

## BARBADOS

### 1. General trends

The Barbados economy continues to be highly susceptible to the external environment. As a result of poor economic performance in Europe, in addition to moderate economic growth in the United States, GDP growth remained mostly flat at 0.2% in 2012 and contracted slightly by 0.4% by the end of the first quarter of 2013. This overall trend bears out the continued sluggishness of the global economy since 2008, as well as the impact of the sovereign debt crisis in Europe in particular over the past year, as Barbados relies heavily on European source markets for its tourism sector, the country's main economic driver. Overall, long-stay tourist arrivals declined by 12% in April 2013 compared with April 2012, with most source markets showing slight to significant reductions.

This slow growth in turn impacted the fiscal deficit, which increased by 2.7 percentage points to 7.3% of GDP between fiscal years 2011/2012 and 2012/2013, on account of a 5.5% fall in tax revenues. At the same time, government expenditure increased by 3.3% largely due to a 10.8% jump in interest payments on domestic borrowings and a 5.9% and 5.8% increase in grant payments to individuals and institutions, respectively. The deteriorating fiscal situation resulted in an increase in gross public sector debt from 80.2% to 83.4% of GDP between March 2012 and March 2013, with the larger share of government borrowings sourced domestically.

Notwithstanding a slight moderation in imports where fuel and food prices fell slightly, the current account slipped from a surplus in 2012 to a deficit in 2013, due to the strong contraction of tourism receipts. Data from the first quarter of 2013 are suggestive of a continuation of this trend as imports increased modestly by 1.2% compared with a 2.3% fall in the same period of the previous year.

Sluggish domestic economic conditions also resulted in a slowing of domestic inflation from 7.4% to 2.3% year-on-year to March 2013, and a slight increase in the unemployment rate at the end of 2012 to 11.6% compared with 11.3% at the end of 2011. The increase in unemployment was driven mainly by layoffs in the construction sector, which reduced its labour force by 11% in 2012.

Underlying these economic developments was the political uncertainty related to the February 2013 parliamentary elections, which the incumbent administration won by a slight margin. The new administration will continue to face fiscal, structural and institutional challenges which limit the growth prospects of the Barbados economy over the short to medium term. Real growth is projected to be 0.7% for 2013.

### 2. Economic policy

#### (a) Fiscal policy

Since 2010, Barbados has adopted a contractionary fiscal stance through its five-year Medium Term Fiscal Strategy (2010-2014), as a means of responding to the global crisis. This strategy targets a reduction in fiscal expenditure, an increase in government revenue and stringent debt management as its principal objectives. The positive results achieved under this strategy in the 2011/2012 fiscal year were

significantly reversed in 2012/2013, as the fiscal deficit increased once again from 4.6% to 7.3% of GDP. The primary balance, however, remained virtually unchanged at 0.3% of GDP over the review period.

In an effort to stimulate the economy, personal income tax thresholds were increased while the effective tax rate was reduced from 20% to 17%. While these efforts did not help to jump-start the economy, they resulted in a 7.1% fall in direct tax revenue. This was compounded by overall domestic economic sluggishness as reflected in a 5% reduction in indirect taxes and a 6.3% and 7.1% fall in excise duties and VAT respectively. At the same time, government expenditure rose by 3.3% over the previous fiscal year, driven by increased interest payments (10.8%) along with increases in grants. These trends pushed gross public debt up from 80.2% of GDP to 83.4% of GDP over the same period.

### **(b) Monetary and exchange-rate policy**

During 2012 the central bank continued its monetary policy stance of supporting the fixed exchange rate at BDS\$ 2= US\$ 1 by maintaining adequate international reserves. In an effort to stimulate domestic demand, interest rates have also remained low and stable, with the treasury bill rate ranging from 3.4% to 3.6% between 2011 and 2012 and holding at 3.6% as at March 2013. This accommodative policy stance has become slightly more restrictive due to the declining rate of inflation, which fell from 9.6% to 2.4% during 2012, with a slight decrease to 2.3% by March 2013 that in turn pushed up real interest rates. This sharp decline in prices reflects the moderation of international food and fuel prices in the past year; inflation is expected to remain low in 2013 as the global economy overcomes the impact of recent drought conditions in the United States and energy price inflation slows. Credit to the private sector rebounded in the first quarter of 2013, growing by 11.3% compared with a 2.6% increase in the first quarter of 2012. This was a result of an increase in business, professional and construction activity related to major projects in the tourism sector, as well as public sector projects. At the same time, reduced economic activity has also impacted deposits and consumer loan repayments. Deposits, for instance, fell by 0.7% during the first quarter of 2013, while the non-performing loan ratio stood at 12.9% at the end of 2012.

### **(c) Other policies**

With respect to other policies for further stimulation of the economy, a protracted period of low growth over the past four years, along with slow recovery in the global economy, continue to limit the scope for implementing an economic stimulus package over the short to medium term. It is this situation which prompted the government to dispense with its holdings of Barbados National Bank shares in 2012, resulting in a 14% reduction of the fiscal deficit. In terms of public sector investments, efforts to further develop the luxury segment of the tourism sector, as well to enrich the visitor experience, have been ongoing, and newer tourism niches such as ecotourism and sports and culture tourism have been targeted for further future development. Enhanced marketing of the international finance and business sector, strengthening of the agro-processing and alternative energy sectors, and the improvement of overall competitiveness through increased public sector efficiency have also been identified as areas for future investment.

With a newly received mandate from the electorate, the Barbados government may perceive a freer hand to pursue these strategies in order to return the economy to growth. Successful implementation of such policies would however depend on the extent to which continued goodwill could be secured from social partners. This is especially important given that both labour and the private sector have shown some weariness in the recent past. Still, the strong social compact, as well as the perception of low corruption, a highly educated workforce and stable public institutions should serve the country well in advancing its economic recovery prospects into the future.

### 3. The main variables

#### (a) The external sector

Because the Barbadian economy is tourism-based, services comprise the largest share of exports. After a slightly positive performance in 2011, the sector contracted again in 2012 and continued this trend into the first quarter of 2013. The fall in stay-over arrivals during the period was mainly due to the eurozone crisis, as well as the passage of Hurricane Sandy in the United States. Reduced airlift out of the United States, as well as within the Caribbean region, also contributed to the fall in stay-over arrivals. In terms of markets, apart from Germany which grew by 7% as of April 2013 year-on-year, all other tourism sources sent fewer visitors to Barbados during the period. The decline ranged from 1.2% for Canada to 7.3% and 10.7% for the United Kingdom and the United States, respectively. Notably, the fall-off in arrivals from other Caribbean destinations was also significant, amounting to 31.6% for Trinidad and Tobago and 15.5% for other CARICOM countries.

With respect to trade in goods, exports were boosted by 4% on account of a 16% increase for rum. Spending on imports, however, declined due to lower energy prices, as well as lower imports of construction materials and capital goods. In spite of this, there was a deterioration of the current account deficit from its surplus position in the first quarter of 2012 to a deficit by the first quarter of 2013, as the poor performance of the tourism sector took effect. The capital account also recorded a decline between the first quarter of 2012 and 2013, once again reflecting the sharp drop in tourism capital flows during the period. The net effect of all of the above was a small decline in international reserves, from US\$ 732.2 million at the end of 2012 (representing 19.5 weeks of import cover) to US\$ 714.9 million in March 2013 (providing just under five months of import cover).

#### (b) Economic growth

Given the importance of the tourism sector, it is not surprising that the economy remained flat in 2012. Sluggish performance in manufacturing, construction and agriculture also contributed to this poor result. Manufacturing, for instance, fell by 4% during the review period as domestic demand for tobacco, chemicals and beverages weakened. In the case of agriculture, sugar production fell significantly by 25% as poor yields reduced cane-to-sugar conversion. Non-sugar agriculture however fell only marginally, although there was a slight increase in fish production between 2012 and the first quarter of 2013. Barbados also continued to suffer declines in its international business and financial services sector, with a 6% drop in new registrations between February 2012 and 2013. Construction output, which is closely linked to capital investment in the tourism sector, also fell by 7.6% in 2012 and was reflected in a 5% decline in building materials imports relative to the previous year. Further, the government completed a number of major building projects in 2012, and the adoption of a limited capital investment programme under its fiscal consolidation programme further reduced capital spending by 7.5%, which also reduced construction activity. In terms of overall demand, weak investor confidence reflected in low credit uptake continued from 2012 into 2013.

#### (c) Prices, wages and employment

Sluggish economic conditions resulted in a marginal increase in unemployment as the construction sector continued to cut jobs. This was in spite of strong government and private sector efforts to prevent job loss in the context of a wage freeze negotiated at the onset of the global economic crisis.

Recent evidence suggests that these social partners are finding it increasingly difficult to curtail job loss, as the sluggishness in the Barbados economy endures.

Inflation moderated significantly between 2011 and 2012 as fuel, food, housing and transport prices fell. The annual inflation rate stood at 2.4% at the end of 2012, down from 9.6% at the same time in 2011. There was a further dampening of the inflation rate during the first quarter of 2013, as the lagged effects of international food and fuel prices continued to be felt in the early part of 2013.

Overall, trends for the Barbados economy indicate continued economic stagnation through 2012 and into the first quarter of 2013. The country now faces the difficult task of implementing necessary strategies to re-start growth. However, these strategies are largely contingent on an improved economic performance of Barbados' principal trading partners.

Table 1  
**BARBADOS: MAIN ECONOMIC INDICATORS**

	2004	2005	2006	2007	2008	2009	2010	2011	2012 a/
<b>Annual growth rates b/</b>									
Gross domestic product	1.4	4.0	5.7	1.7	0.3	-4.1	0.2	0.6	0.2
Per capita gross domestic product	1.2	3.8	5.5	1.5	0.1	-4.3	0.0	0.4	...
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	-7.3	8.0	-5.7	2.3	0.0	2.8	-6.1	-6.3	...
Mining and quarrying	9.5	8.7	-3.0	-6.2	-7.7	-36.9	9.4	-13.8	...
Manufacturing	2.1	2.1	-0.6	-1.1	-2.3	-12.2	-4.3	-5.3	...
Electricity, gas and water	1.8	-0.5	9.5	1.2	-0.2	0.7	2.1	-1.6	...
Construction	2.8	14.0	-0.4	0.0	-5.2	-18.2	-9.5	7.5	...
Wholesale and retail commerce, restaurants and hotels	-2.3	1.1	11.1	-1.1	-0.3	-4.3	2.8	0.0	...
Transport, storage and communications	5.1	4.8	5.9	6.0	3.0	-2.8	0.2	0.7	...
Community, social and personal services	5.3	4.3	4.7	4.7	2.5	-0.3	1.0	2.0	...
<b>Balance of payments</b>									
<b>Millions of dollars</b>									
Current account balance	-337	-367	-252	-183	-421	-218	-366	-506	...
Goods balance	-971	-1 070	-1 003	-1 084	-1 242	-917	-1 140	-1 255	...
Exports, f.o.b.	293	359	510	524	488	379	422	448	...
Imports, f.o.b.	1 264	1 429	1 513	1 607	1 730	1 295	1 562	1 703	...
Services trade balance	668	765	810	911	895	797	876	828	...
Income balance	-122	-128	-142	-67	-121	-140	-121	-102	...
Net current transfers	88	65	83	56	47	42	20	23	...
Capital and financial balance c/	180	390	231	359	326	243	400	473	...
Net foreign direct investment	-16	119	200	256	223	218	...	...	...
Other capital movements	196	272	30	104	103	24	...	...	...
Overall balance	-157	23	-21	177	-96	25	34	-32	...
Variation in reserve assets d/	157	-23	21	-177	96	-25	-34	32	...
<b>Other external-sector indicators</b>									
Real effective exchange rate (index: 2005=100) e/	101.6	100.0	97.4	98.6	97.8	93.1	89.4	91.5	90.3
Net resource transfer (millions of dollars)	58	263	89	293	204	102	278	372	...
Total gross external debt (millions of dollars)	2 435	2 695	2 991	3 130	3 487	4 009	4 485	...	...
<b>Employment</b>									
<b>Average annual rates</b>									
Labour force participation rate	69.4	69.6	67.9	67.8	67.6	67.0	66.6	67.6	66.2
Unemployment rate f/	9.8	9.1	8.7	7.4	8.1	10.0	10.8	11.2	11.7
<b>Prices</b>									
<b>Annual percentages</b>									
Variation in consumer prices (December-December)	4.3	7.4	5.6	4.7	7.3	4.4	6.5	9.6	2.4
Nominal deposit rate g/	2.5	3.2	4.6	5.1	4.5	2.9	2.7	2.7	2.5
Nominal lending rate h/	9.9	10.3	10.7	10.7	10.4	9.8	9.5	9.3	8.7
<b>Sector público no financiero i/</b>									
<b>Porcentajes of GDP</b>									
Total revenue	27.1	25.9	27.1	27.2	29.0	27.6	27.5	29.1	29.2
Tax revenue	25.9	24.2	25.9	25.7	27.4	25.1	25.7	27.4	27.0
Total expenditure	28.9	29.1	28.7	28.6	33.7	36.0	35.4	34.3	34.5
Current expenditure	25.8	25.1	24.3	25.9	30.4	32.7	33.3	33.2	32.0
Interest	3.9	3.7	3.9	3.5	4.5	4.8	5.5	6.1	6.0
Capital expenditure	3.1	3.0	3.2	2.3	3.3	3.2	2.1	1.1	3.0
Primary balance	2.1	0.4	2.3	2.1	-0.2	-3.5	-2.3	0.9	0.7
Overall balance	-1.8	-3.3	-1.5	-1.4	-4.7	-8.3	-7.8	-5.2	-5.3
Public debt	...	49.5	50.7	51.7	55.7	66.0	75.1	80.3	78.7

Table 1 (concluded)

	2004	2005	2006	2007	2008	2009	2010	2011	2012 a/
<b>Percentages of GDP, end-of-year stocks</b>									
Money and credit									
Domestic credit	63.8	66.4	69.5	68.8	78.9	79.8	79.6	79.3	82.9
To the public sector	16.7	14.0	12.7	13.2	15.5	16.5	14.8	15.9	19.5
To the private sector	47.0	52.4	56.8	55.6	63.3	63.3	64.8	63.4	63.3
Monetary base	11.0	9.9	9.9	12.4	13.1	12.7	11.3	13.3	15.7
M2	93.4	95.8	93.2	106.6	109.0	105.9	107.4	100.5	96.6

**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 errors and omissions.

d/ A minus sign (-) indicates an increase in reserve assets.

e/ Annual average, weighted by the value of goods exports and imports.

f/ Includes hidden unemployment. Nationwide total.

g/Weighted average rate of deposit rates.

h/ Lending rate, weighted average.

i/ Fiscal years, from April 1 to March 31.

Table 2  
**BARBADOS: MAIN QUARTERLY INDICATORS**

	2011				2012				2013	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Goods exports, f.o.b. (millions of dollars)	123	129	108	116	156	190	101	119	120	45 b/
Goods imports, c.i.f. (millions of dollars)	420	458	451	497	433	428	426	493	425	158 b/
Gross international reserves (millions of dollars)	824	806	796	805	806	772	748	828	803	759 c/
Real effective exchange rate (index: 2005=100) d/	93.2	92.2	91.0	89.4	89.9	90.5	90.6	90.4	90.7	90.1 c/
Consumer prices (12-month percentage variation)	7.9	9.3	10.4	9.6	7.4	4.4	3.2	2.4	2.3	...
Average nominal exchange rate (Barbados dollars per dollar)	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Nominal interest rates (annualized percentages)										
Deposit rate f/	2.7	2.7	2.7	2.7	2.6	2.5	2.5	2.5	2.5	...
Lending rate g/	9.3	9.3	9.4	9.0	9.0	8.7	8.4	8.4	8.3	...
Monetary policy rates	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Domestic credit (variation from same quarter of preceding year)	-3.9	-1.9	0.2	2.3	2.6	7.5	8.4	7.9	11.3	...
Non-performing loans as a percentage of total credit	10.5	10.5	10.6	11.1	...	...	12.4	12.9	...	...

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

a/ Preliminary figures.

b/ Figures as of April.

c/ Figures as of May.

d/ Quarterly average, weighted by the value of goods exports and imports.

e/ Figures as of February.

f/Weighted average rate of deposit rates.

g/ Lending rate, weighted average.