

Barbados

Economic performance in Barbados during 2008 has shown a clear decline from the previous year, with GDP growth slowing from 3.2% in 2007 to an estimated 1.5% in 2008. Key sectors, such as tourism and sugar production, face mounting challenges, while inflation is expected to accelerate to 8% (December-December) and the current account deficit is likely to increase from 7% to 8% of GDP. In 2009, a widening external deficit and mounting domestic demand for public expenditure will put strong pressure on public policies and finances, while the impact of the global recession will translate into slower rates of activity for key economic sectors.

During 2008 public finances worsened due to the adverse economic environment, with an accumulated fiscal deficit equivalent to 3.4% of GDP being registered for the first three quarters of the calendar year. This was a significant deterioration with respect to the situation in the same period of 2007, when the cumulative deficit amounted to 1.7% of GDP. Under the heading of government current expenditure, interest payments, subsidies and other current transfers recorded the largest increases. Although fiscal revenues also expanded, principally due to higher receipts of import duties and corporate tax payments, this increase was not large enough to offset the upswing in government expenditure. The stock of public debt has risen further, with the total (external and domestic) debt outstanding as of year-end being estimated by the Central Bank at the equivalent of 101% of GDP.

In order to stimulate the economy, monetary policy has been aimed at boosting liquidity and encouraging lending. The Central Bank of Barbados lowered the benchmark deposit rate to 4.5% in April. Given the international financial crisis, there is concern that foreign investment flows and deposit accumulation will slow down. A shortage of external credit which may force the government to look for further domestic funding is therefore expected.

The steady rise in retail prices has been a major concern during 2008, especially in the case of food items. In the first half of the year, cumulative headline inflation topped 5.7% (almost four times higher than it was in the first half of 2007). These developments prompted the implementation of government measures designed to alleviate inflationary

pressures, such as the provision of price subsidies for flour, an exemption from the environmental levy for basic goods, the reinforcement of price controls, and a review of port charges and processing fees. December-December inflation is estimated at approximately 8%. Inflation is expected to gradually subside somewhat in 2009 in response to lower international food and oil prices, although it will remain high by historical standards.

The unemployment rate rose to 8.6% in the second quarter of 2008. This was a slight increase over the same period of 2007, but the rate is still lower than it was in previous years.

Barbados' economic growth flagged, with GDP growth for the period January-September amounting to just 1.7% as compared with 3.5% for the same period in 2007. The index of industrial production up to July indicated a 5.7% fall in overall output compared to the corresponding months of 2007, with textile manufacturing, the sugar industry, construction, chemicals, and electricity, gas and water being the most severely affected sectors. In contrast, there were some industrial sectors, such as electronic components, beverages and tobacco, and mining and quarrying, that actually increased their production levels. The tourism sector turned in mixed results. There was a slight decline in the number of stopover arrivals for the first half of 2008 but, surprisingly enough, even though cruise ship calls also fell, the number of cruise ship passengers rose by 13.2%. Overall, tradable sectors grew less than non-tradable sectors did during this period.

In view of these factors, the GDP growth rate for 2008 is expected to be just 1.5%. This development is directly related to the global financial crisis, which has dampened tourism activity and investment flows. Prospects for 2009 are not much brighter, with GDP growth being estimated at 0.5%, as a result of waning consumer demand, a slowdown in investment in tourism projects and the exacerbation of the sugar industry's chronic losses. In particular, the decline of the sugar industry, once a key component of Barbados' economy, is a major concern, especially in the light of the forthcoming termination of the European Union's Sugar Protocol, under which price guarantees have been provided for Caribbean sugar exports to European markets. Under the terms negotiated in the Economic Partnership Agreement between the European Union and the Caribbean Forum of African, Caribbean and Pacific (ACP) States (CARIFORUM), these price guarantees are to be completely phased out by 2012. It is widely feared that, without such preferential treatment, the national sugar industry will become unviable and will be forced to close down. The costs of such an event in political, labour and environmental terms would be very high, and further export diversification is therefore needed.

Higher international prices have also had an adverse impact on the balance of payments, mainly through increased food and oil import bills. The trade deficit is expected to have widened from 31% of GDP in 2007 to 32% of GDP in 2008, while the current account deficit has risen significantly (77% in January-September 2008 over the same period of 2007) and is likely to reach 8% of GDP by year's end (compared to 7.0% of GDP in 2007).

BARBADOS: MAIN ECONOMIC INDICATORS

	2006	2007	2008 ^a
Annual growth rates			
Gross domestic product	3.3	3.2	1.5
Per capita gross domestic product	3.0	2.9	1.2
Consumer prices	5.6	3.9	8.9 ^b
Money (M1)	-1.0	20.5	1.9 ^c
Annual average percentages			
Unemployment rate ^d	8.7	7.4	8.3 ^e
Non-financial public-sector overall balance / GDP	-2.0	-2.8	-3.4 ^f
Nominal deposit rate ^g	5.0	5.5	5.1 ^h
Nominal lending rate ⁱ	10.0	10.4	10.1 ^h
Millions of dollars			
Exports of goods and services	1 994	2 149	661 ^j
Imports of goods and services	2 186	2 310	1 808 ^j
Current account	-277	-245	-286
Capital and financial account	320	523	325
Overall balance	43	278	39

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to June 2008.

^c Twelve-month variation to August 2008.

^d Includes hidden unemployment.

^e January-June average.

^f Cumulative to September 2008.

^g Interest rate for savings.

^h Average from January to August, annualized.

ⁱ Prime lending rate.

^j In 2008, goods only.

Thanks to additional official borrowing, the capital and financial surplus has been large enough to counterbalance the current account deficit, despite the higher level of capital outflows associated with public and private debt payments and profit repatriation. Consequently, international reserves, declined only marginally over the first nine months of 2008.