



# Barbados

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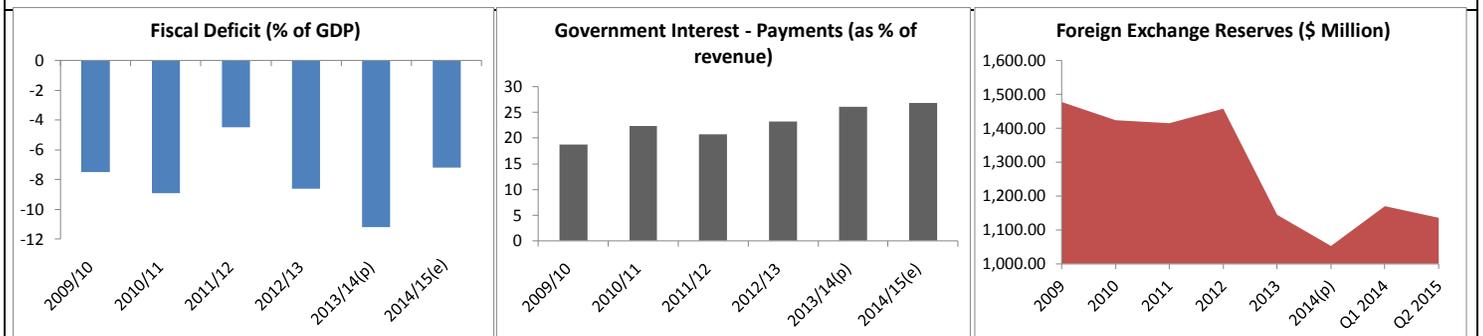
COUNTRY		CREDIT RATING		Major Trade Partners: T&T (18.9%), France (10.7%), US (9.7%), St. Lucia (8.8%)
Real GDP growth (%) 2015	0.50% (CBB)	S&P Foreign Currency	B (Negative)	Major Exports (%): Travel (44%), Other Services (28%), Manufactures (9%)
Next General Election	N/A	Fitch Foreign Currency	N/A	GDP Composition: Services (82%), Industry (14%) and Agriculture (3.1%)
Exchange Rate (BB\$/ USD)	2.00	Moody's Foreign Currency Debt	B3 (Negative)	

## RECENT ECONOMIC DEVELOPMENTS

<b>ECONOMIC OUTLOOK</b>	<b>STABLE</b>	Barbados' economy is estimated to have expanded by 0.5% in 2015, following a 0.2% expansion in 2014. The expansion was attributed largely to growth of 1.7% in the tradables sector, which in turn was due to a 5.9% expansion in the tourism sector. All other tradable sectors either declined or experienced no growth. The manufacturing sector contracted 1.6% while the agricultural sector contracted by 7.1% (inc. sugar). The non-tradable sector experienced a minor expansion of 0.17% as expansions in quarrying (25%), transport (1.4%) and finance/other services (0.6%) were countered by contractions in construction (-3.1%) and distribution (-0.4%). According to the CBB, over the next 5 years, real GDP is forecast to expand by 1.7% on average, peaking at a bout 2% in 2017. The Tourism sector is of prime importance to the economy of Barbados, accounting for just over 12% of GDP. Some estimates suggest an even greater significance when the indirect contribution of tourism to other sectors of the economy is considered, increasing the contribution of tourism to 46% of GDP.
<b>INFLATION MONETARY POLICY</b>	<b>STABLE</b>	The CBB reported negative inflation of -0.7% for the first seven months of July, down significantly from an average increase of 1.9% in 2014. Meanwhile the average annual unemployment rate declined slightly to 11.8%, from 12.3% a year earlier. The CBB has trended towards issuing shorter term instruments as opposed to longer term debentures. The Barbados notional curve at the 5, 10 and 20 year tenors remain lower than the FCIS BB\$ yield curve.
<b>TRADE BALANCE/ BOP</b>	<b>NEGATIVE</b>	Current account inflows are 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 US\$ 230.9 million is expected for 2015, down from a deficit of US\$ 388.3 million in 2014. In terms of capital inflows, there were declines in both private and public inflows. Foreign currency reserves declined 11.9% from US\$ 526.2 million (14.7 weeks of import cover) in 2014 to US\$ 463.4 million (13.8 weeks of import cover) in 2015.
<b>FISCAL ACCOUNTS</b>	<b>NEGATIVE</b>	The fiscal deficit for FY 2014/15 is estimated at 6.9% of GDP, an improvement from the 11.0% of GDP deficit in FY 2013/14. Government interest payments as a percentage of revenue at edged upwards from 26.1% to 26.4% in FY 2014/15. A 1.7% decline was reported in current expenditure for the last eight months of 2015 when compared to the same period of 2014. At the same time, there was a 1.3% decrease in total revenues. The nominal deficit fiscal balance was largely unchanged for the last eight months of 2015. Gross Public Sector Debt (as a percentage of GDP) increased to 109.4% in 2014 to 110.3% in 2015.
<b>CREDIT RATINGS</b>	<b>NEGATIVE</b>	S&P lowered its LT FC credit rating on Barbados by two notches from BB- to B on 19 December 2014. The revision was attributed to the country's large fiscal deficits, high debt burden, narrower financing options and weak economic fundamentals. On 2nd June 2014, Moody's Investors Service downgraded Barbados' foreign currency long term credit rating by three notches to B3 from Ba3. The rating outlook remains <i>negative</i> .
<b>BUDGET 2016</b>		<ul style="list-style-type: none"> <li>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 %.</li> <li>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 %.</li> <li>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.</li> <li>Effective tax year 2015 Group Losses will no longer be allowed and losses will be carried forward for only seven years.</li> <li>From 1 Jan 2016, the VAT registration threshold requirement will be increased from the current level of BB\$80, 000 to BB\$200, 000.</li> <li>Current Income tax rate of 17.5% will be reduced to 16% and the higher rate of 35% to 33.5%.</li> <li>New Excise on Sweetened Beverages at rate of 10 % imported and locally produced.</li> <li>A new Land Tax structure effective for the 2015-2016 period.</li> </ul>

## 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. With the outlook still weak for the European economy, some weakness is expected in the tourism sector of Barbados during 2015. That said, the surge in foreign capital during 2014 could indicate that the industry is set for a recovery in late 2015. 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.



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