BARBADOS

Table 1	2021
Population, million	0.3
GDP, current US$ billion	4.7
GDP per capita, current US$	16358.9
School enrollment, primary (% gross)[a]	99.7
Life expectancy at birth, years[a]	79.3
Total GHG emissions (mtCO2e)	4.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2020).

Barbados's economy is rebounding, benefiting from the recovery of international travel, and overcoming the negative impact of the eruption of the volcano La Soufriere and Hurricane Elsa in 2021. However, some challenges remain. Public debt remains high at 118 percent; the current account deficit is estimated to reach 10 percent of GDP. Unemployment, while decreasing, is still high at 9.8 percent. The pandemic delayed reforms 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

Although Barbados is a high-income service economy, the country's economic performance remains vulnerable due to its small size, its dependence on tourism, and the risks related to climate change. Services represent 72 percent of the GDP. In 2021, the losses from Hurricane Elsa and the eruption of the volcano La Soufriere offset the gains from the recovery in economic activity as COVID-19 subsided. While public debt decreased from 147 percent of GDP in 2020 to 118 percent of GDP in 2022, its high level remains a source of vulnerability.

The BERT plan, which included debt restructuring and was supported by the four-year IMF Extended Fund Facility that was completed in mid-2022, has contributed to restoring macroeconomic stability while safeguarding the financial and social sectors. The government has made a significant fiscal effort to gradually reduce the debt burden and assuming the ongoing reforms program and economic recovery remain on track, it is expected that public debt will reach 60 percent of GDP by FY 2035/36.

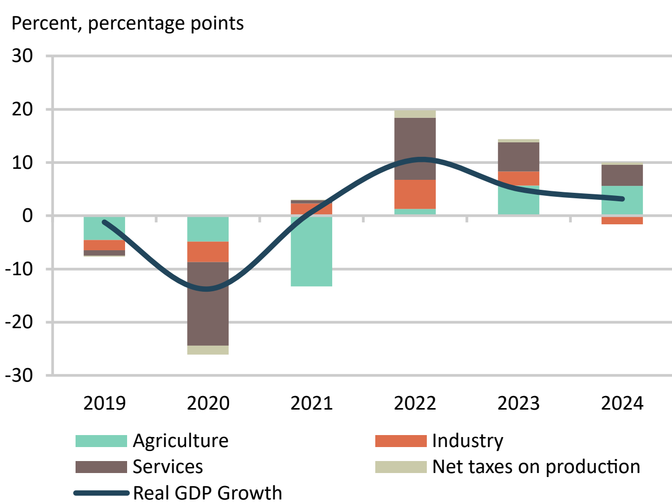
The Barbados COVID-19 Survey undertaken by the Inter-American Development Bank revealed severe consequences of the pandemic on welfare as average household total income and spending dropped by 20 percent and 29 percent respectively. More than one quarter of families (27.9 percent) had at least one member who 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 are likely to have decreased in comparison to the previous year, as GDP is expected to grow over 10 percent. There have been 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, the push of the economy will likely reach the bottom of the income distribution through employment growth. Nonmonetary 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. Food insecurity is likely to be relieved by the gradual retake of tourism activities on the island, although with limited improvement due to the rise of inflation.

Recent developments

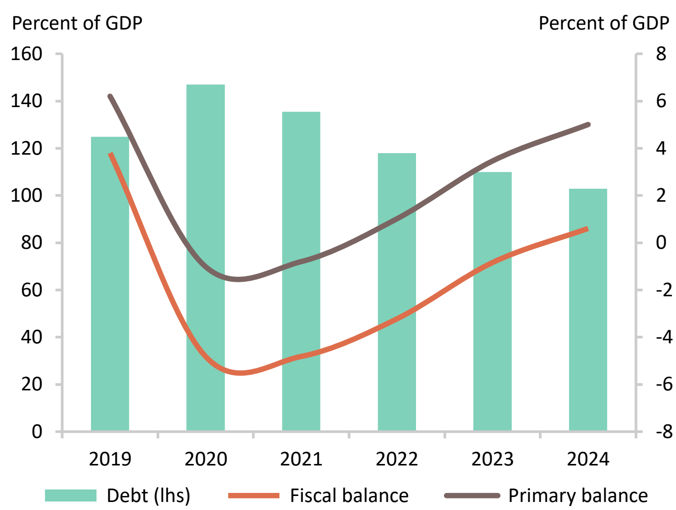
GDP growth has been accelerating in 2022, after a low 0.7 percent growth in 2021. In addition to natural disasters, two waves of COVID-19 cases hit Barbados in 2021, at end-August and end-December. The

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.

growth acceleration is in large part due to the ease of lockdown and travel restriction measures. However, stay-over-visitors are still far short of reaching pre-pandemic levels. While the number of stay-over-visitors increased from 6,448 in June 2021 to 27,528 in June 2022, it is still significantly lower than the 50,160 visitors in June 2019. As of September 2022, 53.7 percent of the population was fully vaccinated.

The improvement in economic conditions is likely to be increasing the demand for agricultural products after the agricultural sector decreased by 5.4 percent in 2019, where sugar cane and fishing activities were impacted, decreasing by 53 percent in 2019.

Employment and earnings were negatively affected by the pandemic. The unemployment rate stood at 10.4 percent in 2020 during the hit of the pandemic and remained unchanged in 2021. According to ILO estimates, a decrease of 9.8 percent is expected in 2022, still above pre-pandemic levels of 8.4 percent in 2018.

Inflation started to increase after the second half of 2021, largely fueled by global food and oil prices increases. The current account deficit has worsened from 7 percent of GDP in 2020 to 11.6 percent of GDP in 2021, pushed by the tourism recovery, expanded imports due to demand increases, higher fuel, and global food prices, and reduced receipts. Increasing fuel prices explain half the difference in the value of imports. Gross international reserves remain adequate and were equivalent to 8 months of imports in 2022.

The government started fiscal tightening following the large fiscal deficits of 2020 and 2021, by means of rolling back the pandemic-related fiscal support and implementing structural reforms.

Outlook

GDP growth is expected to reach 10.5 percent in 2022, as the tourism sector returns to pre-pandemic levels, and 5 percent in 2023. However, the outlook is subject to downside risks, including slowdown in tourism, which is highly dependent on the economic performance of advanced economies such as the USA, UK, and Canada. Lagging construction activity and renewed fiscal consolidation efforts are expected to moderate growth prospects. Fiscal consolidation supported by SOE reform and pension reform, envisioned in the most recent budget, will lead to a return to a primary surplus in FY 2022/23 and an overall fiscal surplus in FY 2024/25.

The inflation rate is projected to reach 9.9 percent in 2022, ebbing to around 6.8 percent in the medium-term. The increase in oil prices may pose significant challenges for the external accounts, although this will be in part compensated by a recovery in tourism receipts. The current account deficit for 2022 is projected to reach 10.0 percent of GDP and then narrow to 8.7 percent of GDP in 2023.

The robust growth in 2022 and 2023 will likely be accompanied by an improvement in living standards, although this is subject to significant uncertainty related to the possibility of lower-than-expected growth in the UK, USA, and Canada, and the risk of natural disasters. Higher oil prices and imported inflation 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 the last decade.

TABLE 2 Barbados / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	-1.3	-13.7	0.7	10.5	5.0	3.2
Real GDP growth, at constant factor prices	-1.2	-13.7	0.7	10.5	5.0	3.2
Agriculture	-4.5	-4.8	-13.2	1.3	5.7	5.6
Industry	-1.9	-3.9	2.3	5.5	2.7	-1.6
Services	-1.0	-15.7	0.6	11.7	5.4	4.0
Inflation (Consumer Price Index)	4.1	2.9	3.0	9.9	8.2	5.3
Current Account Balance (% of GDP)	-3.1	-7.0	-11.6	-10.0	-8.7	-7.4
Fiscal Balance (% of GDP)	3.8	-4.8	-4.8	-3.2	-0.8	0.6
Debt (% of GDP)	124.9	147.0	135.5	118.0	110.0	102.9
Primary Balance (% of GDP)	6.2	-1.0	-0.8	1.0	3.5	5.0
GHG emissions growth (mtCO2e)	1.0	-7.8	16.2	0.7	0.7	0.7
Energy related GHG emissions (% of total)	31.9	27.4	37.2	37.4	37.6	37.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.