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BARBADOS

October 2018

REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BARBADOS

In the context of the Request for an Extended Arrangement Under the Extended Fund Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 1, 2018, following discussions that ended on September 7, 2018, with the officials of Barbados on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on September 17, 2018.
- Letter of Intent sent to the IMF by the authorities of Barbados
- Memorandum of Economic and Financial Policies by the authorities of Barbados
- Technical Memorandum of Understanding
- A **Debt Sustainability Analysis** prepared by the staff of the IMF.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Barbados.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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FOR IMMEDIATE RELEASE
October 1, 2018

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Washington, D.C. 20431 USA

IMF Executive Board Approves US$290 million Extended Arrangement Under the Extended Fund Facility for Barbados

- The IMF supported program aims to help Barbados: restore debt sustainability, strengthen the external position, and improve growth prospects.
- Approval of the program allows for the immediate disbursement of about US$49 million immediately.
- A comprehensive debt restructuring will complement the fiscal consolidation. The authorities have identified parameters that would provide debt relief without jeopardizing financial stability.

On October 1, 2018, the Executive Board of the International Monetary Fund (IMF) approved a four-year Extended Arrangement under the Extended Fund Facility (EFF) for Barbados for an amount equivalent to SDR 208 million (about US$290 million, or 220 percent of Barbados's quota in the IMF). The Board's decision enables the authorities to purchase the equivalent of SDR 35 million (or about US$49 million) immediately. The remainder will be available upon successful completion of seven semiannual reviews.

The EFF-supported program aims to help Barbados: restore debt sustainability, strengthen the external position, and improve growth prospects. Upfront fiscal consolidation, meaningful debt restructuring, and structural measures to support growth should put debt on a clear downward trajectory. The program will seek to protect vulnerable groups through strengthened social safety nets.

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, said:

"The Barbadian authorities have developed a homegrown economic program to address longstanding challenges, which will be supported under the IMF's Extended Fund Facility. Over the last decade, Barbados's economy has experienced low growth, while fiscal and external imbalances have gradually widened to reach an unsustainable situation, with very high debt and very low reserves. The authorities' reform program seeks to address these challenges with a combination of front-loaded fiscal consolidation, measures to boost growth, and debt restructuring, while protecting social spending.

“Fiscal consolidation is key to the adjustment effort. The authorities aim to increase the primary surplus to 6 percent of GDP in FY2019/20 and maintain it at that level for several years thereafter. Reducing transfers to state-owned enterprises will be key in reaching the primary surplus targets. The program aims to reduce these transfers with a combination of much stronger oversight of state-owned enterprises, improved reporting, cost reduction, revenue enhancement, and mergers and divestment. A planned comprehensive review of tax policies is expected to lead to improvements in the tax system. The adoption of a fiscal rule and reforms in public financial management will help sustain the fiscal reform effort.

“A comprehensive debt restructuring will complement the fiscal consolidation. The authorities have identified parameters that would provide debt relief without jeopardizing financial stability, and an exchange offer for domestic debt (Barbados dollar-denominated) to private creditors was launched on September 7, 2018. The proposed debt restructuring includes features, including a natural disaster clause, that are expected to help the authorities stay current on their future debt obligations. It is important to continue good faith negotiations with domestic and external creditors.

“Bold structural reforms are needed to improve Barbados’s growth potential and competitiveness. There is significant room for improvement in key business facilitation processes, including speeding up the process for providing construction permits and faster clearing of goods through customs.

“Adequate social spending and an improved safety net are key priorities for the program. Targeted reforms, to be pursued in close collaboration with development partners, aim at improving the efficiency and effectiveness of social spending.”

ANNEX

Recent Developments

A new government that took office in May 2018 has inherited a precarious economic situation. Over the last decade, Barbados' economy has experienced very low growth, and fiscal and external imbalances have gradually led to an unsustainable situation, with very high debt, and very low reserves. Public debt has increased to 157 percent of GDP, while international reserves dropped to 5-6 weeks of import coverage.

Although the fiscal deficit has decreased over the last few years, it remains large, at about 4 percent of GDP in FY2017/18. In 2017 and early 2018, the economy slowed owing to measure taken by the previous government to tighten the fiscal stance and uncertainty about the road ahead, with the Central Bank of Barbados (CBB) reporting a contraction of 0.6 percent in the first half of 2018 (over the same period last year).

The new government announced a comprehensive debt restructuring, including commercial external debt and treasury bills, on June 1, 2018. Significant progress has been made in discussions with domestic and external creditors, and an exchange offer for domestic debt (Barbados dollar-denominated) was launched on September 7, 2018.

Program Summary

Key element of the authorities' homegrown economic reform program are:

(i) **upfront fiscal adjustment**: the authorities aim to increase the primary surplus by 2½ percent of GDP to reach 6 percent of GDP in 2019/20 and maintain it at that level for several years thereafter, while protecting vulnerable groups through strengthened social safety nets. Adjustment measures include reduced transfers to state-owned enterprises, higher taxes on tourism, and increased personal income tax and corporate income tax rate rates. The fiscal adjustment effort will be supported by the adoption of a fiscal rule, and Public Financial Management (PFM) reforms.

(ii) **reform of state-owned enterprises (SOEs)**. At 7½ percent of GDP, transfers from the central government to state-owned enterprises are very high, and a major contributor to fiscal risks. The program aims to reduce transfers by about 2 percentage points of GDP, by a combination of much stronger oversight of SOEs, supported by improved reporting; cost reduction, including reduction of the wage bill; revenue enhancement, including an increase in user fees; and mergers and divestment.

(iii) **structural reforms to support growth**. The program seeks to address weaknesses in the business climate, including slow processes for obtaining construction permits, getting electricity, and registering property, and will include financial and labor market liberalization policies.

Table 1. Barbados: Selected Economic, Financial, and Social Indicators

I. Social and Demographic Indicators (most recent year)

Population (2016 est., thousand)	280.4	Adult literacy rate	99.7
Per capita GDP (2016 est., US$ thousand)	17.8	Poverty rate (individual, 2010)	19.3
Life expectancy at birth in years (2013)	75.3	Gini coefficient (2010)	47.0
Rank in UNDP Development Index (2014)	57	Unemployment rate (2016 est.)	9.9
Main products, services and exports: tourism, financial services, rum, sugar, and chemicals.			

II. Economic Indicators

			Est.	Projection	
	2015	**2016**	**2017**	**2018**	**2019**
			(Annual percentage change)		
Output, prices, and employment					
Real GDP	2.2	2.3	-0.2	-0.5	-0.1
CPI inflation (average)	-1.1	1.5	4.4	4.2	0.8
CPI inflation (end of period)	-2.5	3.8	6.6	0.0	1.4
External sector					
Exports of goods and services	3.2	6.6	0.8	2.9	2.8
Imports of goods and services	-3.9	0.2	-0.4	4.3	3.1
Real effective exchange rate (average)	8.0	0.9	2.5	…	…
Money and credit					
Net domestic assets	3.0	7.1	2.6	1.7	3.1
Of which: Private sector credit	0.5	1.1	3.0	1.0	3.5
Broad money	3.7	3.6	-0.6	3.0	4.7
			(In percent of GDP, unless otherwise indicated)		
CG Public finances (fiscal year) 1/					
Revenue and grants	25.9	28.2	28.4	29.6	31.1
Expenditure	34.9	33.6	32.7	30.9	28.5
Fiscal Balance	-9.1	-5.3	-4.3	-1.3	2.6
Interest Expenditure	7.1	7.6	7.6	4.7	3.4
Primary Balance	-2.0	2.2	3.3	3.3	6.0
Public Debt (fiscal year) 1/					
Central gov't gross debt (incl. guaranteed and arrears)	146.7	149.1	157.3	123.6	116.7
External	33.9	31.2	28.3	26.9	25.9
Domestic	112.8	117.9	129.0	96.8	90.8
Balance of payments					
Current account balance	-6.1	-4.3	-3.8	-3.1	-3.4
Capital and financial account balance	4.5	0.8	0.8	5.4	6.8
o/w Public Sector	-0.8	-1.8	-1.4	2.0	3.2
o/w IMF disbursement	0.0	0.0	0.0	0.9	1.9
Private Sector	5.4	2.6	2.2	3.4	3.6
o/w FDI	5.5	3.4	3.1	3.4	3.6
Net Errors and Omissions	0.0	1.0	0.3	0.0	0.0
Overall balance	-1.6	-2.5	-2.6	2.2	3.4
Memorandum items:					
Exchange rate (BDS$/US$)	2.0	2.0	2.0	…	…
Gross international reserves (US$ million)	478.4	358.5	227.7	342.0	516.7
In months of imports of G&S	2.8	2.1	1.3	1.9	2.8
In percent of ARA	105.3	72.6	43.8	65.8	95.1
Nominal GDP, CY (BDS$ millions)	9,451	9,681	9,979	10,343	10,414
Nominal GDP, FY (BDS$ millions)	9,509	9,756	10,070	10,361	10,480

Sources: Barbados authorities; UNDP Human Development Report; Barbados Country Assessment of Living Conditions 2010 (December 2012); and Fund staff estimates and projections.
1/ Fiscal year is from April to March.

BARBADOS

September 17, 2018

REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

KEY ISSUES

The key objectives of the program are to restore macroeconomic and debt sustainability, address falling reserves, and increase growth. The new government, which took office in late May, has committed to fiscal consolidation and structural reform as key tools for macroeconomic adjustment.

Program content. Key program elements are:

Fiscal adjustment: A cumulative 2½ pp of GDP relative to 2017/18 (when the central government registered a primary balance of 3½ percent of GDP) to reach a primary surplus of 6 percent of GDP in FY2019/20, while protecting vulnerable groups through strengthened social safety nets, and increasing room for capital spending. Adjustment measures include reduced transfers to state-owned enterprises (SOEs), higher taxes on tourism, and increased personal income tax (PIT) and corporate income tax (CIT) rates. Protected social spending will include cash transfer and active labor market programs protecting the unemployed, poor households, vulnerable children, the youth, and the elderly. The fiscal adjustment effort will be supported by the adoption of a fiscal rule and Public Financial Management (PFM) reforms.

Reform of SOEs: At 7½ percent of GDP, transfers from the central government to SOEs are very high, and a major contributor to fiscal risks. The program aims to reduce transfers by about 2 percentage points of GDP, by a combination of (i) much stronger oversight of SOEs, supported by improved reporting; (ii) cost reduction, including reduction of the wage bill; (iii) revenue enhancement, including an increase of user fees; and (iv) mergers and divestment. It is critical to establish hard budget constraints for SOEs.

Debt Restructuring: Public debt is unsustainable. The government announced on June 1 a comprehensive debt restructuring, including external debt to commercial creditors and treasury bills. Significant progress has been made in discussions with domestic and external creditors, and an exchange offer for domestic (Barbados dollar-denominated) debt was launched on September 7, 2018.

Structural reforms to support growth. The program seeks to address weaknesses in the business climate, including slow processes for obtaining construction permits, getting electricity, and registering property, and will include financial and labor market liberalization policies.

Program modalities. In support of their Economic Reform and Transformation plan, the authorities have requested a 48-month Extended Arrangement in the amount of Special Drawing Rights (SDR) 208 million (about US$290 million), or 220 percent of Barbados' IMF quota. SDR 35 million (about US$48 million) will become available upon Board approval of the EFF, and the remainder will be available upon successful completion of seven semiannual reviews.

Approved By
Krishna Srinivasan (WHD) and Nathan Porter (SPR)

Program discussions were held in Barbados during July 2–12 and August 30–September 7. The staff team comprised of Bert van Selm (head), Gregorio Impavido, Dmitry Vasilyev (WHD), Mariya Brussevich (FAD), Daniel Gurara (SPR), and James Knight and Myrvin Anthony (both MCM). Lorie Zorn and Jeremy Weil (OED) also joined the mission for some of the meetings while Nancy Horsman (OED) joined for the concluding meeting.

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TABLES

APPENDIXES

Acronyms

The following acronyms are used in the text and defined here.

ARA	Assessment of Reserve Adequacy
BB$	Barbados Dollar
BLP	Barbados Labor Party
BOP	Balance of Payments
BNOC	Barbados National Oil Terminal Company
BRA	Barbados Revenue Authority
BSS	Barbados Statistical Service
BTMI	Barbados Tourism Marketing Incorporated
CAIPO	Corporate Affairs and Intellectual Property
CAB	Current Account Balance
CBB	Central Bank of Barbados
CDB	Caribbean Development Bank
CFM	Capital Flow Management
CG	Central Government
CIT	Corporate Income Tax
CPI	Consumer Price Index
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CY	Calendar Year
EFF	Extended Fund Facility
EPOC	Economic Program Oversight Committee
FB	Fiscal Balance
FDI	Foreign Direct Investment
FMA	Financial Management and Audit Act
FSC	Financial Services Commission
FY	Fiscal Year
GDP	Gross Domestic Product
GFN	Gross Financing Needs
IDB	Inter-American Development Bank
IFI	International Financial Institution
IMF	International Monetary Fund
LOI	Letter of Intent
LT	Long Term
MEFP	Memorandum of Economic and Financial Policies
MTDS	Medium-Term Debt Management Strategy
NIS	National Insurance Scheme
NPV	Net Present Value
NSRL	National Social Responsibility Levy
PB	Primary Balance
PFM	Public Finance Management

PIT	Personal Income Tax
pp	Percentage Points
SDR	Special Drawing Right
SOE	State-Owned Enterprise
ST	Short Term
TMU	Technical Memorandum of Understanding
UFR	Use of Fund Resources
US$	US Dollar
VAT	Value Added Tax

BACKGROUND AND RECENT DEVELOPMENTS

1. **The opposition Barbados Labor Party (BLP) won the May 24 general elections in a landslide, winning all 30 seats in Parliament.** Prime Minister Mia Mottley serves both as Prime Minister and Finance Minister.

2. **The new government has inherited a precarious economic situation**. The global financial crisis led to a prolonged recession in Barbados, with a decade of low growth, and fiscal and external imbalances have gradually deepened. In 2008, central government debt (including guaranteed debt, and debt held by the National Insurance Scheme (NIS)) amounted to 70 percent of GDP, and international reserves covered 4 months of imports, at around US$700 million. By end-May, international reserves dwindled to about US$220 million, or 5-6 weeks of import coverage, while public debt-to-GDP reached an eye-popping 157 percent of GDP (see Figures 2 and 3) and was assessed as unsustainable in the 2017 Article IV report. Over the last decade, Barbados' credit rating declined in several steps from investment grade (Standard and Poor's BBB+) on the eve of the global crisis, to Selective Default on June 6, 2018. The fiscal deficit has decreased over the last few years but remains large, at about 4 percent of GDP in FY2017/18. In 2017 and early 2018, the economy slowed owing to measures taken by the previous government to tighten the fiscal stance and uncertainty about the road ahead, with the Central Bank of Barbados (CBB) reporting a contraction of 0.6 percent in the first half of 2018 (over the same period last year).

3. **The government announced a comprehensive debt restructuring, including commercial external debt and treasury bills, on June 1, 2018.** The timing of the government's June 1 announcement was partly driven by large external debt payments that were due in early June, and Barbados defaulted on these partly with the aim of preserving reserves. Since then, the government has also defaulted on a loan guaranteed by the government of Canada (without this guarantee being called), and agreement on revised terms for this loan is expected to be reached within weeks. Authorities have remained current on a loan guaranteed by the government of China. The authorities are aiming for a deep restructuring, extending the maturity of existing debt to up 35 years, and achieving a major reduction in the government's interest bill (around 7½ percent of GDP in FY2017/18).

4. **A revised budget for FY2018/19 was approved by Parliament on June 13, 2018**. Parliament adopted several revenue measures that are expected to lead to higher revenue once full year effects materialize. The distortionary and regressive National Social Responsibility Levy (NSRL)—effectively a 10 percent excise tax on imports and first sale of locally manufactured goods, projected to bring in an estimated 2 percent of GDP per year—was repealed as of July 1, 2018. The loss of revenue from this is projected to be more than compensated by a range of new tax measures, including higher departure taxes, room rate levies, a new 40 percent top PIT rate, an increase in the CIT rate from 25 to 30 percent, and a new health service contribution, paid partly by employers and partly by employees. The overall aim of these measures is to make the tax system more progressive, and to create a

better balance between taxation of residents and visitors to Barbados. On the expenditure side, the three-year (2016-19) wage agreement that the government agreed with the unions in June increases wages by 5 percent effective April 2018, thereby ending a wage freeze that had been in place since 2009.

5. The authorities aim to increase the primary surplus to 6 percent of GDP in FY2019/20, and they have identified concrete measures to achieve this. Following extensive public consultation and discussions with individual SOEs, the government presented detailed plans to reduce government spending in late August 2018, with a focus on an immediate reduction in government transfers to SOEs, in a variety of ways:

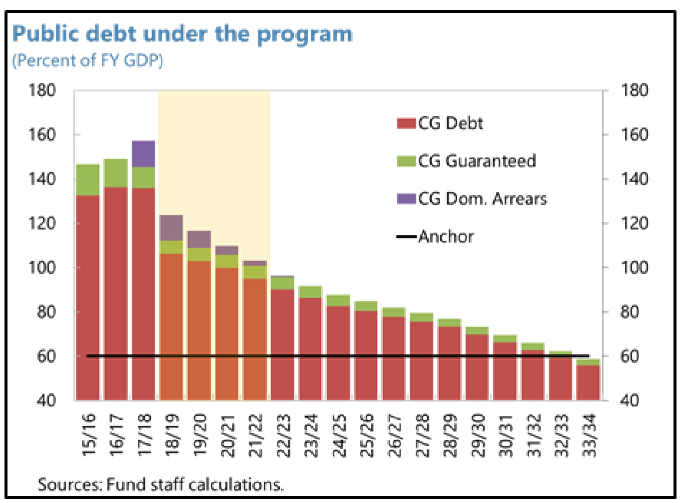
- Entities that are engaged in activities that are deemed not core government activities will be ceded to the private sector, including in tourism promotion (Barbados Tourism Marketing Incorporated, BTMI) and the running of tourism attractions (e.g., Caves of Barbados);
- Fees charged by public entities will be increased to ensure cost recovery, for example bus fares (which had been kept at a flat rate of BB$2 per trip for more than a decade);
- The government will start charging fees for its services to commercial entities (Financial Services Commission (FSC), Land registry, Corporate Affairs and Intellectual Property (CAIPO));
- Entities engaged in activities in the same sphere will be merged, and efficiencies realized in their operations, including by reducing the number of temporary workers (e.g., Rural Development Corporation and Urban Development Corporation).
- The government will also seek to reduce the central government wage bill via attrition.

These measures will be phased in over the coming months; for FY2018/19, the measures will help keep the primary surplus at its FY2017/18 level of 3.3 percent of GDP.

PROGRAM DESIGN

A. Program Objectives

6. The key objectives of the program are to restore macroeconomic stability and debt sustainability, and to secure strong, sustainable and inclusive growth. Large fiscal deficits over several years have led to a public debt that is unsustainable and have undermined the external position by the loss of external market access and reduced FDI. The



Sources: Fund staff calculations.

overarching objective of the program is to reduce public debt from about 157 percent of GDP to 60 percent of FY2033/34 GDP (text chart)—this serves as the long-term anchor of the program. A 60 percent debt-to-GDP target is consistent with other recent IMF programs in the region (for example Jamaica), although the time frame for meeting this target has varied. Achieving this will require decisive fiscal reforms, including a frontloaded fiscal adjustment (Section B), monetary policy consistent with a pegged exchange rate (Section C), a deep restructuring of public debt (Section D), and structural reforms aimed at reducing transfers to SOEs, strengthening the institutional framework, and increasing actual and potential growth in the long run (Section E).

7. **Fiscal discipline will help address external imbalances and rebuild international reserves**. Restored confidence in fiscal and debt sustainability should help stabilize exchange rate expectations and return FDI flows to the 2000-17 average of around 4 percent of GDP per year. This, together with continued growth in tourism as well as Balance of Payments (BOP) support from the Fund and other IFIs, is projected to stabilize and increase GIR to 100 percent of the Assessment of Reserve Adequacy (ARA) metric in the second year of the program.

8. **Increased investment demand can restore growth and increase its potential**. Restored credibility in the macroeconomic framework is expected to increase investment. Higher net FDI inflows will contribute to improving the stock of capital and, through this channel, actual and potential growth could reach close to 2 percent by the end of the program.

B. Fiscal Adjustment

9. **The program targets fiscal adjustment of about 2½ percent of GDP to bring the primary surplus to 6 percent of GDP in 2019/20**. The primary balance is expected to be kept at that level for several years, so that, in combination with a lower interest bill secured by the envisaged debt restructuring, the government would run significant overall surpluses, and put its debt on a clear downward trajectory.

10. **Fiscal reforms over the program period aim to address structural weaknesses in Barbados' fiscal framework.** A comprehensive review of their tax system will be conducted in the first year of the program, with IMF technical assistance

Barbados: Stock of domestic arrears as of August 31, 2018

(Percent of GDP, 2017/2018)

	2017/2018
Accounts payable	**12.4**
CG arrears to the NIS	3.2
o/w Pension contributions	1.8
o/w Non-contributory pensions	0.8
o/w Rents and projects	0.6
CG arrears to private sector (goods and services)	0.6
BRA tax refunds	3.6
SOE arrears to private sector and NIS	5.0
Accounts receivable	**0.7**
NIS arrears to CG (training levy)	0.7
Net stock of arrears	**11.8**

Sources: Barbados authorities; and Fund staff estimates.

(structural benchmark). Revenue productivity needs to be enhanced, and the efficiency of the current system improved (key measures have been captured in structural benchmarks). A reduction in recurrent expenditures, including the wage and pension bill as well as transfers to SOEs, will create room for additional capital spending and a gradual reduction in the stock of domestic expenditure arrears (text table). While the central government wage bill has slowly come down to about 8 percent of GDP, the public wage bill remains high at double digits when wages paid by SOEs are included—the program aims to reduce it.[1] It is important to complete a full review of SOE tariffs and fees, with a view to improving cost recovery at SOEs. The authorities have developed a strategy to repay existing expenditure and tax refund arrears, and to set commitment controls for preventing future accumulation of arrears. Fiscal policy planning and monitoring will be strengthened, including by establishing a macro-fiscal unit at the Ministry of Finance, and the annual budget process will be improved (MEFP paragraph 16 and structural benchmarks).

11. Streamlining, restructuring, and privatizing SOEs will substantially reduce transfers to public institutions (MEFP paragraph 21). At 7½ percent of GDP, transfers from the central government to SOEs are very high, and a major contributor to fiscal risks. An initial set of measures to reduce transfers to SOEs has already been identified, as discussed above. Building on this, the program aims to reduce transfers by about 2 percent of GDP (see text table), by a combination of (i) much stronger oversight of SOEs, supported by improved reporting; (ii) cost reduction, including reduction of the wage bill; (iii) revenue enhancement, including an increase of user fees; and (iv) mergers and divestment; key measures have been captured in structural benchmarks. It is critical to establish hard budget constraints for SOEs. The authorities have concluded a national consultative process to identify the SOEs that perform essential functions, but a review of their cost structure is pending, and other SOEs that can be merged or privatized. In addition to savings from restructuring debt held by several SOEs, commercializing operations, reducing wage bill, and mergers of several SOEs will contribute over ½ percent of GDP to the primary surplus in 2018/19. In 2019/20, these measures encompassing a broader set of SOEs is expected to yield an additional 1.4 percentage point increase in primary surplus.[2] Debt, arrears, and the financial position of the 33 SOEs that will be reformed under the program will be closely monitored (captured in structural benchmarks) allowing for timely implementation of additional measures should slippages occur.

[1] Expected reduction of the central government wage bill is not captured in the 2019/20 primary surplus projections and serves as a source of contingent savings in a case where envisaged SOE reforms do not fully realize.

[2] Restructuring guaranteed debt held by seven SOEs is expected to yield BB$24 million is savings in 2018/19. Downsizing, sale, and mergers of several entities with overlapping functions are expected to be completed by January 2019, which will yield an additional BB$25 million in savings in 2018/19. Larger savings in transfers to SOEs are expected in 2019/20. For instance, an increase in bus fare and divestment of some of the services provided by the Transport Board is expected to save BB$30 million in 2019/20. Similar measures are expected to decrease transfers to the Barbados Water Authority by another BB$60 million in 2019/20.

Barbados: Cumulative Contribution of Program Measures to Primary Balance

(Percent of GDP deviation since FY 2017/18)

	Baseline	Program			
	2018/19	2018/19	2019/20	2020/21	2021/22
Revenue measures 1/	**1.1**	**1.1**	**2.6**	**2.6**	**1.8**
Taxes on income and profits	0.8	0.8	1.2	1.2	1.2
NSRL	-1.1	-1.1	-1.5	-1.5	-1.5
VAT 2/	-0.3	-0.3	-0.2	-0.2	-1.0
Other taxes 3/	1.7	1.7	3.1	3.0	3.0
Expenditure measures 1/	**-2.4**	**-1.1**	**0.1**	**0.1**	**0.9**
Wages and salaries	-0.2	-0.1	0.0	0.1	0.2
Goods and services	-0.1	-0.1	-0.1	-0.1	0.0
Grants to public institutions	-0.7	-0.2	1.2	1.5	1.8
Retirement benefits	-0.1	-0.1	-0.2	-0.2	-0.2
Subsidies	0.0	0.1	0.1	0.1	0.1
Capital expenditure	-1.2	-0.7	-1.0	-1.3	-1.0
Total contribution to primary balance	**-1.2**	**0.0**	**2.7**	**2.7**	**2.7**

Sources: Barbados authorities; and Fund staff estimates.
1/ Baseline estimates include "mini-budget" amendments to the 2018/19 CG budget announced by Barbados authorities on June 11, 2018. Tax revenues on income and profits and VAT are adjusted for timely repayment of tax refunds.
2/ Baseline includes VAT adjustment due to abolition of NSRL and introduction of fuel tax.
3/ Baseline includes abolition of road tax and introduction of (i) health services contributions; (ii) departure tax; (iii) hotel room levy; (iv) garbage and sewage fee; (v) fuel tax; (vi) vehicle registration fee.

12. **Vulnerable groups will be protected by strengthening social safety nets** (MEFP paragraph 22). The need to streamline and integrate existing benefits programs will be evaluated, and the targeting of social protection will be improved. Social spending will focus on cash transfer and active labor market programs protecting the unemployed, poor households, vulnerable children and youth, and the elderly. The authorities are working closely with the IDB in this area.

C. Monetary and Exchange Rate Policy

13. **The authorities remain strongly committed to the exchange rate peg, which has been in place since 1975 and has provided a key anchor for macroeconomic policies**. Hence, the burden of adjustment falls squarely on fiscal policy and structural reform to boost growth and strengthen export performance. Given that almost all goods need to be imported in Barbados (with virtually no domestic production), the fiscal consolidation is expected to lead to a sharp improvement in the current account. Removal of macroeconomic uncertainties is expected to lead to a restoration of FDI inflows to normal levels, strengthening the capital account. There is also much room for improvement in the business climate, as discussed below and in MEFP paragraph 31.

14. **The program will lay out a roadmap for normalization of monetary policy**. During the program period, the statutory minimum government security holding requirements for the banking sector (which had been increased repeatedly in recent years)

will be reduced to its normal (non-crisis) level of 10 percent of deposits, down from 20 percent at present. The program preserves an adequate level of securities to ensure adequate income to the CBB to enhance its operational autonomy. These also expand available the tools for conducting monetary policy, including to respond to the eventual withdrawal of excess reserves held by banks. In addition, the program will provide technical assistance to the CBB for conducting monetary policy through more orthodox tools like open market operations and cash reserve requirements. The recently introduced 2 percent FX fee on all FX sales will be phased out as the reserve position strengthens.[3]

15. The CBB Act will be amended, with the help of IMF TA, to strengthen the autonomy of the CBB and the limitation on CBB financing of the government, among other enhancements (MEFP paragraph 25 and structural benchmark). These amendments to the CBB Act will be introduced in the first year of the program, after a review of the current law. Strengthening the limitations on monetary financing in particular, will be critical, even though there would be no new net domestic financing requirement under the program. The amendments to the CBB Act will also clarify the mandate of the CBB, enhance the decision-making structures of the Central Bank, and introduce safeguards to protect the institutional and functional autonomy of the CBB, as well as the personal autonomy of key officials.

Box 1. Transfers and State-Owned Enterprises

Transfers have become a significant burden on the budget. They represent the single largest expenditure category—39 percent of current expenditures in 2017/18. Transfers to SOEs account for over 58 percent of the total transfers, followed by public sector retirement benefits, which represent another 20 percent. SOEs transfers support the provision of utilities (such as water, transportation, electricity, and waste disposal), social programs, especially public health and education, and economic development (mainly to the tourism sector, small and medium enterprises, and investment promotion).

Transfers have been increasing. Total transfers to public institutions and individuals grew from 9.5 percent of GDP in FY2006/07, to a peak of 13.5 percent in FY2013/14, and more recently were 12 percent in FY2017/18. Efforts to contain transfers to SOEs began in 2010, however, despite considerable technical assistance, there has been limited progress.

The reform effort will focus on the fifteen entities that receive the bulk of transfers. It centers on improvements to financial reporting, oversight, accountability, and management. Two recent IMF technical assistance missions have provided further inputs and proposals:

- The Public Financial Management (PFM) mission proposed revisions to the Financial Management and Audit Act that would 1) establish clear definition for classification of public entities, including SOEs, and their related roles and responsibilities and 2) enhance monitoring and supervision of public entities by way of an internal audit, tighter and more precise reporting requirements, and sanctions for noncompliance.
- The SOEs reform mission recommended a new ownership policy for SOEs, that would allow the government to provide a clear statement of its policy and financial objectives, including which entities are eligible for government support and under what circumstance, and increase engagement between SOEs and the line ministries. In addition, it recommended a more robust engagement between

[3] This measure was determined by staff to be a Capital Flow Management (CFM) measure.

government and SOEs over the budgeting process and a set of actions that would streamline costs and enhance revenues in selected entities.

Efficiency-enhancing reforms will be needed. In addition to legal, reporting and managerial and oversight reforms, the critical challenges will be to align the price of social services closer to their costs, eliminating inefficiencies, which will likely involve labor shedding, and reforming social programs. Reduction of SOE transfers can be achieved by: (i) review of labor laws and staffing levels for SOEs to allow for adjustment; (ii) mergers of SOEs that are carrying out similar functions; (iii) review of outdated SOE tariffs, fees, and charges; (iv) divestment of SOEs and outsourcing of selected public services to public sector; (v) renegotiation of ineffective legacy contracts with the private sectors; (vi) reduction of Minimum Revenue Guarantees for airlines.

D. Debt Restructuring and Management

16. The authorities have made progress in identifying debt restructuring parameters that would provide debt relief without jeopardizing financial stability. The restructuring targets an intermediate anchor of 80 percent of GDP by FY2027/28 and a long-term anchor of 60 percent of GDP in FY2033/34. Central government domestic arrears (estimated at about 12 percent of GDP) will be cleared over the medium term through securitization, negotiation or outright repayment. The authorities and their debt advisors have put forward a menu of debt restructuring options that would preserve banking sector stability, while the impact on other parts of the financial sector, including credit unions, the CBB, the NIS, insurers and pension funds also appears manageable. By mid-2020, the government will develop plans to recapitalize the CBB, and address the medium and long-term challenges for the NIS stemming from the debt restructuring. The authorities have prepared contingency plans for liquidity assistance to financial sector entities, should this be required. For instance, for idiosyncratic shocks authorities have discussed with banks plans to keep the interbank market open and consideration has been given to extend liquidity assistance to non-bank entities.

17. Significant progress has also been made in discussions with domestic and external creditors. An exchange offer for domestic (Barbados dollar-denominated) debt was launched on September 7, 2018; good faith negotiations with external commercial creditors are ongoing. Since their June 1 announcement, the authorities have suspended debt service of external commercial debt, while continuing to pay interest on domestic debt (however holders of domestic debt are expected to roll over maturing principal). Discussions with external creditors are ongoing, including on bilateral debt. Both domestic and external creditors have formed their creditor committees and the authorities, together with their financial and legal advisors, have engaged in intensive discussions with them. The authorities have published information for creditors on the Government Information Service's (GIS) website to facilitate discussions and this material has been frequently expanded and updated. The IMF's lending into arrears policy applies as a moratorium on external commercial debt is in place while authorities continue good faith negotiations with external creditors.

Box 2. Key Elements of the Debt Restructuring

The government announced its intention to undertake a comprehensive debt restructuring of its public debt on June 1, 2018. In the discussions with creditors, good progress has been made in identifying parameters that would provide debt relief without jeopardizing financial stability. Key elements are:

- **Perimeter of the restructuring**: the restructuring covers all central government debt and CG guaranteed debt, excluding debt held by multilaterals, and CG guaranteed debt serviced directly by SOEs.
- **Restructuring of treasury bills**: at 39 percent of GDP, the stock of treasury bills is very large. Around 15 percent of GDP is held by the CBB, with the remainder by commercial banks and other financial entities. 85 percent of the claims held by commercial banks would be exchanged into 15-year bonds; maturity extension will help reduce gross financing needs and thereby promote debt sustainability. Restructuring of treasury bills is not typical, but is not without precedent (Russia 1998, Ukraine 1998, and Uruguay 2003).
- **Hurricane clause**: Barbados is at risk of extreme weather events; the government is seeking to protect itself against this risk with a number of instruments, including coverage under the Caribbean Catastrophe Risk Insurance Facility (CCRIF), and also a 'hurricane clause' under the bulk of the new debt instruments. This would allow for capitalization of interest and deferral of scheduled amortization falling due over a two-year period following the occurrence of a major natural disaster. The authorities are also in discussions with the IDB on an additional facility to address risks related to natural disasters.
- **External debt to commercial creditors:** Creditors are expected to be provided with a par option and a discount option. The government has defaulted on a loan guaranteed by the government of Canada without this guarantee being called; agreement on revised terms for this debt is expected shortly. Authorities have remained current on a loan guaranteed by the government of China.
- **Debt relief.** Discounted securities in the debt exchange for the CBB, external commercial creditors, and the NIS will provide about 33 percentage points of GDP in debt relief during the first three years of the program.

Contingency planning. The domestic debt restructuring has been carefully crafted to preserve financial sector stability. The authorities are prepared to handle any contingencies, including through temporary provision of liquidity support by the CBB, should the need arise. The Barbados Deposit Insurance Corporation also plays a pivotal role in the overall financial safety net for the economy, with deposits insured up to BB$25,000 (US$12,500) for depositors at commercial banks, as well as deposit-taking trust and finance companies regulated by the CBB.

18. Barbados' recent Financial Stability Report for 2017 assessed the system as stable, reconfirmed by recent stress tests. Liquidity in the system is high, and capital levels adequate. An assessment of risks, including credit, liquidity, interest rate and sovereign risk indicated that the system can withstand a range of adverse shocks. Commercial banks dominate the financial system, representing 53 percent of total financial assets in 2017 (BB$25.5 billion in 2017). The banking system continued to be highly solvent, with strong capital buffers well over prescribed levels; banks' NPLs fell by 100 basis points to 7.9 percent in 2017. All five banks in Barbados are foreign owned, with three Canadian banks (Nova Scotia, RBC and CIBC First Caribbean, all three rated AAA) holding 75 percent of total bank assets, while the two Trinidadian banks (Republic Bank Barbados and First Citizens, both rated BBB+) accounting for the remaining 25 percent; the parent entities of these banks are well capitalized. Extensive stress testing has been conducted by financial sector supervisors (CBB and FSC) to ensure that the proposed debt restructuring would not jeopardize financial stability.

19. Debt management capacity will be strengthened. After the debt restructuring, and with the help of IMF TA, the debt management unit in the MOF will: (i) establish and execute a medium-term debt management strategy (MTDS) and (ii) establish a market-determined auction mechanism for long term debt. The MTDS will ensure that the government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk.

E. Structural Reforms to Support Growth

20. To promote long term and potential growth, labor, product and service markets will be liberalized (MEFP Section V and structural benchmarks). The proposed structural reform of SOEs will improve the quality and efficiency of public services and, by restoring confidence, attract FDIs and increase potential growth. Further reforms are planned to increase speed and flexibility of business processes to significantly reduce clearance times at immigration, customs, and expedite issuance of construction permits in planning entities. There is also a need to reform legal processes and improve services at the CAIPO. Labor laws will be modernized to increase labor market flexibility—including by easing labor market regulation, to improve incentives to work and to contribute to increasing productivity.

F. Program Oversight

21. The authorities intend to establish an Economic Program Oversight Committee (EPOC) to strengthen societal ownership and build public support for the measures in the program. This would include members from the private sector, public sector, unions, academia, and civil society who will closely monitor and communicate program implementation to the broader public through regular media briefings. This could build on the current social partnership arrangement which the government has employed successfully in securing broad societal support for its reform agenda.

G. Data Issues

22. Data inadequacies continue to hamper understanding of key macroeconomic aggregates. IMF TA has been supporting the Barbados Statistical Service (BSS) to revise annual GDP estimates at current and constant prices as well as develop quarterly GDP estimates, addressing the large inconsistencies in GDP series between the BSS and the CBB. The BSS has now disseminated these revised series. While staff will continue to provide TA to the BSS, including to rebase the CPI index, for this TA to yield sustainable capacity improvement it is important that resources for BSS be adequate to increase the number of staff working on national account compilation.

PROGRAM MODALITIES

23. The authorities have requested a 4-year EFF arrangement. A 4-year EFF arrangement is appropriate given the structural nature of fiscal imbalances and the extensive need for structural reforms to support fiscal consolidation and growth promotion. The prior action on launching the domestic part of the debt restructuring would be supplemented by a medium-term structural reform agenda detailed in Section E to strengthen the fiscal regime, create a more efficient public sector and to support growth and poverty alleviation.

24. The authorities have requested support in the amount of SDR 208 million (around US$290 million), or 220 percent of Barbados' IMF quota. Access under the program has been calibrated to ensure that, with steady implementation of policies, reserves remain at adequate levels and the external financing gap is closed. IMF resources will be used for BOP support only, with IDB and CDB expected to provide budget support. IMF and other IFIs support would bring GIR above 100 percent of the ARA metric in the second year of the program and close the financing gap to reach targeted GIR levels (text table). Over the medium term, reserves would stabilize at above 4 months of goods and service import cover—an appropriate level, given the exchange rate peg, and the country's vulnerabilities.

Barbados: External Financing Requirements and Sources

Financing Requirements
(in US$ millions, unless otherwise indicated)

		Projections					
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
US$ million							
Gross Financing Requirements	**387**	**365**	**350**	**298**	**430**	**496**	**350**
Current Account Balance	189	213	239	218	221	197	190
Debt Amortization	198	152	111	80	209	299	161
Sources of Financing	**387**	**254**	**225**	**216**	**234**	**231**	**251**
Foreign Direct Investment (net)	156	174	188	205	225	247	270
Public Long Term Borrowing	50	194	213	166	86	44	73
Net Errors and Omissions	17	0	0	0	0	0	0
Change in Reserve (- increase)	131	-114	-175	-154	-77	-60	-92
Other Net Capital Flows	34	0	0	0	0	0	0
Financing Gap	**0**	**112**	**125**	**82**	**196**	**265**	**99**
Prospective Financing	**0**	**161**	**191**	**148**	**66**	**24**	**0**
IMF	0	49	98	73	48	24	0
IDB	0	75	63	50	13	0	0
CDB	0	38	31	25	6	0	0
Exceptional Financing (Restructuring)	**0**	**-50**	**-67**	**-66**	**129**	**241**	**99**
Memo items:							
GIR/ARA (percent)	44	66	95	117	125	131	143
GIR coverage (months of imports of G&S)	1.3	1.9	2.8	3.6	3.9	4.1	4.4

Sources: Fund staff estimates and projections.

25. Program conditions will include:

Quantitative performance criteria:

- Floor on the central government primary balance (excluding repayment of central government arrears)
- Ceiling on the stock of Net Domestic Assets of the CBB
- Floor on the Net International Reserves of the CBB
- Non-accumulation of central government external arrears (excluding arrears resulting from nonpayment of debt service for which the government is pursuing a debt restructuring).
- Ceiling on grants and transfers to public institutions
- Ceiling on the stock of public debt

Indicative targets:

- Ceiling on the stock of central government domestic arrears
- Floor on CG social spending

Structural benchmarks

- These will focus on SOE reforms, growth and business climate, CBB autonomy, tax policy and revenue administration, public sector reform, and public financial management (Table 2 MEFP). The structural benchmarks will be critical to underpin the adjustment effort.

26. The EFF supported program will feature semiannual reviews, with quarterly missions. Performance under the program will be monitored based on data supplied to the IMF by the MOF, CBB and the BSS as described in the TMU (Annex II).

27. With strong implementation of the program, Barbados' capacity to repay the Fund is expected to be adequate (text table and Annex III). Debt service to the IMF is projected to remain below 2 percent of exports and below 1 percent of GDP throughout the projection period to 2032, while gross reserves are projected to continue to increase over this

Barbados: Indicators of Capacity to Repay the Fund under the EFF
(US$ millions, unless otherwise indicated)

	Projections			
	2018/19	2019/20	2020/21	2021/22
Fund disbursements				
US$ million	48.9	97.7	72.6	47.5
Percent of exports G&S	2.3	4.4	3.2	2.0
Percent of ext. debt service	97.1	159.0	111.9	65.8
Percent of quota 1/	37.0	74.0	55.0	36.0
Percent of GIR	14.3	18.9	10.8	6.4
Fund credit outstanding				
US$ million	48.9	146.6	219.2	266.7
Percent of exports G&S	2.3	6.6	9.6	11.3
Percent of ext. debt service	97.1	238.5	337.6	369.2
Percent of quota 1/	37.0	111.0	166.0	202.0
Percent of GIR	14.3	28.4	32.7	35.7
Memo items:				
IMF loan service 2/	0.5	2.6	4.3	5.4
Exports of G&S (US$ million) 3/	2,160.7	2,222.0	2,282.7	2,351.0
Ext. debt service (US$ million) 4/	50.3	61.4	64.9	72.2
GIR (US$ million) 3/	342.0	516.7	671.0	748.0

Sources: Fund staff estimates and projections.
1/ Using SDR/USD exchange rate = 0.71586 (as of August 23, 2018) and quota SDR = 94.5 million;
2/ Using GRA rate of charge = 1.945 (as of August 16, 2018).
3/ Calendar year.
4/ Fiscal year.

period, to close to 200 percent of ARA (see Annex III). The authorities' commitment to the program and their solid repayment history following its two previous Fund programs also provide comfort. The EFF-supported program is fully financed over the next 12 months, with goods prospects for the remainder of the program period.

28. A safeguards assessment of the CBB has been initiated and should be completed before the first review. Preliminary observations indicate that fiscal dominance of the CBB has resulted in a weak financial position and legislative reforms are needed to strengthen its governance arrangements and financial and institutional autonomy. This is consistent with the planned amendments to the CBB law incorporated in the program (structural benchmark) with a view to safeguard its autonomy and preclude CBB financing of the fiscal deficit and quasi-fiscal activities. The CBB will also need to reinforce financial accountability and transparency, including through modern audit and financial reporting practices in compliance with international standards.

29. The program involves significant risks due to the extensive nature of structural reforms needed and limited implementation capacity. The government's ability to sustain high primary surpluses over several years is untested. Growth could be weaker than projected if fiscal multipliers are higher than expected, and SOE reforms will require considerable political commitment. The debt restructuring operation will also entail risks; for example, the inclusion of treasury bills in the operation may hamper liquidity management going forward, both by the CBB and by commercial banks. It will be important to seek to revive a market for short-term government paper not long after the debt restructuring. Weaker growth in key source tourism markets (in particular, the UK) could slow arrivals and reduce private investment in refurbishing and expanding tourism facilities, while faster tightening of monetary policy in the US could appreciate Barbados' real exchange rate and reduce competitiveness. Risks are partly mitigated by the government's strong sense of urgency to address Barbados' vulnerabilities, and its extensive outreach to build support for economic reforms.

STAFF APPRAISAL

30. Over the last decade, Barbados economy has experienced very low growth, and fiscal and external imbalances have gradually led to an unsustainable situation, with very high debt, and very low reserves. These challenges must be addressed by a combination of fiscal consolidation, measures to boost growth, and debt restructuring. The authorities' Economic Reform and Transformation program seeks to address these long-standing structural imbalances and implement an aggressive front-loaded and comprehensive reform agenda.

31. The programmed fiscal reforms are essential for a sustained fiscal consolidation effort. Staff supports the authorities' judgment that a 6 percent of GDP primary surplus target will be challenging, but feasible. Reduction of transfers to SOEs will be key in reaching that target: at 7½ percent of GDP, transfers from the central government to SOEs are very high, and a major contributor to fiscal risks. The reform program aims to reduce SOE transfers by: (i) much stronger oversight of SOEs, supported by improved reporting; (ii) cost reduction, likely involving reduction of the wage bill; (iii) revenue enhancement, starting with a review of user fees; and (iv) mergers and divestment. The adoption of a fiscal rule will help sustain the fiscal reform effort over the medium and long term; reforms in PFM will also be critically important for fiscal consolidation (structural benchmark). IMF TA will support the fiscal reforms.

32. Bold structural reforms are needed to improve Barbados' potential growth and competitiveness. There is significant room for improvement in speeding up the process for construction permits, quicker licensing, online payment for government services, and clearing goods through customs.

33. Adequate social spending and an improved social safety net are key priorities for the program. Targeted reforms aim at improving the efficiency and the effectiveness of social spending, while protecting the most vulnerable, in close collaboration with development partners. Reducing SOE transfers will help create space for expanding social safety nets.

34. The debt restructuring negotiations are progressing satisfactorily. Good faith negotiations with domestic and external creditors are ongoing, and progress has been made in identifying parameters that would provide debt relief without jeopardizing financial stability. The proposed debt restructuring has several features that should help the authorities to stay current on its future debt obligations, including a natural disaster clause. The proposed debt restructuring, in combination with fiscal consolidation and measures to boost growth, is expected to restore debt sustainability. The adjustment mix—upfront fiscal consolidation, meaningful debt reduction, and structural reforms to boost growth, while maintaining exchange rate stability—is appropriate. Financing assurances and capacity to repay the Fund are adequate: IDB and CDB lending for budget support is in place and the authorities continue good faith negotiations with external creditors.

35. The authorities have shown strong ownership of the reform effort, demonstrated by important policy measures they have already undertaken since taking office after the May 24 elections. The revenue measures that were taken in the context of the mid-June 2018 'mini budget' are expected to lead to a more progressive tax system, and a better balance between the taxation of residents and visitors to Barbados. Building on this, the planned comprehensive review of tax policies is expected to lead to further improvements in the tax system. The expenditure cuts that were announced in late August are an important first step in curbing SOE spending, and central government transfers to SOEs.

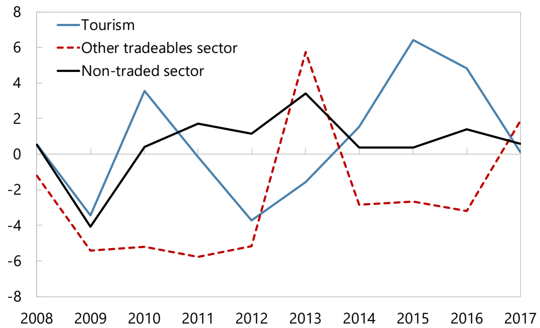
36. Nevertheless, program implementation will be challenging. Risks to the program include limited implementation capacity, untested ability to maintain high primary surpluses over a sustained period, and risks related to the debt restructuring process. However, the authorities' ambition offers an opportunity to address Barbados' long-standing challenges. The tasks are arduous, but there is no alternative route to restoring fiscal and external sustainability to spur a sustained economic recovery.

37. In view of Barbados' balance of payments needs and the comprehensive package of measures proposed by the authorities, staff supports the authorities' request for a four-year extended arrangement under the Extended Fund Facility in the amount of 220 percent of quota.

Figure 1. Barbados: Real Sector Developments

Growth has declined due to lower contribution from the non-tradable sector and tourism...

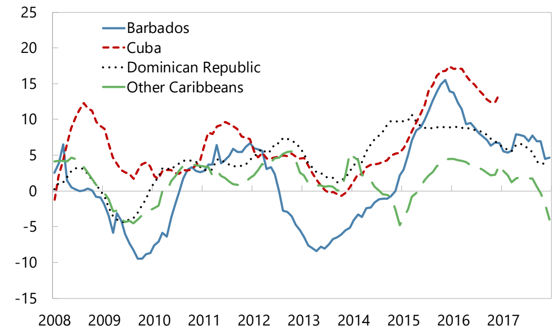
Real GDP Comparison
(Percent change)



Sources: Central Bank of Barbados and Fund staff calculations.

...as growth in tourism arrivals slowed down.

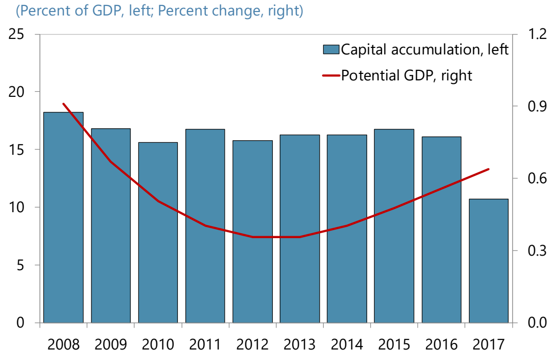
Tourist Arrivals
(Y/Y percent change, 12-month moving average)



Sources: Caribbean Tourism Organization and Fund staff calculations.

Potential growth fell alongside capital accumulation but has recently steadily risen.

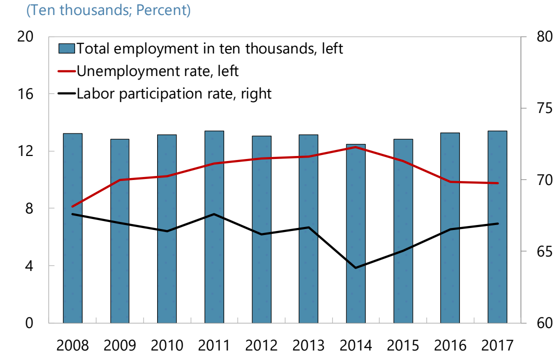
Capital Accumulation and Potential GDP
(Percent of GDP, left; Percent change, right)



Sources: Central Bank of Barbados, Invest Barbados and Fund staff calculations.

Unemployment fell and labor participation increased in the last 2 years.

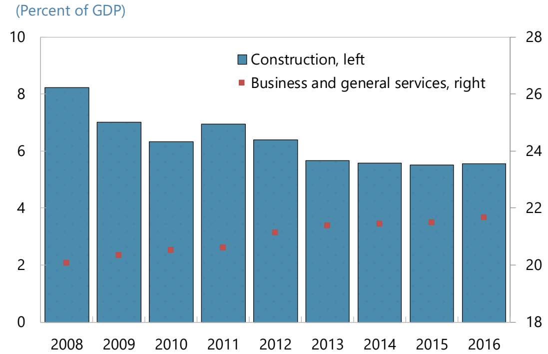
Labor Participation and Unemployment
(Ten thousands; Percent)



Sources: Central Bank of Barbados and Fund staff calculations.

Non-tourism related industries remain relatively flat...

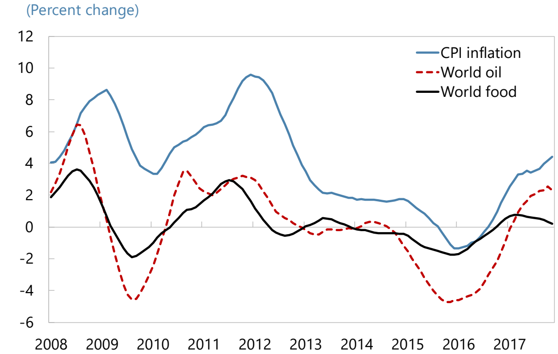
Construction and Business Sectors
(Percent of GDP)



Sources: Central Bank of Barbados, Invest Barbados and Fund staff calculations.

...and inflation, having fallen, is beginning to pick up due to food prices and tax increases.

Consumer, Oil and Food Prices
(Percent change)

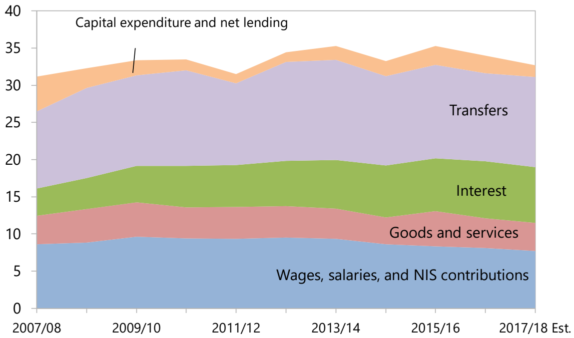


Sources: Central Bank of Barbados and Fund staff calculations.

Figure 2. Barbados: Fiscal Sector Developments

Spending on transfers and interest cost have significantly grown, but total spending has been reduced in recent years…

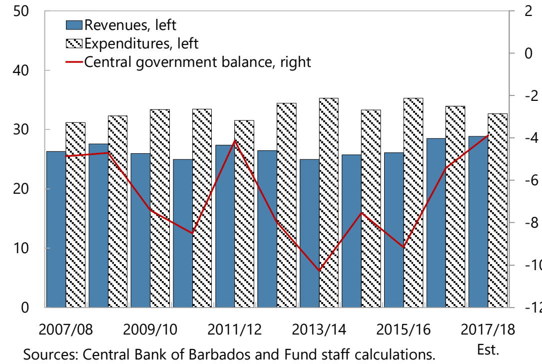
General Government Expenditures
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

…while revenues are recovering and the fiscal deficit is declining.

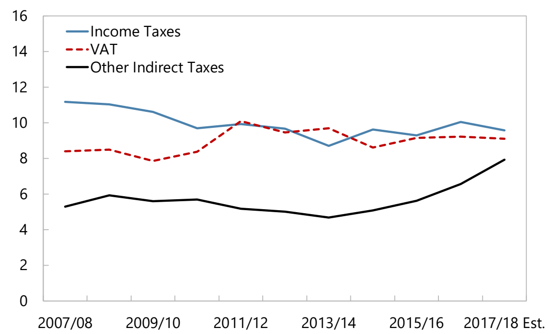
Central Government Balance
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

All revenue categories have improved but VAT has remained relatively flat after growing following the rate increases.

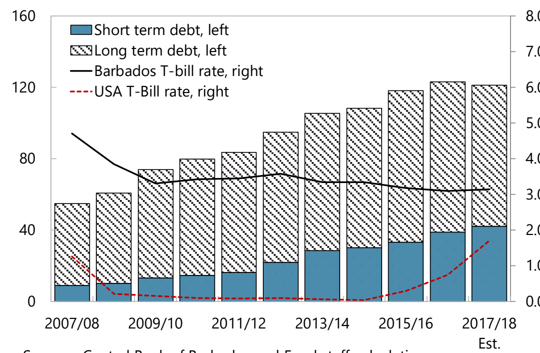
Tax Revenue Composition
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

Large financing requirements have been increasingly met by short-term debt instruments.

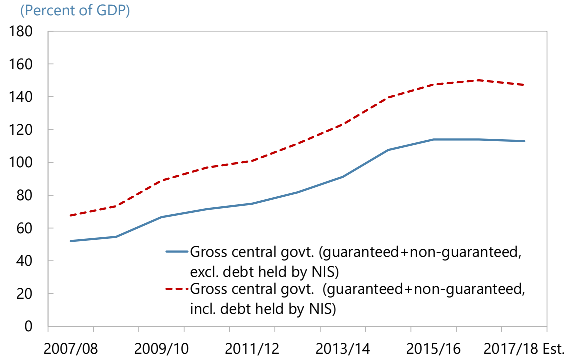
Government Financing
(Percent of GDP, left; Percent, right)



Sources: Central Bank of Barbados and Fund staff calculations.

Central Government debt has risen sharply…

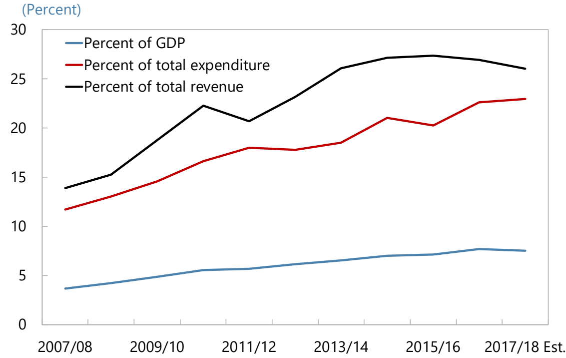
Central Government Debt
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

… along with the debt service cost.

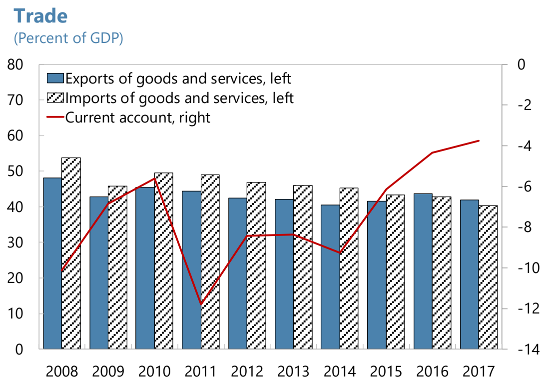
Debt Service Cost
(Percent)



Sources: Central Bank of Barbados and Fund staff calculations.

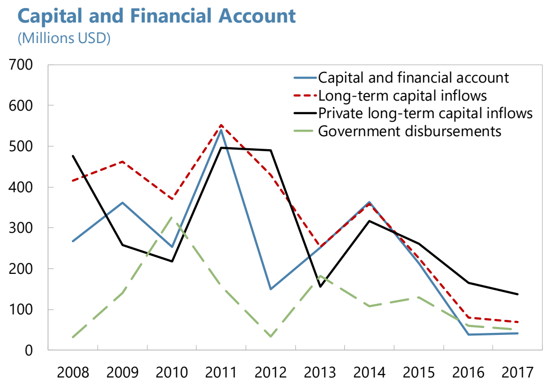
Figure 3. External Sector Developments

The current account deficit has narrowed, driven by lower imports and higher exports of goods and services.



Sources: Central Bank of Barbados and Fund staff calculations.

Capital inflows are falling....



Sources: Central Bank of Barbados and Fund staff calculations.

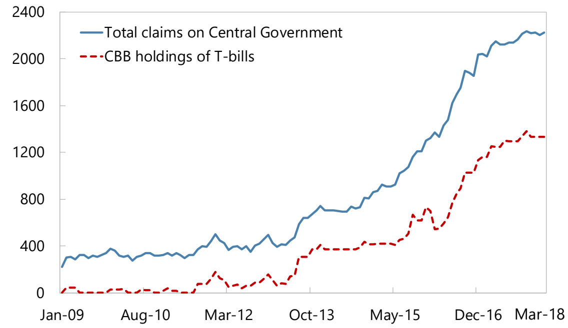
...contributing to a further decline in reserves.

Sources: Central Bank of Barbadose and Fund staff calculations.

Figure 4. Barbados: Monetary Sector Developments

CBB's claims on the Government have rapidly risen …

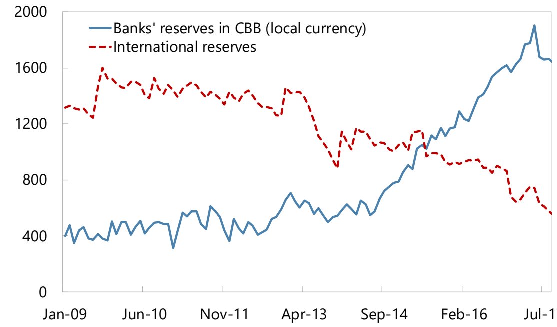
Central Bank's Claims
(Millions BBD)



Sources: Central Bank of Barbados and Fund staff calculations.

...while commercial banks reserves at the CBB also have grown quickly.

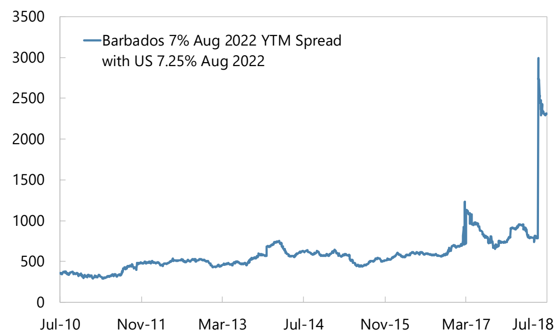
Reserves
(Millions BBD)



Sources: Central Bank of Barbados and Fund staff calculations.

The country risk premium peaked after the authorities announced plans to restructure both external and domestic debt.

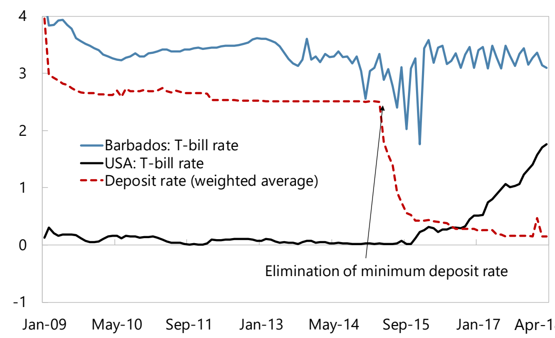
Bond Spread
(Basis Points)



Sources: Bloomberg

The domestic policy rate (3-month T-bill) averaged at 3.2 percent in early 2018.

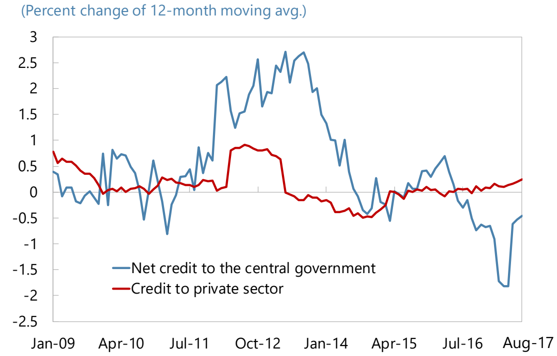
Interest Rates
(Percent)



Sources: Central Bank of Barbados and Fund staff calculations.

Private sector credit growth remains weak. . .

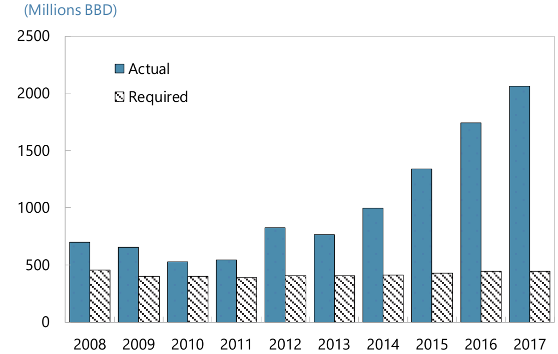
Private Sector Credit
(Percent change of 12-month moving avg.)



Sources: Central Bank of Barbados and Fund staff calculations.

with excess liquidity parked at the CBB.

Commercial Banks: Reserves
(Millions BBD)

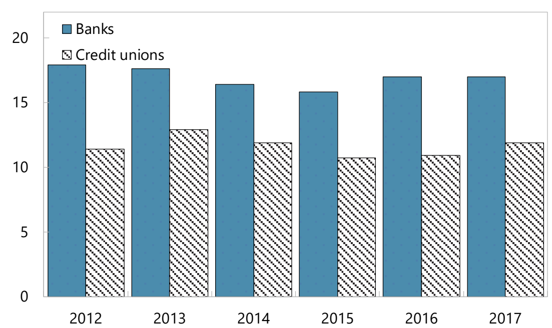


Sources: Central Bank of Barbados and Fund staff calculations.

Figure 5. Barbados: Financial Sector Developments

Capital relative to risk-weighted assets remains high and stable…

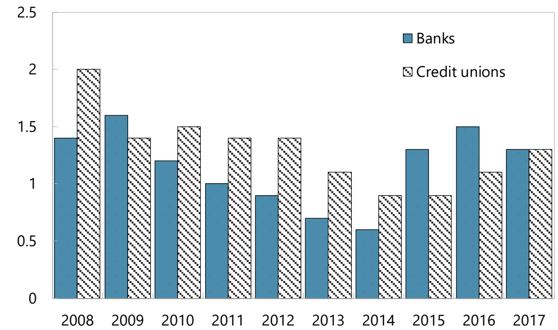
Capital Adequacy Ratio
(Percent of risk-weighted assets)



Sources: Central Bank of Barbados and Fund staff calculations.

… while profitability remains low.

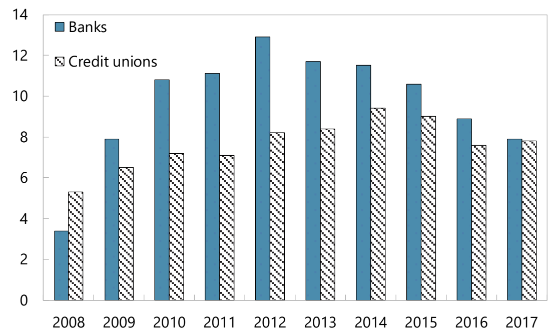
Return on Assets
(Percent of total assets)



Sources: Central Bank of Barbados and Fund staff calculations.

Banks' NPLs continues to slowly come down.

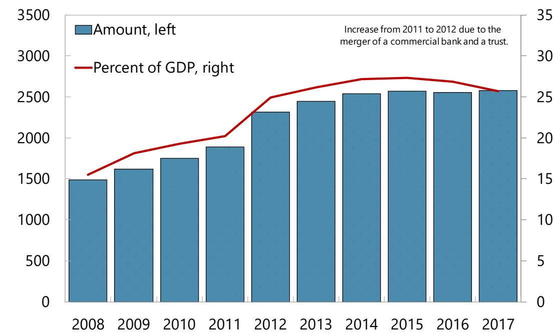
Nonperforming Loan Ratio
(Percent of total loans)



Sources: Central Bank of Barbados and Fund staff calculations.

Mortgage growth was flat in 2017…

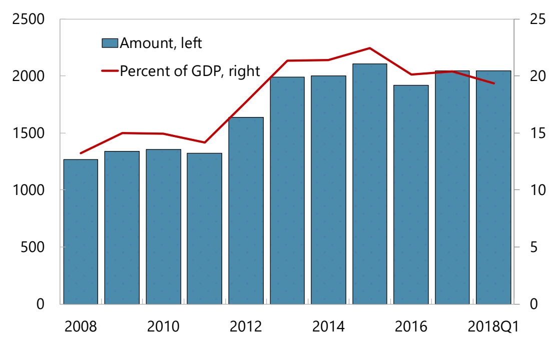
Commercial Banks' Mortgage Exposure
(Millions BBD, left; Percent, right)



Sources: Central Bank of Barbados and Fund staff calculations.

… while the banks maintained its exposure to the Government, given higher securities reserve requirement.

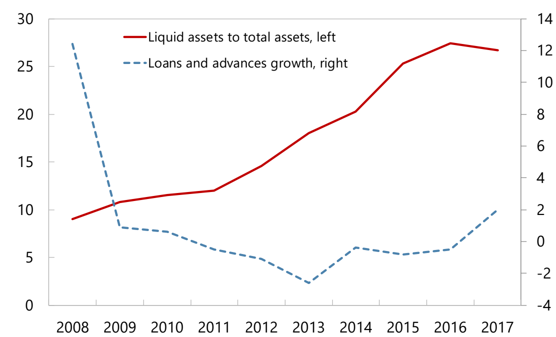
Commercial Banks' Sovereign Exposure
(Millions BBD, left; Percent, right)



Sources: Central Bank of Barbados and Fund staff calculations.

With some loan growth, banks' liquid assets to total assets have decreased.

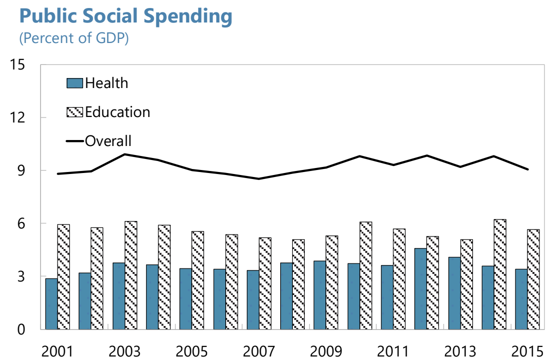
Commercial Banks' Loans and Liquid Assets
(Percent)



Sources: Central Bank of Barbados and Fund staff calculations.

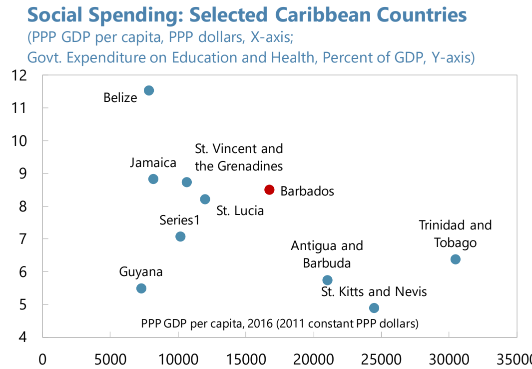
Figure 6. Barbados: Social Development Indicators

Social spending has remained constant as a share of GDP....



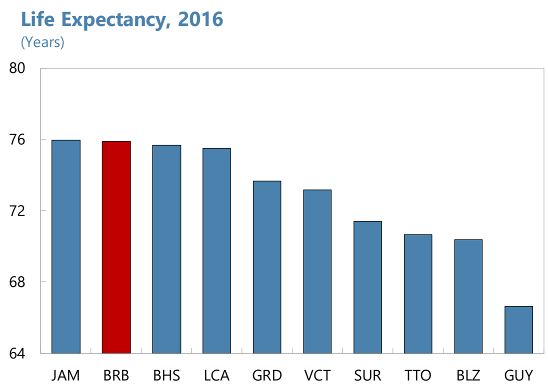
Sources: World Development Indicators as of Dec. 2017, and IMF staff calculations.

...and is among the highest when compared to neighboring countries.



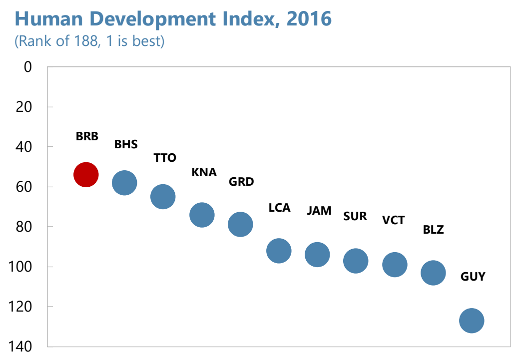
Sources: IMF World Economic Outlook, World Development Indicators, and Fund staff calculations.

High social spending supported high life expectancy...



Sources: World Development Indicators and IMF staff calculations.

...and higher development outcomes relative to regional peers.

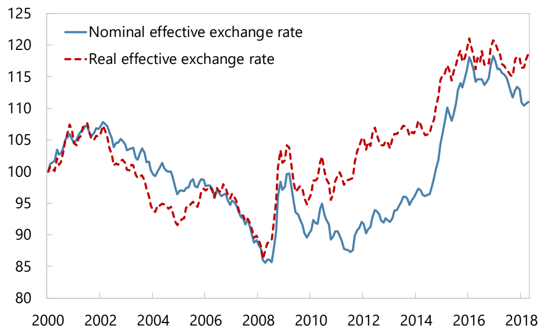


Sources: UNDP Human Development Index 2014 and IMF staff calculations.

Figure 7. Barbados: Competitiveness Indicators

Real effective exchange rate started depreciating in 2017.

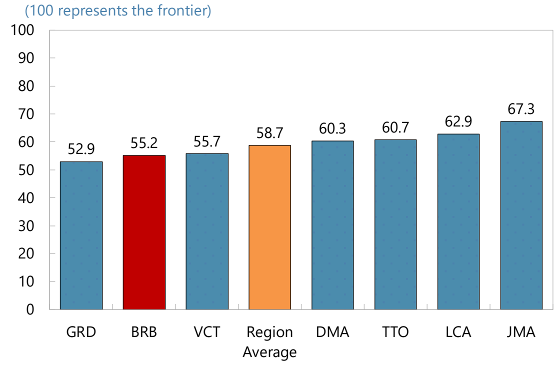
Effective Exchange Rates
(Index: January 2000=100)



Sources: IMF Information Notice Service and Fund staff calculations.

Barbados scores below regional average on the "Doing Business Indicators".

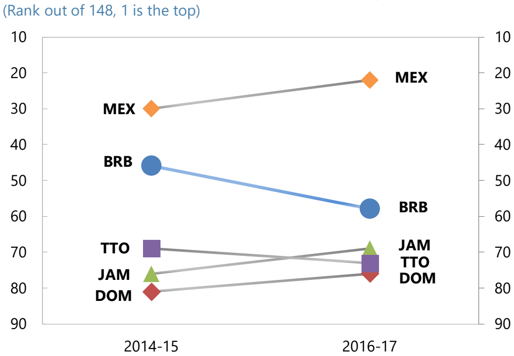
Doing Business: Distance to Frontier, 2017
(100 represents the frontier)



Sources: World Bank Doing Business Database and Fund staff calculations.

While still strong relative to its peers, Barbados ranking in Tourism Competitiveness Index has deteriorated…

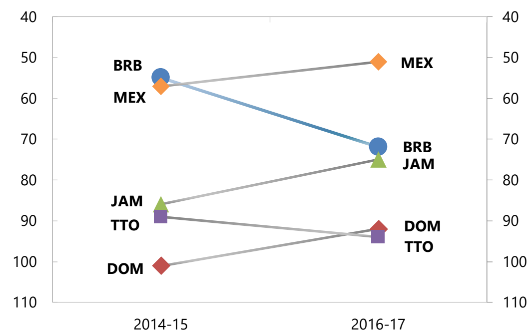
Tourism Competitiveness Index Ranking
(Rank out of 148, 1 is the top)



Sources: World Economic Forum and Fund staff calculations.

…as has its ranking in the Global Competitiveness Index.

Global Competitiveness Index Ranking
(Rank out of 148, 1 is the top)

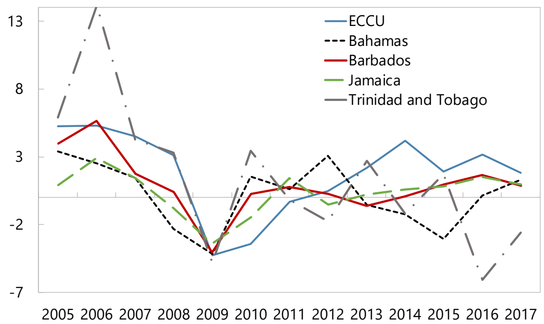


Sources: World Economic Forum and Fund staff calculations.

Figure 8. Barbados: Economic Performance in a Regional Context

Barbados' growth is relatively lower and less volatile.

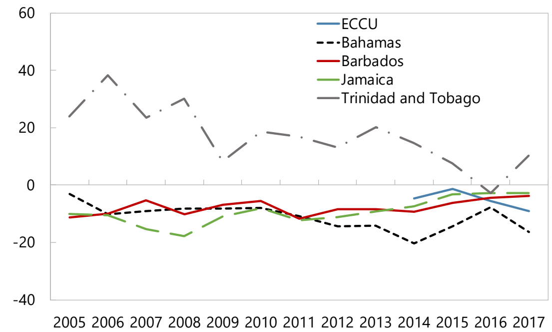
Real GDP Growth
(Percent change)



Sources: IMF World Economic Outlook and Fund staff calculations.

External imbalances are relatively better.

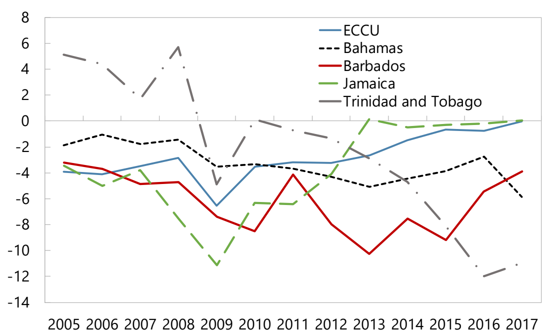
Current Account Balance
(Percent of GDP)



Sources: IMF World Economic Outlook and Fund staff calculations.

The fiscal stance is relatively looser

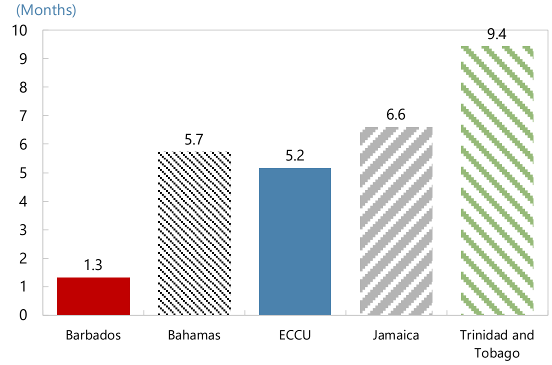
Central Government Fiscal Balance
(Percent of GDP)



Sources: IMF World Economic Outlook and Fund staff calculations.

Reserves are much weaker than that of its peers.

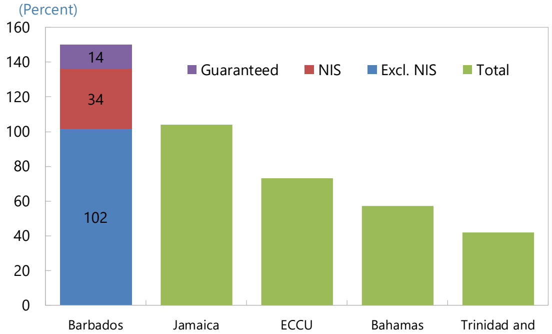
Reserves in Months of Imports, 2017
(Months)



Sources: IMF World Economic Outlook and Fund staff calculations.

…while its debt is the highest in the region.

General Government Gross Debt-GDP Ratio, 2017
(Percent)



Sources: IMF World Economic Outlook and Fund staff calculations.

Note: Jamaica's debt is the consolidated central government and public bodies' debt, excluding debt to the IMF held by the BoJ, consistent with the Fiscal Responsibility Law.

Table 1. Barbados: Selected Economic Indicators, 2015–19

I. Social and Demographic Indicators (most recent year)

Population (2016 est., thousand)	280.4	Adult literacy rate	99.7
Per capita GDP (2016 est., US$ thousand)	17.8	Poverty rate (individual, 2010)	19.3
Life expectancy at birth in years (2013)	75.3	Gini coefficient (2010)	47.0
Rank in UNDP Development Index (2014)	57	Unemployment rate (2016 est.)	9.9
Main products, services and exports: tourism, financial services, rum, sugar, and chemicals.			

II. Economic Indicators

			Est.	Projection	
	2015	2016	2017	2018	2019
			(Annual percentage change)		
Output, prices, and employment					
Real GDP	2.2	2.3	-0.2	-0.5	-0.1
CPI inflation (average)	-1.1	1.5	4.4	4.2	0.8
CPI inflation (end of period)	-2.5	3.8	6.6	0.0	1.4
External sector					
Exports of goods and services	3.2	6.6	0.8	2.9	2.8
Imports of goods and services	-3.9	0.2	-0.4	4.3	3.1
Real effective exchange rate (average)	8.0	0.9	2.5	...	...
Money and credit					
Net domestic assets	3.0	7.1	2.6	1.7	3.1
Of which: Private sector credit	0.5	1.1	3.0	1.0	3.5
Broad money	3.7	3.6	-0.6	3.0	4.7
			(In percent of GDP, unless otherwise indicated)		
CG Public finances (fiscal year) 1/					
Revenue and grants	25.9	28.2	28.4	29.6	31.1
Expenditure	34.9	33.6	32.7	30.9	28.5
Fiscal Balance	-9.1	-5.3	-4.3	-1.3	2.6
Interest Expenditure	7.1	7.6	7.6	4.7	3.4
Primary Balance	-2.0	2.2	3.3	3.3	6.0
Public Debt (fiscal year) 1/					
Central gov't gross debt (incl. guaranteed and arrears)	146.7	149.1	157.3	123.6	116.7
External	33.9	31.2	28.3	26.9	25.9
Domestic	112.8	117.9	129.0	96.8	90.8
Balance of payments					
Current account balance	-6.1	-4.3	-3.8	-3.1	-3.4
Capital and financial account balance	4.5	0.8	0.8	5.4	6.8
o/w Public Sector	-0.8	-1.8	-1.4	2.0	3.2
o/w IMF disbursement	0.0	0.0	0.0	0.9	1.9
Private Sector	5.4	2.6	2.2	3.4	3.6
o/w FDI	5.5	3.4	3.1	3.4	3.6
Net Errors and Omissions	0.0	1.0	0.3	0.0	0.0
Overall balance	-1.6	-2.5	-2.6	2.2	3.4
Memorandum items:					
Exchange rate (BDS$/US$)	2.0	2.0	2.0	...	...
Gross international reserves (US$ million)	478.4	358.5	227.7	342.0	516.7
In months of imports of G&S	2.8	2.1	1.3	1.9	2.8
In percent of ARA	105.3	72.6	43.8	65.8	95.1
Nominal GDP, CY (BDS$ millions)	9,451	9,681	9,979	10,343	10,414
Nominal GDP, FY (BDS$ millions)	9,509	9,756	10,070	10,361	10,480

Sources: Barbados authorities; UNDP Human Development Report; Barbados Country Assessment of Living Conditions 2010 (December 2012); and Fund staff estimates and projections.

1/ Fiscal year is from April to March.

Table 2a. Barbados: Central Government Operations, FY 2015–24
(in millions of Barbados dollars) 1/

			Est.	Projection					
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Total revenue	**2,458**	**2,754**	**2,864**	**3,062**	**3,255**	**3,345**	**3,388**	**3,531**	**3,680**
Current revenue	2,440	2,744	2,842	3,034	3,228	3,321	3,363	3,505	3,653
Tax revenue	2,266	2,495	2,675	2,862	3,054	3,142	3,177	3,311	3,451
Income and profits	612	737	752	852	913	939	976	1,017	1,060
Taxes on property	133	135	138	136	137	141	147	153	159
VAT	861	890	891	887	910	936	883	921	959
Social levy (NSRL)	0	29	152	47	0	0	0	0	0
Excise	169	226	303	319	323	332	345	360	375
Import taxes	232	245	219	225	228	234	243	254	264
Other taxes	260	232	220	396	544	560	582	607	632
Nontax revenue	174	250	167	172	174	179	186	194	202
Capital revenue and grants	18	10	22	28	26	24	25	26	27
Total expenditure	**3,322**	**3,275**	**3,293**	**3,201**	**2,982**	**3,055**	**3,116**	**3,235**	**3,436**
Current expenditure	3,086	3,049	3,121	2,951	2,700	2,727	2,809	2,892	2,993
Wages, salaries and SSC	787	784	782	812	810	827	847	866	887
Goods and services	441	385	364	382	389	397	406	416	426
Interest	673	738	763	482	356	358	401	406	426
Transfers	1,185	1,142	1,212	1,274	1,145	1,145	1,155	1,204	1,255
o/w Subsidies	141	128	123	119	118	121	126	131	137
o/w Grants to public institutions	730	714	761	805	668	654	645	672	701
o/w Retirement benefits	314	299	328	351	359	370	384	401	418
Capital expenditure and net lending	236	225	172	251	282	329	307	343	443
CG Fiscal balance	**-864**	**-521**	**-429**	**-139**	**273**	**289**	**272**	**295**	**244**
CG Primary balance	**-191**	**218**	**334**	**343**	**629**	**647**	**672**	**701**	**670**
Repayment of domestic arrears	n.a.	n.a.	n.a.	0	373	366	175	194	75
CG Fiscal balance (net of arrears)	**n.a.**	**n.a.**	**n.a.**	**-139**	**-100**	**-77**	**96**	**101**	**168**
CG Primary balance (net of arrears)	**n.a.**	**n.a.**	**n.a.**	**343**	**256**	**281**	**497**	**507**	**594**
Financing	**864**	**521**	**429**	**139**	**-273**	**-289**	**-272**	**-295**	**-244**
Net Financing - External	26	-162	-172	257	100	77	-96	-101	40
Capital Markets	0	0	0	0	0	0	0	0	140
Project Funds	204	57	114	49	40	35	40	40	40
Policy Loans	99	0	0	300	150	150	0	0	0
IDB	n.a.	n.a.	n.a.	200	100	100	0	0	0
CDB	n.a.	n.a.	n.a.	100	50	50	0	0	0
Privatization 2/	0	0	0	0	0	0	0	0	0
Amortization	278	219	286	92	90	108	136	141	140
Net Financing - Central Gov.	838	686	574	-118	0	0	0	0	-208
Central bank	423	792	73	177	0	0	0	0	0
Commercial banks	182	-434	309	0	0	0	0	0	-104
National Insurance Scheme	71	180	3	0	0	0	0	0	0
Statutory Boards	2	2	117	0	0	0	0	0	0
Private non-bank 3/	106	93	-175	0	0	0	0	0	-104
Others/unidentified financing	52	52	246	-296	0	0	0	0	0
Memorandum items:									
CG gross debt 4/	13,949	14,548	15,843	12,809	12,230	11,840	11,569	11,274	11,163
Exceptional financing (from debt restructuring)	0	0	0	5,259	4,759	4,636	4,501	4,353	3,881
Nominal GDP, FY (BDS$ millions)	9,509	9,756	10,070	10,361	10,480	10,781	11,208	11,681	12,175

Sources: Ministry of Finance; and Fund staff estimates.

1/ Fiscal year is from April to March.

2/ Privatization proceeds.

3/ Insurance companies and other non bank private sector.

4/ Including: CG, CG guaranteed, and arrears. From FY 2018/19, data includes both external and domestic debt restructuing; hence, it excludes debt directly serviced by SOEs no longer guaranteed by the CG.

Table 2b. Barbados: Central Government Operations, FY 2015–24
(in percent of GDP) 1/

			Est.	Projection					
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Total revenue	**25.9**	**28.2**	**28.4**	**29.6**	**31.1**	**31.0**	**30.2**	**30.2**	**30.2**
Current revenue	25.7	28.1	28.2	29.3	30.8	30.8	30.0	30.0	30.0
Tax revenue	23.8	25.6	26.6	27.6	29.1	29.1	28.3	28.3	28.3
Income and profits	6.4	7.5	7.5	8.2	8.7	8.7	8.7	8.7	8.7
Taxes on property	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.3
VAT	9.1	9.1	8.9	8.6	8.7	8.7	7.9	7.9	7.9
Social levy	0.0	0.3	1.5	0.4	0.0	0.0	0.0	0.0	0.0
Excise	1.8	2.3	3.0	3.1	3.1	3.1	3.1	3.1	3.1
Import taxes	2.4	2.5	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Other taxes	2.7	2.4	2.2	3.8	5.2	5.2	5.2	5.2	5.2
Nontax revenue	1.8	2.6	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Capital revenue and grants	0.2	0.1	0.2	0.3	0.3	0.2	0.2	0.2	0.2
Total expenditure	**34.9**	**33.6**	**32.7**	**30.9**	**28.5**	**28.3**	**27.8**	**27.7**	**28.2**
Current expenditure	32.5	31.3	31.0	28.5	25.8	25.3	25.1	24.8	24.6
Wages, salaries and NIS contributions	8.3	8.0	7.8	7.8	7.7	7.7	7.6	7.4	7.3
Goods and services	4.6	4.0	3.6	3.7	3.7	3.7	3.6	3.6	3.5
Interest	7.1	7.6	7.6	4.7	3.4	3.3	3.6	3.5	3.5
Transfers	12.5	11.7	12.0	12.3	10.9	10.6	10.3	10.3	10.3
o/w Subsidies	1.5	1.3	1.2	1.1	1.1	1.1	1.1	1.1	1.1
o/w Grants to public institutions	7.7	7.3	7.6	7.8	6.4	6.1	5.8	5.8	5.8
o/w Retirement benefits	3.3	3.1	3.3	3.4	3.4	3.4	3.4	3.4	3.4
Capital expenditure and net lending	2.5	2.3	1.7	2.4	2.7	3.0	2.7	2.9	3.6
CG Fiscal balance	**-9.1**	**-5.3**	**-4.3**	**-1.3**	**2.6**	**2.7**	**2.4**	**2.5**	**2.0**
CG Primary balance	**-2.0**	**2.2**	**3.3**	**3.3**	**6.0**	**6.0**	**6.0**	**6.0**	**5.5**
Repayment of domestic arrears	n.a.	n.a.	n.a.	0.0	3.6	3.4	1.6	1.7	0.6
CG Fiscal balance (net of arrears)	**n.a.**	**n.a.**	**n.a.**	**-1.3**	**-1.0**	**-0.7**	**0.9**	**0.9**	**1.4**
CG Primary balance (net of arrears)	**n.a.**	**n.a.**	**n.a.**	**3.3**	**2.4**	**2.6**	**4.4**	**4.3**	**4.9**
Financing	**9.1**	**5.3**	**4.3**	**1.3**	**-2.6**	**-2.7**	**-2.4**	**-2.5**	**-2.0**
Net Financing - External	0.3	-1.7	-1.7	2.5	1.0	0.7	-0.9	-0.9	0.3
Capital Markets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2
Project Funds	2.1	0.6	1.1	0.5	0.4	0.3	0.4	0.3	0.3
Policy Loans	1.0	0.0	0.0	2.9	1.4	1.4	0.0	0.0	0.0
IDB	n.a.	n.a.	n.a.	1.9	1.0	0.9	0.0	0.0	0.0
CDB	n.a.	n.a.	n.a.	1.0	0.5	0.5	0.0	0.0	0.0
Privatization 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	2.9	2.2	2.8	0.9	0.9	1.0	1.2	1.2	1.2
Net Financing - Central Gov.	8.8	7.0	5.7	-1.1	0.0	0.0	0.0	0.0	-1.7
Central bank	4.5	8.1	0.7	1.7	0.0	0.0	0.0	0.0	0.0
Commercial banks	1.9	-4.4	3.1	0.0	0.0	0.0	0.0	0.0	-0.9
National Insurance Scheme	0.7	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statutory Boards	0.0	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Private non-bank 3/	1.1	1.0	-1.7	0.0	0.0	0.0	0.0	0.0	-0.9
Others/unidentified financing	0.6	0.5	2.4	-2.9	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
CG gross debt 4/	146.7	149.1	157.3	123.6	116.7	109.8	103.2	96.5	91.7
Exceptional financing (from debt restructuring	0.0	0.0	0.0	44.2	45.4	43.0	40.2	37.3	31.9
Nominal GDP, FY (BDS$ millions)	9,509	9,756	10,070	10,361	10,480	10,781	11,208	11,681	12,175

Sources: Ministry of Finance; and Fund staff estimates.
1/ Fiscal year is from April to March.
2/ Privatization proceeds.
3/ Insurance companies and other non bank private sector.
4/ Including: CG, CG guaranteed, and arrears. From FY 2018/19, data includes both external and domestic debt restructuing; hence, it excludes debt directly serviced by SOEs no longer guaranteed by the CG.

Table 3. Barbados: Public Debt, FY 2015–24 1/ 3/

			Est.	Projection					
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
				(In millions of Barbados dollars)					
Public Debt	**13,949**	**14,548**	**15,843**	**12,809**	**12,230**	**11,840**	**11,569**	**11,274**	**11,163**
External 2/	3,222	3,044	2,853	2,782	2,717	2,738	2,657	2,571	2,745
Domestic	10,727	11,504	12,990	10,026	9,512	9,102	8,912	8,702	8,419
Short Term	3,128	3,737	4,240	500	500	500	500	500	500
Long term	7,599	7,766	8,751	9,526	9,012	8,602	8,412	8,202	7,919
Arrears	**0**	**0**	**1,184**	**1,184**	**811**	**445**	**270**	**75**	**0**
External	0	0	0	0	0	0	0	0	0
Domestic	0	0	1,184	1,184	811	445	270	75	0
CG Guaranteed Debt	**1,342**	**1,242**	**977**	**611**	**626**	**642**	**657**	**672**	**665**
External 2/	314	259	108	30	45	60	75	91	84
Domestic	1,028	983	869	581	581	581	581	581	581
Short Term	0	0	14	0	0	0	0	0	0
Long term	1,028	983	855	581	581	581	581	581	581
CG Debt	12,607	13,306	13,683	11,014	10,792	10,754	10,642	10,526	10,498
External 2/	2,908	2,785	2,745	2,752	2,672	2,678	2,582	2,481	2,661
Domestic	9,699	10,521	10,938	8,261	8,120	8,076	8,061	8,046	7,837
Short Term	3,128	3,737	4,225	500	500	500	500	500	500
Long term	6,571	6,784	6,712	7,761	7,620	7,576	7,561	7,546	7,337
				(In percent of FY GDP)					
Public Debt	**146.7**	**149.1**	**157.3**	**123.6**	**116.7**	**109.8**	**103.2**	**96.5**	**91.7**
External 2/	33.9	31.2	28.3	26.9	25.9	25.4	23.7	22.0	22.5
Domestic	112.8	117.9	129.0	96.8	90.8	84.4	79.5	74.5	69.1
Short Term	32.9	38.3	42.1	4.8	4.8	4.6	4.5	4.3	4.1
Long term	79.9	79.6	86.9	91.9	86.0	79.8	75.1	70.2	65.0
Arrears	**0.0**	**0.0**	**11.8**	**11.4**	**7.7**	**4.1**	**2.4**	**0.6**	**0.0**
Domestic	0.0	0.0	11.8	11.4	7.7	4.1	2.4	0.6	0.0
CG Guaranteed Debt	**14.1**	**12.7**	**9.7**	**5.9**	**6.0**	**6.0**	**5.9**	**5.8**	**5.5**
External 2/	3.3	2.7	1.1	0.3	0.4	0.6	0.7	0.8	0.7
Domestic	10.8	10.1	8.6	5.6	5.5	5.4	5.2	5.0	4.8
Short Term	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Long term	10.8	10.1	8.5	5.6	5.5	5.4	5.2	5.0	4.8
CG Debt	**132.6**	**136.4**	**135.9**	**106.3**	**103.0**	**99.8**	**95.0**	**90.1**	**86.2**
External 2/	30.6	28.5	27.3	26.6	25.5	24.8	23.0	21.2	21.9
Domestic	102.0	107.8	108.6	79.7	77.5	74.9	71.9	68.9	64.4
Short Term	32.9	38.3	42.0	4.8	4.8	4.6	4.5	4.3	4.1
Long term	69.1	69.5	66.7	74.9	72.7	70.3	67.5	64.6	60.3
Memorandum items:									
Nominal GDP, FY (BDS$ millions)	9,509	9,756	10,070	10,361	10,480	10,781	11,208	11,681	12,175

Sources: Ministry of Finance; Central Bank of Barbados; and Fund staff estimates and projections.

1/ Fiscal year (April–March). Ratios expressed relative to fiscal-year GDP.

2/ External debt is all medium- and long-term debt.

3/ Including: CG, CG guaranteed, and arrears. From FY 2018/19, data includes both external and domestic debt restructuing; hence, it excludes debt directly serviced by SOEs no longer guaranteed by the CG.

Table 4a. Barbados: Balance of Payments, 2015–23

(in millions of US$)

	2015	2016	Est. 2017	Projection 2018	2019	2020	2021	2022	2023
Current account balance 1/	**-289**	**-206**	**-189**	**-213**	**-239**	**-218**	**-221**	**-197**	**-190**
o/w Exports of goods and services	1,954	2,083	2,100	2,161	2,222	2,283	2,351	2,421	2,493
o/w Imports of goods and services	2,032	2,035	2,027	2,115	2,180	2,216	2,283	2,355	2,437
Trade balance	-737	-706	-717	-768	-806	-812	-843	-877	-920
Exports of goods	801	835	803	824	848	867	886	905	923
o/w Re-exports	240	265	231	234	236	238	241	244	247
Imports of goods	1,537	1,540	1,520	1,592	1,654	1,679	1,729	1,781	1,843
o/w Oil	302	251	313	416	421	410	402	399	401
Services balance	659	754	790	814	848	879	910	942	976
Credit	1,154	1,249	1,297	1,337	1,374	1,416	1,465	1,516	1,570
o/w Travel (credit)	947	1,040	1,082	1,118	1,154	1,193	1,234	1,275	1,319
Debit	494	495	507	523	526	537	554	574	594
Primary income balance	-213	-221	-224	-249	-271	-274	-277	-251	-233
Credit	256	258	265	279	281	288	299	312	325
Debit	469	479	489	528	552	562	577	563	558
o/w Interest on CG debt	82	82	84	111	131	130	128	97	72
o/w Interest on IMF lending	0	0	0	1	3	4	5	7	7
Secondary income balance	2	-33	-38	-10	-10	-11	-11	-12	-12
Credit	90	58	52	93	94	96	100	104	108
Debit	88	91	90	103	104	107	111	116	120
Capital and financial account	**212**	**40**	**41**	**55**	**98**	**143**	**36**	**-32**	**182**
Financial Account Balance	221	42	42	55	98	143	36	-32	182
Public sector	-36	-85	-68	-119	-90	-62	-189	-279	-88
o/w disbursement to CG	130	59	50	33	21	18	19	20	73
o/w CG amortization	137	148	198	152	111	80	209	299	161
o/w IMF amortization	0	0	0	0	0	0	0	0	12
Private sector	257	128	111	174	188	205	225	247	270
o/w FDI flows	261	166	156	174	188	205	225	247	270
Capital Account Balance	-8	-3	-1	0	0	0	0	0	0
Unidentified financing	0	0	0	0	0	0	0	0	0
Net errors and omissions	**0**	**47**	**17**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance (deficit -)	**-76**	**-119**	**-131**	**-159**	**-141**	**-75**	**-185**	**-229**	**-7**
Official financing	**0**	**0**	**0**	**113**	**94**	**75**	**19**	**0**	**0**
IDB	0	0	0	75	63	50	13	0	0
CDB	0	0	0	38	31	25	6	0	0
Exceptional financing (Restructuring)	**0**	**0**	**0**	**112**	**125**	**82**	**196**	**265**	**99**
Financing	76	119	131	-65	-77	-82	-29	-36	-92
Reserve movements (- increase)	76	119	131	-114	-175	-154	-77	-60	-92
IMF	0	0	0	49	98	73	48	24	0
Memorandum items:									
Current account (percent of GDP)	-6.1	-4.3	-3.8	-4.1	-4.6	-4.1	-4.0	-3.4	-3.1
Oil price assumptions (US$ per barrel)	50.8	42.8	52.8	69.4	68.8	65.7	63.1	61.3	60.3
Gross international reserves (US$ million)	478	358	228	342	517	671	748	808	900
In months of imports of G&S	2.8	2.1	1.3	1.9	2.8	3.6	3.9	4.1	4.4
In percent of ARA	105.3	72.6	43.8	65.8	95.1	117.3	125.1	131.0	142.7

Sources: Central Bank of Barbados; and Fund staff estimates and projections.

1/ Current account balance without debt restructuring.

Table 4b. Barbados: Balance of Payments, 2015–23 (Concluded)

(in percent of GDP, unless otherwise indicated)

			Est.			Projection			
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Current account balance 1/	**-6.1**	**-4.3**	**-3.8**	**-4.1**	**-4.6**	**-4.1**	**-4.0**	**-3.4**	**-3.1**
o/w Exports of goods and services	41.4	43.0	42.1	41.8	42.7	42.8	42.4	41.9	41.4
o/w Imports of goods and services	43.0	42.0	40.6	40.9	41.9	41.5	41.2	40.7	40.5
Trade balance	-15.6	-14.6	-14.4	-14.9	-15.5	-15.2	-15.2	-15.2	-15.3
Exports of goods	16.9	17.2	16.1	15.9	16.3	16.2	16.0	15.7	15.3
o/w Re-exports	5.1	5.5	4.6	4.5	4.5	4.5	4.4	4.2	4.1
Imports of goods	32.5	31.8	30.5	30.8	31.8	31.4	31.2	30.8	30.6
o/w Oil	6.4	5.2	6.3	8.0	8.1	7.7	7.3	6.9	6.7
Services balance	13.9	15.6	15.8	15.7	16.3	16.5	16.4	16.3	16.2
Credit	24.4	25.8	26.0	25.8	26.4	26.5	26.4	26.2	26.1
o/w Travel (credit)	20.0	21.5	21.7	21.6	22.2	22.4	22.2	22.1	21.9
Debit	10.5	10.2	10.2	10.1	10.1	10.1	10.0	9.9	9.9
Primary income balance	-4.5	-4.6	-4.5	-4.8	-5.2	-5.1	-5.0	-4.3	-3.9
Credit	5.4	5.3	5.3	5.4	5.4	5.4	5.4	5.4	5.4
Debit	9.9	9.9	9.8	10.2	10.6	10.5	10.4	9.7	9.3
o/w Interest on CG debt	1.7	1.7	1.7	2.2	2.5	2.4	2.3	1.7	1.2
o/w Interest on IMF lending	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Secondary income balance	0.0	-0.7	-0.8	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Credit	1.9	1.2	1.0	1.8	1.8	1.8	1.8	1.8	1.8
Debit	1.9	1.9	1.8	2.0	2.0	2.0	2.0	2.0	2.0
Capital and financial account	**4.5**	**0.8**	**0.8**	**1.1**	**1.9**	**2.7**	**0.6**	**-0.6**	**3.0**
Financial Account Balance	4.7	0.9	0.8	1.1	1.9	2.7	0.6	-0.6	3.0
Public sector	-0.8	-1.8	-1.4	-2.3	-1.7	-1.2	-3.4	-4.8	-1.5
o/w disbursement to CG	2.7	1.2	1.0	0.6	0.4	0.3	0.3	0.3	1.2
o/w CG amortization	2.9	3.1	4.0	2.9	2.1	1.5	3.8	5.2	2.7
o/w IMF amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Private sector	5.4	2.6	2.2	3.4	3.6	3.8	4.1	4.3	4.5
o/w FDI flows	5.5	3.4	3.1	3.4	3.6	3.8	4.1	4.3	4.5
Capital Account Balance	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	**0.0**	**1.0**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance (deficit -)	**-1.6**	**-2.5**	**-2.6**	**-3.1**	**-2.7**	**-1.4**	**-3.3**	**-4.0**	**-0.1**
Official financing	**0.0**	**0.0**	**0.0**	**2.2**	**1.8**	**1.4**	**0.3**	**0.0**	**0.0**
IDB	0.0	0.0	0.0	1.5	1.2	0.9	0.2	0.0	0.0
CDB	0.0	0.0	0.0	0.7	0.6	0.5	0.1	0.0	0.0
Exceptional financing (Restructuring)	**0.0**	**0.0**	**0.0**	**2.2**	**2.4**	**1.5**	**3.5**	**4.6**	**1.6**
Financing	1.6	2.5	2.6	-1.3	-1.5	-1.5	-0.5	-0.6	-1.5
Reserve movements (- increase)	1.6	2.5	2.6	-2.2	-3.4	-2.9	-1.4	-1.0	-1.5
IMF	0.0	0.0	0.0	0.9	1.9	1.4	0.9	0.4	0.0
Memorandum items:									
Oil price assumptions (US$ per barrel)	50.8	42.8	52.8	69.4	68.8	65.7	63.1	61.3	60.3
Gross international reserves (US$ million)	478	358	228	342	517	671	748	808	900
In months of imports of G&S	2.8	2.1	1.3	1.9	2.8	3.6	3.9	4.1	4.4
In percent of ARA	105.3	72.6	43.8	65.8	95.1	117.3	125.1	131.0	142.7

Sources: Central Bank of Barbados; and Fund staff estimates and projections.

1/ Current account balance without debt restructuring.

Table 5. Barbados: Monetary Survey, 2015–23

	2015	2016	Est. 2017	Projection 2018	2019	2020	2021	2022	2023
				(In millions of Barbados dollars)					
Central Bank of Barbados									
Net International Reserves	926	680	394	510	664	828	887	959	1,143
Assets	957	717	455	684	1,033	1,342	1,496	1,615	1,799
Liabilities	-31	-37	-76	-174	-369	-514	-609	-657	-657
GIR	957	717	455	684	1,033	1,342	1,496	1,615	1,799
Net domestic assets	1,033	1,764	1,937	1,977	2,037	2,078	2,191	2,227	2,227
Of which: Claims on Central government	1,302	2,037	2,218	950	950	950	950	950	950
Monetary base	1,959	2,444	2,331	2,487	2,702	2,906	3,078	3,186	3,370
Commercial banks									
Net foreign assets	-121	-107	-81	-81	-81	-81	-81	-81	-81
Net domestic assets	7,875	8,128	8,027	8,226	8,593	9,028	9,488	9,899	10,377
Liabilities to the nonfinancial private sector	7,754	8,021	7,945	8,145	8,512	8,947	9,407	9,817	10,296
Monetary survey									
Net foreign assets	805	573	313	429	583	746	805	877	1,061
Net domestic assets	7,492	8,027	8,235	8,372	8,631	8,942	9,362	9,720	10,058
Net credit to the public sector	2,790	3,177	3,530	1,885	1,945	1,986	2,099	2,135	2,135
Central government	2,753	3,331	3,637	1,992	2,052	2,093	2,206	2,242	2,242
Rest of public sector	224	113	140	140	140	140	140	140	140
NIS	-187	-267	-247	-247	-247	-247	-247	-247	-247
Credit to the private sector	5,392	5,452	5,615	5,671	5,870	6,140	6,447	6,769	7,108
Credit to rest of financial system	-744	-694	-833	-833	-833	-833	-833	-833	-833
Other items (net) 1/	54	92	-77	1,649	1,649	1,649	1,649	1,649	1,649
Broad money (M2, liabilities to the private sector)	8,297	8,599	8,548	8,801	9,214	9,688	10,167	10,597	11,120
Narrow money	3,169	3,646	3,796	3,929	4,123	4,337	4,541	4,725	4,962
Currency	543	578	603	656	702	741	760	780	824
Demand deposits	2,626	3,068	3,193	3,273	3,421	3,596	3,780	3,945	4,138
Quasi-money	5,128	4,953	4,752	4,872	5,091	5,351	5,627	5,872	6,158
Time deposits	786	667	607	622	650	684	719	750	787
Saving deposits	4,342	4,286	4,145	4,250	4,441	4,668	4,908	5,122	5,371
				(Changes in percent of beginning-of-period liabilities to the private sector)					
Monetary survey									
Net international reserves	1.0	-2.8	-3.0	1.4	1.8	1.8	0.6	0.7	1.7
Net domestic assets	2.8	6.4	2.4	1.6	2.9	3.4	4.3	3.5	3.2
Net credit to public sector	7.7	4.7	4.1	-19.2	0.7	0.4	1.2	0.4	0.0
Of which: central government	9.4	7.0	3.6	-19.2	0.7	0.4	1.2	0.4	0.0
Credit to private sector	0.4	0.7	1.9	0.7	2.3	2.9	3.2	3.2	3.2
Other items (net) 1/	-2.9	0.5	-2.0	20.2	0.0	0.0	0.0	0.0	0.0
				(In percent change)					
Monetary survey									
Net domestic assets	3.0	7.1	2.6	1.7	3.1	3.6	4.7	3.8	3.5
Of which:									
Private sector credit	0.5	1.1	3.0	1.0	3.5	4.6	5.0	5.0	5.0
Public sector credit	28.1	13.8	11.1	-46.6	3.2	2.1	5.7	1.7	0.0
Broad money	3.7	3.6	-0.6	3.0	4.7	5.1	4.9	4.2	4.9

Sources: Central Bank of Barbados; and Fund staff estimates and projections.

1/ Line item "net unclassified assets" in CBB Monetary Survey. CBB indicates that this line is a residual item, the nature of which is not disclosed. We increase this item by the size of the decline in CBB's capital due to CG debt restructuring

Table 6. Barbados: Medium-Term Macroeconomic Framework, 2015–23
(in percent of GDP, unless otherwise indicated)

			Est.	Projection					
	2015	2016	2017	2018	2019	2020	2021	2022	2023
				(Annual percentage change)					
National accounts and prices									
Real GDP	2.2	2.3	-0.2	-0.5	-0.1	0.6	1.5	1.8	1.8
Nominal GDP	0.6	2.4	3.1	3.7	0.7	2.5	3.9	4.2	4.2
CPI inflation (average)	-1.1	1.5	4.4	4.2	0.8	1.9	2.3	2.3	2.3
CPI inflation (end of period)	-2.5	3.8	6.6	0.0	1.4	2.3	2.4	2.3	2.4
External sector									
Exports of goods and services, value	3.2	6.6	0.8	2.9	2.8	2.7	3.0	3.0	3.0
Imports of goods and services, value	-3.9	0.2	-0.4	4.3	3.1	1.6	3.0	3.1	3.5
Real effective exchange rate (average)	118.5	119.6	122.5	...	...	...	...	...	...
Terms of trade	12.5	1.9	-4.4	-5.6	0.5	1.0	0.9	0.6	0.3
Money and credit (end of period)									
Net domestic assets	3.0	7.1	2.6	1.7	3.1	3.6	4.7	3.8	3.5
Of which: Private sector credit	0.5	1.1	3.0	1.0	3.5	4.6	5.0	5.0	5.0
Broad money	3.7	3.6	-0.6	3.0	4.7	5.1	4.9	4.2	4.9
Velocity (GDP relative to broad money)	1.1	1.1	1.2	1.2	1.1	1.1	1.1	1.1	1.1
				(In percent of GDP, unless otherwise indicated)					
Public finances (fiscal year) 1/									
Central government									
Revenue and grants	25.9	28.2	28.4	29.6	31.1	31.0	30.2	30.2	30.2
Expenditure	34.9	33.6	32.7	30.9	28.5	28.3	27.8	27.7	28.2
Fiscal balance	-9.1	-5.3	-4.3	-1.3	2.6	2.7	2.4	2.5	2.0
Interest Expenditure	7.1	7.6	7.6	4.7	3.4	3.3	3.6	3.5	3.5
Primary balance	-2.0	2.2	3.3	3.3	6.0	6.0	6.0	6.0	5.5
Debt (fiscal year) 1/									
Central government gross debt	146.7	149.1	157.3	123.6	116.7	109.8	103.2	96.5	91.7
External	33.9	31.2	28.3	26.9	25.9	25.4	23.7	22.0	22.5
Domestic	112.8	117.9	129.0	96.8	90.8	84.4	79.5	74.5	69.1
Savings and investment									
Gross domestic investment	16.9	16.0	10.9	11.3	11.6	11.9	11.7	11.7	12.2
Public	2.6	2.6	2.1	2.5	2.9	3.2	3.0	3.1	3.7
Private 2/	14.3	13.4	8.9	8.8	8.7	8.7	8.6	8.6	8.5
National savings	10.8	11.8	7.2	8.1	8.2	8.8	8.7	8.9	9.4
Public	-6.5	-2.7	-2.2	1.1	5.5	5.9	5.5	5.6	5.7
Private	17.2	14.5	9.3	7.0	2.7	3.0	3.2	3.3	3.8
External savings	-6.1	-4.3	-3.8	-3.1	-3.4	-3.0	-3.0	-2.8	-2.7
Balance of payments									
Current account	-6.1	-4.3	-3.8	-3.1	-3.4	-3.0	-3.0	-2.8	-2.7
Capital and financial account	4.5	0.8	0.8	5.4	6.8	5.9	4.4	3.8	4.2
Official capital (net)	-0.8	-1.8	-1.4	2.0	3.2	2.1	0.3	-0.5	-0.2
Private capital (net)	5.4	2.6	2.2	3.4	3.6	3.8	4.1	4.3	4.5
Of which: Long-term flows	5.5	3.4	3.1	3.4	3.6	3.8	4.1	4.3	4.5
Net errors and omissions	0.0	1.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.6	-2.5	-2.6	2.2	3.4	2.9	1.4	1.0	1.5
Memorandum items:									
Exchange rate (BDS$/US$)	2.0	2.0	2.0	...	...	...	...	...	...
Oil price assumptions (US$ per barrel)	50.8	42.8	52.8	69.4	68.8	65.7	63.1	61.3	60.3
Gross international reserves (US$ millions)	478	358	228	342	517	671	748	808	900
In months of imports	2.8	2.1	1.3	1.9	2.8	3.6	3.9	4.1	4.4
In percent of ARA	105.3	72.6	43.8	65.8	95.1	117.3	125.1	131.0	142.7
Nominal GDP (BDS$ millions)	9,451	9,681	9,979	10,343	10,414	10,677	11,091	11,559	12,048

Sources: Barbados authorities; and Fund staff estimates and projections.

1/ Fiscal year is from April to March;

2/ Inlcuding inventories.

Table 7. Barbados: Financial Sector Indicators, 2013–17

(Percent)

	2013	2014	2015	2016	2017Q1	2017Q2	2017Q3	2017Q4
Commercial Banks								
Solvency Indicator								
Capital Adequacy Ratio (CAR)	17.6	16.4	15.8	17.0	17.0	17.3	17.0	17.0
Liquidity Indicators 1/								
Loan to deposit ratio	70.0	70.3	65.5	62.3	62.8	62.3	63.2	63.3
Demand deposits to total deposits	32.3	33.9	39.6	44.0	43.4	44.4	44.5	44.8
Domestic demand deposits to total domestic deposits	29.3	30.9	35.7	40.3	39.5	40.6	40.7	41.6
Liquid assets, in percent of total assets	18.0	20.3	25.3	27.4	26.3	27.8	27.1	26.7
Credit Risk Indicators								
Total assets (growth rate)	2.8	-1.3	4.0	3.7	1.3	2.8	1.7	1.3
Domestic assets (growth rate)	6.5	-0.6	3.3	2.7	1.5	2.4	1.3	-0.1
Loans and advances (growth rate)	-2.6	-0.4	-0.8	-0.5	0.0	0.8	2.7	2.0
Non-performing loans ratio	11.7	11.5	10.6	8.9	8.7	8.8	8.2	7.9
Substandard loans/Total loans	8.6	9.0	8.0	7.2	7.0	7.0	6.7	6.3
Doubtful loans/Total loans	2.5	2.0	1.5	1.0	1.0	1.0	0.8	0.9
Loss Loans/Total loans	0.6	0.5	1.1	0.7	0.7	0.8	0.7	0.8
Provisions to non-performing loans	44.9	47.7	55.5	63.2	65.1	64.1	67.4	69.6
Foreign Exchange Risk Indicators								
Deposits in Foreign Exchange (in percent of total deposits)	6.0	5.7	8.6	8.6	8.7	8.7	9.2	8.8
Profitability Indicators								
Return on Assets (ROA)	0.8	0.7	0.9	1.0	1.5	1.5	1.4	1.3
Credit Unions								
Solvency Indicator								
Reserves to Total Liabilities	8.1	8.6	8.5	8.7	8.8	9.0	9.0	8.7
Liquidity Indicators								
Loan to deposit ratio	92.3	92.8	90.8	89.3	87.6	86.5	87.5	86.7
Credit risk Indicators								
Total assets, annual growth rate	4.2	6.2	7.2	8.3	7.9	8.1	8.4	8.7
Loans, annual growth rate	3.7	7.3	7.2	6.9	7.9	6.7	6.0	6.3
Nonperforming loans ratio	8.4	9.4	9.0	7.6	7.1	7.8	8.2	7.8
Arrears 3-6 months/Total Loans	1.7	2.2	2.0	1.3	0.8	1.6	1.8	1.3
Arrears 6 – 12 months/Total Loans	2.0	1.5	1.8	1.2	1.3	1.3	1.3	1.4
Arrears over 12 months/Total Loans	4.1	5.7	5.2	5.1	5.0	4.9	5.1	5.0
Provisions to Total loans	36.4	29.1	29.2	32.6	34.1	29.7	29.2	30.3
Profitability Indicator								
Return on Assets (ROA)	1.4	0.6	0.9	1.1	1.1	1.3	1.3	1.3

Source: Central Bank of Barbados, Financial Services Commission.

1/ Includes foreign components unless otherwise stated.

Table 8. Barbados: Schedule of Purchases under the EFF Supported Program

Availability Date	SDR million	Percent of Quota	Conditions
October 1, 2018	35	37	Approval of Arrangement
May 15, 2019	35	37	1st Review and continuous and end March 2019 performance criteria
November 15, 2019	35	37	2nd Review and continuous and end September 2019 performance criteria
May 15, 2020	35	37	3rd Review and continuous and end March 2020 performance criteria
November 15, 2020	17	18	4th Review and continuous and end September 2020 performance criteria
May 15, 2021	17	18	5th Review and continuous and end March 2021 performance criteria
November 15, 2021	17	18	6th Review and continuous and end September 2021 performance criteria
May 15, 2022	17	18	7th Review and continuous and end March 2022 performance criteria
Total	208	220	

Appendix I. Letter of Intent

Bridgetown, Barbados
September 14, 2018

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Lagarde,

In the last decade, the Barbadian economy has been caught in a cycle of low growth and increasing debt. International reserves have dwindled to about US$240 million, well below reserve adequacy levels, while Central Government debt has become unsustainable.

Our Government took office at the end of May 2018. We have been rapidly developing plans to address our current economic vulnerabilities, in close consultation with our Social Partners. The Barbados Economic Reform and Transformation Plan aims to restore macroeconomic stability and to put the economy on a path of sustainable and inclusive growth. Fiscal consolidation, in conjunction with the announced debt restructuring, is needed to place debt on a clear downward trajectory. The strategy of accelerating growth focuses on attracting new investment in areas such as the renewable energy sector, creative and artistic industries, educational and health services, agro-industries, research, the international business sector and tourism.

The Government of Barbados is deeply committed to the measures and objectives of our reform programme. We intend to pursue them without prejudice to any formal financing arrangement with the International Monetary Fund (Fund). In the current context, however, support from the Fund and other multilateral financial institutions should assist in containing risks and it will boost investor confidence. It will also provide a liquidity cushion to avoid shortfalls in external inflows. Given the structural nature of many of the sources of our economic and financial vulnerability, and the extensive medium-term structural reform agenda for addressing these, sustained multilateral engagement over the medium term is essential. We will further need the provision of technical assistance in priority areas. To this end, the Government of Barbados is requesting a 48-month arrangement under the Extended Fund Facility in an amount equivalent to SDR 208 million (around US$290 million), or 220 percent of Barbados' IMF quota, that will support the programme detailed in the attached Memorandum of Economic and Financial Policies (MEFP).

The Government believes that the policies described in the attached MEFP are adequate to achieve the programme's objectives. However, if necessary, the Government stands ready to take any additional measures that may be required. In accordance with the Fund's policies on consultation, the Government will consult with the Fund on the adoption of these measures and in advance of any substantive revisions to the policies contained in the MEFP. The Government will also provide the Fund's staff with all of the relevant information required to complete the programme reviews and for it to monitor performance on a timely basis.

The Government will observe the standard performance criteria against the imposing or intensifying of foreign exchange currency restrictions, the introducing or modifying of multiple currency practices. Equally, we will not conclude bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement nor will we impose or intensify import restrictions for balance of payments reasons.

As part of our communication policy, we intend to publish this letter on the websites of the Government Information Service and the Central Bank of Barbados so that we may maintain our commitment to full transparency and we may keep our citizens and our domestic and international stakeholders informed about our policy, our actions and our overall intention. We also authorize the Fund to publish this letter, its attachments, and the Staff Report.

We thank you for your partnership and your willingness to work with the Government and people of Barbados as we move to restore our economy to a sustainable and equitable growth path.

Very truly yours,

/s/
The Hon. Mia Amor Mottley Q.C., M.P.
Prime Minister and Minister of Finance, Economic Affairs and Investments
Barbados

Attachments:

Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

I. PROGRAMME OBJECTIVES AND GROWTH STRATEGY

1. **The Barbadian Government has embarked on a comprehensive Economic Recovery Transformation (BERT) plan aimed at regaining macroeconomic stability and raising economic growth**. The programme is underpinned by the understanding that fiscal and debt sustainability are necessary conditions for macroeconomic stability and economic growth. A sharp reduction in the debt burden will support higher private sector-led investment and growth as economic confidence is restored. In addition, in this environment, the increased fiscal space will allow Government spending to be directed toward the catalytic development of infrastructure to support growth. The programme also includes measures to improve the business climate. We aim to make Barbados the best place to live, work, and enjoy life—in a country that is green, climate resilient, and that aims to be fossil free; a smart, technological nation, a culturally rich and diverse nation. We must become a cohesive, sustainable nation built on principles of equal access to social justice and economic opportunity for all.

2. **To help soften any negative impact of fiscal adjustment on the poor and vulnerable, the programme includes important measures to strengthen the social safety net.** The programme has been designed to ensure that the adjustment burden is effectively shared across the society and across the economic agents. We will broaden and make more progressive our tax base, while reforming our expenditures, particularly that of the State-Owned Enterprises (SOEs), in a manner that modernizes our institutions and systems while empowering and enfranchising displaced workers. Our plan is a plan of solidarity; a plan of modernization and transformation.

3. **Broad agreement on the need to reform the economy is critical for the success of the programme**. The programme has been developed, implemented and monitored with the full support of our Social Partnership. An Economic Programme Oversight Committee (EPOC) with broad societal representation will be set up as a sub Committee of the Social Partnership and tasked with monthly monitoring and periodic communication to the public.

II. MEDIUM-TERM MACROECONOMIC FRAMEWORK

4. **Recognizing that fiscal and debt unsustainability have been major sources of external and macroeconomic vulnerability in Barbados, the Government aims to eliminate the fiscal deficit and substantially reduce the debt burden.** We are targeting a debt-to-GDP ratio of 60 percent by 2033. This will be achieved with a combination of fiscal consolidation, policies to boost growth, reform of our public finances and debt restructuring. Following our announcement on June 1, 2018 to restructure our domestic and external debt to commercial creditors, negotiations with our creditors are at an advanced stage and are being carried out in a spirit of fairness and a commitment to protect the most vulnerable. We are asking our creditors to walk with us. All must share the burden.

5. **Fiscal adjustment will be at the heart of our reform and transformation plan.** The program aims to achieve a cumulative 2.7 pp of GDP relative to 2017/18 (when the central Government registered a primary balance of 3.3 percent of GDP) to reach and maintain a primary surplus of 6 percent of GDP in FY2019/20, while protecting vulnerable groups through strengthened social safety nets, and increasing room for capital spending. The 2.7 pp of GDP adjustment is understated considering that the 3.3 percent reported outturn for 2017/18 did not reflect the true cost of Government, as at least one percent of GDP of expenditures were financed through unreported arrears. We aim to impose more effective taxes, increase compliance, and allow for a better share the tax burden between residents and those visiting our shores. We have already passed a revised budget in Parliament that includes higher taxes on tourism, increased CIT and top PIT rates. We are also committed to reducing transfers to SOEs, as discussed in greater detail below. The fiscal adjustment effort will be supported by the adoption of a fiscal rule, as discussed below. We would implement additional measures as needed to meet the primary surplus target of 6 percent of GDP in case the yield of already identified measures falls short of expectations.

6. **Reform of SOEs is key to a lasting fiscal consolidation.** At 8.3 percent of GDP (true cost of Government for 2018/19), transfers from the central Government to SOEs are very high, and a major contributor to fiscal risks. The program will aim over the three-year period to reduce transfers by about 2 percent of GDP, by a combination of (i) much stronger oversight of SOEs, supported by improved reporting; (ii) cost reduction; (iii) revenue enhancement, starting with a review of user fees; and (iv) mergers and divestment. It is critical to establish hard budget constraints for SOEs.

7. **Structural reforms will support growth**. The program will seek to address weaknesses in the business climate, including slow processes for obtaining construction permits, getting electricity, and registering property. It will also include policies to increase financial and labor market flexibility. The Government can be much quicker at processing permits and licensing. We will streamline and accelerate the Town and Country Planning process including by introducing new Town and Country planning legislation (*structural benchmark for end-December 2018*). We will also adopt a new business plan and structure for the Corporate Affairs and Intellectual Property Office (CAIPO), the Land Registry and for our Vital Statistics (*structural benchmark for end-March 2019*) with a view of streamlining the registration of new business and strengthening maintenance of commercial records of existing business, details of land transactions and data pertaining to individuals.

8. **Vulnerabilities related to climate change need to be addressed.** Barbados relies on its coastal tourism for most of its foreign exchange earnings, employment and growth. Given its vulnerability to natural disasters and climate change, we must focus on mitigating the negative impact of natural events on the tourism sector if we are to sustain growth and ease the pressure on our public finances. Risk-based coastal planning, long-term shoreline planning and beach enhancement, including the promotion of hazard-resilient coastal infrastructure will be important. We will immediately put in place a Rapid Roof Replacement Programme to support homeowners in the replacement of non-hurricane resistant roofs. We will also develop a national storage capacity of generators, water, food and medicine to last for 7 days, and upgrade our hurricane shelters, among other measures.

III. FISCAL POLICIES FOR THE REMAINDER OF 2018/19 AND BEYOND

9. Parliament adopted a revised budget for 2018/19 on June 13, 2018. On the revenue side, the distortionary and regressive NSRL—effectively a 10 percent excise tax on imports and first sale of locally manufactured goods which brought in an estimated 2 percent of GDP per year (when the revenue of Value Added Tax (VAT) calculated on National Social Responsibility Levy (NSRL) is included)—was repealed as of July 1, 2018. The loss of revenue from this will be more than compensated by a range of new tax measures:

- As of October 1, 2018, an **Airline Travel and Tourism Development** fee will be introduced. The fee paid by passengers flying outside CARICOM will be US$70 and those within CARICOM US$35. This fee will be in addition to the Departure Tax and is expected to bring in BDS$95 million on an annual basis (1.0 percent of GDP).
- Anticipating that the VAT rate applied in the tourism sector will be increased to 15 percent as of January 1, 2020, we will, as an interim measure, introduce a **room levy**. This levy will be US$2.50 per room per night for "B" Class and Apartments, US$5.50 per night for "A" Class rooms per room per night, and US$10 per room per night for luxury rooms. In addition, we will introduce a 2.5% **Direct Tourism Services product levy** on all direct tourism services. The room rate and product levies are expected to bring in BDS$25 million (0.3 percent of GDP) on an annual basis.
- The technology now exists for us to tax the **shared accommodation sector**, including Airbnb, Home Away, and others. We will introduce a 10 percent shared accommodation levy on all fees charges for shared accommodation. This is expected to raise BDS$8 million per year, or 0.1 percent of GDP.
- Effective July 1, 2018 a new top **Personal Income Tax** bracket of 40 percent has been introduced. The first BDS$25,000 will remain tax free. Income above BDS$25,001 to BDS$60,000 will continue to be taxes at 16 percent, while incomes between BDS$60,001 and BDS$75,000 will be taxed at a rate of 33.5 percent. The new top band will help improve the progressivity of our tax system. The revised PIT rates are expected to bring in an additional BDS$41 million (0.4 percent of GDP) on an annual basis.
- The **Road Tax** has been abolished as of July 1, 2018 and has been replaced by a **Fuel Tax**, to be levied at 40 cents per litre of petrol, 40 cents per litre of diesel, and 5 cents per litre of kerosene. The lumpy Road Tax had been difficult to enforce with limited police resources. Improved collection means that the introduction of this Fuel Tax combined with the repeal of the Road Tax will bring in an expected BDS$20.8 million net (0.2 percent of GDP per year on a full year basis).
- We have raise the **Corporate Income Tax** (CIT) rate from 25 to 30 percent; this is expected to raise BDS$57 million (0.6 percent of GDP) on an annual basis.

- We will, as of October 1, 2018 make all online transactions for the purchase of goods and services by the residents of Barbados subject to **VAT**—currently no VAT is paid on these online transactions.
- Given the demographics of the Barbadian population, and with the significant increase in chronic non-communicable diseases, the cost of public health care continues to increase at an unsustainable rate. We will therefore, as of October 1, 2018 put in place a new **Health Service Contribution**, paid partly by employees and self-employed persons (1.0 percent of insurable earnings) and partly by employers (1.5 percent of insurable earnings). This measure will come into effect on October 1, 2018 and is expected to raise BDS$50 million on an annual basis (0.5 percent of GDP).
- Improved tax compliance and the redomiciling of many companies from the United Kingdom in the **International Business Sector** could bring in an additional BDS$65 million per year (0.6 percent of GDP).

Early on in our economic reform program, we announced our commitment to conduct a comprehensive review of our tax system and, with the help of technical assistance by the IMF, we aim to complete such review by end-June 2019 (*structural benchmark*). Following the receipt of that report, Parliament will adopt legislation to address concerns identified in the comprehensive review, consistent with our fiscal objectives.

10. Revenue can also be increased by strengthening tax and Customs administration. We have decided not to proceed with the proposed merger between the Barbados Revenue Authority (BRA) and the Customs Department. We will instead look for ways in which the performance of the two separate entities can be improved, including by introducing measurable targets for BRA to improve on-time filing for Corporate Income Tax and VAT from current levels (less than 50 percent for both respectively) to 75 percent over Calendar Year 2019 (*structural benchmark for end-December 2019*). The BRA has made progress on implementing a new Tax Administration Management Information System (TAMIS); this process will continue through 2019, and eventually allow for legacy IT systems to be retired. A Large Taxpayer Unit (LTU) has recently been established. By focusing on large taxpayers—from filing and payment compliance to audit—BRA will make significantly improve its effectiveness. Unpaid tax refunds—both for VAT and for PIT—are high and could erode the legitimacy of the tax system. This situation needs to be urgently addressed (see also below, on addressing domestic expenditure arrears). In this regard, all refunds due to taxpayers as we go forward should be paid within 60 days. The LTU must: (i) update all LTU taxpayer accounts ensuring they reflect accurate balances; and (ii) commence the conduct of audits targeting the most current tax period (*structural benchmark for end-December 2018*) and focus on specific issues rather than trying to address all matters.

11. The Customs Department is in urgent need of reform. An organizational structure will be approved by the end-December 2018. Traceability, targeting of cargo, clearance of goods, post clearance audit, and special regimes controls, all need urgent improvement to be brought to standards of international best practices. Customs' operations need to be led by more accurate risk assessment. This will allow for far more effective targeting of those who are non-compliant and will better facilitate the urgently needed trade facilitation, if we are to be more competitive as a jurisdiction. Customs will evolve from simply registering transactions, to optimizing the use of information as a platform for decision making within their main processes—to allow for greater facilitation measures or to exercise greater control. A number of actions will be taken by Customs to bring about improvement, including: (i) deploy staff to the exemption monitoring unit and undertake at least eight exemption verification assignments in 2019; (ii) train and deploy at least 6 officers in the post clearance audit unit and undertake at least 8 field audits in 2019; (iii) establish a trusted trader program that gives defined benefits to program members by the end of 2018 and have at least eight companies participating by the end of 2019; and (iv) undertake post release verification of entries and subject at least 3,500 entries to this control by the end of 2019 (completion of these actions is a *structural benchmark by end-December 2019*).

12. The 'Mini Budget' that was adopted by Parliament in mid-June includes key measures to support the most vulnerable members of our society and strengthens our social spending. In particular, the increase in non-contributory pensions (aimed to protect the elderly from poverty) from BDS$155 to BDS$225 per week is expected to cost BDS$18 million (0.2 percent of GDP) and will make a key contribution to strengthening our social safety net. The abolition of tuition fees at the University of the West Indies is expected to cost another BDS$22 million (0.2 percent of GDP). It opens up key opportunities for growth for students from middle- and lower-income households.

13. The wage agreement that was agreed with the unions representing public workers in June will help preserve social cohesion and support for the BERT Plan. The agreement entails a 5 percent wage increase, thereby ending a wage freeze that had been in place since 2009 for public servants. It is estimated that this will cost the Government approximately BDS$62 million per year (0.6 percent of GDP).

14. Regarding capital spending, our top priority is to address key problems in infrastructure, in particular the South Coast sewage system, with an estimated cumulative cost of BDS$77 million (0.8 percent of GDP). Fixing the South Coast and Bridgetown sewage plants will be critical; the immediate remedial cost will total BDS$22 million. We also immediately need to repair and buy new garbage trucks and buses and undertake essential road and bridge repair (total BDS$60 million cost estimate).

A Fiscal Rule

15. The Government intends to seek Parliamentary approval of a fiscal rule to enhance fiscal transparency, and lock in the gains of fiscal consolidation (*structural benchmark for end-June 2020*). The transparency and automaticity of fiscal adjustment will be enhanced by an explicit, time-bound adjustment path to sustainability. We will seek technical assistance from the IMF's Fiscal Affairs Departments to develop a sound fiscal rule defining coverage, implementation, corrective mechanisms, escape clauses and institutional arrangements that are appropriate for Barbados. Key elements are:

- The framework aims to limit the annual budgeted overall fiscal deficits of the public sector (covering all fiscal activities), to achieve a reduction in public debt to no more than **60 percent of GDP by 2033**.
- **Coverage** of the fiscal rule will take into account all fiscal activities associated with the public sector, including SOEs,[1] as well the fiscal implications of PPPs (capturing all associated actual or contingent fiscal liabilities and risks).
- The rule will establish an **automatic correction mechanism** that would be triggered by substantial cumulative deviations from the annual overall balance target. Once the cumulative deviations exceed a pre-specified threshold, additional fiscal adjustment would be required in subsequent fiscal years to correct for these deviations to bring fiscal performance back in line with the fiscal rule.
- The rule will also include an **escape clause**, limited to major adverse shocks and triggered only with Parliamentary approval. The clause will pre-define a clear list of events or shocks that could have a serious adverse impact on public finances, and specify measurable conditions for triggering the clause, such as declines in projected GDP or fiscal revenues from previous estimates. Validation of the event or shock by the EPOC will be required before the escape clause can be initiated by the Ministry of Finance.
- The Government will consider **institutional arrangements** and other legal options for strengthening the sanction regime and transparency to enhance the credibility of the fiscal rule. Measures could include requiring the EPOC to independently assess macroeconomic projections used in budget preparation and overall fiscal policy, disclose budget execution with respect to the fiscal rule, and support transparency and accountability through Parliamentary hearings by officials. The Minister of Finance will be required to explain deviations that are inconsistent with the fiscal rule in a mid-term budget review in Parliament, and outline corrective steps to get back on track with the annual fiscal rule target.

Reforms to Public Financial Management and the Budget Process

16. We will adopt an action plan for public financial management reform. In this context:

- **Adoption of an amended 2007 Financial Management and Audit (FMA) Act and new Budget Calendar:** Starting with FY2019/20, we will seek for Parliament to adopt budgets for a new fiscal year prior to the start of that fiscal year, on April 1. The FMA Act 2007 law will be amended to establish a permanent binding budget calendar (envisaging budget approval prior to the fiscal year) (*structural benchmark for end-December 2018)*.
- **We will strengthen the strategic phase of the budget formulation process.** The main inputs required are as follows: (i) We will update BERT annually, based in part on expenditure

[1] The term SOEs in this memorandum includes all public entities controlled by the Government, including commercial entities, statutory bodies (SBs), and other public entities.

and revenue reviews, to present a clear articulation of Government's current and medium-term priorities, the Government's fiscal target and macro-fiscal analysis; (ii) we will set budget ceilings in accordance with the updated BERT, and this would guide the allocation process; (iii) Cabinet will provide clear instructions for the budget submissions based on a comprehensive discussion of the needs and priorities of each Ministry and program, including on spending ceilings. We will move away from incremental budgeting.

- **Reform the Budget Documentation to support strengthening the strategic budgeting process and provide more policy oriented information to decision makers.** Usefulness of the medium term fiscal strategy is significantly enhanced if the strategy is written and is explicitly endorsed by Government and/or Parliament, and made available in subsequent steps in the annual budget process. Annual Budget Documentation (Budget Estimates) should provide a comprehensive narrative describing the public finances, and should include an assessment of the alignment between the fiscal framework and the fiscal objective established in the fiscal strategy, and a comprehensive description of all revenue and expenditure measures taken. We will start preparing a mid-year budget review for the discussion in the Parliament on regular basis.

- The Government will strengthen the efficiency and quality of the GOB **procurement process** thereby improving the ease of doing business and reducing costs, including by establishing the office of the Contractor General as an independent entity to review the contracts of the central Government and the statutory corporations. The Contractor General will have the responsibility to report to Parliament annually. We will also establish a College of Negotiators to allow our Government to negotiate the best possible agreements and contracts in the public interest. The capacity of the Public Accounts Committee will be strengthened to carry out its oversight role while ensuring full transparency. These actions will significantly reduce governance and corruption vulnerabilities.
- We will review our legal and regulatory **framework for engaging in Public-Private Partnerships** (PPPs), and will request technical assistance from the IMF in doing so; PPPs can play an important role in sustaining growth and increasing potential growth, when done right.

Debt Restructuring and Reduction

17. Public debt is unsustainable, and we announced a comprehensive debt restructuring, including external debt to commercial creditors and treasury bills, on June 1, 2018. Progress has been made in discussions with domestic and external creditors. An exchange offer for Barbados dollar-denominated debt was issued on September 7, and we aim to table an exchange offer external (US dollar-denominated) debt to commercial creditors shortly. Central government debt held by the CBB and by the NIS will also be restructured; we will develop plans to recapitalize the CBB, and address medium and long term challenges for the NIS stemming from the debt restructuring (*structural benchmark for end-June 2020*).

18. We will seek to strengthen our debt management and we will request technical assistance from the IMF to support the effort. We will develop and implement a medium-term debt management strategy (MTDS), underpinned by a debt management objective to meet the Government's financing needs at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk. We will publish our medium-term debt strategy and borrowing plan with our budget on an annual basis. In addition, we will undertake a review of debt management practices, including an assessment of the effectiveness of the auction mechanism for long-term debt.

19. Domestic expenditure arrears will be gradually reduced and resolved, and we commit not to run new expenditure arrears. The previous administration had been defaulting against payments owed to Barbadians and Barbadian companies. Domestic expenditure arrears are now estimated at 12 percent of GDP. We shall negotiate and settle legitimate arrears, over a period of 5 years. The only way to restore the honour and word of the Barbados Government is to commit from this moment on to run the Government in such a way that all current payments are done on time. We will develop a system for monitoring the arrears of SOEs on an ongoing basis. We will introduce legislation so that all borrowing by SOEs be done through central Government; a program target for non-accumulation of new SOE arrears will be introduced at the time of the first review of our program *(structural benchmark for end-March 2019*).

Public Sector Reform

20. The Government is committed to modernising and improving the efficiency, quality and cost effectiveness of the public sector. A reduction in recurrent expenditures would create room for additional capital spending, a gradual reduction in the stock of domestic expenditure arrears, or a combination of these. Our Government must be made fit to take on the challenges of the twenty first century. Of necessity, this means an analysis of what is essential, what is highly desirable, what is optional, what is essential or optional but better delivered elsewhere. Our Government has undertaken the most comprehensive consultation in our modern economic history from the Social Partnership to the leadership to the wider public. Indeed, almost 5000 persons participated in answering 93 questions in an on-line survey. Generally, there is consensus as to where the transformation must come if we are to make our Government fit. This will mean adjustment and rationalisation of SOEs and some Government Departments. It will also mean retooling and empowering, retraining and enfranchising some of the public sector workers to improve effectiveness. We intend to review public sector labour laws with a view to enhancing flexibility.

21. Reform of State-Owned Enterprises is essential to secure medium term fiscal viability. As indicated earlier, we have developed a framework to restructure and transform our SOEs based on principles of retooling and empowering, retraining and enfranchising of Barbadians. We have conducted a comprehensive review of all state-owned entities, to identify potential for efficiency gains, cost recoveries, and enfranchisement through divestment of entities and/or activities. SOEs listed in the TMU will be required to submit standardized (according to international acceptable standards) quarterly financial reports (*structural benchmark for end-December 2018)*. We will also start preparing a consolidated report on the performance of SOEs on an annual basis, and submit it to Parliament together with the Budget Estimates, with a first report expected by March 2019 (*structural benchmark)*. In addition, we will include a statement of fiscal risks associated with SOEs in the annual budget documentation. We will review all tariffs and fees charged by SOEs by June 2019 (*structural benchmark)*. We will submit to Parliament a revised Financial Management and Audit (FMA) Act conferring greater autonomy to the Ministry of Finance to oversee SOEs, including ensuring compliance with the law for prior approval of all borrowings and other assumptions of liabilities, by end-December 2018. Revisions to the FMA Act will also aim to establish clear definitions for the classification of public entities, and their related roles and responsibilities. It will establish tighter and more precise reporting requirements for SOEs. It will establish sanctions for noncompliance (*structural benchmark by end-December 2018*).

22. The programme includes a range of measures to help mitigate any adverse effects on the vulnerable from the restructuring of the SOEs, including models of worker enfranchisement, preferential access to public procurement and agricultural lands owned by the State for those that have been displaced, as well as enhanced severance packages. We will launch a training and outplacement programme designed to address our needs (*structural benchmark by end-December 2018*), including by identifying critical transformational activities to be performed in the public service, such as medical billing and coding, medical and legal transcription, and the digitisation of records in the public sector to transform to full E-Government.

23. Public sector pension reform aimed at ensuring that the system is sustainable in the long run is a priority. We will review the public sector pension scheme to address its long-run sustainability. To this end, we will table in Parliament a revised public pension law by end-June 2019 (*structural benchmark*). We will carefully weigh different options, with important considerations to making the public service scheme contributory for new employees, increasing the earliest age of eligibility for new employees, and reducing the rate of benefit accrual for each year of service for new employees.

IV. MONETARY AND FINANCIAL SECTOR POLICIES

24. Barbados' exchange rate peg to the US dollar has provided a key anchor for macroeconomic stability since 1975. There is strong commitment among all Social Partners and stakeholders that we must maintain the exchange peg as one of the critical platforms of our stability as a nation. Consequently, we will implement the fiscal and structural policies that will be necessary to support the peg, and rebuild our international reserves to a level that is necessary to protect it.

25. We will amend the Central Bank Law to enhance its autonomy (*structural benchmark by end-June 2019*). This is critical to ensure the continued protection of our exchange rate peg. We will request technical assistance from the IMF in reviewing a Central Bank law, ensuring that the revised law will meet international best practice. We will also request for the IMF to conduct a Safeguards Assessment of the Central Bank of Barbados, to ensure that the Central Bank legal structure and autonomy meet standards required for processing IMF disbursements. This is a standard IMF procedure for all countries using Fund resources. We will ensure that any recommendations from this safeguards assessment will be promptly implemented. The amended Central Bank law will be aimed at enhancing its autonomy.

26. We will continue to reduce Central Bank financing to the Government. We have amended both the Central Bank Act and the FMA Act, and, as referenced above, we will introduce additional amendments with technical assistance from the IMF to adequately strengthen the limitation on Central Bank financing of the Government. We have reduced the limit on the Ways and Means account to 7.5 percent (of CG revenues) from 10 percent.

27. We aim to further liberalize our financial sector. The commercial banks' minimum requirement to hold Government securities, presently at 20 percent of domestic deposits, will be gradually reduced, as monetary conditions permit. We aim to remove the recently introduced FX fee of 2 percent on all FX sales as our reserve positions strengthens.

28. We are keen to foster fintech's potential benefits while, at the same time, mitigating its possible risks to the financial system and to customers. This new technology could have the potential to mitigate the impact on economic activity of the termination of Corresponding Banking Relationships (CBRs) between international banks and indigenous Caribbean banks. A Sandbox Regime for regulation will be developed for fintech start-ups and other innovators, to enable easy, yet safe experimentation of new technologies and approaches (*structural benchmark for end-December 2018*). We will monitor the development of cryptocurrencies and design new regulation as necessary.

V. GROWTH ENHANCING REFORMS

29. The growth strategy of the Barbados Economic Recovery and Transformation Plan rests on five pillars: investing in a high skilled, and knowledge based economy, particularly in skills training and education more generally; better mobilizing private domestic savings for local investment; making Government an enabler of growth by supporting, facilitating, regulating, and partnering with the traditional and non-traditional private sector; and diversifying our economy into new areas such as renewable energy, high-tech and software development to complement a renewed vigor for the traditional services sectors.

30. Many initiatives have already been announced and are in the fiscal projections. These include a large commitment to retooling and retraining Barbadians over the next 4 years across all sectors and at all levels. Our mission must be to deliver global standards while retaining our national identity. We will launch a National First Jobs Initiative and apprenticeship scheme; we have already reintroduced the return to free tertiary education at vocational, technical and undergraduate levels. and integration of the Barbados Community College, Samuel Jackson Polytechnic and the Erdiston Teacher Training College that will improve their offering. We will remain focused nevertheless on achieving efficiency savings in our post-secondary and tertiary institutions with a view to plowing most of any found savings back into enhanced offerings.

31. Actions for promoting growth by improving the business climate are critically important. There is significant room for improvement, as indicated by Barbados' relatively low ranking in the World Bank's Doing Business indicator where Barbados was ranked recently well below key regional peers. Our services must be delivered in accordance with Global standards for that is the market in which we must be competitive if we are to transform our nation. It is particularly important to speed up the process for providing construction permits, and, more generally, quicker licensing processes. We will facilitate more efficient clearing of goods through Customs. The Customs department will focus on facilitating trade and put in place tangible measures to make cargo clearance quicker and easier, and give defined benefits to compliant traders in the form of a trusted trader program, without comprising the revenue to be collected. Online payment for a range of Government activities and services will become the norm and we will also expedite the delivery of passports, driver's licenses, Certificates of Character with the help of new technologies.

32. Program Monitoring. Program implementation will be monitored through prior actions, quantitative performance criteria and indicative targets, and structural benchmarks. It will be subject to semi-annual reviews, with the first, second, and third reviews occurring on or after May 15, 2019, November 15, 2019, and May 15, 2020, respectively.

Table 1. Barbados: Program Monitoring - Quantitative Performance Criteria under the EFF 1/ 2/ 3/

(BRB$ millions, unless otherwise indicated)

	End December 2018	End March 2019	End June 2019	End September 2019	End December 2019	End March 2020
Fiscal Targets						
Performance Criteria						
Floor on the CG Primary Balance 4/	257	343	246	222	464	629
Non-accumulation of CG external debt arrears 4/ 6/	0	0	0	0	0	0
Ceiling on CG Transfers and Grants to Public Institutions 4/	495	732	130	327	487	741
Ceiling on Public Debt 5/	13,629	12,871	12,726	12,582	12,437	12,293
Indicative Targets						
Ceiling on CG Domestic Arrears 5/	1246	1,246	1,100	1,100	971	874
Floor on Social Spending 4/	38	50	13	25	38	50
Monetary Targets						
Performance Criteria						
Ceiling on Net Domestic Assets of the CBB 5/	1,977	1,992	2,007	2,022	2,037	2,047
Floor on Net International Reserves 5/	510	707	679	689	664	881
Memo Items						
IDB budget support 4/	200	200	0	0	100	100
CDB budget support 4/	100	100	0	0	50	50
Grants 4/	17	28	10	10	19	26

Sources: Fund staff estimates.

1/ Test dates for periodic PCs will be end-March and end September of each year. These will be ITs at end-June and end-December. PCs and ITs are further defined in the Technical Memorandum of Understanding (TMU);

2/ Based on program exchange rates defined in TMU;

3/ This table assumes Board approval on October 1, 2018;

4/ Flow (cumulative over the fiscal year);

5/ Stock.

6/ Continuous performance criterion.

Table 2. Barbados: Proposed Structural Program Conditionality		
A. Prior Action		
Reform Area		**Timing**
Debt Restructuring	(1) Government to launch exchange offer for debt restructuring of the stock of central government domestic debt held by private creditors and eligible for debt restructuring consistent with EFF supported program objectives.	7 September 2018 (Completed)
B. Structural Benchmarks		
SOE Reform		
	(2) Parliament to adopt a revised Financial Management and Audit (FMA) Act conferring greater autonomy to the Ministry of Finance and Economic Affairs to oversee SOEs, including prior approval of all borrowings and assumptions of other liabilities. Revisions to the FMA Act will also establish clear definitions for the classification of public entities, and their related roles and responsibilities; and establish tighter and more precise reporting requirements for SOEs, and sanctions for noncompliance.	end-December 2018
	(3) Government to ensure that all SOEs listed in TMU paragraph 2 prepare and submit to the government standardized quarterly financial reports.	end-December 2018
	(4) Government to submit to Parliament a consolidated report on the performance of SOEs, together with budget estimates.	end-March 2019
	(5) Government to conduct a comprehensive review of all tariffs and fees charged by SOEs.	end-June 2019
	(6) Government to introduce a system for monitoring SOE arrears on an ongoing basis.	end-March 2019
	(7) Government to launch a training and outplacement programme to help mitigate effects on the vulnerable from the restructuring of SOEs.	end-December 2018
Growth and Business Climate		
	(8) Parliament to adopt new Town and Country Planning legislation, aimed at streamlining and accelerating the process for providing permits.	end-December 2018
	(9) Government to establish a Sandbox regime for regulation for fintech start-ups	end-December 2018
	(10) Government to adopt a new business plan and staffing strategy for the Corporate Affairs and Intellectual Property Office (CAIPO), with a view of streamlining the registration of new business and strengthening maintenance of commercial records of existing business.	end-March 2019
Central Bank Autonomy		
	(11) Parliament to enact an amended Central Bank Law aimed at enhancing the Central Bank's institutional, personal, and financial autonomy and, in particular, limiting Central Bank financing of the government to short term advances. The revised CBB law, prepared in consultation with IMF staff, will also clarify the	end-June 2019

	mandate of the CBB, and strengthen its decision-making structures.	
Revenue Policy and Administration		
Tax reform	(12) Government to conduct a comprehensive review of the tax system, with inputs from IMF technical assistance.	end-June 2019
BRA	(13) The Barbados Revenue Authority (BRA) to adopt measurable performance targets that increase on-time filing for corporate Income Tax and VAT from current levels (less than 50 percent for both respectively) to 75 percent over calendar year 2019.	end-December 2019
BRA	(14) The Large Taxpayer Unit (LTU) to (i) update all LTU taxpayer accounts ensuring they reflect accurate balances, and (ii) commence the conduct of audits targeting the most current tax period.	end-December 2018
Customs Department	(15) Customs Department to (i) deploy staff to the exemption monitoring unit and undertake at least eight exemption verification assignments in 2019; (ii) train and deploy at least 6 officers in the post clearance audit unit and undertake at least 8 field audits in 2019; (iii) establish a trusted trader program that gives defined benefits to program members by the end of 2018 and have at least eight companies participating by the end of 2019; and (iv) undertake post release verification of entries and subject at least 3500 entries to this control by the end of 2019.	end-December 2019
Public Sector Reform		
Public pension reform	(16) Government to table a revised public pension law to enhance the sustainability of the public sector pension scheme, as discussed in MEFP paragraph 21.	end-June 2019
Public Financial Management		
Fiscal Rule	(17) Government to table legislation for a fiscal rule to enhance fiscal transparency, and lock in the gains of fiscal consolidation, developed with the support of IMF technical assistance.	end-June 2020
Budget formulation process	(18) Government to table a revised Financial Management and Audit (FMA) Act to establish a permanent binding budget calendar, envisaging budget approval prior to the fiscal year.	end-December 2018
CBB and NIS	(19) Government to develop plans to recapitalize the CBB and address medium and long term challenges for the NIS stemming from the debt restructuring.	end-June 2020

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out the understanding between the Barbados authorities and the IMF regarding the definitions of quantitative performance criteria and indicative targets for the program supported by the arrangement under the Extended Fund Facility (EFF). It also describes the modalities for assessing performance under the program and the information requirements for monitoring this performance.

2. The quantitative performance criteria (PCs) and indicative targets (ITs) are shown in Table 1 of the MEFP. Prior actions and structural benchmarks are listed in Table 2 of the MEFP. For program monitoring purposes, PCs and ITs are set for March 31, 2019; September 30, 2019; and March 31, 2020. The same variables are ITs for June 30, 2019 and December 31, 2019.

3. Definitions for the purpose of the program:

- All foreign currency-related assets, liabilities and flows will be evaluated at "program exchange rates" as defined below, with the exception of items affecting government fiscal balances, which will be measured at current exchange rates. The program exchange rates are those that prevailed on 08/29/2018. Accordingly, the exchange rates for the purposes of the program are show in Table 1.

Table 1. Program Exchange Rates (08/29/2018)/1

Barbadian dollar to the US dollar	2.0000
Barbadian dollar to the SDR	0.345745
Barbadian dollar to the euro	2.3392
Barbadian dollar to the Canadian dollar	1.54662
Barbadian dollar to the British pound	2.5739
Barbadian dollar to the East Caribbean dollar	0.74074
Barbadian dollar to the Belizean dollar	1.00000

1/ Average daily selling rates as reported by the CBB.

- The Central Government (CG) consists of the set of institutions currently covered under the state budget including transfers to SOEs.
- CG revenues and expenditures will cover all items included in the CG budget as approved by Parliament.
- The fiscal year starts on April 1 in each calendar year and it ends on March 31 of the following year.
- For program purposes, the definition of debt is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision 15688-(14/107), adopted on December 5, 2014. The term "debt" will be understood to mean

a current; i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this paragraph, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

- Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.
- External CG debt is defined as debt contracted or guaranteed by the CG in foreign currency, while domestic CG debt is defined as debt contracted or guaranteed by the CG in Barbados dollars. The guarantee of a debt by the CG arises from any explicit legal or contractual obligation of the CG to service a debt owed by a third party debtor (involving payments in cash or in kind).
- CG debt is considered contracted when it is authorized by Barbadian law or approved by Parliament and signed or accepted by the relevant authority.
- Public Institutions covered under Section I include:
  - Queen Elizabeth Hospital
  - University of the West Indies
  - Barbados Tourism Marketing Inc.

- Sanitation Service Authority
- Barbados Agricultural Management Corporation
- Barbados Community College
- National Conservation Commission
- Transport Board
- Child Care Board
- NLICO
- Barbados Water Authority
- National Assistance Board
- Barbados Cane Industry Corp.
- Barbados Investment and Development Corporation
- Invest Barbados
- National Housing Corporation
- Barbados Tourism Product Inc.
- Student Revolving Loan Fund
- Urban Development Commission
- Barbados Agricultural Development and Marketing Corporation
- Barbados Tourism Investment Inc.
- Rural Development Commission
- Caves of Barbados Limited
- Barbados Conferences Services
- Fair Trading Commission
- Kensington Management Oval Inc.
- National Accreditation Board
- National Productivity Council
- Financial Services Commission
- Southern Meats
- Gymnasium
- Cultural Industries Development Authority
- Caribbean Broadcasting Corporation

I. QUANTITATIVE PERFORMANCE CRITERIA

A. Floor on the CG Primary Balance

4. The CG primary balance is defined as total revenues and grants minus primary expenditure and covers non-interest government activities as specified in the budget. The CG primary balance will be measured as cumulative over the fiscal year and it will be monitored from above the line.

- Revenues are recorded when the funds are transferred to a government revenue account. Tax revenues are recorded as net of tax refunds. Tax refunds are recorded when the funds for repayment are transferred to the BRA from the Barbados Treasury Department. Revenues will also include grants. Capital revenues will not include any revenues from non-financial asset sales proceeding from divestment operations.

- Central government primary expenditure is recorded on a cash basis and includes recurrent expenditures and capital spending. Primary expenditure also includes transfers to State-Owned Enterprises (SOEs). All primary expenditures directly settled with bonds or any other form of non-cash liability will be treated as one-off adjustments and recorded as spending above-the-line, financed with debt issuance, and will therefore affect the primary balance.

5. Adjustors: The primary balance target will be adjusted upward (downward) by the surplus (shortfall) in disbursements of grants relative to the baseline projection.

6. For the purpose of monitoring, data will be provided to the Fund by the Economic Program Monitor Committee (EPOC) on a monthly basis with a lag of no more than four weeks from the end-of-period (Section C, Table 2).

B. Ceiling on Stock of Net Domestic Assets of the Central Bank of Barbados

7. Net Domestic Assets (NDA) of the CBB are defined in the CBB survey as the difference between the monetary base and NIR (as defined below). The monetary base includes currency in the hands of the non-bank public plus vault cash held in the banking system, statutory cash reserve requirements, and the current account of commercial banks comprising of credit balances held at the Central Bank.

8. For the purpose of monitoring, the data will be reported by the EPOC on a monthly basis, with a lag of no more than two weeks from the end-of-period (Section B, Table 2).

C. Floor on Net International Reserves

9. Net International Reserves (NIR) of the CBB are defined as the difference between reserve assets and reserve liabilities with a maturity of less than one year.

10. Reserve assets are defined as readily available claims on nonresidents denominated in foreign convertible currencies. They include the CBB’s holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the Fund. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currencies vis-a-vis domestic currency (such as futures, forwards, swaps, options et cetera), precious metals other than gold, assets in nonconvertible currencies, and illiquid assets.

11. Reserve liabilities are: (1) all foreign exchange liabilities to residents and nonresidents with maturity of less than one year, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, options, et cetera); (2) all liabilities outstanding to the IMF.

12. Adjustors: The NIR target will be adjusted upward (downward) by 75 percent of the amount of the surplus (shortfall) in program loan disbursements from multilateral institutions (i.e., Caribbean Development Bank (CDB), the Interamerican Development Bank (IDB), and the Development Bank of Latin America (CAF)) relative to the baseline projection. Program loan disbursements are defined as external loan disbursements from official creditors that are usable for the financing of the CG. The NIR target will be adjusted upward (downward) by the surplus (shortfall) in disbursements of budget support grants relative to the baseline projection.

13. For the purpose of monitoring, the data will be reported by the Central Bank on behalf of the EPOC on a daily basis, with a lag of no more than one week from the end-of-period (Section A, Table 2).

D. Non-accumulation of CG external debt arrears (continuous)

14. The CG will not incur new arrears in the payments of its external debt obligations at any time during the program. External arrears are defined as a delay in the payment of contractual obligations beyond the grace period set in the respective loan or debt contracts. Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or for which the government or the institution with government guaranteed debt is pursuing a debt restructuring are excluded from this definition. The performance criterion will be applied on a continuous basis under the program.

15. For the purpose of monitoring, data on external arrears by creditors will be reported immediately by the EPOC.

E. Ceiling on CG Transfers and Grants to Public Institutions

16. CG Transfers and Grants to Public Institutions will include cash transfers and grants to entities listed in paragraph 2 above.

17. For the purpose of monitoring, the data will be measured as cumulative over the fiscal year and it will be reported by the EPOC on a monthly basis, with a lag of no more than four weeks from the end-of-period (Section C, Table 2).

F. Ceiling on the Stock of Public Debt

18. Public debt is defined as domestic and external CG debt, CG guaranteed debt, and arrears. For program purposes, the stock of CG and CG guaranteed debt is measured under the disbursement basis excluding valuation effects. Program FX rates defined in Table 1 will be used to value debt in FX.

19. Adjustors: The ceiling on stock of public debt will be adjusted upwards by the full amount of the surplus in disbursements from multilateral institutions (i.e., Caribbean Development Bank (CDB), the Interamerican Development Bank (IDB), and the Development Bank of Latin America (CAF)) relative to the baseline projection. The ceiling on stock of public debt will be adjusted downward by the amount of nominal debt forgiveness in the case of debt restructuring.

20. For the purpose of monitoring, the CG debt and CG guaranteed debt data by issuer, creditor, maturity, and currency will be reported to the Fund by the EPOC on a quarterly basis, with a lag of no more than four weeks from the end-of-period (Section D, Table 2). Data on external and domestic arrears will be reported to the Fund by the EPOC as set forth elsewhere in this TMU.

II. INDICATIVE TARGETS

A. Ceiling on Stock of Domestic CG Arrears

21. The stock of domestic payment arrears of the CG is defined as the sum of: (a) any invoice that has been received by a spending agency from a supplier of goods, services, and capital goods delivered and verified, and for which payment has not been made within the contractually agreed period (taking into account any applicable contractual grace period), or in the absence of a grace period, within 60 days after the due date; (b) non-contributory pension transfers (by CG only), wages and pensions contributions to the NIS for which payment has been pending for longer than 60 days; (c) rent and loan payments to the NIS pending for longer than 60 days; and (d) arrears on refunds of Personal Income Tax (PIT), Reverse Tax Credit (RTC), Corporate Income Tax (CIT), and Value Added Tax (VAT). Tax refund arrears are defined as obligations on tax refunds in accordance with tax legislation that remain unpaid six months after the filing date.

22. For the purpose of monitoring, the data on CG domestic arrears and its components by creditors will be measured as cumulative over the fiscal year and it will be reported by the EPOC on a quarterly basis, with a lag of no more than four weeks from the end-of-period. (Section D, Table 2).

B. Floor on CG Social Spending

23. The indicative floor on social spending of the CG will apply only to expenditures incurred by the CG on the following plans and programs that are intended to have a positive impact on education, health, social protection, housing and community services and recreational activities:

- Welfare Department spending including cash transfers and assistance for house rents, utilities, food, and education to the poor and vulnerable;
- Child Care Board spending on protection of vulnerable children;
- Youth Entrepreneurship Scheme assisting jobless youth to start own businesses;
- Strengthening Human and Social Development programme targeting the unemployed and vulnerable families and youth;
- Alternative Care for the Elderly programme targeting the elderly transferred to private care;
- Provision of medication to HIV patients.

24. For the purpose of monitoring, the data will be measured as cumulative over the fiscal year and it will be reported by the EPOC on a quarterly basis, with a lag of no more than four weeks from the end-of-period (Section D, Table 2).

III. PROGRAM REPORTING REQUIREMENTS

25. Performance under the program will be monitored from data supplied to the IMF by the EPOC as outlined in Table 2. The authorities will transmit promptly to IMF staff any data revisions as well as other information necessary to monitor the arrangement under the EFF.

Table 2. Summary of Data to be Reported to the IMF

In what follows Financial Sector and External sector data is to be provided by the CBB, Real and Fiscal sector data by the MOF, in consultation with relevant agencies unless otherwise noted.

A. Reporting on a daily basis, with a lag of no more than one week of the end-of-period

- CBB NIR, as defined in section I.
- CBB GIR.

B. Reporting on a monthly basis, with a lag of no more than two weeks of the end-of-period

Financial Sector

- CBB NDA, as defined in section I.
- CBB survey showing the detailed composition of net foreign assets (NFA), net claims on the central government (NCCG), claims on other depository corporations (CODC), claims on other sectors of the economy (COSE), other items net (OIN), and monetary base (MB).
- Other Depository Corporations (ODC) survey showing the gross items for NFA, claims on the CBB, net claims on the CG (NCCG), COSE, OIN, deposits included in broad money (BM), deposits excluded from BM, and liabilities to the CBB.
- Depository Corporations (DC) survey as the consolidation of CBB and ODC surveys showing the gross items for CBB NFA, ODC NFA, ODC NCCG, COSE, OIN, and BM.
- CBB purchases and sales of foreign exchange
- Amounts offered, demanded and placed in government auctions and primary issues; including minimum maximum and average bid rates.
- Statement of use and outstanding balance of the CG deposit in the CBB.

C. Reporting on a monthly basis, with a lag of no more than four weeks of the end-of-period

Real Sector

- RPI index, its components, and weights.

Fiscal Sector

- CG budgetary accounts.
- Net Domestic Financing and its components.
- Net External Financing and its components.
- Grants and Transfers to Public Institutions and its components as defined in Section I.
- Stock of CG external arrears (interest and principal amounts separately) by creditor and its components as defined in Section I. This will be reported immediately.
- Social Expenditure and its components as defined in Section II.
- Program loan disbursements from multilateral institutions, including the CDB, the IDB, and the CAF, as defined in section I.
- Budget support grants as defined in section I.
- Liabilities of public-private partnerships (PPPs) (if any).

External Sector

- Balance of Payments accounts.
- CBB's Cashflow Table deriving GIR and NIR.

D. Reporting on a quarterly basis, with a lag of no more than four weeks of the end-of-period

Real Sector

- Tourism and other real sector high frequency indicators.

Fiscal Sector

- Financial position of Public Institutions listed in paragraph 2 including non-audited income statement, balance sheet and profit and loss accounts.
- CG domestic debt stock data by creditor/holder and by maturity (ST <= 1 year, and LT > 1 year maturity).
- CG external debt stock data by creditor/holder and by maturity (ST <= 1 year, and LT > 1 year maturity).
- CG domestic guaranteed debt stock data by creditor/holder and by maturity (ST <= 1 year, and LT > 1 year maturity).
- CG external guaranteed debt stock data by creditor/holder and by maturity (ST <= 1 year, and LT > 1 year maturity).
- SOE domestic non CG guaranteed debt stock data by creditor/holder and by maturity (ST <= 1 year, and LT > 1 year maturity).
- SOE external non CG guaranteed debt stock data by creditor/holder and by maturity (ST <= 1 year, and LT > 1 year maturity)
- Quarterly LT and ST debt amortization and interest projections separate for CG domestic, CG external, CG guaranteed domestic and CG guaranteed external debt.
- Copies of loan agreements for any new loan contracted, including financing involving the issue of government paper, and of any renegotiated agreement on existing loans.
- Stock of CG domestic arrears by creditor and its components as defined in Section II.
- Stock of Tax Refunds and its components as defined in Section II.

Financial Sector

- CBB Balance sheet
- The following financial stability indicators by bank and by sector:
    - Regulatory capital
    - Regulatory Tier 1 capital
    - Risk-weighted assets
    - Total assets
    - Total liabilities
    - Nonperforming loans in BB$ millions
    - Non-performing loans net of provisions
    - Gross loans
    - Sectoral distribution of loans to total loans
    - Return on assets

- Return on equity
- Interest margin
- Gross income
- Noninterest expenses
- Liquidity coverage ratio
- Liquid assets
- Short-term liabilities
- Net open position in foreign exchange
- Large exposures to capital
- Gross asset position in financial derivatives
- Gross liability position in financial derivatives
- Total income
- Personnel expenses
- Noninterest expenses
- Spread between reference lending and deposit rates (base points)
- Highest interbank rate
- Lowest interbank rate
- Customer deposits
- Total (non-interbank) loans
- Foreign-currency-denominated loans
- Foreign-currency-denominated liabilities
- Net open position in equities
- Net profits of the banking sector

E. Reporting on an annual basis, within 6 weeks of the end-of-period

- Nominal and real GDP and its components from the demand and supply side (provided by the MOF).
- Audited financial statements of Public Institutions listed in Paragraph 2 within 12 weeks of the end-of-period.
- Audited financial statements of Commercial Banks.
- Summary of legislative changes pertaining to economic matters.
- Notification of establishment of new Public Institutions.
- Notification of change in juridical status of existing Public Institutions.

Appendix II. Public Debt Sustainability Analysis

Under the EFF supported program, public debt is sustainable and projected to decrease from about 157 percent of GDP at end-March 2018 to about 95 percent of GDP by FY2023/24, consistent with an intermediate debt target of 80 percent by FY2027/28, and a long-term debt target of 60 percent by end-FY2033/34. The debt restructuring delivers around 33 percent of GDP in debt relief, helps to bring about favorable automatic debt dynamics, and pushes gross financing needs well below the 15 percent of GDP threshold.

A. Public Debt–Recent Trends

1. **Public debt[1] is about 157 percent of GDP**. Of this, about 136 percent of GDP was issued by the CG, 10 percent of GDP was issued by SOEs[2] and guaranteed by the CG, while domestic expenditure arrears amounted to 14 percent of GDP. Around 4 percent of GDP is guaranteed debt serviced by SOEs, while the remaining 6 percent of GDP is serviced directly by the CG. As of end FY 2017/18, no external arrears had been accumulated. This debt sustainability analysis (DSA) annex covers the full stock of public debt.

Domestic Debt Issued by CG

2. **Domestic debt increased sharply between FY2009/10-17/18, while its profile worsened** (text table). Between FY 2009/10-17/18, CG debt increased from 87 to 136 percent of GDP. The share of short term debt more than doubled from 17 to 36 percent, leading to a comparable increase in gross financing needs (GFN). The private sector holds 54 percent of GDP in domestic debt. The CBB has rapidly increased its holdings from 1 percent of GDP to 19 percent of GDP to compensate for the increasing unwillingness of the private sector to lend to the government, especially long term. Over the same period, banks' share of total domestic debt decreased from 37 to 26 percent, and their holdings of ST domestic debt increased from 32 to 64 percent (text table).

External Debt

3. **External debt is relatively low but a lumpy repayment schedule (prior to debt restructuring) raised liquidity risk concerns**. External debt is only long term and mainly held by commercial entities (in the form of loans and bonds) in the amount of 16 percent of GDP. Between FY2009/10-14/15, external debt increased from around 25 to 31 percent of GDP, but after that it declined to around 27 percent of GDP owing to a loss of market access. As Barbados has not tapped the international markets in recent years, it has not suffered from the effects of rising external

[1] Public debt includes Central Government debt, Central Government guaranteed debt, arrears, and IMF BOP support.

[2] All SOEs are covered.

funding costs associated with repeated downgrades of its sovereign rating. Yields on international bonds are high and have increased sharply after the debt restructuring was announced (Figure 4).

Public Debt Structure and Profile 1/
(Percent of FY GDP, unless otherwise indicated)

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Estimate 2017/18
					Public Debt Structure				
Public debt	100.0	108.2	112.6	123.7	135.2	139.2	146.7	149.1	157.3
Arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.8
CG debt - guaranteed	13.5	14.6	15.1	15.2	14.9	16.4	14.1	12.7	9.7
CG debt	86.5	93.6	97.6	108.4	120.2	122.8	132.6	136.4	135.9
CG debt (Domestic)	61.3	65.9	70.2	82.2	90.4	93.0	102.0	107.8	108.6
By creditor									
Private Sector	37.8	39.6	41.9	50.7	53.7	53.9	56.7	52.6	54.1
Commercial banks and trusts 2/	22.9	23.0	23.5	29.2	31.6	29.4	31.2	26.1	28.4
Insurance companies	4.9	5.9	7.2	9.5	9.4	8.9	8.7	8.1	7.3
Other private sector 3/	9.9	10.7	11.2	12.1	12.7	15.6	16.9	18.4	18.4
Public Sector	23.5	26.3	28.3	31.4	36.8	39.1	45.3	55.3	54.5
CBB	1.2	0.8	2.0	1.7	4.8	7.2	11.9	19.4	19.0
NIS	22.3	25.5	26.3	29.7	32.0	31.8	33.3	35.7	34.2
Other public sector 4/	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	1.3
By security									
Tbills	10.4	11.7	13.2	18.8	24.5	26.4	30.7	36.0	39.1
Debentures	42.0	45.5	48.4	54.8	56.4	57.7	62.6	63.1	60.8
Other security 5/	8.8	8.7	8.7	8.5	9.5	8.9	8.7	8.7	8.8
CG debt (External)	25.2	27.7	27.3	26.3	29.8	29.8	30.6	28.5	27.3
Multilateral	6.1	7.0	7.8	7.5	8.0	8.6	10.4	9.7	10.2
Bilateral	1.2	1.0	0.8	0.7	0.6	0.5	0.4	0.8	1.3
Commercial and PPP related	17.9	19.7	18.7	18.1	21.2	20.7	19.9	18.1	15.7
					CG Debt Profile				
Share of ST debt	12.1	12.5	13.5	17.3	20.4	21.5	23.1	26.4	28.8
Share of FX debt 6/	29.2	29.6	28.0	24.2	24.8	24.3	23.1	20.9	20.1
Share of banks' holdings of domestic debt	37.4	34.9	33.4	35.5	34.9	31.6	30.6	24.2	26.2
Share of ST debt in banks' holdings	32.1	34.4	34.8	48.1	53.4	54.0	62.0	58.4	63.7
Memo items									
Nominal GDP (FY BDS$ mln)	8,963.5	9,123.7	9,291.6	9,253.8	9,364.0	9,407.2	9,508.5	9,755.7	10,070.1

Sources: Barbados Statistical Service, Central Bank of Barbados, and Fund staff calculations.
1/ Including CG debt, CG guaranteed debt, and arrears;
2/ Including loans and advances;
3/ Pension funds and households;
4/ SOEs and statutory boards;
5/ Inlcuding loans and advances, and savings bonds;
6/ The CG does neither issue FX debt to residents nor BRB$ debt to non reisdents, so CG FX debt = CG external debt.

B. Public Debt Sustainability Assessment Assumptions

4. The specific assumptions used in this annex are:

- ***Growth and Inflation.*** Growth is projected to dip to minus 0.5 percent in 2018 due to weakness in construction, the fiscal consolidation and policy uncertainty. It is expected to recover slowly in the medium term, returning to around 1 percent in 2020. Inflation is projected to peak to an annual average of 5.1 percent due to the pass-through from the higher taxes, then return to a long-run average of around 3.3 percent; also because of the elimination of the NSRL tax on consumption. The fiscal multiplier used is 0.3 reflecting the

FAD methodology staff's guidance on fiscal multipliers.[3] Beyond FY 2022/23, growth and inflation are assumed to remain at 1.8 and 2.3 percent, respectively.

- ***Primary Balance.*** The primary balance increases from 3.3 percent of GDP in FY 2017/18 to 6 percent in FY 2019/20 where it remains until FY 2021/22. The primary balance is assumed to gradually decrease to 3.5 percent and stabilize at this level until the debt target is met.[4]

- ***Domestic arrears.*** Estimation of domestic arrears involved netting out intra-agency arrears. Private sector arrears include assessed tax arrears and other private sector claims.[5] There is no accumulation of domestic arrears and the stock at FY 2018/19 is gradually brought down to zero by end-FY 2022/23.

- ***External arrears.*** There is no accumulation of external arrears during the projection period. External arrears have been incurred with external commercial creditors following the June 1 debt restructuring declaration; the authorities have reached out to these creditors and are making good faith efforts to reach a collaborative agreement with them. In the period June-September 2018 these external arrears are estimated at BB$74 million (0.7 percent of GDP).

- ***Public debt restructuring perimeter.*** The debt restructuring perimeter covers all public debt excluding multilateral debt, and guaranteed debt directly serviced by SOEs.

- ***Public debt relief.*** In 2018/19, an immediate reduction in the stock of debt (about 33 percent of GDP) is achieved by: (i) lifting the guarantee on guaranteed debt serviced directly by SOEs in the amount of about 4 percent of GDP; (ii) by writing off CBB's holdings of government debt in the amount of about 16 percent of GDP; (iii) by cancelling out debt held as assets in the central government Sinking Fund[6] in the amount of 3 percent of GDP (iv) by writing off external commercial debt in the amount of about 3 percent of GDP; and (v) by writing off NIS holdings of government debt in the amount of 7 percent of GDP. In FY 2019/20 and 2020/21, an additional debt relief of about 3 percent of GDP is achieved through write-offs of external commercial debt.

[3] See the staff's methodology guidance note on fiscal multipliers. https://www.imf.org/external/pubs/ft/tnm/2014/tnm1404.pdf

[4] See main text for the description of the fiscal adjustment, the measures adopted to support it and why staff assesses this adjustment as sustainable.

[5] The majority of arrears to the private sector is represented by tax arrears (87 percent of total or 3.7 percent of GDP). These have been assessed by the BRA. Other private sector claims (13 percent of total or 0.5 percent of GDP) have not been audited.

[6] The Sinking Fund is a central government asset portfolio, managed by the CBB, that services central government debt falling due.

5. The key elements of the debt exchange offer are as follows:[7]

- ***Small investors: T-bills, treasury notes, and debentures*** These include: (i) T-bill, treasury notes and debenture holdings of individuals, pensioners and trusts for individual and pensioners; and holdings of churches and credit unions. Small investors' holdings of T-bills, treasury notes and debenture will be converted into 15-year debentures, with a 4-year grace period, paying 1 percent interest during the first 3 years, 2.5 percent for the next four years, followed by 3.75 percent interest for the remaining years.

- ***Commercial banks: T-bills,[8] treasury notes and debentures.*** 15 percent of commercial banks' holdings of T-bills, treasury notes and debentures will be exchanged for new 90-day T-bills with an annual interest rate of ½ of a percent. Banks will be expected to rollover this portfolio of T-bills for 10 years while the minimum statutory requirement is gradually lowered. The remaining stock of commercial banks' holdings of T-bills, treasury notes and debentures will be converted into new 15-year debentures offered to individuals.

- ***Life insurers: T-bills, treasury notes and debentures.*** Life insurers' holdings of T-bills and 15 percent of their holdings of treasury notes and debentures will be swapped for new 15-year debenture offered to individuals and commercial banks. The remaining stock of Life insurers' holdings of treasury notes and debentures will be converted into new 35-year debentures, with a 15-year grace period, paying 1.5 percent interest per annum for the first 5 years; 4.5 percent for the next 5 years; 6 percent for the next 5 years; followed by 7.5 percent interest for the remaining years.

- ***General insurers: Treasury notes and debentures.*** General insurers' holdings of T-bills will be exchanged for new 15-year debenture offered to individuals and commercial banks; and their holdings of treasury notes and debentures will be exchanged for the new 15-year debenture offered to banks.

- ***All other holdings (including claims on SOEs) of investors.*** All other claims of private (institutional) investors, including claims on SOEs that depend on central government transfers will be converted into the new 15-year debenture offered to banks.

- ***CBB: T-bills, treasury notes and debentures.*** In exchange for its existing portfolio of T-bills, treasury notes and debentures the CBB will receive a portfolio of equally-weighted tradable benchmark treasury notes and debentures with maturities ranging from 5–25 years and a portfolio of 6-month T-bills, priced from the CBB's June 1 yield curve. This new portfolio will contribute sufficiently to the income the CBB requires to meet its expenses. At the same time, the securities will provide the CBB with the instruments it requires to

[7] See the Government of Barbados Domestic Debt Exchange Offer - http://gisbarbados.gov.bb/blog/bbd-debt-exchange-offer-summary/

[8] After the debt restructuring, it will be important to seek to re-establish a market for treasury bills to facilitate liquidity management and support financial market development.

implement its monetary policy. The benchmark treasury notes and debentures will also help to preserve a domestic government yield curve and facilitate pricing of corporate securities and the return to normal functioning of domestic capital market post-restructuring.

- ***NIS: T-bills, treasury notes and debentures.*** T-bills held by the NIS will be swapped for the new 15-year debenture; and its treasury notes and debentures will be exchanged for a 20-year discount debenture. The debenture will have with a 2-year grace period. Principal will be reduced by 17.5 percent at the issuance of the security; after the 2nd successful review under the proposed EFF-supported program, principal will be reduced by an additional 12.5 percent of the original principal; and after the 4th successful review under the proposed EFF-supported program, principal will be reduced by a final 5 percent of the original principal. Interest will be paid at a rate of 4 percent per annum for the first 3 years, followed by an interest rate of 8 percent per annum for remaining years.

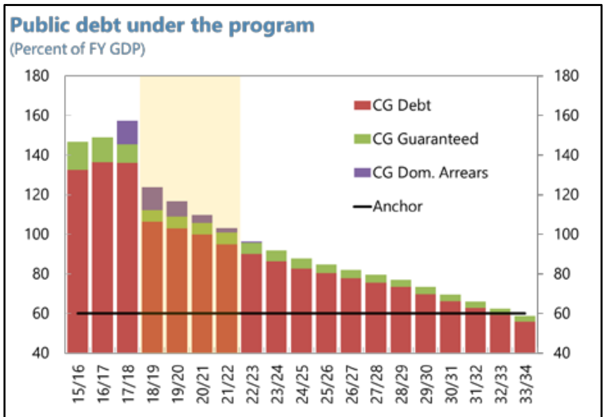
- ***Natural Disaster Clause.*** The Government proposes that excepting T-bills, each of the new debt instruments to be issued as part of the restructuring should include a clause that would offer both creditors and Barbados some protection against future debt distress caused by a major natural disaster. This 'natural disaster' clause would allow for the capitalization of interest and the deferral of scheduled amortizations falling due over a two-year period following the occurrence of a major natural disaster. The trigger for a natural disaster 'event' would be a payout above a predetermined threshold by the Caribbean Catastrophe Risk Insurance Facility (CCRIF) under the Government's catastrophe insurance policy.

- Such clauses, first used by Grenada in its 2015 restructuring, have received recognition and support from the IMF and others in the international financial community as a means to reduce the likelihood of default among vulnerable countries that are exposed to the increasingly unpredictable consequences of global climate change. Given Barbados's exposure to natural disasters, to achieve fiscal sustainability without such a natural disaster clause, the government would need to seek larger NPV reduction of its debt from debt restructuring.

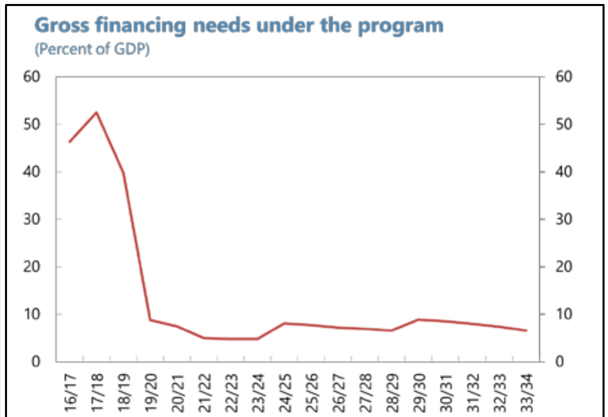
- The government and its financial advisors are still negotiating with external creditors the exchange terms for their outstanding claims.

6. Public debt-to-GDP ratio is projected to fall to 95 percent by end-FY2023/24. Over the projection period, public debt dynamics are primarily impacted by: (i) primary surplus, with a cumulative impact of about -33 pp of GDP; (ii) interest rate – growth differential with a cumulative impact of about 1.3 pp of GDP; and (iii) debt relief in the form of haircut to external commercial debt, CBB holdings, NIS holdings and the lifting of guarantee on guaranteed debt directly serviced by SOEs, with a cumulative impact of about -31 pp of GDP.

7. Public debt is projected to reach its intermediate anchor of 80 percent of GDP by end-FY 2027/28 and its long-term anchor of 60 percent of GDP by end-FY 2033/34 (text chart). Debt sustainability is due mainly to: (i) large debt relief achieved by the debt restructuring; (ii) external arrears that do not accumulate as debt is restructured in FY2018/19; (iii) gross financing needs that are reduced below the 15 percent of GDP threshold after the first projection year; and (iv) domestic interest expenditure that is reduced drastically over the full projection period. This contributes to favorable automatic debt dynamics.



Sources: Fund staff calculations.



Sources: Fund staff calculations.

8. **Stress tests suggest reduced risks to the debt profile after the debt restructuring and meaningfully affecting debt dynamics as combined or contingent liability shocks**. Risk reduction is due to three key reasons:

- **Debt starts at a very high level but rapidly decreases.** The high level of debt remains a concern in the first 5 projection years. However, its sensitivity to interest rate shock decreases as the debt restructuring has drastically reduced the rollover risk associated with short-term debt that has now been restructured into longer-term maturities.

- **Gross financing needs are reduced after the first projection year** to less than 10 percent of GDP. The relatively high GFN level overestimates refinancing risk as about 5 percentage points are represented by a stock of T-bills used by the CBB for monetary policy operations (about 2 percentage points of GDP); and a stock of T-bills that banks need to rollover by regulation (about 3 percentage points of GDP).

- **Other historical debt profile risks are negligible**. Market perception of Barbados debt has worsened after the announcement of the debt restructuring—on June 6, 2018, Standard and Poor's downgraded Barbados to SD. Historically, short term debt has increased very rapidly when agents shifted from long term to short term debt in anticipation of a debt crisis. However, external financing requirements are not a concern as these are reduced to 1 percent and the foreign currency debt is very low.

- **After the debt restructuring, individual stress tests** suggest negligible impact on debt dynamics, but a combined macro-fiscal shock increases debt by 15 percent of GDP and contingent liability shock by 20 percent of GDP by 2023. Real growth and inflation assumptions are conservative while the targeted primary surpluses are ambitious.

Figure 1. Barbados Public Sector Debt Sustainability Analysis (DSA)

(in percent of GDP, unless otherwise indicated)

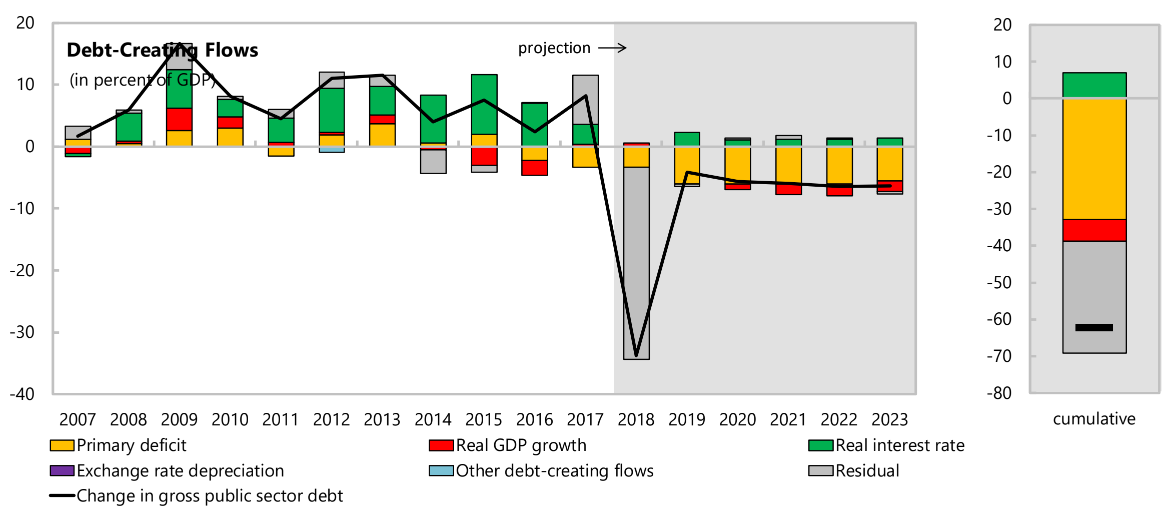
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2007-2015 [2]	2016	2017	2018	2019	2020	2021	2022	2023
Nominal gross public debt	114.0	149.1	157.3	123.6	119.4	113.8	107.9	101.4	95.1
Of which: guarantees	14.3	12.7	9.7	5.9	5.8	5.7	5.5	5.2	5.0
Public gross financing needs	30.6	46.3	52.5	39.8	8.8	7.5	5.0	4.8	4.8
Real GDP growth (in percent)	-0.5	1.7	-0.3	-0.4	0.1	0.8	1.6	1.8	1.8
Inflation (GDP deflator, in percent)	1.6	0.9	3.5	3.3	1.1	2.0	2.3	2.3	2.3
Nominal GDP growth (in percent)	1.1	2.6	3.2	2.9	1.1	2.9	4.0	4.2	4.2
Effective interest rate (in percent) [4]	6.2	5.9	5.7	3.2	2.9	3.0	3.4	3.5	3.8

As of August 21, 2018		
Sovereign Spreads		
EMBIG (bp) 3/		560
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	n.a.	n.a.
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	7.9	2.4	8.2	-33.7	-4.2	-5.6	-5.9	-6.5	-6.3	-62.2	
Identified debt-creating flows	6.9	2.4	0.3	-2.8	-3.8	-5.8	-6.6	-6.7	-5.9	-31.7	
Primary deficit	1.5	-2.2	-3.3	-3.3	-6.0	-6.0	-6.0	-6.0	-5.5	-32.8	-0.4
Primary (noninterest) revenue and gran	26.1	28.2	28.4	29.6	31.1	31.0	30.2	30.2	30.2	182.3	
Primary (noninterest) expenditure	27.7	26.0	25.1	26.2	25.1	25.0	24.2	24.2	24.7	149.5	
Automatic debt dynamics [5]	5.5	4.7	3.6	0.5	2.2	0.2	-0.6	-0.7	-0.4	1.1	
Interest rate/growth differential [6]	5.5	4.7	3.6	0.5	2.2	0.2	-0.6	-0.7	-0.4	1.1	
Of which: real interest rate	5.1	7.0	3.3	-0.1	2.3	1.1	1.2	1.2	1.4	7.0	
Of which: real GDP growth	0.4	-2.4	0.4	0.6	-0.1	-1.0	-1.7	-1.9	-1.8	-5.9	
Exchange rate depreciation [7]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Gross financing sources - external - Pr	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroa	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8]	0.9	0.0	7.9	-30.9	-0.3	0.2	0.7	0.2	-0.4	-30.5	



Source: IMF staff.

1/ Public sector is defined as central government and includes public guarantees, defined as SOE debt.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

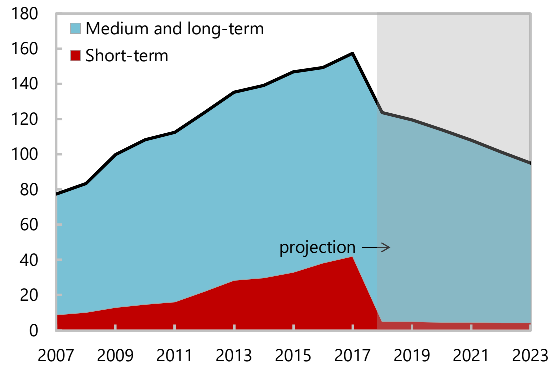
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Barbados Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

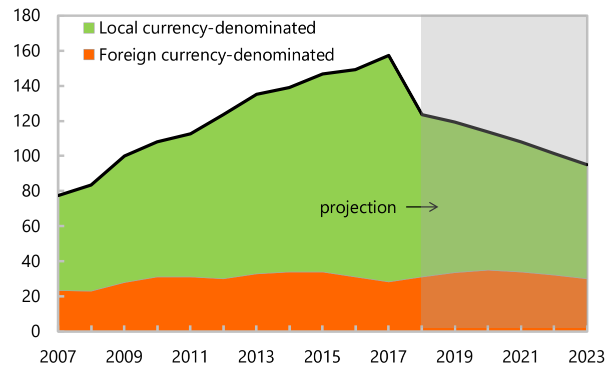
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

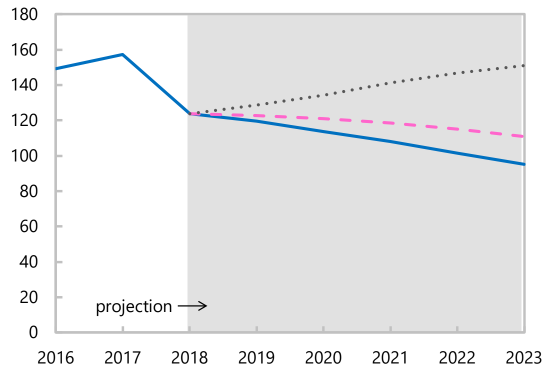


Alternative Scenarios

Baseline Historical Constant Primary Balance

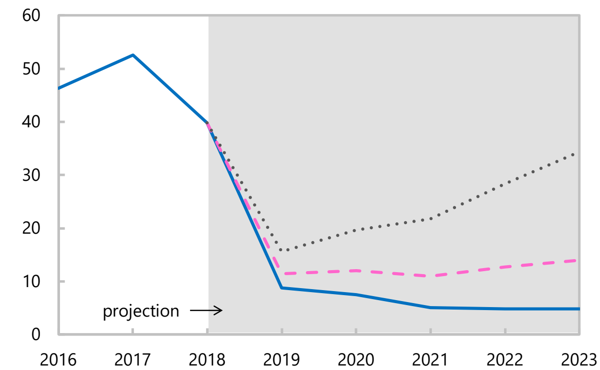
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

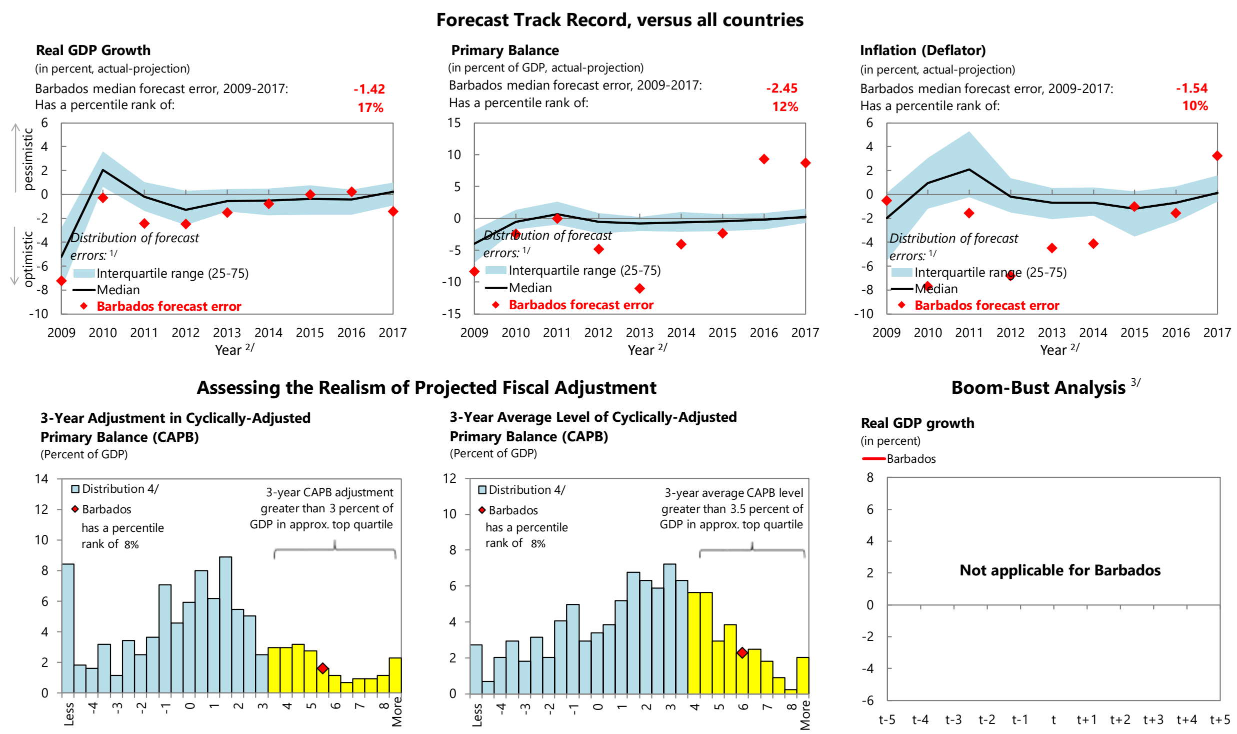
(in percent)

Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	-0.4	0.1	0.8	1.6	1.8	1.8
Inflation	3.3	1.1	2.0	2.3	2.3	2.3
Primary Balance	3.3	6.0	6.0	6.0	6.0	5.5
Effective interest rate	3.2	2.9	3.0	3.4	3.5	3.8
Constant Primary Balance Scenario						
Real GDP growth	-0.4	0.1	0.8	1.6	1.8	1.8
Inflation	3.3	1.1	2.0	2.3	2.3	2.3
Primary Balance	3.3	3.3	3.3	3.3	3.3	3.3
Effective interest rate	3.2	2.9	3.0	3.3	3.3	3.5

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5
Inflation	3.3	1.1	2.0	2.3	2.3	2.3
Primary Balance	3.3	-0.7	-0.7	-0.7	-0.7	-0.7
Effective interest rate	3.2	2.9	3.3	3.9	4.0	4.2

Source: IMF staff.

Figure 3. Barbados Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

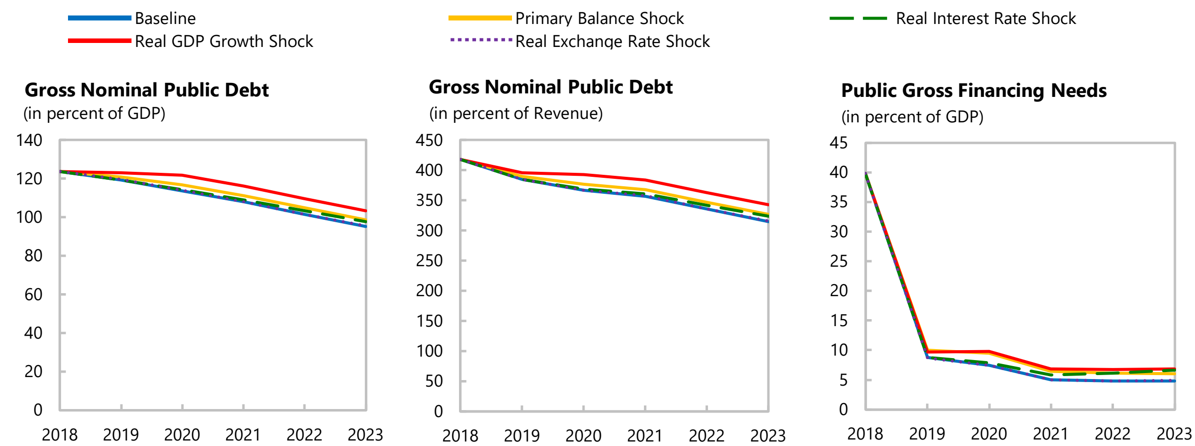
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Barbados, as it meets neither the positive output gap criterion nor the private credit growth criterion.

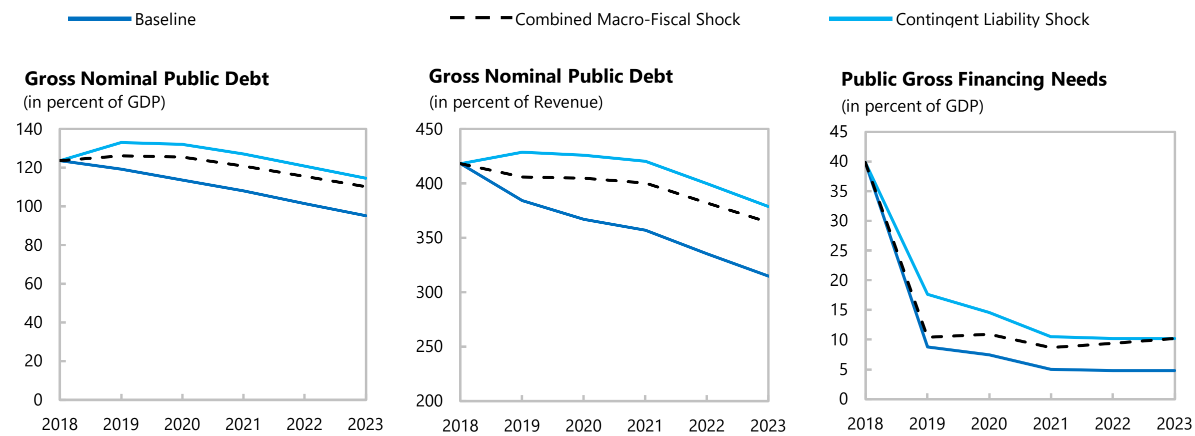
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Barbados Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	-0.4	0.1	0.8	1.6	1.8	1.8
Inflation	3.3	1.1	2.0	2.3	2.3	2.3
Primary balance	3.3	4.8	4.8	6.0	6.0	5.5
Effective interest rate	3.2	2.9	3.0	3.4	3.5	3.7
Real Interest Rate Shock						
Real GDP growth	-0.4	0.1	0.8	1.6	1.8	1.8
Inflation	3.3	1.1	2.0	2.3	2.3	2.3
Primary balance	3.3	6.0	6.0	6.0	6.0	5.5
Effective interest rate	3.2	2.9	3.3	4.0	4.2	4.5
Combined Shock						
Real GDP growth	-0.4	-1.7	-1.0	1.6	1.8	1.8
Inflation	3.3	0.6	1.6	2.3	2.3	2.3
Primary balance	3.3	4.8	4.8	6.0	6.0	5.5
Effective interest rate	3.2	3.0	3.4	4.0	4.2	4.6

Real GDP Growth Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	-0.4	-1.7	-1.0	1.6	1.8	1.8
Inflation	3.3	0.6	1.6	2.3	2.3	2.3
Primary balance	3.3	5.4	4.9	6.0	6.0	5.5
Effective interest rate	3.2	2.9	3.0	3.4	3.5	3.7
Real Exchange Rate Shock						
Real GDP growth	-0.4	0.1	0.8	1.6	1.8	1.8
Inflation	3.3	2.7	2.0	2.3	2.3	2.3
Primary balance	3.3	6.0	6.0	6.0	6.0	5.5
Effective interest rate	3.2	3.0	3.0	3.5	3.5	3.8
Contingent Liability Shock						
Real GDP growth	-0.4	-1.7	-1.0	1.6	1.8	1.8
Inflation	3.3	0.6	1.6	2.3	2.3	2.3
Primary balance	3.3	-2.4	6.0	6.0	6.0	5.5
Effective interest rate	3.2	3.0	3.1	3.4	3.5	3.7

Source: IMF staff.

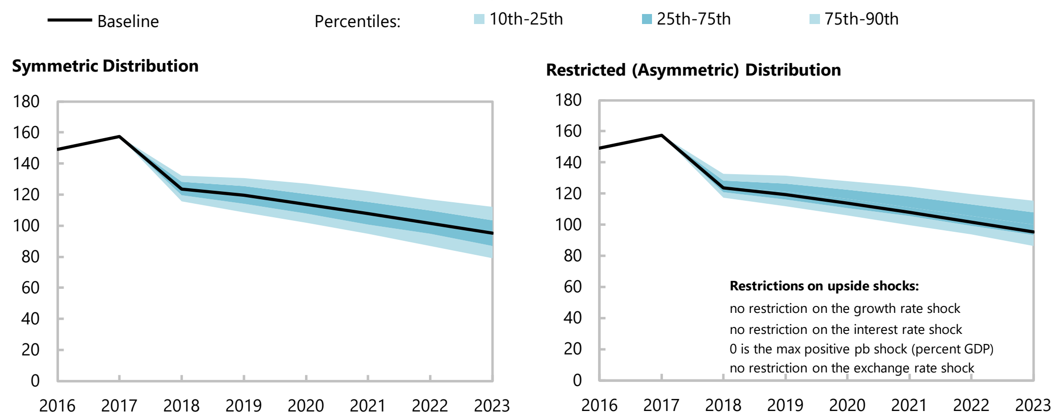
Figure 5. Barbados Public DSA Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

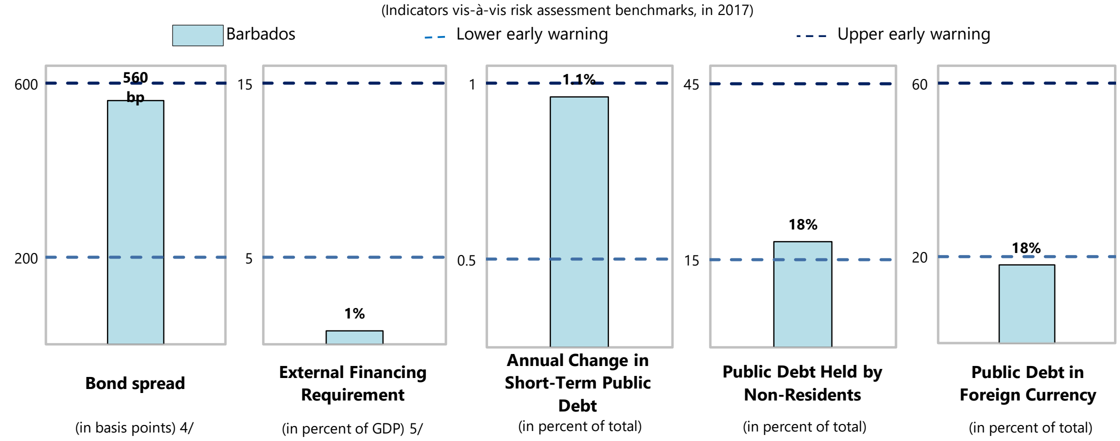
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2017)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 23-May-18 through 21-Aug-18.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Appendix III. Indicators of Fund Credit

Barbados: EFF Indicators of Fund Credit

(SDR million, unless otherwise indicated)

		Projections														
		2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
Prospective Drawings	a	35.0	70.0	52.0	34.0	17.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of quota 1/		37.0	74.1	55.0	36.0	18.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	b	0.0	0.0	0.0	0.0	0.0	8.7	20.4	27.6	33.2	34.7	34.7	25.9	14.3	7.1	1.4
Total Interest/Charges 2/	c	0.4	1.8	3.1	3.9	4.9	5.1	4.6	3.9	3.3	2.6	2.0	1.3	0.9	0.6	0.5
Total Debt Service	d=b+c	0.4	1.8	3.1	3.9	4.9	13.8	25.0	31.4	36.5	37.3	36.6	27.2	15.1	7.7	1.9
Percent of exports		0.0	0.1	0.2	0.2	0.3	0.8	1.4	1.6	1.8	1.8	1.7	1.2	0.7	0.3	0.1
Percent of GDP		0.0	0.0	0.1	0.1	0.1	0.3	0.6	0.7	0.7	0.7	0.7	0.5	0.3	0.1	0.0
Percent of quota 1/		0.4	1.9	3.3	4.1	5.1	14.6	26.5	33.3	38.6	39.4	38.7	28.8	16.0	8.2	2.0
Outstanding Credit	e=e(-1)+a-b	35.0	105.0	157.0	191.0	208.0	199.3	178.8	151.3	118.0	83.3	48.7	22.8	8.5	1.4	0.0
Percent of exports		2.3	6.6	9.6	11.3	12.0	11.2	9.7	7.9	6.0	4.1	2.3	1.0	0.4	0.1	0.0
Percent of GDP		0.9	2.8	4.1	4.8	5.0	4.6	4.0	3.2	2.4	1.6	0.9	0.4	0.1	0.0	0.0
Percent of quota 1/		37.0	111.1	166.1	202.1	220.1	210.9	189.2	160.1	124.9	88.2	51.5	24.1	9.0	1.5	0.0
Memo items:																
Exports of G&S (US$ million)		2,161	2,222	2,283	2,351	2,421	2,493	2,579	2,667	2,759	2,854	2,952	3,053	3,158	3,266	3,378
Overall balance (US$ million)		114	175	154	77	60	92	76	52	37	31	27	45	54	69	58
GIR (US$ million)		342	517	671	748	808	900	976	1,027	1,064	1,095	1,123	1,168	1,222	1,291	1,397
ARA (US$ million)		520	543	572	598	617	630	640	651	662	671	680	690	701	712	719
GIR/ARA (percent)		66	95	117	125	131	143	152	158	161	163	165	169	174	181	194
Nominal CY GDP (US$ million)		5,172	5,207	5,339	5,546	5,780	6,024	6,278	6,543	6,820	7,108	7,409	7,722	8,049	8,390	8,745

Sources: Fund staff estimates and projections.

1/ Using SDR/USD exchange rate = 0.71586 (as of August 23, 2018) and quota SDR = 94.5 million;

2/ Using GRA rate of charge = 1.976 (as of September 6, 2018).

Appendix IV. External Sector Assessment

Overall Assessment: *The external position of Barbados in 2017 was moderately weaker than the level consistent with the medium-term fundamentals and desirable policies. The current account (CA) gap is assessed at -1.3 percent, translating into a 4.4 percent REER overvaluation. The CA gap should be addressed through fiscal consolidation and structural reforms targeted to improve public savings.*

A. Recent Developments in External Account

1. **The current account deficit continued to shrink despite the rising fuel prices.** The current account deficit has narrowed further to 3.8 percent of GDP in 2017, from 4.4 percent in 2016 and 6.1 percent in 2015. The improvement in 2017 is mainly due to the compression of goods import by -1.3 percent— notwithstanding a 24.5 percent increase in fuel imports— and a 5 percent increase in net service receipts. However, exports of goods declined by 3.8 percent in 2017, reflecting the significant decline in the re-export of artificial body parts.

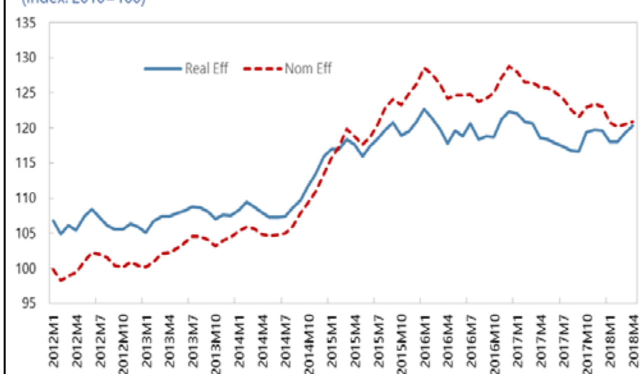
2. **The Real Effective Exchange Rate (REER) has depreciated by about 1 percent in 2017 relative to 2016.** The depreciation reflects the fall in domestic prices within the year and the relative depreciation of the US dollar against major currencies. The REER is however appreciating in 2018 reflecting the strengthening of US dollar and the domestic inflationary pressure.

Balance of Payments, 2015-17
Percent of GDP

	2015	2016	2017
Current account	-6.1	-4.4	-3.8
Trade balance of goods	-15.7	-14.8	-14.3
Exports of goods and services	41.6	43.7	42.0
Imports of goods and services	43.3	42.7	40.5
Services	14.0	15.8	15.8
Credits	24.6	26.2	25.9
Travel	20.2	21.8	21.6
Debits	10.5	10.4	10.1
Income	-4.5	-4.6	-4.5
Current transfers (private and public)	0.0	-0.7	-0.8
Capital and Financial Account	4.5	0.8	0.5
Public sector	-0.8	-1.8	-1.4
Private sector	5.6	3.5	2.4
Of which, short term	-0.1	-0.8	-0.9

Sources: Authorities and Fund staff calculations.

Real and Nominal Effective Exchange Rates
(Index: 2010=100)



Source: IMF Information Notice System (INS)

B. External Sustainability Assessment

3. **The EBA-lite current account model indicates that the external position is moderately weaker than fundamentals suggest.** The EBA-lite methodology yields mixed results and staff consider the current account model to be the most informative. The current account gap of -1.3 percent of GDP reflects an actual current account deficit of -3.8 percent of GDP relative to an estimated current account norm of -2.5 percent. The policy gap of - 3.2 percent largely reflects

inadequate fiscal policy (-1.6 percent), a deterioration in the reserve position (-2.9 percent), and weak private credit growth (1.3 percent).

Summary Table- Current Account Balance Approach	
CA-Actual	-3.8%
Cyclical factors	0.1%
CA-Cyclically Adjusted	-3.9%
CA-Norm	-2.5%
CA-Norm Cyclically Adjusted	-2.6%
CA-Gap	-1.3%
of which policy gap	-3.2%
Elasticity	-0.30
Real Exchange Rate Gap	4.4%
Source: Fund staff calculations	

4. Reserves have fallen below what could be considered adequate because of weak capital inflows- both official and private. Official inflows were negative since 2015, as debt service more than offset modest disbursements while long term private inflows declined from 3.5 percent of GDP in 2016 to 2.4 percent of GDP in 2017. The ARA methodology suggests that gross reserves should be in the range of 10 to 15 percent of GDP, corresponding to 3 to 4.5 months of import, whereas the 2017 level of reserves is 4 percent of GDP, covering 1.2 months of import.

BARBADOS

September 28, 2018

REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—SUPPLEMENTARY INFORMATION.

Approved By	Krishna Srinivasan (WHD) and Nathan Porter (SPR)

1. Since the staff report was issued, new information has become available to the staff. This information does not alter the thrust of the staff appraisal.

2. Barbados is now in arrears to Canada. On September 21, 2018, Citigroup called the guarantee that had been provided by the government of Canada through Export Development Canada (EDC) on Citigroup's loan to the government of Barbados, discussed in paragraph 3 of the staff report. EDC accepted this claim on September 27, 2018. Arrears on this loan for an amount of US$1.2 million had been accumulated after the government of Barbados announced its intention to seek a restructuring of its public debt on June 1, 2018. Given these arrears, the arrangement and the proposed decision have been revised to reflect the inclusion of the financing assurances review.

3. **The governments of Canada and Barbados have been in close consultation this week seeking to reach an understanding on this debt.** Based on the understanding reached, Canada consents to Fund financing despite the arrears given that the government of Barbados has provided assurances regarding the following: (i) if this loan is restructured, it will seek to restructure other bilateral debt and debt with creditor-sovereign guarantees on comparable terms; and (ii) the government of Barbados will clear the arrears it has accumulated on this loan, in the amount of US$1.2 million, to Canada before the first review under the EFF arrangement. The Executive Director for Canada and Barbados, Ms. Horsman, confirmed to staff that both countries have agreed to this approach.

4. **It is staff's understanding that the intention of the government of Barbados remains to restructure this loan.** The terms for restructuring that have been proposed by the government of Barbados and its debt advisors have been

reflected in the staff's macroeconomic framework. In the event that the loan is not restructured, staff is of the view that the program remains fully financed, as the authorities retain the ability to seek more ambitious restructuring of external debt to commercial creditors, and higher inflows from international financial institutions are now expected—since the issuance of the staff report, the Caribbean Development Bank has indicated that it is likely to increase its contribution over the program period, and the World Bank has also indicated its willingness to explore financing to Barbados.

Statement by Ms. Nancy Horsman, Executive Director for Barbados Mr. Jeremy Weil, Senior Advisor to the Executive Director Ms. Lorie Zorn, Senior Advisor to the Executive Director October 1, 2018

Our Barbadian authorities would like to express their deep appreciation to Fund management and staff for their swift response to the new government's request for assistance, and for the constructive dialogue during program negotiations.

The new government came into office at the end of May, and within only a few months, it has adopted a revised budget and identified further concrete measures to bring about needed fiscal adjustment. It has also advanced a comprehensive restructuring of public debt, including the launch of a formal exchange offer to domestic creditors.

These measures are part of the broader Barbados Economic Reform and Transformation plan aimed at restoring macroeconomic stability, ensuring debt sustainability, and raising growth. The BERT plan is homegrown – developed with public input and in close consultation with the Social Partnership. It has been designed to ensure that the burden of adjustment is shared across society and economic agents.

To support implementation of its reform agenda, the government of Barbados requests a 48-month arrangement under the Extended Fund Facility. Given the structural nature of Barbados' economic and financial vulnerabilities, multilateral assistance over the medium term is necessary. IMF program financing will help reduce balance of payments risks and help build reserve buffers, although the authorities are of the view that higher external liquidity support could be required as a buffer against possible shocks, including from natural disasters, and to secure and maintain investor confidence through the next several years. Fund technical assistance will help our authorities build the capacity to implement and sustain reform efforts in priority areas. The Fund-supported program will also catalyze other official sector financing and technical support, starting with the Caribbean Development Bank and Inter-American Development Bank which have already pledged their assistance.

Our authorities understand the importance of urgent and sustained action. They stand ready to take additional measures as needed, in consultation with Fund staff, to achieve program objectives.

Recent Development and Outlook

Economic activity in Barbados is estimated to have contracted by 0.6 percent during the first six months of 2018, largely owing to declines in tourism and construction output. Pass- through from past fiscal adjustment measures, notably the increase in the National Social

Responsibility Levy, coupled with higher energy prices since end-2017 have continued to bump up inflation and dampen consumer spending.

International reserves grew from about USD 200 million at end-December 2017 to USD 240 million at end-August 2018, mostly reflecting lower outflows on debt service since May 2018. This was a direct result of the government's decision, announced June 1, to suspend all payments on external commercial debt. However, reserves remain far below the central bank's operational target of 12 weeks of import coverage.

Fiscal performance continued to improve in 2018 alongside the increase in tax revenues and the decline in interest payments. However, government payroll and goods spending, as well as transfers to public institutions, were unchanged from a year earlier. While the decision to suspend payments on external commercial debt reduced government borrowing requirements in the first quarter of the 2018/19 fiscal year, approximately BDS $100 million in central bank financing was required. At the end of June, the debt-to-GDP ratio stood at about 157 percent.

Looking ahead, the authorities expect a decline in economic activity of 0.5 percent over this calendar year, and a small contraction of 0.1 percent in 2019, before economic growth turns positive in 2020. Implementation of some private and public-sector projects already in the pipeline, along with the announcement of multilateral support from the IMF, CDB, and IDB, are expected to raise confidence and contribute to an improved outlook for near-term growth. In addition, increased credibility in the macroeconomic framework as the government meets its fiscal targets, along with continued improvements to the business environment, will encourage investment and help boost actual and potential growth over a longer period.

Key Program Objectives and Policies

The EFF-supported program aims to regain macroeconomic stability, reduce public debt to sustainable levels, and secure strong and inclusive economic growth. Reforms will be deep and comprehensive, to build a durable, vibrant, and modern economy.

Fiscal consolidation through decisive fiscal reforms

A front-loaded fiscal adjustment will induce a 6 percent primary surplus by fiscal year 2019/20, to be maintained for several years. On the revenue side, this will be achieved through more effective taxation and enhanced compliance. A number of recently adopted tax measures are designed to improve domestic revenue mobilization: fees on air travel, tourism levies (accommodation and products/services), a fuel tax, a health services contribution, and a revised rate structure for personal and corporate income taxes. In addition, the application of VAT to online purchases, along with plans for enhancing tax administration and compliance, will also support revenues. The authorities expect these measures to contribute a cumulative 3.7 percent to the fiscal balance by 2019/20.

On the expenditure side, the program aims to reduce transfers to state-owned enterprises (SOEs) by 2 percent of GDP cumulatively over a 3-year period, through stronger oversight, cost reductions, revenue enhancement, and mergers/divestment. Efforts are already underway to cede tourism related entities to the private sector, merge two development corporations, and increase certain user fees. Central government wages will decline over time through attrition. The public-sector pension scheme will be reviewed, and legislation adjusted as needed to ensure long-term sustainability.

The authorities intend to buttress these reforms with improvements to public financial management (PFM) and the adoption of a fiscal rules framework. PFM reforms will focus on the budget formulation process, government procurement, and the legal and regulatory framework for public/private partnerships. For example, strategically driven budget planning and approval before the fiscal year commences will better align government needs, priorities, and spending. The fiscal rules framework will seek to contain public sector deficits to support the long-term target of a reduction in public debt to 60 percent of GDP by 2033.

Despite planned fiscal adjustment, our authorities will continue to protect the more vulnerable and disadvantaged members of society through more targeted social spending and active labor market policies. As reforms take hold and investor confidence is restored, a return to economic growth will create fiscal space for growth-enhancing capital and infrastructure spending.

Restructuring and transforming SOEs and empowering their employees

Our authorities have launched a broad-based, multi-year reform of the public sector to make it efficient, up-to-date, and fit for purpose. Based on a comprehensive and inclusive consultation process, the authorities have categorized the essential, highly desirable and optional functions that are provided by SOEs, and they have considered where those functions might best be delivered. On this basis they are proceeding with a review to identify operational and cost efficiencies, and enfranchisement through divestment of entities and/or activities. A set of 33 key SOEs will be required to submit standardized quarterly financial reports to the central government oversight unit (with sanctions for noncompliance), and the Minister of Finance will acquire the authority to enforce existing rules over SOE borrowing. Commencing next year, Parliament will receive annual reports on SOE performance, including related fiscal risks, as part of the budget process.

These public-sector reforms will be accompanied by a range of measures to mitigate adverse outcomes on affected workers. A training and outplacement program will be in place by the end of this year to help channel displaced workers to priority areas of government; for example, a program to digitize government records. To support their potential entrepreneurial initiative, displaced workers will be offered preferential access to public procurement, as well as state-owned agricultural lands and greenhouse facilities to bolster agricultural production.

Enhancing monetary and financial sector policies

The foreign exchange peg provides a key anchor for macroeconomic stability and Social Partnership support. As such, the authorities are committed to policy implementation and building adequate reserves to protect it. As the program advances, the operations of the CBB will be bolstered through legislative amendments that enhance its autonomy and governance framework, and also that strengthen limitations on monetary financing. Our authorities have already moved toward these outcomes by reducing limits on the Ways and Means Account to 7.5 percent of central government revenues from 10 percent. Temporary measures imposed on financial institutions, including an increase in the amount of government securities held as reserves and fees on sales of foreign exchange, will be gradually reduced.

The authorities are also looking to nurture new financial technologies and approaches, while mitigating financial system risks. A regulatory sandbox for fintech startups and other innovators will be established with the help of Fund TA. Developments in this area have the potential to offset the negative economic impacts of the withdrawal of correspondent banking relationships. The authorities will also continue to improve financial regulation and supervision in line with international standards and practices, including by addressing outstanding recommendations from the Financial Action Task Force and Financial Sector Stability Assessment.

Substantially reduce the debt burden and strengthen debt management

To complement extensive efforts on the fiscal side to achieve fiscal and debt sustainability, a comprehensive debt restructuring is also underway. This includes BDS denominated and USD denominated debt to private creditors, central government debt held by the CBB and the National Insurance Scheme (NIS), as well as government spending arrears to Barbados citizens and firms. Negotiations with both domestic and external creditors have been carried out by our authorities in the spirit of fairness and burden sharing. An exchange offer for domestic debt was announced on September 7, and the authorities aim to table an offer for external debt in the near term. Plans will be developed by our authorities to address financial challenges faced by the NIS and the need for recapitalization of the CBB, as a result of the debt restructuring. Domestic arrears will be negotiated and settled over a 5-year period, and controls will be put in place to prevent new public-sector arrears.

To support cost-efficient government financing and prudent debt management over the longer term, a medium-term debt management strategy (MTDS) will be developed with the help of Fund TA. Debt management operations will also be reviewed with the aim of incorporating an auction mechanism for long-term debt. The MTDS will be published along with the government's borrowing plan on an annual basis, as part of the budgeting process.

Structural reforms to enhance growth and increase resilience

Increasing economic growth and diversifying economic activity are essential to sustain the gains made through fiscal reform and debt restructuring. Our authorities will promote a highly-skilled, knowledge-based economy, partly through the provision of free tertiary education at vocational, technical, and academic institutions. They also intend to launch a National First Jobs initiative and apprenticeship scheme.

Restoring investor confidence and improving the business climate will also be key to propelling private-led investment and business activity. SOE reform is expected to enhance efficiency and productivity for both the public and private sectors. Specific services for improvement include construction permits, electrical service, property and business registration, and data records. This will be achieved through legislation to streamline the Town and Country Planning process, reforms to the Corporate Affairs and Intellectual Property Office, the Land Registry and the Vital Statistics office. More generally, the authorities intend to promote professional standards in government services, while employing new technologies to deliver them. Finally, labor laws will be modernized to improve labor market flexibility and improve incentives to work.

Our authorities recognize the need to mitigate vulnerabilities related to climate change and natural disasters, given the importance of coastal tourism to its foreign exchange earnings, employment, and growth. In this light, measures to protect the coastline and related infrastructure, and to enhance disaster response are to be developed. A Rapid Roof Replacement Program will soon be put in place to support homeowners in the replacement of non-hurricane resistant roofs.

Concluding remarks

Barbados has embarked on an ambitious but well-considered program of economic recovery and transformation that will secure stability and prosperity beyond the medium term. Our authorities are committed to urgent and sustained action, including additional measures as needed, to reach program objectives. The arrangement under the EFF and Fund technical assistance will play an integral role in supporting our authorities' efforts, while catalyzing assistance from other official partners. While there are risks to the program, these are partly mitigated by a reform agenda that was created by the authorities with broad public consultation and that is supported by a parliamentary majority. Our Barbadian authorities are looking forward to the Executive Board's approval of the Extended Arrangement.