INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/370

BARBADOS

December 2019

2019 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT, REQUEST FOR COMPLETION OF THE FINANCING ASSURANCES REVIEW, AND MODIFICATION OF PERFORMANCE CRITERIA —PRESS RELEASES; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BARBADOS

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with Barbados, the following documents have been released and are included in this package:

- **Press Releases** summarizing the views of the Executive Board as expressed during its December 16, 2019 consideration of the staff report that concluded the Article IV consultation with Barbados.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 16, 2019, following discussions that ended on November 15, 2019, with the officials of Barbados on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 27, 2019.
- An **Informational Annex** prepared by the IMF staff.
- 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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International Monetary Fund
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INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 19/469
FOR IMMEDIATE RELEASE
December 18, 2019

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2019 Article IV Consultation with Barbados

On December 16, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Barbados. During the same meeting, the Board also completed the second review of Barbados' economic reform program supported by an arrangement under the Extended Fund Facility (EFF); a press release on the review was issued separately.

2019 Barbados continues its strong implementation of the comprehensive Economic Recovery and Transformation (BERT) plan aimed at restoring fiscal and debt sustainability, addressing falling reserves, and increasing growth. The program seeks to protect vulnerable groups through strengthened social safety nets.

During the first nine months of 2019, the economy contracted by 0.2 percent, in line with program projections. With the economy heavily dependent on external demand for tourism services, the impact of the fiscal adjustment on growth has been limited.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the authorities' progress in implementing their ambitious homegrown economic reform program. Directors agreed that program implementation has been strong, with notable gains to restoring fiscal sustainability, rebuilding reserves, and increasing growth. They considered that domestic and external risks remain, including weaker global growth, tighter global financial conditions, and vulnerability to natural disasters.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors were encouraged by the authorities' commitment to fiscal discipline and emphasized the importance of achieving and maintaining the targeted primary surplus of 6 percent of GDP. They considered that the FY2019/20 budget provides a solid basis for reaching this target.

Directors welcomed tax reforms aimed at enhancing revenue and considered that improvements in tax and customs administration are essential to support medium-term revenue. They supported the planned adoption of a fiscal rule to sustain the adjustment effort over the medium and long run. Directors also underscored that social spending and an improved safety net to protect low-income households are key priorities for the program.

Directors emphasized that reforms to state-owned enterprises (SOE) are essential for achieving the primary surplus target and maintaining it over the medium term. They supported the authorities' plans to reduce transfers to SOEs by a combination of stronger oversight, reduced costs, revenue enhancement, and mergers and divestment. Reducing transfers to SOEs will create fiscal space for investment in physical and human capital.

Directors welcomed the debt restructuring agreement that the authorities have reached with their commercial external creditors. This agreement will help reduce uncertainty and improve prospects for investment. They considered that the restructuring agreement will facilitate reaching the medium- and long-term debt anchors.

Directors encouraged steps to improve the governance framework of the Central Bank of Barbados (CBB). They underscored the need to limit monetary financing to the government, and strengthen the CBB's mandate, autonomy, and decision-making structure. Efforts to strengthen the AML/CFT regime were also encouraged.

Directors emphasized that strengthening disaster resilience is key to boosting medium-term economic prospects, particularly as weather-related events could have a major impact on the Barbados economy. They welcomed the inclusion of natural disaster clauses into new debt instruments, noting it will help strengthen Barbados' protection against natural disasters.

Directors stressed the importance of structural reforms to strengthen competitiveness and unlock Barbados' growth potential. They encouraged the authorities to continue ongoing efforts to improve the business environment by streamlining regulations and addressing key obstacles to growth. Deeper regional integration would also help increase Barbados' growth prospects.

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

I. Social and Demographic Indicators (most recent year)

Population (2017 est., thousand)	285.7	Adult literacy rate	99.7
Per capita GDP (2017 est., US$ thousand)	17.4	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 (2018 est.)	10.1

Main products, services and exports: tourism, financial services, rum, sugar, and chemicals.

II. Economic Indicators

			Est.	Proj.	
	2016	2017	2018	2019	2020
	(Annual percentage change)				
Output, prices, and employment					
Real GDP	2.5	0.5	-0.6	-0.1	0.6
CPI inflation (average)	1.5	4.4	3.7	4.0	4.8
CPI inflation (end of period)	3.8	6.6	0.6	6.5	2.3
External sector					
Exports of goods and services	6.6	0.8	0.0	3.3	3.0
Imports of goods and services	0.2	-0.4	-0.4	6.3	1.1
Real effective exchange rate (average)	0.9	2.5	1.2	…	…
Money and credit					
Net domestic assets	7.1	2.8	4.1	1.8	2.9
Of which: Private sector credit	1.5	3.2	0.4	0.0	3.6
Broad money	4.2	1.2	-0.2	4.2	2.9
CG Public finances (fiscal year) 1/					
Revenue and grants	28.3	28.6	29.3	30.5	30.2
Expenditure	33.6	32.9	29.6	27.0	27.5
Fiscal Balance	-5.3	-4.3	-0.3	3.5	2.7
Interest Expenditure	7.6	7.6	3.8	2.5	3.3
Primary Balance	2.2	3.3	3.5	6.0	6.0
Public Debt (fiscal year) 1/					
Central gov't gross debt (incl. guaranteed and arrears)	149.5	158.3	125.6	115.9	109.9
External	31.3	28.5	32.6	28.7	28.1
Domestic	118.2	129.8	93.0	87.2	81.9
Balance of payments 2/					
Current account balance	-4.3	-3.8	-3.7	-3.7	-3.6
Capital and financial account balance	0.8	0.8	9.1	6.3	5.4
o/w Public Sector	-1.8	-1.4	3.5	3.3	1.8
o/w IMF disbursement	0.0	0.0	1.0	1.9	1.4
Private Sector	2.6	2.2	4.1	3.1	3.5
o/w FDI	3.4	3.1	4.4	3.5	3.7
Net Errors and Omissions	1.0	0.3	0.3	0.0	0.0
Overall balance	-2.5	-2.6	5.7	2.6	1.8
Memorandum items:					
Exchange rate (BDS$/US$)	2.0	2.0	2.0	…	…
Gross international reserves (US$ million)	320.0	205.7	499.6	636.5	733.7
In months of imports of G&S	1.9	1.2	3.0	3.6	4.1
In percent of ARA	65.8	40.8	102.6	125.4	135.9
Nominal GDP, CY (BDS$ millions)	9,660	9,956	10,173	10,414	10,682
Nominal GDP, FY (BDS$ millions)	9,734	10,011	10,234	10,481	10,786

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.
2/ After external commercial debt restructuring.

Press Release No. 19/462
FOR IMMEDIATE RELEASE
December 16, 2019

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes 2019 Article IV Consultation and Second Review Under the IMF's Extended Fund Facility for Barbados

On December 16, 2019, the Executive Board of the International Monetary Fund (IMF) completed the second review of Barbados' economic reform program supported by an arrangement under the Extended Fund Facility (EFF). The completion of the review allows the authorities to draw the equivalent of SDR 35 million (about US$48 million), bringing total disbursements to the equivalent of SDR 105 million (about US$145 million).

The four-year extended arrangement under the EFF, for an amount equivalent to SDR 208 million (about US$288 million, or 220 percent of Barbados's quota in the IMF), was approved by the Executive Board on October 1, 2018 (see Press Release No. 18/370). The Executive Board today also concluded the 2019 Article IV consultation with Barbados. The associated press release will be issued separately.

Following the Board discussion of the review, Mr. Tao Zhang, Deputy Managing Director, and Acting Chair made the following statement:

"Barbados continues to make good progress in implementing its comprehensive homegrown economic reform program. All quantitative performance criteria, indicative targets, and all structural benchmarks for end-September 2019 were met.

"The fiscal adjustment continues as programmed with the primary surplus targeted at 6 percent of GDP for FY2019/20 and subsequent years. This target for end-September 2019 was met by a significant margin, and the FY2019/20 budget provides a solid basis for reaching the target for the next fiscal year. Tax policy reforms aim to enhance revenue, while improvements in tax and customs administration are essential to support medium-term revenue. The planned adoption of a fiscal rule in 2020 will help sustain the adjustment effort over the medium and long term.

"State-Owned Enterprise (SOE) reforms are essential for achieving the primary surplus target and maintaining it over the medium term. To secure fiscal space for investment in physical and human capital, transfers to SOEs are envisaged to significantly decline by a combination of stronger oversight of SOEs, cost reduction, revenue enhancement, and mergers and divestment.

“Adequate social spending and an improved safety net to protect the most vulnerable members of society are key priorities of the program. Social spending is being protected, preserving Barbados’ strong social safety net and limiting the impact of the stabilization program on low-income households.

“A comprehensive public debt restructuring complements the fiscal consolidation. The recent agreement reached with commercial external creditors will help reduce uncertainty and improve prospects for investment. Under the program’s macroeconomic framework, the restructuring agreement will facilitate reaching the 80 percent of GDP medium-term debt target in FY2027/28, and the 60 percent of GDP long-term anchor in FY2033/34.

“An improved governance framework of the Central Bank of Barbados would facilitate limiting monetary financing to the government, and strengthening the central bank’s mandate, autonomy, and decision-making structure. Measures to strengthen the AML/CFT regime would also be helpful.

“Strengthening disaster resilience is key to boosting medium-term economic prospects. Climate change is likely to increase Barbados’ vulnerability to weather-related events that could have a major impact on its economy. With the inclusion of natural disaster clauses into new domestic and external bonds, Barbados effectively used the debt restructuring to strengthen its protection against natural disasters.

“Structural reforms are needed to unlock Barbados’ growth potential. While the process for providing construction permits has been streamlined, much room for improvement in the business climate remains. Deeper regional integration would also help increase Barbados’ growth prospects.”

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1/ Fiscal year is from April to March.
2/ After external commercial debt restructuring.

INTERNATIONAL MONETARY FUND

BARBADOS

November 27, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT, REQUEST FOR COMPLETION OF THE FINANCING ASSURANCES REVIEW, AND MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Recent Developments and Outlook. The Barbadian authorities continue to make good progress in implementing the comprehensive Economic Recovery and Transformation (BERT) plan aimed at restoring fiscal and debt sustainability, rebuilding reserves, and increasing growth. Since May 2018, international reserves have increased from a low of US$220 million (or 5-6 weeks of import coverage) to more than US$600 million at end-October 2019. The completion of a domestic debt restructuring in November 2018 has been very helpful in reducing economic uncertainty, and the terms agreed with domestic creditors have helped to put debt on a clear downward trajectory. Risks to the outlook are elevated but growth could surprise on the upside, with private sector confidence now increasing.

Program implementation. All program targets for end-June and end-September 2019 have been met. All three structural benchmarks for the second review have also been met. The authorities have continued the reform of state-owned enterprises (SOEs) by completing a review of tariffs and fees charged by SOEs, tightening reporting requirements, and reducing costs. The authorities reached agreement with the External Creditor Committee on a restructuring of external debt to private creditors in October 2019, and launched a debt exchange offer in early November. Staff proposes modification of the performance criteria relating to the primary balance, net international reserves and net domestic assets.

Article IV focus. The Article IV discussions focused on fiscal adjustment, medium-term growth and resilience to climate change and natural disasters.

Approved By
Aasim M. Husain (WHD) and Nathan Porter (SPR)

The mission team consisted of Bert van Selm (head), Gregorio Impavido, Dmitry Vasilyev (all WHD), Carlo Pizzinelli (FAD), Haimanot Teferra (SPR), and Myrvin Anthony (MCM). Chris Faircloth and Ann Marie Wickham (Resident Representative Office) assisted the mission. The team visited Barbados during November 5– 15, 2019. Aasim M. Husain (WHD), Louise Levonian, and Jeremy Weil (all OED) joined the mission.

CONTENTS

POLITICAL CONTEXT 5

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS 5
A. Recent Developments and Outlook 5
B. Risks to the Outlook 9

ARTICLE IV POLICY ISSUES 10
A. Fiscal Adjustment in FY2019/20 and Beyond 10
B. Monetary and Financial Sector Policies 16
C. Growth Oriented Reforms 17
D. Policies for Strengthening Resilience to Natural Disasters and Climate Change 18

DATA ISSUES 19

PROGRAM ISSUES 19

AUTHORITIES' VIEWS 21

STAFF APPRAISAL 22

BOXES
1. Reform of the Corporate Income Tax 12
2. Enhancing the Effectiveness of the Barbados Customs and Excise Department 14
3. Enhancing the Autonomy of the Central Bank 17

FIGURES
1. Real Sector Developments 24
2. Fiscal Sector Developments 25
3. External Sector Developments 26
4. Monetary Sector Developments 27

5. Financial Sector Developments 28
6. Social Development Indicators 29
7. Competitiveness Indicators 30
8. Economic Performance in a Regional Context 31
9. Public Sector Debt Projections 48

TABLES

1. Selected Economic Indicators, 2016–20 32
2a. Central Government Operations, 2016/17–2024/25 (In millions of Barbados dollars) 33
2b. Central Government Operations, 2016/17–2024/25 (In percent of GDP) 34
3. Public Debt, 2016/17–2024/25 35
4a. Balance of Payments, 2016–24 (In millions of US dollars) 36
4b. Balance of Payments, 2016–24 (In percent of GDP) 37
5. Monetary Survey, 2016–24 38
6. Medium-Term Macroeconomic Framework, 2016–24 39
7. Financial Sector Indicators, 2014–2019Q2 40
8. Program Monitoring – Schedule Of Purchases Under the EFF Supported Program 41
9. Program Monitoring – External Financing Requirements and Sources 41
10. Program Monitoring – Indicators of Fund Credit Under the EFF Supported Program 42

ANNEXES

I. Risk Assessment Matrix 43
II. Debt Sustainability Analysis 44
III. External Sector Assessment 58
IV. Medium-Term Growth Diagnostics 62
V. Building Resilience to Natural Disasters and Climate Change 68
VI. Implementation of Last Article IV Advice 73

APPENDIX

I. Letter of Intent 75
Attachment I. Supplementary Memorandum of Economic and Financial Policies 77
Attachment II. Technical Memorandum of Understanding 91

Acronyms

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

ARA	Assessment of Reserve Adequacy (IMF)
BCED	Barbados Customs and Excises Department
BEPS	Base Erosion and Profit Shifting
BERT MC	Barbados Economic Recovery and Transformation Monitoring Committee
BRB$	Barbados Dollar
BOP	Balance of Payments
BRA	Barbados Revenue Authority
BSS	Barbados Statistical Service
CAB	Current Account Balance
CAPEX	Capital Expenditure
CARTAC	Caribbean Regional Technical Assistance Center
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CBB	Central Bank of Barbados
CDB	Caribbean Development Bank
CG	Central Government
CIT	Corporate Income Tax
CPI	Consumer Price Index
CY	Calendar Year
EFF	Extended Fund Facility
FAD	Fiscal Affairs Department (IMF)
FDI	Foreign Direct Investment
FMA	Financial Management and Audit
FSC	Financial Services Commission
FY	Fiscal Year
G&S	Goods and Services
GDP	Gross Domestic Product
GIR	Gross International Reserves
GFN	Gross Financing Needs
IDB	Interamerican Development Bank
IIP	International Investment Position
IFI	International Financial Institution
IMF	International Monetary Fund
IT	Indicative Target
LT	Long Term
LTU	Large Taxpayer Unit
NIS	National Insurance Scheme
NPV	Net Present Value
PC	Performance Criterion
PFM	Public Finance Management
PIT	Personal Income Tax
PRASC	Canada's Project for the Regional Advancement of Statistics in the Caribbean
SDR	Special Drawing Right
SOE	State Owned Enterprise
TA	Technical Assistance
TMU	Technical Memorandum of Understanding
UFR	Use of Fund Resources
US$	US Dollar
VAT	Value Added Tax
YoY	Year-on-Year

POLITICAL CONTEXT

1. **Prime Minister Mottley's Barbados Labor Party (BLP) won the May 2018 general elections in a landslide, winning all 30 seats in Parliament**. The new government immediately announced a comprehensive Economic Recovery and Transformation (BERT) plan to restore fiscal and debt sustainability, announced its intention to seek a restructuring of domestic and external public debt to private creditors, and requested the support of the IMF and other international financial institutions (IFIs). The next parliamentary elections are due to take place by 2023.

2. **The government has made good progress in implementing the economic reform program aimed at restoring fiscal and debt sustainability, rebuilding reserves, and increasing growth**. After the 2008–09 global financial crisis, Barbados had been caught in a vicious cycle of low or negative growth and increasing debt, with public debt increasing to almost 160 percent of GDP by mid-2018. International reserves, which reached a low of US$220 million (5-6 weeks of import coverage) at end-May 2018, have increased to more than US$600 million by end of October 2019, supported by lending from IFIs and the ongoing external commercial debt moratorium. The rapid completion of the domestic part of a debt restructuring has been very helpful in reducing economic uncertainty, and the new terms agreed with creditors have helped to put debt on a clear downward trajectory. The IMF Executive Board approved a four-year Extended Arrangement under the Extended Fund Facility (EFF) to support Barbados' stabilization program on October 1, 2018, and the first review of the EFF-supported program was completed on June 24, 2019.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

A. Recent Developments and Outlook

Growth and Inflation

3. **During the first nine months of 2019, the economy contracted by 0.2 percent, in line with program projections**. With the economy heavily dependent on external demand for tourism services, the impact of the fiscal adjustment on growth has been limited. The tourism sector expanded by about 3 percent with arrivals from the United States gaining market share (text table). The tourism sector directly represents about 17 percent of real GDP, but its indirect share in GDP is much larger, with all other sectors are highly dependent on tourism activity. Higher long stay arrivals contributed to the growth in tourism. With the real appreciation of the dollar, the share of arrivals from the United States has been gradually increasing relative to the United Kingdom and Canada. Construction,

Barbados: Economic Growth in the First Three Quarters of 2019
(Percent, unless otherwise indicated)

	Weights (percent)	YoY Growth (percent)	Contribution (percent)
Tourism	17.0	2.4	0.4
Agriculture	1.5	-9.5	-0.1
Manufacturing	6.1	-1.9	-0.1
Energy	2.7	-0.1	0.0
Construction	5.7	-3.1	-0.2
Distribution	9.0	-0.3	0.0
Transport	12.6	0.3	0.0
Finance	34.4	-0.4	-0.1
Other	10.9	-0.5	-0.1
2018 Real GDP (BRB$ million, 2010 prices)	8,070.6	-0.2	-0.2

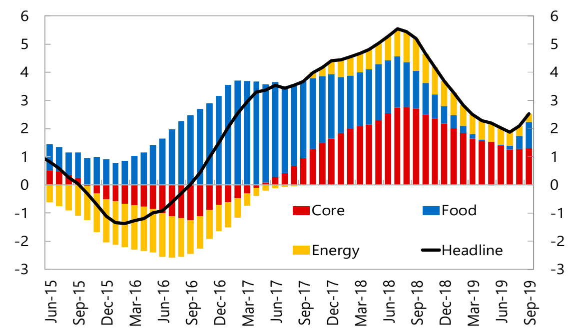
Sources: Central Bank of Barbados.

manufacturing and agriculture contributed negatively to growth in the first three quarters of 2019. The average unemployment rate was around 11 percent in the first three quarters of 2019, unchanged from previous years.

4. **Growth is expected to rebound to its long-term average of about 2 percent**. External demand for tourism services is projected to remain buoyant. In the medium term, with improving confidence, investment is expected to start picking up and FDI to resume. The fading impact of the fiscal consolidation is then expected to be more than offset by continued growth in tourism and increasing private sector confidence.

5. **Since the second half of 2018, inflation has been decreasing, with an uptick in the second half of 2019 owing to a fall-off in rainfall**. Inflation dynamics have been affected by domestic and international factors. Domestically, the abolition of the National Social Responsibility Levy (NSRL) in the second half of 2018 was a major contributor to lower inflation. Internationally, lower oil prices in the second half of 2018 and the first nine months of 2019 were a key contributor. This occurred despite the closure of Petrotin, Barbados' traditional supplier of fuel products, and the need to switch to different suppliers in the first half of 2019. In the course of 2019, prices of domestically produced food products increased owing to a fall-off in rainfall. Increased transportation and utility costs also impacted overall prices in this period. Inflation is expected to revert to just over 2 percent in the medium term as weather conditions normalize.

Barbados: Contributions to Headline Average Inflation
(Percent, NSA)



Sources: Fund staff calculations.

Fiscal Developments

6. **The fiscal adjustment is proceeding as programmed**. Under the BERT program, the authorities aim to increase the primary balance from 3½ percent of GDP in FY2018/19 to 6 percent in FY2019/20. The budget for FY2019/20 that was approved by parliament in March reflects key recommendations of recent IMF technical assistance on tax policy, including broadening the base of the VAT and the land tax, and provides a sound basis for the envisaged fiscal consolidation. In the first half of FY2019/20, on the revenue side, strong performance of VAT, property taxes, and import duties was offset by lower than expected revenues from CIT and the bank asset tax, which was negatively impacted by the domestic debt restructuring. On the expenditure side, the layoffs in the central government and SOEs (helping to reduce the wage bill) and the reduction in transfers to public institutions more than offset a small increase in spending on goods and services.

7. **The primary fiscal balance is projected to reach 6 percent of GDP in FY2019/20 and to remain at that level for several years.** Under the BERT program, the authorities aim to maintain the primary balance at 6 percent of GDP until FY2023/24, and to gradually reduce it thereafter. This

ambitious fiscal path is necessary to ensure debt sustainability and meet the intermediate and long-term debt targets of 80 percent of GDP in FY2027/28 and 60 percent of GDP in FY2033/34 (see the Debt Sustainability Analysis in Annex II for details).

Debt Restructuring

8. A domestic debt restructuring that reduced Barbados' public debt without jeopardizing financial sector stability was completed in November 2018. The restructuring resulted in an immediate reduction in the debt-to-GDP ratio of about 30 percentage points in nominal terms, as well as a reduction in gross financing needs (GFN) of about 35 percentage points of GDP. The sharp drop in the debt-to-GDP ratio partially reflects the restructuring of the holdings of the CBB and the NIS. The authorities will develop plans to recapitalize the CBB and address medium and long-term challenges for the NIS (structural benchmark for end-June 2020).

9. In October 2019, the authorities reached agreement with the external creditor committee on the restructuring of external debt to private creditors. A debt exchange offer was launched in early November. After a two-week consultation period, bondholder meetings are expected to take place in London, with the process expected to be concluded in mid-December 2019. Given that the majority of bondholders is represented in the creditor committee and that Barbados' outstanding external bonds all contain collective action clauses, the Government and its debt advisors do not anticipate holdout creditors. The agreement includes a 26 percent haircut on original principal and past due and accrued interest; the issuance of a new long-term debt instrument that has a 10-year maturity, a 5-year grace period, a 6.5 percent coupon, and a natural disaster clause; and a US$40 million re-payment (comprising US$7.5 million in cash and US$32.5 million in short-term bonds maturing in 2021 and bearing a 6.5 percent coupon) in the first two years. This implies a present value loss for creditors of just over 40 percent.[1] Under the program's macroeconomic framework, the restructuring agreement ensures that debt reaches the 80 percent of GDP medium term anchor in FY2027/28 and the 60 percent of GDP long-term anchor in FY2033/34 (Table 3 and Annex II). Throughout the process, the authorities and the creditor committee met regularly. The authorities' good faith efforts are reflected in this fruitful dialogue and adequate data sharing with creditors. Until the debt restructuring process is concluded, the Fund's lending into arrears policy continues to apply). Financing assurances remain in place.

Balance of Payments

10. In the first three quarters of 2019, the current account deficit narrowed, supported by the fiscal adjustment, a strong tourism sector, and favorable price developments. Lower international oil and food prices, combined with reduced demand owing to the fiscal consolidation, led to a decrease in imports relative to the first three quarters of 2018. Over the same period, and despite a real effective exchange rate appreciation of about 3 percent relative to 2018,[2] external

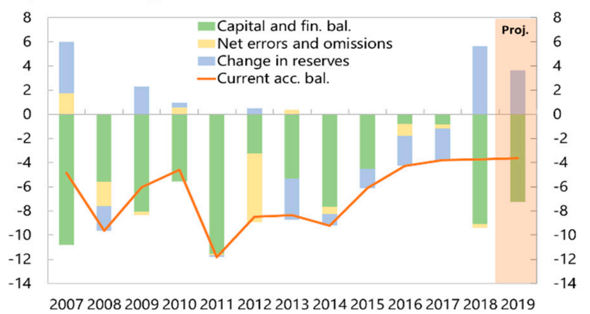
[1] Using the 12 percent discount rate that was used by the government and the external creditor committee for negotiation purposes.

[2] See Annex III on the external sector assessment for details.

demand for tourism increased leading to an improved service balance. The external sector assessment finds that Barbados' external position in 2018 was broadly consistent with fundamentals and desirable policies (see Annex III).

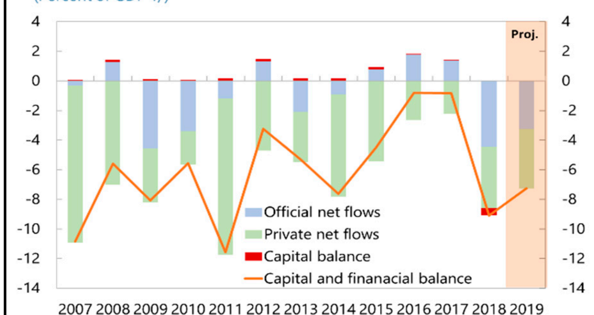
11. **Over the same period, the financing of the current account deficit improved, supported by official net inflows.** By June 2019, the IMF had disbursed about US$100 million, while the Caribbean Development Bank (CDB) and the Interamerican Development Bank (IDB) disbursed US$100 and US$75 million, respectively. The IDB and the CDB are planning additional policy-based lending in the last quarter of 2019 or the first quarter of 2020, with exact amounts still under discussion. FDI remains subdued, with large construction projects in the pipeline yet to materialize (text charts).

Barbados: Current Account Financing
(Percent of GDP 1/)



1/ Negative = net inflows.
Sources: Fund staff calculations.

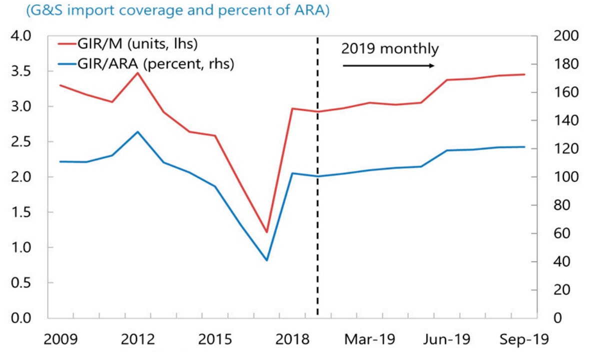
Barbados: Capital and Financial Account
(Percent of GDP 1/)



1/ Negative = net inflows.
Sources: Fund staff calculations.

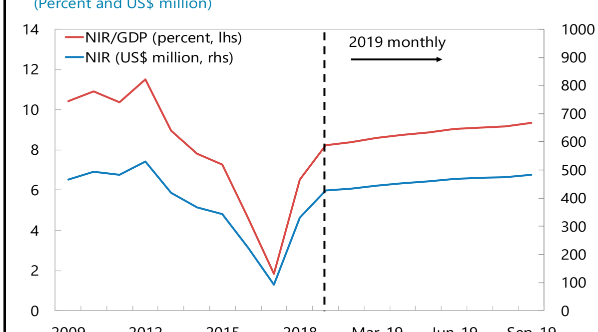
12. **With favorable balance of payments dynamics since the start of the program, Barbados' international reserves have rebounded sharply**. Since the approval of the extended arrangement supported under the EFF, gross international reserves have increased to more than US$600 million as of end-October 2019; about 3½ months of goods and services import coverage and about 125 percent of the Assessment of Reserve Adequacy (ARA) metric. Net international reserves have increased to about US$500 million closely mirroring gross reserve dynamics (text charts).

Barbados: Gross International Reserves
(G&S import coverage and percent of ARA)



Sources: Fund staff calculations.

Barbados: Net International Reserves
(Percent and US$ million)

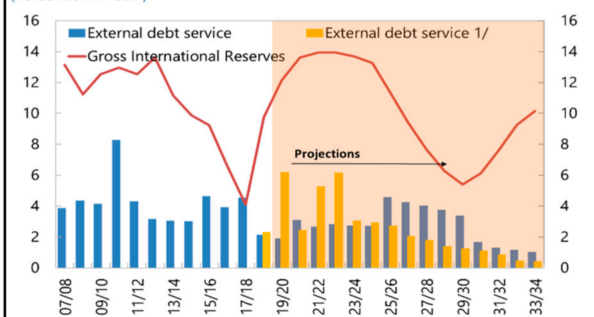


Sources: Fund staff calculations.

13. Over the medium term, the current account deficit is projected to narrow to about 3percent of GDP. The trade balance is projected to improve helped by lower oil prices, while further growth in tourism would strengthen the service balance.

14. Private sector investment is expected to replace official inflows over the medium term, with reserves increasing to about 120 percent of the ARA metric. Structural reforms implemented under the BERT program and the completion of the external debt restructuring would restore international confidence in the fiscal and debt sustainability. This, in turn, would support higher FDI.

Barbados: External Debt Service and International Reserves
(Percent of FY GDP)



Sources: Fund staff calculations.
Notes: 1/ Projections in FY2017/18 before default.

15. Reserves are projected to be well in excess of external debt service. Unsustainable fiscal policies were the key determinants of the 2018 balance of payments crisis. However, the main trigger of the June 2018 default on external commercial debt was the high debt service in 2018 relative to reserves (see text chart). The completion of the external debt restructuring will deliver immediate debt relief through a 26 percent face value reduction of the debt and accrued interest, a lengthening of maturities, a smoother repayment profile, and a reduction of interest (see Annex II for details)—supporting the rebuilding of reserves. With the current account and the financial and capital account balances strengthening, and the government reaching its long term target of 60 percent of GDP by FY2033/34, foreign reserves are expected to reach about 120 percent of the ARA metric (Table 10), well in excess of projected external debt service (text chart).

Financial Sector

16. Private sector credit continues to decline, with liquidity in the banking sector increasing. In the first three quarters of 2019, private sector credit declined by about 1 percent, further contributing to lower growth, with banks flagging limited investment opportunities. Inefficiencies in financial intermediation are evident from the 6 percent rate spread between bank loans and deposits. Higher credit growth can be expected as the economy stabilizes and FDI resumes, and it will be key to boosting economic growth in Barbados (see section C below).

B. Risks to the Outlook

17. Domestic and external risks to the outlook are elevated (see the risk assessment matrix (RAM) in Annex I).

- **Domestic risks primarily relate to the government's untested ability to reach and sustain a 6 percent primary surplus**. Fiscal adjustment could be less than targeted due to implementation delays, increased spending owing to political pressures, or a weaker-than-expected impact of the new revenue measures introduced in 2019. Starting FY2020/21, CIT and PIT revenues could be impacted by the CIT reform that was adopted in late 2018. The financial sector remains well capitalized and liquid, despite the recent domestic debt restructuring (section B below).

- **External risks include a disorderly Brexit, weaker than expected global growth, tighter global financial conditions, and extreme weather events.** Key tourism markets for Barbados are the UK (with a market share of about 33 percent), the US (30 percent) and Canada (13 percent). Weaker growth in these economies could reduce arrivals as well as investment in refurbishing and expanding tourism facilities. Tighter global financial conditions could depress FDI inflows, especially funding for new accommodation, leading to lower construction. Extreme weather events due to climate change could also cause large financial losses. Barbados' geographical location (further into the Atlantic than other Caribbean islands) may offer it a form of protection against the strongest hurricanes. However, the impact, should it occur, can be large. Moreover, the country could be subject to other natural disasters, such as flooding (see Annex V).

ARTICLE IV POLICY ISSUES

A. Fiscal Adjustment in FY2019/20 and Beyond

18. In FY2019/20, the primary balance is expected to increase to 6 percent of GDP. The 3½ percentage point fiscal adjustment is underpinned by both revenue and expenditure measures. Several tax reforms were introduced in the context of the FY2019/20 budget with the aim of increasing revenues while rebalancing the tax structure, as discussed below. On the expenditure side, the fiscal adjustment primarily relies on curtailing interest payments and transfers to public institutions, with a modest reduction in the wage bill. Social spending is being protected, preserving Barbados' strong social safety net and limiting the impact of the BERT program on low-income households. Following the 5 percent increase in public wages agreed with the unions for FY2018/19, no further increases in public wages are envisaged.

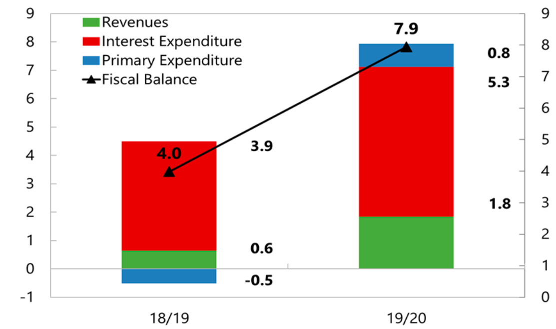
Barbados: Fiscal Adjustment Under the Program
(In percent of GDP, unless otherwise indicated)

			Program	Projections		
	2017/18	2018/19	2019/20	2019/20	2020/21	2021/22
Total revenue	**28.6**	**29.3**	**31.2**	**30.5**	**30.2**	**30.2**
Tax revenue	26.7	27.5	29.3	28.6	28.3	28.3
Income and profits	7.5	8.2	7.8	7.2	6.6	6.6
Taxes on property	1.4	1.6	1.9	2.0	2.0	2.0
VAT	8.9	9.2	9.4	9.7	9.9	9.9
Social levy (NSRL)	1.5	0.5	0.0	0.0	0.0	0.0
Excise	3.1	2.7	2.7	2.6	2.6	2.6
Import taxes	2.2	2.1	2.1	2.1	2.1	2.1
Other taxes	2.2	3.3	5.5	5.0	5.0	5.0
Nontax revenue	1.7	1.8	1.8	1.7	1.7	1.7
Capital revenue and grants	0.2	0.0	0.1	0.1	0.2	0.2
Total expenditure	**32.9**	**29.6**	**28.5**	**27.0**	**27.5**	**27.9**
Interest	7.6	3.8	3.3	2.5	3.3	3.7
Transfers	12.1	12.5	11.4	11.5	11.2	10.8
o/w Grants to public institutions	7.6	8.0	6.9	6.8	6.5	6.2
Capital expenditure and net lending	1.7	1.9	2.0	1.7	1.7	2.2
CG Fiscal balance	**-4.3**	**-0.3**	**2.7**	**3.5**	**2.7**	**2.3**
CG Primary balance	**3.3**	**3.5**	**6.0**	**6.0**	**6.0**	**6.0**
CG gross debt	**158.3**	**125.7**	**117.1**	**115.9**	**109.9**	**103.4**

Sources: Ministry of Finance and Fund staff estimates.

19. Since FY2017/18, fiscal adjustment has been tilted towards the expenditure side. The fiscal balance is projected to improve by almost 8 percentage points of GDP over two years, driven by a reduction in expenditure of slightly more than 5 percentage points and an improvement in revenues of about 2 percentage points. Almost all of the reduction in expenditure in the last two fiscal years is driven by a reduction in interest rates following the domestic debt restructuring and the moratorium on external commercial debt service. Over the same period, the cumulative contribution of primary expenditure (excluding interest) is 0.8 percentage points of GDP (text chart). The decrease in transfers to SOEs of about 0.7 percentage points over the period was offset by an increase in public wages implemented soon after the election in 2018. The contribution of primary expenditure to the fiscal adjustment is projected to increase when structural reforms of SOEs start yielding greater fiscal savings.

Barbados: Fiscal Adjustment Under the Program
(Cumulative percentage points deviation of FY GDP since FY2017/18)



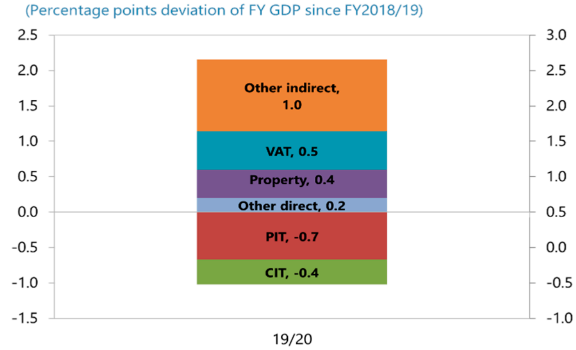
Sources: Ministry of Finance and Fund staff calculations.

20. Medium term fiscal sustainability is supported by structural reforms. Tax policy reforms aim to enhance revenue productivity, while improvements in tax and customs administration are essential to support medium term revenue. Public financial management reforms focus on improving fiscal policy planning and monitoring, strengthening the macro-fiscal unit at the Ministry of Finance, and introducing a fiscal rule. Reform of SOEs should help to reduce central government transfers to SOEs and thereby create room for additional capital spending.

Tax Policy Reforms

21. Since taking office in May 2018, the Government of Barbados has undertaken several major tax reforms. These measures increase total revenues (text chart) and broaden the tax base. The structure of revenues has been shifted from income to consumption and wealth, and from residents to non-residents.

Barbados: Tax Policy Change in FY2019/20
(Percentage points deviation of FY GDP since FY2018/19)



Sources: Fund staff calculations.

22. Corporate Income Tax (CIT) reform was approved by parliament in December 2018. In response to the OECD's newly issued framework on Base Erosion and Profit Shifting (BEPS), the Government of Barbados eliminated the differentiation between resident and non-resident corporate profits, bringing the two under a new unified tax structure (see Box 1). The CIT reform is expected to be revenue neutral. To limit the difference between CIT and PIT rates, the government also announced a gradual reduction in PIT starting in July 2019, with the top rate reduced to 28.5 percent effective January 2020.

Box 1. Reform of the Corporate Income Tax

In 2015, the OECD indicated that Barbados' CIT treatment of domestic and non-domestic companies facilitated base erosion and profit shifting. In response, the authorities established a unified CIT regime in late 2018. The reform introduces a single sliding scale of tax rates applied to all companies (except for insurance companies that continue to pay tax on premium income) while multiple allowances, like foreign currency earning allowance, are removed. The reform entails a sharp reduction in the tax burden for resident firms (about 2 percent of GDP) offset by an increase in the tax burden of companies that were operating in the international business sector.

Barbados: Old CIT regime

Domestic companies	
Baseline rate	30 percent
Life insurance companies	5 percent
Approved Small Businesses and other exceptions	15 percent
International companies	
Exempt Insurance Companies	15 years tax holiday subject to a license fee. Then 8 percent on the first BRB$250,000 of profits, and no tax liability on the remainder
International Business Companies	2.5 percent on the first BRB$10 million of taxable income, 2 percent on the next BRB$10 million, 1.5 percent on the next BRB$10 million, and 0.25 percent on the remainder

Barbados: New CIT regime

Profits	Rate
Up to BRB$1 million	5.5 percent
Between BRB$1 and BRB$20 million	3.0 percent
Between BRB$20 and BRB$30 million	2.5 percent
Above BRB$30 million	1.0 percent

The reform is expected to be revenue neutral. This assessment critically depends on rate elasticity assumptions used for international companies. Under conservative assumptions, reflecting a potential loss of tax base of about 25 percent, the CIT revenue from international business companies could increase by 2 percentage points of GDP. Given the profit distribution of international firms, the bulk of the revenue would originate from companies with a taxable income above BRB$30 million despite the low marginal tax rate applied to this bracket.

The CIT reform is expected have limited impact on revenues for FY2019/20. Since CIT is paid with a time lag, the effects of the reform on the composition of revenue are expected to become evident in FY2020/21.

23. **Revenue-enhancing measures were taken to offset the PIT reforms.** Rates for several taxes were increased and made more progressive (e.g., property taxes), new taxes were introduced (e.g., the room rate levy), and the VAT tax base was broadened by eliminating several exemptions and preferential rates (e.g., in the tourism sector).

24. **The reforms imply a shift of the tax burden from income to consumption and wealth, and from residents to non-residents.** A set of measures will increase revenues from the tourism sector. These include: the rise in the hotel accommodation VAT rate from 7.5 percent to 10 percent in January 2020, the broadening of the VAT base, the Tourism Development Fee (directly transferred to tourism-related SOEs), the increase in property taxes, the room rate levy, and a 10 percent tax on short-term renting (e.g., Airbnb). The new CIT rates entail a markedly lower tax burden for

companies formerly considered as domestic but higher rates for companies formerly belonging to the International Business and Financial Sector.

25. The new revenue mix entails some risks. With highly mobile global capital, the higher taxation of foreign-origin corporate profits is vulnerable to regulatory changes in other countries. Meanwhile, the tourism industry is highly correlated with the business cycle in the US, Canada, and the UK (the main countries of origin). Revenues could decrease in case of a slowdown in these economies.

Public Financial Management and Fiscal Rule

26. The new Financial Management and Audit (FMA) Act establishes better procedures for budget planning, preparation, and execution. The Act introduces a Medium-Term Fiscal Framework to guide the budget process, providing clear fiscal constraints for annual budget plans. Based on the annual budget, line ministries are provided with expenditures ceilings. The Minister of Finance will present the budget statement to Parliament at the same time as delivery to parliament of the budget estimates.

27. To support fiscal and debt sustainability, a fiscal rule is planned to be tabled in Parliament by end-2020. A technical assistance mission from the IMF to advise the authorities on possible modalities of the fiscal rule, including coverage, correction mechanisms, escape clause and institutional arrangements, is scheduled for March/April 2020. The mission will build on the recommendations of a 2016 FAD TA mission, which broadly identified the key objectives and coverage for the fiscal rule. With public debt still very high, the fiscal rule will target a steady reduction of the debt/GDP ratio to 80 percent by FY2027/28 and 60 percent by FY2033/34. An escape clause will allow the government to implement countercyclical fiscal policy in case of severe shocks, including climate change-related natural disasters.

The Barbados Customs and Excise Department (BCED)

28. Revenue collection efforts at the BCED need to be strengthened. BCED urgently needs to hire trained workers at all staff levels while also undergoing a full reorganization of its human resources. Furthermore, the legal framework requires updating, including by enacting the CARICOM Information Bill.

Box 2. Enhancing the Effectiveness of the Barbados Customs and Excise Department

The Barbados Customs and Excise Department (BCED) is a crucial institution for revenue collection, collecting around 38 percent of total tax receipts. However, significant reforms are necessary to bolster its performance. A recent FAD TA report proposes measures in three areas: (i) governance and management, (ii) core functions and compliance, and (iii) trade facilitation.

Governance and management

- Develop Key Performance Indicators for BCED's operations for planning and monitoring purposes. Collect timely and accurate data on customs operations.
- Reorganize employees' responsibilities between strategic and operational functions. Strengthen internal audit and develop a code of conduct.
- Upgrade the IT system to ASYCUDA World from ASYCUDA ++.
- Update the legal framework, enacting into law the CARICOM Information Bill (Cargo and Passengers) and adopt the Harmonized Commodity Description and Coding system (HS) 2017 tariff.

Core functions and compliance

- Strengthen the technical skills and the size of staff. Establish oversight mechanisms.
- Introduce a Holistic Risk Management (HRM) framework to oversee compliance in core operations. Key steps include: data collection; developing manuals of processes and procedures; identifying regulation loopholes, introducing electronic forms, using the Taxpayer Identification Number (TIN); segmenting importers according to size and risk, identifying sensitive goods.
- Improve customs controls by: improving post-clearance audit, establishing a concession monitoring unit and a bonded warehouse unit, using a TIN and electronic forms for all transactions, cooperating with Barbados Revenue Authority (BRA).

Trade facilitation and stakeholder engagement

- Implement measures described in the WTO Trade Facilitation Agreement, such as publishing of the Customs Act and Regulations and providing more information online.

Establish a trusted trader program, an advanced ruling program, and a stakeholder forum.

29. **The authorities are taking several steps to strengthen the BCED**. Leadership has been renewed with the hiring of a new customs director, and the IT system has been updated with new ASYCUDA World software. The arrival of a Long-Term Expert, supported by FAD, will further help in reforming customs administration, including by the creation of a trusted trader program and the establishment of an exemption monitoring unit and a post-clearance audit unit (see Box 2).

State Owned Enterprises

30. **Many SOEs depend on government transfers to sustain their operations**. Fees and tariffs of public services are not linked to the cost structure of service providers, and the majority of SOEs are not able to generate sufficient revenues from the sale of goods and services to cover their operating expenses. The gap between SOE income and expenditures represents a large annual

subsidy covered by central government transfers. Salaries and pensions account on average for 45 percent of overall expenditures and reach 70-80 percent in the health and environment sectors.

31. SOE reforms are a key element of Barbados' economic reform program. At close to 8 percent of GDP in FY2017/18, transfers to SOEs had become a significant burden on the budget, and a major contributor to fiscal risks. Under the program, grants to SOEs are expected to decline to under 6 percent of GDP by FY 2021/22, by a combination of: (i) much stronger oversight of SOEs, supported by improved reporting and tighter control over SOE borrowing; (ii) cost reduction, including reduction of the wage bill (estimated savings from layoffs are about [0.3] percent of GDP from FY2019/20 onwards); (iii) revenue enhancement, including an increase in user fees; and (iv) mergers and divestment.

32. To reduce transfers to SOEs, the authorities have started strengthening oversight and tightening reporting requirements. Under the new FMA law, the government must approve all SOE borrowing and can sanction SOEs for noncompliance with the reporting requirements. Every year, in preparation for the budget, all SOEs are required to provide the Ministry of Finance and the relevant line ministries with statements of intent, outlining their targets. They are also required to present to the Government a report on their financial and non-financial performance at the end of the fiscal year. IMF technical assistance is being delivered to SOEs and line ministries to help implement the new Act. The oversight of SOEs is currently the responsibility of the Management Accounting Unit, a small team of trained accountants, with a focus on financial analysis. However, the Government plans to establish a specialized SOE audit in the coming months that will be fully integrated in the budgeting cycle by 2022.

33. The government has recently introduced several new SOE fees, and increased tariffs. For instance, bus fares, which had been kept at BRB$2 (US$1) per ride for over a decade, were increased to BRB$3.50 in April 2019. Three other fees, introduced in 2018, are collected by the Government and transferred to the relevant SOEs: The Airline Travel and Tourism Development Fee (collected on airline passengers and transferred to the tourism agencies), the Health Service Contribution (transferred to the Queen Elizabeth Hospital) and the Garbage and Sanitation Contribution (transferred to the Sanitation Services Authority). In 2019, new water consumption rates were introduced for commercial and residential customers.

34. The government has completed a comprehensive review of tariffs and fees charged by SOEs (structural benchmark for end-September 2019). It identifies the SOEs which provide social welfare related services and for which tariffs are not planned to be increased, as well as the SOEs that will need to increase tariffs to cover their expenses. The review also sets a timetable for future tariff reviews that varies by type of SOE. The review covered most but not all SOEs—a few SOEs were excluded because tariffs had recently been reviewed (including the Barbados Water Authority and the Barbados Transport Board).

35. Several SOEs are being merged. Ongoing and planned mergers include the Government Information Service (GIS) with the Caribbean Broadcasting Corporation (CBC), and the Urban Development Corporation (UDC) with the Rural Development Corporation (RDC); entities tasked to promote tourism are also being merged. This is expected to lead to efficiency gains and therefore help to reduce transfers to SOEs.

B. Monetary and Financial Sector Policies

36. Together with addressing the fiscal dominance problem, the central bank needs to be equipped with tools and facilities to be able to manage liquidity consistent with the exchange rate peg. Following several years with high monetary financing (e.g., more than 8 percent of GDP in FY2016/17), the CBB will now provide liquidity to the government only to smooth unforeseen developments in revenue and spending. To avoid the subordination of monetary policy to fiscal management, under the draft new CBB law, the total amount of such advances: (i) cannot exceed 7.5 percent of the preceding 3 year moving average government's revenue; (ii) is subject to cash repayment at the end of each fiscal year; and (iii) is at market rates. With MCM TA support, the CBB will develop a liquidity management operational framework. The CBB is implementing recommendations provided by the 2018 Safeguard Assessment: it has published the 2018 audited financial statements and has put in place a new structure for foreign reserve management. While the implementation of IFRS is advancing well, strengthening the oversight in reserves management and system controls within RTGS remains a work in progress. Work on the new CBB law (structural benchmark for end-December 2019) is also well underway, and a final IMF technical assistance mission took place in November 2019. The authorities expect Parliament to adopt the new law with a minor delay in January 2020. The negative capital position of the CBB remains stable; a recapitalization plan will be developed by mid-2020 (structural benchmark for June 2020), with the help of IMF technical assistance planned for the first half of 2020.

37. Despite a significant impact from the domestic debt restructuring, depositary corporations remain sound. Commercial banks, deposit-taking finance and trust companies, and credit unions are in general liquid and well-capitalized although capital buffers have declined. However, individual capital adequacy ratios vary and profitability is currently negative. In June 2019, the most capitalized bank had a capital adequacy ratio of 26 percent, while one bank's capital ratio was just under 8 percent. Finance and trust companies maintained high capital ratios, while two small credit unions had capital under the prescribed 10 percent of assets. The authorities are providing explicit and time-bound regulatory forbearance targeting select financial institutions with high (post debt restructuring) concentration ratios until they rebuild capital buffers (an approach that is supported by staff). With the expected improvements in the business climate (as discussed below) and fiscal sustainability, credit growth is expected to increase through increased confidence and enhanced opportunities for lending.

38. The framework for AML/CFT is being strengthened. Barbados' 2018 evaluation against the FATF standard identified AML/CFT deficiencies that could pose important reputational risks for the financial sector and the international businesses sector. Recommendations of the 2018 evaluation to address these included: (i) to conduct a comprehensive risk assessment; (ii) to improve statistics and IT systems that are used for risk assessment; (iii) to ensure that law enforcement agencies and the judicial system prioritize AML/CFT offences; and (iv) to strengthen law enforcement. In response, the authorities have prepared a new National Risk Assessment with the participation of all major stakeholders. Improvements in governance, training, statistics, and IT are facilitating risk assessments, while judicial reforms have helped ensure that AML/CFT offences are prioritized and relevant agencies have additional tools to enforce AML/CFT legislation.

Box 3. Enhancing the Autonomy of the Central Bank

The new draft Act redefines the mandate of the CBB to focus on core central bank activities. The draft CBB Act sets price stability as the primary objective of the CBB and financial stability as its secondary objective. The CBB will not conduct quasi-fiscal activities, the CBB's advances to the Government will be limited to short term advances to smoothen unforeseen developments in revenues and expenditures within the fiscal year, and an escape clause to allow the CBB to purchase a limited amount of government securities on the primary market in the event of an emergency on the grounds of natural disaster will be included in the law.

The new draft Act redefines the governance structure of the CBB to limit potential undue interference in policy formulation. The mandate of the CBB Board is re-defined and limited to overseeing the Executive Committee, while the Executive Committee is in charge of formulating and implementing policy, and of daily management of the CBB. This governance structure ensures an effective separation between oversight and executive management while enhancing the CBB's autonomy.

The draft legislative amendments ensure coherence and consistency of the overall CBB's legal framework. Certain central bank-related matters continue to be regulated under separate legislation. This potentially weakens the coherence and consistency of the CBB's legal framework and hampers its autonomy. The draft CBB Act limits such risks by requiring prior consultation of the CBB on legislative initiatives that fall within the scope of its mandate. This requirement also ensures that provisions of the CBB Act shall not be amended by other legislation, unless it specifically amends the CBB Act.

C. Growth Oriented Reforms

39. **Structural reforms are needed to unlock Barbados' growth potential.** Declining total factor productivity has been a drag on growth over the last two decades. Major constraints on growth included unsustainable fiscal policy and a poor business climate (see growth diagnostic in Annex IV). The authorities have started to address these challenges with several initiatives. With the adoption of the new Town and Country Planning Law in January 2019, the process for providing construction permits has been streamlined. The authorities intend to carefully review and address the key obstacles to growth, and, with staff support, they have prepared a growth diagnostic. There is much room for improvement in the business climate, including by (i) streamlining the process for setting up new businesses (including by setting up a one-stop shop), (ii) eliminating the requirement to use a company seal, (iii) introducing a single business administration number, (iv) amending the company law to strengthen protection of minority shareholders, (v) reforming customs administration to facilitate trading across borders, and (vi) digitizing property records in the land registry.

40. Establishing a credit registry and credit collateral registry would further facilitate access to credit. The authorities are formalizing the credit bureau regime by drafting a Fair Credit Reporting Act and a Code of Conduct for the operation of credit bureaus. As highlighted in WB 2019,[3] key aspects of the new framework would include the dissemination of financial, non-financial firms' and individuals' data, the coverage of the data, access rights by borrowers and lenders in a cost-effective manner, and the dissemination of creditor scores offered as value added services to help banks assess the creditworthiness of borrowers.

41. The authorities are gradually liberalizing exchange controls, as envisaged under the program. As of August 2019, residents can open FX deposit accounts in the domestic banking system. The authorities also plan to allow banks to lend in FX to residents funded by these deposits, and have relaxed the FX surrender requirement for exporters; this is not expected to significantly affect international reserve adequacy levels. Risks associated with FX lending by banks need to be carefully monitored and related micro and macroprudential tools need to be introduced. The mission emphasized the importance of having a properly timed and sequenced capital flow liberalization strategy which is sufficiently supported by macroprudential and financial sector prudential policies. The FX fee introduced in July 2017 was assessed by the IMF as a CFM and remains in place; this fee should be phased out as the reserve position strengthens further.

42. Deeper regional integration could help Barbados increase its growth potential. Enhanced regional integration in the context of the Caribbean Community (CARICOM) and the Caribbean Single Market and Economy (CSME), of which Barbados is a member, could offer opportunities to foster regional economic growth. Functional integration by establishing regional regulatory agencies (for example in aviation or in financial sector supervision) could generate efficiencies and improve the quality of public services, helping all economies in the region. A review of the Common External Tariff (CET) could lead to a streamlined, simplified tariff structure. Stronger regional cooperation could also help avoid a race to the bottom in granting incentives to foreign investors. Regional cooperation is also important in strengthening disaster resilience, for example by pooling risks, building on the experience gained with the Caribbean Catastrophe Risk Insurance Facility (CCRIF).

D. Policies for Strengthening Resilience to Natural Disasters and Climate Change

43. Improving resilience to natural disasters and climate change will reduce risks to the outlook (Annex V). Although Barbados appears not as exposed to natural disasters as some other Caribbean countries, climate change is likely to increase its vulnerability to weather-related events that could have a major impact on its economy. Barbados insures natural disaster risks through the (CCRIF). With the inclusion of natural disaster clauses into the new domestic and external bonds, the

[3] The 2019 "Improving Business Climate in Barbados" reform note by the World Bank identifies the lack of a credit bureau as a key constraint to access to credit and therefore, growth. Other useful reform recommendations in the same report cover areas such as: starting a new business, dealing with construction permits, getting electricity, registering properties, protecting minority investors, enforcing contracts, and resolving insolvencies.

government of Barbados effectively used the debt restructuring to strengthen its protection against natural disasters. These clauses allow for the capitalization of interest and deferral of scheduled amortization falling due over a two-year period following the occurrence of a major natural disaster. For the new domestic bonds, the trigger for a natural disaster event is a payout above US$5 million by CCRIF.[4] The government is in discussion with the IDB on a contingent credit facility that would allow Barbados to borrow up to 2 percent of GDP in case of a natural disaster. While Barbados scores high in financial resilience, it can improve structural and post-disaster resilience, for example by exploiting opportunities to improve the disaster resilience of construction under the 'roofs to reefs' program, and by strengthening the public procurement system.

DATA ISSUES

44. Data shortcomings are being addressed. With support from the Caribbean Regional Technical Assistance Center (CARTAC) and Canada's Project for the Regional Advancement of Statistics in the Caribbean (PRASC), Barbados has improved and rebased the annual GDP estimates to 2010 and developed quarterly GDP by economic activity estimates. However, further improvements and rebasing of the GDP estimates to 2016 have been delayed due to lack of resources. A new two-year project funded by Canada started in May 2019 to maximize capacity building on national accounts, in collaboration with CARTAC and PRASC. Additional staff at the Barbados Statistical Service (BSS) is needed to ensure that STA TA to Barbados can be effectively delivered.

PROGRAM ISSUES

45. All program targets and benchmarks for the second review were met (Table 1 and Table 2, Attachment I). All quantitative performance criteria (QPCs), indicative targets (ITs), and all three structural benchmarks for end-September 2019 were met. The government conducted a comprehensive review of the tax system (end-June 2019 structural benchmark); the Financial Management and Audit (FMA) Act was proclaimed (end-July 2019 structural benchmark); and the government conducted a comprehensive review of tariffs and fees charged by SOEs.

46. Staff proposes to modify three end-March 2020 QPCs at the request of the authorities (Table 2, Attachment I). Staff proposes to revise: (i) floor on net international reserves downward to reflect earlier than envisaged resumption of external debt service, revised projected disbursements from IDB and CDB, and revised trade balance projections; (ii) ceiling on net domestic assets of the CBB upward to reflect new information on arrears' repayment; and (iii) the floor on the CG primary balance, to reflect the small nominal GDP revision and the authorities' intention to continue to meet the 6 percent primary balance target by end FY2019/20. New performance criteria for September

[4] Such a payout occurred right before the domestic debt restructuring was completed: on October 19, 2018, CCRIF made a US$5.8 million payment to the government of Barbados following the passage of Tropical Storm Kirk, under Barbados' excess rainfall policy.

2020 are proposed. Staff also proposes to modify the end-March 2020 ceiling ITs on CG domestic and public institutions arrears to reflect faster-than-expected repayment of arrears in 2019.

47. Staff proposes to reset four structural benchmarks and to introduce one new one for upcoming reviews (Table 1, Attachment I).

- Staff proposes to reset the structural benchmark on the actuarial review for the civil service pensions (Table 1, Attachment I, structural benchmark #17) from end-December 2019 to end-June 2020. The authorities hired external consultants to cost different pension reform options for new entrants into the public service and an actuarial report is expected by end-June 2020.

- Staff proposes to reset the structural benchmark on the new public pension law (Table 1, Attachment I, structural benchmark #20) from end-June 2020 to end-September 2020. After the completion of the actuarial review, public consultations are planned ahead of the presentation of reform proposals to parliament.

- Staff proposes to revise and reset the structural benchmark on the BCED (end-December 2019 structural benchmark in IMF 19/182). Implementation has been delayed in part owing to management changes at the BCED. Staff proposes to split the benchmark into two benchmarks: a first benchmark for end-March, 2020 to establish a trusted trader program (Table 1, Attachment I, structural benchmark #18), and a second benchmark for end-August, 2020 to (i) deploy staff to the exemption monitoring unit and undertake at least eight verification assignments; (ii) train and deploy at least 6 officers in the post clearance audit unit; and (iii) undertake post release verification of entries and subject at least 3500 entries (Table 1, Attachment I, structural benchmark #22).

- Staff proposes to reset the fiscal rule benchmark (end-June 2020 structural benchmark in IMF 19/182). An IMF technical assistance mission to help authorities design a new fiscal rule is likely to be fielded in March/April 2020. In order to give adequate time for implementation, it is proposed to reset the structural benchmark on the fiscal rule (Table 1, Attachment I, structural benchmark #23) to end-December 2020.

- Staff proposes to introduce one new benchmarks for the BRA to (i) execute an initial 20 "issue based" audits on large taxpayers and (ii) develop a risk-based compliance plan to target improvements in "on-time" filing and payments compliance rates (Table 1, Attachment I, end-June 2020 structural benchmark #19).

48. With strong implementation of the program, Barbados' capacity to repay the Fund remains adequate and financing assurances remain in place (Table 10). 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 remain around 120 percent of ARA over the full projection period. The authorities' commitment to the program and their solid repayment history following their two previous Fund-supported programs also provide comfort. The EFF-supported program is fully financed over the next 12 months, with good prospects for the remainder of the program period. Adequate safeguards remain in place for further use of Fund resources. The projected external debt service does not undermine the medium-term viability of the BOP and thereby, the capacity of Barbados to repay the Fund.

AUTHORITIES' VIEWS

49. The authorities broadly agree with staff's views on macroeconomic policies and projections. They concur that the fiscal adjustment effort is difficult but necessary, and that the reform of SOEs is a central element of this effort. They also share staff's view that the fiscal consolidation is on track to deliver a 6 percent of GDP primary surplus in FY2019/20. They agree with staff that driving meaningful reforms requires a careful prioritization and pacing of the reform effort.

50. Strengthening disaster resilience is a top priority for the authorities. In this area, the Government of Barbados aims to build on progress made in the domestic and external debt restructuring, with the inclusion of natural disaster clauses in new debt instruments. Their 'Roofs to Reefs' program aims to build coherent, integrated structural resilience in the face of natural disasters. They have expanded their participation in the Caribbean Catastrophe Risk Insurance Facility (CCRIF). Discussions with the IDB on a contingent credit facility are underway and the authorities expect these to be completed ahead of the next hurricane season. In the authorities' view, opportunities for small and vulnerable island states to secure additional insurance to climate change risks is limited, and they are actively looking to work with the international community and the private sector to develop new, innovative forms of insurance or resilience building, including Growth and Resilience Bonds that finance resilience building with insurance protection. The authorities stressed the need for the international community to provide concessional support to small islands states that are on the front line of the consequences of climate change. They point out that their contribution to the drivers of climate change (global emissions) has been negligible—but they are now the first to bear the consequences. They do not have the resources to fight this battle on their own.

51. The Barbadian authorities view competitiveness and deepening Caribbean integration as a cornerstone of their economic program. They see enormous growth potential for the region that can be unlocked via the creation of a single regulatory, investment, trade and payment space. This could lead to important savings in limited human resources, while at the same time help to establish a uniform regulatory framework that would facilitate doing business in the region and beyond. In the view of the authorities, regional cooperation is also critical to avoid a race to the bottom in granting tax incentives to investors. Improving transport and trade linkages within the region is also a priority. The authorities also see regional cooperation in strengthening disaster resilience and addressing the consequences of climate change as key to success, including by regionalizing responses to disasters, for example through the Regional Security Services and building on the CCRIF.

52. The authorities see much scope to boost Barbados' growth potential, with structural reform aimed at improving the business climate and competitiveness. With the reform of the Town and Country Planning law, an important first step has been taken, and the authorities share staff's view that much more can and must be done to improve the business climate. They are striving to make public services much more efficient and customer-oriented, including by digitizing government services, including the corporate and legal registries. Deep reform of state-owned enterprises operating in different sectors of the economy will be key to this effort, in the view of both the staff and the authorities.

STAFF APPRAISAL

53. The Barbadian authorities continue to make good progress in implementing the comprehensive Economic Recovery and Transformation (BERT) plan. All quantitative performance criteria (QPCs), indicative targets (ITs), and all three structural benchmarks for end-September 2019 were met. Prospects for continued strong program performance are good.

54. The fiscal adjustment continues as programmed with the primary surplus targeted at 6 percent of GDP for FY2019/20. The primary surplus target for end-September 2019 was met by a wide margin. The FY2019/20 budget provides a solid basis for reaching the 6 percent of GDP primary surplus target for FY2019/20.

55. Growth is expected to rebound to its long-term average of about 2 percent over the medium term. Barbados' external position is broadly consistent with fundamentals and desirable policies. Risks to the outlook include a disorderly Brexit and a US slowdown.

56. SOE reforms are essential for achieving the primary surplus target and maintaining it over the medium term. To secure fiscal space for investment in physical and human capital, transfers to SOEs are envisaged to decline from 8 percent of GDP in FY2017/18 to 6 percent of GDP by FY2021/22, 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 in user fees; and (iv) mergers and divestment.

57. The authorities have reached agreement with the external creditor committee for restructuring the external commercial debt, and a debt exchange offer has been launched. The agreement includes a natural disaster clause for the new instrument. Under the program's macroeconomic framework, the restructuring agreement will facilitate reaching the 80 percent of GDP medium term debt anchor in FY2027/28, and the 60 percent of GDP long-term anchor in FY2033/34. The completion of the external debt restructuring will help reduce uncertainty and improve prospects for investment. The inclusion of a natural disaster clause will help Barbados remain current on its debt obligations and, as a result, also benefit creditors.

58. While the authorities are well on the way to restoring fiscal sustainability, these achievements must be secured by improving the CBB's governance framework. Amendments to the Central Bank Law appropriately aim to limit central bank financing of the Government to short-term advances and to strengthen the CBB's mandate, autonomy, and decision-making structures.

59. Program implementation going forward will remain challenging. Risks to the program include limited implementation capacity and untested ability to maintain high primary surpluses over a sustained period. Implementing the ambitious structural reform agenda will also be challenging, given limited implementation capacity. The tasks are arduous, but there is no alternative route to restoring fiscal and external sustainability to spur a sustained economic recovery.

60. Strengthening disaster resilience is key boosting medium-term economic prospects. Although Barbados appears less vulnerable to natural disasters than other Caribbean states, climate change is likely to increase its vulnerability to weather-related events that could have a major impact on its economy. With the inclusion of natural disaster clauses into the new domestic and external bonds, the government of Barbados effectively used the debt restructuring to strengthen its protection against natural disasters. Barbados scores high in financial resilience and it can improve structural and post-disaster resilience, for example by exploiting opportunities to improve the disaster resilience of construction under the 'roofs to reefs' program.

61. Structural reforms are needed to unlock Barbados' growth potential. With the adoption of the new Town and Country Planning Law in January 2019, the process for providing construction permits has been streamlined, but much room for improvement in the business climate remains. Deeper regional integration could help Barbados increase its growth potential.

62. With continued strong program implementation, staff recommends completion of the second review of the extended arrangement under the Extended Fund Facility, completion of the financing assurances review, and it supports the authorities' request to modify three performance criteria.

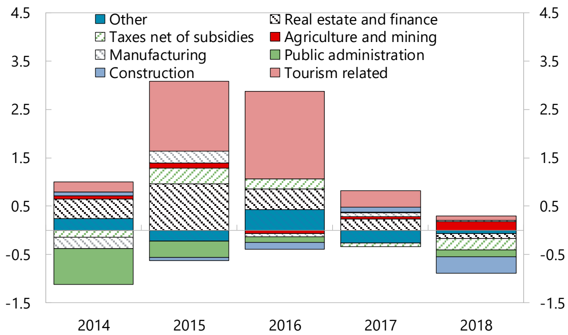
63. Staff proposes that the next Article IV consultation take place on a 24-month consultation cycle, in accordance with Decision No. 14747-(10/96).

Figure 1. Barbados: Real Sector Developments

Growth has declined due to negative contribution from construction and services…

Real GDP Growth by Sectors

(millions BBD)

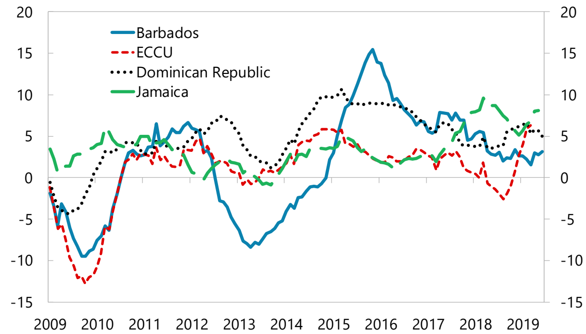


Sources: Central Bank of Barbados and Fund staff calculations.

… as growth in tourism arrivals was weak.

Tourist Arrivals

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

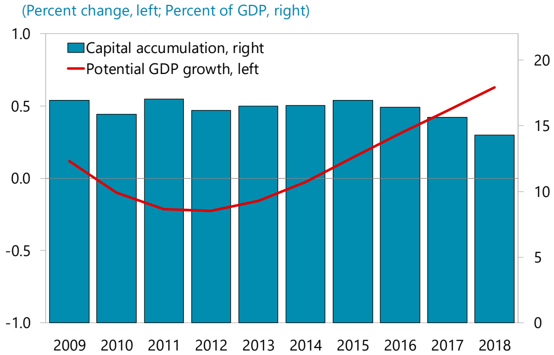


Sources: Caribbean Tourism Organization and Fund staff calculations.

Potential GDP growth is recovering from low levels.

Capital Accumulation and Potential GDP

(Percent change, left; Percent of GDP, right)

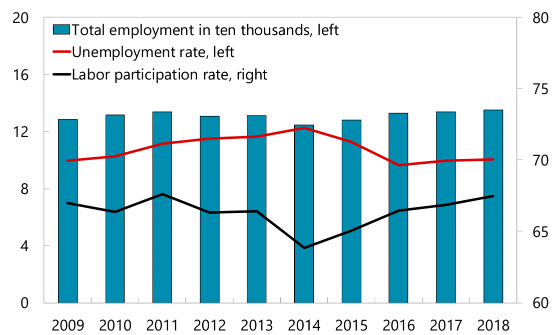


Sources: Central Bank of Barbados, Invest Barbados and Fund staff calculations.

Unemployment slightly increased due to layoffs started in 4Q2018, while labor participation continued its upward trend.

Labor Participation and Unemployment

(Ten thousands; Percent)

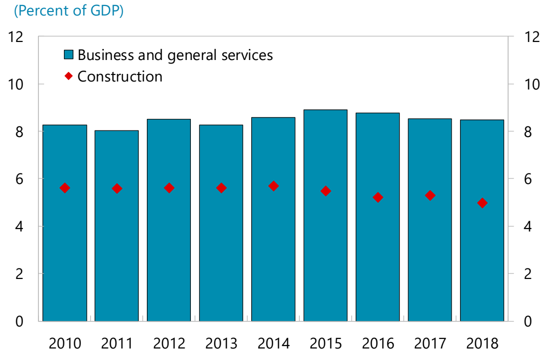


Sources: Central Bank of Barbados and Fund staff calculations.

Non-tourism industries are stagnating,

Construction and Business Sectors

(Percent of GDP)

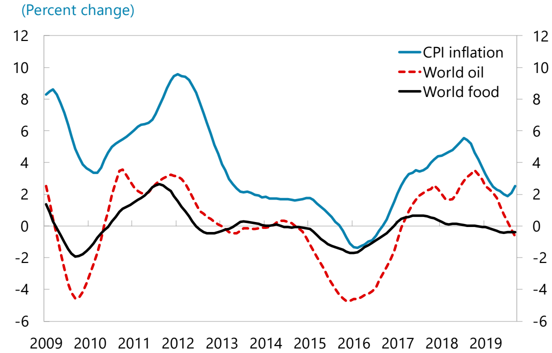


Sources: Central Bank of Barbados, Invest Barbados and Fund staff calculations.

…while inflation declined due to lower consumption taxes and energy prices.

Consumer, Oil and Food Prices

(Percent change)



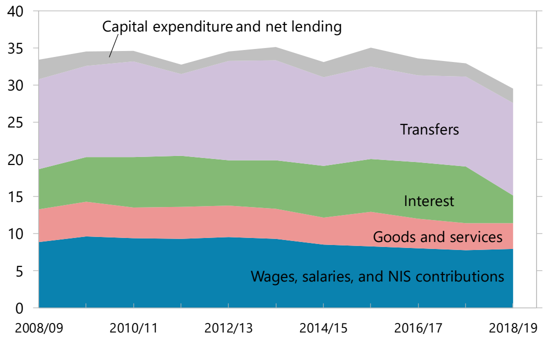
Sources: Central Bank of Barbados and Fund staff calculations.

Figure 2. Barbados: Fiscal Sector Developments

While transfers remain high, debt restructuring helped reduce interest bill in FY 18/19…

General Government Expenditures

(Percent of GDP)

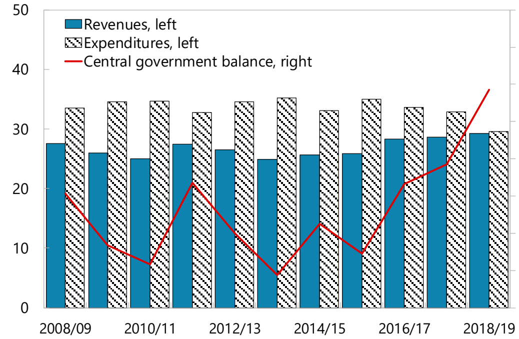


Sources: Central Bank of Barbados and Fund staff calculations.

……and improve the fiscal balance.

Central Government Balance

(Percent of GDP)

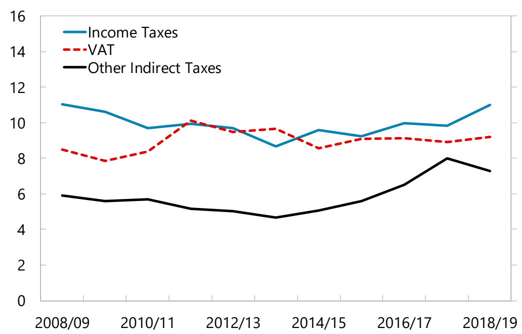


Sources: Central Bank of Barbados and Fund staff calculations.

Since FY2014/15, revenues from income taxes and indirect taxes have grown slightly while VAT revenues have remained relatively flat.

Tax Revenue Composition

(Percent of GDP)

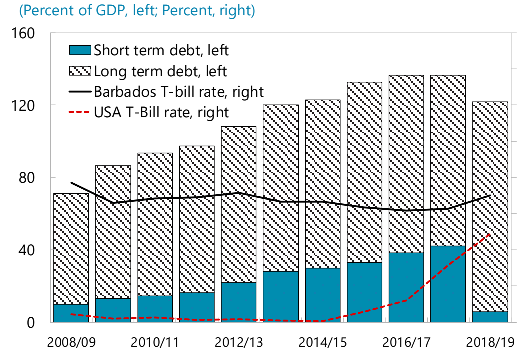


Sources: Central Bank of Barbados and Fund staff calculations.

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

Government Financing

(Percent of GDP, left; Percent, right)

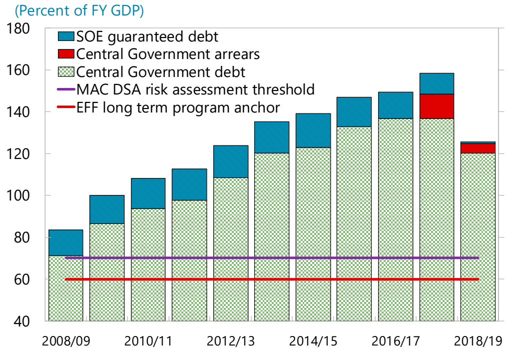


Sources: Central Bank of Barbados and Fund staff calculations.

… but public sector debt has decreased sharply after the domestic debt restructuring…

Public Debt

(Percent of FY GDP)

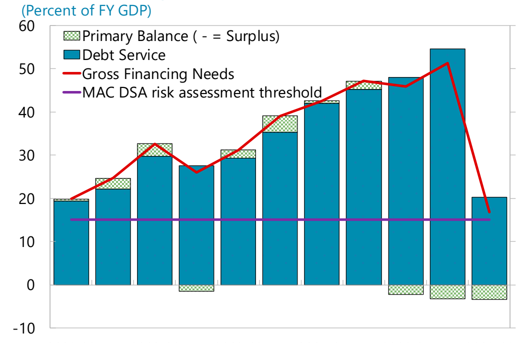


Sources: Fund staff calculations.

… along with the debt service cost and gross financing needs.

Gross Financing Needs

(Percent of FY GDP)



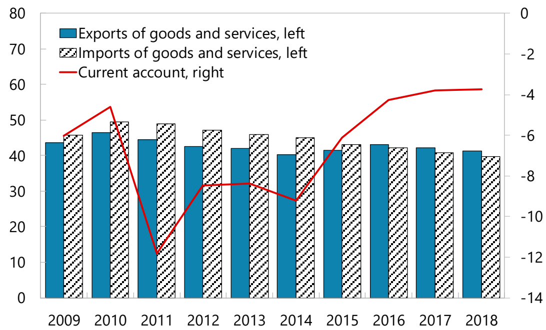
Sources: Fund staff calculations.

Figure 3. Barbados: External Sector Developments

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

Trade

(Percent of GDP)

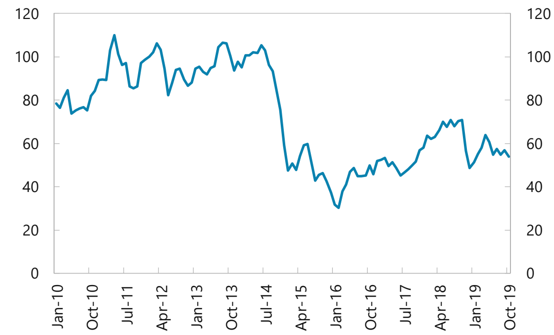


Sources: Central Bank of Barbados and Fund staff calculations.

Lower imports are mainly due to declining oil prices.

WTI Oil Price

(US$ per barrel)

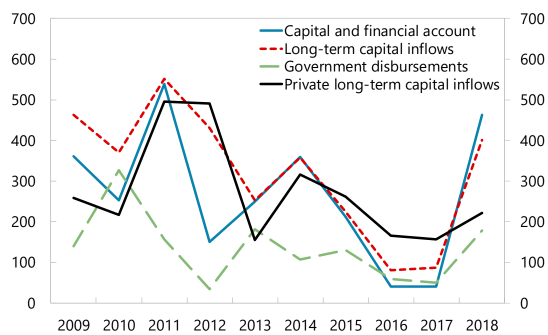


Sources: Fund staff calculations.

A declining trend in capital inflows was reversed owing to inflows from IFI loans ….

Capital and Financial Account

(Millions USD)

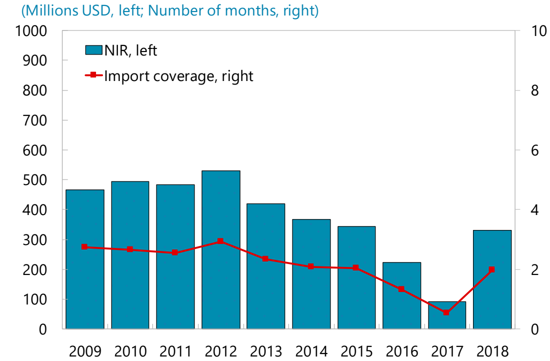


Sources: Central Bank of Barbados and Fund staff calculations.

…contributing to a turnaround in international reserves.

Net International Reserves

(Millions USD, left; Number of months, right)

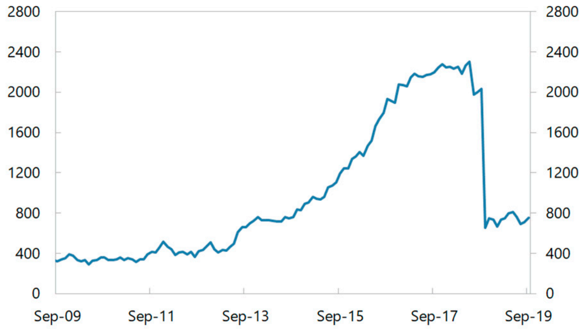


Sources: Central Bank of Barbadose and Fund staff calculations.

Figure 4. Barbados: Monetary Sector Developments

CBB's claims on the Government declined after the domestic debt restructuring...

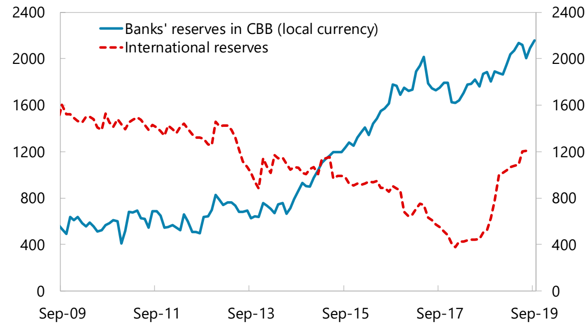
Central Bank's Claims on Central Government
(Millions BBD)



Sources: Central Bank of Barbados and Fund staff calculations.

...while the CBB's international reserves increased sharply, and commercial banks' reserves at the CBB remained high.

Reserves
(Millions BBD)



Sources: Central Bank of Barbados and Fund staff calculations.

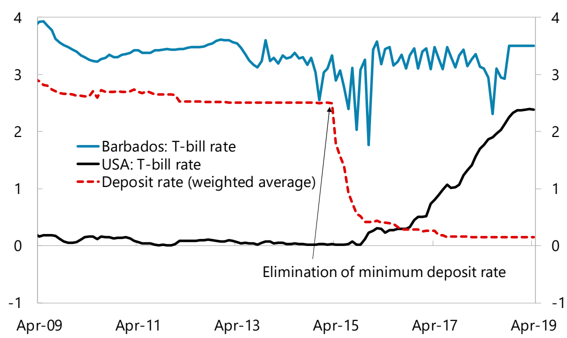
The country risk premium peaked after the debt restructuring announcement but has since declined with better prospects of external debt being restructured.

Bond Spread (Barbados over U.S. 10-year bonds)
(Basis points)

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

The T-bill rate declined after the debt restructuring, while the deposit rate remained very low.

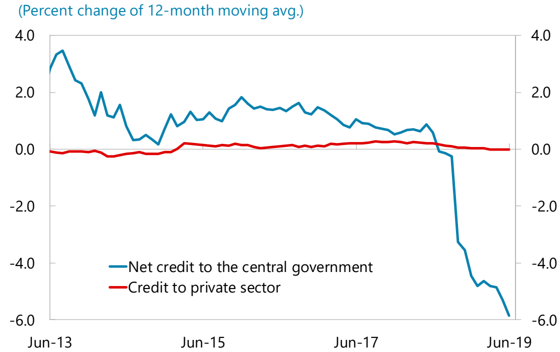
Interest Rates
(Percent)



Sources: Central Bank of Barbados and Fund staff calculations.

Private sector credit growth has remained weak...

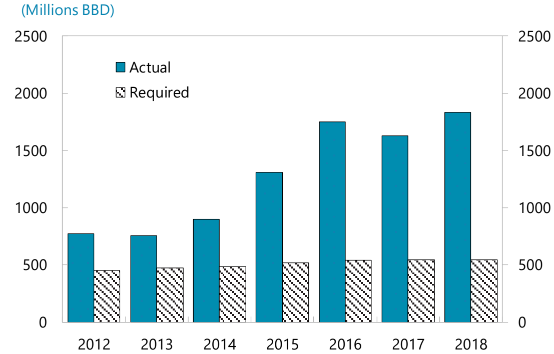
Private Sector Credit
(Percent change of 12-month moving avg.)



Sources: Central Bank of Barbados and Fund staff calculations.

...with excess liquidity parked at the CBB.

Commercial Banks: Reserves
(Millions BBD)



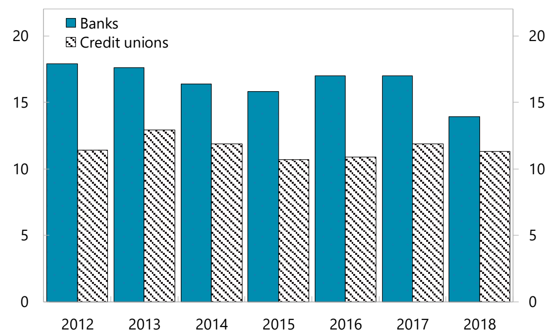
Sources: Central Bank of Barbados and Fund staff calculations.

Figure 5. Barbados: Financial Sector Developments

Capital relative to risk-weighted assets declined after the debt restructuring but remains adequate…

Capital Adequacy Ratio

(Percent of risk-weighted assets)

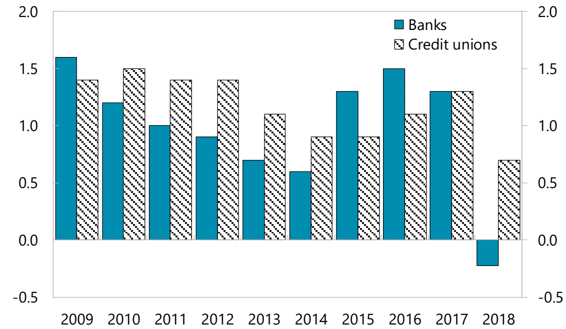


Sources: Central Bank of Barbados and Fund staff calculations.

…while profitability turned negative.

Return on Assets

(Percent of total assets)

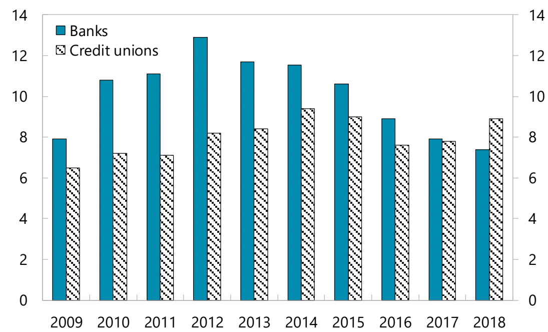


Sources: Central Bank of Barbados and Fund staff calculations.

Banks' NPLs remained flat.

Nonperforming Loan Ratio

(Percent of total loans)

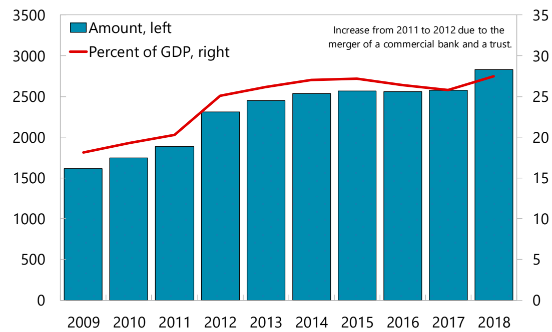


Sources: Central Bank of Barbados and Fund staff calculations.

Mortgages increased slightly in 2018…

Commercial Banks' Mortgage Exposure

(Millions BBD, left; Percent, right)

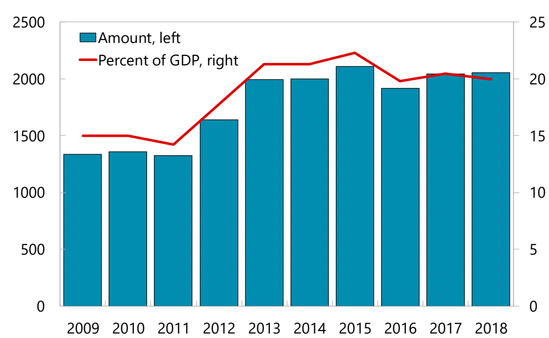


Sources: Central Bank of Barbados and Fund staff calculations.

…while the banks maintained their exposure to the Government after maturity lengthening due to the debt restructuring.

Commercial Banks' Sovereign Exposure

(Millions BBD, left; Percent, right)

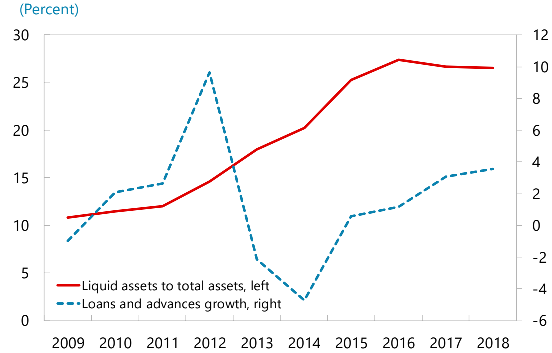


Sources: Central Bank of Barbados and Fund staff calculations.

With some loan growth, banks' liquid assets to total assets have decreased in the last two years.

Commercial Banks' Loans and Liquid Assets

(Percent)

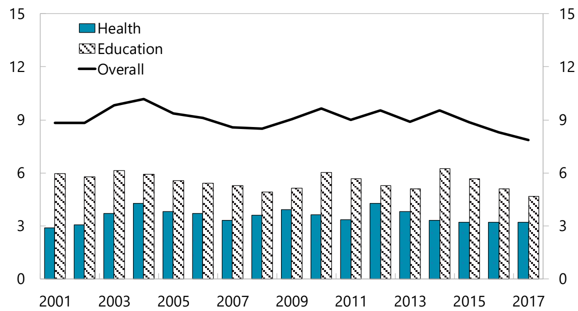


Sources: Central Bank of Barbados and Fund staff calculations.

Figure 6. Barbados: Social Development Indicators

Social spending has remained constant as a share of GDP…

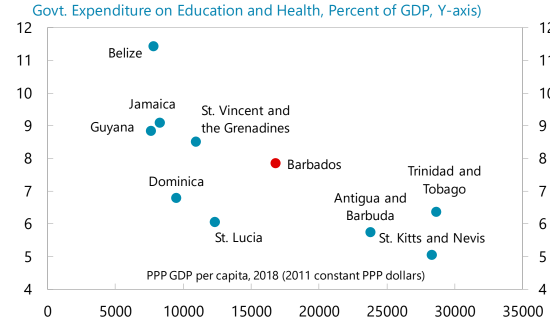
Public Social Spending
(Percent of GDP)



Sources: World Development Indicators as of Jul. 2019, and IMF staff calculations.

…and in line with peers, given the income level.

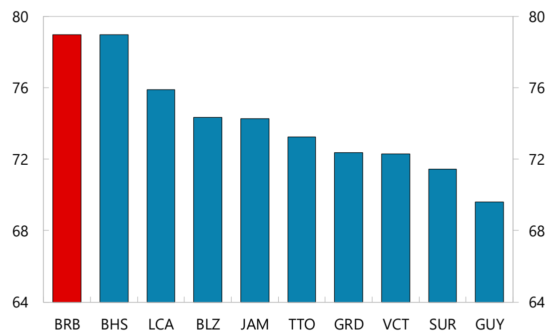
Social Spending: Selected Caribbean Countries
(PPP GDP per capita, PPP dollars, X-axis;
Govt. Expenditure on Education and Health, Percent of GDP, Y-axis)



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

Barbados has a higher life expectancy…

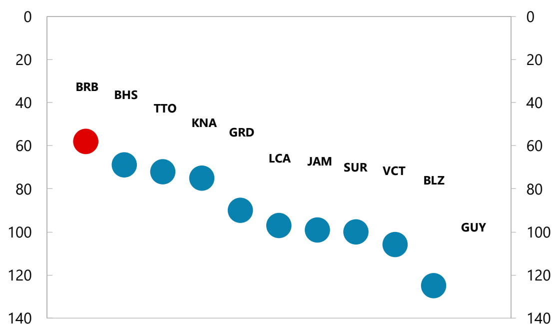
Life Expectancy, 2017
(Years)



Sources: World Development Indicators and IMF staff calculations.

…and higher development outcomes relative to regional peers.

Human Development Index, 2017
(Rank of 188, 1 is best)

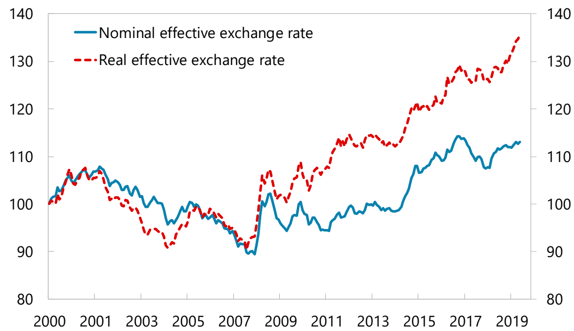


Sources: UNDP Human Development Index 2018 and IMF staff calculations.

Figure 7. Barbados: Competitiveness Indicators

Real effective exchange rate has appreciated recently.

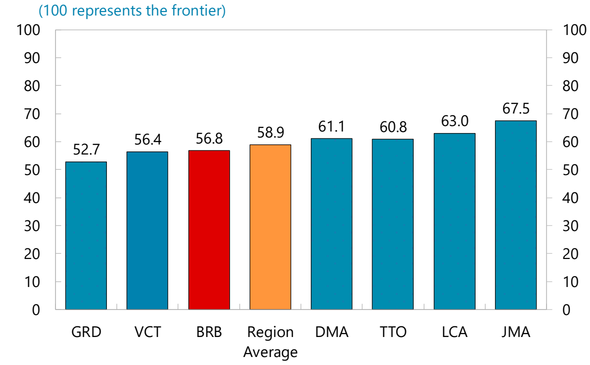
Effective Exchange Rates
(Index: January 2000=100)



Sources: IMF Information Notice Service and Fund staff calculations.

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

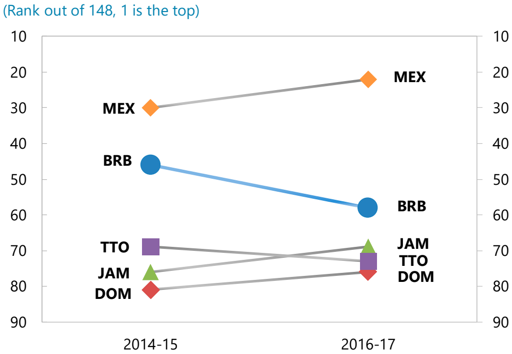
Doing Business: Distance to Frontier, DB19
(100 represents the frontier)



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…

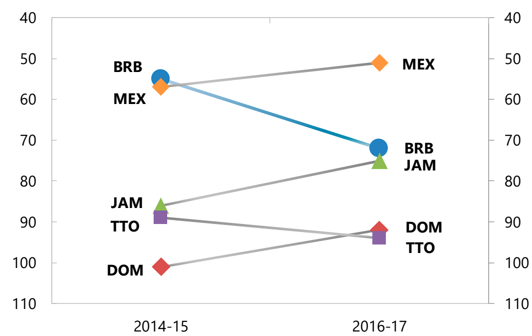
Tourism Competitiveness Index Ranking
(Rank out of 148, 1 is the top)



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)



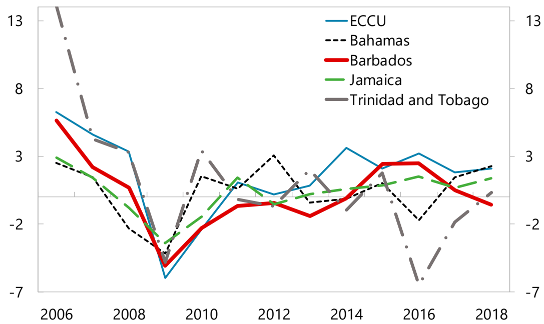
Sources: World Economic Forum and Fund staff calculations.

Figure 8. Barbados: Economic Performance in a Regional Context

Barbados' growth is relatively lower but less volatile.

Real GDP Growth

(Percent change)

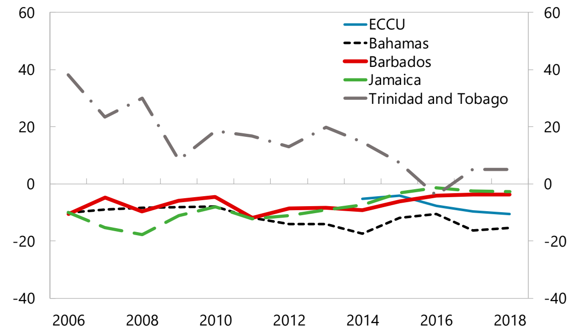


Sources: IMF World Economic Outlook and Fund staff calculations.

External imbalances have reduced.

Current Account Balance

(Percent of GDP)

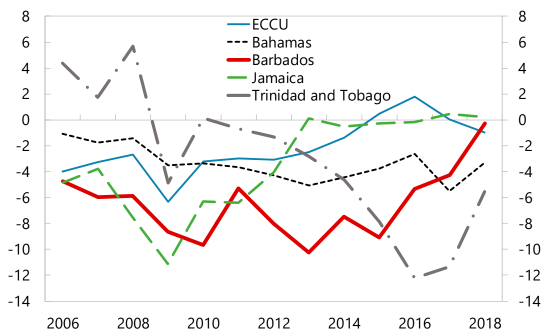


Sources: IMF World Economic Outlook and Fund staff calculations.

The fiscal stance has been tightening.

Central Government Fiscal Balance

(Percent of GDP)

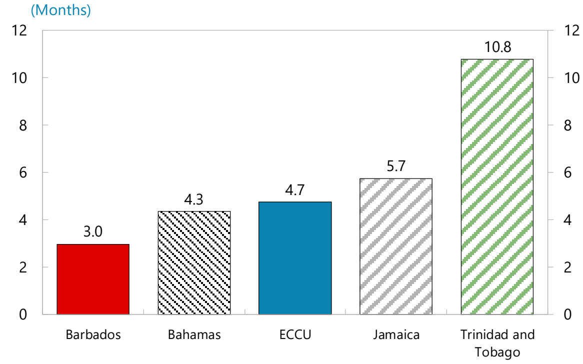


Sources: IMF World Economic Outlook and Fund staff calculations.

Reserves are still lower than those of its peers…

Reserves in Months of Imports, 2018

(Months)

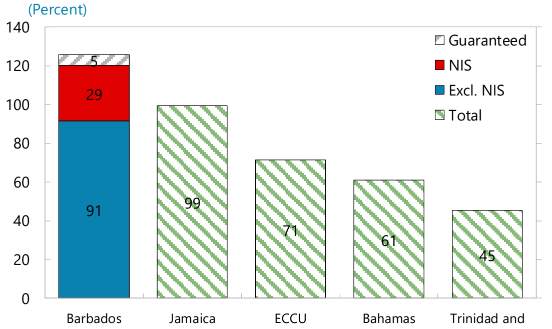


Sources: IMF World Economic Outlook and Fund staff calculations.

…while its debt is still the highest in the region.

General Government Gross Debt-GDP Ratio, 2018

(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, 2016–20

I. Social and Demographic Indicators (most recent year)

Population (2017 est., thousand)	285.7	Adult literacy rate	99.7
Per capita GDP (2017 est., US$ thousand)	17.4	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 (2018 est.)	10.1

Main products, services and exports: tourism, financial services, rum, sugar, and chemicals.

II. Economic Indicators

			Est.	Projections	
	2016	**2017**	**2018**	**2019**	**2020**
			(Annual percentage change)		
Output, prices, and employment					
Real GDP	2.5	0.5	-0.6	-0.1	0.6
CPI inflation (average)	1.5	4.4	3.7	4.0	4.8
CPI inflation (end of period)	3.8	6.6	0.6	6.5	2.3
External sector					
Exports of goods and services	6.6	0.8	0.0	3.3	3.0
Imports of goods and services	0.2	-0.4	-0.4	6.3	1.1
Real effective exchange rate (average)	0.9	2.5	1.2	…	…
Money and credit					
Net domestic assets	7.1	2.8	4.1	1.8	2.9
Of which: Private sector credit	1.5	3.2	0.4	0.0	3.6
Broad money	4.2	1.2	-0.2	4.2	2.9
			(In percent of GDP, unless otherwise indicated)		
CG Public finances (fiscal year) 1/					
Revenue and grants	28.3	28.6	29.3	30.5	30.2
Expenditure	33.6	32.9	29.6	27.0	27.5
Fiscal Balance	-5.3	-4.3	-0.3	3.5	2.7
Interest Expenditure	7.6	7.6	3.8	2.5	3.3
Primary Balance	2.2	3.3	3.5	6.0	6.0
Public Debt (fiscal year) 1/					
Central gov't gross debt (incl. guaranteed anc	149.5	158.3	125.6	115.9	109.9
External	31.3	28.5	32.6	28.7	28.1
Domestic	118.2	129.8	93.0	87.2	81.9
Balance of payments 2/					
Current account balance	-4.3	-3.8	-3.7	-3.7	-3.6
Capital and financial account balance	0.8	0.8	9.1	6.3	5.4
o/w Public Sector	-1.8	-1.4	3.5	3.3	1.8
o/w IMF disbursement	0.0	0.0	1.0	1.9	1.4
Private Sector	2.6	2.2	4.1	3.1	3.5
o/w FDI	3.4	3.1	4.4	3.5	3.7
Net Errors and Omissions	1.0	0.3	0.3	0.0	0.0
Overall balance	-2.5	-2.6	5.7	2.6	1.8
Memorandum items:					
Exchange rate (BDS$/US$)	2.0	2.0	2.0	…	…
Gross international reserves (US$ million)	320.0	205.7	499.6	636.5	733.7
In months of imports of G&S	1.9	1.2	3.0	3.6	4.1
In percent of ARA	65.8	40.8	102.6	125.4	135.9
Nominal GDP, CY (BDS$ millions)	9,660	9,956	10,173	10,414	10,682
Nominal GDP, FY (BDS$ millions)	9,734	10,011	10,234	10,481	10,786

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.

2/ After external commercial debt restructuring.

Table 2a. Barbados: Central Government Operations, 2016/17–2024/25
(In Millions of Barbados dollars) 1/

				Program	Projections					
	2016/17	2017/18	2018/19	2019/20	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Total revenue	**2,754**	**2,864**	**2,994**	**3,259**	**3,192**	**3,260**	**3,390**	**3,533**	**3,682**	**3,837**
Current revenue	2,744	2,842	2,994	3,248	3,181	3,236	3,365	3,507	3,655	3,809
Tax revenue	2,495	2,675	2,812	3,063	2,999	3,049	3,170	3,304	3,444	3,589
Income and profits	737	752	838	811	751	713	742	773	806	840
Taxes on property	135	138	161	202	207	213	221	231	240	250
VAT	890	891	941	983	1,020	1,072	1,115	1,162	1,211	1,262
Social levy (NSRL)	29	152	49	0	0	0	0	0	0	0
Excise	226	303	271	277	277	285	296	309	322	336
Import taxes	245	219	214	218	218	225	234	244	254	265
Other taxes	232	220	338	572	526	541	563	586	611	637
Nontax revenue	250	167	181	185	182	187	195	203	211	220
Capital revenue and grants	10	22	0	11	11	24	25	26	27	28
Total expenditure	**3,275**	**3,293**	**3,024**	**2,976**	**2,826**	**2,964**	**3,129**	**3,313**	**3,515**	**3,732**
Current expenditure	3,049	3,121	2,826	2,764	2,652	2,785	2,888	3,037	3,143	3,256
Wages, salaries and SSC	784	782	812	811	798	828	848	867	888	908
Goods and services	385	364	356	414	388	402	412	421	431	441
Interest	738	763	385	343	263	351	412	481	503	529
Transfers	1,142	1,212	1,273	1,196	1,202	1,203	1,216	1,267	1,321	1,377
o/w Subsidies	128	123	136	75	81	83	87	90	94	98
o/w Grants to public institutions	714	761	815	717	717	704	697	727	757	789
o/w Retirement benefits	299	328	323	404	404	416	432	450	470	489
Capital expenditure and net lending	225	172	198	212	175	179	241	275	372	476
CG Fiscal balance	**-521**	**-429**	**-31**	**283**	**366**	**296**	**261**	**220**	**167**	**106**
CG Primary balance	**218**	**334**	**354**	**627**	**629**	**647**	**673**	**701**	**670**	**635**
Repayment of domestic arrears	n.a.	n.a.	890	59	168	56	69	0	0	0
CG Fiscal balance (net of arrears)	**n.a.**	**n.a.**	**-921**	**225**	**198**	**240**	**191**	**220**	**167**	**106**
CG Primary balance (net of arrears)	**n.a.**	**n.a.**	**-536**	**568**	**461**	**591**	**603**	**701**	**670**	**635**
Financing	**521**	**429**	**31**	**-283**	**-366**	**-296**	**-261**	**-220**	**-167**	**-106**
Net Financing - External	-162	-179	345	75	60	15	-26	-31	-35	-44
Capital Markets	0	0	0	0	0	0	0	0	0	0
Project Funds	57	114	88	45	45	42	42	60	60	60
Policy Loans	0	0	350	150	150	160	80	80	80	80
IDB	0	0	200	0	0	160	80	80	80	80
CDB	0	0	150	150	150	0	0	0	0	0
Privatization 2/	0	0	0	0	0	0	0	0	0	0
Amortization	219	293	93	120	135	187	148	171	175	184
Net Financing - Central Gov. 5/	682	608	576	-300	-258	-255	-165	-189	-132	-61
Central bank	792	73	-176	0	0	0	0	0	0	0
Commercial banks	-434	258	83	0	0	0	0	0	0	0
National Insurance Scheme	180	3	9	-210	-180	-178	-115	-132	-92	-43
Private non-bank 3/	95	-57	-120	-90	-77	-76	-49	-57	-40	-18
Others/unidentified financing	49	332	780	0	0	0	0	0	0	0
Memorandum items:										
CG gross debt 4/	14,548	15,843	12,853	12,227	12,152	11,856	11,596	11,376	11,208	11,103
Exceptional financing (from debt restructuring)	0	0	5,100	4,532	4,612	4,537	4,452	4,389	3,944	3,786
Nominal GDP, FY (BDS$ millions)	9,734	10,011	10,234	10,445	10,481	10,786	11,214	11,687	12,181	12,695

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.
5/ Net of domestic expenditure arrears repayment.

Table 2b. Barbados: Central Government Operations, 2016/17–2024/25

(In percent of GDP, unless otherwise indicated) 1/

				Program	Projections					
	2016/17	2017/18	2018/19	2019/20	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Total revenue	**28.3**	**28.6**	**29.3**	**31.2**	**30.5**	**30.2**	**30.2**	**30.2**	**30.2**	**30.2**
Current revenue	28.2	28.4	29.3	31.1	30.3	30.0	30.0	30.0	30.0	30.0
Tax revenue	25.6	26.7	27.5	29.3	28.6	28.3	28.3	28.3	28.3	28.3
Income and profits	7.6	7.5	8.2	7.8	7.2	6.6	6.6	6.6	6.6	6.6
Taxes on property	1.4	1.4	1.6	1.9	2.0	2.0	2.0	2.0	2.0	2.0
VAT	9.1	8.9	9.2	9.4	9.7	9.9	9.9	9.9	9.9	9.9
Social levy (NSRL)	0.3	1.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Excise	2.3	3.0	2.7	2.7	2.6	2.6	2.6	2.6	2.6	2.6
Import taxes	2.5	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Other taxes	2.4	2.2	3.3	5.5	5.0	5.0	5.0	5.0	5.0	5.0
Nontax revenue	2.6	1.7	1.8	1.8	1.7	1.7	1.7	1.7	1.7	1.7
Capital revenue and grants	0.1	0.2	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Total expenditure	**33.6**	**32.9**	**29.6**	**28.5**	**27.0**	**27.5**	**27.9**	**28.3**	**28.9**	**29.4**
Current expenditure	31.3	31.2	27.6	26.5	25.3	25.8	25.8	26.0	25.8	25.6
Wages, salaries and SSC	8.1	7.8	7.9	7.8	7.6	7.7	7.6	7.4	7.3	7.2
Goods and services	4.0	3.6	3.5	4.0	3.7	3.7	3.7	3.6	3.5	3.5
Interest	7.6	7.6	3.8	3.3	2.5	3.3	3.7	4.1	4.1	4.2
Transfers	11.7	12.1	12.4	11.4	11.5	11.2	10.8	10.8	10.8	10.8
o/w Subsidies	1.3	1.2	1.3	0.7	0.8	0.8	0.8	0.8	0.8	0.8
o/w Grants to public institutions	7.3	7.6	8.0	6.9	6.8	6.5	6.2	6.2	6.2	6.2
o/w Retirement benefits	3.1	3.3	3.2	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Capital expenditure and net lending	2.3	1.7	1.9	2.0	1.7	1.7	2.2	2.4	3.1	3.7
CG Fiscal balance	**-5.3**	**-4.3**	**-0.3**	**2.7**	**3.5**	**2.7**	**2.3**	**1.9**	**1.4**	**0.8**
CG Primary balance	**2.2**	**3.3**	**3.5**	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**	**5.5**	**5.0**
Repayment of domestic arrears	n.a.	n.a.	8.7	0.6	1.6	0.5	0.6	0.0	0.0	0.0
CG Fiscal balance (net of arrears)	**n.a.**	**n.a.**	**-9.0**	**2.2**	**1.9**	**2.2**	**1.7**	**1.9**	**1.4**	**0.8**
CG Primary balance (net of arrears)	**n.a.**	**n.a.**	**-5.2**	**5.4**	**4.4**	**5.5**	**5.4**	**6.0**	**5.5**	**5.0**
Financing	**5.3**	**4.3**	**0.3**	**-2.7**	**-3.5**	**-2.7**	**-2.3**	**-1.9**	**-1.4**	**-0.8**
Net Financing - External	-1.7	-1.8	3.4	0.7	0.6	0.1	-0.2	-0.3	-0.3	-0.4
Capital Markets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Funds	0.6	1.1	0.9	0.4	0.4	0.4	0.4	0.5	0.5	0.5
Policy Loans	0.0	0.0	3.4	1.4	1.4	1.5	0.7	0.7	0.7	0.6
IDB	0.0	0.0	2.0	0.0	0.0	1.5	0.7	0.7	0.7	0.6
CDB	0.0	0.0	1.5	1.4	1.4	0.0	0.0	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	0.0
Amortization	2.2	2.9	0.9	1.1	1.3	1.7	1.3	1.5	1.4	1.5
Net Financing - Central Gov. 5/	7.0	6.1	5.6	-2.9	-2.5	-2.4	-1.5	-1.6	-1.1	-0.5
Central bank	8.1	0.7	-1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	-4.5	2.6	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National Insurance Scheme	1.9	0.0	0.1	-2.0	-1.7	-1.7	-1.0	-1.1	-0.8	-0.3
Private non-bank 3/	1.0	-0.6	-1.2	-0.9	-0.7	-0.7	-0.4	-0.5	-0.3	-0.1
Others/unidentified financing	0.5	3.3	7.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
CG gross debt 4/	149.5	158.3	125.6	117.1	115.9	109.9	103.4	97.3	92.0	87.5
Exceptional financing (from debt restructuring)	0.0	0.0	49.8	43.4	44.0	42.1	39.7	37.6	32.4	29.8
Nominal GDP, FY (BDS$ millions)	9,734	10,011	10,234	10,445	10,481	10,786	11,214	11,687	12,181	12,695

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.
5/ Net of domestic expenditure arrears repayment.

Table 3. Barbados: Public Debt, 2016/17–2024/25 1/ 2/

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
				Projections					
				(In millions of Barbados dollars)					
Public Debt	**14,548**	**15,843**	**12,853**	**12,152**	**11,856**	**11,596**	**11,376**	**11,208**	**11,103**
External	3,044	2,853	3,340	3,011	3,026	3,000	2,969	2,933	2,889
Short Term	0	0	168	0	0	0	0	0	0
Long term	3,044	2,853	3,172	3,011	3,026	3,000	2,969	2,933	2,889
Domestic	11,504	12,990	9,513	9,141	8,830	8,596	8,407	8,275	8,214
Short Term	3,737	5,423	892	653	607	559	583	608	634
Long term	7,766	7,567	8,621	8,488	8,223	8,037	7,824	7,667	7,580
Arrears 4/	**0**	**1,184**	**461**	**126**	**69**	**0**	**0**	**0**	**0**
External 5/	0	0	168	0	0	0	0	0	0
Domestic	0	1,184	293	126	69	0	0	0	0
SOE Guaranteed Debt	**1,242**	**977**	**93**	**93**	**93**	**93**	**93**	**93**	**93**
External 3/	259	108	93	93	93	93	93	93	93
Domestic	983	869	0	0	0	0	0	0	0
Short Term	0	14	0	0	0	0	0	0	0
Long term	983	855	0	0	0	0	0	0	0
CG Debt	**13,306**	**13,683**	**12,299**	**11,934**	**11,694**	**11,503**	**11,283**	**11,116**	**11,010**
External 3/ 6/	2,785	2,745	3,080	2,918	2,934	2,907	2,876	2,841	2,796
Domestic	10,521	10,938	9,219	9,016	8,761	8,596	8,407	8,275	8,214
Short Term	3,737	4,225	598	528	538	559	583	608	634
Long term	6,784	6,712	8,621	8,488	8,223	8,037	7,824	7,667	7,580
				(In percent of FY GDP)					
Public Debt	**149.5**	**158.3**	**125.6**	**115.9**	**109.9**	**103.4**	**97.3**	**92.0**	**87.5**
External	31.3	28.5	32.6	28.7	28.1	26.8	25.4	24.1	22.8
Short Term	0.0	0.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Long term	31.3	28.5	31.0	28.7	28.1	26.8	25.4	24.1	22.8
Domestic	118.2	129.8	93.0	87.2	81.9	76.7	71.9	67.9	64.7
Short Term	38.4	54.2	8.7	6.2	5.6	5.0	5.0	5.0	5.0
Long term	79.8	75.6	84.2	81.0	76.2	71.7	66.9	62.9	59.7
Arrears 4/	**0.0**	**11.8**	**4.5**	**1.2**	**0.6**	**0.0**	**0.0**	**0.0**	**0.0**
External 5/	0.0	0.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	11.8	2.9	1.2	0.6	0.0	0.0	0.0	0.0
SOE Guaranteed Debt	**12.8**	**9.8**	**0.9**	**0.9**	**0.9**	**0.8**	**0.8**	**0.8**	**0.7**
External 3/	2.7	1.1	0.9	0.9	0.9	0.8	0.8	0.8	0.7
Domestic	10.1	8.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short Term	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long term	10.1	8.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CG Debt	**136.7**	**136.7**	**120.2**	**113.9**	**108.4**	**102.6**	**96.5**	**91.3**	**86.7**
External 3/ 6/	28.6	27.4	30.1	27.8	27.2	25.9	24.6	23.3	22.0
Domestic	108.1	109.3	90.1	86.0	81.2	76.7	71.9	67.9	64.7
Short Term	38.4	42.2	5.8	5.0	5.0	5.0	5.0	5.0	5.0
Long term	69.7	67.1	84.2	81.0	76.2	71.7	66.9	62.9	59.7
Memorandum items:									
Nominal GDP, FY (BDS$ millions)	9,734	10,011	10,234	10,481	10,786	11,214	11,687	12,181	12,695

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/ Central Government debt, Central Government arrears, and SOE debt guaranteed by the Central Government.
3/ All medium- and long-term.
4/ All short-term.
5/ Excluding principal amortization arrears.
6/ Including principal amortization arrears.

Table 4a. Barbados: Balance of Payments, 2016–24
(In millions of US dollars)

				Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Current account balance 1/	**-206**	**-189**	**-242**	**-242**	**-205**	**-199**	**-195**	**-183**	**-186**
o/w Exports of goods and services	2,083	2,100	2,100	2,168	2,234	2,299	2,382	2,482	2,580
o/w Imports of goods and services	2,035	2,027	2,020	2,146	2,169	2,221	2,300	2,388	2,482
Trade balance	-706	-717	-734	-838	-838	-861	-907	-962	-1,022
Exports of goods	835	803	765	775	785	793	802	811	820
o/w Re-exports	265	231	237	239	241	243	244	246	248
Imports of goods	1,540	1,520	1,499	1,614	1,623	1,654	1,709	1,773	1,842
o/w Oil	251	313	394	345	336	325	326	332	341
Services balance	754	790	814	860	903	940	990	1,056	1,120
Credit	1,249	1,297	1,335	1,393	1,449	1,507	1,580	1,671	1,760
o/w Travel (credit)	1,040	1,082	1,113	1,162	1,208	1,251	1,307	1,379	1,448
Debit	495	507	521	533	546	567	590	615	640
Primary income balance	-221	-224	-282	-223	-227	-234	-232	-229	-234
Credit	258	265	272	278	285	296	309	322	335
Debit	479	489	554	501	512	530	540	550	569
o/w Interest on CG debt	82	84	91	80	79	80	72	63	62
o/w Interest on IMF lending	0	0	1	2	5	6	7	8	7
Secondary income balance	-33	-38	-40	-41	-42	-44	-46	-48	-50
Credit	58	52	53	55	56	58	61	63	66
o/w Subsidies	91	90	94	96	99	102	107	111	116
Capital and financial account	**40**	**41**	**248**	**94**	**130**	**37**	**30**	**171**	**212**
Financial Account Balance	42	42	223	-117	130	37	30	171	212
Public sector 2/	-85	-68	-36	-277	-59	-166	-196	-78	-50
o/w disbursement to CG	59	50	47	28	21	21	28	30	30
o/w CG amortization	116	133	133	98	88	188	222	95	51
o/w IMF amortization	0	0	0	0	0	0	0	12	28
Private sector	128	111	210	160	190	202	225	249	262
o/w FDI flows	166	156	222	185	200	212	235	249	262
Capital Account Balance 2/	-3	-1	25	211	0	0	0	0	0
Unidentified financing	0	0	0	0	0	0	0	0	0
Net errors and omissions	**47**	**17**	**16**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance (deficit -)	**-119**	**-131**	**22**	**-148**	**-75**	**-163**	**-165**	**-11**	**27**
Official financing	**0**	**0**	**131**	**100**	**79**	**50**	**40**	**40**	**40**
IDB	0	0	75	25	60	50	40	40	40
CDB	0	0	56	75	19	0	0	0	0
Exceptional financing (Restructuring)	**0**	**0**	**86**	**87**	**21**	**114**	**134**	**-9**	**-58**
Financing	**119**	**131**	**-239**	**-39**	**-25**	**-1**	**-9**	**-20**	**-8**
Reserve movements (- increase)	119	131	-288	-137	-97	-48	-32	-20	-8
IMF	0	0	49	98	73	48	24	0	0
Memorandum items:									
Current account balance (post restructuring)	-206	-189	-190	-193	-191	-196	-201	-200	-205
Oil price (WTI, US$ per barrel)	43.2	50.9	64.8	57.5	55.0	52.2	51.4	51.5	52.1
Gross international reserves (US$ million)	320	206	500	636	734	782	814	834	843
In months of imports of G&S	1.9	1.2	3.0	3.6	4.1	4.2	4.2	4.2	4.1
In percent of ARA	65.8	40.8	102.6	125.4	135.9	139.9	140.9	140.4	138.1

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

1/ Current account balance pre-restructuring.

2/ For 2019, the capital account balance improves by the amount of the debt forgiveness as a result of the external commercial debt restructuring while the financial account balance worsens by the same amount.

Table 4b. Barbados: Balance of Payments, 2016–24
(In percent of GDP, unless otherwise indicated)

				Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Current account balance 1/	**-4.3**	**-3.8**	**-4.8**	**-4.7**	**-3.8**	**-3.6**	**-3.4**	**-3.0**	**-3.0**
o/w Exports of goods and services	43.1	42.2	41.3	41.6	41.8	41.4	41.2	41.2	41.1
o/w Imports of goods and services	42.1	40.7	39.7	41.2	40.6	40.0	39.8	39.6	39.5
Trade balance	-14.6	-14.4	-14.4	-16.1	-15.7	-15.5	-15.7	-16.0	-16.3
Exports of goods	17.3	16.1	15.0	14.9	14.7	14.3	13.9	13.5	13.1
o/w Re-exports	5.5	4.6	4.7	4.6	4.5	4.4	4.2	4.1	3.9
Imports of goods	31.9	30.5	29.5	31.0	30.4	29.8	29.6	29.4	29.3
o/w Oil	5.2	6.3	7.7	6.6	6.3	5.9	5.6	5.5	5.4
Services balance	15.6	15.9	16.0	16.5	16.9	16.9	17.1	17.5	17.8
Credit	25.9	26.1	26.2	26.8	27.1	27.2	27.3	27.7	28.0
o/w Travel (credit)	21.5	21.7	21.9	22.3	22.6	22.5	22.6	22.9	23.0
Debit	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2
Primary income balance	-4.6	-4.5	-5.5	-4.3	-4.3	-4.2	-4.0	-3.8	-3.7
Credit	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Debit	9.9	9.8	10.9	9.6	9.6	9.6	9.3	9.1	9.1
o/w Interest on CG debt	1.7	1.7	1.8	1.5	1.5	1.4	1.2	1.0	1.0
o/w Interest on IMF lending	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Secondary income balance	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Credit	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
o/w Subsidies	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Capital and financial account	**0.8**	**0.8**	**4.9**	**1.8**	**2.4**	**0.7**	**0.5**	**2.8**	**3.4**
Financial Account Balance	0.9	0.8	4.4	-2.2	2.4	0.7	0.5	2.8	3.4
Public sector 2/	-1.8	-1.4	-0.7	-5.3	-1.1	-3.0	-3.4	-1.3	-0.8
o/w disbursement to CG	1.2	1.0	0.9	0.5	0.4	0.4	0.5	0.5	0.5
o/w CG amortization	2.4	2.7	2.6	1.9	1.6	3.4	3.8	1.6	0.8
o/w IMF amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.5
Private sector	2.6	2.2	4.1	3.1	3.5	3.6	3.9	4.1	4.2
o/w FDI flows	3.4	3.1	4.4	3.5	3.7	3.8	4.1	4.1	4.2
Capital Account Balance 2/	-0.1	0.0	0.5	4.0	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	**1.0**	**0.3**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance (deficit -)	**-2.5**	**-2.6**	**0.4**	**-2.8**	**-1.4**	**-2.9**	**-2.9**	**-0.2**	**0.4**
Official financing	**0.0**	**0.0**	**2.6**	**1.9**	**1.5**	**0.9**	**0.7**	**0.7**	**0.6**
IDB	0.0	0.0	1.5	0.5	1.1	0.9	0.7	0.7	0.6
CDB	0.0	0.0	1.1	1.4	0.4	0.0	0.0	0.0	0.0
Exceptional financing (Restructuring)	**0.0**	**0.0**	**1.7**	**1.7**	**0.4**	**2.0**	**2.3**	**-0.1**	**-0.9**
Financing	**2.5**	**2.6**	**-4.7**	**-0.8**	**-0.5**	**0.0**	**-0.1**	**-0.3**	**-0.1**
Reserve movements (- increase)	2.5	2.6	-5.7	-2.6	-1.8	-0.9	-0.6	-0.3	-0.1
IMF	0.0	0.0	1.0	1.9	1.4	0.9	0.4	0.0	0.0
Memorandum items:									
Current account balance (post restructuring)	-4.3	-3.8	-3.7	-3.7	-3.6	-3.5	-3.5	-3.3	-3.3
Oil price (WTI, US$ per barrel)	43.2	50.9	64.8	57.5	55.0	52.2	51.4	51.5	52.1
Gross international reserves (US$ million)	320	206	500	636	734	782	814	834	843
In months of imports of G&S	1.9	1.2	3.0	3.6	4.1	4.2	4.2	4.2	4.1
In percent of ARA	65.8	40.8	102.6	125.4	135.9	139.9	140.9	140.4	138.1

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

1/ Current account balance pre-restructuring.

2/ For 2019, the capital account balance improves by the amount of the debt forgiveness as a result of the external commercial debt restructuring while the financial account balance worsens by the same amount.

Table 5. Barbados: Monetary Survey, 2016–24

	2016	2017	2018	Projections 2019	2020	2021	2022	2023	2024
				(In millions of Barbados dollars)					
Central Bank of Barbados									
Net International Reserves	575	335	832	911	960	961	978	1,019	1,030
Assets	640	411	999	1,273	1,467	1,564	1,629	1,669	1,680
Liabilities	-65	-77	-167	-362	-508	-603	-650	-650	-650
Gross International Reserves	640	411	999	1,273	1,467	1,564	1,629	1,669	1,685
Net domestic assets	2,036	1,963	1,827	2,002	2,002	2,002	2,002	2,002	2,002
Of which: Claims on Central government	2,077	2,250	737	821	821	821	821	821	821
Monetary base	2,482	2,298	2,659	2,912	2,961	2,963	2,980	3,020	3,032
Commercial banks									
Net foreign assets	1,432	1,541	634	734	734	734	734	734	734
Net domestic assets	9,305	9,330	10,292	10,777	11,108	11,449	11,815	12,211	12,602
Liabilities to the nonfinancial private sector	10,736	10,871	10,926	11,511	11,841	12,182	12,548	12,945	13,336
Monetary survey									
Net foreign assets	1,877	1,753	1,339	1,644	1,693	1,695	1,712	1,752	1,764
Net domestic assets	9,323	9,583	9,976	10,151	10,447	10,788	11,143	11,512	11,896
Net credit to the public sector	4,452	4,684	2,412	2,587	2,587	2,587	2,587	2,587	2,587
Central government	4,084	4,339	2,207	2,382	2,382	2,382	2,382	2,382	2,382
Rest of public sector	368	345	205	205	205	205	205	205	205
NIS	-267	-247	-247	-247	-247	-247	-247	-247	-247
Credit to the private sector	7,943	8,200	8,229	8,229	8,525	8,866	9,221	9,590	9,973
Credit to rest of financial system	300	280	330	330	330	330	330	330	330
Other items (net)	-3,373	-3,580	-994	-994	-994	-994	-994	-994	-994
Broad money (M2, liabilities to the private sector)	11,200	11,336	11,315	11,795	12,141	12,483	12,855	13,264	13,659
				(Changes in percent of beginning-of-period liabilities to the private sector)					
Monetary survey									
Net international reserves	-1.6	-1.1	-3.7	2.7	0.4	0.0	0.1	0.3	0.1
Net domestic assets	5.7	2.3	3.5	1.5	2.5	2.8	2.8	2.9	2.9
Net credit to public sector	5.5	2.1	-20.0	1.5	0.0	0.0	0.0	0.0	0.0
Of which: central government	6.0	2.3	-18.8	1.5	0.0	0.0	0.0	0.0	0.0
Credit to private sector	1.1	2.3	0.3	0.0	2.5	2.8	2.8	2.9	2.9
Other items (net)	-0.8	-1.9	22.8	0.0	0.0	0.0	0.0	0.0	0.0
				(In percent change)					
Monetary survey									
Net domestic assets	7.1	2.8	4.1	1.8	2.9	3.3	3.3	3.3	3.3
Of which:									
Private sector credit	1.5	3.2	0.4	0.0	3.6	4.0	4.0	4.0	4.0
Public sector credit	15.3	5.2	-48.5	7.3	0.0	0.0	0.0	0.0	0.0
Broad money	4.2	1.2	-0.2	4.2	2.9	2.8	3.0	3.2	3.0

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

Table 6. Barbados: Medium-Term Macroeconomic Framework, 2016–24
(In percent of GDP, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Projections					
				(Annual percentage change)					
National accounts and prices									
Real GDP	2.5	0.5	-0.6	-0.1	0.6	1.5	1.8	1.8	1.8
Nominal GDP	2.4	3.1	2.2	2.4	2.6	3.9	4.2	4.2	4.2
CPI inflation (average)	1.5	4.4	3.7	4.0	4.8	2.3	2.3	2.3	2.3
CPI inflation (end of period)	3.8	6.6	0.6	6.5	2.3	2.4	2.3	2.4	2.3
External sector									
Exports of goods and services, value	6.6	0.8	0.0	3.3	3.0	2.9	3.6	4.2	4.0
Imports of goods and services, value	0.2	-0.4	-0.4	6.3	1.1	2.4	3.5	3.9	3.9
Real effective exchange rate (average)	119.6	122.6	124.1	…	…	…	…	…	…
Terms of trade	1.8	-4.8	-4.4	2.5	1.2	0.8	0.3	0.2	1.4
Money and credit (end of period)									
Net domestic assets	7.1	2.8	4.1	1.8	2.9	3.3	3.3	3.3	3.3
Of which: Private sector credit	1.5	3.2	0.4	0.0	3.6	4.0	4.0	4.0	4.0
Broad money	4.2	1.2	-0.2	4.2	2.9	2.8	3.0	3.2	3.0
Velocity (GDP relative to broad money)	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
				(In percent of GDP, unless otherwise indicated)					
Public finances (fiscal year) 1/									
Central government									
Revenue and grants	28.3	28.6	29.3	30.5	30.2	30.2	30.2	30.2	30.2
Expenditure	33.6	32.9	29.6	27.0	27.5	27.9	28.3	28.9	29.4
Fiscal balance	-5.3	-4.3	-0.3	3.5	2.7	2.3	1.9	1.4	0.8
Interest Expenditure	7.6	7.6	3.8	2.5	3.3	3.7	4.1	4.1	4.2
Primary balance	2.2	3.3	3.5	6.0	6.0	6.0	6.0	5.5	5.0
Debt (fiscal year) 1/									
Central government gross debt	149.5	158.3	125.6	115.9	109.9	103.4	97.3	92.0	87.5
External	31.3	28.5	32.6	28.7	28.1	26.8	25.4	24.1	22.8
Domestic	118.2	129.8	93.0	87.2	81.9	76.7	71.9	67.9	64.7
Savings and investment									
Gross domestic investment	16.4	15.6	14.3	15.5	16.2	16.5	16.8	17.4	17.3
Public	2.6	2.1	2.1	2.0	1.9	2.3	2.5	3.1	3.1
Private 2/	13.8	13.5	12.2	13.5	14.3	14.3	14.2	14.2	14.2
National savings	12.1	11.8	10.5	11.8	12.6	13.0	13.3	14.0	14.1
Public	-2.8	-2.2	1.8	5.5	4.6	4.6	4.4	4.5	4.6
Private	14.9	14.0	8.7	6.3	7.9	8.4	8.9	9.5	9.4
External savings	-4.3	-3.8	-3.7	-3.7	-3.6	-3.5	-3.5	-3.3	-3.3
Balance of payments									
Current account	-4.3	-3.8	-3.7	-3.7	-3.6	-3.5	-3.5	-3.3	-3.3
Capital and financial account	0.8	0.8	9.1	6.3	5.4	4.4	4.0	3.7	3.4
Official capital (net)	-1.8	-1.4	3.5	3.3	1.8	0.7	0.1	-0.5	-0.8
Private capital (net)	2.6	2.2	4.1	3.1	3.5	3.6	3.9	4.1	4.2
Of which: Long-term flows	3.4	3.1	4.4	3.5	3.7	3.8	4.1	4.1	4.2
Net errors and omissions	1.0	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-2.5	-2.6	5.7	2.6	1.8	0.9	0.6	0.3	0.1
Memorandum items:									
Exchange rate (BDS$/US$)	2.0	2.0	2.0	…	…	…	…	…	…
Oil price (WTI, US$ per barrel)	43.2	50.9	64.8	57.5	55.0	52.2	51.4	51.5	52.1
Gross international reserves (US$ millions)	320	206	500	636	734	782	814	834	843
In months of imports	1.9	1.2	3.0	3.6	4.1	4.2	4.2	4.2	4.1
In percent of ARA	65.8	40.8	102.6	125.4	135.9	139.9	140.9	140.4	138.1
Nominal GDP (BDS$ millions)	9,660	9,956	10,173	10,414	10,682	11,097	11,565	12,054	12,562

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, 2014–2019Q2
(Percent)

	2014	2015	2016	2017	2018	2019Q1	2019Q2
Commercial Banks							
Solvency Indicator							
Capital Adequacy Ratio (CAR)	16.4	15.8	17.0	17.0	13.9	12.7	12.6
Liquidity Indicators 1/							
Loan to deposit ratio	70.3	65.5	62.3	63.3	63.0	60.6	60.7
Domestic demand deposits to total domestic deposits	30.9	35.7	40.3	41.6	41.8	42.2	43.5
Liquid assets, in percent of total assets	20.3	25.3	27.4	26.7	26.5	27.1	29.3
Credit Risk Indicators							
Loans and advances (yoy growth rate) 2/	-0.4	-0.8	-0.5	2.0	0.7	0.0	0.0
Non-performing loans ratio	11.5	10.6	8.9	7.9	7.4	7.2	7.1
Provisions to non-performing loans	47.7	55.5	63.2	69.6	67.3	69.1	64.3
Foreign Exchange Risk Indicators							
Deposits in Foreign Exchange (in percent of total deposits)	5.7	-0.9	8.6	8.8	10.5	7.5	7.0
Profitability Indicators							
Return on Assets (ROA)	0.7	0.9	1.0	1.3	-0.2	-1.7	-1.6
Credit Unions							
Solvency Indicator							
Reserves to Total Liabilities	8.6	8.5	8.7	8.7	9.8		
Liquidity Indicators							
Loan to deposit ratio	92.8	90.8	89.3	86.7	81.9		
Credit risk Indicators							
Total assets, annual growth rate	6.2	7.2	8.3	8.7	9.5		
Loans, annual growth rate	7.3	7.2	6.9	6.3	4.2		
Nonperforming loans ratio	9.4	9.0	7.6	7.8	8.9		
Arrears 3-6 months/Total Loans	2.2	2.0	1.3	1.3	1.9		
Arrears 6 – 12 months/Total Loans	1.5	1.8	1.2	1.4	1.4		
Arrears over 12 months/Total Loans	5.7	5.2	5.1	5.0	5.5		
Provisions to Total loans	3.5	2.6	2.5	2.4	2.6		
Profitability Indicator							
Return on Assets (ROA)	0.9	0.9	1.1	1.3	1.1		

Source: Central Bank of Barbados, Financial Services Commission.
1/ Includes foreign components unless otherwise stated.
2/ Private credit growth in 2018 reflects the financial consolidation of a financial and trust company with its parent bank.

Table 8. Barbados: Program Monitoring – Schedule of Purchases Under the EFF Supported Program
(In millions of SDR)

Availability Date	Purchases: SDR million	Purchases: 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	

Sources: Fund staff.

Table 9. Barbados: Program Monitoring – External Financing Requirements and Sources
(In millions of US$ unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023
			Projections				
	(in US$ millions, unless otherwise indicated)						
Gross Financing Requirements	**322**	**375**	**336**	**286**	**386**	**418**	**291**
Current Account Balance	189	242	242	205	199	195	183
Debt Amortization	133	133	94	81	187	223	108
Sources of Financing	**322**	**109**	**51**	**114**	**175**	**221**	**259**
Foreign Direct Investment (net)	156	222	185	200	212	235	249
Public Long Term Borrowing	66	102	28	21	21	28	30
Net Errors and Omissions	17	16	0	0	0	0	0
Change in Reserve (- increase)	131	-288	-137	-97	-48	-32	-20
Other Net Capital Flows	-1	25	0	0	0	0	0
Short term net Private inflow	-47	32	-25	-10	-10	-10	0
Financing Gap	**0**	**266**	**285**	**172**	**211**	**198**	**31**
Prospective Financing	**0**	**180**	**198**	**151**	**98**	**64**	**40**
IMF	0	49	98	73	48	24	0
IDB	0	75	25	60	50	40	40
CDB	0	56	75	19	0	0	0
Exceptional Financing (Restructuring)	**0**	**86**	**87**	**21**	**114**	**134**	**-9**
Memo items:							
GIR/ARA (percent)	41	103	125	136	140	141	140
GIR coverage (months of imports of G&S)	1.2	3.0	3.6	4.1	4.2	4.2	4.2

Sources: Fund staff estimates and projections.

Table 10. Barbados: Program Monitoring - Indicators of Fund Credit Under the EFF Supported Program

(In millions of SDR unless otherwise indicated)

							Projections								
		2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
Prospective Drawings	a	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/		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	8.8	20.4	27.6	33.3	34.7	34.7	25.9	14.3	7.1	1.4
Total Interest/Charges 2/	c	0.2	2.7	3.5	4.4	4.6	4.2	3.5	3.0	2.4	1.8	1.2	0.8	0.5	0.4
Total Debt Service	d=b+c	0.2	2.7	3.5	4.4	13.4	24.7	31.1	36.2	37.0	36.4	27.1	15.0	7.6	1.9
Percent of exports		0.1	0.2	0.3	0.3	0.8	1.4	1.7	1.8	1.8	1.7	1.2	0.7	0.3	0.1
Percent of GDP		0.0	0.1	0.1	0.1	0.3	0.6	0.7	0.8	0.7	0.7	0.5	0.3	0.1	0.0
Percent of quota 1/		0.2	2.9	3.7	4.7	14.1	26.1	32.9	38.3	39.2	38.6	28.7	15.9	8.1	2.0
Outstanding Credit	e=e(-1)+a-b	105.0	157.0	191.0	208.0	199.2	178.8	151.2	118.0	83.3	48.6	22.7	8.5	1.4	0.0
Percent of exports		6.7	9.7	11.5	12.0	11.1	9.6	7.8	5.8	4.0	2.3	1.0	0.4	0.1	0.0
Percent of GDP		2.8	4.1	4.7	5.0	4.6	3.9	3.2	2.4	1.6	0.9	0.4	0.1	0.0	0.0
Percent of quota 1/		111.1	166.1	202.1	220.1	210.8	189.2	160.0	124.8	88.2	51.5	24.0	9.0	1.5	0.0
Memo items:															
Exports of G&S (US$ million)		2,168	2,234	2,299	2,382	2,482	2,580	2,683	2,792	2,882	2,977	3,075	3,178	3,285	3,397
BOP Overall balance (US$ million)		137	97	48	32	20	8	-91	-105	-95	-81	-48	77	145	175
GIR (US$ million)		636	734	782	814	834	843	751	646	551	470	422	499	645	820
ARA (US$ million)		507	540	559	578	594	610	650	670	681	691	700	683	680	688
GIR/ARA (percent)		125	136	140	141	140	138	116	96	81	68	60	73	95	119
GIR/External Debt Service (percent)		377	281	348	326	326	317	143	126	107	92	86	209	332	460
Nominal GDP (CY US$ mln)		5,207	5,341	5,548	5,782	6,027	6,281	6,547	6,823	7,111	7,412	7,726	8,053	8,394	8,750

Sources: Fund staff estimates and projections.

1/ Using SDR/USD exchange rate = 0.724629 (as of November 13, 2019) and quota SDR = 94.5 million;

2/ Using GRA rate of charge = 1.763 (as of November 7, 2019).

Annex I. Risk Assessment Matrix (RAM)[1]

Source of Risks	Likelihood	Impact	Policy Response
Global Risks			
Tighter and volatile global financial conditions. Geopolitical competition, protracted tensions, and fraying consensus about the benefits of globalization lead to economic fragmentation and undermine the global rules-based order, with adverse effects on investment, growth, and stability. In the short term, this could depress FDI inflows, especially funding for new hotels and residences, leading to reduced construction.	High	Medium	Continue with fiscal consolidation to significantly reduce debt-to-GDP ratio and rebuild credibility, thereby increasing investors' confidence.
Weaker-than-expected global growth. Idiosyncratic factors in the U.S., Canada, and the UK, and stressed emerging markets feed off each other to result in a synchronized and prolonged growth slowdown.	High	High	Structural measures to improve competitiveness and support development of other sectors.
Large swings in energy prices. Elevated price volatility or large persistent price increases could complicate economic management, adversely affecting investment in the energy sector, and hamper reserves accumulation.	Medium	Medium	Structural measures to improve competitiveness and support development of other sectors with the aim to increase reserve accumulation.
Country-specific risks			
Fiscal slippages/higher fiscal multipliers. Would generate market concerns about fiscal sustainability and undermine private sector confidence necessary for investment.	High	High	Adhere to fiscal consolidation strategy under the program and accelerate growth-promoting structural reforms to boost investor confidence.
Brexit. Adverse impact on tourism and investment from uncertainties and economic spillovers associated with U.K. negotiations with the E.U.	High	High	Structural measures to improve competitiveness and boost attractiveness to tourists. Adhere to fiscal consolidation strategy and accelerate growth-promoting structural reforms to boost investor confidence.
Extreme weather conditions. Barbados is less frequently impacted by hurricanes than other Caribbean states. However, the impact, should it occur, can be large.	Medium	High	Invest in climate resilient infrastructure that could mitigate disaster risk. Include adverse weather clauses in government debt. Ensure adequate insurance, including under CCRIF. Make use of contingent credit facilities.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" indicates a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex II. Debt Sustainability Analysis

The domestic debt restructuring, concluded in November 2018, contributed to a reduction of public sector debt of about 30 percentage points of GDP and of gross financing needs of about 35 percentage points of GDP. Taking into account the restructuring agreement with external creditors, debt is sustainable in a forward-looking sense. Debt is projected to decrease from 126 to about 90 percent of GDP in the next five years, to be below the intermediate anchor of 80 percent of GDP in FY2027/28, and below 60 percent by end-FY2033/34, supported by large fiscal surpluses and favorable automatic debt dynamics. Over the projection period, stress tests suggest that risks to the debt sustainability remain high since debt remains above the 70 percent of GDP risk assessment threshold under the baseline and all stress tests. However, gross financing needs remain well below the 15 percent risk assessment threshold under the baseline and all stress tests.

A. Public Sector Debt Restructuring

1. **On October 14, 2018 the Barbadian authorities reached agreement with domestic creditors on a comprehensive domestic debt restructuring**. The domestic debt restructuring achieved an upfront debt reduction of 30 percentage points of GDP through a combination of nominal haircuts and lifting of guarantees on SOE guaranteed debt. In addition, the debt profile was improved by a combination of longer maturities on the new debt instruments, reduction of debt service flows through longer grace periods on amortization and lower interest rates.[1]

2. **The domestic restructuring covered 89 percent of the full restructuring perimeter**. The debt perimeter considered by the authorities for restructuring includes: central Government domestic debt including treasury bills and other short-term claims like expenditure arrears and overdrafts, central Government external commercial debt, SOE external and domestic debt guaranteed by the central Government, and external arrears that have been accumulated after the external default. Liabilities outside the restructuring perimeter include central Government external official bilateral and multilateral debt.

3. **On October 18, 2019 the authorities reached agreement with the external creditor committee on the restructuring of external debt to private creditors**. The agreement includes a natural disaster clause for the new instrument. Under the program's macroeconomic framework, the restructuring agreement ensures that debt reaches the 80 percent of GDP program medium term anchor in FY2027/28 and the 60 percent of GDP program long-term anchor in FY2033/34.

[1] Key elements of the debt restructuring are found on page 38 of the Public Debt Sustainability Analysis of the Staff Report for the First Review Under the Extended Fund Facility (IMF 19/182).

B. Public Sector Debt Structure and Profile After the Domestic Restructuring

4. At end FY2018/19, public sector debt[2] was about 126 percent of GDP, down from about 158 percent of GDP in FY2017/18.

- **Over this period, public domestic debt decreased from about 129 to 93 percent of GDP** as a result of the domestic debt restructuring completed in October 2018. Short term CG debt decreased from 42 to 6 percent of GDP due primarily to swaps into long-term CG debt of the holdings of private commercial banks and nominal haircuts on the outstanding stock held by the CBB. Long term CG debt increased as the net effect of the swap of short-term debt at private commercial banks, swaps of CG domestic arrears, lengthening of maturities for various creditors, and haircuts on the outstanding stock held by the NIS. CG domestic arrears decreased from 12 to 6 percent of GDP on account of swaps into long term CG debt, repayments and acquisition of arrears from SOEs. Finally, SOE debt guaranteed by the CG[3] decreased from 10 to 1 percent of GDP on account of swaps into CG long term debt and lifting of CG guarantees on liabilities of profitable SOEs.

- **Over the same period, public external debt increased from about 28 to 34 percent of GDP**. This is the result of an increase in CG debt of about 3 percentage points of GDP due to IDB and CDB budget support loans under the EFF-supported program, an increase in arrears to commercial creditors[4] by about 3 percentage points of GDP,[5] and a 1 percent of GDP disbursement from the IMF under the EFF-supported program.

5. The profile of domestic debt improved after the domestic debt restructuring. The domestic restructuring engineered a large reduction in debt service as short-term debt was either swapped with long-term debt or discounted, and the restructured securities have long amortization grace periods and low interest rates. Together with the large fiscal adjustment, these contribute to maintaining gross financing needs well below the 15 percent risk assessment threshold.

[2] This debt sustainability analysis (DSA) annex covers the full stock of public debt defined here as the sum of: Central Government debt, Central Government debt and expenditure arrears, SOE debt guaranteed by the Central Government, and IMF BOP support.

[3] All SOEs are covered.

[4] Since June 2018, commercial external debt has not been serviced. Official bilateral and multilateral external debt is currently being serviced. At end August 2019, official bilateral debt includes one loan from the EXIM bank of China and a defaulted guaranteed commercial loan assumed by the Government of Canada on September 21, 2018.

[5] Including principal arrears.

C. Public Debt Sustainability Assessment Assumptions

6. The specific assumptions used in this annex are:

- ***Growth and Inflation***. In 2019, growth is projected to recover from minus 0.6 percent in 2018 to minus 0.1 percent due to reduced policy uncertainty more than offsetting the negative impact of the fiscal consolidation. Over the medium term, growth is expected to recover slowly, stabilizing to its long-term average of around 1.8 percent in 2022–24. Average inflation is projected to increase to about [4] percent in 2019 supported by one-offs and despite the repeal of the NRSL in July 2018 and lower oil and international food prices in 2019. It is then projected to return to its long-run average of around 2.3 percent in 2022−24. The fiscal multiplier used is 0.3 reflecting the IMF methodology staff's guidance on fiscal multipliers.[7] Staff used conservative growth and inflation projections assumptions to reduce downside risk to the outlook.

- ***Primary Balance***. In FY2019/20, the primary balance is projected to increase from 3.5 percent of GDP in FY2017/18 to 6 percent of GDP in FY2019/20; where it remains until FY2021/22. The primary balance is assumed to gradually decrease to 3.5 percent and stabilize at this level until the debt target is met in FY2033/34.[8] As discussed in the risks to the outlook section, staff assesses the programmed fiscal adjustment as realistic with a low probability of "adjustment fatigue". Public support for the adjustment program remains strong 18 months into the process.

- ***Arrears***. Domestic expenditure arrears are gradually repaid and fully extinguished by end-FY2022/23. External interest arrears accumulated in FY2018/19 and penalties are capitalized in the restructured claims in FY2019/20.

- ***External commercial debt restructuring***. The authorities have reached agreement with external creditor committee on restructuring the external commercial debt. The agreement includes a 26 percent haircut on original principal and past due and accrued interest; the issuance of a new long-term debt instrument that has a 10-year maturity, a 5-year grace period, a 6.5 percent coupon, and a natural disaster clause; and a US$40 million re-payment (comprising US$7.5 million in cash and US$32.5 million in short-term bonds maturing in 2021 and bearing a 6.5 percent coupon) in the first two years. With the yield of 12 percent used by the government and external creditors during the negotiation process, this would translate in a present value loss for creditors (and gain for the government) of more than 40 percent. Under the program's macroeconomic framework, the restructuring agreement ensures that debt reaches the 80 percent of GDP program medium term anchor in FY2027/28 and the 60 percent of GDP program long-term anchor in FY2033/34.

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

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

D. Projections

7. Public debt-to-GDP ratio is projected to fall to 91 percent by end-FY2024/25. Over the projection period, public debt dynamics are primarily impacted by the primary surplus, with a cumulative impact of about -35 percentage points of GDP, and by the automatic debt dynamics, contributing about -0.5 percentage points of GDP. Of these, the cumulative impact of real GDP growth is projected at about -8.2 percent and almost fully offset by the cumulative impact of real interest rate, projected at about 7.7 percent.

8. Public debt is projected to be below the intermediate anchor of 80 percent of GDP by end-FY2027/28 and its long-term anchor of 60 percent of GDP by end-FY2033/34 (text chart, panel 1). Debt sustainability is due mainly to: (i) low gross financing needs that are reduced below the 15 percent of GDP threshold after the first projection year (text chart, panel 2); (ii) a primary balance that is projected to be much larger than the debt stabilizing primary balance over the full projection period putting debt on a steep downward trajectory (text chart, panel 3);[9] and (iii) by favorable automatic debt dynamics driven by reduced interest expenditure, in turn, generated by the recent domestic debt restructuring (text chart, panel 4). Unfavorable outturns of these determinants would of course negatively affect debt sustainability.

9. Public short-term debt is projected not to exceed 5 percent of GDP (text chart, panel 5). Public debt management strategy is assumed to target a max 5 percent of GDP in short term debt and use long-term domestic debt to fill the gross financing needs as needed. By end FY2033/34 long-term debt and short-term debt are projected to be about 54 and 5 percent of GDP, respectively.

10. External debt is projected to decline to 5 percent of GDP by end-FY2033/34 (text chart, panel 6). External market access is assumed to be restored after the external debt restructuring is completed. However, the public debt management strategy is assumed to limit expensive financing from the external capital market and rely on multilaterals and/or domestic sources of financing. Consequently, by end FY2033/34, external and domestic debt are projected to be about 5 and 54 percent of GDP, respectively.

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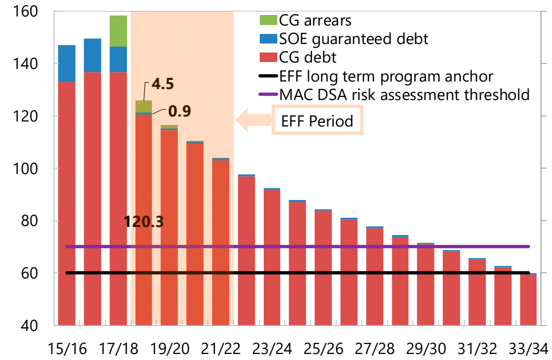
[9] The envisaged 6 percent primary surplus is ambitious and the authorities' ability to sustain high primary surpluses is untested.

Figure 9. Barbados: Public Sector Debt Projections

(In percent of FY GDP)

Public debt projections under the program

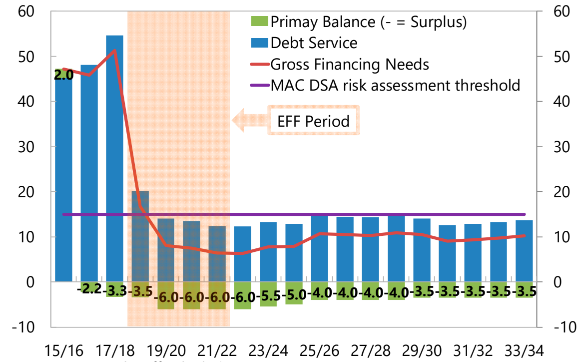
(Percent of FY GDP)



Sources: Fund staff calculations.

Gross financing needs under the program

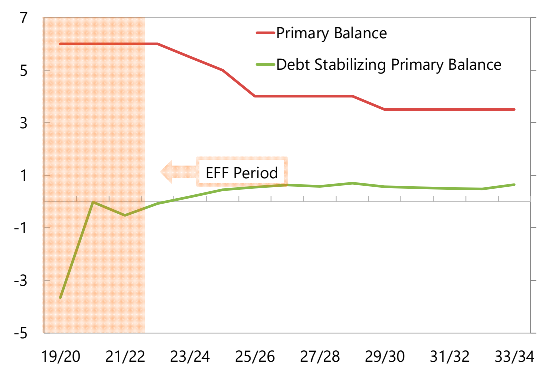
(Percent of FY GDP)



Sources: Fund staff calculations.

Debt stabilizing primary balance under the program

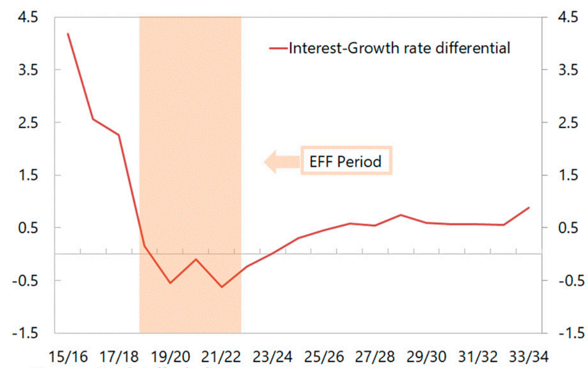
(Percent of FY GDP)



Sources: Fund staff calculations.

Interest-growth rate differential under the program

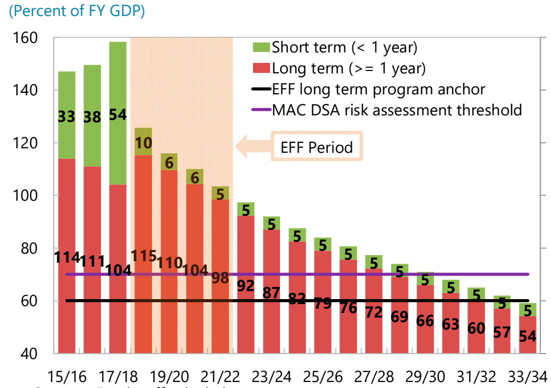
(Percent)



Sources: Fund staff calculations.

Public debt maturity projections under the program

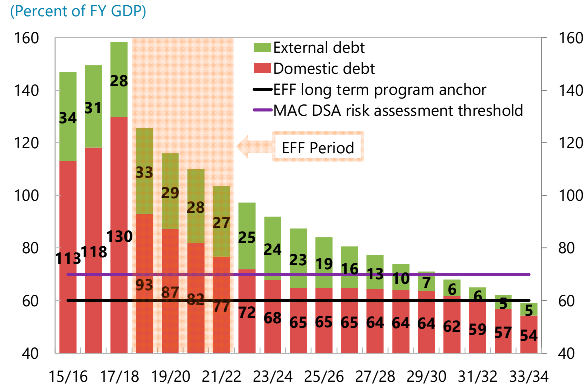
(Percent of FY GDP)



Sources: Fund staff calculations.

Public debt currency projections under the program

(Percent of FY GDP)



Sources: Fund staff calculations.

E. Stress Tests

11. The debt level remains above the 70 percent of GDP risk assessment threshold, but gross financing needs are below the 15 percent of GDP risk assessment threshold under all stress scenarios.

- **Debt remains above the 70 percent of GDP risk assessment threshold but on a steep downward trajectory significantly affected only by the combined and contingent liability shocks**. The high level of debt remains a concern in the first 5 projection years. However, the domestic debt restructuring, and the planned fiscal adjustment help put it on steep downward trajectory. Such trajectory is not meaningfully affected by either the real GDP, primary balance, or interest rate shocks. However, the combined and contingent liability shocks would result in a debt to GDP ratio that is 20 percentage points higher than under the baseline by end-FY2024/25.[10]

- **Gross financing needs are below the 15 percent risk assessment threshold under all stress test scenarios**. The domestic debt restructuring reduced short-term debt to less than 5 percent of GDP and gave restructured long-term securities long grace periods. Hence, gross financing needs are not meaningfully affected by either the real GDP, primary balance, interest rate, contingent liability, or combined shocks.

- **Debt profile vulnerabilities are significantly reduced after the domestic debt restructuring**. At end-August 2019, risks stemming from market sentiment remain above the threshold of 600 basis points, as the external debt continues not to be serviced. External debt held by non-residents is above the risk assessment threshold of 15 percent. The recent domestic debt restructuring generated a large debt relief on the domestic component of public debt, increasing the relative share of external debt. This share is expected to decrease after the external debt restructuring is completed. Risks stemming from external financing requirements are below the lower risk assessment threshold of 3 percent.

12. Stress tests produce narrow confidence intervals for both debt and gross financing needs. Given the nature of the domestic debt restructuring (drastically reduced debt service requirements) and the fixed exchange rate, both stress tests and fan charts produce very narrow confidence intervals and bands for debt and gross financing needs. The sensitivity of debt and gross financing needs is higher only for the growth and primary balance shocks.

[10] The financial contingent liability shock includes a 1 standard deviation of real GDP growth, a 25 basis points decrease in inflation for every 1 percentage point decrease in real growth, unchanged fiscal revenues, an increase in expenditures of 5 percent of the size of the banking sector, and interest rate increase by 25 basis points for every 1 percent of GDP deterioration in the primary balance.

F. External Debt Sustainability Analysis

13. External debt is projected to decrease from about 33 percent of GDP in 2018 to about 23 percent of GDP by 2024 with a low risk profile. The public debt management strategy is assumed to limit expensive financing from the external capital market and rely on multilaterals and/or domestic sources of financing. Hence, external debt is projected to decrease from about 33 to about 23 percent of GDP by 2024 (Table 1). Risks stemming from the external debt profile are reduced after the debt restructuring with smoother and lower debt service and gross financing needs. External debt is not projected to be higher than 30 percent of GDP by 2024 under any of the stress tests considered (Figure 6).

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

(In percent of GDP, unless otherwise indicated)

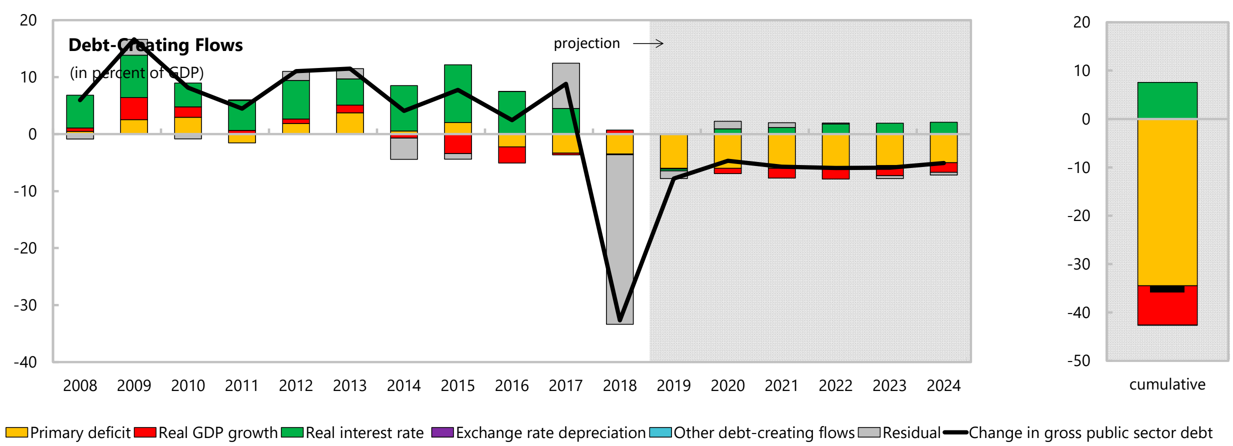
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2008-2016 [2/]	2017	2018	2019	2020	2021	2022	2023	2024
Nominal gross public debt	122.1	158.3	125.6	117.8	113.1	107.4	101.4	95.6	90.5
Of which: guarantees	14.3	9.8	0.9	0.9	0.9	0.8	0.8	0.8	0.7
Public gross financing needs	34.3	51.3	15.0	11.3	7.5	6.4	6.4	7.9	7.9
Real GDP growth (in percent)	-0.5	0.2	-0.5	0.1	0.8	1.6	1.8	1.8	1.8
Inflation (GDP deflator, in percent)	0.9	2.6	2.7	2.3	2.1	2.3	2.3	2.3	2.3
Nominal GDP growth (in percent)	0.4	2.8	2.2	2.4	2.9	4.0	4.2	4.2	4.2
Effective interest rate (in percent) [4/]	6.8	5.7	2.6	2.1	2.9	3.5	4.1	4.4	4.7

As of September 30, 2019		
Sovereign Spreads		
EMBIG (bp) 3/		2100
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							
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative	debt-stabilizing
Change in gross public sector debt	8.0	8.8	-32.7	-7.8	-4.7	-5.7	-6.0	-5.9	-5.1	-35.1	primary
Identified debt-creating flows	8.0	0.9	-2.9	-6.4	-6.0	-6.6	-6.1	-5.4	-4.6	-35.1	balance [9/]
Primary deficit	1.2	-3.3	-3.5	-6.0	-6.0	-6.0	-6.0	-5.5	-5.0	-34.5	0.4
Primary (noninterest) revenue and grants	26.4	28.6	29.3	30.5	30.2	30.2	30.2	30.2	30.2	181.6	
Primary (noninterest) expenditure	27.5	25.3	25.8	24.5	24.2	24.2	24.2	24.7	25.2	147.1	
Automatic debt dynamics [5/]	6.9	4.2	0.6	-0.4	0.0	-0.6	-0.1	0.1	0.4	-0.6	
Interest rate/growth differential [6/]	6.9	4.2	0.6	-0.4	0.0	-0.6	-0.1	0.1	0.4	-0.6	
Of which: real interest rate	6.6	4.5	-0.2	-0.3	0.9	1.2	1.8	1.9	2.1	7.5	
Of which: real GDP growth	0.2	-0.3	0.7	-0.1	-0.9	-1.7	-1.9	-1.8	-1.7	-8.1	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net financing sources - external - Privatization (negative)	0.0	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 Euroarea loans)	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/]	0.0	7.9	-29.8	-1.4	1.3	0.8	0.2	-0.5	-0.5	0.0	



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 U.S. bonds.

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

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ 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 $r - \pi (1+g)$ 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.

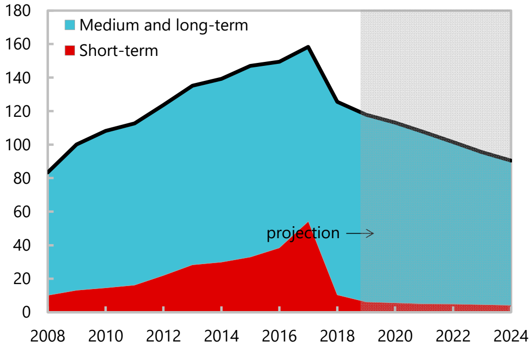
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

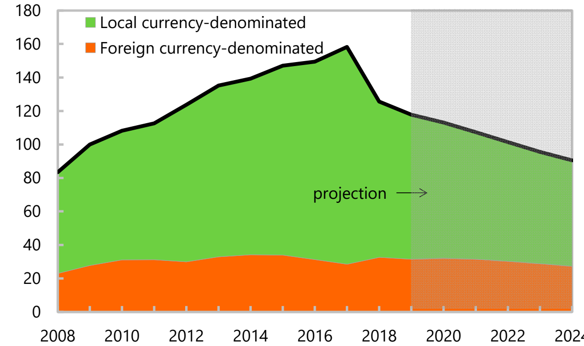
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

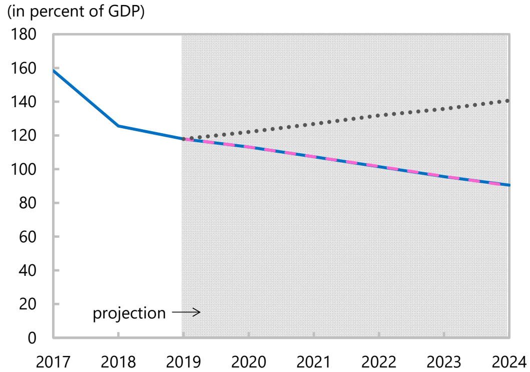


Alternative Scenarios

Baseline Historical Constant Primary Balance

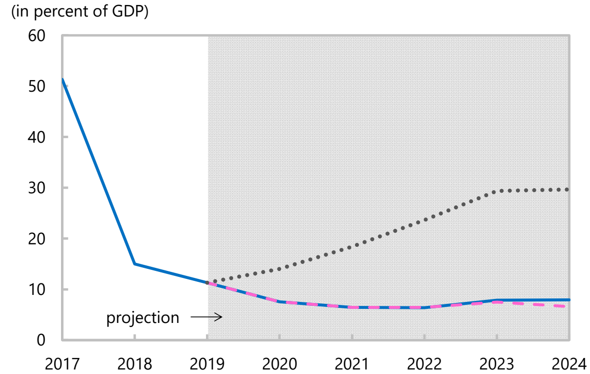
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

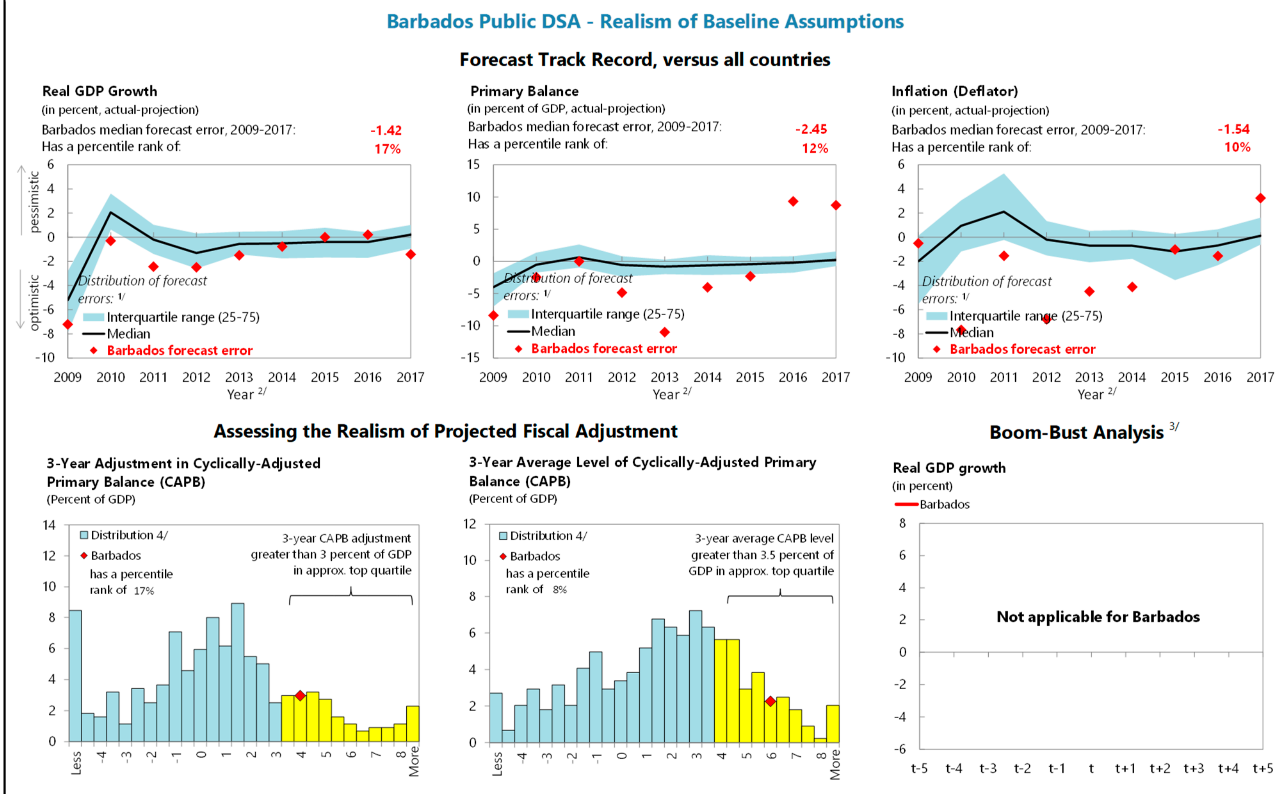
(in percent)

Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	0.1	0.8	1.6	1.8	1.8	1.8
Inflation	2.3	2.1	2.3	2.3	2.3	2.3
Primary Balance	6.0	6.0	6.0	6.0	5.5	5.0
Effective interest rate	2.1	2.9	3.5	4.1	4.4	4.7
Constant Primary Balance Scenario						
Real GDP growth	0.1	0.8	1.6	1.8	1.8	1.8
Inflation	2.3	2.1	2.3	2.3	2.3	2.3
Primary Balance	6.0	6.0	6.0	6.0	6.0	6.0
Effective interest rate	2.1	2.9	3.5	4.1	4.4	4.7

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	0.1	-0.4	-0.4	-0.4	-0.4	-0.4
Inflation	2.3	2.1	2.3	2.3	2.3	2.3
Primary Balance	6.0	-0.3	-0.3	-0.3	-0.3	-0.3
Effective interest rate	2.1	2.9	3.7	4.5	4.8	5.4

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.

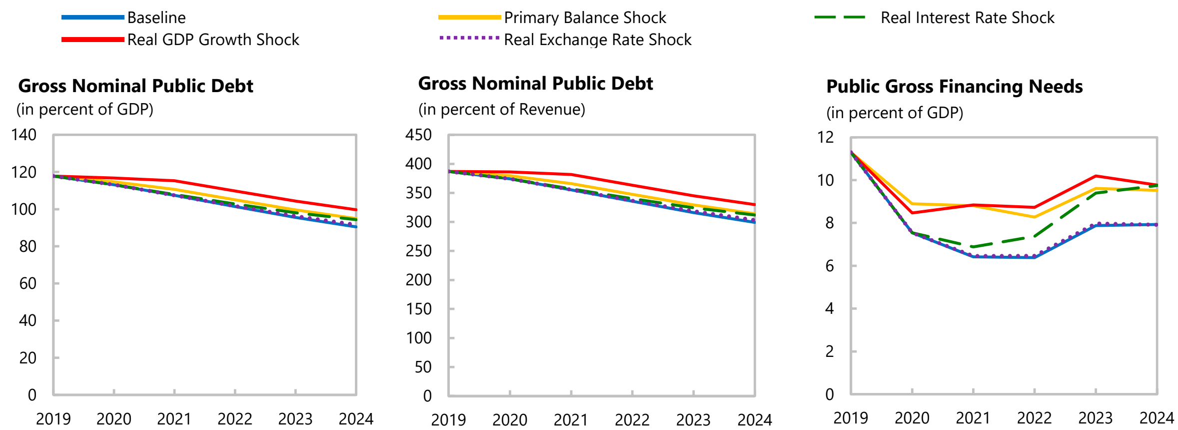
2/ Projections made in the spring WEO vintage of the preceding year.

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

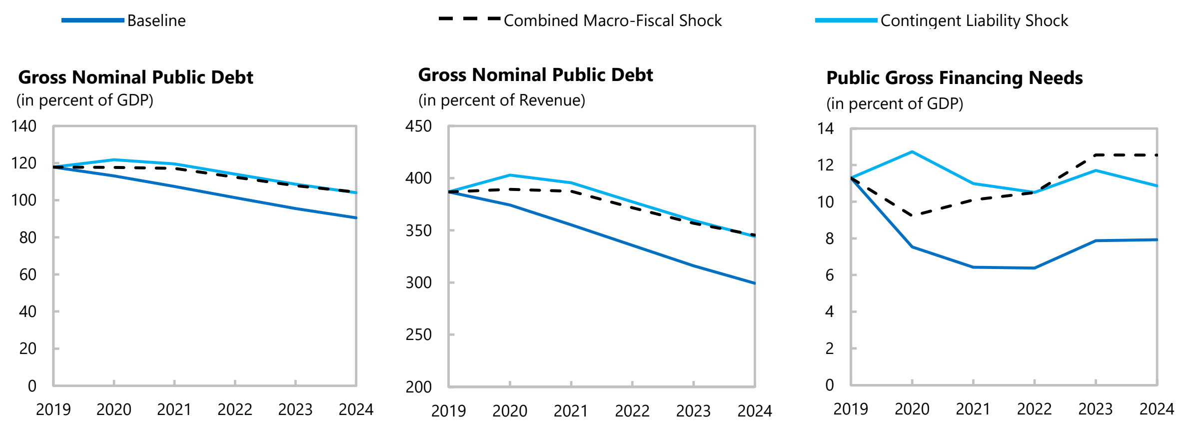
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Barbados: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2019	2020	2021	2022	2023	2024
Real GDP growth	0.1	0.8	1.6	1.8	1.8	1.8
Inflation	2.3	2.1	2.3	2.3	2.3	2.3
Primary balance	6.0	4.6	4.6	6.0	5.5	5.0
Effective interest rate	2.1	2.9	3.5	4.1	4.3	4.6
Real Interest Rate Shock						
Real GDP growth	0.1	0.8	1.6	1.8	1.8	1.8
Inflation	2.3	2.1	2.3	2.3	2.3	2.3
Primary balance	6.0	6.0	6.0	6.0	5.5	5.0
Effective interest rate	2.1	2.9	3.9	4.7	5.1	5.6
Combined Shock						
Real GDP growth	0.1	-1.1	-0.4	1.8	1.8	1.8
Inflation	2.3	1.6	1.9	2.3	2.3	2.3
Primary balance	6.0	4.6	4.6	6.0	5.5	5.0
Effective interest rate	2.1	2.9	3.9	4.8	5.2	5.8

Real GDP Growth Shock	2019	2020	2021	2022	2023	2024
Real GDP growth	0.1	-1.1	-0.4	1.8	1.8	1.8
Inflation	2.3	1.6	1.9	2.3	2.3	2.3
Primary balance	6.0	5.4	4.8	6.0	5.5	5.0
Effective interest rate	2.1	2.9	3.5	4.1	4.3	4.6
Real Exchange Rate Shock						
Real GDP growth	0.1	0.8	1.6	1.8	1.8	1.8
Inflation	2.3	2.1	2.3	2.3	2.3	2.3
Primary balance	6.0	6.0	6.0	6.0	5.5	5.0
Effective interest rate	2.1	2.9	3.5	4.1	4.4	4.7
Contingent Liability Shock						
Real GDP growth	0.1	-1.1	-0.4	1.8	1.8	1.8
Inflation	2.3	1.6	1.9	2.3	2.3	2.3
Primary balance	6.0	1.2	6.0	6.0	5.5	5.0
Effective interest rate	2.1	3.0	3.5	4.1	4.3	4.6

Source: IMF staff.

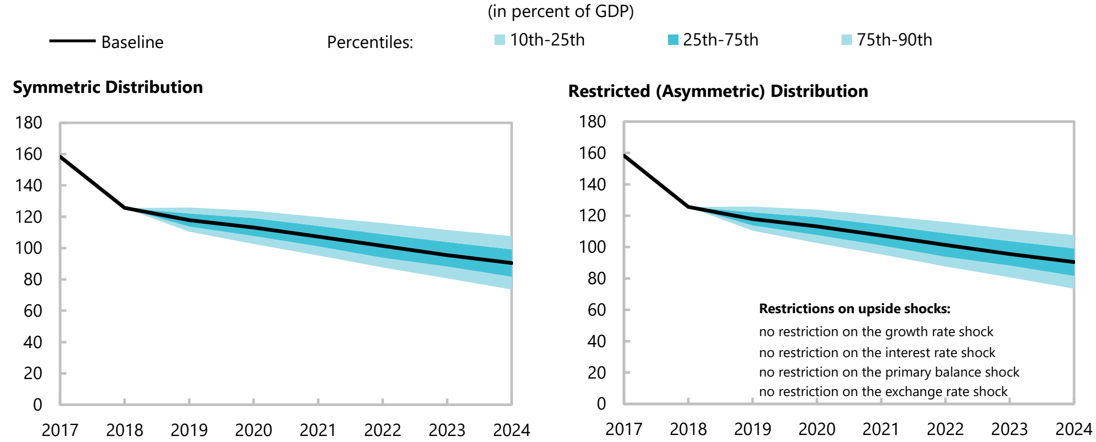
Figure 5. Barbados: Public DSA Risk Assessment

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

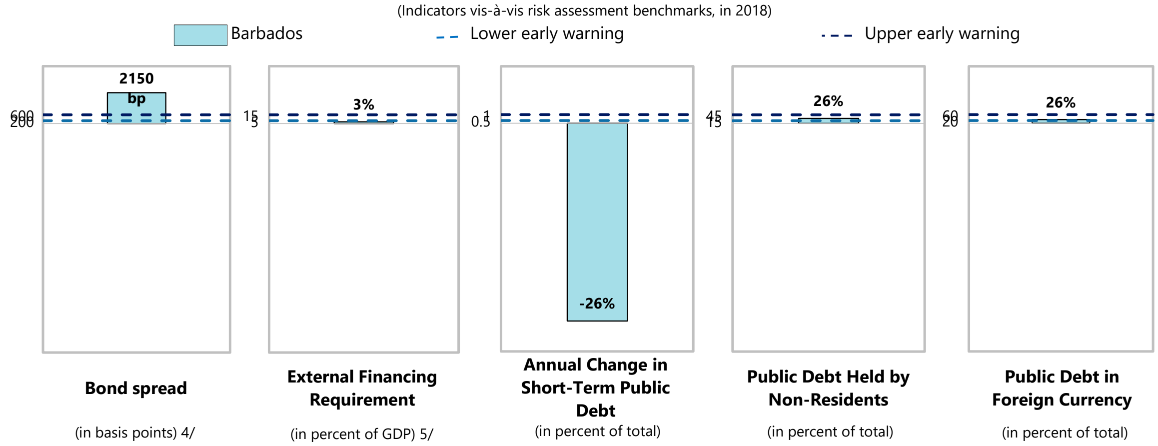
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2018)



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 U.S. bonds, an average over the last 3 months, 02-Jul-19 through 30-Sep-19.

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.

Table 1. Barbados: External Debt Sustainability Framework, 2014 –2024

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2014	2015	2016	2017	2018			2019	2020	2021	2022	2023	2024	Debt-stabilizing non-interest current account 6/
Baseline: External debt	34.1	34.0	31.3	28.5	32.6			**28.7**	**28.1**	**26.8**	**25.4**	**24.1**	**22.8**	**-3.3**
Change in external debt	1.0	-0.1	-2.7	-2.8	4.1			-3.9	-0.7	-1.3	-1.4	-1.3	-1.3	
Identified external debt-creating flows (4+8+9)	2.4	0.3	0.0	-0.2	-1.2			0.2	-0.3	-0.7	-1.1	-1.3	-1.3	
Current account deficit, excluding interest payments	7.5	4.4	2.5	2.1	3.3			3.0	2.2	2.1	2.1	2.0	2.0	
Deficit in balance of goods and services	4.7	1.6	-1.0	-1.5	-1.6			-0.4	-1.2	-1.4	-1.4	-1.5	-1.5	
Exports	40.3	41.2	42.8	42.0	41.0			41.4	41.4	41.0	40.8	40.8	40.7	
Imports	45.0	42.8	41.8	40.5	39.5			41.0	40.2	39.6	39.4	39.2	39.1	
Net non-debt creating capital inflows (negative)	-6.7	-5.5	-3.4	-3.1	-4.3			-3.5	-3.7	-3.8	-4.0	-4.1	-4.1	
Automatic debt dynamics 1/	1.6	1.4	0.8	0.8	-0.2			0.7	1.2	1.0	0.9	0.9	0.9	
Contribution from nominal interest rate	1.8	1.7	1.7	1.7	0.5			0.6	1.4	1.4	1.3	1.3	1.3	
Contribution from real GDP growth	0.0	-0.8	-0.8	-0.1	0.2			0.0	-0.2	-0.4	-0.5	-0.4	-0.4	
Contribution from price and exchange rate changes 2/	-0.2	0.5	0.0	-0.7	-0.8			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-1.4	-0.4	-2.6	-2.6	5.4			-4.1	-0.3	-0.6	-0.3	-0.1	0.0	
External debt-to-exports ratio (in percent)	84.6	82.4	73.1	67.9	79.5			69.4	67.7	65.2	62.3	59.1	56.0	
Gross external financing need (in billions of US dollars) 4/	0.5	0.4	0.3	0.3	0.3			0.3	0.3	0.3	0.3	0.3	0.3	
in percent of GDP	10.5	9.0	6.5	6.6	5.4			5.0	5.3	4.8	4.9	4.7	4.7	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**28.7**	**29.5**	**30.2**	**31.1**	**32.3**	**33.6**	**-4.0**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	-0.1	2.4	2.5	0.5	-0.6	-0.5	2.2	-0.1	0.6	1.5	1.8	1.8	1.8	
GDP deflator in US dollars (change in percent)	0.5	-1.5	0.1	2.4	2.8	1.4	1.7	2.5	2.3	2.4	2.3	2.3	2.3	
Nominal external interest rate (in percent)	5.4	5.1	5.1	5.6	1.7	6.4	3.1	2.0	4.9	5.0	5.3	5.4	5.5	
Growth of exports (US dollar terms, in percent)	-3.6	3.2	6.6	0.8	0.0	-0.8	6.9	3.3	3.0	2.9	3.6	4.2	4.0	
Growth of imports (US dollar terms, in percent)	-1.5	-3.9	0.2	-0.4	-0.4	-2.1	7.5	6.3	1.1	2.4	3.5	3.9	3.9	
Current account balance, excluding interest payments	-7.5	-4.4	-2.5	-2.1	-3.3	-4.7	2.6	-3.0	-2.2	-2.1	-2.1	-2.0	-2.0	
Net non-debt creating capital inflows	6.7	5.5	3.4	3.1	4.3	5.8	2.8	3.5	3.7	3.8	4.0	4.1	4.1	

Sources: Barbados Authorities and Fund staff projections.

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

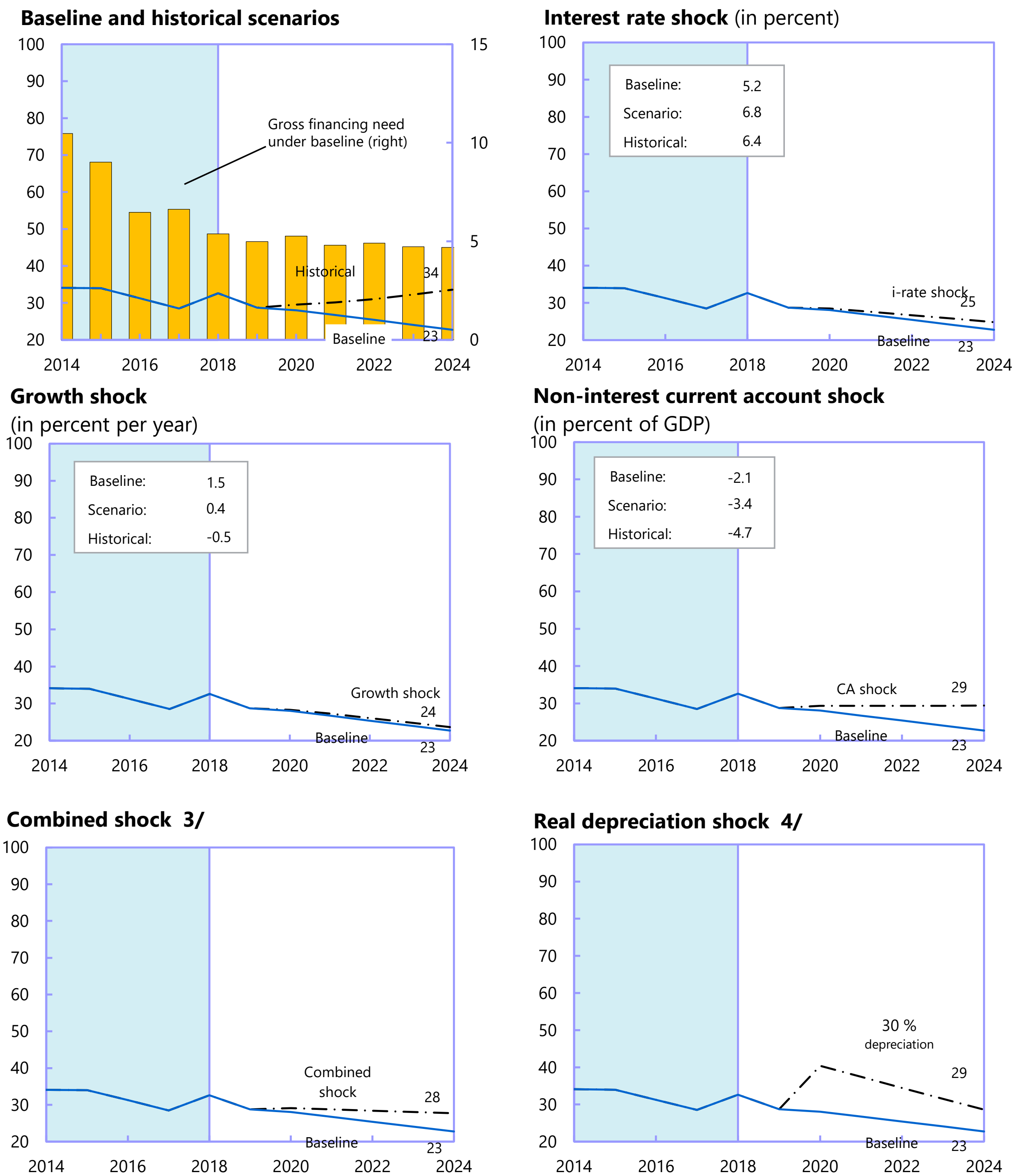
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 6. Barbados: External Debt Sustainability: Boundary Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2019.

Annex III. External Sector Assessment

Barbados' external position in 2018 was broadly consistent with fundamentals and desirable policies. Reserves reached adequate levels by mid-2019 covering 3½ months of imports of goods and services.

A. External Sustainability

1. **The current account deficit has narrowed steadily from 9.2 percent of GDP in 2014 to 3.7 percent of GDP in 2018**, reflecting a stable trade deficit and a widening services surplus. Net capital and financial flows improved significantly from 0.8 percent of GDP in 2016 and 2017 to about 5 percent of GDP in 2018, more than adequate to finance the current account deficit. The improvement in net capital and financial inflows was explained by FDI in the tourism sector, an IMF lending arrangement that also catalyzed financing from other IFIs as well as a commercial external debt service moratorium. In the first 3 quarters of 2019, the current account deficit narrowed supported by the fiscal adjustment, a strong tourism sector, and favorable price developments. Projections the medium-term point to improvements in the current account deficit supported by large fiscal consolidation, strong tourism receipts and a restructuring of commercial external debt. Foreign direct investment (FDI), mainly in the tourism sector, is projected to average 4 percent of GDP in 2019-2022. In addition, Barbados is expected to continue to benefit from official inflows from multilateral lenders for infrastructure and budgetary support. Business and financial inflows are also notable, supported by Barbados offshore banking center.

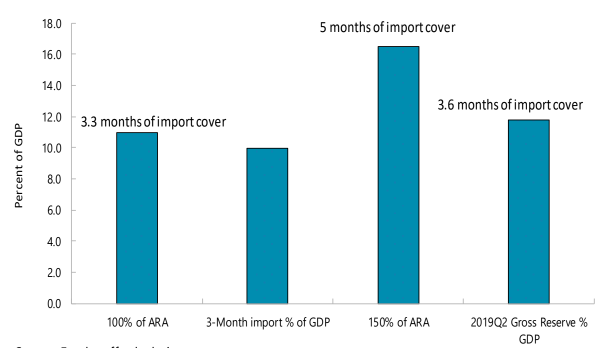
2. **External imbalances have narrowed significantly as Barbados started to tackle the fiscal and structural policy gaps.** The EBA-lite current account (CA) model shows that the cyclically-adjusted current account balance is estimated at -3.6 percent of GDP in 2018, while the multilaterally consistent cyclically adjusted CA Norm is -3.9 percent of GDP, suggesting a small current account gap of 0.3 percent of GDP. Using the estimated current account elasticities, this implies a small undervaluation of the REER (0.9 percent). On the other hand, the REER approach suggests an overvaluation by about 18 percent. The real effective exchange rate appreciated by an average of 3 percent in the last 3 years. In staff's view, the REER model is less reliable than the current account model given the short sample span to estimate the fixed effect in the model as well as the need to substitute other sources of data compared to the countries in the regression sample. The CA model better captures the evolving nature of Barbados' external position which suggests that the external position is broadly consistent with fundamentals and desirable policies (see Summary Table below).

Summary Table -External Balance			
CA Approach		**REER Approach**	
CA-Actual	-3.7%	Ln(REER) Actual	4.80
CA-Cyclically adjusted	**-3.6%**	Ln(REER) Fitted	4.64
CA-Norm	-4.6%	Ln(REER) Norm	4.61
Cyclically adjusted CA Norm	-4.4%	Residual	0.15
Multilaterally Consistent Cyclically adjusted CA Norm	**-3.9%**		
CA-Gap	**0.3%**	REER Gap	18.4%
of/which Policy gap	1.6%	Policy Gap	3%
Elasticity	-0.30	Natural Disasters and Conflicts	0.1%
REER Gap	-0.9%		
CA-Fitted	-2.9%		
Residual	-0.01		
Natural Disaster and Conflict	0.1%		

Source: IMF staff estimates

3. **Reserves continued to accumulate and have increased to adequate levels**. The reduced debt service following the moratorium on commercial external debt service and significant fiscal adjustment have alleviated pressures on international reserves. Official inflows from the IMF and other IFIs helped boost international reserves to US$500 million, equivalent to 3 months of import cover by end-2018. By end-September 2019, reserves reached more than US$600 million (3.5 months of import cover or 120 percent of ARA). The Assessing Reserve adequacy (ARA) methodology suggests that gross reserves should be in the range of 9.9 and 16.5 percent of GDP, corresponding to 3.5 to 5 months of import cover. Staff projections indicate that gross reserves will surpass 150 percent of ARA by the end of the Fund-supported program. Debt service following the pending agreement with commercial creditors on debt restructuring is expected to be manageable.

Reserve Adequacy Metrics



Source: Fund staff calculations.

B. Competitiveness of Tourism Sector

4. **Over the years, Barbados has increased its reliance on services, particularly tourism, as the main engine of growth and development**. Tourism contributes 35 percent of GDP, with wholesale and retail trade, as well as transportation and storage services accounting for 68 percent

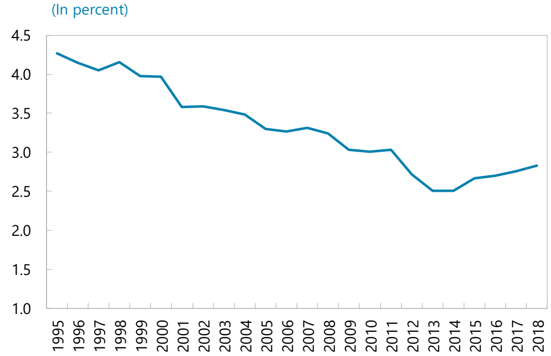
of overall tourism sector contribution. The sector is also responsible for a significant share of employment in the country (11.6 percent work directly in tourism, with 23.3 percent indirectly benefitting).

5. Barbados' share of tourism to the Caribbean has been on a declining trend, although the number of arrivals to Barbados has increased. In recent years, arrivals have rebounded, and in 2018, Barbados' share of all visitors to the region was 3 percent. In 2018 Barbados recorded the highest number of tourist arrivals, mainly from U.K, U.S. and Canada. Relative to other island destinations in the region, the change in tourist arrivals to Barbados have displayed greater fluctuation. Easier global connectivity has increased competition in the industry and could further impact the tourism sector in Barbados. In addition, the dominance of tourism sector means that the Barbados economy is highly exposed to external demand shocks. Recessions in its principal markets can cause tourist arrivals to decline, affecting the entire Barbadian economy, as was experienced recently during the global financial crisis.

A Changing Picture for Tourism

Barbados' share of tourists to the Caribbean has fallen.

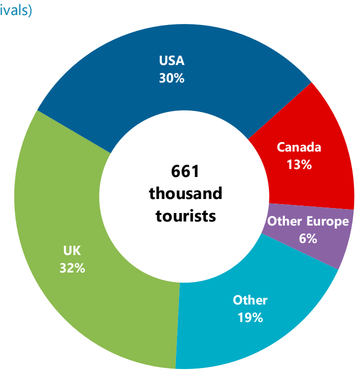
Barbados Tourist Arrivals, Caribbean Market Share
(In percent)



Sources: CTO; and Fund staff calculations.

Although the number of tourist arrivals continue to increase…

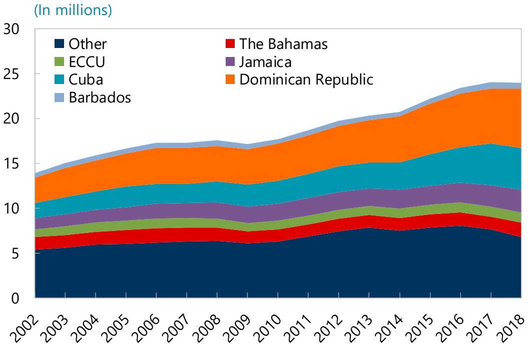
Barbados Tourist Arrivals by Source, 2018
(% of total arrivals)



Source: CTO

… its market share has been shrinking.

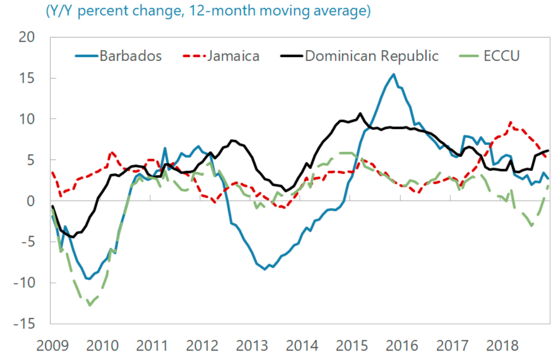
Caribbean Tourist Arrivals, 2002–2018
(In millions)



Sources: CTO and Fund staff calculations.

Tourist arrivals are more volatile and slowing, a trend across the Caribbean.

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



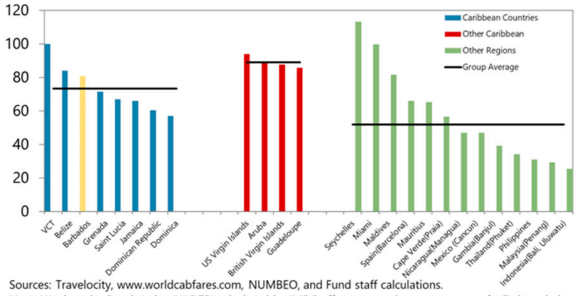
Sources: CTO and Fund staff calculations.

6. The competitiveness of the tourism industry has declined over time but there remains great potential to revamp the industry. Tourism competitiveness, measured by the World Economic Forum--assessing the attractiveness of a country to visitors according to necessary infrastructure, stability, natural resources, and other amenities--has declined in recent years owing to limited natural and cultural resources. In terms of price competitiveness, Barbados is ranked 134th (out of 136), the biggest limiting factors being airfare, hotel costs, and fuel prices. The IMF's Week @ the Beach index--which compares the nominal cost of similar tourism products across different beach destinations--places Barbados as one of the most expensive for hotels and meals.

Tourism Competitiveness

Barbados is an expensive beach destination.

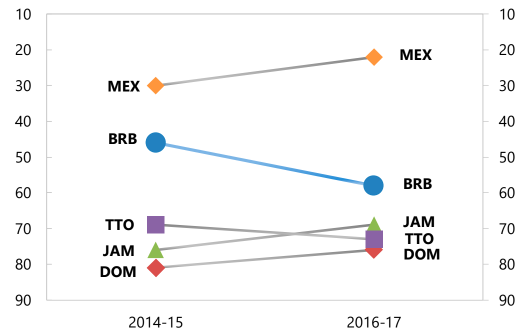
A Week at the Beach Index, 2019
(St Vincent and The Grenadines = 100)



Sources: Travelocity, www.worldcabfares.com, NUMBEO, and Fund staff calculations.
Note: Week at the Beach Index (W@TB) calculated by IMF Staff measures the average cost of a 7-day-trip in a country's beach destinations. The Index is a composition of an average hotel price (3 to 4 'bubble' rating) from TripAdvisor and over 80 million crowdsourced data on meals, taxi fares, water, coffee and beer. The database covers 155 beach destinations from 56 countries.

Barbados is becoming less competitive in tourism.

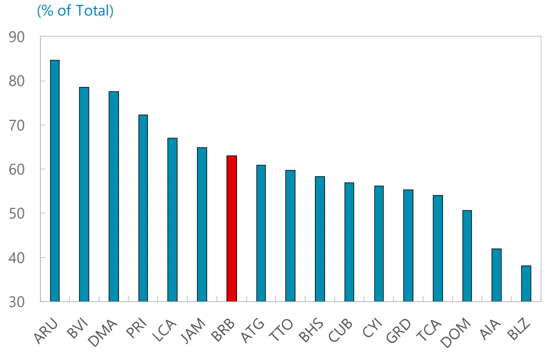
Tourism Competitiveness Index Ranking
(Rank out of 148, 1 is the top)



Sources: World Economic Forum and Fund staff calculations.

Occupancy of rooms is moderate.

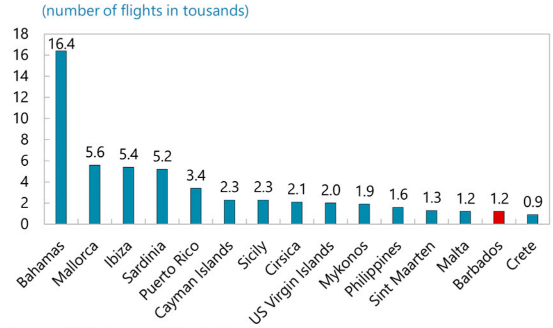
Room Occupancy Rate, 2018
(% of Total)



Source: CTO

Airport expansion enhances potential of more private jets.

Private Jet Arrivals, 2018
(number of flights in tousands)



Sources: Knight Frank and WingX Advance
Note: Data on 30 island destinations provided by WINGX Advance, a data research and consulting company which provides market intelligence to the business aviation industry.

Annex IV. Medium-Term Growth Diagnostics

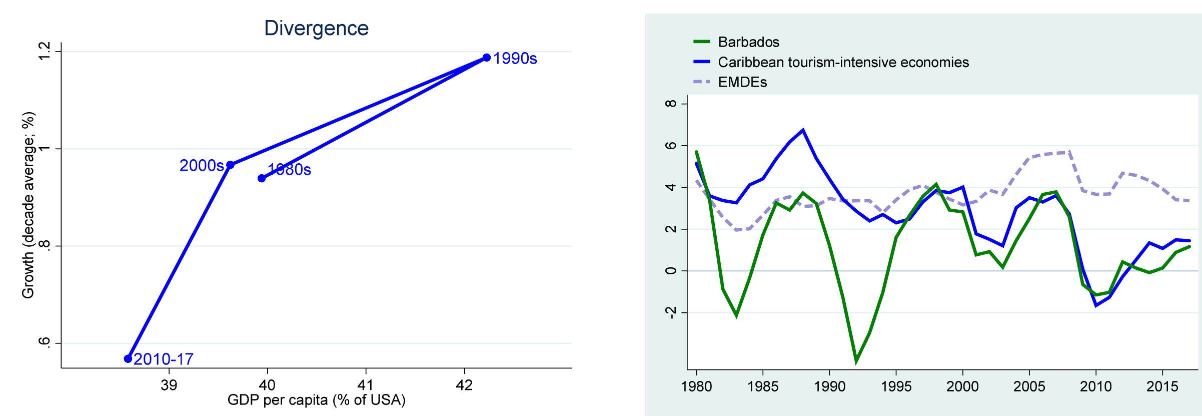
Structural reforms are essential for improving growth prospects in Barbados. Two major obstacles have been constraining growth: fiscal imbalances and an unfavorable business environment. The authorities have embarked on a comprehensive reform program aiming to restore fiscal sustainability and improve the business climate.[1]

A. Growth Dynamics

1. In recent decades, Barbados' economic growth has been low (Figure 1). Since early 1980s, Barbados' growth has underperformed average growth in EMDEs. In 1990s, the Barbadian economy started to diverge from the US economy. As growth in the Caribbean region declined in 2000s, Barbados' growth closely tracked regional growth.

Figure 1. Growth Performance

Barbados has been diverging from the US,... *... as its growth was underperforming.*



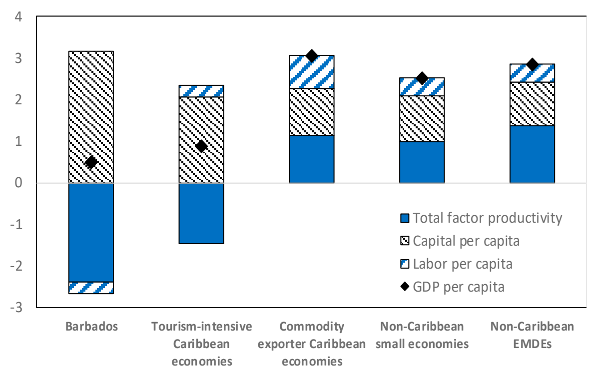
Sources: World Bank, World Development Indicators; IMF staff estimates.

Sources: World Bank, World Development Indicators; IMF staff estimates.

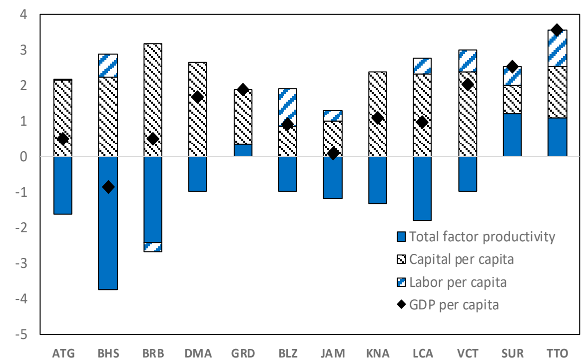
2. Barbados' total factor productivity growth has reduced overall growth in 2000–15, in line with trends in tourism-intensive Caribbean economies (Figure 2). Total factor productivity measures the overall productivity of labor and capital and reflects human capital and technology. In 2000–15, Barbados' TFP declined on average by 2.3 percentage points per year, while total growth languished at 0.5 percent per year. The TFP dynamic in Barbados is in line with regional trends. Several studies have documented weak productivity in the Caribbean (Ruprah, Melgarejo, Sierra 2014; Thacker and others 2013) and low productivity and innovation activity in the region (Dohnert, Crespi, Maffioli 2017).

[1] This annex also uses perception-based data and presents results with a graphical format (ranking) as more effective than a tabular format (scores).

Figure 2. Contributions to Average GDP growth per Capita, 2000–15 (percent per year)



Sources: IMF, World Economic Outlook; IMF staff estimates.

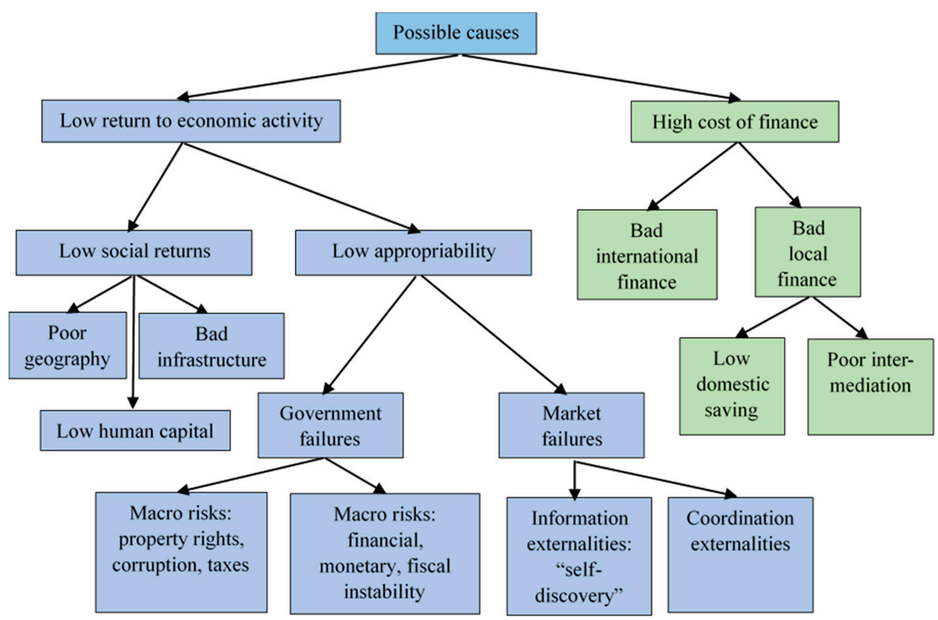


Sources: IMF, World Economic Outlook; IMF staff estimates.

B. Growth Constraints

3. **A growth diagnostics framework was used to identify constraints** (Hausmann, Rodrik, Velasco, 2005). This methodology uses a decision tree as illustrated in Figure 3.

Figure 3. Hausmann-Rodrik-Velasco Growth Diagnostics Tree

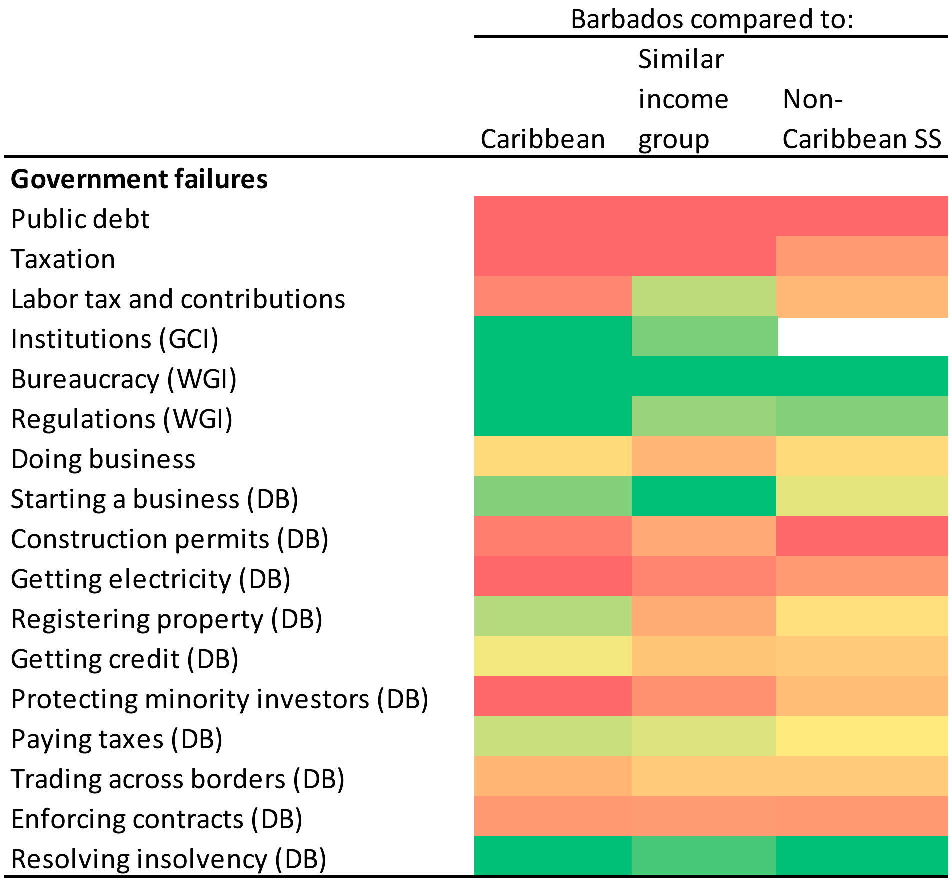


Source: Hausmann, Rodrik, Velasco (2005).

4. **Fiscal imbalances and a weak business environment are the main growth constraints** (Figure 4). High public debt and, related to that, elevated tax rates limit growth potential and create uncertainty. In addition, doing business indicators highlight some weaknesses. Getting electricity for a newly constructed warehouse requires a lot of time and is expensive. Barbados also scores low on protecting minority investors and obtaining construction permits. However, data on construction

permits was collected in May 2018, before Parliament adopted new Town and Country planning legislation in early 2019 (a structural benchmark for the first review under the Extended Arrangement under the Extended Fund Facility (EFF)). This new legislation aims to streamline and accelerate the process for providing permits.

Figure 4. Government Failures



Red = least favorable; green = most favorable

Note: Table reports 2017 or most recent data. WBES = World Bank Enterprise Survey. DB = Doing Business. GCI = Global Competitiveness Report. WGI = Worldwide Governance Indicators, D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank).

5. A high cost of finance, related to fiscal imbalances, constrains growth and investment (Figure 5). Gross saving and investment are low due to a weak public sector position. Crowding out effects are significant, as the ratio between public debt and private credit is high. The financial sector's indicators paint a mixed picture. On the one hand, the credit-to-GDP ratio is high, the banking sector is very liquid, and the banking sector consists of large international banks. Even after significant losses due to the recent public debt restructuring, the banking sector remains well-capitalized. On the other hand, the bank spread is relatively high, and the absence of developed credit reporting institutions indicates inefficiencies in the financial sector.

Figure 5. Cost of Finance

	Barbados compared to:		
	Caribbean	Similar income group	Non-Caribbean SS
High costs of finance			
Financial constraints (WBES)			
Getting credit (DB)			
Financial development (GCI)			
NPLs			
Bank spread			
Gross saving			
Investment			
Credit to GDP			
Crowding out			

Red = least favorable; green = most favorable

Note: Table reports 2017 or most recent data. WBES = World Bank Enterprise Survey. DB = Doing Business. GCI = Global Competitiveness Report.

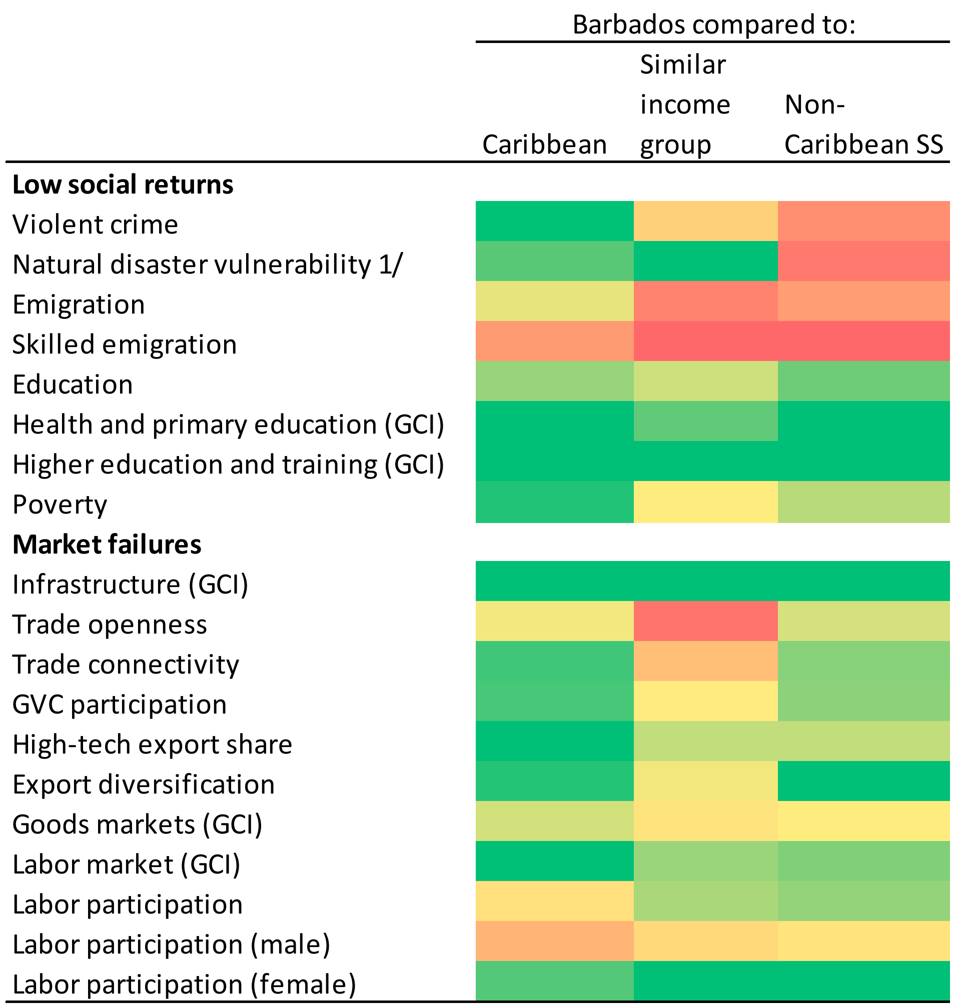
6. **Relative to its peers, Barbados scores high on indicators related to market efficiency and social returns** (Figure 6). However, while human capital indicators are relatively high, Barbados is losing its potential through emigration of skilled workers.

C. Policies

7. **To restore fiscal and debt sustainability, the authorities have embarked on a comprehensive reform program.** Under the BERT program, Barbados aims to increase the primary surplus from 3½ percent of GDP in FY2018/19 to 6 percent of GDP in FY2019/20, and to keep the primary surplus at that level for several years thereafter. Together with the public debt restructuring, the fiscal adjustment should result in the reduction of public debt from about 160 percent of GDP in mid-2018 to 60 percent of GDP by FY2033/34.

8. **The authorities have started to address key weaknesses in the business climate.** The development of the Corporate Affairs and Intellectual Property Office (CAIPO) aims to streamline the registration of new business and strengthen maintenance of commercial records of existing business. The authorities are formalizing the credit bureau regime by drafting a Fair Credit Reporting Act and a Code of Conduct for the operation of credit bureaus. Establishing a credit registry and credit collateral registry in addition to broadening the types of eligible collateral would further facilitate access to credit. The authorities intend to carefully review the different components of the World Bank's Doing Business survey to identify, and address, key obstacles to growth.

Figure 6. Social Returns and Market Failures



Red = least favorable; green = most favorable

Note: Table reports 2017 or most recent data. WBES = World Bank Enterprise Survey. DB = Doing Business. GCI = Global Competitiveness Report.

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Annex V. Building Resilience to Natural Disasters and Climate Change

While Barbados appears less vulnerable to natural disasters than other Caribbean states, climate change is likely to increase its vulnerability to weather-related events that could have a major impact on its economy. Below, a three-pillar approach (IMF 2019) is used to discuss structural, financial, and post-disaster resilience. While Barbados scores high in financial resilience, it can improve structural and post-disaster resilience.

A. Vulnerability to natural disasters

1. Barbados appears less vulnerable to natural disasters than other Caribbean states. Over the period 1955-2018, Barbados was impacted by five hurricanes, with the largest storm in 1955 (Hurricane Janet) causing damage amounting to 14 percent of GDP (Figure 1). In a recent study (IMF 2016), Barbados was ranked 29th among 33 small states at risk of natural disasters. The Caribbean Development Bank's multidimensional vulnerability index also shows relatively low vulnerability to natural disasters for Barbados (CDB 2019). Barbados' geographical location (further into the Atlantic than other Caribbean islands) may offer it a form of protection against the strongest hurricanes.

2. Climate change is likely to increase Barbados' vulnerability to natural disasters, with increasing temperatures contributing to rising sea levels and more intense hurricanes. In a 2015 report (UN 2015), risks stemming from water shortages, declining agricultural productivity, land degradation, and a declining fish stock were highlighted. Simulation studies find significant adverse effects on growth from climate change. An influential study (Burke, Hsiang, and Miguel 2015) predicts a sharp decline in GDP per capita for the Caribbean region by 2100 relative to a scenario without climate change. Using more conservative assumptions on the impact of climate change on the level of GDP, a study by the IMF (2017) found that negative effects are substantial, but smaller than in Burke, Hsiang, and Miguel (2015). Standard climate change models project about ½ a meter of sea-level rise by 2100, and much higher increases over the following centuries if global temperatures continue to rise owing to uncontrolled emissions (Nordhaus 2013: pages 104-107). Sea-level rises of this magnitude would have a major impact on Barbados and the Caribbean.

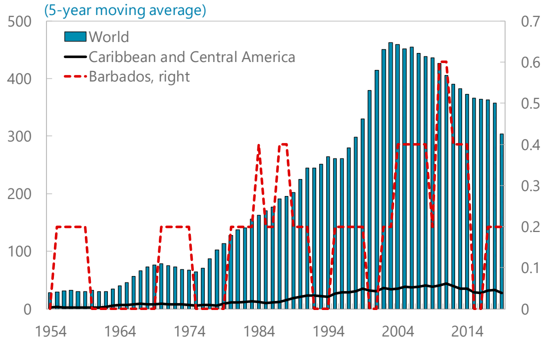
3. Natural disasters can affect the Barbadian economy through several channels. Disasters reduce current growth as well as potential growth, by destroying physical capital. In addition, potential growth declines owing to out-migration and a decline in human capital. Lower growth and post-disaster spending increase public debt and elevate poverty.

4. A natural disaster could sharply reduce tourism, and through that adversely impact other sectors of the economy. Tourism is the most important driver of economic growth and prosperity in Barbados. The sector has continued to expand in recent years, accounting directly for an estimated 35 percent of GDP. Many other sectors, including retail, construction, agriculture, and other services depend on tourism dynamics.

Figure 1. Barbados: Exposure to Natural Disasters, 1950–2019

The number of natural disasters has increased over time...

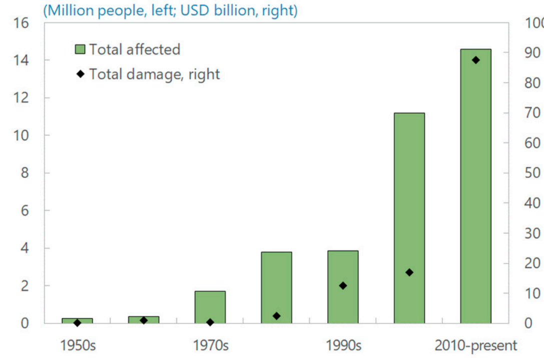
Occurence of Natural Disasters
(5-year moving average)



Sources: EM-DAT, IMF staff estimates.

... and rising intensity has caused more damage.

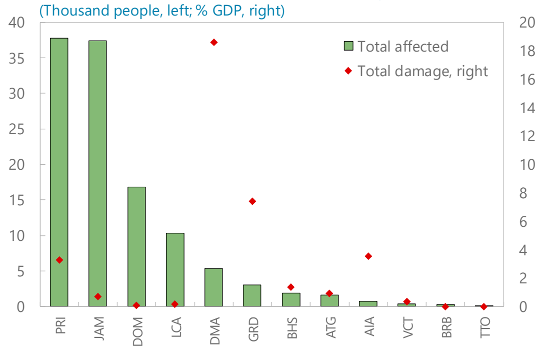
Storm Intensity in the Caribbean
(Million people, left; USD billion, right)



Sources: EM-DAT, IMF staff estimates.

While Barbados has experienced fewer events than other Caribbean states...

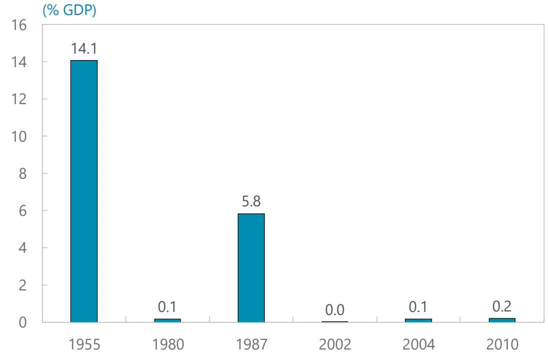
Impact of Storms, 2000-2019 Average
(Thousand people, left; % GDP, right)



Sources: EM-DAT, IMF staff estimates.

... it has experienced several natural disasters.

Natural Disaster Damage in Barbados
(% GDP)



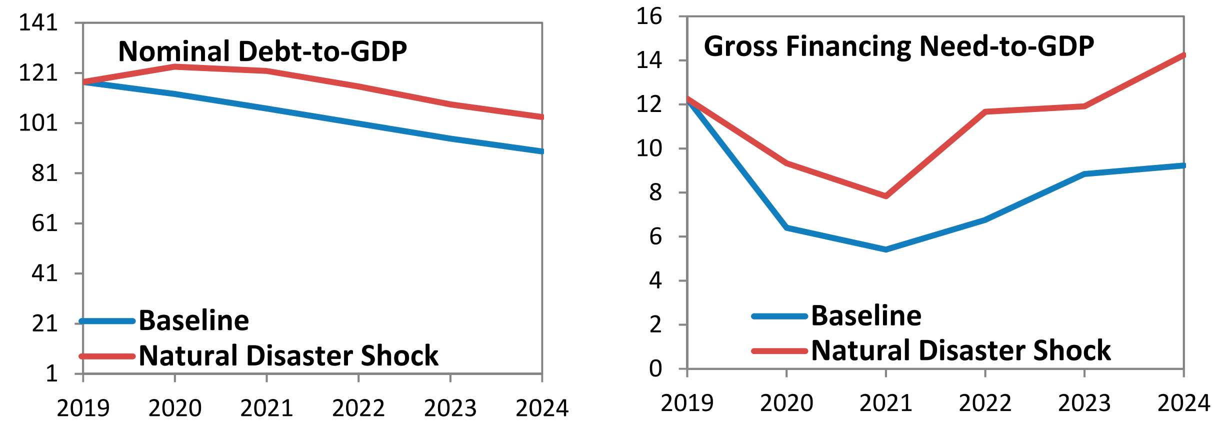
Sources: EM-DAT, IMF staff estimates

5. **The impact of a natural disaster on debt dynamics and gross financing needs can be significant (Figure 2).** A shock of 14 percent of GDP (the magnitude of the 1955 hurricane) is used in a simulation exercise, and it is assumed that two thirds of losses will be covered by the government. Growth is assumed to decline relative to the baseline by about 7 percentage points in the first year, and by 2 percentage point next year, and rebound in the following years. The relationship between growth and the natural disaster shock is taken from IMF (2017).

B. Structural Resilience

6. **Investment in structural resilience helps contain the damage from natural disasters and speed up recovery.** Such investment could be in the form of building resilient infrastructure: sea walls, robust sewage systems, and the like. "Soft" measures include developing early warning systems, customizing building codes, and improving land use planning.

Figure 2. Barbados: Debt Dynamics and Gross Financing Needs after the Natural Disaster Shock



7. Investing in resilient infrastructure is costly and requires a cost-benefit analysis. For Barbados, the absence of major natural disasters in recent history may mask the risks. In addition to its vulnerability to hurricanes and tropical storms, Barbados is located in a geographical area that is prone to earthquakes. This exposure to both hurricanes and earthquakes creates substantial risks, both financial and social.

8. Barbados has several large resilience projects in the pipeline. According to preliminary estimates, the 'Roofs to Reefs' project will require [public and private] investment of US$1-1.5 billion over next 10 years. This project aims to increase housing resilience to withstand category 4 hurricanes. The authorities are yet to assess costs of other projects that are under consideration.

9. Such projects require both donor financing and increased fiscal space. The authorities' fiscal space is limited at present but is expected to increase, as the stabilization program proceeds. Staff projects the room for capital expenditure to increase from 2 percent of GDP in FY2019/20 to 3 percent of GDP at the end of the EFF-supported program and about 4 percent over the medium term.

10. Barbados has room to strengthen "soft" resilience measures. A recent Comprehensive Disaster Management Audit (UN 2018) provides assessment of "soft measures". According to this study, Barbados' warning and alert systems perform relatively well, with the safe area designation requiring improvement. While Barbados scores high in the area of land use planning, current building codes diverge from plans to improve housing resilience to category 4 hurricanes. Tightening regulation could provide additional protection from potential losses in future.

C. Financial Resilience

11. Barbados insures natural disaster risks through the Caribbean Catastrophe Risk Insurance Facility (CCRIF). CCRIF provides parametric insurance products and enables Barbados to

12. insure against excessive rainfall and hurricanes. CCRIF reduces costs of insurance relative to individual insurance that the government can purchase from the financial market. To provide liquidity and allow to maintain government functions, CCRIF payouts are made within 14 days of the event.

13. In the 2018 restructuring of domestic public debt, the authorities and their creditors have a natural disaster clause in most new bonds. These clauses 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. While these clauses do not substantially reduce the debt burden, they insure against liquidity shortages at the time of a natural disaster. The trigger for a natural disaster event is a payout above US$5 million by CCRIF.[1]

14. Barbados has access to liquidity through contingent lines or rapid credit facilities provided by international financial organizations. The government is in discussion with the IDB on contingent credit facility instrument that would allow Barbados to borrow up to 2 percent of GDP in case of a natural disaster. The CDB offers two instruments to assist members in case of natural disasters: the Emergency Response Grant (US$0.2 million) and the Immediate Response Loan (US$0.75 million). The IMF also can provide access to the Rapid Financing Instrument (RFI) in the amount of 50 percent of quota (SDR 47.25 million) per year and 100 percent of quota on a cumulative basis.

D. Post-Disaster Resilience

15. According to the Comprehensive Disaster Management Audit (UN, 2018), Barbados' response and recovery frameworks are relatively well developed. While Barbados has relatively efficient institutions to assess the damage, quickly respond to disasters, and develop reconstruction plans, policies to improve government and business sector continuity require attention.

16. Barbados has a relatively efficient social safety net that allows for a quick response to humanitarian needs in the event of natural disasters. The system is aimed at reducing poverty and is based on non-contributory transfer programs. While the system is well-targeted and could in principle quickly be expanded, limited fiscal space would constrain an increase in coverage in case of a sudden shock.

17. Barbados could improve its public procurement system to strengthen its capacity to respond to a natural disaster. Without adequate procurement systems, donors may be hesitant to support Barbados, while government expenditure can become inefficient in addressing the natural disaster's impact. The government of Barbados is committed to strengthen the procurement process: a College of Negotiators has been established to negotiate the best possible agreements and contracts in the public interest, and the capacity of the Public Accounts Committee is being strengthened to carry out its oversight role while ensuring full transparency

[1] Such a payout occurred right before the domestic debt restructuring exercise closed: on October 19, 2018, CCRIF made a US$5.8 million payment to the government of Barbados following the passage of Tropical Storm Kirk, under Barbados' excess rainfall policy.

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Annex VI. Implementation of Last Article IV Advice

1. The discussions during the last Article IV consultations (IMF 18/133) focused on the need to continue fiscal consolidation, rebuild external reserves, support economic growth, and maintain financial stability. Key staff recommendations included:

- Balancing the budget within three years and maintaining the balance thereafter to help address financing needs and decisively place the debt on a downward trajectory.
- Focusing the fiscal adjustment on reducing expenditure, in particular by reforming, and hence cutting transfers, to state-owned enterprises (SOEs) and reforming public pensions.
- Broadening the tax base while increasing the overall progressivity of taxation.
- Strengthening the business climate and competitiveness to support economic growth.
- Eliminating reliance on the Central Bank financing of the government deficit so as to make monetary policy consistent with maintaining the peg.

2. With the implementation of the authorities' BERT plan supported by the IMF Extended Fund Facility and associated structural benchmarks, these key recommendations have been, or are being, implemented. In particular:

- The fiscal balance improved from -4.3 in FY2017/18 to about 0 percent of GDP in FY2018/19. It is projected to further improve to 3 percent of GDP in FY2019/20 and remain in surplus over the medium term.
- The authorities have started reforming SOEs and this will lead to decreased transfers from the central government. Reforms include, layoffs during FY2018/19, contracts being renegotiated (at the Barbados Water Authority and the Sanitation Service Authority), efficiency gains from mergers being exploited, and bus fares increased. [A full review of SOE tariffs and fees was completed in September 2019].
- The authorities are implementing a new tax policy based on a shift from direct to indirect taxation, and a fairer distribution of the tax burden between residents and non-residents. They have reformed the Corporate Income Tax (CIT) to unify the treatment of domestic and international companies and comply with EU and OECD guidelines. They have announced their intention to reduce Personal Income Tax (PIT) rates to gradually reduce distortions stemming from low CIT and high PIT rates, and they have taken measures to increase VAT collection by broadening the VAT tax base, by moving items from zero-rated to exempt, and by increasing the VAT rate on the accommodation sector from 7.5 to 10 percent. They have also increased the progressivity of the tax system by increasing the property tax, especially on high income earners and on the accommodation sector. They plan to reform the Barbados Customs and Excises Department to strengthen its governance and promote accountability.

- Under the program, the authorities will review the public sector pension scheme to address its long-run sustainability.

- In a key step to improve the business climate, Parliament adopted a new Town and Country Planning law in January 2019. The Government also adopted a new business plan and staffing strategy for the Corporate Affairs and Intellectual Property Office (CAIPO) and plan to outsource the management of CAIPO to a professional team to guarantee efficiency and timeliness in the registering of new businesses.

- With the implemented fiscal adjustment that puts the overall balance in surplus, CBB financing is not needed anymore. In addition, authorities are revising the CBB Act to prohibit financing of the budget and limit CBB financing to limited cash management needs for treasury operations and with positions to be closed within any single fiscal year.

Appendix I. Letter of Intent

Bridgetown, Barbados
November 25, 2019

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Georgieva,

Since the approval of the extended arrangement under the Extended Fund Facility (EFF) by the IMF's Executive Board on October 1st, 2018, the Barbados Economic Reform and Transformation (BERT) Plan is restoring macroeconomic stability and putting the economy on a path of sustainable and inclusive growth. The country's international reserves have more than doubled to more than US$600 million as of September 2019, the domestic debt restructuring has been completed, and the fiscal adjustment and reforms of state-owned enterprises continue as programmed. The strategy of accelerating growth focuses on attracting new investment in areas such as the renewable energy sector, creative and artistic industries, agro-industries, the international business sector and tourism.

The Government believes that the policies described in the attached MEFP are adequate to achieve the programme's objectives. If necessary, the Government stands ready to take any additional measures that may be required to ensure the success of our BERT Plan, and by extension the MEFP. The Government will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. The Government will also continue to share with the Fund staff with all the relevant information required to complete programme reviews and monitor performance on a timely basis.

The Government will observe the standard performance criteria against imposing or intensifying foreign exchange currency restrictions, introducing or modifying multiple currency practices, concluding bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement and imposing or intensifying import restrictions for balance of payments reasons.

As part of our communication policy and our full commitment of transparency, we intend to publish this letter on the websites of the Ministry of Finance, Economic Affairs and Investment and the Central Bank of Barbados to keep Barbadians and international agents informed about our policy actions and intentions. We also authorize the Fund to publish this letter, together with the Staff Report, and its attachments.

We request the completion of the second review of the extended arrangement under the Extended Fund Facility, completion of the financing assurances review, and modification of three performance criteria relating to the primary balance, net international reserves and net domestic assets. We also request the introduction of one new structural benchmark and the resetting of four structural benchmarks.

We thank you for your partnership and your willingness to work with the Government and the 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

Attachment I. Supplementary Memorandum of Economic and Financial Policies

I. PROGRAMME OBJECTIVES AND GROWTH STRATEGY

1. **Barbados has embarked on a comprehensive Economic Recovery and Transformation (BERT) plan aimed at restoring fiscal and debt sustainability, addressing falling reserves, and increasing growth**. A sharp reduction in the debt burden will support higher private sector-led investment and growth as economic confidence is restored. 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. 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 nation achieving sustainable development that is built on principles of equal access to social justice and economic opportunity for all.

2. **The IMF Executive Board approved a four-year extended arrangement under the Extended Fund Facility (EFF) to support Barbados' economic program on October 1, 2018**. The first review of the Extended Arrangement under the Extended Fund Facility (EFF) was approved by the Executive Board in Jun 2019. By November 2019, international reserves had recovered to around US$600 million, and a restructuring of domestic debt had been completed. The rapid completion of the domestic debt restructuring has been very important in reducing economic uncertainty, and the terms agreed with creditors will help put public debt on a clear downward trajectory. In November 2019, we reached agreement with the External Creditor Committee on the terms for restructuring the US dollar-denominated commercial debt; the agreed terms will bring about immediate reduction in public debt, with a 26 percent upfront, face value reduction in the debt. The agreed interest rate, at 6.5 percent, also implies an important reduction in debt service for the Government of Barbados. A much-reduced Government interest bill will help create much-needed fiscal space for increased social spending and investment in infrastructure. Immediate crisis risks have therefore abated. Barbados is on the road again, but the journey is far from over.

3. **We are on track to meet BERT and EFF programme targets**. All quantitative targets for end-June 2019 and for end-September 2019 were met (Table 1). All three structural benchmarks (SBs) for the third review were observed (Table 2). The Government completed a comprehensive review of the tax system, as well as a review of all tariffs and fees charged by state-owned enterprises; and the Governor General proclaimed the Financial Management and Audit (FMA) Act.

4. **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. A BERT Monitoring Committee (BERT MC) with broad societal representation has been set up as a sub-Committee of the Social Partnership and tasked with

monthly monitoring and periodic communication to the public; BERT MC is now publishing quarterly reports.

5. **The Government remains fully committed to the September 2018 Memorandum of Economic and Financial Policies (MEFP), and the June 2019 Supplementary MEFP**. Unless modified below, those policies remain valid in full. The quantitative targets that serve as performance criteria and indicative targets are proposed to be updated. These updated targets and structural benchmarks are presented in Table 1 and Table 2, respectively.

II. FISCAL POLICIES FOR THE REMAINDER OF FY2019/20 AND BEYOND

6. **A budget for FY2019/20 was passed by Parliament in March 2019**. The budget aims to increase the primary surplus to 6 percent of GDP in FY2019/20, while protecting vulnerable groups through strengthened social safety nets, and increasing room for capital spending. The budget is based on conservative revenue assumptions and ambitious SOE reform to facilitate lower transfers to SOEs. Revenue is projected to increase as full-year effects of new taxes introduced in 2018 materialize. In addition, layoffs at the central Government and SOEs that took place during FY2018/19 should help reduce transfers to SOEs in FY2019/20. Renegotiation of SOE contracts (in particular at the Barbados Water Authority and the Sanitation Service Authority), efficiency gains from mergers, and increases in bus fares should also help reduce deficits at SOEs, and hence also reduce the need for central Government transfers to SOEs. We stand ready to take additional measures, if necessary, to reach the primary surplus target of 6 percent of GDP.

7. **We have reformed our Corporate Income Tax (CIT) to unify the treatment of domestic and international companies and to comply with EU and OECD guidelines**. All companies will be registered under a new law; a single converged scale of tax rates will apply to all companies. Profits up to BRB$1 million will be taxed at a low rate of 5.5 percent, while any taxes above BRB$30 million will be taxed at 1 percent (with two intermediate brackets). Several allowances, including a foreign currency earnings allowance, have been abolished to further streamline the CIT. We expect this reform to be revenue neutral in part because the rate for the highest income bracket has increased considerably from 0.25 percent to 1 percent, though it remains highly competitive. The new low CIT rates should also help create an excellent climate to do business in Barbados.

8. **Personal Income Tax (PIT) rates will be reduced gradually to reduce the discrepancy between CIT and PIT rates**. The top PIT rate will be reduced from 40 percent to 33.5 percent as of July 1, 2019, and to 28.5 percent as of January 1, 2020. To compensate the revenue loss, Parliament adopted a range of measures including broadening of the base of the VAT and higher land taxes, an increase in tourism room rate levies, new gaming taxes and online taxes. The goal is to create a modern tax system, aimed at supporting growth and enhancing fairness. We have conducted a comprehensive review of our tax system, with the help of technical assistance by the IMF (*structural benchmark*).

9. Strengthening tax administration is an important priority. Measurable targets will be introduced 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. The online filing of personal income tax for 2018 will be done this year for the first time in TAMIS. A Large Taxpayer Unit (LTU) has recently been established. By focusing on large taxpayers—from filing and payment compliance to audit—BRA will significantly improve its effectiveness. Unpaid tax refunds going back several years—both for VAT and for PIT—are now being repaid; going forward, all refunds due to taxpayers as we go forward should be paid within six months after the filling date. By December 2019, citizens will be able to pay taxes online and by the end of the fiscal year, the BRA will terminate the use of cheques to become a fully digitalized organization.

10. In 2020, we will enhance resources and improve our strategies for taxpayers in the large taxpayer segment given the important formation of the Large Taxpayer Unit (LTU) and particularly in light of the recent significant tax policy changes to CIT and the broadening of the VAT base. By June 2020, the BRA will (i) execute an initial 20 "issue based" audits on taxpayers in the large taxpayer segment, and (ii) develop a risk-based compliance plan to improve "on-time" filing and payments compliance rates (*new structural benchmark*).

11. During 2020, further improvements will be sought in ensuring that 'on-time' filing of returns for all large taxpayers increase and move to over 90 percent for all core taxes (VAT, CIT, PAYE). A compliance improvement plan will be developed for the LTU by economic sectors to ensure targeted sectoral interventions and more detailed monitoring of compliance. Such a plan will be developed and fully implemented by September 2020. Components of the plan will include: (i) key performance indicators; (ii) establishing baseline performance; (iii) and preparation of timely (weekly/monthly/quarterly) reporting to monitor performance in-line with the outcomes of the BRA's annual business plan.

12. Modernization of the Barbados Customs and Excise Department (BCED) is critically important. A new organizational structure was approved in December 2018. A Comptroller of Customs and 2 Deputies were appointed on September 1, 2019. 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. Parliament has already approved funding to complete the ASYCUDA World by June 2019. The new system provides far greater efficiency and far less discretion to customs operators. In addition, we have hired personnel to update 2007 tariffs. Following the recommendations of a recent technical assistance mission by the IMF, we will initiate a process of updating and the continued restructuring of our customs Barbados Customs and Excise Department. The reforms will focus on BCED's governance structure, operational standards, legal framework, and its ability to retain adequate levels of trained personnel.

13. Revised benchmarks have been developed to reflect and address the challenges faced in reforming the Customs Department. By the end-March of 2020, the Customs Department will establish a trusted trader program (TTP) that gives defined rights and benefits to members and have at least eight companies participate in it (*revised and reset structural benchmark)*. By end-August of 2020, the Customs Department will (i) deploy staff to the exemption monitoring unit and undertake at least eight exemption verification assignments (this process has begun through the newly implemented Cargo Inventory Management Unit); (ii) train and deploy at least 6 officers full-time in the post clearance audit unit and undertake at least 8 field audits; and (iii) undertake post release verification of entries and subject at least 3500 entries to this control (*revised and reset structural benchmark)*. ASYCUDA world has been relocated under the control of BCED from its go-live date of September 9. We will soon install a full time Customs IT unit.

A Fiscal Rule

14. The Government intends to seek Parliamentary approval of a fiscal rule to enhance fiscal transparency, and lock in the gains of fiscal consolidation (*reset structural benchmark for end-December 2020*). The transparency and automaticity of fiscal adjustment will be enhanced by an explicit, time-bound adjustment path to sustainability. We will design a sound fiscal rule defining coverage, implementation, corrective mechanisms, escape clauses and institutional arrangements that are appropriate for Barbados, based on recommendations provided by technical assistance from the IMF's Fiscal Affairs Departments. 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 or ratification. The clause will pre-define a clear list of events or

[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.

shocks that could have a serious adverse impact on public finances and specify measurable conditions for triggering the clause.

- 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 an independent body 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

15. A new Financial Management and Audit Act was adopted by parliament in January 2019. It introduces instrumental measures and reforms to improve PFM and fiscal transparency and strengthen SOEs oversight. The new FMA Act was proclaimed in July 2019 (*structural benchmark*); most provisions of the Act will enter into force in 2020. A training programme for the finance officers in the State Owned Enterprises with respect to their obligations under this legislation is being executed by CARTAC.

16. We have adopted an action plan for public financial management reform to implement the new public management act. In this context, 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 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. The technical advice we will receive from the IMF's Fiscal Affairs Departments will help design sound budget preparation procedures and sensitize line Ministries and stakeholders involved in the budget preparation to the requirements and timing of these procedures.

- **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 to the public 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. In October 2019, we have prepared a mid-year budget review and presented it in the Parliament.

- **The Government will strengthen the efficiency and quality of the GOB procurement process** thereby improving the ease of doing business and reducing costs. We have established Colleges of Negotiators to allow our Government to negotiate the best possible agreements and contracts in the public interest. The effectiveness of the Public Accounts Committee has been strengthened to allow the public to monitor in real time its oversight role, thereby 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). We have received technical assistance from the IMF by participating in regional seminars on this topic and we will continue developing capacities on PPPs management, including by participating in an IMF regional seminar on fiscal risks by end-2019. PPPs can play an important role in sustaining growth and increasing potential growth, when done right. This includes establishing a clear definition of PPPs, fully integrating them into the overall investment strategy and the medium-term fiscal framework, safeguarding public finance against fiscal costs and risks from PPPs, ensuring transparent mechanisms for competitive processes, and designing transparent reporting, and auditing procedures in line with international standards.

Debt Restructuring and Reduction

17. A comprehensive debt restructuring, including external debt to private creditors and treasury bills, was announced on June 1, 2018. On October 15, 2018, the Government announced having reached agreement with an overwhelming majority of domestic creditors, with support of all commercial banks, general and life insurers, the National Insurance Scheme (NIS), the Central Bank of Barbados (CBB), and smaller creditors. As the debt restructuring has impacted the CBB's capital, 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. In November 2019, we reached agreement with the External Creditor Committee on the terms for restructuring US dollar-denominated commercial debt. The agreed terms will bring about immediate reduction in public debt, with a 26 percent upfront face value reduction in the debt. The agreed interest rate, at 6.5 percent, also implies an important reduction in debt service for the Government of Barbados. Within the context of Barbados' macroeconomic framework, the terms of the new instrument will help Barbados reach its medium-term target of 80 percent debt/GDP by 2027/28, and 60 percent by 2033/34. The completion of the external debt restructuring will help reduce uncertainty and improve prospects for investment. The inclusion of a natural disaster clause helps Barbados build financial resilience to natural disasters and will help us remain current on our debt obligations.

19. 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.

20. 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. We are now in the process of negotiating and settling legitimate arrears. We have agreed with suppliers on a program to settle arrears at 85 cents on the dollar. We aim to complete this operation by March 2020. 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 made on time. We have developed a system for monitoring the arrears of SOEs on an ongoing basis. We have introduced legislation so that all borrowing by SOEs receive the approval of the Minister of Finance. Loans by SOEs will either be guaranteed by Central Government, if the SOE is not a commercial entity and is dependent on Central Government for its financial operations, or if the purpose for which the borrowing is being made is not commercial. A target for non-accumulation of new SOE arrears is now included in the program.

Public Sector Reform

21. 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 as we settle our budgets and our programmes, an analysis must be completed of what is essential, what is highly desirable, what is optional, what is essential or optional but better delivered elsewhere. This has meant, and will continue to 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 have begun reviewing public sector labour laws with a view to enhancing flexibility, including with two studies currently underway.

22. Reform of State-Owned Enterprises is essential to secure medium-term fiscal viability. 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 have now all submitted standardized (according to international acceptable standards) quarterly financial reports (*structural benchmark*). On this basis, we have prepared a consolidated report on the performance of SOEs, and we have submitted a first report to Parliament together with the Budget Estimates in early April 2019 (*structural benchmark)*. We have completed a review of all tariffs and fees charged by SOEs in September 2019 (*structural benchmark)*. We have increased bus fares, adjusted water rates, and introduced an interim health levy, airline & travel development fee and a garbage and sewage contribution levy.

23. The new Financial Management and Audit (FMA) Act that was adopted by Parliament in January 2019 confers 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. The new FMA Act also establishes clear definitions for the classification of public entities, and their related roles and responsibilities, and has established tighter and more precise reporting requirements for SOEs, as well as sanctions for noncompliance.

24. 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.

25. Civil service pension reform aimed at ensuring that the system is sustainable in the long run is a priority. We will review the civil service pension scheme to address its long-run sustainability. To this end, we will table in Parliament a revised public pension law by end-September 2020 (*reset structural benchmark*) and publish an actuarial report by end-June 2020 (*reset structural benchmark*). We will prepare a pension reform white paper and discuss this in Cabinet. We hired external consultants to cost different pension systems for new entrants into the public service. 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.

III. MONETARY AND FINANCIAL SECTOR POLICIES

26. 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.

27. We will amend the Central Bank Law to enhance its autonomy (*structural benchmark by end-December 2019*). This is critical to ensure the continued protection of our exchange rate peg. We have received technical assistance from the IMF in reviewing the Central Bank law, ensuring that the revised law will meet international best practice while adhering to our system of governance. The IMF has now completed its Safeguards Assessment of the Central Bank of Barbados, to ensure that the Central Bank's legal structure and autonomy meet standards required for processing IMF disbursements. This is a standard IMF procedure for all countries using the Fund's resources. We will continue to ensure that all outstanding recommendations from the Safeguards Assessment are implemented.

28. We aim to further liberalize our financial sector. The commercial banks' minimum requirement to hold Government securities was reduced from 20 to 17.5 percent of domestic deposits in November 2018, and will gradually be further 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.

29. We are beginning a gradual relaxation of exchange controls. Our approach is both gradual and targeted and aimed at increasing investors' confidence without jeopardizing reserve accumulation. Effective August 1st, we have allowed all Barbadians to open foreign currency denominated accounts. We have allowed foreign currency proceeds from the sale of assets to be repatriated in foreign currency or kept locally in a foreign currency account. Effective August 1st, we have eliminated the surrender requirement of 70 percent of foreign exchange brought into Barbados. Finally, we have increased select foreign exchange limits such as the limit on personal travel facilities.

IV. GROWTH ENHANCING REFORMS

30. The growth strategy of the Barbados Economic Recovery and Transformation Plan rests on a number of key pillars: (i) investing in a high skilled, productive, and knowledge based economy, particularly in skills training and education more generally; (ii) better mobilizing private domestic savings for local investment; and (iii) making Government an enabler of growth by improving the ease of doing business, accelerating the speed of government licensing, and increasing the predictability of the fiscal and regulatory environment; and (4) 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.

31. Many knowledge-based economy initiatives have already been initiated. 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 excellence to global standards while retaining our national identity. We launched a new Barbados Youth Advance Corps which will cater to 1000 students per year for a 2 year Programme. We will also launch a National First Jobs Initiative and apprenticeship scheme to add to the options available to our young people leaving school so that they may acquire more marketable skills; we have already reintroduced the return to free tertiary education at vocational, technical and undergraduate levels. We plan to integrate the Barbados Community College, Samuel Jackson Polytechnic and the Erdiston Teacher Training College to improve their offering. We are looking at reforms to secondary schooling that will support great teaching and confident students with every school becoming a top school in some fields. We will also improve efficiency in our post-secondary and tertiary institutions with a view to plowing most of any found savings back into enhanced offerings.

32. Making the Government an enabler of growth will include strengthening the judiciary and the time it takes for court hearings and redress. By end fiscal year 2019/20, we will establish a self-financing Commercial Court to speed-up commercial adjudication and judgments. The three

Commercial Judges to staff this Court have already been interviewed and appointed. We will also introduce new legislation compliant with UNCITRAL to deal with arbitration and alternate dispute resolution mechanisms. Finally, we have already appointed five additional judges to the criminal courts, of which three are temporary, to deal with the significant backlog of criminal cases. The additional Criminal Courts are intended to ensure that all serious cases can be dealt with within six to nine months.

33. Increasing participation of women in the labour is key to our diversification strategy. We will facilitate the opening of day care facilities in industrial parks and key Government office buildings over the next two years. By end FY2019/20 we will establish paternity leave.

34. The Government intends to facilitate a wide range of services online. This will include: the provision of drivers' licenses, clearing goods through Customs, applying for passports, planning and development applications, et cetera. The Ministry of Innovation Science and Technology has earmarked seven departments to start the digitization of Government including the Immigrating Department, the Civil Registry and the Courts, the Police Department, the International Business division, the Customs and Excise Department, the Town and County Planning Office, and the Barbados Licensing Authority.

35. 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 registry and regulatory services must be delivered in accordance with global standards if we are to improve competitiveness and transform our nation. It is particularly important to speed up 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. We will deconstruct all of our systems and reconstruct them to ensure that we meet the public interest that the policy is designed to achieve; avert the public mischief if one exists; use technology to gain the efficiencies and the efficacy that is possible and finally be mindful of any discrimination that exist or any class of persons who ought to be enfranchised in accordance with the best precepts of social justice.

Table 1. Structural Benchmarks

	Timing	Assessed	Comments
A. Prior Action			
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.	Before Board 10/1/18	Met	Met
B. Structural Benchmarks for the First Review			
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	Not met	Implemented with delay
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	Met	Met
4) Government to launch a training and outplacement programme to help mitigate effects on the vulnerable from the restructuring of SOEs.	end-December 2018	Met	Met
5) Parliament to adopt new Town and Country Planning legislation, aimed at streamlining and accelerating the process for providing permits.	end-December 2018	Not met	Implemented with delay
6) Government to establish a Sandbox regime for regulation for fintech start-ups.	end-December 2018	Met	Met
7) 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	Met	Met
8) 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	Not met	Implemented with delay
9) Government to submit to Parliament a consolidated report on the performance of SOEs, together with budget estimates.	end-March 2019	Not met	Implemented with delay
10) Government to introduce a system for monitoring SOE arrears on an ongoing basis.	end-March 2019	Met	Met

Table 1. Structural Benchmarks (Continued)			
11) 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	Met	Met
C. Structural Benchmarks for the Second Review			
12) Government to conduct a comprehensive review of the tax system, with inputs from IMF technical assistance.	end-June 2019	Met	Met
13) Government to conduct a comprehensive review of all tariffs and fees charged by SOEs.	end-September 2019	Met	Met
14) Governor General to proclaim the Financial Management and Audit (FMA) Act.	end-July 2019	Met	Met
D. Structural Benchmarks for Future Reviews			
15) 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 mandate of the CBB, and strengthen its decision-making structures.	end-December 2019		
16) 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		
17) Government to conduct an actuarial review of the civil service pension system with a view to reform it.	end-June 2020		Proposed reset
18) Customs Department to establish a trusted trader program that gives defined benefits to program members and have at least eight companies participating.	end-March 2020		Proposed revised and reset
19) BRA (i) to execute an initial 20 "issue based" audits on taxpayers in the large taxpayer segment, and (ii) to develop a risk-based compliance plan to improve "on-time" filing and payments compliance rates.	end-June 2020		Proposed new
20) Government to table a revised public pension law to enhance the sustainability of the public sector pension scheme.	end-September 2020		Proposed reset
21) 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		

Table 1. Structural Benchmarks (Concluded)			
22) Customs Department to (i) deploy staff to the exemption monitoring unit and undertake at least eight exemption verification assignments; (ii) train and deploy at least 6 officers in the post clearance audit unit and undertake at least 8 field audits; and (iii) undertake post release verification of at least 3,500 entries.	end-August 2020		Proposed revised and reset
23) Government to table legislation for a fiscal rule to enhance fiscal transparency, developed with the support of IMF technical assistance, and lock in the gains of fiscal consolidation.	end-December 2020		Proposed reset

Table 2. Quantitative Performance Criteria and Indicative Targets Under the EFF Supported Program 1/ 2/ 3/

(in millions of Barbados dollars unless otherwise indicated)

	Target End December 2018	Actual End December 2018	Target End March 2019	Actual End March 2019	Status End March 2019	Target End June 2019	Actual End June 2019	Target End September 2019	Actual End September 2019	Status End September 2019	Target End December 2019	Target End March 2020	Target End June 2020	Target End September 2020
Fiscal Targets														
Performance Criteria														
Floor on the CG Primary Balance 4/	257	...	343	...	...	125	...	282		...	439	630	130	290
Floor on the CG Primary Balance (adjusted) 4/	240	331	315	354	Met	125	253	281	418	Met	...	...	...	...
Non-accumulation of CG external debt arrears 4/ 6/	0	0	0	0	Met	0	0	0	0	Met	0	0	0	0
Ceiling on CG Transfers and Grants to Public Institutions 4/ 7/	495	468	732	675	Met	104	88	209	183	Met	313	418	106	213
Ceiling on Public Debt 5/	13,629	...	12,871	...	...	12,853	...	12,698	...	...	12,544	12,390	12,261	12,224
Ceiling on Public Debt (adjusted) 5/	13,679	12,828	12,921	12,853	Met	12,853	12,625	12,698	12,426	Met	...	...	...	...
Indicative Targets														
Ceiling on CG Domestic Arrears 5/	1246	338	1,246	293	Met	280	279	265	180	Met	180	180	130	110
Floor on Social Spending 4/ 8/	38	74	50	101	Met	10	10	22	23	Met	35	50	10	22
Ceiling on Public Institutions Arrears 5/	n.a.	n.a.	n.a.	n.a.		284	185	254	120	Met	120	120	110	110
Monetary Targets														
Performance Criteria														
Ceiling on Net Domestic Assets of the CBB 5/	1,977	1,827	1,992	1,876	Met	2,006	1,873	2,006	1,880	Met	2,002	2,002	1,994	1,994
Floor on Net International Reserves 5/	510	...	707	...	...	893	...	901	...	...	864	941	930	1,097
Floor on Net International Reserves (adjusted) 5/	531	832	717	889	Met	893	941	900	971	Met	...	...	...	...
Items feeding into PB, D, and NIR adjustors			100											
IDB budget support 4/	200	200	200	200	...	0	0	0	0	...	0	0	0	160
CDB budget support 4/	100	150	100	150	...	0	0	0	0	...	0	150	0	0
CAF budget support 4/	0	0	0	0	...	0	0	0	0	...	0	0	0	0
Grants 4/	17	0	28	0	...	3	3	11	10	...	10	11	0	0

Sources: Fund staff estimates.

1/ Test dates for periodic Program Criteria (PC) will be end-March and end-September of each calendar year. These will be Indicative Targets (IT) 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/ Board approval on October 1, 2018;

4/ Flow (cumulative over the fiscal year);

5/ Stock;

6/ Continuous performance criterion;

7/ Starting with June 2019, this ceiling excludes earmarked transfers;

8/ Starting with June 2019, this floor excludes operational expenses of social programs.

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 December 31, 2019; March 31, 2020; June 30, 2020; and September 30, 2020. The same variables are ITs for December 31, 2019 and June 30, 2020.

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 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 the sum of the NIR (as defined below) and commercial banks' and Part III companies' foreign currency deposits at the CBB. 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 and non-bank financial institutions (Part III companies) comprising of credit balances held at the Central Bank.

8. For the purpose of monitoring, the data will be reported 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 sinking funds' assets[1] and any assets that are pledged, collateralized, or otherwise encumbered,[2] claims on residents, claims in foreign exchange arising from derivatives in foreign currencies vis-a-vis domestic currency (such as futures, forwards, swaps,

[1] These funds are held on behalf of the Government to service the central Government debt falling due. The assets are thus earmarked for such purpose and are not assets of the CBB.

[2] These assets include the CBB staff pension plan's assets that are also excluded, as their use is restricted to the specific purposes of the pension scheme and not "freely/readily available".

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 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.

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 3 above.

17. For the purpose of monitoring, the data will be measured as cumulative over the fiscal year and it will be reported 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 domestic CG expenditure arrears. Interest and penalties arrears resulting from non-payment of debt service on external commercial debt subject to debt restructuring are excluded from the definition of public debt. 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 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 as set forth elsewhere in this TMU.

II. INDICATIVE TARGETS

G. Ceiling on the Stock of Domestic CG Expenditure Arrears

21. The stock of domestic expenditure 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 expenditure 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 monthly basis, with a lag of no more than four weeks from the end-of-period. (Section D, Table 2).

H. 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, excluding operating expenditure, 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 on a quarterly basis, with a lag of no more than four weeks from the end-of-period (Section D, Table 2).

I. Ceiling on the Stock of Public Institutions Expenditure Arrears

25. The stock of public institutions expenditure arrears 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) wages and pensions contributions to the NIS for which payment has been pending for longer than 60 days; (c) arrears on Tax obligations defined as obligations on taxes in accordance with tax legislation.

26. The list of public institutions covered by this indicative target is listed in paragraph 3 excluding University of West Indies (UWI).

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

III. PROGRAM REPORTING REQUIREMENTS

28. Performance under the program will be monitored from data supplied to the IMF 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.

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.

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).
- 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.

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 listed in paragraph 3 as defined in Section I.
- Stock of CG external arrears (interest, principal, and penalty amounts separately) by creditor and its components as defined in Section I. This will be reported immediately.
- 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).
- Stock of CG expenditure arrears by creditor and its components as defined in Section II.
- Stock of expenditure arrears of public institutions listed in paragraph 3 by creditor and its components as defined in Section II.

External Sector

- BOP trade balance data.
- CBB's Cashflow Table deriving GIR and NIR.

Table 2. Summary of Data to be Reported to the IMF (Continued)

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

Financial Sector

- 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.

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

Real Sector

- Nominal and real GDP
- Tourism and other real sector high frequency indicators.

Fiscal Sector

- Social expenditure and its components as defined in Section II.
- Financial position of public institutions listed in paragraph 3 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 Tax Refunds and its components as defined in Section II.

Financial Sector

- CBB Balance sheet

External Sector

- Balance of Payments accounts.

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

Financial Sector

- The following financial stability indicators by bank and by sector:
    - Regulatory capital
    - Regulatory Tier 1 capital
    - Risk-weighted assets

Table 2. Summary of Data to be Reported to the IMF (Concluded)

- Total assets
- Total liabilities
- Nonperforming loans in BRB$ 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
- 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

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.
- 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.

Reporting on an annual basis, within 5 months of the end-of-period

- Audited financial statements of Commercial Banks.

INTERNATIONAL MONETARY FUND

BARBADOS

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT, REQUEST FOR COMPLETION OF THE FINANCING ASSURANCES REVIEW, AND MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

November 27, 2019

Prepared By | Western Hemisphere Department

CONTENTS

FUND RELATIONS _____ 2

LIST OF MULTILATERAL AND FINANCIAL INSTITUTIONS _____ 4

STATISTICAL ISSUES _____ 5

FUND RELATIONS

(As of October 31, 2019)

Membership Status: Joined 12/29/1970; Article VIII

General Resources Account:

	SDR Million	Percent Quota
Quota	94.50	100.00
Fund holdings of currency (Exchange Rate)	151.96	160.80
Reserve Tranche Position	12.56	13.29

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	64.37	100.00
Holdings	10.88	16.90

Outstanding Purchases and Loans:

	SDR Million	Percent of Quota
Extended Arrangements	70.00	74.07

Financial Arrangements:

		In millions of SDR		
Type	Approval Date	Expiration Date	Amount Approved	Amount Drawn
Stand-By	02/07/1992	05/31/1993	23.89	14.67
Stand-By	10/01/1982	05/31/1984	31.88	31.88
EFF	10/01/2018	09/30/2022	208.00	70.00

Projected Obligations to Fund[1]
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2019	2020	2021	2022	2023
Principal					8.75
Charges/interest	0.45	1.70	1.70	1.70	1.67
Total	**0.45**	**1.70**	**1.70**	**1.70**	**10.42**

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of the HIPC Initiative: Not Applicable.

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable.

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable.

Exchange Rate Arrangements: The exchange rate arrangement is a conventional pegged arrangement. The Barbados dollar has been pegged to the U.S. dollar since mid-1975 at the rate of BDS$2.00 = US$1.00. There are no restrictions on the making of payments and transfers for current international transactions subject to approval under Article VIII. There are exchange controls on some invisibles, but bona fide transactions are approved. All capital outflows and certain capital inflows require approval. The authorities accepted the obligations of Article VIII, Sections 2, 3, and 4 on November 3, 1993.

Last Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on January 26, 2018. Barbados is on the 24-month consultation cycle.

Resident Representative: Mr. Christopher J. Faircloth is the IMF Resident Representative in Barbados.

LIST OF MULTILATERAL AND FINANCIAL INSTITUTIONS

European Union

https://eeas.europa.eu/delegations/barbados_en

Interamerican Development Bank

https://www.iadb.org/en/countries/barbados/overview

Caribbean Development Bank

https://www.caribank.org/

European Investment Bank

https://www.eib.org/en/infocentre/contact/offices/barbados.htm

CAF – Development Bank of Latin America

http://portal10.caf.com/en/countries/barbados/

Organization of American States

https://www.oas.org/en/about/offices_detail.asp?sCode=bar

United Nations Development Program

http://www.bb.undp.org/content/barbados/en/home/ourwork/ounrc/overview.html

STATISTICAL ISSUES

(As of October 31, 2019)

I. Assessment of Data Adequacy for Surveillance

General: Data provision is deemed to be broadly adequate for surveillance. There has been some progress in addressing shortcomings such as in GDP at constant and current prices, consumer prices, financial reporting by public enterprises (statutory bodies), labor force statistics, and discrepancies on external sector data (net foreign assets), including international investment position (IIP). These data shortcomings are due to weak capacity, which hampers the provision of and/or affects the reliability of certain data. IMF experts, mainly from CARTAC, continue to provide TA to help improve Barbados' statistical capacity in these areas. Barbados has been participating in the General Data Dissemination System (GDDS) since May 2000. However, it needs to launch a National Summary Data Page to implement the successor initiative, the enhanced GDDS (e-GDDS).

National Accounts: The Barbados Statistical Services (BSS) produces annual and quarterly GDP at current and constant 2010 prices, broadly consistent with the System of National Accounts 2008. However, the quarterly GDP at constant prices are not yet publicly available. Instead, the Central Bank of Barbados (CBB) publishes flash estimates of quarterly GDP at a highly-aggregated level with partial data and an outdated 1974 base year. Once the BSS has established credible and timely quarterly data, the CBB should cease producing quarterly GDP. The CBB could then shift to producing a monthly indicator of economic activity from the range of available monthly indicators. Approval from the Ministry of Finance, Economic Affairs and Investment is currently required for the BSS to publish statistics. A two-year project funded by Canada has commenced since May 2019 to maximize capacity building on real sector statistics, in collaboration with other TA providers including CARTAC.

Price Statistics: The current weight reference period and basket of items for the consumer (retail) price index is 1998/1999. The producer price index (PPI) weights and sample are from 2009. Thus, the basket and weights for both indices are outdated and do not provide a good representation of the current economy. The BSS, with support from CARTAC, is revising the consumer price index and PPI, using the updated weights from the 2016/2017 Survey of Living Conditions and updated list of establishments that reported VAT data in 2014 respectively. Also, the BSS is currently working towards a new index of industrial production with base year 2014. Despite the recent initiatives to update the consumer price index, PPI and index of industrial production, potential misalignments in real estate prices are not addressed due to the absence of a systematic index of property prices.

Government Finance Statistics: Fairly comprehensive and up-to-date above-the-line data are available for central government budgetary accounts, but it is subject to substantial revisions, especially on the revenue side, with a lag exceeding 12 months. Government transfers are also reported with a lag. The authorities have reported for the GFSY 2017 edition, including balance sheet data, but the most recent year data provided is 2015, representing a long lag in terms of timeliness. As a result of the incomplete coverage of off-budget transactions, a discrepancy exists between the overall balance and financing data in some years.

Information on central government arrears has improved under the program, but a more comprehensive measure is needed that includes general government and the Barbados Revenue Agency. Financial sector data on public sector net domestic borrowing usually cannot be fully reconciled with above-the-line fiscal data, partly because of limited availability of nonbank financial sector information. This includes contracting of liabilities by PEs. Data on guaranteed public debt improved with the EFF program. The authorities introduced accrual accounting of public finance in April 2007, and these reforms are reflected in the data reported to STA, although further refinements are needed. Reconciling data on accrual and cash basis remains challenging.

Data availability on public sector debt has greatly improved under the program but creditors-issuers reconciliation remains a challenge and public availability of disaggregated debt stock and profile is limited. The coverage of public debt includes central government domestic and external debt, central government domestic and external arrears, domestic and external SOE debt guaranteed by the central government, and domestic and external SOE debt not guaranteed by the central government. The Debt Management Unit (DMU) at the Ministry of Finance prepares debt data by issuer which differs from data by creditor provided by CBB. This for several reasons, including the timing of recording of payments and disbursements, the use of different sources in some cases (such as domestic loan data), and the difficulty in tracking data on the (limited) secondary market. For debt service and amortization projections, staff uses Ministry of Finance data. Coordination between the CBB and the DMU improved during the EFF program but there remain challenges in reconciling debt by issuer with debt by creditor data. Publication of debt data is limited to the quarterly CBB press release. The database of the stock disaggregated by issuers and creditors and the amortization and interest profiles is not published on a quarterly basis.

External Sector Statistics: A CARTAC TA mission assisted the authorities during March 2019 on the compilation of 2014–17 BOP and IIP statistics. However, further progress is needed to finalize and report the data. ESS compilation and dissemination need to be enhanced by ensuring source data adequacy, higher coverage, timeliness and frequency. The most recent data Barbados has reported to the Coordinated Direct Investment Survey and the Coordinated Portfolio Investment Survey are from 2013 and 2015, respectively.

Monetary and Financial Statistics: After April 2019 mission, the CBB has reestablished its compilation and reporting of monthly monetary data for central bank and other depository corporations (ODCs) using IMF’s standardized reporting forms (SRFs) for the publication in IFS, which had been discontinued since 2012. The coverage of ODCs is complete, expanded to include all commercial banks, Part III companies (trust and finance companies, and merchant banks), and credit unions. Nonetheless, the CBB has not yet compiled monetary data for other financial corporations (OFCs), which dominate the financial sector in Barbados. OFCs would include international (offshore) banks, insurance corporations, pension funds, and mutual funds.

Financial Sector Surveillance: The CBB compiles five core and four encouraged FSIs calculated separately for each of two subsectors (commercial banks and Part III companies), but not on a consolidated basis for deposit-takers (DTs) as a whole. Dissemination of those FSIs is limited to their inclusion in CBB's annual financial stability reports and its quarterly press releases; no FSIs are disseminated on a regular basis on CBB's website, or reported to STA for their publication on IMF's website. CBB reports to the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

II. Data Standards and Quality

Barbados has been participating in the General Data Dissemination System (GDDS) since May 2000. However, it needs to launch a National Summary Data Page to implement the successor initiative, the enhanced GDDS (e-GDDS). At the authorities' request, STA has conducted an SDDS assessment, providing a draft action plan that could lead to SDDS subscription.

Table of Common Indicators Required for Surveillance					
	Date of latest observation	**Date received**	**Frequency of Data[7]**	**Frequency of Reporting [7]**	**Frequency of Publication [7]**
Exchange Rates	Fixed				
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	07/2019	08/2019	M	M	M
Reserve/Base Money	07/2019	08/2019	M	M	M
Broad Money	06/2019	08/2019	M	M	M
Central Bank Balance Sheet	07/2019	08/2019	M	M	M
Consolidated Balance Sheet of the Banking System	06/2019	08/2019	M	M	M
Interest Rates[2]	06/2019	08/2019	M	M	M
Consumer Price Index	09/2018	12/2018	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	09/2017	11/2017	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	09/2017	11/2017	Q	Q	Q
External Current Account Balance	09/2017	11/2017	Q	Q	Q
Exports and Imports of Goods and Services	09/2017	11/2017	Q	Q	Q
GDP/GNP	2017	11/2018	A	A	A
Gross External Debt	2016	11/2017	A	A	A
International Investment Position[6]	2016	11/2017	A	I	I

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

Statement by Louise Levonian, Executive Director for Barbados and Jeremy Weil, Senior Advisor to the Executive Director
December 16, 2019

Our authorities value their reinvigorated relationship with the Fund and wish to thank the staff for the productive discussions held during the Article IV Consultation and Program Review mission. Barbados would also like to extend a special thanks to the Fund for inviting them to host the 2019 Caribbean Forum, which brought together key stakeholders to discuss issues of fundamental importance to the Caribbean, including regional integration and resilience building.

Overview of Program Performance

Barbados continues to perform strongly under the Extended Fund Facility (EFF) having met all quantitative performance criteria (QPCs), indicative targets, and structural benchmarks for the Second Review. Looking forward, the authorities have requested slight modifications to three end-March QPCs on the basis of the latest relevant projections. It is also proposed that four upcoming structural benchmarks be extended to provide the necessary time for proper implementation, recognizing the constraint posed by limited technical capacity.

Outlook and Risks

As the economy stabilizes and market confidence builds, our authorities expect growth to rebound, supported by continued growth in tourism and increasing private sector investment. Fiscal consolidation has created space for much-needed infrastructure investment that will support sustainable growth. The improved fiscal position will also reduce the crowding-out effect and the high cost of finance that have been holding back growth. Structural reforms to boost competitiveness will help increase Barbados' long-run growth potential.

A key risk facing Barbados is a slowdown in tourism triggered by an economic slowdown in key markets. To mitigate this risk, Barbados will continue reforming its business environment to attract new tourism investment and improve its competitiveness in the global tourism market. The ongoing climate crisis is a risk to Barbados' very existence. As detailed below, and highlighted in the Staff Report, our authorities are taking steps to build resilience, but they cannot succeed alone.

Fiscal Policy

The authorities met the primary surplus target for end-September 2019 by a wide margin, driven by lower primary expenditures including decreased transfers to SOEs, as well as strong performance of VAT, property taxes, and import duties. The 2019 Budget introduced a number of tax policy measures to boost revenues and support the fiscal consolidation effort, which is on track to deliver the targeted 6 percent of GDP primary surplus in FY2019/20.

In order to lock-in hard-fought fiscal gains, the authorities are strengthening public financial management (PFM). For example, a new Financial Management and Audit Act introduces instrumental measures and reforms to improve PFM and fiscal transparency and strengthen SOE oversight. Leveraging forthcoming Fund technical assistance, the authorities also intend

to introduce a well-calibrated fiscal rule defining coverage, implementation, corrective mechanisms, escape clauses, and institutional arrangements that are appropriate for Barbados.

Strengthening the Customs and Excise Department (BCED) is a key priority in order to improve revenue collection, facilitate trade, and improve competitiveness. New Customs senior management has been appointed to lead an ambitious operations modernization program. The authorities will also continue to restructure the BCED, leveraging Fund technical assistance, with a focus on governance, operational standards, the legal framework, and human resource management.

Barbados is committed to international tax fairness and has restructured its corporate tax system to comply with international standards. Our authorities do however have concerns about the erosion of their tax sovereignty from the evolving demands of standard setters.

Debt Sustainability

The authorities are committed to putting debt on a sustainable path and meeting the long-term program anchor of 60 percent debt-to-GDP by 2033-34. Barbados recently announced 100 percent creditor participation in its US dollar-denominated commercial debt restructuring offer. Upon closing (expected in December 2019), the transaction will provide Barbados with upfront debt cancellation of just over US$200 million. It will also spread out over the next decade heavy short-term U.S. dollar debt maturities. The external debt exchange complements the domestic restructuring process that closed successfully in October 2018 covering the equivalent of US$6 billion. The closing of the US dollar debt restructuring is expected to reduce uncertainty, boost market confidence, and stimulate investment that will support growth.

Monetary and Financial Sector Policy

Under the EFF program, Barbados' international reserves have more than doubled to over US$600 million as of September 2019. Adequate international reserves are now in place to protect the fixed exchange rate, which has provided a key anchor for macroeconomic stability since 1975.

Work continues on amendments to the Central Bank Law to enhance its autonomy, leveraging Fund technical assistance. The revised law will meet international best practice while adhering to Barbados' system of governance.

The authorities are beginning to gradually relax exchange controls. For example, all

Barbadians are now allowed to open foreign currency denominated bank accounts and the requirement to surrender 70 percent of foreign exchange brought into Barbados has been eliminated. The authorities will continue to closely monitor the impact of these and other reforms on reserve levels.

Barbados' financial sector remains well capitalized and liquid, despite the recent domestic debt restructuring. The authorities continue to liberalize the financial sector, having reduced the commercial banks' minimum requirement to hold Government securities. Private sector credit growth has remained largely flat, but reduced uncertainty, improvements in the business climate, and improved fiscal sustainability should stimulate credit growth.

Improving Competitiveness

Our authorities recognize that there is significant room to improve Barbados' competitiveness and are committed to enhancing the business environment. The modernization of the Town and Country Planning Act was an important first step, but there is more to be done. In particular, Barbados intends to improve the delivery of registry and regulatory services and speed up licensing processes. Improvements in the Customs department will facilitate more efficient clearing of goods and support trade facilitation.

Investing in People

The reduced interest bill that has been successfully negotiated with creditors will help create much-needed fiscal space for increased social spending. The authorities' reform plan prioritizes investments in a high skilled, productive, and knowledge-based economy, particularly in skills training and education more generally. Many such initiatives have already been initiated, such as the reintroduction of free tertiary education at vocational, technical, and undergraduate levels.

Regional Integration

The recent 2019 Caribbean Forum, co-hosted by Barbados, the Fund and the Caribbean Development Bank, provided a platform to take stock of the progress towards deeper economic integration within the Caribbean. The authorities see a deepening of Caribbean integration as a cornerstone of their economic program, with significant potential gains to employment, productivity, and long-run growth potential. Regional cooperation is also critical to avoid a race to the bottom in granting tax incentives to investors. Our authorities are committed to reinvigorating the cause of regional integration and are ready to play their full and active part within the Caribbean Community in moving the process forward.

Building Resilience

The authorities welcome the Fund's focus on the theme of resilience building in this Article IV Consultation. The ongoing climate crisis makes this an existential issue for Barbados.

Barbados is doing its part to build structural, financial, and post-disaster resilience. For example, the authorities have set the goal of becoming a fossil fuel free country by 2030 and are launching the 'Roofs to Reefs' program, which aims to build coherent, integrated structural resilience. Barbados insures natural disaster risks through the Caribbean Catastrophe Risk Insurance Facility, which provides parametric insurance products. Our authorities are also in discussions with the IDB to secure access to a contingent credit facility instrument in case of a natural disaster.

Given the high cost of insurance, the authorities recently hosted an Insurance Colloquium bringing together regional leaders, multilateral institutions, and the industry to discuss options to scale-up insurance coverage in the Caribbean, including potentially by pooling risks with other regions. Our authorities encourage the Fund to work with its partners to offer thought leadership in this area.

The authorities wish to highlight the inclusion of natural disaster clauses in their new debt instruments as an innovative approach to building financial resilience. These clauses allow for the capitalization of interest and deferral of scheduled amortization following the occurrence of a major natural disaster, under specified terms. Once the US dollar-denominated commercial debt restructuring transaction closes, 80 percent of Barbados' debt stock will include such clauses. The authorities encourage multilateral institutions to champion the use of natural disaster clauses by adopting them in their own lending practices.

Barbados cannot win the war against climate change alone. The authorities stress the need for the world's major emitters to do more to support the resilience of small states who face an existential threat despite contributing only minimally to the climate crisis. In particular, the authorities call on the international community to provide greater concessional support to small islands states. The authorities also call on multilateral institutions to do more to consider country vulnerability in granting access to grants and concessional financing.

Concluding Remarks

The authorities continue to undertake their homegrown reform agenda in close consultation with the Social Partnership whose sub-committee, the Barbados Economic Recovery and Transformation Plan (BERT) Monitoring Committee, supports oversight and accountability through monthly monitoring and periodic communication to the public.

In an environment of limited technical capacity and still elevated risks, Barbados has made impressive progress towards achieving fiscal and debt sustainability, rebuilding reserves, reducing uncertainty, and generating growth. There is still significant work to be done, and our authorities are resolved to stay the course and continue meeting their commitments under the EFF.

Statement by the Staff Representative on Barbados
December 12, 2019

1. **This statement contains information that has become available since the staff report was circulated.** This information does not alter the thrust of the staff appraisal.

2. **Barbados' restructuring of external debt to private creditors has now been completed.** At the end of a two-week consultation period in November, creditors overwhelmingly accepted the terms agreed between the government of Barbados and the external creditor committee, with the 75 percent threshold needed for activating the Collective Action Clause in Barbados' three Eurobonds surpassed by a wide margin. Bondholder meetings held in late November passed extraordinary resolutions so that 100 percent of debt instruments were exchanged for the new external debt instrument. On December 11, the Barbadian authorities issued a press release to announce the settlement of the debt exchange. On the same day, and in response to the completion of the debt exchange, Standard and Poor's upgraded Barbados' foreign currency sovereign credit rating from Selective Default to B-.