INTERNATIONAL MONETARY FUND

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BARBADOS

June 2019

FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT AND REQUEST FOR THE COMPLETION OF THE FINANCING ASSURANCES REVIEW AND MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BARBADOS

In the context of the First Review Under the Extended Arrangement and Request for the Completion of the Financing Assurances Review and Modification of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 24, 2019, following discussions that ended on May 17, 2019, 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 June 6, 2019.
- A **Statement by the Executive Director** for Barbados.

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

Letter of Intent sent to the IMF by the authorities of Barbados*
Memorandum of Economic and Financial Policies by the authorities of Barbados*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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Press Release No. 19/235
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June 24, 2019

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IMF Executive Board Completes First Review Under the IMF's Extended Fund Facility for Barbados and Approves US$48.7 Million Disbursement

- The completion of the review enables an immediate disbursement of SDR 35 million (about US$48.70 million). A four-year EFF arrangement was approved on October 1, 2018.
- Fiscal adjustment is ongoing, with the authorities targeting a primary surplus of 6 percent of GDP in FY2019/20 and several years thereafter.
- A public debt restructuring is complementing the fiscal consolidation. The restructuring of domestic public debt completed in November 2018 has helped to substantially reduce the public debt burden. The authorities are engaging in good faith negotiations with external commercial creditors.

On June 24, 2019, the Executive Board of the International Monetary Fund (IMF) completed the first review of Barbados' economic reform program supported by an arrangement under the Extended Fund Facility (EFF). The completion of the review allows the authorities to draw the equivalent of SDR 35 million (about US$48.70 million), bringing total disbursements to SDR 70 million (about US$97.40 million).

The four-year EFF arrangement amount equivalent to SDR 208 million (about US$289.41 million, or 220 percent of Barbados's quota in the IMF) was approved by the Executive Board on October 1, 2018 (see Press Release No. 18/370).

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. The program seeks to protect vulnerable groups through strengthened social safety nets.

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

"Barbados has made a strong start in implementing its ambitious and homegrown economic reform program. All performance criteria for March 2019 were met, and all structural benchmarks have been implemented, although a few with minor delays.

“The FY2019/20 budget provides a solid basis for the targeted fiscal consolidation of 6 percent of GDP. The adjustment effort is supported by several new taxes, ongoing reforms in public financial management, a reduction of transfers to State-Owned Enterprises (SOEs), and adequate provisions for social safety nets and capital expenditure. If necessary, the authorities stand ready to take additional measures to reach the targeted primary surplus. The planned adoption of a fiscal rule in 2020 will help sustain the adjustment effort over the medium and long term.

“Reform of SOEs is critical for achieving the primary surplus target and maintaining it over the medium term. To secure fiscal space for investment in physical and human capital, transfers to SOEs are envisaged to significantly decline by a combination of stronger oversight of SOEs, cost reduction, revenue enhancement, and mergers and divestment.

“A comprehensive public debt restructuring complements the fiscal consolidation. The domestic debt restructuring completed in November 2018 has significantly reduced Barbados’s public debt burden without jeopardizing financial stability. The authorities are continuing good faith negotiations with external commercial creditors, which together with the domestic debt restructuring, should help restore debt sustainability.

“The fixed exchange rate has served as a key anchor for macroeconomic stability and international reserves have increased. The exchange rate peg and monetary regime would be further bolstered by the planned reforms to strengthen the central bank’s mandate, autonomy, and decision-making structures.

“Structural reforms target improvements in the business environment to increase growth over the medium term. With the adoption of a new Town and Country Planning Law in January 2019, the process for providing construction permits has been streamlined. Going forward, the authorities intend to carefully review and address the different obstacles to growth.

“Adequate social spending and an improved safety net are key priorities for the program. The authorities have launched a training and outplacement program to mitigate the impact on unemployment from layoffs at the central government and SOEs.”

INTERNATIONAL MONETARY FUND

BARBADOS

June 6, 2019

FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT AND REQUEST FOR THE COMPLETION OF THE FINANCING ASSURANCES REVIEW AND MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Recent Developments and Outlook. 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. The authorities have made swift progress since mid-2018 in addressing economic vulnerabilities, in close consultation with social partners. International reserves, which reached a low of US$220 million (5-6 weeks of import coverage) at end-May 2018, have more than doubled since then mainly due to lending from international financial institutions and the ongoing external commercial debt moratorium. The rapid completion of the domestic part of a debt restructuring has been very helpful in reducing economic uncertainty, and the new terms agreed with creditors have put debt on a clear downward trajectory; plans will be developed to address the impact of the debt restructuring on public agencies. Negotiations with commercial external creditors are ongoing. Risks to the outlook are elevated but growth could surprise on the upside, with private sector confidence now increasing rapidly.

Program implementation. All quantitative performance criteria (QPCs) and indicative targets (ITs) for March 2019 were met. Six structural benchmarks were met and the remaining four were implemented with minor delays. In March 2019, Parliament adopted a budget for FY2019/20 that targets a primary surplus of 6 percent of GDP; this budget provides a solid basis for the envisaged fiscal consolidation. The authorities have started the reform of state-owned enterprises (SOEs)—a key element of the economic reform program—by tightening reporting requirements and shedding excess staff, and several entities are being merged. Work on a review of all tariffs and fees charged by SOEs, reforming the customs department, public pension reform, and amending the central bank law—key benchmarks for upcoming reviews—is well underway. Staff supports the authorities' request to modify the performance criteria for end-September 2019 and end-March 2020. Risks to the program include limited implementation capacity, untested ability to maintain high primary surpluses over an extended period, and risks related to the external debt restructuring process.

Approved By
Aasim M. Husain (WHD) and Nathan Porter (SPR)

The mission team consisted of Bert van Selm (head), Gregorio Impavido, Dmitry Vasilyev (WHD), Carlo Pizzinelli (FAD), Haimanot Teferra (SPR), and Myrvin Anthony (MCM). The team visited Barbados during May 6–17, 2019. Jeremy Weil (OED) joined the mission.

Board date: June 24, 2019

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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)
FB	Fiscal Balance
FDI	Foreign Direct Investment
FMA	Financial Management and Audit
FSC	Financial Services Commission
FY	Fiscal Year
G&S	Goods and Services
GDP	Gross Domestic Product
GRI	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
NIS	National Insurance Scheme
NPV	Net Present Value
P&C	Property and Casualty (insurer)
PB	Primary Balance
PC	Performance Criterion
PFM	Public Finance Management
PIT	Personal Income Tax
ROAA	Return on Average Assets
SDR	Special Drawing Right
SOE	State Owned Enterprise
ST	Short Term
TA	Technical Assistance
TMU	Technical Memorandum of Understanding
UFR	Use of Fund Resources
US$	US Dollar
VAT	Value Added Tax
YoY	Year-on-Year

RECENT DEVELOPMENTS AND OUTLOOK

A. Recent Developments

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. Since the 2008-09 global financial crisis, Barbados has been caught in a vicious cycle of low or negative growth and increasing debt, with public debt doubling to almost 160 percent of GDP. By end-May 2018, international reserves had dropped to about US$220 million, or 5–6 weeks of import coverage. The authorities have since then made swift progress in addressing economic vulnerabilities, in close consultation with social partners. The IMF Executive Board approved a four-year extended arrangement under the Extended Fund Facility (EFF) to support Barbados' stabilization program on October 1, 2018.

2. Output contracted by 0.6 percent in 2018, in line with program projections. Although long-stay tourism arrivals increased by 3 percent, the average length of stay declined due to a larger share of short-stay arrivals from the United States. The moderate gains in tourism were offset by a decline in other services. Average inflation slowed to 3.7 percent in 2018 as the impact of higher oil prices in the first part of the year was offset by the removal of a temporary emergency tax on consumption.[1]

3. A primary surplus of around 3½ percent of GDP was maintained in FY2018/19. (Table 2). Overperformance of VAT and CIT was offset by larger than anticipated tax refunds, lower excises due to lower imports, and lower than expected performance of newly introduced taxes (an airline travel fee, room levies, a new fuel tax, and a new health service contribution). The ongoing debt restructuring reduced the Government's interest bill from 7½ percent of GDP in FY2017/18 to 3.8 percent of GDP in FY2018/19, with debt service on external commercial debt suspended since June 2018, and a lower interest expenditure on restructured domestic debt securities. The overall balance is hence estimated at a deficit of about 0.3 percent of GDP.

4. In December 2018, Parliament adopted a comprehensive CIT reform to comply with EU and OECD requirements that is expected to be revenue neutral. The new regime establishes a single incorporation regime and a single tax rate structure for all corporates registered in Barbados. For domestic companies, CIT rates have been sharply reduced, while rates payable by companies operating in the international business sector were increased slightly (but four-fold in the top bracket—from 0.25 percent to 1 percent).[2] The reform is expected to be revenue neutral even

[1] The National Social Responsibility Levy (NSRL), a 10 percent surcharge on most consumption, was abolished in July 2018.

[2] At the time of EFF approval, it was not clear to the authorities to what extent they would need to modify their CIT regime to comply with EU and OECD requirements.

after a conservative assumption on tax base shifting;[3] however, this projection critically depends on elasticity assumptions. The CIT reform could make revenue from this source less predictable; it could lead to a loss of revenue that would need to be compensated by offsetting measures to meet fiscal targets under the program. The OECD has indicated that, with this reform, Barbados is now compliant with its guidelines on Base Erosion and Profit Shifting (BEPS), while the EU removed Barbados from the list of non-cooperative tax jurisdictions in May 2019. A recent FAD tax policy mission suggested measures that could be taken to limit the impact of the recent CIT reform on the Personal Income Tax (PIT), and other steps that could be taken to strengthen the tax system (see paragraph 13 and Box 1). The CIT reform is expected to have minimal impact in FY2019/20, with the main effects of the new legislation (on the composition of CIT revenue) expected in FY2020/21.

5. **A domestic debt exchange operation was completed in November 2018**. The Government announced a comprehensive debt restructuring, including external commercial debt and domestic treasury bills, on June 1, 2018. Agreement with the vast majority of domestic creditors (including all banks and insurers) was announced on October 14, 2018, and the transaction with domestic creditors was closed in November. Legislation adopted in September 2018 to retrofit a collective action mechanism into domestic debt was used to secure 100 percent participation in the domestic debt exchange. The domestic debt restructuring represents about 90 percent of the debt to be restructured. External commercial debt (about 15½ percent of GDP)[4] is yet to be restructured.

6. **The domestic debt restructuring has significantly reduced Barbados' public debt burden** (Table 3). The restructuring resulted in an immediate reduction in the debt-to-GDP ratio of about 30 percentage points in nominal terms,[5] as well as a reduction in gross financing needs (GFN) of about 35 percentage points of GDP. Claims of private sector creditors were restructured mainly through lengthening of maturities and reduction of interest rates, while claims of public sector creditors were restructured through a combination of upfront haircuts, lengthening of maturities, and reduction in interest rates (Appendix I). Staff

Barbados: Aggregate NPV losses from domestic debt restructuring

Sector	Unrestructured claims at nominal value (B$ million)	Unrestructured claims at PV (B$ million)	Restructured claims at PV /3 (B$ million)	Nominal to PV loss (Percent)	PV to PV loss (Percent)
Economy	11,557.0	11,864.0	6,718.9	-41.9	-43.4
Public Sector	6,265.1	6,420.1	2,860.1	-54.3	-55.5
CBB 1/	2,640.7	2,640.1	642.0	-75.7	-75.7
NIS	3,624.3	3,780.0	2,218.2	-38.8	-41.3
Private Sector	5,291.9	5,443.9	3,858.8	-27.1	-29.1
Banks	2,205.8	2,223.0	1,607.6	-27.1	-27.7
Trusts	296.8	303.6	211.4	-28.8	-30.4
Credit Unions	130.9	131.2	91.0	-30.5	-30.6
Insurance	523.2	554.5	391.2	-25.2	-29.4
Pension funds	609.8	639.1	429.4	-29.6	-32.8
Other 2/	1,525.4	1,592.4	1,128.2	-26.0	-29.2

1/ Including government sinking fund at CBB and ways and means.
2/ Other holders of government debt, including mutual funds and companies.
3/ Using a 7 percent interest for discounting.

[3] Revenue projections assume a reduction in the tax base generated by formerly non-resident companies of about one quarter.

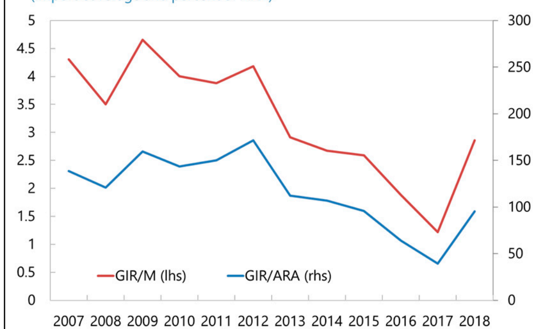
[4] Excluding interest and penalty arrears.

[5] The sharp drop in the debt-to-GDP ratio partially reflects the restructuring of holdings of the CBB and the NIS. The authorities will develop plans to recapitalize the CBB and address the medium and long-term challenges for the NIS (structural benchmark for end-June 2020).

estimates average NPV losses for domestic creditors at about 42 percent, with losses for private sector creditors averaging about 30 percent and losses for public sector creditors averaging about 55 percent (see text table). The rapid completion of the domestic part of the debt restructuring has been very helpful in reducing economic uncertainty, and the new terms agreed with creditors put debt on a clear downward trajectory. Risks to the debt dynamics remain elevated since debt remains above the 70 percent of GDP risk assessment threshold. Following the completion of the domestic debt exchange, Standard and Poor's upgraded Barbados' long- and short-term local currency ratings to B-/B. The authorities target an intermediate anchor of 80 percent debt-to-GDP by FY2027/28 and a long-term anchor of 60 percent debt-to-GDP by FY2033/34.

7. Barbados' international reserves rebounded sharply in the second half of 2018, supported by International Financial Institution (IFI) loans and the suspension of debt service on commercial external debt (Table 4). Reserves increased to US$531 million as of end-March 2019, about 3 months of import coverage and 100 percent of the Assessment of Reserve Adequacy (ARA) metric (see text chart). Following the IMF Board approval of the Extended Arrangement on October 1, 2018, both the Caribbean Development Bank (CDB) and the Inter-American Development Bank (IDB) approved policy-based loans, worth US$75 million and US$100 million, respectively. About three quarters of the increase in gross international reserves between May 2018 and March 2019 was due to IFI inflows. Debt service on external commercial debt was suspended immediately following the Government's June 1, 2018 restructuring announcement. Attaining reserve adequacy on a sustained basis will require fully-restored confidence in Barbados' macroeconomic prospects.

Gross international reserves
(Import coverage and percent of ARA)



Sources: Fund staff calculations.

B. Outlook

8. A small decline in output is projected for 2019, with the impact of fiscal consolidation expected to be offset by continued growth in tourism and increasing private sector confidence. Multipliers are small, with the economy heavily dependent on external demand for tourism services. Policy uncertainty has decreased significantly since mid-2018, and there are strong signals that new inflows from large international investors may materialize. Over the medium term, growth is projected to return to close to its medium-term average of about 2 percent.

9. The primary balance is projected to increase to 6 percent of GDP in FY2019/20 and to remain at that level over the medium term. The 6 percent primary surplus target is a key element of the agreement reached with domestic creditors in the debt restructuring.

10. International reserves are projected to increase further over the medium term, supported by additional IFI inflows. The current account deficit is projected to stabilize around 3 percent of GDP, with gains from tourism and fiscal consolidation offset by higher imports related to higher FDI inflows and other projected current account balance (CAB) dynamics. Confidence gains associated with program implementation would contribute to a recovery of net private inflows to the historical average. Reserves are projected to reach 5 months of import coverage or about 150 percent of the ARA metric by the end of the program period contingent on a successful external commercial debt restructuring and sustained implementation of policies supported by the program.

11. Domestic and external risks to the outlook are elevated.

- **Domestic risks primarily relate to the Government's untested ability to reach and sustain a 6 percent primary surplus**. Fiscal adjustment could be less than estimated due to implementation delays, increased spending owing to political pressures, or a weaker-than-expected full-year impact of the new taxes introduced in 2018. Starting with FY2020/21, CIT and PIT revenues could be impacted by the CIT reform that was adopted in late 2018. At the same time, growth could be much higher than projected if large FDI projects materialize.
- **External risks include a disorderly Brexit or a US slowdown**. Key source markets for tourism are the UK (with a market share of about 33 percent), the US (30 percent), and Canada (13 percent). Weaker growth in these economies could slow arrivals and reduce private investment in refurbishing and expanding tourism facilities. Tightening of monetary policy in the US could appreciate Barbados' real exchange rate and reduce competitiveness.

POLICY ISSUES

A. Fiscal Adjustment in FY2019/20

12. The FY2019/20 budget adopted by Parliament in March targets a primary surplus of 6 percent of GDP. The budget for FY2019/20 was approved in March, prior to the start of the new fiscal year, as required under the new FMA legislation. The targeted fiscal adjustment amounts to 2½ percentage points of GDP. The budget is premised on conservative revenue assumptions and ambitious SOE reforms to facilitate lower transfers to SOEs (grants to public institutions). Revenue is projected to increase as full-year effects of new taxes introduced in 2018 materialize and new measures following the recent FAD TA on tax policy are implemented (next paragraph and

Barbados: Fiscal adjustment in FY 2019/20
(In percent of GDP, unless otherwise indicated)

	Program	Est.	Program	Projections
	2018/19	2018/19	2019/20	2019/20
Total revenue	**29.6**	**29.3**	**31.1**	**31.2**
Tax revenue	27.6	27.5	29.1	29.3
Income and profits	8.2	8.2	8.7	7.8
Taxes on property	1.3	1.6	1.3	1.9
VAT	8.6	9.2	8.7	9.4
Social levy (NSRL)	0.4	0.5	0.0	0.0
Excise	3.1	2.7	3.1	2.7
Import taxes	2.2	2.1	2.2	2.1
Other taxes	3.8	3.3	5.2	5.4
Nontax revenue	1.7	1.8	1.7	1.8
Capital revenue and grants	0.3	0.0	0.3	0.1
Total expenditure	**30.9**	**29.6**	**28.5**	**28.2**
Interest	4.7	3.8	3.4	3.0
Transfers	12.3	12.5	10.9	11.4
o/w Grants to public institutions	7.8	8.0	6.4	6.9
Capital expenditure and net lending	2.4	1.9	2.7	2.0
CG Fiscal balance	**-1.3**	**-0.3**	**2.6**	**3.0**
CG Primary balance	**3.3**	**3.5**	**6.0**	**6.0**

Sources: Ministry of Finance; and Fund staff estimates.

text table);[6] layoffs at the central Government and SOEs that took place in FY2018/19 should help reduce the wage bill as well as transfers to SOEs in FY2019/20, with severance payments reflected in the FY2018/19 fiscal outturn. The budget approved for FY2019/20 provides a solid basis for the targeted fiscal consolidation. If necessary, the authorities stand ready to take additional measures recommended during the recent FAD TA on tax policy while maintaining the quality of fiscal consolidation by prioritizing capital expenditure. Over the medium term, capital spending is projected to gradually increase to 3 percent of GDP over the program period, as transfers to SOEs are gradually reduced further.

13. The authorities are reviewing and implementing recommendations provided by recent FAD TA missions on tax policy and customs administration (see Box 1). The FY2019/20 budget includes key recommendations on tax policy including broadening the VAT and Land Tax bases, and limiting potential base erosion stemming from large discrepancy between CIT and PIT rates. The FAD TA report also suggests to: repeal the discretionary provisions for providing tax concessions; introduce a standardized, rules-based incentives package, overseen by the Minister of Finance; and, should revenue measures underperform, consider increasing the VAT rate, from 17.5 percent at present.[7] The February 2019 FAD TA mission on customs administration identified severe management problems that require urgent attention. A modernized customs agency could play a key role in enhancing revenue and facilitating Barbados' integration in the global economy. An FAD TA mission to provide advice on a fiscal rule is scheduled for the second half of 2019.

B. SOE Reforms

14. SOE reforms are a key element of Barbados' economic reform program. At close to 8 percent of GDP in FY2017/18, transfers to SOEs had become a significant burden on the budget, and a major contributor to fiscal risks. SOE transfers support a wide range of activities, including provision of utilities (such as water, transportation, electricity, and waste disposal), social programs, especially public health and education, and economic development (mainly tourism and investment promotion). Under the program, grants

Barbados: Scope and coverage of SOE reforms

Measure	Number of entities
Savings from debt restructuring	8
Leasing or selling of assets	3
Commercialization of operations and introduction of user fees	11
Mergers and transfers of ownership to other entities 1/	14
Staff retrenchments	11
Full closure	4
Privatization	1
Operational efficiency measures	5
Other measures	9

Sources: Barbados authorities.
1/ For a total of 4 mergers and 2 transfers of ownership in FY2019/20 and FY2020/21.

[6] The reform of the property tax is expected to yield about 0.6 percent of GDP per year, while the broadening of the VAT base is expected to yield an additional 0.5 percent of GDP per year. Other taxes (lottery winnings and gaming revenues, taxes on online transactions, and an increase in the room rate levy) are expected to bring an additional 0.3 percent of GDP per year.

[7] The recent FAD TA report on tax policy suggested that an increase in VAT rate would be the most effective measure to quickly offset potential fiscal underperformance.

to SOEs are expected to decline to about 6 percent of GDP by FY2021/22, by a combination of: (i) much stronger oversight of SOEs, supported by improved reporting; (ii) cost reduction, including reduction of the wage bill; (iii) revenue enhancement, including an increase in user fees; and (iv) mergers and divestment (text table).

Box 1. Tax Policy and Customs Administration Reforms

Improving the efficiency and effectiveness of tax collection is critical to support the fiscal adjustment effort. In the newly adopted budget for FY2019/20, the authorities are implementing a new tax policy based on a shift from direct to indirect taxation, and a fairer distribution of the tax burden between residents and non-residents. In addition, the Barbados Customs and Excise Department (BCED)—contributing around 38 percent of total tax receipts—will be strengthened.

Measures already implemented:

- **The authorities have taken measures to increase VAT collection, in line with recent FAD TA recommendations**. The VAT base has been broadened by moving items from zero-rated to exempt, which will reduce VAT refunds. In addition, the VAT rate on the accommodation sector has been increased from 7.5 to 10 percent.
- **To reduce distortions stemming from low CIT and high PIT rates and limit individuals' incentives to incorporate, the authorities have announced their intention to gradually reduce PIT rates**. By extending the reverse tax credit to BRB$25,000, the authorities have also made the PIT more progressive.
- **Land tax reforms adopted by Parliament in the context of the FY2019/20 budget will increase progressivity and fairness**. Land tax discounts for hotels and other tourist accommodation were reduced, while the cap on the residential land tax was increased from BRB$60,000 to BRB$100,000, and land tax rates were increased.

Future measures:

- **With CIT rates now unified at low levels, the CIT tax base could be further broadened by removing concessions and introducing interest deductibility restrictions**. While several CIT incentives have been eliminated in the context of the budget for FY2019/20, most of the remaining concessions could also be abolished. For example, a grant program administered by the National Productivity Council could replace the productivity and innovation tax incentives. Any remaining CIT incentives could be consolidated into the Income Tax Act and overseen by the Minister of Finance.
- **The authorities aim to reform the BCED to strengthen governance and promote accountability**. Key reform objectives include to: (i) prepare a new strategic plan to guide decisions and communicate the organization's vision; (ii) develop key performance indicators to monitor the effectiveness of BCED's operations; (iii) reorganize the human resources department to improve organizational effectiveness and lower staff attrition; and (iv) strengthen the BCED's IT system and migrate to the newer ASYCUDA World.
- **Strengthening BCED's core functions and controls will improve efficiency**. BCED plans to: (i) review rules and procedures to strengthen compliance activities, (ii) adopt a holistic risk management framework to better monitor and process importers by size and risk; and (iii) strengthen controls of foreign trade operations, cargo targeting, and post-clearance audits.

15. **With the adoption of the new FMA law in January 2019, SOE borrowing and reporting requirements have been tightened**. Under the new law, the Government must approve all SOE borrowing and can sanction SOEs for noncompliance with the reporting requirements. The

Government now also receives standardized quarterly financial reports on SOE performance and a consolidated report on the performance of SOEs was submitted to Parliament in early April 2019. A comprehensive review of all tariffs and fees charged by SOEs is now underway; the Government implemented a steep increase in bus fares in April 2019.

16. Staff reductions at key SOEs are ongoing, and several entities are being merged. To date, layoffs amount to around 320 staff but some entities plan further retrenchment in the upcoming months. The authorities have launched a training and outplacement program to mitigate the impact on unemployment.[8] The authorities estimate savings from these layoffs at about 2 percent of GDP from FY2019/20 onwards (with limited or no fiscal savings in FY2018/19, owing to severance payments). Ongoing and planned mergers include the Government Information Service (GIS) with the Caribbean Broadcasting Corporation (CBC), and the Urban Development Corporation (UDC) with the Rural Development Corporation (RDC); entities tasked to promote tourism are also being merged.

17. SOE arrears amount to 2½ percent of GDP and the authorities plan to reduce them by about 1 percent of GDP by March 2020. To enhance control over liabilities, the Government has introduced a system for monitoring and reducing SOE arrears. At the end of March 2019, SOE arrears amounted to BRB$294 million, of which 97 percent accrued towards private sector suppliers and the rest to the Barbados Revenue Authority (BRA) and the National Insurance Corporation (NIS).[9] The SOEs owing the largest shares of arrears are the Barbados Water Authority (36 percent), the National Housing Corporation (32 percent), and the Transport Board (11 percent). The Government has taken charge of negotiating the settlement of outstanding SOE arrears with private suppliers, planning to extinguish all SOE arrears over the course of the BERT program. A new quantitative indicative target to reduce SOE arrears for the monitored 33 SOEs (representing 96 percent of total SOE arrears) was added to the program (Table 2, Appendix II).

C. External Debt Restructuring

18. Discussions with external commercial creditors are ongoing. The authorities and the external creditor committee have continued to meet regularly, with a recent meeting in Washington, DC in mid-April 2019. Despite positions narrowing since the creditor committee and the authorities shared initial scenarios in late 2018, differences remain.[10] The authorities' good faith efforts are

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[8] The authorities established a mitigation unit to retrain and replace central government and SOE staff retrenched under the BERT program. Individuals are scored across various metrics to identify priority cases for support. Through the unit, individuals have access to free training, medical counseling, and priority job placement in the private or public sector. To date, 750 individuals have requested support from the unit; this number is expected to increase after the unemployment insurance period of the rest of the retrenched individuals expires.

[9] Arrears to the BRA and NIS amounted to BRB$446.7 million in September 2018 but were almost entirely eliminated in December 2018 through a comprehensive write-off of arrears across Governmental agencies. At end-March 2019, expenditure arrears are estimated at about 3 percent of GDP (Table 3, line "Domestic Arrears").

[10] The External Creditor Committee issued a statement on May 29 2019, noting that that while negotiations have to date been in good faith, they would have deep concerns if the authorities launch a unilateral offer.

reflected in the ongoing dialogue and information and data sharing with creditors, including by seeking the external creditors' inputs into the design of the restructuring. A moratorium on external commercial debt service has given rise to arrears, and the Fund's lending into arrears policy applies. In view of ongoing good faith negotiations, staff is of the view that financing assurances remain in place.

19. The authorities have decided not to seek official bilateral debt restructuring, and arrears to Canada have been repaid. Official bilateral debt is small, at 2 percent of GDP. The authorities are now current on their official bilateral obligations.[11]

D. Impact of Debt Restructuring on Domestic Financial Institutions

20. The domestic debt restructuring succeeded in reducing Government debt without jeopardizing financial stability.[12] The financial system remains stable and liquid, with now reduced capital but no signs of stress. Plans will be developed to recapitalize the CBB and address medium and long-term challenges for the NIS stemming from the debt restructuring by mid-2020, as envisaged under the program. More specifically:

- **Banks have capital above the regulatory minimum, remain liquid, but with higher asset concentration ratios and reduced profitability**. Between December 2017 and March 2019, the capital adequacy ratio in the banking system declined from 17 to 13 percent. Liquidity in the banking system remains high: between the first quarter of 2018 and end-2018, the excess cash reserves held at the CBB increased from about 14 to 15½ percent of deposits.

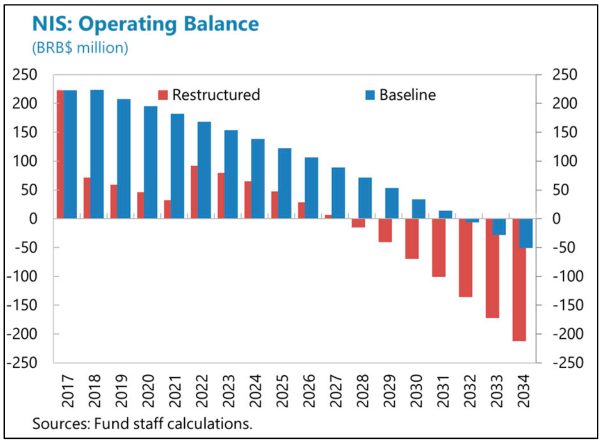
- **The CBB now has negative capital and has requested technical assistance to consider how to address this over the medium term**. After the debt restructuring, the CBB's capital stands at BRB$-1.6 billion (or negative 16 percent of GDP). A plan for recapitalization will be developed by mid-2020, with the help of Fund TA. The new securities provided to the CBB during the debt restructuring (see Box 1 in Appendix I for details) ensure that it has an adequate income stream to meet operational expenses.

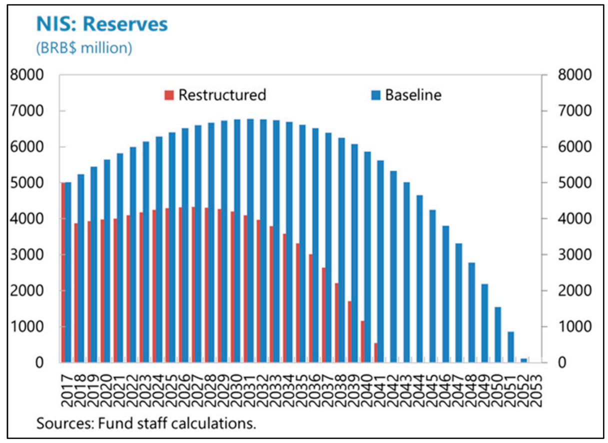
- **The financial position of the NIS has deteriorated and systemic or parametric reform will be required in the medium term** (text charts). The NIS provided large debt relief to the central Government through an upfront BRB$1.3 billion haircut (equivalent to about 26 percent of its reserves), amortization grace periods and lower interest payments. Staff estimates that its operative balance will become negative around 2028 and reserves will be exhausted around 2041—five and ten years earlier than pre-restructuring, respectively. Reforming the

[11] Under the EFF-supported program, the assumption had been that Canada's loan (then an external commercial claim with a Government guarantee) would be restructured, along with the other external commercial debt, on terms proposed by the authorities' debt advisors, while Barbados would not seek to restructure its loan from China, the sole outstanding official bilateral debt at that time. Repaying Canada's loan on current terms increases financing needs by 0.1 percent of GDP per year over the program period (2018-22); this has been offset by higher-than-anticipated inflows from IFIs. Hence, the program remains fully financed.

[12] Key terms of the domestic debt restructuring are summarized in Box 1 in Appendix I.

country's pension system will be required in the future, well before the operating balance becomes negative. This could be achieved through systemic and/or parametric reforms. The objective of such reforms would be to retain pension benefits adequacy while restoring sustainability and improving actuarial fairness by distributing the impact of the recent domestic debt restructuring across generations.





- **Other financial institutions incurred losses comparable to banks' but with a different impact on their solvency position**. Credit unions have no minimum regulatory requirement and, on average, they continue to have capital above the 10 percent of assets recommended by Financial Services Commission (FSC) guideline. Insurers continue to meet minimum capital requirements with maturity matching of property and casualty (P&C) insurers negatively affected by the lack of short-term securities post restructuring and of life insurers positively affected by the introduction of longer-term securities post restructuring. The solvency position of private pension funds deteriorated considerably, especially of those plans heavily invested in Government paper and recapitalization plans have been agreed with the relevant supervisor. The FSC has also put in place a five-year forbearance policy to cover the non-bank sector's potential breaches of capital, reserves and other statutory benchmarks.

E. Growth Oriented Reforms

21. Renewed confidence in the country's macroeconomic framework and regulatory streamlining are expected to increase growth over the medium term. With the adoption of the new Town and Country Planning Law in January 2019, the process for providing construction permits has been streamlined. To support the sound development of fintech start-ups, the Government has established a Sandbox regime; financial innovation could help support more efficient allocation of savings. The authorities intend to carefully review the different components of the World Bank's Doing Business survey to identify, and address, key obstacles to growth, and they are preparing a growth diagnostic with staff support.

22. The authorities plan to gradually liberalize exchange controls, as envisaged under the program. Initial steps were announced in the Prime Minister's March 2019 budget speech. The authorities plan to allow residents to open FX deposit accounts starting July 1, 2019, allow banks to lend in FX, and to relax the FX surrender requirement for exporters. Reform in this area will remain cautious and gradual, to ensure that the international reserves position is not impacted. Staff supports the proposed sequencing and gradual liberalization. The CBB will need to develop liquidity management capacity and instruments to support liberalization of the exchange controls with IMF technical assistance support. The FX fee[13] introduced in July 2017 was assessed by the Fund as a capital flow management measure and it remains in place; the authorities aim to phase this out as the reserve position and the fiscal position strengthen.

PROGRAM ISSUES

23. All performance criteria for end-March were met (Table 2, Appendix II). Modified performance criteria and indicative targets are proposed to be set through March 2020. A new indicative target for monitoring SOE arrears is proposed covering the same SOEs covered under the indicative ceiling on transfers. Staff supports the authorities' request to modify the performance criteria for end-September 2019 and end-March 2020 given revised projections.

24. Six structural benchmarks were met and the remaining four were implemented with minor delays (Table 2, Attachment I). The Financial Management Act and the Town and Country Planning legislation were adopted by Parliament in early 2019, and the consolidated report on performance of SOEs was submitted to Parliament in early April 2019.

25. New structural benchmarks for upcoming reviews are proposed, and a few are proposed to be reset (Table 1, Attachment I). The June 2019 structural benchmark on civil servants' pension reform is proposed to be reset for end-June 2020, to provide more time for consultation and to prepare an actuarial review that will inform the planned reforms (*new structural benchmark for end-December 2019*). A new structural benchmark for end-July 2019 is proposed to be set to require the proclamation of the new FMA Act by the Governor General. The end-June 2019 benchmark on amending the Central Bank Law is proposed to be reset for end-December 2019 to accommodate the need for further consultations and legal drafting capacity constraints. The end-June 2019 benchmark on reviewing SOE tariffs is proposed to be reset to end-September 2019 to accommodate the need for further consultations with social partners.

26. The authorities have established a program oversight committee (the BERT Monitoring Committee or BERT MC) to strengthen societal ownership and build public support for the program. This committee includes members from the private sector, unions, and civil society who will closely monitor and communicate program implementation to the broader public through regular media briefings. BERT MC issued its first quarterly report and held its first quarterly press conference in February 2019.

[13] A two-percent fee applies to all transactions that require the remittance of, or settlement in, foreign currency.

27. Progress is being made in implementing technical assistance recommendations on statistical issues. The Barbados Statistical Service (BSS) has revised annual and quarterly GDP series. However, further improvements and rebasing the GDP estimates to 2016 have been delayed due to limited resources. A two-year project from the IMF aiming to accelerate progress in upgrading GDP series has commenced. Since May 2019, the IMF is also supporting the BSS with peripatetic visits to improve coordination and communication on data sources of the national accounts compilation system. The production of PPI statistics has improved, but staff shortages limit the ability of the BSS to meet the monthly publication schedule agreed under the program. The CBB is addressing weaknesses in monetary and external statistics.

28. With strong implementation of the program, Barbados' capacity to repay the Fund remains adequate and financing assurances remain in place (Table 10). Debt service to the IMF is projected to remain below 2 percent of exports and below 1 percent of GDP throughout the projection period to 2032, while gross reserves are projected to remain well above 100 percent of ARA over the full projection period. The authorities' commitment to the program and their solid repayment history following its two previous Fund programs also provide comfort. The EFF-supported program is fully financed over the next 12 months, with good prospects for the remainder of the program period. Adequate safeguards remain in place for further use of Fund resources. The limited accumulation of external arrears, which are expected to be temporary, does not undermine the medium-term viability of the BOP and thereby, the capacity of Barbados to repay the Fund.

29. A first-time safeguards assessment of the Central Bank of Barbados (CBB) was completed in December 2018. It found relatively strong internal and external audit mechanisms that are subject to close oversight by the Audit Committee. The assessment identified a need to strengthen the legal framework, foreign reserves management, compilation of monetary data, and to enhance transparency in financial reporting. The CBB is making progress with implementing the assessment's recommendations, and legal amendments are being drafted with IMF technical assistance (structural benchmark). While the 2018 audit was completed within the statutory three-month deadline, the timeliness of publication of the audited financial statements should be improved.

STAFF APPRAISAL

30. The authorities have shown strong ownership of the reform effort and program implementation has also been strong. All performance criteria for March 2019 were met. All structural benchmarks have been implemented, four with minor delays. Prospects for continued strong program performance are good.

31. The fiscal adjustment continues as programmed with the primary surplus targeted at 6 percent of GDP for FY2019/20. Staff supports the authorities' view that a 6 percent of GDP primary surplus for this fiscal year entails risks and continued commitment from the authorities. The target is supported by concrete policy measures including the recent tax policy reform, the introduction of several new taxes, ongoing reforms in public financial management, a reduction of transfers to SOEs, and adequate provisions for social safety nets and capital expenditure. The planned adoption of a fiscal rule in 2020 will help sustain the fiscal reform effort over the medium and long term.

32. SOE reforms are essential for achieving the primary surplus target and maintaining it over the medium term. To secure fiscal space for investment in physical and human capital, grants to SOEs are envisaged to decline from 8 percent of GDP in FY2017/18 to 6 percent of GDP by FY2021/22, by a combination of: (i) much stronger oversight of SOEs, supported by improved reporting; (ii) cost reduction, including reduction of the wage bill; (iii) revenue enhancement, including an increase in user fees; and (iv) mergers and divestment.

33. The domestic debt restructuring has significantly reduced Barbados's public debt burden without jeopardizing financial stability. Domestic public debt declined by 30 percent of GDP, while gross financing needs declined by 35 percent of GDP. Banks' capital adequacy declined from 17 percent in December 2017 to 14 percent in December 2018. The insurance and credit union sectors remain sound. At the same time, the CBB now has negative capital and the NIS' financial position has worsened. The authorities will develop plans to recapitalize the CBB and address medium and long-term challenges for the NIS stemming from the debt restructuring.

34. The authorities are continuing good faith negotiations with external commercial creditors. The authorities and external creditors' committee have continued to meet regularly, and the authorities have continued to share data with the external commercial creditors. Together with the already concluded domestic debt restructuring, ongoing fiscal adjustment, and measures to boost growth, the external debt restructuring will help restore debt sustainability.

35. While the authorities are well on the way to restoring fiscal sustainability, these achievements must be secured by improving the CBB's governance framework. Amendments to the Central Bank Law should limit central bank financing of the Government to short-term advances and strengthen the CBB's mandate, autonomy, and decision-making structures.

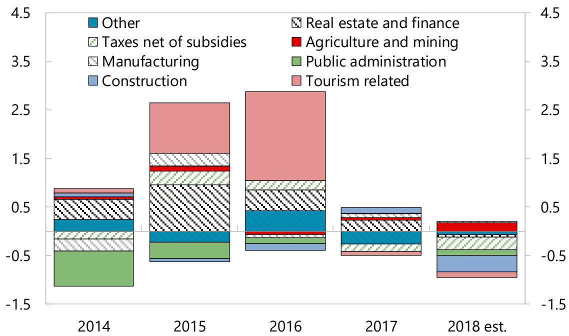
36. Program implementation going forward will be challenging. Risks to the program include limited implementation capacity, untested ability to maintain high primary surpluses over a sustained period, and risks related to the external debt restructuring process. Additional challenges include reforming the civil service pension system and strengthening the effectiveness of customs. The tasks are arduous, but there is no alternative route to restoring fiscal and external sustainability to spur a sustained economic recovery.

37. In light of strong program implementation, staff recommends completion of the first review of the extended arrangement under the Extended Fund Facility, and it supports the authorities' request to modify performance criteria.

Figure 1. Barbados: Real Sector Developments

Growth has declined due to negative contribution from construction and services…

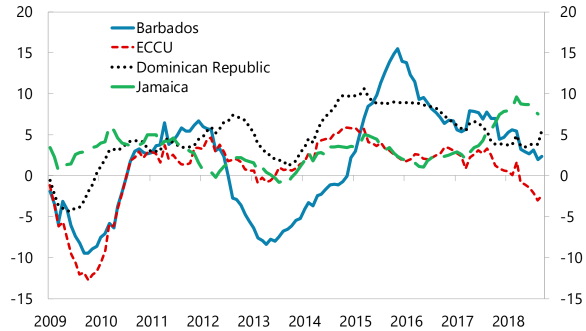
Real GDP Growth by Sectors
(millions BBD)



Sources: Central Bank of Barbados and Fund staff calculations.

… as growth in tourism arrivals was weak.

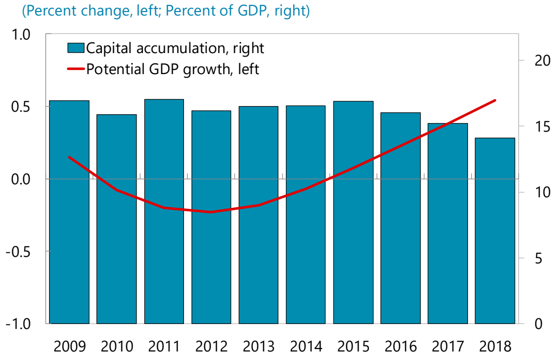
Tourist Arrivals
(Y/Y percent change, 12-month moving average)



Sources: Caribbean Tourism Organization and Fund staff calculations.

Potential GDP growth is recovering from low levels.

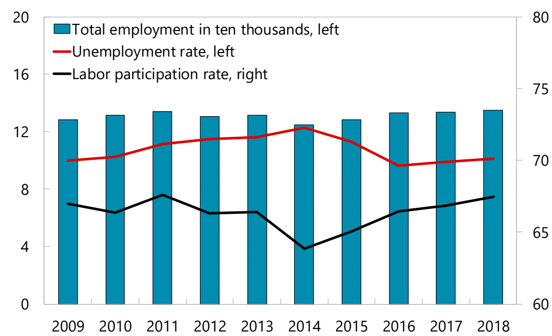
Capital Accumulation and Potential GDP
(Percent change, left; Percent of GDP, right)



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

Unemployment slightly increased due to layoffs started in 4Q2018, while labor participation continued its upward trend.

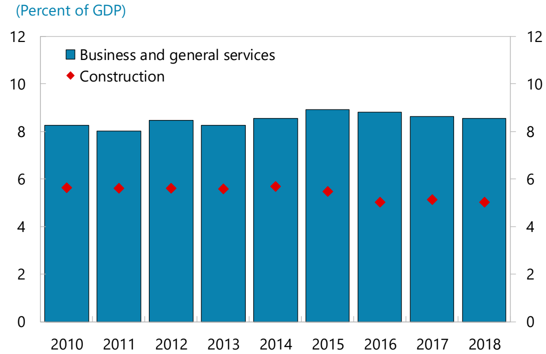
Labor Participation and Unemployment
(Ten thousands; Percent)



Sources: Central Bank of Barbados and Fund staff calculations.

Non-tourism industries are stagnating,

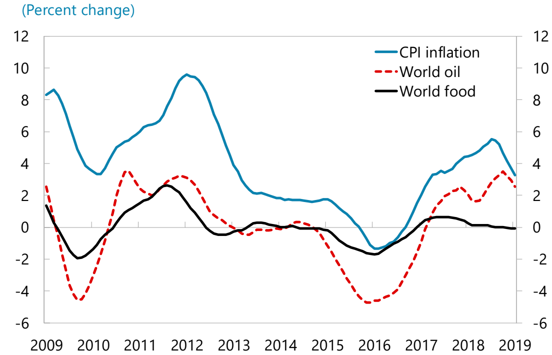
Construction and Business Sectors
(Percent of GDP)



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

…while inflation declined due to lower consumption taxes and energy prices.

Consumer, Oil and Food Prices
(Percent change)

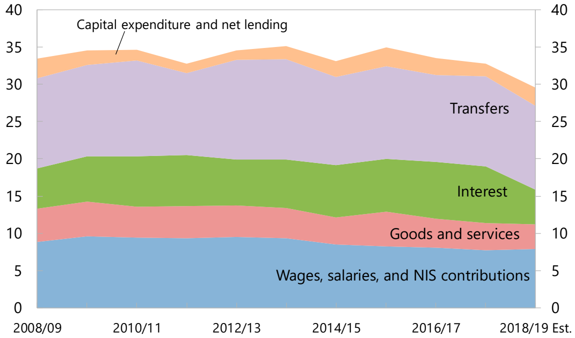


Sources: Central Bank of Barbados and Fund staff calculations.

Figure 2. Barbados: Fiscal Sector Developments

While transfers remain high, debt restructuring helped reduce interest bill in FY 18/19...

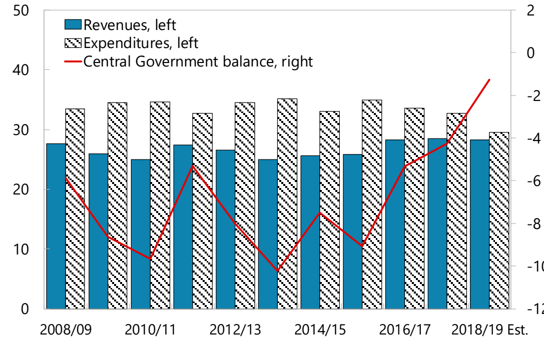
General Government Expenditures
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

......and improve the fiscal balance.

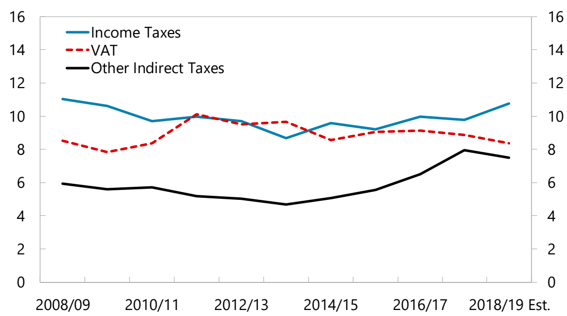
Central Government Balance
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

Since FY2014/15, revenues from income taxes and indirect taxes have grown slightly while VAT revenues have remained relatively flat.

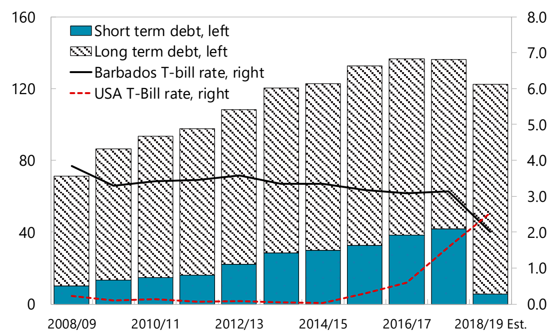
Tax Revenue Composition
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

Large financing requirements had increasingly been met by short-term debt instruments ....

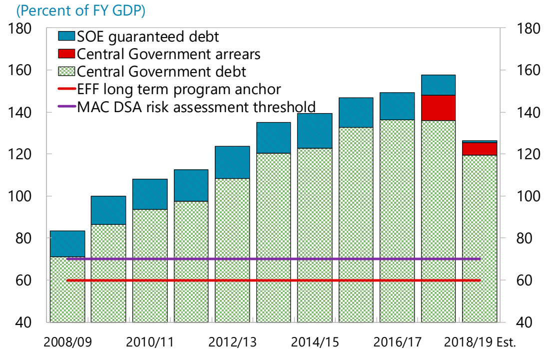
Government Financing
(Percent of GDP, left; Percent, right)



Sources: Central Bank of Barbados and Fund staff calculations.

... but public sector debt has decreased sharply after the domestic debt restructuring...

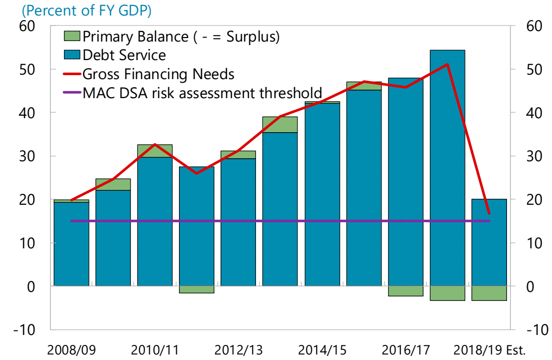
Public Debt
(Percent of FY GDP)



Sources: Fund staff calculations.

... along with the debt service cost and gross financing needs.

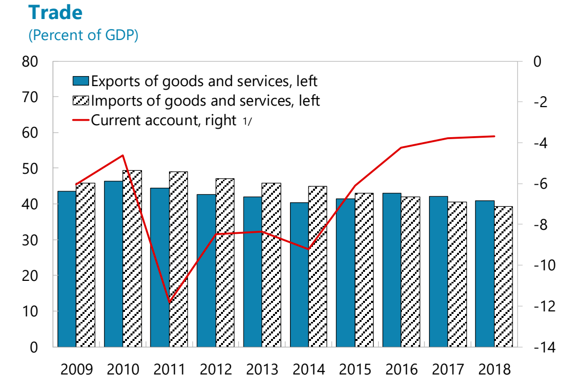
Gross Financing Needs
(Percent of FY GDP)



Sources: Fund staff calculations.

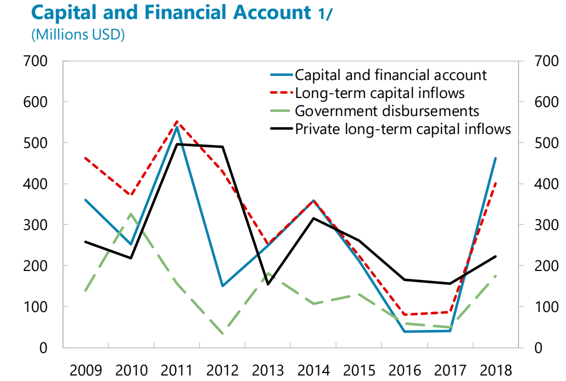
Figure 3. External Sector Developments

The current account deficit has narrowed, driven by lower imports and higher exports of goods and services.



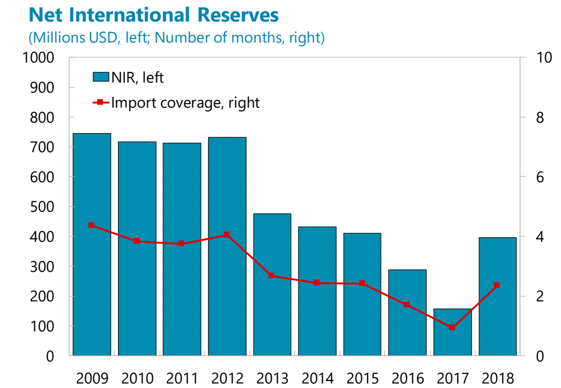
Sources: Central Bank of Barbados and Fund staff calculations.

A declining trend in capital inflows was reversed owing to inflows from IFI loans and FDI ….



Sources: Central Bank of Barbados and Fund staff calculations.

…contributing to a turnaround in international reserves.



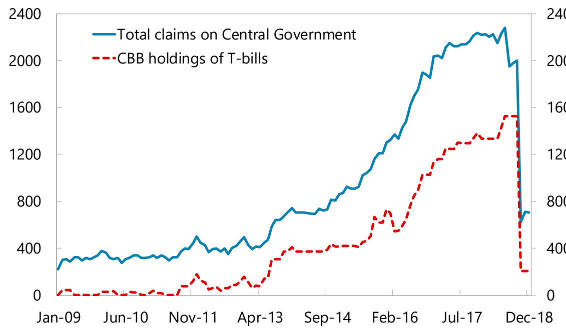
Sources: Central Bank of Barbadose and Fund staff calculations.

1/ For 2018, figures for long-term inflows and capital and financial account i.e. reflects the accumulation of external commercial arrears equivalent to US$34 million. The current account deficit in 2018 is higher by one percent of GDP including interest payment of arrears to commercial creditors."

Figure 4. Barbados: Monetary Sector Developments

CBB's claims on the Government declined after the debt restructuring...

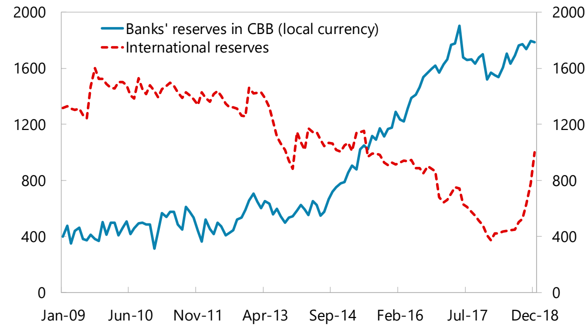
Central Bank's Claims
(Millions BBD)



Sources: Central Bank of Barbados and Fund staff calculations.

...while the CBB's international reserves increased sharply, and commercial banks' reserves at the CBB remained high.

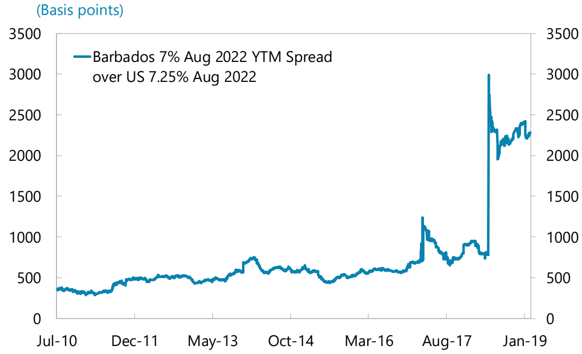
Reserves
(Millions BBD)



Sources: Central Bank of Barbados and Fund staff calculations.

The country risk premium peaked after the authorities announced plans to restructure both external and domestic debt.

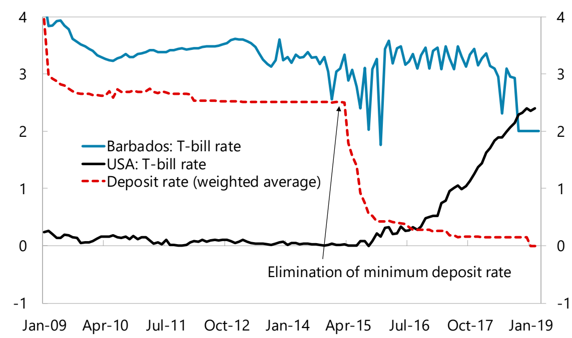
Bond Spreads (Barbados over U.S. 10-year bonds)
(Basis points)



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

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

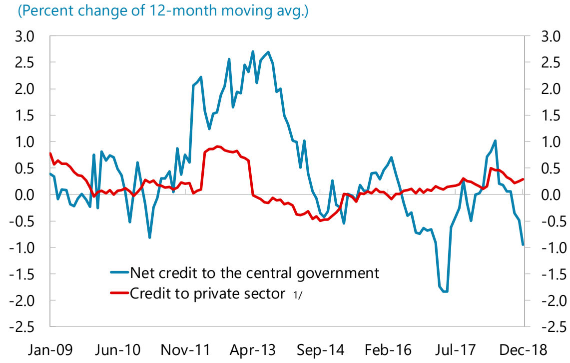
Interest Rates
(Percent)



Sources: Central Bank of Barbados and Fund staff calculations.

Private sector credit growth has remained weak...

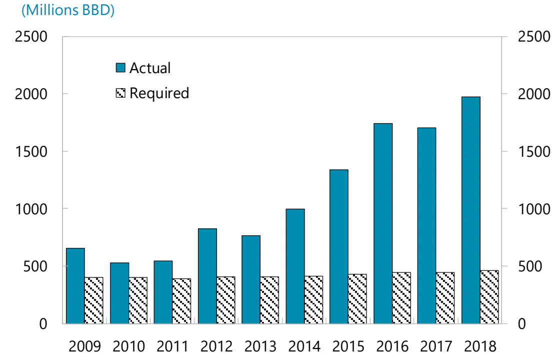
Private Sector Credit
(Percent change of 12-month moving avg.)



Sources: Central Bank of Barbados and Fund staff calculations.

...with excess liquidity parked at the CBB.

Commercial Banks: Reserves
(Millions BBD)



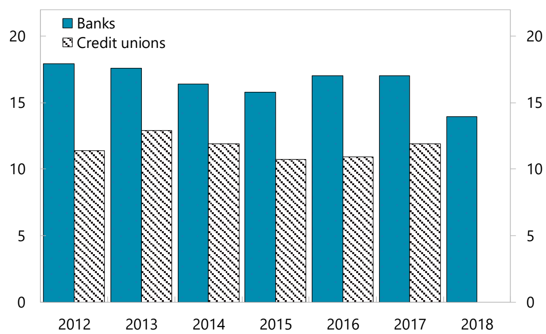
Sources: Central Bank of Barbados and Fund staff calculations.

1/ Private sector credit growth reflects the financial consolidation of a financial and trust company with its parent bank. Otherwise, credit growth would be flat.

Figure 5. Barbados: Financial Sector Developments

Capital relative to risk-weighted assets declined after the debt restructuring but remains adequate…

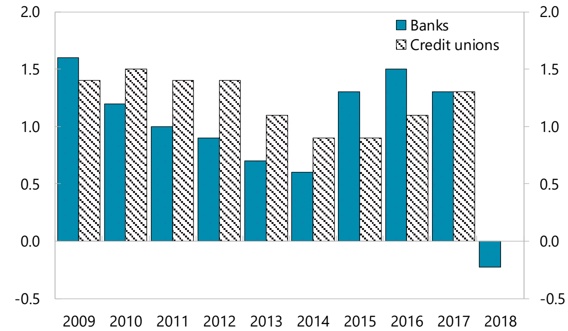
Capital Adequacy Ratio
(Percent of risk-weighted assets)



Sources: Central Bank of Barbados and Fund staff calculations.

…while profitability turned negative.

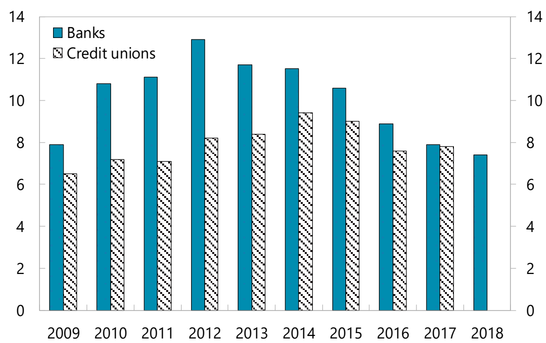
Return on Assets
(Percent of total assets)



Sources: Central Bank of Barbados and Fund staff calculations.

Banks' NPLs remained flat.

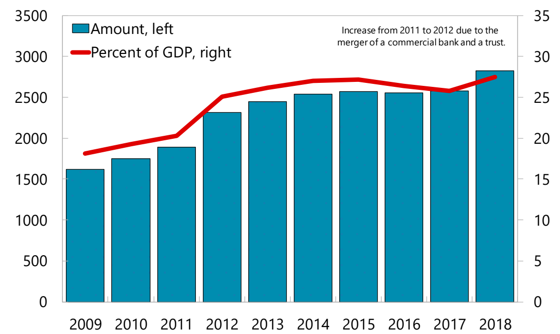
Nonperforming Loan Ratio
(Percent of total loans)



Sources: Central Bank of Barbados and Fund staff calculations.

Mortgages increased slightly in 2018…

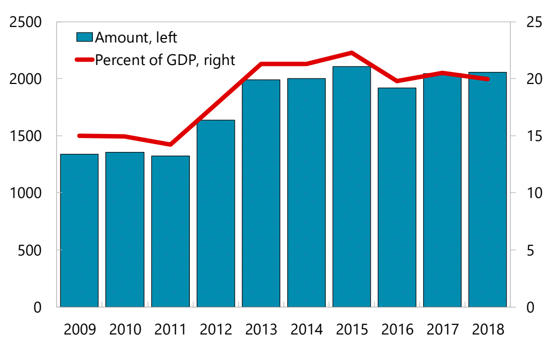
Commercial Banks' Mortgage Exposure
(Millions BBD, left; Percent, right)



Sources: Central Bank of Barbados and Fund staff calculations.

…while the banks maintained their exposure to the Government after maturity lengthening due to the debt restructuring.

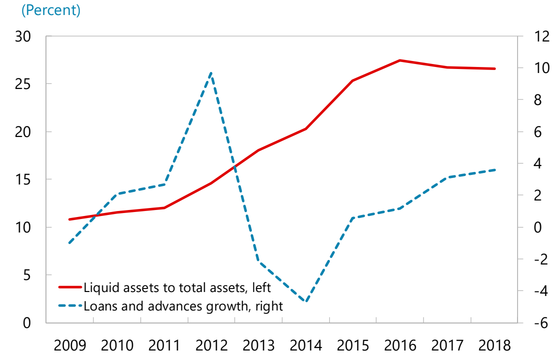
Commercial Banks' Sovereign Exposure
(Millions BBD, left; Percent, right)



Sources: Central Bank of Barbados and Fund staff calculations.

With some loan growth, banks' liquid assets to total assets have decreased in the last two years.

Commercial Banks' Loans and Liquid Assets
(Percent)

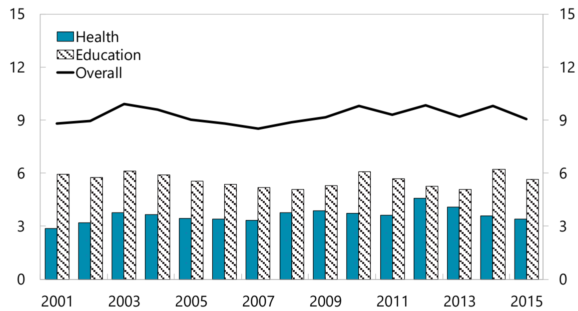


Sources: Central Bank of Barbados and Fund staff calculations.

Figure 6. Barbados: Social Development Indicators

Social spending has remained constant as a share of GDP…

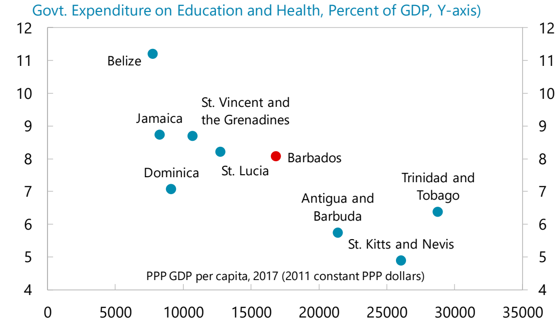
Public Social Spending
(Percent of GDP)



Sources: World Development Indicators as of Jun. 2018, and IMF staff calculations.

…and in line with peers, given the income level.

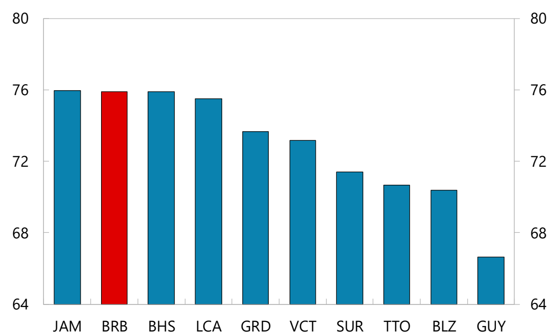
Social Spending: Selected Caribbean Countries
(PPP GDP per capita, PPP dollars, X-axis;
Govt. Expenditure on Education and Health, Percent of GDP, Y-axis)



Sources: IMF World Economic Outlook, World Development Indicators, and Fund staff calculations.

Barbados has a higher life expectancy…

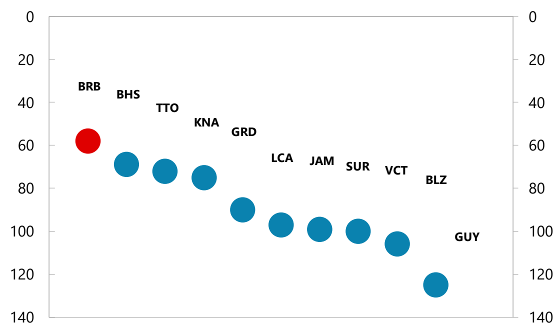
Life Expectancy, 2016
(Years)



Sources: World Development Indicators and IMF staff calculations.

…and higher development outcomes relative to regional peers.

Human Development Index, 2017
(Rank of 188, 1 is best)

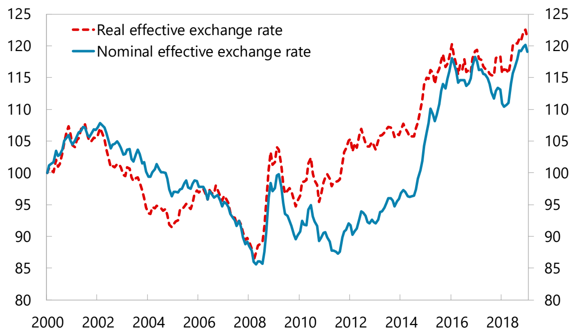


Sources: UNDP Human Development Index 2016 and IMF staff calculations.

Figure 7. Barbados: Competitiveness Indicators

Real effective exchange rate has slightly appreciated recently.

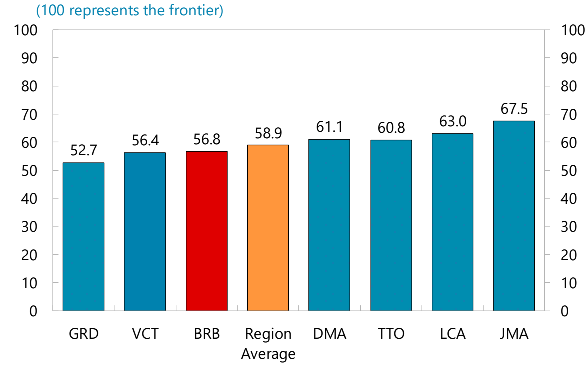
Effective Exchange Rates
(Index: January 2000=100)



Sources: IMF Information Notice Service and Fund staff calculations.

Barbados scores below regional average on the "Doing Business Indicators".

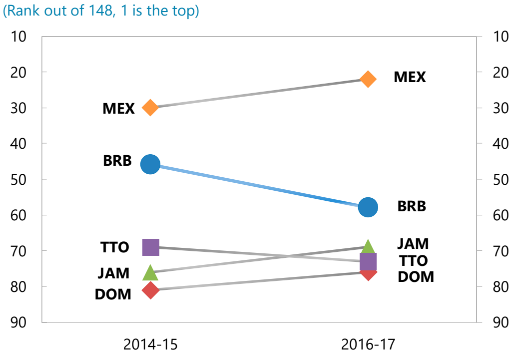
Doing Business: Distance to Frontier, DB19
(100 represents the frontier)



Sources: World Bank Doing Business Database and Fund staff calculations.

While still strong relative to its peers, Barbados ranking in Tourism Competitiveness Index has deteriorated…

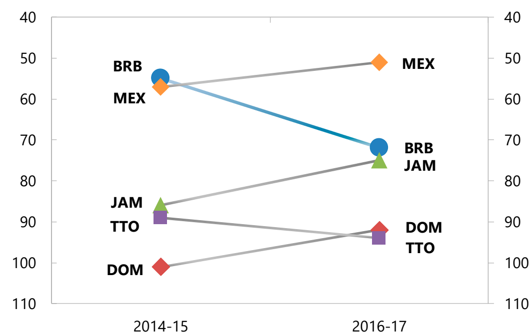
Tourism Competitiveness Index Ranking
(Rank out of 148, 1 is the top)



Sources: World Economic Forum and Fund staff calculations.

…as has its ranking in the Global Competitiveness Index.

Global Competitiveness Index Ranking
(Rank out of 148, 1 is the top)

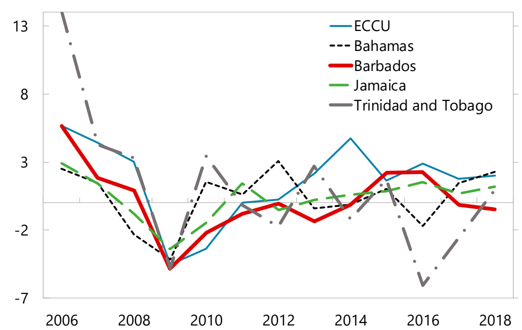


Sources: World Economic Forum and Fund staff calculations.

Figure 8. Barbados: Economic Performance in a Regional Context

Barbados' growth is relatively lower but less volatile.

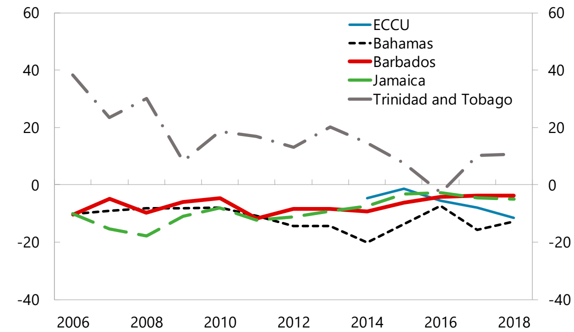
Real GDP Growth
(Percent change)



Sources: IMF World Economic Outlook and Fund staff calculations.

External imbalances are relatively better.

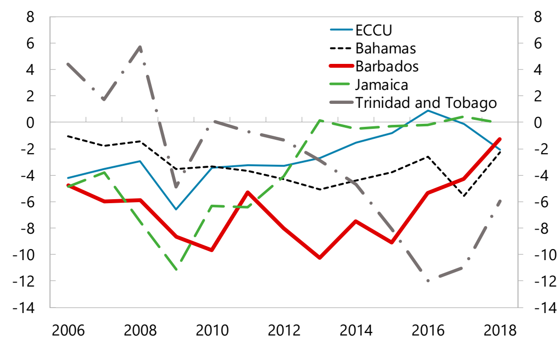
Current Account Balance
(Percent of GDP)



Sources: IMF World Economic Outlook and Fund staff calculations.

The fiscal stance is relatively looser, but tightening.

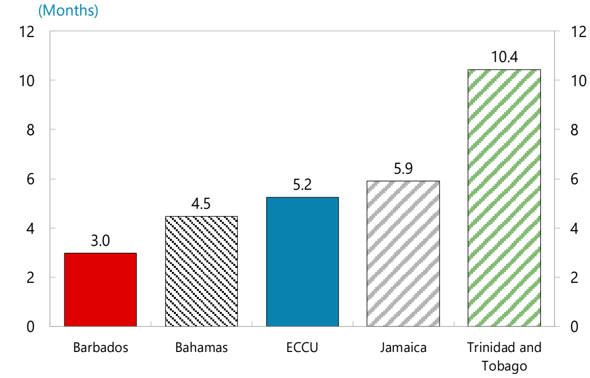
Central Government Fiscal Balance
(Percent of GDP)



Sources: IMF World Economic Outlook and Fund staff calculations.

Reserves are still lower than those of its peers...

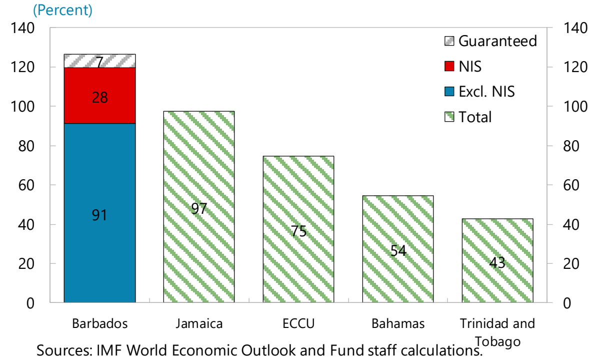
Reserves in Months of Imports, 2018
(Months)



Sources: IMF World Economic Outlook and Fund staff calculations.

...while its debt is still the highest in the region.

General Government Gross Debt-GDP Ratio, 2018
(Percent)



Sources: IMF World Economic Outlook and Fund staff calculations.
Note: Jamaica's debt is the consolidated central government and public bodies' debt, excluding debt to the IMF held by the BoJ, consistent with the Fiscal Responsibility Law.

Table 1. Barbados: Selected Economic Indicators, 2016–20

I. Social and Demographic Indicators (most recent year)

Population (2017 est., thousand)	285.7	Adult literacy rate	99.7
Per capita GDP (2017 est., US$ thousand)	17.4	Poverty rate (individual, 2010)	19.3
Life expectancy at birth in years (2013)	75.3	Gini coefficient (2010)	47.0
Rank in UNDP Development Index (2014)	57	Unemployment rate (2018 est.)	10.1
Main products, services and exports: tourism, financial services, rum, sugar, and chemicals.			

II. Economic Indicators

			Est.	Projections	
	2016	**2017**	**2018**	**2019**	**2020**
			(Annual percentage change)		
Output, prices, and employment					
Real GDP	2.5	0.5	-0.6	-0.1	0.6
CPI inflation (average)	1.5	4.4	3.7	1.9	1.8
CPI inflation (end of period)	3.8	6.6	0.6	1.4	2.3
External sector					
Exports of goods and services	6.6	0.8	0.0	4.2	3.2
Imports of goods and services	0.2	-0.4	-0.4	5.4	2.1
Real effective exchange rate (average)	0.9	2.5	1.4	…	…
Money and credit					
Net domestic assets	7.3	1.9	2.3	3.4	2.4
Of which: Private sector credit *2/*	1.1	2.3	3.6	2.5	3.6
Broad money	3.9	-0.6	7.9	5.1	3.9
			(In percent of GDP, unless otherwise indicated)		
CG Public finances (fiscal year) 1/					
Revenue and grants	28.3	28.6	29.3	31.2	31.0
Expenditure	33.6	32.9	29.6	28.5	27.9
Fiscal Balance	-5.3	-4.3	-0.3	2.7	3.1
Interest Expenditure	7.6	7.6	3.8	3.3	2.9
Primary Balance	2.2	3.3	3.5	6.0	6.0
Public Debt (fiscal year) 1/					
Central gov't gross debt (incl. guaranteed anc	149.5	158.3	125.7	117.1	110.7
External	31.3	28.5	32.7	27.2	26.9
Domestic	118.2	129.8	93.0	89.9	83.8
Balance of payments 3/					
Current account balance	-4.3	-3.8	-3.7	-3.5	-3.1
Capital and financial account balance	0.8	0.8	9.1	7.2	6.0
o/w Public Sector	-1.8	-1.4	3.5	3.2	2.0
o/w IMF disbursement	0.0	0.0	1.0	1.9	1.4
Private Sector	2.6	2.2	4.1	4.0	4.0
o/w FDI	3.4	3.1	4.4	4.0	4.0
Net Errors and Omissions	1.0	0.3	0.3	0.0	0.0
Overall balance	-2.5	-2.6	5.7	3.6	2.9
Memorandum items:					
Exchange rate (BDS$/US$)	2.0	2.0	2.0	…	…
Gross international reserves (US$ million)	319.9	205.7	499.6	688.3	844.7
In months of imports of G&S	1.9	1.2	3.0	3.9	4.7
In percent of ARA	64.2	39.4	94.5	124.5	146.3
Nominal GDP, CY (BDS$ millions)	9,660	9,956	10,173	10,378	10,645
Nominal GDP, FY (BDS$ millions)	9,734	10,011	10,225	10,445	10,748

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/ Private credit growth in 2018 reflects the merger of a trust company with its parent bank.
3/ After external commercial debt restructuring.

Table 2a. Barbados: Central Government Operations, 2016/17–2024/25

(in millions of Barbados dollars) 1/

			Program	Est.	Program	Projections					
	2016/17	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Total revenue	**2,754**	**2,864**	**3,062**	**2,994**	**3,255**	**3,259**	**3,329**	**3,461**	**3,607**	**3,760**	**3,918**
Current revenue	2,744	2,842	3,034	2,994	3,228	3,248	3,305	3,437	3,582	3,733	3,890
Tax revenue	2,495	2,675	2,862	2,812	3,054	3,063	3,115	3,239	3,375	3,518	3,666
Income and profits	737	752	852	838	913	811	775	806	840	875	912
Taxes on property	135	138	136	161	137	202	208	216	225	234	244
VAT	890	891	887	941	910	983	1,034	1,075	1,120	1,168	1,217
Social levy (NSRL)	29	152	47	49	0	0	0	0	0	0	0
Excise	226	303	319	271	323	277	285	296	309	322	336
Import taxes	245	219	225	214	228	218	225	234	243	254	264
Other taxes	232	220	396	338	544	572	589	612	638	665	693
Nontax revenue	250	167	172	181	174	185	190	198	206	215	224
Capital revenue and grants	10	22	28	0	26	11	24	25	26	27	28
Total expenditure	**3,275**	**3,293**	**3,201**	**3,024**	**2,982**	**2,976**	**2,996**	**3,176**	**3,366**	**3,576**	**3,807**
Current expenditure	3,049	3,121	2,951	2,826	2,700	2,764	2,757	2,873	3,026	3,137	3,260
Wages, salaries and SSC	784	782	812	812	810	811	826	846	866	886	907
Goods and services	385	364	382	356	389	414	422	432	442	453	463
Interest	738	763	1,155	385	356	343	312	385	457	484	521
Transfers	1,142	1,212	1,274	1,273	1,145	1,196	1,197	1,210	1,261	1,314	1,370
o/w Subsidies	128	123	119	136	118	75	77	80	84	87	91
o/w Grants to public institutions	714	761	805	815	668	717	704	697	727	757	789
o/w Retirement benefits	299	328	351	323	359	404	416	432	451	470	490
Capital expenditure and net lending	225	172	251	198	282	212	238	303	340	439	546
CG Fiscal balance	**-521**	**-429**	**-139**	**-31**	**273**	**283**	**333**	**286**	**241**	**184**	**112**
CG Primary balance	**218**	**334**	**343**	**354**	**629**	**627**	**645**	**670**	**699**	**668**	**633**
Repayment of domestic arrears	n.a.	n.a.	0	891	373	59	191	44	0	0	0
CG Fiscal balance (net of arrears)	**n.a.**	**n.a.**	**-139**	**-921**	**-100**	**225**	**143**	**242**	**241**	**184**	**112**
CG Primary balance (net of arrears)	**n.a.**	**n.a.**	**343**	**-536**	**256**	**568**	**454**	**627**	**699**	**668**	**633**
Financing	**521**	**429**	**139**	**31**	**-273**	**-283**	**-333**	**-286**	**-241**	**-184**	**-112**
Net Financing - External	-162	-179	257	345	100	75	51	-63	-105	-109	-118
Capital Markets	0	0	0	0	0	0	0	0	0	0	0
Project Funds	57	114	49	88	40	45	42	42	60	60	60
Policy Loans	0	0	300	350	150	150	130	80	80	80	80
IDB	0	0	200	200	100	0	80	80	80	80	80
CDB	0	0	100	150	50	150	50	0	0	0	0
Privatization 2/	0	0	0	0	0	0	0	0	0	0	0
Amortization	219	293	92	93	90	120	121	185	245	249	258
Net Financing - Central Gov. 5/	682	608	-118	577	0	-300	-193	-179	-137	-75	6
Central bank	792	73	177	-176	0	0	0	0	-80	-80	-80
Commercial banks	-434	258	0	83	0	0	0	0	0	0	0
National Insurance Scheme	180	3	0	9	0	-210	-135	-125	-16	28	86
Private non-bank 3/	95	-57	0	-120	0	-90	-58	-54	-41	-22	0
Others/unidentified financing	49	332	-296	781	0	0	0	0	0	0	0
Memorandum items:											
CG gross debt 4/	14,548	15,843	12,809	12,853	12,230	12,227	11,894	11,608	11,367	11,183	11,072
Exceptional financing (from debt restructuring)	0	0	5,259	5,100	4,759	4,532	4,577	4,479	4,413	3,962	3,794
Nominal GDP, FY (BDS$ millions)	9,734	10,011	10,361	10,225	10,480	10,445	10,748	11,175	11,646	12,139	12,651

Sources: Ministry of Finance; and Fund staff estimates.

1/ Fiscal year is from April to March.

2/ Privatization proceeds.

3/ Insurance companies and other non bank private sector.

4/ Including: CG, CG guaranteed, and arrears. From FY 2018/19, data includes both external and domestic debt restructuing; hence, it excludes debt directly serviced by SOEs no longer guaranteed by the CG.

5/ Net of domestic expenditure arrears repayment.

Table 2b. Barbados: Central Government Operations, 2016/17–2024/25

(in percent of GDP, unless otherwise indicated) 1/

			Program	Est.	Program	Projections					
	2016/17	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Total revenue	**28.3**	**28.6**	**29.6**	**29.3**	**31.1**	**31.2**	**31.0**	**31.0**	**31.0**	**31.0**	**31.0**
Current revenue	28.2	28.4	29.3	29.3	30.8	31.1	30.8	30.8	30.8	30.8	30.8
Tax revenue	25.6	26.7	27.6	27.5	29.1	29.3	29.0	29.0	29.0	29.0	29.0
Income and profits	7.6	7.5	8.2	8.2	8.7	7.8	7.2	7.2	7.2	7.2	7.2
Taxes on property	1.4	1.4	1.3	1.6	1.3	1.9	1.9	1.9	1.9	1.9	1.9
VAT	9.1	8.9	8.6	9.2	8.7	9.4	9.6	9.6	9.6	9.6	9.6
Social levy (NSRL)	0.3	1.5	0.4	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Excise	2.3	3.1	3.1	2.7	3.1	2.7	2.7	2.7	2.7	2.7	2.7
Import taxes	2.5	2.2	2.2	2.1	2.2	2.1	2.1	2.1	2.1	2.1	2.1
Other taxes	2.4	2.2	3.8	3.3	5.2	5.4	5.4	5.4	5.4	5.4	5.4
Nontax revenue	2.6	1.7	1.7	1.8	1.7	1.8	1.8	1.8	1.8	1.8	1.8
Capital revenue and grants	0.1	0.2	0.3	0.0	0.3	0.1	0.2	0.2	0.2	0.2	0.2
Total expenditure	**33.6**	**32.9**	**30.9**	**29.6**	**28.5**	**28.5**	**27.9**	**28.4**	**28.9**	**29.5**	**30.1**
Current expenditure	31.3	31.2	28.5	27.6	25.8	26.5	25.7	25.7	26.0	25.8	25.8
Wages, salaries and SSC	8.1	7.8	7.8	7.9	7.7	7.8	7.7	7.6	7.4	7.3	7.2
Goods and services	4.0	3.6	3.7	3.5	3.7	4.0	3.9	3.9	3.8	3.7	3.7
Interest	7.6	7.6	4.7	3.8	3.4	3.3	2.9	3.4	3.9	4.0	4.1
Transfers	11.7	12.1	12.3	12.5	10.9	11.4	11.1	10.8	10.8	10.8	10.8
o/w Subsidies	1.3	1.2	1.1	1.3	1.1	0.7	0.7	0.7	0.7	0.7	0.7
o/w Grants to public institutions	7.3	7.6	7.8	8.0	6.4	6.9	6.6	6.2	6.2	6.2	6.2
o/w Retirement benefits	3.1	3.3	3.4	3.2	3.4	3.9	3.9	3.9	3.9	3.9	3.9
o/w Subsidies	2.3	1.7	2.4	1.9	2.7	2.0	2.2	2.7	2.9	3.6	4.3
CG Fiscal balance	**-5.3**	**-4.3**	**-1.3**	**-0.3**	**2.6**	**2.7**	**3.1**	**2.6**	**2.1**	**1.5**	**0.9**
CG Primary balance	**2.2**	**3.3**	**3.3**	**3.5**	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**	**5.5**	**5.0**
Repayment of domestic arrears	n.a.	n.a.	0.0	8.7	3.6	0.6	1.8	0.4	0.0	0.0	0.0
CG Fiscal balance (net of arrears)	**n.a.**	**n.a.**	**-1.3**	**-9.0**	**-1.0**	**2.2**	**1.3**	**2.2**	**2.1**	**1.5**	**0.9**
CG Primary balance (net of arrears)	**n.a.**	**n.a.**	**3.3**	**-5.2**	**2.4**	**5.4**	**4.2**	**5.6**	**6.0**	**5.5**	**5.0**
Financing	**5.3**	**4.3**	**1.3**	**0.3**	**-2.6**	**-2.7**	**-3.1**	**-2.6**	**-2.1**	**-1.5**	**-0.9**
Net Financing - External	-1.7	-1.8	2.5	3.4	1.0	0.7	0.5	-0.6	-0.9	-0.9	-0.9
Capital Markets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Funds	0.6	1.1	0.5	0.9	0.4	0.4	0.4	0.4	0.5	0.5	0.5
Policy Loans	0.0	0.0	2.9	3.4	1.4	1.4	1.2	0.7	0.7	0.7	0.6
IDB	0.0	0.0	1.9	2.0	1.0	0.0	0.7	0.7	0.7	0.7	0.6
CDB	0.0	0.0	1.0	1.5	0.5	1.4	0.5	0.0	0.0	0.0	0.0
Privatization 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	2.2	2.9	0.9	0.9	0.9	1.1	1.1	1.7	2.1	2.1	2.0
Net Financing - Central Gov. 5/	7.0	6.1	-1.1	5.6	0.0	-2.9	-1.8	-1.6	-1.2	-0.6	0.1
Central bank	8.1	0.7	1.7	-1.7	0.0	0.0	0.0	0.0	-0.7	-0.7	-0.6
Commercial banks	-4.5	2.6	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National Insurance Scheme	1.9	0.0	0.0	0.1	0.0	-2.0	-1.3	-1.1	-0.1	0.2	0.7
Private non-bank 3/	1.0	-0.6	0.0	-1.2	0.0	-0.9	-0.5	-0.5	-0.4	-0.2	0.0
Others/unidentified financing	0.5	3.3	-2.9	7.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
CG gross debt 4/	149.5	158.3	123.6	125.7	116.7	117.1	110.7	103.9	97.6	92.1	87.5
Exceptional financing (from debt restructuring)	0.0	0.0	44.2	49.9	45.4	43.4	42.6	40.1	37.9	32.6	30.0
Nominal GDP, FY (BDS$ millions)	9,734	10,011	10,361	10,225	10,480	10,445	10,748	11,175	11,646	12,139	12,651

Sources: Ministry of Finance; and Fund staff estimates.

1/ Fiscal year is from April to March.

2/ Privatization proceeds.

3/ Insurance companies and other non bank private sector.

4/ Including: CG, CG guaranteed, and arrears. From FY 2018/19, data includes both external and domestic debt restructuing; hence, it excludes debt directly serviced by SOEs no longer guaranteed by the CG.

5/ Net of domestic expenditure arrears repayment.

Table 3. Barbados: Public Debt, 2016/17–2024/25 1/ 2/

	2016/17	2017/18	Est. 2018/19	Projections 2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
				(In millions of Barbados dollars)					
Public Debt	**14,548**	**15,843**	**12,853**	**12,227**	**11,894**	**11,608**	**11,367**	**11,183**	**11,072**
External	3,044	2,853	3,340	2,837	2,888	2,825	2,720	2,611	2,493
Short Term	0	0	168	0	0	0	0	0	0
Long term	3,044	2,853	3,172	2,837	2,888	2,825	2,720	2,611	2,493
Domestic	11,504	12,990	9,512	9,390	9,006	8,784	8,647	8,572	8,579
Short Term	3,737	5,423	891	729	581	559	582	607	633
Long term	7,766	7,567	8,621	8,661	8,425	8,225	8,065	7,965	7,946
Arrears 4/	**0**	**1,184**	**461**	**234**	**44**	**0**	**0**	**0**	**0**
External 5/	0	0	168	0	0	0	0	0	0
Domestic	0	1,184	293	234	44	0	0	0	0
SOE Guaranteed Debt	**1,242**	**977**	**93**	**93**	**93**	**93**	**93**	**93**	**93**
External 3/	259	108	93	93	93	93	93	93	93
Domestic	983	869	0	0	0	0	0	0	0
Short Term	0	14	0	0	0	0	0	0	0
Long term	983	855	0	0	0	0	0	0	0
CG Debt	**13,306**	**13,683**	**12,299**	**11,900**	**11,757**	**11,515**	**11,274**	**11,090**	**10,979**
External 3/ 6/	2,785	2,745	3,080	2,744	2,795	2,732	2,627	2,518	2,400
Domestic	10,521	10,938	9,219	9,156	8,962	8,784	8,647	8,572	8,579
Short Term	3,737	4,225	598	495	537	559	582	607	633
Long term	6,784	6,712	8,621	8,661	8,425	8,225	8,065	7,965	7,946
				(In percent of FY GDP)					
Public Debt	**149.5**	**158.3**	**125.7**	**117.1**	**110.7**	**103.9**	**97.6**	**92.1**	**87.5**
External	31.3	28.5	32.7	27.2	26.9	25.3	23.4	21.5	19.7
Short Term	0.0	0.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Long term	31.3	28.5	31.0	27.2	26.9	25.3	23.4	21.5	19.7
Domestic	118.2	129.8	93.0	89.9	83.8	78.6	74.2	70.6	67.8
Short Term	38.4	54.2	8.7	7.0	5.4	5.0	5.0	5.0	5.0
Long term	79.8	75.6	84.3	82.9	78.4	73.6	69.2	65.6	62.8
Arrears 4/	**0.0**	**11.8**	**4.5**	**2.2**	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**
External 5/	0.0	0.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	11.8	2.9	2.2	0.4	0.0	0.0	0.0	0.0
SOE Guaranteed Debt	**12.8**	**9.8**	**0.9**	**0.9**	**0.9**	**0.8**	**0.8**	**0.8**	**0.7**
External 3/	2.7	1.1	0.9	0.9	0.9	0.8	0.8	0.8	0.7
Domestic	10.1	8.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short Term	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long term	10.1	8.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CG Debt	**136.7**	**136.7**	**120.3**	**113.9**	**109.4**	**103.0**	**96.8**	**91.4**	**86.8**
External 3/ 6/	28.6	27.4	30.1	26.3	26.0	24.4	22.6	20.7	19.0
Domestic	108.1	109.3	90.2	87.7	83.4	78.6	74.2	70.6	67.8
Short Term	38.4	42.2	5.9	4.7	5.0	5.0	5.0	5.0	5.0
Long term	69.7	67.1	84.3	82.9	78.4	73.6	69.2	65.6	62.8
Memorandum items:									
Nominal GDP, FY (BDS$ millions)	9,734	10,011	10,225	10,445	10,748	11,175	11,646	12,139	12,651

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.

3/ All medium- and long-term.

4/ All short-term.

5/ Excluding principal amortization arrears.

6/ Including principal amortization arrears.

Table 4a. Barbados: Balance of Payments, 2016–24
(in millions of US$)

	2016	2017	Est. 2018	Projections 2019	2020	2021	2022	2023	2024
Current account balance 1/	**-206**	**-189**	**-242**	**-283**	**-189**	**-190**	**-170**	**-165**	**-163**
o/w Exports of goods and services	2,083	2,100	2,100	2,188	2,258	2,340	2,432	2,525	2,621
o/w Imports of goods and services	2,035	2,027	2,020	2,129	2,173	2,245	2,329	2,417	2,502
Trade balance	-706	-717	-734	-806	-823	-860	-901	-947	-990
Exports of goods	835	803	765	792	805	820	839	855	871
o/w Re-exports	265	231	237	242	246	251	257	262	267
Imports of goods	1,540	1,520	1,499	1,597	1,628	1,679	1,739	1,802	1,861
o/w Oil	251	313	394	314	324	333	343	353	359
Services balance	754	790	814	865	909	954	1,004	1,056	1,109
Credit	1,249	1,297	1,335	1,396	1,453	1,520	1,594	1,671	1,750
o/w Travel (credit)	1,040	1,082	1,113	1,167	1,216	1,270	1,328	1,389	1,452
Debit	495	507	521	531	545	566	590	615	641
Primary income balance	-221	-224	-282	-301	-231	-240	-227	-226	-232
Credit	258	265	272	277	284	295	308	321	334
Debit	479	489	554	578	515	535	535	546	566
o/w Interest on CG debt	82	84	91	158	83	86	68	60	60
o/w Interest on IMF lending	0	0	1	2	5	6	7	8	7
Secondary income balance	-33	-38	-40	-41	-42	-44	-46	-48	-50
Credit	58	52	53	55	56	58	61	63	66
o/w Subsidies	91	90	94	96	98	102	106	111	116
Capital and financial account	**40**	**41**	**248**	**75**	**187**	**26**	**-46**	**180**	**172**
Financial Account Balance	42	42	223	-96	187	26	-46	180	172
Public sector	-85	-68	-36	-304	-24	-195	-278	-64	-85
o/w disbursement to CG	59	50	47	28	21	21	28	30	30
o/w CG amortization	116	133	133	165	53	217	304	82	86
o/w IMF amortization	0	0	0	0	0	0	0	12	28
Private sector	128	111	210	208	211	220	232	244	257
o/w FDI flows	166	156	222	208	211	220	232	244	257
Capital Account Balance 2/	-3	-1	25	171	0	0	0	0	0
Unidentified financing	0	0	0	0	0	0	0	0	0
Net errors and omissions	**47**	**17**	**16**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance (deficit -)	**-119**	**-131**	**22**	**-207**	**-1**	**-164**	**-216**	**15**	**9**
Official financing	**0**	**0**	**131**	**100**	**68**	**46**	**40**	**40**	**40**
IDB	0	0	75	25	30	40	40	40	40
CDB	0	0	56	75	38	6	0	0	0
Exceptional financing (Restructuring)	**0**	**0**	**86**	**198**	**18**	**159**	**192**	**-48**	**-46**
Financing	119	131	-239	-91	-84	-41	-16	-7	-2
Reserve movements (- increase)	119	131	-288	-189	-156	-88	-39	-7	-2
IMF	0	0	49	98	73	48	24	0	0
Memorandum items:									
Current account balance (post restructuring)	-206	-189	-190	-184	-164	-164	-169	-172	-169
Oil price (WTI, US$ per barrel)	43.2	50.9	64.8	49.3	51.3	52.1	52.7	53.4	53.8
Gross international reserves (US$ million)	320	206	500	688	845	933	972	979	981
In months of imports of G&S	1.9	1.2	3.0	3.9	4.7	5.0	5.0	4.9	4.7
In percent of ARA	64.2	39.4	94.5	124.5	146.3	153.9	153.4	150.5	147.5

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

1/ Current account balance pre-restructuring.

2/ Includes debt forgiveness as a result of debt restructuring.

Table 4b. Barbados: Balance of Payments, 2016–24
(in percent of GDP, unless otherwise indicated)

			Est.	Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Current account balance 1/	**-4.3**	**-3.8**	**-4.8**	**-5.4**	**-3.5**	**-3.4**	**-3.0**	**-2.7**	**-2.6**
o/w Exports of goods and services	43.1	42.2	41.3	42.2	42.4	42.3	42.2	42.0	41.9
o/w Imports of goods and services	42.1	40.7	39.7	41.0	40.8	40.6	40.4	40.2	40.0
Trade balance	-14.6	-14.4	-14.4	-15.5	-15.5	-15.6	-15.6	-15.8	-15.8
Exports of goods	17.3	16.1	15.0	15.3	15.1	14.8	14.6	14.2	13.9
o/w Re-exports	5.5	4.6	4.6	4.7	4.6	4.5	4.5	4.4	4.3
Imports of goods	31.9	30.5	29.5	30.8	30.6	30.4	30.2	30.0	29.7
o/w Oil	5.2	6.3	7.7	6.0	6.1	6.0	5.9	5.9	5.7
Services balance	15.6	15.9	16.0	16.7	17.1	17.3	17.4	17.6	17.7
Credit	25.9	26.1	26.2	26.9	27.3	27.5	27.7	27.8	28.0
o/w Travel (credit)	21.5	21.7	21.9	22.5	22.9	23.0	23.1	23.1	23.2
Debit	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2
Primary income balance	-4.6	-4.5	-5.5	-5.8	-4.3	-4.3	-3.9	-3.8	-3.7
Credit	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Debit	9.9	9.8	10.9	11.1	9.7	9.7	9.3	9.1	9.0
o/w Interest on CG debt	1.7	1.7	1.8	3.1	1.6	1.6	1.2	1.0	1.0
o/w Interest on IMF lending	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Secondary income balance	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Credit	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
o/w Subsidies	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Capital and financial account	**0.8**	**0.8**	**4.9**	**1.5**	**3.5**	**0.5**	**-0.8**	**3.0**	**2.7**
Financial Account Balance	0.9	0.8	4.4	-1.8	3.5	0.5	-0.8	3.0	2.7
Public sector	-1.8	-1.4	-0.7	-5.9	-0.5	-3.5	-4.8	-1.1	-1.4
o/w disbursement to CG	1.2	1.0	0.9	0.5	0.4	0.4	0.5	0.5	0.5
o/w CG amortization	2.4	2.7	2.6	3.2	1.0	3.9	5.3	1.4	1.4
o/w IMF amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.5
Private sector	2.6	2.2	4.1	4.0	4.0	4.0	4.0	4.1	4.1
o/w FDI flows	3.4	3.1	4.4	4.0	4.0	4.0	4.0	4.1	4.1
Capital Account Balance 2/	-0.1	0.0	0.5	3.3	0.0	0.0	0.0	0.0	0.0
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	**1.0**	**0.3**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance (deficit -)	**-2.5**	**-2.6**	**0.4**	**-4.0**	**0.0**	**-3.0**	**-3.8**	**0.2**	**0.1**
Official financing	**0.0**	**0.0**	**2.6**	**1.9**	**1.3**	**0.8**	**0.7**	**0.7**	**0.6**
IDB	0.0	0.0	1.5	0.5	0.6	0.7	0.7	0.7	0.6
CDB	0.0	0.0	1.1	1.4	0.7	0.1	0.0	0.0	0.0
Exceptional financing (Restructuring)	**0.0**	**0.0**	**1.7**	**3.8**	**0.3**	**2.9**	**3.3**	**-0.8**	**-0.7**
Financing	2.5	2.6	-4.7	-1.8	-1.6	-0.7	-0.3	-0.1	0.0
Reserve movements (- increase)	2.5	2.6	-5.7	-3.6	-2.9	-1.6	-0.7	-0.1	0.0
IMF	0.0	0.0	1.0	1.9	1.4	0.9	0.4	0.0	0.0
Memorandum items:									
Current account balance (post restructuring)	-4.3	-3.8	-3.7	-3.5	-3.1	-3.0	-2.9	-2.9	-2.7
Oil price (WTI, US$ per barrel)	43.2	50.9	64.8	49.3	51.3	52.1	52.7	53.4	53.8
Gross international reserves (US$ million)	320	206	500	688	845	933	972	979	981
In months of imports of G&S	1.9	1.2	3.0	3.9	4.7	5.0	5.0	4.9	4.7
In percent of ARA	64.2	39.4	94.5	124.5	146.3	153.9	153.4	150.5	147.5

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

1/ Current account balance pre-restructuring.

2/ Includes debt forgiveness as a result of debt restructuring.

Table 5. Barbados: Monetary Survey, 2016–24

	2016	2017	Est. 2018	Projections 2019	2020	2021	2022	2023	2024
	(In millions of Barbados dollars)								
Central Bank of Barbados									
Net International Reserves	575	335	832	1,014	1,182	1,263	1,295	1,308	1,313
Assets	640	411	999	1,377	1,689	1,866	1,945	1,958	1,963
Liabilities	-65	-77	-167	-362	-508	-603	-650	-650	-650
Gross International Reserves	640	411	999	1,377	1,689	1,866	1,945	1,958	1,963
Net domestic assets	1,835	1,963	1,827	1,911	1,911	1,911	1,971	2,051	2,131
Of which: Claims on Central government	2,045	2,219	704	854	854	854	854	854	854
Monetary base	2,410	2,298	2,659	2,925	3,092	3,174	3,265	3,358	3,443
Commercial banks									
Net foreign assets	-107	-81	-81	-81	-81	-81	-81	-81	-81
Net domestic assets	8,128	8,027	8,681	9,174	9,515	9,823	10,149	10,463	10,823
Liabilities to the nonfinancial private sector	8,021	7,945	8,600	9,092	9,433	9,741	10,068	10,382	10,742
Monetary survey									
Net foreign assets	468	254	751	933	1,101	1,182	1,213	1,226	1,231
Net domestic assets	8,283	8,442	8,633	8,927	9,140	9,386	9,701	10,046	10,402
Net credit to the public sector	3,241	3,498	1,725	1,875	1,875	1,875	1,935	2,015	2,095
Central government	3,395	3,605	1,828	1,978	1,978	1,978	2,038	2,118	2,198
Rest of public sector	113	140	144	144	144	144	144	144	144
NIS	-267	-247	-247	-247	-247	-247	-247	-247	-247
Credit to the private sector	5,452	5,575	5,774	5,918	6,131	6,377	6,632	6,897	7,173
Credit to rest of financial system 1/	-678	-812	-781	-781	-781	-781	-781	-781	-781
Other items (net) 2/	269	181	1,915	1,915	1,915	1,915	1,915	1,915	1,915
Broad money (M2, liabilities to the private sector)	8,751	8,695	9,384	9,860	10,241	10,568	10,914	11,272	11,633
Narrow money	3,798	3,943	4,240	4,422	4,599	4,741	4,892	5,063	5,208
Currency	730	750	784	768	807	826	846	890	891
Demand deposits	3,068	3,193	3,456	3,654	3,791	3,915	4,046	4,172	4,317
Quasi-money	4,953	4,752	5,144	5,438	5,642	5,827	6,022	6,210	6,425
Time deposits	667	607	657	695	721	744	769	793	821
Saving deposits	4,286	4,145	4,487	4,744	4,922	5,082	5,253	5,416	5,604
	(Changes in percent of beginning-of-period liabilities to the private sector)								
Monetary survey									
Net international reserves	-2.8	-2.4	5.7	1.9	1.7	0.8	0.3	0.1	0.0
Net domestic assets	6.7	1.8	2.2	3.1	2.2	2.4	3.0	3.2	3.2
Net credit to public sector	5.0	2.9	-20.4	1.6	0.0	0.0	0.6	0.7	0.7
Of which: central government	7.3	2.4	-20.4	1.6	0.0	0.0	0.6	0.7	0.7
Credit to private sector	0.7	1.4	2.3	1.5	2.2	2.4	2.4	2.4	2.4
Other items (net) 2/	0.3	-1.0	19.9	0.0	0.0	0.0	0.0	0.0	0.0
	(In percent change)								
Monetary survey									
Net domestic assets	7.3	1.9	2.3	3.4	2.4	2.7	3.4	3.6	3.5
Of which:									
Private sector credit	1.1	2.3	3.6	2.5	3.6	4.0	4.0	4.0	4.0
Public sector credit	15.1	8.0	-50.7	8.7	0.0	0.0	3.2	4.1	4.0
Broad money	3.9	-0.6	7.9	5.1	3.9	3.2	3.3	3.3	3.2

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

1/ Private credit growth in 2018 reflects the financial consolidation of a financial and trust company with its parent bank.

2/ Line item "net unclassified assets" in CBB Monetary Survey. CBB indicates that this line is a residual item, the nature of which is not disclosed. We increase this item by the size of the decline in CBB's capital due to CG debt restructuring

Table 6. Barbados: Medium-Term Macroeconomic Framework, 2016–24
(in percent of GDP, unless otherwise indicated)

			Est.	Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024
				(Annual percentage change)					
National accounts and prices									
Real GDP	2.5	0.5	-0.6	-0.1	0.6	1.5	1.8	1.8	1.8
Nominal GDP	2.4	3.1	2.2	2.0	2.6	3.9	4.2	4.2	4.2
CPI inflation (average)	1.5	4.4	3.7	1.9	1.8	2.3	2.3	2.3	2.3
CPI inflation (end of period)	3.8	6.6	0.6	1.4	2.3	2.4	2.3	2.4	2.3
External sector									
Exports of goods and services, value	6.6	0.8	0.0	4.2	3.2	3.6	4.0	3.8	3.8
Imports of goods and services, value	0.2	-0.4	-0.4	5.4	2.1	3.3	3.7	3.7	3.5
Real effective exchange rate (average)	119.6	122.5	124.3	...	...	...	...	...	...
Terms of trade	1.7	-4.7	-4.5	4.7	-0.5	-0.1	0.0	-0.1	0.6
Money and credit (end of period)									
Net domestic assets	7.3	1.9	2.3	3.4	2.4	2.7	3.4	3.6	3.5
Of which: Private sector credit	1.1	2.3	3.6	2.5	3.6	4.0	4.0	4.0	4.0
Broad money	3.9	-0.6	7.9	5.1	3.9	3.2	3.3	3.3	3.2
Velocity (GDP relative to broad money)	1.1	1.1	1.1	1.1	1.0	1.0	1.1	1.1	1.1
				(In percent of GDP, unless otherwise indicated)					
Public finances (fiscal year) 1/									
Central government									
Revenue and grants	28.3	28.6	29.3	31.2	31.0	31.0	31.0	31.0	31.0
Expenditure	33.6	32.9	29.6	28.5	27.9	28.4	28.9	29.5	30.1
Fiscal balance	-5.3	-4.3	-0.3	2.7	3.1	2.6	2.1	1.5	0.9
Interest Expenditure	7.6	7.6	3.8	3.3	2.9	3.4	3.9	4.0	4.1
Primary balance	2.2	3.3	3.5	6.0	6.0	6.0	6.0	5.5	5.0
Debt (fiscal year) 1/									
Central government gross debt	149.5	158.3	125.7	117.1	110.7	103.9	97.6	92.1	87.5
External	31.3	28.5	32.7	27.2	26.9	25.3	23.4	21.5	19.7
Domestic	118.2	129.8	93.0	89.9	83.8	78.6	74.2	70.6	67.8
Savings and investment									
Gross domestic investment	16.4	15.6	14.3	15.8	16.7	17.1	17.3	17.9	17.9
Public	2.6	2.1	2.1	2.2	2.4	2.8	3.1	3.7	3.7
Private 2/	13.8	13.5	12.2	13.5	14.3	14.3	14.2	14.2	14.2
National savings	12.1	11.8	10.5	12.2	13.6	14.1	14.4	15.0	15.2
Public	-2.8	-2.2	1.8	4.9	5.5	5.4	5.2	5.2	5.3
Private	14.9	14.0	8.7	7.3	8.1	8.7	9.2	9.9	9.9
External savings	-4.3	-3.8	-3.7	-3.5	-3.1	-3.0	-2.9	-2.9	-2.7
Balance of payments									
Current account	-4.3	-3.8	-3.7	-3.5	-3.1	-3.0	-2.9	-2.9	-2.7
Capital and financial account	0.8	0.8	9.1	7.2	6.0	4.6	3.6	3.0	2.7
Official capital (net)	-1.8	-1.4	3.5	3.2	2.0	0.6	-0.4	-1.1	-1.4
Private capital (net)	2.6	2.2	4.1	4.0	4.0	4.0	4.0	4.1	4.1
Of which: Long-term flows	3.4	3.1	4.4	4.0	4.0	4.0	4.0	4.1	4.1
Net errors and omissions	1.0	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-2.5	-2.6	5.7	3.6	2.9	1.6	0.7	0.1	0.0
Memorandum items:									
Exchange rate (BDS$/US$)	2.0	2.0	2.0	...	...	...	...	...	...
Oil price (WTI, US$ per barrel)	43.2	50.9	64.8	49.3	51.3	52.1	52.7	53.4	53.8
Gross international reserves (US$ millions)	320	206	500	688	845	933	972	979	981
In months of imports	1.9	1.2	3.0	3.9	4.7	5.0	5.0	4.9	4.7
In percent of ARA	64.2	39.4	94.5	124.5	146.3	153.9	153.4	150.5	147.5
Nominal GDP (BDS$ millions)	9,660	9,956	10,173	10,378	10,645	11,058	11,524	12,012	12,518

Sources: Barbados authorities; and Fund staff estimates and projections.
1/ Fiscal year is from April to March;
2/ Inlcuding inventories.

Table 7. Barbados: Financial Sector Indicators, 2014–2019Q1

(Percent)

	2014	2015	2016	2017	2018	2019Q1
Commercial Banks						
Solvency Indicator						
Capital Adequacy Ratio (CAR)	16.4	15.8	17.0	17.0	13.9	12.7
Liquidity Indicators 1/						
Loan to deposit ratio	70.3	65.5	62.3	63.3	63.0	60.6
Domestic demand deposits to total domestic deposits	30.9	35.7	40.3	41.6	41.8	41.8
Liquid assets, in percent of total assets	20.3	25.3	27.4	26.7	26.5	27.1
Credit Risk Indicators						
Loans and advances (growth rate) 2/	-0.4	-0.8	-0.5	2.0	0.7	-0.5
Non-performing loans ratio	11.5	10.6	8.9	7.9	7.4	7.2
Provisions to non-performing loans	47.7	55.5	63.2	69.6	67.3	69.1
Foreign Exchange Risk Indicators						
Deposits in Foreign Exchange (in percent of total deposits)	5.7	8.6	8.6	8.8	10.5	7.5
Profitability Indicators						
Return on Assets (ROA)	0.7	0.9	1.0	1.3	-0.2	-1.7
Credit Unions						
Solvency Indicator						
Reserves to Total Liabilities	8.6	8.5	8.7	8.7		
Liquidity Indicators						
Loan to deposit ratio	92.8	90.8	89.3	86.7		
Credit risk Indicators						
Total assets, annual growth rate	6.2	7.2	8.3	8.7		
Loans, annual growth rate	7.3	7.2	6.9	6.3		
Nonperforming loans ratio	9.4	9.0	7.6	7.8		
Arrears 3-6 months/Total Loans	2.2	2.0	1.3	1.3		
Arrears 6 – 12 months/Total Loans	1.5	1.8	1.2	1.4		
Arrears over 12 months/Total Loans	5.7	5.2	5.1	5.0		
Provisions to Total loans	29.1	29.2	32.6	30.3		
Profitability Indicator						
Return on Assets (ROA)	0.6	0.9	1.1	1.3		

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		Conditions
	SDR million	Percent of Quota	
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	35	37	3rd Review and continuous and end March 2020 performance criteria
November 15, 2020	17	18	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	208	220	

Sources: Fund staff.

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

		Est.	Projections				
	2017	2018	2019	2020	2021	2022	2023
	(in US$ millions, unless otherwise indicated)						
Gross Financing Requirements	**322**	**375**	**447**	**242**	**406**	**474**	**259**
Current Account Balance	189	242	283	189	190	170	165
Debt Amortization	133	133	165	53	217	304	94
Sources of Financing	**322**	**109**	**52**	**84**	**154**	**219**	**267**
Foreign Direct Investment (net)	156	222	208	211	220	232	244
Public Long Term Borrowing	66	102	32	29	22	26	29
Net Errors and Omissions	17	16	0	0	0	0	0
Change in Reserve (- increase)	131	-288	-189	-156	-88	-39	-7
Other Net Capital Flows	-1	25	0	0	0	0	0
Short term net Private inflow	-47	32	0	0	0	0	0
Financing Gap	**0**	**266**	**396**	**158**	**253**	**256**	**-8**
Prospective Financing	**0**	**180**	**198**	**140**	**94**	**64**	**40**
IMF	0	49	98	73	48	24	0
IDB	0	75	25	30	40	40	40
CDB	0	56	75	38	6	0	0
Exceptional Financing (Restructuring)	**0**	**86**	**198**	**18**	**159**	**192**	**-48**
Memo items:							
GIR/ARA (percent)	39	95	125	146	154	153	151
GIR coverage (months of imports of G&S)	1.2	3.0	3.9	4.7	5.0	5.0	4.9

Sources: Fund staff estimates and projections.

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

(in millions of SDR unless otherwise indicated)

		Projections													
		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Prospective Drawings	a	70.0	52.0	34.0	17.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of quota 1/		74.1	55.0	36.0	18.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	b	0.0	0.0	0.0	0.0	8.8	20.4	27.6	33.3	34.7	34.7	25.9	14.3	7.1	1.4
Total Interest/Charges 2/	c	1.6	3.4	4.3	5.4	5.6	5.2	4.3	3.7	3.0	2.2	1.5	1.0	0.7	0.6
Total Debt Service	d=b+c	1.6	3.4	4.3	5.4	14.3	25.6	31.9	36.9	37.6	36.9	27.4	15.3	7.8	2.0
Percent of exports		0.1	0.2	0.3	0.3	0.8	1.4	1.6	1.8	1.8	1.7	1.2	0.7	0.3	0.1
Percent of GDP		0.0	0.1	0.1	0.1	0.3	0.6	0.7	0.8	0.7	0.7	0.5	0.3	0.1	0.0
Percent of quota 1/		1.7	3.6	4.5	5.7	15.2	27.1	33.8	39.1	39.8	39.0	29.0	16.1	8.3	2.2
Outstanding Credit	e=e(-1)+a-b	105.0	157.0	191.0	208.0	199.2	178.8	151.2	118.0	83.3	48.6	22.7	8.5	1.4	0.0
Percent of exports		6.7	9.7	11.4	11.9	11.0	9.5	7.8	5.8	4.0	2.3	1.0	0.4	0.1	0.0
Percent of GDP		2.8	4.1	4.8	5.0	4.6	4.0	3.2	2.4	1.6	0.9	0.4	0.1	0.0	0.0
Percent of quota 1/		111.1	166.1	202.1	220.1	210.8	189.2	160.0	124.8	88.2	51.5	24.0	9.0	1.5	0.0
Memo items:															
Exports of G&S (US$ million)		2,188	2,258	2,340	2,432	2,525	2,621	2,721	2,825	2,918	3,015	3,115	3,220	3,328	3,440
BOP Overall balance (US$ million)		189	156	88	39	7	2	-23	-20	-21	-20	-3	26	55	54
GIR (US$ million)		688	845	933	972	979	981	958	938	917	897	895	920	975	1,049
ARA (US$ million)		553	577	606	634	650	666	680	691	701	712	721	729	735	743
GIR/ARA (percent)		125	146	154	153	151	147	141	136	131	126	124	126	133	141
Nominal GDP (CY US$ mln)		5,189	5,322	5,529	5,762	6,006	6,259	6,524	6,799	7,087	7,387	7,699	8,025	8,365	8,719

Sources: Fund staff estimates and projections.

1/ Using SDR/USD exchange rate = 0.71586 (as of August 23, 2018) and quota SDR = 94.5 million;

2/ Using GRA rate of charge = 2.155 (as of May 13, 2019).

Appendix I. Public Debt Sustainability Analysis

The domestic debt restructuring, concluded in October 2018, contributed to a reduction of public sector debt of about 30 percentage points of GDP and of gross financing needs of about 35 percentage points of GDP. Debt is projected to be about 90 percent of GDP by end-FY2024/25, below the intermediate anchor of 80 percent of GDP in FY2027/28, and below 60 percent by end-FY2033/34 supported by large fiscal surpluses and favorable automatic debt dynamics. Over the projection period, stress tests suggest that risks to the debt dynamics remain elevated since debt remains above the 70 percent of GDP risk assessment threshold. However, gross financing needs remain well below the 15 percent risk assessment threshold under the baseline and all stress tests.

A. Public Sector Domestic Debt Restructuring

1. **On October 14, 2018 the Barbadian authorities reached agreement with domestic creditors on a comprehensive domestic debt restructuring**. The domestic debt restructuring achieved an upfront debt reduction of 30 percentage points of GDP through a combination of nominal haircuts and lifting of guarantees on SOE guaranteed debt. In addition, the debt profile was improved by a combination of longer maturities on the new debt instruments, reduction of debt service flows through longer grace periods on amortization and lower interest rates. Key elements of the debt restructuring are found in Box 1.[1]

2. **The domestic restructuring covered 89 percent of the full restructuring perimeter**. The debt perimeter considered by the authorities for restructuring includes: central Government domestic debt including treasury bills and other short-term claims like expenditure arrears and overdrafts, central Government external commercial debt, SOE external and domestic debt guaranteed by the central Government, and external arrears that have been accumulated after the external default. Liabilities outside the restructuring perimeter include central Government external official bilateral and multilateral debt.

3. **As of end-March 2019, the Government and its financial advisors were still negotiating with external commercial creditors the exchange terms for their outstanding claims**.

[1] Debt projection discrepancies relative to the EFF program request can be attributed to the delay in completing the external commercial debt restructuring.

Box 1. Barbados: Key Terms of the Domestic Debt Restructuring

Claims of commercial banks were restructured without upfront haircuts on the outstanding stock. 85 percent of all the claims held by commercial banks were exchanged into 15-year bonds. The interest rate on the new instrument is 1 percent for the first three years, 2.5 percent for year 4, and 3.75 percent for the remaining years up to maturity. The remaining 15 percent of commercial banks' holdings was converted into new 90-day treasury bills, to be rolled over for 10 years, with an interest rate of 0.5 percent. This 15 percent carve-out aims to provide banks with a short-term instrument for liquidity management purposes.

Claims of insurers were restructured without upfront haircuts on the outstanding stock. For both general insurers and life insurers claims were converted into a 50-year amortizing bond, including a 15-year grace period, with an interest rate of 4 percent during the first 15 years, stepping up to 8 percent over years 25-50.

Claims of the CBB were restructured with upfront haircuts on the outstanding stock. In exchange for its existing portfolio of T-bills, treasury notes and debentures the CBB received a portfolio of equally-weighted tradable benchmark treasury notes and debentures with maturities ranging from 5–25 years and a portfolio of 3-month T-bills, priced from the CBB's June 1 yield curve at 3.5 percent interest. The reprofiling entailed about a 10 percentage points of GDP haircut on its short-term claims. The Government's overdraft at the CBB was also written off.

Claims of NIS were restructured with upfront haircuts on the outstanding stock. Under the restructuring, short-term and long-term claims on Government were treated differently. The NIS' (small) holdings of treasury bills were converted into the same 15-year instrument that was used to extend the maturity of commercial banks' holdings of treasury bills. Holdings of longer-term Government debt were converted into a 25-year bond with a 37½ percent nominal haircut (about 13 percent of GDP), paying 4 percent for the first 3 years, and 8 percent thereafter.

Claims of individuals were restructured without upfront haircuts on the outstanding stock. Claims below BRB$50 thousand were repaid in cash. Claims between BRB$50 and BRB$200 thousand were converted into a 4-year bond amortizing in 42 equal monthly payments beginning 30 April 2019 with no interest. Claims above BRB$200 thousand were converted into a 15-year bond with quarterly amortization beginning 31 December 2022 and step-up over time from 1 to 3.75 percent.

Most newly exchanged domestic securities have a natural disaster clause. The natural disaster clause included in most of the new debt instruments (excepting principally treasury bills) would allow for capitalization of interest and deferral of scheduled amortization falling due over a two-year period following the occurrence of a major natural disaster. The trigger for a natural disaster event is a payout above US$5 million by the CCRIF.

The authorities retrofitted domestic debt with a collective action mechanism (CAM). The bulk of domestic instruments were issued under domestic law, without CAM. In order to secure full participation in the restructuring and avoid the problem of hold-out creditors, Parliament passed a law to retrofit CAM into domestic debt as Greece did in 2012. With such clause, creditors holding at least 75 percent of the aggregate outstanding principal amount made the restructuring legally binding for all holders.

B. Public Sector Debt Structure and Profile After the Restructuring

4. At end FY2018/19, public sector debt[2] was about 127 percent of GDP, down from about 158 percent of GDP in FY2017/18.

- **Over this period, public domestic debt decreased from about 129 to 93 percent of GDP** as a result of the domestic debt restructuring completed in October 2018. Short term CG debt decreased from 42 to 6 percent of GDP due primarily to swaps into long-term CG debt of the holdings of private commercial banks and nominal haircuts on the outstanding stock held by the CBB. Long term CG debt increased as the net effect of the swap of short-term debt at private commercial banks, swaps of CG domestic arrears, lengthening of maturities for various creditors, and haircuts on the outstanding stock held by the NIS. CG domestic arrears decreased from 12 to 6 percent of GDP on account of swaps into long term CG debt, repayments and acquisition of arrears from SOEs. Finally, SOE debt guaranteed by the CG[3] decreased from 10 to 1 percent of GDP on account of swaps into CG long term debt and lifting of CG guarantees on liabilities of profitable SOEs.

- **Over the same period, public external debt increased from about 28 to 34 percent of GDP**. This is the result of an increase in CG debt of about 3 percentage points of GDP due to IDB and CDB budget support loans under the EFF-supported program, an increase in arrears to commercial creditors[4] by about 3 percentage points of GDP,[5] and a 1 percent of GDP disbursement from the IMF under the EFF-supported program (Table 3 on page 28).[6]

5. The profile of domestic debt improved after the domestic debt restructuring. The domestic restructuring engineered a large reduction in debt service as short-term debt was either swapped with long-term debt or discounted, and the restructured securities have long amortization grace periods and low interest rates. Together with the large fiscal adjustment, these contribute to maintaining gross financing needs well below the 15 percent risk assessment threshold.

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[2] This debt sustainability analysis (DSA) appendix covers the full stock of public debt defined here as the sum of: Central Government debt, Central Government debt and expenditure arrears, SOE debt guaranteed by the Central Government, and IMF BOP support.

[3] All SOEs are covered.

[4] Since June 2018, commercial external debt has not been serviced. Official bilateral and multilateral external debt is currently being serviced.

[5] Including principal arrears.

[6] At end FY2018/19, official bilateral debt includes one loan from the EXIM bank of China and a defaulted guaranteed loan assumed by the Government of Canada on September 21, 2018.

C. Public Debt Sustainability Assessment Assumptions

6. The specific assumptions used in this appendix are:

- ***Growth and Inflation***. Growth is projected to recover from minus 0.5 to minus 0.1 percent in 2019 due to reduced policy uncertainty more than offsetting the negative impact of the fiscal consolidation. Over the medium term, growth is expected to recover slowly, returning to around 1 percent in 2020. Average inflation is projected to slow to 1.3 percent due to the pass-through from the higher taxes, then return to a long-run average of around 3.3 percent. The fiscal multiplier used is 0.3 reflecting the FAD methodology staff's guidance on fiscal multipliers.[7] Beyond FY2022/23, growth and inflation are assumed to remain at 1.8 and 2.3 percent, respectively. Staff used conservative growth and inflation projections assumptions to reduce downside risk to the outlook.

- ***Primary Balance***. The primary balance increases from 3.3 percent of GDP in FY2017/18 to 6 percent in FY2019/20 where it remains until FY2021/22. The primary balance is assumed to gradually decrease to 3.5 percent and stabilize at this level until the debt target is met.[8] As discussed in the risks to the outlook section, staff assesses the programmed fiscal adjustment as realistic with a probability of "adjustment fatigue" developing assessed as negligible given the strong electoral support still enjoyed by the administration.

- ***Arrears***. Domestic expenditure arrears are gradually repaid and fully extinguished by end-FY2022/23. External arrears accumulated in FY2018/19 are capitalized in the restructured claims in FY2019/20.

- ***External debt restructuring***. External commercial debt is assumed to be restructured in FY2019/20 in a way which, given the program parameters presented above, would ensure that the financing gap is covered, and debt targets are met.

D. Projections

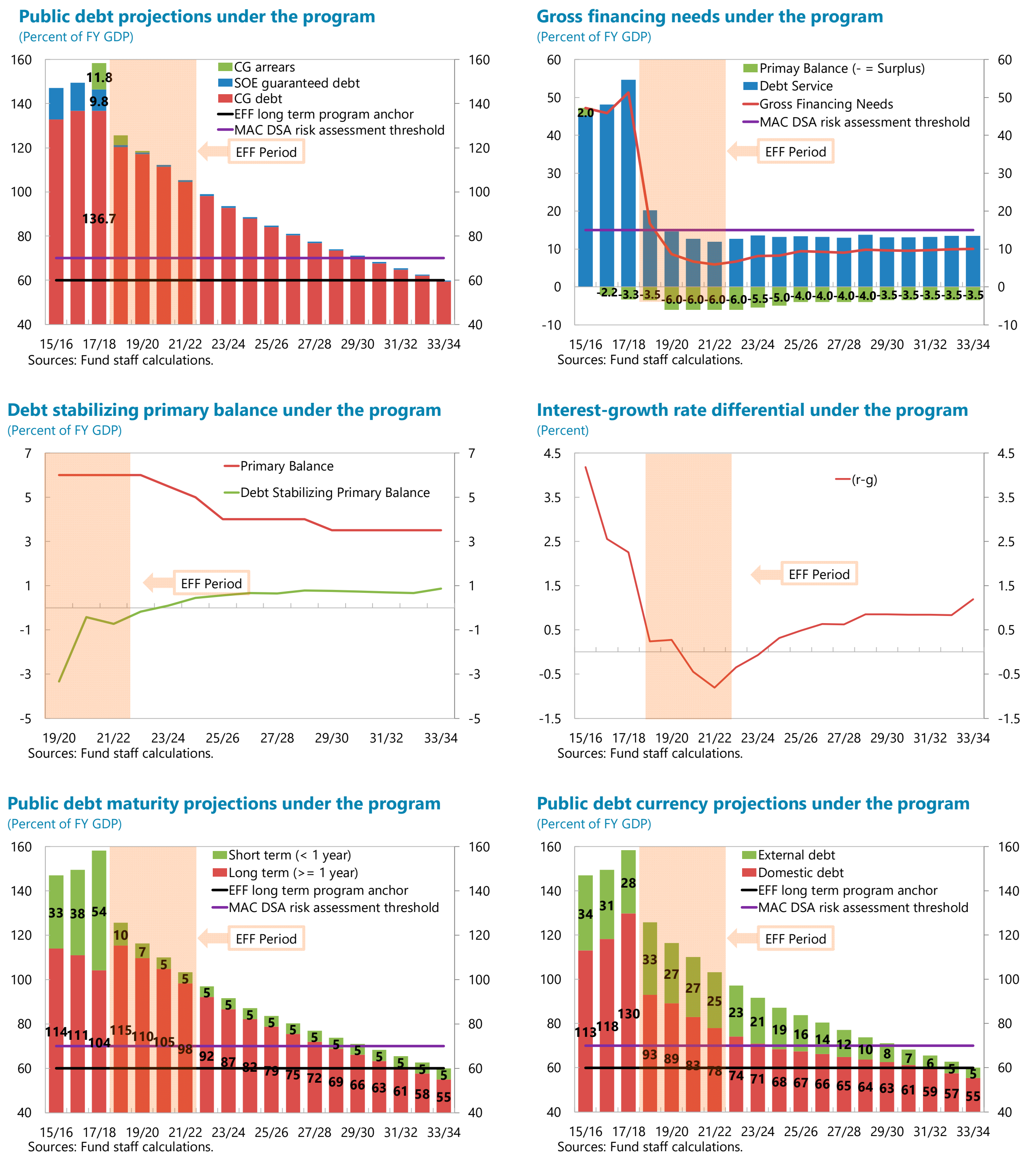
7. Public debt-to-GDP ratio is projected to fall to 90 percent by end-FY2024/25. Over the projection period, public debt dynamics are primarily impacted by the primary surplus, with a cumulative impact of about -35 percentage points of GDP, and by the automatic debt dynamics, contributing about -0.5 percentage points of GDP.

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

[8] See main text for the description of the fiscal adjustment, the measures adopted to support it and why staff assesses this adjustment as sustainable.

Barbados: Public Sector Debt Projections

(in percent of FY GDP)



8. **Public debt is projected to be below the intermediate anchor of 80 percent of GDP by end-FY2027/28 and its long-term anchor of 60 percent of GDP by end-FY2033/34** (text chart, panel 1). Debt sustainability is due mainly to: (i) low gross financing needs that are reduced below the 15 percent of GDP threshold after the first projection year (text chart, panel 2); (ii) a primary

balance that is projected to be much larger than the debt stabilizing primary balance over the full projection period putting debt on a steep downward trajectory (text chart, panel 3);[9] and (iii) by favorable automatic debt dynamics driven by reduced interest expenditure, in turn generated by the recent domestic debt restructuring (text chart, panel 4).

9. **Public short-term debt is projected not to exceed 5 percent of GDP** (text chart, panel 5). Public debt management strategy is assumed to target a max 5 percent of GDP in short term debt and use long-term domestic debt to fill the gross financing needs as needed. By end FY2033/34 long-term debt and short-term debt are projected to be about 55 and 5 percent of GDP, respectively.

10. **External debt is projected to decline to 15 percent of GDP by end-FY2033/34** (text chart, panel 6). The public debt management strategy is assumed to limit expensive financing from the external capital market and rely on multilaterals and/or domestic sources of financing. Consequently, by end FY2033/34, external and domestic debt are projected to be about 15 and 45 percent of GDP, respectively.

E. Stress Tests

11. **The debt level remains above the 70 percent of GDP risk assessment threshold, but gross financing needs are below the 15 percent of GDP risk assessment threshold under all stress scenarios**.

- **Debt remains above the 70 percent of GDP risk assessment threshold but on a steep downward trajectory significantly affected only by the combined and contingent liability shocks**. The high level of debt remains a concern in the first 5 projection years. However, the domestic debt restructuring, and the planned fiscal adjustment help put it on steep downward trajectory. Such trajectory is not meaningfully affected by either the real GDP, or primary balance, or interest rate shocks. However, the combined and contingent liability shocks would result in a debt to GDP ratio that is 20 percentage points higher than under the baseline by the end of the projection period.[10]

- **Gross financing needs are below the 15 percent risk assessment threshold under all stress test scenarios**. GFN are not meaningfully affected by either the real GDP, primary balance, interest rate, contingent liability, or combined shocks.

- **Debt profile vulnerabilities are significantly reduced after the domestic debt restructuring**. At end-March 2019, risks stemming from market sentiment remain above the threshold of

[9] The envisaged 6 percent primary surplus is ambitious and the authorities' ability to sustain high primary surpluses is untested.

[10] 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.

600 basis points, as the external debt continued not to be serviced. External debt held by non-residents is above the threshold of 15 percent as the recent domestic debt restructuring generated a large debt relief increasing the share of external debt. Risks stemming from external and domestic financing requirements are below the lower risk assessment benchmarks. The domestic debt restructuring engineered a sharp reduction in ST debt, and therefore domestic financing needs.

12. Stress tests produce narrow confidence intervals for both debt and GFN. Given the nature of the domestic debt restructuring (drastically reducing debt service) and the fixed exchange rate, both stress tests and fan charts produce very narrow confidence intervals and bands for debt and GFN. The sensitivity of debt and GFN is higher only for the growth and primary balance shocks.

F. External Debt Sustainability Analysis

13. External debt is projected to decrease from 32.7 to about 20 percent of GDP by 2024 with a low risk profile. The public debt management strategy is assumed to limit expensive financing from the external capital market and rely on multilaterals and/or domestic sources of financing. Hence, external debt is projected to decrease from 32.7 to about 20 percent of GDP by 2024 (Table 1). Risks stemming from the external debt profile are reduced after the debt restructuring with smoother and lower debt service and gross financing needs. External debt is not projected to be higher than 26 percent of GDP by 2024 under any of the stress tests considered (Figure 6).

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

(in percent of GDP, unless otherwise indicated)

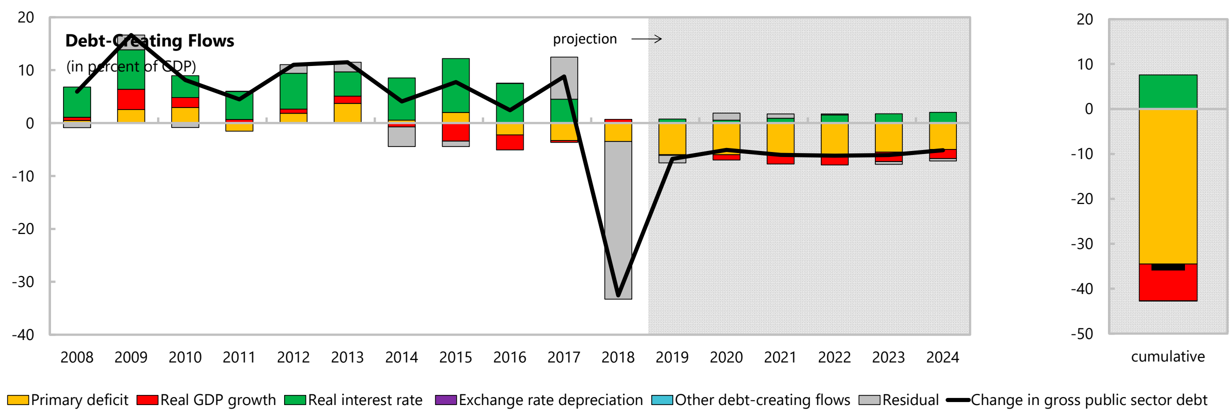
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2008-2016 [2/]	2017	2018	2019	2020	2021	2022	2023	2024
Nominal gross public debt	122.1	158.3	125.7	118.9	113.9	107.9	101.7	95.7	90.5
Of which: guarantees	14.3	9.8	0.9	0.9	0.9	0.8	0.8	0.8	0.7
Public gross financing needs	34.3	51.3	15.0	12.1	7.0	6.2	6.7	8.2	8.3
Real GDP growth (in percent)	-0.5	0.2	-0.5	0.1	0.8	1.6	1.8	1.8	1.8
Inflation (GDP deflator, in percent)	0.9	2.6	2.6	2.1	2.1	2.3	2.3	2.3	2.3
Nominal GDP growth (in percent)	0.4	2.8	2.1	2.2	2.9	4.0	4.2	4.2	4.2
Effective interest rate (in percent) [4/]	6.8	5.7	2.6	2.7	2.6	3.2	3.9	4.2	4.6

As of March 01, 2019		
Sovereign Spreads		
EMBIG (bp) 3/		2200
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	n.a.	n.a.
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	8.0	8.8	-32.6	-6.8	-5.1	-6.0	-6.2	-6.0	-5.1	-35.2	
Identified debt-creating flows	8.0	0.9	-2.8	-5.3	-6.4	-6.8	-6.3	-5.5	-4.6	-35.1	
Primary deficit	1.2	-3.3	-3.5	-6.0	-6.0	-6.0	-6.0	-5.5	-5.0	-34.5	0.4
Primary (noninterest) revenue and grants	26.4	28.6	29.3	31.2	31.0	31.0	31.0	31.0	31.0	186.1	
Primary (noninterest) expenditure	27.5	25.3	25.8	25.2	25.0	25.0	25.0	25.5	26.0	151.6	
Automatic debt dynamics [5/]	6.9	4.2	0.7	0.7	-0.4	-0.8	-0.3	0.0	0.4	-0.6	
Interest rate/growth differential [6/]	6.9	4.2	0.7	0.7	-0.4	-0.8	-0.3	0.0	0.4	-0.6	
Of which: real interest rate	6.6	4.5	0.0	0.8	0.6	0.9	1.6	1.8	2.0	7.6	
Of which: real GDP growth	0.2	-0.3	0.7	-0.1	-1.0	-1.7	-1.9	-1.8	-1.7	-8.2	
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/]	0.0	7.9	-29.8	-1.4	1.3	0.8	0.2	-0.5	-0.5	-0.1	



Source: IMF staff.

1/ Public sector is defined as central government and includes public guarantees, defined as SOE debt.

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

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

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

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

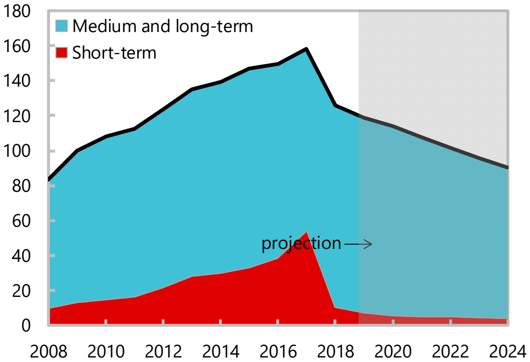
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

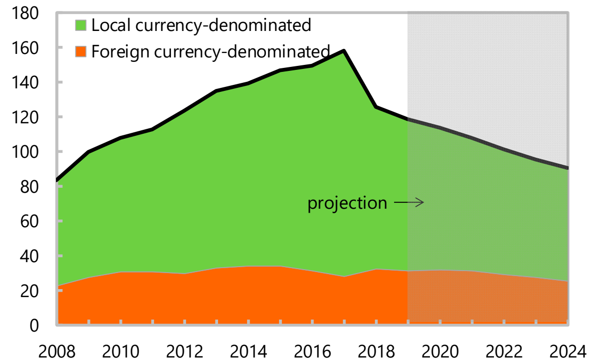
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

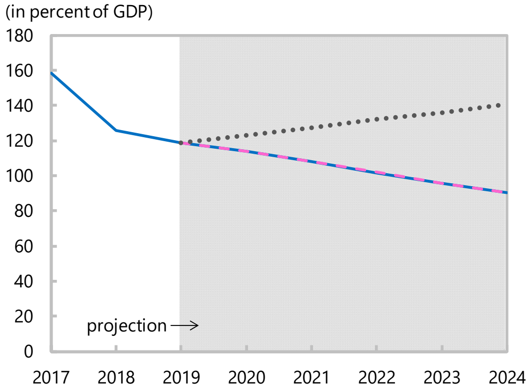


Alternative Scenarios

Baseline Historical Constant Primary Balance

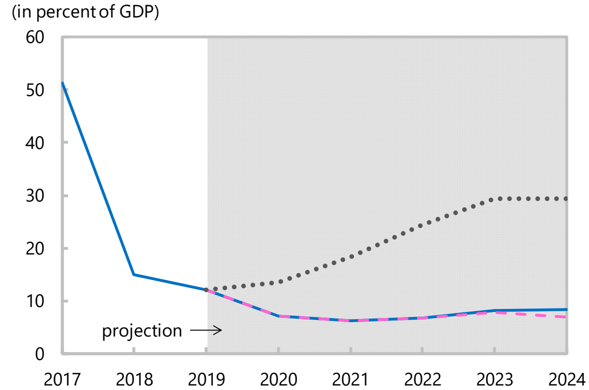
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

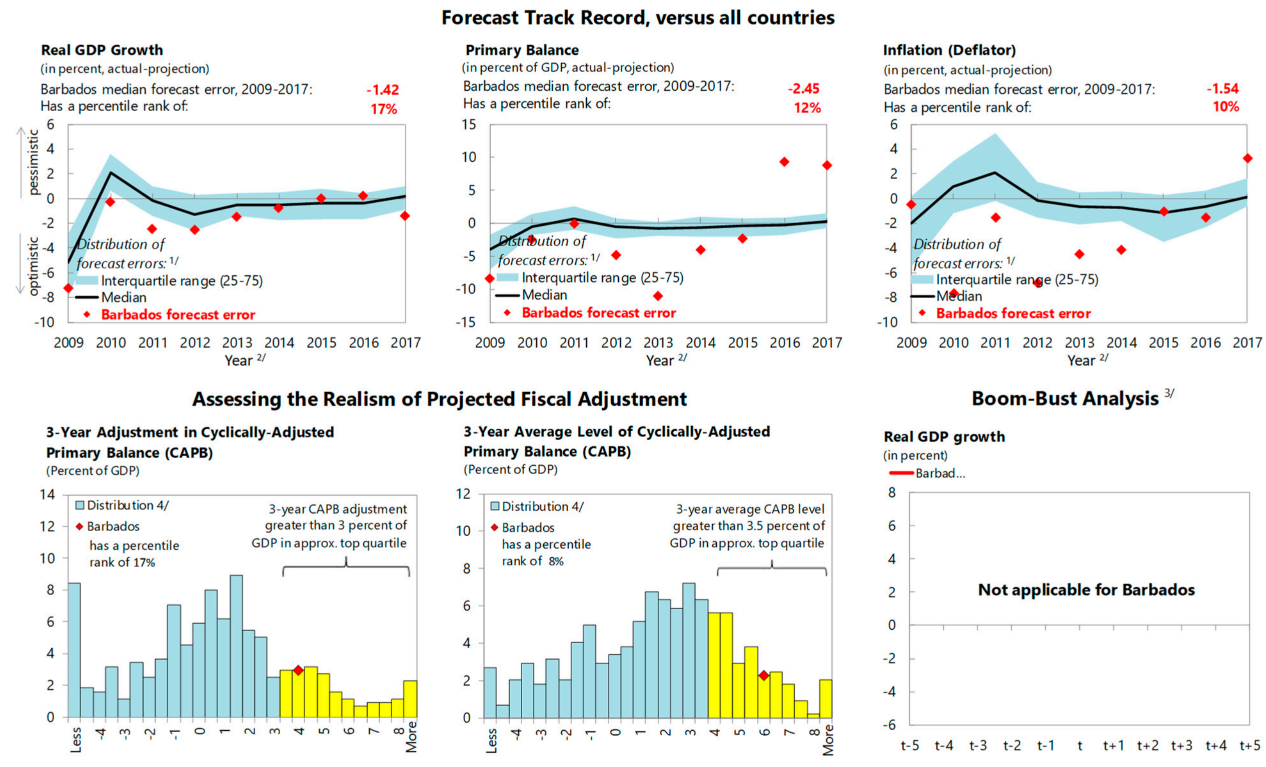
(in percent)

Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	0.1	0.8	1.6	1.8	1.8	1.8
Inflation	2.1	2.1	2.3	2.3	2.3	2.3
Primary Balance	6.0	6.0	6.0	6.0	5.5	5.0
Effective interest rate	2.7	2.6	3.2	3.9	4.2	4.6
Constant Primary Balance Scenario						
Real GDP growth	0.1	0.8	1.6	1.8	1.8	1.8
Inflation	2.1	2.1	2.3	2.3	2.3	2.3
Primary Balance	6.0	6.0	6.0	6.0	6.0	6.0
Effective interest rate	2.7	2.6	3.2	3.9	4.2	4.6

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	0.1	-0.4	-0.4	-0.4	-0.4	-0.4
Inflation	2.1	2.1	2.3	2.3	2.3	2.3
Primary Balance	6.0	-0.3	-0.3	-0.3	-0.3	-0.3
Effective interest rate	2.7	2.6	3.5	4.3	4.6	5.4

Source: IMF staff.

Figure 3. Barbados Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.

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

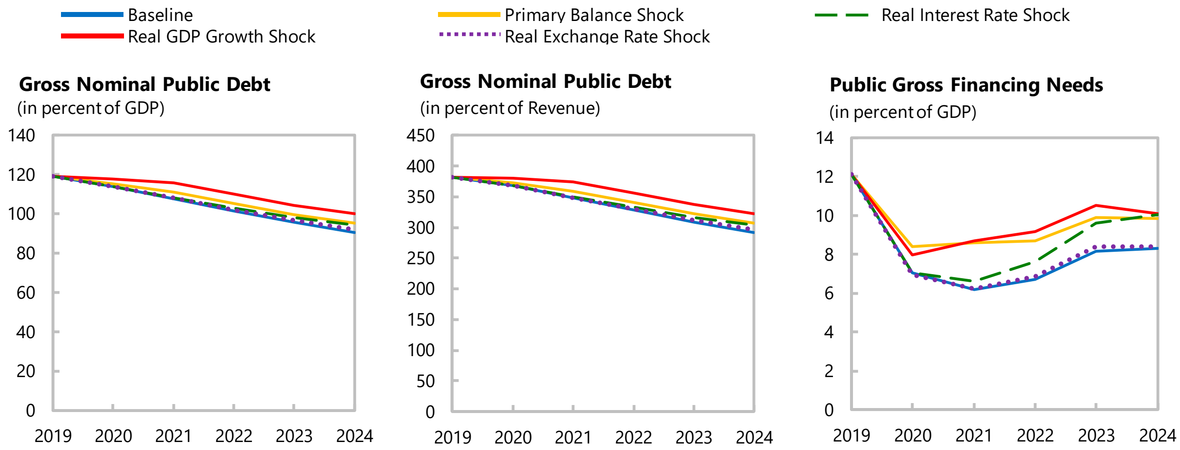
2/ Projections made in the spring WEO vintage of the preceding year.

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

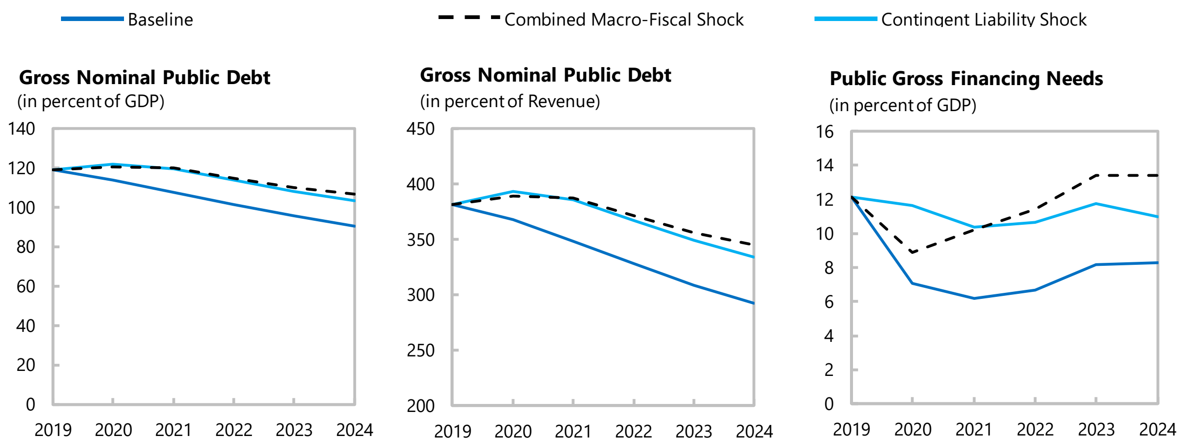
4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Barbados Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2019	2020	2021	2022	2023	2024
Real GDP growth	0.1	0.8	1.6	1.8	1.8	1.8
Inflation	2.1	2.1	2.3	2.3	2.3	2.3
Primary balance	6.0	4.6	4.6	6.0	5.5	5.0
Effective interest rate	2.7	2.6	3.2	3.9	4.2	4.6
Real Interest Rate Shock						
Real GDP growth	0.1	0.8	1.6	1.8	1.8	1.8
Inflation	2.1	2.1	2.3	2.3	2.3	2.3
Primary balance	6.0	6.0	6.0	6.0	5.5	5.0
Effective interest rate	2.7	2.6	3.6	4.4	4.9	5.6
Combined Shock						
Real GDP growth	0.1	-1.1	-0.4	1.8	1.8	1.8
Inflation	2.1	1.6	1.9	2.3	2.3	2.3
Primary balance	6.0	4.6	4.6	6.0	5.5	5.0
Effective interest rate	2.7	2.6	3.6	4.5	5.0	5.8

Real GDP Growth Shock	2019	2020	2021	2022	2023	2024
Real GDP growth	0.1	-1.1	-0.4	1.8	1.8	1.8
Inflation	2.1	1.6	1.9	2.3	2.3	2.3
Primary balance	6.0	5.4	4.8	6.0	5.5	5.0
Effective interest rate	2.7	2.6	3.2	3.9	4.2	4.6
Real Exchange Rate Shock						
Real GDP growth	0.1	0.8	1.6	1.8	1.8	1.8
Inflation	2.1	3.7	2.3	2.3	2.3	2.3
Primary balance	6.0	6.0	6.0	6.0	5.5	5.0
Effective interest rate	2.7	2.6	3.2	3.9	4.2	4.6
Contingent Liability Shock						
Real GDP growth	0.1	-1.1	-0.4	1.8	1.8	1.8
Inflation	2.1	1.6	1.9	2.3	2.3	2.3
Primary balance	6.0	1.8	6.0	6.0	5.5	5.0
Effective interest rate	2.7	2.6	3.2	3.9	4.2	4.6

Source: IMF staff.

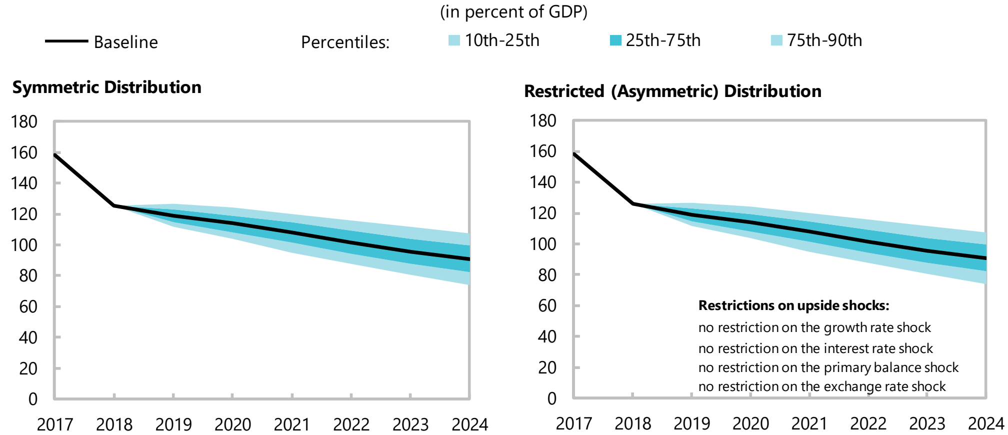
Figure 5. Barbados Public DSA Risk Assessment

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

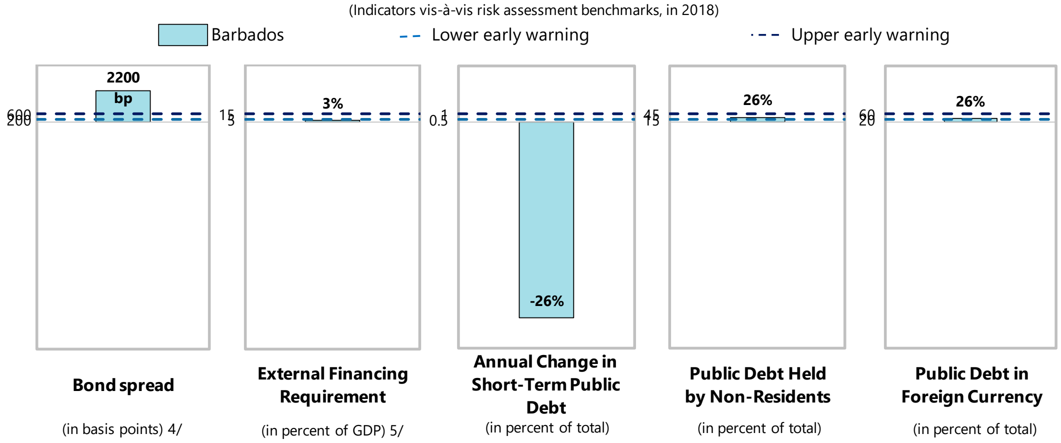
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2018)



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, 01-Dec-18 through 01-Mar-19.

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.

Table 1. Barbados External Debt Sustainability Framework, 2014 – 2024

(in percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2014	2015	2016	2017	2018			2019	2020	2021	2022	2023	2024	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	34.1	34.0	31.3	28.5	32.7			**27.2**	**26.9**	**25.3**	**23.4**	**21.5**	**19.7**	**-3.4**
Change in external debt	1.0	-0.1	-2.7	-2.8	4.2			-5.5	-0.3	-1.6	-1.9	-1.8	-1.8	
Identified external debt-creating flows (4+8+9)	2.4	0.3	0.0	-0.2	-1.2			-0.4	-1.0	-1.4	-1.5	-1.6	-1.8	
Current account deficit, excluding interest payments	7.5	4.4	2.5	2.1	3.3			2.1	2.0	1.8	1.7	1.7	1.6	
Deficit in balance of goods and services	4.7	1.6	-1.0	-1.5	-1.6			-1.1	-1.6	-1.7	-1.8	-1.8	-1.9	
Exports	40.3	41.2	42.8	42.0	41.1			41.9	42.0	41.9	41.8	41.6	41.4	
Imports	45.0	42.8	41.8	40.5	39.5			40.8	40.4	40.2	40.0	39.8	39.6	
Net non-debt creating capital inflows (negative)	-6.7	-5.5	-3.4	-3.1	-4.3			-4.0	-3.9	-3.9	-4.0	-4.0	-4.1	
Automatic debt dynamics 1/	1.6	1.4	0.8	0.8	-0.1			1.4	0.9	0.7	0.7	0.7	0.7	
Contribution from nominal interest rate	1.8	1.7	1.7	1.7	0.5			1.4	1.0	1.1	1.2	1.1	1.0	
Contribution from real GDP growth	0.0	-0.8	-0.8	-0.1	0.2			0.0	-0.2	-0.4	-0.4	-0.4	-0.4	
Contribution from price and exchange rate changes 2/	-0.2	0.5	0.0	-0.7	-0.8			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-1.4	-0.4	-2.6	-2.6	5.4			-5.1	0.7	-0.2	-0.4	-0.2	0.0	
External debt-to-exports ratio (in percent)	84.6	82.4	73.1	67.9	79.5			64.8	63.9	60.4	55.9	51.7	47.6	
Gross external financing need (in billions of US dollars) 4/	0.5	0.4	0.3	0.3	0.3			0.2	0.2	0.3	0.3	0.3	0.3	
in percent of GDP	10.5	9.0	6.5	6.6	5.4			4.7	4.2	4.6	5.0	4.9	4.7	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**27.2**	**29.0**	**29.9**	**30.7**	**31.6**	**32.8**	**-4.0**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	-0.1	2.4	2.5	0.5	-0.6	-0.5	2.2	-0.1	0.6	1.5	1.8	1.8	1.8	
GDP deflator in US dollars (change in percent)	0.5	-1.5	0.1	2.4	2.7	1.4	1.7	2.3	2.3	2.4	2.3	2.3	2.3	
Nominal external interest rate (in percent)	5.4	5.1	5.1	5.6	1.7	6.4	3.1	4.3	3.9	4.3	4.8	5.0	5.1	
Growth of exports (US dollar terms, in percent)	-3.6	3.2	6.6	0.8	0.0	-0.8	6.9	4.2	3.2	3.6	4.0	3.8	3.8	
Growth of imports (US dollar terms, in percent)	-1.5	-3.9	0.2	-0.4	-0.4	-2.1	7.5	5.4	2.1	3.3	3.7	3.7	3.5	
Current account balance, excluding interest payments	-7.5	-4.4	-2.5	-2.1	-3.3	-4.7	2.6	-2.1	-2.0	-1.8	-1.7	-1.7	-1.6	
Net non-debt creating capital inflows	6.7	5.5	3.4	3.1	4.3	5.8	2.8	4.0	3.9	3.9	4.0	4.0	4.1	

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.

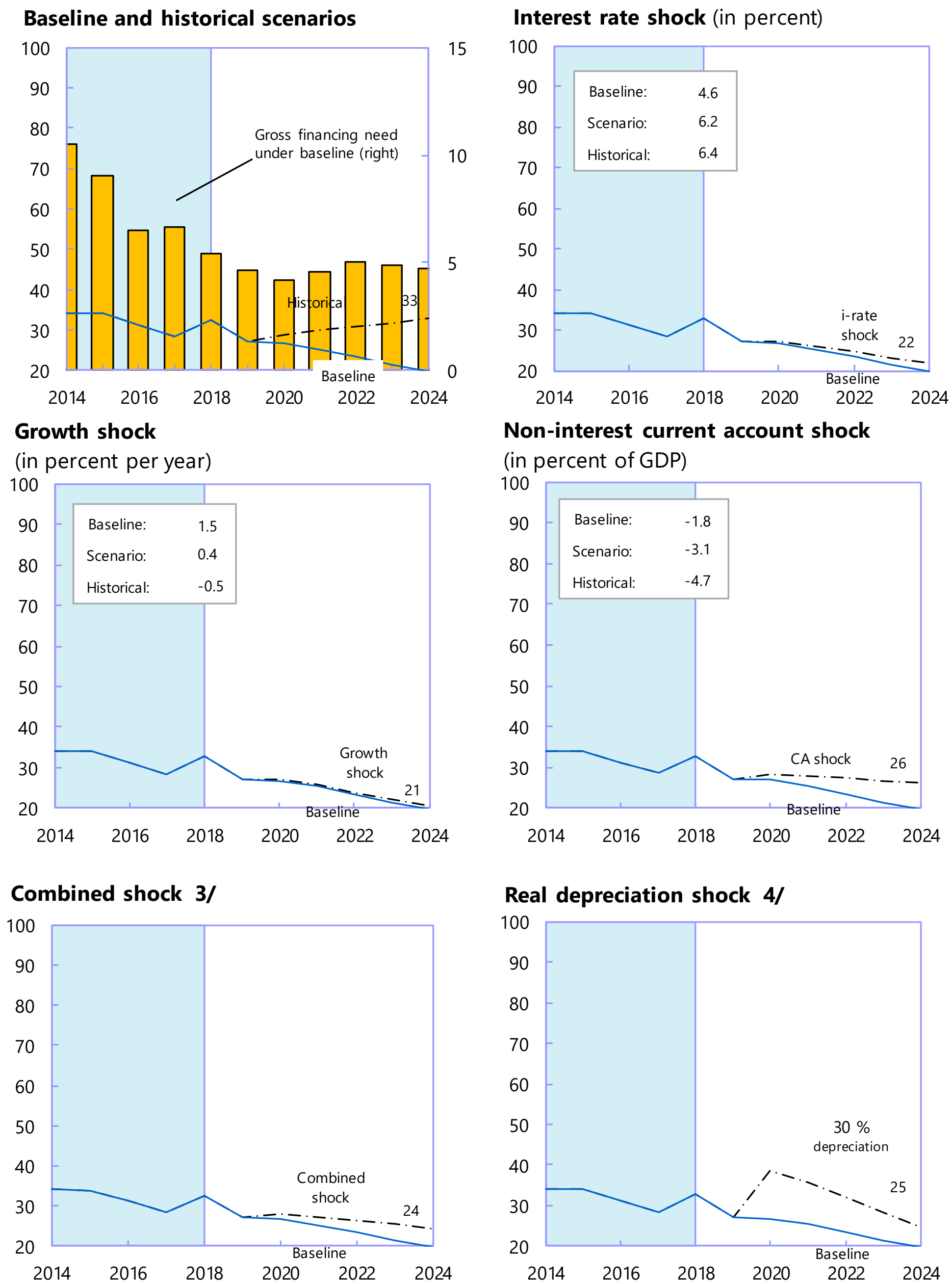
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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.

Figure 6. Barbados External Debt Sustainability: Boundary Tests 1/ 2/

(External debt in percent of 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.

Appendix II. Letter of Intent

Bridgetown, Barbados
June 6, 2019

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Lagarde,

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 more than doubled to more than US$500 million as of May 2019, the domestic debt restructuring has been completed, and the fiscal adjustment and reforms of state-owned enterprises continue as programmed. The strategy of accelerating growth focuses on attracting new investment in areas such as the renewable energy sector, creative and artistic industries, agro-industries, the international business sector and tourism.

The Government believes that the policies described in the attached MEFP are adequate to achieve the programme's objectives. If necessary, the Government stands ready to take any additional measures that may be required to ensure the success of our BERT Plan, and by extension the MEFP. The Government will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. The Government will also continue to share with the Fund staff with all the relevant information required to complete programme reviews and monitor performance on a timely basis.

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

As part of our communication policy and our full commitment of 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 request the completion of the first review of the extended arrangement under the Extended Fund Facility, completion of the financing assurances review, and modification of performance criteria for end-September 2019 and end-March 2020. We also request the adoption of a new indicative target on arrears of SOEs and the resetting of three structural benchmarks.

We thank you for your partnership and your willingness to work with the Government and 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 Investments
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. We are targeting a debt-to-GDP ratio of 60 percent by 2033; 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 free; a smart, technological nation, a culturally rich and diverse nation. We must become a cohesive, sustainable nation built on principles of equal access to 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**. By December 2018, international reserves had recovered to around US$500 million, and a restructuring of domestic debt had been completed. The rapid completion of the domestic debt restructuring has been very important in reducing economic uncertainty, and the terms agreed with creditors will help put public debt on a clear downward trajectory. A much-reduced Government interest bill will help create much-needed fiscal space for increased social spending and investment in infrastructure. Immediate crisis risks have abated. Barbados is on the road again, but the journey is far from over.

3. **We are on track to meet BERT and EFF programme targets**. All quantitative targets for end-December 2018 and for end-March 2019 were met (Table 1). Six out of the ten structural benchmarks (SBs) for this review were observed; other SBs were completed with minor delay. (Table 2). In January 2019, Parliament adopted a new Financial Management and Audit (FMA) law that will profoundly change the operations of the Government, holding both central Government and State-Owned Enterprises (SOEs) to high standards of transparency and governance. SOEs are now submitting to the Government quarterly financial reports, and the Government has submitted a consolidated report on SOEs performance to Parliament. The Government has also established a system for monitoring SOE arrears on an ongoing basis. To mitigate effects on the vulnerable from the SOEs restructuring, we have launched a training and outplacement programme. In a key step to improve the business climate, Parliament adopted a new Town and Country Planning law in January 2019; a Sandbox regime to regulate fintech start-ups was set up in October 2018. We have also adopted a new business plan and staffing strategy for the Corporate Affairs and Intellectual Property Office (CAIPO). By September 2019, we will outsource the management of CAIPO to a professional team to guarantee efficiency and timeliness in the registering of new businesses.

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 published its first quarterly report in February 2019.

5. The Government remains fully committed to the September 2018 Memorandum of Economic and Financial Policies (MEFP). Unless modified below, that strategy and those policies remain valid in full. The quantitative targets that serve as performance criteria and indicative targets are proposed to be updated. These updated targets and structural benchmarks are presented in Table 1 and Table 2, respectively.

II. FISCAL POLICIES FOR THE REMAINDER OF FY2019/20 AND BEYOND

6. A budget for FY2019/20 was passed by Parliament in March 2019. The budget aims to increase the primary surplus to 6 percent of GDP in FY2019/20, while protecting vulnerable groups through strengthened social safety nets, and increasing room for capital spending. The budget is based on conservative revenue assumptions and ambitious SOE reform to facilitate lower transfers to SOEs. Revenue is projected to increase as full-year effects of new taxes introduced in 2018 materialize. In addition, layoffs at the central Government and SOEs that took place during FY2018/19 should help reduce transfers to SOEs in FY2019/20. Renegotiation of SOE contracts (in particular at the Barbados Water Authority and the Sanitation Service Authority), efficiency gains from mergers, and increases in bus fares should also help reduce deficits at SOEs, and hence also reduce the need for central Government transfers to SOEs. We stand ready to take additional measures if necessary to reach the primary surplus target of 6 percent of GDP.

7. We have reformed our Corporate Income Tax (CIT) to unify the treatment of domestic and international companies, and comply with EU and OECD guidelines. All companies will be registered under a new law; a single scale of tax rates will apply to all companies. Profits up to BRB$1 million will be taxed at a low rate of 5.5 percent, while any taxes above BRB$30 million will be taxed at 1 percent (with two intermediate brackets). Several allowances, including a foreign currency earnings allowance, have been abolished to further streamline the CIT. We expect this reform to be revenue neutral in part because the rate for the highest income bracket has increased considerably from 0.25 percent to 1 percent, though it remains highly competitive. The new low CIT rates should also help create an excellent climate to do business in Barbados.

8. Personal Income Tax (PIT) rates will be reduced gradually to reduce the discrepancy between CIT and PIT rates. The top PIT rate will be reduced from 40 percent to 33.5 percent as of July 1, 2019, and to 28.5 percent as of January 1, 2020. To compensate the revenue loss, Parliament adopted a range of measures including broadening of the base of the VAT and higher land taxes, an increase in tourism room rate levies, new gaming taxes and online taxes. The goal is to create a modern tax system, aimed at supporting growth and enhancing fairness. We will conduct a comprehensive review of our tax system and, with the help of technical assistance by the IMF, we aim to complete such review by end-June 2019 (*structural benchmark*).

9. Strengthening tax administration is an important priority. Measurable targets will be introduced for BRA to improve 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 (*structural benchmark for end-December 2019*). The BRA has made progress on implementing a new Tax Administration Management Information System (TAMIS); this process will continue through 2019, and eventually allow for legacy IT systems to be retired. The online filing of personal income tax for 2018 will be done this year for the first time in TAMIS. A Large Taxpayer Unit (LTU) has recently been established. By focusing on large taxpayers—from filing and payment compliance to audit—BRA will significantly improve its effectiveness. Unpaid tax refunds going back several years—both for VAT and for PIT—are now being repaid; going forward, all refunds due to taxpayers as we go forward should be paid within six months after the filling date. By December 2019, citizens will be able to pay taxes online and by the end of the fiscal year, the BRA will terminate the use of cheques to become a fully digitalized organization.

10. Modernization of the Barbados Customs and Excise Department (BCED) is critically important. A new organizational structure was approved in December 2018. Traceability, targeting of cargo, clearance of goods, post clearance audit, and special regimes controls, all need urgent improvement to be brought to standards of international best practices. Customs' operations need to be led by more accurate risk assessment. This will allow for far more effective targeting of those who are non-compliant and will better facilitate the urgently needed trade facilitation, if we are to be more competitive as a jurisdiction. Customs will evolve from simply registering transactions, to optimizing the use of information as a platform for decision making within their main processes—to allow for greater facilitation measures or to exercise greater control. Parliament has already approved funding to complete the ASYCUDA World by June 2019. The new system provides far greater efficiency and far less discretion to customs operators. In addition, we have hired personnel to update 2007 tariffs. Following the recommendations of a recent technical assistance mission by the IMF, we will initiate a process of updating and restructuring of our customs authority. The reforms will focus on BCED's governance structure, operational standards, legal framework, and its ability to retain adequate levels of trained personnel. In particular, we will: (i) deploy staff to the exemption monitoring unit and undertake at least eight exemption verification assignments in 2019; (ii) train and deploy at least 6 officers in the post clearance audit unit and undertake at least 8 field audits in 2019; (iii) establish a trusted trader program that gives defined benefits to program members by the end of 2018 and have at least eight companies participating by the end of 2019; and (iv) undertake post release verification of entries and subject at least 3,500 entries to this control by the end of 2019 (completion of these actions is a *structural benchmark by end-December 2019*).

A Fiscal Rule

11. The Government intends to seek Parliamentary approval of a fiscal rule to enhance fiscal transparency, and lock in the gains of fiscal consolidation (*structural benchmark for end-June 2020*). The transparency and automaticity of fiscal adjustment will be enhanced by an explicit, time-bound adjustment path to sustainability. We will design a sound fiscal rule defining coverage, implementation, corrective mechanisms, escape clauses and institutional arrangements that are appropriate for Barbados, based on forthcoming recommendations provided by technical assistance from the IMF's Fiscal Affairs Departments. Key elements are:

- The framework aims 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 2033*.
- *Coverage* of the fiscal rule will take into account all fiscal activities associated with the public sector, including SOEs,[1] as well the fiscal implications of PPPs (capturing all associated actual or contingent fiscal liabilities and risks).
- The rule will establish an *automatic correction mechanism* that would be triggered by substantial cumulative deviations from the annual overall balance target. Once the cumulative deviations exceed a pre-specified threshold, additional fiscal adjustment would be required in subsequent fiscal years to correct for these deviations to bring fiscal performance back in line with the fiscal rule.
- The rule will also include an *escape clause*, limited to major adverse shocks and triggered only with Parliamentary approval. 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 and the Budget Process

12. We will publish the public financial management act adopted by the Parliament. The revised FMA act has been adopted by Parliament. It introduces instrumental measures and reforms to improve PFM and fiscal transparency and strengthen SOEs oversight. We will specify implementation dates and transitional provisions. We will proclaim the FMA act (*new structural benchmark for end-July 2019*) to start implementing the provisions that can immediately enter into force.

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

13. We will adopt an action plan for public financial management reform to implement the new public management act. In this context, we will:

- **Strengthen the strategic phase of the budget formulation process**. The main inputs required are as follows: (i) We will update BERT annually, based in part on expenditure and revenue reviews, to present a clear articulation of Government's current and medium-term priorities, the Government's fiscal target and macro-fiscal analysis; (ii) we will set budget ceilings in accordance with the updated BERT, and this would guide the allocation process; (iii) Cabinet will provide clear instructions for the budget submissions based on a comprehensive discussion of the needs and priorities of each Ministry and program, including on spending ceilings. We will move away from incremental budgeting. We will seek technical assistance from the IMF's Fiscal Affairs Departments in designing sound budget preparation procedures and sensitize line Ministries and stakeholders involved in the budget preparation to the requirements and timing of these procedures.

- **Reform the Budget Documentation to support strengthening the strategic budgeting process and provide more policy-oriented information to decision makers**. Usefulness of the medium-term fiscal strategy is significantly enhanced if the strategy is written and is explicitly endorsed by Government and/or Parliament, and made available to the public in subsequent steps in the annual budget process. Annual Budget Documentation (Budget Estimates) should provide a comprehensive narrative describing the public finances, and should include an assessment of the alignment between the fiscal framework and the fiscal objective established in the fiscal strategy, and a comprehensive description of all revenue and expenditure measures taken. We will start preparing a mid-year budget review for the discussion in the Parliament on regular basis.

- **The Government will strengthen the efficiency and quality of the GOB procurement process** thereby improving the ease of doing business and reducing costs. We have established Colleges of Negotiators to allow our Government to negotiate the best possible agreements and contracts in the public interest. The capacity of the Public Accounts Committee will be strengthened to carry out its oversight role while ensuring full transparency. These actions will significantly reduce governance and corruption vulnerabilities.

- **We will review our legal and regulatory framework for engaging in Public-Private Partnerships** (PPPs), and will request technical assistance from the IMF in doing so by end-December 2019; PPPs can play an important role in sustaining growth and increasing potential growth, when done right. 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

14. A comprehensive debt restructuring, including external debt to private creditors and treasury bills, was announced on June 1, 2018. On October 15, the Government announced having reached agreement with an overwhelming majority of domestic creditors, with support of all commercial banks, general and life insurers, the National Insurance Scheme (NIS), the Central Bank of Barbados (CBB), and smaller creditors. As the debt restructuring has impacted the CBB's capital, we will develop plans to recapitalize the CBB, and address medium and long-term challenges for the NIS stemming from the debt restructuring (*structural benchmark for end-June 2020*). Negotiations with external private creditors are ongoing.

15. We will seek to strengthen our debt management and we will request technical assistance from the IMF to support the effort. We 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.

16. Domestic expenditure arrears will be gradually 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, and domestic expenditure arrears were estimated at 12 percent of GDP as of March 2018. We are now in the process of negotiating and settling legitimate arrears. We have agreed with suppliers on a program to settle arrears at 85 cents on the dollar. We aim to complete this operation by end-July, 2019. The only way to restore the honour and word of the Barbados Government is to commit from this moment on 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 be done through central Government; a program target for non-accumulation of new SOE arrears has been added to the program.

Public Sector Reform

17. The Government is committed to modernising and improving the efficiency, quality and cost effectiveness of the public sector. A reduction in recurrent expenditures would create room for additional capital spending, a gradual reduction in the stock of domestic expenditure arrears, or a combination of these. Our Government must be made fit to take on the challenges of the twenty first century. Of necessity, this means an analysis of what is essential, what is highly desirable, what is optional, what is essential or optional but better delivered elsewhere. Our Government has undertaken the most comprehensive consultation in our modern economic history from the Social Partnership to the leadership to the wider public. Indeed, almost 5000 persons participated in answering 93 questions in an on-line survey. Generally, there is consensus as to where the transformation must come if we are to make our Government fit. This will 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.

18. Reform of State-Owned Enterprises 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 state-owned entities, to identify potential for efficiency gains, cost recoveries, and enfranchisement through divestment of entities and/or activities. SOEs listed in the TMU have now all submitted standardized (according to international acceptable standards) quarterly financial reports (*structural benchmark for end-December 2018*). On this basis, we have prepared a consolidated report on the performance of SOEs, and we have submitted a first report to Parliament together with the Budget Estimates in early April 2019 (*structural benchmark)*. We will review all tariffs and fees charged by SOEs by September 2019 (*structural benchmark)*. We have increased bus fares, adjusted water rates, and introduced a health levy, airline & travel development fee and a garbage and sewage contribution levy.

19. The new Financial Management and Audit (FMA) Act that was adopted by Parliament in January 2019 confers greater autonomy to the Ministry of Finance to oversee SOEs, including ensuring compliance with the law for prior approval of all borrowings and other assumptions of liabilities. The new FMA Act also establishes clear definitions for the classification of public entities, and their related roles and responsibilities, and has established tighter and more precise reporting requirements for SOEs, as well as sanctions for noncompliance.

20. The 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.

21. Public sector pension reform aimed at ensuring that the system is sustainable in the long run is a priority. We will review the public sector pension scheme to address its long-run sustainability. To this end, we will table in Parliament a revised public pension law by end-June 2020 (*reset structural benchmark*), and publish an actuarial report by December 2019 (*new structural benchmark*). We will carefully weigh different options, with important considerations to making the public service scheme contributory for new employees, increasing the earliest age of eligibility for new employees, and reducing the rate of benefit accrual for each year of service for new employees.

III. MONETARY AND FINANCIAL SECTOR POLICIES

22. 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.

23. We will amend the Central Bank Law to enhance its autonomy (*structural benchmark by end-December 2019*). This is critical to ensure the continued protection of our exchange rate peg. We have requested technical assistance from the IMF in reviewing a Central Bank law, ensuring that the revised law will meet international best practice. The IMF has now completed its Safeguards Assessment of the Central Bank of Barbados, to ensure that the Central Bank legal structure and autonomy meet standards required for processing IMF disbursements. This is a standard IMF procedure for all countries using Fund resources. We will ensure that all recommendations from the safeguards assessment will be promptly implemented including the publication of the CBB 2018 financial statements.

24. We aim to further liberalize our financial sector. The commercial banks' minimum requirement to hold Government securities was reduced from 20 to 17.5 percent of domestic deposits in November 2018, and will gradually be further reduced, as monetary conditions permit. We aim to remove the recently introduced FX fee of 2 percent on all FX sales as our reserve positions strengthens.

25. We are beginning a gradual relaxation of exchange controls. Our approach is both gradual and targeted and aimed at increasing investors' confidence without jeopardizing reserve accumulation. Effective July 1st, we will allow all Barbadians to open foreign currency denominated accounts. We will allow foreign currency proceeds from the sale of assets to be repatriated in foreign currency or kept locally in a foreign currency account. We will eliminate the surrender requirement of 70 percent of foreign exchange brought into Barbados by July 1, 2019. Finally, we are gradually increasing select foreign exchange limits such as the limit on personal travel facilities.

IV. GROWTH ENHANCING REFORMS

26. The growth strategy of the Barbados Economic Recovery and Transformation Plan rests on a number of key pillars: investing in a high skilled, and knowledge based economy, particularly in skills training and education more generally; better mobilizing private domestic savings for local investment; making Government an enabler of growth by supporting, facilitating, regulating, and partnering with the traditional and non-traditional private sector; and promoting labour productivity by diversifying our economy into new areas such as renewable energy, high-tech and software development to complement a renewed vigor for the traditional services sectors.

27. Many knowledge-based economy initiatives have already been initiated. These include a large commitment to retooling and retraining Barbadians to excellence over the next 4 years across all sectors and at all levels. Our mission must be to deliver global standards while retaining our national identity. We will launch a National First Jobs Initiative and apprenticeship scheme; 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 will remain focused nevertheless on achieving efficiency savings in our post-secondary and tertiary institutions with a view to plowing most of any found savings back into enhanced offerings.

28. Making the Government an enabler of growth will include strengthening the judiciary. By mid-fiscal year 2019/20, we will establish a self-financing Commercial Court to speed-up commercial adjudication and judgments. We will also introduce new legislation compliant with UNCITRAL to deal with arbitration and alternate dispute resolution mechanisms. Finally, we are committed to the establishment of three temporary additional criminal courts to deal with the significant backlog of criminal cases and ensure that all serious cases can be dealt with within six to nine months.

29. Increasing participation of women in the labour 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. By end FY2019/20 we will establish paternity leave.

30. The Government intends to facilitate a wide range of services online. This will include: the provision of drivers' licenses, clearing goods through Customs, applying for passports, planning and development applications, et cetera. The Ministry of Innovation Science and Technology has earmarked seven departments to start the digitization of Government including the Immigrating Department, the Civil Registry and the Courts, the Police Department, the International Business division, the Customs and Excise Department, the Town and County Planning Office, and the Barbados Licensing Authority.

31. Actions for promoting growth by improving the business climate are critically important. There is significant room for improvement, as indicated by Barbados' relatively low ranking in the World Bank's Doing Business indicator where Barbados was ranked recently well below key regional peers. Our services must be delivered in accordance with global standards for that is the market in which we must be competitive if we are to transform our nation. It is particularly important to speed up licensing processes. We will facilitate more efficient clearing of goods through Customs; the Customs department will focus on facilitating trade and put in place tangible measures to make cargo clearance quicker and easier, and give defined benefits to compliant traders in the form of a trusted trader program, without comprising the revenue to be collected.

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	Met
B. Structural Benchmarks for first review			
2) 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
3) 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	Met
4) Government to launch a training and outplacement programme to help mitigate effects on the vulnerable from the restructuring of SOEs.	end-December 2018	Met	Met
5) 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
6) Government to establish a Sandbox regime for regulation for fintech start-ups.	end-December 2018	Met	Met
7) 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	Met
8) 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
9) 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
10) Government to introduce a system for monitoring SOE arrears on an ongoing basis.	end-March 2019	Met	Met

Table 1. Structural Benchmarks (Continued)			
11) 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	Met
C. Structural Benchmarks for future reviews			
12) Government to conduct a comprehensive review of the tax system, with inputs from IMF technical assistance.	end-June 2019		
13) Government to conduct a comprehensive review of all tariffs and fees charged by SOEs.	end-September 2019 (reset)		
14) Governor General to proclaim the Financial Management and Audit (FMA) Act.	end-July 2019 (new)		
15) 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 2019 (reset)		
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		
17) Customs Department to (i) deploy staff to the exemption monitoring unit and undertake at least eight exemption verification assignments in 2019; (ii) train and deploy at least 6 officers in the post clearance audit unit and undertake at least 8 field audits in 2019; (iii) establish a trusted trader program that gives defined benefits to program members by the end of 2018 and have at least eight companies participating by the end of 2019; and (iv) undertake post release verification of entries and subject at least 3500 entries to this control by the end of 2019.	end-December 2019		

Table 1. Structural Benchmarks (Concluded)			
18) Government to conduct an actuarial review of the civil service pension system with a view to reform it as discussed in MEFP paragraph 21.	end-December 2019 (new)		
19) Government to table a revised public pension law to enhance the sustainability of the public sector pension scheme, as discussed in MEFP paragraph 21.	end-June 2020 (reset)		
20) Government to table legislation for a fiscal rule to enhance fiscal transparency, and lock in the gains of fiscal consolidation, developed with the support of IMF technical assistance.	end-June 2020		
21) Government to develop plans to recapitalize the CBB and address medium and long-term challenges for the NIS stemming from the debt restructuring.	end-June 2020		

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

(in millions of Barbados dollars unless otherwise indicated)

	Target End December 2018	Actual End December 2018	Target End March 2019	Actual End March 2019	Status End March 2019	Target End June 2019	Target End September 2019	Target End December 2019	Target End March 2020
Fiscal Targets									
Performance Criteria									
Floor on the CG Primary Balance 4/	257	…	343	…	…	125	282	439	627
Floor on the CG Primary Balance (adjusted) 4/	240	331	315	354	Met	…	…	…	…
Non-accumulation of CG external debt arrears 4/ 6/	0	0	0	0	Met	0	0	0	0
Ceiling on CG Transfers and Grants to Public Institutions 4/ 7/	495	468	732	675	Met	104	209	313	418
Ceiling on Public Debt 5/	13,629	…	12,871	…	…	12,853	12,698	12,544	12,390
Ceiling on Public Debt (adjusted) 5/	13,679	12,828	12,921	12,853	Met	…	…	…	…
Indicative Targets									
Ceiling on CG Domestic Arrears 5/	1246	338	1,246	293	Met	280	265	249	230
Floor on Social Spending 4/ 8/	38	74	50	101	Met	10	22	35	50
Ceiling on Public Institutions Arrears 5/	n.a.	n.a.	n.a.	n.a.		284	254	224	194
Monetary Targets									
Performance Criteria									
Ceiling on Net Domestic Assets of the CBB 5/	1,977	1,827	1,992	1,876	Met	2,006	2,006	1,911	1,911
Floor on Net International Reserves 5/	510	…	707	…	…	893	901	1,014	1,054
Floor on Net International Reserves (adjusted) 5/	531	832	717	889	Met	…	…	…	…
Items feeding into PB, D, and NIR adjustors			100						
IDB budget support 4/	200	200	200	200		0	0	0	0
CDB budget support 4/	100	150	100	150		0	0	150	150
CAF budget support 4/	0	0	0	0		0	0	0	0
Grants 4/	17	0	28	0		3	11	11	12

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 1 of the MEFP. Prior actions and structural benchmarks are listed in Table 2 of the MEFP. For program monitoring purposes, PCs and ITs are set for March 31, 2019; September 30, 2019; and March 31, 2020. The same variables are ITs for June 30, 2019 and December 31, 2019.

3. Definitions for the purpose of the program:

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

Table 1. Program Exchange Rates (08/29/2018)/1

Barbadian dollar to the US dollar	2.0000
Barbadian dollar to the SDR	0.345745
Barbadian dollar to the euro	2.3392
Barbadian dollar to the Canadian dollar	1.54662
Barbadian dollar to the British pound	2.5739
Barbadian dollar to the East Caribbean dollar	0.74074
Barbadian dollar to the Belizean dollar	1.00000

1/ Average daily selling rates as reported by the CBB.

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

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

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

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

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

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

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

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

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

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

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

- Public Institutions covered under Section I include:

  - Queen Elizabeth Hospital
  - University of the West Indies

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

I. QUANTITATIVE PERFORMANCE CRITERIA

A. Floor on the CG Primary Balance

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

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

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

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

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

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

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

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

C. Floor on Net International Reserves

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

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

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

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

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), and the Development Bank of Latin America (CAF)) 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 (continuous)

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

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

E. Ceiling on CG Transfers and Grants to Public Institutions

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

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

F. Ceiling on the Stock of Public Debt

18. Public debt is defined as domestic and external CG debt, CG guaranteed debt, 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), and the Development Bank of Latin America (CAF) 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

G. 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).

H. 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).

I. 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, and the CAF, as defined in section I.
- Budget support grants as defined in section I.
- Liabilities of public-private partnerships (PPPs) (if any).
- Stock of CG expenditure arrears by creditor and its components as defined in Section II.
- Stock of expenditure arrears of public institutions listed in paragraph 3 by creditor and its components as defined in Section II.

External Sector

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

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

Financial Sector

- Other Depository Corporations (ODC) survey showing the gross items for NFA, claims on the CBB, net claims on the CG (NCCG), COSE, OIN, deposits included in broad money (BM), deposits excluded from BM, and liabilities to the CBB.
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Table 2. Summary of Data to be Reported to the IMF (Continued)

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

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

Real Sector

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

Fiscal Sector

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

Financial Sector

- CBB Balance sheet

External Sector

- Balance of Payments accounts.

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

Financial Sector

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

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

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

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

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

Reporting on an annual basis, within 5 months of the end-of-period

- Audited financial statements of Commercial Banks.

Statement by Louise Levonian, Executive Director for Barbados and Jeremy Weil, Senior Advisor to the Executive Director June 24, 2019

Our Barbadian authorities are highly appreciative of the Fund's continued support and wish to thank staff for their engagement and policy discussions, not only during the program review, but also during several complementary technical assistance missions. The authorities also thank the Social Partnership for their ongoing engagement and for promoting accountability by monitoring the progress of the Barbados Economic Recovery and Transformation Plan (BERT) through the program oversight committee. BERT remains a homegrown plan founded on the principles of social engagement and burden sharing, which has created strong domestic ownership of the reforms. The authorities have made remarkable progress to stabilize the economy in a little over a year since they were elected, and they intend to stay the course to transform Barbados and create long-term growth.

Overview of Program Performance

Barbados has performed strongly in the first six months of the four-year extended arrangement under the Extended Fund Facility. All quantitative performance criteria and indicative targets were met. Six structural benchmarks were met on time, while short delays were required to implement four benchmarks. The authorities exceeded the social spending floor while meeting the primary balance target. The targets on net international reserves and net domestic assets of the Central Bank of Barbados (CBB) were met by wide margins.

Barbados performed strongly despite limited implementation capacity. Ongoing technical assistance from the Fund and other multilateral and bilateral partners will help sustain performance. Looking ahead, the timelines for two structural benchmarks – new central bank and public pensions laws – are being extended slightly. Additional time is needed to ensure high quality legislative drafting of central bank legislation, and an intermediate actuarial review of the pension system is required to inform new pension legislation. The authorities remain steadfast in their resolve to meet program commitments.

Prudent Fiscal Policy

The authorities have gone a long way towards putting their fiscal house in order by restructuring and modernizing the public sector, increasing taxes and other revenues, lowering expenditures, and restructuring public sector debt.

The primary surplus of 3.5 percent in 2018-19 was driven by overperformance in VAT and corporate income tax (CIT) as well as new fees on air travel and tourism, a fuel tax, and health contributions. The authorities also rationalized the public sector wage bill. The 2019-20 Budget targets a primary balance of 6 percent that is necessary to achieve fiscal sustainability. The authorities stand ready to introduce additional measures if needed.

To put debt on a sustainable path and meet a long-term program anchor of 60 percent debt-to-GDP by 2033-34, in October 2018, the authorities concluded one of the largest debt restructurings as a percentage of GDP in history. The successful debt exchange covered approximately 90 percent of the debt to be restructured and helped drive public sector debt to 127 percent of GDP in 2018-19, down from 158 percent in 2017-18. Good faith discussions with holders of US dollar-denominated commercial debt continue and have intensified since the start of 2019. The authorities recognize the importance of concluding an orderly external debt exchange to enhance debt sustainability and improve market confidence.

Barbados' indebtedness was partly fueled by large transfers to state-owned enterprises (SOEs) with insufficient government oversight. The authorities have begun reforms to reduce government transfers to SOEs and improve governance and accountability. SOEs have begun submitting quarterly financial reports to the government, the government has provided Parliament with a consolidated report on SOE performance, and a system has been established to monitor SOE arrears on an ongoing basis.

In addition, a new *Public Financial Management Act* will hold both the government and SOEs to high standards of transparency and governance. The Act makes numerous enhancements, such as a requirement that the budget be tabled prior to the beginning of the fiscal year, the establishment of an *Internal Audit Office*, and greater ministerial oversight of SOE borrowing.

After many years of unaudited financial statements, up to ten (10) years in some instances, actions are also being put in place to ensure that SOEs produce up-to-date audited financial statements.

The authorities will introduce an explicit fiscal rule to lock in the hard-fought gains of fiscal consolidation. Based on forthcoming technical assistance recommendations, the rule will make fiscal policy more transparent, maintain a fiscal track to meet the program debt anchor, capture actual and contingent liabilities of the central government, and include an appropriately calibrated correction mechanism and escape clause.

Raising Revenue Fairly

The authorities are pursuing a comprehensive strategy to shift the burden of taxation away from work and production and towards wealth and consumption, while raising the revenues necessary to meet program targets. For example, to boost revenues while minimizing the impact on growth, the VAT rate on accommodation (tourism) will be increased from 7.5 percent to 10 percent in 2020 and the VAT base will be broadened by moving items from zero-rated to exempt (which reduces VAT refunds). Barbados has also passed legislation to improve the collection of VAT from e-commerce transactions and introduced a new tax on gambling winnings. Property tax rules were also updated to help shift the burden of taxation to those who can most afford to pay.

Barbados is committed to international tax fairness. Following the convergence of offshore and onshore corporate tax structures, in January 2019, the OECD announced Barbados' compliance with BEPS Action 5 regarding preferential tax regimes. In May 2019, the EU removed Barbados from its list of non-cooperative tax jurisdictions.

Tax administration enhancements are a priority to improve revenue performance and support fiscal consolidation efforts. The Barbados Revenue Authority will adopt measurable targets to improve on-time filing for CIT and VAT, and legacy systems will be replaced. Compliance will be improved through the recent establishment of a *Large Taxpayer Unit*.

With technical assistance from the Fund, the authorities are also reforming the Barbados Customs and Excise Department to keep Barbadians safe while improving revenue collection, facilitating trade, and improving competitiveness. To improve governance and fight corruption, Barbados plans to dedicate a new agency – the *Major Organized Crimes and Anti-Corruption Agency*.

Enhancing Monetary Policy

The authorities and Barbadian stakeholders have an unwavering commitment to the fixed exchange rate, which has served as a key anchor for macroeconomic stability. At end-March 2019, international reserves stood at three months of import coverage, up from five-to-six weeks of coverage in May 2018. This dramatic improvement was mostly driven by loans from international financial institutions, as well as by a narrowing current account deficit supported by an improved trade balance. Adequate international reserves are in place to protect the fixed exchange rate, and the authorities' structural reform agenda will support that goal by improving competitiveness.

The improved external position has enabled a gradual and targeted approach to relaxing exchange controls to attract international capital and better channel savings. For example, Barbadians will soon be allowed to open foreign currency denominated accounts and foreign currency proceeds from the sale of assets will be allowed to be repatriated in foreign currency or kept locally in a foreign currency account. The authorities will closely monitor the impact of these and other reforms on reserve levels to determine whether exchange controls, such as the two percent fee on foreign currency transactions, can be relaxed further.

Action has already been taken to limit the CBB from engaging in central government financing by reducing government overdraft limits and limiting the right of the CBB to hold unlimited primary issues. The authorities, with technical assistance from the Fund, will build on these actions through an amended *Central Bank Law* that will enhance the CBB's autonomy, mandate, and decision-making structures in line with best international practices.

Innovating a Sound Financial System

While the domestic debt restructuring impacted the capital levels and profitability of the domestic financial sector, thanks to sound prudential oversight, including rigorous stress testing, the debt exchange did not jeopardize financial stability. The authorities will develop plans to recapitalize the CBB and address challenges regarding the operating balance and reserves of the National Insurance Scheme resulting from the domestic debt restructuring.

The authorities plan to leverage technology to mobilize household savings in the service of growth. To make financial transactions more efficient and less expensive, a *Regulatory Sandbox* has been established where fintech entities can live test their products and services in a way that minimizes risks to the financial system.

Transforming the Economy

The public sector cannot sustain being the direct driver of growth in Barbados – there must be a shift to private sector-led growth. To that end, important steps have been taken, or are planned, to improve the business environment and enhance competitiveness. These include:

- Modernizing the *Town and Country Planning Act* to support efficient, transparent, and predictable treatment of applications for development;
- Streamlining the registration of new business and strengthening maintenance of commercial records of existing businesses; and
- Developing plans to offer a wide range of government services online.

To improve productivity and support sustainable growth, the authorities are making infrastructure investments that connect people and products and markets. These include a comprehensive road repair program and improvements to the international airport.

The focus on improving competitiveness is supporting a rebound in investor confidence. The authorities estimate that around USD $1 billion in investments planned over the next three years (nearly 20 percent of GDP) are well advanced in their planning stage.

Investing in People

At the heart of the authorities' growth strategy are investments in people and, despite substantial fiscal consolidation, Barbados has chosen to protect investments in skills, education, and poverty reduction. The authorities will soon embark on the largest *National Training Initiative* in Barbados' history to tackle youth unemployment and provide people with greater and better skills that equip the workforce for the future of work. To manage the impact of public sector layoffs, the authorities have established a *Household Mitigation Unit*, which is resettling displaced workers and retraining them.

Building Resilience

The authorities are building resilience to natural disasters and climate change. Natural disaster clauses, which allow for capitalization of interest and deferral of scheduled amortization in the event of a natural disaster, were successfully negotiated into restructured debt instruments. In the longer term, the authorities have committed to make Barbados a 100 percent renewable and carbon neutral island by 2030 by eliminating fossil fuels for domestic consumption. The *National Energy Policy* has been revised to support this goal.

Concluding Remarks

Barbados has made remarkable progress to stabilize the economy through the homegrown BERT plan in a little over a year. The reform agenda is ambitious, but the authorities are committed to seeing it through to secure stability, transform the economy, and build lasting growth. These reforms will be undertaken in close consultation with the Social Partnership, which will support program performance through public accountability and domestic ownership. The authorities look forward to continuing their close engagement with the Fund.