

NEW YEAR'S STATEMENT TO MEDIA ON THE ECONOMY OF BARBADOS,

Delivered by

Hon. CHRISTOPHER SINCKLER

GOVERNMENT HEADQUARTERS, JANUARY 06 2014, 3pm

Ladies and Gentlemen of the media, other colleagues present here this afternoon, and 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 2014 to all Barbadians. I would like, in particular, to register our appreciation for your support and cooperation during the course of the past year, working as we were under very challenging circumstances.

The Background

The year 2014 will be a defining year for the Barbados economy and society as Government moves ahead with the implementation of its stabilization and growth programme. The quality of life in Barbados is built around sound institutions, a

strong social consensus and a strong economic policy framework supporting the fixed exchange rate regime. The policy framework has remained consistent across successive political administrations and the fundamentals of the Barbados economy remain intact.

However, in 2013, economic policy in Barbados was driven by two dramatic and unexpected developments that no responsible government could afford to ignore. Firstly, after remaining stable at sixteen or more weeks of import cover for the 2008 to 2012 period, foreign exchange reserves in Barbados began a sudden and dramatic decline from around April 2013 (about four to six weeks after the general elections). The sudden and dramatic decline in the foreign exchange reserves cannot be justified by any developments in the underlying economy or dramatic policy reversals by this administration.

Secondly, Government revenues experienced a major decline in the second half of 2013, the full facts and figures for which I presented to the House of Assembly during the course of my Ministerial Statement on the 13th of December.

These two developments, rather than any change in the fundamentals of the Barbados economy, were the major causes of the economic challenges and subsequent debt down-grades that Barbados faced in 2013.

The Government Response

Recognizing these challenges, the Government, led by the Rt. Hon. Prime Minister, quickly engaged a series of national consultations not only on the state of the economy, but on the crafting of a national economic policy response to first stabilize the situation and lock in Government's programme for economic restructuring and growth.

In August 2013, after wide and intensive consultations coordinated by my Ministry, we presented both a revised fiscal adjustment programme and a growth and development strategy for Barbados. The measures undertaken in the August 2013 Budget and the additional measures announced in December 2013 must be understood in the context of these unexpected developments referred to above, and the need to respond in order to protect the Barbados dollar, reduce the fiscal

deficit, and by extension, the amount of money Barbados needs to borrow to finance its operations, while creating a platform for the resumption of growth.

In the face of these developments, Government used the August 2013 Budget to take a number of fundamental policy decisions to address key areas of public expenditure that have changed fundamentally over the last decade. From the exploding costs of tertiary education and waste management to the enforcement of greater levels of efficiency in public health delivery, particularly at the island's main general hospital, and the overall containment of government's wages and salaries bill, this new course of expenditure management is critical to a sustainable turnaround of our economic and financial fortunes. It represents the first time in 20 years that any government has seriously addressed the issue of expenditure reform in the public sector.

Moreover, these and other measures announced in the August 2013 Budget were designed to protect the foreign exchange reserves and reduce the deficit in a phased manner to more sustainable levels over a nineteen (19) month period, and these policies are being implemented according to the time schedules established. The Implementation Report which I laid in the House last month clearly shows that we are on track in that regard, less than six months into that

nineteen (19) month period, and we expect the benefits to be realized once the full period has run.

However, faced with the continued decline in foreign exchange reserves, though at a slightly lower rate than earlier, and confronting a sharp drop in government revenues in the first six months of the current financial year, government has proposed to undertake further reductions in its expenditure to keep our programme on track by reducing the deficit to sustainable levels and protect the Barbados dollar.

If we remain on the present course we will run a deficit of 9% of GDP which will require that Barbados borrow over \$1 billion this financial year at high interest rates, and this is simply not sustainable. In an effort to preserve public sector jobs and maintain social services despite the recession, the Government has already undertaken a number of measures to increase its revenue and we are of the view that more taxation will not be part of the solution at this point in time. The analysis that we have undertaken makes it clear that Government's expenditure needs to be reduced by a further \$143 million dollars over a full financial year,

and meeting this target will mean an inevitable and inescapable loss of jobs in the public sector.

It is crucial that we now undertake a long overdue reform of the public sector in Barbados. The aftermath of the 1991 to 1993 measures provided a golden opportunity to fundamentally restructure the public service in Barbados. However, instead of building on the measures, in the succeeding years the public sector numbers were increased, a large number of new statutory bodies were created, and the public sector wage bill was made more inflexible by a constitutional amendment in terms of wages and salaries and the provisions on the 2007 Public Service Act.

We are currently reviewing the operations of nineteen (19) statutory corporations with a view to consolidating their operations. The final report will be presented to Cabinet shortly and implementation, following wide and intense discussions with all of our Social Partners, will commence in April 2014.

At this juncture, I feel constrained to make the point that in dealing with the deficit and the amount Barbados needs to borrow, the Government is carefully weighing suggestions from all partners, but we are of the view that at this critical moment, any alternative policy measures must be clearly implementable in the critical time frames facing us and they must be adequate enough to address the problem we face now.

In this regard, therefore, let me state categorically, in case some have forgotten the realities under which we operate, from a legal stand point government's hands are tied as it relates to any option to reduce public sector salaries via a wages and salaries cut. And it will stay that way until the constitutional amendment preventing it is reversed. Those who prefer to see this option as an alternative to retrenchments are reminded of two things: Firstly, we know who changed the law and we know who holds the key to changing it back. Secondly, for such an option to be viable and have the impact which is required to bring us close in line with our objectives, the level of cut has to be of a magnitude way in excess of what has been suggested in some quarters.

These are very difficult and painful decisions, but the need to protect the dollar leaves the Government with few options at this time. In keeping with our commitments under the Protocol of the Social Partnership and mindful of good industrial relations practice, Government will continue to dialogue and consult with our partners in the labour movement as we seek credible solutions to the challenges we face and explore feasible alternatives to the measures which we have announced.

But time is of the essence in this regard and decisions have to be made now.

Let me also publicly give the assurance that Government is putting in place both a team and the relevant mechanisms, including a strengthening of the existing social safety net, and the expansion of the National Retraining Fund, to shepherd those most affected by these decisions through this difficult period.

As circumstances change, as a nation we must make necessary adjustments if we are to survive and prosper; we cannot simply continue with business as usual when the world around us has changed in fundamental ways.

Going For Growth

However, as stated clearly in the August 2013 Budget, the Government does not believe that we can cut or tax our way to stability and recovery. As we cut current expenditure to reduce the fiscal deficit and save the Barbados dollar, we must simultaneously increase investment in the productive sectors and enhance the foreign exchange earning capacity of the Barbados economy. The return of growth to the economy is crucial if new job opportunities are to be provided for our citizens.

The Barbados economic growth strategy presented in the *Barbados Growth and Development Strategy 2013-2020* provides a clear road map for a sustainable recovery. The main elements of the growth strategy are as follows:

1. Growth must be led by the sectors that earn or reduce the use of foreign exchange. At present, the sectors that Barbados can be internationally competitive in are tourism and hospitality, international business and financial services, agro-processing, light manufacturing, particularly in niche areas, and green energy.

2. In each segment of the market, and for each of these activities, the prices of Barbadian products are targeted at levels comparable to those of competitors who produce goods and services of equivalent quality.

3. To ensure the desirable price-quality match is achieved, Barbados' strategy focuses on measures to increase productivity, achieve excellence in service, enhance the quality of our products and services and enrich the Barbadian experience for our visitors and investors alike.

4. With respect to the international marketing of goods and services, we have embarked on more focused and cost-effective marketing in established markets, as well as the exploration of new markets in Latin America, Europe and further afield.

5. The growth strategy has to be led by private investment and entrepreneurship. Government's role is to provide incentives, infrastructure and an enabling environment in support of private initiative and investment.

The role of Government in the economic growth strategy is two-fold:

1. To upgrade infrastructure and provide incentives for efficient private investment; and

2. To ensure the stability of the economy and maintain adequate reserves in defence of the exchange rate peg.

Current Growth Initiatives

In 2013, the Government passed the Cultural Industries Development Bill, a suite of incentives for Renewable Energy and The Electric Light and Power Act. These measures have laid the framework for the creation of two new foreign exchange and employment generating sectors and represent the most significant efforts to restructure and diversify the Barbados economy since the rise of the International Business sector.

We have acquired the Almond property, and part of the property is being used this winter season to earn foreign exchange and provide employment for Barbadians. Cabinet has also signed off on the proposed financing arrangement for the build out of the new Sandal Beaches at Almond, with the Chinese Government. The coastal work in preparation for the new Cruise Terminal at the Port has already begun, and we are working to finalize the financing for the remainder of the project. This should happen this year. Both the IDB and the Chinese have expressed strong interest in financing the build out of the Pier Head Marina. Cabinet will make the final decision as to which one we will go with in a matter of days. Government is in the very advanced stages of negotiations for the construction of a Waste to Energy Facility at Vauclose that will bring in excess of 300 million US dollars into our economy.

Given the current challenges, financing arrangements can take longer than usual, but we are confident we can conclude negotiations at reasonable terms so that the economy can benefit from these crucial infrastructure projects in 2014.

The reconstruction of the track at Bushy Park has begun and the Ministry of Finance will this week sign off on the concessions to ensure smooth and quick completion of the facility in time for the big Top Gear Motor Racing Festival in May.

We also know that a major new entrant into the construction sector will start operations during the first half of 2014 with the erection of the first Alternative Cement Factory in Barbados. This will not only bring new foreign direct investment into the country, but also new technology that will drive down the price of cement.

Plans are also well advanced for a 750 lower to middle class housing project at the Ridge in Christ Church which will bring another 50 million US dollars into the local economy in 2014. All of these are from private investments.

And, exclusively on the domestic side, by the end of this week, my Ministry will sign off on the PPP road rehabilitation project with the major road builders in Barbados to kick start 50 million dollars in work over the next two years. This, together with a special private sector initiative called the “Adopt a km” highway maintenance project where private sector companies will adopt and maintain large sections of the country’s major highway starting from the airport, promises to not only cut government’s expenditure on this process, but create jobs for persons who might be affected by the proposed retrenchments.

These are only but a few of the major projects which we know will start in 2014, and together with other smaller ones will generate good levels of public and private investment to buttress our efforts to extract growth in our economy this year, even in spite of our strong fiscal adjustment programme.

Once the economy stabilizes, Barbados can restore the modest but persistent rate of growth which has underpinned the steady improvement of living standards in this country since the 1950s. The growth rate is expected to firm up from 2015 onwards, to achieve an average of 2.5 to 3 per cent for the medium term.

We Own Our Future

The fundamentals of the Barbados economy remain intact, foreign exchange reserves are currently more than adequate, the Government is implementing a clear and credible plan to reduce the fiscal deficit and the diversification and restructuring of the Barbados economy is well under way. We certainly hope that the foreign exchange earned will find its way into the banking system of Barbados and not be lodged elsewhere, and that the revenues due to the Government will be paid as Government itself works assiduously to pay those who we owe in the private sector timely and fully.

Fellow Barbadians we have a choice. We can all work together in the best interest of the country or become factional and split up into disgruntled groups, tugging against each other while the country and its economy dissolve into an unrecoverable mess.

We can highlight the positives and work to turn around the negatives so that our march towards sustainable growth is resumed. Alternatively, we can get stuck in a negative, defeatist “everything is bad mode” and become the prophesy some seem so eager to see come to pass.

At the end of the day, we are what we believe and we will become what we aspire to become. I was not born to fail and I am pretty sure none of you were either. We are too positive to be doubtful, too optimistic to be fearful and too determined to be defeated. The Barbados economy has been through much worse challenges and has always managed to emerge stronger than ever. The adjustment process was never going to be easy and the Government does not pretend that this is a painless process either. However, if we believe that we can turn this situation around we will. If we work harder, smarter and together, we will produce more and earn more as well.

Your government is committed to succeeding and turning around this economy, and we will not be distracted.

Let us band together as a strong and resilient people, working together to make our country better. Taking the tough decisions we have to, but implementing the initiatives we know will bring years of lasting growth and development.

Let us be our brothers and sisters keepers, helping those affected negatively by this recession to continue to stand on their feet and return to mainstream economic life as soon as possible.

Let us, most of all, restore our faith in God, leaning not on our own understanding, but on his wisdom, guidance and love. Together, we will succeed.