Barbados

Barbados has continued to pursue a private sector-driven growth and development strategy focused on export-led expansion, instituting regulatory reforms geared towards enhancing business facilitation. Nevertheless, this has yet to revive economic activity, which remained flat (0.0% growth) during the first three quarters of 2014. This outcome was due to continued underperformance in key segments of the economy, such as the tourism, rum and other beverages, food, sugar, other agriculture and construction sectors. Furthermore, fiscal consolidation initiatives have served to dampen aggregate domestic demand, and this, coupled with declining international commodity prices, particularly for food and oil, has led to a cooling of price inflation. The country continued to run a large fiscal deficit, estimated at 12.5% of GDP for fiscal year 2013/2014. This notwithstanding, fiscal consolidation initiatives resulted in a 16.2% contraction in the deficit (year on year) for the period from April to September 2014. Fiscal adjustment measures have also succeeded in reconciling foreign-exchange supply and demand, and as of the end of September net international reserves were estimated to have expanded to the equivalent of 14.7 weeks’ import cover.

The government’s ongoing fiscal consolidation programme has begun to yield gains. As of the end of September 2014, the fiscal deficit stood at 8% of GDP, a 1.8 percentage point contraction from the previous year. However, tax revenue remained quite flat, expanding by a mere 0.1% year on year, for the period from April to September 2014. Current expenditure, on the other hand, contracted by 5.3% during the first half of fiscal 2014/2015 relative to the previous year. As a consequence of the retrenchment of 3,000 public-sector workers during the first quarter of 2014, expenditure on wages fell by 8.4% year on year in the second quarter. Public consumption (-1.2%) and transfers and subsidies (-11.4%) both contracted.

Barbados has sought to finance the BDS$ 360 million fiscal deficit that had been generated as of the end of September 2014 through a combination of reductions in government deposits with the domestic commercial banking system and direct financing from the central bank and the National Insurance Scheme. Consequently, the net government debt-to-GDP ratio increased by 8.6 percentage points to 85.5% in the year to September 2014, so that Barbados’ debt continues to be high.

Fiscal adjustment measures succeeded in bringing the demand for foreign exchange into line with supply during the first three quarters of 2014. Moreover, a drop in disposable incomes lowered consumption (as well as investment) and dampened import demand. More significantly, the capital and financial account experienced a 131% increase in net long-term private capital flows from US$ 86.3...
million to US$ 199.3 million over the period from January to September relative to the same period the previous year. This resulted in the stock of international reserves expanding from 13.9 weeks of import cover to 14.7 weeks as of September 2014.

Following a 2.6% decline in 2013, domestic credit contracted by a further 1.1% during the first two quarters of 2014. The nominal deposit rate remained at 2.5%, while the nominal lending rate declined to 8.1%. With the exception of mortgages, demand for all categories of private credit remained soft. Deposits have also shown a modest uptick, with much of this additional liquidity, however, being used to purchase treasury bills. The treasury bill rate slipped from 3.6% to 3.2% year on year during the first three quarters of 2014.

Year on year, the country’s current account deficit remained stable at 8.8% of GDP over the first three quarters of 2014, with merchandise imports remaining largely unchanged; contractions in export income from rum (10.4%), other beverages (7.5%), food (8.8%) and sugar (19.3%) were offset by increased revenues from travel (0.5%), other services (5.1%), chemicals (8.1%), electronics (37.7%) and other merchandise exports (31.3%).

With regard to economic activity, the tourism sector, which is the primary driver of economic growth, continued to underperform during the first three quarters of 2014. The renewed growth (8%) observed in arrivals from the key United Kingdom market can be attributed to the establishment of a charter service from Manchester. However, gains in this regard have been partially offset by American Airlines’ cessation of direct flights from New York. Overall, tourism output expanded by a mere 0.1% while the number of operational international business and financial services companies declined by 0.4% relative to 2013. Other key segments of the economy, such as rum and other beverages, food, sugar, other agriculture, and construction industries, also continued to perform poorly, resulting in a 1.2% year-on-year contraction in output from tradable sectors.

Fragile domestic demand and declining international commodity prices, particularly for food and oil, have placed downward pressures on prices. Consequently, year-on-year inflation at the end of September 2014 was down to 1.7% from the 1.8% registered in 2013. At the same time, unemployment averaged 12.3%, a year-on-year increase of 1.7 percentage points.

Economic growth in Barbados is expected to be of the order of 0.0% for 2014, with a 1.5% expansion in overall output projected for 2015. The quickening recovery in major source markets, particularly the United Kingdom and the United States, coupled with the increased private investment in the tourism industry and tourism-related projects generated by the new tax incentive legislation, the Tourism Industry Relief Fund and the Enterprise Relief Fund, should provide a sustainable platform for steady economic recovery in the short to medium term.