INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/377

BARBADOS

December 2022

REQUEST FOR AN ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—PRESS RELEASE; AND STAFF REPORT

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

- **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 7, 2022, following discussions that ended on September 29, 2022, with the officials of Barbados on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 9, 2022.

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Approves US$113 million under the Extended Fund Facility and US$189 million under the Resilience and Sustainability Facility for Barbados

FOR IMMEDIATE RELEASE

- The Executive Board of the International Monetary Fund (IMF) approved a 36-month Extended Fund Facility (EFF) in the amount of US$113 million, in addition to a Resilient and Sustainability Fund (RSF) in an amount of US$189 million.
- The new IMF-supported program will build on the achievements of Barbados' 2018-22 EFF and draw on the authorities' updated economic reform program (BERT 2022), including on efforts focusing on building resilience to natural disasters and climate change as well as reducing greenhouse gas emissions and transition risks.
- Despite a series of global and regional economic shocks, Barbados continues its strong implementation of its ambitious economic reform program aimed at restoring fiscal sustainability, increasing reserves, and unlocking growth potential. Economic activity in Barbados is starting to recover from the COVID-19 pandemic but risks to the outlook remain elevated, with higher global commodity prices pushing up inflation.

Washington, DC – **December 7, 2022:** The Executive Board of the International Monetary Fund (IMF) approved a 36-month arrangement under the Extended Fund Facility (EFF) in an amount equivalent to SDR 85.05 million (about US$113 million) and an arrangement under the Resilience and Sustainability Facility (RSF) in an amount equivalent to SDR 141.75 million (about US$189 million) for Barbados to maintain and strengthen macroeconomic stability, support the structural reform agenda, and increase resilience to climate change.

Despite a series of economic shocks, Barbados continues its strong implementation of its comprehensive Economic Recovery and Transformation (BERT) plan aimed at restoring fiscal sustainability, increasing reserves, and unlocking growth potential. The new IMF-supported program will build on the achievements of Barbados' 2018-22 EFF and draw on the authorities' updated economic reform program (BERT 2022). The global coronavirus pandemic and higher global commodity prices, along with Barbados' exposure to climate change and natural disasters, are posing major challenges for the tourism-dependent economy. Reform efforts focus on building resilience to natural disasters and climate change as well as reducing greenhouse gas emissions and transition risks.

Following the Executive Board's discussion, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair of the Board, issued the following statement:

"Barbados continues to make good progress in implementing its homegrown Economic

Recovery and Transformation Plan, despite a very challenging global economic environment. Macroeconomic stability was restored in 2018 and 2019 with a combination of fiscal consolidation, comprehensive debt restructuring, and structural reforms to support growth. This created space for a countercyclical policy response to the COVID-19 pandemic in 2020 and 2021. Public debt was put back on a clear downward trajectory starting FY2021/22.

"While Barbados continues to confront challenges owing to the global pandemic and Russia's invasion of Ukraine, the economic recovery is now well underway. Inflation has been rising since the second half of 2021 owing to supply chain disruptions and increasing global food and oil prices. The economic recovery is expected to continue over the medium term, but downside risks to the outlook remain high.

"Building on the successful completion of a 2018-22 Extended Fund Facility (EFF), the new EFF arrangement aims to maintain and strengthen hard-won macroeconomic stability and promote the unfinished structural reform agenda. Key elements of the program would be the gradual and sustained increase in primary surpluses and ambitious structural reforms, such as strengthening of tax and customs administration as well as Public Financial Management (PFM), adoption and implementation of pension reform, the rationalization and consolidation of State-Owned Enterprises (SOEs), and growth-enhancing measures, including additional steps to improve the business climate. The program targets a primary surplus of 2 percent of GDP in FY2022/23, up from minus 1 percent of GDP recorded in both FY 2020/21 and FY 2021/22.

"The arrangement under the RSF will provide financing to support the country's climate change adaptation and mitigation efforts, and support Barbados' ambitious goal of transitioning to a fully renewable-based economy by 2030. Reforms under the RSF include the mainstreaming of climate change in the budget, the introduction of 'green Public Financial Management', including in procurement, and measures that would incentivize private sector investments in climate resilient infrastructure and into renewable energy projects. These measures were identified in close coordination with the World Bank and other international partners."

INTERNATIONAL MONETARY FUND

BARBADOS

November 9, 2022

REQUEST FOR AN ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Context. Despite a series of economic shocks, Barbados has made good progress in implementing its Economic Recovery and Transformation (BERT) plan since the government led by Prime Minister Mia Mottley took office in May 2018. Macroeconomic stability was restored with a combination of comprehensive sovereign debt restructuring, fiscal consolidation, and structural reforms to reduce fiscal dominance and enhance growth. International reserves have increased to US$1.4 billion by end-September 2022 from a historical low of US$220 million in 2018. While fiscal consolidation was interrupted by the COVID-19 pandemic, public debt was put back on a downward path starting in FY2021/22. Building on the successful completion of a 2018-22 Extended Fund Facility (EFF), the authorities have requested a successor EFF program along with a Resilience and Sustainability Facility (RSF) to strengthen fiscal sustainability, support the structural reform agenda, and increase resilience to climate change.

Program Objectives and Modalities

EFF. A 36-month EFF arrangement aims to maintain and strengthen hard-won macroeconomic stability and promote the unfinished structural reform agenda that will help secure fiscal sustainability, build capacity for macroeconomic policy implementation, and foster potential growth. Proposed access under the EFF would be 90 percent of quota (SDR 85.05 million, or around US$110 million). Key elements of the program would be the gradual and sustained increase of primary surpluses and ambitious structural reforms, such as strengthening of tax and customs administration as well as Public Financial Management (PFM), adoption and implementation of pension reform, the rationalization and consolidation of SOEs, refinements to the monetary policy toolkit, and growth-enhancing measures, including additional steps to improve the business climate. These reforms, along with a gradual post-COVID normalization of the economy, would keep public debt on a clear downward trajectory towards the long-term debt target of 60 percent of GDP by FY2035/36, while also accommodating adequate capital expenditure and social spending.

RSF. The proposed arrangement under the RSF will provide financing to meet additional BOP needs created by resilience-enhancing infrastructure building and Barbados' ambitious goal of transitioning to a fully renewable-based economy by 2030. The Fund's RSF and proposed reform measures (RMs) are expected to catalyze financing from other IFIs, including the World Bank, as well as the private sector. Staff proposes access at 150 percent of quota (SDR 141.75 million or about US$180 million), which is above the norm of 75 percent of quota and justified by the strength and breadth of the proposed reforms, the BOP need created by select RMs, and sound capacity to repay the Fund. RMs under the RSF include the mainstreaming of climate change in the budget, the introduction of 'green PFM', and measures that would incentivize investment into renewable projects. These measures were identified in close coordination with the World Bank—which has initiated discussions on a Green and Resilient Development Policy Loan with the authorities.

Approved By
James Morsink (WHD) and Andrea Schaechter (SPR)

The mission consisted of Bert van Selm (head), Keiichi Nakatani, Diane C. Kostroch (WHD), Johanna Tiedemann (FAD), and Peter Mugisa (MCM). Chris Faircloth and Ann Marie Wickham (Resident Representative Office) assisted the mission. The mission team met with Prime and Finance Minister Mottley, Central Bank of Barbados Governor Haynes, Minister in the Ministry of Finance Straughn, and other senior government officials. The mission was conducted during September 20-29, 2022 in Bridgetown, Barbados. Mitchell Villeneuve (OED) joined the mission.

Board date: December 7, 2022

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Acronyms

ARA	Assessment of Reserve Adequacy (IMF)
BCED	Barbados Customs and Excise 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
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
FX	Foreign Exchange
FY	Fiscal Year
GDP	Gross Domestic Product
GIR	Gross International Reserves
GFN	Gross Financing Needs
IDB	Interamerican Development Bank
IFI	International Financial Institution
IMF	International Monetary Fund
IT	Indicative Target
LT	Long Term
LTU	Large Taxpayer Unit
MAU	Management Accounting Unit
MFEAI	Ministry of Finance, Economic Affairs and Investment
MEFP	Memorandum of Economic and Financial Policies
NIS	National Insurance Scheme
NIF	National Insurance Fund
PC	Performance Criterion
PFM	Public Financial Management
PRASC	Canada's Project for the Regional Advancement of Statistics in the Caribbean
RM	Reform Measure
SB	Structural Benchmark
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

CONTEXT

1. **Barbados has made good progress in implementing its Economic Recovery and Transformation (BERT) plan supported by a 2018-22 Extended Fund Facility (EFF).** Macroeconomic stability was restored with a combination of a comprehensive sovereign debt restructuring, fiscal consolidation, and structural reforms to reduce fiscal dominance and enhance growth potential. International reserves have increased to US$1.4 billion by end-September 2022 from a historical low of US$220 million in 2018. While fiscal consolidation was interrupted by the COVID-19 pandemic, public debt was put back on a clear downward trajectory starting in FY2021/22. Under the EFF, seven reviews were successfully completed in a timely manner, despite a series of severe economic shocks, including not only the pandemic but also ashfall from neighboring Saint Vincent in April 2021, and Hurricane Elsa in July 2021.

2. **Continued implementation of structural reforms is key to supporting fiscal sustainability while also creating fiscal space to accommodate investment needs.** While the authorities have implemented major structural reforms under the previous EFF program, including the introduction of the new Central Bank of Barbados (CBB) law, other important reforms including public pension reform remain pending. Going forward, the authorities will need to strike a balance between reducing public debt and accommodating capital expenditure to enhance resiliency to natural disasters and unlock growth potential. With an overwhelming majority in parliament following January 2022 elections, the government led by Prime Minister Mia Mottley is in a strong position to move ahead with essential structural reforms.

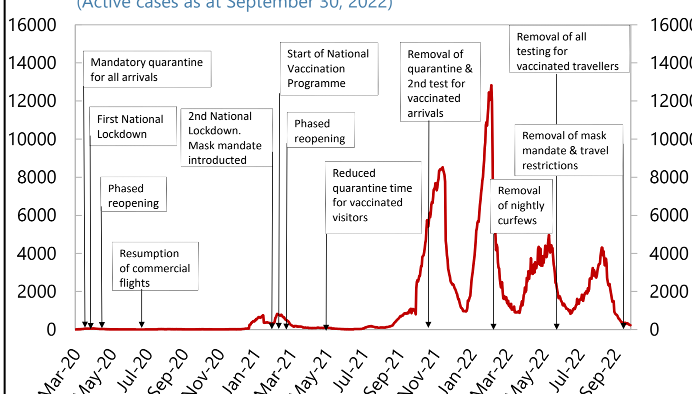
RECENT DEVELOPMENTS AND OUTLOOK

A. Recent Developments

3. **Barbados continues to confront economic challenges owing to the global pandemic and Russia's invasion of Ukraine, but a nascent recovery is underway**. After the economy contracted by 14 percent in 2020 due to a collapse of tourism, it grew by around 1 percent in 2021. Labor market conditions have steadily improved since 2020 with the unemployment rate falling from over 20 percent to an estimated 10 percent in 2022. The impact of the war in Ukraine on economic activity in Barbados has been modest thus far, with little impact on demand from the three key source markets for tourism—the US, the UK, and Canada. The broad-based easing of pandemic restrictions and resumption of major tourism festivals has helped support economic activity in 2022. With

Barbados: Evolution of COVID-19 Outbreak

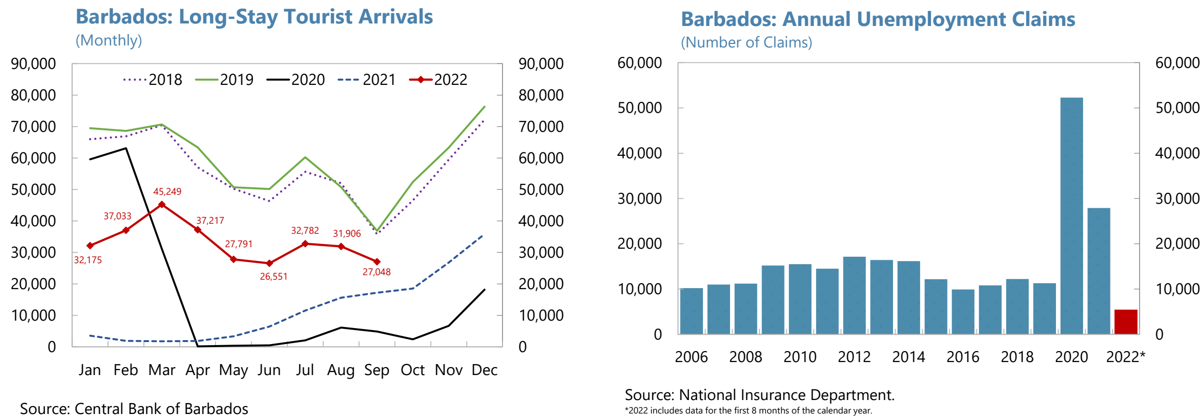
(Active cases as at September 30, 2022)



Source: Government Information Service.

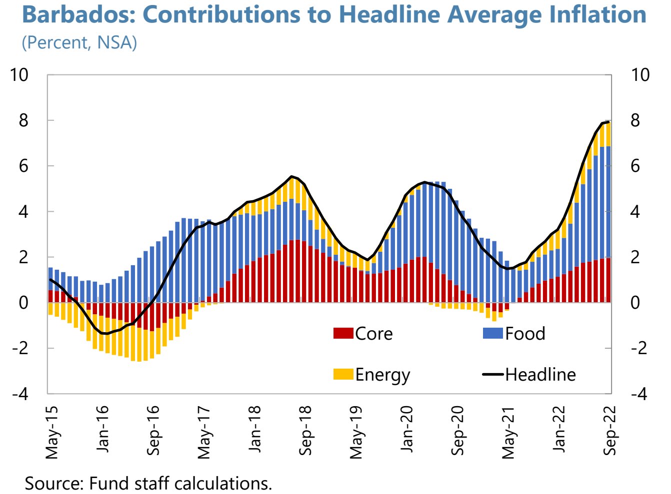
the steady strengthening in tourism to about 60 percent of pre-pandemic average, economic growth is projected at 10 percent in 2022.

Barbados: Tourist Arrivals and Unemployment Claims



4. Inflation has been rising since the second half of 2021 owing to supply chain disruptions and increasing global food and oil prices, fueled in 2022 by the war in Ukraine. Barbados imports the bulk of its food and energy needs, and higher global commodity prices due to supply chain disruptions during the COVID-19 pandemic, followed by the Russian invasion of Ukraine have pushed up inflation. Elevated US inflation leads to higher inflation in Barbados given the exchange rate peg and dependence on imports from the US. Annual average inflation is projected at about 9 percent for 2022 and expected to revert to just over 2 percent in the medium term as geopolitical tensions and supply chain disruptions ease. Public wages in Barbados have been kept constant in nominal terms since 2018; hence real wages have declined significantly, especially in 2022.

Barbados: Contributions to Headline Average Inflation



5. The authorities have taken several steps to mitigate the impact of higher global food and fuel prices on consumers in Barbados in recent months. In March 2022, temporary caps on VAT on oil products (gasoline and diesel) consistent with a WTI crude oil price of US$85 per barrel were introduced, at a projected cost (foregone revenue) of 0.3 percent of GDP in FY2022/23. In addition, in August, the government announced temporary caps on the prices at the pump for these products, at a level just below current prices, to be in place until January 2023. Even with these measures, the prices of gasoline and diesel at the pump remain among the highest in the world in Barbados, with the caps set at US$8.5 and US$7.5 per gallon respectively. While the fiscal impact of these price caps is negligible under baseline projections, they could distort market-based resource allocation and create a contingent fiscal liability for the government (if there are further global fuel supply shocks). In July, the government reduced the VAT rate on a basic amount of electricity for each household from 17 percent to 7.5 percent, and the list of VAT-exempt food products was expanded, also for an initial 6 months (at a projected cost of 0.1 percent of GDP in FY2022/23).

6. The external current account deficit increased to 11 percent of GDP in 2021, from 6 percent in 2020. A gradual recovery in exports of goods and tourism was more than offset by an increase in imports driven by a strong rebound in domestic demand and a surge in global commodity prices and freight costs. The current account deficit is projected to remain above 10 percent of GDP in 2022 due to high global food and oil prices (despite an ongoing recovery in tourist arrivals). The deficit will be financed by financial support from IFIs and an increase in private capital inflows. Gross international reserves have increased to US$1.4 billion in September 2022, around 9 months of imports, supported by IFI loans. In a very volatile global economic environment and with intensifying climate change related risks, Barbados needs to maintain an adequate reserve buffer to underpin its exchange rate peg. Accelerated efforts in transitioning to a green economy could entail higher imports of equipment and intermediate goods, increasing BOP financing needs in the medium- and long-term. Together with an expected tapering in IFI support as the pandemic dissipates, international reserves are projected to gradually decline while remaining above 100 percent of ARA in the medium term.

B. Outlook and Risks

7. Barbados' economy is expected to gradually recover over the medium term. Tourist arrivals are expected to gradually return to normal levels by 2024 as shocks to the global economy dissipate. Structural reforms and strategic public investment are projected to return growth to its medium-term average of about 2 percent**.**

8. Risks to the outlook remain high and tilted to the downside. Key risks to Barbados include further large pandemic disruptions and a fragile recovery in the tourism sector, which depends to a significant degree on developments in key source markets. An intensification of the war in Ukraine could further increase global commodity prices and add to inflationary pressures in Barbados, while reducing real incomes in the main tourism source markets and domestically. With the peg to the US dollar, further US dollar appreciation could dent Barbados' competitiveness. Barbados' limited integration into global financial markets implies that risks stemming from the tightening of global financial conditions are limited. With strict capital controls in place, interest rate increases in the US do not necessarily lead to higher interest rates in Barbados. Exposure to climate change risks could also have a dampening impact on economic activity.

PROGRAM DESIGN

A. Program Objectives

EFF

9. **Maintaining and further strengthening hard-won macroeconomic stability is a key program objective.** Building on its success in restoring macroeconomic stability despite a series of external shocks, Barbados needs to continue to reduce its high level of public debt, further strengthen confidence in its macroeconomic framework, and enhance its resilience and growth potential. This will require continued careful fiscal and reserve management in a very volatile global economic environment, accompanied by strengthening macroeconomic policymaking capacity and steadily implementing a wide range of structural reforms. Priority reforms include SOE reforms to reduce large subsidies, measures in tax and customs administration, PFM, pension reform, and measures to improve the business climate. These reforms, along with a gradual post-COVID normalization of the economy, would keep public debt on a clear downward trajectory towards the long-term debt target of 60 percent of GDP by FY2035/36. The program aims to restore access to market financing in the medium term, both domestically and externally, which remains timid in the aftermath of the comprehensive 2018-19 debt restructuring.

RSF

10. **The RSF aims to address Barbados' prospective BOP needs and support its ambitious adaptation and mitigation plan to a carbon-neutral economy.** Public and private investment are needed to increase resiliency to climate change and unlock growth potential. With higher temperatures, sea-level rise, and possible changes in precipitation, Barbados is expected to become more vulnerable to natural disasters. To build resilience to climate change, the authorities will need to increase capital expenditure while maintaining fiscal sustainability and keeping public debt on a downward trajectory. The RSF would substitute for more expensive external financing, generating much needed fiscal space, and catalyze financing from other IFIs as well as the private sector to support climate change-related projects and reforms. Reform measures under the RSF have been identified in close consultation with the World Bank.

B. Fiscal Policy

11. **The authorities aim to generate a primary surplus of 2 percent of GDP for FY2022/23, up from minus 1 percent of GDP recorded in both FY2020/21 and FY2021/22.** The primary surplus targeted for the current fiscal year (FY2022/23) is now 1 percent of GDP higher than projected at the time of the final review of the previous EFF (in June 2022), supported by favorable

Barbados: Estimates of Covid-Related Expenditures
(In Percent of GDP)

	FY20/21	FY21/22	FY22/23
Covid-related expenditure	**2.3**	**2.1**	**0.8**
Health related	0.9	0.8	0.2
Support to households	0.5	0.3	0.1
Support to businesses	0.3	0.2	0.0
Transfers to SOEs	0.5	0.1	0.0
Education	0.1	0.0	0.0
Other[1/]	0.0	0.6	0.5

Sources: Authorities and IMF staff estimates.

1/ Other Covid spending includes recapitalization of the Unemployment Benefit Fund.

revenue trends. Fiscal performance in the year to date—with Barbados running a primary surplus of about 2 percent of annual GDP in the first five months of the fiscal year (April-August 2022)—supports the increase in the target for FY2022/23. The fiscal policy stance for FY2022/23 strikes an appropriate balance between the need to reduce public debt and continue supporting the economic recovery. Revenue projections are premised on a gradual recovery in tourism and reflect the temporary tax measures introduced in FY2022/23 discussed above. COVID-related spending is declining and projected at just under 1 percent of GDP in FY2022/23 (see text table).

12. The primary surplus is projected to gradually increase over the medium term. As the pandemic wanes and tourist arrivals recover to pre-pandemic levels, the primary surplus is expected to gradually increase to 5 percent of GDP in FY2025/26—slightly below the 6 percent of GDP reached in FY2019/20, the first year under the previous EFF program.[1] This would support a steady reduction in public debt, while also maintaining adequate room for capital and social spending. The projected medium-term improvement in the fiscal position is supported by a cyclical recovery in revenues, and phasing out of COVID-related expenditures, emergency support for low-income housing, and temporary VAT caps to address rising commodity prices. The unwinding of these measures is estimated to yield an improvement of the primary balance by 3 percent of GDP over the medium term. The authorities remain committed to structural reforms that would provide additional savings, which include enhancing the financial viability of SOEs (saving around 1 percentage point of GDP relative to the pre-COVID level) and public pension reform. Under the new EFF/RSF-supported program, measures to improve tax and customs administration, and to revise and strengthen the framework for granting duty and tax exemptions, are also expected to support the fiscal consolidation effort (see the discussion of the structural reform agenda below). Contingency fiscal measures to support fiscal performance (if it were to fall short of targets) could include measures to broaden the revenue base, including reforming the VAT regime in tourism sector, tax rate increases, or cuts in current or capital spending.

Barbados: Central Government Operations /1

(In percent of FY GDP)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Total revenue	**30.6**	**28.4**	**28.9**	**29.3**	**28.9**	**29.1**	**29.6**	**29.7**	**29.7**
Tax revenue	28.6	26.6	27.1	27.5	27.2	27.3	27.8	27.8	27.8
Nontax revenue	2.1	1.8	1.7	1.8	1.7	1.8	1.8	1.8	1.8
Total primary expenditure	**24.5**	**29.3**	**29.8**	**27.3**	**25.4**	**25.1**	**24.6**	**24.7**	**24.7**
Current primary expenditure	22.6	26.4	25.6	23.9	22.4	22.0	21.5	21.4	21.4
Capital expenditure and net lending	1.9	2.9	4.2	3.4	3.0	3.1	3.1	3.2	3.3
CG Fiscal balance	**3.7**	**-4.5**	**-4.8**	**-2.2**	**-0.9**	**-0.5**	**0.7**	**0.9**	**1.0**
CG Primary balance	**6.2**	**-0.9**	**-0.9**	**2.0**	**3.5**	**4.0**	**5.0**	**5.0**	**5.0**
Nominal GDP, FY (BDS$ millions)	**10285**	**9037**	**10173**	**11958**	**11958**	**11958**	**11958**	**11958**	**11958**

Sources: Ministry of Finance; and Fund staff estimates.
1/ Fiscal year is from April to March.

[1] The 60 percent debt/GDP by FY2035/36 target can be reached with a primary surplus peaking at 5 percent of GDP—lower than the 6 percent of GDP targeted under the 2018-22 EFF, with debt reduction now also supported by higher inflation in 2022 and 2023.

13. Debt continues to be assessed as sustainable but subject to high risks (see Annex I). Under the program's macroeconomic projections, the debt target of 60 percent of GDP can be achieved by FY2035/36 premised on the proposed medium and long-term primary balance path. The main risks include a slower-than-expected economic recovery as well as a delay in economic and fiscal reforms to generate primary surpluses. These risks are mitigated by Barbados' strong track record under the previous EFF-supported program, the authorities' strong commitment to long-term fiscal adjustment, and the favorable debt service terms after the comprehensive debt restructuring. Market perception of country risk has been improving since the onset of the pandemic with the spread of external bonds over the US treasury debt currently below 500 bps (text chart). This should allow Barbados to gradually return to market borrowing at reasonable costs (at a rate in the vicinity of the current spread). The Sovereign Risk and Debt Sustainability Framework (SRDSF) suggests that Barbados' overall risk of sovereign stress is moderate and confirms that debt is sustainable.

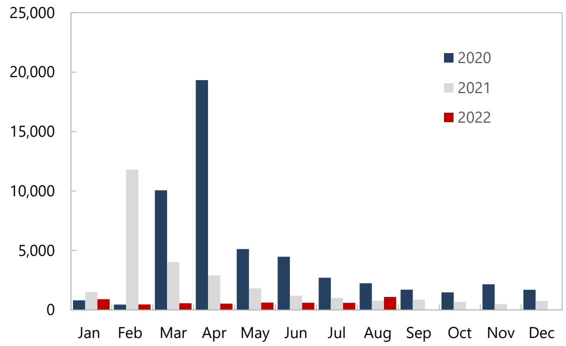
Bond Spread (Barbados over U.S. 10-year bonds)
(Basis points)

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

14. Reforms to manage pension-related financial strains on NIS finances are a priority while the pandemic-related surge in unemployment benefit outlays has receded. The nearly five-fold increase in unemployment insurance claims in 2020 totaling about 2 percent of GDP in FY2020/21 have returned to pre-pandemic levels. The Unemployment Benefit Fund recapitalization program—which envisions an infusion of B$143 million (1½ percent of GDP) during FY2021/22-FY2023/24—is underway. Along with the anticipated recovery of contributions, financing pressures from unemployment and severance outlays are not anticipated in the near term. The NIS, however, is engaged in cash management operations to meet near-term National Insurance Fund (NIF or Pension Fund) obligations with findings from the latest actuarial review confirming that the NIF is not viable in the long run without pension reforms. To address contingent fiscal risks and broader social fallout, the program includes a structural benchmark (SB) requiring the Government to develop a recapitalization and reform plan that restores and safeguards NIF sustainability by end-2022 (SB5). Public consultations on such a plan have been conducted and the NIS Pension Reform Committee has presented the government with a strategy that is under review. On pension matters more broadly, the government also intends to table a revised public pension law to enhance the sustainability of the pension scheme for civil servants by end-March 2023 (SB4), including via a lengthening of service for new public servants and requiring contributions for earnings above established NIS ceilings.

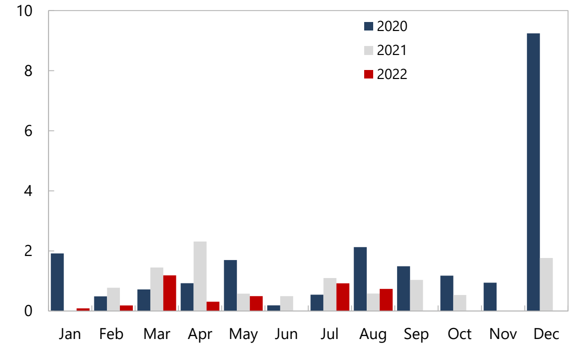
Barbados: NIS Unemployment and Severance Outlays

Barbados: Monthly Unemployment Claims
(Number of Claims)



Source: National Insurance Department.

Barbados: Monthly Severance Expenditures
(B$ millions)



Source: National Insurance Department

C. Monetary and Financial Sector Policies

15. Credit to the private sector continues to contract, with liquidity in the banking sector increasing. Commercial bank outstanding loans to the nonfinancial private sector continued to trend down by 0.7 percent in June 2022 (yoy). Banks see limited bankable projects (except for renewable energy projects), which has buoyed liquidity in the system and pushed down the loan-to-deposit ratio. The recent adoption of the Fair Credit Reporting Act is expected to improve SME access to credit (see also the discussion in the MEFP, paragraph 27). Next steps to improve intermediation could include the establishment of a web-based collateral registry of movable assets. Liquidity in the FX market appears adequate. Commercial banks indicate that while they have sufficient information to assess the creditworthiness of borrowers, capacity constraints in the legal system are an impediment to the provision of credit (there is a lengthy process when trying to seize collateral of a defaulting borrower).

16. Commercial banks are adequately capitalized and asset quality remains stable. As of end June 2022, the system-wide capital adequacy ratio (CAR) was at 17.8 percent (more than twice the minimum regulatory requirement), liquid assets to total assets at 31 percent, and bank excess cash reserves at about 22.2 percent. The system's NPL ratio stood at 6.8 percent with provision coverage of about 58.4 percent. While credit unions saw an increase in their NPL ratio to 14.1 percent during the pandemic and resultant provisioning reduced profitability, it has been declining since then and stood at 12.6 percent in June 2022. In general, borrowers' capacity to repay debt has improved as the pandemic dissipated and labor market conditions improved, contributing to a decline in NPLs.

17. The Central Bank of Barbados (CBB) phased out regulatory guidance on loan classification by end-October 2022. The CBB guidance has been allowing banks not to classify moratoria loans as non-performing since the onset of the pandemic, but this regulatory measure was removed given their clients have gradually restored repayment capacity and these loans currently represent only 0.01 percent of the outstanding bank credit to the non-financial private sector. The CBB's overnight lending discount rate, which was lowered to 2 percent from 7 percent during the pandemic, will be maintained for now. Strict capital controls remain in place and delink interest rates in Barbados from global interest rate developments.

18. Instruments to conduct monetary policy under the fixed exchange regime can be strengthened. Given that the monetary transmission mechanism is weak due to abundant liquidity and excess reserves in the financial system, the CBB has few instruments at its disposal to tighten monetary conditions under the peg in response to the surge in inflation. The authorities intend to review the CBB's balance sheet capacity and toolkit for market operations (SB12) with the help from MCM TA (see Annex IV).

19. Further steps are needed to remove Barbados from the Financial Action Task Force (FATF) list of jurisdictions under increased monitoring. Barbados has recently made good progress in addressing key items on the FATF Action Plan including implementing a risk based supervisory regime for Designated Non-Financial Businesses and Professions, establishing a mechanism for timely access to beneficial ownership information and building the capacity of the Financial Intelligence Unit. The authorities have also achieved a substantial reduction of the backlog of money laundering (ML) cases in the court system. However, significant work is still needed in the areas of establishing effective mechanisms to ensure that beneficial ownership information is accurate and up to date and that appropriate sanctions are being applied. In addition, the Financial Intelligence Unit should conduct further outreach and provide further guidance to all reporting entities on their obligations to identify suspicious activities, with a view to improve reporting levels, commensurate to risk in all sectors. Finally, the authorities should intensify their investigatory and confiscation efforts in line with the country's ML risks and demonstrate greater use of international assistance in cross border repatriation or sharing of assets.

D. Structural Reform Agenda

Structural benchmarks (SBs) for each of the key areas were identified under the new EFF program (see Table 1, Attachment I):

20. SOE reform. Structural reforms at the outset of the 2018 EFF program contributed to a 1¼ ppt of GDP decrease in transfers to SOEs in FY2019/20 (to 6.7 percent of GDP), but these savings were offset by an increase in transfer needs due to the global pandemic. While transitory COVID-19 transfer pressures will gradually unwind beginning this fiscal year, reforms to further secure structural savings should be pursued. At the individual SOE level, there is an ample scope to improve efficiency and reduce SOEs' reliance on government financial support, thus creating fiscal space for productive capital investment. In addition to reinforcing accountability and governance frameworks established under the 2019 PFM Act, the authorities intend to revitalize SOE reform as a central pillar of their revamped BERT 2022 strategy. As presented in the FY2022/23 budget, near-term priorities include consolidating and streamlining the responsibilities of entities engaged in agricultural, housing development, and transportation services respectively over a three-year window. The program includes structural benchmarks to complete the proposed reorganizations in agriculture, housing, and development sector SOEs by end-June 2023 (SB9; SB10). The preparation of a comprehensive stocktaking of the financial performance of the SOE sector is also required (SB11) to inform the medium-term reform agenda, which can usefully draw upon the SOE financial health dashboard developed under the 2018 EFF. The authorities have appointed two Special Advisors for SOE Reform to operationalize the forward-looking reform strategy with actionable policy measures

21. Tax and customs administration. The Barbados Revenue Authority (BRA) plans to further increase efficiency in tax collection, including by ensuring timely payment of filed refunds payable to taxpayers. At the Barbados Customs and Excise Department (BCED), continued reforms are needed to improve human resource management and risk management. Moreover, enhanced coordination and information exchange between BCED and BRA is urgently needed to improve taxpayer compliance and ensure an efficient use of resources across the two institutions (SB2).

22. Duty and Tax exemptions. Under the current exemption framework, the granting of tax waivers and concessions are decentralized across government departments with limited (or no) supporting cost-benefit analysis, implying a high degree of inefficiency and foregone revenue. Tax exemption reform aims to reduce foregone revenue and increase transparency. In line with IMF TA support, exemption reforms would centralize the analytical process in the Ministry of Finance and introduce exemption thresholds (SB1; SB3). Tax exemptions and foregone revenue per ministry and agency would be closely monitored, preferably with monthly reporting.

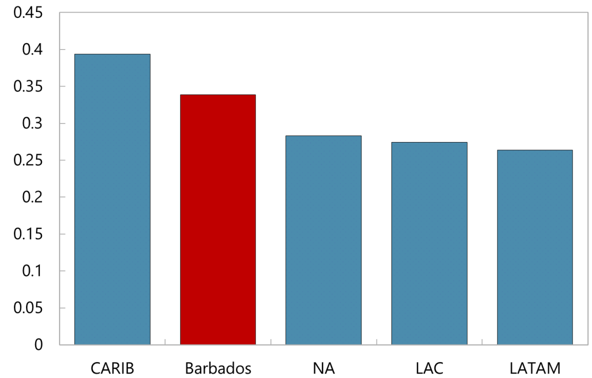
23. PFM. Various elements of the 2019 PFM Act, including the issuance of the budget circular and auditing of central government and SOE financial statements, have yet to be fully implemented. Sustained effort will be required to advance on this front and reap the full benefits of the law, including strengthened fiscal responsibility and oversight. A TA mission on the assessment of fiscal risks scheduled for fall 2022 provides stock-taking and identify concrete measures to strengthen compliance with the PFMA Act. The program includes benchmarks to bolster PFM and risk management practices, including establishing a fiscal risk unit (SB6), the audit of outstanding NIS financial statements (SB7), and establishing a cash management unit within the Treasury (SB8).

24. Business Climate. Barbados continues to struggle with a generally weak enabling environment for growth. Reform priorities include advancing the digitalization of government services, streamlining the regulatory framework, enhancing flexibility in labor and product markets, and improving access to private credit, including for SMEs (see MEFP section V). To inform the forward-looking policy agenda under the arrangement in this context, a stocktaking of the execution of policy reforms overseen by the Doing Business Sub-Committee of Cabinet and Private Sector Committee under the 2018 BERT framework will be undertaken by end-March 2023 (SB13). The program also includes benchmarks to put in place key frameworks to advance the authorities' digitization initiative (SB14; SB15), and the authorities intend to modernize the Companies Act to further improve the business climate.

E. Addressing Climate Change Challenges

25. Barbados contributes little to global climate change but is increasingly vulnerable to it. Barbados has been less affected than other Caribbean countries in the past. Yet it is becoming highly sensitive[2] to climate change risks (see the text table). Higher temperatures, sea-level rise, and possible changes in precipitation are expected to increase Barbados physical risks, potentially resulting in lower agricultural production, reducing availability and quality of water resources, loss of biodiversity, and adverse health effects. Adapting to climate change by building structural, financial, and post-disaster resilience is a high priority to mitigate these risks.

Barbados: Sensitivity to Climate Change



Source: ND-GAIN Database

26. Given Barbados' increasing exposure to climate change and natural disasters, the authorities intend to accelerate adaptation measures (see Annex III). Physical risks to external and fiscal sustainability have been increasing: (i) risks to BOP stability stem from both demand[3] and supply shocks[4] after a natural disaster, which would lead to lower growth and employment, subdued capital accumulation, and slower poverty reduction and (ii) post-disaster spending increases public debt and can threaten fiscal sustainability and financial stability. Barbados has already taken steps to increase structural resilience to climate change (e.g., enhancing drainage and water systems across the island has improved water security). However, investments fostering climate resilient infrastructure, including physical flood defenses (e.g., seawalls), and the restoration of environmental barriers should be accelerated. Continued engagement with regional integration initiatives (such as the Caribbean Catastrophe Risk Insurance Facility) will be key to mitigating Barbados' financial risks to intensifying natural disasters.

27. Higher fuel import bills and inflation following the war in Ukraine highlight the need to expeditiously transition to renewable energy. Reducing dependency on fuel imports and exposure to commodity price volatility would significantly increase BOP and price stability. Barbados has taken steps to transition to renewables by establishing a licensing system for Independent Power Producers (IPP) renewable energy projects accompanied by a guidance note on the licensing

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[2] Norte Dame Global Adaptation Initiative (ND-GAIN) assesses the vulnerability of a country to climate change risks by considering six life-supporting sectors: food, water, health, ecosystem services, human habitat, and infrastructure. For each sector, exposure to climate-related hazard is measured twofold: (1) sensitivity to the impacts of the hazard, and (2) adaptive capacity to address these impacts. For exposure (sensitivity), a higher value implies higher exposure (sensitivity), contributing to higher vulnerability. See details in ND-GAIN data technical document.

[3] Damages to domestic household and corporate balance sheets, which could reduce consumption and investment, in addition to disruption to tourism activities.

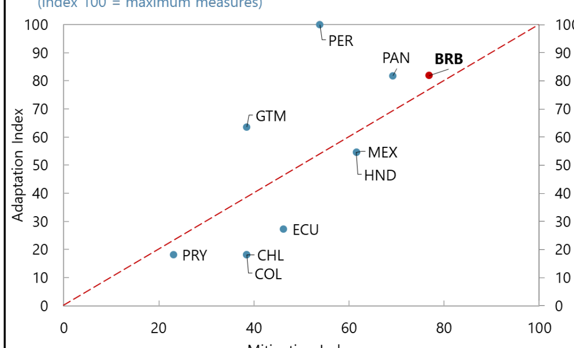
[4] Physical capital destruction, and labor and supply chains disruptions.

and approval process for investors. A recent amendment to the Feed-in-Tariffs (FIT) mechanism to cover renewable energy from 1MW to 10MW would further accelerate the execution of renewable energy projects. Now that the licensing process has been clarified and the FIT expanded, it is important for Barbados to expeditiously implement the process as envisaged and accelerate private sector investments into renewable energy projects. Those include closing remaining regulatory gaps in a Feed-in-Tariff mechanism to promote renewable energy storage technologies, a corresponding licensing policy, and approvals framework to increase investments into battery storage technologies. Reduced import taxes for electric vehicles and an expanded share of electric buses in the government-owned fleet are also important to support the transition to renewables.

28. **Barbados should carefully manage transition risks.** Transition risks can arise (i) directly from domestic measures (e.g., investments into renewables may slow economic growth if they require diverting resources in the near-term that could be used for other investment needs), and (ii) indirectly from global structural changes due to mitigation efforts made in foreign economies to achieve their climate goals (e.g., Barbados may be impacted by mitigation policies in other countries, which may, for example, lead to air travel becoming more expensive or changing preferences in source markets). Moreover, this transition process could affect financial stability. Barbados is building its capacity to monitor and assess climate change risks to the financial sector, including through bank stress testing. The CBB has already applied for joining the Network for Greening the Financial System to increase capacity to conduct stress tests. The Financial Services Commission is piloting a stress-testing exercise for insurance corporations to climate change effects.

29. **To tackle these risks, Barbados has committed itself to ambitious mitigation and adaptation targets in their most recent nationally determined contributions (NDC).** Among regional peers it is ranked high in both mitigation and adaptation measures with a slightly stronger focus on adaptation[5]. Barbados' main mitigation policy focuses on transitioning to renewable energy, while adaptation policies focus on improving structural, financial, and post-disaster resilience. Adopting green PFM practices would support the inclusion of climate priorities in all aspects of the budget cycle including budget preparation, budget execution, fiscal reporting as well as oversight and auditing (RM5 for end-March 2025). Risk assessments, which quantify the macroeconomic and fiscal impact of climate risks, would help identifying green PFM reform priorities to enhance Barbados' structural, financial and post-disaster resilience (RM2 for

Barbados: Mitigation and Adaptation Measures
(Index 100 = maximum measures)



Sources: National authorities; IMF desk survey; Climate Watch, and NDC Tracker

[5] Indices are based on information from national authorities, an IMF desk survey, Climate Watch, and NDC Tracker. Countries were asked 22 questions on adaptation and mitigation policies.

end-March 2023). Conducted risk assessments should be regularly monitored and assessed in the budget and budget outturns according to internationally accepted standards.

30. The proposed EFF/RSF-supported program will play a crucial catalytic role in mobilizing private sector financing for climate projects. Key to attracting greater private financing is the further strengthening of macroeconomic stability and implementation of the structural reform agenda. A gradual and sustained increase in primary surpluses supported by structural fiscal reforms will help build investors' confidence. Careful integration of resilient infrastructure investment needs into a multi-year budget cycle can generate gains in spending efficiency, help identify financing gaps, and catalyze green financing. In addition, structural reforms, including an accelerated licensing process and an improvement in the regulatory framework for the electricity sector can attract more participation by private investors.

31. To support the climate reform agenda, the authorities seek to significantly scale up private climate financing in the next three years. The authorities' plans focus on three key areas to overcome barriers to scaling up private climate financing: [6] (i) collecting and disseminating climate risk and vulnerability data and embedding climate risks in capital investment planning and procurement process in order to address informational barriers (see RM2 for end-March 2023 and RM9 end-September 2024); (ii) approving Barbados' National Comprehensive Disaster Risk Management Policy (RM3 for end-September 2023) to clarify the government's capital investment gaps, help set up effective institutional arrangements for adaptation and mitigation policy planning, and allow for a clearer communication of climate goals, associated responsibilities, and policy and regulatory changes; and (iii) reviewing financial instruments in terms of appropriate risk sharing and starting a dialogue with stakeholders to increase financial incentives and reduce risks for private participation. To kick-start this process, the authorities plan to organize a round table discussion in early 2023 with private sector participants and multilateral development banks to find solutions to eliminate barriers to attract private funds for climate investment; form views on upcoming reform measures[7]; and conduct a comprehensive stocktaking of Barbados' business environment.

32. The Barbadian authorities intend to continue to seek innovative solutions to address climate change challenges. Barbados has already taken steps to (i) seek more concessional longer-term financing from development partners; (ii) issue sustainability-linked debt instruments (such as green bonds); (iii) engage in a comprehensive insurance framework[8] that provides liquidity in natural

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[6] The main barriers to scaling up private climate financing include: (i) the absence of country specific climate risk and vulnerability data to guide investment decisions; (ii) a lack of clarity on public sector capital investment gaps to achieve climate goals and where private investment is required; (iii) low returns on investment (actual or perceived) as well as challenges in quantifying environmental and social benefits derived from climate investments.

[7] Such as lower import taxes on electric vehicles (RM6 for end-September 2023), publication of a fiscal risk statement (RM2 for end-March 2023), establishment of the National Environmental and Conservation Trust (RM1 for end-March 2023) and the closing of remaining regulatory gaps in licensing policy/approvals framework for renewables and storage technology (RM6 for end-September 2023.

[8] Barbados insures natural disaster risks through the Caribbean Catastrophe Risk Insurance Facility (CCRIF), a form of parametric insurance (see Annex III).

disaster events; (iv) issued state-contingent instruments[9] with natural disaster clauses, and (v) engaged in a recent debt-for-nature swap (see Box 1 below). The authorities intend to build on this; options include (i) equity funds focused on environmental, social, and governance (ESG) investments; (ii) participation in international carbon credit schemes to complement the Barbados' decarbonization process by 2030; (iii) blended public and private sector finance for appropriate risk sharing and credit enhancement; and (iv) additional insurance frameworks that provide liquidity in natural disaster events.

Box 1. Debt for Nature Swap

In September 2022, the Government of Barbados engaged in a debt for nature swap to improve its debt profile and support marine conservation. The authorities contracted new debt equivalent to US$150 million (about 3 percent of GDP), with partial guarantees issued by the Inter-American Development Bank (IDB) and The Nature Conservation (TNC). The proceeds were immediately used to buy back part of the outstanding Eurobonds (6.5 percent note due 2029) as well as domestic bonds (8 percent bonds held by the National insurance Scheme). With guarantees provided by AAA/AA- rated entities, the new loan enjoys low interest rates which generates savings amounting to around US$40 million over time. These savings will flow into a conservation fund to enhance marine protection.

In an agreement between the government and TNC, milestones to strengthen institutions and increase financing for marine conservation were established. These include developing a Marine Spatial Plan, approving legislation and regulations to declare marine protection zones and adopting a long-term ocean management plan. Under the agreement with TNC, the government is obliged to contribute US$2.5 million (about 0.05 percent of GDP) for 15 years to finance these initiatives.

The newly issued debt includes both a natural disaster clause and a pandemic clause, providing additional safeguards to fiscal sustainability. In the event of a natural disaster event specified in the loan agreement, Barbados is entitled to defer all principal repayments coming due in a two-year period. Natural disaster events include earthquakes, tropical cyclones, or heavy rainfall, with triggers defined by the amount of insurance payments received under Barbados' CCRIF (Caribbean Catastrophe Risk Insurance Facility) insurance policy. The threshold is set at US$5 million for an earthquake or rainfall event, and at US$7.5 million for a tropical cyclone event. The pandemic clause is activated when a public health emergency is declared by both the WHO and the Government of Barbados, combined with either an economic contraction of at least 5 percent for consecutive two quarters or an increase in government spending of at least US$19 million. Barbados' 2022 debt issuance represents the first time that these clauses (natural disaster clauses and pandemic clauses) have been used in new debt.

DATA ISSUES

33. **Data shortcomings are being addressed.** Recent Fund TA supported by Canada and CARTAC helped the Barbados Statistical Service (BSS) compile constant 2016 price estimates of GDP (rebased from 2010) and update quarterly estimates of activity-based GDP. STA will continue to support the BSS with improved estimates of expenditure-based GDP and a Tourism and Culture

[9] By including natural disaster clauses into new domestic and external bonds, Barbados effectively used the 2018-19 debt restructuring to build resilience in its public finances. 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.

Satellite Account. In March 2021, Barbados implemented IMF's Enhanced General Data Dissemination Standard (e-GDDS) with the launch of a National Summary Data Page.

PROGRAM MODALITIES

EFF

34. A 36-month EFF arrangement is proposed. An EFF arrangement is appropriate given the need for structural reform (including some reforms that were delayed owing to the pandemic under the previous program) to correct fiscal and external imbalances. The EFF would be accompanied by an RSF to support the authorities' ambitious reform agenda to increase resilience to climate change.

35. Support under the EFF amounts to 90 percent of quota (SDR 85.05 million, or around US$110 million). Access under the EFF-supported program is calibrated to Barbados' balance of payments need so that it ensures that gross international reserves remain at adequate levels. While increased economic activities and investment might entail an increase in imports, these additional financing needs will be addressed by the Fund's EFF support and other capital flows along with a recovery of FX revenue in the tourism sector.

36. Quantitative performance criteria (QPCs) and indicative targets (ITs) under the EFF will be set and monitored under semiannual program reviews (see Table 3, Attachment I). The set of QPCs and ITs remain the same as under the previous EFF-supported program, as these targets help further maintain and strengthen Barbados' macroeconomic stability and address the elements of the reform agenda interrupted by the COVID-19 pandemic (including debt reduction and SOE reform). The targets are calibrated to ensure consistency with the previous program while reflecting economic conditions and renewed priorities after the pandemic. EFF program reviews will be conducted semiannually based on end-March and end-September QPCs, with purchases equally distributed over a program approval and successive five reviews (15 percent of quota or SDR 14.175 million each).

RSF

37. To address additional balance-of-payments needs created by resilience-enhancing infrastructure building and transition to a renewable-based economy, the authorities requested an RSF arrangement along with the EFF[10]. As illustrated by hurricane Elsa in July 2021, Barbados is becoming increasingly susceptible to climate change (see Annex III). The authorities' ambitious investment plans to increase resilience against natural disasters—mainly supported under the Pillar 1 reform measures (see ¶39 below for detail)—would lead to higher imports of construction services, equipment and machines, and intermediate materials in the short- and medium-term given that capital investment usually has a large import content in Barbados.

[10] Barbados is eligible for an RSF given that it has a population below 1.5 million as of 2020, and its per capita GNI in 2020 does not exceed twenty-five times the 2021 IDA operational cutoff. Barbados falls in group C for RST interest and margin purposes.

Prospective RSF disbursements are expected to partly finance such additional import needs, which could range from 0.5 to 1 percentage of GDP annually based on preliminary estimates, while allowing the authorities to maintain sufficient reserve buffer to preserve Barbados' exchange rate peg. In the long run, these efforts would help Barbados save post-disaster fiscal spending and volatile fuel import bills, and thereby enhance its fiscal and external sustainability. Further, meeting these ambitious targets will require commitment to existing climate change strategies, enhanced implementation capacity supported by CD provided by IFIs, and significantly larger financing from donors and the private sector.

38. Support under the RSF would be 150 percent of quota (SDR 141.75 million, or about US$180 million). The proposed RSF access at the maximum level of 150 percent of quota, which is higher than the norm of 75 percent of quota and justified by the strength and breadth of reforms, the BOP need created by select RMs, and adequate capacity to repay the Fund. Proposed disbursements under the RSF arrangement will be equally split over, and linked to, five consecutive EFF program reviews starting with the first EFF review (30 percent of quota, or SDR 28.35 million each). A disbursement will be made available provided that each of the (set of) reform measures is successfully completed along with the corresponding EFF review.

39. Reform measures to support the authorities' efforts to address climate-related vulnerabilities have been identified in close collaboration with the World Bank (see Table 2, Attachment I). These measures are aligned with the authorities' plans to fully transition to renewable energy by 2030, mitigation and adaptation targets identified in their most recent NDC (Nationally Determined Contributions), and climate strategy ('Roofs to Reefs Programme'). Reform measures under the RSF can be summarized under three pillars:

- **Pillar 1 focuses on addressing imminent adaptation needs through six resilience building reform measures:** (i) approving a National Comprehensive Disaster Risk Management Policy (RM3 for end-September 2023); (ii) upgrading infrastructure by approving the Planning and Development Act to improve the climate resilience of roads through improved drainage (RM1 for end-March 2023); (iii) improving stormwater management (RM4 for end-March 2024), (iv) enhancing water availability via water reuse (RM1 for end-March 2023); (v) funding the National Environmental and Conservation Trust for marine protection projects (RM1 for end-March 2023); and (vi) approving the Procurement Act Regulations to enhance efficiency and effectiveness of public expenditure and to support 'green procurement' as well as including a fiscal risk statement focusing on climate change risks in the budget for FY2023/24 (RM2 for end-March 2023).

- **Pillar 2 focuses on reducing greenhouse gas (GHG) emissions to support the authorities' ambitious goal of transitioning to a 100 percent renewable energy-based[11] economy by**

[11] In its updated NDC, Barbados also commits to conditional mitigation contribution of (i) 95 percent share of renewable energy in the electricity mix; (ii) 100 percent electric or alternatively fueled vehicles in the passenger fleet; (iii) 20 percent increase in energy efficiency across all sectors as compared to business as usual (BAU); (iv) 29 percent

(Continued)

2030: (i) lowering import taxes for electric vehicles (RM6 for end-September 2023; (ii) increasing energy efficiency by approving the Energy Efficiency and conservation policy framework to reduce energy use of all government agencies and develop efficient public lighting (RM7 for end-March 2024); (iii) issuing supportive regulation to incentivize investments into battery storage technologies and to enhance competition in the electricity market (RM6 for end-September 2023); and (iv) adopting the New Electricity Supply Act to enhance competition in the electricity market and introduce local participation in renewable energy investment (RM8 for end-September 2024).

- **Pillar 3 aims at reducing transition risks:** (i) adopting a strategy for building capacity to monitor and assess climate change risks to the financial sector, including building data collection mechanism and joining the Network for Greening the Financial System (RM9 for end-September 2024); and (ii) including climate change risks in a bank stress testing exercise (RM10 for end-March 2025).

40. The new EFF/RSF-supported program is expected to play an important catalytic role in attracting official financial support from IFIs and private capital flows. The World Bank is at an advanced stage of negotiation on a Green and Resilience Development Policy loan equivalent to US$100 million, which would complement structural reform measures under EFF/RSF. The Inter-American Development Bank has indicated that it could increase its financial support to Barbados up to US$300 million over the next three years. In addition, other regional financial institutions are considering increasing their support to Barbados. Barbados will also continue to seek innovative ways to increase private sector financing to address climate change, as discussed above.

41. Staff supports a request for the use of Fund resources (both under EFF and RSF) for budget support. This is appropriate given that alternative financing sources are limited at present due to subdued private demand for government debt in the aftermath of the relatively recent comprehensive debt restructuring. 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 will be put in place, providing additional safeguards for the use of Fund resources for budget support.

42. Barbados' capacity to repay the Fund is assessed to be adequate (Table 11). In the aftermath of the 2018-22 EFF, debt outstanding and debt service to the IMF are projected to stay relatively high in the near term, with credit outstanding reaching around 500 percent of quota (380 percent of quota excluding the RSF [12]) or about 10 percent of GDP in 2024. Risks are mitigated by the authorities' strong commitment to reforms and economic stability, projected fiscal adjustment through structural adjustment, and international reserves remaining above 100 percent of ARA throughout the projection period. The EFF/RSF-supported program is fully financed over the next 12 months with good prospects for the remainder of the program period. The first safeguards

decrease in industrial, commercial and residential fuel consumption as compared to BAU; and (v) 20 percent decrease in waste emissions.

[12] The exceptional access frameworks that apply to GRA and PRGT credit do not apply to the RST framework.

assessment of the central bank was completed in December 2018, and all recommendations but one have been implemented. An update of the safeguards assessment of the Central Bank of Barbados will be completed by the time of the first EFF/RSF review.

STAFF APPRAISAL

43. The Barbadian authorities have made good progress in implementing their comprehensive Economic Recovery and Transformation (BERT) plan. Macroeconomic stability was restored in 2018 and 2019 with a combination of fiscal consolidation, comprehensive debt restructuring, and structural reforms to support growth. This created space for a countercyclical policy response to the COVID-19 pandemic in 2020 and 2021.

44. While the temporary fiscal relaxation during the pandemic was appropriate, it needs to be compensated going forward. Starting in FY2022/23, a steady improvement in the primary balance will preserve and strengthen debt sustainability and enable the authorities to meet the long-term debt target of 60 percent of GDP by FY2035/36, while also maintaining adequate capital and social spending. Staff's assessment is that Barbados' public debt remains sustainable.

45. Continued implementation of the structural reform agenda is essential for generating higher primary surpluses. Structural fiscal reforms under the proposed EFF/RSF-supported program include the strengthening of tax and customs administration, Public Financial Management (PFM) reform, adoption and implementation of pension reform, and the rationalization and consolidation of SOEs. A meaningful consultation process of public pension reform is now well underway. The tabling of this legislation and operationalization of the NIF reform and recapitalization plan should be completed as a matter of priority to enhance long-term pension sustainability.

46. The authorities are committed to revitalizing and accelerating the SOE reform agenda by prioritizing the agricultural, housing, and development sectors. Addressing the pervasive inefficiencies within the SOE sector is a process that will require a sustained and evolving reform effort. The authorities' commitment to reducing overlap and achieve greater financial and operating efficiencies by (i) merging the Rural and Urban Development Commissions and reforming the National Housing Corporation; and (ii) scaling back the subsidies and services to the Barbados Agriculture Management Corporation (BAMC) are welcome first steps. To secure needed fiscal space for priority investments—including into transformation towards a greener economy—further measures to structurally reduce SOE transfers are required through a combination of: (i) fully phasing out of temporary COVID-related transfers; (ii) stronger oversight, supported by improved reporting and analysis (e.g. SOE health dashboard) to help identify and prioritize policy interventions; (iii) adjustments to cost structures and revenue frameworks, including an increase in user fees; and (iv) additional mergers and divestment, particularly for unprofitable commercial SOEs.

47. Continued structural reforms are needed to unlock Barbados' growth potential. While several structural measures to help improve the business climate were implemented under the previous EFF, this aspect of the reform process was disrupted by the pandemic shock. More remains to be done to further boost potential growth, improve the business climate, and attract private investment in close consultation with the private sector and other stakeholders. Priorities in this context include completing the digitization of government services and modernization of the customs framework, supplemented by reforms to streamline bureaucratic processes, fully elaborate regulatory frameworks to support green investment (see below), and enhance flexibility in labour and product markets. The program includes benchmarks to advance the authorities' digitization initiative to further improve the business climate.

48. A resilient, green, and inclusive recovery will require accelerating structural reforms. While in the past Barbados has been less affected by natural disasters than other Caribbean countries, it has become more vulnerable to climate change risks in recent years. Improving resilience to natural disasters and climate change as well as facilitating a transition to renewable energy will be critically important, also in terms of reducing BOP and price volatility. While Barbados has taken steps to enhance resilience against climate change, the transition to a greener economy should be further accelerated. In this vein, restoring fiscal space for climate investment through continued structural reforms and steady implementation of climate agenda would be also key to catalyzing private sector resources and thereby meeting large financing needs for investment.

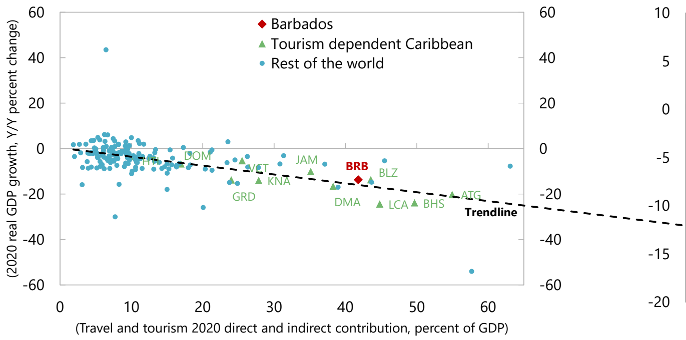
49. Risks to the program are elevated. While the economic recovery is now well underway, there are several risks to the outlook, including (i) the emergence of more infectious COVID-19 variants; (ii) an economic slowdown in the main source countries for the tourism sector (UK, US, and Canada) and an erosion of purchasing power due to the appreciation of US dollar; (iii) continued inflation pressures created by the disruptions in the global supply chain and Russia's war in Ukraine; and (iv) more frequent and intensified natural disasters. Implementing the ambitious structural reform agenda to achieve and maintain primary surpluses on a sustained basis could also be challenging. Mitigating factors include the authorities' excellent track record under the previous program, their strong commitment to the reform process, continued strong support from IFIs, and broad public support for economic stabilization and the reform process.

50. In view of Barbados' balance of payments needs and the comprehensive package of measures proposed by the authorities, staff supports the authorities' request for a 36-month extended arrangement under the Extended Fund Facility in the amount of 90 percent of quota. In addition, Barbados has presented a comprehensive package of reforms to strengthen its BOP by reducing macro-critical risks associated with climate issues, and hence staff supports the request for a Resilience and Sustainability Facility at 150 percent of quota. Staff also recommends that Barbados remains on a 24-month cycle for Article IV Consultations (Decision No. 14747 – (10/96)).

Figure 1. Barbados: Real Sector Developments

Due to Barbados' heavy reliance on tourism…

Tourism Dependency and GDP Growth

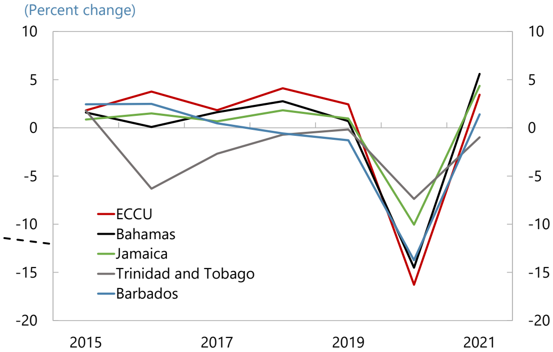


Sources: World Travel and Tourism Council and Fund staff calculations.

… its economy was among the hardest hit across the region in the aftermath of the COVID-19 pandemic…

Real GDP Growth

(Percent change)

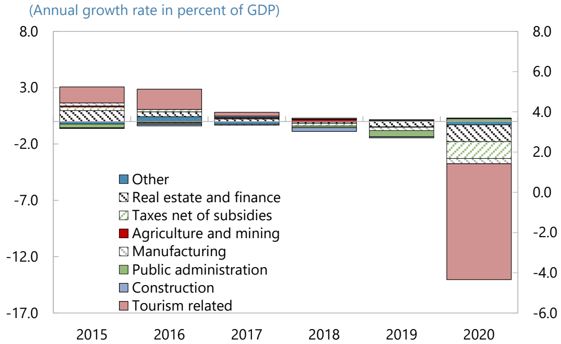


Sources: IMF World Economic Outlook and Fund staff calculations.

…with tourism collapsing and its halt causing a sharp contraction in 2020.

Real GDP Growth by Sectors

(Annual growth rate in percent of GDP)

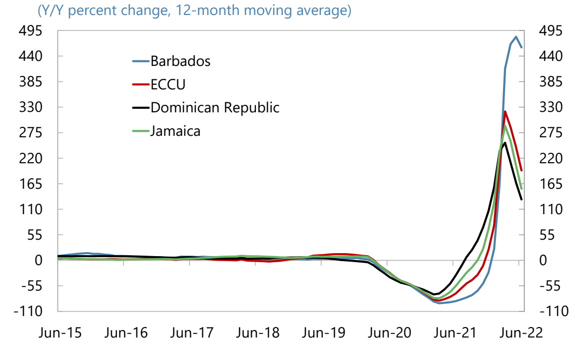


Sources: Central Bank of Barbados and Fund staff calculations.

A recovery of tourist arrivals in 2021 and 2022 is leading to economic growth…

Tourist Arrivals

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

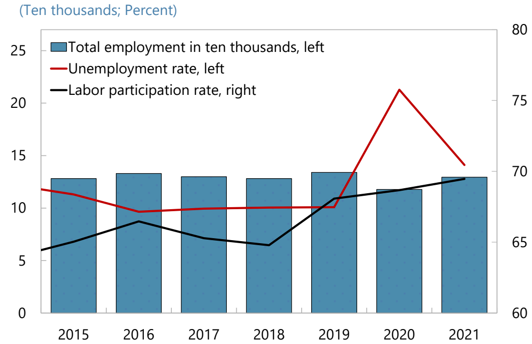


Sources: Caribbean Tourism Organization and Fund staff calculations.

… and labor market conditions continue to improve.

Labor Participation and Unemployment

(Ten thousands; Percent)

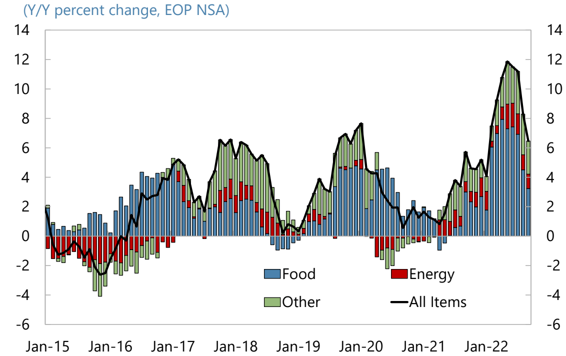


Sources: Central Bank of Barbados and Fund staff calculations.

However, rising global commodity prices add to inflationary pressures in Barbados and weigh on its nascent recovery.

Contribution to Inflation

(Y/Y percent change, EOP NSA)

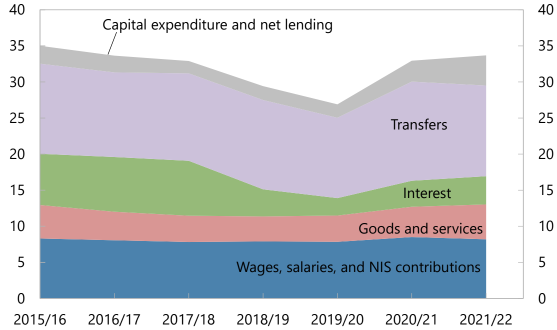


Sources: Central Bank of Barbados and Fund staff calculations.

Figure 2. Barbados: Fiscal Sector Developments

After trending down since the debt restructuring in FY18/19, expenditure ratios have risen due to emergency spending associated with Covid-19 pandemic and natural disasters…

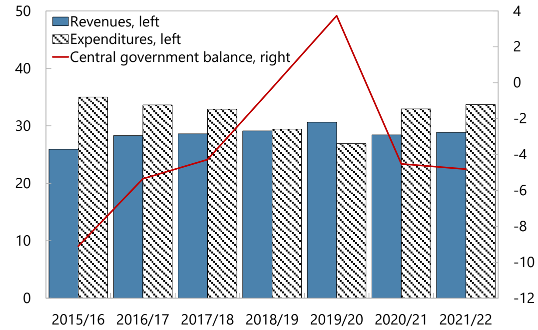
General Government Expenditures
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

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

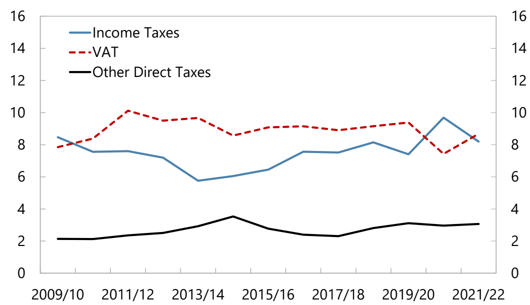
Central Government Balance
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

… while tax collections declined due to the pandemic-induced reduction in economic activity.

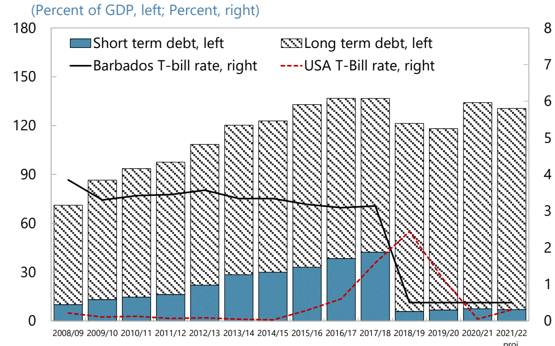
Tax Revenue Composition
(Percent of GDP)



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…

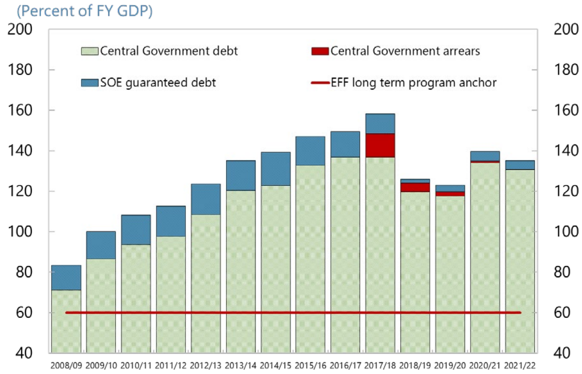
Government Financing
(Percent of GDP, left; Percent, right)



Sources: Central Bank of Barbados and Fund staff calculations.

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

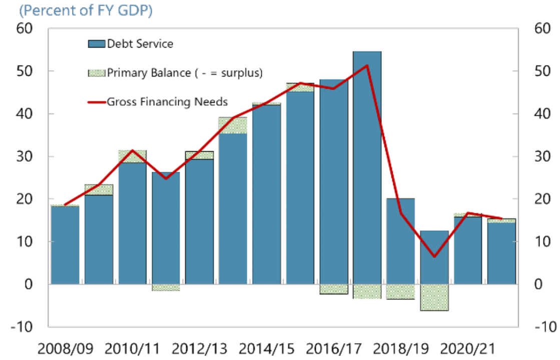
Public Debt
(Percent of FY GDP)



Sources: Ministry of Finance and Fund staff calculations.

… as have debt service costs and gross financing needs.

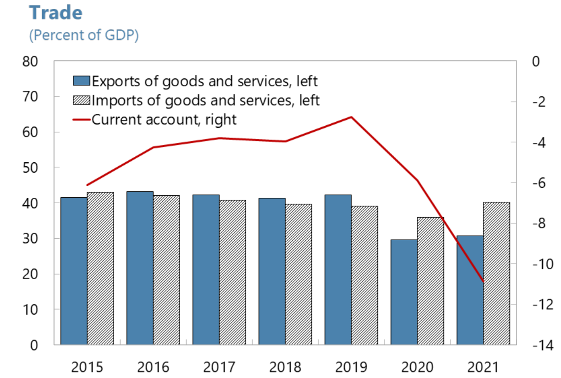
Gross Financing Needs
(Percent of FY GDP)



Sources: Ministry of Finance and Fund staff calculations.

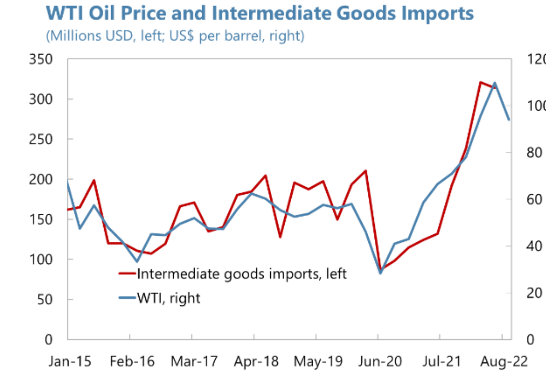
Figure 3. Barbados: External Sector Developments

The current account deficit increased to 10.9 percent of GDP due to a slow recovery in the tourism sector…



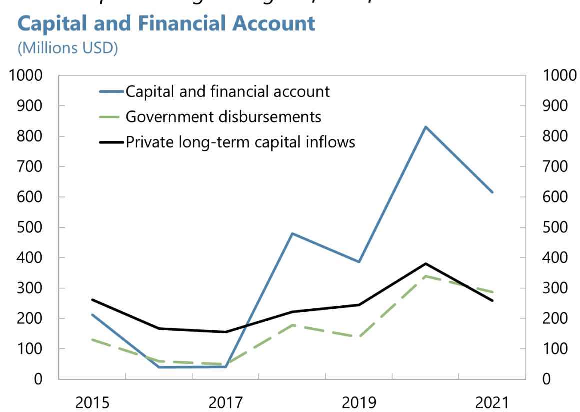
Sources: Central Bank of Barbados and Fund staff calculations.

and rising imports, mainly driven by increase in intermediate goods imports from high global oil price.



Sources: Central Bank of Barbados and Fund staff calculations.

However, capital and financial account continued to record surplus owing to large inflows from IFI loans ….



Sources: Central Bank of Barbados and Fund staff calculations.

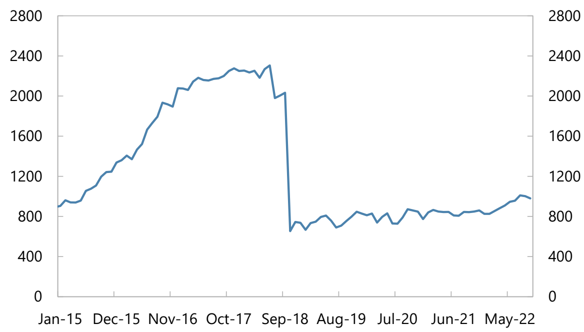
…contributing to a continued accumulation of international reserves.

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...

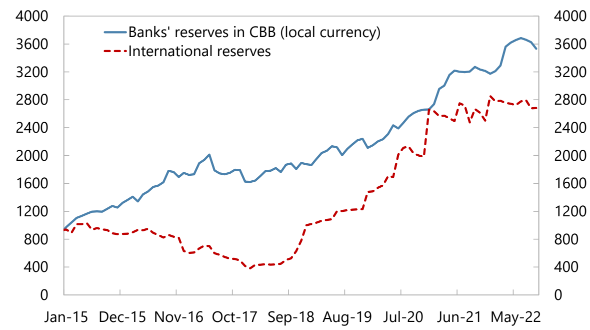
Central Bank's Claims on Central Government
(Millions BBD)



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.

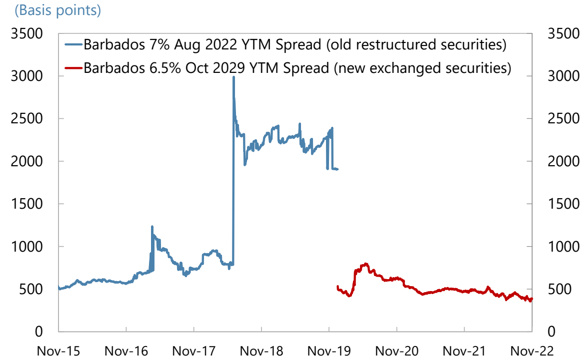
Reserves
(Millions BBD)



Sources: Central Bank of Barbados and Fund staff calculations.

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

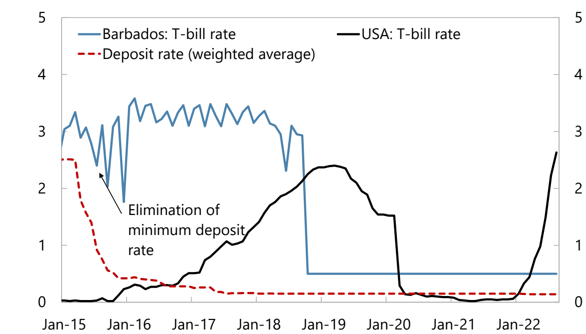
Bond Spread (Barbados over U.S. 10-year bonds)
(Basis points)



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 with a recent uptick.

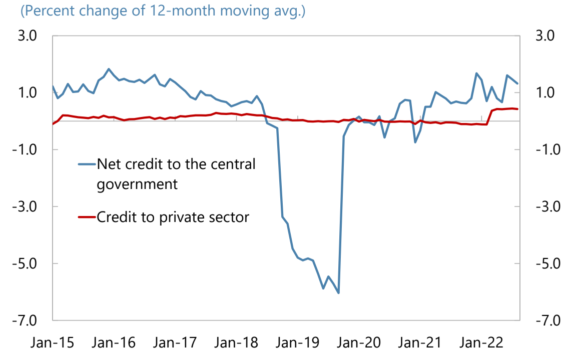
Interest Rates
(Percent)



Sources: Central Bank of Barbados and Fund staff calculations.

Private sector credit growth has remained weak...

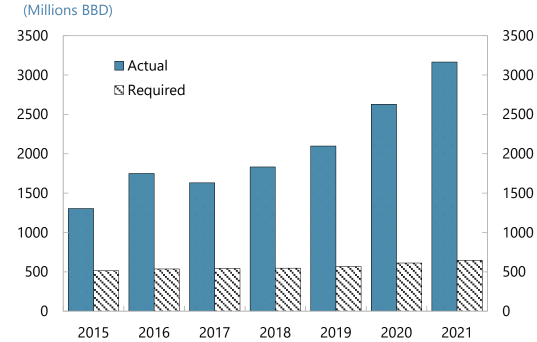
Private Sector Credit
(Percent change of 12-month moving avg.)



Sources: Central Bank of Barbados and Fund staff calculations.

...with excess liquidity parked at the CBB.

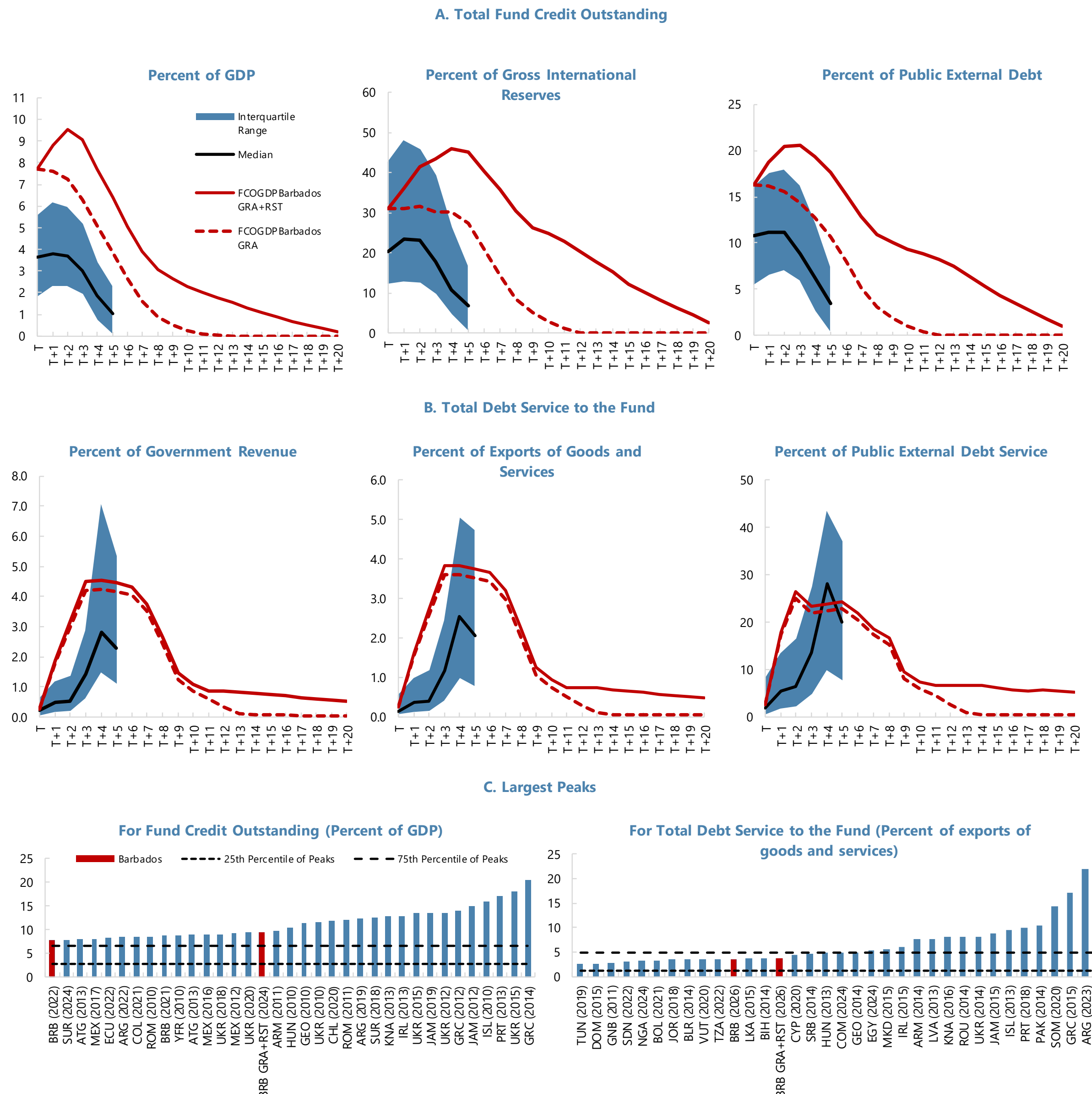
Commercial Banks: Reserves
(Millions BBD)



Sources: Central Bank of Barbados and Fund staff calculations.

Figure 5. Barbados: Capacity to Repay Indicators Compared to GRA-Only Borrowing Countries, All Programs

(In percent of the indicated variable)



Sources: IMF Finance Department, World Economic Outlook.

Notes:

1) T = date of GRA arrangement approval.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect all RFIs and UCT arrangements approved under the GRA (excluding blending arrangements) between 2008 and 2022.
4) Countries in the control group with multiple RFIs and/or GRA arrangements are entered as separate events in the database.
5) Comparator series is for GRA arrangements only and runs up to T+5.
6) Total Debt Service to the Fund consists of GRA, RST and SDR-related obligations.
7) All charts use data at the time of program approval with the exception of the chart on the right-hand side of section C, which uses ex-post data due to data limitations.

Table 1. Barbados: Selected Economic Indicators, 2019–2023

I. Social and Demographic Indicators (most recent year)

Population (2021 est., thousand)	269.8	Adult literacy rate (2014)	99.6
Per capita GDP (2021 est., US$ thousand)	18.0	Poverty rate (individual, 2010)	19.3
Life expectancy at birth in years (2019)	79.2	Gini coefficient (2010)	47.0
Rank in UNDP Development Index (2019)	58	Unemployment rate (2021)	14.1

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

II. Economic Indicators

			Est.	Projections	
	2019	**2020**	**2021**	**2022**	**2023**
			(Annual percentage change)		
Output, prices, and employment					
CY Real GDP	-1.3	-13.7	1.1	10.0	4.8
CPI inflation (average)	4.1	2.9	3.1	9.4	5.8
CPI inflation (end of period)	7.2	1.3	5.2	8.4	4.3
External sector					
Exports of goods and services	6.9	-37.8	7.2	25.6	11.9
Imports of goods and services	2.8	-18.2	15.4	20.2	5.4
Real effective exchange rate (average)	127.6	131.5	125.6	…	…
Money and credit					
Net domestic assets	0.0	5.0	3.1	3.1	1.4
Of which: Private sector credit	1.0	-1.2	-1.2	1.0	2.0
Broad money	3.0	7.3	5.6	6.9	2.4
			(In percent of FY GDP)		
CG Public finances (fiscal year) 1/					
Revenue and grants	30.6	28.4	28.9	29.3	28.9
Expenditure	26.9	32.9	33.7	31.5	29.8
Fiscal Balance	3.7	-4.5	-4.8	-2.2	-0.9
Interest Expenditure	2.4	3.6	3.9	4.2	4.4
Primary Balance	6.2	-0.9	-0.9	2.0	3.5
Public Debt (fiscal year) 1/					
Central gov't gross debt /2	123.0	139.8	135.1	122.5	114.6
External	33.5	46.4	48.6	46.1	46.2
Domestic	89.5	93.3	86.6	76.4	68.5
Balance of payments (calendar year)			(In percent of CY GDP)		
Current account balance	-2.8	-5.9	-10.9	-10.1	-8.9
Capital and financial account balance	7.3	17.6	12.6	8.3	10.3
Public Sector	3.5	10.4	7.8	2.6	4.8
o/w IMF disbursement	1.9	4.9	1.0	0.7	1.8
Private Sector (including FDI)	3.8	7.3	4.9	5.7	5.5
Net Errors and Omissions	0.0	0.8	2.3	0.0	0.0
Overall balance	4.5	12.5	4.1	-1.8	1.4
Memorandum items:					
Exchange rate (BDS$/US$)	2.0	2.0	2.0	…	…
Gross international reserves (US$ million)	740.5	1,330.3	1,529.4	1,426.2	1,510.7
In months of imports of G&S	4.3	9.4	9.4	7.3	7.3
In percent of ARA	142.8	259.1	288.2	244.3	246.6
Nominal GDP, CY (BDS$ millions)	10,596	9,431	9,735	11,578	12,465
Nominal GDP, FY (BDS$ millions)	10,305	9,507	10,193	11,817	12,672

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 government-guaranteed debt, expenditure and debt arrears (if any) and IMF EFF/RSF loan.

Table 2a. Barbados: Central Government Operations, 2019/2020–2027/2028

(In millions of Barbados dollars) 1/

			Est.	Projections					
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Total revenue	**3,156**	**2,702**	**2,942**	**3,464**	**3,663**	**3,919**	**4,187**	**4,387**	**4,581**
Current revenue	3,144	2,702	2,936	3,438	3,656	3,910	4,178	4,378	4,571
Tax revenue	2,943	2,527	2,764	3,251	3,450	3,672	3,928	4,116	4,297
Income and profits	764	921	835	989	948	1,012	1,074	1,124	1,173
Taxes on property	215	182	205	240	257	273	292	310	324
VAT	967	706	885	1,010	1,125	1,197	1,276	1,336	1,395
Excise	251	154	212	240	262	278	312	327	341
Import taxes	232	192	221	274	294	312	338	354	369
Other taxes	515	372	406	498	565	601	636	665	695
Nontax revenue	201	175	172	187	206	238	251	262	274
Capital revenue and grants	12	0	6	26	8	8	9	9	10
Total expenditure	**2,772**	**3,132**	**3,433**	**3,725**	**3,779**	**3,982**	**4,088**	**4,260**	**4,428**
Current expenditure	2,580	2,856	3,007	3,326	3,403	3,564	3,645	3,779	3,923
Wages, salaries and SSC	807	808	835	936	980	1,028	1,070	1,108	1,155
Goods and services	375	400	493	552	482	502	513	537	561
Interest	250	343	399	498	559	601	607	612	620
Transfers	1,147	1,305	1,281	1,340	1,381	1,433	1,455	1,522	1,588
o/w Subsidies	100	161	190	153	142	151	148	154	160
o/w Grants to public institutions	689	796	750	762	794	810	810	848	885
o/w Retirement benefits	358	348	340	424	445	472	497	520	543
Capital expenditure and net lending	192	276	425	399	376	418	442	481	505
CG Fiscal balance	**385**	**-430**	**-491**	**-262**	**-116**	**-63**	**100**	**127**	**153**
CG Primary balance	**634**	**-87**	**-92**	**236**	**444**	**538**	**707**	**740**	**772**
Repayment of domestic arrears (net)	140	74	57	-96	52	52	52	52	52
CG Fiscal balance (net of arrears)	**244**	**-503**	**-548**	**-166**	**-168**	**-116**	**47**	**75**	**100**
CG Primary balance (net of arrears)	**494**	**-161**	**-149**	**332**	**391**	**485**	**655**	**687**	**720**
Financing	**-244**	**503**	**548**	**166**	**168**	**116**	**-47**	**-75**	**-100**
Net Financing - External	109	846	540	502	415	346	40	-262	-235
Capital Markets	0	0	0	0	0	0	100	100	135
Project Funds	72	82	207	215	190	190	190	170	170
Policy Loans	150	600	400	400	200	160	160	0	0
o/w IDB	0	400	200	200	200	160	160	0	0
o/w CDB	150	0	0	0	0	0	0	0	0
o/w CAF	0	200	0	0	0	0	0	0	0
o/w WB	0	0	200	200	0	0	0	0	0
IMF EFF budget support	0	352	97	83	226	228	114	0	0
ow: RSF financing	0	0	0	0	151	152	76	0	0
Amortization	112	188	163	196	201	232	525	532	540
Net Financing - Domestic	-353	-343	8	-337	-247	-230	-87	187	135
Central bank	165	-67	332	-80	50	16	-10	-1	-6
Commercial banks	-58	106	-25	0	0	0	0	0	0
National Insurance Scheme	-85	-208	15	0	0	0	0	0	0
Private non-bank and others 2/ 3/	-375	-175	-314	-257	-297	-246	-77	188	140
Memorandum items:									
CG gross debt 4/	12,674	13,287	13,773	14,473	14,529	14,507	14,293	14,044	13,819
Nominal GDP, FY (BDS$ millions)	10,305	9,507	10,193	11,817	12,672	13,446	14,139	14,797	15,450

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

1/ Fiscal year is from April to March.

2/ Insurance companies and other non bank private sector; BOSS programs are also included here.

3/ Including government's equity investment into crisis-affected companies in the tourism sector.

4/ Including: Central Government debt, Central Government expenditure and debt arrears (if any), and SOE debt guaranteed by the Central Government including IMF loan to the CBB; it excludes debt directly serviced by SOEs and not guaranteed by the CG.

Table 2b. Barbados: Central Government Operations, 2019/2020–2027/2028
(In percent of FY-GDP, unless otherwise indicated) 1/

			Est.	Projections					
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Total revenue	**30.6**	**28.4**	**28.9**	**29.3**	**28.9**	**29.1**	**29.6**	**29.7**	**29.7**
Current revenue	30.5	28.4	28.8	29.1	28.8	29.1	29.6	29.6	29.6
Tax revenue	28.6	26.6	27.1	27.5	27.2	27.3	27.8	27.8	27.8
Income and profits	7.4	9.7	8.2	8.4	7.5	7.5	7.6	7.6	7.6
Taxes on property	2.1	1.9	2.0	2.0	2.0	2.0	2.1	2.1	2.1
VAT	9.4	7.4	8.7	8.6	8.9	8.9	9.0	9.0	9.0
Excise	2.4	1.6	2.1	2.0	2.1	2.1	2.2	2.2	2.2
Import taxes	2.2	2.0	2.2	2.3	2.3	2.3	2.4	2.4	2.4
Other taxes	5.0	3.9	4.0	4.2	4.5	4.5	4.5	4.5	4.5
Nontax revenue	2.0	1.8	1.7	1.6	1.6	1.8	1.8	1.8	1.8
Capital revenue and grants	0.1	0.0	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Total expenditure	**26.9**	**32.9**	**33.7**	**31.5**	**29.8**	**29.6**	**28.9**	**28.8**	**28.7**
Current expenditure	25.0	30.0	29.5	28.1	26.9	26.5	25.8	25.5	25.4
Wages, salaries and SSC	7.8	8.5	8.2	7.9	7.7	7.6	7.6	7.5	7.5
Goods and services	3.6	4.2	4.8	4.7	3.8	3.7	3.6	3.6	3.6
Interest	2.4	3.6	3.9	4.2	4.4	4.5	4.3	4.1	4.0
Transfers	11.1	13.7	12.6	11.3	10.9	10.7	10.3	10.3	10.3
o/w Subsidies	1.0	1.7	1.9	1.3	1.1	1.1	1.0	1.0	1.0
o/w Grants to public institutions	6.7	8.4	7.4	6.5	6.3	6.0	5.7	5.7	5.7
o/w Retirement benefits	3.5	3.7	3.3	3.6	3.5	3.5	3.5	3.5	3.5
Capital expenditure and net lending	1.9	2.9	4.2	3.4	3.0	3.1	3.1	3.2	3.3
CG Fiscal balance	**3.7**	**-4.5**	**-4.8**	**-2.2**	**-0.9**	**-0.5**	**0.7**	**0.9**	**1.0**
CG Primary balance	**6.2**	**-0.9**	**-0.9**	**2.0**	**3.5**	**4.0**	**5.0**	**5.0**	**5.0**
Repayment of domestic arrears (net)	1.4	0.8	0.6	-0.8	0.4	0.4	0.4	0.4	0.3
CG Fiscal balance (net of arrears)	**2.4**	**-5.3**	**-5.4**	**-1.4**	**-1.3**	**-0.9**	**0.3**	**0.5**	**0.7**
CG Primary balance (net of arrears)	**4.8**	**-1.7**	**-1.5**	**2.8**	**3.1**	**3.6**	**4.6**	**4.6**	**4.7**
Financing	**-2.4**	**5.3**	**5.4**	**1.4**	**1.3**	**0.9**	**-0.3**	**-0.5**	**-0.7**
Net Financing - External	1.1	8.9	5.3	4.3	3.3	2.6	0.3	-1.8	-1.5
Capital Markets	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.7	0.9
Project Funds	0.7	0.9	2.0	1.8	1.5	1.4	1.3	1.1	1.1
Policy Loans	1.5	6.3	3.9	3.4	1.6	1.2	1.1	0.0	0.0
o/w IDB	0.0	4.2	2.0	1.7	1.6	1.2	1.1	0.0	0.0
o/w CDB	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w CAF	0.0	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w WB	0.0	0.0	2.0	1.7	0.0	0.0	0.0	0.0	0.0
IMF EFF budget support	0.0	3.7	0.9	0.7	1.8	1.7	0.8	0.0	0.0
ow: RSF financing		0.0	0.0	0.0	1.2	1.1	0.5	0.0	0.0
Amortization	1.1	2.0	1.6	1.7	1.6	1.7	3.7	3.6	3.5
Net Financing - Domestic	-3.4	-3.6	0.1	-2.8	-1.9	-1.7	-0.6	1.3	0.9
Central bank	1.6	-0.7	3.3	-0.7	0.4	0.1	-0.1	0.0	0.0
Commercial banks	-0.6	1.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
National Insurance Scheme	-0.8	-2.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Private non-bank and others 2/ 3/	-3.6	-1.8	-3.1	-2.2	-2.3	-1.8	-0.5	1.3	0.9
Memorandum items:									
CG gross debt 4/	123.0	139.8	135.1	122.5	114.6	107.9	101.1	94.9	89.4
Nominal GDP, FY (BDS$ millions)	10,305	9,507	10,193	11,817	12,672	13,446	14,139	14,797	15,450

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

1/ Fiscal year is from April to March.

2/ Insurance companies and other non bank private sector; BOSS programs are also included here.

3/ Including government's equity investment into crisis-affected companies in the tourism sector.

4/ Including: Central Government debt, Central Government expenditure and debt arrears (if any), and SOE debt guaranteed by the Central Government including IMF loan to the CBB; it excludes debt directly serviced by SOEs and not guaranteed by the CG.

Table 3. Barbados: Public Debt, 2019/2020–2027/2028 1/ 2/

			Est.	Projections					
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/28	2027/28
	(In millions of Barbados dollars)								
Public Debt	**12,674**	**13,287**	**13,773**	**14,473**	**14,529**	**14,507**	**14,293**	**14,044**	**13,819**
External	3,448	4,414	4,949	5,446	5,851	6,161	6,137	5,803	5,496
Short Term	54	0	0	0	0	0	0	0	0
Long term	3,394	4,414	4,949	5,446	5,851	6,161	6,137	5,803	5,496
Domestic	9,226	8,873	8,824	9,027	8,678	8,345	8,156	8,241	8,323
Short Term	850	787	733	962	910	857	805	752	700
Long term	8,376	8,085	8,091	8,065	7,768	7,488	7,351	7,488	7,623
Arrears 4/	**207**	**79**	**23**	**262**	**210**	**157**	**105**	**52**	**0**
External	54	0	0	0	0	0	0	0	0
Domestic	153	79	23	262	210	157	105	52	0
CBB & SOE Guaranteed Debt 5/	**345**	**457**	**451**	**445**	**435**	**400**	**336**	**264**	**192**
External 3/	345	457	451	445	435	400	336	264	192
Domestic	0	0	0	0	0	0	0	0	0
CG Debt	**12,122**	**12,750**	**13,300**	**13,766**	**13,884**	**13,950**	**13,852**	**13,727**	**13,627**
External 3/ 6/	3,049	3,957	4,499	5,001	5,416	5,762	5,801	5,539	5,304
Domestic	9,073	8,793	8,801	8,765	8,468	8,188	8,051	8,188	8,323
Short Term	697	708	710	700	700	700	700	700	700
Long term	8,376	8,085	8,091	8,065	7,768	7,488	7,351	7,488	7,623
	(In percent of FY GDP)								
Public Debt	**123.0**	**139.8**	**135.1**	**122.5**	**114.6**	**107.9**	**101.1**	**94.9**	**89.4**
External	33.5	46.4	48.6	46.1	46.2	45.8	43.4	39.2	35.6
Short Term	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long term	32.9	46.4	48.6	46.1	46.2	45.8	43.4	39.2	35.6
Domestic	89.5	93.3	86.6	76.4	68.5	62.1	57.7	55.7	53.9
Short Term	8.2	8.3	7.2	8.1	7.2	6.4	5.7	5.1	4.5
Long term	81.3	85.0	79.4	68.2	61.3	55.7	52.0	50.6	49.3
Arrears 4/	**2.0**	**0.8**	**0.2**	**2.2**	**1.7**	**1.2**	**0.7**	**0.4**	**0.0**
External	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	1.5	0.8	0.2	2.2	1.7	1.2	0.7	0.4	0.0
CBB & SOE Guaranteed Debt 5/	**3.3**	**4.8**	**4.4**	**3.8**	**3.4**	**3.0**	**2.4**	**1.8**	**1.2**
External 3/	3.3	4.8	4.4	3.8	3.4	3.0	2.4	1.8	1.2
Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CG Debt	**117.6**	**134.1**	**130.5**	**116.5**	**109.6**	**103.7**	**98.0**	**92.8**	**88.2**
External 3/ 6/	29.6	41.6	44.1	42.3	42.7	42.9	41.0	37.4	34.3
Domestic	88.0	92.5	86.4	74.2	66.8	60.9	56.9	55.3	53.9
Short Term	6.8	7.4	7.0	5.9	5.5	5.2	5.0	4.7	4.5
Long term	81.3	85.0	79.4	68.2	61.3	55.7	52.0	50.6	49.3
Memorandum items:									
Nominal GDP, FY (BDS$ millions)	10,305	9,507	10,193	11,817	12,672	13,446	14,139	14,797	15,450

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 expenditure and debt arrears (if any), and SOE debt guaranteed by the Central Government including IMF loan to the CBB; it excludes debt directly serviced by SOEs and not guaranteed by the CG.

3/ All medium- and long-term.

4/ Including legacy arrears formally recognized by the authorities in FY2022/23.

5/ Including IMF loan to the CBB under the EFF.

6/ Including IMF loan directly lent to the government under the EFF.

Table 4a. Barbados: Balance of Payments, 2019–2027
(In millions of US$)

			Est.	Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Current account balance	**-147**	**-278**	**-528**	**-582**	**-558**	**-527**	**-459**	**-418**	**-374**
o/w Exports of goods and services	2,242	1,395	1,495	1,878	2,101	2,265	2,450	2,584	2,710
o/w Imports of goods and services	2,076	1,699	1,960	2,357	2,485	2,601	2,663	2,746	2,826
Trade balance	-739	-803	-942	-1,146	-1,213	-1,251	-1,192	-1,212	-1,229
Exports of goods	763	619	647	757	779	820	909	942	975
o/w Re-exports	190	120	119	171	182	200	264	272	280
Imports of goods	1,502	1,422	1,589	1,903	1,992	2,072	2,101	2,154	2,204
o/w Oil	364	255	343	502	453	432	400	374	353
Services balance	905	499	476	668	829	915	979	1,050	1,113
Credit	1,479	776	848	1,122	1,323	1,445	1,541	1,642	1,735
o/w Travel (credit)	1,250	577	627	860	1,040	1,144	1,224	1,310	1,388
Debit	574	277	372	454	493	530	562	592	622
Primary income balance	-267	-67	-96	-115	-186	-204	-260	-270	-274
Credit	283	169	206	245	264	281	296	310	324
Debit	550	237	302	360	450	486	556	581	598
Secondary income balance	-46	93	33	12	12	13	14	15	15
Credit	55	198	142	174	187	199	210	220	230
Debit	101	105	109	162	175	186	196	205	214
Capital and financial account	**386**	**831**	**615**	**479**	**642**	**506**	**375**	**197**	**226**
Financial Account Balance	388	833	618	479	642	506	375	197	226
Public sector	186	491	381	151	299	147	11	-141	-154
o/w CG and CBB Inflows	239	570	465	248	411	289	270	158	148
IMF financing	101	231	48	42	113	114	57	0	0
o/w RSF	0	0	0	0	75	76	38	0	0
SDR allocation	0	0	130	0	0	0	0	0	0
Other IFIs and commercial	138	340	287	206	298	175	212	158	148
o/w CG and CBB Outflows	67	86	84	94	112	140	257	297	301
o/w IMF	0	0	0	0	12	35	63	71	77
Private sector	202	342	236	327	344	359	364	338	381
FDI and long-term debt (net)	244	380	259	327	344	359	364	338	381
Short-term debt (net)	-42	-38	-22	0	0	0	0	0	0
Capital Account Balance	-3	-2	-3	0	0	0	0	0	0
Net errors and omissions	**2**	**36**	**112**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance (deficit -)	**241**	**590**	**199**	**-103**	**85**	**-21**	**-84**	**-221**	**-148**
Memorandum items:									
Oil Price (WTI, US$ per barrel)	56.3	39.5	68.5	96.8	83.5	78.0	73.7	70.4	67.8
Gross International Reserves (GIR, US$ million)	740	1,330	1,529	1,426	1,511	1,490	1,406	1,184	1,036
GIR (months of imports of G&S)	4.3	9.4	9.4	7.3	7.3	6.9	6.3	5.2	4.4
GIR (percent of ARA)	142.8	259.1	288.2	244.3	246.6	235.1	202.3	165.1	142.6

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

Table 4b. Barbados: Balance of Payments, 2019–2027
(In percent of CY-GDP, unless otherwise indicated)

			Est.	Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Current account balance	**-2.8**	**-5.9**	**-10.9**	**-10.1**	**-8.9**	**-7.9**	**-6.6**	**-5.7**	**-4.9**
o/w Exports of goods and services	42.3	29.6	30.7	32.4	33.7	34.1	35.0	35.3	35.4
o/w Imports of goods and services	39.2	36.0	40.3	40.7	39.9	39.2	38.1	37.5	36.9
Trade balance	-13.9	-17.0	-19.3	-19.8	-19.5	-18.9	-17.1	-16.5	-16.1
Exports of goods	14.4	13.1	13.3	13.1	12.5	12.4	13.0	12.9	12.7
o/w Re-exports	3.6	2.6	2.4	3.0	2.9	3.0	3.8	3.7	3.7
Imports of goods	28.3	30.2	32.6	32.9	32.0	31.2	30.1	29.4	28.8
o/w Oil	6.9	5.4	7.0	8.7	7.3	6.5	5.7	5.1	4.6
Services balance	17.1	10.6	9.8	11.5	13.3	13.8	14.0	14.3	14.5
Credit	27.9	16.5	17.4	19.4	21.2	21.8	22.0	22.4	22.7
o/w Travel (credit)	23.6	12.2	12.9	14.8	16.7	17.2	17.5	17.9	18.1
Debit	10.8	5.9	7.6	7.8	7.9	8.0	8.0	8.1	8.1
Primary income balance	-5.0	-1.4	-2.0	-2.0	-3.0	-3.1	-3.7	-3.7	-3.6
Credit	5.3	3.6	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Debit	10.4	5.0	6.2	6.2	7.2	7.3	8.0	7.9	7.8
Secondary income balance	-0.9	2.0	0.7	0.2	0.2	0.2	0.2	0.2	0.2
Credit	1.0	4.2	2.9	3.0	3.0	3.0	3.0	3.0	3.0
Debit	1.9	2.2	2.2	2.8	2.8	2.8	2.8	2.8	2.8
Capital and financial account	**7.3**	**17.6**	**12.6**	**8.3**	**10.3**	**7.6**	**5.4**	**2.7**	**3.0**
Financial Account Balance	7.3	17.7	12.7	8.3	10.3	7.6	5.4	2.7	3.0
Public sector	3.5	10.4	7.8	2.6	4.8	2.2	0.2	-1.9	-2.0
o/w CG and CBB Inflows	4.5	12.1	9.6	4.3	6.6	4.4	3.9	2.1	1.9
IMF financing	1.9	4.9	1.0	0.7	1.8	1.7	0.8	0.0	0.0
o/w RSF		0.0	0.0	0.0	1.2	1.1	0.5	0.0	0.0
SDR allocation	0.0	0.0	2.7	0.0	0.0	0.0	0.0	0.0	0.0
Other IFIs and commercial	2.6	7.2	5.9	3.6	4.8	2.6	3.0	2.1	1.9
o/w CG and CBB Outflows	1.3	1.8	1.7	1.6	1.8	2.1	3.7	4.0	3.9
o/w IMF	0.0	0.0	0.0	0.0	0.2	0.5	0.9	1.0	1.0
Private sector	3.8	7.3	4.9	5.7	5.5	5.4	5.2	4.6	5.0
FDI and long-term debt (net)	4.6	8.1	5.3	5.7	5.5	5.4	5.2	4.6	5.0
Short-term debt (net)	-0.8	-0.8	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Capital Account Balance	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	**0.0**	**0.8**	**2.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance (deficit -)	**4.5**	**12.5**	**4.1**	**-1.8**	**1.4**	**-0.3**	**-1.2**	**-3.0**	**-1.9**
Memorandum items:									
Oil Price (WTI, US$ per barrel)	56.3	39.5	68.5	96.8	83.5	78.0	73.7	70.4	67.8
Gross International Reserves (GIR, US$ million)	740.5	1,330.3	1,529.4	1,426.2	1,510.7	1,489.5	1,405.7	1,184.5	1,036.5
GIR (months of imports of G&S)	4.3	9.4	9.4	7.3	7.3	6.9	6.3	5.2	4.4
GIR (percent of ARA)	142.8	259.1	288.2	244.3	246.6	235.1	202.3	165.1	142.6

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

Table 5. Barbados: Monetary Survey, 2019–2027

	2019	2020	Est. 2021	Projections 2022	2023	2024	2025	2026	2027
	(In millions of Barbados dollars)								
Central Bank of Barbados									
Net International Reserves	1,130	2,195	2,595	2,403	2,594	2,604	2,498	2,117	1,885
Assets	1,478	2,661	3,059	2,852	3,021	2,979	2,811	2,369	2,073
Liabilities	-348	-466	-464	-449	-428	-375	-313	-252	-188
Gross International Reserves	1,481	2,661	3,059	2,852	3,021	2,979	2,811	2,369	2,073
Net domestic assets	1,762	1,296	1,479	2,089	2,076	2,126	2,176	2,226	2,239
Of which: Claims on Central government	829	773	826	946	946	912	852	802	796
Monetary base	2,939	3,552	4,133	4,492	4,670	4,730	4,674	4,344	4,124
Commercial banks									
Net foreign assets	661	633	827	827	827	827	827	827	827
Net domestic assets	10,685	11,609	12,092	12,621	12,801	13,081	13,295	13,333	13,483
Liabilities to the nonfinancial private sector	11,346	12,242	12,918	13,448	13,628	13,908	14,122	14,159	14,310
Monetary survey									
Net foreign assets	1,679	2,029	2,405	2,972	3,163	3,173	3,067	2,686	2,454
Net domestic assets	9,976	10,472	10,801	11,141	11,292	11,575	11,882	12,224	12,555
Net credit to the public sector	2,277	2,087	2,649	2,924	2,911	2,961	3,011	3,061	3,074
Central government	2,212	2,002	2,504	2,779	2,767	2,817	2,867	2,917	2,929
Rest of public sector	65	85	145	145	145	145	145	145	145
Credit to the private sector	8,303	8,206	8,109	8,173	8,337	8,570	8,827	9,119	9,438
Credit to rest of financial system	263	271	256	256	256	256	256	256	256
Other items (net)	-867	-92	-212	-212	-212	-212	-212	-212	-212
Broad money (M2, liabilities to the private sector)	11,655	12,501	13,206	14,113	14,454	14,748	14,949	14,910	15,009
	(Changes in percent of beginning-of-period liabilities to the private sector)								
Monetary survey									
Net international reserves	3.0	3.0	3.0	4.3	1.3	0.1	-0.7	-2.5	-1.6
Net domestic assets	0.0	4.3	2.6	2.6	1.1	2.0	2.1	2.3	2.2
Net credit to public sector	-0.3	-1.6	4.5	2.1	-0.1	0.3	0.3	0.3	0.1
Of which: central government	0.1	-1.8	4.0	2.1	-0.1	0.3	0.3	0.3	0.1
Credit to private sector	0.7	-0.8	-0.8	0.5	1.2	1.6	1.7	1.9	2.1
Other items (net)	0.2	6.7	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
	(In percentage change)								
Monetary survey									
Net domestic assets	0.0	5.0	3.1	3.1	1.4	2.5	2.7	2.9	2.7
Of which:									
Private sector credit	1.0	-1.2	-1.2	1.0	2.0	2.8	3.0	3.3	3.5
Public sector credit	-1.5	-8.3	26.9	10.4	-0.4	1.7	1.7	1.7	0.4
Broad money	3.0	7.3	5.6	6.9	2.4	2.0	1.4	-0.3	0.7

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

Table 6. Barbados: Medium-Term Macroeconomic Framework, 2019–2027
(In percent of GDP, unless otherwise indicated)

			Est.	Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
				(Annual percentage change)					
National accounts and prices (calendar year)									
CY Real GDP	-1.3	-13.7	1.1	10.0	4.8	3.9	2.8	2.3	2.0
Nominal GDP	4.2	-11.0	3.2	18.9	7.7	6.5	5.4	4.8	4.5
CPI inflation (average)	4.1	2.9	3.1	9.4	5.8	3.9	3.3	2.7	2.4
CPI inflation (end of period)	7.2	1.3	5.2	8.4	4.3	3.7	3.0	2.4	2.4
External sector (calendar year)									
Exports of goods and services, value	6.9	-37.8	7.2	25.6	11.9	7.8	8.2	5.5	4.9
Imports of goods and services, value	2.8	-18.2	15.4	20.2	5.4	4.7	2.4	3.1	2.9
Real effective exchange rate (average)	126.9	…	…	…	…	…	…	…	
Terms of trade	1.6	5.2	-11.2	-5.0	4.6	2.4	1.3	1.1	0.0
Money and credit (calendar year, end of period)									
Net domestic assets	0.0	5.0	3.1	3.1	1.4	2.5	2.7	2.9	2.7
Of which: Private sector credit	1.0	-1.2	-1.2	1.0	2.0	2.8	3.0	3.3	3.5
Broad money	3.0	7.3	5.6	6.9	2.4	2.0	1.4	-0.3	0.7
Velocity (GDP relative to broad money)	0.9	0.8	0.7	0.7	0.8	0.8	0.9	0.9	1.0
				(In percent of FY GDP, unless otherwise indicated)					
Public finances (fiscal year) 1/									
Central government									
Revenue and grants	30.6	28.4	28.9	29.3	28.9	29.1	29.6	29.7	29.7
Expenditure	26.9	32.9	33.7	31.5	29.8	29.6	28.9	28.8	28.7
Fiscal balance	3.7	-4.5	-4.8	-2.2	-0.9	-0.5	0.7	0.9	1.0
Interest Expenditure	2.4	3.6	3.9	4.2	4.4	4.5	4.3	4.1	4.0
Primary balance	6.2	-0.9	-0.9	2.0	3.5	4.0	5.0	5.0	5.0
Debt (fiscal year) 1/									
Central government gross debt	123.0	139.8	135.1	122.5	114.6	107.9	101.1	94.9	89.4
External	33.5	46.4	48.6	46.1	46.2	45.8	43.4	39.2	35.6
Domestic	89.5	93.3	86.6	76.4	68.5	62.1	57.7	55.7	53.9
Savings and investment (calendar year)									
Gross domestic investment	14.6	18.0	18.2	17.6	17.2	17.2	17.2	17.3	17.4
Public	2.0	2.9	4.2	3.7	3.3	3.3	3.4	3.4	3.5
Private 2/	12.5	15.1	14.0	13.9	13.9	13.9	13.9	13.9	13.9
National savings	11.8	12.1	7.3	7.6	8.2	9.3	10.7	11.6	12.5
Public	-2.6	1.7	5.6	-2.5	-2.0	0.6	1.6	2.1	3.3
Private	14.4	10.5	1.7	10.1	10.2	8.7	9.1	9.5	9.2
External savings	-2.8	-5.9	-10.9	-10.1	-8.9	-7.9	-6.6	-5.7	-4.9
Balance of payments (calendar year)									
Current account	-2.8	-5.9	-10.9	-10.1	-8.9	-7.9	-6.6	-5.7	-4.9
Capital and financial account	7.3	17.6	12.6	8.3	10.3	7.6	5.4	2.7	3.0
Official capital (net)	3.5	10.4	7.8	2.6	4.8	2.2	0.2	-1.9	-2.0
Private capital (net)	3.8	7.3	4.9	5.7	5.5	5.4	5.2	4.6	5.0
Net errors and omissions	0.0	0.8	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	4.5	12.5	4.1	-1.8	1.4	-0.3	-1.2	-3.0	-1.9
Memorandum items:									
Exchange rate (BDS$/US$)	2.0	2.0	2.0	…	…	…	…	…	…
Oil price (WTI, US$ per barrel)	56.3	39.5	68.5	96.8	83.5	78.0	73.7	70.4	67.8
Gross international reserves (US$ millions)	740	1,330	1,529	1,426	1,511	1,490	1,406	1,184	1,036
In months of imports	4.3	9.4	9.4	7.3	7.3	6.9	6.3	5.2	4.4
In percent of ARA	142.8	259.1	288.2	244.3	246.6	235.1	202.3	165.1	142.6
Nominal CY GDP (BDS$ millions)	10,596	9,431	9,735	11,578	12,465	13,271	13,983	14,653	15,309

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, 2016–2021

(Percent)

	2016	2017	2018	2019	2020	2021
Commercial Banks						
Solvency Indicator						
Capital Adequacy Ratio (CAR)	17.0	17.0	13.9	13.5	16.0	16.8
Liquidity Indicators 1/						
Loan to deposit ratio	62.3	63.3	63.0	61.8	57.1	53.0
Domestic demand deposits to total domestic deposits	40.3	41.6	41.8	45.3	46.9	47.4
Liquid assets, in percent of total assets	27.4	26.7	21.1	22.9	25.1	28.3
Credit Risk Indicators						
Loans and advances (yoy growth rate) 2/	-0.5	2.0	0.7	-0.5	-2.1	-2.1
Non-performing loans ratio	8.9	7.9	7.4	6.6	7.3	7.3
Provisions to non-performing loans	63.2	69.6	67.3	60.2	62.0	60.2
Foreign Exchange Risk Indicators						
Deposits in Foreign Exchange (in percent of total deposits)	8.6	8.8	10.5	6.7	6.6	7.8
Profitability Indicators						
Return on Assets (ROA)	1.0	1.3	-0.2	0.6	0.8	1.1
Credit Unions						
Solvency Indicator						
Reserves to Total Liabilities	12.4	12.5	11.9	11.4	9.5	9.6
Liquidity Indicators						
Loan to deposit ratio	103.2	100.6	94.3	89.6	73.5	72.3
Credit risk Indicators						
Total assets, annual growth rate	8.3	8.7	9.5	7.5	7.3	1.3
Loans, annual growth rate	7.3	6.3	4.2	3.5	0.9	3.0
Nonperforming loans ratio	7.6	7.8	8.9	9.6	13.1	14.1
Arrears 3-6 months/Total Loans	1.3	1.3	1.9	1.9	2.2	3.2
Arrears 6 – 12 months/Total Loans	1.2	1.4	1.4	1.6	3.6	2.4
Arrears over 12 months/Total Loans	5.1	5.0	5.5	6.1	7.3	8.5
Provisions to Total loans	2.5	2.4	2.6	2.8	3.1	3.8
Profitability Indicator						
Return on Assets (ROA)	0.8	0.9	0.7	0.7	0.5	0.2

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 – External Financing Requirements and Sources

(In millions of US$ unless otherwise indicated)

	2019	2020	Est. 2021	Projections 2022	2023	2024	2025	2026	2027
	(in US$ millions, unless otherwise indicated)								
Gross Financing Requirements	**214**	**364**	**612**	**679**	**670**	**669**	**718**	**716**	**677**
Current Account Balance	147	278	528	582	558	527	459	418	374
CG Debt Amortization	67	86	84	97	113	142	259	298	302
Sources of Financing	**214**	**364**	**612**	**637**	**633**	**631**	**699**	**716**	**677**
Public sector	253	578	465	206	374	251	251	158	148
o/w: World Bank	0	0	100	0	100	0	0	0	0
IDB 1/	0	200	100	100	100	80	80	40	0
IMF	0	0	130	0	75	76	38	0	0
SDR allocation	0	0	130	0	0	0	0	0	0
RSF financing 2/	0	0	0	0	75	76	38	0	0
FDI and long-term debt (net)	244	380	259	327	344	359	364	338	381
Short-term debt (net)	-42	-38	-22	0	0	0	0	0	0
Capital Account Balance	-3	-2	-3	0	0	0	0	0	0
Net errors and omissions	2	36	112	0	0	0	0	0	0
Change in Reserve (- = increase)	-241	-590	-199	103	-85	21	84	221	148
Financing Gap	**0**	**0**	**0**	**42**	**38**	**38**	**19**	**0**	**0**
Prospective Financing				**42**	**38**	**38**	**19**	**0**	**0**
IMF EFF disbursement 2/				42	38	38	19	0	0
Memo items:									
GIR (percent of ARA)	143	259	288	244	247	235	202	165	143
GIR (months of imports of G&S)	4.3	9.4	9.4	7.3	7.3	6.9	6.3	5.2	4.4

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

1/ Policy loan

2/ Including IMF disbursements associated with future reviews.

Table 9. Barbados: Proposed Schedule of Purchases Under the EFF-Supported Program
(In millions of SDR)

Availability Date	Conditions for disbursement	EFF Purchases	
		SDR million	Percent of Quota
December 7, 2022	Approval of 3-year Arrangement under the EFF	14.175	15.0
May 15, 2023	1st Review and continuous and end March 2023 performance criteria	14.175	15.0
November 15, 2023	2nd Review and continuous and end September 2023 performance criteria	14.175	15.0
May 15, 2024	3rd Review and continuous and end March 2024 performance criteria	14.175	15.0
November 15, 2024	4th Review and continuous and end September 2024 performance criteria	14.175	15.0
May 15, 2025	5th Review and continuous and end March 2025 performance criteria	14.175	15.0
Total Access		85.050	90

Source: Fund staff.

Table 10. Barbados: Proposed Schedule of Disbursements Under the RSF Arrangement
(In millions of SDR)

Availability Date	Millions of SDR	Percent of Quota	Conditions
May 15, 2023	14.175	15.0	Completion of RSF review of reform measures 1 implementation
May 15, 2023	14.175	15.0	Completion of RSF review of reform measures 2 implementation
November 15, 2023	14.175	15.0	Completion of RSF review of reform measures 3 implementation
November 15, 2023	14.175	15.0	Completion of RSF review of reform measures 6 implementation
May 15, 2024	14.175	15.0	Completion of RSF review of reform measures 4 implementation
May 15, 2024	14.175	15.0	Completion of RSF review of reform measures 7 implementation
November 15, 2024	14.175	15.0	Completion of RSF review of reform measures 8 implementation
November 15, 2024	14.175	15.0	Completion of RSF review of reform measures 9 implementation
May 15, 2025	14.175	15.0	Completion of RSF review of reform measures 5 implementation
May 15, 2025	14.175	15.0	Completion of RSF review of reform measures 10 implementation
Memorandum item:			
Quota	94.5		
Total Access	141.75	150	

Source: Fund staff.

Table 11. Barbados: Program Monitoring – Indicators of Fund Credit Under the EFF and RSF 1/

(In millions of SDR unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
Existing and prospective Fund credit (SDR million)																								
Disbursements	14.2	56.7	56.7	28.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EFF	14.2	28.4	28.4	14.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	28.4	28.4	14.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of existing and prospective Fund credit	336.2	412.5	471.6	467.6	415.3	358.1	296.2	238.2	196.3	175.1	159.5	147.4	134.4	120.5	106.3	92.1	78.0	63.8	49.6	35.4	21.3	8.5	1.4	0.0
EFF	336.2	355.8	358.2	325.8	273.6	216.3	154.4	96.5	54.6	33.3	17.7	7.1	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	56.7	113.4	141.8	141.8	141.8	141.8	141.8	141.8	141.8	141.8	140.3	133.3	120.5	106.3	92.1	78.0	63.8	49.6	35.4	21.3	8.5	1.4	0.0
Obligations	3.4	25.7	46.0	69.7	73.2	74.8	75.9	68.9	51.1	29.2	22.8	18.8	19.3	19.8	19.6	19.1	18.7	18.2	17.7	17.3	16.8	14.9	8.9	3.0
Principal (repayments/repurchases)	0.0	8.8	25.9	46.6	52.3	57.2	61.9	57.9	41.9	21.3	15.6	12.1	13.0	13.9	14.2	14.2	14.2	14.2	14.2	14.2	14.2	12.8	7.1	1.4
EFF	0.0	8.8	25.9	46.6	52.3	57.2	61.9	57.9	41.9	21.3	15.6	10.6	5.9	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.4	7.1	12.8	14.2	14.2	14.2	14.2	14.2	14.2	14.2	12.8	7.1	1.4
Charges and interest 2/	3.4	16.9	20.0	23.1	21.0	17.6	13.9	11.0	9.1	7.9	7.2	6.7	6.3	5.9	5.4	4.9	4.5	4.0	3.6	3.1	2.6	2.2	1.8	1.6
Fund obligations (repurchases and charges) in percent of:																								
Quota	3.6	27.2	48.6	73.7	77.5	79.2	80.3	73.0	54.0	30.9	24.1	19.8	20.4	21.0	20.7	20.2	19.7	19.2	18.8	18.3	17.8	15.8	9.4	3.2
o/w: RSF	0.0	0.8	2.7	4.5	4.9	4.9	4.9	4.9	4.9	4.9	4.9	6.4	12.3	18.0	19.1	18.6	18.1	17.6	17.1	16.6	16.1	14.1	7.7	1.5
GDP	0.1	0.5	0.9	1.3	1.4	1.3	1.3	1.1	0.8	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.0
Exports of goods and services	0.2	1.6	2.7	3.8	3.8	3.7	3.6	3.2	2.3	1.2	0.9	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.5	0.5	0.5	0.4	0.2	0.1
Gross international reserves	0.3	2.2	4.0	6.4	8.1	9.4	10.3	10.3	7.9	4.4	3.5	2.9	2.9	2.9	2.8	2.5	2.4	2.4	2.3	2.2	2.1	1.9	1.1	0.3
Government revenue	0.3	1.9	3.1	4.5	4.5	4.4	4.3	3.8	2.7	1.5	1.1	0.9	0.9	0.8	0.8	0.7	0.7	0.6	0.6	0.6	0.5	0.4	0.3	0.1
External debt service, public and publicly guaranteed (PPG)	2.7	17.8	26.4	23.3	23.9	24.4	21.9	18.7	16.7	9.6	7.4	6.8	6.8	6.7	6.6	6.2	5.7	5.6	5.6	5.6	5.1	4.2	2.4	0.8
Fund credit outstanding in percent of:																								
Quota	355.7	436.5	499.1	494.8	439.5	378.9	313.4	252.1	207.7	185.2	168.8	156.0	142.3	127.5	112.5	97.5	82.5	67.5	52.5	37.5	22.5	9.0	1.5	0.0
o/w: RSF	0.0	60.0	120.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	148.5	141.0	127.5	112.5	97.5	82.5	67.5	52.5	37.5	22.5	9.0	1.5	0.0
GDP	7.7	8.8	9.5	9.0	7.7	6.4	5.1	3.9	3.1	2.6	2.3	2.0	1.8	1.5	1.3	1.1	0.9	0.7	0.5	0.3	0.2	0.1	0.0	0.0
Exports of goods and services	23.7	26.2	27.9	25.7	21.8	17.9	14.3	11.1	8.8	7.5	6.6	5.9	5.1	4.5	3.8	3.2	2.6	2.0	1.5	1.1	0.6	0.2	0.0	0.0
Gross international reserves	31.1	36.0	41.5	43.4	45.9	45.2	40.3	35.7	30.4	26.3	24.8	22.9	20.4	17.8	15.1	12.2	10.2	8.3	6.4	4.5	2.7	1.1	0.2	0.0
Government revenue	25.7	30.0	32.3	30.2	25.8	21.3	16.9	13.0	10.3	8.8	7.7	6.8	6.0	5.1	4.3	3.6	2.9	2.3	1.7	1.2	0.7	0.3	0.0	0.0
External debt, PPG	16.3	18.8	20.5	20.5	19.4	17.6	15.2	12.9	10.9	10.0	9.4	8.8	8.2	7.5	6.4	5.3	4.4	3.4	2.6	1.8	1.0	0.4	0.1	0.0
Memorandum items:																								
Quota (SDR million)	94.5	94.5	94.5	94.5	94.5	94.5	94.5	94.5	94.5	94.5	94.5	94.5	94.5	94.5	94.5	94.5	94.5	94.5	94.5	94.5	94.5	94.5	94.5	94.5
Gross domestic product (USD million)	5,789.1	6,232.5	6,625.5	6,969.4	7,293.7	7,611.1	7,946.5	8,292.2	8,652.9	9,029.3	9,422.1	9,832.0	10,259.7	10,706.0	11,171.7	11,657.7	12,164.8	12,693.9	13,246.1	13,822.2	14,423.6	15,051.0	15,705.8	16,389.0
Exports of goods and services (USD million)	1,878.5	2,101.3	2,264.6	2,449.0	2,582.3	2,708.4	2,813.4	2,922.3	3,035.4	3,161.5	3,293.2	3,415.1	3,542.0	3,670.1	3,803.2	3,941.4	4,085.2	4,234.6	4,389.9	4,551.4	4,719.4	4,894.1	5,075.9	5,289.1
Gross international reserves (USD million)	1,432.7	1,526.0	1,524.3	1,452.8	1,228.1	1,075.6	996.9	904.5	877.6	904.7	874.2	874.6	893.9	920.4	952.9	1,024.2	1,036.2	1,047.4	1,057.6	1,066.9	1,076.0	1,085.2	1,095.8	1,281.9
Government revenue (USD million)	1,732.0	1,831.1	1,955.7	2,086.7	2,183.7	2,278.0	2,377.0	2,479.3	2,586.0	2,697.3	2,813.4	2,934.5	3,062.3	3,195.6	3,334.6	3,479.6	3,630.9	3,788.7	3,953.2	4,124.9	4,303.9	4,490.7	4,685.4	4,888.6
External debt service, PPG (USD million)	173.0	191.5	232.6	402.3	413.8	415.0	467.9	499.9	414.6	410.1	416.3	375.6	385.5	401.5	399.8	419.8	442.0	442.5	428.1	418.5	442.8	476.5	507.6	535.6
Total external debt, PPG (USD million)	2,727.9	2,930.5	3,085.7	3,073.6	2,906.5	2,752.9	2,639.8	2,512.0	2,434.9	2,374.6	2,311.8	2,270.2	2,224.4	2,171.2	2,256.2	2,341.2	2,426.2	2,511.2	2,596.2	2,681.2	2,766.2	2,851.2	2,936.2	2,589.3

Source: IMF staff calculations.

1/ Using SDR/USD exchange rate = 0.78316 (as of October 20, 2022) and quota SDR = 94.5 million;

2/ Total Interest based on existing and prospective drawings using GRA rate of charge of 3.32 percent (as of October 20, 2022), while Barbados belongs to the RST interest Group C and Interest is based on the RST rate of interest of 3.27 percent (as of October 20, 2022)

Annex I. Debt Sustainability Analysis

Barbados' overall risk of sovereign stress is assessed to be moderate. This is consistent with the moderate near-, medium-, and long-term final risk assessments, which confirm mechanical signals. While the Fanchart flashes a high-risk signal due to the large volatility of key macroeconomic indicators, public debt is strictly on a downward trend and GFN financeability tool indicates a moderate risk. Further, Barbados' public debt is assessed to be sustainable. The debt-to-GDP ratio has been brought back onto a downward trajectory in FY2021/22 after a temporary interruption due to fiscal responses to the COVID-19 and a sharp contraction in nominal GDP in FY2020/21. Accommodative fiscal policies were needed over the past two years to address the imminent public health crisis, which was aggravated by natural disasters—a volcanic eruption in St. Vincent in April 2021 as well as a category 1 hurricane, Elsa in July 2021. Under the current baseline, the 60 percent-of-GDP debt anchor is projected to be reached by FY2035/36 with envisaged primary surpluses backed by an economic recovery and structural reforms. Risks include a slower-than-expected tourism recovery, and the authorities' ability to maintain high primary surpluses over an extended period. While these risks are mitigated by Barbados' strong track record under the recently completed EFF-supported program, a favorable debt service schedule, and improved market perceptions following the comprehensive 2018-19 debt restructuring, the capacity to generate high primary surpluses is untested with projected fiscal adjustment falling within the 75th percentile of the distribution of past fiscal adjustments observed in cross-country datasets.

A. Recent Development and Public Debt Structure

1. **Barbados' public debt has been put back onto a long-term downward path after a large increase in FY2020/21.** Barbados had steadily reduced public debt to 123 percent of GDP by the end of FY2019/20 from 158 percent of GDP in FY2017/18 before the pandemic interrupted the fiscal consolidation.

- **Public debt is estimated to have declined to about 135 percent of GDP in FY2021/22 from a temporary increase to 140 percent in FY2020/21 owing to the COVID-19 pandemic.** A gradual economic recovery has compressed the debt-to-GDP ratio in FY2021/22, while the fiscal policy had to remain accommodative in FY2021/22 to address the protracted negative impacts owing to the COVID-19 pandemic and two natural disasters—a volcanic eruption in St. Vincent in April 2021 and a category 1 hurricane, Elsa in July 2021. The sharp increase of the debt-to-GDP ratio in FY2020/21 can be attributed to fiscal responses to the COVID-19 shock as well as a sharp decrease in nominal GDP. Larger financing needs over the past two years were met through strong financial support from IFIs including disbursements under the EFF-supported program with favorable borrowing terms.

- **Prior to the COVID-19 pandemic, during FY2018/19 and FY2019/20, public domestic debt had decreased steadily owing primarily to debt restructuring and fiscal adjustment.** The 2018-2019 debt restructuring provided NPV debt reduction of about 30 percent of GDP, while converting large part of short-term CG debt to longer-term debt and significantly improving its debt service schedule. The large fiscal adjustment under the EFF-supported program in FY2018/19 and

FY2019/20 along with restraint in commercial borrowing has contained gross financing needs and reduced public debt consequently. Clearance of domestic expenditure arrears also contributed to a reduction in domestic debt.

- **The profile of public debt poses limited risk (Table 2)**. 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 longer grace period and maturity accompanied by low interest rates. Restructured external debt now has a 5-year grace period and comes due only from 2025 onwards with a much smoother debt service profile than originally scheduled before the debt restructuring. Around half of gross financing needs are represented by short term debt but with no rollover risk as commercial banks have agreed to rollover the full stock of these claims for the first 10-year period, and the rest of the short-term debt is held by the CBB. Principal payments associated with restructured external debt will resume only from 2025 onwards.

B. Debt Coverage, Assumptions, and Realism Assessment

2. Debt coverage used for the analysis appropriately captures Barbados' debt vulnerabilities (Figure 2). This DSA covers nearly the full stock of public debt, including debt issued by the Central Government, debt and expenditure arrears[1] incurred by the Central Government, as well as debt issued by SOEs and guaranteed by the Central Government. In addition to IMF budget support lent directly to the Treasury, IMF BOP support provided to the CBB is also included in public debt. There is no local government debt. SOE debt not guaranteed by the central government is negligible at around 3.5 percent of GDP and not included in the analysis. We refer to this gross debt concept as "public debt" going forward, and it should be reminded that this concept differs from the consolidated concept of public sector debt.

3. Macroeconomic projections are premised on a gradual recovery of the tourism sector and fiscal revenue towards the long-term norms.

- ***Growth and Inflation***. After modest growth of 1.1 percent in 2021, the economy is projected to rebound strongly at about 10 percent for 2022 given a recovery in tourism reflecting a gradual economic improvement in key source countries. Over the medium term, growth is expected to return to the pre-crisis levels around late 2024. It would eventually stabilize at its long-term average of around 2 percent supported by normalization of the economy, ongoing structural reforms, and strategic investment. The recent global increase in inflation, which is compounded by Russia's war in Ukraine, has significantly increased inflationary pressure, given that Barbados depends on imports for fuels and food. Average inflation is projected to gradually return to its long-run average of around 2½ percent from 2024 onwards after a sharp increase to around 9 percent in FY2022/23.

- ***Primary Balance***. For FY2022/23, the primary balance is projected at 2 percent of GDP, from minus 1 percent of GDP in both FY2020/21 and FY2021/22, to strike a balance between the need to

[1] Old tax refund arrears found in the legacy IT systems (around B$150 million) have recently been formally recognized as legitimate claims on the government and added to the government's public debt stock.

accelerate the reduction in public debt and to support the economy (with the recovery from the pandemic still far from complete). With a gradual economic recovery, the primary balance is projected to increase to 5 percent of GDP in the medium term. Subsequently, it could be gradually decreased to accommodate long-term developmental needs to the extent that the long-term debt anchor of 60 percent of GDP by the end of FY2035/36 is respected.

4. While the realism tools suggest that the projected debt reduction is ambitious, the staff is of the view that this is feasible given the authorities' strong commitment and Barbados' country-specific economic circumstances (Figure 3). The realism tools indicate that projected 3-year debt reduction and fiscal consolidation fall under the top quartile of the distribution among peer emerging countries. However, a large fall in the debt-to-GDP ratio is partly due to a sharp rebound in nominal GDP in FY2022/23 from a sharp collapse of the economy under the COVID-19 outbreak along with high inflation (denominator effects). Further, as demonstrated in FY2019/20, the authorities are strongly committed to long-term fiscal adjustments, backed by strong public support for macroeconomic stabilization, and to contingency measures should additional downside shocks materialize. Negative impacts on growth of the projected fiscal adjustments should be smaller than indicated by the realism tool given Barbados' near-term economic recovery will be driven by a gradual recovery in tourist arrivals, which will outweigh the fiscal consolidation.

C. Baseline Projections

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 (Figure 1, panel 1). Public debt has been brought back onto a downward trajectory in FY2021/22 and is expected to come down to the pre-COVID level of around 120 percent of GDP in FY2022/23. With the debt target pushed back by two years in the context of the fifth review under the previous EFF program, the authorities should be able to achieve the target through envisaged medium- and long-term primary surpluses balances backed by a gradual economic recovery and continued structural reforms. The main driving forces for debt reduction are primary balances and economic growth. Owing to the recent debt restructuring and prudent borrowing strategy, the effective real interest rate is roughly equal to long-run real growth rate, which would generate favorable declining debt dynamics consistent with cumulative primary surpluses (Figure 1, panel 3). Projected primary balances are much larger than the debt-stabilizing primary balances, which are estimated to be around zero percent of GDP over the projection period (Figure 1, panel 4).

6. The authorities' debt management strategy is appropriate. With short-term debt automatically rolled over based on the debt restructuring agreement, the authorities plan to meet the remaining financing needs in the near team through IFI financing and domestic borrowing, which will be gradually complemented with external commercial borrowing. Support from IFIs along with strict adherence to fiscal adjustment remains important given still-limited domestic demand for government debt. The authorities' long-term strategy aims at maintaining higher primary surpluses that would build confidence and allow to increase longer-term domestic debt issuance (Figure 1, panel 5). While regaining external market access over the medium term is also premised on improved market perceptions since the debt restructuring (Barbados is currently rated as B- and B by S&P and Fitch, respectively), the authorities should be able to roll over the commercial external debt, including recently restructured external debt (coming due from 2025 onwards). This should allow them 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 20 and 40 percent of GDP, respectively (Figure 1, panel 6).

D. Medium-Term Risk Analyses

7. The medium-term risk analysis is moderate consistent with mechanical signals while the tools suggest somewhat mixed signals between the fanchart and GFN tools (Figure 6).

- **Fanchart.** Debt fanchart index—measuring medium-term solvency risks—indicates a high risk with the score at 2.2, which is slightly above the high-risk threshold (2.1). This is attributed to the large volatility of key economic indicators, which creates a wide fan. The baseline debt trajectory and the fan are on a downward trend, and the probability of debt not stabilizing is assessed to be limited. Overall, solvency risks should be contained with continuous fiscal consolidation and a gradual economic recovery while this assessment is susceptible to other economic shocks, including the re-emergence of COVID-19, natural disasters, and a global economic downturn.

- **Gross Financing Needs (GFN) financeability.** GFN financeability index—measuring medium-term liquidity risks—indicates a moderate risk with the score of 8.3 (below the 17.9 high-risk threshold by an ample margin but above the 7.6 low-risk threshold). Medium-term GFN is expected to gradually come down as fiscal consolidation progresses. Additionally, there are limited roll-over risks in the medium-term owing to the 2018-2019 comprehensive debt restructuring, where commercial banks agreed to automatically roll-over short-term debt over the first 10 years and debt service associated with long-term debt was significantly spread out over years.

- **Stress tests.** The natural disaster stress test is conducted to capture country-specific vulnerabilities not fully captured under the fanchart and GFN tool using the default magnitude of a shock at 4.5 percent of GDP. The stress test generates a downward debt trajectory strictly below the 75th percentile of the fanchart, suggesting no needs to modify the mechanical signal (moderate) based on the fanchart and GFN financeability tools.

E. Long-Term Risk Analyses

8. Long-term risk is assessed to be moderate (Figure 7). The large debt amortizations module shows gradual declines in GFN and debt relative to GDP both under the baseline and custom scenarios[2]. Climate-related expenditure are manageable and would not significantly impact

[2] The primary surplus used for the long-term analysis was reduced to 3 percent of GDP (from 5 percent of GDP observed in the 5th projection year and normally extended throughout the projection period as a steady-state

(Continued)

debt sustainability in the long run even under the customized scenario where an additional 1 percent of GDP expenditure is added in the baseline, which is preliminarily estimated to cover both adaptation and mitigation investment needs. While the current healthcare expenditure policies would not pose significant sustainability concerns, continued pension expenditure under the current system would lead to larger GFNs and an upwards debt trajectory in the long run. This confirms the need to reform the current public pension system.

F. Public Debt Sustainability

9. On balance Barbados' debt is assessed as sustainable. Public debt has been brought back onto a gradual downward trajectory under the current baseline projections after temporarily interrupted by the COVID-19 shocks and is projected to achieve the 60 percent-to-GDP debt target in FY2035/36 under baseline projections with reasonably ambitious primary surpluses and gradual economic recovery (Figure 4). Combined with the authorities' strong performance under the recently completed EFF program, commitment to long-term fiscal consolidation, and cautious debt management strategy, Barbados' debt is assessed as sustainable.

G. Overall Risk of Sovereign Debt Stress

10. Barbados' overall risk of sovereign debt stress is assessed to be moderate. With a moderate-risk assessment both for medium- and long-term risks, it is appropriate for the overall risk to be assessed as moderate. While Barbados is subject to somewhat higher solvency risks due to its large economic volatility as evidenced by the fanchart, liquidity risks are well contained owing to limited roll-over risks and prospective IFI financial support.

11. The moderate risk assessment is subject to risks and uncertainty. In particular, the risk of a significant deviation from the gradual recovery path going forward—including due to repeated emergences of new COVID variants and significant spillovers of Russa's war in Ukraine onto the global economy, which could lead to the delay of a recovery in tourist arrivals—would call into question the ability of the authorities to resume fiscal consolidation. Slippages in structural reforms to generate high primary balances in the long-run would also be a risk. The steady delivery of fiscal adjustment is important in light of the still-limited financing options available in the aftermath of debt restructuring with domestic banks' appetite for government debt quite limited. As evidenced by stress tests, the natural disaster shock would delay debt reduction, confirming the need to increase resiliency to natural disasters, in addition to encouraging continued vigilance on the soundness of SOEs and the financial sector. The authorities have steadily made progress in reform agenda including capital injections to the NIS to restore its long-term financial soundness, which was impaired by the debt restructuring and a large temporary increase in unemployment benefits due to the COVID-19 pandemic. Fiscal consolidation will be further entrenched by continued SOE reforms, pension reform, and the newly introduced

primary balance) under the custom scenario, given that this 5 percent is the projected peak primary balance in the macroeconomic framework.

procedural fiscal rule. The broader use and strengthening of state-contingent financial instruments would be encouraged to further increase its resilience against natural disasters.

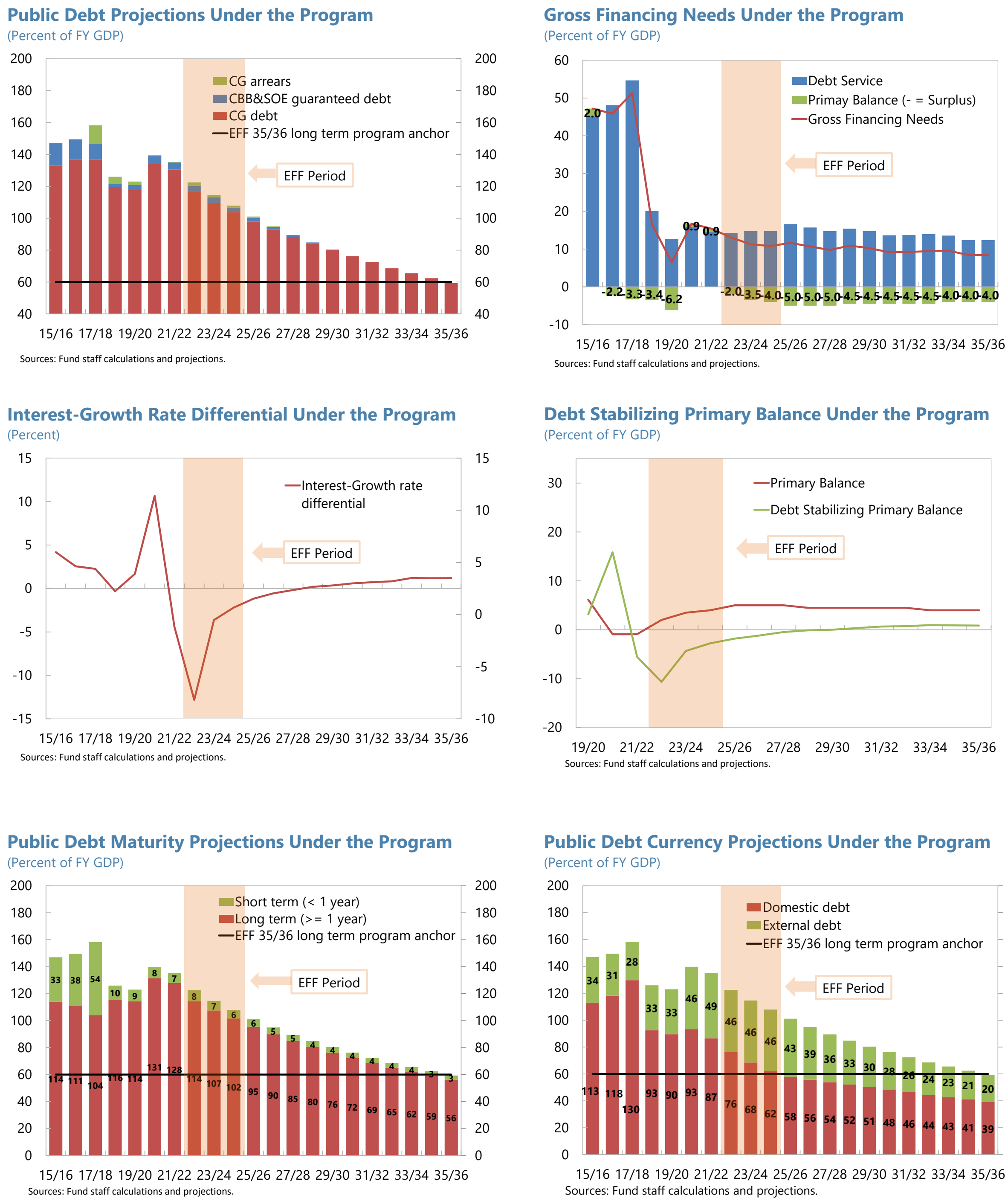
H. External Debt Sustainability Analysis

12. There is no significant concern over external debt sustainability[3]. In FY2021/22, external debt remained at an elevated level of 49 percent of GDP after a sharp rise in FY2020/21 due to strong support from IFIs and a sharp decline in nominal GDP. It is projected to gradually decrease to about 35 percent of GDP by the end of the projection period. Going forward, this downward trend will be supported by the public debt management strategy aiming to limit expensive financing from the external capital market and rely on multilaterals and/or domestic sources of financing. Risks associated with external debt have been reduced by the 2018-19 debt restructuring with smoother and lower debt service and by the increased share of IFIs among non-resident creditors. Under the stress tests, external debt is projected to stay at reasonable levels of about 40 percent of GDP (Figure 8). A continued worsening in the current account deficit for example due to a more prolonged pandemic and a further increase in commodity prices would be a key risk as indicated by the stress test.

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

Figure 1. Barbados: Public Debt Projections 1/

(In percent of FY-GDP)



1/ Including IMF BOP support.

Table 1. Barbados: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Moderate	Barbados' overall risk of sovereign stres is moderate, reflecting moderate levels of vulnerability in the medium- and long-term horizons.
Near term 1/	n.a.	n.a.	Not applicable
Medium term	Moderate	Moderate	Medium-term risks are assessed as moderate consistent with a mechanical moderate signal predicated on the projected primary balance path.
Fanchart	High	…	
GFN	Moderate	…	
Stress test	...	…	
Long term	…	Moderate	Long-term risks are moderate arising from the expected need to refinance debt in the long-term and increase climate chage-related investment. Pension expenditure is projected to increase pressure onto GFN and debt in the long term, which confirms the need to hasten to approve and implement the forthcoming pension reforms.
Sustainability assessment 2/	…	Sustainable	The projected debt path is expected to stabilize and GFNs will remain at manageable levels under the baseline projections. Barbados debt is assessed as sustainable. The uncertainty over the recovery of the tourism sector and sustained fiscal adjustment constitute risks.
Debt stabilization in the baseline			Yes

DSA summary assessment

Commentary: Barbados' overall risk of sovereign stress is assessed to be moderate. This is consistent with the moderate medium- and long-term final risk assessments, which confirm mechanical signals. Barbados' public debt is assessed to be sustainable. Under the current baseline, the 60 percent-of-GDP debt anchor is projected to be reached by FY2035/36 with envisaged primary surpluses backed by an economic recovery and structural reforms. Risks include a slower-than-expected tourism recovery, and the authorities' ability to maintain high primary surpluses over an extended period.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Table 2. Barbados: Decomposition of Public Debt and Debt Service by Creditor, FY2021/22–FY2023/24[1]

	Debt Stock (end of period) FY2021/22			Debt Service					
				FY2021/22	FY2022/23	FY2023/24	FY2021/22	FY2022/23	FY2023/24
	(In US$ million)	*(Percent total debt)*	*(Percent of GDP)*	*(In US$)*			*(Percent of GDP)*		
Total	6,886.7	100.0	135.1	740.4	839.9	553.8	14.5	14.2	8.7
External	2,474.7	35.9	48.6	150.3	175.0	187.6	2.9	3.0	3.0
Multilateral creditors[2]	1,657.3	24.1	32.5	83.7	99.6	112.6	1.6	1.7	1.8
IMF	441.1	6.4	8.7						
World Bank	122.9	1.8	2.4						
IADB	657.4	9.5	12.9						
Other Multilaterals	558.9	8.1	11.0						
o/w: CDB	253.6	3.7	5.0						
Bilateral Creditors	156.3	2.3	3.1	13.6	18.5	18.2	0.3	0.3	0.3
Paris Club	39.0	0.6	0.8	7.9	7.8	7.7	0.2	0.1	0.1
Non-Paris Club	117.3	1.7	2.3	5.7	10.7	10.5	0.1	0.2	0.2
Bonds	552.0	8.0	10.8	35.9	38.5	38.3	0.7	0.7	0.6
Commercial creditors[3]	109.1	1.6	2.1	17.1	18.3	18.4	0.3	0.3	0.3
Domestic	4,412.0	64.1	86.6	590.1	664.9	366.2	11.6	11.3	5.8
Held by residents, total	n/a	n/a	n/a						
Held by non-residents, total	n/a	n/a	n/a						
Short-term debt (incl. T-Bills)	366.3	5.3	7.2	362.5	366.3	-	7.1	6.2	-
Held by: central bank	211.1	3.1	4.1						
local banks	142.6	2.1	2.8						
local non-banks	12.7	0.2	0.2						
Long-term debt (incl. Bonds)	4,045.7	58.7	79.4	227.6	298.6	366.2	4.5	5.1	5.8
Held by: central bank	222.2	3.2	4.4						
local banks	1,029.1	14.9	20.2						
local non-banks	2,794.3	40.6	54.8						
Memo items:									
Collateralized debt[4]	0.0	0.0	0.0						
o/w: Related	0.0	0.0	0.0						
o/w: Unrelated	0.0	0.0	0.0						
Contingent liabilities	225.5	3.3	4.4						
o/w: Public guarantees	225.5	3.3	4.4						
o/w: Other explicit contingent liabilities[5]	n/a	n/a	n/a						
Nominal GDP	5,096.4			5,096.4	5,908.5	6,336.2			

Sources: Ministry of Finance

1/As reported by country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA. Future debt services are associated with existing debt stock as of end of FY2021/22. The amount of nonresidents' holdings of domestic debt is negligible.

2/"Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

3/There is one commercial lease project in which multiple creditors participate.

4/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

5/Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements). Those data are not readily available.

Figure 2. Barbados: Debt Coverage and Disclosure

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					Yes	
2. Subsectors included in the chosen coverage in (1) above:						

Sector		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected	2	Extra budgetary funds (EBFs)	No	
CPS / NFPS / GG: expected	3	Social security funds (SSFs)	No	
CPS / NFPS / GG: expected	4	State governments	No	
CPS / NFPS / GG: expected	5	Local governments	No	
CPS / NFPS	6	Public nonfinancial corporations	No	CG-guaranteed SoE debt included
CPS	7	Central bank	Yes	Not consolidated; CB's debt (BoP support) to IMF is added.
CPS	8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

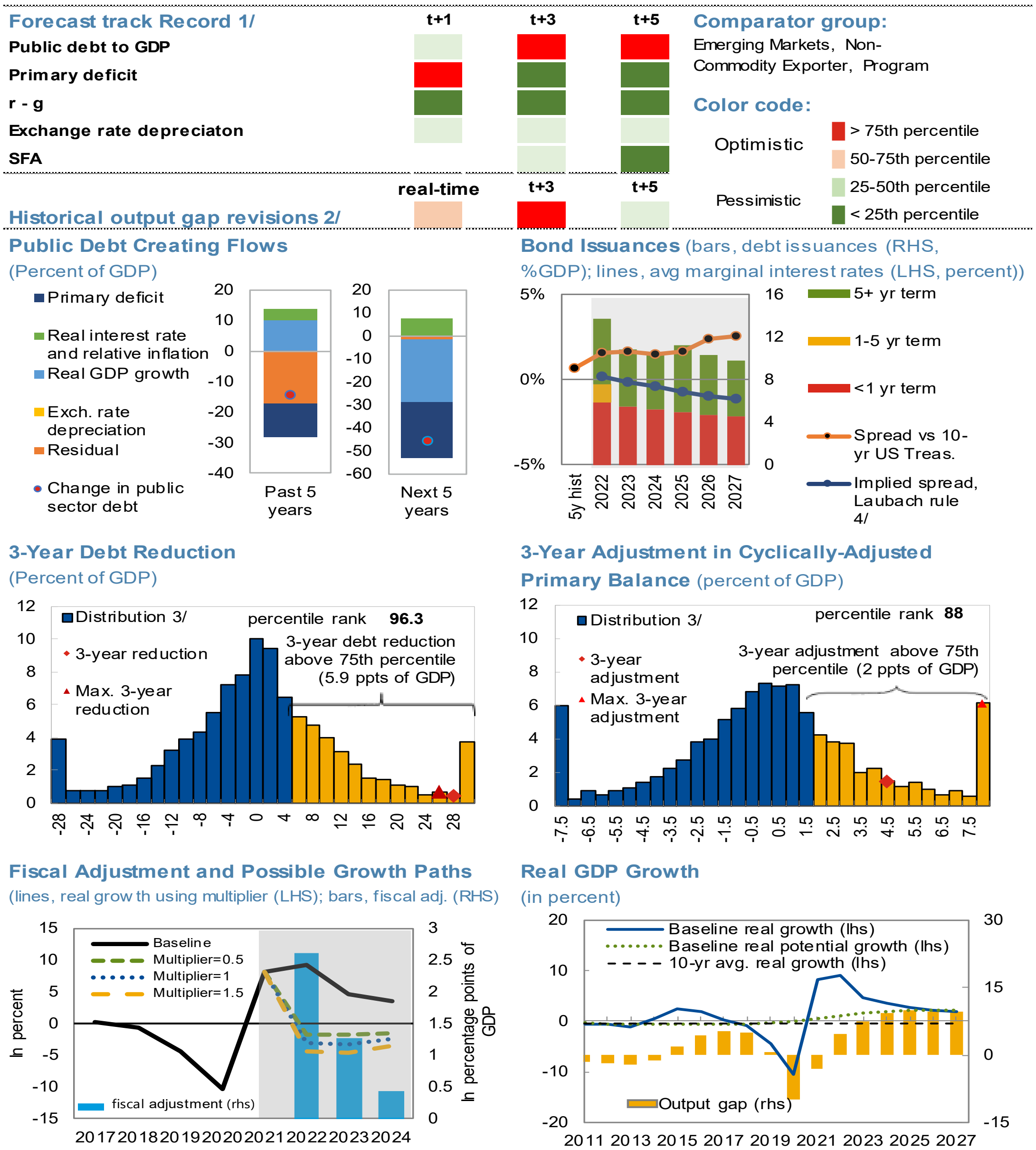
Reporting on intra-government debt holdings

Sector		Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt									0
CPS / NFPS / GG: expected	2	Extra-budget. funds									0
CPS / NFPS / GG: expected	3	Social security funds									0
CPS / NFPS / GG: expected	4	State govt.									0
CPS / NFPS / GG: expected	5	Local govt.									0
CPS / NFPS	6	Nonfin pub. corp.									0
CPS	7	Central bank									0
CPS	8	Oth. pub. fin. corp									0
		Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The coverage in this SRDSA is for the central government given there is no state and local government. SoEs' debt guaranteed by the central government, including CBB's debt to the Fund, is added onto the central government's debt in this analysis.

Figure 3. Barbados: Realism of Baseline Assumptions



Commentary: Negative impacts on growth of the projected fiscal adjustments should be smaller than indicated by the realism tool given Barbados' near-term economic recovery will be driven by a gradual recovery in tourist arrivals. While the realism tools suggest that the projected debt reduction and 3-year fiscal adjustment are ambitious, this is feasible given the authorities' strong commitment to fiscal adjustment and gradual recovery in the tourism sector.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

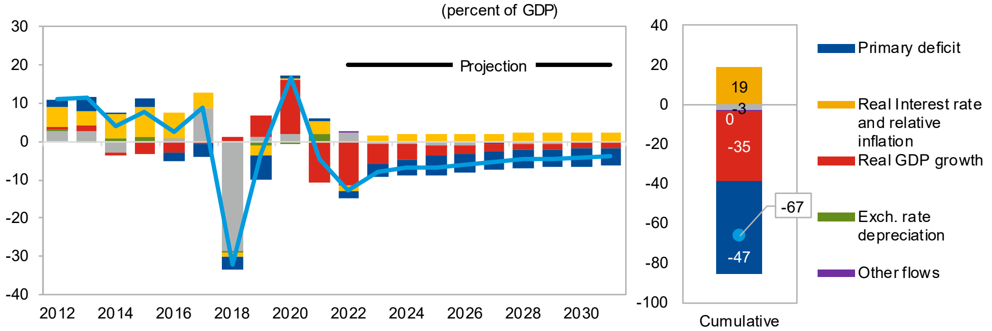
Figure 4. Barbados: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection								
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public debt	135.1	122.5	114.6	107.9	101.1	94.9	89.4	84.8	80.3	76.2	72.4	68.6	65.5	62.4	59.3
Change in public debt	-4.6	-12.7	-7.8	-6.8	-6.8	-6.2	-5.5	-4.6	-4.5	-4.1	-3.8	-3.8	-3.1	-3.1	-3.1
Contribution of identified flows	-4.4	-14.9	-7.3	-6.1	-5.9	-5.3	-5.2	-4.1	-4.0	-3.8	-3.7	-3.7	-3.0	-3.0	-3.1
Primary deficit	0.9	-2.0	-3.5	-4.0	-5.0	-5.0	-5.0	-4.5	-4.5	-4.5	-4.5	-4.5	-4.0	-4.0	-4.0
Noninterest revenues	28.9	29.3	28.9	29.1	29.6	29.7	29.7	29.7	29.7	29.7	29.7	29.7	29.7	29.7	29.7
Noninterest expenditures	29.8	27.3	25.4	25.1	24.6	24.7	24.7	25.2	25.2	25.2	25.2	25.2	25.7	25.7	25.7
Automatic debt dynamics	-5.3	-13.0	-3.8	-2.1	-0.9	-0.2	0.1	0.4	0.5	0.7	0.8	0.8	1.0	1.0	0.9
Real interest rate and relative inflation	3.2	-1.6	1.6	1.9	1.9	2.0	2.0	2.2	2.2	2.3	2.3	2.2	2.4	2.2	2.1
Real interest rate	5.1	-3.0	1.5	1.8	1.8	1.8	1.9	2.1	2.1	2.2	2.2	2.1	2.3	2.2	2.1
Relative inflation	-1.9	1.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Real growth rate	-10.6	-11.3	-5.3	-4.0	-2.8	-2.2	-1.9	-1.8	-1.7	-1.6	-1.5	-1.4	-1.3	-1.3	-1.2
Real exchange rate	2.1	…	…	…	…	…	…	…	…	…	…	…	…	…	…
Other identified flows	0.0	0.1	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	-1.5	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-0.3	2.2	-0.5	-0.7	-0.9	-0.9	-0.3	-0.5	-0.5	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1
Gross financing needs	15.5	13.8	10.9	10.4	11.3	10.4	9.4	10.9	10.2	9.1	9.2	9.5	9.6	8.4	8.4
of which: debt service	14.6	14.2	14.4	14.4	16.3	15.4	14.4	15.4	14.7	13.6	13.7	14.0	13.6	12.4	12.4
Local currency	11.8	11.4	11.5	11.3	11.1	10.3	9.6	10.2	9.3	9.3	9.4	9.7	9.9	8.8	8.8
Foreign currency	2.9	2.8	2.9	3.1	5.2	5.0	4.8	5.3	5.4	4.4	4.3	4.3	3.7	3.6	3.6
Memo:															
Real GDP growth (percent)	8.2	9.2	4.6	3.6	2.7	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Inflation (GDP deflator; percent)	-0.9	6.2	2.6	2.4	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Nominal GDP growth (percent)	7.2	15.9	7.2	6.1	5.2	4.7	4.4	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Effective interest rate (percent)	3.0	3.6	3.9	4.1	4.2	4.3	4.4	4.7	4.8	5.1	5.2	5.4	5.7	5.7	5.7

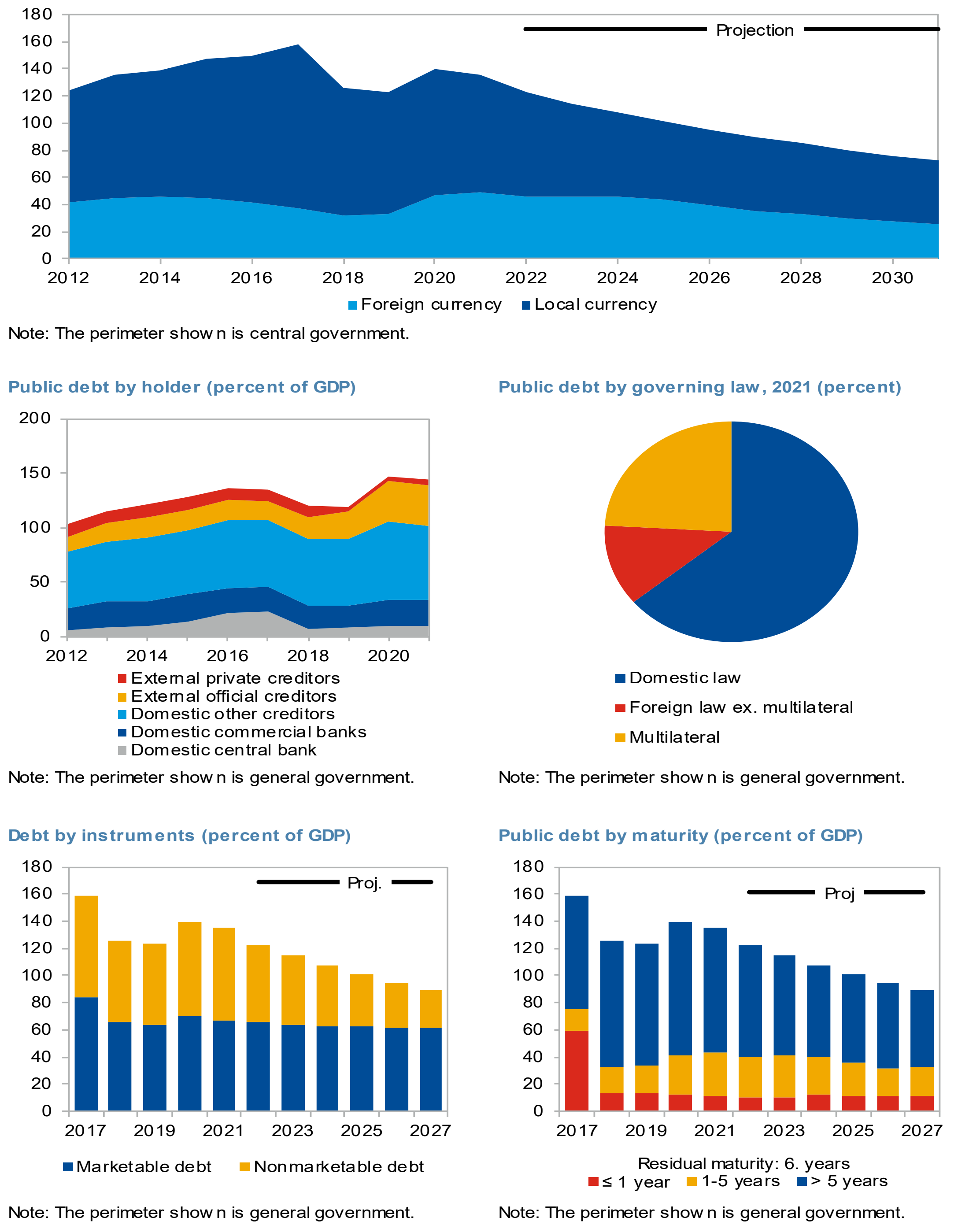
Contribution to change in public debt

(percent of GDP)



Staff commentary: Public debt has been put on a downward debt trajectory after a temporary increase during the pandemic. A debt reduction is projected to continue to meet the long-term debt target of 60 percent of GDP by FY2035/36, mainly driven by a long-term improvement in primary balance and steady economic growth.

Figure 5. Barbados: Public Debt Structure Indicators



Commentary: Commentary: The composition of debt remains roughly the same over the projection period. Over the medium and long-term market financing both from domestic and external financial markets will increase as confidence in governemnt fiscal and debt management policies increases.

Figure 6. Barbados: Medium-Term Risk Analysis

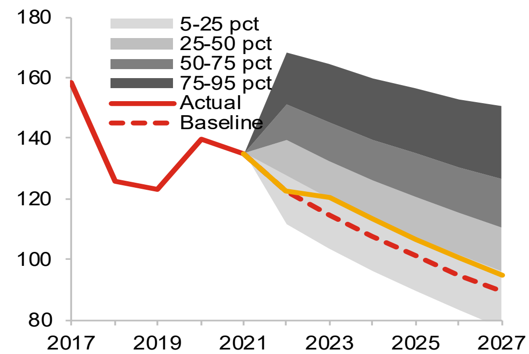
Debt fanchart and GFN financeability indexes

(percent of GDP unless otherwise indicated)

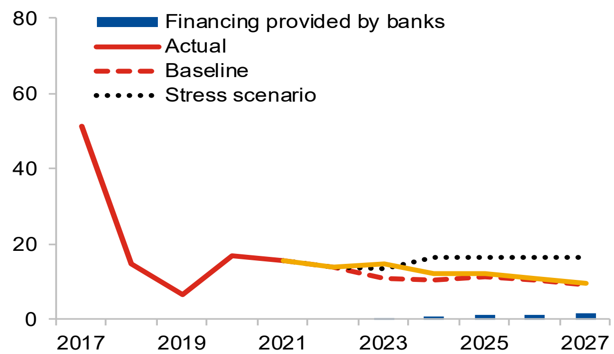
Module	Indicator	Value	Risk index	Risk signal	Em. Econ., Non-Com. Exp, Program (0 25 50 75 100)
Debt fanchart module	Fanchart width	73.4	1.1	…	
	Probability of debt not stabilizing (pct)	3.5	0.0	…	
	Terminal debt level x institutions index	51.7	1.1	…	
	Debt fanchart index	**…**	**2.2**	**High**	
GFN finance-ability module	Average GFN in baseline	11.0	3.8	…	
	Bank claims on government (pct bank assets)	13.2	4.3	…	
	Chg. in claims on govt. in stress (pct bank assets)	0.6	0.2	…	
	GFN financeability index	**…**	**8.3**	**Moderate**	

Legend: Interquartile range; Barbados

Final fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

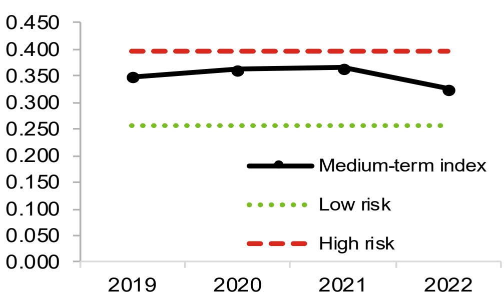


Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-term index

(index number)



Medium-term risk analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.5
GFN finaceability index	7.6	17.9	0.5	0.2
Medium-term index (MTI)	0.3	0.4	…	0.3, Moderate

Prob. of missed crisis, 2022-2027 (if stress not predicted): 18.2 pct.

Prob. of false alarm, 2022-2027 (if stress predicted): 22.7 pct.

Commentary: Overall mechanical signal for the medium-term risk analysis is moderate. Of the two medium-term tools, the Debt Fanchart Module is pointing to high level of risk, while the GFN Financeability Module suggests lower, but still moderate, level of risk. The triggered stress test suggest that natural disasters would not pose large enough shocks that warrant a change in the overall assessment.

Figure 7. Barbados: Long-Term Risk Analysis

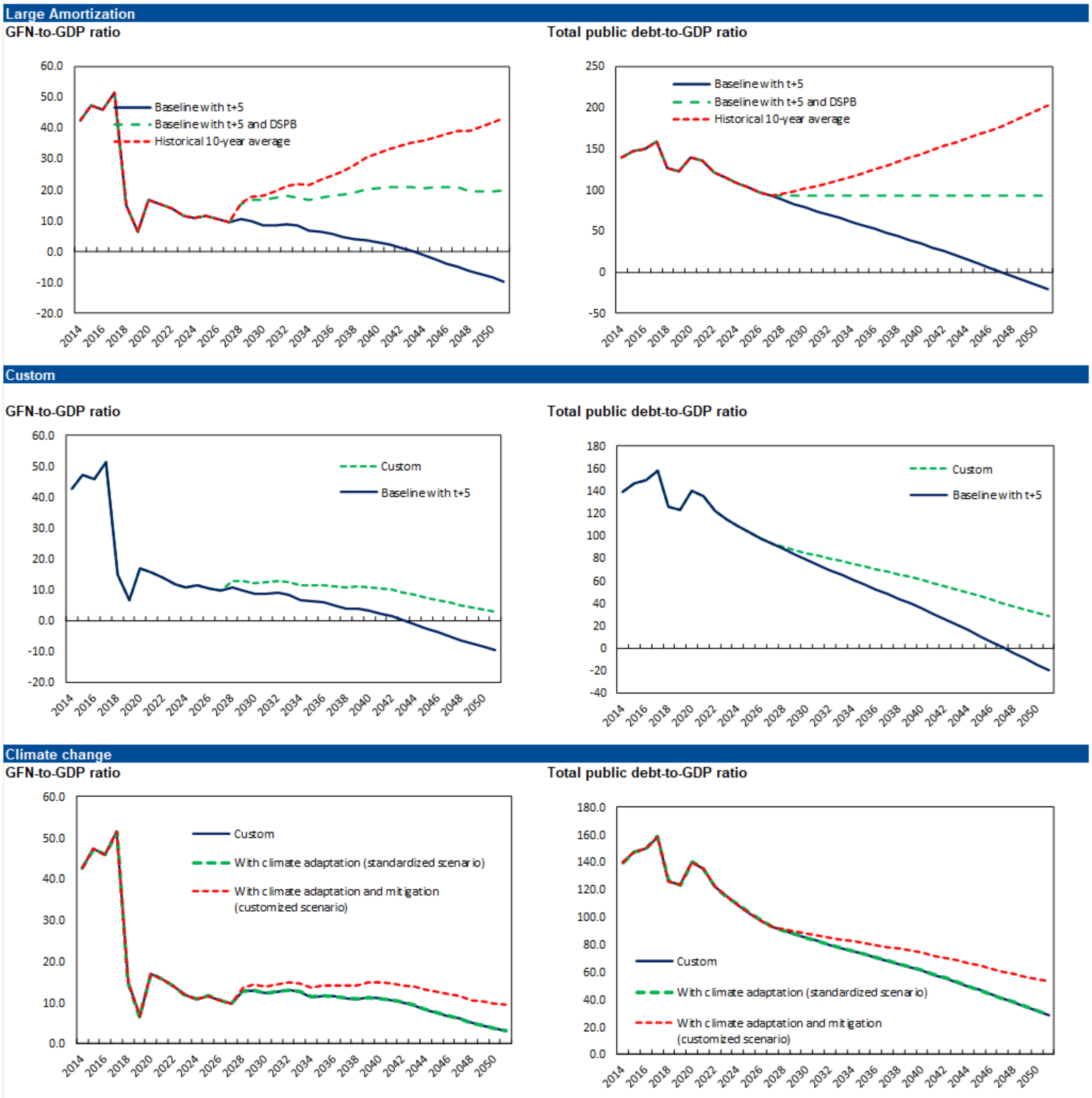
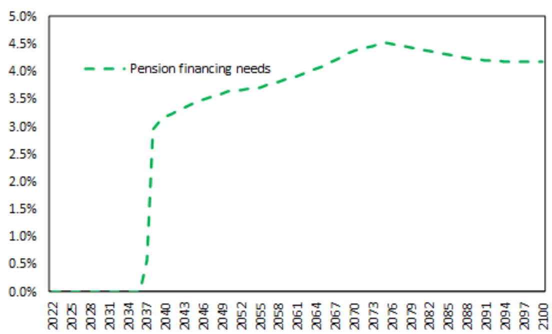


Figure 7. Barbados: Long-Term Risk Analysis (concluded)

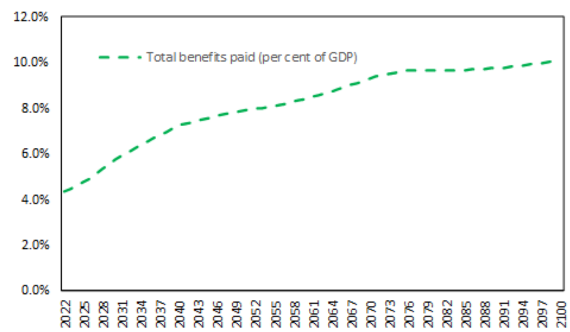
Demographics: Pension

Permanent adjustment needed in the pension system (pp of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	1.5%	2.4%	3.0%

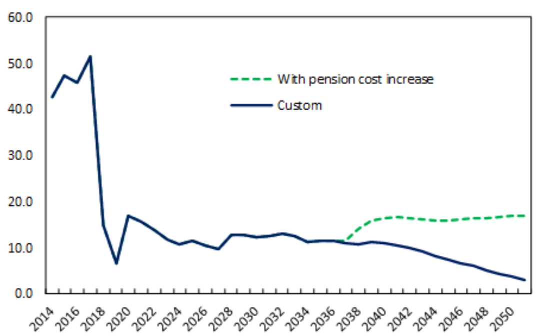
Pension Financing Needs



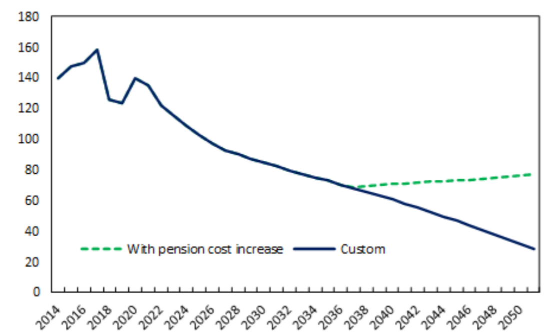
Total benefits paid



GFN-to-GDP ratio



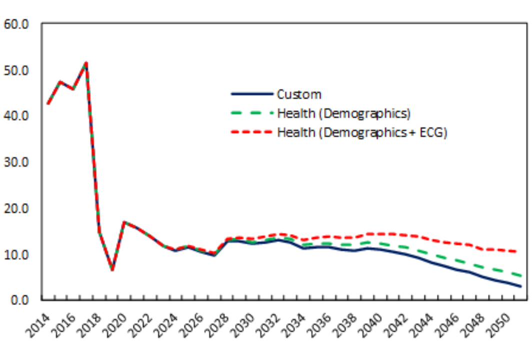
Total public debt-to-GDP ratio



Note: The analysis focuses on the public pension system, which is the main source of concern for fiscal sustainability. Public pension reform plans are currently under discussion, including via public consultations, and are expected to be tabled in parliament in the first quarter of 2023.

Demographics: Health

GFN-to-GDP ratio



Total public debt-to-GDP ratio

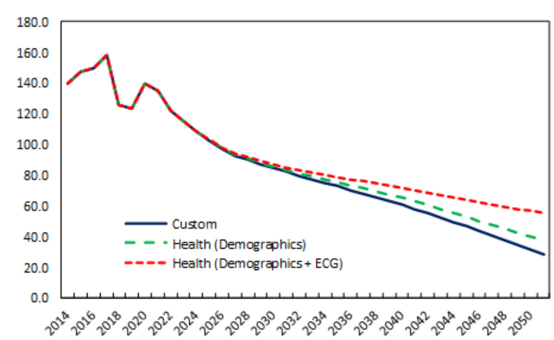
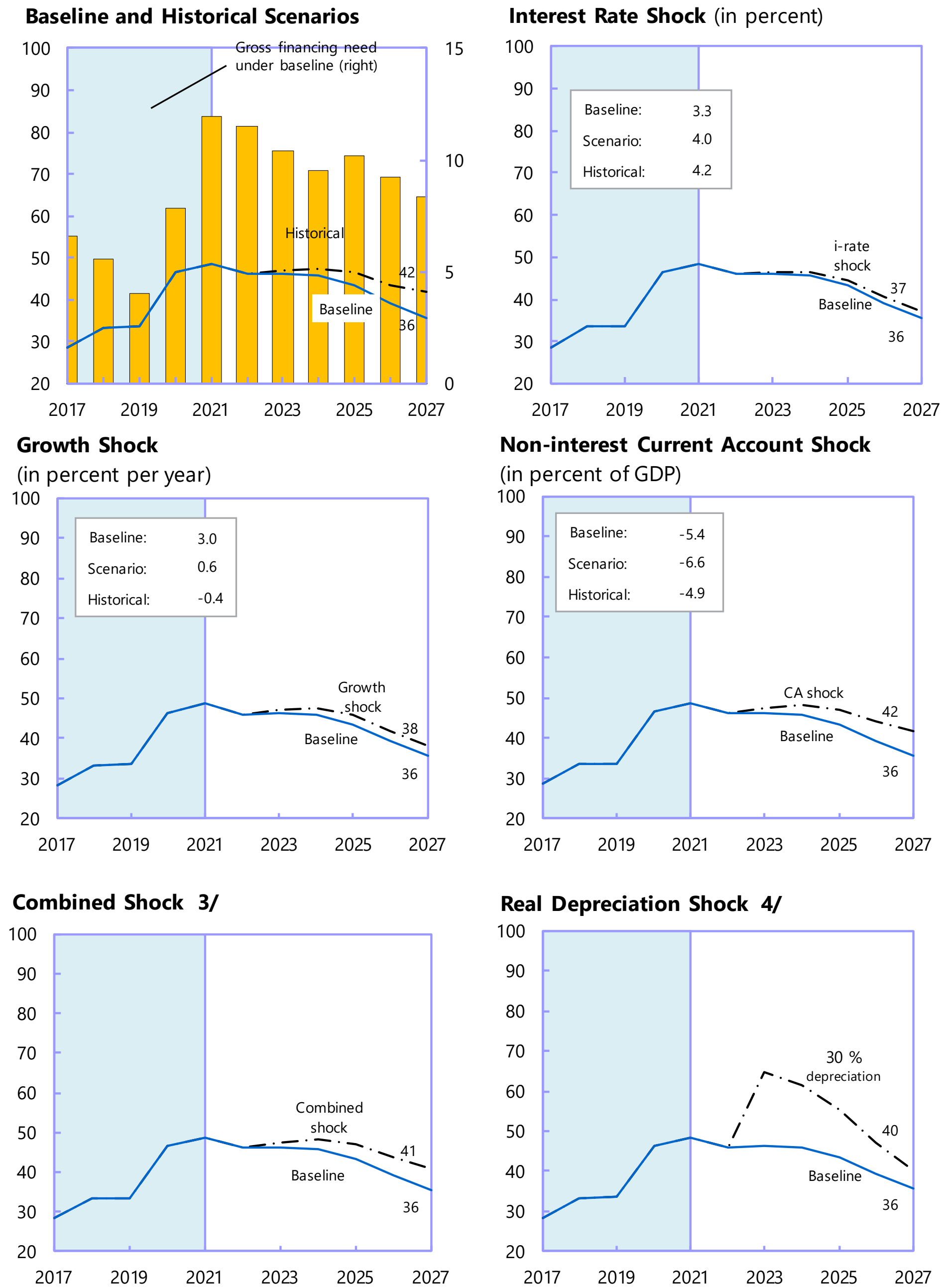


Figure 8. Barbados: External Debt Sustainability: Boundary Tests 1/ 2/

(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 3. Barbados: External Debt Sustainability Framework, 2017–2027

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

	Actual							Projections						
	2017	2018	2019	2020	2021	10-Year Historical Average	10-Year Standard Deviation	2022	2023	2024	2025	2026	2027	Debt-stabilizing non-interest current account 6/
Baseline: External debt	28.5	33.4	33.5	46.4	48.6			**46.1**	**46.2**	**45.8**	**43.4**	**39.2**	**35.6**	**-4.4**
Change in external debt	-3.9	4.9	0.0	13.0	2.1			-2.5	0.1	-0.3	-2.4	-4.2	-3.6	
Identified external debt-creating flows (4+8+9)	-0.2	-1.1	-2.0	0.6	2.2			0.5	1.4	0.9	0.2	0.2	-0.8	
Current account deficit, excluding interest payments	2.1	3.5	2.2	4.3	9.1			8.7	7.5	6.5	5.1	4.2	3.5	
Deficit in balance of goods and services	-1.5	-1.5	-3.2	6.4	9.1			8.1	6.1	5.0	3.0	2.2	1.5	
Exports	42.0	40.8	43.5	29.3	29.3			31.8	33.2	33.7	34.7	34.9	35.1	
Imports	40.5	39.3	40.3	35.7	38.5			39.9	39.2	38.7	37.7	37.1	36.6	
Net non-debt creating capital inflows (negative)	-3.1	-4.3	-4.7	-8.0	-5.1			-5.5	-5.4	-5.3	-5.2	-4.6	-4.9	
Automatic debt dynamics 1/	0.9	-0.3	0.5	4.3	-1.8			-2.7	-0.7	-0.2	0.3	0.5	0.6	
Contribution from nominal interest rate	1.8	0.5	0.6	1.5	1.3			1.2	1.3	1.4	1.4	1.4	1.3	
Contribution from real FY GDP growth	-0.1	0.2	1.5	3.8	-3.6			-3.8	-2.0	-1.6	-1.2	-0.9	-0.8	
Contribution from price and exchange rate changes 2/	-0.8	-1.0	-1.5	-1.0	0.4			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-3.7	6.1	2.0	12.3	0.0			-2.9	-1.3	-1.3	-2.6	-4.4	-2.8	
External debt-to-exports ratio (in percent)	67.9	81.9	76.9	158.2	165.5			145.0	139.2	136.0	125.2	112.3	101.4	
Gross external financing need (in billions of US dollars) 4/	0.3	0.3	0.2	0.4	0.6			0.7	0.7	0.6	0.7	0.7	0.6	
in percent of FY GDP	6.6	5.6	4.0	7.8	11.9			11.5	10.4	9.6	10.2	9.2	8.3	
Scenario with key variables at their historical averages 5/								**46.1**	**46.8**	**47.4**	**46.6**	**43.5**	**41.9**	**-4.2**
Key Macroeconomic Assumptions Underlying Baseline														
Nominal FY GDP (US dollars)	5.0	5.1	5.2	4.8	5.1			5.9	6.3	6.7	7.1	7.4	7.7	
FY Real GDP growth (in percent)	0.2	-0.8	-4.4	-10.4	8.2	-0.4	4.8	9.2	4.6	3.6	2.7	2.2	2.0	
FY GDP deflator in US dollars (change in percent)	2.6	3.5	4.8	3.0	-0.9	1.5	2.1	6.2	2.6	2.4	2.4	2.4	2.4	
Nominal external interest rate (in percent)	5.6	1.7	1.8	4.2	3.0	4.2	1.5	2.8	3.0	3.2	3.3	3.4	3.5	
Growth of exports (US dollar terms, in percent)	0.8	-0.1	6.9	-37.8	7.2	-2.2	13.2	25.6	11.9	7.8	8.2	5.5	4.9	
Growth of imports (US dollar terms, in percent)	-0.4	-0.4	2.8	-18.2	15.4	-1.2	8.2	20.2	5.4	4.7	2.4	3.1	2.9	
Current account balance, excluding interest payments	-2.1	-3.5	-2.2	-4.3	-9.1	-4.9	2.5	-8.7	-7.5	-6.5	-5.1	-4.2	-3.5	
Net non-debt creating capital inflows	3.1	4.3	4.7	8.0	5.1	5.5	2.4	5.5	5.4	5.3	5.2	4.6	4.9	

Sources: Barbados Authorities and Fund staff projections.

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

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

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

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

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

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

Annex II. External Sector Assessment

Barbados' external position in 2021 was broadly in line with the level implied by medium-term fundamentals and desirable policies. Reserve coverage was adequate in 2021, covering around 9 months of imports of goods and services. The current account deficit is expected to remain large at around 10 percent of GDP in 2022 despite the gradual recovery in tourism.

The External Sustainability

1. **The current account deficit has widened to 11 percent of GDP in 2021 from 6 percent in 2020 due to a slow recovery in tourism and an increase in imports.** A gradual recovery in exports of goods and tourism was more than offset by a higher increase in imports driven by strong rebound in domestic demand and a surge in global commodity prices and freight costs. The worsened current account deficit was financed by large inflows in the financial account, supported by continued IFI loans and an SDR allocation. New external debt incurred in 2021 was provided by multilateral IFIs with favorable borrowing terms, posing limited risks to future debt service and external sustainability.

2. **The current account deficit is expected to remain large at around 10 percent of GDP in 2022 despite a recovery in tourism arrivals.** Tourist arrivals have been steadily increasing and are expected to recover to about 60 percent of pre-pandemic levels in 2022. The recovery in the current account balance, however, will be offset by an increase in imports driven by increasing global food and oil prices, recently exacerbated by the war in Ukraine. Imports of intermediate goods have so far surpassed the pre-pandemic level, mostly due to surging imports of fuel and construction materials. Goods exports increased in the first two quarters compared to 2021, driven by a recovery in foreign demand. The current account deficit is expected to slowly narrow in the coming years as tourist arrivals normalize and business environment improves to unlock the growth potential of new areas including renewable energy, medical, and high-tech sector. However, accelerated efforts in transitioning to a green economy could entail higher imports of equipment and intermediate goods, putting pressures on the current account.

3. **Official inflows and long term FDI remain the key components of the financial account and continue to finance the current account deficit.** Official financial inflows are projected to somewhat slowdown in 2022. Among private flows, long term FDI remains the main financing source at around 5 percent of GDP in 2021. It is projected that FDI inflows will remain stable over the next two years as major tourism-related development projects are gradually realized, following the recovery of tourism. Meanwhile, capital outflows from the private sector remain subdued, with major outflows in 2021 and 2022 associated with repayments to outstanding official debt. Going forward, as official inflows may decline as the pandemic dissipates, policy measures to attract long term investment and other forms of capital inflows should be strengthened. The authorities should also consider gradually phasing out the current capital flow measure, i.e., the 2 percent foreign exchange fee, as the fiscal position strengthen.

4. The EBA-lite current account (CA) model suggest that Barbados' external position is broadly consistent with fundamentals and desirable policies. The EBA-lite CA model shows that Barbados' COVID-19 adjusted and cyclically-adjusted current account balance is estimated at minus 5.1 percent of GDP in 2021[1], while the multilaterally consistent cyclically adjusted CA Norm is minus 4.7 percent of GDP, suggesting a small current account gap of 0.8 percent of GDP. Using the estimated current account elasticities, this implies a small undervaluation of the REER of 2.8 percentage points. On the other hand, the REER approach suggests an overvaluation by about 18 percent. In staff's view, the REER model is less reliable than the current account model given the short sample span to estimate the fixed effect in the model as well as the need to substitute other sources of data compared to the countries in the regression sample. The CA model better captures the evolving nature of Barbados' external position and suggests that the external position is broadly consistent with fundamentals and desirable policies (see Summary Table below).

Barbados: EBA-lite Model Results, 2021

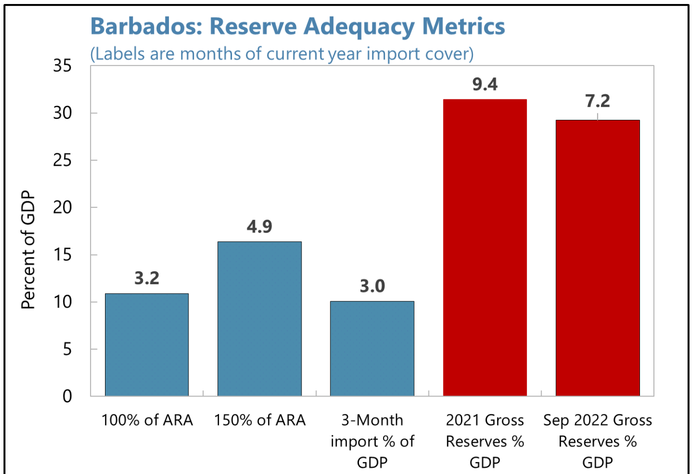
	CA model 1/	**REER model** 1/
(in percent of GDP)		
CA-Actual	**-10.9**	
Cyclical contributions (from model) (-)	1.3	
COVID-19 adjustor (-) 2/	-8.1	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.2	
Adjusted CA	**-4.0**	
CA Norm (from model) 3/	**-4.7**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-4.7**	
CA Gap	**0.8**	**-4.8**
o/w Relative policy gap	4.1	
Elasticity	-0.3	
REER Gap (in percent)	**-2.8**	**17.9**

Souce: IMF staff estimates.
1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (8 percent of GDP).
3/ Cyclically adjusted, including multilateral consistency adjustments.

5. While the authorities have built up significant buffers, international reserves are projected to gradually decline. Despite the widening of the current account deficit due to the sharp decline in tourism, Barbados continued to build up its reserves supported by large official inflows. By the end of 2021, international reserves increased to around US$1.5 billion, which is

[1] The COVID-19 crisis is significantly affecting countries' external positions, especially to those with high tourism-dependency. Therefore, the latest EBA-lite model has incorporated special adjustments to the estimates beyond the standard cyclical adjustments to strip out transitory factors related to the pandemic. The COVID-19 adjustor is calculated by using the default method of net tourism balance adjustor, where the baseline net tourism balance over GDP is 23 percent and the decline in tourism is 70 percent, and the coefficient of adjustment is 0.5 as prefilled by the EBA-lite template.

equivalent to around 9 months of imports of goods and services, and about 290 percent of the ARA metric. Reserves are projected to gradually decline from 2022 onwards, due to continued large current account deficits and tapering of IFI inflows. Given uncertainties surrounding the global economy and intensifying climate-change related risks, Barbados needs to maintain adequate foreign exchange buffers to buttress the credibility of its exchange rate peg against the US dollar. Staff analysis indicates that gross reserves will remain above 100 percent of the ARA metric over the projection period.



Sources: Central Bank of Barbados and IMF staff calculations.

Annex III. Building Resilience to Natural Disasters and Climate Change

Barbados' climate-related risks have been increasing. Those include physical risks to weather-related events caused by higher temperatures and changes in precipitations, as well as transition risks related to national and global decarbonization processes. Investments in resilient infrastructure will be essential to withstand natural disasters, and a comprehensive layered insurance framework to ensure liquidity for relief and reconstruction should be developed while safeguarding public finances. Achieving Barbados' target to decarbonize the economy and transition to 100 percent renewable energy by 2030 will require a stepped-up implementation of key supporting policy initiatives and reforms to enhance the business environment.

A. Barbados' Exposure to Climate Change Risks

1. **While Barbados contributes little to global climate change, it is increasingly vulnerable to climate change impacts.** Adapting to climate change by building structural, financial, and post-disaster resilience is a high priority for vulnerable countries in the Caribbean region. While Barbados has been less affected than other Caribbean countries in the past, it is highly sensitive[1] to climate change risks (Figure 1) with increasing exposure in recent years. This sensitivity reflects Barbados' geographical, climatic, socio-economic characteristics and economic structure, which have a bearing on its capacity to deal with and adapt to climate change impacts.

2. **The absence of severe natural disasters in recent decades might have masked physical risks moving forward, considering Barbados' increasing vulnerability to natural disasters.** Since hurricane Janet caused damages amounting to 14 percent of GDP in 1955, the island had not been hit by significant hurricanes. More recently, in 2021 hurricane Elsa caused damages of about 1 percent of GDP. World Bank (2020) and UNDP (2020) reports flag that climate change impacts, such as hurricanes, coastal inundation, rising sea levels, increasing storm intensity and changes in precipitations are expected to pose significant risks to Barbados.

3. **Barbados heavily relies on tourism – a sector sensitive to climate change effects (Figure 2).** Tourism is the main driver of economic growth and prosperity in Barbados, accounting directly for an estimated 35 percent of GDP. Given its interconnectedness with other sectors, such as retail, construction, agriculture, and other services, tourism dynamics heavily influence economic outcomes. More frequent and severe natural disasters may sharply reduce tourist arrivals, destroy tourism assets on the island, and adversely impact other sectors of the economy. In addition, Barbados will be exposed to higher temperatures and likelihood of more frequent and intense natural disasters, higher sea levels, and

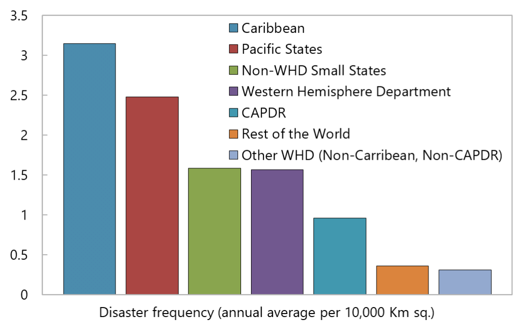
[1] ND-GAIN assesses the **vulnerability** of a country to climate change risks by considering six life-supporting sectors: food, water, health, ecosystem services, human habitat, and infrastructure. For each sector, the **exposure** to climate-related hazard is measured twofold: (1) **sensitivity** to the impacts of the hazard, and (2) **adaptive capacity** to adapt to these impacts. For exposure (sensitivity), a higher value implies higher exposure (sensitivity), contributing to higher vulnerability. See details in ND-GAIN data technical document.

changes in precipitations. Those changes, combined with existing water scarcity[2], may result in lower agricultural productivity, further constrain the availability and quality of water resources, lead to the loss of forested areas and biodiversity, and create adverse effects on health conditions (IPCC, 2021, IPCC, 2014; ECLAC, 2020).

Figure 1. Barbados: Exposure and Sensitivity to Natural Disasters

The Caribbean is the most exposed region globally in terms of frequency …

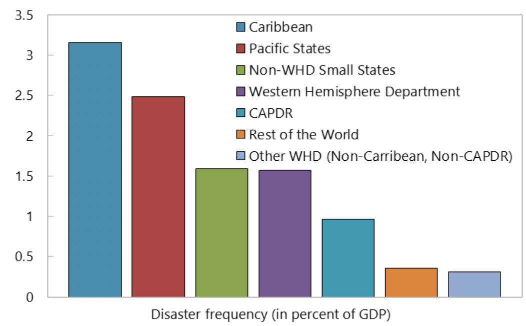
Average Annual Frequency of Natural Disasters
(1980-2020)



Sources: EM-DAT, WEO, and IMF staff calculations

… and damages of natural disasters.

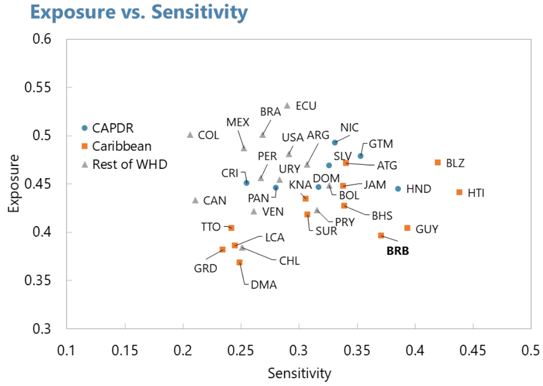
Average Annual Frequency of Natural Disasters
(1980-2020)



Sources: EM-DAT, WEO, and IMF staff calculations

While Barbados is less exposed to climate events than other Caribbean states it is highly sensitive….

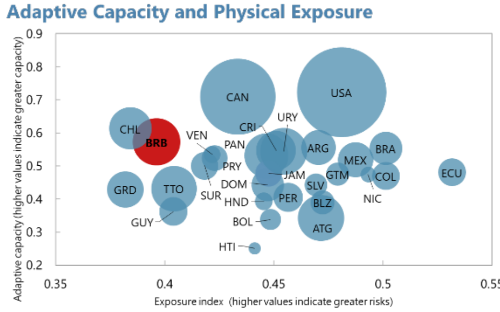
Exposure vs. Sensitivity



Sources: ND-GAIN database and IMF staff calculations.

… but has an above average adaptive capacity to respond to the negative consequences.

Adaptive Capacity and Physical Exposure



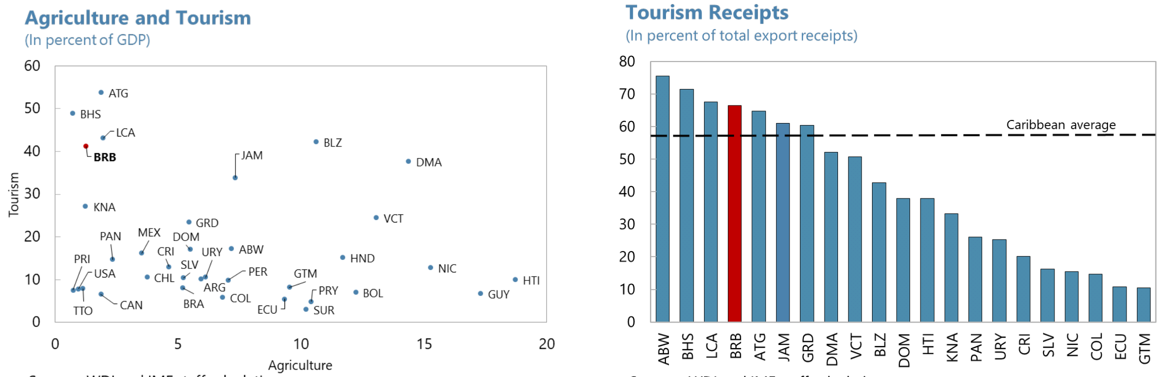
Source: ND-GAIN database
Note: Bubble size indicates per-capita GDP in USD (2019).
Capacity index is the difference betwee one and the ND-GAIN capacity indicator so that higher values indicate greater capacity.

4. Physical risks negatively affect both supply and demand sides of Barbados' economy. On the supply side, natural disasters destroy physical capital (such as houses, bridges, or streets) and disrupt labor and supply chains. On the demand side, natural disasters damage household and corporate balance sheets, reduce consumption and investment, in addition to disruption to tourism

[2] Barbados faces gaps between available water supply and water demand, utilizing close to 100% of its available water resources. Gaps are accentuated by water leakages (Williams and Thomas, 2012).

activities. These negative shocks can lead to lower growth and employment, interruption in capital accumulation, and slower poverty reduction. Further, post-disaster spending increases public debt and can threaten fiscal sustainability and financial stability.

Figure 2. Barbados: Reliance on Tourism – A Climate Sensitive Sector



Sources: WDI and IMF staff calculations.
Note: Agriculture and Tourism shares of GDP are averages from 2016 to 2022.

Sources: WDI and IMF staff calculations.
Note: Tourism receipts is the average from 2016 to 2022.

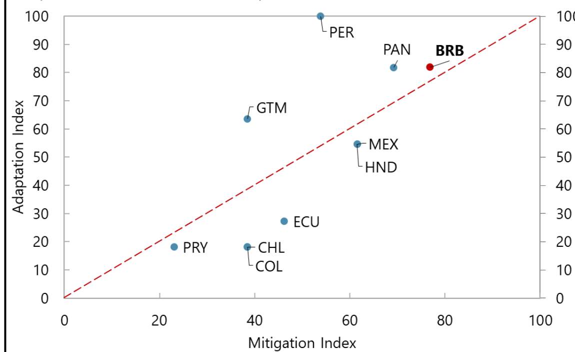
5. **Barbados also faces transition risks arising directly from domestic measures and indirectly from structural changes in foreign economies needed to transition to a low-carbon economy to achieve climate sustainability goals.** Investments into renewables may affect macroeconomic stability if they require diverting resources that could be used for investments with higher private yields. Hence, it will be essential to strike a balance between accelerating measures to address needed economic transformation and promote energy infrastructure resilience, which will positively contribute to macroeconomic stability and adaptation efforts, and avoiding economic and social disruptions caused by a too abrupt transformation. However, even an orderly transition to a low carbon economy could pose challenges for Barbados' economy and financial system, and a proper monitoring mechanism and stress testing should be put in place. Barbados may also be impacted by mitigation policies in other countries, which may, for example, lead to air travel becoming more expensive or change preferences in tourists' countries.

6. **To tackle these risks, Barbados has committed itself to ambitious mitigation and adaptation targets in their most recent nationally determined contributions[3] (NDC).** Among regional peers it is ranked high in both mitigation and adaptation measures with a slightly stronger

[3] **Mitigation policies** refers to policies that help reduce emissions of greenhouse gases such as a carbon tax, reduction in subsidies, feebates, emission trading systems, sectoral mitigation policies, cost effective nature-based solutions. **Adaptation polices** refer to efforts to adapt to the effects of climate change and minimize damages from climate-related natural disasters.

focus on adaptation[4]. Barbados' main mitigation policy focuses on transitioning to renewable energy, while adaptation policies focus on improving structural, financial, and post-disaster resilience. Adopting green PFM practices would support the inclusion of climate priorities in all aspects of the budget cycle including budget preparation, budget execution, fiscal reporting as well as oversight and auditing. Risk assessments, which quantify the macroeconomic and fiscal impact of climate risks, would help identifying green PFM reform priorities to enhance Barbados structural, financial and post-disaster resilience. Conducted risk assessments should be regularly monitored and assessed in the budget and budget outturns according to internationally accepted standards[5].

Barbados: Mitigation and Adaptation Measures
(Index 100 = maximum measures)

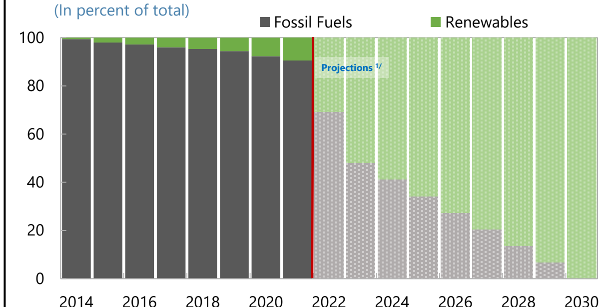


Sources: National authorities; IMF desk survey; Climate Watch, and NDC Tracker

Barbados' Transition to Renewable Energy By 2030

7. A central pillar of Barbados' climate strategy is to fully transition to renewable energy by 2030. Barbados' National Energy Policy (BNEP) sets out a framework that envisions renewable sources will meet 52 percent of Barbados' energy needs by 2023 and targets a full transition away from fossil fuels by 2030. Barbados is an early adopter of renewable energy technologies. With 50 percent of households relying on solar-powered water heaters[6], it has achieved one of the highest penetration rates in the Western Hemisphere, which helped pave the way for the installation of solar photovoltaics (PV) to meet the demand for electricity generation more broadly. Barbados has increased its share of renewable energy in total electricity consumption from less than 1 percent in 2014 to 11 percent in 2021, with the bulk coming from the deployment of solar PV

Barbados: Evolution of Electricity Generation
(In percent of total)



Sources: Ministry of Energy and Fund staff estimates.

1/ Calculated assuming a linear transition to the 2023 interim target and the 2030 target set forth in the Barbados National Energy Plan 2019-2030.

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[4] Indices are based on information from national authorities, an IMF desk survey, Climate Watch, and NDC Tracker. Countries were asked 22 questions on adaptation and mitigation policies. A simple weighted average was computed based on yes and no answers. A country replying yes to all questions would receive an index of 100.

[5] Existing diagnostic tools, such as IMF's Climate Macroeconomic Assessment Program, the UNDP's Climate Public Expenditure and Institutional Review, or the climate-responsive Public Expenditure and Financial Accountability can help governments identify green PFM reform priorities and design a realistic reform strategy.

[6] Barbados also has the largest fleet of electrical buses in the Caribbean (30 percent of the Transport Board's bus fleet).

onto the roofs of households to the national grid.[7] However, this pace of transition to renewable energy power generation is insufficient to achieve BENP targets.

8. Higher fuel import bills and inflation following the war in Ukraine highlight the need to expeditiously transition to renewable energy. Achieving renewable energy targets requires a stepped-up implementation of key supporting policy initiatives and reforms to enhance the business environment. Barbados took steps[8] to transition to renewables by establishing a licensing system for Independent Power Producers' renewable energy projects accompanied by a guidance note on the licensing and approval process for investors. With the licensing process clarified, it is important for Barbados to expeditiously implement the process as envisaged and accelerate private sector investments into renewable energy projects. Further, to maximize the use of renewable energy, it is important to upgrade infrastructure for the storage of renewable energy. Closing regulatory gaps in terms of a Feed-in-Tariff mechanism for the promotion of renewable energy storage technologies and a corresponding licensing policy/approvals framework will be essential to increase investments into battery storage technologies. Reduced import taxes for electric vehicles, an expanded share of electric busses in the government-owned fleet and the approval of the Feed-in-Tariffs amendment for renewable energy from 1MW to 10MW would further scale up publicly and privately financed renewable energy projects. These efforts would support Barbados meet the goal of full transition to renewables by 2030 while also enhancing growth potential and creating job opportunities.

B. Building Resilience to Natural Disasters and Climate Change

Structural Resilience

9. Barbados implemented several policies to build structural resilience[9] and spur a green recovery but has room to strengthen "soft" resilience measures. These include: (i) the Roofs 2 Reefs Programme which encourages investments into renewable energy, water conservation, and building resilience; and (ii) the Home Ownership Providing Energy program to construct 1,000 energy efficient and solar powered houses and save electricity costs. A Comprehensive Disaster Management Audit (UN 2018) found that Barbados' warning and alert systems perform relatively well with the safe area designation requiring improvement. While Barbados scores high in land use planning, which should be actively employed to manage coastal lands and reduce hazard exposure

[7] By end 2020, Barbados installed capacity of 49 MW of renewable energy (39 MW of distributed and 10 MW of utility scale energy) from solar PV, representing about 68 GWh, saving an estimated 114,412 barrels of oil or BBD$9.2 million in foreign exchange.

[8] The authorities have taken important steps to support the development of an adequate renewable energy market, including by: i) opening the electricity generation market to independent power producers (IPPs); ii) launching a Feed-in-Tariff (FIT) system for IPPs; iii) establishing a regulatory and oversight system for renewables by extending the functions of the Fair Trading Commission, and iv) providing fiscal incentives to reduce/exempt import duties, VAT, as well as income and corporation tax.

[9] Structural resilience refers to targeted investments that help to limit the impact of natural disasters and accelerate a recovery. Such investment could take the form of "hard" measures like building resilient infrastructure (sea walls, robust sewage systems) and "soft" measures like early warning systems, customizing building codes, and improved land use planning practices (IMF 2019).

from rising sea levels, existing building codes diverge from plans to improve housing resilience to category 4 hurricanes. Mandatory building codes play a significant role in structural resilience but enforcement and implementation in the Caribbean has been limited. In 2018, the government established the Barbados Building Standards Authority Act to enforce the provision of the Barbados National Building Code and the Building Act. However, the established building codes serve as guidelines only and are not mandatory.

10. Embracing opportunities to improve the disaster resilience of construction under the national initiatives along with enhanced regulation could provide additional protection from potential future losses. Additionally, the 2021 Physical Development Plan, which is expected to be adopted in 2022, will provide a vision of sustainable growth and development with respect to land use, settlement patterns, food production, infrastructure, mobility and environmental management. This plan will specify the nature, scope and location of both development and protection areas. The Roofs 2 Reefs Programme operationalizes the Physical Development Plan by directing public investments. Furthermore, the approval of the Planning and Development Act will enhance the infrastructure resiliency via improved water drainage systems and other interventions.

11. Resilient infrastructure investments have substantial long-run benefits[10], but their large upfront costs imply a burden on Barbados' public finances in the short term. The authorities' fiscal space is limited as a result of the prolonged pandemic and the slower than expected recovery in tourism compounded by damages from Hurricane Elsa and the volcanic eruptions at neighboring St. Vincent and the Grenadines. Hence such projects require, apart from increased fiscal space, more donor financing to climate-related projects and stronger private sector engagement by providing technical support, financial incentives, and access to affordable financial services would be key. The proposed RSF could play an important catalytic role in attracting public and private financing. Meanwhile, careful planning and integration of resilient infrastructure investment needs into multi-year budget cycles and sectoral plans would generate gains in spending efficiency, help identify financing gaps, and catalyze green financing.

Financial Resilience

12. Barbados scores high in public sector financial resilience. Barbados developed a comprehensive insurance framework that provides liquidity in natural disaster events and safeguards public finances. It includes three dimensions. First, Barbados insures natural disaster risks through the Caribbean Catastrophe Risk Insurance Facility (CCRIF), a form of parametric insurance[11]. Second,

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[10] For more details see IMF (2021) and IMF (2019b).

[11] CCRIF's parametric insurance is different from traditional indemnity insurance as it makes payments based on the intensity of a natural hazard event (e.g., hurricane wind speed, earthquake intensity, and volume of rainfall), the exposure or assets affected, and the amount of loss calculated in a pre-agreed model. CCRIF does not need to wait for on-the-ground assessments of loss and damage–unlike indemnity insurance–to make payouts. This enables the Facility to disburse funds to governments within 14 days of an event. A CCRIF policy is triggered when the modelled loss for a hazard event equals or exceeds the attachment point selected by the country and specified in the policy contract (like a deductible in a traditional insurance contract).

Barbados has issued state-contingent bonds to provide debt service relief in extreme events. By including natural disaster clauses into new domestic and external bonds, Barbados effectively used the 2018-19 debt restructuring to build resilience in its public finances. These clauses allow for the capitalization of interest and deferral of scheduled amortization falling due over a two-year period following the occurrence of a major natural disaster. For the new domestic bonds, the trigger for a natural disaster event is a payout above US$5 million by CCRIF. For external debt instruments the trigger for the natural disaster clause is also linked to CCRIF payouts, using thresholds depending on the type of natural disaster (hurricane, flooding or earthquake).[12] Third, Barbados has a Catastrophe Fund with an approximate balance of around B$30 million, which is financed by the NIS, to assist homeowners whose timber houses are uninsurable. Once more fiscal space is created, this framework could be complemented by expanding the government saving fund to post-natural disaster liquidity needs aimed at addressing small but more frequent events. Hurricane Elsa made it clear that scaling-up access to parametric insurance under the CCRIF is desirable[13].

13. In addition, Barbados has access to liquidity through contingent lines or rapid credit facilities provided by international financial organizations. Continued engagement with regional integration initiatives and IFI 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.

14. Barbados also entered the green bond[14] market as the first Caribbean country. In June 2019, Barbados' private solar energy company, Williams Renewable Energy Limited[15] (WRELs), created the first Caribbean solar energy business, deploying 12 MW of PV solar funded by a US$20 million green energy bond program. Barbados also stands out as one of the eleven countries that have ever issued a green bond in the Latin America and Caribbean region. WRELs bonds received the first Certification from Climate Bonds Standard in the Caribbean region, certifying their consistency with addressing the 2 degrees Celsius warming limit in the Paris Agreement.

15. The proactive use of green financing could alleviate fiscal pressures and support Barbados' 2030 agenda on sustainable development goals. The "Green" projects backed by WRELs bonds will help Barbados to reduce their fossil fuel dependency and reduce its carbon

[12] However, holders of 50 percent of the aggregate principal amount of the bonds outstanding can block the activation of the clause.

[13] The US$2.5 million CCRIF payout after Hurricane Elsa was insufficient to cover costs equivalent to around 1 percent of GDP. The CCRIF payout after Hurricane Elsa was not large enough to trigger the debt service suspension under a natural disaster clause enshrined in Barbados' restructured bonds.

[14] Green bonds are fixed-income instruments that allow issuers to raise money for projects with environmental benefits, such as renewable energy, energy efficiency or clean transport.

[15] WRELs is a special purpose company organized under Barbadian laws created to issue green bonds. The proceeds are used to acquire PV solar equipment and complete installations in Barbados and neighboring islands. A total of BDS$34 million has been raised so far (June 2019 and February 2020) with the rest expected to be raised later in 2021 to fund the rest 8.7 MW of PV solar. Key parties involved in the bond issuance are the IDB as bond guarantor, Royal Fidelity as trustee and fund-raising partner, and CIBC as banker.

footprint. Green bonds could also alleviate budgetary pressures and support a green recovery by mobilizing private sector financing.

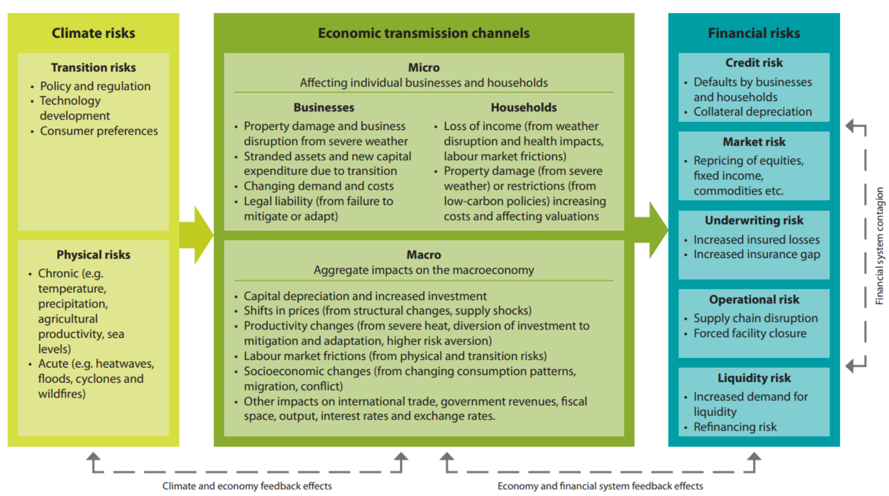
16. Building capacity to understand and monitor climate change risks to the financial system will be key to enhance financial sector resilience and safeguard financial stability. Financial institutions in Barbados are exposed to climate change in three ways:

(i) *physical risks* resulting from financial institutions' asset exposure to weather-related disasters and climate change senstive sectors. With higher temperatures the likelihood of more frequent and intense natural disasters will further increase. Financial institutions in Barbados are significantly exposed to the tourism sector, which forms an integral part in Barbados' economy and sensitive to climate change;

(ii) *transition risks* in the wake of a decarbonization of the economy which would result in capital reallocations from "dirty" sectors to "cleaner" ones. Companies in "dirty" sectors may struggle to service their debt obligations and may default potentially leading to a worsening in financial institutions' asset position (non-performing loan claims, and declining values in equity shares in these companies);

(iii) *asset price volatility* resulting from conflicts and migrations (World Bank 2021) that climate change triggered. While the Financial Services Commission is conducting stress-testing exercises for insurance corporations to climate change effects, the CBB currently does not include climate change risks in their financial stability assessements. Hence, building capacity to monitor and assess climate change related risks to the financial system in Barbados would be essential. To develop capacity to monitor climate change risks in line with best practices, the CBB is considering to become a member of the Network for Greening the Financial System.

Barbados: Climate Change Risks to Financial Stability



Source: NGFS, 2021

Post Disaster Resilience

17. Barbados' response and recovery frameworks and social safety net are relatively well developed and allow for a quick response to humanitarian needs after a natural disaster subject to available fiscal space. Recent events related to Hurricane Elsa, the volcanic ashes and

COVID-19 have demonstrated that Barbados has relatively efficient institutions to assess the damage, quickly respond to disasters, and develop reconstruction plans. However, severely limited fiscal space constrains an increase in coverage of Barbados' social safety net in cases of sudden climate change related shocks.

18. Strong procurement practices are key to an effective natural disaster response. Without adequate procurement systems, donors may be hesitant to support Barbados, while government expenditure can become inefficient in addressing the natural disaster's impact. Current efforts by the Barbadian government to strengthen the procurement process, including through the revision of the public procurement law, are welcome steps to enhance efficiency and effectiveness of public expenditures and reinforce Barbados' ability to respond to disasters quickly and efficiently while maintaining fiscal transparency. This can be integrated into green PFM practices, which would support the mainstreaming of climate priorities in all aspects of the budget cycle and enhance climate-friendly government expenditure.

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Annex IV. Capacity Development Strategy: Country Strategy Note[1]

Barbados' capacity development (CD) efforts are aligned with the reform agenda under the Fund-supported program. CD priorities are very diversified including developing institutional and analytical capacity, strengthening the governance framework, notably in AML/CFT, supporting the implementation of Barbados' fiscal rules, and strengthening the central bank's market operations framework and financial sector supervision and regulation. The authorities' engagement and ownership on these issues remain strong. Given Barbados' extensive use of CD from the Fund and other partners, close integration between CD activities and program priorities as well as coordination with other technical assistance providers remain critical.

Context

1. **A four-year Extended Fund Facility (EFF) program was approved by the Executive Board on October 1, 2018.** CD from the Fund was extensive over this period and supported the achievement of the program's objectives and the authorities' reform priorities, which focused on three key pillars: (i) implementing equitable fiscal reforms to ensure debt sustainability, while protecting the poor and most vulnerable; (ii) maintaining monetary and financial stability, while strengthening the central bank's autonomy and governance, and (iii) advancing structural reforms to enhance SOE performance, support business facilitation, and increase Barbados competitiveness. Building on the successful completion of the 2018-22 EFF, the authorities have requested a successor EFF program along with a Resilience and Sustainability Facility (RSF) to strengthen fiscal sustainability, support the structural reform agenda, and increase resilience to climate change. CD will continue to play a key role in the Fund's engagement with the authorities to advance the implementation of priority reforms.

Collaboration

2. **Fund's CD Engagement with Barbados.** Historically, Barbados has received extensive CD, with generally a good implementation record and critical public buy in for reforms supported by effective communication from the government and the CBB. IMF technical assistance covered fiscal issues, including tax and customs reform, public financial management (PFM) legislation, fiscal rule frameworks, enhancing SOE performance and oversight, restructuring of the Ministry of Finance, and pension reform. LEG and MCM have provided technical advice in terms of Central Bank Law Reform, Debt Management, Modernization of the National Payment System. STA (with CARTAC assistance) has an ongoing TA portfolio to strengthen capacity in national accounts and price statistics. Table 2

[1]This country strategy note and the attached table matrices illustrate the integration of capacity development and program objectives guided by key recommendations in the IMF Board Paper *2018 Review of the Fund's Capacity Development Strategy*. The acronyms in the note refer to the following IMF and other CD providers: Caribbean Regional Technical Assistance Centre (CARTAC); Fiscal Affairs Department (FAD), Finance Department (FIN), Institute for Capacity Development (ICD); Legal Department (LEG), Monetary and Capital Markets Department (MCM); Statistics Department (STA); Inter-American Development Bank (IDB); Organization of Economic Cooperation and Development (OECD); World Bank (WB); and United Nations (UN).

shows CD missions that took place since 2018 and tentatively planned missions for 2022/23, highlighting how Barbados will remain a heavy user of CD going forward, calling for close integration between CD and Fund's surveillance and program engagement. The IMF's resident representative office will remain a key channel of engagement on CD going forward, in close coordination with CARTAC and CD providers at headquarters.

3. Integration of CD in Fund surveillance and program engagement. During the program period, CD delivery was fully aligned with the authorities' reform objectives, with the country team coordinating activities. This is expected to continue under Barbados successor EFF program along with an RSF. The country team and CD providers will continue to work closely together, including through mission participation, to ensure CD is consistently integrated in the authorities' reform priorities and Article IV consultations. Appropriate sequencing of CD across reform streams will be coordinated by the country team, in consultation with the authorities and CD providers, including CARTAC, as necessary. The Fund's resident representative office also plays a key role in these efforts.

4. Collaboration with other partners remains strong, especially in the areas of debt management and disaster risk financing where efforts with the World Bank have been coordinated closely. To support the authorities' goal of improving public spending efficiency and transparency as well as fostering an inclusive and green recovery, staff continues to engage with multilateral and bilateral donors—including the WB on climate change adaptation and business climate; the IDB on Debt Swap Initiatives and blue bond issuance, climate change adaptation, and enhancement of road infrastructure through public-private partnership; the OECD to support the authorities' goal of strengthening their AML/CFT framework. Staff is engaging with other CD partners on a regular basis through joint meetings to ensure consistency of policy advice and synergies in supporting the program's objectives.

CD Priorities

5. The main CD objectives for Barbados focus on consolidating the achievements to date and making further progress on macro-critical reform areas. During the seventh and final EFF Review in May 2022, the authorities outlined a set of priority actions focused on strengthening institutions to guard against policy reversals. These forward-looking priorities, which are fully supported by the country team, include operationalizing PFM and custom reforms, reviewing the corporate income tax framework, strengthening macro-fiscal analytical and forecasting capacity, maintaining a stable financial sector with improved risk-based supervision including financial stress testing for climate related risks, and strengthening monetary policy operations; improving national accounts and macroeconomic statistics, and increasing the effectiveness of the AML/CFT regime - a key reform priority following Barbados' placement on the list of countries under increased monitoring by FATF in February 2020.

6. The outline of Fund's expected CD to support these main reform areas are summarized as follows:

- **Implement fiscal reforms to support inclusive and green growth while ensuring debt sustainability.** Maintain fiscal discipline, enhance fiscal transparency, and strengthen fiscal institutions. Barbados has succeeded in maintaining policy discipline, owing to strong public accountability enhanced through civil society oversight. Achieving the debt target will require robust fiscal institutions with strong analytical capacity going forward.

  - *Macro-fiscal framework*. *FAD.* CD provided will focus on developing a macro-fiscal framework including a risk assessment of macroeconomic shocks (the lingering pandemic, Russia's war in Ukraine, climate challenges and rising global commodity prices) to fiscal sustainability and preparing a fiscal risk statement from the forthcoming CD mission on reassessment of fiscal risks alongside the annual fiscal framework, which is scheduled for early 2023.

  - *Reorganization of the Ministry of Finance and Economic Affairs Investment*. *CARTAC*. Follow up mission related to the recommendation of the TA that took place in summer 2021. The focus will be on the restructuring of the treasury function to improve guidance on internal/external audit functions, procurement, and its accounting systems in view of establishing a cash management unit in government.

  - *Revenue Administration*. *FAD*. Review of tax collection structure and development of a strategy on tax and non-tax revenue collection, focusing on compliance risk management approaches, while optimizing revenue collection via the transition to the national payments system, which will be ready by early 2023.

  - *Customs reforms. FAD.* Review of tax incentives regime and in-depth assessment to verify whether expected economic outcomes of the tax exemptions have been materialized and determine if the regime should be modernized in accordance with current government's priorities. A valuation workshop was delivered by FAD to the Post-Clearance Audit team members and the Compliance Deputy Comptroller in June 2022. A two-week CARTAC TA mission will be delivered by a valuation expert in October 2022. Other priority in customs would be focusing on building customs regulations and enhancing post-clearance audits and the valuation capacity. The Resource Allocation Plan 2022/23 includes one HQ mission for tax and one mission for customs. Moreover, the RAP also includes three Short Term Expert activities for tax and two for customs, besides a valuation mission, delivered by CARTAC in late October 2022.

  - *Taxation Framework. FAD.* Assessment of the impact of the international global tax agreement on firms located in Barbados. Review Barbadian tax incentive and structure with a view to remove the costliest and least effective ones with a particular focus on a reformed property and construction tax framework aligned with previous TA recommendations.

- *Green PFM. FAD*. Identify potential improvements in public investment institutions and processes to build low-carbon and climate-resilient infrastructure which is critical for an inclusive, sustainable, and green recovery. The IMF's climate-public investment management assessment (C-PIMA) reviews five institutions of public investment management essential for climate-aware infrastructure: (i) planning; (ii) coordination between entities; (iii) procurement; (iv) budgeting and portfolio management; and (v) risk management.

- **Close statistical gaps and strengthening macroeconomic simulations to informed decision-making by the government and others.** Data provision is deemed to be broadly adequate for surveillance. There has been some progress in addressing shortcomings such as in GDP at constant and current prices, consumer prices, financial reporting by public enterprises (statutory bodies), labor force statistics, and discrepancies in and timeliness of external sector data (net foreign assets), including international investment position. These data shortcomings are due to weak capacity, which hampers the provision of and/or affects the reliability of certain data.

  - *Real sector statistics. STA and CARTAC.* CD will be provided to the BSS to support work on improved estimates of expenditure-based GDP and a Tourism and Culture Satellite Account. This workstream will support the production of high-quality and timely data that is essential for policy analysis.

  - *Macroeconomic Simulation Tool. CARTAC*. This workstream supports efforts to strengthen analytical and simulation capacity of the CBB. Through a process of training and hands-on support, an Excel-based framework is being developed to allow the CBB to conduct their own macroeconomic simulations (macroeconomic and policy risk scenarios) that should strengthen policy analysis and enrich discussions amongst public sector entities. Once completed, the framework could also be used to generate medium-term macroeconomic projections.

- **Upgrade the CBB's open market operations framework and improve financial sector oversight.** The CBB has few instruments at its disposal to tighten monetary conditions under the peg in response to the surge in inflation given weak monetary transmission and structural excess liquidity. With inflationary pressure building, the space for monetary policy tightening under the fixed exchange regime can be strengthened.

  - *Central bank monetary policy toolkit. MCM*. A two-day meeting will be organized with the CBB to discuss experiences for other central banks in modernizing their monetary operational framework and structural sterilization tools. Thereafter, customized TA will be provided to support the upgrade of the CBB's monetary policy toolkit and help the authorities with the review of the CBB's balance sheet capacity.

  - *Banking supervision. MCM/CARTAC.* Ongoing CD by CARTAC/MCM is helping strengthen supervision and regulation, including by enhancing liquidity risk management, and assessments of IFRS models and ICAAP documentation. In addition, CD by CARTAC/MCM will engage in dialogue with the authorities on climate change issues and will support the authorities' efforts to enhance FinTech regulation and cybersecurity. In this context, CARTAC delivered a regional workshop on cybersecurity in 2021 in which the authorities participated and provided guidance on draft guidelines for cyber-risk supervision.

- *Non-bank supervision*. *CARTAC*. CD by CARTAC assists the authorities in strengthening supervision of credit unions, insurance firms, as well as the securities market. The legislation for insurance and securities is requiring updating. For insurance firms, strengthening the consolidated supervision of insurance group is a priority. The CARTAC's most recent CD engagement with the Financial Services Commission resulted in recommendations to enhance its organization and governance.

- **Make operational changes to enhance AML/CFT regulatory framework in line with FATF recommendations.** Barbados was placed on the Financial Action Task Force's (FATF) listing of jurisdictions under Increased Monitoring (generally referred to as the "Grey List") in February 2020. While progress has been made on addressing identified deficiencies—notably the passage of a revised Proceeds of Crime Act and Terrorism Prevention Act— that address some technical compliance issues, significant work is still needed in the areas of risk-based supervision of designated non-financial businesses and professions; establishing effective mechanisms to ensure that beneficial ownership information is accurate and up to date, with appropriate sanctions applied for breaches and ensuring that competent authorities have timely access to such information. In addition, the Financial Intelligence Unit should continue to engage with law enforcement to increase the use of financial intelligence. Finally, the authorities should intensify their confiscation efforts, while the reduction of the backlog of money laundering cases should be accelerated.

  - *LEG: Financial Integrity (AML/CFT)*. *LEG*. CD provided is assisting the wider Caribbean Financial Action Task Force (CFATF) region by carrying out training and leading mutual evaluations.

Table 1. Barbados: Capacity Development Integration Matrix				
Implementing Fiscal Reforms to Ensure Debt Sustainability				
Ensuring debt sustainability by improving tax collections, fiscal institutions, and analytical capacity, while strengthening social protection				
Specific Area	**Objectives**	**TA/Training Engagement**	**Achieved Outcome**	**Future CD and Program Outcomes**
Revenue Administration	Improved customs administration core functions	FAD.	Modernized legislative framework in line with international requirements. A Trusted Trader Program has been established to give defined benefits to significant importers based on assessed risk. Customs has an improved system for airport merchandise in baggage that expedites clearance and reduces wait times. Creation of a 2020-2024 Strategic Plan, compliance units and programs.	Audit and anti-smuggling programs more effectively ensure enforcement of customs laws. Customs control during the clearance process more effectively ensures accuracy of declarations. Foreign trade operators better comply with their reporting and payment obligations. Trade facilitation and service initiatives better support voluntary compliance.
	Strengthened core tax administration functions	FAD.		Audit and other verification programs more effectively ensure accuracy of reporting. The integrity of the taxpayer base and ledger is strengthened.
	Strengthened core tax administration functions (SDG 17.1) - TAD	FAD.		A larger proportion of taxpayers meet their filing obligations as required by law. A larger proportion of taxpayers meet their payment obligations as required by law.
	Strengthened revenue administration management and governance arrangements	FAD.	Capacity to reform increased due to clear reform strategy and strategic management framework adopted and institutionalized.	Transparency and accountability are more effectively supported by independent external oversight and internal controls. Corporate priorities are better managed through effective risk management. Corporate priorities are better managed through effective risk management. Organizational arrangements enable more effective delivery of strategy and reforms.

Table 1. Barbados: Capacity Development Integration Matrix (continued)

Implementing Fiscal Reforms to Ensure Debt Sustainability				
Ensuring debt sustainability by improving tax collections, fiscal institutions, and analytical capacity, while strengthening social protection				
Specific Area	**Objectives**	**TA/Training Engagement**	**Achieved Outcome**	**Future CD and Program Outcomes**
				Support functions enable more effective delivery of strategy and reforms. Tax and/or customs laws are updated, simplified, and better aligned with modern standards and international protocols.
Public Financial Management	Comprehensive, credible, and policy-based budget preparation - BPR	FAD.	Partially achieved, changes in successive budget forecast are explained and reconciled in the Fiscal Strategy, but further work is required to improve the budget process and reporting. Further TA (review the current practices and give advice on best practice) is planned in this area. Detailed TA (guidance and support) provided to Cash Management/Cashflow/Treasury Function, results Partially achieved, but further work required to implement detailed recommendations.	A more credible medium-term budget framework is integrated with the annual budget process. A more credible medium-term macro-fiscal framework that supports budget preparation.
	Improved asset and liability management - ALM	FAD.	Partially achieved. Support provided to SOEs, monitoring improved and detailed training provided on responsibilities in line with the Act. Still number of outstanding Financial Statements to be signed off by Auditors or not produced by the SOEs.	Disclosure and management of state assets is improved.
	Improved budget execution and control	FAD.	Consideration for PIMA / C-PIMA to support efforts. IA functions are established, moving towards central IA unit, paper with Cabinet for approval. Partially achieved.	Appraisal, selection, and implementation of public investments is improved. Risk-based internal audit functions are established in central government agencies.
	Improved laws and effective PFM institutions	FAD.	Support provided to the New Public Finance Management Act, which was implemented in 2019, after being passed by Parliament. Further revision is now required. Partially achieved.	A more comprehensive legal framework covering all stages of the public financial management cycle is enacted.

Table 1. Barbados: Capacity Development Integration Matrix (continued)

Specific Area	Objectives	TA/Training Engagement	Achieved Outcome	Future CD and Program Outcomes
Implementing Fiscal Reforms to Ensure Debt Sustainability				
Ensuring debt sustainability by improving tax collections, fiscal institutions, and analytical capacity, while strengthening social protection				
				The capacity of ministry of finance to plan, implement and sustain PFM reforms is enhanced.
	Improved public investment management - PIM	FAD.	Work planned for FY24 on PPP support.	Implementation of public investment projects is improved to deliver productive and durable public assets.
	Strengthened identification, monitoring, and management of fiscal risks - FRK	FAD.		Analysis, disclosure, and management of other specific fiscal risks are more comprehensive.
Debt Management	Formulate and implement a medium-term debt management strategy (MTDS) - MTD	MCM.	The Ministry of Finance identifies cost, risk, and other vulnerabilities in the debt portfolio through quantitative and qualitative analysis and uses this information to inform preparation of the debt management strategy.	Enhanced capacity in MTDS formulation and implementation.
Maintaining Monetary and Financial Stability				
Strengthening exchange rate flexibility, the central bank's autonomy and governance, and supervisory and crisis management framework, while addressing structural financial vulnerabilities				
Central Bank Operations	Develop/strengthen the central bank capacity to provide Lender of Last Resort (LOLR) - LOL	MCM.		Clearly defined LOLR-related organizational arrangements.
	Strengthen the central banks' monetary policy toolkit and balance sheet.	MCM		The central bank's monetary policy toolkit is effective in promoting financial and price stability.

Table 1. Barbados: Capacity Development Integration Matrix (continued)				
Maintaining Monetary and Financial Stability				
Strengthening exchange rate flexibility, the central bank's autonomy and governance, and supervisory and crisis management framework, while addressing structural financial vulnerabilities				
Specific Area	**Objectives**	**TA/Training Engagement**	**Achieved Outcome**	**Future CD and Program Outcomes**
Financial Supervision and Regulation	Banks have strong capital and liquidity positions that adequately cover their risks and contribute to financial system stability	MCM.		Banking legislation and regulations are aligned with Basel II/III requirements. Banks have adequate capital adequacy made up of high quality capital instruments that is in line with issued regulations on Basel II/III. Supervisors have the competencies to drive the implementation process of Basel II/III and to monitor bank's compliance with the new requirements. The level of banks' capital reflects well their risk profile, their business strategy and their risk acceptance levels.
	Develop/strengthen cybersecurity regulations and supervisory frameworks - CRS	MCM.		Supervisors have sufficient capacity to effectively supervise cybersecurity risk.
	Develop/strengthen fintech regulation and supervision - FTK	MCM.		Legal, regulatory, and supervisory frameworks for fintech are developed/strengthened.
	Develop/strengthen non-bank credit institutions' regulation and supervision frameworks - NBC	MCM.		Institutional structure and operational procedures for RBS enhanced/developed.
	Enhance capacity on latest developments in international standards and best practice in financial supervision and regulation - BPF	MCM.		Participants exchange/acquire knowledge and skills on financial supervision and regulation.
	To implement a risk-based supervision (RBS) system and upgrade other supervisory processes	MCM.		Strengthened institutional structure and operational and procedures for RBS implementation. Supervisors have sufficient capacity to effectively implement risk-based supervision and other supervisory processes.

Table 1. Barbados: Capacity Development Integration Matrix (continued)				
Maintaining Monetary and Financial Stability				
Strengthening exchange rate flexibility, the central bank's autonomy and governance, and supervisory and crisis management framework, while addressing structural financial vulnerabilities				
Specific Area	**Objectives**	**TA/Training Engagement**	**Achieved Outcome**	**Future CD and Program Outcomes**
Systemic Risk Analysis	To strengthen the regulator's ability to analyze and assess financial risks so as to create a basis on which effective financial sector decisions are made and to enhance preparedness to manage financial sector crises	MCM.	An effective organizational and inter-organizational structure for the FSU is established for financial risk.	A systemic risk monitoring framework is implemented. Effective Stress Testing Model(s) are in place and being used for their intended purpose (s). Staff capacity is enhanced in the production of the first Financial Stability Report (FSR). The quality of data and integrity of information are ensured for financial stability analysis.
Macroeconomic Programming and Analysis	Stronger analytical skills and better macroeconomic forecasting and policy analysis at the Ministry / central bank / or other governmental agency(ies) feeds into the economic policymaking process - ANS	CARTAC.	Medium-term macroeconomic framework tool (MFT) has been fully developed (subject to minor refinements) and performance is judged to be adequate for usage in policy analysis.	Sound medium-term macroeconomic framework (inclusive of GDP and inflation, commodity prices, the external and monetary sectors, and fiscal aggregates). Strong institutional structures for macroeconomic policymaking.
Real Sector - National Accounts	Strengthen compilation and dissemination of macroeconomic and financial statistics for decision making according to internationally accepted statistical standards, including developing statistical infrastructure, source data, serviceability and/or metadata	STA.	The key objective of benchmarking Barbados' national accounts to a more recent base year to increase the policy relevance of these statistics was completed. Support continued improving data	Data are compiled and disseminated using the concepts and definitions of the latest manual/guide.

Table.1. Barbados: Capacity Development Integration Matrix (continued)				
Maintaining Monetary and Financial Stability				
Strengthening exchange rate flexibility, the central bank's autonomy and governance, and supervisory and crisis management framework, while addressing structural financial vulnerabilities				
Specific Area	**Objectives**	**TA/Training Engagement**	**Achieved Outcome**	**Future CD and Program Outcomes**
			coverage and further aligning Barbados' national accounts compilation program with the 2008 System of National Accounts	
	Strengthen compilation and dissemination of real sector statistics- national accounts - NAC	STA.	Staff capacity increased	Data are compiled and disseminated using the coverage and scope of the latest manual/guide. Higher frequency data has been compiled and disseminated internally and/or to the public. Metadata released internally and to the public have been strengthened consistent with the dataset to enhance interpretation and analysis. Staff capacity increased through training, especially on developing source data, compilation methods, and dissemination. A new data set has been compiled and disseminated internally and/or to the public.
Real Sector - Prices	Strengthen compilation and dissemination of macroeconomic and financial statistics for decision making according to internationally accepted statistical standards, including developing statistical infrastructure, source data, serviceability and/or metadata	STA.	Staff capacity increased.	Data are compiled and disseminated using the concepts and definitions of the latest manual/guide. Staff capacity increased through training, especially on developing source data, compilation methods, and dissemination.
Balance of Payments	Strengthen compilation and dissemination of balance of payments data.	STA.		Data are compiled and disseminated using appropriate statistical techniques, including to deal with data sources, and/or assessment and validation of intermediate data and statistical outputs. Improved timeliness of data made available internally and/or disseminated to the public (shorter delays).

Table 1. Barbados: Capacity Development Integration Matrix (concluded)

Maintaining Monetary and Financial Stability				
Strengthening exchange rate flexibility, the central bank's autonomy and governance, and supervisory and crisis management framework, while addressing structural financial vulnerabilities				
Specific Area	**Objectives**	**TA/Training Engagement**	**Achieved Outcome**	**Future CD and Program Outcomes**
Financial Institutions	Strengthen compilation and dissemination of financial soundness indicators - FSI	STA. Technical assistance provided to support the compilation of core and encouraged FSIs.	STA. Compilation of core and encouraged FSIs.	Improved periodicity, timeliness, and consistency of data.

Table 2. Barbados: IMF Capacity Development Missions Since 2018		
Implementing Fiscal Reforms to Ensure Debt Sustainability		
TA/Training Mission	**Provider**	**Mission Date (Completed/Planned)[1]**
Customs Administration		
Strengthening Risk Management Capacity/Strengthening the Trusted Trader Program 2	CARTAC	Feb-23 and Nov-22
Customs - Valuation administrative policy suite and valuation audit	CARTAC	Oct-22
Exemption Control follow up mission	FAD and CARTAC	Sep-Oct-22
Customs Cargo Clearance and Traceability	CARTAC	Jun-22
Guidance on Audit	FAD	Jun-22
Valuation Workshop for Customs to Post-Clearance Audit	FAD	Jun-22
Development of the Exemption Control Capacity	FAD	Mar-22
Strengthening Management of Goods in Bond or Suspensive Regimes	CARTAC	Mar-22
Trade Policies and Compliance: Strengthening PCA	FAD	Nov-21
Mapping and Modelling Core Cargo Clearance Processes	CARTAC	Jun-21
FAD Led Diagnostic Mission	FAD	May-21
Customs Administration	FAD	Apr-21
TAX and Customs Follow up Diagnostic Mission	CARTAC	Apr-21
Regional Seminar on Performance Management in Customs	CARTAC	Apr-21
Reviewing the Customs Legislation	CARTAC	Mar-21
Customs Administration	FAD	Mar-21, Feb-19, Mar-19
TA to Map Core Cargo Clearance Processes in Customs	CARTAC	Mar-21
Strengthening Risk Management Capacity in Customs	CARTAC	Jan-20, Oct-20, Jan-21, Nov-21
TA in Risk Management and Post Clearance Audit (PCA)	CARTAC	Nov-20
To Design and Deliver Training to Middle Managers Customs [Remote]	CARTAC	Aug-20
Strengthening Resilience (Management Capacity)	CARTAC	Jun-20
Strategic Risk Management Training	CARTAC	Jun-20

Table 2. Barbados: IMF Capacity Development Missions Since 2018 (continued)		
Implementing Fiscal Reforms to Ensure Debt Sustainability		
TA/Training Mission	**Provider**	**Mission Date (Completed/Planned)[1]**
Strengthening Post Clearance Audit Capacity	CARTAC	Mar-19, Jan-20
Installation Mission	CARTAC	Jan-20
Debt Management		
Debt Portfolio Analysis (mission)	CARTAC	Oct-21
Tax Administration		
Enhancing Compliance Programs	CARTAC	Early-23
Organizational Arrangements - Compliance Risk Management Unit	CARTAC	Jun-22
Developing a Data Warehouse	CARTAC	Oct-21
Strengthening HQ Functions - Data Analytics	CARTAC	Aug-21
Strengthening HQ Functions - Performance Management	CARTAC	Jul-21
Tax and Customs Follow Up	FAD	Apr-21
CARTAC:(Remote TA) Tax Administration Follow-Up Mission (FAD Lead)	CARTAC/FAD	Mar-21
Tax Administration Follow Up	FAD	Mar-21
COVID-19-CARTAC: Strengthening Strategy, Planning and Performance Measuring [WFH]	CARTAC	Apr-20
CARTAC: Strengthening Strategy, Planning and Measuring Performance (WFH)	CARTAC	Mar-20
Follow-up on the Establish Large Taxpayer Operation and Building Headquarters Function	FAD	Sep-18
ISORA Workshop	FAD	May-18
Tax Policy		
TA in Tax Procedures	LEG	Apr-20
Maintaining Monetary and Financial Stability		
Follow-up: VAT on Real Property [Subject to Funding Availability]	FAD	Feb-20
Revenue Mobilization	FAD	Jan-19
Public Financial Management		
Mission LTX/STX – Follow-up assistance with IA FY23	CARTAC	Jan-23
Mission LTX/STX Treasury Function Reform FY23	CARTAC	Nov-22
Reassessment of Fiscal Risks	FAD	Oct-22
Mission LTX/STX Review of Budget Process and Procedures FY23	CARTAC	Sep-22

Table 2. Barbados: IMF Capacity Development Missions Since 2018 (continued)

Maintaining Monetary and Financial Stability		
TA/Training Mission	**Provider**	**Mission Date (Completed/Planned)[1]**
Mission LTX/STX Development of Fiscal Framework FY23	CARTAC	Jun-22
Mission LTX/STX Review of Cashflow Model and Training FY23	CARTAC	May-22
Mission LTX/STX Review of Treasury to Include Establishing the Cash Management Unit FY23	CARTAC	May-22
Review of Treasury to Include Establishing the Cash Management Unit FY23	CARTAC	May-22
Public Financial Management Internal Audit Regional Conference/Workshops (PFM) FY22 FY23	CARTAC/FAD	Apr-22
Follow-up Assistance on Management of SoEs FY22	CARTAC	Feb-22
Public Financial Management: Treasury Operations Regional Conference/Workshops (PFM) FY22 FY24	CARTAC/FAD	Feb-22
Procedural Rules FY22	CARTAC	Dec-21
Review of the Organizational Capability and Capacity of MFEI FY22	CARTAC	Sep-21
Review of the Organizational Capability and Capacity of MFEI FY22	CARTAC	Sep-21
Follow up on Fiscal Rules and MTFF	FAD	Apr-21
Training: Establishing a Central Internal Audit Unit (WFH)	CARTAC	Mar-21
(Remote TA) Fiscal Rules and MTFF (HQ Lead)	CARTAC	Feb-21
Fiscal Rules and MTFF	FAD	Feb-21
PFM LTX	FAD	Jan-21
(Remote TA) Steering Committee Meeting	CARTAC	Nov-20
(Remote TA) SOE Cabinet Dashboard	CARTAC	Nov-20
Review of Cashflow Model and Training FY23	CARTAC	Oct-20, May-22
CARTAC: SOE Unit Support (Training)	CARTAC	Dec-19
CARTAC: SOE Reporting (Training)	CARTAC	Nov-19
CARTAC: SOE Oversight - Support MAU to Oversee Public Corporations	CARTAC	Mar-19
CARTAC: Revisions to Barbados Draft PFM Legislation (WAH)	CARTAC	Nov-18
Central Bank Operations		
Systemic Liquidity Management and ELA on-site	MCM	Feb-23

Table 2. Barbados: IMF Capacity Development Missions Since 2018 (continued)		
Maintaining Monetary and Financial Stability		
TA/Training Mission	**Provider**	**Mission Date (Completed/Planned)[1]**
Accounting and Auditing		
Virtual (COVID): Central Bank Recapitalization	MCM	Nov-20
Virtual TA (COVID) Capital Adequacy of the Central Bank	MCM	Sep-20
WAH: Capital Adequacy of the Central Bank	MCM	Mar-20
Financial Sector Supervision & Regulations		
Workshop on Sup Framework for Cyber Risk and Fintech Firms -STX	CARTAC	Nov-22, Mar-23
Workshop on Climate Risk Supervision – STX	CARTAC	Nov-22
Workshop - Supervisory Review of Cyber Risk Management at FIs -STX	CARTAC	Nov-22
Workshop on Supervision of Climate Risk	CARTAC	Oct-22
TA on the Supervision of Credit Bureau -STX	CARTAC	Sep-22
Regional - IFRS 17 Implementation	CARTAC	Feb-22
VIRTUAL (COVID): CARTAC: Development of Risk-Based Capital Reporting Template and Necessary Guidelines	CARTAC	Dec-20
CARTAC: WAH Implementation of Risk-Based Capital Framework & ORSA for Life & General In	CARTAC	Sep-20
CARTAC: Virtual TA (COVID) - RBS Workshop	CARTAC	Jun-20
Bank Reconciliations FY22	CARTAC	Nov-21
Implement Basel II - Pillar 2	MCM	May-18
Basel II Implementation - Pillar 2	MCM	May-18
Financial Stability Strategy		
BRB CARTAC 2023 FSR	CARTAC	Sep-22
Caribbean Financial Access Roundtable 2022	LEG	Apr-22
Strengthening Risk Management	CARTAC	Mar-22
Finalization Report for BRB March 2021	CARTAC	May-21
VIRTUAL (COVID): CARTAC: Macro Stress Testing	MCM	Feb-21
CARTAC Financial Stability - CARTAC/WHD Annual Meetings	MCM	Dec-20
Integrated Asset-Liability Management		
CARTAC: WAH Implementation of Risk-Based Capital Framework & ORSA for Life & General In	CARTAC	Sep-20
Liability Management		
VIRTUAL (COVID): CARTAC Debt Reporting	CARTAC	Apr-21
Payments and Settlements		
VIRTUAL TA (COVID): Payments Systems/RTGs/Settlements	MCM	Mar-21
VIRTUAL TA (COVID): Payments Systems/RTGs/Settlements	MCM	Mar-21

Table 2. Barbados: IMF Capacity Development Missions Since 2018 (continued)		
Maintaining Monetary and Financial Stability		
TA/Training Mission	**Provider**	**Mission Date (Completed/Planned)[1]**
VIRTUAL TA (COVID): Payments Systems/RTGs/Settlements	MCM	Nov-20
VIRTUAL (COVID): Payments Systems/RTGs/Settlements	MCM	Nov-20
VIRTUAL TA (COVID): Payments Systems/RTGs/Settlements	MCM	Nov-20
VIRTUAL (COVID): Payments Systems/RTGs/Settlements	MCM	Nov-20
Insurance Supervision		
Review of the FSC Organization Structure	CARTAC	Mar-22
CARTAC: Insurance Regulation & Supervision	CARTAC	Apr-19
Central Bank Operations		
Assisting the CBB to Prepare Amendments to the Central Bank Law	LEG	May, November 2019
Macroeconomic Forecasting and Policy		
Building Capacity in Medium Term Macroeconomic Framework	CARTAC	Sep-22
Building capacity in medium term macro-fiscal frameworks	CARTAC	May-22
Reginal Macroeconomics Webinar Series	WHD	May-22
Building Capacity in Macro Modeling	CARTAC	Feb-22
Building Capacity in Macro Modeling	CARTAC	Jun-21
Macroeconomic and Financial Statistics and Data Dissemination		
Barbados - TA - GDP - Improving GDP FY23	CARTAC	Feb-23
TA – CPIS/CDIS – Improve Timeliness	CARTAC	Oct-22
TA - CPI - Updating CPI FY22	CARTAC	Apr-22
Training - External debt statistics	CARTAC/STA	Apr-22
Training - Introduction to GDP	CARTAC/STA	Mar-22
TA - GDP - Improving GDP	CARTAC	Mar-22
TA-HQ-GDP-Rebase	CARTAC	Jan-22
TA – BOP/IIP – Improve Timeliness	CARTAC	Sep-21
Barbados - TA - FSI - Improve FSIs compilation	STA	Sep-21
TA-HQ-GDP-Benchmark Supply and Use	CARTAC	May-21
Balance of Payments	STA	May-21
(Remote TA) CARTAC: Enhance BOP and IIP source data	CARTAC	Mar-21
(Remote TA) National Accounts (Canada and CARTAC)	CARTAC	Nov-20
(Remote TA) e-GDDS	STA	Sep-20
(Remote TA) National Accounts (Canada Funded)	STA	Jul-20
Monetary Data Reported in SRF	CARTAC	Apr-19

Table 2. Barbados: IMF Capacity Development Missions Since 2018 (concluded)		
Maintaining Monetary and Financial Stability		
TA/Training Mission	**Provider**	**Mission Date (Completed/Planned)[1]**
CARTAC: Balance of Payments Statistics	CARTAC	Mar-19
CARTAC: National Accounts - Improve GDP-P estimates	CARTAC	Feb-19
CARTAC: Consumer Price Index - Finalizing the rebased series for dissemination	CARTAC	Oct-18
National Accounts	CARTAC	May-18
[1] Refers to missions planned end of FY23.		

Appendix I. Letter of Intent

Bridgetown, Barbados
November 7, 2022

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

Dear Ms. Georgieva,

The Barbadian economy has until recently been mired in a cycle of low growth and increasing debt. When my Government came to office 2018, we confronted fiscal and external imbalances that threatened public sector sustainability and the viability of the currency peg.

I am writing to extend my sincere appreciation to the Fund for its support of our homegrown Economic Reform and Transformation (BERT) strategy to resolve these imbalances and bolster long-term economic prospects. The recently expired four-year extended arrangement under the Extended Fund Facility (EFF) approved on October 1st, 2018, was instrumental in restoring macroeconomic stability and providing a crucial safety net during the global pandemic. Progress to put the economy on a path of sustainable and inclusive growth, however, was disrupted by unprecedented shocks in terms of the pandemic and a Russia-Ukraine war. Fallout from these shocks continue to weigh on Barbados' economic prospects and complicate policymaking, while challenges related to climate crisis have become more pronounced.

The Government of Barbados is deeply committed to preserve hard-won macroeconomic gains and further advance reforms under a revamped 2022 BERT framework. We are looking for sustained engagement from the Fund and other multilateral financial institutions to support these efforts and help vulnerable island states like Barbados adequately respond to the existential climate crisis threat. This includes through the ongoing provision of capacity development in priority areas.

To this end, the Government of Barbados is requesting a 36-month successor EFF arrangement in an amount equivalent to SDR 85.05 million (around US$110 million), or 90 percent of Barbados' IMF quota. We are also requesting a supplementary arrangement under Resilience and Sustainability Facility (RSF) in the amount of SDR 141.75 million (around US$180 million) or 150 percent of quota. An EFF arrangement is appropriate in our view given the still ambitious medium-term structural reform agenda, including measures that were delayed owing to the pandemic. Use of the RSF is justified by the significant challenges that climate crisis poses to a small island developing state like Barbados and our ambitious reform plan to confront these challenges.

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

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

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

We thank you for your support and willingness to sustain a partnership with the Government and people of Barbados as we carry forward our efforts to revitalize our economy to achieve a sustainable, equitable, and resilient growth path.

Very truly yours,

/s/

The Hon. Mia Amor Mottley S.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 ECONOMIC STRATEGY

1. **Barbados has embarked on a comprehensive economic transformation to restore macroeconomic stability and put the economy on a path to sustainable and inclusive growth**. Upon taking office in May 2018, the Government of Barbados (GOB) moved expeditiously to address serious fiscal and external imbalances that threatened public sector sustainability and the viability of the currency peg. A Barbados Economic Reform and Transformation (BERT 2018) plan was prepared that included fiscal adjustment via the restructuring and modernization of the public sector, in conjunction with a comprehensive debt restructuring as central reform pillars. The GOB also requested that BERT (2018) be supported by a four-year IMF arrangement under the Extended Fund Facility (EFF), which was approved on October 1, 2018, and provided 341 percent of quota in the amount of SDR 322 million (about US$415 million).

2. **Significant progress implementing BERT 2018 was achieved prior to the onset of the COVID pandemic in March 2020.** Macroeconomic stability was restored with a combination of comprehensive sovereign debt restructuring, fiscal consolidation, and structural reforms to reduce fiscal dominance and enhance growth. International reserves have increased to US$1.4 billion by end-September 2022 from a low of US$220 million in 2018. While fiscal consolidation was interrupted by the COVID-19 pandemic, public debt was put back on a downward path starting in FY2021/22. These achievements prior to the pandemic created essential fiscal space that empowered the Government with flexibility to appropriately respond to the pandemic. Enhanced IMF support in response to the pandemic and other external shocks was also critical in minimizing economic fallout. Barbados' strong performance under the 2018 EFF paved the way for augmentations under the arrangement totaling SDR 114 million (about US$150 million) to further support the GOB's efforts in dealing with the COVID pandemic. The IMF's policy endorsement also served as a catalyst for over US$1.5 billion in support (in the form of policy-based loans) from other international development institutions (CDB, IDB, WB and CAF).

3. **The GOB intends to preserve hard-won macroeconomic gains and further advance reforms to enhance growth and resilience under a revamped BERT framework**. While the pandemic and other external shocks disrupted elements of the structural reform agenda, Barbados intends to revitalize policy efforts in the period ahead as shocks dissipate. BERT 2022 (henceforth BERT) is the successor to BERT 2018 and focuses on achieving inclusive and sustainable growth, while both maintaining fiscal and debt sustainability and building resilience through climate adaptation and mitigation efforts. The central elements of the program are: (i) a fiscal strategy that ensures Government balances and finances are consistent with the debt anchor by streamlining expenditure and reforming the public sector, particularly the State-Owned Enterprises (SOEs); (ii) a debt management strategy that actively manages the debt portfolio to minimize costs; and (iii) a growth strategy that enhances the business environment and enables private-sector led growth,

improves labour market flexibility, and builds resilience through climate adaptation and mitigation spending. It is expected that steadfast implementation of this program will help mobilize external financing and facilitate the restoration of access to international capital markets.

4. The GOB requests IMF support to sustain BERT implementation through a joint Extended Fund Facility (EFF) and Resilience and Sustainability Facility (RSF) arrangement. Maintaining and strengthening macroeconomic stability is a central program objective, with primary surpluses gradually increasing over the program period as tourism returns to normal levels. The new arrangement would promote structural reforms to secure fiscal sustainability, build capacity for macroeconomic policy implementation, bolster capacity to address climate crisis challenges and mitigate risks to external stability, and unleash growth potential.

II. MEDIUM-TERM MACROECONOMIC FRAMEWORK

5. The BERT 2022 programme continues to be anchored by a debt-to-GDP path that converges to 60 percent by FY2035/36. This requires a sustained strengthening of primary balances over the medium term while also accommodating adequate capital expenditure to boost growth prospects. The GOB aims to generate a primary surplus of 2 percent of GDP for FY2022/23, up from minus 1 percent of GDP recorded FY2021/22, premised on a gradual recovery in tourism to help buoy revenues. Expenditure restraint will help offset ongoing exceptional COVID-related health spending and housing support for low-income households severely affected by Hurricane Elsa.

6. Primary surpluses are targeted to strengthen gradually over the medium-term to 5 percent of GDP in FY2025/26. This amounts to a cumulative fiscal adjustment of 6 percent of GDP under the joint-EFF/RSF program, underpinned by the normalization of the global economic outlook normalizes, along with a recovery of tourist arrivals to pre-pandemic norms. The projected medium-term improvement in the fiscal position is supported by a cyclical recovery in revenues, and phasing out of COVID-related expenditures, emergency support for low-income housing, and temporary VAT and price caps to ease the impact of elevated commodity prices. Furthermore, the GOB is committed to advance fiscal and structural reforms to support underlying BERT objectives, which include strengthening tax administration, further reform of SOEs to structurally reduce Central Government (CG) subventions, measures to bolster public financial management (PFM)—including reforms to address contingent liabilities in the public pension and social security system—and policies to enhance the enabling environment for growth and resilience to the climate crisis (see below).

III. FISCAL STRATEGY AND POLICY PRIORITIES

7. The fiscal strategy embedded in the BERT (2022) framework is two-pronged and focuses on i) strengthening customs and tax administration and ii) streamlining and enhancing the efficiency of expenditures. The GOB is committed to balancing fiscal and debt sustainability goals with growth and resilience objectives. Important progress has been made to enhance revenue and expenditure efficiencies. Under BERT 2018, taxes on income were reduced while consumption taxes were widened. Corporate income taxes (CIT) were also reduced, however, the CIT framework will evolve further as Barbados complies with the OECD's principles in ensuring global tax transparency. Looking forward, the GOB remains open to further broaden the revenue base as needed, including by i) reforming the tax and duty exemption regime, and ii) allowing temporary tax and price accommodations to the spike in global food and fuel price to expire as the supply shock dissipates. On the expenditure side, we will build on recent progress to improve the performance of SOEs to reduce CG transfers and adopt measures as needed to curtail current expenditure growth, thus providing space for much-needed productive capital investments. A detailed discussion of key fiscal policy priorities follows below.

Revenue Policy and Administration

8. The Barbados Revenue Authority (BRA) is working to modernize tax administration systems and increase audit capacity to boost compliance and minimize leakage. The development and implementation of its Large Taxpayer Unit's compliance improvement plan, scaling up of audit activity, and increased capacity for electronic filing and digital payments have yielded results with improved 'on-time' filing and payments compliance rates. BRA is also making greater use of third-party data to increase the accuracy of the taxpayer base. The GOB prioritizes ongoing efforts to enhance compliance, risk management, and audit capacities within its core revenue agencies, notably the BRA and Barbados Customs and Excise Department (BCED). A Memorandum of Understanding between the BRA and BCED to enhance information sharing was established in March 2021 to ensure these agencies are maximizing their revenue mobilization, compliance, and enforcement potential. Furthermore, a data matching project is underway with participation from the BRA and BCED with a view to meaningfully improve compliance and risk management (*structural benchmark for end-March 2023*).

9. The BRA is updating its IT systems and processes to ensure the timely processing and issuance of tax refunds and to retire the stock of legacy arrears. Considerable progress has been made to address public debt arrears generally. The stock of CG arrears fell from B$1.2 billion to B$23 million at the end of March 2022, while that of SOEs declined from B$755 million to B$16 million. The GOB is committed to clearing these remaining balances over the coming fiscal years.[1] The BRA has completed the verification of a stock of legacy tax refund arrears discovered in its pre-Tamis IT systems during the last half of 2021 and has confirmed that the total arrears outstanding (inclusive of the legacy arrears) to taxpayers was estimated at B$296.9 million at the end of April 2022. A commission has been set up to develop a program to retire these legacy claims in accordance with available fiscal space. BRA is currently in the process of vetting the stock of taxpayer arrears owed to Government, estimated at more than 10 percent of GDP. BRA has targeted March 2023 to complete this vetting process and has indicated that concurrent to the vetting process will be the offsetting of its net tax payable and receivable stocks. Overall, the BRA remains committed to repay outstanding

[1] Those arrears related to land acquisitions are to be dealt with via the series J Bonds as agreements are reached.

tax refunds and is implementing its system whereby non-legacy refunds due to taxpayers are being paid within six months after the filing date.

10. Customs (BCED) administration was reformed to facilitate trade, improve risk management and stakeholders' engagement, and strengthen revenue collection. In the area of governance and management: the organizational structure was overhauled and a Strategic Plan covering 2020-2023 developed; the Internal Audit Division was strengthened with the creation and implementation of terms of reference, an integrity charter, and a risk-based work plan. Key Performance Indicators (KPIs) were developed for all units and are progressively being used; the IT system to ASYCUDA World was upgraded; a modernized Customs Act was passed in the Parliament; and the Harmonized Commodity Description and Coding System (2017 Edition) was implemented.

11. Measures have also been implemented to improve cargo processing and compliance. A holistic risk management, standardized cargo processing system in all modes, and post-clearance audit procedures were introduced. Controls were improved with the creation and staffing of compliance units to monitor commercial activities through transactional reviews and audits, as well as exemption, concession, and bonded warehouse monitoring. A new oversight mechanism was created via a Steering Committee that has the responsibility to oversee implementation of the 2020-2023 Strategic Plan. An introduction of Taxpayer Identification Numbers has commenced, in collaboration with the BRA, and electronic forms are increasingly being used to facilitate a complete paperless process. Trade facilitation has been further enhanced with the introduction of a Trusted Trader Program in 2020, which currently involves 23 large importers who report satisfaction with program benefits, including faster customs clearance. The GOB remains committed to carry forward the Customs Modernization program prepared with technical assistance (TA) from the IMF, with the following reforms regarded as key near- and medium-term priorities:

- Undertake new initiatives to follow through on principles and services enunciated in the new Customs Act and Regulations by end-June 2023. This would include the implementation of the Exemption Management Program in the customs department, developing an outreach program and educational products, improving governance and professional standard and internal controls.
- Pursue the Customs and Excise Department reform and modernization program, most notably by implementing the strategic plan, the compliance framework, integrated risk management strategy and an enforcement manual.

Tax and Customs Exemption Regime

12. The GOB seeks to modernize its waiver regime to eliminate detrimental revenue leakage and ensure that desired economic dividends are achieved in practice. While exemption regimes are a common feature in the Caribbean, they are prone to abuse and misallocations of public resources that can compromise the quality of public services and a country's growth potential. A centralized, transparent, and rules-based approvals framework—where waivers are conditional on rigorous cost-benefit analyses, monitored, and subject sunset provisions (or regular re-certifications)—is essential to yield economic dividends. The GOB intends to strengthen its tax and customs waiver regime in line with these modern standards in two phases.

- In the first instance, this involves adopting new legislative and regulatory provisions to strengthen and modernize procedures for granting and managing all duty and tax exemptions consistent with technical recommendations received from international partners (*structural benchmark for end-December 2022*).[2] This updated framework would guide approvals of all waivers going forward.

- The second phase involves a recertification process whereby all pre-existing/legacy tax and customs waivers are reviewed to ensure they qualify under the enhanced waiver framework (*structural benchmark for end-March 2024)*.

Currently the stock of approved waivers exceeds 6,000, with a significant cost in foregone revenues. It is thus essential that the GOB minimize inefficiencies and ensure value for money within the waiver regime. The enactment of the above reforms are deemed critical in this regard.

Public Financial Management (PFM) and the Budget Process

13. Prudent and efficient management of public finances remains a centerpiece of Barbados' fiscal strategy. The introduction of a modernized Public Financial Management and Audit (FMA) Act in 2019 strengthened oversight and reporting mechanisms, notably for SOEs where Government pre-approval for borrowing is now required and reporting requirements have been tightened, with sanctions for non-compliance. Moreover, the GOB has adopted an action plan for PFM reform to implement the new FMA Act. In this context, we are taking steps to:

- **Strengthen the strategic phase of the budget formulation process**. This involves: (i) annual updates 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 procedural fiscal rule); (ii) the setting of multi-year expenditure ceilings in accordance with the updated fiscal strategy, as a guide to the allocation process; and (iii) the 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 binding spending ceilings. The Government is seeking to strengthen the budget formulation process further 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.

[2] Critical legislative and regulatory reforms include requiring: i) the tabling of tax expenditures to Parliament in the Annual Budget; ii) the annual tabling of Public Accounts showing the exemptions granted by entity over a de minimis threshold; iii) that all exemptions granted are "in the public interest"; iv) that exemptions require the approval of the Minister of Finance and/or an independent deliberating committee for classes of cases, and for individual decisions above a sensible threshold; v) that entitlement of exemptions be sunset (deadline to be specified by regulations or MFEA policy); and, vi) that any exemption ceases if the recipient does not follow the laws of Barbados.

The budget circular will be accompanied by expenditure ceilings approved by Cabinet for each financial year covered by the medium-term budget planning horizon.

- **Upgrade budget documentation to include policy-oriented information to decision makers and enable transparent budget execution**. The traditional Annual Budget Documentation (Budget Estimates) provides a comprehensive narrative describing public finances. A mid-year budget review report is 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. From the FY2023/24 budget onwards, the Annual Budget Document will also include an assessment of the alignment between the budget and fiscal objectives established by the annual fiscal framework, and a comprehensive description of all revenue and expenditure measures taken.

- **Enhancing fiscal risk management.** Compliance with the new FMA Act involves establishing required reporting and analytical frameworks. Ministries, SOEs and Agencies are now to produce annual and quarterly reports. A health dashboard that analyzes the financial performance of SOEs monitored by the Ministry of Finance, Economic Affairs & Investment (MFEAI) has been developed and provides a mechanism to assess risks and further elaborate targeted reform measures to enhance SOEs' performance and reduce Government dependence. The Government intends to:

    - Strengthen risk management capacity within the MFEA further by creating a dedicated Fiscal Risk Unit (*structural benchmark for end-June 2023*). The Unit would contribute to budget formulation and planning by identifying and proposing options to contain macroeconomic risks (including contingent liabilities) through the preparation of quarterly fiscal risk reports.

    - Clarifying fiscal vulnerabilities emanating from the National Insurance Scheme (NIS) is a key priority. The NIS is committed to clear its backlog of financial statements as a matter of urgency, with a view to submit all outstanding financial statements (2010 to 2021) for audit by the Auditor General (*structural benchmark for end-March 2024*).

- **The Government is working to increase the efficiency and quality of the public procurement process**. 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. A new procurement law was approved by Parliament in December 2021 to promote integrity, fairness, transparency, and value for money in public procurement and ensure that outlays—including those related to COVID-19—are efficiently allocated.[3] Implementation of the new legislation is expected to unfold in the medium term. To that

[3] This Act provides a framework to facilitate the audit of crisis expenditures and publication of contracts and names of successful bidders, which in conjunction with the corporate registrar's searchable corporate registry database, will provide public access to necessary information on related beneficial ownership.

end, the GOB intends to approve Procurement Regulations, which are expected to enhance efficiency and effectiveness of public expenditure, mitigate potential revenue leakages. Further, these regulations support 'green procurement' processes that are aimed at the acquisition of goods and services that create minimal adverse impact on the environment (*reform measure for end-March 2023*). These regulations will include the requirements to publish beneficial ownership information of bidding companies as part of the GOB's efforts to enhance governance and implement its FATF action plan.

- **Enhancing governance frameworks is an overarching priority.** In addition to the above procurement reforms, we intend to i) reintroduce into Parliament a revised Integrity in Public Life Bill, which seeks to mitigate scope for acts of corruption by persons in public life. This initiative builds further on the GOBs previous efforts to fight against corruption. Specifically, the Government laid two key pieces of legislation in Parliament in September 2021: (i) a revised Prevention of Corruption Act to provide for the prevention, investigation, and prosecution of acts of corruption (passed both Houses of Parliament in October 2021); and (ii) a Deferred Prosecutions Act to empower the Director of Public Prosecutions to meet with and construct agreements concerning criminal liability (passed both Houses in December 2021). Cabinet also approved a Whistle-blower Protection bill in October 2021 that was passed by Parliament in December 2021.

- **Strengthened cash management.** An absence of dedicated cash management functions in Central Government complicates the adequate management of daily cash balances and risks a buildup of payment arrears. We intend to establish a cash management unit within the Treasury by end March 2024 (*structural benchmark).* The functions of the unit would include the day-to-day management of the Consolidated Account, managing Government's suite of bank accounts, preparing a monthly cash plan, addressing bank reconciliation issues, and monitoring the execution of MDAs' and SOEs' cash plans. The unit would also define and lead on the key policies, procedures, and processes to facilitate cash management functions across Government.

- **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 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.

Fiscal Rule

14. The Government has introduced 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. A *procedural* fiscal rule was approved by Parliament in December 2021. Under this fiscal rule—which is 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: i) tables in Parliament a fiscal framework annually in August that includes projections for revenue, expenditure, and debt for the current and forthcoming three fiscal years; ii) presents an annual mid-year review report in October that details the half-year outturn against the fiscal framework established for current fiscal year, and, iii) takes remedial action when required. Deliberations over a *numerical* fiscal rule are expected to resume once uncertainties surrounding the pandemic have resolved and supporting PFM systems have been sufficiently strengthened. In addition, an Independent Fiscal Council will be established by Parliament with the purpose of further strengthening the GOB's fiscal framework and promoting sound fiscal management to sustain fiscal discipline and macro-economic stability.

Debt Management

15. The target date for bringing the debt-to-GDP ratio below 60 percent is FY2035/36. The updated medium- and long-term macroeconomic framework suggests that Barbados will reach its target of 60 percent of GDP by FY2035/36. We remain committed to generate needed primary surpluses to achieve the debt target of 60 percent of GDP as envisioned.

16. The GOB is focused on strengthening debt management with technical support from international partners. The completion of the sovereign debt restructuring in 2019 resulted in a substantial reduction in GOB debt service from 68 percent of every tax dollar to 22 percent just prior to the onset of the COVID pandemic, providing essential fiscal space for crisis management and overdue public investment. Reforms to address the debt restructuring's impact on the financial position of the Central Bank of Barbados (CBB) and the NIS are advancing (see below) and efforts to strengthen debt management operations ongoing. We have established a Debt Management Committee and will develop and implement a medium-term debt management strategy (MTDS) by March 2023. The MTDS will be 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 the annual Financial Statement and Budgetary Proposals. 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—and debt legislation, with a view towards pursuing a comprehensive debt law.

17. Domestic expenditure arrears have been resolved, and we commit not to run new expenditure arrears. Total Public Sector domestic arrears stood at B$1.9 billion at the beginning of the 2018 BERT program and its stock has substantially been reduced to approximately B$340 million as at August 2022, inclusive of the recently discovered B$296.9 million legacy arrears. Of this total, Central Government trade payables (non-tax arrears) have to a large extent been settled, with a residual amount of B$0.18 million to be cleared. 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.

Public Sector Reform

18. The GOB is prioritizing planned structural reforms disrupted by the global pandemic, notably reforms to i) safeguard the sustainability of the public pension scheme and wider national insurance and social security system and ii) reenergize the transformation of the SOE sector.

- **Public Pension Reform:** Civil service pension reform aimed at ensuring long-term sustainability of the system is key priority. The Prime Minister has outlined key pillars of the reform informed by a 2020 actuarial review, which include a lengthening of service for new public servants and required contributions for earnings above established NIS ceilings. This reform, however, requires careful public consultation. Discussions with key stakeholders are proceeding with a view to enact public sector pension reform legislation by end of FY2022/23 (*structural benchmark for end-March 2023*).

- **Recapitalization and Reform of the NIS:** The NIS is a partially funded scheme. From 2008 to 2019, Barbados experienced a significant decline in population, nine years of negative economic growth, declining employment levels, and negative real wage growth, which all led to a decline in the number of persons making NIS contributions. During this period, as the then Government found it harder to finance large deficits, it sold more Government bonds to the NIS and its Funds, which by 2018 was overly concentrated in Government bonds. Consequently, the 2018 debt restructuring exercise, though stabilizing the public finances, resulted in the National Insurance and Severance Funds incurring investment losses. The COVID-19 pandemic led at one point to an estimated 40 percent unemployment and high levels of severance and bust employers, placing additional and unusual strain on the Fund. The NIS may have managed one or two of these fundamental shocks, but not all of them simultaneously. Combined recapitalization and reform measures are essential to safeguard its operations over the medium term. These are proceeding in two phases, with an initial focus on restoring the Unemployment Benefit Account through an infusion of B$143 million from the Consolidated Fund over a three to five-year period (B$60 million has been disbursed to date). The GOB will set the second phase in motion by end-year by developing a recapitalization and reform plan that restores and safeguards the viability of the National Insurance Fund (*structural benchmark by end-December 2022*).

- **SOE Reform:** Reducing Government subventions to public entities is essential to sustain medium-term fiscal viability and boost growth potential by redirecting scarce public resources into critical productive investments. Subventions to public entities are relatively high at 6 percent of GDP. Indeed, Barbados' SOE sector is relatively large and provides an array of public services—predominantly commercial—the vast majority of which are loss-making. This suggests significant inefficiencies in operations that entail substantial opportunity costs to growth and constitute a material risk to Barbados' balance sheet.

Against this backdrop, the GOB intends to revitalize its SOE reform agenda which was paused during the COVID period. Specifically:

- ***Unwind transitory support:*** Measures introduced under BERT 2018—including mergers and closures, the renegotiation of costly supplier contracts, tariff adjustments (bus fares and water rates), new levies, and enhance SOE PFM—helped reduced GOB transfers by 1 percent of GDP in FY2019/20. These early gains were offset in FY2020/21, however, by unanticipated transfer needs among large SOEs at the forefront of the COVID-19 response strategy, such as the Queen Elizabeth Hospital and the National Assistance Board. The GOB intends to unwind this temporary support by FY2023/24, including the cessation of programs that were identified as temporary vehicles to give support to impaired sectors and commercial public enterprises.

- ***Mergers and Rationalizations:*** As announced in the FY2022/23 Budget, the GOB intends to exploit scope to reduce overlap and achieve greater financial and operating efficiencies. Immediate steps in this regard includes the: i) merging the Rural and Urban Development Commissions (RDC and UDC) and reforming the National Housing Corporation (NHC); and ii) scaling back the subsidies and services to the Barbados Agriculture Management Corporation (BAMC) by creating strategic alliances with the private sector (*both structural benchmarks for end-June 2023*). The BAMC currently provides price floors for specific agricultural products, especially sugar. The Government will transfer the factory operations to the private sector to anchor the sustainability of the industry with the cogeneration of electricity, which will require less subsidy, and enable the conversion of part of the crop into specialty sugars and fancy molasses that will not require a subsidy. We believe that this approach will provide more sustainable support for rural communities, raise agricultural productivity, and generate Government savings.

- ***Risk Assessments and Targeted Reforms***: A health dashboard that analyzes the financial performance of public entities developed by the MFEA (with IMF assistance) provides a mechanism to identify key risks and elaborate targeted reform measures to enhance SOE performance and reduce Government dependence. To anchor the forward-looking reform agenda, a comprehensive stocktaking of the financial performance of the SOE sector will be prepared (*structural benchmark for end-June 2023).*[4]

- **Modernization Principles:** While the agenda of SOE reform is evolving, the GOB will be guided by the following key modernization principles: i) shifting commercial activities to the private sector; ii) ensuring adequate and modern user fee structures; iii) providing

[4] Priorities in this context include a further rationalization of SOEs as well as adjustments to cost structures and revenue frameworks to enhance financial outturns. Policies should target the largest SOEs that drive the performance of the overall sector as well as more broadly enforce the expectation that commercial entities must be viable on commercial terms without Government subsidies.

enfranchisement opportunities in the delivery of public services; and iv) eliminating inefficiencies through mergers and rationalizations where possible.

IV. MONETARY AND FINANCIAL SECTOR POLICIES

19. The GOB continues to prioritize reforms to enhance the CBB's operational capacity to execute monetary policy and safeguard financial sector soundness. Barbados' exchange rate peg to the US dollar has provided a key anchor for macroeconomic stability since 1975 and remains a central policy objective. There is strong commitment among all Social Partners and stakeholders to maintain the exchange peg. Consequently, we will implement the fiscal and structural policies necessary to support the peg and sustain adequate international reserves balances. The amended Central Bank Law (passed in December 2020) to enhance CBB autonomy, mandate, and decision-making-structures is noteworthy here, as it limits CBB financing to the Government in line with international best practice. Reducing the limit on the Ways and Means account to 7.5 percent of CG revenues (from 10 percent at end-2017) and restricting the purchases of Government securities (to 3 percent of GDP) on the primary market in the case of a declared national emergency, also significantly reduced the risk that Central Bank financing will place pressures on foreign exchange reserves. In addition, measures have been taken to:

- **Gradually relax 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.

- **Develop and initiate a CBB recapitalization plan.** Given the magnitude of the capital shortfall, a gradual approach was preferred that carefully balances available fiscal space with the elimination of the capital deficiency.[5] The recapitalization should provide the Central Bank with balance sheet space to engage in operations to help sterilize excess liquidity, thereby mitigating any potential source of vulnerability to the fixed exchange rate regime.

20. The CBB acknowledges the need for the IMF to update its safeguards assessment as part of the program request. The assessment is a diagnostic review of the CBB's governance and control framework and is a standard IMF procedure for all countries using the Fund's resources. A safeguards assessment of the Central Bank was completed in December 2018, and we remain

[5] The recapitalization of the CBB will initially grow capital through profit retention (current status quo) with the aim to transition (in approximately seven years) to a gradual predetermined payment plan until authorised capital is fully paid-up.

committed to implement all recommendations from the previous and upcoming safeguards exercise. An update of the safeguards assessment of the Central Bank of Barbados will be completed by the time of the first EFF/RSF review. In addition, the Ministry of Finance and CBB will prepare and sign an updated Memorandum of Understanding that clarifies their respective responsibilities for servicing financial obligations to the Fund under the new arrangement.

21. 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 risks to the financial system. The oversight of the financial system is shared by the CBB, the Financial Services Commission, 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 collaborate 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 IFRS 9. The CBB designs the reporting forms and schedules for banks and Part III companies (trust and finance companies and merchant banks). Monitoring of insurance corporations, pension funds, mutual funds, and credit unions fall 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. Finally, the CBB has strengthened monitoring capacity to include the successful compilation and dissemination of quarterly core financial stability indicators (FSIs) for deposit takers (excluding credit unions) in line with the guidance provided by the IMF TA in 2019. On balance, Barbados' financial system remains well capitalized with stress tests conducted by the CBB and FSC indicating a low risk of a systemic crisis. Commercial banks, which represent the largest component of the system, have a system-wide capital adequacy ratio that is more than twice the regulatory minimum.

22. The CBB is seeking to review its balance sheet capacity and enhance its toolkit for conducting monetary policy and promoting macro prudential stability. The Central Bank of Barbados Act establishes the primary objective of the Bank as maintaining the value of the currency. Historically, monetary policy was largely based on direct controls, including securities reserve requirements on financial institutions. With the change in the policy rubric, the CBB will need to review the appropriateness of its current monetary toolkit in pursuance of its primary objective. The CBB will review its balance sheet capacity and monetary toolkit, with the support of IMF TA by end December 2023 (*structural Benchmark*). The CBB also possesses the power to implement macroprudential measures as it sees fit to manage risk in the financial system by using prudential tools to assess, contain and mitigate against systemic risk. Barbados' current toolkit consists of some lagged and basic early warning indicators and, as the financial system continues to evolve in terms of size and complexity, the CBB may need to identify new measures based on the characteristics of Barbados' financial system.

23. The central bank and commercial banks introduced measures to support the credit market in March 2020 in response to the COVID crisis. Key measures included 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. The securities reserve requirement was discontinued under the new Central Bank of Barbados Act adopted in December 2020. Six-month moratoriums on loan repayment introduced by commercial banks in response to the pandemic have expired, with extensions and/or restructurings granted while respecting regulatory standards on loan classification and provisioning. The CBB maintained its credit support measures and extended its temporary regulatory guidance on loan classification through October 2022.[6] Going forward, priorities include unwinding support measures after a careful evaluation of economic and financial developments.

24. 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. As a part of this agenda, the GOB intends to adopt regulations requiring the publication of beneficial ownership information of bidding companies (*reform measure for end-March 2023*).

V. GROWTH ENHANCING REFORMS

25. The growth strategy embedded in our BERT 2022 framework seeks to lift the country's productive potential to between 3.0 to 5.0 percent per annum. Binding constraints on fiscal space, however, implies that reforms will focus mainly on providing the regulatory and legislative environment to improve business and investment conditions, climate resilience and empowerment, and the requisite resource capacity for development of various sectors of the economy. The BERT growth strategy will be underpinned by the following pillars:

a. incentivizing an acceleration of small-scale private sector investment in the green transition;

b. Incentivizing low- and middle-income housing;

c. investing in skills training and education towards enhancing the human resource capacity of the population;

d. preserving financial stability and mobilizing domestic savings for local investment to facilitate investment opportunities for as many Barbadians as possible;

e. making Government an enabler to enhance productivity, competitiveness, and service excellence, towards achieving higher local and foreign direct investment;

[6] The guidance includes allowing banks not to classify moratoria loans as nonperforming (currently less than 0.1 percent of the outstanding bank credit to the nonfinancial private sector), provided loans were previously in good standing and borrowers were impacted by the pandemic.

f. establishing Barbados as a logistics hub by developing and strengthening both regional and international economic linkages, particularly with the African continent to enhance exports and export capacity;

g. targeted public investments to achieve sectoral integration and to develop climate resilient infrastructure;

h. promoting a new, high-skilled, knowledge-based economy that is tech-heavy, carbon neutral and marine-conscious; and,

i. Adopting open labour market policies to support stronger, resilient growth together with expanding the population base and improving productivity and competitiveness.

26. Completing the reform program to further enhance business and investment conditions is a top near-term priority. The Government will continue to pursue measures aimed at providing the requisite business environment to support trade and investment in the economy. We established a Doing Business Sub-Committee of Cabinet and Private Sector Committee to execute and monitor policy measures identified by stakeholders to markedly improve Barbados' overall business and investment climate. We will undertake a stocktaking of the execution of policy reforms overseen by that Committee, with the primary aim to identify the unfinished reform agenda and elaborate a plan of action for priority next steps (*structural benchmark for end-March 2023)*.

27. Additional growth-enhancing reforms to be undertaking in the near- and medium-term include:

- We remain committed to *reaching the 100 percent renewable energy target by 2030*. To this end, we will incentivize an acceleration of small-scale private sector investment in the green transition, especially in the energy generation, transport, tourism, and agricultural sectors through attractive but temporary feed-in-tariffs and temporary tax reductions.

- *Building an affordable, green, and climate resilient housing stock* is a priority for the GOB. Our housing agenda is to build 10,000 houses in five years, with the Government contribution financed through renewable energy technology (the HOPE housing project), that allows the homeowner to generate an income from a roof-top solar system.

- As part of the investing in *skills training and education initiative*, the Government introduced the National First Jobs Initiative and Apprenticeship Scheme and facilitated the return to free tertiary education at vocational, technical, and undergraduate levels. The GOB intends to reform the education system to better suit the demands of the economy, including by introducing a new Education Act aimed to modernize teaching and system management; replacing the 11-plus secondary school entrance examination; and promoting the teaching of STEAM (science, technology, engineering, arts, and mathematics) subjects. Government will also prioritize its Youth Advance Corps programme introduced in 2019 aimed at providing training and opportunities for young people to address the skills gap across communities. Similarly, we will continue the National Transformation Initiative, which is a community-based training program providing citizens with a plethora of training opportunities, as part of Government's commitment to make Barbados world class within seven (7) years.

- Programmes to *improve the service delivery and effectiveness of the public service*. Chief among these is to complete the rollout of digitization of Government services[7], where we intend to develop a GovTech-type agency that is resourced, mandated, and empowered to advance this initiative *(structural benchmark for end-June 2023).* This also involves establishing an E-Services platform to facilitate access to Government services on a central online platform and developing a digital platform to improve the monitoring and execution of the Public Sector Investment Programme (*structural benchmark for end-June 2023)*.

- Enhanced competitiveness of Barbados' economy via improved *operations at the Barbados Port Inc*. Times associated with the processing and releasing of goods and commodities have been reduced under BERT 2018. Further gains are anticipated with the launching of an electronic single window for trade—which should be fully operational by [end-2024]—by ensuring greater coordination between regulators to reduce the logistical costs and bureaucracy.

- Establish a collateral registry, a factoring program, and micro-leasing agencies to *enhance access to finance*, particularly for small and medium size businesses. A web-based collateral registry of movable assets will be created for entrepreneurs and/or small businesses which 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 to small businesses which would otherwise be limited in their access. In a factoring program, small firms can be paid in a timely manner, for goods and or services provided to Government, by selling at a discountable rate. Micro-leases allow them to lease equipment for short periods and complete orders rather than having to put a down payment on a purchase or long lease. These complement the Fair Credit Reporting (FCR) Act, which was proclaimed in May 2022, to enhance the functioning of the credit market by promoting accuracy, fairness, and privacy of personal information assembled by credit reporting agencies. Collectively, the FCR Act, the recently launched Financial Literacy Bureau, the National Payments Systems Act and the creation of a digital payments ecosystem will significantly enhance the business environment by finally addressing issues related to access to finance which has stymied the development of the small and medium-sized enterprise sector for far too long.

[7] The government intends to transform Barbados into a digitally enhanced and digitally secure country. Progress to digitize government operations and service delivery has been made in terms of the provision of drivers' licenses, renewal of professional licenses, applying for passports, liquor licenses, police certificates of character, planning and development applications, the clearing of goods through Customs, and most recently the new digital Trident ID Card. In addition, the Barbados National Payments system will go live in October 2022, and we have also set up the National Payments Council as an advisory body the roll out of the new payments' ecosystem.

- The Government will seek to *establish Barbados as a southern hub for all aviation commercial activity* to advance trade and facilitate increased direct investment in keys sectors including agriculture and food security. When finalized, the Aviation Strategy will support new commercial activity anchored by the Grantley Adams International Airport, while work is underway to establish a new Maintenance and Repair Operation within the first quarter of 2023, and to expand flight training capability. Government will also construct a new cargo berth which will service as the maritime logistics hub. New trading lanes are being developed and new sister Port Agreements have been signed between Barbados and ports in Africa, Latin America, and the Middle East.

- Government is collaborating with Guyana and Suriname to establish a Food Terminal in Barbados, to *address food security and to reduce the regional food import bill* by 25 percent by 2025. This collaboration is expected to commence by the winter cruise season where Barbados will be the hub where local production will combine with goods being shipped in from Guyana and in this instance northern Brazil to meet the requirements of the cruise lines. In a new commercial thrust, this initiative forms part of the establishment of a Barbados based Destination Management Cooperative and a Florida US based Destination Management Company. Using the Cooperative as the base, the Ministry of Tourism is creating a single purchasing platform for all goods, services and experiences from Destination Barbados and supporting growth of the domestic economy. The United Nations World Food program has also established a regional hub in Barbados at the Grantley Adams International Airport and CDEMA has already established a hub in the Bridgetown to preposition food and other supplies to be better able to respond to any natural disaster in the region.

- Government will also *reform the civil aviation legislative framework* to create expanded opportunities for the development of new air routes and significantly expand airlift, particularly from the US market. We are also working to establish direct airlift between Barbados and the African continent. The reform of the Maritime legislative framework as well as critical investments in the port infrastructure, including the launch of the digital port community system, will facilitate greater opportunities for Maritime travel and movement of cargo. To address the capacity deficiency in regional travel, Government will encourage the establishment of a regional ferry service to enable goods and people to move around the region in a cheaper and more timely manner.

- Tourism was one of the hardest hit sectors by the pandemic, and in response, the Government provided assistance through the Barbados Employment and Sustainable Transformation (BEST) Plan to alleviate short term cash flow challenges and maintain employment. This programme also facilitated the training of personnel in various areas, and investments in greening through renewable energy installations including photovoltaic systems, water conservation and increased use of technology and process digitization to upgrade outdated business processes. It was also premised on strengthening the linkages. Government intends to build upon the BEST Program and the recognition that Barbados has a mature tourism product and therefore requires significant investment if it is to be refurbished into a modern tourism brand.

- GOB will support measures that maintain the *competitiveness of the domestic tourism sector*. This includes initiatives to promote the training and upskilling of workers in the sector and the diversification of the product offerings within the domestic industry, inclusive of the establishment of community villages. Additionally, the Government will continue to pursue other initiatives or investments such as sewerage, sanitation and road repairs that will also have a substantial positive effect on the tourist experience.

- The current *Companies Act* will be reviewed and updated to ensure consistency with international best practice. Additionally, the GOB will sustain the initiative to improve the efficiency of the Corporate Affairs and Intellectual Property Office (CAIPO) in the registration and incorporation of businesses and related services, through the development of a digital strategy and the utilization of ICT platforms. Government will also put systems in place to support change management and continuous training of staff to further improve the delivery of services.

VI. SUSTAINABILITY AND RESILIENCY TO CLIMATE CRISIS

28. Improving resilience to natural disasters and climate crisis vulnerabilities is an essential plank in our growth and macroeconomic stabilization strategy. Reform measures to be pursued under the RSF have been identified in close collaboration with the World Bank to address long-term structural climate resiliency and adaptation challenges and meaningfully strengthen macroeconomic stability, including by sharply reducing balance of payments pressures as the economy fully transitions to renewable energy. Reform measures under the RSF can be grouped into the following three pillars: i) addressing immediate adaptation needs and resiliency priorities; ii) reducing greenhouse gas emissions; and iii) mitigating transition risks. Details regarding specific reform measures are clarified in Table 2 and elaborated below.

29. Government has been proactive in mitigating against the fallout from a climate crisis event from several perspectives. We insure natural disaster risks through the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and have introduced natural disaster clauses into 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 (or US$80 million) in case of a natural disaster. We are working on improving structural and post-disaster resilience (e.g., 'roof to reef' program and strengthened public procurement). We provide incentives to individuals and corporates to invest in renewable energy, water conservation, and build resilience. Looking ahead, the GOB intends to approve the National Comprehensive Disaster Risk Management (DRM) Policy to mainstream comprehensive DRM principles into ministry and agency budget planning and ensure resilience in Government and business continuity after a disaster event (*reform measure for end-September 2023*).

30. Higher fuel import bills and inflation following Russia's invasion of Ukraine highlight the need to expeditiously transition to renewable energy. Barbados remains committed to reaching its 100 percent renewable energy target by 2030 (about 10 percent as of end-FY2021/22). To that end, the independent Fair Trade Commission (FTC) has published Feed-in Tariffs (FITs) for independent power producers (IPPs) for a range of renewable energy technologies. The GoB has established a licensing system for IPP renewable energy projects accompanied by a guidance note on the licensing and approval process for investors in March 2022. Now that the licensing process is clarified, it is important for Barbados to expeditiously implement the process as envisaged and accelerate private sector investments into renewable energy projects.[8] To that end:

- Government is committed to close remaining regulatory gaps in the FITs mechanism to promote renewable energy storage technologies and a corresponding licensing policy/approvals framework, thereby increasing investments into battery storage technologies to meet energy demand.

- Parliament will adopt the New Electricity Supply Act to (i) enhance competition in the electricity market; and (ii) introduce local participation in renewable energy investment with an entitlement for households of roughly 30 percent of the 60 percent investment space, leaving the remainder for FDI (*reform measure for end-September 2024)*.

Additionally, we are committed to greening the transport sector by shifting toward electric vehicles and providing fiscal incentives to further reduce import duties, excise taxes and VAT on electric vehicles (*reform benchmark for end-September 2023*). We have the largest electric bus fleet in the region of 49 electric buses (65 percent of available bus fleet) and we plan to increase the share of electric vehicles in public transportation to about 85 percent by end-2025.

31. Building an affordable, green, and climate resilient housing stock is a priority. The Government's housing agenda is to build 10,000 houses in five years, financed in part through renewable energy technology. We will work with the private sector, along with regional and international partners, to boost housing stock and build structural resilience against climate crisis. Government intends to place solar PV panels on the roofs of small homes to facilitate a basic income for all owner-occupied houses. Under one model, we will provide the land and large local contractors will construct the houses and infrastructure. Under another model, we will provide the infrastructure and small- and medium-sized local contractors would construct the houses. In a third model, such as the various HOPE and Guyanese Housing programmes, first-time homeowners would be provided with affordable climate-resilient and energy-efficient housing solutions to low- and

[8] Additional initiatives include a collaboration with the BL&P to develop a minimum of 30 megawatts (MW) of wind energy investment, allowing for Barbadians to participate in and to own a minimum of 30 percent share in the benefits of the 30MW wind project through newly established financial instruments. Furthermore, we will provide an opportunity for Barbadians to participate in a 30 percent requirement for all major energy investment projects and we will also reserve another 30 percent for SOEs. The Government continues to work 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.

middle-income earners by making use of renewable energy technology. And for those who can't participate in any of the HOPE schemes because their income levels are too low, the NHC is constructing new housing units for rent-to-own. Work has already started in the city and another set scheduled for next year (individual units – duplex, quad, and multi-stories) to meet this demand.

32. The Roof to Reef (R2R) initiative is a national roadmap towards the resilient development of Barbados. The programme presents an island-wide integrated public and private investment program founded on principles of sustainable development and climate crisis resilience. This initiative also includes a rapid roof replacement programme to support homeowners' replacement of non-hurricane resistant roofs, replacement and maintenance of water mains, reservoirs and other climate-resilient water and sanitation sector infrastructure, and enhanced efforts to protect the coral reefs and marine environment.[9] The program also seeks to provide protection against pollution of the water table with initiatives such as the conversion of all remaining outdoor toilets into indoor water efficient toilets. The Government will also re-site over ground utility infrastructure underground, develop a national storage capacity of generators, water, food, and medicine to last for seven days, and upgrade hurricane shelters, among other measures. In support of these objectives, we will improve the climate resilience of roads through improved drainage and other interventions (*reform measure for end-March 2023*). Additional priorities to bolster resilient development include:

- Tabling in Parliament the Water Re-use Bill, incorporating the new water re-use policy (*reform measure for end-March 2023*);
- The full establishment and operationalization of the National Environmental and Conservation Trust (*reform measure for end-March 2023*);
- Tabling an amended Prevention of Floods Act in Parliament, incorporating the new Stormwater Management Plan (*reform measure for end-March 2024*); and,
- Cabinet approval for the Energy Efficiency and Conservation Policy Framework to reduce energy use of all government agencies and develop efficient public lighting (*reform measure for end-March 2024*).

33. Our holistic approach to resilience and sustainability includes measures to strengthen the budget process and financial system from a climate standpoint. These include:

Adopting *green PFM practices* to support the inclusion of climate priorities in all aspects of the budget cycle, including budget preparation, budget execution, fiscal reporting as well as oversight and auditing. Enhanced green PFM requires risk assessments that quantify the macroeconomic and

[9] The Barbados Water Authority (BWA) will utilise grant funding, provided by the Green Climate Fund, to provide 1,500 tanks as well as rainwater harvesting systems at homes, educational and health facilities, and community centres across the island. Moreover, through the Strap-It programme, we will retrofit as many roofs as possible across vulnerable and susceptible communities to secure the housing stock against hurricanes.

fiscal impact of climate crisis to help identify green PFM reform priorities to enhance structural, financial, and post-disaster resilience. Consequently, the GOB is committed to:

- Include a fiscal risk statement focusing on climate crisis risks (e.g., the extent to which existing infrastructure will become increasingly at risk from changing weather patterns and likely implications for the fiscal and budgeting to strengthen such infrastructure) in forthcoming budgets beginning with FY2023/24 (*reform measure for end-March 2023*).

- Include climate adaptation and mitigation priorities in the annual fiscal strategy report (released annually in August) that; i) identify programs to enhance climate resilience in the fiscal framework and ii) discuss climate crisis related risks in a fiscal risk statement. IMF TA will be required to support this work and ensure that outputs are in line with international best practice.

- Complete a diagnostic evaluation—potentially through a Climate Public Investment Management Assessment (C-PIMA)—and undertake reforms to strengthen integration of climate concerns into the PFM process (*reform measure for end-March 2025)*. This includes implementing green tagging processes in the budget, which identifies and tracks climate projects (or expenditure) in the budget.

Build assessment capacity to gauge climate crisis risks to financial sector stability. Regulators are carefully examining the impact of climate crisis on financial sector stability to ensure system-wide resilience. The CBB seeks to integrate climate crisis risks into the its financial stability assessements—including stress testing based on potential scenarios. In particular, the CBB intends to adopt a strategy with time-bound guideposts for building capacity to monitor and assess climate crisis risks, including building data collection mechanism and joining the Network for Greening the Financial System (*reform measure for end-September 2024)*. The FSC has developed climate stress tests for the local insurance industry. To safeguard financial stability, the CBB intends to conduct a first climate crisis stress testing exercise for commercial banks with support from MDBs including through relevant Capacity Development by end-March 2025) (*reform measure*).

34. Program Monitoring. Program implementation will be monitored through quantitative performance criteria and indicative targets, structural benchmarks and reform measures. These are detailed in Tables 1, 2 and 3, with definitions and data requirements provided in the attached TMU. The joint EFF-RSF arrangement with the Fund will be subject to semi-annual reviews, with the first, second, and third reviews occurring on or after May 15, 2023, November 15, 2023, and May 15, 2024, respectively.

Table 1. Barbados: Proposed Structural Benchmarks Under the EFF			
Reform Area	**Structural Benchmark (SB)**	**Timing**	**EFF Review**
Revenue Policy and Administration			
	1) Government to adopt new legislative and regulatory provisions to strengthen and modernize procedures for granting and managing all duty and tax exemptions consistent with recommendations outlined in recent IMF technical assistance	End-December 2022	
	2) Undertake a data matching project with participation from the BRA and BCED to improve compliance and risk management	End-March 2023	1st EFF Review
	3) Government to implement a formal and time-bound transition process requiring all pre-existing exemptions or waivers to requalify under the modernized duty and tax exemptions approvals framework.	End-March 2024	3rd EFF Review
Public Sector Reform			
	4) Government to table a revised public pension law to enhance the sustainability of the public sector pension scheme, as discussed in MEFP.	End-March 2023	1st EFF Review
	5) Government to develop a NIF recapitalization and reform plan that restores and safeguards sustainability of the Fund.	End-December 2022	1st EFF Review
	6) Government to set up a fiscal risk unit.	End-June 2023	2nd EFF review
	7) The NIS to submit all outstanding financial statements for audit by the Auditor General.	End-March 2024	3rd EFF Review
	8) Government to establish a Cash Management Unit	End-March 2024	3rd EFF Review
SOE Reform			
	9) Government to amalgamate the operations of the Rural Development Corp. (RDC), and Urban Development Corp (UDC) and reform the National Housing Corporation (NHC) to reduce overlap and achieve greater financial and operating efficiencies.	End-June 2023	2nd EFF Review

Table 1. Barbados: Proposed Structural Benchmarks Under the EFF (concluded)

Reform Area	Structural Benchmark (SB)	Timing	EFF Review
SOE Reform			
	10) Government to reform BAMC and shift BAMC's operations away from subsidizing the traditional sugar industry.	End-June 2023	2nd EFF Review
	11) Ministry of Finance to prepare a comprehensive stocktaking of the financial performance of the SOE sector.	End-June 2023	2nd EFF Review
Central Bank Monetary Policy			
	12) The CBB to review its balance sheet capacity and monetary toolkit, with the support of IMF technical assistance.	End-December 2023	3rd EFF Review
Growth and Business Environment			
	13) Government to undertake a comprehensive stocktaking of Barbados' business environment and the execution of policy reforms overseen by the Doing Business Sub-Committee of Cabinet and Private Sector Committee under the BERT framework.	End-March 2023	1st EFF Review
	14) Government to establish a GovTech agency resourced, mandated, and empowered to advance the digitization initiative to improve the delivery of public services.	End-June 2023	2nd EFF review
	15) Government to implement its digitalization strategy by digitizing records, establish a central online platform for government services, and develop a digital platform to improve the monitoring and execution of the Public Sector Investment Programme.	End-June 2023	2nd EFF review

Table 2. Barbados: Proposed Reform Measures Under the RSF

Reform Area	Reform Measure (RM)	Timing	Expected Corresponding Review Under the EFF Arrangement
Pillar 1: Reform measures to build resilience to natural disasters and climate change	1) Adopt a set of measures consisting of: (i) Government to approve the Planning and Development Act to improve the climate resilience of roads through improved drainage and other interventions; (ii) Government to table in parliament the Water Re-use Bill, incorporating the new water re-use policy; (iii) Government to fully operationalize the National Environmental and Conservation Trust.	End-March 2023	1st EFF Review
	2) Government to (i) include a fiscal risk statement focusing on climate change risks in the budget for FY2023/24; and (ii) approve Procurement Act Regulations to enhance efficiency and effectiveness of public expenditure and to support 'green procurement'. The act should include the requirements to publish beneficial ownership information of bidding companies.	End-March 2023	1st EFF Review
	3) Government to approve the National Comprehensive Disaster Risk Management Policy to support mainstreaming of comprehensive DRM principles into ministry and agency budget planning, ensuring resilience in government and business continuity after a disaster event.	End-September 2023	2nd EFF Review
	4) Government to table an amended Prevention of Floods Act in parliament, incorporating the new Stormwater Management Plan.	End-March 2024	3rd EFF Review
	5) Government to implement reforms to strengthen integration of climate concerns into the PFM process, based on a comprehensive diagnostic evaluation.	End-March 2025	5th EFF Review

Table 2. Barbados: Proposed Reform Measures Under the RSF (concluded)

Reform Area	Reform Measure	Timing	Expected Corresponding Review Under the EFF Arrangement
Pillar 2: Climate mitigation reform measures (reduction of GHG emissions)	6) (i) Government to lower import taxes for electric vehicles; (ii) Government to close remaining regulatory gaps in licensing policy/approvals framework to increase investments into battery storage technologies to meet energy demand.	End-September 2023	2nd EFF Review
	7) Cabinet approval for the Energy Efficiency and Conservation Policy Framework to reduce energy use of all government agencies and develop efficient public lighting.	End-March 2024	3rd EFF Review
	8) Parliament to adopt the New Electricity Supply Act to (i) enhance competition in the electricity market and (ii) introduce local participation in renewable energy investment.	End-September 2024	4th EFF Review
Pillar 3: Reform measures to mitigate transition risks	9) The CBB to adopt a strategy with time-bound guideposts for building capacity to monitor and assess climate change risks, including building data collection mechanism and joining the Network for Greening the Financial System.	End-September 2024	4th EFF Review
	10) The CBB to include climate change risk in their bank stress testing exercise with support from MDBs including through relevant Capacity Development.	End-March 2025	5th EFF Review

Table 3. Barbados: Proposed 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 2022	Target End March 2023	Target End June 2023	Target End September 2023	Target End December 2023	Target End March 2024
Fiscal Targets						
Performance Criteria						
Floor on the CG Primary Balance 4/	177	236	111	222	333	444
Floor on the CG Primary Balance (adjusted) 4/	…	…	…	…	…	…
Non-accumulation of CG external debt arrears 4/ 6/	0	0	0	0	0	0
Ceiling on CG Transfers and Grants to Public Institutions 4/ 7/	339	465	119	238	357	477
Ceiling on Public Debt 5/	14,765	14,787	14,797	14,806	14,816	14,826
Ceiling on Public Debt (adjusted) 5/	…	…	…	…	…	…
Indicative Targets						
Ceiling on CG Domestic Arrears 5/ 8/	277	267	262	257	252	247
Floor on Social Spending 4/ 9/	68	90	23	45	68	90
Ceiling on Public Institutions Arrears 5/	53	48	46	43	41	38
Monetary Targets						
Performance Criteria						
Ceiling on Net Domestic Assets of the CBB 5/	2,350	2,350	2,350	2,350	2,350	2,350
Floor on Net International Reserves 5/	1,200	1,200	1,200	1,200	1,200	1,200
Floor on Net International Reserves (adjusted) 5/	…	…	…	…	…	…
Items feeding into PB, Debt, and NIR adjustors						
IDB budget support 4/	200	200	0	0	200	200
CDB budget support 4/	0	0	0	0	0	0
CAF budget support 4/	0	0	0	0	0	0
WB budget support 4/	200	200	0	0	0	0
Grants 4/	20	26	0	0	0	8

Sources: Fund staff estimates.

1/ Test dates for periodic Program Criteria (PC) will be end-March and end-September of each calendar year. There 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/ This table assumes Board approval on December 7, 2022;

4/ Flow (cumulative over the fiscal year);

5/ Stock;

6/ Continuous performance criterion;

7/ This ceiling excludes earmarked transfers;

8/ Including pre-TAMIS legacy arrears formally recognized in FY2022/23;

9/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 10/31/2022. Accordingly, the exchange rates for the purposes of the program are show in Table 1.

Table 1. Barbados: Program Exchange Rates (10/31/2022) /1

Barbadian dollar to the US dollar	2.00000
Barbadian dollar to the SDR	0.3896225
Barbadian dollar to the euro	2.03052
Barbadian dollar to the Canadian dollar	1.49308
Barbadian dollar to the British pound	2.36763
Barbadian dollar to the East Caribbean dollar	0.74445
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 of the Guidelines on Public Debt Conditionality in Fund Arrangements (Decision No. 16919-(20/103), October 28, 2020. 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
- Barbados Water Authority
- National Assistance Board
- 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
- Kensington Management Oval Inc.
- National Accreditation Board
- Southern Meats
- 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, excluding EFF/RSF disbursements used for budget support) 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) are defined as the difference between reserve assets and reserve liabilities with a maturity of less than one year.

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

[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".

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 stock observed as at test date 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).

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 stock observed as at the test date 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. Barbados: 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.

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

Financial Sector

Table 2. Barbados: Summary of Data to be Reported to the IMF (continued)

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:

Table 2. Barbados: Summary of Data to be Reported to the IMF (concluded)

- Regulatory capital
- Regulatory Tier 1 capital
- Risk-weighted assets
- 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.
- Audited financial statements of Commercial Banks.

INTERNATIONAL MONETARY FUND

BARBADOS

November 15, 2022

REQUEST FOR AN ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

A. Country Vulnerability to Climate Change Including Human, Social and Economic Costs

1. **Barbados is highly vulnerable to climate change due to increased frequency and intensity of climate-induced natural disasters.** Located in the windward part of the Caribbean's archipelago, Barbados's climate is heavily influenced by the El Niño Southern Oscillation and its economy is especially vulnerable to the adverse effects of tropical cyclones, storm surge, and floods. The country's low-lying coastal areas also face severe risk to sea level rise. Observed and anticipated climate change impacts are of particular concern to Barbados given the vulnerability of its housing stock and the increased probability of hurricanes making landfall on the island. Temperatures in Barbados are projected to increase under all emissions scenarios, with median annual mean temperatures expected to rise by 1.03°C under a high emissions scenario (Shared Socioeconomic Pathway 3-7.0, SSP3-7.0) by the 2040-2050 period. Changes in rainfall are less certain, however most scenarios show an expected reduction in annual precipitation across Barbados by the 2040-2059. Under a high emissions scenario (SSP3-7.0), annual precipitation is expected to decline by approximately 9 percent by mid-century. [1] At the sector level, climate change is likely to significantly affect: i) *tourism* through increasing damage to coastal tourism infrastructure and erosion of beaches and coral reefs; ii) a reduction of *water* resources through groundwater contamination from flooding (as a consequence of changing precipitation patterns and increasing frequency of natural disasters), soil or pollutant infiltration and saline intrusion; iii) *agricultural production*

[1] Source: World Bank Climate Change Knowledge Portal. Accessed via: https://climateknowledgeportal.worldbank.org/country/barbados

through droughts, flooding and storm damages; and iv) *fisheries* due to sea surface temperature increase and sedimentation.

2. Barbados' greenhouse gas emissions are low, contributing to less than 0.01 percent of the global total. Emissions mainly come from energy and domestic transport (73.7 percent), waste (14.9 percent), industrial processes (8.5 percent) and agriculture (3.0 percent). Land use, land use change and forestry provide a sink of greenhouse gas emissions of 51 Gg CO2e in 2010, equivalent to a reduction of 2.6 percent of total emissions for that year.[2]

3. Barbados's ability to address the challenges posed by climate change is enhanced by its relatively high level of economic development but adversely affected by its small size and the high costs of this undertaking. The country has a population of 287,000 and a per capita gross national income of US$16,720, as of 2021. Barbados experienced several decades of solid economic growth, which led to an improvement in key social indicators, such as life expectancy, and enhanced its capabilities for handling any development challenges. However, as a small, open economy Barbados is highly vulnerable to exogenous economic shocks which are increasingly likely to compound due to climate change, leading to increasing and severe socio-economic costs in the absence of reforms and adaptation measures. At the same time, critical investments tend to be very costly as a share of gross domestic product given the small size of its economy and, despite improvements since 2018, its fiscal space is limited while attracting private financing is challenging. Such investments are also critical to help Barbados reduce its dependence on fossil fuels and exposure to their price variability, with gains for climate change mitigation and for the country's ability to implement climate change adaptation measures.

B. Government Policies and Commitments in Terms of Climate Change Adaption and Priority Areas to Strengthen Resilience

4. The Government of Barbados integrated climate change adaptation efforts into its policy framework and sector policies. By taking a holistic approach and integrating a public investment program with climate change resilience considerations, Barbados is effectively aligning climate change and development objectives. Implementation of the Barbados Economic Recovery and Transformation (BERT) Plan since 2018 helped the country to enhance its debt sustainability, which is critical for increasing the fiscal space needed to implement public investment programs supporting adaptation to climate change. The *2021 Physical Development Plan* (PDP) sets out policies and strategies to guide land use, settlement patterns, infrastructure and environmental management that seek to enhance resilience under changing climate conditions. The *2021 Roofs to Reefs Programme* (R2RP) operationalizes the PDP and directs public investment. In addition, Barbados has adopted or is in the process of adopting several sector policies and regulations that include climate change adaptation considerations, including the Water Reuse Policy, Integrated Coastal Zone Management Plan, Comprehensive Disaster Risk Management (DRM) Policy, and Climate Change and Agriculture Policy, among others. Barbados is also operating a Catastrophe Fund, which is

[2] Barbados. National Communication (NC). NC 2. https://unfccc.int/documents/183387

intended to provide financial aid to eligible persons and qualifying businesses in need of such aid as a result of, *inter alia*, climate-induced natural disasters. The government has recently taken steps to enhance resilience of the insurance industry to natural disasters by requiring that all domestic insurers run annual natural disaster stress tests. During the COVID-19 pandemic, the government provided financial assistance to the tourism sector conditional on design and implementation by participating firms of Greening and Digitization Investment Plans, which help to increase their resilience to climate change.

C. Government Policies and Commitments in Terms of Climate Change Mitigation and Priority Areas to Reduce Greenhouse Gas Emissions

5. **The Government of Barbados is taking important steps towards sustainable and low carbon transformation of economic and social systems**. In its updated nationally determined contributions, Barbados committed to a 20 percent reduction relative to business-as-usual emissions by 2025 without international support (unconditional), and a 35 percent reduction relative to the business-as-usual emissions by 2025 conditional upon international support. By 2030, Barbados committed to a 35 percent reduction relative to business-as-usual emissions without international support (unconditional), and to a 70 percent reduction relative to business-as-usual emissions conditional upon international support. In addition, with the 2019 Barbados National Energy Policy (BNEP), the government signaled its commitment to a clean energy future by setting the target of a fossil fuel-free electricity sector by 2030. However, although BNEP's goal of 100 percent renewable electricity to be attained by 2030 is generally realistic, significant additional investments are needed to achieve this goal. To this end, a draft Integrated Resource and Resilience Plan (IRRP) that will guide implementation of the BNEP in the electricity sector is currently being consulted. The government is also committed to a fossil fuel-free transport sector. Effective April 2021, the government's procurement policy was set to prioritize the purchase of electric or hybrid vehicles where possible, and the Barbados Transport Board's objective is to operate a fully electrified fleet by 2030. The government is also planning to reduce taxes on electric vehicles and to develop regulations related to green procurement, which are efforts that have the dual benefit of both strengthening the country's climate resilience as well as contributing to its mitigation efforts. Lastly, the government is also ensuring that climate change mitigation and adaptation policies are aligned, as illustrated in the R2RP. Not only will actions in the R2RP result in a more resilient housing stock, through roof fortification and retrofitting aimed to withstand up to Category 4 hurricanes, distributed electricity generation will shorten post-disaster recovery time. Similarly, under R2RP, protocols and standards for rooftop solar PV installation will be developed and include recommended options for energy storage technology, given that distributed clean energy generation is more resilient when it is coupled with battery storage in the same location.

D. Other Challenges

6. **Like other Small Island Economies (SIEs), in decarbonizing its economy and making it climate resilient, Barbados is facing challenges related to institutional capacity and coordination needs.** Given the nature of climate change and the required response in this regard, there is room to strengthen multi-sectoral coordination to support a well-functioning institutional

framework and for achieving progress in specific sector policies. The same is true for the capacity to develop and implement laws and policies to operationalize the government's strategic documents. Further increase in fiscal space would help to scale up climate action by bridging the financing gap, which may also require innovative approaches to address environmental degradation and climate change, including through the establishment of an Environmental Sustainability Fund. Such a fund could supplement government financing, as well as serve as a vehicle for implementing Barbados's NDC, which specifically calls for scaled-up, new, additional, and predictable financial resources for climate.

E. World Bank Engagement in the Area of Climate Change

7. The World Bank's engagement in Barbados, as an IBRD graduate, has been limited. The World Bank is supporting Barbados's climate agenda most recently through the COVID-19 Response and Recovery Development Policy Loan (DPL), including in the areas of improved disaster risk management, decarbonization of the tourism sector, and enhanced disaster and climate resilience of the insurance industry. The World Bank also provided technical assistance to Financial Services Commission in FY 2022. In the Green and Resilient Recovery DPL, which is under preparation, the World Bank is supporting the government's ambitious climate reform program which cuts across several sectors and policy areas (including agriculture, DRM, fiscal management, procurement, transport, water and energy). This operation and RSF program of the International Monetary Fund (IMF) are being developed in close collaboration between the World Bank and the IMF teams.