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BARBADOS

June 2021

FIFTH REVIEW UNDER THE EXTENDED ARRANGEMENT AND REQUESTS FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BARBADOS

In the context of the Fifth Review Under the Extended Arrangement, Request for Waiver of Nonobservance of Performance Criterion, and Modification of Performance Criteria, the following documents have been released and are included in this package:

- **Press Release** including a statement by the Chair of the Executive Director.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 16, 2021, following discussions that ended on May 7, 2021, with the officials of Barbados on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 26, 2021.
- A **Statement by the Executive Director** for Barbados.

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

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PRESS RELEASE

PR21/182

IMF Executive Board concludes the fifth 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 fifth 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 17 million (about US$24 million).*

- *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.*

Washington, DC – **June 16, 2021:** The Executive Board of the International Monetary Fund (IMF) concluded the fifth 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 17 million (about US$24 million), bringing total disbursements to the equivalent of SDR 288 million (about US$415 million).

The four-year extended arrangement under the EFF was approved on October 1, 2018 (see Press Release No. 18/370) and 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.

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

"Barbados continues to make strong progress in implementing its homegrown Economic Recovery and Transformation plan, despite major challenges from the ongoing global pandemic. The authorities remain strongly committed to program implementation.

"The lower primary balance target, financed by additional support from international financial institutions, is appropriate to accommodate worse-than-anticipated revenue losses and support spending on public health and social protection. The delay in achieving the 60 percent of GDP debt anchor by two years would avoid jeopardizing economic growth and social cohesion. To help safeguard debt sustainability, sustaining ambitious primary surpluses over the medium and long term would be required.

“The authorities are committed to medium-term fiscal consolidation, supported by reform of state-owned enterprises (SOEs). Lower transfers to state-owned enterprises (SOEs) will create fiscal space for investment in physical and human capital, complemented by stronger SOE oversight, revenue enhancement, cost reduction, and mergers and divestments. Pension reform and the introduction of a fiscal rule will also support medium-term fiscal sustainability.

“The approved amended central bank law will limit its financing of the government and strengthen the central bank’s mandate, autonomy, and decision-making. The removal of Barbados from the EU list of non-corporative jurisdictions for tax purposes is welcome. Full implementation of the FATF action plan would allow Barbados to exit its grey list.

“A strong recovery after the global pandemic will depend on accelerating structural reforms to improve the business climate and facilitate green and digital transformation. Strengthening resilience to natural disasters and climate change is key to achieving long-term sustainable economic growth.”

INTERNATIONAL MONETARY FUND

BARBADOS

May 26, 2021

FIFTH REVIEW UNDER THE EXTENDED ARRANGEMENT AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, 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. International reserves have increased to US$1.3 billion at end-March 2021, supported by IFI loans. This, and a successful 2018-19 public debt restructuring, have helped rebuild confidence in the country's macroeconomic framework. However, a virtual standstill in the tourism sector during the pandemic took a significant toll in 2020, with the economy contracting by 18 percent. While Barbados was successful in containing the outbreak during 2020, a surge in COVID-19 cases in early 2021 resulted in the country's second national lockdown in February. Economic growth is projected at 3 percent for 2021 premised on a modest recovery of tourism in the second half of the year, but the outlook remains highly uncertain, and risks are elevated, also in light of the possible impact of recent volcanic activity in neighboring Saint Vincent.

Program implementation. All quantitative performance criteria for end-March 2021 were met, except for the performance criterion on CG transfers and grants to public institutions, which was exceeded owing to measures to address the COVID-19 health crisis (including the vaccination program executed by the national hospital). While the authorities have made steady progress in structural reforms, one end-March structural benchmark (SB) on the Large Taxpayer Office was missed with four other SBs relevant for the fifth review successfully met. An amended Central Bank of Barbados (CBB) law was adopted by parliament in December 2020. An actuarial review of the civil service pension system was completed in November 2020. Reforms of the customs administration are ongoing, supported by a resident advisor. The authorities continue to reform state-owned enterprises (SOEs) by improving their commercial viability and strengthening monitoring including through a performance dashboard. As the COVID-19 pandemic has delayed progress in parts of the structural reform agenda, the SB related to tabling a revised public pension law is proposed to be reset to end-December, and the benchmark on tabling fiscal rule legislation is proposed to be modified and reset based on recent FAD TA recommendations.

Approved By
Julie A. Kozack (WHD) and Delia Velculescu (SPR)

The mission consisted of Bert van Selm (head), Keiichi Nakatani, Diane C. Kostroch (WHD), Genet Zinabou (FAD), Tianxiao Zheng (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 May 3-7, 2021. Jeremy Weil (OED) joined the mission.

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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
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
FY	Fiscal Year
GDP	Gross Domestic Product
GIR	Gross International Reserves
GFN	Gross Financing Needs
IBRD	International Bank for Reconstruction and Development
IDB	Interamerican Development Bank
IFI	International Financial Institution
IMF	International Monetary Fund
IT	Indicative Target
LT	Long Term
LTU	Large Taxpayer Unit
MFEA	Ministry of Finance, Economic Affairs and Investment
MAU	Management Accounting Unit
NIS	National Insurance Scheme
PC	Performance Criterion
PFM	Public Finance Management
PIT	Personal Income Tax
PRASC	Canada's Project for the Regional Advancement of Statistics in the Caribbean
QPC	Quantitative Performance Criteria
SDR	Special Drawing Right
SOE	State Owned Enterprise
TA	Technical Assistance
TMU	Technical Memorandum of Understanding
US$	US Dollar
VAT	Value Added Tax
YoY	Year-on-Year

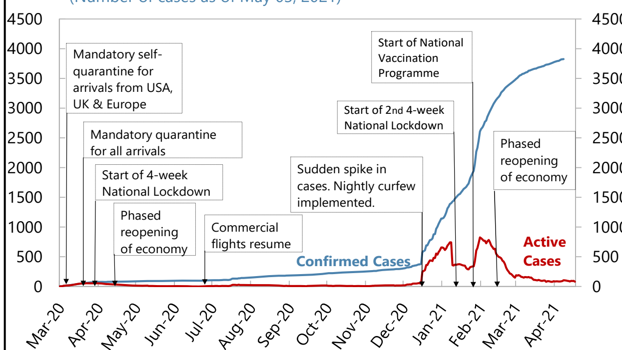
RECENT DEVELOPMENTS AND OUTLOOK

A. Recent Developments

1. **While Barbados has made good progress in implementing the Economic Recovery and Transformation (BERT) plan, it faces major economic challenges owing to the protracted global pandemic.** International reserves have gradually increased to around US$1.3 billion by end-March 2021 from a low of US$220 million in 2018, while public debt declined from 158 percent of GDP at end-FY2017/18 to 125 percent at end-FY2019/20 before rebounding owing to the COVID-19 pandemic. Macroeconomic stability was restored prior to the pandemic with a combination of strong fiscal adjustment, a comprehensive sovereign debt restructuring, and growth-enhancing structural reforms. However, the collapse of tourism since April 2020 has stalled economic activity and led to a significant fall in government revenues. Since the IMF Executive Board approved a four-year Extended Arrangement under the Extended Fund Facility (EFF) on October 1, 2018, four reviews have been successfully completed in a timely manner, with all program QPCs and ITs met. The fourth review was completed on December 9, 2020.

2. **The COVID-19 pandemic continues to weigh on the economy.** While Barbados was successful in containing the outbreak during 2020 through active testing at the border and relatively stringent quarantine measures, the number of cases surged in early 2021 following a modest uptick in tourism during the holiday season. The authorities responded with the imposition of the country's second national lockdown on all non-essential activity during the month of February. At the same time, the authorities initiated the rollout of their National Vaccination program targeting essential personnel and vulnerable citizens.[1] In April and May the vaccination program was extended to broader segments of the population with the availability of additional vaccine doses from bilateral and international partners, including the WHO's COVAX program. To date, Barbados has vaccinated roughly 30 percent of its adult population.

Barbados: Evolution of COVID-19 Outbreak
(Number of cases as of May 03, 2021)



Source: Government Information Service.

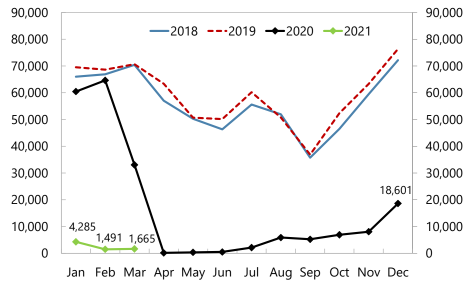
3. **The economy contracted by 18 percent in 2020, spurring unemployment and generating financial pressures on the National Insurance Scheme (NIS).** Tourism came to a virtual standstill in the wake of the pandemic. Despite a modest recovery towards the end of 2020, tourism arrivals remain at a fraction of normal levels, with Q1 2021 arrivals down by about 98 percent relative to previous years (see text chart). The February lockdown has significantly reduced economic activity in Q1 2021. Meanwhile, unemployment is estimated to have peaked at

[1] This was possible because India gifted Barbados with 100,000 doses of the AstraZeneca vaccine in February.

about 25 percent and unemployment insurance claims surged nearly five-fold in 2020 relative to the average of recent years.

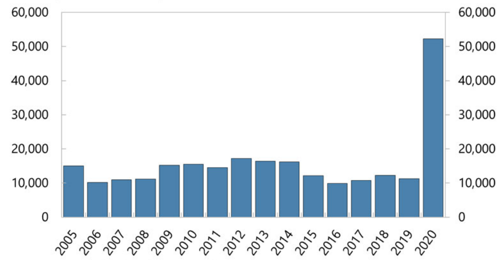
Tourist Arrivals and Unemployment Claims

Barbados: Long-Stay Tourist Arrivals
(Monthly)



Source: Central Bank of Barbados.

Barbados: Annual Unemployment Claims 1/
(Number of Claims)



Source: National Insurance Department.
1/ Number of claims represents termination certificates received, some of which include extensions.

4. The authorities met the primary balance target for FY2020/21. To mitigate the impact of the prolonged crisis, the primary balance target for FY2020/21 was reduced twice from a 6 percent of GDP surplus envisaged in the original March 2020 budget to a 1 percent of GDP surplus at the time of the third EFF review, and subsequently to a 1 percent of GDP deficit at the fourth EFF review. In FY2020/21, tax revenues fell sharply across most categories, while expenditures increased to accommodate additional spending on welfare, healthcare, and support to businesses. Tax revenue was supported by a large CIT revenue windfall from the international business sector (of 2 percent of GDP).[2]

5. SOE structural reforms continue. Under the new Financial Management and Audit (FMA) law, the government must approve all SOE borrowing and can sanction SOEs for noncompliance with enhanced reporting requirements. Financial reports on SOE performance must be presented to the government and parliament. SOE monitoring has been enhanced with the development of a risk dashboard that analyzes the financial performance of priority SOEs (end-March 2021 SB). The effectiveness of efforts to strengthen oversight mechanisms for SOEs was reflected in the 1 percent of GDP drop in transfers to SOEs (to 6.6 percent of GDP) prior to the pandemic. However, transfers rose to over 9 percent of GDP in FY2020/21 to accommodate COVID-19 policy responses at several SOEs, including the implementation of the vaccination program by the national hospital, and are expected to remain somewhat elevated in FY2021/22.

6. Despite the collapse in the tourism sector, Barbados has continued to build up its international reserves, supported by IFI loans. Reserves increased to US$ 1.3 billion in 2020, 9 months of import coverage and above 200 percent of ARA metric. While the current account deficit

[2] One-off receipts occurred as a result of increased assets as well as over-performance vis-à-vis estimated profits reported from a number of entities that underpaid during the prepayment periods of December and March 2019. Such one-off tax receipts associated with valuation increases are not expected to repeat going forward, however, if tax collection continues to overperform, excess revenues could be put towards accelerated debt reduction.

increased to 7 percent of GDP in 2020 owing to the collapse in tourism, this was more than offset by large official inflows (with the EFF playing a catalytic role) and subdued FX demand from the private sector. The World Bank is planning to approve budget support of US$100 million in the second quarter of CY2021, while IDB and CAF have indicated their willingness to provide additional program lending if requested.

Barbados: External Financing Needs and Financing
(in millions of US$ otherwise indicated)

	2019	2020	2021 proj.
Gross financing needs	**203**	**561**	**290**
Current account deficit	162	323	571
CG debt amortization	67	86	83
Reserve accumulation	240	504	-221
Others	-265	-351	-143
IFI financing	**102**	**331**	**240**
World Bank	0	0	100
IDB	19	220	100
CDB	83	11	18
CAF	0	100	5
EIB	0	0	19
IMF financing 1/	**101**	**231**	**49**
(Share of IMF financing)	50%	41%	17%

Sources: Central Bank of Barbados and Fund staff estimates and projections.
1/ Including IMF disbursements associated with future reviews.

B. Outlook and Risks

7. Barbados' economy remains severely depressed by the protracted global pandemic with a partial recovery expected in the second half of 2021. Modest (3 percent) growth is projected for 2021 (relative to 7 percent at the time of the 4th review). With an improvement in the global economic outlook including in key tourism source countries as well as faster-than-expected vaccination programs, tourist arrivals are assumed to start gradually recovering in the second half of 2021 and return to normal levels in 2024. Over the medium term, structural reforms and strategic public investment are expected to return growth to its medium-term average of about 2 percent.

8. Risks to the outlook remain very high and tilted to the downside. The key risk to Barbados is a further deepening and lengthening of the COVID-19 crisis. Lower than projected tourist arrivals could further depress economic activity in 2021. A recovery in the tourism sector rests on how quickly key source markets (including the US, the UK and Canada) can restore normalcy. A prolonged outbreak of COVID-19 in Barbados itself could also further reduce economic activity. A slower than projected recovery could in turn reduce government revenues and increase outlays for social safety nets. Continued volcanic activity in neighboring Saint Vincent could also have a dampening impact on economic activity in Barbados.[3]

POLICY ISSUES

A. Fiscal Policy in FY2021/22 and Beyond

9. For FY2021/22, the primary balance was revised down to zero, from a surplus of 2 percent of GDP at the time of fourth EFF review. This corresponds to an overall fiscal deficit of 4 percent of GDP and reflects a more gradual recovery in tourism, continued spending pressures for health and income support to households and businesses, and costs related to the clean-up of the ashfall and its impact on the water supply. Relaxing the primary balance target for FY2021/22

[3] The La Soufriere volcano in St. Vincent and the Grenadines erupted on April 9 for the first time since 1979, spouting clouds of ash in the region.

relative to the 4th review projections is appropriate given lower revenue owing to the worse-than-anticipated slump in tourism, the need to address the social impact of the global pandemic, the volcanic eruption in St. Vincent, available financing, and the authorities' commitment to medium- and long-term debt reduction.

Barbados: Breakdown of Changes in the FY2021/22 Primary Balance Since the 2nd Review

(In percent of GDP)

	2nd review	3rd review	4th review	5th review
	Dec-19	Jun-20	Dec-20	Jun-21
Primary Balance	**6.0**	**3.5**	**2.0**	**0.0**
Change in Primary Balance	-	*-2.5*	*-1.5*	*-2.0*
Change due to Revenue	-	*0.6*	*-1.7*	*-0.7*
Change due to Expenditure	-	*-0.8*	*1.2*	*-1.0*
Denominator effect 1/	-	*-2.4*	*-1.0*	*-0.2*

Source: IMF staff estimates.

1/ The denominator is GDP. For a given level of nominal primary expenditure, lower GDP deteriorates the primary balance.

10. **The primary surplus is expected to recover to pre-COVID levels in the medium-term as the pandemic recedes and structural reforms progress.** Starting in FY2022/23, the projected improvement in the fiscal position is supported by a cyclical recovery in revenues; phasing out of Covid-related expenditures; a mechanical reduction in the spending ratio due to the denominator (higher GDP) effect; continued SOE reform; and the expected introduction of a procedural fiscal rule. While the 6 percent of GDP primary surplus achieved in FY2019/20 will no longer be re-established in the remainder of the program due to the COVID shock, it is projected to be attained by FY2024/25 on account of the cyclical rebound and ongoing reforms. However, risks to the fiscal projections remain elevated and contingency plans, in case downside risks materialize, include options for additional fiscal adjustment (e.g., tax policy or administration, or public wages and pensions) over the medium term to ensure that debt sustainability is safeguarded. Conversely, a portion of any revenue overperformance including from repeated one-off CIT revenues (see footnote 2) could be used to strengthen longer-term debt sustainability and build a buffer against downside risks. The authorities intend to revise the public pension law drawing on an actuarial review completed in November 2020, but its tabling (end-June 2021 SB) is delayed to end-December 2021 to provide an opportunity for essential public consultations.

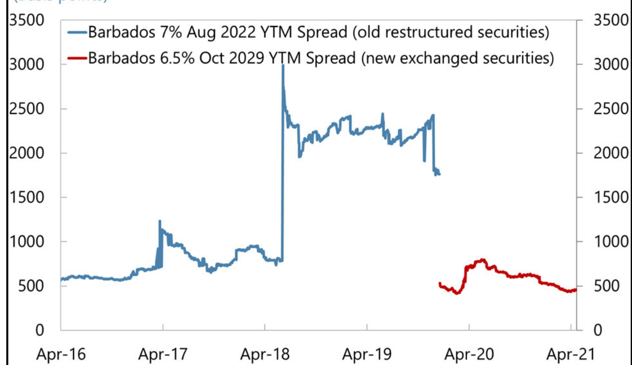
11. **The Debt Sustainability Analysis (DSA) suggests the debt target of 60 percent of GDP by FY2033/34 needs to be reconsidered given the unprecedented crisis** (Annex I). The public debt-to-GDP ratio is projected to increase to 157 percent of GDP in FY2020/21 from 125 percent in FY2019/20 due to a lower primary balance and the sharp contraction in GDP.[4] The authorities remain firmly committed to unwind the temporary fiscal accommodation induced by COVID-19 once the recovery is firmly underway and to reduce public debt over time. However, under the current baseline, the 60 percent debt anchor cannot be reached in FY2033/34 without either higher primary surpluses in the near term or even higher long-term primary surpluses, which would require unsustainable social and economic sacrifices. Shifting the debt target year out by two years to FY2035/36, with the shift

[4] The BRA is vetting old tax refund arrears found in the legacy IT systems, mainly on VAT, totaling around 4 percent of GDP (while also examining a much higher stock of taxpayer arrears to government of more than 10 percent of GDP). If (part of) these tax refund arrears are formally recognized by the government as legitimate claims on the government, this could lead to an increase in stock of government arrears and public debt in the macroeconomic framework.

corresponding to the duration of the most intensive period of the pandemic,[5] would allow for a more credible and growth-friendly primary balance path, even though, as noted above, the 6 percent of GDP primary surplus would only be re-established after the program. With this shift, Barbados would follow key regional peers (including Jamaica and ECCU member countries) in pushing out the targeted year to reach 60 percent debt/GDP by a few years.

12. Debt continues to be assessed as sustainable but subject to high risks. Barbados' debt is on a gradual downward trajectory under the current baseline. Risks to debt sustainability are high but are mitigated by Barbados' strong track record under the EFF-supported program. The high GFNs in FY2020/21 are primarily due to lower nominal GDP, while debt service and roll-over risks remain low owing to the comprehensive 2018-19 debt restructuring (see Annex I). Market perception of country risk has improved with spreads of commercial external debt currently around 500 bps (text chart). Taking into account the temporary nature of the COVID-19 shock on Barbados, along with the mitigating factors above, Barbados' debt continues to be assessed as "sustainable but subject to high risks". This assessment hinges on several key assumptions including the projected growth recovery backed by a revitalization of the tourism sector and maintaining high primary surpluses for several years. Going forward, repeated growth and fiscal slippage would jeopardize debt sustainability given a continued worsening in debt outlook.

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

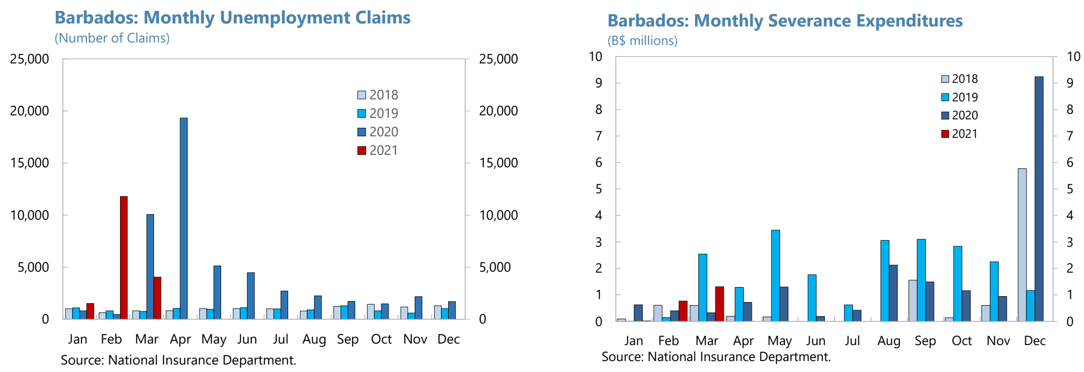


Sources: Central Bank of Barbados, Bloomberg and Fund staff calculations.

13. The sharp increase in unemployment has led to elevated unemployment benefit outlays and put pressure on NIS finances. For FY2020/21, NIS unemployment and severance outlays are estimated at about B$170 million (2 percent of GDP) and these will likely remain elevated in FY2021/22. To facilitate these payments, the authorities provided liquidity support to the NIS by buying back central government debt equivalent to B$167 million held by the NIS in 2020. The NIS is likely to require further financial support in FY2021/22—assessing the impact of COVID-19 (as well as the 2018-19 debt restructuring) on NIS finances is an end-June 2021 structural benchmark.

[5] The interim target (currently set at 80 debt/GDP by the end of FY2029/30) will be aligned with the proposed new program anchor. The interim target is projected to be reached by the end of FY2031/32 under current projections.

NIS Unemployment and Severance Outlays



14. COVID-related budget support to households and businesses is projected at about 1½ percent of GDP in FY2021/22. In addition to ongoing unemployment and severance payments by NIS, the government has extended welfare programs and introduced cash transfers to vendors affected by the lockdown. The authorities also continue to implement a program to support crisis-hit businesses in the tourism sector which re-hire and train workers through a mix of grants and equity investments, take-up of which is expected to pick up this fiscal year. Health-related spending needs remain elevated, including for testing and the vaccination program. The authorities are tracking key crisis expenditures via a dedicated new line in the FY2021/22 budget and are reporting to parliament all COVID-related procurement contracts in excess of BDS$1 million. They are committed to facilitating the audit of crisis expenditures by the Auditor General and publication of contracts and names of successful bidders (and their beneficial owners). A new procurement law in line with global best practices to strengthen the fairness, integrity and transparency of the procurement process is expected to be tabled in parliament by end-2021.

Barbados: Estimates of Covid-Related Expenditures in FY20/21 and FY21/22
(In percent of GDP)

	FY20/21	FY21/22
Covid-related expenditure	**2.5**	**1.3**
Health related	1.0	0.3
Support to households	0.5	0.3
Support to businesses	0.3	0.4
Transfers to SOEs	0.5	0.2
Education	0.1	0.0
Other	0.0	0.0

Sources: Authorities and IMF staff estimates.

15. To reinforce debt sustainability, the authorities have started preparatory work for the introduction of a procedural fiscal rule, in line with FAD TA recommendations. TA recommendations include adoption of regulations for a procedural fiscal rule (proposed end-December 2021 SB, replacing the end-September 2021 SB to table legislation), which would require the government to annually prepare and publish its fiscal strategy, including measurable fiscal objectives covering the medium-term, and to report transparently on the implementation of this strategy. As an intermediate step, the government intends to table in parliament a basic fiscal framework by August 15^{th}, 2021 (new proposed SB). The procedural fiscal rule will enable the government to enhance transparency and accountability in fiscal policy making while retaining sufficient flexibility to respond to the pandemic. A numerical fiscal rule could be introduced once uncertainties surrounding the pandemic have resolved and supporting PFM systems have been sufficiently strengthened.

Box 1. FAD TA Recommendations for a Fiscal Rule

Barbados is committed to the introduction of fiscal rules as part of its BERT plan, with the aim of supporting fiscal consolidation and improving transparency in fiscal policy making. After several pandemic-related delays, an FAD TA mission was conducted virtually in February 2021 and provided advice on the design of fiscal rules in Barbados.

The risks presented by COVID-19 and uncertainty about the pace of recovery make it difficult to implement numerical fiscal rules at this stage. In the current environment, a numerical fiscal rule may unduly constrain spending on healthcare, vaccines, and economic recovery while frequently changing forecasts would undermine implementation. Many countries with existing numerical rules have suspended their use to respond to the pandemic by activating escape clauses in national legislation.

As a transition measure, the FAD TA mission recommended Barbados adopt regulations for a procedural fiscal rule. Procedural rules, which are well-integrated into the fiscal framework under the PFM Act, are more flexible in their application than numerical rules but still promote fiscal transparency and accountability.

Under a procedural fiscal rule, the government would commit to a monitorable fiscal strategy over the medium term, publish outcomes against the strategy, and take remedial action when required. Suggested elements of the procedural rule include a debt anchor, one or two operational fiscal objectives (e.g., a specified path for the primary or overall balance) and a medium-term fiscal framework that outlines how the fiscal objectives and debt anchor will be achieved. In case fiscal objectives are missed, successive versions of the fiscal framework would contain reasons for deviating from previous fiscal objectives, plans to address deviations, and the expected timeline for achieving them.

In the medium term, a well-designed fiscal rules framework can help foster and maintain fiscal sustainability. Implementation of the procedural fiscal rule framework will prepare the ground for adoption of numerical fiscal rules once the uncertainty of the pandemic has passed and improved PFM systems are in place.

B. Monetary and Financial Sector Policies

16. Credit-support measures adopted by the CBB in March 2020 remain in effect. They include reductions of its overnight lending discount rate from 7 to 2 percent and of the minimum statutory holding requirement for government securities from 17½ to 5 percent of deposits. So far, no institution has resorted to the CBB liquidity support given the prevailing systemic excess liquidity. Credit to the private sector has contracted by 0.8 percent (yoy) in March 2021 while (weighted average) loan rates have fallen about 40 bps. Staff assesses the measures taken by the CBB, and the monetary policy stance, as appropriate to signal banks that sufficient liquidity support is available. Unwinding these measures should be carefully managed and contingent on the financial position of borrowers and lenders to avoid creating adverse macrofinancial feedback loops. However, in the long term, unremunerated structural excess liquidity in the market could undermine the fixed exchange rate regime. A new central bank law, aimed at strengthening the autonomy of the bank while limiting the provision of credit to the government, was adopted by parliament in December 2020. Repairing the CBB balance sheet through a recapitalization plan to provide it with space in the future to sterilize excess liquidity would be important to reduce this source of vulnerability (end-June 2021 SB).

17. The CBB has maintained regulatory standards, including on loan underwriting. While regulatory guidance allows banks impacted by loan repayment moratoria (put in place during the pandemic) longer periods to rebuild capital and comply with regulatory requirements (subject to restrictions on dividend payments), individual bank capital ratios remain well above the minimum requirement. Banks should also continue carefully assessing the credit quality of exposures, including those under moratoria. The CBB should continue to monitor licensees to identify early signs of stress in the system.

18. The financial position of banks appears stable. Banks remain adequately capitalized and liquid, amid low profitability. At end-March 2021, system-wide CAR was at 16 percent (twice the minimum regulatory requirement), liquid assets to total assets at 28 percent, and bank excess cash reserves at 26 percent. The system's NPL ratio was 8 percent, up one point over 2019. Provisions cover about 59 percent of NPLs, unchanged from 2019 but 3.4 percentage points down from 2020. Liquidity in the FX market has been adequate. While the blanket loan repayment moratoria have expired in September/October 2020, banks continue to work with individual borrowers by extending deferrals or reprofiling loan terms as needed, on a voluntary and commercial basis; and maintaining regulatory standards on loan classification and provisioning. The value of loans under moratoria in March 2021 dropped to below 10 percent of that in May 2020 and amounted to 3 percent of the outstanding credit to the nonfinancial private sector.

19. A two percent foreign exchange fee introduced in 2017 remains in place. This has been assessed by the IMF as a capital flow management measure and it is recommended to be phased out as reserves build up. However, the authorities plan to maintain the fee until a suitable fiscal revenue tool can compensate for that.

20. Barbados was removed from the EU list of non-corporative jurisdictions for tax purposes in February 2021 but remains on the Financial Action Task Force (FATF) list of jurisdictions under increased monitoring. Barbados has been on the FATF's "grey list" since February 2020 and under increased monitoring to address strategic AML/CFT deficiencies. Barbados is actively working with the FATF to address strategic deficiencies in its regime to counter money laundering as well as terrorist and proliferation financing particularly through i) implementing risk based AML/CFT supervision for financial and non-financial institutions, ii) making beneficial ownership information available and accurate, and iii) enhancing financial intelligence and enforcement against money launderers and confiscating their ill-gotten proceeds. Full implementation of the action plan will allow Barbados to exit the FATF's listing.

C. Policies for a Resilient, Green and Inclusive Recovery

21. Structural reforms and investments to unlock Barbados' growth potential should be accelerated once the global pandemic recedes and fiscal space is created. While Barbados has been steadily improving its business climate—including by easing trading across borders, opening the electricity sector to independent power producers, and paving the way for a more reliable payment and digital identity system—efforts to further enhance the ease of doing business will be key to unlock Barbados' growth potential (MEFP ¶38-¶41, ¶44). Initiatives such as the Fair Credit Reporting Act, which is expected to be passed by end-October 2021 (proposed new structural benchmark), and a web-based credit collateral registry will simplify Know Your Customer procedures and are important steps towards easier access to credit for small businesses. In addition, the authorities aim to continue digitalization efforts to improve efficiency, reduce cross-border transfers costs, and facilitate international trade.

22. Increasing climate change resilience, including by adapting to the post-pandemic international tourism market, will be critical for macroeconomic stability and sustainable growth. While Barbados appears not as exposed to natural disasters as some other Caribbean countries, climate change vulnerabilities are expected to increase, and could have a major impact on the economy. Barbados implemented several mitigation policies to spur a green recovery that increases structural and post-disaster resilience.[6] In this context, spending on resilient infrastructure (e.g. improved electricity transmission and climate-friendly transport infrastructure) will be key to build resilience against future shocks (MEFP ¶43-44). Continued engagement with regional integration initiatives and IFIs' contingent support mechanisms, such as the Caribbean Catastrophe Risk Insurance Facility, and the IDB's contingent credit facility, will help bolster Barbados' financial resiliency against future climate change shocks.

DATA ISSUES

23. Data shortcomings are being addressed. A two-year Canada-funded project coordinated by STA commenced in May 2019 and was extended to 2022 due to COVID related disruptions 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). An STA remote mission in September 2020 supported Barbados' efforts to implement the IMF's Enhanced General Data Dissemination Standard (e-GDDS) with a National Summary Data Page launched to enhance data transparency in March 2021.

PROGRAM ISSUES

24. The authorities have requested the purchase of SDR 17 million associated with the fifth review to be made available in the form of budget support, and staff supports this request. With larger financing needs due to the lower primary balance and few other sources of private financing available at present (also in light of the recent comprehensive debt restructuring), the use of IMF disbursement for budget support is appropriate.

[6] These include: (i) the 'Roofs to Reefs' programme encouraging investment into renewable energy, water conservation, and building resilience; (ii) the Feed-in-Tariffs programme for renewable energy projects; and (iii) the Home Ownership Providing Energy programme to construct 1,000 energy efficient and solar powered houses and save electricity costs.

25. All end-March 2021 QPCs and ITs except one PC on CG's transfers were met (Table 2 of Attachment I). The performance criterion on CG transfers and grants to public institutions was missed owing to government measures to address the COVID-19 health crisis, including the vaccination program executed by the national hospital. Four out of five SBs relevant for the fifth review were achieved (Table 1 of Attachment I), including: publication of a calendar of statistical publications (BSS); preparation of a dashboard analyzing 19 SOEs' financial performance (MAU); and creation of an IT division in BCED. Regarding the SB on the LTU, while it has made good progress on implementing its compliance improvement plan, on-time filing rates fell short of the targeted 90 percent across all core taxes, causing this SB to be missed. However, it is expected that on-time filing rates will improve significantly as the economy recovers.[7]

26. Staff proposes to modify PCs for end-September 2021 at the request of the authorities and set those for end-March 2022. The primary balance target is proposed to be revised down to reflect the new annual target for FY2021/22 of zero percent of GDP, while government transfers to public institutions is revised up due to the need to address the negative impact of the pandemic. The debt target would be accordingly revised to accommodate additional financing needs due to a lower primary balance. The NIR target is revised upwards reflecting higher than expected accumulation of international reserves so far, with NDA revised down accordingly.

27. Staff proposes to reset two structural benchmarks (Table 1 of Attachment I). The pandemic has delayed progress in parts of the structural reform agenda, including owing to delays in IMF TA and limited opportunities for public consultation. The SB to table a revised pension law in parliament is to be reset to end-December 2021 to conduct consensus-building consultations. The SB on the tabling of legislation for a fiscal rule to end-September 2021 is to be replaced by adoption of regulations for a procedural fiscal rule by end-December 2021 in line with the recommendations of recent FAD TA. An MCM TA report on CBB recapitalization is about to be finalized and will help the authorities formulate their own plans for CBB recapitalization (end-June 2021 SB).

28. Further, staff proposes to introduce several new structural benchmarks for the second half of 2021 and for 2022 to support the reform agenda (Table 1 of Attachment I). These SBs target PFM reforms to support fiscal rules and strengthen NIS oversight, enhanced data availability, strengthened tax and customs administration including verifying recently-discovered tax refund arrears, and steps to improve the growth environment. In particular, staff proposes to introduce an end-September SB on verifying legacy tax arrears and receivables, which were discovered during the data migration process into the new IT system (TAMIS). The completion of the migration process should allow the BRA to record and monitor tax refunds in a more credible and timely manner.

29. IMF financing continues to play a catalytic role and the program supported under the Extended Fund Facility (EFF) remains fully financed. Along with the IMF purchases, budget support from other IFIs amounted to US$300 million in 2020. The World Bank is at an advanced

[7] On-time filing rates for the three core taxes (CIT, PAYE and VAT) reached between 70 and 82 percent, representing consistent declines compared to FY2019/20, related to the fallout of the COVID-19. Given good progress on implementation of the LTU's compliance improvement plan, on-time filing rates are expected to reach the 90 percent target once the economic recovery takes hold.

stage of negotiations with the authorities on budget support of US$100 million aiming to make it available in Q2 2021. With this, there will be no financing gaps with international reserves maintained at comfortable levels. Other IFIs stand ready to provide additional support if needed. With this, the program is fully financed for the next 12 months and has good prospects for being fully financed for the remainder of the program period.

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 around 2 percent of exports and 1 percent of GDP throughout the projection period, while gross reserves are projected to remain above 100 percent of ARA. 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.

31. The CBB continues to make progress with implementing the recommendations of the 2018 safeguards assessment. The CBB's autonomy was strengthened by the recently adopted CBB law. Work is also advanced on developing a risk management framework and further aligning the internal audit function's practices with international standards. As noted above, a plan for the central bank's recapitalization will be finalized by end-June.

STAFF APPRAISAL

32. The Barbadian authorities have been making good progress in implementing the comprehensive Economic Recovery and Transformation (BERT) plan. All quantitative performance criteria (QPCs) for end-March 2021 were met, except for the PC on CG transfers and grants to public institutions. The exceeding of the target was attributable to government measures to address the COVID-19 health crisis, including the vaccination program executed by the national hospital. The nature of the non-observance of this performance criterion is temporary, and staff therefore supports the authorities' request for a waiver. There has been steady progress in the structural reform agenda including the passing of a new CBB law in December 2020—a top priority under the EFF-supported program, aimed at securing continued prudent macroeconomic policy. One end-March SB on the LTU reforms was missed while the other four SBs were successfully met. The authorities remain committed to move ahead with structural reforms despite the protracted pandemic, and prospects for continued strong program performance are good.

33. While the policy responses to the pandemic have been appropriate, short-term fiscal accommodation will need to be compensated as soon as the crisis wanes to preserve debt sustainability. Reduced primary balance targets during the deepening COVID-19 crisis were critical in helping to prevent wide-spread health and economic crises. The primary balance for FY2021/22 was further lowered to zero from 2 percent of GDP envisaged at the time of the fourth EFF review. The temporary deterioration in the primary balance, financed by large external debt from IFIs, along with a collapse of GDP, has interrupted a steady decline in the public debt-to-GDP ratio. Pushing back the debt target of 60 percent by two years to FY2035/36 is necessary to avoid jeopardizing economic growth and social coherence. Even with this delay, the authorities will need to sustain demanding medium- and long-term primary surpluses to preserve debt sustainability. While the originally-envisaged 6 percent of GDP primary surplus will not be re-established in the remainder of the program period, it is expected to be attained by FY2024/25 on account of the cyclical rebound and ongoing reforms. Risks to the fiscal projections remain elevated. To further strengthen fiscal sustainability, a portion of any revenue overperformance including from another one-off CIT revenues should be used to reduce debt or arrears.

34. Adoption of a procedural fiscal rule along with enhanced governance and continued SOE reforms are essential for achieving and sustaining higher primary surpluses over the medium term. The technical assistance provided by FAD in early 2021 has specified the timetable and needed preparatory work for adopting a procedural fiscal rule, which will improve transparency in fiscal policy making and ensure a strong link with debt sustainability. This should be accompanied by the strengthening of the public procurement system to increase the transparency and efficiency of public expenditures. Further, 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 including through the newly-introduced SOE dashboard; (iii) revenue enhancement, including an increase in user fees; and (iv) mergers and divestment—building on SOE reforms implemented before the pandemic.

35. A resilient, green, and inclusive recovery will also depend on accelerating structural reforms. There is much room for improvement in the business climate. Improving resilience to natural disasters and climate change, including by investing in renewable energies, will be critically important.

36. Risks to the program remain elevated. While the rollout of vaccination across the globe supports the tourism outlook, there still exist meaningful risks surrounding Barbados, which include: further prolonged negative impact of the global coronavirus pandemic; slower than expected recovery in source countries for the tourism sector; limited implementation capacity; and potential delays in structural reforms to generate and maintain high primary surpluses over a sustained period, which is required in the future to achieve the 60 percent debt anchor. Implementing the ambitious structural reform agenda will also be challenging, given limited implementation capacity and the current coronavirus external shock aggravated by the continued volcanic eruptions. Mitigating factors include the authorities excellent track record under the program, their strong commitment to the reform process, wide-spread support from IFIs, and broad public support for economic stabilization and the reform process.

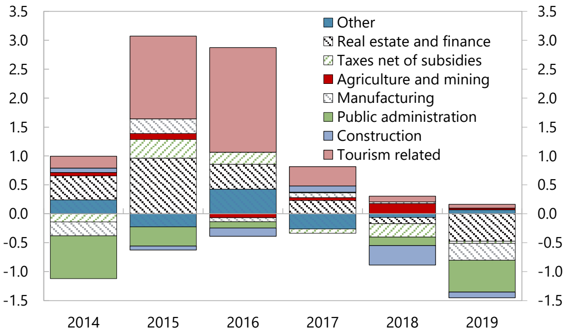
37. With continued strong program implementation, staff recommends the completion of the fifth review of the extended arrangement under the Extended Fund Facility, and approval of the authorities' request for a waiver of nonobservance and modification of performance criteria.

Figure 1. Barbados: Real Sector Developments

While a well performing tourism sector generated high GDP growth in Barbados in the past, the last few years saw weak tourism contribution ….

Real GDP Growth by Sectors

(millions BBD)

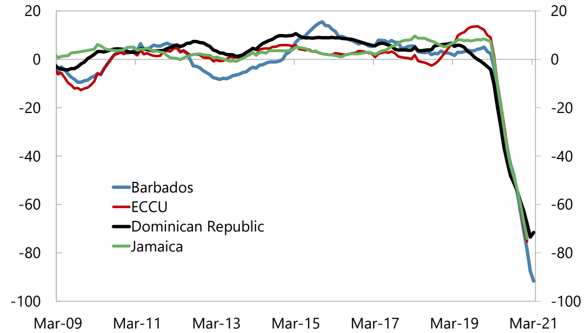


Sources: Central Bank of Barbados and Fund staff calculations.

… evidenced by weaker tourist arrival growth even before tourists arrivals froze altogether with the COVID-19 pandemic from early 2020 onwards.

Tourist Arrivals

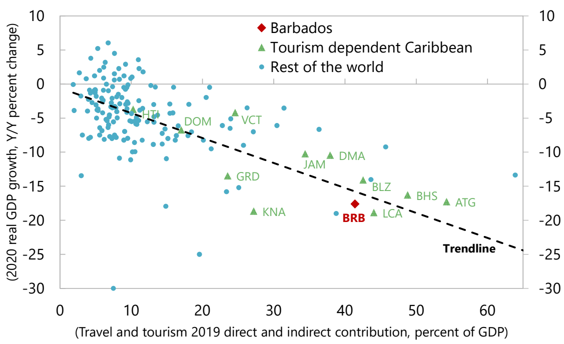
(Y/Y percent change, 12-month moving average)



Sources: Caribbean Tourism Organization and Fund staff calculations.

Yet, Barbados remains heavily reliant on tourism, as the largest sector in the economy, and its halt caused a sharp contraction in 2020.

Tourism Dependency and GDP Growth

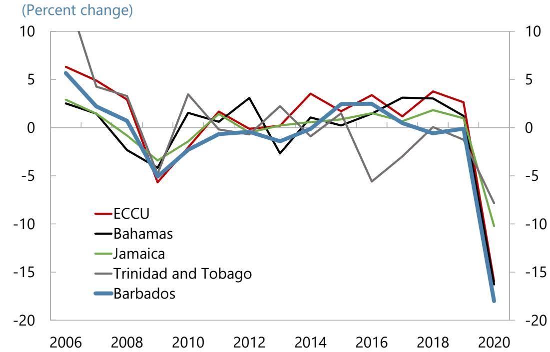


Sources: World Travel and Tourism Council and Fund staff calculations.

As a result, Barbados is the hardest hit economy in the region…

Real GDP Growth

(Percent change)

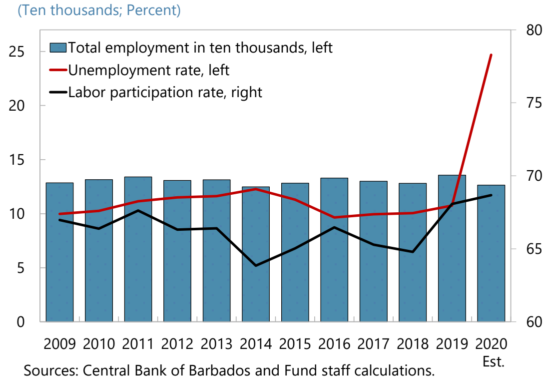


Sources: IMF World Economic Outlook and Fund staff calculations.

… and unemployment spiked to about 25 percent due to layoffs resulting from the economic disruption in 2020 …

Labor Participation and Unemployment

(Ten thousands; Percent)

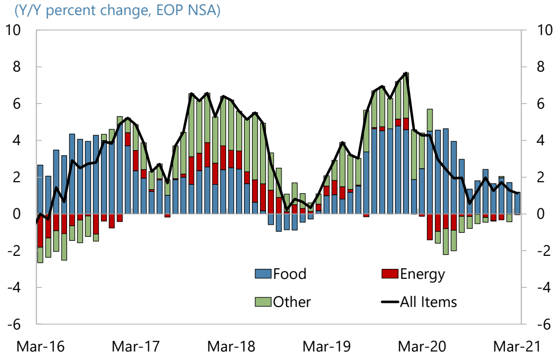


Sources: Central Bank of Barbados and Fund staff calculations.

…while energy and other prices brought inflation down since 2019.

Contribution to Inflation

(Y/Y percent change, EOP NSA)



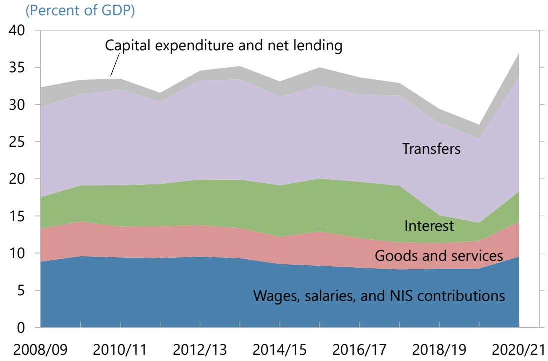
Sources: Central Bank of Barbados and Fund staff calculations.

Figure 2. Barbados: Fiscal Sector Developments

After trending down since the debt restructuring in FY18/19, expenditure ratios have risen due to lower GDP and emergency Covid-related spending…

General Government Expenditures

(Percent of GDP)

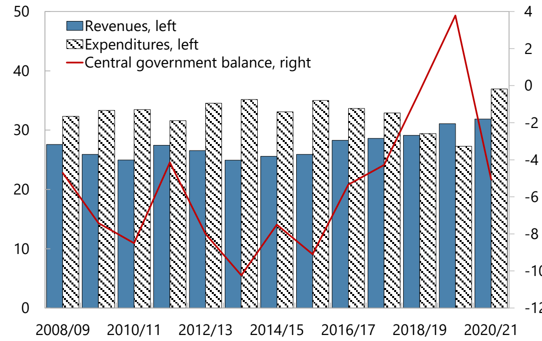


Sources: Central Bank of Barbados and Fund staff calculations.

…contributing to the reversal in the steady improvement in the fiscal balance since FY15/16…

Central Government Balance

(Percent of GDP)

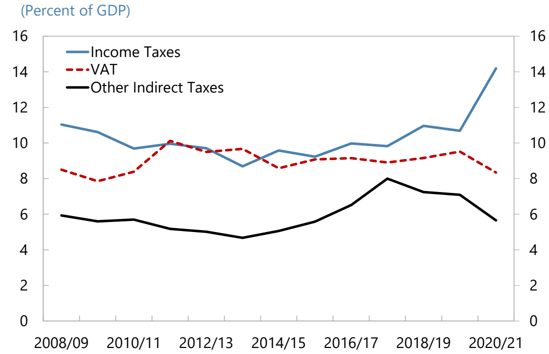


Sources: Central Bank of Barbados and Fund staff calculations.

… while the tax ratio declined due to the pandemic-induced reduction in economic activity and income tax policy changes announced in FY18/19.

Tax Revenue Composition

(Percent of GDP)

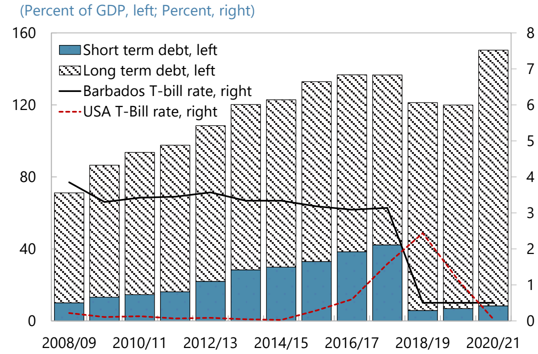


Sources: Central Bank of Barbados and Fund staff calculations.

The use of short-term debt instruments fell drastically following the debt restructuring and remains low…

Government Financing

(Percent of GDP, left; Percent, right)

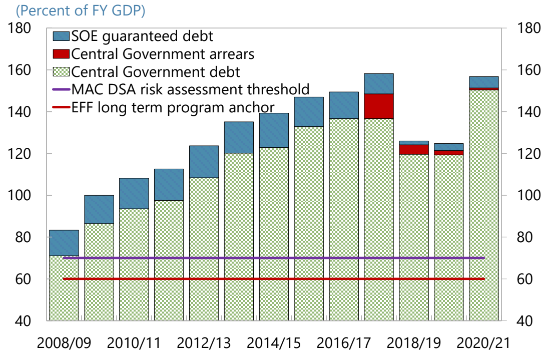


Sources: Central Bank of Barbados and Fund staff calculations.

… but the public debt ratio has increased significantly again as a result of plummeting revenues and GDP…

Public Debt

(Percent of FY GDP)

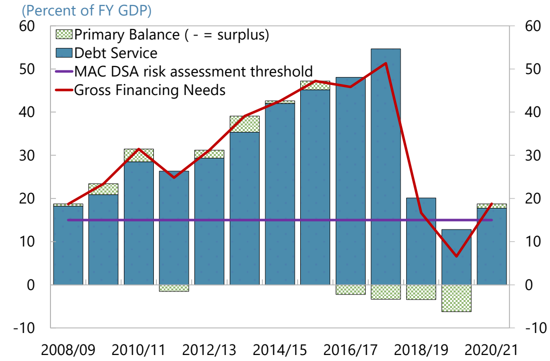


Sources: Fund staff calculations.

… as have debt service costs and gross financing needs.

Gross Financing Needs

(Percent of FY GDP)



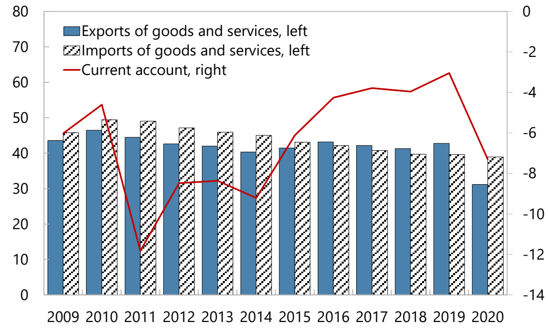
Sources: Fund staff calculations.

Figure 3. Barbados: External Sector Developments

The current account deficit doubled relative to 2019 due to the collapse of the tourism sector …

Trade

(Percent of GDP)

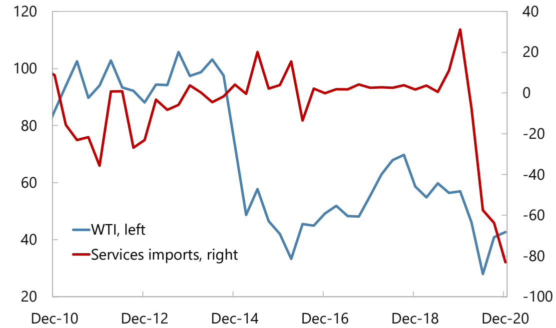


Sources: Central Bank of Barbados and Fund staff calculations.

with lower imports, mainly driven by lower services debit and intermediate imported goods (oil).

WTI Oil Price and Services Imports

(US$ per barrel, left; Y/Y percent change, right)

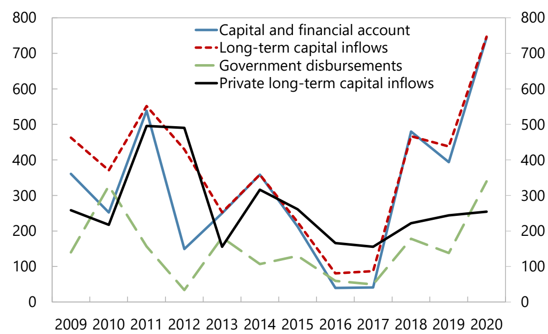


Sources: Central Bank of Barbados and Fund staff calculations.

However, a declining trend in capital inflows was reversed owing to large inflows from IFI loans ….

Capital and Financial Account

(Millions USD)

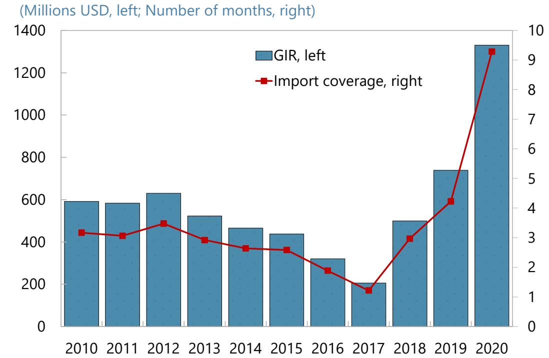


Sources: Central Bank of Barbados and Fund staff calculations.

…contributing to a turnaround in international reserves.

Gross International Reserves

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

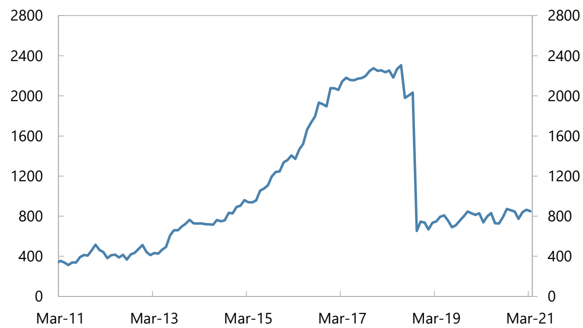


Sources: Central Bank of Barbados and Fund staff calculations.

Figure 4. Barbados: Monetary Sector Developments

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

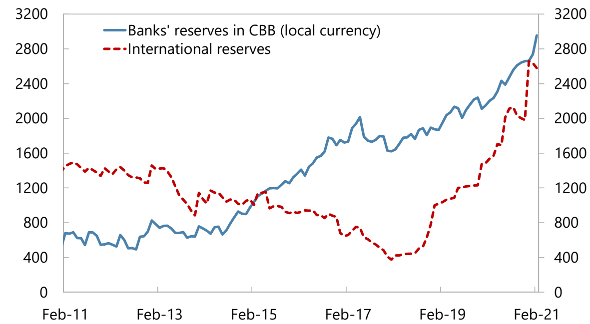
Central Bank's Claims on Central Government
(Millions BBD)



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.

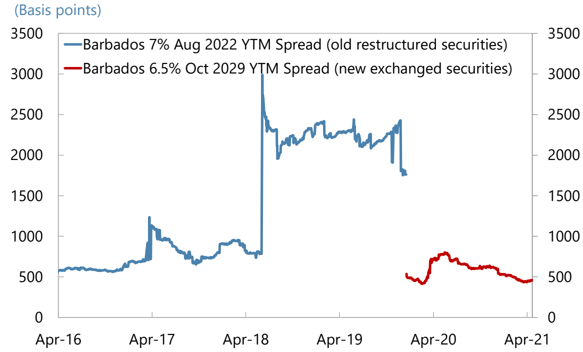
Reserves
(Millions BBD)



Sources: Central Bank of Barbados and Fund staff calculations.

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

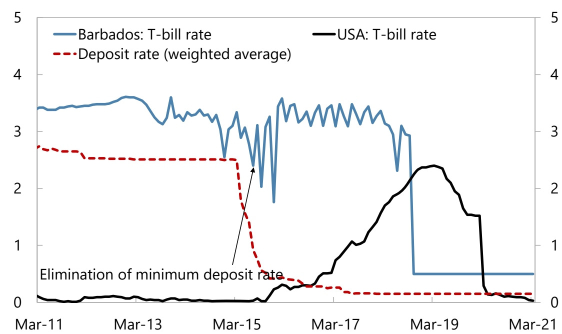
Bond Spread (Barbados over U.S. 10-year bonds)
(Basis points)



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.

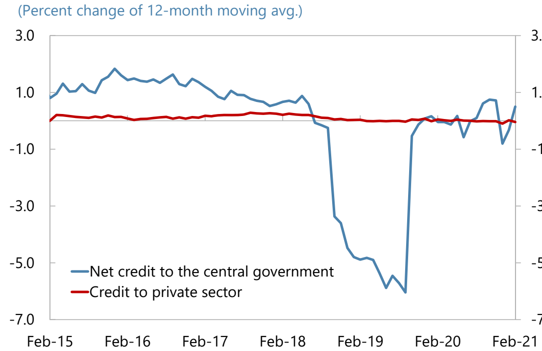
Interest Rates
(Percent)



Sources: Central Bank of Barbados and Fund staff calculations.

Private sector credit growth has remained weak…

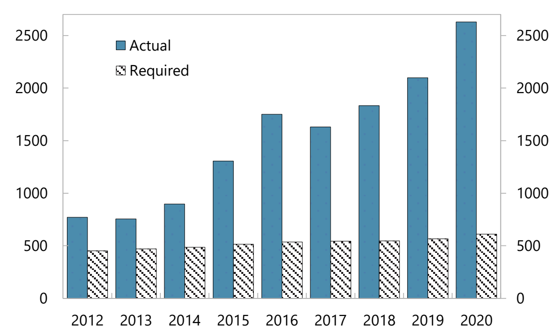
Private Sector Credit
(Percent change of 12-month moving avg.)



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, 2018–2022

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 (2019 est.)	10.7

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

II. Economic Indicators

			Est.	Projections	
	2018	2019	2020	2021	2022
			(Annual percentage change)		
Output, prices, and employment					
CY Real GDP	-0.6	-1.3	-18.0	3.3	8.5
CPI inflation (average)	3.7	4.1	2.9	3.1	3.9
CPI inflation (end of period)	0.6	7.2	1.3	3.6	2.0
External sector					
Exports of goods and services	-0.1	7.9	-39.2	30.5	18.8
Imports of goods and services	-0.4	3.9	-18.1	21.8	10.0
Real effective exchange rate (average)	121.1	127.6	...	...	...
Money and credit					
Net domestic assets	4.1	0.0	4.7	2.1	2.8
Of which: Private sector credit	0.3	1.0	-1.2	0.7	2.4
Broad money	-0.2	3.0	7.0	4.5	0.5
			(In percent of FY GDP)		
CG Public finances (fiscal year) 1/					
Revenue and grants	29.1	31.1	31.9	28.4	29.2
Expenditure	29.4	27.3	36.9	32.5	29.8
Fiscal Balance	-0.3	3.8	-5.1	-4.1	-0.6
Interest Expenditure	3.7	2.5	4.0	4.1	4.6
Primary Balance	3.4	6.2	-1.0	0.0	4.0
Public Debt (fiscal year) 1/					
Central gov't gross debt /2	126.0	124.8	156.8	138.3	126.6
External	33.4	33.9	52.1	49.6	46.3
Domestic	92.5	90.8	104.7	88.7	80.3
Balance of payments (calendar year)			(In percent of CY GDP)		
Current account balance	-4.0	-3.1	-7.3	-12.3	-8.1
Capital and financial account balance	9.4	7.4	16.9	7.5	5.9
o/w Public Sector	4.8	3.7	11.1	4.5	1.0
o/w IMF disbursement	1.0	1.9	5.2	1.1	0.5
Private Sector	4.1	3.8	5.8	3.1	5.0
o/w FDI	4.4	4.6	5.8	3.5	5.0
Net Errors and Omissions	0.2	0.2	1.9	0.0	0.0
Overall balance	5.7	4.5	11.4	-4.8	-2.2
Memorandum items:					
Exchange rate (BDS$/US$)	2.0	2.0	...	...	...
Gross international reserves (US$ million)	499.6	738.9	1,330.3	1,108.9	996.7
In months of imports of G&S	3.0	4.2	9.3	6.4	5.2
In percent of ARA	100.5	141.9	260.3	197.2	166.0
Nominal GDP, CY (BDS$ millions)	10,173	10,596	8,836	9,297	10,284
Nominal GDP, FY (BDS$ millions)	10,279	10,156	8,476	9,790	10,664

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, 2018/2019–2026/2027

(In millions of Barbados dollars) 1/

			Program	Est.	Program	Proj.	Program	Projections				
	2018/19	2019/20	2020/21	2020/21	2021/22	2021/22	2022/23	2022/23	2023/24	2024/25	2025/26	2026/27
Total revenue	**2,994**	**3,156**	**2,613**	**2,702**	**2,874**	**2,780**	**3,143**	**3,118**	**3,303**	**3,460**	**3,606**	**3,758**
Current revenue	2,994	3,144	2,602	2,702	2,861	2,771	3,130	3,109	3,293	3,450	3,596	3,747
Tax revenue	2,812	2,943	2,454	2,527	2,690	2,588	2,946	2,910	3,086	3,233	3,369	3,510
Income and profits	838	764	774	921	720	742	771	808	844	884	921	960
Taxes on property	161	215	165	182	198	191	212	209	218	228	238	248
VAT	941	967	732	706	819	817	897	911	956	1,002	1,044	1,088
Social levy (NSRL)	49	0	0	0	0	0	0	0	0	0	0	0
Excise	271	251	195	154	239	178	256	203	211	222	231	241
Import taxes	214	232	212	192	238	222	264	257	268	281	292	305
Other taxes	338	515	376	372	476	438	546	523	589	617	643	670
Nontax revenue	162	201	147	169	171	176	184	192	200	209	218	227
Capital revenue and grants	0	12	12	0	13	8	13	9	10	10	10	11
Total expenditure	**3,024**	**2,772**	**3,030**	**3,132**	**3,080**	**3,178**	**3,224**	**3,182**	**3,279**	**3,317**	**3,423**	**3,534**
Current expenditure	2,826	2,580	2,774	2,856	2,817	2,994	2,953	2,950	3,014	3,085	3,147	3,218
Wages, salaries and SSC	812	807	817	808	820	847	839	832	835	844	846	854
Goods and services	356	375	419	400	373	473	378	380	381	384	400	417
Interest	385	250	326	343	403	399	503	490	533	556	546	536
Transfers	1,273	1,147	1,212	1,305	1,220	1,275	1,232	1,248	1,267	1,301	1,355	1,411
o/w Subsidies	136	100	149	161	124	163	111	134	134	139	144	149
o/w Grants to public institutions	815	689	691	796	706	739	703	707	708	717	747	779
o/w Retirement benefits	323	358	372	348	391	373	418	407	424	445	463	483
Capital expenditure and net lending	198	192	256	276	263	185	271	232	265	233	276	317
CG Fiscal balance	**-31**	**385**	**-417**	**-430**	**-206**	**-399**	**-81**	**-64**	**24**	**143**	**183**	**223**
CG Primary balance	**354**	**634**	**-91**	**-87**	**197**	**0**	**422**	**427**	**556**	**700**	**729**	**760**
Repayment of domestic arrears	n.a.	140	72	74	40	40	41	39	0	0	0	0
CG Fiscal balance (net of arrears)	**n.a.**	**244**	**-489**	**-503**	**-246**	**-439**	**-122**	**-103**	**24**	**143**	**183**	**223**
CG Primary balance (net of arrears)	**n.a.**	**494**	**-163**	**-161**	**157**	**-40**	**381**	**388**	**556**	**700**	**729**	**760**
Financing	**31**	**-385**	**417**	**430**	**206**	**399**	**81**	**64**	**-24**	**-143**	**-183**	**-223**
Net Financing - External	346	109	1,018	846	166	440	13	81	26	-44	-230	-310
Capital Markets	0	0	0	0	0	0	0	0	0	0	100	100
Project Funds	88	72	68	82	124	142	100	100	100	100	100	80
Policy Loans	350	150	800	600	180	360	80	120	120	80	80	0
o/w IDB	200	0	400	400	80	160	80	80	80	80	80	0
o/w CDB	150	150	0	0	100	0	0	0	0	0	0	0
o/w CAF	0	0	200	200	0	0	0	40	40	0	0	0
o/w WB	0	0	200	0	0	200	0	0	0	0	0	0
IMF EFF budget support	0	0	340	352	0	98	0	50	0	0	0	0
Privatization 2/	0	0	0	0	0	0	0	0	0	0	0	0
Amortization	92	112	190	188	138	160	167	189	194	224	510	490
Net Financing - Central Gov. 5/	575	-353	-530	-343	80	-1	109	22	-50	-99	47	86
Central bank	-166	165	-367	-67	200	150	150	100	0	0	0	0
Commercial banks	83	-58	0	106	0	0	0	0	0	0	0	0
National Insurance Scheme	9	-85	-207	-208	-164	-100	-41	-50	0	0	0	0
Private non-bank 3/	-120	-218	44	-56	44	-51	0	-28	-50	-99	47	86
Others/unidentified financing	769	-157	0	-118	0	0	0	0	0	0	0	0
Memorandum items:												
CG gross debt 4/	12,949	12,674	13,247	13,287	13,346	13,535	13,324	13,499	13,449	13,246	12,994	12,702
Nominal GDP, FY (BDS$ millions)	10,279	10,156	9,076	8,476	9,862	9,790	10,557	10,664	11,129	11,660	12,151	12,662

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; BOSS program is also included here.

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.

Table 2b. Barbados: Central Government Operations, 2018/2019–2026/2027

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

			Program	Est.	Program	Proj.	Program	Projections				
	2018/19	2019/20	2020/21	2020/21	2021/22	2021/22	2022/23	2022/23	2023/24	2024/25	2025/26	2026/27
Total revenue	**29.1**	**31.1**	**28.8**	**31.9**	**29.1**	**28.4**	**29.8**	**29.2**	**29.7**	**29.7**	**29.7**	**29.7**
Current revenue	29.1	31.0	28.7	31.9	29.0	28.3	29.6	29.2	29.6	29.6	29.6	29.6
Tax revenue	27.4	29.0	27.0	29.8	27.3	26.4	27.9	27.3	27.7	27.7	27.7	27.7
Income and profits	8.1	7.5	8.5	10.9	7.3	7.6	7.3	7.6	7.6	7.6	7.6	7.6
Taxes on property	1.6	2.1	1.8	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
VAT	9.2	9.5	8.1	8.3	8.3	8.3	8.5	8.5	8.6	8.6	8.6	8.6
Social levy (NSRL)	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Excise	2.6	2.5	2.1	1.8	2.4	1.8	2.4	1.9	1.9	1.9	1.9	1.9
Import taxes	2.1	2.3	2.3	2.3	2.4	2.3	2.5	2.4	2.4	2.4	2.4	2.4
Other taxes	3.3	5.1	4.1	4.4	4.8	4.5	5.2	4.9	5.3	5.3	5.3	5.3
Nontax revenue	1.6	2.0	1.6	2.0	1.7	1.8	1.7	1.8	1.8	1.8	1.8	1.8
Capital revenue and grants	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total expenditure	**29.4**	**27.3**	**33.4**	**36.9**	**31.2**	**32.5**	**30.5**	**29.8**	**29.5**	**28.5**	**28.2**	**27.9**
Current expenditure	27.5	25.4	30.6	33.7	28.6	30.6	28.0	27.7	27.1	26.5	25.9	25.4
Wages, salaries and SSC	7.9	7.9	9.0	9.5	8.3	8.7	7.9	7.8	7.5	7.2	7.0	6.7
Goods and services	3.5	3.7	4.6	4.7	3.8	4.8	3.6	3.6	3.4	3.3	3.3	3.3
Interest	3.7	2.5	3.6	4.0	4.1	4.1	4.8	4.6	4.8	4.8	4.5	4.2
Transfers	12.4	11.3	13.4	15.4	12.4	13.0	11.7	11.7	11.4	11.2	11.1	11.1
o/w Subsidies	1.3	1.0	1.6	1.9	1.3	1.7	1.1	1.3	1.2	1.2	1.2	1.2
o/w Grants to public institutions	7.9	6.8	7.6	9.4	7.2	7.6	6.7	6.6	6.4	6.1	6.1	6.1
o/w Retirement benefits	3.1	3.5	4.1	4.1	4.0	3.8	4.0	3.8	3.8	3.8	3.8	3.8
Capital expenditure and net lending	1.9	1.9	2.8	3.3	2.7	1.9	2.6	2.2	2.4	2.0	2.3	2.5
CG Fiscal balance	**-0.3**	**3.8**	**-4.6**	**-5.1**	**-2.1**	**-4.1**	**-0.8**	**-0.6**	**0.2**	**1.2**	**1.5**	**1.8**
CG Primary balance	**3.4**	**6.2**	**-1.0**	**-1.0**	**2.0**	**0.0**	**4.0**	**4.0**	**5.0**	**6.0**	**6.0**	**6.0**
Repayment of domestic arrears	n.a.	1.4	0.8	0.9	0.4	0.4	0.4	0.4	0.0	0.0	0.0	0.0
CG Fiscal balance (net of arrears)	**n.a.**	**2.4**	**-5.4**	**-5.9**	**-2.5**	**-4.5**	**-1.2**	**-1.0**	**0.2**	**1.2**	**1.5**	**1.8**
CG Primary balance (net of arrears)	**n.a.**	**4.9**	**-1.8**	**-1.9**	**1.6**	**-0.4**	**3.6**	**3.6**	**5.0**	**6.0**	**6.0**	**6.0**
Financing	**0.3**	**-3.8**	**4.6**	**5.1**	**2.1**	**4.1**	**0.8**	**0.6**	**-0.2**	**-1.2**	**-1.5**	**-1.8**
Net Financing - External	3.4	1.1	11.2	10.0	1.7	4.5	0.1	0.8	0.2	-0.4	-1.9	-2.4
Capital Markets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8	0.8
Project Funds	0.9	0.7	0.8	1.0	1.3	1.5	0.9	0.9	0.9	0.9	0.8	0.6
Policy Loans	3.4	1.5	8.8	7.1	1.8	3.7	0.8	1.1	1.1	0.7	0.7	0.0
o/w IDB	1.9	0.0	4.4	4.7	0.8	1.6	0.8	0.8	0.7	0.7	0.7	0.0
o/w CDB	1.5	1.5	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w CAF	0.0	0.0	2.2	2.4	0.0	0.0	0.0	0.4	0.4	0.0	0.0	0.0
o/w WB	0.0	0.0	2.2	0.0	0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF EFF budget support	0.0	0.0	3.7	4.2	0.0	1.0	0.0	0.5	0.0	0.0	0.0	0.0
Privatization 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	0.9	1.1	2.1	2.2	1.4	1.6	1.6	1.8	1.7	1.9	4.2	3.9
Net Financing - Central Gov. 5/	5.6	-3.5	-5.8	-4.0	0.8	0.0	1.0	0.2	-0.5	-0.9	0.4	0.7
Central bank	-1.6	1.6	-4.0	-0.8	2.0	1.5	1.4	0.9	0.0	0.0	0.0	0.0
Commercial banks	0.8	-0.6	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National Insurance Scheme	0.1	-0.8	-2.3	-2.5	-1.7	-1.0	-0.4	-0.5	0.0	0.0	0.0	0.0
Private non-bank 3/	-1.2	-2.1	0.5	-0.7	0.4	-0.5	0.0	-0.3	-0.5	-0.9	0.4	0.7
Others/unidentified financing	7.5	-1.5	0.0	-1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
CG gross debt 4/	126.0	124.8	146.0	156.8	135.3	138.3	126.2	126.6	120.8	113.6	106.9	100.3
Nominal GDP, FY (BDS$ millions)	10,279	10,156	9,076	8,476	9,862	9,790	10,557	10,664	11,129	11,660	12,151	12,662

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; BOSS program is also included here.

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.

Table 3. Barbados: Public Debt, 2018/2019–2026/2027 1/ 2/

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
				Projections					
	(In millions of Barbados dollars)								
Public Debt	**12,949**	**12,674**	**13,287**	**13,535**	**13,499**	**13,449**	**13,246**	**12,994**	**12,702**
External	3,436	3,448	4,414	4,854	4,935	4,936	4,832	4,533	4,154
Short Term	168	54	0	0	0	0	0	0	0
Long term	3,268	3,394	4,414	4,854	4,935	4,936	4,832	4,533	4,154
Domestic	9,513	9,226	8,873	8,681	8,564	8,514	8,414	8,461	8,548
Short Term	892	850	787	734	695	695	695	695	695
Long term	8,621	8,376	8,085	7,947	7,869	7,819	7,719	7,766	7,853
Arrears 4/	**461**	**207**	**79**	**39**	**0**	**0**	**0**	**0**	**0**
External 5/	168	54	0	0	0	0	0	0	0
Domestic	293	153	79	39	0	0	0	0	0
CBB & SOE Guaranteed Debt /7	**188**	**345**	**457**	**457**	**457**	**431**	**371**	**302**	**233**
External 3/	188	345	457	457	457	431	371	302	233
Domestic	0	0	0	0	0	0	0	0	0
CG Debt	**12,299**	**12,122**	**12,750**	**13,039**	**13,042**	**13,018**	**12,875**	**12,692**	**12,468**
External 3/ 6/ 8/	3,080	3,049	3,957	4,397	4,478	4,505	4,461	4,230	3,921
Domestic	9,219	9,073	8,793	8,642	8,564	8,514	8,414	8,461	8,548
Short Term	598	697	708	695	695	695	695	695	695
Long term	8,621	8,376	8,085	7,947	7,869	7,819	7,719	7,766	7,853
	(In percent of FY GDP)								
Public Debt	**126.0**	**124.8**	**156.8**	**138.3**	**126.6**	**120.8**	**113.6**	**106.9**	**100.3**
External	33.4	33.9	52.1	49.6	46.3	44.3	41.4	37.3	32.8
Short Term	1.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long term	31.8	33.4	52.1	49.6	46.3	44.3	41.4	37.3	32.8
Domestic	92.5	90.8	104.7	88.7	80.3	76.5	72.2	69.6	67.5
Short Term	8.7	8.4	9.3	7.5	6.5	6.2	6.0	5.7	5.5
Long term	83.9	82.5	95.4	81.2	73.8	70.3	66.2	63.9	62.0
Arrears 4/	**4.5**	**2.0**	**0.9**	**0.4**	**0.0**	**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	0.0
Domestic	2.9	1.5	0.9	0.4	0.0	0.0	0.0	0.0	0.0
CBB & SOE Guaranteed Debt /7	**1.8**	**3.4**	**5.4**	**4.7**	**4.3**	**3.9**	**3.2**	**2.5**	**1.8**
External 3/	1.8	3.4	5.4	4.7	4.3	3.9	3.2	2.5	1.8
Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CG Debt	**119.7**	**119.4**	**150.4**	**133.2**	**122.3**	**117.0**	**110.4**	**104.4**	**98.5**
External 3/ 6/ 8/	30.0	30.0	46.7	44.9	42.0	40.5	38.3	34.8	31.0
Domestic	89.7	89.3	103.7	88.3	80.3	76.5	72.2	69.6	67.5
Short Term	5.8	6.9	8.4	7.1	6.5	6.2	6.0	5.7	5.5
Long term	83.9	82.5	95.4	81.2	73.8	70.3	66.2	63.9	62.0
Memorandum items:									
Nominal GDP, FY (BDS$ millions)	10,279	10,156	8,476	9,790	10,664	11,129	11,660	12,151	12,662

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, 2018–2026
(In millions of US$)

			Est.	Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Current account balance	**-201**	**-162**	**-323**	**-571**	**-416**	**-365**	**-307**	**-233**	**-193**
o/w Exports of goods and services	2,098	2,265	1,377	1,797	2,135	2,282	2,436	2,591	2,736
o/w Imports of goods and services	2,020	2,098	1,719	2,093	2,303	2,396	2,483	2,559	2,661
Trade balance	-734	-751	-823	-895	-983	-994	-1,008	-1,018	-1,075
Exports of goods	765	773	619	725	793	840	894	943	975
o/w Re-exports	193	190	120	154	181	208	238	264	272
Imports of goods	1,499	1,524	1,442	1,620	1,775	1,834	1,902	1,961	2,050
o/w Oil	394	235	190	302	296	296	305	301	316
Services balance	813	918	481	599	815	880	961	1,050	1,149
Credit	1,334	1,492	758	1,072	1,342	1,441	1,542	1,648	1,761
o/w Travel (credit)	1,111	1,263	559	861	1,102	1,179	1,262	1,350	1,445
Debit	521	574	277	473	527	562	581	598	611
Primary income balance	-240	-283	-74	-243	-212	-213	-220	-222	-223
Credit	272	283	169	246	273	291	306	319	332
Debit	511	565	243	489	484	504	525	541	555
Secondary income balance	-40	-46	93	-33	-36	-38	-40	-42	-44
Credit	53	55	198	51	57	60	63	66	69
Debit	94	101	105	84	93	99	104	108	113
Capital and financial account	**480**	**394**	**745**	**349**	**304**	**277**	**262**	**246**	**164**
Financial Account Balance	454	396	747	352	304	277	262	246	164
Public sector	245	194	492	210	49	1	-49	-125	-178
o/w CG and CBB Inflows	227	239	570	293	140	110	90	128	103
IMF	49	101	231	49	25	0	0	0	0
Other IFIs and commercial	178	138	340	243	115	110	90	128	103
o/w CG and CBB Outflows	99	67	86	83	90	108	137	251	280
o/w IMF	0	0	0	0	0	13	38	69	77
Private sector	210	202	255	142	255	276	311	371	342
FDI (net)	222	244	255	165	255	276	311	371	342
Short Term (net)	-12	-42	0	-22	0	0	0	0	0
Capital Account Balance	25	-3	-2	-3	0	0	0	0	0
Net errors and omissions	**10**	**8**	**82**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance (deficit -)	**288**	**240**	**504**	**-221**	**-112**	**-89**	**-44**	**13**	**-29**
Memorandum items:									
Oil Price (WTI, US$ per barrel)	64.8	57.0	39.4	56.8	52.7	50.0	48.6	48.0	48.0
Gross International Reserves (GIR, US$ million)	500	739	1,330	1,109	997	908	864	877	848
GIR (months of imports of G&S)	3.0	4.2	9.3	6.4	5.2	4.5	4.2	4.1	3.8
GIR (percent of ARA)	100.5	141.9	260.3	197.2	166.0	147.5	136.3	126.4	118.1

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

Table 4b. Barbados: Balance of Payments, 2018–2026

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

			Est.	Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Current account balance	**-4.0**	**-3.1**	**-7.3**	**-12.3**	**-8.1**	**-6.6**	**-5.3**	**-3.9**	**-3.1**
o/w Exports of goods and services	41.3	42.8	31.2	38.7	41.5	41.5	42.2	43.1	43.7
o/w Imports of goods and services	39.7	39.6	38.9	45.0	44.8	43.6	43.0	42.6	42.5
Trade balance	-14.4	-14.2	-18.6	-19.2	-19.1	-18.1	-17.5	-16.9	-17.2
Exports of goods	15.0	14.6	14.0	15.6	15.4	15.3	15.5	15.7	15.6
o/w Re-exports	3.8	3.6	2.7	3.3	3.5	3.8	4.1	4.4	4.3
Imports of goods	29.5	28.8	32.6	34.8	34.5	33.4	33.0	32.6	32.7
o/w Oil	7.7	4.4	4.3	6.5	5.7	5.4	5.3	5.0	5.0
Services balance	16.0	17.3	10.9	12.9	15.8	16.0	16.7	17.5	18.3
Credit	26.2	28.2	17.2	23.1	26.1	26.2	26.7	27.4	28.1
o/w Travel (credit)	21.8	23.8	12.7	18.5	21.4	21.5	21.9	22.5	23.1
Debit	10.2	10.8	6.3	10.2	10.3	10.2	10.1	9.9	9.8
Primary income balance	-4.7	-5.3	-1.7	-5.2	-4.1	-3.9	-3.8	-3.7	-3.6
Credit	5.3	5.3	3.8	5.3	5.3	5.3	5.3	5.3	5.3
Debit	10.1	10.7	5.5	10.5	9.4	9.2	9.1	9.0	8.9
Secondary income balance	-0.8	-0.9	2.1	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Credit	1.1	1.0	4.5	1.1	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	1.8
Capital and financial account	**9.4**	**7.4**	**16.9**	**7.5**	**5.9**	**5.0**	**4.5**	**4.1**	**2.6**
Financial Account Balance	8.9	7.5	16.9	7.6	5.9	5.0	4.5	4.1	2.6
Public sector	4.8	3.7	11.1	4.5	1.0	0.0	-0.8	-2.1	-2.8
o/w CG and CBB Inflows	4.5	4.5	12.9	6.3	2.7	2.0	1.6	2.1	1.6
IMF	1.0	1.9	5.2	1.1	0.5	0.0	0.0	0.0	0.0
Other IFIs and commercial	3.5	2.6	7.7	5.2	2.2	2.0	1.6	2.1	1.6
o/w CG and CBB Outflows	1.9	1.3	1.9	1.8	1.7	2.0	2.4	4.2	4.5
o/w IMF	0.0	0.0	0.0	0.0	0.0	0.2	0.7	1.1	1.2
Private sector	4.1	3.8	5.8	3.1	5.0	5.0	5.4	6.2	5.5
FDI (net)	4.4	4.6	5.8	3.5	5.0	5.0	5.4	6.2	5.5
Short Term (net)	-0.2	-0.8	0.0	-0.5	0.0	0.0	0.0	0.0	0.0
Capital Account Balance	0.5	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	**0.2**	**0.2**	**1.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance (deficit -)	**5.7**	**4.5**	**11.4**	**-4.8**	**-2.2**	**-1.6**	**-0.8**	**0.2**	**-0.5**
Memorandum items:									
Oil Price (WTI, US$ per barrel)	64.8	57.0	39.4	56.8	52.7	50.0	48.6	48.0	48.0
Gross International Reserves (GIR, US$ million)	499.6	738.9	1,330.3	1,108.9	996.7	908.1	863.7	876.6	847.7
GIR (months of imports of G&S)	3.0	4.2	9.3	6.4	5.2	4.5	4.2	4.1	3.8
GIR (percent of ARA)	100.5	141.9	260.3	197.2	166.0	147.5	136.3	126.4	118.1

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

Table 5. Barbados: Monetary Survey, 2018–2026

	2018	2019	Est. 2020	Projections 2021	2022	2023	2024	2025	2026
				(In millions of Barbados dollars)					
Central Bank of Barbados									
Net International Reserves	832	1,130	2,195	1,748	1,521	1,369	1,339	1,432	1,443
Assets	999	1,478	2,661	2,218	1,993	1,816	1,727	1,753	1,695
Liabilities	-167	-348	-466	-470	-472	-448	-389	-321	-252
Gross International Reserves	999	1,478	2,661	2,218	1,993	1,816	1,727	1,753	1,695
Net domestic assets	1,827	1,825	1,296	1,784	1,884	1,884	1,884	1,884	1,884
Of which: Claims on Central government	736	829	773	773	773	773	773	773	773
Monetary base	2,659	2,955	3,552	3,532	3,406	3,253	3,223	3,317	3,327
Commercial banks									
Net foreign assets	634	661	633	633	633	633	633	633	633
Net domestic assets	10,292	10,685	11,609	11,722	11,821	11,917	12,137	12,474	12,803
Liabilities to the nonfinancial private sector	10,926	11,346	12,242	12,354	12,453	12,550	12,769	13,107	13,435
Monetary survey									
Net foreign assets	1,339	1,679	2,029	2,380	2,154	2,001	1,971	2,065	2,075
Net domestic assets	9,976	9,976	10,442	10,657	10,950	11,161	11,404	11,671	11,991
Net credit to the public sector	2,312	2,277	2,087	2,237	2,337	2,337	2,337	2,337	2,337
Central government	2,204	2,212	2,001	2,152	2,252	2,252	2,252	2,252	2,252
Rest of public sector	108	65	85	85	85	85	85	85	85
Credit to the private sector	8,227	8,303	8,183	8,247	8,441	8,652	8,894	9,161	9,482
Credit to rest of financial system	330	263	261	261	261	261	261	261	261
Other items (net)	-892	-867	-89	-89	-89	-89	-89	-89	-89
Broad money (M2, liabilities to the private sector)	11,315	11,655	12,470	13,037	13,104	13,162	13,375	13,735	14,067
			(Changes in percent of beginning-of-period liabilities to the private sector)						
Monetary survey									
Net international reserves	-3.7	3.0	3.0	2.8	-1.7	-1.2	-0.2	0.7	0.1
Net domestic assets	3.5	0.0	4.0	1.7	2.3	1.6	1.8	2.0	2.3
Net credit to public sector	-20.9	-0.3	-1.6	1.2	0.8	0.0	0.0	0.0	0.0
Of which: central government	-18.8	0.1	-1.8	1.2	0.8	0.0	0.0	0.0	0.0
Credit to private sector	0.2	0.7	-1.0	0.5	1.5	1.6	1.8	2.0	2.3
Other items (net)	23.7	0.2	6.7	0.0	0.0	0.0	0.0	0.0	0.0
					(In percentage change)				
Monetary survey									
Net domestic assets	4.1	0.0	4.7	2.1	2.8	1.9	2.2	2.3	2.7
Of which:									
Private sector credit	0.3	1.0	-1.2	0.7	2.4	2.5	2.8	3.0	3.5
Public sector credit	-50.6	-1.5	-8.4	7.2	4.5	0.0	0.0	0.0	0.0
Broad money	-0.2	3.0	7.0	4.5	0.5	0.4	1.6	2.7	2.4

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

Table 6. Barbados: Medium-Term Macroeconomic Framework, 2018–2026
(In percent of GDP, unless otherwise indicated)

			Est.	Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
				(Annual percentage change)					
National accounts and prices (calendar year)									
CY Real GDP	-0.6	-1.3	-18.0	3.3	8.5	4.8	2.8	1.8	1.8
Nominal GDP	2.2	4.2	-16.6	5.2	10.6	6.9	5.0	4.2	4.2
CPI inflation (average)	3.7	4.1	2.9	3.1	3.9	2.5	2.4	2.3	2.3
CPI inflation (end of period)	0.6	7.2	1.3	3.6	2.0	2.8	2.1	2.5	2.2
External sector (calendar year)									
Exports of goods and services, value	-0.1	7.9	-39.2	30.5	18.8	6.9	6.8	6.3	5.6
Imports of goods and services, value	-0.4	3.9	-18.1	21.8	10.0	4.1	3.6	3.1	4.0
Real effective exchange rate (average)	124.1	126.9	...	...	...	...	...	...	...
Terms of trade	-4.9	2.3	6.2	-9.5	1.7	1.2	1.0	1.0	1.5
Money and credit (calendar year, end of period)									
Net domestic assets	4.1	0.0	4.7	2.1	2.8	1.9	2.2	2.3	2.7
Of which: Private sector credit	0.3	1.0	-1.2	0.7	2.4	2.5	2.8	3.0	3.5
Broad money	-0.2	3.0	7.0	4.5	0.5	0.4	1.6	2.7	2.4
Velocity (GDP relative to broad money)	0.9	0.9	0.8	0.7	0.7	0.8	0.8	0.8	0.9
				(In percent of FY GDP, unless otherwise indicated)					
Public finances (fiscal year) 1/									
Central government									
Revenue and grants	29.1	31.1	31.9	28.4	29.2	29.7	29.7	29.7	29.7
Expenditure	29.4	27.3	36.9	32.5	29.8	29.5	28.5	28.2	27.9
Fiscal balance	-0.3	3.8	-5.1	-4.1	-0.6	0.2	1.2	1.5	1.8
Interest Expenditure	3.7	2.5	4.0	4.1	4.6	4.8	4.8	4.5	4.2
Primary balance	3.4	6.2	-1.0	0.0	4.0	5.0	6.0	6.0	6.0
Debt (fiscal year) 1/									
Central government gross debt	126.0	124.8	156.8	138.3	126.6	120.8	113.6	106.9	100.3
External	33.4	33.9	52.1	49.6	46.3	44.3	41.4	37.3	32.8
Domestic	92.5	90.8	104.7	88.7	80.3	76.5	72.2	69.6	67.5
Savings and investment (calendar year)									
Gross domestic investment	14.3	14.6	17.4	16.7	16.6	16.8	16.6	16.7	16.9
Public	2.1	2.0	3.1	2.5	2.4	2.6	2.3	2.4	2.7
Private 2/	12.2	12.5	14.3	14.3	14.3	14.3	14.2	14.2	14.2
National savings	10.3	11.5	10.1	4.5	8.5	10.2	11.2	12.8	13.8
Public	1.8	-2.6	1.8	5.8	-2.8	-2.3	1.2	2.2	3.1
Private	8.5	14.1	8.3	-1.3	11.3	12.5	10.0	10.6	10.8
External savings	-4.0	-3.1	-7.3	-12.3	-8.1	-6.6	-5.3	-3.9	-3.1
Balance of payments (calendar year)									
Current account	-4.0	-3.1	-7.3	-12.3	-8.1	-6.6	-5.3	-3.9	-3.1
Capital and financial account	9.4	7.4	16.9	7.5	5.9	5.0	4.5	4.1	2.6
Official capital (net)	4.8	3.7	11.1	4.5	1.0	0.0	-0.8	-2.1	-2.8
Private capital (net)	4.1	3.8	5.8	3.1	5.0	5.0	5.4	6.2	5.5
Of which: Long-term flows	4.4	4.6	5.8	3.5	5.0	5.0	5.4	6.2	5.5
Net errors and omissions	0.2	0.2	1.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	5.7	4.5	11.4	-4.8	-2.2	-1.6	-0.8	0.2	-0.5
Memorandum items:									
Exchange rate (BDS$/US$)	2.0	2.0	...	...	...	...	...	...	...
Oil price (WTI, US$ per barrel)	64.8	57.0	39.4	56.8	52.7	50.0	48.6	48.0	48.0
Gross international reserves (US$ millions)	500	739	1,330	1,109	997	908	864	877	848
In months of imports	3.0	4.2	9.3	6.4	5.2	4.5	4.2	4.1	3.8
In percent of ARA	100.5	141.9	260.3	197.2	166.0	147.5	136.3	126.4	118.1
Nominal CY GDP (BDS$ millions)	10,173	10,596	8,836	9,297	10,284	10,993	11,538	12,024	12,532

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	2020
Commercial Banks						
Solvency Indicator						
Capital Adequacy Ratio (CAR)	15.8	17.0	17.0	13.9	13.5	16.0
Liquidity Indicators 1/						
Loan to deposit ratio	65.5	62.3	63.3	63.0	61.8	57.1
Domestic demand deposits to total domestic deposits	35.7	40.3	41.6	41.8	45.3	46.9
Liquid assets, in percent of total assets	25.3	27.4	26.7	21.1	22.9	25.1
Credit Risk Indicators						
Loans and advances (yoy growth rate) 2/	-0.8	-0.5	2.0	0.7	-0.5	-2.1
Non-performing loans ratio	10.6	8.9	7.9	7.4	6.6	7.3
Provisions to non-performing loans	55.5	63.2	69.6	67.3	60.2	62.0
Foreign Exchange Risk Indicators						
Deposits in Foreign Exchange (in percent of total deposits)	-0.9	8.6	8.8	10.5	6.7	6.6
Profitability Indicators						
Return on Assets (ROA)	0.9	1.0	1.3	-0.2	0.6	0.8
Credit Unions						
Solvency Indicator						
Reserves to Total Liabilities	12.1	12.4	12.5	11.9	11.4	N.A.
Liquidity Indicators						
Loan to deposit ratio	107.2	103.2	100.6	94.3	89.6	N.A.
Credit risk Indicators						
Total assets, annual growth rate	7.3	8.3	8.7	9.5	7.5	N.A.
Loans, annual growth rate	6.6	7.3	6.3	4.2	3.5	N.A.
Nonperforming loans ratio	9.1	7.6	7.8	8.9	9.6	N.A.
Arrears 3-6 months/Total Loans	2.0	1.3	1.3	1.9	1.9	N.A.
Arrears 6 – 12 months/Total Loans	1.8	1.2	1.4	1.4	1.6	N.A.
Arrears over 12 months/Total Loans	5.2	5.1	5.0	5.5	6.1	N.A.
Provisions to Total loans	2.6	2.5	2.4	2.6	2.8	N.A.
Profitability Indicator						
Return on Assets (ROA)	0.6	0.8	0.9	0.7	0.7	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 – Schedule of Purchases Under the EFF Supported Program

(In millions of SDR)

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

			Est.	Projections					
	2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
(in US$ millions, unless otherwise indicated)									
Gross Financing Requirements	**300**	**228**	**408**	**654**	**506**	**473**	**444**	**484**	**472**
Current Account Balance	201	162	323	571	416	365	307	233	193
CG Debt Amortization	99	67	86	83	90	108	137	251	280
Sources of Financing	**300**	**228**	**408**	**605**	**481**	**473**	**444**	**484**	**472**
Public sector	343	261	578	244	114	109	88	126	101
FDI (net)	222	244	255	165	255	276	311	371	342
Short Term (net)	-12	-42	0	-22	0	0	0	0	0
Capital Account Balance	25	-3	-2	-3	0	0	0	0	0
Net errors and omissions	10	8	82	0	0	0	0	0	0
Change in Reserve (- = increase)	-288	-240	-504	221	112	89	44	-13	29
Financing Gap	**0**	**0**	**0**	**49**	**24**	**0**	**0**	**0**	**0**
Financing Gap	0	0	0	49	24	0	0	0	0
Prospective Financing	**0**	**0**	**0**	**49**	**24**	**0**	**0**	**0**	**0**
IMF EFF disbursement 1/	0	0	0	49	24	0	0	0	0
Memo items:									
GIR (percent of ARA)	101	142	260	197	166	147	136	126	118
GIR (months of imports of G&S)	3.0	4.2	9.3	6.4	5.2	4.5	4.2	4.1	3.8

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

1/ Including IMF disbursements associated with future reviews.

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

(In millions of SDR unless otherwise indicated)

		Projections											
		2021	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
Purchases	a	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/		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	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	2.8	6.1	6.3	6.1	6.0	4.1	2.2	1.4	0.8	0.4	0.1	0.0
Total Debt Service	d=b+c	2.8	6.1	15.0	32.1	52.6	56.4	55.8	55.0	45.7	28.1	7.2	1.5
Percent of exports		0.4	0.3	0.9	1.5	1.5	1.3	1.3	1.2	0.7	0.1	0.0	0.0
Percent of GDP		0.1	0.1	0.4	0.6	0.6	0.6	0.6	0.5	0.3	0.1	0.0	0.0
Percent of quota 1/		2.9	6.5	15.9	33.9	55.7	59.7	59.1	58.2	48.4	29.7	7.6	1.5
Outstanding Credit	e=e(-1)+a-b	305.0	322.0	313.3	287.3	240.8	188.5	134.8	81.2	36.2	8.5	1.4	0.0
Percent of exports		11.9	10.5	9.6	8.2	6.5	4.8	3.3	1.9	0.8	0.2	0.0	0.0
Percent of GDP		4.6	4.4	4.0	3.5	2.8	2.1	1.4	0.8	0.4	0.1	0.0	0.0
Percent of quota 1/		322.8	340.7	331.5	304.1	254.8	199.5	142.7	85.9	38.3	9.0	1.5	0.0
Memo items:													
EFF Debt Service / Exports of G&S (percent)		0.1	0.2	0.5	0.9	1.4	1.4	1.4	1.3	1.0	0.6	0.1	0.0
GIR (US$ million)		1,109	997	908	864	877	848	856	884	854	973	1,045	1,166
ARA (US$ million)		532	569	590	613	662	713	738	756	778	770	747	751
GIR/ARA (percent)		197	166	147	136	126	118	114	114	108	126	134	150
GIR/External Debt Service (percent)		541	421	374	333	220	223	201	209	205	314	339	447
Nominal GDP (CY US$ mln)		4,648	5,142	5,496	5,769	6,012	6,266	6,525	6,798	7,083	7,379	7,688	8,010

Sources: Fund staff estimates and projections.

1/ Using SDR/USD exchange rate = 0.696499 (as of May 7) and quota SDR = 94.5 million;

2/ Total Interest/Charges based on existing and prospective drawings using GRA rate of charge = 1.05 (as of May 7).

Annex I. Debt Sustainability Analysis

Barbados' public debt remains sustainable but subject to high risks. Debt has temporarily increased in FY2020/21 to about 157 percent of GDP from 125 percent at the end of FY2019/20 due to fiscal accommodation and a sharp contraction in nominal GDP. The COVID-19 induced recession and the related relaxation of the fiscal stance will need to be compensated by higher primary surpluses in subsequent years to safeguard debt sustainability. Under the current baseline, the 60 percent-of-GDP debt anchor is projected to be reached by FY2035/36 (two years later than originally envisaged). Pushing back the debt anchor by two years is appropriate to avoid aiming at unrealistically high primary surpluses for an extended period. Over the medium term, debt remains above the 70 percent of GDP risk assessment threshold used in the MAC DSA, while gross financing needs are projected to stay below the 15 percent of GDP threshold except for FY2021/22. Risks include a longer-than-expected COVID-19 shock with elevated spending needs and a slower economic recovery, and the authorities' ability to maintain high primary surpluses over an extended period. These risks are mitigated by Barbados' strong track record under the EFF-supported program, a favorable debt service schedule and improved market perceptions following the comprehensive 2018-19 debt restructuring.

A. Recent Development and Public Debt[1] Structure

1. Barbados had steadily reduced public debt to 125 percent of GDP by the end of FY2019/20, from 158 percent of GDP in FY2017/18, before experiencing a rebound to 157 percent by the end of FY2020/21 owing to the COVID-19 pandemic (Table 3).

- **Prior to the COVID-19 pandemic, during FY2018/19 and FY2019/20, public domestic debt decreased steadily owing primarily to debt restructuring and fiscal adjustment.** Short term CG debt decreased due primarily to the 2018-19 debt restructuring, while long term CG debt decreased owing to the debt restructuring and restraint in commercial external borrowing. Clearance of domestic expenditure arrears also contributed to a reduction in domestic debt. The 2019 debt restructuring agreement with external creditors provided an immediate debt reduction of about 4 percent of GDP. The large fiscal adjustment under the EFF-supported program in FY2018/19 and FY2019/20 contained gross financing needs and reduced debt.

- **The sharp increase of the debt-to-GDP ratio in FY2020/21 can be attributed to a lower primary balance and a sharp decrease in nominal GDP owing to the pandemic.** The primary balance contributed to the increase in public debt by only 1 percentage point, while nominal GDP collapsed by around 17 percent raising the ratio significantly through a denominator effect. Strong financial support from IFIs and disbursements under the IMF Extended Arrangement under the EFF

[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.

arrangement, enhanced through two augmentations, helped to finance the fiscal deficit at favorable terms.

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 discounted, and the restructured securities have long amortization and grace periods with low interest rates. Restructured external debt has a 5-year grace period and a much smaller and smoother debt service profile than before restructuring. Fifty percent of gross financing needs is represented by short term debt with no rollover risk as 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. Principal payments associated with restructured Eurobonds will resume only from 2025 onwards.

B. Public Debt Sustainability Assessment Assumptions

3. **The specific assumptions used in the analysis are**:

- ***Growth and Inflation***. The economy contracted by 18 percent in 2020 owing to the COVID-19 shock. Economic growth for 2021 is projected at 3 percent, premised on a modest recovery of tourism in the second half of 2021 in light of improving global economic outlook including in key tourism source countries as well as faster-than-expected vaccination programs. Over the medium term, growth is expected to return to normal levels in 2024 and stabilize at its long-term average of around 2 percent. Average inflation is projected to return to its long-run average of around 2½ percent in 2022-24. The fiscal multiplier is conservatively set at 0.3 reflecting the FAD methodology staff's guidance on fiscal multipliers.[2]

- ***Primary Balance***. In FY2020/21, the primary balance decreased to minus 1 percent of GDP as a result of the countercyclical response to the negative shock from the pandemic. With a gradual economic recovery, the primary balance is projected to gradually increase to its pre-crisis level of 6 percent of GDP by FY2024/25 and remain there for three years. Subsequently, the primary surplus is projected to gradually decrease to 4 percent and stabilize at this level until the long-term debt anchor of 60 percent debt/GDP is reached. The realism tool for fiscal adjustments (figure 3) suggests that planned fiscal consolidation falls under top quartile of the distribution of historical fiscal adjustments in advanced and emerging countries.

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

C. Baseline Projections and Risks

4. **Risks to debt sustainability remain elevated over the projection period**. Public debt remains above the 70 percent of GDP risk assessment threshold over the 5-year projection period. While the

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

fiscal accommodation, along with lower nominal GDP, forced GFNs to temporarily exceed the 15 percent of GDP threshold in FY2020/21 and FY2021/22, financing needs are expected to stay below the threshold in the projection period.

5. Under the current baseline projections, public debt is projected to meet its long-term anchor of 60 percent of GDP by end-FY2035/36 (text chart, panel 1). Under the baseline, the 60 percent debt anchor cannot be reached by the end of FY2033/34, as had been originally envisaged, without generating unrealistically high primary surpluses for an extended period of time. Therefore, the target date for reaching the long-term debt anchor of 60 percent debt/GDP has been pushed back by two years – corresponding to the most intensive period of the COVID-19 pandemic. The interim target of 80 percent debt/GDP by FY2029/30 would be aligned with this new debt anchor and moved to FY2031/32. This would allow for a more credible and growth-friendly path of the primary balance. In allowing more time for reaching its public debt target, Barbados follows the lead of regional peers such as Jamaica and ECCU member countries that have also decided to push back the debt target by a few years. Owing to the recent domestic and external debt restructurings and the authorities' prudent borrowing strategy, the effective real interest rate is roughly equal to long-run real growth rate, generating favorable debt dynamics going forward (text chart, panel 3). A primary balance that is projected to be much larger than the debt-stabilizing primary balance would put debt on a steady downward trajectory (text chart, panel 4).

6. The authorities' debt management strategy is appropriate. The strategy aims to reduce short-term debt below 5 percent of GDP and use long-term domestic debt to meet gross financing needs to a maximum extent possible, which would further improve debt composition over the medium- and long-term (text chart, panel 5). External market access is assumed to be re-established in the medium term as market conditions improve for peer countries (Barbados is currently rated as B- by S&P). The debt management strategy assumes rolling-over commercial external debt coming due, including restructured external debt. This should allow the authorities to maintain adequate reserve coverage while avoiding excessive reliance on expensive financing from capital markets. Consequently, by end-FY2035/36, external and domestic debt are projected to be about 15 and 45 percent of GDP, respectively (text chart, panel 6).

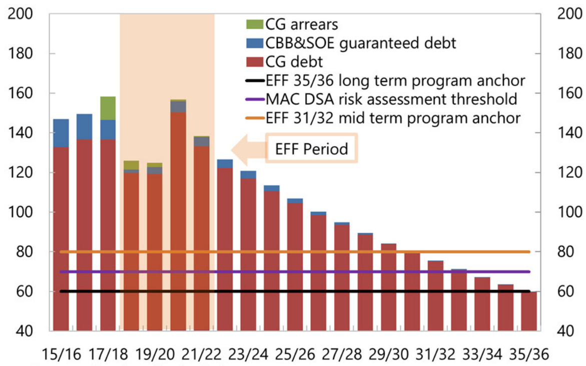
7. Unfavorable outturns of these determinants contribute important sources of risks to debt sustainability. In particular, the risk of a gradual recovery in 2021 and 2022 not materializing as assumed would call into question the ability of the authorities to maintain high primary balances going forward. At the same time, continued social expenditure to support households and businesses would increase liquidity needs including for the NIS. Recapitalization needs for the NIS and the CB would add to the central government debt. Public support for the adjustment program remains strong, and barring a longer-than-expected impact of the current pandemic or other unforeseen shocks, staff assesses the programmed fiscal adjustment as realistic. Such efforts for fiscal consolidation will be further entrenched by a newly introduced fiscal rule currently under preparation. On the other hand, were growth to overperform relative to baseline projections, the authorities could accelerate efforts towards debt reduction.

Figure 1. Barbados: Public Debt Projections 1/

(In percent of FY-GDP)

Public Debt Projections under the Program

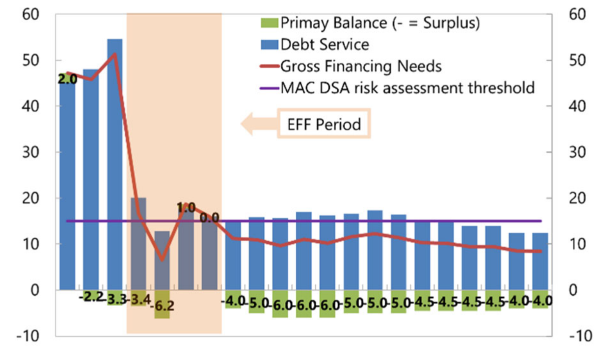
(Percent of FY GDP)



Sources: Fund staff calculations.

Gross Financing Needs under the Program

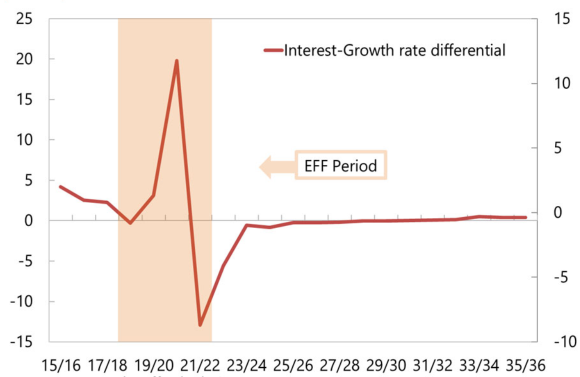
(Percent of FY GDP)



Sources: Fund staff calculations.

Interest-Growth Rate Differential under the Program

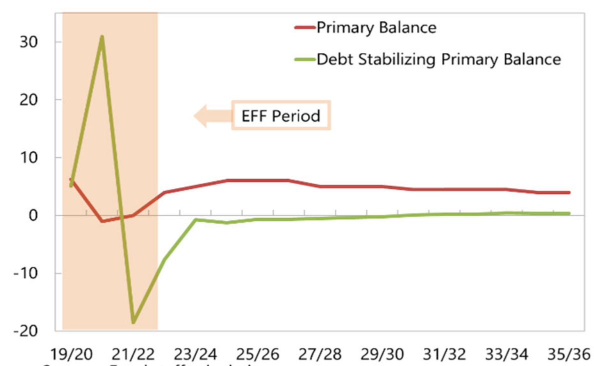
(Percent)



Sources: Fund staff calculations.

Debt Stabilizing Primary Balance under the Program

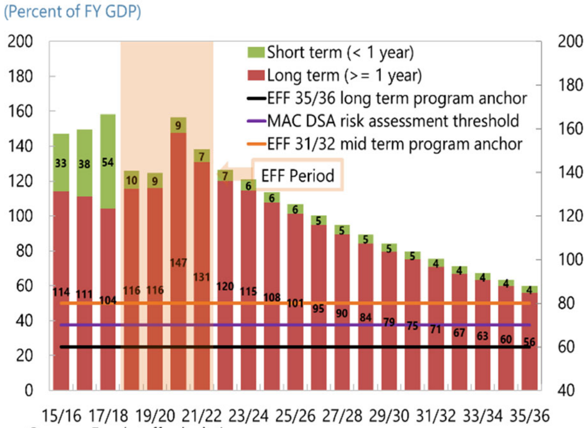
(Percent of FY GDP)



Sources: Fund staff calculations.

Public Debt Maturity Projections under the Program

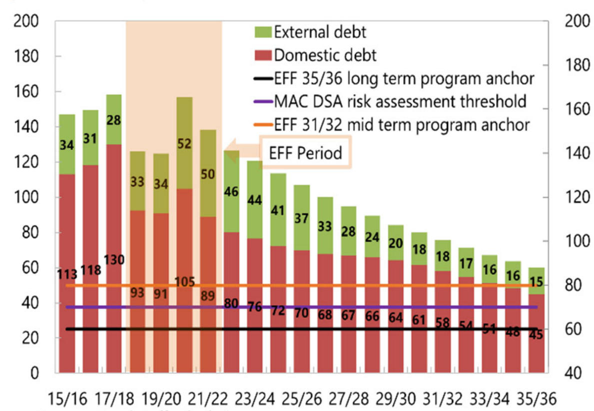
(Percent of FY GDP)



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.

D. Stress Tests

8. Risks to debt sustainability remain elevated with a temporary increase in debt stock in 2020, while gross financing needs are projected to stay below the risk assessment threshold except under three stress tests.

- **Debt would stay broadly on a steady downward trajectory under stress tests**. The high level of debt remains a concern in the next 5 projection years. However, the domestic debt restructuring, and the planned fiscal adjustment help put it on a steady downward trajectory. This trajectory is not meaningfully affected by either primary balance or interest rate shocks, while real GDP growth, the combined macro-fiscal, and contingent liability shocks would result in a slower debt reduction path with the debt-to-GDP ratio projected to be around 25 ppt higher than under the baseline at the end of the projection period.[3]

- **Gross financing needs are projected to stay below the 15 percent risk assessment threshold except for FY2021/22 under the baseline**. Stress tests suggest that Barbados' GFNs are susceptible to real GDP, contingent liability, and combined shocks, while the GFNs to GDP ratio is projected to stay below the threshold under other stress tests from FY2022/23 onwards. With the low debt service stemming from restructured debt and a high primary surplus assumed for the rest of the projection period, Barbados' liquidity risks remain manageable.

9. The debt profiles vulnerabilities analysis points to low or moderate risks. The spread on external debt is currently around 500 bps, which is below the high-risk threshold of 600 basis points. External debt held by non-residents, foreign currency-denominated debt, and external financing requirement also suggest moderate risk. Moreover, all new external debt incurred in 2020 was provided by multilateral IFIs with favorable lending terms, posing limited risk to future debt service. Further, the share of external debt is expected to decrease over time as the authorities' debt management strategy favors domestic and cheaper external financing sources. Short-term debt continues pointing to a low risk with an annual decrease by 1.2 percentage points.

10. Stress tests produce narrow confidence intervals. Fan charts produce narrow but slightly wider confidence intervals and bands compared with the previous DSA due to unprecedented volatility of macroeconomic indicators observed in 2020.

E. Public Debt Sustainability

11. On balance Barbados' debt is assessed as sustainable. Debt is on a gradual downward trajectory under the current baseline projections (Figure 1). Considering the exogenous and temporary nature of the COVID-19 shock on Barbados' growth, staff assesses the deterioration of

[3] 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.

public debt in 2020 as transitory. Public debt is expected to decrease to around 100 percent of GDP towards the end of the projection period supported by primary surpluses. The authorities' ability to maintain high primary balances over an extended period remains a key risk to debt sustainability. With the 60 percent public debt to GDP target pushed back by two years, the primary balance path is more realistic and growth friendly over the long-term. There are mitigating factors such as no roll-over risks associated with short-term debt and favorable external debt service schedule due to debt restructuring, suggesting relatively low near-term liquidity risks as evidenced by stress tests for GFNs. Combined with the authorities' strong commitment to long-term fiscal consolidation and cautious debt management strategy, Barbados' debt is assessed as sustainable while risks to debt sustainability remain elevated. As evidenced by stress tests, growth and macro-fiscal shocks would jeopardize debt sustainability, and high vulnerability to a contingent liability shock scenario confirms the need to increase resiliency to natural disasters and strengthen SOEs' financial viability, in addition to encouraging continued vigilance on the soundness of the financial sector .

F. External Debt Sustainability Analysis

12. There is no significant concern over external debt sustainability[4]. In FY2020/21, external debt temporarily increased to 52 percent of GDP from 34 percent in FY2019/20 due to strong support from IFIs and a collapse in nominal GDP. It is projected to gradually decrease to about 33 percent of GDP by FY2026/27. A worsening in the current account deficit due to the prolonged pandemic, along with a downward revision in GDP projections, is projected to slightly raise the external debt to GDP ratio by around 1-2 percentage points throughout the projection period compared with the previous external DSA (Table 1). Going forward, the public debt management strategy aims to limit expensive financing from the external capital market and rely on multilaterals and/or domestic sources of financing. Risks associated with external debt are reduced by the debt restructuring with smoother and lower debt service and the increased share of IFIs among non-resident creditors. Under any of the stress tests considered, external debt is not projected to be higher than about 40 percent of GDP by FY2026/27 (Figure 6).

[4] Private external debt is not included in the analysis due to the limited data availability.

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

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

Barbados Public Sector Debt Sustainability Analysis (DSA)

(in percent of FY GDP unless otherwise indicated)

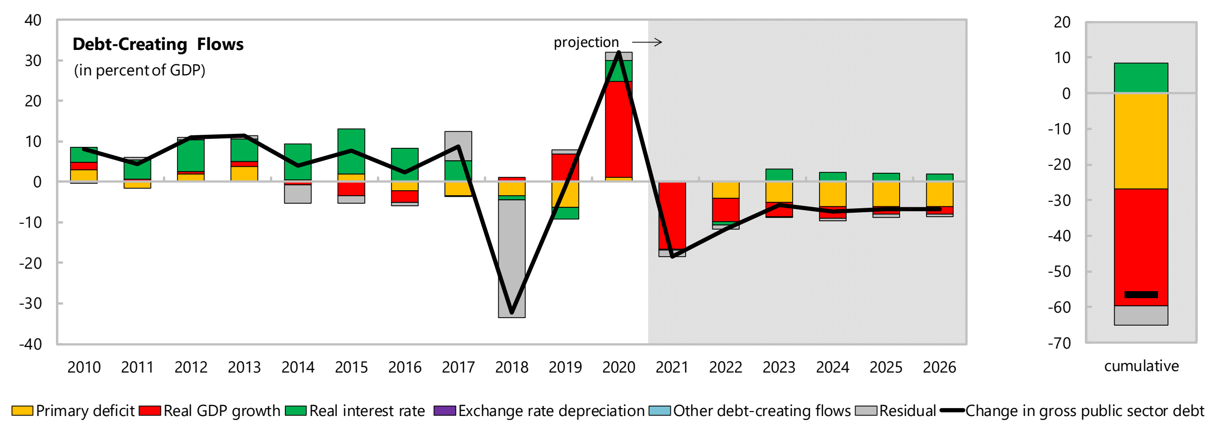
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	133.3	124.8	156.8	138.3	126.6	120.8	113.6	106.9	100.3
Public gross financing needs	36.5	6.5	19.0	16.0	10.9	10.6	9.3	10.7	9.9
FY Real GDP growth (in percent)	0.0	-5.4	-15.9	12.2	4.6	2.9	2.6	1.8	1.8
Inflation (FY GDP deflator, in percent)	1.5	4.5	-0.8	2.9	4.1	1.5	2.2	2.3	2.3
FY Nominal GDP growth (in percent)	1.5	-1.2	-16.5	15.5	8.9	4.4	4.8	4.2	4.2
Effective interest rate (in percent) [4/]	6.3	2.0	2.8	3.1	3.7	4.1	4.3	4.3	4.3

As of May 10, 2021		
Sovereign Spreads		
EMBIG (bp) 3/		508
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							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	2.9	-1.2	32.0	-18.5	-11.7	-5.7	-7.2	-6.7	-6.6	-56.5	
Identified debt-creating flows	5.9	-2.2	29.9	-16.8	-10.6	-5.3	-6.6	-6.0	-5.9	-51.2	
Primary deficit	0.1	-6.2	1.0	0.0	-4.0	-5.0	-6.0	-6.0	-6.0	-27.0	0.1
Primary (noninterest) revenue and grants	26.8	31.1	31.9	28.4	29.2	29.7	29.7	29.7	29.7	176.3	
Primary (noninterest) expenditure	26.9	24.8	32.9	28.4	25.2	24.7	23.7	23.7	23.7	149.3	
Automatic debt dynamics [5/]	5.8	4.0	28.9	-16.8	-6.6	-0.3	-0.6	0.0	0.1	-24.2	
Interest rate/growth differential [6/]	5.8	4.0	28.9	-16.8	-6.6	-0.3	-0.6	0.0	0.1	-24.2	
Of which: real interest rate	6.0	-2.9	5.1	-0.2	-0.7	3.1	2.4	2.1	2.0	8.6	
Of which: FY real GDP growth	-0.2	6.9	23.8	-16.6	-5.9	-3.5	-2.9	-2.0	-1.9	-32.8	
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/]	-3.0	1.0	2.0	-1.7	-1.1	-0.4	-0.7	-0.7	-0.7	-5.3	



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 = April 2020 - March 2021.

2/ Based on available data.

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

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

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ 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 - π (1+g) and the real growth contribution as -g.

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

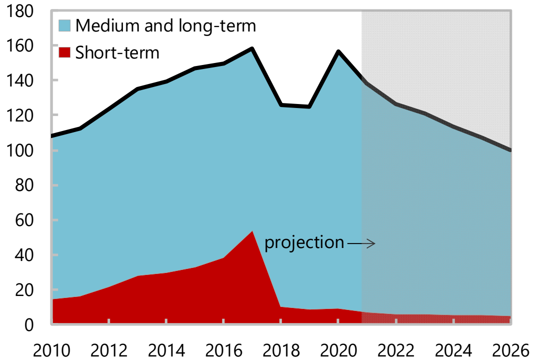
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

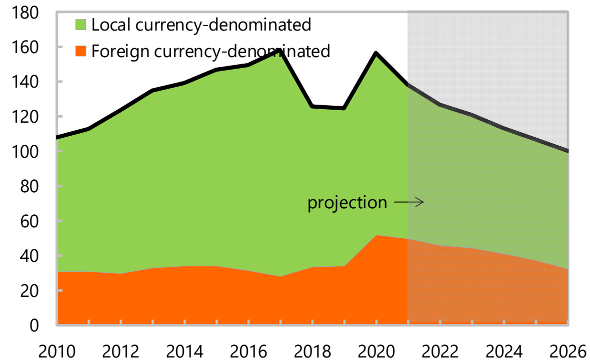
Figure 3. Barbados: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



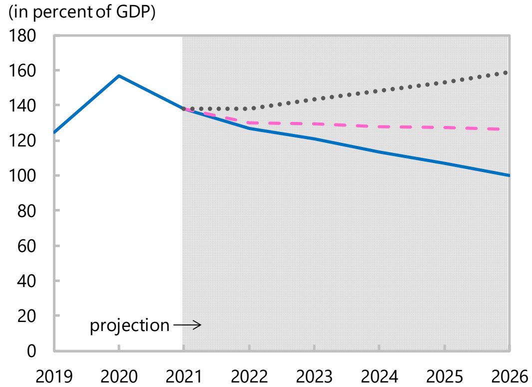
By Currency
(in percent of GDP)



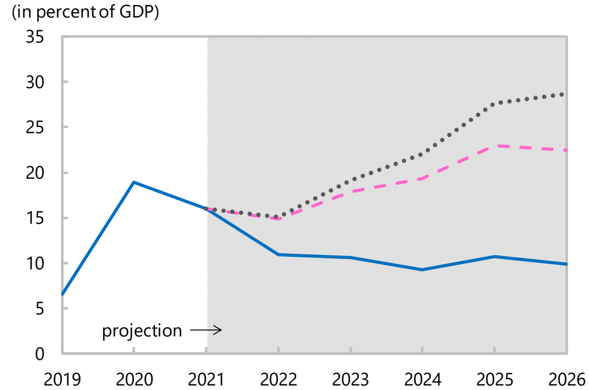
Alternative Scenarios

Baseline Historical Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



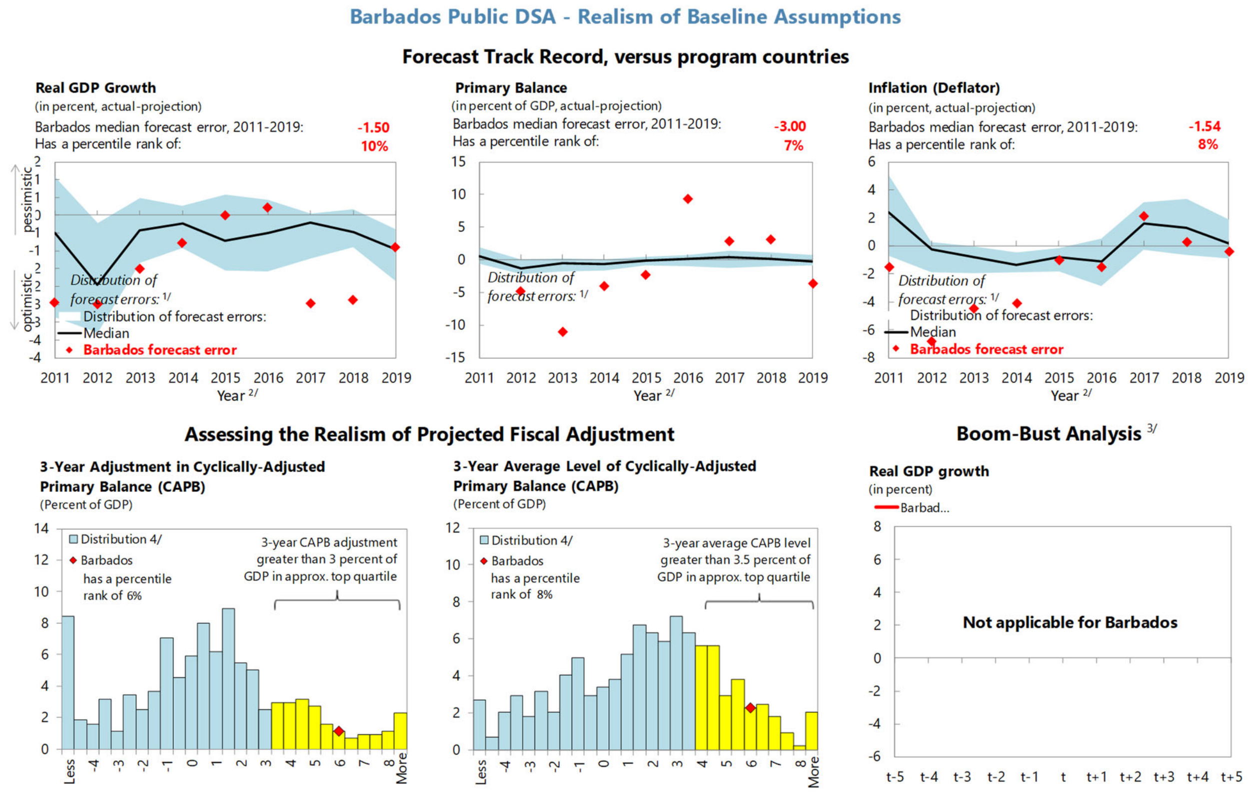
Underlying Assumptions
(in percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	12.2	4.6	2.9	2.6	1.8	1.8
Inflation	2.9	4.1	1.5	2.2	2.3	2.3
Primary Balance	0.0	4.0	5.0	6.0	6.0	6.0
Effective interest rate	3.1	3.7	4.1	4.3	4.3	4.3
Constant Primary Balance Scenario						
Real GDP growth	12.2	4.6	2.9	2.6	1.8	1.8
Inflation	2.9	4.1	1.5	2.2	2.3	2.3
Primary Balance	0.0	0.0	0.0	0.0	0.0	0.0
Effective interest rate	3.1	3.7	4.0	4.2	4.1	4.1

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	12.2	-1.9	-1.9	-1.9	-1.9	-1.9
Inflation	2.9	4.1	1.5	2.2	2.3	2.3
Primary Balance	0.0	0.8	0.8	0.8	0.8	0.8
Effective interest rate	3.1	3.7	4.3	4.6	4.8	5.0

Source: IMF staff.

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



Source : IMF Staff.

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

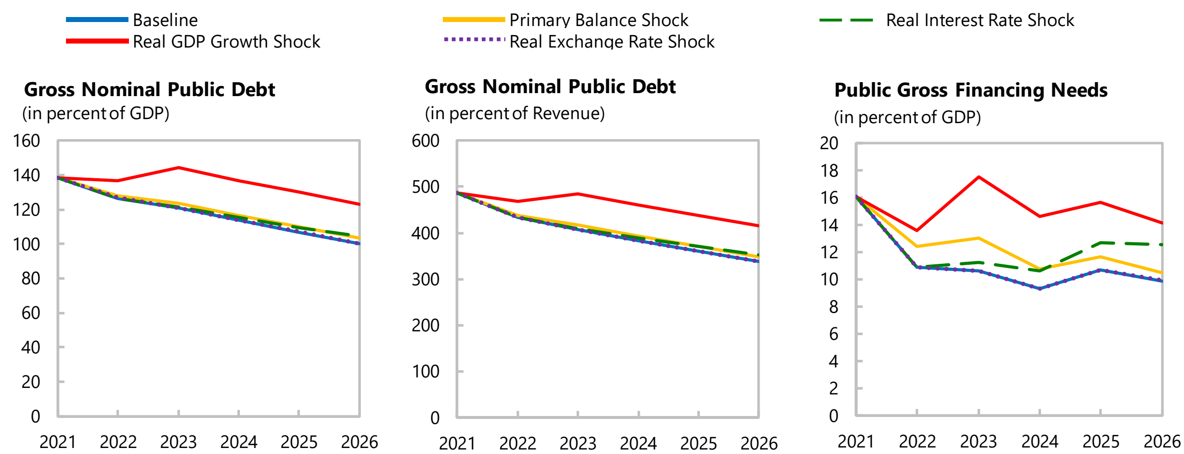
2/ Projections made in the spring WEO vintage of the preceding year.

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

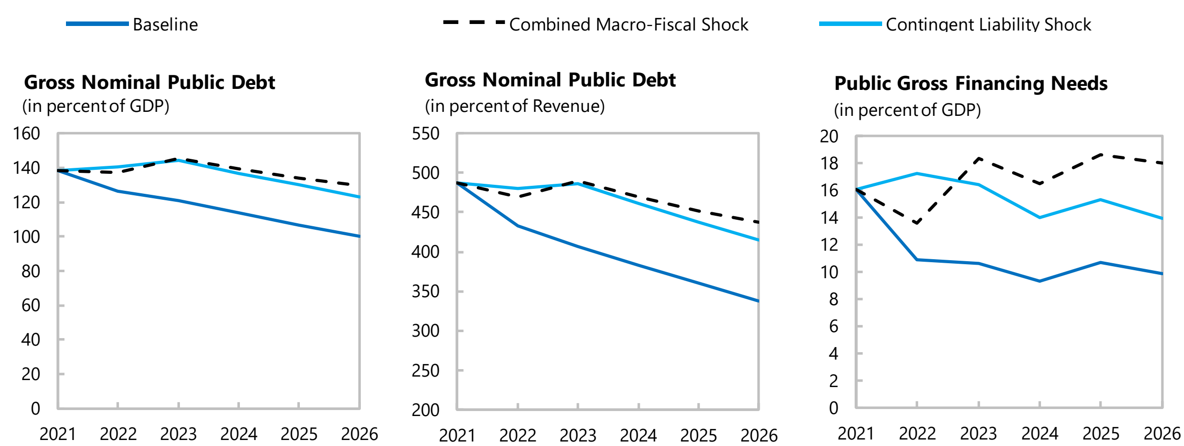
4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 5. Barbados: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	12.2	4.6	2.9	2.6	1.8	1.8
Inflation	2.9	4.1	1.5	2.2	2.3	2.3
Primary balance	0.0	2.5	3.5	6.0	6.0	6.0
Effective interest rate	3.1	3.7	4.1	4.3	4.3	4.3
Real Interest Rate Shock						
Real GDP growth	12.2	4.6	2.9	2.6	1.8	1.8
Inflation	2.9	4.1	1.5	2.2	2.3	2.3
Primary balance	0.0	4.0	5.0	6.0	6.0	6.0
Effective interest rate	3.1	3.7	4.6	5.1	5.4	5.8
Combined Shock						
Real GDP growth	12.2	-0.7	-2.5	2.6	1.8	1.8
Inflation	2.9	2.8	0.1	2.2	2.3	2.3
Primary balance	0.0	2.3	1.5	6.0	6.0	6.0
Effective interest rate	3.1	3.8	4.7	5.3	5.6	6.1

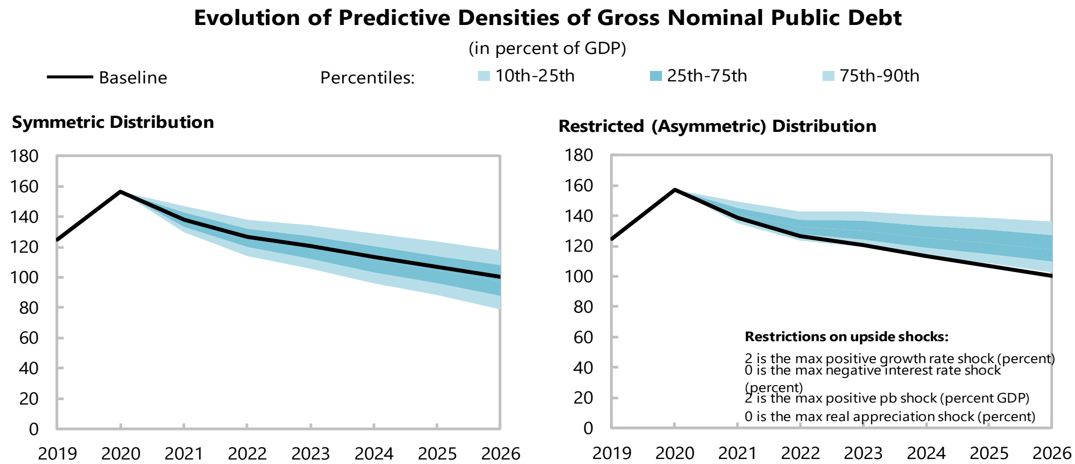
Real GDP Growth Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	12.2	-0.7	-2.5	2.6	1.8	1.8
Inflation	2.9	2.8	0.1	2.2	2.3	2.3
Primary balance	0.0	2.3	1.5	6.0	6.0	6.0
Effective interest rate	3.1	3.7	4.1	4.3	4.3	4.3
Real Exchange Rate Shock						
Real GDP growth	12.2	4.6	2.9	2.6	1.8	1.8
Inflation	2.9	4.3	1.5	2.2	2.3	2.3
Primary balance	0.0	4.0	5.0	6.0	6.0	6.0
Effective interest rate	3.1	3.8	4.1	4.3	4.2	4.2
Contingent Liability Shock						
Real GDP growth	12.2	-0.7	-2.5	2.6	1.8	1.8
Inflation	2.9	2.8	0.1	2.2	2.3	2.3
Primary balance	0.0	-1.3	5.0	6.0	6.0	6.0
Effective interest rate	3.1	3.8	4.2	4.3	4.2	4.3

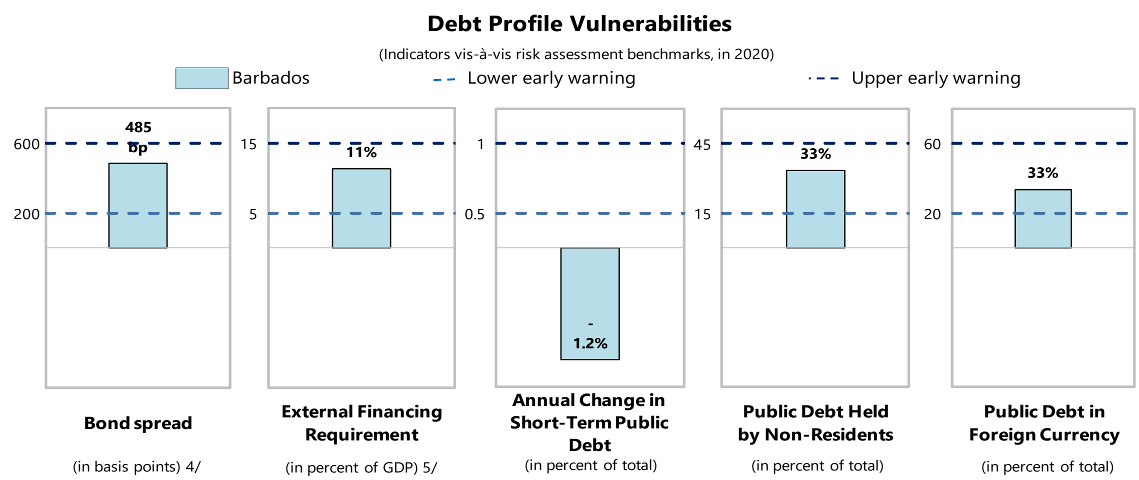
Source: IMF staff.

Figure 6. Barbados: Public DSA Risk Assessment

Heat Map

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





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:

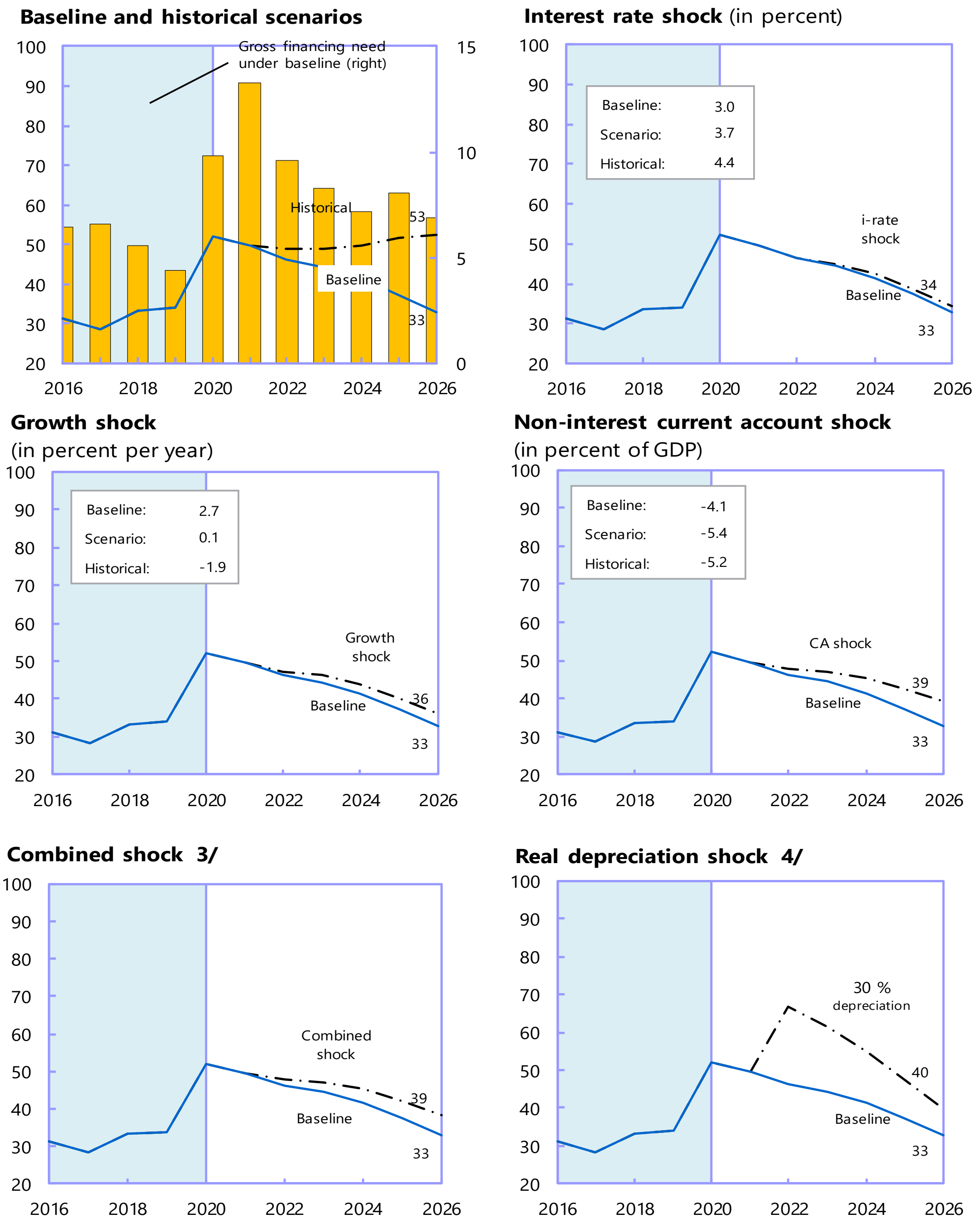
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 09-Feb-21 through 10-May-21.

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

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

(External debt in percent of FY-GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2019.

Table 1. Barbados: External Debt Sustainability Framework, 2016–2026

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

		Actual							Projections						
		2016	2017	2018	2019	2020			2021	2022	2023	2024	2025	2026	Debt-stabilizing non-interest current account 6/
1	**Baseline: External debt**	31.3	28.5	33.4	33.9	52.1			**49.6**	**46.3**	**44.3**	**41.4**	**37.3**	**32.8**	**-5.0**
2	Change in external debt	-3.1	-2.8	4.9	0.5	18.1			-2.5	-3.3	-1.9	-2.9	-4.1	-4.5	
3	Identified external debt-creating flows (4+8+9)	0.0	-0.2	-1.1	-1.2	8.3			2.8	0.9	0.3	-1.2	-3.0	-3.0	
4	Current account deficit, excluding interest payments	2.5	2.1	3.5	2.6	5.9			10.4	6.5	5.3	4.0	2.6	2.0	
5	Deficit in balance of goods and services	-1.0	-1.5	-1.5	-3.3	8.1			6.0	3.2	2.1	0.8	-0.5	-1.2	
6	Exports	42.8	42.0	40.8	44.6	32.5			36.7	40.0	41.0	41.8	42.6	43.2	
7	Imports	41.8	40.5	39.3	41.3	40.6			42.8	43.2	43.1	42.6	42.1	42.0	
8	Net non-debt creating capital inflows (negative)	-3.4	-3.1	-4.3	-4.8	-6.0			-3.4	-4.8	-5.0	-5.3	-6.1	-5.4	
9	Automatic debt dynamics 1/	0.8	0.8	-0.3	1.0	8.4			-4.2	-0.8	0.0	0.2	0.5	0.4	
10	Contribution from nominal interest rate	1.7	1.7	0.5	0.6	1.7			1.3	1.3	1.3	1.3	1.2	1.1	
11	Contribution from real FY GDP growth	-0.7	-0.1	0.2	1.8	6.5			-5.5	-2.1	-1.3	-1.1	-0.7	-0.7	
12	Contribution from price and exchange rate changes 2/	-0.2	-0.8	-1.0	-1.4	0.3			...	...	...	...	...	...	
13	Residual, incl. change in gross foreign assets (2-3) 3/	-3.1	-2.6	6.1	1.7	9.8			-5.3	-4.2	-2.3	-1.8	-1.1	-1.5	
	External debt-to-exports ratio (in percent)	73.1	67.9	81.9	76.1	160.3			135.0	115.6	108.2	99.2	87.5	75.9	
	Gross external financing need (in billions of US dollars) 4/	0.3	0.3	0.3	0.2	0.4			0.7	0.5	0.5	0.4	0.5	0.4	
	in percent of FY GDP	6.5	6.6	5.6	4.4	9.9			13.3	9.6	8.3	7.2	8.0	6.9	
	Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**49.6**	**49.0**	**49.0**	**49.8**	**51.5**	**52.6**	**-3.2**
	Key Macroeconomic Assumptions Underlying Baseline														
hide	Nominal FY GDP (US dollars)	4.9	5.0	5.1	5.1	4.2			4.9	5.3	5.6	5.8	6.1	6.3	
	FY Real GDP growth (in percent)	2.0	0.2	-0.8	-5.4	-15.9	-1.9	5.4	12.2	4.6	2.9	2.6	1.8	1.8	
	FY GDP deflator in US dollars (change in percent)	0.6	2.6	3.5	4.5	-0.8	1.4	2.0	2.9	4.1	1.5	2.2	2.3	2.3	
	Nominal external interest rate (in percent)	5.1	5.6	1.7	1.8	4.2	4.4	1.4	2.8	2.9	3.0	3.0	3.0	3.0	
	Growth of exports (US dollar terms, in percent)	6.6	0.8	-0.1	7.9	-39.2	-3.1	13.3	30.5	18.8	6.9	6.8	6.3	5.6	
	Growth of imports (US dollar terms, in percent)	0.2	-0.4	-0.4	3.9	-18.1	-2.4	6.0	21.8	10.0	4.1	3.6	3.1	4.0	
	Current account balance, excluding interest payments	-2.5	-2.1	-3.5	-2.6	-5.9	-5.2	2.7	-10.4	-6.5	-5.3	-4.0	-2.6	-2.0	
	Net non-debt creating capital inflows	3.4	3.1	4.3	4.8	6.0	5.8	2.8	3.4	4.8	5.0	5.3	6.1	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.

Appendix II. Letter of Intent

Bridgetown, Barbados
May 25, 2021

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 about US$1.3 billion as of May 2021, 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 were a fraction of normal levels, with a negative impact on economic growth, government revenue, our foreign exchange earnings and jobs. The Extended Arrangement under the EFF arrangement with the IMF has been instrumental in helping address this unprecedented shock. Beyond assisting to restore macroeconomic stability thus providing critical fiscal space to offset the direct economic fallout, the EFF arrangement was augmented during both the third and fourth review (by SDR 66 million and SDR 48 million respectively) 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.

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 balance target for FY2020/21 was reduced to minus 1 percent of GDP, down from a surplus of 6 percent of GDP originally envisaged under our homegrown BERT Plan.

It is becoming clear now that the impact of the global pandemic on economic activity and government revenue is deeper and more prolonged than was anticipated at the time of the fourth review under the EFF. After containing the transmission of the virus through much of 2020, COVID-19 cases increased sharply in early 2021, prompting the reimposition of economic restrictions during February. These developments are likely to further delay the anticipated resumption of tourism activity back to normal levels with implications for the fiscal outlook. On the expenditure side, resources needed to support 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. The slower than expected recovery will also compromise the anticipated recovery of government revenues. On balance, the primary balance target for FY2021/22 will be reduced to zero percent of GDP, down from 2 percent envisioned at the time of the fourth review, and the target date for bringing the debt-to-GDP ratio below 60 percent has been shifted to FY2035/36 rather than FY2033/34, implying a delay by two years.

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 have continued to meet BERT and EFF programme targets, despite increasingly challenging conditions owing to the global coronavirus outbreak. All end-March 2021 quantitative performance criteria (PC) were met except for the PC on central government transfers and grants to public institutions. This was exceeded owing to exceptional and unanticipated one-off measures needed to address the COVID-19 health crisis, including the implementation of a vaccination program executed by the national hospital. Similarly, all end-March 2021 structural benchmarks were met apart from the one concerning the large taxpayer unit (LTU). While the LTU has made good progress implementing its compliance improvement plan, on-time filing rates fell short of the 90 percent target due to the severe contraction in the economy, but we expect on-time filing rates to improve significantly as the economy recovers.

We therefore request the completion of the fifth review of the extended arrangement under the EFF, with the full purchase of SDR 17 million to be made available as budget support. This request includes the modification of end-September performance criteria to reflect the current economic environment, and a waiver of nonobservance of one performance criterion. We also request that one structural benchmark be reset and one replaced respectively. The benchmark to table a revised pension law in parliament will be reset to end-December 2021 to provide adequate time to build public support and the end-September 2021 benchmark on the tabling of legislation for a fiscal rule will be replaced by the adoption of regulations for a procedural fiscal rule by end-December 2021 in accordance with the recommendations of the IMF's technical assistance mission. Finally, we request the introduction of nine new structural benchmarks (SBs) (see Attachment 1, Table 1) that endeavor to: i) strengthen public financial management (SB30, 31, 35, and 38); ii) modernize customs operations and frameworks (SB34 and 37); bolster financial sector oversight (SB36); and, iv) enhance the growth environment (SB32 and 33).

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. In light of the unprecedented COVID-19 health pandemic, we are now targeting a debt-to-GDP ratio of 60 percent by 2035 (see below); 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**. Reviews of the Extended Arrangement under the EFF have been conducted and completed at regular 6-month intervals with the most recent (fourth review) completed in December 2020. By May 2021, international reserves had recovered to about US$1.3 billion and the restructuring of public debt concluded. 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, despite increasingly challenging conditions owing to the global coronavirus outbreak.** All end-March 2021 quantitative performance criteria (PC) were met, except for the PC on central government transfers and grants to public institutions (Table 2). This was exceeded owing to exceptional and unanticipated one-off measures needed to address the COVID-19 health crisis, including the implementation of a vaccination program executed by the national hospital. However,, international reserves outperformed the end-March target by around US$900 million and a primary balance of minus 1 percent of GDP was recorded for FY2020/21. Regarding structural benchmarks, an amended Central Bank of Barbados (CBB) law, aimed at strengthening the autonomy of the bank while limiting the provision of credit to the government, was adopted by parliament in December 2020. An actuarial review of the civil service pension system was completed in November 2020 that will help inform upcoming public pension reform. The modernization of both the Customs and Excise Department and Revenue Authority is progressing with the operationalization of an Information

Technology Division and implementation of the Large Taxpayer Unit (LTU) compliance improvement plan respectively in March 2021. The Management and Accounting Unit (MAU) has developed a monitoring dashboard to improve oversight of priority state-owned enterprises (March 2021) while the Barbados Statistical Service (BSS) has published a calendar of economic statistical releases (March 2021) on its revamped website in keeping with its commitment to ensure the regular public release of key economic indicators. On balance, all end-March 2021 structural benchmarks were met apart from the LTU benchmark, where on-time filing rates fell short of the 90 percent target due to the severe contraction in the economy (Table 1). However, on-time filing rates for all core taxes are expected to reach targeted levels once the economic recovery takes hold.

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 subsequent Supplementary MEFPs issued in June and November (2019) and May and November (2020). 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. Programme structural benchmarks and updated quantitative targets are presented in Table 1 and Table 2, respectively.

II. FISCAL STRATEGY AND POLICY PRIORITIES

6. Economic fallout from the global coronavirus outbreak is expected to persist in 2021. The pandemic reduced tourist arrivals in 2020 sharply below normal levels resulting in an economic contraction of 18 percent, which simultaneously compromised government revenues and increased expenditure needs. The primary balance target in FY2020/21 was necessarily revised down from the surplus of 6 percent of GDP originally envisaged under our homegrown BERT Plan (and achieved in FY2019/20) to a deficit of 1 percent of GDP. Looking ahead, the impact of the global pandemic is likely to be more prolonged than was projected at the time of the fourth review under the EFF. The domestic surge in COVID-19 cases at the outset of this year prompted a second national lockdown that has reduced first quarter economic activity and will temper the anticipated tourism-based recovery in 2021. This shock has been compounded by the April eruption of La Soufriere volcano in St. Vincent and the Grenadines that spouted clouds of ash in the region, which halted economic activity in Barbados and resulted in sizable unanticipated public clean-up expenses. On current projections, the slower than expected recovery implies relatively weaker government revenue in FY2021/22 by about 0.7 percent of GDP, while additional health outlays, supports to vulnerable households and dislocated workers, and transfers to public institutions facing revenue shortfalls, could increase current expenditures about 1.3 percent of GDP. We are therefore now targeting a zero primary balance for FY2021/22, down from 2 percent of GDP at the time of the fourth review.

7. We have adopted a targeted fiscal response to the unprecedented health crisis aimed at protecting lives and livelihoods. The response to the COVID-19 pandemic has been phased and tailored to the evolution of the health crisis and magnitude of the economic fallout. Initial investments in health equipment and quarantine facilities were followed by expanded welfare payments to protect vulnerable households through the introduction of the Household Survival Program as well as investments in monitoring COVID compliance in schools, commercial enterprises and communities. Liquidity support was extended to the National Insurance Scheme (NIS) via the repurchase of government bonds to ensure adequate resources to accommodate a surge in unemployment benefit and severance claims. 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. An affordable housing programme (HOPE) has also been launched that increases affordability by making use of renewable energy technology. A 12-month COVID relief jobs program was also rolled out to generate contractual employment opportunities to promote health safety and boost food production, while targeted cash transfers were extended to small businesses and vendors affected by the second national pause in February 2021. Direct COVID-19 related expenditures in FY2020/21 amounted to roughly 2½ percent of GDP. Additional pandemic-related expenditures of about 1.3 percent of GDP is anticipated for FY2021/22 to sustain the rollout of the national vaccination strategy, support households, and bolster economic activity.

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. The new low CIT rates are expected to help create an excellent climate to do business in Barbados, while the increase in the rate for the highest income bracket (from 0.25 percent to 1 percent) should help limit the impact on revenue collection

9. Personal Income Tax (PIT) rates have been reduced to lessen the discrepancy between CIT and PIT rates. The top PIT rate was reduced to 28.5 percent as of January 1, 2020. To compensate for the revenue loss, the base of the VAT was 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. All taxpayers are now able to file and pay their taxes online. The Barbados Revenue Authority (BRA) has implemented a new Tax Administration Management Information System (TAMIS), allowing for legacy IT systems to be progressively retired, and developed a new organization structure and comprehensive strategic plan. As part of this effort, the BRA will establish by end-September 2021 a program to address pre-TAMIS debt using a dedicated task force for a two-year period (*proposed new structural benchmark*). Efforts are underway to repay previously unpaid tax refunds going back several years and as of 1998, 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 and compliance more broadly. The recently formed Large Taxpayer Unit (LTU) has developed and operationalized a compliance improvement plan with the goal of improving 'on-time' filing of returns for all large taxpayers to over 90 percent for all core taxes (VAT, CIT, PAYE) (*structural benchmark for end-March 2021)*. The plan includes: (i) key performance indicators; (ii) establishes baseline performance; (iii) and introduces timely (weekly/monthly/quarterly) reporting to monitor performance in-line with the outcomes of the BRA's annual business plan. We have also made use of third-party data to increase the accuracy of the taxpayer base, which will drive performance in several key outcome areas. Following execution of an initial 20 "issue-based" audits on taxpayers in the large taxpayer segment (structural benchmark for end-June 2020), we have set a goal of conducting 54 issue, 30 desk, 4 specific and 2 comprehensive audits, a total of 90 audits of corporate taxpayers for 2021/2022, with an estimated 80-90 audits per year (a third of the total population).

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 July 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 BECD strategic plan will be submitted to Cabinet by June 2021and will inform forward-looking reform priorities to enhance operational efficiency in trade facilitation, revenue mobilization, compliance, and enforcement. To support its implementation, a Memorandum of Understanding between the BRA and BCED to enhance information sharing was established in March 2021 and an Information and Technology Division within BCED was established and staffed in March 2021 (*structural benchmark for end March 2021).* Furthermore, a training plan for customs employees in the use of ASYCUDA World has been prepared and submitted to the Director of Finance and Economics, and a proposal for staffing a Human Resources Division in BCED will be submitted by December 2021. These new IT and HR divisions will enable effective in-the-field IT support and enhance skills matching, training, and competency-based hiring. Additional reform priorities include:

- Improving BCED performance management by end October 2021 (*proposed new structural benchmark*). This involves: (i) harmonizing departmental key performance indicators with ASYCUDA measures; (ii) preparing the implementation of the ASYPM (ASYCUDA Performance Management Module); (iii) implementing the Performance Review and Development System (PRDS); (iv) developing and automating trade and commercial compliance dashboards; (v) populating these dashboards at the unit level on a weekly basis; and, (vi) providing a summarized monthly report of the dashboards to senior management.

- Enhancing trade facilitation and risk management by end December 2021 (*proposed new structural benchmark*). This involves: (i) collaborating with the trade community to define clear benefits for the BCED Trusted Trader Program's participants; (ii) streamlining and standardizing the cargo import process in the marine mode[1]; and (iii) improving traceability of shipments in the customs system[2].

- Updating the legislative framework that governs customs operations. This reform effort is advancing steadily. Consultations with key stakeholders on a revised Customs Bill have been undertaken and draft legislation is being updated with a view to table the Bill by end-June-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. Uncertainty in the current economic context requires a flexible approach in the setting of fiscal policy and reform priorities. We remain committed to reducing the debt-to-GDP ratio to 60 percent, recognizing that the target date needs to be shifted by two years to 2035 to accommodate the economic devastation of the ongoing health pandemic. The temporary increase in our debt level resulting from the COVID-19 induced slump in tourism and the related fall in government revenue will be in large part offset by sustained higher primary surpluses in the medium-term. In this regard, we must 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) to structurally reduce central government transfers and adopt other measures to curtail expenditure growth as needed.

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[1] Notably by developing modern, simplified, and streamlined Standard Operating Procedures (SOPs) that will be gradually implemented at the Bridgetown Port and shed 4.

[2] A report will be prepared by the BCED to assess whether: (i) Guards and Officers are completing fields in ASYCUDA to follow the movement of cargo from pre-clearance to release; and, (ii) Risk Management and Enforcement Units are able to leverage the data for risk assessments purposes.

A Fiscal Rule

15. The Government intends to introduce a fiscal rule to enhance fiscal transparency, and lock in the gains of fiscal consolidation. The transparency and automaticity of fiscal adjustment will be enhanced by an explicit, time-bound adjustment path to sustainability. However, uncertainty about the duration of the COVID-19 crisis and pace of recovery make it difficult to implement numerical fiscal rules at this juncture. As an interim step, the Minister of Finance will issue regulations for a procedural fiscal rule by end 2021 (*proposed new structural benchmark*). This replaces the Government's intention to table legislation for a fiscal rule by end-September 2021 based on recommendations from the IMF's Fiscal Affairs Department technical assistance (TA) mission in February 2021. Under a procedural fiscal rule that is to be aligned with IMF TA recommendations, the government commits to: i) annually prepare a monitorable fiscal strategy/framework over the medium term; ii) regularly publish outcomes against this strategy; and, iii) take remedial action when required. To these ends, the Minister of Finance will table a first version of the fiscal framework including projections for revenue, expenditure, and debt for FY2022-23 and two following fiscal years in parliament by August 15, 2021 (*proposed new structural benchmark*).

16. Once the pandemic uncertainty has passed and requisite support frameworks are established, the Government will proceed to adopt a numerical fiscal rule framework. We will design a sound fiscal rule defining coverage, implementation, corrective mechanisms, escape clauses and institutional arrangements that are appropriate for Barbados, drawing on recent and forthcoming TA recommendations from the IMF's Fiscal Affairs Departments. Key elements will include:

- A framework 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 2035*.
- *Coverage* of the fiscal rule will take into account all fiscal activities associated with the public sector, including SOEs[3], 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

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

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

- The Government will consider *institutional arrangements* and other legal options for strengthening the sanction regime and transparency to enhance the credibility of the fiscal rule. Measures could include requiring an independent body to independently assess macroeconomic projections used in budget preparation and overall fiscal policy, disclose budget execution with respect to the fiscal rule, and support transparency and accountability through Parliamentary hearings by officials. The Minister of Finance will be required to explain deviations that are inconsistent with the fiscal rule in a mid-term budget review in Parliament and outline corrective steps to get back on track with the annual fiscal rule target.

Reforms to Public Financial Management (PFM) and the Budget Process

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

- **Strengthen the strategic phase of the budget formulation process**. The main inputs are as follows: (i) annual update of the government's fiscal strategy, based on backward-looking expenditure and revenue reviews and forward-looking targets on revenue, expenditure and debt in line with the Government's clearly articulated current and medium-term priorities *(see proposed new structural benchmark for August 15, 2021)*; (ii) setting of multi-year expenditure ceilings in accordance with the updated fiscal strategy, 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. The government is seeking to strengthen the budget formulation process further, including by ensuring that: i) the budget calendar is aligned to the requirements of the new FMA Act; and, ii) the budget circular is issued soon after the fiscal framework has been tabled in Parliament. The budget circular will be accompanied by expenditure ceilings approved by Cabinet for each financial year covered by the medium-term budget planning horizon.

- **Reform the Budget Documentation to provide more policy-oriented information to decision makers and enable more transparent budget execution**. Annual Budget Documentation (Budget Estimates) provides a comprehensive narrative describing the public finances. Starting with the FY2022/23 budget, it will also include an assessment of the alignment between the budget and the fiscal objective(s) established by the fiscal framework, and a comprehensive description of all revenue and expenditure measures taken. A mid-year budget review report will be tabled in Parliament by October 15th of every year to report outturns against the annual budget, signal likely deviations from fiscal objectives, and identify remedial actions to ensure compliance with the fiscal framework.

- **Establish monitoring processes to enhance fiscal risk management.** 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 and fiscal risk management, the MAU has developed a monitoring dashboard that analyzes the financial performance of government's 19 priority oversight SOEs according to key metrics related to liquidity, solvency, profitability, financial performance, and financial dependency as input to quarterly progress updates to Cabinet (*structural benchmark for end-March 2021*). While initially focused 19 priority SOEs, the dashboard has been extended to cover all [51] SOEs monitored by the MAU reaffirming the government's commitment to strengthened fiscal risk management. Furthermore, the Government is exploring scope for the MAU to regularly review and report on the financial performance of the NIS to enhance financial oversight and the management of fiscal risks. The NIS also is committed to clear its backlog in financial statements as a matter of urgency, with a view to submit all outstanding financial statements (2010 to 2020) for audit by the Auditor General by end-March 2022 (*proposed new structural benchmark*). The Government is also seeking to transition the NIS from a Government Department to an independent statutory corporation by end-December 2021 to enhance operational flexibility to achieve its core functions.

- **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. The Government has created separate sub-programmes to track COVID-19 related expenditures in the budget and lays in parliament all contracts that have been awarded for BDS$1 million or more. We will further table a new procurement law in parliament by December 2021, 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. This bill will provide a framework to facilitate 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

18. **While a comprehensive debt restructuring, including external debt to private creditors and treasury bills held widely by domestic creditors, addressed debt sustainability concerns, the CBB's balance sheet was impaired by a significant haircut**. 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 NIS, the CBB, and smaller creditors. Further, we reached agreement with the External Creditor Committee on the terms for restructuring US dollar-denominated commercial debt in November 2019, resulting in an important reduction in debt service for the Government of Barbados. 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. The debt restructuring has impacted the financial position of the CBB and NIS. We are developing plans both to recapitalize the CBB based on the IMF TA recommendations provided in [April] and address medium and long-term challenges for the NIS stemming from the debt restructuring and the COVID pandemic (*structural benchmark for end-June 2021*).

19. We decided to push back the target date for bringing the debt-to-GDP ratio below 60 percent to FY2035/36 from FY2033/34. Barbados' public debt had steadily declined since the comprehensive debt restructuring, but the unprecedented economic shocks due to the COVID-19 disrupted this pattern in FY2020/21. The updated medium- and long-term macroeconomic framework suggests that Barbados will reach its medium-term target of 80 percent debt/GDP ratio by 2031/32, and 60 percent only by FY2035/36 implying a two-year delay from the original target date. We are of the view that this is appropriate to accommodate a temporary deterioration in the fiscal balance and avoid unrealistically high primary surpluses for an extended period of time. We remain committed to generate needed primary surpluses to achieve the debt target of 60 percent of GDP once the COVID-19 crisis dissipates.

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

21. Domestic expenditure arrears are gradually being reduced and resolved, and we commit not to run new expenditure arrears. The previous administration had been defaulting against payments owed to Barbadians and Barbadian companies. We are now well advanced in the process of negotiating and settling legitimate arrears. The only way to restore the honour and word of the Barbados Government was to commit to run the Government in such a way that all current payments are made on time. We have developed a system for monitoring the arrears of SOEs on an ongoing basis. We have introduced legislation so that all borrowing by SOEs receives the approval of the Minister of Finance. Loans by SOEs will be guaranteed by Central Government, if the SOE is not a commercial entity and is dependent on Central Government for its financial operations, or if the purpose for which the borrowing is being made is not commercial. A target for non-accumulation of new SOE arrears is included in the program.

Public Sector Reform

22. The Government is committed to modernising and improving the efficiency, quality, and cost effectiveness of the public sector. Our Government must be made fit to take on the challenges of the twenty first century, 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. So far, these studies have led us to introduce an interim, COVID-related flexible and remote work policy that is currently in use across Government departments.

23. Reform of State-Owned Enterprises (SOEs) 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 SOEs, to identify potential for efficiency gains, cost recoveries, and enfranchisement through divestment of entities and/or activities. For example, in the transport sector, we are finalizing a compact with private operators that seeks to improve accountability and service quality while reducing costs to that SOE. 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.

24. The new FMA Act that was adopted by Parliament in January 2019 confers greater autonomy to the Ministry of Finance to oversee SOEs, including ensuring compliance with the law for prior approval of all borrowings and other assumptions of liabilities. The new FMA Act also establishes clear definitions for the classification of public entities, and their related roles and responsibilities, and has established tighter and more precise reporting requirements for SOEs, as well as sanctions for noncompliance. As mentioned above, we have advanced the implementation of the FMA Act through the development of a monitoring dashboard that analyzes key financial performance of SOEs. (*structural benchmark for end-March 2021*).

25. The reform 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. We established a minimum wage increase on April 1, 2021, which addresses the fact that the last minimum wage was set in

2012 and had not therefore kept pace with the rate of inflation. While a modest adjustment, it is an important one to protect the working vulnerable.

26. Civil service pension reform aimed at ensuring that the system is sustainable in the long run is a priority. We will review the civil service pension scheme to address its long-run sustainability. To this end, we will table in Parliament a revised public pension law (*structural benchmark for end-June 2021*) informed by the actuarial review that was completed in November 2020 and costed different pension systems for new entrants into the public service. We have completed a pension reform white paper and will discuss it in Cabinet]. However, this reform requires careful public consultation, which has so far not been possible given the urgent challenges posed by the COVID-19 pandemic. We therefore need to push back this structural benchmark until end-December 2021 (*proposed reset structural benchmark)*. We will carefully weigh different options, with important considerations related to the earliest age of eligibility for new employees and the rate of benefit accrual for each year of service for new employees.

27. 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 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. The National Summary Data Page (NSDP) and Advance Release Calendar (ARC) envisioned under the e-GDDS initiative was launched on-line in March 2021 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 has also commenced publication of a calendar of key economic statistical releases on its revamped website (*structural benchmark for end-March 2021)*.

III. MONETARY AND FINANCIAL SECTOR POLICIES

28. 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.

29. 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 and prior action for fourth review). This amended law—which was passed and has been effective since December 14, 2020 (*structural benchmark for end-December 2020*)—is critical to ensure the continued protection of our exchange rate peg. The legislation benefitted from IMF technical assistance to ensure it meets international best practice and addresses issues raised during the safeguards assessment while adhering to our system of governance. The IMF has 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.

30. 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.

31. Efforts are ongoing to enhance financial sector monitoring. The amended Central Bank Law establishes the promotion of financial stability as a secondary objective for the CBB. It also attributes formal macroprudential powers to the CBB, to monitor financial stability and to manage and control risks to the financial system. The oversight of the financial system is shared by the CBB, the Financial Services Commission (regulates and supervises nonbanks), and the Barbados Deposit Insurance Corporation. These authorities participate in the Financial Oversight Management Committee (FOMC), which manages the production of the annual Financial Stability Report and collaborates in the monitoring of the financial system. The effective banking regulatory framework in Barbados is Basel II, under which banks follow standardized approaches in the calculation of risk-weighted assets and prepare their financial statements according to IFRSs. The CBB designs the reporting forms and schedules for banks, Part III companies (trust and finance companies and merchant banks) and credit unions. Monitoring of insurance corporations, pension funds and mutual funds falls into the purview of the FSC, which has been working on revising reporting forms and increasing reporting frequency to enhance financial sector surveillance. The CBB in collaboration with the FSC releases a Financial Stability Report and health check reports for sub-sectors of the financial system annually. Looking ahead, the CBB aims to strengthen monitoring capacities compile and disseminate a first set of quarterly core indicators for financial stability indicators (FSIs) for deposit takers (excluding credit unions) in line with the guidance provided by the IMF TA in 2019 *(proposed new structural benchmark for end-December 2021)*.

32. 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, individual institutions' liquidity may fluctuate over 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 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 customer's circumstances on a case-by-case basis since the moratorium's expiration to determine whether a further extension is needed or if debt should be restructured. Loans under deferred payments have declined sharply to about 10 percent of the value in May, representing less than 4 percent of the outstanding credit to the nonfinancial private sector.

33. 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

34. 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, particularly in critical, climate-resilient infrastructure; (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, medicinal cannabis and high-value agricultural goods, 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.

35. Many knowledge-based economy initiatives have already been launched. 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 as part of the National Transformation Initiative a partnership with Coursera that provides free training to Barbadians through over thousands of courses in sectors and skills critical for growth and development. As of April 2021, roughly 5,700 courses have been completed by individuals. 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.

36. 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. The government intends to establish a specialized Family Court which will be decentralized with hearings across the island and the jurisdiction to determine all family and maintenance matters. The Supreme Court Registry will launch its e-Filing system by end September 2021 (*proposed new structural benchmark*).

37. 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 also begun the process of developing paternity leave legislation. To increase women's access to jobs in the construction field, we will be incorporating a training programme for women in areas such as electrical wiring, painting, tiling, and related fields, as part of the new Home Ownership Providing Energy (HOPE) housing programme.

38. The Government has started to facilitate a range of services online. This includes: the provision of drivers' licenses, renewal of professional licenses, Welcome Stamp fees, 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. E-service of Government will soon be launched on one portal for users to access all Government agencies. A new digital ID program, beginning May 2021, will re-register the population with a single, digital identity aimed at improving transactions across Government departments. To reinforce the government's commitment to digital transformation, the National Insurance Department (the country's largest issuer of cheques) has been actively phasing out the printing of cheques for short-term benefits, such as unemployment, maternity, and sickness. As part of its Public Sector Modernization Programme, the Ministry of Innovation Science and Smart Technology has begun the digitalization of Government across an initial seven priority departments including the Immigrating Department, the Civil Registry and the Courts, the Police Department, the International Business division, the BCED, the Town and County Development 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. To date more than 400,000 government records have been digitized across all Government agencies and ministries. Critical investments must now be made in strengthening cybersecurity in order not to place at risk the progress already made in digital governance and to ensure the safety of personal and Government data and transactions.

39. **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.

40. **To facilitate persons in transacting business, the Government submitted to Parliament the National Payments Systems Act (February 2021) and the National Identity Management System act (January 2021).** The first will provide a payment system that is safe, efficient, resilient, and competitive through the management of risks, the maintenance of financial stability and the protection of the interests of consumers. The second, which facilitates the Digital Identity System and National ID Card Replacement Project, will provide user authentication in online transactions, and facilitate the signing of documents electronically. The system will also facilitate the secure electronic transfer of information for a range of activities, such as e-commerce, internet banking and e-communications.

41. **Government intends to pass the Fair Credit Reporting Act by end-October 2021 (*proposed new structural benchmark*) which will complement the National Payments Bill.** The credit reporting system is an integral part of the credit market as it promotes accuracy, fairness, and the privacy of personal information assembled by credit reporting agencies. This Act will transform the process of credit adjudication in the economy and will unlock the longstanding barrier of accessing credit that has hindered the economic development of the small business sector. Additionally, we intend to establish a web-based collateral registry of movable assets created for entrepreneurs and/or small businesses that can be used as security when applying for loans from commercial banks and other lending institutions. Establishing a credit collateral registry and broadening the types of eligible collateral, would further facilitate access to credit.

42. **The government has established a Financial Literacy Bureau to empower residents with the knowledge and skills needed to enable informed and effective money management.** The Bureau is used as a training hub to businesses – start-ups, MSMEs, and large enterprises; households and schools – from primary to tertiary level, in being financially literate. The Bureau's three core objectives are to improve money management skills; build a strong foundation for financial decisions; and create wealth that is intergenerational. The first phase of the six-week training was conducted in November 2020.

43. **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.

44. The Government remains committed to reaching its 100 percent renewable energy target by 2030. In pursuit of this target, the Government has further liberalised the market for power generation. The independent Fair Trade Commission has published Feed-in tariffs (FITs) for independent power producers for a range of renewable energy technologies. The tariffs support the shift to renewables, reduction in energy costs, and foreign exchange demand and support smaller projects and technologies that bring substantial environmental benefits. A 30 MW Green Energy Park is slated for final approval in 2021. It removes the need for costly new waste landfills and puts solar PV on top of rehabilitated landfill sites. In response to the FITs, demand for small primarily solar PV projects has been strong. By the end-2021 the Government expects close to 10% of energy demand will be coming from installed or close to be installed renewables and applications accounting for a further 10% of demand would be in the pipeline, keeping the Government on track to hit or be close to the 2030 target. The FTC regularly reviews its FITs and in 2021 issued its third review. The Government is working with its development partners in MDBs to develop competitive tendering processes for more extensive projects, which would facilitate an expansion of supply into technologies that have greater economies of scale, such as wind power, bringing the benefits of lower costs and diversification.

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	
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 was 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	
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	
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	
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	
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	
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	
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	
14) Government to conduct a comprehensive review of all tariffs and fees charged by SOEs.	end-September 2019	Met	
15) Governor General to proclaim the Financial Management and Audit (FMA) Act.	end-July 2019	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 (Continued)

	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	Not Met	Implemented with delay
F. Structural Benchmarks for the fifth Review			
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	Met	
23) The Barbados Statistical Service (BSS) to publish a calendar of statistical publications covering national accounts, prices and the labor market.	end-March 2021	Met	
24) 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	Met	
25) Create in BCED an Information Technology Division of at least six employees.	end-March 2021	Met	
26) 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	Not Met	On-time filings fell short of target
G. Structural Benchmarks for future reviews			
27) Government to table a revised public pension law to enhance the sustainability of the public sector pension scheme, as discussed in MEFP.	end-June 2021		Proposed to be reset to end-December 2021
28) 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-June 2021		

Table 1. Structural Benchmarks (Continued)			
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-September 2021		Proposed to be replaced by a new structural benchmark (35).
30) Minister of Finance to table a fiscal framework including projections for revenue, expenditure and debt for FY2022-23 and two following fiscal years in parliament by August 15, 2021	August 15, 2021		Proposed new structural benchmark
31) BRA to establish a program to address pre-TAMIS debt using a dedicated task force for a two-year period.	end-September 2021		Proposed new structural benchmark
32) The Supreme Court Registry to launch its e-Filing system	end-September 2021		Proposed new structural benchmark
33) Parliament to pass the Fair Credit Reporting Act[1]	end-October 2021		Proposed new structural benchmark
34) BCED to improve performance management by: (i) harmonizing departmental key performance indicators with ASYCUDA measures; (ii) implementing the Performance Review and Development System; (iii) developing and automating trade and commercial compliance dashboards to be populated at the unit level on a weekly basis and presented to senior management via monthly reports.	end-October 2021		Proposed new structural benchmark
35) The Minister of Finance to issue regulations for a procedural fiscal rule, specifying hierarchical fiscal objectives, accounting basis, monitoring bodies and correction mechanisms.	end-December 2021		Proposed new structural benchmark replacing end-September 2021 benchmark on tabling legislation for a fiscal rule (29)

[1] The legislation complements the National Payments Bill (passed in February 2021) and is intended to help operationalize the credit bureau regime in Barbados.

Table 1. Structural Benchmarks (Concluded)

36) The CBB to compile and disseminate a first set of quarterly core indicators for FSIs for deposit takers (excluding credit unions) in line with the guidance provided by the IMF TA in 2019.	end-December 2021		Proposed new structural benchmark
37) BCED to improve trade facilitation and risk management by: (i) collaborating with the trade community to define clear benefits for the BCED Trusted Trader Program's participants; (ii) streamlining and standardizing the cargo import process in the marine mode; and (iii) improving traceability of shipments in the customs system.	end-December 2021		Proposed new structural benchmark
38) The NIS to submit all outstanding financial statements for audit by the Auditor General.	end-March 2022		Proposed new structural benchmark

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

(In millions of Barbados dollars unless otherwise indicated)

	Target End December 2020	Actual End December 2020	Target End March 2021	Actual End March 2021	Status End March 2021	Target End June 2021	Proposed Target End June 2021	Target End September 2021	Proposed Target End September 2021	Proposed Target End December 2021	Proposed Target End March 2022
Fiscal Targets											
Performance Criteria											
Floor on the CG Primary Balance 4/	45	…	-91	…	…	30	-180	100	-262	-153	1
Floor on the CG Primary Balance (adjusted) 4/	34	243	-103	-93	Met	…	…	…	…	…	…
Non-accumulation of CG external debt arrears 4/ 6/	0	0	0	0	Met	0	0	0	0	0	0
Ceiling on CG Transfers and Grants to Public Institutions 4/ 7/	338	297	444	530	Not Met	82	140	280	280	420	492
Ceiling on Public Debt 5/	13,146	…	13,204	…	…	13,187	13,280	13,181	13,381	13,478	13,478
Ceiling on Public Debt (adjusted) 5/	13,246	12,825	13,004	12,882	Met	…	…	…	…	…	…
Indicative Targets											
Ceiling on CG Domestic Arrears 5/	81	41	81	79	Met	81	80	70	70	60	50
Floor on Social Spending 4/ 8/	30	42	40	62	Met	10	10	20	20	35	50
Ceiling on Public Institutions Arrears 5/	37	33	37	29	Met	37	29	20	29	29	29
Monetary Targets											
Performance Criteria											
Ceiling on Net Domestic Assets of the CBB 5/	2,152	1,296	2,152	1,736	Met	2,282	2,200	2,282	2,200	2,200	2,200
Floor on Net International Reserves 5/	1,100	…	1,400	…	…	1,017	1,400	723	1,400	1,150	1,150
Floor on Net International Reserves (adjusted) 5/	1,164	2,195	1,239	2,096	Met	…	…	…	…	…	…
Items feeding into PB, Debt, and NIR adjustors											
IDB budget support 4/	400	400	400	400	400	0	0	0	200	360	362
CDB budget support 4/	0	0	0	0	0	0	0	0	0	160	160
CAF budget support 4/	100	200	200	200	200	0	0	0	0	0	0
WB budget support 4/	0	0	200	0	0	0	0	0	200	200	200
Grants 4/	12	0	12	0	0	0	0	0	0	0	2

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 2 of the MEFP.** Structural benchmarks are listed in Table 1 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, Feargal O'Brolchain, Alternate Executive Director, and Jeremy Weil, Senior Advisor to the Executive Director
June 16, 2021

Introduction

The authorities thank the Fund for acting as a trusted advisor throughout the COVID crisis and for its steadfast support, including in the form of invaluable technical assistance at a timewhen Barbadian public sector experts are stretched thin. The authorities' homegrown Barbados Economic Recovery and Transformation (BERT) plan, supported by a four-year Extended Arrangement under the Extended Fund Facility (EFF), has necessarily had to adjustto meet the challenge of the global pandemic. Recent eruptions of La Soufriere volcano in St.Vincent and the Grenadines which blanketed Barbados in ashfall represented yet another challenge to be overcome. However, the authorities are committed to rebuilding buffers, transforming the economy, and restoring the Barbadian economy to a sustainable and equitable growth path as demonstrated by their continued very strong performance under the Fund-supported program, including in this Fifth Review.

Outlook and Key Program Adjustments

Despite the ongoing crisis and limited technical capacity, Barbados has continued to meet program targets. As of end-March 2021, all quantitative performance criteria (PC) were met with the exception of the PC on central government transfers and grants to public institutions. This is the first missed PC in five reviews under the EFF, and it was missed as a result of exceptional transfers to the national hospital for the rollout of the national vaccination program that has seen roughly 30 percent of Barbados' adult population vaccinated to date.

The authorities have not de-prioritized their structural reform agenda amidst the pandemic asit remains key for strengthening institutions, improving competitiveness, diversifying the economy, and ultimately enhancing growth. All end-March 2021 structural benchmarks were met with the exception of plans for the large taxpayer unit to achieve on-time filing rates of 90 percent for all core taxes. The authorities will monitor filing timeliness closely and expect improvements as the economy recovers. The structural benchmark to table a revised pension paw in parliament will be reset to end-December 2021, as the necessary public consultations were not possible given the urgent challenges of the pandemic.

The impact of the pandemic on economic activity and government revenues is deeper and more prolonged than was anticipated at the time of the fourth review. A spike in COVID-19 cases in early 2021 was met with a second round of mobility and economic restrictions. At the same time, while key source tourism markets such as the US, UK, and Canada have made progress in their respective vaccination campaigns, overseas tourism remains virtually non-existent. These developments have contributed to a worsening outlook for 2021 with expected growth of only 3 percent on the heels of an 18 percent contraction in 2020 which saw

Barbados ranked among the top ten largest economic contractions globally. The recovery is expected to be more gradual over 2021 to 2024, before Barbados returns to its medium-term average growth path. The crisis has also led to a doubling of Barbados' currentaccount deficit relative to 2019, which underscores the importance of rebuilt external buffers and the catalytic nature of the EFF which has supported large inflows from the official sector.

The outlook remains highly uncertain and risks are very high and tilted to the downside. This is mostly owing to the risk of a domestic third wave of the pandemic as well as a slower than projected recovery in global tourism. The April 2021 eruptions of La Soufriere volcano in St. Vincent and the Grenadines caused ashfall to blanket Barbados resulting in material unanticipated public clean-up expenses. This serves as a sobering reminder of the region's vulnerability to natural disasters and climate change which are an ever-present risk to the economic outlook.

This worsening outlook has necessitated important adjustments to the forward-looking fiscal and debt targets under the BERT plan. To support the vulnerable as well as displaced workers, finance the cleanup from the volcanic ashfall, and accommodate lower than expected government revenues, the primary balance target for FY2021/22 will be lowered from 2 percent of GDP to zero. Pre-crisis, Barbados had succeeded in bringing down public debt with a combination of a strong fiscal adjustment, comprehensive sovereign debt restructuring, improved management of public finances and growth-enhancing structural reforms. The pandemic has since caused public debt to spike to 157 percent of GDP at end FY2020/21, with denominator effects accounting for the majority of the change.

Consequently, and in order to allow for a more credible and growth-friendly primary balance path, the target date for achieving a 60 percent debt-to-GDP ratio will be pushed-back by two years from FY2033/34 to FY2035/36. This is a logical shift that accounts for the most intensive period of the pandemic. This approach is also consistent with that of other countries in the region, including Jamaica, who have also adjusted their long-term debt anchors in response to the crisis.

To ensure fiscal sustainability under these newly adjusted fiscal targets, Barbados will: run higher primary balances in future years; phase-out crisis spending as the recovery takes hold; contain grants to SOEs with the help of a newly developed monitoring dashboard; implement the new PFM act by executing a comprehensive action plan for public financial management; continue strengthening the customs and revenue administrations; and introduce a new fiscal rule. The latter is the focus of an important newly revised structural benchmark that will see a procedural fiscal rule adopted by end December 2021 in accordance with the recommendations of a recent Fund technical assistance mission. This procedural rule will reinforce debt sustainability and enhance transparency and accountability in fiscal policy making.

An Evolving COVID-19 Response

Barbados has made judicious use of its fiscal space by delivering a targeted response to the crisis. Healthcare investments were followed by expanded welfare payments and investmentsin monitoring COVID compliance in schools, businesses, and communities. To support the tourism sector, Barbados has implemented the Employment and Sustainable Transformation (BEST) plan which makes capital available to tourism firms to re-engage their workers.

Direct COVID-19 related expenditures in FY2020/21 amounted to roughly 2.5 percent of GDP, with additional COVID-related expenditures of about 1.3 percent of GDP anticipated in FY2021/22 to sustain the rollout of the national vaccination strategy, support households, and bolster economic activity.

The pandemic has led to sharp increase in unemployment which has put pressure on the finances of the National Insurance Scheme (NIS), which has served as the workhorse pandemic response by providing an estimated 2 percent of GDP in unemployment and severance payments in FY2020/21. Liquidity support was extended to the NIS via the repurchase of government bonds, and under a structural benchmark for end-June 2021 the authorities will develop plans to address the long-term term challenges for the NIS stemming from the debt restructuring and the pandemic.

The crisis has triggered a sharp fall in revenues across most categories. However, a successful overhaul of the international business tax regime to comply with international taxation standards has yielded a CIT revenue windfall which has helped partially offset lost revenues. These corporate tax reforms, alongside a commitment to strengthen the AML/CFTframework in keeping with Barbados' action plan agreed with the FATF to promptly exit theFATF's International Review Group process, are expected to help create an excellent climateto do business in Barbados.

The Central Bank of Barbados (CBB) continues to support the credit market through reductions overnight lending discount rates and minimum statutory holding requirement for government securities. Commercial banks also announced a six-month moratorium on loan repayment and revised loan terms on new loans for individuals and firms affected by the pandemic. Loans under deferred payments have declined sharply and represent less than 4 percent of the outstanding credit to the nonfinancial private sector. Efforts are ongoing to enhance financial sector monitoring, including plans for the CBB to strengthen its monitoring capabilities and disseminate a first set of quarterly core financial stability indicators for non-credit union deposit takers by end December 2021.

The authorities are also implementing growth-enhancing structural reforms that will help the Barbadian economy emerge from the pandemic more competitive and diversified. Key measures include the establishment of a commercial court to speed up commercial adjudication and judgments, the creation of a doing-business sub-committee of Cabinet to execute measures to improve Barbados' business climate, and the planned passage of the FairCredit Reporting

Act by end-October 2021 to improve access to credit for SMEs. The authorities are also seeking to boost economic potential through increased female labor forceparticipation by improving access to childcare, developing paternity leave legislation, and byproviding women with new training opportunities.

Barbados continues to take steps to boost climate resilience, including the ‘Roofs to Reefs’ initiative that integrates climate mitigation and adaptation with social policy and infrastructure resilience to natural disasters, a feed-in-tariff program for independent power producers across a range of renewable energy technologies, and the Home Ownership Providing Energy (HOPE) affordable housing program which promotes housing affordabilitywhile expanding the use of renewable energy technology. These measures will help power Barbados by 100 percent renewable energy sources by 2030.

Concluding Remarks

The authorities’ impressive track record of reforms through this unprecedented global crisisis a testament to their unwavering commitment to the objectives of the EFF. Barbados is resolved to defeating the health and economic impacts of the pandemic and getting on with the business of building an economy that is more competitive, resilient, inclusive, and sustainable than the one that entered the pandemic.

The Prime Minister commends and thanks Mr. Alejandro Werner, former Director of the Western Hemisphere Department, for his cooperation and commitment to supporting Barbados over the last three years and wishes Mr. Werner all the best in his future endeavors.The Prime Minister also wishes to thank Mr. Aasim Husain and Mr. Krishna Srinivasan for their support and wishes them well.