

BARBADOS

1. General trends

Prior to the onset of the COVID-19 pandemic, the Barbadian economy was showing signs of improvement in fiscal accounts, international reserves and public sector debt levels. The fiscal measures introduced by the Government of Barbados had subdued economic growth, and by the close of 2019, economic stimulus was greatly needed. Instead, the COVID-19 pandemic triggered a shock that brought economic activity almost to a halt, requiring the government to shift its focus from fiscal management to stemming the economic fallout. The economy remained in recession as of March 2020, with GDP growth contracting to -3% relative to -1% in March 2019. Despite the weak growth performance, gross international reserves increased by US\$ 254.8 million to US\$ 787.3 million, representing 19.4 weeks of import cover as of March 2020 relative to the same period in 2019. By the end of the first quarter of 2020, fiscal targets had been met, with a primary surplus of 6.1%, and the fiscal deficit stood at 3.7% of GDP for fiscal year 2019/20 relative to 0.3% of GDP for 2018/19. Following the restructuring of US dollar-denominated commercial debt for new bonds in December 2019, Standard and Poor's upgraded its credit rating for Barbados from default to B-. The gross public sector debt stock stood at 118% of GDP as of March 2020 compared to 125.5% of GDP in the year-earlier period.

Based on available data, the average unemployment rate remained unchanged at 10.1% at the end of December 2019. However, unemployment is expected to increase dramatically given the severe impact of pandemic containment measures, particularly within the tourism sector. Despite falling international energy and imported food prices, the moving average rate of inflation rose to 4.3% in March 2020 relative to 2.1% in March 2019 on account of drought conditions, sargassum seaweed and increased cost recovery at State-owned enterprises. However, inflation is expected to fall considerably given dampened demand and low crude oil prices. In an environment of economic activity weakened by fiscal adjustment efforts, the COVID-19 pandemic has further exacerbated economic conditions in the country. As a result, real GDP is now forecast to contract to -8.8%. The government has introduced a US\$ 1 billion economic stimulus package to counter the fallout, with considerable focus on advancing private sector construction projects and providing much-needed assistance to vulnerable groups. The initiative is focused on easing job losses and bridging the spending gap. However, considerable downside risk remains amid the global economic recession and a slow recovery in tourist arrivals as source markets struggle to contain the virus.

2. Economic policy

(a) Fiscal policy

After entering a 48-month Extended Fund Facility (EFF) programme with the International Monetary Fund (IMF), the government made substantial progress in addressing its macroeconomic challenges. By the close of fiscal year 2019/20, the primary surplus stood at 6.1% of GDP, slightly higher than the 6.0% of GDP targeted under the EFF programme. However, revenue dipped to 28.7% of GDP in fiscal year 2019/20 relative to 29.4% of GDP in 2018/19. Several factors contributed to the decline, including revenue reforms, reduced inflows as revenue was redirected to finance statutory bodies, declines in personal income tax and corporation tax revenues, a shortfall in tourism-related tax revenues owing to administrative issues, and lower-than-expected collection of excises. A new personal income tax structure that entered into force in July 2019 resulted in a 7.8% decline in corresponding revenues for fiscal year

2019/20 relative to 2018/19, while corporation tax revenues fell by 15.0% during the same period. Revenues from indirect taxes in fiscal year 2019/20 were comparable to those of 2018/19, with a slight increase of 0.43% in value added tax (VAT) receipts. However, this was offset by a 9.6% year-on-year decline in excise tax revenues as of March 2020. Total expenditure also decreased from 29.7% of GDP in fiscal year 2018/19 to 25.0% of GDP in 2019/20, primarily on account of a 36.6% decline in interest as a result of debt restructuring and a 25.1% drop in transfers and subsidies. The reduction in transfers was driven by changes in financing for the Queen Elizabeth Hospital (QEH), Barbados Tourism Marketing Inc. (BTMI) and the Sanitation Service Authority (SSA) with off-budget revenues. Spending on goods and services exceeded the level seen the previous fiscal year by 3.0% as the health service ramped up preparations for the COVID-19 pandemic. Overall, the fiscal balance stood at 3.7% at the end of fiscal year 2019/20 relative to a deficit of 0.3% in 2018/19.

Following debt restructuring from 2018–2019 to create fiscal space and rebuild international reserves, the public debt stock stood at 118% of GDP as of March 2020 relative to 125.5% in the year-earlier period. After concluding a domestic debt exchange for Barbados dollar-denominated debt and that of several State-owned agencies, the government exchanged US dollar-denominated commercial debt for new bonds in December 2019. Eurobonds and a Credit Suisse loan facility were included in the restructured debt, which incorporated capitalized arrears. With the issuance of the new bonds, total outstanding liabilities were reduced by 26.3% as of 1 October 2019 and the first tranche of a staggered upfront payment of capital interest amounting to US\$ 40 million was made in December 2019. By the end of 2019, Standard and Poor's had upgraded its credit rating for Barbados from default to B-.

Despite the improved management of fiscal accounts, the ongoing coronavirus pandemic has presented major challenges and is expected to slow the progress made by the government. The focus has now shifted to countercyclical fiscal stimulus. Following discussions with IMF, the government is now aiming for a primary surplus of 1% of GDP for fiscal year 2020/21 compared to the original target of 6%. IMF has proposed a US\$ 90 million augmentation of the extended facility, which is pending approval by the IMF Executive Board. Upon completion of the third review under the EFF arrangement, it was decided that US\$ 140 million will also be made available to Barbados. In order to address the challenges posed by the pandemic, the government has introduced several fiscal measures to stabilize the economy. These include increasing emergency health and capital expenditure to manage and mitigate the spread of infection, boosting capital spending to mitigate the effects on the economy, clearing outstanding income tax and VAT arrears to provide liquidity to households and businesses, and establishing a tourism loan facility to provide urgent working capital and investment loans to hotels.

(b) Monetary and exchange-rate policy

Prior to the pandemic, monetary policy at the Central Bank of Barbados remained unchanged in an environment of ample liquidity and low interest rates. However, as economic activity is now projected to contract further, the central bank has taken a more accommodative stance to help financial institutions withstand the shock and facilitate their assistance to personal and business clients during the pandemic. The central bank's discount rate, at which it provides overnight lending to banks and deposit-taking non-banks licensed under the Financial Institutions Act, was reduced from 7% to 2%. The securities ratio for banks was also reduced from 17.5% to 5%, while the 1.5% securities ratio for non-bank deposit-taking licensees was eliminated. Collateralised loans for up to six months will also be made available as liquidity support for licensees, if required.

Over the years, the real effective exchange rate has appreciated as international reserves have declined. However, as weak demand and low oil prices increase deflationary pressure, the real effective

exchange rate will likely depreciate in the short term. The central bank has put considerable effort into maintaining the fixed exchange rate by managing international reserve levels. In pursuit of looser exchange controls and greater ease of doing business, the central bank has liberalized foreign currency transactions by allowing authorised dealers to approve and execute larger foreign currency transactions, meaning that they can now remit payments abroad without prior approval from the central bank.

(c) Other policies

As part of the government's economic stimulus package in response to the COVID-19 pandemic, a Pandemic Solidarity Bond will be issued to provide cash to the National Insurance Scheme (NIS), with \$US 105 million being made available to the most vulnerable households.

3. The main variables

(a) The external sector

As of March 2020, gross international reserves climbed to US\$ 787.3 million or 19.4 weeks of import cover compared to US\$ 532.5 million or 13.6 weeks of import cover during the year-earlier period. This increase was not only supported by IMF financing but also by commercial banks satisfying increased private sector demand and contributing positively to the net sale of foreign exchange to the central bank as travel receipts increased and oil prices weakened during 2019 and into the first quarter of 2020. By the end of 2020, weaker-than-normal travel receipts and the resumption of external debt payments will likely have a negative impact on international reserves.

The external current account surplus of 3.2% of GDP as of March 2019 became a slight deficit of 0.7% of GDP by March 2020, on account of an increase in goods imports and deteriorating travel receipts as tourist arrivals plummeted. The 2.2 percentage point rise in goods imports to 29% of GDP derived from an expansion in intermediate goods, such as airline fuel for resale, crude materials and construction materials. Consumer goods imports also increased as demand for food and beverages and motor vehicles grew. Meanwhile, the financial account surplus expanded by a further 0.6 percentage points to 2.1% of GDP as declines in net public sector inflows were offset by increases in net private sector inflows.

(b) Economic growth

An environment of weakened economic activity has persisted amid the government's efforts to stabilize the country's fiscal position. However, in the first quarter of 2020, the situation worsened considerably owing to the COVID-19 pandemic. Unsurprisingly, economic growth remained subdued in 2019 as the government's fiscal adjustment efforts continued. Real economic activity stood at -0.1% in 2019 relative to -0.6% in 2018. Weak consumption and slow private sector investment constrained overall economic activity. The tourism sector, however, posted moderate growth with long-stay arrivals increasing by an estimated 3.5%, supported by increased airlift from the United Kingdom and the United States. Cruise arrivals also increased by 1.6% in 2019 relative to 2018. The other sectors of the economy mainly recorded declines. In particular, the construction sector slumped because of delays in some large-scale tourism projects.

By the end of March 2020, the COVID-19 pandemic arrived in Barbados amid fragile economic conditions, weighing heavily on economic activity and contributing to a 3.0% contraction in real GDP. Tourism sector activity, which is a cornerstone of the Barbados economy, plummeted by 16.2% relative to March 2019, owing to sharp reductions in airlift, visitor cancellations and the closure of hotels and

restaurants. This poor performance in turn spilled over into supporting services such as tour operating, car rental, transportation, and visitor attractions. Meanwhile, the construction sector recorded growth of 5% relative to 2019. Nonetheless, the introduction of curfew and other measures likely stemmed further growth in the first half of 2020.

The government's US\$ 1 billion economic stimulus package is likely to limit some of the fallout from measures taken to curb the COVID-19 pandemic in the medium term. While much of the stimulus focuses on mitigating job losses and filling the spending gap as a result of the shutdown, the private sector is expected to invest over US\$ 442.5 million through the launch of six major construction projects. These include the Sam Lord's Castle project (US\$ 200 million), The Crane Resort project, the upgrade of the Apes Hill Golf course (US\$ 12.5 million), the Sandals at Dover expansion project (US\$ 30 million), the Sagikor Retirement Village project (US\$ 100 million) and the Hyatt Zero project (US\$ 200 million). The government will establish the Barbados Tourism Facility, which will provide \$US\$ 100 million in working capital and investment loans to hotels to improve their facilities. The government will also launch the Homes For All programme which includes plans to build a US\$ 180 million Green Energy Park supplying 30 megawatts of renewable energy. Such initiatives will ease the economic fallout of the local and global recessions and the continued restrictions on travel from major tourism source markets such as Canada and the United States. Despite early expectations for economic improvements in 2020, the pandemic has worsened the economic landscape and created considerable uncertainty, and real GDP growth is now forecast at -8.8%. However, there is considerable downside risk to this forecast, in the form of lengthy border closures or restrictions and a slow recovery in tourist arrivals as a result of a second or third wave of the coronavirus in international and regional tourism source markets.

(c) Prices, wages and employment

Compared to the same period in 2018, unemployment remained unchanged at 10.1% in December 2019. The impending economic recession, coupled with the severe impact of the pandemic on the tourism sector, is expected to increase this rate significantly in 2020. Temporary layoffs because of restricted business activity have led to unprecedented unemployment claims (26% of the labour force). While this may be partly resolved by the extension of unemployment insurance and by funds set up for businesses that commit to retaining 75% of staff in the short run, the medium- to long-term impact will be significant.

Notwithstanding falling international energy and imported food prices, inflation increased slightly to 4.1% in 2019 relative to 3.7% in 2018, on account of disruptions owing to the impact of persistent drought conditions on non-sugar agriculture, of sargassum seaweed on fish catches and of policy measures to increase cost recovery at some State-owned enterprises. In March 2020, the moving average rate of inflation stood at 4.3% relative to 2.1% in the year-earlier period. However, by the end of 2020, the inflation rate is expected to drop sharply given that pandemic containment measures have dampened demand. Historically low crude oil prices are expected to decline further in 2020, lowering the inflation rate even more. This may be offset by ongoing changes to the tax system.

Table 1
BARBADOS: MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014	2015	2016	2017	2018	2019 a/
Annual growth rates b/									
Gross domestic product	-0.8	-0.1	-1.4	-0.2	-2.2	2.3	0.5	-0.6	-0.1
Per capita gross domestic product	-1.2	-0.5	-1.7	-0.5	1.9	2.0	0.3	-0.7	-0.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-7.3	0.9	2.3	-2.5	0.4	-1.0	-3.3	14.8	-5.9
Mining and quarrying	-15.1	-8.2	26.7	39.1	29.9	-13.2	25.6	2.4	-0.3
Manufacturing	-0.6	-4.0	-2.7	-4.3	4.8	-1.3	1.6	0.5	-5.3
Electricity, gas and water	0.5	2.6	-0.1	0.2	-1.8	0.7	-1.9	-0.3	-1.1
Construction	-1.2	0.2	-1.8	1.4	-1.2	-2.6	2.1	-6.4	-4.0
Wholesale and retail commerce, restaurants and hotels	0.6	-4.1	-1.7	-0.6	6.0	5.4	1.4	1.3	-4.0
Transport, storage and communications	-1.0	0.8	-5.1	3.5	0.6	9.5	-1.8	-2.6	0.5
Community, social and personal services	-1.9	1.5	-0.5	-5.3	-2.9	-1.5	-0.1	-1.1	-1.0
Millions of dollars									
Balance of payments									
Current account balance	-254	-411	-248	-433	-289	-206	-189	...	...
Goods balance	-876	-846	-802	-1 299	-1 039	-957	-1 030	...	...
Exports, f.o.b.	862	851	885	792	801	835	803	...	...
Imports, f.o.b.	1 738	1 697	1 687	2 091	1 839	1 792	1 833	...	...
Services trade balance	773	747	734	1 456	1 367	1 409	1 520	...	...
Income balance	-92	-300	-130	-200	-238	-237	-242	...	...
Net current transfers	-60	-12	-51	-390	-379	-421	-436	...	...
Capital and financial balance c/	242	439	92	388	226	83	52	...	...
Net foreign direct investment	83	565	-62	...	...	...	...	...	...
Other capital movements	158	-126	154	388	226	83	52	...	...
Overall balance	-13	28	-156	-45	-63	-123	-137	...	...
Variation in reserve assets d/	13	-28	156	45	63	123	137	...	...
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) e/	90.3	89.3	89.3	87.9	84.4	82.9	80.7	79.9	77.1
Net resource transfer (millions of dollars)	150	139	-38	188	-13	-154	-191	...	...
Total gross external debt (millions of dollars)	1 385	1 322	1 434	1 521	1 460	1 442	1 412	1 597	1 547
Average annual rates									
Employment									
Labour force participation rate	67.6	66.2	66.7	63.8	65.1	66.5	65.3	64.8	63.4
Unemployment rate f/	11.2	11.6	11.6	12.3	11.3	9.7	10.0	10.1	10.1
Annual percentages									
Prices									
Variation in consumer prices (December-December)	9.6	2.4	1.1	2.3	-2.5	3.8	6.6	0.6	7.2
Nominal deposit rate g/	2.7	2.5	2.5	2.5	1.3	0.3	0.2	0.2	0.2
Nominal lending rate h/	8.1	7.2	7.0	7.0	6.9	6.7	6.6	6.7	6.5
Percentages of GDP									
Central government i/									
Total revenue	27.4	26.4	25.3	26.1	26.8	30.4	30.2	30.6	...
Tax revenue	25.2	24.1	23.4	23.7	24.7	27.5	28.2	28.7	...
Total expenditure	31.5	34.3	35.7	33.8	36.2	36.2	35.0	30.9	...
Current expenditure	30.2	33.0	33.9	31.7	33.7	33.7	33.2	28.9	...
Interest	5.7	6.1	6.6	7.1	7.3	8.2	8.1	3.9	...
Capital expenditure	1.3	1.3	1.8	2.1	2.6	2.5	1.8	2.0	...
Primary balance	1.5	-1.8	-3.8	-0.6	-2.1	2.4	3.3	3.6	...
Overall balance	-4.1	-8.0	-10.4	-7.6	-9.4	-5.8	-4.8	-0.3	...
Non-financial public sector debt	106.3	116.2	121.9	129.6	138.4	136.9	125.4	119.4	...

Table 1 (concluded)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	...	123.2	121.2	121.4	127.2	131.4	132.2	106.8	104.3
To the public sector	...	26.9	31.9	34.9	40.9	46.1	47.0	22.7	22.0
To the private sector	...	22.1	27.1	29.4	36.5	42.3	43.6	21.7	21.4
Monetary base	12.9	16.2	15.2	16.9	21.1	25.7	23.9	26.1	28.2
M2	...	77.7	81.4	88.4	94.1	97.5	95.8	93.9	95.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1974 prices.

c/ Includes errors and omissions.

d/ A minus sign (-) indicates an increase in reserve assets.

e/ Annual average, weighted by the value of goods exports and imports.

f/ Nationwide total. Includes hidden unemployment.

g/ Weighted average rate of deposit rates.

h/ Lending rate, weighted average.

i/ Fiscal years, from April 1 to March 31.

Table 2
BARBADOS: MAIN QUARTERLY INDICATORS

	2018				2019				2020	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross international reserves (millions of dollars)	198	219	246	401	520	561	608	656	764	851 b/
Real effective exchange rate (index: 2005=100) c/	80.2	81.2	79.4	78.7	78.7	78.1	76.1	75.3	76.0	76.3 d/
Consumer prices (12-month percentage variation)	6.2	5.5	1.5	0.6	2.1	3.2	6.7	7.2	7.7 e/	...
Average nominal exchange rate (Barbados dollars per dollar)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0 d/
Nominal interest rates (average annualized percentages)										
Deposit rate f/	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	...
Lending rate g/	6.7	6.6	6.7	6.7	6.6	6.5	6.4	6.4	6.3	...
Monetary policy rates	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	...
Domestic credit (variation from same quarter of preceding year)	4.2	4.5	0.5	-15.3	-17.6	-17.2	-16.0	-1.0	-0.5	-0.7 d/

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Figures as of April.

c/ Quarterly average, weighted by the value of goods exports and imports.

d/ Figures as of May.

e/ Figures as of January.

f/ Weighted average rate of deposit rates.

g/ Lending rate, weighted average.