

Barbados

The Barbados economy is expected to grow by 0.5% in 2015, fuelled by a strong performance primarily in the tourism sector, with long-stay arrivals up 14.5% as of September 2015. Value added in the international business and financial services and manufacturing sectors has been stagnant, while construction activity has been weaker than expected. In spite of this slow growth, the fiscal deficit had contracted significantly to an annualized 6.7% of GDP in September and the current account deficit to 5.9% of GDP by the third quarter of 2015. However, gross government debt remains a concern, having increased by 6.8% of GDP year-on-year, while domestic interest payments have risen. Inflation has dropped considerably, standing at 0.8% in September 2015, largely because of falling fuel prices, while unemployment had dipped slightly to 12%. Growth of 1% is forecast for 2016, driven by a continued positive performance in the tourism sector and by private sector commercial investments and hotel construction projects.

The government of Barbados has reaped some rewards from its medium-term fiscal strategy, with the fiscal deficit down from 11.2% of GDP in fiscal year 2013/14 to an annualized 6.7% of GDP as of September 2015. Government revenue was up by BDS\$ 50.4 million (4.5%) in September 2015, driven mainly by a BDS\$ 99 million increase in property tax receipts (a more than eightfold rise over the April to September 2014 period) and a 24.8% increase in excise tax. This revenue growth was slightly tempered, in particular, by a 51.6% drop in non-tax revenue and a 4.9% fall in value added tax (VAT) receipts as of September 2015. Government current expenditure held fairly steady, with a slight increase of 1.7% year-on-year that was primarily due to a BDS\$ 16.8 million rise in domestic interest payments. The large fiscal deficit continues to negatively impact the gross government debt stock, which increased by 6.8% of GDP between September 2014 and September 2015. This increase was driven primarily by increased debt holdings at the Central Bank of Barbados.

The slowdown in the economy is evidenced by the stagnation of domestic lending to the private sector, which was down by 1.9% in September 2015 relative to the end of 2014. The popularity of saving bonds issued by the central bank, along with high liquidity in the banking system, has contributed to high liquidity overall, so that M3 was up by a substantial 65.6% between the end of 2014 and September 2015. Despite this liquidity in the banking system, a fund of US\$ 70 million, borrowed from the Inter-American Development Bank, was created by the Barbados government to provide easier access to financing for small and medium-sized businesses for expansion or restructuring, given the limited availability of commercial bank instruments for such businesses. This facility is expected to provide a slight boost to the sluggish Barbadian economy.

Although international reserves (US\$ 976.7 million in September) are at their lowest since the 2008 global financial crisis, providing 3.6 months of import cover, the Central Bank of Barbados continues to support the country's fixed exchange rate (BDS\$ 2 to US\$ 1). However, maintenance of current reserve levels will be highly dependent on continued growth in the major sectors of tourism and international business.

Between September 2014 and September 2015, the current account deficit narrowed considerably from 10.6% of GDP to 5.9% of GDP, mainly due to increased transfers (up 45.9%), recovery in tourism-related inflows (up 5.0%) and increased exports of rum (up 5%) and sugar. Meanwhile, the capital and financial account fell considerably (56.6%) because of a 55.5% decline in long-term capital, the result being a fall in international reserves from US\$ 1.052 billion to US\$ 976.7 million.

Barbados' economy is expected to experience 0.5% GDP growth in 2015, slightly better than the 0.2% of 2014. This growth has been propelled primarily by the encouraging performance of the tourism sector during the first three quarters of 2015. Long-stay arrivals increased by 14.5% in this period, with most of this growth coming from the major source markets of the United States, Canada and the United Kingdom. However, this improvement was countered by lower than expected construction activity (down 1.7%), with the start of a number of hotel construction projects now deferred to 2016 and a 1.5% decline in manufacturing. Financial services have remained fairly constant, with a small expansion of 0.6%, despite Barbados being blacklisted by several members of the European Union as a non-cooperative tax jurisdiction, which the government has been challenging. Growth in all other sectors has been marginal. If commercial projects by the private sector amounting to US\$ 50 million receive the necessary approvals and hotel construction projects are jump-started next year, growth is projected at 1% in 2016.

Having stood at 1.1% in January 2015, the inflation rate fell gradually to -1.8% by August, the lowest since the 2008 economic crisis. Falling domestic fuel costs and food prices contributed to the

Barbados: main economic indicators,			
2013-2015			
	2013	2014	2015 ^a
Annual growth rate			
Gross domestic product	-0.1	0.2	0.5
Per capita gross domestic product	-0.4	-0.1	0.2
Consumer prices	1.1	2.3	-0.3 ^b
Money (M1)	5.5	9.4	11.3 ^c
Real effective exchange rate ^d	-0.1	-0.5	-2.3 ^e
Annual average percentage			
Urban unemployment rate ^f	11.6	12.3	11.9
Non-financial public sector			
Overall balance / GDP	-11.2	-6.9	-8.6
Nominal deposit rate ^g	2.5	2.5	2.5 ^c
Nominal lending rate ^h	8.5	8.6	8.6 ^c
Millions of dollars			
Exports of goods and services
Imports of goods and services
Current account balance	-397	-369	...
Capital and financial balance ⁱ	240	323	...
Overall balance	-157	-46	...

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

a Estimates.

b Figures as of July.

c Figures as of August.

d A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.

e Figures as of October.

f Includes hidden unemployment.

g Weighted average of deposit rates.

h Weighted average of lending rates.

i Includes errors and omissions.

substantial decline in inflation. The opening of Sandals Beach Resort in 2015 probably contributed to the dip in unemployment, which fell from 12.4% in September 2014 to 11.9% in September 2015.