BARBADOS

COUNTRY ECONOMIC REVIEW 2020

Barbados dollar (BB$); United States dollar (US$). **US$1 = BB$2.00**

OVERVIEW

In 2020, the COVID-19 pandemic was a major shock to economic activity and slowed progress in economic reform and transformation. The first confirmed case of the virus was reported in mid-March, and the number of cases subsequently increased to 383 persons based on 69,718 administered tests at December 31, 2020. There were seven fatalities attributed to the virus. The pandemic contributed to a sharp contraction in real gross domestic product (GDP) and a spike in unemployment, almost eroding the gains from the recent domestic and external debt restructuring. Despite the challenges, Barbados continued the implementation of its economic reforms aimed at restoring fiscal and debt sustainability and protecting the foreign reserves. A recovery in economic activity is expected in 2021, although uncertainty remains about the strength of this upturn.

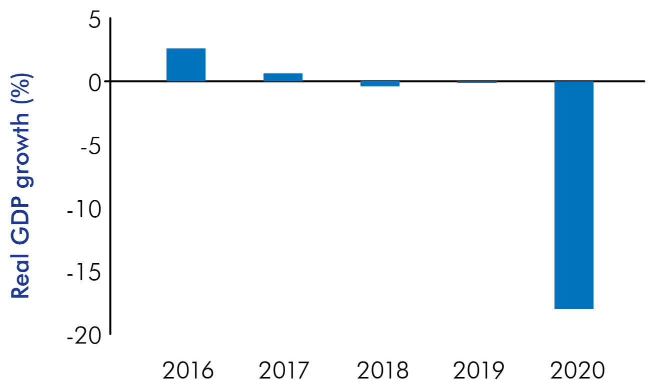
KEY DEVELOPMENTS IN 2020

Real GDP contracted deeply in 2020. The Central Bank of Barbados (CBB) reported a contraction of 18.0% compared with a marginal decline of 0.1% in 2019 (see Chart 1). This contraction reflected a steep fall-off in tourism activity, as long-stay arrivals fell by 71% for the nine months ending September 2020.

Tourism activity slowed significantly due to the reduction in global travel caused by the COVID-19 pandemic. Flights from key source markets had reduced considerably by mid-March causing an abrupt halt in tourism, and strict restrictions imposed on internal movement from April to June to prevent the spread of the outbreak, dampened economic activity. Visitor arrivals for the months April to September were insignificant but improved modestly in the third quarter when airlift slowly increased following the reopening of borders in June. Tourist arrivals data for the final quarter (October to December) are still preliminary, but the pick-up in tourism activity since the limited resumption of commercial tourism flights in July remained low, as the fear of contagion continued to weigh heavily on travel and tourism activity. Domestic staycations were encouraged to minimise the loss of international visitors, however, its impact was minimal and the COVID-19 crisis resulted in marked increases in job losses and unemployment in the sector and in related industries.

The strict containment measures, taken by the country while assisting in curbing the spread of COVID-19, had damaging effects on the economy. The shock to tourism and weak economic activity led to adverse shocks throughout the economy. In particular, distribution (-9.4%), finance (-8.6%), and transport services (-6.5%) were especially hard hit, as consumer demand weakened and the opportunities to spend and transact business were restricted by social distancing requirements and reduced business hours. This was partly offset by higher levels of output in agriculture (1.8%).

Chart 1: Real gross domestic product growth



Sources: *CBB, Barbados Statistical Service (BSS), Caribbean Development Bank (CDB).*

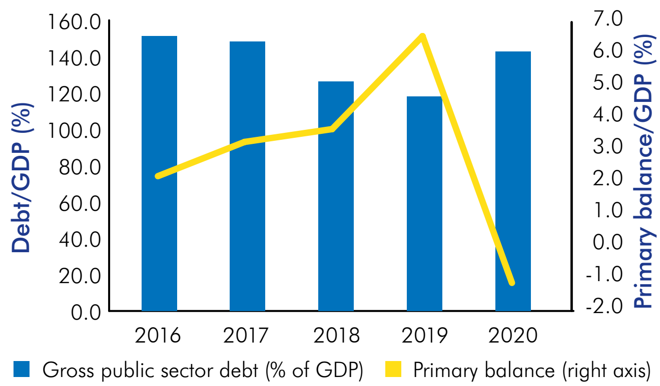
Inflation remained moderate and stable at 3.5% compared with 4.1% in 2019. The inflation rate was largely attributed to higher food prices. This was partly offset by lower international oil prices, which reduced fuel and electricity costs.

The shock to the tourism sector led to a sharp rise in unemployment and higher unemployment benefit payments. It is estimated that the tourism sector contributes approximately 25% of national employment. However, since the pandemic the travel industry has been crippled, resulting in the closure of hotels and related businesses, which led to increased unemployment and benefit claims. During the months March to October 2020, the National Insurance Scheme paid BB$123.2 million (mn) to 32,003 unemployment benefit claimants. This represents almost three times the unemployment benefits paid (BB$49.3 mn) for January to December 2019. The Government introduced the Barbados Employment and Sustainable Transformation Programme to assist with the re-engagement of workers in the tourism sector.

Public primary balance turned negative as the pandemic adversely affected revenue collections and placed upward pressure on public health and social protection spending (see Chart 2). Tax revenue for the nine-month fiscal period April to December declined by BB$218 mn, compared with the same period in 2019. Revenue from most major tax categories fell, except corporate taxes, which increased by BB$249 mn. This was mainly due to the impact of higher tax rates on companies that receive their income from foreign exchange earning activities, and from higher profitability in the previous year. On the expenditure side, healthcare, welfare and capital expenditure related to COVID-19 increased. Recurrent expenditure, including external interest payments, rose by BB$75.6 mn to BB$1,800.4 mn for the nine-month period. Transfers to the Welfare Department rose and the Household Survival Programme received a BB$6 mn disbursement. Capital spending on water and transportation also received a boost of BB$22 mn.

The Government and the International Monetary Fund (IMF) negotiated a downward revision in the primary balance target under its economic reform programme. The primary balance target for fiscal year 2020/2021 is expected to be -1.0% of GDP, a revision of the previous surplus target of 6.0% of GDP. The fiscal gap is being financed mainly by international financial institutions (IFIs). The debt-to-GDP ratio is expected to increase to 144%, compared with 120% in 2019, driven mainly by a sharp rise in external borrowing.

Chart 2: Fiscal and debt performance



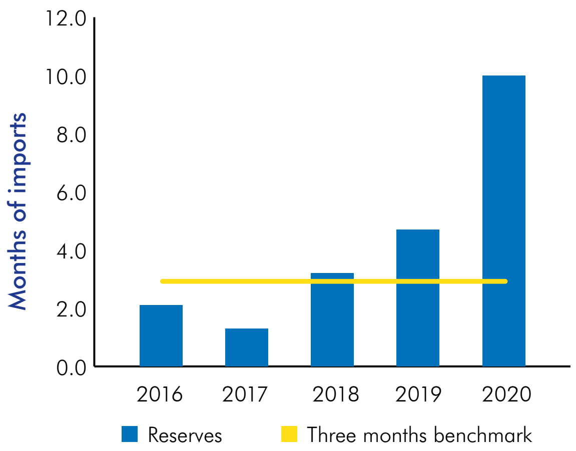
Sources: *Ministry of Finance, Economic Affairs and Investment, CBB, and IMF.*

The financial sector faces elevated risks due to the sharp economic downturn. To partly mitigate these risks, financial institutions implemented moratoria on loan payments during April to December. However, non-performing loans (NPLs) increased modestly to 7.2% compared with 6.6% in December 2019, and profitability declined due to weak credit demand and higher provision for NPLs. As at December, the capital adequacy ratio and the liquid assets to total assets ratio rose to 15.8% and 25.1%, respectively.

Reserves remain strong and were boosted with the support of IFIs (see Chart 3). Gross international reserves grew by BB$1,182 mn to BB$2,662 mn (10 months of import coverage) in 2020, well above the international benchmark of three months. This accumulation was aided, in part, by financing from the IMF and the Inter-American

Development Bank. The funding from IFIs recognised the Government's commitment to the targets of the Barbados Economic Reform and Transformation Programme (BERT).

Chart 3: Gross foreign reserves



Source: *CBB.*

Standard and Poor's maintained the Barbados credit rating at B-/B with a stable outlook. In November 2020, the international credit rating agency attributed its decision largely to the success of BERT as a key factor in allowing the country to weather the impact of the pandemic.

OUTLOOK

CDB expects real GDP growth of 1.9% in 2021, although downside risks remain elevated. The recovery will depend on quickly stabilising the recent surge in COVID-19 cases during January 2021, the easing of pandemic mitigation measures, the availability and steady roll-out of a COVID-19 vaccine, and the accelerated return of tourist arrivals. By the end of January, Barbados had registered well over 1,000 new cases of COVID-19, and by February 3, 2021, went into lockdown having declared community transmission of the disease.

Downside risks to the forecast remain. COVID-19 challenges in major source markets, such as the United Kingdom and the United States of America, and tighter contagion controls, may adversely affect tourist arrivals. Also, the management of the pandemic has placed strain on the fiscal accounts, which must be carefully managed given the fiscal and debt targets under BERT, and offset by higher primary surpluses in coming years to ensure achievement of the long-term debt target of 60% of GDP. This suggests that efforts to drive growth will also depend partly on the private sector and their confidence about a timely recovery. As financial institutions gradually remove their moratoria on loan payments, the developments in the sector must continue to be monitored closely. The Government will need to accelerate its structural reforms, including improving the business climate and fostering economic diversification. Strengthening resilience to natural disasters and climate change will also be key to long-term economic growth.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. The 2020 data are estimates and are subject to revision.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	2.6	0.6	-0.4	-0.1	-18.0
Average inflation (%)	1.5	4.5	3.7	4.1	3.5
Unemployment (%)	9.7	10.0	10.1	10.1	n.a.
Primary balance (% of GDP)	2.2	3.2	3.5	6.1	-1.0
Public sector debt (% of GDP)	151.2	148.4	126.3	120.0	144.0

Sources: *CBB, BSS,CDB.*

Note: e – estimate (as at March 31, 2021); n.a. – not available.