BARBADOS

1. General trends

The economic landscape for Barbados remains very challenging. Fiscal consolidation measures implemented in 2017, while badly needed to address the high fiscal deficit, have contributed to a slowdown in economic activity. Consequently, GDP growth in 2017 fell to 0.6%, relative to 2.0% in 2016. Growth of 1.2% in the tourism sector and 6.3% the construction sector were the primary contributors to this modest outturn. In the first quarter of 2018, GDP growth fell by 0.7% compared to growth of 3.2% in the prior-year quarter, primarily because the increase in long-stay arrivals was offset by a reduction in the overall average length of stay, as growth in the shorter-staying United States market continued to pick up.

The government’s main challenge continues to be addressing the fiscal deficit and bringing debt to manageable levels. Fiscal adjustment measures implemented in 2017 yielded modest improvements but fell short of expected targets, since the fiscal deficit narrowed by 0.3 percentage points of GDP to 4.2% of GDP, still 4.5 GDP points below the target of a 0.3% fiscal surplus. The gross central government debt, which includes borrowings from the Central Bank of Barbados and the National Insurance Scheme, increased by 3.6 percentage points to reach 151% of GDP as of March 2018. At the end of the first quarter of 2018, the Central Bank of Barbados’ stock of international reserves had fallen by 40% relative to the same period in 2017, to US$ 211.7 million, which represented 6.9 weeks of import cover. The newly elected Barbados Labour Party is seeking debt restructuring assistance with the International Monetary Fund (IMF). During the debt restructuring process, the government has also indicated its intention to suspend debts owed to external commercial creditors and pay only interest on domestic debt while asking domestic creditors to roll over principal maturities.

The annual inflation rate at the end of the first quarter of 2018 was up by 1.6 percentage points year-on-year, to 4.5%, largely owing to rising energy prices and stricter fiscal consolidation measures. By the end of 2017, the unemployment rate had climbed to 10.2%, compared with 9.7% in 2016; a reflection of the slowdown in economic activity. Given the downturn in tourism during the first quarter of 2018, continued delays in tourism-related projects, waning investor confidence and the ongoing fiscal challenges, economic growth is projected to slow further to 0% in 2018. At this critical juncture, the Barbados economy needs decisive measures to address the public finances and, in turn, stabilize and grow the economy.

2. Economic policy

(a) Fiscal policy

The Government of Barbados continues to focus on fiscal consolidation to tackle the large fiscal deficit and bring the debt down to manageable levels. Fiscal adjustment measures implemented in 2017 improved the primary balance and fiscal deficit somewhat but fell short of expected targets. By the end of fiscal year 2017/18, the Government of Barbados aimed to achieve total revenue of 35.5% of GDP and total expenditure of 35.5% of GDP, which would have equated to an overall balanced fiscal budget and a primary balance of 7.7% of GDP. Instead, the estimated outturn for total revenue fell short by 4.6 percentage points, yielding 31.0% of GDP. Total expenditure came in as expected, at 35.5% of GDP. At the end of the fiscal year, the deficit stood at 4.6% of GDP, short of the balanced budget target. The primary balance also fell short, by 3.8 percentage points, instead yielding 3.9% of GDP. This outcome was attributed to continued delays in the divestment of State assets, the overall underperformance of revenue, particularly the National Social Responsibility Levy (NSRL) and value added tax (VAT) and higher-than-expected interest expenditure.

For fiscal year 2017/18, total revenue expanded by 6.5%, in large part owing to a 13.7% increase in indirect taxes associated with the fiscal consolidation efforts. The National Social Responsibility Levy, one of the primary fiscal consolidation measures, contributed 56.3% of the increase seen in indirect taxes but fell short of the targets. The revenue shortfall may be attributed to exemptions from the tax for certain categories of goods and the fall in non-oil imports during the latter half of 2017, which dampened overall collection. Similarly, VAT yields increased by 36% but missed the targets for similar reasons as the National Social Responsibility Levy. Import duties fell by 7.5% and non-tax revenue and grants by 13.6%. In terms of direct taxes, receipts from corporation taxes rose by 9.2%, partly because of improved profitability of some financial institutions and effects of the reduction in the carry forward period for taxes of group companies. This rise was nevertheless enough to produce a marginal increase in overall direct taxes. On the expenditure side, current expenditure expanded by 3.7% primarily because of a 3.7% increase in domestic interest payments and a 7.9% rise in transfer and subsidies, particularly grants to individuals and public institutions.

The gross central government debt, which includes borrowings from the Central Bank of Barbados and the National Insurance Scheme, increased by 3.6 percentage points to reach 151% of GDP as of March 2018. Most of this increase was related to issuance of securities to cover resolution costs of protecting policyholders of CLICO International Life Insurance Ltd. Further increases stemmed from the creation of a contingent liability by guaranteeing the payment of the principal and interest of the bonds issued by New Life Investment Company Inc. Other increases in debt resulted from efforts to protect British American Insurance Company Ltd. policyholders.

The Barbados Labour Party, which won the general elections in May 2018, announced that as part of their Public Debt Restructuring Plan, they will be seeking debt restructuring assistance with IMF. They also indicated their intention to suspend debts owed to external commercial creditors while paying only interest payments due on domestic debt and asking domestic creditors to roll over principal maturities until the debt restructuring efforts have concluded. Following this announcement, Caribbean Information and Credit Rating Services Limited (CariCRIS), a regional rating agency, placed Barbados on a “rating watch” and listed the island’s credit worthiness as “poor”. Therefore, both the foreign and local currency ratings now stand at “Cari C”.

(b) Monetary and exchange-rate policy

The central bank continues to support the fixed exchange-rate peg of US$ 2 = 1 Barbados dollar (BDS$); a position typically achieved by maintaining adequate levels of international reserves. However, these reserves have fallen precipitously, standing at US$ 211.7 million as of March 2018; this represented just 6.9 weeks of import cover, much less than the internationally accepted benchmark of 12 weeks.

The weak import cover coupled with government financing of the fiscal deficit through indirect purchase of government debt and money creation has increased pressure on the central bank to maintain the currency peg. In light of this, in 2017, the central bank embarked on a drastic reduction in government financing of the fiscal deficit by raising the Barbados dollar reserve requirement for commercial banks from 10% to 15% as of June 2017, a step which has increased commercial bank domestic financing by

171.1%. By the end of fiscal year 2017/18, the central bank's government financing declined by 90.8% relative to the previous fiscal year, to US$ 36.3 million. Government financing by the National Insurance Scheme also declined by 98.3% relative to the previous fiscal year, to US$1.6 million. Financing from these two sources was, however, replaced by commercial bank financing, which increased to US$ 154.5 million.

Government financing by the central bank persists, despite the sizeable decline, and reliance on this source may persist, as the fiscal deficit remains at unmanageable levels, demand for local government securities wanes and external debt service payments approach. Should this occur, there is potential for an unsustainable expansion of the monetary base and depletion of the international reserves. This reinforces the need for the Government of Barbados to take active measures to address the high fiscal deficit, further reduce reliance on central bank financing for fiscal year 2018/19 and maintain the currency peg.

Government financing of the fiscal deficit has limited the central bank's ability to influence interest rates in the Treasury bill market. The effective interest rate averaged 3.3% in the first quarter of 2018. Growth in credit to the private sector remains weak, despite low interest rates, rising by a mere 3.6% year-on-year over the first quarter of 2018. The weighted average deposit rate increased marginally to 0.5% as of February 2018 relative to 0.3% in February 2017. Similarly, the weighted average loan rate remained virtually unchanged at 6.7% as of February 2018.

3. The main variables

(a) The external sector

The central bank's primary focus has been to boost the stock of international reserves, given the precipitous decline over the last few years. At the end of the first quarter of 2018, international reserves stood at US$ 211.7 million, representing a 40% decline year-on-year and 6.9 weeks of import cover, well below the internationally accepted precautionary benchmark of 12 weeks. The central bank indicates that the significant fall in reserves is attributable to higher-than-usual public sector debt service obligations.

Efforts to divest government assets, namely the Barbados National Terminal Company Limited (BNTCL) and the Barbados Hilton hotel, as a short-term measure to shore up the reserves, have stalled. In the meantime, the central bank has indicated its intention to turn to the private sector to bolster international reserves by allowing them to pledge their foreign assets to the bank. This strategy has a precedent in the early 1990s, when private sector entities voluntarily came together to help the central bank maintain liquidity levels during an adjustment phase, after which funds were returned to them. The central bank hopes to gain approximately US$ 60 – US$ 70 million from this initiative, which is expected to stabilize the international reserves only for the second quarter of 2018. However, its effectiveness may be dampened by the US$ 225-million Credit Suisse foreign debt payment due at the end of that quarter. Foreign-exchange availability did benefit from increased net purchases of foreign exchange from the commercial banks and gains in net export of services, as tourism earnings increased by an estimated 2.1%. However, the stability of the international reserves in the medium to long term largely depends on the reduction of the fiscal deficit, which remains the primary factor driving down reserves.

Notwithstanding the significant decline in international reserves, by the end of 2017, the external current account deficit was estimated to have declined to US$ 188.6 million (2.0% of GDP); appreciably down from US$ 205.8 million (4.5% of GDP) in 2016. This outturn was heavily supported by 3.4% growth in the service surplus, but slightly offset by a 24.5% increase in fuel imports amid rising energy prices.

(b) Economic activity

Weak GDP growth has become a long-standing feature of the Barbados economic landscape, owing to fiscal instability and the need for structural reform. As expected, the recent fiscal consolidation measures have dampened economic activity and GDP growth in 2017 fell to 0.6%, relative to 2.0% in 2016, and is forecasted to fall further by the end of 2018. The modest performance in 2017 was primarily supported by estimated 1.2% growth in the tourism sector and 6.3% growth in construction. A solid performance in long-stay arrivals, particularly in the first three quarters of 2017, resulted in growth of 4.4% in tourism, with cumulative growth in the United States and Canadian markets of 11.2% and 7.7%, respectively. Cruise passenger arrivals were also up by 14.7%, stemming from increased cruiseship calls at the Port of Bridgetown. However, arrivals from the United Kingdom, Barbados' main tourism source market, were slightly down (by 1.2%), partly because of uncertainty surrounding Brexit. Further, in contrast to the increased growth in overall long-stay arrivals, the average length of stay of visitors from all major non-regional source markets fell by 5.6%.

In the first quarter of 2018, economic activity contracted by 0.7%. Value added in the tourism sector declined by 1% in the first quarter, relative to 4.5% growth in the year-earlier period. Despite long-stay arrivals increasing by 5.8% as of February 2018, the overall average length of stay reportedly fell as arrivals from the shorter-staying United States market continued to increase.

The 6.3% growth in the construction sector in 2017 was largely due to new investment in tourism and commercial properties. However, by the first quarter of 2018, large scale tourism projects such as the Sandals Royal Barbados were completed and other ongoing projects, such as the Hyatt and Wyndham Grand hotels, continued to be delayed. In turn, value added in the construction sector weakened, falling by 1% in the first quarter of 2018 relative to the prior-year period. Overall, economic performance in all other sectors was subdued and further dampened by a delayed sugar harvest.

The outlook for 2018 is very challenging, given the downturn in tourism during the first quarter and ongoing delays in tourism-related projects. Consequently, economic growth for Barbados is projected to be 0% by the end of 2018, as efforts to address the fiscal deficit progress and investor confidence wanes from repeated credit downgrades and policy uncertainty, given the newly elected government's intention to pursue debt restructuring with IMF assistance. At this time, the Barbados economy is in need of decisive measures to address the public finances to stabilize and grow the economy.

(c) Prices, wages and employment

After two years of declines, the unemployment rate increased in 2017, averaging 10.2% relative to 9.7% in 2016. There were notable increases in unemployment in construction, mining and quarrying, and wholesale and retail. Stricter austerity measures, coupled with a subdued economic performance in 2017, contributed to this increase. Moreover, given the need for further fiscal adjustment measures and the slow progress of large-scale tourism-related infrastructure projects, unemployment may increase further in 2018.

With international energy prices trending upwards and the implementation of stricter fiscal consolidation measures translating into higher prices, the year-on-year annual inflation rate in 2017 increased by 2.5 percentage points to 4.0%. By the end of the first quarter of 2018, inflation stood at 4.5%, compared with 2.9% in the prior-year period. Further increases may be expected as the impact of austerity measures persists in 2018.

Public sector wages and salaries have progressively fallen over the last five years. In fiscal year 2017/18, there was a marginal fall, by less than 1% year-on-year. Trade unions have been keen to gain wage rises for workers; however, these are unlikely to materialize, given the limited fiscal space.

Table 1
BARBADOS: MAIN ECONOMIC INDICATORS

	2009	2010	2011	2012	2013	2014	2015	2016	2017 a/
	Annual growth rates b/								
Gross domestic product	-4.0	0.3	0.7	0.3	0.0	0.0	0.9	2.0	0.6
Per capita gross domestic product	-4.4	-0.1	0.3	-0.1	-0.3	-0.3	0.6	1.7	0.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	3.0	-6.3	-6.1	2.7	2.8	-3.9	-3.1	-2.0	...
Mining and quarrying	-37.3	10.5	-13.6	-8.0	-16.6	22.6	22.4	-8.5	...
Manufacturing	-12.2	-4.4	-5.3	-6.8	2.1	-1.7	-2.1	-1.3	...
Electricity, gas and water	0.7	2.1	-1.4	0.5	-0.8	0.0	-0.1	1.8	...
Construction	-17.8	-9.8	9.0	-8.1	-11.1	-2.7	-1.1	8.3	...
Wholesale and retail commerce, restaurants and hotels	-4.3	2.8	0.0	-1.0	0.5	0.6	2.1	2.5	...
Transport, storage and communications	-2.2	0.1	0.5	2.0	0.9	0.5	1.4	1.8	...
Community, social and personal services	3.0	1.0	3.0	3.5	1.4	-0.1	-0.2	0.0	...
Balance of payments	**Millions of dollars**								
Current account balance	-261	-236	-254	-411	-248	-431	-289	-207	...
Goods balance	-986	-1 076	-876	-846	-802	-1 178	-1 054	-1 024	...
Exports, f.o.b.	380	431	862	851	885	474	483	517	...
Imports, f.o.b.	1 366	1 507	1 738	1 697	1 687	1 652	1 537	1 540	...
Services trade balance	793	904	773	747	734	958	977	1 071	...
Income balance	-87	-113	-92	-300	-130	-197	-213	-221	...
Net current transfers	19	48	-60	-12	-51	-15	2	-33	...
Capital and financial balance c/	328	191	242	439	92	386	226	84	...
Net foreign direct investment	352	329	83	565	-62	...	...	...	...
Other capital movements	-25	-138	158	-126	154	386	226	84	...
Overall balance	67	-45	-13	28	-156	-46	-63	-123	...
Variation in reserve assets d/	-68	27	13	-28	156	46	63	123	...
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) e/	93.1	89.2	90.3	89.3	89.3	87.9	84.4	82.9	80.7
Net resource transfer (millions of dollars)	242	96	150	139	-38	188	13	-137	...
Total gross external debt (millions of dollars)	1 321	1 366	1 385	1 322	1 434	1 499	1 468	1 448	1 409
Employment	**Average annual rates**								
Labour force participation rate	67.0	66.6	67.6	66.2	66.7	63.8	65.1	66.5	65.3
Unemployment rate f/	10	10.8	11.2	11.6	11.6	12.3	11.3	9.7	10.0
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	4.4	6.5	9.6	2.4	1.1	2.3	-2.3	3.8	6.6
Nominal deposit rate g/	2.9	2.7	2.7	2.5	2.5	2.5	1.3	0.3	0.2
Nominal lending rate h/	8.8	8.3	8.1	7.2	7.0	7.0	6.9	6.7	6.6
Central government i/	**Percentajes of GDP**								
Total revenue	25.9	25.2	27.4	26.4	25.3	26.1	26.8	30.4	31.0
Tax revenue	24.1	23.9	25.2	24.1	23.4	23.7	24.7	27.5	28.7
Total expenditure	33.3	33.7	31.5	34.3	35.7	33.8	36.2	36.2	35.2
Current expenditure	31.4	32.2	30.2	33.0	33.9	31.7	33.7	33.7	33.5
Interest	4.9	5.6	5.7	6.1	6.6	7.1	7.3	8.2	8.1
Capital expenditure	2.0	1.5	1.3	1.3	1.8	2.1	2.6	2.5	1.7
Primary balance	-2.6	-3.0	1.5	-1.8	-3.8	-0.6	-2.1	2.4	3.9
Overall balance	-7.4	-8.6	-4.1	-8.0	-10.4	-7.6	-9.4	-5.8	-4.2
Non-financial public sector debt	63.2	71.9	78.0	79.0	87.0	92.2	92.7	88.1	83.6

Table 1 (concluded)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	78.3	74.6	73.4	81.7	87.7	86.1	95.0	101.6	…
To the public sector	16.2	13.9	14.7	19.3	26.4	27.7	35.8	41.2	…
To the private sector	62.1	60.7	58.7	62.4	61.2	58.4	59.2	60.3	60.1
Monetary base	12.5	10.6	12.3	15.5	14.9	16.6	21.4	26.6	24.9
M2	100.7	98.7	92.1	98.2	98.1	97.8	104.3	110.3	106.6

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 1974 prices.
c/ Includes errors and omissions.
d/ A minus sign (-) indicates an increase in reserve assets.
e/ Annual average, weighted by the value of goods exports and imports.
f/ Nationwide total.Includes hidden unemployment.
g/ Weighted average rate of deposit rates.
h/ Lending rate, weighted average.
i/ Fiscal years, from April 1 to March 31.

Table 2

BARBADOS: MAIN QUARTERLY INDICATORS

	2016				2017				2018	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross international reserves (millions of dollars)	441	451	419	379	310	331	265	225	189	213 b/
Real effective exchange rate (index: 2005=100) c/	84.7	84.3	81.5	81.0	81.2	82.3	80.8	78.8	80.2	82.5
Consumer prices										
(12-month percentage variation)	0.0	0.7	2.7	3.8	4.9	2.8	4.4	6.6	6.2	6.2 d/
Average nominal exchange rate										
(Barbados dollars per dollar)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal interest rates (average annualized percentages)										
Deposit rate e/	0.4	0.4	0.2	0.3	0.3	0.2	0.2	0.2	0.3	0.2 d/
Lending rate f/	6.8	6.7	6.7	6.7	6.7	6.7	6.6	6.6	6.7	6.6 d/
Monetary policy rates	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0 d/
Domestic credit (variation from same										
quarter of preceding year)	8.9	8.9	7.0	4.9	4.5	...	...	...	...	...
Non-performing loans as										
a percentage of total credit	10.4	9.6	9.4	8.9	8.7	8.8	8.8	8.2	...	8.0

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

a/ Preliminary figures.

b/ Figures as of May.

c/ Quarterly average, weighted by the value of goods exports and imports.

d/ Figures as of April.

e/ Weighted average rate of deposit rates.

f/ Lending rate, weighted average.

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