IMF Country Report No. 20/192

BARBADOS

June 2020

THIRD REVIEW UNDER THE EXTENDED ARRANGEMENT, REQUESTS FOR AUGMENTATION OF ACCESS, AND MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BARBADOS

In the context of the Third Review Under the Extended Arrangement, Requests for Augmentation of Access, and Modification of Performance Criteria, the following documents have been released and are included in this package:

- **Press Release** including a statement by the Chair of the Executive Director.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 3, 2020, following discussions that ended on April 30, 2020, 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 May 26, 2020.
- 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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

IMF Executive Board concludes the third review under the IMF's Extended Arrangement under the Extended Fund Facility for Barbados

FOR IMMEDIATE RELEASE

- The Executive Board of IMF concluded the third review of the IMF's extended arrangement under the Extended Fund Facility (EFF) for Barbados. The completion of the review allows the authorities to draw about US$139 million.
- Program implementation is strong, with all performance criteria for end-March met.
- The economy faces a major challenge owing to the global coronavirus pandemic. Access under the extended arrangement has been augmented by about US$91 million (70 percent of Barbados' quota in the IMF) to help accommodate the shock.
- Since May 2018, international reserves have increased from a low of US$220 million to more than US$850 million at end-April 2020.

Washington, DC – **June 3, 2020**. The Executive Board of the International Monetary Fund (IMF) concluded the third review of the IMF's extended arrangement under the Extended Fund Facility (EFF) for Barbados. The completion of the review allows the authorities to draw the equivalent of SDR 101 million (about US$139 million), bringing total disbursements to the equivalent of SDR 206 million (about US$283 million).

The four-year extended arrangement under the EFF was approved on October 1, 2018 (see Press Release No. 18/370). Including the augmentation approved by the Executive Board today, the extended arrangement is for an amount equivalent of SDR 274 million (about US$377 million).

Barbados continues its strong implementation of the comprehensive Economic Recovery and Transformation (BERT) plan aimed at restoring fiscal and debt sustainability and increasing reserves and growth. The ongoing global coronavirus pandemic poses a major challenge for the economy, which is heavily dependent on tourism, and is expected to have a large impact on the balance of payments and the fiscal accounts.

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

"Barbados continues to make good progress in implementing its comprehensive Economic Recovery and Transformation plan, with all performance criteria for end-March 2020 met. Prospects for continued strong program performance are good.

"The policy response to the global coronavirus pandemic is adequate with a reduced primary surplus target of 1 percent of GDP for fiscal year 2020/21 to accommodate significant revenue losses and support spending on public health and social protection. The reduction of the primary surplus is financed by additional resources from international financial institutions, including an augmentation of the IMF's extended facility.

"The accommodation in fiscal year 2020/21 will be compensated by higher primary surpluses in the medium term to ensure that the debt target of 60 percent of GDP in fiscal year 2033/34 is reached.

"State-owned enterprise (SOE) reform remains an essential element of Barbados' economic program. To secure fiscal space for investment in physical and human capital, transfers to SOEs need to decline after the global coronavirus pandemic with a combination of stronger oversight of SOEs, cost reduction, revenue enhancement, and mergers and divestment.

"Progress in restoring fiscal sustainability must be safeguarded by adopting a new central bank law that limits its financing of the Government to short-term advances and strengthens the central bank's mandate, autonomy, and decision-making structures. Addressing the identified deficiencies in the AML/CFT framework is important going forward.

"A strong recovery after the global pandemic will depend on accelerating structural reforms. There is much room for improvement in the business climate. Establishing a credit registry and credit collateral registry, in addition to broadening the types of eligible collateral, would facilitate access to credit. In addition, priority should also given to improving resilience to natural disasters and climate change."

INTERNATIONAL MONETARY FUND

BARBADOS

May 26, 2020

THIRD REVIEW UNDER THE EXTENDED ARRANGEMENT, REQUESTS FOR AUGMENTATION OF ACCESS, AND MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Recent Developments and Outlook. Barbados has continued to make good progress in implementing its Economic Recovery and Transformation (BERT) plan to restore fiscal and debt sustainability, rebuild reserves, and increase growth—but now faces a major challenge owing to the global coronavirus pandemic. Since May 2018, international reserves have recovered, helping rebuild confidence in the country's macroeconomic framework. This has helped rebuild confidence in the country's macroeconomic framework, though reserves are expected to be negatively impacted by the crisis in the months ahead. The completion of the external debt restructuring in December 2019 has reduced economic uncertainty, and the agreed terms with creditors have put public debt on a clear downward trajectory. On December 11, 2019, Standard and Poor's upgraded Barbados' foreign currency sovereign credit rating from Selective Default to B-. However, prospects for 2020 have deteriorated significantly owing to the global pandemic, and risks to the outlook are now very high and tilted to the downside.

Program Implementation and Augmentation. All performance criteria for the review were met. A new structural benchmark is proposed to submit an amended CBB law to Parliament by end-September 2020 (an earlier benchmark to pass this law by end-December 2019 is proposed to be reset to end-December 2020). Resetting of benchmarks for future reviews is proposed due to the global coronavirus pandemic. The authorities continue to reform state-owned enterprises (SOEs) by improving their commercial viability and strengthening monitoring. In response to the global coronavirus pandemic, a program augmentation of US$90mln (70 percent of quota) is proposed to help the authorities accommodate the external COVID-19 related shock with a lower primary surplus.

Approved By
Aasim M. Husain (WHD) and Maria Gonzalez (SPR)

The mission consisted of Bert van Selm (head), Gregorio Impavido, Dmitry Vasilyev (WHD), Genet Zinabou (FAD), Atticus Weller (SPR), and Claudio Visconti (MCM) and was virtual (conducted remotely using teleconferencing). Chris Faircloth and Ann Marie Wickham (Resident Representative Office) assisted the mission. The mission was conducted during April 27-30, 2020. Jeremy Weil (OED) joined the mission.

CONTENTS

ANNEX

APPENDIX

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

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

A. Recent Developments

1. **Barbados has made good progress in implementing the Economic Recovery and Transformation (BERT) plan aimed at restoring fiscal and debt sustainability, rebuilding reserves, and increasing growth.** The completion of the public 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. 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$850 million since then, supported by lending from international financial institutions and external commercial debt restructuring. 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 second review of the EFF-supported program was completed on December 16, 2019. The safeguards assessment of the Central Bank of Barbados was completed in December 2018.

2. **The coronavirus pandemic has halted tourism arrivals and the local outbreak was contained**. Starting with March 2020, tourism has come to standstill: most hotels have closed, occupancy has plummeted at facilities that are still open, and bookings for the coming months have been canceled. Airlines have sharply reduced the number of flights or suspended flights to Barbados altogether. This external shock has started having a large negative impact on the economy and fiscal revenues, and increased risks to debt sustainability. Unemployment has more than doubled and a large recession is projected for 2020. The local outbreak was contained by the swift implementation of the National Preparedness Plan (see Outlook section).

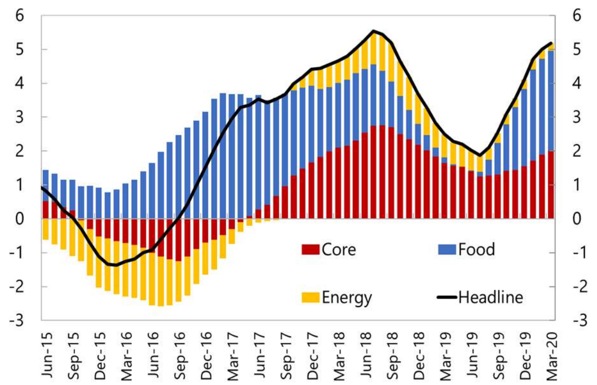
Real Sector

3. **Output contracted by 0.1 percent and inflation increased in 2019**. The tourism sector expanded by about 3 percent with arrivals from the United States gaining market share. 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. Construction, manufacturing and agriculture contributed negatively to growth in the first three quarters of 2019 (text table). Inflation increased to 4.1 percent in December 2019 owing to a drop-off in rainfall in the second half of 2019, which led to price increases for domestically produced food items. Inflation dynamics have been affected by domestic and international factors.

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.



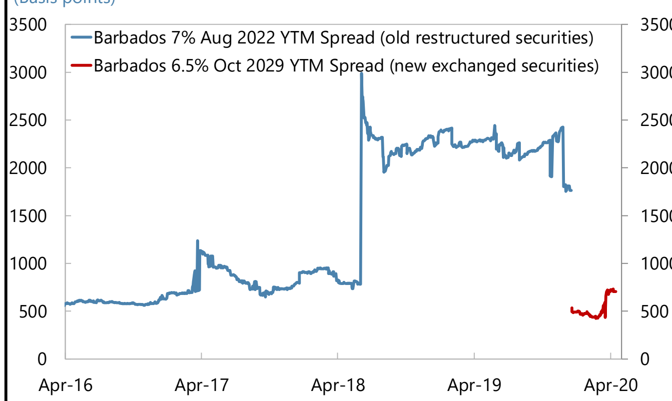
Barbados: Contributions to Headline Average Inflation
(Percent, NSA)

Sources: Fund staff calculations.

Fiscal Sector

4. The primary surplus target of 6 percent of GDP for FY2019/20 was achieved. Tax revenues fell short of budget projections by close to 1 percent of GDP due largely to lower corporate tax receipts from financial institutions following public debt restructuring. Newly introduced tax measures (including taxes on online purchases of goods, Airbnb, and gambling taxes) experienced delays in implementation. These shortfalls were partially offset by the overperformance of property taxes. The primary surplus target was met by adjusting expenditures in line with revenues, with lower-than-budgeted spending on goods and services, capital projects, and wages.

5. The completion of the public debt restructuring in December 2019 had helped to reduce economic uncertainty prior to the coronavirus pandemic. The restructuring provided an immediate reduction in the public debt stock, while also lowering interest and lengthening maturities. Under the program's macroeconomic framework, the restructuring agreement ensures that debt reaches its 60 percent of GDP by FY2033/34. The restructured debt traded around par in early 2020, but the yield increased to around 8 percent in late April, after the outbreak of the global coronavirus pandemic.



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

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

6. To reduce transfers to SOEs, the authorities are 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 enhanced reporting requirements. In order to strengthen the oversight of SOEs, CARTAC has conducted two workshops in November

2019 to train the SOEs and Management Accounting Unit (MAU) in financial reporting, risk assessment, and development of financial indicators. These reforms have begun to bear fruit as transfers to public institutions fell by BRB$114 million (1.1 percent of GDP) in FY2019/20.

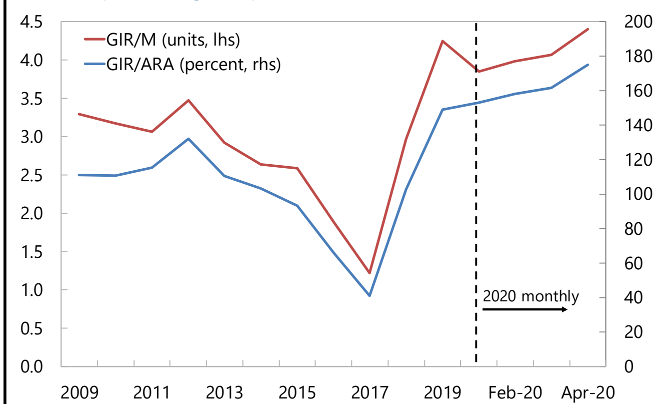
External Sector

7. **During 2019, the current account deficit decreased, and its financing improved**. Lower international oil and food prices, combined with reduced demand owing to the fiscal consolidation, led to a decrease in imports relative to 2018. Over the same period, and despite a real effective exchange rate appreciation of about 3 percent relative to 2018, external demand for tourism increased leading to an improved service balance. FDI remains subdued, with large construction projects in the pipeline yet to materialize.

8. **Barbados' international reserves have rebounded sharply supported by International Financial Institution (IFI) loans.** Reserves increased to more than US$850 million by April 2020, equivalent to about 6 months of imports, following the disbursement of a US$80 million policy loan from the Inter-American Development Bank (IDB). The Caribbean Development Bank (CDB) also disbursed a policy-based loan of US$75 million following the completion of the second review under the Extended Arrangement. The terms agreed with creditors in the external debt restructuring have helped to support the rebuilding of reserves.

Barbados: Gross International Reserves

(G&S import coverage and percent of ARA)



Source: Fund staff calculations.

Financial Sector

9. **Private sector credit continues to be flat while banks remain very liquid amid low profitability and NPLs.** In 2019, private sector credit remained unchanged (Table 7), further contributing to low growth, with banks flagging limited investment opportunities. Inefficiencies in financial intermediation are evident from the 6 percent rate spread between bank loans and deposits. In the first quarter of 2020 these trends have broadly persisted. In addition, there was a small uptick of 30 bps in the NPL ratio to 6.9 percent while profitability measured by ROA improved to 1.8 percent (yoy), up from 0.6 percent in 2019.

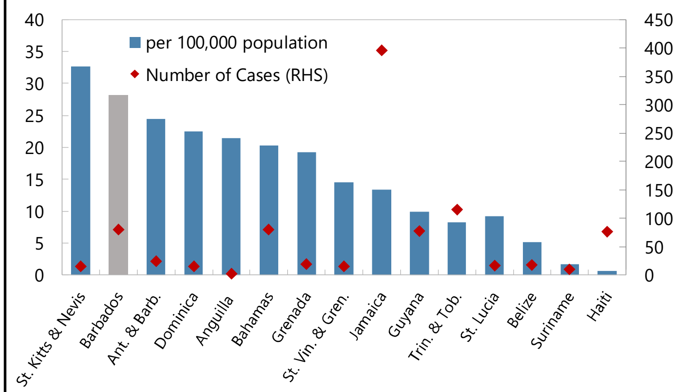
B. Outlook and Risks to the Outlook

The Coronavirus Pandemic

10. **Advanced planning has helped to limit the impact of the coronavirus crisis in Barbados.** The coronavirus reached the Caribbean and Barbados in early March. Pre-emptive

actions ahead of the virus' arrival have been critical in effectively managing the health shock. These range from anticipatory orders to stockpile vital medicines and medical-treatment equipment, to the establishment of large-scale quarantine centers, and the rollout of a four stage National Preparedness Plan (NPP). Borders have remained open but enhanced screening measures were proactively activated at all ports of entry, including self-quarantine protocols that became mandatory for all travelers in March.

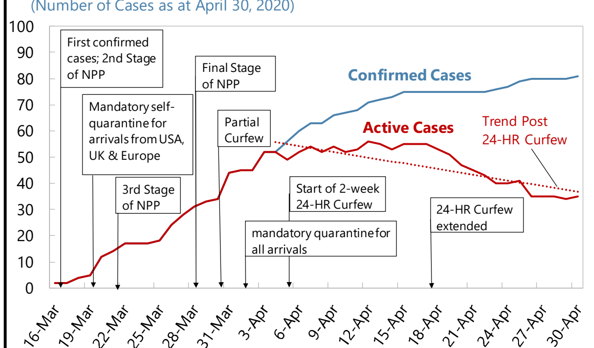
CARICOM COVID-19 Confirmed Cases
(as of April 30, 2020)



Source: https://www.worldometers.info/coronavirus/

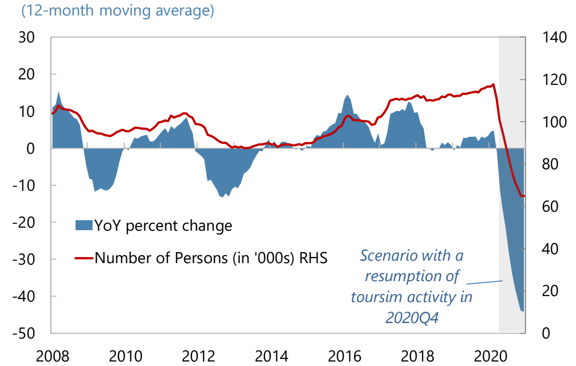
11. Swift implementation of the NPP is bearing fruit but the economic fallout of the global pandemic will be severe due to a collapse in tourism. The authorities initiated restrictions on movement and economic activities within two-weeks of the first confirmed coronavirus case culminating in a 24-hour lockdown on all but essential services. The flattening of the coronavirus curve in the post-lockdown period suggests that early actions to strictly curtail activities have been effective in containing virus spread. The economic spillovers of the pandemic, however, will be pronounced in Barbados due to the ensuing collapse in tourism. Commercial air lift was suspended in late March and tourism arrivals have ground to a halt, prompting widescale hotel closures and labor furloughs. Under a scenario where tourism starts to recover gradually to pre-shock levels in the last quarter of 2020, aggregate arrivals would still be expected to contract by around 40 percent for the year as a whole—roughly four times the magnitude of the shock experienced following the 2008 global financial crisis. The potential scale of the economic dislocation resulting from the coronavirus shock highlights a need for a well-targeted and temporary social support and economic stimulus program.

Barbados: Trend of COVID-19 Epidemic
(Number of Cases as at April 30, 2020)



Source: Government Information Service

Barbados: Tourist Arrivals
(12-month moving average)



Sources: Caribbean Tourism Organization and Staff calculations.

12. The ongoing global coronavirus pandemic is expected to have a major impact on the balance of payments, leading to a deep recession, and consequent need for fiscal accommodation.

- **External sector.** The baseline assumes no tourist arrivals for 2020Q2 and Q3 and a moderate recovery of arrivals in 2020Q4. The impact on the balance of payments will be severe (text table). In 2020, the current account deficit is expected to deteriorate drastically to around 10 percent of GDP, driven by a 55 percent decline in travel exports. Despite the much more favorable oil prices caused by the global recession and excess supply, the decline in tourism is expected to cause a deterioration in the current account deficit by US$320 million (or 7 percent of GDP). The global coronavirus pandemic is expected also to cause a sharp decline in private foreign direct investment. In response, IFIs are expected to ramp up official financing. In particular, the IDB disbursed US$80 million in April and an augmentation of the IMF extended arrangement supporting the BERT program by US$90 million (or 70 percent of quota) is proposed. A US$100 million budget loan from the Development Bank of Latin America (CAF) is expected later in the year. In the medium term, the current account deficit is expected to narrow to about 3 percent of GDP helped by still low oil prices and a rebound in tourism, driven by recovery from the global coronavirus pandemic and increased FDI in the travel sector. Structural reforms implemented under the BERT program and the completion of the external debt restructuring are expected to support international confidence in the fiscal and debt sustainability. This, in turn, would support higher FDI.

Barbados: COVID-19 Impact on the Balance of Payments

(In millions of U.S. dollars)

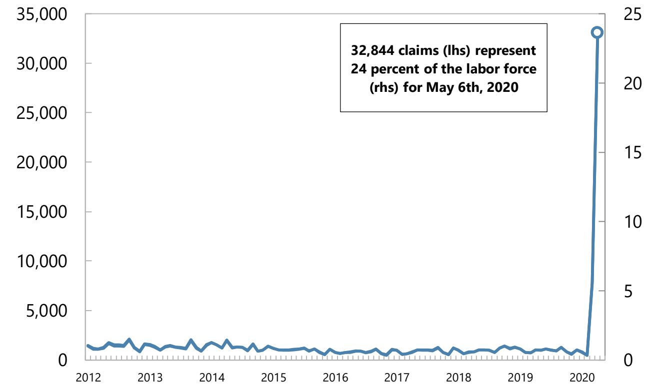
	Pre COVID-19 shock		Baseline		Difference	
	2020	2021	2020	2021	2020	2021
Current account balance	**-180**	**-198**	**-474**	**-302**	**-294**	**-104**
o/w Trade balance	-828	-862	-470	-643	357	219
o/w Travel (credit)	1,211	1,253	568	938	-642	-315
Capital and financial account 2/	**305**	**236**	**204**	**222**	**-101**	**-14**
o/w FDI flows	183	190	55	176	-128	-14
COVID-19 BOP financing gap 1/ 2/	**0**	**0**	**218**	**58**	**218**	**58**
Gross international reserves	851	890	681	671	-171	-219
Oil price (WTI, US$ per barrel)	53	52	33	35	-20	-17

Sources: Central Bank of Barbados; and Fund staff estimates and projections.
1/ Calculated to keep GIR/ARA in 2020 equal to 2019.
2/ Excluding new financing from IFIs and the proposed augmentation.

- **Real sector**. The negative external demand shock is expected to cause a deep recession. The Barbadian economy contracted by 3 percent in the first quarter of 2020 (over the same quarter last year), while the unemployment rate jumped to 24 percent of the labor force at the beginning of May 2020. The economy is projected to contract by about 11-12 percent in 2020, with the exact size of the downturn mainly dependent on the duration of the epidemic. As long has the 14-day quarantine period for all incoming travelers remains in place, tourism will not be able to restart. Under current scenarios, the economy is expected to start recovering in Q42020; over the medium term, growth is expected to converge to its medium-term average of about 2 percent, boosted by structural reforms.

Barbados: Unemployment Claims

(Thousand (lhs) and percent of Labor Force (rhs))



Sources: Central Bank of Barbados and Staff Estimates

- **Fiscal sector**. Owing to the fall in tourist arrivals and reduced economic activity, government revenue is expected to fall sharply in 2020, and expenditure on medical facilities and supplies as well as social transfers will need to increase. The authorities have lowered their primary surplus target to 1 percent for FY2020/21 (compared to 6 percent before the pandemic). Revenues are projected to recover together with the real economy in FY2021/22, while certain expenditures such as welfare transfers are projected to remain somewhat elevated during the recovery.

Barbados: COVID-19 Impact on the Fiscal

(In percent of FY GDP)

	Pre COVID-19 shock		Baseline		Difference	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22
Primary Balance	**6.0**	**6.0**	**1.0**	**3.5**	**-5.0**	**-2.5**
Overall Balance	**2.7**	**2.3**	**-2.7**	**-0.7**	**-5.5**	**-3.0**
Net Financing	**-2.7**	**-2.3**	**-3.2**	**0.7**	**-0.5**	**3.0**
External 2/	0.1	-0.2	0.8	0.3	0.7	0.6
Domestic 1/	-2.9	-2.1	-4.0	0.3	-1.1	2.4
COVID-19 Fiscal financing gap	**0.0**	**0.0**	**-5.9**	**0.0**	**-5.9**	**0.0**
o/w IMF budget support	0.0	0.0	-1.9	0.0	-1.9	0.0
o/w other IFIs budget support	0.0	0.0	-4.0	0.0	-4.0	0.0

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

1/ Including repayment of domestic arrears.

2/ Excluding new financing from IFIs and proposed augmentation.

- **Risks to debt sustainability have notably increased but the debt profile remains well under control** (Annex I). Debt remains above the 70 percent of GDP risk assessment threshold under the baseline. In addition, because of the COVID crisis, the fiscal accommodation raises GFNs close to the 15 percent risk assessment threshold. The COVID-19 induced fiscal accommodation will need to be compensated by higher primary surpluses in the medium term to reach the 60 percent medium term anchor in FY2033/34, while delaying by two years the achievement of the interim target of 80 percent, which will now be achieved in FY29/30. These risks are mitigated by Barbados' strong track record under the EFF-supported program. In addition, the higher GFNs in FY2020/21 are solely due to the lower primary balance while about 50 percent of gross financing needs have no rollover risk: commercial banks have committed to rollover the full stock of T-bills for 10 years and the rest of the short term debt is held by the CBB.

13. Risks to the outlook are very high and tilted to the downside.

- **The key risk is a further deepening and lengthening of the COVID-19 crisis**. Lower than projected external demand associated with the COVID-19 pandemic will reduce economic activity. Key source markets for tourism are the UK (with a market share of about 33 percent), the US (30 percent) and Canada (13 percent). With these countries now all in the grip of major coronavirus outbreaks, appetite for travel is expected to be negligible the next six months; how quickly tourism trends will return to normal is hard to predict. The outbreak of COVID-19 in Barbados itself, and the measures taken to reduce the spread (including school closures and a 14-day quarantine period for all visitors) will further reduce economic activity. Depending on the ultimate severity of the crisis, both health and non-health spending may face overruns, revenue collection could underperform current expectations, and the debt trajectory could become unsustainable. Keeping external buffers at a more than adequate level as envisaged in the program, helps lower the risks of larger-than-expected impact of the COVID-19 shock. Further, the large share of domestic debt reduces rollover risks. If growth turns out higher than projected, this would allow for more rapid debt reduction that is envisaged under the baseline, so long as the authorities preserve the savings.

POLICY ISSUES

A. Fiscal Policy in FY2020/21 and Beyond

Barbados: Expected Impact of COVID-19 on the FY2020/21 Budget 1/

	Pre vs. Post COVID-19 forecast (BD$ millions)	Change due to COVID-19 (in percent of FY2019/20 GDP)
Revenue	**-426.7**	**-4.2**
Tax revenue	-395.2	-3.9
Non-tax revenue	-31.6	-0.3
Expenditure	**101.1**	**1.0**
Health related	35.1	0.3
Transfers to individuals	20.0	0.2
Transfers to SOEs	56.4	0.6
Non-health related capital spending	61.0	0.6
Expenditure rationalizations	-71.4	-0.7
Primary Balance	**-556.3**	**-5.5**
Overall Balance	**-527.9**	**-5.2**

Sources: Central Bank of Barbados and Fund Staff estimates.

1/ Only reports FY2020/21 measures; an additional 0.45 percent of GDP of spending was undertaken in FY2019/20 to refurbish the hospital, order medical equipment, and build isolation centers.

14. The authorities aim for a reduced FY2020/21 primary surplus of 1 percent of GDP to accommodate lower revenue and additional spending related to the global coronavirus outbreak. The budget adopted by parliament in March 2020 targeted a primary surplus of 3 percent of GDP (from 6 percent in FY2019/20). However, since then, global growth and tourism prospects have deteriorated further, and local containment measures have severely restricted domestic activity. Revenues, particularly those related to tourism, are expected to decline substantially, leading to an overall revenue loss of about 4 percent of FY2019/20 GDP. Meanwhile expenditures will need to increase to accommodate higher health spending (about ¼ percent of GDP in addition to ½ percent already spent in FY2019/20), temporary transfers to public institutions who will face pandemic-related revenue shortfalls (about ½ percent of GDP), and enhanced welfare schemes (about ¼ percent of GDP). Higher capital expenditure of about ½ percent of GDP is also planned to support economic activity while international tourism recovers (the MEFP further details the authorities' policies). The expected spike in unemployment claims by individuals laid off or put on part-time schedules due to the pandemic will be managed by the National Insurance Scheme (NIS) without above-the-line impact on the budget, however, the government will support NIS liquidity by repurchasing up to BRB$250 million bonds currently held by the NIS. The government further plans to accelerate payment of BRB$131 million in PIT and VAT refunds and use an existing Catastrophe Fund to provide temporarily interest-free loans to crisis-struck businesses.

15. Higher primary surpluses in subsequent years will be needed to ensure that public debt remains on target. With the economy expected to recover in 2021, a higher primary surplus of 3½ percent of GDP is projected for FY2021/22. Thereafter, primary surpluses are projected to reach 5 to 5½ percent of GDP, supported by the containment of grants to public institutions and phasing out of crisis-related welfare payments. To achieve better expenditure control, fiscal policy planning and monitoring is being strengthened, including by building up the macro-fiscal unit at the Ministry of Finance, and the annual budget process is being improved, with the help of FAD TA (with CARTAC based in Barbados, some Fund TA can still be provided at present, despite travel restrictions). The authorities also aim to strengthen revenue administration and have already made progress on this front with the recent implementation of two structural benchmarks aimed at improving processes in Barbados Revenue Authority (BRA) and customs department. Continued reform at the customs department is supported by a resident FAD advisor.

Barbados: Central Government Operations 1/
(in percent of FY GDP)

			Program	Est.	Program	Projections	
	2017/18	2018/19	2019/20	2019/20	2020/21	2020/21	2021/22
Total revenue	**28.6**	**29.2**	**30.5**	**31.2**	**30.2**	**29.2**	**30.9**
Tax revenue	26.7	27.5	28.6	29.1	28.3	26.9	28.6
Income and profits	7.5	8.2	7.2	7.5	6.6	6.9	7.3
Taxes on property	1.4	1.6	2.0	2.1	2.0	2.0	2.0
VAT	8.9	9.2	9.7	9.5	9.9	9.0	9.3
Excise	3.0	2.6	2.6	2.5	2.6	2.4	2.5
Import taxes	2.2	2.1	2.1	2.3	2.1	2.2	2.3
Other taxes	2.2	3.3	5.0	5.1	5.0	4.4	5.2
Nontax revenue	1.7	1.8	1.7	2.0	1.7	2.2	2.2
Capital revenue and grants	0.2	0.0	0.1	0.1	0.2	0.1	0.1
Total expenditure	**32.9**	**29.5**	**27.0**	**27.4**	**27.5**	**31.9**	**31.6**
Goods and services	3.6	3.5	3.7	3.7	3.7	4.2	4.1
Interest	7.6	3.8	2.5	2.5	3.3	3.7	4.2
Transfers	12.1	12.4	11.5	11.3	11.2	12.5	12.4
o/w Grants to public institutions	7.6	8.0	6.8	6.8	6.5	7.3	7.2
Capital expenditure and net lending	1.7	1.9	1.7	1.9	1.7	2.9	2.8
CG Fiscal balance	**-4.3**	**-0.3**	**3.5**	**3.8**	**2.7**	**-2.7**	**-0.7**
CG Primary balance	**3.3**	**3.5**	**6.0**	**6.3**	**6.0**	**1.0**	**3.5**
CG gross debt 2/	**158.3**	**125.6**	**117.1**	**122.2**	**109.9**	**133.6**	**124.2**
Nominal GDP, FY (BDS$ millions)	**10,011**	**10,235**	**10,445**	**10,129**	**10,786**	**9,467**	**10,245**

Sources: Ministry of Finance; and Fund staff estimates.
1/ Fiscal year is from April to March.
2/ Including debt issued by the CG, by SOEs and guaranteed by the CG, and CG arrears. From FY 2018/19, data includes both external and domestic debt restructuing.

16. Debt is still projected to decrease and reach the long-term anchor of 60 percent of GDP by FY2033/34 but risks have notably increased. Considering the exogenous and transitory nature of the COVID-19 shock on Barbados' growth, debt continues to be assessed as sustainable. With the external debt restructuring now completed, debt is projected to decrease on a steep downward trajectory towards 60 percent debt/GDP by end-FY2033/34, however, the interim 80 percent target is now expected to be reached only in FY2029/30, instead of FY2027/28. Risks to this forecast, related to the potentially very severe impact of the coronavirus pandemic and therefore, lower than projected medium-term growth, are significant. These efforts should be accelerated, should growth overperform the current baseline.

17. To support the adjustment effort over the medium and long term, a fiscal rule is expected to be introduced by mid-2021 (proposed reset structural benchmark to end-June 2021). An FAD TA mission to advise the authorities on the design of a fiscal rule, including coverage and an escape clause to accommodate the impact of natural disasters and other potential shocks, which had been scheduled for end-April 2020, had to be delayed to the second half of 2020 in light of the global coronavirus outbreak. The fiscal rule will support the planned reduction of the debt/GDP ratio to 60 percent by FY2033/34.

B. SOE Reforms

18. 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 temporarily increase in FY2020/21 due to one-off expenditures (mainly in health, tourism, and social assistance) in response to the COVID shock. They would then decline to under 6 percent of GDP by FY2021/22, 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; (iii) revenue enhancement, including an increase in user fees; and (iv) mergers and divestment. Reforms already implemented—before the onset of the coronavirus crisis—include (i) staff layoffs at SOEs, (ii) the debt restructuring, which has reduced the need for transfers to SOEs; (iii) the renegotiation of supplier contracts at some SOEs (in particular the Barbados Water Authority), (iv) the increase in some tariffs (e.g., bus fares, water rates, and FSC fee structure), (v) new levies on sanitation, health services, and tourism; (vi) reductions in the number of SOEs from 60 to 52 through mergers or closures; and (vii) strengthened oversight and the establishment of a SOE ownership policy and clarification of institutional policies and responsibilities. With the authorities now fully focused on handling the coronavirus crisis, further reform of SOEs will be discussed at the time of the next (fourth) review.

C. Monetary and Financial Sector Policies

19. In March 2020, the central bank and commercial banks introduced measures to support the credit market in response to the coronavirus crisis. While the financial system is very liquid, liquidity at individual institutions may fluctuate from time to time, particularly in strained conditions. Key measures include a reduction of the overnight lending discount rate from 7 to 2 percent, a reduction of the minimum statutory holding requirement for government securities from 17.5 to 5 percent of deposits, and collateralized loans for up to six months as liquidity support for licensed financial institutions. Commercial banks have also announced a six-month moratorium (grace period) on loan repayments for individuals and firms affected by the pandemic. Staff assesses the measures taken by the CBB as appropriate to signal banks that sufficient liquidity support is available. However, banks have neither borrowed from the overnight lending discount window nor used the liquidity support from the CBB; and are not expected to use the new liquidity measures given the system-wide excess reserves with the CBB.

20. A new central bank law is under preparation. A few details of a new law, which aims to enhance the CBB's autonomy and limit financing of the government to smooth unforeseen developments in revenues and spending and/or in exceptional (and tightly defined) situations, remain under consideration, including procedures to limit the circumstances under which the Governor of the CBB can be dismissed. The authorities have agreed to submit the new Central Bank law to parliament as a structural benchmark for September 2020, expecting adoption by end-year. Separately MCM TA will help introduce a liquidity management framework and to develop a recapitalization plan for the central bank. A TA mission on CBB recapitalization scheduled for March 2020 had to be postponed due to the coronavirus crisis, and is now planned for the second half of the year; the authorities have asked to reset the related structural benchmark from June 2020 to December 2020.

21. Depository corporations remain sound and liquid while profitability appears to be recovering. One bank has received a capital injection from its stakeholders in late 2019. Capital adequacy ratios in all banks are above 8 percent and the average ratio was at 13.6 percent in March 2020. The authorities continue to provide explicit and time-bound regulatory forbearance targeting select financial institutions with high (post sovereign debt restructuring) concentration ratios until they rebuild capital buffers (an approach that is supported by staff). Despite commercial banks' large excess liquidity, credit to the private sector was flat in 2019, with banks indicating limited lending opportunities. The immediate implications of the six-month grace period on loan repayments for individuals and firms affected by the pandemic on banks financial position seems to be mute, given their comfortable liquidity and capital buffers. Lenders are accruing the interest, which will be included in the agreed remaining maturity of the restructured loans. The CBB should enhance the monitoring of banks to ensure regulatory standards are maintained and any signs of distress identified early on. In February 2020, the Financial Action Task Force (FATF) added Barbados to its list of jurisdictions under increased monitoring ("grey list"). The authorities are working to address the identified deficiencies and to strengthen the effectiveness of the Barbados' the AML/CFT framework. Correspondent banking relationships (CBRs) have not been materially impacted as banks were able to maintain most CBRs and managed to replace others. As elsewhere, compliance costs have increased, including on account of additional documentation and due diligence.

D. Enhancing Growth

22. Structural reforms to unlock Barbados' growth potential will need to be accelerated once the global coronavirus pandemic recedes. A solid growth recovery after the pandemic will critically depend on improvement in the business climate, including by (i) streamlining the process for setting up new businesses, (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. Establishing a credit registry and credit collateral registry, in addition to broadening the types of eligible collateral, would further facilitate access to credit.

DATA ISSUES

23. Data shortcomings are being addressed—but owing to the pandemic, most TA is now on hold. 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 estimates of quarterly GDP by economic activity. A two-year project funded by Canada commenced in May 2019 to maximize capacity building on national accounts, in collaboration with CARTAC and PRASC. The authorities have hired additional staff at the Barbados Statistical Service (BSS) to ensure that STA TA to Barbados can be effectively delivered.

PROGRAM ISSUES

24. An augmentation of about US$90 million (or 70 percent of quota) is proposed to be delivered in the form of budget support. As discussed, the balance of payments will be sharply impacted by reduced tourist arrivals and lower FDIs, with lower oil prices only partly offsetting the deterioration. To maintain adequate reserve coverage (unchanged reserves in 2020 compared to 2019 at about 143 percent of ARA), Staff supports the authorities' request for a 70 percent of quota (SDR66 million or about US$90 million) extended facility augmentation, which would bring total access under the EFF to 290 percent of quota (SDR274 million or just under U$400 million). Access would remain within normal access limits under the GRA. The IMF plays a catalytical role in filling the financing gap and other IFIs (in particular the IDB and the CAF) have also indicated a willingness to provide additional financing in the amount of about US$200 million. The authorities have requested for the augmentation to be made available in the form of budget support to help relax the fiscal stance to 1 percent of GDP for 2020. With few other sources of financing available at present (in light also of the recently completed comprehensive debt restructuring), the IMF budget support is appropriate. The relaxation of the fiscal stance in 2020 in response to the COVID-19 crisis will be compensated by higher primary surpluses in subsequent years to ensure that public debt remains on a steep downward trajectory towards 60 percent debt/GDP by FY2033/34.

25. All performance criteria and two out of three structural benchmarks for the third review were met (Table 1 and Table 2, Attachment I). The adoption by Parliament of the CBB law was not implemented and is proposed to be reset to end-December 2020. Regarding the two other structural benchmarks for the third review: (i) the customs department (BCED) established a trusted trader program (see MEFP, paragraph 10); and (ii) the Barbados Revenue Authority (BRA) adopted measurable performance targets that increased on-time filing for CIT and VAT (see MEFP, paragraph 14). Authorities are on track to meet structural benchmarks for the next review as worded in the MEFP.

26. Staff proposes to modify five PCs for end-September 2020 at the request of the authorities (Table 2, Attachment I). Staff proposes to revise: (i) floor on net international reserves downward to reflect the revised trade balance projections stemming from the coronavirus pandemic; (ii) the ceiling on net domestic assets of the CBB upward for similar reasons and to reflect new information on arrears' repayment; (iii) the floor on the CG primary balance downwards, to reflect the nominal GDP revision and the authorities' intention to target a lower primary surplus for FY2020/21; (iv) the ceiling on transfers to SOEs to reflect the higher COVID-19 related transfers; and (v) the ceiling on debt to reflect the higher than expected borrowing needs to finance the larger deficit. Staff also proposes to revise the ceiling on transfers to public institutions upwards to allow for one off increases to the Queen Elisabeth Hospital and polyclinics in relation to the ongoing coronavirus outbreak on the island.

27. The CBB is implementing safeguards recommendations, albeit with delays. The CBB fully implemented International Financial Reporting Standards for FY 2019 under the Audit Committee's oversight. Audit arrangements were strengthened through the adoption of a selection and appointment policy for external auditors and the continuing modernization of the internal audit function. Enhancing oversight in reserves management and system controls within RTGS remains a work in progress, while publication of the FY 2019 audited financial statements is pending.

28. Staff proposes to introduce one new structural benchmark and to reset five ones for upcoming reviews (Table 1, Attachment I).

- Staff proposes to introduce one new benchmark for the Government to submit the amended CBB law to Parliament (Table 1, Attachment I, end-September 2020 structural benchmark #19). The adoption by Parliament of a new CBB law remains critical to for the success of the program.

- Staff proposes to reset the structural benchmark on the adoption of the new CBB law by Parliament (Table 1, Attachment I, structural benchmark #15) from end-December 2019 to end-December 2020.

- Staff proposes to reset the structural benchmark on the actuarial review for the civil service pensions (Table 1, Attachment I, structural benchmark #20) from end-June 2020 to end- September 2020. The authorities hired external consultants to cost different pension reform options for new entrants into the public service. However, the actuarial report cannot be delivered as earlier planned due to the coronavirus related travel restrictions.

- Staff proposes to reset the structural benchmark on the new public pension law (Table 1, Attachment I, structural benchmark #22) from end-September 2020 to end-December 2020. With the actuarial review being delayed, public consultations ahead of the presentation of reform proposals to parliament are also expected to be delayed by three months.

- Staff proposes to reset the development of plans to recapitalize the CBB and address medium and long-term challenges for the NIS stemming from the debt restructuring (Table 1, Attachment I, structural benchmark #23) form end-June 2020 to end-December 2020. An IMF technical assistance mission to help authorities originally planned for March/April 2020 had to be postponed to a date yet to be defined.

- Staff proposes to reset the fiscal rule benchmark (Table 1, Attachment I, structural benchmark #25) from end-December 2020 to end-June 2021. An IMF technical assistance mission to help authorities design a new fiscal rule originally planned for March/April 2020 had to be postponed to a date yet to be defined.

29. 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 adequate at about 100 percent of ARA over the projection period. The authorities' commitment to the program and their solid repayment history following the two previous Fund-supported programs also provide reassurance. 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. Safeguards for the use of Fund resources will be strengthened by the adoption of a memorandum of understanding between the CBB and the Ministry of Finance detailing their respective roles and responsibilities for servicing the financial obligations to the Fund. The program remains fully financed. The authorities are also committed to safeguarding public resources, particularly those related to fend of the crisis. In particular, strengthened public procurement including audit of these crisis expenditures, publication of contracts, the names of successful bidders (and their beneficial owners) as well as ex post verification of delivery will ensure that COVID-19 related outlays will be efficiently allocated.

STAFF APPRAISAL

30. The Barbadian authorities continue to make good progress in implementing the comprehensive Economic Recovery and Transformation (BERT) plan. All quantitative performance criteria (QPCs), and two out of three structural benchmarks for end-March 2020 were met. Prospects for continued strong program performance are good.

31. The policy response to the global coronavirus pandemic is adequate with a primary surplus targeted at 1 percent of GDP for FY2020/21, while exerting a sustained fiscal effort as soon as the crisis wanes will be required to preserve debt sustainability. The reduction of the primary surplus to 1 percent of GDP is financed by additional resources from IFIs, including a proposed augmentation of the IMF extended facility of US$90 million (or 70 percent of quota). This said, preserving debt sustainability will require that the fiscal accommodation in FY2020/21 will need to be compensated by higher primary surpluses in the medium term to reach the long term debt anchor of 60 percent in FY2033/34.

32. SOE reforms remain essential for achieving higher primary surpluses targets and maintaining them over the medium term. To secure fiscal space for investment in physical and human capital, transfers to SOEs need to continue to decline after the global coronavirus pandemic is over by a combination of: (i) phasing out of COVID related additional transfers; (ii) much stronger oversight of SOEs, supported by improved reporting; (iii) cost reduction, including reduction of the wage bill; (iv) revenue enhancement, including an increase in user fees; and (v) mergers and divestment.

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

34. Solid recovery after the global pandemic will also depend on accelerating structural reforms to increase growth potential. Much room for improvement exists in the business climate. Establishing a credit registry and credit collateral registry, in addition to broadening the types of eligible collateral, would further facilitate access to credit.

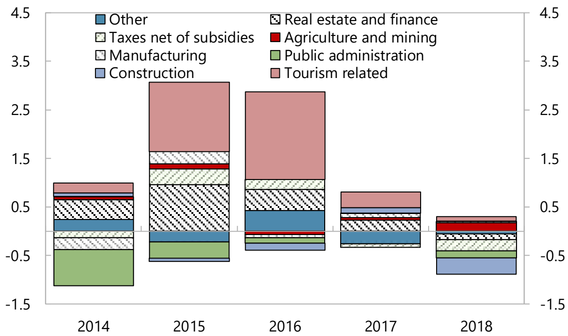
35. Program implementation going forward will remain challenging. Risks to the program include a longer and/or larger than expected impact of the global coronavirus pandemic, slower than expected global recovery, limited implementation capacity and untested ability to maintain high primary surpluses over a sustained period required in the future to achieve the 60 percent debt anchor. A much more prolonged economic recession than currently projected could make the debt trajectory unsustainable. Implementing the ambitious structural reform agenda will also be challenging, given limited implementation capacity and the current coronavirus external shock.

36. With continued strong program implementation, staff recommends the completion of the third review of the extended arrangement under the Extended Fund Facility, augmentation of the access for budget support, and it supports the authorities' request to modify five performance criteria.

Figure 1. Barbados: Real Sector Developments

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

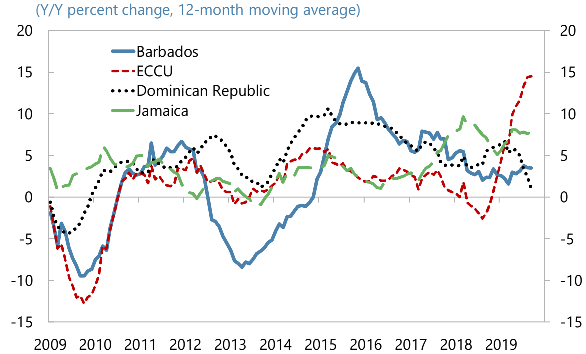
Real GDP Growth by Sectors
(millions BBD)



Sources: Central Bank of Barbados and Fund staff calculations.

… as growth in tourism arrivals was weak.

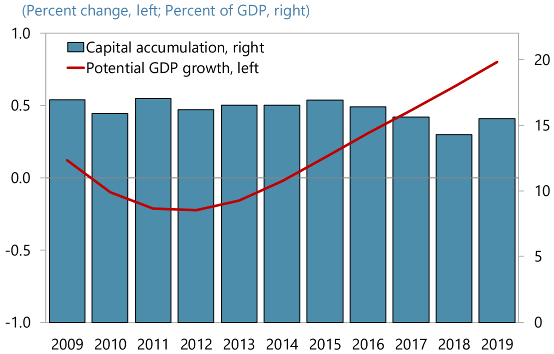
Tourist Arrivals
(Y/Y percent change, 12-month moving average)



Sources: Caribbean Tourism Organization and Fund staff calculations.

Potential GDP growth is recovering from low levels.

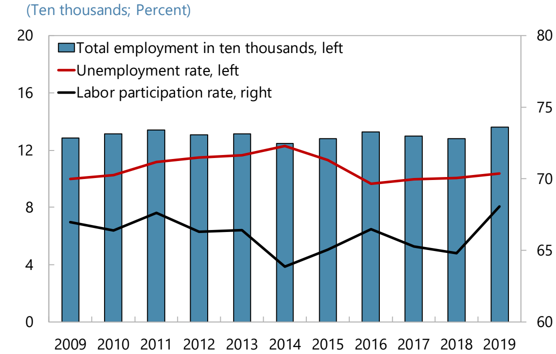
Capital Accumulation and Potential GDP
(Percent change, left; Percent of GDP, right)



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.

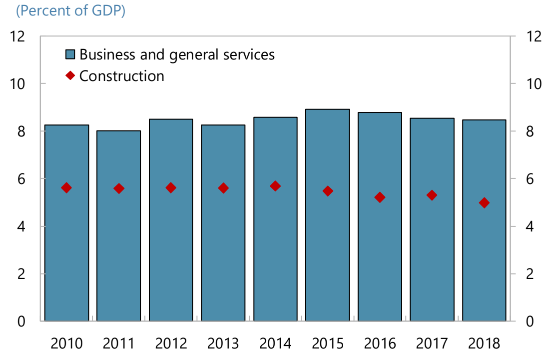
Labor Participation and Unemployment
(Ten thousands; Percent)



Sources: Central Bank of Barbados and Fund staff calculations.

Non-tourism industries are stagnating,

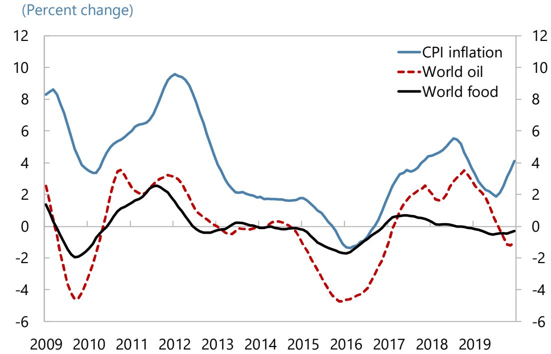
Construction and Business Sectors
(Percent of GDP)



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

…while inflation increased with food prices offsetting lower energy prices.

Consumer, Oil and Food Prices
(Percent change)

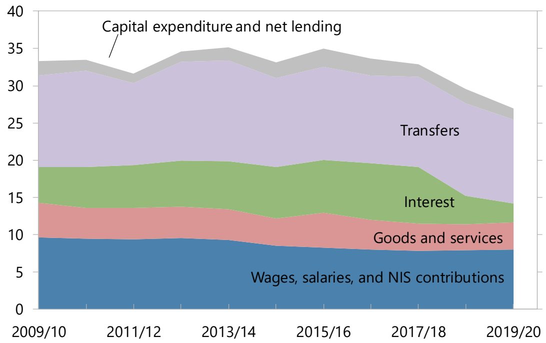


Sources: Central Bank of Barbados and Fund staff calculations.

Figure 2. Barbados: Fiscal Sector Developments

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

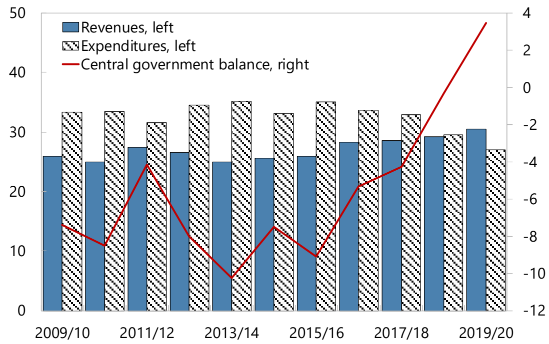
General Government Expenditures
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

……and improve the fiscal balance.

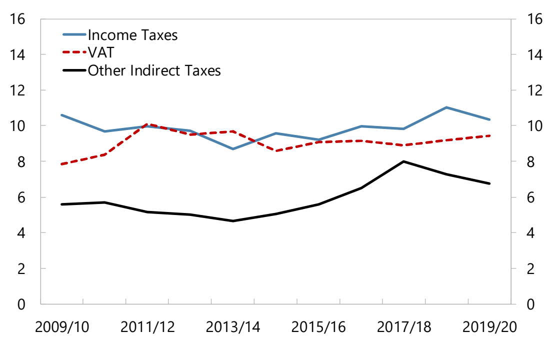
Central Government Balance
(Percent of GDP)



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.

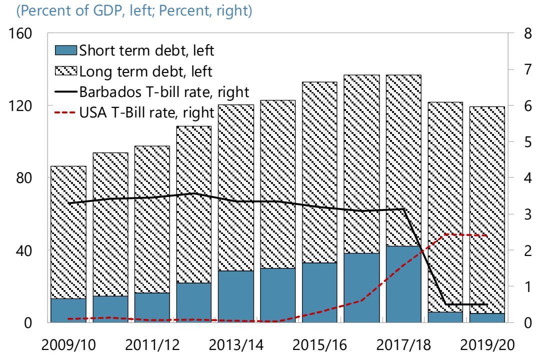
Tax Revenue Composition
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

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

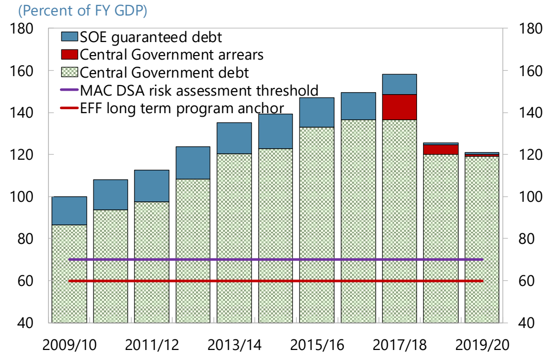
Government Financing
(Percent of GDP, left; Percent, right)



Sources: Central Bank of Barbados and Fund staff calculations.

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

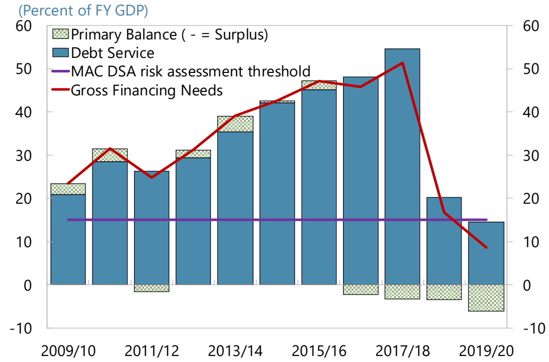
Public Debt
(Percent of FY GDP)



Sources: Fund staff calculations.

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

Gross Financing Needs
(Percent of FY GDP)

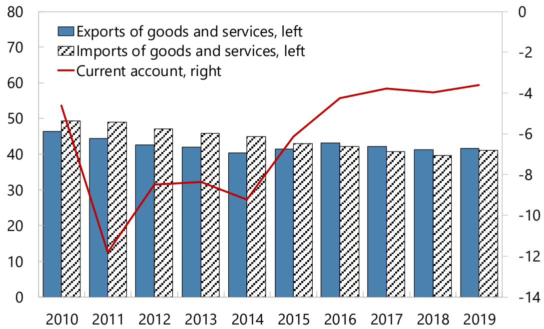


Sources: Fund staff calculations.

Figure 3. Barbados: External Sector Developments

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

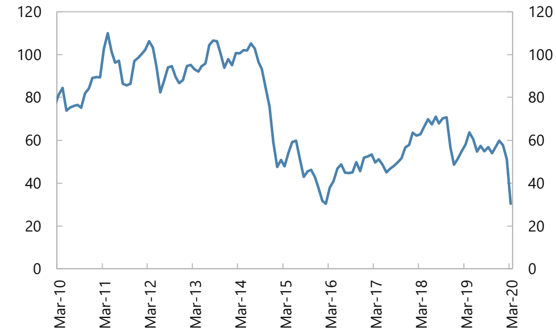
Trade
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

Lower imports are mainly due to declining oil prices.

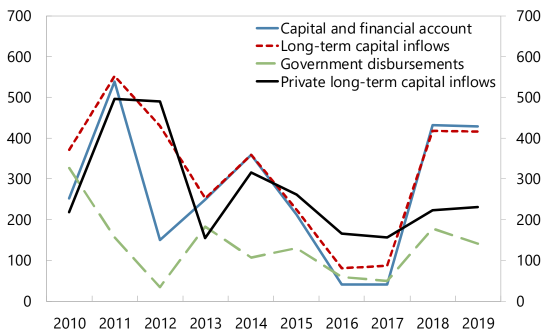
WTI Oil Price
(US$ per barrel)



Sources: Fund staff calculations.

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

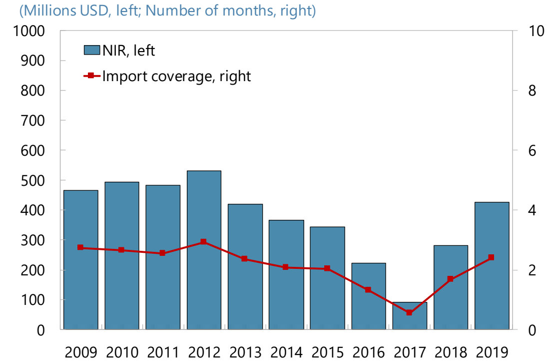
Capital and Financial Account
(Millions USD)



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)

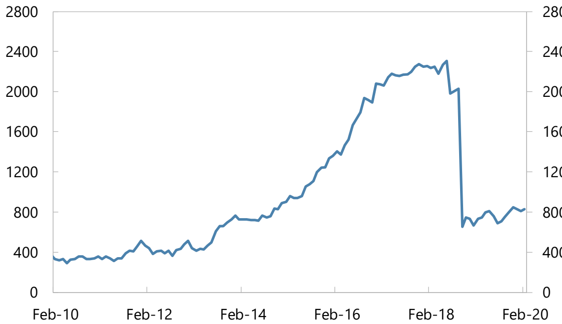


Sources: Central Bank of Barbadose and Fund staff calculations.

Figure 4. Barbados: Monetary Sector Developments

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

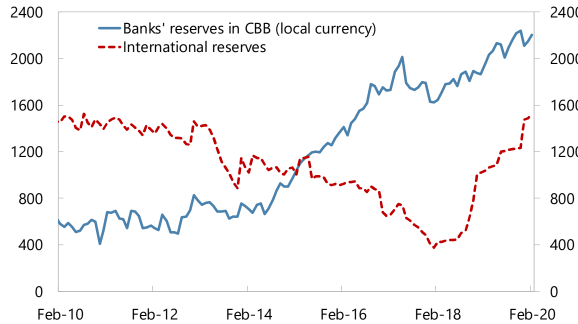
Central Bank's Claims on Central Government
(Millions BBD)



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.

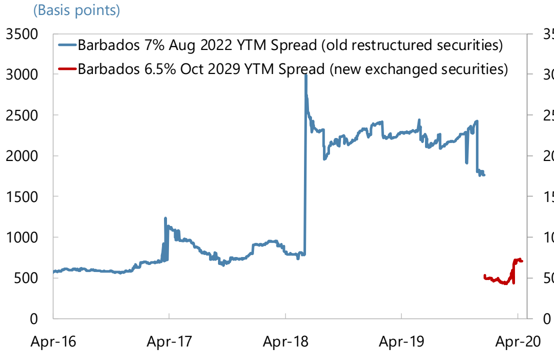
Reserves
(Millions BBD)



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.

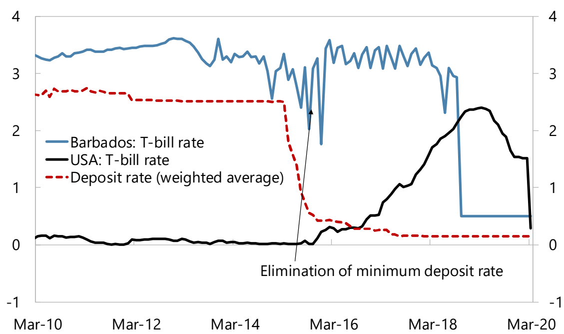
Bond Spread (Barbados over U.S. 10-year bonds)
(Basis points)



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.

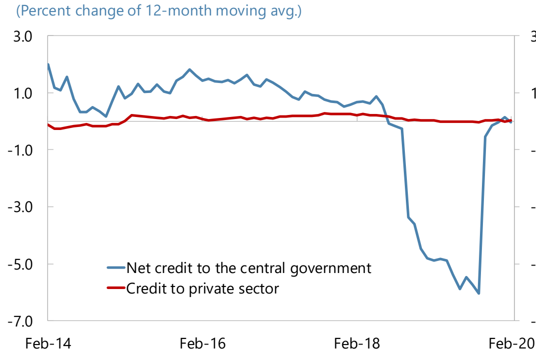
Interest Rates
(Percent)



Sources: Central Bank of Barbados and Fund staff calculations.

Private sector credit growth has remained weak…

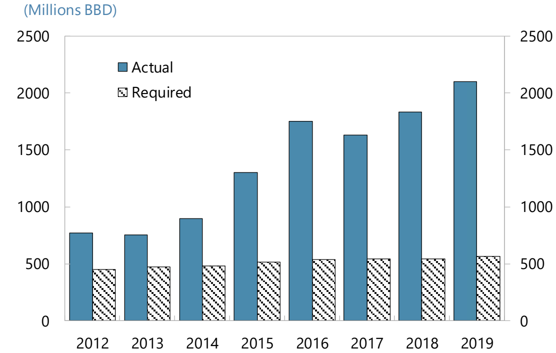
Private Sector Credit
(Percent change of 12-month moving avg.)



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.

Table 1. Barbados: Selected Economic Indicators, 2017–21

I. Social and Demographic Indicators (most recent year)			
Population (2017 est., thousand)	286.4	Adult literacy rate	99.7
Per capita GDP (2017 est., US$ thousand)	17.8	Poverty rate (individual, 2010)	19.3
Life expectancy at birth in years (2013)	75.3	Gini coefficient (2010)	47.0
Rank in UNDP Development Index (2014)	57	Unemployment rate (2018 est.)	10.4
Main products, services and exports: tourism, financial services, rum, sugar, and chemicals.			

II. Economic Indicators

			Est.	Projections	
	2017	**2018**	**2019**	**2020**	**2021**
			(Annual percentage change)		
Output, prices, and employment					
CY Real GDP	0.5	-0.6	-0.1	-11.6	7.4
CPI inflation (average)	4.4	3.7	4.1	2.9	1.6
CPI inflation (end of period)	6.6	0.6	7.2	-0.8	2.4
External sector					
Exports of goods and services	0.8	-0.1	7.9	-35.0	29.0
Imports of goods and services	-0.4	-0.4	3.9	-20.4	15.7
Real effective exchange rate (average)	120.9	121.1	127.6	…	…
Money and credit					
Net domestic assets	2.8	4.1	0.0	0.0	3.3
Of which: Private sector credit	3.2	0.3	1.0	-2.0	4.0
Broad money	1.2	-0.2	3.0	-3.0	1.9
			(In percent of GDP, unless otherwise indicated)		
CG Public finances (fiscal year) 1/					
Revenue and grants	28.6	29.2	31.2	29.2	30.9
Expenditure	32.9	29.5	27.4	31.9	31.6
Fiscal Balance	-4.3	-0.3	3.8	-2.7	-0.7
Interest Expenditure	7.6	3.8	2.5	3.7	4.2
Primary Balance	3.3	3.5	6.3	1.0	3.5
Public Debt (fiscal year) 1/					
Central gov't gross debt (incl. guaranteed anc	158.3	125.6	122.2	133.6	124.2
External	28.5	32.6	31.1	41.0	38.3
Domestic	129.8	92.9	91.1	92.6	85.9
Balance of payments (calendar year) 2/					
Current account balance	-3.8	-4.0	-3.1	-10.2	-6.0
Capital and financial account balance	0.8	8.5	5.6	9.0	5.8
o/w Public Sector	-1.4	3.8	1.8	8.0	2.4
o/w IMF disbursement	0.0	1.0	1.9	3.7	0.9
Private Sector	2.2	4.1	3.9	1.2	3.5
o/w FDI	3.1	4.4	4.7	1.2	3.5
Net Errors and Omissions	0.3	0.2	0.2	0.0	0.0
Overall balance	-2.6	4.7	2.7	-1.3	-0.2
Memorandum items:					
Exchange rate (BDS$/US$)	2.0	2.0	2.0	…	…
Gross international reserves (US$ million)	205.7	499.6	738.9	680.8	670.8
In months of imports of G&S	1.2	3.0	4.2	4.9	4.2
In percent of ARA	39.7	100.5	142.9	142.9	126.6
Nominal GDP, CY (BDS$ millions)	9,956	10,173	10,418	9,260	10,086
Nominal GDP, FY (BDS$ millions)	10,011	10,235	10,129	9,467	10,245

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, 2017/18–2025/26

(In Millions of Barbados dollars) 1/

			Program	Est.	Program	Proj.	Program	Projections				
	2017/18	2018/19	2019/20	2019/20	2020/21	2020/21	2021/22	2021/22	2022/23	2023/24	2024/25	2025/26
Total revenue	**2,864**	**2,994**	**3,192**	**3,156**	**3,260**	**2,762**	**3,390**	**3,162**	**3,348**	**3,500**	**3,659**	**3,825**
Current revenue	2,842	2,994	3,181	3,144	3,236	2,751	3,365	3,150	3,335	3,487	3,645	3,811
Tax revenue	2,675	2,812	2,999	2,943	3,049	2,543	3,170	2,929	3,101	3,242	3,390	3,544
Income and profits	752	838	751	764	713	649	742	752	796	832	870	910
Taxes on property	138	161	207	215	213	191	221	206	218	228	238	249
VAT	891	941	1,020	967	1,072	852	1,115	953	1,008	1,054	1,102	1,152
Social levy (NSRL)	152	49	0	0	0	0	0	0	0	0	0	0
Excise	303	271	277	251	285	230	296	254	269	281	294	307
Import taxes	219	214	218	232	225	208	234	236	249	261	273	285
Other taxes	220	338	526	515	541	412	563	530	561	587	613	641
Nontax revenue	167	181	182	201	187	208	195	221	234	244	255	267
Capital revenue and grants	22	0	11	12	24	11	25	12	13	13	14	14
Total expenditure	**3,293**	**3,024**	**2,826**	**2,772**	**2,964**	**3,019**	**3,129**	**3,233**	**3,323**	**3,425**	**3,581**	**3,727**
Current expenditure	3,121	2,826	2,652	2,580	2,785	2,746	2,888	2,946	3,057	3,090	3,172	3,279
Wages, salaries and SSC	782	812	798	807	828	809	848	825	844	864	884	905
Goods and services	364	356	388	375	402	397	412	416	408	415	434	454
Interest	763	385	263	250	351	352	412	430	518	549	575	584
Transfers	1,212	1,273	1,202	1,147	1,203	1,188	1,216	1,275	1,287	1,262	1,279	1,337
o/w Subsidies	123	136	81	100	83	133	87	151	138	95	99	104
o/w Grants to public institutions	761	815	717	689	704	687	697	735	738	737	730	763
o/w Retirement benefits	328	323	404	358	416	368	432	388	411	430	449	470
Capital expenditure and net lending	172	198	175	192	179	273	241	287	266	335	410	448
CG Fiscal balance	**-429**	**-31**	**366**	**385**	**296**	**-257**	**261**	**-71**	**24**	**74**	**77**	**98**
CG Primary balance	**334**	**354**	**629**	**634**	**647**	**95**	**673**	**359**	**542**	**624**	**652**	**682**
Repayment of domestic arrears	n.a.	n.a.	168	140	56	43	69	48	62	0	0	0
CG Fiscal balance (net of arrears)	**n.a.**	**n.a.**	**198**	**244**	**240**	**-301**	**191**	**-119**	**-37**	**74**	**77**	**98**
CG Primary balance (net of arrears)	**n.a.**	**n.a.**	**461**	**494**	**591**	**51**	**603**	**311**	**481**	**624**	**652**	**682**
Financing	**429**	**31**	**-366**	**-385**	**-296**	**257**	**-261**	**71**	**-24**	**-74**	**-77**	**-98**
Net Financing - External	-179	345	60	106	15	639	-26	36	-12	-17	-32	-364
Capital Markets	0	0	0	0	0	0	0	0	0	0	0	23
Project Funds	114	88	45	79	42	78	42	100	80	80	80	80
Policy Loans	0	350	150	150	160	560	80	80	80	80	80	0
o/w IDB	0	200	0	0	160	360	80	80	80	80	80	0
o/w CDB	0	150	150	150	0	0	0	0	0	0	0	0
o/w CAF	0	0	n.a.	0	n.a.	200	n.a.	0	0	0	0	0
IMF EFF budget support	0	0	n.a.	0	n.a.	180	n.a.	0	0	0	0	0
Privatization 2/	0	0	0	0	0	0	0	0	0	0	0	0
Amortization	293	93	135	122	187	180	148	144	172	177	192	467
Net Financing - Central Gov. 5/	608	576	-258	-350	-255	-338	-165	83	49	-58	-46	266
Central bank	73	-176	0	200	0	0	0	0	0	0	0	0
Commercial banks	258	83	0	-120	0	-72	0	0	0	0	0	0
National Insurance Scheme	3	9	-180	-85	-178	-200	-115	83	49	-35	-27	266
Private non-bank 3/	-57	-120	-77	-160	-76	0	-49	0	0	-23	-18	0
Others/unidentified financing	332	780	0	-185	0	-66	0	0	0	0	0	0
Memorandum items:												
CG gross debt 4/	15,843	12,853	12,152	12,380	11,856	12,651	11,596	12,722	12,698	12,623	12,546	12,448
Nominal GDP, FY (BDS$ millions)	10,011	10,235	10,481	10,129	10,786	9,467	11,214	10,245	10,847	11,340	11,856	12,395

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, 2017/18–2025/26
(In percent of FY GDP, unless otherwise indicated) 1/

			Program	Est.	Program	Proj.	Program	Projections				
	2017/18	2018/19	2019/20	2019/20	2020/21	2020/21	2021/22	2021/22	2022/23	2023/24	2024/25	2025/26
Total revenue	**28.6**	**29.2**	**30.5**	**31.2**	**30.2**	**29.2**	**30.2**	**30.9**	**30.9**	**30.9**	**30.9**	**30.9**
Current revenue	28.4	29.2	30.3	31.0	30.0	29.1	30.0	30.7	30.7	30.7	30.7	30.7
Tax revenue	26.7	27.5	28.6	29.1	28.3	26.9	28.3	28.6	28.6	28.6	28.6	28.6
Income and profits	7.5	8.2	7.2	7.5	6.6	6.9	6.6	7.3	7.3	7.3	7.3	7.3
Taxes on property	1.4	1.6	2.0	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
VAT	8.9	9.2	9.7	9.5	9.9	9.0	9.9	9.3	9.3	9.3	9.3	9.3
Social levy (NSRL)	1.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.3
Excise	3.0	2.6	2.6	2.5	2.6	2.4	2.6	2.5	2.5	2.5	2.5	2.5
Import taxes	2.2	2.1	2.1	2.3	2.1	2.2	2.1	2.3	2.3	2.3	2.3	2.3
Other taxes	2.2	3.3	5.0	5.1	5.0	4.4	5.0	5.2	5.2	5.2	5.2	5.2
Nontax revenue	1.7	1.8	1.7	2.0	1.7	2.2	1.7	2.2	2.2	2.2	2.2	2.2
Capital revenue and grants	0.2	0.0	0.1	0.1	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Total expenditure	**32.9**	**29.5**	**27.0**	**27.4**	**27.5**	**31.9**	**27.9**	**31.6**	**30.6**	**30.2**	**30.2**	**30.1**
Current expenditure	31.2	27.6	25.3	25.5	25.8	29.0	25.8	28.8	28.2	27.3	26.8	26.5
Wages, salaries and SSC	7.8	7.9	7.6	8.0	7.7	8.5	7.6	8.1	7.8	7.6	7.5	7.3
Goods and services	3.6	3.5	3.7	3.7	3.7	4.2	3.7	4.1	3.8	3.7	3.7	3.7
Interest	7.6	3.8	2.5	2.5	3.3	3.7	3.7	4.2	4.8	4.8	4.8	4.7
Transfers	12.1	12.4	11.5	11.3	11.2	12.5	10.8	12.4	11.9	11.1	10.8	10.8
o/w Subsidies	1.2	1.3	0.8	1.0	0.8	1.4	0.8	1.5	1.3	0.8	0.8	0.8
o/w Grants to public institutions	7.6	8.0	6.8	6.8	6.5	7.3	6.2	7.2	6.8	6.5	6.2	6.2
o/w Retirement benefits	3.3	3.2	3.9	3.5	3.9	3.9	3.9	3.8	3.8	3.8	3.8	3.8
Capital expenditure and net lending	1.7	1.9	1.7	1.9	1.7	2.9	2.2	2.8	2.5	3.0	3.5	3.6
CG Fiscal balance	**-4.3**	**-0.3**	**3.5**	**3.8**	**2.7**	**-2.7**	**2.3**	**-0.7**	**0.2**	**0.7**	**0.7**	**0.8**
CG Primary balance	**3.3**	**3.5**	**6.0**	**6.3**	**6.0**	**1.0**	**6.0**	**3.5**	**5.0**	**5.5**	**5.5**	**5.5**
Repayment of domestic arrears	n.a.	n.a.	1.6	1.4	0.5	0.5	0.6	0.5	0.6	0.0	0.0	0.0
CG Fiscal balance (net of arrears)	**n.a.**	**n.a.**	**1.9**	**2.4**	**2.2**	**-3.2**	**1.7**	**-1.2**	**-0.3**	**0.7**	**0.7**	**0.8**
CG Primary balance (net of arrears)	**n.a.**	**n.a.**	**4.4**	**4.9**	**5.5**	**0.5**	**5.4**	**3.0**	**4.4**	**5.5**	**5.5**	**5.5**
Financing	**4.3**	**0.3**	**-3.5**	**-3.8**	**-2.7**	**2.7**	**-2.3**	**0.7**	**-0.2**	**-0.7**	**-0.7**	**-0.8**
Net Financing - External	-1.8	3.4	0.6	1.0	0.1	6.7	-0.2	0.3	-0.1	-0.1	-0.3	-2.9
Capital Markets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Project Funds	1.1	0.9	0.4	0.8	0.4	0.8	0.4	1.0	0.7	0.7	0.7	0.6
Policy Loans	0.0	3.4	1.4	1.5	1.5	5.9	0.7	0.8	0.7	0.7	0.7	0.0
o/w IDB	0.0	2.0	0.0	0.0	1.5	3.8	0.7	0.8	0.7	0.7	0.7	0.0
o/w CDB	0.0	1.5	1.4	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w CAF	0.0	0.0	n.a.	0.0	n.a.	2.1	n.a.	0.0	0.0	0.0	0.0	0.0
IMF EFF budget support	0.0	0.0	n.a.	0.0	n.a.	1.9	n.a.	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	0.0	0.0
Amortization	2.9	0.9	1.3	1.2	1.7	1.9	1.3	1.4	1.6	1.6	1.6	3.8
Net Financing - Central Gov. 5/	6.1	5.6	-2.5	-3.5	-2.4	-3.6	-1.5	0.8	0.5	-0.5	-0.4	2.1
Central bank	0.7	-1.7	0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	2.6	0.8	0.0	-1.2	0.0	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
National Insurance Scheme	0.0	0.1	-1.7	-0.8	-1.7	-2.1	-1.0	0.8	0.5	-0.3	-0.2	2.1
Private non-bank 3/	-0.6	-1.2	-0.7	-1.6	-0.7	0.0	-0.4	0.0	0.0	-0.2	-0.2	0.0
Others/unidentified financing	3.3	7.6	0.0	-1.8	0.0	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
CG gross debt 4/	158.3	125.6	115.9	122.2	109.9	133.6	103.4	124.2	117.1	111.3	105.8	100.4
Nominal GDP, FY (BDS$ millions)	10,011	10,235	10,481	10,129	10,786	9,467	11,214	10,245	10,847	11,340	11,856	12,395

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, 2017/18–2025/26 1/ 2/

	2017/18	2018/19	Est. 2019/20	Projections 2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
				(In millions of Barbados dollars)					
Public Debt	**15,843**	**12,853**	**12,380**	**12,651**	**12,722**	**12,698**	**12,623**	**12,546**	**12,448**
External	2,853	3,340	3,154	3,885	3,921	3,909	3,893	3,861	3,497
Short Term	0	168	47	0	0	0	0	0	0
Long term	2,853	3,172	3,107	3,885	3,921	3,909	3,893	3,861	3,497
Domestic	12,990	9,513	9,226	8,766	8,801	8,788	8,731	8,685	8,951
Short Term	5,423	892	850	789	574	542	567	593	620
Long term	7,567	8,621	8,376	7,977	8,227	8,246	8,164	8,092	8,331
Arrears 4/	**1,184**	**461**	**200**	**110**	**62**	**0**	**0**	**0**	**0**
External 5/	0	168	47	0	0	0	0	0	0
Domestic	1,184	293	153	110	62	0	0	0	0
SOE Guaranteed Debt	**977**	**93**	**58**	**58**	**58**	**58**	**58**	**58**	**58**
External 3/	108	93	58	58	58	58	58	58	58
Domestic	869	0	0	0	0	0	0	0	0
Short Term	14	0	0	0	0	0	0	0	0
Long term	855	0	0	0	0	0	0	0	0
CG Debt	**13,683**	**12,299**	**12,121**	**12,483**	**12,602**	**12,640**	**12,565**	**12,488**	**12,390**
External 3/ 6/	2,745	3,080	3,049	3,827	3,863	3,852	3,835	3,803	3,439
Domestic	10,938	9,219	9,073	8,656	8,739	8,788	8,731	8,685	8,951
Short Term	4,225	598	697	679	512	542	567	593	620
Long term	6,712	8,621	8,376	7,977	8,227	8,246	8,164	8,092	8,331
				(In percent of FY GDP)					
Public Debt	**158.3**	**125.6**	**122.2**	**133.6**	**124.2**	**117.1**	**111.3**	**105.8**	**100.4**
External	28.5	32.6	31.1	41.0	38.3	36.0	34.3	32.6	28.2
Short Term	0.0	1.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Long term	28.5	31.0	30.7	41.0	38.3	36.0	34.3	32.6	28.2
Domestic	129.8	92.9	91.1	92.6	85.9	81.0	77.0	73.3	72.2
Short Term	54.2	8.7	8.4	8.3	5.6	5.0	5.0	5.0	5.0
Long term	75.6	84.2	82.7	84.3	80.3	76.0	72.0	68.3	67.2
Arrears 4/	**11.8**	**4.5**	**2.0**	**1.2**	**0.6**	**0.0**	**0.0**	**0.0**	**0.0**
External 5/	0.0	1.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	11.8	2.9	1.5	1.2	0.6	0.0	0.0	0.0	0.0
SOE Guaranteed Debt	**9.8**	**0.9**	**0.6**	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**	**0.5**
External 3/	1.1	0.9	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Domestic	8.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short Term	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long term	8.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CG Debt	**136.7**	**120.2**	**119.7**	**131.9**	**123.0**	**116.5**	**110.8**	**105.3**	**100.0**
External 3/ 6/	27.4	30.1	30.1	40.4	37.7	35.5	33.8	32.1	27.7
Domestic	109.3	90.1	89.6	91.4	85.3	81.0	77.0	73.3	72.2
Short Term	42.2	5.8	6.9	7.2	5.0	5.0	5.0	5.0	5.0
Long term	67.1	84.2	82.7	84.3	80.3	76.0	72.0	68.3	67.2
Memorandum items:									
Nominal GDP, FY (BDS$ millions)	10,011	10,235	10,129	9,467	10,245	10,847	11,340	11,856	12,395

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 excluding IMF loan to the CBB.
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, 2017–25
(In millions of US dollars)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Projections					
Current account balance	**-189**	**-253**	**-162**	**-474**	**-302**	**-204**	**-181**	**-148**	**-162**
o/w Exports of goods and services	2,100	2,098	2,265	1,472	1,898	2,191	2,317	2,468	2,588
o/w Imports of goods and services	2,027	2,020	2,098	1,670	1,933	2,111	2,217	2,327	2,455
Trade balance	-717	-734	-751	-470	-643	-727	-767	-803	-854
Exports of goods	803	765	773	720	748	792	819	850	881
o/w Re-exports	231	237	239	224	227	231	236	243	251
Imports of goods	1,520	1,499	1,524	1,190	1,390	1,519	1,585	1,653	1,735
o/w Oil	313	394	235	98	125	135	142	147	165
Services balance	790	813	918	272	608	806	867	944	987
Credit	1,297	1,334	1,492	752	1,150	1,399	1,499	1,618	1,707
o/w Travel (credit)	1,082	1,111	1,263	568	938	1,163	1,244	1,343	1,411
Debit	507	521	574	480	542	592	632	674	720
Primary income balance	-224	-292	-283	-242	-229	-243	-239	-245	-250
Credit	265	272	283	185	267	284	297	311	325
Debit	489	563	565	427	497	528	536	556	574
o/w Interest on CG debt 1/	84	91	29	67	88	94	95	95	94
o/w Interest on IMF lending	0	1	2	2	5	7	7	7	6
Secondary income balance	-38	-40	-46	-34	-37	-40	-42	-44	-46
Credit	52	53	55	49	53	57	59	62	65
o/w Subsidies	90	94	101	83	91	97	101	106	110
Capital and financial account 1/ 2/ 3/	**41**	**234**	**-140**	**-74**	**145**	**174**	**193**	**173**	**72**
Financial Account Balance 1/ 2/	42	209	-348	-67	149	174	193	173	72
Public sector 1/ 2/ 3/	-68	-1	-550	-121	-27	-40	-60	-90	-204
o/w disbursement to CG 1/ 2/	50	47	40	114	72	42	40	40	49
o/w CG amortization 1/ 2/	133	164	286	78	76	82	87	93	197
o/w IMF amortization	0	0	0	0	0	0	12	36	55
Private sector	111	210	202	55	176	215	252	264	276
o/w FDI flows	156	222	244	55	176	215	252	264	276
Capital Account Balance	-1	25	208	-8	-4	0	0	0	0
Net errors and omissions	**17**	**10**	**8**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance (deficit -)	**-131**	**-9**	**-293**	**-549**	**-157**	**-30**	**12**	**25**	**-89**
Official financing 4/	**0**	**131**	**100**	**86**	**38**	**40**	**40**	**40**	**10**
IDB	0	75	25	135	75	40	40	40	10
CDB	0	56	75	19	0	0	0	0	0
Exceptional financing (Restructuring)	**0**	**68**	**231**	**0**	**0**	**0**	**0**	**0**	**0**
Financing	**131**	**-190**	**-38**	**230**	**57**	**-10**	**-52**	**-65**	**79**
Reserve movements (- increase)	131	-239	-139	58	10	-34	-52	-65	79
IMF 4/	0	49	101	172	47	23	0	0	0
COVID-19 Financing gap 5/	**0**	**0**	**0**	**233**	**63**	**0**	**0**	**0**	**0**
o/w IMF budget support	0	0	0	90	0	0	0	0	0
o/w Other IFIs budget support	0	0	0	143	63	0	0	0	0
Unidentified financing	0	0	0	0	0	0	0	0	0
Memorandum items:									
Oil price (WTI, US$ per barrel)	50.9	64.8	57.0	32.9	35.0	37.9	39.9	41.4	42.7
Gross international reserves (US$ million)	206	500	739	681	671	705	757	822	743
In months of imports of G&S	1.2	3.0	4.2	4.9	4.2	4.0	4.1	4.2	3.6
In percent of ARA	39.7	100.5	142.9	142.9	126.6	123.5	128.1	133.8	110.6

Sources: Central Bank of Barbados; and Fund staff estimates and projections.
1/ Pre restructuring before 2019.
2/ Excluding official and IMF financing.
3/ Excluding unidentified financing.
4/ Exlcuding budget support for COVID-19.
5/ Calculated to keep GIR/ARA in 2020 equal to 2019.

Table 4b. Barbados: Balance of Payments, 2017–25
(In percent of CY GDP, unless otherwise indicated)

				Projections					
	2017	2018	2019	2020	2021	2022	2023	2024	2025
Current account balance	**-3.8**	**-5.0**	**-3.1**	**-10.2**	**-6.0**	**-3.8**	**-3.2**	**-2.5**	**-2.6**
o/w Exports of goods and services	42.2	41.3	43.5	31.8	37.6	40.9	41.3	42.1	42.2
o/w Imports of goods and services	40.7	39.7	40.3	36.1	38.3	39.4	39.5	39.7	40.1
Trade balance	-14.4	-14.4	-14.4	-10.2	-12.7	-13.6	-13.7	-13.7	-13.9
Exports of goods	16.1	15.0	14.8	15.5	14.8	14.8	14.6	14.5	14.4
o/w Re-exports	4.6	4.7	4.6	4.8	4.5	4.3	4.2	4.2	4.1
Imports of goods	30.5	29.5	29.2	25.7	27.6	28.3	28.3	28.2	28.3
o/w Oil	6.3	7.7	4.5	2.1	2.5	2.5	2.5	2.5	2.7
Services balance	15.9	16.0	17.6	5.9	12.1	15.0	15.5	16.1	16.1
Credit	26.1	26.2	28.6	16.2	22.8	26.1	26.7	27.6	27.9
o/w Travel (credit)	21.7	21.8	24.2	12.3	18.6	21.7	22.2	22.9	23.0
Debit	10.2	10.2	11.0	10.4	10.7	11.0	11.3	11.5	11.8
Primary income balance	-4.5	-5.7	-5.4	-5.2	-4.6	-4.5	-4.3	-4.2	-4.1
Credit	5.3	5.3	5.4	4.0	5.3	5.3	5.3	5.3	5.3
Debit	9.8	11.1	10.9	9.2	9.9	9.8	9.6	9.5	9.4
o/w Interest on CG debt 1/	1.7	1.8	0.6	1.4	1.7	1.7	1.7	1.6	1.5
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	-0.8	-0.8	-0.9	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Credit	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
o/w Subsidies	1.8	1.8	1.9	1.8	1.8	1.8	1.8	1.8	1.8
Capital and financial account 1/ 2/ 3/	**0.8**	**4.6**	**-2.7**	**-1.6**	**2.9**	**3.2**	**3.4**	**3.0**	**1.2**
Financial Account Balance 1/ 2/	0.8	4.1	-6.7	-1.4	3.0	3.2	3.4	3.0	1.2
Public sector 1/ 2/ 3/	-1.4	0.0	-10.6	-2.6	-0.5	-0.8	-1.1	-1.5	-3.3
o/w disbursement to CG 1/ 2/	1.0	0.9	0.8	2.5	1.4	0.8	0.7	0.7	0.8
o/w CG amortization 1/ 2/	2.7	3.2	5.5	1.7	1.5	1.5	1.5	1.6	3.2
o/w IMF amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.6	0.9
Private sector	2.2	4.1	3.9	1.2	3.5	4.0	4.5	4.5	4.5
o/w FDI flows	3.1	4.4	4.7	1.2	3.5	4.0	4.5	4.5	4.5
Capital Account Balance	0.0	0.5	4.0	-0.2	-0.1	0.0	0.0	0.0	0.0
Net errors and omissions	**0.3**	**0.2**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance (deficit -)	**-2.6**	**-0.2**	**-5.6**	**-11.8**	**-3.1**	**-0.6**	**0.2**	**0.4**	**-1.5**
Official financing 4/	**0.0**	**2.6**	**1.9**	**1.9**	**0.7**	**0.7**	**0.7**	**0.7**	**0.2**
IDB	0.0	1.5	0.5	2.9	1.5	0.7	0.7	0.7	0.2
CDB	0.0	1.1	1.4	0.4	0.0	0.0	0.0	0.0	0.0
Exceptional financing (Restructuring)	**0.0**	**1.3**	**4.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financing	**2.6**	**-3.7**	**-0.7**	**5.0**	**1.1**	**-0.2**	**-0.9**	**-1.1**	**1.3**
Reserve movements (- increase)	2.6	-4.7	-2.7	1.3	0.2	-0.6	-0.9	-1.1	1.3
IMF 4/	0.0	1.0	1.9	3.7	0.9	0.4	0.0	0.0	0.0
COVID-19 Financing gap 5/	**0.0**	**0.0**	**0.0**	**5.0**	**1.2**	**0.0**	**0.0**	**0.0**	**0.0**
o/w IMF budget support	0.0	0.0	0.0	1.9	0.0	0.0	0.0	0.0	0.0
o/w Other IFIs budget support	0.0	0.0	0.0	3.1	1.2	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
Memorandum items:									
Oil price (WTI, US$ per barrel)	50.9	64.8	57.0	32.9	35.0	37.9	39.9	41.4	42.7
Gross international reserves (US$ million)	206	500	739	681	671	705	757	822	743
In months of imports of G&S	1.2	3.0	4.2	4.9	4.2	4.0	4.1	4.2	3.6
In percent of ARA	39.7	100.5	142.9	142.9	126.6	123.5	128.1	133.8	110.6

Sources: Central Bank of Barbados; and Fund staff estimates and projections.
1/ Pre restructuring before 2019.
2/ Excluding official and IMF financing.
3/ Excluding unidentified financing.
4/ Exlcuding budget support for COVID-19.
5/ Calculated to keep GIR/ARA in 2020 equal to 2019.

Table 5. Barbados: Monetary Survey, 2017–25

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Projections					
				(In millions of Barbados dollars)					
Central Bank of Barbados									
Net International Reserves	335	832	1,130	673	559	580	685	815	657
Assets	411	999	1,478	1,362	1,342	1,409	1,514	1,645	1,486
Liabilities	-77	-167	-348	-691	-785	-832	-832	-832	-832
Gross International Reserves	411	999	1,478	1,362	1,342	1,409	1,514	1,645	1,486
Net domestic assets	1,963	1,827	1,825	1,959	1,959	1,959	1,959	1,959	1,959
Of which: Claims on Central government	2,250	736	829	1,009	1,009	1,009	1,009	1,009	1,009
Monetary base	2,298	2,659	2,955	2,632	2,518	2,539	2,643	2,774	2,616
Commercial banks									
Net foreign assets	1,541	634	661	661	661	661	661	661	661
Net domestic assets	9,330	10,292	10,685	10,380	10,623	10,976	11,402	11,862	12,128
Liabilities to the nonfinancial private sector	10,871	10,926	11,346	11,041	11,284	11,637	12,064	12,523	12,789
Monetary survey									
Net foreign assets	1,753	1,339	1,679	1,334	1,221	1,241	1,346	1,477	1,318
Net domestic assets	9,583	9,976	9,976	9,973	10,298	10,636	10,987	11,353	11,733
Net credit to the public sector	4,684	2,312	2,277	2,457	2,457	2,457	2,457	2,457	2,457
Central government	4,339	2,204	2,212	2,392	2,392	2,392	2,392	2,392	2,392
Rest of public sector	345	108	65	65	65	65	65	65	65
Credit to the private sector	8,200	8,227	8,303	8,121	8,445	8,783	9,135	9,500	9,880
Credit to rest of financial system	280	330	263	263	263	263	263	263	263
Other items (net)	-3,580	-892	-867	-867	-867	-867	-867	-867	-867
Broad money (M2, liabilities to the private sector)	11,336	11,315	11,655	11,308	11,519	11,877	12,333	12,829	13,051
			(Changes in percent of beginning-of-period liabilities to the private sector)						
Monetary survey									
Net international reserves	-1.1	-3.7	3.0	-3.0	-1.0	0.2	0.9	1.1	-1.2
Net domestic assets	2.3	3.5	0.0	0.0	2.9	2.9	3.0	3.0	3.0
Net credit to public sector	2.1	-20.9	-0.3	1.5	0.0	0.0	0.0	0.0	0.0
Of which: central government	2.3	-18.8	0.1	1.5	0.0	0.0	0.0	0.0	0.0
Credit to private sector	2.3	0.2	0.7	-1.6	2.9	2.9	3.0	3.0	3.0
Other items (net)	-1.9	23.7	0.2	0.0	0.0	0.0	0.0	0.0	0.0
				(In percent change)					
Monetary survey									
Net domestic assets	2.8	4.1	0.0	0.0	3.3	3.3	3.3	3.3	3.3
Of which:									
Private sector credit	3.2	0.3	1.0	-2.0	4.0	4.0	4.0	4.0	4.0
Public sector credit	5.2	-50.6	-1.5	7.9	0.0	0.0	0.0	0.0	0.0
Broad money	1.2	-0.2	3.0	-3.0	1.9	3.1	3.8	4.0	1.7

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

Table 6. Barbados: Medium-Term Macroeconomic Framework, 2017–25
(In percent of GDP, unless otherwise indicated)

				Projections					
	2017	2018	2019	2020	2021	2022	2023	2024	2025
				(Annual percentage change)					
National accounts and prices (calendar year)									
CY Real GDP	0.5	-0.6	-0.1	-11.6	7.4	3.9	1.8	1.8	1.8
Nominal GDP	3.1	2.2	2.4	-11.1	8.9	6.3	4.5	4.5	4.5
CPI inflation (average)	4.4	3.7	4.1	2.9	1.6	2.3	2.3	2.3	2.3
CPI inflation (end of period)	6.6	0.6	7.2	-0.8	2.4	2.3	2.4	2.3	2.4
External sector (calendar year)									
Exports of goods and services, value	0.8	-0.1	7.9	-35.0	29.0	15.4	5.8	6.5	4.9
Imports of goods and services, value	-0.4	-0.4	3.9	-20.4	15.7	9.2	5.0	5.0	5.5
Real effective exchange rate (average)	122.6	124.1	126.9	...	...	...	...	...	...
Terms of trade	-5.2	-5.0	2.5	9.5	-1.4	-1.3	-0.8	0.0	1.5
Money and credit (calendar year, end of period)									
Net domestic assets	2.8	4.1	0.0	0.0	3.3	3.3	3.3	3.3	3.3
Of which: Private sector credit	3.2	0.3	1.0	-2.0	4.0	4.0	4.0	4.0	4.0
Broad money	1.2	-0.2	3.0	-3.0	1.9	3.1	3.8	4.0	1.7
Velocity (GDP relative to broad money)	0.9	0.9	0.9	0.9	0.8	0.8	0.9	0.9	0.9
				(In percent of FY GDP, unless otherwise indicated)					
Public finances (fiscal year) 1/									
Central government									
Revenue and grants	28.6	29.2	31.2	29.2	30.9	30.9	30.9	30.9	30.9
Expenditure	32.9	29.5	27.4	31.9	31.6	30.6	30.2	30.2	30.1
Fiscal balance	-4.3	-0.3	3.8	-2.7	-0.7	0.2	0.7	0.7	0.8
Interest Expenditure	7.6	3.8	2.5	3.7	4.2	4.8	4.8	4.8	4.7
Primary balance	3.3	3.5	6.3	1.0	3.5	5.0	5.5	5.5	5.5
Debt (fiscal year) 1/									
Central government gross debt	158.3	125.6	122.2	133.6	124.2	117.1	111.3	105.8	100.4
External	28.5	32.6	31.1	41.0	38.3	36.0	34.3	32.6	28.2
Domestic	129.8	92.9	91.1	92.6	85.9	81.0	77.0	73.3	72.2
Savings and investment (calendar year)									
Gross domestic investment	15.6	14.3	15.5	16.6	16.4	16.8	17.0	17.0	17.0
Public	2.1	2.1	2.0	2.3	2.1	2.6	2.7	2.7	2.7
Private 2/	13.5	12.2	13.5	14.3	14.3	14.3	14.3	14.2	14.2
National savings	11.8	10.3	12.4	6.4	10.4	13.0	13.8	14.4	14.3
Public	-2.2	1.8	-2.6	1.7	5.6	-0.5	1.6	2.4	3.1
Private	14.0	8.5	15.0	4.7	4.8	13.5	12.1	12.1	11.3
External savings	-3.8	-4.0	-3.1	-10.2	-6.0	-3.8	-3.2	-2.5	-2.6
Balance of payments (calendar year)									
Current account	-3.8	-4.0	-3.1	-10.2	-6.0	-3.8	-3.2	-2.5	-2.6
Capital and financial account	0.8	8.5	5.6	9.0	5.8	4.4	4.2	3.6	1.3
Official capital (net)	-1.4	3.8	1.8	8.0	2.4	0.4	-0.3	-0.9	-3.2
Private capital (net)	2.2	4.1	3.9	1.2	3.5	4.0	4.5	4.5	4.5
Of which: Long-term flows	3.1	4.4	4.7	1.2	3.5	4.0	4.5	4.5	4.5
Net errors and omissions	0.3	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-2.6	4.7	2.7	-1.3	-0.2	0.6	0.9	1.1	-1.3
Memorandum items:									
Exchange rate (BDS$/US$)	2.0	2.0	2.0	...	...	...	...	...	...
Oil price (WTI, US$ per barrel)	50.9	64.8	57.0	32.9	35.0	37.9	39.9	41.4	42.7
Gross international reserves (US$ millions)	206	500	739	681	671	705	757	822	743
In months of imports	1.2	3.0	4.2	4.9	4.2	4.0	4.1	4.2	3.6
In percent of ARA	39.7	100.5	142.9	142.9	126.6	123.5	128.1	133.8	110.6
Nominal CY GDP (BDS$ millions)	9,956	10,173	10,418	9,260	10,086	10,725	11,213	11,723	12,256

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, 2014–2019
(Percent)

	2014	2015	2016	2017	2018	2019
Commercial Banks						
Solvency Indicator						
Capital Adequacy Ratio (CAR)	16.4	15.8	17.0	17.0	13.9	13.5
Liquidity Indicators 1/						
Loan to deposit ratio	70.3	65.5	62.3	63.3	63.0	61.8
Domestic demand deposits to total domestic deposits	30.9	35.7	40.3	41.6	41.8	45.3
Liquid assets, in percent of total assets	20.3	25.3	27.4	26.7	26.5	27.2
Credit Risk Indicators						
Loans and advances (yoy growth rate) 2/	-0.4	-0.8	-0.5	2.0	0.7	0.0
Non-performing loans ratio	11.5	10.6	8.9	7.9	7.4	6.6
Provisions to non-performing loans	47.7	55.5	63.2	69.6	67.3	60.2
Foreign Exchange Risk Indicators						
Deposits in Foreign Exchange (in percent of total deposits)	5.7	-0.9	8.6	8.8	10.5	6.7
Profitability Indicators						
Return on Assets (ROA)	0.7	0.9	1.0	1.3	-0.2	0.6
Credit Unions						
Solvency Indicator						
Reserves to Total Liabilities	8.6	8.5	8.7	8.7	9.8	n.a.
Liquidity Indicators						
Loan to deposit ratio	92.8	90.8	89.3	86.7	81.9	n.a.
Credit risk Indicators						
Total assets, annual growth rate	6.2	7.2	8.3	8.7	9.5	n.a.
Loans, annual growth rate	7.3	7.2	6.9	6.3	4.2	n.a.
Nonperforming loans ratio	9.4	9.0	7.6	7.8	8.9	9.6
Arrears 3-6 months/Total Loans	2.2	2.0	1.3	1.3	1.9	n.a.
Arrears 6 – 12 months/Total Loans	1.5	1.8	1.2	1.4	1.4	n.a.
Arrears over 12 months/Total Loans	5.7	5.2	5.1	5.0	5.5	n.a.
Provisions to Total loans	3.5	2.6	2.5	2.4	2.6	n.a.
Profitability Indicator						
Return on Assets (ROA)	0.9	0.6	0.8	0.9	0.7	0.7

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—Proposed 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	101	107	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	274	290	

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	2024	2025
				Projections					
	(in US$ millions, unless otherwise indicated)								
Gross Financing Requirements	**322**	**418**	**542**	**710**	**401**	**287**	**280**	**278**	**414**
Current Account Balance	189	253	162	474	302	204	181	148	162
Debt Amortization	133	164	380	235	100	83	100	130	252
Sources of Financing	**322**	**169**	**109**	**309**	**254**	**223**	**240**	**238**	**404**
Foreign Direct Investment (net)	156	222	244	55	176	215	252	264	276
Public Long Term Borrowing	66	119	40	114	72	42	40	40	49
Net Errors and Omissions	17	10	8	0	0	0	0	0	0
Change in Reserve (- increase)	131	-239	-139	58	10	-34	-52	-65	79
Other Net Capital Flows	-3	70	-3	82	-4	0	0	0	0
Short term net Private inflow	-45	-12	-42	0	0	0	0	0	0
Financing Gap 1/	**0**	**248**	**432**	**400**	**147**	**63**	**40**	**40**	**10**
o/w COVID-19 related	0	0	0	233	63	0	0	0	0
Prospective Financing	**0**	**180**	**201**	**400**	**147**	**63**	**40**	**40**	**10**
IMF	0	49	101	172	47	23	0	0	0
o/w budget support	0	0	0	90	0	0	0	0	0
IDB	0	75	25	135	75	40	40	40	10
CDB	0	56	75	19	0	0	0	0	0
CAF	0	0	0	75	25	0	0	0	0
Unidentified financing	0	0	0	0	0	0	0	0	0
Exceptional Financing (Restructuring)	**0**	**68**	**231**	**0**	**0**	**0**	**0**	**0**	**0**
Memo items:									
GIR/ARA (percent)	40	101	143	143	127	124	128	134	111
GIR coverage (months of imports of G&S)	1.2	3.0	4.2	4.9	4.2	4.0	4.1	4.2	3.6

Sources: Fund staff estimates and projections.

Notes: 1/ Including changes in reserve.

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	118.0	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	124.9	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	25.9	38.6	44.3	45.7	45.7	36.9	19.8	7.1	1.4
Total Interest/Charges 2/	c	0.2	1.8	3.7	4.6	4.8	4.6	4.1	2.5	1.6	1.1	0.7	0.3	0.1	0.0
Total Debt Service	d=b+c	0.2	1.8	3.7	4.6	13.5	30.5	42.7	46.8	47.3	46.8	37.6	20.0	7.2	1.5
Percent of exports		0.1	0.1	0.3	0.3	0.8	1.8	2.3	2.4	2.3	2.2	1.7	0.8	0.3	0.1
Percent of GDP		0.0	0.0	0.1	0.1	0.3	0.7	1.0	1.0	1.0	0.9	0.7	0.4	0.1	0.0
Percent of quota 1/		0.2	1.9	3.9	4.9	14.3	32.3	45.2	49.5	50.0	49.5	39.8	21.2	7.6	1.5
Outstanding Credit	e=e(-1)+a-b	105.0	223.0	257.0	274.0	265.2	239.3	200.7	156.5	110.8	65.1	28.2	8.5	1.4	0.0
Percent of exports		6.4	20.9	18.7	17.3	15.8	13.4	10.7	8.0	5.4	3.0	1.2	0.3	0.1	0.0
Percent of GDP		2.8	6.6	7.0	7.1	6.5	5.6	4.5	3.4	2.3	1.3	0.5	0.2	0.0	0.0
Percent of quota 1/		111.1	235.9	271.9	289.9	280.7	253.2	212.4	165.6	117.2	68.9	29.9	9.0	1.5	0.0
Memo items:															
Exports of G&S (US$ million)		2,265	1,472	1,898	2,191	2,317	2,468	2,588	2,715	2,846	3,008	3,180	3,362	3,556	3,761
BOP Overall balance (US$ million)		139	-58	-10	34	52	65	-79	-103	-108	-83	-54	78	180	235
GIR (US$ million)		739	681	671	705	757	822	743	640	532	448	394	472	651	886
ARA (US$ million)		517	476	530	571	591	615	672	716	739	757	779	763	746	749
GIR/ARA (percent)		143	143	127	124	128	134	111	89	72	59	51	62	87	118
GIR/External Debt Service (percent)		597	276	264	256	271	287	177	139	118	104	93	164	333	531
Nominal GDP (CY US$ mln)		5,209	4,630	5,043	5,363	5,606	5,861	6,128	6,406	6,698	7,002	7,321	7,654	8,002	8,365

Sources: Fund staff estimates and projections.

1/ Using SDR/USD exchange rate = 0.7246 (as of March 19, 2020) and quota SDR = 94.5 million;

2/ Using GRA rate of charge = 1.081 (as of March 19, 2020).

Annex I. Debt Sustainability Analysis

With the external debt restructuring now completed, debt is projected to decrease from 123 to about 107 percent of GDP in the next five years. The COVID-19 induced recession and the relaxation of the fiscal stance in 2020 will need to be compensated by higher primary surpluses in subsequent years to ensure that public debt remains on a steep downward trajectory towards 60 percent debt/GDP by end-FY2033/34. Over the projection period, stress tests suggest that risks to debt sustainability have notably increased because of the COVID-19 crisis and debt remains above the 70 percent of GDP risk assessment threshold under the baseline. Risks include the need to maintain high primary surpluses and increase medium-term growth. These risks are mitigated by Barbados' strong track record under the EFF-supported program.

A. Public Debt[1] Restructuring

1. The public debt restructuring was completed in two phases.

- **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.[2]

- **On October 19, 2019, the Barbadian authorities reached a debt restructuring agreement with the external creditor committee**. The agreement includes an adverse weather clause for the new instrument. The new instrument would have a 10-year maturity, 5-year grace period, a coupon of 6.5 percent, a 25 percent haircut on principal (and a 35 percent haircut on accrued interests and penalties), a BRB$80 million payment in the first two years. The restructured debt currently started trading in December close to par on the secondary market. At this exit yield, this would translate in a present value loss for creditors of about 30 percent of the principal.

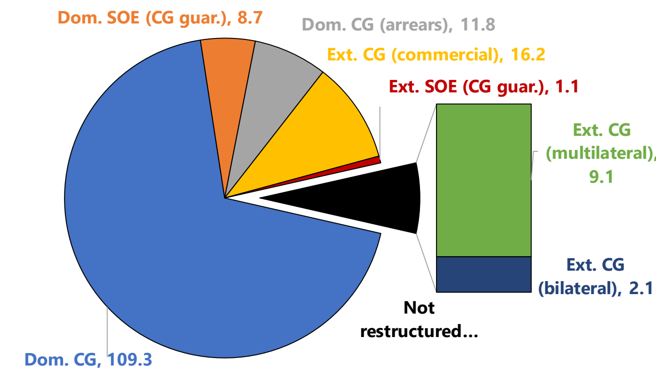
2. Overall, the amount of debt restructured was equivalent to about 147 percent of GDP, including claims held by public sector agencies such as the CBB and the NIS. It covered central government domestic debt including treasury bills and all other short-term claims such as overdrafts, central government debt to external commercial creditors, SOE external and domestic debt guaranteed by the central government, domestic expenditure arrears incurred by the central

[1] This debt sustainability analysis (DSA) covers the full stock of public debt defined here as the sum of: debt issued by the Central Government, debt and expenditure arrears incurred by the Central Government, debt issued by SOEs and guaranteed by the Central Government, and IMF BOP support. We refer to this gross debt concept as "public debt" in order to distinguish it from the consolidated concept of public sector debt.

[2] Key elements of the domestic 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).

government, and external arrears that started accumulating after the external default. Only bilateral external debt and debt held by multilaterals was excluded from the restructuring perimeter (see text chart).

Barbados: Public Debt and Restructuring Perimeter
(Percent of FY GDP)



Sources: Fund staff calculations.

3. **Together with the already concluded domestic debt restructuring, ongoing fiscal adjustment, and measures to boost growth, the external debt restructuring will help restore debt sustainability**. Under the program's macroeconomic framework, the public debt restructuring ensures that debt reaches the 80 percent of GDP program medium term anchor in FY2029/30 and the 60 percent of GDP program long-term anchor in FY2033/34.

B. Public Debt Structure and Profile After the Restructuring

4. **At end FY2019/20, public debt was about 122 percent of GDP, down from about 126 percent of GDP in FY2018/19** (Table 3).

- **Over this period, public domestic debt decreased from about 93 to 90 percent of GDP** Short term CG debt decreased from 9 to 6 percent of GDP due primarily to consolidation and offsetting of multiple overdraft facilities. Long term CG debt decreased from 84 to 83 percent of GDP due to ongoing amortization. Repayment of domestic expenditure arrears contributed to decreasing the stock of domestic arrears from 3 to about 1 percent of GDP.

- **Over the same period, public external debt decreased from about 33 to 31 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, about 1 percent of GDP disbursement from the IMF under the EFF-supported program, the external debt restructuring that provided immediate debt relief of about 4 percent of GDP, and amortization of non-restructured debt that contributed the rest.

5. **The profile of public debt improved after the 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. The external debt restructuring introduces a 5 year grace period on commercial debt amortization and afterwards, a much smoother debt service profile than before restructuring. Together with the large fiscal adjustment, these contribute to maintaining gross financing needs well below the 15 percent risk assessment threshold.

C. Public Debt Sustainability Assessment Assumptions

6. The specific assumptions used in this annex are:

- ***Growth and Inflation***. In 2020, FY GDP growth is projected to decrease from minus 3 percent in 2019 to about minus 7 percent due to a large negative shock in tourism demand, in turn due to the COVID-19 pandemic. 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 4.5 percent in 2020 supported by an outdated weight system that inflates the contribution of domestic food prices and despite the large negative revision of oil prices and the domestic recession. Over the medium term, average inflation is expected to return to a long-run average of around 2.3 percent in 2022-24. The fiscal multiplier used is 0.3 reflecting the FAD methodology staff's guidance on fiscal multipliers.[3] Staff used conservative assumptions to reduce downside risk to the projections. However, the risk of a solid recovery not materializing as assumed, would further increase risks to debt sustainability. At the same time, were growth to overperform relative to baseline projections, the authorities could accelerate efforts towards debt reduction.

- ***Primary Balance***. For FY2020/21, the primary balance is projected to decrease to 1 percent of GDP as a countercyclical response to the negative shock in tourism demand due to the COVID-19 pandemic. Subsequently, with the economic recovery, the primary balance is assumed to gradually increase to 5.5 percent by FY2022/23 before gradually decreasing to 5 percent and stabilize at this level until the long term debt anchor is reached in FY2033/34.[4] As discussed in the risks to the outlook section, staff assesses the programmed fiscal adjustment as realistic with a low probability of "adjustment fatigue" despite the need to run higher primary surpluses in the medium term as a consequences of the COVID-19 shock. Public support for the adjustment program remains strong.

- ***Arrears***. Domestic expenditure arrears are gradually repaid and fully extinguished by end-FY2022/23.

D. Projections

7. Over the projection period, risks to debt sustainability have notably increased. Debt remains above the 70 percent of GDP risk assessment threshold under the baseline. In addition, because of the COVID crisis the fiscal accommodation raises GFNs close to the 15 percent risk assessment threshold. The COVID-19 induced fiscal accommodation will need to be compensated by higher primary surpluses in the medium term to reach the 60 percent medium term anchor in FY2033/34. These risks are mitigated by Barbados' strong track record under the EFF-supported program.

---

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

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

8. The public debt-to-GDP ratio is projected to decrease from 123 to about 107 percent between FY2019/20 and FY2024/25 (Figure 1). In 2020, debt is projected to increase from 123 to about 136 percent of GDP. Although the primary balance is contributing minus 1 percentage points to this change, the contraction in GDP, interest expenditure, and the augmentation of the EFF arrangement are contributing about 10, 3, and 2 percentage points, respectively. Considering the exogenous and transitory nature of the COVID-19 shock on Barbados' growth, Staff assesses the deterioration as transitory. Over the projection period, public debt is expected to decrease to 107 percent of GDP with dynamics primarily impacted by the primary surplus, with a cumulative impact of about minus 27 percentage points of GDP, and by the automatic debt dynamics, contributing about 8 percentage point of GDP. Of these, the cumulative impact of real GDP growth is projected at about minus 3 percentage points and more than offset by the cumulative impact of real interest rate, projected at about 11 percentage points.

9. Public debt is projected to be below its long-term anchor of 60 percent of GDP by end-FY2033/34 (text chart, panel 1).[5] Debt sustainability is due mainly to: (i) low gross financing needs that remain below the 15 percent of GDP threshold aft (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); and (iii) by improved automatic debt dynamics driven by reduced interest expenditure, in turn generated by the recent domestic and external debt restructurings (text chart, panel 4). Unfavorable outturns of these determinants contribute important sources of risks to debt sustainability. In particular, despite moderate gross financing needs and a relatively large banking sector, its willingness and capacity to absorb additional financing needs will likely be limited after the recent restructuring.

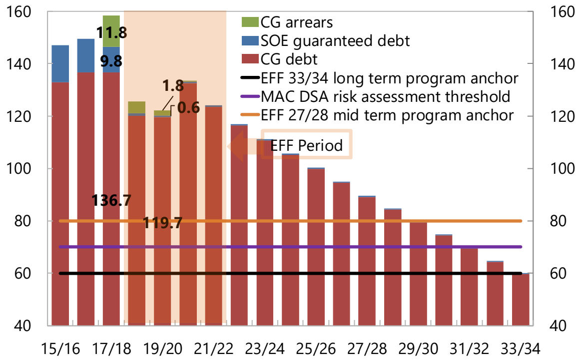
10. Public short-term debt is projected not to exceed 5 percent of GDP (text chart, panel 5). Public debt management strategy is assumed to target a max 5 percent of GDP in short term debt and use long-term domestic debt to fill the gross financing needs as needed. By end FY2033/34 long-term debt and short-term debt are projected to be about 55 and 5 percent of GDP, respectively.

11. External debt is projected to decline to 8 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. The public debt management strategy underpinning these projections assumes a 50 percent rollover ratio of commercial external debt maturing. This assumption maintains adequate reserve coverage while limiting expensive financing from capital markets. Consequently, by end-FY2033/34, external and domestic debt are projected to be about 8 and 52 percent of GDP, respectively.

[5] Text charts figures exclude IMF BOP support. Under current projections, 60 percent debt/GDP by FY2033/34 is reached by compensating the lower-than-envisaged primary surplus in FY2020/21 with higher surpluses in later years. The medium-term target of 80 percent debt/GDP will be reached in FY2029/30—two years later than originally envisaged.

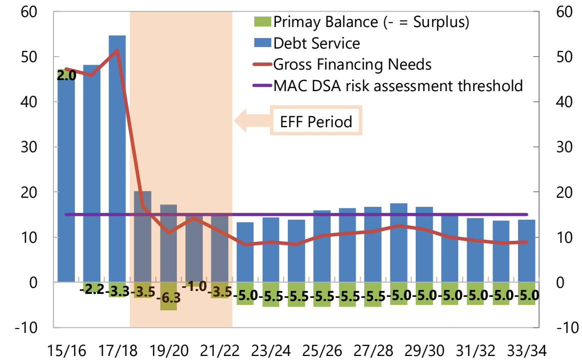
Figure 1. Barbados: Public Debt Projections
(In percent of FY GDP)

Public Debt Projections under the Program
(Percent of FY GDP)



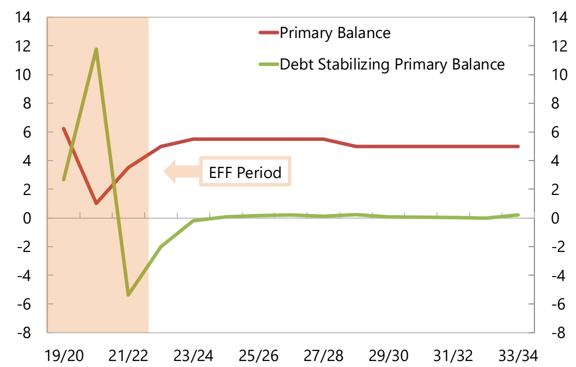
Sources: Fund staff calculations.

Gross Financing Needs under the Program
(Percent of FY GDP)



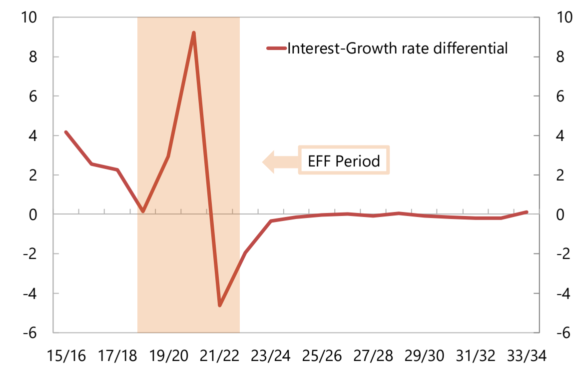
Sources: Fund staff calculations.

Debt Stabilizing Primary Balance under the Program
(Percent of FY GDP)



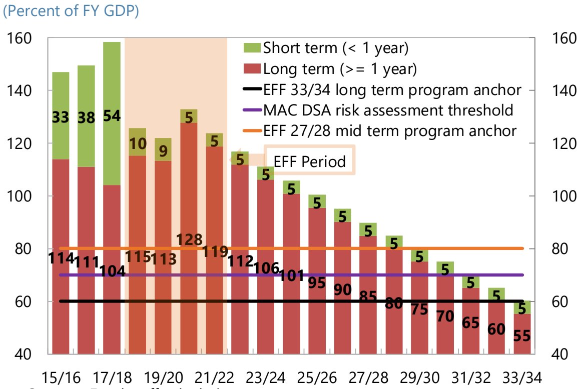
Sources: Fund staff calculations.

Interest-Growth Rate Differential under the Program
(Percent)



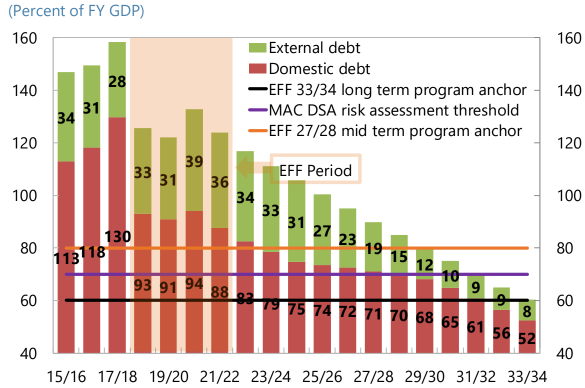
Sources: Fund staff calculations.

Public Mebt 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

12. The debt level remains above the 70 percent of GDP risk assessment threshold and gross financing needs exceed the 15 percent of GDP risk assessment threshold only in 2020 under the primary balance, real GDP, combined macro, and the contingent liability 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 macro 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 a steep downward trajectory. This 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.[6]

- **Gross financing needs breach the 15 percent risk assessment threshold only in 2020 under the primary balance, real GDP, combined macro, and the contingent liability stress scenarios**. The elevated risk in 2020 is related to the exogenous and transitory nature of the COVID-19 shock on Barbados' growth and the lower primary balance. However, the higher GFNs in FY2020/21 are solely due to the lower primary balance. With a balance budget assumed for the rest of the projection period, GFNs will remain well below the 15 percent risk assessment threshold. In addition, about 50 percent of gross financing needs have no rollover risk: commercial banks have committed to rollover the full stock of T-bills for 10 years and the rest of the short term debt is held by the CBB. Over the projection period, 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, or combined shocks.

- **Debt profile vulnerabilities are significantly reduced after the debt restructuring**. With external debt now trading at par on the secondary market, risks stemming from market sentiment are below the threshold of 600 basis points. External debt held by non-residents is above the risk assessment threshold of 15 percent. The share of external debt is expected to decrease over time as debt management strategy is assumed to favor domestic and cheaper external concessionary financing sources. Risks stemming from external financing requirements are below the lower risk assessment threshold of 3 percent.

13. 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

[6] 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.

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.

F. External Debt Sustainability Analysis

14. External debt is projected to decrease to about 33 percent of GDP by FY2024/25 with a low risk profile. The large external financing sources for 2020 explain the increase in debt between for that year. Going forward, 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 (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 about 39 percent of GDP by FY2024/25 under any of the stress tests considered (Figure 6).

Figure 2. Barbados: Public Debt Sustainability Analysis (DSA)

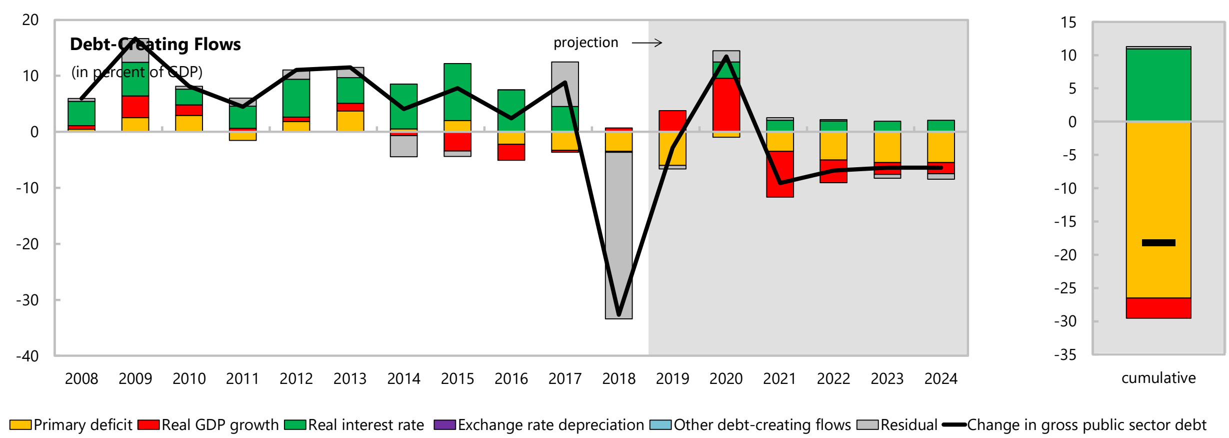
(In percent of FY GDP, unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of April 19, 2020		
	2008-2016 [2/]	2017	2018	2019	2020	2021	2022	2023	2024			
Nominal gross public debt	122.1	158.3	125.6	122.7	136.2	127.0	120.1	113.8	107.4	Sovereign Spreads 3/		
Public gross financing needs	33.8	51.3	15.0	11.1	14.3	11.3	8.4	9.0	8.5	5Y CDS (bp)		n.a.
FY Real GDP growth (in percent)	-0.5	0.2	-0.5	-3.0	-7.3	6.5	3.4	1.8	1.8	Ratings	Foreign	Local
Inflation (FY GDP deflator, in percent)	0.9	2.6	2.7	2.1	0.7	1.6	2.4	2.7	2.7	Moody's	n.a.	n.a.
FY Nominal GDP growth (in percent)	0.4	2.8	2.2	-1.0	-6.6	8.2	5.9	4.5	4.5	S&Ps	B-	n.a.
Effective interest rate (in percent) [4/]	6.2	5.7	2.6	2.0	2.9	3.4	4.1	4.4	4.6	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 primary balance [9/]
Change in gross public sector debt	8.0	8.8	-32.7	-2.9	13.5	-9.2	-6.9	-6.4	-6.4	-18.2	
Identified debt-creating flows	7.4	0.9	-2.9	-2.2	11.5	-9.6	-7.1	-5.7	-5.4	-18.6	
Primary deficit	1.2	-3.3	-3.5	-6.0	-1.0	-3.5	-5.0	-5.5	-5.5	-26.5	0.1
Primary (noninterest) revenue and grants	26.4	28.6	29.2	30.5	29.2	30.9	30.9	30.9	30.9	183.1	
Primary (noninterest) expenditure	27.5	25.3	25.8	24.5	28.2	27.4	25.9	25.4	25.4	156.6	
Automatic debt dynamics [5/]	6.3	4.2	0.5	3.8	12.5	-6.1	-2.1	-0.2	0.1	7.9	
Interest rate/growth differential [6/]	6.3	4.2	0.5	3.8	12.5	-6.1	-2.1	-0.2	0.1	7.9	
Of which: real interest rate	6.0	4.5	-0.2	0.0	2.9	2.1	2.0	1.9	2.1	10.9	
Of which: FY real GDP growth	0.2	-0.3	0.7	3.8	9.6	-8.2	-4.1	-2.1	-2.0	-3.0	
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/]	0.6	7.9	-29.8	-0.6	2.0	0.4	0.2	-0.7	-0.9	0.4	



Source: IMF staff.

1/ Public sector is defined as central government and includes public guarantees, defined as SOE debt. Data reported at the end of the April-March fiscal year. E.g.,: 2020 = April 2020 - March 2021.

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

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

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

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

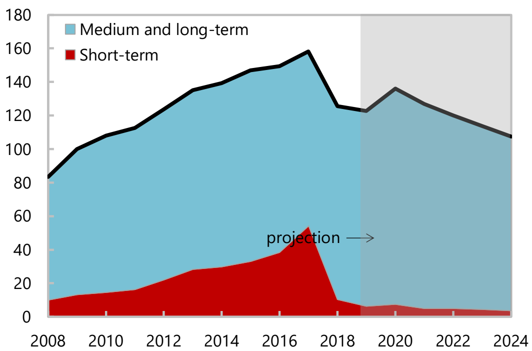
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 3. Barbados: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

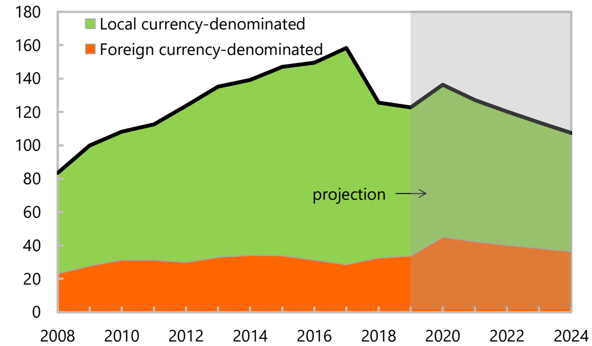
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

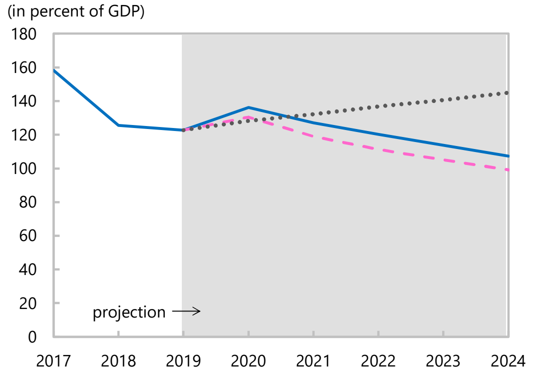


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

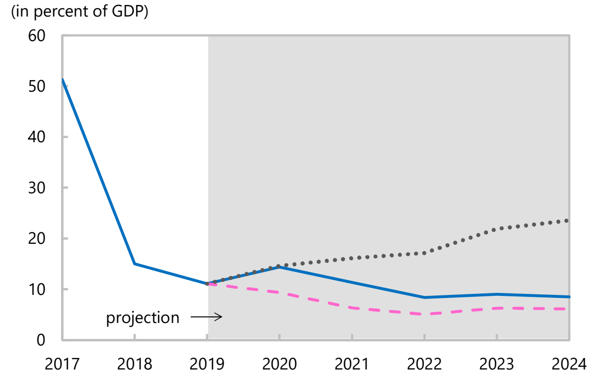
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

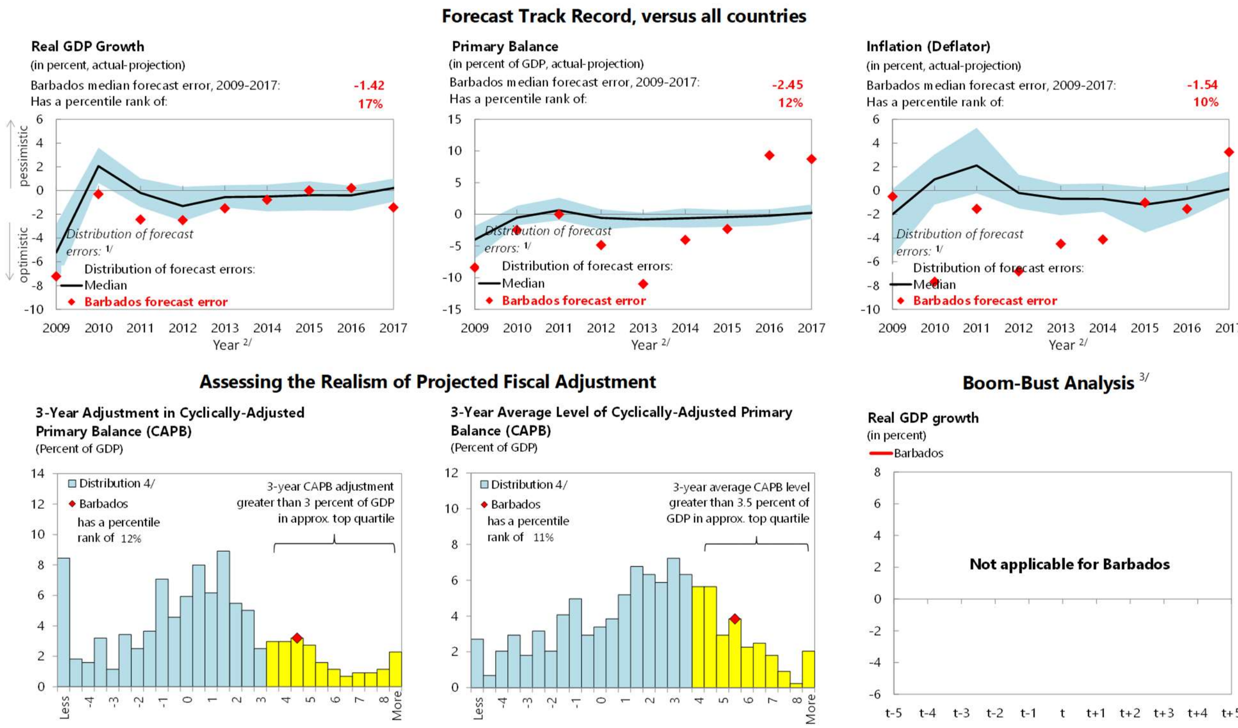
(in percent)

Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	-3.0	-7.3	6.5	3.4	1.8	1.8
Inflation	2.1	0.7	1.6	2.4	2.7	2.7
Primary Balance	6.0	1.0	3.5	5.0	5.5	5.5
Effective interest rate	2.0	2.9	3.4	4.1	4.4	4.6
Constant Primary Balance Scenario						
Real GDP growth	-3.0	-7.3	6.5	3.4	1.8	1.8
Inflation	2.1	0.7	1.6	2.4	2.7	2.7
Primary Balance	6.0	6.0	6.0	6.0	6.0	6.0
Effective interest rate	2.0	2.9	3.5	4.2	4.4	4.6

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	-3.0	-0.4	-0.4	-0.4	-0.4	-0.4
Inflation	2.1	0.7	1.6	2.4	2.7	2.7
Primary Balance	6.0	-0.3	-0.3	-0.3	-0.3	-0.3
Effective interest rate	2.0	2.9	3.7	4.6	4.9	5.2

Source: IMF staff.

Figure 4. Barbados: Public DSA – Realism of Baseline Assumptions



Source: IMF Staff.

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

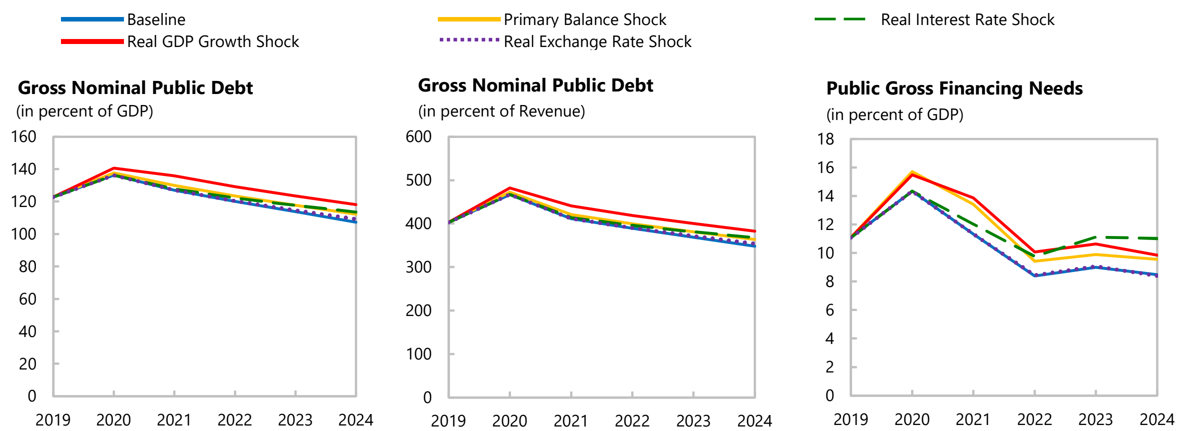
2/ Projections made in the spring WEO vintage of the preceding year.

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

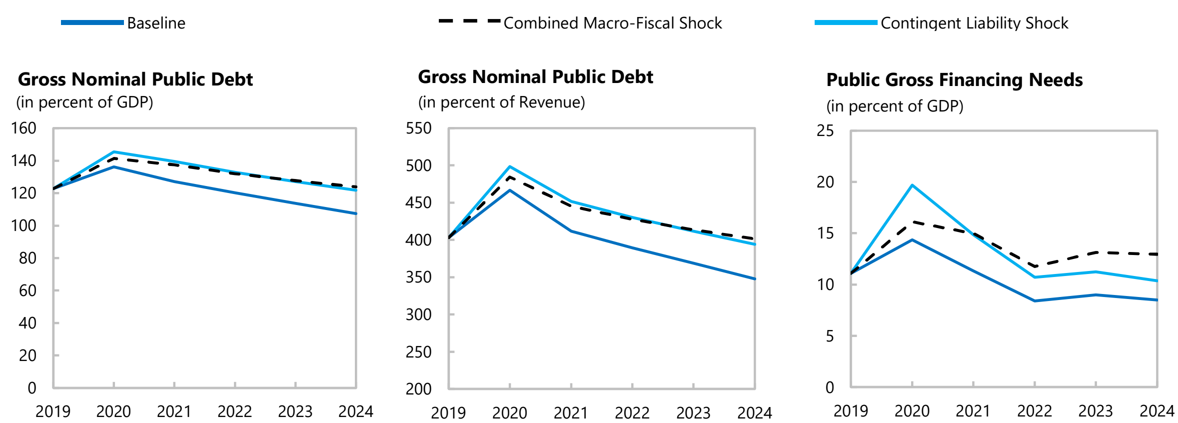
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 5. Barbados: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2019	2020	2021	2022	2023	2024
Primary Balance Shock						
Real GDP growth	-3.0	-7.3	6.5	3.4	1.8	1.8
Inflation	2.1	0.7	1.6	2.4	2.7	2.7
Primary balance	6.0	-0.4	2.1	5.0	5.5	5.5
Effective interest rate	2.0	2.9	3.4	4.2	4.4	4.6
Real Interest Rate Shock						
Real GDP growth	-3.0	-7.3	6.5	3.4	1.8	1.8
Inflation	2.1	0.7	1.6	2.4	2.7	2.7
Primary balance	6.0	1.0	3.5	5.0	5.5	5.5
Effective interest rate	2.0	2.9	4.0	5.0	5.4	5.8
Combined Shock						
Real GDP growth	-3.0	-9.2	4.5	3.4	1.8	1.8
Inflation	2.1	0.2	1.2	2.4	2.7	2.7
Primary balance	6.0	-0.4	2.1	5.0	5.5	5.5
Effective interest rate	2.0	2.9	4.0	5.1	5.5	6.0

	2019	2020	2021	2022	2023	2024
Real GDP Growth Shock						
Real GDP growth	-3.0	-9.2	4.5	3.4	1.8	1.8
Inflation	2.1	0.2	1.2	2.4	2.7	2.7
Primary balance	6.0	0.3	2.1	5.0	5.5	5.5
Effective interest rate	2.0	2.9	3.4	4.2	4.4	4.6
Real Exchange Rate Shock						
Real GDP growth	-3.0	-7.3	6.5	3.4	1.8	1.8
Inflation	2.1	0.7	1.6	2.4	2.7	2.7
Primary balance	6.0	1.0	3.5	5.0	5.5	5.5
Effective interest rate	2.0	2.9	3.4	4.1	4.4	4.6
Contingent Liability Shock						
Real GDP growth	-3.0	-9.2	4.5	3.4	1.8	1.8
Inflation	2.1	0.2	1.2	2.4	2.7	2.7
Primary balance	6.0	-3.9	3.5	5.0	5.5	5.5
Effective interest rate	2.0	2.9	3.5	4.2	4.4	4.6

Source: IMF staff.

Figure 6. Barbados: Public DSA Risk Assessment

Heat Map

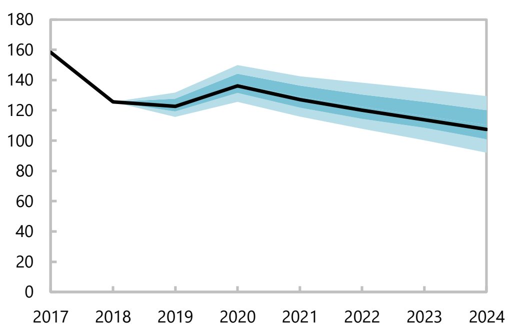
Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	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

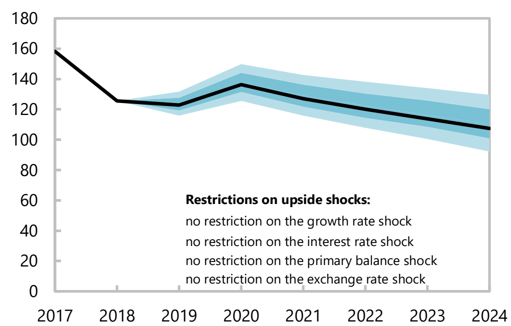
(in percent of GDP)

Baseline Percentiles: 10th-25th 25th-75th 75th-90th

Symmetric Distribution



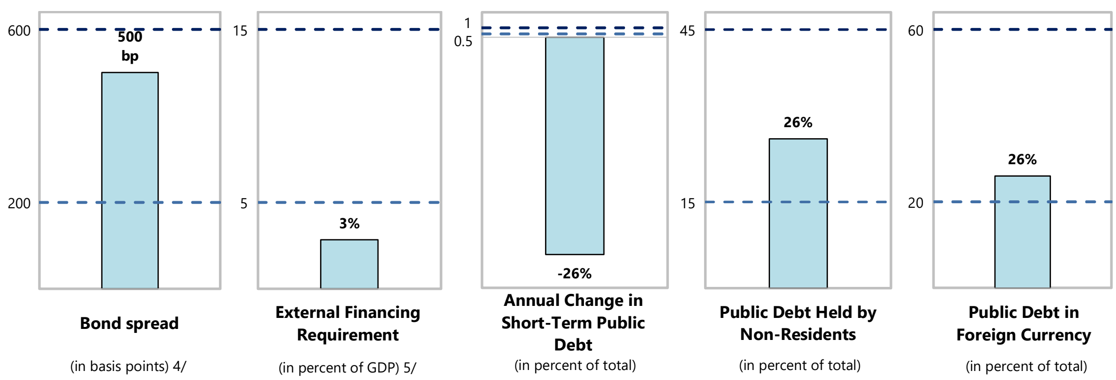
Restricted (Asymmetric) Distribution



Debt Profile Vulnerabilities

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

Barbados Lower early warning Upper early warning



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:

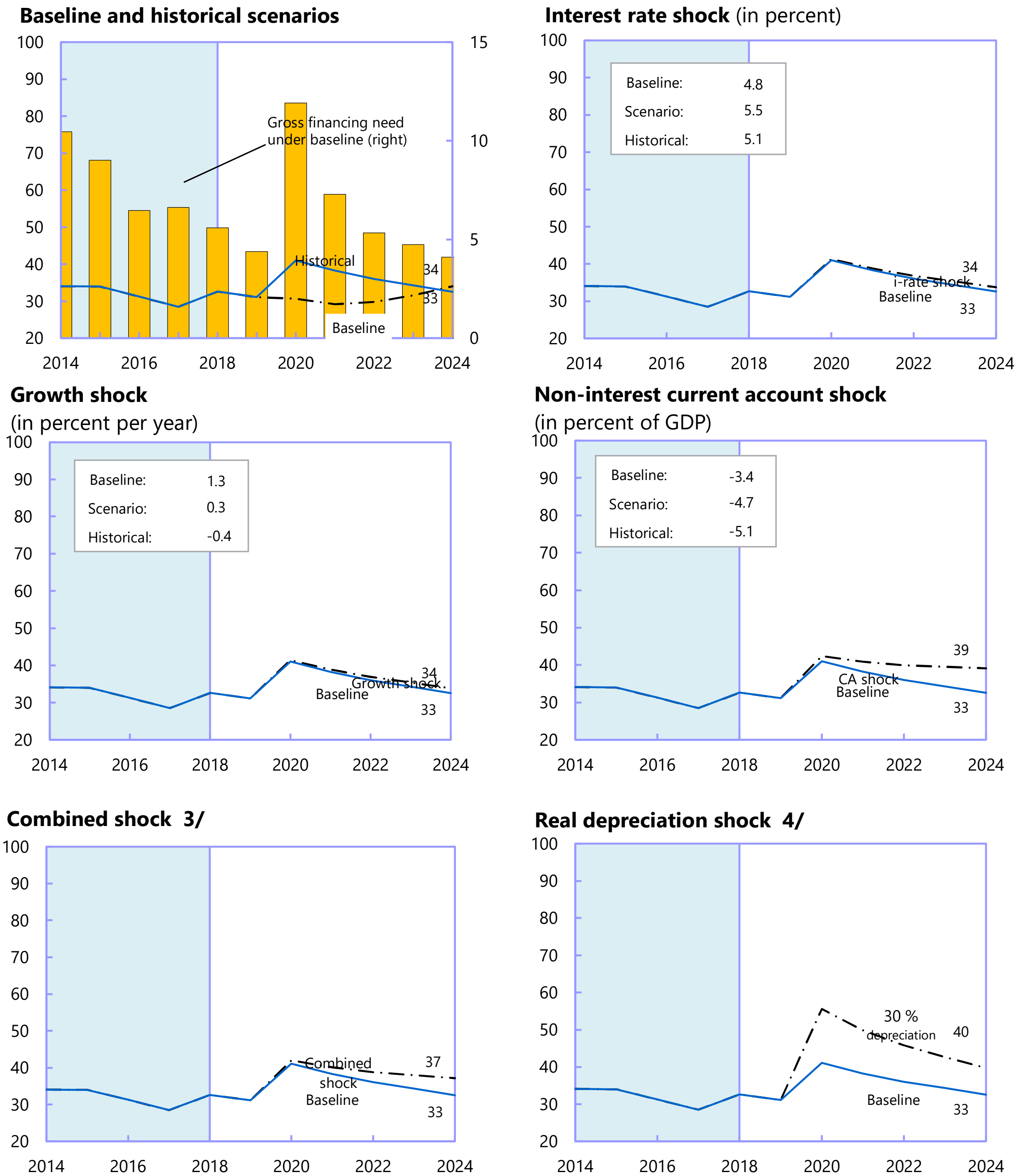
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 20-Jan-20 through 19-Apr-20.

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.

Figure 7. Barbados: External Debt Sustainability: Boundary Tests 1/ 2/

(External debt in percent of FY 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.

Table 1. Barbados: External Debt Sustainability Framework, 2014–2024
(In percent of FY 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			**31.1**	**41.0**	**38.3**	**36.0**	**34.3**	**32.6**	**-3.5**
Change in external debt	1.0	-0.1	-2.7	-2.8	4.1			-1.5	9.9	-2.8	-2.2	-1.7	-1.8	
Identified external debt-creating flows (4+8+9)	2.4	0.3	0.0	-0.2	-1.0			-0.7	11.3	0.0	-1.4	-1.9	-2.6	
Current account deficit, excluding interest payments	7.5	4.4	2.5	2.1	3.5			2.6	8.4	4.1	2.0	1.5	0.9	
Deficit in balance of goods and services	4.7	1.6	-1.0	-1.5	-1.5			-3.3	4.2	0.7	-1.5	-1.8	-2.4	
Exports	40.3	41.2	42.8	42.0	41.0			44.7	31.1	37.1	40.4	40.9	41.6	
Imports	45.0	42.8	41.8	40.5	39.5			41.4	35.3	37.7	38.9	39.1	39.3	
Net non-debt creating capital inflows (negative)	-6.7	-5.5	-3.4	-3.1	-4.3			-4.8	-1.2	-3.4	-4.0	-4.4	-4.4	
Automatic debt dynamics 1/	1.6	1.4	0.8	0.8	-0.2			1.6	4.1	-0.7	0.5	1.0	1.0	
Contribution from nominal interest rate	1.8	1.7	1.7	1.7	0.5			0.6	1.7	1.8	1.7	1.7	1.6	
Contribution from real FY GDP growth	-0.2	-0.8	-0.7	-0.1	0.1			1.0	2.4	-2.5	-1.2	-0.6	-0.6	
Contribution from price and exchange rate changes 2/	0.0	0.5	-0.2	-0.8	-0.8			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-1.4	-0.4	-2.6	-2.6	5.2			-0.8	-1.4	-2.8	-0.8	0.2	0.8	
External debt-to-exports ratio (in percent)	84.6	82.4	73.1	67.9	79.6			69.6	132.0	103.3	89.2	84.0	78.2	
Gross external financing need (in billions of US dollars) 4/	0.5	0.4	0.3	0.3	0.3			0.2	0.6	0.4	0.3	0.3	0.2	
in percent of FY GDP	10.5	9.0	6.5	6.6	5.6			4.4	11.9	7.3	5.3	4.7	4.1	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**31.1**	**30.7**	**29.2**	**29.8**	**31.6**	**34.1**	**-4.4**
Key Macroeconomic Assumptions Underlying Baseline														
FY Real GDP growth (in percent)	0.5	2.5	2.0	0.2	-0.5	-0.4	1.9	-3.0	-7.3	6.5	3.4	1.8	1.8	
FY GDP deflator in US dollars (change in percent)	-0.1	-1.5	0.6	2.6	2.7	1.3	1.7	2.0	0.8	1.6	2.4	2.7	2.7	
Nominal external interest rate (in percent)	5.4	5.1	5.1	5.6	1.7	5.1	1.4	1.9	5.0	4.7	4.8	4.9	4.9	
Growth of exports (US dollar terms, in percent)	-3.6	3.2	6.6	0.8	-0.1	-0.8	6.9	7.9	-35.0	29.0	15.4	5.8	6.5	
Growth of imports (US dollar terms, in percent)	-1.5	-3.9	0.2	-0.4	-0.4	-2.1	7.5	3.9	-20.4	15.7	9.2	5.0	5.0	
Current account balance, excluding interest payments	-7.5	-4.4	-2.5	-2.1	-3.5	-5.1	2.6	-2.6	-8.4	-4.1	-2.0	-1.5	-0.9	
Net non-debt creating capital inflows	6.7	5.5	3.4	3.1	4.3	5.8	2.8	4.8	1.2	3.4	4.0	4.4	4.4	

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.

Appendix I. Letter of Intent

Bridgetown, Barbados
May 19, 2020

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 tripled to US$850 million as of April 2020, the public 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 ongoing global coronavirus pandemic poses a monumental challenge for our economy, which is heavily dependent on tourism. Tourist arrivals in 2020 will be far below normal levels, with a negative impact on economic growth, government revenue, our international reserve position and jobs. To address this, we would like to request an augmentation of access under the EFF of 70 percent of quota (SDR66 million, or about US$90 million) to be made available at the time of the third review under the EFF. Given that financing from the IMF will be disbursed for budget support, a Memorandum of Understanding will be established between the Central Bank of Barbados and the Ministry of Finance, Economic Affairs and Investment regarding their respective responsibilities for servicing financial obligations to the IMF.

There will also be a need for a lower-than-envisaged primary surplus target for FY2020/21, to accommodate the significant loss of government revenue anticipated and additional emergency outlays on health facilities, medical supplies and personnel, as well as provide income support to the most vulnerable. We should note that the number of those who would be categorized as 'vulnerable' has almost trebled in the last month, with more than 30,000 applications for unemployment benefits (approximately an additional 20 percent of the work force). This number does not include those self-employed persons who businesses are dependent on tourism activity. We are therefore now targeting a primary surplus for FY2020/21 of 1 percent of GDP, down from 6 percent of GDP originally envisaged under our homegrown BERT Plan.

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 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 third review of the extended arrangement under the Extended Fund Facility, modification of five performance criteria relating to the primary balance, net international reserves, and net domestic assets, transfers to State-Owned Enterprises and debt. We also request the resetting of four structural benchmarks. As a result of the pandemic, several IMF technical assistance missions (including on Central Bank of Barbados recapitalization and the introduction of a fiscal rule) had to be delayed. We also request the introduction of one new structural benchmark for the submission to Parliament of the amended Central Bank Law.

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 Investment
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-fuel 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 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 June 2019, and the second review in December 2019. By April 2020, international reserves had recovered to almost US$850 million, and a restructuring of public debt had been completed. The completion of the 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. 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 have continued to meet BERT and EFF programme targets, in spite of increasingly challenging conditions owing to the global coronavirus outbreak.** All quantitative targets for end-December 2019 and for end-March 2020 were met (Table 1). In particular, in FY2019/20, a primary surplus of 6 percent of GDP was recorded. Regarding structural benchmarks, the Barbados Customs and Excise Department (BCED) established a Trusted Traders program in March 2020, and the Barbados Revenue Authority implemented measures to improve on time filing rates.

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 and November 2019 Supplementary MEFPs. 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 FY2020/21 AND BEYOND

6. The global coronavirus outbreak is expected to lead to a significant contraction in economic output, a large drop in government revenue and the incurring of higher government expenditure in 2020. The ongoing pandemic will reduce tourist arrivals in 2020 sharply below normal levels, with a negative impact on economic growth, government revenue, our international reserve position, and jobs. On current projections, the global outbreak could reduce government revenue in FY2020/21 by about 4 percent of GDP, while additional health outlays, supports to vulnerable households and transfers to public institutions facing revenue shortfalls, could amount to about 1 percent of GDP. We are therefore now targeting a primary surplus for FY2020/21 of 1 percent of GDP, down from 6 percent of GDP originally envisaged under our homegrown BERT Plan, and 6 percent achieved in FY2019/20. The primary surplus target for FY2020/21 may need to be lowered further, depending on the duration of the epidemic. The budget for FY2020/21 was passed by Parliament in March 2020.

7. We are implementing a range of measures to protect lives and livelihoods in this unprecedented crisis. To facilitate the payment of unemployment benefits and provide the NIS with the cash to make much higher than anticipated payments, we will purchase government bonds that the NIS holds. We will also accelerate the planned repayment of remaining VAT and income tax arrears, to provide critical cash to the economy at a time when it most needs it. To enhance food security, we have started to bring into cultivation 750 acres of land for crop cultivation. We are working with the IDB's private sector lending arm to establish a Barbados Tourism Facility to provide working capital and investment loans to Barbadian hotels during this difficult period.

8. 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 profit 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.

9. Personal Income Tax (PIT) rates will be reduced gradually to reduce the discrepancy between CIT and PIT rates. The top PIT rate has been reduced to 28.5 percent as of January 1, 2020. To compensate for the revenue loss, the base of the VAT has been broadened; land taxes and tourism room rate levies were increased; and new gaming taxes and online taxes have been introduced. The goal is to create a modern tax system, aimed at supporting growth and enhancing fairness.

10. Strengthening tax administration is an important priority. Measurable targets were introduced by 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*). As a result, on-time filing rates for VAT increased to 86 percent and that for CIT rose to 97 percent. The BRA has made progress on implementing a new Tax Administration Management Information System (TAMIS); this will eventually allow for legacy IT systems to be retired. Unpaid tax refunds going back several years—both for VAT and for PIT—are now being repaid; going forward, all refunds due to taxpayers should be paid within six months after the filling date.

11. In 2020, we will enhance resources and improve our strategies for taxpayers in the large taxpayer segment. This builds on the important formation of the Large Taxpayer Unit (LTU) and is a priority 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 (*structural benchmark*). To date BRA has commenced "issued based" audits on 30 companies.

12. During 2020, further improvements will be sought in ensuring that 'on-time' filing of returns for all large taxpayers increases and moves 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.

13. Modernization of the Barbados Customs and Excise Department (BCED) is critically important. 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. The reforms will focus on BCED's governance structure, operational standards, legal framework, and its ability to retain adequate levels of trained personnel.

14. Revised benchmarks have been developed to reflect and address the challenges faced in reforming the BCED. The BCED has established a trusted trader program (TTP) that gives defined rights and benefits to members and has at least 8 companies participating (*structural benchmark for* *end-March 2020)*. By end-August of 2020, the BCED 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, and more than 8 verification assignments have been completed); (ii) train and deploy at least 6 officers full-time in the post clearance audit unit and undertake at least 8 field audits (the post clearance audit unit has been established and fully staff – 4 audits have been completed to date); and (iii) undertake post release verification of entries and subject at least 3500 entries to this control (about 1500 entries have been subjected to this control) (*structural benchmark)*.

A Fiscal Rule

15. The Government intends to seek Parliamentary approval of a fiscal rule to enhance fiscal transparency, and lock in the gains of fiscal consolidation (*reset structural benchmark for end-June 2021*). 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 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

[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.

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 (PFM) and the Budget Process

16. A new Financial Management and Audit (FMA) 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.

17. We have adopted an action plan for public financial management reform to implement the new FMA act. In this context, we have begun to implement the following:

- **Strengthen the strategic phase of the budget formulation process**. The main inputs are as follows: (i) annual update of BERT Plan, 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) setting of budget ceilings in accordance with the updated BERT, as a guide to the allocation process; (iii) provision of clear instructions by Cabinet for budget submissions based on a comprehensive discussion of the needs and priorities of each Ministry and program, including on spending ceilings.

- **Reform the Budget Documentation to support strengthening the strategic budgeting process and provide more policy-oriented information to decision makers**. Annual Budget Documentation (Budget Estimates) provides a comprehensive narrative describing the public finances and 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.

- **The Government will strengthen the efficiency and quality of the Government of Barbados (GOB) procurement process** thereby improving the ease of doing business and reducing costs. 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. Strengthened public procurement including audit of these crisis expenditures, publication of contracts, the names of successful bidders (and their beneficial owners) as well as ex post verification of delivery will ensure that COVID-19 related outlays will be efficiently allocated.

- **We are reviewing our legal and regulatory framework for engaging in Public-Private Partnerships** (PPPs). When done right, PPPs can play an important role in sustaining growth and increasing potential growth. 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

18. 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 (*reset structural benchmark for end-December 2020*).

19. In November 2019, we reached agreement with the External Creditor Committee on the terms for restructuring US dollar-denominated commercial debt. The agreed terms have brought 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 2029/30, and 60 percent by 2033/34. The completion of the external debt restructuring has helped to 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.

20. We are strengthening our debt management, with some technical assistance anticipated from the IMF. We have established a Debt Management Committee and 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.

21. Domestic expenditure arrears are gradually being 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 well advanced in the process of negotiating and settling legitimate arrears. The only way to restore the honour and word of the Barbados Government was to commit 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 receives the approval of the Minister of Finance. Loans by SOEs will 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 included in the program.

Public Sector Reform

22. **The Government is committed to modernising and improving the efficiency, quality and cost effectiveness of the public sector**. Our Government must be made fit to take on the challenges of the twenty first century. Of necessity, this means that as we settle our budgets and our programmes, an ongoing analysis is done 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.

23. **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.

24. **The new 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.

25. **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. The measures introduced to respond to the coronavirus pandemic build on those that were already established to protect those affected by public sector restructuring: a Household Survival Programme managed by a Household

Mitigation Unit that tracks and supports affected workers, as well as support to and training opportunities for the self-employed and newly unemployed.

26. 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-December 2020 (*reset structural benchmark*) and conduct an actuarial review by end-September 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

27. 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.

28. We are working on amending the Central Bank Law to enhance its autonomy, mandate, and decision-making-structures (past structural benchmark by end-December 2019). We have a draft of the Law and are working through the review process with the relevant stakeholders. Once this is completed, we will share it with IMF staff for their review. This amended law is critical to ensure the continued protection of our exchange rate peg. We have received legal technical assistance from the IMF in reviewing the Central Bank law, ensuring that the revised law will meet international best practice and address the issues raised during the safeguards assessment while adhering to our system of governance. We will submit the amended Central Bank Law to Parliament by end-September 2020 (*new structural benchmark*). 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.

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, 2019, 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, 2019, 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. We have increased delegated authority to foreign exchange dealers to approve foreign exchange transactions without reference to the Central Bank.

30. In March 2020, the central bank and commercial banks introduced measures to support the credit market in response to the coronavirus crisis. While the financial system is very liquid, liquidity at individual institutions may fluctuate from time to time, particularly in strained conditions. Key measures include a reduction of the overnight lending discount rate from 7 to 2 percent and a reduction of the minimum statutory holding requirement for government securities from 17.5 to 5 percent of deposits. Commercial banks have also announced a six-month moratorium on loan repayment and revised loan terms on new loans for individuals and firms affected by the pandemic.

31. We also commit to continuing our efforts to strengthen our AML/CFT framework in keeping with our action plan agreed with the FATF to promptly exit the FATF's International Review Group process.

IV. GROWTH ENHANCING REFORMS

32. 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.

33. 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 is to deliver excellence to global standards while retaining our national identity. We launched a Barbados Youth Advance Corps which will cater to 1,000 students per year for a 2-year programme. We also launched 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.

34. Making the Government an enabler of growth will include strengthening the judiciary and the time it takes for court hearings and redress. We have established a Commercial Court to speed up commercial adjudication and judgments. The Commercial Judges to staff this Court have already been 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.

35. Increasing participation of women in the labour force 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. We have begun the process of developing paternity leave legislation and expect to introduce this measure by end FY2020/21.

36. The Government has started to facilitate a range of services online. This includes: the provision of drivers' licenses, police certificates of character and planning and development applications . The clearing of goods through Customs, applying for passports and other key functions are among those to be added. As part of its Public Sector Modernization Programme, the Ministry of Innovation Science and Smart Technology has earmarked seven departments to start the digitalization of Government including the Immigrating Department, the Civil Registry and the Courts, the Police Department, the International Business division, the BCED, the Town and County Planning Office, and the Barbados Licensing Authority. Execution of the IDB-funded programme will be scaled up in the current fiscal year as Government partners with the private sector to accelerate access to goods and services online and a new digital economy while physical distancing protocols must remain in effect. This acceleration will also allow for the engagement of newly-unemployed workers, in particular women, whose labour may not be as easily absorbed by rebounding construction and quarrying sectors.

37. Actions for promoting growth by improving the business climate are critically important. A World Bank Doing Business Reform Note outlines the short-, medium- and long-term measures that may be taken to markedly improve Barbados' relatively low ranking in this indicator and its overall investment climate. A Doing Business Sub-Committee of Cabinet and Private Sector Committee have been established to execute and monitor the needed reforms detailed by indicator, including measures to enhance delivery in our registry and regulatory services. Already, improvements are being seen in the time taken to receive planning decisions, Financial Services Commission registrations and on other regulatory matters.

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)			
	Timing	Assessed	Comments
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 the third review			
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	Not met	Proposed reset for end-December 2020
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	Met	
17) 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	Met	
D. Structural Benchmarks for future reviews			
18) Relocate ASYCUDA World so that it is housed in, and under the control of, the Customs and Excise Department, and ensure that both the BRA, the Ministry of Finance, and the CBB have all real time access to the database for domestic compliance and tax policy analysis purposes on a need to know basis. The selectivity module of ASYCUDA World must also be functioning and in use.	end-June 2020		

Table 1. Structural Benchmarks (Concluded)			
	Timing	Assessed	Comments
19) Government to submit to Parliament 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.	end-September 2020		Proposed new Structural Benchmark
20) Government to conduct an actuarial review of the civil service pension system with a view to reform it as discussed in MEFP paragraph 21.	end-June 2020		Proposed reset to September 2020
21) BRA (i) to execute initial 20 "issue based" audits on taxpayers in the large taxpayer segment, and (ii) to develop a risk-based compliance plan to target improvements in "on-time" filing and payments compliance rates: 10 percent increase over current compliance rates.	end-June 2020		
22) Government to table a revised public pension law to enhance the sustainability of the public sector pension scheme, as discussed in MEFP paragraph 21.	end-June 2020		Proposed reset to December 2020
23) 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		Proposed reset to December 2020
24) 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		
25) 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 to June 2021

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 2019	Actual End December 2019	Target End March 2020	Actual End March 2020	Status End March 2020	Target End June 2020	Target End September 2020	Target End December 2020	Target End March 2021
Fiscal Targets									
Performance Criteria									
Floor on the CG Primary Balance 4/	439	…	630	…	…	-60	27	45	95
Floor on the CG Primary Balance (adjusted) 4/	439	474	631	634	Met	…	…	…	…
Non-accumulation of CG external debt arrears 4/ 6/	0	0	0	0	Met	0	0	0	0
Ceiling on CG Transfers and Grants to Public Institutions 4/ 7/	313	274	418	396	Met	134	238	338	444
Ceiling on Public Debt 5/	12,544	…	12,390	…	…	13,417	13,308	13,146	12,985
Ceiling on Public Debt (adjusted) 5/	12,694	12,457	12,390	12,317	Met	…	…	…	…
Indicative Targets									
Ceiling on CG Domestic Arrears 5/	180	107	180	153	Met	150	145	120	110
Floor on Social Spending 4/ 8/	35	35	50	50	Met	5	10	25	40
Ceiling on Public Institutions Arrears 5/	120	65	120	61	Met	58	56	53	50
Monetary Targets									
Performance Criteria									
Ceiling on Net Domestic Assets of the CBB 5/	2,002	1,762	2,002	1,771	Met	2,282	2,282	2,152	2,152
Floor on Net International Reserves 5/	864	…	941	…	…	1,017	723	694	755
Floor on Net International Reserves (adjusted) 5/	977	1,130	942	1,210	Met	…	…	…	…
Items feeding into PB, Debt, and NIR adjustors									
IDB budget support 4/	0	0	0	0	…	160	160	280	280
CDB budget support 4/	0	150	150	150	…	0	0	0	0
CAF budget support 4/	0	0	0	0	…	0	0	200	200
Grants 4/	10	10	11	12	…	0	0	11	11

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 June 30, 2020; September 30, 2020; December 31, 2020; and March 31, 2021. The same variables are ITs for September 30, 2020; December 31 2020; 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

[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.

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, 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

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.

[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".

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, SOEs debt guaranteed by the CG, 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

A. 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).

B. Floor on CG Social Spending

23. The indicative floor on social spending of the CG will apply only to expenditures incurred by the CG on the following plans and programs, 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).

C. 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.

Statement by Louise Levonian, Executive Director for Barbados and Jeremy Weil, Senior Advisor to Executive Director
June 3, 2020

Barbados' steadfast commitment to its homegrown economic reform agenda, supported by the Fund, has provided the reserves, fiscal space, and market confidence required to face the unprecedented coronavirus crisis. The authorities wish to extend their gratitude to the Fund for their close partnership through these challenging times.

Program Overview

The coronavirus outbreak and associated economic lockdown represent a monumental challenge for Barbados. Tourism has come to an abrupt halt, leading to a sharp contraction in economic activity and a spike in unemployment. The economy is now expected to enter a deep recession in 2020, which will require a fiscal response. The crisis will have a major impact on Barbados' balance of payments in 2020, driven by a large deterioration in the current account and a decline in FDI.

The requested US$90 million augmentation of access under the Extended Fund Facility (EFF) will help address a substantial decline in revenues, finance additional spending related to the crisis, and shore-up international reserves that are expected to decline in the months ahead. This additional financing will also help catalyze support from other IFIs.

Despite 'the great lockdown', Barbados has continued to perform strongly under the EFF and has met all quantitative performance criteria for this review, including the primary surplus target of 6 percent for FY2019/20.

The crisis has necessitated targeting a primary balance for FY2020/21 of 1 percent of GDP, down from 6 percent as originally planned. Accordingly, the authorities are targeting higher primary surpluses over the medium term to ensure that public debt remains on track to reach the long-term anchor of 60 percent of GDP by FY2033/34. This will be achieved by phasing out crisis spending, containing grants to SOEs, improving expenditure control, and by strengthening customs and revenue administration. The introduction of a fiscal rule by mid-2021 will also support these efforts.

Two out of three structural benchmarks were met, with work continuing on amendments to the Central Bank Law to ensure that it meets international best practices while adhering to Barbados' system of governance. The relevant amendments will be introduced by end-September 2020 as part of a new structural benchmark.

Barbados has requested that four structural benchmarks be reset as the necessary supporting Fund technical assistance missions have been delayed. The authorities underscore the importance of adapting the Fund's capacity development business model to meet the needs of the membership in this crisis.

Responding to the Coronavirus Crisis

Barbados has succeeded in containing the coronavirus outbreak thanks to its *National Preparedness Plan,* which was implemented within two-weeks of the first confirmed case of coronavirus. The public health response included self-quarantine protocols, the activation of isolation and treatment centers, the closure of non-essential businesses, and a national curfew. As of May 28, Barbados had recorded 92 confirmed cases of COVID-19, which tragically included 7 deaths.

The authorities are protecting livelihoods with a gradual re-opening strategy, the third phase of which was announced on May 18. The national airport remains closed to commercial flights and the authorities have stressed that they will not rush to re-open to tourism without the necessary protocols to keep Barbadians and visitors safe.

In addition to emergency spending on health facilities, medical supplies and personnel to protect the health and safety of its people, Barbados has developed a comprehensive plan to protect jobs and shield the most vulnerable from the economic impacts of the crisis. Key measures include:

- The *Household Survivor Programme* to protect vulnerable households;
- The *Business Cessation Benefit* to support the self-employed;
- The *VAT Loan Fund* to buttress businesses' cash flow;
- The *Small Business Wage Fund* to assist small businesses; and,
- The *National Tourism Refurbishment Facility* to provide urgent working capital and loans to Barbadian hotels.

The Central Bank of Barbados is supporting the liquidity of the financial system by reducing the overnight lending discount rate and the minimum statutory holding requirement for government securities. The authorities worked closely with commercial banks on a six-month payment moratorium on existing loans and mortgages for persons and businesses directly impacted by COVID-19.

The Barbadian economy will need to adapt in order to thrive post-COVID-19. Accordingly, a *Tourism Recovery Task Force* was established to advise the government on necessary transformations in the industry to support a safe and successful tourism reopening and a *Jobs and Investment Council* was created to help the government mobilize and initiate new investments and jobs across a range of sectors post-pandemic.

Barbados is also seeking to come out of this crisis more competitive than before by cutting red tape, accelerating planning applications, and digitizing government processes. The authorities are also working to address identified deficiencies in their AML/CFT framework.

Concluding Remarks

The authorities' near-term focus is to protect lives and livelihoods in this unprecedented crisis, but Barbados remains fully committed to the broader objectives of the Barbados Economic Reform and Transformation Plan to restore macroeconomic stability and create sustainable and inclusive growth.

The official start of the 2020 hurricane season on June 1 serves as an important reminder to the international community that while Barbados fights a global pandemic, they remain on the front line of the global climate crisis. Barbados is doing its part to build structural, financial and post-disaster resilience, but they cannot win the war against climate change alone. The authorities reiterate their call for multilateral institutions to do more to consider country vulnerability in granting access to grants and concessional financing.