

## Barbados

The economy of Barbados maintained an extremely sluggish trajectory during 2012, recording growth of a mere 0.2% during the year. This performance reflected the protracted weakness of the global economy, which resulted in a small decline in tourism value added, the country's main economic driver, and in manufacturing and agriculture. The economy was, however, bolstered by modest expansion in construction and international finance. The lacklustre economic growth was reflected in a falling rate of inflation, a slight increase in unemployment, a wider fiscal deficit and a marginal increase in public debt. Declining imports improved the current account balance, though it remained in deficit. A moderate drop in net capital inflows reduced foreign-exchange reserves to US\$ 751 million as at August 2012, representing four months of import cover. Given the continued weakness in the United States and European economies, the prospects for economic growth remain limited, with a tepid acceleration to 1% projected for 2013.

The fiscal deficit stood at 5.9% of GDP during the period April to September 2012, representing a deterioration of 1.2 percentage points over the same period in 2011. This was on account of a 2% reduction in overall tax revenue, as personal income taxes and VAT fell by 13% and 4% respectively, which in turn reflected the low level of economic activity in the real sector during the period. Total expenditure increased by 1%, driven primarily by a 3% rise in interest payments and

a 13% increase in individual transfers. These transfers include rebates to farmers, as well as tax credits for health care. The widening of the fiscal gap was, however, tempered by a doubling of the property tax take due to enhanced collection efforts, as well as lower capital spending, as outlined in the government's medium-term fiscal adjustment strategy. Financing of the deficit pushed gross government debt up to 79.3% of GDP in September 2012, compared to 76.1% a year earlier.

In light of the lethargic economic activity, the central bank maintained a generally loose monetary policy and confined itself to a review of its guidelines for intervention and credit risk management during the first three quarters of 2012. Slack economic activity

was also reflected in average credit growth of less than 1% across all sectors, while domestic deposits grew by only 0.7% between September 2011 and September 2012. Residential mortgages performed better than personal loans, rising 6.5% September-September. Bank liquidity remained high as the excess liquidity ratio increased from 9.6% in 2011 to 14.5% in 2012. The average loan rate fell marginally from 9.3% to 8.7%, while the three-month treasury bill rate remained unchanged at 3.5% during the period.

Tourism, the mainstay of the Barbados economy, continued to perform below par in 2012. Long-stay arrivals were down by 5%, while cruise passenger arrivals declined by 2.1% in the first three quarters, reflecting the difficult economic conditions in the main source markets of Europe and the United States. Reduced airlift into the Caribbean also contributed to this decline, as evidenced by the regional airline RedJet ceasing operations in June. Manufacturing slowed by a further 4% compared to 2011, while agriculture overall contracted marginally in spite of a 4.4% increase in sugar production in 2012. In the field of international finance, the number of newly registered companies rose 3.2% between September 2011 and September 2012. Residential construction

activity was up slightly, but wholesale and retail activity remained flat for the first three quarters of 2012.

Inflation fell by 2.3 percentage points from the end of 2011 to 7.8% in July 2012, reflecting a moderation of international food and fuel prices during the period. The average unemployment rate, however, trended slightly upward from 11.5% in September 2011, to 12.2% in July 2012. Most job losses occurred in the accommodation, airline and food services subsectors as a result of the activity downturn in tourism. The current account deficit narrowed from 7.5% to 5.4% of GDP between September 2011 and September 2012. A 19% reduction in retained imports along with a 5.3% rise in exports largely accounted for this change. The surplus on the capital and financial account also fell by 6.7% during the period, to stand at US\$ 150 million by September 2012, reflecting significant declines in real estate inflows (down 7.6%). Loan and equity flows also dropped back by 62%, after the major boost occasioned by the sale of shares in the Barbados Light and Power Company (BL&P) in 2011. International reserves declined 7%, to US\$ 751 million at August 2012, representing roughly 16 weeks of import cover at that time.

The Barbadian economy has continued to suffer from the economic fallout of repeated global crises, and growth of only 0.2% in 2012 will be followed by growth of just 1% in 2013, on the strength of a modest

<b>BARBADOS: MAIN ECONOMIC INDICATORS</b>			
	2010	2011	2012 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	0.2	0.4	0.2
Per capita gross domestic product	0.0	0.2	0.0
Consumer prices	6.5	9.6	4.4 <sup>b</sup>
Money (M1)	2.2	-1.0	-22.6 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	2.9	-3.7	-3.8 <sup>e</sup>
<b>Annual average percentages</b>			
Urban unemployment rate <sup>f</sup>	10.8	11.2	12.2
Non-financial public sector			
overall balance / GDP	-7.8	-5.2	-5.8
Monetary police rate	7.0	7.0	7.0 <sup>g</sup>
Nominal lending rate <sup>h</sup>	9.5	9.3	8.7 <sup>g</sup>
<b>Millions of dollars</b>			
Exports of goods and services	1 886	1 854	...
Imports of goods and services	2 150	2 281	...
Current account balance	-366	-506	...
Capital and financial balance <sup>i</sup>	400	473	...
Overall balance	34	-32	...

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

<sup>a</sup> Estimates.

<sup>b</sup> Twelve-month variation to June 2012.

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

<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 October.

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

<sup>g</sup> January-July average.

<sup>h</sup> Weighted average of the system lending rates.

<sup>i</sup> Includes errors and omissions.

upturn in construction and in long-term tourism capital inflows starting towards the end of 2012. This projection is, however, contingent on economic prospects in the main tourism source markets of Europe and the United States.