Barbados

Growth in the Barbadian economy remains subdued as a result of the ongoing focus on fiscal consolidation, which remains central to addressing the country's macroeconomic challenges. By the end of 2019, gross domestic product (GDP) growth is estimated to be flat at 0.0%. However, good progress has been made in the implementation of the Barbados Economic Recovery and Transformation (BERT) programme, underpinned by the four-year extended fund facility (EFF) arrangement with the International Monetary Fund (IMF). The EFF arrangement, which provides the country with a total of US$ 290 million, has shored up international reserves to preserve the currency peg, provided a much-needed source of foreign exchange and is driving economic growth. In support of the EFF arrangement, the government recently introduced revenue boosting measures and spending reforms that have had positive effects on the economy's fiscal position. By the third quarter of 2019, the fiscal surplus stood at 2.8% of GDP, the primary surplus was 4% of GDP and gross public sector debt was equivalent to 120.9% of GDP. Public debt is expected to be reduced further, while the fiscal surplus and primary surplus are expected to increase, as the effects are felt of additional measures and the recently concluded agreement with external creditors following the suspension of debt payments. Inflation declined to 2.5% as of September 2019, as higher food prices were offset by stable international food prices and lower energy costs. Following public sector layoffs in 2018 and the slow absorption of these workers into the private sector, the unemployment rate rose to 10.8% by the end of the third quarter of 2019 and could increase as further layoffs within State-owned enterprises are expected. GDP growth in 2020 is projected to strengthen to 1.3%, as the government's fiscal consolidation efforts progress, leading to improved investor confidence and domestic spending, and as the impact of lower personal income tax and the gradual payment of tax refunds is felt. Barbados' dependence on external economic factors together with ongoing delays in private sector projects remain downside risks to this forecast.

As part of the government's fiscal consolidation efforts under the EFF agreement, several tax changes have been adopted to boost revenue generation. In particular, the value added tax (VAT) base was broadened, and bus fares and land tax rates were increased. New measures, such as taxes on online transactions, the shared accommodation levy, a tax on gambling winnings and the health service levy, were also introduced. As a result, property tax collections increased five-fold and personal income tax revenues rose by a modest 6%, following the introduction of a 40% tax band. These higher revenues together with the government's spending reforms meant that the fiscal surplus increased by 0.2% in the first half of fiscal year[1] 2018/19, with a primary surplus of 2.8% of GDP, to 2.8% in the first half of fiscal 2019/20, with a primary surplus of 4% of GDP (closer to the primary surplus target of 6% of GDP for fiscal 2019/20). However, this increase was tempered by challenges faced in the implementation of some of those new measures, including the online transactions tax, shared accommodation levy and tax on gambling winnings, and the eventual discontinuation of the 40% tax band in mid-2019. Furthermore, the slower-than-expected implementation of the upgrade of the Automated System of Customs Data Entry, Control and Management (ASYCUDAWorld) hampered the collection of customs' revenues as of the close of the third quarter of 2019.

[1] The fiscal year in Barbados runs from 1 April to 31 March the following year.

On the spending side, there was a 25% decline in transfers to State-owned enterprises, one of the main sources of expenditure growth, in the first half of fiscal 2019/20 compared to the first half of 2018/19. Lower interest rates resulting from the restructuring of domestic debt and the suspension of the commercial debt service payments led to a 12.2 percentage point decline in interest payments, bringing it down to 8.4% as a percentage of revenue in the first half of fiscal 2019/20 compared to the same period in 2018/19.

Barbados: main economic indicators, 2017-2019

	2017	2018	2019 [a]
	Annual growth rate		
Gross domestic product	-0.2	-0.6	0.0
Per capita gross domestic product	-0.4	-0.8	-0.2
Consumer prices	6.6	0.6	5.5 [b]
Money (M1)	4.1	0.6	2.4 [b]
Real effective exchange rate [c]	-2.6	-1.1	-3.3 [d]
	Porcentaje promedio anual		
Unemployment rate [e]	10.0	10.1	11.0 [f]
Non-financial public sector			
Overall balance / GDP	-4.8	-0.3	0.8
Nominal deposit rate [g]	0.2	0.2	0.2 [h]
Nominal lending rate [i]	6.6	6.7	6.6 [h]
	Millones de dólares		
Exports of goods and services	2 100	...	...
Imports of goods and services	1 610	...	...
Current account balance	-189	...	...
Capital and financial balance [j]	52	...	...
Overall balance	-137	...	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of August.
c/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
d/ Figures as of September.
e/ Includes hidden unemployment.
f/ Figures as of first semester.
g/ Weighted average of deposit rates.
h/ Figures as of June.
i/ Weighted average of lending rates.
j/ Includes errors and omissions.

Following the suspension of external debt payments in 2018, the Government of Barbados reached an agreement with creditors to restructure their external commercial debt which included an immediate haircut of 26% on principal and accrued interest, with further a debt reduction in the future as a result of lower interest rates. This is expected to improve investor confidence and help the government to achieve the medium-term debt-to-GDP-ratio target of 80% by 2027/28 and 60% by 2033/34. Moreover, the improved fiscal space allowed the debt to be reduced through the amortization of multilateral and bilateral debt and domestic bonds, and the repayment of domestic arrears. As of September 2019, gross public sector debt stood at 120.9% of GDP, compared to 145.9% of GDP as of September 2018.

Under the EFF arrangement, the Central Bank of Barbados (CBB) drew down the second tranche of funds from the IMF, further strengthening gross international reserves in 2019. This approach continues to underpin the stance of CBB of maintaining the fixed exchange rate peg of 2 Barbados dollars (BDS$) to US$ 1. It has also led to greater availability of foreign exchange in the banking system, reducing demand on the central bank's reserves and lowering debt service payments. As of September 2019, gross international reserves stood at US$ 612.8 million, compared to US$ 262.8 million in September 2018. After several years of falling short of the recommended 12-week benchmark, import cover was 15.6 weeks as of September 2019, compared to 6.7 weeks at the same point in 2018.

Activity in the financial system mirrored the sluggish performance of the wider economy. As a result, private sector credit growth from deposit-taking institutions fell to 0.9%, with declines in the construction, manufacturing and agriculture sectors. The treasury bill rate dropped to 0.5% as of September 2019, compared to 2.9% as of September 2018, while the average loan rate edged down to 6.4% from 6.7% over the same period. Although aggregate capital buffers remain above the prudential threshold, commercial banks have continued to grapple with rebuilding these buffers following the restructuring of domestic debt.

The current account deficit narrowed substantially to 1.3% of GDP in the first three quarters of 2019, compared to 3.1% of GDP for 2018. Contributing An increase in tourist arrivals, higher average per capita expenditure on travel and the expansion of the medical tourism sector all contributed to the improvement in the external accounts. Meanwhile, total imports of goods remained flat, as higher imports of food and beverages, construction materials and capital goods were offset by falling fuel imports due to lower international fuel prices.

As of September 2019, the Barbadian economy remained in recession, with GDP growth contracting to -0.2%, compared to growth of 0.3% over the first three quarters of 2018. As expected, the government’s ongoing efforts to tighten fiscal policy have dampened economic activity. Public sector capital spending remains low and consumer and investor confidence are weak. Despite the sluggish economic climate, the tourism sector saw modest growth of 1.8%, driven primarily by a 4% year-on-year increase in long-stay arrivals as of September 2019. In particular, the United States and United Kingdom markets grew by 9.4% and 8.5%, respectively. However, concerns persist around falls in other source markets, as well as the reductions in the average length of stay and cruise ship arrivals. Growth in all other sectors decelerated in the first nine months of 2019, compared to the same period in 2018.

The 12-month moving average rate of inflation stood at 2.5% by the end of September 2019, compared to 5.2% in September 2018. Although prices trended upwards in the third quarter of 2019, as a result heavy rainfall that affected vegetable and seafood production, the observed increases in food prices were offset by the repeal of the National Social Responsibility Levy and stable international food and energy prices.

The unemployment rate rose to 10.8% as of September 2019, a year-on-year increase of 1.6 percentage points, following public sector layoffs of almost 1,000 persons in 2018 stemming from the introduction of the BERT programme. The private sector has been slow to absorb these workers. With additional layoffs expected at State enterprises, unemployment look set to continue its upward trend into 2020.