Barbados

The slowdown in the Barbados economy, which began in 2008, intensified with an estimated contraction of 3.6%, as the tourism, international business, and non-trade sectors declined significantly in the first half of 2009. The slide in international prices for commodities resulted in reduced inflation rates, lower total import values, and, consequently, an improved external current account. However, the sluggish pace of credit growth, the widening fiscal deficit and continuing pressure to sustain fiscal stimulation and debt levels suggest that the rate of recovery of the Barbados economy will be slow in 2010.

In terms of public finance, the accumulated fiscal deficit increased during the first half of 2009 to 5.7% of GDP, representing a worsening of the fiscal position from the end of 2008, when the deficit was equivalent to 3.5% of GDP. By mid 2009, total revenues declined by 1.2%, following an 11% reduction in indirect taxes, due to the economic slowdown. At the same time, current and capital expenditure increased by 10% and 2.8% respectively, over the previous year, as the government implemented fiscal stimulus measures in response to the global economic crisis. The increased deficit was financed by domestic borrowings. Central government debt thus increased from 88% of GDP at the end of 2008 to over 100% in June 2009, while non-financial public-sector debt reached 110% of GDP that month. Domestic debt stood at 71% of total central government debt in June 2009.

Although an expansionary monetary policy was applied, credit to the non-financial institutions was sluggish with only 0.3% growth in the first half of 2009, compared with 2.7% in the corresponding half of 2008. Deposit growth also slowed to 1.0% relative to 6% in the same period in 2008, while the liquid assets ratio increased from 9.0% in 2008 to 10.4% in June 2009. In August, the Central Bank of Barbados lowered the benchmark deposit rate to 2.5%, which represents a further reduction from the 2008 level of 4.5%. Minor adjustments were also made to the prime lending rate, which ranged between 8.15% and 9.20% at the end of July, 2009, compared with 9.0% - 9.8% one year earlier. The three-month treasury bill rate also fell from 4.81% at the end of 2008 to 3.56% by September 2009. Although these actions were considered successful, the prevailing international climate weakened domestic loan demand, which in turn tempered the impact of reduced interest rates on domestic credit.

The global economic downturn also moderated inflationary trends in Barbados since the last quarter of 2008. From 8.9% in June 2008, inflation fell to 1.8% in June 2009. Unemployment also increased from 8.6% in June 2008 to 9.9% in June 2009 with female unemployment being slightly higher at 10.1%. The higher unemployment figure is attributable to job losses in tourism, construction, quarrying, transportation and communication and general services.

The two key sectors, tourism and international business and finance, declined significantly, as stay-over arrivals fell by 10.4%, while the registration of new international businesses fell by 37% during the first half of the calendar year. Further real-sector declines were observed for construction (-18.4%), and mining and quarrying (-35.6%) in that period. Marginal declines were also observed for the non-traded sectors, where wholesale and retail activity and transportation, storage and communications both contracted by 2.8%. At the same time, however, the agricultural sector grew slightly, led by non-sugar agriculture and fishing with 1.5%, while the sugar industry showed 1.2% growth. In sum, the economy is expected to contract by 3.6% in 2009.

Another outcome of the global economic contraction was an improvement in the current account situation (from a deficit of 10% of GDP in 2008 to a projected deficit of approximately 5% in 2009), as imports fell by 27.9% between January and June 2009. Exports also declined by 17%, while travel credits from services fell by 10%. The capital and financial account surplus also suffered a 20% reduction when compared with the first three quarters of 2008, because of a substantial decline in private capital inflows. However, significant public sector borrowings on the regional market bolstered long-term capital inflows. Net international reserves were further boosted by a government bond issue in the third quarter of 2009, and additional special drawing rights issued by the International Monetary Fund.

The overall outlook for the Barbados economy remains weak, with real GDP growth projected to contract by 3.6% in 2009 and modest recovery of 2% forecast for 2010. This is based on the performance expected in the tourism sector, which is not likely to rebound until the global economy regains significant growth momentum. The capital and financial account is also unlikely to recover over the short term, and could face increasing pressure as the government grapples with mounting public debt. Lastly, the need to sustain fiscal stimulation with stagnating government revenues suggests a worsening of the fiscal deficit for 2009/2010.

BARBADOS: MAIN ECONOMIC INDICATORS

	2007	2008	2009 [a]
	Annual percentage growth rates		
Gross domestic product	3.4	0.2	-3.6
Per capita gross domestic product	3.0	0.2	-4.0
Consumer prices	4.7	7.3	1.4 [b]
Money (M1)	20.5	-3.4	-4.6 [c]
	Annual average percentages		
Open unemployment rate [d]	7.4	8.1	10.0 [e]
Non-financial public-sector overall balance/GDP [f]	-1.8	-5.9	-3.2
Nominal deposit rate [g]	5.5	4.9	3.6 [h]
Nominal lending rate [i]	10.4	9.7	8.8 [h]
	Millions of dollars		
Exports of goods and services	2 117	2 050	380 [j]
Imports of goods and services	2 344	2 429	1 303 [j]
Current account balance	-182	-363	-187
Capital and financial account balance [k]	461	142	...
Overall balance	278	-221	...

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

[a] Preliminary estimates.
[b] Twelve-month variation to July 2009.
[c] Twelve-month variation to August 2009.
[d] Includes hidden unemployment.
[e] January-June average.
[f] Fiscal year.
[g] Interest rate on savings.
[h] Average from January to August, annualized.
[i] Prime lending rate.
[j] In 2009, refers to goods only.
[k] Includes errors and omissions.