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Barbados

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Central Bank of Barbados - Review of the Economy

Overview

- Barbados entered into a four-year economic adjustment programme with the International Monetary Fund (IMF).
- The Government of Barbados unveiled the Barbados Economic Recovery and Transformation (BERT) plan which aims to deepen the fiscal adjustments and undertake structural reforms to help stimulate medium-term economic growth.
- The domestic debt-restructuring programme was completed and contributed to an improvement in Barbados' local currency credit rating.
- Structural reforms have commenced with various legislative changes being debated in parliament.
- The corporate tax regime was reformed in response to the Organization for Economic Co-operation and Development (OECD) Base Erosion and Profit Shifting initiative.

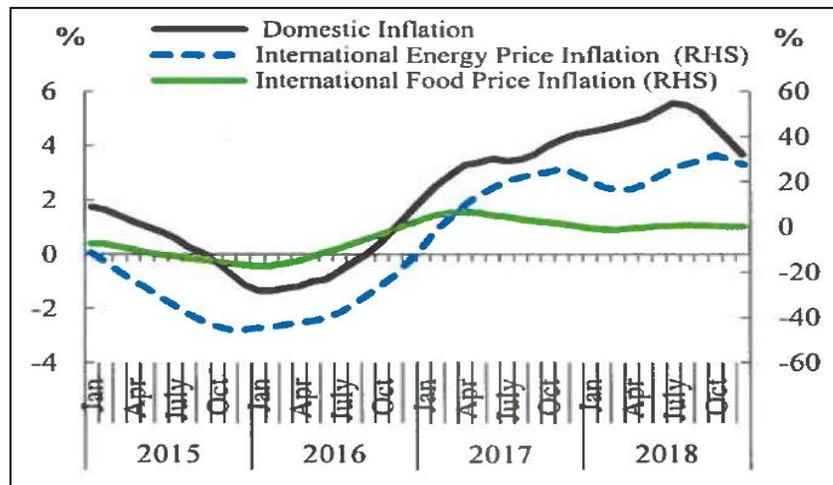
Real Sector

- Real economic activity contracted by an estimated 0.6% in 2018. The gains in tourism were offset by the declines in the manufacturing and other services.
- Expansion in the tourism segment was limited due to a reduction in the average length of stay because of an increase in shorter staying visitors from the United States market. Arrivals from Canada and the United Kingdom were also up.

- Cruise visitors fell by almost 10% as ships returned to their normal itinerary, after the re-routing of vessels in 2017 due to the effects of hurricanes.
- Manufacturing output remained depressed but the agriculture sector showed an improvement due to increases in both poultry and sugar production.
- The 7.0% drop in the construction sector was a result of the limited levels of infrastructural development in both the public and private sectors. This had a direct impact on the levels of quarrying activity and cement consumption as well as a reduction in the importation of construction materials.
- The other sectors that declined were distribution, business and other services and transportation, storage and communication.
- Homes and businesses increased their reliance on solar power electricity generation resulting in electricity consumption remaining flat.

Prices and Employment

- The average unemployment rate fell to 9.2% for the quarters ending September from 10.2% a year earlier. Public sector layoffs negatively impacted this figure in the fourth quarter.
- Public sector wages increased by 4% on average while the private sector had a modest increase.
- The elimination of the National Social Responsibility Levy (NSRL) and falling international fuel prices helped to contain inflation at 3.7%



Source: Barbados Statistical Service and World Bank Indicators

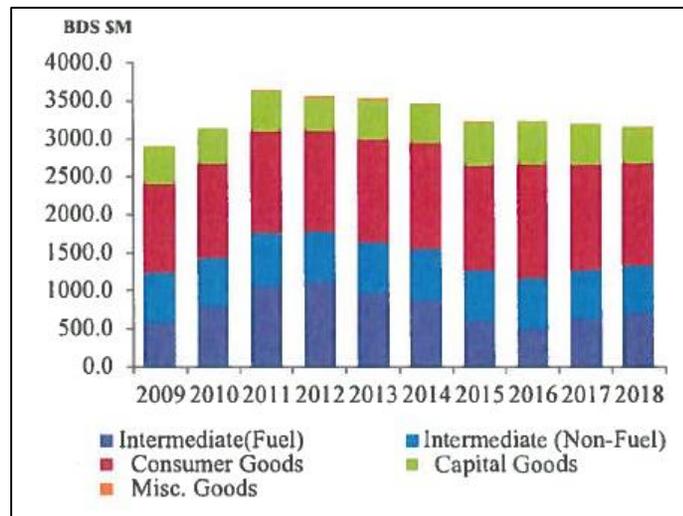
External Sector

- International reserves increased to BBD1.05 billion at year-end, representing approximately 13.5 weeks of import cover. This was influenced by an improvement in the availability of foreign exchange (FX) which increased the sales of FX to the Central Bank. Additionally, the savings derived from the suspension of the debt service enabled the reserves to stabilize.
- During the last quarter, there were capital inflows of BBD470 million from international financial institutions which helped boost the FX holdings.

BDS \$M	Jan- Jun 2016	Jul- Dec 2016	Jan- Jun 2017	Jul- Dec 2017	Jan- Jun 2018	Jul- Dec 2018
Net CG*	(209.6)	(189.0)	(184.6)	(187.2)	(191.4)	306.6
Inflows	103.9	41.5	85.3	39.4	47.3	412.4
Outflows	313.5	230.5	269.9	226.6	238.6	105.8
Net CB**	152.7	(4.7)	136.9	(29.6)	218.9	122.3
Net Other	48.9	(100.8)	71.7	0.8	3.8	116.1
Change in GIR	(8.0)	(294.4)	23.9	(216.0)	31.4	544.9
GIR as at end of Jun/Dec	959.9	665.5	689.4	473.4	504.8	1,049.7
Note: *CG-Central Government, **CB- Commercial Banks						

Source: Central Bank of Barbados

- The external current account deficit improved to 3.8% of GDP. This was aided by rising earnings from tourism. Domestic exports were flat as gains in chemical and printed paper labels were offset by declines in rum and sugar exports.
- Total imports fell just under 2% as non-oil purchases declined for the second consecutive year. There were also lower motor vehicle imports and furniture.
- Higher international fuel prices increased the total value of fuel imports by 19.9%.



Source: Barbados Statistical Service and Central Bank of Barbados

Public Finances

- The reduction in interest costs associated with the suspension of external debt payments and the lower domestic rates on Government securities helped to improve the public finances between April and December. Interest costs accounted for 16% of revenues versus 31% in FY2017/18.
- Larger than anticipated tax refunds, lower imports and lags in collections resulted in revenues being BBD56 million below target.
- The new fuel tax generated BBD35 million during the period.

Financing and Debt

- Policy-based loans of BBD350 million from the IDB and the CDB during the last quarter of the year contributed to an overall decline in Central Bank financing of approximately BBD242 million versus an increase during the first half of the fiscal year.
- The domestic debt restructuring allowed the Government to remove BBD2.9 billion or 29% of GDP from the stock of debt held by public sector institutions.
- Gross public sector debt is now equivalent to 126.9% of GDP.

Financial Sector

- The debt restructuring and the adoption of the new accounting standard IFRS9 eroded capital in the financial services sector. Commercial banks however, held adequate capital with a capital adequacy ratio of 15.6%.
- The excess cash ratio of 16.2% indicated that liquidity in the banking system remained high.
- The underlying credit to the non-financial private sector declined by approximately 0.5% after adjustments.
- Borrowings in the distribution sector increased while real estate, hotels and restaurant loan declined. The weighted average loan rate was 6.8%, approximately 20 basis points higher than last year.

Outlook

- The restoration of macroeconomic stability and building confidence must continue by having the efficient and timely execution of reforms identified in the adjustment programme.
- Growth is expected to be flat for 2019.
- The sustained fiscal consolidation could continue to dampen economic activity but the trend can be reversed through higher levels of private sector investment.
- There are still significant downside risks as global growth has been revised downwards by the IMF from 3.7% to 3.5%.
- The US economy is forecasted to grow by 2.6% but uncertainty related to trade tensions linger.
- Brexit developments may also impact economic activity in the UK and have potential effects on the pound sterling.
- Oil prices can also have a significant influence on the economic activity and inflation environment.
- Government expenditure must be closely managed to avoid any shortfalls in its targeted goals.
- Reserves have improved and remains on a path of stabilization. Debt has also started a downward trend which provides the opportunity to reduce outstanding arrears and improve medium-term growth potential.
- The effective implementation of the programme will help with the accessing of additional funds from multilateral agencies and aid in the improvement of Barbados' credit ratings as stability returns.



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