The Barbados Economics Society

BES Reacts to the Central Bank's Governor Review

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Summary

On January 30th, 2018, the Central Bank Governor Mr. Cleviston Haynes reported that economic growth in Barbados is estimated to have reached 1.0 % during 2017, heavily dependent on activity in the tourism and construction industries. In spite of the foreign exchange gains from tourism, insufficient foreign direct investment, the combination of net public outflows, inclusive of higher external debt service payments, and an increase in fuel imports contributed to a $273.9 million loss in international reserves. The stock of reserves at the end of 2017 represented about 6.6 weeks of import cover, below the international benchmark of 12.0 weeks of reserve cover. In terms of the performance of the fiscal sector, the Government of Barbados continued to reduce the deficit through increased taxation. Over the first nine months of the FY 2017/2018, the expansion in revenue was mainly attributed to increases from 1) Value Added Tax (VAT), 2) The National Social Responsibility Levy (NSRL), 3) Custom Excise Taxes and 4) Corporate Taxes.

BES Position

In reacting to the above highlights, the BES noted that the Economic Review paints a very similar picture to 2016, where growth was primarily driven by the traditional industries. The strong growth of 2.2 % experienced during the first six months of 2017, dropped to 1.0 % for the entire year. This indicated that there was a slowdown in growth during the latter half of the year. The BES expects that in 2018, the international reserves will remain under pressure due to the uncertainty surrounding the start of key foreign exchange tourism-related projects and an expected rise in global crude oil prices, despite tourism being projected to continue to grow. BES President Mr. Shane Lowe suggested that with major debt service payments due again this year and in 2019, the negative gap between foreign exchange inflows and outflows could become problematic in the short to medium terms. However, he adds that the reserves could be boosted by further investment in tourism projects, shifting the dependence from fossil fuels to renewable energy and government accessing external financing from multilateral organizations at lower concessional rates. The body expects that, without urgent action, the stocks of reserves at the end of the next two years could be lower than that reported at the end of 2017.

Additionally, the BES notes that on the fiscal side, there is an increased likelihood that additional fiscal adjustment measures by Government would be needed to reduce the fiscal deficit. In such instances annual taxes would have to at least offset Government's current trajectory of operational expenditure. Although, the Government has collected more revenue thus far for this fiscal year from additional measures and higher taxes, the Central Bank's projection for weak growth in 2018 may continue to constrain substantial growth in revenues during 2018/19. Mr. Lowe, a former Central Banker himself and currently an Economic Analyst with CIBC FirstCaribbean International Bank, adds that since Government has already cut capital expenditure by 29% for this fiscal year (the lowest level since 2014), it will likely require an increase in spending in this area to facilitate investment in much-needed upgrades to infrastructure. This means that much of the burden of adjustment will fall on current expenditures, particularly transfers to public institutions which have increased by 8% so far for the fiscal year. Considering these projected outcomes, Mr. Lowe concluded that the Government of Barbados will be hard pressed to balance the fiscal current account and at the same time stimulate economic growth.