INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/176

BARBADOS

June 2022

SEVENTH REVIEW UNDER THE EXTENDED FUND FACILITY ARRANGEMENT—PRESS RELEASE; AND STAFF REPORT

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

- **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 8, 2022, on a lapse-of-time basis, following discussions that ended on May 13, 2022 with the officials of Barbados on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on May 31, 2022.

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

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR22/205

IMF Executive Board Completes the Seventh and Last Review under the IMF's Extended Fund Facility with Barbados

FOR IMMEDIATE RELEASE

- *Despite a challenging global economic environment, Barbados continues to make good progress in implementing its ambitious economic reform program aimed at restoring fiscal sustainability, increasing reserves, and unlocking growth potential.*
- *Economic activity in Barbados is starting to recover but risks to the outlook remain elevated, with higher global commodity prices pushing up inflation.*
- *The completion of the seventh and final review under the Extended Fund Facility (EFF) allows the authorities to draw SDR 17 million (about US$23 million), bringing total disbursements under the program to SDR 322 million (about US$435 million).*

Washington, DC – **June 16, 2022:** The Executive Board of the International Monetary Fund (IMF) concluded the seventh and final Extended Fund Facility (EFF) review with Barbados. The completion of the review allows the authorities to draw the equivalent of SDR 17 million (about US$23 million), bringing total disbursements to the equivalent of SDR 322 million (about US$435 million), the full amount of the four-year extended arrangement under the EFF that was approved on October 1, 2018 (see Press Release No. 18/370). The Executive Board's decision was taken on a lapse-of-time basis.[1]

Program performance has been strong despite significant economic shocks associated with the COVID-19 pandemic, natural disasters, and the war in Ukraine. Macroeconomic stability was restored before the pandemic reached Barbados in March 2020, with a combination of fiscal consolidation, a comprehensive sovereign debt restructuring in 2018 and 2019, and structural reforms to enhance growth. This facilitated a countercyclical macroeconomic policy response in 2020 and 2021. Over the four-year program, the authorities have steadily moved ahead with their economic reform agenda including the introduction of a revised central bank law, state-owned enterprise (SOE) reform, and reforms of the customs department. International reserves, which reached a low of US$220 million (5-6 weeks of import coverage) in May 2018, are now at a comfortable level of US$1.5 billion.

Economic activity in Barbados is starting to recover from the COVID-19 shock. Tourism came to a virtual standstill in April 2020, and the economy contracted by 14 percent in 2020. A gradual economic recovery started in 2021 and gained momentum in recent months, with tourism now at about 60 percent of pre-pandemic levels. Medium-term growth prospects

[1] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

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depend on accelerating structural reforms to improve the business climate, diversify the economy, and facilitating green and digital transformations.

Risk to the outlook remain high. The key risk to Barbados' economic outlook is a further lengthening of the pandemic, with the recovery in tourism depending on developments in key source markets. An intensification of the war in Ukraine could further increase global commodity prices. Strengthening resilience to natural disasters and climate change, combined with an accelerated transition to renewable energy, is key to achieve more sustainable economic growth and reduce vulnerability to international oil price volatility.

INTERNATIONAL MONETARY FUND

BARBADOS

SEVENTH REVIEW UNDER THE EXTENDED FUND FACILITY

May 31, 2022

EXECUTIVE SUMMARY

Recent Developments and Outlook. Despite significant economic shocks associated with the COVID-19 pandemic, twin natural disasters, and the war in Ukraine, Barbados has made good progress in implementing its Economic Recovery and Transformation (BERT) plan to restore fiscal and debt sustainability, rebuild reserves, and increase growth. International reserves increased to US$1.5 billion at end-2021 supported by IFI loans. This, and a successful 2018-19 public debt restructuring, helped rebuild confidence in the country's macroeconomic framework. Economic growth is projected at 11 percent for 2022 premised on a robust recovery of tourism, which is expected to return to pre-pandemic levels by 2024. The outlook nonetheless remains highly uncertain, and risks are elevated, including from higher global commodity prices following the Russian invasion of Ukraine that are feeding into inflation. Since Barbados imports the bulk of its food and energy needs, the government has adopted temporary VAT caps on oil products to contain retail price increases (fiscal cost of 0.3 percent of GDP). While fiscal accommodation was needed to respond to the pandemic and natural disasters over the past two years, the authorities are committed to running primary surpluses from FY2022/23 onwards which need to reach 5-6 percent of GDP in three years, consistent with meeting the 60 percent of GDP debt target by FY2035/36.

Program implementation. This is the seventh and final review under the EFF. All quantitative program targets for end-December 2021 and end-March 2022 were met. The end-December 2021 structural benchmarks (SBs)—including issuing regulations for a procedural fiscal rule—were met. Three out of five end-March SBs were also met, while the tabling of a revised public pension law and NIS' submission of all outstanding financial statements for audit by the Auditor General are behind schedule. Program objectives have broadly been achieved despite the pandemic and natural disasters. The authorities have steadily moved ahead with their economic reform agenda including the introduction of a revised central bank law, state-owned enterprise (SOE) reforms, and an actuarial review of the civil service pension system. The COVID-19 pandemic however has delayed progress in a part of the structural reforms, including owing to limited opportunities for public consultation. The authorities remain committed to their structural reform agenda including pension reform, SOE reform, and enhancing Public Finance Management (PFM) systems. The purchase of SDR 17 million will be made available in the form of budget support upon the completion of the seventh review.

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

The mission consisted of Bert van Selm (head), Keiichi Nakatani, Diane C. Kostroch (WHD), Johanna Tiedemann (FAD), and Tianxiao Zheng (SPR). Chris Faircloth and Ann Marie Wickham (Resident Representative Office) assisted the mission. The mission team met with Prime and Finance Minister Mottley, Central Bank of Barbados Governor Haynes, Minister in the Ministry of Finance Straughn, and other senior government officials. The mission was conducted in Barbados during May 9–13, 2022. Mitch Villeneuve (OED) joined the mission.

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APPENDIX

Acronyms

The following acronyms are used in the text and defined here.

ARA	Assessment of Reserve Adequacy (IMF)
BCED	Barbados Customs and Excises Department
BEPS	Base Erosion and Profit Shifting
BERT MC	Barbados Economic Recovery and Transformation Monitoring Committee
BRB$	Barbados Dollar
BOP	Balance of Payments
BRA	Barbados Revenue Authority
BSS	Barbados Statistical Service
CAB	Current Account Balance
CAPEX	Capital Expenditure
CARTAC	Caribbean Regional Technical Assistance Center
CBB	Central Bank of Barbados
CDB	Caribbean Development Bank
CG	Central Government
CIT	Corporate Income Tax
CPI	Consumer Price Index
CY	Calendar Year
EFF	Extended Fund Facility
FAD	Fiscal Affairs Department (IMF)
FDI	Foreign Direct Investment
FMA	Financial Management and Audit
FY	Fiscal Year
GDP	Gross Domestic Product
GIR	Gross International Reserves
GFN	Gross Financing Needs
IDB	Interamerican Development Bank
IFI	International Financial Institution
IMF	International Monetary Fund
IT	Indicative Target
LT	Long Term
LTU	Large Taxpayer Unit
MAU	Management Accounting Unit
NIF	National Insurance Fund
NIS	National Insurance Scheme
PFM	Public Finance Management
PRASC	Canada's Project for the Regional Advancement of Statistics in the Caribbean
QPC	Quantitative Performance Criterion
SDR	Special Drawing Right
SOE	State Owned Enterprise
TA	Technical Assistance
TMU	Technical Memorandum of Understanding
US$	US Dollar
VAT	Value Added Tax
YoY	Year-on-Year

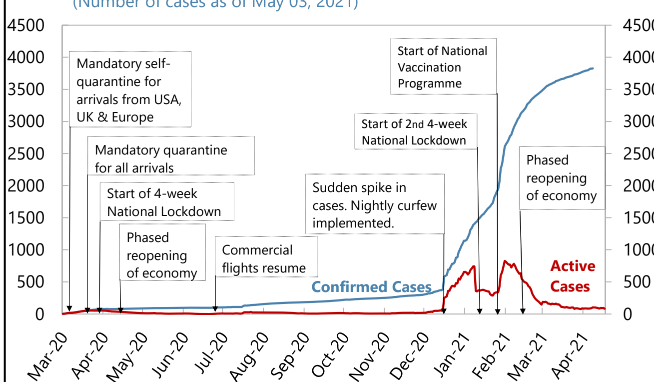
RECENT DEVELOPMENTS AND OUTLOOK

A. Recent Developments

1. Despite major challenges due to the protracted pandemic and natural disasters, Barbados has steadily made good progress in implementing the Economic Recovery and Transformation (BERT) plan. Macroeconomic stability was restored with a combination of a comprehensive sovereign debt restructuring and structural reforms to reduce fiscal dominance and enhance growth potential. International reserves have increased to US$1.5 billion in May 2022 from a historical low of US$220 million in 2018. While steady fiscal consolidation was interrupted by the COVID-19 pandemic, public debt was put back on a downward path in FY2021/22 after a temporary increase in FY2020/21. Initial program objectives have broadly been achieved despite the ongoing impact of the pandemic and the twin natural disasters of volcanic ashfall from neighboring St. Vincent in April 2021 and category 1 hurricane Elsa in July 2021. The authorities have implemented key structural reforms including the introduction of the new Central Bank of Barbados (CBB) law. Since the IMF Executive Board approved a four-year Extended Arrangement under the Extended Fund Facility (EFF) on October 1, 2018, six reviews have been successfully completed in a timely manner.

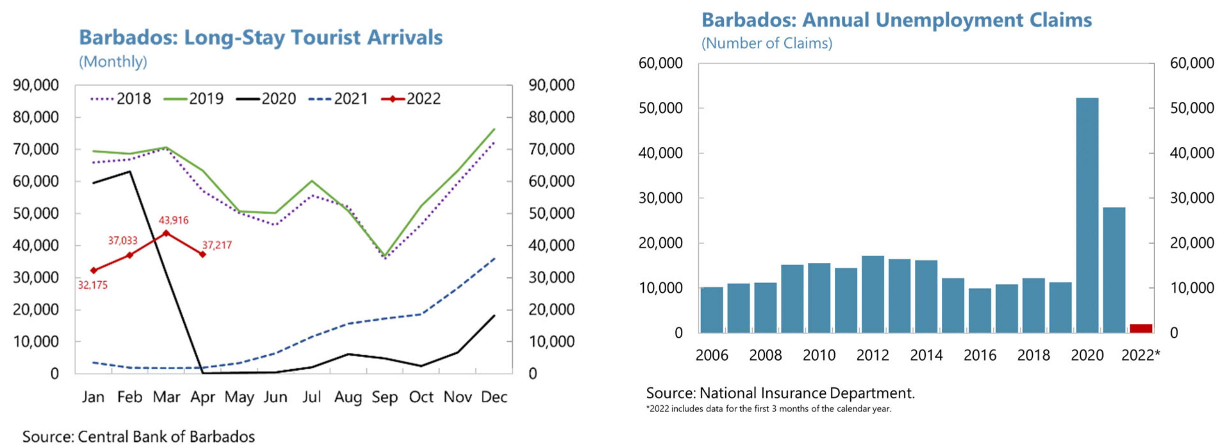
2. Barbados continues to confront economic challenges owing to the global pandemic and the war in Ukraine, but a nascent recovery is underway. After the economy contracted by 14 percent in 2020 due to a collapse of tourism, there was a gradual recovery of tourist arrivals in 2021, leading to economic growth of 0.7 percent. Labor market conditions have been also improving with the latest unemployment rate at 10.9 percent as of end-2021. The impact of the war in Ukraine on economic activity is expected to be relatively small, with growth in the three key source markets for tourism—the US, the UK, and Canada—expected to be robust. COVID-19 cases in Barbados have dropped sharply from the Omicron surge in early 2022. Despite a recent modest uptick in cases, the easing of pandemic restrictions at the start of 2022 and the resumption of in-person schooling and major tourism festivals are expected to support economic activity in 2022. The tourism sector continues to recover with stay-over arrivals at roughly 55 percent of pre-pandemic norms to date this year.

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



Source: Government Information Service.

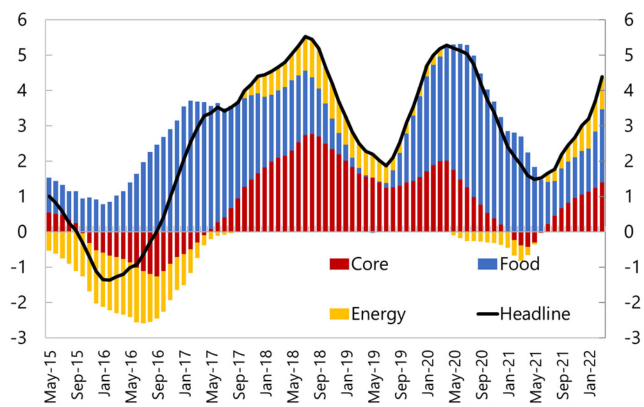
Barbados: Tourist Arrivals and Unemployment Claims



3. Inflation has been rising since the second half of 2021 owing to increasing global food and oil prices, recently exacerbated by the war in Ukraine. Barbados imports the bulk of its food and energy needs, and higher global commodity prices due to supply chain disruptions during the COVID-19 pandemic, followed by the Russian invasion of Ukraine, have been pushing up inflation. Elevated US inflation leads to higher inflation in Barbados given the exchange rate peg and dependence on imports from the US. Annual average inflation is projected at 7 percent for 2022 and expected to revert to just over 2 percent in the medium term as geopolitical tensions and supply chain disruptions ease. In the longer term, it is important for Barbados to accelerate investment into renewable energy projects to reduce reliance on fuel imports.

Barbados: Contributions to Headline Average Inflation

(Percent, NSA)



Source: Fund staff calculations.

4. The authorities met the primary balance target for FY2021/22. To accommodate ongoing spending needs associated with natural disaster shocks and the lingering pandemic impacts, the primary balance target for FY2021/22 was reduced to a 1 percent of GDP deficit at the sixth EFF review. Some taxes such as PIT and VAT performed better in FY2021/22 than in FY2020/21 due to a modest economic recovery, but these gains were tempered by lower corporate tax receipts from the international business sector. Ashfall clean-up after the volcanic eruptions and home building following Hurricane Elsa amounted to 0.5 percent of GDP, while COVID-related expenditures remained elevated at around 2 percent of GDP due to extra staffing as well as additional testing and vaccination centers after the arrivals of delta and omicron variants.

5. Barbados continued to accumulate reserves in 2021, supported by IFI loans and the SDR allocation. Reserves climbed to US$1.5 billion at end-2021, covering around 9 months of imports. While the current account deficit increased to 11 percent of GDP in 2021 owing to a sluggish recovery in the tourism and an increase in imports due to a recovery in demand and higher oil prices, this was more than offset by continued IFIs loans and FDI inflows to the tourism sector. The IDB is planning to approve US$100 million in budget support in the fourth quarter of 2022.

6. The authorities are considering using the SDR allocation for budget support, but a final decision has not been taken yet. While the August 2021 SDR allocation is currently held at the CBB, the authorities are considering channeling this to the government in line with the recently revised CBB law[1]. Staff would in principle support this plan, given that SDRs are the cheapest form of financing currently available to Barbados while there is still limited demand for government's debt in the domestic financial market.

B. Outlook and Risks

7. Barbados' economy is expected to gradually recover over the medium term. Growth is projected at 11 percent for 2022, supported by a recovery in tourism. Tourist arrivals are expected to recover to about 60 percent of pre-pandemic levels in 2022 and return to pre-pandemic levels in 2024. Structural reforms and strategic public investment are expected to return growth to its medium-term average of about 2 percent**.**

8. Risks to the outlook remain high and tilted to the downside. The key risk to Barbados is a further lengthening of the pandemic, with the recovery in the tourism sector depending on developments in key source markets (the US, the UK and Canada). An intensification of the war in Ukraine could further increase global commodity prices and add to inflationary pressures in Barbados. With the Barbados dollar pegged to the US dollar, further US dollar appreciation owing to tighter US monetary policy could dent Barbados' tourism competitiveness. Barbados' limited integration into global financial markets implies that risks stemming from an increase in global risk aversion are limited. Repeated natural disasters, aggravated by climate change, could also have a dampening impact on economic activity.

POLICY ISSUES

A. Fiscal Policy in FY2022/23 and Beyond

9. For FY2022/23, the primary surplus is projected at 1 percent of GDP, up from minus 1 percent of GDP in both FY2020/21 and FY2021/22. The planned fiscal stance is more accommodative than envisaged at the sixth review (a 3 percent of GDP primary surplus was projected at that time). Staff considers the planned fiscal stance to strike a broadly appropriate

[1] The revised CBB law allows for CBB financing up to 3 percent of GDP with a maximum 5-year maturity under a public emergency like the COVID-19 pandemic.

balance between the need to accelerate the reduction in public debt and continue to support the economy as the recovery from the pandemic is still far from complete and the energy price surge has created new social demands. Revenue projections are premised on a gradual recovery in tourism, while the expenditure envelope includes continued COVID-related health spending and funds for housing for low-income households in the aftermath of Hurricane Elsa.

10. New tax measures have been introduced for FY2022/23. The authorities have capped VAT on oil products (gasoline and diesel), consistent with a WTI crude oil price of US$85 per barrel, for an initial 6-month period starting in March 2022, for final consumers and producers when used as intermediate consumption; forgone revenue is projected at about 0.3 percent of GDP. In the view of the staff, this measure is not well targeted to mitigate the impact of high oil prices on low-income households and highlights the need for developing well-functioning social safety nets to better provide targeted support to the truly vulnerable. To provide a temporary revenue boost, the authorities applied a one-off pandemic levy of 15 percent to the past two-year income (2020 and 2021) of companies operating in the banking, insurance, and telecommunication sectors; this measure is expected to raise about 1 percent of GDP in FY2022/23. In the view of the staff, this retroactive application of a solidarity levy targeting specific sectors poses risks to the investment climate. Further, a 1 percent levy on income was charged on high-income individuals for 12 months, starting in April 2022; this is expected to raise B$15 million, or about 0.2 percent of GDP in FY2022/23. In discussion with the staff, the private sector indicated that this retroactive application of income taxes could create significant uncertainty over companies' income projections and business plans and be detrimental to investment plans.

Barbados: FY2022/23 Central Government Operations /1

(In percent of FY GDP)

	Program	Proj.	Difference
Total revenue	**29.1**	**29.6**	**0.5**
Tax revenue	27.2	28.0	0.8
Nontax revenue	1.9	1.6	-0.3
Total primary expenditure	**26.1**	**28.6**	**2.5**
Current primary expenditure	23.6	24.8	1.3
Capital expenditure and net lending	2.5	3.8	1.3
CG Fiscal balance	**-1.7**	**-3.2**	**-1.5**
CG Primary balance	**3.0**	**1.0**	**-2.0**
Nominal GDP, FY (BDS$ millions)	**10,606**	**11,761**	**-**

Sources: Ministry of Finance; and Fund staff estimates.

1/ Fiscal year is from April to March.

11. Primary surpluses are expected to gradually revert to 6 percent of GDP in FY2025/26. As the pandemic wanes and the global economic outlook normalizes, the primary surplus is expected to revert to its FY2019/20 level, the first year under the program. Given increased uncertainty over the Omicron variant and the war in Ukraine, and continued reconstruction investment needs following hurricane Elsa, the year targeted to reach a primary surplus of 6 percent of GDP has been pushed back by one year compared to the sixth review. The projected medium-term improvement in the fiscal position is supported by a cyclical recovery in revenues, phasing out of COVID-related expenditures and VAT caps on oil products, and the steady implementation of remaining structural reforms agenda, which includes enhancing the financial viability of SOEs, legislation of pension reforms, and the introduction of a numerical fiscal rule. In her March 2022 Budget address, the Prime Minister expressed strong commitment to fiscal targets and reforms, and her resounding electoral victory in January 2022 provides the government with a strong political mandate. Continued efforts to improve the efficiency of the tax system and public spending could support fiscal and growth objectives over the medium term, including to meet investment needs for climate adaptation. These include (i) broadening the revenue base by enhancing the efficiency of land taxes, (ii) reforming the VAT regime in the real estate and tourism sectors, (iii) further rationalizing expenditures, and/or (iv) curtailing inefficient current expenditure. Should revenue targets underperform, the authorities could accelerate some of these measures.

12. Debt continues to be assessed as sustainable but subject to high risks (see Annex III). The Debt Sustainability Analysis (DSA) suggests the debt target of 60 percent of GDP can be achieved by FY2035/36 as previously envisaged, premised on consistently meeting the high primary surplus target[2]. The main risks include a slower-than-expected economic recovery as well as a delay in economic and fiscal reforms to generate primary surpluses. These risks are mitigated by Barbados' strong track record under the EFF-supported program, the authorities' strong commitment to long-term fiscal adjustment, and the favorable debt service terms after the comprehensive debt restructuring. Market perception of country risk has improved after ticking up in April 2020 with the spread of external debt to bondholders now well below 500 bps (text chart).

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

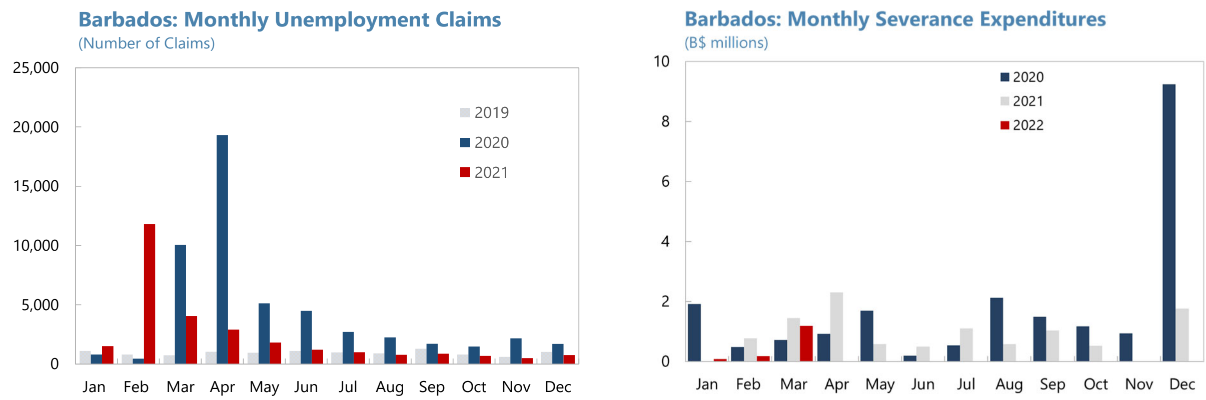
Sources: Central Bank of Barbados, Bloomberg and Fund staff calculations.

13. The surge in unemployment benefit outlays that strained NIS finances at the height of the pandemic have receded. The nearly five-fold increase in unemployment insurance claims in 2020 totaling about 2 percent of GDP in FY2020/21 have receded back to pre-pandemic levels. The Unemployment Benefit Fund recapitalization program—which envisions an infusion of B$143 million (1½ percent of GDP) over the period FY2021/22-FY2023/24—is underway. Along with the anticipated recovery of contributions, financing pressures from unemployment and severance outlays are not anticipated in the near term. The NIS, however, is actively engaged in cash management operations to meet National Insurance Fund (Pension Fund) obligations, highlighting an urgent need for the authorities to articulate a NIF recapitalization plan. Progress in this area has lagged due to pandemic-related disruptions, which delayed the completion of the NIS' 17th Actuarial

[2] The BRA has been vetting and looking into old tax refund arrears found in the legacy IT systems, mainly on VAT. The preliminary results indicate that there are government arrears totaling around 2 percent of GDP, while taxpayer arrears to the government of more than 15 percent of GDP are still under scrutiny. Once these arrears are formally recognized as legitimate claims on the government, they will be reflected as arrears and debt stock in the macroeconomic framework. These arrears do not inform the IT on central government arrears.

Review and impeded broader consultations on Civil Service Pension reform. The authorities indicated that reforms to safeguard the sustainability of the NIF will be considered alongside the public service pension reform program now underway as part of a broad-based pension reform initiative.

Barbados: NIS Unemployment and Severance Outlays



Source: National Insurance Department.

Source: National Insurance Department

B. Monetary and Financial Sector Policies

14. Credit to the private sector continues to contract, with liquidity in the banking sector increasing. Commercial bank outstanding loans to the nonfinancial private sector continued to trend down by 2.7 percent in 2021 (yoy). Banks see limited bankable projects (except for renewable energy projects), which has buoyed liquidity in the system and pushed down the loan-to-deposit ratio. Liquidity in the FX market appears adequate.

15. Commercial banks' financial position remains broadly stable. As of end 2021, system-wide CAR was at 16.8 percent (twice the minimum regulatory requirement), liquid assets to total assets at 28.4 percent, and bank excess cash reserves at about 25.6 percent. The system's NPL ratio stood at 7.4 percent with provision coverage of about 60 percent. By contrast, credit unions have seen an increase in their NPLs and resultant provisioning has reduced profitability. The CBB has compiled and disseminated for the first-time quarterly core Financial Soundness Indicators at the IMF's website in March 2022 (end-March 2022 structural benchmark) to enhance data transparency, cross-country comparability and the CBB's monitoring capacity for banks.

16. The Central Bank of Barbados (CBB) has maintained credit support measures introduced during the pandemic.[3] It has also extended its temporary regulatory guidance on loan classification through October 2022, as banks are still providing debt service relief on a voluntary

[3] Measures include reductions of both CBB's overnight lending discount rate from 7 to 2 percent and of the minimum statutory holding requirement for government securities from 17½ to 5 percent of deposits. The securities reserve requirement was discontinued under the new Central Bank of Barbados Act adopted in December 2020.

and commercial basis.[4] Given uncertainty over the tourism recovery and the limited size of the measures, staff views them as appropriate. Going forward, the authorities intend to initiate the unwinding of the support measures after a careful evaluation of economic and financial developments; closely monitor the performance of moratoria and reprofiled loans backed by a proper assessment on expected credit losses and provisioning; and, if warranted, enhance their recovery plans.

17. With inflationary pressures building, space for monetary policy tightening under the fixed exchange regime can be strengthened. The CBB has few instruments at its disposal to tighten monetary conditions under the peg in response to the surge in inflation given weak monetary transmission and structural excess liquidity. That said, if inflationary pressures continue to build, the authorities should consider options to tighten monetary policy while making efforts to reduce excess liquidity. Staff encouraged the authorities to consider MCM technical assistance to develop monetary policy instruments, strengthen the transmission mechanism, and eventually revisit capital controls.

18. Climate change constitutes risks to the stability of Barbados' financial system and building risk assessment capacity will be a first step to enhance financial sector resilience. Banks in Barbados are exposed to climate change sensitive sectors. The CBB is considering to become a member of the Network for Greening the Financial System and to develop capacity to monitor climate change risks in line with best practices. Meanwhile, the Financial Services Commission is conducting a stress-testing exercise for insurance corporations to climate change effects.

19. While progress has been observed, more work is needed to remove Barbados from the Financial Action Task Force (FATF) list of jurisdictions under increased monitoring. Barbados has made good progress in addressing key items on the FATF Action Plan including improving its understanding of the risks posed by legal persons and arrangements, and revising its legislative framework. However, significant work is still needed in the areas of risk-based supervision of designated non-financial businesses and professions; establishing effective mechanisms to ensure that beneficial ownership information is accurate and up to date, with appropriate sanctions applied for breaches and ensuring that competent authorities have timely access to such information. In addition, the Financial Intelligence Unit should continue to engage with law enforcement to increase the use of financial intelligence. Finally, the authorities should intensify their confiscation efforts, while the reduction of the backlog of money laundering cases should be accelerated.

C. Enhancing Growth and Resilience to Climate Change

20. Structural reforms and investments to unlock Barbados' growth potential should be further accelerated. Barbados has been steadily improving its business climate—including by

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[4] The guidance includes allowing banks not to classify moratoria loans as nonperforming (currently 1 percent of the outstanding bank credit to the nonfinancial private sector), provided loans were previously in good standing and borrowers were impacted by the pandemic.

easing trading across borders; introducing a more reliable payment and digital identity system; and enhancing financial access for small businesses. To facilitate the use of green energy, the government has further reduced import duties and excise taxes on electric vehicles and removed application requirements for residential homeowners to install solar photovoltaic (PV) panels on their roofs. Continued reforms that would further facilitate digitalization, promote financial accessibility for SMEs, increase flexibility of labour and product markets, and green the economy will be essential to spur economic growth, investment, and competitiveness of the economy.

21. Investment to build more climate resilient infrastructure should be stepped up. Barbados has already taken steps to increase structural resilience to climate change (e.g., enhancing drainage and water systems across the island has been improving water security). However, investments further fostering climate resilient infrastructure, including physical flood defenses (e.g., seawalls), the conservation and restoration of environmental barriers, breakwater retrofitting or climate proofing, should be accelerated. Continued engagement with regional integration initiatives (such as the Caribbean Catastrophe Risk Insurance Facility) will be key to mitigating Barbados' financial risks to intensifying natural disasters.

22. Higher fuel import bills and inflation following the Russian invasion of Ukraine highlight the need to expeditiously transition to renewable energy. Barbados took steps to transition to renewables by establishing a licensing system for Independent Power Producers (IPP) renewable energy projects accompanied by a guidance note on the licensing and approval process for investors (end-March 2022 structural benchmark). Now that the licensing process is clarified, it is important for Barbados to expeditiously implement the process as envisaged and accelerate private sector investments into renewable energy projects. These efforts would support Barbados meet the goal of full transition to renewables by 2030 and also enhance growth potential and create job opportunities.

DATA ISSUES

23. Data shortcomings are being addressed. The recent Fund TA supported by Canada and CARTAC helped the Barbados Statistical Service (BSS) compile constant 2016 price estimates of GDP (rebased from 2010) and update quarterly estimates of activity-based GDP. STA will continue to support the BSS with improved estimates of expenditure-based GDP and a Tourism and Culture Satellite Account. In March 2021, Barbados implemented IMF's Enhanced General Data Dissemination Standard (e-GDDS) with the launch of a National Summary Data Page.

PROGRAM ISSUES

24. This is the final review under the 4-year EFF program, and all quantitative targets relevant for the 7th review have been met. The authorities met all end-December 2021 indicative targets as well as QPCs and ITs set for end-March 2022 (Table 2 of Attachment I).

25. The authorities have requested the full purchase of SDR 17 million for the seventh review be made available in the form of budget support to address financing needs. Staff supports the authorities' request for the use of Fund resources for budget support (as was done in past reviews), given limited alternative financing sources available at present (in part due to the relatively recent comprehensive debt restructuring). With the proposed IMF disbursement along with financial support from other IFIs, the program is fully financed.

26. The authorities have continued to advance the structural reform agenda (Table 1 of Attachment I). The end-December 2021 structural benchmarks (SBs) to adopt regulations for a procedural fiscal rule and strengthen trade facilities and risk management by BCED were met. Under this procedural fiscal rule, the government is committed to (i) annually prepare a monitorable fiscal strategy/framework over the medium term; (ii) regularly publish outcomes against this strategy; and (iii) take remedial action when required. Similarly, the SB for the CBB to prepare quarterly core FSI indicators and two SBs to improve the business environment for renewable energy projects were implemented on schedule by March 2022. The remaining end-March 2022 SBs set for the seventh review, including the tabling of a revised public pension law and the submission of all outstanding financial statements for audit by the Auditor General, are behind schedule due to difficulty of conducting public consultation and resource constraints during the pandemic. On public pension reform, the authorities have initiated the consensus building exercise in the context the recent FY2022/23 budget presentation, laying out key pillars of the forthcoming reforms.

27. Further structural reforms lie ahead. Public pension reform and a further transformation of the SOE sector figured prominently in the recent budget address; on pension reform, a public consultation process is currently underway. The authorities are aiming to table the revised pension law in 2022. They plan to submit all outstanding financial statements for the Auditor General's audit by end-2023. Further, the authorities intend to deepen SOE reform by consolidating the responsibilities of entities engaged in agricultural, housing and development, and transportation services respectively, over a two-year window. These reforms alongside the strengthened governance, and the application of enhanced reporting and risk monitoring mechanisms to promote greater efficiencies are projected to further reduce transfers over the medium term. Finally, the authorities agreed on the need to persevere with efforts to enhance PFM systems and implementation capacity—including to support the eventual adoption of a numerical fiscal rule. Currently, two PFM missions on (i) assessing comprehensive fiscal risks and (ii) the restructuring of the Ministry of Finance and Economic Affairs to improve internal audit, procurement, and accounting systems are envisaged, and the staff stands ready to provide additional support as needs arise.

28. Barbados' capacity to repay the Fund is adequate (Table 10). Debt service to the IMF is projected to remain low at around 2 percent of exports and 1 percent of GDP throughout the projection period, while gross reserves are projected to remain above 100 percent of ARA. The authorities' commitment to the program and their solid repayment history following the two previous Fund programs also provide reassurance.

29. The CBB has implemented all but one recommendation of the 2018 safeguards assessment. The outstanding measure for the internal audit to undergo an external quality assessment is at an advanced stage. The adoption of a new CBB law in December 2020 significantly strengthened provisions on central bank autonomy, accountability and governance. Transparency practices have been maintained with timely publication of annual audited financial statements. In addition, the CBB has strengthened its internal audit and risk management practices in line with safeguards recommendations, and also secured an agreement with the government for a two-stage gradual recapitalization to restore its financial autonomy.

STAFF APPRAISAL

30. The Barbadian authorities have been making good progress in implementing the comprehensive Economic Recovery and Transformation (BERT) plan. All quantitative performance criteria (QPCs), including the continuous QPC on external arrears, and indicative targets (ITs) set for the seventh review were successfully met as were all structural benchmarks with two exceptions partly due to limited opportunities to conduct needed public consultation.

31. While the temporary fiscal relaxation during the pandemic was appropriate, it needs to be compensated going forward. A primary deficit of one percent of GDP for two consecutive years was critical to accommodate the impact of the pandemic and unexpected spending needs to address the twin natural disasters. Starting in FY2022/23, a steady improvement in the primary balance is needed to preserve debt sustainability. With the debt anchor target of 60 percent of GDP pushed out by two years to FY2035/36, the authorities should be able to achieve the target through ambitious primary surpluses in the long term. Staff's assessment is that Barbados' public debt remains sustainable but subject to high risks.

32. Continued implementation of the structural reform agenda is essential for achieving and sustaining higher primary surpluses over the medium term. The authorities have made steady progress with their economic reform agenda, including with the introduction of a revised central bank law, SOE reforms, an actuarial review of the civil service pension system, the adoption of a procedural fiscal rule, and passage of a new procurement law. While legislating a revised public pension law has lagged, the process is now underway. The tabling of this legislation and operationalization of the NIF recapitalization plan should be completed as a matter of priority.

33. The authorities should accelerate SOE reforms once the pandemic wanes. The planned deepening of SOE reform announced during the budget address is a welcome step forward but addressing the pervasive inefficiencies within the SOE sector is a process that will require a sustained and evolving reform effort. To contain government expenditures and secure needed fiscal space for investment including into transformation towards a greener economy, transfers to SOEs need to resume declining by a combination of: (i) phasing out of COVID-related additional transfers; (ii) stronger oversight of SOEs, supported by improved reporting and analysis including through the newly introduced SOE dashboard; (iii) adjustments to SOE cost structures and revenue frameworks, including an increase in user fees; and (iv) mergers and divestment.

34. Structural reforms are needed to unlock Barbados' growth potential. While meaningful structural measures to help improve the business climate have been implemented so far under the BERT, the process was disrupted due to the pandemic shock. More remains to be done to further boost potential growth and attract private investment, including in the areas of digitalization, regulatory framework, and access to private credit. Priorities in this context include completing the digitization of government services and modernization of the customs framework, supplemented by reforms to streamline bureaucratic processes and enhance flexibility in labour and product markets.

35. A resilient, green, and inclusive recovery will require accelerating structural reforms. While in the past Barbados has been less affected by natural disasters than other Caribbean countries, it has become more vulnerable to climate change risks in recent years. Improving resilience to natural disasters and climate change as well as facilitating a transition to renewable energy will be critically important, also in terms of reducing fossil fuel dependency. While Barbados has taken steps to enhance the business environment for IPP renewable energy projects including by establishing and clarifying the licensing and approval process, the transition to a greener economy should be accelerated. In this vein, restoring fiscal space for climate investment through steady structural reforms would be also key to catalyzing private sector resources and thereby meeting large financing needs for investment.

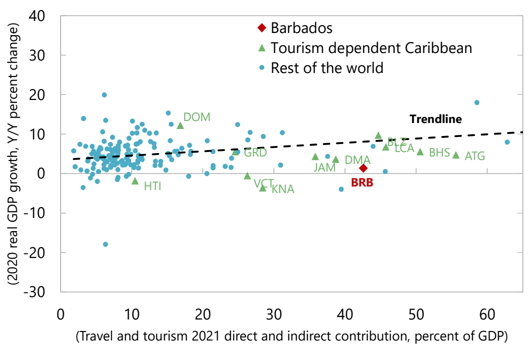
36. Risks to the program remain elevated. While economic activity has started to recover, there is large uncertainty surrounding economic projections. Risks include: (i) a more prolonged negative impact of the global coronavirus pandemic for example due to the emergence of more infectious variants; (ii) slower than expected normalization from the pandemic in source countries for the tourism sector (UK, US, and Canada); (iii) continued inflation pressures created by the disruptions in the global supply chain and the prolonged war in Ukraine; and (iv) more frequent and intensified natural disasters. Implementing the ambitious structural reform agenda to achieve and maintain large primary surpluses could also be challenging. Mitigating factors include the authorities' excellent track record under the program, their strong commitment to the reform process, strong support from IFIs, and broad public support for economic stabilization and the reform process.

37. With continued strong program implementation, staff recommends completion of the seventh review of the extended arrangement under the Extended Fund Facility. Staff also recommends that Barbados be placed on the standard 12-month cycle for Article IV Consultations (Decision No. 14747 – (10/96)). The authorities have expressed interest in a follow-up program but have not made a decision yet. In the absence of a successor arrangement within six months, Barbados will be subject to a Post Financing Assessment (PFA) as its outstanding credit to the Fund exceeds the 200 percent of quota threshold.

Figure 1. Barbados: Real Sector Developments

Due to Barbados' heavy reliance on tourism…

Tourism Dependency and GDP Growth

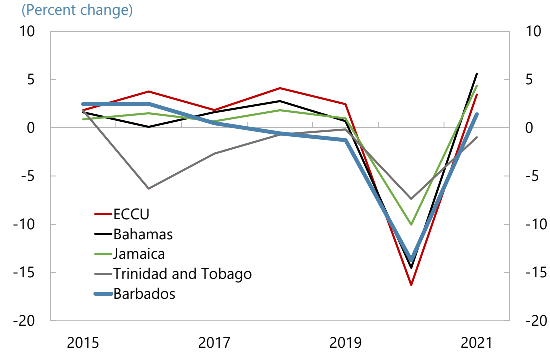


Sources: World Travel and Tourism Council and Fund staff calculations.

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

Real GDP Growth

(Percent change)

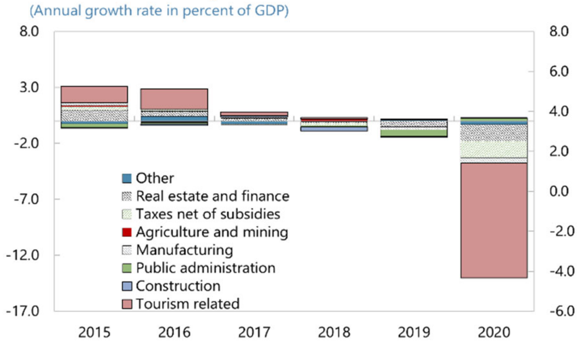


Sources: IMF World Economic Outlook and Fund staff calculations.

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

Real GDP Growth by Sectors

(Annual growth rate in percent of GDP)

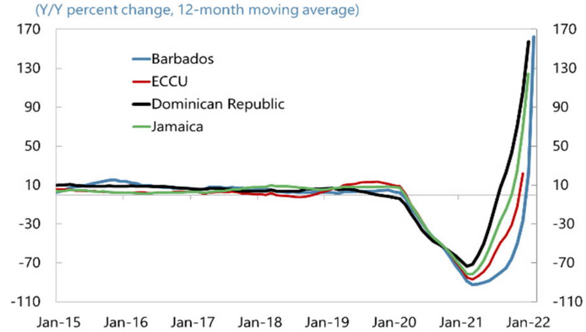


Sources: Central Bank of Barbados and Fund staff calculations.

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

Tourist Arrivals

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

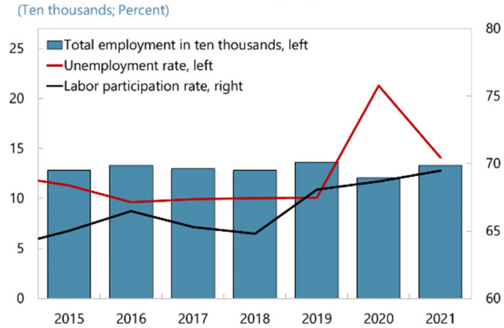


Sources: Caribbean Tourism Organization and Fund staff calculations.

… and labor market conditions have improved.

Labor Participation and Unemployment

(Ten thousands; Percent)

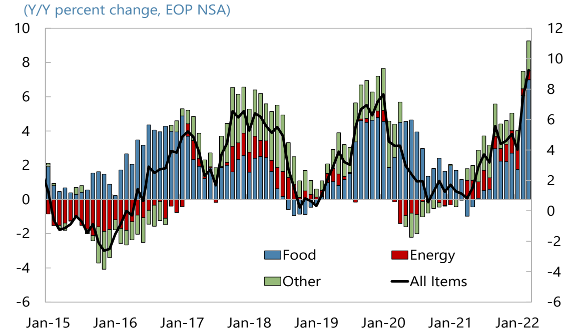


Sources: Central Bank of Barbados and Fund staff calculations.

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

Contribution to Inflation

(Y/Y percent change, EOP NSA)

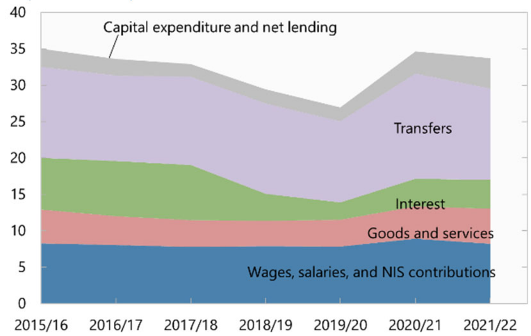


Sources: Central Bank of Barbados and Fund staff calculations.

Figure 2. Barbados: Fiscal Sector Developments

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

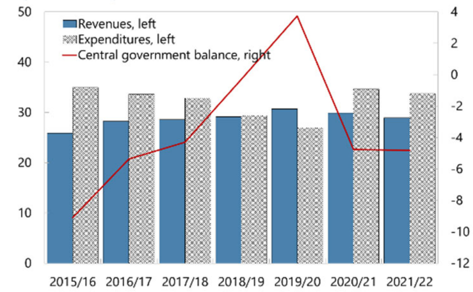
General Government Expenditures
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

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

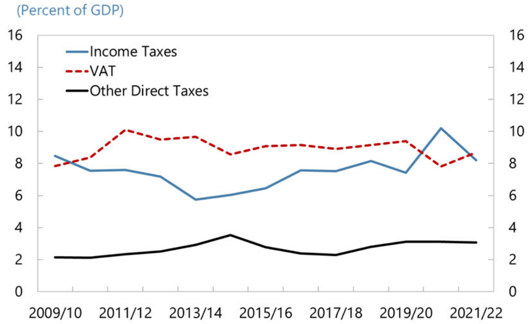
Central Government Balance
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

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

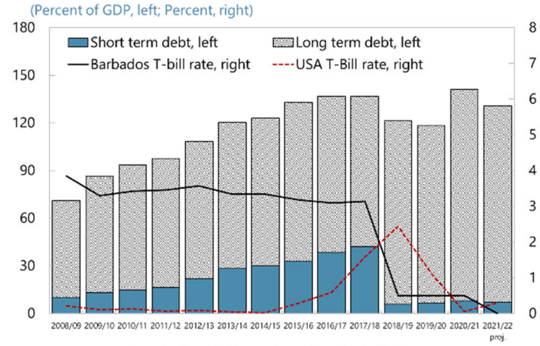
Tax Revenue Composition
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

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

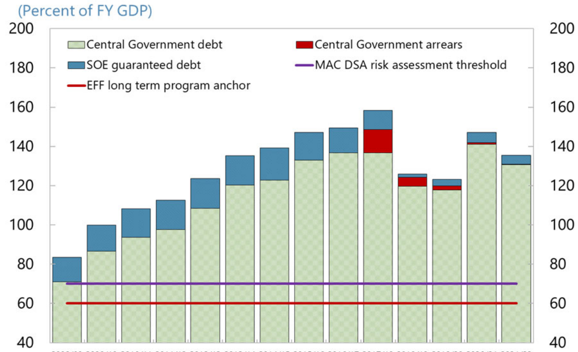
Government Financing
(Percent of GDP, left; Percent, right)



Sources: Central Bank of Barbados and Fund staff calculations.

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

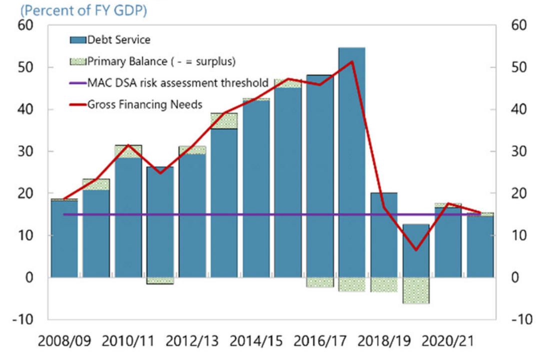
Public Debt
(Percent of FY GDP)



Sources: Ministry of Finance and Fund staff calculations.

… as have debt service costs and gross financing needs.

Gross Financing Needs
(Percent of FY GDP)

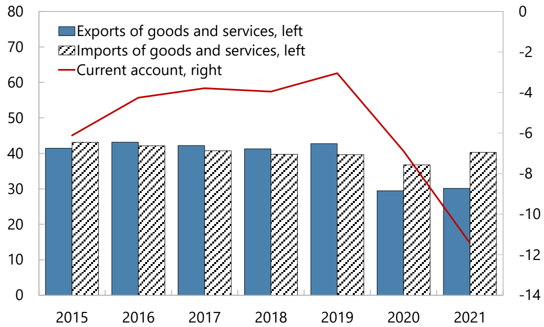


Sources: Ministry of Finance and Fund staff calculations.

Figure 3. Barbados: External Sector Developments

The current account deficit increased to 11.5 percent of GDP due to a slow recovery in the tourism sector…

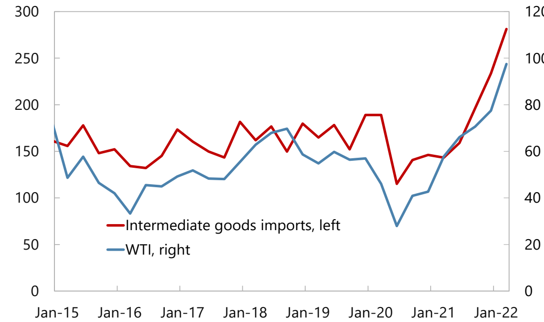
Trade
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

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

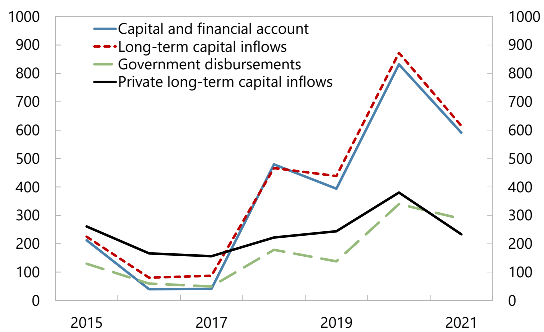
WTI Oil Price and Services Imports
(Millions USD, left; US$ per barrel, right)



Sources: Central Bank of Barbados and Fund staff calculations.

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

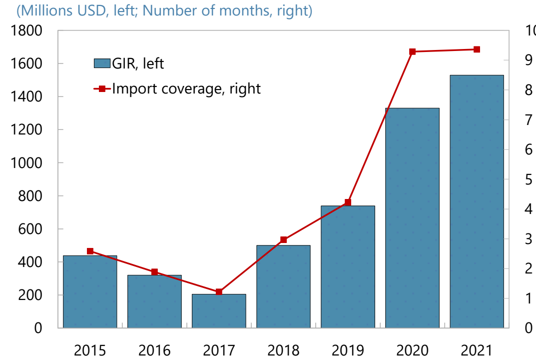
Capital and Financial Account
(Millions USD)



Sources: Central Bank of Barbados and Fund staff calculations.

…contributing to a continued accumulation of international reserves.

Gross International Reserves
(Millions USD, left; Number of months, right)

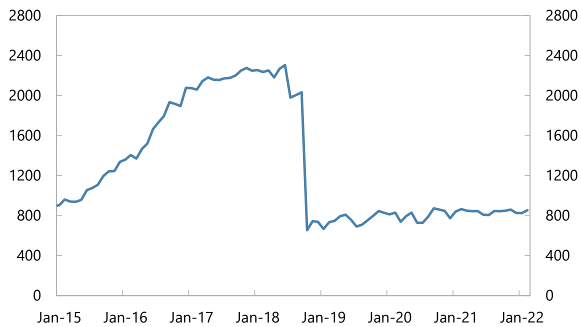


Sources: Central Bank of Barbados and Fund staff calculations.

Figure 4. Barbados: Monetary Sector Developments

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

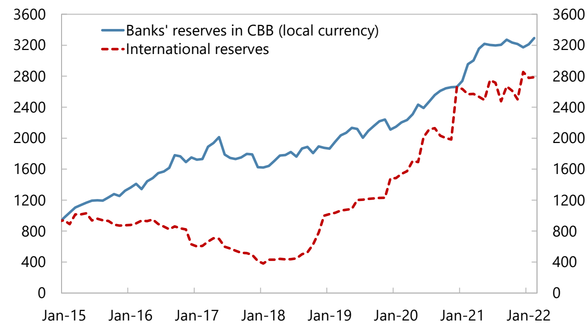
Central Bank's Claims on Central Government
(Millions BBD)



Sources: Central Bank of Barbados and Fund staff calculations.

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

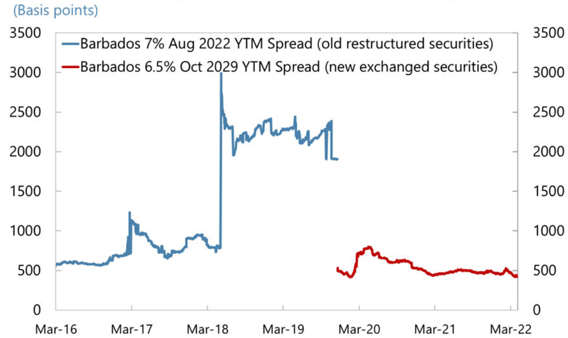
Reserves
(Millions BBD)



Sources: Central Bank of Barbados and Fund staff calculations.

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

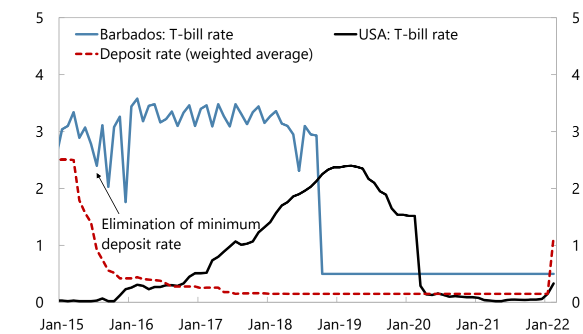
Barbados: Bond Spread (Barbados over U.S. 10-year bonds)
(Basis points)



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

The T-bill rate declined after the debt restructuring, while the deposit rate remained very low with a recent uptick.

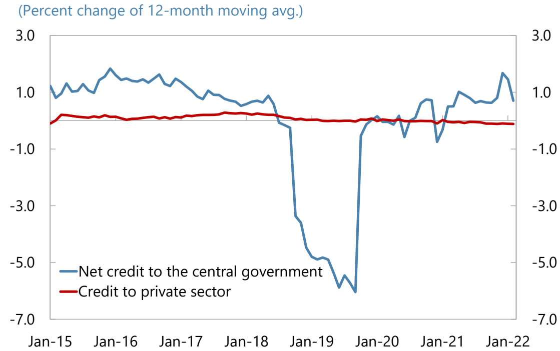
Interest Rates
(Percent)



Sources: Central Bank of Barbados and Fund staff calculations.

Private sector credit growth has remained weak…

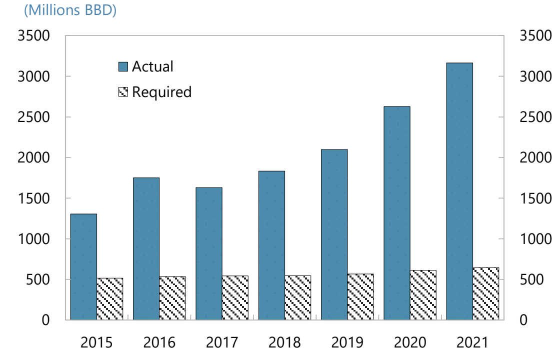
Private Sector Credit
(Percent change of 12-month moving avg.)



Sources: Central Bank of Barbados and Fund staff calculations.

…with excess liquidity parked at the CBB.

Commercial Banks: Reserves
(Millions BBD)



Sources: Central Bank of Barbados and Fund staff calculations.

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

I. Social and Demographic Indicators (most recent year)

Population (2021 est., thousand)	288.6	Adult literacy rate (2014)	99.6
Per capita GDP (2021 est., US$ thousand)	16.8	Poverty rate (individual, 2010)	19.3
Life expectancy at birth in years (2019)	79.2	Gini coefficient (2010)	47.0
Rank in UNDP Development Index (2019)	58	Unemployment rate (2020 est.)	21.3

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

II. Economic Indicators

			Est.	Projections	
	2019	2020	2021	2022	2023
			(Annual percentage change)		
Output, prices, and employment					
CY Real GDP	-1.3	-13.7	0.7	11.1	5.0
CPI inflation (average)	4.1	2.9	3.0	7.1	5.0
CPI inflation (end of period)	7.2	1.3	5.0	5.2	4.7
External sector					
Exports of goods and services	7.9	-39.2	6.6	33.2	11.7
Imports of goods and services	3.9	-18.1	14.0	18.2	5.1
Real effective exchange rate (average)	127.6	...	...	...	
Money and credit					
Net domestic assets	0.0	5.0	3.1	2.3	2.1
Of which: Private sector credit	1.0	-1.2	-1.2	2.0	2.3
Broad money	3.0	7.3	5.6	5.6	0.0
			(In percent of FY GDP)		
CG Public finances (fiscal year) 1/					
Revenue and grants	30.7	29.9	28.9	29.6	29.1
Expenditure	26.9	34.7	33.7	32.9	30.0
Fiscal Balance	3.7	-4.8	-4.8	-3.2	-0.9
Interest Expenditure	2.4	3.8	3.9	4.2	4.4
Primary Balance	6.2	-1.0	-0.9	1.0	3.5
Public Debt (fiscal year) 1/					
Central gov't gross debt /2	123.2	147.0	135.4	119.9	112.8
External	33.5	48.8	48.7	44.5	42.9
Domestic	89.7	98.2	86.7	75.4	69.9
Balance of payments (calendar year)			(In percent of CY GDP)		
Current account balance	-3.1	-6.9	-11.5	-10.4	-8.8
Capital and financial account balance	7.4	17.8	12.2	8.1	6.7
Public Sector	3.7	10.5	7.9	2.5	1.2
o/w IMF disbursement	1.9	4.9	1.0	0.4	0.0
Private Sector	3.8	7.3	4.4	5.7	5.5
o/w FDI	4.6	8.1	4.8	5.7	5.5
Net Errors and Omissions	0.2	1.8	2.9	0.0	0.0
Overall balance	4.5	12.6	3.6	-2.3	-2.1
Memorandum items:					
Exchange rate (BDS$/US$)	2.0	...	...	...	...
Gross international reserves (US$ million)	738.9	1,330.3	1,529.4	1,400.9	1,273.4
In months of imports of G&S	4.2	9.3	9.4	7.3	6.3
In percent of ARA	141.9	260.0	289.7	235.8	206.3
Nominal GDP, CY (BDS$ millions)	10,596	9,354	9,702	11,395	12,220
Nominal GDP, FY (BDS$ millions)	10,285	9,037	10,173	11,761	12,550

Sources: Barbados authorities; UNDP Human Development Report; Barbados Country Assessment of Living Conditions 2010 (December 2012); and Fund staff estimates and projections.
1/ Fiscal year is from April to March.
2/ Including guaranteed debt, arrears and IMF EFF loan.

Table 2a. Barbados: Central Government Operations, 2019/2020–2027/2028
(In millions of Barbados dollars) 1/

			Program	Est.	Program	Proj.	Program	Projections				
	2019/20	2020/21	2021/22	2021/22	2022/23	2022/23	2023/24	2023/24	2024/25	2025/26	2026/27	2027/28
Total revenue	**3,156**	**2,702**	**2,820**	**2,942**	**3,121**	**3,485**	**3,355**	**3,652**	**3,886**	**4,086**	**4,265**	**4,429**
Current revenue	3,144	2,702	2,818	2,936	3,118	3,479	3,353	3,644	3,878	4,078	4,256	4,420
Tax revenue	2,943	2,527	2,617	2,764	2,915	3,293	3,138	3,435	3,638	3,827	3,995	4,149
Income and profits	764	921	757	835	800	1,006	854	941	1,004	1,050	1,094	1,136
Taxes on property	215	182	193	205	213	239	224	255	268	280	298	309
VAT	967	706	846	885	941	1,043	1,002	1,113	1,168	1,241	1,293	1,343
Excise	251	154	186	212	208	240	225	262	275	287	299	311
Import taxes	232	192	217	221	246	273	268	292	316	331	345	358
Other taxes	515	372	418	406	507	491	565	573	608	640	667	692
Nontax revenue	201	175	201	172	204	186	214	209	239	250	261	271
Capital revenue and grants	12	0	2	6	2	6	2	8	8	9	9	9
Total expenditure	**2,772**	**3,132**	**3,316**	**3,433**	**3,298**	**3,865**	**3,334**	**3,767**	**3,821**	**3,853**	**3,996**	**4,125**
Current expenditure	2,580	2,856	3,091	3,007	3,028	3,420	3,055	3,411	3,467	3,543	3,647	3,746
Wages, salaries and SSC	807	808	851	835	833	915	837	946	956	982	1,004	1,027
Goods and services	375	400	562	493	423	561	402	491	475	457	476	494
Interest	250	343	399	399	499	498	544	554	593	593	593	591
Transfers	1,147	1,305	1,279	1,281	1,273	1,446	1,272	1,419	1,443	1,511	1,574	1,634
o/w Subsidies	100	161	180	190	131	182	123	130	137	143	148	153
o/w Grants to public institutions	689	796	727	750	732	803	716	807	799	839	875	908
o/w Retirement benefits	358	348	372	340	410	461	432	482	506	529	552	573
Capital expenditure and net lending	192	276	225	425	270	445	279	356	353	310	349	379
CG Fiscal balance	**385**	**-430**	**-496**	**-491**	**-177**	**-380**	**21**	**-115**	**65**	**234**	**269**	**304**
CG Primary balance	**634**	**-87**	**-97**	**-92**	**322**	**118**	**565**	**439**	**659**	**826**	**861**	**895**
Repayment of domestic arrears	140	74	40	57	39	23	0	0	0	0	0	0
CG Fiscal balance (net of arrears)	**244**	**-503**	**-537**	**-548**	**-216**	**-403**	**21**	**-115**	**65**	**234**	**269**	**304**
CG Primary balance (net of arrears)	**494**	**-161**	**-138**	**-149**	**283**	**95**	**565**	**439**	**659**	**826**	**861**	**895**
Financing	**-385**	**430**	**496**	**491**	**177**	**380**	**-21**	**115**	**-65**	**-234**	**-269**	**-304**
Net Financing - External	109	846	479	540	160	286	66	159	48	-145	-252	-225
Capital Markets	0	0	0	0	0	0	0	0	0	100	100	135
Project Funds	72	82	142	207	100	235	100	200	200	200	180	180
Policy Loans	150	600	400	400	200	200	160	160	80	80	0	0
o/w IDB	0	400	200	200	200	200	160	160	80	80	0	0
o/w CDB	150	0	0	0	0	0	0	0	0	0	0	0
o/w CAF	0	200	0	0	0	0	0	0	0	0	0	0
o/w WB	0	0	200	200	0	0	0	0	0	0	0	0
IMF EFF budget support	0	352	97	97	49	47	0	0	0	0	0	0
Privatization 2/	0	0	0	0	0	0	0	0	0	0	0	0
Amortization	112	188	160	163	189	196	194	201	232	525	532	540
Net Financing - Central Gov. 5/	-353	-359	57	37	56	117	-88	-44	-113	-89	-17	
Central bank	165	-67	259	332	200	50	50	50	0	0	0	0
Commercial banks	-58	106	0	-25	0	0	0	0	0	0	0	0
National Insurance Scheme	-85	-208	0	15	0	0	0	0	0	0	0	0
Private non-bank 3/	-218	-56	-154	-47	-144	-123	-138	-94	-113	-89	-17	-79
Others/unidentified financing 6/	-157	-134	-48	-238	0	0	0	0	0	0	0	0
Memorandum items:												
CG gross debt 4/	12,674	13,287	13,831	13,773	13,808	14,098	13,711	14,153	14,053	13,755	13,415	13,039
Nominal GDP, FY (BDS$ millions)	10,285	9,037	9,733	10,173	10,725	11,761	11,298	12,550	13,172	13,774	14,356	14,909

Sources: Ministry of Finance; and Fund staff estimates and projections.
1/ Fiscal year is from April to March.
2/ Privatization proceeds.
3/ Insurance companies and other non bank private sector; BOSS program is also included here.
4/ Including: CG, CG guaranteed, arrears, and IMF EFF loan. From FY 2018/19, data includes both external and domestic debt restructuring; hence, it excludes debt directly serviced by SOEs no longer guaranteed by the CG.
5/ Net of domestic expenditure arrears repayment.
6/ Negative financing in FY2021/22 is associated with government's equity investment into crisis-affected companies in the tourism sector.

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

			Program	Est.	Program	Proj.	Program	Projections				
	2019/20	2020/21	2021/22	2021/22	2022/23	2022/23	2023/24	2023/24	2024/25	2025/26	2026/27	2027/28
Total revenue	**30.7**	**29.9**	**29.0**	**28.9**	**29.1**	**29.6**	**29.7**	**29.1**	**29.5**	**29.7**	**29.7**	**29.7**
Current revenue	30.6	29.9	29.0	28.9	29.1	29.6	29.7	29.0	29.4	29.6	29.6	29.6
Tax revenue	28.6	28.0	26.9	27.2	27.2	28.0	27.8	27.4	27.6	27.8	27.8	27.8
Income and profits	7.4	10.2	7.8	8.2	7.5	8.6	7.6	7.5	7.6	7.6	7.6	7.6
Taxes on property	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.1
VAT	9.4	7.8	8.7	8.7	8.8	8.9	8.9	8.9	8.9	9.0	9.0	9.0
Excise	2.4	1.7	1.9	2.1	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1
Import taxes	2.3	2.1	2.2	2.2	2.3	2.3	2.4	2.3	2.4	2.4	2.4	2.4
Other taxes	5.0	4.1	4.3	4.0	4.7	4.2	5.0	4.6	4.6	4.6	4.6	4.6
Nontax revenue	2.0	1.9	2.1	1.7	1.9	1.6	1.9	1.7	1.8	1.8	1.8	1.8
Capital revenue and grants	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Total expenditure	**26.9**	**34.7**	**34.1**	**33.7**	**30.7**	**32.9**	**29.5**	**30.0**	**29.0**	**28.0**	**27.8**	**27.7**
Current expenditure	25.1	31.6	31.8	29.6	28.2	29.1	27.0	27.2	26.3	25.7	25.4	25.1
Wages, salaries and SSC	7.8	8.9	8.7	8.2	7.8	7.8	7.4	7.5	7.3	7.1	7.0	6.9
Goods and services	3.7	4.4	5.8	4.8	3.9	4.8	3.6	3.9	3.6	3.3	3.3	3.3
Interest	2.4	3.8	4.1	3.9	4.7	4.2	4.8	4.4	4.5	4.3	4.1	4.0
Transfers	11.2	14.4	13.1	12.6	11.9	12.3	11.3	11.3	11.0	11.0	11.0	11.0
o/w Subsidies	1.0	1.8	1.8	1.9	1.2	1.5	1.1	1.0	1.0	1.0	1.0	1.0
o/w Grants to public institutions	6.7	8.8	7.5	7.4	6.8	6.8	6.3	6.4	6.1	6.1	6.1	6.1
o/w Retirement benefits	3.5	3.9	3.8	3.3	3.8	3.9	3.8	3.8	3.8	3.8	3.8	3.8
Capital expenditure and net lending	1.9	3.1	2.3	4.2	2.5	3.8	2.5	2.8	2.7	2.3	2.4	2.5
CG Fiscal balance	**3.7**	**-4.8**	**-5.1**	**-4.8**	**-1.7**	**-3.2**	**0.2**	**-0.9**	**0.5**	**1.7**	**1.9**	**2.0**
CG Primary balance	**6.2**	**-1.0**	**-1.0**	**-0.9**	**3.0**	**1.0**	**5.0**	**3.5**	**5.0**	**6.0**	**6.0**	**6.0**
Repayment of domestic arrears	1.4	0.8	0.4	0.6	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0
CG Fiscal balance (net of arrears)	**2.4**	**-5.6**	**-5.5**	**-5.4**	**-2.0**	**-3.4**	**0.2**	**-0.9**	**0.5**	**1.7**	**1.9**	**2.0**
CG Primary balance (net of arrears)	**4.8**	**-1.8**	**-1.4**	**-1.5**	**2.6**	**0.8**	**5.0**	**3.5**	**5.0**	**6.0**	**6.0**	**6.0**
Financing	**-3.7**	**4.8**	**5.1**	**4.8**	**1.7**	**3.2**	**-0.2**	**0.9**	**-0.5**	**-1.7**	**-1.9**	**-2.0**
Net Financing - External	1.1	9.4	4.9	5.3	1.5	2.4	0.6	1.3	0.4	-1.1	-1.8	-1.5
Capital Markets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.7	0.9
Project Funds	0.7	0.9	1.5	2.0	0.9	2.0	0.9	1.6	1.5	1.5	1.3	1.2
Policy Loans	1.5	6.6	4.1	3.9	1.9	1.7	1.4	1.3	0.6	0.6	0.0	0.0
o/w IDB	0.0	4.4	2.1	2.0	1.9	1.7	1.4	1.3	0.6	0.6	0.0	0.0
o/w CDB	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w CAF	0.0	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w WB	0.0	0.0	2.1	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF EFF budget support	0.0	3.9	1.0	0.9	0.5	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Privatization 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	1.1	2.1	1.6	1.6	1.8	1.7	1.7	1.6	1.8	3.8	3.7	3.6
Net Financing - Central Gov. 5/	-3.4	-4.0	0.6	0.4	0.5	1.0	-0.8	-0.3	-0.9	-0.6	-0.1	0.0
Central bank	1.6	-0.7	2.7	3.3	1.9	0.4	0.4	0.4	0.0	0.0	0.0	0.0
Commercial banks	-0.6	1.2	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National Insurance Scheme	-0.8	-2.3	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private non-bank 3/	-2.1	-0.6	-1.6	-0.5	-1.3	-1.0	-1.2	-0.7	-0.9	-0.6	-0.1	-0.5
Others/unidentified financing 6/	-1.5	-1.5	-0.5	-2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
CG gross debt 4/	123.2	147.0	142.1	135.4	128.7	119.9	121.4	112.8	106.7	99.9	93.4	87.5
Nominal GDP, FY (BDS$ millions)	10,285	9,037	9,733	10,173	10,725	11,761	11,298	12,550	13,172	13,774	14,356	14,909

Sources: Ministry of Finance; and Fund staff estimates and projections.
1/ Fiscal year is from April to March.
2/ Privatization proceeds.
3/ Insurance companies and other non bank private sector; BOSS program is also included here.
4/ Including: CG, CG guaranteed, arrears, and IMF EFF loan. From FY 2018/19, data includes both external and domestic debt restructuring; hence, it excludes debt directly serviced by SOEs no longer guaranteed by the CG.
5/ Net of domestic expenditure arrears repayment.
6/ Negative financing in FY2021/22 is associated with government's equity investment into crisis-affected companies in the tourism sector.

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

			Est.	Projections					
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
				(In millions of Barbados dollars)					
Public Debt	**12,674**	**13,287**	**13,773**	**14,098**	**14,153**	**14,053**	**13,755**	**13,415**	**13,039**
External	3,448	4,414	4,949	5,230	5,379	5,391	5,183	4,859	4,561
Short Term	54	0	0	0	0	0	0	0	0
Long term	3,394	4,414	4,949	5,230	5,379	5,391	5,183	4,859	4,561
Domestic	9,226	8,873	8,824	8,868	8,774	8,661	8,573	8,556	8,477
Short Term	850	787	733	700	700	700	700	700	700
Long term	8,376	8,085	8,091	8,168	8,074	7,961	7,873	7,856	7,777
Arrears 4/	**207**	**79**	**23**	**0**	**0**	**0**	**0**	**0**	**0**
External 5/	54	0	0	0	0	0	0	0	0
Domestic	153	79	23	0	0	0	0	0	0
CBB & SOE Guaranteed Debt /7	**345**	**457**	**451**	**445**	**435**	**400**	**336**	**264**	**192**
External 3/	345	457	451	445	435	400	336	264	192
Domestic	0	0	0	0	0	0	0	0	0
CG Debt	**12,122**	**12,750**	**13,300**	**13,653**	**13,718**	**13,653**	**13,419**	**13,150**	**12,846**
External 3/ 6/ 8/	3,049	3,957	4,499	4,785	4,944	4,991	4,847	4,594	4,369
Domestic	9,073	8,793	8,801	8,868	8,774	8,661	8,573	8,556	8,477
Short Term	697	708	710	700	700	700	700	700	700
Long term	8,376	8,085	8,091	8,168	8,074	7,961	7,873	7,856	7,777
				(In percent of FY GDP)					
Public Debt	**123.2**	**147.0**	**135.4**	**119.9**	**112.8**	**106.7**	**99.9**	**93.4**	**87.5**
External	33.5	48.8	48.7	44.5	42.9	40.9	37.6	33.8	30.6
Short Term	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long term	33.0	48.8	48.7	44.5	42.9	40.9	37.6	33.8	30.6
Domestic	89.7	98.2	86.7	75.4	69.9	65.8	62.2	59.6	56.9
Short Term	8.3	8.7	7.2	6.0	5.6	5.3	5.1	4.9	4.7
Long term	81.4	89.5	79.5	69.5	64.3	60.4	57.2	54.7	52.2
Arrears 4/	**2.0**	**0.9**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
External 5/	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	1.5	0.9	0.2	0.0	0.0	0.0	0.0	0.0	0.0
CBB & SOE Guaranteed Debt /7	**3.4**	**5.1**	**4.4**	**3.8**	**3.5**	**3.0**	**2.4**	**1.8**	**1.3**
External 3/	3.4	5.1	4.4	3.8	3.5	3.0	2.4	1.8	1.3
Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CG Debt	**117.9**	**141.1**	**130.7**	**116.1**	**109.3**	**103.7**	**97.4**	**91.6**	**86.2**
External 3/ 6/ 8/	29.6	43.8	44.2	40.7	39.4	37.9	35.2	32.0	29.3
Domestic	88.2	97.3	86.5	75.4	69.9	65.8	62.2	59.6	56.9
Short Term	6.8	7.8	7.0	6.0	5.6	5.3	5.1	4.9	4.7
Long term	81.4	89.5	79.5	69.5	64.3	60.4	57.2	54.7	52.2
Memorandum items:									
Nominal GDP, FY (BDS$ millions)	10,285	9,037	10,173	11,761	12,550	13,172	13,774	14,356	14,909

Sources: Ministry of Finance; Central Bank of Barbados; and Fund staff estimates and projections.
1/ Fiscal year (April–March). Ratios expressed relative to fiscal-year GDP.
2/ Central Government debt, Central Government arrears, and SOE debt guaranteed by the Central Government including IMF loan to the CBB.
3/ All medium- and long-term.
4/ All short-term.
5/ Excluding principal amortization arrears.
6/ Including principal amortization arrears.
7/ Including IMF loan to the CBB under the Extended Fund Facility.
8/ Including IMF loan to the Treasury under the Extended Fund Facility.

Table 4a. Barbados: Balance of Payments, 2019–2027

(In millions of US$)

			Est.	Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Current account balance	**-162**	**-323**	**-556**	**-593**	**-536**	**-438**	**-367**	**-328**	**-277**
o/w Exports of goods and services	2,265	1,377	1,467	1,955	2,182	2,359	2,498	2,636	2,767
o/w Imports of goods and services	2,098	1,719	1,960	2,318	2,435	2,497	2,554	2,645	2,719
Trade balance	-751	-823	-942	-1,023	-1,049	-1,012	-1,003	-1,035	-1,050
Exports of goods	773	619	647	865	897	956	1,000	1,038	1,075
o/w Re-exports	190	120	157	206	222	248	264	272	280
Imports of goods	1,524	1,442	1,589	1,888	1,946	1,968	2,003	2,072	2,125
o/w Oil	235	190	356	562	496	454	424	428	433
Services balance	918	481	448	660	796	874	947	1,026	1,099
Credit	1,492	758	820	1,089	1,285	1,403	1,498	1,599	1,692
o/w Travel (credit)	1,263	559	599	821	994	1,093	1,170	1,252	1,327
Debit	574	277	372	430	489	529	552	573	593
Primary income balance	-283	-74	-96	-241	-241	-255	-263	-270	-275
Credit	283	169	206	302	324	340	356	372	387
Debit	565	243	302	543	565	595	620	642	661
Secondary income balance	-46	93	33	11	-43	-45	-47	-49	-51
Credit	55	198	142	114	67	71	74	77	80
Debit	101	105	109	103	110	116	121	126	131
Capital and financial account	**394**	**832**	**591**	**464**	**409**	**361**	**286**	**193**	**230**
Financial Account Balance	396	834	594	464	409	361	286	193	230
Public sector	194	492	382	142	72	-2	-81	-145	-149
o/w CG and CBB Inflows	239	570	465	238	184	140	178	153	153
IMF	101	231	48	24	0	0	0	0	0
SDR allocation	0	0	130	0	0	0	0	0	0
Other IFIs and commercial	138	340	287	214	184	140	178	153	153
o/w CG and CBB Outflows	67	86	83	93	111	140	257	296	300
o/w IMF	0	0	0	0	12	37	67	75	77
Private sector	202	342	211	323	337	363	366	338	379
FDI (net)	244	380	234	323	337	363	366	338	379
Short Term (net)	-42	-38	-22	0	0	0	0	0	0
Capital Account Balance	-3	-2	-3	0	0	0	0	0	0
Net errors and omissions	**8**	**82**	**139**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance (deficit -)	**240**	**591**	**173**	**-129**	**-127**	**-77**	**-81**	**-135**	**-47**
Memorandum items:									
Oil Price (WTI, US$ per barrel)	57.0	39.4	68.0	103.9	89.6	81.0	74.9	74.9	74.9
Gross International Reserves (GIR, US$ million)	739	1,330	1,529	1,401	1,273	1,196	1,115	980	933
GIR (months of imports of G&S)	4.2	9.3	9.4	7.3	6.3	5.7	5.2	4.4	4.1
GIR (percent of ARA)	141.9	260.0	289.7	235.8	206.3	187.9	161.1	136.9	126.7

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

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

			Est.	Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Current account balance	**-3.1**	**-6.9**	**-11.5**	**-10.4**	**-8.8**	**-6.8**	**-5.5**	**-4.7**	**-3.8**
o/w Exports of goods and services	42.8	29.4	30.2	34.3	35.7	36.7	37.1	37.6	37.9
o/w Imports of goods and services	39.6	36.8	40.4	40.7	39.9	38.9	38.0	37.7	37.3
Trade balance	-14.2	-17.6	-19.4	-17.9	-17.2	-15.8	-14.9	-14.7	-14.4
Exports of goods	14.6	13.2	13.3	15.2	14.7	14.9	14.9	14.8	14.7
o/w Re-exports	3.6	2.6	3.2	3.6	3.6	3.9	3.9	3.9	3.8
Imports of goods	28.8	30.8	32.7	33.1	31.8	30.6	29.8	29.5	29.1
o/w Oil	4.4	4.1	7.3	9.9	8.1	7.1	6.3	6.1	5.9
Services balance	17.3	10.3	9.2	11.6	13.0	13.6	14.1	14.6	15.1
Credit	28.2	16.2	16.9	19.1	21.0	21.8	22.3	22.8	23.2
o/w Travel (credit)	23.8	12.0	12.4	14.4	16.3	17.0	17.4	17.8	18.2
Debit	10.8	5.9	7.7	7.5	8.0	8.2	8.2	8.2	8.1
Primary income balance	-5.3	-1.6	-2.0	-4.2	-3.9	-4.0	-3.9	-3.8	-3.8
Credit	5.3	3.6	4.3	5.3	5.3	5.3	5.3	5.3	5.3
Debit	10.7	5.2	6.2	9.5	9.2	9.3	9.2	9.1	9.1
Secondary income balance	-0.9	2.0	0.7	0.2	-0.7	-0.7	-0.7	-0.7	-0.7
Credit	1.0	4.2	2.9	2.0	1.1	1.1	1.1	1.1	1.1
Debit	1.9	2.2	2.2	1.8	1.8	1.8	1.8	1.8	1.8
Capital and financial account	**7.4**	**17.8**	**12.2**	**8.1**	**6.7**	**5.6**	**4.2**	**2.7**	**3.2**
Financial Account Balance	7.5	17.8	12.2	8.1	6.7	5.6	4.2	2.7	3.2
Public sector	3.7	10.5	7.9	2.5	1.2	0.0	-1.2	-2.1	-2.0
o/w CG and CBB Inflows	4.5	12.2	9.6	4.2	3.0	2.2	2.6	2.2	2.1
IMF	1.9	4.9	1.0	0.4	0.0	0.0	0.0	0.0	0.0
SDR allocation	0.0	0.0	2.7	0.0	0.0	0.0	0.0	0.0	0.0
Other IFIs and commercial	2.6	7.3	5.9	3.8	3.0	2.2	2.6	2.2	2.1
o/w CG and CBB Outflows	1.3	1.8	1.7	1.6	1.8	2.2	3.8	4.2	4.1
o/w IMF	0.0	0.0	0.0	0.0	0.2	0.6	1.0	1.1	1.1
Private sector	3.8	7.3	4.4	5.7	5.5	5.6	5.4	4.8	5.2
FDI (net)	4.6	8.1	4.8	5.7	5.5	5.6	5.4	4.8	5.2
Short Term (net)	-0.8	-0.8	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Capital Account Balance	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	**0.2**	**1.8**	**2.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance (deficit -)	**4.5**	**12.6**	**3.6**	**-2.3**	**-2.1**	**-1.2**	**-1.2**	**-1.9**	**-0.6**
Memorandum items:									
Oil Price (WTI, US$ per barrel)	57.0	39.4	68.0	103.9	89.6	81.0	74.9	74.9	74.9
Gross International Reserves (GIR, US$ million)	738.9	1,330.3	1,529.4	1,400.9	1,273.4	1,196.0	1,114.9	979.9	933.2
GIR (months of imports of G&S)	4.2	9.3	9.4	7.3	6.3	5.7	5.2	4.4	4.1
GIR (percent of ARA)	141.9	260.0	289.7	235.8	206.3	187.9	161.1	136.9	126.7

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

Table 5. Barbados: Monetary Survey, 2019–2027

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Projections					
	(In millions of Barbados dollars)								
Central Bank of Barbados									
Net International Reserves	1,130	2,195	2,595	2,332	2,098	1,998	1,901	1,697	1,672
Assets	1,478	2,661	3,059	2,802	2,547	2,392	2,230	1,960	1,866
Liabilities	-348	-466	-464	-470	-449	-394	-329	-262	-195
Gross International Reserves	1,478	2,661	3,059	2,802	2,547	2,392	2,230	1,960	1,866
Net domestic assets	1,762	1,296	1,479	1,577	1,619	1,632	1,632	1,632	1,632
Of which: Claims on Central government	829	773	826	856	856	856	856	826	826
Monetary base	2,939	3,552	4,133	3,908	3,717	3,630	3,533	3,329	3,303
Commercial banks									
Net foreign assets	661	633	827	827	827	827	827	827	827
Net domestic assets	10,685	11,609	12,092	12,164	12,177	12,321	12,489	12,590	12,936
Liabilities to the nonfinancial private sector	11,346	12,242	12,918	12,991	13,004	13,148	13,316	13,416	13,763
Monetary survey									
Net foreign assets	1,679	2,029	2,405	2,900	2,666	2,567	2,470	2,266	2,240
Net domestic assets	9,976	10,472	10,801	11,045	11,277	11,501	11,743	12,000	12,367
Net credit to the public sector	2,277	2,087	2,649	2,747	2,790	2,802	2,802	2,792	2,792
Central government	2,212	2,002	2,504	2,602	2,645	2,658	2,658	2,648	2,648
Rest of public sector	65	85	145	145	145	145	145	145	145
Credit to the private sector	8,303	8,206	8,109	8,254	8,444	8,655	8,898	9,165	9,531
Credit to rest of financial system	263	271	256	256	256	256	256	256	256
Other items (net)	-867	-92	-212	-212	-212	-212	-212	-212	-212
Broad money (M2, liabilities to the private sector)	11,655	12,501	13,206	13,945	13,944	14,068	14,213	14,266	14,607
	(Changes in percent of beginning-of-period liabilities to the private sector)								
Monetary survey									
Net international reserves	3.0	3.0	3.0	3.7	-1.7	-0.7	-0.7	-1.4	-0.2
Net domestic assets	0.0	4.3	2.6	1.8	1.7	1.6	1.7	1.8	2.6
Net credit to public sector	-0.3	-1.6	4.5	0.7	0.3	0.1	0.0	-0.1	0.0
Of which: central government	0.1	-1.8	4.0	0.7	0.3	0.1	0.0	-0.1	0.0
Credit to private sector	0.7	-0.8	-0.8	1.1	1.4	1.5	1.7	1.9	2.6
Other items (net)	0.2	6.7	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
	(In percentage change)								
Monetary survey									
Net domestic assets	0.0	5.0	3.1	2.3	2.1	2.0	2.1	2.2	3.1
Of which:									
Private sector credit	1.0	-1.2	-1.2	2.0	2.3	2.5	2.8	3.0	4.0
Public sector credit	-1.5	-8.3	26.9	3.7	1.6	0.4	0.0	-0.4	0.0
Broad money	3.0	7.3	5.6	5.6	0.0	0.9	1.0	0.4	2.4

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

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

			Est.	Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
				(Annual percentage change)					
National accounts and prices (calendar year)									
CY Real GDP	-1.3	-13.7	0.7	11.1	5.0	3.0	2.6	2.3	1.8
Nominal GDP	4.2	-11.7	3.7	17.4	7.2	5.1	4.7	4.4	3.9
CPI inflation (average)	4.1	2.9	3.0	7.1	5.0	3.3	2.3	2.3	2.3
CPI inflation (end of period)	7.2	1.3	5.0	5.2	4.7	2.1	2.5	2.2	2.3
External sector (calendar year)									
Exports of goods and services, value	7.9	-39.2	6.6	33.2	11.7	8.1	5.9	5.5	4.9
Imports of goods and services, value	3.9	-18.1	14.0	18.2	5.1	2.6	2.3	3.6	2.8
Real effective exchange rate (average)	126.9	...	...	...	...	...	...	...	
Terms of trade	2.1	5.3	-11.4	-7.8	4.0	1.7	1.7	1.0	0.0
Money and credit (calendar year, end of period)									
Net domestic assets	0.0	5.0	3.1	2.3	2.1	2.0	2.1	2.2	3.1
Of which: Private sector credit	1.0	-1.2	-1.2	2.0	2.3	2.5	2.8	3.0	4.0
Broad money	3.0	7.3	5.6	5.6	0.0	0.9	1.0	0.4	2.4
Velocity (GDP relative to broad money)	0.9	0.8	0.7	0.7	0.8	0.9	0.9	0.9	1.0
				(In percent of FY GDP, unless otherwise indicated)					
Public finances (fiscal year) 1/									
Central government									
Revenue and grants	30.7	29.9	28.9	29.6	29.1	29.5	29.7	29.7	29.7
Expenditure	26.9	34.7	33.7	32.9	30.0	29.0	28.0	27.8	27.7
Fiscal balance	3.7	-4.8	-4.8	-3.2	-0.9	0.5	1.7	1.9	2.0
Interest Expenditure	2.4	3.8	3.9	4.2	4.4	4.5	4.3	4.1	4.0
Primary balance	6.2	-1.0	-0.9	1.0	3.5	5.0	6.0	6.0	6.0
Debt (fiscal year) 1/									
Central government gross debt	123.2	147.0	135.4	119.9	112.8	106.7	99.9	93.4	87.5
External	33.5	48.8	48.7	44.5	42.9	40.9	37.6	33.8	30.6
Domestic	89.7	98.2	86.7	75.4	69.9	65.8	62.2	59.6	56.9
Savings and investment (calendar year)									
Gross domestic investment	14.6	18.2	19.4	19.2	18.5	18.1	17.8	17.8	17.9
Public	2.0	2.9	4.2	4.1	3.3	3.0	2.6	2.7	2.8
Private 2/	12.5	15.2	15.2	15.2	15.1	15.1	15.1	15.1	15.1
National savings	11.5	11.3	7.9	8.8	9.7	11.3	12.3	13.1	14.1
Public	-2.6	1.7	5.7	-2.7	-1.9	-0.1	1.7	2.8	3.8
Private	14.1	9.6	2.3	11.5	11.6	11.4	10.6	10.3	10.3
External savings	-3.1	-6.9	-11.5	-10.4	-8.8	-6.8	-5.5	-4.7	-3.8
Balance of payments (calendar year)									
Current account	-3.1	-6.9	-11.5	-10.4	-8.8	-6.8	-5.5	-4.7	-3.8
Capital and financial account	7.4	17.8	12.2	8.1	6.7	5.6	4.2	2.7	3.2
Official capital (net)	3.7	10.5	7.9	2.5	1.2	0.0	-1.2	-2.1	-2.0
Private capital (net)	3.8	7.3	4.4	5.7	5.5	5.6	5.4	4.8	5.2
Of which: Long-term flows	4.6	8.1	4.8	5.7	5.5	5.6	5.4	4.8	5.2
Net errors and omissions	0.2	1.8	2.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	4.5	12.6	3.6	-2.3	-2.1	-1.2	-1.2	-1.9	-0.6
Memorandum items:									
Exchange rate (BDS$/US$)	2.0	2.0	...	...	...	...	...	...	...
Oil price (WTI, US$ per barrel)	57.0	39.4	68.0	103.9	89.6	81.0	74.9	74.9	74.9
Gross international reserves (US$ millions)	739	1,330	1,529	1,401	1,273	1,196	1,115	980	933
In months of imports	4.2	9.3	9.4	7.3	6.3	5.7	5.2	4.4	4.1
In percent of ARA	141.9	260.0	289.7	235.8	206.3	187.9	161.1	136.9	126.7
Nominal CY GDP (BDS$ millions)	10,596	9,354	9,702	11,395	12,220	12,845	13,449	14,040	14,588

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

Table 7. Barbados: Financial Sector Indicators, 2016–2021
(Percent)

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

Source: Central Bank of Barbados, Financial Services Commission.
1/ Includes foreign components unless otherwise stated.
2/ Private credit growth in 2018 reflects the financial consolidation of a financial and trust company with its parent bank.

Table 8. Barbados: Program Monitoring – Schedule of Purchases Under the EFF Supported Program
(In millions of SDR)

Availability Date	Purchases: SDR million	Purchases: Percent of Quota	Conditions
October 1, 2018	35	37	Approval of Arrangement
May 15, 2019	35	37	1st Review and continuous and end March 2019 performance criteria
November 15, 2019	35	37	2nd Review and continuous and end September 2019 performance criteria
May 15, 2020	101	107	3rd Review and continuous and end March 2020 performance criteria
November 15, 2020	65	69	4th Review and continuous and end September 2020 performance criteria
May 15, 2021	17	18	5th Review and continuous and end March 2021 performance criteria
November 15, 2021	17	18	6th Review and continuous and end September 2021 performance criteria
May 15, 2022	17	18	7th Review and continuous and end March 2022 performance criteria
Total Access	322	341	

Sources: Fund staff.

Table 9. Barbados: Program Monitoring – External Financing Requirements and Sources
(In millions of US$ unless otherwise indicated)

			Est.	Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
(in US$ millions, unless otherwise indicated)									
Gross Financing Requirements	**228**	**408**	**639**	**689**	**649**	**580**	**625**	**626**	**579**
Current Account Balance	162	323	556	593	536	438	367	328	277
CG Debt Amortization	67	86	83	96	112	142	258	298	302
Sources of Financing	**228**	**408**	**639**	**665**	**649**	**580**	**625**	**626**	**579**
Public sector	261	578	465	214	184	140	178	153	153
o/w: SDR allocation	0	0	130	0	0	0	0	0	0
FDI (net)	244	380	234	323	337	363	366	338	379
Short Term (net)	-42	-38	-22	0	0	0	0	0	0
Capital Account Balance	-3	-2	-3	0	0	0	0	0	0
Net errors and omissions	8	82	139	0	0	0	0	0	0
Change in Reserve (- = increase)	-240	-591	-173	129	127	77	81	135	47
Financing Gap	**0**	**0**	**0**	**24**	**0**	**0**	**0**	**0**	**0**
Financing Gap	0	0	0	24	0	0	0	0	0
Prospective Financing	**0**	**0**	**0**	**24**	**0**	**0**	**0**	**0**	**0**
IMF EFF disbursement 1/	0	0	0	24	0	0	0	0	0
Memo items:									
GIR (percent of ARA)	142	260	290	236	206	188	161	137	127
GIR (months of imports of G&S)	4.2	9.3	9.4	7.3	6.3	5.7	5.2	4.4	4.1

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

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

(In millions of SDR unless otherwise indicated)

		Projections										
		2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
Purchases	a	17.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of quota 1/		18.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	b	0.0	8.8	25.9	46.6	52.3	53.7	53.7	44.9	27.8	7.1	1.4
Total Interest/Charges 2/	c	4.2	8.2	8.1	7.8	5.7	3.5	2.3	1.5	0.9	0.5	0.4
Total Debt Service	d=b+c	5.3	16.0	33.1	53.5	57.2	56.5	55.5	46.1	28.4	7.4	1.6
Percent of exports		0.4	0.9	1.5	1.5	1.4	1.3	1.2	0.7	0.1	0.0	0.0
Percent of GDP		0.1	0.3	0.5	0.6	0.5	0.5	0.5	0.3	0.1	0.0	0.0
Percent of quota 1/		5.6	17.0	35.0	56.6	60.5	59.8	58.8	48.8	30.0	7.8	1.7
Outstanding Credit	e=e(-1)+a-b	322.0	313.3	287.3	240.8	188.5	134.8	81.2	36.2	8.5	1.4	0.0
Percent of exports		12.2	10.6	9.0	7.1	5.3	3.6	2.1	0.9	0.2	0.0	0.0
Percent of GDP		4.2	3.8	3.3	2.7	2.0	1.4	0.8	0.3	0.1	0.0	0.0
Percent of quota 1/		340.7	331.5	304.1	254.8	199.5	142.7	85.9	38.3	9.0	1.5	0.0
Memo items:												
EFF Debt Service / Exports of G&S (percent)		0.2	0.5	1.0	1.6	1.6	1.5	1.4	1.1	0.7	0.2	0.0
GIR (US$ million)		1,401	1,273	1,196	1,115	980	933	1,013	1,077	1,121	1,200	1,301
ARA (US$ million)		569	590	613	662	713	738	756	778	770	747	751
GIR/ARA (percent)		236	206	188	161	137	127	134	138	147	156	166
GIR/External Debt Service (percent)		598	505	428	260	227	216	220	221	276	289	300
Nominal GDP (CY US$ mln)		5,698	6,110	6,423	6,725	7,020	7,294	7,574	7,864	8,166	8,479	8,804

Sources: Fund staff estimates and projections.

1/ Using SDR/USD exchange rate = 0.740914 (as of May 2022) and quota SDR = 94.5 million;

2/ Total Interest/Charges based on existing and prospective drawings using GRA rate of charge = 1.563 (as of May 2022).

Annex I. Achievements Under the 2018–2022 EFF Program

1. Key program objectives have been achieved. The main goals of the program were to restore macroeconomic and fiscal sustainability, rebuild reserves, and initiate structural reforms to support growth. After the 2008-09 global financial crisis, Barbados had been caught in a vicious cycle of low or negative growth and an accompanying deterioration in fiscal balances, leading public debt to increase to almost 160 percent of GDP by mid-2018. International reserves dwindled to just US$220 million by May 2018, equivalent to 5-6 weeks of import cover. The exchange rate peg and the government's ability to continue to service its debt appeared in jeopardy, leading to repeated downgrades by credit rating agencies over a decade. Following a decisive election victory in May 2018, a new government quickly developed an ambitious economic reform program to address these issues head-on.

2. Macroeconomic stability was restored prior to the onset of the COVID-19 pandemic., Immediately after taking office, the new government announced a comprehensive debt restructuring and requested balance of payments support from the IMF. A fiscal adjustment of 2½ percent of GDP to reach a primary surplus of 6 percent of GDP in FY2019/20, the first full year of program implementation, was envisaged, and implemented. Fiscal adjustment was supported by a series of structural reforms, which were focused on a reduction in transfers to state-owned enterprises (SOEs), tax policy reforms, the future introduction of a fiscal rule, and reforms to public financial management (PFM). A domestic debt restructuring was completed in November 2018, while external debt restructuring was wrapped up in December 2019. By the time the global pandemic reached Barbados, in March 2020, macroeconomic stability had been restored, facilitating a countercyclical macroeconomic policy response in the following two fiscal years, FY2020/21 and FY2021/22.

3. The pandemic shock interrupted the steady reduction of public debt and delayed parts of structural reform agenda. Tourism came to a virtual standstill in the wake of the pandemic, with the economy contracting by 14 percent in 2020. Primary deficits of 1 percent of GDP in FY2020/21 and FY2021/22 helped to accommodate the impact of the pandemic, which led to sharply lower government revenue, as well as significant COVID-related expenditures. After a sharp drop in FY2019/20, to 123 percent of GDP by March 2020, public debt increased to 147 percent of GDP in FY2020/21, with the sharp decrease in the denominator accounting for much of the impact. The long-term debt target of 60 percent of GDP was pushed back by two years to FY2035/36 to avoid an unrealistically high primary balance path and accommodate investment needs. Due to limited administrative capacity and limited opportunity of public consultation, elements of the structural reform agenda, including pension reform, were delayed.

4. Despite constraints under the COVID-19 pandemic, the authorities continued to advance key structural reforms. A new central bank law, aimed at strengthening the autonomy of the bank while limiting the provision of credit to the government, was adopted by parliament in December 2020. An actuarial review of the civil service pension system that will inform upcoming public pension reform was completed in November 2020. There has been steady progress in the modernization of the Custom and Excise Department, including the introduction of a revised

Customs Act. Tax administration has also improved with the modernization of the Revenue Authority. A health dashboard that analyzes the financial performance of SOEs was developed for the Management and Accounting Unit (MAU) as a mechanism to strengthen monitoring capabilities, notably in terms of assessing risks and prioritizing ongoing targeted reform. A new procurement law, which seeks to strengthen the fairness, integrity, and transparency of the procurement process, was passed in parliament in December 2021.

5. Confidence in the country's macroeconomic framework has been steadily rebuilt. While uncertainty related to the ongoing pandemic and the war in Ukraine remains high, both the economy and economic institutions have been strengthened since the onset of the EFF program. International reserves grew steadily over the program period, supported by the comprehensive debt restructuring and significant support from IFIs including the IDB, the CDB, the World Bank, CAF, and the IMF, including through two EFF augmentations, and the August 2021 SDR allocation. After the temporary increase in FY2020/21, public debt was put back onto a sustainable downward path in FY2021/22. Primary balances are expected to gradually improve as the economy returns to normalcy. Going forward, the authorities intend to move ahead with the remaining structural reform agenda including the passage of a revised public pension law, the strengthening of the PFM—including the eventual introduction of a fiscal rule—and deeper SOE reforms. Policies to meaningfully streamline bureaucratic processes, effectively digitize government services, and enhance product and labor market flexibility are critical components to enhancing Barbados' growth potential.

Annex II. Risk Assessment Matrix[1]

Source of Risks	Likelihood	Impact	Policy Response
Global Risks			
Outbreaks of lethal and highly contagious Covid-19 variants. Rapidly increasing hospitalizations and deaths due to low vaccine protection or vaccine-resistant variants force more social distancing and/or new lockdowns. This results in extended supply chain disruptions and a reassessment of growth prospects, triggering capital outflows, financial tightening, currency depreciations, and debt distress in some EMDEs.	Medium	High	Continue making progress in a vaccination program (about 56 percent of the population have been fully vaccinated so far) while enhancing capacity of viral testing, contact tracing, and treating infected people.
Natural disasters related to climate change. Higher frequency of natural disasters cause severe economic damage to smaller vulnerable economies and accelerate emigration. Severe events in large economies hitting key infrastructure reduce global GDP, cause further supply chain disruptions and inflationary pressures, and prompt a recalculation of risk and growth prospects.	Medium	High	Invest in climate resilient infrastructure that could mitigate disaster risk including under the "Roofs to Reefs" program. Include natural disaster clauses in government debt. Ensure adequate insurance, including under CCRIF. Make use of IFI contingent credit facilities.
Rising and volatile food and energy prices. Commodity prices are volatile and trend up amid supply constraints, war in Ukraine, export restrictions, and currency depreciations. This leads to short-run disruptions in the green transition, bouts of price and real sector volatility, food insecurity, social unrest, and acute food and energy crises (especially in EMDEs with lack of fiscal space).	High	High	In response to the sharp hike of energy prices due to the war in Ukraine, a VAT cap on oil products (gasoline and diesel) consistent with a WTI crude oil price of US$85 per barrel was introduced for an initial period of 6 months starting in March 2022. In the medium- and long-term implement structural measures to rely less on commodity imports, including through investment in renewable energy, and increasing domestic supply capacity of food.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Country-specific risks			
Slower path of fiscal adjustment owing to delayed recovery from ongoing global pandemic would divert public debt from an expected sustainable path and make it difficult for the authorities to meet future financing needs.	Medium	High	Adhere to a medium- and long-term fiscal consolidation strategy agreed under the EFF program, which is supported by the steady implementation of structural reforms that strengthen fiscal sustainability.
Delays in structural reforms owing to the ongoing global pandemic could prevent the authorities from generating higher primary balances in the long term**.**	Medium	High	Deliver the structural reform agenda and policy commitments under the program, including pension reforms, SOE reforms, an improvement in tax and custom administrations, and the introduction of a fiscal rule.
Changes of tourist behavior in a post-COVID era. Delays in infrastructure investment and retooling human capital to transform the tourism sector to meet tourists' demands in a post-COVID era could divert the economy from an expected recovery path.	Medium	High	Implement structural measures to improve the competitiveness of the tourism sector and boost attractiveness to tourists in a post-COVID era.

Annex III. Debt Sustainability Analysis

Barbados' public debt remains sustainable but subject to high risks. The debt-to-GDP ratio has been brought back onto a downward trajectory in FY2021/22 after a temporary interruption due to fiscal responses to the COVID-19 and a sharp contraction in nominal GDP in FY2020/21. Accommodative fiscal policies were needed over the past two years to address the imminent public health crises, which was aggravated by twin natural disasters—a volcanic eruption in St. Vincent in April 2021 as well as a category 1 hurricane, Elsa in July 2021. Under the current baseline, the 60 percent-of-GDP debt anchor, which was pushed back by two years in the context of the fifth review, is projected to be reached by FY2035/36 with envisaged primary surpluses backed by an economic recovery and structural reforms. Over the medium term, debt remains above the 70 percent of GDP risk assessment threshold used in the MAC DSA, while gross financing needs are projected to stay below the 15 percent of GDP threshold. Risks include a slower-than-expected tourism recovery, and the authorities' ability to maintain high primary surpluses over an extended period. These risks are mitigated by Barbados' strong track record under the EFF-supported program, a favorable debt service schedule, and improved market perceptions following the comprehensive 2018-19 debt restructuring.

A. Recent Development and Public Debt[1] Structure

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

- **Public debt is projected to decline to about 135 percent of GDP in FY2021/22 from a temporary increase to 147 percent in FY2020/21 owing to the COVID-19 pandemic.** While the fiscal policy had to remain accommodative in FY2021/22 to address the protracted negative impacts owing to the pandemic and a series of natural disasters, a gradual economic recovery has compressed the debt-to-GDP ratio in FY2021/22. The sharp increase of the debt-to-GDP ratio in FY2020/21 can be attributed to fiscal responses to the COVID-19 shock as well as a sharp decrease in nominal GDP. Larger financing needs over the past two years were met through strong financial support from IFIs and disbursements under the EFF-supported program with favorable borrowing terms. The projected debt level as of end-FY2021/22 is 6 percentage points of GDP smaller than in the 6th review due to better-than-expected actual economic performance in the service sector for FY2020/21 and resultant upward revisions in the denominator.

- **Prior to the COVID-19 pandemic, during FY2018/19 and FY2019/20, public domestic debt had decreased steadily owing primarily to debt restructuring and fiscal adjustment.** The

[1] This debt sustainability analysis (DSA) covers the full stock of public debt defined here as the sum of: debt issued by the Central Government, debt and expenditure arrears incurred by the Central Government, debt issued by SOEs and guaranteed by the Central Government, IMF BOP support lent to the CBB, and IMF budget support lent directly to the Treasury. We refer to this gross debt concept as "public debt" in order to distinguish it from the consolidated concept of public sector debt.

2018-2019 debt restructuring provided debt reduction of about 30 percent of GDP, while converting large part of short-term CG debt to longer-term debt and significantly improving its debt service schedule. The large fiscal adjustment under the EFF-supported program in FY2018/19 and FY2019/20 along with restraint in commercial borrowing has contained gross financing needs and reduced public debt consequently. Clearance of domestic expenditure arrears also contributed to a reduction in domestic debt.

- **The profile of public debt poses limited risk (see text table below)**. The 2018-19 debt restructuring engineered a large reduction in debt service as short-term debt was either swapped with long-term debt or discounted, and the restructured securities have longer grace period and maturity accompanied by low interest rates. Restructured external debt now has a 5-year grace period and comes due as late as 2025 with a much smoother debt service profile than originally scheduled before the debt restructuring. Around half of gross financing needs are represented by short term debt with no rollover risk as commercial banks have agreed to rollover the full stock of these claims for the first 10-year period, and the rest of the short-term debt is held by the CBB. Principal payments associated with restructured external debt will resume only from 2025 onwards.

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

	Debt Stock (end of period) FY2021/22			Debt Service					
				FY2021/22	FY2022/23	FY2023/24	FY2021/22	FY2022/23	FY2023/24
	(In US$ million)	*(Percent total debt)*	*(Percent of GDP)*	*(In US$)*			*(Percent of GDP)*		
Total	6,886.7	100.0	135.4	740.4	839.9	553.8	14.6	14.3	8.8
External	2,474.7	35.9	48.7	150.3	175.0	187.6	3.0	3.0	3.0
Multilateral creditors[2]	1,657.3	24.1	32.6	83.7	99.6	112.6	1.6	1.7	1.8
IMF	441.1	6.4	8.7						
World Bank	122.9	1.8	2.4						
IADB	657.4	9.5	12.9						
Other Multilaterals	558.9	8.1	11.0						
o/w: CDB	253.6	3.7	5.0						
Bilateral Creditors	156.3	2.3	3.1	13.6	18.5	18.2	0.3	0.3	0.3
Paris Club	39.0	0.6	0.8	7.9	7.8	7.7	0.2	0.1	0.1
Non-Paris Club	117.3	1.7	2.3	5.7	10.7	10.5	0.1	0.2	0.2
Bonds	552.0	8.0	10.9	35.9	38.5	38.3	0.7	0.7	0.6
Commercial creditors[3]	109.1	1.6	2.1	17.1	18.3	18.4	0.3	0.3	0.3
Domestic	4,412.0	64.1	86.7	590.1	664.9	366.2	11.6	11.3	5.8
Held by residents, total	n/a	n/a	n/a						
Held by non-residents, total	n/a	n/a	n/a						
Short-term debt (incl. T-Bills)	366.3	5.3	7.2	362.5	366.3	-	7.1	6.2	-
Held by: central bank	211.1	3.1	4.2						
local banks	142.6	2.1	2.8						
local non-banks	12.7	0.2	0.2						
Long-term debt (incl. Bonds)	4,045.7	58.7	79.5	227.6	298.6	366.2	4.5	5.1	5.8
Held by: central bank	222.2	3.2	4.4						
local banks	1,029.1	14.9	20.2						
local non-banks	2,794.3	40.6	54.9						
Memo items:									
Collateralized debt[4]	0.0	0.0	0.0						
o/w: Related	0.0	0.0	0.0						
o/w: Unrelated	0.0	0.0	0.0						
Contingent liabilities	225.5	3.3	4.4						
o/w: Public guarantees	225.5	3.3	4.4						
o/w: Other explicit contingent liabilities[5]	n/a	n/a	n/a						
Nominal GDP	5,086.3			5,086.3	5,880.3	6,275.0			

Sources: Ministry of Finance

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

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

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

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

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

B. Public Debt Sustainability Analysis Assumptions

2. The specific assumptions used in the analysis are:

- ***Growth and Inflation***. After modest growth of 0.7 percent in 2021, the economy is projected to rebound strongly at about 11 percent for 2022 given a recovery in tourism reflecting a gradual economic improvement in key source countries as well as the steady implementation of vaccination programs. Over the medium term, growth is expected to return to the pre-crisis levels around late 2024. It would eventually stabilize at its long-term average of around 2 percent supported by normalization in the tourism sector, ongoing structural reforms, and strategic investment. The recent global increase in inflation, which is compounded by the War in Ukraine, could increase inflationary pressure going forward, given that Barbados depends on imports for fuels and food for the bulk of its needs. Average inflation is projected to return to its long-run average of around 2½ percent from 2024 onwards. The fiscal multiplier is conservatively set at 0.3 reflecting the FAD methodology staff's guidance on fiscal multipliers.[2]

- ***Primary Balance***. For FY2022/23, the primary balance is projected at 1 percent of GDP, from minus 1 percent of GDP in both FY2020/21 and FY2021/22, to strike a balance between the need to accelerate the reduction in public debt and to support the economy (with the recovery from the pandemic still far from complete). With a gradual economic recovery, the primary balance is projected to gradually increase to its pre-crisis level of 6 percent of GDP in the medium term. Subsequently, the primary surplus could be slightly decreased to accommodate long-term developmental needs to the extent that the long-term debt anchor of 60 percent of GDP by the end of FY2035/36 is respected. The realism tool for fiscal adjustments (figure 3) suggests that planned fiscal consolidation falls under top quartile of the distribution of historical fiscal adjustments in advanced and emerging countries. However, the authorities are strongly committed to long-term fiscal adjustments, and contingency measures would be sought should additional downside shocks materialize.

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

C. Baseline Projections and Risks

3. Risks to debt sustainability remain elevated over the projection period. Public debt remains above the 70 percent of GDP risk assessment threshold over the 5-year projection period. While the recent fiscal accommodation, along with lower nominal GDP, forced GFNs to temporarily exceed the 15 percent of GDP threshold in FY2020/21 and FY2021/22, financing needs are expected to stay strictly below the threshold in the projection period.

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

4. **Under the current baseline projections, public debt is projected to meet its long-term anchor of 60 percent of GDP by end-FY2035/36** (text chart, panel 1). While public debt has been brought back onto a downward trajectory in FY2021/22, the debt-to-GDP ratio is still around 30 percentage points of GDP above the pre-COVID debt trajectory envisaged under the original program. The ratio is expected to come down to the pre-COVID level of around 120 percent of GDP in FY2022/23. With the debt target pushed back by two years in the context of the fifth review, the authorities should be able to achieve the target through envisaged medium- and long-term primary surpluses balances backed by a gradual economic recovery and continued structural reforms. Owing to the recent debt restructurings and prudent borrowing strategy, the effective real interest rate is roughly equal to long-run real growth rate, which would generate favorable declining debt dynamics consistent with cumulative primary surpluses (text chart, panel 3). Projected primary balances are much larger than the debt-stabilizing primary balances, which are estimated to be around zero percent of GDP over the projection period (text chart, panel 4).

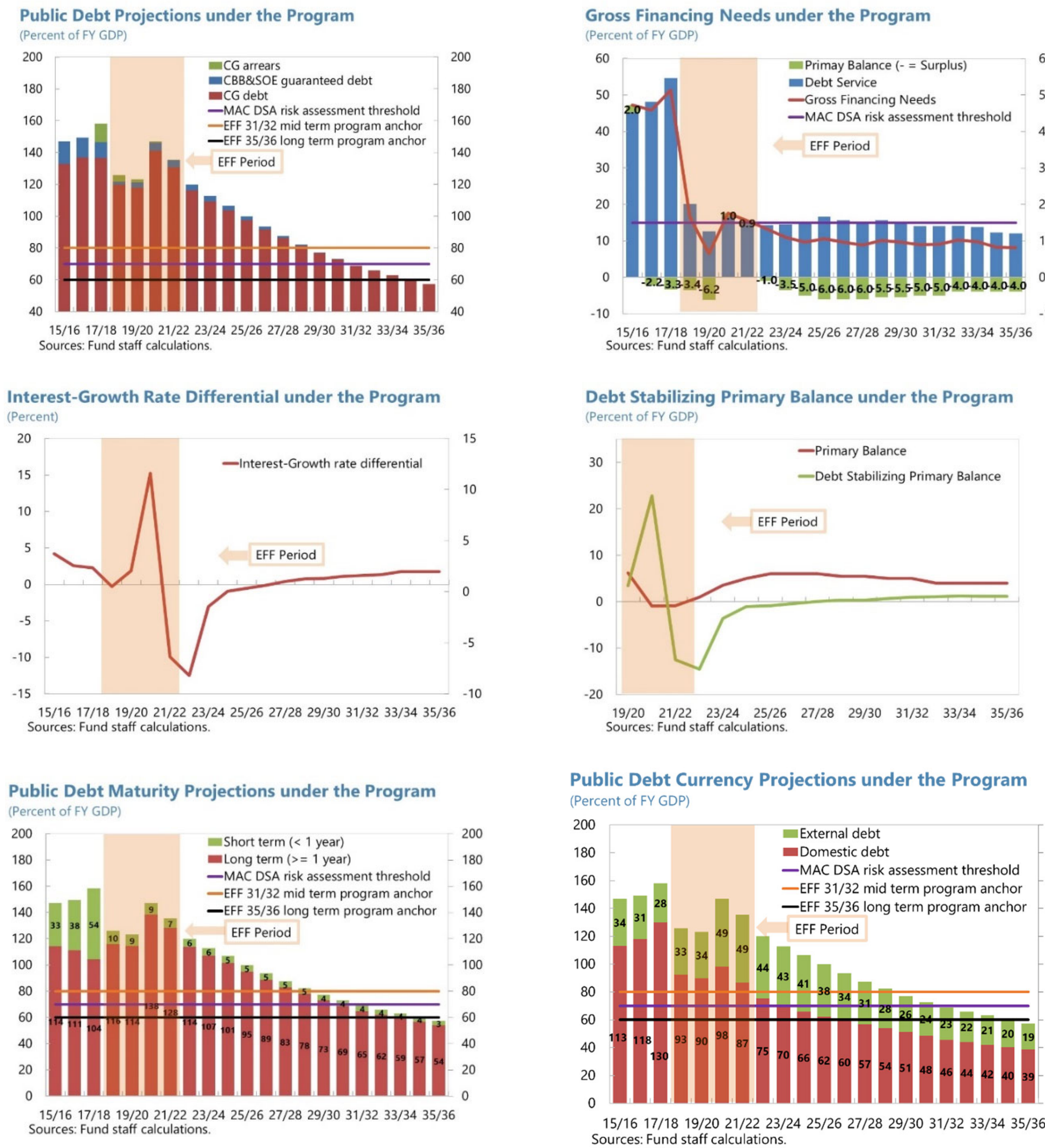
5. **The authorities' debt management strategy is appropriate.** With short-term debt, which accounts for around half of the financing needs, automatically rolled over based on the debt restructuring agreement, more than half of the remaining financing needs are expected to be financed by financial support from IFIs with favorable borrowing terms in the short run. The authorities aim to meet the remaining financing needs in the near team through domestic borrowing, and gradually complement it with external commercial borrowing. Support from the IFIs remains important given still-limited domestic demand for government debt. The authorities' long-term strategy is built on reaching and maintaining higher primary surpluses that would build confidence and allow to reduce short-term domestic debt and replace it with longer-term domestic (text chart, panel 5). Regaining external market access over the medium term is also premised on improved market perceptions since the debt restructuring (Barbados is currently rated as B- by S&P) based on sound macro policies, including the authorities' planned fiscal path. The commercial external debt, including recently restructured external debt (coming due from 2025 onwards), will be partly rolled over depending on prevailing market conditions and the availability of IFI financing. This should allow the authorities to maintain adequate reserve coverage while avoiding excessive reliance on expensive financing from capital markets. Consequently, by end-FY2035/36, external and domestic debt are projected to be about 19 and 39 percent of GDP, respectively (text chart, panel 6).

6. **Unfavorable outturns of these debt-dynamics determinants contribute important sources of risks to debt sustainability**. In particular, the risk of a significant deviation from the gradual recovery path going forward—including due to repeated emergences of new COVID variants and the resultant delay of a recovery in tourist arrivals—would call into question the ability of the authorities to resume fiscal consolidation. Further, delays in structural reforms to generate high primary balances in the long-run partly due to difficulty of making progress in needed public consultation process would hamper fiscal sustainability. However, public support for the adjustment program remains strong, and barring another COVID variants significantly delaying an economic recovery or other unforeseen shocks including intensified natural disasters, or significant spillovers of the war in Ukraine onto the global economy, the programmed fiscal adjustment should be feasible as evidenced by primary balances prior to the pandemic. The authorities have started injecting capital to the NIS to restore its

long-term financial soundness, which was impaired by the debt restructuring and a large temporary increase in unemployment benefits due to the COVID-19 pandemic. Fiscal consolidation will be further entrenched by continued SOE reforms, and the newly introduced procedural fiscal rule. On the other hand, were growth to overperform relative to baseline projections, the authorities could accelerate efforts towards debt reduction.

Barbados: Public Debt Projections 1/

(In percent of FY-GDP)



1/ Including IMF BOP support.

D. Stress Tests

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

- **Debt would stay broadly on a steady downward trajectory even under stress tests**. The high level of debt remains a concern in the next 5 projection years. However, the planned fiscal adjustment along with a cautious borrowing strategy would help put public debt on a steady downward trajectory. This trajectory is not meaningfully affected by both primary balance and interest rate shocks, while real GDP growth, the combined macro-fiscal, and contingent liability shocks would result in a slower debt reduction path with the debt-to-GDP ratio projected to be around 30 ppt higher than under the baseline at the end of the projection period.[3]

- **Gross financing needs are susceptible to three stress test scenarios**. Stress tests suggest that real GDP, contingent liability, and combined shocks would temporally push the GFNs to GDP ratio above the 15 percent threshold. With the low debt service stemming from restructured debt and primary surpluses assumed for the projection period, Barbados' liquidity risks remain manageable.

8. The debt profiles vulnerabilities analysis points to low or moderate risks. The spread on external debt is currently around 500 bps, which is below the high-risk threshold of 600 basis points. External debt held by non-residents, foreign currency-denominated debt, and external financing requirement also suggest moderate risk. Moreover, all new external debt incurred in 2020 was provided by multilateral IFIs with favorable borrowing terms, posing limited risk to future debt service. Further, the share of external debt is expected to decrease over time as nominal public debt levels decline and domestic demand for government debt gradually increase as confidence in fiscal sustainability builds up. Short-term debt continues pointing to a low risk with a small annual decrease in the share of total debt.

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

E. Public Debt Sustainability

10. On balance Barbados' debt is assessed as sustainable. Public debt has been brought back onto a gradual downward trajectory under the current baseline projections after having been temporarily interrupted by the COVID-19 shocks on economic growth and the resultant

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[3] The financial contingent liability shock includes a 1 standard deviation of real GDP growth, a 25 basis points decrease in inflation for every 1 percentage point decrease in real growth, unchanged fiscal revenues, an increase in expenditures of 5 percent of the size of the banking sector, and interest rate increase by 25 basis points for every 1 percent of GDP deterioration in the primary balance.

accommodative fiscal policy (Figure 2). Public debt is projected to achieve the 60 percent-to-GDP debt target in FY2035/36 under baseline projections. With the debt target pushed back by two years to FY2035/36 at the time of the fifth review, reasonably ambitious primary surpluses should allow the authorities to achieve the debt target in time. Combined with the authorities' strong performance under the EFF program, commitment to long-term fiscal consolidation, and cautious debt management strategy, Barbados' debt is assessed as sustainable.

11. Risks to debt sustainability remain elevated. Maintaining high primary balances over an extended period through the continued implementation of structural reforms remains a challenge and key risk to debt sustainability. Also, a recovery in the tourism sector, while benefiting from post-pandemic normalization, is vulnerable to the projected global economic slowdown, including in source countries, and continued US dollar appreciation. Repeated emergences of COVID-19 variants might weigh on an economic recovery and revenue collections. There are however mitigating factors such as no roll-over risks associated with short-term debt and favorable external debt service schedule owing to debt restructuring and recent IFI support, suggesting relatively low liquidity risks. As evidenced by stress tests, growth and macro-fiscal shocks would jeopardize debt sustainability, and high vulnerability to a contingent liability shock scenario confirms the need to increase resiliency to natural disasters and strengthen SOEs' financial viability, in addition to encouraging continued vigilance on the soundness of the financial sector. The broader use and strengthening of state-contingent financial instruments would be encouraged to further increase its resilience against natural disasters.

F. External Debt Sustainability Analysis

12. There is no significant concern over external debt sustainability[4]. In FY2021/22, external debt remained at an elevated level of 49 percent of GDP after a sharp rise in FY2020/21 due to strong support from IFIs and a sharp decline in nominal GDP. It is projected to gradually decrease to about 30 percent of GDP by the end of the projection period. Going forward, this downward trend will be supported by the public debt management strategy aiming to limit expensive financing from the external capital market and rely on multilaterals and/or domestic sources of financing. Risks associated with external debt have been reduced by the 2018-19 debt restructuring with smoother and lower debt service and by the increased share of IFIs among non-resident creditors. Under any of the stress tests considered, external debt is not projected to be higher than about 40 percent of GDP (Figure 7). A continued worsening in the current account deficit for example due to a more prolonged pandemic and a further increase in commodity prices would be a key risk as indicated by the stress test.

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

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

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

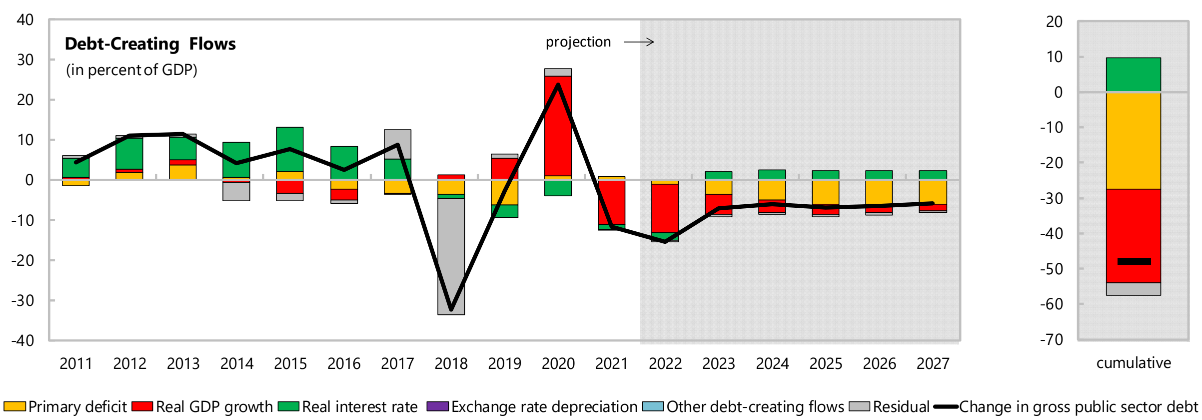
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2011-2019 [2]	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	135.0	147.0	135.4	119.9	112.8	106.7	99.9	93.4	87.5
Public gross financing needs	33.7	17.8	15.6	13.3	11.0	9.4	9.9	8.5	8.9
FY Real GDP growth (in percent)	-0.3	-17.7	8.4	10.3	4.5	2.9	2.5	2.2	1.8
Inflation (FY GDP deflator, in percent)	1.6	6.8	3.8	4.8	2.1	2.0	2.0	2.0	2.0
FY Nominal GDP growth (in percent)	1.3	-12.1	12.6	15.6	6.7	5.0	4.6	4.2	3.8
Effective interest rate (in percent) [4]	5.7	2.8	3.1	3.7	4.1	4.3	4.4	4.5	4.6

As of May 13, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		468
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	B-	n.a.
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	1.7	23.8	-11.6	-15.5	-7.1	-6.1	-6.8	-6.5	-5.9	-47.9	
Identified debt-creating flows	4.5	21.9	-11.4	-14.9	-6.5	-5.7	-6.2	-5.8	-5.3	-44.4	
Primary deficit	-1.0	1.0	0.9	-1.0	-3.5	-5.0	-6.0	-6.0	-6.0	-27.5	0.7
Primary (noninterest) revenue and grants	27.5	29.9	28.9	29.6	29.1	29.5	29.7	29.7	29.7	177.3	
Primary (noninterest) expenditure	26.5	30.9	29.8	28.6	25.6	24.5	23.7	23.7	23.7	149.8	
Automatic debt dynamics [5]	5.5	20.9	-12.4	-13.9	-3.0	-0.7	-0.2	0.2	0.7	-16.9	
Interest rate/growth differential [6]	5.5	20.9	-12.4	-13.9	-3.0	-0.7	-0.2	0.2	0.7	-16.9	
Of which: real interest rate	5.2	-3.9	-1.3	-1.9	2.1	2.4	2.4	2.3	2.3	9.7	
Of which: FY real GDP growth	0.2	24.8	-11.0	-12.1	-5.1	-3.1	-2.6	-2.1	-1.7	-26.5	
Exchange rate depreciation [7]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net financing sources - external - Privatization (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroarea loans)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8]	-2.9	1.9	-0.2	-0.6	-0.6	-0.4	-0.6	-0.7	-0.5	-3.5	



Source: IMF staff.

1/ Public sector is defined as central government and includes public guarantees, defined as SOE debt and the IMF loan t the CBB under the EFF. Data reported at the end of the April-March fiscal year. E.g.,: 2020 = April 2020 - March 2021.

2/ Based on available data.

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

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

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

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

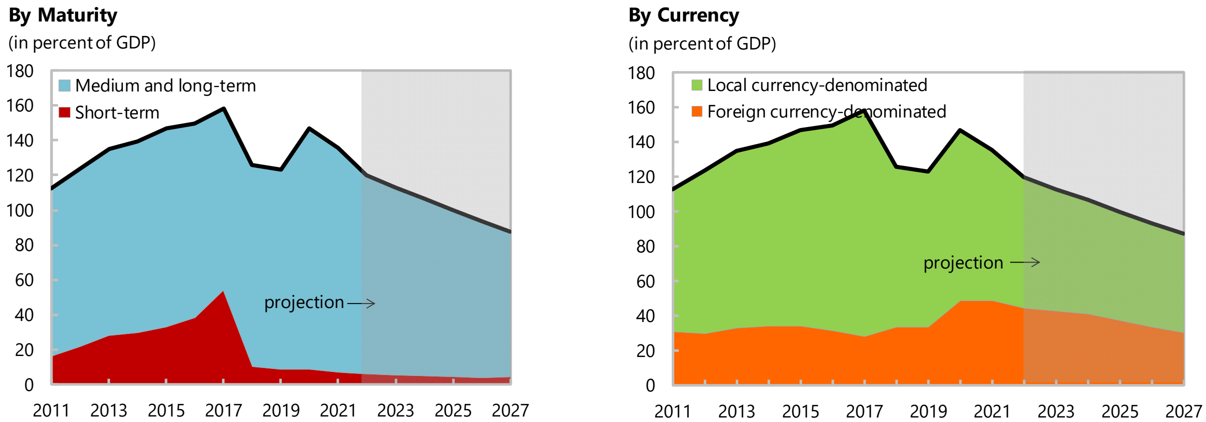
7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

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

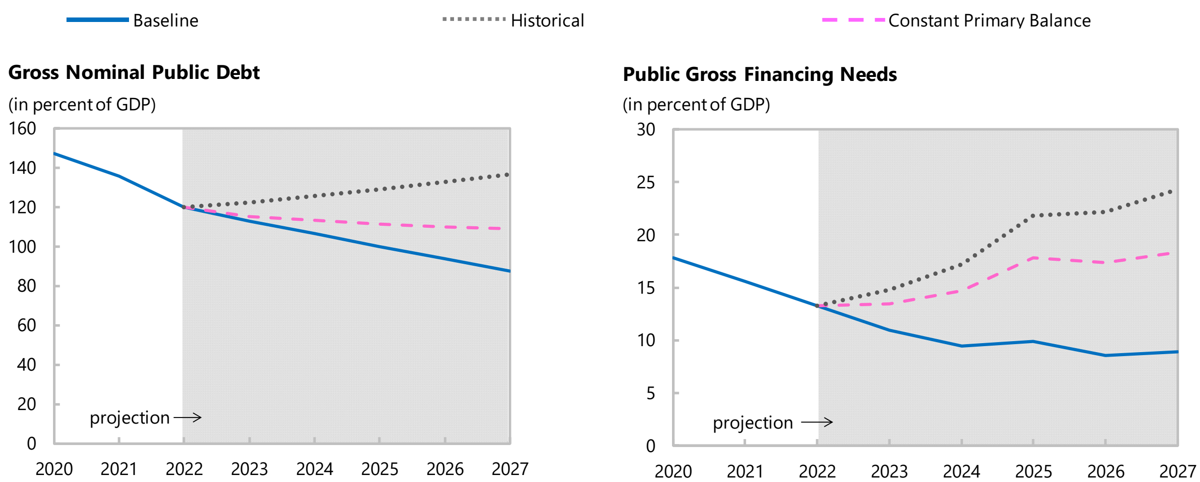
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt



Alternative Scenarios



Underlying Assumptions

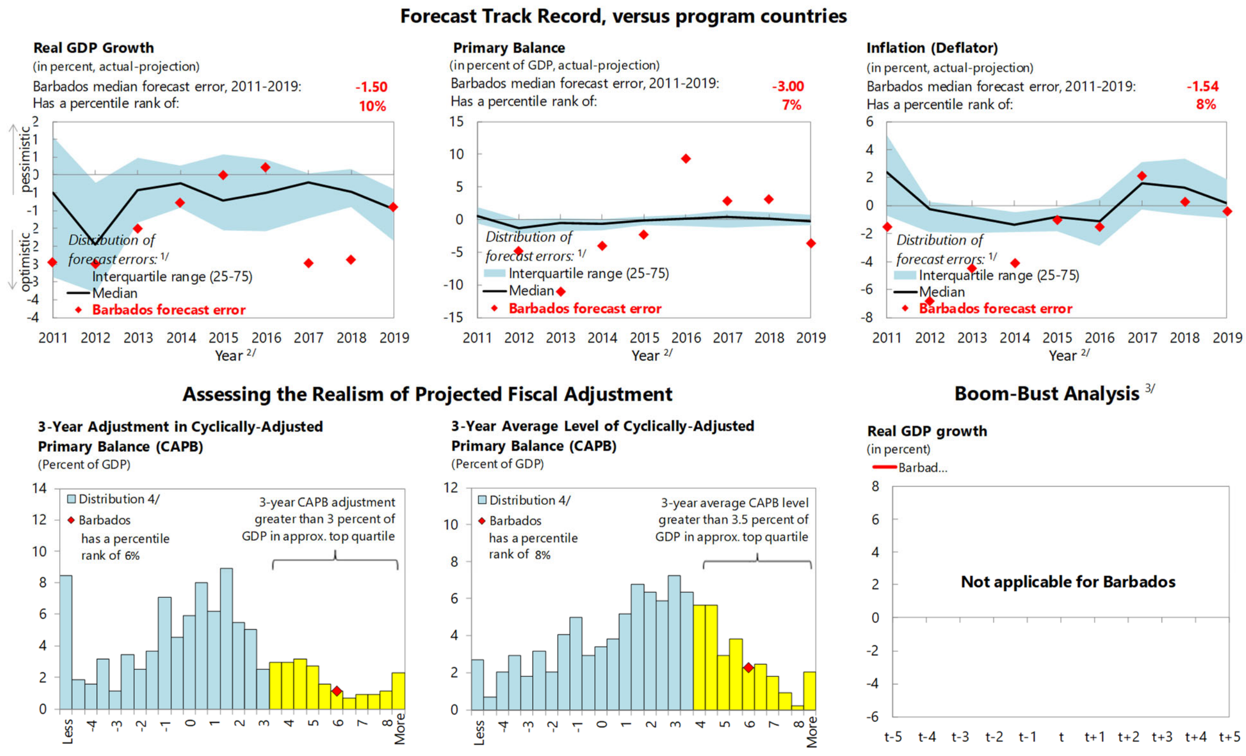
(in percent)

Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	10.3	4.5	2.9	2.5	2.2	1.8
Inflation	4.8	2.1	2.0	2.0	2.0	2.0
Primary Balance	1.0	3.5	5.0	6.0	6.0	6.0
Effective interest rate	3.7	4.1	4.3	4.4	4.5	4.6
Constant Primary Balance Scenario						
Real GDP growth	10.3	4.5	2.9	2.5	2.2	1.8
Inflation	4.8	2.1	2.0	2.0	2.0	2.0
Primary Balance	1.0	1.0	1.0	1.0	1.0	1.0
Effective interest rate	3.7	4.1	4.3	4.3	4.5	4.6

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	10.3	-1.1	-1.1	-1.1	-1.1	-1.1
Inflation	4.8	2.1	2.0	2.0	2.0	2.0
Primary Balance	1.0	0.5	0.5	0.5	0.5	0.5
Effective interest rate	3.7	4.1	4.4	4.5	4.7	5.0

Source: IMF staff.

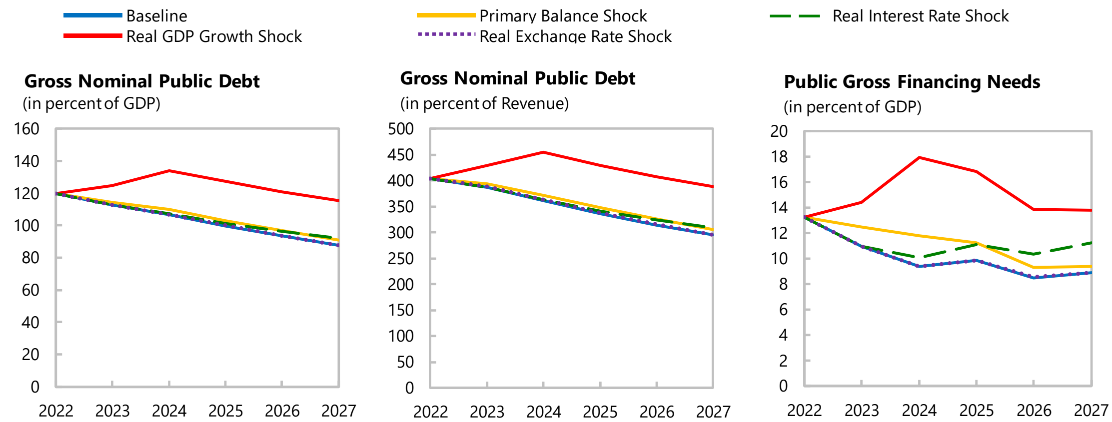
Figure 3. Barbados: Public DSA – Realism of Baseline Assumptions



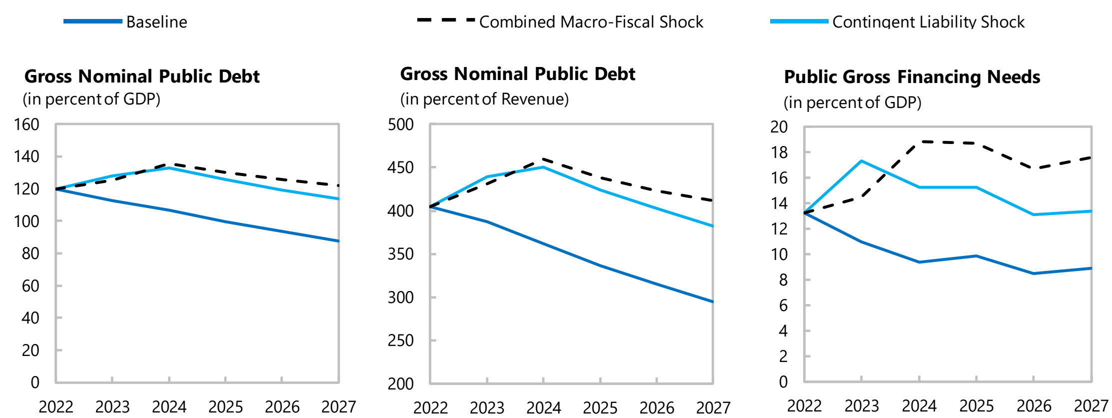
Source : IMF Staff.
1/ Plotted distribution includes program countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Barbados, as it meets neither the positive output gap criterion nor the private credit growth criterion.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

Figure 4. Barbados: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	10.3	4.5	2.9	2.5	2.2	1.8
Inflation	4.8	2.1	2.0	2.0	2.0	2.0
Primary balance	1.0	1.9	3.4	6.0	6.0	6.0
Effective interest rate	3.7	4.1	4.4	4.4	4.5	4.6
Real Interest Rate Shock						
Real GDP growth	10.3	4.5	2.9	2.5	2.2	1.8
Inflation	4.8	2.1	2.0	2.0	2.0	2.0
Primary balance	1.0	3.5	5.0	6.0	6.0	6.0
Effective interest rate	3.7	4.1	4.9	5.3	5.8	6.3
Combined Shock						
Real GDP growth	10.3	-2.2	-3.8	2.5	2.2	1.8
Inflation	4.8	0.4	0.3	2.0	2.0	2.0
Primary balance	1.0	1.3	0.6	6.0	6.0	6.0
Effective interest rate	3.7	4.1	5.0	5.6	6.1	6.7

Real GDP Growth Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	10.3	-2.2	-3.8	2.5	2.2	1.8
Inflation	4.8	0.4	0.3	2.0	2.0	2.0
Primary balance	1.0	1.3	0.6	6.0	6.0	6.0
Effective interest rate	3.7	4.1	4.4	4.5	4.6	4.7
Real Exchange Rate Shock						
Real GDP growth	10.3	4.5	2.9	2.5	2.2	1.8
Inflation	4.8	2.4	2.0	2.0	2.0	2.0
Primary balance	1.0	3.5	5.0	6.0	6.0	6.0
Effective interest rate	3.7	4.1	4.3	4.3	4.4	4.5
Contingent Liability Shock						
Real GDP growth	10.3	-2.2	-3.8	2.5	2.2	1.8
Inflation	4.8	0.4	0.3	2.0	2.0	2.0
Primary balance	1.0	-1.5	5.0	6.0	6.0	6.0
Effective interest rate	3.7	4.1	4.5	4.4	4.6	4.7

Source: IMF staff.

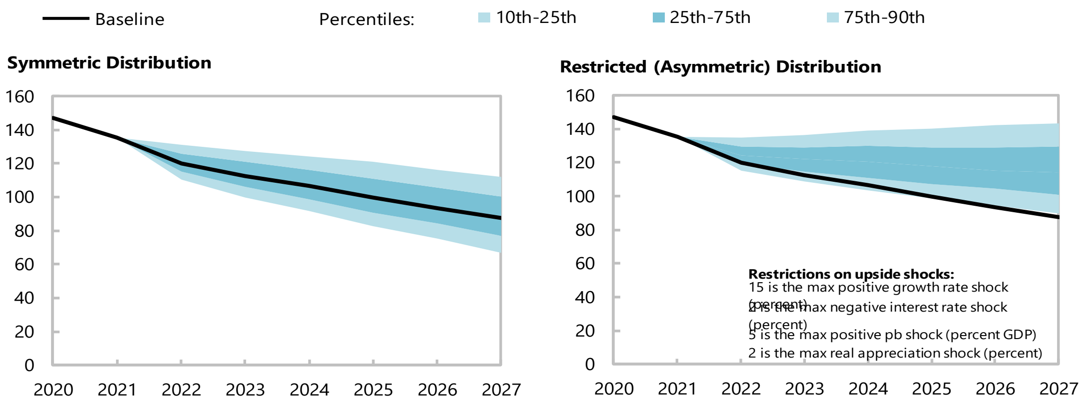
Figure 5. Barbados: Public DSA Risk Assessment

Heat Map

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

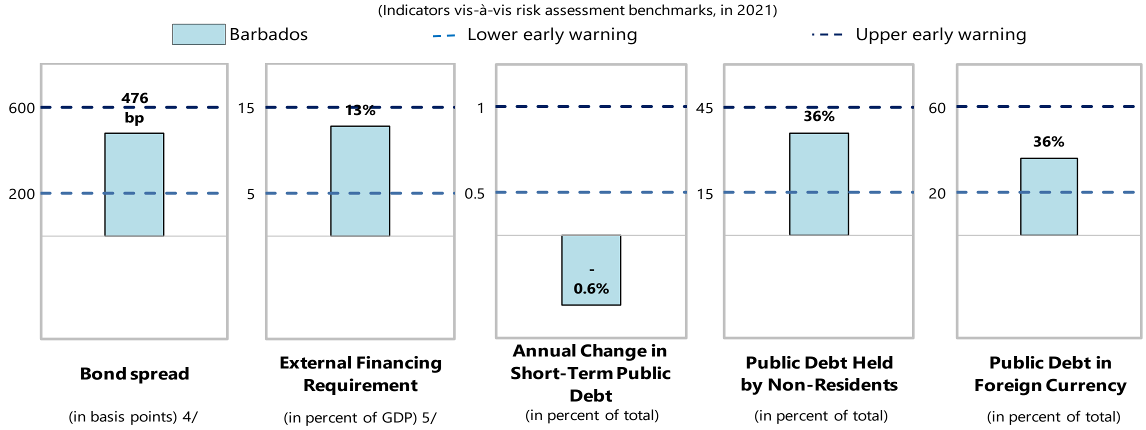
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

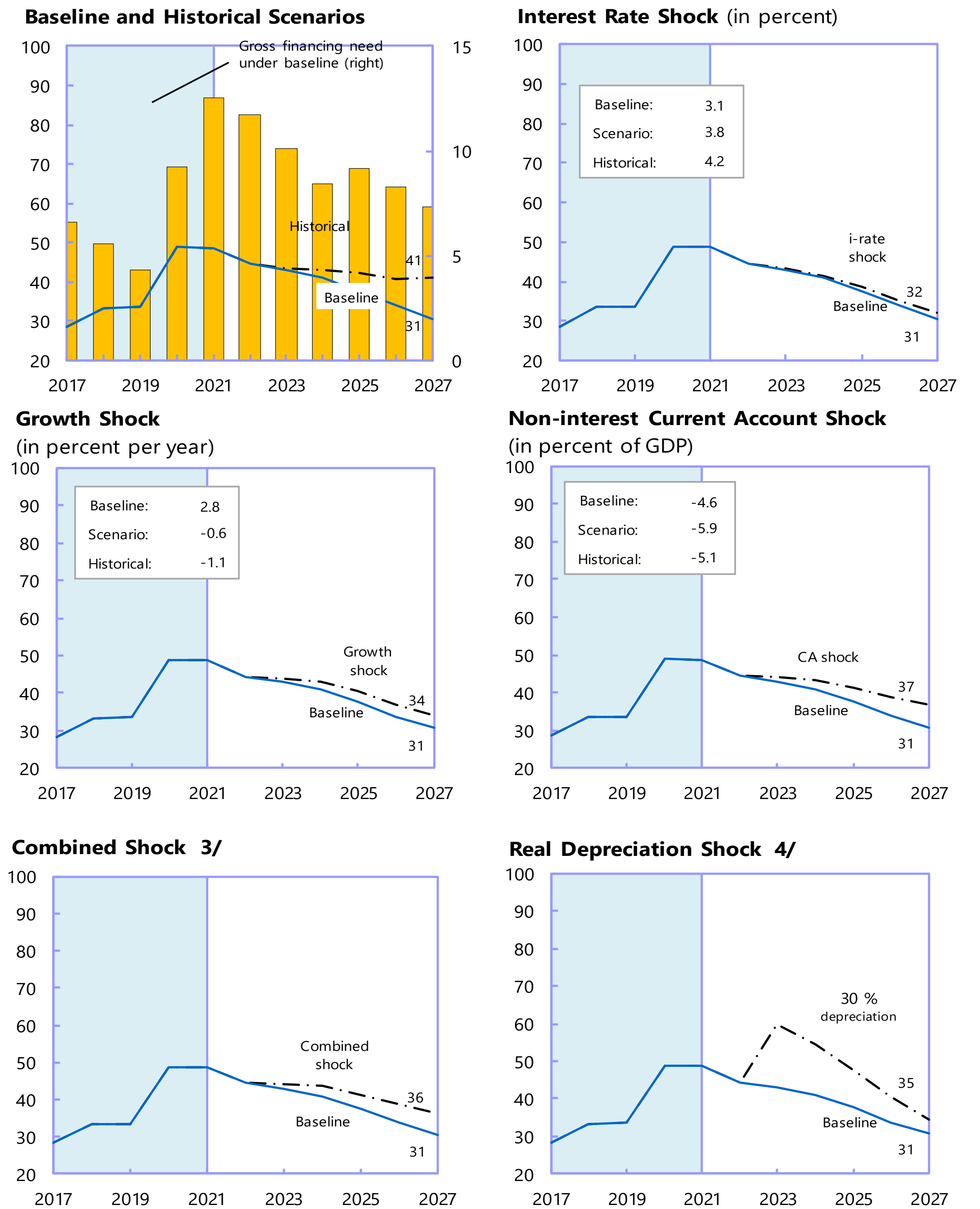
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white. Lower and upper risk-assessment benchmarks are:

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

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 12-Feb-22 through 13-May-22.

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

Figure 6. Barbados: External Debt Sustainability: Boundary Tests 1/ 2/
(External debt in percent of FY-GDP)



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

Table 1. Barbados: External Debt Sustainability Framework, 2017–2027

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

	Actual							Projections						
	2017	2018	2019	2020	2021			2022	2023	2024	2025	2026	2027	Debt-stabilizing non-interest current account 6/
Baseline: External debt	28.5	33.4	33.5	48.8	48.7			**44.5**	**42.9**	**40.9**	**37.6**	**33.8**	**30.6**	**-4.6**
Change in external debt	-3.9	4.9	0.1	15.3	-0.2			-4.2	-1.6	-1.9	-3.3	-3.8	-3.2	
Identified external debt-creating flows (4+8+9)	-0.2	-1.1	-1.6	3.4	0.9			0.3	1.3	0.0	-1.0	-0.9	-2.0	
Current account deficit, excluding interest payments	2.1	3.5	2.5	5.5	9.6			8.9	7.3	5.4	4.1	3.4	2.6	
Deficit in balance of goods and services	-1.5	-1.5	-3.2	7.6	9.7			6.2	4.0	2.1	0.8	0.1	-0.6	
Exports	42.0	40.8	44.0	30.5	28.8			33.2	34.8	35.8	36.3	36.7	37.1	
Imports	40.5	39.3	40.8	38.0	38.5			39.4	38.8	37.9	37.1	36.9	36.5	
Net non-debt creating capital inflows (negative)	-3.1	-4.3	-4.7	-8.4	-4.6			-5.5	-5.4	-5.5	-5.3	-4.7	-5.1	
Automatic debt dynamics 1/	0.9	-0.3	0.6	6.2	-4.2			-3.2	-0.7	0.1	0.2	0.4	0.5	
Contribution from nominal interest rate	1.8	0.5	0.6	1.6	1.3			1.2	1.2	1.2	1.2	1.2	1.1	
Contribution from real FY GDP growth	-0.1	0.2	1.5	6.8	-3.7			-4.3	-1.9	-1.2	-1.0	-0.8	-0.6	
Contribution from price and exchange rate changes 2/	-0.8	-1.0	-1.5	-2.1	-1.8			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-3.7	6.1	1.7	12.0	-1.1			-4.5	-2.9	-1.9	-2.3	-2.9	-1.3	
External debt-to-exports ratio (in percent)	67.9	81.9	76.1	160.3	168.7			133.8	123.2	114.3	103.7	92.1	82.4	
Gross external financing need (in billions of US dollars) 4/	0.3	0.3	0.2	0.4	0.6			0.7	0.6	0.6	0.6	0.6	0.5	
in percent of FY GDP	6.6	5.6	4.3	9.2	12.5			11.7	10.2	8.4	9.1	8.3	7.3	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**44.5**	**43.4**	**43.2**	**42.4**	**40.9**	**41.0**	**-4.2**
Key Macroeconomic Assumptions Underlying Baseline														
Nominal FY GDP (US dollars)	5.0	5.1	5.1	4.5	5.1			5.9	6.3	6.6	6.9	7.2	7.5	
FY Real GDP growth (in percent)	0.2	-0.8	-4.4	-17.7	8.4	-1.1	6.7	10.3	4.5	2.9	2.5	2.2	1.8	
FY GDP deflator in US dollars (change in percent)	2.6	3.5	4.6	6.8	3.8	2.3	2.5	4.8	2.1	2.0	2.0	2.0	2.0	
Nominal external interest rate (in percent)	5.6	1.7	1.8	4.2	3.0	4.2	1.5	2.8	2.9	3.0	3.1	3.2	3.3	
Growth of exports (US dollar terms, in percent)	0.8	-0.1	7.9	-39.2	6.6	-2.3	13.7	33.2	11.7	8.1	5.9	5.5	4.9	
Growth of imports (US dollar terms, in percent)	-0.4	-0.4	3.9	-18.1	14.0	-1.2	7.9	18.2	5.1	2.6	2.3	3.6	2.8	
Current account balance, excluding interest payments	-2.1	-3.5	-2.5	-5.5	-9.6	-5.1	2.5	-8.9	-7.3	-5.4	-4.1	-3.4	-2.6	
Net non-debt creating capital inflows	3.1	4.3	4.7	8.4	4.6	5.5	2.4	5.5	5.4	5.5	5.3	4.7	5.1	

Sources: Barbados Authorities and Fund staff projections.

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

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

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

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

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

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

Appendix I. Letter of Intent

Bridgetown, Barbados
May 27, 2022

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

Dear Ms. Georgieva,

Since the approval of the extended arrangement under the Extended Fund Facility (EFF) by the IMF's Executive Board on October 1st, 2018, the Barbados Economic Reform and Transformation (BERT) Plan is restoring macroeconomic stability and putting the economy on a path of sustainable and inclusive growth. The country's international reserves have increased sharply to about US$1.5 billion by March 2022 supported by IFI loans, the public debt restructuring has been completed, and reforms of state-owned enterprises have been undertaken. The strategy of accelerating growth focuses on attracting new investment in areas such as the renewable energy sector, creative and artistic industries, agro-industries, the international business sector and tourism.

The ongoing global coronavirus pandemic poses a monumental challenge for our economy, which is heavily dependent on tourism. Tourist arrivals have been a fraction of normal levels since 2020, with a negative impact on economic growth, government revenue, our foreign exchange earnings and jobs. The Extended Arrangement under the EFF with the IMF has been instrumental in helping address this unprecedented shock. Beyond assisting to restore macroeconomic stability thus providing critical fiscal space to offset the direct economic fallout, the EFF arrangement was augmented during both the third and fourth reviews (by SDR 66 million and SDR 48 million respectively) and made available for budget support. To facilitate this, a Memorandum of Understanding has been established between the Central Bank of Barbados and the Ministry of Finance, Economic Affairs and Investment regarding their respective responsibilities for servicing financial obligations to the IMF.

The impact of the global pandemic continues to weigh on economic activity while the outlook remains uncertain in light of global economic spillovers emanating from the evolving war in Ukraine. Nevertheless, my government managed fiscal affairs such that the primary balance target for FY2021/22 of minus one percent of GDP established during the sixth review was met. Looking ahead, the FY2022/23 budget seeks to gradually return the primary balance into positive territory as originally envisioned under the EFF arrangement targeting a one percent of GDP surplus as a first step. This stance balances the ongoing need for pandemic-related outlays and temporary buffers against surging commodity prices against the need to unwind fiscal stimulus as the economy recovers to safeguard fiscal sustainability. My government remains committed to sustained primary surpluses over the medium-term in keeping with the target of bringing the debt-to-GDP ratio below 60 percent by FY2035/36.

The Government believes that the policies undertaken in conjunction with the EFF arrangement have helped successfully achieve the programme's objectives. For the remaining programme period, the Government will maintain a close policy dialogue with Fund staff and stands ready to take any additional measures, as necessary, to ensure the achievement of our objectives under the EFF. The Government will also continue to share with the Fund staff all the relevant information required to complete the seventh and final programme review.

The Government will observe the standard performance criteria against imposing or intensifying foreign exchange currency restrictions, introducing or modifying multiple currency practices, concluding bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement and imposing or intensifying import restrictions for balance of payments reasons.

As part of our communication policy and our full commitment to transparency, we intend to publish this letter on the websites of the Ministry of Finance, Economic Affairs and Investment and the Central Bank of Barbados to keep Barbadians and international agents informed about our policy actions and intentions. We also authorize the Fund to publish this letter, together with the Staff Report, and its attachments.

We have continued to meet BERT and EFF programme targets, despite increasingly challenging conditions owing to the global coronavirus outbreak. All quantitative program targets for end-December 2021 and end-March 2022 were achieved. All structural benchmarks for the seventh review have also been met apart from the tabling of a revised public pension law and the submission of all outstanding NIS financial statements. While progress on these benchmarks have lagged—largely owing to pandemic-related delays—efforts to bring these to fruition are ongoing. During my FY2022/23 budget address, I laid out policy proposals for pension reform and discussions with counterparts are now underway. Further, the submission of all outstanding financial statements is envisioned as part of the NIS' transition to a statutory corporation by end-2022.

We therefore request the completion of the seventh and final review of the extended arrangement under the EFF, with the full purchase of SDR 17 million to be made available as budget support.

We thank you for your partnership and your willingness to work with the Government and the people of Barbados as we move to restore our economy to a sustainable and equitable growth path.

Very truly yours,

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

Attachment I. Supplementary Memorandum of Economic and Financial Policies

I. PROGRAMME OBJECTIVES AND GROWTH STRATEGY

1. **Barbados has embarked on a comprehensive Economic Recovery and Transformation (BERT) plan aimed at restoring fiscal and debt sustainability, addressing falling reserves, and increasing growth**. A sharp reduction in the debt burden will support higher private sector-led investment and growth as economic confidence is restored. In light of the unprecedented COVID-19 health pandemic, we have revised our debt-to-GDP ratio from 60 percent by FY2033/34 to 60 percent by FY2035/36. This will be achieved with a combination of fiscal consolidation, policies to boost growth, reform of our public finances and debt restructuring. We aim to make Barbados the best place to live, work, and enjoy life—in a country that is green, climate resilient, and that aims to be fossil-fuel free; a smart, technological nation, a culturally rich and diverse nation. We must become a cohesive nation achieving sustainable development that is built on principles of social justice and economic opportunity for all.

2. **The IMF Executive Board approved a four-year extended arrangement under the Extended Fund Facility (EFF) to support Barbados' economic program on October 1, 2018**. Reviews of the Extended Arrangement under the EFF have been conducted and completed at regular 6-month intervals with the most recent (sixth review) completed in December 2021. By end-2021, international reserves had recovered to about US$1.5 billion and the restructuring of public debt concluded. The completion of the debt restructuring has helped both to reduce economic uncertainty and put public debt on a clear downward trajectory over the medium and long term. A significantly reduced Government interest bill helps create much-needed fiscal space for increased social spending and investment in infrastructure.

3. **We have continued to meet BERT and EFF programme targets, despite increasingly challenging conditions owing to the global coronavirus outbreak.** All structural benchmarks (SBs) targeted for completion during this review were met apart from the tabling of a revised public pension law and the submission of all outstanding NIS financial statements, mainly reflecting pandemic-related delays (Table 1). All quantitative program targets for end-December 2021 and end-March 2022 were also achieved (Table 2).

4. **Broad agreement on the need to reform the economy is critical for the success of the programme**. The programme has been developed, implemented, and monitored with the full support of our Social Partnership. A BERT Monitoring Committee (BERT MC) with broad societal representation has been set up as a sub-Committee of the Social Partnership and tasked with monthly monitoring and periodic communication to the public; BERT MC is now publishing quarterly reports.

5. **The Government remains fully committed to the September 2018 Memorandum of Economic and Financial Policies (MEFP), and the subsequent Supplementary MEFPs issued in**

June and November (2019); May and November (2020); and May and November (2021). Unless modified below, those policies remain valid in full. Programme structural benchmarks and updated quantitative targets are presented in Table 1 and Table 2, respectively.

II. FISCAL STRATEGY AND POLICY PRIORITIES

6. **Barbados is still grappling with the severe economic fallout from the global coronavirus outbreak.** The pandemic reduced tourist arrivals, which remain sharply below normal levels, resulting in an economic contraction of 14 percent in 2020 that simultaneously compromised government revenues and increased expenditure needs. The modest 2021 economic recovery of 0.7 percent was complicated by multiple domestic surges in COVID-19 (January and August) and two natural disasters that struck in the first half of the year (volcanic ashfall from neighboring St. Vincent in April, and a category 1 hurricane, Elsa in July). Consequently, the primary balance targets in FY2020/21 and FY2021/22 were necessarily revised down from the surplus of 6 percent of GDP originally envisaged under our homegrown BERT Plan (and achieved in FY2019/20) to a deficit of 1 percent of GDP respectively. Although the outlook for 2022 is highly uncertain with the pandemic still evolving and the war in Ukraine posing new headwinds, the fiscal position is expected to gradually revert back into positive territory now that a nascent recovery is underway. The FY2022/23 budget targets a one percent of GDP primary surplus and the government remains committed to achieving sustained primary surpluses over the medium-term in keeping with the target of bringing the debt-to-GDP ratio below 60 percent by FY2035/36.

7. **We have adopted a targeted fiscal response to the unprecedented health crisis aimed at protecting lives and livelihoods.** The response to the COVID-19 pandemic has been phased and tailored to the evolution of the health crisis and magnitude of the economic fallout. Initial investments in health equipment and quarantine facilities were followed by expanded welfare payments to protect vulnerable households through the introduction of the Household Survival Program as well as investments in monitoring COVID compliance in schools, commercial enterprises, and communities. Liquidity support was extended to the National Insurance Scheme (NIS) via the repurchase of government bonds and a capital injection of B$143 million was approved by cabinet in June 2021 to ensure adequate resources to accommodate a surge in unemployment benefit and severance claims. To support the tourism sector, which has been dealt a particularly heavy blow by the pandemic, we created the Barbados Employment and Sustainable Transformation (BEST) plan. An affordable housing programme (HOPE) has also been launched that increases affordability by making use of renewable energy technology. A temporary COVID relief jobs program was also rolled out to generate contractual employment opportunities to promote health safety and boost food production, while targeted cash transfers were extended to small businesses and vendors affected by the second national pause in February 2021. Direct COVID-19 related expenditures amounted to roughly 2.3 and 2.1 percent of GDP in FY 2020/21 and FY2021/22 respectively. Pandemic-related expenditures will continue during FY2022/23 to sustain the implementation of the national vaccination strategy and support households while economic activity gradually reverts back to normal.

8. We have reformed our Corporate Income Tax (CIT) to unify the treatment of domestic and international companies and to comply with EU and OECD guidelines. All companies have been registered under a new law; a single converged scale of tax rates now applies to all companies. Profits up to BRB$1 million are taxed at a low rate of 5.5 percent, while any profit above BRB$30 million is taxed at 1 percent (with two intermediate brackets). Several allowances, including a foreign currency earnings allowance, have been abolished to further streamline the CIT. The new low CIT rates are expected to help create an excellent climate to do business in Barbados, while the increase in the rate for the highest income bracket (from 0.25 percent to 1 percent) should help limit the impact on revenue collection. The Government of Barbados recently joined the political agreement within the OECD Inclusive Framework on a new international tax framework, with an implementation date of 2023. The potential impact has been reviewed by a public and private sector task force established by the Barbados Revenue Authority (BRA) and the findings and recommendations will be presented to the Ministry of Finance. Pillar One of the agreement would formulaically reallocate more than US$125 billion of profits from (initially) around 100 of the world's largest and most profitable multinational enterprises (MNEs) to "market jurisdictions". Because of the profit allocation method, this initiative is likely to have little impact on Barbados's tax revenues. Pillar Two secures an agreement on a global minimum tax regime. Following the development of model rules by the end of November 2021, a detailed implementation framework is expected by the end of 2022. While the vast majority of businesses in Barbados are outside the scope of the agreement, the 15 percent minimum corporate tax rate may apply to some Barbados Constituent Entities (CEs) of foreign owned MNEs based outside Barbados.

9. Personal Income Tax (PIT) rates have been reduced to lessen the discrepancy between CIT and PIT rates. The top PIT rate was reduced to 28.5 percent as of January 1, 2020. To compensate for the revenue loss, the base of the VAT was broadened; land taxes and tourism room rate levies were increased; and new gaming taxes and online taxes have been introduced. The goal is to create a modern tax system, aimed at supporting growth and enhancing fairness.

10. Strengthening tax administration is an important priority, particularly in the context of the current pandemic. All taxpayers are now able to file and pay their taxes online. The BRA has implemented a new Tax Administration Management Information System (TAMIS), allowing for legacy IT systems to be progressively retired, and developed a new organization structure and comprehensive strategic plan. As part of this effort, the BRA has established a program to address pre-TAMIS taxpayer refunds and debt using a dedicated task force for a two-year period (*structural benchmark for end-September 2021*). As part of the two-year program, the BRA has completed the vetting process and finalize tally of legacy arrears. The Government will undertake a phased clearance of these legacy tax arrears, prioritizing the largest class of claims (VAT). Overall, the BRA is committed to repay outstanding tax refunds and is implementing its system whereby refunds due to taxpayers are being paid within six months after the filling date. BRA is currently one-third of the way through the review of receivables balances (amounts owed by taxpayers to the Authority) and, once completed, will implement an aggressive recovery program.

11. We continue to enhance resources and improve our strategies for taxpayers in the large taxpayer segment and compliance more broadly. The recently formed Large Taxpayer Unit (LTU) has developed and operationalized a compliance improvement plan with the goal of improving 'on-time' filing of returns for all large taxpayers to over 90 percent for all core taxes (VAT, CIT, PAYE) (*structural benchmark for end-March 2021)*. The plan includes: (i) key performance indicators; (ii) establishes baseline performance; (iii) and introduces timely (weekly/monthly/quarterly) reporting to monitor performance in-line with the outcomes of the BRA's annual business plan. We have also made use of third-party data to increase the accuracy of the taxpayer base, which will drive performance in several key outcome areas. Following the execution of an initial 20 "issue-based" audits on taxpayers in the large taxpayer segment *(structural benchmark for end-June 2020)*, we have conducted 53 issue, 27 desk, and 6, a total of 86 audits of corporate taxpayers for FY2021/2022, with an estimated 80-90 audits per year (a third of the total population).

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

13. The BCED strategic plan was submitted to the Ministry of Finance in November 2021 and will inform forward-looking reform priorities to enhance operational efficiency in trade facilitation, revenue mobilization, compliance, and enforcement. To support its implementation, a Memorandum of Understanding between the BRA and BCED to enhance information sharing was established in March 2021 and an Information and Technology Division within BCED was established and staffed in March 2021 (*structural benchmark for end March 2021).* Furthermore, a training plan for customs employees in the use of ASYCUDA World has been prepared and submitted to the Director General, Ministry of the Public Service, and a proposal for staffing a Human Resources Division in BCED will be submitted by end-July 2022. The new IT and HR divisions will enable effective in-the-field IT support and enhance skills matching, training, and competency-based hiring. The BCED has also made progress in its modernization reform agenda in the following areas:

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

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

- A modernized legislative framework to govern customs operations. Consultations with key stakeholders, primarily the trade community on a revised Customs Bill were conducted in 2020 and 2021 and substantial comments were provided and addressed. Draft legislation was tabled in parliament in May 2021, slightly amended in November 2021, and passed by both houses in December 2021. The 2021 Customs Act will be enacted when (1) the Parliament approves the new, republican swearing in process that will replace the royal assent, and (2) when the secondary legislation is developed.

14. Fiscal policy priorities will need to evolve together with the COVID-19 pandemic and other evolving global shocks, while keeping with the core objectives of the EFF programme. Uncertainty in the current economic context requires a flexible approach in the setting of fiscal policy and reform priorities. We remain committed to reducing the debt-to-GDP ratio to 60 percent by FY2035/36. The temporary increase in our debt level resulting from the COVID-19 induced slump in tourism and the related fall in government revenue and rise in emergency expenditures will be offset by sustained higher primary surpluses in the medium-term. In this regard, we must continue to prioritize policies that bolster growth potential and enhance revenue and expenditure efficiencies. We remain open to explore scope to broaden the revenue base, including by: i) enhancing the efficiency of the Land Taxes and the VAT regimes in the real estate and tourism sectors; and ii) further rationalizing tax preferences. On the expenditure side, we will build on recent progress to improve the performance of state-owned enterprises to structurally reduce central government transfers and adopt other measures to curtail expenditure growth as needed.

15. The Extended Arrangement under the EFF with the IMF has been instrumental in helping Barbados address this unprecedented health crisis. In addition to helping restore macroeconomic stability—thus providing critical fiscal space to offset the direct economic fallout—the EFF arrangement was augmented during the third and fourth reviews (by SDR 66 million and SDR 48 million respectively) and made available for budget support. Furthermore, the IMF's decision in August to provide a general allocation of SDRs equivalent to US$650 billion (about SDR 456 billion) provided a critical lifeline to the global economy during this period of stress,

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

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

particularly for liquidity-constrained countries like Barbados that need financial support to address the impact of the COVID-19 pandemic. We are exploring how best to use Barbados' allocation of about US$129 million (2¾ percent of GDP) to support key economic objectives in both the near and long term. The use of these resources will adhere to existing institutional arrangements, including the recently amended Central Bank Law, and will be fully communicated in keeping with our commitment to transparency and accountability.

A Fiscal Rule

16. The Government intends to introduce a fiscal rule to enhance fiscal transparency, and lock in the gains of fiscal consolidation. The transparency and automaticity of fiscal adjustment will be enhanced by an explicit, time-bound adjustment path to sustainability. However, uncertainty about the duration of the COVID-19 crisis and pace of recovery make it difficult to implement numerical fiscal rules at this juncture. As an interim step, the Minister of Finance issued regulations for a procedural fiscal rule by end 2021 (*structural benchmark for end December 2021*). Under this procedural fiscal rule—which is aligned with IMF TA recommendations—the government commits to: i) annually prepare a monitorable fiscal strategy/framework over the medium term; ii) regularly publish outcomes against this strategy; and iii) take remedial action when required. To these ends, the Minister of Finance tabled in parliament on August 10, 2021, a first version of the fiscal framework including projections for revenue, expenditure, and debt for FY2022-23 and two following fiscal years (*structural benchmark for August 15, 2021*), as well as a mid-year review report in October 2021, which detailed the half year outturn against the fiscal framework established for FY2021/22.

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

- A framework to limit the annual budgeted overall fiscal deficits of the public sector (covering all fiscal activities), to achieve a reduction in public debt to no more than *60 percent of GDP by FY2035/36*.
- *Coverage* of the fiscal rule will take into account all fiscal activities associated with the public sector, including State Owned Enterprises (SOEs)[3], as well the fiscal implications of PPPs (capturing all associated actual or contingent fiscal liabilities and risks).
- The rule will establish an *automatic correction mechanism* that would be triggered by substantial cumulative deviations from the annual overall balance target. Once the cumulative deviations exceed a pre-specified threshold, additional fiscal adjustment would be required in subsequent

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

fiscal years to correct for these deviations to bring fiscal performance back in line with the fiscal rule.

- The rule will also include an *escape clause*, limited to major adverse shocks and triggered only with Parliamentary approval or ratification. The clause will pre-define a clear list of events or shocks that could have a serious adverse impact on public finances and specify measurable conditions for triggering the clause.
- The Government will consider *institutional arrangements* and other legal options for strengthening the sanction regime and transparency to enhance the credibility of the fiscal rule. Measures could include requiring an independent body to independently assess macroeconomic projections used in budget preparation and overall fiscal policy, disclose budget execution with respect to the fiscal rule, and support transparency and accountability through Parliamentary hearings by officials. The Minister of Finance will be required to explain deviations that are inconsistent with the fiscal rule in a mid-term budget review in Parliament and outline corrective steps to get back on track with the annual fiscal rule target.

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

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

- **Strengthen the strategic phase of the budget formulation process**. The main inputs are as follows: (i) annual update of the government's fiscal strategy, based on backward-looking expenditure and revenue reviews and forward-looking targets on revenue, expenditure and debt in line with the Government's clearly articulated current and medium-term priorities *(see structural benchmark for August 15, 2021)*; (ii) setting of multi-year expenditure ceilings in accordance with the updated fiscal strategy, as a guide to the allocation process; (iii) provision of clear instructions by Cabinet for budget submissions based on a comprehensive discussion of the needs and priorities of each Ministry and program, including on spending ceilings. The government is seeking to strengthen the budget formulation process further, including by ensuring that: i) the budget calendar is aligned to the requirements of the new FMA Act; and ii) the budget circular is issued soon after the fiscal framework has been tabled in Parliament. The budget circular will be accompanied by expenditure ceilings approved by Cabinet for each financial year covered by the medium-term budget planning horizon.
- **Reform the Budget Documentation to provide more policy-oriented information to decision makers and enable more transparent budget execution**. Annual Budget Documentation (Budget Estimates) provides a comprehensive narrative describing the public finances. Starting with the FY2022/23 budget, it will also include an assessment of the alignment between the budget and the fiscal objective(s) established by the fiscal framework, and a comprehensive description of all revenue and expenditure measures taken. A mid-year budget review report will be tabled in Parliament by October 15^{th} of every year to report outturns against the annual budget, signal likely deviations from fiscal objectives, and identify remedial actions to ensure compliance with the fiscal framework.

- **Establish monitoring processes to enhance fiscal risk management.** Compliance with the new PFM Act will increasingly focus on establishing required reporting and analytical frameworks. Ministries and Extra Budgetary Units (EBUs) are now expected to produce annual and quarterly reports in line with PFM Act requirements. To enhance SOE oversight and fiscal risk management, the MAU has developed a monitoring dashboard that analyzes the financial performance of government's 19 priority oversight SOEs according to key metrics related to liquidity, solvency, profitability, financial performance, and financial dependency as input to quarterly progress updates to Cabinet (*structural benchmark for end-March 2021*). While initially focused on 19 priority SOEs, the dashboard has been extended to cover all 53 SOEs monitored by the MAU reaffirming the government's commitment to strengthened fiscal risk management. Furthermore, the Government is exploring scope for the MAU to regularly review and report on the financial performance of the NIS to enhance financial oversight and the management of fiscal risks. The NIS is further committed to clear its backlog of financial statements as a matter of urgency, with a view to submit all outstanding financial statements (2010 to 2020) for audit by the Auditor General (*structural benchmark for end March 2022*). The Government is also seeking to transition the NIS from a Government Department to an independent statutory corporation by end-2022 to enhance operational flexibility to achieve its core functions.

- **The Government is working to increase the efficiency and quality of the public procurement process, facilitating effective delivery of COVID-19 pandemic supports**. The effectiveness of the Public Accounts Committee has been strengthened to allow the public to monitor in real time its oversight role, thereby ensuring full transparency. The Government has created separate sub-programmes to track COVID-19 related expenditures in the budget and lays in parliament all contracts that have been awarded for BDS$1 million or more. Furthermore, a new procurement law was approved by parliament in December 2021 that aims to promote integrity, fairness, transparency, and value for money in public procurement, and to ensure that outlays (including those related to COVID-19) are efficiently allocated. This bill provides a framework to facilitate the audit of crisis expenditures and publication of contracts and names of successful bidders, which in conjunction with the corporate registrar's searchable corporate registry database, will provide public access to necessary information on related beneficial ownership.

- **Enhancing governance frameworks is an overarching priority.** In addition to the above procurement bill, we intend to submit a revised Integrity in Public Life Bill to parliament , which seeks to strengthen measures for the prevention, detection, investigation, and prosecution of acts of corruption by persons in public life. The bill will establish an Integrity Commission that will receive and keep record of all declarations of assets made by persons in public life and have the power to: i) make inquiries and carry out investigations as necessary to verify or determine the accuracy of a declaration; and ii) investigate any complaint or report of an alleged contravention of the act. Moreover, in keeping with the fight against corruption, the government laid two key pieces of legislation in parliament in September 2021: (i) a revised Prevention of Corruption Bill to provide for the prevention, investigation, and prosecution of acts of corruption (passed both Houses of Parliament in October 2021); and (ii) a Deferred Prosecutions Bill to empower the Director of Public Prosecutions to meet with and construct agreements concerning criminal liability (passed both Houses in December 2021). Cabinet also approved a Whistle-blower Protection bill in October 2021 that was passed by Parliament in December 2021.

- **We are reviewing our legal and regulatory framework for engaging in Public-Private Partnerships (PPPs).** When done right, PPPs can play an important role in sustaining growth and increasing potential growth. This includes establishing a clear definition of PPPs, fully integrating them into the overall investment strategy and the medium-term fiscal framework, safeguarding public finance against fiscal costs and risks from PPPs, ensuring transparent mechanisms for competitive processes, and designing transparent reporting and auditing procedures in line with international standards.

Debt Restructuring and Reduction

19. While a comprehensive debt restructuring, including external debt to private creditors and treasury bills held widely by domestic creditors, addressed debt sustainability concerns, the CBB's balance sheet was impaired by a significant haircut. On October 15, 2018, the Government announced having reached agreement with an overwhelming majority of domestic creditors, with support of all commercial banks, general and life insurers, the NIS, the CBB, and smaller creditors. Further, we reached agreement with the External Creditor Committee on the terms for restructuring US dollar-denominated commercial debt in November 2019, resulting in an important reduction in debt service for the Government of Barbados. The inclusion of a natural disaster clause helps Barbados build financial resilience to natural disasters and will help us remain current on our debt obligations. The debt restructuring has impacted the financial position of the CBB and NIS. Plans to recapitalize the CBB based on the IMF TA recommendations provided in April 2021 and address medium and long-term challenges for the NIS stemming from the debt restructuring and the COVID pandemic have been developed (*structural benchmark for end-June 2021*). Specifically:

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

- The recapitalization of the NIS will also proceed in two phases, with an initial focus on restoring the Unemployment Benefit Account through an infusion of B$143 million from the Consolidated Fund over a three to five-year period. A first disbursement of B$60 million was transferred in FY2021/22 and an additional B$60 million is programmed for FY2022/23. The assessment of the recapitalization needs of the National Insurance Fund (NIF) is ongoing and a discussion of options in this regard is underway. The government intends to present a detailed recapitalization plan for the NIF by end-December 2022.

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

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

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

Public Sector Reform

23. The Government is committed to modernising and improving the efficiency, quality, and cost effectiveness of the public sector. Our Government must be made fit to take on the challenges of the twenty first century, including the COVID-19 pandemic. Of necessity, this means that as we settle our budgets and our programmes, an ongoing analysis is done of what is essential, what is highly desirable, what is optional, what is essential or optional but better delivered elsewhere. This has meant, and will continue to mean, adjustment and rationalisation of SOEs and some Government Departments. It will also mean retooling and empowering, retraining and enfranchising some of the public sector workers to improve effectiveness. We have begun reviewing public sector labour laws with a view to enhancing flexibility, including with two studies currently underway. So far, these studies have led us to introduce an interim, COVID-related flexible and remote work policy that is currently in use across Government departments.

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

25. Reform of State-Owned Enterprises (SOEs) is essential to secure medium-term fiscal viability. We have developed a framework to restructure and transform our SOEs based on principles of retooling and empowering, retraining and enfranchising of Barbadians. We have conducted a comprehensive review of all SOEs, to identify potential for efficiency gains, cost recoveries, and enfranchisement through divestment of entities and/or activities. For example, in the transport sector, we are finalizing a compact with private operators that seeks to improve accountability and service quality while reducing costs to SOEs. SOEs listed in the TMU have now all submitted standardized (according to international acceptable standards) quarterly financial reports. We have increased bus fares, adjusted water rates, and introduced an interim health levy, airline & travel development fee and a garbage and sewage contribution levy. Looking ahead, the SOE monitoring dashboard provides a mechanism to identify key deficiencies and further elaborate targeted reform measures to enhance performance of SOEs and reduce government dependence. Furthermore, the FY2022/23 budget address clarified our intention to press ahead with the transformation of the SOE sector by continuing the reform program which was paused because of COVID. Reminding efforts include: the merging and streamlining of Rural Development Corporation, Urban Development Corporation and the National Housing Corporation; further development of the mass transportation system; the reform of the Caribbean Broadcasting Corporation; and efficiencies measures generally across the board.

26. The reform programme includes a range of measures to help mitigate any adverse effects on the vulnerable from the restructuring of the SOEs, including models of worker enfranchisement, preferential access to public procurement and agricultural lands owned by the State for those that have been displaced, as well as enhanced severance packages. The measures introduced to respond to the coronavirus pandemic build on those that were already established to protect those affected by public sector restructuring: a Household Survival Programme managed by a Household Mitigation Unit that tracks and supports affected workers, as well as support to and training opportunities for the self-employed and newly unemployed. We established a minimum wage increase on April 1, 2021, which addresses the fact that the last minimum wage was set in 2012 and had not therefore kept pace with the rate of inflation. While a modest adjustment, it is an important one to protect the working vulnerable.

27. Civil service pension reform aimed at ensuring that the system is sustainable in the long run is a priority. We will review the civil service pension scheme to address its long-run sustainability. To this end, we will table in Parliament a revised public pension law informed by the actuarial review that was completed in November 2020 and costed different pension systems for new entrants into the public service. We have completed a pension reform white paper and will discuss it in Cabinet. However, this reform requires careful public consultation, which has been delayed by the urgent challenges posed by the COVID-19 pandemic. While *the end-March 2022 structural benchmark* to pass this legislation was not met, the process is well underway. During the FY2022/23 budget address, the Prime Minister outlined key pillars of civil service pension reform, which include a lengthening of service for new public servants and required contributions for earnings above established NIS ceilings. Discussions with key stakeholders are proceeding with a view to enact public sector pension reform legislation this year.

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

III. MONETARY AND FINANCIAL SECTOR POLICIES

29. Barbados' exchange rate peg to the US dollar has provided a key anchor for macroeconomic stability since 1975. There is strong commitment among all Social Partners and stakeholders that we must maintain the exchange peg as one of the critical platforms of our stability as a nation. Consequently, we will implement the fiscal and structural policies that will be necessary to support the peg and rebuild our international reserves to a level that is necessary to protect it.

30. We have submitted to parliament an amended Central Bank Law to enhance its autonomy, mandate, and decision-making-structures (*structural benchmark for end-September 2020 and prior action for fourth review*). This amended law—which was passed and has been effective since December 14, 2020 (*structural benchmark for end-December 2020*)—is critical to ensure the continued protection of our exchange rate peg. The legislation benefitted from IMF technical assistance to ensure it meets international best practice and addresses issues raised during the safeguards assessment while adhering to our system of governance. The IMF has completed its Safeguards Assessment of the Central Bank of Barbados to ensure that the Central Bank's legal structure and autonomy meet standards required for processing IMF disbursements. This is a standard IMF procedure for all countries using the Fund's resources. We will continue to ensure that all outstanding recommendations from the Safeguards Assessment are implemented.

31. We have started a gradual relaxation of exchange controls. Our approach is both gradual and targeted and aimed at increasing investors' confidence without jeopardizing reserve accumulation. Effective August 1st, 2019, we have allowed all Barbadians to open foreign currency denominated accounts. We have allowed foreign currency proceeds from the sale of assets to be repatriated in foreign currency or kept locally in a foreign currency account. Effective August 1st, 2019, we have eliminated the surrender requirement of 70 percent of foreign exchange brought into Barbados. Finally, we have increased select foreign exchange limits such as the limit on personal travel facilities. We have increased delegated authority to foreign exchange dealers to approve foreign exchange transactions without reference to the Central Bank.

32. Efforts are ongoing to enhance financial sector monitoring. The amended Central Bank Law establishes the promotion of financial stability as a secondary objective for the CBB. It also attributes formal macroprudential powers to the CBB, to monitor financial stability and to manage and control risks to the financial system. The oversight of the financial system is shared by the CBB, the Financial Services Commission (regulates and supervises nonbanks), and the Barbados Deposit Insurance Corporation. These authorities participate in the Financial Oversight Management Committee (FOMC), which manages the production of the annual Financial Stability Report and collaborates in the monitoring of the financial system. The effective banking regulatory framework in Barbados is Basel II, under which banks follow standardized approaches in the calculation of risk-weighted assets and prepare their financial statements according to IFRS 9. The CBB designs the reporting forms and schedules for banks, Part III companies (trust and finance companies and merchant banks) and credit unions. Monitoring of insurance corporations, pension funds and mutual funds falls into the purview of the FSC, which has been working on revising reporting forms and increasing reporting frequency to enhance financial sector surveillance. The CBB in collaboration with the FSC releases a Financial Stability Report and health check reports for sub-sectors of the financial system annually. Finally, the CBB has strengthened monitoring capacity as reflected by the successful compilation and dissemination of a first set of quarterly core indicators for financial stability indicators (FSIs) for deposit takers (excluding credit unions), in line with the guidance provided by the IMF TA in 2019 *(structural benchmark for end-March 2022)*.

33. In March 2020, the central bank and commercial banks introduced measures to support the credit market in response to the coronavirus crisis. While the financial system is very liquid, individual institutions' liquidity may fluctuate over time, particularly in strained conditions. Key measures include a reduction of the overnight lending discount rate from 7 to 2 percent and a reduction of the minimum statutory holding requirement for government securities from 17.5 to 5 percent of deposits. Commercial banks also announced a six-month moratorium on loan repayment and revised loan terms on new loans for individuals and firms affected by the pandemic. Banks have been reviewing customer's circumstances on a case-by-case basis since the moratorium's expiration to determine whether a further extension is needed or if debt should be restructured while respecting regulatory standards on loan classification and provisioning. Loans under deferred payments have declined sharply to about 5 percent of the peak value in May, representing about 1 percent of the outstanding credit to the nonfinancial private sector.

34. Climate change presents risks to the stability of Barbados' financial system and building risk assessment capacity is an essential first step to enhance financial sector resilience. Banks in Barbados are exposed to climate change sensitive sectors. Integrating climate change risks into the CBB's financial stability assessements—including stress testing based on potential scenarios— is therefore a priority. This requires building capacity to monitor and assess climate change related risks to the financial system in line with best practices. As a first step in this process, the CBB is currently exploring the feasibility of joining the Network for Greening the Financial System (NGFS).

35. We also commit to continuing our efforts to strengthen our AML/CFT framework in keeping with our action plan agreed with the FATF to promptly exit the FATF's International Review Group process.

IV. GROWTH ENHANCING REFORMS

36. The growth strategy of the Barbados Economic Recovery and Transformation Plan rests on a number of key pillars: (i) investing in a high-skilled, productive, and knowledge-based economy, particularly in skills training and education more generally; (ii) better mobilizing private domestic savings for local investment, particularly in critical, climate-resilient infrastructure; (iii) making Government an enabler of growth by improving the ease of doing business, accelerating the speed of government licensing, and increasing the predictability of the fiscal and regulatory environment; (iv) diversifying our economy into new areas such as renewable energy, medicinal cannabis and high-value agricultural goods, high-tech and software development to complement a renewed vigor for the traditional services sectors, and (v) strengthening resilience to natural disasters and climate change.

37. Many knowledge-based economy initiatives have already been launched. These include a large commitment to retooling and retraining Barbadians over the next 4 years across all sectors and at all levels. Our mission is to deliver excellence to global standards while retaining our national identity. We launched a Barbados Youth Advance Corps which will cater to 1,000 students per year for a 2-year programme. We also launched as part of the National Transformation Initiative a partnership with Coursera that provides free training to Barbadians through over thousands of courses in sectors and skills critical for growth and development. As of April 2021, roughly 5,700 courses have been completed by individuals. We have already reintroduced the return to free tertiary education at vocational, technical, and undergraduate levels. We plan to integrate the Barbados Community College, Samuel Jackson Polytechnic, and the Erdiston Teacher Training College to improve their offering. We are looking at reforms to secondary schooling that will support great teaching and confident students with every school becoming a top school in some fields. We will also improve efficiency in our post-secondary and tertiary institutions with a view to plowing most of any found savings back into enhanced offerings. We have embarked on new initiative—The Barbados Construction Gateway Training—to upskill the population, train artisans, and ensure a new core of male and female workers are available in a few months to fill various construction jobs. The initiative provides Barbadians, age 16 years and over, with the opportunity to learn skills in over 25 areas associated with construction

38. Making the Government an enabler of growth will include strengthening the judiciary and the time it takes for court hearings and redress. We have established a Commercial Court to speed up commercial adjudication and judgments. The Commercial Judges to staff this Court have already been appointed. We will also introduce new legislation compliant with UNCITRAL to deal with arbitration and alternate dispute resolution mechanisms. Finally, we have already appointed five additional judges to the criminal courts, of which three are temporary, to deal with the significant backlog of criminal cases. The additional Criminal Courts are intended to ensure that all serious cases can be dealt with within six to nine months. The government intends to establish a specialized Family Court which will be decentralized with hearings across the island and the jurisdiction to determine all family and maintenance matters. The Supreme Court Registry launched its e-Filing system on September 15, 2021 (*structural benchmark for end-September*) to enhance efficiency.

39. Increasing participation of women in the labour force is key to our diversification strategy. We will facilitate the opening of day care facilities in industrial parks and key Government office buildings over the next two years. We have also begun the process of developing paternity leave legislation. To increase women's access to jobs in the construction field, we will be incorporating a training programme for women in areas such as electrical wiring, painting, tiling, and related fields, as part of the new Home Ownership Providing Energy (HOPE) housing programme as well as the Barbados Construction Gateway Training Initiative.

40. The Government has started to facilitate a range of services online. This includes: the provision of drivers' licenses, renewal of professional licenses, applying for passports and liquor licenses, Welcome Stamp fees, police certificates of character and planning and development applications, the clearing of goods through Customs, and other key functions are among those to be added. E-service of Government will soon be launched on one portal for users to access all Government agencies. A new digital ID program, beginning May 2021, will re-register the population with a single, digital identity aimed at improving transactions across Government departments. To reinforce the government's commitment to digital transformation, the National Insurance Department (the country's largest issuer of cheques) has been actively phasing out the printing of cheques for short-term benefits, such as unemployment, maternity, and sickness. As part of its Public Sector Modernization Programme, the Ministry of Innovation Science and Smart Technology has begun the digitalization of Government across an initial seven priority departments including the Immigrating Department, the Civil Registry and the Courts, the Police Department, the International Business division, the BCED, the Town and County Development Planning Office, and the Barbados Licensing Authority. Execution of the IDB-funded programme will be scaled up in the current fiscal year as Government partners with the private sector to accelerate access to goods and services online and a new digital economy while physical distancing protocols must remain in effect. This acceleration will also allow for the engagement of newly unemployed workers, in particular women, whose labour may not be as easily absorbed by rebounding construction and quarrying sectors. A building is currently being refurbished and outfitted to accommodate the related personnel of roughly 200 to deal with the actual digitization of records. To date more than 400,000 government records have been digitized across all Government agencies and ministries. Critical investments must now be made in strengthening cybersecurity in order not to place at risk the progress already made in digital governance and to ensure the safety of personal and Government data and transactions.

41. Actions for promoting growth by improving the business climate are critically important. A World Bank Doing Business Reform Note outlines the short-, medium- and long-term measures that may be taken to markedly improve Barbados' overall business and investment climate. A Doing Business Sub-Committee of Cabinet and Private Sector Committee have been established to execute and monitor the needed reforms detailed by indicator, including measures to enhance delivery in our registry and regulatory services. Already, improvements are being seen in the time taken to receive planning decisions, Financial Services Commission registrations and on other regulatory matters.

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

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

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

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

46. The Government remains committed to reaching its 100 percent renewable energy target by 2030. In pursuit of this target, the Government has further liberalised the market for power generation. The independent Fair Trade Commission has published Feed-in tariffs (FITs) for independent power producers for a range of renewable energy technologies. The tariffs support the shift to renewables, reduction in energy costs, and foreign exchange demand and support smaller projects and technologies that bring substantial environmental benefits. A 30 MW Green Energy Park is slated for final approval in 2021. It removes the need for costly new waste landfills and puts solar PV on top of rehabilitated landfill sites. . In collaboration with the BL&P we plan to develop a minimum of 30MW of wind energy investment allowing for Barbadians to participate in and to own a minimum of 30 percent share in the benefits of the 30MW wind project through newly established financial instruments. Furthermore, we will provide an opportunity for Barbadians to participate in a 30 percent requirement for all major energy investment projects and we will also reserve another 30 percent for the State-owned enterprises. In response to the FITs, demand for small primarily solar PV projects has been strong and the government has taken action to facilitate the development of the renewable energy sector by: i) establishing a streamlined approvals and licensing process for independent power producer (IPP) renewable energy projects; and (ii) publishing a guidance note for IPP investors navigating this process (*both structural benchmarks for end-March 2022*). Government achieved close to 10 percent of energy demand from installed or close to be installed renewables and applications accounting for a further 10 percent of demand would be in the pipeline, keeping the Government on track to hit or be close to the 2030 target. The FTC regularly reviews its FITs and in 2021 issued its third review. The Government is working with its development partners in MDBs to develop competitive tendering processes for more extensive projects, which would facilitate an expansion of supply into technologies that have greater economies of scale, such as wind power, bringing the benefits of lower costs and diversification.

Table 1. Structural Benchmarks

	Timing	Assessed	Comments
A. Prior Action			
1) Government to launch exchange offer for debt restructuring of the stock of central Government domestic debt held by private creditors and eligible for debt restructuring consistent with EFF supported program objectives.	Before Board 10/1/18	Met	
2) Government to submit to Parliament an amended Central Bank Law aimed at enhancing the Central Bank's institutional, personal, and financial autonomy and, in particular, limiting Central Bank financing of the Government to short term advances.	end-September 2020	The law was submitted to parliament on November 17, 2020.	Submission to Parliament was a prior action for the 4th review
B. Structural Benchmarks for the First Review			
3) Parliament to adopt a revised Financial Management and Audit (FMA) Act conferring greater autonomy to the Ministry of Finance and Economic Affairs to oversee SOEs, including prior approval of all borrowings and assumptions of other liabilities. Revisions to the FMA Act will also establish clear definitions for the classification of public entities, and their related roles and responsibilities; and establish tighter and more precise reporting requirements for SOEs, and sanctions for noncompliance.	end-December 2018	Not met	Implemented with delay
4) Government to ensure that all SOEs listed in TMU paragraph 2 prepare and submit to the Government standardized quarterly financial reports.	end-December 2018	Met	
5) Government to launch a training and outplacement programme to help mitigate effects on the vulnerable from the restructuring of SOEs.	end-December 2018	Met	
6) Parliament to adopt new Town and Country Planning legislation, aimed at streamlining and accelerating the process for providing permits.	end-December 2018	Not met	Implemented with delay
7) Government to establish a Sandbox regime for regulation for fintech start-ups.	end-December 2018	Met	
8) The Large Taxpayer Unit (LTU) to (i) update all LTU taxpayer accounts ensuring they reflect accurate balances, and (ii) commence the conduct of audits targeting the most current tax period.	end-December 2018	Met	
9) Government to table a revised Financial Management and Audit (FMA) Act to establish a permanent binding budget calendar, envisaging budget approval prior to the fiscal year.	end-December 2018	Not met	Implemented with delay
10) Government to submit to Parliament a consolidated report on the performance of SOEs, together with budget estimates.	end-March 2019	Not met	Implemented with delay

Table 1. Structural Benchmarks (Continued)			
	Timing	**Assessed**	**Comments**
11) Government to introduce a system for monitoring SOE arrears on an ongoing basis.	end-March 2019	Met	
12) Government to adopt a new business plan and staffing strategy for the Corporate Affairs and Intellectual Property Office (CAIPO), with a view of streamlining the registration of new business and strengthening maintenance of commercial records of existing business.	end-March 2019	Met	
C. Structural Benchmarks for the Second Review			
13) Government to conduct a comprehensive review of the tax system, with inputs from IMF technical assistance.	end-June 2019	Met	
14) Government to conduct a comprehensive review of all tariffs and fees charged by SOEs.	end-September 2019	Met	
15) Governor General to proclaim the Financial Management and Audit (FMA) Act.	end-July 2019	Met	
D. Structural Benchmarks for the Third Review			
16) The Barbados Revenue Authority (BRA) to adopt measurable performance targets that increase on-time filing for corporate Income Tax and VAT from current levels (less than 50 percent for both respectively) to 75 percent over calendar year 2019.	end-December 2019	Met	
17) Customs Department to establish a trusted trader program that gives defined benefits to program members and have at least eight companies participating.	end-March 2020	Met	
E. Structural Benchmarks for the Fourth Review			
18) Relocate ASYCUDA World so that it is housed in, and under the control of, the Customs and Excise Department, and ensure that both the BRA, the Ministry of Finance, and the CBB have all real time access to the database for domestic compliance and tax policy analysis purposes on a need to know basis. The selectivity module of ASYCUDA World must also be functioning and in use.	end-June 2020	Met	
19) BRA (i) to execute initial 20 "issue based" audits on taxpayers in the large taxpayer segment, and (ii) to develop a risk-based compliance plan to target improvements in "on-time" filing and payments compliance rates: 10 percent increase over current compliance rates.	end-June 2020	Met	

Table 1. Structural Benchmarks (Continued)

	Timing	Assessed	Comments
20) Customs Department to (i) deploy staff to the exemption monitoring unit and undertake at least eight exemption verification assignments; (ii) train and deploy at least 6 officers in the post clearance audit unit and undertake at least 8 field audits; and (iii) undertake post release verification of at least 3,500 entries.	end-August 2020	Met	
21) Government to conduct an actuarial review of the civil service pension system with a view to reform it.	end-September 2020	Not Met	Implemented with delay
F. Structural Benchmarks for the Fifth Review			
22) Parliament to enact an amended Central Bank Law aimed at enhancing the Central Bank's institutional, personal, and financial autonomy and, in particular, limiting Central Bank financing of the Government to short term advances. The revised CBB law, prepared in consultation with IMF staff, will also clarify the mandate of the CBB, and strengthen its decision-making structures.	end-December 2020	Met	
23) The Barbados Statistical Service (BSS) to publish a calendar of statistical publications covering national accounts, prices and the labor market.	end-March 2021	Met	
24) The Management and Accounting Unit (MAU) to prepare a dashboard that analyzes the financial performance of government's 19 priority oversight SOEs as input to quarterly progress updates based on this dashboard to Cabinet.	end-March 2021	Met	
25) Create in BCED an Information Technology Division of at least six employees.	end-March 2021	Met	
26) Large Taxpayer Unit (LTU) to implement its compliance improvement plan and achieve 'on-time' filing of returns for all large taxpayers of at least 90 percent for all core taxes (VAT, CIT, PAYE).	end-March 2021	Not Met	On-time filings fell short of target
G. Structural Benchmarks for Sixth Review			
27) Government to develop plans to recapitalize the CBB and address medium and long-term challenges for the NIS stemming from the debt restructuring and the COVID pandemic.	end-June 2021	Met	
28) Minister of Finance to table a fiscal framework including projections for revenue, expenditure and debt for FY2022-23 and two following fiscal years in parliament by August 15, 2021	August 15, 2021	Met	

Table 1. Structural Benchmarks (Continued)			
29) BRA to establish a program to address pre-TAMIS debt using a dedicated task force for a two-year period.	end-September 2021	Met	
30) The Supreme Court Registry to launch its e-Filing system	end-September 2021	Met	
31) Parliament to pass the Fair Credit Reporting Act[1]	end-October 2021	Not Met	Passed Dec 13, 2021
32) BCED to improve performance management by: (i) harmonizing departmental key performance indicators with ASYCUDA measures; (ii) implementing the Performance Review and Development System; (iii) developing and automating trade and commercial compliance dashboards to be populated at the unit level on a weekly basis and presented to senior management via monthly reports.	end-October 2021	Met	
H. Structural Benchmarks for Seventh Review			
33) The Minister of Finance to issue regulations for a procedural fiscal rule, specifying hierarchical fiscal objectives, accounting basis, monitoring bodies and correction mechanisms.	end-December 2021	Met	
34) BCED to improve trade facilitation and risk management by: (i) collaborating with the trade community to define clear benefits for the BCED Trusted Trader Program's participants; (ii) streamlining and standardizing the cargo import process in the marine mode; and (iii) improving traceability of shipments in the customs system.	end-December 2021	Met	
35) Government to table a revised public pension law to enhance the sustainability of the public sector pension scheme, as discussed in MEFP.	end-March 2022	Not Met	
36) The CBB to compile and disseminate a first set of quarterly core indicators for FSIs for deposit takers (excluding credit unions) in line with the guidance provided by the IMF TA in 2019.	end-March 2022	Met	
37) The NIS to submit all outstanding financial statements for audit by the Auditor General.	end-March 2022	Not Met	
38) Establish a licensing system for IPP renewable energy projects, including the process for co-investment in agriculture and renewable energy production on agricultural lands.	End-March 2022	Met	

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

Table 1. Structural Benchmarks (Concluded)			
39) A guidance note outlining how the licensing and approval process for renewable energy projects works and steps for investors to follow will be prepared and published on the website of the Ministry of Energy, Small Business and Entrepreneurship.	End-March 2022	Met	

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

(In millions of Barbados dollars unless otherwise indicated)

	Target End June 2021	Actual End June 2021	Target End September 2021	Actual End September 2021	Target End December 2021	Actual End December 2021	Status End December 2021	Target End March 2022	Actual End March 2022	Status End March 2022
Fiscal Targets										
Performance Criteria										
Floor on the CG Primary Balance 4/	-180	...	-262	...	-180	...	...	-97	...	...
Floor on the CG Primary Balance (adjusted) 4/	-180	125	-262	35	-174	51	Met	-94	-92	Met
Non-accumulation of CG external debt arrears 4/ 6/	0	0	0	0	0	0	Met	0	0	Met
Ceiling on CG Transfers and Grants to Public Institutions 4/ 7/	140	94	280	186	420	321	Met	492	492	Met
Ceiling on Public Debt 5/	13,280	...	13,381	...	13,737	...	...	13,737	...	...
Ceiling on Public Debt (adjusted) 5/	13,480	13,020	13,381	13,108	13,737	13,370	Met	13,737	13,369	Met
Indicative Targets										
Ceiling on CG Domestic Arrears 5/	80	60	70	35	60	34	Met	50	23	Met
Floor on Social Spending 4/ 8/	10	14	20	29	35	46	Met	50	64	Met
Ceiling on Public Institutions Arrears 5/	29	18	29	17	29	25	Met	29	16	Met
Monetary Targets										
Performance Criteria										
Ceiling on Net Domestic Assets of the CBB 5/	2,200	1,720	2,200	1,692	2,200	1,479	Met	2,200	1,835	Met
Floor on Net International Reserves 5/	1,400	...	1,400	...	1,409	...	...	1,409	...	...
Floor on Net International Reserves (adjusted) 5/	1,550	2,278	1,250	2,390	1,415	2,595	Met	1,413	2,586	Met
Items feeding into PB, Debt, and NIR adjustors										
IDB budget support 4/	0	0	200	0	200	200	...	200	200	...
CDB budget support 4/	0	0	0	0	0	0	...	0	0	...
CAF budget support 4/	0	0	0	0	0	0	...	0	0	...
WB budget support 4/	0	200	200	200	200	200	...	200	200	...
Grants 4/	0	0	0	0	0	6	...	2	6	...

Sources: Fund staff estimates.

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

2/ Based on program exchange rates defined in TMU;

3/ Board approval on October 1, 2018;

4/ Flow (cumulative over the fiscal year);

5/ Stock;

6/ Continuous performance criterion;

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

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

Attachment II. Technical Memorandum of Understanding

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

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

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

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

Table 1. Program Exchange Rates (08/29/2018) /1	
Barbadian dollar to the US dollar	2.0000
Barbadian dollar to the SDR	0.345745
Barbadian dollar to the euro	2.3392
Barbadian dollar to the Canadian dollar	1.54662
Barbadian dollar to the British pound	2.5739
Barbadian dollar to the East Caribbean dollar	0.74074
Barbadian dollar to the Belizean dollar	1.00000
1/ Average daily selling rates as reported by the CBB.	

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

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

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

- For program purposes, the definition of debt is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board

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

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

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

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

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

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

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

- Public Institutions covered under Section I include:

    - Queen Elizabeth Hospital

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

I. QUANTITATIVE PERFORMANCE CRITERIA

A. Floor on the CG Primary Balance

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

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

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

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

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

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

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

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

C. Floor on Net International Reserves

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

10. Reserve assets are defined as readily available claims on nonresidents denominated in foreign convertible currencies. They include the CBB's holdings of monetary gold, SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the Fund. Excluded from reserve assets are sinking funds' assets[1] and any assets that

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

are pledged, collateralized, or otherwise encumbered,[2] claims on residents, claims in foreign exchange arising from derivatives in foreign currencies vis-a-vis domestic currency (such as futures, forwards, swaps, options et cetera), precious metals other than gold, assets in nonconvertible currencies, and illiquid assets.

11. Reserve liabilities are: (1) all foreign exchange liabilities to residents and nonresidents with maturity of less than one year, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, options, et cetera); (2) all liabilities outstanding to the IMF.

12. Adjustors: The NIR target will be adjusted upward (downward) by 75 percent of the amount of the surplus (shortfall) in program loan disbursements from multilateral institutions (i.e., Caribbean Development Bank (CDB), the Interamerican Development Bank (IDB), the Development Bank of Latin America (CAF), and the International Bank for Reconstruction and Development (IBRD)) relative to the baseline projection. Program loan disbursements are defined as external loan disbursements from official creditors that are usable for the financing of the CG. The NIR target will be adjusted upward (downward) by the surplus (shortfall) in disbursements of budget support grants relative to the baseline projection.

13. For the purpose of monitoring, the data will be reported by the Central Bank on a daily basis, with a lag of no more than one week from the end-of-period (Section A, Table 2).

D. Non-Accumulation of CG External Debt Arrears

14. The CG will not incur new arrears in the payments of its external debt obligations at any time during the program. External arrears are defined as a delay in the payment of contractual obligations beyond the grace period set in the respective loan or debt contracts. Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or for which the Government or the institution with Government guaranteed debt is pursuing a debt restructuring are excluded from this definition. The performance criterion will be applied on a continuous basis under the program.

15. For the purpose of monitoring, data on external arrears by creditors will be reported immediately.

E. Ceiling on CG Transfers and Grants to Public Institutions

16. CG Transfers and Grants to Public Institutions will include cash transfers and grants to entities listed in paragraph 3 above.

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

17. For the purpose of monitoring, the data will be measured as cumulative over the fiscal year and it will be reported on a monthly basis, with a lag of no more than four weeks from the end-of-period (Section C, Table 2).

F. Ceiling on the Stock of Public Debt

18. Public debt is defined as domestic and external CG debt, SOEs debt guaranteed by the CG, and domestic CG expenditure arrears. Interest and penalties arrears resulting from non-payment of debt service on external commercial debt subject to debt restructuring are excluded from the definition of public debt. For program purposes, the stock of CG and CG guaranteed debt is measured under the disbursement basis excluding valuation effects. Program FX rates defined in Table 1 will be used to value debt in FX.

19. Adjustors: The ceiling on stock of public debt will be adjusted upwards by the full amount of the surplus in disbursements from multilateral institutions (i.e., Caribbean Development Bank (CDB), the Interamerican Development Bank (IDB), the Development Bank of Latin America (CAF), and the International Bank for Reconstruction and Development (IBRD)) relative to the baseline projection. The ceiling on stock of public debt will be adjusted downward by the amount of nominal debt forgiveness in the case of debt restructuring.

20. For the purpose of monitoring, the CG debt and CG guaranteed debt data by issuer, creditor, maturity, and currency will be reported to the Fund on a quarterly basis, with a lag of no more than four weeks from the end-of-period (Section D, Table 2). Data on external and domestic arrears will be reported to the Fund as set forth elsewhere in this TMU.

II. INDICATIVE TARGETS

A. Ceiling on the Stock of Domestic CG Expenditure Arrears

21. The stock of domestic expenditure arrears of the CG is defined as the sum of: (a) any invoice that has been received by a spending agency from a supplier of goods, services, and capital goods delivered and verified, and for which payment has not been made within the contractually agreed period (taking into account any applicable contractual grace period), or in the absence of a grace period, within 60 days after the due date; (b) non-contributory pension transfers (by CG only), wages and pensions contributions to the NIS for which payment has been pending for longer than 60 days; (c) rent and loan payments to the NIS pending for longer than 60 days; and (d) arrears on refunds of Personal Income Tax (PIT), Reverse Tax Credit (RTC), Corporate Income Tax (CIT), and Value Added Tax (VAT). Tax refund arrears are defined as obligations on tax refunds in accordance with tax legislation that remain unpaid six months after the filing date.

22. For the purpose of monitoring, the data on CG expenditure arrears and its components by creditors will be measured as cumulative over the fiscal year and it will be

reported by the EPOC on a monthly basis, with a lag of no more than four weeks from the end-of-period. (Section D, Table 2).

B. Floor on CG Social Spending

23. The indicative floor on social spending of the CG will apply only to expenditures incurred by the CG on the following plans and programs, excluding operating expenditure, that are intended to have a positive impact on education, health, social protection, housing and community services and recreational activities:

- Welfare Department spending including cash transfers and assistance for house rents, utilities, food, and education to the poor and vulnerable;
- Child Care Board spending on protection of vulnerable children;
- Youth Entrepreneurship Scheme assisting jobless youth to start own businesses;
- Strengthening Human and Social Development programme targeting the unemployed and vulnerable families and youth;
- Alternative Care for the Elderly programme targeting the elderly transferred to private care;
- Provision of medication to HIV patients.

24. For the purpose of monitoring, the data will be measured as cumulative over the fiscal year and it will be reported on a quarterly basis, with a lag of no more than four weeks from the end-of-period (Section D, Table 2).

C. Ceiling on the Stock of Public Institutions Expenditure Arrears

25. The stock of public institutions expenditure arrears is defined as the sum of: (a) any invoice that has been received by a spending agency from a supplier of goods, services, and capital goods delivered and verified, and for which payment has not been made within the contractually agreed period (taking into account any applicable contractual grace period), or in the absence of a grace period, within 60 days after the due date; (b) wages and pensions contributions to the NIS for which payment has been pending for longer than 60 days; (c) arrears on Tax obligations defined as obligations on taxes in accordance with tax legislation.

26. The list of public institutions covered by this indicative target is listed in paragraph 3 excluding University of West Indies (UWI).

27. For the purpose of monitoring, the data on SOE expenditure arrears and its components by creditors will be measured as cumulative over the fiscal year and it will be reported on a monthly basis, with a lag of no more than four weeks from the end-of-period. (Section D, Table 2).

III. PROGRAM REPORTING REQUIREMENTS

28. Performance under the program will be monitored from data supplied to the IMF as outlined in Table 2. The authorities will transmit promptly to IMF staff any data revisions as well as other information necessary to monitor the arrangement under the EFF.

Table 2. Summary of Data to be Reported to the IMF

In what follows Financial Sector and External sector data is to be provided by the CBB, Real and Fiscal sector data by the MOF, in consultation with relevant agencies unless otherwise noted.

Reporting on a daily basis, with a lag of no more than one week of the end-of-period

- CBB NIR, as defined in section I.
- CBB GIR.

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

Financial Sector

- CBB NDA, as defined in section I.
- CBB survey showing the detailed composition of net foreign assets (NFA), net claims on the central Government (NCCG), claims on other depository corporations (CODC), claims on other sectors of the economy (COSE), other items net (OIN), and monetary base (MB).
- CBB purchases and sales of foreign exchange
- Amounts offered, demanded and placed in Government auctions and primary issues; including minimum maximum and average bid rates.
- Statement of use and outstanding balance of the CG deposit in the CBB.

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

Real Sector

- RPI index, its components, and weights.

Fiscal Sector

- CG budgetary accounts.
- Net Domestic Financing and its components.
- Net External Financing and its components.
- Grants and transfers to public institutions listed in paragraph 3 as defined in Section I.
- Stock of CG external arrears (interest, principal, and penalty amounts separately) by creditor and its components as defined in Section I. This will be reported immediately.
- Program loan disbursements from multilateral institutions, including the CDB, the IDB, the CAF, and the IBRD as defined in section I.
- Budget support grants as defined in section I.
- Liabilities of public-private partnerships (PPPs) (if any).
- Stock of CG expenditure arrears by creditor and its components as defined in Section II.
- Stock of expenditure arrears of public institutions listed in paragraph 3 by creditor and its components as defined in Section II.

External Sector

- BOP trade balance data.
- CBB's Cashflow Table deriving GIR and NIR.

Table 2. Summary of Data to be Reported to the IMF (Continued)

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

Financial Sector

Other Depository Corporations (ODC) survey showing the gross items for NFA, claims on the CBB, net claims on the CG (NCCG), COSE, OIN, deposits included in broad money (BM), deposits excluded from BM, and liabilities to the CBB.

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

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

Real Sector

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

Fiscal Sector

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

Financial Sector

- CBB Balance sheet

External Sector

- Balance of Payments accounts.

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

Financial Sector

- The following financial stability indicators by bank and by sector:
    - Regulatory capital
    - Regulatory Tier 1 capital

Table 2. Summary of Data to be Reported to the IMF (Concluded)

- Risk-weighted assets
- Total assets
- Total liabilities
- Nonperforming loans in BRB$ millions
- Non-performing loans net of provisions
- Gross loans
- Sectoral distribution of loans to total loans
- Return on assets
- Return on equity
- Interest margin
- Gross income
- Noninterest expenses
- Liquid assets
- Short-term liabilities
- Net open position in foreign exchange
- Large exposures to capital
- Gross asset position in financial derivatives
- Gross liability position in financial derivatives
- Total income
- Personnel expenses
- Noninterest expenses
- Spread between reference lending and deposit rates (base points)
- Highest interbank rate
- Lowest interbank rate
- Customer deposits
- Total (non-interbank) loans
- Foreign-currency-denominated loans
- Foreign-currency-denominated liabilities
- Net open position in equities
- Net profits of the banking sector

Reporting on an annual basis, within 6 weeks of the end-of-period

- Nominal and real GDP and its components from the demand and supply side (provided by the MOF).
- Audited financial statements of Public Institutions listed in Paragraph 2 within 12 weeks of the end-of-period.
- Summary of legislative changes pertaining to economic matters.
- Notification of establishment of new Public Institutions.
- Notification of change in juridical status of existing Public Institutions.
- Audited financial statements of Commercial Banks.