Barbados

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First Citizens Research & Analytics

COUNTRY	
Real GDP growth (%) 2015	0.5% (CBB)
Next General Election	February 2018
Exchange Rate (BBD/ USD)	2.00

CREDIT RATING	
S&P Foreign Currency	B (Negative)
Fitch Foreign Currency	N/A
Moody's Foreign Currency Debt	Caa1 (Stable)

Major Trade Partners:	T&T (18.9%), France (10.7%), US (9.7%), St. Lucia (8.8%)
Major Exports (%):	Travel (44%), Other Services (28%), Manufactures (9%)
GDP Composition:	Services (82%), Industry (14%) and Agriculture (3.1%)

RECENT ECONOMIC DEVELOPMENTS

ECONOMIC OUTLOOK — **STABLE**

Economic growth is estimated at 0.5% in 2015, mainly due to the tourism sector performance. In quantitative terms, there was a 13% noticeable increase in airlift from major source markets, an expansion in room stock, and refurbishment of aging hotel plant. The tourism outturn was the best on record since 2007, with activity in the sector rebounding to pre-crisis levels. Tourism receipts grew by an estimated 5%, with arrivals up by 14%, and all major markets recording double-digit increases. In terms of sector performance, construction activity is estimated to have decreased by 3%, due largely to unexpected delays in the start of major infrastructural. The retail, business and other services sectors saw limited spillovers, because there was no impetus from the foreign exchange sectors, other than tourism.

INFLATION
MONETARY POLICY — **STABLE**

Negative inflation of -0.7% for the first seven months of 2015 was recorded, significantly down from an average increase of 1.9% in 2014. On average, there has been no increase in retail prices in 2015, a reflection of the persistent slide in international oil prices since the beginning of last year. Meanwhile the average annual unemployment rate declined slightly to 11.8%, from 12.3% a year earlier. Labour costs are estimated to have risen by 1% per year since 2008, while there has been no perceptible increase in productivity. As a result, the large gap between unit labour cost and output per worker persists.

TRADE BALANCE/ BOP — **NEGATIVE**

The current account is expected to have improved by 41% for the year thanks to a 5.37% reduction in outflows. This reduction stems from a fall in merchandise imports. Also helping the balance was a 0.7% increase in inflows as travel receipts grew by 4.9%. There was also a notable 3.7% increase in rum exports. Overall, a current account deficit of USD230.9 million is expected for 2015, down from a deficit of USD388.3 million in 2014. In terms of capital inflows, there were declines in both private and public inflows. Foreign currency reserves declined 11.9% from USD526.2 million (14.7 weeks of import cover) in 2014 to USD463.4 million (13.8 weeks of import cover) in 2015.

FISCAL ACCOUNTS — **NEGATIVE**

The 2015/16 fiscal deficit target of 4% of GDP is within reach, if Government completes the planned divestment of the Barbados National Terminal Company Ltd. Accrued revenue for the fiscal year is projected at BBD2,584 million, and expenditure at BBD2,950 million, for a deficit of BBD366 million. The fiscal measures announced in June 2015 have now been implemented, except for the taxes on betting and gaming. In the first nine months of the fiscal year, excise taxes increased BBD19 million, personal taxes rose BBD15 million and corporate taxes were BBD7 million higher. However, VAT receipts declined BBD47 million partly because of the reduction in fuel imports, and property taxes fell by BBD13 million. In the same period expenditure on wages and purchases by Government fell, each by BBD16 million. However, transfers to public institutions rose by BBD12 million, with increased payments for operational expenses and debt service.

CREDIT RATINGS — **NEGATIVE**

On Sept. 14, 2015, Standard & Poor's Ratings Services affirmed its ‘B’ long-term sovereign credit ratings on Barbados. The outlook remains negative. Large fiscal deficits, a high debt burden that continues to rise, and narrower financing options constrain Standard & Poor's ratings on Barbados. Financing the government deficit continues to rely on official and central bank funding given a reduced appetite in both local and external capital markets.
On April 01, 2016, Moody's Investors Service ("Moody's") downgraded Barbados' government bond rating and issuer rating to Caa1 and changed the outlook to stable. Moody's decision to downgrade Barbados' issuer and bond ratings to Caa1 from B3 and revise the outlook to stable from negative was driven by slow progress towards achieving fiscal consolidation consistent with a sustainable debt trajectory and low level of foreign exchange reserves and weak funding conditions.

BUDGET 2016

- From 1 Sep 2015 there will be a new VAT Basket of basic food items with the removal of several items from the zero-rated basket of goods, which will then be subject to the standard rate of the VAT of 17.5 %.
- From 1 Sep 2015, all betting and gaming services and supplies (which are currently exempted from VAT) will be subject to pay VAT at the standard rate of 17.5 %.
- Funds raised from the fuel cess levied on Barbados National Oil Company Limited products may be used to meet liabilities of the Queen Elizabeth Hospital.
- Effective tax year 2015 Group Losses will no longer be allowed and losses will be carried forward for only seven years.
- From 1 Jan 2016, the VAT registration threshold requirement will be increased from the current level of BB$80, 000 to BB$200, 000.
- Current Income tax rate of 17.5% will be reduced to 16% and the higher rate of 35% to 33.5%.
- New Excise on Sweetened Beverages at rate of 10 % imported and locally produced.
- A new Land Tax structure effective for the 2015-2016 period.

OUTLOOK

While the present administration is making an attempt to improve Barbados' fiscal status, consolidation and weak competitiveness will continue to hamper Barbados' economic recovery. There have been signs that the ability to borrow in the domestic market at low rates is diminishing and access to external markets has been affected by successive downgrades. Foreign currency reserves have declined substantially with import cover now at 14.6 weeks. As a result of this and based on the trajectory of the fiscal accounts and pace of debt accumulation First Citizens Research & Analytics holds a negative view on Barbados.