

## BARBADOS

### 1. General trends

Economic growth in the Barbados economy in 2016 was encouraging. Investments in the tourism sector, coupled with positive spillover effects in the construction and wholesale and retail sectors, fuelled GDP growth of 1.6%, up from 1.0% in 2015. Critical downside risks remain, however, including the time it is taking to narrow the fiscal deficit, low international reserves, the scale of financing by the Central Bank of Barbados and the adverse impact on tourist arrivals from the United Kingdom of the depreciating pound in the aftermath of the Brexit vote.

Tourist arrivals rose by 6.3% in 2016 due to double-digit growth in visitors from the United States and Caribbean source markets. This improved performance extended into the first quarter of 2017, when long-stay arrivals were up by 4.4%, with a strong increase in visitors from the United States and Canada relative to the previous period. However, growth in long-stay visitors from the United Kingdom, Barbados's major source market, slowed in 2016 and turned slightly negative in the first quarter of 2017 as the pound depreciated in the aftermath of the Brexit referendum. While the construction sector was boosted by the completion of tourism projects such as the Sandals Royal resort, it continued to be plagued by delays on other major investment projects. GDP growth for 2017 is projected to be at least 1.5%, supported by the robust tourism sector and progress on delayed tourism-related construction projects.

Barbados's primary challenge is still to reduce the fiscal deficit, which narrowed from 8.2% of GDP in 2015 to 6.1% of GDP in 2016 but remains unsustainably high. The decline can be attributed to a number of revenue-boosting and expenditure-cutting measures introduced in 2016. However, the pace of improvement has continued to be slow, and additional measures were accordingly announced in the budget for fiscal year 2017/18. Public sector debt, which excludes central government debt held by the central bank and the National Insurance Scheme, contracted to 98.5% of GDP in the first quarter of 2017, a drop of 12.3 percentage points on the same period in 2016. However, this decline was largely driven by a build-up of debt at the Central Bank of Barbados and borrowing by the National Insurance Scheme. By the end of the first quarter of 2017, furthermore, the central bank's stock of international reserves had fallen to US\$ 705.4 million, a decline of 25% on the same period in 2016. This represents 10.7 weeks of import cover, which is below the international benchmark of 12 weeks. In this climate of slow progress on the fiscal deficit, high debt, low international reserves and substantial financing from the Central Bank of Barbados, international rating agencies Standard & Poor's and Moody's downgraded the country and its government bond and issuer ratings.

Following deflation of -1.1% in 2015 due to falling global oil prices, the annual inflation rate increased to 1.3% in 2016 because of price rises for food and non-alcoholic beverages and for education. The annual unemployment rate stood at 9.7% at the end of 2016 and is expected to drop below 9% as construction projects advance and election activities pick up.

## **2. Economic policy**

### **(a) Fiscal policy**

The principal challenge for the Government of Barbados is to consolidate the fiscal deficit and thence curtail its overreliance on central bank funding. In fiscal year 2016/17, a variety of fiscal adjustment measures were introduced to bolster revenue and curb expenditure. Revenue-raising measures included the introduction of the National Social Responsibility Levy, the imposition of a 2% border tax on the customs value of all imports, an increase in the Bank Asset Tax and a tax amnesty. These measures contributed to a revenue rise of 6.9% or BDS\$ 95.9 million by the end of fiscal year 2016/17 relative to the previous fiscal year, taking total receipts to BDS\$ 2.8 billion or 30.3% of GDP. Expenditure-curb measures included a BDS\$ 200 million cut in statutory transfers and subsidies and an across-the-board reduction of up to BDS\$ 50 million in discretionary spending. However, any positive impact from these measures was offset by a 10.8% increase in domestic interest payments. Preliminary data indicate that total expenditure increased marginally in fiscal year 2016/17 to BDS\$ 3.1 billion, or 36.4% of GDP. Although the overall fiscal deficit narrowed to 6.1% of GDP in fiscal year 2016/17 from 8.2% of GDP in the previous fiscal year, this was still unsustainably high and, more importantly, above the target of 5.8% of GDP.

In response to the slower than expected decline in the fiscal deficit, further fiscal consolidation measures were announced in the fiscal year 2017/18 budget. On the revenue side, measures included an increase in the National Social Responsibility Levy from 2% to 10%, a 2% commission on foreign-exchange transactions, an increase in the excise tax on petrol and diesel fuel, an extension of the tax amnesty and divestment of the Barbados National Terminal Company Ltd. and Hilton Hotel. Measures geared towards lowering expenditure included an across-the-board 10% spending cut and debt reprofiling of short- and long-term security instruments. It is anticipated that these measures will generate BDS\$ 542 million in savings, which translates to a primary surplus of 7.3% of GDP, implying a significant decrease in the financing required from the Central Bank of Barbados.

Despite a 5.1 percentage point fall in the public sector debt to 103.6% of GDP by the end of 2016 and a further drop to 98.5% by the end of the first quarter of 2017, Barbados's public sector debt remains among the highest in the Caribbean. The decline was primarily due to increased purchases of debt by the Central Bank of Barbados and the National Insurance Scheme in 2016. Moreover, international rating agency Standard & Poor's downgraded Barbados for the second consecutive year, rating it CCC+/C because of its limited financing alternatives and low international reserves and issuing a negative outlook. Moody's Investors Service also downgraded the government's bond and issuer ratings to Caa3 but maintained a stable outlook. These downgrades by international rating agencies re-emphasize the urgent need to reduce the fiscal deficit in the short to medium term.

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

The Central Bank of Barbados has continued to hold firm in supporting the fixed exchange-rate peg of US\$ 1 to BDS\$ 2, which requires adequate levels of international reserves to be maintained. However, by the end of 2016 and into the first quarter of 2017, reserves had fallen to levels equivalent to less than 12 weeks of import cover, which has increased pressure on the currency peg. This strain has been further exacerbated by the central bank's contribution to the financing of the fiscal deficit, which increased by 50.1% in fiscal year 2016/17 relative to the previous year, to US\$ 425.9 million. By the end of the first quarter of 2017, furthermore, banks had begun substituting some of their government security holdings for cash at the central bank. This prompted the latter to increase its Barbados dollar securities

reserve requirement for commercial banks from 10% to 15% as of June 2017. Consequently, excess liquidity in the banking system increased as the ratio of cash reserves to domestic deposits jumped to 17.0% from 10.6% the previous year.

Domestic deposits grew by 2.0%, but lending to the non-financial private sector remained sluggish. Additionally, the increased liquidity in the banking system led to a sharp fall in deposit interest rates. Preliminary central bank data indicate that as of the close of the first quarter of 2017 the weighted average deposit rate had fallen by 0.25% and the weighted average loan rate was down to 6.7%, while the average three-month treasury bill rate had dropped to 3.1%.

### **3. The main variables**

#### **(a) The external sector**

The Central Bank of Barbados's stock of international reserves has been declining steadily over the last four years and stood at \$705.4 million at the end of the first quarter of 2017, a 25% drop on the same period in 2016. This value represents 10.7 weeks of import cover, which is below the internationally accepted precautionary benchmark of 12 weeks. The central bank has attributed the sizeable fall in reserves to larger than usual net public sector capital outflows. There is an expectation that the sale of government assets, higher inflows associated with public sector projects, the continued strengthening of the tourism sector and the 2% commission on foreign-exchange transactions designed to dampen demand will serve between them to stabilize international reserves by the close of 2017. However, the stability of international reserves in the medium to long term depends heavily on success in reducing the fiscal deficit, which remains the primary factor driving them lower. Furthermore, the weakened British pound poses some downside risk to the stability of reserves, as it may negatively impact tourism-related spending and real estate inflows. In the fiscal year 2017/18 budget, in an effort to stem the demand for foreign exchange, particularly for purchases of consumer durables, the Government of Barbados announced that commission would be payable on all foreign exchange transactions with effect from July 2017.

At the end of 2016, the external current account was estimated to be in deficit by US\$ 207 million (4.5% of GDP). This outturn resulted from a 4.3% increase in export earnings. Moreover, the recent significant increase in the Social Responsibility Levy may serve to lower the import bill, with the potential in turn to further reduce the external current account deficit for the remainder of 2017. The capital and financial account recorded a surplus of US\$ 16.9 million in 2016, a 92.1% decrease on the surplus of US\$ 212.7 million generated in 2015. This steep decline was primarily a consequence of decreased net long-term private sector inflows and increased net public sector outflows. Nevertheless, foreign direct investment inflows in 2016 were up by US\$ 164.3 million or 64.6% on 2015 as a result of strong investment in tourism-related projects.

#### **(b) Economic activity**

The Barbados economy grew by 1.6% in 2016, as compared to just 1.0% in 2015 and 0.2% in 2014. This expansion in economic activity hinged on investments made to bolster Barbados's competitiveness in the tourism sector, while there was modest growth in non-tradeable sectors such as construction, distribution, wholesale and retail, and financial and other services.

Overall, tourism arrivals grew by 6.3% in 2016, led by growth in the United States and Caribbean source markets of 14.1% and 12.7%, respectively. Growth in visitors from the United Kingdom,

Barbados's main tourism source market, slowed to 2.0%, a large drop on the 13.4% growth observed in 2015. Long-stay arrivals were up 4.4% by the end of the first quarter of 2017, driven by increased demand and airlift expansion from the United States and Canada markets, which supported growth of 16.4% and 11.1%, respectively. In contrast, long-stay arrivals from the United Kingdom softened, decreasing by 1.6% in the aftermath of the Brexit referendum and the subsequent depreciation of the pound. The tourism sector is likely to continue to grow for the remainder of 2017 and into the medium term as hotel and airlift capacity increases and new initiatives such as the Kids Stay and Play Free summer campaign boost arrivals from major source markets. However, continued fallout from the Brexit referendum remains a downside risk, with depreciation in the value of the pound leading to reduced spending by United Kingdom visitors. Furthermore, implementation of desired upgrades to the tourism product may be restricted by the government's limited fiscal space.

The positive performance of the tourism sector spilled over into the construction sector, which expanded by 2.5% in 2016 and 2.8% in the first quarter of 2017. Growth in this sector was influenced by various tourism-related commercial projects such as the resort being built by Sandals Royal, the luxury arm of Sandals Resort International, which is scheduled to open by the end of 2017. However, a more robust sectoral performance was thwarted by ongoing delays in major investment projects such as the Hyatt Centric Resort.

International business and financial services activity picked up in 2016 as the number of licences in the international business sector increased by 7.7% after a sluggish performance in previous years. However, the sector has continued to grapple with reputational issues, exacerbated by continuing Moody's and Standard & Poor's downgrades. Economic performance in other sectors such as manufacturing and agriculture remained subdued in 2016 and into the first quarter of 2017.

The Government of Barbados's stricter fiscal policy is expected to dampen economic growth for the remainder of 2017. However, if planned tourist hotel and other commercial projects can advance and external conditions remain stable, the Barbados economy is forecast to expand by at least 1.5%.

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

The annual unemployment rate has continued to trend downward since peaking at 12.3% in 2014, falling to 11.3% in 2015 and 9.9% in 2016. Improved performance in the tourism sector coupled with spillover effects in construction and wholesale and retail have supported this decline. An anticipated pick-up in construction activity in 2017 plus the impending elections in 2018 are expected to support a continued fall in the unemployment rate to below 9% by the end of 2017.

The annual inflation rate increased modestly to 1.3% in 2016 following deflation of -1.1% in 2015 due to declining global oil prices. This uptick was partly driven by price increases for food and non-alcoholic beverages and for education and by a small turnaround in global fuel prices. An upward trajectory in the annual inflation rate is expected for the remainder of 2017 as the fuel price increases recently announced in the fiscal year 2017/18 budget take effect.

Public sector wages and salaries remain high despite a marginal year-on-year decline of 1.3% in fiscal year 2016/17. Notwithstanding intensified pressure from trade unions to increase wages, Barbados's limited fiscal space means that these demands are unlikely to be accommodated.

Table 1  
**BARBADOS: MAIN ECONOMIC INDICATORS**

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
<b>Annual growth rates b/</b>									
Gross domestic product	0.3	-1.5	0.3	0.8	0.3	-0.1	0.2	1.0	1.6
Per capita gross domestic product	-0.1	-1.9	-0.1	0.4	0.0	-0.4	-0.1	0.7	1.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.0	2.8	-6.1	-6.3	2.8	2.8	-2.6	...	...
Mining and quarrying	-7.7	-36.9	9.4	-13.8	-7.6	-15.6	20.5	...	...
Manufacturing	-2.3	-12.2	-4.3	-5.3	-6.8	2.2	-3.0	...	...
Electricity, gas and water	-0.2	0.7	2.1	-1.6	0.5	-0.8	0.1	...	...
Construction	-5.2	-18.2	-9.5	10.5	-7.6	-11.8	-1.7	...	...
Wholesale and retail commerce, restaurants and hotels	-0.3	-3.5	2.8	0.0	-1.0	0.5	0.7	...	...
Transport, storage and communications	3.0	8.2	0.1	0.5	2.0	0.9	0.4	...	...
Community, social and personal services	3.0	3.0	1.0	3.0	3.5	1.4	0.4	...	...
<b>Millions of dollars</b>									
Balance of payments									
Current account balance	-485	-305	-254	-558	-402	-397	-431	-315	...
Goods balance	-1 343	-985	-1 077	-879	-862	-895	-860	-737	...
Exports, f.o.b.	490	381	431	849	826	786	792	801	...
Imports, f.o.b.	1 833	1 366	1 507	1 729	1 688	1 681	1 652	1 537	...
Services trade balance	1 010	797	862	531	568	610	641	632	...
Income balance	-246	-190	-112	-300	-172	-195	-197	-213	...
Net current transfers	94	73	72	91	64	83	-14	2	...
Capital and financial balance c/	382	372	228	554	423	240	386	252	...
Net foreign direct investment	689	484	747	758	186	46	791	335	...
Other capital movements	-307	-111	-519	-204	237	194	-406	-83	...
Overall balance	-103	67	-27	-4	21	-157	-46	-63	...
Variation in reserve assets d/	103	-67	27	4	-21	157	46	63	...
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) e/	97.7	93.3	89.5	90.5	89.5	89.4	88.1	84.7	83.3
Net resource transfer (millions of dollars)	136	182	116	254	251	45	188	39	...
Total gross external debt (millions of dollars)	1 089	1 321	1 366	1 385	1 322	1 434	1 521	1 490	1 438
<b>Average annual rates</b>									
Employment									
Labour force participation rate	67.6	67.0	66.6	67.6	66.2	66.7	63.8	65.1	66.6
Unemployment rate f/	8.1	10	10.8	11.2	11.6	11.6	12.3	11.3	9.9
<b>Annual percentages</b>									
Prices									
Variation in consumer prices (December-December)	7.3	4.4	6.5	9.6	2.4	1.1	2.3	-2.5	3.4
Nominal deposit rate g/	4.5	2.9	2.7	2.7	2.5	2.5	2.5	1.3	0.3
Nominal lending rate h/	9.3	8.8	8.3	8.1	7.2	7.0	7.0	6.9	6.7
<b>Percentajes of GDP</b>									
Central government i/									
Total revenue	28.6	25.3	25.6	29.3	28.4	26.7	27.7	29.3	30.3
Tax revenue	26.4	23.4	24.4	26.9	25.9	24.7	25.1	27.1	28.6
Total expenditure	33.5	32.5	34.3	33.7	36.9	37.7	35.8	37.5	36.4
Current expenditure	30.7	30.5	32.8	32.3	35.5	35.7	33.5	34.9	34.0
Interest	4.4	4.7	5.7	6.0	6.6	7.0	7.5	7.6	8.0
Capital expenditure	2.8	1.9	1.5	1.4	1.4	1.9	2.2	2.7	2.4
Primary balance	-0.5	-2.5	-3.0	1.6	-2.0	-4.0	-0.6	-0.6	1.9
Overall balance	-4.9	-7.2	-8.7	-4.4	-8.5	-11.0	-8.1	-8.2	-6.1
Non-financial public sector debt	55.7	63.2	71.9	78.0	83.9	96.4	100.1	105.2	108.2

Table 1 (concluded)

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
Money and credit	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	75.4	76.2	76.0	78.5	88.1	94.4	91.2	101.1	106.7
To the public sector	14.9	15.8	14.2	15.7	20.8	28.5	29.3	38.1	43.4
To the private sector	60.6	60.4	61.9	62.8	67.4	65.9	61.9	63.1	63.3
Monetary base	12.5	12.2	10.8	13.2	16.7	16.1	17.6	22.8	27.9
M2	100.9	98.1	100.6	98.5	105.9	105.7	103.6	111.1	115.7

**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/ Nationwide total. Includes hidden unemployment.

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**

	2015				2016				2017	
	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)	478	499	467	431	441	451	419	379	310	350 b/
Real effective exchange rate (index: 2005=100) c/	85.0	85.1	84.1	84.5	85.0	84.4	82.0	81.7	83.5	86.5 b/
Consumer prices (12-month percentage variation)	-1.3	-0.4	-0.9	-2.5	0.0	0.8	2.4	3.2	...	...
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 d/	2.5	1.6	0.7	0.5	0.4	0.4	0.3	0.3	0.3 e/	...
Lending rate f/	7.0	7.0	6.9	6.8	6.8	6.7	6.7	6.7	6.7 e/	...
Monetary policy rates	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0 g/	...
Domestic credit (variation from same quarter of preceding year)	-0.6	0.1	4.2	9.0	8.9	8.9	6.9	4.9	...	...
Non-performing loans as a percentage of total credit	11.4	11.0	10.8	10.6	10.4	9.6	9.4	8.9	...	...

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

a/ Preliminary figures.

b/ Figures as of May.

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

d/ Weighted average rate of deposit rates.

e/ Figures as of January.

f/ Lending rate, weighted average.

g/ Figures as of February.