

## Barbados

Economic growth in 2007 is expected to be around 4% (3.8% in 2006), driven mainly by the growth in the non-tradable sector and the strong performance of tourism stimulated by the Cricket World Cup. The fiscal deficit in the current fiscal year<sup>1</sup> is expected to stay at 1.5% of GDP, well within the target set by the government (2.5%). Public debt remains a major policy concern, with an estimated debt-to-GDP ratio of around 73% at end of 2007. Inflation posted a rate of 3.9% for the 12 months to July 2007 despite rising imported oil and food prices. Unemployment hovered around 8.1%. The current account deficit declined as compared to 2006 owing to increased tourism receipts which, combined with strong capital and financial inflows, resulted in a substantial increase in the overall balance of payments surplus. For 2008, economic growth is forecast at 3.5%.

Preliminary data show that central government current revenue for the first eight months amounted to US\$ 423 million, a year-on-year increase of 3.5%, while current expenditure reached US\$ 567 million, 16.3% higher than the previous year. Capital expenditure stood at US\$ 43 million, a rise of 13.4% over the same period in 2006. In fiscal year 2007-08 the fiscal balance is, therefore, expected to post a deficit of 1.5% of GDP, slightly lower than the 1.8% deficit recorded in the fiscal year 2006-07.

Various factors explain the widening of the fiscal deficit in 2007: the increase in the public sector wage bill, including the payment of arrears associated with the 7.5% rise in salaries and wages carried forward from 2006, the increase in current transfers and pensions, the increase in current and capital spending associated

with the Cricket World Cup, and payments related to the Harrison's Cave Redevelopment project. The deficit was financed mainly from domestic sources.

Central government debt remained above 70% of GDP at the end of 2007, constituting a serious obstacle for fiscal policy management. If the guaranteed debt of public entities is included, the debt-to-GDP ratio reaches 90%. The government has set the goal of reducing the central government debt to 60% of GDP by 2012.

Meanwhile, inflation posted a rate of 3.8% as of July 2007 (5.6% in 2006), owing to slower growth in domestic credit to the non-financial private sector combined with an increase in deposits at commercial banks. The latter rose by a high 12.6% to September, twice as fast as the expansion recorded during the

<sup>1</sup> The current fiscal year runs from April 2007 to March 2008.

same period in 2006. In November, as a result, the Central Bank reduced the minimum deposit rate from 5.25% to 4.75%.

Preparing for the removal of exchange controls in December 2007, the government announced that it was in the process of liberalizing interest rates, reducing the securities element of the reserve requirement by another 6 percentage points, and increasing the autonomy of the Central Bank. It also stated that it will allow the Central Bank to set the minimum deposit interest rate without prior approval from the Ministry of Finance.

Economic growth in 2007 has been driven mostly by growth in the non-tradable sector; however, it represents only a quarter of total real economic activity. The disparity in performance between the tradable and non-tradable sectors signals continuity in a trend observed since 2005 and is indicative of a potential loss of competitiveness and transitional structural challenges in some parts of the tradable sector, especially agriculture and manufacturing.

Growth in the non-tradable sector was around 5%, propelled by the wholesale and retail trade sector (5.9%); transportation, storage and communications (5.6%); business and other services (5.1%), and construction (5%). The latter sector was buoyed by continued work on both public and private road infrastructure programmes as well as residential and commercial developments spurred by increased mortgages.

In 2007 growth in the tradable sector was less sluggish than in 2005 and 2006, at 2.5%. This was mainly driven by renewed strength in the tourism sector resulting from the Cricket World Cup held in March and April, which attracted tourists to Barbados from new countries of origin, in addition to the traditional markets of Canada, the United Kingdom and the United States. Real value added in the tourism sector grew by about 3.3% in 2007, more than twice the figure of 1.6% recorded in 2006. There were, however, declining arrivals from Trinidad and Tobago and other CARICOM countries, accounted for by a reorganization of regional air carriers and increased costs of intraregional travel in early 2007. The cruise industry rebounded in 2007, in part thanks to the Cricket World Cup.

As regards the external sector, in 2007 the current account deficit declined to US\$ 268 million (7.2% of GDP), compared with US\$ 289 million (7.7% of GDP) the previous year. As mentioned above, this improvement was mainly the result of rapid growth in net travel and tourism receipts, which were 10.2% higher than in

#### BARBADOS: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	4.1	3.8	4.0
Per capita gross domestic product	3.7	3.5	3.7
Consumer prices	7.4	5.6	3.9 <sup>b</sup>
Money (M1)	6.8	4.6	5.5 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	-1.3	-2.7	1.2 <sup>e</sup>
<b>Annual average percentages</b>			
Unemployment rate <sup>f</sup>	9.1	8.7	8.1
National administration overall balance / GDP <sup>g</sup>	-1.4	-1.6	-1.5
Nominal deposit rate <sup>h</sup>	3.8	5.0	5.5 <sup>i</sup>
Nominal lending rate <sup>j</sup>	8.5	10.0	10.5 <sup>i</sup>
<b>Millions of dollars</b>			
Exports of goods and services	1 836	2 062	2 184
Imports of goods and services	2 144	2 209	2 311
Current account	-385	-289	268
Capital and financial account	317	333	566
Overall balance	-68	44	298

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to July 2007.

<sup>c</sup> Twelve-month variation to August 2007.

<sup>d</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>e</sup> Year-on-year average variation, January to July 2007.

<sup>f</sup> Includes hidden unemployment.

<sup>g</sup> Fiscal year (April-March).

<sup>h</sup> Weighted average of the deposit rate.

<sup>i</sup> Average from January to August, annualized.

<sup>j</sup> Prime rate.

2006. Surges of net inflows in the capital and financial account reflected long-term private sector inflows tied to tourism-related projects and purchases of real estate, long-term public inflows resulting from a bond issue by a statutory corporation, and short-term net inflows related to pre-shipment financing for the sugar harvest and financing of the airport development project. As a result, the overall balance of payments surplus increased substantially (US\$ 298 million compared to US\$ 44 million in 2006), and net international reserves increased to US\$ 1.15 billion as at the end of August 2007, up from US\$ 929 million at the end of 2006.

Continuing challenges will be export competitiveness and the advent of the CARICOM Single Market and Economy (CSME) in 2008. The government is moving to phase out foreign exchange controls as part of a strategy designed to attract increased foreign investment in targeted economic areas. As authorities embark on a new tourism marketing strategy based on promoting lifestyle tourism, the sector's performance next year may be adversely affected by continued oil price rises and the resulting increased airfares and higher costs of port-calling for

cruise liners. Prospects of an economic slowdown in the United States, together with the Western Hemisphere Transport Initiative (WHTI), which introduces passport

requirements for United States citizens returning from the Caribbean, may also have an important negative effect on tourist arrivals.