

## Barbados

The Barbadian economy has begun to show signs of steadier improvement after a slower-than-expected recovery in 2021. Economic activity picked up in the first nine months of 2022, supported by improvements in tourism and other related sectors as flight activity increased and global coronavirus disease (COVID-19) containment measures were relaxed. This contributed to an improvement in the country's fiscal position in the first half of the 2022/23 fiscal year, with revenue increasing marginally to 13.2% of GDP while expenditure fell to 12.1% of GDP. Public debt also fell to 126.6% of GDP. Barbados ended its four-year International Monetary Fund (IMF) Extended Fund Facility (EFF) but has reached a staff-level agreement to partake in the Fund's Resilience and Sustainability Trust (RST) programme with an accompanying 36-month EFF. These arrangements will make US\$ 293 million available to build resilience to climate change and support macroeconomic stability, respectively. The improved economic landscape contributed to a decrease in the average unemployment rate to 9.2% by the end of the first half of 2022. Despite government measures to temper rising prices, the 12-month moving average rate of inflation remained high at 7.7% at the end of August 2022. If there are no major unforeseen events and economic activity continues to improve, the Barbadian economy is expected to record economic growth of 10% in 2022.

In the first half of the 2022/23 fiscal year (from April to September), as the economy recovered, the fiscal account showed its first signs of improvement since the start of the COVID-19 pandemic, with revenue increasing marginally to 13.2% of GDP compared to 12.9% of GDP in the year-earlier period. This improvement resulted from increased tax revenue related to higher VAT receipts, imports and import duties, and a reduction in transfers to the Barbados Revenue Authority. Revenue was also bolstered by the recently introduced Pandemic Contribution Levy on corporations and an increase in corporation taxes. Personal income tax and property tax receipts also improved. Non-tax revenue increased after the government received US\$ 10 million in grant funding to support housing development. Meanwhile, expenditure contracted marginally to 12.1% of GDP in the first six months of the 2022/23 fiscal year relative to the year-earlier period. Although the prices of goods and services increased during the period and wages remained relatively constant, the declines in non-interest expenditure and grants to public institutions and individuals offset these increases. As such, the fiscal deficit equivalent to 1.3% of GDP observed in the first six months of the 2021/22 fiscal year became a surplus of 1% of GDP in the same period of the 2022/23 fiscal year. The primary balance rose substantially, to 3.1% of GDP relative to 0.3% of GDP in the year-earlier period. Gross public debt fell to 126.6% of GDP in September 2022, down by 12.9 percentage points compared to the same month of 2021, supported by the fiscal account surplus.

The Government of Barbados ended its four-year Extended Fund Facility (EFF) with IMF on 30 September 2022. While the impact of the COVID-19 pandemic hampered the progress expected under this arrangement, IMF indicated that all quantitative targets had been met. Further, it commended the efforts of the Government of Barbados to promote renewable energy and introduce regulations to support fiscal law, and improvements in trade facilitation and customs risk management. In September 2022, the Government of Barbados reached a staff-level agreement with IMF for a Resilience and Sustainability Trust (RST) programme with an accompanying 36-month Extended Fund Facility (EFF). The RST provides access to US\$ 183 million in affordable, long-term financing to help build resilience to climate change. The supporting EFF, which provides access to US\$ 110 million, is intended to

maintain and strengthen macroeconomic stability and continue implementation of the structural reform agenda.

Following the completion of the four-year EFF agreement with IMF, gross international reserves contracted by 1.7% to US\$ 2.806 billion, representing 30.1 weeks of import cover in September 2022. The sharp increase in global interest rates contributed to losses in the investment portfolio of the Central Bank of Barbados and in turn, reduced the value of reserves by US\$ 255 million. Government borrowing from multilateral sources also declined over the last nine months. However, higher foreign exchange receipts from the tourism and international business sectors offset demand for foreign exchange (primarily dollars) owing to rising import prices. Additional financing from the follow-on financing arrangement with IMF is expected to further boost international reserves. The current account deficit widened substantially to 28.0% of GDP in September 2022 relative to 13.6% of GDP in the same month of 2021. Improvements in the tourism sector were offset by an expansion in goods imports largely related to increased costs of fuel imports and stronger demand owing to the economic recovery.

After years of weak economic activity deriving from fiscal restructuring efforts, coupled with steep declines in GDP following the onset of the COVID-19 pandemic, Barbados is on track to achieve positive GDP growth in 2022, albeit on the back of a weak performance in the previous year. In the first nine months of 2022, GDP growth stood at 10.1%, compared to a contraction of 3.3% in the year-earlier period. The primary sources of this improvement are a robust recovery in tourism and its spillover into related sectors, supported by further relaxation of global COVID-19 containment measures and increased flight activity in major tourism markets. Tourism arrivals were 3.8 times higher in September 2022 than in the same month of 2021. While this outcome is a substantial improvement, it represents only 58% of 2019 (pre-pandemic) levels. Several other sectors contributed to improved growth prospects for 2022. Value added grew by 3.7% in the trade sector, which includes the accommodation and food services category; by 3% in the manufacturing sector and by 2.8% in finance and other services. In spite of continued work on major projects such as the Wyndham hotel and the Sagicor Estates at St. George residential community, construction activity was subdued, with value added growing marginally, by 0.1%. As Barbados enters the high season for the tourism sector, and barring any unforeseen global events, economic growth for 2022 is expected to reach 10% of GDP.

As economic activity picked up, the labour force participation rate increased to 64.5% by the end of the second quarter of 2022, up by 1.9 percentage points from the same period in 2021. The average unemployment rate fell to 9.2% in the first half of 2022, below the pre-pandemic rate of 10.1% in the first half of 2019 and 16.6% in the first half of 2021. Also in the first half of 2022, the female unemployment rate fell below the male rate for the first time since the outbreak of the pandemic. It improved by 9.2 percentage points to 8.6% relative to an improvement of 4.1 percentage points to 10% for men.

Higher international commodity prices for food and energy, in particular, have contributed to a sharp rise in consumer prices. The government introduced several measures to temper rising prices, including negotiated reductions in prices for specific foods and personal hygiene items. This brought down year-on-year inflation, which peaked at 11.9% at the end of May 2022 and dropped to 8.3% by the end of August. At the end of August 2022, the 12-month moving average rate of inflation stood at 7.7%, compared to 1.4% in August 2021. These temporary government measures were scheduled to end as early as September 2022, however, meaning that worsening global conditions could weigh on improvements despite a decline in oil prices.