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2023 ARTICLE IV CONSULTATION AND SECOND REVIEWS UNDER THE ARRANGEMENT UNDER THE EXTENDED FUND FACILITY ARRANGEMENT AND ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BARBADOS

In the context of the Staff Report for the 2023 Article IV Consultation and Second Reviews Under the Arrangement Under the Extended Fund Facility and Arrangement Under the Resilience and Sustainability Facility, the following documents have been released and are included in this package:

- **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 18, 2023, following discussions that ended on November 13, 2023, 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 December 4, 2023.
- **World Bank Assessment Letter for the Resilience and Sustainability Facility**
- A **Statement by the Executive Director for Barbados**

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PRESS RELEASE

PR23/461

IMF Executive Board Concludes 2023 Article IV Consultation and Second Reviews Under the Extended Fund Facility and the Resilience and Sustainability Facility with Barbados

FOR IMMEDIATE RELEASE

Washington, DC – **December 18, 2023:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Barbados and completed the second reviews of the Extended Fund Facility (EFF) and the Resilience and Sustainability Facility (RSF) arrangements. The completion of the reviews allows the authorities to draw the equivalent of SDR 14.175 million (about US$19 million) under the EFF and SDR 42.525 million (about US$57 million) under the RSF.

Barbados continues to advance the implementation of its comprehensive economic reform program and climate policy agenda. The economy has weathered the COVID-19 pandemic and other recent shocks well and macroeconomic stability has been preserved. Economic activity has recovered strongly, with ten consecutive quarters of growth, driven by a rebound in tourism. In the context of an expanding economy, the authorities are placing renewed focus on structural reforms with the aim of achieving inclusive and sustainable growth and increasing resilience to climate change while maintaining debt sustainability and social cohesion.

After a 13.8 percent-rebound in 2022, real GDP is projected to expand by about 4.5 percent in 2023. Inflation has fallen to 4.3 percent year-over-year as of mid-2023, from a peak of 6.7 percent recorded in May 2022. Lower international fuel prices and freight costs contributed to the reduction in overall inflation, while prolonged drought conditions and higher demand for restaurants and recreational activities driven by the recovery in tourism pushed up the prices of some food items and domestic services. The economic recovery resulted in higher job growth, with the unemployment rate reverting to pre-pandemic levels. The fiscal position has continued to strengthen, and international reserves remain ample, supporting the exchange rate peg.

The economy is expected to continue growing and inflation to moderate, with real GDP and tourism returning to pre-pandemic levels in the near term. The current account deficit is expected to narrow as tourism and commodity prices fully normalize.

Following the Executive Board's discussion today, Mr. Bo Li, Deputy Managing Director and

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

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Acting Chair, made the following statement:

“Barbados is advancing the implementation of its homegrown Economic Recovery and Transformation (BERT) Plan and its ambitious climate policy agenda, supported by the Extended Fund Facility (EFF) and the Resilience and Sustainability Facility (RSF) arrangements.

“After successfully weathering a series of shocks in recent years, the Barbadian economy has recovered strongly amid a rebound in tourism. The fiscal balance has strengthened, the public debt-to-GDP ratio is declining, and international reserves have risen. Inflation is moderating driven by lower fuel prices and freight costs, and unemployment has fallen.

“The authorities’ focus on reducing debt through higher primary surpluses while maintaining adequate social and capital expenditure is appropriate. The revenues arising from the corporate income tax reform are expected to be used to increase public investment, including on climate resiliency.

“Progress is being made on structural reforms, including steps to strengthen revenue administration, modernize the tax exemptions framework, enhance public financial management, and unlock the economy’s growth potential. Advancing pension and state-owned enterprise reforms is important.

“Ample international reserves continue supporting the exchange rate peg, which remains a key anchor for macroeconomic stability. The authorities are working on enhancing their monetary policy toolkit and financial sector oversight. The significant progress made in strengthening the AML/CFT framework is an important achievement.

“The authorities are advancing their ambitious climate policy agenda to increase resilience to climate change and green the economy. Important reforms are being implemented to achieve these objectives, including by incorporating climate considerations into the budget process, improving the disaster risk management framework, providing incentives for the purchase of electric vehicles, and addressing regulatory gaps to facilitate investments in renewable energy. The climate policy reforms are expected to help create an enabling environment that facilitates the mobilization of climate finance and private sector investment in climate-related projects.”

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities’ strong program implementation of their homegrown economic reform strategy and ambitious climate policy agenda under the EFF and RSF arrangements. Directors welcomed

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

the economy's robust recovery amid a rebound in tourism and encouraged the authorities to maintain the reform momentum to achieve inclusive and sustainable growth, increase climate resilience, and maintain debt sustainability. They noted that continued capacity development assistance will be important to support the authorities' efforts.

Directors welcomed the authorities' progress in advancing fiscal consolidation and reducing the public debt-to-GDP ratio while maintaining adequate social and capital expenditure. They supported increasing public investment, including in climate resilience, using revenues from the corporate income tax reform. They underscored the importance of maintaining strong primary surpluses to continue reducing the public debt-to-GDP ratio and achieve the long-term debt target. They also welcomed the efforts to restart the domestic capital markets.

Directors commended the progress in strengthening revenue administration, modernizing the tax exemptions framework, and enhancing public financial and investment management and fiscal governance. They encouraged the authorities to continue to implement pension and SOE reforms. Directors emphasized that steady implementation of structural reforms is essential to preserve fiscal sustainability and create space for higher public investment.

Directors noted that ample international reserves support the exchange rate peg, which provides a key anchor for macroeconomic stability. They encouraged steps to further enhance the monetary policy toolkit by developing liquidity management instruments. They also welcomed ongoing work to strengthen financial supervision. Directors urged the authorities to build on the significant progress in strengthening their AML/CFT framework and looked forward to Barbados' timely exit from the FATF grey list.

Directors welcomed the authorities' efforts to unlock Barbados' growth potential, including by enhancing the business environment, investing in skills and education, and promoting digitalization. The latter could increase public sector efficiency, facilitate access to credit, enhance labor participation, and support human capital.

In the context of Barbados' vulnerability to climate shocks, Directors commended the authorities' strong commitment to their ambitious climate agenda. They welcomed their determined efforts and impressive progress in advancing various reforms, including incorporating climate considerations in the budget process, improving the disaster risk management framework, and addressing regulatory gaps to facilitate investments in renewable energy. They recommended continuing efforts to green the economy and build resilience to climate change. These climate policy reforms should facilitate mobilization of climate financing and private sector investment. In this context, Directors recognized Barbados' promising initiatives on climate finance.

It is expected that the next Article IV Consultation with Barbados will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

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

I. Social and Demographic Indicators (most recent year)

Population (2022 est., thousand)	289.4	Adult literacy rate (2014)	99.6
Per capita GDP (2022 est., US$ thousand)	20.2	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 (2022)	7.2

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

II. Economic Indicators

		Projections	
	2022	**2023**	**2024**
	Annual Percentage Change		
Output, prices, and employment			
CY Real GDP	13.8	4.5	3.7
CPI inflation (average)	5.0	5.0	3.7
CPI inflation (end of period)	5.7	4.4	2.8
External sector			
Exports of goods and services	34.4	13.5	8.9
Imports of goods and services	25.8	1.8	5.9
Money and credit			
Net domestic assets	8.1	2.1	4.0
Credit to the non-financial private sector	3.6	2.4	3.1
Broad money	5.3	5.3	4.1
	(In percent of FY GPD)		
CG Public finances (fiscal year) 1/			
Revenue and grants	29.0	28.5	30.2
Expenditure	31.0	30.4	31.4
Fiscal Balance	-2.0	-1.8	-1.2
Interest Expenditure	4.5	5.2	5.2
Primary Balance	2.5	3.4	4.0
Public sector debt (fiscal year) 2/			
Public sector debt	119.6	114.7	106.9
External	45.1	46.8	44.2
Domestic	74.5	67.9	62.6

(In percent of CY GDP)			
Balance of payments (calendar year)			
Current account balance	-10.7	-8.1	-7.2
Capital and financial account balance	8.1	11.0	7.7
Net Errors and Omissions	2.0	0.0	0.0
Overall balance	-0.6	2.8	0.5
Memorandum items:			
Gross international reserves (US$ million)	1,385	1,565	1,600
Nominal GDP, CY (BDS$ millions)	11,681	12,772	13,725
Nominal GDP, FY (BDS$ millions)	12,238	13,025	13,937

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 loans provided to the CBB for BOP support under the 2018 EFF.

BARBADOS

December 4, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION AND SECOND REVIEWS UNDER THE EXTENDED FUND FACILITY AND ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Context. The authorities are implementing their updated Economic Recovery and Transformation Plan (BERT 2022) and their ambitious climate policy agenda. Barbados has weathered the COVID-19 pandemic and other recent shocks well, amid continued macroeconomic stability. The economy has recovered strongly, driven by a rebound in tourism. The authorities are placing renewed focus on structural reforms with the aim of achieving inclusive and sustainable growth and increasing resilience to climate change while maintaining debt sustainability and social cohesion. Ample international reserves support the exchange rate peg.

Policy recommendations. It is important to continue strengthening the primary balance over the medium term while maintaining adequate social and capital spending. The steady implementation of structural reforms anchored by strong governance frameworks, including in revenue administration, public financial management, procurement, state-owned enterprises (SOEs), and the pension system, is key to generate savings and efficiency gains to gradually raise and sustain higher primary surpluses while creating fiscal space to increase needed priority spending, including for climate-related investments. Efforts to build resilience to climate change, green the economy, and mobilize private climate finance should be sustained. Maintaining ample international reserve buffers is key to support the exchange rate peg. Gradually developing liquidity management instruments would allow the central bank to further enhance its ability to manage monetary conditions. Actions to further improve the ease of doing business and increase efficiency, including by advancing digitalization, are key to increase the economy's growth potential.

Program implementation. Program performance under the Extended Fund Facility (EFF) and the Resilience and Sustainability Facility (RSF) remains strong.

EFF. All quantitative performance criteria have been met for this review. The structural benchmarks to create a fiscal risk unit within the Ministry of Finance, complete a

stocktaking of the financial performance of SOEs, establish a GovTech agency, and review the central bank's monetary policy toolkit have also been implemented.

RSF. All reform measures for this RSF review have been completed, including:

- The inclusion of a fiscal risk statement discussing climate change risks in the FY2023/24 budget; the approval of regulations to enhance the efficiency and effectiveness of public procurement; and the development of a sustainable/green public procurement framework and guidelines for the implementation of green/climate budget tagging.
- The submission to Parliament of a comprehensive National Disaster Risk Management (DRM) policy; and
- The closing of remaining regulatory gaps in energy storage and extension of the tax holiday for electric vehicles to promote investment in renewable energy projects and accelerate the transition to renewable energy sources.

Approved By
Ana Corbacho (WHD) and Peter Dohlman (SPR)

A virtual mission (conducted remotely using teleconferencing) took place during November 6–13, 2023. The team comprised Pablo Morra (head), Keiichi Nakatani, Camila Perez, Zamid Aligishiev, Dmitry Vasilyev (all WHD), Yong Sarah Zhou (SPR), Eduardo Camero Godinez (FAD), and Peter Mugisa (MCM). Patrick Blagrave (Resident Representative Office) assisted the mission. The mission team met with Prime and Finance Minister Mia Mottley, Central Bank of Barbados Governor Kevin Greenidge, Minister in the Ministry of Finance Ryan Straughn, and other senior government officials. Ann Marie Wickham (OED) joined some of the meetings and Executive Director Philip Jennings joined the concluding meeting.

CONTENTS

FIGURES

TABLES

ANNEXES

APPENDIX

Glossary

AI	Artificial Intelligence
ARA	Assessment of Reserve Adequacy (IMF)
BAMC	Barbados Agricultural Management Corporation
BCED	Barbados Customs and Excise Department
BEPS	Base Erosion and Profit Shifting
BERT MC	Barbados Economic Recovery and Transformation Monitoring Committee
B$	Barbados Dollar
BOP	Balance of Payments
BRA	Barbados Revenue Authority
BSS	Barbados Statistical Service
CAB	Current Account Balance
CAIPO	Corporate Affairs and Intellectual Property Office
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
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
MFEI	Ministry of Finance, Economic Affairs, and Investment
MEFP	Memorandum of Economic and Financial Policies
NDC	National Development Corporation
NHC	National Housing Corporation
NIS	National Insurance Scheme
NIF	National Insurance Fund
PC	Performance Criterion
PFM	Public Finance Management
PRASC	Canada's Project for the Regional Advancement of Statistics in the Caribbean
RDC	Rural Development Corporation
RE	Renewable Energy
RM	Reform Measure
SB	Structural Benchmark
SDR	Special Drawing Right
SOE	State Owned Enterprise
TA	Technical Assistance
TMU	Technical Memorandum of Understanding
UDC	Urban Development Corporation
US$	US Dollar
VAT	Value Added Tax
YoY	Year-on-Year

CONTEXT

1. **Barbados is implementing ambitious reforms to build a dynamic, inclusive, and resilient economy.** The authorities' updated Barbados Economic Reform and Transformation (BERT 2022) Plan, supported by the EFF and RSF arrangements approved in December 2022, aims at achieving inclusive and sustainable growth and increasing resilience to climate change while maintaining fiscal and debt sustainability and social cohesion. BERT 2022 builds on the achievements of BERT 2018, under which the authorities restored macroeconomic stability and successfully weathered the shocks of recent years, supported by the 2018-2022 EFF arrangement. Under BERT 2022, the authorities are placing renewed focus on structural reforms, in the context of a strong economic recovery amid a rebound in tourism. Most macroeconomic indicators have returned or are close to returning to pre-pandemic levels.

RECENT DEVELOPMENTS AND OUTLOOK

A. Recent Developments

2. **Economic growth has rebounded.** After a 13.8 percent-rebound in 2022, real GDP grew by 4.4 percent during the first nine months of 2023, mainly driven by a buoyant tourism season and related activities.[1] Tourist arrivals between January and September increased by 19 percent with respect to the previous year, reaching 90 percent of the pre-pandemic average for 2017-2019. The tourism recovery increased hotel demand and stimulated other related sectors such as wholesale and retail trade, entertainment, construction, and manufacturing output. The economic recovery resulted in higher employment, with unemployment claims reverting to pre-pandemic levels and the unemployment rate falling to 8.5 percent in the second quarter of 2023, compared to 9.3 percent recorded in the same quarter of 2022 and 10.1 percent in the second quarter of 2019.

3. **Inflation is moderating.** Inflation fell to 4.3 percent year-over-year as of July 2023, from a peak of 6.7 percent recorded in May 2022. Lower international fuel prices and freight costs contributed to the reduction in overall inflation, while domestic factors such as prolonged drought conditions and higher demand for restaurants and recreational activities driven by the tourism recovery pushed up the prices of some food items (e.g., vegetables) and domestic services.

4. **Conditions in the financial system remain stable in 2023.** In the year to September, credit to the nonfinancial private sector grew by 1.7 percent, driven primarily by corporate borrowing. Liquidity levels remained high, which coupled with long-standing capital controls, kept domestic interest rates broadly stable. The asset quality of commercial banks continued to improve, with non-performing loans (NPLs) declining to 4.9 percent of total loans as of September 2023, the lowest level since 2009. While the ratio of provisions to NPLs declined, provisions remained well above

[1] The authorities revised upward the level of 2022 GDP by about 2.7 percent relative to the first review on account of improved estimates of tourism and agricultural output.

required levels. Banks' aggregate capital adequacy ratio rose to 18.7 percent, well above the 8 percent prudential requirement, and their profitability increased. The soundness indicators of finance companies remained stable, with non-performing loans at 12.4 percent of total loans and an aggregate capitalization ratio of 21 percent. While remaining profitable, their return-on-assets declined slightly amid a pickup in operational expenses. Credit unions' soundness indicators remained broadly stable in 2023, with the capital to assets ratio at 12.1 percent and nonperforming loans at 12.8 percent of total loans as of June 2023.

5. The international reserves position continues to strengthen. The current account deficit narrowed to 8.5 percent of GDP in the first nine months of 2023, from 11.1 percent of GDP during the same period of 2022, driven by the rebound in tourism and a decline in food and fuel import prices. Gross international reserves rose to US$1.4 billion as of end-September, equivalent to 7.6 months of imports of goods and services, supported by the improvement in the current account balance and loan disbursements from international financial institutions.

B. Outlook and Risks

6. The economy is expected to continue recovering and inflation to moderate. Real GDP is projected to expand by around 4.5 percent and return to pre-pandemic levels in 2023, supported by a continued recovery in tourism and related activities. Inflation is projected to decline to 4.4 percent by end-2023 driven by lower import prices. Over the medium-term, growth and inflation are projected to converge to their long-term historical averages of about 2 and 2.4 percent, respectively. The current account deficit is expected to narrow to about 8.1 percent of GDP in 2023, from 10.7 percent in 2022, and reach 5.2 percent of GDP over the medium term, as tourism and commodity prices fully normalize.

7. Risks to the outlook are elevated (Annex I)**.** The medium-term economic outlook is vulnerable to potential global economic and financial shocks and natural disasters. An abrupt global slowdown or recession in key source markets (US, UK, and Canada) could slow tourism and weaken growth. An intensification of regional conflicts could increase global commodity prices and raise inflation, reducing real incomes in both the main tourism source markets and Barbados. A tightening in global financial conditions and a rise in global risk aversion would increase the cost of external financing, affecting the fiscal and external accounts. The economy is vulnerable to climate change risks and natural disasters, which could have an adverse impact on economic activity, increase the fiscal deficit and public debt, and pose financial stability risks.

POLICY DISCUSSIONS

A. Strengthening Fiscal Institutions and Safeguarding Fiscal Sustainability

8. The authorities comfortably met their primary balance target for the first half of FY2023/24. The primary balance totaled B$295 million in the first half of FY2023/24, equivalent to

2.3 percent of GDP, exceeding the target of B$218 million (1.7 percent of GDP). The overall fiscal balance recorded a deficit of 0.5 percent of GDP. Fiscal revenues were below those recorded in the first half of FY2022/23 due to a shift in the payment schedule of land tax bills and the corporate income tax and the discontinuation of the pandemic levy. In addition, interest outlays rose driven by an increase in interest rates on floating rate foreign debt and the step-up feature of the restructured domestic bonds. However, prudent expenditure management allowed the authorities to meet the fiscal target. Continued adherence to the fiscal program, underpinned by prudent expenditure management, bodes well for the authorities to meet their primary surplus target of B$446 million (equivalent to 3.4 percent of GDP) in FY2023/24 set in the BERT Plan.

9. The authorities have reformed the corporate income tax regime in line with commitments under the OECD/G20 Inclusive Framework (IF) on Base Erosion and Profit Sharing. The adoption of Pillar II of the IF requires that multinational enterprises (MNEs) with global yearly revenues of at least EUR750 million (in-scope companies) be subject to an effective minimum tax rate of 15 percent in each jurisdiction in which they operate. To align with this international commitment, Barbados will introduce a qualified domestic minimum top-up tax (QDMTT) that will bring the effective tax rate to 15 percent on subsidiaries of in-scope MNEs that would otherwise be subject to an Income Inclusion Rule or Undertaxed Profits Rule applied by a foreign jurisdiction. In addition, the general CIT rate will increase to 9 percent, except for small businesses and insurance and shipping companies. The effect on revenues of these reforms will depend, among other things, on the behavioral response of MNEs. On balance, these reforms are expected to increase revenues by about 1.5 percent of GDP, which the authorities plan to use primarily to increase public investment.

10. It is key to continue raising the primary balance over the medium term while maintaining adequate social and capital spending, as planned under the BERT Plan. Fiscal policy should continue striking an appropriate balance between advancing fiscal consolidation to secure public debt sustainability and safeguarding social and investment needs, including climate investments. Given the upward revision in nominal GDP (¶2) and continued compression in sovereign debt spreads (¶18), staff estimates that raising the primary surplus to about 4.5 percent of GDP by FY2025/26 would strike such balance (compared to 5 percent of GDP in the first review), by helping frontload investment to increase climate resiliency (Annex VI). Steady implementation of public finance structural reforms is essential to attain these objectives. Key areas for reform include strengthening revenue and customs administration, bolstering public financial management and fiscal governance (Annex IV), rationalizing the operation of state-owned enterprises (SOEs), and reforming the pension system. The combination of stronger fiscal balances, along with a more efficient public sector and higher social and investment spending would promote a virtuous cycle of declining debt and sovereign risk, and stronger, inclusive, and more climate-resilient growth.

11. The authorities are taking important steps to strengthen revenue administration. The authorities are strengthening the Barbados Revenue Authority (BRA) and the Barbados Customs and Excise Department (BCED), supported by IMF technical assistance (TA):

- The Large Taxpayer Unit (LTU) in the BRA has continued to operationalize its compliance improvement plan, stepped up its audit program, with emphasis on the largest taxpayers, and made increasing use of third-party data to improve the accuracy of the taxpayer base.
- The BRA has also updated its IT systems and processes to ensure the timely processing and issuance of tax refunds, and efforts have been made to validate the stock of outstanding tax arrears and retire them as speedily as possible (tax arrears have been significantly reduced from B$1.2 billion in 2018 to B$247 million as of September 2023).
- The Customs Act was revamped to meet current and emerging border management needs. Draft regulations for implementation of the Act were developed, together with mechanisms to promote voluntary compliance. A risk management approach has been implemented as a key element of the compliance framework.
- A Memorandum of Understanding between the BRA and BCED was signed to enhance information sharing, and a data matching project of taxpayers' information has been undertaken to improve compliance and risk management.

Building on these achievements, it is essential to fully implement the new organizational and governance structures at the BRA and BCED, further enhance cooperation among these agencies, and address capacity constraints. To further strengthen revenue administration, BRA and BECD will work together to ensure mandatory use of the tax identification number (TIN) as the unique identifier of importers and exporters and as a requirement to conduct any border transaction (proposed new structural benchmark for end-September 2024). In addition, the authorities plan to assess human resource needs at the BCED to address capacity and operational needs, identify obstacles to fill critical vacancies, and establish a roadmap to fill such vacancies (proposed new structural benchmark for end-March 2025).

12. Efforts are ongoing to modernize the tax exemptions framework. The authorities intend to gradually reduce tax expenditures, which currently amount to about 6 percent of GDP. The authorities have approved provisions to manage duty and tax exemptions more effectively, with an emphasis on rules over discretion and greater accountability and transparency. An Exemptions Monitor Unit has been created within the BCED, a recertification process will be undertaken to review all legacy tax and customs waivers (end-March 2024 structural benchmark), and duty-free shops will need to re-register every three years to maintain benefits. In addition, the authorities announced regular audits on existing tax concessions, and verification of compliance of beneficiaries with tax, labor, and other laws as a requisite for maintaining benefits. Further efforts to rationalize tax expenditures should aim to adopt a standard tax incentives package, available only for investment projects above a minimum size, and exemptions should be regularly reviewed in terms of their efficacy, efficiency, and transparency. Consideration should also be given to the environmental impact of tax exemptions.

13. Significant progress is being made to bolster public financial management (PFM) and fiscal governance, with IMF and IDB TA support. Important steps have included the approval of a new Public Finance Management (PFM) Act (2019) and a new Procurement Act (2021), (Box 1 and Annex IV). In addition, a Fiscal Council has recently been established to promote sound fiscal management, and a fiscal risk statement including discussion of climate change risks was included in the FY2023/24 budget (RSF reform measure (RM)#2, ¶31). The creation of a fiscal risk unit at the Ministry of Finance, Economic Affairs, and Investment (MFEI) (end-June 2023 structural benchmark, implemented in September) will further support fiscal risk management,[2] and the planned creation of a cash management unit (end-March 2024 structural benchmark) will help improve the management of daily cash balances and avoid a buildup of payment arrears. In addition, the authorities plan to prepare a Public-Private Partnerships (PPPs) framework to guide PPP decision-making (proposed new structural benchmark for end-March 2025). PFM could be strengthened further by ensuring full implementation of the PFM Act, and enhancing the quality, timeliness, and comprehensiveness of the annual government financial statements. To further enhance transparency and monitoring of capital expenditures, it would be desirable to publish the total cost of approved capital projects, including SOEs' capital budget spending, as an annex in the budget and in the medium-term fiscal framework. Stronger coordination among government entities on capital projects could be achieved through a Capital Budgets Committee to ensure that accurate information on capital projects informs the budgeting process. Additionally, it is important to improve the monitoring system for projects under implementation, including by aligning the Public Sector Investment Program (PSIP) with budget estimates.

14. The reform of the Procurement Act, supported by IDB TA, modernized Barbados's procurement framework. It incorporated green/sustainable procurement criteria (RSF RM#2, ¶31) and enhanced its governance (Box 1). It is important to fully implement the new Procurement Act. Developing handbooks, training, sample contracts, and documents, and establishing a comprehensive e-procurement system to enhance transparency and information flow will help ensure a smooth implementation process. The authorities plan to develop standard contracts for routine procurements (proposed new structural benchmark for end-September 2024), with IDB technical support, which will help mitigate procurement delays.

Box 1. Barbados: Taking Stock of Public Financial Management Reforms

The authorities have put in place an action plan for public financial management reform to implement the new PFM Act along three dimensions:

- Strengthening the budget formulation process, ensuring consistency with BERT projections and targets, through: (i) annual updates to the fiscal strategy, based on backward-looking expenditure and revenue reviews and forward-looking targets; (ii) the setting of multi-year expenditure ceilings; and (iii) the provision of clear instructions for budget submissions for Ministries and programs.
- Upgrading budget documentation to include policy-oriented information to decision makers and enable transparent budget execution. A mid-year budget review reports outturns against the annual budget, signals likely deviations from objectives, and identifies remedial actions. Budget documentation includes an assessment of the alignment between the budget and annual fiscal objectives.

[2] The newly created fiscal risk unit is expected to contribute to budget formulation and planning by identifying and proposing options to contain fiscal risks, including contingent liabilities and climate change risks.

Box 1. Barbados: Taking Stock of Public Financial Management Reforms (Concluded)

- Establishing monitoring processes to enhance fiscal reporting and oversight. Ministries, SOEs and agencies are to produce annual and quarterly reports, and a SOE financial health dashboard is monitored by the MFEI.

The authorities are working to increase the efficiency of the public procurement process. The new Procurement Act creates consistent processes across government offices, mandates publication of processes in electronic media and created a central registry for interested parties, lowering barriers to participating in tendering processes. The Act includes provisions to enhance governance, such as by charging the Chief Procurement Officer with the responsibility to i) conduct procurement audits, ii) establish and maintain a register for all suppliers, and (iii) exclude a supplier from participation in a procurement proceeding if the supplier has a conflict of interest that could impair the integrity of the proceeding, based on a thorough investigation of the facts of the case. It also requires the publication of all procurement contracts awarded in the year as well as reports on supplier performance. The authorities are also implementing an e-procurement system, with IDB support, to reduce the cost and processing time of public procurement.

A procedural fiscal rule was adopted in 2021. Under this rule, the government commits to: i) annually prepare a monitorable fiscal strategy/framework with a medium term horizon; ii) regularly publish outcomes against this strategy; and iii) take remedial action when required. The implementation of a numerical fiscal rule may be explored once PFM has been sufficiently strengthened.

15. The authorities are advancing SOE reforms. The Cabinet approved the amalgamation of the Rural Development Corporation (RDC) and the Urban Development Corporation (UDC) (end-December 2023 structural benchmark). The authorities are working on reforming the operations of the National Housing Corporation (NHC) and the Barbados Agriculture and Marketing Corporation (BAMC), with the Cabinet expected to consider the reform plans by end-December (end-December 2023 structural benchmark). These steps will promote efficiency gains and better service delivery and reduce risks to government finances. The authorities completed a stocktaking of SOE financial performance (end-June 2023 structural benchmark), which showed improvement in the financial position of SOEs relative to recent years, while also indicating that several entities remain structurally unprofitable. Going forward, the authorities intend to continue modernizing SOEs, including by privatizing certain activities, ensuring adequate user-fee structures, and eliminating inefficiencies through rationalizations and mergers where possible (Box 2).

Box 2. Barbados: The Reform of State-Owned Enterprises (SOEs)

Reducing fiscal pressures and improving the efficiency of the SOE sector is a pillar of the reform agenda. Barbados' large and predominantly commercial SOE sector has been a persistent strain on public finances. Despite annual government subsidies averaging 7½ percent of GDP in the decade following the 2008 global financial crisis, debt and arrears obligations totaled about 18 percent of GDP prior to the adoption of the BERT 2018 Plan. Under that plan, a 2 percent of GDP cumulative decrease in central government transfers to public entities was targeted, alongside a strategy to clear SOE arrears.

The pandemic slowed SOE reforms, but progress has nonetheless been made. Pre-pandemic, SOE transfers were reduced by 1 percent of GDP (FY2019/20), though this improvement was offset during the pandemic by a need to transfer additional funds to critical SOEs, such as the Queen Elizabeth Hospital and the National Assistance Board. As of FY2022/23, transitory COVID-19 pressures have largely subsided. Operating revenues among a set of primarily commercial SOEs have increased by 17 percent, and

Box 2. Barbados: The Reform of State-Owned Enterprises (SOEs) (Concluded)

government transfers have declined by 11.7 percent relative to the COVID-period peak while remaining slightly above the 2019 level. Nevertheless, the majority of SOEs remain unprofitable, posting operating losses.

The BERT 2022 Plan envisages renewed efforts to reform the SOE sector. A financial health dashboard for SOEs developed under the 2018-22 EFF provides authorities with a mechanism to analyze the performance of priority SOEs and elaborate targeted reform measures to reduce government dependence. A recent stocktaking exercise informed the reform plan for key SOEs. In addition, several positive policy changes have been implemented, most notably the requirement that borrowing by SOEs must be approved by the MFEI. Ongoing transformation of the SOE sector will require sustained policy effort over the medium term.

Modernization of SOEs will continue to be undertaken on a case-by-case basis to: (i) divest purely commercial activities to the private sector and labor; (ii) reduce public subsidies through user fees, where appropriate; (iii) improve public service delivery through worker enfranchisement; (iv) reduce subsidies; and (v) achieve efficiency gains. 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 be financially viable without government subsidies.

16. Reforms to enhance the sustainability of the pension system are ongoing. The Parliament approved a reform of the public employees' pension scheme (end-March 2024 structural benchmark implemented ahead of time). In addition, the authorities are working on reforming the National Insurance Scheme (NIS) to shore up its medium-term financial position. A confluence of factors, including demographic developments (population decrease, ageing and increasing life expectancy) and a weak labor market during the pandemic, have placed the NIS' pay-as-you-go old-age pension scheme under financial stress, and adjustments are needed to ensure its long-term sustainability (Box 3). The announcement of proposals in July to revitalize the NIS are welcome steps to ensure the sustainability of the pension system.

Box 3. Barbados: Reforming the Social Security System

The National Insurance Scheme (NIS) manages the social security system in Barbados. Among other social security benefits, it runs the old-age pension system (a pay-as-you-go system), which accounts for 80 percent of the NIS benefit expenditure. The National Insurance Fund (NIF) accumulates surpluses and covers deficits incurred by the NIS.

The NIS faces structural problems. Barbados' population is declining and ageing, leading to a reduction in the ratio of contributors to pensioners: in 2004 there were 3.6 contributors per pensioner, and by 2021 it had fallen to 2.2. Life expectancy has increased – from 68 years in 1967, when the NIS was created, to 78 currently. Furthermore, a weak labor market during the COVID19 pandemic and higher informality have put NIS revenues under pressure.

Reforms are needed to ensure the NIF's long-term fiscal sustainability. Under the status quo, projections indicate that NIS expenditure will consistently exceed total income, meaning that the Fund's investments will have to be gradually liquidated to cover these operating deficits. The most recent actuarial review (17th NIS review, conducted in 2022, using data through end-2020) estimated that, without reforms, the NIF would be depleted between 2034 and 2041, when the pay-as-you-go contribution rate would have

Box 3. Barbados: Reforming the Social Security System (Concluded)

to rise to between 27 and 34 percent (from the current average of 18 percent), implying that future generations would pay higher contributions and/or receive lower benefits.

The authorities launched a "NIS Revitalisation Reform" in July 2023, after extensive consultations with stakeholders. The reform includes increasing the pensionable age to 67.5 in 2028 and 68 in 2034 (from 67 years currently) and minimum weeks' contributions for a pension from 500 to 750, with no effect on those 60 years or older on January 1, 2024. In addition, reforms to simplify the process for self-employed persons to participate in the NIS are expected to boost enrollment, and thus contributions. The authorities estimate that these reforms would preserve the NIF's pension assets for at least the next 30 years.

Government employees participate in a noncontributory public service pension as well as the NIS pension. Given that benefits received by public servants may exceed those provided by the NIS, an abatement process is made to net out the NIS benefits from the public service pension. The Parliament approved legislation to adopt reforms to the public service pension regime in 2024 (structural benchmark for end-March 2024 implemented ahead of time). The key pillars of the reform include the introduction of employee contributions for new public sector employees and parametric reforms on the calculation of pension benefits.

17. Public debt continues to be assessed as sustainable but subject to high risks. The Sovereign Risk and Debt Sustainability Framework (SRDSF) suggests that Barbados' overall risk of sovereign stress is moderate and confirms that the public debt is sustainable (Annex II). Under the program's macroeconomic projections, the debt target of 60 percent of GDP would be achieved by FY2035/36. The main risks to the baseline projections include weaker-than-expected economic growth, a delay in economic and fiscal reforms to generate primary surpluses, and natural disasters. Gross financing needs are expected to stay at manageable levels on account of an improvement in the primary balance and the favorable debt service schedule obtained from the 2018-19 comprehensive debt restructuring. Risks to the baseline are mitigated by Barbados' strong track record, a favorable debt service schedule, and the continued improvement in market credit risk perceptions. In addition, climate policy reforms and investments in climate adaptation supported by the RSF arrangement will help increase resilience to natural disasters, also mitigating risks to debt sustainability.

18. Barbados' sovereign credit risk perceptions are improving. In recent months, one rating agency upgraded Barbados' sovereign credit rating and two other agencies changed their ratings' outlooks to "Positive."[3] In 2022, Barbados issued a blue bond that financed a debt-neutral repurchase of more expensive commercial debt.[4] RSF disbursements are currently substituting more expensive sources of financing, with cumulative estimated savings in debt service of about 0.3 percent of GDP through 2028 relative to commercial external debt, thereby increasing fiscal space for climate policies. The RSF arrangement is expected to increase fiscal space further over the medium term by (i) providing long term financing, (ii) supporting climate policy reforms (Section D) and helping fund resilient infrastructure (Box

[3] As of November 2023, Barbados is rated at B- (Positive) by Standard & Poor's, B (Positive) by Fitch, and B3 (Stable) by Moody's.

[4] See Barbados – Request for an Arrangement under the Extended Fund Facility and Request for an Arrangement under the Resilience and Sustainability Facility Staff Report, Box 1.

6 and Annex VI), and (iii) contributing to catalyze financing for climate-related projects (¶34 and Box 7). Altogether, these actions, along with the policies and reforms envisaged under the BERT Plan, are expected to enhance resilience to natural disasters, mitigate risks to debt sustainability, attract new sources of financing, and support a compression in sovereign debt spreads, contributing to increase fiscal space over the medium term beyond near-term debt service savings. Sovereign debt spreads on external debt have declined to around 400 basis points in recent months, the lowest level since the debt restructuring, suggesting that market perceptions about Barbados sovereign credit risks continue gradually improving. The authorities' medium-term debt management strategy (MTDS) envisages continued reliance on multilateral financing in the near term while gradually rebuilding the domestic market. It also contemplates utilizing liability management to limit interest rate refixing where possible and including natural disaster clauses in new bond issuance to mitigate risks.

19. The authorities are gradually restarting the domestic capital markets. While, in recent years, the authorities have relied on loans from international financial institutions to cover their financing needs, they are gradually taking steps to restart the domestic capital markets. Households, financial institutions, and pension schemes have participated in the BOSS Plus[5] program, and about B$160 million have been subscribed thus far in FY2023/24. In addition, the government restarted the issuance of 90-day Treasury bills in September 2023, and plans on restarting the issuance of savings bonds and introducing new facilities to enhance the liquidity and accessibility of government bonds.[6]

Authorities' Views

20. The authorities emphasized their commitment to safeguarding fiscal sustainability and advance public finance reforms. Prudent fiscal management alongside reform measures taken in recent years have supported the consistent achievement of fiscal targets. Fiscal risks are being monitored and reported upon as part of the budget process, and ongoing pension and SOE reforms are expected to protect hard-won improvements in public finances. Efforts continue to strengthen revenue administration and improve public financial management, with new structural benchmarks set in these areas. The authorities intend to use available space to increase public investment while maintaining adherence to the fiscal program. Dedicated efforts to implement the new Procurement Act will promote efficient capital spending, including relating to building resilience to climate change.

B. Enhancing the Monetary Policy Framework and Protecting Financial Stability

21. The exchange rate peg continues to provide a key anchor for macroeconomic stability.

[5] Barbados Optional Savings Scheme Plus.

[6] The facilities to be introduced include a reverse auction program and a bonds-on-demand facility. The reverse auction program will allow bondholders to sell their bonds in full or partial amounts at predetermined announced prices, and the bonds-on-demand facility will provide an option for the general public to purchase government bonds from commercial banks, credit unions, and other financial institutions.

The Central Bank of Barbados (CBB) maintains ample reserves to support the peg (which has been in place since 1975) (¶5). The peg enjoys ample support, and the authorities are strongly committed to implementing policies to sustain it. Staff's external sector assessment suggests that the external position is broadly in line with the level consistent with medium-term fundamentals and desirable policies (Annex III). The new Central Bank Act of 2020 further strengthened the policy framework underpinning the exchange rate peg by enhancing the autonomy of the CBB, improving its governance, and limiting monetary financing.

22. The CBB is working to enhance its monetary policy toolkit under the exchange rate peg. While Barbados has longstanding capital controls, delinking local interest rates from global interest rates, monetary transmission is weak. The CBB has maintained the overnight lending discount rate at 2 percent since April 2020. The effectiveness of the discount rate as a monetary policy instrument, however, has diminished due to the structural excess liquidity position of the banking system. Monetary policy is also constrained by a weakened CBB balance sheet following the sovereign debt restructuring. The CBB undertook a comprehensive review to enhance its monetary policy toolkit under the exchange rate regime (end-November 2023 structural benchmark), informed by IMF TA. The objective is to develop liquidity management instruments to gradually enhance the CBB's capacity to manage monetary conditions and interest rate transmission while also maintaining an adequate level of international reserves to support the exchange rate peg (Box 4). Staff's analysis suggests that the authorities could gradually adopt an enhanced monetary policy toolkit without worsening the CBB's balance sheet position. The main steps to enhance the monetary policy framework, which could be done in phases, would include: (i) developing the analytical capacity to determine the monetary policy stance, (ii) establishing a liquidity forecasting framework, and (iii) implementing an interest rate corridor, using open market operations to align short term rates with the desired monetary policy stance. In line with IMF TA recommendations, the authorities are developing capacity to support an enhanced monetary policy framework and have requested IMF TA to establish a liquidity forecasting framework. Staff recommended that the authorities consider removing the foreign exchange fee, as macroeconomic conditions have substantially improved since its introduction in 2017.[7] The authorities intend to recapitalize the CBB in line with the plan established in 2021.[8]

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[7] The foreign exchange fee was assessed as a capital flow management measure (CFM) on outflows under the Fund's Institutional View for the Liberalization and Management of Capital Flows.

[8] In 2021, the CBB and the MFEI reached an agreement for restoring capital, initially through profit retention, transitioning to a gradual predetermined payment plan after a 7-year period.

Box 4. Barbados: Enhancing the Monetary Policy Toolkit Under the Exchange Rate Peg

The CBB's main goal for monetary policy is to maintain the exchange rate peg. The CBB monitors developments in international interest rates and the current account balance and looks to maintain a comfortable level of reserves relative to imports, while longstanding capital flow management measures help limit capital outflows. It is important to ensure that international reserves and imports grow in tandem, and to a avoid that excessive growth in domestic credit could lead to reserve depletion.

At present, the main instruments the CBB has to manage domestic liquidity and credit conditions are the discount rate and the reserve requirement (RR) ratio. However, due to the structural excess liquidity position of the banking system, the discount rate is not being utilized, and at its current level the RR ratio leaves a significant amount of excess liquidity in the system.

A framework for active liquidity management would help the CBB to manage excess reserves. This will require various steps. First, the creation of a liquidity forecasting framework including (i) a Liquidity Unit, responsible for producing liquidity forecasts and calibrating discretionary monetary operations and (ii) a decision-making committee to determine the amount of CBB interventions, based on the forecasts provided by the Liquidity Unit. Second, the strengthening of the staff's analytical capacity to determine the monetary policy stance and a suitable level of short-term interest rates for Barbados' given the currency peg. Third, the implementation of an interest rate corridor including (i) a policy rate (based on an estimated reaction function) that would serve to communicate the monetary policy stance and would be the CBB target for short-term interbank market rates and (ii) a commitment to use open market operations to steer interbank market rates close to the operational target.

Enhancing the liquidity management toolkit would serve important policy objectives. It would provide the CBB with a tool to manage the spread between domestic and international interest rates to regulate domestic liquidity and credit conditions. Given the link between domestic credit growth, imports, and international reserves, this would help manage economic activity and inflation through the business cycle, and prevent episodes of excessive credit growth, maintaining adequate reserve coverage. Anchoring short term interest rates can also serve as a reference for other financial products, including government bond pricing.

23. **The financial system is broadly resilient, and the authorities are working to further enhance financial sector monitoring.** Barbados' financial system withstood well the shocks of recent years. The banking system is well capitalized, has abundant liquidity, and is profitable (¶4). Stress tests of banks and credit unions conducted by the authorities suggest that these institutions are sound. Credit risk stress test results show that banks are resilient due to their relatively high capital adequacy and good pre-provision profitability. While also resilient, credit unions appear somewhat more vulnerable to a worsening of the economic situation mainly because of lower capital buffers. The authorities are working, with IMF TA support, to continue strengthening financial sector monitoring, including by enhancing stress tests that connect macroeconomic developments to performance of the financial sector. They are developing capacity, with support from CARTAC, to assess financial sector risks arising from climate change (end-September 2024 reform measure). This involves establishing a database of climate-related risks and financial institutions' exposures to them. Monitoring of insurance corporations, pension funds, mutual funds, and credit unions fall into the purview of the Financial Services Commission (FSC), which has been working on revising reporting forms and increasing the reporting frequency to enhance its surveillance. With IMF TA

support, the authorities are working to enhance the stress testing of insurance companies and subsequent reporting of results in their annual Financial Stability Report.

24. Barbados has made significant progress in strengthening its AML/CFT framework. At its October 2023 Plenary, the Financial Action Task Force (FATF) made the initial determination that Barbados has substantially completed its action plan to strengthen the effectiveness of its AML/CFT regime and warrants an on-site assessment to verify their implementation. Barbados had made significant progress in improving technical compliance with FATF recommendations, with 33 of the 40 recommendations rated as compliant or largely compliant and 7 recommendations rated as partially compliant as of June 2023. More recently, progress was also made in (i) conducting risk-based supervision of financial institutions and applying sanctions as appropriate; (ii) ensuring that accurate and up-to-date beneficial ownership information is available on a timely basis; (iii) improving and enhancing the use of financial intelligence, and (iv) pursuing repatriation and sharing of confiscated assets with other countries. Staff encouraged the authorities to build on the significant progress made to maintain a strong AML/CFT framework. Verification of the progress made on its action plan could allow Barbados to be removed from the FATF grey List in 2024.

Authorities' Views

25. The authorities agreed with staff's assessment that Barbados' external position is broadly in line with medium-term economic fundamentals and desirable policy settings. They are working on building capacity to gradually enhance their monetary policy toolkit in the context of their pegged exchange rate regime. Work is also ongoing to further strengthen supervision and regulation of nonbank financial institutions, refining stress testing methodologies, and assessing financial sector risks arising from climate change. The authorities noted the progress made in implementing the action plan to strengthen the AML/CFT framework and expect the upcoming on-site verification to result in a positive recommendation at the FATF Plenary in February 2024 to remove Barbados from the grey list.

C. Boosting Barbados' Growth Potential

26. Increasing Barbados' growth potential is a key priority of the authorities. Raising Barbados' growth potential to 3-5 percent per year is a key focus of BERT 2022. To that purpose, the authorities plan to: (i) take actions to increase climate resiliency and green the economy (see section D); (ii) invest in skills training and education; (iii) improve the business environment to support trade and investment; (iv) mobilize domestic savings; (v) promote digital technologies; (vi) establish Barbados as a logistics hub; and (vii) promote economic diversification through new, niche activities centered around a knowledge-based economy. In recent years, the authorities took important steps to improve the ease of doing business, including by modernizing the BCED, adopting a modern platform to facilitate trade (e.g., the Trusted Trader program and the Automated Systems for Customs Data, ASYCUDA), improving the processes to secure business permits and registrations, and establishing more reliable payments and digital identity systems. To achieve the authorities' growth targets, it is essential to foster a substantial increase in the rate of both domestic and foreign direct investment, which averaged 13 and 5 percent of GDP in 2016-21. The newly created Growth Council (established in May) is a welcome step to support the advancement of the priorities established by the BERT Plan, with a focus on making the government an enabler to enhance productivity, competitiveness, and service.

Box 5. Barbados: Selected Growth-Enhancing Initiatives

The authorities' growth agenda contemplate a wide array of initiatives to unlock the economy's growth potential. These include:

- **Promoting small-scale private sector investments in the green transition.** The feed-in-tariffs framework and tax reductions are expected to attract higher investment into energy generation, transport, tourism, and agricultural sectors.
- **Investing in education to better suit the labor market and reduce the skill mismatch.** To that purpose, the authorities approved an education reform to modernize the country's education system. Some initiatives include modernizing the teaching and education system management, and promoting the teaching of science, technology, engineering, and math (STEM) subjects and digital skills training in tertiary education institutions.
- **Enhancing access to finance for small and medium-sized businesses.** The authorities plan to launch a web-based collateral registry for movable assets, a factoring program for goods and services provided to the government, and micro-leasing agencies for leasing equipment. These, together with the Fair Credit Reporting (FCR) Act, the Financial Literacy Bureau, the National Payments Systems Act, and the creation of a digital payments' ecosystem, are expected to enhance the business environment by addressing issues related to access to finance.
- **Revitalizing the domestic capital market** to help channel domestic savings into investments.
- **Increasing efficiency to improve competitiveness**. The launching of an electronic single window for trade is expected to further improve the times for processing and releasing of goods and commodities, reducing logistical cost and bureaucracy.
- **Establishing Barbados as a southern hub for all aviation commercial activity** to advance trade and facilitate increased direct investment.
- **Establishing a Food Terminal** in cooperation with Guyana and Surinam to address food security and reduce the regional food import bill.
- **Reforming the civil aviation legislative framework** to create expanded opportunities for the development of new air routes and significantly expand airlift.
- **Improving the value added of the tourism sector**, through the training and upskilling of workers and the diversification of the product offerings within the domestic industry.
- **Promoting the export of professional services.**

27. Advancing digitalization promises significant growth benefits, stemming from enhanced credit accessibility, increased efficiency, and higher human capital (Annex V)**.** With nearly universal internet accessibility, Barbados showcases an advanced digital infrastructure. It has made considerable progress in digitizing government services, which, combined with the 2021 Barbados National Payments Act, pave the way for broader advancements in financial technologies. By reducing fees and information costs, new financial technologies, including digital payment systems, are expected to improve access to financial services (Bakker et al., 2023).[9]

28. The digitization of government services presents a significant opportunity to boost the efficiency of the public sector (Annex V). The authorities are working on speeding payment processes building on the Trusted Trader program. In September, the authorities established a GovTech agency with an E-Services platform to facilitate access to government services (end-September 2023 structural benchmark). The authorities are also working on developing a digital platform to improve the monitoring and execution of the Public Sector Investment Program (end-March 2024 structural benchmark), informed by IMF TA. Deploying comprehensive national strategies for digital operations and cybersecurity, along with investments in digital infrastructure, can serve as a driving force for wider digital integration. In addition, implementing key policy enablers is important for facilitating the creation of digital services.

Authorities' Views

29. Creating conditions that promote investment and foster stronger, inclusive, and sustainable growth is a key focus of the BERT 2022 Plan. The authorities agreed with the importance of advancing digitalization. They appreciated staff's analysis of Barbados' digital transformation, noting that the recommendations are largely in line with their objectives as detailed in the 2023-2026 Digital Government and National Cybersecurity Strategies. They also showed keen interest in gaining more insights into fintech innovation in Latin America and the Caribbean and the potential impact that artificial intelligence innovations could have on jobs and productivity.

D. Building Resilience to Climate Change and Natural Disasters

30. Barbados has an ambitious climate policy agenda, supported by the RSF arrangement. Barbados is highly vulnerable to climate change. To increase climate resiliency and secure a sustainable and prosperous future, the authorities are working to make Barbados a green and fossil fuel-free country.[10] Achieving this goal involves implementing a broad set of policies and making investments to adapt to climate change and adopt renewable energy (RE) sources. These efforts are supported by the Fund, including through the RSF arrangement, and development partners.[11] Staff's analysis indicates that climate investments will significantly benefit Barbados by strengthening growth and the external accounts and protecting debt sustainability in the face of climate change

[9] Bakker, Bas B., Beatriz Garcia-Nunes, Weicheng Lian, Yang Liu, Camila Perez Marulanda, Adam Siddiq, Mariusz Sumlinski, Dmitry Vasilyev, and Yuanchen Yang. 2023. "The Rise and Impact of Fintech in Latin America." IMF Fintech Note, no. 2023/003.

[10] The authorities had set an ambitious aspirational target to achieve a fully renewable energy-based economy by 2030. While the transition towards renewable energy is progressing, current estimates suggest that such objective is more likely to be achieved by 2035.

[11] See Barbados – Request for an Arrangement under the Extended Fund Facility and Request for an Arrangement under the Resilience and Sustainability Facility Staff Report.

risks (Box 6 and Annex VI).[12] The RSF arrangement is expected to support the authorities' efforts to build resilience to climate change, including by increasing their policy space to invest in resilient infrastructure and the transition to renewable energy sources, as envisaged in their climate policy agenda.

Box 6. Barbados: Building Climate Resilience

The IMF DIGNAD model, calibrated to Barbados, provides a framework to evaluate macroeconomic and financial implications of alternative investment programs and financing strategies. In the model, production in the economy is carried out by firms in the tradable and non-tradable sectors using private and public capital and labor. A natural disaster shock affects the economy by destroying capital and reducing total factor productivity (TFP). Public capital can be of two different types, based on how resilient it is to weather-related events: standard and adaptation capital. Adaptation capital is characterized by a lower depreciation rate than standard infrastructure to capture higher durability.

Model results show that there is a dividend associated with building infrastructure using adaptation technologies.[1] They suggest that investing in resilient physical infrastructure (Scenario 2) would yield substantial benefits if a major hurricane hits Barbados. First, model results suggest that per each 1 percent of GDP in resilient infrastructure investment over five years, the country could save up to 5 percentage points of GDP in output losses relative to the losses that would be suffered with standard infrastructure (Scenario 1). In addition, resilient infrastructure would contribute to a swifter return to the pre-disaster growth trend. Second, adaptation investment would also contribute to a declining debt trajectory over the long run, due to smaller and less persistent output losses and lower post disaster reconstruction costs. Lastly, by minimizing damage to physical assets, these investments would reduce the need for imports of capital and consumption goods, limit disruptions to the tourism sector, and consequently help contain the deterioration in the current account deficit.

Improved public investment management and public sector efficiency could further lessen the growth-debt tradeoff for adaptation investment. In practice, the execution of sizeable public investment in adaptation will likely face challenges like other public investments, which typically carry large efficiency losses. Reaping the full benefits of public adaptation projects will thus require institutional reforms and capacity building to enhance the quality and efficiency of public investment and reduce leakages. If public investment management efficiency (PIE) for Barbados improves from the current level to the median level among high performing economies, output resilience against natural disasters would be further strengthened while the public debt path would be more favorable. Moreover, the increase in public debt could be further contained if the initial adaptation investment scale-up is financed by tapping into the wider fiscal space resulting from public sector structural reforms (Scenario 3).

Given the high fiscal costs associated with a strategy of building resilient infrastructure, continued cooperation from development partners will be needed. Even if the country invests in resilient infrastructure, minimizing the effects of natural disasters, the model shows that continued support from development partners, including through concessional lending, will be needed to support the Barbados' debt

[1] The DIGNAD results assume a hypothetical tail event, specifically a major hurricane causing significantly greater damage than Barbados has experienced in recent decades. However, these damages fall within the bounds of the probable maximum yearly loss identified in the World Bank's Disaster Risk Profile. For more technical details and assumptions, please consult Annex VI.

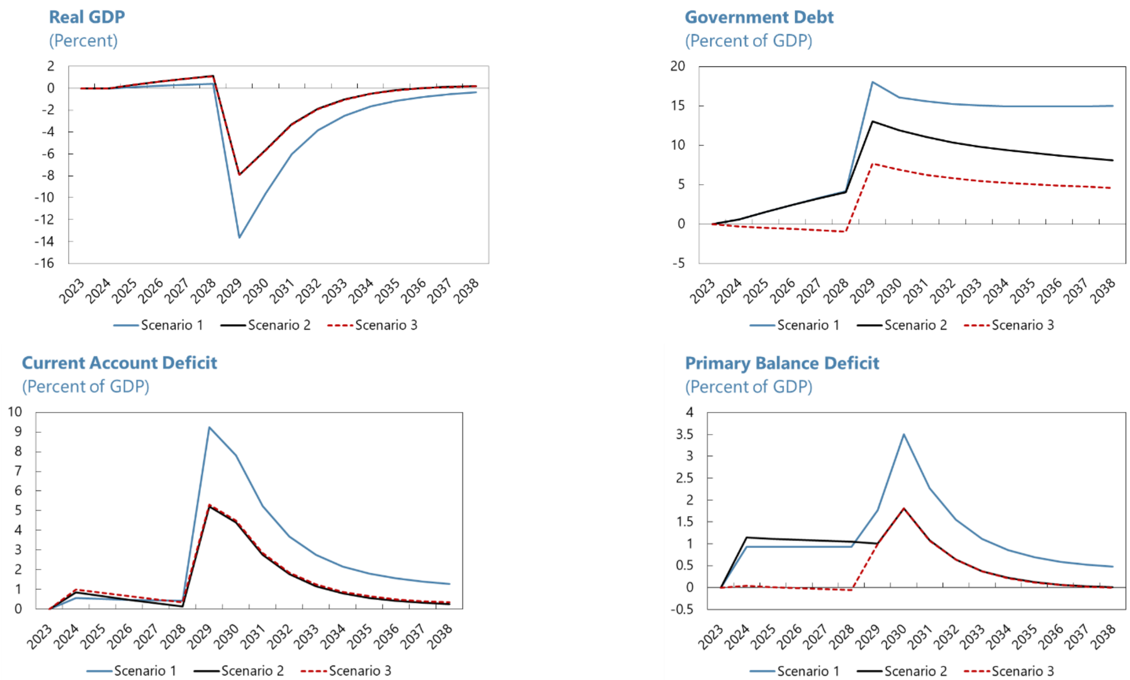
[12] Marto, R., C. Papageorgiou, and V. Klyuev. 2018. "Building Resilience to Natural Disasters: An Application to Small Developing States." Journal of Development Economics 135 (November): 574–86.

Box 6. Barbados: Building Climate Resilience (concluded)

reduction efforts. Since offering ex-ante (i.e., pre-natural disaster) support typically allows to avoid a more expensive reconstruction process, investments in resilient infrastructure may result in savings for both development partners and the recipient country (Melina and Santoro, 2021; Aligishiev, Bellon and Massetti, 2022). In the case of Barbados, the dividends from adaptation investments persist even under conservative assumptions regarding the protection provided by the resilient infrastructure.

Impact of a Stylized Disaster Shock on Selected Macroeconomic Variables

(Change relative to the baseline)



Source: IMF staff calculations.

Note: Scenario 1 refers to an increase in the annual expenditure on standard investment in 2024-2028. Scenario 2 refers to an increase in expenditure on adaptation investment during the same timeframe, along with an increase in the efficiency of public investments. Scenario 3 mirrors Scenario 2, with the added detail that the initial boost in investments is funded by fiscal savings achieved through structural reforms. The stylized hurricane shock hits in 2029.

31. The authorities implemented important policy reforms to incorporate climate considerations in the budget process (envisaged under RM#2). A fiscal risk statement discussing climate change risks was included in the FY2023/24 budget.[13] In addition, the Cabinet approved new Procurement Act regulations to enhance the efficiency and effectiveness of public procurement. Such regulations allow procurement agencies to consider the most advantageous bids from a green/sustainability perspective, paving the way for the implementation of green/sustainable procurement. In September, the Cabinet approved two additional important reforms. It established a sustainable/green public procurement framework, prepared in line with international best practice with IDB TA support, which provides operational guidance for Ministries and procurement agencies to implement sustainable/green procurement. In addition, the Cabinet approved guidelines for the implementation of green/climate budget tagging, prepared in line with international best practice with IDB TA support. The results of the budget tagging exercise are to be published in an annex in the annual budget. The implementation of sustainable/green procurement and green/climate budget tagging will significantly advance the climate policy agenda by providing valuable information to formulate and assess the impact of climate policies. The availability of such information should also facilitate the mobilization of climate finance.

32. A comprehensive National Disaster Risk Management (DRM) policy has been tabled in Parliament (RM#3). The objective of the comprehensive DRM is to mainstream principles into ministry and agency budget planning and ensure resilience in government and business continuity after a disaster event. Priority areas articulated in the policy include: (i) the need to build a robust and well-resourced governance system that supports accountability and achievement of results at all levels; (ii) a disaster mitigation and risk reduction strategy based on data and analysis; (iii) the integration and mainstreaming of the policy in key sectors; and (iv) ensuring operational readiness at all levels of society and building of community resilience. This policy will further strengthen community readiness and an improved knowledge base to enhance preparedness and increase resilience to natural disasters, minimizing disruptions and enhancing protection of the most vulnerable citizens and coastal infrastructure. The authorities intend to start implementing the DRM policy in FY2024/25. The implementation of the DRM will increase the number of ministries and agencies that have an Operations Continuity Plan.

33. The authorities took significant steps to facilitate the transition to RE sources (RM#6). After the independent Fair-Trade Commission (FTC) published Feed-in Tariffs (FITs) for independent power producers (IPPs) for a range of RE technologies, the authorities established a licensing system for IPP RE projects accompanied by a guidance note on the licensing and approval process for investors. Licensed RE generators are compensated for each unit of energy provided to the grid. The provision of RE to the grid allows saving in fossil fuels and cutting carbon dioxide emissions. Such savings have been estimated at B$151 million (equivalent to about 1¼ percent of GDP) and to have

[13] The statement highlights that the increased frequency of climate-related events can weaken Barbados' fiscal position and debt dynamics by undermining economic growth, eroding the public revenue base, and leading to higher expenditure for disaster relief and reconstruction. Risks are mitigated by ongoing climate mitigation and adaptation efforts, the introduction of natural disaster clauses in newly issued debt instruments, and participation in insurance schemes. The purpose of the statement is to achieve greater coverage and comprehensiveness in the identification and quantification of fiscal risks related to climate events, improving the government's capacity for managing those risks.

avoided about 261,000 tons of carbon dioxide emissions over the past three years. However, the grid's capacity to absorb additional RE supply is limited and rapidly approaching, thus requiring investments, including on energy storage, to absorb increasing amounts of RE generation in the future. In September, the authorities closed remaining regulatory gaps in the FITs mechanism by updating the tariffs and providing a framework for energy storage.[14] In addition, the authorities extended the excise and value added tax holiday for electric vehicles until March 2026. These actions are expected to promote continued investment, supporting and accelerating the transition to RE sources.[15]

Reform Measures Supported by the RSF Arrangement

3-year EFF and RSF approval	1st Review EFF and RSF	2nd Review EFF and RSF	3rd Review EFF and RSF	4th Review EFF and RSF	5th Review EFF and RSF
Pillar 1: **Reform measures to build resilience to natural disasters and climate change**	**RM1.** Government to approve the Planning and Development Act to improve the climate resilience of roads through improved drainage and other interventions. Government to table in Parliament the Water Re use Bill, incorporating the new water re-use policy. Government to fully operationalize the National Environmental and Conservation Trust. **Implemented.**	**RM 2.** Government to implement the following actions: (i) Include a fiscal risk statement focusing on climate change risks in the budget for FY2023/24; (ii) Cabinet to approve Procurement Act regulations to enhance efficiency and effectiveness of public expenditure and support green procurement; (iii) Cabinet to approve a sustainable/green public procurement framework providing operational guidelines to implement sustainable/green procurement, in line with international best practice; and (iv) Cabinet to approve guidelines for climate/green budget tagging, in line with international best practice, and mandate that the results of the budget tagging be published in an annex in the annual budget. **Implemented.** **RM 3.** Government to table 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. **Implemented**	**RM 4.** Government to table an amended Prevention of Floods Act in Parliament, incorporating the new Stormwater Management Plan.		**RM 5.** Implement reforms to strengthen integration of climate concerns into the PFM process, based on a comprehensive diagnostic evaluation.
Pillar 2: **Climate mitigation reform measures (reduction of GHG emissions)**		**RM 6.** Government to (i) extend the tax holiday on electric vehicles; (ii) close remaining regulatory gaps in licensing policy/approvals framework to increase investments into battery storage technologies to meet energy demand. **Implemented**	**RM 7.** Cabinet approval for the Energy Efficiency and Conservation Policy Framework to reduce energy use of all government agencies and develop efficient public lighting.	**RM 8.** Government to table in Parliament the New Electricity Supply Bill to (i) enhance competition in the electricity market and (ii) introduce local participation in renewable energy investment.	
Pillar 3: **Reform measures to mitigate transition risks**				**RM 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.	**RM 10.** The CBB to include climate change risk in their bank stress testing exercise.

[14] The framework includes a new tariff structure for energy storage (EST) for 3 sizes of batteries (2-, 3- and 4-hour storage capacity). It will be implemented as a 4-year pilot project aimed at gathering relevant data on the functioning of storage systems and their ability to provide services on the Barbados electricity grid. The first two years are expected to see the design, procurement, installation, and connection of the Battery Energy Storage Systems (BESS) equipment and the remaining two years cover the operation of the projects and collection of the relevant data to assess the performance and viability of the projects.

[15] Renewable energy sources (mainly solar energy) covered about 12 percent of Barbados' energy needs in 2022, up from about 9 percent in 2021.

34. The authorities are actively working to mobilize climate finance. The climate agenda entails large investments in adaptation and the adoption of greener energy sources. Current climate investment plans, based on the authorities' climate programs, amount to about US$1 billion, to be undertaken through 2030. However, additional investments are likely to be necessary. Given the large amount of investment needed, the climate policy agenda requires mobilizing private finance. With the support of development partners, the authorities have launched a set of initiatives to attract and facilitate private climate finance (Box 7). These include the establishment of a Blue Green Bank to support climate-related projects and a potential debt for climate swap to fund the upgrade of the South Coast sewage treatment plant.

Box 7. Barbados: Efforts to Mobilize Climate Finance

In June 2023, in the context of the Summit for a New Global Financing Pact held in Paris, the authorities announced a package of initiatives to support their climate agenda, supported by the Fund, the Inter-American Development Bank (IDB), the World Bank Group (WBG), the Development Bank of Latin America and the Caribbean (CAF), the European Investment Bank (EIB), and the Green Climate Fund (GCF). In turn, in November, the European Commission announced the EU's intention to support the upgrading of Barbados' climate-resilient infrastructure for clean water, in line with the Global Gateway investment agenda presented at the European Union (EU)-CELAC Summit in July.[1] This would be achieved through a debt for climate swap to provide funding for the upgrade of the Barbados South Coast Sewage Treatment Plant (see below).

Ongoing initiatives to mobilize climate finance include:

- **The creation of a Blue Green Bank**. The government announced a capital contribution of US$10 million supported by the fiscal space generated by the RSF. USAID committed to make a capital contribution of US$5 million and, in July, the GCF Board approved a capital contribution of US$15 million. The authorities intend to attract other partners to build a total capital of US$50 million, which would allow to support climate investment projects for about five times the capital amount, i.e., about US$250 million. In an initial stage, the Bank is expected to support primarily resilient housing and RE projects.
- **Support from development finance institutions**, including US$18 million of grants from the EU to support climate-resilient water sanitation and clean ocean projects, and US$1.5 million in grants from the GCF per project for end-to-end project preparations, innovation, and transformational impact, and to prepare investment proposals for further GCF funding.
- **The intention to explore new debt-neutral investments**, building on the success of the 2022 Blue Bond issued with the support of the IDB and The Nature Conservancy (TNC). Such initiative generated savings for about US$50 million to be used for marine conservation. The authorities are exploring a possible debt for climate swap to fund the upgrade of the Barbados South Coast sewage treatment plant. The project, which would be supported by the IDB and EU through the EIB, would improve wastewater systems, protect the environment, support the tourism sector, and reduce water shortages. The swap would involve the issuance of a sustainability-linked bond (SLB) or loan (SLL), which would be backed by a guarantee from the EIB and the IDB.

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[1] See "EU to support Barbados under Global Gateway."

Authorities' Views

35. The authorities emphasized the significant investments needed for building resilience to climate change and are committed to continue implementing reforms to facilitate adaptation, support the transition to RE, and mobilize climate private financing. They appreciated staff's analytical work discussing the benefits of investing in climate adaptation. The authorities are working on a resilient investment roadmap that would identify the investment needs in adaptation for the coming years, building on the Roofs-to-Reefs program. The resilient investment roadmap would inform discussions with development partners and provide a structure to identify a potential role for private climate finance. The authorities remain strongly committed to support the transition to RE and greening the economy as a core element of their climate policy agenda.

E. Data Issues

36. The authorities continue improving their economic data. With IMF TA, the Barbados Statistical Service (BSS) reviewed the quarterly estimates of activity-based GDP and developed a framework for estimating expenditure-based GDP aligned to the benchmark Supply and Use estimates of 2016. The authorities also received TA for improving the external sector statistics, including the estimation of *BPM6*-based balance of payments for 2018-2021 and IIP statistics for 2017-2021.

PROGRAM ISSUES

37. All quantitative performance criteria (QPCs) and indicative targets (ITs) set for the second review under the EFF were met, and SBs were implemented (one with delay and one ahead of time) (Tables 12-14)**.** The targets on the central government primary balance, external debt arrears, public debt, transfers and grants to public institutions, and the net international reserves were all met. The authorities have set up a fiscal risk unit in the MFEI with a small delay (¶13); completed a comprehensive stocktaking of the financial performance of the SOE sector (¶15) (end-June 2023 structural benchmarks); and established a GovTech agency to improve the delivery of public services (¶28) (end-September 2023 structural benchmark). The CBB reviewed its balance sheet capacity and monetary policy toolkit (¶22) (end-November 2023 structural benchmark), informed by IMF TA. In addition, the Parliament approved a reform of the public employees' pension scheme (end-March 2024 structural benchmark implemented ahead of time, ¶16).

38. New structural benchmarks have been set for the fourth and fifth reviews of the EFF. These include (i) the establishment by the BCED, in coordination with the BRA, of the mandatory use of the tax identification number (TIN) as the unique identifier of importers and exporters and as a requirement to conduct any border transaction (end-September 2024) (¶11); (ii) the development of standard contracts for routine procurements to mitigate procurement delays (end-September 2024) (¶14); (iii) an assessment of human resource needs at the BCED to address capacity and operational needs, including an assessment of the obstacles to fill critical vacancies and a roadmap to fill critical vacancies (end-March 2025) (¶11); and (iv) the preparation by the MFEI of a PPP framework to guide PPP decision-making (end-March 2025) (¶13).

39. The RMs set for the second review have been implemented. The authorities implemented the package of measures set under RM#2 (¶31), submitted to Parliament a comprehensive National Disaster Risk Management policy (RM#3, ¶32), and implemented the package of measures set under RM#6 (¶33).

40. The authorities have requested the full purchase under the EFF (SDR 14.175 million) and the disbursements related to RM#2, #3, and #6 (SDR 42.525 million) for the second review to be available in the form of budget support. Staff supports the authorities' request for the continued use of Fund resources for budget support while gradually increasing market financing in the aftermath of the comprehensive debt restructuring. Given the intended use for budget support, the authorities have completed a Memorandum of Understanding that lays out the respective roles and responsibilities between the CBB and the MFEI for servicing financial obligations to the Fund arising from both the EFF and RSF arrangements. With financial support from other international financial institutions, the EFF program is fully financed over the next 12 months, with good prospects for the remainder of the program period (Table 8).

41. Barbados' capacity to repay the Fund remains adequate. (Table 11). 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[16]) or about 9 percent of GDP in 2024. Obligations to the Fund would reach about between 8 and 9 percent of projected reserves over the 2027-29 period. Risks are mitigated by the authorities' strong commitment to reforms and economic stability, the ongoing fiscal adjustment supported by structural reforms, and international reserves expected to remain above 100 percent of the Fund's reserve adequacy metric throughout the projection period.

42. The CBB continues to implement the recommendations of the 2023 safeguards assessment. An Amendment to the CBB Act was enacted to further enhance the functional autonomy of the CBB, including the governance arrangements. The internal audit function is improving its practices and recently revamped the quality of its reports to the CBB Audit Committee. Work on establishing an emergency liquidity assistance is underway with the support of IMF TA.

43. Risks to the program remain elevated. Risks could arise from external factors, such as: (i) an intensification of regional conflicts leading to higher and more volatile commodity prices; (ii) an economic slowdown in the main source countries for the tourism sector (UK, US, and Canada); (iii) further increases in global interest rates; and (iv) more frequent and intensified natural disasters. On the domestic front, maintaining structural reform momentum to generate primary surpluses on a sustained basis is a key challenge. These risks, however, are mitigated by the authorities' excellent

[16] The exceptional access frameworks that apply to GRA and PRGT credit do not apply to RST financing.

track record under the IMF program, their strong commitment to the reform agenda, and broad public support for economic stabilization and reforms. The authorities stand ready to take additional fiscal measures if needed to meet program fiscal targets. [17]

STAFF APPRAISAL

44. The authorities are implementing their BERT Plan and climate policy agenda. All QPCs and ITs for the second review of the EFF were successfully met and structural benchmarks were implemented, one with delay, while one structural benchmark for the third review was implemented ahead of time. In addition, reform measures set for this review under the RSF have been implemented, significantly advancing the authorities' climate policy agenda. Prospects for continued strong performance of both the EFF and RSF arrangements remain strong.

45. Fiscal consolidation is advancing. The authorities met the primary fiscal target set for the first half of FY2023/24 and are on track to raise the primary surplus to 3.4 percent of GDP by the end of the fiscal year. The public debt ratio has fallen to pre-pandemic levels and is projected to continue declining, while sovereign credit ratings are gradually improving. The authorities are advancing their fiscal consolidation plans while maintaining adequate social spending and gradually increasing public investment. Revenues from the corporate income tax reform will be primarily used to increase public investment. The authorities are gradually restarting the domestic capital markets to help cover the government's financing needs. It is essential to maintain strong primary surpluses to reduce the public debt to the long-term target of 60 percent of GDP by FY2035/36. Staff assesses Barbados' public debt to be sustainable but subject to high risks.

46. Steady implementation of structural reforms is essential to both achieve the fiscal consolidation goals and create fiscal space for public investment. The authorities are taking steps to strengthen revenue administration, modernize the tax exemptions framework, and enhance public financial and investment management and fiscal governance, supported by IMF TA. Plans to enhance the sustainability of the pension system and reform SOEs are progressing. It is essential that the authorities steadily advance the structural reform agenda to raise the primary surplus in line with the targets in the BERT Plan and create space for higher public investment, most notably to address challenges from climate change.

47. Steps to further develop policy toolkits, enhance financial sector monitoring, and maintain a strong AML/CFT framework will support macroeconomic and financial stability. The exchange rate peg, supported by ample reserves, continues to provide a key anchor for macroeconomic stability. Staff assesses that the external position is broadly in line with the level consistent with medium-term fundamentals and desirable policies. The central bank's review of the monetary policy toolkit is a welcome step to further develop policy instruments to manage domestic

[17] These measures could include: (i) broadening the tax base, including through revamping the VAT regime for the tourism sector, and/or raising the VAT rate, (ii) reforming the property tax regime, and/or (iii) cutting current expenditure and prioritizing capital expenditure.

liquidity and credit conditions. While financial soundness indicators and stress tests suggest that the financial system is broadly sound and resilient, it is important to continue enhancing financial oversight. Progress made in strengthening the AML/CFT framework is a welcome achievement.

48. Advancing the growth agenda would help raise the economy's growth potential. To increase medium-term growth, it is important to further enhance the business environment, boost economic efficiency, and stimulate investment, including by enhancing trade and business facilitation, investing in skills and education, and promoting digital technologies. Digitalization could offer significant growth benefits by increasing public sector efficiency and delivery of public services, facilitating access to credit, enhancing labor participation, and supporting human capital.

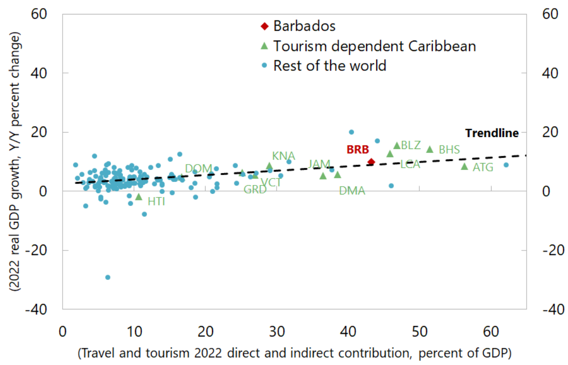
49. It is important to continue advancing the policy agenda to increase resilience to climate change and support green growth. Investing in climate-resilient infrastructure will reduce capital and output losses in the event of natural disasters and contain their adverse impact on growth, public debt, and the external accounts. The authorities remain strongly committed to greening the economy and gradually transitioning to a fully renewable energy-based economy. They implemented important reform measures set for the second RSF review by incorporating climate considerations in the fiscal policy process, improving the disaster risk management framework, providing incentives for the purchase of electric vehicles, and addressing regulatory gaps to facilitate investments in renewable energy. The climate policy reforms, supported by the RSF arrangement, are expected to create an enabling environment that mobilizes private sector resources for climate related projects. Concerted efforts to mobilize and scale up climate financing are underway, supported by development partners.

50. Staff recommends the completion of the second review of the extended arrangement under the EFF and the second review under the RSF arrangement. Staff assesses that RM#2, RM#3, and RM#6 under the RSF have been implemented. The authorities remain committed to achieving program objectives and implementing their ambitious economic reform and climate policy agenda.

Figure 1. Barbados: Real Sector Developments

Due to its heavy reliance on tourism...

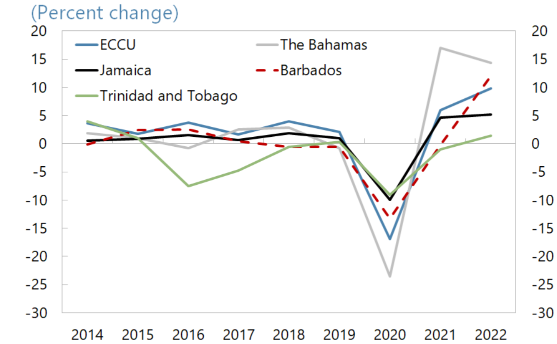
Tourism Dependency and GDP Growth



... Barbados' economy was hard hit in the aftermath of the COVID-19 pandemic...

Real GDP Growth

(Percent change)

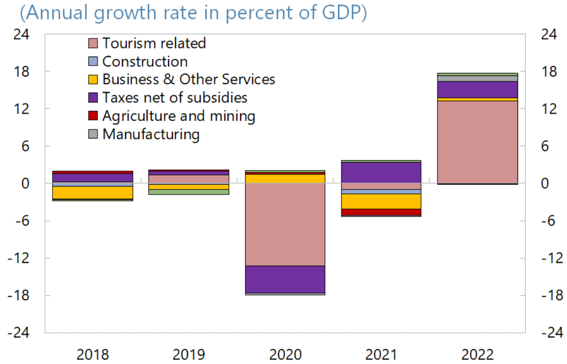


Sources: IMF World Economic Outlook and IMF staff calculations.

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

Real GDP Growth by Sectors

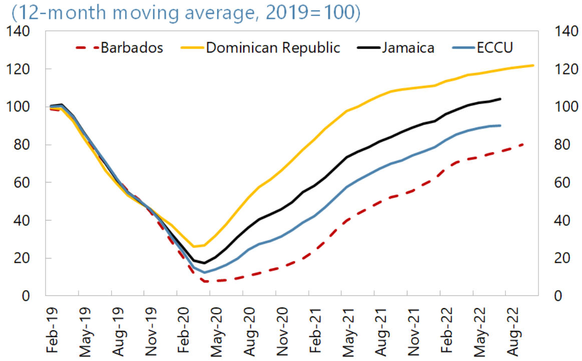
(Annual growth rate in percent of GDP)



Tourist arrivals have now almost fully recovered ...

Monthly Tourist Arrivals

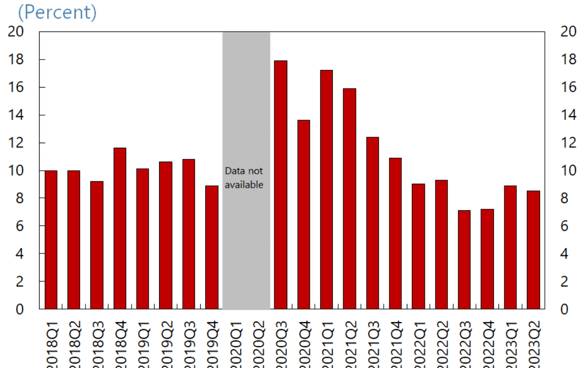
(12-month moving average, 2019=100)



... and labor market conditions have improved.

Unemployment Rate

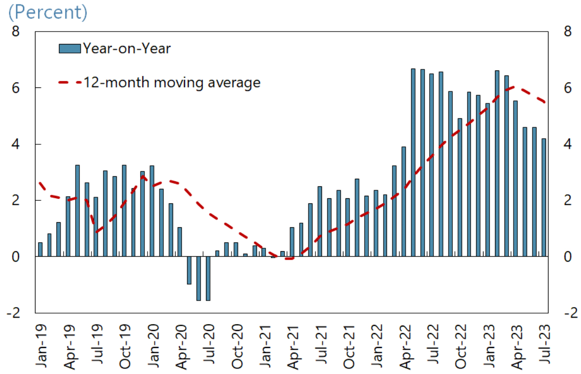
(Percent)



Inflation has risen driven primarily by commodity prices but is now moderating.

Retail Price Index

(Percent)

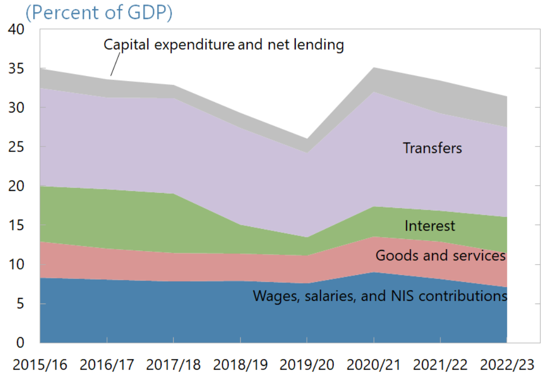


Sources: World Travel and Tourism Council, Central Bank of Barbados, Caribbean Tourism Organization IMF World Economic Outlook, and IMF staff calculations.

Figure 2. Barbados: Fiscal Sector Developments

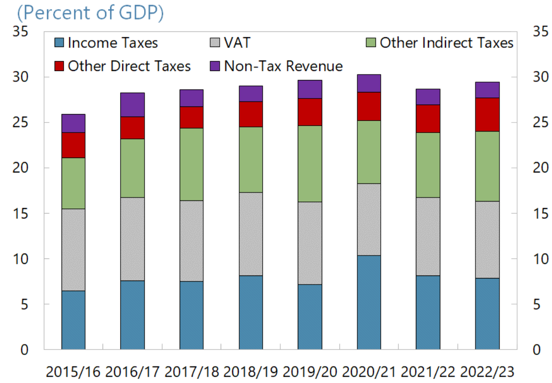
After rising during the pandemic, expenditure ratios are now declining…

General Government Expenditures
(Percent of GDP)



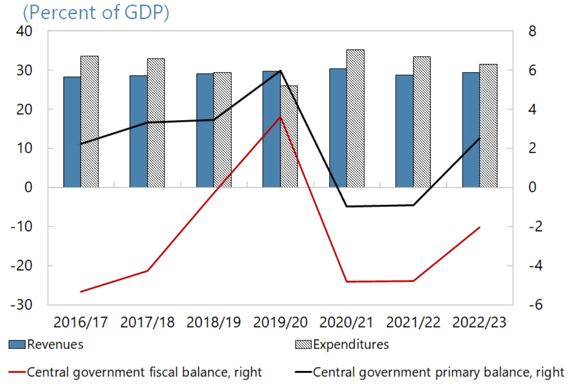
… while fiscal revenues are recovering driven by higher economic activity

Revenue Composition
(Percent of GDP)



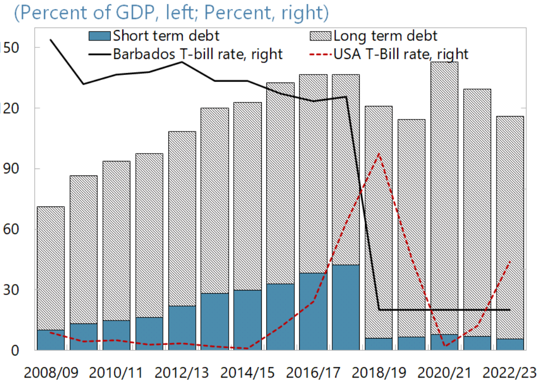
…contributing to an improvement in the fiscal balance.

Central Government Balance
(Percent of GDP)



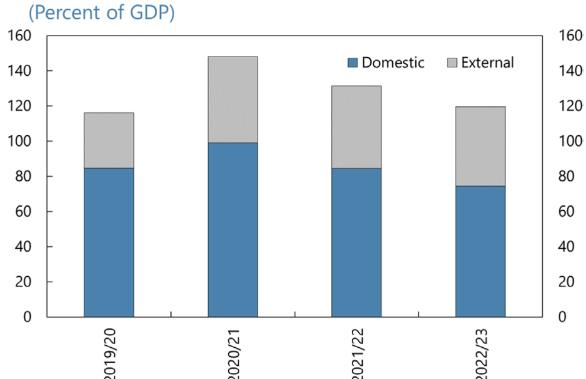
The use of short-term debt instruments fell following the debt restructuring …

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



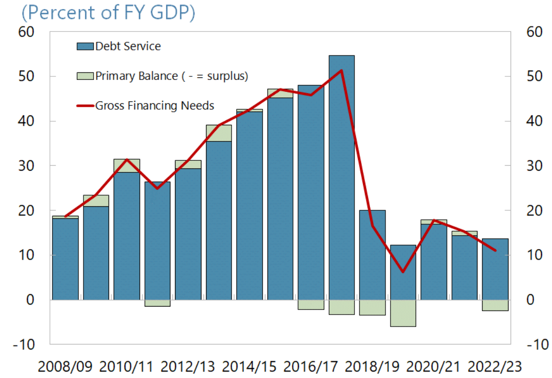
The public debt ratio has been put on a downward path …

Public Debt
(Percent of GDP)



… and gross financing needs have declined.

Gross Financing Needs
(Percent of FY GDP)

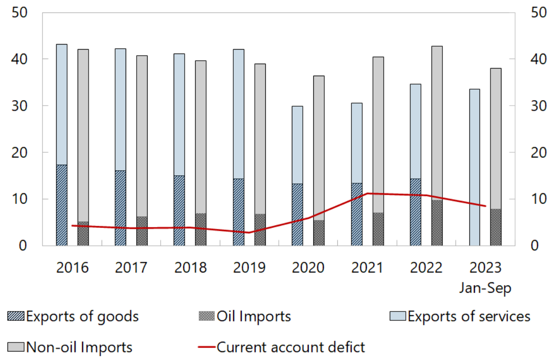


Sources: Central Bank of Barbados, Ministry of Finance, and IMF staff calculations.

Figure 3. Barbados: External Sector Developments

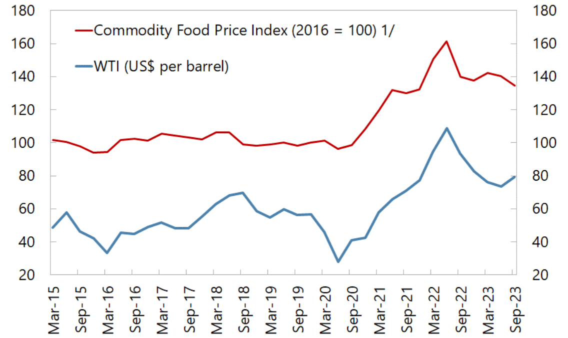
The current account deficit is narrowing …

Current Account Deficit
(Percent of GDP)



… helped by the decline in commodity prices ….

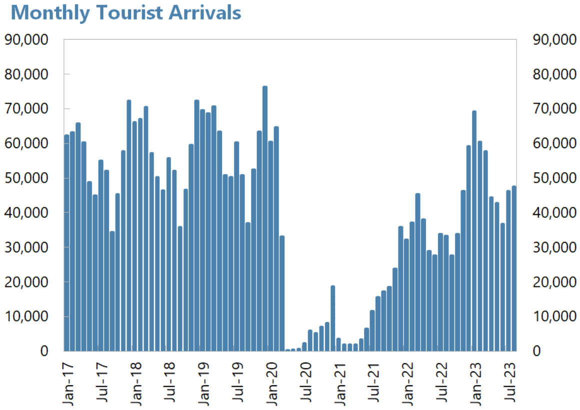
WTI Oil Price and International Food Prices



1/ Index includes Bananas, Cereal, Citrus-fruit, Dairy Products, Legumes, Meat, Non-citrus fruit, Seafood, Sugar, Vegetables, and Vegetable Oils prices.

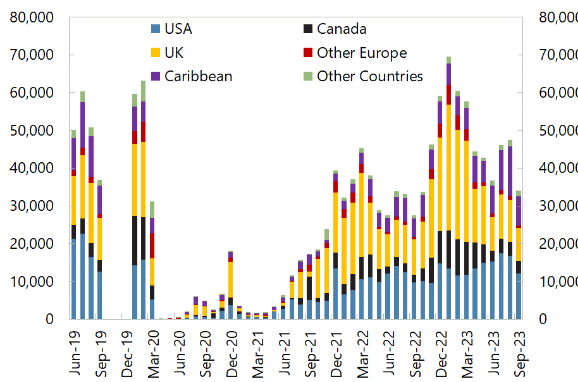
… and the recovery in tourism …

Monthly Tourist Arrivals



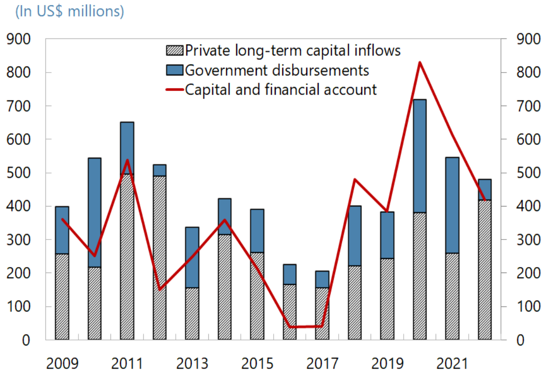
…. across source markets.

Monthly Tourists Arrivals by Country of Origin



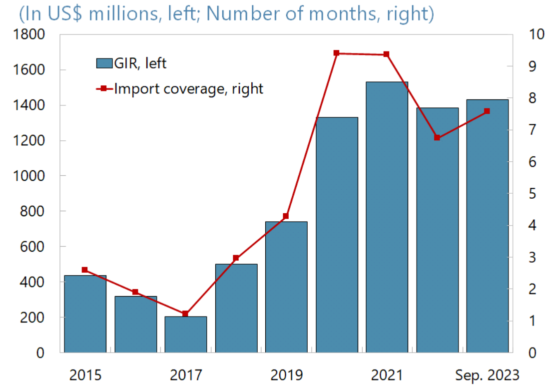
Inflows from IFIs supported the capital and financial account …

Capital and Financial Account
(In US$ millions)



…contributing to a continued rise in international reserves.

Gross International Reserves
(In US$ millions, left; Number of months, right)

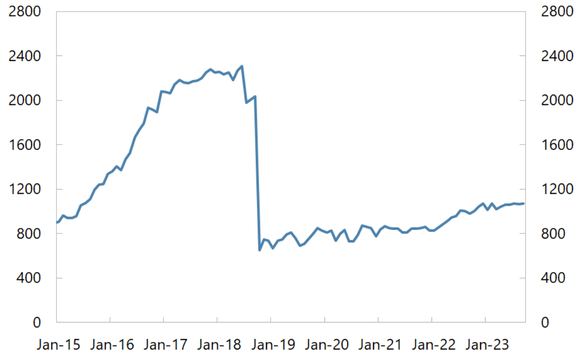


Sources: Central Bank of Barbados, Barbados Statistical Service, Caribbean Tourism Organization, and IMF staff calculations.

Figure 4. Barbados: Monetary and Financial Sector Developments

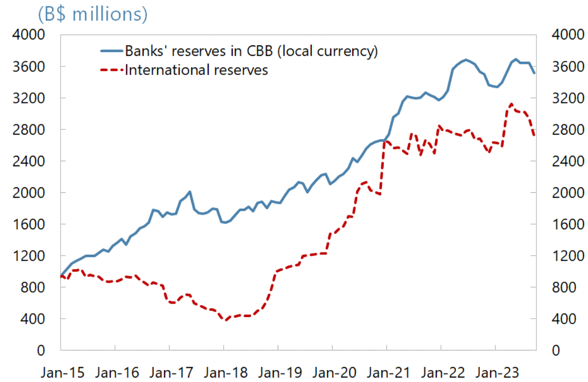
CBB's claims on the government declined after the domestic debt restructuring…

Central Bank's Claims on Central Government
(B$ millions)



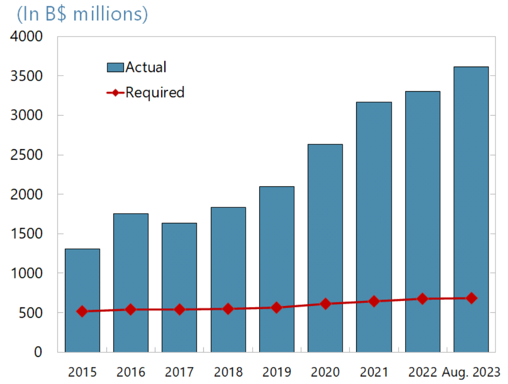
International reserves and commercial banks' reserves at the CBB continue to increase.

Reserves
(B$ millions)



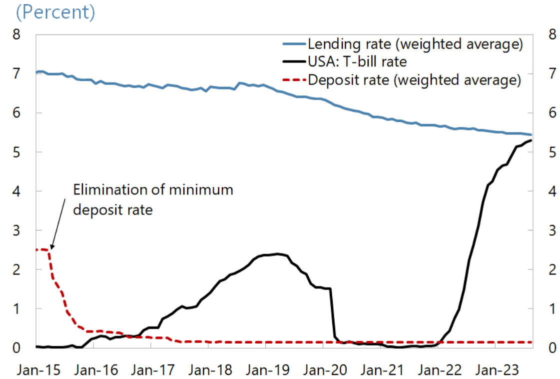
Amid high excess liquidity in the banking system…

Commercial Banks: Reserves
(In B$ millions)



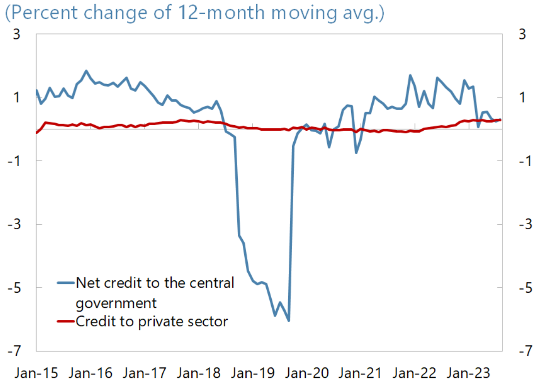
… lending rates have remained broadly stable recently.

Interest Rates
(Percent)



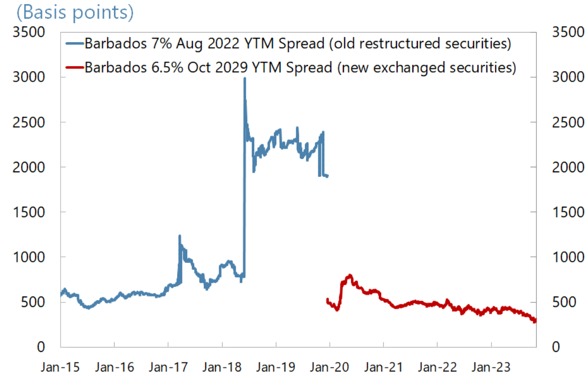
Credit to the private sector is gradually recovering.

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



Sovereign debt spreads have narrowed.

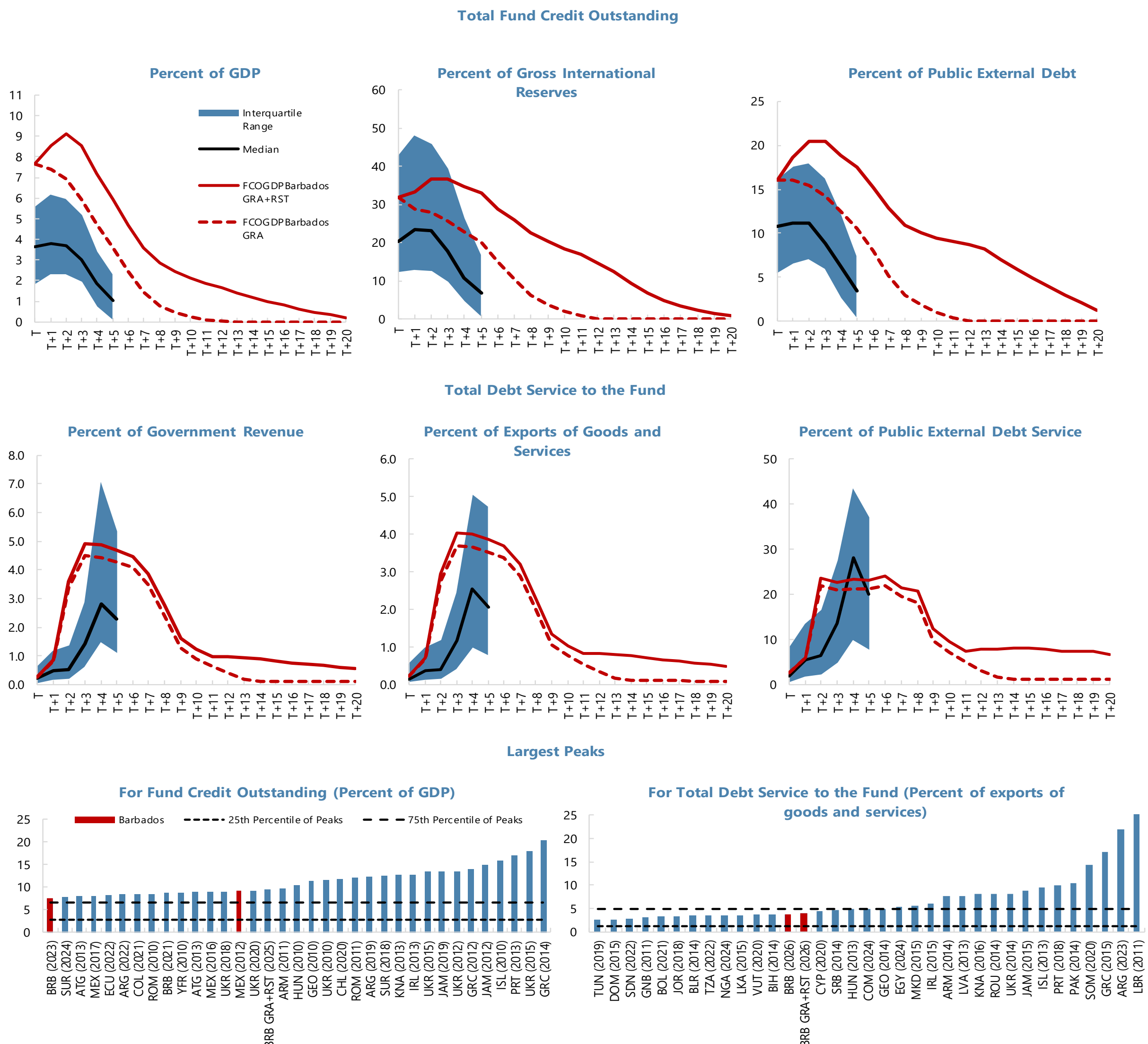
Bond Spread (Barbados over U.S. 10-year bonds)
(Basis points)



Sources: Central Bank of Barbados, Bloomberg, and IMF 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, 2019–2024 1/

I. Social and Demographic Indicators (most recent year)

Population (2022 est., thousand)	289.4	Adult literacy rate (2014)	99.6
Per capita GDP (2022 est., US$ thousand)	20.2	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 (2022)	7.2

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

II. Economic Indicators

	2019	2020	2021	2022	Projections 2023 CR/23/241	2023	2024
				(Annual percentage change)			
Output, prices, and employment							
CY Real GDP	0.3	-12.7	-1.3	13.8	4.5	4.5	3.7
CPI inflation (average) 2/	2.3	0.5	1.5	5.0	5.2	5.0	3.7
CPI inflation (end of period) 2/	3.0	0.4	2.2	5.7	5.0	4.4	2.8
External sector							
Exports of goods and services	6.9	-37.9	6.4	34.4	15.6	13.5	8.9
Imports of goods and services	2.8	-18.2	15.4	25.8	2.9	1.8	5.9
Real effective exchange rate (average)	127.6	131.5	127.8	125.4	…	…	…
Money and credit							
Net domestic assets	0.0	5.0	3.6	8.1	2.8	2.1	4.0
of which: Credit to the non financial private sector	0.9	-1.2	-1.2	3.6	…	2.4	3.1
Broad money	3.0	7.3	6.0	5.3	6.9	5.3	4.1
				(In percent of FY GDP)			
CG Public finances (fiscal year) 3/							
Revenue and grants	28.9	30.2	28.2	29.0	29.1	28.5	30.2
Expenditure	25.4	35.0	32.9	31.0	30.8	30.4	31.4
Fiscal Balance	3.5	-4.8	-4.7	-2.0	-1.7	-1.8	-1.2
Interest Expenditure	2.3	3.8	3.8	4.5	5.2	5.2	5.2
Primary Balance	5.8	-1.0	-0.9	2.5	3.5	3.4	4.0
Public Debt (fiscal year) 3/							
Public sector debt 4/	116.2	148.1	131.5	119.6	115.0	114.7	106.9
External	31.6	49.1	47.0	45.1	45.6	46.8	44.2
Domestic	84.6	99.0	84.5	74.5	69.4	67.9	62.6
Balance of payments (calendar year)				(In percent of CY GDP)			
Current account balance	-2.7	-5.9	-11.0	-10.7	-7.7	-8.1	-7.2
Capital and financial account balance	7.2	16.9	12.2	8.1	11.6	11.0	7.7
Public Sector	3.5	9.8	7.4	1.0	5.6	6.0	2.2
o/w IMF disbursement	1.9	4.8	1.0	0.7	1.8	1.8	1.7
Private Sector (including FDI)	3.8	7.2	4.8	6.9	6.0	5.0	5.5
Net Errors and Omissions	0.0	1.3	3.2	2.0	0.0	0.0	0.0
Overall balance	4.5	12.3	4.5	-0.6	4.0	2.8	0.5
Memorandum items:							
Exchange rate (BDS$/US$)	2.0	2.0	2.0	2.0	…	…	…
Gross international reserves (US$ million)	740.5	1,330.3	1,529.4	1,385.1	1,632.8	1,565.4	1,600.5
In months of imports of G&S	4.3	9.4	9.4	6.7	7.7	7.5	7.2
In percent of ARA	142.8	259.2	288.5	233.7	250.3	246.7	240.7
Nominal GDP, CY (BDS$ millions)	10,734	9,560	9,891	11,681	12,441	12,772	13,725
Nominal GDP, FY (BDS$ millions)	10,902	8,960	10,443	12,238	12,754	13,025	13,937

Sources: Barbados authorities; UNDP Human Development Report; Barbados Country Assessment of Living Conditions 2010 (December 2012); and Fund staff estimates and projections.

1/ CR/23/241 refers to the staff report for the first review of the EFF/RSF arrangement in June 2023.

2/ In early 2023, the authorities have rebased the CPI from July 2001 to July 2018. One of the main changes to the index was the reduction in the weight of food and non-alcoholic beverages, leading to a decline in headline inflation in 2022 from 12.3 percent to 5.7 percent year-over-year as of end-2022.

3/ Fiscal year is from April to March.

4/ Including government-guaranteed debt, expenditure and debt arrears (if any), and IMF loans provided to the CBB for BOP support under the 2018 EFF.

Table 2a. Barbados: Central Government Operations, 2019/2020–2028/2029 1/ 2/

(In millions of Barbados dollars)

					Projections						
	2019/20	2020/21	2021/22	2022/23	2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
					CR/23/241						
Total revenue	**3,156**	**2,702**	**2,941**	**3,543**	**3,707**	**3,718**	**4,206**	**4,450**	**4,675**	**4,902**	**5,137**
Current revenue	3,144	2,702	2,935	3,523	3,686	3,710	4,197	4,441	4,666	4,892	5,126
Tax revenue	2,943	2,527	2,763	3,334	3,484	3,516	3,990	4,222	4,436	4,651	4,874
Income and profits	764	921	835	942	966	956	1,227	1,295	1,360	1,424	1,492
Taxes on property	215	182	205	217	232	213	228	241	253	265	278
VAT	967	706	885	1,023	1,100	1,123	1,212	1,287	1,358	1,434	1,517
Excise	251	154	212	247	264	276	295	306	321	337	353
Import taxes	232	192	221	242	266	279	299	323	349	378	410
Other taxes	515	372	405	663	657	669	729	771	796	814	825
Nontax revenue	201	175	172	189	202	194	207	219	230	241	252
Capital revenue and grants	12	0	6	20	21	8	9	9	10	10	10
Total expenditure	**2,772**	**3,132**	**3,431**	**3,788**	**3,923**	**3,955**	**4,372**	**4,506**	**4,699**	**4,889**	**5,117**
Current expenditure	2,580	2,856	3,006	3,312	3,572	3,635	3,828	3,900	4,011	4,155	4,349
Wages, salaries and SSC	807	808	835	855	894	891	932	929	941	980	1,026
Goods and services	375	400	493	529	565	572	613	647	679	712	746
Interest	250	343	399	549	662	683	724	719	719	716	744
Transfers	1,147	1,305	1,279	1,379	1,451	1,489	1,560	1,606	1,673	1,746	1,834
o/w Subsidies	100	161	190	213	236	241	250	258	263	274	295
o/w Grants to public institutions	689	796	749	805	829	851	886	917	938	949	960
o/w Retirement benefits	358	348	340	362	386	397	425	430	471	524	579
Capital expenditure and net lending	192	276	425	476	351	320	544	606	688	734	768
CG Fiscal balance	**385**	**-430**	**-491**	**-245**	**-215**	**-237**	**-166**	**-56**	**-24**	**13**	**20**
CG Primary balance	**634**	**-87**	**-92**	**304**	**446**	**446**	**557**	**662**	**695**	**729**	**764**
Repayment of domestic arrears (net)	140	74	57	-96	20	20	40	40	40	40	40
CG Fiscal balance (net of arrears)	**244**	**-503**	**-548**	**-149**	**-235**	**-257**	**-206**	**-96**	**-64**	**-27**	**-20**
CG Primary balance (net of arrears)	**494**	**-161**	**-149**	**400**	**426**	**426**	**517**	**622**	**655**	**689**	**724**
Financing	**-244**	**503**	**548**	**149**	**235**	**257**	**206**	**96**	**64**	**27**	**20**
Net Financing - External	109	846	540	376	336	756	288	98	-126	-286	-175
Capital Markets (after refinancing)	0	0	0	0	0	0	0	100	125	150	250
Project Funds	72	82	207	95	120	190	150	150	150	150	150
Policy Loans	150	600	400	400	200	400	0	200	160	0	0
o/w IDB	0	400	200	200	200	400	0	200	160	0	0
o/w CDB	150	0	0	0	0	0	0	0	0	0	0
o/w CAF	0	200	0	0	0	0	0	0	0	0	0
o/w WB	0	0	200	200	0	0	0	0	0	0	0
IMF EFF	0	352	97	83	76	228	228	115	0	0	0
IMF RSF 3/	0	0	0	0	151	152	152	76	0	0	0
Amortization	112	188	163	202	210	214	242	543	561	586	575
Net Financing - Domestic	-353	-343	8	-227	-101	-347	71	74	189	313	194
Central bank	165	-67	332	-133	150	20	110	15	25	8	0
Commercial banks	-58	106	-25	100	100	50	100	150	150	200	200
National Insurance Scheme	-85	-208	15	-60	0	-70	-70	-70	-50	-30	0
Private non-bank and others 4/ 5/	-375	-175	-314	-134	-351	-347	-69	-21	65	135	-6
Memorandum items:											
Public debt 6/	12,673	13,271	13,735	14,634	14,664	14,938	14,895	14,783	14,638	14,537	14,449
Nominal GDP, FY (BDS$ millions)	10,902	8,960	10,443	12,238	12,754	13,025	13,937	14,714	15,450	16,198	16,971

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

1/ CR/23/241 refers to the staff report for the first review of the EFF/RSF arrangement in June 2023.

2/ Fiscal year is from April to March.

3/ The RSF replaces other external financing.

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

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

6/ Including government-guaranteed debt, expenditure and debt arrears (if any), and IMF loans provided to the CBB for BOP support under the 2018 EFF.

Table 2b. Barbados: Central Government Operations, 2019/2020–2028/2029 1/ 2/

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

					Projections						
	2019/20	2020/21	2021/22	2022/23	2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
					CR/23/241						
Total revenue	**28.9**	**30.2**	**28.2**	**29.0**	**29.1**	**28.5**	**30.2**	**30.2**	**30.3**	**30.3**	**30.3**
Current revenue	28.8	30.2	28.1	28.8	28.9	28.5	30.1	30.2	30.2	30.2	30.2
Tax revenue	27.0	28.2	26.5	27.2	27.3	27.0	28.6	28.7	28.7	28.7	28.7
Income and profits	7.0	10.3	8.0	7.7	7.6	7.3	8.8	8.8	8.8	8.8	8.8
Taxes on property	2.0	2.0	2.0	1.8	1.8	1.6	1.6	1.6	1.6	1.6	1.6
VAT	8.9	7.9	8.5	8.4	8.6	8.6	8.7	8.7	8.8	8.9	8.9
Excise	2.3	1.7	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Import taxes	2.1	2.1	2.1	2.0	2.1	2.1	2.1	2.2	2.3	2.3	2.4
Other taxes	4.7	4.1	3.9	5.4	5.1	5.1	5.2	5.2	5.1	5.0	4.9
Nontax revenue	1.8	2.0	1.6	1.5	1.6	1.5	1.5	1.5	1.5	1.5	1.5
Capital revenue and grants	0.1	0.0	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Total expenditure	**25.4**	**35.0**	**32.9**	**31.0**	**30.8**	**30.4**	**31.4**	**30.6**	**30.4**	**30.2**	**30.1**
Current expenditure	23.7	31.9	28.8	27.1	28.0	27.9	27.5	26.5	26.0	25.7	25.6
Wages, salaries and SSC	7.4	9.0	8.0	7.0	7.0	6.8	6.7	6.3	6.1	6.1	6.0
Goods and services	3.4	4.5	4.7	4.3	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Interest	2.3	3.8	3.8	4.5	5.2	5.2	5.2	4.9	4.7	4.4	4.4
Transfers	10.5	14.6	12.2	11.3	11.4	11.4	11.2	10.9	10.8	10.8	10.8
o/w Subsidies	0.9	1.8	1.8	1.7	1.8	1.8	1.8	1.8	1.7	1.7	1.7
o/w Grants to public institutions	6.3	8.9	7.2	6.6	6.5	6.5	6.4	6.2	6.1	5.9	5.7
o/w Retirement benefits	3.3	3.9	3.3	3.0	3.0	3.0	3.0	2.9	3.0	3.2	3.4
Capital expenditure and net lending	1.8	3.1	4.1	3.9	2.7	2.5	3.9	4.1	4.5	4.5	4.5
CG Fiscal balance	**3.5**	**-4.8**	**-4.7**	**-2.0**	**-1.7**	**-1.8**	**-1.2**	**-0.4**	**-0.2**	**0.1**	**0.1**
CG Primary balance	**5.8**	**-1.0**	**-0.9**	**2.5**	**3.5**	**3.4**	**4.0**	**4.5**	**4.5**	**4.5**	**4.5**
Repayment of domestic arrears (net)	1.3	0.8	0.5	-0.8	0.2	0.2	0.3	0.3	0.3	0.2	0.2
CG Fiscal balance (net of arrears)	**2.2**	**-5.6**	**-5.2**	**-1.2**	**-1.8**	**-2.0**	**-1.5**	**-0.7**	**-0.4**	**-0.2**	**-0.1**
CG Primary balance (net of arrears)	**4.5**	**-1.8**	**-1.4**	**3.3**	**3.3**	**3.3**	**3.7**	**4.2**	**4.2**	**4.3**	**4.3**
Financing	**-2.2**	**5.6**	**5.2**	**1.2**	**1.8**	**2.0**	**1.5**	**0.7**	**0.4**	**0.2**	**0.1**
Net Financing - External	1.0	9.4	5.2	3.1	2.6	5.8	2.1	0.7	-0.8	-1.8	-1.0
Capital Markets (after refinancing)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.8	0.9	1.5
Project Funds	0.7	0.9	2.0	0.8	0.9	1.5	1.1	1.0	1.0	0.9	0.9
Policy Loans	1.4	6.7	3.8	3.3	1.6	3.1	0.0	1.4	1.0	0.0	0.0
o/w IDB	0.0	4.5	1.9	1.6	1.6	3.1	0.0	1.4	1.0	0.0	0.0
o/w CDB	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w CAF	0.0	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w WB	0.0	0.0	1.9	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF EFF	0.0	3.9	0.9	0.7	0.6	0.6	0.5	0.3	0.0	0.0	0.0
IMF RSF 3/	0.0	0.0	0.0	0.0	1.2	1.2	1.1	0.5	0.0	0.0	0.0
Amortization	1.0	2.1	1.6	1.6	1.6	1.6	1.7	3.7	3.6	3.6	3.4
Net Financing - Domestic	-3.2	-3.8	0.1	-1.9	-0.8	-2.7	0.5	0.5	1.2	1.9	1.1
Central bank	1.5	-0.7	3.2	-1.1	1.2	0.2	0.8	0.1	0.2	0.1	0.0
Commercial banks	-0.5	1.2	-0.2	0.8	0.8	0.4	0.7	1.0	1.0	1.2	1.2
National Insurance Scheme	-0.8	-2.3	0.1	-0.5	0.0	-0.5	-0.5	-0.5	-0.3	-0.2	0.0
Private non-bank and others 4/ 5/	-3.4	-1.9	-3.0	-1.1	-2.8	-2.7	-0.5	-0.1	0.4	0.8	0.0
Memorandum items:											
Public debt 6/	116.2	148.1	131.5	119.6	115.0	114.7	106.9	100.5	94.7	89.8	85.1
Nominal GDP, FY (BDS$ millions)	10,902	8,960	10,443	12,238	12,754	13,025	13,937	14,714	15,450	16,198	16,971

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

1/ CR/23/241 refers to the staff report for the first review of the EFF/RSF arrangement in June 2023.

2/ Fiscal year is from April to March.

3/ The RSF replaces other external financing.

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

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

6/ Including government-guaranteed debt, expenditure and debt arrears (if any), and IMF loans provided to the CBB for BOP support under the 2018 EFF.

Table 3. Barbados: Public Debt, 2019/2020–2028/2029 1/

					Projections					
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
					(In millions of Barbados dollars)					
Central government debt	**12,322**	**12,822**	**13,302**	**14,222**	**14,556**	**14,572**	**14,528**	**14,452**	**14,419**	**14,399**
Domestic	**9,226**	**8,873**	**8,824**	**9,118**	**8,848**	**8,729**	**8,663**	**8,712**	**8,966**	**9,120**
Short Term	697	708	710	662	600	600	600	600	600	600
Long term	8,376	8,085	8,091	8,198	8,011	7,931	7,906	7,995	8,288	8,482
Arrears 2/	153	79	23	258	238	198	158	118	78	38
External 3/	**3,096**	**3,949**	**4,477**	**5,104**	**5,708**	**5,843**	**5,865**	**5,740**	**5,453**	**5,279**
Short Term	0	0	0	0	0	0	0	0	0	0
Long term	3,049	3,949	4,477	5,104	5,708	5,843	5,865	5,740	5,453	5,279
Arrears	47	0	0	0	0	0	0	0	0	0
Government-guaranteed SOE debt	58	52	46	36	31	24	18	12	7	3
Domestic	0	0	0	0	0	0	0	0	0	0
External	58	52	46	36	31	24	18	12	7	3
Public sector debt	12,380	12,874	13,348	14,258	14,587	14,596	14,546	14,464	14,426	14,402
IMF (BOP support) 4/	287	397	387	377	351	298	237	174	111	48
Public sector debt + IMF (BOP support)	**12,667**	**13,271**	**13,735**	**14,634**	**14,938**	**14,895**	**14,783**	**14,638**	**14,537**	**14,449**
					(In percent of FY GDP)					
Central government debt	**113.0**	**143.1**	**127.4**	**116.2**	**111.8**	**104.6**	**98.7**	**93.5**	**89.0**	**84.8**
Domestic	**84.6**	**99.0**	**84.5**	**74.5**	**67.9**	**62.6**	**58.9**	**56.4**	**55.4**	**53.7**
Short Term	6.4	7.9	6.8	5.4	4.6	4.3	4.1	3.9	3.7	3.5
Long term	76.8	90.2	77.5	67.0	61.5	56.9	53.7	51.7	51.2	50.0
Arrears 2/	1.4	0.9	0.2	2.1	1.8	1.4	1.1	0.8	0.5	0.2
External 3/	**28.4**	**44.1**	**42.9**	**41.7**	**43.8**	**41.9**	**39.9**	**37.2**	**33.7**	**31.1**
Short Term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long term	28.0	44.1	42.9	41.7	43.8	41.9	39.9	37.2	33.7	31.1
Arrears	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government-guaranteed SOE debt	**0.5**	**0.6**	**0.4**	**0.3**	**0.2**	**0.2**	**0.1**	**0.1**	**0.0**	**0.0**
Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	0.5	0.6	0.4	0.3	0.2	0.2	0.1	0.1	0.0	0.0
Public sector debt	**113.6**	**143.7**	**127.8**	**116.5**	**112.0**	**104.7**	**98.9**	**93.6**	**89.1**	**84.9**
IMF (BOP support) 4/	2.6	4.4	3.7	3.1	2.7	2.1	1.6	1.1	0.7	0.3
Public sector debt + IMF (BOP support)	**116.2**	**148.1**	**131.5**	**119.6**	**114.7**	**106.9**	**100.5**	**94.7**	**89.8**	**85.1**
Memorandum items:										
Nominal GDP, FY (BDS$ millions)	10,902	8,960	10,443	12,238	13,025	13,937	14,714	15,450	16,198	16,971

Sources: Ministry of Finance; Central Bank of Barbados; and Fund staff estimates and projections.
1/ Fiscal year (April–March). Ratios are expressed relative to fiscal-year GDP.
2/ Includes legacy arrears formally recognized by the authorities in FY2022/23.
3/ Includes IMF budget support loans directly lent to the government under the 2018 EFF and 2022 EFF/RSF.
4/ IMF loans provided to the CBB for BOP support under the 2018 EFF.

Table 4a. Barbados: Balance of Payments, 2019–2028 1/

(In millions of US dollars)

					Projections						
	2019	2020	2021	2022	2023		2024	2025	2026	2027	2028
					CR/23/241						
Current account balance	**-147**	**-280**	**-542**	**-624**	**-476**	**-520**	**-491**	**-451**	**-440**	**-427**	**-435**
o/w Exports of goods and services	2,242	1,392	1,482	1,991	2,293	2,260	2,461	2,622	2,773	2,932	3,100
o/w Imports of goods and services	2,076	1,699	1,960	2,465	2,534	2,510	2,659	2,765	2,900	3,045	3,221
Trade balance	-739	-803	-942	-1,217	-1,195	-1,187	-1,231	-1,252	-1,307	-1,372	-1,464
Exports of goods	763	619	647	822	882	845	902	946	987	1,029	1,072
o/w Re-exports	190	120	119	247	267	238	265	273	283	294	303
Imports of goods	1,502	1,422	1,589	2,039	2,078	2,032	2,133	2,198	2,294	2,401	2,537
o/w Oil	364	255	343	561	431	519	531	505	484	465	465
Services balance	905	497	463	743	954	937	1,034	1,109	1,180	1,259	1,344
Credit	1,479	773	835	1,169	1,410	1,415	1,559	1,676	1,786	1,903	2,028
o/w Travel (credit)	1,250	574	614	918	1,139	1,143	1,268	1,370	1,466	1,568	1,678
Debit	574	277	372	426	456	478	526	567	606	644	684
Primary income balance	-267	-67	-96	-166	-252	-267	-291	-305	-310	-312	-312
Credit	283	169	206	229	249	251	269	285	300	314	330
Debit	550	237	302	395	501	518	561	590	610	626	642
Secondary income balance	-46	93	33	16	17	-2	-3	-3	-3	-3	-3
Credit	55	198	142	137	149	131	141	149	157	164	172
Debit	101	105	109	122	132	133	143	152	159	167	175
Capital and financial account (without RSF)	**284**	**578**	**556**	**432**	**686**	**662**	**488**	**439**	**410**	**401**	**443**
Capital and financial account (with RSF)	**284**	**578**	**556**	**432**	**611**	**586**	**412**	**401**	**410**	**401**	**443**
Financial Account Balance	287	580	556	425	691	662	537	421	349	306	383
Public sector	85	238	319	19	317	343	111	-15	-90	-155	-133
o/w CG and CBB Inflows	151	333	377	122	432	459	256	251	219	167	188
SDR allocation	0	0	130	0	0	0	0	0	0	0	0
IFIs and others (including RSF)	151	333	248	122	357	383	180	213	219	167	188
o/w CG and CBB Outflows	66	95	58	102	115	116	145	265	310	322	320
Private sector	202	342	236	406	373	319	377	454	500	556	576
FDI and long-term debt (net)	244	380	259	419	373	319	377	454	500	556	576
Short-term debt (net)	-42	-38	-22	-14	0	0	0	0	0	0	0
Capital Account Balance	-3	-2	0	7	0	0	0	0	0	0	0
Net errors and omissions	**2**	**62**	**137**	**6**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance (deficit -)	**139**	**359**	**151**	**-186**	**210**	**142**	**-3**	**-11**	**-30**	**-26**	**8**
Use of Fund credit: EFF	101	231	48	41	38	38	38	19	0	0	0
Change in reserves (-=increase, without RSF)	**241**	**590**	**199**	**-144**	**-248**	**-180**	**-35**	**-8**	**30**	**26**	**-8**
Use of Fund credit: RSF	0	0	0	0	76	76	76	38	0	0	0
Change in reserves (-=increase, with RSF) 2/	**241**	**590**	**199**	**-144**	**-248**	**-180**	**-35**	**-8**	**30**	**26**	**-8**
Memorandum items:											
Oil Price (WTI, US$ per barrel)	61.4	41.8	69.2	96.4	69.9	80.5	79.9	76.0	72.7	69.9	69.9
Gross International Reserves (GIR, US$ million) (with RSF) 3/	741	1,330	1,529	1,385	1,633	1,565	1,600	1,608	1,578	1,552	1,560
GIR (months of imports of G&S)	4.3	9.4	9.4	6.7	7.7	7.5	7.2	7.0	6.5	6.1	5.8
GIR (percent of ARA) (with RSF)	143	259	288	234	250	247	241	220	205	196	190

Sources: Central Bank of Barbados and Fund staff estimates and projections.
1/ CR/23/241 refers to the staff report for the first review of the EFF/RSF arrangement in June 2023.
2/ The RSF replaces part of other financing.
3/ GIR remains the same with or without RSF.

Table 4b. Barbados: Balance of Payments, 2019–2028 1/

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

	2019	2020	2021	2022	2023		2024	2025	2026	2027	2028
					Projections						
					CR/23/241						
Current account balance	**-2.7**	**-5.9**	**-11.0**	**-10.7**	**-7.7**	**-8.1**	**-7.2**	**-6.2**	**-5.8**	**-5.3**	**-5.2**
o/w Exports of goods and services	41.8	29.1	30.0	34.1	36.9	35.4	35.9	36.1	36.3	36.6	36.9
o/w Imports of goods and services	38.7	35.5	39.6	42.2	40.7	39.3	38.7	38.1	38.0	38.0	38.3
Trade balance	-13.8	-16.8	-19.0	-20.8	-19.2	-18.6	-17.9	-17.2	-17.1	-17.1	-17.4
Exports of goods	14.2	13.0	13.1	14.1	14.2	13.2	13.1	13.0	12.9	12.9	12.8
o/w Re-exports	3.5	2.5	2.4	4.2	4.3	3.7	3.9	3.8	3.7	3.7	3.6
Imports of goods	28.0	29.7	32.1	34.9	33.4	31.8	31.1	30.3	30.1	30.0	30.2
o/w Oil	6.8	5.3	6.9	9.6	6.9	8.1	7.7	7.0	6.3	5.8	5.5
Services balance	16.9	10.4	9.4	12.7	15.3	14.7	15.1	15.3	15.5	15.7	16.0
Credit	27.6	16.2	16.9	20.0	22.7	22.2	22.7	23.1	23.4	23.8	24.1
o/w Travel (credit)	23.3	12.0	12.4	15.7	18.3	17.9	18.5	18.9	19.2	19.6	20.0
Debit	10.7	5.8	7.5	7.3	7.3	7.5	7.7	7.8	7.9	8.0	8.1
Primary income balance	-5.0	-1.4	-1.9	-2.8	-4.1	-4.2	-4.2	-4.2	-4.1	-3.9	-3.7
Credit	5.3	3.5	4.2	3.9	4.0	3.9	3.9	3.9	3.9	3.9	3.9
Debit	10.2	5.0	6.1	6.8	8.1	8.1	8.2	8.1	8.0	7.8	7.6
Secondary income balance	-0.9	2.0	0.7	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Credit	1.0	4.1	2.9	2.4	2.4	2.1	2.1	2.1	2.1	2.0	2.1
Debit	1.9	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Capital and financial account (without RSF)	**5.3**	**12.1**	**11.2**	**7.4**	**10.7**	**10.4**	**7.1**	**6.1**	**5.4**	**5.0**	**5.3**
Capital and financial account (with RSF)	**5.3**	**12.1**	**11.2**	**7.4**	**9.6**	**9.2**	**6.0**	**5.5**	**5.4**	**5.0**	**5.3**
Financial Account Balance	5.3	12.1	11.2	7.3	10.8	10.4	7.8	5.8	4.6	3.8	4.6
Public sector	1.6	5.0	6.5	0.3	5.0	5.4	1.6	-0.2	-1.2	-1.9	-1.6
o/w CG and CBB Inflows	2.8	7.0	7.6	2.1	5.6	7.2	3.7	3.5	2.9	2.1	2.2
SDR allocation	0.0	0.0	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IFIs and others (including RSF)	2.8	7.0	5.0	2.1	5.7	6.0	2.6	2.9	2.9	2.1	2.2
o/w CG and CBB Outflows	1.2	2.0	1.2	1.8	1.8	1.8	2.1	3.7	4.1	4.0	3.8
Private sector	3.8	7.2	4.8	6.9	6.0	5.0	5.5	6.3	6.5	6.9	6.9
FDI and long-term debt (net)	4.5	8.0	5.2	7.2	6.0	5.0	5.5	6.3	6.5	6.9	6.9
Short-term debt (net)	-0.8	-0.8	-0.4	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Account Balance	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	**0.0**	**1.3**	**2.8**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance (deficit -)	**2.6**	**7.5**	**3.0**	**-3.2**	**3.3**	**2.2**	**0.0**	**-0.2**	**-0.4**	**-0.3**	**0.1**
Use of Fund credit: EFF	1.9	4.8	1.0	0.7	0.6	0.6	0.6	0.3	0.0	0.0	0.0
Change in reserves (-=increase, without RSF)	**4.5**	**12.3**	**4.0**	**-2.5**	**-3.9**	**-2.8**	**-0.5**	**-0.1**	**0.4**	**0.3**	**-0.1**
Use of Fund credit: RSF	0	0	0	0	1.2	1.2	1.1	0.5	0.0	0.0	0.0
Change in reserves (-=increase, with RSF) 2/	**4.5**	**12.3**	**4.0**	**-2.5**	**-3.9**	**-2.8**	**-0.5**	**-0.1**	**0.4**	**0.3**	**-0.1**
Memorandum items:											
Oil Price (WTI, US$ per barrel)	61.4	41.8	69.2	96.4	69.9	80.5	79.9	76.0	72.7	69.9	69.9
Gross International Reserves (GIR, US$ million) (with RSF) 3/	741	1,330	1,529	1,385	1,633	1,565	1,600	1,608	1,578	1,552	1,560
In months of imports of G&S	4.3	9.4	9.4	6.7	7.7	7.5	7.2	7.0	6.5	6.1	5.8
GIR (percent of ARA) (with RSF)	143	259	288	234	250	247	241	220	205	196	190

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

1/ CR/23/241 refers to the staff report for the first review of the EFF/RSF arrangement in June 2023.

2/ The RSF replaces part of other financing.

3/ GIR remains the same with or without RSF.

Table 5. Barbados: Monetary Survey, 2019–2028 1/

	2019	2020	2021	2022	2023		2024	2025	2026	2027	2028
						Projections					
					CR/23/241						
	(In millions of Barbados dollars)										
Central Bank of Barbados											
Net International Reserves	1,130	2,195	2,595	2,355	2,873	2,740	2,864	2,941	2,943	2,954	3,034
Assets	1,478	2,661	3,059	2,770	3,266	3,131	3,201	3,216	3,156	3,104	3,120
Liabilities	-348	-466	-464	-416	-393	-390	-337	-276	-213	-150	-87
Gross International Reserves	1,481	2,661	3,059	2,770	3,266	3,131	3,201	3,216	3,156	3,104	3,120
Net domestic assets	1,762	1,296	1,479	1,978	2,173	2,076	2,193	2,306	2,406	2,446	2,451
Of which: Claims on Central government	829	773	826	1,069	1,069	1,069	1,029	944	868	857	857
Monetary base	2,939	3,552	4,133	4,389	5,046	4,816	5,057	5,246	5,348	5,400	5,484
Commercial banks											
Net foreign assets	661	633	827	877	877	877	877	877	877	877	877
Net domestic assets	10,685	11,609	12,092	12,713	13,546	13,387	13,938	14,516	15,047	15,608	16,215
Liabilities to the nonfinancial private sector	11,346	12,242	12,918	13,590	14,424	14,265	14,815	15,394	15,924	16,485	17,092
Monetary survey											
Net foreign assets	1,679	2,029	2,399	2,223	2,858	2,725	2,848	2,925	2,927	2,939	3,018
Net domestic assets	9,976	10,472	10,850	11,731	12,054	11,973	12,458	13,004	13,557	14,119	14,666
Net credit to the public sector	2,277	2,087	2,653	3,193	3,281	3,233	3,451	3,713	3,963	4,203	4,408
Central government	2,212	2,002	2,509	3,036	3,123	3,076	3,293	3,556	3,806	4,046	4,251
Rest of public sector	65	85	145	157	157	157	157	157	157	157	157
Credit to the private sector	8,303	8,206	8,149	8,410	8,646	8,612	8,879	9,163	9,465	9,787	10,130
of which Credit to the non financial private sector	8,255	8,154	8,058	8,351	…	8,551	8,817	9,099	9,399	9,719	10,059
Credit to rest of financial system	263	271	256	311	264	311	311	311	311	311	311
Other items (net)	-867	-92	-208	-184	-136	-184	-184	-184	-184	-184	-184
Broad money (M2, liabilities to the private sector)	11,655	12,501	13,249	13,954	14,912	14,698	15,306	15,930	16,484	17,057	17,684
	(In percentage change)										
Monetary survey											
Net foreign assets	25.4	20.8	18.3	-7.4	28.6	22.6	4.5	2.7	0.1	0.4	2.7
Net domestic assets	0.0	5.0	3.6	8.1	2.8	2.1	4.0	4.4	4.2	4.1	3.9
Of which:											
Credit to the non financial private sector	0.9	-1.2	-1.2	3.6	…	2.4	3.1	3.2	3.3	3.4	3.5
Net credit to the public sector	-1.5	-8.3	27.1	20.4	2.7	1.3	6.7	7.6	6.7	6.1	4.9
Broad money	3.0	7.3	6.0	5.3	6.9	5.3	4.1	4.1	3.5	3.5	3.7

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

1/ CR/23/241 refers to the staff report for the first review of the EFF/RSF arrangement in June 2023.

Table 6. Barbados: Medium-Term Macroeconomic Framework, 2019–2028 1/

(In percent of GDP, unless otherwise indicated)

					Projections						
	2019	2020	2021	2022	2023		2024	2025	2026	2027	2028
					CR/23/241						
	(Annual percentage change)										
National accounts and prices (calendar year)											
CY Real GDP	0.3	-12.7	-1.3	13.8	4.5	4.5	3.7	2.8	2.3	2.0	2.0
Nominal GDP	5.3	-10.9	3.5	18.1	9.4	9.3	7.5	5.8	5.1	4.9	4.9
CPI inflation (average)	2.3	0.5	1.5	5.0	5.2	5.0	3.7	2.8	2.4	2.4	2.4
CPI inflation (end of period)	3.0	0.4	2.2	5.7	5.0	4.4	2.8	2.6	2.4	2.4	2.4
External sector (calendar year)											
Exports of goods and services, value	6.9	-37.9	6.4	34.4	15.6	13.5	8.9	6.5	5.8	5.7	5.7
Imports of goods and services, value	2.8	-18.2	15.4	25.8	2.9	1.8	5.9	4.0	4.9	5.0	5.8
Real effective exchange rate (average)	126.9	131.2	131.7	132.1	...	...	...	...	...	...	...
Terms of trade	2.3	6.2	-12.5	-5.3	6.5	4.6	2.8	2.1	1.3	0.8	1.8
Money and credit (calendar year, end of period)											
Net domestic assets	0.0	5.0	3.6	8.1	2.8	2.1	4.0	4.4	4.2	4.1	3.9
Of which: Credit to the non financial private sector	0.9	-1.2	-1.2	3.6	...	2.4	3.1	3.2	3.3	3.4	3.5
Broad money	3.0	7.3	6.0	5.3	6.9	5.3	4.1	4.1	3.5	3.5	3.7
Velocity (GDP relative to broad money)	0.9	0.9	0.7	0.7	0.8	0.8	0.8	0.9	0.9	0.9	0.9
	(In percent of FY GDP, unless otherwise indicated)										
Public finances (fiscal year) 2/											
Central government											
Revenue and grants	28.9	30.2	28.2	29.0	29.1	28.5	30.2	30.2	30.3	30.3	30.3
Expenditure	25.4	35.0	32.9	31.0	30.8	30.4	31.4	30.6	30.4	30.2	30.1
Fiscal balance	3.5	-4.8	-4.7	-2.0	-1.7	-1.8	-1.2	-0.4	-0.2	0.1	0.1
Interest Expenditure	2.3	3.8	3.8	4.5	5.2	5.2	5.2	4.9	4.7	4.4	4.4
Primary balance	5.8	-1.0	-0.9	2.5	3.5	3.4	4.0	4.5	4.5	4.5	4.5
Public debt (fiscal year)											
Public sector debt 2/	116.2	148.1	131.5	119.6	115.0	114.7	106.9	100.5	94.7	89.8	85.1
External	31.6	49.1	47.0	45.1	45.6	46.8	44.2	41.6	38.4	34.4	31.4
Domestic	84.6	99.0	84.5	74.5	69.4	67.9	62.6	58.9	56.4	55.4	53.7
Savings and investment (calendar year)											
Gross domestic investment	14.4	17.8	17.9	17.9	17.3	16.7	17.5	18.0	18.3	18.4	18.4
Public	2.0	2.9	4.1	4.2	3.3	3.0	3.8	4.3	4.6	4.7	4.8
Private 3/	12.3	14.9	13.7	13.7	14.0	13.7	13.7	13.7	13.7	13.7	13.7
National savings	11.6	11.9	6.9	7.2	9.6	8.6	10.3	11.8	12.5	13.1	13.2
Public	-2.6	1.6	5.4	-2.8	-2.0	-1.9	1.1	0.5	1.7	3.0	3.4
Private	14.3	10.3	1.5	10.0	11.6	10.5	9.2	11.3	10.8	10.1	9.8
External savings	-2.7	-5.9	-11.0	-10.7	-7.7	-8.1	-7.2	-6.2	-5.8	-5.3	-5.2
Balance of payments (calendar year)											
Current account	-2.7	-5.9	-11.0	-10.7	-7.7	-8.1	-7.2	-6.2	-5.8	-5.3	-5.2
Capital and financial account	7.2	16.9	12.2	8.1	11.6	11.0	7.7	6.3	5.4	5.0	5.3
Official capital (net)	3.5	9.8	7.4	1.0	5.6	6.0	2.2	0.1	-1.2	-1.9	-1.6
Private capital (net)	3.8	7.2	4.8	6.9	6.0	5.0	5.5	6.3	6.5	6.9	6.9
Of which: Long-term flows	4.5	8.0	5.2	7.2	6.0	5.0	5.5	6.3	6.5	6.9	6.9
Net errors and omissions	0.0	1.3	3.2	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	4.5	12.3	4.5	-0.6	4.0	2.8	0.5	0.1	-0.4	-0.3	0.1
Memorandum items:											
Exchange rate (BDS$/US$)	2.0	2.0	2.0	2.0	...	...	...	...	...	...	...
Oil price (WTI, US$ per barrel)	61.4	41.8	69.2	96.4	69.9	80.5	79.9	76.0	72.7	69.9	69.9
Gross international reserves (US$ millions)	741	1,330	1,529	1,385	1,633	1,565	1,600	1,608	1,578	1,552	1,560
In months of imports	4.3	9.4	9.4	6.7	7.7	7.5	7.2	7.0	6.5	6.1	5.8
In percent of ARA	142.8	259.2	288.5	233.7	250.3	246.7	240.7	219.6	205.3	195.7	190.2
Nominal CY GDP (BDS$ millions)	10,734	9,560	9,891	11,681	12,441	12,772	13,725	14,525	15,269	16,016	16,800

Sources: Barbados authorities; and Fund staff estimates and projections.

1/ CR/23/241 refers to the staff report for the first review of the EFF/RSF arrangement in June 2023.

2/ Including government-guaranteed debt, expenditure and debt arrears (if any), and IMF loans provided to the CBB for BOP support under the 2018 EFF. Fiscal year is from April to March;

3/ Inlcuding inventories.

Table 7. Barbados: Financial Sector Indicators, 2016–2023

(Percent)

	2016	2017	2018	2019	2020	2021	2022	2023 3/
Commercial Banks								
Solvency Indicator								
Capital Adequacy Ratio (CAR)	17.0	17.0	13.9	13.5	16.0	16.8	17.6	18.7
Liquidity Indicators 1/								
Loan to deposit ratio	62.3	63.3	63.0	61.8	57.1	53.0	53.1	53.7
Domestic demand deposits to total domestic deposits	40.3	41.6	41.8	45.3	46.9	47.4	48.9	45.8
Liquid assets, in percent of total assets	27.4	26.7	21.1	22.9	25.1	28.3	28.1	28.6
Credit Risk Indicators								
Loans and advances (yoy growth rate) 2/	-0.5	2.0	0.7	-0.5	-2.1	-2.1	6.2	5.9
Non-performing loans ratio	8.9	7.9	7.4	6.6	7.3	7.3	5.9	4.9
Provisions to non-performing loans	63.2	69.6	67.3	60.2	62.0	60.2	50.8	50.6
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	9.0	7.7
Profitability Indicators								
Return on Assets (ROA)	1.0	1.3	-0.2	0.6	0.8	1.1	1.3	1.1
Credit Unions								
Solvency Indicator								
Reserves to Total Liabilities	12.4	12.5	11.9	11.4	9.5	9.6	9.6	9.6
Liquidity Indicators								
Loan to deposit ratio	103.2	100.6	94.3	89.6	73.5	73.2	74.5	73.3
Credit risk Indicators								
Total assets, annual growth rate	8.3	8.7	9.5	7.5	7.3	5.3	4.0	3.4
Loans, annual growth rate	7.3	6.3	4.2	3.5	0.9	4.4	6.0	5.0
Nonperforming loans ratio	7.6	7.8	8.9	9.6	13.1	12.8	12.7	12.8
Arrears 3-6 months/Total Loans	1.3	1.3	1.9	1.9	2.2	1.5	1.8	2.1
Arrears 6 – 12 months/Total Loans	1.2	1.4	1.4	1.6	3.6	2.4	1.8	1.7
Arrears over 12 months/Total Loans	5.1	5.0	5.5	6.1	7.3	8.8	9.1	9.0
Provisions to Total loans	2.5	2.4	2.6	2.8	3.1	4.0	4.0	3.7
Profitability Indicator								
Return on Assets (ROA)	0.8	0.9	0.7	0.7	0.5	0.5	0.5	0.1

Source: Central Bank of Barbados, Financial Services Commission.
1/ Includes foreign components unless otherwise stated.
2/ Private credit growth in 2018 reflects the financial consolidation of a financial and trust company with its parent bank.
3/ Latest data available. Corresponds to end-September (Commercial Banks) and end-June (Credit Unions).

Table 8. Barbados: Program Monitoring – External Financing Requirements and Sources 1/

(In millions of US$ unless otherwise indicated)

	2019	2020	2021	2022	2023		2024	2025	2026	2027	2028
					Projections						
					CR/23/241						
	(in US$ millions, unless otherwise indicated)										
Gross Financing Requirements	**213**	**375**	**600**	**727**	**596**	**636**	**636**	**716**	**750**	**749**	**756**
Current Account Balance	147	280	542	624	476	520	491	451	440	427	435
CG Debt Amortization	66	95	58	102	115	116	145	265	310	322	320
Sources of Financing	**213**	**375**	**600**	**727**	**558**	**598**	**598**	**697**	**750**	**749**	**756**
Public Sector	252	564	425	163	432	459	256	251	219	167	188
o/w: World Bank 2/	0	0	100	0	100	100	0	0	0	0	0
o/w IDB 2/	0	200	100	0	200	200	100	100	80	0	0
o/w IMF SDR allocation	0	0	130	0	0	0	0	0	0	0	0
FDI and long-term debt (net)	244	380	259	419	373	319	377	454	500	556	576
Short-term debt (net)	-42	-38	-22	-14	0	0	0	0	0	0	0
Capital Account Balance	-3	-2	0	7	0	0	0	0	0	0	0
Net errors and omissions	2	62	137	6	0	0	0	0	0	0	0
Change in Reserves (- = increase) (without RSF)	-241	-590	-199	144	-248	-180	-35	-8	30	26	-8
Financing Gap	**0**	**0**	**0**	**0**	**38**	**38**	**38**	**19**	**0**	**0**	**0**
Prospective Financing					**38**	**38**	**38**	**19**	**0**	**0**	**0**
IMF EFF disbursement 3/					38	38	38	19	0	0	0
IMF RSF disbursement 4/					**76**	**76**	**76**	**38**	**0**	**0**	**0**
Change in Reserves (- = increase) (with RSF)	-241	-590	-199	144	-248	-180	-35	-8	30	26	-8
Memo items:											
Gross international reserves (with RSF) 5/	741	1,330	1,529	1,385	1,633	1,565	1,600	1,608	1,578	1,552	1,560
Months of imports of G&S	4.3	9.4	9.4	6.7	7.7	7.5	7.2	7.0	6.5	6.1	5.8
In percent of ARA (with RSF)	143	259	288	234	250	247	241	220	205	196	190
Gross Financing Sources (GFS) composition (without RSF)	213	375	600	727	558	598	598	697	750	749	756
Other financing	213	375	600	727	558	598	598	697	750	749	756
RSF disbursement	0	0	0	0	0	0	0	0	0	0	0
GFS composition (with RSF)	213	375	600	727	558	598	598	697	750	749	756
Other financing	213	375	600	727	482	522	522	659	750	749	756
RSF disbursement	0	0	0	0	76	76	76	38	0	0	0

Sources: Central Bank of Barbados and Fund staff estimates and projections.
1/ CR/23/241 refers to the staff report for the first review of the EFF/RSF arrangement in June 2023.
2/ Policy loan
3/ Including IMF disbursements associated with future reviews.
4/ RSF replaces part of other financing.
5/ Gross international reserves remain the same with or without RSF.

Table 9. Barbados: 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
November 15, 2023 1/	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.

1/ Rephased from May 15, 2023

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

(In millions of SDR unless otherwise indicated)

	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	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	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	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	412.5	471.6	467.6	415.3	358.1	296.2	238.2	196.3	175.1	159.5	148.1	135.1	121.2	107.0	92.9	78.7	64.5	50.3	36.2	22.0	8.5	1.4	0.0
EFF	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	56.7	113.4	141.8	141.8	141.8	141.8	141.8	141.8	141.8	141.8	141.0	134.0	121.2	107.0	92.9	78.7	64.5	50.3	36.2	22.0	8.5	1.4	0.0
Obligations	3.2	55.9	80.9	84.0	84.6	84.7	76.6	57.7	35.1	28.3	23.3	24.3	24.6	24.1	23.4	22.7	21.9	21.2	20.5	19.8	18.3	11.3	5.3
Principal (repayments/repurchases)	2.9	25.9	46.6	52.3	57.2	61.9	57.9	41.9	21.3	15.6	11.3	13.0	13.9	14.2	14.2	14.2	14.2	14.2	14.2	14.2	13.5	7.1	1.4
EFF	2.9	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	0.7	7.1	12.8	14.2	14.2	14.2	14.2	14.2	14.2	14.2	13.5	7.1	1.4
Charges and interest 1/	0.3	29.9	34.3	31.8	27.4	22.7	18.7	15.7	13.8	12.7	11.9	11.3	10.7	9.9	9.2	8.5	7.8	7.0	6.3	5.6	4.9	4.2	3.9
Fund obligations (repurchases and charges) in percent of:																							
Quota	3.4	59.1	85.6	88.9	89.6	89.6	81.0	61.0	37.1	29.9	24.6	25.7	26.0	25.5	24.7	24.0	23.2	22.4	21.7	20.9	19.4	12.0	5.6
o/w: RSF	0.2	3.8	7.0	7.7	7.7	7.7	7.7	7.7	7.7	7.7	8.4	15.1	20.7	21.4	20.7	19.9	19.1	18.4	17.6	16.8	15.3	7.9	1.5
GDP	0.1	1.1	1.5	1.5	1.4	1.4	1.2	0.9	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.0
Exports of goods and services	0.2	3.0	4.2	4.2	4.0	3.8	3.3	2.4	1.4	1.1	0.9	0.9	0.8	0.8	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.3	0.1
Gross international reserves	0.3	4.4	6.5	7.2	8.0	8.5	8.6	6.8	4.2	3.4	2.7	2.7	2.6	2.2	1.7	1.4	1.2	1.0	0.8	0.7	0.6	0.3	0.1
Government revenue	0.2	3.7	5.1	5.0	4.9	4.6	4.0	2.9	1.7	1.3	1.0	1.0	1.0	0.9	0.9	0.8	0.7	0.7	0.6	0.6	0.5	0.3	0.1
External debt service, public and publicly guaranteed (PPG)	1.6	24.3	23.5	24.2	24.1	24.9	22.4	21.5	13.0	10.0	7.9	8.2	8.3	8.4	8.5	8.1	7.8	7.8	7.8	7.0	6.2	3.6	1.6
Fund credit outstanding in percent of:																							
Quota	436.5	499.1	494.8	439.5	378.9	313.4	252.1	207.7	185.2	168.8	156.8	143.0	128.3	113.2	98.3	83.2	68.3	53.2	38.3	23.2	9.0	1.5	0.0
o/w: RSF	60.0	120.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	149.2	141.7	128.3	113.2	98.3	83.2	68.3	53.2	38.3	23.2	9.0	1.5	0.0
GDP	8.7	9.3	8.8	7.4	6.1	4.8	3.7	2.9	2.5	2.2	1.9	1.7	1.5	1.2	1.0	0.8	0.7	0.5	0.3	0.2	0.1	0.0	0.0
Exports of goods and services	24.3	25.7	24.1	20.5	16.9	13.4	10.3	8.2	7.0	6.2	5.5	4.8	4.2	3.5	3.0	2.4	1.9	1.4	1.0	0.6	0.2	0.0	0.0
Gross international reserves	34.0	37.5	37.9	35.8	34.1	29.8	26.8	23.3	20.8	19.1	17.4	15.2	12.7	9.6	6.9	5.0	3.5	2.4	1.5	0.8	0.3	0.0	0.0
Government revenue	29.4	31.4	29.5	25.0	20.6	16.2	12.4	9.8	8.3	7.3	6.5	5.7	4.9	4.1	3.4	2.8	2.2	1.6	1.1	0.7	0.2	0.0	0.0
External debt, PPG	19.0	20.9	21.1	19.5	18.0	15.7	13.3	11.3	10.3	9.8	9.4	9.0	8.5	7.3	6.2	5.1	4.1	3.1	2.2	1.3	0.5	0.1	0.0
Memorandum items: 2/																							
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
Gross domestic product (USD million)	6,316.1	6,789.1	7,191.1	7,564.2	7,920.4	8,293.4	8,681.7	9,077.5	9,491.4	9,913.5	10,354.4	10,815.0	11,296.0	11,798.4	12,296.9	12,816.5	13,358.0	13,921.9	14,530.3	15,123.2	15,762.2	16,428.1	17,122.3
Exports of goods and services (USD million)	2,275.3	2,466.8	2,615.4	2,738.8	2,866.3	2,998.8	3,121.9	3,249.9	3,392.4	3,508.9	3,645.4	3,788.0	3,932.6	4,083.2	4,238.8	4,400.9	4,569.9	4,746.0	4,931.1	5,121.5	5,321.5	5,530.2	5,774.2
Gross international reserves (USD million)	1,625.0	1,688.7	1,667.7	1,569.8	1,423.0	1,346.8	1,204.9	1,139.6	1,137.1	1,131.9	1,151.2	1,203.6	1,288.1	1,516.2	1,811.2	2,136.8	2,494.5	2,885.6	3,310.6	3,772.3	4,271.6	4,810.5	5,397.9
Government revenue (USD million)	1,878.1	2,019.4	2,144.1	2,252.5	2,358.9	2,469.0	2,592.6	2,719.5	2,841.4	2,966.4	3,096.9	3,234.7	3,378.5	3,526.8	3,675.7	3,830.9	3,992.6	4,162.4	4,340.9	4,519.3	4,709.7	4,908.2	5,114.9
External debt service, PPG (USD million)	270.4	308.2	464.1	469.1	475.5	459.4	463.5	363.5	365.2	382.9	400.1	399.5	401.9	386.6	370.2	377.4	381.1	368.9	357.1	379.4	401.8	421.5	440.2
Total external debt, PPG (USD million)	2,909.1	3,032.0	2,993.9	2,882.0	2,689.9	2,553.6	2,427.2	2,359.7	2,291.0	2,212.7	2,124.4	2,034.7	1,941.8	1,991.8	2,041.8	2,091.8	2,141.8	2,191.8	2,241.8	2,291.8	2,341.8	2,391.8	2,099.8

Source: IMF staff calculations.

1/ Total Interest based on existing and prospective drawings using GRA rate of charge of 5.175 percent (as of November 16, 2023), and RST rate of interest of 5.125 percent (as of November 16, 2023) as Barbados belongs to the RST interest Group C.

2/ SDR/USD exchange rate = 0.755 (as of November 16, 2023) and quota SDR = 94.5 million.

Table 12. Barbados: Proposed Quantitative Performance Criteria Under the EFF Supported Program 1/ 2/ 3/

(In millions of Barbados dollars otherwise indicated)

	Target End June 2023	Actual End June 2023	Status End June 2023	Target End September 2023	Actual End September 2023	Status End September 2023	Target End December 2023	Target End March 2024	Target End June 2024	Proposed Target End September 2024	Proposed Target End December 2024
Fiscal Targets											
Performance Criteria											
Floor on the CG Primary Balance 4/	104	154	...	218	295	...	378	446	136	279	418
Floor on the CG Primary Balance (adjusted) 4/	104	154	Met	218	295	Met	...	...	...	...	...
Non-accumulation of CG external debt arrears 4/ 6/	0	0	Met	0	0	Met	0	0	0	0	0
Ceiling on CG Transfers and Grants to Public Institutions 4/ 7/	119	94	Met	238	186	Met	357	477	119	244	365
Ceiling on Public Debt 5/	14,797	14,358	...	14,806	14,431	...	15,016	15,026	15,044	15,101	15,101
Ceiling on Public Debt (adjusted) 5/	14,797	14,358	Met	14,806	14,431	Met	...	...	...	...	...
Indicative Targets											
Ceiling on CG Domestic Arrears 5/ 8/	256	249	Met	251	247	Met	246	241	231	221	211
Floor on Social Spending 4/ 9/	30	30	Met	50	60	Met	70	95	27	59	89
Ceiling on Public Institutions Arrears 5/	31	23	Met	29	29	Met	26	23	23	23	23
Monetary Targets											
Performance Criteria											
Ceiling on Net Domestic Assets of the CBB 5/	2,350	1,858	Met	2,350	1,960	Met	2,350	2,350	2,350	2,350	2,350
Floor on Net International Reserves 5/	1,200	2,125	...	1,200	1,828	...	1,200	1,200	1,200	1,200	1,200
Floor on Net International Reserves (adjusted) 5/	1,200	2,125	Met	1,200	1,828	Met	...	...	...	...	...
Items feeding into PB, Debt, and NIR adjustors											
IDB budget support 4/	0	0	...	0	0	...	200	400	0	0	0
CDB budget support 4/	0	0	...	0	0	...	0	0	0	0	0
CAF budget support 4/	0	0	...	0	0	...	0	0	0	0	0
WB budget support 4/	0	0	...	0	0	...	0	0	0	0	0
Grants 4/	0	0	...	0	0	...	0	8	0	0	0

Sources: Fund staff estimates.

1/ The 3-year EFF program was originally approval by the IMF Executive Board on December 7, 2022;

2/ 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);

3/ Based on program exchange rates defined in TMU where applicable;

4/ Flow (cumulative over the fiscal year);

5/ Stock; adjusted targets reflect the amount of deviations of program loans from multilateral institutions relative to the baseline projections.

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.

Table 13. Barbados: Structural Benchmarks Under the EFF				
Structural Benchmark (SB)	**Timing**	**EFF Review**	**Assessed**	**Comments**
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	1st EFF Review	Met	
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	Met	
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		
4) BCED to establish, in coordination with BRA, mandatory use of the tax identification number (TIN) as the unique identifier of importers and exporters and as a requirement to conduct any border transaction.	End-September 2024	4th EFF Review		
5) Government to complete an assessment of human resource needs (by competency and position) at the BCED to address capacity and operational needs, including an assessment of the obstacles to fill critical vacancies and a roadmap to fill critical vacancies.	End-March 2025	5th EFF Review		
Public Sector Reform				
6) Government to develop a NIF recapitalization and reform plan that restores and safeguards sustainability of the Fund.	End-December 2022	1st EFF Review	Met	
7) 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	Not Met	Implemented with delay
8) Government to set up a fiscal risk unit.	End-June 2023	2nd EFF review	Not Met	Implemented with delay
9) The NIS to submit all outstanding financial statements for audit by the Auditor General.	End-March 2024	3rd EFF Review		
10) Government to establish a Cash Management Unit.	End-March 2024	3rd EFF Review		
11) Parliament to approve the public pension law (SB7).	End-March 2024	3rd EFF Review	Met	

Table 13. Barbados: Structural Benchmarks Under the EFF (concluded)

Structural Benchmark (SB)	Timing	EFF Review	Assessed	Comments
12) Government to develop standard contracts for routine procurements to minimize delays in awarding contracts to successful bidders.	End-September 2024	4th EFF Review		
13) MFEI to prepare a Public Private Partnerships (PPPs) framework.	End-March 2025	5th EFF Review		
SOE Reform				
14) Cabinet to approve plans for the (i) amalgamation of the operations of the Rural Development Corp. (RDC), and Urban Development Corp (UDC) and (ii) the reform of the National Housing Corporation (NHC) to reduce overlap and achieve greater financial and operating efficiencies.	End-December 2023	3rd EFF Review		
15) Cabinet to approve plans for the reform of the BAMC and shift BAMC's operations away from subsidizing the traditional sugar industry.	End-December 2023	3rd EFF Review		
16) Ministry of Finance to prepare a comprehensive stocktaking of the financial performance of the SOE sector.	End-June 2023	2nd EFF Review	Met	
Central Bank Monetary Policy				
17) The CBB to review its balance sheet capacity and monetary toolkit, with the support of IMF technical assistance.	End-November 2023	2nd EFF Review	Met	
Growth and Business Environment				
18) 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 Plan.	End-March 2023	1st EFF Review	Met	
19) Government to establish a GovTech agency resourced, mandated, and empowered to advance the digitization initiative to improve the delivery of public services.	End-September 2023	2nd EFF review	Met	
20) Government to 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-March 2024	3rd EFF review		

Table 14. Barbados: Proposed Reform Measures Under the RSF				
Reform Area	**Reform Measure (RM)**	**Timing**	**Expected Corresponding Review Under the EFF Arrangement**	**Assessed**
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	Met
	2) The Government to implement the following set of actions: (i) include a fiscal risk statement focusing on climate change risks in the budget for FY2023/24; (ii) Cabinet to approve Procurement Act Regulations to enhance efficiency and effectiveness of public expenditure and to support 'green procurement'; (iii) Cabinet to approve a sustainable/green public procurement framework providing operational guidelines to implement sustainable/green procurement, in line with international best practice; and (iv) Cabinet to approve guidelines for climate/green budget tagging, in line with international best practice, and mandate that the results of the budget tagging be published in an annex in the annual budget.	End-September 2023	2nd EFF Review	Met
	3) Government to table 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	Met
	4) Government to table an amended Prevention of Floods Act in Parliament, incorporating the new Stormwater Management Plan.	End-March 2024	3rd EFF Review	

Table 14. Barbados: Proposed Reform Measures Under the RSF (concluded)				
Reform Area	**Reform Measure (RM)**	**Timing**	**Expected Corresponding Review Under the EFF Arrangement**	**Assessed**
	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	
Pillar 2: Climate mitigation reform measures (reduction of GHG emissions)	6) (i) Government to extend the tax holiday on 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	Met
	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) Government to table in Parliament the New Electricity Supply Bill 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	

Annex I. Risk Assessment Matrix [1]

Source of Risks	Likelihood	Impact	Policy Response
Global Risks			
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	High	Medium	Continue with fiscal consolidation backed by structural reforms to enhance fiscal sustainability and improve business / regulatory environment, thereby increasing investors' confidence.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs.	Medium	High	Implement structural measures to improve competitiveness of the tourism sector; diversify tourist source countries beyond the UK, Canada, and the US; diversify the economy to reduce dependence on the tourism sector; and steadily execute climate-resilient investment to support domestic demand.
U.S.: Amid tight labor markets and/or commodity price shocks, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in more abrupt financial, housing and commercial real estate market correction, and "hard landing".	Medium	High	
Europe: Intensifying fallout from the war in Ukraine, recurrent energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns, and housing and commercial real estate market corrections.	Medium	High	
China: Sharper-than-expected slowdown in the property sector, unexpected fiscal tightening due to local government financing stress and decline in investment, and/or rising geopolitical tensions disrupt economic activity.	Medium	High	
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	High	Medium	Move ahead with transition to a fully renewable economy to reduce reliance on fuel imports; raise domestic capacity for food and other goods supply; and maintain fiscal and external sustainability.

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

Source of Risks	Likelihood	Impact	Policy Response
Global Risks			
Monetary policy miscalibration. Amid high economic uncertainty and financial sector fragility, major central banks pause monetary policy tightening or pivot to loosen policy stance prematurely, de-anchoring inflation expectations, triggering a wage-price spiral and spillovers to financial markets.	Medium	Medium	Continue with fiscal consolidation backed by structural reforms to increase fiscal sustainability, thereby increasing investors' confidence; enhance monetary policy framework by introducing appropriate monetary policy tools; and increase domestic capacity of supplying renewal energy-based electricity and basic food.
Systemic financial instability. Sharp swings in real interest rates and risk premia, and asset repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing market dislocations and adverse cross-border spillovers.	Medium	Medium	Monitor financial system and be ready to provide liquidity assistance if needed to maintain financial stability; and continue with fiscal consolidation backed by structural reforms to increase fiscal sustainability and improve business / regulatory environment, thereby increasing investors' confidence.
Disorderly energy transition. Disorderly shift to net-zero emissions (e.g., owing to shortages in critical metals) and climate policy uncertainty cause supply disruptions, stranded assets, market volatility, and subdued investment and growth.	Medium	Medium	
Country-Specific Risks			
Deceleration of reform momentum, Delays in fiscal reforms generate market concerns about fiscal sustainability and undermine private sector confidence necessary for investment.	Medium	High	Adhere to fiscal consolidation strategy under the program to generate high primary surpluses on a sustained basis.
Loss of tourism competitiveness. Failure to maintain the upgrading of tourism assets and infrastructure leads to loss of attractiveness as a tourist destination and a decline in tourism revenue and FX earnings.	Medium	High	Implement structural measures to increase competitiveness and boost private investment into the tourism sector.
Extreme climate events. Extreme climate events cause damage to infrastructure and loss of human lives and livelihoods.	Medium	High	Accelerate investment into climate resilient infrastructure that could mitigate disaster risk; and continue seeking financial arrangements to safeguard from natural disaster shocks (e.g., hurricane clauses in government debt and insurance, such as CCRIF).

Annex II. Debt Sustainability Analysis

Barbados' overall risk of sovereign stress is assessed to be moderate, consistent with the medium- and long-term mechanical signals of the Fund's Sovereign Risk and Debt Sustainability Framework (SRDSF). While the fanchart flashes a high-risk signal due to the large volatility of key macroeconomic indicators, public debt is on a clear downward trend and the Gross Financing Needs (GFN) financeability tool indicates a moderate risk. The 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 given envisaged primary surpluses to be supported by the ongoing economic recovery and structural reforms. Risks to the projections could arise from slower-than-expected growth, for example, in the event of external shocks, and the authorities' ability to maintain high primary surpluses over an extended period. These risks are mitigated by Barbados' strong track record under the recently completed EFF-supported program, a favorable debt service schedule, and the continued improvement in market credit risk perceptions as suggested by declining sovereign debt spreads.

1. **Barbados' public debt is expected to decline following the increase experienced during COVID-19 pandemic.**[1] The public debt declined to 119.6 percent of GDP in FY2022/23, from 131.5 percent in FY2021/22, driven by the economic recovery and progress in fiscal consolidation. It is expected to decline further to pre-pandemic levels in FY2023/24. Under the baseline projections, with reasonably ambitious primary surpluses and a return to long-run economic growth patterns, the 60 percent public debt-to-GDP target would be achieved in FY2035/36 (Figure 4).

2. **The downward debt path is premised on conservative macroeconomic projections and reasonably ambitious fiscal consolidation.** After a strong 13.8-percent recovery in 2022, real GDP is projected to grow by 4.5 percent in 2023 as tourist arrivals further normalize. Over the medium term, growth is expected to return to the steady-state level of around 2 percent supported by the normalization of the tourism sector and ongoing structural reforms. Average inflation is projected to gradually return to its long-run average of around 2½ percent, after an increase to around 7 percent in 2022. The primary balance is projected to increase to 4.5 percent of GDP by FY2025/26 and start getting relaxed gradually thereafter to accommodate long-term investment needs consistent with the 60 percent-of-GDP long-term debt target.

3. **Gross financing needs would be met through IFIs and domestic borrowing in the near term.** The profile of the public debt poses limited risks (Table 2), given the favorable debt repayment schedule resulting from the 2018-19 debt restructuring and borrowing from international financial institutions (IFIs). With commercial short-term debt automatically rolled over based on the 2018-19 debt restructuring agreement, the remaining financing needs in the near term would be met through IFI financing and domestic borrowing. Local banks and other domestic investors have been increasing their purchases under the BOSS programs. The continued improvement in market sovereign credit risk

[1] This DSA covers the central government's debt, expenditure arrears, debt from state-owned enterprises (SOE) guaranteed by the central government, and IMF BOP support loans provided to the CBB. There is no local government debt. SOE debt not guaranteed by the central government is small at 3.8 percent of GDP and is not included in the analysis.

perceptions evidenced by a compression in debt spreads (Barbados is currently rated as B- by S&P, B by Fitch, and B3 by Moody's) bodes well for the authorities to be able to roll over the commercial external debt (the restructured external debt is coming due in 2025) in the medium-term at favorable borrowing costs.

4. Barbados' overall risk of sovereign debt stress is assessed to be moderate. Both the medium- and long-term risk analyses point to moderate risks (Figure 6 and 7)**.**

- **Medium-term:** While the *debt fanchart index* indicates a high risk due to the large historical volatility of key economic indicators—which creates a wide fan—, the *GFN financeability index* points to a moderate risk with a declining path. The baseline debt trajectory and the fan are on a downward trend, and the probability of debt not stabilizing is assessed to be limited. The natural disaster stress test is conducted to capture country-specific vulnerabilities using the default magnitude of a shock at 4.5 percent of GDP. The stress test stays strictly below the 75^{th} percentile of the fanchart, suggesting no needs to modify the "moderate" mechanical signal.

- **Long-term:** The large debt amortizations module shows a gradual decline in GFN and debt relative to GDP both under the baseline and custom scenarios (where the steady-state primary surplus was reduced to 3 percent of GDP from 4.5 percent of GDP observed in the 5^{th} projection year, which is picked up as a default long-term primary balance in the framework). Climate-related expenditure are manageable and would not significantly impact 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. The current healthcare expenditure policies would not pose significant sustainability concerns. The implementation of the authorities' pension reforms is expected to make the National Insurance Scheme financially sustainable for 25-30 years, with no additional financing needs from the budget.

5. On balance Barbados' debt is assessed as sustainable but subject to risks and uncertainty. Public debt has been brought back onto a sustainable and downward trajectory consistent with the long-term debt target. Risks to the baseline projections include spillovers from the intensification of regional conflicts onto the global economy and difficulties in maintaining high primary balances over a prolonged period. These risks are mitigated by Barbados' strong track record under the Fund-supported programs, strong commitment to structural reforms, a favorable debt service schedule, and a continued improvement in market risk perceptions.

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 arising from debt refinancing needs and climate chage are moderate. The implementation of the authorities' pension reforms is expected to make the National Insurance Scheme financially sustainable for 25-30 years with no additional financing needs from the budget.
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.
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 the economic recovery and structural reforms.

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, FY2022/23–FY2024/25[1]

	Debt Stock (end of period)			Debt Service					
	FY2022/23			FY2022/23	FY2023/24	FY2024/25	FY2022/23	FY2023/24	FY2024/25
	(In US$ million)	*(Percent total debt)*	*(Percent of GDP)*	*(In US$)*			*(Percent of GDP)*		
Total	7,317.2	100.0	119.6	979.5	1113.0	726.9	16.0	17.1	10.4
External	2,758.3	37.7	45.1	202.7	275.1	299.1	3.3	4.2	4.3
Multilateral creditors[2]	1,852.6	25.3	30.3	119.8	192.5	217.4	2.0	3.0	3.1
IMF	452.2	6.2	7.4						
World Bank	221.4	3.0	3.6						
IADB	749.8	10.2	12.3						
Other Multilaterals	429.1	5.9	7.0						
o/w: CDB	238.6	3.3	3.9						
Bilateral Creditors	188.2	2.6	3.1	22.2	23.9	23.1	0.4	0.4	0.3
Paris Club	31.9	0.4	0.5	8.3	9.1	8.7	0.1	0.1	0.1
Non-Paris Club	156.2	2.1	2.6	13.9	14.8	14.5	0.2	0.2	0.2
Bonds	549.3	7.5	9.0	40.8	38.3	38.2	0.7	0.6	0.5
Commercial creditors[3]	168.3	2.3	2.7	19.9	20.3	20.3	0.3	0.3	0.3
Domestic	4,559.0	62.3	74.5	776.8	837.9	427.8	12.7	12.9	6.1
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)	331.1	4.5	5.4	374.2	331.1	-	6.1	5.1	-
Held by: central bank	187.2	2.6	3.1						
local banks	142.6	1.9	2.3						
local non-banks	1.4	0.0	0.0						
Long-term debt (incl. Bonds)	4,227.8	57.8	69.1	402.6	506.8	427.8	6.6	7.8	6.1
Held by: central bank	313.4	4.3	5.1						
local banks	1,090.4	14.9	17.8						
local non-banks	2,824.1	38.6	46.2						
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	206.4	2.8	1.7						
o/w: Public guarantees	206.4	2.8	1.7						
o/w: Other explicit contingent liabilities[5]	n/a	n/a	n/a						
Nominal GDP	6,119.2			6,119.2	6,512.4	6,968.6			

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 FY2022/23. 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 are two commercial facilities 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 1. 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:						

		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	
CPS / NFPS / GG: expected / CG	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

(Chosen coverage: CG; Budgetary central government; Central bank; Currency & deposits; Loans; Debt securities; Oth acct. payable 2/; Cash basis; Face value 6/; Non-consolidated. Missing from recommended coverage: Extra budgetary funds; Social security funds; State governments; Local governments; IPSGSs 3/. Not applicable: Public nonfinancial corporations; Other public financial corporations.)

Reporting on Intra-Government Debt Holdings

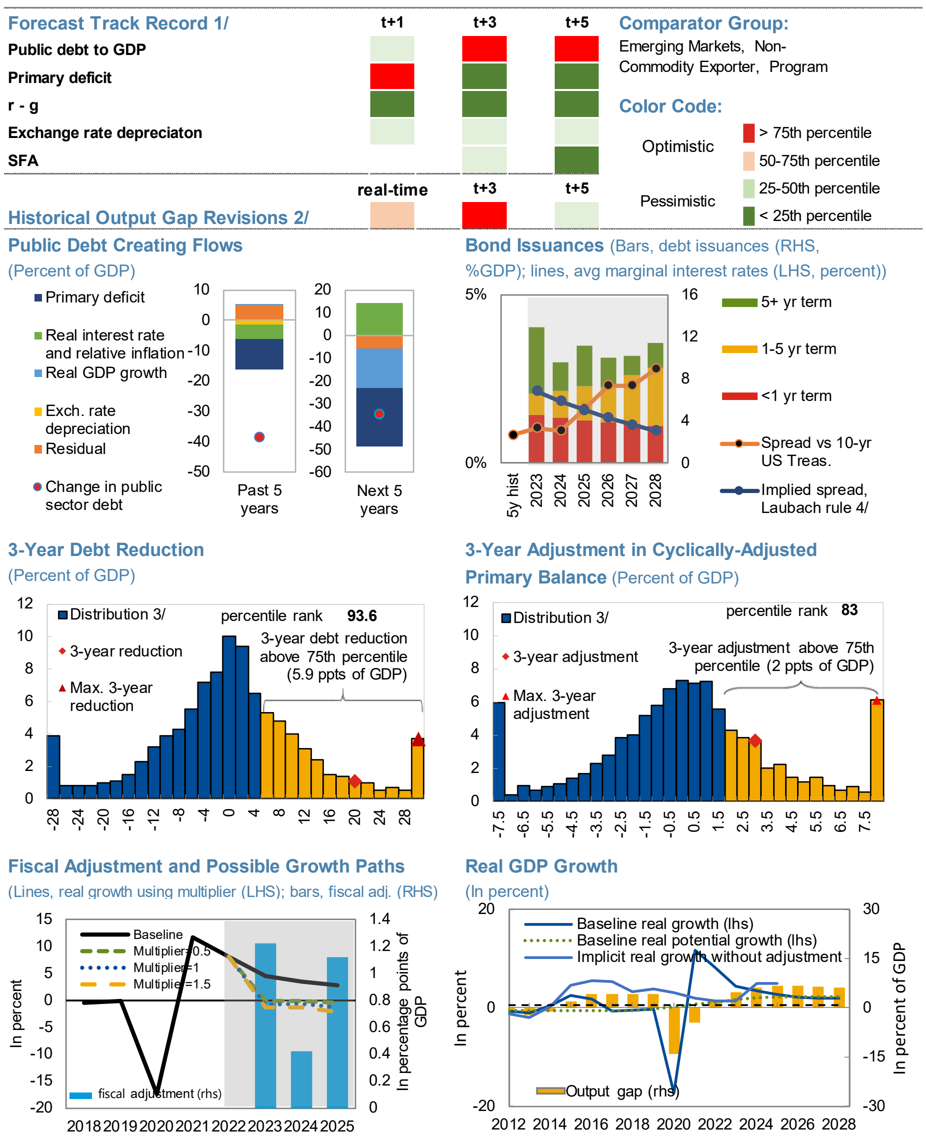
Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1 Budget. central govt									0
2 Extra-budget. funds									0
3 Social security funds									0
4 State govt.									0
5 Local govt.									0
6 Nonfin pub. corp.									0
7 Central bank									0
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 comprises the central government given that Barbados has no state or local governments. State-Owned Enterprises debt guaranteed by the central government and the Central Bank of Barbados' debt to the Fund are added to the central government's debt in this analysis.

Figure 2. Barbados: Realism of Baseline Assumptions

(Fiscal year)



Commentary: Negative impacts on growth of the projected fiscal adjustments should be smaller than indicated by the realism tool given that Barbados' economic recovery is being driven by a recovery in tourist arrivals. While the realism tools suggest that the projected debt reduction and 3-year fiscal adjustment are ambitious, staff sees them as feasible given the authorities' strong commitment to fiscal adjustment and ongoing 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 obervations 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.

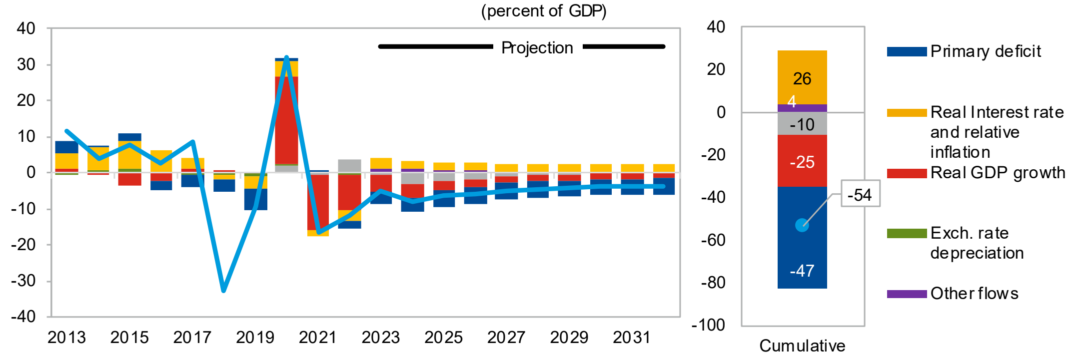
Figure 3. Barbados: Baseline Scenario

(Percent of GDP unless indicated otherwise; fiscal year)

	Actual	Medium-term projection						Extended projection						
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public debt	119.6	114.7	106.9	100.5	94.7	89.8	85.1	80.9	76.9	73.1	69.2	66.1	62.9	59.7
Change in public debt	-11.9	-4.9	-7.8	-6.4	-5.7	-5.0	-4.6	-4.3	-3.9	-3.9	-3.8	-3.1	-3.2	-3.2
Contribution of identified flow s	-15.6	-4.5	-4.8	-4.3	-3.7	-4.0	-3.9	-3.8	-3.7	-3.7	-3.7	-3.0	-3.1	-3.1
Primary deficit	-2.5	-3.4	-4.0	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.0	-4.0	-4.0
Noninterest revenues	29.0	28.5	30.2	30.2	30.3	30.3	30.3	30.4	30.5	30.5	30.5	30.5	30.5	30.5
Noninterest expenditures	26.5	25.1	26.2	25.7	25.8	25.8	25.8	25.9	26.0	26.0	26.0	26.5	26.5	26.5
Automatic debt dynamics	-13.1	-2.2	-1.8	-0.5	0.1	0.4	0.6	0.7	0.8	0.8	0.8	1.0	0.9	0.9
Real interest rate and relative inflation	-2.8	2.9	2.0	2.3	2.3	2.3	2.3	2.3	2.4	2.3	2.2	2.4	2.2	2.1
Real interest rate	-5.0	3.1	1.5	2.0	2.1	1.9	2.0	2.1	2.2	2.1	2.1	2.2	2.1	2.0
Relative inflation	2.2	-0.2	0.5	0.3	0.3	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Real grow th rate	-9.8	-5.1	-3.9	-2.8	-2.2	-1.9	-1.8 .	-1.7	-1.6	-1.5	-1.4	-1.4	-1.3	-1.2
Real exchange rate	-0.6	…	…	…	…	…	… .	…	…	…	…	…	…	…
Other identified flow s	0.0	1.1	1.1	0.7	0.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.9	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	0.2	1.1	0.7	0.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	3.7	-0.3	-3.1	-2.1	-2.0	-1.0	-0.7	-0.4	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Gross financing needs	11.5	13.0	10.6	11.8	10.7	10.3	11.4	11.3	10.4	10.2	11.1	12.1	9.7	9.5
of w hich: debt service	13.9	15.6	14.6	16.3	15.2	14.8	15.9	15.8	14.9	14.7	15.6	16.1	13.7	13.5
Local currency	10.7	11.6	10.7	10.5	9.6	9.4	10.8	10.4	10.8	10.7	11.5	12.0	10.0	9.7
Foreign currency	3.2	3.9	4.0	5.8	5.6	5.5	5.0	5.3	4.1	4.0	4.1	4.1	3.7	3.8
Memo:														
Real GDP grow th (percent)	8.1	4.4	3.5	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)	8.4	1.9	3.4	2.8	2.7	2.8	2.7	2.5	2.4	2.4	2.4	2.4	2.4	2.4
Nominal GDP grow th (percent)	17.2	6.4	7.0	5.6	5.0	4.8	4.8	4.6	4.5	4.5	4.5	4.4	4.5	4.5
Effective interest rate (percent)	4.0	4.7	4.8	4.8	4.9	4.9	5.1	5.1	5.2	5.3	5.4	5.8	5.7	5.8

Contribution to change in public debt

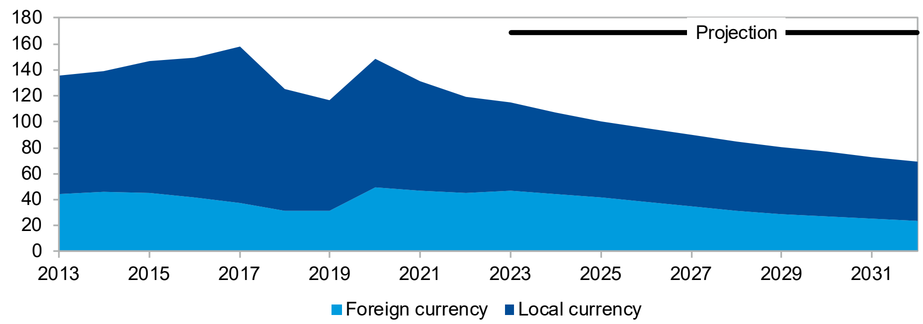
(percent of GDP)



Staff commentary: Public debt has been put on a dow nw ard debt trajectory after a temporary increase during the COVID-19 pandemic. It is projected to continue declining to meet the long-term target of 60 percent of GDP by FY2035/36, driven by prudent fiscal policies and steady economic grow th.

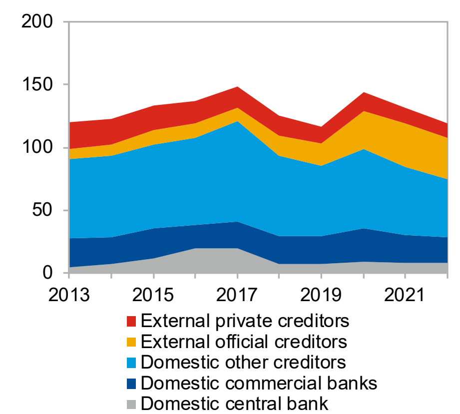
Figure 4. Barbados: Public Debt Structure Indicators
(Fiscal year)

Debt by Currency (Percent of GDP)



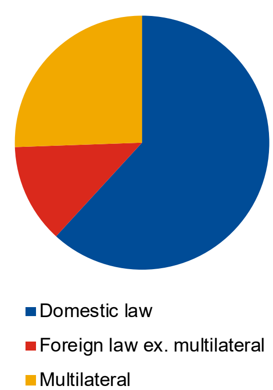
Note: The perimeter shown is central government.

Public Debt by Holder (Percent of GDP)



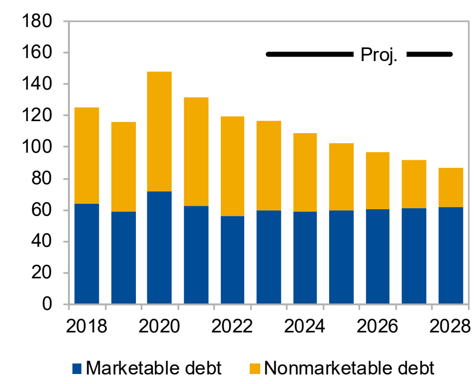
Note: The perimeter shown is central government.

Public Debt by Governing Law, 2022 (Percent)



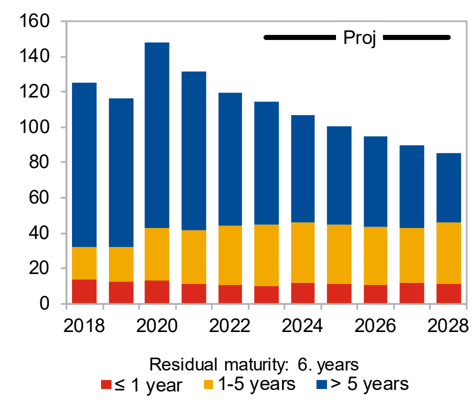
Note: The perimeter shown is central government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is central government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is central government.

Commentary: The composition of the debt remains broadly unchanged over the projection period. Over the medium and long-term, financing from domestic and external financial markets are expected to increase.

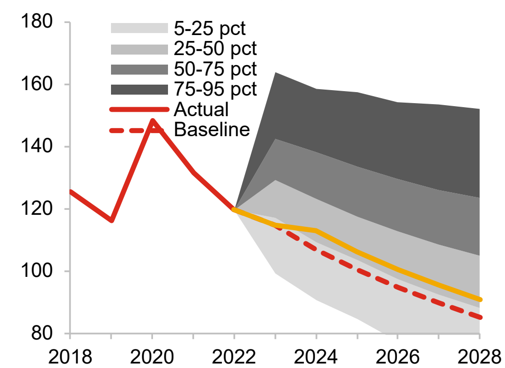
Figure 5. Barbados: Medium-Term Risk Analysis
(Fiscal year)

Debt Fanchart and GFN Financeability Indexes
(Percent of GDP unless otherwise indicated)

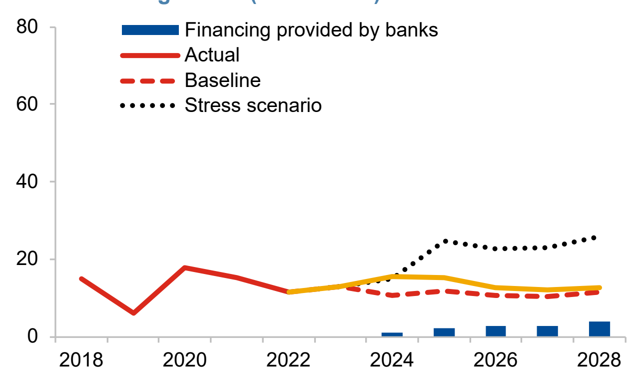
Module	Indicator	Value	Risk index	Risk signal	Em. Econ., Non-Com. Exp, Program (0 25 50 75 100)
Debt fanchart module	Fanchart width	85.9	1.2	…	
	Probability of debt not stabilizing (pct)	13.1	0.1	…	
	Terminal debt level x institutions index	47.2	1.0	…	
	Debt fanchart index	**…**	**2.4**	**High**	
GFN finance-ability module	Average GFN in baseline	11.3	3.9	…	
	Bank claims on government (pct bank assets)	13.2	4.3	…	
	Chg. in claims on govt. in stress (pct bank assets)	1.9	0.6	…	
	GFN financeability index	**…**	**8.8**	**Moderate**	

Legend: Interquartile range; Barbados

Final Fanchart (Pct of GDP)



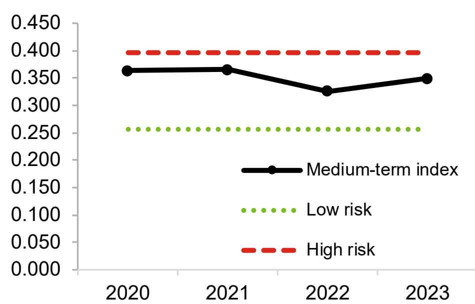
Gross Financing Needs (Pct of GDP)



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, 2023-2028 (if stress not predicted): 27.3 pct.

Prob. of false alarm, 2023-2028 (if stress predicted): 20.5 pct.

Commentary: The 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 suggests that natural disasters would not pose large enough shocks that warrant a change in the overall assessment.

Figure 6. Barbados: Long-Term Risk Analysis
(Fiscal year)

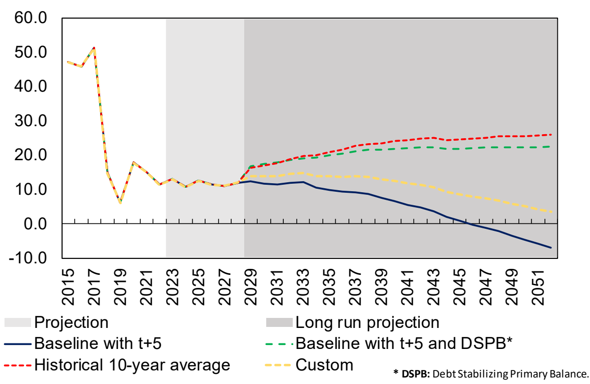
Large Amortization Trigger

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Overall Risk Indication		

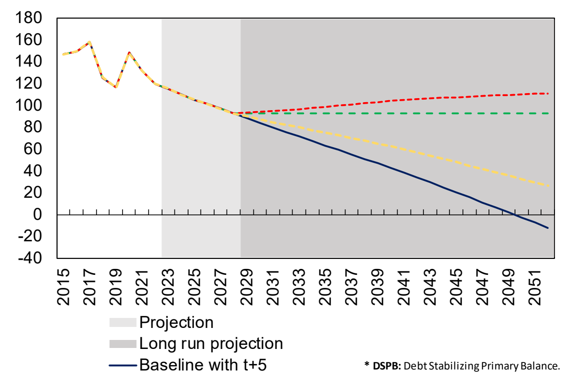
Alternative Baseline Long-term Projections (including Custom scenario)

	Baseline extension of fifth projection year	Custom baseline
Real GDP growth	2.0%	2.0%
Primary Balance-to-GDP	4.5%	3.0%
Real depreciation	-2.7%	-2.4%
Inflation (GDP deflator)	2.7%	2.5%

GFN-to-GDP ratio



Total public debt-to-GDP ratio



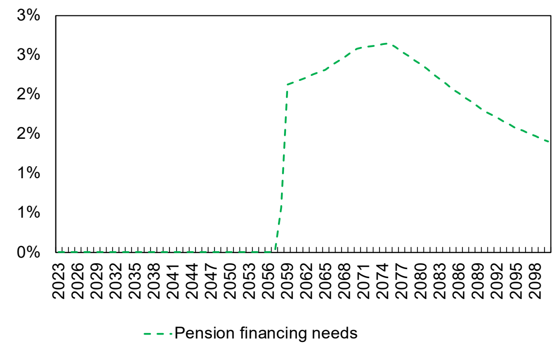
Commentary: The analysis shows gradual declines in GFN and debt relative to GDP both under the baseline and custom scenarios.

Figure 6. Barbados: Long-Term Risk Analysis (Continued)
(Fiscal year)

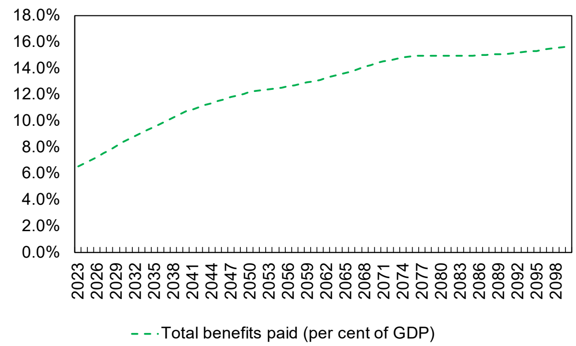
Demographics: Pension

Permanent adjustment needed in the pension system (pp of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	0.00%	0.58%	1.01%

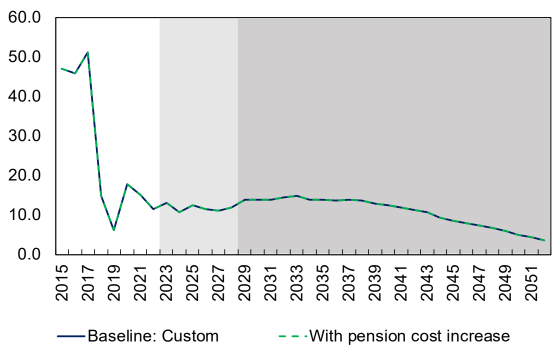
Pension Financing Needs



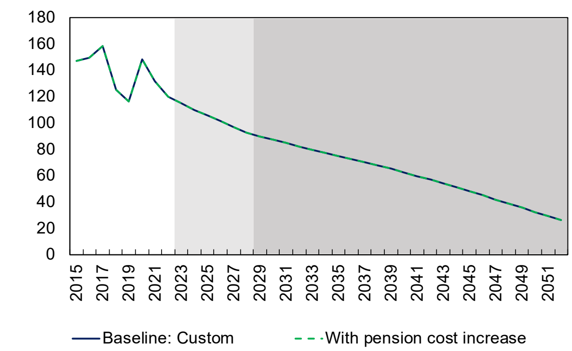
Total benefits paid



GFN-to-GDP ratio



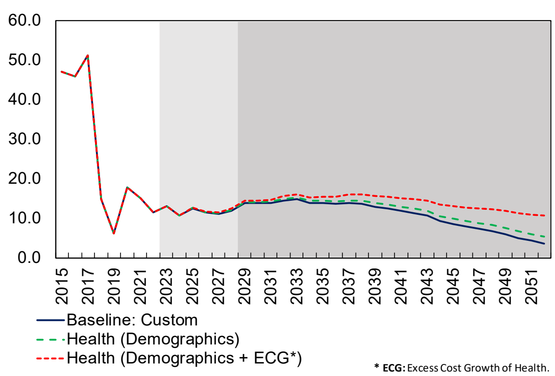
Total public debt-to-GDP ratio



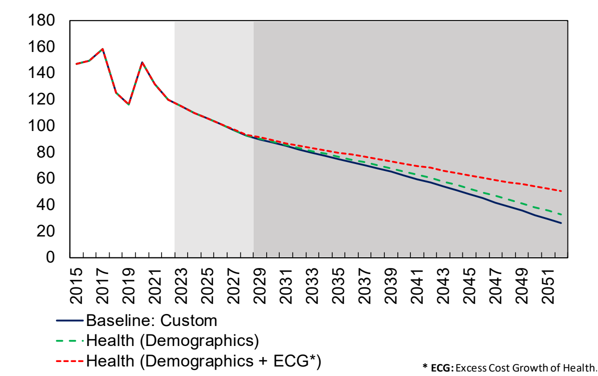
Commentary: This analysis reflects the implementation of the authorities' pension reforms, which are expected to make the National Insurance Scheme financially sustainable for 25-30 years.

Demographics: Health

GFN-to-GDP ratio



Total public debt-to-GDP ratio



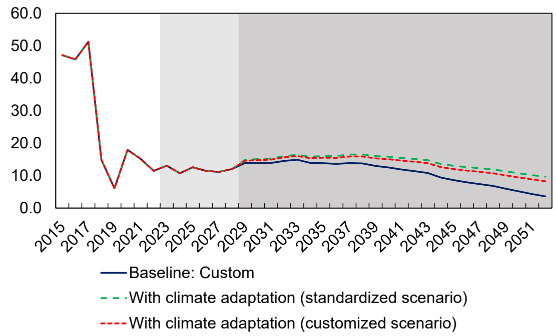
Commentary: The current healthcare expenditure policies would not pose significant sustainability risks.

Figure 6. Barbados: Long-Term Risk Analysis (Concluded)

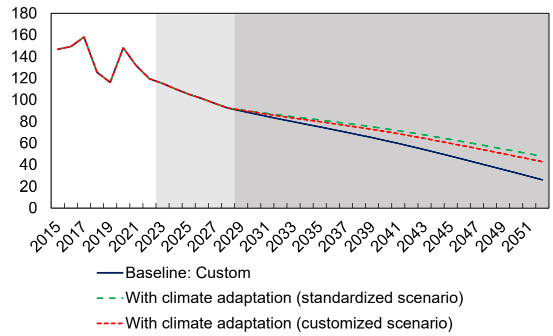
(Fiscal year)

Climate Change: Adaptation

GFN-to-GDP ratio



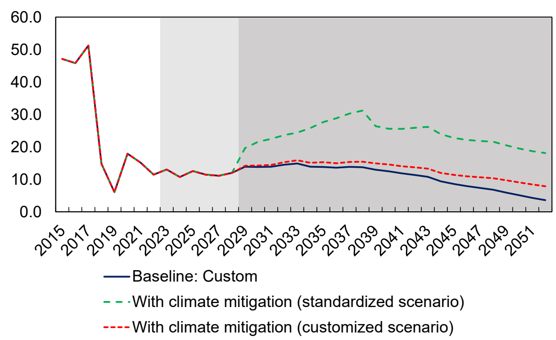
Total public debt-to-GDP ratio



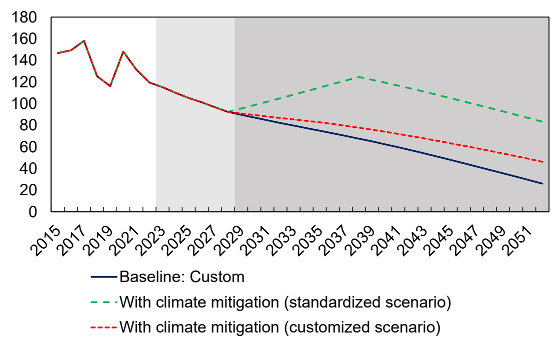
Commentary: Adaption expenditures would not significantly impact debt sustainability in the long run.

Climate Change: Mitigation

GFN-to-GDP ratio



Total public debt-to-GDP ratio



Commentary: Mitigation expenditures would not significantly impact debt sustainability in the long run. While Barbados is not a large GHG emitter, the authorities are working to transition to a fully-renewable based economy.

Annex III. External Sector Assessment

Overall Assessment: *Barbados' external position in 2022 was broadly in line with the level consistent with medium-term fundamentals and desirable policies. Reserve coverage remained ample, at about 7 months of imports of goods and services as of end-2022, supporting the exchange rate peg. The current account deficit is expected to decline in 2023 and over the medium-term driven by the tourism recovery, the fiscal consolidation, and the transition to renewable energy.*

Potential Policy Responses: *Policies to maintain the external position in line with fundamentals include (i) implementing the fiscal consolidation planned under the BERT Plan to safeguard public debt sustainability while maintaining adequate social and capital spending, (ii) investing in climate adaptation and supporting the green transition to build resilience to climate change, and (iii) implementing reforms to facilitate private investment, boost competitiveness, and unlock growth.*

Foreign Assets and Liabilities: Position and Trajectory [1]

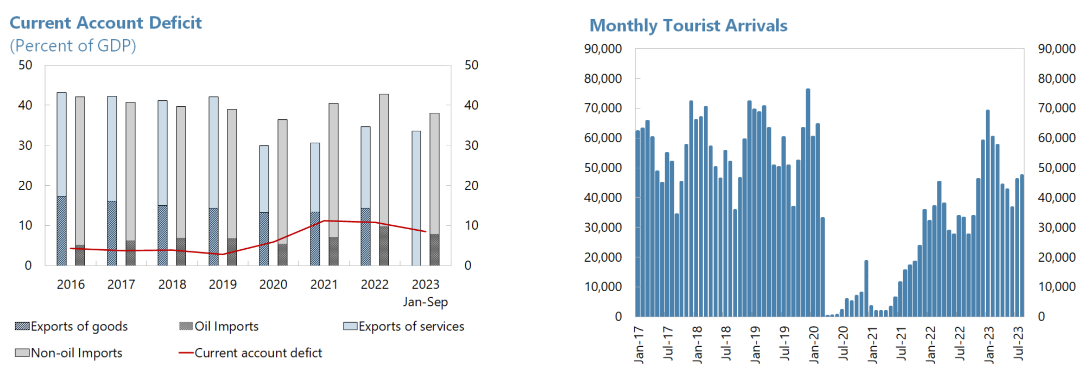
Background. Total public and publicly guaranteed external debt stood at about 45 percent of GDP as of end FY2022/23, accounting for 37.7 percent of total public debt. Outstanding debt to all multilateral creditors stood at about 30.3 percent of GDP, or about 67.3 percent of the total external debt stock (see the DSA Annex).

Assessment. External borrowing is expected to continue in FY2023/24 and to gradually decrease over the medium term driven by higher primary surpluses. The continued improvement in market sovereign credit risk perceptions evidenced by a compression in debt spreads bodes well for the authorities to be able to roll over the commercial external debt in the medium-term at favorable borrowing costs (see the DSA Annex).

Current Account

Background. The current account (CA) deficit, which averaged around 4.2 percent of GDP during 2015–19, widened to 10.7 percent of GDP in 2022 due to the impact of the pandemic on tourism and the surge in global commodity prices and freight costs. The CA deficit is projected to fall to 8.1 percent of GDP in 2023 supported by the recovery in tourism and lower commodity prices.

Figure 1. Tourist Arrivals and Current Account Developments



Sources: CTO, Central Bank of Barbados, and IMF staff calculations.

1 Data limitations do not allow an analysis of the net foreign asset position (with the latest IIP as of 2010). The assessment in this section is based on Debt Sustainability Analysis.

Assessment. Staff's analysis based on the EBA-lite current account model suggests that the external position in 2022 was broadly in line with the level consistent with medium-term fundamentals and desirable policies. The cyclically adjusted CA balance, adjusted for the effects of the pandemic on tourism, is estimated at -6.3 percent of GDP in 2022, which compared to a multilaterally consistent estimated cyclically adjusted CA norm of -5.9 percent of GDP, leads to current account gap of -0.4 percent of GDP. Such gap is within the +/- 1 percent of GDP, broadly in line with the assessment range. As tourist arrivals normalize fully, the authorities implement the planned fiscal consolidation, and the transition towards renewable energy advances, the CA balance is expected to converge towards the norm over the medium term.

Barbados: EBA-lite Model Results, 2022

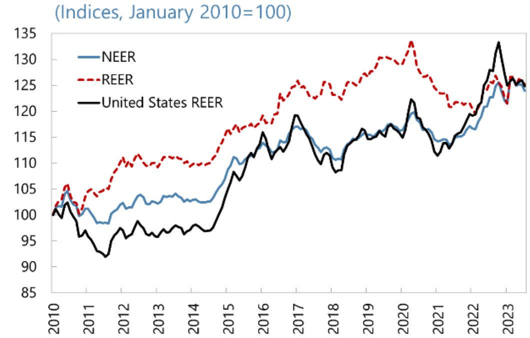
	CA model 1/	REER model
	(in percent of GDP)	
CA-Actual	**-10.7**	
Cyclical contributions (from model) (-)	0.2	
COVID-19 adjustors (-) 2/	-4.6	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-6.3**	
CA Norm (from model) 3/	**-5.9**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-5.9**	
CA Gap	**-0.4**	
o/w Relative policy gap	1.3	
Elasticity	-0.3	
REER Gap (in percent)	**1.4**	**18.6**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the tourism (4.6 percent of GDP).
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. Given its peg to the US dollar, Barbados' real exchange rate broadly mirrored the evolution of the US dollar. After depreciating by 5.1 percent in 2021, Barbados' real effective exchange rate (REER) appreciated moderately in 2022. The increase in the REER was driven by an appreciation in the nominal effective exchange rate (NEER) vis-à-vis Barbados' main trading partners, as the US dollar appreciated against most currencies in 2022.

Nominal and Real Effective Exchange Rates
(Indices, January 2010=100)



Sources: INS, and IMF staff calculations.

Assessment. The CA gap estimated under the CA EBA-Lite model implies a small REER gap of 1.4 percent, applying an estimated elasticity of -0.3. The EBA-Lite REER model points to a larger gap of 18.6 percent. However, given that the CA model better captures the evolving nature of Barbados' external position, staff assesses the REER gap to be of around 1.4 percent, in line with the result of the CA model.

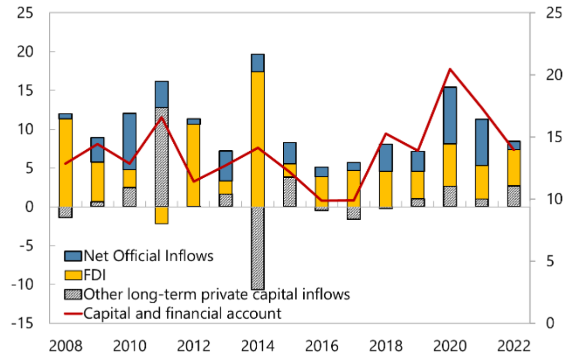
Capital and Financial Accounts: Flows and Policy Measures

Background. Barbados relies primarily on official inflows and foreign direct investment (FDI) (which averaged 11 percent of GDP between 2018 and 2022) to finance the current account deficit. In 2022, FDI rose to 4.5 percent of GDP. It is projected that FDI inflows will increase in the coming years, following the recovery of tourism.

Assessment. Ongoing efforts to enhance the business environment, attract private investment, and mobilize climate finance should help increase the share of the private sector in the external financing mix in the coming years. The authorities should consider phasing out the 2 percent foreign exchange fee (a capital flow management measure introduced in 2017) as the fiscal position further strengthens.

Capital and Financial Account

(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

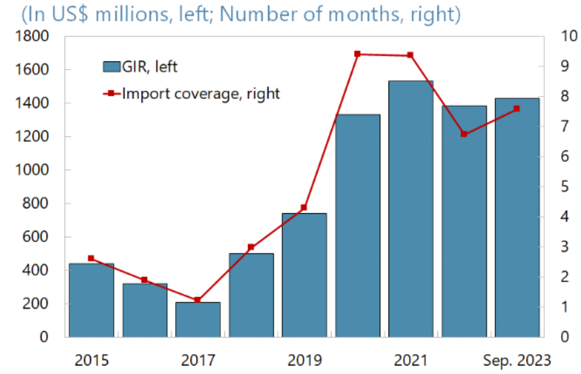
FX Intervention and Reserves Level

Background. International reserves increased in recent years, boosted by multilateral financial support. Gross international reserves amounted to US$1.4 billion as of end-December 2022 (6.7 months of imports) and are projected to reach US$1.6 billion as of end-2023, equivalent to over 7 months of imports of goods and services and about 247 percent of the Fund's reserve adequacy metric. The drop in 2022 relative to 2021 was related to the timing of multilateral financial disbursements.

Assessment. Reserve coverage remains ample, providing strong support to the exchange rate peg. Given uncertainties surrounding the global economy and intensifying climate change-related risks, Barbados needs to maintain adequate foreign exchange buffers. Reserves are projected to remain ample, above 5 months of imports and over the 100 to 150 adequacy range of the Fund's reserve adequacy metric during the projection period.

Gross International Reserves

(In US$ millions, left; Number of months, right)



Sources: Central Bank of Barbados, and IMF staff calculations.

Annex IV. Taking Stock of Governance Reforms

This appendix summarizes the governance landscape in Barbados. Barbados ranks relatively high in indices of perception of low corruption and the rule of law. Significant improvements have been made in key areas of governance in recent years, notably through legislation to strengthen the anti-corruption framework, the customs regime, the public financial management framework, the procurement framework, and the Central Bank law. In addition, progress has also been made in reforming revenue administration, improving the oversight and reporting mechanisms for state-owned enterprises, and strengthening the AML/CFT framework. Scope for improvement remains in some of these areas as the new legislative frameworks and ongoing reform efforts are fully implemented, most notably in revenue administration, procurement, and public financial management. The authorities are committed to further strengthening their governance frameworks as they continue implementing their economic reform and transformation (BERT) Plan.

Anti-Corruption

1. The incidence of bribery in Barbados is perceived to be well below worldwide and regional averages. According to Transparency International's 2022 Corruption Perception Index, perceived corruption in Barbados was the lowest in the Caribbean and among the lowest in Latin America and the Caribbean, with Barbados ranking in place 29 among 180 countries.

2. This notwithstanding, the authorities have taken actions to further strengthen the anticorruption framework in recent years. These included:

- The approval of a Prevention of Corruption Act to provide for the prevention, investigation, and prosecution of acts of corruption, which applies to persons in both the public and private sectors (October 2021).
- The approval of a Deferred Prosecutions Act to empower the Director of Public Prosecutions to meet with and construct agreements concerning criminal liability (December 2021).
- The approval of a Whistle Blower Protection Bill (December 2021), giving legal effect to the United Nations Convention against Corruption as well as the Inter-American Convention Against Corruption.
- The approval of an Integrity in Public Life Bill in (August 2023).

Fiscal Governance

Revenue Administration:

3. The authorities took significant actions in recent years, with IMF TA support, to: (i) strengthen the Barbados Revenue Authority (BRA) and the Barbados Customs and Excise

Department (BCED); (ii) clear tax arrears; and (iii) modernize the exemptions framework. These included:

- The modernization of the BRA organization structure (implementing most of the recommendations of a 2021 TA mission) and tax administration systems. A Large Taxpayer Unit was established, audit capacity was increased and audit activity was scaled up, and capacity for electronic filings and digital payments was increased.

- A Memorandum of Understanding was signed between the BRA and BCED to enhance information sharing between the two agencies. A data matching project of taxpayers' information was undertaken to improve compliance and risk management.

- An extensive modernization project was undertaken at the BCED. The Customs Act was revamped and regulations were developed, together with a new administrative and monetary penalty regime to promote voluntary compliance. A three-year strategic plan was prepared, along with performance target outcomes for trade facilitation and revenue collection. Extensive training was delivered on all core customs functions. In addition, all managers and executives were trained on management, integrity, and governance. A series of tools are being built to strengthen core processes and implement a risk management approach as a key element of the compliance framework. Compliance units were staffed; work plans developed to start implementing changes mandated by the new legislative framework; and key processes were automated. Internal control was also strengthened through the structuration of the internal audit function and the creation of the BCED Professional Code of Conduct.

- The update of the BRA's IT systems and processes to ensure the timely processing and issuance of tax refunds and retire the stock of tax arrears. Tax arrears have been significantly reduced.

- New legislation was approved to improve duty and tax exemption management and ensure its oversight by the MFEI. The regime for granting duty and tax exemptions is being modernized and rationalized.

4. **Building on the substantial progress made in recent years, further work is needed in some areas**, including:

- Fully implementing the new organizational and governance structures and addressing capacity constraints at the BCED.

- Finalizing regulations to enforce the new Customs Act.

- Further enhancing cooperation between BRA and BCED.

- Stepping up efforts to adopt a risk management approach.

- Simplifying and modernizing tax return forms and filing procedures; and enhancing procedures for timely payment of refunds;

- Completing the clearance of tax arrears.

- Operationalizing the new framework for granting and managing duty and tax exemptions.

- Leveraging TAMIS and ASYCUDA to enhance e-government, focusing on improving electronic services to taxpayers and traders.

Public Financial Management (PFM)

5. The authorities made significant strides to enhance PFM in recent years, with IMF TA support. Important achievements included:

- The implementation of a procedural fiscal rule, in line with IMF TA recommendations. The implementation of a numerical fiscal rule will be explored once PFM has been sufficiently strengthened.

- The approval of a new Public Finance Management (PFM) Act (2019), with a view to achieve greater transparency and accountability of public financial management and ensure long-term fiscal sustainability.

- The adoption of an action plan to implement the new PFM Act by:

    - Strengthening the strategic phase of the budget formulation process through annual updates of the government's fiscal strategy and setting of multi-year expenditure ceilings in accordance with the updated fiscal strategy.

    - Upgrading the budget documentation to provide more policy-oriented information to decision makers and enable more transparent budget execution.

    - Establishing monitoring processes to enhance fiscal risk management, for example through annual/quarterly reports by ministries, government agencies, and SOEs.

- The creation of subprograms to track COVID-19 related expenditures in the budget and presenting to Parliament contracts awarded for BD$1 million or more.

- Tasking the Auditor General with preparing and delivering audit opinions on the annual financial statements of the government. The Public Accounts Committee of Parliament is to review the annual audited financial statements of the government and report to Parliament on the results of such reviews no later than the first week of the tenth month of the financial year following the financial year under review and such report shall include recommendations on the actions to be taken.

- The publication of a fiscal risks annex in the FY 2023/24 budget, discussing the fiscal impact of natural disasters, legal claims against the state, risks related to state pensions, and investment risks.

- The creation of a dedicated Fiscal Risk Unit within the MFEI.

6. Building on the actions already taken, next steps to further strengthen PFM include:

- Completing the implementation of the new PFM Act.

- Establishing a Cash Management Unit within the Treasury (structural benchmark under the EFF).

- Improving the quality, timeliness, and comprehensiveness of the annual government financial statements to bring them in full compliance with International Public Sector Accounting Standards (IPSAS).

- Submitting the 2010 to 2021 financial statements of the National Insurance Scheme (NIS) for audit by the Auditor General (structural benchmark under EFF).

- Further enhancing the framework for Public-Private Partnerships (PPPs).

Procurement

7. A new, revamped Procurement Act was approved by Parliament in December 2021. The Act seeks to strengthen the fairness, integrity, and transparency of the procurement process. The authorities are committed to the implementation of enhanced public procurement practices, including from a sustainable-green perspective. The 2021 Procurement Act includes several provisions to increase transparency and enhance governance. It charges the Chief Procurement Officer with the responsibility to i) conduct procurement audits and ii) establish and maintain a register for all suppliers. It also requires the publication of all procurement contracts awarded in the year as well as reports on supplier performance. The authorities have also implemented an e-procurement system, with IDB support, to reduce the cost and processing time of public procurement.

8. Remaining challenges and next steps to further strengthen public procurement include:

- Fully implementing the new Procurement Act.

- Issuing detailed procedural guidelines and establishing clear processes. The authorities proclaimed the Procurement Act and issued regulations to operationalize it . The authorities are working in the operationalization of the Procurement Act, with IDB support. They also developed (with IDB support) a sustainable/green procurement framework that provides operational guidelines to operationalize sustainable/green procurement practices.

- Addressing capacity constraints among procurement staff.
- Addressing centralization and potential bottlenecks. The procurement process is highly centralized, which may delay procurement to respond to emergencies. In addition, the process to approve contracts and amendments can result in bottlenecks.

State-Owned Enterprises (SOEs)

9. The 2019 PFM Act strengthened oversight and reporting mechanisms for SOEs. These include:

- SOEs require government pre-approval for borrowing.
- Reporting requirements have been tightened, with sanctions for non-compliance.
- A health dashboard that analyzes the financial performance of SOEs monitored by the MFEI has been developed, with IMF support, and provides a mechanism to assess risks and elaborate targeted reform measures to enhance SOEs' performance and reduce government dependence. The SOE dashboard is submitted to the Cabinet on a quarterly basis.

In addition, a comprehensive stocktaking of the SOE's financial performance was undertaken, SOE arrears are being monitored on an ongoing basis, and the stock of arrears has been significantly reduced.

10. Remaining challenges involve reforming the SOE sector to reduce its financial dependence from the government (structural benchmarks under the EFF).

Central Bank

11. In 2020, the Parliament approved a new Central Bank of Barbados (CBB) Act, developed with IMF support. The new Act strengthened the CBB's autonomy, governance structure, and accountability mechanisms. The Act also limited monetary financing, while mandating the CBB to divest from quasi-fiscal operations.

12. A 2023 IMF Safeguards Assessment found that the CBB has a strong safeguards framework. Key findings of the assessment relating to governance matters included:

- Governance and oversight practices are broadly strong in most aspects. The Board is fully constituted with a non-executive majority, and actively discharges its oversight role. The Audit Committee (AC)'s oversight modalities are also well established.
- Internal audit. There is scope for further strengthening the Internal Audit Department (IAD)'s audit planning methodology, the execution of audit plans, and the implementation of recommendations of past audits.

- Transparency and accountability. The CBB has adopted International Financial Reporting Standards (IFRS) and published audited Annual Financial Statements for the years 2019-2022. External audits continue to be conducted by international audit firms.

- Recapitalization of the CBB. The CBB continues to operate with a negative equity position stemming from the 2018 government debt restructuring. In line with the Recapitalization Plan adopted by Cabinet in 2021, the CBB plans to retain profits to gradually help rebuild its balance sheet position.

Financial Sector Oversight

13. The new CBB Act establishes the promotion of financial stability as an objective for the CBB. It 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 (FSC), 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 CBB designs the reporting forms and schedules for banks and trust and finance companies. 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.

AML/CFT

14. Barbados has made significant efforts to strengthen its Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) framework in recent years. In February 2020, the authorities made a high-level political commitment to work with the Financial Action Task Force (FATF) and the Caribbean Financial Action Task Force (CFATF) to strengthen their AML/CFT framework and exit the FATF's International Review Group process ("grey list"). Key items in the action plan included:

- Demonstrating that the authorities effectively apply risk-based supervision for FIs and Designated Non-Financial Businesses and Professions (DNFBPs).

- Taking appropriate measures to prevent legal persons and arrangements from being misused for criminal purposes and ensuring that accurate and up-to-date basic and beneficial ownership information is available on a timely basis.

- Increasing the capacity of the Financial intelligence Unit (FIU) to improve the quality of its financial information to further assist law enforcement authorities in investigating money laundering or terrorist financing.

- Demonstrating that money laundering investigations and prosecutions are in line with the country's risk profile and reducing the backlog to complete prosecutions that result in sanctions when appropriate.

- Pursuing confiscation in money laundering cases, including by seeking assistance from foreign counterparts.

15. Significant progress has been made in advancing the Action Plan. At its October 2023 Plenary, the FATF made the initial determination that Barbados has substantially completed its Action Plan to strengthen the effectiveness of its AML/CFT regime and warrants an on-site assessment to verify their implementation. The authorities remain committed to maintaining their efforts to exit the "grey list" as soon as possible (see ¶24 in the staff report).

Rule of Law and Regulatory Framework

16. Barbados' legal system is strong, with adequate protections of investors and property rights. Barbados ranks highly in the World Justice Project (WJP)'s Rule of Law Index. Barbados' regulatory framework does not have major weaknesses. The authorities are working to further increase the ease of doing business. Key initiatives in the pipeline include:

- Reviewing and updating the Companies Act to ensure consistency with international best practices.

- Reforming the Corporate Affairs and Intellectual Property Office (CAIPO).

- Promoting digitalization, including by adopting a digital payments system, encouraging the development of fintech, and establishing a GovTech agency for the provision of public services and a digital platform for the monitoring of the Public Sector Investment Program (structural benchmarks under the EFF).

Annex V. Digital Transformation: Bridging Divides, GovTech Innovations, FinTech Evolution, and AI in the Workforce[1]

Barbados' authorities have embarked on digital transformation reforms, aiming to enhance productivity and information security. The efforts are focused on digitizing government operations and service delivery and boosting productivity and inclusion. For Barbados to fully seize the opportunities of the digital age, it is essential to deploy operational digital and cybersecurity strategies, introduce key policy enablers to facilitate the creation of digital services, champion GovTech reforms to elevate fiscal transparency and efficiency, draw lessons from regional fintech success stories, and prepare the workforce with artificial intelligence (AI) competencies while addressing potential job displacement concerns.

1. **Under the umbrella of the Barbados Economic Recovery and Transformation (BERT) Plan, the authorities have taken steps to modernize the economy.** In the area of digital transformation, some specific goals include: (i) amplifying the use of digital channels by individuals and businesses for seamless access to public services; (ii) enhancing public sector administrative efficiency; and (iii) augmenting public sector capabilities to adeptly navigate the digital economy landscape.

2. **Significant strides have been made in digitizing government operations and services.** These include the EZPAY+ government payment platform, which offers several dozen services, such as tax payments, national insurance scheme contributions, and driver's license renewals, among others. Going forward, introducing key enabling policies and technologies is crucial for the development of digital services. A digital ID system is a fundamental component for enabling new FinTech, GovTech, and e-commerce services. Additionally, ensuring interoperability and robust cybersecurity measures are also vital elements.

Digital Divide

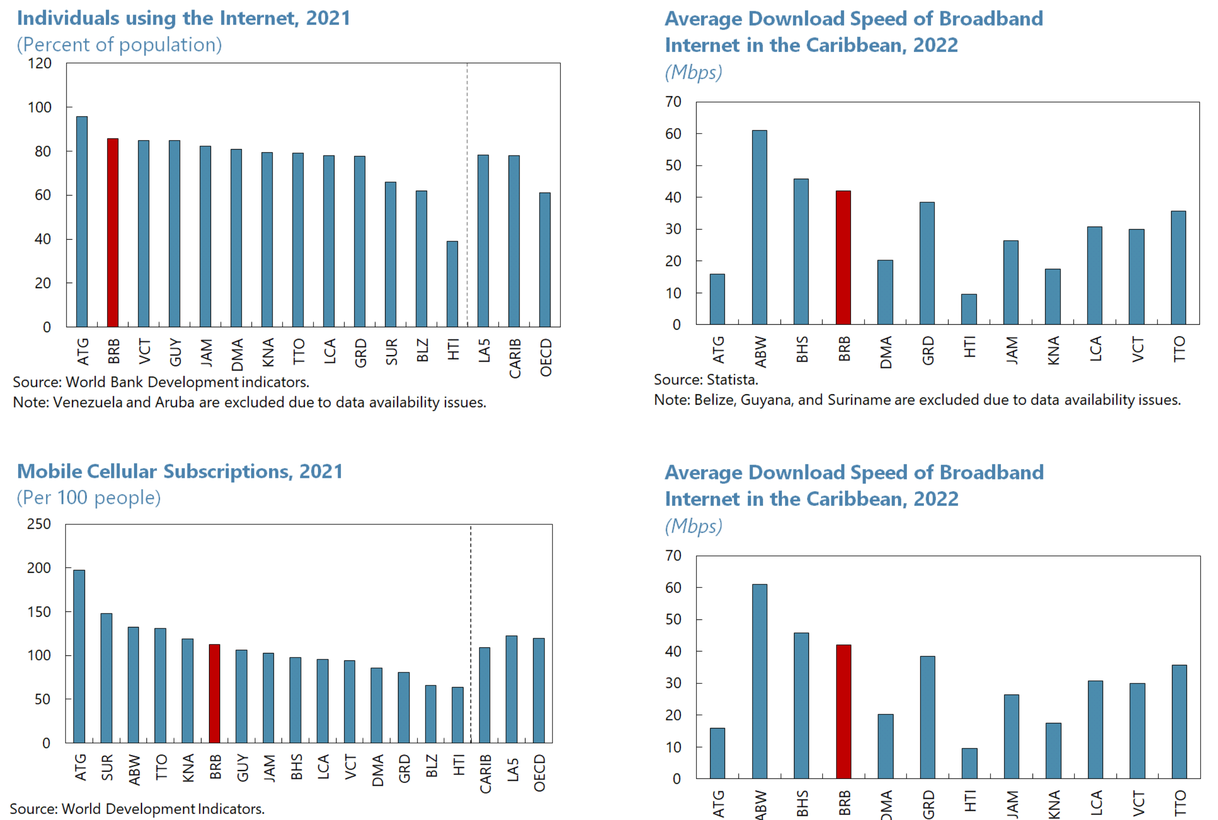
3. **Barbados showcases an advanced digital infrastructure in the region.** Internet accessibility is nearly universal, as depicted in Figure 1. When compared to other Latin American and Caribbean nations, Barbadian school students enjoy one of the highest rates of internet accessibility. The coverage of mobile broadband (4G) in Barbados stands at 95 percent vis-à-vis the 98 percent observed in OECD countries.

4. **As per the IDB 2022 Annual Broadband Development Index, Barbados showcases the narrowest digital divide in comparison to OECD countries within the Latin America and the Caribbean region.** Of the 65 nations evaluated, Barbados holds the 31st position. The IDB suggests that a mere 0.2 percent of GDP invested in connectivity enhancements and digital training for educators could effectively bridge this digital gap. This is in line with the IMF's Digital Infrastructure

[1] Prepared by Dmitry Vasilyev (WHD) and Jiemin Ren (FAD).

Costing Estimator (Oughton, Amaglobeli, and Moszoro 2023) that estimates the costs of achieving universal broadband connectivity at 0.03 percent of GDP.

Figure 1. Barbados: Access to the Internet



Individuals using the Internet, 2021: Source: World Bank Development indicators.
Note: Venezuela and Aruba are excluded due to data availability issues.

Average Download Speed of Broadband Internet in the Caribbean, 2022: Source: Statista.
Note: Belize, Guyana, and Suriname are excluded due to data availability issues.

Mobile Cellular Subscriptions, 2021: Source: World Development Indicators.
Note: This number can get over 100 when the average person has more than one subscription to a mobile service.

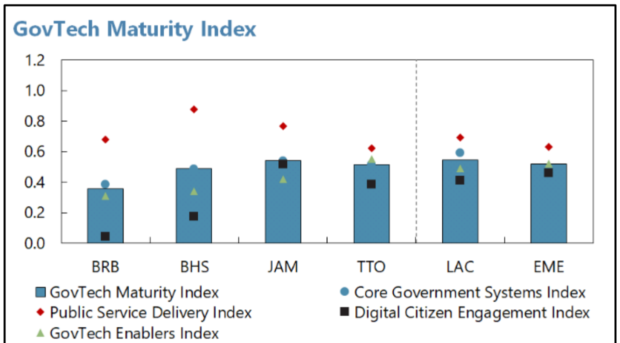
Average Download Speed of Broadband Internet in the Caribbean, 2022: Source: Statista.
Note: Belize, Guyana, and Suriname are excluded due to data availability issues.

5. **Digital transformation is intrinsically linked to significant social dividends and improvements in human capital.** While Barbados' digital gap seems limited, few digital services are available. Increasing the digitalization of the economy can substantially raise the labor force participation especially among women (Kumar, Amaglobeli, and Moszoro 2023). Furthermore, it can also lead to an increase in secondary education test scores (Kumar, Amaglobeli, and Moszoro 2023). The digitalization of health information systems provides medical practitioners with timely access to accurate patient data, facilitates communication among all medical facilities (both public and private), and strengthens cyber security. In Barbados, a US$4.4 million (BDS$8.8 million) grant from the EU, funneled through the IDB, enabled the government to launch a program in 2023 to digitalize health information management systems. This initiative aims to upgrade computer systems and offer training to medical practitioners in cyber security.

Government Tech

6. **In general, the digitization of government services presents a significant opportunity to revolutionize the public sector.** This encompasses solutions like digital platforms, which include cloud storage, payment mechanisms, and digital identification, as well as internal systems such as the digital transformation of revenue administration, public financial management, and inter-departmental data sharing. Additionally, there are interfaces between the government and its users, like online fiscal declaration submissions and centralized medical records.[2]

7. **Based on the World Bank's GovTech Maturity Index, Barbados is comparatively strong in public service delivery (which measures the maturity of online public service portals).** However, there is room for improvement in digital citizen engagement (which measures aspects of public participation platforms, citizen feedback mechanisms, open data, and open government portals) and GovTech enablers (which captures strategy, institutions, laws, and regulations, as well as digital skills, and innovation policies and programs to foster GovTech).



Source: The World Bank.
Note: EME= Emerging Market Economies; LAC = Latin America and the Caribbean; GTMI=GovTech Maturity Index, CGSI=Core Government Systems Index, PSDI=Public Service Delivery Index, DCEI=Digital Citizen Engagement Index, GTEI=GovTech Enablers Index.

8. **The government is taking steps to embrace modern GovTech.** As an illustration, all taxpayers now have the capability to file and pay their taxes online via the newly implemented Tax Administration Management Information System (TAMIS). In turn, 100 percent of VAT, personal income and corporate income taxes are filed online. The authorities are also exploring best practices in introducing e-invoicing.

9. **Furthermore, the Barbados Customs and Excise Department has rolled out the latest version of the Automated System for Customs Data (ASYCUDA World).** This customs management system encompasses most foreign trade procedures, efficiently processing manifests, customs declarations, as well as intricate accounting, transit, and suspense operations. An added advantage of ASYCUDA is its ability to produce trade data invaluable for in-depth statistical economic analyses. The BCED is currently developing modules to assist valuation and performance management. Overall, it has not yet fully optimized the full potential of ASYCUDA World to extract, analyze and make use of data to support compliance, risk management and trade facilitation, but, with TA from CARTAC, it is making progress in this area.

[2] For more information, see Amaglobeli, D., R. de Mooij, A. Mengistu, M. Moszoro, M. Nose, S. Nunhuck, S. Pattanayak, L. Rivero del Paso, F. Solomon, R. Sparkman, H. Tourpe, and G. Uña. 2023. "Transforming Public Finance through GovTech." IMF Staff Discussion Note SDN/2023/004.

10. In more recent developments, in September 2023, the government inaugurated a specialized GovTech agency, endowed with the resources, mandate, and authority to propel the digital transformation initiative, enhancing public service delivery. Additionally, a central online platform for government services is planned to be launched by end-March 2024, and a robust digital platform to be designed to optimize the monitoring and implementation of the Public Sector Investment Program. Such improvements in a public investment management system would have a significant positive effect on budget transparency (Nose, 2023).

11. Embracing digital solutions can elevate the efficiency of government operations, particularly in areas of public finance and basic service delivery. For instance, implementing digital technologies in revenue administration has the potential to boost revenue collections by significantly improving transparency and accountability. Automation of budgetary transactions can refine budget management quality, while the integration of an e-procurement platform can enhance fiscal transparency and efficiency by minimizing delays in project implementation. Furthermore, the digital transformation is intrinsically linked to the enhancement of expenditure efficiency, especially in sectors like health and education.

Financial Sector and Technology

12. While Barbados has a well-developed financial sector, financial services could benefit from fintech innovations. Credit extended to the private sector stands at about 75 percent of GDP, with almost all adults having access to financial accounts.[3] However, interest rate spreads (lending rate minus deposit) are notably high at about 8 percent. Additionally, payment fees average 1.5-2 percent. Nonetheless, such levels of lending spreads and fees are typical within the region.

13. In a bid to rejuvenate the financial sector and foster the emergence of FinTech startups, both the Central Bank of Barbados (CBB) and the Financial Services Commission initiated a Regulatory Sandbox in 2018. This innovative platform enables enterprises to assess the practicality and viability of their avant-garde solutions in an authentic yet managed setting. For regulatory authorities, the sandbox offers invaluable insights into the product or service's intricacies, helping determine the adequacy of the current regulatory framework or the need for novel legislative measures. Despite these benefits, the sandbox has so far attracted only one FinTech firm offering digital payment and digital custody services. The regulators were able to work with other firms using regular structures.

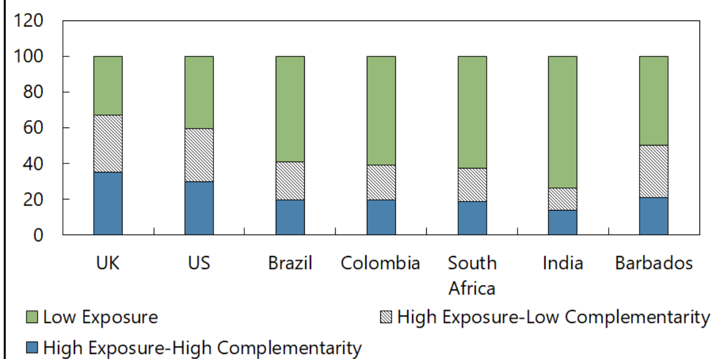
14. To reduce payment fees and the use of cash, the CBB is forging ahead with the modernization of the payment system, underpinned by the Barbados National Payments Act of 2021. This legislation ensures that the Central Bank of Barbados maintains comprehensive oversight over financial transactions while enhancing the Real Time Gross Settlement (RTGS) and Automated Clearing House (ACH) systems. Additionally, real-time transfers within the banking sector and payments for online purchases are available.

[3] 2016-2017 Barbados Survey of Living Conditions.

The Influence of AI on Key Sectors

15. While recent advancements in AI offer potential benefits to boost productivity in Barbados, they also highlight vulnerabilities in the nation's labor force. Approximately one third of the employed population is engaged in jobs that are highly susceptible to AI disruption and exhibit low complementarity with AI applications. Such roles are at the highest risk. The proportion of the labor force in jobs with significant AI exposure but strong complementarity is comparable to several emerging market economies. However, it trails behind rates seen in countries like the U.K. and U.S. As AI adoption becomes more widespread, the economic disparity between Barbados and developed nations may increase. Nevertheless, Barbados boasts a relatively high level of human capital and prevalent access to digital technology, which primes its citizens to effectively adapt to and use emerging technologies.

Labor Force Complementary and Exposure to AI
(Percent of Labor Force)



Source: ILO, Pizzinelli, Carlo, Augustus Panton, Marina M. Tavares, Mauro Cazzaniga, and Longji Li. 2023. "Labor Market Exposure to AI: Cross-country Differences and Distributional Implications." IMF Working Paper, WP/23/XX.

Policy Recommendations

16. Barbados, with its advanced digital infrastructure, high human capital, and dedicated push towards enhanced digitalization, is well-poised to benefit from digital innovations. To fully realize this potential, several steps can be taken:

- Deploying operational national digital and cybersecurity strategies can act as a catalyst for broader digital integration.
- Implementing key policy enablers will facilitate the creation of digital services.
- Introducing further GovTech reforms will help enhance fiscal transparency, optimize expenditure efficiency, and augment tax revenue.
- Drawing insights from regional success stories in introducing financial technologies, such as a digital payment system, digital banking and open banking, can provide avenues to expand access to financial services.
- Encouraging future and current workers to gain proficiency in AI integration, while safeguarding against potential job displacement due to AI, is essential for long-term sustainable growth.

Annex VI. Building Resilience to Natural Disasters and Climate Change[1]

Barbados is highly vulnerable to climate change and natural disasters, particularly those linked to coastal and weather effects. To tackle these risks, the government has ambitious targets for mitigation and adaptation that translate into high investment needs, which can be challenging given the limited fiscal space. Staff's analysis suggests that by accelerating investment in adaptation infrastructure, Barbados could help buttress growth, mitigate the negative impact of natural disasters, and reduce macroeconomic, fiscal, and external risks. Accompanying investments in adaptation with reforms for improving public investment management (PIM) and efficiency would amplify these benefits. With more concessional and grant financing, the country can build resilience while safeguarding debt sustainability.

1. **Barbados is highly vulnerable to climate change and natural disasters.** The country's vulnerability, which has increased in recent years, is linked to its demographic and socioeconomic characteristics, including its position at the edge of the Caribbean with its exposure to extreme maritime conditions; its unique hydrology that results in water scarcity; the early socio-economic development with respect to other countries in the region, that led to a modified natural environment, loss of ecosystem and unsustainable practices; and a high population density combined with scarce natural resources. The climate change risk profile of Barbados is dominated by coastal and weather effects, especially sea level rise, storm surge, increased tropical storm and hurricane intensity.[2] Because of its water scarcity, significant risks linked to events such as floodings, the lengthening of seasonal dry periods, and the increase in the frequency of droughts are also present. Barbados is already being significantly and directly impacted by hurricanes[3], droughts, and sargassum seaweed influxes. In addition, the country is experiencing rapid depletion of freshwater aquifers, an increase in saline intrusion, and pollution of groundwater resources and coastal seawater (Barbados NDC, 2021).

2. **Climate change poses adverse macroeconomic and social risks.** Barbados heavily relies on tourism – a sector sensitive to climate change effects. More severe natural disasters may sharply reduce tourist arrivals, destroy tourism assets on the island, and adversely impact other sectors of the economy. The location of Barbados' beaches and the coastline characteristics makes tourism particularly vulnerable to climate related events. The agriculture and fishery sectors are also prone to natural disasters, which combined with existing water scarcity, may result in lower productivity,

[1] Prepared by Zamid Aligishiev and Camila Perez.

[2] While the scientific evidence on the impact of human-induced climate change on the frequency of tropical cyclones in the Caribbean shows lack of agreement (for recent examples, see Chand et al. 2022 and Emanuel 2021), it is widely acknowledged that the intensity of such events will rise in the future.

[3] Since 2010, hurricanes Tomas (2010), Ernesto (2012), Harvey (2017), and Elsa (2021) and the tropical storms Matthew, Maria, Kirk and Gonzalo (2020) have impacted the island. Also, depending on the size of the storms and because of the characteristics of the Barbados coastline, it experiences coastal impacts even when the eye of the storms is far away from the island.

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. More broadly, natural disasters can lead to lower growth and employment through the destruction of physical capital and the disruption of labor and supply chain while also affecting the demand side, by damaging household and corporate balance sheets and reducing consumption and investment. Furthermore, climate change will impact already vulnerable groups disproportionately, including youth and women, as well as lower income communities. In addition, climate change vulnerability has an effect in public finances, as post-disaster spending increases public debt and can threaten fiscal sustainability and financial stability. At the same time, the transition to a low-carbon economy puts pressures on public resources, as the required investment for resilient energy infrastructure is significant and could potentially postpone other relevant projects.

3. To tackle these risks, Barbados has committed to ambitious targets for adaptation and mitigation.

- Barbados' main mitigation policy focuses on transitioning to renewable energy, while adaptation policies focus on improving structural, financial, and post-disaster resilience. In its updated National Determined Contribution (NDC), the government establishes that the main objective on adaptation is to ensure a protected environment, a stable society, and a sustainable and resilient economy. To achieve this goal, the government plans to implement policies to make Barbados the first 100 percent green and fossil-fuel free island-state in the world by 2035.

- The *structural resilience* pillars are the Planning and Development Act and the 2021 Physical Development Plan (PDP). The PDP is operationalized through the Roofs-to-Roofs Programme (R2RP), a roadmap through which public investment is directed. The initiative includes: a rapid roof replacement programme of non-hurricane resistant roofs, the 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. The program also seeks to provide protection against pollution of the water table with initiatives such as the conversion of remaining outdoor toilets into indoor water efficient toilets. The government also plans to commence the systematic re-siting 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, the government approved amendments to the Planning and Development Act to improve the climate resilience of roads through improved drainage and other interventions.

- In addition to broad legislation for adaptation to climate change, Barbados has enacted some legislative proposals to protect the water and coastal zones. In May 2023, the Parliament approved the Water Reuse Bill, to enhance use of rainwater, stormwater, and treated wastewater for agricultural purposes, domestic and commercial consumption, and groundwater recharge. The government will also amend the 2020 Water Protection and Land Use Zoning Policy to address the climate resilience of groundwater resources and to serve as a planning tool to improve adaptive capacity of a groundwater system. The amendment includes the creation of a Desalination Water Protection Zone, that will provide enhanced control of use and disposal of chemicals, increase sewerage household connections, and establish requirements for developers to protect ground water and coastal waters. The government also plans to table an amended Prevention of Floods Act in Parliament, incorporating the new Stormwater Management Plan, and has updated the Marine Pollution Control Act (MPCA) framework by issuing the discharge regulations to bring conformity with new legislation concerning pollution, particularly the Land-based sources (LBS) protocols of the Cartagena Convention.

4. **Barbados has three main instruments for *financial resilience* against natural disasters:**

- Access to the Caribbean Catastrophe Risk Insurance Facility (CCRIF), a form of parametric insurance.
- Issuance of state-contingent bonds to provide debt service relief in extreme events. The contingency 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.
- A Catastrophe Fund, financed by the NIS, to assist low-income homeowners whose houses are uninsurable.

In addition, Barbados has access to liquidity through contingent lines or rapid credit facilities provided by international financial organizations, including an IDB contingent credit facility that would allow the country to borrow up to almost 2 percent of GDP (or US$80 million) in case of a natural disaster.

5. **For *post-disaster resilience,* Barbados' response and recovery frameworks and social safety net are relatively well developed.** They allow for a quick response to humanitarian needs after a natural disaster subject to available fiscal space. The Comprehensive Disaster Management Policy (DMP) will mainstream comprehensive DRM principles into ministry and agency budget planning and ensure resilience in government and business continuity after a disaster event. Relevant features of the policy include a focus on governance, disaster mitigation, operational readiness, mainstreaming climate resilience, ensuring communities are central to the disaster management strategy, and building the knowledge base and organizing for recovery.

6. **The country has ambitious targets in *mitigation*.** The Barbados National Energy Policy (BNEP) targets a full transition away from fossil fuels. Barbados' updated conditional mitigation contribution consist 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 decrease in industrial, commercial, and residential fuel consumption as compared to BAU; and (v) 20 percent decrease in waste emissions. The government closed remaining regulatory gaps in the Feed in Tariffs (FITs) mechanism and the licensing policy/approvals framework to promote investments in renewable energy. The new Electricity Supply Bill will promote competition in the electricity market. The Government is committed to greening the transport sector by shifting toward electric vehicles.

7. To meet its climate policy objectives, the country has high investment needs, while facing limited fiscal space. Resilient infrastructure investments have substantial long-run benefits, but their large upfront costs imply a burden on Barbados' public finances in the short term. 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.

8. The IMF DIGNAD model is used to quantify the impact of natural disasters and climate change on the economy of Barbados and illustrate returns on investing in adaptation ex-ante. The Debt, Investment, Growth, and Natural Disasters (DIGNAD) model is a dynamic small open economy model designed to simulate the impact of natural disasters and associated policy trade-offs between debt accumulation, public/private investment, and growth.[4] The key assumption in DIGNAD is that there are two types of public capital: standard physical capital and adaptation capital. Standard capital is vulnerable to natural disasters, and part of it is destroyed each time a natural disaster hits the economy. Adaptation capital is more resilient to such events. Both types are used as an input to production by perfectly competitive firms, jointly with private capital and labor. The government has access to a wide range of financing sources, including external concessional loans and grants from international donors. This annex leverages the model in two ways: (a) by conducting a stress test simulating a hypothetical major natural disaster and (b) by evaluating the long-run economic losses due to expected average impact attributed to natural disasters and climate change.[5]

9. An illustrative stress test involving a hypothetical severe tropical cyclone would significantly affect the economy of Barbados, resulting in the contraction of real GDP, an increased debt burden, and a deterioration of the current account. Barbados will likely suffer from elevated physical risk in the future. To simulate the impact of such tail events, the DIGNAD model is calibrated to a tropical cyclone that inflicts 16.8 percent of GDP in economic losses and damages, with approximately 11.2 percent of GDP in damages to the country's stock of capital.[6] To illustrate the benefits of investments in adaptation and structural reforms, we consider three ex ante policies. Scenario 1 assumes an increase in standard infrastructure investments by 0.8 percent of GDP annually from 2024 to 2028. Scenario 2 assumes a 1 percent of GDP increase in annual investments in adaptation over the same period, combined with an increase in public investment

[4] The model was developed by Marto, Papageorgiou, and Klyuev (2018) as an extension of the DIG model (Buffie et al, 2012). It is publicly available as a user-friendly toolkit on the IMF website, accompanied by a user manual (see Aligishiev, Ruane, and Sultanov, 2023)

[5] The model captures many key mechanisms and policy trade-offs that should be considered in a typical cost-benefit analysis of climate change policies (Aligishiev, Bellon, and Massetti, 2022), particularly those associated with the linkages between public adaptation investment, economic growth, and debt.

[6] Economic losses and damages from the severe natural disaster shock are set to the average damages from tropical cyclones in the Caribbean (EM-DAT, 2023; see Figure 1). The simulations assume that the total capital damages are divided equally between private and public capital stock. It is worth noting that while the assumed shock exceeds any natural disaster previously recorded by Barbados in the EM-DAT database, it is important to consider that a shock of this size may materialize in the future. According to the World Bank's Country Disaster Risk Profile (World Bank, 2021), hurricanes could potentially lead to a maximum annual loss of 47.8 percent of GDP.

efficiency.[7] Scenario 3 mirrors Scenario 2, but the initial boost in investments is funded by fiscal savings achieved through structural reforms. In all scenarios the hurricane hits in 2029. Under the standard investment scale up (Scenario 1), real GDP would contract by 14 percent while the current account deficit would increase by 8.8 percent of GDP in the immediate aftermath of the tropical cyclone. The public debt-to-GDP ratio would increase by 14.4 percent of GDP due to reconstruction costs and other fiscal support measures.[8]

10. Investing in adaptation ex-ante could contain economic losses and put public debt on a lower trajectory, with potentially larger dividends if such investments are accompanied with institutional reforms. Model simulations suggest that investing 1 percent of GDP in adaptation capital for the next five years (Scenario 2) would save Barbados about 5 percent of GDP in output losses on impact in 2029. Adaptation investment would also reduce the negative fiscal impact and the deterioration in the current account, compared to the case when these funds are used to invest in standard infrastructure (Scenario 1). Even if financed entirely through non-concessional borrowing, lower post-disaster reconstruction costs would contain the overall increase in the debt-to-GDP ratio to about 7.1 percent. Investments in adaptation would also contain the deterioration in the current account deficit to 3.4 percent of GDP relative to 5.2 percent of GDP under no adaptation. Importantly, accompanying investments in adaptation with reforms targeted at improving public investment management (PIM) as well as leveraging the fiscal space created through structural reforms to fund the initial investment scale-up (Scenario 3) would unlock these benefits while avoiding a larger deterioration in the debt-to-GDP ratio (see Box 6 in the staff report for an illustration of the aforementioned benefits).

11. More concessional climate finance would be needed to assist Barbados with post-disaster reconstruction without compromising the ongoing efforts to reduce its debt burden. While adaptation investments serve to curb the potentially significant surges in the public debt following natural disasters, it is hardly possible to eliminate such losses completely. As can be seen in Figure 1 (Public Debt and Post-disaster Reconstruction), having access to loans at concessional rates or attracting grants from international donors contains the increase in government debt following a severe natural disaster. Financing via concessional debt does not alter the path of the primary balance but offers savings on interest payments, thereby accelerating the reduction in public debt-to-GDP ratio over the medium to long term. Securing a financing mix of one third grants versus two thirds concessional loans for investments in adaptation capital and post-disaster reconstruction would further contain the projected increase in the public debt-to-GDP ratio.

12. Investment in adaptation can deliver long-run output gains and contain pressures on debt sustainability. Small island economies like Barbados are often afflicted by adverse natural

[7] The difference between the 0.8 percent allocated for standard investment and the 1 percent for adaptation reflects the markup for resilience in construction costs for the identical infrastructure project. Meanwhile, the efficiency of public investment rises by 20 percentage points.

[8] For simplicity, the fiscal reaction to the natural disaster shock includes a gradual replenishment of the initial stock of government capital and a one-off increase in government current expenditures equivalent to 1 percent of GDP in the year of the natural disaster.

disaster shocks repeatedly, without being able to fully return to the initial level of productive capital and total factor productivity (TFP). In other words, the effects of sequences of shocks accumulate over time, weighing permanently on macroeconomic outcomes.[9] The DIGNAD model can speak to the implications of concurrent and consecutive shocks of average size, to measure the expected long term macro-fiscal implications. In the case of Barbados, this illustrative analysis aims to capture the damages occurring periodically due to hurricanes.[10] Following estimates in the World Bank's Disaster Risk Profile for Barbados, the average annual losses from hurricanes are set to 0.9 percent of GDP.[11] In the long run, successive and concurrent natural disasters hamper potential GDP growth, elevate public debt levels due to escalated reconstruction costs, and hinder private investment and consumption due to permanently lower productivity and employment. Adaptation capital reduces long term output losses and strengthens debt sustainability by reducing damages to private and public capital stocks, as can be seen in Figure 1 (Cumulative Impact of NDs by 2050).

13. Economic dividends from adaptation investments are amplified under severe climate change. Using the DIGNAD model to quantify the long run losses from coastal erosion and increased intensity of hurricanes reveals a significant deterioration in both real GDP and government debt-to-GDP trajectories. By 2050, real GDP will be 5.5 percent lower under the "hothouse" climate change scenario relative to the baseline scenario without natural disasters or climate change. At the same time, accounting for the impact of climate change yields a consistently elevated government debt trajectory, with public debt being 7.1 percent of GDP higher in 2050. However, a large part of this deterioration can be mitigated through the presence of adaptation capital, as can be seen in Figure 1 (Cumulative Impact of NDs and Climate Change).[12] This exercise assumes an increase in hurricane intensity that follows estimates in Acevedo (2016) for RCP 8.5 emission pathway, assuming that approximately 1 in every 6 storms makes landfall (Tartaglione et al. 2002). The economic losses from coastal erosion are calculated as an average of two measures: (a) a combination of coastal infrastructure damage resulting from sea-level rise in a study conducted by UNDP (2010) and projections

[9] See Cantelmo, Melina, and Papageorgiou (2019), Melina and Santoro (2021), or Fernandez-Corugedo, Gonzalez-Gomez, and Guerson (2023) for detailed discussions of the long-run output losses from recurring climate shocks.

[10] This exercise assumes that the effective adaptation capital stock in year 0 is 3 percent of GDP, while the sequence of natural disaster shocks begins in year 1. Both adaptation and no adaptation scenarios presented are in percent deviations from the baseline of no natural disasters. Fiscal rules are active, as fiscal policy is expected to adjust to preserve debt sustainability in the long run by raising consumption and labor tax rate and by cutting cash transfers to the population.

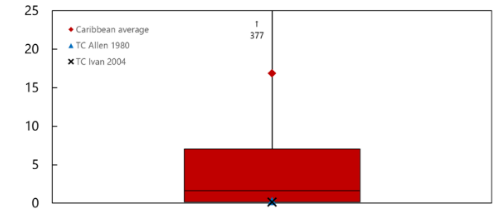
[11] Expected annual losses also include 0.3 percent of GDP in losses from earthquakes. It's important to note that the EM-DAT database, which tracks major natural disasters, indicates lower anticipated annual damages from such events when considering recent disaster data. Hence, our findings may be interpreted as representing the upper limit of long-term losses due to natural disasters. However, it's crucial to also acknowledge that the potential losses estimated in the World Bank's Disaster Risk Profiles focus exclusively on damages to property and do not account for other economic losses, such as lower tourist arrivals after hurricane announcements, nor do they account for other natural hazards. Similar consideration should be given to the analysis of the climate change impacts below, as deterioration of the natural capital may also adversely affect tourist inflows and receipts over the long term.

[12] Moreover, this analysis considers several sources of uncertainty related to the impact of climate change on Barbados, as depicted by the confidence bands in Figure 1 (Cumulative Impact of NDs and Climate Change). These sources of uncertainty include: (a) the range of temperature change associated with a given greenhouse gas emission trajectory; (b) the range of sea-level rise corresponding to a given temperature increase scenario; (c) and the range of capital stock damages resulting from a particular sea-level rise scenario. It's important to note that this list is not exhaustive and does not cover all aspects of uncertainty regarding the broader implications of climate change.

of sea-level rise corresponding to the RCP 8.5 greenhouse gas emission pathway in Horton et al. (2020), and (b) a revision of the UN ECLAC (2011) assessment of assets exposed to sea level rise. [13]

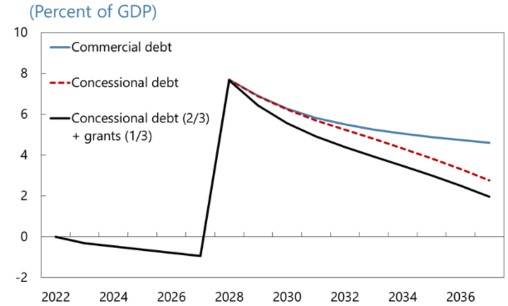
Figure 1. Barbados: Climate Risks

Damage from Hurricanes in the Caribbean and Barbados
(Percent of GDP)

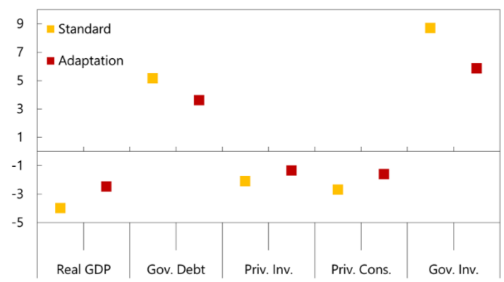


Notes: The chart shows an augmented box plot of the distribution of damages from tropical cyclones in the Caribbean. The red box represents the interquartile range that includes the median (horizontal line), while the whiskers show respective maximum and minimum values in the sample. The highest hurricane damages in the sample were recorded for Montserrat in 1989 (377 percent of GDP).

Public Debt and Post-disaster Reconstruction under Different Financing Assumptions
(Percent of GDP)

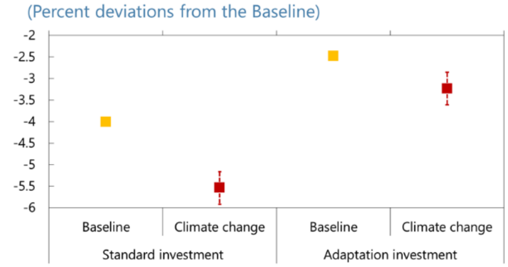


Culmulative Impact of NDs by 2050
(Deviations from the Baseline)



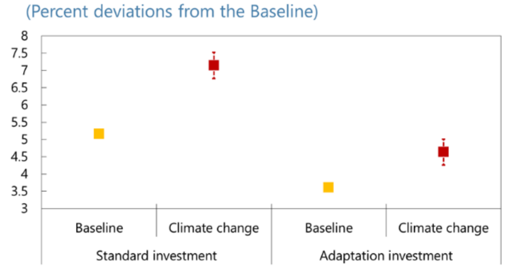
Note: In the case of government debt, deviations are measured in percent of GDP.

Culmulative Impact of NDs and Climate Change on Output by 2050
(Percent deviations from the Baseline)



Note: confidence bands represent a limited measure of uncertainty surrounding the impact of the RCP 8.5 emission path on the economic outcome.

Culmulative Impact of NDs and Climate Change on Government Debt by 2050
(Percent deviations from the Baseline)



Note: confidence bands represent a limited measure of uncertainty surrounding the impact of the RCP 8.5 emission path on the economic outcome.

Sources: EM-DAT database, and IMF staff calculations.

[13] UN ECLAC leverages an approach that combines exposed population with GDP to identify exposed assets. For the details, see UN ECLAC (2011).

14. The RSF arrangement supports Barbados' climate policy efforts. Reform measures under the RSF aim at supporting institutional reforms to enable large-scale climate investments, lower risks, and help catalyze other financing sources beyond the government budget. Adopting green PFM practices would support the inclusion of climate priorities in budget preparation, budget execution, fiscal reporting as well as oversight and auditing. As part of the reform measures under the RSF, the authorities have committed to include a fiscal risk statement in the regular budget process with a dedicated section on climate crisis risks. The first one was introduced in the FY2023/24. In addition, the government has developed a sustainable/green public procurement framework and guidelines for green budget tagging in line with international best practices. 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. The Central Bank of Barbados (CBB) seeks to integrate climate crisis risks into its financial stability assessments—including stress testing based on potential scenarios. The Financial Services Commission (FSC) has developed climate stress tests for the local insurance industry. To safeguard financial stability, the CBB intends to conduct a climate crisis stress testing exercise for commercial banks.

15. Private climate financing is crucial to attain the climate policy objectives. In June 2023, the authorities announced a package of initiatives to support their climate agenda, supported by the Fund, the Inter-American Development Bank (IDB), the World Bank Group (WBG), the Development Bank of Latin America and the Caribbean (CAF), the European Investment Bank (EIB), and the Green Climate Fund (GCF). Going forward, green financial instruments, including sovereign and corporate green bonds, could help channel long term market-based financing toward climate-related investment. In addition, strengthening assessment and management of climate risks in the financial sector will facilitate green lending by banks.

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Annex VII. Reform Measures Supported by the RSF Arrangement

Key Challenge	Reform Measure	Tentative Date	IMF CD Input	RM Expected Outcome	Development Partner Role
Build Resilience to Natural Disasters and Climate Change	RM1. (i) Approve the Planning and Development Act to improve the climate resilience of roads through improved drainage and other interventions. (ii) Table in Parliament the Water Re-use Bill, incorporating the new water re-use policy. (iii) Fully operationalize the National Environmental and Conservation Trust.	March 2023		(i) Incorporate climate adaptation priorities into road infrastructure planning and construction. (ii) Enhance the use of rainwater and treated wastewater, reducing the country's dependence on groundwater supplies, negatively affected by climate change. (iii) Support projects enhancing marine protection and protect Barbados' natural assets.	World Bank Green and Resilient Recovery Development Policy Loan.
	RM 2. (i) Include a fiscal risk statement focusing on climate change risks in the budget for FY2023/24; (ii) Cabinet to approve Procurement Act regulations to enhance efficiency and effectiveness of public expenditure and support green procurement; (iii) Cabinet to approve a sustainable/green public procurement framework providing operational guidelines to implement	September 2023		(i) Achieve greater coverage and comprehensiveness in the identification and quantification of fiscal risks related to climate events, improving the government's capacity for managing those risks. (ii) Enhance the efficiency and effectiveness of public procurement. Allow procurement agencies to consider	IDB TA support on procurement, and the development of a sustainable/green procurement framework and guidelines for climate/green budget tagging. World Bank Green and Resilient Recovery Development Policy Loan, and World Bank TA on climate/green budget tagging.

Key Challenge	Reform Measure	Tentative Date	IMF CD Input	RM Expected Outcome	Development Partner Role
	sustainable/green procurement, in line with international best practice; and (iv) Cabinet to approve guidelines for climate/green budget tagging, in line with international best practice, and mandate that the results of the budget tagging be published in an annex in the annual budget.			the most advantageous bids from a green/ sustainability perspective, paving the way for the implementation of green/sustainable procurement. (iii) Provide valuable information to formulate and assess the impact of climate policies and facilitate the mobilization of climate finance.	
Build Resilience to Natural Disasters and Climate Change	RM 3. Government to table 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.	September 2023		Strengthen community readiness and improve knowledge base to enhance preparedness and increase resilience to natural disasters, minimizing disruptions and enhancing protection of the most vulnerable citizens and coastal infrastructure. Increase the number of ministries and agencies that have an Operations Continuity Plan.	World Bank Green and Resilient Recovery Development Policy Loan.
	RM 4. Government to table an amended Prevention of Floods Act in Parliament,	March 2024		Reduce the impact of floodings and increase overall water resilience.	

Key Challenge	Reform Measure	Tentative Date	IMF CD Input	RM Expected Outcome	Development Partner Role
	*incorpor*ating the new Stormwater Management Plan.				
	RM 5**.** Implement reforms to strengthen integration of climate concerns into the PFM process, based on a comprehensive diagnostic evaluation.	March 2025	PIMA/C-PIMA assessment.	Improve the integration of climate into all aspects of the budget cycle, including budget preparation, budget execution, fiscal reporting as well as oversight and auditing.	
Reduce Green House Gas Emissions	RM 6. Government to (i) extend the tax holiday on electric vehicles; (ii) close remaining regulatory gaps in licensing policy/approvals framework to increase investments into battery storage technologies to meet energy demand.	September 2023		Promote private investment to support and accelerate the transition to renewable energy sources.	
	RM 7. Cabinet approval for the Energy Efficiency and Conservation Policy Framework to reduce energy use of all government agencies and develop efficient public lighting.	March 2024		Improve energy efficiency and conservation in the public sector.	
	RM 8. Table in Parliament the New Electricity Supply Bill to (i) enhance competition in the electricity market and (ii) introduce local participation in	September 2024		Regulate the generation, storage, transmission, distribution, dispatch, supply and sale of electricity and promote local	World Bank Green and Resilient Recovery Development Policy Loan.

Key Challenge	Reform Measure	Tentative Date	IMF CD Input	RM Expected Outcome	Development Partner Role
	renewable energy investment.			participation, competition and the adoption of energy practices and technologies in the electricity sector that are sustainable.	
Mitigate Transition Risks	RM 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.	September 2024	Fund to provide TA support, including through CARTAC.	Refine the assessment of financial sector risks arising from climate change.	
	RM 10. The CBB to include climate change risk in their bank stress testing exercise.	March 2025	Fund to provide TA support, including through CARTAC.	Refine the stress testing methodologies to include climate related risks.	

Annex VIII. Implementation of Last Article IV Advice

	2021 Article IV Staff Recommendations (IMF 21/268)	Implementation
Fiscal Consolidation	• Resuming fiscal consolidation to achieve long-term fiscal objectives from FY2022/23, supported by a cyclical recovery in revenues, phasing out of COVID-related expenditures, continued SOE reform, and wage bill control.	• The primary balance rose from a deficit of 1 percent of GDP in FY2020/21 and FY2021/22 to a surplus of 2.5 percent of GDP in FY2022/23. It is envisaged to further increase to 3.4 percent of GDP in FY2023/24. • Public debt was brought back onto a downward path and projected to meet the long-term target of 60 percent of GDP by FY2035/36 under the projected macroeconomic and primary balance projections.
SOE Reforms	• Further rationalizing the SOE sector and adjusting the 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 be viable on commercial terms without government subsidies.	• The authorities have almost fully unwound temporary COVID-19 related support to SOEs. • They intend to reduce overlap and achieve greater financial and operating efficiencies including through i) amalgamating the operations of the Rural and Urban Development Commissions (RDC and UDC) and reforming the National Housing Corporation (NHC); and ii) reforming the Barbados Agriculture Management Corporation (BAMC) and shifting its operations away from subsidizing the traditional sugar industry. • A health dashboard that analyzes the financial performance of public entities developed by the MFEI (with IMF assistance) provides a mechanism to identify key risks and elaborate targeted reform measures to enhance SOE performance and reduce Government dependence. • A comprehensive stocktaking of the financial performance of the SOE sector was prepared in 2023.

	2021 Article IV Staff Recommendations (IMF 21/268)	Implementation
Pension reforms	• Tabling a revised public pension law to enhance the sustainability of the public sector pension scheme, which was delayed by a lack of insufficient opportunities for essential public consultations due to the repeated COVID-19 outbreaks and natural disasters.	• The Parliament approved a reform in 2023 to enhance the sustainability of the public sector employees' pension scheme. • The authorities developed a reform plan to enhance the sustainability of the National Insurance Fund (NIF). • The unemployment benefit scheme was recapitalized.
PFM reforms	• Adopting a procedural fiscal rule requiring to annually prepare and publish the fiscal strategy, including measurable fiscal objectives covering the medium-term, and reporting transparently on the implementation of such strategy. A numerical fiscal rule could be introduced once uncertainties surrounding the pandemic have resolved and supporting public financial management systems have been sufficiently strengthened.	• The authorities have issued regulations for a procedural fiscal rule, under which the fiscal framework including projections for a three-year period and the mid-year review report have been annually prepared in August and October, respectively. • A fiscal risk statement including an assessment of climate change risks was included in the FY2023/24 budget. • A Fiscal Council was established in May 2023 to ensure the accountability and transparency of the implementation of the fiscal strategy. • A fiscal risk unit was created in the MFEI to identify and propose options to contain macroeconomic risks in the process of budget formulation and planning. • A new Public Finance Management Act was approved. The strengthening of public financial management is ongoing as the new Act is being implemented.
BCED reforms	• Modernizing the BCED by improving human resource management, risk management, and trade flow as well as enhancing coordination and information exchange between BCED and BRA to improve taxpayer compliance and ensure an efficient use of resources across the two institutions.	• A modernized Customs Act was passed in November 2021 and the regulations are being finalized, inclusive of an administrative approach document that seeks to streamline the application of fines for non-compliant stakeholders. • The Harmonized Commodity Description and Coding System (2017 Edition) was implemented and is now being replaced with the 2022 version.

	2021 Article IV Staff Recommendations (IMF 21/268)	Implementation
		• Eleven compliance plans have been developed to enhance compliance. Based on a Memorandum of Understanding between the BRA and BCED to enhance information sharing, a data matching project was undertaken to improve compliance and risk management
Monetary policy	• Considering upgrading the CBB's monetary policy operation toolkits beyond the use of reserve requirement to mop up excess liquidity and mitigate a potential source of vulnerability to the fixed exchange rate regime.	• The CBB reviewed its balance sheet capacity and monetary policy toolkits, informed by IMF TA.
Growth-enhancing policies	• Strengthening the business climate to unlock economic growth potential and increase investment to increase resilience to climate change, including through putting in place business-friendly regulatory framework for IPPs, facilitating further digitalization, and promoting financial accessibility for SMEs.	• The authorities have taken action to facilitate the development of the renewable energy sector by: i) establishing a streamlined approvals and licensing process for independent power producer (IPP) renewable energy projects; and (ii) publishing a guidance note for IPP investors navigating this process. • Progress to digitize government operations and service delivery has been made in terms of licenses, planning and development applications, the clearing of goods through Customs, and the new digital Trident ID Card. In addition, the Barbados National Payments system went live in October 2022, and the National Payments Council was established as an advisory body to roll out the new payments' ecosystem. • A stocktaking of the execution of policy reforms was undertaken in 2023 to inform the forward-looking reform agenda by identifying the unfinished reforms and prioritizing next steps. • Progress in reform priorities will be supported by a newly established Growth Council.

	2021 Article IV Staff Recommendations (IMF 21/268)	Implementation
Increasing resilience to climate change	• Accelerating investment to further strengthen infrastructure, including through enhancing the draining systems to improve water security and contribute to building resilience. • Continuing engagement with regional integration initiatives (such as the Caribbean Catastrophe Risk Insurance Facility, CCRF) to support boosting Barbados' financial resilience.	• The authorities have implemented measures to increase the resiliency of infrastructure to climate change including through: (i) approving amendments to the Planning and Development Act to improve the climate resilience of roads through improved drainage and other interventions; (ii) passing a Water Re-use Bill, incorporating the new water re-use policy; and (iii) fully operationalizing the National Environmental and Conservation Trust. • The authorities continue using financial arrangements to financially safeguard Barbados against natural disasters, including the CCRF and the inclusion of natural disaster clauses under loan agreements.

Annex IX. Capacity Development Strategy: Updated 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, enhancing tax administration and public financial management, 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 TA providers remain critical.

Context

1. **A three-year Extended Fund Facility (EFF) arrangement along with Resilience and Sustainability Facility (RSF) were approved by the Executive Board in December 2022.** Building on the successful completion of the 2018-22 EFF, these arrangements seek to support the authorities' efforts to strengthen fiscal sustainability, support the structural reform agenda, and increase resilience to climate change. As was the case during the 2018-22 EFF arrangement, 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 TA covered fiscal issues, including tax and customs reform, public financial management (PFM) legislation, fiscal rule frameworks, enhancing SOE performance and oversight, restructuring of the MFEI, 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, and the CBB's monetary policy toolkit. STA (with CARTAC assistance) has an ongoing TA portfolio to strengthen capacity in national accounts and price statistics and to implement the e-GDDS framework (data dissemination initiative). Table 2 shows CD missions that took place since 2018 and tentatively planned missions for 2023/24, highlighting that 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

[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).

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 2018-22 EFF arrangement period, CD delivery was fully aligned with the authorities' reform objectives, with the country team coordinating activities. This continues under the current EFF and RSF arrangements. 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, sustainable/green procurement, climate budget tagging, 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. Priorities include operationalizing public financial management and custom reforms, 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, strengthening monetary policy operations, and improving national accounts and macroeconomic statistics. Table 1 presents a summary of key CD objectives and Table 2 lists DC missions since 2018 and tentatively planned for the coming months.

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 2021-25 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.	The Large Taxpayer Unit (LTU) continued to operationalize its compliance improvement plan, stepped up its audit program, with emphasis on the largest taxpayers, and made increasing use of third-party data to improve the accuracy of the taxpayer base.	Audit and other verification programs more effectively ensure accuracy of reporting. The integrity of the taxpayer base and ledger is strengthened. A larger proportion of taxpayers meet their payment obligations as required by law.
	Strengthened core tax administration functions (SDG 17.1) – TAD.	FAD.		A larger proportion of taxpayers meet their filing obligations as required by law.

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**
	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. Organizational arrangements enable more effective delivery of strategy and reforms. 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.	A more credible medium-term budget framework is integrated with the annual budget process.

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**
			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 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. TA is being provided to support the preparation of consolidated IPSAS financial statements	Disclosure and management of state assets is improved. Annual financial statements that are compliant with IPSAS are submitted timely and disclosure requirements and audited are in line with legislation.
	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. The IAC has been established and will meet formally from April 2023. TA was provided to the IAC members.	Appraisal, selection, and implementation of public investments is improved. Risk-based internal audit functions are established in central government agencies.

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**
	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. The authorities have put in place an action plan for public financial management reform to implement the new PFMA Act.	A more comprehensive legal framework covering all stages of the public financial management cycle is enacted. 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.	The government introduced a fiscal risk assessment on the FY 2023/24 budget, discussing climate change-related risks.	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.

Table 1. Barbados: Capacity Development Integration Matrix (continued)				
Maintaining Monetary and Financial Stability				
Strengthening 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**
Central Bank Operations	Develop/strengthen the central bank capacity to provide Lender of Last Resort (LOLR) – LOL.	MCM.	The CBB received TA for actively sterilizing excess liquidity within the context of the exchange rate peg monetary framework, including the reconfiguration of the reserve requirement instrument. The CBB will set an implementation plan.	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.
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.

Table 1. Barbados: Capacity Development Integration Matrix (continued)				
Maintaining Monetary and Financial Stability				
Strengthening 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**
				The level of banks' capital reflects well their risk profile, their business strategy and their risk acceptance levels.
Financial Supervision and Regulation	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.

Table 1. Barbados: Capacity Development Integration Matrix (continued)				
Maintaining Monetary and Financial Stability				
Strengthening 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**
				Supervisors have sufficient capacity to effectively implement risk-based supervision and other supervisory processes.
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.

Table 1. Barbados: Capacity Development Integration Matrix (continued)				
Maintaining Monetary and Financial Stability				
Strengthening 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**
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.
Improving Economic Statistics				
Enhancing economic data to support policy design and implementation				
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 (moving from 2010 to 2016) to increase the policy relevance of these statistics was completed. New Supply Use Tables (SUT) and expenditure-based GDP series were estimated for the 2016 benchmark year. in line with the 2008 System of National Accounts.	Data are compiled and disseminated using the concepts and definitions of the latest manual/guide.

Table 1. Barbados: Capacity Development Integration Matrix (continued)				
Improving Economic Statistics				
Enhancing economic data to support policy design and implementation				
Specific Area	**Objectives**	**TA/Training Engagement**	**Achieved Outcome**	**Future CD and Program Outcomes**
	Strengthen compilation and dissemination of real sector statistics- national accounts – NAC.	STA.	The authorities implemented the e-GDDS in 2021 and launched the National summary data page and adopted a machine-readable (SDMX) technology.	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	STA.	The authorities implemented the e-GDDS in 2021 and launched the National summary data page and adopted a machine-readable (SDMX) technology.	Data are compiled and disseminated using the concepts and definitions of the latest manual/guide. Staff capacity increased through training, especially

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

Improving Economic Statistics

Enhancing economic data to support policy design and implementation

Specific Area	**Objectives**	**TA/Training Engagement**	**Achieved Outcome**	**Future CD and Program Outcomes**
	decision making according to internationally accepted			on developing source data, compilation of methods, and dissemination.
Balance of Payments	statistical standards, including developing statistical infrastructure, source data, serviceability and/or metadata. 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).
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		
Customs Modernization	FAD	Apr- 23
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

[1]Refers to missions planned end of FY24.

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	Jan- Feb-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		
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

[1]Refers to missions planned end of FY24.

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) 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		
Monetary Policy Toolkit and CBB Balance Sheet Assessment	CARTAC	Apr-23
Systemic Liquidity Management and ELA On-Site	MCM	Feb-23

[1] Refers to missions planned end of FY24.

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

[1] Refers to missions planned end of FY24.

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
Improving Macroeconomic Statistics		
Barbados-TA- GDP rebasing and measurement of informal activity	STA	Mar-23
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

[1] Refers to missions planned end of FY24.

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

TA/Training Mission	Provider	Mission Date (Completed/Planned)[1]
Maintaining Monetary and Financial Stability		
CARTAC: Measurement of the Informal Economy	CARTAC	May-23
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 FY24.

Appendix I. Letter of Intent

Bridgetown, Barbados
December 1, 2023

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 in 2018, we confronted fiscal and external imbalances that threatened public sector sustainability and the viability of the currency peg. Barbados was able to restore macroeconomic stability with the execution of its ambitious Economic Recovery and Transformation (BERT) Plan, supported by the 2018-22 Extended Fund Facility (EFF) arrangement. Under the BERT Fund-supported arrangement, public debt was brought back onto a downward trajectory, international reserves were strengthened to support the exchange rate peg, and transformational structural reforms were initiated despite unprecedented external shocks.

I am writing to extend my sincere appreciation to the Fund for its ongoing support of our updated BERT 2022 strategy within the context of a joint 36-month arrangement under the Extended Fund Facility (EFF) and the Resilience and Sustainability Facility (RSF) approved on December 7, 2022. The underlying objectives of these arrangements are to preserve hard-won macroeconomic gains achieved under the 2018-22 EFF arrangement and further advance reforms to safeguard fiscal sustainability, bolster inclusive and sustainable growth, and respond to the challenges posed by the evolving climate crisis.

The ongoing EFF-RSF arrangement is unfolding in the context of a difficult external environment that complicates policymaking. While Barbados' economy has recently recovered to pre-pandemic levels, challenges arising from higher global interest rates, geopolitical conflicts, and volatile food and fuel prices persist. Notwithstanding these headwinds, I am pleased to report that performance under the joint BERT 2022 EFF-RSF arrangement remains strong. Specifically:

EFF: All quantitative program targets for end-June 2023 and end-September 2023 were met. The increase in the primary balance allowed a further reduction of the public debt-to-GDP ratio. The structural reform agenda continues to advance with: (i) the creation of a fiscal risk unit within the Ministry of Finance; (ii) a stocktaking of the financial performance of State-Owned Enterprises (SOEs); (iii) the establishment of a GovTech agency; and (iv) a review of the Central Bank's monetary policy toolkit. A pension reform and important SOE reforms to promote efficiency and reduce fiscal transfers are progressing.

RSF: All measures targeted for the current review have been completed: (i) a fiscal-risk statement discussing climate risks was included in the FY2023/24 budget; regulations to enhance the efficiency and effectiveness of public procurement have been approved; and a sustainable/green public procurement framework and guidelines for implementation of green/climate budget tagging have been developed; (ii) a comprehensive National Disaster Risk Management (DRM) policy has been submitted to Parliament; and (iii) remaining regulatory gaps in energy storage have been closed, and the tax holiday for electric vehicles has been extended through March 2026.

The Government believes that the policies described in the attached MEFP are adequate to achieve the objectives underpinning the EFF and RSF arrangements. If necessary, the Government stands ready to take any additional measures that may be required to meet the objectives of the BERT 2022 Plan and the EFF/RSF program objectives. 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, in accordance with the Fund's policies on such consultation. The Government will also work with Fund staff and provide them with the relevant information required to complete the EFF/RSF reviews and for them collectively 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 and 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 and our full commitment to transparency, we intend to publish this letter on the websites of the Ministry of Finance, Economic Affairs and Investment and the Central Bank of Barbados to keep Barbadians and international agents informed about our policy actions and intentions. We also authorize the Fund to publish this letter, together with the Staff Report and its attachments.

On the above basis, I am requesting the completion of the second review of the arrangement under the EFF, with the full purchase of SDR 14.175 million to be made available as budget support. I am also requesting the completion of the second review of the RSF arrangement and the disbursement of SDR 42.525 million to be made available. The RSF will support our efforts to build resilience to climate change by increasing our policy space to invest in resilient infrastructure and the transition to renewable energy sources, as envisaged in our climate policy agenda.

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 for the transformation of our nation.

Very truly yours,

/s/
The Hon. Mia Amor Mottley Q.C., M.P.
Prime Minister and Minister of Finance, Economic Affairs, and Investment
Barbados

Attachment I. Supplementary Memorandum of Economic and Financial Policies

I. PROGRAMME OBJECTIVES AND 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.

2. Significant progress implementing BERT (2018) was achieved prior to the onset of the COVID-19 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. 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 COVID-19 shock. 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 to further support the GOB's efforts in dealing with the COVID pandemic. The IMF's policy endorsement also has been followed by nearly US$1 billion in support, in the form of policy-based loans, and about US $300 million in the form of project-based loans from other international development institutions (CDB, IDB, WB and CAF). Together, this has allowed international reserves to rise to US$1.5 billion at end-September 2023, from a low of US$220 million in 2018.

3. The GOB intends to preserve the hard-won macroeconomic gains and further advance reforms to enhance growth and resilience under a revamped BERT Plan. 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 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. Central elements of the program include: (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 Plan will continue to help mobilize external financing and facilitate the restoration of access to international capital markets.

4. The successor Extended Fund Facility (EFF) and new Resilience and Sustainability Facility (RSF) arrangements—approved by the Fund's Executive Board on December 7, 2022—are critical to support the BERT 2022 strategy. Maintaining and strengthening macroeconomic stability is a central program objective, with primary surpluses gradually increasing over the program period. The new EFF/RSF arrangement promotes 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 Barbados' growth potential. The RSF will support our efforts to build resilience to climate change by increasing our policy space to invest in resilient infrastructure and the transition to renewable energy sources, as envisaged in our climate policy agenda. Our efforts will include, among other things, establishing a new Blue Green Bank, supported by the fiscal space provided by the RSF, to help finance green investments in affordable homes, hurricane-resilient roofs, the electrification of public and private transport, and other Paris-aligned investments.

5. The Government is committed to the policies outlined in our Memorandum of Economic and Financial Policies (MEFP). The quantitative targets that serve as performance criteria and indicative targets are proposed to be updated to reflect the latest economic and policy developments. Structural benchmarks, reform measures, and updated quantitative targets established under the EFF and RSF arrangements are presented in Tables 1-3, respectively.

II. MEDIUM-TERM MACROECONOMIC FRAMEWORK

6. The BERT 2022 Plan 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. In line with this strategy, the GOB achieved the targeted primary surplus of 2 percent of GDP for FY2022/23—up from a deficit of 1 percent of GDP in FY2021/22 and FY2020/21—with a margin of a further 0.5 percent of GDP dedicated to early repayment of public debt. This improved fiscal performance was supported by the improved revenue collections reflecting mainly higher economic activity, along with careful expenditure management and the ongoing phasing-out of COVID-19-related expenditures. The FY2023/24 Budget targets a further strengthening of the primary surplus to 3.4 percent of GDP, supported by reforms to reduce transfers to SOEs, the further unwinding of exceptional spending on COVID and Hurricane Elsa emergency-support programs, and continued prudent expenditure management. These efforts, alongside the cyclical recovery in revenues, are expected to more than offset the recently negotiated prudent public service wage increases and the temporary extension of targeted VAT relief programs given the persistence of elevated global food and fuel prices.

7. Primary surpluses are targeted to strengthen gradually over the medium-term to 4.5 percent of GDP in FY2025/26. This amounts to a cumulative fiscal adjustment of 5.5 percent of

GDP under the joint-EFF/RSF program, underpinned by the normalization of the global economic outlook, the recovery of tourist arrivals to pre-pandemic norms, and ambitious fiscal structural reforms. The GOB is committed to advance fiscal and structural reforms to support underlying BERT (2022) 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 strengthen the long-term sustainability of the public pension and social security system, and public sector investment—and policies to enhance the enabling environment for growth and resilience to the climate crisis.

III. FISCAL STRATEGY AND POLICY PRIORITIES

8. **The fiscal strategy embedded in BERT (2022) is two-pronged and focuses on i) strengthening tax and customs 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. 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 prices to expire as these supply shocks dissipate. On the expenditure side, the GOB will build on recent progress to improve the performance of SOEs to reduce CG transfers and adopt measures as needed to provide space for necessary productive capital investments. A detailed discussion of key fiscal policy priorities follows below.

Revenue Policy and Administration

9. **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). To these ends:

- 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.
- A data-matching project was undertaken with participation from the BRA and BCED to meaningfully improve compliance and risk management (*structural benchmark for end-March 2023*). The project highlighted numerous identifiers present within BCED's AYSCUDA

system, indicating possible duplicating of taxpayers. The BRA currently has an 83 percent match rate with BCED.

- The BRA has commenced the development of a compliance risk management dashboard integrating the data from the BRA, CED and NIS and to provide a risk rating in respect of each taxpayer. This project will be completed and the dashboard in use by March 31, 2024.

- The BRA also conducted a data-matching exercise for the trusted traders within the BCED's ASYCUDA system. This data had a 23 percent match rate and work is ongoing to align these accounts. This alignment should be completed by March 31, 2024 and the data incorporated into the compliance risk management dashboard.

- The BRA and BECD will work together to ensure mandatory use of the tax identification number (TIN) as the unique identifier of importers and exporters and as a requirement to conduct any border transaction (*proposed new structural benchmark for end-September 2024*).

10. A variety of interconnected initiatives are ongoing to further facilitate compliance risk management. These include:

- The single identifier project has been launched. In this initiative, the BCED, NIS and the BRA will initially work to create a single identifier for both current and new taxpayers. Work is ongoing with the developers to facilitate this initiative, which will result in the cleaning of historical data, facilitating compliance-risk-management reviews.

- A new single-registry process is being developed, with CARTAC assistance, to allow any new companies or individuals to complete the tax, NIS and customs registration process in a single sitting. This will guarantee cross-institution data matching.

- The implementation of the BRA's Business Intelligence tool is largely completed. Phase 2 of this project will include compliance risk management aspects, which will facilitate data searches by the relevant stakeholders including the BCED. This will result in: i) the availability of a review platform to facilitate compliance risk management reviews; ii) the provision of data to various stakeholders; and iii) The provision of combined data to provide an improved view of the government's fiscal affairs.

11. 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. The stock of central government arrears fell from $1.2 billion at end of June 2018 to $247million at the end of September 2023, while that of SOEs declined from $755 million to $29 million over the same period. 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 were estimated at $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 completed the vetting process as of March 2023 and is now engaged in the offsetting of its net tax payable and receivable stocks. The GOB remains committed to settling outstanding arrears over the coming years, in accordance with its fiscal space, and continues to settle approved refunds within six months of the filing date.

12. Customs (BCED) administration is being reformed to facilitate trade, improve risk management and stakeholders' engagement, and strengthen revenue collection. In the area of governance and management: i) the organizational structure was overhauled and a Strategic Plan covering 2020-2023 developed; ii) the Internal Audit Division was strengthened with the creation and implementation of terms of reference, and a risk-based work plan; iii) key Performance Indicators (KPIs) were developed for all units and are progressively being used; iv) operational dashboards have been developed for the Trade Operations and the Compliance and Enforcement Directorates and are being used for management decision making. Efforts will continue in the years ahead, with an assessment of human resource needs (by competency and position) at the BCED being conducted, and used to address capacity and operational needs, including an assessment of the obstacles to fill critical vacancies and a roadmap to fill these vacancies (*proposed new structural benchmark for end-March 2025*).

13. Trade facilitation continues to be enhanced. ASYCUDA World was upgraded, and new modules are being implemented. A modernized Customs Act was passed in November 2021 and the regulations are being finalized, inclusive of an administrative approach document that seeks to streamline the application of fines for non-compliant stakeholders. The Harmonized Commodity Description and Coding System was implemented, and the new 2022 version is now operational. Eleven Compliance plans have been developed to enhance compliance and augment revenue collection. A new unit has been established to manage exemptions and a policy is being built out to streamline its management. The Trusted Trader Program, introduced in 2020, continues to be expanded and is enhancing facilitation.

14. Measures have also been implemented to improve cargo processing and compliance. A holistic risk management, standardized cargo processing system in all modes (sea, air, and post), 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, 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. The GOB remains committed to carry forward with the Customs Modernization program prepared with technical assistance (TA) from the IMF, with the following reforms regarded as key near- and medium-term priorities:

- New initiatives to follow through on principles and services enunciated in the new Customs Act and Regulations. This includes the now-operational Exemption Management Program in the Customs and Excise department, the development of an outreach program and educational products, and improvements to governance and professional standard and internal controls.

- Pursue the BCED reform and modernization program, most notably by implementing the strategic plan, compliance framework, integrated risk management strategy and an enforcement manual.

- Complete overhaul of the warehousing and duty-free shop system to prevent revenue leakage. Risk classification for all warehouses has begun, and those deemed high-risk will be prioritized for overhaul.

- Implement an appeals mechanism as required by the Customs Act and a Policy and Planning unit to assist with the forward planning of the organization. CARTAC support is being provided, with implementation expected by June 2024.

- Operationalize a compliance action plan for the import of vehicles and auto parts. Duties on vehicle-related imports are a large source of revenues; systematic undervaluation or misclassifications can result in significant revenue leakage. Drawing on IMF capacity development (CD) in this area, BCED finalized an action plan to minimize non-compliance risks, and put the strengthened regime into practice.

Tax and Customs Exemption Regime

15. The GOB seeks to modernize its waiver regime to eliminate detrimental revenue leakage and ensure that desired economic dividends are realized. 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 to sunset provisions (or regular re-certifications)—is essential to yield economic dividends. The GOB intends to strengthen its tax and customs waiver regime in two phases.

- The first phase involves 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*). This legislation has been adopted by the cabinet and tabled in Parliament and requires that exemptions: i) be "in the public interest"; ii) receive the approval of the Minister of Finance and/or an independent deliberating committee for classes of cases/decisions above a sensible threshold; and iii) be revoked if recipients breach the laws of Barbados. Preparations to operationalize these updated procedures once approved are already underway. BCED established an Exemptions Monitor Unit that regularly prepares and submits monthly reports to the Ministry of Finance, Economic Affairs, and Investment (MFEI) detailing the entities receiving the exemption for the year, the quantum of the exemption, and the purpose for which it was granted.

- 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)*. A six-point plan for this aspect of the reform has been prepared, with data being accumulated by BCED and MFEI.

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.

Public Financial Management (PFM) and the Budget Process

16. Prudent and efficient management of public finances remains a centerpiece of Barbados' fiscal strategy. The introduction of a modernized Public Finance Management (PFM) 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 public financial management reform to implement the new PFM 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 PFM Act; and ii) the budget circular is issued soon after the fiscal framework has been tabled in Parliament. The budget circular will be accompanied by expenditure ceilings approved by Cabinet for each financial year covered by the medium-term budget planning horizon.

- **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 PFM 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 MFEI 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 MFEI 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. It will also play a lead role in the preparation of annual fiscal risk statements, including an assessment on climate change risks that are to be included in budget documents from FY2023/24.

    - Clarify fiscal vulnerabilities emanating from the National Insurance Scheme (NIS). 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.[1] The GOB is committed to the implementation of enhanced public procurement practices, including from a sustainable-green perspective. To that end, Cabinet has approved Procurement Regulations to help operationalize the 2021 Procurement Act and support 'green procurement' processes (*reform measure for end-September 2023*). Building on recent procurement reforms, the Government will develop standard contracts for routine procurements to minimize delays in awarding contracts to successful bidders (proposed *new structural benchmark for end-September 2024*). This reform will benefit from IDB technical support.

- **Enhancing governance frameworks is an overarching priority.** The 2021 Procurement Act includes several innovations to enhance governance, such as by charging the Chief Procurement Officer with the responsibility to i) conduct procurement audits and ii) establish and maintain a register for all suppliers. It also requires the publication of all procurement contracts awarded in the year as well as reports on supplier performance. In addition to procurement reforms, a revised Integrity in Public Life Bill, which seeks to mitigate scope for acts of corruption by persons in public life, has been passed in Parliament. This initiative builds on the GOB's previous

[1] This Act provides a framework to facilitate the audit of crisis expenditures and publication of contracts and names of successful bidders.

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.

- **We are strengthening 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. To enhance financial reporting and improved accountability with respect to the utilization of government resources, the government, in collaboration with the University of the West Indies and White Oak, conducted comprehensive training and for all the financial controllers in the central government and SOEs. Next steps include the completion of an assessment program.
- **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 finances against fiscal costs and mitigating risks from PPPs, ensuring transparent mechanisms for competitive processes, and designing transparent reporting and auditing procedures in line with international standards. The MFEI will prepare a PPP framework to guide PPP decision-making (*proposed new structural benchmark for end-March 2025*). This framework will apply to all PPP projects under consideration to allow for fair, competitive, and transparent procurement of PPPs. Training of a group of MFEI staff regarding PPPs will begin in 2024, including in the areas of writing and assessing climate-related project proposals, and aligning the Government's PPP decisions with strategic priorities, including relating to climate change.

Fiscal Rule

17. 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; and ii) an annual mid-year review report in October that details the half-year outturn against the fiscal framework established for the current fiscal year and, iii) takes remedial action when required. Deliberations over a *numerical* fiscal rule are expected to resume once supporting PFM systems have been sufficiently strengthened, and economic conditions have fully normalized.

18. A Fiscal Council has just been established (end-May 2023) to promote sound fiscal management. The Fiscal Council will help promote accountability and transparency of the Government with respect to the implementation of the fiscal strategy, which focuses on: i) the slimming of public expenditure through the continued assessment of its scale and size with specific emphasis on SOE reform; and ii) maintaining fiscal discipline and sustainability by institutionalizing the Medium-Term Fiscal Strategy, thus signaling the Government's commitment to the long-term debt path as well as its growth objectives. The Fiscal Council will also promote that the Government focuses on its fiscal reform in terms of: i) the realignment of government spending so that it is more effective and efficient; and ii) the streamlining of its expenditure, including the scaling back of unusual and temporary measures initiated as a pandemic response.

Debt Management

19. The target date for bringing the debt-to-GDP ratio below 60 percent is FY2035/36. The updated medium- and long-term macroeconomic framework is consistent with achieving this target, and we remain committed to generate the needed primary surpluses to ensure the target is met.

20. The GOB is focused on strengthening public debt management with technical support from international partners. Efforts to strengthen debt management operations are underway. The 2022-23 to 2024-25 Medium Term Debt Management Strategy (MTDS) was approved by the Cabinet on June 2, 2022. The annual update to the strategy by the Debt Working Group is currently underway. 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. The MTDS and borrowing plan were published in September 2023. 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. Progress has been made to re-engage the domestic capital market, including under the BOSS program where a commercial bank recently purchased $100 million in government bonds, and the issuance of 90-day treasury bills. Other measures are in train to further stimulate the market, including reverse options and on-demand bonds.

21. Domestic arrears have been largely resolved, and we commit not to run new expenditure arrears. Total public sector domestic arrears stood at $1.9 billion at the beginning of the BERT (2018) program and they have been reduced to approximately $289 million as of September 2023. Of this total, Central Government trade payables (non-tax arrears) have to a large extent been settled, with a residual amount of $0.2 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. Currently only commercial SOEs are allowed to borrow with the pre-approval of Central Government.

Public Sector Reform

22. 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) re-energize the transformation of the SOE sector.

Public Pension Reform: Civil service pension reform aimed at ensuring long-term sustainability of the system is a key priority. We have outlined key pillars of the reform, which include: the introduction of employee contributions for new public sector employees; parametric reforms on the calculation of pension benefits; and, allowing for the administration of pension arrangements by the National Insurance Department from January 1, 2024. Following extensive consultations with key stakeholders, the GOB tabled public pension reform legislation in May 2023 (*structural benchmark for end-March 2023*). The GOB attained Parliamentary approval of this legislation in August 2023 (*structural benchmark for end-March 2024*).

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, whose portfolios were by 2018 overly concentrated in Government bonds. Consequently, the 2018 debt restructuring exercise, though stabilizing government finances, resulted in the National Insurance and Severance Funds incurring investment losses. At its peak, the COVID-19 pandemic led to an estimated 40 percent unemployment rate, alongside high levels of severance and out-of-business employers, placing critical and unusual strains on the Fund. While these shocks have now dissipated, they laid bare the importance of combined recapitalization and reform measures to safeguard NIS operations over the medium term. These are proceeding in two phases:

i. The initial focus was to restore the Unemployment Benefit Account through an infusion of $143 million from the Consolidated Fund over a three to five-year period. This exercise was completed ahead of schedule with the full disbursement of resources at end-March 2023.

ii. The GOB is in the midst of the second phase whereby Cabinet endorsed a reform plan at end-2022 that restores and safeguards the viability of the National Insurance Fund The NIS Revitalization Plan emphasizes necessary, gradual increases in the pensionable age (from 67 presently to 68) and minimum contribution period for eligibility (from approximately 10 years presently to approximately 15 years), to be phased in over the next decade. An important additional reform eases the ability of self-employed persons to participate.

Reforms to clarify the participation and contribution rates of public-sector employees have also been passed in Parliament (*structural benchmark by end-March 2024*).

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. 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' public finances. Against this backdrop, the GOB intends to revitalize its SOE reform agenda which was deliberately paused during the COVID period and subsequent challenging natural disaster/climate events. Specifically:

- ***Unwind transitory support:*** The GOB has successfully unwound temporary support extended to SOEs and Ministries and Agencies, including via the cessation of programs identified as emergency programs to support impaired sectors and commercial public enterprises. After peaking at 8.9 percent of GDP in FY2020/21 due to temporary, urgent transfer needs for large SOEs at the forefront of the COVID-19 pandemic response strategy, transfers have recently returned to near pre-pandemic levels.

- ***Mergers and Rationalizations:*** As announced in consecutive Annual Budgets, the GOB intends to exploit scope to reduce overlap and achieve greater financial and operating efficiencies. Immediate steps in this regard include Cabinet approval to: i) amalgamate the operations of the Rural and Urban Development Commissions (RDC and UDC) and reform the National Housing Corporation (NHC); and ii) reform the Barbados Agriculture Management Corporation (BAMC) and shift its operations away from subsidizing the traditional sugar industry (*both structural benchmarks for end-December 2023*).

- ***Risk Assessments and Targeted Reforms***: A health dashboard that analyzes the financial performance of public entities developed by the MFEI (with IMF assistance) provides a mechanism to identify key risks and elaborate targeted reform measures to enhance SOE performance and reduce Government dependence.[2] To anchor the forward-looking reform agenda, a comprehensive stocktaking of the financial performance of the SOE sector was undertaken (*structural benchmark for end-June 2023).* The reports compiled showed improvement in the financial position of SOEs relative to recent years, while also indicating that most entities are structurally unprofitable. The reports will help inform the reform of key SOEs (NHC; UDC/RDC; BAMC; among others).

[2] 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.

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

IV. MONETARY AND FINANCIAL SECTOR POLICIES

23. 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 rate 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 the CBB's 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 to 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 delegation of authority to foreign-exchange dealers to approve foreign-exchange transactions, without these needing to be referred 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.[3] 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.

24. The CBB has strengthened its safeguards framework. A diagnostic review of the CBB's governance and control framework is a standard IMF procedure for all countries using Fund's

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

resources. The 2023 Safeguards Assessment mission was completed in March 2023 with findings highlighting a strong safeguards framework at the CBB. Having implemented all previous recommendations identified during the 2018-2022 EFF arrangement, the CBB has significantly strengthened its safeguards framework, including its legal framework, governance arrangements, and financial reporting practices. The CBB is committed to addressing gaps identified in internal audit and cyber security and is looking to establish an Emergency Lending Assistance framework, with the support of Fund technical assistance. In addition, the Ministry of Finance and CBB have prepared an updated Memorandum of Understanding that clarifies their respective responsibilities for servicing financial obligations to the Fund under the new EFF and RSF arrangements.

25. 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 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 systemwide capital-adequacy ratio that is more than twice the regulatory minimum.

26. The CBB is working to 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 reviewed its balance sheet capacity and monetary toolkit, with the support of IMF TA (*structural benchmark for end-November 2023*). The CBB has made progress with developing an operating strategy to incorporate some of the key recommendations, inclusive of establishing a liquidity-forecasting framework and improving related analytical capacity. The CBB also possesses the power to implement macroprudential measures as it sees fit to manage risk in the financial system by using tools to assess, contain and mitigate 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.

27. The central bank and commercial banks introduced measures to support the credit market in March 2020 in response to the COVID-19 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 has maintained its credit support measures and temporary regulatory guidance on loan classification was phased out at end-2022.[4] Going forward, priorities include unwinding support measures after a careful evaluation of economic and financial developments.

28. 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.

V. GROWTH ENHANCING REFORMS

29. The growth strategy embedded in our BERT 2022 framework seeks to increase 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 2022 growth strategy will be underpinned by the following pillars:

- incentivizing an acceleration of small-scale private-sector investment in the green transition;
- incentivizing low- and middle-income housing;
- investing in skills training and education towards enhancing the human resource capacity of the population;
- preserving financial stability and mobilizing domestic savings for local investment to facilitate investment opportunities for as many Barbadians as possible;
- making Government an enabler to enhance productivity, competitiveness, and service excellence, towards achieving higher local and foreign direct investment;

[4] The temporary guidance included allowing banks not to classify moratoria loans as nonperforming, provided that loans were previously in good standing and borrowers were impacted by the pandemic.

- 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;

- implementing targeted public investments to achieve sectoral integration and develop climate-resilient infrastructure;

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

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

30. 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. A Doing Business Sub-Committee of Cabinet and Private Sector Committee was established in 2018 to execute and monitor policy measures identified by stakeholders to improve Barbados' overall business and investment climate. A stocktaking of the execution of policy reforms overseen by these Committees (*structural benchmark for end-March 2023)* was undertaken to inform the forward-looking reform agenda by identifying the unfinished reforms and prioritizing next steps. It highlighted the need to i) finalize the second phase of CAIPO reform to merge registration, payment, and information exchange processes within a single window; ii) broaden the Trusted Trader program for vetted companies; and iii) fully operationalize the Barbados Electronic Single Window (ESAW) by 2025 to enhance intermediation between the business community and government agencies. These and other priorities will be supported by a newly established Growth Council with a mandate to sustain reform momentum and accountability. We have requested assistance from international partners to help flesh out an updated trade and business facilitation strategy.

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

- We remain committed to reaching the 100 percent renewable energy target by 2035. 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 (which was introduced in 2019 but had to be slowed down during the COVID-19 pandemic) 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 and access to more than 15 000 courses globally, 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[5], where we have incorporated a GovTech agency, with a Board of Directors already in place, and staffing efforts ongoing *(end-September structural benchmark).* The Government has established a digitization center and has commenced the digitization of its records. Efforts to enhance the delivery of public services also involve 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 (*end-March 2024 structural benchmark*). This platform will leverage recommendations made by the Climate Public Investment Management Assessment Fund technical assistance mission held in September/October 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 were 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-sized businesses. A web-based collateral registry of movable assets will be created for entrepreneurs and/or small businesses which can be used as collateral when applying for loans from commercial banks and other lending institutions. Establishing a credit collateral registry and broadening the types of eligible collateral would

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[5] 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 went 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.

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.

- 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 key 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 facilitate the establishment of a new Maintenance and Repair Operation, and to expand flight training capability. Government will also construct a new cargo berth which will boost our attractiveness as a 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 the private sector locally and regionally to establish a Food Terminal in Barbados in cooperation with Guyana and Suriname, to address food security and to help in reducing the regional food import bill by 25 percent by 2025. This collaboration is expected to commence by early 2024 (still in the 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 to the sector through the Barbados Employment and Sustainable Transformation (BEST) Plan to alleviate short-term cashflow 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 practices. 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

32. 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 and the IDB 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.

33. Government has been proactive in mitigating against the fallout from a climate crisis event from several perspectives. We insure against 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. The GOB recently tabled 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*). The GOB intends to seek Parliamentary approval of this policy by March 2024.

34. Higher fuel import bills and inflation following the Russia-invasion of Ukraine highlight the need to expeditiously transition to renewable energy. Barbados remains committed to reaching its 100 percent renewable energy target by 2035. 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.[6] To that end:

- The Government has worked to close remaining regulatory gaps in the FITs mechanism to promote renewable energy storage technologies and a corresponding licensing policy/approvals framework (*reform measure for end-September 2023)*. This will help increase investments into battery storage technologies to meet energy demand.

- The New Electricity Supply Bill will be tabled in Parliament 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

[6] 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.

vehicles (*reform measure for end-September 2023*). A two-year excise and value added tax holiday was introduced for electric vehicles from April 1, 2022. The tax holiday has since been extended for an additional two years with an end date of March 2026. There has also been a reduction in the tariff rates for alternative energy vehicles. We have the largest electric bus fleet in the region of 59 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.

35. 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 crises. 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, first-time homeowners (low- and middle-income earners) would be provided with affordable climate-resilient and energy-efficient housing solutions 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 to meet this demand.

36. 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 assist over time in supporting 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.[7] The program also seeks to provide protection against pollution of the water table with initiatives such as the conversion of remaining outdoor toilets into indoor water-efficient toilets. The Government will also commence the systematic re-siting currently overground 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, the GOB approved amendments to the Planning and Development Act to improve the climate resilience of roads through improved drainage and other interventions (*reform measure for end-March 2023*). Additional priorities and measures to bolster resilient development include:

[7] 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.

- Advancing the water re-use agenda, which is moving forward with the passage of the Water Re-use Bill in Parliament in May 2023, incorporating the new water re-use policy (*reform measure for end-March 2023*);

- The operationalization of the Barbados Environmental Sustainability Fund (BESF), which has commenced receiving funds from the debt-to-nature swap as of end-FY2022/23 (*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*).

37. 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 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 in the regular budget process including a dedicated section 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). The inaugural fiscal risk statement included in the FY2023/24 budget (*reform measure for end-September 2023*) and the GOB is committed to sustaining this fiscal risk analysis in forthcoming budgets.

- Cabinet approved a sustainable/green public procurement framework that provides operational parameters, criteria, and guidelines to implement sustainable/green procurement across government agencies, in line with international best practice, with TA support from the Fund and the Inter-American Development Bank (IDB) (*reform measure for end-September 2023*). This framework will help Ministries and agencies acquire goods and services that achieve green and sustainable objectives. We will seek technical assistance from the IMF, IDB, and other development partners.

- Cabinet approved guidelines for climate/green budget tagging, developed in line with international best practice, with TA support from the Fund and the IDB, select Ministries/government agencies for a pilot climate/budget tagging exercise, and mandate that the results of budget tagging be published in an annex in the annual budget (*reform measure for end-September*).

- The GOB will 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.

- The GOB recently completed a diagnostic evaluation—through a Climate Public Investment Management Assessment (C-PIMA)—and will undertake reforms to strengthen integration of climate concerns into the PFM process (*reform measure for end-March 2025)*.

Building 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 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 a 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 (*reform measure for end-March 2025*).

38. 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 Technical Memorandum of Understanding (TMU). The joint EFF-RSF arrangement with the Fund will be subject to semi-annual reviews, with the third, fourth, and fifth reviews occurring on or after May 15, 2024, November 15, 2024, and May 15, 2025, respectively.

Table 1. Barbados: Structural Benchmarks Under the EFF				
Structural Benchmark (SB)	**Timing**	**EFF Review**	**Assessed**	**Comments**
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	1st EFF Review	Met	
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	Met	
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		
4) BCED to establish, in coordination with BRA, mandatory use of the tax identification number (TIN) as the unique identifier of importers and exporters and as a requirement to conduct any border transaction.	End-September 2024	4th EFF Review		
5) Government to complete an assessment of human resource needs (by competency and position) at the BCED to address capacity and operational needs, including an assessment of the obstacles to fill critical vacancies and a roadmap to fill critical vacancies.	End-March 2025	5th EFF Review		
Public Sector Reform				
6) Government to develop a NIF recapitalization and reform plan that restores and safeguards sustainability of the Fund.	End-December 2022	1st EFF Review	Met	
7) 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	Not Met	Implemented with delay
8) Government to set up a fiscal risk unit.	End-June 2023	2nd EFF review	Not Met	Implemented with delay
9) The NIS to submit all outstanding financial statements for audit by the Auditor General.	End-March 2024	3rd EFF Review		
10) Government to establish a Cash Management Unit.	End-March 2024	3rd EFF Review		
11) Parliament to approve the public pension law (SB7).	End-March 2024	3rd EFF Review	Met	

Table 1. Barbados: Structural Benchmarks Under the EFF (Concluded)				
Structural Benchmark (SB)	**Timing**	**EFF Review**	**Assessed**	**Comments**
12) Government to develop standard contracts for routine procurements to minimize delays in awarding contracts to successful bidders.	End-September 2024	4th EFF Review		
13) MFEI to prepare a Public Private Partnerships (PPPs) framework.	End-March 2025	5th EFF Review		
SOE Reform				
14) Cabinet to approve plans for the (i) amalgamation of the operations of the Rural Development Corp. (RDC), and Urban Development Corp (UDC) and (ii) the reform of the National Housing Corporation (NHC) to reduce overlap and achieve greater financial and operating efficiencies.	End-December 2023	3rd EFF Review		
15) Cabinet to approve plans for the reform of the BAMC and shift BAMC's operations away from subsidizing the traditional sugar industry.	End-December 2023	3rd EFF Review		
16) Ministry of Finance to prepare a comprehensive stocktaking of the financial performance of the SOE sector.	End-June 2023	2nd EFF Review	Met	
Central Bank Monetary Policy				
17) The CBB to review its balance sheet capacity and monetary toolkit, with the support of IMF technical assistance.	End-November 2023	2nd EFF Review	Met	
Growth and Business Environment				
18) 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	Met	
19) Government to establish a GovTech agency resourced, mandated, and empowered to advance the digitization initiative to improve the delivery of public services.	End-September 2023	2nd EFF review	Met	
20) Government to 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-March 2024	3rd EFF review		

Table 2. Barbados: Proposed Reform Measures Under the RSF				
Reform Area	**Reform Measure (RM)**	**Timing**	**Expected Corresponding Review Under the EFF Arrangement**	**Assessed**
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	Met
	2) The Government to implement the following set of actions: (i) include a fiscal risk statement focusing on climate change risks in the budget for FY2023/24; (ii) Cabinet to approve Procurement Act Regulations to enhance efficiency and effectiveness of public expenditure and to support 'green procurement'; (iii) Cabinet to approve a sustainable/green public procurement framework providing operational guidelines to implement sustainable/green procurement, in line with international best practice; and (iv) Cabinet to approve guidelines for climate/green budget tagging, in line with international best practice, and mandate that the results of the budget tagging be published in an annex in the annual budget.	End-September 2023	2nd EFF Review	Met
	3) Government to table 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	Met
	4) Government to table an amended Prevention of Floods Act in Parliament, incorporating the new Stormwater Management Plan.	End-March 2024	3rd EFF Review	

Table 2. Barbados: Proposed Reform Measures Under the RSF (concluded)				
Reform Area	**Reform Measure (RM)**	**Timing**	**Expected Corresponding Review Under the EFF Arrangement**	**Assessed**
	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	
Pillar 2: Climate mitigation reform measures (reduction of GHG emissions)	6) (i) Government to extend the tax holiday on 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	Met
	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) Government to table in Parliament the New Electricity Supply Bill 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 under the EFF Supported Program 1/ 2/ 3/

(In millions of Barbados dollars otherwise indicated)

	Target End June 2023	Actual End June 2023	Status End June 2023	Target End September 2023	Actual End September 2023	Status End September 2023	Target End December 2023	Target End March 2024	Target End June 2024	Proposed Target End September 2024	Proposed Target End December 2024
Fiscal Targets											
Performance Criteria											
Floor on the CG Primary Balance 4/	104	154	...	218	295	...	378	446	136	279	418
Floor on the CG Primary Balance (adjusted) 4/	104	154	Met	218	295	Met	...	...	...	...	...
Non-accumulation of CG external debt arrears 4/ 6/	0	0	Met	0	0	Met	0	0	0	0	0
Ceiling on CG Transfers and Grants to Public Institutions 4/ 7/	119	94	Met	238	186	Met	357	477	119	244	365
Ceiling on Public Debt 5/	14,797	14,358	...	14,806	14,431	...	15,016	15,026	15,044	15,101	15,101
Ceiling on Public Debt (adjusted) 5/	14,797	14,358	Met	14,806	14,431	Met	...	...	...	...	...
Indicative Targets											
Ceiling on CG Domestic Arrears 5/ 8/	256	249	Met	251	247	Met	246	241	231	221	211
Floor on Social Spending 4/ 9/	30	30	Met	50	60	Met	70	95	27	59	89
Ceiling on Public Institutions Arrears 5/	31	23	Met	29	29	Met	26	23	23	23	23
Monetary Targets											
Performance Criteria											
Ceiling on Net Domestic Assets of the CBB 5/	2,350	1,858	Met	2,350	1,960	Met	2,350	2,350	2,350	2,350	2,350
Floor on Net International Reserves 5/	1,200	2,125	...	1,200	1,828	...	1,200	1,200	1,200	1,200	1,200
Floor on Net International Reserves (adjusted) 5/	1,200	2,125	Met	1,200	1,828	Met	...	...	...	...	...
Items feeding into PB, Debt, and NIR adjustors											
IDB budget support 4/	0	0	...	0	0	...	200	400	0	0	0
CDB budget support 4/	0	0	...	0	0	...	0	0	0	0	0
CAF budget support 4/	0	0	...	0	0	...	0	0	0	0	0
WB budget support 4/	0	0	...	0	0	...	0	0	0	0	0
Grants 4/	0	0	...	0	0	...	0	8	0	0	0

Sources: Fund staff estimates.

1/ The 3-year EFF program was originally approval by the IMF Executive Board on December 7, 2022;

2/ 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);

3/ Based on program exchange rates defined in TMU where applicable;

4/ Flow (cumulative over the fiscal year);

5/ Stock; adjusted targets reflect the amount of deviations of program loans from multilateral institutions relative to the baseline projections.

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. Expressed as units of local currency per one unit of foreign currency, unless otherwise indicated. The exchange rate of the Barbadian dollar to the SDR is expressed as units of SRDs per unit of Barbadian dollar.

- 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

[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".

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.

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

Other Depository Corporations (ODC) survey showing the gross items for NFA, claims on the CBB, net claims

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

on the CG (NCCG), COSE, OIN, deposits included in broad money (BM), deposits excluded from BM, and liabilities to the CBB.

- Depository Corporations (DC) survey as the consolidation of CBB and ODC surveys showing the gross items for CBB NFA, ODC NFA, ODC NCCG, COSE, OIN, and BM.

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

Real Sector

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

Fiscal Sector

- Social expenditure and its components as defined in Section II.
- Financial position of public institutions listed in paragraph 3 including non-audited income statement, balance sheet and profit and loss accounts.
- CG domestic debt stock data by creditor/holder and by maturity (ST <= 1 year, and LT > 1 year maturity).
- CG external debt stock data by creditor/holder and by maturity (ST <= 1 year, and LT > 1 year maturity).
- CG domestic guaranteed debt stock data by creditor/holder and by maturity (ST <= 1 year, and LT > 1 year maturity).
- CG external guaranteed debt stock data by creditor/holder and by maturity (ST <= 1 year, and LT > 1 year maturity).
- SOE domestic non CG guaranteed debt stock data by creditor/holder and by maturity (ST <= 1 year, and LT > 1 year maturity).
- SOE external non CG guaranteed debt stock data by creditor/holder and by maturity (ST <= 1 year, and LT > 1 year maturity)
- Quarterly LT and ST debt amortization and interest projections separate for CG domestic, CG external, CG guaranteed domestic and CG guaranteed external debt.
- Copies of loan agreements for any new loan contracted, including financing involving the issue of Government paper, and of any renegotiated agreement on existing loans.
- Stock of Tax Refunds and its components as defined in Section II.

Financial Sector

- CBB Balance sheet

External Sector

- Balance of Payments accounts.

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

Financial Sector

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

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

- 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

December 4, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION, AND SECOND REVIEWS UNDER THE EXTENDED FUND FACILITY ARANGEMENT AND ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FUND—INFORMATIONAL ANNEX

Prepared By	Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of October 31, 2023)

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

General Resources Account:

	SDR Million	Percent of Quota
Quota	94.50	100.00
Fund holdings of currency (holdings rate)	426.41	451.23
Reserve Tranche Position	12.66	13.40

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	154.95	100.00
Holdings	69.04	44.56

Outstanding Purchases and Loans:

	SDR Million	Percent of Quota
RSF Arrangements	14.18	15.00
Extended Arrangements	344.52	364.57

Financial Arrangements:

(SDR million)

Type	Approval Date	Expiration Date	Amount Approved	Amount Drawn
EFF	12/7/2022	12/6/2025	85.05	28.35
RSF	12/7/2022	12/6/2025	141.75	14.18
EFF	10/1/2018	6/17/2022	322.00	322.00

Projected Obligations to Fund[1]

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2023	2024	2025	2026	2027
Principal	2.92	25.92	46.58	52.25	57.21
Charges/interest	6.20	25.37	24.24	20.40	16.06
Total	9.11	51.29	70.82	72.65	73.27

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

Implementation of the HIPC Initiative: Not Applicable.

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

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

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

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

Last Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on December 15, 2021. Barbados is on the 24-month consultation cycle.

Resident Representative: Mr. Patrick Blagrave is the IMF Resident Representative in Barbados.

Technical Assistance: Barbados has received substantial technical assistance from the Caribbean Region Technical Assistance Center (CARTAC) and the IMF. Technical assistance missions focused on macroeconomic programming and analysis, reforms of the revenue administration, public financial management, debt management, Central Bank operations, financial supervision, real and external sector statistics, and the financial sector.

RELATIONS WITH OTHER INTERNATIONAL INSTITUTIONS

CAF – Development Bank of Latin America
Barbados (caf.com)

Caribbean Development Bank
https://www.caribank.org/

European Investment Bank
EIB Representation for the Southern and Eastern Caribbean

European Union
Delegation of the European Union to Barbados, the Eastern Caribbean States, the OECS and CARICOM/CARIFORUM | EEAS (europa.eu)

Interamerican Development Bank
OVERVIEW | IADB

Organization of American States
OAS Barbados

United Nations Development Program
Barbados and the Eastern Caribbean | United Nations Development Programme (undp.org)

STATISTICAL ISSUES

(As of November 16, 2023)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is deemed to be broadly adequate for surveillance. There has been some progress in addressing shortcomings such as in GDP at constant and current prices, an update on the base year of the consumer price index, financial reporting by public enterprises (statutory bodies), labor force statistics, and discrepancies in and timeliness of external sector data. The existing data shortcomings are due to weak capacity and resources, which hampers the provision of and/or affects the reliability of certain data. IMF experts, mainly from CARTAC, continue to provide TA to help improve Barbados' statistical capacity in these areas.
National Accounts: The Barbados Statistical Services (BSS) produces annual and quarterly GDP at current and constant 2010 prices. However, the quarterly GDP at constant prices data is not publicly available. The Central Bank of Barbados (CBB) publishes flash estimates of quarterly GDP growth.
Price Statistics: The current weight reference period and basket of items for the retail price index is July 2018 and uses weights from the Survey of Living Conditions 2016. The producer price index (PPI) weights and sample are from 2009 and has not been updated since 2016. The BSS is working towards a new index of industrial production with base year 2014. However, the potential misalignments in real estate prices are not addressed due to the absence of a systematic index of property prices.
Government Finance Statistics: Comprehensive and up to date above-the-line data are available for central government operations (revenues, expenditures, and net lending), and public debt on the National Summary Data Page. Reporting to the IMF Statistics Department (STA) Annual GFS Database has become regular and timely. As a result of the incomplete coverage of off-budget transactions, a discrepancy exists between the overall balance and financing data in some years. Information on central government arrears has improved, but a more comprehensive measure that includes general government and the Barbados Revenue Agency is needed. Financial sector data on public sector net domestic borrowing usually cannot be fully reconciled with above-the-line fiscal data, partly because of limited availability of nonbank financial sector information. The authorities introduced accrual accounting of public finance in April 2007, and these reforms are reflected in the data reported to STA, although further refinements are needed. Reconciling data on accrual and cash basis remains challenging. Data availability on public sector debt has greatly improved but public availability of disaggregated debt stock and profile is limited. The coverage of public debt includes central government domestic and external debt, central government domestic and external arrears, and domestic and external state-owned enterprises (SOE) debt guaranteed by the central government.

External Sector Statistics: CARTAC TA missions assisted the authorities on the review of 2017 BOP statistics, enhancement of international investment position (IIP) source data, and on improving the timeless of publication. The balance of payments data is now publicly available up to 2017 in the central bank's website. ESS compilation and dissemination need to be enhanced by employing alternative sources and estimation methods. The most recent data Barbados has reported to the Coordinated Direct Investment Survey and the Coordinated Portfolio Investment Survey are from 2013 and 2015, respectively. The authorities are working with an IMF TA on enhancing IIP data.
Monetary and Financial Statistics: CBB has reestablished its compilation and reporting of monetary data to IMF's IFS database on central bank and other depository corporations (ODCs) using IMF's standardized reporting forms (SRFs) since April 2019. The data is reported in a timely matter. While the coverage of ODCs is expanded to include all commercial banks, Part III companies (trust and finance companies, and merchant banks), and credit unions, CBB doesn't compile monetary data for other financial corporations (OFCs), which dominate the financial sector in Barbados. OFCs would include international (offshore) banks, insurance corporations, pension funds, and mutual funds. CBB reports data on some key series and indicators of the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
Financial Sector Surveillance: The CBB compiles five core and four encouraged financial soundness indicators (FSIs) calculated separately for each of two subsectors (commercial banks and Part III companies), but not on a consolidated basis for deposit-taking institutions (DTs). The FSIs are included in the CBB's annual Financial Stability Report and its quarterly press releases.
II. Data Standards and Quality
Barbados has been participating in the General Data Dissemination System (GDDS) since May 2000. In March 2021, Barbados implemented the IMF Enhanced General Data Dissemination Standard (e-GDDS) with implied moving from publishing metadata only (under the GDDS) to publishing data by launching of the National Summary Data Page—an important step to enhance data transparency.

Table of Common Indicators Required for Surveillance					
	Date of latest observation	**Date received**	**Frequency of Data[7]**	**Frequency of Reporting[7]**	**Frequency of Publication[7]**
Exchange Rates	Fixed				
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	09/2023	10/2023	M	M	M
Reserve/Base Money	09/2023	10/2023	M	M	M
Broad Money	09/2023	10/2023	M	M	M
Central Bank Balance Sheet	09/2023	10/2023	M	M	M
Consolidated Balance Sheet of the Banking System	09/2023	10/2023	M	M	M
Interest Rates[2]	06/2023	08/2023	M	M	M
Consumer Price Index	07/2023	10/2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	09/2023	10/2023	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	09/2023	10/2023	M	M	M
External Current Account Balance	09/2023	10/2023	Q	Q	Q
Exports and Imports of Goods and Services	09/2023	10/2023	Q	Q	Q
GDP/GNP	2022	04/2023	A	A	A
Gross External Debt	2016	11/2017	A	A	A
International Investment Position[6]	2010	11/2017	A	I	I

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

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

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

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

[5] Including currency and maturity composition.

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

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

INTERNATIONAL MONETARY FUND

BARBADOS

December 6, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION AND SECOND REVIEWS UNDER THE ARRANGEMENT UNDER THE EXTENDED FUND FACILITY ARRANGEMENT AND ARRANGEMENT UNDER 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 of 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, erosion of beaches and coral reefs degradation; ii) *water* scarcity due to a reduction of *water* resources through groundwater contamination from flooding (as a consequence of changing precipitation patterns, increasing frequency of natural disasters, and increased demand for extraction), as well as soil or pollutant infiltration and saline intrusion; a

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

situation which is especially alarming for Barbados, given its ranking among the world's most water-scarce countries; iii) *agricultural* production 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 CO_2e 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. Despite improvements since 2018, its fiscal space is limited and attracting private financing has been 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 related targets 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

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

adopted, or is in the process of adopting and updating, several sector policies and regulations that include climate change adaptation considerations, including: (i) the Water Reuse Policy; (ii) the Integrated Coastal Zone Management Plan; (iii) the Comprehensive Disaster Risk Management (DRM) Policy; (iv) the Climate Change and Agriculture Policy; (v) the Plumbing Act, which follows a rainwater harvesting strategy; (vi) the Marine Pollution Control Act; and (vii) the approved List of Pollutants with their Prohibited Concentration Levels. Barbados is also operating a Catastrophe Fund, which is 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 under discussion. 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 renewable energy installations for

rooftops 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. Scaling up 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 World Bank Engagement in the Area of Climate Change

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 DRM, decarbonization of the tourism sector, and enhanced disaster and climate resilience of the insurance industry. The World Bank also provided technical assistance to the Financial Services Commission in FY 2022. In the Green and Resilient Recovery DPL, which was approved in January 2023, the World Bank is also supporting the government's ambitious climate reform program which cuts across several sectors and policy areas (including agriculture, DRM, public expenditure management, transport, water, energy, and marine conservation). This operation and RSF program of the International Monetary Fund (IMF) were developed in close collaboration between the World Bank and the IMF teams.

Statement by Philip Jennings, Executive Director for Barbados, Feargal O'Brolchain, Alternate Executive Director, and Ann Marie Wickham, Senior Advisor to Executive Director December 18, 2023

Our Barbadian authorities would like to express their gratitude to the Fund for its continued support, and to staff for the productive discussions and policy recommendations held in the context of the second reviews under the Extended Fund Facility (EFF) and the Resilience and Sustainability Facility (RSF). Barbados has emerged as a significant and influential advocate on the global stage in addressing climate change, its impacts and the associated financial challenges. The nation sets a commendable example in advancing ideas and dialogue to better support countries in an evolving global and climate context, including with the development of the Bridgetown Initiative and undertaking ambitious reforms to foster a dynamic, inclusive, and resilient economy. The RSF program has played a pivotal role in mobilizing additional resources and bolstering Barbados' efforts to advance its climate agenda. **Our authorities broadly share staff's analysis and recommendations which emphasize the importance of safeguarding fiscal sustainability and strengthening fiscal institutions, enhancing Barbados' growth potential, and increasing resilience to climate change and natural disasters.**

I. Program Performance

Barbados' unwavering commitment and strong ownership of its home-grown economic program—the BERT plan—and its ambitious climate policy agenda serve as a testament to the country's outstanding performance under the EFF and RSF arrangements. Having met all quantitative performance criteria (QPCs), indicative targets, and implemented all structural benchmarks for the Second Review, Barbados is well on its way to achieving the objectives underpinning the EFF and RSF arrangements.

All quantitative performance criteria and indicative targets under the EFF were not only met successfully but, in several instances, exceeded by wide margins. Notably, the primary balance target, the floor on social spending, the ceiling on transfers to public institutions, the floor on international reserves and the ceiling on net domestic assets of the Central Bank of Barbados (CBB) all outperformed program targets. Fiscal targets on external debt arrears and public debt were also achieved. Further, all five structural benchmarks were implemented, albeit one with a slight delay. Parliament approved the public pension law ahead of time—scheduled for the third review—to enhance the sustainability of the public sector employees' pension scheme and the wider national insurance and social security system. Our authorities also completed a comprehensive stocktaking of the financial performance of the SOE sector and established a GovTech agency to improve the delivery of public services. The CBB reviewed its balance sheet capacity and monetary policy toolkit informed by IMF Technical Assistance. Despite a minor delay in implementation, our authorities have established a fiscal risk unit within the Ministry of Finance to contribute to budget formulation and planning by identifying and proposing options to contain fiscal risks, including contingent liabilities and climate change risks.

Under the RSF, all three reforms measures, some with multiple subitems, were successfully implemented. Under one reform measure, the government implemented four extensive reform efforts: including (i) a fiscal risk statement focusing on climate change risks in the budget for

FY2023/24; (ii) Cabinet approved the Procurement Act Regulations to enhance efficiency and effectiveness of public expenditure and to support 'green procurement'; (iii) Cabinet approved a sustainable/green public procurement framework providing operational guidelines for implementation, in line with international best practice; and (iv) Cabinet approved guidelines for climate/green budget tagging and has a mandate to publish in an annex in the annual budget the results of the budget tagging. Additionally, the authorities tabled in Parliament the National Comprehensive Disaster Risk Management Policy, and the government has extended the tax holiday on electric vehicles and has closed remaining regulatory gaps in licensing policy/approvals framework.

II. Fiscal and Debt Sustainability

Barbados is on track to achieve the primary surplus target of 3.4 percent of GDP for this fiscal year. Our authorities comfortably met the target for the first half of FY2023/24 with a primary balance of 2.3 percent of GDP, exceeding the target of 1.7 percent of GDP. Despite revenues slightly falling below those recorded in the first half of FY2022/23— attributed to a shift in the payment schedule of land tax bills, corporate income tax, and the discontinuation of the pandemic levy—prudent expenditure management enabled the fulfillment of the fiscal target.

Barbados has undertaken significant changes to the corporate income tax (CIT) framework, aligning it with the principles outlined in Pillar II of the commitments made under the OECD/G20 Inclusive Framework. Effective January 1, 2024, Barbados will introduce a qualified domestic minimum top-up tax that will bring the effective tax rate to 15 percent on subsidiaries of Multinational Enterprises (MNEs). In addition, the general CIT rate will increase to 9 percent, except for small businesses, insurance and shipping companies. These reforms are anticipated to generate an approximate increase in revenues amounting to 1.5 percent of GDP which will be used primarily towards enhancing public investment. The legislative change has resulted in amendments to 11 pieces of legislation and the repeal of 5 pieces of legislation governing the international business sector.

Our authorities are taking important steps to strengthen revenue administration through the Barbados Revenue Authority (BRA) and the Barbados Customs and Excise Department (BCED). With the technical assistance provided by the Fund, the BRA has updated its IT systems and processes to ensure the timely processing and issuance of tax refunds, and efforts have been made to validate the stock of outstanding tax arrears and retire them as speedily as possible. The Customs Act was revamped to meet current and emerging border management needs, and draft regulations for the implementation of the Act were developed, together with mechanisms to promote voluntary compliance. Moreover, a Memorandum of Understanding between the BRA and BCED was signed to enhance information sharing, and a data matching project to improve compliance and risk management has been established. Efforts are ongoing to modernize the tax exemptions framework with the gradual reduction of tax expenditures through the effective management of duty and tax exemptions, with an emphasis on rules over discretion and greater accountability and transparency.

Significant reforms are being made to bolster the public financial management framework (PFM) and rationalize state-owned enterprises (SOEs). In addition to the approval of the 2019

PFM Act and a new Procurement Act (2021), a Fiscal Council was established to promote sound fiscal management, and a fiscal risk statement with specific references to climate change risks was included in the FY2023/24 budget. The creation of a fiscal risk unit will further support fiscal risk management, and the planned creation of a cash management unit will help improve the management of daily cash balances and avoid a buildup of payment arrears. Our authorities continue to reform the SOE sector by amalgamating and restructuring the operations of several SOEs. A stocktaking of SOE financial performance has been completed, which showed improvement in the financial position of SOEs relative to recent years. Going forward, the authorities intend to continue modernizing SOEs, including by privatizing certain activities, ensuring adequate user-fee structures, and eliminating inefficiencies.

The public debt ratio has fallen to pre-pandemic levels and is projected to continue declining, while sovereign credit ratings are gradually improving. The DSA indicates that Barbados' public debt remains sustainable and overall risk of sovereign stress is moderate. Our authorities remain committed to generating the primary balances needed to achieve the debt anchor of 60 percent by FY 2035/36. Barbados is making significant progress in restarting the domestic capital markets including the issuance of bonds under the Barbados Optional Savings Scheme Plus program. The government restarted the issuance of 90-day Treasury bills in September 2023, and plans on restarting the issuance of savings bonds and introducing new facilities to enhance the liquidity and accessibility of government bonds. In recent months, one rating agency upgraded Barbados' sovereign credit rating and two other agencies upgraded their ratings' outlooks to positive.

III. Enhancing Monetary and Financial Sector Policies

The CBB continues to maintain robust reserves to uphold the country's longstanding currency peg, and the authorities are firmly committed to implementing policies that ensure its sustained stability. Gross international reserves rose to US$1.4 billion as of end-September, equivalent to 7.6 months of imports of goods and services, supported by the improvement in the current account balance and loan disbursements from international financial institutions.

Our authorities remain committed to prioritizing reforms aimed at bolstering the operational capacity of the CBB and ensuring the stability of the financial sector. The CBB continues to implement the recommendations of the 2023 safeguards assessment. An Amendment to the CBB Act was enacted to further enhance the functional autonomy of the CBB, including the governance arrangements. The internal audit function is improving its practices and recently revamped the quality of its reports to the CBB Audit Committee.

The banking system is well capitalized, has abundant liquidity, and is profitable. Stress tests were conducted on banks and credit unions, revealing results that affirm the soundness of these institutions. Credit risk stress test results show that banks are resilient due to their relatively high capital adequacy and good pre-provision profitability. CBB is working, to continue strengthening financial sector monitoring, with IMF TA support, including by enhancing stress tests that connect macroeconomic developments to performance of the financial sector. With support from CARTAC, the CBB is developing capacity to assess financial sector risks arising from climate change.

IV. Enhancing Governance

Our authorities continue to make progress in implementing the action plan to strengthen the AML/CFT framework and expect the upcoming on-site verification to result in a positive recommendation at the FATF Plenary in February 2024 to remove Barbados from the grey list. At its October 2023 Plenary, FATF made the initial determination that Barbados has substantially completed its action plan to strengthen the effectiveness of its AML/CFT regime and warrants an on-site assessment to verify its implementation. More recently, progress was also made in (i) conducting risk-based supervision of financial institutions and applying sanctions as appropriate; (ii) ensuring that accurate and up-to-date beneficial ownership information is available on a timely basis; (iii) improving and enhancing the use of financial intelligence, and (iv) pursuing repatriation and sharing of confiscated assets with other countries.

Enhancing governance frameworks stands as a paramount priority for Barbados. The 2021 Procurement Act includes several innovations to enhance governance, such as by charging the Chief Procurement Officer with the responsibility to i) conduct procurement audits and ii) establish and maintain a register for all suppliers. It also requires the publication of all procurement contracts awarded in the year as well as reports on supplier performance. In addition to procurement reforms, in line with efforts to combat corruption and promote good governance, our authorities have taken several important steps to strengthen the legal framework. These include the passing of the Prevention of Corruption Act and a Deferred Prosecutions Act, and the approval of a Whistle-blower Protection Bill. A revised Integrity in Public Life Bill, which seeks to mitigate scope for acts of corruption by persons in public life, has been passed in Parliament. Additionally, Barbados has established an Anti-Corruption and Anti-Terrorism Agency to investigate acts of corruption and terrorism.

V. Growth-Enhancing Reforms

Barbados' growth strategy embedded in the updated BERT plan seeks to increase the country's productive potential. The growth strategy is underpinned by key pillars focused on incentivizing an acceleration of small-scale private-sector investment in the green transition; incentivizing low- and middle-income housing; investing in skills training and education; preserving financial stability and mobilizing domestic savings for local investment; and making Government an enabler to enhance productivity, competitiveness, and service excellence, towards achieving higher local and foreign direct investment. Additionally, Barbados has established the country 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; implementing targeted public investments to achieve sectoral integration and develop climate-resilient infrastructure; promoting a new, high-skilled, knowledge-based economy that is tech-heavy, carbon-neutral and marine-conscious; and, adopting open labour market policies.

The Government will continue to pursue measures aimed at providing the requisite business environment to support trade and investment. A stocktaking of the execution of policy reforms overseen by the Doing Business Sub-Committee of Cabinet and Private Sector Committee was undertaken to inform the forward-looking reform agenda by identifying the unfinished reforms and prioritizing next steps. Moreover, the newly established Growth Council, with a mandate to sustain reform momentum and accountability, will support these growth initiatives.

VI. Building Resilience to Climate Change

Our authorities remain committed to building resilience against climate challenges and natural disasters. Barbados faces heightened vulnerability to climate change, attributed to the rising frequency and intensity of natural disasters. In response, our authorities have maintained a steadfast focus on sustainability and climate resilience, spearheading strategic initiatives such as the Bridgetown Initiative and the Roofs to Reefs Programme. The Roofs to Reefs Programme serves as a comprehensive developmental blueprint for climate resilience, with a strong emphasis on both infrastructure and the preservation of the natural environment. Concurrently, the Bridgetown Initiative, a multifaceted program, seeks to reform International Financial Institutions to address climate challenges by advocating for liquidity support while at the same time restoring debt sustainability. In addition, Barbados has adopted, several climate-adaptation policies including the Water Reuse Policy, the Integrated Coastal Zone Management Plan and the Comprehensive Disaster Risk Management Policy.

Barbados is committed to reaching the 100 percent renewable energy target by 2035, alongside a firm commitment to ambitious targets for both mitigation and adaptation to address climate change. Our authorities have incentivized 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.

Barbados continues to be a prominent advocate for climate financing to support the most vulnerable countries grappling with the challenges of climate change. The implementation of the country's climate agenda, supported by the RSF arrangement, will require significant investments, most notably in the water, renewable energy, and housing sectors. Leveraging the support of the RSF, Barbados remains committed to mobilizing financing for its climate agenda. The IMF Climate Finance Task Force continues to work with the authorities and other development partners to scale up climate finance in Barbados. A notable development involves the European Investment Bank and Inter-American Development Bank, which recently announced a US$300 million guarantee for Barbados. This "debt-for-climate" swap aims to upgrade water infrastructure, enhancing water supplies, and mitigating the impact of climate change.

VII. Concluding Remarks

Barbados has made significant progress in their reform agenda to restore macroeconomic stability and will continue to do so with the support and partnership of the Fund through the EFF and RSF arrangements. Considering the remarkable progress and strong commitment to the program objectives, we would appreciate Executive Directors' support for the completion of the second review under the EFF and RSF arrangements.