

BARBADOS

1. General trends

The Barbados economy has struggled to achieve growth since the global crisis in 2009, with a contraction of 0.1% in 2013, after remaining flat at 0.0% in 2012. The downtrend continued into the first quarter of 2014, when the economy declined by a further 0.4%. Underlying this persistent sluggishness is the ongoing underperformance of the tourism sector, the country's main economic driver, with both long-stay and cruise passenger arrivals down by 1% year-on-year in the first quarter of 2014. Significantly, overall tourist arrivals fell in spite of increases from the traditional source markets, the United Kingdom (up 8%) and other European countries (14%), as arrivals from the United States and Canada fell by 8% and 10% respectively.

Slow growth also broadened the fiscal deficit from 8.0% of GDP in 2012 to 11.3% of GDP by the end of March 2014, as total revenues fell over the period. This led the government to expand its short- and medium-term fiscal consolidation measures. While government expenditure remained largely unchanged at 41% of GDP between 2012 and 2013, the gross government debt-to-GDP ratio increased from 85.7% to 97.9%.

Although there was a slight decline in imports, a sharper fall in exports widened the current account deficit between 2012 and 2013. Sluggish tourism receipts along with a sharp drop in private capital inflows also placed pressures on international reserves, but this was eased by an injection of capital obtained through additional borrowing.

The prevailing economic conditions were reflected in the trend in domestic inflation, which fell from 4.5% in 2012 to 1.8% in 2013. The unemployment rate also increased marginally in 2013 to 11.7% as the government's retrenchment programme took effect.

Given the recent negative growth, the government adopted a new growth and development strategy in order to stimulate a sustained economic recovery. Short to medium term challenges will continue to be the high fiscal deficit and the hefty public debt. The country has, however, shown maturity as it begins this economic adjustment, with all social partners fully committing to the process. Growth is expected to be 0.5% for 2014, possibly improving to 2.0% in 2015.

2. Economic policy

(a) Fiscal policy

Barbados adopted a number of robust fiscal policy measures—categorized as adjustment, reform, recovery and sustainability—in order to restructure the economy and return it to sustained growth over the medium term, after the fiscal deficit widened from 8.0% of GDP in 2012 to 11.3% at the end of March 2014. Implementation of the first of these fiscal policy measures—adjustment—began with actions to reduce the fiscal deficit, including reduction of the public service by laying off 3,500 public

sector workers (13% of the public sector), further downsizing through attrition, a two-year public sector wage freeze, and wage cuts for elected and appointed officials.

The worsening fiscal situation was caused by a fall in total revenues from 27.7% to 24.9% of GDP between the 2012/2013 and 2013/2014 fiscal years, principally owing to declines of 13% and 7%, respectively, in the direct and indirect tax take. With respect to direct taxes, corporate tax receipts were down by 30.6%, and personal income receipts by 4.3%. These falls reflected the slowdown in overall economic activity, as did the drop in value added tax (down 7.4%). Fiscal consolidation efforts kept government expenditure unchanged at 41% of GDP, with the most significant change between the 2012/2013 and 2013/2014 fiscal periods—an increase in interest payments to 7.2% of GDP—being offset by marginal declines in other areas. As a result, the overall primary balance held steady at 0.3% of GDP. The new Barbados Revenue Authority, launched in April 2014 as part of the fiscal reform process, is expected to strengthen the country's revenue collection and management.

(b) Monetary and exchange-rate policy

Barbados has a fixed exchange rate of 2 Barbadian dollars (BD\$) to the United States dollar, which it supports through the maintenance of adequate international reserves. During 2013, a 76.6% drop in private capital inflows reduced international reserves by US\$ 150.5 million, thereby placing pressure on the exchange rate. A subsequent US\$ 75 million loan, along with US\$ 23.5 million of private capital during the first quarter of 2014, improved the country's reserve position, returning it to 16 weeks of import cover, after it had fallen to 13.4 weeks in September 2013. Interest rates also remained low and stable, with the treasury bill rate falling from 3.6% in 2012 to 3.2% in 2013. Stable interest rates helped to keep inflation low and the rate averaged 1.8% in 2013, compared with 4.5% in 2012. First-quarter inflation for 2014 was recorded at 1.7%, down from 3.5% a year earlier, owing to lower international prices for fuel and food, both significant components of the retail price index in Barbados. Given the global projection for continued low inflation levels during 2014, domestic inflation is unlikely to rise for Barbados during the year.

Credit to the non-financial sector remained sluggish, falling by 2.1% between the first quarters of 2013 and 2014, after a drop of 0.8% for the first quarter of 2013 relative to first-quarter 2012. At the same time, however, deposits in the banking system increased by 4.3%, on account of increases from private individuals and statutory bodies. This may reflect severance payments for public sector workers laid off under the government's fiscal consolidation programme. The excess liquidity ratio increased 3.1 percentage points to 17.7% in 2013. There was, however, a slight downward adjustment in the non-performing loans ratio from 12.9% to 11.7% between 2012 and 2013.

(d) Other policies

Apart from the recent fiscal adjustments, the government is considering further medium-term policy actions to diversify the tourism sector, strengthen facilitation of international business and finance, develop the education services sector, expand alternative energy, and strengthen the legislative and institutional framework. As part of tourism diversification efforts, the Sandals hotel brand was introduced to Barbados in 2013 in the framework of further development of the luxury tourism segment. Work is also ongoing to enrich visitor experience through specialist niches such as eco-, sports and cultural tourism, and to boost arrivals from newer source markets, including South America and the Caribbean.

Improving business facilitation services as a means to stimulate growth in the international business and finance sector has been identified as another policy objective for economic stimulus over the

short to medium term. With a highly educated workforce, Barbados is also aiming to further develop its education services sector by strengthening its education certification and accreditation infrastructure. This policy is expected to have spillover benefits, as it enables the workforce to better support the private sector in job creation and sustaining growth. In addition, further expansion of the alternative energy sector is expected to reduce the country's fossil fuel dependence, and the resulting burden on the balance of payments. Lastly, institutional reforms, such as the recent establishment of the Barbados Revenue Authority and planned restructuring of the country's parliamentary council and solicitor general's offices, should help to invigorate growth in Barbados over the short to medium term.

3. The main variables

(a) The external sector

The tourism sector continues to be the largest foreign-exchange earner for Barbados, and its poor performance since the economic crisis has hampered the return to sustained growth. After a 5.6% fall in tourism arrivals between 2012 and 2013, the downward trend continued with a further 1% drop year-on-year in the first quarter of 2014. There was, however, a notable shift in the distribution of source markets, with visitors from the United Kingdom rebounding by 8% in the first quarter of 2014 after falling by 3.1% in the previous year. This upturn was due to new airlift services, as well as the appreciation of the pound sterling as the British economy gathers momentum. Arrivals from the rest of Europe rose too, by 14%, reflecting stronger growth of the European economy in 2013. These gains were nevertheless offset by reductions of 8% and 10% in arrivals from the United States and Canada, respectively, owing to reduced airlift as some airlines began rationalizing flights and routes as a result of the overall slowing of tourist arrivals to the subregion. Total CARICOM arrivals fell by 7.4% in 2013, with the overall drop not aided by the cruise passenger segment, which declined over the year and fell by a further 1% during first-quarter 2014.

Exports in 2013 fell by 6.1% relative to 2012. Rum exports declined by 1.2%, with further drops in the first quarter of 2014, when exports of bulk and bottled rum decreased by 7% and 31%, respectively. Imports also fell marginally, by 1.4%, as global market prices for energy and food edged down during 2013. These changes resulted in a slight widening of the current account deficit, from 10.1% of GDP in 2012 to 11.8% in 2013. The capital account balance suffered a more significant deterioration, however, of 27.4% by the end of 2013, owing to a heavy fall in private inflows. Although increased public inflows during the first quarter of 2014 bolstered the capital account, the level of international reserves fell by 21.3% in 2013, and represented 16 weeks of import cover as at March 2014, compared to 19 weeks in 2012.

(b) Economic activity

In light of the persistently low growth since the crisis, the government's focus has been to re-engineer the economy in order to achieve positive and sustained growth in the medium term. The traditional drivers of growth have either stagnated or declined between 2012 and 2013. As well as tourism, which contracted by 1%, the construction and sugar sectors both declined over the period, by 12% and 29%, respectively. Output from mining and quarrying also decreased, by 15%, in 2013, while the output of rum and other beverages remained flat. Partially offsetting these declines were moderate expansions in distribution, finance and transport—the largest non-tradables sectors—of 1.6%, 2.0% and 1.5%, respectively. Overall sector performance points to slightly declining real output and, with

government spending remaining unchanged under the fiscal consolidation programme, there was little room for fiscal stimulus during 2013. Growth is expected to improve somewhat in 2014 with the initiation of several public-private projects, including expansion of the Sandals resorts and construction of the Sugar Point Cruise Pier and Pier Head Marina. These tourism and related public sector investments are projected to inject US\$ 2.25 billion in private capital inflows over the next three years. Accordingly, the government projects growth of 0.5% in 2014, 2.0% in 2015 and 2.5% in 2016.

(c) Prices, wages and employment

The initiation of public sector retrenchment during the last quarter of 2013 pushed unemployment up to 11.7% on average for the year. This impact is expected to be exacerbated by additional layoffs as the private sector adjusts to lower government spending.

Inflation also trended downwards year-on-year, and stood at 1.8% for 2013 and 1.7% in the first quarter of 2014. With respect to wages, real unit labour costs continued to fall, having declined by 9% since the start of the crisis in 2009. The government's newly implemented two-year wage freeze, along with continuing sluggish economic conditions, is likely to keep wages stable over the short term.

The Government of Barbados has acknowledged the need for significant structural reform in order to rekindle economic growth, and real economic adjustment efforts are already under way with the measures in its new medium-term growth and development strategy. Given that Barbados is a small open economy, the success of these new measures will depend on continued positive performance by the global economy in general, and by the island's specific trading partners in particular. Success will also depend on the willingness of the key social partners —government, the private sector and labour— to rally together to re-engineer the economy. So far this appears to be the case.

Table 1
BARBADOS: MAIN ECONOMIC INDICATORS

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Annual growth rates b/									
Gross domestic product	4.0	5.7	1.7	0.3	-4.1	0.3	0.8	0.0	-0.7
Per capita gross domestic product	3.5	5.2	1.2	-0.1	-4.6	-0.2	0.3	-0.5	-1.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	8.0	-5.7	2.3	0.0	2.8	-6.1	-6.3	-3.4	...
Mining and quarrying	8.7	-3.0	-6.2	-7.7	-36.9	9.4	-13.8	-8.0	...
Manufacturing	2.1	-0.6	-1.1	-2.3	-12.2	-4.3	-5.3	-6.8	...
Electricity, gas and water	-0.5	9.5	1.2	-0.2	0.7	2.1	-1.6	0.5	...
Construction	14.0	-0.4	0.0	-5.2	-18.2	-9.5	10.5	-7.4	...
Wholesale and retail commerce, restaurants and hotels	1.1	11.1	-1.1	-0.3	-4.3	2.8	0.0	-1.0	...
Transport, storage and communications	4.8	5.9	6.0	3.0	-2.8	0.2	0.7	2.1	...
Community, social and personal services	-1.3	0.3	9.3	6.4	4.0	4.2	3.8	3.1	...
Millions of dollars									
Balance of payments									
Current account balance	-367	-252	-183	-438	-18	-364	-590	-423	...
Goods balance	-1,070	-1,003	-1,084	-1,242	-913	-973	-879	-862	...
Exports, f.o.b.	359	510	524	490	381	425	849	826	...
Imports, f.o.b.	1,429	1,513	1,607	1,732	1,294	1,398	1,729	1,688	...
Services trade balance	765	810	911	899	734	711	660	643	...
Income balance	-128	-142	-67	-121	140	-121	-300	-172	...
Net current transfers	65	83	56	27	20	20	-70	-31	...
Capital and financial balance c/	390	231	359	342	83	350	601	398	...
Net foreign direct investment	119	200	256	264	240	0	701	426	...
Other capital movements	272	30	104	78	-157	350	-99	-29	...
Overall balance	23	-21	177	-95	64	-14	11	-25	...
Variation in reserve assets d/	-23	21	-177	95	-64	14	-11	25	...
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) e/	100.0	97.4	98.6	97.8	93.1	89.5	91.5	90.4	90.9
Net resource transfer (millions of dollars)	263	89	293	221	223	229	301	225	...
Total gross external debt (millions of dollars)	777	958	997	989	1,198	1,359	1,382	1,325	1,268
Average annual rates									
Employment									
Labour force participation rate	69.6	67.9	67.8	67.6	67.0	66.6	67.6	66.2	66.7
Unemployment rate f/	9.1	8.7	7.4	8.1	10.0	10.8	11.2	11.6	11.6
Annual percentages									
Prices									
Variation in consumer prices (December-December)	7.4	5.6	4.7	7.3	4.4	6.5	9.6	2.4	1.1
Nominal deposit rate g/	3.2	4.6	5.1	4.5	2.9	2.7	2.7	2.5	2.5
Nominal lending rate h/	10.3	10.7	10.7	10.4	9.8	9.5	9.3	8.6	8.5
Porcentajes of GDP									
Sector público no financiero i/									
Total revenue	25.7	26.2	26.4	27.1	26.6	26.1	29.2	27.8	26.0
Tax revenue	23.4	23.7	22.9	25.7	24.0	24.5	26.8	26.0	24.3
Total expenditure	29.3	26.9	27.3	32.2	34.0	34.8	33.7	35.8	38.4
Current expenditure	23.4	23.0	23.2	28.8	31.4	32.9	32.2	34.3	37.0
Interest	3.7	3.8	3.5	4.4	4.8	5.7	6.0	6.6	7.1
Capital expenditure	2.9	2.9	2.8	3.4	2.7	1.2	1.1	1.1	1.4
Primary balance	0.2	3.0	2.6	-0.8	-3.5	-3.0	1.6	-1.4	-5.2
Overall balance	-3.5	-0.7	-0.9	-5.2	-8.3	-8.7	-4.4	-8.0	-12.3
Public debt	49.5	49.4	51.4	53.3	63.2	72.0	77.8	85.7	97.8

Table 1 (concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Moneda y crédito	Porcentajes del PIB, saldos a fin de año								
Crédito interno	66.7	67.6	68.4	75.4	76.4	76.3	78.3	90.0	94.5
Al sector público	14.1	12.3	13.1	14.9	15.8	14.2	15.7	21.2	28.5
Al sector privado	52.6	55.2	55.2	60.6	60.6	62.0	62.6	68.8	66.0
Base monetaria	9.9	9.6	12.3	12.5	12.2	10.8	13.2	17.0	16.1
M2	96.2	90.6	105.8	104.3	101.4	134.1	132.6	138.6	105.8

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

	2012				2013				2014	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross international reserves (millions of dollars)	579	581	546	561	619	563	449	436	486	497 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)	7.8	5.1	2.8	2.6	1.5	1.8	2.5	1.5	0.9	...
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/	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5	...	...
Lending rate g/	9.0	8.7	8.4	8.4	8.5	8.5	8.5	8.5	8.5	8.0
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)	2.6	7.5	8.4	7.9	11.1	5.4	8.1	7.6	6.1	4.8
Non-performing loans as a percentage of total credit	...	...	12.4	12.9	13.8	...	11.3	13.9	...	...

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.