

**EXTERNAL INFLUENCES, BALANCE OF PAYMENTS
DEVELOPMENTS AND ECONOMIC RESPONSES
IN BARBADOS, 1980-1990**

by

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Introduction

During the 1980s, vulnerability to external shocks continued to challenge the imagination of economic managers in Barbados. Despite the growing importance of the non-traded sectors, the country's economic structure remained highly open by conventional measures. For example, the ratio of merchandise trade to GDP averaged 118.0 between 1980 and 1990, although it fell from 142.2 at the beginning of the period to 100.8 at the end. By 1990, the traditional export sectors - sugar, tourism and manufacturing - accounted for 19.7% of GDP, compared to 30.1% a decade earlier. However, off-shore finance and data processing gained ground and patterns of communications, business and travel were much more in line with international trends than previously.

Between 1980 and 1990 external shocks impacted on the Barbados economy in a variety of ways. Firstly, one can distinguish between the direct and indirect effects on the economy. The direct (or first order) effects are entirely beyond the control of domestic agents. They include the impact of external influences on:

1. Foreign Reserves (e.g. through a rise in import prices)

2. Debt servicing (e.g. when a fall in the value of the US, and thus the Barbados, dollar necessitated a larger sacrifice of US dollar reserves to service outstanding external debts denominated in pounds sterling or Japanese yen); and
3. The public finances (e.g. the effect on Government revenues of changes in the value of imports).

Direct effects in turn resulted in indirect effects or active policy responses. The latter group includes:

1. Discretionary monetary and fiscal policy (e.g. the 1981 mini-budget or adjustments to credit conditions);
2. Supply responses, i.e. adjustments to output levels in key sectors (e.g. low sugar prices for much of the 1980s resulted in a reduction in the acreage planted in sugarcane); and
3. Foreign borrowing to protect the balance of payments.

Secondly, it is possible to identify both positive and negative influences, although it may be argued that the latter type predominated (see Holder and Prescod, 1988).

In a recent study, Tanzi (1989) has identified the major exogenous influences confronting developing countries in the 1980s as changes

in import (especially petroleum) prices, interest rates, export earnings, and the availability of foreign finance (both foreign investment and grants). However, not all developing countries were affected in the same way by these factors and Tanzi's list is not comprehensive. As we shall show, in analysing the Barbadian experience it is necessary to include changes in exchange rates and arrangements for settling regional trade payments, in particular

This paper describes the nexus between external influences, the balance of payments (BOP) and economic policy in Barbados during the 1980s. First, we show that external and BOP developments fall into two distinct periods, and highlight the influences at both regional and non-regional levels. Thereafter, we analyse the impact of these influences on the Barbadian economy, indicating whether they were negative or positive and the macroeconomic policy responses they elicited. The paper ends with some observations on the implications of developments in the 1980s for future policy

Overview

At the global level, the first few years of the 1980s started with an economic recession, but strong growth was evident for the rest of the decade. In Barbados, where foreign exchange earnings

sugar, tourism and manufacturing drive so much of economic activity, it is no surprise that the trend in real economic growth followed very closely the pattern observed in the industrial economies.

Callendar 1980 was the last of five years in which real GDP in Barbados grew, on average, by just over 5% per annum. Between 1981 and 1983, under the influence of international recession, the Barbados economy declined at an average rate of 2.1% per annum. Exports of goods and net invisible earnings which had grown on average by 24.3% per annum between 1976 and 1980, expanded by a mere 5.2% during the following triennium. The slowdown in foreign exchange earnings curtailed activity in the non-traded sectors, with significant declines recorded for construction, and wholesale and retail trade, in particular. Year-end unemployment rose from 11.4% in 1980 to 15.8% in 1983.

As foreign exchange receipts stagnated, the external current account balance moved from -3.5 % of GDP in 1980 to -14.7% a year later and averaged -8.3% between 1981 and 1983. Although long-term capital flows were healthy, on the strength of substantial inflows for Government and the public utilities, the overall balance of

payments registered an annual average deficit of \$17.0 million. It was only because of access to resources from the IMF that there was a rise in foreign reserves of about \$20.0 million per year.

From 1984 to 1989, real GDP in Barbados recovered, expanding on average by 3.2 % per annum. However, more importantly, the growth was not export-led as in the 1976 to 1980 boom, with only tourism among the traded sectors achieving any gains. Major contributions came from sectors which are import-using (especially construction and wholesale and retail activity), thus reducing the country's ability to improve its foreign exchange position. Consequently, the annual growth in earnings from domestic exports and net invisibles during this period (3.1%) was even slower than during the recessionary years. The sluggishness in foreign exchange earnings put a brake on job creation for most of the period and the only gains in employment came through fiscal expansion in 1989 and 1990.

Under the impact of extremely sluggish imports during this period the current account balance improved (averaging -0.9% of GDP annually). However, with the sharp reduction in export earnings and long term capital inflows, as well as the illiquidity of a

large portion of official reserves, the external accounts remained under tremendous pressure. The situation was compounded late in the period by repayment of the loan secured from the IMF in 1982.

A cursory look at the external accounts would tend to indicate that the BOP was unequivocally stronger during the second sub-period than during the first. The current account strengthened significantly during the second phase, recording surpluses in 1984, 1985 and 1988 and the overall BOP registered a small surplus, on average, compared to the deficit position during 1981 to 1983. However, closer examination reveals that the improved current account situation from 1984 onwards was due more to the stagnation of imports than to any growth in export earnings. This was in stark contrast to the experience during the economic upturn of 1976 to 1980 when a sharp rise in exports led to a steady decline in the current account deficit. Moreover, after 1983 there was much more foreign borrowing for BOP support than previously. The debt service ratio rose from 8.5% to 23.1% of exports of goods and services during these years.

Accordingly, the 1984 to 1990 period represented the first time on record that economic expansion did not lead to a sustained

autonomous rise in foreign exchange earnings (as opposed to foreign exchange reserves, which include borrowed resources). Receipts from domestic exports and net invisibles trebled between 1976 and 1988 but were only 10% higher in 1989 than in 1984.

Sub-Period 1981 to 1983

During the first sub-period the major external influences on the Barbados economy were economic recession in the industrial countries, high interest rates, exchange rate developments and the collapse of the CMC.

(a) Extra-Regional Developments

Between 1980 and 1983, the major industrial economies experienced strong inflationary tendencies and large fiscal and external imbalances. All of these were related in some way to the virtual doubling of oil prices which had occurred in 1979. Economic management was confusing to say the least. Tighter monetary policies (an anti-inflationary stance) led to a steady rise in short-term interest rates and economic contraction. At the same time, fiscal policy was expansionary and it is estimated that crowding out, measured by the percentage of private sector savings going to Government, amounted to 17% and 23% in 1981 and 1982 respectively. The large deficits helped to sustain inflation

high interest rates, which reached record levels during this period.

(b) Regional developments

Intra-regional trade settlements and exchange rate movements were the main influences at the Caricom level. The balance of payments difficulties facing Jamaica and Guyana made it increasingly more difficult for those countries to pay for Barbadian exports. In 1983, the regional payments problem came to a head when it was no longer feasible to raise the credit limits under the Caricom Multilateral Clearing Facility (CMCF). The Facility was suspended, confronting Barbados with a shock which influenced BOP management for the rest of the decade.

The economic difficulties faced by Jamaica and Guyana resulted in the non-convertibility of their currencies and stabilisation programmes with the IMF. The conditionality for access to resources from the IMF required these countries to pursue a series of devaluations. As a result, between 1980 and 1983 the Jamaica and Guyana dollars depreciated, on average, by 7.3% and 16.4%, respectively against the Barbadian currency.

(c) Direct effects of the External Influences

With respect to sugar earnings, external influences were not as significant as domestic developments. Receipts from the sale of sugar and molasses fell from over \$117 million in 1980 to \$44.6 million in 1983. While the average export price of sugar fell 10.5% below the figure in 1980, the main source of the fall in sugar receipts was local production, which declined one third to historically low levels.

Conversely, external factors (mainly negative) largely determined the trend in tourism receipts. The world economic recession affected tourism through falling disposable incomes abroad, a disruption in air services, and failing tour operators. Gross spending by tourists stagnated during the period; the major reason for this was declining visitor arrivals, which fell by an annual average of 3.4%. Although hoteliers gave heavy discounts to tour operators there was some compensating increase in the costs of ancillary services.

Manufactured exports remained strong. Output of the major items sold outside Caricom (electronic components and clothing) was small in relation to world requirements. In addition, sales of electronic

components also benefitted from the innovations which were taking place in the computer industry. Consequently, despite global recession, the demand for these items was buoyant, with exports of clothing peaking at \$70.4 million in 1983.

The collapse of the CMCF in 1983 was the proverbial straw that broke the camel's back. To begin with, it placed additional pressure on foreign reserves, since at the time of the Facility's demise, its liabilities to Barbados (\$120.1 million) were equal to a little over half the country's foreign reserves. Moreover, the demise of the CMCF forced a return to bi-lateral trading arrangements, thus putting a brake on the growth of regional trade. The country's balance of payments was also compromised by the devaluations undertaken by Jamaica and Guyana which made Barbadian exports uncompetitive in the region. Exports to Caricom which had risen on average by 32.5% per annum between 1978 and 1980, rose only 12.3% during the following triennium.

The value of retained imports grew by only 7% per annum, less than one half of the annual average rate between 1976 and 1980. This development was facilitated by sluggish import prices, which grew by a mere 2% per annum (compared to 7.7% in the earlier period) and

by a mere 2% per annum (compared to 7.7% in the earlier period) and the strength of the Barbados dollar. However, the appreciation of the Barbados dollar against the pound sterling and the European Currency Unit (ECU) depressed the average export price of sugar which is denominated in ECUs and may also have discouraged prospective UK tourists.

The immediate effects of the high interest rates which were prevailing in the major financial centres was on the capital account of the BOP. By 1980 the very attractive foreign deposit rates (6 month CDs in the US reached 17.74% at the end of March 1980) had already been fuelling speculative capital outflows. That year net errors and omissions on the BOP - a rough measure of unidentified short-term capital movements - were negative for the first time on record. Interest rates abroad remained high (though lower) throughout 1981 and unidentified capital outflows grew almost ten-fold. During 1982 foreign rates declined to a level which made speculation less attractive, and, in that year and the next, the errors were positive and more stable.

The high interest rates during this period coincided with a significant rise in foreign borrowing by public utility companies

Between 1981 and 1983 those enterprises borrowed some \$138 million to expand services, accommodate more sophisticated consumer patterns and make their operations more cost-effective (see Codrington [1987 pp 22 and 26] for a discussion). The interest payments on these loans led to a sharp deterioration in the (already negative) balance on investment income, from \$16.9 million in 1980 to \$49.2 million in 1983.

The decline in foreign exchange earnings had implications for the public finances. Tax revenue expanded by a mere 8.9% per annum between fiscal 1981/82 and fiscal 1983/84, compared to an average of 17.2% in the five fiscal years immediately preceding. As a result of the recession, domestic demand moderated causing profitability and company taxes to stagnate and, with sluggish imports of consumer durables, import duties hardly rose at all. In addition, weak tourist arrivals helped to depress hotel and restaurant sales taxes.

(d) The Policy Response

From early in 1980 it was clear that the BOP had deteriorated since the previous year. During the third quarter of 1980 the Central Bank had to make a first small (\$10 million) drawing from its

short-term credit lines. However in 1981, there was an unprecedented fall in reserves for the first half of the year. Accordingly, drawings on credit lines were intensified and reached \$58 million by year-end. This was supplemented by Government borrowing of \$60 million in the Eurodollar market and inflows of \$10 million from the Trinidad and Tobago and Venezuela Oil Facilities.

The pressure on reserves was maintained through 1982, which was a more difficult year. In the first six months of 1982 the Central Bank lost \$42 million in foreign reserves. As a result, the Government negotiated a Stand-by Arrangement and Compensatory Financing with the IMF which provided \$ 81.5 in medium term credit over the next two years. Again, some smaller amounts were obtained from the oil facilities.

Apart from efforts to increase the stock of foreign exchange holdings, the official response also included attempts to reduce aggregate demand. Late in 1980 when it was clear that economic growth in industrial countries was slowing, the Central Bank started to adopt defensive positions. The Bank introduced measures

to control credit, recognizing its critical role in an open economy with a fixed exchange rate and a high consumption of foreign goods.

Commercial bank credit for home improvements and mortgages attracted stricter conditions and a freeze was imposed on lending to the personal sector. As the recession deepened in 1981, the Central Bank moved to reduce instalment credit by limiting the amount outstanding, shortening maturities and increasing down-payments. Efforts were also made to limit commercial bank liquidity by raising the discount rate and the cash reserve requirements.

Interest rates were raised during this phase, partly in keeping with the orthodoxy which promotes higher rates to encourage savings and reduce aggregate demand during a period of weakening balance of payments. However, in the face of evidence which suggests that savings deposits in Barbados are interest-inelastic (see Worrell and Prescod, 1982), higher interest rates during this period were useful in protecting the BOP through another avenue. The increases removed some of the incentive for capital flight by ensuring that the differential between local and foreign rates did not, for too

long, exceed a critical level (Codrington [1985, p.50] suggested a differential of around 2 percentage points).

During 1981, the rate on savings deposits was raised in March (2 percentage points) and in December (by 0.75 of a percentage point) to finish the year at 8.0%, a rate that held until September 1982. This action, at a time when interest rates abroad showed little tendency to fall, helped to reduce the interest rate differential from 11.85 percentage points at end-1980 to 9.85 percentage points a year later.

The weakness in the public finances was not tackled as decisively as the BOP problem, since it would appear that the link between external and fiscal accounts was not readily appreciated.

According to Tanzi (1989 p.105-106), developing countries whose public revenues increase because of higher foreign receipts usually take one of three courses of action. One option is to consider the increase a temporary windfall which can be used to amortize debt or accumulate foreign assets. Another, more popular, possibility is to expand public investment. However, the most frequently used option is to increase public spending and transfers; so that

the BOP inevitably weakens, the country is tied to patterns and levels of spending that are difficult to change without resorting to foreign loans. This last option best describes fiscal policy in Barbados during the earlier part of the period.

On the strength of the good growth in revenues in the five years to end of fiscal year 1980/81, Government had embarked during the late 1970s on an extremely expansionist policy. Consequently, despite poor revenue collections during the period under review, buoyant expenditure pushed the fiscal deficit in 1981 to 10.5% of GDP, the highest on record. Browne and Scott (1989) writing about the South Pacific countries describe a similar slowness in adjusting to falling terms of trade and real incomes in Fiji, Papua-New-Guinea and Western Samoa. Worreil (1981) notes that fiscal expansion was the response to the external sector crisis in Barbados during 1973/74.

Under the influence of the IMF stabilisation programme of 1982-1984, greater fiscal discipline was achieved. This programme placed certain limits on banking system credit to Government and on its short and medium term foreign borrowing. During 1982 and 1983,

in the face of sharp cuts in expenditure, the fiscal deficit as a percentage of GDP fell to an average of just above 5%.

2. 1984 To 1990

During this sub-period, the Barbadian economy was mainly affected by economic recovery abroad, the debt crisis, exchange rate instability (especially at the regional level) and the recession and payments difficulties in Caricom.

(a) Extra-Regional Developments

The period from 1984 to the end of the decade constituted the longest peacetime expansion on record for industrial economies. Inflation was brought under control and, by early 1984, was on average, the lowest in 15 years; in 1984 too, the strongest output growth in a decade was achieved. These factors allowed some easing of monetary policy and, by mid-1985, short-term interest rates had fallen to their lowest levels since the late 1970s.

Some of the impetus for lower interest rates came from more disciplined fiscal policies, especially in the US, where the Gramm-Rudman-Hollings Act of December 1985 held out prospects for a lower

fiscal deficit. The stock market crash of 1986, also put downward pressure on interest rates.

From the viewpoint of the Barbadian economy, renewed growth and falling interest rates were all positive trends, but this latter period was distinguished by a number of disturbing developments as well. One was the failure of some major borrowers among the developing countries to repay debts on schedule. The debt crisis threatened the survival and integrity of the international financial system and set up sharp antagonisms between debtors, creditors and the IFIs. More important, this development made it more difficult for most developing countries to tap traditional sources of capital, despite the dramatic fall in interest rates.

Another was exchange rate instability, a result of the growing tendency towards uncoordinated macroeconomic policies among the industrial countries. For example, while the US was beset by large fiscal and external imbalances, Japan and West Germany enjoyed surpluses. Exchange rate instability played havoc with the trade, investment and debt profiles of many countries.

(b) Regional Developments

There were two major regional influences which affected the B during this period. First, for most of the time the more developed economies were struggling to grow and maintain adequate foreign exchange levels. Jamaica's economy was weak early in the period but recovered from 1986 onward, while the Trinidad and Tobago economy was in recession between 1984 and 1989. The foreign exchange shortage in Trinidad and Tobago forced the authorities to institute import licensing for Caricom products, especially during the earlier part of the review period. Guyana registered moderate growth every year except 1988, but this did not translate into a significant rise in foreign exchange earnings.

The second influence, which was related to the first, was the continued fall in the value of regional currencies. This resulted from a heavy reliance on Stand-by arrangements with the IMF which continued to emphasise exchange rate policy. Jamaica experimented with an auction system, outright devaluation and a float but the exchange rate against the US dollar fell by 45.1% between 1984 and end-1990. A series of devaluations (particularly in 1987, 1989 and 1990) depressed the Guyana dollar by about 90.4% and after the

devaluations of 1985 and 1988 the Trinidad and Tobago currency was worth 43% less than in 1984.

(c) Direct effects of the External Influences

With the recovery in spending power in the tourism markets, long-stay tourist arrivals rose by one quarter and gross expenditure nearly doubled. Along with the growth in arrivals, there were some gains in hotel bed and room occupancy rates, even though average length of stay stagnated. Other positive external influences on tourism included the appreciation of sterling in 1986 and 1988 as well as increased air capacity from some destinations in 1987.

Again during this period external factors did not have as serious an effect as domestic factors on the sugar industry. Although the average export price of sugar rose from \$748 to \$1004 per tonne, sugar receipts fell from \$66 million to \$57.8 million. The reduction in earnings was a result of a fall in production of some 34,000 tonnes. Higher export prices still could not cover production costs and there was a steady decline in acreage under cultivation from 14,000 hectares in 1984 to 10,500 hectares by 1990.

The index of manufacturing output rose only marginally in this period and manufactured exports fell from \$518 million in 1984 to \$186 million in 1990. A major external influence in this regard was the growing uncompetitiveness of manufacturing which resulted largely from currency devaluations in other developing countries which were also seeking to attract foreign investment. This affected the electronic sub-sector, in particular, leading to the closure of several firms, notably the US giant Intel, in 1986. (Intel's departure is estimated to have cost the country 950 jobs).

Developments in the region also had an impact on domestic exports. In the larger countries, economic stagnation translated into reduced spending power and the frequent devaluations made Barbadian products less price-competitive; this was compounded by the inability to revive the regional payments arrangement. As a result, the local garment, furniture and food-processing industries lost ground in Caricom markets. Total sales to the region fell from \$100.5 million in 1984 to just over \$53 million four years later, with exports to the Trinidad and Tobago lower by three quarters. By 1990, exports to Caricom had returned to their 1984 level, but this recovery reflected additional sales to the OECS rather than a recapturing of market share in the bigger territories.

External factors largely determined the value of merchandise imports, which rose only a little (4.4% per annum) in the period. A major influence was import prices, which were particularly soft in 1985 and 1986 (when fuel prices fell dramatically), rising by less than 1% on average. Between 1983 and 1985 the real effective exchange rate of the US dollar, to which the Barbados dollar is tied, appreciated by 12.5% against a basket of major currencies. In addition, the uncompetitiveness which resulted in the closure of firms in the garments and electronic components sub-sectors, sharply reduced the demand for intermediate inputs in 1986 and 1987.

Non-tourism services were not untouched by international developments. By 1990 net inflows from transportation (through port charges and sales of ship stores and bunker fuel) were one-third of their value in 1985. The loss of traffic was a consequence of domestic problems at the Bridgetown Port and, more importantly, the sluggishness of imports during this period. Receipts from passenger fares also weakened in the wake of the collapse of Laker Airways whose planes were used by the national carrier, Caribbean Airways.

The high interest rates of the previous sub-period had an adverse impact on debt-servicing between 1984 and 1990. As mentioned earlier, when interest rates were high in the late 1970s and early 1980s, the public utilities had noticeably increased their foreign borrowing. From around 1980 Government had also started to borrow significantly from abroad and the Central Bank had a number of foreign liabilities as well. Interest payments on these loans reached significant proportions around the middle of the decade boosting outflows of portfolio investment income (mainly interest payments) from \$74 million in 1984 to \$132 million in 1990.

Net capital inflows were on average much smaller than previous years. After the debt crisis emerged Barbados (like several of the other developing countries) attracted very little private foreign investment. Net inflows of portfolio capital (loans and equity participation below 25%) to the private sector fell from \$100 million in 1984 to negative \$10 million in 1989. Direct investment, by way of the establishment of branches or subsidiaries and parent company loans, stagnated. Moreover, as for the exchange liquidity and the value of the Barbados dollar came under increasing pressure, local importers were less inclined to av

themselves of trade credits. As a result short term capital inflows fell while speculative outflows intensified.

(d) The Policy Response

In view of the severe foreign exchange liquidity problem official policy concentrated more on maintaining adequate reserves (by way of short-term initiatives on both the supply and demand sides) than on increasing the country's capacity to earn foreign exchange (a longer-term supply-side undertaking).

With regard to the former objective, a major line of attack was foreign borrowing. Government raised several large loans in the Japanese and Euro-dollar markets which went to meet foreign debt payments. Here again the exchange rate had implications for future repayment: These borrowings were being undertaken when the Barbados dollar was weakening substantially against the Yen and the Sterling by 53.7% and 37.4%, respectively, between 1985 and 1988.

So acute was the liquidity problem that short-term borrowing for balance of payments support had to be intensified and a number of new credit lines negotiated. These balances rose from \$25 million in December 1984 to almost \$123 million at the end of 1990.

Repayment of these borrowings constituted a first call on available reserves and very often had to be refinanced in order to maintain an adequate level of foreign exchange. Attempts were also made to revive the CMCF in order to reduce the outstanding liabilities to Barbados and to facilitate the repatriation of import proceeds from neighbouring territories.

The situation forced the Central Bank to maintain a tight monetary stance in order to contain import demand. Strict limits were kept on credit to the distributive and personal sectors and, especially on consumer instalment credit after the appreciation of the Japanese yen in 1986. In view of this, the average loan rate which was 11.9% at the end of 1983, fell only marginally to a low of 10.2% in the middle of the decade before rising to 12.1% at the end of 1990. The discount rate on short term loans to commercial banks was reduced by one half to 8% between 1983 and 1988 and then increased to 13.5% by end-1990.

The effort to strengthen the productive side of the economy resulted mainly in the vigorous promotion of international business services, particularly through the provision of more attractive taxation arrangements. In addition, the Central Bank made credit

more accessible for small businesses and exporters by way of its special credit schemes. The Bank intensified its short-term lending to the sugar industry and helped to strengthen the financial position of firms in manufacturing and the hotel sector.

In the first sub-period, fiscal policy made an (albeit late) accommodation to monetary policy in order to solve the BOP crisis. However, between 1984 and 1990 the underlying weakness in the BOP was masked by the ease with which the country could access foreign funds. Accordingly, although revenues were sluggish for most of the period, fiscal policy was extremely expansionary, again displaying the slow accommodation to a worsening BOP described by Tanzi. The fiscal deficit as a percentage of GDP averaged 5.7% per annum between 1986 and 1988, and reached 8.2% in 1990. The rapid growth in Government expenditure led to heavier reliance on Central Bank financing late in the period, when net foreign financing was on the decline.

Summary

The major adverse external influences which affected the Barbados economy during the 1980s were weak demand in industrial countries, the collapse of the CMC, high interest rates, unstable exchange

rates and the fallout from the debt crisis. Positive influences were mainly the recovery in economic growth in the industrial world in the latter part of the decade and comparatively low import prices.

External shocks impacted differently on the various traded goods sectors. World demand and exchange rate trends played a part in determining the fortunes of tourism. However, a steep fall in production levels was the major determinant of the decline in export earnings from sugar. Manufactured output and exports were affected by relative price changes in the region and abroad. Low import prices helped to moderate the value of retained import

At no time during the decade was the BOP free from pressure and the collapse of the CMC dealt a significant blow to the country's ability to manage its foreign reserves. The weakened reserve position necessitated official short and medium term BOP support but the resulting debt service further compounded the liquidity problems. Other attempts at adjustment concentrated mainly on demand management policies which contained credit expansion efforts to stimulate the supply side were half-hearted and bore little fruit. During the second sub-period, there emerged

disastrous divergence between monetary and fiscal policy which helped to weaken the BOP further.

What lessons can we learn from the experiences of the 1980s?

For one we need to move decisively on the issue of export diversification. During the 1980s too much still depended on a few activities which were largely sensitive to the North Atlantic business cycle. This situation requires serious attempts to increase the overall range of exportables, paying due regard to the cost and quality of production as well as the role of marketing. The events of the 1980s, certainly as they affected manufacturing, confirm the need to move away from production for the low end of the market (where we cannot compete) into more high income activity.

There should be a national strategy for each of the major traded goods sectors; they are too important in the scheme of things to be left to the vagaries of the market. For example, there was clearly no definitive policy on sugar production during the 1980s and hindsight has taught that sugar could have earned more foreign exchange if there had been more of it to export. During the last decade, the opportunity costs of sugar production continued to be

additional housing developments and shopping malls, activities which contribute to a depletion of foreign reserves.

It is also necessary, whenever possible, to think through official responses to external shocks. For example when foreign borrowing is contemplated all of the implications should be considered very carefully. These would include some appraisal of the future effects of the maturity and interest rate structure on the BOP as well as any exchange rate expectations. The need to guard against making inappropriate responses is particularly crucial when the shock is favourable - higher export prices for example. In such an event there is always a temptation to rapidly expand Government spending thus quickly offsetting most of the original gains. The experience of Trinidad and Tobago during the 1970s should teach us, at least, that favourable-external shocks do not necessarily make the task of economic management any easier than adverse ones.

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