

BARBADOS

Table 1 2023

Population, million	0.3
GDP, current US\$ billion	6.4
GDP per capita, current US\$	22638.2
School enrollment, primary (% gross) ^a	95.6
Life expectancy at birth, years ^a	77.7
Total GHG emissions (mtCO ₂ e)	4.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2022).

Economic recovery in Barbados continues despite significant challenges facing the country due to its small size, heavy reliance on tourism, and vulnerability to climate-related and other external shocks. Two recent hurricanes, after an over sixty-year break, highlighted these increasing vulnerabilities. Barbados grapples with high public debt, but the government is committed to the Barbados Economic Recovery and Transformation (BERT) 2022 plan to reduce debt, promote green energy, and enhance competitiveness. Risks from global economic shocks and climate-related disasters persist.

Key conditions and challenges

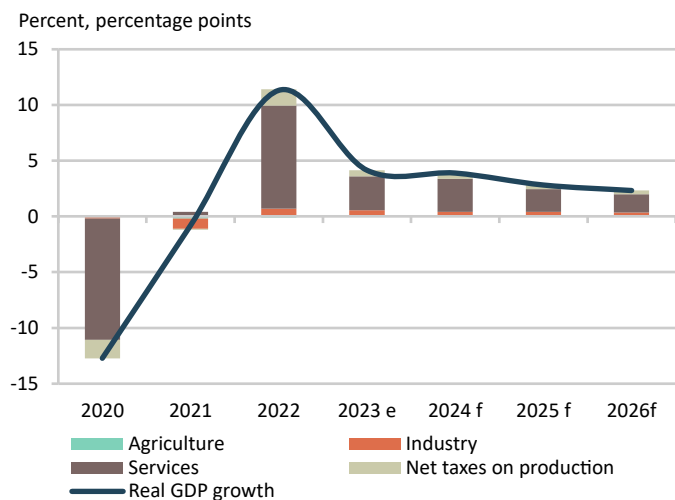
Barbados faces several challenges due to its small size, heavy reliance on tourism, import dependency, and vulnerability to external shocks, particularly those related to climate change. In July 2021, hurricane Elsa, a category 1 storm, struck Barbados—the first hurricane to hit the island in over 60 years. Barbados faced a greater threat in late June 2024 when Hurricane Beryl, a Category 3 storm, passed about 40 miles south of the island. The country is vulnerable to import inflation pressures and has limited capacity to respond to these pressures due to its exchange rate peg regime. High levels of public debt, worsened by the recent economic downturn, have reduced fiscal space. Nonetheless, the Government is committed to implementing the BERT 2022 plan, which aims to reduce public debt to about 60 percent of GDP by 2035/36, promote the transition to green energy, diversify the economy, and enhance competitiveness. The plan also includes a commitment to social cohesion, with investments in education and health, provision of affordable housing, and enhanced social safety nets. According to the last official poverty estimates from 2016/17, around 17.2 percent of the population lived below Barbados’ basic needs threshold, and 3.4 percent of the population could not afford even a minimum food basket. The poverty rate was higher among female-headed and larger

households. Around 55.3 percent of the population was covered by at least one social protection benefit in 2019. Yet, as of 2022, the National Assistance Program (NAP)—the Barbados Welfare Department’s main social assistance program—reached just 6,500 households with cash assistance. The National Insurance Scheme (NIS), which provides social insurance, faces longer-term challenges related to increasing expenditure on old-age pensions because of an aging population.

Recent developments

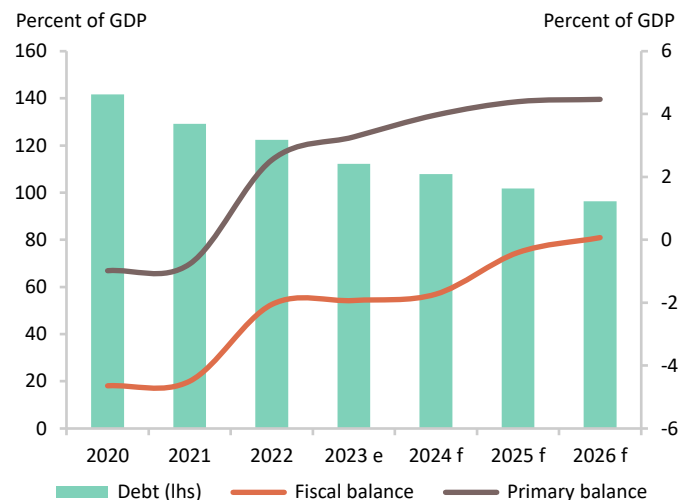
Real GDP is expected to increase by 3.9 percent in 2024, following its recovery to pre-pandemic levels in 2023, driven by an 18 percent increase in tourist arrivals between the first semester of 2023 and the same period in 2024. The revival of tourism is contributing to growth in the services sector, particularly in hotels, retail trade, and entertainment, as well as in the agriculture sector, benefiting from higher demand for local produce. The primary fiscal balance is projected to reach 4.0 percent of GDP in FY2024, up from 3.7 percent in FY2023, due to reduced public expenditures. The public debt-to-GDP ratio decreased to 116.5 percent at the end of 2023, from 119.1 percent at the end of 2022. The government has enhanced fiscal management, including through the establishment of a Fiscal Council to oversee the fiscal strategy implementation. The Central Bank of Barbados has maintained its benchmark rate at 2 percent.

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



Sources: Government of Barbados and World Bank staff calculations.

FIGURE 2 Barbados / Fiscal balance and public debt



Sources: Government of Barbados and World Bank staff calculations.

Average inflation is expected to ease to 4.0 percent in 2024 from 5.0 percent in 2023, driven by lower international fuel prices and freight costs. In 2023, prolonged droughts and increased demand for restaurants and recreational activities led to higher prices for specific food items and domestic services. Efforts to enhance monetary and financial sector policies contributed to a well-capitalized, liquid, and profitable banking system, with credit to the private sector growing a modest 1.7 percent in 2023. The external position continued to strengthen, with the current account deficit expected to narrow to 7.4 percent of GDP in 2024 from 9.1 percent of GDP in 2023. Foreign reserves reached 6.1 months of imports of goods at the end of 2023.

In March 2024, the unemployment rate in Barbados was 6.9 percent, down from 8.9 percent in March 2023. However, the overall labor force participation rate fell from 63.9 percent to 60.9 percent over the same period. Job creation has been

strongest in tourism, construction, manufacturing, and retail.

Outlook

The economy is expected to keep growing, although at a slower rate. Real GDP is projected to increase by 2.8 percent in 2025 and 2.3 percent in 2026. Efforts to carry out structural reforms, improve fiscal institutions, and encourage investments in renewable energy projects are anticipated to support sustainable and inclusive growth. Government efforts to adapt the economy to climate change and improve the business environment are expected to further stimulate investment. Inflation is predicted to drop below 3 percent starting in 2025. Fiscal consolidation is set to continue, with the fiscal balance reaching a small surplus and by 2026. The government is actively working to reduce transfers to state-owned entities and

continues to modernize tax exemptions, strengthen revenue administration, and enhance public financial management. The current account deficit is expected to decrease to 5.7 percent of GDP by 2026, driven by expected strong performance in the tourism sector and supported by fiscal consolidation. Overall, the government's dedication to fiscal consolidation, climate resilience, and debt sustainability, along with ongoing support from international financial institutions, adds credibility to the country's ambitious reform agenda.

However, there are risks to this outlook, including potential global economic and financial shocks, climate-related natural disasters, and an escalation of regional conflicts in other parts of the world, which could impact global commodity prices and raise inflation. While the public debt to GDP ratio has fallen back to pre-pandemic levels and is projected to continue declining, it remains high and exacerbates the potential impact of these risks.

TABLE 2 Barbados / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	-1.2	13.5	4.4	3.9	2.8	2.3
Real GDP growth, at constant factor prices	-1.3	13.8	4.3	3.9	2.8	2.3
Agriculture	-22.2	-12.8	2.5	5.0	3.0	3.0
Industry	-6.3	6.0	4.2	2.9	2.8	2.4
Services	0.4	16.0	4.4	4.0	2.8	2.3
Inflation (consumer price index)	1.6	4.9	5.0	4.0	2.9	2.4
Current account balance (% of GDP)	-10.5	-10.1	-9.1	-7.4	-6.2	-5.7
Fiscal balance (% of GDP)	-4.7	-2.0	-1.7	-1.7	-0.4	0.1
Revenues (% of GDP)	28.2	29.0	28.0	27.3	27.3	27.3
Debt (% of GDP)	131.5	119.1	116.5	107.9	101.8	96.3
Primary balance (% of GDP)	-0.9	2.5	3.7	4.0	4.4	4.5
GHG emissions growth (mtCO₂e)	3.3	2.7	0.4	0.2	0.3	0.4
Energy related GHG emissions (% of total)	31.9	32.7	32.1	31.4	30.6	29.7

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

Notes: e = estimate, f = forecast.