
Barbados

1. General trends

In 2003 Barbados managed to halt the decline suffered by its economy in the preceding two years, posting positive growth (2.2%) that continued into the first quarter of 2004 (4.2%). The expansion was mainly attributable to tourism, commerce and construction, which grew by 7.3%, 3.1% and 3%, respectively, in 2003 and by 6.2%, 3.5% and 3.1% in the early part of 2004.

The central government's income rose in line with the revival of economic activity, while total expenditure decreased slightly. As a result, the fiscal deficit shrank from 5.4% of GDP to 2.5% between fiscal years 2002 and 2003. The fiscal position strengthened further in the first quarter of 2004, when the deficit turned into a surplus.

In addition to the recovery of economic growth and improved fiscal management, the financial system increased its net external assets through the sale of shares in a national financial institution. This brought down interest rates on government paper, resulting in a somewhat lighter domestic debt burden. The sale of shares also contributed to the surplus on the capital and financial account (including errors and omissions),

which was used to finance the current account deficit (8% of GDP) and to boost international reserves. The positive balance was maintained in the first quarter of 2004, also on the strength of the tourism sector's buoyancy and a decline in imports.

The economy is expected to grow faster in 2004 (by 3%), led by the expansion of tourism. In addition, the authorities plan to keep a tight rein on public finances, with a view to holding the deficit down to 2.3% of GDP. Tourism earnings should improve the country's external position and, if international prices remain stable, inflation could stay close to the level recorded in 2003 (an annual average of 1.6%). This scenario could change, however, depending on how international oil prices affect macroeconomic aggregates.

2. Economic policy

(a) Fiscal policy

The deficit in fiscal year 2003 (2.5% of GDP) was half the level recorded in the preceding period (5.4%)

and well within the target set by the government authorities (4.8%). In fiscal year 2002 the government had pursued a countercyclical policy to stimulate the economy in the wake of the preceding year's contraction.

Table 1
BARBADOS: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003 ^a
Annual growth rates^b									
Gross domestic product	2.5	3.1	4.6	6.3	0.2	2.6	-3.4	-0.5	2.2
Per capita gross domestic product	2.1	2.7	3.0	4.0	2.9	3.4	-3.2	-0.8	0.5
Gross domestic product, by sector									
Sugar	-26.0	53.9	9.4	-25.9	11.2	9.6	-14.7	-9.8	-19.2
Non-sugar agriculture and fishing	18.0	1.4	-7.5	-3.2	8.4	0.0	-5.8	-0.6	2.1
Manufacturing	8.4	-0.9	3.8	3.4	-2.4	-0.5	-8.2	0.2	-0.7
Construction	12.1	4.0	14.2	16.9	10.0	2.6	-4.4	3.1	3.0
Basic services ^c	3.5	3.1	3.2	5.4	4.5	1.4	2.7	-0.7	1.0
Other services ^d	1.1	2.3	2.9	4.6	2.6	4.5	-2.2	-0.4	1.5
Millions of dollars									
Balance of payments									
Current account balance	44	71	-49	-62	-147	-145	-111	-171	-215
Merchandise trade balance	-446	-456	-599	-651	-714	-744	-681	-702	-799
Exports, f.o.b.	245	287	289	270	275	286	271	253	256
Imports, f.o.b.	691	743	888	921	989	1 030	952	955	1 055
Services trade balance	503	540	550	591	571	603	570	546	581
Income balance	-48	-52	-48	-56	-71	-82	-93	-96	-93
Net current transfers	34	40	47	53	67	78	94	86	99
Capital and financial balance ^e	...	17	...	57	184	323	333	260	402
Net foreign direct investment	8	10	14	15	16	18	17	...	...
Financial capital ^f	...	7	...	42	168	305	316	...	...
Overall balance	42	86	17	-6	36	178	222	89	187
Variation in reserve assets ^g	-25	-61	-9	6	-37	-178	-223	-89	-187
Other external-sector indicators									
Total gross external debt (millions of dollars)	479.1	481.1	427.5	453.3	492.4	605.4	539.5	754.8	737.3
Total gross external debt (% of GDP)	25.7	24.1	20.1	19.6	19.8	23.4	21.2	30.0	27.2
Employment									
Labour force participation rate ^h	68.2	68.1	67.8	67.8	67.8	68.6	69.5	68.5	...
Unemployment rate ⁱ	19.7	15.6	14.5	12.3	10.4	9.2	9.9	10.3	11.1
Annual percentages									
Prices									
Variation in consumer prices (December-December)	...	...	...	...	...	3.8	-0.3	0.9	0.3
Nominal deposit rate	5.2	5.2	4.2	4.3	4.8	4.9	3.1	2.6	2.6
Nominal lending rate	11.8	11.9	11.9	11.6	11.7	11.9	11.1	10.4	10.2
Millions of Barbados dollars									
Consolidated non-financial public sector									
Income	1 224	1 471	1 559	1 620	1 731	1 735	1 745	1 857	1 953
Expenditure	1 373	1 523	1 596	1 688	1 828	1 949	2 005	1 994	2 094
Overall balance	-150	-52	-36	-69	-97	-215	-260	-137	-141
Public debt									
Domestic	1 762	1 987	2 037	2 141	2 134	2 204	2 333	2 605	2 615
External	359	365	350	339	389	514	680	673	667
Percentages of GDP									
Money and credit									
Domestic credit	60.9	62.5	62.6	63.7	66.9	68.1	71.4	74.0	73.0
To the public sector	13.7	14.5	15.9	14.1	12.6	12.5	13.4	15.4	17.6
To the private sector	47.1	48.0	46.7	49.6	54.4	55.6	58.0	58.5	55.4
Money stock and local-currency deposits (M2)	54.3	58.8	56.7	58.3	61.8	64.3	69.4	76.7	...

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 1979 prices. ^c Includes electricity, gas and water and transport, storage and communications. ^d Includes retail commerce, restaurants and hotels; financial institutions, insurance and real estate; and social and personal services. ^e Includes errors and omissions. ^f Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^g A minus sign (-) denotes an increase in reserves. ^h Economically active population as a percentage of the working-age population. ⁱ Unemployed population as a percentage of the economically active population. Includes hidden unemployment.

In fiscal year 2003, however, the authorities concentrated on reducing the fiscal deficit with a package of measures for curbing expenditure and increasing tax receipts.

Fiscal revenues expanded by 6.4% in fiscal year 2003, owing mainly to an increase in indirect taxes (16.4%). Revenues from the value added tax, specific taxes and property taxes were up by 15.7%, 10.2% and 21.1%, respectively. Current expenditure climbed by 3.6%, or somewhat less than tax revenues, as a result of a rise in current transfers (27%). This was due in part to the new status of Queen Elizabeth Hospital, which is no longer administered by the central government. Accordingly, expenditure on wages and salaries, as well as goods and services outlays, were reclassified as current transfers. The change in the hospital's status, along with the completion of infrastructure projects and the government's belt-tightening policy, also resulted in a drop in capital expenditure (-22%).

The deficit was financed with external resources, despite a significant 31.2% increase in principal payments that more than offset the inflow of funds from government projects.

In 2004 fiscal policy is aimed at achieving the fiscal sustainability needed to keep the deficit at or below the target level of 2.5% of GDP. Another aim of fiscal policy is to bring the tax system into line with the fiscal harmonization requirements of the Caribbean Community (CARICOM) Single Market and Economy.

The tax measures consist of reducing the basic and marginal rates of personal income tax and raising the tax exemption threshold to effectively increase disposable income. The basic rate dropped from 25% to 22.5% in 2003 and to 20% in 2004. The marginal rate will decline from its current level of 40% to 37.5% in 2005 and 35% in 2006. The tax exemption threshold will be increased from 15,000 Barbados dollars (BD\$\$) in 2004 and to BD\$\$ 25,000 in 2007. The corporate tax rate will fall from 40% to 25% in 2007. The government also reduced land tax.

The central government's debt stock fell from 65% of GDP in 2002 to 61% in 2003, as the external debt was reduced from US\$ 673 million to US\$ 667 million. Domestic debt, which is nearly twice as large as total external obligations, remained at its 2002 level (US\$ 1.3 billion). The bulk of domestic debt consists of short-term treasury bills and long-term debentures.

(b) Monetary and exchange-rate policy

The monetary authorities focused their attention on liberalizing interest rates for current and capital operations. Since August 2001 the central bank has set indicative weighted average lending rates for

commercial banks, with a view to exerting downward pressure on the cost of money and stimulating economic growth.

In 2003 the Barbadian economy's abundant liquidity and better growth prospects enabled the central bank to reduce the minimum deposit rate by 25 basis points, from 2.5% to 2.25%, with a view to avoiding the imposition of a mandatory floor in the interest rate structure. More specifically, this measure was intended to bring about a decline in lending rates, for the purpose of reducing businesses' operating costs.

In 2003 the US\$ 187 million rise in net international reserves as a result of the sale of shares in a commercial bank to a foreign private company led to an increase in bank deposits (of 8%) and, therefore, to an expansion of monetary aggregates, notwithstanding a 9.2% contraction in net domestic credit. The monetary base therefore grew by 19% and the broad money supply, by 7%.

Given the non-financial private sector's weak demand for credit (9%), liquidity in the commercial banking system increased. Accordingly, the excess liquidity ratio rose from 17.8% in 2002 to 20.9% in 2003.

In these conditions, the banking system adopted a risk-averse stance, limiting the degree to which it lowered interest rates on loans (the weighted average lending rate for total commercial bank loans was 10.35% in 2002 and 10.16% in 2003) and using its liquid resources to purchase treasury bills. The consequent increase in demand for these bills brought down their interest rates by one percentage point (from 1.5% in December 2002 to 0.6% in December 2003 and 0.4% in February 2004). The central bank expects that the private banking system will continue to show excess liquidity as a result of the concentration process currently in evidence among the country's financial institutions.

The government has embarked on a process of gradual financial liberalization and reform. In the case of current transactions, most restrictions on goods and services payments have been removed, and the remaining restrictions are expected to be eliminated by the end of 2004. Capital transactions have also begun to be gradually liberalized in the context of the CARICOM Single Market and Economy (CSME). In January 2004 controls on the investment of assets in corporate securities traded within the CARICOM region were lifted, although investments in government securities are still subject to restrictions. The authorities have proposed the elimination, by 2006, of all controls on capital transactions within the CSME. Such a liberalization policy poses a considerable challenge to the monetary authorities, particularly with respect to the future viability of the existing exchange-rate system.

3. The main variables

(a) Economic activity

In 2003 the Barbadian economy expanded by 2.2% after having shrunk for two consecutive years (with growth rates of -3.4% in 2001 and -0.5% in 2002). Growth was boosted by both tradable and non-tradable goods. Of particular importance were activities linked to tourism, fishing, construction and other services.

Output in the agriculture, forestry, hunting and fishing sector contracted because of a slump in sugar production (-19%), which offset the moderate growth posted in the remaining subsectors (2.1%), including a significant increase in fishing (9.3%). Production in this sector is expected to grow by less than 1% in 2004 because of a 1.4% decline in fishing activity, even though sugar output is projected to increase by 5.6%.

The government plans to reverse the downward trend in agriculture and to double its contribution to GDP, given the primary sector's vital role in creating employment, producing food and boosting rural development. The authorities are therefore implementing initiatives such as the identification of alternative uses for sugar cane and the development of an integrated cotton industry.

Manufacturing again contracted slightly (-0.7%), continuing the downward trend begun in 1999, which was interrupted only by a slight upturn in 2002 (0.2%). The outlook for manufacturing will depend on the sector's ability to compete in the regional (CSME) and hemispheric (Free Trade Area of the Americas (FTAA)) contexts. The government's aim is to increase manufacturing output by 5% to 10% and to boost the sector's exports by 15% to 20% over the next three years (2004-2006). The incentives put in place to achieve these targets include technical assistance provided through the Barbados Industrial Development Corporation, the capitalization of the Industrial Investment and Employment Fund and the introduction of a tax on corporations devised especially for the manufacturing sector.

The performance of tourism (7.3%), which stood in sharp contrast to its growth rates of -5.9% in 2001 and -2.7% in 2002, reflected faster economic growth in Europe and the United States, an increase in cruise-ship calls at the country's ports and the expansion of air transport capacity. Total tourist arrivals were up by 6.7% and arrivals of cruise-ship passengers, by 6.9%.

In the interests of diversifying tourism and developing market niches, the authorities adopted the Tourism Development Act and undertook initiatives to improve tourism services, including projects to develop and upgrade infrastructure, measures to increase investment capacity and the formulation of a tourism promotion strategy.

(b) Prices, wages and employment

Inflation was higher in 2003 than it had been the preceding year (averaging 0.2% in 2002 and 1.6% in 2003). The increase was mainly due to higher prices for food, medicine, toiletries and transport.

In 2004 inflation is expected to rise as a result of the predicted increase in oil prices from June onward. Fuel prices rose in the third and fourth quarters of 2003, but this did not affect inflation because the government decided to absorb the additional cost of the oil bill without passing it on to consumers. This policy, which resulted in significant losses for the Barbados National Terminal Company Limited, will change starting in the second half of 2004, when domestic petroleum prices will begin to reflect the actual cost of petroleum imports.

The unemployment rate climbed by almost a full percentage point, from 10.3% in 2002 to 11.1% in 2003. The number of women employed dipped slightly, from 62,600 in 2002 to 61,900 in 2003, while the number of men employed remained practically unchanged (67,100 in 2002 and 67,500 in 2003). The sectors with the highest levels of employment were services (including government and tourism services), commerce and construction.

(c) The external sector

The overall balance-of-payments outcome was positive, at 7% of GDP in 2003 (as against 3.5% in 2002), given that the current account deficit (8% of GDP) was more than offset by the surplus on the capital and financial account.

The merchandise trade deficit widened from US\$ 702 million in 2002 to US\$ 799 million in 2003 because the growth of exports (1.3%) was far outstripped by that of imports (10.5%). The performance of exports reflected a downturn in external sales of food and beverages,

which was somewhat offset by an improvement in sugar sales. In addition, most manufacturing exports were down during this period on account of the standstill in this sector of the economy.

Imports kept pace with the upturn in domestic economic activity. Consumer goods imports (8.1%) benefited from lower personal income tax rates and buoyant activity in the tourism sector, while imports of capital and intermediate goods were up by 14%. Imports of consumer goods as a whole will grow by an estimated 11% in 2004, and external purchases are likely to

continue to rise in the future as trade and financial transactions are gradually liberalized.

The fact that the capital and financial account surplus was much bigger than it had been in 2002 was largely due to inflows of long-term capital from the sale of shares in a commercial bank to a foreign private company. Inflows of public and private capital are expected to decline in 2004, reducing the capital and financial account surplus by 21%. Thus, the overall balance-of-payments out-turn should again be positive in 2004 (at US\$ 30 million), albeit well below its 2003 level (US\$ 187 million).