BARBADOS

1. General trends

Barbados has continued to pursue a private sector-driven growth and development strategy, focusing on export-led growth, economic diversification and the institution of regulatory reforms geared towards enhancing business facilitation. The Government of Barbados has also persisted with its home-grown structural adjustment programme in an effort to tackle the fiscal deficit and high debt burden, which, among other things, have constrained growth. Accordingly, the economy has begun to exhibit signs of a recovery with real output expanding by 0.2% in 2014, following a 0.1% contraction in 2013. The rally continued into the first quarter of 2015, with economy-wide growth estimated at just under 1%, supported by a 4% uptick in tourism output. In this regard, more robust economic growth in the United States and increased passenger seating capacity on flights from North America and the United Kingdom underpinned the 12% increase in long-stay arrivals during the first quarter of 2015.

The government's ongoing fiscal consolidation programme, high fiscal deficit and large public debt, along with the underperformance of key segments of the economy, remain central challenges to achieving more robust growth in the medium term. The fiscal deficit stood at 7.2% of GDP for fiscal year 2014/2015,[1] down from 11.3% in the previous fiscal year, but higher than the original target of 6.6% of GDP. The fiscal deficit continued to be financed domestically. A marginal primary surplus of BDS$ 37 million was generated at the end of March 2015. In addition, a combination of weaker domestic demand and lower international fuel prices improved the current account balance and eased foreign reserve pressures. International reserves also expanded by BDS$ 83 million in fiscal year 2014/2015, largely owing to grant funding receipts and increased capital inflows.

Low oil and commodity prices and weak domestic demand have also helped keep inflation in check at 1.9% in 2014. The forecast is for inflation to remain at around 2% in 2015. The short-term policy focus for Barbados continues to be on achieving debt sustainability, increasing productivity and boosting employment creation. The last two of these goals are inextricably linked to the performance of the tourism sector. Growth is projected to stand at 1.5% in 2015, with a further expansion to 2.0% in 2016.

2. Economic policy

(a) Fiscal policy

Notwithstanding the government's ongoing fiscal consolidation programme, the fiscal deficit stood at 7.2% of GDP at the end of fiscal year 2014/2015, representing a 4.1 percentage-point contraction from the previous fiscal year. This, however, was higher than the original target of 6.6% of GDP. Total revenue expanded by a mere 6.8% year-on-year. Direct taxes (up by 17.5%) and indirect taxes (up by 3%) were the principal drivers of the higher revenue. In addition, other tax revenues, such as the consolidation tax, the municipal tax and the asset tax on financial institutions, which were introduced in August 2013 as part of the fiscal reform process, collectively yielded an estimated BDS$ 83 million during fiscal year

[1] The fiscal year runs from 1 April to 31 March.

2014/2015. Furthermore, the establishment of the Barbados Revenue Authority strengthened revenue collection.

Conversely, current expenditure contracted by 2.7% compared with the previous fiscal year to stand at BDS$ 2.9 billion in fiscal 2014/2015. As a consequence of the retrenchment of 3,000 public sector workers during the first quarter of 2014, expenditures on public sector wages and salaries fell by 8.0% in fiscal year 2014/2015 compared with fiscal year 2013/2014. Transfers and subsidies also contracted by 14.0%. These were the major contributors to the BDS$ 326 million in fiscal savings recorded during fiscal year 2014/2015.

Barbados sought to finance the BDS$ 633 million fiscal deficit registered at the end of March 2015 through a drawdown from government deposits with the domestic commercial banking system (BDS$ 238 million), the National Insurance Scheme (BDS$ 57 million), private non-bank financial institutions and the Central Bank of Barbados (BDS$ 341 million). At the end of March 2015, the gross public sector debt-to-GDP ratio increased by 2.3 percentage points, year-on-year, to 111%.

Fiscal consolidation efforts kept government expenditure at 36.1% of GDP in fiscal year 2014/2015, down from 38.5% in fiscal year 2013/2014. A rise in interest payments from 26.1% to 26.8% of revenue was the most significant change between these two periods. A primary surplus of 1.0% of GDP was generated in fiscal year 2014/2015.

(b) Monetary and exchange-rate policy

Barbados has a fixed exchange rate of BDS$ 2 to the United States dollar, which the monetary authority supports by maintaining adequate international reserves. Depressed oil prices, a rebound in the tourism industry, the government's fiscal consolidation programme and increased capital inflows jointly contributed to the stabilization of foreign reserves during fiscal year 2014/2015. At the end of March 2015, reserves stood at an estimated US$ 565 million or 16 weeks of import cover.

In 2014, the Treasury bill rate continued to be the benchmark used to signal the intended direction of interest rates to the market. Other policy instruments such as the discount rate (7%), securities reserve requirement (10%) and cash reserve requirements (5% for domestic deposits and 7% for foreign deposits) were unaltered. However, in April 2015, the Central Bank of Barbados removed the minimum savings rate on deposits at commercial banks as the Central Bank's intervention in the Treasury bill auction market was thought to provide sufficient guidance on interest rates. Deposits to the banking system declined by 1.0% year-on-year as of September 2014, since all depositor categories, with the exception of business firms and private individuals, contracted. The non-performing loans ratio increased by 0.2 of a percentage point year-on-year to 11.5% at the end of 2014.

(c) Other policies

Further medium-term policy actions are contemplated with a view to diversifying the tourism sector; facilitating international business and finance; developing the education services sector; expanding alternative energy; and strengthening the legislative and institutional framework. In the case of tourism, work is ongoing to further establish the country as a high-end, inspirational destination. The visitor experience continues to be improved through the incorporation of cultural products and services, as well as the development of newer tourism niches in ecotourism and sports. A considerable effort is also being made to attract more visitors from newer source markets, including South America and the wider Caribbean.

Improving business facilitation services has also been identified as an economic stimulus measure for boosting international business and finance over the short to medium term. In addition, Barbados and the United States established an agreement to improve international tax compliance in November 2014 and implemented the Foreign Account Tax Compliance Act (FATCA).

Moreover, further expansion of the alternative energy sector is expected to reduce the country's dependence on fossil fuels, which currently weighs heavily on the balance of payments. Lastly, institutional reforms such as the establishment of the Barbados Revenue Authority in 2014 and the planned restructuring of the offices of the Parliamentary Council and the Solicitor General should help to spur growth in Barbados over the short to medium term.

3. The main variables

(a) The external sector

At the sectoral level, output within the tourism sector, which is the primary driver of economic growth, increased by 1.5% in 2014, with long-stay arrivals expanding by 2.0%. The staging of special sporting events and festivals and the establishment of charter services from Manchester have been key drivers of renewed growth (10.2%) in arrivals from the United Kingdom market. Tourist arrivals from Germany and the rest of Europe were also up by 15.3% and 5.7%, respectively. However, the cessation of direct flights from New York led to a 1.9% decline in tourist arrivals from the United States. Arrivals from Canada and from members of the Caribbean Community (CARICOM) also fell by 2.1% and 8.8%, respectively.

Most of the other key segments of the economy expanded in 2014 year-on-year, albeit only marginally in some instances: rum and other beverages (0.6%), food (1.1%), sugar (0.6%) and other agriculture (3.7%). Output from tradable sectors remained the same (0.0%) in 2014, whereas a slight uptick was observed in construction (1%). Domestic goods exports increased by 3.8% to BDS$ 1.57 billion, with substantial gains in electrical components (24.8%) and chemicals (7.2%).

(b) Economic activity

The Barbadian economy grew by 0.2% in 2014 and its overall output is projected to expand by 1.5% in 2015, on the back of a buoyant tourism industry and projected private sector investments worth BDS$ 700 million. In the first quarter of 2015, economy-wide growth was estimated at just below 1%. More robust economic growth in the United States and increased passenger seating capacity on flights from North America and the United Kingdom underpinned the 12% increase in long-stay arrivals during the first quarter of 2015. Increases were also observed in arrivals from traditional markets such as Canada (28%), the United States (24%), the United Kingdom (9%) and CARICOM (8%), as well as from non-traditional sources such as Brazil (14%) and Germany (10%).

The sluggish performance of the Barbados economy may be attributed, in part, to inherent structural deficiencies that undermine labour productivity, export competitiveness and connectivity. These will need to be remedied if the country is to return to pre-2008 growth levels. Nevertheless, the recovery in major source markets, particularly Europe and the United States, coupled with increased private investment in the tourism industry and tourism-related projects generated by new tax incentive legislation, the Tourism Industry Relief Fund and the Enterprise Relief Fund, should provide a sustainable platform for economic recovery in the short to medium term.

The focus on fiscal consolidation, debt reduction, economic diversification and trade-led growth has begun to deliver gains. However, the ability of this small open economy to step up economic growth will depend on its success in implementing structural transformation and in maintaining the competitiveness of its tourism, agriculture and manufacturing sectors in the global economy, and, in particular, with its specific source and exports markets. This is crucial since it will need to generate an average primary surplus of about 4% of GDP if it is to reduce its debt-to-GDP ratio to 91% by 2020.

(c) Prices, wages and employment

Unemployment stood at 12.7% at the end of 2014, up by 1.1 percentage points year-on-year, as the public sector retrenchment programme commenced during the first quarter of 2014. Lacklustre domestic demand and declining international commodity prices have placed downward pressure on prices. At the end of 2014, the 12-month moving average rate of inflation stood at 1.9%, rising by 0.1 of a percentage point, year on year. Inflation is expected to remain at around 2% in 2015.

The unit labour cost increased by an estimated 2% annually from 2009 to 2013. However, the government’s two-year wage freeze, implemented in 2013, along with relatively sluggish economic conditions, are likely to stabilize wage growth over the short term.

Table 1
BARBADOS: MAIN ECONOMIC INDICATORS

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
	Annual growth rates b/								
Gross domestic product	5.7	1.7	0.3	-1.5	0.3	0.8	0.3	-0.1	0.2
Per capita gross domestic product	5.2	1.2	-0.1	-2.0	-0.2	0.3	-0.2	-0.6	-0.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-5.7	2.3	0.0	2.8	-6.1	-6.3	2.8	2.8	-2.6
Mining and quarrying	-3.0	-6.2	-7.7	-36.9	9.4	-13.8	-7.6	-15.6	20.5
Manufacturing	-0.6	-1.1	-2.3	-12.2	-4.3	-5.3	-6.8	2.2	-3.0
Electricity, gas and water	9.5	1.2	-0.2	0.7	2.1	-1.6	0.5	-0.8	0.1
Construction	-0.4	0.0	-5.2	-18.2	-9.5	10.5	-7.6	-11.8	-1.7
Wholesale and retail commerce, restaurants and hotels	11.1	-1.1	-0.3	-3.5	2.8	0.0	-1.0	0.5	0.7
Transport, storage and communications	5.9	6.0	3.0	8.2	0.1	0.5	2.0	0.9	0.4
Community, social and personal services	3.0	2.9	3.0	3.0	1.0	3.0	3.5	1.4	0.4
Balance of payments	**Millions of dollars**								
Current account balance	-352	-245	-487	-310	-259	-558	-401	-397	-369
Goods balance	-1,092	-1,175	-1,343	-985	-1,077	-879	-862	…	…
Exports, f.o.b.	510	527	490	381	431	849	826	…	…
Imports, f.o.b.	1,602	1,702	1,833	1,366	1,507	1,729	1,688	…	…
Services trade balance	914	1,062	1,076	845	891	660	643	…	…
Income balance	-256	-188	-246	-190	-112	-300	-172	-195	-197
Net current transfers	83	56	27	20	39	-39	-9	-13	-15
Capital and financial balance c/	331	423	383	377	232	986	89	240	323
Net foreign direct investment	298	394	470	303	344	750	426	…	…
Other capital movements	33	29	-87	74	-112	236	-337	240	323
Overall balance	-21	178	-103	67	-27	11	-25	-157	-46
Variation in reserve assets d/	21	-178	103	-67	27	-11	25	157	46
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) e/	97.4	98.7	97.7	93.3	89.5	90.5	89.5	89.5	89.8
Net resource transfer (millions of dollars)	74	235	137	187	120	685	-83	45	126
Total gross external debt (millions of dollars)	958	997	989	1,198	1,359	1,382	1,325	1,436	1,491
Employment	**Average annual rates**								
Labour force participation rate	67.9	67.8	67.6	67.0	66.6	67.6	66.2	66.7	63.8
Unemployment rate f/	8.7	7.4	8.1	10.0	10.8	11.2	11.6	11.6	12.3
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	5.6	4.7	7.3	4.4	6.5	9.6	2.4	1.1	2.3
Nominal deposit rate g/	4.6	5.1	4.5	2.9	2.7	2.7	2.5	2.5	2.5
Nominal lending rate h/	10.7	10.7	10.4	9.8	9.5	9.3	8.6	8.5	8.6
Central government i/	**Percentajes of GDP**								
Total revenue	25.9	27.4	28.6	25.3	26.1	29.2	27.8	26.9	28.0
Tax revenue	24.7	25.9	26.4	23.5	24.5	26.8	26.5	24.8	25.8
Total expenditure	28.6	30.8	33.5	31.7	34.8	33.7	35.8	37.9	35.1
Current expenditure	24.5	27.6	30.7	30.6	32.9	32.2	36.4	35.9	33.0
Interest	3.8	3.8	4.4	4.7	5.7	6.0	6.6	7.0	7.5
Capital expenditure	3.1	1.9	2.8	1.1	1.2	1.1	1.1	1.4	1.8
Primary balance	1.1	0.4	-0.5	-2.5	-3.0	1.6	-1.4	-4.0	0.4
Overall balance	-2.7	-3.4	-4.9	-7.2	-8.7	-4.4	-8.0	-11.2	-7.2
Non-financial public sector debt	61.1	62.4	67.2	76.0	87.7	93.0	96.2	105.2	108.7

Table 1 (concluded)

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	67.6	68.4	75.4	76.2	76.0	78.5	88.1	94.4	91.3
To the public sector	12.3	13.1	14.9	15.8	14.2	15.7	20.8	28.5	29.4
To the private sector	55.2	55.2	60.6	60.4	61.9	62.8	67.4	65.9	61.9
Monetary base	9.6	12.3	12.5	12.2	10.8	13.2	16.7	16.1	17.6
M2	90.6	102.3	100.9	98.1	100.6	98.5	105.9	105.7	103.6

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

	2013				2014				2015	
	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)	619	563	449	436	486	491	458	450	478	515 b/
Real effective exchange rate (index: 2005=100) c/	89.9	89.9	89.0	89.3	90.5	90.5	89.7	88.7	89.5	89.9 d/
Consumer prices (12-month percentage variation)	1.5	1.8	2.5	1.5	1.1	1.6	2.4	2.3	0.3 e/	...
Average nominal exchange rate (Barbados dollars per dollar)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal interest rates (average annualized percentages)										
Deposit rate f/	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	...	...
Lending rate g/	8.6	8.6	8.5	8.5	8.6	8.5	8.5	8.6	8.6	8.5 b/
Monetary policy rates	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)	11.1	5.4	8.1	7.6	5.7	5.5	0.8	-2.6	-0.8	0.2 b/
Non-performing loans as a percentage of total credit	13.8	...	11.3	11.7	10.5	12.0	12.2	11.5	...	...

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/ Quarterly average, weighted by the value of goods exports and imports.
d/ Figures as of May.
e/ Figures as of February.
f/ Weighted average of deposit rates.
g/ Weighted average of lending rate.

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