Barbados

1. General trends

Reflecting the impact of the global recession, growth slowed significantly during 2008, falling to 0.5% (3.4% in 2007). With the country's heavy dependence on tourism, the fall in visitor arrivals from North America and Europe became a major cause for concern. Commerce, restaurants and hotels amounting to almost 86% of GDP, posted a contraction of 0.4%. Construction, a big driver of growth in recent years, also recorded negative growth. The outlook for 2009 is no more encouraging, and GDP is expected to fall by 3%.

As a direct result of this fall in activity, the unemployment rate rose from 7.4% to 8.1% by the end of 2008 and it is likely to increase further in 2009. Adding to those concerns is the deterioration of external accounts, with a growing trade and current account deficit, a faltering surplus in services and a shrinking capital and financial balance surplus, resulting in a substantial loss of international reserves. Furthermore, inflation accelerated through 2008, reaching 7.3% (December-December), although price increases slowed in the last quarter of the year; for 2009, moderate inflation is expected due to the pass-through effect of lower international prices of oil and other imports.

2008 saw a considerable expansion of the fiscal deficit (from 1.8% to 5.8% of GDP) because diminished tax income combined with growing current and capital expenditure. With a growing fiscal deficit, there are increasing concerns as to whether the budgetary balance can be sustained without further increasing the stock of public debt (domestic and external), which had already reached a level equivalent to 98.7% of GDP by the end of 2008.

Against this background, fiscal and monetary authorities have undertaken several measures to counter the worst effects of the economic slowdown and financial uncertainty. In particular, the central bank closely monitored the financial markets during 2008 and intervened when necessary for stabilization purposes. For 2009, the main public policy targets are to stimulate economic activity, control the budget imbalance, improve the external accounts, and preserve living standards.

2. Economic policy

(a) Fiscal policy

Fiscal revenues stagnated during 2008, growing by less than 0.9% in nominal terms. The main reason for this was the negative growth of direct tax revenue, which contracted by 4.2%, reflecting a sharp reduction in corporate income and profits. Indirect taxes, however, recorded a 4.2% increase, fed by higher income from import duties and excise tax. Overall, tax revenue grew by a mere 0.5% in nominal terms and, as a percentage of GDP, decreased from 33.6% in 2007 to 31.1% in 2008. Non-tax revenue expanded by 8.2% thanks to significant expansions in grants and postal revenue, helping to counter the stagnation in tax revenue.

Table 1
BARBADOS: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
Annual growth rates [b]									
Gross domestic product	2.3	-4.6	0.7	1.9	4.8	3.9	3.2	3.4	0.5
Per capita gross domestic product	1.8	-5.0	0.3	1.6	4.4	3.5	2.8	3.1	0.2
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	3.7	-9.5	-4.2	-4.0	-7.3	8.2	-5.8	2.2	0.3
Mining and quarrying	-8.4	8.0	6.4	-16.0	9.5	8.5	-3.1	-5.9	-7.9
Manufacturing	-0.5	-30.9	1.0	-1.6	2.1	2.2	1.1	-2.9	-2.3
Electricity, gas and water	0.0	-4.5	3.6	2.9	1.8	-0.5	9.8	1.1	-0.4
Construction	1.1	6.8	7.7	0.6	2.8	14.0	-0.4	0.1	-3.4
Wholesale and retail commerce, restaurants and hotels	4.8	-4.4	-0.6	5.3	7.5	1.2	3.7	4.7	-0.4
Transport, storage and communications	0.9	0.1	-3.0	3.0	5.3	5.0	5.2	5.6	2.7
Community, social and personal services [c]	1.3	-0.6	1.5	0.7	4.9	4.1	4.3	4.2	2.7
Millions of dollars									
Balance of payments									
Current account balance	-146	-111	-168	-170	-337	-361	-277	-182	-382
Goods balance	-744	-681	-702	-801	-971	-1 069	-1 003	-1 046	-1 224
Exports, f.o.b.	286	271	253	264	293	378	465	481	461
Imports, f.o.b.	1 030	952	955	1 066	1 264	1 447	1 468	1 528	1 685
Services trade balance	603	570	550	647	668	762	811	819	826
Income balance	-82	-93	-102	-107	-122	-151	-171	-101	-85
Net current transfers	78	93	86	92	88	97	86	145	101
Capital and financial balance [d]	323	333	144	237	180	135	320	461	132
Net foreign direct investment	18	17	17	58	-16	53	...	...	...
Other capital movements	305	316	127	179	196	82	...	...	...
Overall balance	178	222	-24	67	-157	-226	43	278	-249
Variation in reserve assets [e]	-178	-223	24	-68	157	228	-41	-278	249
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	98.5	100.2	104.5	107.7	106.1	104.3	105.1	103.2
Net resource transfer (millions of dollars)	241	241	42	131	58	-16	149	360	47
Gross external debt (millions of dollars)	951	1 135	1 163	1 241	1 222	1 353	1 501	1 572	1 530
Average annual rates									
Employment									
Labour force participation rate [g]	68.6	69.5	68.4	69.2	69.5	69.6	...	...	...
Unemployment rate [h]	9.2	9.9	10.3	11	9.8	9.1	8.7	7.4	8.1
Annual percentages									
Prices									
Variation in consumer prices (December-December)	3.8	-1.2	0.9	0.3	4.3	7.4	5.6	4.7	7.3
(annual average)	2.4	2.8	-4.6	4.6	1.6	6.1	7.3	4.0	8.1
Nominal deposit rate [i]	...	...	...	2.8	3.0	3.8	5.0	5.5	4.9
Nominal lending rate [j]	...	...	...	7.6	7.4	8.5	10.0	10.4	9.7
Percentages of GDP									
Central government									
Total income	33.4	34.2	34.6	34.2	33.6	33.6	35.7	35.5	33.0
Tax income [k]	31.1	32.0	32.0	32.0	32.2	31.4	34.1	33.6	31.1
Total expenditure [l]	34.9	37.7	40.9	37.2	35.8	37.9	37.7	37.4	38.8
Current expenditure	29.4	31.6	33.7	32.2	32.0	32.6	31.9	33.9	34.9
Interest	4.6	5.4	5.4	5.0	4.8	4.8	5.1	4.6	5.3
Capital expenditure	5.4	5.8	7.2	5.0	3.8	3.9	4.2	3.0	3.4
Primary balance	3.1	1.9	-1.0	2.0	2.6	0.5	3.1	2.7	-0.5
Overall balance	-1.5	-3.5	-6.4	-3.0	-2.2	-4.3	-2.0	-1.8	-5.8
Public external debt	23.2	29.5	29.9	27.9	28.3	30.0	29.2	29.4	26.7
Percentages of GDP									
Money and credit [m]									
Domestic credit	62.5	58.7	72.8	70.5	79.1	86.4	89.2	89.9	92.1
To the public sector	11.3	7.8	17.1	19.2	20.8	18.2	16.7	17.3	18.6
To the private sector	51.2	51.0	55.7	51.4	58.4	68.1	72.5	72.6	73.5
Liquidity (M3)	78.8	83.2	96.8	95.1	105.1	108.1	110.8	119.2	112.9
Currency outside banks and local-currency deposits (M2)	85.2	91.5	109.3	105.8	115.8	124.6	122.0	139.1	127.0
Foreign-currency deposits	6.3	8.3	12.5	10.7	10.7	16.4	11.3	19.9	14.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1974 prices.
[c] Includes financial institutions, insurance, real estate and business services.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population.
[h] Percentage of the economically active population. Includes hidden unemployment.
[i] Prime lending rate.
[j] Interest rate for savings.
[k] Includes grants and post office revenues.
[l] Includes net lending.
[m] The monetary figures are end-of-year stocks.

Total expenditure grew substantially in 2008 (12.8%), fed by expanding current expenditure, owing to increases in spending on goods and services (19.5%), debt interest payments (25.5%), and a 19.1% increase in transfers and subsidies. Capital expenditure, constituting around 9% of total expenditure, grew by 26.2% as a result of higher disbursements by the National Insurance Scheme.

The overall outcome of the insufficient revenue growth and rising expenditure has been a considerable expansion in the fiscal deficit, which grew by almost 250% between 2007 and 2008. The latest figures available show that by the end of 2008 the accumulated fiscal deficit amounted to 5.8% of GDP, much higher than the deficit recorded in 2007 (1.8% of GDP). Further growth in the fiscal deficit is expected in 2009, fuelled by higher current expenditure, particularly on wages and salaries, and higher capital spending related to countercyclical programmes.

The government required higher than expected financing to balance public finances, and as a result, the total public debt stock rose by 9% during 2008. The stock of domestic public debt (government and government-guaranteed) grew by 10.9% to US$ 2.649 billion (72% of GDP), while external public debt decreased slightly (-2.2%) to 26.7% of GDP. Thus, the overall stock of public domestic and external debt stood at US$ 3.631 billion in 2008, approximately equivalent to 98.7% of GDP (99.5% of GDP in 2007).

(b) Monetary policy

The central bank's main concerns in 2008 were to ensure the stability of the financial system while supporting economic activity by reducing the financial cost of doing business. Although the financial authorities were able to keep the financial markets steady, it was not without costs. The decrease of capital inflows and the increase of capital outflows from the private sector forced the central bank to intervene and resulted in a gradual reduction of international reserves, which fell by 12.4% in the course of 2008, amounting to US$ 678 million by December.

Net domestic credit grew by 10.5%, stimulated by strong expansion of credit to the central government in order to balance the public budget. Thus, by end of the year the amount of net lending to the central government rose by 19.6% compared to December 2007, while credit to the private sector was up 9.9%. However, a central concern is the strong fall in the stock of net external assets of the banking system; following several years of substantive growth, they fell by 22.2% to US$ 875 million.

Money (M1) contracted during 2008, due to the reduction in the end-of-year stocks of currency with the public (-2.5%) and demand deposits (-3.6%). Broad money rose by 2.8%, however, thanks to a 7.2% expansion in the stock of saving deposits; but deposits in foreign currency by non-residents fell by 31.5% between December 2007 and December 2008.

Regarding interest rates, the central bank's policy in 2008 sought to reduce lending and deposit rates gradually, lowering the cost of doing business. The annual average prime lending rate fell from 10.5% to 9.7%, while the average interest rate for savings also contracted from 5.5% to 4.5%. Similarly, the monetary authorities reduced the discount rate on borrowing from the central bank, aiming to provide liquidity to financial institutions.

The outlook for 2009 points to further erosion of net inflows of capital, which will increase pressure on the central bank to intervene, further decreasing its stock of international reserves. Liquidity will be a central issue, prompting the monetary authorities to adopt measures such as further reductions of the discount rate, the establishment of a repurchase facility, or the extension of reserve requirements to financial companies as a source of support in case of liquidity problems.

The deteriorating operations of CLICO financial group in Barbados have become a key issue for the monetary authorities, after the group's crisis and the subsequent bail-out by the country's central authorities in January 2009. In recent months the central bank and the government have announced a variety of measures to support and protect the interests of policyholders and shareholders. These include the adoption of a memorandum of understanding to ensure the transparency and accountability in the sale and liquidation of CLICO subsidiaries, and the participation of the central bank in the establishment of a regional fund to rescue CLICO subsidiaries in the smaller Caribbean countries.

(c) Exchange-rate policy

The monetary authorities aim to preserve the pegged exchange rate against the dollar, in existence since 1975. With deteriorating net capital inflows, efforts by the central bank to preserve the exchange-rate regime by compensating imbalances in supply and demand of foreign currency and fending off speculative pressures, although successful, have taken a toll on international reserves. For 2009, although a mild improvement in the external accounts is expected, mainly owing to lower import costs, the stabilization of the exchange-rate market will still translate into a further decline in international reserves.

3. The main variables

(a) Economic activity

Although both tradable and non-tradable sectors were affected by the economic slowdown in 2008, the tradable sectors suffered more, recording a 1.6% decline in output, while the non-tradable sectors managed to achieve a 1.2% expansion. The net outcome was real GDP growth of 0.5% for the year, a serious setback from the progress of the previous five years, when the growth rate averaged 3.4%.

Those sectors most dependent on visitors suffered a reduction in activity levels, reflecting the 1.9% reduction in arriving by air visitors, particularly from the United States and the United Kingdom, and the 3.1% reduction in cruise-ship passenger arrivals. Wholesale and retail commerce, restaurants and hotels (35.8% of GDP), recorded a 0.4% contraction in 2008, their first negative result since 2002.

However, the sector suffering the highest decline during 2008 was mining, with a 7.9% contraction, followed by construction (-3.4%) and manufacturing (-2.3%). In the case of mining (amounting to less than 1% of GDP), its contraction is mainly attributed to a significant decrease in stone quarrying activities. As regards construction (8.4% of GDP), a key driver of growth in recent years, the decline is explained by a sharp slowdown in the development of new commercial and residential projects. However, the business and other services sector still managed to grow by 2.5%, the lowest rate recorded in the last five years, reflecting the impact of the economic slowdown in the markets for financial, insurance and real estate services.

The agricultural sector (4.3% of GDP) recorded a marginal 0.3% increment despite a fall in the output of sugar. Although a recovery in sugar production, which amounts to approximately 20% of total exports and will improve overall agricultural output, is expected for 2009, GDP is forecast to contract by 3%. The main reasons for this negative forecast are the contraction in tourism flows and the stagnation of domestic exports, which will have spillover effects on other sectors.

(b) Prices, wages and employment

Price inflation increased during 2008, reaching 7.3% (December-December), considerably above the 4.7% recorded in 2007. The consumer price index (CPI) peaked in September but declined during the last quarter, reflecting the fall in international commodity prices. Food and beverages and tobacco, were the two categories contributing the most to price inflation (recording annual 16.4% and 34.3% rises, respectively), while fuel and electric power recorded a significant reduction (-20.6%) thanks to the drop in prices during the last quarter. For 2009, international price pressures on oil and food are expected to be steady, so the inflation rate is estimated to be between 4% and 5% by the end of the year.

A major concern is the rising unemployment rate, up to 8.1% during 2008 compared to 7.4% in 2007. It is widely expected that unemployment will further increase during 2009 as output in the construction and tourism sectors is likely to fall. During the second half of 2008 and the beginning of 2009 the authorities implemented measures to stimulate productive activities and promote job creation and preservation. In that sense, a major initiative is the government's employment stabilization scheme, which will make low-cost loans available to employers committed to keeping their current employment levels.

(c) The external sector

The deterioration of external accounts reached new heights in 2008, with a US$ 1.224 billion trade deficit and a US$ 382 current account deficit, equivalent to 33% and 10% of GDP, respectively. The current account deficit more than doubled compared to 2007, not just because of the negative evolution in goods and services trade, but also as a result of the deteriorating current transfers balance.

The financial and capital component of the balance of payments suffered a serious fall in its surplus (from 13% of GDP in 2007 to 5% in 2008). The overall result was a balance-of-payments deficit equivalent to 7% of GDP (compared with a surplus of 8% of GDP in 2007). As a result, net international reserves declined to US$ 678 million, equivalent to an import cover of 4.8 months.

For 2009, the authorities expect a mild improvement in the balance of payments, mainly as a result of lower import costs. Weak foreign investment inflows will remain a major problem, hampering the recovery of the financial and capital account.