

Barbados

In 2018, much-needed fiscal and debt sustainability efforts have accelerated; however, economic activity weakened despite the robust performance of the tourism sector, and GDP is estimated at -0.5% by the end of the year. Contributing to this result was a 10.5% decline in the construction sector, which offset the modest growth in the tourism and manufacturing sectors. In the framework of fiscal consolidation efforts, the newly elected Government of Barbados entered into a four-year extended fund facility (EFF) arrangement with the International Monetary Fund (IMF), which is expected to shore up international reserves in order to preserve the currency peg, attain meaningful fiscal consolidation and implement structural reforms with the aim of improving the macroeconomic performance in the medium term. A variety of revenue-boosting measures were also taken under the conditions of the IMF arrangement. By the third quarter of 2018, the fiscal deficit stood at 4.5% of GDP, the primary surplus at 3% of GDP, and gross public sector debt at 155.8% of GDP. As the new measures take effect, the fiscal deficit and public debt are expected to decline while the primary surplus should increase. Inflation rose to 5.2% after the National Social Responsibility Levy (NSRL) —a tax on goods imported into Barbados and on manufactured domestic goods— was increased to 10%. Unemployment stood at 9.2% by the end of the third quarter but is expected to increase as commitments for the EFF arrangement continue to be implemented. In the context of the ongoing fiscal consolidation efforts, GDP growth in 2019 is projected to turn positive but remain subdued at around 0.5%.

In the second quarter of 2018, the newly elected government approached IMF for endorsement of its homegrown economic recovery and transformation plan. Following these discussions, IMF approved a four-year EFF arrangement for Barbados on 1 October 2018. This arrangement, built around maintaining the currency peg, aims to achieve strong fiscal consolidation and structural reforms to strengthen macroeconomic performance in the medium term. Revenue-boosting budgetary measures introduced by the new administration included increases in the corporate and income tax, along with new charges on fuel, levies on air travel and VAT on online purchases of goods and services. Although measures by the previous administration contributed to the fall in the fiscal deficit from 5.8% in financial year 2016/17 to 4.8% in financial year 2017/18, with a primary surplus of 3.3% of GDP, the shift in fiscal policy and new measures introduced by the current government are expected to substantially reduce the fiscal deficit and increase the primary surplus further by the end of the fiscal year.

As part of its efforts to expand the fiscal space and reduce indebtedness, the Government of Barbados suspended payments on external commercial debt and announced plans to pursue a comprehensive restructuring of its domestic and external liabilities. By the end of the third quarter of 2018, the government successfully completed a debt-swap offer for its domestic debt securities and accumulated domestic arrears. As part of this exchange, interest rates and selected principals were reduced and maturities were extended. Plans for a debt swap of foreign-currency-denominated commercial debt are still ongoing, after which external debt service payments will resume. As of September 2018, gross public sector debt represented 155.8% of GDP.

The Central Bank of Barbados (CBB) continues to support the fixed exchange-rate peg of 2 Barbados dollars (BDS\$) to US\$ 1 by maintaining sufficient levels of international reserves. The EFF arrangement with IMF, which was built on maintaining this anchor, further confirms this stance. At the end of the third quarter of 2018, international reserves were down by US\$ 23 million year-on-year to US\$ 577.1 million, representing 7.4 weeks of import cover (below the 12-week benchmark). Early in

the year it appeared that reserves would fall further, but their steady decline was slowed by the suspension of external debt service payments in June. This, combined with the adequacy of commercial banks' foreign-exchange holdings to meet customer demand without turning to the central bank's stock of reserves, allowed the international reserves to recover. Accordingly, by end-2018, following the drawdown of the first tranche of the IMF facility, import cover should increase to 8.4 weeks.

The Government of Barbados has increasingly relied upon the central bank to finance its deficit, which has, in turn, limited the ability of CBB to influence interest rates in the Treasury bill market. By the end of the third quarter of 2018, the effective interest rate stood at 2.9%. Private sector credit growth increased to 4% by the end of the third quarter, primarily reflecting the financial consolidation of a finance and trust company with its parent company. Apart from that operation, weak economic activity has kept private sector credit growth subdued.

The current account deficit narrowed marginally to 2.6% of GDP in the first three quarters of 2018, compared with 3.0% of GDP for 2017. Several factors contributed to the improvement in the external accounts. These included recovery in international reserves due to the suspension of external debt service payments, a slight increase in credits on the travel account, a decline in merchandise imports which offset the increase in fuel imports driven by high oil prices, and a substantial increase in capital inflows as the private sector engaged in increased foreign borrowing.

The constraints of tight fiscal policy have contributed considerably to dampened economic activity in the Barbados economy. As of September 2018, GDP growth contracted to -0.5%. Modest growth in the tourism and manufacturing sectors, of 1.4% and 3.0%, respectively, was offset by a 10.5% decline in the construction sector. Long-stay arrivals grew by 2.9% in the first nine months of 2018 relative to the same period in 2017, bolstered by modest growth in arrivals from the main source markets of United States (8.6%), Canada (3.1%) and the United Kingdom (1.8%). In contrast, the construction sector suffered from a lack of new large-scale private sector projects and the reduction in public capital expenditure on infrastructure owing to the government's financing limitations. At the close of 2018, GDP growth is expected to remain around -0.5% as the economic adjustment efforts continue to dampen activity. However, the forecast for 2019 is somewhat brighter as investor confidence is expected to increase with the implementation of the EFF arrangement with IMF and subsequent disbursements. Other major private sector activities expected to boost the economy in 2019 include the relocation of Ross University School of Medicine to Barbados and various fixtures of the 2019 cricket tour of the West Indies by the England team.

Inflation has been steadily increasing since the hike of the NSRL rate to 10% in 2017 and, by September 2018, was up 5.2% year-on-year relative to 3.7% for the same month in 2017. Following the abolition of NSRL by the new administration, inflation is expected to fall; however, this may be offset

Barbados: main economic indicators, 2016-2018

	2016	2017	2018 ^a
	Annual growth rate		
Gross domestic product	2.0	-0.2	-0.5
Per capita gross domestic product	1.7	-0.5	-0.7
Consumer prices	3.8	6.6	5.5 ^b
Money (M1)	15.0	9.3	5.2 ^b
Real effective exchange rate ^c	-1.8	-2.6	-1.7 ^d
	Porcentaje promedio anual		
Urban unemployment rate ^e	9.7	10.0	9.0 ^f
Non-financial public sector			
Overall balance / GDP	-5.8	-4.8	-3.2
Nominal deposit rate ^g	0.3	0.2	0.2 ^h
Nominal lending rate ⁱ	6.7	6.6	6.7 ^d
	Millones de dólares		
Exports of goods and services	2 083	2 100	...
Imports of goods and services	1 631	1 610	...
Current account balance	-206	-189	...
Capital and financial balance ^j	83	52	...
Overall balance	-123	-137	...

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

a/ Estimates.

b/ Figures as of June.

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 August.

i/ Weighted average of lending rates.

j/ Includes errors and omissions.

by the introduction of the income and corporate tax, which has the potential to push up consumer prices. Unemployment stood at 9.2% as of September 2018, down from 10.0% a year earlier. This figure is, however, expected to rise by the close of 2018 and into 2019, as government has begun laying off workers as part of the IMF-supported economic recovery and transformation plan and to review the operations of large State-owned enterprises.