BARBADOS

1. General trends

The coronavirus disease (COVID-19) pandemic dealt a severe blow to Barbados’ economic prospects in 2020, grounding tourism arrivals and stalling economic activity. The impact was further exacerbated by the anticipated recovery in 2021 upon the arrival of vaccines being tempered, as the Government of Barbados, like the rest of the world, grappled with a delicate balance between managing the health crisis—including multiple waves and new variants of COVID-19—and curbing the economic fallout from restrictions. The economic recession persisted through to June 2021, with economic activity contracting 9% in the first half of the year compared to the same period of the prior year.

Supported by several international financial institutions, the government has achieved unprecedented levels of international reserves, which increased by US$ 366 million to US$ 1.4 billion, equivalent to 43.6 weeks of imports. However, public finances were adversely affected by the pandemic, as the fiscal balance showed a deficit of 5.1% of GDP for the 2020/21 fiscal year following a surplus of 3.6% of GDP in 2019/20. Notwithstanding the challenging economic landscape, Barbados was able to meet most of its quantitative targets under the International Monetary Fund (IMF) Extended Fund Facility (EFF) programme. In addition, in February 2021, the European Union transferred Barbados from its tax cooperation blacklist to a grey list, pending a supplementary review. External debt service resumed in the 2020/21 fiscal year, but the public debt stock jumped to 150.3% of GDP.

Reduced economic activity in 2020, particularly in the tourism sector, led to a rise in the unemployment rate to 13.1%, which was accompanied by an increase in inflation to 4.5%, with higher prices for fish and vegetables. A modest economic recovery in the latter half of 2021 factoring in the negative impact of the “National Pause” in the first quarter of 2021, renewed travel restrictions in major tourism source markets and subdued private consumption result in projected GDP growth for 2021 of 3%. Much downside risk remains, owing to persistent uncertainty over the pandemic, with a possible slower-than-expected recovery in tourist arrivals from traditional source markets and other external shocks.

2. Economic policy

(a) Fiscal policy

The substantial progress made under the EFF programme of IMF, to address Barbados’ macroeconomic challenges, has been significantly impacted by the countercyclical measures necessary to combat the pandemic. As a result, the fiscal deficit widened to 5.1% of GDP in the 2020/21 fiscal year relative to a surplus of 3.6% of GDP in 2019/20, while the primary surplus of 6.0% of GDP in 2019/20 became a deficit of 1.0% of GDP in 2020/21. The Government of Barbados will now target a primary balance of 0% of GDP for the 2021/22 fiscal year, based on a modest recovery in tourism and accounting for COVID-related emergency outlays on health facilities, medical supplies, and income support to the most vulnerable.

IMF remains satisfied with the progress on comprehensive economic reform by the Government of Barbados, as most quantitative targets were met, even though the performance criterion for central government transfers and grants to public institutions was exceeded, owing to measures to address the
COVID-19 health crisis. In addition, Barbados was removed from the European Union tax cooperation blacklist to its grey list in February 2021, pending a supplementary review by the Global Forum on Transparency and Exchange of Information for Tax Purposes.

Revenue marginally increased to 30.1% of GDP in the 2020/21 fiscal year, up from 28.2% in 2019/20, primarily driven by higher corporate taxes. All other revenue streams declined in the 2020/21 fiscal year, including not only personal income tax and property taxes, but also value added tax (VAT), excises and import duties, fuel tax, the Room Rate Levy, the Shared Economy Levy, and the Product Development Levy.

Total expenditure jumped to 30.3% of GDP in the 2020/21 fiscal year, up from 22.7% of GDP in 2019/20 with the resumption of external commercial debt service and COVID-19 related spending. The Government’s COVID-19 relief efforts led to higher grants to individuals, higher transfers to the welfare department, implementation of the Household Survival Programme, grants to public institutions partly attributed to transfers for the Barbados Employment and Sustainable Transformation (BEST) programme. However, expenditure on goods and services declined, with cost savings on property maintenance and rental of supplies and materials. Capital expenditure increased with the implementation of projects such as the Barbados Water Authority’s Water Supply Network Upgrade Project, purchases of electric buses, and increased support to the Barbados Agency for Micro Enterprise Development (FundAccess), in an effort to alleviate the impact of the crisis on micro- and small business.

With the rapid increase in public sector spending to combat the spread of COVID-19, at the end of June 2020, the public sector debt stock stood at US$ 6.5 billion, equal to 150.3% of GDP, up from 126.9% of GDP in June 2020. This increase reflects the considerable widening of the fiscal deficit. Funding from external creditors has cushioned the impact on public finances. Nonetheless, the long-term public debt target of 60% of GDP has been pushed back from the 2033/34 fiscal year to 2035/36 with a sustained commitment from the Government to continue to reduce public debt.

(b) Monetary and exchange-rate policy

The Central Bank of Barbados (CBB) will maintain an accommodative stance, given the extremely weak economic activity. Since the onset of the pandemic, CBB has eased its monetary policy stance by lowering the discount rate on temporary advances to financial institutions, and by reducing the mandatory government securities reserves ratio for banks from 17.5% to 5% and eliminating it for non-bank deposit-taking financial institutions. These measures are intended to assist financial institutions that are being affected by a deterioration in the ability of businesses and households to service existing and new loans. CBB also provided six-month collateralized loans to institutions as needed. However, financial institutions reported moderately higher non-performing loans and lower profitability. Nevertheless, financial institutions remained well-capitalized and highly liquid, meaning that CBB did not have to accommodate any liquidity shortages.

CBB has held firm on the fixed exchange rate peg of US$ 2 to 1 Barbados dollar (BDS$). The current high levels of international reserves, shored up by multilateral financial institutions, provide the necessary support to maintain this position.

(c) Other policies

The policy focus for the Government of Barbados has been to address the ongoing COVID-19 pandemic. Much effort has been devoted to ensuring widespread vaccination, with around 30% of the
population having received at least one dose of the COVID-19 vaccine by June 2021. The Government has also provided financial support to businesses and struggling households. In that regard, the BEST programme was introduced in 2020 to provide cash flow support to businesses and to encourage them to retain and retrain employees in the tourism sector. The Government of Barbados also introduced the Welcome Stamp visa programme to attract remote workers and provide a boost to economic activity. Employers retaining more than two thirds of their staff were also allowed to defer contributions to the National Insurance Scheme (NIS) while laid-off workers received unemployment benefits for six months and those on short working weeks received 60% of their salary for the days they did not work.

3. The main variables

(a) The external sector

By June 2021, gross international reserves had risen to an unprecedented US$ 1.4 billion, a rise of US$ 366 million on the same month of 2020, thus increasing import cover from 23.1 weeks to 43.6 weeks. The substantial increase in reserves was a result of continued official inflows from international financial institutions to provide budgetary support to the Government of Barbados to close the financing gap between lower revenue and higher expenditure (such as central government debt service) and to cushion the impact of reduced foreign exchange inflows from travel credits and foreign investment. These inflows included US$ 100 million from World Bank, US$ 244.5 million from IMF, US$ 200 million from the Inter-American Development Bank (IDB) and US$ 100 million from the Development Bank of Latin America (CAF). Higher collections of corporate taxes paid in foreign currency from the international business sector and reduced demand for foreign currency from the private sector following the “National Pause” also contributed to the large rise. The planned increase in the special drawing rights (SDRs) allocation by IMF is expected to further boost international reserves in the latter half of 2021.

The steep decline in tourism flows was a major contributor to the current account deficit widening by 11.5 percentage points to 14.8% of GDP. Increased imports of capital goods stemming from increased demand for power-generating equipment was also a contributing factor. Factors that tempered the impact included reduced outbound travel, smaller dividend payments, and lower fuel and food and beverage imports.

(b) Economic growth

Similar to most other economies across the Caribbean, Barbados was not spared the economic fallout from the COVID-19 pandemic in 2020. During the year, economic activity is estimated to have contracted by 17.6%; this was the third consecutive year of contraction. While fiscal challenges and structural reforms contributed to weakened activity in previous years, stalled activity in the tourism sector, lower than anticipated investment and weak consumption were the main drivers of the slump in 2020. The tourism sector, which accounts for approximately half of GDP directly and indirectly, contracted by 65% in 2020 relative to 2019. COVID-19 restrictions, both locally and in major international source markets, contributed to declines of 71% in long-stay and 64% in cruise ship arrivals. Hotels, restaurants, tourist attractions and other support services saw their revenue streams decimated by the downturn. Further spikes in domestic and international COVID-19 cases and the arrival of new, more infectious variants worsened the outlook for the tourism sector by the first half of 2021, necessitating further lockdowns or restrictions to curb the spread of the virus. As a result, the tourism sector declined by 89.6% in the first half of 2021 relative to the same period in 2020.
Agriculture was the only sector with an increase in 2020, growing 24.2% in 2020 relative to 2019, primarily owing to higher food crop production. However, by the first half of 2021, there was a turnaround in its performance as the sector contracted by 5.7% relative to the same period in 2020. This decline was directly related to reduced demand for chicken, particularly from the tourism sector, the impact on food crop production from the “National Pause” and ashfall from the eruption of the La Soufriere volcano in Saint Vincent and the Grenadines. Although the manufacturing sector declined in 2020, by the first half of 2021 it had recovered, growing by 14.9% relative to the same period in 2020. This was a result of improved exports of rum, other beverages and electronic components. All other major non-tradeable sectors declined in 2020 relative to 2021. By the first half of 2021, these sectors observed more modest contractions relative to the same period in 2020.

For the first half of 2021, a mild recovery in the second quarter was insufficient to offset the contraction observed in the first quarter of 2021 with the introduction of the month-long “National Pause” to combat the spread of the virus. Consequently, the economy is estimated to have contracted by 9.0% year-on-year in the first six months, relative the same period of 2020. Overall, projected GDP growth for 2021 is 3%. Although further recovery is anticipated in latter half of 2021, the weaker than expected growth prospects reflect the impact of the “National Pause”, renewed travel restrictions in major tourism source markets, subdued private consumption, high unemployment levels and a slow recovery in real income. This forecast is still subject to much downside risk, given the continued uncertainty as new COVID-19 variants pose additional challenges and other unexpected external shocks may affect the Barbadian economy.

(c) Prices, wages and employment

Unemployment levels rose in 2020 with the restrictions to manage the pandemic. The weakened economic activity contributed to the unemployment rate increasing from 10.1% in 2019 to 13.1% in 2020. Dampened economic activity translated into unprecedented unemployment claims, particularly in the tourism sector. Although initiatives such as the BEST programme attempted to encourage tourism-related businesses to retain employees, reduced demand for hotel services resulted in participation of just 19 firms in the scheme, comprising 1,663 employees and 42% of hotels. While there was a mild recovery in employment in the third and fourth quarters of 2020, this improvement was slowed by the “National Pause” implemented in February 2021 to halt the spread of COVID-19. By the first quarter of 2021, the unemployment rate stood at 17.2%, up from 13.6% in the last quarter of 2020.

During the early stages of the pandemic, several firms cut wages and postponed wage negotiations. By the close of 2020, several firms had either reduced bonuses or eliminated them completely, as cost-saving measures.

Inflation averaged 4.5% in 2020, up from 2.7% in 2019. Despite declining global oil prices and lower prices for non-food items such as clothing and household furnishings, increases in the cost of food (particularly fish and vegetables) pushed inflation up. By early 2021, global oil prices were on the increase, but inflationary pressures eased as a result of ongoing COVID-19 restrictions. Demand is likely to remain weak for the remainder of 2021, although higher oil prices will drive up prices on the supply side.