

Barbados

1. General trends

Barbados experienced continued economic contraction in 2009, with GDP declining by 3.6%. This reflected the slowdown in most economic sectors during the year, with modest improvements during the first quarter of 2010, when the rate of decline improved to 0.1%. The economic slowdown reflected a 6.6% fall in revenues from tourism, a pivotal sector in the Barbadian economy. However, reduced growth in other sectors also contributed to the weakened economy, with mining and quarrying falling by 20.0% and construction down by 10.0%. The manufacturing sector also declined, by 5.0%.

The government embarked upon an expansive fiscal strategy in response to the economic contraction, supporting the tourism sector to maintain competitiveness, protecting jobs and implementing social programmes to minimize the impact of the downturn. However, this strategy led to a sharp rise in the fiscal deficit and further increased public debt to over 94% of GDP by the end of 2009.

Looking ahead, the government plans to implement additional mechanisms through to 2016 that include containing fiscal spending and improving the efficiency of revenue collection. These efforts have already begun to bear fruit, as current account spending was reduced by roughly 23% in the first quarter of 2010 compared to the same period last year. However, economic growth for the new year is projected to remain flat at roughly 1%, and until there is renewed growth in the tourism sector, additional measures will include modest external borrowing, judicious fiscal support for foreign exchange-earning sectors and social measures to protect the most vulnerable in the Barbadian economy.

2. Economic policy

(a) Fiscal policy

The fiscal performance of Barbados worsened sharply in 2009, with the overall deficit as a percentage of GDP increasing to 9.2% from 6.4% in 2008. This deterioration was driven by an 8.1% increase in government expenditure in 2009 compared with 2008. Consistent with the government's job retention policy, this increase was principally absorbed by public-sector staff costs, which grew by

12.4% over the period. Expenditure to service interest on the debt also grew by 7.75%, while transfers and subsidies increased by 5.7%.

At the same time, government revenues increased by only 1.6% over the period. Increases of 13.3% in direct taxes and of 60.1% in non-tax revenues and grants were the principal drivers of government revenue growth. However, a 13% fall in indirect taxes and a 20% fall in post office revenues dampened government income growth, resulting in a worsening of the fiscal deficit.

Public debt¹ increased by 13.7 percentage points to 94.6% of GDP in 2009, up from 80.9% of GDP in 2008. The external debt stock stood at BDS\$ 2,203 million in 2009, representing an increase from BDS\$ 1,982 million in 2008. Over 69.2% of the overall current debt was domestic.

This trend represents a continued fiscal challenge as Barbados strives to strengthen public infrastructure and the tourism sector. Furthermore, looming debt repayments, for example on a US\$ 100 million capital development loan contracted in 2000, will place additional pressure on the country's foreign reserves over the short term.

(b) Monetary and exchange-rate policy

Given the fixed exchange rate regime of Barbados, the principal objectives of monetary policy were to manage liquidity and credit during 2009. With respect to credit, domestic lending increased to 100.1% of GDP in 2009 from 96.3% in 2008. The private sector absorbed most of this (79.5% of GDP) in 2009, with the remainder (20.6% of GDP) going to the public sector. Given tight economic conditions, liquidity (M3) also increased to 120.2% of GDP, representing an increase of 3.7% of GDP from 2008.

Considering interest rates, the weighted average benchmark rate declined from 9% to 8.1% between 2008 and 2009. The treasury bill rate also declined marginally by 0.5 percentage points to 3.8% in 2009 after averaging 4.3% in 2008. However, there was a more significant decline (3.5 percentage points) in commercial bank rates from 11.5% to 8%, possibly reflecting growing liquidity in the Barbados economy over the period.

There was no increase in credit demand during the first quarter of 2010 and this, alongside stagnating growth in deposits, resulted in a slight increase in commercial bank liquidity. Treasury bill rates also fell only slightly (0.5 percentage points), while commercial bank rates remained unchanged.

The Barbados dollar remained pegged to the United States dollar at a rate of US\$ 0.5 to BDS\$ 1 in 2009. This exchange rate was sustained by adjustments to net international reserves, which declined by 14.6% between January 2008 and 2009.

3. The main variables

(a) Economic activity

The global recession continued to be felt in the Barbadian economy, resulting in real declines in the traded and non-traded sectors in 2009. Tourism remains the principal economic driver in Barbados, contributing 14.7% of GDP in 2008, with a slight decline to 14.5% in 2009. Stay-over arrivals, which contribute far more to the local economy than cruise passengers, amounted to 518,564 visitors in 2009, representing a fall of 8.7% from 2008. This resulted in a 6.6% decline in sector earnings over the same period. The sector stabilized in the first quarter of 2010, as stay-over arrivals grew by 2% compared to the same period in 2009. While this growth was fuelled by arrivals from the United States and Canada, visitors from the United Kingdom, the largest source market, remained

¹ This represents gross central government debt inclusive of public private partnership-guaranteed debt.

down on account of continued sluggishness in that country's job market. Resulting declines in sector earnings have forced hotels to engage in deep discounting in order to remain competitive. Tourism sector growth is likely to remain weak during 2010, with improvement prospects closely linked to growth in source markets during 2011.

Closely related to the tourism sector is the construction sector, which contributed roughly 8.3% of GDP in 2008 and which also declined in 2009 as investment in tourism slowed. Value added fell by 10.0% during 2009, compared to a drop of 7.9% in 2008, and the continued underperformance of this sector reflects the slowdown in both public- and private-sector activity during the period. Related to the fall-off in construction activity, domestic cement consumption fell by 18.4% while the value of imported building materials declined by 22.5%. Prospects for a small boost to the construction sector improved during the first quarter of 2010 with the government's financing loan guarantee of US\$ 65 million for the previously stalled Four Seasons Hotel and Villas.

In the agricultural sector, 32,000 tons of sugar were produced during the first six months of 2009. This represented an improvement of 1.2% over the corresponding harvest period in 2008 and was largely attributable to ideal weather conditions.

The impact of the global financial crisis continues to be felt in the financial services sector, which suffered a 37% drop in the registration of new business during 2009. This sector² contributed 18.1% of the country's GDP in 2008. Preliminary evidence suggests that the sector has stabilized, with first quarter sector earnings of 0.7% of GDP being the same for both 2009 and 2010.

Moreover, the collapse of Colonial Life Insurance Company (CLICO) has prompted government efforts to protect investor interests in the local subsidiary, CLICO Holdings Barbados. As a way of securing medium-term investor confidence, the government has proposed to lengthen the maturity period of CLICO's liabilities.

The decline in the Barbadian manufacturing sector continued, with the sector contributing only 4.9% of GDP in 2009. This is a 5.0% decline from 2008. Significant loss of market share to other regional manufacturers was cited as the principal reason for this decline.

(b) Prices, wages and employment

The end-of-period inflation rate was 4.4% in 2009, having risen from 1.3% in 2008. The reduction is due to the fall in global commodity prices, and especially energy prices, during the year. This downward inflationary trend has been sustained into 2010, with an average first quarter rate of 2.7%.

Wages rates also remained largely unchanged during the period. Moreover, an intense national debate over a government-proposed public-sector wage freeze intended to restrain the fiscal deficit and temper rising public-sector debt levels resulted in the decision to pay only the normal wage increments associated with performance appraisals. This decision has so far had no impact on overall wage rates.

The unemployment rate for the second quarter of June 2009 was 9.9%, an increase of 1.3 percentage points over the corresponding quarter of 2008. This increase was due to the deepening economic recession. Female unemployment remained higher (9.5%) than male unemployment (6.9%) during 2008, but by the final quarter of 2009 the situation had been reversed, with female unemployment at 8.1% and male at 10.5%.

Overall, unemployment increased during 2009, with the number of jobless rising from 11,686 in 2008 to 14,237 in 2009, representing a loss of roughly 2,550 jobs. The most significant job losses occurred in the construction (19.6%), transportation and communication (13.8%) and tourism (4.8%) sectors, respectively.

² Includes international businesses and domestic financial services.

(c) The external sector

Barbados improved its current account deficit substantially from BDS\$ 421 million to BDS\$ 218 million between 2008 and 2009, corresponding to a fall from 5.3% to 2.3% of GDP. This was achieved primarily through a reduction in import values, reflecting the fall in global commodity prices during 2009. Merchandise imports fell from 24.1% of GDP in 2008 to 18.6% of GDP in 2009, a decline of approximately 5.5 percentage points. At the same time, export values declined slightly from 1.7% to 1.5% of GDP over the 2008-2009 period. Sugar and rum remained the principal exports, earning BDS\$ 20 million and BDS\$ 29 million, respectively, in 2009. Earnings from tourism, while remaining significant, also fell by 10.5% from BDS\$ 1,601 million to BDS\$ 1,432 million between 2008 and 2009.

Net current transfers declined by 10.6% over the period, from BDS\$ 47 million to BDS\$ 42 million, while the income balance fell by 15.7%, reflecting the tightened global economic conditions.

The financial account balance improved from BDS\$ 165 million to BDS\$ 308 million in 2009 as Barbados accessed US\$ 90 million of International Monetary Fund (IMF) Special Drawing Rights (SDRs). This resulted in an overall balance-of-payments surplus of US\$ 21 million in 2009.

Given all the above and the weak prospects for a revival of international tourism in the coming year, projections are for economic growth of between 0.5% and 1% in 2010. The government's proposed medium-term fiscal deficit management strategy should be critical in stimulating growth in the Barbadian economy over this timeframe.

Table 1
BARBADOS: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 a/
Annual growth rates b/									
Gross domestic product	-4.6	0.7	1.9	4.8	3.9	3.2	3.4	0.5	-3.6
Per capita gross domestic product	-4.2	0.7	1.5	4.4	3.9	2.8	3.0	0.5	-4.0
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-9.5	-4.2	-4.0	-7.3	8.2	-5.8	2.2	0.3	1.0
Mining and quarrying	8.0	6.4	-16.0	9.5	8.5	-3.1	-5.9	-7.9	-20.0
Manufacturing	-30.9	1.0	-1.6	2.1	2.2	1.1	-2.9	-2.3	-5.0
Electricity, gas and water	-4.5	3.6	2.9	1.8	-0.5	9.8	1.1	-0.4	-1.0
Construction	6.8	7.7	0.6	2.8	14.0	-0.4	0.1	-7.9	-10.0
Wholesale and retail commerce, restaurants and hotels	-4.4	-0.6	5.3	7.5	1.2	3.7	4.7	-0.1	-6.0
Transport, storage and communications	0.1	-3.0	3.0	5.3	5.0	5.2	5.6	2.7	-2.0
Community, social and personal services c/	-0.6	1.5	0.7	4.9	4.1	4.3	4.2	2.7	0.0
Balance of payments									
Millions of dollars									
Current account balance	-111	-168	-170	-337	-367	-252	-183	-421	-218
Goods balance	-681	-702	-801	-971	-1 070	-1 003	-1 084	-1 242	-917
Exports, f.o.b.	271	253	264	293	359	510	524	488	379
Imports, f.o.b.	952	955	1 066	1 264	1 429	1 513	1 607	1 730	1 295
Services trade balance	570	550	647	668	765	810	911	895	797
Income balance	-93	-102	-107	-122	-128	-142	-67	-121	-140
Net current transfers	93	86	92	88	65	83	56	47	42
Capital and financial balance d/	333	144	237	180	390	231	359	326	243
Net foreign direct investment	17	17	58	-16	119	200	256	223	...
Other capital movements	316	127	179	196	272	30	104	103	...
Overall balance	222	-24	67	-157	23	-21	177	-96	25
Variation in reserve assets e/	-223	24	-68	157	-23	21	-177	96	-25

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 a/
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) f/	98.6	100.4	104.9	107.8	106.0	104.1	105.0	104.7	100.0
Net resource transfer (millions of dollars)	241	42	131	58	263	89	293	204	102
Gross external debt (millions of dollars)	2 267	2 321	2 475	2 435	2 695	2 991	3 130	3 050	3 294
Employment									
Average annual rates									
Labour force participation rate g/	69.5	68.4	69.3	69.4	69.6	67.9	67.8	67.6	67.0
Unemployment rate h/	9.9	10.3	11	9.8	9.1	8.7	7.4	8.1	10
Prices									
Annual percentages									
Variation in consumer prices (December-December) (annual average)	-0.3	0.9	0.3	4.3	7.4	5.6	4.7	7.3	4.4
Nominal deposit rate i/	2.8	3.0	3.8	5.0	5.5	4.9	3.4
Nominal lending rate j/	7.6	7.4	8.5	10.0	10.4	9.7	8.7
Central Government									
Percentages of GDP									
Total revenue k/	34.2	34.6	34.2	33.6	33.6	35.7	35.4	34.9	35.5
Tax revenues	32.0	32.0	32.0	32.2	31.4	34.1	33.4	32.9	32.3
Total expenditure l/	37.7	40.9	37.2	35.8	37.9	37.7	37.2	41.3	44.7
Current expenditure	31.6	33.7	32.2	32.0	32.6	31.9	33.7	37.3	40.7
Interest	5.4	5.4	5.0	4.8	4.8	5.1	4.6	5.6	6.0
Capital expenditure	5.8	7.2	5.0	3.8	3.9	4.2	2.9	3.5	3.5
Primary balance	1.9	-1.0	2.0	2.6	0.5	3.1	2.7	-0.8	-3.2
Overall balance	-3.5	-6.4	-3.0	-2.2	-4.3	-2.0	-1.8	-6.4	-9.2
Money and credit m/									
Percentages of GDP									
Domestic credit	58.7	72.8	70.5	79.1	86.4	89.2	89.4	96.3	100.1
To the public sector	7.8	17.1	19.2	20.8	18.2	16.7	17.2	19.0	20.6
To the private sector	51.0	55.7	51.4	58.4	68.1	72.5	72.2	77.4	79.5
Liquidity (M3)	83.2	96.8	95.1	105.1	108.1	110.8	118.6	118.9	120.2
Currency outside banks and local-currency deposits (M2)	91.5	109.3	105.8	115.8	124.6	122.0	138.4	133.7	131.5
Foreign-currency deposits (minus)	8.3	12.5	10.7	10.7	16.4	11.3	19.8	14.8	11.3

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1974 prices.

c/ Includes financial institutions, insurance, real estate and business services.

d/ Includes errors and omissions.

e/ A minus sign (-) denotes an increase in reserves.

f/ Annual average, weighted by the value of goods exports and imports.

g/ Economically active population as a percentage of the working-age population.

h/ Percentage of the economically active population. Includes hidden unemployment.

i/ Interest rate for savings.

j/ Prime lending rate.

k/ Includes grants and post office revenues.

l/ Includes net lending.

m/ The monetary figures are end-of-year stocks.