Barbados

For the second consecutive year, Barbados recorded positive economic growth in 2016, expected to be 1.4% of GDP. This was driven by a solid performance in the tourism sector, which grew by 3% in the first three quarters of 2016. Long-stay arrivals increased by 5.7%, with growth up in the major source markets, which also helped fuel a recovery in construction sector activity. This progress was reflected in a lower unemployment rate of 10.2% by September 2016. The current account deficit of the balance of payments also narrowed, to 2.4% of GDP, owing to increased exports and low imports. Nevertheless, the fiscal deficit remains high at an estimated 6.4% of GDP. This, coupled with the high gross government debt stock 107.7% of GDP and increasing domestic interest payments, is a matter of ongoing concern for the Government of Barbados. Weak commodity prices continue to push consumer prices downward, with inflation of -1.2%. Growth in 2017 is projected at 1.9%, underpinned by continued growth in the tourism and construction sectors.

The government’s fiscal consolidation efforts have been slow to yield the expected results. The Central Bank of Barbados projects the fiscal deficit for fiscal year 2016/17 to be 6.1% of GDP (down from original estimates of over 8% of GDP), which is a smaller deficit than the 7.5% of GDP posted in fiscal year 2015/16, but still in excess of sustainable levels. In the recent budget, the government outlined a number of fiscal adjustment measures aimed at boosting revenues and containing expenditure. The new measures, which are expected to lower the deficit to 5.8% of GDP by the end of fiscal year 2016/17, include the National Social Responsibility Levy, a 2% border tax on the customs value of all imports, an increase in the Bank Asset Tax, and a tax amnesty. The sale of Barbados National Oil Terminal Ltd. is also expected to contribute the expansion in revenue. Measures on the expenditure side consist of a cut of 200 million Barbados dollars (BDS$) in statutory transfers and subsidies, along with an across-the-board reduction of up to BDS$ 50 million in discretionary spending.

However, concerns persist regarding whether these initiatives are sufficient to contain or reduce the gross government debt stock from its current 107.7% of GDP. As a consequence, another international rating agency, Standard & Poor’s, downgraded Barbadian bonds from B to B-, as well as citing the outlook as negative, on the basis of the persistent financing of the government’s deficit by the Central Bank of Barbados.

The Government of Barbados’ ongoing cash flow needs stemming from its fiscal constraints continue to be financed by the Central Bank of Barbados, which created BDS $114 million in the first half of fiscal year 2016/17 for this purpose. As a result, the central bank has struggled to narrow the spread between the United States and Barbadian treasury bills, which currently stands at 2.81 percentage points. In turn, despite removal of the minimum deposit interest rate stipulation, the gap between deposit rates and loan rates widened by 0.5 percentage points on average as commercial banks lowered the former more than the latter.

International reserves stood at US$ 900.3 million at September 2016, representing 14 weeks of import cover, slightly above the minimum threshold of sustainability. However, the Central Bank of Barbados maintains its commitment to the fixed exchange rate peg. Fiscal consolidation measures proposed towards the end of the year are expected to bolster the stock of foreign reserves.

A number of important medium-term measures were outlined in the 2016/17 budget, aimed at stimulating economic growth, generating foreign-exchange flows and spurring employment. These initiatives include the creation of new duty-free zones, amendment of the Tourism Development Act to permit eligible property owners to access tax benefits for multi-year refurbishment and renovation projects, and the use
of resources from the Industrial Credit Fund to set up a special fund that will support a blend of grants and soft loans to finance existing small and medium-sized enterprises and business start-ups. The overall deficit of the balance of payments fell to US$ 13.4 million, or 0.4% of GDP, for the first three quarters of 2016, down from US$ 37.4 million, or 1.1% of GDP, in the year-earlier period. Although low oil prices have kept import values down, the narrowing of the current account deficit (by 3.7 percentage points) to 2.4% of GDP was driven chiefly by a 2.1 percentage point rise in exports. Furthermore, private long-term investment flows increased by 0.8 percentage points to 7.7% of GDP.

Economic activity in the Barbadian economy appears to have picked up for the second consecutive year after a period of weak economic growth. GDP growth is expected to have expanded by 1.4% in 2016, up from 0.9% in 2015 and the highest figure since the global financial and economic crisis of 2008-2009. This growth hinged primarily on the buoyant tourism sector, which grew by 3% in the first three quarters of 2016, coupled with a 5% rebound in the construction sector. In this same period, overall long-stay arrivals increased by 5.7%, albeit not as vigorously as the 14.5% increase recorded in 2015. Growth in major source markets was positive, with arrivals up by 11% from the United States, 13% from the Caribbean Community (CARICOM) and 3% from the United Kingdom. The construction sector benefited from such activities as the Sandals expansion project in 2016. Although the finance and services sector rebounded by 3%, the international business and financial services sector remained stagnant, with new business licenses declining by 7.5%. Value added in other sectors was marginal. GDP growth in 2017 is projected at 1.9%, on the basis of a sustained positive performance in the tourism and construction sectors as airlift capacity increases and delayed hotel infrastructural projects move ahead.

Prices continued to fall as a consequence of persistently weak global fuel prices. In March 2016, inflation stood at -1.4%, down by 2.4 percentage points year on year. Prices are, however, expected to increase by late 2016 as increases in the rate of VAT and the National Social Responsibility Levy take effect. Growth in the tourism sector, with spillovers in construction, translated into a second year’s decline in the unemployment rate, to an average of 10.2% over the first three quarters of 2016, compared to 11.9% in the prior-year period.