BARBADOS

In spite of concerted efforts to rekindle growth, the Barbados economy again contracted by 0.7% during the first three quarters of 2013, after registering flat growth in 2012. This outcome reflected underperformance in key economic sectors, with tourism value added decreasing by 2.1%. At the same time, international business and financial services and manufacturing remained flat, while activity also declined in agriculture, construction and the real sector. Amid sluggish economic conditions, inflation slowed, while unemployment decreased only marginally. The fiscal deficit almost doubled on account of weak government revenues, with a consequent increase in the public debt. A modest reduction in tourism earnings resulted in a wider current account deficit compared with the previous year, and together with a significant drop in private capital inflows, caused net international reserves to fall to roughly 13 weeks of import cover by the end of September 2013. In light of these challenges, the government recently initiated a new growth and development strategy by which it hopes to return the economy to growth. This prospect is contingent on the sustained recovery of global markets, particularly Europe and the United States.

In September 2013, the fiscal deficit stood at 8.0% of GDP, a 3.6 percentage point increase from the previous year. Overall tax revenues fell by BDS$140 million relative to the period between April and September 2012, owing to reduced corporation tax, personal income tax and VAT receipts (down 56%, 33% and 8% respectively). There was however a slight increase (4.6%) in import duties. While expenditure on grants to individuals (-7.9%) and corporations (-4.2%) fell, the larger revenue shortfall nevertheless exacerbated the fiscal deficit, placing pressure on the public debt. The net government debt-to-GDP ratio increased by 10.5 percentage points to 74.4% at September 2013, year on year.

Given the sluggish performance of the economy over the period, central bank efforts were directed towards managing international reserves through increases in the money supply, and maintaining a robust regulatory framework for the non-bank financial sector. With overall credit declining by 4.2% and deposits increasing by 4.6% year on year to August 2013, liquidity in the banking system also increased. This was reflected by the liquid assets ratio, which rose by 2.4 percentage points to 17.0% between June 2012 and June 2013. The average loan rate also fell from 8.6% to 8.5%, while the three-month treasury bill rate slipped from 3.5% to 3.1% during the first seven months of 2013.

In terms of economic activity, both tourism and international business and financial services continued to underperform during the first three quarters of 2013. Long-stay arrivals fell by 6.2% during the period, and notwithstanding a 2% increase in the average length of stay, overall value added in the sector declined. This reflects the prevailing difficult economic conditions in Canada, the United Kingdom and the United States, which are Barbados' principal source markets for visitors. However, cruise arrivals increased by 12.3% during the period. Some 334 new international businesses were also registered as at September 2013, broadly in line with the number of registrations for the 2012 period, effectively maintaining the sector's recent sluggish performance. Other sectors showed only marginal changes, with manufacturing output increasing by a mere 1%, rum and other beverages remaining unchanged, while sugar value added fell by 28%. Construction also decreased by 13.3% during the first three quarters of 2013 compared with the same period in 2012, as both public- and tourism-sector construction slowed.

Slow economic activity saw year-on-year inflation tumble from 7.8% to 2.7% in July 2013, as GDP contracted by 0.7%. At the same time unemployment averaged 11.1%, 0.3 percentage points lower than recorded in July 2012. Given the prevailing economic conditions, it is likely that the dip in unemployment was caused by the 0.6% reduction in the labour force participation rate recorded during the first quarter of 2013.

Between September 2012 and September 2013, the current account deficit widened from 4.8% to 9.3% of GDP, due mainly to reduced inflows from tourism (down 2.2%), manufacturing (-36%), food and other beverages including rum (-32.1%), and sugar (-96.4%). At the same time, merchandise imports remained largely unchanged. More significantly, the capital and financial account was affected by a 69% drop in long-term private capital from US$ 236.6 million to US$ 73.7 million. This caused international reserves to shrink by 22%, to US$ 0.51 billion, equivalent to 13.3 weeks of import cover at September 2013.

The recent performance of the Barbados economy indicates some structural challenges ahead, as the economy struggles to revive growth in the wake of the global crisis. While growth is projected at -0.7% for 2013, the recent roll-out of a renewed growth and development strategy points towards an increase in overall output for 2014 at 1.1%. This expectation is based on successful strategies to re-engineer the tourism sector through product upgrading and enhanced marketing, and a renewed injection of foreign direct investment. At the same time, it is anticipated that continued fiscal stringency could dampen import demand, thereby easing the pressure on the balance of payments. Over the short to medium term, the restoration of international reserves has been identified as a key target in returning the economy to a sustainable growth path. Efforts in this regard would be significantly boosted by the continued strengthening of the global economy.

Barbados: main economic indicators, 2011-2013

	2011	2012	2013 [a]
	Annual growth rate		
Gross domestic product	0.8	0.0	-0.7
Per capita gross domestic product	0.3	-0.5	-1.2
Consumer prices	9.6	2.4	2.7 [b]
Money (M1)	-0.5	-20.4	-3.1 [c]
Real effective exchange rate [d]	2.2	-1.2	0.4
	Annual average percentage		
Urban unemployment rate [e]	...	11.6	11.1
Non-financial public sector			
Overall balance / GDP	-7.4	-5.6	-5.3
Monetary policy rate	7.0	7.0	7.0 [f]
Nominal lending rate [g]	9.3	8.6	8.4 [h]
	Millions of dollars		
Exports of goods and services	1 854	...	...
Imports of goods and services	2 281	...	...
Current account balance	-506	...	...
Capital and financial balance [i]	473	...	...
Overall balance	-32	...	...

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 March.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Includes hidden unemployment.
[f] Figures as of August.
[g] Weighted average of some lending rates.
[h] Figures as of September.
[i] Includes errors and omissions.