STATEMENT BY MINISTER OF FINANCE AND ECONOMIC AFFAIRS, CHRISTOPHER SINCKLER, AT THE PRESS CONFERENCE TO DISCUSS MATTERS PERTAINING TO BARBADOS' ECONOMY – MONDAY, FEBRUARY 27, 2017, AT GOVERNMENT HEADQUARTERS

Ladies and Gentlemen of the media, colleagues, fellow Barbadians listening to this media conference over the various broadcast systems, a pleasant good afternoon to all of you.

Let me begin by expressing on behalf of the Ministry of Finance and Economic Affairs our sincere wishes for a healthy, productive and rewarding 2017 to all Barbadians. I would like in particular to register our appreciation for your support and cooperation during the course of the past year.

Not unlike many other countries across the world 2016 was one of mixed fortunes for Barbados. On the one hand we witnessed an acceleration of real growth in our economy with an estimated 1.6

% expansion in the GDP, when compared to the 0.8 % level of growth in 2015. Indeed, this is the first year in which all major economic sectors, led by a resurgent tourism sector registered positive growth in the same year since the great global financial crisis of 2008.

At the same time low inflation, a continuing decline in the rate of unemployment, and a seeming pick up in foreign direct investment albeit muted, painted positive signs that the recovery in the real economy was not a passing sensation, but an indisputable fact that a real economic turnaround was beginning to set in.

On the other hand it is undeniable that as a country we continued to be dogged by an unsustainably high fiscal deficit and an unacceptable level of debt accumulation which are together conspiring to not only undermine the gallop towards a deeper and faster rate of growth, but also affecting our ability to retain more of the foreign exchange which is earned by the country as a whole. For the first time since the crisis hit our major foreign exchange earning sectors, we dipped below the international benchmark level of 12 weeks worth of imports held in foreign reserves by the Central Bank of Barbados.

These gains, as well as the setbacks are matters that we must as a country take serious cognizance of and deal with assiduously. In the case of the positives we have to continue working together to bolster public and private investment thereby further expanding our growth levels and creating more opportunities for ordinary Barbadians to gain sustainable employment.

In the case of the negatives we must be prepared to take any necessary, but sensible actions that will lead to a containment of the growth in our debt, through a more concerted and faster rate of reduction of the fiscal deficit. This of course will result in the lessening and eventual elimination of any current actions by the monetary authorities which may conspire to negatively affect our capacity to maintain adequate levels of reserves.

But what we absolutely must not ourselves do or entertain from others whose aims are simply not in the best interest of Barbados, is to create an environment of panic and fear through the peddling of unsubstantiated and unnecessary doomsday, apocalyptic scenarios that are just not founded in fact. These fake prophecies designed with the sole intent of destabilizing the government, have the potential to do serious damage to the economy of Barbados by undermining the confidence of potential investors, and weakening the resolve of fellow Barbadians to work together to keep our recovery going and tackle the most stubborn of our challenges head on.

It is irresponsible and uncalled for and all of us who love and believe in our country must resist these insidious attempts to undermine it.

In this regard, permit me if you will to restate it again for all to hear and digest. The Barbados dollar is in absolutely no danger of a devaluation vis a vis its standing against the US dollar. It is not going to happen next week, next pay day, (as I heard one irresponsible opposition political candidate say recently), next three months, next year or at any other time in the foreseeable future. That is simply not going to happen!

At the present moment, though reserve levels have temporarily fallen below the 12 weeks standard threshold, it is not the first time in the history of Barbados' economy that this has happened. We previously operated this economy successfully with lower levels of reserves in 1998 (9.1 weeks and in 1999 (9.9 weeks). In neither of those instances there was never a question that any government of the day would continence any decision to adjust the value of our currency. Similarly, it is not a scenario that this administration will support or permit to happen under its watch.

Following a relatively stable foreign exchange market position in 2014 and for the greater part of 2015 we started to notice some slippages in reserves levels in 2016 in particular. This was even though the difference of inflows as against outflows of foreign exchange in the market over the previous year, remained generally in balance. In fact during the past year, unlike 2013 and part of 2014, we did not see any major private sector calls on the country's reserve levels as oil prices remained low and private foreign inflows started to recover as anticipated projects got set to push off.

What we saw instead was a decline in public sector inflows as some major foreign funded public projects failed to start due to legal and administrative delays. This was further exacerbated by the delayed closure of the BNTCL sale transaction which on its own was expected to yield more than 100 million dollars to the reserves.

At the same time the country was called upon to meet is foreign debt obligations to the tune of $382 million dollars in 2016, which we met in full and on time as has been our very proud record.

Again in January this year we met our 30 million dollar obligation for the Prison that Miss Mottley built both on time and in full. Yet reserve levels remain adequate to defend our currency even as we move assiduously to ensure that all of the delayed public inflows come into the Central Bank during the first quarter of 2017.

I am advised that the way is clear for the first tranche of the draw down on the Sam Lords Loan to occur any day now as advised by the EXIM Bank of China in writing to the BTI. Similarly, all documentation to facilitate the release of the First Citizens Bank Bridging Loan for the CAF sponsored upgrades to Customs and the BRA, is settled and that too will be release in the coming days.

And of course we all know that very soon the FTC will give its decision regarding the sale of the BNTCL to SOL limited which if positive (and I see no reason why it should not be), will clear the way for a significant injection into the country’s reserves.

These three sources alone will boost our reserves by more than 200 million dollars pushing levels back up above 12 weeks of imports.

But we are not stopping there. There are other short term measures which government will take through the course of 2017 to ensure that we maintain those levels and sustain even greater levels going forward.

For example it is our intention to absolutely maximize inflows from all foreign funded public projects over the coming months. Already we have approved status on the CAF funded BWA Water

Master Plan Project for 30 million US dollars. We have also cleared the way for an additional 50 million from the Caribbean Development Bank (CDB) also for the BWA water network systems upgrade project which will start disbursements shortly. Then there is the long stalled CDB Education Sector Enhancement Project (2) valued at 35 million US dollars, the way for which has been finally cleared after many months of technical challenges.

In addition to these projects, I have issued new guidelines to all investors/developers seeking tax waiver support for investment projects in Barbados that effective from this month, in order for such concessions to be given and sustained at least one third of all foreign exchange brought on island must be sold to the Central Bank directly.

Further, that following completion of the projects any foreign sales generated from units within those developments and for which concessions are attached no less than 50 percent of the sale proceeds must be brought onshore and half of which must be sold to Central Bank of Barbados.

Equally, my ministry is closely monitoring a developing situation where some local commercial banks have been approaching foreign investors with offers to them to utilize domestic Barbados dollars or even draw loan proceeds from domestically held foreign currency to finance their projects here. While the Ministry of Finance cannot tell any investor where to source their financing from or indeed prevent any domestic bank from offering their liquidity to investors, what we can do however is to ensure that where generous concessions are given on the basis that the country would get a net inflow of foreign exchange that all parties honour those commitments if the benefits are to continue.

I am happy to relay that all of the developers that my office has interacted with in the past weeks have given their full support to these measures.

There are some additional actions which we will take in the coming months as well to boost supply levels but more of this will be spoken to in my presentation of the annual estimates of revenue and expenditure in a few weeks.

Now while we push to ensure a maximization of inflows, ultimately, in order to ensure that we do not act in a way as to drain the inflows back out we must as a matter of urgency address the issue from the demand side as well. In this regard we have to address the stubborn problem of our unsustainably high fiscal deficit, the slower than expected reduction, and the less than acceptable method of financing it through so-called printing of money by our Central Bank.

Despite registering some successes, it is clear that the fiscal deficit and its financing continues to be a major challenge for the Barbados economy, and we must find the most humane and least disruptive ways of further reducing the fiscal deficit.

In terms of the fiscal deficit, it is a fact that having peaked at 11% in fiscal 2013/2014 the deficit came down to 6.7 percent in 2014/2015 while inching back up to around 8 percent in fiscal 2015/2016. .

The Approved Estimates of Revenue and Expenditure for 2016/2017 provided for a deficit or 8 percent of GDP which we agreed was too high and so we introduced additional measures in the 2016 Financial Statement and Budgetary Proposals to close the gap for an end of year target of 5.5 percent of GDP. While the collection of all data for the current financial year which ends on the 31st of March has not been completed as yet I expect that by the time I deliver the Estimates presentation for 2017 we will be able to report that we have in fact met the revised target on the cash basis and even bettered it on the accrual basis. We may even be able to report a small primary surplus as well.

If this projection holds it is then our duty to ensure that we maintain and accelerate that momentum and push this deficit even further down and to such an extent that its financing becomes less of a challenge for government and requires no extra ordinary accommodation from our Central Bank.

That notwithstanding it is still important to mention a few points here:

	2009	2010	2011	2012	2013	2014	2015	2016
Wages & Salaries	**832.7**	**861.1**	**860.2**	**867.4**	**882.2**	**871.9**	**803.7**	**787.2**
Goods and Services	**420.6**	**417.3**	**378.4**	**399.5**	**391.7**	**382.2**	**341.5**	**441.3**
Transfers & Subsidies	**1137.2**	**1095.6**	**1174.1**	**1022.4**	**1233.8**	**1261.2**	**1119.8**	**1184.6**
Interest	**247.5**	**282.1**	**359.8**	**379.0**	**422.3**	**473.4**	**488.4**	**508.8**
Corporation Tax revenue	**447.2**	**372.8**	**294.2**	**286.1**	**268.6**	**174.7**	**156.1**	**224.8**

a.) There has been no major expansion in discretionary government

expenditure since 2013, with the exception of select goods and services related to preliminary project activity associated with foreign funded projects to facilitate coastal restoration (IDB); human resources development (EU); Competitiveness (IDB); and BRA establishment (CDB), to name a few. There was also an increase in transfers to accommodate the BWA smart meters and mains laying programmes both of which were foreign finance projects but whose' funding had to come through the Government of Barbados' accounts.

The fiscal challenges ostensibly revolve around the major declines in corporation tax revenue, driven in part by the challenges in the international business and financial services sector and the economic slowdown. These challenges have not been driven by any orgy of spending.

In order to maintain the level of social services and jobs, the government introduced new taxes in an attempt to make-up for the revenue loss. The shortfall in revenue from these new taxes relative to the funds needed to pay for healthcare, education, garbage collection and the range of social services, were made up by domestic borrowing. This has led to rising debt service costs.

b.) The challenges with financing the fiscal deficit and the need for central bank financing arise from the fact that commercial banks have, at least over the last three years, reduced their appetite for government paper for a number of reasons. This intensified during the last year and in the wake of it the Central Bank in order to maintain the overall stability of the Barbados economy was obliged to finance more of government's expenditure than it expected.

c.) The vast majority of government securities purchased by the central bank have been purchased with surplus funds deposited at the central bank by commercial banks, rather than money created or printed by the central bank. For example, the deficit up to December 2016 was 665ml. NIS contributed $123ml, insurance companies and other financial institutions $129ml and the central bank 715ml. Of that $715ml, $424 ml was additional funds deposited with the central bank by the commercial banking sector. These surplus funds would normally be invested in government securities by the commercial banks.

So that in order to further sustain and accelerate responsible fiscal consolidation that reduces the deficit, eliminate reliance on central bank financing and boost the foreign exchange reserves, while keeping intact our strong social fabric to protect the vulnerable and empower the middle-class, government will in the coming months push ahead with existing measures and introduce additional efforts to reach our targets.

These will include but not limited to:

1. selected asset sales where feasible. The sale of the BNTCL is the first major part of this program. This asset sale will earn the government revenue which will reduce the deficit and need for financing, as well as generate foreign exchange. Another major asset sale will likely take place in 2017, which will again earn the government revenue, thereby further reducing the deficit and the need for financing, while generating foreign exchange.

2. Further Expenditure Reductions will be undertaken, not only continued efforts at the rationalization of all of government's programmes but through a targeted programme of debt refinancing.

3. Expansion of foreign funded capital works such as Sam lords, road works and the BWA water and sanitation network upgrade projects which will boost growth, government revenues and the level of foreign exchange flowing into the economy.

I will also take the opportunity to inform that I am in the process of assembling a team of key experienced Barbadians to constitute a reformed National Council of Economic Advisors to assist government with the development of a National Fiscal

Sustainability and Growth Plan which I hope would be ready for national discussion and implemented before the end of summer.

The persons I have invited to serve have all resoundingly responded in the affirmative and in the national interest and I expect to be able to share those names with you very shortly. I believe Barbadians will be generally happy with the persons who have come forward.

Ladies and Gentlemen, the quality of life in Barbados is built around sound institutions, a strong social consensus and a strong economic policy framework, supported by the fixed exchange rate regime. The policy framework has remained consistent across successive political administrations and the fundamentals of the Barbados economy remain intact. The foundation for growth has been laid and is reaping dividends with our economy seeing the strongest levels of growth since 2007. Private sector jobs are being created, driving unemployment below 10% and inflation remains low. The government is moving to address the immediate challenges to the foreign exchange reserves and financing the fiscal deficit. We will take all sensible actions in the short to medium term to restore foreign reserves to a comfortable level, reduce the overall fiscal deficit and put the debt/GDP ratio firmly on a downward trajectory.

While it serves the purpose of some to split us apart so that they may benefit, we as proud patriotic Barbadians who love our country know that now is the time for us to come together more than ever. Let us not march in disgust but bond in determination to rededicate ourselves to lifting our country up to even higher levels of achievement than we have attained in the past.

Finally, as you are aware last Friday evening the Board of Directors of the Central Bank of Barbados consistent with the provisions of the Central Bank of Barbados Act CAP 323C, recommended for approval the appointment of Mr. Cleviston Haynes and Mr. Michael Carrington to serve respectively in the positions of Governor and Deputy Governor (Acting) of the Central Bank of Barbados.

I have accepted and approved both recommendations.

These appointments are consequential on the determination of the engagement of the previous Governor of the Bank Dr. Delisle Worrell. While I do not propose in this press conference to address that issue in any particular detail I believe it is incumbent on me, on behalf of the government of Barbados to publicly thank

Dr. Worrell for his long and outstanding service to the Central Bank of Barbados specifically, and Barbados in general.

Naturally we all wish him every possible success going forward. I would equally like to welcome Mr. Haynes and Mr. Carrington to positions and wish them a productive stint in both capacities.

Thank You.