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August 4, 2005

**Statement by Mr. Oh and Ms. Adolph on Barbados
(Preliminary)
Executive Board Meeting 05/71
August 5, 2005**

1. We thank staff for an interesting set of papers and Mr. Lynch and Mr. Campbell for their useful Buff statement.
2. Sound economic policies, enabling solid economic performance during the 1990s, has afforded Barbados enviable economic and social indicators. Being ranked 29th among 177 countries in the UNDP HDI is quite an achievement for a small island country with a population of only 272,000.
3. This solid economic performance was interrupted by the 2001-02 recession prompted by September 11th attacks and global slowdown. Addressing the recession has created macro imbalances, most notably an unsustainable trend in fiscal policy with high fiscal deficits, rising public debt, and lower reserves. Returning the fiscal stance to a more sustainable footing is in our view the key policy issue facing the authorities.
4. We note that, as in last year's Article IV, the authorities are in agreement with staff on the merits of fiscal consolidation but disagree on the appropriate pace. We continue to strongly support staff in encouraging a faster fiscal adjustment, particularly in view of the need to maintain credibility of the exchange rate peg. As staff note, the recent deterioration in the external accounts reduces the scope for a gradual approach to reducing the high fiscal deficit than in the past. In view of recent reduction in tax rates, compensating revenue enhancing measures, in addition to expenditure cutbacks, will ensure that the government's objective of providing quality public services is achieved.
5. Debt sustainability concerns particularly dictate the need for a faster pace of fiscal consolidation. Even staff's active scenario, calling for a more ambitious fiscal adjustment, will only reduce public debt to around 75 percent of GDP by 2010, well above what would be considered comfortable levels for a small emerging market economy like Barbados.
6. The government's expansionary public investment program, which, together with public sector wage increases, contributed to the higher fiscal deficits, was launched to revive economic activity. That the economic recovery has continued to strengthen weakens the case for such an expansionary fiscal stance.

7. Relatively low private investment has hampered economic growth. Low private investment for a country at Barbados' level of development is an interesting phenomenon. The authorities remain unconvinced of the staff recommendations on the need to phase out the minimum deposit rate requirements as a monetary policy tool in order to increase financial intermediation and business investment. We urge further dialogue between staff and the authorities on this issue.

8. We note recent progress in structural reforms, including reduction in tax rates, corporatization of the airport, and liberalization of the telecoms sector. We also join staff in urging implementation of further structural reforms in the areas of trade liberalization, public enterprise reform, improving labor market flexibility, and a supportive investment environment.

9. With these brief remarks, we wish the Barbadian authorities continued success.