Barbados

The Barbados economy is projected to achieve GDP growth of approximately 1.5% in 2017, underpinned primarily by a productive performance in the tourism sector and the spillover effects on construction. The performance of all other sectors was subdued. The tourism sector grew by 4.2% in the first nine months of 2017, notwithstanding disruptions to the arrivals of flights and cruise ship as a result of the active hurricane season. Total long-stay arrivals increased by 6.2%, with growth up in the United States and Canadian markets, but arrivals from the United Kingdom continued to slow. Despite continued delays in some tourism-related infrastructure projects, activity in the construction sector remained strong as progress was made in other large tourism investment projects. Consequently, the average unemployment rate fell to 9.7% by September 2017. The current account deficit of the balance of payments widened slightly to 4.1% of GDP, as growth in the goods trade deficit offset slightly the services surplus. Moreover, despite remaining unsustainably high, the fiscal deficit dropped by 4.2 percentage points to 5.6% of GDP year-on-year, and gross public sector debt fell below 100% to 96.2% of GDP. Rising global oil prices coupled with recently implemented fiscal measures contributed to higher inflation, up to 3.4%. GDP growth is also projected to be around 1.5% in 2018, tempered by austerity measures but buoyed by continued dynamism in the tourism sector and the tourism-related boost to construction.

Over the years, the government's fiscal policy has sought to reduce the fiscal deficit through a combination of measures to boost revenue and curb expenditure. As a result, the fiscal deficit fell to 5.6% of GDP in the fiscal year 2016/17, down by 4.2 percentage points compared to fiscal year 2015/16, with a primary surplus of 2.6% of GDP. The gross public sector debt-to-GDP ratio also fell below 100% for the first time in five years, reaching 96.2% by September 2017, compared with 100.4% for the same period in 2016. However, the upcoming 2018 general election may make it difficult to achieve the government target of 4.4% of GDP by the end of the fiscal year 2017/18.

For a number of years, the Central Bank of Barbados has helped to finance the fiscal deficit by purchasing government debt and creating money. However, in the 2017/18 budget, the Government of Barbados announced its intention to curb this trend as it put pressure on the currency peg. By September 2017, the central bank's contribution to the financing of the fiscal deficit had decreased by 91.9%, to US$ 23.1 million. To counteract the reduction in financing, the Central Bank of Barbados tightened its monetary policy stance by increasing the Barbados dollar securities reserve requirement ratio for commercial banks by 5%, to 15%. A direct result of this policy was that government financing from commercial banks almost doubled to US $105.8 million by September 2017 compared with the same period in 2016. The Central Bank of Barbados announced two further increases in November 2017. Effective 1 December 2017, commercial banks will be required to hold 18% and 20% from 1 January 2018.

As of September 2017, international reserves fell to US $549.7 million, representing 8.6 weeks of import cover, well below the 12-week minimum threshold of sustainability. However, the central bank is committed to preserving the fixed exchange rate peg of US$ 1 to BDS$ 2, in order to maintain monetary stability and facilitate conversions for the numerous foreign visitors. In the short term, the government has initiated the sale of State-owned enterprises, such as the Barbados National Terminal Company Limited and the Hilton Barbados Resort, to bolster dwindling international reserves. However, the sale of the Barbados National Terminal Company Limited has stalled, pending the approval of the Fair Trade

Commission. Long-term measures to counter any further shortfall in international reserves will focus on investments in the tourism industry.

In an effort to address the urgent need for the Barbados economy to be restructured in the medium to long term, the Social Partnership established working groups to develop the National Fiscal, Economic and Social Development Restructuring and Enhancement Programme. The working groups have been tasked with developing national plans that can accelerate economic growth, narrow the fiscal deficit significantly, establish a sustainable debt management plan, reduce unemployment, rebuild international reserves, and enhance social and environmental protections. More comprehensive details of the plans are expected to be presented by end of 2017.

Barbados: main economic indicators, 2015-2017

	2015	2016	2017 [a]
	Annual growth rate		
Gross domestic product	0.9	2.0	1.5
Per capita gross domestic product	0.6	1.7	1.2
Consumer prices	-2.5	3.2	1.2 [b]
Money (M1)	14.1	15.0	10.2 [c]
Real effective exchange rate [d]	-4.0	-1.6	0.7 [e]
	Annual average percentage		
Urban unemployment rate [f]	11.3	9.7	10.4 [g]
Non-financial public sector			
Overall balance / GDP	-9.8	-5.6	-4.4
Nominal deposit rate [h]	1.3	0.3	0.2 [e]
Nominal lending rate [i]	6.9	6.7	6.7 [e]
	Millions of dollars		
Exports of goods and services	1 954	2 082	…
Imports of goods and services	2 032	2 035	…
Current account balance	-289	-207	…
Capital and financial balance [j]	226	84	…
Overall balance	-63	-123	…

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

The current account deficit widened slightly to 4.1% of GDP in the first three quarters of 2017. A 3.4% increase in the surplus in the service account, the largest positive component of the current account, was cancelled out by a 7.4% fall in goods exports, which outpaced the decline in goods imports. The balance of payments continues to record a moderate factor income deficit, together with low remittance levels compared to funds transferred abroad. However, compensating for the US$ 67 million fall in international reserves, which is a result of a decline in net short-term investment flows, remains a top priority for the government.

Over the last decade, the Government of Barbados has struggled to regain a firm grip on economic growth. The economy has been bolstered by the robust performance of the tourism sector and its spillover effects in sectors such as construction; however it remains highly vulnerable to external events and growth remains low. In the first three quarters of 2017, economic activity slowed to 1.4% compared to 1.6% during the same period in 2016. Activity in the tourism sector expanded by 4.2% in the first nine months of 2017, with a strong performance in the first half of 2017 that was undermined in the third quarter by hurricane-related disruptions to the arrivals of flights and cruise ships. Long-stay arrivals from major source markets, such as the United States and Canada, were robust, expanding by 14.4% and 10.7%, respectively, but arrivals from the United Kingdom, Barbados's main source market, were on a par with 2016 as uncertainty persisted with regard to Brexit. The construction sector grew by 4.7% as projects, such as the Sandals Royal Barbados Resort, progressed, but this was undermined by continued delays in other large-scale tourism-related projects. Although activity in the international business sector has been subdued, there is hope that it will recover thanks to efforts to boost transparency and pursue opportunities in alternative markets. Value added in all other sectors was muted. GDP growth of 1.5% is projected for 2018, driven by a buoyant tourism sector and progress in major tourism-related construction projects. However, this projection may have to be revised if there are further delays in those construction projects.

Low global fuel prices had led to a period of deflation, but higher fuel prices and the austerity measures passed in the recent budget have caused prices to pick up again. By September 2017, the 8 percentage point rise in the National Social Responsibility Levy to 10%, together with the increase in the excise tax on gasoline and diesel fuel, had started to have an impact on prices as inflation edged up to 3.4%, a year-on-year increase of 3.4 percentage point. However, prices are expected to stabilize in late 2017 or early 2018. The buoyant tourism sector, coupled with the spillover effects in construction, contributed to a further drop in the unemployment rate for the third consecutive year, down to an average of 9.7% over the first three quarters of 2017, compared to 10% for the same period in 2016. However the government's austerity policies could halt this downward trend.