IMF Country Reports 21/268

Barbados: 2021 Article IV Consultation, Sixth Review Under the Extended Arrangement Under the Extended Facility, and Request for Modification of Performance Criteria-Press Release; and Staff Report

INTERNATIONAL MONETARY FUND

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IMF Country Report No. 21/268

BARBADOS

December 2021

2021 ARTICLE IV CONSULTATION, SIXTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; AND STAFF REPORT

In the context of the 2021 Article IV Consultation with Barbados and Sixth Review Under the Extended Arrangement Under the Extended Facility, and Request for Modification of Performance Criteria, the following documents have been released and are included in this package:

- **Press Releases** summarizing the views of the Executive Board as expressed during its December 15, 2021 consideration of the staff report that concluded the Article IV consultation with Barbados.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 15, 2021, following discussions that ended on November 5, 2021, 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 November 29, 2021.
- An **Informational Annex** prepared by the IMF staff.

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

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PRESS RELEASE

PR21/379

IMF Executive Board Concludes 2021 Article IV Consultation and Sixth Review under the IMF's Extended Arrangement for Barbados

FOR IMMEDIATE RELEASE

- The Executive Board of the IMF concluded the sixth review of the IMF's extended arrangement under the Extended Fund Facility (EFF) for Barbados. The completion of the review allows the authorities to draw the equivalent of SDR 17 million (about US$24 million).

- Despite the challenges posed for the economy by the pandemic and a series of natural disasters, Barbados has been steadily moving ahead with the implementation of the comprehensive Economic Recovery and Transformation (BERT) plan aimed at restoring fiscal sustainability, and increasing reserves, and unlocking growth potential through structural reforms.

Washington, DC – **December 16, 2021:** On December 15, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Barbados. At the same meeting, the Board also completed the sixth review of Barbados' economic reform program supported by an arrangement under the Extended Fund Facility (EFF). The completion of the review allows the authorities to draw the equivalent of SDR 17 million (about US$24 million), bringing total disbursements to the equivalent of SDR 305 million (about US$425 million).

The four-year extended arrangement under the EFF was approved on October 1, 2018 (see Press Release No. 18/370) and is for an amount equivalent of SDR 322 million (about US$465 million).

Barbados continues its strong implementation of the comprehensive Economic Recovery and Transformation (BERT) plan aimed at restoring fiscal sustainability, increasing reserves, and unlocking growth potential through structural reforms. The prolonged global coronavirus pandemic, along with the twin natural disaster shocks of volcanic ashfalls from neighboring St. Vincent in April and category 1 hurricane Elsa in July, poses a major challenge for the tourism-dependent economy. Reform efforts include enhancing adaptation measures towards increasing vulnerabilities emanating from climate change and natural disasters.

Following the Executive Board discussion, Mr. Bo Li, Deputy Managing Director and Acting Chair, made the following statement:

The Barbadian authorities continue to make good progress in implementing their

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

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comprehensive Economic Recovery and Transformation plan, despite the challenges caused by the ongoing global pandemic and two recent natural disasters. Given that the outlook remains uncertain, the authorities need to maintain sound policies and their strong reform momentum to safeguard macroeconomic stability and boost potential growth.

A temporary relaxation of the primary balance target for fiscal year 2021/22 is appropriate given the lingering impact of the pandemic and unexpected spending needs to address the impact of Hurricane Elsa and ashfalls from nearby volcanic eruptions. The authorities will have to compensate this short-term fiscal accommodation with higher primary surpluses in the medium term to safeguard debt sustainability.

Medium-term fiscal adjustment will be supported by reforms to state-owned enterprises (SOEs). To create fiscal space for investment in physical and human capital, transfers to SOEs need to decline by strengthening oversight of SOEs, revenue enhancement, cost reduction, as well as mergers and divestment. The authorities' plans to reform the pension system and introduce a fiscal rule will also support fiscal sustainability.

The authorities took an appropriate monetary and financial policy response to the pandemic. They plan to recapitalize the central bank gradually. Carefully unwinding pandemic-related credit support measures, as conditions allow, will be critical to contain financial sector risks. The Central Bank of Barbados plans to join the Network for Greening the Financial System and intends to gradually integrate climate change risks into its financial stability assessments. Going forward, the authorities should also work, in close cooperation with the Financial Action Task Force, to further strengthen the AML/CFT framework.

Medium-term growth prospects depend on accelerating structural reforms to improve the business climate, diversify the economy, and facilitate green and digital transformations. Strengthening resilience to natural disasters and climate change, combined with an accelerated transition to renewable energy, is key to achieve more sustainable economic growth and reduce vulnerability to international oil price volatility. In this regard, the authorities' ambitious target of reaching 100 percent renewable energy by 2030 is commendable.

The Executive Board also concluded the 2021 Article IV consultation[2] with Barbados.

Executive Directors agreed with the thrust of the staff appraisal. They commended the Barbadian authorities for their sustained good progress in implementing their ambitious economic reform program, despite the challenges brought by the global pandemic and two recent natural disasters. Given that the outlook remains uncertain, Directors called on the authorities to maintain their strong reform momentum to boost potential growth, while ensuring a timely transition to fiscal consolidation to preserve debt sustainability.

Directors noted that a temporary fiscal accommodation is needed given the lingering impact of the pandemic and unexpected spending brought by the natural disasters. To compensate for this temporary relaxation, Directors underscored that the authorities will have to deliver ambitious primary surpluses over the medium and long term to safeguard debt

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

sustainability. They noted that the authorities are exploring, in close consultation with Fund staff, how best to use the recent SDR allocation to support key economic objectives.

Directors emphasized that medium-term fiscal consolidation should be supported by reform of state-owned enterprises (SOEs). They supported the authorities' plans to reduce transfers to SOEs with a combination of stronger oversight, revenue enhancement, cost reduction, as well as mergers and divestment. Directors also stressed the need to support fiscal sustainability through pension reform and the introduction of a fiscal rule. They encouraged the authorities to assess the impact on fiscal revenues of the recent global agreement on corporate taxation.

Directors welcomed the monetary and financial policy response to the pandemic and the plans to recapitalize the central bank. They recommended further strengthening the financial supervisory framework and carefully unwinding pandemic-related credit support measures, as conditions allow. Directors welcomed the central bank's plans to join the Network for Greening the Financial System and its intention to integrate climate change risks into financial stability assessments. Directors recommended further strengthening the AML/CFT framework in close cooperation with the Financial Action Task Force.

Directors emphasized that medium-term growth hinges on structural reforms that improve the business climate, diversify the economy, and facilitate green and digital transformations. They recommended strengthening resilience to natural disasters and climate change, combined with an accelerated transition to renewable energy, to achieve more sustainable growth. In this context, Directors commended the authorities' ambitious target of reaching 100 percent renewable energy by 2030.

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

Table 1. Barbados Selected Economic Indicators

I. Social and Demographic Indicators

Population (2020 est., thousand)	287.9	Adult literacy rate (2014)	99.6
Per capita GDP (2020 est., US$ thousand)	15.6	Poverty rate (individual, 2010)	19.3
Life expectancy at birth in years (2019)	79.2	Gini coefficient (2010)	47.0
Rank in UNDP Development Index (2019)	58	Unemployment rate (2019 est.)	10.7

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

II. Economic Indicators

			Est.	Projections	
	2018	**2019**	**2020**	**2021**	**2022**
			(Annual percentage change)		
Output, prices, and employment					
CY Real GDP	-0.6	-1.3	-18.0	1.6	10.1
CPI inflation (average)	3.7	4.1	2.9	3.0	5.4
CPI inflation (end of period)	0.6	7.2	1.3	4.7	2.7
External sector					
Exports of goods and services	-0.1	7.9	-39.2	30.0	19.4
Imports of goods and services	-0.4	3.9	-18.1	21.0	12.2
Real effective exchange rate (average)	121.1	127.6	…	…	…
Money and credit					
Net domestic assets	4.1	0.0	5.0	6.0	2.4
Of which: Private sector credit	0.3	1.0	-1.2	-0.2	1.4
Broad money	-0.2	3.0	7.3	10.3	0.2
			(In percent of FY GDP)		
CG Public finances (fiscal year) 1/					
Revenue and grants	29.1	31.0	31.8	29.0	29.1
Expenditure	29.4	27.2	36.9	34.1	30.8
Fiscal Balance	-0.3	3.8	-5.1	-5.1	-1.7
Interest Expenditure	3.7	2.5	4.0	4.1	4.7
Primary Balance	3.4	6.2	-1.0	-1.0	3.0
Public Debt (fiscal year) 1/					
Central gov't gross debt /2	126.0	124.4	156.4	142.1	128.7
External	33.4	33.8	52.0	50.3	47.1
Domestic	92.5	90.5	104.5	91.8	81.6
Balance of payments (calendar year)			(In percent of CY GDP)		
Current account balance	-4.0	-3.1	-7.2	-10.8	-8.8
Capital and financial account balance	9.4	7.4	18.5	12.2	6.6
Public Sector	4.8	3.7	11.0	7.7	1.7
o/w IMF disbursement	1.0	1.9	5.1	1.0	0.5
Private Sector	4.1	3.8	7.6	4.6	4.9
o/w FDI	4.4	4.6	8.5	5.0	4.9
Net Errors and Omissions	0.2	0.2	1.8	0.0	0.0
Overall balance	5.7	4.5	13.2	1.4	-2.2
Memorandum items:					
Exchange rate (BDS$/US$)	2.0	2.0	…	…	…
Gross international reserves (US$ million)	499.6	738.9	1,330.3	1,394.2	1,278.5
In months of imports of G&S	3.0	4.2	9.3	8.0	6.6
In percent of ARA	100.5	141.9	260.0	242.6	208.5
Nominal GDP, CY (BDS$ millions)	10,173	10,596	8,975	9,374	10,485
Nominal GDP, FY (BDS$ millions)	10,279	10,191	8,494	9,733	10,725

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

1/ Fiscal year is from April to March.

2/ Including guaranteed debt, arrears and IMF EFF loan.

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BARBADOS

November 29, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION, SIXTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Recent Developments and Outlook. While Barbados has been making good progress in implementing its Economic Recovery and Transformation (BERT) plan to restore fiscal and debt sustainability, rebuild reserves, and increase growth, it continues to face major challenges owing to the global pandemic. International reserves have increased to US$1.4 billion by October 2021 supported by IFI loans. This, and a successful 2018-19 public debt restructuring, have helped rebuild confidence in the country's macroeconomic framework. However, a virtual standstill in the tourism sector during the pandemic took a significant toll in 2020, with the economy contracting by 18 percent. While Barbados was successful in containing the outbreak during 2020, renewed COVID-19 waves weighed on the economic recovery in 2021. In addition, Barbados was hit by the twin natural disaster shocks of volcanic ashfalls from neighboring St. Vincent in April and category 1 hurricane Elsa in July. Economic growth is projected at 1.6 percent for 2021 premised on a modest recovery of tourism towards the end of 2021—down from 3 percent projected at the time of the fifth EFF review. The outlook remains highly uncertain, and risks are elevated.

Program implementation. All program targets for end-June and end-September 2021 were met. Structural benchmarks for the sixth review have also been met except for the passage of the Fair Credit Reporting Act, which was delayed due to the recent surge in COVID-19 cases is expected to be adopted in December. The primary balance for FY2021/22 is now targeted at minus 1 percent of GDP (from zero percent set at the time of fifth EFF review) to accommodate the lingering impact of the pandemic and unexpected spending needs to address natural disasters. The authorities will have to deliver ambitious primary surpluses in subsequent years for a longer period to compensate for the temporary fiscal relaxation. Staff proposes to modify quantitative targets on primary balance, public debt, and NIR set for end-December 2021 and end-March 2022. The authorities have steadily moved ahead with their economic reform agenda including the introduction of a revised central bank law, state-owned enterprise (SOE) reforms, and an actuarial review of the civil service pension system. The COVID-19 pandemic however has delayed progress in a part of the structural reforms, including

owing to delayed IMF TA and limited opportunities for public consultation, the latter of which is particularly important for consensus building around pension reform. The structural benchmarks related to tabling a revised public pension law and disseminating core FSIs for deposit takers are proposed to be reset to end-March 2022. The purchase of SDR 17 million would be made available in the form of budget support upon the completion of the sixth review.

Article IV discussion. Based on the Article IV discussions, staff recommended that while it was appropriate to temporarily relax the fiscal stance to accommodate lingering economic and health crises, the authorities should resume fiscal adjustment to safeguard long-term fiscal sustainability as soon as the pandemic dissipates. Such adjustment has to be supported by the structural reform agenda including the introduction of a fiscal rule and continued SOE reforms. Given increased exposure to climate change and natural disasters, the authorities should hasten to enhance adaptation measures including relevant infrastructure building.

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

The mission consisted of Bert van Selm (head), Keiichi Nakatani, Diane C. Kostroch (WHD), Genet Zinabou, Johanna Tiedemann (FAD), Tianxiao Zheng (SPR), and Claudio Visconti (MCM) and was virtual (conducted remotely using teleconferencing). Chris Faircloth and Ann Marie Wickham (Resident Representative Office) assisted the mission. The mission team met with Prime and Finance Minister Mottley, Central Bank of Barbados Governor Haynes, Minister in the Ministry of Finance Straughn, and other senior government officials. The mission was conducted during November 1-5, 2021. Mitchell Villeneuve (OED) joined the mission.

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APPENDIX

Acronyms

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

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

CONTEXT

1. Over the past three years, the government led by Prime Minister Mottley has successfully implemented a comprehensive economic reform agenda. Immediately after coming into office in May 2018, the government announced a comprehensive Economic Recovery and Transformation (BERT) plan, engaged with creditors to seek debt restructuring, and requested the support of the IMF and other international financial institutions (IFIs). A four-year Extended Arrangement under the Extended Fund Facility (EFF) to support Barbados' stabilization program was approved on October 1, 2018, and five program reviews have been successfully completed in a timely manner. The next parliamentary elections are due to take place by May 2023.

2. These reform efforts have restored confidence in the country's macroeconomic framework. After the 2008-09 global financial crisis, Barbados had been caught in a vicious cycle of low or negative growth and increasing debt, with public debt increasing to almost 160 percent of GDP by mid-2018. International reserves reached a low of US$220 million (5-6 weeks of import coverage) at end-May 2018. Macroeconomic stability was steadily restored with a combination of strong fiscal adjustment, a comprehensive sovereign debt restructuring with both domestic and external creditors, and structural reforms to increase macroeconomic stability. International reserves have gradually increased to US$1.4 billion by October 2021 (8 months of import coverage) through concerted support from IFIs. Despite the ongoing pandemic, the authorities have steadily implemented key structural measures (albeit with some delays), including the adoption by parliament of a revised central bank law in December 2020.

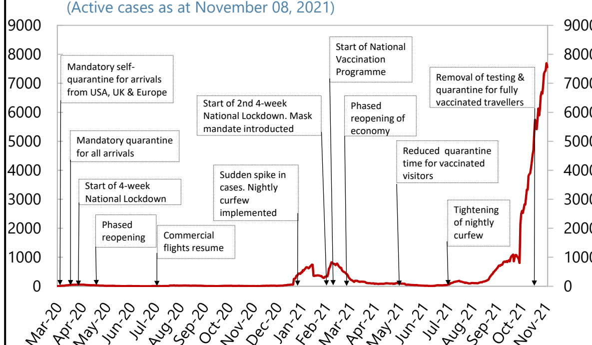
RECENT DEVELOPMENTS AND OUTLOOK

A. Recent Developments

Growth and Inflation

3. Barbados faces economic challenges owing to the ongoing global pandemic and recent natural disasters. While the authorities have been proactive in managing the health crisis (Box 1), the economic fallout has been significant. The collapse of tourist arrivals from April 2020 onwards sharply reduced economic activity and resulted in a corresponding decrease in government revenues. The economy contracted by 18 percent in 2020 and the unemployment rate spiked into the high double digits. Additionally, Barbados was hit by volcanic ashfall from neighboring St. Vincent in April, and in July 2021 by a category

Barbados: Evolution of COVID-19 Outbreak
(Active cases as at November 08, 2021)



Source: Government Information Service.

1 hurricane, Elsa—the first hurricane to strike the island in 65 years. These natural disasters have caused significant damage to physical assets and created additional spending pressures.

Box 1. Barbados: Overview of the COVID-19 Response

Advance planning and proactive policies were effective in containing the initial spread of the pandemic. Pre-emptive actions ahead of the virus' arrival in Barbados—ranging from anticipatory orders to stockpile vital medicines and medical-treatment equipment to the establishment of large treatment and care centers—were critical in managing the pandemic. Within days of the first confirmed case (March 16, 2020), actions were taken to contain spread. Isolation and treatment centers were activated, limits on public gatherings imposed, and supplemental medical facilities established. These were followed by the introduction of a 24-hour curfew in early April that restricted non-essential personnel to their residences and closed non-essential businesses. The combination of a national lockdown and suspension of air travel by commercial airlines was effective in containing COVID-19. Active cases were eliminated in June 2020 and hovered in the low double digits for the remainder of the year with only 7 deaths registered.

Barbados has experienced several COVID-19 waves, prompting an evolution of the containment strategy. While borders have remained open throughout the pandemic, enhanced screening measures were activated at the outset, including quarantine protocols that became mandatory for all travelers in March 2020. Commercial air travel reopened in July 2020 with travel protocols to promote a safe resumption of tourism. The mandatory quarantine protocol for all travelers was ultimately replaced by differentiated testing and monitoring regimes according to vaccination status. Screening and movement restrictions were recently lifted for vaccinated travelers, but unvaccinated persons remain subject to a double negative testing and quarantine process upon arrival. Despite early successes in containing the virus, a spike in cases at the outset of 2021 prompted a second four-week national lockdown in February and the introduction of a mandatory mask policy. The arrival of the Delta variant in August 2021 provoked a third most intense wave to date, with unvaccinated persons being most impacted in the severity of cases and deaths. The authorities have pursued a targeted response to the latest wave. In addition to introducing a home isolation program and new treatment facilities, nightly curfews and gathering limits have been tightened with the authorities advocating online schooling and telework platforms. They have refrained from the imposition of broad economic restrictions in favor of strengthened enforcement of established protocols and a stepped-up outreach campaign to bolster participation in the National Vaccination Program (NVP).

The authorities are seeking to achieve herd-immunity thresholds through its vaccination program. The NVP commenced in February 2021 and has secured roughly half a million doses to date, which is sufficient to fully inoculate upwards of 90 percent of the population. Inoculations have only achieved a 50-60 percent rate of penetration thus far, however, with vaccine hesitancy being the primary impediment. The authorities have adopted measures to improve vaccine access (e.g., pop-up clinics and mobile centers) and are pursuing an aggressive information campaign on vaccine effectiveness to boost demand and achieve herd-immunity thresholds. These initiatives, alongside the rollout of the Pfizer vaccine in Barbados, which enable the inoculation of children, have contributed to an uptick in overall vaccine demand. Notwithstanding the recent Delta surge, Barbados' overall pandemic policy response ranks well against international comparators, where death rates globally and in the Americas are roughly double the rate prevailing in Barbados. The authorities have indicated they do not intend to adopt a broad-based vaccination mandate, favoring instead the adoption of safe zones where proof of vaccination and/or valid negative test results are required.

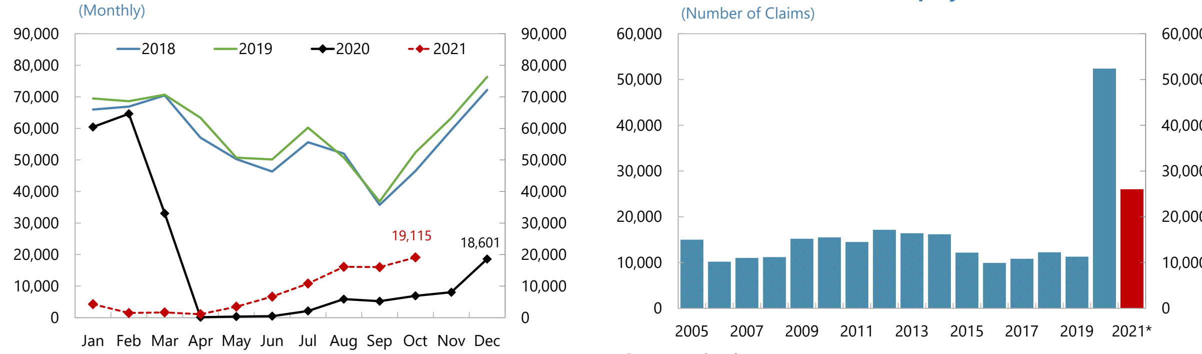
4. **There are indications of a modest recovery in 2021**. Recent months have seen a modest strengthening in tourism, but arrivals remain at a fraction of normal levels (about 40 percent of pre-pandemic norms in October). The lockdown introduced in February 2021 alongside two natural

disasters (volcanic ashfall and Hurricane Elsa) subdued economic recovery in the first half of 2021 and the recent increase in COVID cases is weighing on growth in the second half of the year. Meanwhile, labor market conditions have somewhat improved in 2021 but remain challenging with the unemployment rate still hovering around 16 percent, accompanied by high levels of unemployment insurance claims in the first two quarters of 2021.

Barbados: Tourist Arrivals and Unemployment Claims

Barbados: Long-Stay Tourist Arrivals
(Monthly)

Barbados: Annual Unemployment Claims
(Number of Claims)

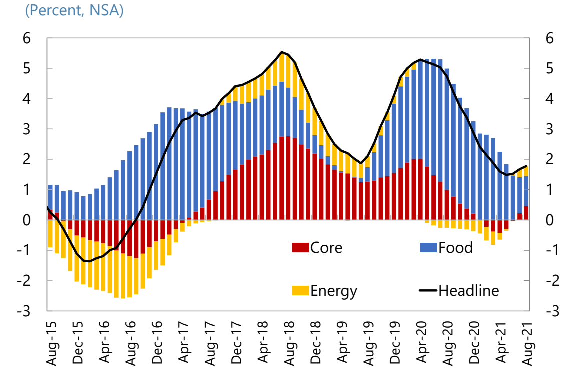


Source: Central Bank of Barbados

Source: National Insurance Department.
*Data for 2021 includes claims for the first 9 months of the calender year.

5. **Inflation has started to pick up in recent months owing to increasing global food and oil prices.** Rising commodity and food prices as well as supply chain disruptions across the globe began to be felt recently due to the high import contents in the consumer basket. With its local currency pegged against the US dollar, domestic prices tend to be influenced by price development in the US which has been experiencing a large increase in consumer prices in 2021. Inflation is projected at 3 percent for 2021 and expected to revert to just over 2 percent in the medium term as supply chain disruptions ease, and commodity and food prices normalize. In the longer-term, it is important that Barbados accelerate investment into renewable energy projects to reduce reliance on fuel imports.

Barbados: Contributions to Headline Average Inflation
(Percent, NSA)



Sources: Fund staff calculations.

Fiscal Developments

6. **A successful fiscal adjustment was paused to accommodate the impact of the pandemic.** Prior to the pandemic, the government achieved its primary surplus target of 6 percent of GDP in FY2019/20 by containing grants to public institutions and introducing additional levies to directly finance the operations of key SOEs, and the authorities were committed to maintain this primary surplus through FY2022/23. However, the COVID-19 pandemic resulted in sharply reduced

tax revenues and additional expenditures, and the primary balance target was accordingly adjusted to minus 1 percent of GDP for FY2020/21.

7. The fiscal policy response to the pandemic has focused on supporting the health system and providing lifelines to severely impacted households and businesses. While the biggest source of income support was administered via the unemployment system operated by the National Insurance Scheme (NIS), the central government has also provided direct support to vulnerable households through augmented welfare programs and cash transfers to small vendors affected by restrictions. The government implemented a program to support crisis-hit businesses in the tourism sector who re-hire and train workers through a mix of grants and equity investments. SOEs in the tourism and transport sector received additional transfers to cope with drastically reduced revenues.

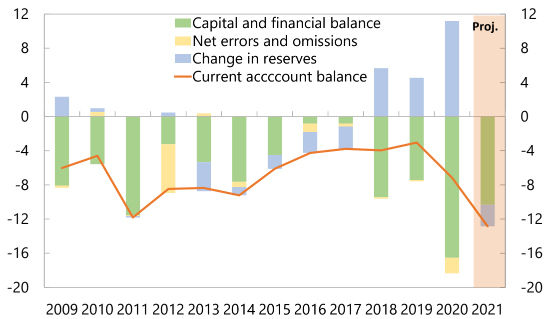
8. Government revenues are showing tentative signs of recovery in 2021 but spending pressures have risen further. While some taxes such as PIT and VAT performed better in April-September 2021 compared to the same period in 2020, these gains were tempered by lower corporate tax receipts from the international business sector. Total tax receipts are expected to improve further with economic activity, but additional expenditure needs to address the fallout from the twin shocks of volcanic ashfall and Hurricane Elsa, on top of the lingering impact of COVID-19, are projected to keep the primary balance in negative territory in FY2021/22.

Balance of Payments

9. The current account deficit is expected to widen to 11 percent of GDP in 2021 from 7 percent in 2020 owing to a sluggish recovery in the tourism sector, and unfavorable commodity price developments across the globe. Booming international oil and freight prices, combined with increasing domestic demands from reconstruction projects arising out of damages caused by Hurricane Elsa, led to an increase in imports relative to the first three quarters of 2020. Supported by the gradual reopening of international travel in source markets, external demand for tourism has slightly recovered and therefore improved the service balance. The external sector assessment finds that Barbados' external position in 2020 was broadly consistent with fundamentals and desirable policies after taking account of the impacts associated with the COVID-19 pandemic (see Annex III).

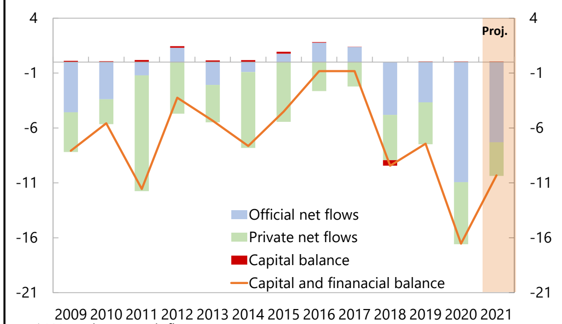
10. The current account deficit continues to be financed by financial support from IFIs. Since the COVID-19 pandemic started, the IMF has disbursed about US$260 million under the EFF-supported program including through two augmentations, while the Inter-American Development Bank (IDB), and Development Bank of Latin America (CAF) disbursed US$200 million, and US$100 million, respectively. The World Bank has provided budget support to Barbados equivalent to US$100 million in June 2021 on an exceptional basis. The IDB is planning additional policy-based lending in the last quarter of 2021 equivalent to US$100 million. FDI remains subdued with major tourism-related development projects put on hold under the on-going economic disruptions.

Barbados: Current Account Financing
(Percent of GDP 1/)



1/ Negative = net inflows.
Sources: Central Bank of Barbados and IMF staff calculations.

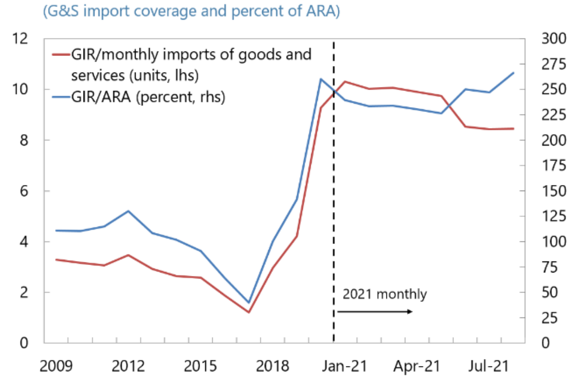
Barbados: Capital and Financial Account
(Percent of GDP 1/)



1/ Negative = net inflows.
Sources: Central Bank of Barbados and IMF staff calculations.

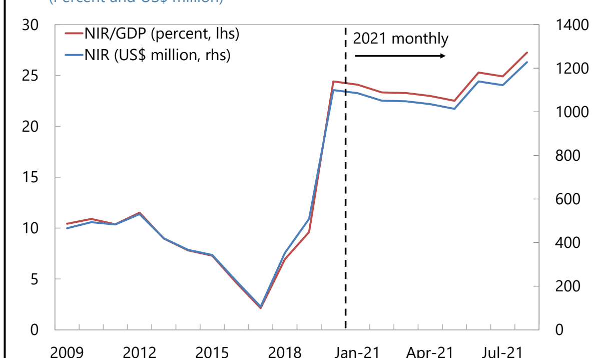
11. **Barbados continued to build international reserves.** Since the approval of the extended arrangement supported under the EFF, gross international reserves have increased to US$1.4 billion as of end-October 2021; about 8 months of goods and services import coverage and above 200 percent of the Assessment of Reserve Adequacy (ARA) metric. Net international reserves have increased to US$1.2 billion closely mirroring gross reserve dynamics (text charts). The international reverse position was further strengthened by the IMF SDR allocation of SDR 90.6 million (around US$130 million), which took place in August 2021.

Barbados: Gross International Reserves
(G&S import coverage and percent of ARA)



Sources: Fund staff calculations.

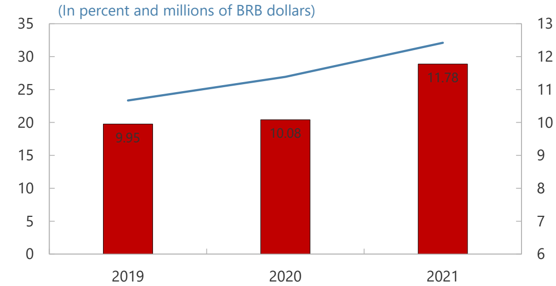
Barbados: Net International Reserves
(Percent and US$ million)



Sources: Central Bank of Barbados and IMF staff calculations.

12. **Over the medium term, the current account deficit is projected to narrow down to 5 to 7 percent of GDP**. A gradual recovery to normalcy in the tourism sector would improve the service balance, while, as witnessed even during the pandemic, goods export is projected to increase as Barbados continues enhancing the competitiveness of some export goods with comparative advantages (e.g., rum and other beverages) and increase its shares in the world market.

Barbados: Export Diversification
(In percent and millions of BRB dollars)



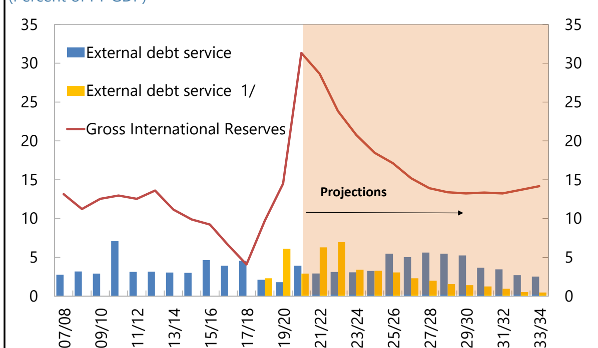
Monthly average export of electronic components, rum, molasses, lard and margarine, and other beverages (in millions of BRB dollars)
Share of electronic components, rum, molasses, lard and margarine, and other beverages in goods export
Sources: Central Bank of Barbados and IMF staff calculations.

The diversification of export goods should be further encouraged to boost alternative FX-earning sources and strengthen resilience to external shocks.

13. Private sector investment is expected to partly replace declining official inflows from IFIs over the medium-term. Exceptional IFI support is expected to fall as the pandemic wanes. FDI, including into the tourism sector and renewable projects, would compensate for a decline in IFI support but not to the full extent. To attract FDI steadily over the medium- and long-term, it is important to accelerate structural reforms under the BERT program to enhance business facilitation, while resuming fiscal consolidation to further strengthen confidence in fiscal sustainability and macroeconomic stability.

14. Reserves are well positioned to cover external debt. Barbados is currently rated as B- by S&P with a spread on external debt of 500 bps, below the high-risk threshold of 600 bps referenced in the MAC DSA. All new external debt incurred in 2020 were IFI loans with favorable terms, which poses limited risk to future debt service schedule and debt sustainability. Moreover, the authorities' medium- and long-term debt management strategy favors the use of domestic financing sources and puts the share of external debt on a gradual downward trajectory. This allows the authorities to maintain adequate reserve coverage while avoiding excessive reliance on expensive financing from capital markets much beyond rolling-over needs. Consequently, by end-FY2035/36, external debt is projected to be about 16 percent of GDP, while foreign reserves are expected to stay above 100 percent of the ARA metric throughout the projection period, well in excess of projected external debt service—which had been significantly backloaded through the 2019 debt restructuring.

Barbados: External Debt Service and International Reserves
(Percent of FY GDP)



Source: Fund staff calculations.
1/ Projections in FY2017/18 before default.

Financial Sector

15. Private sector credit continues to contract, with liquidity in the banking sector increasing. Commercial bank outstanding loans to the nonfinancial private sector continued to decline, contracting by about 2 percent in both 2020 and in August 2021 (yoy), as limited new lending (mainly working capital for the hotel and restaurant and distribution sectors) was outpaced by loan repayments (including on private mortgages). More broadly, banks highlight the limited opportunities for bankable projects, which, coupled with trending up deposits, have buoyed liquidity and pushed down the loan-to-deposit ratio. The implicit interest rate spread in financial intermediation has inched down to about 5.5 percent mostly driven by a modest decline in lending rates.

16. The financial position of commercial banks appears stable. Banks remain adequately capitalized and liquid, amid low profitability. At end September 2021, system wide CAR was at

16.1 percent (twice the minimum regulatory requirement), liquid assets to total assets at 29.1 percent, and bank excess cash reserves at about 26 percent. The system's NPL ratio was at 7.5 percent with a provision cover of about 60 percent. Banks continue to work with individual borrowers by extending deferrals or reprofiling loans as needed, on a voluntary and commercial basis; and maintaining regulatory standards on loan classification and provisioning. The value of commercial bank loans under moratoria was equivalent to about 2 percent of the outstanding bank credit to the nonfinancial private sector (of which about 95 percent represented loans to nonfinancial firms mainly in the hospitality sector). Liquidity in the FX market appears adequate.

B. Outlook and Risks

17. Barbados' economy is expected to gradually recover over the medium term. Modest (1.6 percent) growth is projected for 2021 (relative to 3 percent at the time of the fifth EFF review) due to lower than projected tourist arrivals in the year to date. Tourist arrivals are expected to gradually recover in the last quarter of 2021. Over the medium term, tourist arrivals are expected to return to normal levels around 2024. Structural reforms and strategic public investment are expected to return growth to its medium-term average of about 2 percent.

18. Risks to the outlook remain high and tilted to the downside. The key risk to Barbados is a further deepening and lengthening of the COVID-19 crisis, with a recovery in the tourism sector depending on how quickly key source markets (including the US, the UK and Canada) can restore normalcy. Global food and fuel price increases could put additional upward pressure on inflation, given that Barbados is highly dependent on imports for these commodities. Barbados' limited financial integration into global financial markets implies that risks stemming from possible changes in US monetary policy are limited. Barbados' increasing exposure to climate change risks could also have a dampening impact on economic activity (see Annex IV).

ARTICLE IV POLICY ISSUES

A. Fiscal Policy in FY2021/22 and Beyond

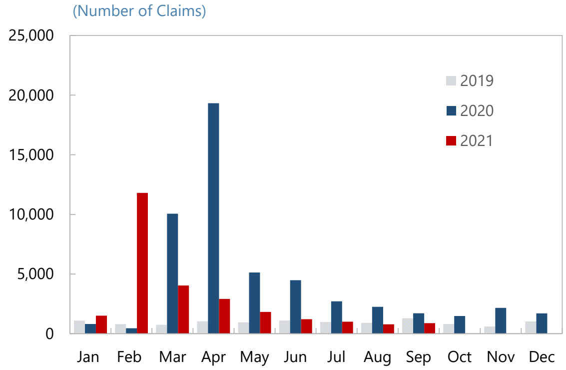
19. For FY2021/22, the primary balance is projected at minus 1 percent of GDP, down from zero at the time of the fifth EFF review. This mainly reflects higher than previously programmed expenditures to address the lingering effects of COVID-19 and the twin shocks of volcanic ashfalls and Hurricane Elsa. Compared to the fifth review, health-related COVID-19 expenditures were revised up by ½ percent of GDP to respond to the spread of the Delta variant, ½ percent of GDP in transfers to the NIS were programmed to replenish the unemployment benefit fund, and an additional ½ percent of GDP was allocated to rebuilding homes destroyed by Hurricane Elsa—mainly for low-income households. Lower than expected PIT and VAT refunds are helping absorb roughly one third of these additional expenditures. The lower primary balance corresponds to an overall fiscal deficit of 5 percent of GDP. Additional financing needs will be met by using government deposits built up through IFI financing.

20. The sharp increase in unemployment resulted in higher unemployment benefit outlays that put pressure on NIS finances. Unemployment insurance claims surged in the wake of the pandemic, increasing nearly five-fold in 2020 relative to recent years to 52,000 (about 30 percent of the labour force). Overall, NIS unemployment and severance outlays totaled nearly B$175 million (2 percent of GDP) in FY2020/21 and are expected to remain elevated at around 1 percent of GDP in FY2021/22. To address these payment pressures, the government provided liquidity support to the NIS in 2020 by buying back central government debt equivalent to B$169 million held by the NIS. In addition, in June 2021 parliament adopted a plan to recapitalize the Unemployment Benefit Fund (end-June structural benchmark) that envisions a further infusion of B$143 million (1½ percent of GDP) over the next three fiscal years, of which the first disbursement took place in September. This should be adequate to address additional financing needs in the remainder of the year, given estimated contributions and the declining trend in benefit outlays exhibited in the recent months.

Barbados: NIS Unemployment and Severance Outlays

Barbados: Monthly Unemployment Claims

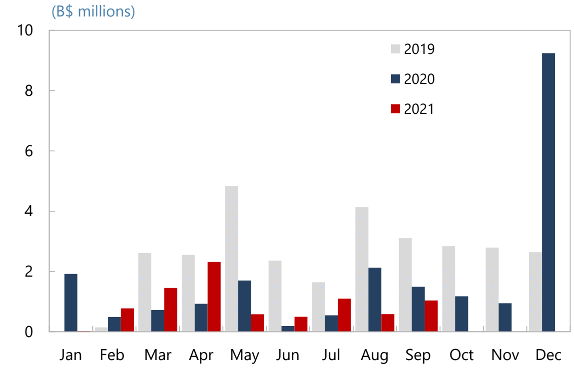
(Number of Claims)



Source: National Insurance Department.

Barbados: Monthly Severance Expenditures

(B$ millions)



Source: National Insurance Department

21. The government still needs to provide financial support to vulnerable households and businesses impacted by the pandemic. COVID-related budget support to the economy is projected at about 2.6 percent of GDP in FY2021/22, including the NIS recapitalization (see text table). Health-related spending, including for testing and the vaccination program, as well as direct welfare needs remain elevated. Take-up of a program supporting crisis-hit businesses in the tourism sector is accelerating, while several SOEs still need additional government transfers to bridge revenue shortcomings related to the pandemic.

Barbados: Estimates of Covid-Related Expenditures in FY20/21 and FY21/22

(In percent of GDP)

	FY20/21	FY21/22
Covid-related expenditure	**2.5**	**2.6**
Health related	1.0	0.8
Support to households	0.5	0.4
Support to businesses	0.3	0.4
Transfers to SOEs	0.5	0.2
Education	0.1	0.1
Other[1/]	0.0	0.6

Sources: Authorities and IMF staff estimates.

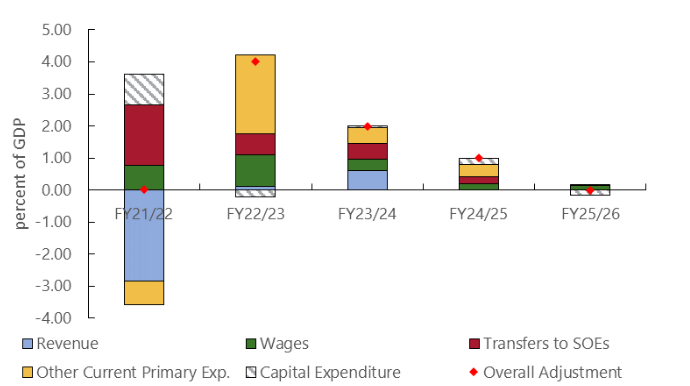
1/ Other Covid spending includes recapitalization of the Unemployment Benefit Fund

22. The government has taken steps to ensure crisis expenditures are tracked and executed in a transparent manner. The government is tracking key crisis expenditures via a dedicated new line in the FY2021/22 budget and reporting to parliament all COVID-related procurement contracts in excess of BDS$1 million. A new procurement law, which seeks to

strengthen the fairness, integrity, and transparency of the procurement process is expected to be tabled in parliament by end-2021. This law is expected to provide a framework to facilitate the audit of crisis-related procurement and publication of contracts and names of successful bidders. Beneficial ownership information of public sector contractors is expected to be available via Barbados' corporate registrar by end of 2021 (see MEFP ¶18). Moreover, FY 2020/21 crisis expenditures are currently being audited as part of the Auditor General's annual audit of central government accounts.

23. **Starting in FY2022/23, the authorities are expected to resume fiscal consolidation required to achieve long-term fiscal objectives.** The authorities remain firmly committed to unwind the temporary fiscal accommodation caused by the COVID-19 pandemic and natural disasters. The projected improvement in the fiscal position is supported by a cyclical recovery in revenues, phasing out of COVID-related expenditures, a mechanical reduction in the spending ratio due to the denominator (higher GDP) effect, continued SOE reform and wage bill control, and the expected introduction of a fiscal rule. The 6 percent of GDP primary surplus, which was initially programmed to be maintained during the full program period, is expected to be reached by FY2024/25. Further downward revisions to the growth outlook would jeopardize this projection and require additional fiscal adjustments to keep Barbados on track to meet its debt target. Such adjustments could include measures to broaden the revenue base by enhancing the efficiency of land taxes and the VAT regimes in the real estate and tourism sectors and further rationalizing tax expenditures, or additional curtailing of expenditures.

Barbados: Projected Medium-Term Adjustment in the Primary Balance



Source: IMF staff projections

24. **The recent global agreement on corporate income taxation could impact corporate tax revenues in Barbados over the medium term.** Pillar One of the agreement will likely have negligible impact. However, the minimum 15 percent effective corporate income tax on companies with turnover above €750 million planned under Pillar Two could affect some segments of the international business sector in Barbados.[1] The authorities are currently evaluating the expected impact and weighing the appropriate policy response. Additional guidance from the OECD on how to bring Pillar Two into domestic legislation is expected in 2022.

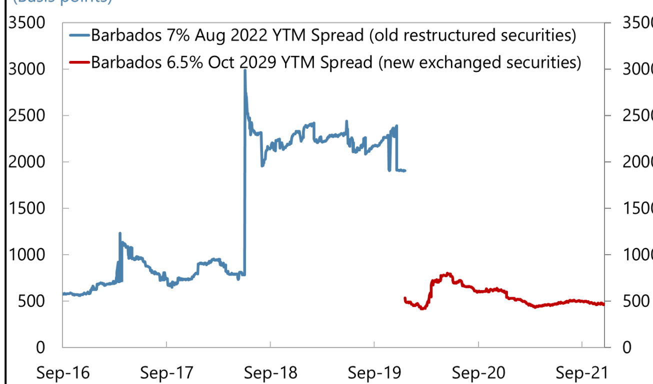
[1] Corporate profits are currently taxed at a sliding scale from 5.5 percent for profits below BDS$1 million to 1.0 percent for profits above BDS$30 million.

Debt Sustainability

25. The Debt Sustainability Analysis (DSA) suggests the debt target of 60 percent of GDP can be reached by FY2035/36 (Annex II). While fiscal policy must remain accommodative in FY2021/22 to offset the impact of the pandemic and natural disasters, a gradual economic recovery along with planned structural reforms will facilitate a gradual reduction in the debt-to-GDP ratio over the medium and long term. With the debt anchor target pushed out by two years in the context of the fifth EFF review, the authorities should be able to achieve the target through ambitious primary balances in the long-term.

26. Debt continues to be assessed as sustainable but subject to high risks. Risks to debt sustainability are high but mitigated by Barbados' strong track record under the EFF-supported program and the authorities' strong commitment to long-term fiscal adjustment, as well as the favorable debt service terms after the comprehensive debt restructuring (see Annex II). Market perception of country risk has improved after ticking up in April 2020 and the spread of external debt to bondholders is around 500 bps (text chart). Barbados' debt continues to be assessed as sustainable but subject to high risks. This assessment hinges on several key assumptions including the projected growth recovery and long-term fiscal consolidation.

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



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

Structural Reforms

27. Measures to alleviate fiscal risks from SOEs have been undertaken but this is a process that requires sustained reform efforts (Box 2). Prior to the pandemic, the authorities undertook cost reduction measures and revenue enhancement initiatives that were effective in delivering a structural decrease in transfers to public entities.[2] These were supplemented by reforms to strengthen oversight frameworks to limit fiscal risks and improve SOE performance over time. Under the modernized 2019 PFMA Act, the government must approve all SOE borrowing and can sanction SOEs for noncompliance with enhanced reporting requirements. The legislation also requires the government and parliament to receive regular financial reports on SOE performance. However, the majority of SOEs exhibit weak financial metrics that reflect longstanding inefficiencies that have been exacerbated by the COVID-19 shock (Text Table 1). A health dashboard that analyzes the financial performance of public entities monitored by the MFEA was developed as part of the EFF, which provides the authorities with a mechanism to assess risks and further elaborate targeted

[2] Measures included staff layoffs, mergers and closures, the renegotiation of costly supplier contracts, tariff adjustments (bus fares and water rates), and new levies on sanitation, health, and tourism services.

reform measures to enhance SOE performance and reduce government dependence, supporting fiscal consolidation efforts.

Text Table 1. Barbados: Financial Health Heatmap of SOEs Monitored Under the EFF by Grouping

Indicators 1/	Liquidity	Solvency	Profitability	Financial Performance	Government Dependence
Commercial Entities					
FY2019/20					
FY2020/21					
Non-Commercial Entities					
FY2019/20					
FY2020/21					

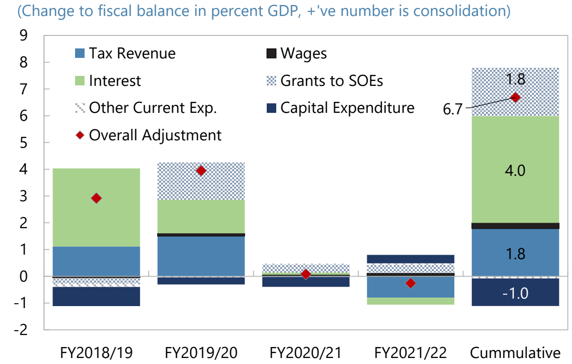
1/ The heatmap analysis is based on the Health-Check Tool developed by the IMF's Fiscal Affairs Department; Risk ratings are as follows: Red = High; Orange = Medium; Green = Low

Box 2. Barbados: Reform of State-Owned Enterprises (SOEs) Under the EFF-Supported Program

Reducing fiscal pressures and risks emanating from the SOE sector is an essential component of the strategy to safeguard fiscal sustainability. Barbados' SOE sector is large—58 entities pre-program, 60 percent of which are commercial—and has been a persistent strain on public finances. The vast majority of entities are reliant on subsidies to sustain their operations and have traditionally lacked adequate accountability mechanisms to ensure value for money and limit broader fiscal exposure. Indeed, annual government subsidies to SOEs averaged 7½ percent of GDP in the decade following the 2008 global financial crisis. Notwithstanding this sizable government support, persistent weak overall financial performance among SOEs contributed to a cumulative build-up of debt and arrears obligations totaling about 18 percent of GDP prior to the adoption of the BERT plan. As a part of the strategy to restore fiscal sustainability, the EFF-supported program initially targeted a 2 percent of GDP cumulative decrease in central government transfers to public entities and advocated a strategy to clear the large stock of SOE arrears.

Barbados: Fiscal Adjustment Targeted at EFF Approval

(Change to fiscal balance in percent GDP, +'ve number is consolidation)



Sources: Barbados authorites and Fund staff estimates.

Structural reforms to transform the SOE sector have been implemented but economic fallout from the pandemic obscures progress. The BERT program involved up-front costs savings and revenue enhancement initiatives, supplemented by measures to strengthen oversight frameworks intended to improve performance and alleviate transfer needs over the medium-term. These combined efforts were successful in reducing SOE transfers by 1 percent of GDP in FY2019/20—in line with program objectives—without putting pressure on SOE arrears, which have fallen by nearly 7 percent of GDP under the arrangement to below a ½ percent of GDP. These early gains have been temporarily offset by unanticipated transfer needs among large SOEs at the forefront of the COVID-19 response strategy, such as the Queen Elizabeth Hospital and the National Assistance Board, where subsidies exceeded budgeted allocations by 70 percent on average. On balance, central government transfers to public institutions exceeded program thresholds by about 20 percent in FY2020/21 to accommodate the national COVID-19 policy response to the health crisis, including the vaccination program executed by the national hospital.

Box 2. Barbados: Reform of State-Owned Enterprises (SOEs) Under the EFF-Supported Program (Concluded)

Transforming the SOE sector is a process that will require sustained structural reform over the medium term. While transitory COVID-19 pressures will gradually unwind, the majority of SOEs continue to struggle with structurally weak profitability and high operating costs that give rise to transfer dependence and highlight a need for sustained reform. The development of a financial health dashboard for SOEs under the EFF provides the authorities with a mechanism to analyze the performance of priority SOEs and further elaborate targeted reform measures to reduce government dependence. Priorities in this context include a further rationalization of the SOE sector—which remains bloated at over 50 entities—as well as adjustments to cost structures and revenue frameworks to enhance financial outturns. Policies should target the largest SOEs that drive the performance of the overall sector as well as more broadly enforce the expectation that commercial entities be viable on commercial terms without government subsidies

28. **To reinforce debt sustainability over the medium and long term, the authorities have started preparatory work for the introduction of a fiscal rule, in line with FAD TA recommendations**. TA recommendations include adoption of regulations for a procedural fiscal rule (structural benchmark for end-December 2021), which would require the government to annually prepare and publish its fiscal strategy, including measurable fiscal objectives covering the medium-term, and to report transparently on the implementation of this strategy. As an intermediate step, the government tabled in parliament a basic fiscal framework for FY2022/23 and the two following fiscal years (structural benchmark for August 15, 2021), containing medium-term fiscal projections and a discussion of fiscal policy objectives, including reaching the debt anchor of 60 percent of GDP by FY2035/36. The proposed procedural fiscal rule will enable the government to enhance transparency and accountability in fiscal policy making while retaining sufficient flexibility to respond to the pandemic. A numerical fiscal rule could be introduced once uncertainties surrounding the pandemic have resolved and supporting PFM systems have been sufficiently strengthened.

29. **Implementation of the 2019 PFMA Act is advancing, albeit slowly.** The preparation of a fiscal framework marks an important advance in strategic budget formulation and is expected to inform the setting of multi-year expenditure ceilings in line with the government's core fiscal objectives. Moreover, the mid-year budget report, which is prepared and tabled in Parliament by October 15th each year, will now be able to report on progress against the fiscal framework. However, various aspects of the new PFMA Act, in particular those governing the issuance of the budget circular, disclosure of fiscal risks and auditing of central government and SOE financial statements, have yet to be fully implemented. Sustained effort will be required to advance on this front and reap the full benefits of the law, including strengthened fiscal responsibility and oversight.

30. **Tax administration has been improved with particular focus on the large taxpayer segment.** The Barbados Revenue Authority has adopted a new Tax Administration Management Information System (TAMIS) and is implementing a new organizational structure; the use of third-party data has increased the accuracy of the taxpayer base; and facilities for electronic filing and payment of taxes are now established. The new Large Taxpayer Unit (LTU) established in 2018 has stepped up audit activity and is making a continuous effort to raise "on-time" filing and payments compliance rates. The BRA is committed to the timely payment of newly filed refunds payable to

taxpayers within six months after the filing date and is making progress on vetting a sizeable stock of old tax refund arrears equivalent to 4 percent of GDP found in the legacy IT systems as well as a much higher stock of taxpayer arrears to government of more than 10 percent of GDP.[3] As part of the two-year program to address legacy claims (structural benchmark for end-September 2021), the BRA is committed to completing the analysis of the net refund versus payable position by March 2022.

31. Efforts to modernize the Barbados Customs and Excise Department (BCED) have begun to bear fruit (Box 3). Supported by a long-term resident advisor, the BCED overhauled its organizational structure, implemented numerous reforms aimed at improving governance, core functions and trade facilitation, and developed a Strategic Plan to guide its activities in the 2020-2023 period. Further reforms are needed to improve human resource management, risk management, and trade flow. Moreover, enhanced coordination and information exchange between BCED and BRA is urgently needed to improve taxpayer compliance and ensure an efficient use of resources across the two institutions.

Box 3. Barbados: Taking Stock of Reforms at the Customs and Excise Department

The Barbados Customs and Excise Department (BCED) is an essential institution for revenue collection, collecting about 33 percent of the country's tax revenue. Over the last two years, the department has implemented an ambitious modernization program, supported by an IMF resident advisor, which has made progress on many fronts (detailed below). Continuing efforts are planned in the areas of compliance management, valuation, performance measurement, recruiting and training, information sharing, automation, streamlining and standardization of import processes, cargo traceability, and governance. These reforms are expected to further facilitate trade, improve risk management and stakeholders' engagement, and strengthen revenue collection over the medium-term.

Governance and Management

- The organizational structure was overhauled and a Strategic Plan covering 2020-2023 developed.
- The Internal Audit Division was strengthened with the creation and implementation of terms of reference, a service and integrity charter, and a risk-based workplan.
- Key Performance Indicators (KPIs) were developed for all units and are progressively being used.
- The upgrade to ASYCUDA was completed and seven operational departments, as well as the Central Bank, the BRA, the Ministry of Finance and the Statistics Department were granted access with training provided by BCED.
- A modernized Customs Bill, which is in line with international requirements and incorporated feedback from the trading community, was completed and tabled in Parliament in May 2021.
- The Harmonized Commodity Description and Coding System (2017 Edition) was implemented.
- Training on integrity and professionalism was provided to all managers and executives and a *Customs Code of Conduct and Ethics* is currently undergoing approval.

Core functions and Compliance

- Holistic (integrated) risk management, standardized cargo processing in all modes and post-clearance audit procedures were introduced.

[3] If a part of these tax refund arrears are formally recognized by the government as legitimate claims on the government, this could lead to an increase in stock of government arrears and public debt in the macroeconomic framework and DSA.

Box 3. Barbados: Taking Stock of Reforms at the Customs and Excise Department (Concluded)

- Controls were improved with the creation and staffing of compliance units to monitor commercial activities through transactional reviews and audits, as well as exemption, concession, and bonded warehouse monitoring.
- Introduction of Taxpayer Identification Numbers has commenced, in collaboration with the BRA, and electronic forms are increasingly being used on the way to a complete paperless process.
- A new oversight mechanism was created via a Steering Committee that has the responsibility to oversee implementation of the 2020-2023 Strategic Plan.
- A Pandemic Recovery Plan was devised to limit the impact of Covid-19 on revenue collection.
- Technical skills were strengthened in the areas of risk management, cargo clearance and traceability, compliance management including post-clearance audit, integrity, internal audit, management, performance measurement and enforcement through training and coaching offered by the IMF, UNCTAD and CARICOM.

Trade Facilitation and Stakeholder Engagement

- BCED created a *Trusted Trader Program* in 2020, which has so far been piloted with 23 large importers who reported satisfaction with the program benefits, including faster customs clearance.
- The new Customs Bill includes key provisions for transparency, compliance, appeal, and advance ruling and promotes greater predictability, client service, trade facilitation and fairness.

32. **The pandemic has led to delays in some structural reforms.** A target for the Large Taxpayer Unit (LTU) to achieve 'on-time' filing of returns of at least 90 percent for all core taxes (VAT, CIT, PAYE) could not be met by end-March 2021 (a structural benchmark set for the fifth review) despite good progress on the implementation of the LTU's compliance improvement plan.[4] A fiscal rule was originally expected to be introduced by end-2020 but subsequently replaced by a procedural fiscal rule to be met by end-December 2021 given significant disruptions to preparatory work and uncertainty over the economic and fiscal outlook due to the COVID-19 pandemic. Moreover, the structural benchmark on tabling a revised public pension law to enhance the sustainability of the public sector pension scheme, originally expected by end-September 2020, needs to be reset to end-March 2022, owing to insufficient opportunities for essential public consultations, which could so far not take place amidst repeated COVID-19 outbreaks and natural disasters.

B. Monetary and Financial Sector Policies

33. **The Central Bank of Barbados (CBB) has maintained credit support measures in effect during the pandemic.** Those measures include reductions of both its overnight lending discount rate from 7 to 2 percent and of the minimum statutory holding requirement for government

[4] At the time of the last Article IV in 2019, on-time filing rates for large taxpayers were observed to be less than 50 percent while the on-time payments compliance rate was not included in measurement criteria. Despite the negative impact of the COVID-19 pandemic on tax revenues and compliance, these rates increased to 77 percent and 87 percent for FY2020/21 and to approximately 86 percent and 88 percent, respectively, for the six month period April to September 2021.

securities from 17½ to 5 percent of deposits.[5] Staff views the continuation of the measures and the monetary policy stance as appropriate. In addition, in April 2020 commercial banks announced a 6-month voluntary debt service moratorium—which is still in place on a limited, case-by-case basis. To support this, the CBB has extended its temporary regulatory guidance through October 2022. It includes allowing banks to not classify moratoria loans as nonperforming, provided loans were previously in good standing and borrowers were impacted by the pandemic shock. The authorities continue to evaluate the impact of economic developments and have agreed that unwinding these measures should be carefully managed and contingent on the financial position of borrowers and lenders to avoid creating adverse macro-financial feedback loops. In the meantime, while balancing regulatory flexibility and financial stability risks, the authorities should ensure procedures used by lenders to measure expected credit losses are robust and timely; and, if warranted, that lenders enhance their recovery plans.

34. The authorities have developed a plan for the gradual recapitalization of the CBB. The plan (end-June 2021 structural benchmark) aims to strike a balance between the magnitude of the capital shortfall and the current limited fiscal space and draws on recent MCM TA recommendations. The CBB remains profitable, and the implementation of the plan will provide it with balance sheet space to engage in operations to help sterilizing excess systemic liquidity and mitigate a potential source of vulnerability to the fixed exchange rate regime. In this regard, CBB should consider the need to upgrade its monetary operations toolkit, which currently relies on the reserve requirement.

35. Climate change constitutes risks to the stability of Barbados financial system and building risk assessment capacity will be a first step to enhance financial sector resilience (see Annex IV). Banks in Barbados are exposed to climate change sensitive sectors. The CBB is currently not a member to the Network for Greening the Financial System (NGFS) and at present does not include climate change risks in its financial stability assesements. The CBB is considering to join the NGFS to develop capacity to monitor climate change risks in line with best practice. The Financial Services Commission is currently conducting a stress-testing exercise for insurance corporations to climate change effects.

36. The authorities will consider removing the foreign exchange fee as the pandemic dissipates. The 2 percent fee introduced in 2017 remains in place. This was assessed by the IMF as a capital flow measure and should be phased out as reserves build up. However, the authorities plan to maintain the fee until alternative revenue sources, including through an economic and revenue recovery, can compensate for the potential losses from its discontinuation. Staff stressed that foreign exchange fees should not substitute for fiscal and other macroeconomic policies to improve fiscal position.

37. Barbados was removed from the EU list of non-corporative jurisdictions for tax purposes in February 2021 but remains on the Financial Action Task Force (FATF) list of jurisdictions under increased monitoring. Barbados made a high-level political commitment to

[5] The securities reserve requirement was discontinued under the new Central Bank of Barbados Act.

work with the FATF and the Caribbean Financial Action Task Force (CFATF) to strengthen the effectiveness of its AML/CFT regime. Staff has stressed the need to continue strengthening the AML/CFT framework, in close cooperation with the FATF and its enhanced follow-up process and assess progress in implementing FATF recommendations. Priorities include reducing the backlog of court cases involving AML/CFT, which have built up due to the pandemic and challenges of scheduling jury trials, the demonstration of the effectiveness of confiscation measures, and the application of effective sanctions[6].

C. Enhancing Growth and Resilience to Climate Changes

38. Structural reforms and investments to unlock Barbados' growth potential should be further accelerated once the global pandemic recedes. While Barbados has been steadily improving its business climate—including by easing trading across borders, opening the electricity sector to independent power producers (IPPs), introducing a more reliable payment and digital identity system[7] as well as enhancing financial access for small businesses[8]—additional reforms to improve the business climate should be implemented to further unlock Barbados' growth potential (MEFP ¶40-43, ¶46). Efforts to improve business facilitation and competitiveness are on-going, for example, with the recent amendments[9] to the Corporate Act, 2021 aimed at digitalizing the corporate registry[10] and strengthening the regulatory framework. Further, based on the agreement with the UNCTAD reached in October 2021, the introduction of the ASYCUDA electronic single window system is expected to allow for more efficient processing of customs procedures and therefore increase Barbados' competitiveness by making trading across borders easier. Building on these important reforms, continued reforms including through putting in place business-friendly regulatory framework for IPPs, facilitating further digitalization, and promoting financial accessibility for SMEs will be essential to spur economic growth, investment, and international trades.

39. Investments to build resilience to climate change effects and reduce fossil fuel dependency will be critical for macroeconomic stability and sustainable growth (see Annex IV). In Barbados, climate change will lead to higher temperatures, an increasing sea level and

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[6] Other priority actions that Barbados is required to take can be found at the FATF's website.

[7] The Supreme Court Registry launched its e-filing system (end-September structural benchmark), and the parliament is proceeding with the passage of the Fair Credit Reporting Act (end-October structural benchmark).

[8] A web-based credit collateral registry aimed at simplifying Know Your Customer procedures was an important step towards easier access to credit for small businesses.

[9] Amendments include: (i) the electronic incorporation of new businesses (ii) online registration of business names (iii) eliminating the requirement to use a company seal (iv) conducting online payment of fees and (v) the development of an electronic database to search company records.

[10] For example, the Corporate Affairs and Intellectual Property Office (CAIPO) have made significant progress in digitalization. Procedures for incorporating new companies, registering business names, as well as filing documents to the issuance of certificates are now online - with some filings completed within 24 hours. Other post incorporation or registration processes (e.g., amalgamations, amendments, dissolutions, and revivals) are scheduled to be included in early 2022.

potential changes in rainfall patterns and in the frequency of the most powerful hurricanes. While Barbados has already implemented several adaptation policies to increase structural resilience and spur a green recovery, investment to further strengthen infrastructure resiliency should be accelerated. Current efforts to enhance the draining systems will also improve water security and contribute to building resilience. Continued engagement with regional integration initiatives (such as the Caribbean Catastrophe Risk Insurance Facility) will support boosting Barbados' financial resilience.

40. Achieving Barbados' target to decarbonize the economy and fully transition to renewable energies by 2030 will require a stepped-up implementation of key supporting policy initiatives and reforms to enhance the business environment. These include: Establishing a licensing system for IPP renewable energy projects, including the process for co-investment in agriculture and renewable energy production on agricultural lands (proposed new structural benchmark). In this context, guidance from the Ministry of Energy, Small Business and Entrepreneurship on how the licensing and approval process for renewable energy projects works and steps for investors to follow will be essential (proposed new structural benchmark). These initiatives will support the broader objective of establishing efficient business processes as well as accelerate private sector investments, which is central to the program's strategy for enhancing growth.

DATA ISSUES

41. Data shortcomings are being addressed. A Canada-funded project coordinated by STA to upgrade national accounts is ongoing. The project is expected to enable the Barbados Statistical Service (BSS) to compile GDP statistics based on 2016 prices (rebased from 2010) and prepare them quarterly from both supply and expenditure sides. In March 2021, Barbados implemented the IMF's Enhanced General Data Dissemination Standard (e-GDDS) with the launch of the National Summary Data Page to enhance data transparency.

PROGRAM ISSUES

42. The authorities have met all QPCs and ITs targets set for end-September 2021. Staff proposes modification of ITs for December 2021 and PCs for March 2022 (see Table 2 of Attachment). The PC on the primary balance for FY2021/22 is proposed to be adjusted to minus 1 percent of GDP, from zero percent at the time of the fifth EFF review, to accommodate the lingering impacts from the pandemic and additional spending needs to rebuild homes destroyed by Hurricane Elsa and clean up ashfall from the volcanic eruptions in St. Vincent. The PCs on public debt and NIR are proposed to be revised upwards reflecting the SDR allocation and its use for budget financing.

43. The authorities have requested the purchase of SDR 17 million for the sixth review to be made available in the form of budget support to provide buffer against ongoing external shocks and address increased financing needs. The purchase would help maintain sufficient

reserves and play a catalytic role in attracting IFI financing given still large uncertainty surrounding the tourism sector. Further, the use of the EFF disbursement for budget support is appropriate to meet larger financing needs created by the lower primary balance with few alternative financing sources available at present due to subdued market appetite for government debt in the aftermath of the 2018-19 comprehensive debt restructuring. With the proposed IMF disbursement along with financial support from other IFIs, the program is fully financed.

44. The authorities are considering using the SDR allocation for budget support, but a final decision has not been taken yet. While the recent SDR allocation is currently held at the CBB, the authorities are considering ways of channeling this to the government, either through on-lending or SDR-related monetary financing in local currency, in line with the recently revised CBB law. Staff would in principle support this plan, given that SDRs are the cheapest form of financing currently available to Barbados. Modalities to use the SDR allocation for budget support are being explored, in consultation with staff. The authorities are considering for the CBB to provide financing to the central government approximately equivalent to the size of the SDR allocation, with the government issuing a pandemic bond to the CBB[11], and acquiring additional deposits at the CBB. As these government deposits are spent, this would increase net credit to the government from the CBB and also partly translate into a higher demand for FX, which could be met by selling SDR holdings—the cheapest form of foreign exchange available to Barbados. The bond is intended to replace more expensive forms of financing which would otherwise need to be employed.

45. There has been steady progress in the implementation of structural reform agenda. Performance has generally been strong with all structural benchmarks for the sixth review successfully met with one exception (see Table 1 of Attachment). Those structural benchmarks met as envisioned included: developing plans to recapitalize the CBB and address medium and long-term financial challenges faced by the NIS; Minister of Finance tabling a fiscal framework including projections covering the three-year period; BRA establishing a program to address pre-TAMIS debt for a two-year period; the Supreme Court Registry launching its e-Filing system; and BCED improving performance management. The passage of the Fair Credit Reporting Act (end-Oct 2021 structural benchmark) was modestly delayed due to COVID-19 related legislative delays and is expected to be adopted in December.

46. Staff proposes to introduce two new structural benchmarks to support the climate resilience and clean energy agenda (thereby also promoting macroeconomic stability) and reset the test date for two existing structural benchmarks (Table 1, Attachment I). The proposed new structural benchmarks focus on: (i) establishing a streamlined approvals and licensing process for IPP renewable energy projects; and (ii) publishing guidance note to IPP investors on navigating this process. An accelerated transition to renewable energy will reduce macroeconomic

[11] The revised CBB law allows for CBB financing up to 3 percent of GDP with a maximum 5-year maturity under a public emergency like the COVID-19 pandemic. When the pandemic bond is issued, gross central government debt increases, but net debt is unchanged (because the increased level of government deposits at the CBB). The primary balance is unaffected by this bond issuance. The issuance of a pandemic bond is assumed to take place towards end of 2021 under the macro framework and DSA.

vulnerabilities by making Barbados less susceptible to international oil price volatility. Staff proposes to reset the end-December 2021 benchmark to table a revised pension law in parliament, as opportunities for the necessary public consultation have been limited by recent natural disaster shocks and the ongoing pandemic. The end-December benchmark for the CBB to compile and disseminate a first set of quarterly core indicators for FSIs for deposit takers is also proposed to be reset as integrating the Fund's technical advice is lagging modestly under a virtual work environment.

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

48. The CBB has made significant progress in implementing the recommendations of the 2018 safeguards assessment. The adoption of a new CBB law in December 2020 significantly strengthen provisions on central bank autonomy, accountability and governance. The CBB has taken steps to strengthen internal audit and risk management. It has secured an agreement with the government for a two-stage gradual recapitalization drawing on recent IMF TA recommendations. Provided the CBB remains profitable in the near- to medium-term, foregoing dividend distributions will provide resources until such time as the government can initiate the gradual replenishment of authorized capital.

AUTHORITIES' VIEWS

49. The authorities broadly agreed with staff's views on macroeconomic policies and projections. They concurred that the temporary fiscal accommodation in response to the unprecedented economic and health crisis has been critical in supporting economic activity during a once-in-a century economic crisis. They also agree that Barbados should resume fiscal consolidation to achieve the long-term debt target of 60 percent of GDP as soon as the pandemic dissipates. In the view of the authorities and staff, the pace of fiscal consolidation will need to strike a delicate balance between safeguarding fiscal sustainability, maintaining social cohesion through providing the needy with proper assistance, and supporting the transformation towards a green economy.

50. Strengthening disaster resilience and facilitating transition to a greener economy is a top priority for the authorities. Given Barbados' increasing vulnerabilities to natural disasters, the authorities aim to boost green investment and improve the business environment by mobilizing private investment including under the 'Roofs to Reefs' program. They are exploring every opportunity to increase financial resilience through the use of insurance such as the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and other state-contingent financial instruments. While the authorities highly appreciated the concerted financial support provided by IFIs to help Barbados weather the severe economic crisis, including the recent SDR allocation, they stressed that it is challenging for small and vulnerable island states to meet large financing needs to address climate

change risks in the long-term. They are actively looking to work with the international community and the private sector to develop new, innovative forms of financing. The authorities stressed the need for the international community to provide concessional support to small islands states, including through reviewing the eligibility criteria for concessional financing, taking account of vulnerabilities to external and natural disaster shocks. In this context, they were looking forward to the creation of the new Resilience and Sustainability Trust. The authorities emphasized their commitment to implement PFM reforms, in particular in the area of public procurement, to enhance donors' confidence in the proper use of resources.

51. The authorities see much scope to boost Barbados' growth potential through structural reforms aimed at improving the business climate, economic diversification, and competitiveness. The authorities share staff's view that much more needs to be done to improve the business climate, building on reforms implemented so far. They are striving to make public services much more efficient and customer-oriented, including by digitizing government services such as corporate and legal registries; improving regulatory environment for private investors including for IPPs; and promoting financial inclusion of SMEs to expand private credit. Those efforts should be accompanied by deeper reform of state-owned enterprises operating in different sectors of the economy, in the view of both staff and the authorities.

STAFF APPRAISAL

52. The Barbadian authorities have been making good progress in implementing the comprehensive Economic Recovery and Transformation (BERT) plan. All quantitative performance criteria (QPCs) and indicative targets (ITs) set for the sixth review were successfully met as were all structural benchmarks with one exception owing to legislative delays related to the latest COVID-19 wave, which is expected to be implemented in December. Prospects for continued strong program performance remains good.

53. While the policy responses to the pandemic have been adequate and appropriate, short-term fiscal accommodation will need to be compensated as soon as the crisis wanes to preserve and strengthen debt sustainability. Lower primary balance targets were critical to accommodate the impact of the pandemic and unexpected spending needs to address the twin natural disasters. With the debt anchor target of 60 percent of GDP pushed out by two years to FY2035/36, the authorities should be able to achieve the target through ambitious primary surpluses in the long-term. On balance, staff is of the view that Barbados' public debt remains sustainable but subject to high risks.

54. Continued implementation of the structural reform agenda is essential for achieving and sustaining higher primary surpluses over the medium term. The authorities have made steady progress with their economic reform agenda, including with the introduction of a revised central bank law, SOE reforms, and an actuarial review of the civil service pension system. Areas for further reform include the adoption of a procedural fiscal rule, the passing of a new procurement law, and the tabling of a revised public pension law.

55. The authorities should accelerate SOE reforms once the pandemic wanes. To contain government expenditures and secure needed fiscal space for investment including into transformation towards a greener economy, transfers to SOEs need to resume declining by a combination of: (i) phasing out of COVID-related additional transfers; (ii) stronger oversight of SOEs, supported by improved reporting and analysis including through the newly introduced SOE dashboard; (iii) adjustments to cost structures and revenue enhancements, including an increase in user fees; and (iv) mergers and divestment.

56. Structural reforms are needed to unlock Barbados' growth potential. While meaningful structural measures to help improve the business climate have been implemented so far under the BERT, more can be done to further boost potential growth and attract private investment, including in the areas of digitalization, regulatory framework, and access to private credit.

57. A resilient, green, and inclusive recovery will require accelerating structural reforms. While in the past Barbados has been less affected by natural disasters than other Caribbean countries, it has become more vulnerable to climate change risks in recent years. Improving resilience to natural disasters and climate change as well as facilitating a transition to renewable energies will be critically important. While creating more fiscal space for climate investment through structural reforms, it is equally important to mobilize private sector resources and international support to fill the remaining investment gaps. There is much scope for improving the business environment for IPPs operating in renewable projects.

58. Risks to the program remain elevated. While economic activity has started to recover, there is large uncertainty surrounding economic projections. Risks include: (i) a more prolonged negative impact of the global coronavirus pandemic; (ii) slower than expected normalization from the pandemic in source countries for the tourism sector (UK, US, and Canada); (iii) inflation pressures created by recent global food and fuel price increases; and (iv) intensifying natural disasters. Implementing the ambitious structural reform agenda to achieve and maintain larger primary surpluses will also be challenging given limited administrative capacity and constrained opportunities for public consultation. Risks associated with external imbalances are limited, with the external assessment analysis showing that Barbados' external position is broadly consistent with fundamentals and desirable policies. Mitigating factors include the authorities' excellent track record under the program, their strong commitment to the reform process, wide-spread support from IFIs, and broad public support for economic stabilization and the reform process.

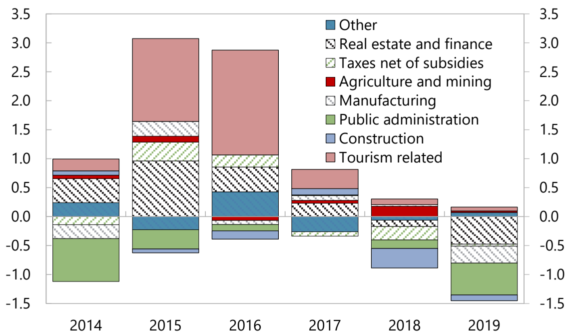
59. With continued strong program implementation, staff recommends completion of the sixth review of the extended arrangement under the Extended Fund Facility and supports the authorities' request to modify three performance criteria.

60. Staff proposes that the next Article IV consultation take place on a 24-month consultation cycle, in accordance with Decision No. 14747-(10/96).

Figure 1. Barbados: Real Sector Developments

While a well performing tourism sector generated high GDP growth in Barbados in the past, the last few years saw weak tourism contribution ….

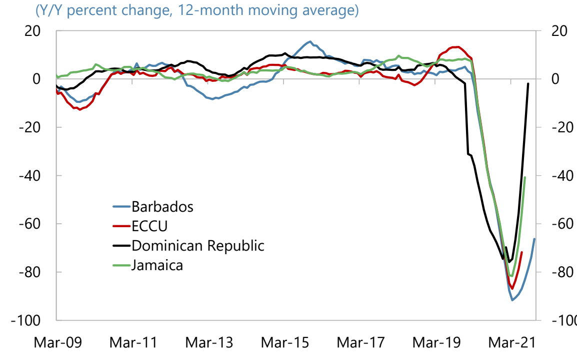
Real GDP Growth by Sectors
(millions BBD)



Sources: Central Bank of Barbados and Fund staff calculations.

… evidenced by weaker tourist arrival growth even before tourist arrivals froze altogether with the COVID-19 pandemic from early 2020 onwards.

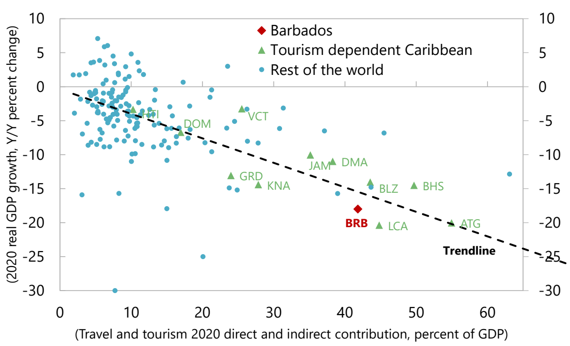
Tourist Arrivals
(Y/Y percent change, 12-month moving average)



Sources: Caribbean Tourism Organization and Fund staff calculations.

Yet, Barbados remains heavily reliant on tourism, as the largest sector in the economy, and its halt caused a sharp contraction in 2020 and continues to weigh on the growth outlook for 2021.

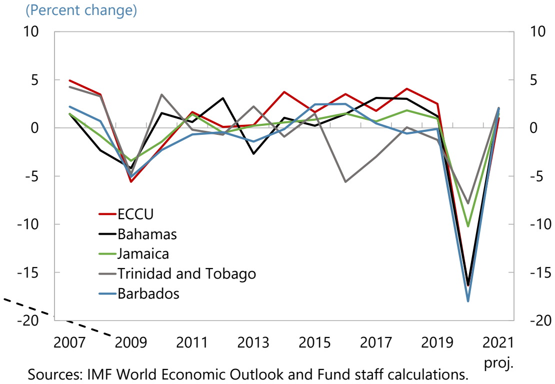
Tourism Dependency and GDP Growth



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

As a result, Barbados is the hardest hit economy in the region…

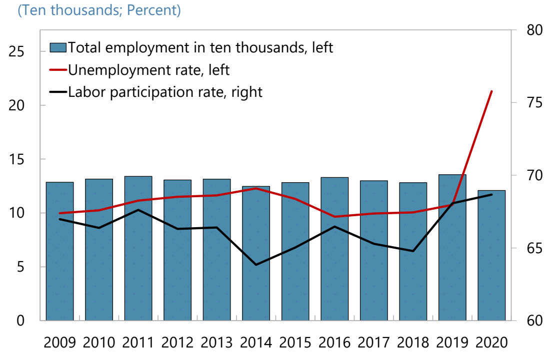
Real GDP Growth
(Percent change)



Sources: IMF World Economic Outlook and Fund staff calculations.

… with unemployment at about 21 percent in 2020 …

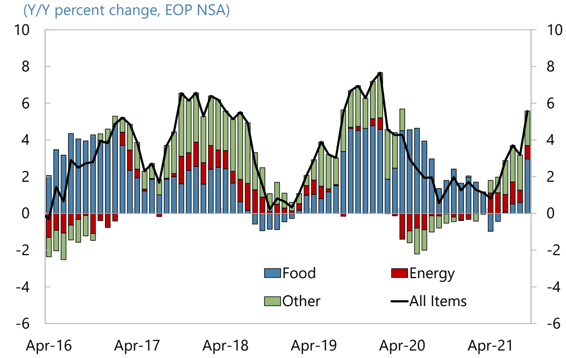
Labor Participation and Unemployment
(Ten thousands; Percent)



Sources: Central Bank of Barbados and Fund staff calculations.

…while inflation rates started to pick up in recent months due to increases in global energy and food prices.

Contribution to Inflation
(Y/Y percent change, EOP NSA)

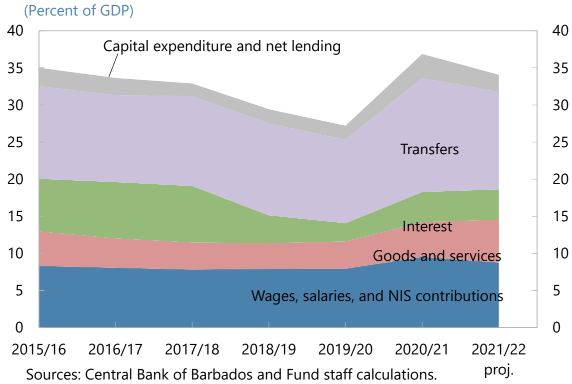


Sources: Central Bank of Barbados and Fund staff calculations.

Figure 2. Barbados: Fiscal Sector Developments

After trending down since the debt restructuring in FY18/19, expenditure ratios have risen due to lower GDP and emergency Covid- and disaster-related spending…

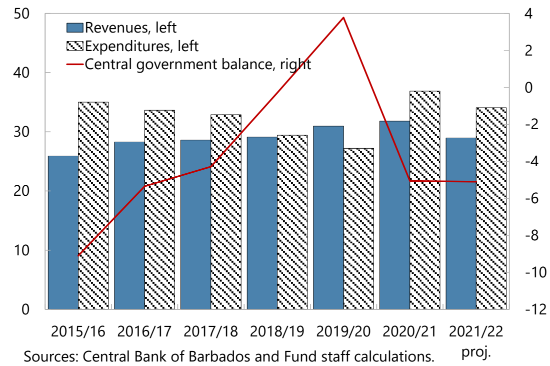
General Government Expenditures
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

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

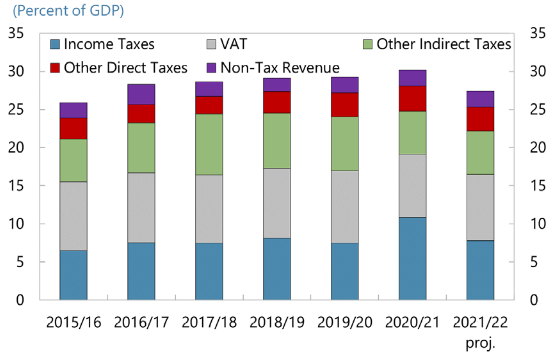
Central Government Balance
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

…while a one-off corporate tax windfall offset the negative impact of the pandemic on other tax revenues in FY20/21.

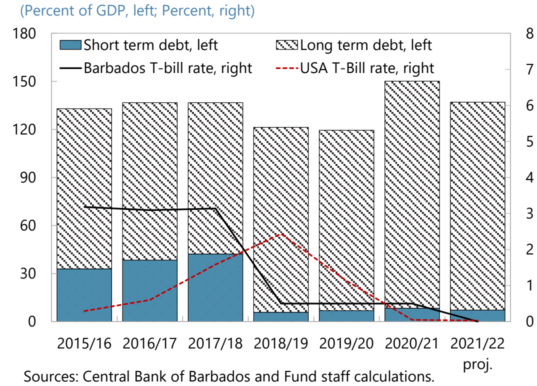
Revenue Composition
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

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

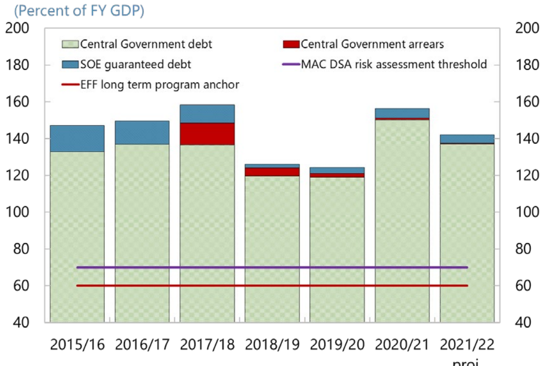
Government Financing
(Percent of GDP, left; Percent, right)



Sources: Central Bank of Barbados and Fund staff calculations.

… but the public debt ratio has increased significantly again as a result of higher deficits and lower GDP…

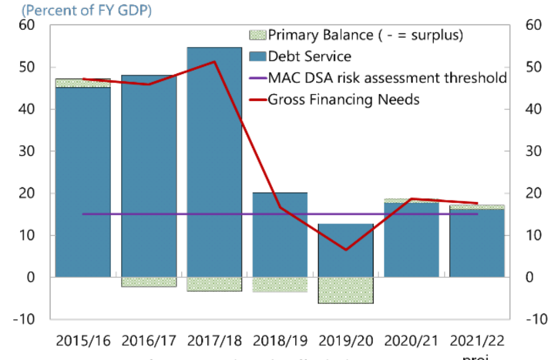
Public Debt
(Percent of FY GDP)



Sources: Ministry of Finance and Fund staff calculations.

… as have debt service costs and gross financing needs.

Gross Financing Needs
(Percent of FY GDP)

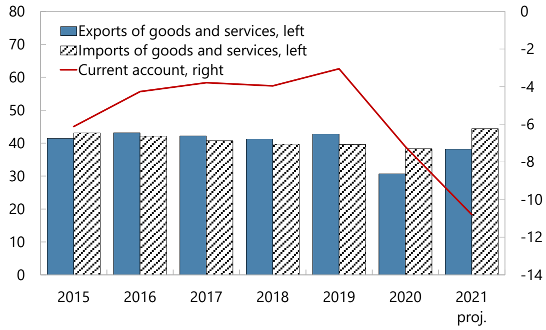


Sources: Ministry of Finance and Fund staff calculations.

Figure 3. Barbados: External Sector Developments

The current account deficit doubled relative to 2019 due to the collapse of the tourism sector …

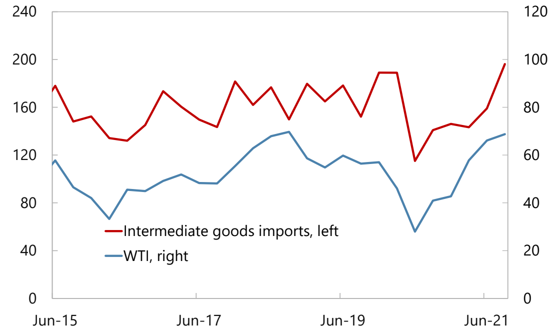
Trade
(Percent of GDP)



Sources: Central Bank of Barbados and Fund staff calculations.

with lower imports, mainly driven by lower services debit and intermediate imported goods (oil).

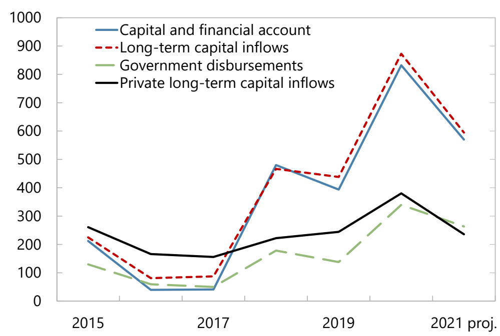
WTI Oil Price and Services Imports
(Millions USD, left; US$ per barrel, right)



Sources: Central Bank of Barbados and Fund staff calculations.

However, a declining trend in capital inflows was reversed owing to large inflows from IFI loans ….

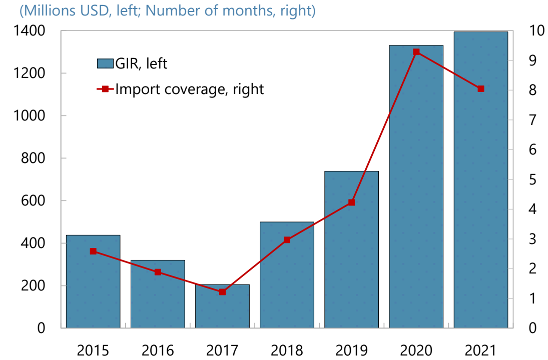
Capital and Financial Account
(Millions USD)



Sources: Central Bank of Barbados and Fund staff calculations.

…contributing to a turnaround in international reserves.

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

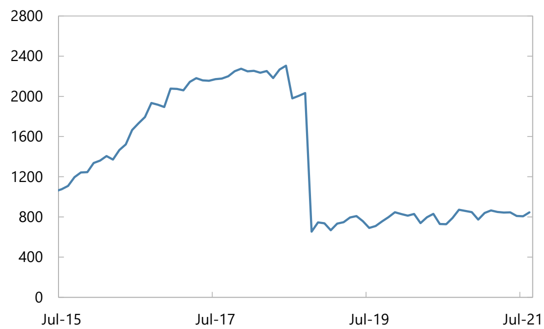


Sources: Central Bank of Barbados and Fund staff calculations.

Figure 4. Barbados: Monetary Sector Developments

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

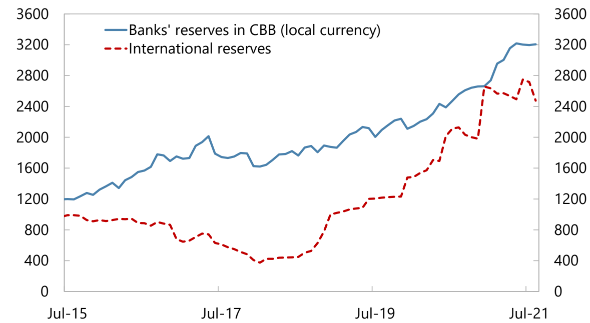
Central Bank's Claims on Central Government
(Millions BBD)



Sources: Central Bank of Barbados and Fund staff calculations.

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

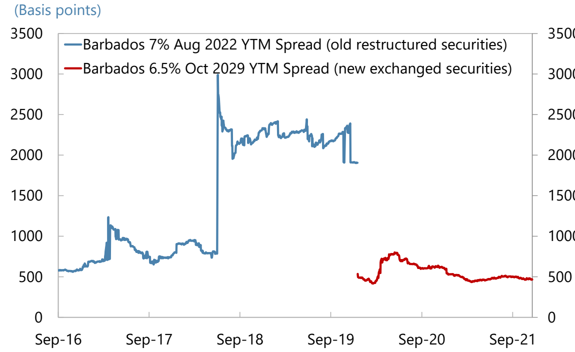
Reserves
(Millions BBD)



Sources: Central Bank of Barbados and Fund staff calculations.

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

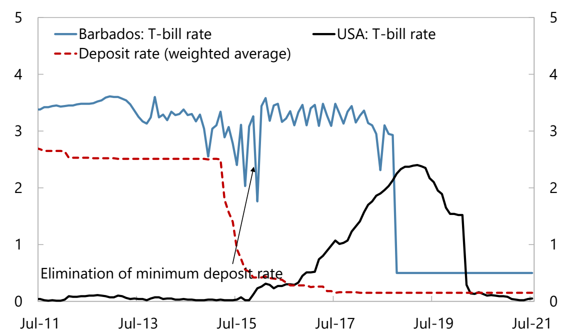
Barbados: Bond Spread (Barbados over U.S. 10-year bonds)
(Basis points)



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

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

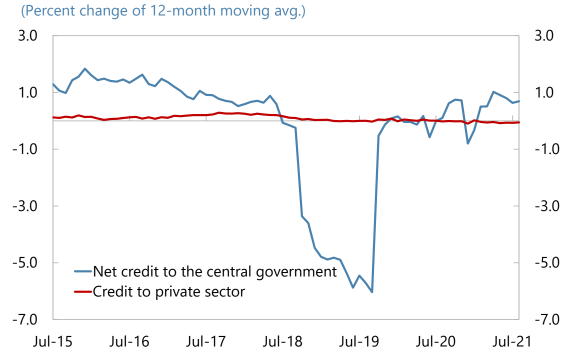
Interest Rates
(Percent)



Sources: Central Bank of Barbados and Fund staff calculations.

Private sector credit growth has remained weak...

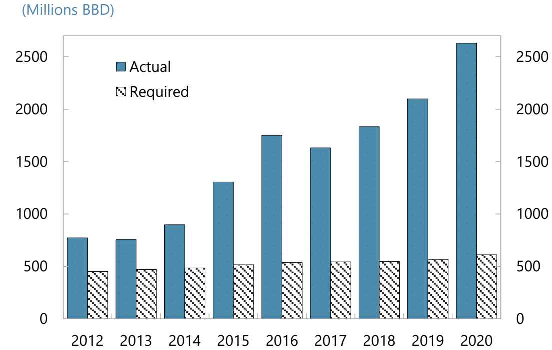
Private Sector Credit
(Percent change of 12-month moving avg.)



Sources: Central Bank of Barbados and Fund staff calculations.

...with excess liquidity parked at the CBB.

Commercial Banks: Reserves
(Millions BBD)

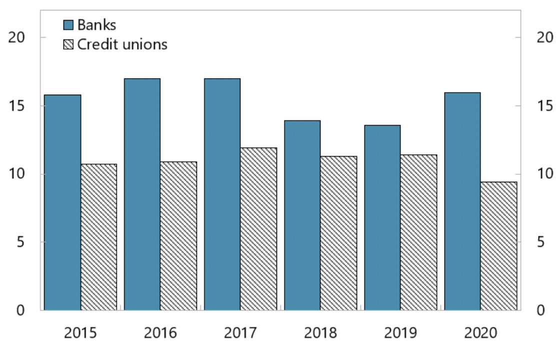


Sources: Central Bank of Barbados and Fund staff calculations.

Figure 5. Barbados: Financial Sector Developments

Capital relative to risk-weighted assets is adequate…

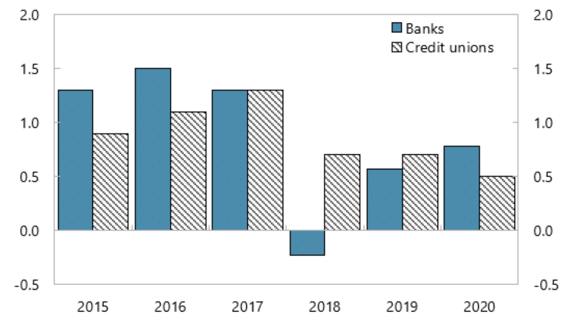
Capital Adequacy Ratio
(Percent of risk-weighted assets)



Sources: Central Bank of Barbados and Fund staff calculations.

…with profitability slightly increasing in 2020.

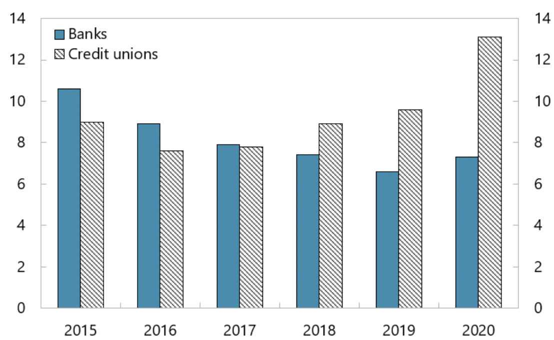
Return on Assets
(Percent of total assets)



Sources: Central Bank of Barbados and Fund staff calculations.

Banks' NPLs remained flat while credit union's NPLs increased.

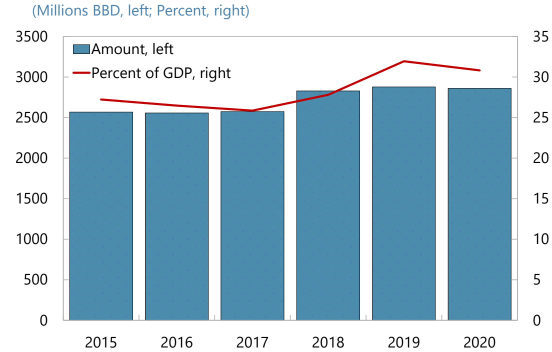
Nonperforming Loan Ratio
(Percent of total loans)



Sources: Central Bank of Barbados and Fund staff calculations.

Mortgages remain flat since 2018…

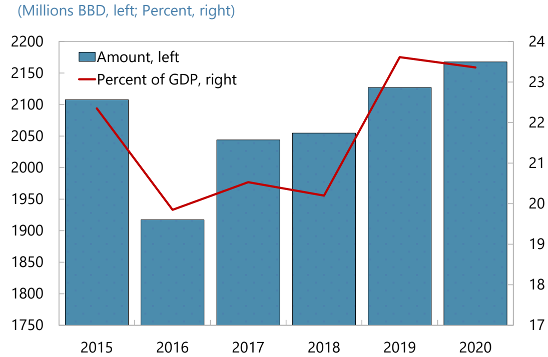
Commercial Banks' Mortgage Exposure
(Millions BBD, left; Percent, right)



Sources: Central Bank of Barbados and Fund staff calculations.

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

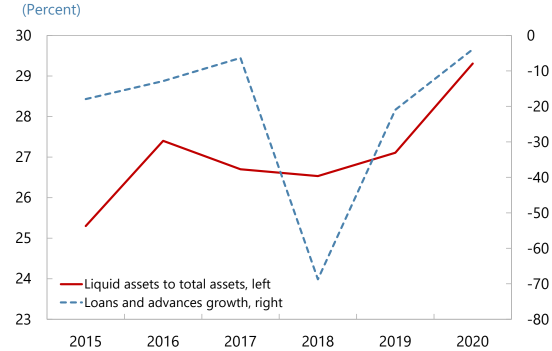
Commercial Banks' Sovereign Exposure
(Millions BBD, left; Percent, right)



Sources: Central Bank of Barbados and Fund staff calculations.

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

Commercial Banks' Loans and Liquid Assets
(Percent)



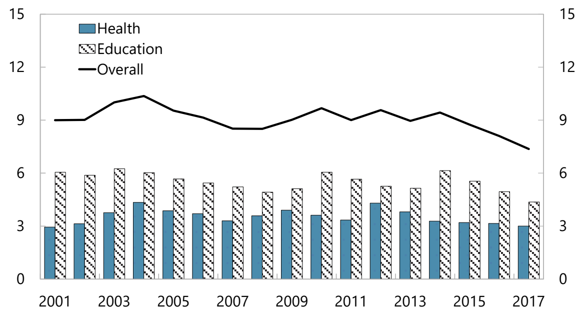
Sources: Central Bank of Barbados and Fund staff calculations.

Figure 6. Barbados: Social Development and Competitiveness indicators

Although social spending has declined pre-pandemic a little as a share of GDP...

Public Social Spending

(Percent of GDP)

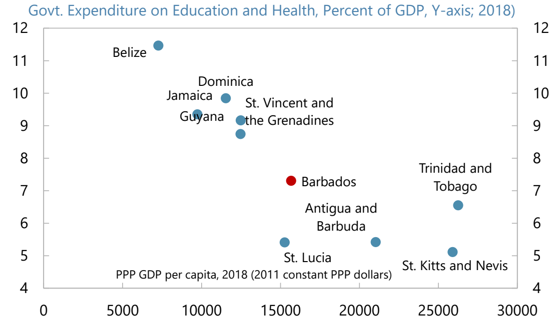


Sources: World Development Indicators as of Jul. 2019, and IMF staff calculations.

...it remains broadly in line with peers, given the income level.

Social Spending: Selected Caribbean Countries

(PPP GDP per capita, PPP dollars, X-axis;
Govt. Expenditure on Education and Health, Percent of GDP, Y-axis; 2018)

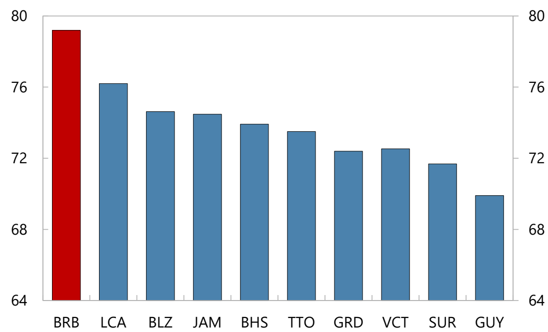


Sources: IMF World Economic Outlook, World Development Indicators, and Fund staff calculations.

Barbados has a higher life expectancy...

Life Expectancy, 2019

(Years)

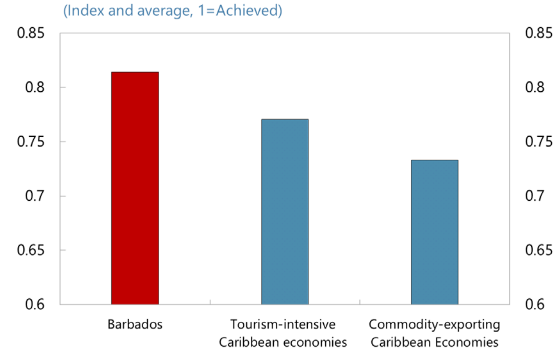


Sources: World Development Indicators and IMF staff calculations.

...and higher development outcomes relative to regional peers.

Human Development Index, 2019

(Index and average, 1=Achieved)

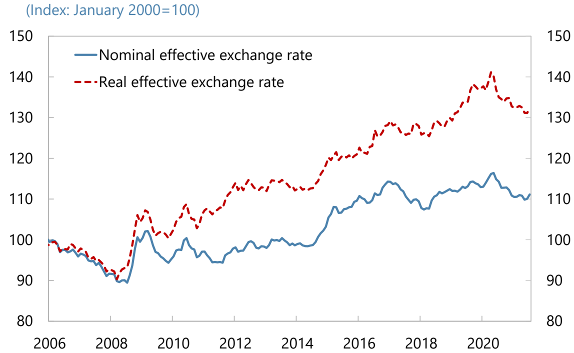


Sources: UNDP Human Development Index and IMF staff calculations.

The real effective exchange rate has depreciated recently.

Effective Exchange Rates

(Index: January 2000=100)

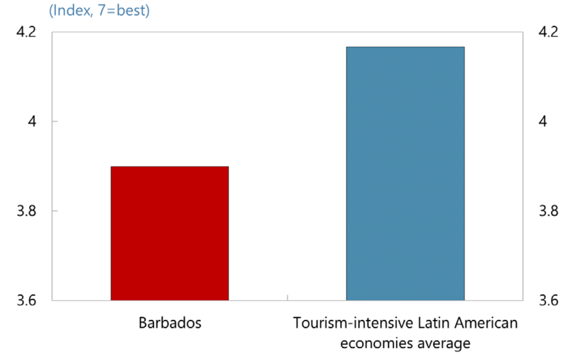


Sources: IMF Information Notice Service and Fund staff calculations.

While Barbados' Tourism Competitiveness Index is below other tourism-intensive Latin American economies...

Tourism Competitiveness Index, 2017

(Index, 7=best)

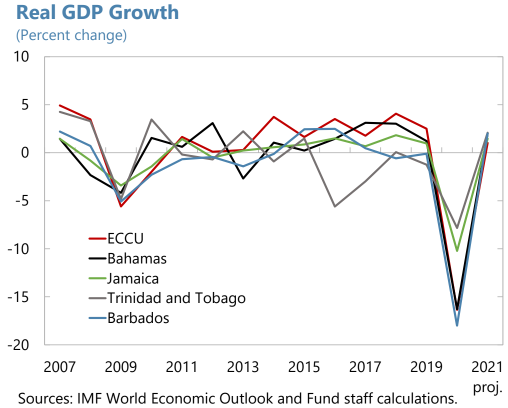


Sources: World Economic Forum and Fund staff calculations.

Notes: The Human Development Index (HDI) is a measure of human development which scores range from 0 to 1. A higher number indicates a higher achievement of human development related to health, education, and standard of living. The index's accuracy can be biased by the cutoffs used for country groupings into low-, medium-, high- and very high- human development. The Travel and Tourism Competitive Index measures the set of factors and policies that enable the development of the travel and tourism sector, which contributes to the competitiveness of a country. Scores range from 1 to 7 with a higher value representing more competitive conditions. Non-IMF indicators provide qualitative information. They do not represent the IMF's assessment of the level of human development or development of the tourism and travel sector in Barbados.

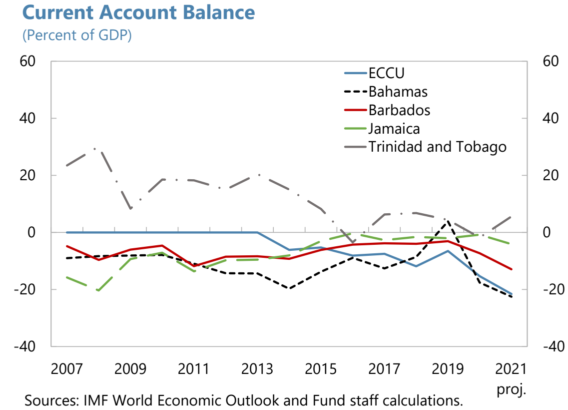
Figure 7. Barbados: Economic Performance in a Regional Context

Barbados' growth is relatively lower but less volatile.



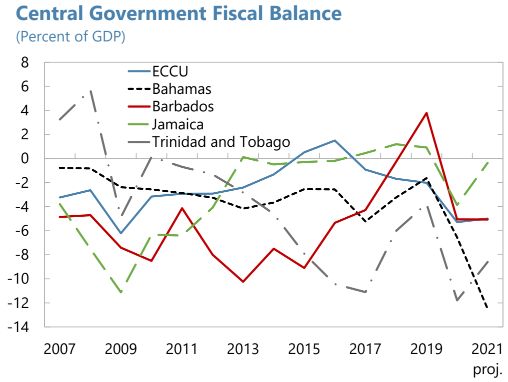
Sources: IMF World Economic Outlook and Fund staff calculations.

External imbalances follow the regional pattern.



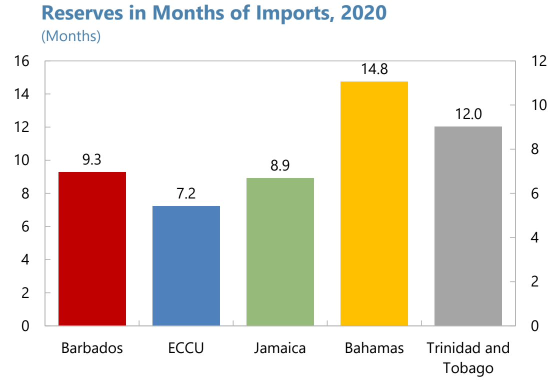
Sources: IMF World Economic Outlook and Fund staff calculations.

The fiscal stance is temporarily worsening.



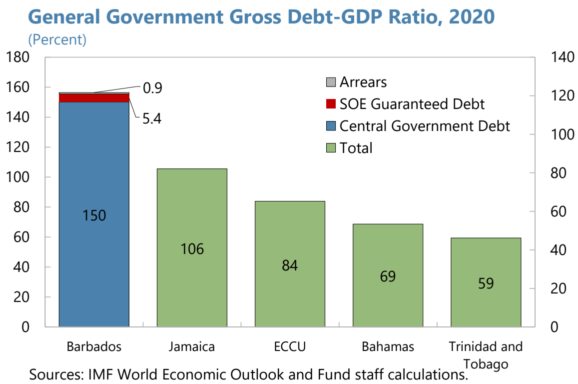
Sources: IMF World Economic Outlook and Fund staff calculations.

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



Sources: IMF World Economic Outlook and Fund staff calculations.

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



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

Table 1. Barbados: Selected Economic Indicators, 2018–2022

I. Social and Demographic Indicators (most recent year)

Population (2020 est., thousand)	287.9	Adult literacy rate (2014)	99.6
Per capita GDP (2020 est., US$ thousand)	15.6	Poverty rate (individual, 2010)	19.3
Life expectancy at birth in years (2019)	79.2	Gini coefficient (2010)	47.0
Rank in UNDP Development Index (2019)	58	Unemployment rate (2020)	21.3

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

II. Economic Indicators

			Est.	Projections	
	2018	**2019**	**2020**	**2021**	**2022**
			(Annual percentage change)		
Output, prices, and employment					
CY Real GDP	-0.6	-1.3	-18.0	1.6	10.1
CPI inflation (average)	3.7	4.1	2.9	3.0	5.4
CPI inflation (end of period)	0.6	7.2	1.3	4.7	2.7
External sector					
Exports of goods and services	-0.1	7.9	-39.2	30.0	19.4
Imports of goods and services	-0.4	3.9	-18.1	21.0	12.2
Real effective exchange rate (average)	121.1	127.6	...	...	...
Money and credit					
Net domestic assets	4.1	0.0	5.0	6.0	2.4
Of which: Private sector credit	0.3	1.0	-1.2	-0.2	1.4
Broad money	-0.2	3.0	7.3	10.3	0.2
			(In percent of FY GDP)		
CG Public finances (fiscal year) 1/					
Revenue and grants	29.1	31.0	31.8	29.0	29.1
Expenditure	29.4	27.2	36.9	34.1	30.7
Fiscal Balance	-0.3	3.8	-5.1	-5.1	-1.7
Interest Expenditure	3.7	2.5	4.0	4.1	4.7
Primary Balance	3.4	6.2	-1.0	-1.0	3.0
Public Debt (fiscal year) 1/					
Central gov't gross debt /2	126.0	124.4	156.4	142.1	128.7
External	33.4	33.8	52.0	50.3	47.1
Domestic	92.5	90.5	104.5	91.8	81.6
Balance of payments (calendar year)			(In percent of CY GDP)		
Current account balance	-4.0	-3.1	-7.2	-10.8	-8.8
Capital and financial account balance	9.4	7.4	18.5	12.2	6.6
Public Sector	4.8	3.7	11.0	7.7	1.7
o/w IMF disbursement	1.0	1.9	5.1	1.0	0.5
Private Sector	4.1	3.8	7.6	4.6	4.9
o/w FDI	4.4	4.6	8.5	5.0	4.9
Net Errors and Omissions	0.2	0.2	1.8	0.0	0.0
Overall balance	5.7	4.5	13.2	1.4	-2.2
Memorandum items:					
Exchange rate (BDS$/US$)	2.0	2.0	...	...	...
Gross international reserves (US$ million)	499.6	738.9	1,330.3	1,394.2	1,278.5
In months of imports of G&S	3.0	4.2	9.3	8.0	6.6
In percent of ARA	100.5	141.9	260.0	242.6	208.5
Nominal GDP, CY (BDS$ millions)	10,173	10,596	8,975	9,374	10,485
Nominal GDP, FY (BDS$ millions)	10,279	10,191	8,494	9,733	10,725

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

Table 2a. Barbados: Central Government Operations, 2018/2019–2026/2027

(In millions of Barbados dollars) 1/

			Est.	Program	Proj.	Program			Projections		
	2018/19	2019/20	2020/21	2021/22	2021/22	2022/23	2022/23	2023/24	2024/25	2025/26	2026/27
Total revenue	**2,994**	**3,156**	**2,702**	**2,780**	**2,820**	**3,118**	**3,121**	**3,355**	**3,501**	**3,656**	**3,816**
Current revenue	2,994	3,144	2,702	2,771	2,818	3,109	3,118	3,353	3,498	3,653	3,813
Tax revenue	2,812	2,943	2,527	2,588	2,617	2,910	2,915	3,138	3,274	3,419	3,569
Income and profits	838	764	921	742	757	808	800	854	891	930	971
Taxes on property	161	215	182	191	193	209	213	224	234	244	255
VAT	941	967	706	817	846	911	941	1,002	1,046	1,092	1,140
Social levy (NSRL)	49	0	0	0	0	0	0	0	0	0	0
Excise	271	251	154	178	186	203	208	225	235	245	256
Import taxes	214	232	192	222	217	257	246	268	280	292	305
Other taxes	338	515	372	438	418	523	507	565	589	615	642
Nontax revenue	181	201	175	176	201	192	204	214	224	234	244
Capital revenue and grants	0	12	0	8	2	9	2	2	3	3	3
Total expenditure	**3,024**	**2,772**	**3,132**	**3,178**	**3,316**	**3,182**	**3,298**	**3,334**	**3,363**	**3,481**	**3,604**
Current expenditure	2,826	2,580	2,856	2,994	3,091	2,950	3,028	3,055	3,098	3,184	3,275
Wages, salaries and SSC	812	807	808	847	851	832	833	837	849	869	889
Goods and services	356	375	400	473	562	380	423	402	387	404	422
Interest	385	250	343	399	399	490	499	544	570	564	559
Transfers	1,273	1,147	1,305	1,275	1,279	1,248	1,273	1,272	1,291	1,347	1,405
o/w Subsidies	136	100	161	163	180	134	131	123	118	122	126
o/w Grants to public institutions	815	689	796	739	727	707	732	716	722	754	787
o/w Retirement benefits	323	358	348	373	372	407	410	432	451	471	492
Capital expenditure and net lending	198	192	276	185	225	232	270	279	266	297	329
CG Fiscal balance	**-31**	**385**	**-430**	**-399**	**-496**	**-64**	**-177**	**21**	**137**	**175**	**212**
CG Primary balance	**354**	**634**	**-87**	**0**	**-97**	**427**	**322**	**565**	**707**	**739**	**771**
Repayment of domestic arrears	n.a.	140	74	40	40	39	39	0	0	0	0
CG Fiscal balance (net of arrears)	**n.a.**	**244**	**-503**	**-439**	**-537**	**-103**	**-216**	**21**	**137**	**175**	**212**
CG Primary balance (net of arrears)	**n.a.**	**494**	**-161**	**-40**	**-138**	**388**	**283**	**565**	**707**	**739**	**771**
Financing	**31**	**-385**	**430**	**399**	**496**	**64**	**177**	**-21**	**-137**	**-175**	**-212**
Net Financing - External	346	109	846	440	479	81	160	66	-44	-230	-310
Capital Markets	0	0	0	0	0	0	0	0	0	100	100
Project Funds	88	72	82	142	142	100	100	100	100	100	80
Policy Loans	350	150	600	360	400	120	200	160	80	80	0
o/w IDB	200	0	400	160	200	80	200	160	80	80	0
o/w CDB	150	150	0	0	0	0	0	0	0	0	0
o/w CAF	0	0	200	0	0	40	0	0	0	0	0
o/w WB	0	0	0	200	200	0	0	0	0	0	0
IMF EFF budget support	0	0	352	98	97	50	49	0	0	0	0
Privatization 2/	0	0	0	0	0	0	0	0	0	0	0
Amortization	92	112	188	160	160	189	189	194	224	510	490
Net Financing - Central Gov. 5/	575	-353	-343	-1	57	22	56	-88	-93	55	98
Central bank	-166	165	-67	150	259	100	200	50	0	0	0
Commercial banks	83	-58	106	0	0	0	0	0	0	0	0
National Insurance Scheme	9	-85	-208	-100	0	-50	0	0	0	0	0
Private non-bank 3/	-120	-218	-56	-51	-154	-28	-144	-138	-93	55	98
Others/unidentified financing 6/	769	-157	-118	0	-48	0	0	0	0	0	0
Memorandum items:											
CG gross debt 4/	12,949	12,674	13,287	13,535	13,831	13,499	13,808	13,711	13,514	13,270	12,988
Nominal GDP, FY (BDS$ millions)	10,279	10,191	8,494	9,790	9,733	10,664	10,725	11,298	11,788	12,311	12,850

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

1/ Fiscal year is from April to March.

2/ Privatization proceeds.

3/ Insurance companies and other non bank private sector; BOSS program is also included here.

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

5/ Net of domestic expenditure arrears repayment.

6/ Negative financing in FY2021/22 is associated with government's equity investment into crisis-affected companies in the tourism sector.

Table 2b. Barbados: Central Government Operations, 2018/2019–2026/2027

(In percent of FY-GDP, unless otherwise indicated) 1/

			Est.	Program	Proj.	Program	Projections				
	2018/19	2019/20	2020/21	2021/22	2021/22	2022/23	2022/23	2023/24	2024/25	2025/26	2026/27
Total revenue	**29.1**	**31.0**	**31.8**	**28.4**	**29.0**	**29.2**	**29.1**	**29.7**	**29.7**	**29.7**	**29.7**
Current revenue	29.1	30.9	31.8	28.3	29.0	29.2	29.1	29.7	29.7	29.7	29.7
Tax revenue	27.4	28.9	29.7	26.4	26.9	27.3	27.2	27.8	27.8	27.8	27.8
Income and profits	8.1	7.5	10.8	7.6	7.8	7.6	7.5	7.6	7.6	7.6	7.6
Taxes on property	1.6	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
VAT	9.2	9.5	8.3	8.3	8.7	8.5	8.8	8.9	8.9	8.9	8.9
Social levy (NSRL)	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Excise	2.6	2.5	1.8	1.8	1.9	1.9	1.9	2.0	2.0	2.0	2.0
Import taxes	2.1	2.3	2.3	2.3	2.2	2.4	2.3	2.4	2.4	2.4	2.4
Other taxes	3.3	5.1	4.4	4.5	4.3	4.9	4.7	5.0	5.0	5.0	5.0
Nontax revenue	1.8	2.0	2.1	1.8	2.1	1.8	1.9	1.9	1.9	1.9	1.9
Capital revenue and grants	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Total expenditure	**29.4**	**27.2**	**36.9**	**32.5**	**34.1**	**29.8**	**30.7**	**29.5**	**28.5**	**28.3**	**28.0**
Current expenditure	27.5	25.3	33.6	30.6	31.8	27.7	28.2	27.0	26.3	25.9	25.5
Wages, salaries and SSC	7.9	7.9	9.5	8.7	8.7	7.8	7.8	7.4	7.2	7.1	6.9
Goods and services	3.5	3.7	4.7	4.8	5.8	3.6	3.9	3.6	3.3	3.3	3.3
Interest	3.7	2.5	4.0	4.1	4.1	4.6	4.7	4.8	4.8	4.6	4.4
Transfers	12.4	11.3	15.4	13.0	13.1	11.7	11.9	11.3	11.0	10.9	10.9
o/w Subsidies	1.3	1.0	1.9	1.7	1.8	1.3	1.2	1.1	1.0	1.0	1.0
o/w Grants to public institutions	7.9	6.8	9.4	7.6	7.5	6.6	6.8	6.3	6.1	6.1	6.1
o/w Retirement benefits	3.1	3.5	4.1	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Capital expenditure and net lending	1.9	1.9	3.3	1.9	2.3	2.2	2.5	2.5	2.3	2.4	2.6
CG Fiscal balance	**-0.3**	**3.8**	**-5.1**	**-4.1**	**-5.1**	**-0.6**	**-1.7**	**0.2**	**1.2**	**1.4**	**1.6**
CG Primary balance	**3.4**	**6.2**	**-1.0**	**0.0**	**-1.0**	**4.0**	**3.0**	**5.0**	**6.0**	**6.0**	**6.0**
Repayment of domestic arrears	n.a.	1.4	0.9	0.4	0.4	0.4	0.4	0.0	0.0	0.0	0.0
CG Fiscal balance (net of arrears)	**n.a.**	**2.4**	**-5.9**	**-4.5**	**-5.5**	**-1.0**	**-2.0**	**0.2**	**1.2**	**1.4**	**1.6**
CG Primary balance (net of arrears)	**n.a.**	**4.8**	**-1.9**	**-0.4**	**-1.4**	**3.6**	**2.6**	**5.0**	**6.0**	**6.0**	**6.0**
Financing	**0.3**	**-3.8**	**5.1**	**4.1**	**5.1**	**0.6**	**1.7**	**-0.2**	**-1.2**	**-1.4**	**-1.6**
Net Financing - External	3.4	1.1	10.0	4.5	4.9	0.8	1.5	0.6	-0.4	-1.9	-2.4
Capital Markets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8	0.8
Project Funds	0.9	0.7	1.0	1.5	1.5	0.9	0.9	0.9	0.8	0.8	0.6
Policy Loans	3.4	1.5	7.1	3.7	4.1	1.1	1.9	1.4	0.7	0.6	0.0
o/w IDB	1.9	0.0	4.7	1.6	2.1	0.8	1.9	1.4	0.7	0.6	0.0
o/w CDB	1.5	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w CAF	0.0	0.0	2.4	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
o/w WB	0.0	0.0	0.0	2.0	2.1	0.0	0.0	0.0	0.0	0.0	0.0
IMF EFF budget support	0.0	0.0	4.1	1.0	1.0	0.5	0.5	0.0	0.0	0.0	0.0
Privatization 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	0.9	1.1	2.2	1.6	1.6	1.8	1.8	1.7	1.9	4.1	3.8
Net Financing - Central Gov. 5/	5.6	-3.5	-4.0	0.0	0.6	0.2	0.5	-0.8	-0.8	0.5	0.8
Central bank	-1.6	1.6	-0.8	1.5	2.7	0.9	1.9	0.4	0.0	0.0	0.0
Commercial banks	0.8	-0.6	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National Insurance Scheme	0.1	-0.8	-2.5	-1.0	0.0	-0.5	0.0	0.0	0.0	0.0	0.0
Private non-bank 3/	-1.2	-2.1	-0.7	-0.5	-1.6	-0.3	-1.3	-1.2	-0.8	0.5	0.8
Others/unidentified financing 6/	7.5	-1.5	-1.4	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
CG gross debt 4/	126.0	124.4	156.4	138.3	142.1	126.6	128.7	121.4	114.6	107.8	101.1
Nominal GDP, FY (BDS$ millions)	10,279	10,191	8,494	9,790	9,733	10,664	10,725	11,298	11,788	12,311	12,850

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

Table 3. Barbados: Public Debt, 2018/2019–2026/2027 1/ 2/

				Projections					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
				(In millions of Barbados dollars)					
Public Debt	**12,949**	**12,674**	**13,287**	**13,831**	**13,808**	**13,711**	**13,514**	**13,270**	**12,988**
External	3,436	3,448	4,414	4,893	5,054	5,094	4,990	4,691	4,311
Short Term	168	54	0	0	0	0	0	0	0
Long term	3,268	3,394	4,414	4,893	5,054	5,094	4,990	4,691	4,311
Domestic	9,513	9,226	8,873	8,938	8,755	8,617	8,524	8,579	8,677
Short Term	892	850	787	739	700	700	700	700	700
Long term	8,621	8,376	8,085	8,199	8,055	7,917	7,824	7,879	7,977
Arrears 4/	**461**	**207**	**79**	**39**	**0**	**0**	**0**	**0**	**0**
External 5/	168	54	0	0	0	0	0	0	0
Domestic	293	153	79	39	0	0	0	0	0
CBB & SOE Guaranteed Debt /7	**188**	**345**	**457**	**457**	**457**	**431**	**371**	**302**	**232**
External 3/	188	345	457	457	457	431	371	302	232
Domestic	0	0	0	0	0	0	0	0	0
CG Debt	**12,299**	**12,122**	**12,750**	**13,335**	**13,351**	**13,280**	**13,143**	**12,968**	**12,756**
External 3/ 6/ 8/	3,080	3,049	3,957	4,436	4,597	4,663	4,619	4,389	4,079
Domestic	9,219	9,073	8,793	8,899	8,755	8,617	8,524	8,579	8,677
Short Term	598	697	708	700	700	700	700	700	700
Long term	8,621	8,376	8,085	8,199	8,055	7,917	7,824	7,879	7,977
				(In percent of FY GDP)					
Public Debt	**126.0**	**124.4**	**156.4**	**142.1**	**128.7**	**121.4**	**114.6**	**107.8**	**101.1**
External	33.4	33.8	52.0	50.3	47.1	45.1	42.3	38.1	33.6
Short Term	1.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long term	31.8	33.3	52.0	50.3	47.1	45.1	42.3	38.1	33.6
Domestic	92.5	90.5	104.5	91.8	81.6	76.3	72.3	69.7	67.5
Short Term	8.7	8.3	9.3	7.6	6.5	6.2	5.9	5.7	5.4
Long term	83.9	82.2	95.2	84.2	75.1	70.1	66.4	64.0	62.1
Arrears 4/	**4.5**	**2.0**	**0.9**	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
External 5/	1.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	2.9	1.5	0.9	0.4	0.0	0.0	0.0	0.0	0.0
CBB & SOE Guaranteed Debt /7	**1.8**	**3.4**	**5.4**	**4.7**	**4.3**	**3.8**	**3.1**	**2.5**	**1.8**
External 3/	1.8	3.4	5.4	4.7	4.3	3.8	3.1	2.5	1.8
Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CG Debt	**119.7**	**119.0**	**150.1**	**137.0**	**124.5**	**117.5**	**111.5**	**105.3**	**99.3**
External 3/ 6/ 8/	30.0	29.9	46.6	45.6	42.9	41.3	39.2	35.7	31.7
Domestic	89.7	89.0	103.5	91.4	81.6	76.3	72.3	69.7	67.5
Short Term	5.8	6.8	8.3	7.2	6.5	6.2	5.9	5.7	5.4
Long term	83.9	82.2	95.2	84.2	75.1	70.1	66.4	64.0	62.1
Memorandum items:									
Nominal GDP, FY (BDS$ millions)	10,279	10,191	8,494	9,733	10,725	11,298	11,788	12,311	12,850

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

Table 4a. Barbados: Balance of Payments, 2018–2026

(In millions of US$)

			Est.	Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Current account balance	**-201**	**-162**	**-323**	**-506**	**-464**	**-404**	**-347**	**-282**	**-245**
o/w Exports of goods and services	2,098	2,265	1,377	1,789	2,136	2,281	2,428	2,573	2,718
o/w Imports of goods and services	2,020	2,098	1,719	2,079	2,333	2,419	2,499	2,572	2,676
Trade balance	-734	-751	-823	-865	-980	-984	-996	-1,010	-1,065
Exports of goods	765	773	619	741	823	873	924	965	1,000
o/w Re-exports	193	190	120	159	196	222	248	264	272
Imports of goods	1,499	1,524	1,442	1,606	1,802	1,857	1,920	1,976	2,065
o/w Oil	394	235	190	340	349	345	350	339	356
Services balance	813	918	481	575	783	846	925	1,011	1,108
Credit	1,334	1,492	758	1,048	1,314	1,408	1,504	1,608	1,719
o/w Travel (credit)	1,111	1,263	559	839	1,073	1,149	1,229	1,315	1,407
Debit	521	574	277	473	531	562	579	596	611
Primary income balance	-240	-283	-74	-197	-230	-227	-236	-240	-243
Credit	272	283	169	248	278	294	307	320	335
Debit	511	565	243	446	508	521	543	561	578
Secondary income balance	-40	-46	93	-19	-37	-39	-40	-42	-44
Credit	53	55	198	52	58	61	64	66	69
Debit	94	101	105	70	94	100	104	109	114
Capital and financial account	**480**	**394**	**832**	**570**	**348**	**299**	**263**	**248**	**167**
Financial Account Balance	454	396	834	572	348	299	263	248	167
Public sector	245	194	492	359	89	21	-49	-125	-179
o/w CG and CBB Inflows	227	239	570	442	180	130	90	128	103
IMF	49	101	231	49	25	0	0	0	0
SDR allocation	0	0	0	130	0	0	0	0	0
Other IFIs and commercial	178	138	340	263	155	130	90	128	103
o/w CG and CBB Outflows	99	67	86	83	90	108	137	251	280
o/w IMF	0	0	0	0	0	13	38	69	78
Private sector	210	202	342	214	259	278	312	373	345
FDI (net)	222	244	380	236	259	278	312	373	345
Short Term (net)	-12	-42	-38	-22	0	0	0	0	0
Capital Account Balance	25	-3	-2	-3	0	0	0	0	0
Net errors and omissions	**10**	**8**	**82**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance (deficit -)	**288**	**240**	**591**	**64**	**-116**	**-105**	**-84**	**-34**	**-79**
Memorandum items:									
Oil Price (WTI, US$ per barrel)	64.8	57.0	39.4	64.6	63.1	59.2	56.5	54.7	54.7
Gross International Reserves (GIR, US$ million)	500	739	1,330	1,394	1,278	1,174	1,090	1,055	977
GIR (months of imports of G&S)	3.0	4.2	9.3	8.0	6.6	5.8	5.2	4.9	4.4
GIR (percent of ARA)	100.5	141.9	260.0	242.6	208.5	186.6	169.0	150.5	135.8

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

Table 4b. Barbados: Balance of Payments, 2018–2026

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

			Est.	Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Current account balance	**-4.0**	**-3.1**	**-7.2**	**-10.8**	**-8.8**	**-7.3**	**-6.0**	**-4.7**	**-3.9**
o/w Exports of goods and services	41.3	42.8	30.7	38.2	40.7	41.1	42.0	42.6	43.0
o/w Imports of goods and services	39.7	39.6	38.3	44.4	44.5	43.6	43.2	42.6	42.4
Trade balance	-14.4	-14.2	-18.3	-18.4	-18.7	-17.7	-17.2	-16.7	-16.9
Exports of goods	15.0	14.6	13.8	15.8	15.7	15.7	16.0	16.0	15.8
o/w Re-exports	3.8	3.6	2.7	3.4	3.7	4.0	4.3	4.4	4.3
Imports of goods	29.5	28.8	32.1	34.3	34.4	33.5	33.2	32.7	32.7
o/w Oil	7.7	4.4	4.2	7.3	6.7	6.2	6.1	5.6	5.6
Services balance	16.0	17.3	10.7	12.3	14.9	15.3	16.0	16.7	17.5
Credit	26.2	28.2	16.9	22.4	25.1	25.4	26.0	26.6	27.2
o/w Travel (credit)	21.8	23.8	12.5	17.9	20.5	20.7	21.2	21.8	22.3
Debit	10.2	10.8	6.2	10.1	10.1	10.1	10.0	9.9	9.7
Primary income balance	-4.7	-5.3	-1.6	-4.2	-4.4	-4.1	-4.1	-4.0	-3.9
Credit	5.3	5.3	3.8	5.3	5.3	5.3	5.3	5.3	5.3
Debit	10.1	10.7	5.4	9.5	9.7	9.4	9.4	9.3	9.2
Secondary income balance	-0.8	-0.9	2.1	-0.4	-0.7	-0.7	-0.7	-0.7	-0.7
Credit	1.1	1.0	4.4	1.1	1.1	1.1	1.1	1.1	1.1
Debit	1.8	1.9	2.3	1.5	1.8	1.8	1.8	1.8	1.8
Capital and financial account	**9.4**	**7.4**	**18.5**	**12.2**	**6.6**	**5.4**	**4.5**	**4.1**	**2.6**
Financial Account Balance	8.9	7.5	18.6	12.2	6.6	5.4	4.5	4.1	2.6
Public sector	4.8	3.7	11.0	7.7	1.7	0.4	-0.8	-2.1	-2.8
o/w CG and CBB Inflows	4.5	4.5	12.7	9.4	3.4	2.3	1.6	2.1	1.6
IMF	1.0	1.9	5.1	1.0	0.5	0.0	0.0	0.0	0.0
SDR allocation	0.0	0.0	0.0	2.8	0.0	0.0	0.0	0.0	0.0
Other IFIs and commercial	3.5	2.6	7.6	5.6	3.0	2.3	1.6	2.1	1.6
o/w CG and CBB Outflows	1.9	1.3	1.9	1.8	1.7	1.9	2.4	4.2	4.4
o/w IMF	0.0	0.0	0.0	0.0	0.0	0.2	0.7	1.1	1.2
Private sector	4.1	3.8	7.6	4.6	4.9	5.0	5.4	6.2	5.5
FDI (net)	4.4	4.6	8.5	5.0	4.9	5.0	5.4	6.2	5.5
Short Term (net)	-0.2	-0.8	-0.9	-0.5	0.0	0.0	0.0	0.0	0.0
Capital Account Balance	0.5	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	**0.2**	**0.2**	**1.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance (deficit -)	**5.7**	**4.5**	**13.2**	**1.4**	**-2.2**	**-1.9**	**-1.5**	**-0.6**	**-1.2**
Memorandum items:									
Oil Price (WTI, US$ per barrel)	64.8	57.0	39.4	64.6	63.1	59.2	56.5	54.7	54.7
Gross International Reserves (GIR, US$ million)	499.6	738.9	1,330.3	1,394.2	1,278.5	1,173.6	1,089.5	1,055.2	976.6
GIR (months of imports of G&S)	3.0	4.2	9.3	8.0	6.6	5.8	5.2	4.9	4.4
GIR (percent of ARA)	100.5	141.9	260.0	242.6	208.5	186.6	169.0	150.5	135.8

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

Table 5. Barbados: Monetary Survey, 2018–2026

	2018	2019	2020	Projections 2021	2022	2023	2024	2025	2026
	(In millions of Barbados dollars)								
Central Bank of Barbados									
Net International Reserves	832	1,130	2,195	2,320	2,083	1,896	1,785	1,784	1,695
Assets	999	1,478	2,661	2,788	2,557	2,347	2,179	2,110	1,953
Liabilities	-167	-348	-466	-469	-473	-451	-394	-326	-258
Gross International Reserves	999	1,478	2,661	2,788	2,557	2,347	2,179	2,110	1,953
Net domestic assets	1,827	1,825	1,296	1,807	1,957	2,044	2,057	2,057	1,797
Of which: Claims on Central government	736	829	773	1,033	1,033	1,033	1,033	1,033	773
Monetary base	2,659	2,955	3,552	4,126	4,040	3,940	3,842	3,841	3,493
Commercial banks									
Net foreign assets	634	661	633	633	633	633	633	633	633
Net domestic assets	10,292	10,685	11,609	12,093	12,143	12,259	12,397	12,639	12,647
Liabilities to the nonfinancial private sector	10,926	11,346	12,242	12,726	12,776	12,891	13,030	13,272	13,279
Monetary survey									
Net foreign assets	1,339	1,679	2,029	2,693	2,457	2,269	2,159	2,157	2,068
Net domestic assets	9,976	9,976	10,472	11,099	11,363	11,641	11,866	12,109	12,118
Net credit to the public sector	2,312	2,277	2,087	2,746	2,896	2,984	2,996	2,996	2,737
Central government	2,204	2,212	2,002	2,661	2,811	2,899	2,911	2,911	2,652
Rest of public sector	108	65	85	85	85	85	85	85	85
Credit to the private sector	8,227	8,303	8,206	8,174	8,288	8,479	8,691	8,934	9,202
Credit to rest of financial system	330	263	271	271	271	271	271	271	271
Other items (net)	-892	-867	-92	-92	-92	-92	-92	-92	-92
Broad money (M2, liabilities to the private sector)	11,315	11,655	12,501	13,792	13,820	13,911	14,024	14,266	14,186
	(Changes in percent of beginning-of-period liabilities to the private sector)								
Monetary survey									
Net international reserves	-3.7	3.0	3.0	5.3	-1.7	-1.4	-0.8	0.0	-0.6
Net domestic assets	3.5	0.0	4.3	5.0	1.9	2.0	1.6	1.7	0.1
Net credit to public sector	-20.9	-0.3	-1.6	5.3	1.1	0.6	0.1	0.0	-1.8
Of which: central government	-18.8	0.1	-1.8	5.3	1.1	0.6	0.1	0.0	-1.8
Credit to private sector	0.2	0.7	-0.8	-0.3	0.8	1.4	1.5	1.7	1.9
Other items (net)	23.7	0.2	6.7	0.0	0.0	0.0	0.0	0.0	0.0
	(In percentage change)								
Monetary survey									
Net domestic assets	4.1	0.0	5.0	6.0	2.4	2.4	1.9	2.1	0.1
Of which:									
Private sector credit	0.3	1.0	-1.2	-0.2	1.4	2.3	2.5	2.8	3.0
Public sector credit	-50.6	-1.5	-8.3	31.6	5.5	3.0	0.4	0.0	-8.7
Broad money	-0.2	3.0	7.3	10.3	0.2	0.7	0.8	1.7	-0.6

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

Table 6. Barbados: Medium-Term Macroeconomic Framework, 2018–2026
(In percent of GDP, unless otherwise indicated)

			Est.	Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
				(Annual percentage change)					
National accounts and prices (calendar year)									
CY Real GDP	-0.6	-1.3	-18.0	1.6	10.1	4.2	2.9	2.6	2.5
Nominal GDP	2.2	4.2	-15.3	4.4	11.9	5.7	4.4	4.5	4.5
CPI inflation (average)	3.7	4.1	2.9	3.0	5.4	2.6	2.4	2.3	2.3
CPI inflation (end of period)	0.6	7.2	1.3	4.7	2.7	2.5	2.3	2.3	2.3
External sector (calendar year)									
Exports of goods and services, value	-0.1	7.9	-39.2	30.0	19.4	6.8	6.5	6.0	5.7
Imports of goods and services, value	-0.4	3.9	-18.1	21.0	12.2	3.6	3.3	2.9	4.1
Real effective exchange rate (average)	124.1	126.9	…	…	…	…	…	…	…
Terms of trade	-4.9	2.3	6.0	-12.2	1.5	1.8	1.1	1.3	1.4
Money and credit (calendar year, end of period)									
Net domestic assets	4.1	0.0	5.0	6.0	2.4	2.4	1.9	2.1	0.1
Of which: Private sector credit	0.3	1.0	-1.2	-0.2	1.4	2.3	2.5	2.8	3.0
Broad money	-0.2	3.0	7.3	10.3	0.2	0.7	0.8	1.7	-0.6
Velocity (GDP relative to broad money)	0.9	0.9	0.8	0.7	0.7	0.8	0.8	0.8	0.9
				(In percent of FY GDP, unless otherwise indicated)					
Public finances (fiscal year) 1/									
Central government									
Revenue and grants	29.1	31.0	31.8	29.0	29.1	29.7	29.7	29.7	29.7
Expenditure	29.4	27.2	36.9	34.1	30.7	29.5	28.5	28.3	28.0
Fiscal balance	-0.3	3.8	-5.1	-5.1	-1.7	0.2	1.2	1.4	1.6
Interest Expenditure	3.7	2.5	4.0	4.1	4.7	4.8	4.8	4.6	4.4
Primary balance	3.4	6.2	-1.0	-1.0	3.0	5.0	6.0	6.0	6.0
Debt (fiscal year) 1/									
Central government gross debt	126.0	124.4	156.4	142.1	128.7	121.4	114.6	107.8	101.1
External	33.4	33.8	52.0	50.3	47.1	45.1	42.3	38.1	33.6
Domestic	92.5	90.5	104.5	91.8	81.6	76.3	72.3	69.7	67.5
Savings and investment (calendar year)									
Gross domestic investment	14.3	14.6	17.4	17.0	16.9	17.0	16.8	16.9	17.0
Public	2.1	2.0	3.1	2.8	2.7	2.7	2.6	2.6	2.8
Private 2/	12.2	12.5	14.3	14.3	14.3	14.3	14.2	14.2	14.2
National savings	10.3	11.5	10.2	6.2	8.1	9.7	10.8	12.2	13.1
Public	1.8	-2.6	1.8	5.8	-2.8	-3.1	0.4	2.3	3.2
Private	8.5	14.1	8.4	0.5	10.9	12.8	10.4	9.9	10.0
External savings	-4.0	-3.1	-7.2	-10.8	-8.8	-7.3	-6.0	-4.7	-3.9
Balance of payments (calendar year)									
Current account	-4.0	-3.1	-7.2	-10.8	-8.8	-7.3	-6.0	-4.7	-3.9
Capital and financial account	9.4	7.4	18.5	12.2	6.6	5.4	4.5	4.1	2.6
Official capital (net)	4.8	3.7	11.0	7.7	1.7	0.4	-0.8	-2.1	-2.8
Private capital (net)	4.1	3.8	7.6	4.6	4.9	5.0	5.4	6.2	5.5
Of which: Long-term flows	4.4	4.6	8.5	5.0	4.9	5.0	5.4	6.2	5.5
Net errors and omissions	0.2	0.2	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	5.7	4.5	13.2	1.4	-2.2	-1.9	-1.5	-0.6	-1.2
Memorandum items:									
Exchange rate (BDS$/US$)	2.0	2.0	2.0	…	…	…	…	…	…
Oil price (WTI, US$ per barrel)	64.8	57.0	39.4	64.6	63.1	59.2	56.5	54.7	54.7
Gross international reserves (US$ millions)	500	739	1,330	1,394	1,278	1,174	1,090	1,055	977
In months of imports	3.0	4.2	9.3	8.0	6.6	5.8	5.2	4.9	4.4
In percent of ARA	100.5	141.9	260.0	242.6	208.5	186.6	169.0	150.5	135.8
Nominal CY GDP (BDS$ millions)	10,173	10,596	8,975	9,374	10,485	11,088	11,570	12,088	12,633

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

Table 7. Barbados: Financial Sector Indicators, 2015–2020

(Percent)

	2015	2016	2017	2018	2019	2020
Commercial Banks						
Solvency Indicator						
Capital Adequacy Ratio (CAR)	15.8	17.0	17.0	13.9	13.5	16.0
Liquidity Indicators 1/						
Loan to deposit ratio	65.5	62.3	63.3	63.0	61.8	57.1
Domestic demand deposits to total domestic deposits	35.7	40.3	41.6	41.8	45.3	46.9
Liquid assets, in percent of total assets	25.3	27.4	26.7	21.1	22.9	25.1
Credit Risk Indicators						
Loans and advances (yoy growth rate) 2/	-0.8	-0.5	2.0	0.7	-0.5	-2.1
Non-performing loans ratio	10.6	8.9	7.9	7.4	6.6	7.3
Provisions to non-performing loans	55.5	63.2	69.6	67.3	60.2	62.0
Foreign Exchange Risk Indicators						
Deposits in Foreign Exchange (in percent of total deposits)	-0.9	8.6	8.8	10.5	6.7	6.6
Profitability Indicators						
Return on Assets (ROA)	0.9	1.0	1.3	-0.2	0.6	0.8
Credit Unions						
Solvency Indicator						
Reserves to Total Liabilities	12.1	12.4	12.5	11.9	11.4	9.5
Liquidity Indicators						
Loan to deposit ratio	107.2	103.2	100.6	94.3	89.6	73.5
Credit risk Indicators						
Total assets, annual growth rate	7.3	8.3	8.7	9.5	7.5	7.3
Loans, annual growth rate	6.6	7.3	6.3	4.2	3.5	0.9
Nonperforming loans ratio	9.1	7.6	7.8	8.9	9.6	13.1
Arrears 3-6 months/Total Loans	2.0	1.3	1.3	1.9	1.9	2.2
Arrears 6 – 12 months/Total Loans	1.8	1.2	1.4	1.4	1.6	3.6
Arrears over 12 months/Total Loans	5.2	5.1	5.0	5.5	6.1	7.3
Provisions to Total loans	2.6	2.5	2.4	2.6	2.8	3.1
Profitability Indicator						
Return on Assets (ROA)	0.6	0.8	0.9	0.7	0.7	0.5

Source: Central Bank of Barbados, Financial Services Commission.

1/ Includes foreign components unless otherwise stated.

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

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

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

Sources: Fund staff.

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

			Est.	Projections					
	2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
				(in US$ millions, unless otherwise indicated)					
Gross Financing Requirements	**300**	**228**	**408**	**589**	**555**	**513**	**486**	**534**	**526**
Current Account Balance	201	162	323	506	464	404	347	282	245
CG Debt Amortization	99	67	86	83	91	109	139	253	281
Sources of Financing	**300**	**228**	**408**	**540**	**530**	**513**	**486**	**534**	**526**
Public sector	343	261	578	393	155	130	90	128	103
o/w: SDR allocation	0	0	0	130	0	0	0	0	0
FDI (net)	222	244	380	236	259	278	312	373	345
Short Term (net)	-12	-42	-38	-22	0	0	0	0	0
Capital Account Balance	25	-3	-2	-3	0	0	0	0	0
Net errors and omissions	10	8	82	0	0	0	0	0	0
Change in Reserve (- = increase)	-288	-240	-591	-64	116	105	84	34	79
Financing Gap	**0**	**0**	**0**	**49**	**25**	**0**	**0**	**0**	**0**
Financing Gap	0	0	0	49	25	0	0	0	0
Prospective Financing	**0**	**0**	**0**	**49**	**25**	**0**	**0**	**0**	**0**
IMF EFF disbursement 1/	0	0	0	49	25	0	0	0	0
Memo items:									
GIR (percent of ARA)	101	142	260	243	209	187	169	150	136
GIR (months of imports of G&S)	3.0	4.2	9.3	8.0	6.6	5.8	5.2	4.9	4.4

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

1/ Including IMF disbursements associated with future reviews.

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

(In millions of SDR unless otherwise indicated)

		Projections											
		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Purchases	a	34.0	17.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of quota 1/		36.0	18.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	b	0.0	0.0	8.8	25.9	46.6	52.3	53.7	53.7	44.9	27.8	7.1	1.4
Total Interest/Charges 2/	c	0.1	6.1	6.3	6.1	6.0	4.1	2.2	1.4	0.8	0.4	0.1	0.0
Total Debt Service	d=b+c	0.1	6.1	15.0	32.1	52.6	56.4	55.9	55.0	45.7	28.1	7.2	1.5
Percent of exports		0.4	0.3	0.9	1.5	1.5	1.4	1.3	1.2	0.7	0.1	0.0	0.0
Percent of GDP		0.1	0.1	0.4	0.6	0.6	0.6	0.6	0.5	0.3	0.1	0.0	0.0
Percent of quota 1/		0.1	6.4	15.9	33.9	55.7	59.7	59.1	58.2	48.4	29.7	7.6	1.5
Outstanding Credit	e=e(-1)+a-b	305.0	322.0	313.3	287.3	240.8	188.5	134.8	81.2	36.2	8.5	1.4	0.0
Percent of exports		12.2	10.8	9.8	8.5	6.7	5.0	3.4	1.9	0.8	0.2	0.0	0.0
Percent of GDP		4.6	4.4	4.0	3.5	2.8	2.1	1.5	0.8	0.4	0.1	0.0	0.0
Percent of quota 1/		322.8	340.7	331.5	304.1	254.8	199.5	142.7	85.9	38.3	9.0	1.5	0.0
Memo items:													
EFF Debt Service / Exports of G&S (percent)		0.0	0.2	0.5	0.9	1.5	1.5	1.4	1.3	1.0	0.6	0.1	0.0
GIR (US$ million)		1,394	1,278	1,174	1,090	1,055	977	931	933	961	1,009	1,042	1,124
ARA (US$ million)		532	569	590	613	662	713	738	756	778	770	747	751
GIR/ARA (percent)		243	209	187	169	150	136	124	120	121	129	132	143
GIR/External Debt Service (percent)		681	536	472	405	257	248	210	207	213	291	301	377
Nominal GDP (CY US$ mln)		4,687	5,243	5,544	5,785	6,044	6,316	6,581	6,857	7,144	7,443	7,754	8,079

Sources: Fund staff estimates and projections.

1/ Using SDR/USD exchange rate = 0.711868 (as of November 11) and quota SDR = 94.5 million;

2/ Total Interest/Charges based on existing and prospective drawings using GRA rate of charge = 1.05 (as of November 11).

Annex I. Risk Assessment Matrix[1]

Source of Risks	Likelihood	Impact	Policy Response
Global Risks			
Global resurgence of the Covid-19 pandemic. Local outbreaks lead to a global resurgence of the pandemic (possibly due to vaccine-resistant variants), which requires costly containment efforts and prompts persistent behavioral changes rendering many activities unviable.	Medium	High	Continue making progress in a vaccination program (about 50 percent of the population have been fully vaccinated so far) while enhancing capacity of viral testing, contact tracing, and treating infected people.
Higher frequency and severity of natural disasters related to climate change cause severe economic damage to smaller economies susceptible to disruptions and accelerate emigration from these economies. A sequence of severe events in large economies reduces global GDP and prompts a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility.	Medium	High	Invest in climate resilient infrastructure that could mitigate disaster risk including under the "Roofs to Reefs" program. Include natural disaster clauses in government debt. Ensure adequate insurance, including under CCRIF. Make use of IFI contingent credit facilities.
Rising commodity prices amid bouts of volatility. Commodity prices increase by more than expected against a weaker U.S. dollar, post-pandemic pent-up demand and supply disruptions, and for some materials, accelerated plans for renewable energy adoption. Uncertainty surrounding each of these factors leads to bouts of volatility, especially in oil prices.	Medium	Medium	Implement structural measures to rely less on commodity imports, including through investment in renewable energy, and increasing domestic supply capacity of food.
Country-specific risks			
Slower path of fiscal adjustment owing to delayed recovery from ongoing global pandemic would divert public debt from an expected sustainable path and make it difficult for the authorities to meet future financing needs.	Medium	High	Adhere to a fiscal consolidation strategy under the program and resume fiscal consolidation as soon as the pandemic dissipates.
Delays in structural reforms owing to the ongoing global pandemic could prevent the authorities from generating higher primary balances in the long term.	Medium	High	Deliver the structural reform agenda and policy commitments under the program, including SOE reforms, an improvement in tax and custom administrations, and the introduction of a fiscal rule.
Changes of tourist behavior in a post-COVID era. Delays in infrastructure investment and retooling human capital to transform the tourism sector to meet tourists' demands in a post-COVID era could divert the economy from an expected recovery path.	Medium	High	Implement structural measures to improve the competitiveness of the tourism sector and boost attractiveness to tourists in a post-COVID era.

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

Annex II. Debt Sustainability Analysis

Barbados' public debt remains sustainable but subject to high risks. The debt-to-GDP ratio is projected to turn around and decline to about 142 percent in FY 2021/22 from a temporary increase in FY2020/21 to 156 percent of GDP due to fiscal responses to the COVID-19 and a sharp contraction in nominal GDP. The reduction of public debt however will be more modest than had been projected due to a slower recovery in tourist arrivals associated with more prolonged pandemic. Further, a series of natural disasters—a volcanic eruption in St. Vincent in April as well as a category 1 hurricane, Elsa in July—took a large economic toll on the economy. The COVID-19 induced recession and the related relaxation of the fiscal stance will need to be compensated by higher primary surpluses in subsequent years to safeguard debt sustainability. Under the current baseline, the 60 percent-of-GDP debt anchor, which was pushed back by two years in the context of the fifth review, is projected to be reached by FY2035/36. Over the medium term, debt remains above the 70 percent of GDP risk assessment threshold used in the MAC DSA, while gross financing needs are projected to stay below the 15 percent of GDP threshold except for FY2021/22. Risks include a longer-than-expected COVID-19 shock with elevated spending needs and a slower economic recovery, and the authorities' ability to maintain high primary surpluses over an extended period. These risks are mitigated by Barbados' strong track record under the EFF-supported program, a favorable debt service schedule, and improved market perceptions following the comprehensive 2018-19 debt restructuring.

A. Recent Development and Public Debt[1] Structure

1. **Barbados' public debt is projected to turn around and decline to about 140 percent of GDP in FY2021/22 from a temporary large hike to 156 percent in FY2020/21 owing to the COVID-19 pandemic.** Before the pandemic, Barbados had steadily reduced public debt to 124 percent of GDP by the end of FY2019/20, from 158 percent of GDP in FY2017/18.

- **Public debt-to-GDP ratio is projected to come down in FY2021/22 after a large increase in FY2020/21.** While the fiscal policy had to remain accommodative in FY2021/22 to address the protracted negative impacts owing to the pandemic and a series of natural disasters, a gradual economic recovery, albeit at a slower pace than had been previously projected, would compress the debt-to-GDP ratio to around 142 percent of GDP in FY2021/22 from 156 percent in FY2020/21. The sharp increase of the debt-to-GDP ratio in FY2020/21 is attributed mainly to a sharp decrease in nominal GDP by around 17 percent along with a small primary deficit of 1 percent of GDP. Strong financial support from IFIs and disbursements under the IMF Extended Arrangement under the EFF, enhanced through two augmentations, have been helping finance larger financing needs at favorable terms.

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

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

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

Barbados: Decomposition of Public Debt and Debt Service by Creditor, FY2020/21-FY2023/24[1]

	Debt Stock (end of period) FY2020/21			Debt Service					
				FY2020/21	FY2021/22	FY2022/23	FY2020/21	FY2021/22	FY2022/23
	(In US$ million)	*(Percent total debt)*	*(Percent of GDP)*	*(In US$)*			*(Percent of GDP)*		
Total	6,643.3	100.0	156.4	829.3	786.4	439.3	19.5	16.2	8.2
External	2,206.9	33.2	52.0	168.8	151.6	168.0	4.0	3.1	3.1
Multilateral creditors[2]	1,408.9	21.2	33.2	70.5	86.4	96.7	1.7	1.8	1.8
IMF	391.9	5.9	9.2						
World Bank	24.3	0.4	0.6						
IADB	562.2	8.5	13.2						
Other Multilaterals	454.8	6.8	10.7						
o/w: CDB	261.8	3.9	6.2						
CAF	167.9	2.5	4.0						
Bilateral Creditors	122.2	1.8	2.9	10.3	12.3	14.5	0.2	0.3	0.3
Paris Club	46.1	0.7	1.1	8.5	7.9	7.8	0.2	0.2	0.1
o/w: Canada	46.1	0.7	1.1						
Non-Paris Club	76.1	1.1	1.8	1.7	4.4	6.7	0.0	0.1	0.1
o/w: China	76.1	1.1	1.8						
Bonds	552.0	8.3	13.0	70.7	35.9	38.5	1.7	0.7	0.7
Commercial creditors[3]	123.9	1.9	2.9	17.4	17.1	18.3	0.4	0.4	0.3
Domestic	4,436.3	66.8	104.5	660.5	634.7	271.3	15.6	13.0	5.1
Held by residents, total	n/a	n/a	n/a						
Held by non-residents, total	n/a	n/a	n/a						
Short-term debt (incl. T-Bills)	393.7	5.9	9.3	354.8	393.7	-	8.4	8.1	-
Held by: central bank	210.1	3.2	4.9						
local banks	142.6	2.1	3.4						
local non-banks	41.1	0.6	1.0						
Long-term debt (incl. Bonds)	4,042.6	60.9	95.2	305.7	241.0	271.3	7.2	5.0	5.1
Held by: central bank	207.2	3.1	4.9						
local banks	1,025.1	15.4	24.1						
local non-banks	2,810.3	42.3	66.2						
Memo items:									
Collateralized debt[4]	0.0	0.0	0.0						
o/w: Related	0.0	0.0	0.0						
o/w: Unrelated	0.0	0.0	0.0						
Contingent liabilities	228.4	3.4	5.4						
o/w: Public guarantees	228.4	3.4	5.4						
o/w: Other explicit contingent liabilities[5]	n/a	n/a	n/a						
Nominal GDP	4,247.1			4,247.1	4,866.7	5,362.7			

1/As reported by country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA. Future debt services are associated with existing debt stock as of end of FY2020/21. The amount of nonresidents' holdings of domestic debt is negligible.

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

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

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

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

B. Public Debt Sustainability Analysis Assumptions

3. The specific assumptions used in the analysis are:

- ***Growth and Inflation***. Projected economic growth for 2021 is lowered to around 2 percent from 3 percent at the time of the fifth review reflecting a slower-than-expected tourist recovery and a series of natural disasters—a volcanic eruption in St. Grenadine in April and a category 1 hurricane, Elsa in July. The revised economic growth is premised on a modest recovery of tourism in the second half of 2021 reflecting an improvement in global economic outlook including in key tourism source countries as well as the steady implementation of vaccination programs. Over the medium term, growth is expected to return to the pre-crisis level (2019 real GDP level) around 2024 after a strong rebound from 2022 onwards. It would eventually stabilize at its long-term average of around 2 percent supported by normalization in the tourism sector, ongoing structural reforms, and strategic investment. Average inflation is projected to return to its long-run average of around 2½ percent from 2022 onwards. The fiscal multiplier is conservatively set at 0.3 reflecting the FAD methodology staff's guidance on fiscal multipliers.[2]

- ***Primary Balance***. In FY2021/22, the primary balance would be decreased to minus 1 percent of GDP from zero percent at the time of the fifth review as a result of the continued negative shock from the pandemic and spending needs associated with house rebuilding of low-income households which were significantly impacted by the hurricane. With a gradual economic recovery, the primary balance is projected to gradually increase to its pre-crisis level of 6 percent of GDP by FY2024/25 and remain there for several years. Subsequently, the primary surplus could be slightly decreased to accommodate long-term developmental needs to the extent that the long-term debt anchor of 60 percent of GDP by the end of FY2035/36 is respected. The realism tool for fiscal adjustments (figure 3) suggests that planned fiscal consolidation falls under top quartile of the distribution of historical fiscal adjustments in advanced and emerging countries. However, the authorities are strongly committed to long-term fiscal adjustments, and contingency measures would be sought should additional downside shocks materialize (see ¶23 of the main text).

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

C. Baseline Projections and Risks

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

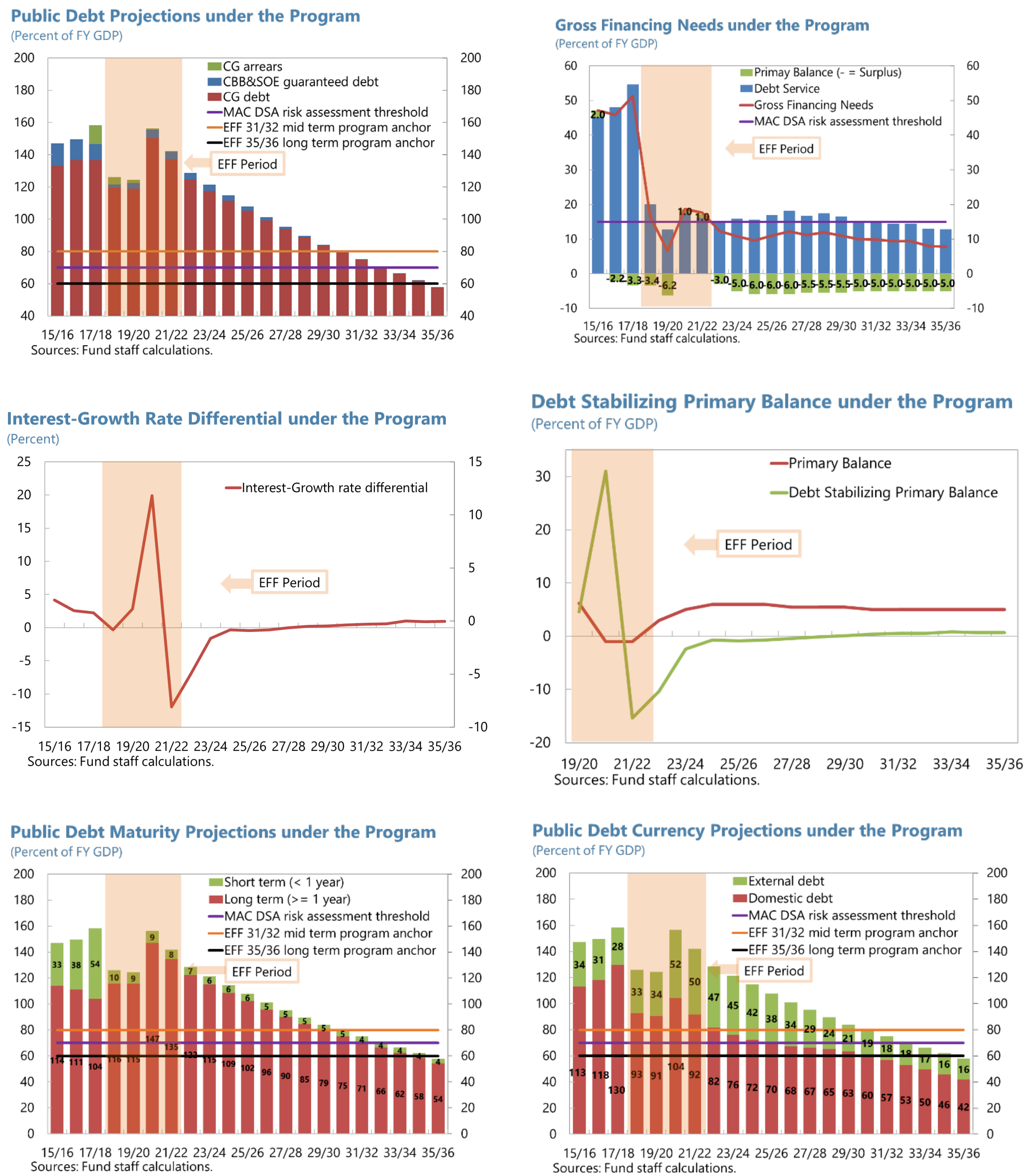
[2] See the staff's methodology guidance note on fiscal multipliers. https://www.imf.org/external/pubs/ft/tnm/2014/tnm1404.pdf

5. **Under the current baseline projections, public debt is projected to meet its long-term anchor of 60 percent of GDP by end-FY2035/36** (text chart, panel 1). While public debt is expected to be brought back onto a downward trajectory in FY2021/22, the debt-to-GDP ratio is still around 40ppt of GDP above the pre-COVID debt trajectory envisaged under the original program and is expected to come down to the pre-COVID level of 124 percent of GDP (as of end-FY2019/20) in FY2023/24. With the debt target pushed back by two years in the context of the fifth review, the authorities should be able to achieve the target through reasonably ambitious primary balances in the long-term. Owing to the recent debt restructurings and prudent borrowing strategy, the effective real interest rate is roughly equal to long-run real growth rate, which would generate favorable declining debt dynamics consistent with cumulative primary balances (text chart, panel 3). Projected primary balances are much larger than the debt-stabilizing primary balances, which are estimated to be around zero percent of GDP over the projection period. (text chart, panel 4).

6. **The authorities' debt management strategy is appropriate.** The temporary larger financing needs could be sufficiently financed by large financial support from IFIs with favorable borrowing terms, including the use of SDR allocation recently provided from the Fund. The authorities' long-term strategy aims to reduce short-term debt below 5 percent of GDP and use long-term domestic debt to a maximum extent possible, which would further improve debt composition over the medium- and long-term (text chart, panel 5). External market access is assumed to be re-established in the medium term as market conditions improve (Barbados is currently rated as B- by S&P). The debt management strategy assumes the rolling-over of commercial external debt coming due, including recently restructured external debt. This should allow the authorities to maintain adequate reserve coverage while avoiding excessive reliance on expensive financing from capital markets. Consequently, by end-FY2035/36, external and domestic debt are projected to be about 16 and 42 percent of GDP, respectively (text chart, panel 6).

7. **Unfavorable outturns of these debt-dynamics determinants contribute important sources of risks to debt sustainability**. In particular, the risk of a significant deviation from the gradual recovery path assumed for the remainder of 2021 and going forward—including due to repeated emergences of new COVID variants and the resultant delay of a recovery in tourist arrivals—would call into question the ability of the authorities to resume fiscal consolidation. Further, delays in structural reforms to generate high primary balances in the long-run partly due to difficulty of making progress in needed public consultation process would hamper fiscal sustainability. However, public support for the adjustment program remains strong, and barring a longer-than-expected impact of the current pandemic or other unforeseen shocks including intensified natural disasters, the programmed fiscal adjustment is assessed to be feasible as evidenced by primary balances prior to the pandemic. In June 2021, the authorities have prepared plans to recapitalize the CBB and provide capital to the NIS to restore its financial soundness which was impaired by the debt restructuring and a large temporary increase in unemployment benefits due to the COVID-19 pandemic. Such efforts for fiscal consolidation will be further entrenched by continued SOE reforms, and a newly introduced fiscal rule currently under preparation. On the other hand, were growth to overperform relative to baseline projections, the authorities could accelerate efforts towards debt reduction.

Figure 1. Barbados: Public Debt Projections 1/
(In percent of FY-GDP)



1/ Including IMF BOP support.

D. Stress Tests

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

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

- **Gross financing needs are projected to stay below the 15 percent risk assessment threshold except for FY2021/22 under the baseline**. Stress tests suggest that Barbados' GFNs are susceptible to real GDP, contingent liability, and combined shocks, while the GFNs to GDP ratio is projected to stay below the threshold under other stress tests from FY2022/23 onwards. With the low debt service stemming from restructured debt and a high primary surplus assumed for the rest of the projection period, Barbados' liquidity risks remain manageable.

9. The debt profiles vulnerabilities analysis points to low or moderate risks. The spread on external debt is currently around 500 bps, which is below the high-risk threshold of 600 basis points. External debt held by non-residents, foreign currency-denominated debt, and external financing requirement also suggest moderate risk. Moreover, all new external debt incurred in 2020 was provided by multilateral IFIs with favorable lending terms, posing limited risk to future debt service. Further, the share of external debt is expected to decrease over time as the authorities' debt management strategy favors domestic and cheaper external financing sources. Short-term debt continues pointing to a low risk with an annual decrease by 1.2 percentage points.

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

E. Public Debt Sustainability

11. On balance Barbados' debt is assessed as sustainable. Public debt remains on a gradual downward trajectory under the current baseline projections after a temporary hike in FY2020/21 due to the COVID-19 shocks on economic growth and the resultant accommodative fiscal policy (Figure 2).

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

Public debt is projected to decrease to around 100 percent of GDP towards the end of the 5-year DSA projection period and subsequently achieve the 60 percent-to-GDP debt target in FY2035/36 through higher primary surpluses under the baseline projections. However, even with the debt target pushed back by two years to FY2035/36 at the time of the fifth review, maintaining high primary balances over an extended period supported by the steady implementation of structural reforms remains a challenge and key risk to debt sustainability. There are mitigating factors such as no roll-over risks associated with short-term debt and favorable external debt service schedule due to debt restructuring and recent IFI borrowing, suggesting relatively low near-term liquidity risks as evidenced by stress tests for GFNs. Combined with the authorities' strong commitment to long-term fiscal consolidation and cautious debt management strategy, Barbados' debt is assessed as sustainable while risks to debt sustainability remain elevated. As evidenced by stress tests, growth and macro-fiscal shocks would jeopardize debt sustainability, and high vulnerability to a contingent liability shock scenario confirms the need to increase resiliency to natural disasters and strengthen SOEs' financial viability, in addition to encouraging continued vigilance on the soundness of the financial sector. The broader use and strengthening of state-contingent financial instruments would be encouraged to further increase its resilience against natural disasters.

F. External Debt Sustainability Analysis

12. There is no significant concern over external debt sustainability[4]. In FY2020/21, external debt temporarily increased to 52 percent of GDP from 34 percent in FY2019/20 due to strong support from IFIs and a collapse in nominal GDP. It is projected to gradually decrease to about 34 percent of GDP by FY2026/27. A worsening in the current account deficit due to the prolonged pandemic, along with a delay in an economic recovery, is projected to slightly raise the external debt to GDP ratio by around 1 percentage points throughout the projection period compared with the previous external DSA (Table 1). Going forward, the public debt management strategy aims to limit expensive financing from the external capital market and rely on multilaterals and/or domestic sources of financing. Risks associated with external debt are reduced by the debt restructuring with smoother and lower debt service and the increased share of IFIs among non-resident creditors. Under any of the stress tests considered, external debt is not projected to be higher than about 40 percent of GDP by FY2026/27 (Figure 7).

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

Figure 2. Barbados: Public Debt Sustainability Analysis (DSA)

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

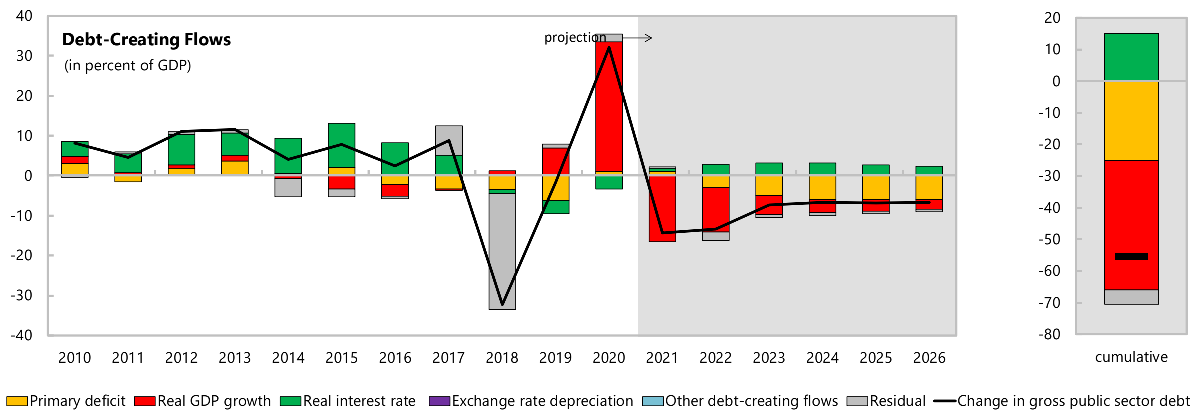
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	133.3	124.4	156.4	142.1	128.7	121.4	114.6	107.8	101.1
Public gross financing needs	36.5	6.5	18.9	17.1	11.9	10.9	9.6	11.0	12.2
FY Real GDP growth (in percent)	0.0	-5.4	-21.7	12.1	8.6	3.9	2.8	2.6	2.3
Inflation (FY GDP deflator, in percent)	1.5	4.8	6.5	2.2	1.4	1.4	1.5	1.8	2.0
FY Nominal GDP growth (in percent)	1.5	-0.9	-16.6	14.6	10.2	5.3	4.3	4.4	4.4
Effective interest rate (in percent) [4/]	6.3	2.0	2.8	3.1	3.7	4.1	4.3	4.3	4.4

As of November 01, 2021		
Sovereign Spreads		
EMBIG (bp) 3/		499
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	B-	n.a.
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	2.9	-1.6	32.1	-14.3	-13.4	-7.4	-6.7	-6.8	-6.7	-55.3	
Identified debt-creating flows	5.9	-2.6	30.0	-14.7	-11.3	-6.6	-6.0	-6.1	-6.0	-50.7	
Primary deficit	0.1	-6.2	1.0	1.0	-3.0	-5.0	-6.0	-6.0	-6.0	-25.0	0.0
Primary (noninterest) revenue and grants	26.8	31.0	31.8	29.0	29.1	29.7	29.7	29.7	29.7	176.8	
Primary (noninterest) expenditure	26.9	24.7	32.8	30.0	26.1	24.7	23.7	23.7	23.7	151.8	
Automatic debt dynamics [5/]	5.8	3.6	29.0	-15.7	-8.3	-1.6	0.0	-0.1	0.0	-25.7	
Interest rate/growth differential [6/]	5.8	3.6	29.0	-15.7	-8.3	-1.6	0.0	-0.1	0.0	-25.7	
Of which: real interest rate	6.0	-3.3	-3.4	0.8	2.8	3.2	3.2	2.7	2.4	15.1	
Of which: FY real GDP growth	-0.2	6.9	32.4	-16.5	-11.1	-4.7	-3.3	-2.8	-2.4	-40.9	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net financing sources - external - Privatization (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroarea loans)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	-3.0	1.0	2.0	0.3	-2.0	-0.8	-0.7	-0.7	-0.7	-4.6	



Source: IMF staff.

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

2/ Based on available data.

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

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

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

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

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

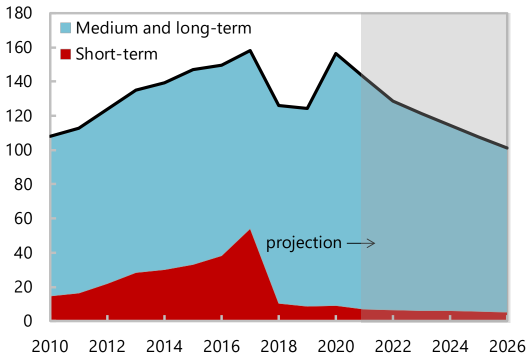
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

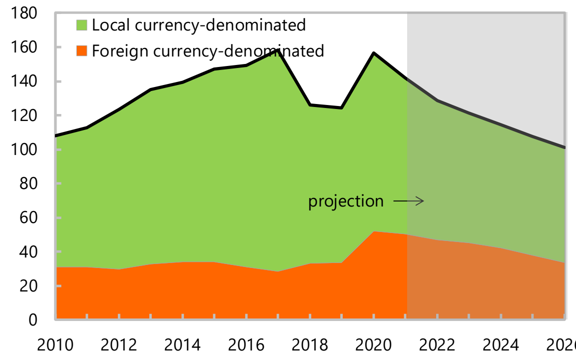
Figure 3. Barbados: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



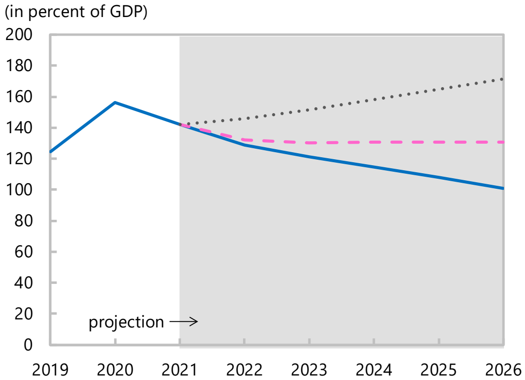
By Currency
(in percent of GDP)



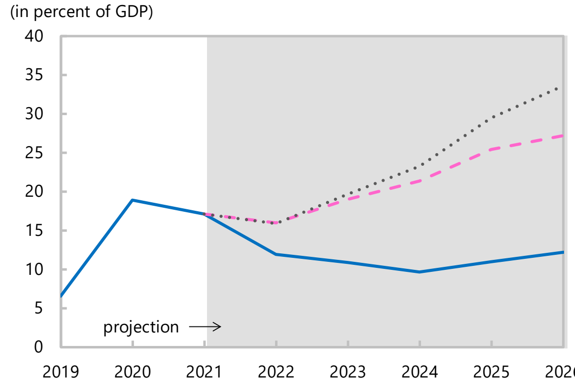
Alternative Scenarios

Baseline · Historical · Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



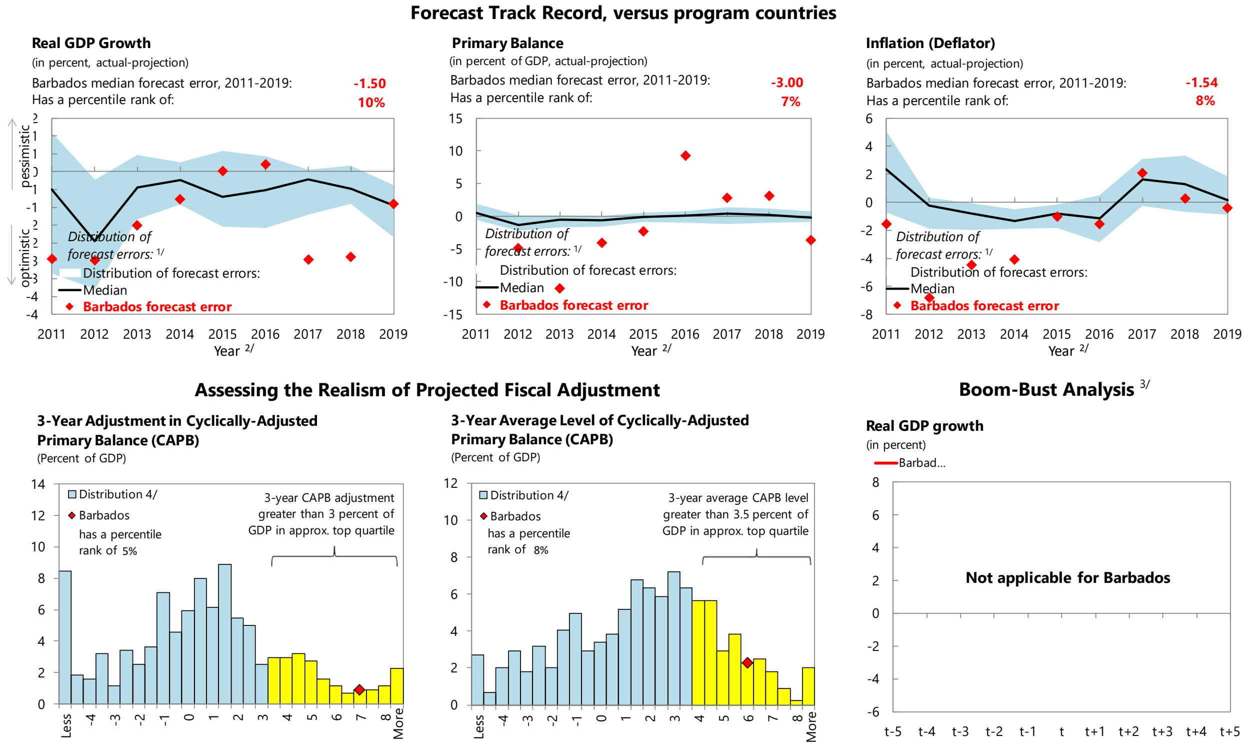
Underlying Assumptions
(in percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	12.1	8.6	3.9	2.8	2.6	2.3
Inflation	2.2	1.4	1.4	1.5	1.8	2.0
Primary Balance	-1.0	3.0	5.0	6.0	6.0	6.0
Effective interest rate	3.1	3.7	4.1	4.3	4.3	4.4
Constant Primary Balance Scenario						
Real GDP growth	12.1	8.6	3.9	2.8	2.6	2.3
Inflation	2.2	1.4	1.4	1.5	1.8	2.0
Primary Balance	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Effective interest rate	3.1	3.7	4.0	4.2	4.2	4.2

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	12.1	-2.5	-2.5	-2.5	-2.5	-2.5
Inflation	2.2	1.4	1.4	1.5	1.8	2.0
Primary Balance	-1.0	0.8	0.8	0.8	0.8	0.8
Effective interest rate	3.1	3.7	4.2	4.4	4.5	4.6

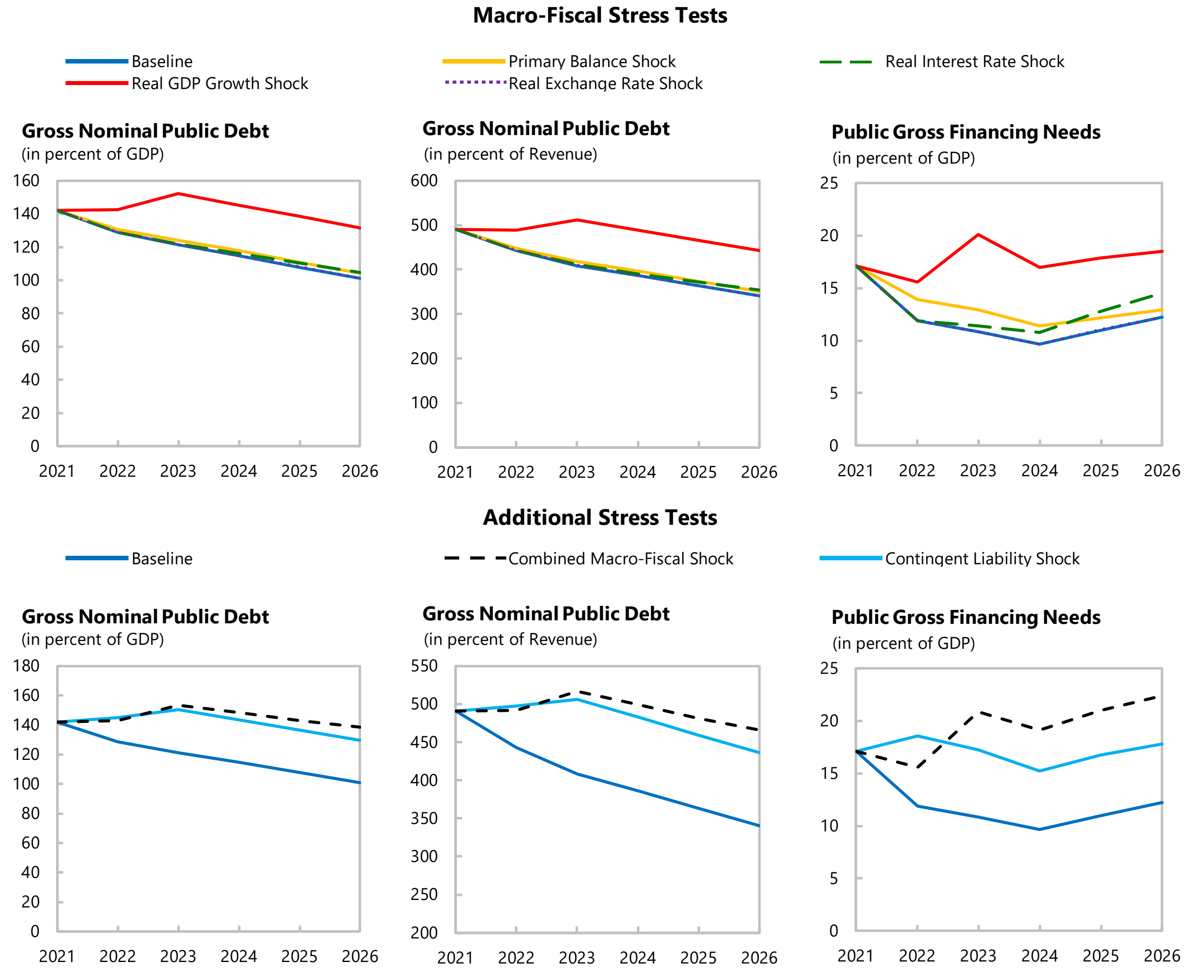
Source: IMF staff.

Figure 4. Barbados: Public DSA – Realism of Baseline Assumptions



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

Figure 5. Barbados: Public DSA – Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	12.1	8.6	3.9	2.8	2.6	2.3
Inflation	2.2	1.4	1.4	1.5	1.8	2.0
Primary balance	-1.0	1.0	4.0	5.5	6.0	6.0
Effective interest rate	3.1	3.7	4.1	4.3	4.3	4.4
Real Interest Rate Shock						
Real GDP growth	12.1	8.6	3.9	2.8	2.6	2.3
Inflation	2.2	1.4	1.4	1.5	1.8	2.0
Primary balance	-1.0	3.0	5.0	6.0	6.0	6.0
Effective interest rate	3.1	3.7	4.6	5.0	5.3	5.7
Combined Shock						
Real GDP growth	12.1	1.6	-3.2	2.8	2.6	2.3
Inflation	2.2	-0.3	-0.4	1.5	1.8	2.0
Primary balance	-1.0	0.7	0.3	5.5	6.0	6.0
Effective interest rate	3.1	3.7	4.6	5.2	5.5	6.0

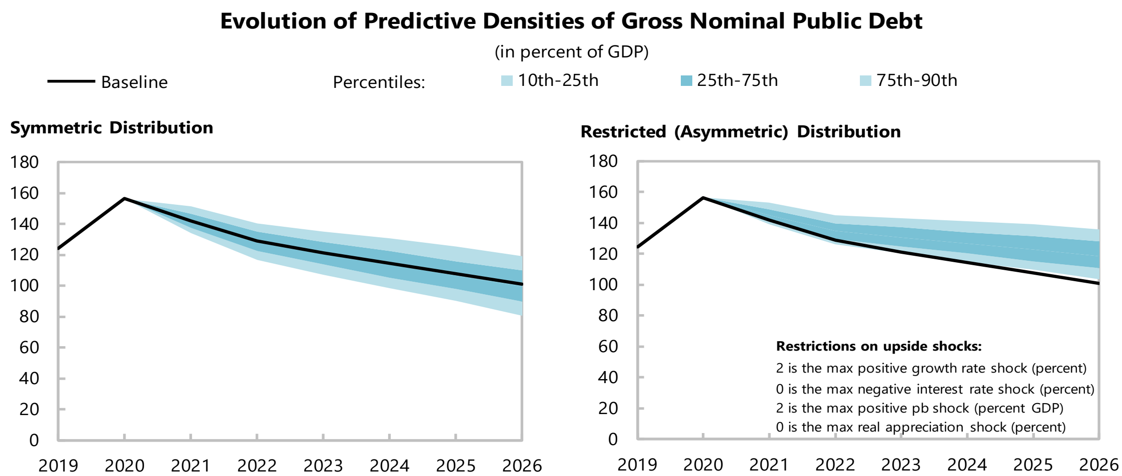
Real GDP Growth Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	12.1	1.6	-3.2	2.8	2.6	2.3
Inflation	2.2	-0.3	-0.4	1.5	1.8	2.0
Primary balance	-1.0	0.7	0.3	6.0	6.0	6.0
Effective interest rate	3.1	3.7	4.1	4.4	4.3	4.4
Real Exchange Rate Shock						
Real GDP growth	12.1	8.6	3.9	2.8	2.6	2.3
Inflation	2.2	1.7	1.4	1.5	1.8	2.0
Primary balance	-1.0	3.0	5.0	6.0	6.0	6.0
Effective interest rate	3.1	3.7	4.1	4.3	4.3	4.3
Contingent Liability Shock						
Real GDP growth	12.1	1.6	-3.2	2.8	2.6	2.3
Inflation	2.2	-0.3	-0.4	1.5	1.8	2.0
Primary balance	-1.0	-2.2	5.0	6.0	6.0	6.0
Effective interest rate	3.1	3.8	4.2	4.3	4.3	4.4

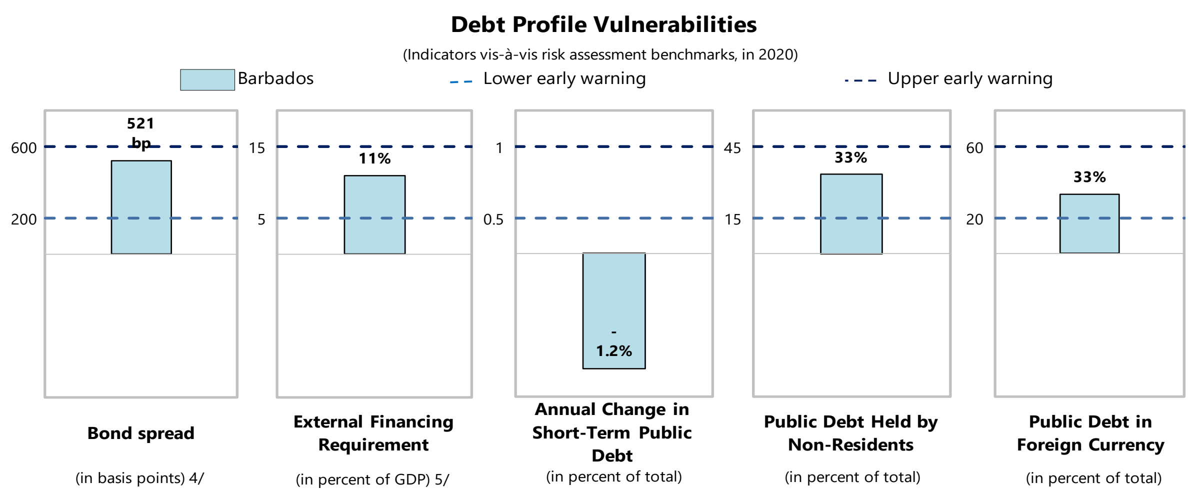
Source: IMF staff.

Figure 6. 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





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.

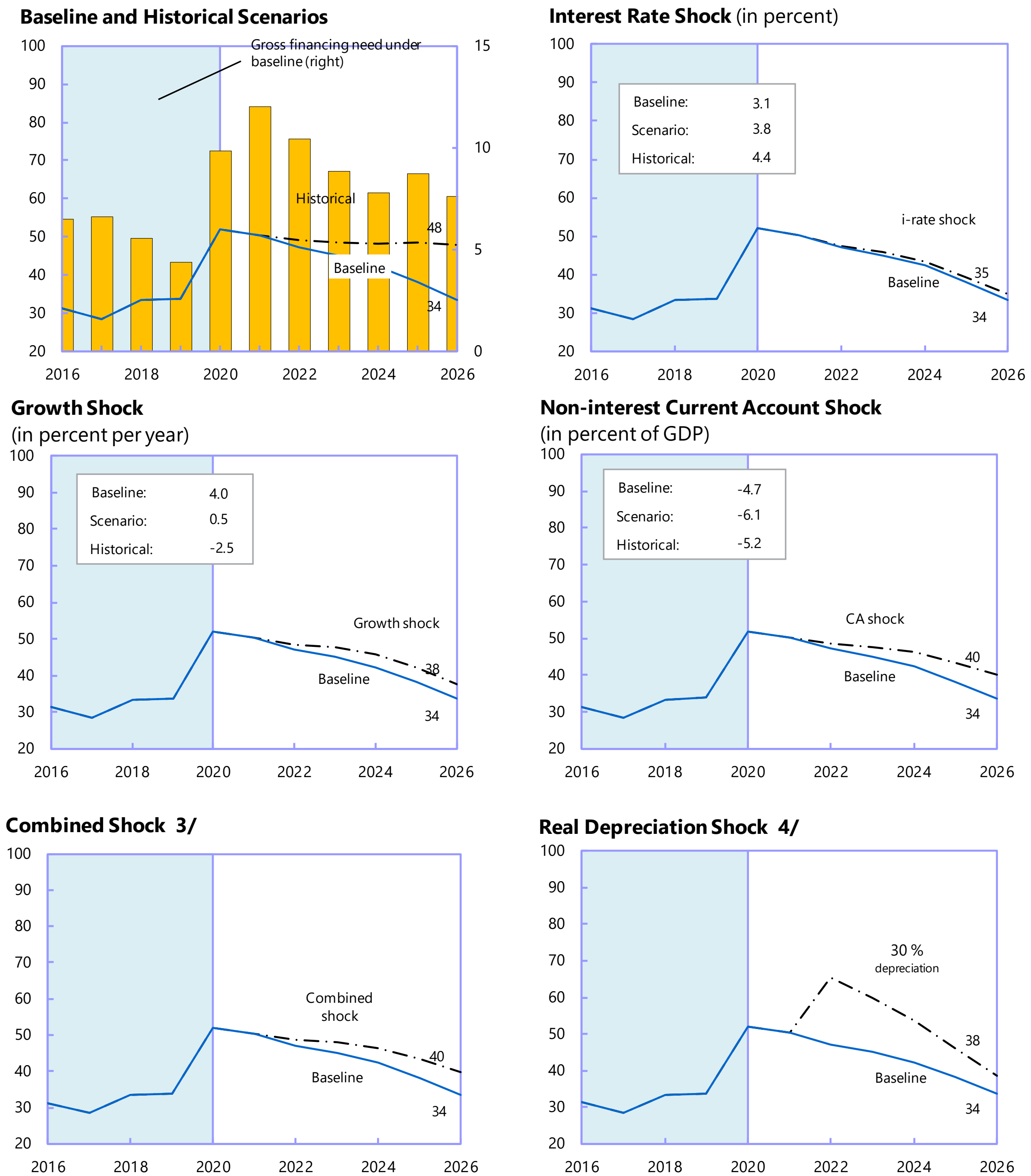
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, 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, 03-Aug-21 through 01-Nov-21.

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

Figure 7. Barbados: External Debt Sustainability: Boundary Tests 1/ 2/

(External debt in percent of FY-GDP)



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

Table 1. Barbados: External Debt Sustainability Framework, 2016–2026

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

	Actual							Projections						
	2016	2017	2018	2019	2020			2021	2022	2023	2024	2025	2026	Debt-stabilizing non-interest current account 6/
Baseline: External debt	31.3	28.5	33.4	33.8	52.0			**50.3**	**47.1**	**45.1**	**42.3**	**38.1**	**33.6**	**-5.1**
Change in external debt	-3.1	-2.8	4.9	0.4	18.1			-1.7	-3.2	-2.0	-2.8	-4.2	-4.6	
Identified external debt-creating flows (4+8+9)	0.0	-0.2	-1.1	-1.3	5.4			0.1	-0.1	0.5	-0.6	-2.5	-2.4	
Current account deficit, excluding interest payments	2.5	2.1	3.5	2.6	5.9			9.1	7.3	5.8	4.6	3.3	2.7	
Deficit in balance of goods and services	-1.0	-1.5	-1.5	-3.3	8.1			6.0	3.7	2.4	1.2	0.0	-0.7	
Exports	42.8	42.0	40.8	44.5	32.4			36.8	39.8	40.4	41.2	41.8	42.3	
Imports	41.8	40.5	39.3	41.2	40.5			42.7	43.5	42.8	42.4	41.8	41.7	
Net non-debt creating capital inflows (negative)	-3.4	-3.1	-4.3	-4.8	-9.0			-4.8	-4.8	-4.9	-5.3	-6.1	-5.4	
Automatic debt dynamics 1/	0.8	0.8	-0.3	0.9	8.5			-4.2	-2.6	-0.4	0.1	0.2	0.3	
Contribution from nominal interest rate	1.7	1.7	0.5	0.6	1.7			1.3	1.3	1.3	1.3	1.3	1.2	
Contribution from real FY GDP growth	-0.7	-0.1	0.2	1.8	8.8			-5.5	-3.9	-1.7	-1.2	-1.0	-0.9	
Contribution from price and exchange rate changes 2/	-0.2	-0.8	-1.0	-1.5	-2.1			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-3.1	-2.6	6.1	1.7	12.7			-1.8	-3.0	-2.5	-2.1	-1.7	-2.1	
External debt-to-exports ratio (in percent)	73.1	67.9	81.9	76.1	160.3			136.7	118.3	111.7	102.8	91.2	79.3	
Gross external financing need (in billions of US dollars) 4/	0.3	0.3	0.3	0.2	0.4			0.6	0.6	0.5	0.5	0.5	0.5	
in percent of FY GDP	6.5	6.6	5.6	4.4	9.8			12.0	10.4	8.9	7.8	8.7	7.6	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**50.3**	**49.2**	**48.5**	**48.2**	**48.4**	**47.9**	**-3.8**
Key Macroeconomic Assumptions Underlying Baseline														
Nominal FY GDP (US dollars)	4.9	5.0	5.1	5.1	4.2			4.9	5.4	5.6	5.9	6.2	6.4	
FY Real GDP growth (in percent)	2.0	0.2	-0.8	-5.4	-21.7	-2.5	7.1	12.1	8.6	3.9	2.8	2.6	2.3	
FY GDP deflator in US dollars (change in percent)	0.6	2.6	3.5	4.8	6.5	2.1	2.4	2.2	1.4	1.4	1.5	1.8	2.0	
Nominal external interest rate (in percent)	5.1	5.6	1.7	1.8	4.2	4.4	1.4	2.8	2.9	3.0	3.1	3.1	3.2	
Growth of exports (US dollar terms, in percent)	6.6	0.8	-0.1	7.9	-39.2	-3.1	13.3	30.0	19.4	6.8	6.5	6.0	5.7	
Growth of imports (US dollar terms, in percent)	0.2	-0.4	-0.4	3.9	-18.1	-2.4	6.0	21.0	12.2	3.6	3.3	2.9	4.1	
Current account balance, excluding interest payments	-2.5	-2.1	-3.5	-2.6	-5.9	-5.2	2.7	-9.1	-7.3	-5.8	-4.6	-3.3	-2.7	
Net non-debt creating capital inflows	3.4	3.1	4.3	4.8	9.0	6.1	3.0	4.8	4.8	4.9	5.3	6.1	5.4	

Sources: Barbados Authorities and Fund staff projections.

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

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

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

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

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

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

Annex III. External Sector Assessment

Barbados' external position in 2020 was broadly consistent with fundamentals and desirable policies. Reserve coverage was adequate in 2020, covering 9 months of imports of goods and services. Continued deterioration of the current account balance is expected in 2021 owning to the ongoing COVID-19 crisis and could lead to a change in the assessment of the external position.

The External Sustainability

1. **The current account deficit has widened to 7 percent of GDP in 2020 from 3 percent in 2019 due to the impact of the pandemic, reversing the steadily improving trend before the pandemic.** A sharp decline in tourism due to lockdowns in key source markets contributed to a sharp deterioration in the current account balance, which was partially offset by favorably low oil prices and low demands of imported goods and services. A worsened current account deficit was financed by significant inflows in the financial account, led by larger than expected flows of official sector assistance. External vulnerability remains limited owning to favorable borrowing terms, even though public external debt has increased by around 20 percentage points of GDP in 2020.

2. **The current account deficit is expected to continue widening in 2021 given the slow recovery in tourism arrivals and increasing imports of goods and services.** Despite staged reopening in source countries and a modest recovery in tourist arrivals towards end of 2021, tourist arrivals are forecast to remain well below the normal levels in 2021. On the other hand, imports of intermediate goods have recovered to the pre-pandemic level, mostly driven by booming commodity prices and freight costs, and increasing domestic demands from reconstruction projects arising out of damages caused by Hurricane Elsa, leading to a projected end-year current account deficit of 10.8 percent of GDP. Goods exports increased marginally in the first two quarters of 2021, partly due to the increases in exports of rums and electronic components, which is driven by the ongoing efforts to diversify the export base. The current account deficit is expected to slowly narrow in the coming years as tourist arrivals gradually return to normal levels and business environment improves to unlock the growth potential of new areas including renewable energy, medical, and high-tech sector.

3. **The larger current account deficit is expected to be financed by both official and private financial flows.** The official capital inflows amounted to around 11 percent of GDP in 2020 and is projected to be around of 7 percent of GDP in 2021, all with favorable borrowing terms. On the private flows, FDI inflows stayed around 5 percent of GDP in 2020. It is projected that FDI inflows will increase as major tourism-related development projects are expected to be realized over the next two years as the economy normalizes. Meanwhile, capital outflows remain subdued given the limited capital mobility in the region. Major outlays in 2020 and 2021 are repayments to outstanding official debt. Capital outflows from the private sector are limited. Overall, long term FDI and official inflows remain the key composition of the financial account. Going forward, as official inflows may deaccelerate, policy measures to continue attracting long term investment and other portfolio investments should be considered. The authorities should also consider gradually phasing out the

current capital flow measure, i.e., the 2 percent foreign exchange fee, as the pandemic dissipates, and reserves build up.

4. **The EBA-lite model suggests that Barbados' external position is broadly consistent with fundamentals and desirable policies.** The EBA-lite current account (CA) model shows that Barbados' COVID-19 adjusted and cyclically-adjusted current account balance is estimated at minus 5.9 percent of GDP in 2020[1], while the multilaterally consistent cyclically adjusted CA Norm is minus 5.7 percent of GDP, suggesting a small current account gap of minus 0.3 percent of GDP.[2] Using the estimated current account elasticities, this implies a small overvaluation of the REER (by 0.9 percentage points). On the other hand, the REER approach suggests an overvaluation by about 24 percent. In staff's view, the REER model is less reliable than the current account model given the short sample span to estimate the fixed effect in the model as well as the need to substitute other sources of data compared to the countries in the regression sample. The CA model better captures the evolving nature of Barbados' external position which suggests that the external position is broadly consistent with fundamentals and desirable policies (see Summary Table below).

Barbados: Summary Table – External Balance

CA Approach		**REER Approach**	
CA-Actual	-7.4%	Ln (REER) Actual	4.87
Cyclical contributions (-)	2.3%	Ln (REER) Fitted	4.68
COVID-19 adjustor (+)	3.8%	Ln (REER) Norm	4.63
Adjusted CA	**-5.9%**	Residual	0.19
CA-Norm	-3.7%		
Cyclically adjusted CA Norm	-6.0%	REER Gap	24.4%
Multilaterally Consistent Cyclically adjusted CA Norm	**-5.7%**	Policy Gap	6%
CA-Gap	**-0.3%**	Natural Disasters and Conflicts	0.1%
of/which Policy gap	8.4%		
Elasticity	-0.30		
REER Gap	**0.9%**		
CA-Fitted	4.7%		
Residual	-12.1%		
Natural Disaster and Conflict	0.0%		

Source: IMF staff estimates.

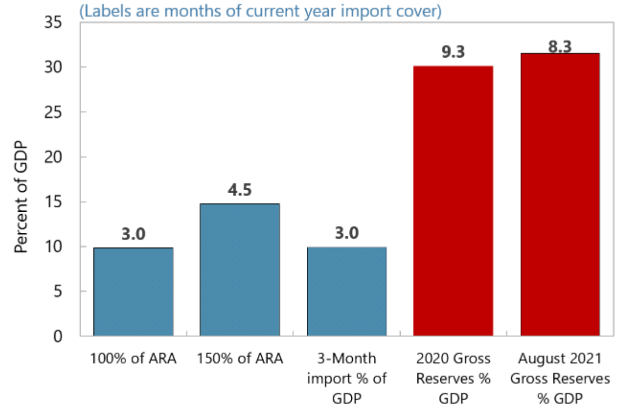
[1] The COVID-19 crisis is significantly affecting countries' external positions. However, the impact from the pandemic is generally expected to fade as the COVID-19 crisis subsides. To assess the underlying external position in 2020, latest EBA-lite model incorporates special adjustments to the estimates beyond the standard cyclical adjustments to strip out transitory factors. Among the adjustors, oil and tourism contribute by 0.47 percent and 3.29 percent of GDP respectively.

[2] The positive policy gap of 8.4 percent of GDP is mostly driven by the large reserve accumulation of 9.5 percent of GDP in 2020 relative to 2019, owing to the significant official inflows of IFI loans during the pandemic period. This policy gap is expected to shrink in the medium term as reserve accumulation slows down.

5. **Reserves continued to accumulate and have reached a historic high**. Despite the collapse in the tourism sector, Barbados continued to build up its reserves supported by large official inflows. By the end of August 2021, international reserves increased to more than US$1.4 billion, which is equivalent to around 8.3 months of imports of goods and services coverage, and above 200 percent of the ARA metric. An IMF lending arrangement continued to catalyze financing from other IFIs. The World Bank has provided budget support to Barbados equivalent to US$100 million in June 2021, while the IDB is expected to disburse US$80 million in policy loans by December 2021. The international reverses position was further strengthened by the IMF SDR allocation of SDR 90.6 million, which took place in August 2021. Though Barbados has a very strong reserves position, given uncertainties surrounding the ongoing COVID-19 pandemic and intensifying climate-change related natural disasters, it needs to maintain adequate foreign exchange buffers to buttress credibility in its exchange rate peg against the US dollar. Staff analysis indicates that gross reserves will gradually decline as IFI financing tapers but will remain above200 percent of the ARA metric through the end of the program.

Barbados: Reserve Adequacy Metrics

(Labels are months of current year import cover)



Sources: Central Bank of Barbados and IMF staff calculations.

Annex IV. Building Resilience to Natural Disasters and Climate Change

Barbados' climate-related risks, including physical risks to weather-related events with higher temperatures and changes in precipitations, as well as transition risks related to a decarbonization of activities nationally and globally, are expected to increase. Investments in resilient infrastructure will be essential to withstand natural disasters, and a comprehensive layered insurance framework to ensure liquidity for relief and reconstruction should be developed while safeguarding public finances. Achieving Barbados' target to decarbonize the economy and transition to 100 percent renewable energy by 2030 will require a stepped-up implementation of key supporting policy initiatives and reforms to enhance the business environment.

A. Barbados' Exposure to Climate Change Risks

1. **While contributing little to global climate change, Barbados is vulnerable to climate change impacts.** For vulnerable countries in the Caribbean region adapting to climate change is a high priority. Although Barbados has been less affected than other Caribbean countries in the past, it is highly sensitive[1] to climate change risks (Figure 1) with increasing exposure in the last years. This sensitivity reflects Barbados geographical, climatic, socio-economic characteristics and economic structure, which have a bearing on its capacity to deal with and adapt to climate change impacts.

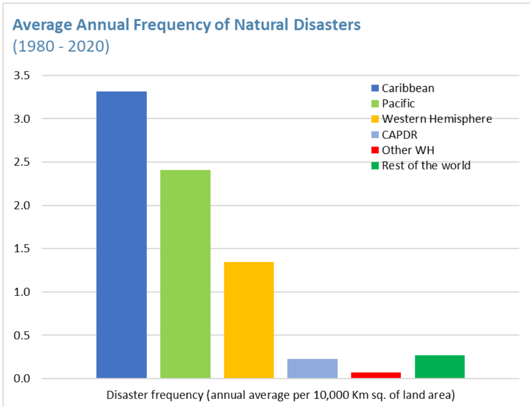
2. **The absence of severe natural disasters in recent decades might mask physical risks moving forward, considering Barbados' increasing vulnerability to natural disasters.** In 1955, hurricane Janet caused damages amounting to 14 percent of GDP. More recently, in 2021 hurricane Elsa caused damages of about 1 percent of GDP. Recent World Bank (2020) and UNDP (2020) reports flag that climate change impacts, such as hurricanes, rising sea levels and increasing storm intensity are expected to pose significant risks to Barbados.

3. **In addition, Barbados heavily relies on tourism – a sector sensitive to climate change effects (Figure 2).** Tourism is the most important driver of economic growth and prosperity in Barbados. The sector accounts directly for an estimated 35 percent of GDP. Many other sectors, including retail, construction, agriculture, and other services depend on tourism dynamics. More frequent and severe natural disasters may sharply reduce tourism, and through that adversely impact other sectors of the economy. In addition, Barbados will be exposed to higher temperatures and likelihood of frequent and more intense natural disasters as well as higher sea levels and changes in precipitations. Those changes may result in lower agricultural productivity, reduced availability and quality of water resources, loss of forested areas and biodiversity, and adverse health effects (IPCC, 2021, IPCC, 2014; ECLAC, 2020).

[1] ND-GAIN assesses the **vulnerability** of a country to climate change risks by considering six life-supporting sectors: food, water, health, ecosystem services, human habitat, and infrastructure. For each sector, the **exposure** to climate-related hazard is measured twofold: (1) **sensitivity** to the impacts of the hazard, and (2) **adaptive capacity** to adapt to these impacts. For exposure (sensitivity), a higher value implies higher exposure (sensitivity), contributing to higher vulnerability. See details in ND-GAIN data technical document.

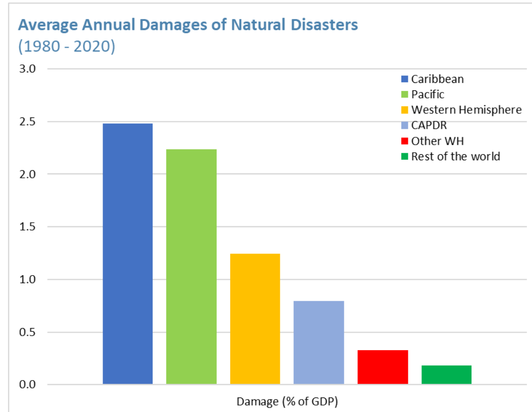
Figure 1. Barbados: Exposure and sensitivity to Natural Disasters

The Caribbean is the most exposed region globally in terms of frequency …



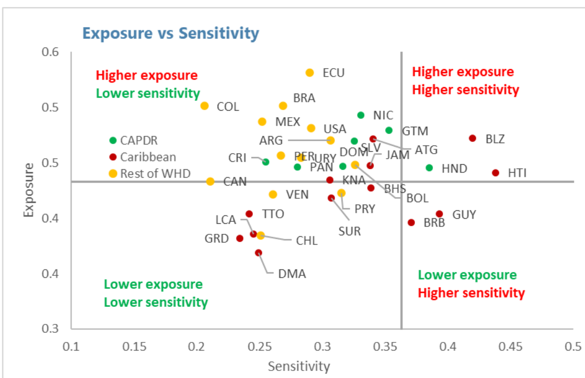
Source: EM-DAT, World Economic Outlook, and IMF staff calculations.

… and damages of natural disasters.



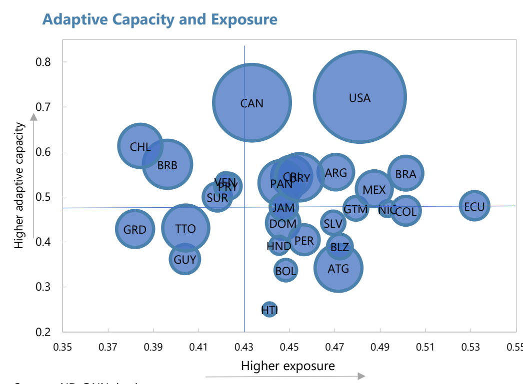
Source: EM-DAT, World Economic Outlook, and IMF staff calculations.

While Barbados is less exposed to climate events than other Caribbean states it is highly sensitive….



Source: ND-GAIN database.

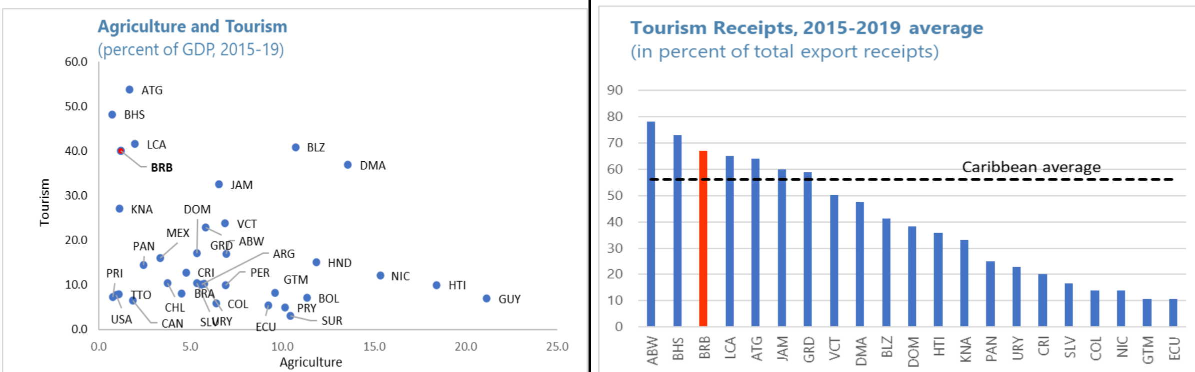
… but has an above average adaptive capacity to respond to the negative consequences.



Sources: ND-GAIN database.
Note: Bubble size indicates per-capita GDP in USD (2019). Capacity index is the difference betwee one and the ND-GAIN capacity indicator so that higher values indicate greater capacity.

4. Physical risks can negatively affect both supply and demand sides of Barbados' economy. On the supply side, natural disasters destroy physical capital (such as houses, bridges, or streets) and disrupt labor and supply chains. On the demand side, natural disasters damage household and corporate balance sheets, reduce consumption and investment, and disrupt tourism. These negative shocks can lead to lower growth and employment, interruption in capital accumulation, and slower poverty reduction. Further, post-disaster spending increases public debt and can threaten fiscal sustainability and financial stability.

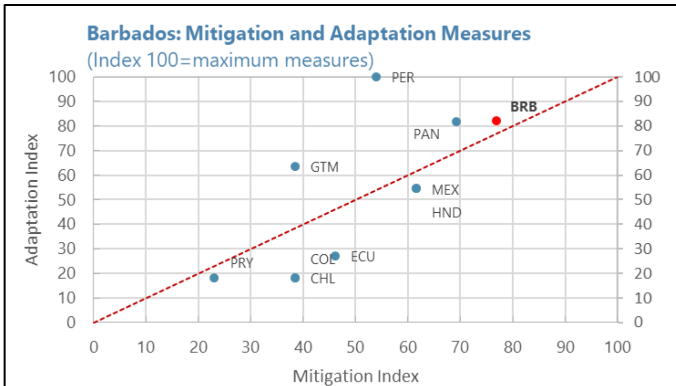
Figure 2. Barbados' Reliance on Tourism – A Climate Sensitive Sector



Sources: WDI and IMF staff calculations.

Sources: WDI and IMF staff calculations.

5. Barbados also faces transition risks directly from domestic measures and indirectly from structural changes in foreign economies needed to transition to a low-carbon economy to achieve climate sustainability goals. These fundamental changes can have repercussions on Barbados' economy: short- and long-term growth, fiscal position, inflation, and current account. A late and abrupt transition to a low-carbon economy could lead to a sudden repricing of climate-related risks and stranded assets, which could further negatively impact Barbados' financial sector balance sheets. Moreover, investments into renewables may affect macroeconomic stability if they require diverting resources that could be used for investments with higher productivity. Hence, it will be essential to strike a balance between accelerating to address needed economic transformation and avoiding economic and social disruptions caused by a too abrupt transformation. However, even an orderly transition to a low carbon economy could pose challenges for Barbados' financial systems, and a proper monitoring mechanism and stress testing should be put in place. Barbados may also be impacted by mitigation policies in other countries, which may, for example, lead to air travel becoming more expensive or because a change of preferences in tourists' countries.



Sources: National authorities; IMF desk survey; Climate Watch, and NDC Tracker.

6. To tackle these risks, Barbados has committed itself to ambitious mitigation and adaptation targets in their most recent nationally determined contributions[2] (NDC).

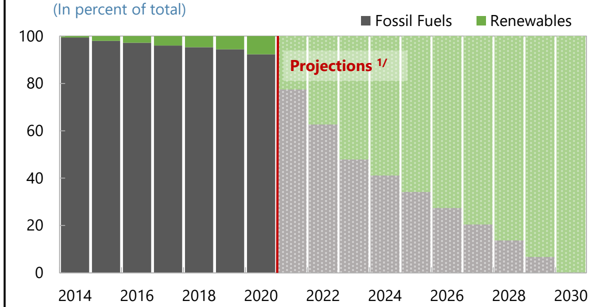
[2] **Mitigation policies** refers to policies that help reduce emissions of greenhouse gases (such as a carbon tax, reduction in subsidies, feebates, emission trading systems, sectoral mitigation policies, cost effective nature-based solutions. **Adaptation polices** refer to efforts to adapt to the effects of climate change and minimize damages from climate-related natural disasters.

Among regional peers it is ranked high in both mitigation and adaptation measures with a slightly stronger focus on adaptation[3]. Barbados' main mitigation policy focuses on transitioning to renewable energy, while adaptation policies focus on improving structural, financial, and post-disaster resilience.

Barbados' Transition to Renewable Energy By 2030

7. A central pillar of Barbados' climate strategy is to fully transition to renewable energy by 2030. Barbados' National Energy Policy (BNEP) sets out a framework that envisions renewable sources will meet 52 percent of Barbados' energy needs by 2023 and targets a full transition away from fossil fuels by 2030. Barbados is generally regarded to be an early adopter of renewable energy technologies. With 50 percent of households relying on solar-powered water heaters[4], it has achieved one of the highest penetration rates in the Western Hemisphere, which helped pave the way for the installation of solar photovoltaics (PV) to meet the demand for electricity generation more broadly. Barbados has increased its share of renewable energy in total electricity consumption from less than 1 percent in 2014 to 8 percent in 2020, with the bulk coming from the deployment of solar PV onto the roofs of households to the national grid.[5] However, this pace of transition to renewable energy power generation is insufficient to achieve BENP targets.

Barbados: Evolution of Electricity Generation
(In percent of total)



Sources: Ministry of Energy and Fund staff estimates.
1/ Calculated assuming a linear transition to the 2023 interim target and the 2030 target set forth in the Barbados National Energy Plan 2019-2030.

8. Achieving renewable energy targets requires a stepped-up implementation of key supporting policy initiatives and reforms to enhance the business environment. The authorities have taken important steps to support the development of an adequate renewable energy market, including by: i) opening the electricity generation market to independent power producers (IPPs); ii) launching a Feed-in-Tariff (FIT) system for IPPs; iii) establishing a regulatory and oversight system for renewables by extending the functions of the Fair Trading Commission, and iv) providing fiscal incentives to reduce/exempt import duties, VAT, as well as income and corporation tax. Market participants indicate, however, that the process is incomplete. They cite impediments to doing business due to opaque, uncoordinated, and burdensome regulatory processes as the primary obstacle to advancing renewable energy investments despite substantial private-sector interest. Streamlining the regulatory framework via a transparent, coordinated, and efficient

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[3] Indices are based on information from national authorities, an IMF desk survey, Climate Watch, and NDC Tracker. Countries were asked 22 questions on adaptation and mitigation policies. A simple weighted average was computed based on yes and no answers. A country replying yes to all questions would receive an index of 100.

[4] Barbados also has the largest fleet of electrical buses in the Caribbean (30 percent of the Transport Board's bus fleet).

[5] By end 2020, Barbados installed capacity of 49 MW of renewable energy (39 MW of distributed and 10 MW of utility scale energy) from solar PV, representing about 68 GWh, saving an estimated 114,412 barrels of oil or BBD$9.2 million in foreign exchange.

licensing/approvals system is regarded as a top priority.[6] In addition, the market infrastructure for the storage of renewable energy is incomplete. Regulatory gaps in terms of a Feed-in-Tariff mechanism for the promotion of renewable energy storage technologies and a corresponding licensing policy/approvals framework has impeded investment into battery storage technologies that will be required to meet energy demand as envisioned under the BNEP.

B. Building Resilience to Natural Disasters and Climate Change

Structural Resilience

9. Barbados implemented several policies to build structural resilience[7] and spur a green recovery but has room to strengthen "soft" resilience measures. These include: (i)) the 'Roofs to Reefs' program which encourages investments into renewable energy, water conservation, and building resilience; and (ii) the Home Ownership Providing Energy program to construct 1,000 energy efficient and solar powered houses and save electricity costs. A Comprehensive Disaster Management Audit (UN 2018) found that Barbados' warning and alert systems perform relatively well, with the safe area designation requiring improvement. While Barbados scores high in land use planning, existing building codes diverge from plans to improve housing resilience to category 4 hurricanes. Mandatory building codes play a significant role in structural resilience but enforcement and implementation in the Caribbean has been limited. In 2018, the government established the Barbados Building Standards Authority Act to enforce the provision of the Barbados National Building Code and the Building Act. However, the established building codes serve as guidelines only and are not mandatory.

10. Embracing opportunities to improve the disaster resilience of construction under the national initiatives along with enhanced regulation could provide additional protection from potential future losses. Additionally, the 2021 Physical Development Plan, which is expected to be adopted by end-2021, will provide a vision of sustainable growth and development with respect to land use, settlement patterns, food production, infrastructure, mobility and environmental management, and informs the public and private sectors as to the nature, scope and location of both development and protection areas for core assets.

11. Resilient infrastructure investments have substantial long-run benefits[8], but its large upfront costs imply a burden on Barbados' public finances in the short term. Especially, at present, the authorities' fiscal space is severely limited as a result of the prolonged pandemic and

[6] This includes streamlining the process to reclassify agricultural lands for solar PV panels. Establishing IPP partnerships with farmers, where a portion of land is dedicated to renewable energy generation, could generate steady supplemental income streams to farmers and advance agricultural production and national food security objectives.

[7] Structural resilience refers to targeted investments that help to limit the impact of natural disasters and accelerate a recovery. Such investment could take the form of "hard" measures like building resilient infrastructure (sea walls, rrobust sewage systems) and "soft" measures like early warning systems, customizing building codes, and improved land use planning practices (IMF 2019).

[8] For more details see IMF (2021) and IMF (2019b).

the slower than expected recovery in tourism compounded by damages from Hurricane Elsa and the volcanic eruptions at the neighboring island St. Vincent and the Grenadines. Hence such projects require, apart from increased fiscal space, more donor financing to climate-related projects and stronger private sector engagement by providing technical support, financial incentives, and access to affordable financial services would be key. Meanwhile, careful planning and integration of resilient infrastructure investment needs into multi-year budget cycles and sectoral plans would enable gains in spending efficiency, help identify financing gaps, and catalyze green financing.

Financial Resilience

12. Barbados scores high in public sector financial resilience. Barbados developed a comprehensive insurance framework that provides liquidity for relief and reconstruction while safeguarding public finances. It includes three dimensions. First, Barbados insures natural disaster risks through the Caribbean Catastrophe Risk Insurance Facility (CCRIF), a form of parametric insurance[9]. Second, Barbados has issued state-contigent bonds to provide debt service relief in extreme events. By including natural disaster clauses into new domestic and external bonds, Barbados effectively used the 2018-19 debt restructuring to build resilience in its public finances. These clauses allow for the capitalization of interest and deferral of scheduled amortization falling due over a two-year period following the occurrence of a major natural disaster. For the new domestic bonds, the trigger for a natural disaster event is a payout above US$5 million by CCRIF. Third, Barbados has a Catastrophe Fund with an approximate balance of B$61.5 million, which is financed by the NIS, to assist homeowners whose timber houses are uninsurable. This framework could be complemented by expanding the government saving fund to post natural disaster liquidity needs addressing small but more frequent events once more fiscal space is created. Hurricane Elsa made it clear that scaling-up access to parametric insurance under the CCRIF is desirable[10].

13. In addition, Barbados has access to liquidity through contingent lines or rapid credit facilities provided by international financial organizations. Continued engagement with regional integration initiatives and IFI contingent support mechanisms, such as the Caribbean Catastrophe Risk Insurance Facility, and the IDB's contingent credit facility, will help bolster Barbados' financial resiliency against future climate change shocks.

[9] CCRIF's parametric insurance is different from traditional indemnity insurance as it makes payments based on the intensity of a natural hazard event (e.g., hurricane wind speed, earthquake intensity, and volume of rainfall), the exposure or assets affected, and the amount of loss calculated in a pre-agreed model. CCRIF does not need to wait for on-the-ground assessments of loss and damage–unlike with indemnity insurance–to make payouts. This enables the Facility to disburse funds to governments within 14 days of an event. A CCRIF policy is triggered when the modelled loss for a hazard event equals or exceeds the attachment point selected by the country and specified in the policy contract (like a deductible in a traditional insurance contract).

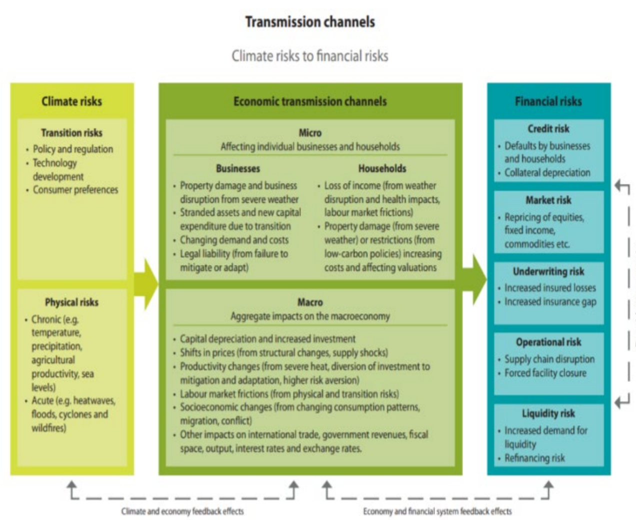
[10] The US$2.5 million CCRIF payout after Hurricane Elsa was insufficient to cover costs equivalent to around 1 percent of GDP. The CCRIF payout after Hurricane Elsa was not large enough to trigger the debt service suspension under a natural disaster clause enshrined in Barbados' restructured bonds.

14. Barbados also entered the green bond[11] market as the first Caribbean country. In June 2019, Barbados' private solar energy company, Williams Renewable Energy Limited[12] (WRELs), created the first Caribbean solar energy business, deploying 12 MWp of PV solar funded by a US$20 million green energy bond program. Barbados also stands out as one of the eleven countries that have ever issued a green bond in the Latin America and Caribbean region. WRELs bonds received the first Certification from Climate Bonds Standard in the Caribbean region, certifying their consistency with addressing the 2 degrees Celsius warming limit in the Paris Agreement.

15. The proactive use of green financing could alleviate fiscal pressures and support Barbados' 2030 agenda on sustainable development goals. The "Green" projects backed by WRELs bonds will help Barbados' to reduce their fossil fuel dependency and reduce its carbon footprint. Green bonds could also alleviate budgetary pressures and support a green recovery by mobilizing private sector financing.

16. Building capacity to understand and monitor climate change risks to the financial system will be key to enhance financial sector resilience and safeguard financial stability. Financial institutions in Barbados are exposed to climate change in three ways: (i) *physical risks* resulting from financial institutions' asset exposure to weather-related disasters and climate change senstive sectors. With higher temperatures the likelihood of more frequent and intense natural disasters also increases. Financial institutions in Barbados are significantly exposed to the tourism sector, which forms an integral part in Barbados' economy; (ii) *transition risks* in the wake of a decarbonization of the economy which would result in capital reallocations from "dirty" sectors to "cleaner" ones. Companies in "dirty" sectors may struggle to service their debt obligations and default with repercussions for financial institutions' asset position (loan claims, and equity shares in these companies); and (iii) *asset price volatility* resulting from conflicts and

Barbados: Climate Change Risks to Financial Stability



Source: NGFS, 2021.

[11] Green bonds are fixed-income instruments that allow issuers to raise money for projects with environmental benefits, such as renewable energy, energy efficiency or clean transport.

[12] WRELs is a special purpose company organized under Barbadian laws created to issue green bonds. The proceeds are used to acquire PV solar equipment and complete installations in Barbados and neighboring islands. A total of BDS$34 million has been raised so far (June 2019 and February 2020) with the rest expected to be raised later in 2021 to fund the rest 8.7 MW of PV solar. Key parties involved in the bond issuance are the IDB as bond guarantor, Royal Fidelity as trustee and fund-raising partner, and CIBC as banker.

migrations (World Bank 2021) that climate change triggered. The CBB currently does not include climate change risks in their financial stability assessements including stress testing based on potential scenarios. Hence, building capacity to monitor and assess climate change related risks to the financial system in Barbados would be essential.

Post Disaster Resilience

17. Barbados' response and recovery frameworks and social safety net are relatively well developed and allow for a quick response to humanitarian needs after a natural disaster subject to available fiscal space. Recent events related to Hurricane Elsa, the volcanic ashes and COVID-19 have demonstrated that Barbados has relatively efficient institutions to assess the damage, quickly respond to disasters, and develop reconstruction plans. However, severely limited fiscal space constrains an increase in coverage of Barbados' social safety net in cases of sudden climate change related shocks.

18. Strong procurement practices are key to an effective natural disaster response. Without adequate procurement systems, donors may be hesitant to support Barbados, while government expenditure can become inefficient in addressing the natural disaster's impact. Current efforts by the Barbadian government to strengthen the procurement process, including through the revision of the public procurement law, are welcome steps to reinforce Barbados' ability to respond to disasters quickly and efficiently while maintaining fiscal transparency.

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Annex V. Implementation of Last Article IV Advice

1. The last Article IV consultations (IMF 19/370) focused on the need to continue fiscal consolidation, enhance the central bank's autonomy, support economic growth, and increase resilience to climate change and natural disasters. Key staff recommendations included:

- Strengthening fiscal sustainability supported by structural reforms including through improving tax and customs administration, introducing a fiscal rule along with enhanced fiscal policy planning and monitoring, and reforming SOEs.
- Strengthening oversight and building capacity to monitor the financial performance of state-owned enterprises by identifying key fiscal risks and reform priorities.
- Amending the Central Bank Law to limit central bank financing of the government to short-term advances and strengthening the CBB's mandate, autonomy, and decision-making structure.
- Strengthening the business climate and competitiveness to support economic growth.
- Improving resilience to natural disasters and climate change through state-contingent financial instruments and infrastructure development including under the "Roofs to Reefs" program.

2. While the COVID-19 global pandemic delayed the implementation of part of the authorities' BERT plan, staff's key recommendations have been, or are being, steadily implemented:

- The fiscal balance improved from minus 4 percent of GDP in FY2017/18 to 4 percent of GDP in FY2019/20, with the primary balance reaching 6 percent of GDP as committed under the EFF program. However, the COVID-19 pandemic prevented the authorities from maintaining high primary balances in FY2020/21 and FY2021/22. Higher primary balances consistent with achieving the 60 percent-of-GDP debt target, which was pushed out by two years, are expected to resume as the pandemic dissipates.
- While efforts to strengthen oversight mechanisms for SOEs led to the 1 percent of GDP drop in transfers to SOEs (to 6.6 percent of GDP) prior to the pandemic in FY2019/20, these transfers increased again in FY2020/21 to accommodate COVID-19 policy responses at several SOEs. Transfers are expected to remain somewhat elevated in FY2021/22 but subsequently decrease as the pandemic dissipates and reform efforts bear fruit including through enhanced monitoring using the newly-introduced risk dashboard that analyzes the financial performance of priority SOEs.
- Customs administration was reformed with the development of a strategic plan for the Barbados Customs and Excise Department, upgrade of the IT system to ASYCUDA World and staffing of an in-house IT unit, reinforcement of the exemption monitoring and post-clearance audit units, establishment of a trusted trader program and tabling in parliament of a modernized Customs

Bill in line with international requirements. The authorities further strengthened tax administration by developing and operationalizing the Large Taxpayer Unit's compliance improvement plan and scaling up audit activity.

- An actuarial review of the civil service pension system was completed in November 2020, informing upcoming pension reform. Under the program, the authorities are preparing to table a revised public sector pension law to address long-run sustainability.

- In August 2021, the authorities tabled in parliament a three-year fiscal framework covering the FY2022/23-FY2024/25 period. This framework serves as a precursor to the adoption of a procedural fiscal rule by end-December, which will enhance transparency and accountability in fiscal policy making while maintaining sufficient flexibility to respond to the pandemic. Deliberations over a numerical fiscal rule are expected to resume once uncertainties surrounding the pandemic have resolved and supporting PFM systems have been sufficiently strengthened.

- A new central bank law, aimed at strengthening the autonomy of the bank while limiting the central bank financing to short-term advances that needs to be repaid within any single fiscal year, was adopted by parliament in December 2020.

- The authorities have implemented several growth-enhancing initiatives such as establishing a Commercial Court to speed up commercial adjudication and judgments; introducing new legislation compliant with UNITRAL to deal with arbitration and alternative dispute resolution mechanisms; and facilitating a range of online services including a new digital ID program aimed at improving transactions across Government departments.

- The authorities have been implementing several policies to spur a green recovery and increase resilience to natural disasters, which include: (i) the 'Roofs to Reefs' program encouraging investment into renewable energy, water conservation, and building resilience; (ii) the Feed-in-Tariffs program for renewable energy projects; and (iii) the Home Ownership Providing Energy program to construct energy efficient and solar powered houses and save electricity costs.

Appendix I. Letter of Intent

Bridgetown, Barbados
November 24, 2021

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

Dear Ms. Georgieva,

Since the approval of the extended arrangement under the Extended Fund Facility (EFF) by the IMF's Executive Board on October 1st, 2018, the Barbados Economic Reform and Transformation (BERT) Plan is restoring macroeconomic stability and putting the economy on a path of sustainable and inclusive growth. The country's international reserves have increased sharply to about US$1.4 billion by September 2021 supported by IFI loans, the public debt restructuring has been completed, and reforms of state-owned enterprises have been undertaken. The strategy of accelerating growth focuses on attracting new investment in areas such as the renewable energy sector, creative and artistic industries, agro-industries, the international business sector and tourism.

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

To accommodate the significant loss of government revenue and additional emergency outlays on health facilities, medical supplies and personnel, as well as provide income support to the most vulnerable, the primary balance target for FY2020/21 was reduced to minus 1 percent of GDP, down from a surplus of 6 percent of GDP originally envisaged under our homegrown BERT Plan.

The impact of the global pandemic on economic activity is deeper and more prolonged than was anticipated at the time of the fifth review under the EFF. After containing the transmission of the

virus through much of 2020, COVID-19 cases increased sharply in early 2021—prompting the reimposition of economic restrictions during February—and more recently in August with the arrival of the delta variant. These developments alongside two natural disaster shocks in the first half of 2021 are expected to weaken the anticipated economic recovery with implications for the fiscal outlook, notably on the expenditure side. Resources needed to support the most vulnerable and displaced workers, including unemployment benefits provided by the National Insurance Scheme, are expected to remain well above normal levels for the remainder of the fiscal year. On balance, the primary balance target for FY2021/22 will be reduced to minus one percent of GDP, down from the zero balance envisioned at the time of the fifth review. The target date for bringing the debt-to-GDP ratio below 60 percent remains unchanged at FY2035/36.

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

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

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

We have continued to meet BERT and EFF programme targets, despite increasingly challenging conditions owing to the global coronavirus outbreak. All quantitative program targets for end-June and end-September 2021 were achieved. Structural benchmarks for the sixth review have also been met apart from the passage of Fair Credit Reporting Act that was delayed due to the recent surge in COVID-19 cases.

We therefore request the completion of the sixth review of the extended arrangement under the EFF, with the full purchase of SDR 17 million to be made available as budget support. This request includes the modification of March 2022 performance criteria to reflect the current economic environment. We also request that two structural benchmarks (SBs) be reset and propose to adopt two new benchmarks in support of our adaptation efforts to build resilience to climate change effects (see SB38 and SB39in Attachment 1, Table 1). The benchmark to table a revised pension law in parliament will be reset to end-March 2022 to provide adequate time to build public support. The

benchmark for the CBB to compile and disseminate a first set of quarterly core indicators for FSIs for deposit takers is also proposed to be reset to end-March 2022 as integrating the Fund's technical advice is taking longer than anticipated.

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

Very truly yours,

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

Attachment I. Supplementary Memorandum of Economic and Financial Policies

I. PROGRAMME OBJECTIVES AND GROWTH STRATEGY

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

2. **The IMF Executive Board approved a four-year extended arrangement under the Extended Fund Facility (EFF) to support Barbados' economic program on October 1, 2018**. Reviews of the Extended Arrangement under the EFF have been conducted and completed at regular 6-month intervals with the most recent (fifth review) completed in June 2021. By September 2021, international reserves had recovered to about US$1.4 billion and the restructuring of public debt concluded. The completion of the debt restructuring has been very important in reducing economic uncertainty, and the terms agreed with creditors will help put public debt on a clear downward trajectory over the medium and long term. A significantly reduced Government interest bill will help create much-needed fiscal space for increased social spending and investment in infrastructure.

3. **We have continued to meet BERT and EFF programme targets, despite increasingly challenging conditions owing to the global coronavirus outbreak.** All structural benchmarks (SBs) targeted for completion during this review were met apart from apart from the passage of the Fair Credit Reporting Act due to the recent surge in COVID-19 cases (Table 1). All quantitative program targets for end-June and end-September 2021 were also achieved (Table 2).

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

5. The Government remains fully committed to the September 2018 Memorandum of Economic and Financial Policies (MEFP), and the subsequent Supplementary MEFPs issued in June and November (2019); May and November (2020); and May (2021). Unless modified below, those policies remain valid in full. The quantitative targets that serve as performance criteria and indicative targets are proposed to be updated. Programme structural benchmarks and updated quantitative targets are presented in Table 1 and Table 2, respectively.

II. FISCAL STRATEGY AND POLICY PRIORITIES

6. Economic fallout from the global coronavirus outbreak has persisted in 2021. The pandemic reduced tourist arrivals in 2020 sharply below normal levels resulting in an economic contraction of 18 percent, which simultaneously compromised government revenues and increased expenditure needs. The primary balance target in FY2020/21 was necessarily revised down from the surplus of 6 percent of GDP originally envisaged under our homegrown BERT Plan (and achieved in FY2019/20) to a deficit of 1 percent of GDP. The impact of the global pandemic in 2021 is more pronounced than was projected at the time of the fifth review under the EFF. The domestic surge in COVID-19 cases at the outset of the year (prompting a second national lockdown) and again in August with the arrival of the delta variant have tempered the anticipated economic recovery in 2021 as well as required supplemental fiscal support to facilitate the mounting pressure on the healthcare system. These setbacks were compounded by two natural disasters that struck Barbados in the first half of the year—volcanic ashfall from neighboring St. Vincent in April, and a category 1 hurricane, Elsa in July— which further disrupted economic activity and caused significant damages to physical assets, giving rise to additional spending pressures. Additional outlays of about 1½ percent of GDP to address the surge in domestic COVID-19 cases, fallout from the twin natural disasters, and an initial disbursement to recapitalize the NIS unemployment benefit fund more than offset the ½ percent of GDP net improvement in revenues underpinned by lower tax expenditures. We are therefore now targeting a minus one percent of GDP primary balance for FY2021/22, down from a zero primary balance at the time of the fifth review.

7. We have adopted a targeted fiscal response to the unprecedented health crisis aimed at protecting lives and livelihoods. The response to the COVID-19 pandemic has been phased and tailored to the evolution of the health crisis and magnitude of the economic fallout. Initial investments in health equipment and quarantine facilities were followed by expanded welfare payments to protect vulnerable households through the introduction of the Household Survival Program as well as investments in monitoring COVID compliance in schools, commercial enterprises, and communities. Liquidity support was extended to the National Insurance Scheme (NIS) via the repurchase of government bonds and a capital injection of B$143 million—to be spread over three to five years—was approved by cabinet in June 2021 to ensure adequate resources to accommodate a surge in unemployment benefit and severance claims. To support the tourism sector, which has been dealt a particularly heavy blow by the pandemic, we have created the Barbados Employment and Sustainable Transformation (BEST) plan. An affordable housing programme (HOPE) has also been launched that increases affordability by making use of renewable energy technology. A 12-

month COVID relief jobs program was also rolled out to generate contractual employment opportunities to promote health safety and boost food production, while targeted cash transfers were extended to small businesses and vendors affected by the second national pause in February 2021. Direct COVID-19 related expenditures in FY2020/21 amounted to roughly 2½ percent of GDP. Continued pandemic-related expenditures of another 2½ percent of GDP are anticipated for FY2021/22 to sustain the rollout of the national vaccination strategy, support households, and bolster economic activity.

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

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

10. **Strengthening tax administration is an important priority, particularly in the context of the current pandemic**. All taxpayers are now able to file and pay their taxes online. The BRA has implemented a new Tax Administration Management Information System (TAMIS), allowing for legacy IT systems to be progressively retired, and developed a new organization structure and comprehensive strategic plan. As part of this effort, the BRA has established a program to address pre-TAMIS taxpayer refunds and debt using a dedicated task force for a two-year period (*structural benchmark for end-September 2021*). As part of the two-year program, the BRA will complete the

vetting process and finalize a tally of legitimate arrears by end March 2022 and undertake a phased clearance of these legacy tax arrears, prioritizing the largest class of claims (VAT). Overall, the BRA is committed to repay outstanding tax refunds and is implementing its system whereby refunds due to taxpayers are being paid within six months after the filling date.

11. We continue to enhance resources and improve our strategies for taxpayers in the large taxpayer segment and compliance more broadly. The recently formed Large Taxpayer Unit (LTU) has developed and operationalized a compliance improvement plan with the goal of improving 'on-time' filing of returns for all large taxpayers to over 90 percent for all core taxes (VAT, CIT, PAYE) (*structural benchmark for end-March 2021)*. The plan includes: (i) key performance indicators; (ii) establishes baseline performance; (iii) and introduces timely (weekly/monthly/quarterly) reporting to monitor performance in-line with the outcomes of the BRA's annual business plan. We have also made use of third-party data to increase the accuracy of the taxpayer base, which will drive performance in several key outcome areas. Following execution of an initial 20 "issue-based" audits on taxpayers in the large taxpayer segment *(structural benchmark for end-June 2020)*, we have set a goal of conducting 54 issue, 30 desk, 4 specific and 2 comprehensive audits, a total of 90 audits of corporate taxpayers for FY2021/2022, with an estimated 80-90 audits per year (a third of the total population). The team is on stream to meet its targets.

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

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

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

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

- Updating the legislative framework that governs customs operations. This reform effort is advancing steadily. Consultations with key stakeholders on a revised Customs Bill have been undertaken. Draft legislation was tabled in parliament in May 2021 and is expected to be passed by end-December 2021.

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

15. The Extended Arrangement under the EFF with the IMF has been instrumental in helping Barbados address this unprecedented health crisis. Beyond assisting to restore macroeconomic stability thus providing critical fiscal space to offset the direct economic fallout, the EFF arrangement was augmented during both the third and fourth review (by SDR 66 million and

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

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

SDR 48 million respectively) and made available for budget support. In addition, the IMF's decision in August to provide a general allocation of SDRs equivalent to US$650 billion (about SDR 456 billion) provided a critical lifeline to the global economy during this period of stress, particularly for liquidity-constrained countries like Barbados that need financial support to address the impact of the COVID-19 pandemic. We are exploring how best to use Barbados' allocation of about US$129 million (2¾ percent of GDP) to support key economic objectives in both the near and long term. The use of these resources will adhere to existing institutional arrangements, including the recently amended Central Bank Law, and will be fully communicated in keeping with our commitment to transparency and accountability.

A Fiscal Rule

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

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

- A framework to limit the annual budgeted overall fiscal deficits of the public sector (covering all fiscal activities), to achieve a reduction in public debt to no more than *60 percent of GDP by FY2035/36*.

- *Coverage* of the fiscal rule will take into account all fiscal activities associated with the public sector, including SOEs[3], as well the fiscal implications of PPPs (capturing all associated actual or contingent fiscal liabilities and risks).
- The rule will establish an *automatic correction mechanism* that would be triggered by substantial cumulative deviations from the annual overall balance target. Once the cumulative deviations exceed a pre-specified threshold, additional fiscal adjustment would be required in subsequent fiscal years to correct for these deviations to bring fiscal performance back in line with the fiscal rule.
- The rule will also include an *escape clause*, limited to major adverse shocks and triggered only with Parliamentary approval or ratification. The clause will pre-define a clear list of events or shocks that could have a serious adverse impact on public finances and specify measurable conditions for triggering the clause.
- The Government will consider *institutional arrangements* and other legal options for strengthening the sanction regime and transparency to enhance the credibility of the fiscal rule. Measures could include requiring an independent body to independently assess macroeconomic projections used in budget preparation and overall fiscal policy, disclose budget execution with respect to the fiscal rule, and support transparency and accountability through Parliamentary hearings by officials. The Minister of Finance will be required to explain deviations that are inconsistent with the fiscal rule in a mid-term budget review in Parliament and outline corrective steps to get back on track with the annual fiscal rule target.

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

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

- **Strengthen the strategic phase of the budget formulation process**. The main inputs are as follows: (i) annual update of the government's fiscal strategy, based on backward-looking expenditure and revenue reviews and forward-looking targets on revenue, expenditure and debt in line with the Government's clearly articulated current and medium-term priorities *(see structural benchmark for August 15, 2021)*; (ii) setting of multi-year expenditure ceilings in accordance with the updated fiscal strategy, as a guide to the allocation process; (iii) provision of clear instructions by Cabinet for budget submissions based on a comprehensive discussion of the needs and priorities of each Ministry and program, including on spending ceilings. The government is seeking to strengthen the budget formulation process further, including by ensuring that: i) the budget calendar is aligned to the requirements of the new FMA Act; and ii) the budget circular is issued soon after the fiscal framework has been tabled in Parliament. The

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

budget circular will be accompanied by expenditure ceilings approved by Cabinet for each financial year covered by the medium-term budget planning horizon.

- **Reform the Budget Documentation to provide more policy-oriented information to decision makers and enable more transparent budget execution**. Annual Budget Documentation (Budget Estimates) provides a comprehensive narrative describing the public finances. Starting with the FY2022/23 budget, it will also include an assessment of the alignment between the budget and the fiscal objective(s) established by the fiscal framework, and a comprehensive description of all revenue and expenditure measures taken. A mid-year budget review report will be tabled in Parliament by October 15th of every year to report outturns against the annual budget, signal likely deviations from fiscal objectives, and identify remedial actions to ensure compliance with the fiscal framework.

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

- **The Government is working to increase the efficiency and quality of the public procurement process, facilitating effective delivery of COVID-19 pandemic supports**. The effectiveness of the Public Accounts Committee has been strengthened to allow the public to monitor in real time its oversight role, thereby ensuring full transparency. The Government has created separate sub-programmes to track COVID-19 related expenditures in the budget and lays in parliament all contracts that have been awarded for BDS$1 million or more. We will further table a new procurement law in parliament by December 2021, to promote integrity, fairness, transparency, and value for money in public procurement, and to ensure that outlays (including those related to COVID-19) are efficiently allocated. This bill, which is expected to be passed by no later than March 2022, will provide a framework to facilitate the audit of crisis expenditures and publication of contracts and names of successful bidders, which in conjunction with the corporate register database on beneficial owners will provide all necessary information

on related beneficial ownership. The beneficial owners database is currently being established and is expected to be completed by end-December 2021.

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

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

Debt Restructuring and Reduction

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

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

- The recapitalization of the NIS will also proceed in two phases, with an initial focus on restoring the Unemployment Benefit Account through an infusion of B$143 million from the Consolidated Fund over a three to five-year period. A first disbursement of B$50 million was transferred in August 2021. The assessment of the recapitalization needs of the National Insurance Fund (NIF) is ongoing and a discussion of options in this regard is underway. The government intends to present a detailed recapitalization plan for the NIF by end-March 2022.

20. The target date for bringing the debt-to-GDP ratio below 60 percent was pushed back to FY2035/36 from FY2033/34 to accommodate fallout from the ongoing health pandemic. Barbados' public debt had steadily declined since the comprehensive debt restructuring, but the unprecedented economic shocks due to the COVID-19 disrupted this pattern in FY2020/21. The updated medium- and long-term macroeconomic framework suggests that Barbados will reach its medium-term target of 80 percent debt/GDP ratio by 2031/32, and 60 percent by FY2035/36 implying a two-year delay from the original target date. We are of the view that this is appropriate to accommodate a temporary deterioration in the fiscal balance and avoid unrealistically high primary surpluses for an extended period of time. We remain committed to generate needed primary surpluses to achieve the debt target of 60 percent of GDP once the COVID-19 crisis dissipates.

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

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

Public Sector Reform

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

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

25. **Reform of State-Owned Enterprises (SOEs) is essential to secure medium-term fiscal viability**. We have developed a framework to restructure and transform our SOEs based on principles of retooling and empowering, retraining and enfranchising of Barbadians. We have conducted a comprehensive review of all SOEs, to identify potential for efficiency gains, cost recoveries, and enfranchisement through divestment of entities and/or activities. For example, in the transport sector, we are finalizing a compact with private operators that seeks to improve accountability and service quality while reducing costs to SOEs. SOEs listed in the TMU have now all submitted standardized (according to international acceptable standards) quarterly financial reports. We have increased bus fares, adjusted water rates, and introduced an interim health levy, airline & travel development fee and a garbage and sewage contribution levy. Looking ahead, the SOE monitoring dashboard provides a mechanism to identify key deficiencies and further elaborate targeted reform measures to enhance performance of SOEs and reduce government dependence.

26. **The reform programme includes a range of measures to help mitigate any adverse effects on the vulnerable from the restructuring of the SOEs**, including models of worker enfranchisement, preferential access to public procurement and agricultural lands owned by the State for those that have been displaced, as well as enhanced severance packages. The measures introduced to respond to the coronavirus pandemic build on those that were already established to protect those affected by public sector restructuring: a Household Survival Programme managed by a Household Mitigation Unit that tracks and supports affected workers, as well as support to and

training opportunities for the self-employed and newly unemployed. We established a minimum wage increase on April 1, 2021, which addresses the fact that the last minimum wage was set in 2012 and had not therefore kept pace with the rate of inflation. While a modest adjustment, it is an important one to protect the working vulnerable.

27. Civil service pension reform aimed at ensuring that the system is sustainable in the long run is a priority. We will review the civil service pension scheme to address its long-run sustainability. To this end, we will table in Parliament a revised public pension law informed by the actuarial review that was completed in November 2020 and costed different pension systems for new entrants into the public service. We have completed a pension reform white paper and will discuss it in Cabinet. However, this reform requires careful public consultation, which has so far not been possible given the urgent challenges posed by the COVID-19 pandemic. We therefore need to push back this structural benchmark until end-March 2022 (*proposed reset structural benchmark)*. We will carefully weigh different options, with important considerations related to the earliest age of eligibility for new employees and the rate of benefit accrual for each year of service for new employees.

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

III. MONETARY AND FINANCIAL SECTOR POLICIES

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

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

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

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

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

34. **Climate change presents risks to the stability of Barbados' financial system and building risk assessment capacity is an essential first step to enhance financial sector resilience.** Banks in Barbados are exposed to climate change sensitive sectors. Integrating climate change risks into the CBB's financial stability assessements—including stress testing based on potential scenarios— is therefore a priority. This requires building capacity to monitor and assess climate change related risks to the financial system in line with best practices. As a first step in this process, the CBB intends to join the Network for Greening the Financial System (NGFS) by March 2022.

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

IV. GROWTH ENHANCING REFORMS

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

37. **Many knowledge-based economy initiatives have already been launched**. These include a large commitment to retooling and retraining Barbadians over the next 4 years across all sectors and at all levels. Our mission is to deliver excellence to global standards while retaining our national identity. We launched a Barbados Youth Advance Corps which will cater to 1,000 students per year

for a 2-year programme. We also launched as part of the National Transformation Initiative a partnership with Coursera that provides free training to Barbadians through over thousands of courses in sectors and skills critical for growth and development. As of April 2021, roughly 5,700 courses have been completed by individuals. We have already reintroduced the return to free tertiary education at vocational, technical, and undergraduate levels. We plan to integrate the Barbados Community College, Samuel Jackson Polytechnic, and the Erdiston Teacher Training College to improve their offering. We are looking at reforms to secondary schooling that will support great teaching and confident students with every school becoming a top school in some fields. We will also improve efficiency in our post-secondary and tertiary institutions with a view to plowing most of any found savings back into enhanced offerings.

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

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

40. **The Government has started to facilitate a range of services online**. This includes: the provision of drivers' licenses, renewal of professional licenses, Welcome Stamp fees, police certificates of character and planning and development applications, the clearing of goods through Customs, applying for passports and other key functions are among those to be added. E-service of Government will soon be launched on one portal for users to access all Government agencies. A new digital ID program, beginning May 2021, will re-register the population with a single, digital identity aimed at improving transactions across Government departments. To reinforce the government's commitment to digital transformation, the National Insurance Department (the country's largest issuer of cheques) has been actively phasing out the printing of cheques for short-term benefits, such as unemployment, maternity, and sickness. As part of its Public Sector Modernization Programme, the Ministry of Innovation Science and Smart Technology has begun the digitalization of Government across an initial seven priority departments including the Immigrating Department, the Civil Registry and the Courts, the Police Department, the International Business division, the

BCED, the Town and County Development Planning Office, and the Barbados Licensing Authority. Execution of the IDB-funded programme will be scaled up in the current fiscal year as Government partners with the private sector to accelerate access to goods and services online and a new digital economy while physical distancing protocols must remain in effect. This acceleration will also allow for the engagement of newly unemployed workers, in particular women, whose labour may not be as easily absorbed by rebounding construction and quarrying sectors. A building is currently being refurbished and outfitted to accommodate the related personnel of roughly 200 to deal with the actual digitization of records. To date more than 400,000 government records have been digitized across all Government agencies and ministries. Critical investments must now be made in strengthening cybersecurity in order not to place at risk the progress already made in digital governance and to ensure the safety of personal and Government data and transactions.

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

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

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

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

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

46. The Government remains committed to reaching its 100 percent renewable energy target by 2030. In pursuit of this target, the Government has further liberalised the market for power generation. The independent Fair Trade Commission has published Feed-in tariffs (FITs) for independent power producers for a range of renewable energy technologies. The tariffs support the shift to renewables, reduction in energy costs, and foreign exchange demand and support smaller projects and technologies that bring substantial environmental benefits. A 30 MW Green Energy Park is slated for final approval in 2021. It removes the need for costly new waste landfills and puts solar PV on top of rehabilitated landfill sites. In response to the FITs, demand for small primarily solar PV projects has been strong and the government is committed to nurture this interest by: i) establishing a streamlined approvals and licensing process for independent power producer (IPP) renewable energy projects; and (ii) publishing a guidance note for IPP investors navigating this process (*both proposed new structural benchmarks for end-March 2022*). By the end-2021 the Government expects close to 10 percent of energy demand will be coming from installed or close to be installed renewables and applications accounting for a further 10 percent of demand would be in the pipeline, keeping the Government on track to hit or be close to the 2030 target. The FTC regularly reviews its FITs and in 2021 issued its third review. The Government is working with its development partners in MDBs to develop competitive tendering processes for more extensive projects, which would facilitate an expansion of supply into technologies that have greater economies of scale, such as wind power, bringing the benefits of lower costs and diversification.

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

Table 1. Structural Benchmarks (Continued)

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

Table 1. Structural Benchmarks (Continued)			
	Timing	**Assessed**	**Comments**
20) Customs Department to (i) deploy staff to the exemption monitoring unit and undertake at least eight exemption verification assignments; (ii) train and deploy at least 6 officers in the post clearance audit unit and undertake at least 8 field audits; and (iii) undertake post release verification of at least 3,500 entries.	end-August 2020	Met	
21) Government to conduct an actuarial review of the civil service pension system with a view to reform it.	end-September 2020	Not Met	Implemented with delay
F. Structural Benchmarks for the fifth Review			
22) Parliament to enact an amended Central Bank Law aimed at enhancing the Central Bank's institutional, personal, and financial autonomy and, in particular, limiting Central Bank financing of the Government to short term advances. The revised CBB law, prepared in consultation with IMF staff, will also clarify the mandate of the CBB, and strengthen its decision-making structures.	end-December 2020	Met	
23) The Barbados Statistical Service (BSS) to publish a calendar of statistical publications covering national accounts, prices and the labor market.	end-March 2021	Met	
24) The Management and Accounting Unit (MAU) to prepare a dashboard that analyzes the financial performance of government's 19 priority oversight SOEs as input to quarterly progress updates based on this dashboard to Cabinet.	end-March 2021	Met	
25) Create in BCED an Information Technology Division of at least six employees.	end-March 2021	Met	
26) Large Taxpayer Unit (LTU) to implement its compliance improvement plan and achieve 'on-time' filing of returns for all large taxpayers of at least 90 percent for all core taxes (VAT, CIT, PAYE).	end-March 2021	Not Met	On-time filings fell short of target
G. Structural Benchmarks for sixth Review			
27) Government to develop plans to recapitalize the CBB and address medium and long-term challenges for the NIS stemming from the debt restructuring and the COVID pandemic.	end-June 2021	Met	
28) Minister of Finance to table a fiscal framework including projections for revenue, expenditure and debt for FY2022-23 and two following fiscal years in parliament by August 15, 2021	August 15, 2021	Met	

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

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

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

Table 2. Quantitative Performance Criteria and Indicative Targets Under the EFF Supported Program 1/ 2/ 3/
(In millions of Barbados dollars unless otherwise indicated)

	Target End June 2021	Actual End June 2021	Target End September 2021	Actual End September 2021	Status End September 2021	Fifth Review End December 2021	Proposed Target End December 2021	Fifth Review End March 2022	Proposed Target End March 2022
Fiscal Targets									
Performance Criteria									
Floor on the CG Primary Balance 4/	-180	...	-262	...	...	-153	-180	1	-97
Floor on the CG Primary Balance (adjusted) 4/	-180	125	-262	35	Met	...	...	...	...
Non-accumulation of CG external debt arrears 4/ 6/	0	0	0	0	Met	0	0	0	0
Ceiling on CG Transfers and Grants to Public Institutions 4/ 7/	140	94	280	186	Met	420	420	492	492
Ceiling on Public Debt 5/	13,280	...	13,381	...	...	13,478	13,737	13,478	13,737
Ceiling on Public Debt (adjusted) 5/	13,480	13,020	13,381	13,108	Met	...	...	...	...
Indicative Targets									
Ceiling on CG Domestic Arrears 5/	80	60	70	35	Met	60	60	50	50
Floor on Social Spending 4/ 8/	10	14	20	29	Met	35	35	50	50
Ceiling on Public Institutions Arrears 5/	29	18	29	17	Met	29	29	29	29
Monetary Targets									
Performance Criteria									
Ceiling on Net Domestic Assets of the CBB 5/	2,200	1,720	2,200	1,692	Met	2,200	2,200	2,200	2,200
Floor on Net International Reserves 5/	1,400	...	1,400	...	...	1,150	1,409	1,150	1,409
Floor on Net International Reserves (adjusted) 5/	1,550	2,278	1,250	2,390	Met	...	...	...	...
Items feeding into PB, Debt, and NIR adjustors									
IDB budget support 4/	0	0	200	0	...	360	200	362	200
CDB budget support 4/	0	0	0	0	...	160	0	160	0
CAF budget support 4/	0	0	0	0	...	0	0	0	0
WB budget support 4/	0	200	200	200		200	200	200	200
Grants 4/	0	0	0	0	...	0	0	2	2

Sources: Fund staff estimates.

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

2/ Based on program exchange rates defined in TMU;

3/ Board approval on October 1, 2018;

4/ Flow (cumulative over the fiscal year);

5/ Stock;

6/ Continuous performance criterion;

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

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

Attachment II. Technical Memorandum of Understanding

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

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

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

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

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

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

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

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

- For program purposes, the definition of debt is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision 15688 (14/107), adopted on December 5, 2014. The term "debt" will be understood to

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

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

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

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

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

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

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

- Public Institutions covered under Section I include:

    - Queen Elizabeth Hospital
    - University of the West Indies

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

I. QUANTITATIVE PERFORMANCE CRITERIA

A. Floor on the CG Primary Balance

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

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

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

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

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

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

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

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

C. Floor on Net International Reserves

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

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

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

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

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

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

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

D. Non-Accumulation of CG External Debt Arrears

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

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

E. Ceiling on CG Transfers and Grants to Public Institutions

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

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

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

F. Ceiling on the Stock of Public Debt

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

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

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

II. INDICATIVE TARGETS

A. Ceiling on the Stock of Domestic CG Expenditure Arrears

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

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

B. Floor on CG Social Spending

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

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

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

C. Ceiling on the Stock of Public Institutions Expenditure Arrears

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

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

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

III. PROGRAM REPORTING REQUIREMENTS

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

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

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

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

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

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

Financial Sector

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

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

Real Sector

- RPI index, its components, and weights.

Fiscal Sector

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

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

- Stock of CG expenditure arrears by creditor and its components as defined in Section II.
- Stock of expenditure arrears of public institutions listed in paragraph 3 by creditor and its components as defined in Section II.

External Sector

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

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

Financial Sector

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

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

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

Real Sector

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

Fiscal Sector

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

Financial Sector

- CBB Balance sheet

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

External Sector

- Balance of Payments accounts.

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

Financial Sector

- The following financial stability indicators by bank and by sector:
  - Regulatory capital
  - Regulatory Tier 1 capital
  - Risk-weighted assets
  - Total assets
  - Total liabilities
  - Nonperforming loans in BRB$ millions
  - Non-performing loans net of provisions
  - Gross loans
  - Sectoral distribution of loans to total loans
  - Return on assets
  - Return on equity
  - Interest margin
  - Gross income
  - Noninterest expenses
  - Liquid assets
  - Short-term liabilities
  - Net open position in foreign exchange
  - Large exposures to capital
  - Gross asset position in financial derivatives
  - Gross liability position in financial derivatives
  - Total income
  - Personnel expenses
  - Noninterest expenses
  - Spread between reference lending and deposit rates (base points)
  - Highest interbank rate
  - Lowest interbank rate
  - Customer deposits
  - Total (non-interbank) loans
  - Foreign-currency-denominated loans
  - Foreign-currency-denominated liabilities
  - Net open position in equities
  - Net profits of the banking sector

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

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

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

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

- Audited financial statements of Commercial Banks.

INTERNATIONAL MONETARY FUND

BARBADOS

November 29, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION, SIXTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of November 15, 2021)

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

General Resources Account:

	SDR Million	Percent Quota
Quota	94.50	100.00
Fund holdings of currency (holdings rate)	369.93	391.46
Reserve Tranche Position	12.66	13.40

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	154.95	100.00
Holdings	94.47	60.97

Outstanding Purchases and Loans:

	SDR Million	Percent of Quota
Extended Arrangements	288.00	304.76

Financial Arrangements:

In millions of SDR				
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
EFF	10/01/2018	09/30/2022	322.00	288.00

Projected Obligations to Fund[1]
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2021	**2022**	**2023**	**2024**	**2025**
Principal			8.75	25.92	46.58
Charges/interest	1.33	5.27	5.21	5.04	4.65
Total	**1.33**	**5.27**	**13.96**	**30.96**	**51.23**

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

Implementation of the HIPC Initiative: Not Applicable.

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

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

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

Exchange Rate Arrangements: The exchange rate arrangement is a conventional pegged arrangement. 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 16, 2019. Barbados is on the 24-month consultation cycle.

Resident Representative: Mr. Christopher J. Faircloth is the IMF Resident Representative in Barbados.

RELATIONS WITH OTHER INTERNATIONAL INSTITUTIONS

European Union

https://eeas.europa.eu/delegations/barbados_en

Interamerican Development Bank

https://www.iadb.org/en/countries/barbados/overview

Caribbean Development Bank

https://www.caribank.org/

European Investment Bank

https://www.eib.org/en/infocentre/contact/offices/barbados.htm

CAF – Development Bank of Latin America

http://portal10.caf.com/en/countries/barbados/

Organization of American States

https://www.oas.org/en/about/offices_detail.asp?sCode=bar

United Nations Development Program

http://www.bb.undp.org/content/barbados/en/home/ourwork/ounrc/overview.html

STATISTICAL ISSUES

(As of November 15, 2021)

I. Assessment of Data Adequacy for Surveillance

1. General: Data provision is deemed to be broadly adequate for surveillance. There has been some progress in addressing shortcomings such as in GDP at constant and current prices, consumer prices, financial reporting by public enterprises (statutory bodies), labor force statistics, and discrepancies in and timeliness of external sector data (net foreign assets), including international investment position (IIP). These data shortcomings are due to weak capacity, which hampers the provision of and/or affects the reliability of certain data. IMF experts, mainly from CARTAC, continue to provide TA to help improve Barbados' statistical capacity in these areas.

National Accounts: The Barbados Statistical Services (BSS) produces annual and quarterly GDP at current and constant 2010 prices. However, the quarterly GDP at constant prices are not yet publicly available. Instead, the Central Bank of Barbados (CBB) publishes flash estimates of quarterly GDP at a highly-aggregated level with partial data and an outdated 1974 base year. Once the BSS has established credible and timely quarterly data, the CBB should cease producing quarterly GDP. The CBB could then shift to producing a monthly indicator of economic activity from the range of available monthly indicators. Approval from the Ministry of Finance, Economic Affairs and Investment is currently required for the BSS to publish statistics. A two-year project funded by Canada has commenced since May 2019 to maximize capacity building on real sector statistics, in collaboration with other TA providers including CARTAC.

Price Statistics: The current weight reference period and basket of items for the consumer (retail) price index is 1998/1999. The producer price index (PPI) weights and sample are from 2009. Thus, the basket and weights for both indices are outdated and do not provide a good representation of the current economy. Plans to revise the consumer price index and PPI have been delayed. The new base year would use the updated weights from the 2016/2017 Survey of Living Conditions and updated list of establishments that reported VAT data in 2014 respectively. The BSS also working towards a new index of industrial production with base year 2014. However, the potential misalignments in real estate prices are not addressed due to the absence of a systematic index of property prices.

Government Finance Statistics: Relatively comprehensive and up to date above-the-line data are available for central government operations (revenues, expenditures, and net lending), and public debt on the recently established National Summary Data Page. Government transfers are also reported with a lag. Reporting to the STA Annual GFS Database is irregular, and while they did provide data, including balance sheet data in the 2020 collection round, the most recent year data provided is 2016 (fiscal year 2016/17), representing a long lag in terms of timeliness. As a result of the incomplete coverage of off-budget transactions, a discrepancy exists between the overall balance and financing data in some years.

Information on central government arrears has improved under the program, but a more comprehensive measure is needed that includes general government and the Barbados Revenue Agency. 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 includes contracting of liabilities by PEs. Data on guaranteed public debt improved with the EFF program. The authorities introduced accrual accounting of public finance in April 2007, and these reforms are reflected in the data reported to STA, although further refinements are needed. Reconciling data on accrual and cash basis remains challenging.

Data availability on public sector debt has greatly improved under the program but creditors-issuers reconciliation remains a challenge and public availability of disaggregated debt stock and profile is limited. The coverage of public debt includes central government domestic and external debt, central government domestic and external arrears, and domestic and external SOE debt guaranteed by the central government. The Debt Management Unit (DMU) at the Ministry of Finance prepares debt data by issuer which differs from data by creditor provided by CBB. This for several reasons, including the timing of recording of payments and disbursements, the use of different sources in some cases (such as domestic loan data), and the difficulty in tracking data on the (limited) secondary market. For debt service and amortization projections, staff uses Ministry of Finance data. Coordination between the CBB and the DMU improved during the EFF program but there remain challenges in reconciling debt by issuer with debt by creditor data. The database of the stock disaggregated by issuers and creditors and the amortization and interest profiles is not published on a quarterly basis.

External Sector Statistics: A CARTAC TA mission assisted the authorities during March 2021 on the review of 2017 BOP statistics. However, further enhancements are needed to finalize and report the data. ESS compilation and dissemination need to be enhanced by employing alternative sources and estimation methods. A CARTAC TA mission during September 2021 will continue to assist authorities with data collection issues, compilation techniques and timeliness in the context of the COVID-19 pandemic. The most recent data Barbados has reported to the Coordinated Direct Investment Survey and the Coordinated Portfolio Investment Survey are from 2013 and 2015, respectively.

Monetary and Financial Statistics: The CBB had reestablished its compilation and reporting of monetary data to IMF's IFS database on central bank and other depository corporations (ODCs) using IMF's standardized reporting forms (SRFs) since April 2019. In recent times, there have been some delays in reporting this data. While the coverage of ODCs is expanded to include all commercial banks, Part III companies (trust and finance companies, and merchant banks), and credit unions, CBB doesn't compile monetary data for other financial corporations (OFCs), which dominate the financial sector in Barbados. OFCs would include international (offshore) banks, insurance corporations, pension funds, and mutual funds.

CBB reports data on some key series and indicators of the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial Sector Surveillance: The CBB compiles five core and four encouraged FSIs calculated separately for each of two subsectors (commercial banks and Part III companies), but not on a consolidated basis for deposit-takers (DTs) as a whole. Dissemination of those FSIs is limited to their inclusion in CBB's annual financial stability reports and its quarterly press releases; no FSIs are disseminated on a regular basis on CBB's website or reported to STA for their publication on IMF's website. An FSIs mission is expected to start in September 2021 to assist the CBB in the compilation of FSIs in line with the 2019 FSIs Guide.

II. Data Standards and Quality

Barbados has been participating in the General Data Dissemination System (GDDS) since May 2000. In March 2021, Barbados implemented the IMF Enhanced General Data Dissemination Standard (e-GDDS) with implied moving from publishing metadata only (under the GDDS) to publishing data by launching of the National Summary Data Page—an important step to enhance data transparency.

Table of Common Indicators Required for Surveillance					
	Date of latest observation	**Date received**	**Frequency of Data[7]**	**Frequency of Reporting [7]**	**Frequency of Publication[7]**
Exchange Rates	Fixed				
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	07/2020	08/2020	M	M	M
Reserve/Base Money	07/2020	08/2020	M	M	M
Broad Money	06/2020	08/2020	M	M	M
Central Bank Balance Sheet	07/2020	08/2020	M	M	M
Consolidated Balance Sheet of the Banking System	06/2020	08/2020	M	M	M
Interest Rates[2]	06/2019	08/2019	M	M	M
Consumer Price Index	12/2020	04/2021	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	09/2017	11/2017	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	09/2017	11/2017	Q	Q	Q
External Current Account Balance	09/2017	11/2017	Q	Q	Q
Exports and Imports of Goods and Services	09/2017	11/2017	Q	Q	Q
GDP/GNP	2019	01/2021	A	A	A
Gross External Debt	2016	11/2017	A	A	A
International Investment Position[6]	2016	11/2017	A	I	I

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

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

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

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

[5] Including currency and maturity composition.

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

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