Barbados

The coronavirus disease (COVID-19) pandemic has undoubtedly brought unexpected macroeconomic challenges for the Barbadian economy. It came at an inopportune time for Barbados given the already subdued economic growth stemming from the government’s fiscal consolidation efforts. The Barbadian government, however, swiftly introduced health measures to curb the spread of the disease and countercyclical measures to provide economic support. This challenging economic environment has reversed recent gains in the fiscal position, as the fiscal surplus of 3.7% of GDP in the 2019/20 fiscal year had become a fiscal deficit of 0.2% of GDP by September 2020 and gross public debt expanded by 8.5 percentage points to 131% of GDP in the same month. The recent European Union blacklisting is another unexpected factor, and could potentially affect the international business sector. Unemployment claims have reached unprecedented levels, with over 33,000 claims in June 2020. The twelve-month moving average rate of inflation stood at 4.0% at the end of September 2020 owing to new taxes and a tough drought season early in the year, but deflation is expected in 2021. Activity in the typically robust tourism sector has been severely impacted, with spillover effects on other sectors. Therefore, the economy is expected to contract by 16% in 2020, followed by a recovery in 2021 with forecast growth of around 6%, with the arrival of a vaccine and a gradual increase in tourism activity.

Prior to the COVID-19 pandemic, fiscal consolidation efforts by the Government of Barbados under the Extended Fund Facility (EFF) with the International Monetary Fund (IMF) had begun to yield an improvement in Barbados’ fiscal position. However, these gains were reversed by lower revenue in 2020 owing to global and domestic pandemic restrictions and the countercyclical measures introduced to provide economic support. As a result, the fiscal surplus of 3.7% of GDP in the 2019/20 fiscal year had turned into a fiscal deficit of 0.2% of GDP by the middle of the 2020/21 fiscal year. The government also cut their fiscal target under EFF to a primary surplus of 1% of GDP (from 6% of GDP). Although this was achieved, given that the primary surplus was 1.7% in September 2020, it was significantly lower than the 4.0% reported in September 2019. Despite the challenging macroeconomic environment, IMF indicated in its October EFF review that Barbados has continued to make good progress with its ambitious and comprehensive economic reform programme. Nevertheless, the reduced economic output and temporary increase in borrowing to navigate the crisis drove the debt-to-GDP ratio up from 122.5% in September 2019 to 131% in September 2020. In October 2020, the European Council added Barbados to the European Union list of non-cooperative jurisdictions for tax purposes as the Global Forum on Transparency and Exchange of Information for Tax Purposes downgraded Barbados to partially compliant with international standards on transparency and exchange of information on request; of major concern for the Barbados authorities is the far-reaching implications for European transactions within the international business sector.

The sharp decline in tourism flows was a major contributor to the substantial widening of the current account deficit to 5.1% of GDP in the first three quarters of 2020 from 0.7% of GDP in the prior-year period. Weaker domestic demand and lower oil prices contributed to a decline in imports (down 15.0% from September 2019 to September 2020), although this was partially offset by increased imports of capital goods, particularly for public utilities. Exports of goods also fell by 6.7% year-on-year in the first three quarters of 2020. The resumption of interest payments on restructured external debt increased income outflows. International reserves increased to US$ 1017.4 million, representing 28.1 weeks of import cover in September 2020 (well above the 12-week benchmark), up from US$ 613.5 million or
15.7 weeks of import cover in September 2019. This increase primarily came from financing from multilateral sources during the second quarter of 2020.

The government of Barbados introduced several measures to offset the prolonged economic toll of the COVID-19 pandemic, announcing an economic stimulus package for a total of US$ 1 billion. One important initiative is the Barbados Employment and Sustainable Transformation (BEST) plan, aimed at safeguarding jobs in the tourism sector, minimizing bankruptcies, and strengthening the competitiveness of the sector until normalcy returns. The programme also provides financing for green initiatives, digitization of processes and systems for lower cost and improved service, and investment in local suppliers of food, furniture and other supplies.

The global economic recession spurred by the COVID-19 pandemic was the primary driver of the steep contraction in economic activity in 2020. Consequently, the Barbadian economy is expected to contract by 16.0%, after a slight contraction of 0.1% in 2019. The closure of ports of entry to commercial passengers globally has had a devastating effect on the typically robust tourism sector. By September 2020, tourism output had fallen 59.6% year-on-year, with tourist arrivals down 86.7%, despite a gradual re-opening of the economy since July 2020. Although there has been some construction activity, as the long-delayed Hyatt-Ziva project is set to continue in 2020, output in the construction sector fell by 16.7% year-on-year the first three quarters of 2020. Output in the wholesale and retail sector was severely impacted when pandemic-related restrictions were first put in place, but recovered slightly when restrictions were relaxed and schools reopened. In 2020 to September, the sector contracted 5.2% year-on-year. The agriculture sector is the only sector with an increase in output to date in 2020, with a 23.1% year-on-year increase in its GDP contribution, as improved weather conditions boosted food production and fish catches increased.

The twelve-month moving average rate of inflation stood at 4.0% at the end of September 2020 relative to 2.5% in September 2019. Driving this increase were new taxes and tough domestic drought conditions that lasted from late 2019 into the first quarter of 2020. By the second quarter of 2020, muted overall demand along with lower global oil prices led to a deflationary trend that is expected to continue in 2021.

Although final unemployment data for 2020 remains unavailable at the time of publication, a significant increase in the unemployment rate is anticipated, to as much as 40% (well above the 10.1% in 2019). By June 2020, unemployment claims had skyrocketed to well over 33,000 (approximately 24% of the workforce) with 31% originating from hotels and restaurants. Some private sector firms temporarily reduced wages and hours in order to cut operating costs and contain the impact on employment. By July 2020, unemployment claims had begun to decline as the economy slowly reopened and business activity picked up, but the recovery has been slow and unemployment is unlikely to recover to pre-pandemic rates in late 2020 or early 2021.