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Barbados: 2004 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Barbados

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2004 Article IV consultation with Barbados, the following documents have been released and are included in this package:

- the staff report for the 2004 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **February 12, 2004,** 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 April 7, 2004.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its May 3, 2004 discussion** of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for Barbados.

The document listed below have been or will be separately released.

Statistical Appendix

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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BARBADOS

Staff Report for the 2004 Article IV Consultation

Prepared by the Staff Representatives for the 2004 Consultation with Barbados

Approved by Markus Rodlauer and Juha Kähkönen

April 7, 2004

- **Discussions**: A staff team comprising A. Furtado (Head), C. Francis, S. Rizavi, and W. Samuel (all WHD) held discussions in Bridgetown during January 29–February 12, 2004. The mission met with Senator Tyrone Barker, Parliamentary Secretary for Finance and Economic Affairs; Ms. Marion Williams, Governor of the Central Bank of Barbados; Mr. Grantley Smith, Director General of the Ministry of Finance and Economic Affairs; other senior officials; and representatives of the private sector. Mr. Richard Campbell (OED) attended the policy discussions.

- **Economic and social background**: Barbados has very favorable economic and social indicators by regional standards. The mainstays of the economy are tourism and financial services. The population is about 275,000, per capita income is about US$9,500, and the unemployment rate is slightly less than 11 percent. Poverty is low and other social indicators are the best in the Caribbean region. The United Nations Development Program's Human Development Index ranked Barbados 27th among 175 countries in 2003.

- **Political situation**: Barbados, a parliamentary democracy, enjoys well-functioning political institutions. The ruling Barbados Labor Party (BLP), led by Prime Minister Owen Arthur, has been in office since 1994. In May 2003, the BLP won its third consecutive election securing 23 of the 30 seats in the House of Assembly. The main opposition party, the Democratic Labor Party (DLP), held office in 1989–94 and controls the remaining seven seats. The next general election is due in 2008.

- **Last Article IV consultation**: At the conclusion of the 2002 Article IV consultation, on February 7, 2003, Directors recommended a return to low fiscal deficits and continued implementation of structural reforms to restore sustained economic growth. They emphasized the need for wage restraint in the public sector and restraint in government spending on tourism projects. Directors encouraged privatization to boost efficiency gains and help reduce the public debt, and stressed the need to strengthen supervision of nonbank financial institutions and improve the regulatory framework for the offshore financial sector.

- **Exchange system**: Barbados has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The Barbados dollar has been pegged to the U.S. dollar at BD$2=US$1 since 1975.

Contents Page

Appendices

EXECUTIVE SUMMARY

Recent developments

- **The economy has started to recover from the 2001–02 recession, but fiscal and external imbalances are still sizeable**. Real GDP grew by an estimated 2 percent in 2003, led by a recovery in the tourism sector. The central government deficit remained high, at 6½ percent of GDP, and government debt stands at 75 percent of GDP. The external current account deficit widened in 2003, as merchandise exports declined for the third consecutive year and imports recovered from their low recession level. The banking system remains generally sound, although profitability indicators have weakened somewhat.

- **Over the past year, structural reforms have progressed well**. Steps have been taken to enhance the budget process, strengthen the national pension system, promote transparency in the public sector, improve financial intermediation, and enhance the supply responsiveness of the economy.

Policy discussions

- **The discussions centered on growth, fiscal consolidation, and structural policies to enhance competitiveness**. Real GDP is projected to grow by about 3 percent in 2004. Over the medium term, achievement of higher growth rates than the currently projected 2–2½ percent is necessary, but will depend on prudent macroeconomic policies and supply-enhancing reforms.

- **The current medium-term fiscal outlook would imply continued high government debt ratios and large, albeit declining, external current account deficits**. These trends could pose a risk to the fixed exchange rate anchor, especially in the event of a decline in private capital inflows. The mission therefore recommended a front-loaded reduction in the central government deficit to place the government debt ratio firmly on a declining path. The authorities agreed on the need for fiscal adjustment, but preferred a more gradual adjustment path.

- **The staff agreed with the authorities that fixed exchange rate regime remains appropriate for Barbados**, as long as it is supported by appropriate macroeconomic financial and structural policies. In this context, the staff urged strengthened measures to assure debt sustainability and deepened structural reforms.

- **The authorities intend to press ahead with structural reforms**. The focus in the period ahead will be on the budget, tax policy, government pensions, and measures to enhance the supply response of the economy. The mission suggested that the central bank liberalize deposit rates and move towards indirect monetary policy instruments.

I. Background and Recent Developments

1. **Barbados' economy did well in the 1990s, supported by prudent policies and a favorable external environment**. During 1993–2000, per capita real GDP growth averaged 2.5 percent per year, annual inflation was 2 percent or less, unemployment declined sharply, and key social indicators improved further. The structure of the economy shifted from agriculture to tourism and financial services. This performance was achieved in the context of small fiscal deficits (less than 2 percent of GDP), a conservative monetary policy (which resulted in a substantial accumulation of external reserves), and a range of market-oriented reforms. These policies contributed to Barbados' favorable position compared with other countries in the region (Box 1).

2. **The economy shifted into a recession in 2001, reflecting the global slowdown, which was exacerbated by the adverse impact of the September 11 events on the tourism sector**. Real GDP dropped by a cumulative 4 percent in 2001–02, reflecting declines in tourism, manufacturing and agriculture (Table 1).

3. **To mitigate the recession, the government adopted a countercyclical fiscal policy stance resulting in widening deficits and debt accumulation**. In late 2001, the government launched a national emergency program of public investment projects aimed at promoting economic activity and upgrading the tourism and economic infrastructure. In addition, wages of public servants were raised by an average of close to 3 percent in 2001–02. These measures contributed to an increase in the central government deficit, from 2.3 percent of GDP in FY 2000/01 (April–March) to 9.5 percent of GDP in FY 2002/03. This deficit includes extra-budgetary spending, mainly transfers to public enterprises, which rose sharply, to about 4 percent of GDP.[1] As a result, the central government debt-to-GDP ratio rose from 63 percent in March 2001 to 76 percent in March 2003 (Tables 2 and 3).[2, 3]

A. Recent Macroeconomic Developments

4. **Over the past year, the economy recovered partially from the 2001–02 recession, but fiscal and external imbalances remain sizeable**. Real GDP grew by an estimated 2 percent in 2003, led by a recovery in the tourism sector, which had a positive effect on

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[1] Over the same period the budget deficit rose from 1.9 percent of GDP to 5.4 percent of GDP.

[2] Over the same period, the total public sector debt, which includes government-guaranteed debt of public enterprises, increased from 73 percent of GDP to 84 percent of GDP.

[3] The increase in the public debt prompted a revision in August 2003 in Standard and Poors' foreign and domestic currency outlook for Barbados, from stable to negative, as well as in its long-term local currency sovereign credit rating, from AA- to A+, and the short-term local currency sovereign credit-rating, from A-1+ to A-1.

trade, transport, and communications. However, performance in some sectors remained weak, in particular agriculture and manufacturing, where output declined further. Inflation remained low at 1.5 percent, reflecting the currency peg. Despite the improvement in tourism, the external current account deficit widened in 2003, as merchandise exports declined for the third consecutive year and imports recovered from their low recession levels.

5. **The central government deficit narrowed to 6.5 percent of GDP in FY 2003/04**. Tax revenue increased by 1¼ percent of GDP, on account of higher receipts from the value-added tax, and capital expenditure declined by a similar amount. Extra-budgetary expenditure—the bulk of which consists of transfers to public enterprises related to tourism and infrastructure (for example, construction of a large hotel and airport expansion)[4]—is estimated to fall slightly, to just below 4 percent of GDP. More than half of the government deficit was financed through the use of privatization proceeds from the sale of government shares in a large commercial bank.[5] The remainder of the deficit was financed mainly by drawdown of deposits at the central bank and borrowing from the National Insurance Scheme (NIS). Reliance on deposits, rather than on additional debt, resulted in a marginal decline in the government debt ratio, to 75 percent.[6]

6. **Broad money growth decelerated in 2003, although it was still faster than GDP growth, and banks became increasingly liquid**. The growth of M2 slowed to 6.5 percent, from 10.4 percent in 2002, partly due to the easing of fiscal pressures (Table 4). Broad money growth reflected continued drawdown of government deposits at the central bank[7] (Table 5), and significant private capital inflows. Given sluggish growth of credit to private sector,[8] banks' excess reserves rose sharply, from 9 percent of deposits in December 2001 to 21 percent in December 2003. With abundant liquidity, and limited options for alternative

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[4] The source of these extra-budgetary transfers is the Public Enterprise Investment Fund (PEIF), a special government account at the Central Bank of Barbados, funded mainly by privatization proceeds. On the basis of financing data, the combined deficit of the nonfinancial public enterprises, after government transfers, is estimated at about 1 percent of GDP in FY 2003/04, about the same as in the previous year. The Transport Board accounts for about one-third of this deficit.

[5] In July 2003, the government sold 57 percent of its shares in the Barbados National Bank (BNB) to Republic Bank Limited, a Trinidad and Tobago bank, for the equivalent of US$94.5 million.

[6] About 32 percent of the government debt is external, of which 60 percent is commercial.

[7] Such deposits mainly reflect proceeds from commercial borrowing in 2001 (US$150 million) and the BNB privatization in 2003 (US$94.5 million). Withdrawals were equivalent to 8.4 percent of the initial stock of M2 in 2002, and 6.9 percent in 2003.

[8] Attributable to weak loan demand, given excess capacity and the uncertain economic outlook in the wake of the recession.

investments, the treasury bill rate declined from 1.5 percent in 2002 to 0.6 percent by end-2003. Meanwhile, bank lending rates declined only slightly, to an average of about 10 percent. The apparent rigidity in lending rates reflects a combination of factors, including high intermediation costs, possible oligopolistic practices, and the effect of the interest rate floor (for saving and time deposits) on the cost of funds.

7. **The central bank eased monetary policy in an effort to stimulate economic activity, and to unwind the excessive buildup of liquidity in the banking system**. The government securities ratio, which had become non-binding given the high level of excess reserves, was reduced to 16 percent in November 2002, In December 2002, the central bank reduced the minimum administered interest rate on time and savings deposits from 3 percent to 2.5 percent, and discontinued setting a maximum indicative lending rates for banks on selected loans.[9] While the banking system remains generally sound, the ratio of nonperforming loans to total loans increased to about 9 percent, and profitability indicators weakened somewhat (Table 6).

8. **The current account deficit widened further in 2003, but privatization proceeds and private capital inflows boosted net international reserves**. Despite some recovery in tourism, the current account deficit widened to just below 8 percent of GDP (Table 7). Merchandise exports continued to decline, partly reflecting underlying weaknesses in the agricultural sector, in particular lower sugar production. Merchandise imports recovered to their pre-recession level. However, the financial account benefited from the BNB privatization and private capital inflows. As a result, following a small deficit in 2002, the balance of payments shifted back to surplus in 2003. Net international reserves stood at US$751 million (six months of imports of goods and services) at the end of the year (Table 8).

9. **The peg to the U.S. dollar has entailed a substantial real effective depreciation over the last two years**. After a long period of steady appreciation, the Barbadian dollar depreciated by nearly 14 percent in real effective terms from April 2002 to December 2003. This has fully reversed the appreciation that had taken place since 1995 (Figure 2).

B. Structural Reforms

10. **Over the past year, important progress was made in the area of structural reforms**. Steps have been taken to enhance the budget process, strengthen the national pension system, promote transparency in the public sector, improve financial intermediation, and enhance the supply responsiveness of the economy.

[9] The elimination of the maximum average lending rate sought to remove any impediment to banks using interest rates as a mechanism for pricing risk, which may have limited the availability of credit. The government securities ratio was lowered again to 12 percent in February 2004. With effect from March 15, 2004, the central bank reduced the minimum administered interest rate on time and saving deposits from 2.5 percent to 2.25 percent.

- **Budget process**. With the help of the Caribbean Regional Technical Assistance Center (CARTAC), the government is setting up a system of accrual accounting and multi-year budgeting aimed at strengthening fiscal policy formulation and monitoring.

- **Pensions**. In January 2003, the government adopted measures to ensure the long-term sustainability of the NIS by reducing projected benefit payments and increasing contributions. The reform comprised, inter alia, a change in the rate of accrual of pension rights to a maximum 60 percent of final average earnings; a phased increase in the retirement age over the period 2006–18, from 65 to 67 years; and a phased increase in the contribution rate over four years, by 4 percentage points.

- **Transparency and accountability**. The Public Accounts Committee, whose membership has been expanded, has been given authority to review the financial statements of all companies with majority state ownership, in addition to the government accounts.

- **Financial sector reform**. Progress has been made in implementing recommendations of the December 2002 FSAP report (Box 2).

- **Supply side enhancements**. Under a program aimed at reducing telecommunication costs and enhancing competitiveness, the government has revoked the existing monopoly license in the sector. Competition has already contributed to lower mobile phone rates. Moreover, as a first step towards increasing the efficiency of the port operations (key for competitiveness in a small open economy like Barbados), a law has been passed by parliament corporatizing the Barbados Port Authority.

II. Report on the Discussions

11. **The economic policies in Barbados have generally been in line with Fund advice, although at times the pace of implementation has varied**. In recent years, the authorities have followed the staff's advice to reduce the fiscal deficit, introduce a value-added tax, liberalize trade further, and implement FSAP recommendations. On the pace of fiscal consolidation, they have chosen a more gradual pace mainly to avoid undermining the economic recovery and to preserve existing wage and social policy commitments which they view as essential to the social compact.

12. **The main themes of this year's consultation discussions were the growth outlook, fiscal consolidation and debt sustainability, and structural policies to enhance competitiveness**. The mission expressed concern that, despite the recent pick-up in growth, the authorities have not yet fully reversed the expansionary fiscal stance adopted in late 2001. Such a reversal is needed in order to safeguard the external position and medium-term debt sustainability. The mission stressed that the fiscal discipline required to support the fixed exchange rate regime—which has served Barbados well, by providing a strong anchor for expectations, investor confidence, and monetary policy— warranted a further reduction in the central government deficit. Given the buildup of liquidity in the banking system over the

last two years, and the risks that this poses for excessive credit expansion and banks' profitability (given the floor on deposit rates), the mission suggested moving toward more market-based monetary policy tools, and liberalizing deposit rates. The mission welcomed recent steps in the structural area and encouraged the authorities to introduce additional reforms to strengthen the medium-term growth prospects.

13. **The authorities agreed with the staff on the importance of enhancing competitiveness, ensuring debt sustainability, and maintaining consistency between financial policies and the currency peg**. At the same time, they cautioned that, in a small island economy with increasing exposure to foreign competition due to regional integration and globalization, the impact of these reforms could be somewhat limited, especially early on and in key sectors such as agriculture and manufacturing. Accordingly, they intend to base their fiscal adjustment and debt sustainability policies on relatively conservative growth assumptions. On macroeconomic policies, the authorities generally concurred with the broad thrust of the mission's views, but were concerned that rapid fiscal adjustment might undermine the incipient recovery. They also noted that a policy of gradual adjustment was consistent with the longstanding national practice of broad-based consultation among government, trade unions, and the business sector, which has been key for social and political stability.

A. Growth Prospects

14. **While the near-term outlook points to a continued recovery, sustained growth over the medium term will depend on supply side enhancements and the global environment**. In 2004, real GDP is projected to grow by about 3 percent, assuming continued recovery of the global economy and tourism. Over the medium term, growth could potentially be in the range of 3–4 percent, reflecting the completion of ongoing infrastructure projects, expansion of tourism facilities, and growth in the international business and financial services industry. However, as growth in a very small and open economy such as Barbados is also critically influenced by external demand factors, the mission based its medium-term projections on more conservative growth rates of 2–2½ percent for the period beyond 2004, in line with the authorities' approach.

B. Fiscal Policy

15. **The discussions focused on the appropriate pace for reducing the central government deficit, which remains high despite some adjustment in FY 2003/04**. The mission expressed concern that the countercyclical fiscal expansion in 2001/02 had been only partially reversed, and in particular that substantial extra-budgetary spending was still continuing (utilizing privatization proceeds). The mission recommended a further substantial reduction in the central government deficit to reduce the government debt ratio to below 60 percent of GDP over the next five years. The mission encouraged the authorities to use some of the privatization proceeds to retire government debt.

16. **The authorities stated that further fiscal adjustment and a reduction in the debt ratio remained key objectives**. To this end, they plan to lower, as soon as possible, the central government deficit to around 2.5 percent of GDP. The authorities pointed out that the

budget deficit was already close to this level, and that extra-budgetary spending was expected to fall sharply as a number of large infrastructure projects were reaching completion.[10] The authorities explained that privatization proceeds were being used to finance projects of high priority for enhancing the growth potential of Barbados.

17. **A baseline scenario, based on these deficit targets, points to some decline in the government debt ratio over the medium term**. While the budget proposal for FY 2004/05 has not yet been finalized, staff projections based on the fiscal policy discussions point to a narrowing of the government deficit to 4½ percent of GDP, and to further reduction in subsequent years. Extra-budgetary spending is projected to decline by about 50 percent (to around 2 percent of GDP) in FY 2004/05, and would cease by FY 2006/07. On this basis, government debt would decline by 7 percentage points to about 69 percent of GDP by end-2008.[11] The mission took the position that these debt ratios would still constitute a serious vulnerability especially in the event of an adverse external shock.

18. **The authorities' medium-term deficit reduction plans are predicated solely on expenditure containment**. As no revenue-raising measures are being contemplated, the revenue-to-GDP ratio is expected to remain broadly stable in the next two years, and would probably decline thereafter as a result of import tariff reductions in the context of the FTAA.[12] On the expenditure side, the growth of transfers to public entities is expected to be contained by capping about one-third of these transfers at their FY 2003/04 level. In addition, capital expenditure is to be reduced further, reflecting a strategy to transfer some of the responsibility for infrastructure investment to the public enterprises and to engage in joint ventures with the private sector.

19. **The mission welcomed the direction of the authorities' consolidation plans, but favored a more ambitious fiscal adjustment, including through revenue measures**. The mission outlined a strengthened adjustment scenario that would eliminate the central government deficit by FY 2006/07 and reduce the government debt ratio to below 60 percent of GDP by 2008/09—and to about 50 percent of GDP two years later, if balance were maintained. This would be based on: (i) revenue measures amounting to 0.8 percent of GDP

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[10] For example, a large new hotel and expansion of the airport.

[11] The decline in the overall public sector debt would depend on the overall deficit of public enterprises after transfers from the government. The staff's baseline scenario assumes that this deficit would rise to about 1½ percent of GDP in FY 2004/05 and stay at that level during the projection period, reflecting reduced government transfers and somewhat higher capital outlays (as envisaged by the authorities). On this basis, the overall public sector debt would decline only marginally, from 83½ percent of GDP in FY 2003/04 to 81½ percent of GDP in FY 2008/09.

[12] Currently, import duties amount to almost 3 percent of GDP, and a high proportion of imports originate from countries such as Canada, Mexico, and the United States. The staff's projections assume a decline of import duties by about ½ percent of GDP a year from 2006.

in FY 2004/05; (ii) limiting the growth of non-wage primary current expenditure to the rate of inflation;[13] (iii) reducing government transfers by a cumulative 1 percentage point of GDP over the next five years, in tandem with an increase in the tariffs of public utilities;[14] and (iv) allocating one-half of the remaining and projected privatization funds to debt retirement. Tax increases would be necessary in order to preserve social spending, as the scope for additional expenditure cuts has become limited given the three-year wage contract and the planned cuts in other nonwage outlays. Regarding specific measures, the mission suggested a broadening of the VAT base through a reduction in the number of exempted items, with an increase in the VAT rate if necessary, and possibly some increase in excises in line with FAD recommendations.

20. **The authorities maintained that a more gradual fiscal adjustment path was appropriate**. Based on the experience since the early 1990s, the authorities viewed a deficit in the range of 1–2 percent of GDP as sustainable, and an attempt to force fiscal balance would undermine the longstanding social pact that had served the country well. They also feared that more ambitious fiscal adjustment might jeopardize the economic recovery and raise unemployment. Finally, they emphasized that the government debt was mainly held by residents and in local currency, which mitigated the vulnerability associated with the rise in the debt ratio in recent years.

C. Monetary and Exchange Rate Policy

21. **The authorities and staff agreed on the continued appropriateness of the fixed exchange rate regime for Barbados**. The long-standing peg to the U.S. dollar, including through a near crisis in the early 1990s when drastic fiscal adjustment measures were taken to defend the currency, have imparted a high degree of credibility to the exchange rate regime, anchoring price stability and investor confidence. The authorities acknowledged that weak competitiveness had caused the traditional sectors of the economy—especially agriculture and manufacturing—to decline over the last several years, partly as a result of trade liberalization in the context of CARICOM's common external tariff. However, they saw this decline as a structural shift that could not be reversed through exchange rate action, requiring instead appropriate structural policies to contain the decline in the affected sectors and to develop new activities, notably in services, where Barbados has a comparative advantage.

22. **The mission emphasized, however, the high demands on the policy framework associated with the fixed exchange rate regime**. In this regard, it noted that the adverse effect of the recent fiscal expansion on the external position had been mitigated by capital inflows, a situation that may not last. In particular, the government has been able to mobilize

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[13] With policies to moderate the increase in the wage bill following the expiration of the current wage contract in 2006.

[14] The tariffs of public enterprises (e.g., water rates and bus fares), which have not been increased for several years, could be increased on a phased basis.

substantial foreign financing and privatization inflows. The authorities agreed with the mission that a tighter fiscal stance and a slower growth of the central bank's net domestic assets was warranted in the period ahead to safeguard the external position under the currency peg.

23. **The mission expressed concern about the rapid increase in the monetary base over the last two years and the associated buildup of bank liquidity**. As noted, the injections of high-powered money—arising from the government's use of foreign loans and privatization proceeds—had effectively been sterilized as unremunerated excess reserves. Besides the potential for excessive credit expansion, the mission noted the possible adverse implications of this development on banks' profitability, given the central bank's policy of maintaining a floor on the interest rate on savings/time deposits. The mission therefore recommended that the central bank (i) reduce NDA growth; (ii) move towards indirect monetary policy instruments to better manage liquidity; and, (iii) liberalize deposit rates.

24. **The authorities intend to move gradually toward more indirect monetary policy instruments, and they did not think that the deposit rate floor had contributed to high lending rates or had adversely affected bank profitability**. They noted that bank soundness and profitability indicators remained strong, the minimum deposit rate had been substantially reduced over the last three years, and commercial banks had been reluctant to avail themselves of the opportunity to invest abroad under the "second tier" reserves arrangement.[15] While lending rates had declined only marginally and credit to the private sector had remained sluggish, they attributed the increase in excess reserves mainly to overly conservative lending policies of commercial banks, and to the oligopolistic structure of the banking system. Regarding the transition to indirect monetary policy instruments, the authorities indicated that they are preparing the technical infrastructure for adopting open market operations, which they envisage to undertake in the context of a continued gradual opening of the capital account.

D. Structural Policies

25. **The authorities firmly believe that structural policies are key to enhancing external competitiveness**. They explained—and the staff concurred—that at this point the exchange rate is not an issue for competitiveness, especially after the recent decline of the U.S. dollar. Rather, Barbados' growth and export outlook depends critically on reforms that support the transformation of the economy, in line with its comparative advantage. The mission welcomed the recent measures taken in pursuit of such reforms, including the reform of the NIS; a new regulatory framework for private pension schemes; the corporatization of the port authority; the privatization of BNB; increasing competition in the telecommunications sector; and steps underway to gradually restructure and diversify the

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[15] The central bank's policy of "second tier" of reserves is based on granting permission to private sector entities to invest abroad with the undertaking that they would provide an equivalent amount of foreign exchange on demand, if required by the central bank.

sugar sector.[16] These structural policies have been supported by a multi-year phased lowering of personal and corporate income taxes, and generally moderate wage increases broadly in line with productivity growth. The mission also noted the actions that have already been taken in response to the FSAP recommendations, and encouraged the authorities to expedite implementation of the remaining recommendations. The authorities indicated that the focus of structural reforms in the period ahead would be on the budget, tax policy, government pensions, the financial sector, and measures to enhance the supply response of the economy.

- **Fiscal reforms**. The authorities intend to begin implementing multi-year budgeting on an accrual basis during the coming year, which will greatly improve the framework for fiscal policy formulation and monitoring. In the tax policy area, they aim to harmonize the domestic and offshore tax regimes, with technical assistance from the Fiscal Affairs Department . Regarding pensions, the authorities are considering options for reducing the cost of the unfunded pension plan for government employees, which currently amounts to 2 percent of GDP, and is projected to reach 3½ percent of GDP by 2015. Among the options being considered are reforms to reduce the benefits, and to fully fund the pension plan[17] (Box 3).

- **Financial sector reform**. The authorities underscored their commitment to further financial sector liberalization. As described in Box 2, they are making progress in implementing the FSAP recommendations, and they intend to take further steps to strengthen central bank oversight functions, and to enhance supervision of the insurance industry. In addition, the government is expected to divest its 51 percent share in the state-owned Insurance Corporation of Barbados.

- **Supply side reforms**. The authorities expect to make further progress in the telecommunications and infrastructure areas. Regarding telecommunications, new licenses for fixed-line operators are to be issued, on a competitive basis, in 2004. In the infrastructure sector, corporatization of the airport authority is expected in FY 2004/05.

26. **The authorities reaffirmed their commitment to further regional integration and trade liberalization in the context of the CARICOM, the WTO, and the envisaged FTAA, and their intention to gradually liberalize the capital account**. Following a phased reduction in CARICOM import tariffs over the past decade, which Barbados has fully implemented, CARICOM members are taking a number of initiatives to deepen regional integration movement and prepare their economies for further international trade liberalization (Box 4). The envisaged elimination of hemispheric import duties in the context

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[16] In the sugar sector, the authorities have closed down one factory and are seeking to promote new products, including ethanol-based fuels, drinks, building materials, animal feed, and waxes.

[17] The government has requested technical assistance from the IDB in this regard.

of the FTAA, and the possible removal of sugar preferences by the EU, are expected to adversely affect some of the traditional agricultural and manufacturing products of Barbados; accordingly, the authorities' structural reform agenda, as noted, is supportive of the development of new productive activities, notably in services. Regarding the exchange system, which is already free of restrictions on current transactions, the authorities envision maintaining, for the foreseeable future, a three-pronged approach vis-à-vis the Organization of Eastern Caribbean States,[18] CARICOM, and the rest of the world. Capital flows have been liberalized for the OECS, except for outward investment in government securities. For other CARICOM members, capital outflows are restricted to private equity investment. Controls remain in place vis-à-vis the rest of the world for all capital outflows; however, limited investments abroad are now being allowed under the "second-tier" reserves arrangement financial institutions.[19] The mission took the view that the authorities' gradual approach to capital account liberalization was appropriate in view of the need to coordinate the removal of controls with the ongoing strengthening of the financial sector and development of indirect instruments of monetary policy.

27. **The mission inquired as to the scope for enhancing labor market flexibility**. The authorities responded that labor relations (including wage setting) were governed by the "protocols" agreed among the government, labor, and employers (Box 5). The authorities emphasized that these protocols have provided the framework for generally orderly, smooth, and harmonious working relations among the above groups, with wage settlements broadly in line with growth in productivity. This environment of industrial peace has been beneficial for businesses, conducive to FDI, and a source of social stability.

E. Medium-Term Outlook

28. **The medium-term outlook was discussed on the basis of two macro-economic scenarios prepared by the mission—a baseline scenario and an enhanced adjustment scenario (Table 9).[20]**.The fiscal adjustment incorporated in the baseline scenario would contribute to a gradual improvement in the external current account, with international reserves remaining broadly stable over the medium term. The current account deficit would narrow from close to 8 percent of GDP in 2003 to 4 percent of GDP by 2008, owing to an

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[18] The OECS members are Anguilla, Antigua and Barbuda, The British Virgin Islands, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

[19] As of end-2003, "second-tier" reserves amounted to about US$50 million, or about 7 percent of the central bank's international reserves.

[20] The same growth assumptions are used in both scenarios because it is unlikely that the stronger fiscal adjustment postulated in the staff scenario would reduce growth below the conservative rates assumed by the authorities in the baseline scenario. Moreover, the external environment and structural policies are assumed to be broadly the same under the two scenarios.

increase in the ratio of tourism receipts to GDP and some decline in the import-to-GDP ratio. Stronger tourism receipts would mitigate the secular decline in sugar exports expected to result from the removal of trade preferences. The capital account surplus is projected to be in the range of US$150–200 million per year, mainly on account of private inflows, including direct investment in the tourism sector. On this basis, net international reserves of the central bank would remain around US$750 million (7 months of imports) over the next three years, and strengthen somewhat towards the end of the five-year projection period, to about US$900 million (7.5 months of imports) by 2008. The external debt service of Barbados would decline from 7.3 percent of current account receipts in 2003 to about 6 percent in 2008.

29. **A debt sustainability analysis anchored on the baseline scenario indicates that the public debt ratio could rise markedly in the event of policy slippages or adverse exogenous shocks**. All the stress tests result in rising public debt levels, with some shocks taking the debt ratio above 90 percent of GDP (Table 10). However, while the underlying trends would be adverse, the staff does not see any significant risk of an imminent debt crisis in the near term because the external position is strong, financial linkages with regional economies are limited, and gross financing requirements—which are projected to be almost fully met from domestic sources over the medium term (see Table 3)—appear manageable, particularly in view of the abundant liquidity in the banking system. This view is also supported by the external sustainability analysis, which shows that the external debt-to-GDP ratio declines or remains roughly stable for all shocks except those to the exchange rate and the current account (Table 11).

30. **The stronger fiscal stance assumed in the enhanced adjustment scenario would significantly reduce vulnerability to external shocks**. It would imply a smaller external current account deficit, mainly on account of slower import growth, and somewhat stronger private capital inflows, reflecting strengthened investor confidence.[21] As a result, the net international reserves would rise steadily, from US$750 million in 2003 to about US$1.2 billion in 2008.[22] The lower government debt ratio (less than 60 percent of GDP) and higher international reserves would significantly reduce the vulnerability of the economy to external shocks.

F. Statistical Issues

31. **The statistical information provided by Barbados is broadly adequate for surveillance purposes, though some weaknesses remain**. Data on money and banking, the

[21] Most of the capital inflows are FDI-related, and therefore do not constitute a source of vulnerability.

[22] There is no significant difference in external debt service ratios between the two scenarios, which reflects the assumption that the lower fiscal deficit in the enhanced scenario would be fully reflected in lower domestic borrowing—i.e., external debt service obligations do not change across scenarios.

budgetary operations, and the current account of balance of payments is comprehensive and available on a timely basis. The main weaknesses are in the data on the operations of the public enterprises and the capital account of the balance of payments. Also, the timeliness of national income accounts needs to be improved. Barbados participates in the General Data Dissemination System and its metadata and plans for improvement of the national statistical system are posted on the Fund's website.

III. Staff Appraisal

32. **Over the past year, the Barbadian economy has started to recover from the 2001–02 recession, led by the strong performance of the tourism sector and supported by the countercyclical fiscal stance adopted in the downturn**. However, this fiscal stance has given rise to an increase in the government debt which must now be addressed decisively. The decline in tourism receipts during the recession, and the large fiscal deficit have also contributed to a widening external current account deficit, which has barely begun to unwind. Nonetheless, the net international reserve position has strengthened over the last three years, reflecting Barbados' continued access to foreign financing and strong private capital inflows.

33. **The macroeconomic outlook, and in particular debt sustainability over the medium term, hinges critically on the government's success in further reducing its deficit and deepening reforms to boost growth**. While the authorities should be commended for the adjustment achieved in FY 2003/04, the current size of the deficit would still imply continued high government debt ratios in the context of large, albeit declining, external current account deficits. These trends could pose a risk to the fixed exchange rate anchor, the central pillar of Barbados's policy framework, especially in the event of a turnaround in private capital flows. The staff, therefore, recommends that the fiscal deficit be reduced quickly so as to ensure an adequate reserve cover, and that the government debt ratio is placed on a firmly declining path. Fiscal adjustment should be complemented by growth-enhancing structural reforms.

34. **While the government's fiscal strategy appropriately aims at controlling expenditure, there is a need to intensify the revenue effort**. The staff encourages the authorities, in particular, to consider measures to broaden the base of the VAT by reducing exemptions, and increase the rate of the VAT and excises, as necessary to protect social spending. On expenditure, the staff welcomes the projected winding down of extra-budgetary spending, which remains high and has diminished the transparency of fiscal operations in recent years. Privatization proceeds, which have been used to finance extra-budgetary spending, should in the future be allocated mainly to the retirement of government debt. The staff also encourages the authorities to review the tariffs of major public enterprises, in particular water and bus fares, which have not been adjusted for more than 10 years. Concurrently, government transfers to these entities should be reduced.

35. **The staff shares the authorities' view on the continued appropriateness of the fixed exchange rate regime for Barbados**. The long-standing peg, supported by prudent fiscal and monetary policies, has become a strong anchor of price stability and investor

confidence. To ensure long-term sustainability of the regime, it is crucial that the public debt dynamics are returned to a sustainable position under robust economic policies, and reforms to boost growth and competitiveness.

36. **The authorities are encouraged to move to more market-based mechanisms of monetary control**. In the absence of indirect monetary policy instruments, the control of credit expansion may become difficult—especially given the high level of excess reserves—and distort financial intermediation. The staff recommends that the authorities phase out the administered minimum interest rate on savings and time deposits, and consider accelerating the transition to market-based instruments of monetary control. Initial steps by the central bank to prepare the technical infrastructure for open market operations are welcome. Regarding broader financial sector reforms, the staff welcomes the actions taken to implement most of the FSAP recommendations, and encourages full implementation of the remaining recommendations. The staff supports the authorities' sequenced approach to capital account liberalization, in line with the ongoing strengthening of the financial sector and the development of indirect instruments of monetary control.

37. **Given the fixed exchange rate regime, structural policies constitute the main mechanism for enhancing external competitiveness**. The staff welcomes the authorities' recent structural reform achievements, which include the reform of the NIS; establishment of a regulatory framework for private pension schemes; corporatization of the port authority; privatization of the Barbados National Bank; and the move toward greater competition in the telecommunications sector. Looking ahead, the staff supports the authorities' focus on reforms relating to the budget, tax policy, government pensions, and measures to enhance the supply response of the economy. The authorities are to be commended for their continued commitment to further trade liberalization in the context of the CARICOM, the WTO, and the envisaged FTAA.

38. **The statistical information provided by Barbados is broadly adequate for surveillance purposes, though some weaknesses remain**. In particular, the flow and coverage of data on the operations of the public enterprises and on the capital account of the balance of payments would need to be improved.

It is proposed that the next Article IV consultation with Barbados be conducted on the standard 12-month cycle.

Box 1. Barbados: Comparison with Selected Caribbean Countries

Barbados's key economic and social indicators are more favorable than those of other countries in the region with an important tourism sector. This reflects a history of strong institutions and prudent policies, and more recently, a much better growth performance in the mid-to-late 1990s.

- **Barbados has traditionally been a well-managed economy**. Benefiting from a strong starting position at independence (in 1966, with a per capita income of about US$4,000, the highest in the Caribbean), it has been able to sustain good economic performance in an environment of political stability and strong consensus on the core elements of sound economic management.

- **The growth performance and social indicators compare favorably with those of competitors**. During the second half of the last decade, growth in Barbados was much better than in Jamaica and similar to that in the Eastern Caribbean Currency Union (ECCU). Key social indicators are better than in those countries.

- **Barbados' fiscal performance was also better over the same period**. The fiscal deficit averaged 1½ percent of GDP—significantly lower than Jamaica and the ECCU countries. At the end of the decade, total public debt was around 60 percent of GDP, compared with an average of 70 percent of GDP for the ECCU and over 130 percent for Jamaica.

Selected Caribbean Countries—Key Economic and Social Indicators

	Barbados	Jamaica	ECCU
Economic indicators (1995–2000 averages, in percent)			
GDP growth rate	3.2	-0.5	3.3
Inflation	2.5	13.1	1.1
Fiscal deficit/GDP	1.6	4.0	3.4
Public debt/GDP (end-2000)	58.5	132.7	69.6
External current account balance/GDP	-1.8	-3.5	-14.7
Social indicators			
GDP per capita (in U.S. dollars, 2002)	9,589	2,912	4,843
Adult literacy rate (2002)	99.0	79.9	...
Human Development Index (2003 rank)	27	78	51–93

Sources: Country authorities; and UNDP.

Box 2. Barbados: Implementation of FSAP Recommendations

The 2002 FSAP report concluded that the financial sector in Barbados was generally sound and resilient to adverse shocks but identified weaknesses in the regulatory and supervisory framework of the financial system, particularly with respect to the nonbank financial sector. The report also cited a few areas for strengthening the central bank's oversight functions.

Actions taken

Over the last year, the authorities have followed the FSAP recommendations by instituting legislative changes and improving supervisory norms designed to strengthen the financial sector.

- The central bank has commenced work on a **regulatory framework to provide market and country risk standards** for onshore and offshore banks. Staff training has commenced in this area, and manuals are expected to be developed during 2004 with assistance from CARTAC.

- A draft Act establishing the **Deposit Insurance Scheme** has been prepared. The proposed Act, which is expected to be enacted this year, will provide a framework for license revocation and distressed bank resolution.

- Regarding the nonbank sector, CBB-assisted **on-site examinations of the five large credit unions** have been completed, and follow up examinations are expected to be conducted each quarter for at least one of these institutions.

- Several initiatives have been undertaken to strengthen the **supervisory and regulatory framework of the insurance industry**, with assistance from CARTAC and the Canadian Financial Institution Regulatory Agency (OSFI).

Next steps

- The **Financial Institutions Act** is to be amended to address the recommendations regarding CBB's independence, the imposition of aggregate limits on large exposure and connected lending, and the need for CBB's prior approval of the external auditor for licensees.

- The allocation of resources to **supervision of the insurance industry** will be increased, and its institutional capacity will be strengthened with assistance from CARTAC and OSFI.

- The authorities intend to implement a more flexible and market-oriented monetary policy framework in the context of a continued gradual liberalization of the capital account. The CBB is preparing a move towards more **indirect instruments of monetary policy**, including with the assistance of an overseas consultant to advise on an appropriate automated system for open market operations.

Box 3. Barbados: Social Security and Pensions

The government has introduced reforms to address the challenges posed by the need to provide economic security for an ageing population without undue pressures on the fiscal system. The age profile of Barbados' population is similar to that of developed countries, with the elderly (60 years of age and over) representing about 20 percent of the population. Social security has been reformed, a framework for private pensions has been introduced, and the government has started to consider a reform of civil service pensions.

- **The reform of the National Insurance Scheme (NIS) has been designed to ensure its long-term sustainability**. In January 2003, the NIS implemented a slate of reform measures which have postponed the date by which NIS reserves would be exhausted, from 2030 to 2060. These reforms included: (i) increase in the **contribution rate** by 1 percent per year, for four years, which will bring the rate to 17½ percent, shared equally between employers and employees; (ii) change in the structure for the accrual of **pension rights**, which has been capped at 60 percent of final average earnings; (iii) calculation of **pension benefits** based on the best five years of insurable income rather than the best three; and (iv) increase in the **retirement age**, from 65 to 67 years, with six-month increases in the retirement age every four years, starting during 2006–18. The impact of these reforms on the projected reserve ratio is substantial (see table below).

- **The authorities have also passed legislation to expand the scope of, and better regulate, private pension funds**. The Occupational Pension Benefits (OPB) Act was passed in December 2003 and the related Regulations should be in place in the second quarter of 2004. The purpose of the law is to encourage the development of collective investment schemes and improve the regulation of private pension funds. The law sets out minimum standards for the regulation of administration and trusteeship of the schemes to ensure that the funds are available at retirement.

The NIS is generating significant surpluses and these should increase as the reforms take effect. However, there is a shortage of high-grade local and regional investments and the NIS has invested largely in government paper (56 percent of total investment) and has large deposits in banks (19 percent). Limited investment in foreign securities is allowed. The NIS portfolio may need to be rebalanced to include more foreign investment in the future which would allow for greater risk diversification.

The unfunded portion of government (civil service) pensions, which represents a contingent liability on the Consolidated Fund, could increase fiscal pressures in the future. The non-contributory civil service pension plan and social security were integrated in 1975. The pension benefits for civil servants employed after September 1975 are reduced by the amount of benefits received from the NIS. Nonetheless, according to a 2002 study sponsored by the IDB, government expenditure on civil service pensions, which is currently around 2 percent of GDP is projected to peak at almost 3.5 percent of GDP in 2015, after which it would decline gradually to around 2.5 percent of GDP by 2050. Proposals to address this problem include: (i) an increase in the retirement age for the government pension plan; (ii) a change in the formula for calculating retirement benefits from the best 3 years to the best 5 years preceding retirement, and (iii) transition from a defined-benefit to a defined-contribution plan.

NIS: Reserve Ratio 1/

	2000	2010	2020	2030
Before reforms	5.0	5.9	3.9	0.4
After reforms	5.0	7.1	7.7	6.0

Source: Barbados National Insurance Scheme.

1/ Ratio of total value of the retirement funds to annual expenditures.

Box 4. Barbados and the CARICOM Framework

The policy initiatives undertaken by Barbados in the trade area are guided by the agreed objective of CARICOM members to create a Caricom Single Market and Economy (CSME). In October 1992, the members agreed to a **four-phase tariff reduction plan** that lowered the maximum rate on the common external tariff from 45 percent to 20 percent over four years, starting in January 1993. Tariffs on imports of agricultural goods, however, remained at 40 percent. Barbados is among the countries that have completed all the four phases. Harmonization of other taxes is also being discussed.

Regarding **monetary integration**, five criteria are used to evaluate convergence in the CARICOM:

- The **import cover criterion** requires that the countries maintain at least three months import cover for the last 12 months.
- Under the **exchange rate stability criterion**, fluctuations in the exchange rate must remain within a 1.5 percent band over a period of 36 months for countries with a floating exchange rate regime, while the rate must remain unchanged over the same period for countries with a fixed exchange rate regime.
- The **external debt criterion** limits external debt service ratio to a maximum of 15 percent of exports of goods and services.
- The **inflation criterion** requires inflation rates to be within a 1.5 percent band around the median inflation rate for the three countries with the lowest positive inflation rates.
- The **fiscal convergence criterion** requires that the overall fiscal deficit not exceed 3 percent of GDP.

Barbados has satisfied these criteria during most of the past decade and has set for itself stricter targets on fiscal performance. The government has adopted a maximum fiscal deficit target of 2.5 percent of GDP and a debt-to-GDP target ratio of 60 percent of GDP, in addition to the external debt service criterion. The table below shows the record of achievement of the targets for 1993–2002.

Compliance with Convergence Criteria by Selected CARICOM Countries, 1993–2002
(Number of Years of Compliance)

	Import cover	Exchange Stability	Debt Service	Inflation	Fiscal deficit
Bahamas	2	10	10	10	9
Barbados	7	10	8	9	7
ECCU	10	10	8	9	5
Guyana	10	1	3	1	5
Jamaica	7	0	1	0	4
Trinidad and Tobago	5	1	7	1	9

Source: Caribbean Centre for Monetary Studies.

Box 5. Barbados: Income Policies

Background. The severe economic difficulties and near foreign exchange crisis experienced in 1991–92 were addressed, in large measure, through a negotiated restraint on wage increases to enhance competitiveness while maintaining the exchange rate peg. This policy approach, formalized in successive "protocols"—tripartite agreements involving government, labor, and private employers—has evolved into an important feature of the economy of Barbados, providing the framework for labor market relations in the country.

The four protocols. Coverage of the tripartite agreements has been broadened over time to include, in addition to wage guidelines, to aspects related to the work environment. The highlights are:

- The **first protocol** (1993–95) established an economy-wide **wage freeze**. The protocol also required companies to abstain from price increases except those warranted by increases in prices of imported inputs or changes in taxation.

- The **second protocol** (1995–97) provided for a period of **wage restraint** in line with productivity changes.

- The **third protocol** (1998–2000) maintained productivity guidelines for wage increases, and also emphasized issues of **job security and training**.

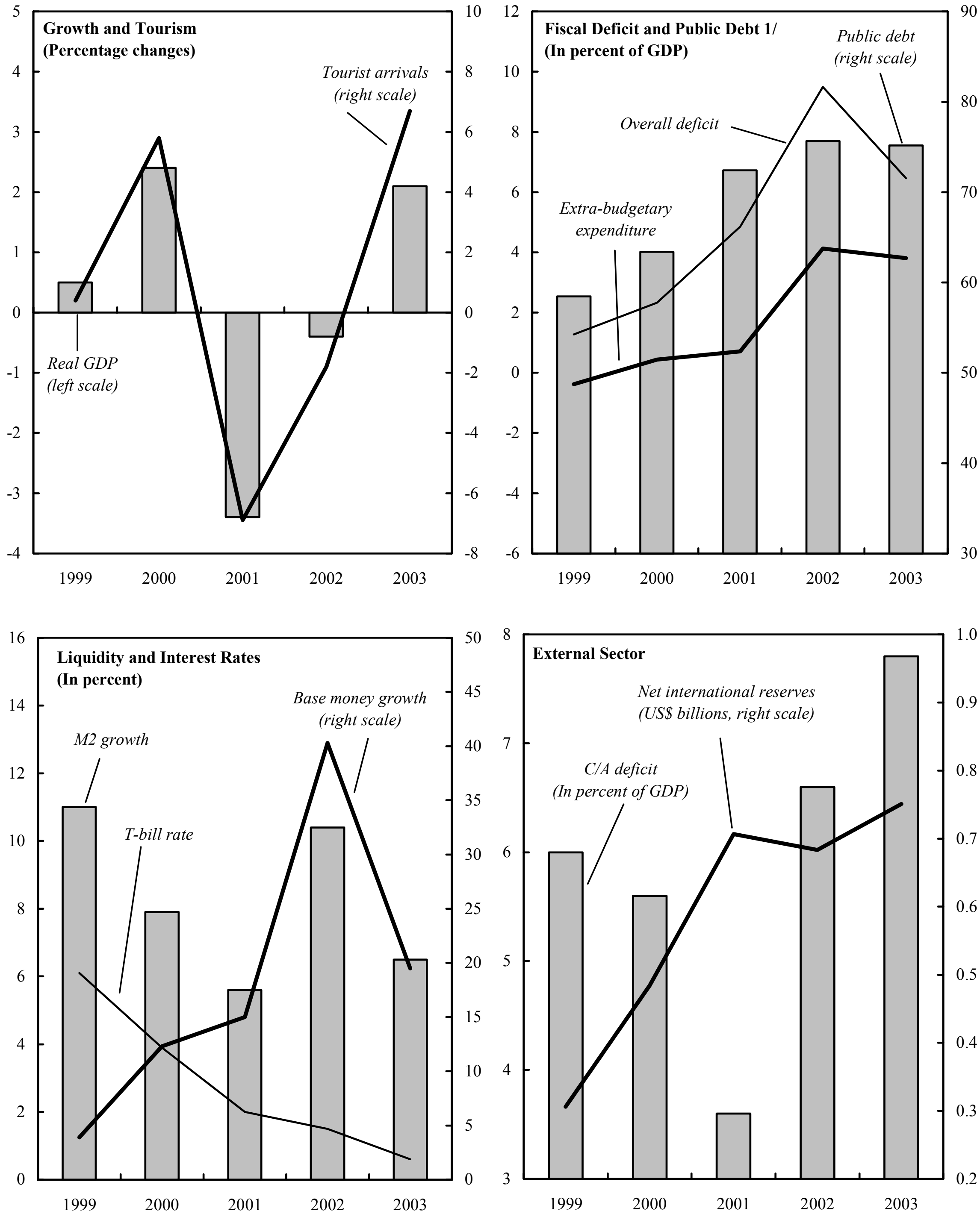
- The **fourth protocol** (2001–04), which is currently in force, includes guidelines on **workers' health and safety,** in addition to incomes policy issues. A fifth protocol is being negotiated and an agreement is expected in the next few months.

Labor and business representation. Labor is represented in the protocols by the two main unions, the Barbados Workers Union (BWU) and National Union of Public Workers (NUPW). The private sector employer groups are represented mainly by the Barbados Employers' Confederation (with more than 300 members, including the Barbados Hotel and Tourism Association) and the Sugar Producers Federation. Together, these cover around 50 percent of the private sector labor force and close to one-third of the working population.

Institutional support. In order to facilitate the implementation of the guidelines on productivity-based wage arrangements, the government has established a **National Productivity Council** with the aim of disseminating technical expertise to labor unions and employers in designing measures of productivity on a company or industry basis.

Policy ownership. The protocols are considered by many in the country as an important reason for the generally orderly and peaceful labor relations in Barbados. There appears to be a broad consensus among the social partners—government, labor, and employers—that the benefits of industrial peace as a result of the protocols far exceed the degree of inflexibility that they introduce in the labor market.

Figure 1. Barbados: Selected Economic and Financial Indicators, 1999–2003

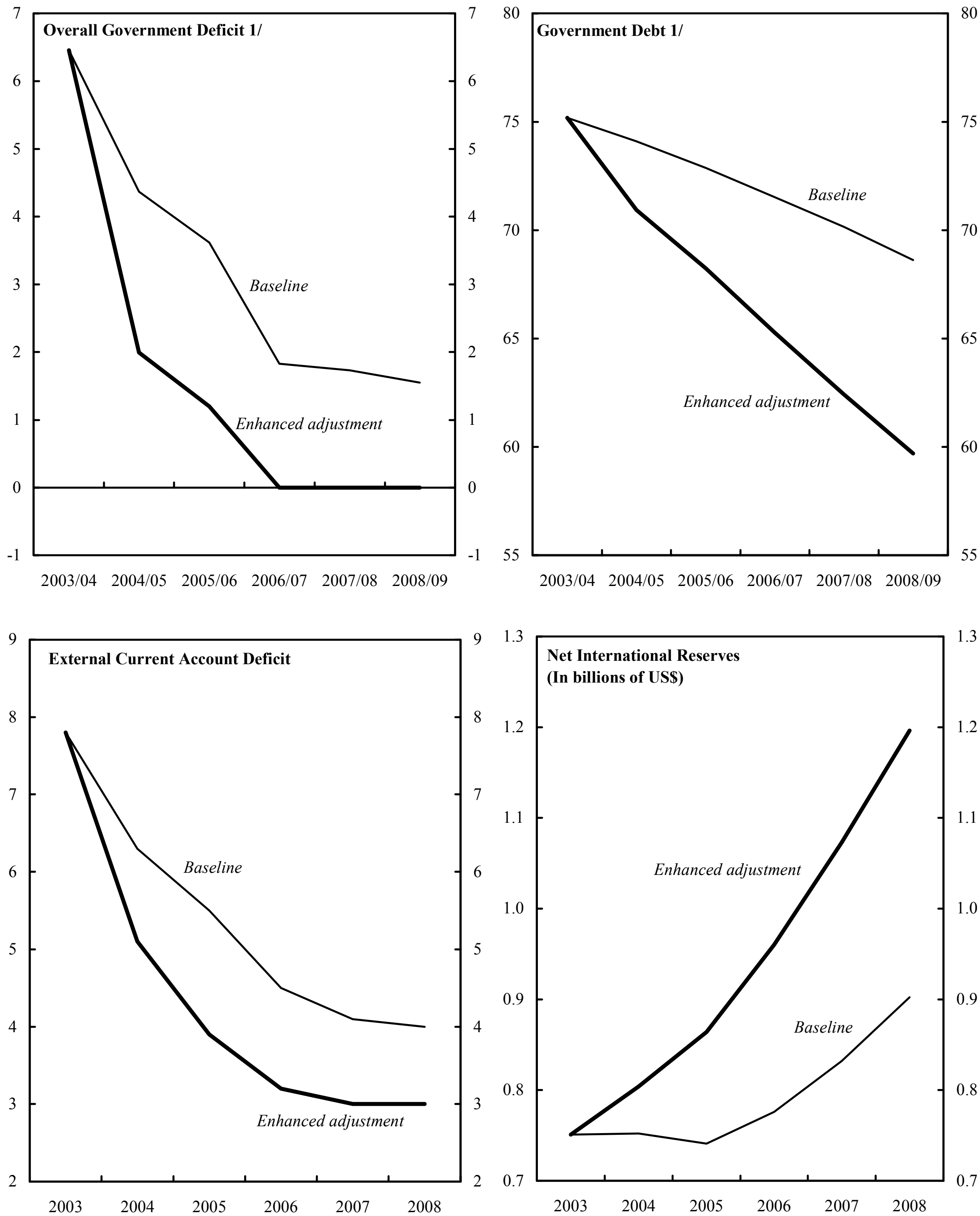


Sources: Ministry of Finance; and Fund staff estimates and projections.
1/ Data refers to fiscal year beginning April 1.

Figure 2. Barbados: Real Effective Exchange Rate
(Index 1990=100)

Source: IMF Information Notice System.

Figure 3. Barbados: Medium-Term Scenarios, 2003-2008
(In percent of GDP, unless otherwise indicated)



Sources: Ministry of Finance; and Fund staff estimates and projections.
1/ Data refers to fiscal year beginning April 1.

Table 1. Barbados: Selected Economic and Financial Indicators

	2000	2001	2002	Prel. 2003	Proj. 2004
	(Annual percentage changes, unless otherwise indicated)				
Output and prices					
Real GDP	2.4	-3.4	-0.4	2.1	3.0
GDP deflator	1.3	2.9	1.5	1.5	2.0
Consumer prices (12-month increase)	2.4	2.8	0.2	1.5	1.5
Money and credit 1/					
Net foreign assets	12.0	14.2	4.7	9.1	0.0
Net domestic assets	-4.2	-8.6	5.7	-2.7	4.5
Of which : net credit to government	-3.4	-7.2	12.2	1.8	1.9
Broad money (M2)	7.9	5.6	10.4	6.5	4.5
Velocity (ratio of GDP to M2)	1.62	1.52	1.39	1.44	1.36
External sector					
Exports of goods, f.o.b.	4.5	-5.3	-7.4	-8.9	20.0
Tourism receipts	5.3	-1.2	-7.9	6.0	8.6
Imports of goods, f.o.b.	4.1	-7.6	0.1	7.6	13.5
Real effective exchange rate (depreciation -) 2/	6.0	-1.3	-5.3	-9.4	...
	(In percent of GDP, unless otherwise indicated)				
Public sector (fiscal year basis) 3/					
Government revenue	33.0	33.0	32.7	33.7	33.9
Government expenditure	35.3	37.9	42.2	40.1	38.3
Of which: off-budget	0.4	0.7	4.1	3.8	1.9
Government balance	-2.3	-4.9	-9.5	-6.5	-4.4
Of which: budgetary balance	-1.9	-4.1	-5.4	-2.6	-2.4
Public enterprise balance (after transfers)	-0.8	-0.4	-0.9	-1.0	-1.3
Nonfinancial public sector balance	-3.1	-5.2	-10.4	-7.5	-5.7
Government and government-guaranteed debt	73.3	81.6	83.8	84.1	83.8
Of which: government debt	63.4	72.4	75.7	75.2	74.1
External sector					
Current account balance	-5.6	-3.6	-6.6	-7.8	-6.3
Of which					
Exports of goods, f.o.b.	11.0	10.6	9.7	8.5	9.7
Tourism receipts	27.9	27.8	25.3	25.9	26.8
Imports of goods, f.o.b.	39.8	37.1	36.7	38.0	41.1
Net international reserves					
(in millions of U.S. dollars)	484	707	683	751	752
Memorandum items:					
Exchange rate (BD$ per US$)	2.00	2.00	2.00	2.00	2.00
Nominal GDP (millions of Barbados dollars)	5,182	5,140	5,197	5,391	5,664

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

1/ In relation to money and quasi-money at the beginning of the period.
2/ End of period.
3/ Fiscal year begins on April 1.

Table 2. Barbados: Central Government Operations 1/

	2000/01	2001/02	2002/03	Est. 2003/04	Proj. 2004/05
	(In millions of Barbados dollars)				
Budgetary revenue	1,705	1,703	1,716	1,838	1,939
Tax revenue	1,615	1,613	1,620	1,760	1,865
Nontax revenue	90	90	96	78	74
Budgetary expenditure	1,803	1,917	1,997	1,982	2,080
Current expenditure	1,502	1,571	1,672	1,732	1,826
Wages and salaries and NIS contributions	626	630	666	603	633
Goods and services	187	203	211	197	222
Interest	219	253	274	264	280
Transfers	471	486	521	668	691
Capital expenditure and net lending	300	346	325	250	254
Of which : net lending	11	12	6	2	2
Budgetary balance	-98	-214	-281	-144	-140
Float and extra-budgetary expenditure 2/	23	36	217	208	110
Overall balance	**-120**	**-250**	**-498**	**-352**	**-250**
Financing	120	250	498	352	250
Foreign financing (net)	215	322	-19	7	43
Disbursements	255	364	58	72	119
Amortization	-40	-42	-78	-65	-76
Domestic financing	-147	-72	517	157	109
Banking system	-109	-108	413	117	60
Rest of financial system	8	-16	0	0	0
National Insurance Scheme	-45	52	105	40	49
Privatization proceeds	52	0	0	189	99
	(In percent of GDP)				
Budgetary revenue	33.0	33.0	32.7	33.7	33.9
Tax revenue	31.2	31.3	30.9	32.2	32.6
Nontax revenue	1.7	1.8	1.8	1.4	1.3
Budgetary expenditure	34.9	37.2	38.1	36.3	36.3
Current expenditure	29.0	30.5	31.9	31.7	31.9
Capital expenditure and net lending	5.8	6.7	6.2	4.6	4.4
Budgetary balance	-1.9	-4.1	-5.4	-2.6	-2.4
Float and extra-budgetary expenditure 2/	0.4	0.7	4.1	3.8	1.9
Overall balance	**-2.3**	**-4.9**	**-9.5**	**-6.5**	**-4.4**
Of which: primary balance	1.9	0.1	-4.3	-1.6	0.5
Financing	2.3	4.9	9.5	6.5	4.4
Memorandum items:					
Overall balance of rest of nonfinancial public sector 3/	-0.8	-0.4	-0.9	-1.0	-1.3
Non-financial public sector overall balance	-3.1	-5.2	-10.4	-7.5	-5.7
Government and government guaranteed debt	73.3	81.6	83.8	84.1	83.8
Of which: central government debt	63.4	72.4	75.7	75.2	74.1
Fiscal year GDP at market prices	5,172	5,154	5,246	5,459	5,729

Sources: Ministry of Finance; and Fund staff estimates.

1/ Fiscal years (April–March). Ratios expressed relative to fiscal year GDP.

2/ Represents the difference between the budgetary deficit measured from above the line and the cash deficit measured on the basis of identified financing flows. Includes statistical discrepancy.

3/ After government transfers, based on financing data. Excludes the NIS.

Table 3. Barbados: Public Sector Financing Requirement and Debt

	2000/01	2001/02	2002/03	Est. 2003/04	Proj. 2004/05
	(In millions of Barbados dollars)				
Gross financing requirement					
Consolidated public sector deficit	162	269	544	407	324
Central government	120	250	498	352	250
Rest of the public sector 1/	42	19	46	55	74
Amortization payments on the public debt	903	926	1,014	1,132	1,064
Domestic	863	884	937	1,067	988
External	40	42	78	65	76
Gross financing requirement	1,065	1,195	1,558	1,540	1,388
Disbursements of domestic debt	1,029	1,004	1,195	1,162	1,140
Drawdown of deposits	-271	-173	304	117	30
Disbursements of external debt	255	364	58	72	119
Privatization proceeds	52	0	0	189	99
End-of-period public debt					
Government and government-guaranteed debt	3,789	4,204	4,398	4,589	4,803
Central government	3,278	3,733	3,969	4,105	4,245
Rest of the public sector 1/	511	471	429	484	558
Domestic	2,625	2,719	2,984	3,166	3,326
External	1,165	1,485	1,414	1,423	1,477
	(In percent of GDP)				
Gross financing requirement					
Consolidated public sector deficit	3.1	5.2	10.4	7.5	5.7
Central government	2.3	4.9	9.5	6.5	4.4
Rest of the public sector 1/	0.8	0.4	0.9	1.0	1.3
Amortization payments on the public debt	17.5	18.0	19.3	20.7	18.6
Domestic	16.7	17.2	17.9	19.5	17.2
External	0.8	0.8	1.5	1.2	1.3
Gross financing requirement	20.6	23.2	29.7	28.2	24.2
Disbursements of domestic debt	19.9	19.5	22.8	21.3	19.9
Drawdown of deposits	-5.2	-3.4	5.8	2.1	0.5
Disbursements of external debt	4.9	7.1	1.1	1.3	2.1
Privatization proceeds	1.0	0.0	0.0	3.5	1.7
End-of-period public debt					
Government and government-guaranteed debt	73.3	81.6	83.8	84.1	83.8
Central government	63.4	72.4	75.7	75.2	74.1
Rest of the public sector 1/	9.9	9.1	8.2	8.9	9.7
Domestic	50.8	52.8	56.9	58.0	58.1
External	22.5	28.8	27.0	26.1	25.8

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

1/ Excludes the National Insurance Scheme.

Table 4. Barbados: Summary Monetary Survey

	2000	2001	2002	2003	Mar. 2004
	(In millions of Barbados dollars)				
End-of-period stocks					
Net foreign assets	749	1,205	1,365	1,706	1,640
Net domestic assets	2,456	2,181	2,373	2,273	2,314
Net credit to public sector	193	-67	348	481	565
Central government	471	242	654	723	759
Rest of public sector	-36	-37	-22	154	157
National Insurance Scheme	-242	-272	-284	-396	-351
Credit to private sector	2,518	2,508	2,589	2,612	2,582
Other items (net)	-255	-260	-564	-820	-833
Liabilities to the private sector (M2)	3,205	3,386	3,738	3,980	3,954
Currency in circulation	311	312	337	329	354
Demand deposits	756	836	1,104	1,202	1,098
Savings deposits	1,753	1,847	1,978	2,109	2,160
Time deposits	385	390	318	339	343
Fiscal year flows 1/	**2000/01**	**2001/02**	**2002/03**	**2003/04**	
Net foreign assets	330	402	289	61	
Net domestic assets	-82	-166	-106	215	
Net credit to public sector	-176	-124	448	215	
Central government	-109	-108	413	117	
Rest of public sector	6	18	59	154	
National Insurance Scheme	-73	-34	-23	-56	
Credit to private sector	23	-8	81	0	
Other items (net)	71	-35	-636	0	
Liabilities to the private sector (M2)	247	236	182	276	
	(Changes in percent of beginning-of-period M2)				
Net foreign assets	12.0	14.2	4.7	9.1	1.5
Net domestic assets	-4.2	-8.6	5.7	-2.7	5.4
Net credit to public sector	-4.3	-8.1	12.2	3.6	5.4
Of which: central government	-3.4	-7.2	12.2	1.8	2.9
Credit to private sector	2.1	-0.3	2.4	0.6	0.0
Other items (net)	-1.9	-0.1	-9.0	-6.8	0.0
Liabilities to the private sector (M2)	7.9	5.6	10.4	6.5	6.9
Memorandum items:					
Credit to private sector (12-month increase)	2.6	-0.4	3.3	0.9	0.0
M2 velocity	1.62	1.52	1.39	1.35	1.36

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

1/ Fiscal year runs from April 1 to March 31.

Table 5. Barbados: Summary Balance Sheet of the Central Bank of Barbados

	2000	2001	2002	2003
	(In millions of Barbados dollars)			
End-of-period stocks				
Net international reserves	969	1,414	1,366	1,501
Net domestic assets	-406	-767	-458	-416
Net credit to public sector	-466	-765	-477	-407
Central government	-461	-758	-474	-405
Rest of public sector	-6	-7	-3	-2
National Insurance Scheme	0	0	0	0
Credit to commercial banks	0	0	0	0
Credit to rest of financial institutions	9	9	9	9
Other items (net)	51	-11	10	-18
Monetary base	563	647	908	1,085
Currency in circulation	311	312	337	329
Liabilities to commercial banks	252	335	571	756
Fiscal year flows 1/	**2000/01**	**2001/02**	**2002/03**	
Net international reserves	348	386	-124	
Net domestic assets	-282	-235	265	
Net credit to public sector	-268	-199	305	
Central government	-266	-200	304	
Rest of public sector	-2	1	1	
National Insurance Scheme	0	0	0	
Credit to commercial banks	0	0	0	
Credit to rest of financial institutions	0	0	0	
Other items (net)	-14	-36	-40	
Monetary base	63	151	141	
	(Changes in percent of beginning-of-period monetary base)			
Net international reserves	71.0	79.1	-7.4	14.9
Net domestic assets	-58.7	-64.1	47.7	4.6
Of which: net credit to central government	-53.4	-52.8	43.8	7.6
Monetary base	12.3	15.0	40.3	19.5
Memorandum item:				
NIR (in millions of U.S. dollars)	484.4	707.0	683.2	750.7

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

1/ Fiscal year runs from April 1 to March 31.

Table 6. Barbados: Bank Soundness Indicators 1/

(In percent, unless otherwise indicated)

	2000	2001	2002	Prel. 2003
Solvency indicators				
Capital adequacy ratio 2/	15.9	18.2	18.8	...
Leverage (capital, percent of total liabilities) 2/ 3/	10.3	10.6	10.0	12.3
Off-balance sheet obligations, percent of liabilities	3.3	3.0	2.7	2.3
Liquidity indicators				
Loan to deposit ratio 4/	66.4	62.1	56.6	53.0
Demand deposits, percent of total deposits	30.5	29.5	39.0	37.9
Excess liquid assets, percent of total assets 5/	5.8	7.4	12.3	14.5
Excess liquidity ratio 6/	7.7	8.9	17.9	21.0
Credit risk				
Total assets, annual growth rate	3.6	10.3	15.7	8.7
Loans and advances, annual growth rate	3.8	0.7	6.5	-2.3
Mortgage loans, percent of loans and advances 7/	10.8	13.6	15.9	17.9
Nonperforming loans, percent of total loans	3.8	5.0	7.9	9.3
Loans classified as loss, percent of total loans and advances	1.8	2.0	0.6	2.3
Provisions for impaired assets, percent of assets	1.2	1.3	0.9	1.2
Foreign exchange risk				
Open position in foreign exchange, percent of capital 8/	5.6	6.8	8.5	...
Deposits in foreign exchange, percent of deposits	9.7	11.0	15.8	13.2
Net foreign assets, percent of total assets	2.3	2.2	5.5	8.6
Profitability indicators				
Profit before tax, percent of total assets 9/	2.5	2.2	2.7	2.0
Total non-interest expense, percent of total assets 9/	4.0	3.7	3.0	3.2
Interest rate spread 10/	7.0	8.0	7.7	7.5

Source: Central Bank of Barbados.

1/ Includes domestic commercial banks only, six as at end-2002.
2/ Excludes branches of foreign banks.
3/ Tier-I capital.
4/ Based on the authorities' classification of loans and advances, and deposits.
5/ Excess cash reserves plus excess securities as a ratio of total assets.
6/ Sum of the excess cash reserves ratio and the excess securities ratio.
7/ In 1999, a trust company transferred part of its mortgage loan portfolio to a commercial bank.
8/ Limits on open positions in foreign exchange refer to working balances only.
9/ Beginning 2002, data covers only five commercial banks.
10/ Spread between lending rates and deposit rates only, hence does not fully reflect the intermediation margin.

Table 7. Barbados: Balance of Payments and External Debt
(In millions of U.S. dollars)

	2000	2001	2002	Prel. 2003	Proj. 2004
Balance of payments					
Current account	-145	-94	-171	-210	-178
Merchandise trade balance	-744	-681	-702	-797	-890
Exports	286	271	251	229	274
Imports	1,030	952	953	1,025	1,164
Services (net)	603	587	546	584	711
Of which: travel (credit)	723	714	658	698	758
Investment income (net)	-82	-93	-102	-96	-102
Transfers (net)	78	94	86	99	103
Capital and financial account	324	317	147	278	179
Long-term capital	287	277	13	102	119
Public sector	123	152	0	-15	27
Central government	104	165	2	3	22
Government guaranteed	20	-12	-2	-19	6
Private sector	164	125	13	117	92
Direct investment	156	128	17	121	92
Commercial banks	8	-3	-4	-4	0
Short-term capital	37	40	134	176	60
Commercial banks	9	2	0	0	0
Other private (including errors and omissions)	27	37	134	176	60
Overall balance 1/	178	223	-24	67	1
External debt					
Public debt	583	743	707	712	738
Central government	519	679	665	664	685
Multilateral	231	245	243	247	...
Bilateral	14	13	13	12	...
Suppliers' credits	8	10	8	9	...
Bond placements	266	411	401	396	...
Other	63	63	42	48	53
External debt service	59	72	83	106	99
Amortization	24	27	33	55	44
Interest	36	45	50	52	55
Debt service ratio 2/	4.4	4.9	5.9	7.3	6.4
Memorandum items:					
Net international reserves of the central bank	484	707	683	751	752
GDP (In millions of U.S. dollars)	2,591	2,570	2,599	2,696	2,832

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

1/ A surplus (deficit) implies an increase (reduction) in the net international reserves of the central bank.
2/ Public debt service as percent of current account receipts.

Table 8. Barbados: Indicators of External Vulnerability
(In percent of GDP, unless otherwise indicated)

	2000	2001	2002	Prel. 2003
Financial indicators				
Broad money (percent change, 12-month basis)	7.9	5.6	10.4	6.5
Private sector credit (percent change, 12- month basis)	2.6	-0.4	3.3	0.9
Three-month T-bill rate 1/	3.9	2.0	1.5	0.6
Three-month T-bill rate (real) 2/	1.5	-0.8	1.3	-0.9
External indicators				
Exports of goods and services (percent change, 12-month basis in US$)	4.4	-1.4	-4.3	3.6
Imports of goods and services (percent change, 12-month basis in US$)	3.3	-4.9	-4.7	8.1
Current account balance	-5.6	-3.6	-6.6	-7.8
Capital and financial account balance	12.5	12.3	5.7	10.3
Gross official reserves (in US$ millions)	484	707	683	751
Gross official reserves in months of imports of goods and services	3.7	5.7	5.8	5.9
Gross official reserves to short-term debt 3/ 4/	18.0	21.4	12.5	17.3
Gross official reserves to short-term debt plus current account deficit 3/ 4/	4.0	3.5	2.6	3.4
Broad money to reserves	3.3	2.4	2.7	2.7
Total public external debt	23	29	27	26
Total external debt to exports of goods and services (percent) 3/	46	59	59	57
External interest payments to exports of goods and services (percent) 3/	2.8	3.5	4.3	4.1
External amortization payments to exports of goods and services (percent) 3/	1.9	2.1	2.7	4.4
External interest payments to total fiscal revenue (percent) 3/	4.2	5.2	5.8	5.8
External amortization payments to total fiscal revenue (percent) 3/	2.8	3.2	3.9	6.2
Exchange rate (per US$, end of period)	2.0	2.0	2.0	2.0
REER appreciation (12-month basis)	6.0	-1.3	-5.3	-9.4
Real sector indicators				
Tourist sector, percent of GDP	16	15	15	17
Travel receipts, percent of total exports of goods and services	56	57	54	56
Tourist and general services sectors, percent of GDP	74	74	74	78
Memorandum item:				
Total revenue and grants (millions of BD$, calendar year)	1,681	1,711	1,716	1,776

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

1/ Average rate of discount (end of period).
2/ T-bill rate adjusted for actual year-on-year inflation.
3/ Refers to public external debt.
4/ Maturity less than one year, defined on a residual maturity basis.

Table 9. Barbados: Medium-Term Macroeconomic Scenarios

	Est.	Projections				
	2003	2004	2005	2006	2007	2008
		(Annual percentage changes)				
Macroeconomic parameters 1/						
Real GDP	2.1	3.0	2.5	2.5	2.5	2.5
Average CPI	1.5	1.5	1.5	1.5	1.5	1.5
Nominal GDP	3.6	5.1	4.6	4.6	4.6	4.6
		(In percent of GDP, unless otherwise indicated)				
		I. Baseline Scenario				
Public sector 2/						
Government revenue	33.6	33.9	33.8	33.4	33.0	32.6
Government expenditure	40.1	38.3	37.4	35.2	34.7	34.1
Government balance	-6.5	-4.4	-3.6	-1.8	-1.7	-1.5
Of which: budgetary balance	-2.6	-2.4	-2.0	-1.8	-1.7	-1.5
Public enterprise balance (after transfers)	-1.0	-1.3	-1.3	-1.3	-1.3	-1.3
Nonfinancial public sector balance	-7.5	-5.7	-4.9	-3.1	-3.0	-2.8
Government debt	75.2	74.1	72.9	71.5	70.1	68.6
Banking system 3/						
Net foreign assets	9.1	0.0	-0.5	1.6	2.4	2.9
Net domestic assets	-2.7	4.5	5.1	3.0	2.2	1.7
Of which: net credit to government	1.8	1.9	3.3	1.7	1.1	0.8
External sector						
Current account balance	-7.8	-6.3	-5.5	-4.5	-4.1	-4.0
NIR of the central bank (in US$ million)	751	752	741	776	832	902
		II. Enhanced Adjustment Scenario				
Public sector 2/						
Government revenue	33.6	34.6	34.6	34.2	33.8	33.4
Government expenditure	40.1	36.6	35.8	34.2	33.8	33.4
Government balance	-6.5	-2.0	-1.2	0.0	0.0	0.0
Of which: budgetary balance	-2.6	-1.0	-0.4	0.0	0.0	0.0
Public enterprise balance (after transfers)	-1.0	-1.3	-1.3	-1.3	-1.3	-1.3
Nonfinancial public sector balance	-7.5	-3.3	-2.5	-1.3	-1.3	-1.3
Government debt	75.2	70.9	68.2	65.3	62.4	59.7
Banking system 3/						
Net foreign assets	9.1	2.6	2.9	4.4	4.9	5.2
Net domestic assets	-2.7	1.9	1.7	0.2	-0.3	-0.6
Of which: net credit to government	1.8	-0.7	-0.1	-1.1	-1.4	-1.5
External sector						
Current account balance	-7.8	-5.1	-3.9	-3.2	-3.0	-3.0
NIR of the central bank (in US$ million)	751	804	864	960	1,073	1,196

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

1/ The same key parameters are used for simplicity in both scenarios.
2/ Data refer to fiscal years beginning April 1.
3/ Changes in percent of beginning-of-period liabilities to the private sector.

Table 10. Barbados: Public Sector Debt Sustainability Framework, FY2000/01–FY2008/09—Baseline Scenario

(In percent of GDP, unless otherwise indicated)

	Actual			Projections					
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
				I. Baseline Medium-Term Projections					
Public sector debt 1/	73.3	81.6	83.8	84.1	**83.8**	**83.5**	**83.0**	**82.4**	**81.6**
Of which: foreign-currency denominated	22.5	28.8	27.0	26.1	25.8	24.6	23.8	22.6	21.6
Change in public sector debt	5.2	8.3	2.3	0.2	-0.2	-0.3	-0.5	-0.6	-0.8
Identified debt-creating flows (4+7+12)	-0.3	4.8	4.8	-3.1	-1.9	-0.3	-0.5	-0.6	-0.8
Primary deficit	-1.5	-0.4	1.0	-1.2	-1.1	-1.8	-1.8	-1.9	-2.0
Revenue and grants	33.0	33.0	32.7	33.7	33.9	33.8	33.4	33.0	32.6
Primary (non-interest) expenditure	31.4	32.6	33.7	32.5	32.7	32.1	31.6	31.1	30.6
Automatic debt dynamics 2/	2.2	5.1	3.8	1.6	0.9	1.4	1.3	1.3	1.2
Contribution from interest rate/growth differential 3/	2.2	5.1	3.8	1.6	0.9	1.4	1.3	1.3	1.2
Of which: contribution from real interest rate	2.8	3.2	4.0	3.5	3.2	3.4	3.3	3.3	3.2
Of which: contribution from real GDP growth	-0.6	2.0	-0.2	-2.0	-2.3	-2.0	-2.0	-2.0	-2.0
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other identified debt-creating flows	-1.0	0.0	0.0	-3.5	-1.7	0.0	0.0	0.0	0.0
Privatization receipts (negative)	-1.0	0.0	0.0	-3.5	-1.7	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (specify, e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes (2–3)	5.5	3.5	-2.5	3.3	1.7	0.0	0.0	0.0	0.0
Public sector debt in percent of revenues 1/	222.2	246.9	256.3	249.7	247.7	246.7	248.2	249.3	250.0
Gross financing 5/	20.6	23.2	29.7	28.2	24.2	22.3	20.4	21.2	21.5
In millions of U.S. dollars	532.7	597.6	779.0	769.8	693.9	667.1	638.8	695.5	735.4
Key macroeconomic and fiscal assumptions									
Real GDP growth (in percent)	0.9	-2.7	0.2	2.4	2.9	2.5	2.5	2.5	2.5
Average nominal interest rate on public debt (in percent) 6/	6.4	6.7	6.5	6.0	6.1	6.3	6.2	6.2	6.1
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	4.3	4.2	5.0	4.4	4.1	4.3	4.2	4.2	4.1
Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation rate (GDP deflator, in percent)	2.1	2.4	1.6	1.6	2.0	2.0	2.0	2.0	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	10.5	1.1	3.5	-1.4	3.6	0.6	1.1	0.9	0.9

Table 10. Barbados: Public Sector Debt Sustainability Framework, FY2000/01–FY2008/09—Baseline Scenario

(In percent of GDP, unless otherwise indicated)

	Actual			Projections					
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
					II. Stress Tests				
1. Real GDP growth, real interest rate, and primary balance are at historical averages in 2004/05–2007/08				84.1	83.7	83.3	83.0	82.6	82.2
2. Real interest rate is at historical average plus two standard deviations in 2004/05 and 2005/06				84.1	86.4	88.6	88.2	87.7	87.0
3. Real GDP growth is at historical average minus two standard deviations in 2004/05 and 2005/06				84.1	88.9	93.8	93.2	92.5	91.7
4. Primary balance is at historical average minus two standard deviations in in 2004/05 and 2005/06				84.1	86.7	89.8	89.4	88.9	88.2
5. Combination of 2–4 using one standard deviation shocks				84.1	89.0	94.5	91.9	89.2	86.3
6. One time 30 percent real depreciation in 2004/05 7/				84.1	96.1	96.0	95.7	95.3	94.7
7. Ten percent of GDP increase in other debt-creating flows in 2004/05				84.1	93.8	93.7	93.3	92.9	92.3
8. Impact on **debt-to-GDP ratio** if revenue-to-GDP ratio is at historical average minus two standard deviations in 2004/05–2005/06				84.1	88.9	93.6	93.3	92.8	92.2
8a. Impact on **debt-to-revenue ratio** if revenue-to-GDP ratio is at historical average minus two standard deviations in 2004/05–2005/06				249.7	308.3	324.9	278.9	280.9	282.5
Historical statistics for key variables (past 10 years)		Standard Deviation							
Primary deficit		1.9							
Real GDP growth (in percent)		2.6							
Nominal interest rate (in percent) 6/		0.6							
Real interest rate (in percent)		1.6							
Inflation rate (GDP deflator, in percent)		1.7							
Revenue to GDP ratio		1.3							

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

1/ Includes central government only. Also whether net or gross debt is used.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation.

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi (1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the denominator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

6/ Derived as nominal interest expenditure divided by previous period debt stock.

7/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 11. Barbados: External Sustainability Framework, FY 2000/01–FY 2008/09

	Actual			Projections					
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
I. Baseline medium-term projections									
1 External debt/exports of G&S	45.5	58.9	58.5	56.9	55.5	52.6	50.4	47.9	45.7
2 External debt/GDP	22.5	28.8	27.0	**26.1**	**25.8**	**24.6**	**23.8**	**22.6**	**21.6**
3 Change in external debt/GDP	4.1	6.3	-1.9	-0.9	-0.3	-1.1	-0.9	-1.2	-1.0
4 Net debt-creating external flows/GDP (5+9+12)	3.8	-1.5	2.0	6.8	1.5	2.0	1.7	1.3	1.2
5 Current account deficit, excluding interest payments/GDP	4.2	1.9	4.6	5.8	4.3	3.5	2.8	2.4	2.4
6 Deficit in balance of G&S/GDP	10.9	8.6	7.9	10.2	11.9	11.4	10.8	10.9	12.2
7 Exports of G&S/GDP	49.5	49.0	46.1	45.8	46.5	46.8	47.1	47.1	47.1
8 Imports of G&S/GDP	60.4	57.6	53.9	56.0	58.3	58.2	57.9	58.1	59.4
9 Minus net non-debt creating capital inflows/GDP	-1.3	-5.2	-4.0	0.2	-3.5	-2.3	-1.6	-1.7	-1.7
10 Net foreign direct investment, equity/GDP	2.1	6.0	4.9	0.6	4.2	3.1	2.3	2.4	2.4
11 Net portfolio investment,equity/GDP	-0.8	-0.9	-0.8	-0.8	-0.8	-0.7	-0.7	-0.7	-0.6
12 (r-g-(ρ+gρ))/(1+g+ρ+gρ))debt/GDP (14/13)	0.8	1.8	1.5	0.8	0.7	0.8	0.6	0.6	0.5
13 Adjustment factor: 1+g+ρ+gρ	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
14 (r-g-(ρ+gρ))debt/GDP (15+16+17)	0.9	1.8	1.5	0.9	0.7	0.9	0.6	0.6	0.5
15 r (interest rate) times debt/GDP	1.4	1.7	2.0	2.0	2.0	2.1	1.8	1.7	1.6
16 minus g (real GDP growth rate) times debt/GDP	-0.2	0.6	-0.1	-0.7	-0.8	-0.6	-0.6	-0.6	-0.6
17 minus (r + gr) (r = US dollar value of GDP deflator, growth rate) times debt/GDP	-0.4	-0.5	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5
18 Residual, incl. change in gross foreign assets/GDP (3–4)	0.3	7.8	-3.8	-7.7	-1.8	-3.1	-2.6	-2.5	-2.2
Memorandum items: Key macro and external assumptions									
Nominal GDP (local currency)	5172	5154	5246	5459	5729	5990	6263	6550	6849
Nominal GDP (U.S. dollars)	2585.8	2577.1	2622.8	2729.6	2864.4	2995.1	3131.5	3274.9	3424.4
Real GDP growth (in percent per year)	0.9	-2.7	0.2	2.4	2.9	2.5	2.5	2.5	2.5
Exchange rate (LC per U.S. dollar)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP deflator (in U.S. dollars, change in percent per year)	2.1	2.4	1.6	1.6	2.0	2.0	2.0	2.0	2.0
External interest rate (percent per year)	7.7	7.7	6.9	7.3	7.7	8.0	7.1	7.1	7.0
Growth of exports of G&S (U.S. dollar terms, in percent per year)	4.4	-1.4	-4.3	3.6	6.4	5.4	5.2	4.6	4.6
Growth of imports of G&S (U.S. dollar terms, in percent per year)	3.3	-4.9	-4.7	8.1	9.2	4.4	4.0	4.9	6.9

Table 11. Barbados: External Sustainability Framework, FY 2000/01–FY 2008/09

	Actual			Projections					
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
II. Sensitivity analysis for external debt-to-GDP ratio									
1. If interest rate, real GDP growth rate, US$ GDP deflator growth, non-interest current account, and non-debt flows (in percent of GDP) in 2004/05–2008/09 are at average of past 10 years				26.1	22.8	18.2	13.9	9.8	5.8
2. If interest rate in 2004/05 and 2005/06 is average plus two standard deviations, others at baseline				26.1	26.3	25.7	24.9	23.7	22.7
3. If real GDP growth rate in 2004/05 and 2005/06 is average minus two standard deviations, others at baseline				26.1	27.5	28.1	27.3	26.2	25.2
4. If US$ GDP deflator in 2004/05 is average minus two standard deviations, others at baseline				26.1	26.4	25.3	24.4	23.2	22.2
5. If non-interest current account (in percent of GDP) in 2004/05 and 2005/06 is average minus two standard deviations, others at baseline				26.1	31.4	36.8	36.2	35.3	34.6
6. Combination of 2–5 using one standard deviation shocks				26.1	27.3	28.2	27.4	26.3	25.4
7. One time 30 percent depreciation in year 2004/05 (-30 percent GDP deflator shock), others at baseline.				26.1	38.0	37.3	36.7	35.8	35.1
Memorandum items:									
Current account deficit, excluding interest payments (percent of GDP, average of past 10 years)				-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Current account deficit, excluding interest payments (percent of GDP, standard deviation of past 10 years)				5.4	5.4	5.4	5.4	5.4	5.4
Net non-debt creating capital inflows (percent of GDP, average of past 10 years)				1.0	1.0	1.0	1.0	1.0	1.0
Interest rate (average of past 10 years)				7.0	7.0	7.0	7.0	7.0	7.0
Interest rate (standard deviation of past 10 years)				1.5	1.5	1.5	1.5	1.5	1.5
Real GDP growth rate (average of past 10 years)				2.0	2.0	2.0	2.0	2.0	2.0
Real GDP growth rate (standard deviation of past 10 years)				2.6	2.6	2.6	2.6	2.6	2.6
GDP deflator, U.S. dollar terms (average of past 10 years)				3.1	3.1	3.1	3.1	3.1	3.1
GDP deflator, U.S. dollar terms (standard deviation of past 10 years)				1.7	1.7	1.7	1.7	1.7	1.7

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

Barbados—Fund Relations
As of March 31, 2004

I. **Membership Status**: Joined 12/29/1970; Article VIII

II. **General Resources Account**:

	SDR million	Percent of Quota
Quota	67.50	100.00
Fund holdings of currency	62.51	92.60
Reserve position in Fund	5.02	7.44

III. **SDR Department**:

	SDR million	Percent of Allocation
Net cumulative allocation	8.04	100.00
Holdings	0.04	0.46

IV. **Outstanding Purchases and Loans**: None

V. **Financial Arrangements**:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
Stand-by	02/07/1992	05/31/1993	23.89	14.67
Stand-by	10/01/1982	05/31/1984	31.88	31.88

VI. **Projected Obligations to Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	09/30/2001	2003	2004	2005	2006	2007
Principal		--	--	--	--	--
Charges/Interest		0.03	0.13	0.13	0.13	0.13
Total		0.03	0.13	0.13	0.13	0.13

VII. **Exchange Rate Arrangement**:

The Barbados dollar has been pegged to the U.S. dollar since mid-1975 at BDS$2.00 = US$1.00. On March 5, 2004, the official buying and selling rates per US$1 were BDS$1.98 and BDS$2.04, respectively.

There are no restrictions on the making of payments and transfers for current international transactions subject to approval under Article VIII. There are indicative limits on some payments for invisibles, but bona fide transactions are approved. Most capital outflows and certain capital inflows require approval. The authorities accepted the obligations of Article VIII, Sections 2, 3, and 4 on November 3, 1993.

VIII. **Last Article IV Consultation**

The 2002 Article IV consultation discussions were concluded by the Executive Board on February 7, 2003. Documentation comprised the staff report (Country Report No. 03/44); the statistical appendix (Country Report No. 03/45); and the Financial System Stability Assessment (Country Report 03/35). Barbados is on the standard 12-month consultation cycle.

IX. **Technical Assistance (1994–2004)**:

Department	**Dates**	**Purpose**
CARTAC	January 26–30, 2004	Development of Supply and Use Tables
FAD	July 3–18, 2003	Reform of indirect taxes
CARTAC	March 18–29, 2002	Balance of payments statistics
FAD	May 28−June 8, 2001	Uniform taxation of domestic and offshore activities, and review of tax incentive regime
MAE/CARTAC	January 3–11, 2002	Technical assistance on a bank merger
STA	Jan. 25−Feb. 2, 1999	Development of the GDDS metadata
FAD	Nov. 6−17, 1995 Feb. 28−Mar. 12, 1996	Introduction of value-added tax
MAE	November 1995	Introduction of deposit insurance scheme

X. **Resident Representative**:

The resident representative post was closed in January 1995.

Barbados—Relations with the Inter-American Development Bank

I. Loans Active as of December 2003

(In millions of U.S. dollars)

Purpose	Approval Date	Amount	Amount Disbursed	Amount Available
South Coast Sewerage	November 1992	51.2	36.5	14.7
Global Pre-Investment	December 1992	7.0	6.9	0.1
Bridgetown Roads	May 1993	18.5	9.4	9.1
Solid Waste Management Program	October 1998	13.0	0.1	12.9
Education Sector Enhancement Program	December 1998	85.0	14.3	70.7
Administration of Justice	August 2001	8.7	0.0	8.7
Coastal Infrastructure	January 2002	17.0	0.0	17.0
Total		**200.4**	**67.2**	**133.2**

II. Net Cash Flow of IDB Resources and Balance Outstanding

(In millions of U.S. dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Repayments	7.4	7.9	7.3	7.5	8.1	7.3	7.3	8.1	7.7
Disbursements	7.1	29.0	15.1	17.9	5.8	10.4	24.2	15.8	14.4
Net loan flow	-0.3	21.1	7.8	10.4	-2.3	3.1	16.9	7.7	6.7
Interest and charges	6.7	7.3	7.9	8.2	9.7	10.0	8.7	7.2	7.4
Net cash flow	**-7.1**	**13.8**	**-0.1**	**2.2**	**-12.0**	**-6.9**	**8.2**	**0.5**	**-0.7**
Debt outstanding	**102.0**	**123.1**	**133.5**	**143.9**	**141.6**	**127.0**	**143.9**	**151.6**	**158.3**

Source: Inter-American Development Bank.

Barbados—Relations with the Caribbean Development Bank

The Caribbean Development Bank (CDB) approved US$214.3 million in loans, contingent loans, equity and grants to Barbados between 1970 and 2002. This represents 9.9 percent of total approvals to CDB's borrowing member countries.

Of the total funds approved US$65.3 million or 30.5 percent were allocated to the productive sectors which comprise agriculture, manufacturing, tourism, and mining. Within the productive sectors, US$47.2 million or 22 percent of the total was allocated to the manufacturing sector, while tourism accounted forUS$11.6 million, or 5.6 percent.

Economic infrastructure accounted for US$112.9 million or 52.7 percent of approved funds. Of these funds, US$52.5 million (24.5 percent) were allocated to the transportation, US$55 million (25.7 percent) to the education, and US$3.2 million (1.5 percent) to the health sectors.

In July 2002, CDB approved a US$15 million loan to the Government of Barbados to be on lent via the Industrial Credit Fund at the central bank. The loan seeks to stimulate output in the export oriented sectors of the Barbados economy in light of the country's recent economic performance.

CDB Loans Approved to Barbados 1970−2002

Sector	US$ million	Percent
Productive sector	**65.3**	**30.5**
Agriculture	6.0	1.9
Manufacturing	47.2	22.0
Tourism	12.0	5.6
Economic infrastructure	**113.0**	**52.7**
Power and energy	0.1	0.0
Water	0.8	0.3
Transportation	52.5	24.5
Housing	1.4	0.7
Education	55.0	25.7
Health	3.2	1.5
Multisector	**36.0**	**16.8**
Total	**214.3**	**100.0**

Source: Caribbean Development Bank.

Barbados—Statistical Issues

1. Barbados participates in the General Data Dissemination System (GDDS). Information about Barbados macroeconomic statistics (metadata) and the authorities' plans for improving the statistical base are posted on the Fund's Dissemination Standards Bulletin Board on the internet.

National accounts

2. Compilation of the national accounts from the production side is hampered by lack of reliable and current data on non-sugar agriculture, private construction, and non-tourism service activities. On the expenditure side, the national accounts suffer from weaknesses in the external trade and private investment data. The authorities are in the process of shifting the base year of gross domestic product at constant prices from 1974 to 1994. The consumer price index has been revised to reflect purchasing patterns from the April 1998–March 1999 household budget survey and a new reference base of July 2001 = 100. There are no quarterly GDP estimates.

Nonfinancial public sector

3. The coverage of data on the operations of the general government is comprehensive and generally timely. There has been some improvement in the recording of financial transactions, which has reduced the discrepancies between the overall balance recorded from above the line and the financing data. The other factor contributing to discrepancies at the level of nonfinancial public sector, which needs to be addressed, is the inadequate reporting by public enterprises. Data provided by the public enterprises, such as government transfers and capital expenditure, often differ from those provided by the Ministry of Finance (MoF).

4. A recently completed project has centralized debt data compiled by the Central Bank of Barbados (CBB) and the Accountant General's Office using the Commonwealth Secretariat's Data Recording and Management System (CS-DRMS 2000+). The CBB, the Accountant General's Office, and the MoF share joint responsibility for updating the system. The CBB's Exchange Control Department updates private sector debt (government-guaranteed and non-guaranteed), and the Research Department updates the guaranteed debt of statutory bodies. The MoF updates information on public debt.

5. No data are reported for publication in the *GFS Yearbook* or *IFS*.

Financial sector

6. The overall quality, coverage, and timeliness of the monetary accounts is satisfactory. One outstanding issue is that the concept of residency applied to the monetary statistics is not consistent with the fifth edition of the *Balance of Payments Manual*. The CBB classifies some loans to and deposits of non-residents as credit to the private sector and part of broad money, respectively, instead of as net foreign assets of commercial banks. Moreover, non-nationals are recognized as residents only after they have resided continuously in Barbados

for at least three years. There is also a need to extend the coverage of data to include offshore bank accounts.

7. The timeliness of data reported to STA for publication in IFS has significantly improved. The lag in submitting monetary data decreased from about five months to about three weeks for the central bank accounts, and to about six weeks for the monetary survey.

8. Accounting conventions underlying monetary data compiled by the CBB need to be reviewed. The CBB data are reported on a cash basis and do not include accrued receivables and payables. Commercial banks' positions are recorded on an accrual basis; however, the accrued interest receivable and payable is classified under other assets and other liabilities, respectively, rather than under the appropriate category of domestic credit. Marketable securities are recorded at the acquisition cost and revalued to market value only on an annual basis (as of December 31). Short-term zero-coupon securities (treasury bills) are recorded at acquisition cost and are not revalued to market value until redemption at maturity. Positions with the IMF (SDR holdings, Reserve Tranche Position, and SDR Allocation) are valued at the IMF holdings rate rather than at the end-of-period market rate. These issues are being addressed in the context of the general framework of the GDDS.

9. The latest data published in the Balance of Payments yearbook correspond to 2001. Lags in the compilation of merchandise trade data limit the timeliness of estimating the external current account balance. No clear distinction is currently made between current transfers and capital transfers. Estimates of the components of the investment account also need to be strengthened. A mission by the IMF Multisector Statistics Advisor at the Caribbean Regional Technical Assistance Centre in March 2002 noted that the coverage of foreign direct investment (FDI) is incomplete because the CBB does not include offshore enterprises. Also, the surveys on FDI are deficient as the distinction between transactions and positions are unclear in the survey reporting form. Quarterly balance of payments estimates are not currently provided.

Barbados: Core Statistical Indicators

(As of March 24 , 2004)

	Exchange Rates	Interna-tional Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Govt. Balance	GDP/ GNP	External Debt/ Debt Service
Date of Latest Observation	Fixed	1/31/04	1/31/04	1/31/04	12/31/03	12/31/03	12/03	12/03	12/03	12/31/03	2003	12/31/03
Date Received		3/3/04	3/3/04	3/3/04	3/3/04	3/9/04	2/3/04	2/3/04	2/3/04	2/3/04	2/3/04	2/3/04
Frequency of Data 2/		M	M	M	M	M	M	Y	Y	M	Y	Y
Frequency of Reporting 2/		M	M	M	M	M	M	Y	Y	M	Y	Y
Source of Update 3/		A	A	A	A	A	A	A	A	A	A	A
Mode of Reporting		Monthly Publication	Monthly Publication	Monthly Publication	Monthly Publication	Monthly Publication	Monthly Publication	Annual Publication	Central Bank Internal Document	Monthly Publication	Annual Publication	Annual Publication
Confidentiality 4/		U	U	U	U	U	U	U	U	U	U	U
Frequency of Publication 2/		W	M	M	M	M	M	M	Q	M	Q	M

1/ Preliminary estimate. Actual data provided with a lag of two to three months.
2/ W - weekly, M - monthly, Q - quarterly, Y - yearly.
3/ A - direct, reporting by central bank, ministry of finance, or other official agency.
4/ U - for unrestricted use.

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May 14, 2004

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2004 Article IV Consultation with Barbados

On May 5, 2004, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Barbados.[1]

Background

The mainstays of the economy are tourism and financial services. The population is about 275,000, per capita income is about US$9,500, and the unemployment rate is slightly less than 11 percent. The United Nations Development Program's Human Development Index ranked Barbados 27th among 175 countries in 2003.

Barbados' economy did well in the 1990s, supported by prudent policies and a favorable external environment. During 1993–2000, per capita real GDP growth averaged 2.5 percent per year, annual inflation was 2 percent or less, and unemployment declined sharply. The structure of the economy shifted from agriculture to tourism and financial services. This performance was achieved in the context of small fiscal deficits (less than 2 percent of GDP), a conservative monetary policy (which resulted in a substantial accumulation of external reserves), and a range of market-oriented reforms.

The economy shifted into a recession in 2001, reflecting the global slowdown, and the impact of the September 11 events on the tourism sector. Real GDP dropped by a cumulative 4 percent in 2001–02. To mitigate the recession, the government launched a national emergency program of public investment projects aimed at promoting economic activity and upgrading the tourism and economic infrastructure. These and other

[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. 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.

measures contributed to an increase in the central government deficit, from 2.3 percent of GDP in FY 2000/01 (April–March) to 9.5 percent of GDP in FY 2002/03, including extra-budgetary spending of about 4 percent of GDP. As a result, the central government debt-to-GDP ratio rose from 63 percent in March 2001 to 76 percent in March 2003.

Over the past year, the economy recovered partially from the 2001–02 recession, as real GDP grew by an estimated 2 percent in 2003, led by a recovery in the tourism sector. Inflation remained low at 1.5 percent, reflecting the currency peg. The external current account deficit widened in 2003, as merchandise exports declined and imports recovered from their low recession levels. The central government deficit narrowed to 6.5 percent of GDP in FY 2003/04, including extra-budgetary spending of close to 4 percent of GDP. Tax revenue increased by 1¼ percent of GDP, on account of higher receipts from the value-added tax, and capital expenditure declined by a similar amount. More than half of the government deficit was financed through privatization proceeds resulting in a marginal decline in the government debt ratio, to 75 percent. Notwithstanding widening of the current account deficit, the net international reserves stood at US$751 million (six months of imports of goods and services) at the end of the year.

Broad money growth decelerated in 2003, although it was still faster than GDP growth, and banks became increasingly liquid. In an effort to unwind the excessive buildup of liquidity, the central bank reduced the government securities ratio to 16 percent in November 2002; in December 2002, the central bank reduced the minimum administered interest rate on time and savings deposits, from 3 percent to 2.5 percent, and discontinued setting maximum indicative lending rates for banks on selected loans. While the banking system remains generally sound, the ratio of nonperforming loans to total loans has increased to about 9 percent, and profitability indicators have weakened somewhat.

Over the past year, important progress was made in the area of structural reforms, as steps were taken to enhance the budget process, strengthen the national pension system, promote transparency in the public sector, improve financial intermediation, and enhance the supply responsiveness of the economy.

Executive Board Assessment

Executive Directors observed that Barbados' economy has started to recover from the 2001–02 recession, led by the strong performance of the tourism sector and supported by the countercyclical fiscal stance adopted in the downturn. However, this fiscal stance gave rise to a substantial increase in the government debt, which must now be reversed. Directors were encouraged by the improvement in the public finances in fiscal year 2003/04 and stressed that, over the medium term, debt sustainability would critically depend on the government's success in further reducing its deficit and deepening reforms to boost growth. They welcomed the strengthening of the international reserve position over the last three years, which reflects Barbados' continued access to foreign financing and strong private capital inflows.

Directors stated that, notwithstanding the improvement in fiscal year 2003/04, the current level of the government's deficit implied continued high government debt ratios and has contributed to large, albeit declining, external current account deficits. They cautioned that these factors could pose a risk to the fixed exchange rate anchor, the central pillar of Barbados' policy framework, especially in the event of a turnaround in private capital flows. A number of Directors therefore recommended that the fiscal deficit be reduced to ensure adequate reserve cover and a declining debt ratio, and that gradual fiscal tightening be combined with growth-enhancing structural reforms. In this regard, Directors also attached importance to anchoring the pace of fiscal adjustment on Barbados' longstanding framework of social consensus. At the same time, other Directors, noting the size of the fiscal imbalance and the high debt level, urged the authorities to build domestic consensus for a more rapid fiscal adjustment.

Directors agreed with the government's focus on expenditure control and welcomed the commitment to wage restraint and the projected reduction in extra-budgetary spending, mainly transfers to public enterprises, which remains high and has diminished the transparency of fiscal operations in recent years. But they also saw a need to intensify the revenue effort, both to facilitate deficit reduction and to protect social spending. Directors encouraged the authorities to consider, in particular, measures to reduce exemptions from the VAT, as well as increases in the rates of the VAT and excises. They commended the authorities' proposals to harmonize the domestic and offshore tax regimes and supported the proposed reduction of income tax rates. Directors recommended that privatization proceeds, which have been used to finance extra-budgetary spending, should in the future be allocated mainly to the retirement of government debt. They urged the authorities to review the tariffs of major public enterprises, concurrently with a reduction in government transfers to these entities.

Directors encouraged the authorities to move to more market-based mechanisms of monetary control, to enhance control of credit expansion and reduce distortions in financial intermediation. Accordingly, they welcomed the initial steps by the central bank to prepare the technical infrastructure for open market operations, and recommended phasing out, in due course, the administered minimum interest rate on savings and time deposits. Regarding broader financial sector reforms, Directors welcomed the actions taken to implement most of the 2002 Financial Sector Assessment Program recommendations, including improvement in the supervisory and regulatory frameworks for the banking and insurance sectors. They encouraged rapid implementation of the remaining recommendations, including increasing the independence of the central bank, and the strengthening of efforts with regard to Anti-Money Laundering/Combating the Financing of Terrorism issues. Directors supported the authorities' sequenced approach to capital account liberalization, in line with the ongoing strengthening of the financial sector and the development of indirect instruments of monetary control.

Directors shared the authorities' view on the continued appropriateness of the fixed exchange rate regime for Barbados, although it was also suggested that the authorities keep the current regime under review. They noted that the long-standing peg to the U.S. dollar, supported by prudent fiscal and monetary policies, has acted as a strong anchor of price stability and investor confidence. Directors emphasized, however, that the long-term viability of the regime required that the public debt dynamics be returned to a sustainable position, under robust economic policies and reforms to boost growth and competitiveness.

Directors noted that the decline of agriculture and manufacturing in recent years highlights the need to broaden the productive base. In this regard, they welcomed the authorities' recent structural reform achievements, which include the reform of the National Insurance Scheme; establishment of a regulatory framework for private pension schemes; corporatization of the Port Authority; privatization of the Barbados National Bank; and the move toward greater competition in the telecommunications sector. Looking ahead, Directors supported the authorities' focus on reforms relating to the budget, tax policy, government pensions, and enhancing the supply responsiveness of the economy. Directors commended the authorities for their continued commitment to further trade liberalization in the context of the CARICOM, the WTO, and the envisaged FTAA, and recent initiatives to enhance labor market flexibility.

Directors noted that, while the statistical information provided by Barbados is broadly adequate for surveillance purposes, there remains scope for substantial improvement, particularly with regard to the operations of the public enterprises and the capital account of the balance of payments.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Barbados: Selected Economic Indicators

	1999	2000	2001	2002	2003
(Annual percentage changes)					
Output and prices					
Real GDP	0.5	2.4	-3.4	-0.4	2.1
Consumer prices (12-month increase)	1.6	2.4	2.8	0.2	1.5
Tourist arrivals	0.4	5.8	-6.9	-1.8	6.7
Unemployment (percent of labor force)	10.4	9.4	9.9	10.3	10.7
Money and credit 1/					
Net domestic assets	7.8	-4.2	-8.6	5.7	-2.7
Public sector credit (net)	-0.4	-4.3	-8.1	12.2	3.6
Private sector credit	11.6	2.1	-0.3	2.4	0.6
Broad money	11.6	7.9	5.6	10.4	6.5
(In percent of GDP)					
Public sector operations 2/					
Nonfinancial public sector balance	-1.2	-3.1	-5.2	-10.4	-7.5
Central government	-1.3	-2.3	-4.9	-9.5	-6.5
Surplus of National Insurance Scheme	1.0	1.2	1.6	1.5	1.5
Public enterprises	0.0	-0.8	-0.4	-0.9	-1.0
External sector					
External current account balance	-6.0	-5.6	-3.6	-6.6	-7.8
Public external debt 3/	18.5	22.5	28.8	27.0	26.1
Net international reserves (in millions of U.S. dollars)	306	484	707	683	751

Sources: Barbadian authorities; and IMF staff estimates.

1/ Changes in percent of beginning-of-period broad money.

2/ Fiscal years (April–March).

3/ Refers to central government and government guaranteed debt.

Statement by Ian E. Bennett, Executive Director for Barbados
May 3, 2004

Key Points

- *The Barbadian economy appears to have returned to a sustainable growth path following the 2001-02 recession.*
- *The fiscal deficit, although declining, remains higher than desirable, and the authorities are committed to reducing it, albeit at a pace more gradual than recommended by the staff owing to the need to finance certain capital projects to strengthen tourism and other productive sectors.*
- *The main goals of monetary policy are to continue policies which will safeguard the fixed exchange rate and maintain a stable environment conducive to economic growth.*
- *The authorities are committed to continuing structural reforms in order to sustain growth and competitiveness over the medium term.*

1. My authorities wish to express their appreciation to the staff for their insightful comments and comprehensive assessment of developments in Barbados and for their constructive advice on tackling the challenges ahead. They believe that the economy has returned to a sustainable growth path following the 2001-02 recession, but acknowledge that some important challenges remain, particularly a further reduction of the fiscal imbalances and enhancement of growth and competitiveness.

Recent Economic Developments and Outlook

2. Following eight consecutive years of growth, the Barbadian economy contracted in 2001 and 2002, a decline associated with the global economic slowdown and the events of September 11. In 2003 economic activity recovered - expanding by 2.1 percent, largely related to a rebound in tourism and to a lesser extent, developments in the non-traded sector. Temporary fiscal imbalances occasioned by the implementation of counter-cyclical expenditure measures in 2001/02, have been reduced significantly, but remain higher than desirable.

3. On the external account, the current account deficit widened as the performance of the foreign exchange earning sectors - apart from tourism - was weak. Nevertheless, the level of reserves remained high - at eight months of imports at the end of December 2003 - strengthened by foreign inflows from privatization proceeds.
4. My authorities are encouraged that their economic reform efforts appear to be meeting with some success as evidenced by further increases in tourism output, and real GDP growth (4 percent) during the first quarter of 2004. Continued progress coupled with positive developments in the international economy, will translate into a positive medium term outlook for Barbados.

Fiscal Policy and Debt

5. The authorities acknowledge that the fiscal deficit, although declining, remains higher than desirable. They are committed to reducing it to a more manageable level - around 1-2 percent of GDP at the earliest opportunity. With the recession over, and many of the large capital projects completed, the target deficit would ordinarily be achievable by reducing discretionary spending, rationalizing capital expenditure, and continuing tax reform. However, my authorities have elected to strengthen infrastructure in the tourism sector, particularly with a view to upgrading our capacity to co-host the Caribbean's premier sports tourism event of the decade - the 2007 Cricket World Cup. With respect to taxes, my authorities requested and received a Technical Assistance mission from the Fund in the recent past to suggest measures to help reduce the disparity between the domestic and offshore tax regimes. My authorities are of the view that full convergence is difficult and are continuing to review options. Nevertheless, they are continuing their strategy begun in 2002 of phasing in a substantial reduction in the corporation and personal tax rates in the medium term. For example, the corporation tax rate is being reduced from 45 percent to 25 percent over a five year period.

6. As part of its policy on expenditure restraint, non-wage current expenditure growth will be limited to a rate not exceeding the rate of inflation while wage increases will be linked to productivity gains as part of an agreement with its social partners. Transfers to public enterprises (PEs), particularly those which carry out quasi commercial functions, will be contained by capping transfers at their FY 2003/04 level. Public enterprises will also be required to finance more of their own operations through greater cost recovery and efficiency gains. With respect to capital expenditure, increased use will be made of public/private sector partnerships and build operate-lease arrangements to carry out major investments.

7. Total public sector debt, at 83.8 percent of GDP in FY 2002/03 is high. My authorities agree with the staff on the importance of reducing debt levels and the need to contain debt service costs. In this regard, they are committed to reducing the debt level over the medium term to 60 percent of GDP by pursuing a prudent debt management strategy - a key element of which is a commitment not to raise any **new commercial loans** on the international market during 2004.

8. My authorities and the staff agree on the need for adjustment to achieve fiscal consolidation and ensure debt sustainability, but disagree on the pace of this adjustment. They intend to pursue a more gradual adjustment over the medium term than recommended by the staff, owing to the need to refurbish and expand the airport and other tourism related facilities. They also believe that given the large share of domestic debt in the overall debt composition, there is reduced vulnerability than normally associated with a high debt ratio, and, therefore, there is less urgency to reduce debt as aggressively as the staff have recommended.

Monetary and Exchange Rate Policy

9. The main objectives of monetary policy are to safeguard the fixed exchange rate and create a stable environment conducive to economic growth. The authorities differed with the staff on the assessment that the fixed exchange rate could be at risk under some scenarios in the medium term. They point to the high level of reserves – at $US 750 million, or eight months of imports at the end of March 2004, to support the currency and note, that even in the baseline scenario, the level of reserves remains high. Further, my authorities are confident that ongoing reforms should facilitate higher private capital inflows.

10. The authorities acknowledge the limitations of their existing array of available monetary policy instruments, and have begun the necessary preparations to enable the Bank to conduct open market operations. At the same time, they also intend to pursue a gradual liberalization of the capital account, particularly to facilitate regional transactions under the CARICOM Single Market and Economy (CSME). Under this strategy, the CBB will, on a pilot basis and subject to continuing review, delegate more selected capital account transactions to commercial banks, and substantially increase the value limits of these transactions.

Growth and Competitiveness

11. One of the principal challenges facing the authorities is to fine-tune the policy framework which enhances growth and competitiveness in the economy. A significant part of this involves re-tooling and retraining in some of the weaker tradeable sectors, particularly manufacturing and agriculture, while at the same time, developing the services sector. The establishment of the Enhanced Guarantee Scheme and the Enterprise Growth Fund should provide resources to undertake some of these tasks and thereby strengthen threatened sectors.

12. My authorities believe that there already exists significant capacity and export earning potential for many services and will, therefore, be seeking to promote development in these areas. In particular, there will be focus on some professional services, cultural services, entertainment services and health tourism services, with efforts made to have full access for these in Barbados' trading partners' markets, and where possible, attract investment in these areas.

13. Continuation of ongoing structural reform efforts will be key to sustaining growth and competitiveness over the medium term. My authorities' track record in implementing structural reforms has been good as evidenced by the recent initiatives to corporatize key public enterprises, privatize the Barbados National Bank (BNB), and liberalize telecommunications and diversify agriculture.

14. The sugar industry has been engaged in a long process of rationalization and restructuring in response to the expected loss of preferential arrangements. As the economy has gradually shifted to services, sugar production has declined from about

200,000 tonnes in the mid-nineteen sixties to a more sustainable level of about 40,000 tonnes at present. Efforts are also underway to further develop non-sugar agriculture, in areas where there is significant domestic demand, and where niche markets and linkages with other sectors can be established. In this area, there has already been a noticeable increase in cotton production over the last two years.

15. Improvements in labor market flexibility are also important to enhance growth prospects. Recognizing this, and consistent with efforts to establish the CSME, the authorities have already enacted legislation in respect of the free movement of university graduates. Legislation covering the other categories of skilled labor identified under the revised treaty of Chaguaramas was presented to Parliament in 2003, and is expected to be passed in 2004.

Conclusion

16. Following a difficult economic period recently, the Barbadian economy has returned to a positive growth path. The prospects for the economy, to a significant extent, are tied to the international economy, and the recent performance in this area is welcome. At the same time, my authorities also acknowledge the important role that a supporting domestic economic environment plays, and in this regard, are resolved to implement appropriate fiscal, monetary, and structural policies.