Barbados

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First Citizens
Research & Analytics

COUNTRY	
Real GDP growth (%) HY 2016	1.3% (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**

Barbados economic growth was 1.3% over the first six months of 2016, compared to 0.0% growth for the same period 2015. However, this is a deceleration in comparison to Q1 2016 when 1.7% growth was recorded due to delays in major tourism investment projects. Tourist arrivals exceeded last year's high, even though the 5.3% expansion was marginally lower than the 7.2% increase in arrivals for the first quarter 2016. The U.K. still remains Barbados tourist arrivals source market contributing 35% of total tourist arrivals for the period January to June 2016, with the second highest contributor being the U.S. with 26% of total tourist arrivals. The impact of Brexit on the Barbados tourism industry is a key factor for consideration.

INFLATION
MONETARY POLICY — **STABLE**

Negative inflation of -1.4% for the first six months of 2016 was recorded, significantly down from an average increase of 1% in 2015. 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 deficit has narrowed significantly, reflecting lower oil and other import price (despite an increased volume of oil and intermediate goods imports) while exports grew modestly. Foreign exchange reserves fell by $84.5 million to $883.8 million when compared 6 months 2015, reflecting lower foreign direct investment and debt amortization. Weeks of import cover fell from 13.9 weeks in 2015 to 13.5 weeks in 2016.

FISCAL ACCOUNTS — **NEGATIVE**

Between April and June the fiscal deficit widened by BBD28 million to BBD204 million and the primary surplus fell by BBD14 million, compared with the same period in 2015. Revenue of BBD563 million was down BBD25 million, with VAT and personal income taxes lower by BBD13 million and BBD17 million, respectively.Between April and June the fiscal deficit widened by BBD28 million to BBD204 million and the primary surplus fell by BBD14 million, compared with the same period in 2015. Revenue of BBD563 million was down BBD25 million, with VAT and personal income taxes lower by BBD13 million and BBD17 million, respectively. Current expenditure was marginally higher at BBD732 million. Grants to public entries fell by BBD21 million but domestic interest payments increased by BBD16 million.

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 tax 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. The Central Bank's current projection for economic growth in 2016 has been lowered to 1.5%, mainly because most major investments projects are behind schedule. Although growth has resumed and short-term prospects are positive, imbalances persist between available resources and government programs. While developments have provided some room for maneuver, Barbados remains highly vulnerable and may not realize its potential without deep-seated reforms to align revenues and expenditures, and reduce debt. 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 **cautious** view on Barbados.