

## **Barbados: 2000 Article IV Consultation—Staff Report; Statement by Staff Representative; Public Information Notice Following Consultation; and Statement of the Barbados Authorities**

As required under Article IV of its Articles of Agreement, the International Monetary Fund conducts periodic consultations with its member countries. In the context of the 2000 Article IV consultation with Barbados, the following documents have been released and are included in this package:

- the staff report for the 2000 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **August 1, 2000**, 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 October 17, 2000.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement reflecting information that became available after the staff report was issued.
- the Public Information Notice (PIN), which summarizes the **views of the Executive Board as expressed during the November 1, 2000, Executive Board discussion** of the staff report that concluded the Article IV consultation.
- a statement by the authorities of Barbados.

Further background documentation prepared by IMF staff for the consultation may be published separately at a later date. The policy of publication of Article IV staff reports and PINs allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

BARBADOS

**Staff Report for the 2000 Article IV Consultation**

Prepared by the Staff Representatives for the  
2000 Consultation with Barbados

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October 17, 2000

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## EXECUTIVE SUMMARY

- **Real GDP grew** by 2½ percent in 1999 and is projected to grow at about the same pace in 2000. The **unemployment rate declined** to a historic low of 9¼ percent in the first quarter of 2000. 12-month **inflation rose** from 1¾ percent to 3 percent during 1999, but eased to an annual rate of 2½ percent at the end of June 2000. The **external current account deficit increased** for the third consecutive year in 1999 to above 5 percent of GDP. Steps taken in 1999 to reduce domestic absorption and a rebound in tourism are expected to reduce the deficit to 3½ percent of GDP in 2000.
- **In 1999–2000, the government has borrowed heavily in international capital markets** mainly to cover its own financing requirements, as well as raise gross official international reserves to the equivalent of four months of projected imports. Given the central bank's comfortable reserve position, the **government should curtail its external commercial borrowing and rely on official long-term project finance.**
- Following a slowdown of domestic demand in late 1999 and 2000, **credit policy was eased in September 2000** to encourage private sector investment, in particular, in the manufacturing and agricultural sectors as they adjust to trade liberalization.
- Based on the authorities' intention to maintain fiscal discipline through public sector wage restraint, public enterprise reforms and privatization, and improvements in the efficiency of government spending, the medium-term economic outlook is favorable. The government's strategy aims at **stabilizing and restructuring the economy in the context of ongoing external liberalization.** Public enterprises need to operate more efficiently by moving toward economic rates for their services, thereby reducing their need for transfers from the government and freeing resources for investment in economic and social infrastructural, and for direct assistance to persons in need.
- Continued efforts are needed to **keep wage increases in line with labor productivity gains** so as to preserve Barbados' external competitiveness and support the fixed exchange rate. Labor market flexibility should be improved through consolidation of unemployment insurance and severance pay arrangements. Plans to **enhance economic efficiency** by removing red tape affecting private investment and reforming the price structure for utilities will further improve competitiveness.
- A new offshore banking act designed to strengthen bank supervision and achieve greater uniformity in the regulation of onshore and offshore financial activities is under review for adoption by the end of 2000. The authorities conveyed interest in receiving Fund technical assistance in their ongoing effort to strengthen the regulation and supervision of **offshore financial centers.**

## I. INTRODUCTION

1. The 2000 Article IV consultation discussions with Barbados were conducted in Bridgetown during July 18–August 1, 2000. The Barbados representatives included the Prime Minister (who is also the Minister of Finance and Economic Affairs), the Governor of the Central Bank of Barbados, senior government and central bank officials, and representatives of labor and business.<sup>1</sup>
2. In concluding the 1999 Article IV consultation on November 5, 1999, Executive Directors commended the authorities for the strong economic performance achieved through successful implementation of stabilization policies and structural reforms, and welcomed improvements in social indicators. Directors noted Barbados' undiversified economic base and vulnerability to exogenous shocks. They pointed to the challenge posed by an aging population in the context of a generous social insurance system and the need to lower the public debt-to-GDP ratio, and supported comprehensive reform of the public pension system. Directors urged restraint in public sector wage policy to avoid weakening the fiscal position and to maintain external competitiveness. Relations with the Fund are summarized in Appendix I and with the Inter-American Development Bank (IDB) in Appendix II.<sup>2</sup>
3. The government reports statistics regularly in a wide range of areas. It is taking steps to improve the timeliness and consistency of data on the national income accounts, public enterprises, the financial system, and external accounts.

## II. RECENT ECONOMIC DEVELOPMENTS

4. In 1999 real GDP grew by 2½ percent, down from 4½ percent in 1998 and an average of 3½ percent in the preceding five years (Figure 1 and Table 1). Growth came mainly from construction in the tourism sector and public infrastructure. Tourism declined by ¾ percent, attributable to the closing of some hotels for refurbishing and a slump at the end of the year because of concerns about the Y2K problem. Sugar production increased by over 11 percent in 1999 from a very low level in 1998 owing to drought in that year. Manufacturing

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<sup>1</sup> The staff team consisted of Messrs. Pellechio (Head), Hilaire, Mendis, and Pearson, Ms. Jenkner (all WHD), Mr. Lybek (MAE), and Miss Pinillos (Assistant-WHD). The team was assisted by Mr. Carlos Elias, economist for Barbados at the Inter-American Development Bank. Mr. Williams (WHD) joined the mission for the concluding discussions. Mr. Bernes, Executive Director for Barbados, and his advisor, Mr. Chelsky, participated in the final meetings.

<sup>2</sup> Barbados has accepted the obligations of Article VIII, Sections 2, 3, and 4 and maintains an exchange system free of restrictions on payments and transfers for current international transactions.

output decreased by 2½ percent in 1999 in the face of continuing strong regional and extra-regional competition.

5. Owing to job creation mainly in the private sector, particularly construction, the **unemployment rate continued to decline**, reaching 9.8 percent at the end of 1999, 2 percentage points lower than a year before. **12-month inflation rose** from 1¾ percent to 3 percent during 1999 largely because of increases in energy and food prices. Barbados' **real effective exchange rate appreciated** by 4 percent during 1999 mainly due to appreciation of the U.S. dollar, to which the Barbados dollar is pegged (Figure 2).

6. The overall balance of the public sector swung from a deficit of ½ of one percent of GDP in fiscal year 1998/99 to a surplus of ½ of 1 percent of GDP in fiscal year 1999/2000 (fiscal year is April-March) (Table 2). In relation to GDP, the central government **budget deficit remained at about the same level** in fiscal year 1999/2000 as in 1998/99—approximately 1¼ percent of GDP (Table 3). Tax revenue also remained unchanged as a percentage of GDP, although the value added tax (VAT) did not keep pace with the growth of the economy because of refunds accruing to the construction sector.<sup>4</sup> Moreover, there was a build-up in arrears in the VAT and excise tax collections.<sup>5</sup> The introduction in September 1999 of new incentives for agriculture, manufacturing, and tourism contributed to the decline in revenue from indirect taxes. On the expenditure side, **wages increased** with payment of the negotiated 4 percent salary increase and payment in the first quarter of 2000 of the first of three installments to compensate public sector workers for the salary cut in 1991.<sup>6</sup> **Certain capital expenditures** were postponed to accommodate strong private sector activity, especially in construction.

7. The central government covered its financing requirements through **external borrowing**, including commercial borrowing in the regional capital market of US\$75 million

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<sup>3</sup> In the adjustment program of the early 1990s, wages of public sector workers were cut by 8 percent. The authorities promised to repay this cut over three fiscal years. Consequently, the second and third installments will be paid in fiscal years 2000/01 and 2001/02.

<sup>4</sup> In order to stimulate tourism, the government allowed firms engaged in construction in specially designated areas to quickly recover the VAT paid on inputs.

<sup>5</sup> Arrears in petroleum excises were precipitated by the increase in world oil prices and lack of adjustment of regulated domestic petroleum prices, which squeezed margins for paying excises.

<sup>6</sup> In the adjustment program of the early 1990s, wages of public sector workers were cut by 8 percent. The authorities promised to repay this cut over three fiscal years. Consequently, the second and third installments will be paid in fiscal years 2000/01 and 2001/02.

(3 percent of GDP) in April 1999. **Domestic financing** of the central government was negligible, with a decline of 1½ percent of GDP in central bank financing largely offset by increased financing from the National Insurance Scheme (NIS) and other domestic holders of government paper.

8. In the rest of the public sector, the **surplus of the National Insurance Scheme (NIS)** rose from 2½ to 2¾ percent of GDP as the central government assumed the payment of new noncontributory pension benefits. The **deficit of the public enterprises declined**, with some institutions reporting improved revenue performance based on the adoption of more effective processes for collecting arrears and current billings, for example, enhanced metering by the Water Authority. The growth of current expenditure also slowed as the Transport Board was able to reduce maintenance costs substantially because of its new bus fleet.

9. The **external current account deficit increased** for the third consecutive year in 1999, rising above 5 percent of GDP (Table 4). This was mainly caused by a strong import demand for consumer and capital goods, combined with a decline in tourism and sugar receipts. The deficit was more than covered by the **capital account surplus**, which reflected the government's external borrowing and private investment inflows. At the end of the year, official gross international reserves rose from the equivalent of 2.4 to 2.7 months of projected imports of goods and services for 2000, while public external debt increased from 16 percent of GDP to 19 percent of GDP (Table 5).

10. Facing a strong expansion in domestic demand, imports, and credit in the first half of 1999, the authorities slowed the pace of its capital expenditures and **tightened credit policy** in May 1999.<sup>7</sup> This tightening resulted in a slowdown in the growth of credit to the private sector and broad money in the second half of 1999 that continued into 2000 (Table 6).

11. Growth in the number of licensed active **offshore businesses**, appears to be tapering off, with a 10 percent increase in the number of firms in 1999 compared to an annual average of 21 percent in the previous five years. The offshore sector is second to tourism in foreign exchange earnings and estimated to contribute to the employment of 3,000 persons (Box 1).<sup>8</sup>

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<sup>7</sup> The central bank raised the cash reserve requirement for commercial banks from 5 to 6 percent and the discount rate from 9 to 10 percent, and withdrew from commercial bank deposits the equivalent of about 1½ percent of their deposit liabilities, investing the funds in foreign securities. In November 1999 the minimum deposit rate was increased from 4 percent to 5 percent.

<sup>8</sup> Michelle Doyle and Anthony Johnson, *Does Offshore Business Mean Onshore Economic Gains*, working paper of the Central Bank of Barbados, 1999).

### Box 1. Offshore Financial Sector

The international business and financial services industry has played an increasingly important role as Barbados has tried to diversify its economy and make it less vulnerable to traditional exports. The number of licensed active offshore entities increased significantly in the mid-1990s, almost 25 percent per year, but growth has decelerated to 10 percent in 1999 (Table). Political stability, modern commercial legislation, good telecommunications, and a skilled work force support development of offshore activities in Barbados. Low taxation and tax exemptions also promote the offshore industry. Double taxation treaties with several countries<sup>1</sup> and investment treaties favor certain activities. Onshore and offshore banks and insurance companies are not subject to the same legal framework, but the authorities have taken initiatives to achieve greater uniformity. Guidelines for prevention of money laundering have been in place since March 1995, and anti-money laundering legislation was adopted in 1998.<sup>2</sup> Rigorous examination of applicants and harsh penalties help ensure a low incidence of money laundering. Recent international attention to offshore financial centers could, however, adversely affect Barbados' economy by raising the perceived risk of doing business in this sector.<sup>3</sup>

The 45 active offshore banks, whose assets amounted to about eight times GDP at end-1999, mainly conduct business with nonresidents. The seven largest offshore banks account for about 90 percent of all assets. Most of the offshore banks are owned by: (1) internationally reputable banks subject to home-country supervision, and allowed to accept third-party deposits; (2) adequately capitalized, reputable and well-managed local companies with a proven track record, which can accept deposits of third parties; (3) international companies conducting treasury operations via its offshore bank, which are not allowed to take third-party deposits; and (4) wealthy individuals, who are not allowed to accept third-party deposits.

Number of Active Offshore Entities, 1994-99

	1994	1995	1996	1997	1998	1999
International business companies (IBCs)	1,474	1,822	2,126	2,632	3,073	3,399
Foreign sales corporations (FSCs)	1,172	1,514	1,726	2,291	2,608	2,857
Exempt insurance companies (EICs)	194	205	193	200	200	207
Exempt insurance management companies	38	38	38	36	32	32
Societies with restricted liabilities	-	-	14	32	65	97
Offshore banks	26	33	40	44	43	45
<b>Total</b>	<b>2,904</b>	<b>3,612</b>	<b>4,137</b>	<b>5,235</b>	<b>6,021</b>	<b>6,637</b>
<b>Memorandum items:</b>						
Annual increase in number of entities (in percent)	24	24	15	27	15	10
<b>Offshore banks:</b>						
Total assets in percent of GDP	124	254	401	752	787	819
Profit before tax in percent of total assets	...	2.5	3.9	3.4	4.4	3.4

Source: Central Bank of Barbados and Supervisor of Insurance.

Offshore banks are supervised by the central bank, although it is the Minister of Finance who issues and revokes licenses on the advice of the central bank. The central bank reportedly conducts extensive investigations of applicants (fit and proper test) with the assistance of local and overseas supervisory and law enforcement authorities. As a result, the number of active offshore banks has increased relatively slowly, in part reflecting the central bank's rejection of 11 applicants during the last five years.

A new law on offshore banking is expected to be adopted by the end of 2000, with a view to achieving more uniform treatment of offshore and onshore banks. Currently, there are significant differences, particularly regarding minimum capital, large exposures, and on-site inspections. For instance, the central bank currently needs a court order to conduct an on-site inspection of an offshore bank, and the court must be satisfied that it is in the public interest to provide information about individual depositors to the examiner. The new law, and appropriately drafted regulations, when fully implemented and enforced, are expected to facilitate compliance with the *Core Principles for Effective Banking Supervision*.

1/ Barbados has entered into tax treaties with the Canada, Finland, Norway, Sweden, Switzerland, United Kingdom, and United States in addition to the CARICOM tax treaty. Treaties with Cuba and Venezuela have not yet been ratified, while a treaty with China has been initiated.

2/ Barbados is a member of the *Caribbean Financial Action Task Force (CFATF)*. The *Financial Action Task Force's (FATF)* did not identify Barbados as a non-cooperative jurisdiction according to the list published in June 2000.

3/ In May 2000, the Financial Stability Forum issued a report placing Barbados, along with many Caribbean countries, in the second of three groups of countries, ranking their quality of supervision and cooperation below the first group, comprised mainly of European countries and Singapore. In June 2000, the OECD issued a report, *Progress in Identifying and Eliminating Harmful Tax Practices*, listing Barbados as a tax haven.



12. In early 2000 tourism rebounded strongly and sugar production increased significantly, causing **real GDP growth** to approach an annual rate of 3 percent. The **unemployment rate decreased further** in the first quarter of 2000, to a historic low of 9.3 percent, but output growth is expected to moderate in the second half because of the slowdown in construction in the tourism sector and declines in manufacturing and other agriculture. During the first half of 2000, **inflation eased** to an annual rate of 2½ percent and the **real effective exchange rate** did not change significantly. Available information shows lower average public and private wage increases in 2000 than in 1999 (see text table).

Barbados: Average Wage Increases of Reported Wage Settlements

	Number of Employees	1999		2000	
		Unweighted	Weighted 1/	Unweighted	Weighted 1/
Total public and private	42,701	4.2	4.1	3.1	3.1
Public sector	24,000	4.0	4.0	2.5	2.5
Private sector	18,701	4.4	4.3	3.7	3.9

Sources: Barbados Workers' Union, 58<sup>th</sup> and 59<sup>th</sup> Annual Reports; and Fund staff estimates.

1/ Weighted by number of employees covered by each settlement.

13. The **external current account deficit is projected to decline** as last year's strong demand for consumer and capital goods recedes and tourism rebounds. To cover the deficit and continue building official international reserves, the government borrowed US\$100 million (4 percent of GDP) in the international capital market in June 2000.<sup>9</sup> This borrowing and strong private inflows should contribute to a projected **record capital account surplus of over US\$250 million** in 2000. Official gross international reserves rose to about 4 months of projected imports at mid-2000, while the public external debt increased to nearly 23 percent of GDP (Table 7).

14. **Fiscal performance was strong in the first half of 2000** as personal income tax collections rose reflecting higher employment, corporate profits remained strong, and property taxes increased owing to rising property values. The central bank implemented measures to **ease monetary policy** in September 2000 in response to the slowdown in domestic demand in the latter part of 1999 and continuing into 2000, especially in the manufacturing and

<sup>9</sup> In December 1999 Standard and Poor's raised Barbados' international credit rating to investment grade. Moody's provided an investment grade rating in May 2000.

agricultural sectors as a consequence of trade liberalization. Specifically, commercial banks' obligation to hold treasury bills was reduced from 12 percent to 11 percent of deposits and the minimum deposit rate was reduced by ½ percentage point to 4½ percent.

15. Aggregate prudential indicators indicate that **commercial banks operate on a sound basis**. As of March 2000, the average capital adequacy ratio of the four locally incorporated banks was 15 percent, almost twice the required 8 percent.<sup>10</sup> Substandard loans, however, increased from 2.3 percent of total loans at end-1999 to 4 percent in the first quarter of 2000 based on a reclassification of loans at one bank after an on-site inspection, but this level is nonetheless about half that in 1995. Profits before tax are at a comfortable 2½ percent of total assets. The **Barbados National Bank (BNB)**, the only fully state-owned commercial bank, was recapitalized in 1996 and now reports profits in line with the industry.

16. In the **structural area**, the government continues to focus public investment on projects in primary and secondary education and health, transportation infrastructure, and environmental protection. An Education Sector Enhancement Program (EduTech), a US\$213 million project financed by the IDB and Caribbean Development Bank (CDB) to improve the physical facilities and curriculum of the national education system, began in August 1999. The Barbados Water Authority nearly completed its metering program and started operation of the desalination plant which will provide a reserve for future demand. The Transport Board replaced its entire fleet of buses. Management of the airport has been transferred to a private company while regulation remains under government control.

### III. POLICY DISCUSSIONS

17. The authorities' medium term strategy aims at stabilizing and restructuring the economy in the context of ongoing external liberalization given Barbados' commitments under the WTO and the government's desire to deepen integration in the Caribbean region. They saw tourism continuing to be the mainstay of the economy, but were aiming at attracting other foreign exchange earning activities outside tourism—in particular, offshore business and financial services. Their macroeconomic objectives are to have the economy continue growing at an annual real rate of 2½ to 3 percent, with the population growing at ¼–½ percent, while keeping inflation at or below 2 percent. In support of these objectives, fiscal policy will continue to be tight as the central government restrains spending and the nonfinancial public sector increases its overall surplus over the medium term.

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<sup>10</sup> These four banks and three branches of foreign banks comprise the commercial banking system.

### A. Fiscal Policy

18. The authorities plan to pursue appropriately **tight fiscal policies** aimed at limiting public debt and reducing strain on the balance of payments. The medium-term fiscal plan seeks to hold the central government deficit to 1.1 percent of GDP in fiscal year 2000/01 based on the collection of tax arrears amounting to 0.3 percent of GDP. The deficit is projected to increase to 1.3 percent of GDP in fiscal year 2001/2002 when the third and final installment of the repayment of the 1991 public sector salary cut is paid. After completing this repayment, **the deficit is expected to decline** over the medium term on the strength of further improvements in tax administration and prudent spending policy.

19. Growth of public wages, after excluding restitution for the 1991 salary cut from the base, will be limited to 3 percent annually, which reduces the central government wage bill to 10 percent of GDP by 2005, a decline of over 1 percentage point of GDP over the medium term. The mission noted that actions should also be taken to restrain **capital transfers to public enterprises** (as discussed below) and external borrowing by such enterprises which represents a contingent liability of the government amounting to 4 percent of GDP and enhances the risk of the government's own borrowing strategy. The authorities responded that, over the medium term, these transfers would be maintained at their current share of GDP in fiscal year 1999/00, or about 1 percent.

20. Public sector capital expenditures are to remain at about 5½ percent of GDP through fiscal year 2002/03 as the central government implements the public sector investment program (PSIP). The capital investment program consists of two categories: a component funded with long-term project finance mainly from the IDB and CDB, which focuses on the **government's core areas of education, health, infrastructure, and environmental protection**; and a discretionary component funded from domestic sources, which focuses on strategic sectors, like tourism and transportation. The authorities plan to give priority to externally funded projects, while execution of domestically financed projects will be adjusted in light of budget developments. With interest payments on public debt exceeding 4½ percent of GDP, the authorities intend to **rely less on external commercial borrowing** than in the past and to concentrate on long-term multilateral funding.

21. The mission discussed the need for public enterprises to move toward economic rates for their services, thereby reducing their need for transfers from the central government and freeing resources to **provide public assistance directly to persons in need**. The authorities acknowledged the importance of **restructuring transfers to individuals**, noting the consideration presently being given to changing the current automatic allowance for students' uniforms to one based on need.

22. **Pension system reform is being considered by the authorities** in light of the latest actuarial report on the NIS which projects a decline in the ratio of contributions to outlays and the depletion of reserves by 2022. This follows from the **aging of the population**, which poses challenges over the medium term not only for the finances of the public pension system,

but for those of the health and welfare programs as well. A **major report on comprehensive public pension reform** was submitted to the government in the spring of 2000. The report addresses fundamental issues such as restructuring the current pay-as-you-go system and introducing defined contribution pension plans and funded private accounts. The authorities are considering a range of options, including changes in key parameters, such as the retirement age and qualifying period for benefits. The reform plan is to be put forward for public comment before a decision is taken. The government also recognizes that its own cost of providing pensions for public servants is expected to increase markedly and has commissioned a study of this issue, funded by the IDB. The authorities expressed strong interest in technical assistance on the issue of overall pension reform.

### **B. External and Financial Policies**

23. The authorities viewed the large current account deficit in 1999 as a consequence of strong private and public investment, which had financed substantial imports of capital goods for refurbishing tourism facilities, while the temporary closure of some hotels had diverted tourists from the island. They believed that excess demand was appropriately addressed by the tightening of credit policy in 1999. The strong rebound in tourist arrivals in the first half of 2000 supports their view that this investment was contributing to a **sustainable external performance**.

24. Moreover, the authorities explain the government's substantial external commercial borrowings in 1999 and 2000 as a **precautionary build-up of international reserves**. They said that such large borrowing would not be necessary in the future and noted the government's prospective increased reliance on project financing in its investment program. The mission noted the authorities' views but cautioned that the tourism base was becoming even more concentrated on a single market—the United Kingdom—and with the prospect of stiff competition from other tourist destinations, it was important to strengthen efforts to maintain the country's competitiveness and diversify the economy. The authorities conveyed their strong commitment to **maintaining wage discipline and preserving Barbados' external competitiveness**.

25. Barbados does not restrict current account transactions. On April 1, 2000, Barbados, honoring its World Trade Organization (WTO) commitments, **eliminated nontariff barriers** on prepared meats, detergent, and t-shirts and replaced them with tariffs ranging from 20 percent to over 200 percent.<sup>11</sup> The authorities intend to reduce tariffs annually to reach WTO ceiling levels by 2004.<sup>12</sup> The discussions addressed Barbados' commitment to **liberalizing**

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<sup>11</sup> The temporary surcharge of 75 percent on non-CARICOM imports was also removed.

<sup>12</sup> A preliminary calculation indicates that the index of trade restrictiveness remains unchanged at 5 as the elimination of nontariff barriers is balanced by the application of the protective tariff rates.

**the capital account** in the context of the CARICOM countries' **intra-regional** agreement on closer integration.<sup>13</sup> Liberalization will be phased in consultation with individual CARICOM countries. The first step is to remove controls on transactions for OECS residents and the second step to liberalize transactions with non-OECS CARICOM countries. The mission supported this careful approach to external liberalization and suggested that consideration also be given to a measure of reserve adequacy based on projected imports of goods and services, and to alternative capital account-based measures, including the ratio of reserves to short-term debt and monetary aggregate-based measures (Table 7). The mission noted the envisaged gradual capital account liberalization would affect the effectiveness of the current set of monetary policy instruments and there would be a need to review certain prudential regulations, like regulations for open positions in foreign exchange.

26. The mission discussed the **adequacy of regulation and supervision** of banks, including offshore banks, credit unions, and insurance companies, and the central bank's effort to promote **uniformity in the regulation and supervision of onshore and offshore financial activities**. A new offshore banking act has been drafted and is under review for adoption by the end of 2000. The new act is intended to ensure greater compliance with the *Core Principles for Effective Banking Supervision* and alleviate shortcomings of the current act. The mission viewed adoption of this new act as an important step in improving supervision of offshore banks, but further improvements will depend on regulations to be drafted and their implementation. The mission stressed that credit growth could have been facilitated by price increases of land and real estate, which would adversely affect the quality of the loan portfolio if these prices decline. The mission also noted that the envisaged strengthening of the regulation of credit unions should be accelerated to protect depositors' interests.

27. The authorities expressed concerns about the recent reports of the Financial Stability Forum on OFCs and of the OECD on tax competition. The mission described the three options for **assessing OFCs** proposed by the Fund. The authorities conveyed the government's interest in receiving technical assistance to support their efforts to improve regulation and supervision of OFCs.

28. Following the slowdown in domestic demand growth engineered in late 1999, and anticipating the possibility of a further slowdown in the second half of 2000, the mission was in broad agreement with the decision to ease monetary policy. Mindful of the potential benefits to sectors adversely affected by trade liberalization, the mission emphasized the **broad countercyclical rationale for easing credit policy** and cautioned about the risks of distortions in resource allocation entailed in assistance to specific sectors.

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<sup>13</sup> Existing extra-regional capital controls encompass requirements for central bank approval of borrowing and investing abroad. Investment in Barbados must generally be registered with the central bank.

29. The authorities discussed the central bank's reserve requirements for cash and government securities. They raised the issue of **extending the cash reserve requirement** to nonbank deposit-taking institutions to promote competition and equity, and discourage regulatory arbitrage. The mission supported such an extension and suggested inclusion of foreign exchange deposits in the base for required reserves, to avoid putting domestic currency deposits at a disadvantage. The authorities, however, noted that the major part of foreign currency deposits was held by nonresidents and felt that the imposition of a cash reserve on such deposits would be difficult and would discourage the holding of such deposits in the domestic banking system.

30. Discussion of the reserve requirement for government securities,<sup>14</sup> originally introduced for public debt management and monetary policy purposes, centered on its possible reduction and eventual **replacement by one liquid asset requirement** designed for prudential purposes. This requirement would stipulate a single minimum ratio to deposits of the aggregate of cash, deposits at the central bank, and government securities, thereby supporting a market-determined yield curve. It was stressed that reduction of the securities requirement should be implemented gradually, allowing for sterilization operations if necessary. The authorities were in general agreement with the mission's views and the central bank announced during the mission a 1 percentage point reduction in the government securities requirement, with effect from September 1, 2000.

### C. Labor Market Issues and Poverty Reduction

31. Representatives of the government, labor unions, and business community stressed that the "prices and incomes protocols" had contributed substantially to a broad understanding of the need for wage restraint in supporting the fixed exchange rate regime and promoting good labor relations.<sup>15</sup> The third protocol, which maintained the link between productivity gains and wages and emphasized issues of job security and training, initially covered the period 1998-2000, and last May was extended to 2001. Proposals are currently being put forward for a successor protocol.<sup>16</sup> The construction boom over the past two years initially led

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<sup>14</sup> Commercial banks are required to hold 11 percent of deposits in treasury bills (reduced from 12 percent on September 1, 2000) and 8 percent in debentures comprised of long-term government bonds and bonds of statutory bodies.

<sup>15</sup> The first protocol covered the period 1993-95 and made provision for an economy-wide wage freeze. The second (1995-97) provided for a period of wage restraint in line with productivity changes.

<sup>16</sup> Unionized labor accounts for 60 percent of the labor force. The public sector accounts for 20 percent of total employment and sets the tone for the rate of private sector wage increases; while public sector wage settlements are set in two-year contracts, private sector contracts are generally longer.

to a substantial bidding up of wages in this sector, particularly for skilled workers; more recently, however, these wage increases have been moderated by the inflow of workers from other Caribbean territories.

32. The mission discussed the imperative for continued wage restraint in light of growing international competition in tourism and other areas. Given the public sector's dominance in employment and its leadership role in economy-wide wage setting behavior, the authorities viewed public sector wage discipline as not only critical for ensuring a tight fiscal stance but also for strengthening Barbados' external competitiveness. In addition, the **duplication of benefits** across unemployment insurance and severance pay arrangements, which raises nonwage labor costs and impedes mobility, was discussed with representatives of labor and employers. The latter, however, saw little prospect for consolidating these arrangements in the near future.

33. The mission discussed and supported the work plan of the **National Productivity Council (NPC)** to continue development of productivity measures, expand their use for international comparisons in key sectors, and promote performance-based compensation plans. The mission suggested that the NPC try to institutionalize to the extent possible the link between wages and productivity. The IDB's program of assistance for strengthening the NPC's technical and operational capability should enhance and expedite its work plan.

34. The authorities see the fiscal system as more progressive since the VAT was introduced, as the tax serves as an efficient source of revenue to fund assistance to low-income households, especially individuals below the income tax threshold. They intend to **target social assistance more closely to need**. In that context, the **Ministry of Social Transformation** was established in 1999 in an effort to consolidate and rationalize social assistance efforts. It has initiated programs to target public assistance to the persons in need, such as the elderly, disabled, and disadvantaged youth.

#### **D. Structural Issues**

35. The authorities will take steps to have the main **public enterprises operate more efficiently and thus limit the public enterprises' overall deficit to 1 percent of GDP** or lower. Options under consideration include moving toward economic rates for services of the Transport Board and Water Authority and increasing rents charged by the Barbados Industrial Development Corporation. The authorities acknowledged that the Transport Board's obligation to provide services at uneconomical rates for special subgroups posed a challenge to its efficient operation, but explained that it was an important priority to provide low-cost public transportation. The new **Fair Trading Commission (FTC)** will set utility rates and examine financial statements of all public enterprises with a view to moving them toward operating on a self-sustaining basis. The newly established **Commission on Competitiveness** will address how government regulations and services provided by public enterprises affect the cost of private business with a view to identifying where improvements can be made.

36. The commercial operations of the Barbados Agricultural Development and Marketing Company (BADMC), the state enterprise in agriculture excluding sugar, have been threatened by termination of its status as sole importer of certain agricultural products. By including BADMC in a comprehensive restructuring of the ministry of agriculture, the government has the opportunity to address its entire role in agriculture, with a view to improving efficiency.

37. **Reform in the sugar industry** awaits the findings of a task force appointed by the Ministry of Agriculture to address the restructuring of the Barbados Agricultural Management Company (BAMC), the state sugar enterprise. Two options have been identified for improving BAMC's operation, which are to close one of its three factories and upgrade the other two or to replace all three with a new factory. The authorities acknowledged the importance of Barbados' quota to sell at the preferential price in the European market and the uncertainty of these arrangements in the future.

38. The BNB is to be privatized in 2000 after reincorporation under the Companies Act. Privatization is expected to be launched through the sale of shares to be listed with the Securities Exchange of Barbados in late 2000. The state-owned Insurance Corporation of Barbados (ICB) is also slated for privatization. The government is expected to divest 51 percent of the share ownership of BNB and ICB.

#### IV. MEDIUM-TERM OUTLOOK

39. Based on the mission's policy discussions and the developments and information available for 2000, the staff prepared projections for economic performance over the medium term (Table 8). The projections assume continued **structural reforms and financial and wage restraint**, thereby preserving Barbados' external competitiveness and making the long-standing exchange rate parity with the U.S. dollar, which has served the economy well in keeping inflation in check, sustainable.

40. **Real GDP growth** is projected to increase steadily to 3 percent by 2004, led by the tourism sector whose growth improves in line with growth in partner countries. Growth in offshore business is expected to continue but at a slower pace than in the 1990s. Inflation is expected to remain at 2½ percent through 2001 owing to higher projected oil prices, and then to decline to 2 percent by 2004. The medium-term outlook reflects the **tight fiscal position** outlined by the authorities. The central government overall deficit declines to less than ½ of 1 percent of GDP in fiscal year 2004/05 and public saving is projected to increase to over 7½ percent of GDP by 2004, with public enterprises moving toward operating on a self-sustaining basis and pension reform preserving the NIS's surplus and strengthening the finances of the public pension system.

41. The external current account deficit is expected to widen slightly to 3.7 percent of GDP in 2001 and then decline steadily to 3 percent of GDP in 2004. The initial widening follows from moderation in growth of the tourism sector following its strong performance in 2000, expected higher capital goods imports owing to the scheduled renovation of two hotels, and higher oil import prices. After 2001 **external current account performance improves** as



service exports are expected to show strong sustainable growth and imports grow in line with nominal GDP. After 2000 the **current account deficit is covered principally by long-term project finance and foreign direct investment**. External financing encompasses modest declines in official international reserves over 2001–03, with gross reserves declining steadily to three months of projected imports by 2004 when accumulation of reserves resumes. Public external debt is projected to be a sustainable 20½ percent of GDP in 2004.

42. **Barbados' favorable medium-term outlook depends on strong performance in the tourism and offshore business sectors, both of which are vulnerable to external developments, and continuation of the country's external competitiveness based on fiscal and wage discipline.** Criticism by the OECD of Barbados' tax structure and by the FSF of its regulation and supervision of the offshore sector could significantly dampen growth prospects. If government borrowing and wages are not appropriately restrained, the balance of payments could weaken and the public external debt ratio may not decline nor official international reserves increase as projected by 2004, creating a potentially unstable economic situation.

#### V. STAFF APPRAISAL

43. Since the foreign exchange crisis of the early 1990s, output growth has been sustained by wage and fiscal restraint and the implementation of structural reforms, which have underpinned confidence and strong private investment, and contributed substantially to preserving Barbados' external competitiveness in the context of the long-standing (since 1975) exchange rate peg with the U.S. dollar. However, the economy remains vulnerable to external shocks as it continues to rely heavily on a few export commodities, tourism, and financial services. The challenge facing the authorities in the period ahead is to maintain the competitiveness of the economy to ensure continued growth of tourism and facilitate economic diversification. This requires wage restraint, fiscal discipline, and structural reforms with steps to reduce the cost of doing business. In addition, Barbados faces the task of dealing with an aging population whose impact on the retirement pension system presents a fiscal challenge over the medium term.

44. The authorities have maintained **prudent macroeconomic and fiscal management** and pursued their structural reform agenda in 1999-2000, which supported non-inflationary growth based on high savings and investment, and the transition to a liberal external trade environment. High public sector savings supported investment in the government's core areas of responsibility—education, health, transportation infrastructure, and environmental protection. Credit policy was prudent, consistent with the maintenance of low inflation and with achieving the authorities' balance of payments objectives.

45. **Wage restraint** has been an essential element in Barbados' strong economic performance. Available information indicates that wage increases are not adversely affecting external competitiveness, but the decline in unemployment and labor shortages in some sectors point to the possibility of wage pressures. Accordingly, efforts to preserve wage discipline need to be kept up. The cooperation among labor, business, and government, as stipulated in formal protocols, should continue with the aim of keeping wage increases in line with

productivity growth and inflation objectives. **Improving the operation of the labor market** is essential through the consolidation of the unemployment insurance and severance pay arrangements so as to promote labor market flexibility and contain nonwage labor costs.

46. The staff supports the authorities' intention to **maintain fiscal discipline** through public sector wage restraint and improvements in the efficiency of government spending and the operation of public enterprises to reduce their need for transfers from the central government budget. This would allow for investment in infrastructure, thereby creating a favorable environment for continued strong private investment. The PSIP remains appropriately focused on projects in the social sectors (primary and secondary education and health), infrastructure maintenance (improvement of roads, airport, and port), and environmental protection (sewerage and waste management). The implementation of such projects with support from the IDB and CDB should be accelerated to enhance Barbados' growth prospects.

47. The government's substantial external borrowings contributed to building a cushion of official international reserves to address any balance of payments pressure that may arise. With the achievement of a comfortable reserve position at the central bank, **the government should curtail its external commercial borrowing and rely on official long-term project finance** to support its PSIP. The productivity of investment, both public and private, is critical to Barbados' capacity to repay debt.

48. The recent **easing of credit policy may be necessary** for encouraging private investment and growth, and helping the manufacturing and agriculture sectors adjust to trade liberalization by financing their restructuring to become more competitive. However, the authorities should be prepared to tighten credit if domestic demand expands too rapidly and the external current account deficit widens.

49. The authorities' continued implementation of prudent fiscal and credit policies, together with wage restraints and efforts to raise productivity, should ensure the sustainability of the **fixed exchange rate system**. Given their demonstrated willingness to implement policies consistent with the peg, the staff believes that Barbados exchange rate policy remains appropriate and should continue to serve the country well.

50. The staff strongly supports the authorities' efforts to **improve prudential regulations and the supervision of the financial sector**, in line with the *Core Principles for Effective Banking Supervision* and supporting the envisaged capital account liberalization. The staff urges adoption of a new offshore banking act, an important step in strengthening supervision, and welcomes the authorities' interest in receiving technical assistance from the Fund in this area. In the domestic banking system, the staff encourages efforts to even out requirements on banks and nonbanks to reduce opportunities for regulatory arbitrage. The staff recommends gradually replacing the current requirement to hold a percentage of bank deposits in government securities with a liquid assets requirement for prudential purposes. This would improve the efficiency of financial intermediation.

51. In structural areas, the staff strongly supports the recent steps taken to **enhance economic efficiency**, in particular, the establishment of the FTC with the mandate to reform utility prices and prices of services provided by public enterprises, and initiatives to reduce red tape affecting private investment. All of these should help improve the competitiveness of the economy. In this context, the staff encourages the authorities to move public enterprises toward operating on a self-sustaining basis by charging economic rates for their services, thereby reducing their need for continued government transfers and government-guaranteed borrowing. Serious consideration also needs to be given to new price structures for the use of public property and services. The staff urges an acceleration of ongoing efforts to privatize state enterprises, including the state-owned commercial bank.

52. Steps should also be taken to continue **enhancing the efficiency of government**. The authorities' effort to increase the effectiveness of its social safety net by consolidating programs in the Ministry of Social Transformation is appropriate. Efforts to improve tax administration also should continue to provide resources for investment in (and maintenance of) social infrastructure and direct assistance to persons in need. The staff shares the authorities' concerns about the projected weakening of the finances of the public pension system, and urges its timely reform to secure workers' old age incomes and support the maintenance of adequate levels of public savings.

53. **Improvements in the timely availability of statistics are needed to enhance surveillance of economic developments and policies.** Barbados participates in the General Data Dissemination System and its metadata and plans for improvement of its national statistical system are posted on the Fund's website. This system provides an appropriate framework for improving statistical reporting. The government should develop a work program, including the need for technical assistance, for improving statistics. Particular emphasis needs to be placed on expanding the coverage of accounts of the offshore banks.

54. As in 1999, the authorities have indicated their intention to release the staff report for the 2000 Article IV consultation. It is recommended that Barbados remain on the standard 12-month Article IV consultation cycle.

Table 1. Barbados: Selected Economic and Financial Indicators

	1997	1998	1999	Proj.	
				2000	2001
(Annual percentage changes)					
<b>National income and prices</b>					
Real GDP	2.9	4.4	2.5	2.5	2.5
GDP deflator	3.9	3.6	3.4	2.6	2.6
Tourist arrivals	5.6	8.5	1.1	3.4	3.0
Consumer prices (12-month increase)	3.5	1.7	2.9	2.5	2.5
Unemployment rate (in percent of the labor force) 1/	12.2	11.8	9.8	...	...
<b>External sector</b>					
Exports	0.9	-11.1	2.1	-3.3	5.2
Tourism receipts	0.6	7.3	-4.3	7.5	3.8
Imports	19.5	1.5	5.9	2.0	5.0
Real effective exchange rate (depreciation - ) 2/	5.1	-1.1	4.1	...	...
<b>Central government 3/</b>					
Revenue	18.8	6.6	4.6	7.0	2.3
Expenditure	11.1	7.7	4.9	6.3	2.9
<b>Money and credit 4/</b>					
Net domestic assets	5.9	16.0	7.5	-6.3	5.2
<i>Of which</i>					
Private sector credit	13.5	12.7	11.6	5.0	4.2
Public sector credit	-2.2	-0.7	-0.4	-8.6	0.6
Broad money (M2)	7.1	11.5	11.3	5.1	4.0
Velocity (GDP relative to M2)	1.8	1.8	1.7	1.7	1.7
(In percent of GDP at market prices; unless otherwise indicated)					
<b>Public sector 3/</b>					
Public sector overall balance (deficit -)	-0.7	-0.5	0.5	0.9	0.4
Central government overall balance	-0.9	-1.2	-1.3	-1.1	-1.3
National Insurance Scheme	2.2	2.5	2.7	2.7	2.7
Public enterprises	-2.0	-1.8	-0.9	-0.7	-1.0
Central government current balance (deficit -)	4.6	4.2	4.0	4.4	4.2
Central government primary balance (deficit -)	3.6	3.4	3.3	3.6	3.0
<b>Savings and investment</b>					
Gross domestic investment	16.7	18.5	19.4	19.5	19.5
Private investment	10.4	12.6	13.1	12.9	12.6
Public investment	6.3	5.9	6.3	6.6	7.0
Gross national saving	14.5	16.1	14.3	16.0	15.8
Private saving	8.9	10.8	7.7	8.6	8.3
Public saving	5.5	5.4	6.6	7.4	7.5
Foreign saving	2.2	2.4	5.2	3.5	3.7
<b>Memorandum items:</b>					
GDP at current market prices (millions of Barbados dollars)	4,409.5	4,755.8	4,980.1	5,282.8	5,545.9
Public external debt 5/	16.1	16.2	18.8	22.5	22.0
Debt service on external public debt	7.6	5.0	6.7	4.9	5.0
(In percent of exports of goods and services)					
Overall balance of payments (deficit -)	17.2	-4.6	36.9	163.5	-20.0
(In millions of U.S. dollars)					
Gross international reserves of the monetary authorities	2.6	2.4	2.7	3.9	3.5
(months of imports of goods and services)					

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

1/ End of period.

2/ Information Notice System; end of period.

3/ Fiscal year (April-March).

4/ In relation to money and quasi-money at the beginning of the period.

5/ Refers to central government and government guaranteed debt.

Table 2: Barbados: Public Sector Finances

(In percent of GDP)

	1997/98	1998/99	1999/00	Proj.	
				2000/01	2001/02
<b>Public sector current balance</b>	<b>5.8</b>	<b>5.3</b>	<b>7.0</b>	<b>7.6</b>	<b>7.5</b>
Central Government	4.6	4.2	4.0	4.4	4.2
National Insurance	2.2	2.5	2.7	2.7	2.7
Public enterprises	-1.0	-1.4	0.3	0.5	0.6
<b>Public sector capital expenditure</b>	<b>6.5</b>	<b>5.8</b>	<b>6.5</b>	<b>6.7</b>	<b>7.1</b>
Central Government	5.5	5.4	5.3	5.5	5.5
National Insurance	0.0	0.0	0.0	0.0	0.0
Public enterprises	1.0	0.4	1.2	1.2	1.6
<b>Public sector overall balance</b>	<b>-0.7</b>	<b>-0.5</b>	<b>0.5</b>	<b>0.9</b>	<b>0.4</b>
Central Government	-0.9	-1.2	-1.3	-1.1	-1.3
National Insurance	2.2	2.5	2.7	2.7	2.7
Public enterprises	-2.0	-1.8	-0.9	-0.7	-1.0

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

1/ Fiscal years (April-March).

Table 3. Barbados: Central Government Operations 1/

(In millions of Barbados dollars)

	1997/98	1998/99	1999/00	Proj.	
				2000/01	2001/02
<b>Total revenue and grants</b>	<b>1,446.1</b>	<b>1,541.2</b>	<b>1,611.6</b>	<b>1,724.7</b>	<b>1,763.7</b>
Current revenue	1,443.7	1,541.2	1,611.6	1,724.7	1,763.7
Tax revenue	1,381.3	1,485.1	1,562.0	1,672.2	1,708.7
Taxes on income and profits	419.3	459.9	512.9	529.8	556.2
Levies	26.2	47.9	75.2	79.6	83.5
Taxes on property	72.4	77.7	98.2	101.4	104.0
Taxes on goods and services	723.2	748.0	727.8	797.7	793.1
<i>Of which</i>					
Value-added tax	451.9	454.9	457.4	470.2	488.9
Import duties	127.7	136.9	134.6	149.7	157.2
Stamp duties	12.5	14.7	13.3	14.1	14.8
Nontax revenue	62.4	56.1	49.6	52.5	55.1
Capital revenue and grants	2.4	0.0	0.0	0.0	0.0
<b>Total expenditure and net lending</b>	<b>1,484.3</b>	<b>1,598.4</b>	<b>1,676.6</b>	<b>1,781.9</b>	<b>1,834.0</b>
Current expenditure	1,236.7	1,340.9	1,409.9	1,490.0	1,527.5
Wages and salaries	478.1	516.5	565.2	586.9	603.8
National insurance contribution	29.7	34.7	37.2	41.2	42.4
Goods and services	138.3	153.7	163.4	176.1	184.9
Interest	198.3	218.9	230.7	251.4	240.4
Domestic	159.3	170.3	169.7	171.8	155.8
Foreign	39.0	48.6	61.0	79.6	84.6
Transfers	392.3	417.1	413.4	434.4	456.0
Capital expenditure and net lending	247.6	257.5	266.7	291.9	306.5
Acquisition of land and existing assets	16.4	12.6	9.6	10.2	10.7
Capital formation	193.5	184.1	203.1	224.6	235.8
Transfers	34.9	57.8	49.5	52.4	55.0
Net lending	2.8	3.0	4.5	4.8	5.0
<b>Overall surplus/deficit (-)</b>	<b>-38.2</b>	<b>-57.2</b>	<b>-65.0</b>	<b>-57.2</b>	<b>-70.3</b>
<b>Total financing</b>	<b>38.2</b>	<b>57.2</b>	<b>65.0</b>	<b>57.2</b>	<b>70.3</b>
Foreign financing	-31.8	-53.3	58.8	257.9	15.2
Disbursements	48.8	61.8	158.1	317.3	84.5
Amortization	-80.6	-115.1	-99.3	-59.4	-69.3
Domestic financing	70.0	110.5	6.2	-200.7	55.1
Banking system	-30.0	17.7	-106.0	-239.1	2.9
Central bank	38.9	43.0	-76.4	-209.1	13.7
Commercial banks	-68.9	-25.3	-29.6	-30.0	-10.8
Rest of financial system	0.2	4.5	0.0	0.0	0.0
National Insurance Scheme	59.7	29.4	57.5	43.3	45.5
Other	40.1	58.9	54.7	-4.9	6.7
<b>Memorandum items:</b>					
Current surplus/deficit (-)	207.0	200.3	201.7	234.7	236.2
Primary surplus/deficit (-)	160.1	161.7	165.7	194.2	170.1

Table 3. Barbados: Central Government Operations 1/

(In percent of GDP)

	1997/98	1998/99	1999/00	Proj.	
				2000/01	2001/02
<b>Total revenue and grants</b>	<b>32.2</b>	<b>32.0</b>	<b>31.9</b>	<b>32.2</b>	<b>31.4</b>
Current revenue	32.1	32.0	31.9	32.2	31.4
Tax revenue	30.7	30.9	30.9	31.3	30.4
Taxes on income and profits	9.3	9.6	10.1	9.9	9.9
Levies	0.6	1.0	1.5	1.5	1.5
Taxes on property	1.6	1.6	1.9	1.9	1.9
Taxes on goods and services	16.1	15.5	14.4	14.9	14.1
<i>Of which</i>					
Value-added tax	10.1	9.5	9.0	8.8	8.7
Import duties	2.8	2.8	2.7	2.8	2.8
Stamp duties	0.3	0.3	0.3	0.3	0.3
Nontax revenue	1.4	1.2	1.0	1.0	1.0
Capital revenue and grants	0.1	0.0	0.0	0.0	0.0
<b>Total expenditure and net lending</b>	<b>33.0</b>	<b>33.2</b>	<b>33.2</b>	<b>33.3</b>	<b>32.7</b>
Current expenditure	27.5	27.9	27.9	27.9	27.2
Wages and salaries	10.6	10.7	11.2	11.0	10.8
National insurance contribution	0.7	0.7	0.7	0.8	0.8
Goods and services	3.1	3.2	3.2	3.3	3.3
Interest	4.4	4.5	4.6	4.7	4.3
Domestic	3.5	3.5	3.4	3.2	2.8
Foreign	0.9	1.0	1.2	1.5	1.5
Transfers	8.7	8.7	8.2	8.1	8.1
Capital expenditure and net lending	5.5	5.4	5.3	5.5	5.5
Acquisition of land and existing assets	0.4	0.3	0.2	0.2	0.2
Capital formation	4.3	3.8	4.0	4.2	4.2
Transfers	0.8	1.2	1.0	1.0	1.0
Net lending	0.1	0.1	0.1	0.1	0.1
<b>Overall surplus/deficit (-)</b>	<b>-0.8</b>	<b>-1.2</b>	<b>-1.3</b>	<b>-1.1</b>	<b>-1.3</b>
<b>Total financing</b>	<b>0.8</b>	<b>1.2</b>	<b>1.3</b>	<b>1.1</b>	<b>1.3</b>
Foreign financing	-0.7	-1.1	1.2	4.8	0.3
Disbursements	1.1	1.3	3.1	5.9	1.5
Amortization	-1.8	-2.4	-2.0	-1.1	-1.2
Domestic financing	1.6	2.3	0.1	-3.8	1.0
Banking system	-0.7	0.4	-2.1	-4.5	0.1
Central bank	0.9	0.9	-1.5	-3.9	0.2
Commercial banks	-1.5	-0.5	-0.6	-0.6	-0.2
Rest of financial system	0.0	0.1	0.0	0.0	0.0
National Insurance Scheme	1.3	0.6	1.1	0.8	0.8
Other	0.9	1.2	1.1	-0.1	0.1
<b>Memorandum items:</b>					
Current surplus/deficit (-)	4.6	4.2	4.0	4.4	4.2
Primary surplus/deficit (-)	3.6	3.4	3.3	3.6	3.0

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

1/ Fiscal years (April-March).

Table 4. Barbados: Balance of Payments

	1997	1998	1999	Proj.	
				2000	2001
(In millions of U.S. dollars)					
<b>Current account</b>	<b>-49.3</b>	<b>-56.0</b>	<b>-128.5</b>	<b>-91.9</b>	<b>-102.1</b>
Merchandise trade balance	-598.5	-644.1	-692.2	-720.0	-755.4
Exports	289.2	257.0	262.3	253.5	266.6
<i>Of which:</i>					
Domestic exports	210.5	189.6	198.2	189.8	199.5
Sugar and molasses	35.7	28.2	27.7	25.5	26.8
Other	174.8	161.4	170.5	164.3	172.8
Imports	887.7	901.0	954.4	973.5	1,022.0
Services (net)	549.7	591.4	566.9	623.9	650.0
Travel (credit)	663.4	711.9	681.1	732.2	759.9
Investment income (net)	-47.7	-56.1	-59.1	-58.5	-62.7
<i>Of which:</i>					
Interest on public debt	-29.2	-23.6	-29.3	-39.1	-41.9
Current transfers (net)	47.3	52.8	56.0	62.7	65.9
<b>Capital account</b>	<b>20.2</b>	<b>80.4</b>	<b>109.7</b>	<b>258.0</b>	<b>82.1</b>
Long-term capital	4.1	72.0	116.5	263.0	75.2
Public sector	-44.9	24.8	39.9	126.6	16.0
Central government	-25.7	-13.8	41.1	115.6	19.4
Government guaranteed	-1.9	39.6	-0.4	11.8	-3.3
Central Bank	-17.3	-1.0	-0.8	-0.8	-0.2
Private sector	48.9	47.2	76.6	136.5	59.3
Direct investment	31.7	16.7	75.7	136.5	59.3
Commercial banks	17.2	30.6	0.9	0.0	0.0
Short-term capital	16.1	8.4	-6.7	-5.0	6.9
Commercial banks	2.9	6.7	-6.7	-5.0	0.0
Other private (including trade credits)	13.2	1.7	0.0	0.0	6.9
Errors and omissions	46.2	-29.1	55.7	-2.6	0.0
<b>Overall balance (deficit -)</b>	<b>17.2</b>	<b>-4.6</b>	<b>36.9</b>	<b>163.5</b>	<b>-20.0</b>
<b>Memorandum items:</b>					
Current account (percent of GDP)	-2.2	-2.4	-5.2	-3.5	-3.7
Exports of goods and nonfactor services	1,248.4	1,280.6	1,254.6	1,302.9	1,360.0
Imports of goods and nonfactor services	1,297.2	1,333.2	1,379.9	1,394.2	1,468.7
Gross international reserves	286.4	275.4	312.4	475.9	455.9
Gross international reserves (in months of imports)	2.6	2.4	2.7	3.9	3.5
Total external debt 1/	355.3	385.2	468.8	595.4	611.3
Total external debt (percent of GDP) 1/	16.1	16.2	18.8	22.5	22.0

Sources: Central Bank of Barbados; Barbados Statistical Service; and Fund Staff estimates and projections.

1/ Public sector debt.



Table 5. Barbados: Summary of External Debt

	1997	1998	1999	Proj.	
				2000	2001
(In millions of U.S. dollars)					
<b>Public and publicly guaranteed</b>					
Total outstanding (end of year)	355.3	385.2	468.8	595.4	611.3
Central government	350.1	341.5	426.3	541.9	561.3
Government guaranteed	2.4	42.0	41.6	53.3	50.1
Central bank	2.8	1.8	1.0	0.2	0.0
<b>Debt service</b>	95.1	64.6	83.5	64.4	68.2
Amortization	65.9	41.0	54.2	25.3	26.3
Interest payments	29.2	23.6	29.3	39.1	41.9
<b>Private nonguaranteed debt</b>					
Total outstanding (end of year)	72.3	66.7	59.2	44.3	39.2
Debt service	22.3	23.9	13.7	19.8	6.2
Amortization	14.9	19.9	7.5	14.9	2.8
Interest payments	7.4	4.0	6.3	5.0	3.6
(In percent of GDP)					
Total debt outstanding	19.4	19.0	21.2	24.4	23.9
Public and publicly guaranteed debt 1/	16.1	16.2	18.8	22.5	22.0
(In percent of exports of goods and services)					
<b>Debt service</b>					
On total debt outstanding	9.4	6.9	7.7	6.5	5.5
On public and publicly guaranteed debt 1/	7.6	5.0	6.7	4.9	5.0

Sources: Ministry of Finance; Central Bank of Barbados; Barbados Statistical Service; and Fund staff estimates and projections.

1/ Includes central government and government guaranteed debt.

Table 6. Barbados: Summary Accounts of the Banking System

	1997	1998	1999	Proj. 2000	2001
(In millions of Barbados dollars)					
I. Central Bank					
<b>Net international reserves</b>	<b>548.0</b>	<b>538.8</b>	<b>612.7</b>	<b>939.7</b>	<b>899.7</b>
<b>Net domestic assets</b>	<b>-126.7</b>	<b>-52.7</b>	<b>-109.8</b>	<b>-406.3</b>	<b>-339.8</b>
Net credit to the public sector	-218.4	-214.1	-198.3	-424.2	-416.2
<i>Of which</i>					
Central government	-215.1	-210.5	-192.8	-418.7	-410.7
Unclassified items (net)	91.7	161.4	88.5	17.9	76.4
<b>Medium- and long-term foreign liabilities</b>	<b>5.4</b>	<b>3.4</b>	<b>1.6</b>	<b>1.6</b>	<b>1.6</b>
<b>Monetary base</b>	<b>415.9</b>	<b>482.7</b>	<b>501.3</b>	<b>531.8</b>	<b>558.3</b>
Liabilities to commercial banks	176.3	214.5	206.8	219.4	230.3
Currency in circulation	239.6	268.2	294.5	312.4	328.0
II. Banking System					
<b>Net international reserves</b>	<b>466.3</b>	<b>417.7</b>	<b>518.8</b>	<b>855.8</b>	<b>815.8</b>
<b>Net domestic assets</b>	<b>1,992.5</b>	<b>2,374.3</b>	<b>2,573.5</b>	<b>2,387.1</b>	<b>2,550.3</b>
Net credit to the public sector	351.1	333.3	322.2	66.3	85.9
<i>Of which</i>					
Central government	673.5	585.7	571.7	315.9	308.3
Credit to the private sector	1,842.6	2,146.4	2,454.5	2,603.7	2,733.4
Unclassified items (net)	-201.2	-105.3	-203.1	-282.9	-269.0
<b>Medium- and long-term foreign liabilities</b>	<b>69.6</b>	<b>128.8</b>	<b>128.8</b>	<b>128.8</b>	<b>128.8</b>
<b>Broad money</b>	<b>2,389.3</b>	<b>2,663.2</b>	<b>2,963.5</b>	<b>3,114.1</b>	<b>3,237.3</b>
Narrow money	753.7	882.6	990.3	1,040.6	1,081.8
Quasi-money	1,635.6	1,780.7	1,973.2	2,073.5	2,155.5
(Annual percentage change)					
I. Central Bank					
<b>Net international reserves</b>	<b>6.7</b>	<b>-1.7</b>	<b>13.7</b>	<b>53.4</b>	<b>-4.3</b>
<b>Net domestic assets 1/</b>	<b>-19.9</b>	<b>17.8</b>	<b>-11.8</b>	<b>-59.2</b>	<b>12.5</b>
Net credit to the public sector 1/	1.3	1.0	3.3	-45.1	1.5
<b>Monetary base</b>	<b>-9.0</b>	<b>16.1</b>	<b>3.9</b>	<b>6.1</b>	<b>5.0</b>
Liabilities to commercial banks	-25.7	21.7	-3.6	6.1	5.0
Currency in circulation	8.9	11.9	9.8	6.1	5.0
II. Banking System					
<b>Net international reserves</b>	<b>10.7</b>	<b>-10.4</b>	<b>24.2</b>	<b>65.0</b>	<b>-4.7</b>
<b>Net domestic assets 2/</b>	<b>5.9</b>	<b>16.0</b>	<b>7.5</b>	<b>-6.3</b>	<b>5.2</b>
Net credit to the public sector 2/	-2.2	-0.7	-0.4	-8.6	0.6
Credit to the private sector	19.6	16.5	14.4	6.1	5.0
<b>Broad money</b>	<b>7.1</b>	<b>11.5</b>	<b>11.3</b>	<b>5.1</b>	<b>4.0</b>
Narrow money	6.4	17.1	12.2	5.1	4.0
Quasi-money	7.5	8.9	10.8	5.1	4.0

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

1/ In relation to monetary base 12 months earlier.

2/ In relation to broad money 12 months earlier.

Table 7. Barbados: Indicators of External Vulnerability

(In percent of GDP, unless otherwise indicated)

	1997	1998	1999	Proj.	
				2000	2001
<b>Financial indicators</b>					
Broad money (percent change, 12-month basis)	6.6	10.3	10.1	4.8	3.8
Private sector credit (percent change, 12-month basis)	16.4	14.2	12.6	5.7	4.7
3-month T-bill rate 1/	4.9	5.7	6.1	...	...
3-month T-bill rate (real) 2/	1.3	3.9	3.2	...	...
<b>External indicators</b>					
Exports of goods and services (percent change, 12-month basis in US\$)	2.9	2.6	-2.0	3.8	4.4
Imports of goods and services (percent change, 12-month basis in US\$)	14.8	2.8	3.5	1.0	5.3
Current account balance	-2.2	-2.4	-5.2	-3.5	-3.7
Capital and financial account balance	0.9	3.4	4.4	9.8	3.0
<i>Of which</i>					
Inward portfolio investment (debt securities etc.)					
Other investment (loans, trade credits etc.)					
Inward foreign direct investment in the form of debt or loans					
Gross official reserves (in US\$ millions)	286.4	275.4	312.4	475.9	455.9
Gross official reserves in months of imports of goods and services	2.6	2.4	2.7	3.9	3.5
Broad money to net reserves	4.4	4.9	4.8	3.3	3.6
Total public external debt	16.1	16.2	18.8	22.5	22.0
Total external debt to exports of goods and services (percent) 3/	28.5	30.1	37.4	45.7	44.9
External interest payments to exports of goods and services (percent) 3/	2.3	1.8	2.3	3.0	3.1
External amortization payments to exports of goods and services (percent) 3/	5.3	3.2	4.3	1.9	1.9
External interest payments to total fiscal revenue (percent) 3/	4.2	3.1	3.7	4.6	4.8
External amortization payments to total fiscal revenue (percent) 3/	9.5	5.4	6.8	3.0	3.0
Exchange rate (per US\$, end of period)	2.0	2.0	2.0	...	...
REER appreciation (12 month basis)	5.1	-1.1	4.1	...	...
<b>Real sector indicators</b>					
Tourist sector, percent of GDP	15.2	15.5	15.0	15.3	15.4
Travel receipts, percent of total exports	53.1	55.6	54.3	56.2	55.9
Tourist and general services sectors, percent of GDP	32.1	32.3	31.9	32.2	32.4
<b>Memorandum item:</b>					
Total revenue and grants (millions of BDS\$, calendar year)	1,389.0	1,517.4	1,594.0	1,696.4	1,754.0

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

1/ Average rate of discount (end of period).

2/ T-bill rate adjusted for actual year-on-year inflation.

3/ Refers to public sector debt.

Table 8. Barbados: Medium-Term Outlook

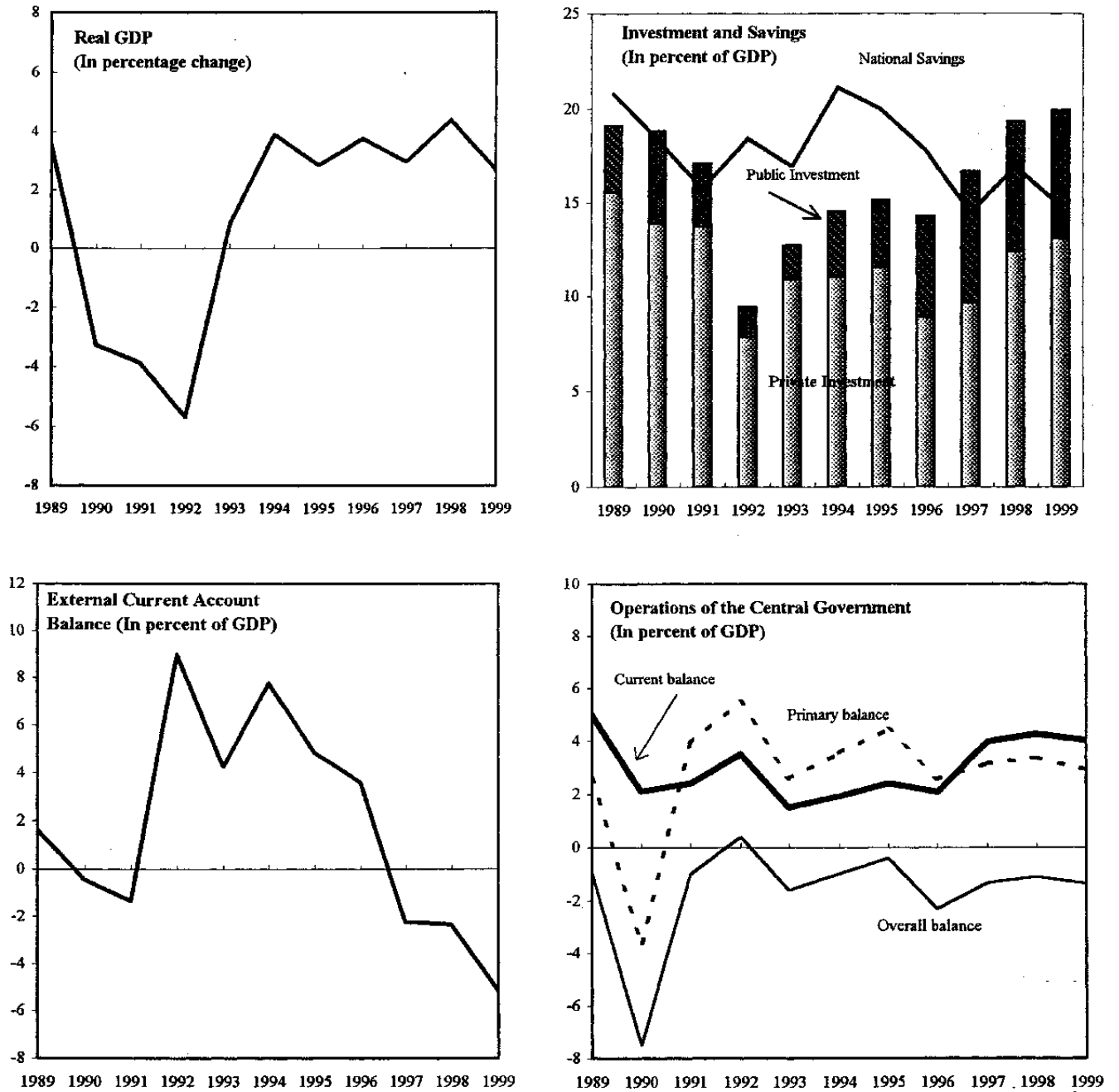
	1997	1998	1999	Proj.				
				2000	2001	2002	2003	2004
(Annual percentage changes)								
<b>National income and prices</b>								
Real GDP	2.9	4.4	2.5	2.5	2.5	2.6	2.8	3.0
GDP deflator	3.9	3.6	3.4	2.6	2.6	2.5	2.2	2.0
Consumer prices (12-month increase)	3.5	1.7	2.9	2.5	2.5	2.3	2.1	2.0
Exports	0.9	-11.1	2.1	-3.3	5.2	5.1	5.2	5.1
Imports	19.5	1.5	5.9	2.0	5.0	5.0	5.2	5.0
(In percent of GDP)								
<b>Savings and investment</b>								
Gross domestic investment	16.7	18.5	19.4	19.5	19.5	19.6	19.7	19.8
Private investment	10.4	12.6	13.1	12.9	12.6	12.6	13.2	13.4
Public investment	6.3	5.9	6.3	6.6	7.0	7.0	6.5	6.4
Gross national saving	14.5	16.1	14.3	16.0	15.8	16.2	16.6	16.7
Private saving	8.9	10.8	7.7	8.6	8.3	8.4	8.7	9.0
Public saving	5.5	5.4	6.6	7.4	7.5	7.8	7.9	7.7
Foreign saving	2.2	2.4	5.2	3.5	3.7	3.4	3.2	3.1
<b>Total consumption</b>	85.5	83.7	85.6	84.0	84.4	84.4	84.3	84.2
Private	63.2	61.3	62.9	61.6	62.2	62.7	62.9	63.1
Public	22.3	22.4	22.7	22.4	22.2	21.7	21.4	21.1
<b>Public sector 1/</b>								
Public sector overall balance (deficit -)	-0.7	-0.5	0.5	0.9	0.4	0.9	1.5	1.2
Central government overall balance	-0.9	-1.2	-1.3	-1.1	-1.3	-0.6	-0.3	-0.3
National Insurance Scheme	2.2	2.5	2.7	2.7	2.7	2.5	2.3	2.2
Public enterprises	-2.0	-1.8	-0.9	-0.7	-1.0	-1.0	-0.5	-0.7
Central government current balance (deficit -)	4.6	4.2	4.0	4.4	4.2	4.7	5.0	5.0
Central government primary balance (deficit -)	3.6	3.4	3.3	3.6	3.0	3.6	3.7	3.6
Public external debt (calendar year basis)	16.1	16.2	18.8	22.5	22.0	21.4	21.0	20.6
(Annual percentage changes, unless otherwise indicated)								
<b>Money and credit 2/</b>								
Net domestic assets	5.9	16.0	7.5	-6.3	5.2	6.3	6.9	6.8
<i>Of which</i>								
Private sector credit	13.5	12.7	11.6	5.0	4.2	4.2	4.4	4.3
Public sector credit	-2.2	-0.7	-0.4	-8.6	0.6	0.7	0.5	0.4
Money and quasi-money	7.1	11.5	11.3	5.1	4.0	4.2	4.8	4.8
Velocity (GDP relative to M2)	1.8	1.8	1.7	1.7	1.7	1.7	1.7	1.7
(In months of imports of goods and services)								
Gross official reserves	2.6	2.4	2.7	3.9	3.5	3.2	3.0	2.9
(In percent of exports of goods and services)								
<b>Public external debt</b>								
External debt	28.5	30.1	37.4	45.7	44.9	43.7	42.8	42.0
Interest payments	2.3	1.8	2.3	3.0	3.1	3.1	2.9	2.8
Amortization payments	5.3	3.2	4.3	1.9	1.9	2.9	2.7	2.5

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

1/ Fiscal year (April-March).

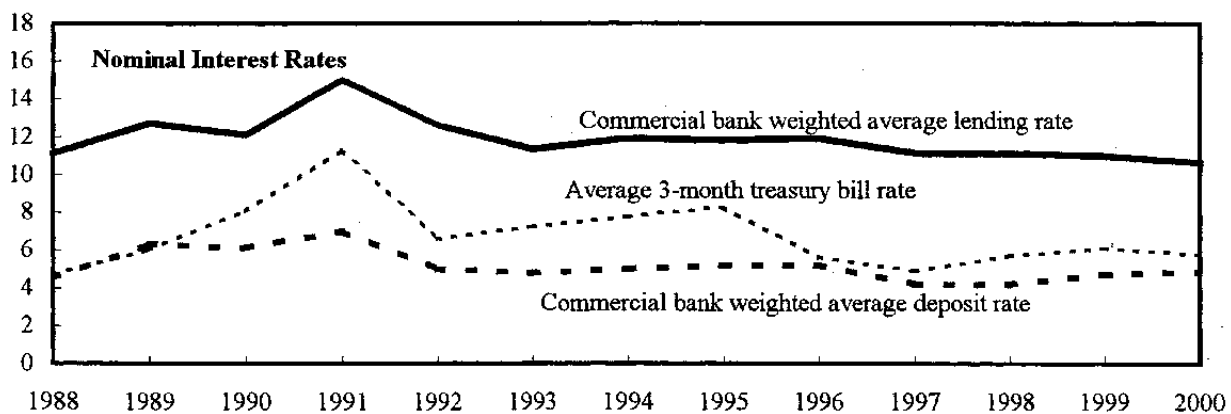
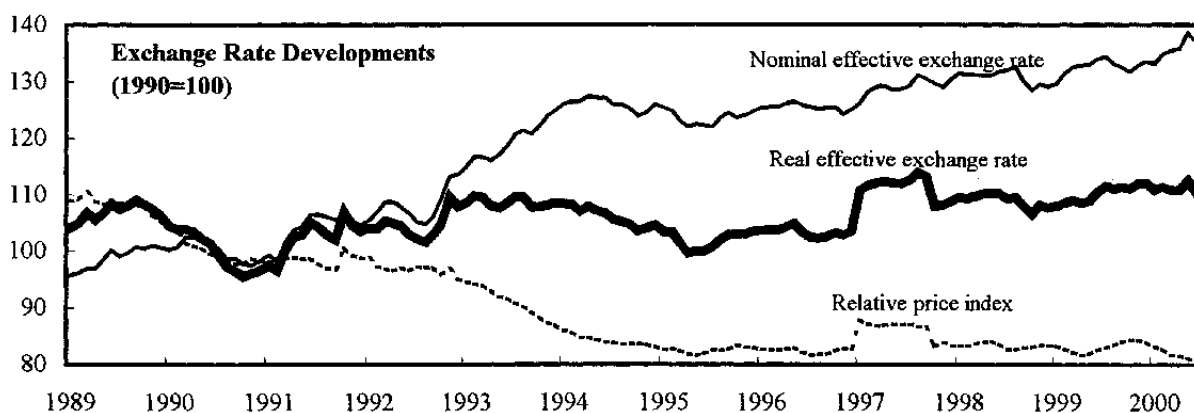
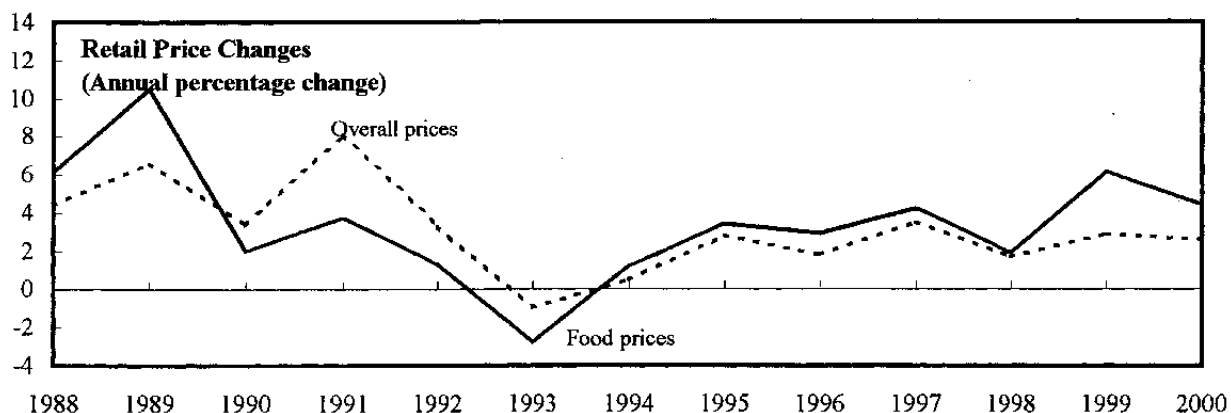
2/ In relation to broad money at the beginning of the period.

Figure 1. Barbados: Selected Economic Indicators, 1989-99



Sources: Ministry of Finance; Barbados Statistical Services; and Central Bank of Barbados.

Figure 2. Barbados: Selected Price and Financial Indicators, 1988-2000



Sources: Central Bank of Barbados; and IMF Information Notice System.

Note: Retail Price Changes and Exchange Rate Development graphs are updated till June 2000. Nominal Interest Rates graph is updated till May 2000.

**Barbados: Fund Relations**  
(As of September 30, 2000)

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

<b>II. General Resources Account:</b>	<b>SDR Million</b>	<b>Percent of Quota</b>
Quota	67.50	100.0
Fund Holdings of Currency	62.83	93.1
Reserve position in Fund	4.68	6.9

<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>Percent of Allocation</b>
Net cumulative allocation	8.04	100.0
Holdings	0.01	0.1

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

**V. Financial Arrangements:**

	<b>Approval Date</b>	<b>Expiration Date</b>	<b>Amount Approved</b>	<b>Amount Drawn</b>
	<b>(SDR Million)</b>			
Stand-by	02/07/1992	05/31/1993	23.89	14.67
Stand-by	10/01/1982	05/31/1984	31.88	31.88

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

	<b>Overdue</b>					
	<b>07/31/2000</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Charges/Interest		0.1	0.4	0.4	0.4	0.4
<b>Total</b>		<b>0.1</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>

**VII. Exchange Rate Arrangements:**

The Barbados dollar has been pegged to the U.S. dollar since mid-1975 at BDS\$2.00=US\$1.00. On July 31, 1995 the official buying and selling rates for the U.S. dollar were BDS\$1.9975 and BDS \$2.0350, respectively, per US\$1.

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 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.

**VIII. Last Article IV Consultation:**

The 1999 Article IV consultation discussion was concluded by the Executive Board on November 5, 1999 (EBM/99/123); the documents were (staff report) SM/99/256 and (recent economic developments) SM/99/257. Barbados is on the standard 12-month consultation cycle.

**IX. Technical Assistance:**

<b>Department</b>	<b>Dates</b>	<b>Purpose</b>
FAD	Nov. 6-17, 1995 Feb. 28-Mar. 12, 1996	Introduction of a value-added tax
MAE	Nov. 1995	Introduction of a deposit insurance scheme
FAD	June 29-July 10, 1992 Oct. 26-Nov. 6, 1992	Reform of the indirect tax system
FAD	Feb. 17-28, 1992	Reform of the direct tax system
MAE	Jan. 28-Feb. 6, 1992	Restructuring of the Barbados National Bank
STA	May 15-26, 1989	Review of balance of payments and banking statistics
FAD	Feb. 28, 1989-Feb. 1, 1990	Resident Fiscal Advisor in the Ministry of Finance to provide assistance in budget formulation, structure, and execution

**X. Resident Representative:**

The resident representative post was closed in January 1995.



## Barbados: Relations with the Inter-American Development Bank

### I. ACTIVE LOANS TO BARBADOS AS OF JULY 6, 2000

(In millions of U.S. dollars)

<b>Purpose</b>	<b>Approval Date</b>	<b>Amount</b>	<b>Amount Disbursed</b>	<b>Amount Available</b>
Student Revolving Fund III	Nov. 1989	4.7	4.7	0.0
Primary Education	Nov. 1992	11.6	9.3	2.30
South Coast Sewerage	Nov. 1992	51.2	25.07	21.64
Global Pre-Investment	Dec. 1992	7.0	6.79	0.20
Bridgetown Roads	May. 1993	18.5	1.09	14.93
Tax Administration and Public Expenditure	Aug. 1993	8.1	7.92	0.0
Coastal Conservation I	Dec. 1994	3.6	3.3	0.05
Investment Sector Reform Program	Nov. 1995	35.0	25.24	9.75
Solid Waste Management Program	Oct. 1998	13.0	0.0	12.87
Education Sector Enhancement Program	Dec. 1998	85.0	4.45	79.90
<b>Total</b>		<b>237.7</b>	<b>87.86</b>	<b>141.64</b>

### II. NET CASH FLOW OF IDB CONVERTIBLE RESOURCES

(In millions of U.S. dollars)

	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Loan approvals	26.6	3.6	35.0	0.0	0.0	98.0	0.0
Repayments	5.7	6.4	7.4	7.7	7.1	7.3	8.0
Disbursements	3.9	4.8	7.1	34.6	15.2	17.9	6.7
Net loan flow	-1.8	-1.6	-0.3	26.9	8.1	10.6	-1.3
Interest and charges	6.3	6.3	6.7	6.7	8.0	8.3	9.8
Debt service	12.0	12.7	14.1	15.2	15.2	15.7	16.37
<b>Debt outstanding</b>	<b>97.3</b>	<b>100.6</b>	<b>102.0</b>	<b>122.4</b>	<b>125.0</b>	<b>140.2</b>	<b>139.6</b>

### **Barbados—Outstanding Statistical Issues**

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

#### **1. Real sector**

Compilation of the national accounts by economic sector is hampered by lack of reliable and current data on nonsugar agriculture, private construction and nontourism service activities. The national accounts by expenditure suffer from weaknesses in the external trade and private investment data. Figures for gross domestic product at constant prices are based on 1974 price weights, but the authorities are in the process of updating the weights to 1994. Quarterly GDP estimates are no longer provided. In addition, the consumer price index uses 1978 expenditure weights which also should be updated to a more recent period.

#### **2. Nonfinancial public sector**

Fairly comprehensive and up-to-date data above the line are available for the general government, but there is a lag in the reporting of transfers. As a result of net errors and omissions in the recording of financial transactions, a significant discrepancy exists between the overall balance and financing data. Data on public enterprises are not systematically and promptly reported to the ministry of finance. Also, financial sector data on public sector net domestic borrowing usually cannot fully be reconciled with above the line fiscal data, partly because of limited availability of the nonbank financial sector information. Data supplied by the public enterprises, such as on government transfers and capital spending, often differ from those provided by the ministry of finance.

#### **3. Financial sector**

Important weaknesses remain with respect to the overall quality, coverage, and timeliness of the monetary accounts. The concept of residency applied to the monetary statistics is not consistent with the fifth edition of the *Balance of Payments Manual*. The Central Bank of Barbados (CBB) classifies some loans to and deposits of nonresidents as credit to the private sector and part of broad money, respectively, instead of as net foreign assets of commercial banks. Moreover, non-national individuals are recognized as residents only after they have resided continuously in Barbados for at least three years. There is also a need to extend the coverage of data to include offshore bank accounts. As regards the timeliness of data, reports to STA for publication in IFS are received with a lag of about five months. Accounting conventions underlying monetary data compiled by the CBB are in need of improvement. The CBB data are reported on a cash basis and do not include accrued receivables and payables. Commercial banks' positions are recorded on an accrual basis; however, the accrued interest receivable and payable is classified under other assets and other liabilities, respectively, rather than under the appropriate category of domestic credit. Marketable

securities are recorded at the acquisition cost and revalued to market value only on an annual basis (as of December 31). Short-term zero-coupon securities (treasury bills) are recorded at acquisition cost and are not revalued to market value until redemption at maturity. Positions with the IMF (SDR holdings, Reserve Tranche Position, and SDR Allocation) are valued at the IMF holdings rate rather than at the end-of-period market rate. These issues are being addressed in the context of the general framework of the GDDS.

#### **4. External sector**

Lags in the compilation of merchandise trade data limit the timeliness of estimating the external current account balance. Estimates of the components of the investment account also need to be strengthened. Quarterly balance of payments estimates are no longer provided.

Barbados: Core Statistical Indicators  
(as of September 22, 2000)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/ Debt Service
Date of Latest Observation	Fixed	07/05/00	05/31/00	05/31/00	05/31/00	04/00	07/00	02/00	1999	Q1/00	1999	03/00
Date Received		07/19/00	07/19/00	07/19/00	07/19/00	07/00	09/00	06/00	05/00	05/00	05/00	07/00
Frequency of Data 2/		W	W	W	W	M	M	M	Y	M	Y	M
Frequency of Reporting 2/		W	W	W	W	M	M	M	Y	M	Y	M
Source of Update 3/		A	A	A	A	A	A	A	A	A	A	A
Mode of Reporting		Fax	Fax	Fax	Fax	Fax	Fax	Fax	Fax	Fax	Fax	Fax
Confidentiality 4/		U	U	U	U	U	U	U	U	U	U	U
Frequency of Publication 2/		W	W	W	W	M	M	M	Q	M	Q	M

1/ Preliminary estimate. Actual data provided with a lag of two to three months.

2/ W - weekly, M - monthly, Q - quarterly, Y - yearly.

3/ A - direct, reporting by central bank, ministry of finance, or other official agency.

4/ U - for unrestricted use.

**Statement by the IMF Staff Representative**  
**November 1, 2000**

1. The following information has become available since the staff report (SM/00/235) was issued and does not change the thrust of the staff appraisal.
2. Real GDP grew by 2.9 percent on an annual basis at the end of September 2000, exceeding the projection of 2½ percent for the year in the staff report. The tourism sector showed an estimated growth in value added of 7 percent, with long-stay tourist arrivals estimated to have risen by over 5 percent in the first nine months of 2000 and cruise ship passenger arrivals above those in 1999, boosted by the entry of new cruise lines. The 12-month rate of inflation to September was 2.7 percent, slightly above the projection in the staff report for calendar 2000 owing to higher oil prices. The unemployment rate has held steady at 9.3 percent.
3. Tourism's strong performance and a decline in imports led to a significant improvement in the balance of payments, with the current account showing a small surplus for the first nine months of 2000. Consumer imports declined by 3 percent as a result of reduced demand for imported cars and a decline in imports of capital and intermediate goods of 5 percent, partly due to the slowdown in construction. The capital account shows a surplus of US\$225 million for the first nine months of 2000 mainly attributable to the government's US\$100 million commercial borrowing and long-term private inflows of over US\$100 million.
4. Preliminary fiscal data show an overall deficit for the central government for January–September 2000 slightly lower than for the corresponding period in 1999 and in line with the staff report's projection for the first half of fiscal year 2000/2001. Personal, corporate, and property tax receipts increased by 12-14 percent. Value-added tax receipts were 13 percent higher, the result of improved administrative procedures for collecting arrears. The deficit was financed externally.
5. On October 24, 2000, the prime minister, who also serves as the minister of finance, presented to parliament a comprehensive statement outlining the government's economic policy, which was broadly in line with the Article IV consultation discussion described in the staff report. The statement emphasized growth led by the private sector and driven by the market, with the comfortable foreign exchange position permitting an accelerated process of trade liberalization. It outlined policies to restructure the economy consistent with Barbados' international and regional commitments. These policies include full liberalization of the telecommunication sector, privatization of the state commercial bank and insurance companies, a new employment protection bill and bankruptcy bill, reduced tariffs on imports used in the hotel sector, and continuation of efforts to ensure strong supervision of the financial sector.



INTERNATIONAL MONETARY FUND

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EXTERNAL  
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Public Information Notice (PIN) No. 00/103  
FOR IMMEDIATE RELEASE  
December 4, 2000

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

## **IMF Concludes Article IV Consultation with Barbados**

On November 1, 2000, the Executive Board concluded the Article IV consultation with Barbados.<sup>1</sup>

### **Background**

Barbados has a stable political system and there is long-standing public consensus on key economic policies, including a fixed exchange rate with the U.S. dollar supported by prudent fiscal and wage policies. Since the foreign exchange crisis of 1991, Barbados has had seven consecutive years of economic growth with low inflation. During the 1990s, economic activity shifted towards services, notably tourism and offshore financial services, while sugar exports declined as an important source of foreign exchange earnings.

In 1999, real GDP growth declined to 2½ percent, down from 4½ percent in 1998, reflecting strong growth in construction for tourism projects and public investment in infrastructure, outweighed by declines in tourism and manufacturing. The contraction in manufacturing reflects strong regional and extra-regional competition as Barbados gradually liberalized trade. Owing to job creation mainly in the private sector, particularly construction, the unemployment rate continued to decline, reaching 9.8 percent at the end of 1999, 2 percentage points lower than a year before. Although the pace of growth increased to 3 percent in the first half of 2000 (compared with a year earlier), it is expected to moderate in the second half with slowdowns in tourism-related construction, manufacturing, and nonsugar agriculture. Inflation was 3 percent

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. In this PIN, the main features of the Board's discussion are described.

in 1999 and eased to 2½ percent in the first half of 2000, while the unemployment rate declined further to 9¼ percent.

The nonfinancial public sector balance is estimated to have shifted from a deficit of ½ of one percent of GDP in FY 1998/99 to a surplus of ½ of one percent in FY 1999/2000 (fiscal years begin in April). The central government deficit remained at about 1¼ percent of GDP in FY 1999/2000, as gains in income tax revenue were offset by shortfalls in other taxes—including the value added tax—while expenditure was restrained. The deficit of the public enterprises declined by half in FY 1999/2000 to approximately one percent of GDP, with some institutions reporting improved revenue performance based on the adoption of more effective collection processes. The surplus of the National Insurance Scheme was about 2¾ percent of GDP.

The external current account deficit more than doubled in 1999, rising to 5 percent of GDP, caused mainly by a strong import demand for consumer and capital goods coinciding with a decline in tourism and sugar receipts. The deficit was more than covered by a capital account surplus, which mainly reflected the government's external borrowing and private investment flows. By the end of 1999, gross international reserves had reached the equivalent of 2.7 months of projected imports of goods and services, in part because of government borrowing in the regional capital market in April. Further such borrowing by the government in June 2000 raised the level of gross international reserves to about 4 months of imports, with public external debt projected to increase to 23 percent of GDP by the end of the year.

The authorities continued to implement a prudent incomes policy and have extended through 2001 the 1998–2000 social pact signed by representatives of business and labor in 1998. This pact maintained the link between productivity and wages and emphasized issues of job security and training. Progress continued on structural reforms including preparatory work for the privatization of the Barbados National Bank and the Insurance Corporation of Barbados by the end of 2000. A new offshore banking act has been drafted and is expected to be adopted by the end of the year. The government is in the early stages of a project on public pension reform, for which it will receive support from the Inter-American Development Bank. In April 2000, Barbados, honoring its WTO commitments, replaced nontariff barriers with protective tariffs ranging from 20 to over 200 percent. The authorities intend to reduce tariffs annually to reach WTO ceiling levels by 2004.

The authorities' medium-term strategy aims at stabilizing and restructuring the economy to address ongoing trade liberalization given Barbados' commitments under the WTO and their desire to deepen integration in the Caribbean region. They see tourism continuing to be the mainstay of the economy, but are optimistic about achieving more balanced growth, citing foreign exchange earning activities outside tourism—in particular, offshore business and financial services. Their main objectives are to have the economy continue growing at an annual real rate of 2½ to 3 percent while keeping inflation at or below 2 percent and the exchange rate fixed. In support of these objectives, fiscal policy will continue to be tight as the central government restrains spending, including current and capital transfers to public enterprises, and the nonfinancial public sector aims to preserve its overall surplus and widen it

over the medium term. The authorities are committed to maintaining wage discipline and preserving Barbados' external competitiveness.

### **Executive Board Assessment**

Executive Directors commended the authorities for their sound fiscal and incomes policies, which in recent years had contributed to price stability, economic growth, and a significant reduction in unemployment. Directors endorsed the authorities' medium-term economic strategy, which aims at achieving sustained noninflationary growth through further fiscal consolidation and structural reforms geared to enhancing economic diversification and competitiveness. This should position Barbados well to compete in an open global economic environment.

Directors welcomed the authorities' commitment to increase public sector savings in order to accommodate adequate levels of investment, and to gradually reduce public debt relative to GDP. They noted that the authorities had borrowed externally on commercial terms, and agreed with them that, in light of the now adequate cushion of international reserves, there was no need to rely further on external commercial borrowing.

Directors welcomed the authorities' intention to maintain fiscal discipline through a reduction of central government current expenditure relative to GDP, including by limiting transfers to public enterprises. Over the medium term, efforts to strengthen tax administration will also facilitate fiscal consolidation.

Directors noted that the authorities' strategy to diversify the economy away from traditional agriculture toward services such as tourism and financial services has been successful, although they expressed some concern that the tourism sector is heavily dependent on one source, namely the United Kingdom. Noting that the authorities have taken important steps to create an enabling environment for private sector activity, Directors underscored the need for further structural reforms to enhance the economy's medium-term competitiveness. They urged an acceleration of ongoing efforts to privatize public enterprises, including those of the Barbados National Bank and Insurance Corporation of Barbados. Directors welcomed the authorities' plans to review the Bankruptcy and Insolvency Law, which should facilitate the restructuring of the corporate sector. They also welcomed the intention to enhance economic efficiency, including by liberalizing the telecommunications sector and reforming utility prices and the prices of services offered by public enterprises. Directors endorsed the authorities' efforts to improve the targeting of social programs. They shared the authorities' concerns about the projected weakening of finances of the public pension system, and urged its timely reform to secure workers' old age incomes and encourage public savings.

Directors emphasized that continued wage restraint will be critical to maintaining Barbados' external competitiveness, given the government's commitment to the current exchange rate peg. Steps to increase labor market flexibility would also enhance external competitiveness.

On monetary policy, Directors advised the authorities to monitor credit conditions closely, and to be prepared to tighten monetary policy if excess demand pressures begin to develop. They endorsed the recent initiatives to increase reliance on indirect monetary instruments, and to implement a



gradual liberalization of the capital account supported by a further strengthening of financial supervision.

Directors supported the authorities' efforts to improve the regulatory framework and supervision of offshore financial centers, in line with the *Basel Core Principles for Effective Banking Supervision*. In particular, the adoption of a new offshore banking act would be an important step in strengthening supervision. Directors welcomed the double taxation treaties with leading developed countries and also the authorities' zero-tolerance policy toward money laundering. They supported the authorities' request to take part in the Financial Sector Assessment Program (FSAP), as well as their interest in receiving technical assistance from the Fund.

Directors welcomed the authorities' commitment to further open and liberalize the economy in line with Barbados' commitment to its partners in the Caribbean Community and Common Market (CARICOM) and to the World Trade Organization.

Directors urged the authorities to continue to improve the availability, quality, and timeliness of data provided for surveillance.

**Public Information Notices (PINs)** are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. As part of a pilot project, the staff report for the 2000 Article IV consultation with Barbados is also available.

**Barbados: Selected Economic Indicators**

	1997	1998	1999	2000	Proj. 2001
(Annual percentage changes)					
<b>Output and prices</b>					
Real GDP	2.9	4.4	2.5	2.5	2.5
Consumer prices (12-month increase)	3.5	1.7	2.9	2.5	2.5
Tourist arrivals	5.6	8.5	1.1	3.4	3.0
Unemployment (percent of labor force)	12.2	11.8	9.8	...	...
<b>Money and credit</b>					
Net domestic assets 1/	5.9	16.0	7.5	-6.3	5.2
Public sector credit (net) 1/	-2.2	-0.7	-0.4	-8.6	0.6
Private sector credit	19.6	16.5	14.4	6.1	5.0
Broad money	7.1	11.5	11.3	5.1	4.0
(In percent of GDP)					
<b>Public sector operations 2/</b>					
Public sector balance	-0.7	-0.5	0.5	0.9	0.4
Central government	-0.9	-1.2	-1.3	-1.1	-1.3
National Insurance Scheme	2.2	2.5	2.7	2.7	2.7
Public enterprises	-2.0	-1.8	-0.9	-0.7	-1.0
<b>Savings and investment</b>					
Gross domestic investment	16.7	18.5	19.4	19.5	19.5
Gross national saving	14.5	16.1	14.3	16.0	15.8
<b>External sector</b>					
External current account balance	-2.2	-2.4	-5.2	-3.5	-3.7
Public external debt 3/	16.1	16.2	18.8	22.5	22.0
Gross official reserves (in months of Imports) 4/	2.6	2.4	2.7	3.9	3.5

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

1/ In relation to broad money at the beginning of the period.

2/ Fiscal years (April-March).

3/ Refers to central government and government guaranteed debt.

4/ Imports of goods and services in the following year.

**Statement by Thomas A. Bernes, Executive Director  
for Barbados  
November 1, 2000**

My authorities were pleased with the cordial atmosphere and consensus on important issues during the Article IV consultation in July. They are generally in agreement with the findings of the staff report but wish to clarify certain aspects of the medium term economic strategy.

Since the recession of 1991/1992, the economy has performed well with 7 consecutive years of growth of real GDP. The growth rate over the last five years has averaged 3 percent per year. Preliminary forecasts indicate that real GDP should improve in 2000 as well, and the level of foreign reserves has also reached record levels. Private sector confidence remains high as evidenced by the strength of the construction sector in recent years and the unemployment level has reached a record low of approximately 9 percent from 26 percent seven years earlier. In addition, inflation has historically been low owing to the maintenance of a fixed exchange rate regime for almost three decades, defended by appropriate monetary policy and fiscal discipline. In this context, Barbados continues to enjoy a favorable international sovereign rating by leading rating agencies. The medium term outlook remains favorable but, with the rise in incomes, production costs have increased and threats to the competitiveness of the manufacturing sector have emerged. The sugar industry remains an important source of export receipts but prospects are hampered by the relatively high cost environment and by the imminent dismantling of the European preferential market. But mainly, the economy remains dependent on tourism which, in turn, reflects the variation of disposable incomes notably in the UK and the US.

The staff report noted that significant amounts were borrowed between 1999 and 2000 and suggested that the authorities should curtail further external commercial borrowing and rely on official long-term project finance. This is exactly the way the authorities view the situation. There is no need or intention to rely on additional external borrowing, because the underlying macro-economic fundamentals remain favorable and the foreign reserves are now at record levels. What needs to be clearly articulated is the medium term strategy of the authorities which motivated the recent borrowing. Despite the positive performance of real growth and the success at social development and poverty alleviation, the authorities are concerned about the impact of trade liberalization on competitiveness and also about additional uncertainties of responding to the challenges of an increasingly global economy. There was also some concern over the high external current account deficit in 1999.

The authorities initiated a medium term borrowing strategy to raise the stock of foreign reserves to a target level of US \$500 million. Conditions for borrowing were favourable at that time but expected to deteriorate somewhat given the expectation that the US Federal Reserve would be increasing interest rates. The strategy was intended to increase the import

cover from the longstanding target of 3 months of imports to a more comfortable level of 5 to 6 months of imports. This reserve target was reached during the early part of 2000. Even when the borrowing is excluded, the reserves increased by about 100 million in the first nine months of 2000. The level of reserves is considered comfortable since, for the most part, these funds are not needed to finance the public sector. The authorities will continue to exercise vigilance and stand ready to adjust monetary policy as appropriate. In respect of trade liberalization, on April 1, 2000, the authorities began a substantial revision of tariff rates as planned in furtherance of WTO requirements. The tariffication process will replace most remaining licenses with tariffs and give producers temporary equivalent protection according to the formula for calculating bound rates allowed under WTO rules. The impact of these developments on competitiveness is still being ascertained.

The authorities have also made significant progress in the drive to strengthen economic efficiency, competitiveness and public sector reform. The ministry of Social Transformation was established in 1999 to consolidate and rationalize social welfare agencies in partnership with NGOs for the care of vulnerable groups. The establishment of the new Fair Trading Commission is expected to contribute to the efficiency of the production and pricing of services offered by public utilities. In addition, both the Barbados National Bank and the Insurance Corporation of Barbados are expected to be privatized during the coming months. Between 1993 and 2000, the social partnership spearheaded by the authorities has negotiated three *'prices and incomes protocols'*. The protocols have strengthened private sector confidence and contributed to a stabilization of the economy through improvements in the industrial relations climate. This reflects a broadening of the understanding and consensus on the need for wage restraint with adjustment for productivity gains, as a critical factor in the defense of the fixed exchange rate regime.

With respect to the area of diversification, Barbados has made a successful transition from an agrarian economy to a tourism economy with some manufacturing. Domestic economic conditions remain favorable for further diversification mainly in the area of services.

With respect to the offshore financial services area, my authorities have consistently embarked on a program of constructive engagement with the international community, even before the unfortunate decision by some agencies to publish lists which "name and shame" countries. Barbados has an enviable record which speaks for itself. The successive revisions of the financial services legislation is a testimony of the determination of the authorities to develop a financial services sector which is adequately monitored and supervised. The approach in Barbados is comprehensive and includes a policy of zero tolerance of money laundering, a network of double-taxation treaties with leading developed countries and the implementation of *Core Principles of Effective Banking Supervision*. Commercial Banks have implemented *'know your customer'* guidelines under the supervision of a vigilant Central Bank which engages actively in both on-site and off-site supervision. In addition, a new Offshore Banking Act is being drafted in order to further strengthen supervision and the capacity for financial investigations.

Barbados participated in the IMF outreach exercise in August 2000 in St. Kitts to determine priorities for the assessment of vulnerabilities of offshore financial centres in the region. Arising out of this exercise, Barbados has requested a full Financial Sector Assessment Program in the year beginning May 2001. This will facilitate a comprehensive assessment of financial vulnerabilities, since Barbados already has advanced capability to engage in financial self-assessment.

Barbados maintains an excellent reputation in the compilation and quarterly dissemination of economic and financial statistics and the publication of economic research. Barbados also participated in the IMF seminar in 1999 on transparency of Central Banks and Banking Supervision Agencies. It has accepted the IMF's General Data Dissemination Standard and metadata are published on the IMF's web site.

Finally, on behalf of my Barbados authorities, I would like to express my thanks to the staff, management and the Board of the IMF for their support of our economic reform program.