

A photograph of a green metal bridge with stone pillars crossing a body of water. In the background, there are buildings, including one with a sign that says "CHAMPAGNE PLACE". The sky is blue with some clouds. A yellow banner is at the top of the page.

COUNTRY ECONOMIC REVIEW 2019

BARBADOS

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BARBADOS ECONOMIC BRIEF 2019

OVERVIEW

The Government entered the second year of implementation of the Barbados Economic Recovery and Transformation (BERT) programme, with key performance indicators pointing to positive results. In general, macroeconomic indicators improved as shown by the improved fiscal outturn, downward trajectory of debt, strong foreign reserve position and reduced unemployment.

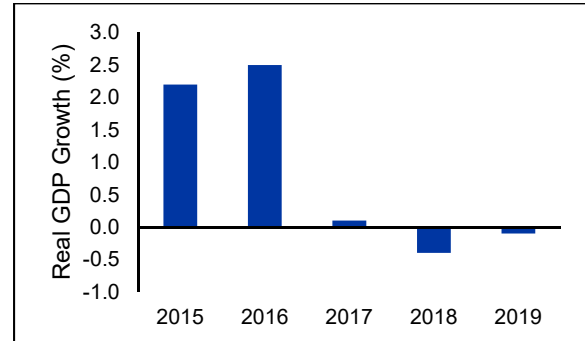
Sustained effort to strengthen social protection and safeguard the interests of the poor and vulnerable are essential for the continued success and sustainability of the BERT programme.

KEY DEVELOPMENTS IN 2019

Real gross domestic product (GDP) declined marginally by 0.1% (see Chart 1). Tourism activity increased modestly by 2.9%. There was a higher number of long-stay arrivals from the United States of America and the United Kingdom, but fewer from the Canadian and Caribbean Community markets. In addition, the average length of stay was shorter.

The gains in tourism were offset by declines in agriculture and construction activity, which contracted by 6.4% and 4.7%, respectively. Lower than average rainfall constrained agricultural production, while the deferred start-up of significant private sector investments contributed to weak construction activity.

Chart 1: Real GDP Growth

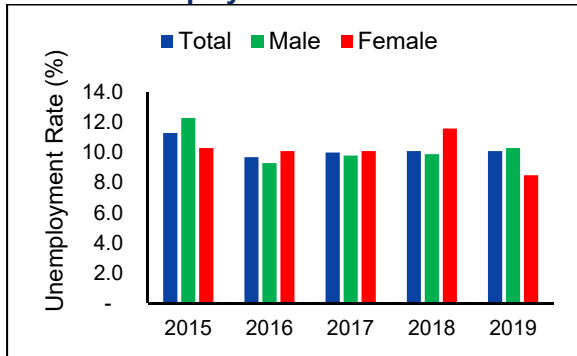


Sources: Central Bank of Barbados (CBB), Barbados Statistical Service (BSS), International Monetary Fund (IMF).

Inflation remained low but trended upward in the second half of 2019. The 12-month moving average rate of inflation was 4.1% at the end of December compared with 3.7% a year earlier. The removal of the National Social Responsibility Levy in July 2018, and stable international food and energy prices tempered the inflation rate during the first half of 2019. However, the impact of the falloff in rainfall on vegetable production and the scarcity of fish and other seafood placed upward pressure on food prices in the second half of the year. Increased public transportation and utility costs also impacted overall prices over the period.

The average unemployment rate remained unchanged at 10.1% at the end of December 2019 (see Chart 2). According to the CBB, this was mainly due to a decline in the labour force participation rate, a continuation of the trend observed since 2016.

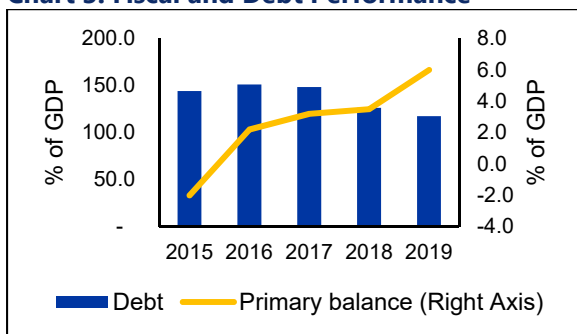
Chart 2: Unemployment



Source: CBB.

The fiscal outturn continued to improve as a result of austerity reforms. The primary surplus increased to 4.8% of GDP for the nine months from April to December 2019, and is targeted to reach 6% of GDP for the full fiscal year (FY) 2019/20¹ (see Chart 3). The reforms during FY 2019/20 focused on improving the fiscal framework through enhanced revenue administration, fiscal governance, and public financial management of state-owned enterprises, while strengthening the business environment and social protection system.

Chart 3: Fiscal and Debt Performance



Sources: Ministry of Finance, Economic Affairs and Investment and Central Bank of Barbados.

The improved fiscal performance and resolution of the external debt restructuring in December contributed to the public sector debt declining to 119.5% of GDP at the end of December 2019, from 126.3% of GDP in 2018. The debt ratio, although still high, is on

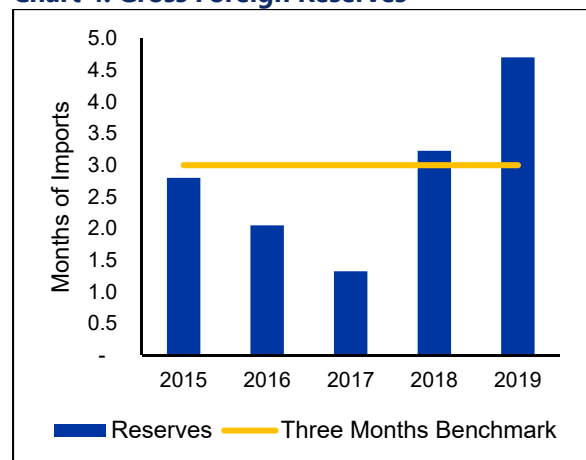
¹ FY represents the period April to March.

a sustainable downward trajectory. The BERT programme targets a debt ratio of 100% by FY 2022/23 and 60% by FY 2033/34.

Financial system activity lagged the general improvement in macroeconomic conditions. While the financial system remained stable, financial institutions had to adapt to lower capital buffers arising from the Government’s debt restructuring and the adoption of the International Financial Reporting Standard 9 accounting standard. The capital adequacy ratio declined from 13.8% in December 2018 to 13.4% in December 2019, but remained above the prudential threshold of 8%. Lending to the private sector from deposit-taking institutions remained flat in the 12 months to December 2019. Meanwhile, domestic currency deposits increased by 1.9% in the same period, contributing to a further buildup of excess liquidity in the system.

Reserves were boosted with the support of international financial institutions (IFIs). During the 12-month period January to December 2019, gross international reserves grew by 48% to BB\$1,480 million

Chart 4: Gross Foreign Reserves



Source: CBB.

(4.7 months of import coverage), well above the international benchmark of three months. The accumulation of international reserves was helped, in part, by financing from the Caribbean Development Bank (CDB), the IMF and the Inter-American Development Bank. The additional funding from international financial institutions recognised the Government's commitment to the plans and targets of the BERT programme.

The foreign currency credit rating was upgraded six notches. In December 2019, Standard and Poor's upgraded the foreign currency rating to "B-" from Selective Default, with a stable outlook. The improved rating was due to the resolution of the foreign currency debt exchange, which addressed the Government's outstanding commercial foreign currency debt. This followed the

upgrade of the issuer rating to Caa1 from Caa3 by Moody's credit rating agency in July 2019.

OUTLOOK

The outlook for Barbados has become clouded by the outbreak of COVID-19, which has significantly affected developed and developing economies. In early 2020 the tourism sector has seen mass cancellations. Construction activity has slowed, and government finances have come under increasing pressure. Some of the BERT targets have had to be adjusted.

Given the uncertainty as to how long this situation will persist, it is very difficult to forecast how the economy will perform in 2020 and beyond. This will be addressed in an updated Economic Brief later this year.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from a number of sources, and are the latest available at time of publication. The 2019 data are estimates and are subject to revision.

Selected Indicators

	2015	2016	2017	2018	2019^e
Real GDP Growth (%)	2.4	2.6	0.6	-0.4	-0.1
Average Inflation (%)	-1.1	1.5	4.5	3.7	4.1
Unemployment (%)	11.3	9.7	10.0	10.1	10.1
Primary Balance (% of GDP)	-2.0	2.2	3.2	3.5	6.0
Public Sector Debt (% of GDP)	144.2	151.2	148.4	126.3	119.5

Sources: CBB, BSS, CDB.

Notes: e – estimate (as at January 31, 2020).



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