

# BARBADOS

**Table 1** **2020**

Population, million	0.3
GDP, current US\$ billion	4.4
GDP per capita, current US\$	15142.9
School enrollment, primary (% gross) <sup>a</sup>	100.3
Life expectancy at birth, years <sup>a</sup>	79.1

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent WDI value (2018).

*With the quarantine measures and impact of the pandemic on tourism, Barbados's GDP is estimated to have contracted 17.3 percent in 2020. The current account deficit is expected to have increased to 7.8 percent of GDP. Poverty is expected to have increased, reflecting the job losses, business closures, and decline in remittances caused by the pandemic. The pandemic interrupted the reform efforts made in the context of the Barbados Economic Recovery and Transformation (BERT) plan to sustain primary surpluses and reduce the debt burden.*

## Key conditions and challenges

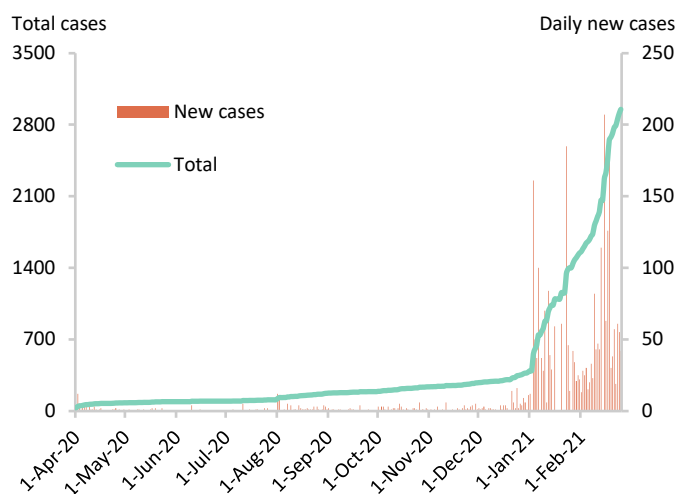
Barbados is a high-income service economy. However, the country's economic achievements remain vulnerable due to its small size, heavy dependence on tourism at 17 percent of GDP, and considerable exposure to climate change risks. The effects of the 2009 Global Financial Crisis were hard felt and long lasting. A combination of negative shocks to its main economic sectors – tourism, financial services and construction – and limited policy response resulted in a significant deterioration of its fiscal and external accounts. Continuous fiscal deficits were financed through public institutions – the Central Bank of Barbados and the National Insurance Scheme. Public debt build-up proved to be unsustainable, increasing consistently from just over 55 percent of GDP in 2008 to 158 percent in 2017, leading to a slowdown in economic growth and prompting downgrades in credit ratings. In June 2018, in response to the worsening fiscal and external liquidity position, the newly elected government announced the homegrown BERT Plan aimed at restoring macroeconomic stability. It included the suspension of debt payments and a comprehensive restructuring of domestic and external debt. The completion of the public debt restructuring in December 2019 reduced economic uncertainty prior to the coronavirus pandemic. Under BERT, debt is targeted to reach 60 percent of GDP by

FY2033/34. In addition, in 2018, Barbados entered into an adjustment program under the IMF's Extended Fund Facility. Prior to the pandemic, Barbados experienced an increase in the proportion of the population living in poverty from 15.1 percent in 2010 to 17.2 percent in 2016, according to the 2016-2017 Barbados Survey of Living Conditions. While there is no estimate of monetary poverty since then, it is likely that the poverty rate increased in the two years leading to 2020, in line with the observed economic slowdown. Thus, the country was already facing a deterioration in the living standards before the Covid-19 outbreak.

## Recent developments

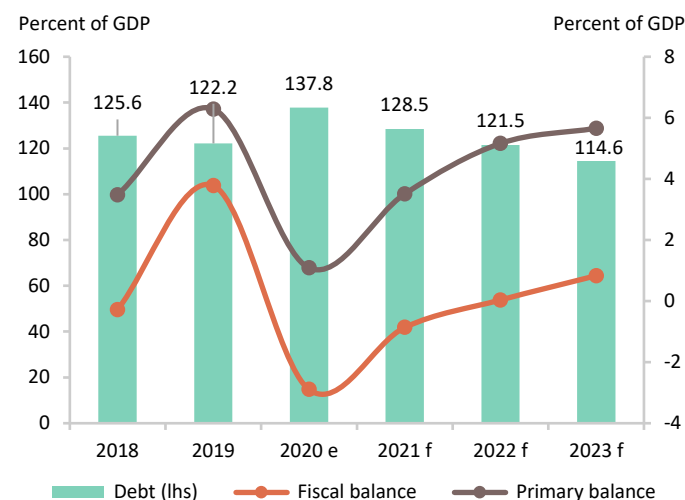
A major fall in tourist arrivals during the first three quarters of 2020 severely affected tourism, retail, and business activities. Hotel occupancy rates were below 50 percent, with a steep decrease in revenues. With the near full travel closure and quarantine measures, the economy is projected to have contracted by 17.3 percent in 2020. The halt in the tourism and construction sectors translated into severe job losses, particularly among the vulnerable population. In a June 2020 rapid assessment survey, almost half of respondents that were employed before the pandemic reported losing their job (IADB 2020). Not surprisingly, the shock affected low-income households more harshly (51 percent reported job losses) compared to middle and high-income ones (40 and 28 percent,

**FIGURE 1 Barbados / COVID-19 spread**



Sources: JHU CSSE COVID-19 Data.

**FIGURE 2 Barbados / Fiscal balances and public debt**



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

respectively). Similarly, women have been more impacted than men (36 percent report losing their job versus 32 percent). The government responded by expanding social assistance and implementing a program that subsidizes continued employment in the tourism sector.

Barbados experienced a rapid spread of COVID-19 in early 2021. The total number of cases rose from 395 on January 2 to 2,647 on February 18. This is likely to further exacerbate job losses, business closures, and a decline in remittances that negatively impacted income, and the living standards of Barbadian households in 2020. About one in five households reported losing their main source of income between January and April 2020 and around 40 percent reported not being able to meet their most basic needs. For 2020, poverty is expected to have increased well above the 17 percent registered four years before.

The impact on the balance of payments has been severe. The current account deficit is expected to have risen to 7.8 percent of GDP in 2020 mainly due to the decline in travel receipts, although partially offset

by lower oil prices and import demand. The restructuring of external debt – with the resumption of interest payments – widened the income deficit.

Barbados recorded a significant primary surplus of 6.3 percent of GDP in FY2019/20, above the 6 percent target included in the BERT program. The primary surplus was met by adjusting expenditure on goods and services, capital projects, and wages. The increase in health-related expenditures due to the Covid-19 pandemic together with a fall in revenues pushed a revision of the fiscal deficit target to 1 percent of GDP. To finance the higher current account deficit, Barbados received financing from international financial institutions IFIs. As a result, gross international reserves rose to 40 weeks of import cover.

## Outlook

Growth is projected to reach an average of 5.8 percent over the medium term with the resumption of travel. Lagging

construction activity and renewed fiscal consolidation efforts are expected to moderate growth prospects. The inflation rate is projected to average around 3 percent in the medium term. In response to the pandemic, the government has expanded support through its social protection programs and has expanded available benefits. As a result of higher growth and low inflation, poverty can be expected to decrease over the medium term if the recovery is sustained and fosters new job opportunities. Continued support for the most vulnerable is necessary to avoid long-term consequences of the shock.

The current account deficit is expected to increase to 11.0 percent of GDP in 2021. A rebound in tourism and increased FDI in the tourism sector will contribute to narrowing the deficit to 8.6 percent in 2022.

**TABLE 2 Barbados / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
<b>Real GDP growth, at constant market prices</b>	-0.6	-0.1	-17.3	4.4	7.2	1.9
<b>Real GDP growth, at constant factor prices</b>	-0.4	-0.1	-17.5	4.2	7.4	2.0
Agriculture	14.8	-6.3	1.0	0.5	0.5	0.4
Industry	-2.3	-3.4	-13.0	3.0	4.5	2.5
Services	-0.3	0.6	-18.6	4.5	8.1	2.0
<b>Inflation (Consumer Price Index)</b>	3.7	4.1	2.9	3.7	2.3	2.3
<b>Current Account Balance (% of GDP)</b>	-5.0	-3.1	-7.8	-11.0	-8.6	-6.1
<b>Fiscal Balance (% of GDP)</b>	-0.3	3.8	-4.7	-3.0	-0.4	0.6
<b>Debt (% of GDP)</b>	125.6	122.2	148.9	142.7	129.4	124.7
<b>Primary Balance (% of GDP)</b>	3.5	6.3	-1.0	1.3	4.4	5.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.  
Notes: e = estimate, f = forecast.