

BARBADOS

Table 1	2021
Population, million	0.3
GDP, current US\$ billion	4.8
GDP per capita, current US\$	16665.8
School enrollment, primary (% gross) ^a	99.7
Life expectancy at birth, years ^a	79.2
Total GHG Emissions (mtCO ₂ e)	3.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2019).

Barbados's economy rebounded in 2021 in line with international travel and easing containment measures but was negatively affected by natural disasters such as the eruption of the volcano La Soufriere and Hurricane Elsa. Its current account deficit is estimated at 11.4 percent of GDP. Unemployment decreased to 12.4 percent in 2021. The pandemic curbed the reform efforts made in the context of the Barbados Economic Recovery and Transformation (BERT) plan to sustain primary surpluses and reduce external vulnerabilities.

Key conditions and challenges

Barbados is a high-income service economy, built on tourism and financial sector services. However, the country's economic achievements remain vulnerable due to its small size, its dependence on tourism at 17 percent of GDP, and considerable exposure to climate change risks. Besides the COVID-19 pandemic, natural disasters such as Hurricane Elsa and the eruption of the volcano La Soufriere disrupted economic activity in 2021. The additional vulnerability stems from the high level of public debt, which is currently over 135 percent of GDP, an increase compared to 124.8 percent in 2019 when a successful debt restructuring was completed.

The BERT plan, which included the debt restructuring and is supported through a four-year IMF Extended Fund Facility, is aimed at restoring macroeconomic stability while safeguarding the financial and social sectors. The government has made significant fiscal efforts to gradually reduce the debt burden; and under the macroeconomic framework of the IMF program, debt is expected to reach 60 percent of GDP by FY 2035/36.

The Barbados COVID-19 Survey undertaken by the Inter-American Development Bank revealed severe consequences to welfare from the pandemic; average household total income and spending dropped by 20 percent and 29 percent respectively. More than one quarter of

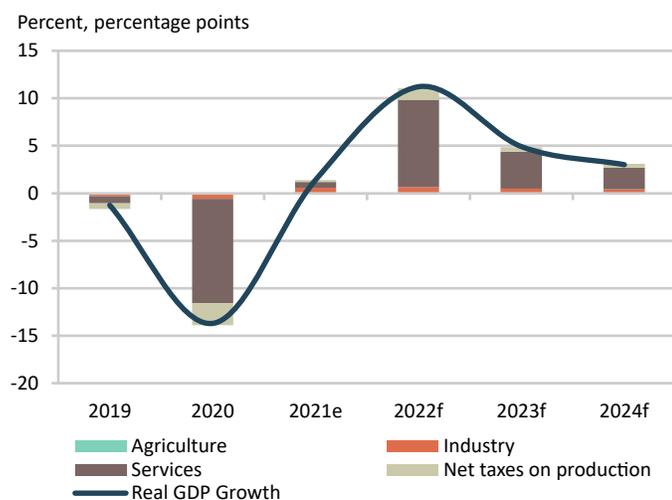
families (27.9 percent) had at least one member who had lost their job between March and June 2020; the less well-off were hit particularly hard, as 39 percent of households classified as poor in the baseline survey of 2016/17 reported a family member becoming unemployed in the period. Notably, the share of middle-income households unable to meet their financial commitments (60 percent) was greater than the share of low-income households (43 percent) as of April 2020.

Poverty levels were likely still elevated in 2021. There are no official poverty estimates since 2017 when 17.2 percent of households and 25.7 percent of consumers were under the basic needs line. Nevertheless, GDP was lower in 2021 than in 2017, with greater impacts to the bottom of the income distribution. Non-monetary poverty dimensions, such as food security, indicate persistent deprivation during the pandemic. Hunger rates in Barbados rose from 5.8 percent in January 2020 to 6.9 percent in October 2020. Households categorized as extremely poor in 2016/17 still experience the greatest shares of food insecurity, but the increase was larger among those who were identified as vulnerable to poverty.

Recent developments

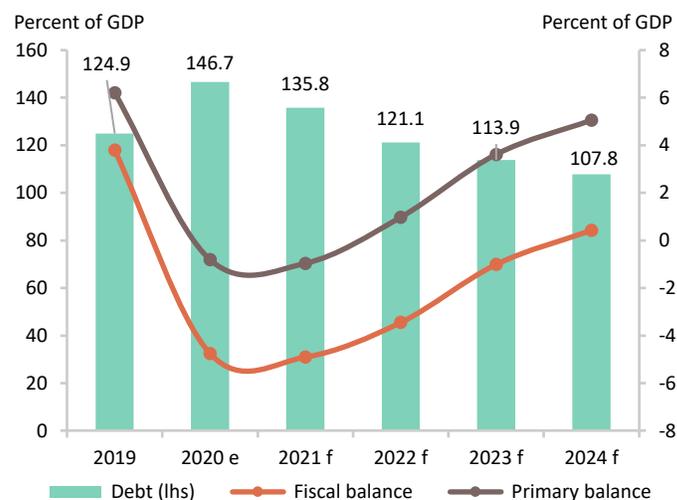
GDP growth for 2021 is estimated at 1.4 percent, a mild recovery after the 13.7 percent contraction in 2020. Economic activity rebounded after the second quarter of 2021

FIGURE 1 Barbados / Real GDP growth and contributions to real GDP growth



Sources: Government of Barbados; IMF and World Bank staff estimates.

FIGURE 2 Barbados / Fiscal balances and public debt



Sources: Government of Barbados; IMF and World Bank staff estimates.

as lockdown measures eased, although GDP remained well below pre-pandemic levels. Moderate growth was driven mainly by private sector consumption. Tourism exhibited a lackluster performance during 2021, with arrivals at only 20 percent of 2019 levels. Tourism flows to the country were affected by travel restrictions in the main tourism markets of the US, UK, and Canada which make up 75-80 percent of arrivals. Total arrivals stood at 143,500 in 2021 compared to 714,650 in 2019. Two waves of COVID-19 cases hit Barbados in 2021, at end-August and end-December. By February 2022, 50 percent of the population was fully vaccinated.

The lower demand for agricultural products from subdued tourism combined with the impact of the eruption of La Soufriere volcano and the global supply chain disruptions of key agricultural inputs resulted in a 4 percent contraction of agricultural production in 2021. Meanwhile, the manufacturing sector expanded by over 4 percent driven by production in the food and beverages sector.

Employment and earnings were negatively affected by the pandemic. The unemployment rate stood at 12.4 percent in the third quarter of 2021, compared to 17.6 in 2020. However, employment is still below its 2019 level and gender disparities persist.

The 12-month inflation stood at 5 percent in December 2021, while average inflation during the year was 3 percent, with the highest increases registered in transportation, and food and beverages. The current

account deficit is estimated to have widened to 11.4 percent of GDP, pushed by expanding imports and reduced receipts. Increasing fuel prices explain half the difference in the value of imports. Gross international reserves stood at US\$3.1 billion, equivalent to an import cover of 40 weeks by end-December 2021, these reserves increased during 2021 thanks to borrowing from IFIs and the allocation of new SDR by the IMF.

After recording a 0.8 percent of GDP primary deficit and a 4.8 percent of GDP fiscal deficit in FY 2020/21, the government is expecting a 1 percent primary deficit and 4.9 percent overall deficit in FY 2021/22. Continuing contingent health and disaster relief related expenditures, combined with subdued revenues from tourism explain these results.

Outlook

GDP growth is expected to reach 11.2 percent in 2022 when the tourism sector is expected to largely recover, and 4.9 percent in 2023. However, the outlook is still uncertain, and it will depend to a great extent on progress with respect to vaccination in Barbados, the number of COVID-19 cases in the country, and international travel restrictions. Lagging construction activity and renewed fiscal consolidation efforts are expected to moderate growth prospects. The primary balance is expected to reach 1 percent of GDP surplus in FY 2022/23 while the

overall fiscal deficit is projected to remain at 3.4 percent of GDP. Fiscal accounts are expected to improve in FY 2023/24, achieving a robust 3.6 percent of GDP primary surplus and an overall deficit of 1.0 percent of GDP. The authorities are expected to resume fiscal consolidation efforts after the pandemic that will include state-owned enterprise (SOE) reforms and a reform of the civil service pension system. The fiscal balance is expected to turn positive in FY 2024/25.

The inflation rate is projected to reach 5.9 percent in 2022 and then average around 2.5 percent in the medium-term. The increase in energy and oil prices may pose significant challenges for the external accounts, although this will be compensated for by a recovery in tourism receipts. The current account deficit for 2022 is projected to reach to 12.1 percent of GDP and then narrow to 8.8 percent of GDP in 2023.

Robust growth in 2022 will likely be accompanied by an improvement in the living standards, although this is subject to significant uncertainty related to the possibility of new travel restrictions worldwide, and the risk of natural disasters. Higher oil prices and imported inflation due to global geopolitical risks may trigger higher consumer prices with implications for the poorest. Returning to pre-pandemic levels of employment and income will take longer and will heavily depend on the recovery of the tourism sector. Additional support for the most vulnerable will be necessary to attain the welfare levels observed over last decade.

TABLE 2 Barbados / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	-1.3	-13.7	1.4	11.2	4.9	3.0
Real GDP growth, at constant factor prices	-1.2	-13.7	1.3	11.3	5.0	3.1
Agriculture	-4.5	-4.8	-4.0	1.1	0.5	0.5
Industry	-1.9	-3.9	4.0	4.2	3.5	3.0
Services	-1.0	-15.7	0.9	13.0	5.4	3.2
Inflation (Consumer Price Index)	4.1	2.9	3.0	5.9	2.7	2.5
Current Account Balance (% of GDP)	-3.1	-7.0	-11.4	-12.1	-8.8	-6.8
Fiscal Balance (% of GDP)	3.8	-4.8	-4.9	-3.4	-1.0	0.4
Debt (% of GDP)	124.9	146.7	135.8	121.1	113.9	107.8
Primary Balance (% of GDP)	6.2	-0.8	-1.0	1.0	3.6	5.1
GHG emissions growth (mtCO2e)	0.0	-6.0	-0.9	-10.0	-10.4	-11.1
Energy related GHG emissions (% of total)	31.0	27.3	27.4	28.1	28.3	27.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.