) and EBM/81/159 (12/18/81).

2. THAILAND - 1981 ARTICLE IV CONSULTATION - POSTPONEMENT

The Executive Board notes the request contained in EBD/81/322 (12/14/81). Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, the Executive Board agrees to postpone its consideration of the 1981 Article IV consultation with Thailand until not later than December 28, 1981.

Decision No. 7018-(81/159), adopted
December 17, 1981

3. ANTIGUA AND BARBUDA - MEMBERSHIP - GOVERNORS' VOTE

The Executive Board approves the report of the Secretary (EBD/81/285, Supplement 1, 12/17/81) on the canvass of votes of the Governors on Resolution No. 37-1, effective December 16, 1981, with respect to membership for Antigua and Barbuda, approved by the Executive Board (EBM/81/140, 11/13/81) for submission to the Board of Governors. The Governors' vote on the Resolution is recorded as follows:

Total affirmative votes	565,810
Total negative votes	0
Total votes cast	565,810
Abstentions recorded	0
Other replies	0
Total replies	565,810
Votes of members that did not reply	76,680
Total votes of members	642,490

Decision No. 7019-(81/159), adopted
December 17, 1981

4. RULE N-10 - ACCEPTANCE OF DECORATION BY RETIRED STAFF MEMBER

The Executive Board approves the Managing Director's proposal set forth in EBAP/81/388 (12/16/81).

Adopted December 16, 1981

APPROVED: May 27, 1982

LEO VAN HOUTVEN
Secretary