



GOVERNMENT OF BARBADOS

ADDRESS BY

THE RT. HON. FREUNDEL J. STUART, Q.C., M.P.

PRIME MINISTER

AT

**JANUARY 2017 BUSINESS LUNCHEON OF THE
BARBADOS CHAMBER OF COMMERCE & INDUSTRY**

AT

THE HILTON HOTEL

ON

WEDNESDAY, JANUARY 25, 2017

AT

12:00 NOON

- President of the Barbados Chamber of Commerce and Industry
- Members of the Cabinet
- Members of Parliament
- Members of the BCCI and representatives of the Business Sector
- Ladies and Gentlemen

I am pleased once again to have received and been able to accept your kind invitation to address you today. The warmth of your hospitality and the charm of your manner whenever I come to the Chamber continue to satisfy me that I am among friends of Barbados and those who wish it well. The invitation and my presence here are testimony to the active collaboration between the members of the

Social Partnership- Government, the Private Sector and Labour - in the management of our economy.

I thank the President and members of the Barbados Chamber of Commerce and Industry for affording me this annual opportunity to interact with members of the private sector of Barbados, and of course I take this opportunity to extend my best wishes to you for 2017, with optimism! God Bless!

This year's address comes just two months after Barbados climaxed its year-long celebration of 50 years as a sovereign nation-state. The sense of maturity displayed throughout the year 2016 and the outpouring of patriotism always in evidence have assured me that, challenges notwithstanding, Barbadians of all walks of life are proud of their country and what it has achieved.

Why should they not be proud? The nation's journey over the last fifty years was not always smooth and uneventful.

Intervals of challenge and difficulty were our companions along the way. That we were able always to meet these challenges and difficulties with level-headedness, with courage and with calm was proof of the strength of the nation's character and its capacity for resilience when circumstances required those attributes. Our national anthem attests to this in its reference to "*a pride that makes no wanton boast of what it has withstood*"

As of the year 2008, we have had to deal with haunting recessionary conditions across the western world which have had their reverberations here in Barbados. We have had to deal with a fiscal deficit that at one stage reached 11% of GDP; with challenged revenues as a result both of sluggish business activity, and qualitative changes in the International Business and Financial Services Sector; with negative or no growth; and with job losses in both the public and private sector.

What is the economic reality in Barbados as I speak to you in January 2017? As we enter this new year, we have the benefit of the report issued yesterday by the Governor of the Central Bank, in which Barbados' real growth for 2016 is estimated at 1.6%. Both the Traded Sector and the Non-Traded Sector also grew, the former by an estimated 1.7% and the latter by an estimated 1.5%. Real growth in the traded sector is being led by tourism and in the non-traded sector by construction. Again, there was no inflation, and the retail price index fell by 0.8%. Unemployment declined to 10 %.

This performance report for 2016 is not intended to suggest that challenges do not still exist. The successes to which I have just referred were achieved while the country has continued to wrestle with a still too large fiscal deficit.

So far as the External Sector is concerned, during the year 2016 the deficit on the current account of the Balance of

Payments decreased by an estimated 26% so that the estimated current account deficit for 2016 stands at 4.5% of GDP at market prices. The reduction in the current account balance for 2016, according to my advice, has been driven by a 5% increase in domestic exports.

In the face of real growth in the traded and non-traded sectors, noticeable improvements in the balance of payments, falling inflation and declining unemployment, pundits, publicists and prophets have been steadfastly predicting a devaluation of the Barbados dollar or have been calling stridently for a programme with the International Monetary Fund or for privatisation of some of Government's assets.

Permit me to make a few comments on each of these issues.

The observation made by the late Right Excellent Errol W. Barrow on the Barbados economy, in his first Budget

Speech delivered on June 26, 1962, is as relevant today as when he first made the observation. He said then that Barbados is to a large degree dependent on external trade, on the amount of money which tourists are able to spend in the island, and on the remittances which we obtain from relatives, friends and well-wishers abroad. He noted that this is not a manufacturing economy in which the people consume the product of industry, and where we get a turnaround of the money in the country entirely independent of external trade.

That assertion is still a pertinent reminder that as long as we continue to depend on our relationship with the world beyond Barbados for our economic sustenance, we have to make peace with the fact that there will be fluctuations in our fortunes, depending on what is going on in the economies of our trading partners. So it cannot be that every time there is an adverse movement in our foreign exchange or foreign reserves situation, whatever the

reason, the only solution to put forward is that we should devalue the currency of Barbados.

As I said to the Chamber on January 28, 2015, devaluation is supposed to be a policy response to a chronic disequilibrium in a country's balance of payments position. Its rationale, I explained then, is to correct that chronic imbalance by making imports more expensive and making exports cheaper. And, as I concluded then, objective conditions in Barbados today do not justify any tampering with our exchange rate.

At any rate, no persuasive evidence exists that devaluation exercises in other CARICOM countries have produced any spectacular results or facilitated the outcomes they desired. Put very simply, devaluation of the Barbados dollar is not an agenda item for the present Government. There will be no devaluation of the Barbados dollar.

Allow me a brief word on Barbados' relationship with the IMF separate and distinct from the topic of devaluation (although in the minds of most the two are inseparably connected).

So far as an IMF Programme is concerned, I make this observation. It is unfortunate, as I told the IMF at a breakfast meeting in Samoa in November, 2014, that resort to IMF programs is invariably attended by feelings of alarm and by perceptions of failure on the part of those who express opinions about the receiving country. I indicated then that if the IMF is going to be a genuine partner of the countries it serves, then that perception has to be removed, and the obligation to remove it rests on both member countries and on the Fund itself.

Barbados joined the IMF in December, 1970. There was no bipartisan agreement on that decision. It is ironic that when the vote was taken in Parliament on 11th December, 1970, Mr. St. John who was Leader of the Opposition

along with Messrs Adams, Craig, Bolden and Hinds voted against Barbados' decision to join the Fund.

On the occasion of that debate, late Prime Minister Errol Barrow made remarks which deserve repetition:

"Now as long as we continue to go in for conspicuous consumption of certain goods and follow the standards enjoyed by people who are living in countries with wealthier economies such as North America, we will be going in the wrong direction. We have to keep a close watch on our balance of payments position, if we do not want to call somebody to rescue us from our financial difficulties. Anyway, we should not feel ashamed if we should run into balance of payments difficulties. The United States had balance of payment difficulties.....The United Kingdom also experienced balance of payment difficulties, and for five or six years they had been under stress and strain. The Bank of International Settlements and the International Monetary Fund have saved the United Kingdom and the United States of America. In a small open economy like that of Barbados, I respectfully submit that we have even greater need for an institution of this nature..."

Do not let us forget that the IMF was formed as a potential partner and not a potential predator of its member countries. Nonetheless, I do not judge that there is a need at this time to seek balance of payments support from the International Monetary Fund (IMF). Our present circumstances in the Government's view, while requiring close attention, do not warrant a panicky resort to the IMF.

Then there is the issue of privatisation. We have been at this debate for a very long time. Both the DLP and BLP Governments have pursued policies of divestment with the usual hurrah coming from the other side. Those who promote privatisation as a panacea for the economic ills of Barbados do so on the premise that the private sector is in essence a better manager than the public sector and that, in any event, the reason you have assets is to be able to leverage them when you are in difficulty.

Those who do not support privatisation argue that while it may bring very short term relief in a financial crisis, its longer term value is highly questionable. Indeed in the November 2016 Sir Winston Scott Memorial Lecture delivered by Professor Richard Drayton, he said:

"..... What the post-1980 neoliberal experiment has shown around the world is that privatisation, while improving the state's balance sheet in the short-term, usually leads to higher prices for consumers, poorer service, and diminished wages and working conditions. Privatisation is a particularly dangerous strategy where there are natural monopolies, such as in the supply of water".

The policy of the Government of Barbados on this issue has not changed. In a mixed economy the Government must continue to play a role in the provision of goods and services for purchase by individuals, and will continue to invest in and promote the production and distribution of such goods and services. Government does not intend,

however, to continue to support public enterprises which are not producing strategic goods and services where those enterprises are an unnecessary charge on the public finances. In the extreme case where complete divestment is the appropriate course, that action will be taken, but it cannot be taken with improper haste where the nature of the asset to be leveraged is thought to be strategic, with a potentially widespread social impact. In any event there are many healthy examples of public-private sector collaboration in different sectors.

The Government continues to be committed to encouraging a healthy and positive climate for both local and foreign private sector investment in Barbados. This position is based on our considered view that the success of Barbados will continue to depend on our ability to produce and to export at internationally competitive prices.

If the growth to which I referred earlier is to be increased, to be sustained and to remain sustainable, then it will have to be private-sector led, and its major focus will have to be on investment and exports. Further, issues of productivity, employment generation, social balance and support for green and environmentally sustainable initiatives will all have to feature in the framework for that growth.

Fortuitously the year 2017 has been designated the Year of Productivity in Barbados. There has been a tendency to remain silent on the issue of productivity when the local economic environment has been favourable but to focus on the issue only when the economy is facing challenges.

Further, often when the issue is raised, it is made generally to apply to workers only. So I am pleased that the whole country is going to be focussing on this issue for the entire year 2017. Every Barbadian should take this issue seriously and determine to give of his or her best to

the country's efforts to increase its output. This a matter of the utmost importance for both capital and labour; for both the Government and the private sector.

As studies by NISE and others have shown, there is also a serious challenge with worker engagement. Every attempt must, therefore, be made to ensure that our workplaces are congenial places for all who go there from day to day. Employers and employees have an equal obligation to give of their best at the workplace and maximise this nation's output of goods and services.

Good citizenship highlights also the obligation of every Barbadian to put Barbados first and to pursue relentlessly the highest possible standards in every endeavour upon which he or she embarks from day to day.

No less important than productivity is the issue of investment. It is generally agreed that the return of the economy to robust and consistent growth is going to

depend primarily on the economy's lead sector, tourism. As you know, this industry is also highly labour intensive.

It is against the above background that I now wish to address the other topical issue of today: that of foreign exchange.

In a small open economy we must at all times protect our foreign exchange reserves. As you are aware, our foreign exchange reserves from time to time come under pressure. So there is a continuing duty to monitor daily the trends in the movement of our foreign reserves, and to take appropriate action when necessary. We continue, therefore, to take steps to ensure the adequacy of our reserves at all times.

Too few seem to remember that by 2009 this economy had declined by more than -4 % of GDP, with tourism, our leading economic sector and largest foreign exchange

earner, declining by upwards of 9 %. It would take that sector almost five years to resume any serious levels of positive growth, as both weakened international demand and domestic challenges with the overall quality of our product continued to eat away at the competitiveness of our tourism services.

Too many seem to have forgotten that the second largest foreign exchange earner in Barbados is the International Business and Financial Services sector, which lost considerable value both in terms of the amount of investment coming into Barbados through the sector, and certainly in terms of the amount of tax revenue and foreign exchange the Government was earning from it.

So our foreign exchange earnings from tourism and International Business declined by over 400 million dollars a year while our tax revenues from the latter sector have declined by more than 150 million per year every year since the year 2010.

Now it is true that due to the foresight and hard work of Minister of Tourism Richard Sealy, his team at the Ministry, the BTMI and other industry players including the BHTA and the small hotels group, we have been able to restore and even surpass all previous high points for the tourism sector in Barbados - now the seventh most competitive tourism destination in the Americas after the USA, Canada, Mexico, Brazil, Costa Rica and Panama!

In addition, the Government side, ably led by the Minister of International Business, Donville Inniss, has worked hand in hand with sector stakeholders in the International Business and Financial Services sector to settle this vital sector and to contain the projected fall out from international interventions such as the OECD Global Forum requirements on tax transparency, domestic legislative adjustments in Canada our biggest source market for this sector, and the potentially destabilising correspondent banking issues.

What I find sometimes rather interesting is that in all of the discourse on this matter of foreign exchange earnings and usage some of us have appeared to forget that for close to two decades now Barbados, under both administrations, has utilized the strategy of borrowing on the capital markets to shore up foreign exchange earnings shortages in our economy.

Let me illustrate this point.

The information made available to me through the Ministry of Finance tells the following tale of Barbados ventures into the capital markets between 1999 and 2005, when we were all told how well we were doing in terms of our economic performance and particularly in tourism, international business and foreign direct investment:

In May 1999 Barbados secured a bond through Citigroup for 150 million dollars at an interest rate of 9.9 %. In

June 2000 we again tapped the markets for 200 million dollars to shore up the reserves at the Central Bank, this time from Credit Suisse at an interest rate of 8.75 %. Again in 2001 we borrowed 300 million dollars more through Bear Sterns at a rate of 7.75 % once more to plug weaknesses and declines in foreign exchange earnings. And then in December 2005 we again went to the markets to borrow 380 million dollars at a rate of 6.75% through Deutsche Bank.

Simple arithmetic tells me that during the period when the global economy, and indeed our local economy, were enjoying periods of great expansion, and when foreign direct investment globally was at an historic high, Barbados still had to find its way into the foreign capital markets to borrow more than one billion Barbados dollars worth of foreign exchange, in a short five year span to boost our foreign reserves.

To be fair, my administration has had, over the past eight years, during one of the worst periods of economic challenge the world has known, and the most serious that we have faced in decades, to resort to the capital markets, as well to borrow when necessary to shore up our reserves.

The point which I do not want lost on either this audience or indeed the rest of Barbados, is that the most recent economic history of Barbados will show that though we do our best to earn as much foreign exchange as we need to use to support our way of life and standard of living, fluctuations in the earning of foreign exchange are a part of the economic reality of Barbados.

The question is not if it will happen. History has taught us that it will happen from time to time. The real issue is how we respond to any shortages or declines which may confront Barbados in the short, medium or long term.

In this regard, I should like to say that for many years now we have worked on a well-honed system of foreign reserves and general foreign exchange monitoring and management. Today through our Central Bank we see every day what the reserves situation of the country is. We also know and see how the inflows and outflows are going, and gather further intelligence from private dealers in the open market so that we may not only know how things are in the market, but be able to anticipate and plan for any eventualities in a reasonable and responsible manner.

In other words as we go through the months of any year, we can reasonably predict how much foreign exchange we are likely to earn, up to the maximum above which we are unlikely to go, and down to the floor below which we do not expect to fall.

Of course like any other system that is transactional in nature it is to be expected that we will not always

perfectly predict the outcome, but to the extent that the system allows us a degree of control over what happens - and more importantly how to respond to what is happening - we have a degree of confidence that has not been misplaced so far.

That is why for example in 2013 when we saw a precipitous decline in our reserves which was out of sync with the normal trend at the time, we were able to respond quickly and decisively.

It is also for this reason that on this occasion, while we have recorded a decline in our reserves reported for 2016 over 2015, my Government is not pushing any panic buttons as some seem to believe that we should.

As you are aware, the most recent Central Bank report showed that Foreign Exchange reserves ended 2016 at 10.2 weeks of cover.

We have all accepted that ideally at least we should maintain a minimum of 12 weeks of import cover. It does not mean that what we have in reserve is insufficient to meet our current daily requirements or in fact to defend our existing currency peg to the US dollar.

Suggestions to the contrary are unnecessary speculation which quite frankly ignores the economic history of Barbados of which I have just spoken.

In the early 1990s when Barbados last faced a challenge of a similar nature, we practically ran out of reserves, as we almost ran out of options.

On this occasion we are not nearly close to running out of either reserves or options.

Indeed, because of the very foreign exchange management system which I just described we know, for example, that one of the principal reasons why our

reserves levels took such an unwelcome dip below the 12 weeks cover, was that even though we continued to meet all of our foreign debt liabilities on time and in full, the expected and corresponding public inflows which should have come in before December 31st last year did not make it in for various reasons.

But as fortune would have it, we know, and can say with a high degree of confidence, that over the coming days and weeks those reserve levels will almost certainly be boosted by at least 250 million dollars, as the delayed inflows associated with the Sam Lord's reconstruction project, the First Citizens /CAF sponsored bridging loan for the upgrade of the BRA and Customs, and the completion of the arrangements for the sale of BNTCL (Barbados National Terminal Company Limited), come in.

These inflows, plus others such as the CAF funding for the Barbados Water Authority Water Master Plan Upgrade Project which was recently approved by the Ministry of

Finance for 40 million dollars, will prove more than adequate along with what we earn through the private sector to run the economy and meet all demands, while guaranteeing our fixed exchange rate which, as I said before, has not been under threat.

This Government is committed to enhancing the economic viability of Barbados to allow us to fully earn our way in the world. In this regard, I wish to turn my attention to our plans for tourism development and the active projects in the pipeline.

These projects constitute an investment of just over US\$1 billion and will add 2,300 rooms to the inventory of Barbados, and with exception of the Sam Lord's Castle Hotel, will involve private capital. It is expected that a further 14,000 jobs will be created directly and indirectly, and these projects therefore can, in the fullness of time, significantly reduce unemployment. It should be noted that the country has been on this path since 2015, and I

now wish to give a brief project status update on all projects, including the proposed Downtown Hyatt.

I should like to say here today that, in my capacity as Minister responsible for Town Planning matters, within the next 7 days I expect to be in a position to give planning permission for the Downtown Hyatt project, by which time all of the outstanding preconditions would have been satisfied. This permission will be subject to all of the necessary conditions that would protect the wider interests of the Barbadian community. I fully expect, therefore, that this project will commence sometime in the first half of 2017.

I should like also to give a brief update on some other tourism projects, as follows:

- **Sandals Casuarina Phase 2** – the expected completion date is November 30, 2017;
- **Sandy Bay/Beach (The Sands)** – expected completion date is May 2017;

- **Wyndham Sam Lord's Castle**, mobilization has started and it is on track for construction commencement in March 2017;
- **Pierhead Marina** – work on this project is expected to commence either later this year or early 2018;
- **Sandals Beaches** – the developer of that project has committed to the second half of 2017 for the start of this project;
- **Sugar Point** – this project is being looked at and a decision is pending.

There are a number of other projects which will bring much needed foreign and domestic investment into Barbados. The Republic Bank new headquarters is one of them, as well as the Ridge Middle Income Housing Development Project where 750 houses will be constructed, and of course permission has already been granted. There are others.

These, along with government's public sector capital works programme for projects in water and sanitation upgrade, nursery schools expansion through the Maria Holder Memorial Trust , the resurfacing and upgrade of the Grantley Adams International Airport runway and the CAF and IDB road upgrade projects, should add a definite and strong injection of foreign project financing into the local economy.

I should like to express my sincere thanks to the hard working Minister of Finance, Christopher Sinckler, and the many public servants who have been assiduously working on these important matters.

Growth is the ultimate solution to the fiscal challenges that have dogged us since the advent of the great recession and we believe we can get that rate of growth above 2 percent of GDP this year.

I am aware that even as I call for more private sector led growth, I will be asked: “and what about the bureaucratic challenges to private sector engagement?”

Government is very mindful that investment facilitation is critical for the successful implementation of these and other projects. We will therefore be paying considerable attention to the amount of time it takes for a project to receive all the approvals required for a successful execution, with a view to shortening the time being taken, without any compromise of the country’s best interests.

You will recall that at last year’s luncheon I promised to designate a Minister to be responsible for business facilitation. I did as promised, and you would have seen that Minister’s terms of reference.

I think I can safely say that the designation of Senator the Hon. Darcy Boyce as Minister with that responsibility has already started to bear fruit. He will also lead the efforts

towards the revitalization of the Barbados Action Team concept (within the Social Partnership) which came into being in 2012. The combined capacity of the National Productivity Council, NISE and the Office of Public Sector Reform will join the IADB's Competiveness Project to develop a planned and detailed approach to providing solutions to the roadblocks that have already been identified.

In this regard, Senator Boyce will seek the cooperation and collaboration of the Committee of Permanent Secretaries set up under the Public Service Act, for the latter to play an active part, working within the framework of the Social Partnership.

While I have outlined plans that will give the economy a boost, more has to be done if Barbados is to achieve sustainable development. In this regard, Government remains very concerned about the expenditure column of its balance sheet.

We have identified three important areas of Government expenditure. These are:

- (1) Debt service
- (2) Wages and Salaries
- (3) Transfers to state-owned and other entities

These areas represent approximately 80% of total expenditure on an annual basis.

As you can appreciate, we are constrained at this time in relation to debt service expenditure, and for that matter, wages and salaries. We are therefore continuing to examine transfers to state-owned entities along with strategies that will strengthen management capabilities to provide effective and efficient performance. Discussions are continuing on the elimination or merger of some of these entities. It is clear that more can be done if the resources allocated to these enterprises are to be better managed. We will therefore continue to aim at the

reduction of the level of transfers required annually from the Government.

In the financial statement and budgetary proposals for 2015 the Minister of Finance promised that his Ministry would conduct a mid-term financial year review to examine current spending patterns of all Ministries and Statutory Boards based on the allocations approved in the 2016-2017 Estimates of Expenditure.

That exercise was completed in mid December last year and I am advised that in keeping with the promised reductions the Ministry of Finance has been able to identify 50 million dollars in cuts across all Ministries.

What we have to ensure now is that we control the level of supplementaries expected in this the final quarter of the financial year while getting the maximum inflow of revenue due to the Government.

In the coming weeks as we head into preparations for Government's new budget for 2017-2018, we are well aware that based on where we are at present, we have to move with more alacrity to reduce our deficit and eventually our debt.

I give you the assurance that Government will continue to take the steps necessary to ensure that we achieve over time our goal of bringing our deficit below the rate of growth of Barbados economy.

To achieve this, we must begin by returning to a current account surplus as soon as possible and eliminate government's reliance on Central Bank financing of Government's deficit.

These measures will be broad based, inclusive, and most of all responsible, utilising both traditional and non-traditional means, including for example voluntary debt

refinancing for which we now have firm and credible offers on the table.

I urge that efforts to make linkages between the tourism and other sectors continue, even as we move apace with our restructuring efforts particularly in the renewable energy sector and in cultural industries, and our stated commitment to the creation of an environmentally friendly green economy. We believe that other private sector operators should seek to work more closely with the tourism sector's representatives, including the Barbados Hotel & Tourism Association, to see what needs of the sector can better be met by the services and goods or products that they provide.

The call for resilience by Barbadians is even more imperative, given two recent events that have shaken the existing world order, Brexit with the promise of a new "Global Britain", and the inauguration of a new United

States Administration with the declared “America First” commitment.

These two major events, which will affect us all, bristle with both challenges and opportunities for the public and private sectors. We must use our creativity and versatility as a nation to make the changes that are necessary for our survival. Let us seek and find inspiration in the lives of our National Heroes, who met head-on, challenges that appeared unsurmountable, and took advantage of opportunities, to the enduring benefit of our nation. At times like this it would benefit us all to recall, as Martin Luther King Junior advised, that *“the ultimate measure of a man is not where he stands in moments of comfort and convenience, but where he stands at times of challenge and controversy.”*

I thank you.