INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/314

BARBADOS

December 2020

FOURTH 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 Fourth 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 December 9, 2020, following discussions that ended on October 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 November 23, 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.

© 2020 International Monetary Fund

PRESS RELEASE

PR 20/366

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

FOR IMMEDIATE RELEASE

- The Executive Board of the IMF concluded the fourth 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 SDR 65 million (about US$94 million). Access under the extended arrangement has been augmented by SDR 48 million (51 percent of quota, or about US$69 million) to help accommodate the shock.

- Despite the challenges posed on the economy by the pandemic, 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 prolonged 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.

Washington, DC – December 9, 2020: The Executive Board of the International Monetary Fund (IMF) concluded the fourth 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 65 million (about US$94 million), bringing total disbursements to the equivalent of SDR 271 million (about US$390 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 322 million (about US$464 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 prolonged 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:

“The Barbadian authorities continue to make excellent progress in implementing their Fund-supported Economic Recovery and Transformation plan and have swiftly responded to address the impact of the pandemic. Prospects for continued strong program performance are good, but downside risks will continue to pose challenges in the period ahead.

“A primary balance target of minus 1 percent of GDP for fiscal year 2020/21, revised down from a surplus of 1 percent at the time of the third review, is appropriate to accommodate worse-than-anticipated revenue losses and support spending on public health and social protection. The new fiscal target is financed by additional resources from international financial institutions, including a second augmentation under the Extended Fund Facility.

“The fiscal accommodation will be compensated by higher primary surpluses in the medium term to ensure achievement of the long-term debt target of 60 percent of GDP. Medium-term fiscal adjustment will be supported by continued reform of state-owned enterprises (SOE) to secure space for investment in physical and human capital. Transfers to SOEs need to decline through a combination of stronger oversight, cost reduction, revenue enhancement, and mergers and divestment. Pension reform and introduction of a fiscal rule will also support medium-term fiscal sustainability.

“Progress in restoring fiscal sustainability will further be safeguarded by a new central bank law aimed at limiting financing of the government and strengthening the central bank’s mandate, autonomy, and decision-making structures.

“A strong recovery from the global pandemic will hinge on accelerating structural reform, including improving the business climate and promoting economic diversification. Strengthening resilience to natural disasters and climate change will be key to long-term sustained economic growth.”

INTERNATIONAL MONETARY FUND

BARBADOS

November 23, 2020

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

EXECUTIVE SUMMARY

Recent Developments and Outlook. Barbados has made good progress in implementing its Economic Recovery and Transformation (BERT) plan to restore fiscal and debt sustainability, rebuild reserves, and increase growth—but faces major challenges owing to the global coronavirus pandemic. Since May 2018, international reserves have increased from a low of US$220 million (5-6 weeks of import coverage) to more than US$1 billion at end-October 2020. This, and a successful 2018-19 public debt restructuring, have helped rebuild confidence in the country's macroeconomic framework. While the local spread of COVID-19 has been successfully contained, allowing for a cautious reopening of the tourism sector in July, economic activity remains severely depressed owing to the global pandemic. Risks to the outlook remain elevated.

Program Implementation and Augmentation. All performance criteria for the review were met. A new Central Bank of Barbados law (with provisions along the lines of understanding reached with staff) was submitted to parliament on November 17, 2020—a structural benchmark for end-September 2020, and a prior action for the completion of the review. The authorities continue to reform state-owned enterprises (SOEs) by improving their commercial viability and strengthening monitoring. Reforms of the customs administration are ongoing, supported by a resident advisor. International reserves are expected to come under pressure owing to reduced tourism and FDI inflows. To maintain adequate reserve coverage, and help address emerging fiscal financing needs, a program augmentation of SDR 48 million (51 percent of quota, or about US$66 million) is proposed.

Approved By
Aasim M. Husain (WHD) and Delia Velculescu (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 October 26-30, 2020. Jeremy Weil (OED) joined the mission.

CONTENTS

ANNEXES

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
GRA	General Resources Account
IBRD	International Bank for Reconstruction and Development
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
MAU	Management Accounting 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

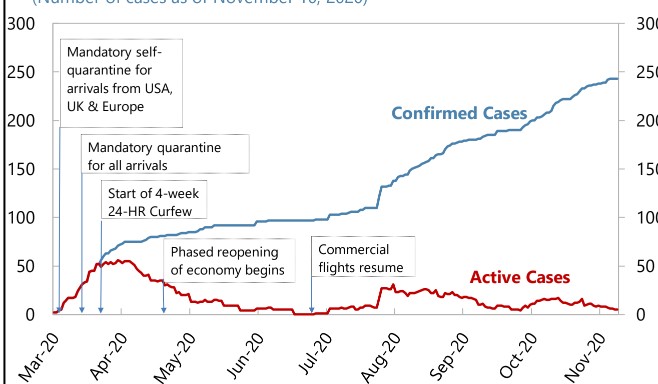
RECENT DEVELOPMENTS AND OUTLOOK

A. Recent Developments

1. **Barbados has made good progress in implementing the Economic Recovery and Transformation (BERT) plan—but faces major challenges owing to the global coronavirus pandemic.** 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$1 billion by end-October 2020, supported by strong fiscal adjustment before the COVID-19 pandemic, 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 third review of the EFF-supported program was completed on June 3, 2020. The safeguards assessment of the Central Bank of Barbados was completed in December 2018.

2. **The government took swift actions to contain the spread of COVID-19.** Enhanced screening measures were established at all ports of entry and restrictions on movement and economic activities were initiated within two-weeks of the first confirmed coronavirus case. This culminated into a 24-hour lockdown on all but essential services and a suspension of commercial airlift into Barbados at the beginning April. The rapid flattening of the coronavirus curve in the post- lockdown period suggests that these early actions to strictly curtail activities were effective. Active cases peaked at 56 and steadily declined to zero by end-June notwithstanding the phased re-opening of the economy in May, which included the observance of social distancing, temperature testing, and mask requirements. The resumption of commercial airlift in July resulted in a modest resurgence of imported cases, but enhanced screening protocols (e.g., mandatory quarantines and double-negative testing) have prevented domestic outbreaks and kept the overall number of cases contained in the low double or single digits.

Barbados: Evolution of COVID-19 Outbreak
(Number of cases as of November 10, 2020)



Source: Government Information Service.

3. **Preliminary data suggests that the economy contracted by 27 percent in the second quarter of 2020 (relative to the same quarter in 2019), followed by an 18 percent decline in the third quarter.** Tourism came to a virtual standstill: most hotels closed, occupancy plummeted at facilities that were still open, and bookings for the following months were canceled. Airlines sharply reduced the number of flights or suspended them altogether. Unemployment increased three-fold to about 30 percent while unemployment insurance claims increased six-fold requiring liquidity support to the National Insurance Scheme (NIS), to be provided by the central government buying

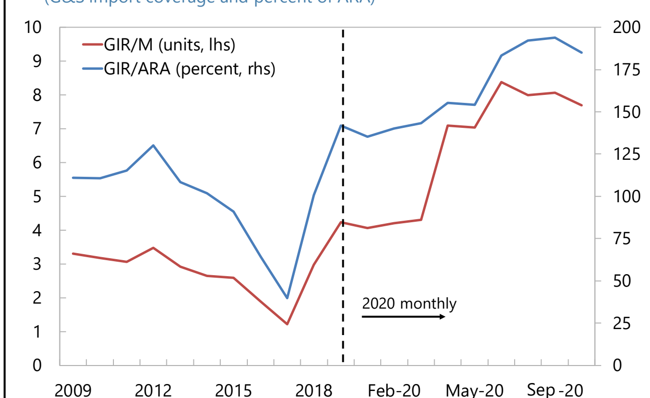
back its debt held by the NIS (as discussed below). In early July, the authorities cautiously reopened the island for international tourists, after successfully halting local transmission of the disease.

4. To mitigate the impact of the crisis, the primary balance target for FY2020/21 was reduced from 6 percent of GDP to 1 percent of GDP at the time of the third EFF review. In the first six months of FY2020/21 (April to September), tax revenues from tourism-related activities (such as VAT) fell sharply, while COVID-related expenditures for health care, welfare, and capex increased. Supported by a large one-off CIT revenue windfall from the international business sector in June (of 2½ percent of GDP), the primary surplus for the first six months of FY2020/21 amounted to 1½ percent of (annual) GDP.

5. Structural reform of SOEs continue. Under the new FMA law, the government must approve all SOE borrowing and can sanction SOEs for noncompliance with enhanced reporting requirements. Financial reports on SOE performance are presented to the government and parliament. As a testament to the effectiveness of reforms enacted to date, nominal aggregate transfers to SOEs in FY2020/21 are expected to remain close to FY2019/20 levels, despite increased COVID-related pressures. SOE reforms already implemented under the reform program (prior to the pandemic) include staff layoffs at SOEs, renegotiation of supplier contracts, an increase in some tariffs (bus fares, water rates), and new levies on sanitation, health services, and tourism.

6. Barbados' international reserves have rebounded sharply supported by International Financial Institution (IFI) loans. Reserves increased to more than US$1 billion by end-October 2020, more than 7 months of import coverage and about 200 percent of the ARA metric. A sharp decline in tourism, partially mitigated by lower petroleum imports, led to a deterioration of the current account, though this was offset in the financial account by larger than expected official sector inflows. Since the third review, the BOP has strengthened with a smaller than originally projected current account deficit and larger than expected net inflows, especially FDI. The external sector assessment finds that Barbados' external position in 2019 was broadly consistent with fundamentals and desirable policies (see Annex II).

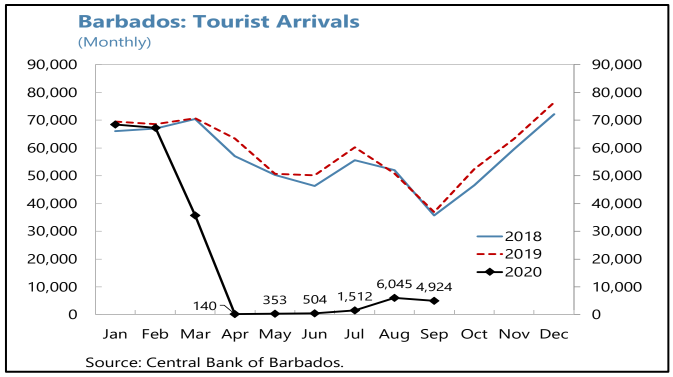
Barbados: Gross International Reserves
(G&S import coverage and percent of ARA)



Source: Fund staff calculations.

B. Outlook and Risks

7. The global coronavirus pandemic is expected to lead to a sharp contraction in 2020 with partial recovery in 2021 and 2022. Staff and the authorities now project the economy to contract by about 15 percent in 2020, down from 11½ percent at the time of the third EFF review, with the exact size of the downturn mainly dependent on the duration of the epidemic. Despite the cautious reopening of the tourism in July, arrivals remain at a small fraction of normal levels, with September arrivals still down almost 90 percent relative to previous years (see text chart). The economy is expected to start gradually recovering in 2021 and 2022. Over the medium term, structural reforms are expected to return growth to its medium-term average of about 2 percent.



8. **Risks to the outlook are high and tilted to the downside**. The key risk is a further deepening and lengthening of the COVID-19 crisis. Lower than projected tourism arrivals will depress 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 both the US and the UK in the grip of major coronavirus outbreaks, appetite for travel from these countries is expected to be negligible for the next six months. How quickly tourism trends will return to normal is hard to predict. A second outbreak of COVID-19 in Barbados itself could further reduce economic activity. A slower than projected recovery would further impact revenues and outlays for social safety nets and increase the risks to debt sustainability. Under this scenario, while some additional financing from IFIs will need to be sought to cover higher financing needs, there will likely also be a need to take additional measures to increase revenues and/or reduce expenditures, with a view to reducing the elevated level of public debt.

POLICY ISSUES

A. Fiscal Policy in FY2020/21 and Beyond

9. **For FY2020/21, the primary balance is now projected at minus 1 percent of GDP, down from plus 1 percent at the time of the third EFF review.** This corresponds to an overall fiscal deficit of 5 percent of GDP. A meaningful recovery of tourism is no longer anticipated for the last quarter of 2020, and hence projections for government revenue in FY2020/21 have been reduced, while outlays to provide social support will be higher than anticipated at the time of the third review. For FY2021/22, the primary surplus target has been reduced to 2 percent of GDP, reflecting lower expected revenues. The authorities remain committed to compensate a lower

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

			Program	Proj.	Program	Proj.	
	2018/19	2019/20	2020/21	2020/21	2021/22	2021/22	2022/23
Total revenue	**29.2**	**31.5**	**29.2**	**28.8**	**30.9**	**29.1**	**29.8**
Current revenue	29.2	31.3	29.1	28.7	30.7	29.0	29.6
Tax revenue	27.5	29.3	26.9	27.0	28.6	27.3	27.9
Income and profits	8.2	7.6	6.9	8.5	7.3	7.3	7.3
Taxes on property	1.6	2.1	2.0	1.8	2.0	2.0	2.0
VAT	9.2	9.6	9.0	8.1	9.3	8.3	8.5
Excise	2.6	2.5	2.4	2.1	2.5	2.4	2.4
Import taxes	2.1	2.3	2.2	2.3	2.3	2.4	2.5
Other taxes	3.3	5.1	4.4	4.1	5.2	4.8	5.2
Nontax revenue	1.8	2.0	2.2	1.6	2.2	1.7	1.7
Capital revenue and grants	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Total expenditure	**29.5**	**27.6**	**31.9**	**33.4**	**31.6**	**31.2**	**30.5**
Current expenditure	27.6	25.7	29.0	30.6	28.8	28.6	28.0
Goods and services	3.5	3.7	4.2	4.6	4.1	3.8	3.6
Interest	3.8	2.5	3.7	3.6	4.2	4.1	4.8
Transfers	12.4	11.4	12.5	13.4	12.4	12.4	11.7
o/w Grants to public institutions	8.0	6.9	7.3	7.6	7.2	7.2	6.7
Capital expenditure and net lending	1.9	1.9	2.9	2.8	2.8	2.7	2.6
CG Fiscal balance	**-0.3**	**3.8**	**-2.7**	**-4.6**	**-0.7**	**-2.1**	**-0.8**
CG Primary balance	**3.5**	**6.3**	**1.0**	**-1.0**	**3.5**	**2.0**	**4.0**
CG gross debt 2/	126.5	126.3	133.6	146.0	124.2	135.3	126.2
Nominal GDP, FY (BDS$ millions)	10,235	10,033	9,467	9,076	10,245	9,862	10,557

Sources: Ministry of Finance; and Fund staff estimates.
1/ Fiscal year is from April to March.
2/ Including: CG, CG guaranteed, arrears, and IMF EFF loan. From FY 2018/19, data includes both external and domestic debt restructuring; hence, it excludes debt directly serviced by SOEs no longer guaranteed by the CG.

primary balance this year and next with higher surpluses in future years, to ensure that debt targets can be reached (as discussed below). The lower primary balance targets for FY2020/21–2021/22 are appropriate given lower revenue owing to the worse-than-anticipated slump in tourism, the need to address the social impact of the global pandemic, available financing, and the authorities' commitment to medium- and long-term debt reduction. A new procurement bill aimed to strengthen public procurement to promote integrity, fairness, transparency, and value for money in public procurement, and to ensure that outlays (including those related to COVID-19) are efficiently allocated is expected to be submitted to parliament by December 2020. Under this bill, the Chief Procurement Officer will be charged with facilitating the audit of crisis expenditures and publication of contracts and names of successful bidders (and their beneficial owners).

10. Over the medium term, fiscal adjustment will be supported by a cyclical recovery in revenues and continued structural reforms of SOEs. Tax revenues are projected to improve gradually with economic activity in FY2021/22 and FY2022/23 .[1] After increasing in FY2020/21 to accommodate higher spending on health and welfare, expenditure is expected to normalize in FY2021/22 while continuing SOE and pension reforms, together with containment of discretionary spending on goods and services and capital expenditure should help reduce outlays over time.

11. Short term risks to debt sustainability have increased (Annex I). The public debt-to-GDP ratio is projected to increase to 146 percent of GDP in FY2020/21 before decreasing to 107 percent of GDP by 2025. Debt remains above the 70 percent of GDP risk assessment threshold in the short and medium term. In addition, because of the COVID-19 crisis, the fiscal accommodation raises GFNs above the 15 percent of GDP risk assessment threshold. The COVID-19 induced fiscal accommodation will need to be compensated by higher primary surpluses starting with FY2021/22 to ensure debt sustainability. Under the baseline, the 60 percent medium term anchor is reached in FY2033/34 and the interim target of 80 percent continues to be reached in FY2029/30. Debt sustainability is contingent on the authorities maintaining high primary balances for several years. Risks to debt sustainability are mitigated by Barbados' strong track record under the EFF-supported program. The higher GFNs in FY2020/21 are primarily due to the lower GDP and not to an increase in short term debt. About 50 percent of GFNs has no rollover risk (see Annex I). Finally, market perception of country risk continues to improve. Spreads on commercial

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

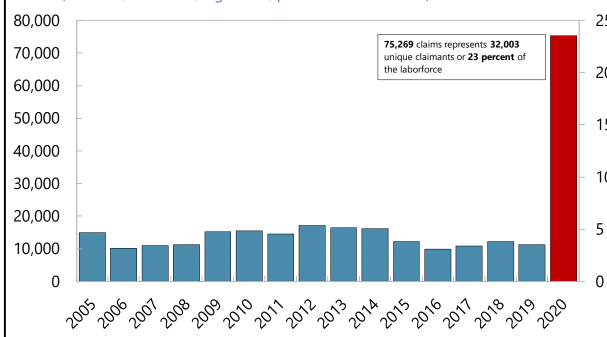
Sources: Central Bank of Barbados, Bloomberg and Fund staff calculations.

[1] The FY2018/19 budget introduced several staggered tax policy reforms aimed at shifting the tax burden from income to consumption and wealth over a two-year horizon. After falling sharply in FY2020/21 due to the loss in economic activity stemming from the pandemic, tax revenues are expected to gradually converge to their new long-term levels by FY2022/23.

external debt have decreased to about 500bps in October 2020(text chart). For FY2020/21, excess external financing sources will be used to pre-fund below the line liquidity support to NIS in the next fiscal year and to support the medium term fiscal adjustment to continue to maintain debt sustainability.

12. The sharp increase in unemployment has led to higher outlays on unemployment benefits and puts pressure on NIS finances. By mid-October 2020, unemployment insurance outlays exceeding B$120 million (just over 1¼ percent of GDP) had been paid out by the NIS. For full FY2020/21, additional NIS unemployment and severance outlays are projected at about B$160 million (1¾ percent of GDP). To facilitate these payments, the authorities plan to provide liquidity support to the NIS by buying back central government debt held by the NIS. This operation would also help reduce central government GFNs.

Barbados: Annual Unemployment Claims 1/
(Left axis, thousand; right axis, percent of laborforce)



Source: Barbados National Insurance Department.
1/ Data for 2020 includes claims up to October 16, 2020.

13. The authorities have launched a plan to increase the long-term competitiveness of the tourism sector and reduce unemployment by training staff and investing in renewable energy. Under this plan, employers that re-hire and train workers currently unemployed owing to the slump in tourism, and invest in renewables, can benefit from public support through a mix of grants and equity investments. This plan is tentatively estimated to cost ¼ percent of GDP in FY2020/21 and ½ percent of GDP in FY2021/22, while reducing NIS payments on unemployment and severance. Additional support to businesses is being provided through the recapitalization of SME lending funds.

Barbados: Estimates of Covid-Related Expenditures in FY2020/21

	3rd Review projection (in percent of GDP)	Current projection (in percent of GDP)
Covid-related expenditure	**1.9**	**2.5**
Health related	0.4	0.6
Transfers to individuals	0.2	0.2
Transfers to public institutions	0.6	0.6
Non-health related capital spending	0.7	0.7
Support to businesses		0.4

Sources: Barbados authorities and IMF staff estimates

14. The authorities have started issuing a limited amount of long-term domestic debt under the Barbados Optional Saving Scheme (BOSS) program. Under the program, civil servants can elect to receive a limited portion of their wages in the form of long term bonds until the end of 2021. The program provides an additional (albeit limited) source of financing, at a time when sources of financing are limited for the government, it is strongly supported by public sector unions, and it contributes to unions' support of the economic reform program. At the same time, the BOSS program could be seen as a retail savings program for civil servants that could compete with bank deposits. So far, take-up has been modest, with most civil servants preferring to receive their salaries in cash. By end-September 2020, about B$19 million (0.2 percent of GDP) in bonds were issued. The authorities expect to issue about B$90 million (1 percent of GDP) in long term domestic securities under the program.

15. To reinforce debt sustainability over the medium and long term, a fiscal rule is expected to be introduced by end-September 2021. The fiscal rule will target a steady reduction of the debt/GDP ratio to 60 percent by FY2033/34.

B. Monetary and Financial Sector Policies

16. Measures to support the credit market introduced by the central bank and commercial banks in March 2020 are still in place. 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 17½ to 5 percent of deposits. As expected, banks have not resorted to the CBB for liquidity support so far, and in fact continue to hold excess bank reserves at the CBB. Staff assesses the measures taken by the CBB as appropriate to signal banks that sufficient liquidity support is available. However, in the long term, unremunerated structural excess liquidity in the market could undermine the exchange rate regime. In this context, repairing the CBB balance sheet to provide it with space to sterilize excess liquidity would be important to reduce this source of vulnerability. Commercial banks have also announced a voluntary and broad-base moratorium of up to six-months (expired by end-September) on loan repayment and revised loan terms on new loans for individuals and firms affected by the pandemic. Banks are now working with individual borrowers, as needed, including on further repayment extensions. The 2 percent foreign exchange fee introduced in 2017 remains in place . This was assessed by the IMF as a capital flow management measure and should be phased out.

17. The CBB has issued regulatory guidance to clarify the scope of temporary arrangements. While regulatory standards have been maintained, including on lending and reporting, in specific cases where the moratorium impacts banks' prudential minima institutions are being allowed longer periods to rebuild capital and comply with regulatory requirements (subject to restrictions on dividend payments). The CBB is monitoring the situation to identify early signs of stress in the system and, if needed, to intervene to avoid disorderly conditions. Banks should continue to prudently restructure loans, as needed, on a commercial basis. They should also continue to carefully assess the credit quality of exposures, including those subject to moratoria.

18. The financial position of banks appears stable. Banks remain adequately capitalized and liquid, amid low profitability and heightened credit risk. As of September 2020, system-wide CAR was at 15.8 percent, liquid assets to total assets at 23.9 percent, and bank excess cash reserves at 21.9 percent. The system's NPL ratio has been stable around 7.2 percent. Provisions have been increasing and reached 66 percent of NPLs. Banks are also liquid in FX acquired from their clients and, as such, have been able to meet clients' FX demand without resorting to the CBB's reserves.

19. A new central bank law which aims to enhance the CBB's autonomy was submitted to parliament in November. The authorities and Fund staff have reached agreement on a law in line with best practice that establishes a double veto procedure for the appointment of the Governor and the members of the CBB Board, limits the circumstances under which the Governor of the CBB and the members of the Board can be dismissed, and further limits financing of the government to smooth unforeseen developments in revenues and spending (to 7.5 percent of an average of government revenue observed in the preceding three years), and/or in exceptional (and tightly defined) emergency situations, such as hurricanes (up to 3 percent of GDP). Submission of the law to parliament is a prior action for the completion of the fourth EFF review.[2]

Box 1. Enhancing the Autonomy of the Central Bank

The new draft Act will redefine the mandate of the CBB to focus on core central bank activities. The main objectives of the CBB will be to maintain the value of the currency and to promote financial stability. The CBB will not be allowed to conduct quasi-fiscal activities. The CBB's advances to the Government will be limited to short term advances to permit the Government to manage its cash flow. The new draft Act will include an escape clause to allow the CBB to purchase a limited amount of government securities on the primary market in the event of a public emergency declared by Parliament.

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

20. Barbados remains on the Financial Action Task Force (FATF) list of jurisdictions under increased monitoring. It was added to the "grey list" in February 2020. Barbados was also added to the EU list of non-cooperative jurisdictions for tax purposes in October 2020. Staff stressed the need to strengthen the AML/CFT framework, in close cooperation with the FATF, and assess progress in implementing FATF recommendations; and to work in close collaboration with international counterparts on improving the tax policy framework.

C. Policies for Strengthening Resilience to Natural Disasters and Climate Change and to Boost Growth

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

[2] Under the 'ways and means' provision, the CBB can provide temporary advances to the government for cash-management purposes in the course of the fiscal year. The credit is provided on market terms and must be repaid no later than three months after the end of the fiscal year.

government of Barbados effectively used the recent debt restructuring to strengthen its protection against natural disasters. These clauses allow for the capitalization of interest and deferral of scheduled amortization falling due over a two-year period following the occurrence of a major natural disaster. For the new domestic bonds, the trigger for a natural disaster event is a payout above US$5 million by CCRIF. The government has secured an IDB contingent credit facility that would allow Barbados to borrow up to almost 2 percent of GDP in case of a natural disaster. Such facilities provide important financing to accommodate the external shock of natural disasters. While Barbados scores high in financial resilience, it can improve structural and post-disaster resilience, for example by exploiting opportunities to improve the disaster resilience of construction under the 'roofs to reefs' program, and by strengthening the public procurement system. Under the plan to support companies in the tourism sector discussed above, the government provides incentives to invest in renewable energy, water conservation, and building resilience.

22. Structural reforms to unlock Barbados' growth potential will need to be accelerated once the global pandemic recedes. A solid recovery after the pandemic will critically depend on improvements 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 strengthen trading across borders, and (vi) digitizing property records in the land registry (see MEFP paragraphs 31-37).

DATA ISSUES

23. Data shortcomings are being addressed. A two-year Canada-funded project coordinated by STA started in May 2019 to upgrade national accounts, with support from the Caribbean Regional Technical Assistance Center (CARTAC) and Canada's Project for the Regional Advancement of Statistics in the Caribbean (PRASC). The project focuses on updating the GDP benchmark estimates from a supply-use perspective to enable the Barbados Statistical Service (BSS) to compile and disseminate constant 2016 price estimates of GDP (rebased from 2010) and updated quarterly estimates of both activity and expenditure-based GDP. Four additional statisticians were hired by the BSS for the project and to enhance resource capacity. An STA remote mission in September 2020 supported Barbados' efforts to implement the IMF's Enhanced General Data Dissemination Standard (e-GDDS) and to launch a National Summary Data Page to enhance data transparency by end-2020.

PROGRAM ISSUES

24. An augmentation of SDR 48 million (51 percent of quota, or about US$66 million) is proposed, to be delivered in the form of budget support, to bolster the reserve position while addressing larger-than-expected fiscal needs.[3] The slower-than-expected tourism recovery has

[3] An augmentation is an increase in access to IMF resources under an existing program to help meet a larger balance of payments need or to support a strengthening of the program.

generated a BOP and fiscal financing gap that can be filled with a second augmentation under the EFF. The proposed augmentation would bring the total purchase for the fourth review to SDR 65 million (69 percent of quota, or about US$90 million). Access under the EFF would increase to SDR 322 million (341 percent of quota, or about US$450 million) (Table 8). The proposed second augmentation under the EFF would take annual access over the last 12 months (for the third and fourth reviews) to 176 percent of quota—still well below the temporarily increased annual access limit of 245 percent of quota. Sustained pressure on international reserves is projected owing to continued depressed levels of tourism-related inflows (including low FDI) in the remainder of 2020 and in 2021. Given that the country is exposed to large shocks (including natural disasters) and the need to maintain high external buffers to maintain credibility in the exchange rate peg, a rapid drawdown of external reserves would not be advisable. To help address emerging fiscal financing needs, the authorities have requested for the purchase to be made available in the form of budget support, and staff supports this request. With limited other sources of financing available at present (in light also of the recently completed debt restructuring), IMF budget support is appropriate.

25. IMF financing plays a catalytic role and the program supported under the Extended Fund Facility (EFF) remains fully financed. In addition to the IMF purchase, the Development Bank of Latin America (CAF) has agreed to provide US$100 and the IDB an additional US$120 million in budget support. The World Bank is also considering providing budget support to Barbados of US$100 million by end-March 2021.

26. All end-September 2020 quantitative targets and indicative targets were met, and three out of five structural benchmarks due by this review were met (Table 1 and 2 of Attachment I). The three structural benchmarks related to tax and customs administration were met. The actuarial review of the civil service pension system was delayed due to the pandemic but is expected to be completed by the end of the year, and the new CBB law was submitted to Parliament on November 17, 2020 (a prior action for the completion of this review).

27. Staff proposes to modify three PCs for end-March 2021 at the request of the authorities. The primary balance target is proposed to be revised due to the delayed recovery in tourism. The debt and NIR targets are proposed to be revised also as the additional financing provided by the IBRD and IDB in FY2020/21 will increase both external debt and international reserves.

28. Staff proposes to reset three structural benchmarks (Table 1 of Attachment I). The COVID-19 pandemic has delayed several elements of the structural reform agenda, including measures that need support from IMF TA. An FAD TA mission to support the introduction of a fiscal rule is now tentatively planned for the first half of 2021, while a (virtual) MCM TA mission to advise on CBB recapitalization is tentatively planned for December 2020. Staff propose to reset the structural benchmark for the adoption of a plan to recapitalize the CBB and to address the impact of the debt restructuring on the NIS, the benchmark to table a revised public pension law to enhance the sustainability of the public sector pension scheme to end-June 2021, and the benchmark on the tabling of a fiscal rule to end-September 2021 as progress on these benchmarks was slowed by delays in the provision of IMF TA (owing to the pandemic).

29. Staff proposes to introduce four new structural benchmarks (Table 1 of Attachment I). These are: (i) for the publication of a calendar of economic statistics by end-March 2021, to ensure a more regular and predictable public release of key indicators such as output, prices and unemployment—this is critical for the public to be able to adjust economic expectations, especially in the current environment; the measure also supports the adoption of e-GDDS; (ii) for the management accounting unit to prepare a dashboard that analyzes financial performance of government's 19 priority oversight SOEs as input to quarterly progress updates to Cabinet, by end-March 2021; and (iii) for the Barbados Customs and Excises Department (BCED) to create and staff an Information Technology Division of six employees by end-March 2021; and (iv) for the Barbados Revenue Authority to implement the compliance improvement plan for its Large Taxpayer Unit (LTU) and move 'on-time' filing of returns for all large taxpayers to over 90 percent for all core taxes (VAT, CIT, PAYE) by end-March 2021.

30. Given strong implementation of the program, Barbados' capacity to repay the Fund is assessed to be adequate (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 above 100 percent of ARA. The projected external debt service does not jeopardize the medium-term viability of the BOP and thereby, the capacity of Barbados to repay the Fund. The authorities' commitment to the program and their solid repayment history following the two previous Fund programs also provide reassurance. Safeguards for the use of Fund resources have been 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.

STAFF APPRAISAL

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

32. The policy response to the deterioration in the economic outlook is appropriate with the further lowering of the primary balance target to minus 1 percent of GDP for FY2020/21, but sustained fiscal effort as soon as the crisis wanes will be needed to preserve debt sustainability. The reduction of the primary balance will be financed by additional resources from IFIs, including a proposed augmentation of the IMF extended arrangement of SDR 48 million (51 percent of quota, or about US$66 million). This said, preserving debt sustainability will require that the fiscal accommodation in FY2020/21 be compensated by higher medium and long-term primary surpluses to reach the long-term debt anchor of 60 percent in FY2033/34.

33. Adoption of a fiscal rule and SOE reforms remain essential for achieving higher primary surpluses targets and maintaining them over the medium term. The design of the fiscal rule will be supported by FAD technical assistance tentatively planned for the first half of 2021. The technical assistance will help the authorities define coverage, implementation, corrective mechanisms, escape clauses and institutional arrangements that are appropriate for Barbados. To secure fiscal space for investment in physical and human capital, transfers to SOEs need to continue to decline once the global coronavirus pandemic recedes by a combination of: (i) phasing out of COVID-related additional transfers; (ii) stronger oversight of SOEs, supported by improved reporting and analysis; (iii) revenue enhancement, including an increase in user fees; and (iv) mergers and divestment—building on SOE reforms implemented before the pandemic.

34. 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. A revised Central Bank law was submitted to parliament on November 17, 2020, a prior action for the completion of this review.

35. 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 after the global coronavirus pandemic is over, including to facilitate setting up new businesses, reforming the customs administration, and modernizing the land registry. Improving resilience to natural disasters and climate change by further improving the disaster resilience of construction and strengthening the public procurement system can help reduce risks to the outlook.

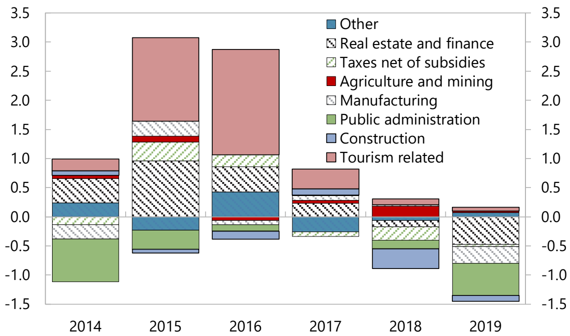
36. Risks to the program remain. These include a longer and/or larger than expected impact of the global coronavirus pandemic, slower than expected global recovery, limited implementation capacity and untested ability to maintain high primary surpluses over a sustained period required in the future to 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. Mitigating factors include the authorities excellent track record under the program, their strong commitment to the reform process, and broad public support for the reform process.

37. With continued strong program implementation, staff recommends the completion of the fourth review of the extended arrangement under the Extended Fund Facility, augmentation of access for budget support, and approval of the authorities' request for modification of performance criteria.

Figure 1. Barbados: Real Sector Developments

The contribution of tourism in GDP growth has been gradually decreasing ….

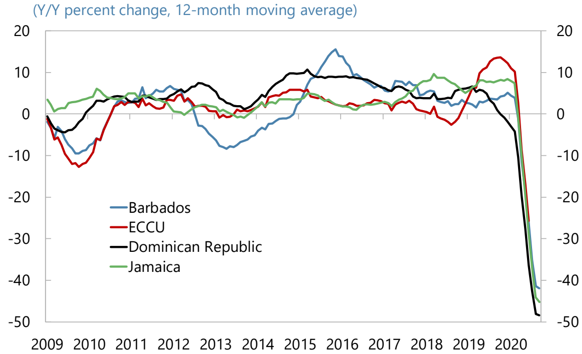
Real GDP Growth by Sectors
(millions BBD)



Sources: Central Bank of Barbados and Fund staff calculations.

… until tourists arrivals froze altogether with the COVID-19 pandemic in early 2020.

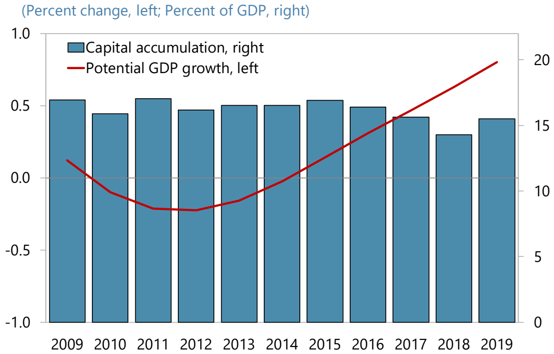
Tourist Arrivals
(Y/Y percent change, 12-month moving average)



Sources: Caribbean Tourism Organization and Fund staff calculations.

Potential GDP growth was recovering from low levels.

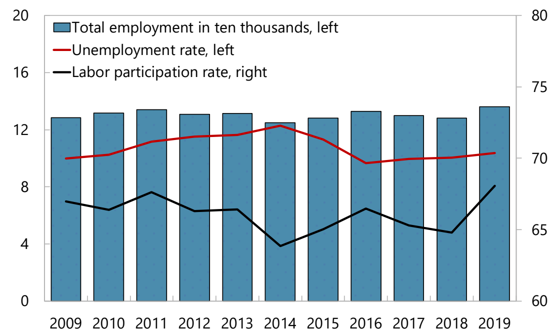
Capital Accumulation and Potential GDP
(Percent change, left; Percent of GDP, right)



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.

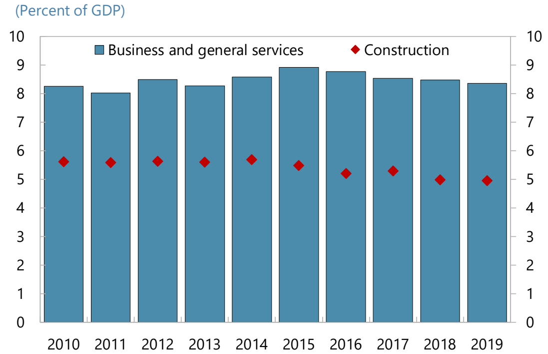
Labor Participation and Unemployment
(Ten thousands; Percent)



Sources: Central Bank of Barbados and Fund staff calculations.

Non-tourism industries plateau-ed …

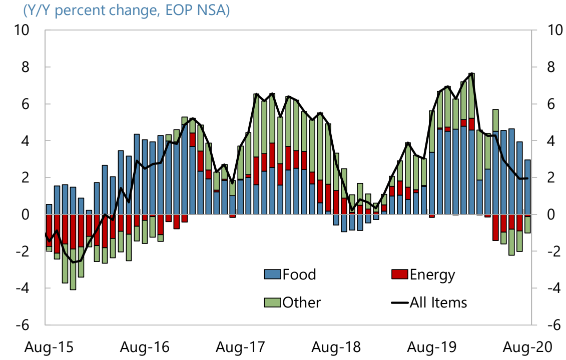
Construction and Business Sectors
(Percent of GDP)



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

…while energy and other prices brought inflation down.

Contribution to Inflation
(Y/Y percent change, EOP NSA)

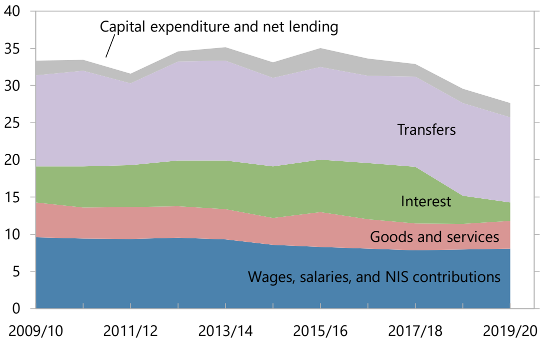


Sources: Central Bank of Barbados and Fund staff calculations.

Figure 2. Barbados: Fiscal Sector Developments

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

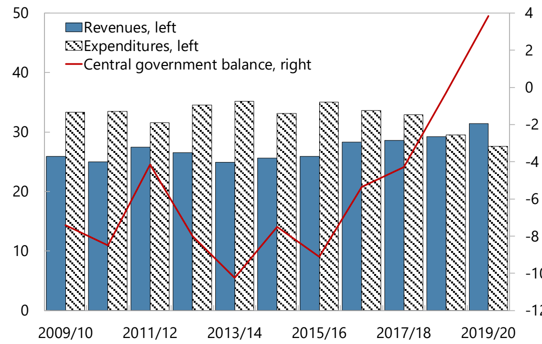
General Government Expenditures
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

…and improved the fiscal balance.

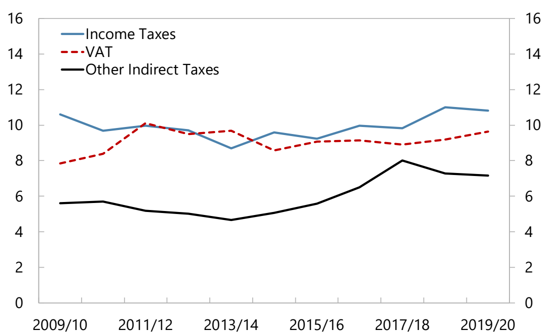
Central Government Balance
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

Since FY2017/18, revenues from income taxes and VAT have grown while other indirect revenues have decreased.

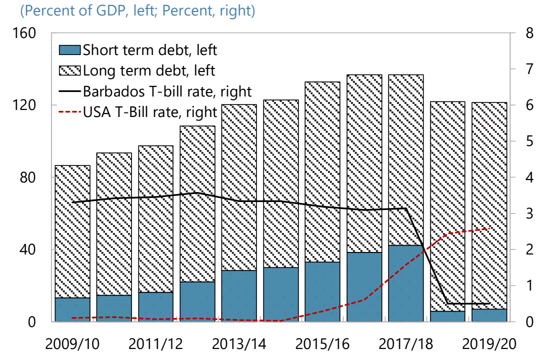
Tax Revenue Composition
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

The rising trend in the use of short-term debt instruments has been reversed….

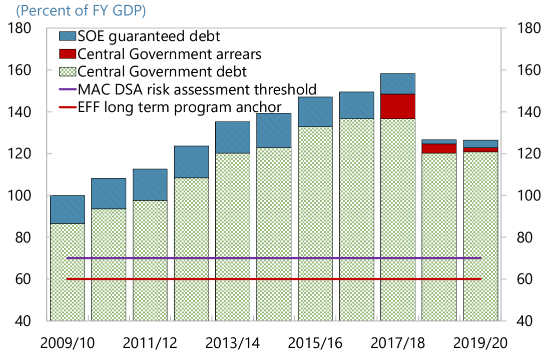
Government Financing
(Percent of GDP, left; Percent, right)



Sources: Central Bank of Barbados and Fund staff calculations.

… and public sector debt decreased sharply after the domestic debt restructuring…

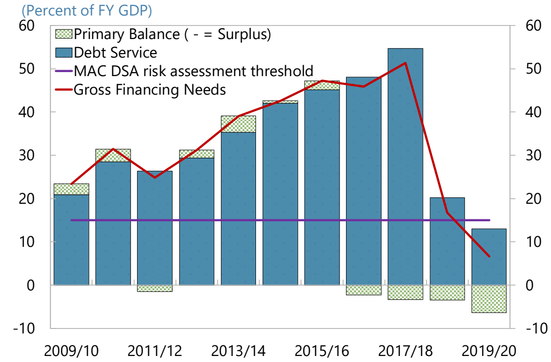
Public Debt
(Percent of FY GDP)



Sources: Fund staff calculations.

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

Gross Financing Needs
(Percent of FY GDP)

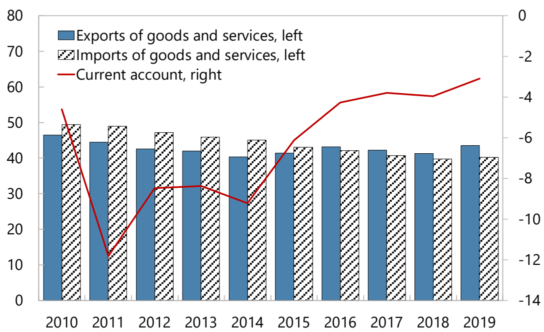


Sources: Fund staff calculations.

Figure 3. Barbados: External Sector Developments

Before the COVID-19 shock, the current account deficit has been narrowing, driven by lower imports and higher exports of goods and services.

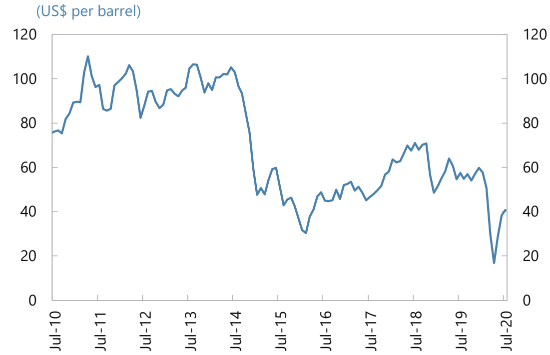
Trade
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

Lower imports are mainly due to declining oil prices.

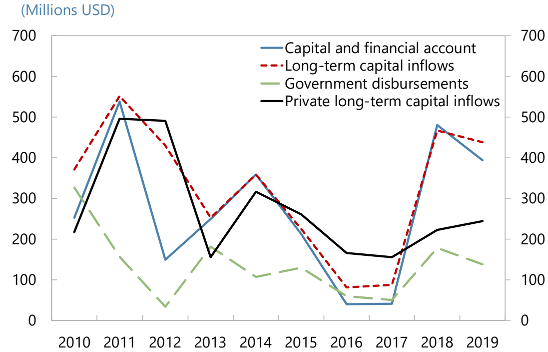
WTI Oil Price
(US$ per barrel)



Sources: Fund staff calculations.

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

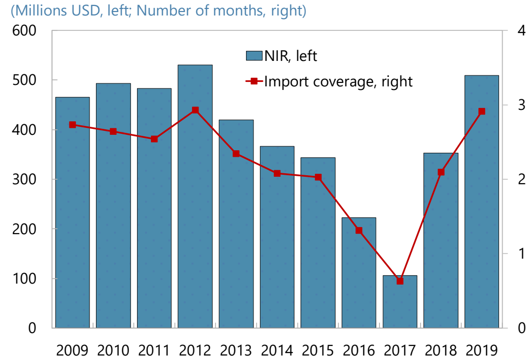
Capital and Financial Account
(Millions USD)



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)

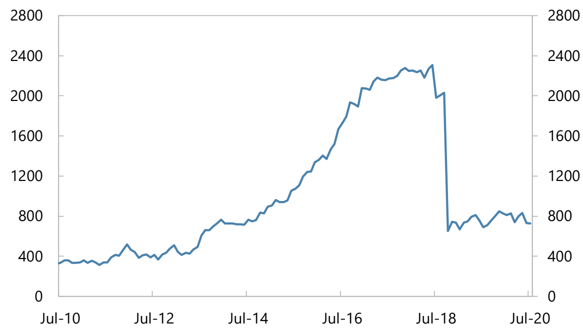


Sources: Central Bank of Barbadose and Fund staff calculations.

Figure 4. Barbados: Monetary Sector Developments

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

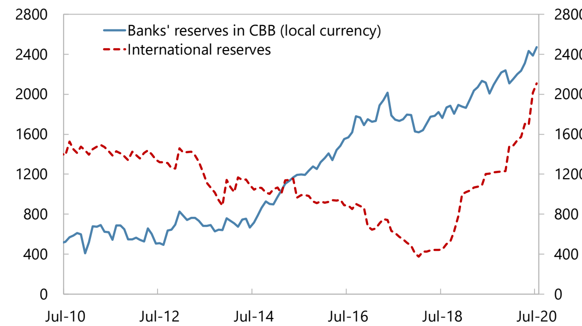
Central Bank's Claims on Central Government
(Millions BBD)



Sources: Central Bank of Barbados and Fund staff calculations.

CBB's international reserves increased sharply while commercial banks' reserves at the CBB continue to increase.

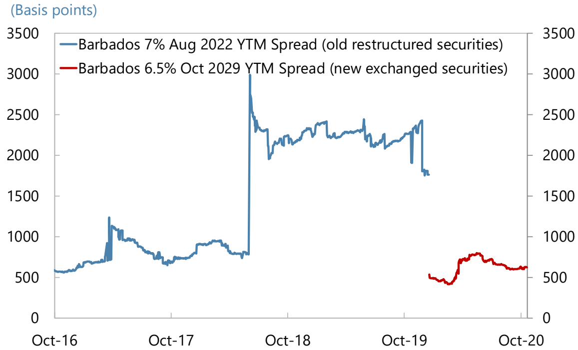
Reserves
(Millions BBD)



Sources: Central Bank of Barbados and Fund staff calculations.

The country risk premium peaked before the debt restructuring but market perception is improving since.

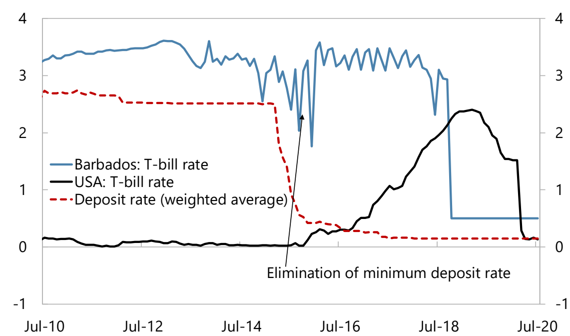
Barbados: Bond Spread (Barbados over U.S. 10-year bonds)
(Basis points)



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.

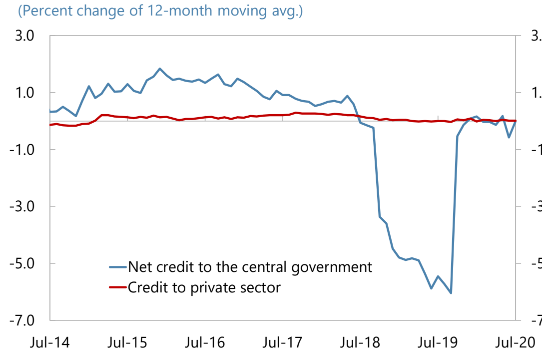
Interest Rates
(Percent)



Sources: Central Bank of Barbados and Fund staff calculations.

Private sector credit growth has remained weak…

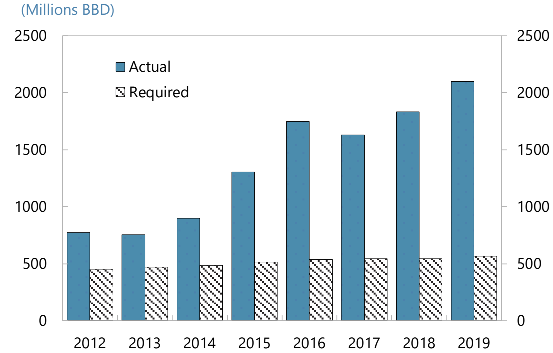
Private Sector Credit
(Percent change of 12-month moving avg.)



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, 2017–2021

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	-15.3	7.4
CPI inflation (average)	4.4	3.7	4.1	2.5	1.9
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	-39.5	38.5
Imports of goods and services	-0.4	-0.4	3.9	-18.2	16.8
Real effective exchange rate (average)	120.9	121.1	127.6	…	…
Money and credit					
Net domestic assets	2.8	4.1	0.0	-3.5	0.0
Of which: Private sector credit	3.2	0.3	1.0	-2.0	0.0
Broad money	1.2	-0.2	3.0	-1.2	-0.1
			(In percent of FY GDP)		
CG Public finances (fiscal year) 1/					
Revenue and grants	28.6	29.2	31.5	28.8	29.1
Expenditure	32.9	29.5	27.6	33.4	31.2
Fiscal Balance	-4.3	-0.3	3.8	-4.6	-2.1
Interest Expenditure	7.6	3.8	2.5	3.6	4.1
Primary Balance	3.3	3.5	6.3	-1.0	2.0
Public Debt (fiscal year) 1/					
Central gov't gross debt /2	158.3	126.5	126.3	146.0	135.3
External	28.5	33.6	34.4	49.7	48.4
Domestic	129.8	92.9	92.0	96.3	87.0
Balance of payments (calendar year)			(In percent of CY GDP)		
Current account balance	-3.8	-4.0	-3.1	-8.3	-7.3
Capital and financial account balance	0.8	9.4	7.6	14.3	8.1
o/w Public Sector	-1.4	4.8	3.7	10.7	3.9
o/w IMF disbursement	0.0	1.0	1.9	5.0	1.0
Private Sector	2.2	4.1	3.9	3.8	4.3
o/w FDI	3.1	4.4	4.7	3.8	4.3
Net Errors and Omissions	0.3	0.2	0.2	0.0	0.0
Overall balance	-2.6	5.7	4.6	6.1	0.9
Memorandum items:					
Exchange rate (BDS$/US$)	2.0	2.0	2.0	…	…
Gross international reserves (US$ million)	205.7	499.6	738.9	1,007.5	1,048.9
In months of imports of G&S	1.2	3.0	4.2	7.0	6.3
In percent of ARA	39.7	100.5	141.9	183.1	173.7
Nominal GDP, CY (BDS$ millions)	9,956	10,173	10,418	8,878	9,669
Nominal GDP, FY (BDS$ millions)	10,011	10,235	10,033	9,076	9,862

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/ Including guaranteed debt, arrears and IMF EFF loan.

Table 2a. Barbados: Central Government Operations, 2018/2019–2025/2026
(In millions of Barbados dollars) 1/

			Program	Proj.	Program	Proj.	Projections			
	2018/19	2019/20	2020/21	2020/21	2021/22	2021/22	2022/23	2023/24	2024/25	2025/26
Total revenue	**2,994**	**3,156**	**2,762**	**2,613**	**3,162**	**2,874**	**3,143**	**3,286**	**3,436**	**3,592**
Current revenue	2,994	3,144	2,751	2,602	3,150	2,861	3,130	3,272	3,421	3,577
Tax revenue	2,812	2,943	2,543	2,454	2,929	2,690	2,946	3,080	3,220	3,367
Income and profits	838	764	649	774	752	720	771	806	843	881
Taxes on property	161	215	191	165	206	198	212	221	231	242
VAT	941	967	852	732	953	819	897	938	981	1,025
Social levy (NSRL)	49	0	0	0	0	0	0	0	0	0
Excise	271	251	230	195	254	239	256	268	280	293
Import taxes	214	232	208	212	236	238	264	276	288	302
Other taxes	338	515	412	376	530	476	546	571	597	624
Nontax revenue	181	201	208	147	221	171	184	192	201	210
Capital revenue and grants	0	12	11	12	12	13	13	14	15	15
Total expenditure	**3,024**	**2,772**	**3,019**	**3,030**	**3,233**	**3,080**	**3,224**	**3,266**	**3,300**	**3,431**
Current expenditure	2,826	2,580	2,746	2,774	2,946	2,817	2,953	3,030	3,106	3,208
Wages, salaries and SSC	812	807	809	817	825	820	839	859	879	899
Goods and services	356	375	397	419	416	373	378	385	381	398
Interest	385	250	352	326	430	403	503	531	557	562
Transfers	1,273	1,147	1,188	1,212	1,275	1,220	1,232	1,255	1,289	1,348
o/w Subsidies	136	100	133	149	151	124	111	117	122	127
o/w Grants to public institutions	815	689	687	691	735	706	703	701	710	743
o/w Retirement benefits	323	358	368	372	388	391	418	437	457	478
Capital expenditure and net lending	198	192	273	256	287	263	271	236	194	223
CG Fiscal balance	**-31**	**385**	**-257**	**-417**	**-71**	**-206**	**-81**	**21**	**135**	**161**
CG Primary balance	**354**	**634**	**95**	**-91**	**359**	**197**	**422**	**552**	**692**	**724**
Repayment of domestic arrears	n.a.	140	43	72	48	40	41	0	0	0
CG Fiscal balance (net of arrears)	**n.a.**	**244**	**-301**	**-489**	**-119**	**-246**	**-122**	**21**	**135**	**161**
CG Primary balance (net of arrears)	**n.a.**	**494**	**51**	**-163**	**311**	**157**	**381**	**552**	**692**	**724**
Financing	**31**	**-385**	**257**	**417**	**71**	**206**	**81**	**-21**	**-135**	**-161**
Net Financing - External	346	109	639	1,018	36	166	13	8	-8	-317
Capital Markets	0	0	0	0	0	0	0	0	0	0
Project Funds	88	72	78	68	100	124	100	100	100	100
Policy Loans	350	150	560	800	80	180	80	80	80	0
o/w IDB	200	0	360	400	80	80	80	80	80	0
o/w CDB	150	150	0	0	0	100	0	0	0	0
o/w CAF	0	0	200	200	0	0	0	0	0	0
o/w WB	0	0	n.a.	200	n.a.	0	0	0	0	0
IMF EFF budget support	0	0	180	340	0	0	0	0	0	0
Privatization 2/	0	0	0	0	0	0	0	0	0	0
Amortization	92	112	180	190	144	138	167	172	188	417
Net Financing - Central Gov. 5/	575	-353	-338	-530	83	80	109	-28	-128	156
Central bank	-166	165	0	-367	0	200	150	0	0	0
Commercial banks	83	-58	-72	0	0	0	0	0	0	0
National Insurance Scheme	9	-85	-200	-207	83	-164	-41	-28	-128	156
Private non-bank 3/	-120	-218	0	44	0	44	0	0	0	0
Others/unidentified financing	769	-157	-66	0	0	0	0	0	0	0
Memorandum items:										
Financing Gap 6/	0	0	0	180	0	0	0	0	0	0
IMF EFF budget support 6/	0	0	n.a.	180	n.a.	0	0	0	0	0
Unidentified financing	0	0	n.a.	0	n.a.	0	0	0	0	0
CG gross debt 4/	12,949	12,674	12,651	13,247	12,722	13,346	13,324	13,303	13,149	12,930
Nominal GDP, FY (BDS$ millions)	10,235	10,033	9,467	9,076	10,245	9,862	10,557	11,037	11,539	12,064

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, arrears, and IMF EFF loan. From FY 2018/19, data includes both external and domestic debt restructuring; hence, it excludes debt directly serviced by SOEs no longer guaranteed by the CG.
5/ Net of domestic expenditure arrears repayment.
6/ Relative to third EFF review projections.

Table 2b. Barbados: Central Government Operations, 2018/2019–2025/2026

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

			Program	Proj.	Program	Proj.				
	2018/19	2019/20	2020/21	2020/21	2021/22	2021/22	2022/23	2023/24	2024/25	2025/26
Total revenue	**29.2**	**31.5**	**29.2**	**28.8**	**30.9**	**29.1**	**29.8**	**29.8**	**29.8**	**29.8**
Current revenue	29.2	31.3	29.1	28.7	30.7	29.0	29.6	29.6	29.6	29.6
Tax revenue	27.5	29.3	26.9	27.0	28.6	27.3	27.9	27.9	27.9	27.9
Income and profits	8.2	7.6	6.9	8.5	7.3	7.3	7.3	7.3	7.3	7.3
Taxes on property	1.6	2.1	2.0	1.8	2.0	2.0	2.0	2.0	2.0	2.0
VAT	9.2	9.6	9.0	8.1	9.3	8.3	8.5	8.5	8.5	8.5
Social levy (NSRL)	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.3
Excise	2.6	2.5	2.4	2.1	2.5	2.4	2.4	2.4	2.4	2.4
Import taxes	2.1	2.3	2.2	2.3	2.3	2.4	2.5	2.5	2.5	2.5
Other taxes	3.3	5.1	4.4	4.1	5.2	4.8	5.2	5.2	5.2	5.2
Nontax revenue	1.8	2.0	2.2	1.6	2.2	1.7	1.7	1.7	1.7	1.7
Capital revenue and grants	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total expenditure	**29.5**	**27.6**	**31.9**	**33.4**	**31.6**	**31.2**	**30.5**	**29.6**	**28.6**	**28.4**
Current expenditure	27.6	25.7	29.0	30.6	28.8	28.6	28.0	27.4	26.9	26.6
Wages, salaries and SSC	7.9	8.0	8.5	9.0	8.1	8.3	7.9	7.8	7.6	7.5
Goods and services	3.5	3.7	4.2	4.6	4.1	3.8	3.6	3.5	3.3	3.3
Interest	3.8	2.5	3.7	3.6	4.2	4.1	4.8	4.8	4.8	4.7
Transfers	12.4	11.4	12.5	13.4	12.4	12.4	11.7	11.4	11.2	11.2
o/w Subsidies	1.3	1.0	1.4	1.6	1.5	1.3	1.1	1.1	1.1	1.1
o/w Grants to public institutions	8.0	6.9	7.3	7.6	7.2	7.2	6.7	6.4	6.2	6.2
o/w Retirement benefits	3.2	3.6	3.9	4.1	3.8	4.0	4.0	4.0	4.0	4.0
Capital expenditure and net lending	1.9	1.9	2.9	2.8	2.8	2.7	2.6	2.1	1.7	1.8
CG Fiscal balance	**-0.3**	**3.8**	**-2.7**	**-4.6**	**-0.7**	**-2.1**	**-0.8**	**0.2**	**1.2**	**1.3**
CG Primary balance	**3.5**	**6.3**	**1.0**	**-1.0**	**3.5**	**2.0**	**4.0**	**5.0**	**6.0**	**6.0**
Repayment of domestic arrears	n.a.	1.4	0.5	0.8	0.5	0.4	0.4	0.0	0.0	0.0
CG Fiscal balance (net of arrears)	**n.a.**	**2.4**	**-3.2**	**-5.4**	**-1.2**	**-2.5**	**-1.2**	**0.2**	**1.2**	**1.3**
CG Primary balance (net of arrears)	**n.a.**	**4.9**	**0.5**	**-1.8**	**3.0**	**1.6**	**3.6**	**5.0**	**6.0**	**6.0**
Financing	**0.3**	**-3.8**	**2.7**	**4.6**	**0.7**	**2.1**	**0.8**	**-0.2**	**-1.2**	**-1.3**
Net Financing - External	3.4	1.1	6.7	11.2	0.3	1.7	0.1	0.1	-0.1	-2.6
Capital Markets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Funds	0.9	0.7	0.8	0.8	1.0	1.3	0.9	0.9	0.9	0.8
Policy Loans	3.4	1.5	5.9	8.8	0.8	1.8	0.8	0.7	0.7	0.0
o/w IDB	2.0	0.0	3.8	4.4	0.8	0.8	0.8	0.7	0.7	0.0
o/w CDB	1.5	1.5	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0
o/w CAF	0.0	0.0	2.1	2.2	0.0	0.0	0.0	0.0	0.0	0.0
o/w WB	0.0	0.0	n.a.	2.2	n.a.	0.0	0.0	0.0	0.0	0.0
IMF EFF budget support	0.0	0.0	1.9	3.7	0.0	0.0	0.0	0.0	0.0	0.0
Privatization 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	0.9	1.1	1.9	2.1	1.4	1.4	1.6	1.6	1.6	3.5
Net Financing - Central Gov. 5/	5.6	-3.5	-3.6	-5.8	0.8	0.8	1.0	-0.3	-1.1	1.3
Central bank	-1.6	1.6	0.0	-4.0	0.0	2.0	1.4	0.0	0.0	0.0
Commercial banks	0.8	-0.6	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National Insurance Scheme	0.1	-0.8	-2.1	-2.3	0.8	-1.7	-0.4	-0.3	-1.1	1.3
Private non-bank 3/	-1.2	-2.2	0.0	0.5	0.0	0.4	0.0	0.0	0.0	0.0
Others/unidentified financing	7.5	-1.6	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Financing Gap 6/	0.0	0.0	0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF EFF budget support 6/	0.0	0.0	n.a.	2.0	n.a.	0.0	0.0	0.0	0.0	0.0
Unidentified financing	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	0.0	0.0	0.0
CG gross debt 4/	126.5	126.3	133.6	146.0	124.2	135.3	126.2	120.5	113.9	107.2
Nominal GDP, FY (BDS$ millions)	10,235	10,033	9,467	9,076	10,245	9,862	10,557	11,037	11,539	12,064

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, arrears, and IMF EFF loan. From FY 2018/19, data includes both external and domestic debt restructuring; hence, it excludes debt directly serviced by SOEs no longer guaranteed by the CG.

5/ Net of domestic expenditure arrears repayment.

6/ Relative to third EFF review projections.

Table 3. Barbados: Public Debt, 2018/2019–2025/2026 1/ 2/

			Projections					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
			(In millions of Barbados dollars)					
Public Debt	**12,949**	**12,674**	**13,247**	**13,346**	**13,324**	**13,303**	**13,149**	**12,930**
External	3,436	3,448	4,508	4,768	4,828	4,835	4,809	4,434
Short Term	168	54	0	0	0	0	0	0
Long term	3,268	3,394	4,508	4,768	4,828	4,835	4,809	4,434
Domestic	9,513	9,226	8,738	8,578	8,496	8,468	8,340	8,496
Short Term	892	850	776	736	695	695	695	695
Long term	8,621	8,376	7,962	7,842	7,801	7,773	7,645	7,801
Arrears 4/	**461**	**207**	**81**	**41**	**0**	**0**	**0**	**0**
External 5/	168	54	0	0	0	0	0	0
Domestic	293	153	81	41	0	0	0	0
CBB & SOE Guaranteed Debt /7	**188**	**345**	**441**	**535**	**582**	**582**	**563**	**506**
External 3/	188	345	441	535	582	582	563	506
Domestic	0	0	0	0	0	0	0	0
CG Debt	**12,299**	**12,122**	**12,724**	**12,770**	**12,742**	**12,721**	**12,586**	**12,424**
External 3/ 6/ 8/	3,080	3,049	4,067	4,233	4,246	4,253	4,246	3,928
Domestic	9,219	9,073	8,657	8,537	8,496	8,468	8,340	8,496
Short Term	598	697	695	695	695	695	695	695
Long term	8,621	8,376	7,962	7,842	7,801	7,773	7,645	7,801
			(In percent of FY GDP)					
Public Debt	**126.5**	**126.3**	**146.0**	**135.3**	**126.2**	**120.5**	**113.9**	**107.2**
External	33.6	34.4	49.7	48.4	45.7	43.8	41.7	36.8
Short Term	1.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Long term	31.9	33.8	49.7	48.4	45.7	43.8	41.7	36.8
Domestic	92.9	92.0	96.3	87.0	80.5	76.7	72.3	70.4
Short Term	8.7	8.5	8.6	7.5	6.6	6.3	6.0	5.8
Long term	84.2	83.5	87.7	79.5	73.9	70.4	66.3	64.7
Arrears 4/	**4.5**	**2.1**	**0.9**	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**
External 5/	1.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	2.9	1.5	0.9	0.4	0.0	0.0	0.0	0.0
CBB & SOE Guaranteed Debt /7	**1.8**	**3.4**	**4.9**	**5.4**	**5.5**	**5.3**	**4.9**	**4.2**
External 3/	1.8	3.4	4.9	5.4	5.5	5.3	4.9	4.2
Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CG Debt	**120.2**	**120.8**	**140.2**	**129.5**	**120.7**	**115.3**	**109.1**	**103.0**
External 3/ 6/ 8/	30.1	30.4	44.8	42.9	40.2	38.5	36.8	32.6
Domestic	90.1	90.4	95.4	86.6	80.5	76.7	72.3	70.4
Short Term	5.8	6.9	7.7	7.0	6.6	6.3	6.0	5.8
Long term	84.2	83.5	87.7	79.5	73.9	70.4	66.3	64.7
Memorandum items:								
Nominal GDP, FY (BDS$ millions)	10,235	10,033	9,076	9,862	10,557	11,037	11,539	12,064

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 including 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.
7/ Including IMF loan to the CBB under the Extended Fund Facility.
8/ Including IMF loan to the Treasury under the Extended Fund Facility.

Table 4a. Barbados: Balance of Payments, 2018–2025

(In millions of US$)

			Projections					
	2018	2019	2020	2021	2022	2023	2024	2025
Current account balance	**-201**	**-162**	**-367**	**-352**	**-269**	**-252**	**-241**	**-236**
o/w Exports of goods and services	2,098	2,265	1,370	1,898	2,198	2,325	2,462	2,581
o/w Imports of goods and services	2,020	2,098	1,716	2,005	2,200	2,308	2,426	2,536
Trade balance	-734	-751	-737	-862	-951	-993	-1,049	-1,094
Exports of goods	765	773	667	776	822	850	881	912
o/w Re-exports	237	239	164	240	243	248	256	264
Imports of goods	1,499	1,524	1,404	1,638	1,774	1,844	1,930	2,005
o/w Oil	394	235	177	227	231	235	253	258
Services balance	813	918	390	755	949	1,010	1,084	1,138
Credit	1,334	1,492	703	1,122	1,376	1,475	1,581	1,669
o/w Travel (credit)	1,111	1,263	496	883	1,104	1,181	1,264	1,327
Debit	521	574	312	367	427	464	496	531
Primary income balance	-240	-283	-79	-211	-231	-231	-236	-238
Credit	272	283	191	256	277	289	302	316
Debit	511	565	270	467	508	520	538	554
Secondary income balance	-40	-46	58	-34	-37	-38	-40	-42
Credit	53	55	162	53	57	60	63	66
Debit	94	101	104	87	94	98	103	107
Capital and financial account	**480**	**394**	**636**	**394**	**283**	**238**	**218**	**155**
Fiancial Account Balance	454	396	644	398	283	238	218	155
Public sector	245	194	475	190	48	-8	-38	-173
o/w CG and CBB Inflows	227	239	573	271	129	90	90	60
IMF	49	101	220	48	23	0	0	0
Other IFIs	178	138	353	223	106	90	90	60
o/w CG and CBB Outflows	99	67	105	82	79	85	91	178
o/w IMF	0	0	0	0	0	12	36	55
Private sector	210	202	169	208	235	246	257	328
FDI (net)	222	244	169	208	235	246	257	328
Short Term (net)	-12	-42	0	0	0	0	0	0
Capital Account Balance	25	-3	-8	-4	0	0	0	0
Net errors and omissions	**10**	**8**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance (deficit -)	**288**	**240**	**269**	**41**	**14**	**-14**	**-22**	**-81**
Memorandum items:								
Financing Gap 1/	0	0	90	0	0	0	0	0
IMF BOP Support	0	0	90	0	0	0	0	0
Oil Price (WTI, US$ per barrel)	64.8	57.0	39.7	44.9	45.8	46.6	47.3	48.1
Gross International Reserves (GIR, US$ million)	500	739	1,007	1,049	1,063	1,049	1,027	946
GIR (months of imports of G&S)	3.0	4.2	7.0	6.3	5.8	5.5	5.1	4.5
GIR (percent of ARA)	100.5	141.9	183.1	173.7	165.8	158.6	150.4	129.0

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

1/ Relative to third EFF review.

Table 4b. Barbados: Balance of Payments, 2018–2025
(In percent of CY-GDP, unless otherwise indicated)

			Projections					
	2018	2019	2020	2021	2022	2023	2024	2025
Current account balance	**-4.0**	**-3.1**	**-8.3**	**-7.3**	**-5.2**	**-4.6**	**-4.2**	**-3.9**
o/w Exports of goods and services	41.3	43.5	30.9	39.3	42.1	42.6	43.1	43.3
o/w Imports of goods and services	39.7	40.3	38.7	41.5	42.2	42.3	42.5	42.5
Trade balance	-14.4	-14.4	-16.6	-17.8	-18.2	-18.2	-18.4	-18.3
Exports of goods	15.0	14.8	15.0	16.1	15.8	15.6	15.4	15.3
o/w Re-exports	4.7	4.6	3.7	5.0	4.7	4.5	4.5	4.4
Imports of goods	29.5	29.2	31.6	33.9	34.0	33.8	33.8	33.6
o/w Oil	7.7	4.5	4.0	4.7	4.4	4.3	4.4	4.3
Services balance	16.0	17.6	8.8	15.6	18.2	18.5	19.0	19.1
Credit	26.2	28.6	15.8	23.2	26.4	27.0	27.7	28.0
o/w Travel (credit)	21.8	24.2	11.2	18.3	21.2	21.7	22.2	22.3
Debit	10.2	11.0	7.0	7.6	8.2	8.5	8.7	8.9
Primary income balance	-4.7	-5.4	-1.8	-4.4	-4.4	-4.2	-4.1	-4.0
Credit	5.3	5.4	4.3	5.3	5.3	5.3	5.3	5.3
Debit	10.1	10.9	6.1	9.7	9.7	9.5	9.4	9.3
Secondary income balance	-0.8	-0.9	1.3	-0.7	-0.7	-0.7	-0.7	-0.7
Credit	1.1	1.1	3.7	1.1	1.1	1.1	1.1	1.1
Debit	1.8	1.9	2.4	1.8	1.8	1.8	1.8	1.8
Capital and financial account	**9.4**	**7.6**	**14.3**	**8.1**	**5.4**	**4.4**	**3.8**	**2.6**
Fiancial Account Balance	8.9	7.6	14.5	8.2	5.4	4.4	3.8	2.6
Public sector	4.8	3.7	10.7	3.9	0.9	-0.1	-0.7	-2.9
o/w CG and CBB Inflows	4.5	4.6	12.9	5.6	2.5	1.6	1.6	1.0
IMF	1.0	1.9	5.0	1.0	0.4	0.0	0.0	0.0
Other IFIs	3.5	2.6	8.0	4.6	2.0	1.6	1.6	1.0
o/w CG and CBB Outflows	1.9	1.3	2.4	1.7	1.5	1.6	1.6	3.0
o/w IMF	0.0	0.0	0.0	0.0	0.0	0.2	0.6	0.9
Private sector	4.1	3.9	3.8	4.3	4.5	4.5	4.5	5.5
FDI (net)	4.4	4.7	3.8	4.3	4.5	4.5	4.5	5.5
Short Term (net)	-0.2	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
Capital Account Balance	0.5	-0.1	-0.2	-0.1	0.0	0.0	0.0	0.0
Net errors and omissions	**0.2**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance (deficit -)	**5.7**	**4.6**	**6.1**	**0.9**	**0.3**	**-0.3**	**-0.4**	**-1.4**
Memorandum items:								
Financing Gap 1/	0.0	0.0	2.0	0.0	0.0	0.0	0.0	0.0
IMF BOP Support	0.0	0.0	2.0	0.0	0.0	0.0	0.0	0.0
Oil Price (WTI, US$ per barrel)	64.8	57.0	39.7	44.9	45.8	46.6	47.3	48.1
Gross International Reserves (GIR, US$ million)	499.6	738.9	1,007.5	1,048.9	1,062.8	1,048.9	1,026.5	945.9
GIR (months of imports of G&S)	3.0	4.2	7.0	6.3	5.8	5.5	5.1	4.5
GIR (percent of ARA)	100.5	141.9	183.1	173.7	165.8	158.6	150.4	129.0

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

1/ Relative to third EFF review.

Table 5. Barbados: Monetary Survey, 2018–2025

	2018	2019	2020	2021	2022	2023	2024	2025
			Projections					
			(In millions of Barbados dollars)					
Central Bank of Barbados								
Net International Reserves	832	1,130	1,228	1,214	1,195	1,167	1,122	961
Assets	999	1,478	2,015	2,098	2,126	2,098	2,053	1,892
Liabilities	-167	-348	-787	-884	-931	-931	-931	-931
Gross International Reserves	999	1,478	2,015	2,098	2,126	2,098	2,053	1,892
Net domestic assets	1,827	1,825	1,612	1,612	1,762	1,762	1,762	1,762
Of which: Claims on Central government	736	829	829	829	829	829	829	829
Monetary base	2,659	2,955	2,839	2,825	2,956	2,928	2,884	2,722
Commercial banks								
Net foreign assets	634	661	661	661	661	661	661	661
Net domestic assets	10,292	10,685	10,530	10,520	10,777	11,088	11,400	11,642
Liabilities to the nonfinancial private sector	10,926	11,346	11,191	11,181	11,438	11,749	12,061	12,303
Monetary survey								
Net foreign assets	1,339	1,679	1,889	1,875	1,856	1,828	1,783	1,622
Net domestic assets	9,976	9,976	9,626	9,626	9,939	10,270	10,614	10,973
Net credit to the public sector	2,312	2,277	2,110	2,110	2,260	2,260	2,260	2,260
Central government	2,204	2,212	2,045	2,045	2,195	2,195	2,195	2,195
Rest of public sector	108	65	65	65	65	65	65	65
Credit to the private sector	8,227	8,303	8,121	8,121	8,283	8,614	8,959	9,317
Credit to rest of financial system	330	263	263	263	263	263	263	263
Other items (net)	-892	-867	-867	-867	-867	-867	-867	-867
Broad money (M2, liabilities to the private sector)	11,315	11,655	11,515	11,501	11,794	12,098	12,398	12,595
			(Changes in percent of beginning-of-period liabilities to the private sector)					
Monetary survey								
Net international reserves	-3.7	3.0	1.8	-0.1	-0.2	-0.2	-0.4	-1.3
Net domestic assets	3.5	0.0	-3.0	0.0	2.7	2.8	2.8	2.9
Net credit to public sector	-20.9	-0.3	-1.4	0.0	1.3	0.0	0.0	0.0
Of which: central government	-18.8	0.1	-1.4	0.0	1.3	0.0	0.0	0.0
Credit to private sector	0.2	0.7	-1.6	0.0	1.4	2.8	2.8	2.9
Other items (net)	23.7	0.2	0.0	0.0	0.0	0.0	0.0	0.0
			(In percentage change)					
Monetary survey								
Net domestic assets	4.1	0.0	-3.5	0.0	3.2	3.3	3.4	3.4
Of which:								
Private sector credit	0.3	1.0	-2.0	0.0	2.0	4.0	4.0	4.0
Public sector credit	-50.6	-1.5	-7.3	0.0	7.1	0.0	0.0	0.0
Broad money	-0.2	3.0	-1.2	-0.1	2.5	2.6	2.5	1.6

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

Table 6. Barbados: Medium-Term Macroeconomic Framework, 2018–2025
(In percent of GDP, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025
			Projections					
			(Annual percentage change)					
National accounts and prices (calendar year)								
CY Real GDP	-0.6	-0.1	-15.3	7.4	5.5	1.8	1.8	1.8
Nominal GDP	2.2	2.4	-14.8	8.9	8.0	4.5	4.5	4.5
CPI inflation (average)	3.7	4.1	2.5	1.9	2.3	2.3	2.3	2.3
CPI inflation (end of period)	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	-0.1	7.9	-39.5	38.5	15.8	5.8	5.9	4.9
Imports of goods and services, value	-0.4	3.9	-18.2	16.8	9.7	4.9	5.1	4.5
Real effective exchange rate (average)	124.1	126.9	…	…	…	…	…	…
Terms of trade	-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	4.1	0.0	-3.5	0.0	3.2	3.3	3.4	3.4
Of which: Private sector credit	0.3	1.0	-2.0	0.0	2.0	4.0	4.0	4.0
Broad money	-0.2	3.0	-1.2	-0.1	2.5	2.6	2.5	1.6
Velocity (GDP relative to broad money)	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	29.2	31.5	28.8	29.1	29.8	29.8	29.8	29.8
Expenditure	29.5	27.6	33.4	31.2	30.5	29.6	28.6	28.4
Fiscal balance	-0.3	3.8	-4.6	-2.1	-0.8	0.2	1.2	1.3
Interest Expenditure	3.8	2.5	3.6	4.1	4.8	4.8	4.8	4.7
Primary balance	3.5	6.3	-1.0	2.0	4.0	5.0	6.0	6.0
Debt (fiscal year) 1/								
Central government gross debt	126.5	126.3	146.0	135.3	126.2	120.5	113.9	107.2
External	33.6	34.4	49.7	48.4	45.7	43.8	41.7	36.8
Domestic	92.9	92.0	96.3	87.0	80.5	76.7	72.3	70.4
Savings and investment (calendar year)								
Gross domestic investment	14.3	15.5	16.7	16.5	16.8	16.8	16.8	16.8
Public	2.1	2.0	2.4	2.2	2.5	2.6	2.6	2.6
Private 2/	12.2	13.5	14.3	14.3	14.3	14.3	14.2	14.2
National savings	10.3	12.4	8.4	9.2	11.6	12.2	12.6	12.9
Public	1.8	-2.6	1.8	5.8	-2.4	0.1	1.4	2.1
Private	8.5	15.0	6.7	3.5	14.0	12.1	11.2	10.8
External savings	-4.0	-3.1	-8.3	-7.3	-5.2	-4.6	-4.2	-3.9
Balance of payments (calendar year)								
Current account	-4.0	-3.1	-8.3	-7.3	-5.2	-4.6	-4.2	-3.9
Capital and financial account	9.4	7.6	14.3	8.1	5.4	4.4	3.8	2.6
Official capital (net)	4.8	3.7	10.7	3.9	0.9	-0.1	-0.7	-2.9
Private capital (net)	4.1	3.9	3.8	4.3	4.5	4.5	4.5	5.5
Of which: Long-term flows	4.4	4.7	3.8	4.3	4.5	4.5	4.5	5.5
Net errors and omissions	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	5.7	4.6	6.1	0.9	0.3	-0.3	-0.4	-1.4
Memorandum items:								
Exchange rate (BDS$/US$)	2.0	2.0	…	…	…	…	…	…
Oil price (WTI, US$ per barrel)	64.8	57.0	32.9	35.0	37.9	39.9	41.4	42.7
Gross international reserves (US$ millions)	500	739	1,007	1,049	1,063	1,049	1,027	946
In months of imports	3.0	4.2	7.0	6.3	5.8	5.5	5.1	4.5
In percent of ARA	100.5	141.9	183.1	173.7	165.8	158.6	150.4	129.0
Nominal CY GDP (BDS$ millions)	10,173	10,418	8,878	9,669	10,439	10,913	11,410	11,928

Sources: Barbados authorities; and Fund staff estimates and projections.
1/ Debt as defined in Table 3. Fiscal year is from April to March;
2/ Inlcuding inventories.

Table 7. Barbados: Financial Sector Indicators, 2015–2020

(Percent)

	2015	2016	2017	2018	2019	2020Q1	2020Q2
Commercial Banks							
Solvency Indicator							
Capital Adequacy Ratio (CAR)	15.8	17.0	17.0	13.9	13.5	14.6	15.3
Liquidity Indicators 1/							
Loan to deposit ratio	65.5	62.3	63.3	63.0	61.8	59.1	58.0
Domestic demand deposits to total domestic deposits	35.7	40.3	41.6	41.8	45.3	45.6	45.3
Liquid assets, in percent of total assets	25.3	27.4	26.7	26.5	27.2	29.6	38.0
Credit Risk Indicators							
Loans and advances (yoy growth rate) 2/	-0.8	-0.5	2.0	0.7	-0.5	-1.3	-1.9
Non-performing loans ratio	10.6	8.9	7.9	7.4	6.6	6.9	6.8
Provisions to non-performing loans	55.5	63.2	69.6	67.3	60.2	58.2	69.1
Foreign Exchange Risk Indicators							
Deposits in Foreign Exchange (in percent of total deposits)	-0.9	8.6	8.8	10.5	6.7	8.3	8.1
Profitability Indicators							
Return on Assets (ROA)	0.9	1.0	1.3	-0.2	0.6	1.8	0.9
Credit Unions							
Solvency Indicator							
Reserves to Total Liabilities	12.1	12.4	12.5	11.9	11.4	N.A.	N.A.
Liquidity Indicators							
Loan to deposit ratio	107.2	103.2	100.6	94.3	89.6	N.A.	N.A.
Credit risk Indicators							
Total assets, annual growth rate	7.3	8.3	8.7	9.5	7.5	N.A.	N.A.
Loans, annual growth rate	6.6	7.3	6.3	4.2	3.5	N.A.	N.A.
Nonperforming loans ratio	9.1	7.6	7.8	8.9	9.6	N.A.	N.A.
Arrears 3-6 months/Total Loans	2.0	1.3	1.3	1.9	1.9	N.A.	N.A.
Arrears 6 – 12 months/Total Loans	1.8	1.2	1.4	1.4	1.6	N.A.	N.A.
Arrears over 12 months/Total Loans	5.2	5.1	5.0	5.5	6.1	N.A.	N.A.
Provisions to Total loans	2.6	2.5	2.4	2.6	2.8	N.A.	N.A.
Profitability Indicator							
Return on Assets (ROA)	0.6	0.8	0.9	0.7	0.7	N.A.	N.A.

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)

	Purchases		
Availability Date	SDR million	Percent of Quota	Conditions
October 1, 2018	35	37	Approval of Arrangement
May 15, 2019	35	37	1st Review and continuous and end March 2019 performance criteria
November 15, 2019	35	37	2nd Review and continuous and end September 2019 performance criteria
May 15, 2020	101	107	3rd Review and continuous and end March 2020 performance criteria
November 15, 2020	65	69	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 Access	322	341	

Sources: Fund staff.

Table 9. Barbados: Program Monitoring – External Financing Requirements and Sources

(In millions of US$ unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024
			Projections				
	(in US$ millions, unless otherwise indicated)						
Gross Financing Requirements	**300**	**228**	**473**	**434**	**349**	**337**	**332**
Current Account Balance	201	162	367	352	269	252	241
CG Debt Amortization	99	67	105	82	79	85	91
Sources of Financing	**300**	**228**	**383**	**434**	**349**	**337**	**332**
Public sector	343	261	491	272	128	77	53
FDI (net)	222	244	169	208	235	246	257
Short Term (net)	-12	-42	0	0	0	0	0
Capital Account Balance	25	-3	-8	-4	0	0	0
Net errors and omissions	10	8	0	0	0	0	0
Change in Reserve (- = increase)	-288	-240	-269	-41	-14	14	22
Financing Gap 1/	**0**	**0**	**90**	**0**	**0**	**0**	**0**
Financing Gap 1/	0	0	90	0	0	0	0
Prospective Financing	**0**	**0**	**90**	**0**	**0**	**0**	**0**
IMF BOP Support	0	0	90	0	0	0	0
Memo items:							
GIR (percent of ARA)	101	142	183	174	166	159	150
GIR (months of imports of G&S)	3.0	4.2	7.0	6.3	5.8	5.5	5.1

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

1/ Relative to third EFF review.

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

(In millions of SDR unless otherwise indicated)

		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
		Projections												
Purchases	a	166.0	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/		175.7	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	8.8	25.9	46.6	52.3	53.7	53.7	44.9	27.8	7.1	1.4
Total Interest/Charges 2/	c	0.3	5.1	6.3	6.4	6.3	6.2	4.3	2.3	1.4	0.9	0.4	0.1	0.1
Total Debt Service	d=b+c	0.3	5.1	6.3	15.2	32.2	52.8	56.5	55.9	55.1	45.8	28.1	7.2	1.5
Percent of exports		0.4	0.4	0.3	0.8	1.7	2.3	2.4	2.3	2.2	1.7	0.8	0.3	0.1
Percent of GDP		0.1	0.1	0.1	0.3	0.7	1.0	1.0	1.0	1.0	0.7	0.4	0.1	0.0
Percent of quota 1/		0.3	5.4	6.6	16.1	34.1	55.8	59.8	59.2	58.3	48.5	29.8	7.6	1.6
Outstanding Credit	e=e(-1)+a-b	271.0	305.0	322.0	313.3	287.3	266.7	214.4	160.8	107.1	62.2	34.4	27.3	25.9
Percent of exports		14.0	11.4	10.4	9.5	8.3	7.3	5.6	4.0	2.5	1.4	0.7	0.6	0.5
Percent of GDP		4.3	4.5	4.4	4.1	3.6	3.2	2.4	1.7	1.1	0.6	0.3	0.2	0.2
Percent of quota 1/		286.8	322.8	340.7	331.5	304.1	282.2	226.9	170.1	113.3	65.8	36.4	28.9	27.4
Memo items:														
EFF Debt Service / Exports of G&S (percent)		0.0	0.2	0.2	0.5	0.9	1.4	1.5	1.4	1.3	1.0	0.6	0.1	0.0
GIR (US$ million)		1,007	1,049	1,063	1,049	1,027	946	924	1,041	1,168	1,323	1,500	1,670	1,884
ARA (US$ million)		483	532	569	590	613	662	713	738	756	778	770	747	751
GIR/ARA (percent)		183	174	166	159	150	129	116	126	138	153	175	202	229
GIR/External Debt Service (percent)		429	473	405	389	371	245	198	220	253	287	422	727	922
Nominal GDP (CY US$ mln)		4,439	4,835	5,219	5,457	5,705	5,964	6,235	6,519	6,815	7,125	7,449	7,788	8,142

Sources: Fund staff estimates and projections.

1/ Using SDR/USD exchange rate = 1.41172 (as of September 8, 2020) and quota SDR = 94.5 million;

2/ Total Interest/Charges based on existing and prospective drawings using GRA rate of charge = 1.095 (as of November 5, 2020).

Annex I. Public Debt Sustainability Analysis

Debt is assessed as sustainable, but not with high probability. Debt is projected to temporarily increase in FY2020/21 to about 146 percent of GDP but to decrease to about 107 percent of GDP in the next five years. The COVID-19 induced recession and the relaxation of the fiscal stance in FY2020/21 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 increased because of the COVID-19 crisis: for FY2020/21, debt remains above the 70 percent of GDP risk assessment threshold with the increase almost completely explained by the large projected recession in the same year, in turn, bringing gross financing needs above the 15 percent of the GDP risk assessment threshold. Risks include the assumption that the COVID-19 shock is temporary, need to strengthen social safety nets, maintain high primary surpluses as highlighted the realism of the fiscal assumptions, and increase medium-term growth. Risks are mitigated by Barbados' strong track record under the EFF-supported program, by the fact that at least 50 percent of gross financing needs has no rollover risk, and improved market perception on external debt.

A. Public Debt[1] Structure and Profile

1. At end FY2019/20, public debt was about 126 percent of GDP, down from about 158 percent of GDP in FY2017/18 (Table 3).

- **Over this period, public domestic debt decreased owing primarily to debt restructuring and fiscal adjustment**. Short term CG debt decreased due primarily to debt restructuring and consolidation and offsetting of multiple overdraft facilities. Long term CG debt decreased due primarily to debt restructuring and 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, the large fiscal adjustment under the EFF-supported program contributed to containing gross financing needs and reduce debt.

- **Over the same period, public external debt increased with the impact of debt restructuring offset by financing from IFIs**. The external debt restructuring provided an immediate debt reduction of about 4 percent of GDP. However, IDB and CDB budget support loans and disbursements from the IMF under the EFF-supported program contributed to increasing the share of external debt in public debt.

2. The profile of public debt poses limited risk. The 2018-19 debt restructuring engineered a large reduction in debt service as short-term debt was either swapped with long-term debt or

[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, IMF BOP support lent to the CBB, and IMF budget support lent directly to the Treasury. We refer to this gross debt concept as "public debt" in order to distinguish it from the consolidated concept of public sector debt.

discounted, and the restructured securities have long amortization grace periods and low interest rates. All restructured debt has a 5-year grace period and afterwards, a much smaller and smoother debt service profile than before restructuring. Fifty percent of gross financing needs are represented by short term debt with no rollover risk: commercial banks have agreed to rollover the full stock of their short term claims for the next 10 years and the rest of the short term debt is held by the CBB.

B. Public Debt Sustainability Assessment Assumptions

3. The specific assumptions used in this annex are:

- ***Growth and Inflation***. In 2020, GDP is projected to contract by about 15 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 decrease to about 3 percent in 2020. Over the medium term, average inflation is expected to return to a long-run average of around 2½ percent in 2022-24. The fiscal multiplier used is 0.3 reflecting the FAD methodology staff's guidance on fiscal multipliers.[2] Staff used conservative assumptions to reduce downside risk to the projections.

- ***Primary Balance***. For FY2020/21, the primary balance is projected to decrease to minus 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 6 percent by FY2023/24 before gradually decreasing to 5 percent and stabilize at this level until the long-term debt anchor is reached in FY2033/34.

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

C. Projections

4. Over the projection period, risks to debt sustainability have notably increased. Debt remains above the 70 percent of GDP risk assessment threshold over the short and medium term. In addition, because of the COVID crisis the fiscal accommodation raises GFNs close to the 15 percent risk assessment threshold.

5. The public debt-to-GDP ratio is projected to increase in FY2020/21 to about 146 percent of GDP before decreasing to 107 percent of GDP by 2025 (Figure 1). In 2020, debt is projected to increase from 126 to about 146 percent of GDP. The primary balance is contributing only 1 percentage points to this change, the contraction in GDP, interest expenditure, and the augmentation of the EFF arrangement are contributing the rest. 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 debt dynamics

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

primarily impacted by the primary surplus, and secondarily by the automatic debt dynamics. The realism of the fiscal assumptions (figure 3) suggests that a key risk to debt sustainability is associated with the authorities maintaining high primary balances over an extended period.

6. Public debt is projected to be below its long-term anchor of 60 percent of GDP by end-FY2033/34 (text chart, panel 1).[3] Debt sustainability is due mainly:

- To low gross financing needs that remain below the 15 percent of GDP threshold after 2020 (text chart, panel 2). In addition, at least 50 percent of gross financing needs has no rollover risk: commercial banks have contractually agreed to rollover the full stock of short term debt for ten years after the debt restructuring and the rest of short term debt is held mainly by the CBB;

- By 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

- By improved automatic debt dynamics generated by the recent domestic and external debt restructurings (text chart, panel 4).

7. Unfavorable outturns of these determinants contribute important sources of risks to debt sustainability. In particular, the risk of a gradual recovery in 2021 and 2022 not materializing as assumed, would put in question the ability of the authorities to maintain high primary balances going forward. At the same time, with unemployment benefit extended, it would increase the liquidity needs of the NIS. Barring a longer than expected impact of the current pandemic or other unforeseen shocks, and as discussed in the risks to the outlook section, staff assesses the programmed fiscal adjustment as realistic. Public support for the adjustment program remains strong. At the same time, were growth to overperform relative to baseline projections, the authorities could accelerate efforts towards debt reduction.

8. Public short-term debt is projected not to exceed 4 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 4 percent of GDP, respectively.

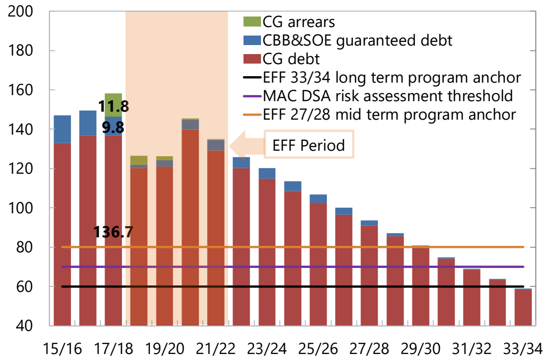
[3] Text charts figures include IMF BOP support not part of the central government debt but lent to the CBB. Even with the inclusion of IMF BOP support, the 60 percent debt/GDP is reached by FY2033/34 and the medium-term target of 80 percent debt/GDP is reached by FY2029/30.

Barbados: Public Debt Projections 1/

(In percent of FY-GDP)

Public Debt Projections under the Program

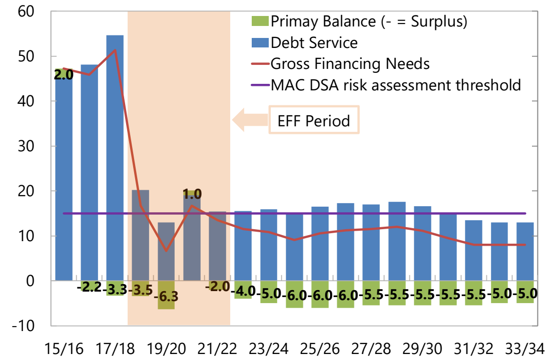
(Percent of FY GDP)



Sources: Fund staff calculations.

Gross Financing Needs under the Program

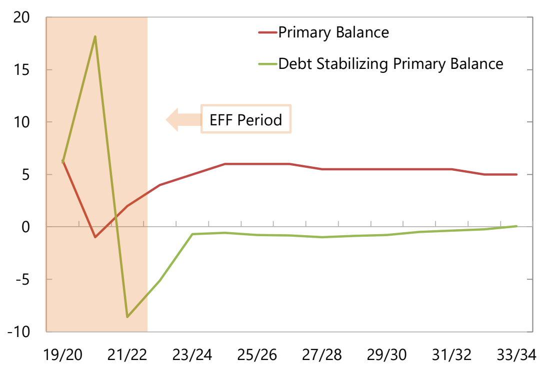
(Percent of FY GDP)



Sources: Fund staff calculations.

Debt Stabilizing Primary Balance under the Program

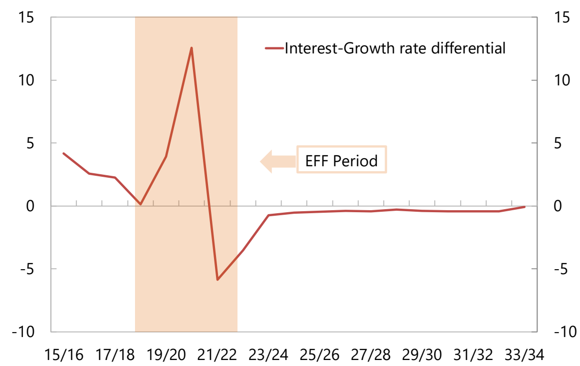
(Percent of FY GDP)



Sources: Fund staff calculations.

Interest-Growth Rate Differential under the Program

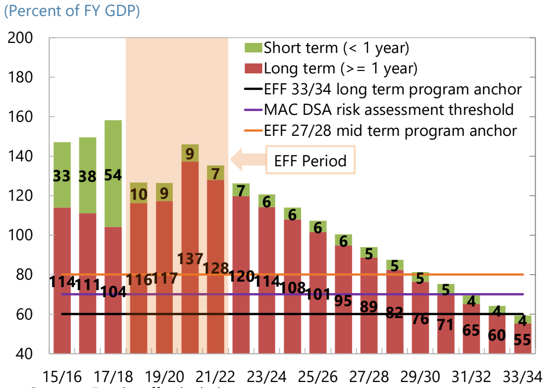
(Percent)



Sources: Fund staff calculations.

Public Debt Maturity Projections under the Program

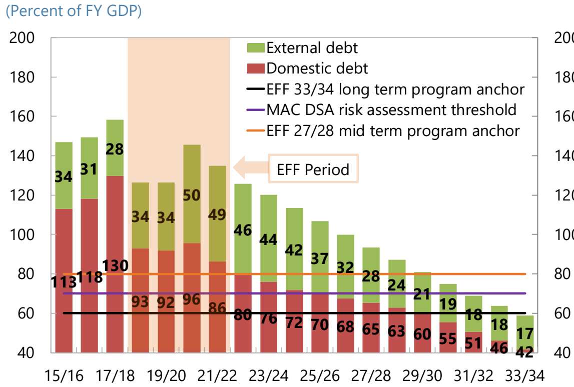
(Percent of FY GDP)



Sources: Fund staff calculations.

Public Debt Currency Projections under the Program

(Percent of FY GDP)



Sources: Fund staff calculations.

Notes: 1/ including IMF BOP support.

9. **External debt is projected to decline to 16 percent of GDP by end-FY2033/34** (text chart, panel 6). External market access is assumed to be restored in the medium term. The public debt management strategy underpinning these projections assumes up to 100 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 17 and 42 percent of GDP, respectively.

D. Stress Tests

10. Short term risks to debt sustainability have increased with the debt level remaining above the 70 percent of GDP risk assessment threshold under all stress scenarios but gross financing needs remaining above the 15 percent of GDP risk assessment threshold only under the primary balance shock and only for 2021.

- **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-FY2025/26.[4]

- **Gross financing needs remain above the 15 percent risk assessment threshold only under the primary balance shock and only in 2021**. The elevated risk is related to the baseline for the shock already above the 15 percent threshold in FY2020/21, in turn caused by the exogenous and transitory nature of the COVID-19 shock on Barbados' growth and the lower primary balance. However, stress tests confirm the temporary nature of the increase in gross financing needs. With the low debt service stemming from the debt restructuring and a balance budget assumed for the rest of the projection period, GFNs exceed the 15 percent risk assessment threshold only under the primary balance shock and only for 2021.

- **Market perception of debt sustainability is improving**. With external debt now trading at par on the secondary market, risks stemming from market sentiment have decreased. The spread on external debt is below the threshold of 600 basis points notwithstanding the large reduction in US interest rates during the pandemic. External debt held by non-residents is above the risk assessment threshold of 15 percent. However, all new external creditors are multilateral IFIs, representing limited risk to the exchange rate peg. 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.

[4] 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.

11. Stress tests produce narrow confidence intervals. Given the nature of the recent debt restructuring (drastically reducing debt service requirements) and the fixed exchange rate, fan charts produce very narrow confidence intervals and bands.

E. External Debt Sustainability Analysis

12. In FY2020/21, external debt is projected to temporarily increase to 47 percent of GDP and to decrease to about 35 percent of GDP by FY2025/26 with a low risk profile. For FY2020/21 the large increase in external debt projected of about 12 percentage points of GDP is largely determined at the numerator by the deterioration in the current account deficit which, in turn, has increased external financing needs, and, at the denominator, by the large recession projected for the same year (Table 1). 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. Risks stemming from the external debt profile are reduced after the debt restructuring with smoother and lower debt service and gross financing needs and by the increase share of IFIs among non-resident creditors. Under any of the stress tests considered, external debt is not projected to be higher than about 41 percent of GDP by FY2025/26 (Figure 6).

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

(In percent of FY-GDP, unless otherwise indicated)

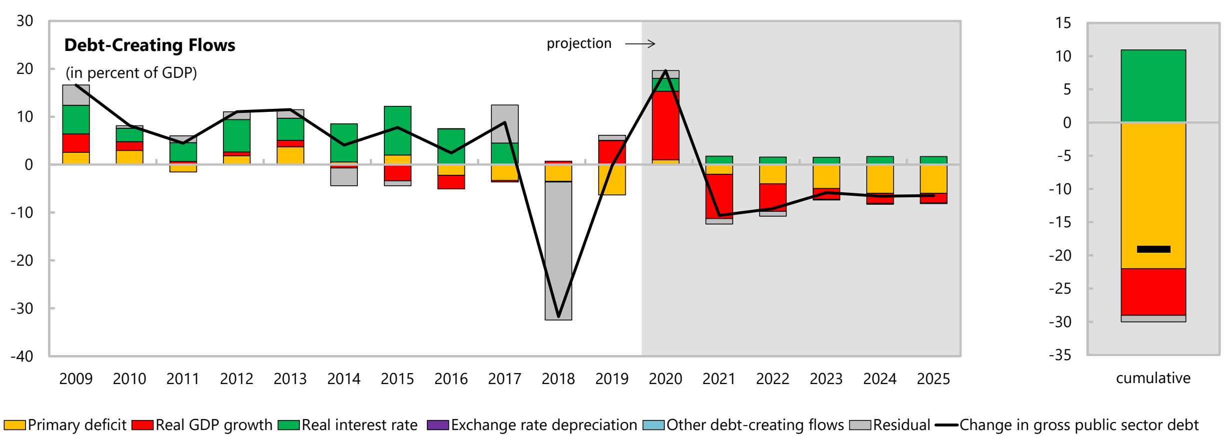
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	130.4	126.5	126.3	146.0	135.3	126.2	120.3	113.7	107.2
Public gross financing needs	37.4	15.0	6.6	16.5	13.7	11.4	10.7	8.9	10.5
FY Real GDP growth (in percent)	-0.4	-0.5	-3.9	-10.3	6.9	4.5	1.8	1.8	1.8
Inflation (FY GDP deflator, in percent)	1.1	2.7	2.0	0.8	1.6	2.4	2.7	2.7	2.7
FY Nominal GDP growth (in percent)	0.7	2.2	-2.0	-9.5	8.7	7.1	4.5	4.5	4.5
Effective interest rate (in percent) [4/]	6.1	2.6	2.0	2.6	3.1	3.8	4.0	4.2	4.3

As of October 19, 2020		
Sovereign Spreads 3/		
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	B-	n.a.
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	8.3	-31.7	-0.2	19.6	-10.6	-9.2	-5.9	-6.6	-6.5	-19.1	
Identified debt-creating flows	6.9	-2.9	-1.3	18.0	-9.5	-8.2	-5.7	-6.4	-6.3	-18.1	
Primary deficit	0.7	-3.5	-6.3	1.0	-2.0	-4.0	-5.0	-6.0	-6.0	-22.0	-0.3
Primary (noninterest) revenue and grants	26.5	29.2	31.5	28.8	29.1	29.8	29.8	29.8	29.8	177.0	
Primary (noninterest) expenditure	27.2	25.8	25.1	29.8	27.1	25.8	24.8	23.8	23.8	155.0	
Automatic debt dynamics [5/]	6.2	0.5	5.1	17.0	-7.5	-4.2	-0.7	-0.4	-0.3	3.9	
Interest rate/growth differential [6/]	6.2	0.5	5.1	17.0	-7.5	-4.2	-0.7	-0.4	-0.3	3.9	
Of which: real interest rate	6.0	-0.2	0.1	2.7	1.8	1.6	1.5	1.7	1.7	11.0	
Of which: FY real GDP growth	0.1	0.7	5.0	14.3	-9.3	-5.7	-2.2	-2.1	-2.0	-7.0	
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/]	1.4	-28.8	1.1	1.6	-1.1	-1.0	-0.2	-0.2	-0.2	-1.0	



Source: IMF staff.

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

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

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

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

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

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

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

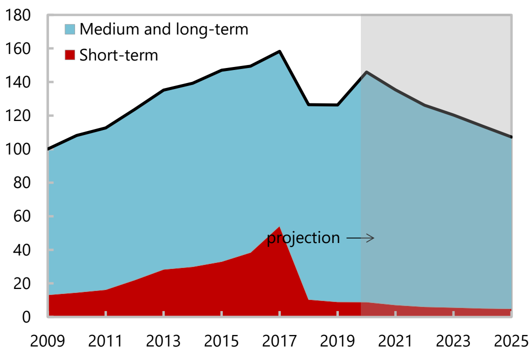
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

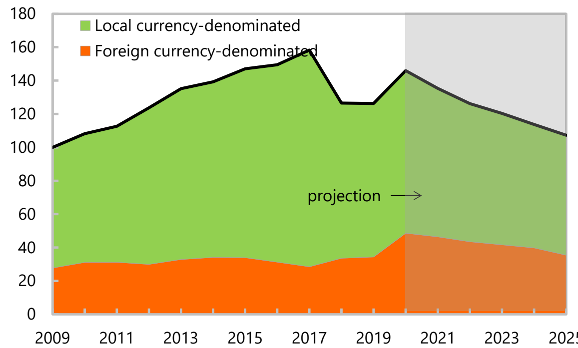
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

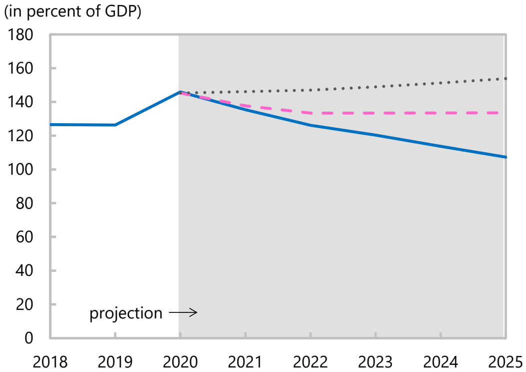


Alternative Scenarios

Baseline Historical Constant Primary Balance

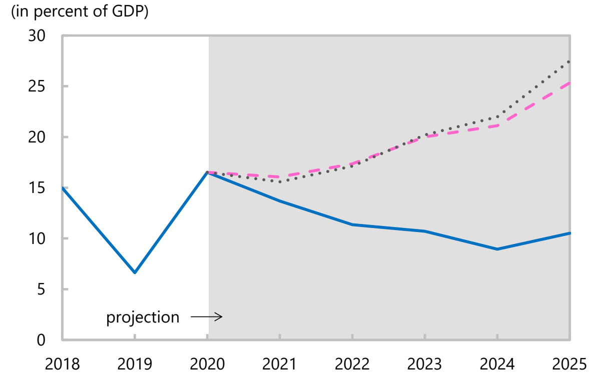
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

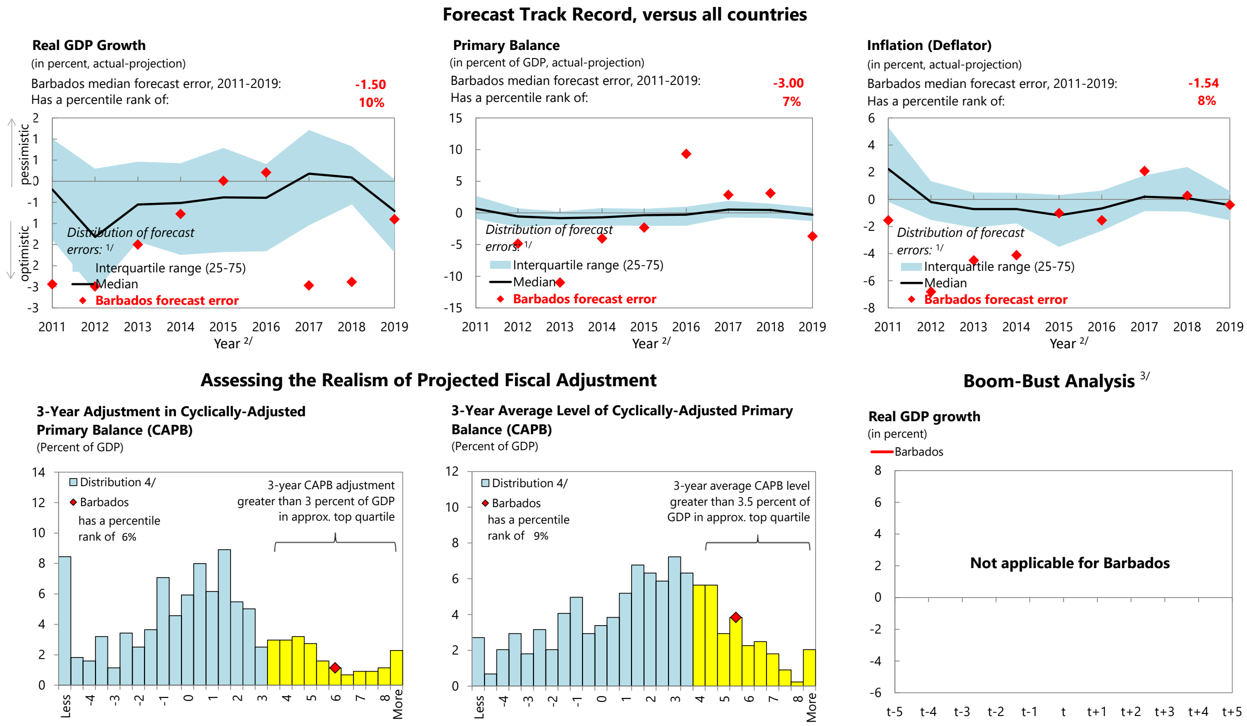
(in percent)

Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-10.3	6.9	4.5	1.8	1.8	1.8
Inflation	0.8	1.6	2.4	2.7	2.7	2.7
Primary Balance	-1.0	2.0	4.0	5.0	6.0	6.0
Effective interest rate	2.6	3.1	3.8	4.0	4.2	4.3
Constant Primary Balance Scenario						
Real GDP growth	-10.3	6.9	4.5	1.8	1.8	1.8
Inflation	0.8	1.6	2.4	2.7	2.7	2.7
Primary Balance	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Effective interest rate	2.6	3.1	3.7	3.8	4.0	3.9

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-10.3	-0.3	-0.3	-0.3	-0.3	-0.3
Inflation	0.8	1.6	2.4	2.7	2.7	2.7
Primary Balance	-1.0	0.6	0.6	0.6	0.6	0.6
Effective interest rate	2.6	3.1	3.9	4.2	4.4	4.5

Source: IMF staff.

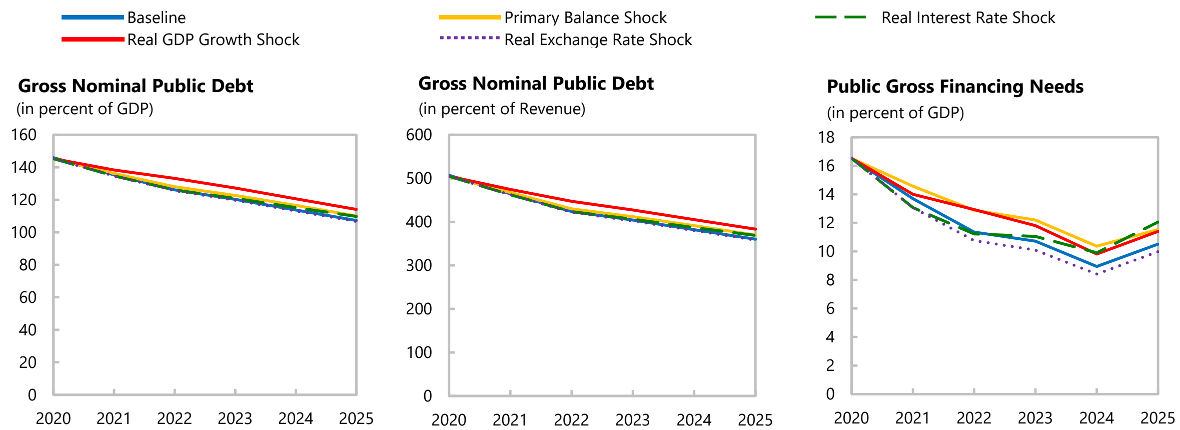
Figure 3. Barbados: Public DSA – Realism of Baseline Assumptions



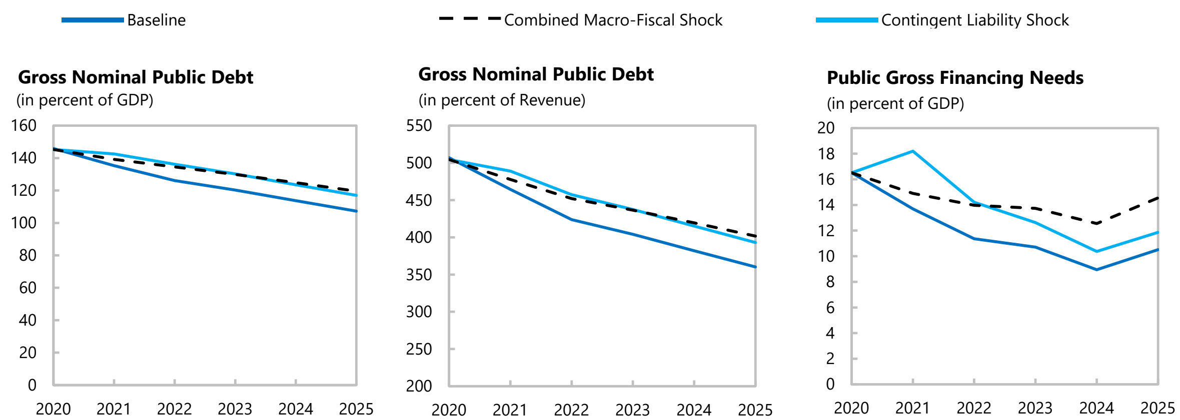
Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Barbados, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Barbados: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-10.3	6.9	4.5	1.8	1.8	1.8
Inflation	0.8	1.6	2.4	2.7	2.7	2.7
Primary balance	-1.0	0.5	3.0	4.5	5.5	6.0
Effective interest rate	2.6	3.1	3.8	4.0	4.2	4.2
Real Interest Rate Shock						
Real GDP growth	-10.3	6.9	4.5	1.8	1.8	1.8
Inflation	0.8	1.6	2.4	2.7	2.7	2.7
Primary balance	-1.0	2.0	4.0	5.0	6.0	6.0
Effective interest rate	2.6	3.1	4.2	4.6	5.0	5.3
Combined Shock						
Real GDP growth	-10.3	5.1	2.7	1.8	1.8	1.8
Inflation	0.8	1.2	1.9	2.7	2.7	2.7
Primary balance	-1.0	0.5	2.8	4.5	5.5	6.0
Effective interest rate	2.6	3.1	4.2	4.6	5.1	5.3

Real GDP Growth Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-10.3	5.1	2.7	1.8	1.8	1.8
Inflation	0.8	1.2	1.9	2.7	2.7	2.7
Primary balance	-1.0	1.4	2.8	5.0	6.0	6.0
Effective interest rate	2.6	3.1	3.8	4.0	4.2	4.2
Real Exchange Rate Shock						
Real GDP growth	-10.3	6.9	4.5	1.8	1.8	1.8
Inflation	0.8	1.6	2.4	2.7	2.7	2.7
Primary balance	-1.0	2.0	4.0	5.0	6.0	6.0
Effective interest rate	2.6	3.1	3.8	4.0	4.2	4.3
Contingent Liability Shock						
Real GDP growth	-10.3	5.1	2.7	1.8	1.8	1.8
Inflation	0.8	1.2	1.9	2.7	2.7	2.7
Primary balance	-1.0	-2.7	4.0	5.0	6.0	6.0
Effective interest rate	2.6	3.2	3.8	4.0	4.1	4.2

Source: IMF staff.

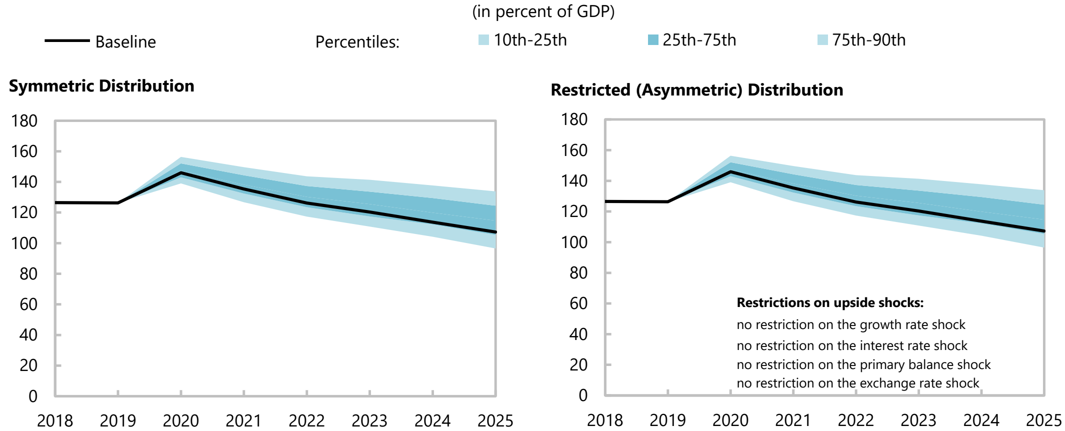
Figure 5. Barbados: Public DSA Risk Assessment

Heat Map

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

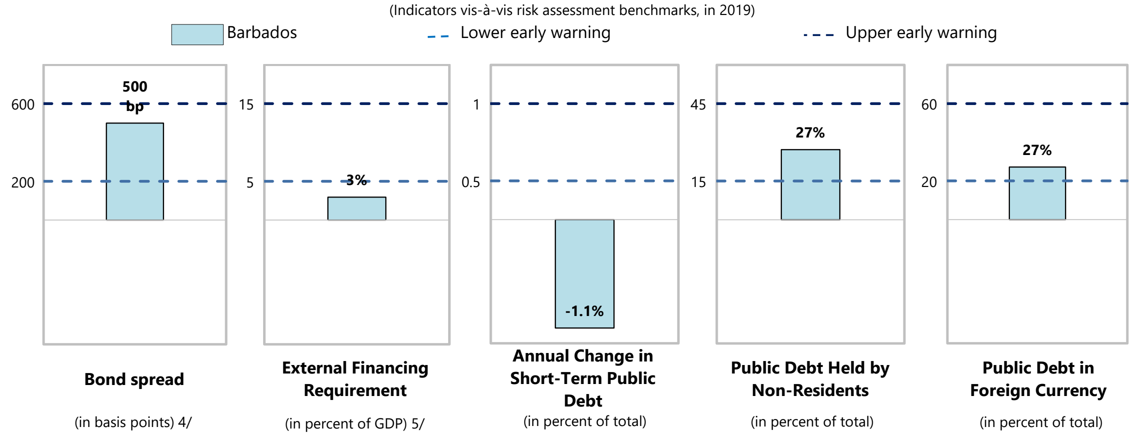
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



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:

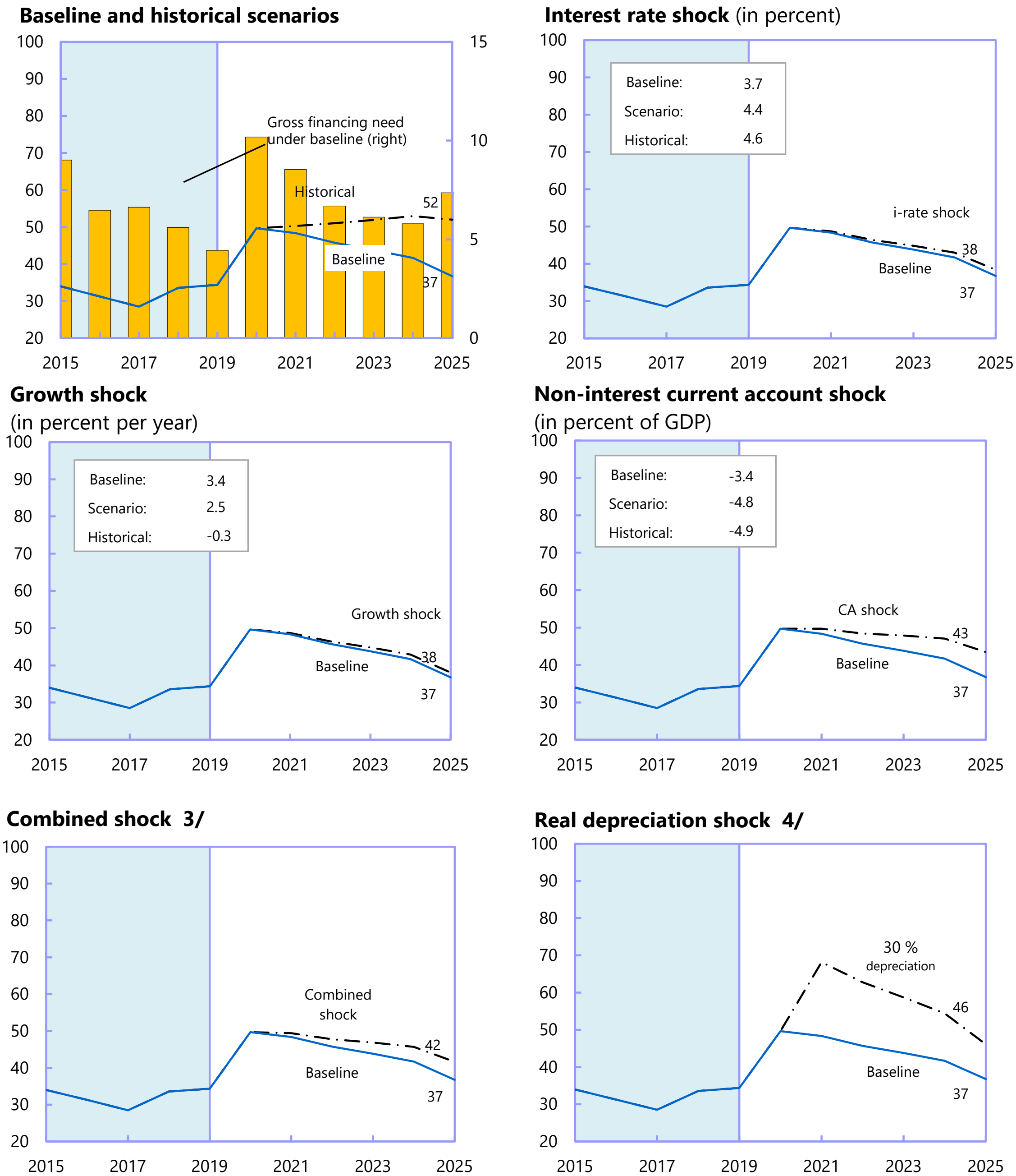
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 21-Jul-20 through 19-Oct-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 6. 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 tc 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, 2015–2025

(In percent of FY-GDP, unless otherwise indicated)

	Actual							Projections						
	2015	2016	2017	2018	2019			2020	2021	2022	2023	2024	2025	Debt-stabilizing non-interest current account 6/
Baseline: External debt	34.0	31.3	28.5	33.6	34.4			**49.7**	**48.4**	**45.7**	**43.8**	**41.7**	**36.8**	**-4.8**
Change in external debt	-0.7	-2.7	-2.8	5.1	0.8			15.3	-1.3	-2.6	-1.9	-2.1	-4.9	
Identified external debt-creating flows (4+8+9)	0.3	0.0	-0.2	-1.0	-1.0			8.3	-0.2	-1.4	-0.7	-1.0	-2.3	
Current account deficit, excluding interest payments	4.4	2.5	2.1	3.5	2.6			6.6	5.6	3.4	2.9	2.6	2.4	
Deficit in balance of goods and services	1.6	-1.0	-1.5	-1.5	-3.3			7.6	2.2	0.0	-0.3	-0.6	-0.7	
Exports	41.2	42.8	42.0	41.0	45.1			30.2	38.5	41.6	42.1	42.7	42.8	
Imports	42.8	41.8	40.5	39.5	41.8			37.8	40.7	41.7	41.8	42.1	42.1	
Net non-debt creating capital inflows (negative)	-5.5	-3.4	-3.1	-4.3	-4.9			-3.7	-4.2	-4.4	-4.4	-4.4	-5.4	
Automatic debt dynamics 1/	1.4	0.8	0.8	-0.2	1.3			5.4	-1.6	-0.4	0.9	0.8	0.7	
Contribution from nominal interest rate	1.8	1.7	1.7	0.5	0.6			1.5	1.6	1.7	1.7	1.6	1.5	
Contribution from real FY GDP growth	-0.8	-0.7	-0.1	0.1	1.3			3.9	-3.2	-2.1	-0.8	-0.8	-0.7	
Contribution from price and exchange rate changes 2/	0.5	-0.2	-0.8	-0.8	-0.7			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-1.0	-2.6	-2.6	6.1	1.8			7.0	-1.1	-1.2	-1.2	-1.1	-2.7	
External debt-to-exports ratio (in percent)	82.4	73.1	67.9	81.9	76.1			164.6	125.6	109.8	104.0	97.7	85.9	
Gross external financing need (in billions of US dollars) 4/	0.4	0.3	0.3	0.3	0.2			0.5	0.4	0.4	0.3	0.3	0.4	
in percent of FY GDP	9.0	6.5	6.6	5.6	4.4			10.2	8.5	6.7	6.1	5.8	7.4	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**49.7**	**50.3**	**51.1**	**51.9**	**53.0**	**52.0**	**-4.0**
Key Macroeconomic Assumptions Underlying Baseline														
FY Real GDP growth (in percent)	2.5	2.0	0.2	-0.5	-3.9	-0.3	1.8	-10.3	6.9	4.5	1.8	1.8	1.8	
FY GDP deflator in US dollars (change in percent)	-1.5	0.6	2.6	2.7	2.0	1.5	1.6	0.8	1.6	2.4	2.7	2.7	2.7	
Nominal external interest rate (in percent)	5.1	5.1	5.6	1.7	1.8	4.6	1.5	4.1	3.4	3.7	3.8	3.8	3.7	
Growth of exports (US dollar terms, in percent)	3.2	6.6	0.8	-0.1	7.9	1.6	4.7	-39.5	38.5	15.8	5.8	5.9	4.9	
Growth of imports (US dollar terms, in percent)	-3.9	0.2	-0.4	-0.4	3.9	0.3	4.1	-18.2	16.8	9.7	4.9	5.1	4.5	
Current account balance, excluding interest payments	-4.4	-2.5	-2.1	-3.5	-2.6	-4.9	2.7	-6.6	-5.6	-3.4	-2.9	-2.6	-2.4	
Net non-debt creating capital inflows	5.5	3.4	3.1	4.3	4.9	5.7	2.8	3.7	4.2	4.4	4.4	4.4	5.4	

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.

Annex II. External Sector Assessment

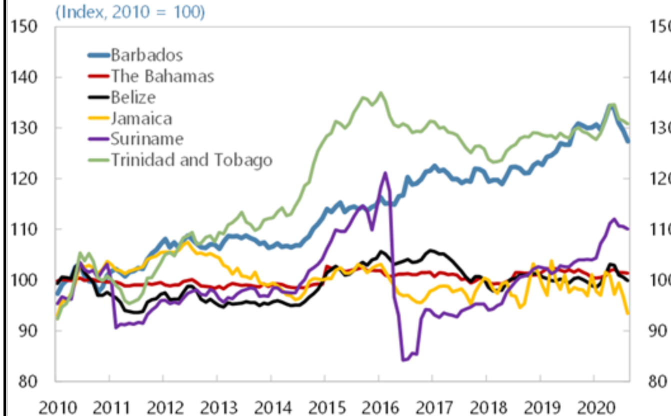
Barbados' external position in 2019 was broadly consistent with fundamentals and desirable policies. Reserve coverage was at adequate levels by end-2019, covering 7 months of imports of goods and services. A sharp deterioration of the current account balance is expected in 2020 due to the impact of the COVID-19 crisis, and could lead to a change in the assessment of the external position.

1. **The current account deficit narrowed steadily from 6.1 percent of GDP in 2015 to 3.1 percent of GDP in 2019.** The improvement in the current account reflected a stable trade deficit and an increasing services account surplus due to the strong growth of tourist arrivals. This improvement in the current account balance more than offset a decline of 1.3 percent of GDP in net capital and financial flows, as public sector long-term inflows waned.

2. **However, the deficit is expected to widen significantly in 2020 due to the impact of the pandemic.** A sharp decline in tourism due to lockdowns in key source markets contributed to a sharp deterioration in the current account balance in the first three quarters of 2020, though this was partially mitigated by lower petroleum and other imports. A worsened current account deficit was counterbalanced, however, by significant inflows in the financial account, led by larger than expected flows of official sector assistance. Despite the cautious reopening of the economy in July, tourism arrivals are forecast to remain at a small fraction of normal levels through the end of 2020, leading to an end-year current account deficit of 8.3 percent of GDP. The deficit is expected to improve starting in 2021 as travel arrivals gradually return to normal levels. FDI inflows, in abeyance during the pandemic, are projected to increase as the tourism market rebounds.

3. **External imbalances have continued to moderate as Barbados has implemented fiscal and structural reforms.** The EBA-lite current account (CA) model shows that the cyclically-adjusted current account balance is estimated at -2.8 percent of GDP in 2019, while the multilaterally consistent cyclically adjusted CA Norm is -2.6 percent of GDP, suggesting a small current account gap of -0.2 percent of GDP. Using the estimated current account elasticities, this implies a small overvaluation of the REER (0.6 percent). By contrast, the REER approach suggests an overvaluation of about 22 percent. Though the real effective exchange rate appreciated by an average of about 3½ percent in the last 3 years (see chart), in staff's view the REER model is less reliable than the current account model given the short sample span to estimate the fixed effect in the model as well as the need to substitute other sources of data compared to the countries in the regression sample. The CA model better captures the evolving

Real Effective Exchange Rate
(Index, 2010 = 100)



Source: IMF staff calculations.

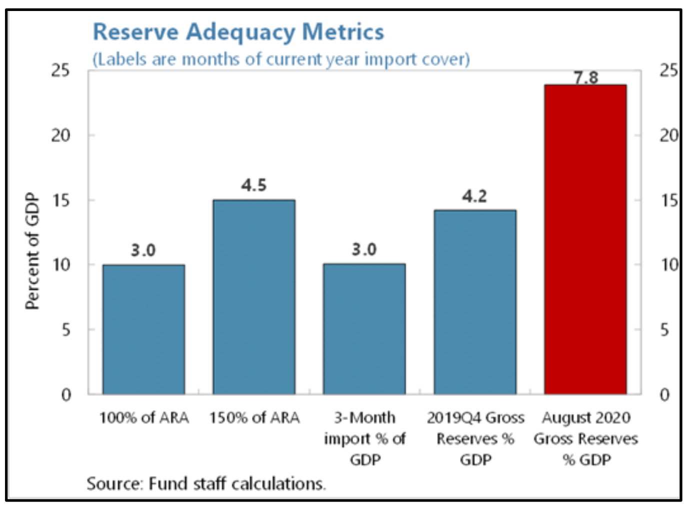
nature of Barbados' external position, which suggests that the external position is broadly consistent with fundamentals and desirable policies (see Summary Table below).[1]

Summary Table – External Balance

CA Approach		REER Approach	
CA-Actual	-3.1%	Ln(REER) Actual	4.85
CA-Cyclically adjusted	**-2.8%**	Ln(REER) Fitted	4.67
CA-Norm	-3.4%	Ln(REER) Norm	4.63
Cyclically adjusted CA Norm	-3.1%	Residual	0.18
Multilaterally Consistent Cyclically adjusted CA Norm	**-2.6%**		
CA-Gap	**-0.2%**	REER Gap	22.3%
of/which Policy gap	4.1%	Policy Gap	4.4%
Elasticity	-0.30	Natural Disasters and Conflicts	0.2%
REER Gap	0.6%		
CA-Fitted	0.7%		
Residual	3.8%		
Natural Disaster and Conflict	0.0%		

Source: IMF staff estimates

4. **International reserves have rebounded sharply supported by International Financial Institution (IFI) loans.** Reserves increased to more than US$1 billion by end-October 2020, more than 7 months of import coverage and about 200 percent of the ARA metric. This was driven by larger than expected financial account inflows that more than offset a sharp decline in tourism. The Development Bank of Latin America (CAF) is expected to disburse US$50 million in policy loans in December 2020 and CAF and IDB have agreed to provide an additional US$50 and US$120 million, respectively, by the end of this fiscal year. The World Bank is also considering providing budget support to Barbados with a US$100 million development policy financing facility tentatively slated for end-March 2021. Though Barbados' reserves are large relative to the ARA



[1] In the CA and REER models, staff set the optimal policy setting for change in reserves equal to the actual 2019 increase to reflect the need to build high external buffers to buttress credibility in the exchange rate peg during a period of heightened uncertainty.

metric, the country is exposed to significant exogenous shocks, including natural disasters and the shutdown of tourism related to COVID-19, and needs to maintain high external buffers to buttress credibility in the exchange rate peg. Staff projections indicate that gross reserves will decline as a percentage of the ARA metric through the end of the program as official flows taper, but will remain above the 150 percent benchmark.

Appendix I. Letter of Intent

Bridgetown, Barbados
November 18, 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 increased sharply to more than US$1 billion as of October 2020, the public debt restructuring has been completed, 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 foreign exchange earnings and jobs. At the time of the third review in June, access under the EFF was augmented by 70 percent of quota (SDR66 million, or about US$90 million) and made available for budget support. To facilitate this, a Memorandum of Understanding has been 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.

At that time, to accommodate the significant loss of government revenue and additional emergency outlays on health facilities, medical supplies and personnel, as well as provide income support to the most vulnerable, the primary surplus target for FY2020/21 was reduced to 1 percent of GDP, down from 6 percent of GDP originally envisaged under our homegrown BERT Plan.

After we successfully halted transmission of the virus on the island in the second quarter of 2020, several restrictions on economic activities were lifted and a cautious restart of international tourism began in July 2020. However, it is becoming clear now that the impact of the global pandemic on economic activity and government revenue is deeper, and will probably last longer, than was projected at the time of the third review under the EFF. On the expenditure side, resources needed for income support for the most vulnerable and displaced workers, including unemployment benefits provided by the National Insurance Scheme, are expected to remain well above normal levels for the remainder of the fiscal year. We would therefore like to request a second augmentation under the EFF, of 51 percent of quota, or SDR 48 million, to bolster the international reserve position and help address the fiscal financing need for FY2020/21. The primary balance target for FY2020/21 will be further reduced to a small deficit, of minus 1 percent of GDP.

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 to 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 fourth review of the extended arrangement under the Extended Fund Facility, with the full purchase of SDR 65 million to be made available as budget support, and the modification of three performance criteria relating to the primary balance, net international reserves, and debt. We also request the resetting of three structural benchmarks, which resulted from the delay of several IMF technical assistance missions (including on Central Bank of Barbados recapitalization and to support the introduction of a fiscal rule) due to the pandemic. We also request the introduction of four new structural benchmarks that concern: (i) the publication of a calendar of economic statistics by end-March 2021; (ii) the Management Accounting Unit to prepare a dashboard that analyzes financial performance of 19 priority oversight SOEs as input to quarterly progress updates to Cabinet by end-March 2021; (iii) the BCED to create and staff an Information Technology Division of six employees and submit a training plan for customs employees, managers and internal auditors on ASYCUDA World by end-March 2021; and, (iv) the Large Taxpayer Unit (LTU) to develop and implement a compliance improvement plan by end-March 2021.

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, the second review in December 2019, and the third review in June 2020. By October 2020, international reserves had recovered to more than US$1 billion, 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 over the medium and long term. A significantly reduced Government interest bill will help create much-needed fiscal space for increased social spending and investment in infrastructure.

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-June 2020 and for end-September 2020 were met (Table 1). In particular, in the first half of FY2020/21, a primary surplus of about 1½ percent of GDP was recorded. Regarding structural benchmarks, ASYCUDA World was relocated to the Barbados Customs and Excise Department (BCED), and the BCED took steps to enhance compliance by deploying staff to exemption monitoring and audit units, undertaking at least eight exemption verification assignments and field audits, and (iii) completing at least 3,500 post release verifications. The Barbados Revenue Authority executed 20 initial 'issue based' audits and developed a risk-based compliance plan, while the actuarial review of the civil service is on-track to be completed with a short delay in November 2020.

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 and May 2020 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 an expected negative impact on economic growth, government revenue, our foreign exchange earnings, and jobs. The impact of the global pandemic, however, is deeper and likely to be more prolonged than was projected at the time of the third review under the EFF. On current projections, the global outbreak could reduce government revenue in FY2020/21 further by about ½ percent of GDP, while additional health outlays, supports to vulnerable households and dislocated workers, and transfers to public institutions facing revenue shortfalls, could increase expenditures about 1½ percent of GDP. Additional capital outlays are critical in the current context to boost economic activity in the near term and enhance long-term growth potential. We are therefore now targeting a primary balance for FY2020/21 of minus 1 percent of GDP, down from 6 percent of GDP originally envisaged under our homegrown BERT Plan, and 6 percent achieved in FY2019/20.

7. We are implementing a range of measures to protect lives and livelihoods in this unprecedented crisis. A phased response to the COVID-19 pandemic has been pursued, reflecting the evolution of the health crisis as well as the magnitude and persistence of the economic fallout, particularly for the tourism sector.

- After initial investments in health equipment and quarantine facilities executed in March and April, we have expanded welfare payments and introduced the Household Survival Program, to protect the most vulnerable households.
- Following a surge in unemployment claims at the NIS, we announced a plan to ensure the NIS has adequate cash resources by purchasing government bonds held by the NIS.
- We will 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.

- To help offset unprecedented job losses, we have created a 12-month COVID relief jobs program, which will generate contractual employment opportunities across a range of activities to promote health safety at schools and elderly communities, boost food production and security, and enhance environment and infrastructure investments.

- To support the tourism sector, which has been dealt a particularly heavy blow by the pandemic, we have created the Barbados Employment and Sustainable Transformation (BEST) plan. Under this voluntary program, the Government will invest in tourism firms to re-engage their workers at 80 percent of their normal salary for up to two years, provided employers commit to: i) implement worker training programs that boost productive skills; and, ii) undertake strategic green and digital investments to enhance competitiveness.

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 have been registered under a new law; a single converged scale of tax rates now applies to all companies. Profits up to BRB$1 million are taxed at a low rate of 5.5 percent, while any profit above BRB$30 million is 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 the medium-term 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. Large CIT revenues collected in June 2020, driven by a combination of new entrants and higher payments in the highest income bracket, are an early indication of the success of this reform.

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, particularly in the context of the current pandemic**. The BRA has made progress on implementing a new Tax Administration Management Information System (TAMIS), allowing 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 are being paid within six months after the filling date.

11. **We continue to enhance resources and improve our strategies for taxpayers in the large taxpayer segment.** With help of the recently formed Large Taxpayer Unit (LTU) the BRA has (i) executed an initial 20 “issue based” audits on taxpayers in the large taxpayer segment, and (ii)

developed a risk-based compliance plan to improve "on-time" filing and payments compliance rates with at least a 10 percent increase over current compliance rates (*structural benchmark for end-June 2020*). Specifically, the LTU has developed a compliance improvement plan which aims to move 'on-time' filing of returns for all large taxpayers to over 90 percent for all core taxes (VAT, CIT, PAYE). The plan, which is to be operational by end-March 2021 (*proposed new structural benchmark*), include: (i) key performance indicators; (ii) establishing baseline performance; (iii) and preparation of timely (weekly/monthly/quarterly) reporting to monitor performance in-line with the outcomes of the BRA's annual business plan.

12. Modernization of the Barbados Customs and Excise Department (BCED) is progressing. In 2018, we identified traceability, targeting of cargo, clearance of goods, post clearance audit, risk assessment, and special regimes controls, as needing urgent improvement to be brought to standards of international best practices if we are to be more competitive as a jurisdiction. At that time, we committed to ambitious reforms on BCED's governance structure, operational standards, legal framework, and its ability to retain adequate levels of trained personnel. Since then, customs reform initiatives are proceeding on multiple fronts, supported by the IMF's customs administration capacity development project (ongoing until January 2022). The establishment of a trusted trader program (structural benchmark for end-March 2020), transition to ASYCUDA World (structural benchmark for end-June 2020), and measures to strengthen BCED verifications and audit processes (structural benchmark end-August 2020) are important EFF reform milestones achieved to date.

13. The formulation and adoption of a BECD strategic plan by end-December 2020 will inform forward-looking reform priorities to enhance operational efficiency in trade facilitation, revenue mobilization, compliance and enforcement. To support implementation of this plan, we will prioritize the staffing of an Information and Technology Division within BCED and the submission of a training plan for customs employees in the use of ASYCUDA World to the Director of Finance and Economics by end-March 2021 (proposed new structural benchmark), and the staffing of a Human Resources Division in BCED by September 2021. The new IT and HR divisions will enable effective IT support in the field and enhance skills matching, training and competency-based hiring. To support information sharing between tax and customs administration, we will also seek to have a Memorandum of Understanding between the BRA and BCED in place by end-February 2021. Furthermore, an update of the legislative framework that governs customs operations is well advanced—consultations on a revised Customs Bill draft with key stakeholders in the trade and business community have been ongoing since August with a view to table the Bill by March 2021.

14. Fiscal policy priorities will need to evolve together with the COVID-19 pandemic, while keeping with the core objectives of the EFF programme. Uncertainties in the current economic context requires a flexible approach in the setting of fiscal policy and reform priorities. However, we remain committed to reducing the debt-to-GDP ratio to 60 percent by 2033. The temporary increase in our debt ratio resulting from the COVID induced slump in tourism and the related fall in government revenue will be offset by sustained higher primary surpluses in the medium-term. In this regard, we will continue to prioritize policies that bolster growth potential and enhance revenue and expenditure efficiencies. We remain open to explore scope to broaden the revenue base, including by: i) enhancing the efficiency of the Land Taxes and the VAT regimes in the real estate and tourism sectors; and ii) further rationalizing tax preferences. On the expenditure side, we will build on recent progress to improve the performance of state-owned enterprises (SOEs) to structurally reduce central government transfers (see below).

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 (*proposed reset structural benchmark for end-September 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 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

[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.

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. 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 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.

- **Establish monitoring processes to enable transparent budget execution.** Compliance with the new PFM Act will increasingly focus on establishing required reporting and analytical frameworks. Ministries and Extra Budgetary Units (EBUs) will be expected to produce annual and quarterly reports in line with PFM Act requirements by August 2021. To enhance SOE oversight, the Management and Accounting Unit (MAU) will develop a dashboard that analyzes the financial performance of government's 19 priority oversight SOEs as input to quarterly progress updates to Cabinet by end-March 2021 (*proposed new structural benchmark*).

- **The Government is working to increase the efficiency and quality of the public procurement process, facilitating effective delivery of COVID-19 pandemic supports**. 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 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 will table a new procurement law in parliament in December 2020, to promote integrity, fairness, transparency, and value for money in public procurement, and to ensure that outlays (including those related to COVID-19) are efficiently allocated. Under this bill, the Chief Procurement Officer will be charged with facilitating the audit of crisis expenditures and publication of contracts and names of successful bidders (and their beneficial owners).

- **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

17. A comprehensive debt restructuring, including external debt to private creditors and treasury bills, was announced on June 1, 2018. On October 15, 2018, the Government announced having reached agreement with an overwhelming majority of domestic creditors, with support of all commercial banks, general and life insurers, the National Insurance Scheme (NIS), the Central Bank of Barbados (CBB), and smaller creditors. As the debt restructuring has impacted the CBB's capital, we will develop plans to recapitalize the CBB, and address medium and long-term challenges for the NIS stemming from the debt restructuring and the COVID pandemic (*proposed reset structural benchmark for end-June 2021*).

18. In November 2019, we reached agreement with the External Creditor Committee on the terms for restructuring US dollar-denominated commercial debt. The agreed terms 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.

19. 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.

20. 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

21. 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, including the COVID-19 pandemic. 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.

22. Reform of State-Owned Enterprises is essential to secure medium-term fiscal viability. We have developed a framework to restructure and transform our SOEs based on principles of retooling and empowering, retraining and enfranchising of Barbadians. We have conducted a comprehensive review of all state-owned entities, to identify potential for efficiency gains, cost recoveries, and enfranchisement through divestment of entities and/or activities. SOEs listed in the TMU have now all submitted standardized (according to international acceptable standards) quarterly financial reports. We have increased bus fares, adjusted water rates, and introduced an interim health levy, airline & travel development fee and a garbage and sewage contribution levy.

23. The new 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. As mentioned above, we intend to advance implementation of the FMA Act through the development of a dashboard of financial performance indicators for government's 19 priority oversight SOEs (*proposed structural benchmark for end-March 2021*), which will form the basis for quarterly progress updates to Cabinet by the MAU.

24. The programme includes a range of measures to help mitigate any adverse effects on the vulnerable from the restructuring of the SOEs, including models of worker enfranchisement, preferential access to public procurement and agricultural lands owned by the State for those that have been displaced, as well as enhanced severance packages. 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.

25. Civil service pension reform aimed at ensuring that the system is sustainable in the long run is a priority. We will review the civil service pension scheme to address its long-run sustainability. To this end, we will table in Parliament a revised public pension law by end-June 2021 (*proposed reset structural benchmark*) informed by the actuarial review that is expected by end-November 2020. 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.

26. Initiatives are ongoing to enhance the preparation and release of economic and social indicators. A two-year project to upgrade national accounts data is underway with the support of IMF technical assistance. The project focuses on updating the GDP benchmark estimates from a supply-use perspective to enable the Barbados Statistical Service (BSS) to compile and disseminate constant 2016 price estimates of GDP (rebased from 2010) and updated quarterly estimates of both activity and expenditure-based GDP. Four additional statisticians were hired by the BSS for the project and to enhance resource capacity. In parallel, the Government of Barbados has committed to implement the IMF's Enhanced General Data Dissemination Standard (e-GDDS) in keeping with international best practice. This effort is well advanced following remote IMF technical assistance and a National Summary Data Page (NSDP) will be launched on-line by end 2020 to enhance data transparency and promote economic diversification and investment. In keeping with this commitment to ensure a more regular and predictable public release of key indicators such as output, prices and unemployment—which is critical for the public to be able to adjust economic expectations, especially in the current environment—the BSS will publish a calendar of economic statistics by end-March 2021 (*proposed new structural benchmark*). The calendar will support the preparation of the Advance Release Calendar (ARC) that is envisioned under the e-GDDS initiative.

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 have submitted to parliament an amended Central Bank Law to enhance its autonomy, mandate, and decision-making-structures (structural benchmark for end-September 2020). This amended law is critical to ensure the continued protection of our exchange rate peg. We have received technical assistance from the IMF in reviewing the Central Bank law, ensuring that the revised law will meet international best practice and address the issues raised during the safeguards assessment while adhering to our system of governance. The IMF has now completed its Safeguards Assessment of the Central Bank of Barbados, to ensure that the Central Bank's legal structure and autonomy meet standards required for processing IMF disbursements. This is a standard IMF procedure for all countries using the Fund's resources. We will continue to ensure that all outstanding recommendations from the Safeguards Assessment are implemented.

29. We have started 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. Banks have been reviewing each customer's circumstances, to determine whether extension of moratorium is needed or debt should be restructured. Loans under deferred payments have been declining. Banks have also provided new credit, including working capital post COVID.

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; (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; (iv) 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, and (v) strengthening resilience to natural disasters and climate change.

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 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. A building is currently being refurbished and outfitted to accommodate the related personnel of roughly 200 to deal with the actual digitization of records.

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.

38. Improving resilience to natural disasters and climate change will strengthen our economy. We insure natural disaster risks through the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and have introduced natural disaster clauses into the new domestic and external bonds. These clauses allow for the capitalization of interest and deferral of scheduled amortization falling due over a two-year period following the occurrence of a major natural disaster. We have secured an IDB contingent credit facility that would allow Barbados to borrow up to almost 2 percent of GDP in case of a natural disaster. We are working on improving structural and post-disaster resilience: for example, by exploiting opportunities to improve the disaster resilience of construction under the 'roofs to reefs' program, and by strengthening the public procurement system. Finally, we provide incentives to individuals and corporates to invest in renewable energy, water conservation, and building resilience.

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
2) 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	The law was submitted to parliament on November 17, 2020.	Submission to Parliament is a prior action for the 4th review
B. Structural Benchmarks for the first review			
3) 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
4) 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
5) 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
6) 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
7) Government to establish a Sandbox regime for regulation for fintech start-ups.	end-December 2018	Met	Met
8) 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
9) 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
10) 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

Table 1. Structural Benchmarks (Continued)			
	Timing	**Assessed**	**Comments**
11) Government to introduce a system for monitoring SOE arrears on an ongoing basis.	end-March 2019	Met	Met
12) 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			
13) Government to conduct a comprehensive review of the tax system, with inputs from IMF technical assistance.	end-June 2019	Met	Met
14) Government to conduct a comprehensive review of all tariffs and fees charged by SOEs.	end-September 2019	Met	Met
15) Governor General to proclaim the Financial Management and Audit (FMA) Act.	end-July 2019	Met	Met
D. Structural Benchmarks for the third review			
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	
E. Structural Benchmarks for the fourth review			
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	Met	
19) 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	Met	

Table 1. Structural Benchmarks (Concluded)			
	Timing	**Assessed**	**Comments**
20) 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	Met	
21) Government to conduct an actuarial review of the civil service pension system with a view to reform it .	end-September 2020	Pending	Slightly delayed to November 2020
F. Structural Benchmarks for future reviews			
22) 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 2020		
23) 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-December 2020		Proposed to be reset to end-June 2021
24) Government to develop plans to recapitalize the CBB and address medium and long-term challenges for the NIS stemming from the debt restructuring and the COVID pandemic.	end-December 2020		Proposed to be reset to end-June 2021
25) The Barbados Statistical Services (BSS) to publish a calendar of statistical publications covering national accounts, prices and the labor market.	end-March 2021		Proposed new structural benchmark
26) The Management and Accounting Unit (MAU) to prepare a dashboard that analyzes the financial performance of government's 19 priority oversight SOEs as input to quarterly progress updates based on this dashboard to Cabinet.	end-March 2021		Proposed new structural benchmark
27) Create in BCED an Information Technology Division of at least six employees.	end-March 2021		Proposed new structural benchmark
28) Large Taxpayer Unit (LTU) to implement its compliance improvement plan and achieve 'on-time' filing of returns for all large taxpayers of at least 90 percent for all core taxes (VAT, CIT, PAYE).	end-March 2021		Proposed new structural benchmark
29) 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-June 2021		Proposed to be reset to end-September 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 June 2020	Actual End June 2020	Target End September 2020	Actual End September 2020	Status End September 2020	Target End December 2020	Third Review End March 2021	Target End March 2021	Target End June 2021	Target End September 2021
Fiscal Targets										
Performance Criteria										
Floor on the CG Primary Balance 4/	-60	...	27	...	...	45	95	-91	30	100
Floor on the CG Primary Balance (adjusted) 4/	-60	151	27	152	Met	...	...	...	...	...
Non-accumulation of CG external debt arrears 4/ 6/	0	0	0	0	Met	0	0	0	0	0
Ceiling on CG Transfers and Grants to Public Institutions 4/ 7/	134	85	238	183	Met	338	444	444	82	230
Ceiling on Public Debt 5/	13,417	...	13,308	...	...	13,146	12,985	13,204	13,187	13,181
Ceiling on Public Debt (adjusted) 5/	13,417	12,439	13,308	12,481	Met	...	...	...	...	...
Indicative Targets										
Ceiling on CG Domestic Arrears 5/	150	110	145	81	Met	81	110	81	81	70
Floor on Social Spending 4/ 8/	5	13	10	28	Met	30	40	40	10	20
Ceiling on Public Institutions Arrears 5/	58	58	56	37	Met	37	50	37	37	20
Monetary Targets										
Performance Criteria										
Ceiling on Net Domestic Assets of the CBB 5/	2,282	1,600	2,282	1,815	Met	2,152	2,152	2,152	2,282	2,282
Floor on Net International Reserves 5/	1,017	...	723	...	...	1,100	755	1,400	1,017	723
Floor on Net International Reserves (adjusted) 5/	1,017	1,553	723	1,567	Met	...	...	...	...	...
Items feeding into PB, Debt, and NIR adjustors										
IDB budget support 4/	160	160	160	160	...	400	280	400	0	0
CDB budget support 4/	0	0	0	0	...	0	0	0	0	0
CAF budget support 4/	0	0	0	0	...	100	200	200	0	0
WB budget support 4/	...	...	0	0	...	0	0	200	0	0
Grants 4/	0	0	0	0	...	12	12	12	0	0

Sources: Fund staff estimates.

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

2/ Based on program exchange rates defined in TMU;

3/ Board approval on October 1, 2018;

4/ Flow (cumulative over the fiscal year);

5/ Stock;

6/ Continuous performance criterion;

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

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

Attachment II. Technical Memorandum of Understanding

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

2. **The quantitative performance criteria (PCs) and indicative targets (ITs) are shown in Table 1 of the MEFP.** Prior actions and structural benchmarks are listed in Table 2 of the MEFP.

3. **Definitions for the purpose of the program:**

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

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

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

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

- The Central Government (CG) consists of the set of institutions currently covered under the state budget including transfers to SOEs.

- CG revenues and expenditures will cover all items included in the CG budget as approved by Parliament.

- The fiscal year starts on April 1 in each calendar year and it ends on March 31 of the following year.

- For program purposes, the definition of debt is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision 15688 (14/107), adopted on December 5, 2014. The term "debt" will be understood to mean a current; i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

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

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

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

- Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

- External CG debt is defined as debt contracted or guaranteed by the CG in foreign currency, while domestic CG debt is defined as debt contracted or guaranteed by the CG in Barbados dollars. The guarantee of a debt by the CG arises from any explicit legal or contractual obligation of the CG to service a debt owed by a third-party debtor (involving payments in cash or in kind).

- CG debt is considered contracted when it is authorized by Barbadian law or approved by Parliament and signed or accepted by the relevant authority.

- Public Institutions covered under Section I include:

    - Queen Elizabeth Hospital
    - University of the West Indies

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

I. QUANTITATIVE PERFORMANCE CRITERIA

A. Floor on the CG Primary Balance

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

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

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

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

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

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

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

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

C. Floor on Net International Reserves

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

10. Reserve assets are defined as readily available claims on nonresidents denominated in foreign convertible currencies. They include the CBB's holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the Fund. Excluded from reserve assets are sinking funds' assets[1] and any assets that are pledged, collateralized, or otherwise encumbered,[2] claims on residents, claims in foreign exchange arising from derivatives in foreign currencies vis-a-vis domestic currency (such as futures,

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

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

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), the Development Bank of Latin America (CAF), and the International Bank for Reconstruction and Development (IBRD)) 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.

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), the Development Bank of Latin America (CAF), and the International Bank for Reconstruction and Development (IBRD)) 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, the CAF, and the IBRD 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

December 9, 2020

Introduction

The authorities wish to extend their gratitude to the Fund for its continued partnership and for demonstrating flexibility in its policy and financial support as the crisis evolves.

Since coming to office, the authorities have been successfully implementing the Barbados Economic Recovery and Transformation (BERT) plan, an ambitious homegrown economic plan supported by the Fund's Extended Fund Facility (EFF). As a result, Barbados now has far greater policy space to tackle the COVID-19 crisis. Since the launch of the EFF, international reserves have increased sharply, a comprehensive public debt restructuring has been completed, reforms of state-owned enterprises have been launched, and Barbados has become more globally competitive.

All performance criteria and indicative targets have been met since the launch of the EFF in 2018, despite limited technical capacity and the immensely trying circumstances of the global pandemic over the last 10 months. This impressive track record is a testament to the authorities' unwavering commitment to the Fund-supported reform agenda.

Program Update

The outlook for 2020 has worsened, with a 15 percent contraction expected, down from 11.5 percent at the time of the last review. With tourism no longer projected to rebound meaningfully in 2020, the recovery is expected to be quite gradual over 2021 and 2022, before Barbados returns to medium-term average growth of around 2 percent. The outlook remains highly uncertain, and the authorities agree that risks are high and tilted to the downside. This is mostly owing to the risk of lower-than-projected tourism arrivals from key markets, in the event that the pandemic and/or voluntary social distancing persist. That said, recent promising news regarding the effectiveness of a number of vaccine candidates, as well as Barbados' growing competitive advantage as a safe and virtually pandemic-free tourism destination, offer some cautious upside risk to the outlook. The Executive Board's decision to temporarily increase normal annual access limits as part of its crisis response has already been instrumental in meeting Barbados' extraordinary financing needs. The authorities are now seeking to use this temporary flexibility in the form of a second augmentation under the EFF to meet a balance of payments and fiscal financing gap that has opened up as a result of the slower-than-expected tourism recovery.

The BERT plan has been updated to reflect the worsening outlook. Notably, primary surplus targets have been adjusted downward for FY 2020/21 and FY 2021/22 to account for declining revenues and increased spending as a result of COVID-19. While this temporarily relaxed fiscal stance increases debt sustainability risks, the authorities are confident that it will be transitory. In order to stay on track to achieve the long-term anchor of 60 percent of public debt-to-GDP by end FY2033/34, Barbados will run higher primary balances in future years by phasing out crisis spending, containing grants to SOEs, improving expenditure control, strengthening customs and revenue administration, and introducing a fiscal rule. Additional fiscal measures can be deployed under an adverse scenario, but ultimately Barbados can only return to its pre-pandemic fiscal path primary once tourism rebounds.

The authorities have submitted to Parliament a law that enhances the CBB's independence, clarifies its mandate, and limits financing of the government to emergency situations. This was a key structural benchmark and a prior action for the completion of the present review. The legislation passed first reading by the House on December 1 and will now move to the Senate.

Three structural benchmarks have been met in the areas of tax and customs administration. The modernization of the Barbados Customs and Excise Department (BCED) has been progressing smoothly, thanks in part to technical assistance from a resident long-term expert. Reforms at the BCED are aimed at strengthening governance, facilitating trade, and improving compliance and enforcement. Tax administration reforms include implementing new IT systems, improving large file audit, and taking a more risk-based approach to compliance. These initiatives are supporting revenue mobilization at a critical time.

The pandemic has delayed elements of the structural reform agenda, in part due to disruption in the provision of Fund technical assistance. Benchmarks related to the recapitalization of the Central Bank of Barbados (CBB) and the impacts of the debt restructuring on the national insurance scheme as well as the adoption of a fiscal rule have been reset to allow more time for the necessary technical assistance missions. An actuarial review of the civil service pension system has been delayed slightly due to the pandemic but is expected to be completed by year end. This has caused a slight delay in the timetable for the introduction of a revised public pension law.

New structural benchmarks related SOE financial oversight, customs and tax administration reform and the publication of economic statistics are proposed. The latter forms part of a broader push to address data shortcomings by enhancing the preparation and release of social indicators and in parallel Barbados has committed to implement the Fund's Enhanced General Data Dissemination Standard (e-GDDS).

Evolving COVID-19 Policy Response

Barbados has been lauded by the World Health Organization for its fight against COVID-19, and the authorities will continue to take all steps necessary to protect Barbadians and visitors from this global crisis. A decisive public health response that included self-quarantine protocols, the activation of isolation and treatment centers, the closure of non-essential businesses, and a national curfew succeeded in halting local transmission of the virus.

This enabled a phased re-opening of the economy which began in May, followed by the resumption of commercial airlift in July under strict health protocols. Travelers from medium or high-risk countries must be tested within three days prior to their arrival and are retested upon arrival. Visitors' movement is restricted until a negative test result is confirmed. Despite these robust protocols, tourism arrival figures for September were still down almost 90 percent relative to previous years as demand remains depressed and voluntary social distancing persists in key tourism markets.

Whereas the initial policy response to COVID-19 centered on emergency health spending to save lives and temporary targeted fiscal measures to support vulnerable households (e.g., *Adopt-A-Family* monthly cash transfers), the authorities are now focused on getting Barbadians back to work and supporting viable businesses that can drive the recovery. Key measures include:

- The *COVID Relief Programme.* A BDS$40 million initiative to ensure that anyone seeking to work has an opportunity to do so. Participants will be contracted for 12 months to carry out a range of jobs across the island, including improving infrastructure and supporting food security;

- *The Barbados Employment and Sustainable Transformation (BEST) Plan*. This program makes available a maximum of BDS$300 million to tourism firms to re-engage their workers at 80 percent of their normal salary for up to two years; and,

- The *Welcome Stamp.* An initiative to help mitigate the economic consequences from the fall in short-term travel by allowing entry to remote workers for up to one year. Over 1,200 applications were received in the first two months of the initiative.

Given a three-fold increase in unemployment, the longstanding National Insurance Scheme (NIS) has been the key mechanism to cushion the impacts of the crisis. The strain on the NIS' balance sheet from spiking unemployment and severance outlays has necessitated liquidity support in the form of buy-backs of central government debt held by the NIS.

The crisis has sharply impacted tourism-sensitive revenues, such as the VAT. However, a successful overhaul of the international business tax regime to comply with international taxation standards has boosted corporate income tax revenues and helped partially offset crisis impacts. These reforms, alongside a commitment to strengthening the AML/CFT framework in keeping with the action plan agreed to with the FATF, have attracted a number of large international companies wanting to do business in Barbados.

Given their commitment to maintaining the highest international tax standards, the authorities were disappointed by the October 2020 decision by the European Council of the European Union to add Barbados to the EU list of non-cooperative jurisdiction for tax purposes. This decision relates to the historic period from 2015 to 2018 and the matters in question have been remedied by the authorities over the last 20 months. The authorities view this action, in the middle of an unprecedented global pandemic, as disproportionate.

The CBB is supporting the credit market through reductions of overnight lending discount rates and minimum statutory holding requirement for government securities. Given ample liquidity, banks have not had to seek support from the CBB. The banking system remains adequately capitalized, and the NPL ratio is stable.

The authorities have not lost sight of the need to boost the competitiveness of the economy. A *Doing Business Sub-Committee of Cabinet* has been struck to execute a series of reforms to address the underlying cost of doing business in Barbados. The *National Payments Systems Act* will make it easier for citizens to transact with the private and public sectors and will support greater financial inclusion. The *Fair Credit Reporting Act* will introduce a new credit reporting system to support the development of the small business sector. Reforms of the corporate registry are ongoing and will help to drastically reduce timelines for key services such as incorporations.

Building Resilience

Barbados continues to take steps to boost resilience to climate change and natural disasters. An Inter-American Development Bank (IDB) contingent credit facility has been secured that allows access to financing of almost two percent of GDP in the event of a natural disaster. Barbados has also launched the '*Roofs to Reefs*' program, a sustainable development model that hinges on six thematic areas: shelter; water; energy; waste; land use; and ecosystems management. A pipeline of projects is being developed under the program that will improve the country's resilience to climate change as well as increase its push to become carbon neutral by 2030.

Supporting Small Island Developing States

The challenges of small island developing states, and the Caribbean in particular, have only been amplified by COVID-19 which has triggered large financing gaps against a backdrop of limited policy space, high levels of public debt and limited market access. Options for accessing multilateral debt relief are hindered by a focus on per-capita income.

The authorities call on the international community to consider how it can help the Caribbean, given the impact of COVID-19 on tourism and the dependence of the Caribbean on tourism, as it grapples with the economic fallout of COVID-19. Actions could include: (i) taking vulnerability into account when determining need possibly through the development of a Universal Vulnerability Index rather than relying solely on GDP per capita to determine eligibility for development assistance; (ii) moving ahead with a general SDR allocation to provide unconditional liquidity to vulnerable states; and (iii) creating a multi-donor trust to support the liquidity and resilience-building needs of small island developing states.

Concluding Remarks

The ongoing coronavirus pandemic poses a monumental challenge for a tourism-dependent economy, but Barbados is staying the course with the BERT plan to achieve fiscal and debt sustainability, rebuild reserves, and generate sustainable growth. The authorities would once again like to extend their gratitude to the dedicated staff of the Fund for their tireless efforts in the service of Barbados and to the Executive Board for their support.