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Statement by Mr. Joyce on Barbados
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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 consultations 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 programme, 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 non-residential 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 non-financial 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 programme. Other capital projects, notably in electricity and cement, which would have required foreign borrowing by the Government or borrowing with government guarantees,

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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 have 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 the erosion of international competitiveness that could result from continued high levels of inflation.

A word on 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 consultations 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 BDS 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.