

Barbados government spending soars, says Central Bank

BRIDGETOWN, Barbados, May 1, 2008 - Expenditure by the government of Barbados "soared" over the first three months of this year with estimates putting spending at double the rate of expansion recorded for the same period a year earlier.

This was revealed by Governor of the Central Bank of Barbados, Dr Marion Williams, as she reviewed Barbados' economic performance for the first quarter of this year (Q1 2008) during a press conference held yesterday at the bank's headquarters at the Tom Adams Financial Centre in the heart of the capital, Bridgetown.

Dr Williams said spending had grown over 20 per cent, driven primarily by a 30 per cent rise (BDS\$86.6 million/US\$43.3 million) in transfers and subsidies. The chief beneficiaries of this were the University of the West Indies, the Barbados Agriculture Development Management Corporation and the Transport Board. While spending on wages and salaries came down, spending on goods and services and interest payments also went up.

Despite preparations for the International Cricket Council's Cricket World Cup 2007 long over, capital expenditure continues apace and although not providing figures, Dr. Williams said this spending was also estimated to have increased "significantly".

These factors combined to push government's fiscal deficit BDS\$128.9 million (US\$64.4 million) into the red, which the Central Bank governor noted was nearly quadruple the deficit recorded a year earlier and, in fact, was the largest first quarter balance in at least a decade.

The deficit remained high despite a "sizeable rebound" in revenue as government's coffers were swelled by a 14.4 per cent growth in indirect tax revenue thanks to increased value added tax collections and a higher intake of import duties and excise tax as Barbadians' appetite for imported goods grew unabated. While corporate tax receipts continued to grow moderately, this was offset by a 2.2 per cent fall in direct tax revenues due to ongoing tax reforms.

Still, government was able to continue the policy set by the previous administration of not going to the international markets for loans to finance its debt as the high liquidity in the local banking sector allowed government to finance its deficit mostly from domestic sources.

That challenge notwithstanding, Barbados showed a strong economic performance over Q1 2008 as the rising world commodity prices were slow to impact the country as the new Democratic Labour Party government made a number of rapid policy decisions to contain the effects of rising flour and grain prices and continue the fuel and electricity subsidies maintained by the last Barbados Labour Party administration.

Overall, Barbados' economy expanded by 4 per cent over the first three months of this year in contrast to the 2.6 per cent growth recorded over the same period in 2007.

For the first time since 2004, the traded sector led economic growth on the back of a robust rebound in tourism activity with tourism value added increasing by 9.7 per cent following three consecutive first quarter transactions; while manufacturing reversed its declining trend to mark a moderate expansion in output by 1.5 per cent.

Construction remained a significant economic driver, growing 2.7 per cent - up from 1.7 per cent a year earlier. The transportation, storage and commercial sector grew by 4.7 per cent; the business and other services sector grew by 4.4 per cent; and the wholesale and retail trade by 4 per cent. Domestic exports also "strengthened moderately", but the agriculture and quarrying and mining sectors all showed declines.



Governor of the Central Bank of Barbados, Dr Marion Williams, said spending had grown over 20 per cent, driven primarily by a 30 per cent rise (BDS\$86.6 million/US\$43.3 million) in transfers and subsidies. The chief beneficiaries of this were the University of the West Indies, the Barbados Agriculture Development Management Corporation and the Transport Board. While spending on wages and salaries came down, spending on goods and services and interest payments also went up. (File photo).

The delay in the sugar harvest for the second year in a row meant the economic output by that sector fell by around 14 per cent for the second year, while non-sugar output fell from 4.8 per cent to 0.8 per cent. Despite an almost 10 per cent improvement in fish catches over the period, non-sugar agriculture contracted due to a slow down in milk output and poultry farmers reigning in production by 2.5 per cent after ramping up their output for Cricket World Cup 2007.

In terms of her forecast for the remaining quarters of 2008, Dr. Williams told local media that the "biggest challenge" Barbados' economy was likely to face over the year would be "containing the rate of inflation".

While inflation had shown a decrease at the start of the year - the moving rate of inflation was measured at 4 per cent as at January 1, as compared to 7.1 per cent in the same month last year - Dr. Williams said it was likely to start rising again given global factors.

"The rate of inflation is anticipated to increase, dictated by trends in the international prices of oil and other commodities, including food," she said

The governor cautioned against a knee jerk rise in wages as a response to escalating food and fuel bills in the country, noting that "inflation could worsen if wage increases are not held within reasonable limits."

Recently, Barbadian trade unions sent a message that the government's April decision to pass on rising world costs of fuel by increasing the price at the pump on the local market, coupled with rising global food prices, would be significant factors in any upcoming wage negotiations.

Dr. Williams also projected positive growth in domestic exports over 2008, further augmented by long-stay visitor arrivals. However, Barbados' lead economist did acknowledge that it would be unlikely that the country would be able to maintain the 10 per cent increase in long-stay arrivals and estimated 8.7 per cent growth in cruise passengers in these challenging economic times.

She reminded the media earlier in her review that Barbados had experienced an extended cruise tourism slump between January 2005 and June 2006 as a result of soaring fuel costs as American cruise operators tried to contain costs by keeping their vessels on routes closer to home ports.