

Friday 30th June 2017 – 12:15pm

Regional

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Economic Alert: Preliminary findings from IMF visit to Barbados

Recap

- According to an IMF press release on 29 June, the Barbadian economy continues its recovery on the back of stronger tourism performance but improving public finances remains a critical challenge.
- In March 2017, the Central Bank of Barbados (CBOB) estimated that real tourism value-added rose by 3.0%, due to the strength of increased demand and the on-going expansion of airlift from the USA and Canadian markets.
- IMF states that economic growth in 2016 was estimated to have been 1.6%, but improved to 2% from January-March 2017 (Q1 2017), which is in line with CBOB estimate.
- The unemployment rate supported the acceleration in economic performance as this indicator fell to 9.7% in 2016 year end from 11.3% in 2015 for the same period. There was also a noticeably upturn in the general price level at the end of 2016, reaching 3.2% by a year-on-year basis.
- After examining the current account, IMF detected a 2 percentage point narrowing to 4.5% of GDP, attributed to increased tourism receipts, lower oil prices and improved exports.
- Despite this progress, international reserves fell to BBD682 million at the end of 2016, approximately 2 months of import over. At the end of Q1 2017, (the CBOB stated that international reserves stood at BBD705.4 million or 10.7 weeks of import cover.
- The IMF noted that the fiscal deficit in financial year (FY) 2016/2017 declined to 5.5% of GDP from 6.8% in the corresponding period 2015/2016, attributed to lower government spending and steady fiscal revenues.

Outlook

- Growth in 2017 is projected to decelerate to less than 1%, indicative of fiscal consolidation introduced in the FY2017/2018 budget.
- Inflation is expected to speed up to 6.7% by 2017 year end because of an increase in National Social Responsibility Levy (NSRL), but return to normal levels in 2018 and subsequent years.
- There will be an increase in downside risk due to increased domestic and global uncertainty, including the impact of Brexit on the British Pound.

IMF recommendations

- Continued fiscal discipline, with economic growth, are essential in securing Barbados' future and critical to bolster international reserves and support the currency peg.
- In the short term the budget accelerates the pace of adjustment, seeking to address the imbalance between revenues and expenditures.
- In the medium term, further fiscal adjustment would be needed on the expenditure side to decisively reduce debt and debt service costs.
- IMF identified transfers to public enterprises of close to 8% on an annual basis represents the second largest expenditure item, after the wage bill and interest bill on public debt.
- The suggestion is a reduction in transfers to public enterprises that has to be supported by structural reforms:
 - to reduce State Owned Enterprises (SOE) operating costs;
 - rationalize their programmes;
 - increase their revenue earning capacity;
 - divesting commercial SOEs that can be run more efficiently by the private sector;
 - reform to improve the investment climate and foster growth.

Chart showing Barbados bond yield movement



Source: Bloomberg

Name	Coupon	Issue Date	Bid Yield to Maturity	Maturity	Issued Amount
Barbados Government International Bond	7.25	12/10/2001	10.07	12/15/2021	150,000,000
Barbados Government International Bond	7.00	8/4/2010	10.37	8/4/2022	200,000,000
Barbados Government International Bond	6.63	12/5/2005	8.95	12/5/2035	255,000,000

Barbados Credit Rating

Moody's		Standard & Poor's	
Outlook	Stable	Outlook	Negative
Foreign currency long term debt	Caa3	Foreign currency long term debt	CCC+



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