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Regional

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Economic Alert: Highlights of Barbados National Budget 2017/2018

Review of the Economy FY 2016/17

- There was modest growth of 1.6% and 2% at the end of 2016 and Q1 2017 respectively.
- According to the Central Bank of Barbados the provisional fiscal deficit stood at 6% of GDP at the end of Q1 2017. However the Barbadian Minister of Finance and Economic Affairs stated that the new deficit could be closer to 5.6% based on underlying trends.
- International reserves reached approximately BBD705.4 million reflecting an import reserve cover of 10.7 week, which is below the 12 week benchmark and down from 14.2 weeks for the corresponding period 2016.
- The unemployment rate has been trending downwards since 2014 and the average unemployment rate for the 4 quarters ending September 2016 was reported at 9.9% compared to 11.3% at the end of 2015.
- At the end of December 2016, the 12 month moving average rate of inflation was 1.3%, primarily due to increases in prices of food and non-alcoholic beverages and in contrast to the December 2015 decline of 1.1%.

National Fiscal, Economic and Social Development Restructuring and Enhancement Programme

The programme is being crafted by the Planning Division of the Ministry of Finance and Economic Affairs. The main areas of focus will include:

- Boosting foreign exchange earnings;
- Implementing productive sector reform by reducing the cost of doing business in critical sectors;
- Instituting a Competiveness Awareness Commission and Operational Unit;
- Implementing a new national energy policy;

- Implementing fiscal consolidation through; Public Financial Management reform including the passage of the Financial Management and Audit (State Owned Enterprises or “SOE”) Act;
- Reforming SOE’s, including: mergers, operational consolidation and divestment;
- Completing tax policy reform and tax administration upgrade;
- Stabilizing debt growth and reduction through fiscal reform, debt management and debt profiling;
- Reforming key social sectors such as: health, education, sanitation, social care and environmental protection.

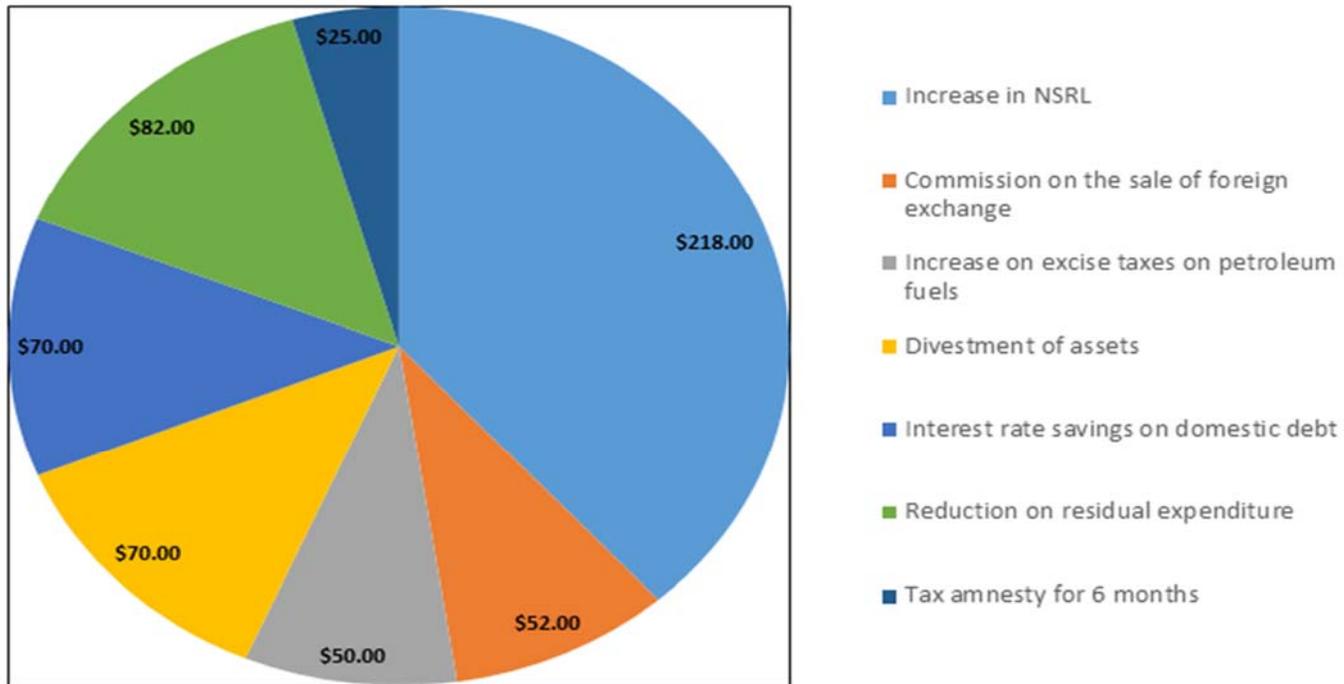
Revenue measures

- Increase national social responsibility levy (NSRL) from 2% to 10% on all taxable and domestic production. It was imposed on goods imported into Barbados and on domestically manufactured goods. It is anticipated that this will result in increased revenue of BBD291 million for a full financial year and BBD218 million for the remaining nine months of the current fiscal year.
- Commission on the sale of foreign exchange. In an effort to signal the need to reduce the demand for consumption goods a broad-based foreign exchange commission will be charged on all sales of foreign currency at a rate of 2%.
- Increase in excise taxes on petroleum fuels. The excise tax on gasoline will be increased by BBD0.25 per litre from BBD0.74 to BBD0.99 and on diesel by BBD0.24 from BBD0.20 to BBD0.44. The retail prices on gasoline and diesel will now be BBD3.05 and BBD2.25 respectively.
- Divestment of government assets. Government is expecting to receive no less than BBD100 million as net proceeds from the sale, taking into account liquidation of existing debt liabilities attached to property.

Expenditure measures

- Interest rate savings on domestic debt held by statutory corporations. The Ministry of Finance and Economic Affairs is expecting a BBD70 million in savings on interest expense from the proposed debt re-profiling.
- Reduction of residual expenditure. Cabinet has approved an across the board 10% cut in existing approved Estimates of Expenditure for the financial year 2017-2018.
- Tax amnesty for a further 6 months. For the purpose of additional financing.

Revenue and expenditure budgetary measures (BBD)



Source: FCIS Research & Analytics, Barbados Budget Statement 2017/18

Deficit levels

FY 2017/18	Estimate BDS (Million)	% of GDP
March 2017 Budget deficit	\$422.00	4.4
Revised Deficit	\$537.60	5.6
Domestic & Foreign Amortization	\$971.00	10.2
Financing Required (net of domestic roll-overs & foreign financing)	\$814	8.5
Of which Central Bank (Pre-adjustment Financing)	\$654	6.8
Size of Fiscal Adjustment	\$542.00	5.7
Adjusted Fiscal Surplus (as result of measures)	\$4.40	0
Adjusted Primary Surplus	702.4	7.3
Post-adjustment Central Bank Financing	\$87	0.9

Source: Barbados budget statement 2017-2018

Key financing challenges:

- Roll-over risk: a risk associated with the refinancing of debt. If interest rates rise adversely, they would have to refinance their debt at a higher rate and incur more interest charges in the future.
- Foreign Borrowing focused on Multilateral Lending: Government took a strategic decision not to pursue high-cost borrowings on the international capital market, preferring to secure concessional project-related multilateral foreign funding. However, securing these concessional flows, administrative delays and other unforeseen impediments have limited the timely disbursements of funds for the intended purposes.
- Reduction in Central Bank Financing: The Government is committed to reducing its dependence on Central Bank financing over the medium term, beginning this fiscal year.
- Government guaranteed debt: some ease to the financing constraint must be created by Government, through a deeper fiscal adjustment to further reduce the fiscal deficit well below the 4.4% of GDP presented in the Estimates of Revenue and Expenditure. In doing so, Government will better align its operations with the available financing from the domestic financial system.
- Decline in foreign reserves: The downward movement in the stock of reserves based on the capital account would have also stemmed from lower public external borrowings in recent years.

Foreign Exchange Movements (2006-2016) BBD' 000

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Capital Inflows											
Private	1,410.9	1,717.3	1,405.1	724.4	536.2	1,110.5	1,343.9	494.6	919.6	834.2	836.2
Public	230.6	136.9	89.5	519.9	808.4	225.8	54.9	393.7	234.2	272.2	111.8
Total	1,641.5	1,854.2	1,494.6	1,244.3	1,344.6	1,336.3	1,398.8	888.3	1,153.8	1,106.4	948.0
Capital Outflows											
Private	176.7	565.8	452.2	208.1	101.3	119.4	363.6	185.4	287.7	330.7	422.2
Public	163.7	108.0	212.1	111.3	501.8	131.6	139.3	167.8	146.6	344.4	282.1
Total	340.4	673.8	664.3	319.4	603.1	251.0	502.9	353.2	434.3	675.1	704.3
Travel Credits	2,121.2	2,381.6	2,391.8	2,145.6	2,076.5	1,925.3	1,835.7	1,927.9	1,776.7	1,913.8	2,048.1

Source: Barbados budget statement 2017-2018

Specific Objectives:

- Protect and enhance the level of foreign reserves;
- Completed the process of fiscal consolidation by achieving a balanced budget on the current account with at least primary surplus of around 5% for the next three fiscal periods;
- Reduce the net financing requirement for government and through this, reduce the need for Central Bank financing of government;
- Slow the growth of the national debt in the first instance and over time reduce it to below 100% of GDP;
- Place Barbados on a path to regaining a healthy credit rating sufficient to permit the country to retain the option of tapping the international capital markets for reasonable financing in the near future; and
- Strengthen investor confidence in Barbados' economy.



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