

BARBADOS

1. General trends

The Barbadian economy has begun to show modest signs of recovery, particularly in the tourism sector, although at a slower than expected pace. In 2021, GDP grew by 1.4% following a contraction of 14.0% in 2020, an improvement that was tempered by the protracted impact of multiple waves of coronavirus disease (COVID-19). By the first quarter of 2022, GDP growth had risen to 11.8% relative to the same period in 2021. The government once again adjusted fiscal targets as it sought to maintain economic and social support for those affected by the pandemic and extreme weather events in 2021. As a result, the fiscal deficit for the 2021/22 fiscal year was 4.8% of GDP with a primary balance of -0.9% (well below the pre-pandemic target of 6%). However, with the government's gross financing requirements declining in the 2021/22 fiscal year, total public debt-to-GDP had dropped to 131.9% by March 2022, down from 142.4% for the 2020/21 fiscal year. The government remains committed to achieving its debt-to-GDP target of 60% by the 2035/36 fiscal year. Supported by borrowings from multilateral financial institutions, international reserves stood at US\$ 1.5 billion in March 2022, representing 36.4 weeks of import cover. The International Monetary Fund (IMF) conducted its final review of the four-year Extended Fund Facility programme in mid-2022, finding performance to be good despite significant economic shocks. After peaking at 17.2% in 2021, the unemployment rate dropped to 9% in March 2022. High commodity prices, supply disruptions and rising freight costs resulted in inflation remaining elevated in 2021, at 3.1%. Forecast GDP growth for 2022 is 5.9% as economic activity continues to pick up, but with considerable downside risk from heightened global economic uncertainty.

2. Economic policy

a) Fiscal policy

As the effects of COVID-19 persisted into 2021, the government's fiscal strategy for the 2021/22 fiscal year continued to accommodate for the necessary economic and social support to combat the ongoing challenges posed by the pandemic and the aftermath of extreme weather events in 2021. The increased government spending, which was financed through borrowing from multilateral financial institutions, outweighed revenue collections, resulting in a fiscal deficit remained of 4.8% of GDP for the 2021/22 fiscal year. The primary balance target for the 2021/22 fiscal year was once again revised from 0% of GDP to -1% of GDP. By the close of the 2021/22 fiscal year, the government was able to achieve a primary balance of -0.9 of GDP, a slight improvement from -1.0% of GDP for the 2020/21 fiscal year.

Revenue marginally decreased to 27.9% of GDP in the 2021/22 fiscal year, down from 28.4% of GDP in the 2020/21. As economic activity picked up, collection of personal income tax, property tax and value added tax (VAT) increased. However, these improvements were offset by a reduction in corporation tax following the high baseline set by the one-time payments from foreign-currency earning companies in the 2020/21 fiscal year. Although there was a marginal decline in expenditure to 32.7% of GDP for the 2021/22 fiscal year relative to 33.1% of GDP in 2020/21, it remained well above pre-pandemic levels, hampering the government's efforts to meet fiscal targets. Non-interest expenditure rose on account of spending to manage the ongoing COVID-19 pandemic, clean up following ashfall from the La Soufrière volcano in Saint Vincent and the Grenadines, assist persons displaced by the passage of Hurricane Elsa and provide employment for the national beautification programme. Capital expenditure expanded as the

government sought to recapitalize the unemployment fund of the National Insurance Scheme following the drawdowns related to retrenchment of workers in early lockdowns during the pandemic.

The Government of Barbados continued to rely on financing from multilateral lending institutions to address the fallout from the COVID-19 pandemic. As a result, external debt had risen to 44.3% of GDP by March 2022. However, the government's gross financing requirements fell to 9.0% of GDP for 2021/22, from 12.1% of GDP for the 2020/21 fiscal year, when it provided liquidity support to cover unemployment claims under the National Insurance Scheme. By end of the 2021/22 fiscal year, gross public sector debt-to-GDP stood at 131.9%, down from 142.4% at the end of the 2020/21 fiscal year. The government remains committed to achieving its 60% of GDP target by the 2035/36 fiscal year. In June 2022, IMF conducted its final review of the four-year Extended Fund Facility, finding that performance has been strong despite significant economic shocks. The government was therefore allowed to make its final withdrawal of US\$ 23 million under the programme, with disbursements over the four years amounting to US\$ 435 million.

In the recent budget, the government introduced revenue-generating measures in an effort to get back on course for its fiscal and debt consolidation targets. The measures included a one-off levy of 15% for domestic businesses with net income above US\$ 2.5 million in 2020 and 2021. Individuals earning in excess of US\$ 3,125 per month, will be required to contribute 1% of their monthly earnings for a period of one year, effective from 1 April 2022.

b) Monetary and exchange-rate policy

As the economy has continued to recover, the Central Bank of Barbados has maintained an accommodative policy stance, holding the benchmark bank rate at 2%. Rising inflation is expected to create pressure for a tighter stance, but any monetary tightening will have to take into consideration the fragility of the economic recovery. The central bank introduced several measures at the start of the pandemic to protect the domestic banking sector and the wider financial system from the impacts of pandemic restrictions. These included a reduction in the bank discount rate from 7% to 2%, a reduction in the securities ratio from 17.5% to 5.0%; elimination of the 1.5% securities ratio for non-bank deposit-taking licensees and liquidity support in the form of collateralized loans for up to six months. All these measures were still in place in March 2022.

The Central Bank of Barbados will maintain the fixed exchange rate peg of US\$ 2 to 1 Barbados dollar (BDS\$) on account of the support from the strong levels of international reserves.

c) Other policies

The Government of Barbados continued its push to green the economy by introducing several green transition measures in the 2022/23 budget. In its final review of the Extended Fund Facility, IMF noted that accelerating the transition to renewable energy is a key factor in achieving sustainable economic growth and reducing vulnerability to international oil prices. These measures include a 24-month excise and VAT holiday for electric vehicles, reduced import duties or tariffs on new fuel cell electric vehicles and interest-free loans for up to US\$ 50,000 for the purchase of electric or hybrid cars by public officers. The government will also facilitate the right of Barbadians to own photovoltaic systems and install them on their roofs.

3. The main variables

a) The external sector

By March 2022, gross international reserves had risen to US\$ 1.5 billion, representing 36.4 weeks of import cover, up by US\$ 445 million relative to the same period in 2021. This substantial rise came from borrowing from multilateral financial institutions and a recent special drawing rights (SDR) allocation from IMF. As the Barbadian economy began to recover, demand for foreign currency (primarily United States dollars) from the central bank by authorized dealers grew. However, foreign currency inflows from improved earnings in the tourism sector enabled commercial banks to meet demand. Taxes paid by the corporate sector also allowed the government to make its external debt service payments. Rising interest rates on fixed income securities held by the central bank have resulted in a decline in the valuation of the investment portfolio.

The external current account deficit of 5.9% of GDP in 2020 widened to 10.9% in 2021 on account of import growth, lower tourism earnings and reduced foreign tax receipts. A substantial portion of the rise in imports came from a surge in the average price of fuel. Rising freight costs and climbing commodity prices also played a part in driving up non-fuel imports. The financial account surplus narrowed from 17.6% of GDP in 2020 to 12.7% of GDP in 2021, owing to a decline in investment inflows.

b) Economic growth

Economic activity in the Barbadian economy has begun to show signs of improvement, particularly in the tourism sector, following the severe slump prompted by the COVID-19 pandemic. However, it is yet to return to pre-pandemic levels. In 2021, the protracted impact of multiple COVID-19 waves tempered the recovery, resulting in GDP growth of 0.7% relative to a 14.0% downturn in 2020. Increased demand for travel as global movement restrictions and health protocols were eased contributed to an uptick in tourist arrivals, primarily from the United Kingdom and the United States in the last quarter of 2021. There was also an improvement in ancillary services such as education, tourism and remote worker programmes. Nevertheless, relative to 2020, the tourism's sector value added declined by 24.6% as tourism arrivals in 2021 were slower than expected. Tourism arrivals in 2021 were 79.9% below 2019 (pre-pandemic) levels, as well as being 30.8% lower than in 2020. In addition, COVID-19 outbreaks have hampered the recovery in cruise activity.

The performance of other sectors not related to tourism was also subdued. In manufacturing, there was improvement in the production of food and beverages as rum exports to existing markets grew, but the sector shrank slightly overall by 0.5%. The construction and financial and other services sectors also both contracted by 4.3% and 1.1%, respectively. For the construction sector, the ongoing works on the Wyndham Grand Hotel and the Sagicor Estates at St. George retirement village were offset by challenges related to the "National Pause" to stem the spread of COVID-19 and ashfall from the volcanic eruption in the first half of 2021. The effects of the pandemic also continued to severely hamper activity in the agriculture sector, as food crop production declined and global supply chain issues resulted in shortages of key inputs. As a result, output in the agriculture sector declined by 8% in 2021 relative to 2020.

In the first quarter of 2022, economic activity continued to improve with GDP growth of 11.8% relative to a 15.1% decline in the first quarter of 2021. An enormous recovery in the tourism sector of 393.6% in the first quarter of 2022 relative to the same period in 2021 was the primary contributor to this, as airlift increased and international travel continued to rebound. However, the performance of other sectors was not as robust in the first quarter of 2022 as in the same quarter of 2021. In particular, the construction

sector shrank by 9.5%, the agriculture sector by 11.9%, financial and other services by 10.5% and manufacturing by a marginal 0.5%.

As the severity of the COVID-19 pandemic eases, particularly in major tourist source markets, further recovery in tourism and its ancillary sectors are expected over the remainder of 2022. However, as a small, open economy, Barbados' economic situation will continue to be affected by external developments. Global growth prospects have been dampened by the war between the Russian Federation and Ukraine and ongoing monetary tightening measures across major economies. On the domestic front, delays in planned large-scale construction projects, ongoing supply chain disruptions, the impact of rising fuel prices on airfares and consumption, and fiscal tightening measures may also pose some challenges to improved growth prospects by the close of 2022. Barring any unexpected shocks, GDP growth for 2022 is projected to be 5.9% as the economy stabilizes further, tourism continues to recover, and planned construction activity is performed.

c) Prices, wages and employment

The unemployment rate jumped to 14.1% in 2021 relative to 13.6% at the end of 2020. However, following a sharp rise in 2020, unemployment claims had begun to stabilize by the end of 2021. This improvement arose from increased employment as the tourism sector reopened and individuals exhausted their unemployment benefits. By the first quarter of 2022, the unemployment rate has reached at 9.0%, a substantial drop from the 17.2% for the same period of 2021, as tourism activity continued to pick up with global easing of pandemic-related restrictions. For the second consecutive year, unemployment rates among women remained higher than among men at 9.6% relative to 8.4%, respectively.

During 2021, inflation remained high, despite only marginally increasing to 3.1% relative to 3.0% in 2020. High oil and commodity prices, supply disruptions and rising freight costs contributed to increases in the costs of food and non-alcoholic beverage, alcoholic beverages, tobacco and drugs, transportation, housing, water, electricity, gas and other fuels. These rises were, however, tempered by smaller increases in other categories. Nevertheless, by March 2022, year-on-year inflation had risen to 4.2% relative to 2.0% for the same period of 2021. This acceleration of inflation has begun to affect the cost of living and is likely to dampen domestic demand. As commodity prices are expected to climb further and oil prices are likely to remain high throughout 2022, the Government of Barbados has introduced several budgetary measures to curb the impact on the cost of living. These measures include a zero-rate of tax on certain personal care and critical items, capped VAT on gas and diesel and customs capped at 2019 pre-pandemic container values, to offset increased freight costs.