CARIBBEAN DEVELOPMENT BANK

BARBADOS

ECONOMIC BRIEF

Eastern Caribbean Dollar (EC$); United States Dollar (US$) US$1 = EC$2.70

Overview

In 2022, the post-pandemic economic recovery strengthened. Tourism activity grew steadily, particularly in the second half of the year as COVID-19 protocols were eased and the Welcome Stamp initiative continued to attract strong interest. The improved economic performance contributed to lower levels of unemployment; however, inflationary pressures were elevated due to rising international commodity prices and freight costs. Commitment to fiscal reforms supported improved fiscal performance and unlocked financing to support the recovery. International Reserves remained strong and well above the international benchmark of three months of import cover.

The recovery in economic activity will be sustained in 2023, although the outlook remains highly uncertain, and risks are elevated. Real gross domestic product (GDP) growth of 4.4% is expected in 2023 driven by continued improvements in tourist arrivals, an accelerated pace of implementation of capital projects, and sustained efforts to improve the business climate, reduce the cost of living, and implement economic reforms.

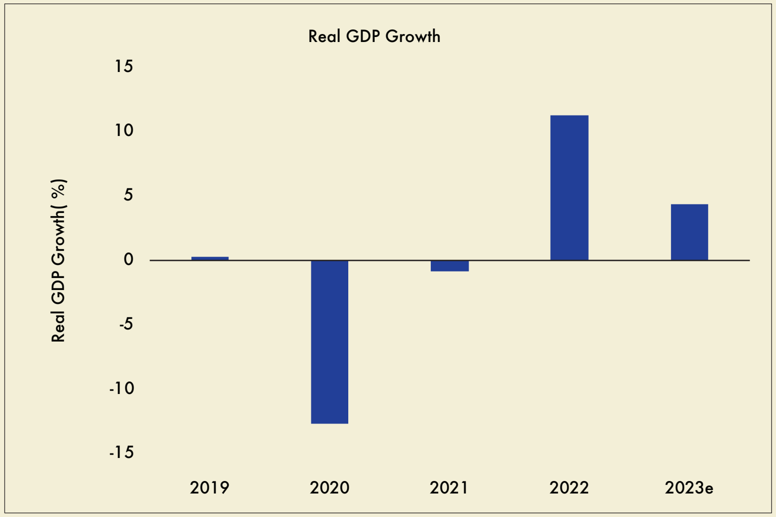
KEY DEVELOPMENTS IN 2022

Real GDP grew by 11.3% in 2022. This was a significant reversal from the economic decline of 0.8% in 2021 and mainly reflected improvements in tourism activity.

The full lifting of COVID-19 restrictions and reopening of the economy facilitated the strong rebound. Coupled with a resurgence in in-bound tourism demand as the global desire for travel gained momentum, and rising average length-of-stay, stayover arrivals reached 75.7% of 2019 levels. Growth was led by strong market demand from the United Kingdom (UK), United States of America (USA), and Canada. The Welcome Stamp initiative, which allows non-residents to work remotely in Barbados for a maximum of 12 months, also continued to attract strong interest. Meanwhile, reduced seating capacity constrained the demand for regional air travel. Activity in the cruise sector was also low, as COVID-19 protocols in the first half of the year limited the recovery to only 64.2% of the pre-COVID level.

Modest gains in manufacturing, agriculture and international business helped with the recovery. Manufacturing output and chicken production increased as the demand for locally processed food and beverages steadily grew with the resurgence of tourism activity. The improvement in the domestic economy also contributed to increased activity in the international business sector.

Chart 1: Real Gross Domestic Product Growth



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

Inflationary pressures were elevated due to rising international commodity prices and freight costs. The exogenous drivers of inflation were linked to the Ukraine-Russia conflict and COVID-19-induced supply chain disruptions. These shocks continued to impact global food and energy prices with spill-over effects on the domestic economy. The 12-month annual average inflation rate was 9.3%, compared with 2.6% in 2021. The main sub-indices driving prices were food and non-alcoholic beverages (14.9%), furnishings (6.9%) and housing, water, electricity and fuels (6.8%). Higher energy prices also affected domestic transportation, the price of inputs in the construction sector, as well as the cost for electricity service that was increased by an electricity rate hike.

To dampen inflationary pressures, the Government introduced several measures in the year. These included: a temporary cap on Value-added Tax (VAT) charged on the sale of fuel, broadening the basket of VAT-free items, and a12-month price ceiling on freight costs (effective March 2022). These measures were complemented by a social compact with the private sector to temporarily reduce mark-ups on a select basket of items.

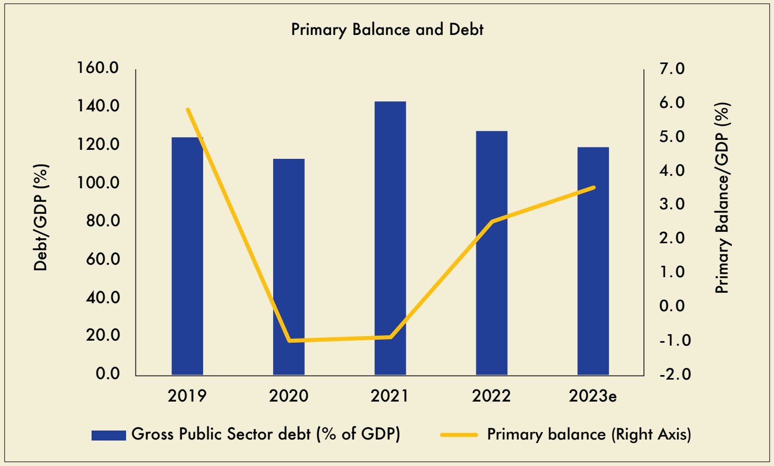
Labour market conditions improved steadily with the upturn in the economy. This was evidenced by the unemployment rate declining to 7.2% in December. Jobs were created in tourism, construction, wholesale, retail, transport and communications services, and the labour force participation rate increased by 2 percentage points to 63%. National unemployment insurance claims declined by 42% in November, compared with the same period one year earlier.

Fiscal performance was more favourable than the corresponding period a year ago. For fiscal year (FY) 2022/23 (April to March) increased revenue led to a turnaround in the primary balance to a surplus of 2.5% of GDP and a narrowing of the overall deficit to 2.0% of GDP, which aligned well with targets under the Government's Barbados Economic Recovery and Transformation Programme (BERT), which provided a framework for fiscal consolidation post-pandemic and ended in July 2022.

Revenue collections grew as economic activity improved and temporary tax measures were introduced to offset pandemic related expenditure. Revenue collections of $3,320.2 million (mn), represented an increase of $496.4 mn (4.4% of GDP) above the corresponding 12-month period in FY 2021/22. The improved economic conditions helped to boost taxes on income and profits and VAT collections, despite the temporary cap on VAT charged on the sale of fuel. One-off tax measures such as the Pandemic Contribution Levy on business income and profits introduced to help further strengthen revenue collections, boosted intake by an additional 0.8% of GDP. Additionally, high import prices contributed to increased import and excise duties.

Expenditure was managed within an environment of rising prices of goods and services and higher interest costs. Total expenditure of $3,565.2 mn compared with $3,314.4 mn in FY 2021/22. As the step-up interest rate feature on domestic bonds took effect, coupon rates moved up from 1.0% to 2.5%, increasing interest payments by $150.4 mn to $549.3 mn (4.8% of GDP). The Government's wage bill increased by $19.8 mn following the settlement of wage negotiations and additional staffing within the public sector. The Government also ramped up capital spending by 6.6% to $449.5 mn (3.9% of GDP), mainly to accommodate an extensive island-wide road rehabilitation programme.

Chart 2: Fiscal and Debt Performance



Sources: *Ministry of Finance, Economic Affairs and Investment, CBB, the International Monetary Fund (IMF).*

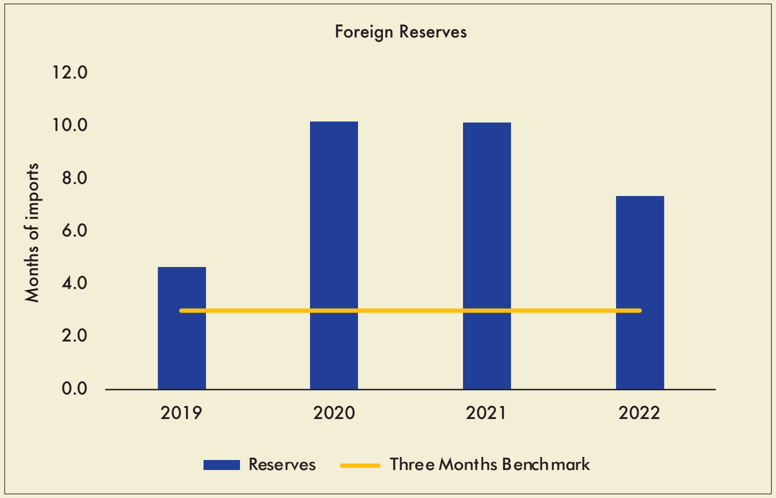
The public debt-to-GDP ratio declined but is still high and subject to risks. The steady fiscal consolidation and economic recovery helped to reduce the debt-to-GDP ratio. The public debt-to-GDP ratio was reduced to 127.5% of GDP, compared with 143.1% of GDP in 2021. BERT provided financing support for the recovery. The Government received a final tranche disbursement of US$23 mn in June 2022, to help close its fiscal gap of approximately 2% of GDP. Total disbursements under BERT, October 2018 to July 2022, amounted to US$435 mn. In November, the Barbados authorities and the IMF agreed to a new three-year BERT Plan 2022 supported by an IMF Extended Fund Facility (EFF), as well as the Resilience and Sustainability Trust (RST), a new financing arrangement that provides longer-term financing for resilience building.

The financial sector, characterised by an accumulation of excess liquidity, remained stable. Non-performing loans were 5.9%, a decline from 7.3% in December 2021. Meanwhile, the capital adequacy ratio was 17.6%, an improvement from 16.8% in 2021. CBB noted that excess liquidity levels continued to build although lending conditions were relaxed during 2022. New lending for corporates and households trended upwards and there was an overall increase in credit to the non-financial private sector of 3.1% to $8,350.7 mn, the strongest growth since 2019.

Reserves remained strong and well above the international benchmark of three months of import cover. Gross International Reserves amounted to US$2,770.3 mn or 7.3 months of import coverage (see Chart 3). This was lower than in December 2021 (US$3,058.8 mn) as higher outflows related to rising fuel import prices and volumes more than offset official loans inflows – including the final drawdown of funds under the EFF and the improvement in travel receipts.

Barbados' credit rating on its foreign currency debt was upgraded in 2022 to B with a stable outlook. The improved rating was driven by its strengthened external liquidity position, more favourable debt repayment profile following the 2018/19 debt restructuring and more recent US$150 mn debt for nature swap, as well as the authority's commitment to sustaining reform momentum.

Chart 3: Gross International Reserves



Source: *CBB.*

2023 OUTLOOK

Real GDP growth is projected to moderate to 4.4% in 2023, although downside risks remain. Sustained growth is expected to be underpinned by continued recovery in tourist arrivals, accelerated implementation of capital projects, and deepening initiatives to improve the business environment. The outlook for the global economy has dampened for 2023, while prolonged supply disruptions and inflationary pressures due to ongoing geo-political tensions can slow the domestic recovery. Meanwhile, the economy remains vulnerable to the effects of natural disasters. Strengthening resilience to natural disasters and climate change will be key to long-term sustained economic growth.

The Government's commitment to macroeconomic stability and deep fiscal reform will be sustained over the medium term. The new BERT, through the continued implementation of Government's structural reform agenda, will support and strengthen macroeconomic stability and further reduce public sector debt. Structural reforms to be implemented include the enactment of fiscal responsibility legislation and measures aimed at enhancing the financial viability of State-owned Enterprises. The primary balance is likely to strengthen to 3.5% of GDP in FY 2023/24 from 2.5% of GDP in the previous FY, and is expected to gradually increase to approximately 5.0% of GDP over the medium term.

Access to RST financing will help build resilience to economic risks associated with climate change. Barbados will gain access to US$293 mn over the next 36 months through these facilities. However, risks to the achievement of the long-term debt target of 60% of GDP remain including a slower than expected economic recovery and slowed growth in major source markets such as the USA and UK.

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 2023 data are estimates and are subject to revision.

Selected Indicators

	2019	2020	2021	2022	2023e
Real GDP growth (%)	0.3	-12.7	-0.8	11.3	4.4
Average* Inflation (%)	4.4	3.2	2.6	9.3	5.0
Unemployment (%)**	8.9	13.6	10.9	7.2	n.a.
Primary balance (% of GDP)	5.8	-1.0	-0.9	2.5	3.5
Gross Public Sector debt (% of GDP)	124.1	113.0	143.1	127.5	119.0

Sources: *CBB, BSS, CDB.*

**Inflation represents the 12 month Moving Average*

***Unemployment in 2022 represent Q1.*

****Gross International Reserves as at June 2022.*

Note: e – estimate.