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BARBADOS: 2013 Article IV Consultation

INTERNATIONAL MONETARY FUND

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IMF Country Report No. 14/52

BARBADOS

2013 ARTICLE IV CONSULTATION

February 2014

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2013 Article IV consultation with Barbados, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 10, 2014, following discussions that ended on December 13, 2013, with the officials of Barbados on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 27, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Staff Statement** of February 10, 2014 updating information on recent developments.
- A **Press Release** summarizing the views of the Executive Board as expressed during its February 10, 2014 consideration of the staff report that concluded the Article IV consultation with Barbados.
- A **Statement by the Executive Director** for Barbados.

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

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BARBADOS

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

January 27, 2014

KEY ISSUES

Context. Economic performance has been weak and public debt is high. Foreign reserves are under pressure as fiscal and external imbalances widened in 2012 and further in 2013. Recognizing the need for urgent action, the authorities announced ambitious budget consolidation proposals in 2013 aimed at strengthening the fiscal position and arresting the slide in reserves.

Focus of the consultation. The authorities stated clearly their desire and intention to preserve the exchange rate peg—a position supported strongly by the private sector and civil society in Barbados. In this context, discussions focused on the fiscal measures needed to address immediate pressures, making monetary policy consistent with the nominal exchange rate anchor, a medium-term fiscal framework, and reforms to boost competitiveness.

Outlook and risks. Recent fiscal measures, if fully implemented, should stabilize debt levels by 2016. However, downside risks are considerable and failure to implement corrective policies could result in a disorderly adjustment process. Even with full implementation, fiscal financing pressures and external sector sustainability would remain challenging.

Policy recommendations: A comprehensive and sustained fiscal effort is needed to reduce vulnerabilities and lower public debt. To this end:

- There is scope to raise tax revenues by strengthening revenue and customs administration and by reducing widespread exemptions. However, spending reductions will be critical, especially targeting the wage bill and inefficiencies in public enterprises (where stronger governance is needed).
- The social safety net must be preserved, but benefits should be better targeted to strengthen protection for the most vulnerable, raise efficiency and lower costs.
- A medium-term fiscal anchor is needed to guide policy formulation and accountability. A debt-to-GDP target of 85 percent is recommended by 2018/19.
- Monetary policy should be more consistent with the fixed exchange rate regime.
- Closer monitoring of the financial system is required in view of elevated non-performing loans (NPLs) and the risk of a deeper sovereign-financial feedback loop.
- The growth strategy should focus on reducing business and labor costs.

Approved By
Charles Kramer (WHD) and Mark Flanagan (SPR)

The team that visited Barbados during December 3–13, 2013, comprised Ms. Laframboise (head), Messrs. Bouhga-Hagbe, Park, and Price, and, Ms. Kim (all WHD) and Mr. Rafiq (FAD). They were assisted at headquarters by Ms. Lindow, Ms. Kapijimpanga, and Ms. Sirbu (WHD). Staff met with Minister Sinckler (Finance and Economy), Minister Sealy (Tourism); Minister Inniss (Industry, International Business, Commerce and Small Business Development); Governor Worrell (Central Bank of Barbados); other government officials; representatives from parliament, the financial sector, tourism, business, labor unions and academia.

Mr. Pinon (MCM) joined the Article IV team at the conclusion of the visit to present the findings and conclusions of the FSAP Update, which will be discussed at the Executive Board with this report.

Mr. Hockin, Executive Director for Barbados, joined the discussions for one day, and Mr. Dalrymple, his Senior Advisor, attended for the duration.

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INTRODUCTION

1. **The last Article IV consultation with Barbados was concluded in December 2011.** At that time, staff stressed that the widening fiscal deficit and debt were the key policy issues, and encouraged the authorities to implement policies to deliver a credible fiscal consolidation plan. The authorities requested a delay in the subsequent Article IV consultation because of general elections, which were held in February 2013. The Democratic Labor Party was re-elected at that time with a one-seat majority in the House of Assembly.

2011 Article IV Staff Report: Recommendations

The main recommendations included:

i) reduce the deficit by lowering the wage bill and cutting transfers to public enterprises;
ii) pursue a credible monetary policy by avoiding monetization of the deficit;
iii) reduce reliance on the NIS for financing; and
iv) maintain a positive interest rate differential vis-à-vis U.S. rates.

Despite some progress, many of the main recommendations were not addressed.

2. **Barbados is one of the most developed islands in the Caribbean**. Economic activity relies heavily on tourism and the offshore business sector. Per capita income is US$16,150 and Barbados has the best human development indicators in the region, a testament to the country's high standards of equity and social protection. For decades the country has benefited from a strong tradition of consultation and cooperation among labor, government and the private sector, though this is now being tested by the challenging economic circumstances.

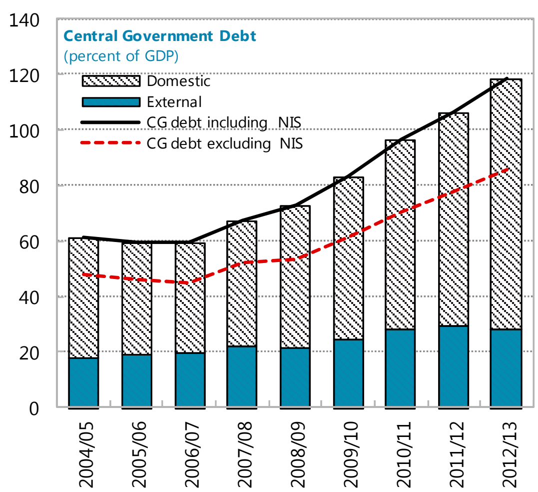
3. **The 2008 global financial crisis hit Barbados hard and performance has been weak since then.** The economy has contracted, on average, by 0.6 percent a year since 2008. Growth is highly correlated with that of the U.K., and tourism from there has not recovered from the sharp drop in 2009. Expansionary fiscal policies and weak revenues have led to a surge in public debt and fiscal financing pressures. Under the exchange rate peg and with monetary policy accommodative, foreign reserves declined through 2013 and confidence waned. In response, the authorities announced fiscal consolidation proposals in August 2013 and more ambitious measures in December aimed at arresting the slide in reserves and strengthening the fiscal position.

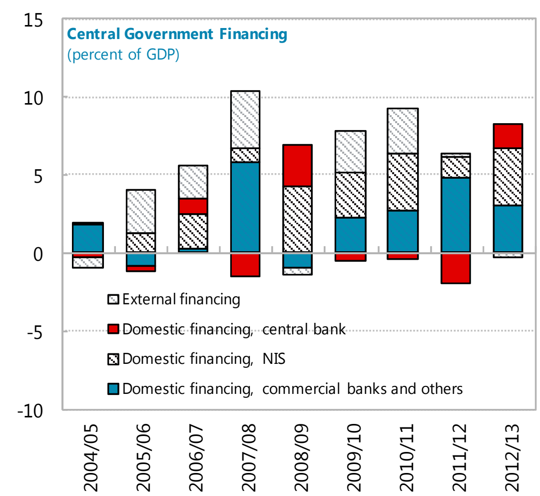
RECENT DEVELOPMENTS

4. **Economic performance deteriorated in 2013.** Output is estimated to have fallen by about 0.7 percent in 2013, with weakness across both the traded and non-traded sectors. During the period January–November 2013, long stay tourist arrivals fell by 5.5 percent, though this was partially offset by longer average stays and a 12 percent increase in cruise passengers. Inflation

fell during the course of 2013 on the back of low commodity prices—the principal factor behind price movements in Barbados—and also weak demand, dipping to 2 percent (y/y) at end-October. Unemployment was recorded at 11.7 percent in September compared to 10.8 percent a year earlier.

5. **The government's fiscal problems go back several years.** While the fiscal balance has been in deficit since the early 2000s, the structural budget balance started to deteriorate in the mid-2000s as spending and investment was ramped up for various capital projects, including preparations for the Cricket World Cup in 2007, just prior to the onset of the global financial crisis. The deficit has widened since then—except in 2011—as the government first applied counter-





cyclical policies to offset the impact of the global recession, then more recently (2012–13) as revenues plummeted. Tax revenues fell by 6.5 percent in 2012/13 (fiscal year ending March) and by 11 percent in the period April-September 2013. Moreover, financing estimates suggest that the operating deficit of public enterprises has not improved in recent years, notwithstanding higher transfers from the central government.[1] There is evidence of public sector arrears accumulation, with estimates ranging between 2–7 percent of GDP. Barbados was downgraded by Moody's and S&P in 2012 and by two notches (to Ba3 and BB- respectively) late in 2013.

6. **Public debt and fiscal financing pressures have been challenging.** Central government gross debt has risen sharply since 2009. The debt-to-GDP ratio has climbed from under 60 percent in 2009 to 94 percent at end-September 2013; including government securities held by the National Insurance Scheme (NIS), it rose from about 80 percent to 128 percent. The gross financing requirement in 2013/14 is 15.4 percent of GDP, or 39 percent of GDP including the rollover of short term debt. The deficit has been financed increasingly with short-term funds from domestic sources. In the first six months of 2013/14, domestic financial institutions and the central bank provided the bulk of the financing in the form of T-bills, while the NIS provided about

[1] Full information on the financial performance of public enterprises is not available.

11 percent in the form longer term debentures. NIS holdings of government paper are estimated at about 67 percent of its portfolio, above the guideline recommended in the 13th actuarial review to limit holdings in government securities to no more than 57 percent. Going forward, the capacity of the NIS to absorb new government debt will be limited by balance sheet constraints as the operating surplus has declined to near balance.

7. **Monetary policy has not been consistent with the fixed exchange rate framework.** A new interest rate policy was instituted in 2013 that made the 3-month Treasury-Bill rate the benchmark rate and directed the central bank to intervene in the auction market. Under this policy, the CBB absorbed about 44 percent of T-bills issued in the first 11 months of 2013 and short term interest rates fell by about 50 basis points. Credit to the private sector, which had been contracting since 2011, nonetheless continued to fall. The impact on liquidity has been eclipsed by the decline in NFA, but monetization of the deficit has created uncertainty and confusion about the primary objective of monetary policy.

8. **External stability has come under threat as the balance of payments incurred a large deficit in 2013.** The current account deficit is expected to have widened to 11.4 percent of GDP in 2013 compared to a deficit of 10.1 percent of GDP in 2012. Receipts from tourism and goods exports declined, and inflows of long-term private capital dropped to the lowest level since 2004, implying a loss of confidence (Figure 3, Table 4). Foreign reserves have in recent years benefited from two large asset sales. After a decision by the government in October to withdraw a planned international bond offering, reserves dipped, reaching US$434 million by early December. Foreign reserves were boosted subsequently by new commercial borrowing of US$150 million and represented 3.2 months of imports at end-December 2013. This new loan, at an interest rate over 8 percent, offers the possibility of an additional US$75 million in 2014.

9. **Despite relatively strong structural indicators of competitiveness, export performance data point to problems.** On the one hand, Barbados scores well in regional non-price competitiveness rankings (Box 3), and wages have been contained in recent years. According to CBB data, real wages have declined by about 12 percent since 2009. The Fund's CGER analysis suggests only a moderate overvaluation of 2–8 percent (Annex II). In addition, tourist arrivals from the U.K., the biggest market, are reportedly picking up this winter as growth is finally strengthening there. On the other hand, overall tourism arrivals, exports, and growth have been among the weakest in the region in recent years, and Barbados' share of the Caribbean tourism market fell from 3.0 percent of the total in 2007 to 2.65 percent in 2012, a 12 percent decline. The real effective exchange rate (tourism weights) has appreciated by about 7 percent since 2009.[2]

10. **As laid out in the accompanying FSSA, the domestic financial system appears to be well capitalized, but credit quality and profitability have weakened.** All banks in Barbados are

[2] The real effective rate has appreciated by over 20 percent since 2008, but the U.S. dollar itself appreciated by 16 percent in real effective terms over the period March 2008–February 2009.

foreign-owned: three are from Canada, two from Trinidad & Tobago, and one from the U.S. The assets of Canadian banks account for 75 percent of the total. The overall capital adequacy ratio (CAR) is high at 21.5 percent. The non-performing loan (NPL) ratio has risen steadily to 13.9 percent in June 2013 while provisions declined to 36 percent of NPLs from 60 percent in 2008 (Figure 5). Profitability has fallen as the share of loans in assets and the interest rate spread have both shrunk. Claims on the government have risen to 20 percent of total domestic assets. Barbados also has an important non-bank sector. Credit unions' NPLs have increased from 5¼ percent of total loans in 2008 to over 8 percent in June 2013. Two Barbados-based financial conglomerates have substantial external linkages, mainly through their operations in commercial banking, insurance, and asset management in and outside of the Caribbean region. The FSAP found that the large offshore financial sector does not appear to be a major source of risk given that it is prevented by law from carrying out financial transactions with domestic residents.

11. **By May 2013, the authorities recognized the need for urgent action.** After consultation with their social partners, the authorities announced consolidation measures in August, and more drastic measures in December. Staff estimate that the two packages would yield a combined adjustment of about 6 percent of GDP over the period, or an improvement in the primary balance of about 4.8 percent of GDP from 2013/14–2014/15. About three fourths of the adjustment will come from expenditure cuts. The December announcement included a reduction in the size of the civil service in 2014/15 by about 3,500, or 15 percent of the total, further downsizing by attrition of about 500 positions per year until 2018/19, wage cuts for elected and appointed officials, and a two year nominal wage freeze, among other measures (see Box 1).[3]

OUTLOOK AND RISKS

12. **The sustainability of the debt hinges on the government's ability to implement timely and vigorous fiscal consolidation, but even then considerable risks remain**. Based on revenue performance and spending outturns this year, the fiscal deficit is projected to reach 9.6 percent of GDP in 2013/14, but is forecast to fall sharply to 5 percent of GDP in 2014/15 as the full effect of budget measures is felt (Box 1). Central government debt is expected to peak at 95 percent of GDP in 2015. Interest expenses are expected to be the largest contributor to debt accumulation, though improvements in the primary balance would play a major role in turning around the debt trajectory. The debt sustainability analysis (DSA) highlights the vulnerability of debt and financing needs to shocks to interest rates, GDP growth, the primary balance, and the real exchange rate. There are also sizable downside risks from greater reliance on short term debt, which adds to refinancing and interest rate risks, and contingent liabilities, which are not well monitored and could be sizeable (see Annex I).

[3] Legislation stipulates that nominal wage reductions are not possible without unanimous consent by members of organized labor.

13. **Growth faces headwinds from fiscal consolidation and weak competitiveness.** Output is projected to fall by 1.2 percent in 2014 before recovering modestly in 2015. This forecast takes into account the impact of current budget measures (Box 1), offset slightly by positive growth effects from several large capital investment projects. While the face value of these exceeds 10 percent of GDP, staff have projected their contribution to growth to be limited given uncertainty about their timing, scale, and in some cases limited impact on employment. Looking forward, the baseline scenario incorporates nominal wage restraint that, together with a benign inflation outlook relative to trading partners, envisions a real depreciation of about 7 percentage points over the projection period.

Investment projects 2014-2015
Tourism
Sandals Resort
Cruise Ship Pier and Ancillary Facilities
Pierhead Marina Development
Green Energy
Sustainable Energy Investment Program
Public Sector Smart Energy Program
Solar Electricity Roof Project
Waste to Energy Facility
Agriculture
Sugar Cane Restructuring Project
Others
Bushy Park
Low Housing Project
Road Rehabilitation Project

14. **External sector sustainability would remain precarious.** Fiscal consolidation and weaker demand are expected to help lower the current account deficit in 2014 to 7.8 percent of GDP, but it would remain above 6 percent of GDP in the medium term. The capital account will be supported by larger inflows related to specific investment projects, but foreign reserves would remain below desired comfort levels, and Barbados would require external financing in later years to maintain reserves above a notional threshold of 3 months of imports (see "Unidentified Financing", Table 4). As a small state subject to higher macro volatility and vulnerable to external shocks, Barbados would benefit from a much stronger reserve cushion to strengthen resilience.

15. **The government faces a considerable financing challenge**. The total government financing requirement in 2013/14 is high at 39 percent of GDP and is forecast to rise to about 50 percent of GDP by 2018/19 (Annex I). The increase in short-term debt raises concerns about vulnerabilities in the debt profile, though risks are mitigated in part by the fact that it is domestically held. Rollover risks will be helped in the near term because of liquidity in the financial system, a smooth debt service profile, and the need for official approval of large capital flows under capital account regulations. However, while there appears to be sufficient liquidity in the system, most of the banks are not willing to raise their exposure to the sovereign much further, balance-sheet constraints limit more government debt purchases by the NIS, and the central bank may itself need to sell government bonds into the market to raise interest rates and tighten monetary policy. Overall, risks appear manageable in the short term (¶32).

16. **Materialization of adverse risks in Barbados could have important spillovers in the region, particularly in the ECCU**. In the event of a disorderly adjustment or credit event, the effects could spread to the region through both the trade and financial channels. The region absorbs about 26 percent of Barbados' exports and accounts for 11 percent of tourist arrivals. Countries in the ECCU are considered to have an exchange rate that is over-valued, and financial sectors are fragile due to capital shortfalls and high NPLs. Instability originating in Barbados could

spread via inter-connected financial systems, including via two large Barbados-based financial entities. Materialization of sovereign risks in Barbados would likely have financial implications for these conglomerates, with direct effects on policy holders (and shareholders) who are widely dispersed across the Caribbean.

17. **The following risks would aggravate vulnerabilities and could trigger a disorderly adjustment process** (see RAM, Annex III, for these and other risks):

- Delays or failure to implement planned fiscal measures. These risks are not negligible (e.g. there is ongoing pressure from labor unions to unwind layoff decisions).[4] A continuation of policy trends could lead to further monetization of the deficit, drop in investor confidence, further reserves losses, and pressure on the currency peg.
- Heightened global financial market volatility, which could lead to increases in particular to non-investment grade sovereign risk premia. This could impinge on Barbados' access to market financing, both domestically and externally, engender reserve losses, and again put pressure on the currency peg.
- A further decline in tourism receipts related to slower growth in the main advanced country source markets. This would hurt growth, revenues and the balance of payments.
- A fiscal shock in the U.S. or a shock in the U.K. or Trinidad & Tobago—Barbados' three biggest trade partners. One of the largest banks in Barbados is based in Trinidad (Box 5).

POLICY DISCUSSIONS

18. **The authorities face the challenging task of raising foreign reserves and reducing the fiscal deficit in an environment of low growth, high debt, and a fixed exchange rate.** While adjustments in these circumstances often rely on currency devaluations, staff encountered universal support across all stake-holders for maintaining the current exchange rate peg. Notably, discussions with labor unions reaffirmed this position, even at the expense of job losses or wage cuts. The authorities are cognizant of the costs and trade-offs of this approach, having observed the difficult experience in other countries attempting internal devaluation in recent years, but also having implemented themselves a steep and fairly successful internal devaluation in the early 1990s. At that time, Barbados underwent a fiscal adjustment of 7 percent of GDP in one year accompanied by sizeable real wage reductions over several years, in addition to structural reforms to raise productivity. While painful, the program restored balance to external flows quickly and the government sustained primary surpluses between 2–4 percent of GDP for about ten successive years. While recognizing this experience, staff cautioned that Barbados in 2014 carries a much higher debt burden and faces limited financing options and a weaker growth environment. Staff stressed that downside risks are considerable and the consequences of

[4] In early January, the union representing public employees submitted a "10 point plan" in an attempt to save jobs while proposing other budget cuts to generate savings consistent with the government's adjustment needs.

insufficient action would be great and could lead ultimately to a costly and disorderly adjustment process.

19. **The discussions centered on policy options to support the authorities' objectives and constraints.** Specifically, the focus was first on immediate policy priorities to reduce the deficit in the short term, help take pressure off foreign reserves, and reduce gross financing needs. This was cast in the context of a medium-term strategy built around a fiscal anchor and aimed at restraining wage policies and boosting productivity so as to strengthen external competitiveness over time. The authorities agreed with staff that deep reforms will be needed over the coming years to restore external and fiscal sustainability, and to raise growth.

Immediate Policy Priorities

In view of existing macro pressures, staff discussed with the authorities immediate priorities aimed at supporting the peg by reducing domestic absorption and raising confidence in fiscal and monetary policies:

1. Implement some significant spending cuts and/or tariff increases in the coming weeks.
2. Cease central bank financing of the fiscal deficit, which aggravates pressures on foreign reserves.
3. Raise interest rates to align monetary policy with the exchange rate anchor and raise confidence.
4. Ensure that regulations on capital outflows would be effective in the event of an emergency.
5. Work with labor unions to develop wage arrangements that lower real labor costs over time.
6. Announce plans to design a credible medium-term fiscal strategy, anchored by a gross debt target.

A. Fiscal Adjustment to Restore Sustainability

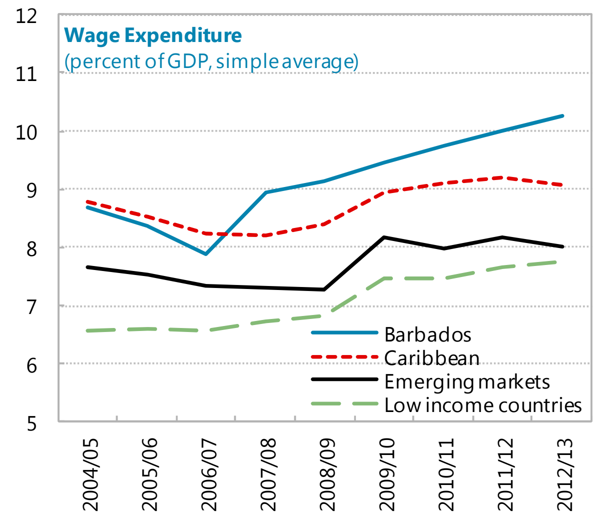
20. **The authorities recognize the need for front-loaded fiscal adjustment to alleviate financing pressures and reduce domestic absorption**. In the staff's view, a stronger and more front-loaded strategy would reduce pressure on outflows, put reserves at more comfortable levels sooner, and help reduce gross financing needs in the near term. This approach would also leverage the current political momentum for consolidation and reform. The staff warned about the impact on growth of stronger adjustment, indicating that growth would decline further in 2014, but noted that options were limited under prevailing constraints.

21. **Staff advocated for additional adjustment in order to reduce downside risks and secure more durable growth**. Staff recommended additional fiscal tightening of 1.1 percent of GDP over the next five years, achieved through measures that return tax revenues back to their pre-global crisis level of about 25 percent of GDP, coupled with further cuts in transfers to public enterprises of around 0.3 percent of GDP. This scenario is presented in Table 7. In the staff's view, this additional fiscal effort would yield benefits by raising confidence sooner whilst accelerating the process of rebalancing the economy away from government consumption to more private-sector led growth. The short-term cost in terms of lower growth would be offset in the medium-term by higher reserves, lower domestic financing needs, and more durable growth. The private sector would in turn have access to a greater pool of capital that would otherwise have been absorbed by the government. Overall, these effects put the debt-to-GDP ratio on a steeper

downward trajectory, reaching about 85 percent by 2018/19.

22. **Expenditures will have to bear much of the fiscal adjustment burden in the short term.** Prospects for near-term revenue growth are constrained by capacity constraints in revenue administration and structural weaknesses related to the design of domestic taxation. Spending cuts should be distributed across functional and economic spending categories. Staff focused attention on transfers to public enterprises (next section), the wage bill, and social safety net considerations:

- **Wage bill**. The central government wage bill in Barbados had risen to 10.3 percent of GDP in 2013, the highest in the Caribbean. The authorities opted in December for a major reduction in the public sector workforce (including employees at public enterprises) effective Q1 2014, sending a strong signal about their commitment to deficit reduction. At the time, the team discussed the alternative of downsizing by attrition and implementing a wage formula to freeze the average wage per worker. This would have had the advantage of lowering economy-wide labor costs, which is needed to raise external competitiveness.



- **Social spending.** Barbados has a long-standing and much admired tradition of economic equity and social justice (Figure 6). Healthcare and education in Barbados are provided free of charge. Benefits to the unemployed include payments equivalent to 60 percent of salary, with a nominal wage ceiling of B$4,200 per month, with benefits lasting 26 weeks (or 52 at partial payment). The unemployed are also eligible for other benefits through the National Assistance Board (NAB), which provide welfare services, including food vouchers and housing assistance, to citizens on low income. The mission felt that it would be imperative to the success of Barbados' fiscal adjustment to maintain an adequate social safety net. In this context, staff saw scope to strengthen the provision of social benefits with better targeting. In some areas including child care, transport and the provision of low income housing, the provision of services is not well targeted and may be benefiting middle and higher income groups at the expense of the most needy. This leads to rationing based on non-economic factors. There is also some duplication in the programs being provided. Staff proposed several measures to improve the targeting of social benefits, including shifting to cash transfers (low income housing) and also introducing means testing and raising tariffs accordingly (child care, transport). This could bring about cost savings, ensure support for the most needy, and generate secondary benefits for efficiency and resource allocation.

23. **There is ample scope to raise domestic tax revenues over time:**

- **Taxation**. The tax base has been significantly eroded by waivers and exemptions. For example, tax waivers by the Customs and Excise Department are estimated at over 5.5 percent of GDP in 2012/13. In addition, there is significant revenue forgone from applying below-standard rates to some taxpayers. Some of the 2013 measures move away from the goal of expanding the base, and concessions to specific tourism projects in late 2013 further erode the tax base and create a non-level playing field. The tax system would benefit from a comprehensive review with the aim of broadening the base, improving equity, and reducing distortions and the scope for discretion. The authorities have requested Fund technical assistance to review domestic taxation, which is expected in 2014.

- **Revenue administration.** Fund TA on revenue administration has identified needed reforms. In addition to revenue losses from tax expenditures, staff analysis found gaps in revenue yield caused by weaknesses in collection, including for example a low ratio of tax collected to tax payable at the Inland Revenue administration and weak control and audit functions. In addition, both revenue administrations lack management reports that could be used to improve performance monitoring. Reducing this gap and strengthening revenue and customs administration should be key pillars of the authorities' adjustment efforts in 2014. TA from the Fund in recent months has provided guidance on ways to reform customs administration and port activities.

24. **Problems with arrears signal a need to strengthen public financial management (PFM).** Staff collected partial information regarding the accumulation of arrears, including those owed by the central government on tax refunds, by statutory boards to the private sector, and between state entities, some of which were incurred years ago. In addition, a report on Public Expenditure and Financial Accountability (PEFA) is being prepared by a CARTAC expert and preliminary findings point to problems with the budget process, including participation and adherence to a fixed calendar, poor availability of data for monitoring the stock of expenditure payment arrears, insufficient reporting on government operations, including liabilities, the absence of a medium-term perspective underlying fiscal planning, and ineffective payroll controls. These issues will need to be addressed. At the same time, and following an audit and validation of arrears, clearance of arrears should be a priority. This would unblock the flow of funds in the system, boosting the cash flow of some firms, and mitigate some of the adverse consequences of the fiscal adjustment program. Staff suggested adding an above-the-line provision in the 2014/15 budget for the clearance of some arrears.[5]

25. **Staff urges the ministry of finance to implement improvements in fiscal reporting as soon as possible**. As a starting point, the ministry of finance should begin producing regular quarterly budget execution reports containing outturns on revenues and expenditures, including

[5] This is not incorporated into the baseline pending more reliable data, including on inter-government arrears.

those of statutory bodies, and financing incurred. Reports on the performances of the tax and customs administrations should also be prepared on a regular basis. All of these should be published on the ministry of finance website.

26. **Staff advocated for a medium term fiscal anchor to guide policy formulation and accountability**. The absence of a clear and comprehensive medium-term fiscal framework has contributed to excessive deficits and public sector borrowing, and the gradual expansion of the state into productive sectors. Staff recommended establishing a clear fiscal anchor—public sector debt—to guide policy formulation and expectations. In the view of staff, a simple debt-to-GDP target would present the most pragmatic and workable form of fiscal anchor. While a fiscal rule may also be advisable in due course, further analysis would be needed on the suitability and type of fiscal rule that would benefit Barbados, and on the administrative or legislative elements needed for its implementation. For a debt target to be effective, staff noted that coverage would need to be sufficiently comprehensive (encompassing activities related to public enterprises), and reporting would have to be improved as noted above. Staff recommended a medium-term debt-to-GDP target of 85 percent. As discussed above, reducing central government debt (excluding NIS holdings) to below 85 percent of GDP by 2018/19 represents a reasonable pace of adjustment that could be achieved without strangling growth while giving enough time to the authorities to fully develop needed fiscal structural reforms. Longer-term, a lower debt ratio would be desirable.

Authorities' views

27. **The authorities concurred with some of the team's expenditure recommendations**. They felt very strongly about the need for large up-front measures that would deliver a strong message about commitment to deficit reduction. They listened to staff's proposal of strict attrition, but believed that immediate measures were needed to reduce the government's near term cash needs and pressures on the balance of payments, as well as to demonstrate policy resolve and raise confidence. They did include attrition and wage restraint in their medium-term measures, to the extent possible within constitutional constraints. The authorities were receptive to the need for a more targeted approach to social spending, but did not commit to measures before taking broader decisions in the context of reform of statutory bodies. They acknowledged the build-up in arrears, are taking stock and plan to outline a strategy and timetable for clearance. They stated that total arrears were much lower than the high end of estimates reported**.**

28. **In other areas, the direction of policy will be formulated in the coming months.** The authorities were particularly interested in the team's revenue analysis, which highlighted the impact of weaknesses in tax administration. They have been working for several years with CARTAC and the Caribbean Development Bank to establish a central revenue authority to remove the administrative fragmentation that exists in the system. While the scheduled implementation of April 1, 2014 is expected to be met, considerable work will ensue before integration will become operational. The authorities were less receptive to examining issues related to tax expenditures, particularly those related to tourism, but were willing to consider reductions in waivers not related to foreign exchange producing sectors, and did so in the December measures (Box 1). They are

anxious for a review by FAD of the domestic taxation system and acknowledged the need to reform the administration of tax expenditures. They acknowledged weaknesses in technical capacities at the Ministry of Finance in the area of revenue administration, macro fiscal analysis, and the monitoring of public enterprises. They did not disagree with the need for a medium-term fiscal framework or a debt target of 85 percent of GDP, but were not willing to go as far as a fiscal rule to help set medium-term policy and considered that further analysis would be needed. Finally, the authorities are working on a formal medium-term debt management strategy. The strategy aims to complement adjustment efforts, and has been supported by Fund TA. Their current strategy seeks to maximize domestic borrowing and limit international capital market borrowing, with the aim of covering maturing international bond payments while building up international reserves.

B. Reform of Public Enterprises Critical for Managing Public Finances

29. **Reforms to PEs are needed to support the consolidation effort**. Oversight and accountability with respect to the operations of the statutory bodies is lacking (Box 4). The ministry of finance confirmed that most PEs have not submitted financial reports for several years, undermining the fiscal planning framework and the integrity of the budget process. The decision to reduce transfers to PEs is welcome but these must translate into reforms at PEs in order for the adjustment to be effective. In particular, new business plans are needed to inform resource allocation, staffing, whether to spin off commercial activities, how to improve targeting of support to the vulnerable groups, and whether to raise tariffs.

30. **Staff recommend establishing a high-level committee to strengthen oversight of PEs.** While operating deficits appear manageable, the non-financial public sector currently poses a risk to fiscal adjustment efforts. Supplementary budget requests from PEs are routine and several may arise in the coming months. The committee proposed by staff should report to cabinet, under the guidance of the minister of finance, to ensure enforcement of reporting requirements. A calendar specifying the documents to be submitted for review should be established; the committee should monitor monthly expenditure commitments to PEs; the Accounting Unit should receive the resources and technical skills necessary to carry out its oversight tasks; and the authorities should prepare a financial summary annex of the aggregate PE sector in the 2014/15 budget. More fundamentally, recent developments suggest that Barbados needs a stronger legislative framework—covering reporting, audit and accounting provisions, management and board selection and removal provisions, and sanctions for failure to comply—to underpin the operations and accountability of PEs.

Authorities' views

31. **The authorities welcomed staff recommendations regarding the management and accountability of PEs**. They noted the lack of compliance with existing rules mandating submission of audited financial statements by PEs to their oversight boards in a timely fashion. There is some concern that the governing Boards of PEs are not well informed of their oversight duties (and staff questioned whether they were sufficiently removed from political interference).

The authorities were interested in the suggestions by staff noted above. They requested technical assistance, which CARTAC will begin in early 2014, and have begun initiatives to address corporate governance of PEs.

C. Monetary Policy Should Be Consistent with the Exchange Rate Regime

32. **Monetary policy should be consistent with the nominal exchange rate anchor.** The authorities wish to retain the nominal exchange rate anchor, yet monetary policy has not been supportive of this aim. The CBB could clarify the monetary framework by reiterating that the primary objective of monetary policy is to safeguard the exchange rate anchor and making international reserves the operational target. The policy stance should be reoriented to better support the peg by allowing short-term rates to more closely reflect market conditions that embody a credible sovereign risk premium. Based on the trends preceding the CBB's new interest rate policy and recent developments in perceived credit risks, an increase in short term rates of at least 100 basis points could help to raise confidence, contribute to containing incentives for capital flight, and entice the domestic financial system to hold more government securities.

33. **The CBB should end direct financing of the government.** The scale of intervention in the T-bill market should be limited and interest rates allowed to rise in the short term. This will provide reassurance that monetary policy is consistent with the currency peg and signal operational independence of the CBB. Staff assesses that this can be done without undermining government financing prospects, as the reduction in gross financing needs in 2014/15 under the baseline would roughly offset the decline in central bank financing. Since the authorities' adjustment policies will take time to restore external stability and rebuild buffers, they may need to tighten the implementation of existing capital controls in the event of significant market turbulence and outflows.[6] Against this backdrop staff recommended carefully reviewing existing regulations and their efficacy. Staff noted, however, that these policy tools can only help in the short term and must be complemented by measures to address fundamental fiscal imbalances.

Authorities' views

34. **The CBB recognized the need to cease direct financing of the government.** The authorities acknowledged that monetization of the deficit could be exacerbating pressures on reserves. The central bank noted that interest rate decisions aim to follow the medium term trend in comparable U.S. rates, plus a CBB-determined country premium. Monetary policy decisions are also driven by considerations about the level of liquidity in the financial system, domestic demand conditions, and the government's cash position. The CBB is concerned that higher interest rates could raise financing costs for the government, strengthen banks' bias towards short term lending, and increase the debt service burden of the private sector, which would hurt investment and raise NPLs.

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[6] Barbados has not introduced any measures that would give rise to exchange restrictions or multi-currency practices subject to Fund approval.

D. Raising Growth a Challenge, But There Is Room for Action

35. **Efforts to reinvigorate growth will be a critical element of medium term adjustment.** After stabilization of the macro situation, the staff and authorities both attach high priority to the growth imperative, which will be essential for overcoming medium term debt dynamics. Both tourism and the international business sector face greater competition from the region. Barbados lowered off-shore tax rates in 2011 to match competing centers, but new licenses decreased again in 2012 (Figure 1). A key impediment to investment cited by the private sector is the inefficiency and low quality of public services.

36. **The key tourism sector could benefit from a more cohesive strategy, covering both supply and demand considerations**. Staff views the objective of revitalizing the tourism sector as appropriate given the country's geographical endowment, its role as a foreign exchange earner and its importance for the Barbados "brand". Recent measures to expand supply include an expansion in cruise passenger arrival capacity, generous tax incentives for an all-inclusive resort, and airline promotions, including for low-cost airlines. As these initiatives appear to move away from attracting the high-end tourist, further market research may be warranted on Barbados' niche market and identifying new sources of demand, particularly in light of supply expansion elsewhere in the Caribbean. This would have important implications for key investment, taxation and marketing decisions.

37. **To facilitate investment, the growth strategy should focus more on measures to strengthen competitiveness by reducing the costs of doing business and raising productivity.** Staff cautioned that the growth strategy should rely less on government spending and incentives, particularly those that create new tax expenditures and contingent liabilities for the state. The capital stock has declined in recent years and domestic investment is not projected to rise significantly in the medium term. Based on recent international surveys and discussions with the private sector, reforms should focus first on addressing refund tax arrears, streamlining customs processes and reducing bureaucratic procedures at the port—administrative changes with limited budget cost and that could raise incentives for private investment. Recommendations in key areas have already been prepared and staff urge the authorities to implement them with high priority. The authorities will need to work closely with their social partners to develop innovative approaches to lowering labor costs.

38. **Labor market reforms would help strengthen the supply response to fiscal adjustment, and facilitate the re-absorption of surplus public sector workers.** The authorities have programs in place to assist workers who face redundancy, including through counseling and retraining. There are also programs to orient skills development toward those sought by the market. However, the rules imposed under many collective labor agreements, for example on working hours permitted, and the lengthy process required under legislation to permit dismissal, are rigidities that raise costs and discourage employment. They also hinder the economy's supply response, which should be a priority given the need to improve resource allocation and lower domestic production costs. The authorities should urge labor representatives to reassess the impact of these regulations on employment growth.

39. **Agriculture presents a potential new source of growth**. There could be scope to raise agriculture output and employment given a growing demand for fresh, local produce coming from the cruise ship and hotel markets. However, efforts are needed to help modernize agriculture processes, including adapting crop management, strengthening technology and processing methods to meet international quality standards, strengthening management practices, and integrating the production chain with the tourism sector. The IDB is providing assistance in this area.

40. **Divestment of some state assets could help lower debt and raise private sector investment and growth**. The authorities may wish to consider divestment of non-strategic assets to help reduce the nation's debt burden while at the same time contributing to productivity. These could include selling shares in some public enterprises, real estate holdings, and eventually some of the transport activities. Sales which involved FDI would be particularly helpful by removing potential constraints to enterprises financing their investments.

Authorities' views

41. **The authorities are aware of potential competitiveness challenges.** While they did not disagree with the possible benefits of lowering domestic prices, they are confident in the quality of the Barbados brand and the desirability of Barbados as a tourist destination stemming from its high levels of human capital, good infrastructure, and a safe, business-friendly environment. They referred to a paper by the CBB (Worrell et al) showing that competitiveness in the tradable sectors, including tourism, has improved. The study attempted to establish a broader measure of competitiveness in the Caribbean and Central America by constructing an index of price and non-price indicators, including using domestic sectoral price indices relative to regional competitors.[7] The authorities believe that growth will be higher than predicted by staff, based on their robust growth strategy.

42. **The government is pursuing an ambitious agenda of capital investment projects.** Their growth strategy is built on revitalizing the tourism sector, moving to green energy sources, promoting the international business sector, and expanding growth in the agriculture and manufacturing sectors. More specifically, they propose improving product quality, developing new markets for existing products and services, developing green energy, and promoting private sector investment. As noted earlier, this will entail public and private projects in infrastructure (pier marina, cruise terminal, roads), tourism (hotel construction, refurbishment and marketing), support for alternative energy development and cane sugar restructuring. Some of these involve official external financing, while others are privately financed. These should help to offset the drag on growth from fiscal adjustment, but some of these projects may involve state guarantees, which will add to the country's already high debt burden.

[7] Staff could not substantiate the findings because of the absence of sectoral deflators and inconsistencies in the national accounts statistics and deflators. See paragraph 46.

E. Maintaining Financial Stability Will Need Close Monitoring, Stronger Supervision

43. **Staff highlighted the importance of maintaining close monitoring of the financial system.** While the FSAP concluded that the onshore financial system could withstand considerable shocks, vulnerabilities arise under various severe shocks, including liquidity shocks (Box 5). Banks' capital levels may be overstated given uncertainty about collateral valuations as well as less stringent provisioning requirements than in other countries. Staff encouraged the authorities to improve the monitoring of commercial banks' credit risks and collateral values, and to revise the provisioning schedule to align it with international norms. In the credit union sector, a two-tiered supervisory approach should be established in view of the significant heterogeneity across credit unions and resolution procedures should be strengthened. In particular, the two large credit unions merit "bank-like" supervision in terms of frequency and detail which would require strengthening the onsite supervision departments at the FSC. In the insurance sector, further progress is needed to strengthen liability valuations, capital adequacy standards and cross-border group supervision. While there is a solid legal basis and good cross-border communication within the Caribbean, crisis management plans should be finalized and should include detailed plans to deal with a crisis in the non-bank sector. The mandate and tools of the Financial Oversight Management Committee (FOMC) should be clarified and improved.

44. **Stress tests conducted as part of the FSAP Update reveal the financial sector's vulnerability to shocks.** (A summary of the main risks is presented in Box 5). Given the sector's sizable and growing holdings of government securities, a sovereign credit event could have adverse (direct and indirect) implications for banks' capital positions. Under a bottom-up solvency test, the direct impact of a severe shock would drive the system's CAR down to 13.7 percent. However, under a severe macro shock scenario that involves second-round effects on private loans and an eventual deposit run, the banking system's CAR would decline to 8 percent, with two banks falling below the regulatory minimum. A large insurance company has also considerable exposure to sovereign bonds, representing about 25 percent of its total assets.

Authorities' views

45. **The authorities generally agreed with the FSAP recommendations.** In response to advice to strengthen the monitoring of credit risks, they are considering revisions to the CBB Act and the Financial Institutions Act, and are keen to introduce some other measures, such as establishing a credit bureau. They are participating in regional supervisory colleges and intend to further strengthen monitoring of key financial indicators in the region. The CBB also stepped up communication with the Canadian authorities to strengthen cooperation between supervisory institutions. While acknowledging elevated credit risk, the authorities project the NPL ratio to drop soon from 13.9 percent to 10–11 percent after one large hotel loan recently became current, and another NPL on a large hotel property will be paid off following its acquisition by the government.

OTHER

46. **A number of data shortcomings have emerged in recent years.** The Barbados Statistics Service (BSS) compiles the nominal GDP series and the CBB the real series, and these are not compatible. Staff noted the major differences in the direction of the GDP deflator and CPI index since 2009 and, in the projections, have derived the real GDP series based on the consumer price index. Thus there is not a reliable deflator, nor are there deflators by sector (Barbados does not prepare a full expenditure-based GDP series). With the assistance of CARTAC, the BSS has begun to prepare a constant price GDP series by industry, using 2006 as a base year, which is expected to be available in 2014. With respect to the fiscal sector, recent data on the financial performance of public enterprises is not available, and there are no official estimates of arrears accumulation. There are a few unexplained discrepancies in the monetary statistics, including a large "Other Items Net" entry. Some of these data are macro-critical and, if they persist, could impede the staff's ability to conduct effective surveillance.

47. **Barbados is not contributing to reducing tax competition in the Caribbean**. Fiscal incentives in the tourism sector, including subsidies to airlines, have proliferated as governments in the region are drawn into the practice of offering generous tax concessions to tour operators to encourage their foreign direct investment and to secure long term contracts to operate facilities. In aggregate, the most productive sector in the region may be benefitting from the lowest effective tax rates, implying a wealth transfer away from residents towards tourists and foreign tourism operators. Countries would benefit from a regional approach to reduce or limit the trend. The Fund plans to do some research into the issue for the next Caribbean conference.

STAFF APPRAISAL

48. **Adjustment is urgently needed to avoid an external crisis.** The authorities face the challenging task of raising foreign reserves and reducing the fiscal deficit in an environment of low growth, high debt, and a fixed exchange rate. Recent fiscal measures, if fully implemented, should stabilize central government debt levels by 2016, but downside risks would still be considerable and failure to implement corrective policies could result in a disorderly adjustment scenario. Even with full implementation, fiscal financing pressures and external sector sustainability would remain challenging. A more comprehensive and sustained effort is needed to lower public debt and raise economic growth. Accordingly, staff recommended additional fiscal tightening of 1.1 percent of GDP over the next five years in order to reduce vulnerabilities and raise confidence sooner whilst accelerating the process of rebalancing the economy away from government consumption to more private-sector led growth. Short-term costs in terms of lower growth would be offset in the medium term by higher reserves, lower domestic financing needs, and more durable growth. Overall, this scenario would put the debt-to-GDP ratio on a steeper downward trajectory, reaching about 85 percent by 2018/19.

49. **There is scope to raise tax revenues.** The tax base has been eroded by waivers and exemptions over the years. The tax system would benefit from a comprehensive review with the aim of broadening the base, improving equity, and reducing distortions and the scope for discretion. TA from FAD is expected in 2014. TA recommendations on improving tax and customs administration, port procedures and public finance management should be adopted promptly.

50. **Expenditures will bear most of the burden of adjustment**. The central government wage bill in Barbados is the highest in the Caribbean (excluding public employees at state enterprises). With layoffs of 15 percent of the public sector, the authorities are sending a strong signal of commitment to deficit reduction. Staff recommends that these workers have full access to unemployment support and programs for re-employment. Cuts in transfers will also be possible with reforms to public enterprises and social spending.

51. **New business plans and improved governance of PEs are needed to support fiscal consolidation.** The non-financial public sector currently poses a risk to fiscal sustainability. Oversight and accountability with respect to the operations of the PEs is weak, eroding the fiscal planning framework and integrity of the budget process. A fundamental review of PEs should assess their purpose, raise efficiency, and improve governance and accountability. A high-level committee to strengthen oversight of PEs could report to cabinet, under the guidance of the Minister of Finance, to ensure enforcement of reporting requirements.

52. **Preserving an adequate social safety net will be crucial.** With the increase in unemployment projected in the short-term, the authorities should ensure that the social safety net contains targeted provisions that allow the unemployed sufficient time and retraining opportunities to rejoin the labor market. In the areas of child care, transport and low income housing, the provision of services is not well targeted and may be benefiting middle and higher income groups at the expense of the most needy. Improving the targeting of social benefits, including shifting to cash transfers, and introducing means testing and raising tariffs accordingly, would bring about cost savings, ensure adequate resources to support the most needy (while eliminating rationing), and generate secondary benefits for efficiency and resource allocation.

53. **Arrears should be resolved transparently and promptly**. While the government is taking stock of the situation, staff encourage the authorities to add a provision in the 2014/15 budget for clearance of some or all arrears. This would unblock the flow of funds in the system and mitigate some of the adverse effects of fiscal consolidation.

54. **A medium-term fiscal anchor would help to guide policy formulation and accountability**. In order to better manage recurrent expenditures and anchor fiscal expectations, spending cuts should be set within the context of the medium term fiscal framework. Establishing a clear fiscal anchor—public sector debt below 85 percent of GDP—would better guide policy formulation and expectations.

55. **Monetary policy should be consistent with the fixed exchange rate regime.** The CBB could reiterate the primary objective of monetary policy is to safeguard the exchange rate anchor

and stop direct financing of the government. The scale of intervention in the T-bill market should be limited and interest rates allowed to rise in the short term to reflect a credible country risk premium. This will provide reassurance that monetary policy is consistent with the currency peg and signal operational independence of the CBB.

56. **The growth strategy should focus on reducing the costs of doing business.** The growth strategy should rely less on spending initiatives and government incentives, particularly those that create new tax expenditures and contingent liabilities for the state while promoting unhelpful regional tax competition, and more on improving revenue administration, addressing tax arrears, streamlining customs processes and reducing bureaucratic procedures at the port. TA recommendations in these areas should be implemented promptly. The objective of revitalizing the tourism sector is appropriate, but further consideration may be warranted on the best "target market" for Barbados in the 21st century.

57. **Labor market reforms would improve the supply response of the economy, and help absorb surplus public sector workers.** The rules imposed under many collective labor agreements, for example on working hours permitted, and the lengthy process required under legislation to permit dismissal, are rigidities that raise costs and discourage employment. The authorities should urge labor representatives to reassess the impact of these regulations on employment growth and suggest options for their removal.

58. **Divestment of some state assets might help lower debt whilst raising growth**. The authorities may wish to consider divestment of commercial assets to help reduce the nation's debt burden while at the same time enhancing productivity.

59. **Maintaining financial stability will require close monitoring of the financial system.** The risk of a negative sovereign-financial feedback loop warrants close monitoring. Consistent with the recommendations of the FSAP Update, the authorities should align the provisioning requirements with international norms and strengthen supervision of credit unions and insurance companies. Crisis management plans should be finalized and include detailed plans to deal with a crisis in the non-bank sector. The mandate and tools of the Financial Oversight Management Committee (FOMC) should be clarified and improved.

60. **A number of data shortcomings should be addressed.** In particular, inconsistencies in the nominal and real GDP series, expenditure-based GDP, data on financial performance of public enterprises, and discrepancies in the monetary statistics should be resolved promptly.

61. **Staff recommends that the next Article IV consultation with Barbados be conducted on the standard 12-month cycle**.

Box 1. Barbados: Fiscal Adjustment Measures in 2013

In August 2013, the authorities presented a 19-month fiscal consolidation program to arrest the slide in reserves and strengthen the fiscal position. The August proposals were complemented by more drastic measures in December 2013. Staff estimates that the two packages would yield a cumulative adjustment equivalent to about 6 percent of GDP by 2014/15, mainly from expenditure measures (see Table below). The authorities' objective is to reduce the overall fiscal deficit from 8 percent of GDP in 2012/13 to less than 3 percent of GDP in 2014/15, and to less than 2 percent of GDP by 2020/21.

Staff project fiscal deficits to remain somewhat higher than the authorities' targets because of higher interest rates/payments and a weaker projected yield of announced measures (due in part to weaknesses in revenue administration, especially the control and audit functions) and the likelihood of some difficulties at achieving the targeted savings in the context of weak growth.

Revenues. Measures are aimed at stabilizing declining revenues in a way that shares the burden across society. They include a temporary high-income surtax, lottery tax, end of car excise rollback, tax on bank assets, tobacco excise tax, "waste" tax on property, and reduction in certain waivers, especially those not related to the foreign exchange earning sectors. There is also a reduction in the VAT rate for tourism that will lower revenues. All of these measures are at various stages of implementation and staff predict that their cumulative contribution to fiscal adjustment could amount to about 1.5 percent of GDP by 2015/16.

Barbados. Impact of the 2013 Fiscal Adjustment Programme (in percent of GDP)

	2013/14		2014/15		2015/16	
	Authorities	IMF Staff	Authorities	IMF Staff	Authorities	IMF Staff
Revenue Measures	0.6	0.4	1.8	1.1	0.4	0.0
Taxes on income and profits	0.4	0.2	0.6	0.5	0.0	0.0
Taxes on property (waste/land tax)	0.0	0.0	0.6	0.4	0.0	0.0
Import duties/waivers	0.2	0.1	0.5	0.1	0.4	0.0
Proposed Expenditure Measures	1.4	1.1	3.9	3.5	0.0	0.0
Wages and salaries	0.5	0.4	1.4	1.1	0.0	0.0
Goods and services	0.1	0.1	0.1	0.1	0.0	0.0
Transfers	0.9	0.5	2.2	2.2	0.0	0.0
Cumulated contribution to fiscal adjustment	2.0	1.4	7.8	6.0	8.1	6.0
Revenue	0.6	0.4	2.4	1.5	2.8	1.5
Expenditures	1.4	1.1	5.3	4.5	5.3	4.5

Source. Authorities and IMF Staff estimates

Box 1. Barbados: Fiscal Adjustment Measures in 2013 (continued)

Expenditures. Measures are aimed at reducing current spending by cutting: (i) personal emoluments, mostly by retrenchment of 2,000 employees and a strict program of attrition across the central government combined with a freeze on the payment of increments in fiscal years 2014-2015; (ii) subsidies and transfers, including to public enterprises, starting with the retrenchment of 1,000 employees in statutory entities, a reduction in the number of statutory entities, and introducing tuition payment for tertiary education; and (iii) goods and services, including through energy savings and better procurement practices. Implementation of these measures could pose some legal and political challenges.

Staff projections include small allowances for retrenched workers in the form of departure grants (equivalent to about one month of salary). Projections did not itemize their potential retraining costs, but significant savings could still be generated on various spending lines, especially transfers, to finance such costs. Staff estimate that, if implemented as planned, the measures could yield a cumulative contribution of about 4.5 percent of GDP by 2015/16.

Box 2. Fiscal Multipliers, Fiscal Consolidation, and Growth

Multiplier values for the Caribbean countries are estimated to be below one and low.[1] Recent empirical estimates for the Caribbean found that cumulative fiscal multipliers are less than 0.3 after 24 quarters and for Barbados reached a maximum of 0.20 after 24 quarters.

Low multipliers in the Caribbean are related to a high degree of openness, with domestic demand primarily satisfied through imports. Additionally, a high current public debt level in Barbados is likely to dampen the impact of government spending through concerns over future tax rises or, more seriously, government solvency. Despite the real possibility of small multipliers in Barbados, a slowing economy coupled with a large fiscal consolidation could exacerbate the downturn, creating a negative feedback-loop worsening the debt-to-GDP ratio. One lesson from the financial crisis in 2008–09 suggests that spending multipliers are highly nonlinear, varying over the economic cycle.

Factors Influencing Multipliers in Barbados

Structural factors	**Characteristics**
Trade openness	High degree of trade openness
Labor market rigidities	High degree of unionized labor
Automatic stabilizers	Public expenditures/GDP around 35 percent of GDP, below the threshold of 45% suggested by FAD.
F/X regime	Fixed exchange rate so no monetary policy offset
Low/safe debt levels	Approaching 100 percent of GDP and rising
Economic cycle	Real GDP growth close to zero

Guidance Note on Fiscal Multipliers, IMF (November 2013)
http://www.imf.org/external/pubs/ft/spn/2009/spn0911.pdf

The extent to which fiscal consolidation affects real output also depends on the degree to which adjustment falls on revenues or expenditures. If fiscal adjustment falls primarily on taxes, this may yield a smaller effect on real output than if much of the consolidation were to fall on spending, which, in general, has been shown to have higher multipliers than net taxes by around 50 percent. However, this needs to be tempered by earlier empirical evidence finding that cuts in current expenditure have been the most growth friendly in small states, and the most durable (IMF, 2007).

If adjustment is to occur on the expenditure side then focusing the cuts on government consumption, as opposed to investment, will help lessen the impact on real output. Cuts to government investment both squeeze aggregate demand effect and reduce aggregate supply effect via production and the marginal productivity of capital and labor, as well as by reducing complementarities with private investment. That said, the argument is somewhat academic since Barbados has already cut capital spending over the past few years so the focus would be on defining current spending.

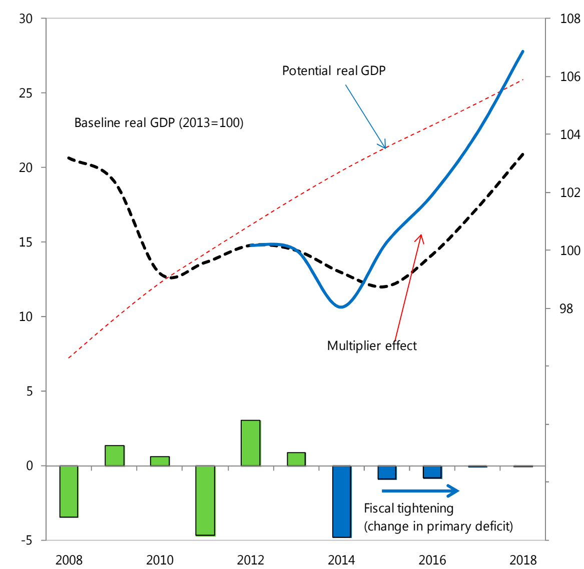
[1] See Gonzalez-Garcia, Lemus and Mrkaic (2013); Guy and Belgrave (2012), WHD REO 2012.

Box 2. Fiscal Multipliers, Fiscal Consolidation, and Growth (continued)

Adjustment scenario

Projecting the effect of a multi-year fiscal consolidation on real output growth is undertaken using the template in Bi, Qu and Roaf (2013).[2] The estimates are derived on an assumed multiplier of between 0.3 and 1.0 and a fiscal consolidation program, as laid out in staff's illustrative adjustment scenario (Table 7), equivalent to an adjustment in the primary budget balance of 6.8 percent of GDP over the next five years, lowering the debt-to-GDP ratio to about 85 percent of GDP by 2018.

With fiscal consolidation being front-loaded and large in size, the estimates show that, in the short term, output declines below potential and below the real growth path forecast in the baseline scenario.



However, in later years, policies that stabilize the debt ratio are assumed to produce positive growth effects — in part from lower borrowing costs and confidence effects from having put the fiscal position on a more sustainable footing — pushing real GDP growth towards potential at a quicker trajectory than the baseline GDP forecast. In the short-term, larger consolidation leads to a deeper downturn relative to the baseline, though the rebound in growth would be stronger in subsequent years.

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[2] Bi, R., H. Qu and J. Roaf (2013), 'Assessing the Impact and Phasing of Multi-year Fiscal Adjustment: A General Framework', IMF Working Paper, WP/13/182.

Box 3. Barbados: Competitiveness Indicators

Barbados continues to rank well in the region in terms of broad-based indicators of overall competitiveness and in the tourism sector in particular. Barbados is favored by a strong business, institutional and legal environment, well-developed infrastructure, a stable socio-political environment, and well-educated populace.

The World Economic Forum's (WEF) 2013-14 global competitiveness rankings place Barbados 47th out of a total of 148 countries, slightly below its rank in 2012-13 (44). It fares well compared with other small Caribbean states. Barbados also scores well on the WEF's tourism competitiveness ranking, at 27 out of 140 countries, the top ranking of any Caribbean country. Barbados caters towards the higher-end of the tourist market, and tour operators, hotel operators and government tourism officials acknowledge that they have a higher cost structure and do not compete on price with other high volume Caribbean destinations such as Cancun and the Dominican Republic. Barbados also supports a vibrant international business sector and offshore financial center, comprising more than 4,000 licensed entities in 2012, including 45 offshore banks.

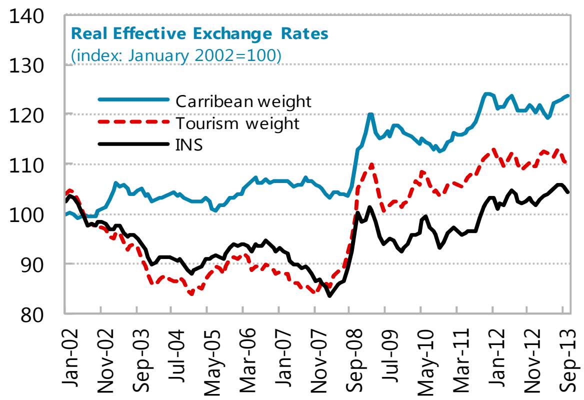
Nevertheless, a number of indicators point to an erosion in Barbados' competitive position, and it is unclear whether the tourism development model that focuses on high-end clientele—at higher costs—is adequate to maintain its international competitiveness:

- The Barbados dollar has been pegged to the U.S. dollar since 1975. The real effective exchange rate has appreciated by about 12 percent (INS weights) since 2009, but by about 22 percent since 2008, the year the US dollar appreciated sharply against most advanced market currencies.
- An analysis of the real exchange rate, indicates a moderate overvaluation. The three standard CGER methodologies (Annex II) indicate a moderate overvaluation, within a range of 2.5–8.0 percent from its equilibrium level.
- Despite its rank in the WEF tourism competitiveness index, Barbados has been losing market to other Caribbean destinations, and in terms of visitor expenditures. Total tourist arrivals to Barbados fell to 2.7 percent of the Caribbean total (2012), representing a steady decline from 3.0 percent in 2007, and a larger decline since the early 1990s, when its share was about 4.5 percent. The Caribbean share of world tourism has also fallen over this period.
- Barbados slipped 7 spots in the World Bank's Doing Business ranking from 84 in 2013 to 91 in 2014, out of 189 countries[1]. While Barbados outperforms on average other Caribbean and Central American countries and does relatively well on some measures, it performed poorly on protecting investors, registering property, paying taxes, and resolving insolvency.

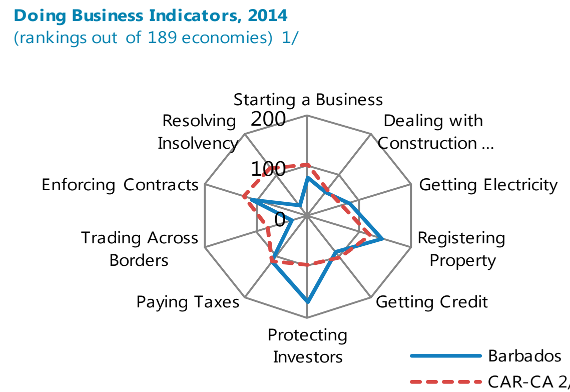
[1] These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

Box 3. Barbados: Competitiveness Indicators (continued)

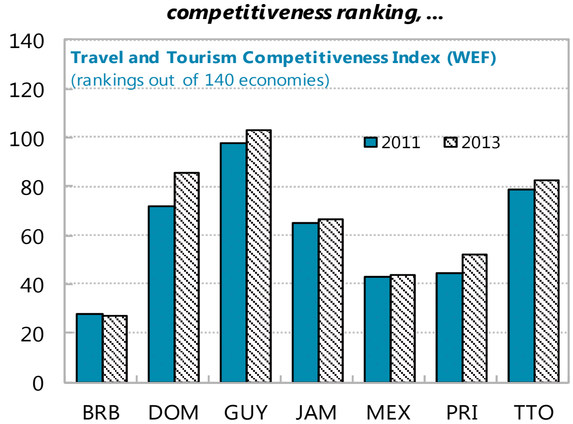
Barbados' effective exchange rate has appreciated since the onset of the global recession.



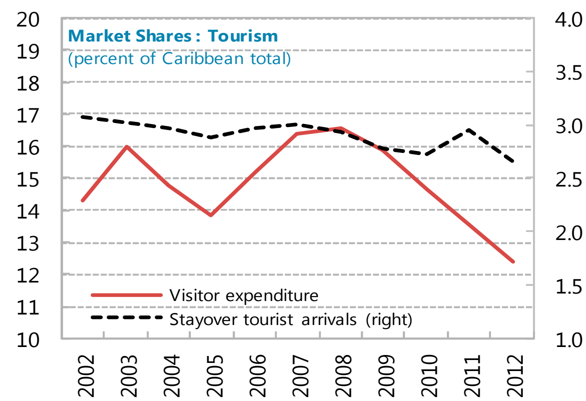
Barbados compares well with Caribbean countries in "Doing Business," though its ranking fell in 2014.



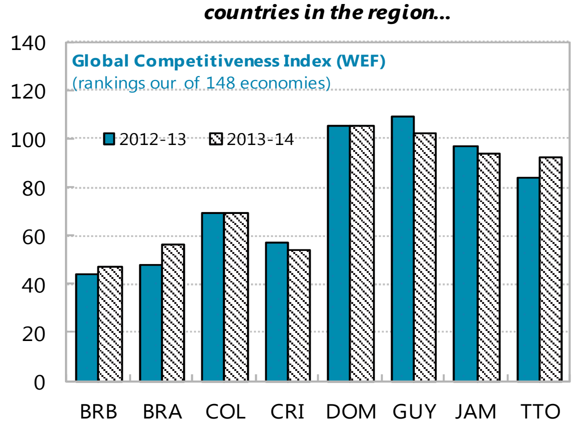
While Barbados ranks well on the WEF tourist competitiveness ranking, ...



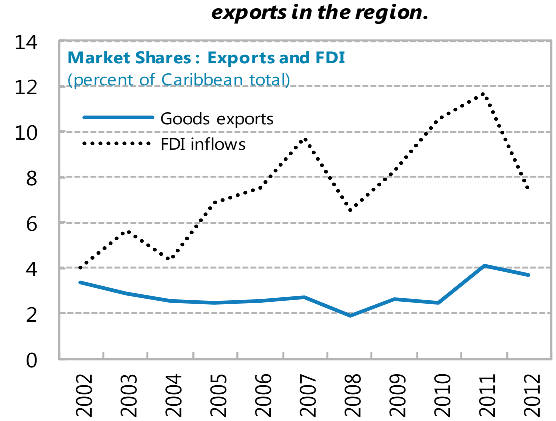
... it has been losing market share to other Caribbean destinations.



Overall competitiveness compares well with other countries in the region...



... and Barbados has increased its market share of exports in the region.



Sources: Central Bank of Barbados; International Financial Statistics; World Economic Outlook; World Bank's Doing Business Report 2014; World Economic Forum (WEF); and Fund staff estimates.
1/These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.
2/ Simple average of Caribbean and Central American regions.

Box 4. Public Enterprises in Barbados[1]

Barbados: Main Public Entreprises 1/
Barbados National Oil Co. (BNOC)*
Barbados Water Authority (BWA)*
Needham's Point Holding Ltd
Transport Board
Caribbean Boardcasting Corp. (CBC)
Barbados Agriculture Management (BAMC)
Queen Elizabeth Hospital (QEH)
National Conservation Commission (NCC)
Barbados Tourism Authority (BTA)
1/ Ordered by size of revenue.
* Indicates PEs in surplus 2009-12.

The activities of public enterprises (PE) in Barbados have expanded steadily in recent years. The operations of the main PEs represent about 40 percent of total revenues and expenditures of the government. With the exception of the Barbados National Oil Co. (BNOC) and Barbados Water Authority (BWA), expenses exceed revenues, including after receiving direct transfers from the central government. Allocations to PEs are legislated in advance in the annual budget ratified by parliament, but PEs can and do submit "supplemental budget appropriation" requests during the fiscal year. Many PEs have not reported financial results to the Ministry of Finance for several years, nor do they have recent audited financial statements. There is little in terms of sanctions should PEs fail to comply and submit, as demanded by the law, audited financial accounts in a timely manner. These practices adversely affect the budgeting process and raise questions about the management, governance, and accountability of PEs.

The most recent financial reports available from 2011 record an aggregate deficit of about 2.5 percent of GDP, after transfers from the central government. Deficits after transfers have been financed with short-term debt, loans from the NIS, loans guaranteed by the government, or by arrears. The lack of up-to-date financial information means that a significant element of the public finances is not being reflected in the government's fiscal planning. These include contingencies to the central government resulting from off-balance sheet activities, implicit loan guarantees, and the accumulation of arrears to suppliers.

PE reform will be an essential part of Barbados' efforts to reduce the public sector borrowing requirement, develop a sustainable fiscal position, and to manage domestic demand—a critical tool in a small open economy with a fixed exchange rate. Equally important would be the impact of PE reform on economic growth given the size and influence of PEs in the Barbados economy and the need for a growth strategy focused on raising productivity and innovation in the economy. A task force commissioned by the government has reportedly concluded that up to 18 PEs could be closed or merged based on duplication and inefficiency.

In order to reduce the fiscal deficit, August budget measures announced cuts in transfers to PEs by five percent and the December measures imposed a further 1,000 job redundancies from PEs and a two year nominal wage freeze. PEs are also now spending less on goods and services and many have also introduced attrition policies.

Without knowing the conclusions of the task force noted above, a strategic review of the rationale for the public provision of services is warranted, starting with the ten biggest PEs.

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[1] There are over 200 public "agencies", of which about 40 are "public enterprises" and/or "statutory boards". All are defined as public enterprises (PEs) in this box.

Box 4. Public Enterprises in Barbados (continued)

In the near term, there are low hanging fruits that could produce some savings and efficiencies. First, the services provided by many PEs are heavily subsidized, the prices of which have steadily declined in real terms. For example, the cost of child care provided by the Child Care Board has not changed for 20 years and is rationed in a non-economic manner. Second, many services, including those provided by the Transport Board, are not means tested. This suggests that scarce resources may be benefiting middle or higher income groups at the expense of the most needy. Third, average wages in PEs are reportedly higher, as much as two times higher, than in comparable jobs in the private sector. This is supported by the very low turnover of employees. Fourth, activities in some PEs have evolved into areas that could arguably be considered commercially viable.

Staff recommend the following near term priorities:

- strengthen financial reporting, including possibly establishing an independent, high level committee to ensure follow through;
- strengthen the budget process to make off-budget activities related to PEs more transparent;
- undertake a management review of the largest PEs to align activities with stated mandates;
- reduce duplication of services and rationalize operations, including outsourcing; and
- explore the scope for tariff reforms to improve the targeting of benefits in keeping with Barbados' long tradition of social equity.

The authorities have requested technical assistance from CARTAC towards reform of PEs, which is expected to start in early 2014.

Box 5. Barbados 2013 FSAP Update: Findings and Recommendations

While the banking system in Barbados appears well capitalized and supported by strong foreign parent banks, there are important macro-financial risks. Credit quality and profitability have weakened considerably and could be worse than reported due to unrecognized collateral weaknesses. Banks' non-performing loan (NPL) ratio has risen from 3.5 percent in 2008 to 13.9 percent in June 2013 and provisions have declined. Capital may be viewed as overstated in view of the higher share of assets in government securities (with a zero risk weighting). Overall, the interaction of the financial system with the weakening sovereign and the protracted slowdown risk an adverse sovereign-financial-real economy feedback loop.

That said, the onshore financial system could withstand considerable shocks based on the results from the FSAP analysis. Under the stress-testing exercise, domestic banks are resilient to large shocks, although vulnerabilities arise under severe scenarios. With large capital buffers (CAR: 21.5 percent in June 2013) and adequate liquidity, banks can withstand large to severe shocks without breaching regulatory requirements. Vulnerabilities are concentrated in a branch of a foreign bank, and in the credit union sector, which does not benefit from foreign parents or have access to safety nets. The largest credit unions can withstand moderate shocks.

The offshore sector is large, but its risk to the financial system appears limited. Assets of the 45 offshore banks licensed in Barbados amount to B$89 billion, in excess of 1,000 percent of GDP. Offshore banks are mostly non-deposit takers and dedicated to treasury and trust management. Their financial transactions are restricted exclusively to non-residents, segregating the sector from the onshore financial system.

Barbados has improved its regulatory and supervisory frameworks in recent years. Consolidated risk-based supervision was introduced in the banking sector. Established in April 2011, the Financial Services Commission (FSC) took over supervisory responsibilities for all non-bank financial institutions. The FSC has been active in upgrading supervisory independence and effectiveness, as evidenced by the issuance of key guidelines and methodologies and the hiring and training of staff.

Potential vulnerabilities in the insurance sector are emerging. Inadequate liability valuation standards and lack of data on foreign affiliates prevent an effective assessment by the FSAP team. The presence of a major regional holding based in Barbados and significant expansion of its non-insurance financial operations create the potential for vulnerabilities.

Box 5. Barbados 2013 FSAP Update: Findings and Recommendations (continued)

Recommendations:

1) CBB independence should be strengthened significantly. Current provisions contained in the CBB Act empower the Ministry of Finance to overrule policies or corrective measures taken by the CBB. While these powers have never been used, they should be removed.

2) On regulation, concerns remain regarding the adequacy of enforcement actions and loan loss provisioning, and the intensity of AML/CFT oversight in the offshore banking sector.

3) The supervisory function needs strengthening, particularly specialized onsite examinations.

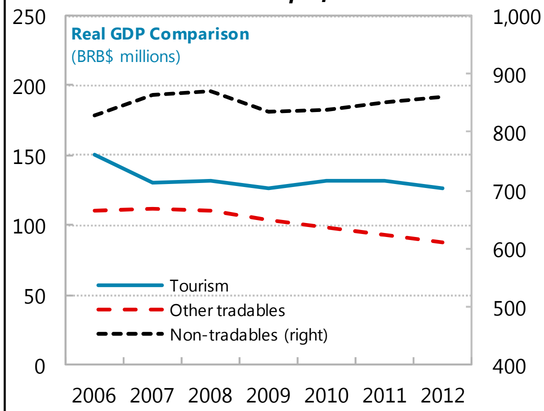
4) There is a need to strengthen group supervision, cross-border coordination, and crisis management, particularly in the insurance sector. The CBB carries out group supervision for banks, and the FSC is responsible for insurance groups. Priority should be given to improving data on cross-border linkages and enhancing supervisory colleges.

5) While there is a solid legal basis and good cross-border communication among Caribbean countries, crisis management plans should include detailed plans to deal with a crisis in the non-bank sector. The mandate and tools of the Financial Oversight Management Committee (FOMC) should be clarified and improved.

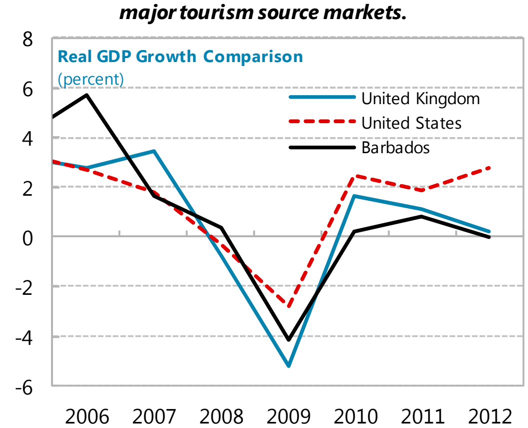
6) Financial safety nets should also be upgraded, including strategic plan for the deposit insurer, which would include setting a target funding ratio and improved payout procedures, and a policyholder protection scheme (PPS) for the insurance sector. Safety nets should be extended to credit unions, but only after establishing adequate prudential oversight.

Figure 1. Barbados: Real Sector Developments

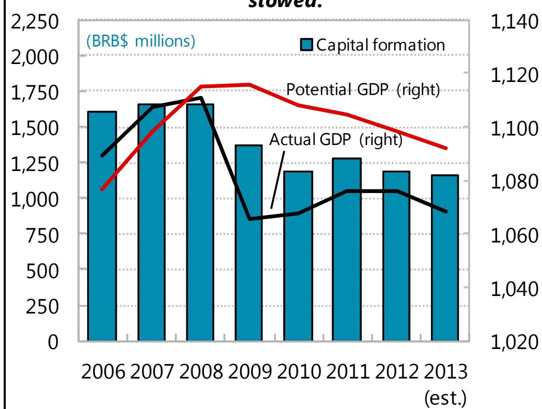
Economic activity has been weak, and the tradable sector has underperformed…



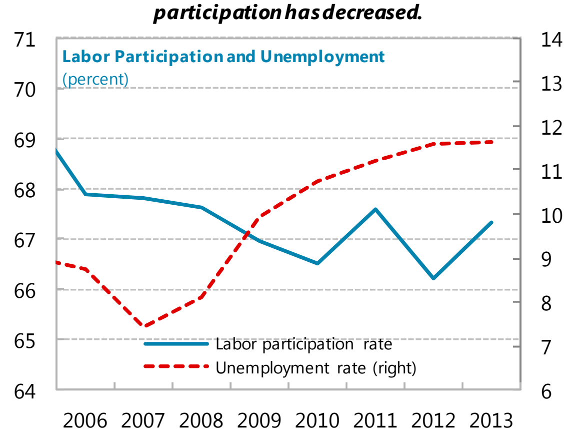
… with the slower economic recovery in major tourism source markets.



The pace of the capital stock accumulation has slowed.

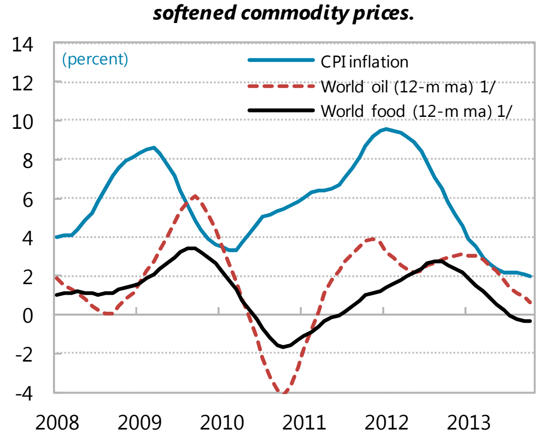


Unemployment has increased and labor force participation has decreased.



The international business sector has not fully recovered to the pre-crisis level.

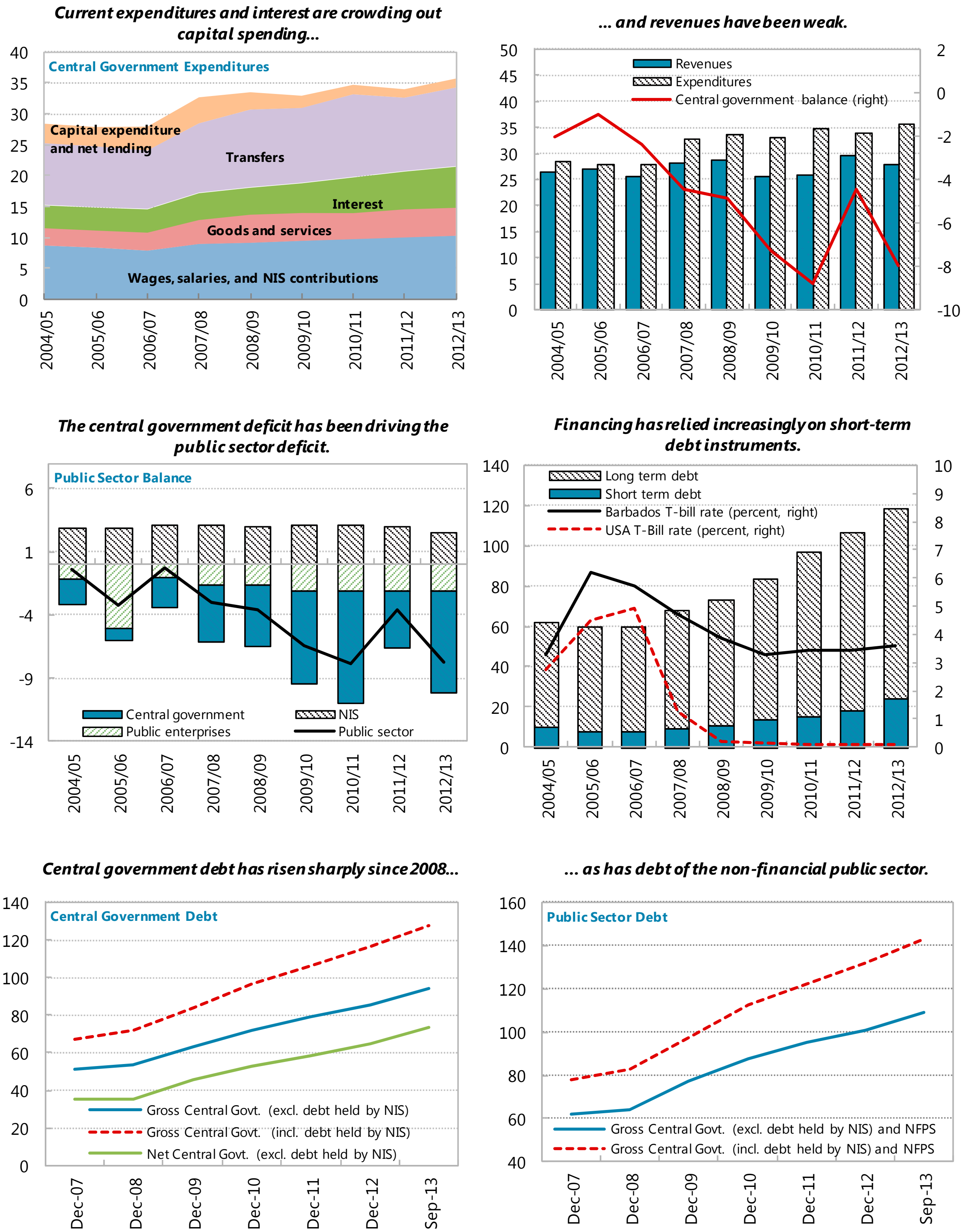
Inflation dropped to 2 percent in October, helped by softened commodity prices.



Sources: Central Bank of Barbados; Invest Barbados; and World Economic Outlook database.
1/ Scaled by a factor of 10.

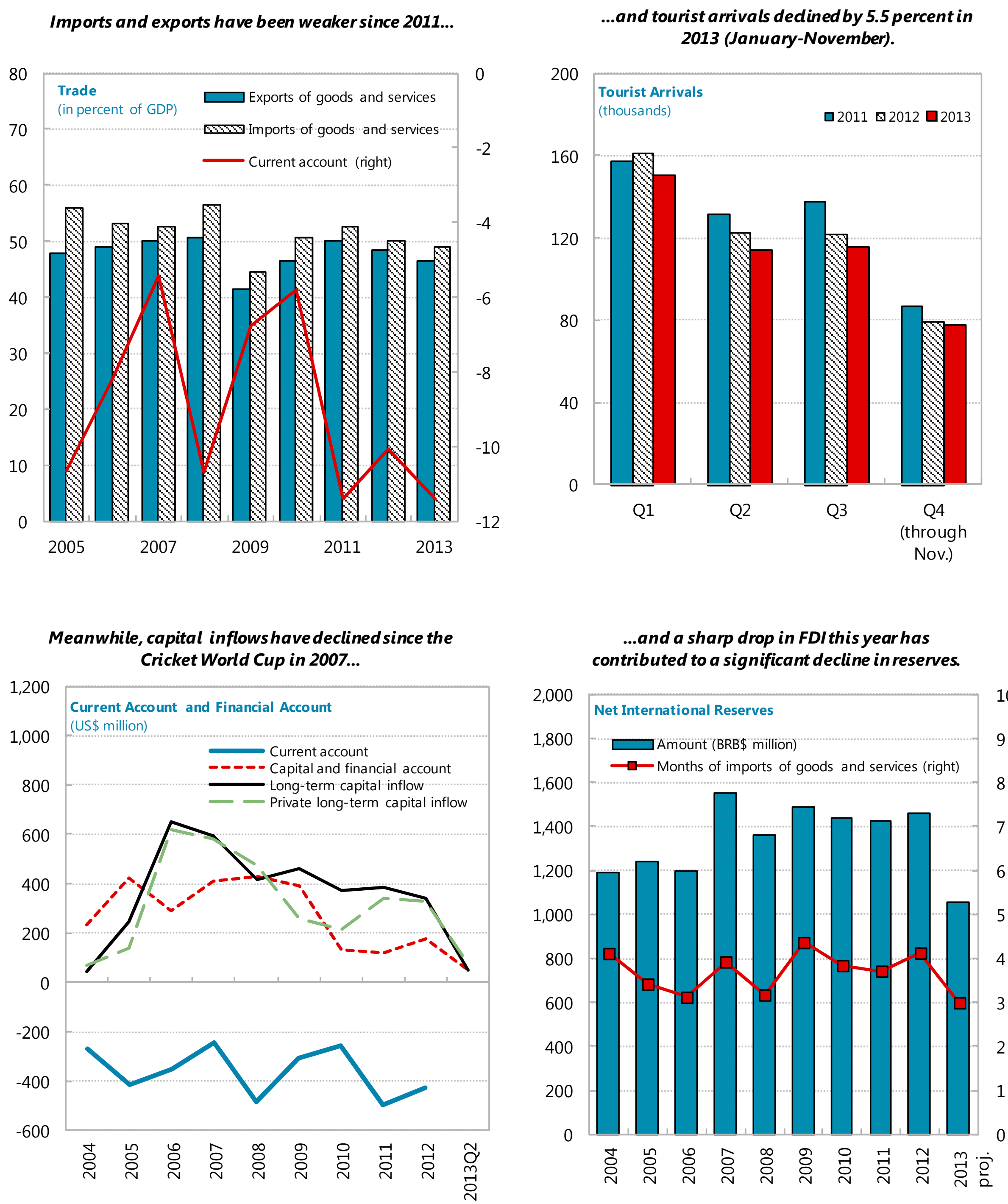
Figure 2. Barbados: Fiscal Sector Development

(In percent of GDP, unless otherwise indicated)



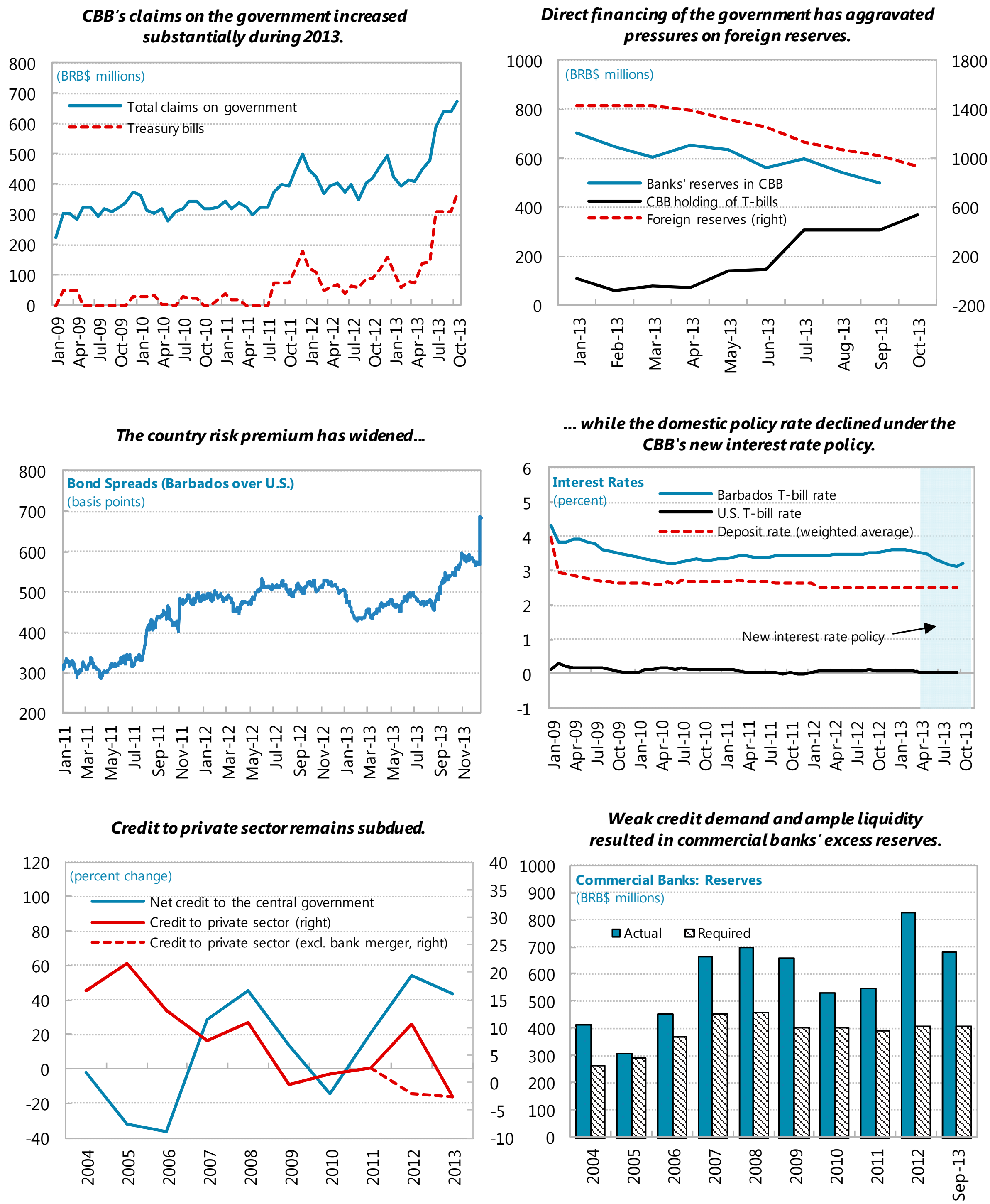
Sources: Central Bank of Barbados; and Fund staff estimates and projections.

Figure 3. Barbados: External Sector Developments



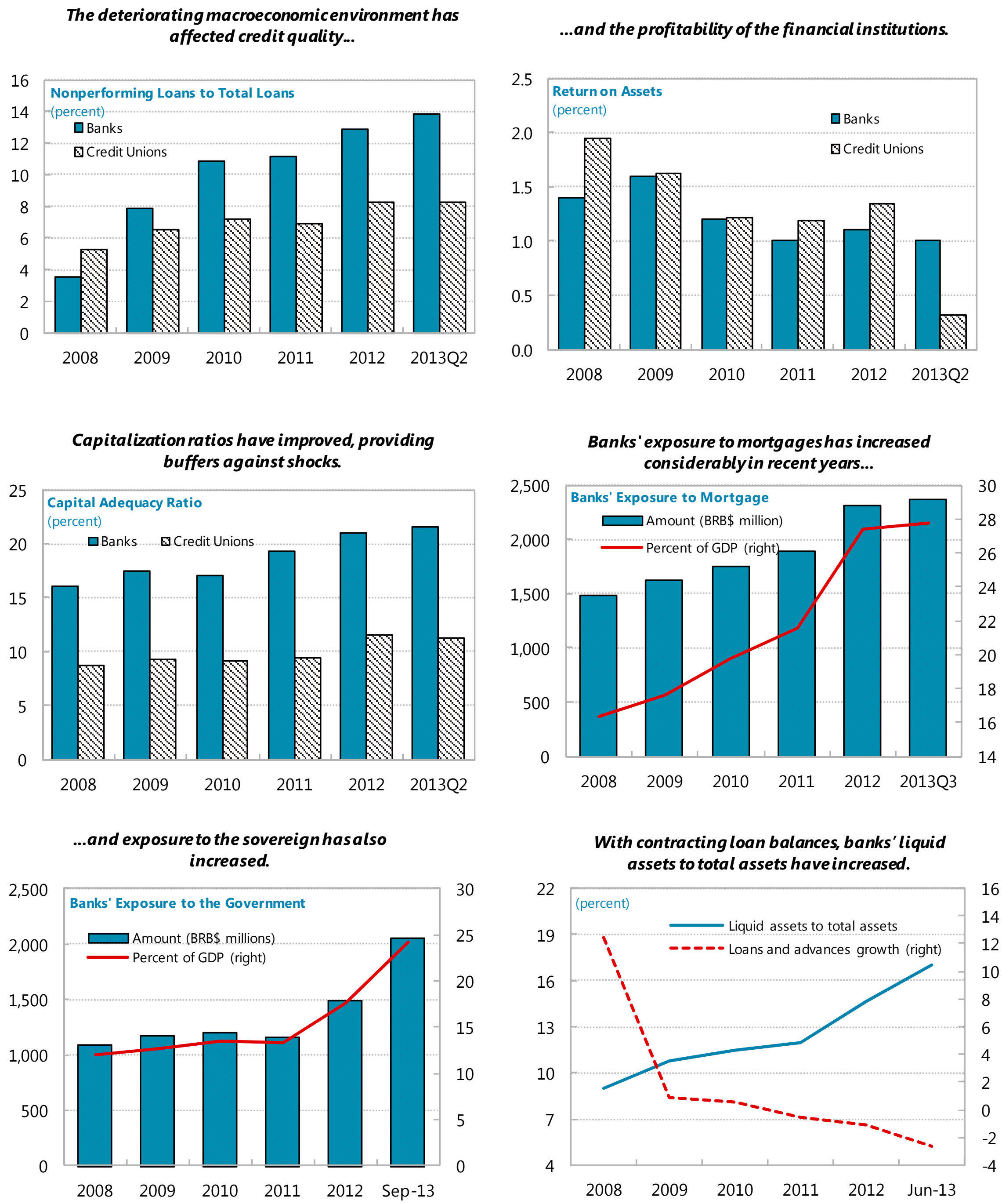
Sources: Central Bank of Barbados; and Caribbean Tourism Organization.

Figure 4. Barbados: Monetary Sector Developments



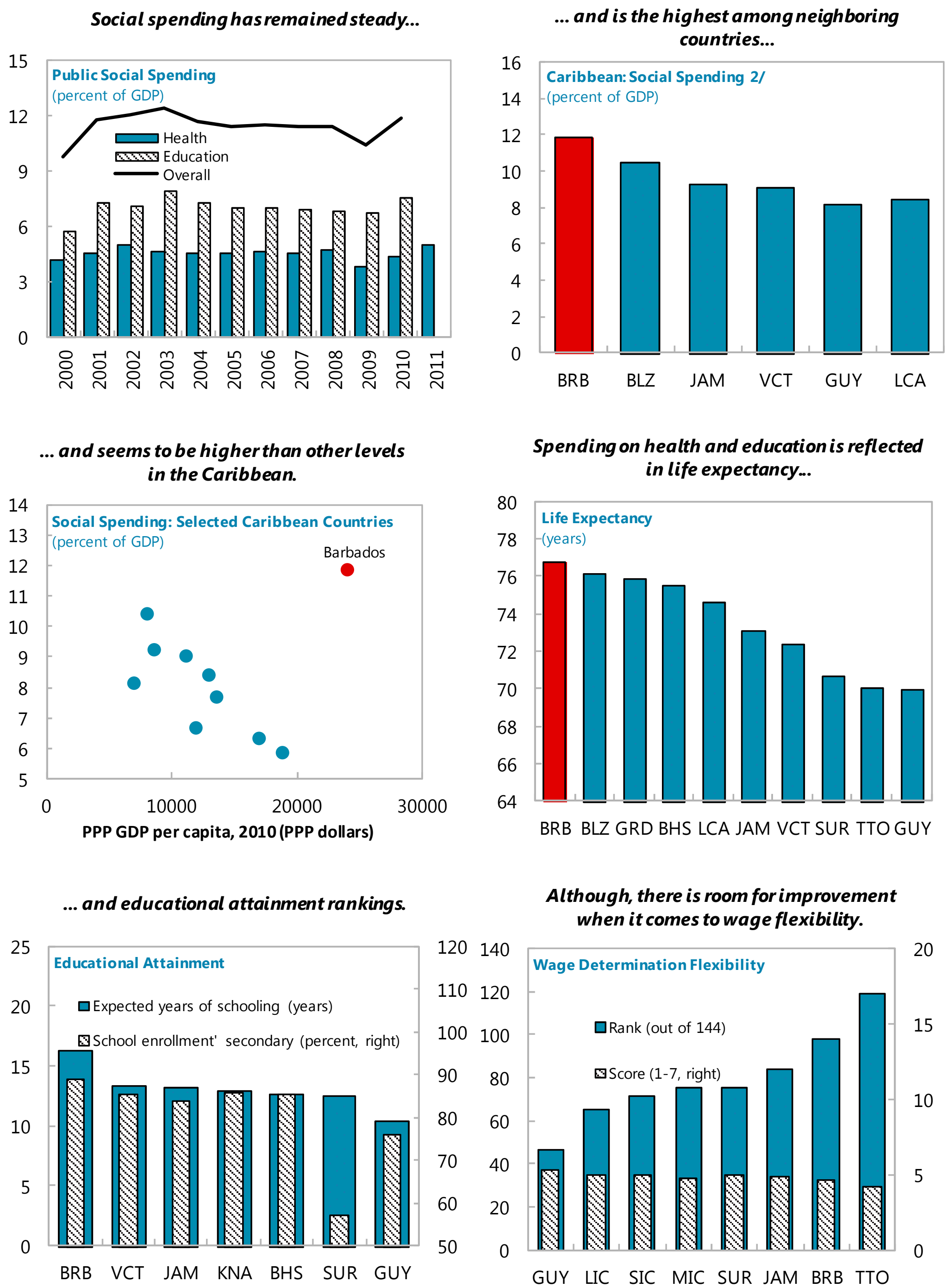
Sources: Central Bank of Barbados; and Bloomberg.

Figure 5. Barbados: Financial Sector Developments



Sources: Central Bank of Barbados.

Figure 6. Barbados: Social Development Indicators 1/



Source: World Bank, World Development Indicators; United Nations, International Human Development Indicators; World Economic Forum, Global Competitiveness Report 2012-2013; IMF working paper (forthcoming); and IMF staff calculations.
1/ BHS refers to The Bahamas, BRB to Barabdos, BLZ to Belize, GRD to Grenada, GUY to Guyana, JAM to Jamaica, LCA to St. Lucia, VCT to St. Vincent and the Grenadines, SUR to Suriname, TTO to Trinidad and Tobago, LIC to Low Income Countries, MIC to Middle Income Countries, and SIC to Small Island Countries.
2/ Social spending includes education and health expenditure. Barbados, Belize , Jamaica, and St. Vincent and Grenadines use 2010 data; Guyana and St. Lucia use 2011 data.

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

I. Social and Demographic Indicators (most recent year)

Population (2012 est., millions)	0.3	Adult literacy rate	99.7
Per capita GDP (2012 est., US$)	15,199	Poverty rate (individual)	19.3
Life expectancy at birth in years	77.0	Gini coefficient	47.0
Rank in UNDP Development Index	38	Unemployment rate (2013Q3)	11.7

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

II. Economic Indicators

				Projections	
	2010	2011	2012	2013	2014
(Annual percentage change)					
Output, prices, and employment 2/					
Real GDP	0.2	0.8	0.0	-0.7	-1.2
CPI inflation (average)	5.8	9.4	4.5	2.3	2.0
CPI inflation (end of period)	6.6	9.5	2.4	2.2	1.8
External sector					
Exports of goods and services	7.9	6.7	-6.6	-3.1	2.5
Imports of goods and services	9.5	2.6	-7.8	-0.8	-4.0
Real effective exchange rate (average)	0.1	2.1	4.7	0.9	0.3
Money and credit					
Net domestic assets	1.2	-13.0	22.0	7.5	3.4
Of which: Private sector credit 3/	1.5	2.7	10.5	-2.5	-2.8
Broad money	3.9	-2.9	6.3	1.2	1.7
(In percent of GDP, unless otherwise indicated)					
Public finances (fiscal year) 4/					
Central government					
Revenue and grants	25.8	29.4	27.6	23.9	24.9
Expenditure	34.6	33.9	35.6	33.5	29.8
Interest	5.7	6.1	6.6	7.3	7.5
Balance	-8.8	-4.4	-8.0	-9.6	-4.9
Public Debt (fiscal year) 4/					
Central government gross debt (excludes NIS holdings)	70.3	78.0	85.8	92.0	94.7
External	28.6	29.4	28.6	30.2	28.5
Domestic	41.7	48.6	57.2	61.8	66.2
Central government gross debt (includes NIS holdings)	96.7	106.1	118.2	126.4	129.8
Balance of payments					
Current account	-5.8	-11.4	-10.1	-11.4	-7.8
Capital and financial account	3.0	2.8	4.1	3.0	6.5
Official capital	3.5	1.0	0.3	2.3	-1.4
Private capital 5/	4.6	16.2	14.2	6.4	7.9
Of which: Long-term flows	4.9	7.8	7.7	1.8	8.0
Overall balance	-0.6	-0.1	0.4	-3.9	-1.3
Memorandum items:					
Exchange rate (BDS$/US$)	2.0	2.0	2.0	...	...
Net international reserves (US$ millions)	718	712	729	563	509
In months of imports	3.8	3.7	4.1	3.2	3.0
Nominal GDP (BDS$ millions) 2/	8,867	8,738	8,450	8,568	8,631

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

1/ The 2013/14-2014/15 data includes layoffs of 3500 public employees effective Q1 2014.
2/ Staff have identified inconsistencies in the constant and current price GDP series. The Barbados Statistics Service is working to address these issues.
3/ Private sector credit growth in 2012 is mostly due to the merger of a commercial bank and a trust company. Excluding this impact, credit to the non-financial private sector decreased by 1.9 percent.
4/ Fiscal year is from April to March. For example, 2008 refers to April 2008 to March 2009.
5/ Includes short-term and long-term flows, and errors and omissions (including adjustments related to misclassification of exports).

Table 2a. Barbados: Nonfinancial Public Sector Operations (Baseline) 1/

(In percent of GDP, unless otherwise indicated)

				Projections					
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Public Sector									
Current revenue	31.0	34.4	32.4	28.5	29.3	29.7	30.4	31.0	31.4
Current expenditure	38.6	38.4	41.0	39.4	35.9	35.7	35.8	35.9	36.0
Of which: Interest to the private sector	5.3	5.3	5.7	6.4	6.6	6.9	7.2	7.5	7.8
External	1.9	1.9	1.9	1.9	2.0	1.9	1.7	1.5	1.3
Domestic	3.4	3.4	3.7	4.5	4.6	5.1	5.5	6.0	6.5
Capital revenue	2.7	3.3	3.8	3.5	3.8	3.8	3.8	3.7	3.7
Of which : Interest from the private sector	0.8	1.1	1.3	0.9	1.1	1.1	1.0	0.9	0.9
Capital expenditure	3.0	3.0	2.9	3.0	3.0	3.0	3.0	3.0	3.0
Balance	**-7.9**	**-3.6**	**-7.7**	**-10.3**	**-5.8**	**-5.1**	**-4.5**	**-4.1**	**-3.8**
Off-budget activity balance	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Off-budget investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PPPs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-5.6**	**-1.8**	**-4.5**	**-11.5**	**-6.8**	**-6.6**	**-6.5**	**-6.6**	**-6.7**
Of which : Primary balance	**-1.2**	**2.5**	**-0.2**	**-5.9**	**-1.2**	**-0.8**	**-0.4**	**0.0**	**0.2**
National Insurance Scheme (NIS)									
Current revenue	6.3	6.2	6.2	6.0	6.0	6.0	6.0	6.0	6.0
Current expenditure	5.5	5.9	6.9	7.4	7.6	7.7	7.7	7.7	7.6
Capital revenue	2.4	2.9	3.2	3.0	3.3	3.3	3.2	3.2	3.1
Of which: Interest from central government	1.5	1.8	1.9	2.1	2.2	2.2	2.2	2.3	2.3
Capital expenditure	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
NIS Balance	**3.1**	**3.0**	**2.4**	**1.4**	**1.5**	**1.5**	**1.4**	**1.4**	**1.4**
Public sector balance, excluding NIS	**-8.7**	**-4.8**	**-6.9**	**-12.9**	**-8.3**	**-8.1**	**-8.0**	**-8.0**	**-8.2**
Central Government									
Current revenue	25.8	29.3	27.2	23.6	24.6	24.6	24.9	25.0	25.0
Current expenditure	33.0	32.5	34.1	32.0	28.3	28.0	28.1	28.2	28.4
Of which : Interest payments	5.7	6.1	6.6	7.3	7.5	7.6	7.7	7.9	8.0
External	1.7	1.7	1.7	1.7	1.8	1.6	1.5	1.3	1.1
Domestic	4.1	4.4	4.9	5.6	5.7	6.0	6.2	6.6	6.9
Capital revenue and grants	0.0	0.2	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Capital expenditure and net lending	1.5	1.4	1.4	1.5	1.5	1.5	1.5	1.5	1.5
Balance	**-8.8**	**-4.4**	**-8.0**	**-9.6**	**-4.9**	**-4.6**	**-4.4**	**-4.4**	**-4.6**
Public enterprises balance 2/	**-2.2**	**-2.2**	**-2.2**	**-2.2**	**-2.4**	**-2.0**	**-1.5**	**-1.1**	**-0.7**
Total financing	**5.6**	**1.8**	**4.5**	**11.5**	**6.8**	**6.6**	**6.5**	**6.6**	**6.7**
Foreign financing	**2.9**	**0.2**	**-0.3**	**2.0**	**-1.3**	**-2.2**	**-2.1**	**-2.1**	**-1.8**
Central Government	2.9	0.2	-0.3	2.0	-1.3	-2.2	-2.1	-2.1	-1.8
Disbursements	8.5	1.9	0.4	3.5	0.0	0.0	0.0	0.0	0.0
Amortization	-5.7	-1.6	-1.7	-1.5	-1.3	-2.2	-2.1	-2.1	-1.8
Other, including privatization (net)	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Public enterprises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	**2.8**	**1.5**	**4.8**	**9.5**	**8.1**	**8.8**	**8.6**	**8.6**	**8.6**
Central government	5.9	4.2	8.3	7.6	6.2	6.8	6.5	6.5	6.4
Public enterprises	-0.1	0.3	-1.1	3.3	3.4	3.5	3.5	3.6	3.6
National Insurance Scheme	-3.1	-3.0	-2.4	-1.4	-1.5	-1.5	-1.4	-1.4	-1.4
Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:									
Nominal GDP, FY (BDS$ millions)	8,835	8,666	8,479	8,584	8,687	8,934	9,265	9,670	10,168

Sources: Ministry of Finance; and Fund staff estimates.

1/ Fiscal year (April–March). Ratios expressed relative to fiscal year GDP.
2/ Latest data available is 2010.

Table 2b.i. Barbados: Central Government Operations (Baseline) 1/

(In millions of Barbados dollars)

				Projections					
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Central government balance	**-776**	**-384**	**-677**	**-823**	**-427**	**-414**	**-412**	**-430**	**-469**
Total revenue	**2,279**	**2,550**	**2,341**	**2,054**	**2,163**	**2,227**	**2,333**	**2,445**	**2,567**
Current revenue	2,275	2,536	2,309	2,028	2,137	2,200	2,306	2,419	2,540
Tax revenue	2,168	2,346	2,194	1,953	2,061	2,123	2,226	2,335	2,453
Income and profits	690	706	608	441	486	502	547	587	616
Goods and services	1,157	1,298	1,237	1,099	1,115	1,149	1,189	1,160	1,220
Taxes on property	118	134	139	205	243	250	259	269	283
Taxes on international trade	191	196	198	198	208	213	221	230	241
Other (levies, stamp duties)	12	12	11	9	9	0	0	0	0
Nontax revenue	107	191	115	75	75	77	80	83	88
Capital revenue and grants	4	14	32	27	27	27	27	27	27
Total expenditure	**3,055**	**2,935**	**3,018**	**2,878**	**2,590**	**2,641**	**2,744**	**2,875**	**3,036**
Current expenditure	2,920	2,817	2,895	2,747	2,458	2,506	2,604	2,729	2,883
Wages, salaries and NIS contributions	860	867	870	786	691	687	708	734	767
Goods and services	378	400	392	355	345	345	358	373	391
Interest	507	527	560	631	651	681	714	760	814
Transfers	1,174	1,022	1,073	975	772	792	824	863	911
Capital expenditure and net lending	135	118	123	131	132	135	140	146	153
Overall balance	**-776**	**-384**	**-677**	**-823**	**-427**	**-414**	**-412**	**-430**	**-469**
Of which: Primary balance	-268	143	-118	-193	224	267	303	331	345
Financing	**776**	**384**	**677**	**823**	**427**	**414**	**412**	**430**	**469**
Foreign financing	254	19	-25	168	-113	-195	-191	-199	-185
Disbursement	754	161	30	300	0	0	0	0	0
Amortization	-500	-142	-143	-132	-113	-195	-191	-199	-185
Domestic financing (net)	522	366	702	656	539	610	602	629	654
Central bank	-80	-451	303	350	280	270	170	155	110
Commercial banks	-79	622	378	56	99	102	112	124	159
National Insurance Scheme	327	113	311	200	100	150	170	200	210
Private non-bank	270	72	-199	50	60	88	150	150	175
Others	84	9	-91	0	0	0	0	0	0
Memorandum items:									
Central gov't gross debt (excl. NIS)	6,214	6,758	7,275	7,899	8,225	8,490	8,731	8,961	9,220
Central gov't gross debt (incl. NIS)	8,542	9,198	10,026	10,850	11,276	11,691	12,102	12,532	13,001
Primary balance excluding off-budget activities	-268	143	-118	-193	224	267	303	331	345
Nominal GDP, FY (BDS$ millions)	8,835	8,666	8,479	8,584	8,687	8,934	9,265	9,670	10,168

Sources: Ministry of Finance; and Fund staff estimates.

1/ Fiscal year is from April to March.

Table 2b.ii. Barbados: Central Government Operations (Baseline) 1/

(In percent of GDP, unless otherwise indicated)

				Projections					
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Central government balance	**-8.8**	**-4.4**	**-8.0**	**-9.6**	**-4.9**	**-4.6**	**-4.4**	**-4.4**	**-4.6**
Total revenue	**25.8**	**29.4**	**27.6**	**23.9**	**24.9**	**24.9**	**25.2**	**25.3**	**25.2**
Current revenue	25.8	29.3	27.2	23.6	24.6	24.6	24.9	25.0	25.0
Tax revenue	24.5	27.1	25.9	22.8	23.7	23.8	24.0	24.1	24.1
Income and profits	7.8	8.1	7.2	5.1	5.6	5.6	5.9	6.1	6.1
Goods and services	13.1	15.0	14.6	12.8	12.8	12.9	12.8	12.0	12.0
Taxes on property	1.3	1.5	1.6	2.4	2.8	2.8	2.8	2.8	2.8
Taxes on international trade	2.2	2.3	2.3	2.3	2.4	2.4	2.4	2.4	2.4
Other (levies, stamp duties)	0.1	0.1	0.1	0.1	0.1				
Nontax revenue	1.2	2.2	1.4	0.9	0.9	0.9	0.9	0.9	0.9
Capital revenue and grants	0.0	0.2	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Total expenditure	**34.6**	**33.9**	**35.6**	**33.5**	**29.8**	**29.6**	**29.6**	**29.7**	**29.9**
Current expenditure	33.0	32.5	34.1	32.0	28.3	28.0	28.1	28.2	28.4
Wages, salaries and NIS contributions	9.7	10.0	10.3	9.2	8.0	7.7	7.6	7.6	7.5
Goods and services	4.3	4.6	4.6	4.1	4.0	3.9	3.9	3.9	3.8
Interest	5.7	6.1	6.6	7.3	7.5	7.6	7.7	7.9	8.0
Transfers	13.3	11.8	12.7	11.4	8.9	8.9	8.9	8.9	9.0
Capital expenditure and net lending	1.5	1.4	1.4	1.5	1.5	1.5	1.5	1.5	1.5
Overall balance	**-8.8**	**-4.4**	**-8.0**	**-9.6**	**-4.9**	**-4.6**	**-4.4**	**-4.4**	**-4.6**
Of which: Primary balance	-3.0	1.7	-1.4	-2.2	2.6	3.0	3.3	3.4	3.4
Financing	**8.8**	**4.4**	**8.0**	**9.6**	**4.9**	**4.6**	**4.4**	**4.4**	**4.6**
Foreign financing	2.9	0.2	-0.3	2.0	-1.3	-2.2	-2.1	-2.1	-1.8
Disbursement	8.5	1.9	0.4	3.5	0.0	0.0	0.0	0.0	0.0
Amortization	-5.7	-1.6	-1.7	-1.5	-1.3	-2.2	-2.1	-2.1	-1.8
Domestic financing (net)	5.9	4.2	8.3	7.6	6.2	6.8	6.5	6.5	6.4
Central bank	-0.9	-5.2	3.6	4.1	3.2	3.0	1.8	1.6	1.1
Commercial banks	-0.9	7.2	4.5	0.6	1.1	1.1	1.2	1.3	1.6
National Insurance Scheme	3.7	1.3	3.7	2.3	1.2	1.7	1.8	2.1	2.1
Private non-bank	3.1	0.8	-2.3	0.6	0.7	1.0	1.6	1.6	1.7
Others	0.9	0.1	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Central gov't gross debt (excl. NIS)	70.3	78.0	85.8	92.0	94.7	95.0	94.3	92.7	90.8
Central gov't gross debt (incl. NIS)	96.7	106.1	118.2	126.4	129.8	130.9	130.6	129.6	127.9
Primary balance excluding off-budget activities	-3.0	1.7	-1.4	-2.2	2.6	3.0	3.3	3.4	3.4
Nominal GDP, FY (BDS$ millions)	8,835	8,666	8,479	8,584	8,687	8,934	9,265	9,670	10,168

Sources: Ministry of Finance; and Fund staff estimates.

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

Table 3. Barbados: Central Government Debt (Baseline) 1/

	2010/11	2011/12	2012/13	Projections 2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	(In millions of Barbados dollars)								
Central gov't gross debt (incl. NIS holdings)	**8,542**	**9,198**	**10,026**	**10,850**	**11,276**	**11,691**	**12,102**	**12,532**	**13,001**
External 2/	2,527	2,545	2,423	2,591	2,478	2,283	2,092	1,893	1,708
Domestic	6,015	6,653	7,603	8,259	8,798	9,408	10,010	10,639	11,294
Central gov't gross debt (excl. NIS holdings)	**6,214**	**6,758**	**7,275**	**7,899**	**8,225**	**8,490**	**8,731**	**8,961**	**9,220**
External 2/	2,527	2,545	2,423	2,591	2,478	2,283	2,092	1,893	1,708
Domestic	3,688	4,213	4,852	5,308	5,747	6,207	6,639	7,068	7,512
	(In percent of GDP)								
Central gov't gross debt (incl. NIS holdings)	**96.7**	**106.1**	**118.2**	**126.4**	**129.8**	**130.9**	**130.6**	**129.6**	**127.9**
External 2/	28.6	29.4	28.6	30.2	28.5	25.6	22.6	19.6	16.8
Domestic	68.1	76.8	89.7	96.2	101.3	105.3	108.0	110.0	111.1
Short term	15.1	17.4	24.0	23.3	24.1	25.9	29.4	34.5	39.0
Long term	81.6	88.8	94.2	103.1	105.7	104.9	101.2	95.1	88.8
Central gov't gross debt (excl. NIS holdings)	**70.3**	**78.0**	**85.8**	**92.0**	**94.7**	**95.0**	**94.3**	**92.7**	**90.8**
External 2/	28.6	29.4	28.6	30.2	28.5	25.6	22.6	19.6	16.8
Domestic	41.7	48.6	57.2	61.8	66.2	69.5	71.7	73.1	74.0
Memorandum items:									
National Insurance Scheme	26.3	28.2	32.4	34.4	35.1	35.8	36.4	36.9	37.2
Treasury bills	2.9	3.4	3.6	3.8	3.9	3.9	4.0	4.1	4.1
Debentures	23.4	24.8	28.9	30.6	31.3	31.9	32.4	32.9	33.1

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/ External debt is all medium- and long-term debt.

Table 4. Barbados: Balance of Payments (Baseline)

(In millions of U.S. dollars)

				Projections					
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Current account	**-258**	**-498**	**-426**	**-488**	**-337**	**-325**	**-298**	**-293**	**-315**
Exports	2,055	2,192	2,047	1,984	2,033	2,094	2,157	2,226	2,301
Exports of goods	431	948	827	759	787	811	834	860	888
Of which: Re-exports	98	124	134	137	140	146	154	162	171
Imports	2,240	2,298	2,118	2,102	2,017	2,059	2,109	2,173	2,260
Imports of goods	1,507	1,728	1,584	1,567	1,487	1,520	1,554	1,599	1,662
Of which : Oil	302	394	398	383	370	354	344	337	337
Services (net)	892	674	686	690	717	744	768	792	815
Credit	1,624	1,244	1,220	1,224	1,246	1,283	1,323	1,366	1,414
Of which: Travel (credit)	1,035	963	907	912	930	958	987	1,016	1,047
Debit	733	570	534	534	529	539	555	574	599
Investment income (net)	-112	-348	-325	-332	-314	-316	-318	-326	-326
Credit	236	140	138	133	144	148	153	158	171
Debit	348	487	463	465	458	464	471	483	496
Of which: Interest on public debt	74	74	74	74	77	74	69	64	58
Current transfers (net)	39	-45	-30	-39	-39	-43	-28	-19	-30
Credit	111	149	149	142	147	151	138	153	150
Debit	72	194	178	181	187	194	165	172	181
Capital and financial account	**132**	**122**	**173**	**128**	**283**	**333**	**307**	**309**	**337**
Long-term	371	388	340	175	284	326	204	201	206
Public sector	153	45	14	98	-59	-87	-96	-99	-94
Private sector	217	342	326	77	343	413	300	300	300
Of which: FDI flows	217	342	326	77	343	413	300	300	300
Short-term	-115	-4	4	3	-2	6	32	33	35
Public sector	0	0	0	0	0	0	0	0	0
Private sector	-115	-4	4	3	-2	6	32	33	35
Change in commercial banks assets	-124	-261	-170	-50	1	1	0	0	0
Unidentified financing 1/	...	...	...	...	...	...	71	74	96
Errors and omissions	**99**	**370**	**269**	**195**	**0**	**0**	**0**	**0**	**0**
Overall balance (deficit -)	**-27**	**-6**	**17**	**-165**	**-55**	**9**	**10**	**16**	**22**
Reserve movements (- increase)	**27**	**6**	**-17**	**165**	**55**	**-9**	**-10**	**-16**	**-22**
Memorandum items:									
Current account (percent of GDP) 2/	-5.8	-11.4	-10.1	-11.4	-7.8	-7.3	-6.5	-6.1	-6.3
Current account after FDI (percent of GDP)	-0.9	-3.6	-2.4	-9.6	0.1	2.0	0.1	0.2	-0.3
Exports of G&S (annual growth rate)	7.9	6.7	-6.6	-3.1	2.5	3.0	3.0	3.2	3.4
Imports of G&S (annual growth rate)	9.5	2.6	-7.8	-0.8	-4.0	2.1	2.4	3.0	4.0
Net international reserves (US$ million)	718	712	729	563	509	518	527	543	565
In months of imports	3.8	3.7	4.1	3.2	3.0	3.0	3.0	3.0	3.0

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

1/ Unidentified financing to keep reserve level at three months of import cover.
2/ 2012 figure revised based on updated survey data.

Table 5. Barbados: Summary Monetary Survey (Baseline)

				Projections					
	2010	2011	2012	2013	2014	2015	2016	2017	2018
(In millions of Barbados dollars)									
Central Bank of Barbados									
Net foreign assets	1,435	1,423	1,457	1,127	1,018	1,035	1,055	1,087	1,130
Assets	1,495	1,472	1,509	1,179	1,070	1,088	1,107	1,139	1,182
Liabilities	-59	-48	-52	-52	-52	-52	-52	-52	-52
Net domestic assets	-473	-272	-17	97	283	310	350	398	452
Of which: Claims on Central government	324	500	495	601	899	1,171	1,366	1,525	1,646
Monetary base	962	1,151	1,440	1,224	1,300	1,345	1,404	1,485	1,582
Commercial banks									
Net foreign assets	143	668	1	-21	0	0	0	0	0
Net domestic assets	6,511	5,778	6,866	6,973	7,065	7,319	7,651	8,053	8,544
Liabilities to the nonfinancial private sector	6,654	6,446	6,868	6,951	7,064	7,319	7,651	8,052	8,544
Monetary survey									
Net foreign assets	1,578	2,091	1,459	1,105	1,017	1,035	1,054	1,086	1,130
Net domestic assets	5,575	4,853	5,920	6,361	6,579	6,834	7,173	7,582	8,077
Net credit to the public sector	439	601	1,098	1,592	1,969	2,183	2,392	2,575	2,734
Central government	628	757	1,165	1,675	2,052	2,266	2,475	2,658	2,818
Rest of public sector	177	130	253	236	236	236	236	236	236
NIS	-366	-286	-320	-320	-320	-320	-320	-320	-320
Credit to the private sector 1/	5,065	5,200	5,746	5,605	5,446	5,488	5,617	5,843	6,179
Credit to rest of financial system	-1	-469	-601	-512	-512	-512	-512	-512	-512
Other items (net) 2/	71	-480	-324	-324	-324	-324	-324	-324	-324
Broad money (M2, liabilities to the private sector)	7,153	6,944	7,379	7,466	7,596	7,869	8,227	8,668	9,207
Narrow money	2,333	2,165	2,172	2,202	2,219	2,276	2,357	2,455	2,578
Currency	499	498	511	515	532	551	576	615	663
Demand deposits	1,834	1,667	1,661	1,687	1,687	1,725	1,781	1,839	1,915
Quasi-money	4,820	4,779	5,207	5,264	5,377	5,593	5,870	6,213	6,629
Time deposits	833	765	1,077	747	760	787	823	867	921
Saving deposits	3,988	4,015	4,130	4,517	4,618	4,806	5,047	5,346	5,708
(Changes in percent of beginning-of-period liabilities to the private sector)									
Monetary survey									
Net foreign assets	3.0	7.2	-9.1	-4.8	-1.2	0.2	0.2	0.4	0.5
Net domestic assets	0.9	-10.1	15.4	6.0	2.9	3.4	4.3	5.0	5.7
Net credit to public sector	-2.5	2.3	7.1	6.7	5.0	2.8	2.7	2.2	1.8
Of which: central government	-1.5	1.8	5.9	6.9	5.0	2.8	2.7	2.2	1.8
Credit to private sector 1/	1.1	1.9	7.9	-1.9	-2.1	0.5	1.6	2.7	3.9
Other items (net) 2/	-0.8	-7.7	2.2	0.0	0.0	0.0	0.0	0.0	0.0
(In percent change)									
Monetary survey									
Net domestic assets	1.2	-13.0	22.0	7.5	3.4	3.9	4.9	5.7	6.5
Of which:									
Private sector credit 1/	1.5	2.7	10.5	-2.5	-2.8	0.8	2.4	4.0	5.8
Public sector credit	-27.8	36.9	82.5	45.0	23.7	10.9	9.6	7.7	6.2
Broad money	3.9	-2.9	6.3	1.2	1.7	3.6	4.5	5.4	6.2

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

1/ Private sector credit growth in 2012 is mostly due to the merger of a commercial bank and a trust company. After excluding this impact, credit to the non-financial private sector decreased by 1.9 percent.

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.

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018
				Projections					
	(Annual percentage change)								
National accounts and prices 1/									
Real GDP	0.2	0.8	0.0	-0.7	-1.2	0.9	1.6	1.8	2.3
Nominal GDP	-3.5	-1.5	-3.3	1.4	0.7	2.6	3.5	4.2	5.0
CPI inflation (average)	5.8	9.4	4.5	2.3	2.0	1.7	1.9	2.3	2.6
CPI inflation (end of period)	6.6	9.5	2.4	2.2	1.8	1.6	2.2	2.5	2.7
External sector									
Exports of goods and services	7.9	6.7	-6.6	-3.1	2.5	3.0	3.0	3.2	3.4
Imports of goods and services	9.5	2.6	-7.8	-0.8	-4.0	2.1	2.4	3.0	4.0
Real effective exchange rate (average)	105.5	107.7	112.8	113.9	114.2	113.8	113.6	113.9	114.6
Terms of trade	-6.4	-6.2	0.0	0.6	1.0	1.4	1.2	1.2	0.9
Money and credit (end of period)									
Net domestic assets	1.2	-13.0	22.0	7.5	3.4	3.9	4.9	5.7	6.5
Of which: Private sector credit 2/	1.5	2.7	10.5	-2.5	-2.8	0.8	2.4	4.0	5.8
Broad money	3.9	-2.9	6.3	1.2	1.7	3.6	4.5	5.4	6.2
Velocity (GDP relative to broad money)	1.2	1.3	1.1	1.1	1.1	1.1	1.1	1.1	1.1
	(In percent of GDP, unless otherwise indicated)								
Public finances (fiscal year) 3/									
Central government									
Revenue and grants	25.8	29.4	27.6	23.9	24.9	24.9	25.2	25.3	25.2
Expenditure	34.6	33.9	35.6	33.5	29.8	29.6	29.6	29.7	29.9
Of which: Interests	5.7	6.1	6.6	7.3	7.5	7.6	7.7	7.9	8.0
Balance	-8.8	-4.4	-8.0	-9.6	-4.9	-4.6	-4.4	-4.4	-4.6
Debt (fiscal year) 3/									
Central government gross debt (excludes NIS holdings)	70.3	78.0	85.8	92.0	94.7	95.0	94.3	92.7	90.8
External	28.6	29.4	28.6	30.2	28.5	25.6	22.6	19.6	16.8
Domestic	41.7	48.6	57.2	61.8	66.2	69.5	71.7	73.1	73.9
Central government gross debt (includes NIS holdings)	96.7	106.1	118.2	126.4	129.8	130.9	130.6	129.6	127.9
Savings and investment									
Gross domestic investment	13.8	15.0	14.1	13.8	14.0	14.0	14.0	14.1	14.1
Public	2.9	3.0	2.9	3.0	3.0	3.0	3.0	3.0	3.0
Private	10.7	11.9	10.9	10.8	11.0	11.0	11.1	11.2	11.2
National savings	8.0	3.7	4.4	2.4	6.2	6.6	7.5	8.0	7.8
Public	-2.7	1.2	-1.5	-8.5	-3.8	-3.7	-3.6	-3.6	-3.8
Private	10.7	2.5	6.0	10.9	10.0	10.3	11.1	11.6	11.6
External savings	5.8	11.4	10.1	11.4	7.8	7.3	6.5	6.1	6.3
Balance of payments									
Current account	-5.8	-11.4	-10.1	-11.4	-7.8	-7.3	-6.5	-6.1	-6.3
Capital and financial account	3.0	2.8	4.1	3.0	6.5	7.5	6.7	6.5	6.7
Official capital	3.5	1.0	0.3	2.3	-1.4	-2.0	-2.1	-2.1	-1.9
Private capital 4/	4.6	16.2	14.2	6.4	7.9	9.5	7.2	7.0	6.7
Of which: Long-term flows	4.9	7.8	7.7	1.8	8.0	9.3	6.5	6.3	6.0
Overall balance	-0.6	-0.1	0.4	-3.9	-1.3	0.2	0.2	0.3	0.4
Memorandum items:									
Exchange rate (BDS$/US$)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Net international reserves (US$ millions) 5/	718	712	729	563	509	518	527	543	565
In months of imports	3.8	3.7	4.1	3.2	3.0	3.0	3.0	3.0	3.0
Nominal GDP (BDS$ millions) 1/	8,867	8,738	8,450	8,568	8,631	8,856	9,169	9,551	10,030

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

1/ Staff have identified inconsistencies in the constant and current price GDP series. The Barbados Statistics Service is working to address these issues.

2/ Private sector credit growth in 2012 is mostly due to the merger of a commercial bank and a trust company. After excluding this impact, credit to the non-financial private sector decreased by 1.9 percent.

3/ Fiscal year is from April to March.

4/ Includes short-term and long-term flows, and errors and omissions.

5/ Includes unidentified financing amounts (see Table 4).

Table7. Medium-Term Macro Frameworks: Baseline and Adjustment

Staff baseline scenario

Barbados: Medium-Term Macroeconomic Framework, Current Policies (Staff Projections)
(In percent of GDP, unless otherwise indicated)

			Projections					
	2011	2012	2013	2014	2015	2016	2017	2018
Real GDP growth (percent)	0.8	0.0	-0.7	-1.2	0.9	1.6	1.8	2.3
Average inflation (percent)	9.4	4.5	2.3	2.0	1.7	1.9	2.3	2.6
Credit to private sector (percent change)	2.7	10.5	-2.5	-2.8	0.8	2.4	4.0	5.8
Fiscal balance (central government) 1/	-4.4	-8.0	-9.6	-4.9	-4.6	-4.4	-4.4	-4.6
Primary balance (central government) 1/	1.7	-1.4	-2.2	2.6	3.0	3.3	3.4	3.4
Central gov't gross debt (excludes NIS) 1/	78.0	85.8	92.0	94.7	95.0	94.3	92.7	90.8
Central gov't gross debt (includes NIS) 1/	106.1	118.2	126.4	129.8	130.9	130.6	129.6	127.9
Current account balance	-11.4	-10.1	-11.4	-7.8	-7.3	-6.5	-6.1	-6.3
Net international reserves (US$ millions)	712	729	563	509	518	527	543	565
Net international reserves (months of impo	3.7	4.1	3.2	3.0	3.0	3.0	3.0	3.0

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

1/ Fiscal year is from April to March.

Illustrative adjustment scenario

Barbados: Medium-Term Macro Framework— Adjustment Scenario (Staff Projections)
(In percent of GDP, unless otherwise indicated)

			Projections					
	2011	2012	2013	2014	2015	2016	2017	2018
Real GDP growth (percent)	0.8	0.0	-0.7	-1.2	0.8	1.9	2.5	3.3
Average inflation (percent)	9.4	4.5	2.3	2.0	1.6	1.9	2.5	2.8
Credit to private sector (percent change)	2.7	10.5	-2.5	-2.8	0.7	3.1	6.1	8.0
Fiscal balance (central government) 1/	-4.4	-8.0	-9.6	-4.9	-4.1	-3.3	-3.2	-3.2
Primary balance (central government) 1/	1.7	-1.4	-2.2	2.6	3.5	4.4	4.4	4.5
Central gov't gross debt (excludes NIS) 1/	78.0	85.8	92.0	94.7	94.5	92.2	88.7	84.8
Central gov't gross debt (includes NIS) 1/	106.1	118.2	126.4	129.9	130.4	128.5	125.1	121.2
Current account balance	-11.4	-10.1	-11.4	-7.8	-7.2	-6.3	-6.3	-6.5
Net international reserves (US$ millions)	712	729	563	508	523	570	602	613
Net international reserves (months of imports)	3.7	4.1	3.2	3.0	3.1	3.2	3.3	3.1

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

1/ Fiscal year is from April to March.

Annex I. Barbados MAC-DSA Summary

Barbados' public debt sustainability risks are significant, even after incorporating the 2013 fiscal adjustment measures. Public debt is projected to remain above 90 percent of GDP in the medium term under the baseline scenario. The definition of public debt used in this assessment is central government gross debt, excluding government securities held by the NIS. Public debt has risen rapidly in recent years and the financing needs generated under the baseline scenario point to continued debt accumulation until 2016. Gross financing needs are forecast to remain between 10–16 percent over the medium term, excluding rollover of short-term debt, which is projected to sharply increase from 23 percent of GDP in 2013 to almost 40 percent of GDP by 2018. There are sizable downside risks, including from low growth, greater reliance on short term debt, and contingent liabilities. The baseline debt path remains vulnerable to unfavorable shocks from real interest rates, real GDP growth, and the primary balance.

Barbados is classified as a "High Scrutiny" case. The public debt-to-GDP ratio is projected to rise from 92 percent in 2013 to 95 percent in 2015 before declining to 91 percent by 2018. The key driver is the impact of the real interest rate in an environment of low inflation and increasing reliance on short-term funding. Public debt dynamics are driven favorably by the primary balance, which is expected to improve. This underscores the importance of the authorities' ongoing fiscal consolidation program and the need for more comprehensive measures to lower vulnerabilities and improve public resource allocation.

Financing needs, comprised mostly of short-term debt rollover, would increase from 39 percent of GDP in 2013/14 to more than 50 percent of GDP by 2018. The NIS and CBB would continue to provide an important share of domestic financing. The estimated debt-stabilizing primary balance after 2018 would be 3.5 per-cent of GDP excluding debt-reducing resources (NIS), or 1.4 percent of GDP including the NIS. This is in line with the authorities' fiscal adjustment plans, which are projected to raise the primary balance to a surplus of 3.3–3.4 percent of GDP by 2016–2018. Alternative scenarios show that the debt path and financing needs would be worse if the primary balance were to remain constant at its 2013 level.

The stress test scenarios confirm the vulnerability of debt and financing needs to shocks to real interest rates, real GDP growth, the primary balance, and the real exchange rate, with the greatest sensitivity to shocks coming from real interest rates and real GDP growth. With the exception of the real exchange rate shock, all other stress tests would push the debt-to-GDP ratio above 94 percent by 2018, with shocks to real interest rates alone pushing it to about 100 percent by 2018, and shocks to real GDP growth to 103 percent by 2015. Financing needs would rise to about 60 percent of GDP under these two shocks. Shocks to the primary balance and exchange rate would moderately worsen the debt path and financing needs.

The heat map also highlights significant risks to the debt profile, namely the rapid increase in short-term debt and its share in total debt. That this debt is mostly held domestically helps to mitigate somewhat the risks from external shocks.

In the past, staff projections of GDP growth and the primary balance have been slightly optimistic, though forecasts errors have been in line with the median IMF staff forecast errors. Current projections have taken this bias into account. Projections of inflation have been more realistic on average. The fiscal adjustment projected is clearly ambitious as illustrated by the 3-year adjustment in the cyclically-adjusted primary balance (CAPB) and the 3-year average level of the CAPB, for which Barbados has a high percentile rank of 7 percent and 18 percent respectively. Nonetheless, this adjustment can be achieved if measures taken by the authorities are well implemented.

External Debt

External public debt is relatively low, but moderately sensitive to shocks to the non-interest current account and the exchange rate. While risks from foreign currency debt remain moderate, recent external borrowing by the state warrants close monitoring, in view of vulnerabilities imposed by the overall debt load. (Absent data on private external debt, the external DSA was limited to that for external public debt.)

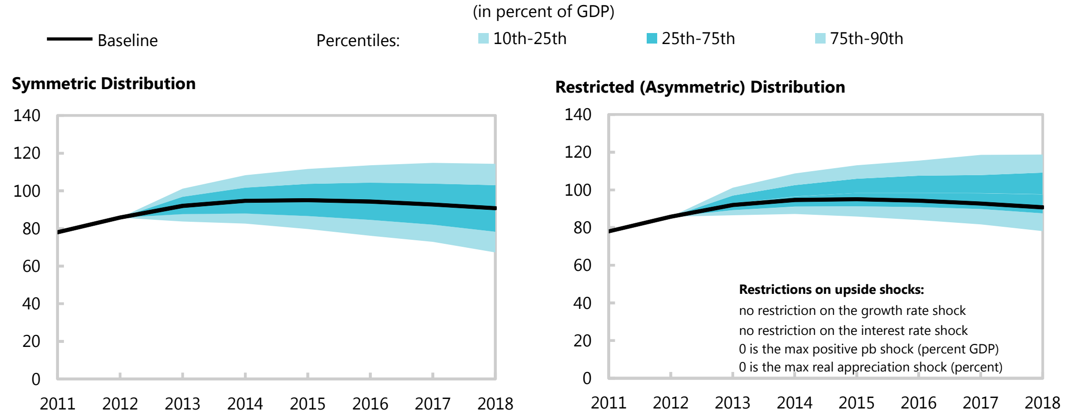
Annex I. Figure 1. Barbados Public DSA Risk Assessment

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

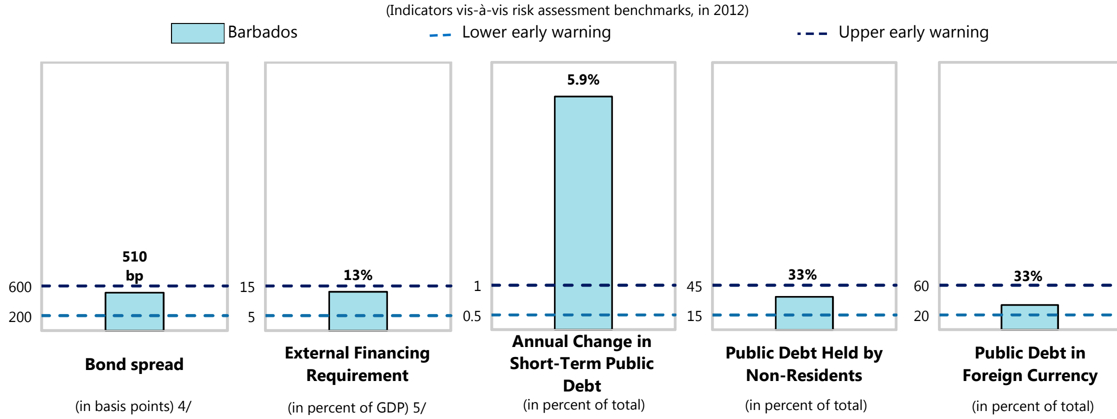
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2012)



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.

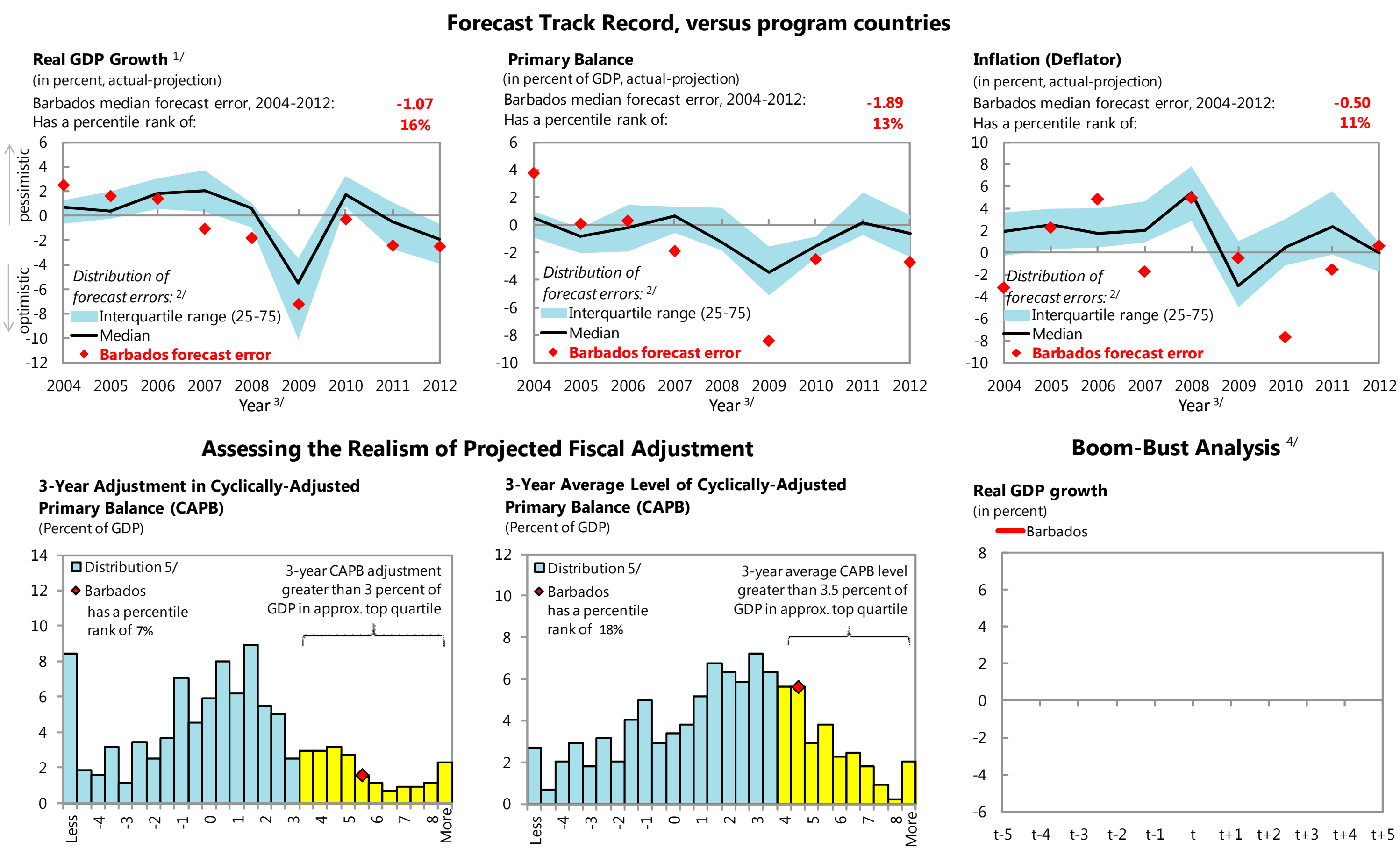
Lower and upper risk-assessment benchmarks are:

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, 21-Sep-13 through 20-Dec-13.

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.

Annex I. Figure 2. Barbados Public DSA - Realism of Baseline Assumptions



Source : IMF Staff.

1/ The nominal GDP data series was revised in 2013. Staff have identified inconsistencies in the GDP deflator and are following up with the authorities.

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

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

4/ Not applicable for Barbados.

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

Annex I. Figure 3. Barbados Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(In percent of GDP unless otherwise indicated)

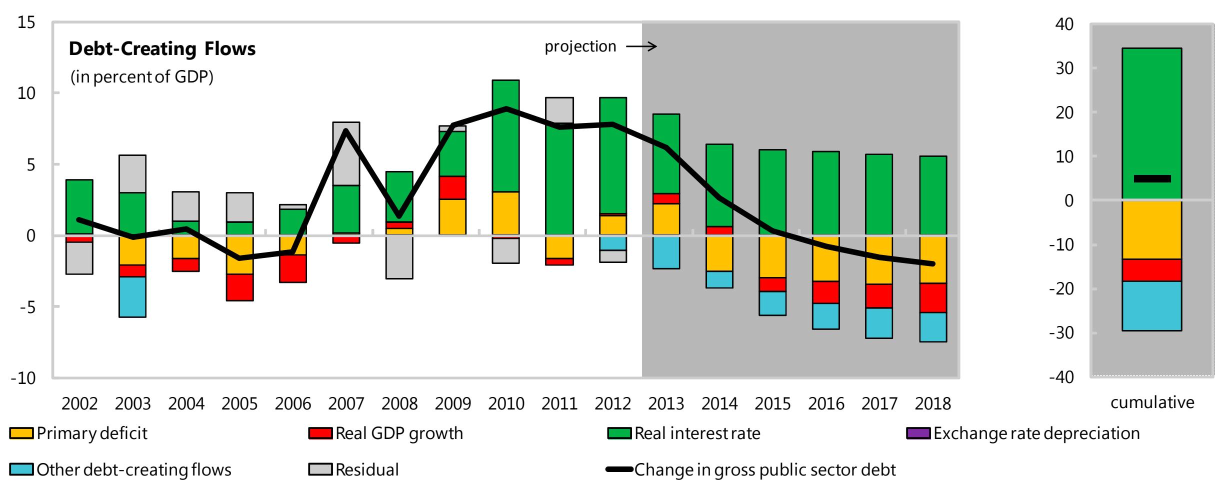
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2002-2010 [2/]	2011	2012	2013	2014	2015	2016	2017	2018
Nominal gross public debt	52.3	78.0	85.8	92.0	94.7	95.0	94.3	92.7	90.8
Public gross financing needs	6.0	6.1	9.7	39.1	34.6	37.3	41.0	46.7	51.2
Real GDP growth (in percent)	1.3	0.6	-0.2	-0.8	-0.7	1.1	1.7	1.9	2.3
Inflation (GDP deflator, in percent)	2.6	-2.5	-2.0	2.1	1.9	1.7	2.0	2.4	2.7
Nominal GDP growth (in percent)	4.0	-1.9	-2.2	1.2	1.2	2.8	3.7	4.4	5.1
Effective interest rate (in percent) [4/]	9.0	8.5	8.3	8.7	8.2	8.3	8.4	8.7	9.1

As of December 20, 2013		
Sovereign Spreads		
EMBIG (bp) 3/		576
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Ba3	Ba3
S&Ps	BB-	BB-
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2002-2010	2011	2012	2013	2014	2015	2016	2017	2018	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	2.7	7.6	7.8	6.2	2.7	0.4	-0.8	-1.5	-2.0	5.0	
Identified debt-creating flows	2.1	5.8	8.7	6.2	2.7	0.4	-0.8	-1.5	-2.0	5.0	
Primary deficit	-0.2	-1.7	1.4	2.2	-2.6	-3.0	-3.3	-3.4	-3.4	-13.4	1.4
Primary (noninterest) revenue and grants	26.8	29.4	27.6	23.9	24.9	24.9	25.2	25.3	25.2	149.5	
Primary (noninterest) expenditure	26.6	27.8	29.0	26.2	22.3	21.9	21.9	21.9	21.9	136.1	
Automatic debt dynamics [5/]	2.6	7.5	8.3	6.3	6.4	5.0	4.3	3.9	3.5	29.5	
Interest rate/growth differential [6/]	2.6	7.5	8.3	6.3	6.4	5.0	4.3	3.9	3.5	29.5	
Of which: real interest rate	3.2	7.9	8.2	5.6	5.8	6.0	5.9	5.7	5.6	34.5	
Of which: real GDP growth	-0.5	-0.4	0.1	0.7	0.6	-1.0	-1.5	-1.7	-2.1	-5.0	
Exchange rate depreciation [7/]	0.0	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	-0.3	0.0	-1.0	-2.3	-1.2	-1.7	-1.8	-2.1	-2.1	-11.1	
Foreign financing, Privatization receipts (negative)	-0.3	0.0	-1.0	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	
National Insurance Scheme	0.0	0.0	0.0	-2.3	-1.2	-1.7	-1.8	-2.1	-2.1	-11.1	
Residual, including asset changes [8/]	0.5	1.8	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	



Source: IMF staff.

1/ Public sector is defined as central government, excluding NIS holdings. Fiscal year (April to March) data.

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).

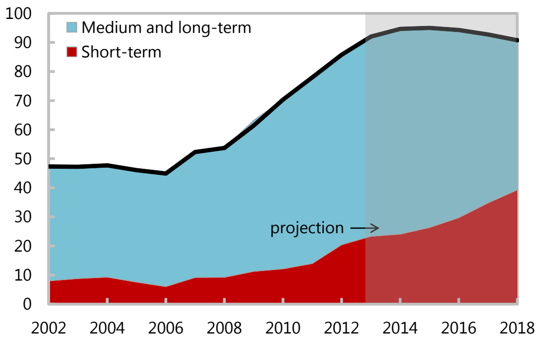
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

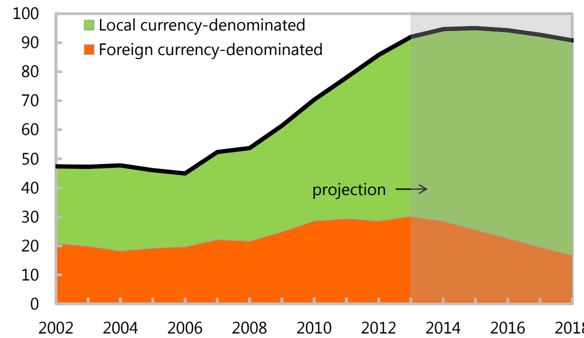
Annex I. Figure 4. Barbados Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



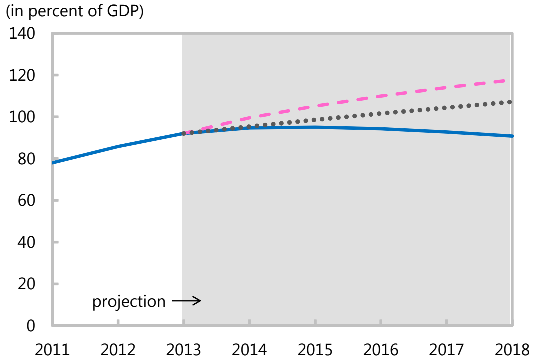
By Currency
(in percent of GDP)



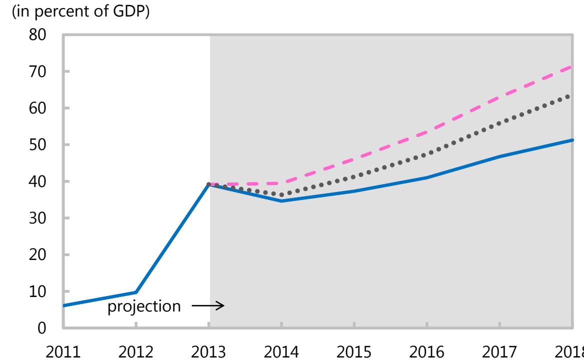
Alternative Scenarios

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)

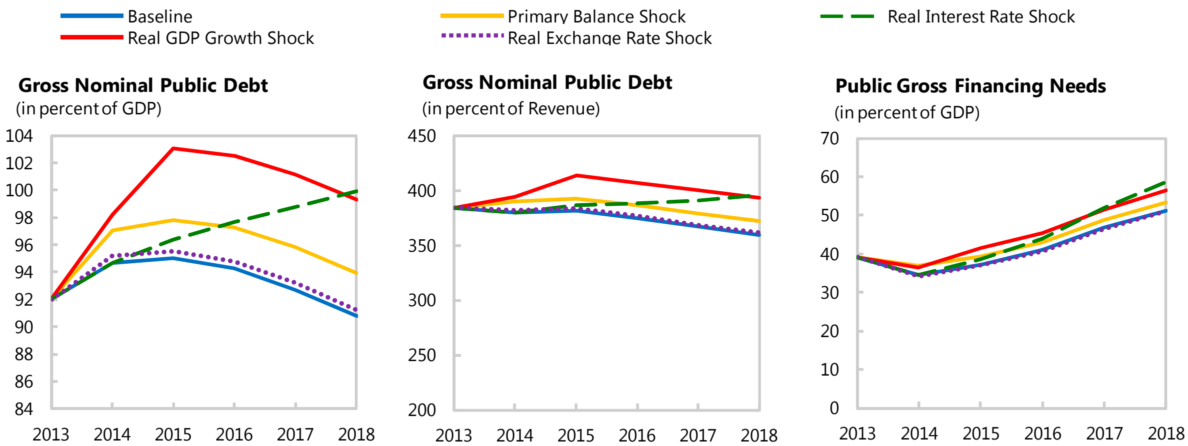
Baseline Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	-0.8	-0.7	1.1	1.7	1.9	2.3
Inflation	2.1	1.9	1.7	2.0	2.4	2.7
Primary Balance	-2.2	2.6	3.0	3.3	3.4	3.4
Effective interest rate	8.7	8.2	8.3	8.4	8.7	9.1
Constant Primary Balance Scenario						
Real GDP growth	-0.8	-0.7	1.1	1.7	1.9	2.3
Inflation	2.1	1.9	1.7	2.0	2.4	2.7
Primary Balance	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2
Effective interest rate	8.7	8.2	8.0	8.0	8.1	8.3

Historical Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	-0.8	1.1	1.1	1.1	1.1	1.1
Inflation	2.1	1.9	1.7	2.0	2.4	2.7
Primary Balance	-2.2	0.2	0.2	0.2	0.2	0.2
Effective interest rate	8.7	8.2	8.3	8.4	8.7	9.0

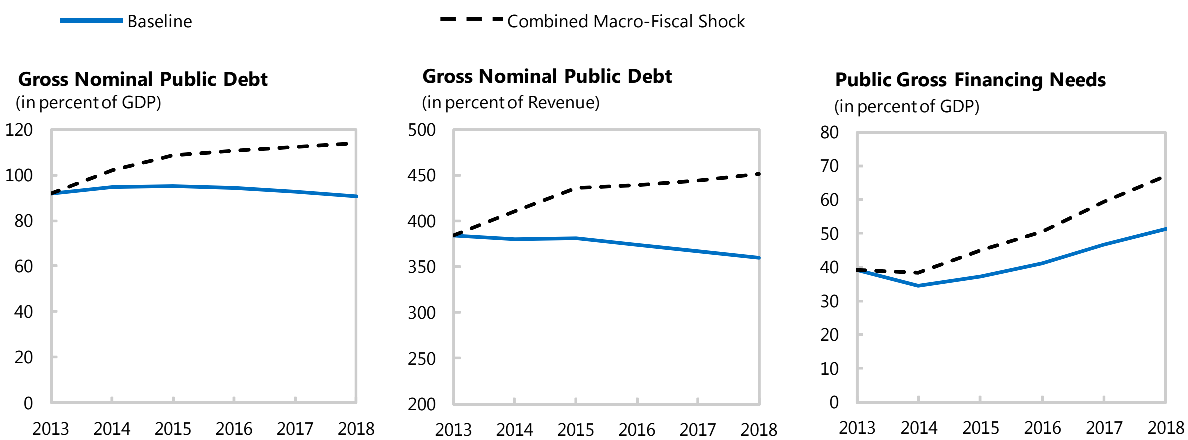
Source: IMF staff.

Annex I. Figure 5. Barbados Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2013	2014	2015	2016	2017	2018
Real GDP growth	-0.8	-0.7	1.1	1.7	1.9	2.3
Inflation	2.1	1.9	1.7	2.0	2.4	2.7
Primary balance	-2.2	0.2	2.8	3.1	3.3	3.4
Effective interest rate	8.7	8.2	8.3	8.4	8.7	9.0
Real Interest Rate Shock						
Real GDP growth	-0.8	-0.7	1.1	1.7	1.9	2.3
Inflation	2.1	1.9	1.7	2.0	2.4	2.7
Primary balance	-2.2	2.6	3.0	3.3	3.4	3.4
Effective interest rate	8.7	8.2	9.8	10.6	11.4	12.2
Combined Shock						
Real GDP growth	-0.8	-3.0	-1.2	1.7	1.9	2.3
Inflation	2.1	1.3	1.2	2.0	2.4	2.7
Primary balance	-2.2	0.2	1.7	3.1	3.3	3.4
Effective interest rate	8.7	8.4	9.6	10.4	11.2	12.0

Real GDP Growth Shock	2013	2014	2015	2016	2017	2018
Real GDP growth	-0.8	-3.0	-1.2	1.7	1.9	2.3
Inflation	2.1	1.3	1.2	2.0	2.4	2.7
Primary balance	-2.2	1.9	1.7	3.3	3.4	3.4
Effective interest rate	8.7	8.2	8.3	8.4	8.7	9.0
Real Exchange Rate Shock						
Real GDP growth	-0.8	-0.7	1.1	1.7	1.9	2.3
Inflation	2.1	3.6	1.7	2.0	2.4	2.7
Primary balance	-2.2	2.6	3.0	3.3	3.4	3.4
Effective interest rate	8.7	8.4	8.2	8.4	8.7	9.0

Source: IMF staff.

54 INTERNATIONAL MONETARY FUND

BARBADOS

Annex I. DSA Table 1. Barbados: External Debt Sustainability Framework, 2008-2018
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2008	2009	2010	2011	2012			2013	2014	2015	2016	2017	2018	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	34.4	38.4	44.6	46.3	46.7			**47.3**	**46.5**	**43.4**	**39.8**	**36.1**	**32.5**	**-5.8**
Change in external debt	-2.3	3.9	6.2	1.7	0.4			0.6	-0.8	-3.2	-3.6	-3.7	-3.6	
Identified external debt-creating flows (4+8+9)	0.0	0.7	2.3	4.2	3.9			9.9	0.4	-2.4	-0.7	-0.8	-0.5	
Current account deficit, excluding interest payments	8.0	4.2	3.3	9.2	7.8			9.1	5.2	4.8	4.2	4.0	4.4	
Deficit in balance of goods and services	5.9	3.1	4.2	2.4	1.7			2.7	-0.4	-0.8	-1.0	-1.1	-0.8	
Exports	50.7	41.5	46.4	50.2	48.5			46.3	47.1	47.3	47.1	46.6	45.9	
Imports	56.6	44.5	50.5	52.6	50.1			49.1	46.7	46.5	46.0	45.5	45.1	
Net non-debt creating capital inflows (negative)	-10.5	-5.6	-4.9	-7.8	-7.7			-1.8	-8.0	-9.3	-6.5	-6.3	-6.0	
Automatic debt dynamics 1/	2.5	2.1	3.9	2.9	3.8			2.7	3.2	2.1	1.6	1.4	1.1	
Contribution from nominal interest rate	2.7	2.5	2.5	2.2	2.2			2.3	2.6	2.5	2.3	2.1	1.9	
Contribution from real GDP growth	-0.1	1.4	-0.1	-0.4	0.0			0.3	0.6	-0.4	-0.7	-0.7	-0.8	
Contribution from price and exchange rate changes 2/	-0.1	-1.8	1.5	1.0	1.6			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-2.3	3.2	3.9	-2.5	-3.5			-9.3	-1.2	-0.7	-2.9	-2.8	-3.1	
External debt-to-exports ratio (in percent)	68.0	92.5	96.2	92.3	96.5			102.2	98.8	91.8	84.6	77.6	70.9	
Gross external financing need (in billions of US dollars) 4/	0.6	0.4	0.5	0.6	0.5			0.6	0.4	0.4	0.4	0.4	0.3	
in percent of GDP	12.3	8.0	10.4	14.0	11.8			13.0	9.2	9.3	8.6	8.2	6.3	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**47.3**	**49.6**	**52.3**	**53.0**	**53.9**	**54.6**	**-2.8**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	0.3	-4.1	0.2	0.8	0.0	1.2	2.6	-0.7	-1.2	0.9	1.6	1.8	2.3	
GDP deflator in US dollars (change in percent)	0.3	5.5	-3.7	-2.2	-3.3	1.8	3.9	2.1	2.0	1.7	1.9	2.3	2.6	
Nominal external interest rate (in percent)	7.5	7.4	6.3	4.9	4.6	6.7	1.1	5.1	5.6	5.5	5.4	5.6	5.5	
Growth of exports (US dollar terms, in percent)	2.1	-17.2	7.9	6.7	-6.6	6.1	12.5	-3.1	2.5	3.0	3.0	3.2	3.4	
Growth of imports (US dollar terms, in percent)	8.5	-20.4	9.5	2.6	-7.8	5.1	12.3	-0.8	-4.0	2.1	2.4	3.0	4.0	
Current account balance, excluding interest payments	-8.0	-4.2	-3.3	-9.2	-7.8	-5.6	2.8	-9.1	-5.2	-4.8	-4.2	-4.0	-4.4	
Net non-debt creating capital inflows	10.5	5.6	4.9	7.8	7.7	4.7	3.4	1.8	8.0	9.3	6.5	6.3	6.0	

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

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

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

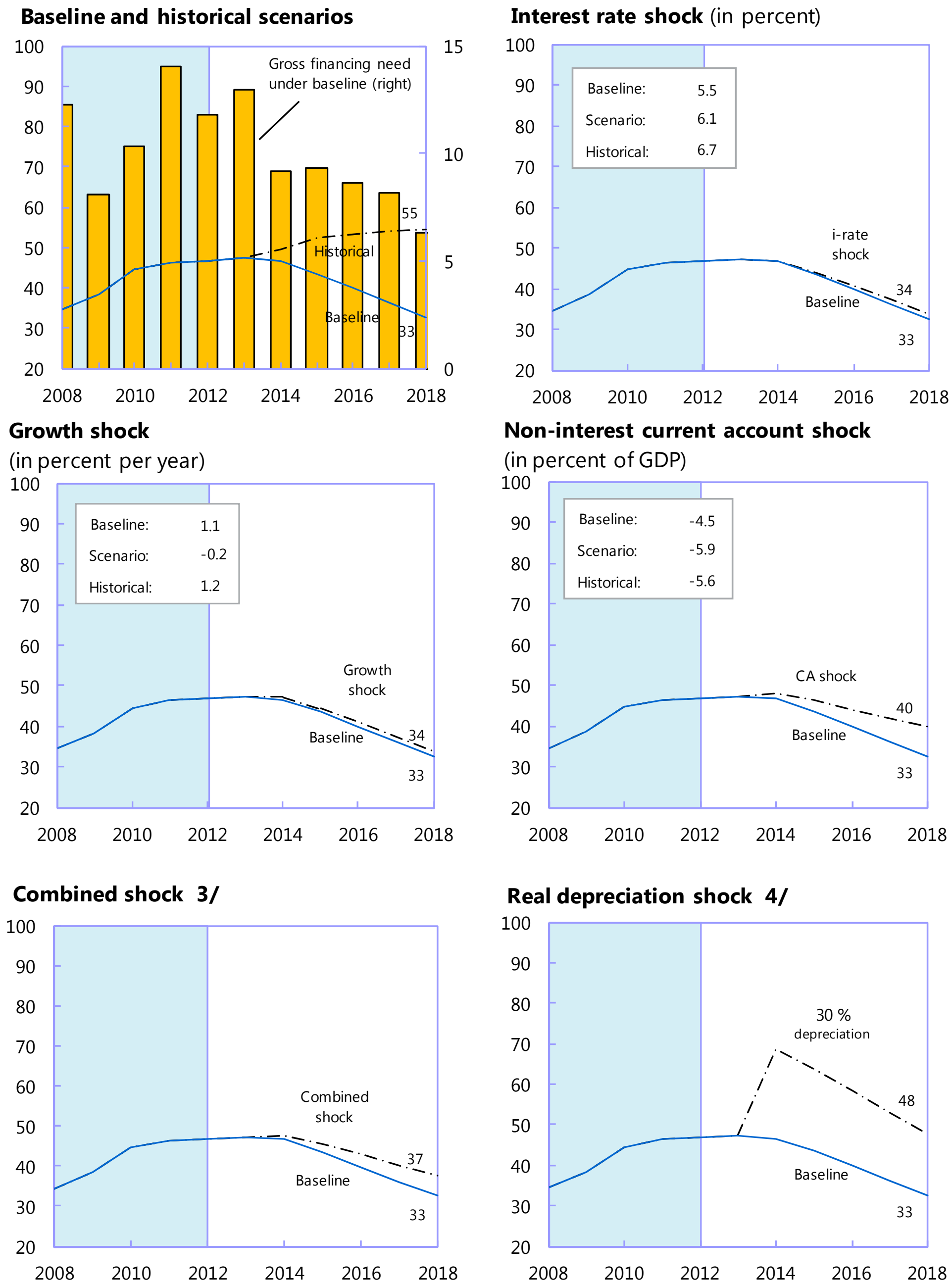
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

Annex I. Figure 6. Barbados External Debt Sustainability: Bound 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.

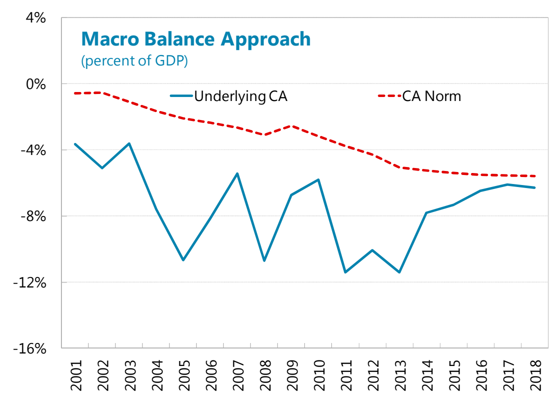
4/ One-time real depreciation of 30 percent occurs in 2014.

Annex II. Barbados: Exchange Rate Assessment, Reserve Adequacy

Three standard CGER methodologies were used to assess Barbados' real exchange rate: the Macroeconomic Balance (MB), External Stability (ES), and Equilibrium Real Exchange Rate (ER). These indicate a moderate overvaluation, within a range of about 2.5–8 percent from its equilibrium level. The estimates are subject to considerable uncertainty and data shortcomings, including in particular the lack of consistent data on net foreign assets. The assessment is nonetheless consistent with the lackluster export and tourism performance by Barbados relative to most of its Caribbean competitors.

Macroeconomic Balance Approach

The MB approach indicates the real effective exchange rate would need to depreciate by about 2.5 percent to bring the 2018 current account (CA) balance into line with the estimated equilibrium CA. The MB approach calculates the difference between the CA balance projected over the medium term (2018) at prevailing exchange rates, and an estimated equilibrium CA "norm" based on a set of macroeconomic fundamentals that include fiscal and oil balances relative to GDP, demographic variables, and relative income and output variables. The exchange rate adjustment that would eliminate this difference over the medium-term horizon is calculated using Barbados' estimated CA elasticity with respect to the real exchange rate. In this case, the estimated baseline CA deficit of -6.3 percent of GDP in 2018 is about 0.7 percentage points lower than the equilibrium CA balance estimated (-5.6 percent), implying an overvaluation of 2.4 percent using the elasticity of -0.3.



External Stability Approach

The ES approach points to overvaluation of the exchange rate by about 6 percent. This approach calculates the difference between the actual CA balance and the balance that would stabilize the NFA position at a benchmark level.[1] Based on an assumed growth rate of 2.3 percent and inflation of 2.6 percent, stabilizing Barbados' NFA at the estimated 2012 level of -92 percent of GDP requires a CA deficit of 4.4 percent, or roughly 2 percentage points lower than projected in 2018.

[1]Owing to the lack of consistent data on net foreign assets (NFA), cumulative Current Account deficits are used as a proxy for NFA.

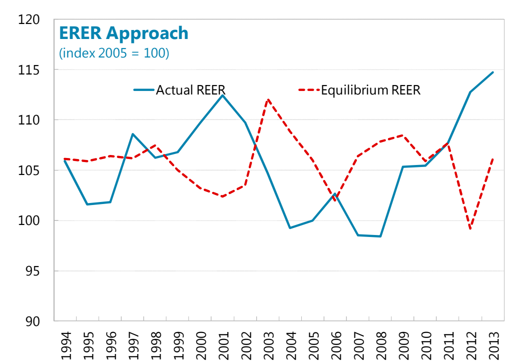
Assessment of the Real Exchange Rate Using CGER Methodologies
(In percent of GDP, unless otherwise indicated)

	Macroeconomic Balance Approach Underlying CA balance: baseline 2018 level	External Sustainability Approach Stabilizing NFA at its end-2012 level
Equilibrium external current account (CA) 1/	-5.6	-4.4
Underlying CA balance 2/	-6.3	-6.3
CA elasticity to REER 3/	-0.3	-0.3
Implied REER adjustment (in percent, "+" appreciation)	2.4	6.4

1/ Equilibrium external current account corresponds to a CA level that is consistent with a specific set of economic fundamentals.
2/ External current account in 2018.
3/ This elasticity is computed using the standard long-run real exchange rate elasticities for imports (0.92) and exports (-0.71), as well as the medium-term values of Barbados' exports and imports of goods and services (in percent of GDP).

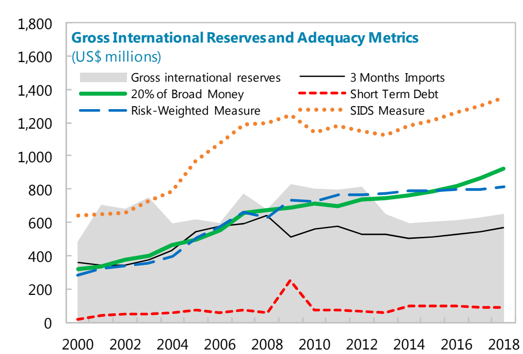
Fundamental Equilibrium Exchange Rate Approach

The ES approach indicates an overvaluation of about 8 percent. This approach directly estimates the equilibrium real exchange rate level based on a set of fundamentals, including productivity differentials, terms of trade, government consumption, and net foreign assets.



Reserve Adequacy Assessment

The loss of reserves in 2013 puts Barbados' reserve position below "bench-mark" measures, including 3 months of import cover. Based on the Fund template, reserves would need to reach about US$800 million to hit a "comfortable" level.



Annex III. Barbados: Risk Assessment Matrix

Main Threats	Likelihood of Realization of the Threat	Expected Impact if Threat is Realized
Continuation of policy trends, or delays/ failure to implement fiscal consolidation.	**Medium** The authorities are committed to fiscal consolidation, but vigilance will be needed. Full efforts should be deployed to secure timely implementation.	**High** This could lead to a bigger drop in confidence, forex shortages, capital flight and reserves losses and pressure on the exchange rate peg; a forced devaluation or disorderly adjustment process would be likely.
Further decline in tourism and exports related to a protracted period of slower growth in advanced economies (owing to larger than expected deleveraging or negative surprises on potential growth).	**Medium-High** A protracted period of weak demand could take a toll on productive capacity across advanced economies. In Europe in particular, the risk of deflation has increased and the risk of a protracted period of slower growth is high. Tourism trends are worrisome but strongly affected by UK growth, which is expected to recover this year.	**High** Europeans comprise about 40 percent of Barbados' tourism market; Europe, the U.S, and Canada make up 80 percent of the total. This would also lead to reserve losses, pressure on the peg, and possibly a devaluation.
Acute fiscal financing pressures.	**High** Government borrowing requirement was about 16 percent of GDP in 2013/14 (39 percent including short term rollover). It is forecast to fall to 34.6 percent of GDP in 2014/15. Domestic financial sector has little appetite for additional government paper.	**High** Would lead to further financial repression and/or monetization of the deficit, pressure on the exchange rate peg.
Side-effects from global financial conditions: surges in global financial market volatility (related to UMP exit), leading to economic and fiscal stress, and constraints on country policy settings.	**High** Higher-than-expected increases in long-term rates, a reversal of capital flows into risk assets, the unwinding of overvaluations in some countries, and an intensification of liquidity strains on sovereigns are high risks. Government borrowing requirement is high and financing of deficit by domestic sources may be reaching its limit.	**High** Could exclude Barbados from access to market financing; lead to further financial repression and/or monetization of the deficit, pressure on the exchange rate peg.
United States: protracted failure to agree on a credible plan to ensure fiscal sustainability (medium-term)	**Low** Signs are that the US economy continues to recover, but setbacks, possibly arising from domestic fiscal policy errors, cannot be ruled out.	**Medium** A fiscal shock in the U.S., accounting for 25% of tourism arrivals, could have substantial adverse effects, weakening tourism. This would pressure the balance of payments, causing reserve coverage to fall.

Shock caused by adverse development in the U.K., or Trinidad & Tobago.	**Low** Growth outlook for the U.K. and T&T has improved in recent months. Aside from the U.S., these are the biggest sources of tourism flows and biggest goods export markets. Also, one of the biggest banks in Barbados is Trinidad-based, and there are other financial sector ties (insurance).	**Medium** Could have adverse effects on Barbados through both trade and capital flows, financial instability. This would put pressure on the balance of payments. Fiscal deficits would remain elevated as the revenue base narrows.
Protracted period of slower growth in emerging economies, owing to earlier maturing of the cycle and incomplete structural reforms.	**Medium** Trend growth would be lower as a result of weaker than expected productive capacity and human capital, in addition to cyclical forces.	**Low** Tourism relies on advanced country market and the Caribbean region. However, forward looking strategy aims to expand arrivals from EM countries. Also, the negative impact could be tempered by an accompanying decline in fuel prices.
Risk from the financial system	**Medium** The non-performing loan (NPL) ratio remains high. Commercial banks' exposure to the government has increased, suggesting that deteriorating fiscal performance could pose risks to the financial system.	**Low** NPLs that have remained on banks' balance sheets for prolonged periods could gradually result in higher provisioning and write-offs, dragging down future profitability. Higher sovereign risk premiums would depress the economic value of government bonds and adversely affect banks' capital positions.
Other risks, including weather-related natural disasters and a possible increase in crime (as is occurring elsewhere in the Caribbean).	**Low** Weather related disasters are limited in Barbados because of its latitude; and the country has always been considered one of the safest destinations in the Caribbean.	**Low** Weather related disasters are limited in Barbados but strong storms can cause damage. Crime is relatively low, but, this could change if the recession persists and social tensions rise.

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INTERNATIONAL MONETARY FUND

BARBADOS

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 27, 2014

Prepared By Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of December 31, 2013)

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

General Resources Account:

	SDR Million	Percent Quota
Quota	67.50	100.00
Fund holdings of currency (Exchange Rate)	61.72	91.43
Reserve Tranche Position	5.81	8.60

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	64.37	100.00
Holdings	56.49	87.76

Outstanding Purchases and Loans: None

Financial Arrangements:

In millions of SDR, (mm/dd/yyyy)

Type	Approval Date	Expiration Date	Amount Approved	Amount Drawn
Stand-By	02/07/1992	05/31/1993	23.89	14.67
Stand-By	10/01/1982	05/31/1984	31.88	31.88

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

	Forthcoming				
	2013	2014	2015	2014	2015
Principal					
Charges/interest	0.01	0.01	0.01	0.01	0.01
Total	**0.01**	**0.01**	**0.01**	**0.01**	**0.01**

Exchange Rate Arrangements: The Barbados dollar has been pegged to the U.S. dollar since mid-1975 at the rate of BDS$2.00 = US$1.00. There are no restrictions on the making of payments and transfers for current international transactions subject to approval under Article VIII. There are exchange controls on some invisibles, but bona fide transactions are approved. All capital outflows and certain capital inflows require approval. The authorities accepted the obligations of Article VIII, Sections 2, 3, and 4 on November 3, 1993.

Last Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on December 5, 2011; and the staff report was issued as IMF Country Report No. 12/7. Barbados is on the standard 12-month consultation cycle.

Technical Assistance (2011–Current):

Department	Dates	Purpose
CARTAC	January 2014	State Owned Enterprises
CARTAC	November 2013	Internal Controls and Internal Audit for Management
CARTAC	September 2013	Strengthening the Customs Administration – organization structure review
CARTAC	September 2013 and ongoing	Public Expenditure and Financial Accountability assessment fieldwork and report preparation
STA	May 2013	Monetary and financial statistics
MCM	May 2013	Medium-term debt management strategy
CARTAC	April 2013	Financial Analysis and Risk Assessment Training for Supervisors of Credit Unions, Insurance Companies, Pensions and Securities Firms
FAD	March 2013	Measures to Improve the performance of the Customs Administration
CARTAC	September 2012	External Sector Statistics, introducing BPM6
CARTAC	July – September 2012	Review of Non-Bank Sector against International Standards and Core Principles
CARTAC	July 2012	Basel II Implementation / Revised Capital Adequacy Framework for commercial banks
CARTAC	February 2012	Transition to a consolidated account of general government
CARTAC	February 2012	Developing producer price index
STA	April – May 2012	SDSS Assessment
CARTAC	February 2012	Transition to a consolidated account of general government
CARTAC	October 2011	Developing producer price index
CARTAC	Oct. 2011, Jan. 2012 – Mar. 2012	Preparations for the establishment of a Barbados Revenue Authority
CARTAC	Jan. 2011 and Sep. 2011	National accounts, develop values added by industry in constant prices

Resident Representative: The resident representative post was closed in January 1999.

RELATIONS WITH THE WORLD BANK GROUP

(As of December 30, 2013)

Barbados graduated from World Bank financing in 1993, but has continued to borrow on an exceptional basis. Two regional HIV/AIDS projects were approved in 2001 and 2008. The second HIV/AIDS Project (US$35 million) is the only active loan which became effective in January 2009; this project supports the implementation of the 2008–2013 Barbados National HIV/AIDS Strategic Plan, specifically to promote: (i) adoption of safe behaviors, in particular amongst the most vulnerable groups; (ii) access to prevention, treatment and social care, in particular for the most vulnerable groups; (iii) capacity of organizational and institutional structures that govern the NAP; and (iv) use of quality data for problem identification, strategy definition and measuring results. The performance of this project has notably improved over the last 12 months, and disbursements have accelerated. The project closing date of November 30, 2013 has been recently extended for one year, to November 30, 2014, in order to support the achievement of the Project Development Objective and allow the Government to complete four critical activities that have been started under the Project.

Statement of World Bank Loans

(In millions of U.S. dollars)

	Approval Year	Approved Amount	Undisbursed Balance*	Disbursed and Outstanding Balance*
Barbados Second HIV/AIDS Project	2008	35.0	8.8	26.0

* Amounts may not add up to Original Principal due to changes in the SDR/USD exchange rate since signing.

Disbursements and Debt Service

(Fiscal Year ending June 30th—in millions of U.S. dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total Disbursements	0.2	1.4	3.5	2.5	4.0	1.9	1.8	1.6	4.7	1.6	3.2	3.7
Repayments	2.2	1.9	1.9	1.9	1.9	2.1	1.0	0.9	1.3	1.7	2.0	2.0
Net Disbursements	-2.1	-0.5	1.6	0.6	2.0	-0.2	0.7	0.7	3.3	-0.1	1.2	1.7
Interest and Fees	1.1	0.8	0.6	0.5	0.5	0.6	0.7	0.8	0.7	0.6	0.5	0.5

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of December 31, 2013)

The Inter-American Development Bank (IDB) has a portfolio of eleven loans to Barbados totaling US$202 million of which US$40 million has been disbursed, leaving US$162 million remaining to be disbursed. This portfolio includes only investment loans with the last approved policy-based loan of $70 million (Support for Sustainable Energy Framework for Barbados II) fully disbursed in 2011. The portfolio is relatively 'young' with seven operations, amounting to 78 percent of the portfolio in value terms, having been approved since December 2009. Execution of this portfolio of operations is programmed to take until early 2017.

Current Loan Portfolio

Name	Approval Date	Amount in US$	
		Approved	Disbursed
Modernization of the Barbados National Standards System	December 2007	5,000,000	1,382,656
Housing and Neighbourhood Upgrading Program -Phase I	January 2008	30,000,000	6,598,744
Modernization of the Barbados Statistical Service	July 2008	5,000,000	2,972,043
Modernization of the Barbados National Procurement System	December 2008	5,000,000	1,509,735
Water & Sanitation System Upgrade	December 2009	50,000,000	16,080,765
Agricultural Health and Food Control Program	December 2009	20,000,000	669,331
Barbados Competitiveness Program	December 2009	10,000,000	1,555,527
Coastal Risk Assessment and Management Program	December 2010	30,000,000	6,098,743
Sustainable Energy Investment Program	December 2010	10,000,000	2,106,847
Skills for the Future	June 2012	20,000,000	761,992
Public Sector Smart Energy (PSSE) Program[1]	June 2012	17,000,000	0
Total		**202,000,000**	**39,736,383**

[1] The European Union is co-financing the PSSE Program with a total of US$7.7 million in grants in addition to the US$17 million approved by the IDB.

In addition to the loan portfolio, the IDB has an active non-reimbursable technical cooperation portfolio of thirteen operations totaling US$12.2 million: four of which are Multilateral Investment Fund grants amounting to US$0.6 million; one of which is a Project Specific Grant totaling US$7.7 million (PSSE co-financing from the European Union); and one of which is an investment grant from the Global Environment Fund (GEF) totaling US$1 million.

2014 Lending Program

There are currently no loans in pipeline for 2014. The IDB is currently in dialogue with the Government of Barbados to include new investment loans which will target foreign-exchange earning sectors such as tourism and the private sector at large in the 2014 pipeline. A new Country Strategy for the period 2014–2018 is currently being prepared.

Net Cash Flow

Barbados has experienced a negative net cash flow with respect to the IDB over much of the past decade, averaging negative US$13 million during 2003-08, and reaching a low point of negative US$20 million in 2006. Following a significant rise in disbursements between 2009 and 2011 mainly due to policy-based loans disbursements, the net cash flow turned positive and reached a high point of US$54 million in 2011. Net cash flow turned negative again in 2012 and is expected to be in the vicinity of zero in 2013 due to a noteworthy increase in disbursements resulting from improvements in the execution of the investment loan portfolio.

Cash Flow Indicators

(US$ million)	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013e**
Approvals	17.0	0.0	0.0	4.4	0.7	5.0	41.1	49.0	85.0	70.0	37.0	0
Disbursements	15.8	16.0	7.9	4.4	2.2	2.8	18.5	30.4	49.9	77.8	9.5	23.7
Repayments	8.1	11.0	13.8	12.2	15.6	15.9	19.7	18.7	20.5	19.7	19.3	18.6
Interest and Commissions	7.2	8.2	7.4	7.1	6.5	6.3	6.2	6.2	5.8	3.8	4.8	4.5
Net cash flow	**0.5**	**-3.2**	**-13.3**	**-14.9**	**-19.9**	**-19.4**	**-7.4**	**5.5**	**23.6**	**54.3**	**-14.6**	**0.6**
Debt outstanding	**151.6**	**156.6**	**150.7**	**150.1**	**140.6**	**133**	**149.1**	**160**	**190**	**248**	**238**	**234**

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

(As of December 31, 2013)

The Caribbean Development Bank (CDB) approved US$ 428.9 million (Net) in loans, contingent loans, equity, and grants to Barbados over the period 1970 to 2013; representing 11.9 percent (%) of total approvals to CDB's Borrowing Member Countries (BMCs). Table 1 presents the cumulative net approvals by sector.

Table 1. CDB Loans, Equity and Grants Approved (Net): 1970–2013

Sector	Total Value (US$ million)	%
Tourism	41.8	9.7
Manufacturing and Industry	31.9	7.4
Agriculture and Rural Development	18.9	4.4
Sub-total	**91.7**	**26.1**
Transportation and Communication	123.4	28.8
Social Infrastructure and Services	122.0	28.4
Financial, Business and Other Services	7.2	1.7
Environmental Sustainability and Disaster Risk Reduction	5.1	1.2
Power, Energy, Water, and Sanitation	4.3	1.0
Sub-total	**262.0**	**61.1**
Multi-Sector	74.2	17.3
Total	**428.9**	**100.0**

Source: Caribbean Development Bank.

Table 2 presents annual net approvals over the past decade.

Table 2. Approvals of Loans, Contingent Loans, Equity and Grants (Net) 2003–13		
Year	**Total Value (US$ million)**	**Sector**
2003	13.5	Manufacturing and Industry; and Multi-Sector.
2004	(3.4)	Manufacturing and Industry; Agriculture and Rural Development; and Transportation and Communication.
2005	(4.1)	Tourism; Manufacturing and Industry; and Social Infrastructure and Services.
2006	20.4	Tourism; Manufacturing and Industry; Agriculture and Rural Development; Social Infrastructure and Services; Financial, Business and Other Services; and Environmental Sustainability and Disaster Risk Reduction.
2007	32.4	Manufacturing and Industry; Transportation and Communication; Financial, Business and Other Services; and Multi-Sector.
2008	0.1	Multi-Sector; Financial, Business and Other Services; and Multi-Sector.
2009	13.3	Tourism; Manufacturing and Industry; Social Infrastructure and Services; and Multi-Sector.
2010	62.1	Manufacturing and Industry; Agriculture and Rural Development; Social Infrastructure and Services; Transportation and Communication; Power, Energy, Water, and Sanitation; and Multi-Sector.
2011	35.3	Agriculture and Rural Development; Manufacturing and Industry; Social Infrastructure and Services; and Multi-Sector.
2012	2.1	Manufacturing and Industry; Social Infrastructure and Services; and Financial, Business and Other Services
2013	39.9	Transportation and Communication; Environmental Sustainability and Disaster Risk Reduction; and Manufacturing and Industry.

Table 3 shows the disbursed and undisbursed balances over the past decade. Cumulative disbursements to Barbados amounted to US$ 324.6 million over the period 1970–2013, representing 10.2% of CDB's total disbursements to its BMCs.

Table 3. CDB—Disbursements and Undisbursed Balances to Barbados 2003—2013
(US$ millions)

Year	Disbursed	Undisbursed
2003	17.2	76.0
2004	19.9	56.1
2005	8.6	47.5
2006	9.3	62.2
2007	23.6	71.3
2008	25.2	47.2
2009	16.8	46.1
2010	32.8	43.2
2011	11.8	32.3
2012	7.5	102.4
2013	12.0	101.2

STATISTICAL ISSUES

Data provision is broadly adequate for surveillance. However, there are number of shortcomings that should be addressed by the time of the next Article IV consultation, particularly as regards national accounts GDP data and reporting on the non financial public sector.

Real Sector

Currently, the Barbados Statistical Services (BSS) compiles current price GDP according to the 1993 system of national accounts. Constant price GDP estimates, compiled by the Central Bank of Barbados (CBB), have an outdated 1974 base year; and are not consistent with the current price GDP series that BSS produces. Therefore, there exist no meaningful GDP deflator data linking both series, which adds uncertainty to GDP analyses and projections.

The BSS, with the assistance of CARTAC, began compiling constant price GDP by industry using 2006 as a base year began in 2011. Recently, preliminary constant price estimates by industry were completed, and the data are expected to be publicly available in early 2014. From that point, the BSS will be in charge of compiling annual constant GDP data which were previously published by CBB. In an effort to improve source data, the BSS will continue to utilize administrative data for the generation of economic indicators. The BSS plans to develop quarterly constant price estimates by industry. As a medium term goal, the BSS should also consider constructing GDP by expenditure, both quarterly and annually.

With ongoing improvements of national account estimates, the compilation of export and import price indices is expected to be completed and publicly available in the first quarter of 2014. This will enhance the ability of the BSS to develop the expenditure side of gross value added at constant prices.

The BSS, with support from CARTAC, has continued working on developing producer price indexes (PPI). The PPI sample includes 27 industries and 68 establishments that represent 80 percent of manufacturing output. Monthly price collection for the PPI sample of establishments continues. Monthly and Quarterly Bulletins should be published during the first quarter of 2014.

Although quarterly employment statistics are published by CBB, a survey-based wage index is not currently available and the BSS does not compile one. The wage index, including both the private and public sector, could provide an important indicator of factor costs and measure of competitiveness.

Despite recent initiatives to update the consumer price index and the index of industrial production, potential misalignments in real estate prices are not addressed due to the absence of a systematic index of property prices. The consumer price index uses an expenditure basket for 1998–99 for its July 2001=100 series introduced in January 2002. The index of industrial production was published in 2006, based on the industrial census published in 1996. The BSS is currently working towards a new index with base year 2014.

Government Finance Statistics

Fairly comprehensive and up-to-date above-the-line data are available for the general government, but government transfers are reported with a lag. As a result of the incomplete coverage of off-budget transactions, a discrepancy exists between the overall balance and financing data in some years. Public enterprises and other statutory bodies have not submitted financial reports for several years, with some dating back to 2007 or 2009. They submit estimates in the budget process through line ministries, but accounting is generally not provided on outturns. Arrears are not well monitored, neither for the general government nor for statutory bodies. Financial sector data on public sector net domestic borrowing usually cannot be fully reconciled with above-the-line fiscal data, partly because of limited availability of nonbank financial sector information. This reduces the degree of certainty about the actual fiscal position. The authorities introduced accrual accounting of public finance in April 2007.

The fiscal analysis is based on March 2013 data, received from the Debt Management Unit at the Ministry of Finance (MoF). The CBB also presents debt data which differs from data provided by MoF for several reasons, including the timing of recording of payments and disbursements and the use of different sources in some cases such as domestic loan data. Staff practice has been to use data provided by one source—the MoF.

Monetary and Financial Statistics

Currently, monetary data are available on the CBB website. However, the CBB uses the central bank's and commercial banks' data for the monetary survey. The February 2009 STA mission recommended expanding the coverage to include data for other deposit taking institutions and the three largest credit unions. However, this recommendation has not been implemented yet. As a result, actual monetary data are underestimated. Interest rate data (e.g., T-bill rate, various deposit and lending rates) are available on the CBB website. The CBB publishes financial stability reports, which analyze a range of financial soundness indicators for commercial banks and other financial institutions, as well as balance sheet and income trends.

External Sector Statistics

The authorities are making efforts to provide more comprehensive quarterly estimates of balance of payments data, which is hampered by lags in the compilation of merchandise trade data (based on annual survey data), and incomplete information on the activities of the offshore sector. The quality of the current and capital account estimates needs to be improved, based on the large errors and omissions needed to balance the accounts. Barbados now provides estimates of its international investment position (IIP); however, these data do not appear to be consistent with balance of payment data. The Central Bank of Barbados should draw on available CARTAC assistance to review the IIP data. Data on official reserve assets, which are not disseminated on a timely basis nor according to a fixed schedule, should be circulated on a monthly basis within one to four weeks after the end of the reference month (GDDS).

BARBADOS: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

As of December 31, 2013

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	Fixed				
International Reserves	11/ 2013	12/ 2013	M	M	W
Reserve/Base Money	09/ 2013	11/ 2013	M	M	M
Broad Money	09/ 2013	11/ 2013	M	M	M
Central Bank Balance Sheet	09/ 2013	11/ 2013	M	M	M
Consolidated Balance Sheet of the Banking System	09/ 2013	11/ 2013	M	M	M
Interest Rates[2]	09/ 2013	11/ 2013	M	M	M
Consumer Price Index	09/2013	12/2013	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	10/13	12/3/13	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	10/13	12/3/13	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	9/30/13	12/3/13	Q	Q	Q
External Current Account Balance	09/2013	12/3/13	Q	Q	Q
Exports and Imports of Goods and Services	09/2013	12/3/13	Q	Q	Q
GDP/GNP	2012	09/2013	A	A	Q
Gross External Debt	9/30/13	12/3/13	A	A	M
International Investment Position[6]	2010	2012	A	A	I

[1]Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

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

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

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

[5] Including currency and maturity composition.

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

[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 14/51
FOR IMMEDIATE RELEASE
February 12, 2014

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

IMF Executive Board Concludes 2013 Article IV Consultation with Barbados

On February 10, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the 2013 Article IV consultation with Barbados.[1]

Barbados is one of the most developed islands in the Caribbean, with per capita income at US$16,150 and the best human development indicators in the region. The country was strongly affected by the global financial crisis in 2008 and macroeconomic performance has been weak since then. The economy is estimated to have contracted by 0.7 percent in 2013, with weakness across both the traded and non-traded sectors. Long stay tourist arrivals, which are highly dependent on the U.K. and North American markets, were down by 5.2 percent in 2013. Inflation dropped sharply to 1.9 percent by end-November, while unemployment rose to 11.7 percent.

Expansionary fiscal policies and weak revenues have led to a surge in public debt and fiscal financing pressures. The central government deficit widened to 8.1 percent of Gross Domestic Product (GDP) in 2012/13 (year ending March) and is expected to reach 9.6 percent of GDP in 2013/14. Central government gross debt (excluding holdings of securities by the National Insurance Scheme) rose to 94 percent of GDP at end-September 2013 from under 60 percent of GDP in 2009. Weak tourism and export receipts contributed to a widening in the external current account deficit to an estimated 11.4 percent of GDP in 2013. Together with a sharp drop in private capital inflows, foreign reserves declined during 2013 to close out the year at US$578 million, equivalent to about 3.2 months of imports. The financial system appears to be well capitalized, but credit quality and profitability have suffered with the prolonged downturn.

Recognizing the need for urgent action, the authorities announced ambitious fiscal consolidation measures during the second half of 2013 aimed at strengthening the fiscal position and arresting the slide in reserves. These measures included a reduction in the size of the civil service by about 13 percent, further downsizing by attrition, wage cuts for elected and appointed officials, and a two year nominal wage freeze. If fully implemented, and assuming slippages are corrected with offsetting measures, these actions could lower the fiscal deficit to 4.9 percent of GDP, and would

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

help to restore stability to external flows. Output is projected to fall by 1.2 percent in 2014 before recovering modestly in 2015, supported by capital inflows to finance tourism and energy related projects. The debt-to-GDP ratio could level off by 2015/16 and decline slowly thereafter, though foreign reserves would remain below desirable levels.

However, the near term outlook will depend on vigorous and timely implementation of the proposed adjustment measures, and the consequences of policy slippage would likely be significant.

Executive Board Assessment[2]

Executive Directors noted that Barbados has not succeeded in recovering from the adverse consequences of the global financial crisis, and faces considerable challenges including low growth, a high fiscal deficit and debt, and declining foreign reserves. Downside risks are significant, and strong and prompt adjustment is crucial. Directors were encouraged by the authorities' determination to undertake the measures needed to stabilize the economy and resume a sustainable growth path. They looked forward to sustained implementation.

Directors agreed that a frontloaded fiscal consolidation is necessary in the current circumstances and stressed the importance of reining in spending and clearing arrears. They welcomed the measures announced in the second half of 2013 and urged their prompt implementation, which should raise confidence, stem the government's cash flow needs, and increase foreign reserves. For the coming years, Directors encouraged the authorities to consider additional tightening, focusing on growth-friendly measures, to put debt on a steeper downward trajectory. They noted that a debt-to-GDP target could serve as a useful medium-term anchor. Directors saw scope for raising revenues by broadening the base, reducing tax exemptions, and improving tax and customs administration. They also stressed the need for public enterprise reforms, particularly to improve oversight and accountability. In light of ongoing efforts to rein in the wage bill, Directors stressed the importance of preserving an adequate and well-targeted social safety net.

Directors noted the authorities' commitment to the nominal exchange rate anchor. They encouraged the central bank to reorient monetary policy towards supporting the exchange rate peg by curtailing direct financing of the government, and allowing domestic short-term interest rates to rise to a level that reflects a credible country risk premium.

Directors underscored the need for a growth strategy focused on improving the business climate while preserving Barbados's long-standing tradition of equity and social cohesion. While Barbados fares reasonably well in international surveys of competitiveness, Directors encouraged efforts to strengthen competitiveness in the tourism and international business sectors, and to lower labor costs. They noted that pending large investment projects should help to raise productivity and support reserve levels. They encouraged the authorities to divest some

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

of the government's commercial assets, tackle labor market rigidities, and reduce the cost of doing business, while reducing reliance on tax incentives.

Directors commended the strides made by the authorities in improving financial sector regulatory and supervisory frameworks. While domestic banks appear resilient to shocks, Directors noted the risks posed by a negative sovereign-financial feedback loop as well as weakening asset quality. They stressed the importance of continued close supervision of both banks and non-bank financial institutions, and looked forward to implementation of the recommendations of the Financial Sector Assessment Program (FSAP) update.

Barbados: Selected Economic Indicators 1/

				Projections	
	2010	2011	2012	2013	2014
(Annual percentage change)					
Output, prices, and employment 2/					
Real GDP	0.2	0.8	0.0	-0.7	-1.2
CPI inflation (average)	5.8	9.4	4.5	2.3	2.0
CPI inflation (end of period)	6.6	9.5	2.4	2.2	1.8
External sector					
Exports of goods and services	7.9	6.7	-6.6	-3.1	2.5
Imports of goods and services	9.5	2.6	-7.8	-0.8	-4.0
Real effective exchange rate (average)	0.1	2.1	4.7	0.9	0.3
Money and credit					
Net domestic assets	1.2	-13.0	22.0	7.5	3.4
Of which: Private sector credit 3/	1.5	2.7	10.5	-2.5	-2.8
Broad money	3.9	-2.9	6.3	1.2	1.7
(In percent of GDP, unless otherwise indicated)					
Public finances (fiscal year) 4/					
Central government					
Revenue and grants	25.8	29.4	27.6	23.9	24.9
Expenditure	34.6	33.9	35.6	33.5	29.8
Interest	5.7	6.1	6.6	7.3	7.5
Balance	-8.8	-4.4	-8.0	-9.6	-4.9
Public Debt (fiscal year) 4/					
Central government gross debt (excludes NIS holdings)	70.3	78.0	85.8	92.0	94.7
External	28.6	29.4	28.6	30.2	28.5
Domestic	41.7	48.6	57.2	61.8	66.2
Central government gross debt (includes NIS holdings)	96.7	106.1	118.2	126.4	129.8
Balance of payments					
Current account	-5.8	-11.4	-10.1	-11.4	-7.8
Capital and financial account	3.0	2.8	4.1	3.0	6.5
Official capital	3.5	1.0	0.3	2.3	-1.4
Private capital 5/	4.6	16.2	14.2	6.4	7.9
Of which: Long-term flows	4.9	7.8	7.7	1.8	8.0
Overall balance	-0.6	-0.1	0.4	-3.9	-1.3
Memorandum items:					
Exchange rate (BDS$/US$)	2.0	2.0	2.0	...	...
Net international reserves (US$ millions)	718	712	729	563	509
In months of imports	3.8	3.7	4.1	3.2	3.0
Nominal GDP (BDS$ millions) 2/	8,867	8,738	8,450	8,568	8,631

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

1/ The 2013/14-2014/15 data includes layoffs of 3500 public employees effective Q1 2014.

2/ Staff have identified inconsistencies in the constant and current price GDP series. The Barbados Statistics Service is working to address these issues.

3/ Private sector credit growth in 2012 is mostly due to the merger of a commercial bank and a trust company. Excluding this impact, credit to the non-financial private sector decreased by 1.9 percent.

4/ Fiscal year is from April to March. For example, 2008 refers to April 2008 to March 2009.

5/ Includes short-term and long-term flows, and errors and omissions (including adjustments related to misclassification of exports).

Statement by the IMF Staff Representative on Barbados
February 10, 2014

1. **This statement summarizes economic developments in Barbados since the issuance of the staff report.** The additional information does not change the thrust of the staff appraisal.

2. **The reduction in the public service announced by the authorities in December is proceeding.** Of the 3000 layoffs planned, 1,800 were enacted by January 31, including 1,000 from public enterprises, and the remainder are expected to take place before March 31. The central government wage bill for 2013/14 is likely to be higher than predicted in the staff report since staff understood from the December announcement that the retrenchments would occur in January. In addition, the government recently approved a measure to grant severance payments to retrenched workers with over two years of service.

3. **The central government deficit for 2013/14 could be higher than projected.** Parliament recently approved "supplementary" requests for budget transfers, including to public enterprises, totaling BDS$146 million (1.7 percent of GDP), although the extent to which these reflect "new" extra-budgetary spending is unclear.

4. **Central bank holdings of Treasury-bills have not increased since end-November.** Short-term interest rates have risen from 3.2 to 3.3 percent since December.

5. **Foreign reserves declined by about US$35 million in January**. The provisional figure at December 31, 2013 is US$580 million, slightly higher than staff's estimate of US$565 million. Reserves declined to US$545 million by January 28 (3.2 months of imports), owing mainly to large fuel-related payments and external debt service.

6. **The authorities estimate that real GDP growth declined by 0.2 percent in 2013**. At this time, staff retain their estimate of a 0.7 percent contraction in light of statistical discrepancies in the compilation of the national accounts data (see paragraph 46, and Supplement 1, page 10). Staff will update projections upon receiving more detailed information.

7. **Non-performing loans (NPLs) have declined and the capital adequacy ratio (CAR) has risen**. NPLs as a share of total loans fell to 11.3 percent in September 2013 from 13.9 percent in June 2013. This decline is due mostly to the repayment of one large corporate loan in the hotel sector. The CAR rose to 22.6 percent in September 2013 from 21.5 percent in June 2013.

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Statement by Mr. Hockin, Executive Director for Barbados and
Mr. Dalrymple, Advisor to Executive Director
February 10, 2014

Our Barbadian authorities appreciate the ongoing policy dialogue with, and advice from, the Fund. They are especially grateful for the detailed analysis in the Staff Report for the 2013 Article IV and are equally pleased with the consultations and outcome of the Financial Sector Stability Assessment (FSSA). The Staff assessment is very candid about the performance of the economy, as well as the medium-term challenges facing the authorities. They broadly agree with the proposals and have already begun to implement the necessary fiscal measures and structural changes to mitigate the attendant risks and assure the resumption of sustainable growth over the medium term. The authorities are fully cognizant of the magnitude of the challenges they face, and based on their reputation are determined to restore fiscal balance and economic growth.

The Barbados Growth and Adjustment Strategy

The recovery of the Barbadian economy from the international economic shock of 2008 has been slow and uncertain; real output contracted by an estimated 0.2 percent in 2013 and real GDP remains 3 percent below the 2008 level. However, the economy has become more resilient over the years; in the recessions of the early 1980s and 1990s the economy contracted by 7 percent and 14 percent, respectively. The unemployment rate (11.2 percent) and inflation rate (2 percent) are both lower than those observed in earlier recessions.

The Barbados economy is more competitive than its Caribbean and Central American neighbors in most of the factors that influence investment decisions. In the Global Competitiveness Report 2013-14, Barbados outperforms the region in institutional strength, infrastructure, health, education, labor market efficiency, financial market development, and technological readiness. Barbados is on par with the region in business sophistication and innovation. The two elements with respect to which Barbados is less competitive are market size and the macroeconomic environment. Although the prices of Barbados' tourism, international business and finance, agriculture and manufacturing have risen since the mid-2000s, inflation of competitors' prices has been more rapid, and Barbados has become more competitive on price than the average Caribbean and Central American country.

The Barbados growth strategy focusses on increasing the country's share of the market in the activities in which Barbados has established its international competitiveness, *viz* tourism, international business and finance, agro-processing, and green energy. Although the country has lost ground in tourism and international business and financial services (IBFS) since the onset of the current international crisis, the country's shares of spending in those markets are higher than they were in 2000. The initiatives to regain market share include product enrichment, development of new and ancillary products, exploration of new markets, increasing sophistication and targeting of market segments, investing in product upgrades and new capacity, and implementing measures to improve labor productivity and service

efficiency. About US$1.5 billion of already known investment is projected over the next three years.

The Barbados Government supports the growth strategy, which is propelled by the private sector, by providing appropriate fiscal incentives, acting as catalyst for private investment projects, improving infrastructure, jump-starting priority investment projects by providing government support, and improving the facilitation of business and the efficiency of the government.

The authorities are in full agreement that urgent measures are necessary, and a front-loaded adjustment of the required magnitude is already in place to address the external imbalance. In addition, the analysis presented by the staff indicates that the measures already implemented are sufficient to restore external balance. Moreover, Barbados' institutional strength, and the authorities' capacity for monitoring economic performance and effecting prompt course correction, all reduce the risk of a disorderly adjustment.

Fiscal Policy

In our view, the staff statement that the government "first applied countercyclical policies to offset the impact of the global recession" is inaccurate because Barbados' import propensity is so high, countercyclical fiscal policies always result in a decline of foreign exchange reserves. The country's foreign reserves increased in 2009, and remained above 2008 levels until April of 2013, which provides *prima facie* evidence that there was no countercyclical fiscal expansion.

The immediate objective of fiscal policy in Barbados is to contain aggregate spending in light of the projected performance of the foreign exchange sectors, so that the demand for imports does not exceed foreign exchange inflows. Fiscal discipline served to maintain Barbados' foreign reserve cover at the equivalent of 19 weeks of imports at the end of 2012, compared to 16 weeks at the onset of the crisis in 2008. When reserves came under pressure from May 2013, an appropriate fiscal adjustment package was introduced in August. The 19-month austerity program committed the authorities to a number of fiscal consolidation measures that include restraint in the wage bill and other current outlays, particularly to public enterprises, which should reduce statutory bodies' dependence on the budget. Further measures were added in December, to keep the adjustment program on track. Reserve cover at December 2013 was 15 weeks. Since the Minister of Finance's announcement in December, the following measures have been instituted:

- Layoffs in the public sector commenced from the beginning of January 2014 and are targeted at reducing employment in the public sector by 10 percent;
- The consolidation tax was implemented and is projected to yield about BDS$24.0 million for a fiscal year;
- The tax on commercial bank assets has begun to accrue, with the first payment due on February 15, 2014;
- The Municipal Solid Waste tax became effective in January 2014, with the first payment due in June 2014; and

- A freeze on all non-statutory discretionary waivers unrelated to the earning and/or direct saving of foreign exchange for the next three years.

In preparation for the government's fiscal adjustment program, and in keeping with Barbados' long established social partnership, in July 2013 a national consultation was held with stakeholders in the government, the private sector, and the labor movement. The social partners meet regularly to discuss the economic and social conditions in Barbados and make recommendations for the way forward. In the current austerity the social partnership helps to maintain social cohesion and decision-making. The economic strategy is monitored monthly by a committee of top technocrats in the Ministry of Finance and Economic Affairs, as well as the Central Bank of Barbados, with their outputs being discussed periodically with the social partnership.

Structural Reforms

In 2010, the Barbadian authorities embarked on both a Medium-Term Fiscal Strategy (MTFS), aimed at fiscal consolidation, and a Medium-Term Development Strategy (MTDS) to promote sustainable growth. In 2013, the government started to implement the Medium-Term Growth and Development Strategy (MGDS), to update and align these objectives. The document provides an enabling framework for achieving a sustainable fiscal trajectory, with targeted fiscal deficits and the rejuvenation of the foreign exchange earning sectors, in particular the alternative energy sector.
The authorities have recently approved several initiatives aimed at providing a platform for the restoration of growth through incentives and business facilitation for the foreign exchange earning sectors, as well as investment in infrastructure that will further strengthen the quality of Barbados' products. These measures include a reduction in the VAT for tourism services and additional financing for small and medium-sized hotels. Also, our authorities are confident of attracting FDI and to this end, they will be seeking to enhance and modernize the business climate by setting a "one-stop shop" to improve the pace of business facilitation. As part of this process, an island-wide open wireless internet network is to be established, to encourage the use of information and communications technology (ICTs) for improving competitiveness and productivity. Efforts to reform the public sector have been geared towards the reform of the tax system and the management of state-owned entities. The ongoing CARTAC-led technical assistance related to the state-owned entities – the first phase of which has just been completed – is expected to assist the government with the monitoring of these entities and to improve their financial management practices. CARTAC's assistance has also been sought to address the tax administration challenges and the formation of a central revenue authority. The Barbados Central Revenue Authority is targeted at removing the administrative fragmentation that exists in the system and is scheduled to be established on April 1, 2014.

Debt

The Barbados Government and state corporations have an outstanding debt balance of BDS$9.1 billion, of which 35 percent (US$1.6 billion) is foreign debt. On the assets side,

the government and statutory bodies hold deposits, sinking funds, foreign reserves, and other liquid assets of BDS$3.5 billion. The net public sector debt of BDS$5.6 billion is the equivalent of 67 percent of GDP.

The servicing of foreign debt absorbs about 6 percent of current account inflows, and foreign debt servicing is projected to remain below 10 percent for the next 5 years. Government interest payments for domestic and foreign debt are projected at 27 percent of revenue for the 2013/14 Fiscal Year, which ends in March. Barbados maintains an impeccable record of servicing domestic and foreign debt fully and on schedule.

Monetary Policy

Since April 2013, the Central Bank of Barbados has provided guidance on interest rates through its intervention in the Treasury Bill tender. The external financial accounts of Barbados are open to non-portfolio flows, de facto, and domestic interest rate trends follow comparable US interest rates. Domestic rates may deviate in response to surplus or scarcity of domestic liquidity. At the time of the introduction of the new policy, domestic liquidity was ample, and the domestic short term rate declined by a few basis points. Although there remains excess liquidity in the system, the domestic Treasury bill rate has risen more recently.

There has been a temporary increase in Central Bank credit to the government, in consequence of the decline in foreign exchange reserves and the associated constriction of domestic financing. Banks and other financial institutions used funds that might otherwise have financed the government to purchase foreign exchange from the Central Bank. This temporary switch between domestic and foreign assets in the Central Bank's balance sheet is to be expected in a fixed exchange rate regime in the interim while fiscal adjustment measures take their full effect. The balance will decline with the achievement of the 2014/15 fiscal target.

External Sector Developments

Last October the government tested the waters for a US$500 million international bond issue that would be eligible for the emerging market bond index and would therefore attract investors with an interest in liquid securities. Because the government needed only US$250 million of new money to boost reserves and kick-start priority projects, the strategy involved the exchange of US$250 million of outstanding issues. At the end of a week-long series of meetings with investors, the government concluded that the market costs of this arrangement were too high, and instead the required funds were borrowed through private placement.

We believe that staff exaggerates Barbados' vulnerability to global financial market volatility. By its own calculations, Barbados does not need to access international capital markets during the forecast period in order to maintain foreign reserves at the equivalent of 3 months' cover, provided private capital flows return to normal levels.

The link between Barbados' tourism receipts and growth rates in its main tourist markets, emphasized in the Staff report, is not immutable. Sophisticated marketing and market diversification strategies, now being implemented, are specifically designed to break these links.

Financial Sector Assessment

Our authorities are in general agreement with the FSSA recommendations. They have had a high uptake of advice from the previous FSSA and are already in the process of adopting many of the recommendations of the current one. They are keen on making the necessary revisions to legislation, particularly the Financial Institutional Act - to strengthen the monitoring of credit risks, and the Central Bank of Barbados Act. They have also been supportive of efforts to establish a credit bureau.

An assessment of the financial system has revealed that while credit quality and profitability issues exist, the sector remains stable and liquid with well-capitalized institutions. Banks' non-performing loan (NPL) ratio rose to 13.8 percent in mid-2013, but has since fallen to 11.3 percent as at end-September with the resolution of a large corporate non-performing loan (to the hotel sector).

Given that Barbados' banking system is totally foreign-owned, the authorities have maintained a very good regulatory relationship with Canada, which has the majority interest in the banking sector and is widely regarded as having the most stable banking system in the world.

Summary

Our Barbados authorities have put in place an economic strategy for growth and adjustment that is appropriate to the country's circumstances. It focuses on private sector-led growth in the sectors that earn and save foreign exchange, and builds out Barbados' established competitive advantages by improving product quality, enhancing product offerings, raising factor productivity, developing new products and services, supporting targeted marketing, developing nontraditional markets, and improving business facilitation. Fiscal policy continues to be employed aggressively to protect the value of the peg, while providing support and incentives for the foreign exchange earning sectors. A medium-term program of structural adjustment is underway to improve government efficiency. Downside risks exist, but they are mitigated by the demonstrated resilience of the Barbadian economy and its noteworthy institutional strength.