BARBADOS

1. General trends

At the beginning of 2018, the Barbadian economy was in the midst of a fiscal crisis characterized by low economic activity, weak investor confidence, inadequate levels of international reserves, rising public sector debt levels and an overreliance on financing from the Central Bank of Barbados and the National Insurance Scheme (NIS). To stem the impact of this crisis, the newly elected Government of Barbados embarked on external commercial debt suspension and domestic debt restructuring, entered an agreement with the International Monetary Fund (IMF) and introduced the Barbados Economic Recovery and Transformation (BERT) Plan. The tighter fiscal measures and delay in project implementation offset modest gains in the tourism sector and dampened economic activity. Consequently, the economy remained in recession and GDP growth as of March 2019 was negative at -0.2%; unchanged relative to March 2018. However, by the close of fiscal year 2018/19,[1] the fiscal deficit stood at 0.3% of GDP; an improvement from the 4.8% figure of the previous fiscal year. The primary surplus exceeded the target of 3.3% of GDP by the end of fiscal year 2018/19, at 3.6%. Debt restructuring efforts, which included a domestic debt exchange offer, contributed to the sizeable decrease in the debt stock, and in March 2019, gross public sector debt was 23.4 percentage points down on the year-earlier figure, at 125.4% of GDP.

Based on available data, the average unemployment rate increased marginally to 10.1% by December 2018, following the retrenchment of 1,500 public workers. The repeal of the National Social Responsibility Levy (NSRL) offset the effects of rising international fuel prices, resulting in a decline in the moving average rate of inflation as of March 2019, relative to 4.7% during the same period in 2018. Several factors are expected to contribute to increased economic activity in 2019, such as improvements in the macroeconomic indicators associated with the BERT Plan and new private sector tourism projects. Therefore, economic growth is projected to move into positive territory to 0.1% in 2019. This forecast has some downside risks, as fiscal adjustment activities continue and the start of some large commercial projects has been delayed.

2. Economic policy

(a) Fiscal policy

In 2018, the newly elected Government of Barbados introduced an IMF-endorsed recovery programme aimed at addressing instability in the economy: the Barbados Economic Recovery and Transformation (BERT) Plan. The effort to stabilize the public finances is central to the Plan and the government committed to achieving a primary surplus of 3.3% of GDP by the close of the fiscal year. In conjunction with this scheme, the government suspended external debt payments to commercial creditors and restructured domestic debt during fiscal year 2018/19, contributing to a 50% reduction in interest payments. By the close of that fiscal year, the fiscal deficit stood at 0.3% of GDP, down from 4.8% of GDP in 2017/18. Further, modest gains in revenue and expenditure containment yielded a primary surplus of 3.6% of GDP, thereby meeting the target.

[1] The fiscal year in Barbados runs from 1 April to 31 March the following year.

During fiscal year 2018/19, total revenue increased by 0.4 percentage points year-on-year to 30.6% of GDP. New tax measures introduced in the 2018 budget boosted revenue intake, but these gains were offset by the resumption of tax refund payments and dampened import demand. Revenue from corporate taxes increased by 29.2%, owing to growth in first-time payments by recently registered international companies. Property taxes and personal income tax rose by 17.2% and 4.2%, respectively, as taxpayers took advantage of the extension of the tax amnesty. Government refunds for income tax and value added tax (VAT) amounted to US$ 27 million and US$ 9 million, respectively, translating into lower-than-expected collections. Excise revenue and import duties also declined, by 10.5% and 2.2%, respectively. Driving the 9.5% decline in current expenditure was the debt restructuring and the suspension of external interest payments, which led to a 50% decline in interest payments overall. In addition, there was a small 2% decline in spending on goods and services. However, the savings gained from these expenditure reductions were offset by a 3.7% increase in outlays on wages and salaries, partly owing to a 5% wage hike granted to public sector workers.

As of March 2019, gross public sector debt stood at 125.6% of GDP; down from 149% in March 2018. The sharp decrease in the debt stock may be attributed primarily to debt restructuring efforts; this included an exchange offer for domestic debt launched in September 2018 which resulted in the write-off of US$ 1.465 billion in debt held by the central bank and NIS. As part of the exchange, loans, treasury bills, treasury notes and debentures of the central government and loans and bonds of eligible State-owned enterprises were exchanged for a new series of amortizing bonds. The result was lower interest rates, an extension of the government’s debt maturity profile, and the creation of much-needed fiscal space in the short to medium term. External debt payments to commercial creditors were also suspended; however, negotiations regarding these are ongoing. As of January 2019, following the successful completion of the domestic debt restructuring, the regional credit rating agency Caribbean Information and Credit Rating Services Limited (CariCRIS) upgraded Barbados’ local currency rating from CariD (default) to CariBB, with a stable outlook. Standard & Poor’s also raised its long- and short-term local-currency sovereign credit ratings on Barbados to B-/B from SD/SD (selective default) and assigned a B- local-currency rating to the domestic debt issued in the recent debt exchange.

(b) Monetary and exchange-rate policy

The IMF Extended Fund Facility arrangement entered into by the Government of Barbados was built on maintaining the fixed exchange-rate peg of US$ 2 = 1 Barbados dollar (BDS$), along with fiscal consolidation measures and implementation of structural reforms. To maintain the exchange-rate peg, the international reserves needed to be bolstered significantly after a precipitous decline over the last few years. Balance-of-payments support from IMF and policy-based loans from the Caribbean Development Bank and the Inter-American Development Bank provided a much-needed boost to the gross international reserves and helped to reduce reliance on central bank financing. The suspension of commercial external debt service payments and positive net sales of foreign exchange by commercial banks to the central bank were additional factors that supported a positive outturn in the international reserve levels. By March 2019, gross international reserves had risen to US$ 531.5 million, representing 14 weeks of import cover, slightly above the internationally accepted benchmark of 12 weeks.

The effective interest rate averaged 3.3% in the first quarter of 2019. Growth in credit to the private sector remained weak despite low interest rates, up by a mere 4% year-on-year at the end of 2018. The weighted average deposit rate remained unchanged as of March 2019 relative to March 2018. The average loan rate decreased marginally to 6% as of March 2019 relative to 6.3% in March 2018.

3. The main variables

(a) The external sector

The current account surplus improved to 2.7% of GDP in March 2019; up from 1.7% of GDP in March 2018. An increase in travel earnings attributed to higher tourist arrivals and improved room rates, along with the impact of the opening of the Ross University School of Medicine, were central to the improvements of the external accounts. Total imports decreased marginally, by 0.6 percentage points to 27.1% of GDP, by the close of the first quarter of 2019, compared to a stronger decline in the same period in 2018. Although dampened import demand resulted in lower imports of consumer goods, capital goods imports were boosted by higher imports of machinery and imports of intermediate goods rose owing to increases in purchases of fuel, electronic components and construction materials. By March 2019, the financial account deficit narrowed to 0.1% of GDP from 0.6% of GDP a year earlier, as an expansion in net public inflows from lower external debt service offset declines in private sector inflows. Borrowings from IMF helped to boost international reserves and liquidity.

(b) Economic growth

Economic growth in the Barbadian economy has been largely subdued over the last few years, and in 2018 the economy slipped into recession. Major contributors to these conditions were tighter fiscal consolidation measures implemented by the government, weaker consumption and investor confidence and structural economic deficiencies. Tourism continues to be the backbone of the Barbadian economy, but it too has been impacted by changes in target markets, while weak performances in other sectors have offered limited support.

During 2018, real economic activity contracted by 0.6% year-on-year as weak performances in the manufacturing and construction sectors offset modest gains in tourism. Value added growth in the tourism sector slowed to 0.6% in 2018, from 2.2% in 2017. Long-stay arrivals increased by 2.8% over 2017, primarily because of intensive marketing and increased airlift. However, expansion in the sector was contained by a 1% decline relative to 2017 in the average length of stay, as visitors from shorter-stay markets (such as the United States) increased. The sector was further impacted by a 9.7% decline in cruise visitors as cruise ships that had been re-routed following the severe hurricane season of 2017 returned to their regular itineraries. The manufacturing sector remained mostly stagnant while construction declined by 7% relative to 2017, reflecting a slowdown in infrastructure development in the public and private sector.

In the first quarter of 2019, the economy remained in recession, with GDP growth negative by 0.2%, which was unchanged from the same period in 2018. The tourism sector expanded by 2.2% in the first quarter, a slowdown relative to the 5.7% growth in the prior-year period. This modest growth in tourism was further offset by continued contractions in the construction sector. Later-than-expected start-up of investment projects led to layoffs in this sector and its economic activity was over 9% down on the same quarter in 2018.

Several factors support an improved outlook for the Barbadian economy in 2019. These include an upturn in macroeconomic indicators, such as the fiscal deficit and primary surplus, associated with the BERT Plan; new private sector tourism projects; the new thrust in medical education services with the recent opening of Ross University School of Medicine; events such as the English cricket tour; the expected increase in port stops; and new projects such as the Kooyman retail complex and the Sagicor Retirement

Village. However, the manufacturing and non-tradable sectors are expected to remain subdued. Consequently, economic growth is projected to improve to 0.1% by the end of 2019, although this is not without downside risks. These include still-dampened economic activity stemming from ongoing fiscal consolidation efforts, delays in the start of large commercial projects, uncertainty in international oil prices, fallouts from international developments and ongoing global trade tensions. Growth is critical to the stability of the Barbadian economy, as fiscal measures alone are insufficient to lower its debt burden in the long term.

(c) Prices, wages and employment

As of December 2018, the average unemployment rate edged up to 10.1%, from 10.0% a year earlier. In the last quarter of 2018, the Government of Barbados began laying off 1,500 public sector workers and has announced further layoffs in 2019, which may contribute to higher unemployment this year.

The repeal of the National Social Responsibility Levy (NSRL) offset the rise in international energy prices, contributing to the drop observed in the moving average rate of inflation to 2.5% as of March 2019, compared with 4.7% a year earlier. For 2019 overall, lower energy prices, along with the stabilization of the exchange-rate peg, are expected to contain the inflation rate. An important downside risk is the institution of new revenue-boosting measures to offset the removal of the NSRL.

Following advocacy on the part of the public service unions, public sector salaries increased by 5% in August 2018, at a cost of approximately US$ 30 million to the government. Wage rises in the private sector were more modest, with hotel workers receiving a 2.5% increase in the third year of their collective agreement.

Table 1
BARBADOS: MAIN ECONOMIC INDICATORS

	2010	2011	2012	2013	2014	2015	2016	2017	2018 a/
	Annual growth rates b/								
Gross domestic product	-2.2	-0.8	-0.1	-1.4	-0.2	-2.2	2.3	-0.2	-0.6
Per capita gross domestic product	-2.6	-1.2	-0.5	-1.7	-0.5	1.9	2.0	-0.5	-0.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-6.3	-6.1	2.7	2.8	-3.9	-3.1	-2.0	...	...
Mining and quarrying	10.5	-13.6	-8.0	-16.6	22.6	22.4	-8.5	...	...
Manufacturing	-4.4	-5.3	-6.8	2.1	-1.7	-2.1	-1.3	...	...
Electricity, gas and water	2.1	-1.4	0.5	-0.8	0.0	-0.1	1.8	...	...
Construction	-9.8	9.0	-8.1	-11.1	-2.7	-1.1	8.3	...	...
Wholesale and retail commerce, restaurants and hotels	2.8	0.0	-1.0	0.5	0.6	2.1	2.5	...	...
Transport, storage and communications	0.1	0.5	2.0	0.9	0.5	1.4	1.8	...	...
Community, social and personal services	1.0	3.0	3.5	1.4	-0.1	-0.2	0.0	...	...
Balance of payments	**Millions of dollars**								
Current account balance	-236	-254	-411	-248	-433	-289	-206	-189	...
Goods balance	-1 076	-876	-846	-802	-1 299	-1 039	-957	-1 030	...
Exports, f.o.b.	431	862	851	885	792	801	835	803	...
Imports, f.o.b.	1 507	1 738	1 697	1 687	2 091	1 839	1 792	1 833	...
Services trade balance	904	773	747	734	1 456	1 367	1 409	1 520	...
Income balance	-113	-92	-300	-130	-200	-238	-237	-242	...
Net current transfers	48	-60	-12	-51	-390	-379	-421	-436	...
Capital and financial balance c/	191	242	439	92	388	226	83	52	...
Net foreign direct investment	329	83	565	-62	...	...	...	...	...
Other capital movements	-138	158	-126	154	388	226	83	52	...
Overall balance	-45	-13	28	-156	-45	-63	-123	-137	...
Variation in reserve assets d/	27	13	-28	156	45	63	123	137	...
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) e/	89.2	90.3	89.3	89.3	87.9	84.4	82.9	80.8	79.9
Net resource transfer (millions of dollars)	96	150	139	-38	188	-13	-154	-191	...
Total gross external debt (millions of dollars)	1 366	1 385	1 322	1 434	1 462	1 462	1 443	1 413	1 485
Employment	**Average annual rates**								
Labour force participation rate	67.0	66.6	67.6	66.2	66.7	63.8	65.1	66.5	65.3
Unemployment rate f/	10.8	11.2	11.6	11.6	12.3	11.3	9.7	10.0	10.1
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	6.5	9.6	2.4	1.1	2.3	-2.3	3.8	6.6	0.6
Nominal deposit rate g/	2.7	2.7	2.5	2.5	2.5	1.3	0.3	0.2	0.2
Nominal lending rate h/	8.3	8.1	7.2	7.0	7.0	6.9	6.7	6.6	6.7
Central government i/	**Percentages of GDP**								
Total revenue	25.2	27.4	26.4	25.3	26.1	26.8	30.4	30.2	30.6
Tax revenue	23.9	25.2	24.1	23.4	23.7	24.7	27.5	28.2	28.7
Total expenditure	33.7	31.5	34.3	35.7	33.8	36.2	36.2	35.0	30.9
Current expenditure	32.2	30.2	33.0	33.9	31.7	33.7	33.7	33.2	28.9
Interest	5.6	5.7	6.1	6.6	7.1	7.3	8.2	8.1	3.9
Capital expenditure	1.5	1.3	1.3	1.8	2.1	2.6	2.5	1.8	2.0
Primary balance	-3.0	1.5	-1.8	-3.8	-0.6	-2.1	2.4	3.3	3.6
Overall balance	-8.6	-4.1	-8.0	-10.4	-7.6	-9.4	-5.8	-4.8	-0.3
Non-financial public sector debt	93.0	96.8	106.3	116.2	121.9	129.5	138.4	136.9	125.4

Table 1 (concluded)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	74.6	73.4	81.7	87.7	86.1	95.0	101.6	...	...
To the public sector	13.9	14.7	19.3	26.4	27.7	35.8	41.2	...	...
To the private sector	60.7	58.7	62.4	61.2	58.4	59.2	60.3	59.8	...
Monetary base	10.6	12.3	15.5	14.9	16.6	21.4	26.6	24.7	...
M2	92.1	98.2	98.1	97.8	104.3	110.3	105.9	105.9	...

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

	2017				2018				2019	
	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)	310	331	265	239	189	213	253	525	532	...
Real effective exchange rate (index: 2005=100) b/	81.2	82.3	80.8	78.8	80.2	81.2	79.4	78.7	78.4	76.1 c/
Consumer prices										
(12-month percentage variation)	4.9	2.8	4.4	6.6	6.2	5.5	1.5	0.6	1.1 d/	...
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 c/
Nominal interest rates (average annualized percentages)										
Deposit rate e/	0.3	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2 f/	...
Lending rate g/	6.7	6.7	6.6	6.6	6.7	6.6	6.7	6.7	6.7 f/	...
Monetary policy rates	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0 f/	...
Domestic credit (variation from same										
quarter of preceding year)	4.5	...	...	...	...	...	...	...	...	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Quarterly average, weighted by the value of goods exports and imports.
c/ Figures as of May.
d/ Figures as of February.
e/ Weighted average rate of deposit rates.
f/ Figures as of January.
g/ Lending rate, weighted average.

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