

## Barbados

In 2021, the macroeconomic landscape for the Barbadian economy was affected by slower than expected containment of the coronavirus disease (COVID-19), owing to sporadic spikes, a situation that was exacerbated by climatic events, resulting in weaker than expected economic improvement relative to 2020. Increased expenditure on the response to the COVID-19 pandemic and because of major environmental events resulted in a widening of the fiscal deficit to 2.9% of GDP during the first six months of fiscal year 2020/21. Nevertheless, Barbados was able to achieve its targets under the International Monetary Fund (IMF) Extended Fund Facility (EFF). Furthermore, in 2021, Barbados was removed from the European Union tax blacklist, pending a supplementary review by the Global Forum on Transparency and Exchange of Information for Tax Purposes. The unemployment rate improved to 12.4% with the pickup in tourism activities and overall business activities. Although year-on-year inflation fell to 2.2% at September 2021, it continues to be affected by rising global oil prices and freight costs. Economic growth for 2021 is expected to have improved slightly to 1.5% as business activity continued to strengthen, albeit more slowly than anticipated. In 2022, barring any major unforeseen external factors or events, with further reopening of the domestic economy and major international source markets, economic growth is forecast to jump to 7.5%.

The lingering impact of the pandemic and unforeseen environmental events hampered the fiscal management efforts of the Government of Barbados in the 2020/21 fiscal year. As a consequence, revenue stood at 29.2% of GDP in the first six months of the 2020/21 fiscal year, down from 31.1% of GDP for the same half of the previous fiscal year. However, expenditure expanded marginally to 32.0% of GDP in the first six months of the 2020/21 fiscal year relative to 31.7% of GDP for the first six months of the 2019/20 fiscal year, as the Government focused on managing the ongoing impact of the pandemic and the fallout from the volcanic ash and the passage of Hurricane Elsa. As a result, the fiscal deficit was 2.9% of GDP for the first six months of the 2020/21 fiscal year relative to a deficit of 0.6% of GDP for the same period of 2019/20. Nevertheless, Barbados continues to make progress in implementation of the Barbados Economic Recovery and Transformation (BERT) plan, which focuses on promoting much needed fiscal sustainability, increasing international reserves and improving growth through structural reform. In spite of the pandemic, Barbados was able to meet almost all its targets relating to the IMF EFF. The exception was the passage of the Fair Credit Reporting Act which is expected to happen by the end of 2021. In consideration of increased expenditure related to the pandemic and unplanned spending to address climate change events, the primary balance target for the 2021/22 fiscal year was adjusted to -1% of GDP. By the close of 2021, Barbados is estimated to have withdrawn a total US\$ 465 million through the EFF programme. Gross public debt increased to 146.1% of GDP in September 2021, up 14.2 percentage points on the same month of 2020. In February 2021, the European Council moved Barbados from their European Union list of non-cooperative jurisdictions for tax purposes to a state of play document, pending the outcome of a supplementary review by the Global Forum on Transparency and Exchange of Information for Tax Purposes.

Gross international reserves increased to US\$ 1.433 billion, representing 41.7 weeks of import cover (well above the 12-week benchmark) in September 2021, up 40.8% on the same month of 2020. This increase in reserves was primarily driven by a special drawing rights (SDR) allocation of US\$ 261.6 million by IMF and multilateral borrowing of US\$ 249.0 million in 2021. Despite the rise, a steep reduction in travel credits, increased foreign exchange purchases by banks as economic activity picked

up, and Government external debt service payments negatively impacted gross international reserves. Reduced earnings from tourism services hampered current account performance in 2021, with the current account deficit widening to 14.4% of GDP in September 2021 relative to 3.2% of GDP in the same month of 2020. In particular, exports of goods fell while imports of goods expanded with the increase in economic activity.

The impact of COVID-19 restrictions spilled over into 2021, such that economic activity contracted by 3.2%, with a slower than expected improvement relative to the substantial contraction of 17.6% in 2020. Activity in the tourism sector improved in the second and third quarters of 2021 as access to COVID-19 vaccines in key source markets strengthened and restrictions were eased. However, tourism arrivals were 65% lower in the first nine months of 2021 relative to the same period in 2020. There was some improvement in non-traded sectors, which grew by 2.0% from September 2020 to the same month of 2021, owing to increased business activity, however, activity in the construction subsector had declined by 3.0% in September 2021 relative to September 2020. Although manufacturing was affected by heavy ashfall, output in the sector increased by 4.8% in September 2021 relative to September 2020 as domestic demand for food and beverages intensified and increased export demand for rum drove higher production.

The unemployment rate stood at 12.4% at the end of September 2021, relative to 17.6% in the same month of 2020. This improvement was also reflected by a 3.4 percentage point increase in the labour force participation rate to 62.3%. Unemployment claims declined substantially as activity in the tourism sector picked up and individuals reached maximum unemployment benefits. In the public sector, there was an increase in wages and salaries, as the Government needed temporary staff to support management of COVID-19 and climate events.

The twelve-month moving average rate of inflation stood at 2.2% at the end of September 2021 relative to 4.3% in September 2020. Muted economic activity owing to COVID-19 restrictions appears to have been a factor in the year-on-year decline. However, rising international oil prices and freight costs have affected overall prices.