

Barbados

The Barbadian economy is expected to contract by 1% in 2010, a much slighter decline than the 4% contraction in real GDP recorded in 2009. Tourism showed some signs of recovery, picking up by 3% in the January-September period, largely as a result of an increase in stopover tourists from the United States and Canada. Compared with the level of arrivals before the financial crisis, this performance remains weak and continues to hold back the turnaround in the rest of the economy. Nevertheless, foreign exchange reserves stood at US\$ 1.4 billion at the end of September, sufficient to finance imports at current levels for five months. The fiscal deficit remained relatively high at 9.3% of GDP and the public debt is estimated at 97% of GDP. Meanwhile, sluggish credit conditions continued to exist in the local economy, as consumer and business confidence remained low and domestic demand subdued. As a result, the outlook for growth in 2011 is uncertain.

The fiscal deficit for the first eight months of 2010 represented 9.3% of GDP, compared with 10.4% for the corresponding period in 2009. Although direct tax revenue collections fell by 8.6% and current expenditure by 3.5%, interest payments rose by 11%, reflecting the additional borrowing needed to finance the crisis-related fiscal deficit. The deficit was financed mainly from domestic sources, especially the National Insurance Scheme and private and public entities, so that, by the end of August 2010, the public debt-to-GDP ratio had risen to 97%. Of this debt, 74% was domestic and 26% was foreign. Even though the government is committed to reducing this debt over the medium term, preliminary estimates suggest that the debt-to-GDP ratio could increase to 110% by the end of 2010. The government's commitment is demonstrated by the austerity measures outlined in the budgetary proposals presented in parliament on 22 November 2010. These include higher customs duties and taxes on gasoline and prescription drugs, as well as a rise in bus fares from BD\$ 1.50 to BD\$ 2.00. In addition, the value added tax (VAT) has been increased from 15% to 17.5% for the next 18 months. The budget offered significant support to

several business sectors in an effort to stimulate economic growth and create jobs. At the same time, the authorities sought to achieve fiscal consolidation, the aim being to reduce the fiscal deficit and the overall public debt within the shortest possible time.

Responding to weak economic growth, the Central Bank maintained the loose monetary policy that it had adopted at the start of the crisis. The banking system continues to be highly liquid and credit demand remains weak, although interest rates on loans softened during the year. The average loan rate declined from 9.8% at the end of September 2009 to 9.0% at the end of September 2010. Moreover, the treasury bill rate, a policy instrument used by the government to mop up excess liquidity, also declined to 3.3% at the end of September 2010. However, domestic credit demand remained unresponsive to these changes.

Stopover tourist arrivals expanded by 3% between January and September 2010. This expansion was driven by arrivals from the United States and Canadian markets, which compensated for the decline in visitor arrivals from the United Kingdom. However, the overall increase remains weak and has not stimulated economic activity in related

services. Growth in output in the transport, storage and communications sectors did not vary from the year before nor was there any increase in the production of electricity, gas and water. Performance in the construction sector declined by 15%. Companies operating in the offshore financial services sector also performed poorly, as new licences issued to companies remained flat.

Inflation for the 12 months to September averaged 5%, up from 4% in June. It is projected to ease back down to 4% at the end of 2011. The unemployment rate rose marginally to 10.7% at the end of June, up by 0.1 of a percentage point on the preceding quarter and 0.8 of a percentage point above the rate recorded one year earlier. During the second quarter, the number of people employed in the construction and distribution sectors slumped by approximately 35%, as a number of construction projects came to an end and many new projects did not start, owing to the slow pace of economic activity. These delays have undermined sales in the distribution sector as well as employment levels.

The balance-of-payments current account recorded a deficit estimated at 6.9% of GDP in January-August 2010. Imports are estimated to have grown by 140 million Barbados dollars (BDS\$) (8%), owing primarily to a 37% escalation in the average price of oil relative to the first three quarters of 2009. Private capital inflows were up moderately during the period January-August. Real estate inflows totalled BDS\$ 86 million compared with BDS\$ 53 million in the corresponding period of 2009. Other significant private transactions included inflows of BDS\$ 100 million to finance the construction of a new beef factory as well as the Limegrove project, a luxury housing and shopping complex. The sale of a United States dollar bond series issued by the Barbados National Oil Company resulted in an additional inflow of BDS\$ 40 million.

The decline in the Barbadian economy is expected to continue into early 2011. The construction sector may record some improvements at the end of 2010, as

BARBADOS: MAIN ECONOMIC INDICATORS

	2008	2009	2010 ^a
Annual percentage growth rates			
Gross domestic product	0.5	-3.6	-1.0
Per capita gross domestic product	0.5	-4.0	-1.4
Consumer prices	7.3	4.4	7.8 ^b
Money (M1)	-3.4	1.8	7.1 ^c
Real effective exchange rate ^d	-0.3	-4.5	-0.9 ^e
Annual average percentages			
Open unemployment rate ^f	8.1	10.0	10.7 ^g
Non-financial public-sector overall balance / GDP ^h	-6.4	-9.2	...
Nominal deposit rate ⁱ	4.9	3.4	2.8 ^j
Nominal lending rate ^k	9.7	8.7	8.6 ^j
Millions of dollars			
Exports of goods and services	2 089	1 810	1 839
Imports of goods and services	2 436	1 930	1 875
Current account	-421	-218	-151
Capital and financial account ^l	326	243	126
Overall balance	-96	25	-25

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

^a Preliminary estimates.

^b Twelve-month variation to September 2010.

^c Twelve-month variation to June 2010.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Year-on-year variation, January to October average.

^f Includes hidden unemployment.

^g Figure for the second quarter.

^h Fiscal year.

ⁱ Interest rate for savings, annualized.

^j Average from January to September.

^k Prime lending rate, annualized.

^l Includes errors and omissions.

the financing for some major projects is scheduled to come on stream. The government believes that foreign exchange reserves (estimated at 5 months' import cover) will be sufficient to fund most imports for the rest of the year. The government will continue to focus on tourism competitiveness and market diversification within tourism and other sectors, as well as on fiscal consolidation. This effort is necessary in order to attain the medium-term fiscal strategy (MTFS) objectives. These objectives include containing the external debt and protecting the foreign-exchange reserves, maintaining jobs, returning the country to fiscal balance and achieving some degree of sustainable economic growth.