The Barbados Economics Society

Response to the Central Bank of Barbados' 2018 Economic Review of Barbados

Sentiments of the BES President, Mr. Simon Naitram

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2018 Economic Review of Barbados

Summary

On January 30th, 2019, the Central Bank of Barbados presented its performance review of the Barbadian economy in 2018. The year was punctuated by two significant events: (i) the change in government, and (ii) the Government of Barbados entering an agreement with the International Monetary Fund (IMF).

Real Gross Domestic Product (GDP) contracted by 0.6% during the year, with growth in the tourism industry slowing from 2.2% in 2017 to 0.6% in 2018. This slowdown in tourism growth happened despite a 2.8% increase in visitor arrivals. How do we explain this puzzle? The value the country gets from tourism is a combination of two things: visitor arrivals and visitor spending. And while more visitors visited Barbados, they have been staying for shorter periods and spending less.

This sends an early warning about the structure of the tourism industry. The tourism industry's contribution might continue to underwhelm, as Brexit looms over the British economy and new tourism taxes take effect. If tourism is to be a viable source of broad-based economic growth into the future, then the industry needs to evolve. This evolution will need innovation, investment, and broad social engagement.

The Government of Barbados' debt restructuring has reduced the debt-to-GDP ratio to 126.9% of GDP by

For Barbados, the year 2018 was punctuated by two significant events: (i) The change in government, and (ii) the Government of Barbados entering an agreement with the International Monetary Fund (IMF).

December 2018, down from 155.8% in September 2018. The combination of debt restructuring and the Government's fiscal measures has generated a surplus of revenue over total spending (fiscal surplus). Most of the reduction in government spending was due to the reduction in interest costs and a decline in Government's capital investment. The government's revenues were $56 million below target. Lower imports were in part responsible for the missed target.

If economic growth remains weak in the short- to medium-term, the Government may continue to collect less revenue than it expects. The Government may then need to resort to new expenditure or tax measures to meet its fiscal target. Capital expenditure (public investment) is an easy target for spending reduction. But capital expenditure has a large positive impact on economy activity. Reduction in public investment would do severe damage to Barbados' ability to grow.

The need for growth is pressing. We are under no illusions that fiscal measures alone will stabilise the nation's debt. We need growth in economic activity to reduce the burden of the country's debt obligations.

The IMF agreement states that we need bold structural reforms for growth. We agree. The success of the BERT programme depends heavily on these reforms. Signs of reform are encouraging. This includes the introduction of the Planning and Development Bill 2019. Reforming the public sector serves two purposes: reducing government spending, and improving the environment for Barbadians to invest and do business.

Much like the West Indies cricket team, the Government of Barbados appears to be on the right track. Consistency, stamina and broad social support are needed to see the job to its conclusion. We look forward to Barbados' evolution to a modern, wealthy and happy society.

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