

Barbados

After a steep decline in 2009 followed by flat growth in 2010, the Barbados economy experienced lacklustre growth with a projected increase in real output of 1% for 2011. The tourism sector was the principal driver of this recovery with a significant influx of stay-over visitors. Weak growth in the global economy led to a slight rise in inflation rates, but this was offset by an upturn in net long-term capital inflows and continued fiscal consolidation, which resulted in a small increase in import demand. Foreign-exchange reserves dipped only marginally to US\$ 1.41 billion by September 2011, representing 4.75 months of import cover. Although the fiscal deficit narrowed slightly in 2011, continued high public debt, sluggish credit conditions and low domestic demand remain challenges to renewed growth. Gloomy growth prospects for Europe and the United States suggest that the Barbados economy will grow by only 0.5% in 2012.

The fiscal deficit improved significantly during the first nine months of 2011 to stand at 5.3% of GDP compared with 9.3% for the same period in 2010. This reduction was due to higher government revenues particularly from value added, excise and corporate taxes, which were up by 18%, 28%, and 11% respectively. At the same time, government expenditure declined by 3.7% with reductions in salaries of 2.7%, and in transfers and subsidies of 9.2%. The fiscal deficit was financed mainly from domestic resources belonging to the National Insurance Board. However, the government's fiscal consolidation efforts, along with a nominal increase in GDP, resulted in a virtually unchanged debt to GDP ratio of 96.2% between September 2010 and September 2011. The share of domestic debt increased slightly from 70.7% to 72.4% between 2010 and 2011.

Given the slow pace of economic recovery, the Central Bank of Barbados maintained the loose monetary policy it had implemented since the start of the economic crisis. Commercial loans expanded marginally compared with 2010, while domestic deposits remained flat. Both the average loan rate and the 3-month Treasury bill rate remained unchanged at 9% and 3.4% respectively. The exchange rate remained fixed at 2 Barbadian dollars (BD\$) to US\$ 1.

Considering key economic sectors, the tourism sector benefited from a 9% increase in stay-over tourist

arrivals over the first nine months of 2011 and a 5% rise in visits by cruise passengers. The source markets for these gains were primarily the United Kingdom and United States (up by 10% and 8%, respectively). However, the introduction of additional intraregional airlift resulted in the largest surge in arrivals coming from the CARICOM market (15%). This increase in arrivals was offset by a decrease in the average visitor stay from 5.5 days in 2010 to 5.0 days in 2011; thus, no notable improvement in real tourism output was recorded over the period. Activity in the international business and financial services sector was strong during the first half of 2011, with a 20% increase in newly licensed entities compared with the same period in 2010. Construction and the hotel and retail sectors also recorded limited growth of 3% and 2% respectively, while, in the agricultural sector, sugar production declined by 8%, and non-sugar output fell by 4% due to adverse weather conditions.

Inflation for the 12-month period ending in August 2011 was 10.6%, which was substantially higher than the rate for the 12-month period ending in August 2010. This surge in inflation was driven by price increases in fuel and transportation of 25.6% and 21.8%, respectively, in the 12-month period to August 2011. While this rate is quite high, upward pressure on prices subsided later in 2011 and inflation is expected to moderate somewhat at the end of 2011 and in 2012. Unemployment also declined very

slightly from 11.2% to 11% during the period, reflecting a slight increase in the total labour force and a moderate amount of job creation.

As the global economy stabilized, a higher import bill negatively impacted the current account deficit, which is estimated to end the year at 21.7% of GDP in 2011, compared with 17.1% for 2010. Food price rises of 46% for corn, 51% for wheat and 27% for soybean, and soaring fuel prices (up 42%) were the main factors in this increase. Exports however expanded by a mere 6.3% in 2011, compared with 11.4% during 2010. The capital account surplus also grew by 27% from 2010, with the largest contribution coming from the sale of Barbados Light and Power shares during the first quarter of 2011. International reserves grew by 4% over the period.

Although Barbados showed a slight economic recovery in 2011, growth is expected to remain weak at 0.5% in 2012, reflecting bleak prospects for growth in the United Kingdom and the United States, key source markets for tourism. Accordingly, domestic demand for goods and services as well as credit is therefore expected to remain low, further dampening future economic growth. The government is therefore likely to continue implementation of its medium-term fiscal strategy, albeit over a longer time frame with a view to containing the fiscal deficit, and managing public debt, while stimulating economic growth.

BARBADOS: MAIN ECONOMIC INDICATORS

	2009	2010	2011 ^a
Annual growth rates			
Gross domestic product	-3.7	0.2	1.0
Per capita gross domestic product	-4.1	0.2	0.6
Consumer prices	4.4	6.5	10.6 ^b
Money (M1)	1.8	-4.8	-16.9 ^c
Real effective exchange rate ^d	-5.5	-1.7	-3.3 ^e
Annual average percentages			
Unemployment rate ^f	10.0	10.8	11.1 ^g
Non-financial public-sector overall balance / GDP ^h	-7.9	-8.7	...
Nominal deposit rate ⁱ	3.4	2.7	2.7 ^j
Nominal lending rate ^k	8.7	9.5	9.3 ^j
Millions of dollars			
Exports of goods and services	1 810	1 886	1 853
Imports of goods and services	1 930	2 150	2 281
Current account balance	-218	-366	-506
Capital and financial balance ^l	243	400	473
Overall balance	25	34	-32

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

^a Preliminary estimates.

^b Twelve-month variation to August 2011.

^c Twelve-month variation to September 2011.

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

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

^f Includes hidden unemployment.

^g First semester.

^h Fiscal year.

ⁱ Deposit rate, weighted average.

^j January-September average.

^k Weighted average of the system lending rates.

^l Includes errors and omissions.