

Barbados

In 2006, the Barbadian economy recorded 3.8% growth, almost the same rate as in 2005. In an attempt to moderate domestic demand, economic policy was geared towards improving the balance-of-payments position and containing inflation, which flared up in the second half of 2005. Thus, fiscal incentives and monetary restraint measures were applied and a further move was made towards liberalization of the exchange-control system.

Higher inflows from tourism are expected in 2007, owing to increased tourist arrivals because of the holding of the Cricket World Cup. This should contribute significantly to economic growth (4.2%) and a strengthening of the external accounts.

At the end of 2006, the fiscal deficit will be equivalent to 2.8% of GDP, which represents an improvement with respect to 2005 (3.9% of GDP). This deficit reflects expenditure on Cricket World Cup activities and the greater weight of the central government debt.

At the beginning of 2006, stronger fiscal adjustment measures were implemented. In the first six months of the year, receipts expanded significantly, which translated into a surplus on the current account as opposed to the deficit recorded in the same period in 2005. At the end of September, the current account again showed a deficit (B\$ 74.2 million), albeit a smaller one than in 2005 (B\$ 141 million). Fiscal revenue expanded, owing mainly to the higher tax receipts from international finance companies. Personal income tax also increased and revenue from property tax was up, following changes in assessment and the expansion of the tax base.

Expenditure rose by 4.7% in the first nine months of 2006, showing a certain moderation with respect to the same period in the previous year, when the increase was 11.1%.

In order to deal with the rise in energy costs, the government introduced a series of incentives to promote the use of more efficient technologies. For example, tax incentives were applied for the import and use of vehicles powered by diesel fuel, as well as the use of more efficient refrigeration systems and fluorescent lighting. In addition, a public-sector energy conservation programme was launched.

Another important fiscal measure for 2006 was the decision to increase the levy on extraregional imports,

known as the cess, from 3% to 6%. This was done to protect domestic manufacturers and raise funds to finance the creation of a new export promotions entity. The cess is expected to be removed by April 2007.

The government continued its practice of borrowing on the domestic market in order to avoid further deterioration in the external accounts. Even though net borrowing overall was down by B\$ 48 million compared with the previous year, net lending by the central bank to the government increased by B\$ 128 million.

The tight monetary policy applied in 2005 was maintained in 2006 and appeared to be achieving its objective. The growth of credit to the private sector was 7.1% in 2006 compared with 15% recorded in the same period in 2005. Interest rates trended upwards in the first six months of 2006. Consequently, deposits in the banking system grew by a higher rate than in 2005.

Steps were taken towards greater liberalization of the exchange-control system. Residents who earn foreign exchange can now hold foreign currency accounts up to B\$ 20,000 without prior authorization. Commercial banks are now entirely free to provide foreign exchange to residents wishing to travel within the Caribbean Community (CARICOM).

The sectors which contributed the most to economic growth were tourism, construction, manufacturing and financial services. Tourism picked up in the first three quarters of 2006 as value added rose by 1.9% after falling by 3.1% in 2005. Stay-over visitors increased by 4.0%. There were also significant increases in cruise ship arrivals, compared with the previous year.

For the second year in a row, construction was boosted by infrastructure spending in preparation for the Cricket World Cup. At 2.8%, growth in manufacturing was lower than the rate recorded in 2005 and was fuelled mainly by increases in the output of non-metallic mineral products

and chemicals. Financial services received a strong boost with the registration of over 224 new international business companies in the first two quarters, six more than in the corresponding period in 2005.

Inflation continued to be a major concern as prices soared (7.7% in the 12 months to July 2006). This was partly due to high energy prices, which have continued to take a toll on the economy. With the decline in oil prices, inflation is expected to moderate.

The first three months of 2006 saw unemployment decline to 8.1%, down from 9.9% in March 2005. The labour force participation rate fell, however, from 68.9% to 67.3% (1.6 percentage points) during the same period.

The balance-of-payments current account deteriorated during the first half of 2006. For the year as a whole, however, the external current account deficit is expected to decline slightly to 11.7% of GDP, compared to 11.9% of GDP in 2005. This improvement could be attributed to the effects of the temporary increase in tariffs on extraregional imports. Increased spending on imports of fuel and capital goods, together with increased debt service payments, led to a decline in the net international reserves of the monetary authorities.

Table 1
BARBADOS: MAIN ECONOMIC INDICATORS

	2004	2005	2006 ^a
Annual growth rates			
Gross domestic product	4.8	3.9	3.8
Consumer prices	4.3	7.4	7.7 ^b
Money (M1)	22.1	6.8	7.1 ^c
Real effective exchange rate ^d	4.0	-1.3	-3.4 ^e
Annual average percentages			
Unemployment rate ^f	9.8	9.1	8.1 ^g
NFPS overall			
balance/GDP	-2.2	-4.0	...
Nominal deposit rate	3.0	3.8	5.0 ^h
Nominal lending rate	7.4	8.5	10.0 ^h
Millions of dollars			
Exports of goods and services	1 517	1 736	1 810
Imports of goods and services	1 820	2 080	2 172
Current account	-337	-411	-410
Capital and financial account	180	343	369
Overall balance	-157	-68	-41

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

^a Preliminary estimates.

^b Twelve-month variation to July 2006.

^c Year-on-year average variation, January to August.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Year-on-year average variation, January to July.

^f Includes hidden unemployment.

^g Data refer to March.

^h Average from January to August, annualized.