

## **Barbados: 2006 Article IV Consultation—Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion**

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2006 Article IV consultation with Barbados, the following documents have been released and are included in this package:

- the staff report for the 2006 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 16, 2006, 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 July 20, 2006. 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 of August 4, 2006 updating information on recent developments.
- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its August 4, 2006 discussion of the staff report that concluded the Article IV consultation.

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INTERNATIONAL MONETARY FUND

BARBADOS

**Staff Report for the 2006 Article IV Consultation**

Prepared by the Staff Representatives for the 2006 Consultation with Barbados

Approved by Caroline Atkinson and Scott Brown

July 20, 2006

- **Discussions.** A staff team held discussions in Bridgetown during May 3–16, 2006. The team met with Ms. Mia Mottley, Deputy Prime Minister; Mr. Clyde Mascoll, Minister of State in the Ministry of Finance and Economic Affairs; Mr. Grantley Smith, Director General of the Minister of Finance and Economic Affairs; Ms. Marion Williams, Governor of the Central Bank of Barbados; other senior officials; and representatives from the private sector.
- **Team.** The team comprised Jorge Roldos (Head), Sergio Martin, Carlene Francis, Irineu de Carvalho Filho (all WHD), and Eugenio Cerutti (FIN). Mr. Clements (WHD) joined the mission for the final discussions, and Mr. Fried (Executive Director) and Mr. Campbell (Advisor) also participated.
- **Previous consultation.** The 2005 Article IV Consultation was concluded on August 5, 2005, with the Staff Report issued as IMF Country Report No. 05/297. Directors underscored that a key challenge in sustaining strong economic growth would be to address macroeconomic imbalances, including a high level of public debt, large fiscal and external current account deficits, and declining international reserves. Directors welcomed steps to slow the growth of credit, and encouraged the use of indirect monetary instruments. They underlined the importance of structural reforms to encourage foreign direct investment, improve competitiveness, and enhance growth. Directors also emphasized the importance of continued commitment to further trade and capital account liberalization, and urged the authorities to rationalize costly fiscal incentives.
- **Relations with the Fund.** Barbados has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The Barbados dollar has been pegged to the U.S. dollar at BDS\$2=US\$1 since 1975.
- **Data.** The statistical information provided by Barbados is broadly adequate for surveillance purposes, but weaknesses remain. In particular, the coverage and transparency of data on public sector entities and capital account transactions need to be improved. Barbados participates in the General Data Dissemination System (GDDS).
- **Report publication.** Past Staff Reports on Barbados have been published. The authorities have not indicated yet their consent to the publication of this year's document.

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## EXECUTIVE SUMMARY

### Recent developments

**Barbados' economy continued to grow in 2005, but macroeconomic imbalances worsened.**

GDP growth is running at about 4 percent, but inflation of more than 6 percent and the widening of the current account deficit to 12½ percent of GDP are raising vulnerabilities, particularly in the context of the exchange rate peg. The fiscal position was relatively stable in 2005/06, but government debt remains above 80 percent of GDP. Credit to the private sector has continued to grow at fast pace, but strong capital inflows have financed the external deficit and prevented a further loss of gross international reserves (GIR) in 2005.

### Policy discussions

**The discussions focused on the need to address macroeconomic imbalances and achieve sustainable growth.** The outlook for near-term growth is auspicious, as the private and public sectors intensify preparations for the 2007 Cricket World Cup (CWC). However, Barbados faces risks associated with the large current account deficit, as well as with high oil prices and elevated levels of debt. These could weigh negatively on growth, especially in the aftermath of the CWC.

**The mission recommended a tightening of policies to reduce risks of overheating, protect the exchange rate peg, and bring public debt to safe levels.** Monetary policy was tightened in 2005, but credit to the private sector has continued to grow at a fast pace. The staff recommended a further increase in policy rates, but the authorities expected the increases of 2005 to eventually achieve the desired reduction in credit growth. The nonfinancial public sector deficit is expected to widen by 2½ percent of GDP in 2007/08 (to about 3 percent). The mission recommended that this fiscal expansion be avoided, and to bring the debt-to-GDP ratio to under 60 percent by 2011. The authorities preferred a more gradual path of fiscal consolidation.

**The mission supported the objective of maintaining the currency peg, provided that macroeconomic imbalances are corrected and structural reforms to enhance competitiveness are strengthened.** Weaknesses in competitiveness could compromise external adjustment in the medium term. The mission argued that competitiveness could be best fostered by structural reforms, including trade liberalization, privatization, and the rationalization of sectoral incentive programs—including limiting support for the sugar adaptation strategy to commercially viable activities.

**The authorities agreed on the need to keep a watchful eye on banks' asset quality and a recent fall in their net foreign asset position.** Official banking indicators appear sound, but large capital inflows combined with rapid domestic credit growth could pose risks to the soundness of the system. The authorities also agreed on a gradual opening up of the capital account, and reported a number of measures to strengthen the financial sector regulatory framework and to develop financial market infrastructure.

## I. BACKGROUND

1. **Barbados has favorable economic and social indicators by regional standards, as well as strong and stable political institutions.** Tourism and financial services are major sources of employment and foreign exchange. Per capita income is the highest in the region and the country enjoys an investment grade rating. The country ranks high in the United Nations Development Program's Human Development Index, poverty is low, and unemployment has been declining. Business conditions are adequate, and corruption and crime are low.

Selected Caribbean Countries—Key Economic, Social, and Political Indicators

	Barbados	Jamaica	Trinidad and Tobago	ECCU 1/
<b>Economic indicators</b>				
GDP per capita (in U.S. dollars, 2004)	10,276	3,013	9,479	5,757
S&P sovereign rating 2/	BBB+	B	A-	n.a.
Moody's sovereign rating 2/	Baa2	B1	Baa2	n.a.
Unemployment rate 3/	9.0	11.7	8.4	14.9
<b>Social indicators 4/</b>				
Educational attainment index	8.55 (23)	6.80 (89)	7.38 (63)	6.87 (86)
Human development index	0.89 (29)	0.76 (79)	0.80 (54)	0.78 (73)
<b>Business climate 5/</b>				
Number of procedures	7	7	n.a.	n.a.
Duration of procedures (days)	36	31	n.a.	n.a.
Cost of procedures (percent GNI per cap.)	14.2	15.5	n.a.	n.a.
<b>Political indicators 4/</b>				
Corruption perception index	6.90 (24)	3.60 (64)	3.80 (59)	n.a.
Political risk index	8.59 (23)	5.00 (103)	6.03 (81)	7.21 (56)

Sources: World Bank's Doing Business' 2004 Survey and Archibald et al. "Barriers to Starting a Business in Barbados," *Journal of Eastern Caribbean Studies* (2005), for Jamaica and Barbados, respectively.

1/ ECCU figures are the average figures (when available) of Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

2/ Foreign currency long-term debt.

3/ The observations corresponds to the years within parenthesis: Barbados (2005), Jamaica, and Trinidad and Tobago (2004). The average for ECCU includes only St. Kitts and Nevis (2001), St. Lucia (2004), and St. Vincent (2001).

4/ World Economic Forum Indices based on World Bank data. High scores are more desirable. Countries' rankings are in parenthesis.

5/ The indices identify the bureaucratic and legal hurdles an entrepreneur must overcome to incorporate and register a new firm. The World Bank 2004 survey ranked Jamaica among the top 10 countries in the world that regulate business the least, but it did not include other Caribbean countries. In high income OECD countries (Latin American countries), the average number of procedures is 6 (11), the average duration of procedures is 25 (70) days, and the average cost is 8.4 (60.1) percent of GNI per capita.

2. **Political stability has reinforced a social consensus that ensures policy continuity.** Barbados is a parliamentary democracy where the ruling Barbados Labor Party (BLP), led by Prime Minister Owen Arthur, has been in office since 1994 and enjoys a large majority in parliament. The next elections are due in April 2008. A tripartite partnership among the government, business, and trade unions, provides a framework for wage negotiations and coordinated responses to challenges arising from increasing regional and global integration.

3. **Barbados' economy did well in the 1990s, but the post-9/11 global slowdown led to the emergence of macroeconomic imbalances.** Following eight years of 3 percent average GDP growth, low inflation and fiscal deficits under 3 percent of GDP, real GDP growth turned negative in 2001 and stayed low in 2002–03. In response, the government launched a “national emergency program” of public investment in late-2001. While this helped revive economic activity, it also contributed to a widening of the overall budget deficit, an increase in government debt, and increasing external imbalances.

4. **GDP growth was among the highest in the region in 2004–05, but signs of overheating emerged (Figure 1).** The economy started to recover in 2003, and GDP grew at around 4 percent a year in 2004–05 under a benign external environment and expansionary policies. Investment picked up pace in the last two years, fueled by rapid credit expansion and strong capital inflows, but at the expense of increasing external current account deficits. Inflation remained below regional averages, anchored by the long-standing peg to the U.S. dollar, but accelerated in 2005. Public sector debt remained at high levels, but in contrast to other countries in the region, was largely domestic.

## II. RECENT DEVELOPMENTS

5. **Barbados' economy continued to grow in 2005, but inflation accelerated to more than 6 percent.** GDP growth was 3.9 percent in 2005, slightly lower than in 2004, and unemployment fell to a historical low of 9 percent (Figure 2). Higher inflation reflected the pass-through of higher oil prices, as well as domestic demand pressures, as highlighted by an increase in core inflation—which excludes food, transportation, fuel, and light—from almost zero in 2004 to 4 percent in 2005 (Box 1).

6. **The overall fiscal position deteriorated slightly in 2005, after improvements in 2003–04.** Although the central government balance improved as a result of buoyant tax revenues, extrabudgetary capital expenditures ahead of the CWC increased to around 2 percent of GDP (Figure 3). Public enterprises continued to lower their deficits, and the National Insurance Scheme (NIS) achieved a surplus of 3.3 percent of GDP.<sup>1</sup>

7. **The authorities tightened monetary policy in 2005 but credit to the private sector continued to grow at a fast pace (Figure 4).** Despite a four-step 250 basis points increase in the minimum deposit rate to 4.75 percent, private sector credit rose by 21.7 percent in 2005—driven mostly by lending to the tourism and personal sectors. Commercial banks reduced excess reserves and net foreign assets to finance this expansion.

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<sup>1</sup> Previous Fund reports did not incorporate NIS balances in the fiscal accounts.



**8. Financial indicators suggest that the banking system continues to be sound.**

Nonperforming loans fell to 5.5 percent of total loans in 2005, from 7.9 percent in 2002, but they remain higher than in other countries in the region. The capital adequacy ratio of the four locally-incorporated banks declined from 25 percent in 2003 to 13 percent in 2005, reflecting high growth in banks' assets, as well as an increasing share of loans in banks' balance sheets.

	2001	2002	2003	2004	2005
<b>Nonperforming loans to total loans</b>					
Barbados	5.0	7.9	9.3	7.5	5.5
ECCU 1/	13.1	13.7	13.9	12.0	12.0
Jamaica	6.1	3.8	3.1	2.7	2.3
Trinidad and Tobago 1/	3.2	3.6	2.0	4.0	2.3
<b>Regulatory capital to risk-weighted assets</b>					
Barbados	18.2	18.8	25	17.9	13.0
ECCU 1/	15.8	17.5	16.4	16.4	15.2
Jamaica	19.7	15.4	14	17.7	17.8
Trinidad and Tobago 1/	19.5	20.6	20.3	22.7	21.4
<b>Return on assets</b>					
Barbados	2.2	2.7	2.0	2.2	1.9
ECCU 1/ 2/	2.1	1.6	1.7	1.8	1.8
Jamaica 2/	2.1	2.8	4.3	3.1	3.6
Trinidad and Tobago 1/	2.0	2.4	2.1	3.7	3.7

1/ 2005 data are as of end-March 2005.

2/ Return on average assets.

**9. The external current account deficit deteriorated further, reaching 12.4 percent of GDP in 2005, driven by higher oil imports and domestic demand.** Almost half of the deterioration in the current account deficit in 2004–06, relative to 2000–03, is explained by increased oil imports (see Table). Large increases in private spending, fueled by rapid credit growth, have also contributed to the deterioration in the current account—despite the real effective exchange rate depreciation and falling unit labor costs.

Barbados: Current Account Determinants and Competitiveness Indicators

	1994–99	2000–03	2004–06
	(Average in the period)		
Current account (in percent of GDP)	0.9	-5.9	-12.0
National savings	18.6	11.5	7.6
Private savings	14.0	11.6	4.3
Public savings	4.7	-0.1	3.3
Gross domestic investment	17.8	17.4	19.7
Oil imports (in percent of GDP)	2.2	3.8	6.5
Output gap (in percent of potential) 1/	0.5	-0.6	2.2
Relative unit labor cost index (1995=100) 2/	100.1	104.0	102.1
Real effective exchange rate (1995=100) 3/	103.4	107.3	99.0

Sources: Central Bank of Barbados; Ministry of Finance; IMF, Information Notice System; IMF, World Economic Outlook; and Fund staff projections.

1/ Positive figure implies that actual output exceeds potential.

2/ Estimated as a ratio of Barbadian ULC to United States ULC. An increase means a loss in competitiveness.

3/ An increase means a real appreciation.

10. **While imports of goods and services accelerated over the last three years, growth in tourism has been less impressive, and strong capital inflows have financed the external gap (Figure 5).** Imports and exports of goods (including beverages and chemicals) have grown at two-digit rates since 2003. In contrast, tourism receipts recovered strongly in 2003, but stagnated thereafter. Strong capital inflows, including a US\$125 million sovereign bond issued in December 2005 and the funding of private sector projects associated mostly with tourism, curbed a decline in gross international reserves that had started in 2003—and reserves covered 3.5 months of imports by end-2005.

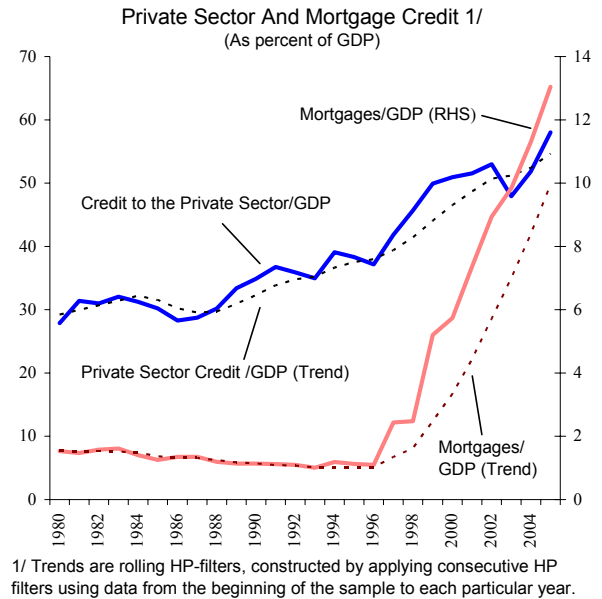
11. **Barbados has made progress in structural reforms in some key areas.** The authorities continued their program to cut income tax rates aimed at improving competitiveness. They have also liberalized further the telecommunication sector, and privatized a major insurance company. In 2005, arrangements were concluded for Barbados' formal membership in the CARICOM Single Market and Economy (CSME). More recently, a reduction in foreign exchange controls has effectively liberalized travel arrangements within CARICOM and facilitated the holding of foreign currency accounts.

### III. MEDIUM-TERM OUTLOOK AND RISKS

12. **The medium-term outlook is favorable, although uncertainties remain in light of significant macroeconomic imbalances.** The outlook for economic activity in 2006–07 is auspicious, as the private and public sectors intensify preparations for the 2007 CWC. However, Barbados faces risks associated with the large current account deficit and the rapid expansion in domestic credit, as well as with high oil prices and elevated levels of both private and public debt. These could weigh negatively on growth, especially in the aftermath of the CWC.

13. **The path of external adjustment envisaged under current policies is very gradual, which could imply a fall in reserves to low levels by historical standards.** In the medium-term baseline scenario, which is based on the mission's understanding of the authorities' policies for the 2006–11 period, the current account deficit falls slightly (to around 10 percent of GDP in 2008 and then to 7 percent in 2011). The authorities' current policy is to limit public sector external borrowing to at most cover amortization needs, implying that the current account deficit, net of private capital inflows, would be financed out of reserves. Under this assumption, reserves would decline to about 2½ months of imports of goods and services in 2007–08 and to just above two months by 2010.

14. **Rapid credit growth also poses some risks to the outlook.** Increased competition in the banking system after the entry of regional banks has contributed to rapid credit growth since 2003, and has accelerated an ongoing mortgage boom (see Figure).<sup>2</sup> The lack of an index of real estate prices makes it difficult to assess the run up in values, but anecdotal evidence suggests that Barbados has also experienced a substantial rise in property values. Although historically the real estate sector appears to have been quite resilient, a correction in real estate values could place pressure on household net worth and the banking system, with concomitant adverse effects on growth.



15. **High oil prices and debt levels leave little room for the public and private sectors to adjust to unexpected shocks.** The persistent nature of the current oil shock suggests the need to adjust domestic absorption, rather than continuing to finance higher oil payments with borrowing. Public sector debt in Barbados remains high, even if it has not reached the levels in some other Caribbean countries. Like other small economies in the region, Barbados is vulnerable to weather-related and external demand shocks. For instance, public debt sustainability tests (Appendix VI) show that a combined shock to interest rates, GDP growth, and the primary fiscal balance, would bring already high debt levels to 86 percent of GDP in 2011, in contrast to the baseline scenario debt ratio of 75 percent of GDP. Improved current account and balance sheet positions would provide more flexibility to cushion such shocks.

#### IV. REPORT ON THE DISCUSSIONS

16. **Discussions focused on the need to tighten macroeconomic policies to reduce the external deficit and promote debt sustainability over the medium term, and to implement structural reforms to enhance growth.** The direction of policies over recent years was broadly in line with Fund policy advice, until the fiscal easing of the past year. The authorities argued that the current fiscal stance and a more gradual path of fiscal adjustment going forward than that suggested by the Fund would help to sustain growth and employment. In the staff's view, a tightening of fiscal policies is urgently needed in order to safeguard the external position and

<sup>2</sup> Although private sector credit growth is above trend, only mortgages have grown fast enough to satisfy standard definitions of a credit boom (see Gourinchas, Valdes and Landerretche, 2001, "Lending Booms: Latin America and the World," NBER Working Paper No. 8249).

support the currency peg, that has provided an anchor for price stability for three decades. Fiscal restraint is also needed to ensure medium-term fiscal consolidation and lower government debt, now close to 82 percent of GDP. The mission also emphasized that structural reforms would enhance growth prospects and strengthen competitiveness to assist medium-term external adjustment.

17. **To provide a framework to analyze the external adjustment process, the mission prepared different medium-term scenarios that incorporate an active scenario with a more ambitious plan for adjustment and structural reforms.** Both the baseline scenario, on unchanged policies, and the more active scenario, envisage continued rapid growth in 2006–07, and a slowdown thereafter. The baseline scenario is based on the authorities’ short and medium-term targets for fiscal policy, and implies a deficit of 3 percent of GDP for the nonfinancial public sector (NFPS) in 2007, and somewhat lower deficits from 2008 onward.<sup>3</sup> This would leave debt at around 75 percent of GDP in 2011. The active scenario entails slower growth in 2007 than the baseline, owing to tighter monetary and fiscal policies.<sup>4</sup> However, it results in higher growth from 2008 onward as a result of greater progress in reducing public debt and enhanced structural reforms. The active scenario incorporates a stronger fiscal adjustment that avoids the procyclical fiscal impulse in the near term and brings the debt-to-GDP ratio to around 60 percent in 2011, and around 40 percent in 2015.

#### A. Fiscal Policy for Macroeconomic Stability and Debt Sustainability

18. **The Barbadian authorities see fiscal consolidation as an important policy objective, but a number of policy initiatives are likely to worsen the fiscal position over the medium term.** The authorities consider a deficit of 2.5 percent of GDP for the central government to be sustainable over the medium term, and are committed to this target. Continued discipline over current budgetary expenditures allowed the central government to achieve a lower-than-expected deficit in 2005/06, and is expected to help contain spending within the authorities’ ceiling over the medium term. Going forward, innovative private-public partnerships (PPPs) for the provision of infrastructure and other services could contribute to containing capital expenditures, although adding to current outlays in the future.<sup>5</sup> Nevertheless, capital and extra budgetary expenditures will continue at relatively high levels in 2006/07 and 2007/08, and no new revenue-raising measures are contemplated. Combined with the removal of the temporary 6 percent import tariff

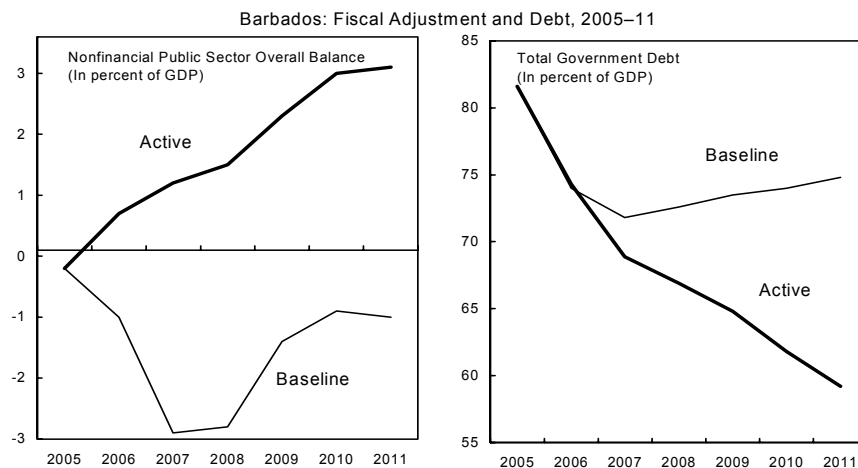
<sup>3</sup> The NFPS comprises the central government, social security system, public enterprises, and off-budgetary operations.

<sup>4</sup> Higher VAT rates and public enterprise prices account for higher inflation in 2006 in the active scenario, while less crowding out and higher deposit growth allow more room for credit to the private sector beginning in 2007.

<sup>5</sup> At this stage, the mission followed current fiscal accounting practices of treating these projects as regular extra budgetary capital expenditures, until more detailed information on contractual obligations of the government, promoters and lenders, is provided by the authorities.

surcharge and the start of the sugar adaptation project, the overall NFPS deficit is projected to rise to 3 percent of GDP in 2007/08.<sup>6</sup>

19. **In the mission's view, an early fiscal adjustment is necessary to contain macroeconomic imbalances and avoid the need to sharply tighten policies during the expected slowdown in the aftermath of the CWC (Box 2).** The staff also argued that presently favorable domestic and international economic and financial conditions are the best times for an early adoption of measures to correct the procyclical fiscal stance. In this context, the mission recommended a fiscal adjustment strategy comprising both expenditure and revenue measures to increase the NFPS primary surplus to 4.5 percent of GDP in 2006/07 (see Figure). On the revenue side, the mission suggested an increase in VAT rates and a reduction in exemptions. The mission also encouraged the authorities to increase the prices charged by major public enterprises, some of which have not been raised for several years. In addition, a more automatic and transparent pricing mechanism for these products and services would be highly desirable. In particular, oil price increases would have to be fully passed on to consumers.<sup>7</sup> Finally, the mission recommended a nominal freeze on discretionary spending, restraint on wage adjustments, and postponement of some capital expenditures. In particular, the active scenario assumes a more gradual implementation of the sugar adaptation project (over five rather than three years).



<sup>6</sup> According to the Prime Minister's Economic and Financial Policy Statement, the sugar adaptation strategy includes the construction of a multipurpose facility for the production of refined sugar, electricity, and ethanol. The estimated cost of the facility is US\$150 million (or 5 percent of 2005 GDP) over three years. This figure does not include the costs of increasing land acreage dedicated to the cultivation of sugar cane and other costs.

<sup>7</sup> The January 2006 increase in domestic fuel prices implied almost a full pass-through of international oil price increases. However, the further increase in international prices since then has only partially been passed on.

20. **The authorities saw the proposed adjustment strategy as too sharp.** They argued that 2006 was an exceptional year, as the country had to meet the challenges associated with hosting the CWC. However, they indicated that fiscal policy would be further tightened if the decline in GIR was sharper than envisaged. They also reiterated their desire to reduce public debt, including publicly-guaranteed debt, to 60 percent of GDP. Finally, the authorities noted that the water and transportation companies would be put under the regulatory umbrella of the Fair Trading Commission, which is expected to contribute to more timely reviews of pricing decisions.

21. **Following a pause in 2007/08—to avoid exacerbating an expected slowdown post-CWC—the mission recommended a further fiscal effort thereafter to bring the primary surplus to above 5 percent of GDP and debt to safer levels.** In the baseline scenario, the debt-to-GDP ratio would decline from 82 percent in 2005 to 72 percent in 2007, owing to low real interest rates, rapid growth, and a conservative assumption that the government draws down deposits at the central bank as the primary source of funding. However, a partial reversal of such conditions after 2007 implies that the ratio goes back up to 75 percent of GDP by 2011. The mission suggested lower extrabudgetary expenditures and the winding down of the sugar adaptation project to bring the debt-to-GDP ratio to under the 60 percent target by 2011. The authorities indicated that they prefer a more gradual adjustment path, with the aim of reaching the debt target in 2015.

22. **The authorities argued that the Barbados government has a number of assets that should be taken into account for debt sustainability assessments.** Public sector debt net of NIS holdings falls from 64 percent of GDP in 2005 to 55 percent in 2011 in the baseline scenario. The NIS assets are, however, earmarked to meet future pension liabilities.

23. **The mission commended the authorities' management of the NIS, whose assets reached 27 percent of GDP by end-2005.** A 2003 reform of the pension system improved the solvency of the NIS, enabling the institution to provide more than 2 percentage points of GDP of funding to the rest of the NFPS in 2005. Sound asset management guidelines and practices have contributed to historical nominal returns of more than 6 percent. To improve portfolio diversification, the NIS has a stated objective of reducing the exposure of its portfolio to the public sector, currently at around 60 percent of total assets. In addition to investing more in foreign assets, the NIS could contribute further to the development of long-term government and corporate debt markets by allocating a higher share of its portfolio to these assets and a lower share to T-bills.

Barbados National Insurance Scheme: Assets and Liabilities 1/  
(In percent of total assets)

	2000	2001	2002	2003	2004	2005
<b>Total assets</b>	100.0	100.0	100.0	100.0	100.0	100.0
Cash balances	1.0	2.4	0.6	-0.4	0.2	0.5
Deposits	16.2	16.4	15.7	20.2	18.6	19.9
Domestic investments	71.6	69.7	71.9	67.3	69.0	68.3
Debentures	53.8	52.0	54.9	52.4	48.5	46.6
Treasury bills	0.0	0.0	0.0	0.0	1.2	1.4
Other	17.8	17.7	17.0	14.9	19.3	20.3
Foreign assets	7.0	8.3	7.5	6.7	8.8	8.2
Other	4.2	3.2	4.3	6.2	3.5	3.1
<b>Memorandum items:</b>						
Total assets (Barbados dollars)	1,272	1,360	1,335	1,443	1,575	1,734
In percent of GDP	24.9	26.8	26.4	26.5	27.3	27.3

Source: Central Bank of Barbados

1/ Revised data.

24. **There are a number of options under consideration for improving the formulation of fiscal policy and the dissemination of fiscal data to the public.** The mission noted that the authorities have strengthened their coverage of developments in the NFPS, which would help in evaluating fiscal policy and debt dynamics. The staff suggested going further to include operations outside the central government in budget documents, and incorporate these into the authorities' new medium-term fiscal framework, which is projected for implementation in 2007/08. Finally, the mission was encouraged by the authorities' interest in undertaking the fiscal module for the IMF's Report on the Observance of Standards and Codes (ROSC), which is expected to be completed for the next Article IV consultation.

25. **The mission and the authorities agreed that there was also scope to strengthen the management of public sector debt.** The evolution of the public debt could be better monitored by focusing on the NFPS primary surplus, that together with interest rates and GDP growth are the main determinants of public debt dynamics. In addition, the mission suggested the publication of an annual issuance calendar, which would greatly improve the asset management activities of the NIS and other institutional investors.

## B. Monetary and Financial Sector Policies

26. **The authorities have announced that no additional increases in interest rates are contemplated for 2006, as the rate increases of 2005 would eventually lead to the desired reduction in credit growth.** Preliminary figures for the first quarter of 2006 suggest that credit growth has slowed down somewhat, but both the authorities and market participants believe that it is still too early to gauge the extent of the slowdown. Moreover, despite a sharp decrease in liquidity, banks still have relatively large holdings of T-bills and access to parent bank funds to continue financing credit growth.

27. **In the mission's view, it would be important to further tighten monetary policy to correct domestic and external imbalances.** A number of considerations argue for additional monetary tightening. First, real interest rates have declined close to zero as core inflation has climbed, projected to be close to 5 percent in 2006. In light of this inflation and the economy's advanced cyclical position, a further increase in nominal interest rates would be well timed. Second, international interest rates have continued to rise, and the existence of negative differentials might lead to foreign exchange market pressures. Third, strong competition for market share in the banking system appears to have changed the monetary transmission mechanism, with declining spreads requiring a larger increase in the minimum deposit rate for the same effect on lending rates.
28. **The authorities acknowledged the need for interest rates to rise, but expected the market to achieve this outcome without central bank intervention.** They expect tight liquidity conditions to lead to further increases in T-bill and lending rates. However, the authorities also noted that if market rates did not increase in the near term, they would be prepared to adjust policy rates.
29. **The mission discussed with the authorities the scope for expanding the use of indirect monetary policy instruments.** The mission recommended that Barbados increase gradually the use of indirect monetary instruments, in preparation for the phasing out of capital account restrictions envisaged under the CSME. Increased reliance on indirect instruments would also have a salutary effect on banks' efficiency and would help to develop financial markets.<sup>8</sup> The authorities viewed indirect instruments to be ineffective in implementing monetary policy, as financial markets are insufficiently developed. Nevertheless, they also noted that efforts are underway to deepen these markets—including the integration of bank and securities settlement systems, the dematerialization of government securities, and the establishment of delivery-versus-payments systems—that will facilitate the introduction of indirect monetary instruments.
30. **The mission supported the authorities' plan to open up the capital account gradually in the context of the CSME.** A timetable for fulfilling the mandates of the CSME is to be deferred until 2007. The mission agreed with the authorities that this liberalization should be contingent on macroeconomic conditions in Barbados, including the correction of macroeconomic imbalances. In addition, the mission recommended that the authorities keep a watchful eye on the recent decrease in banks' net foreign asset position. Even if banks' currency positions are balanced, mismatches across banks and corporates could lead to an increase in credit and/or rollover risks.
31. **The mission recommended that the authorities keep a vigilant eye on the potential for deterioration in credit quality during the present episode of strong credit growth.** The

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<sup>8</sup> See W. Samuel and L. Valderrama, 2006, "The Monetary Policy Regime and Banking Spreads in Barbados," forthcoming IMF Working Paper.



financial system in Barbados is adequately regulated and supervised, but since financial soundness indicators generally lag the development of credit problems, the mission suggested that particular attention be given during regular inspections to the early detection of potential problems associated with rapid credit growth—in particular in the personal/mortgage sectors.

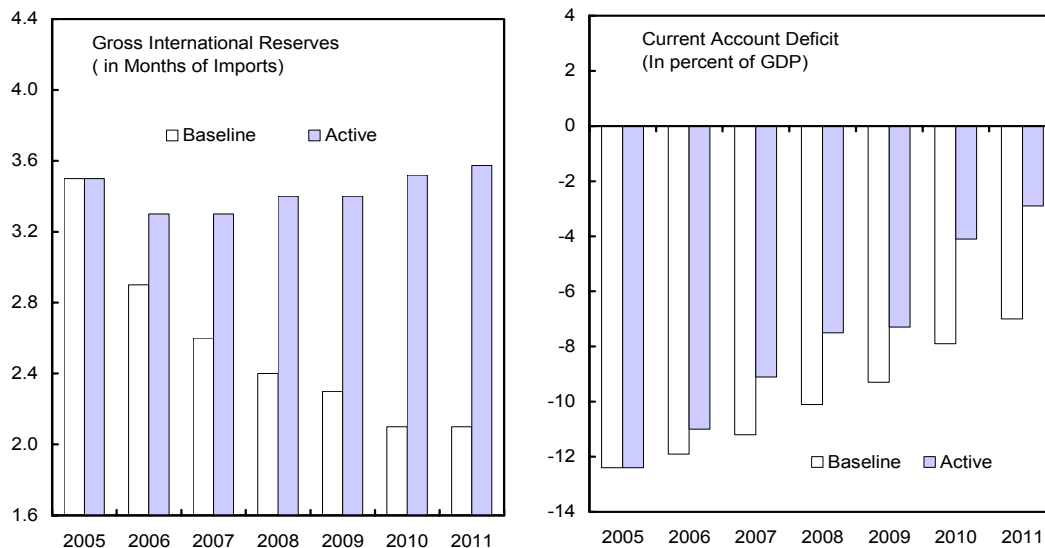
32. **The mission commended the authorities’ recent efforts to strengthen the regulatory framework of the financial system, including further implementation of several recommendations from the 2002 FSAP (see Appendix IV).** Guidelines on market risk for commercial banks, and legislation on deposit insurance, are expected to be implemented before year-end. Implementation of Basel II regulations is expected for 2009. Also, the government is well advanced in drafting legislation to create a new Financial Services Commission to supervise institutional investors and other nonbank financial intermediaries, while the large credit unions would be placed under the supervision of the central bank.

33. **To assist the authorities in their further efforts to strengthen the financial system, the mission encouraged the authorities to undertake an FSAP update in 2007.** The mission also supported the authorities’ plan to undergo a mutual evaluation of AML/CFT by the Caribbean Financial Action Task Force (CFATF) in 2006.

### C. Exchange Rate and Income Policies

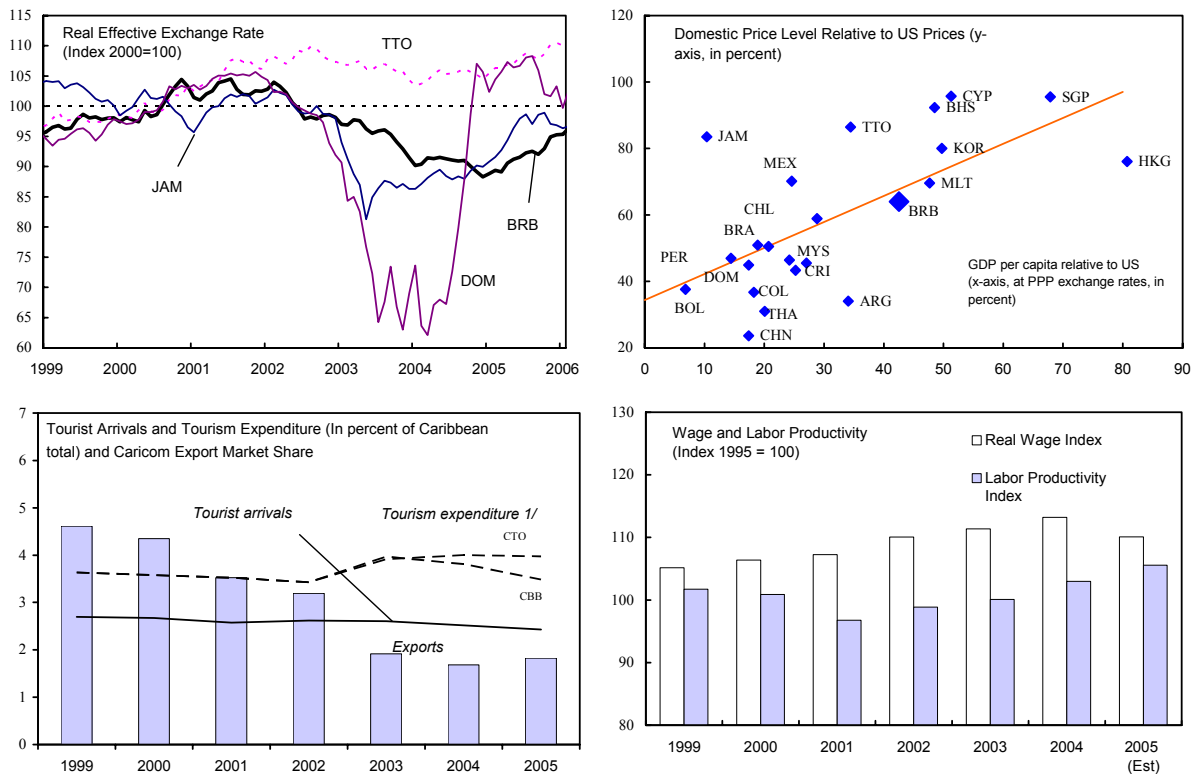
34. **The mission supported the objective of maintaining the currency peg, which would require macroeconomic imbalances to be corrected and structural reforms accelerated.** The peg has served as a strong anchor of price stability and investor confidence. An early tightening of fiscal policy, combined with an increase in interest rates, is likely to reduce the growth of domestic demand to more sustainable levels. This would bring down the current account deficit, while keeping the level of GIR comfortably above three months of imports, in the active scenario (see Figure). Assuming that the mission’s recommendations are followed, the adjustment would be shared by the public and private sectors in proportion to their contributions to GDP.

Barbados: External Adjustment and GIR, 2005–11



35. **The real exchange rate has depreciated, but competitiveness remains a concern.** The U.S. dollar depreciation and domestic deflationary forces post-2001 depreciated the real exchange rate steadily until 2005, when increased domestic inflation and the U.S. dollar strength started to erode such gains in competitiveness. A comparison of relative domestic price levels and relative per-capita income suggests an adequate level for the exchange rate given the country's level of development. However, despite recent rapid productivity growth, the gap between wages and productivity that opened up after 1995, has not been fully closed (see Figure). With respect to tourism, Barbados' share of Caribbean tourist arrivals has declined, although spending per tourist appears to have increased.<sup>9</sup> The authorities noted that in some sectors, such as beverages, chemicals, and international businesses, growth in exports is firming up.

Barbados: Selected Competitiveness Indicators, 1999-2006



Sources: Caribbean Tourism Organization; IMF, Information Notice System; Barbadian authorities; and Fund staff estimates.  
 1/ Total tourism expenditure in the Caribbean in 2004-05 is estimated based on balance of payments figures for major Caribbean tourism destinations (The Bahamas, Dominican Republic, Jamaica, and Mexico (Cancun)).

<sup>9</sup> Central bank figures imply a resumption of the decline in the share of tourism expenditures. A more recent survey by the Caribbean Tourism Organization (CTO), however, suggests a healthy growth in absolute terms and a stable share in the region (see Figure).

36. **The mission recommended that the government exercise restraint in forthcoming wage negotiations to preserve competitiveness—in addition to tightening macro policies and enhancing structural reforms.** The upward trend in inflation and tight labor markets set the stage for difficult wage negotiations. Public sector wages cover a large fraction of the labor force and spillovers to private contract negotiations could risk losses in competitiveness. The mission welcomed the emphasis the authorities are placing on the reduction in personal income taxes (which has boosted take-home pay), and do not just past inflation, in wage negotiations.

#### D. Structural Issues

37. **The mission encouraged the authorities to focus their reform efforts on further opening up the economy, improving the efficiency and flexibility of capital and labor markets, and placing greater reliance on private sector initiative and competition.** A prompt adoption of these measures would improve the competitiveness of the economy, making growth and the external position more sustainable in the medium and long run. In his 2006 Economic and Financial Policy Statement, the Prime Minister announced a broad continuation of policies, but also introduced new industry-specific incentives to ease restructuring costs in the agricultural and manufacturing sectors. The mission recommended that priority be given to the following areas of structural reform:

- **Trade liberalization**—At about 22 percent (including the import tariff surcharge), tariff rates are relatively high. This may have adverse implications for the competitiveness of the country's export sector, including tourism. The mission urged the authorities to complement the planned liberalization within the context of the CSME (Box 3) with more MFN liberalization. Furthermore, after several years of protection from competition, it would be useful to assess whether some industries could operate without government support. The robust job growth forecast over the next few years provides a propitious environment for reallocating workers from sectors that might be affected by increased import competition.
- **Sectoral and energy conservation programs**—The mission noted that a number of initiatives are being introduced to better coordinate sectoral incentive programs and avoid duplication. At the same time, there is scope for a careful assessment of the costs and benefits of these programs, and for additional streamlining. In particular, these programs—including for restructuring—should be of limited duration. The mission also noted its concern with the potential fiscal costs of the sugar adaptation strategy.<sup>10</sup> It recommended that activities in these areas be limited to those that are commercially viable and can survive without government support, including raw sugar production. If these activities are not found to be viable, consideration could be given for redirecting

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<sup>10</sup> The impact of the sugar preference erosion on GDP is expected to be marginal, while the trade deficit is expected to increase from a minimal amount in 2006 to US\$1.8 million (or 0.1 percent of total exports of goods and services) by 2011.

support for the sector to social safety net payments for the affected workers and other programs designed to strengthen infrastructure and human capital development more generally.

- **Privatization and investment climate**—The mission endorsed the authorities’ intention to further privatize—including in the tourism sector—and urged that an explicit identification be made of potential assets that could be divested in the near term. To further strengthen the business climate, improvements in port and distribution systems, and the process for buying and selling real estate, would be helpful.
- **Capital market development**—The government has an important role to play in this area by improving debt management practices and creating benchmarks for the development of private instruments. The mission also supported the authorities’ efforts to further develop the stock market in a regional context.
- **Labor market flexibility**—The authorities note that flexibility has increased in the context of the CSME, which has contributed to the containment of wage pressures in the face of rapid employment growth. Nevertheless, the mission urged the authorities to examine the scope for streamlining unemployment and severance benefits in light of the dual eligibility of workers for both benefits.
- **Disaster and risk mitigation**—The mission welcomed recent efforts to further strengthen disaster preparedness, including the requirement of insurance for all hotels licensed after January 2006. The mission encouraged the authorities to work with other countries to move forward on regional efforts for the pooling of catastrophic risk.

## V. STAFF APPRAISAL

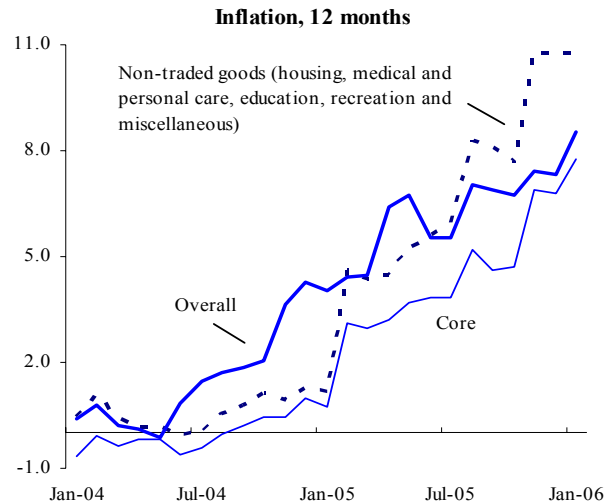
38. **Barbados’ economy continued to grow in 2005, but macroeconomic imbalances worsened.** GDP growth is running at about 4 percent and is expected to continue at this fast pace in 2006 and 2007. However, inflation accelerated to more than 6 percent and the current account deficit widened to 12½ percent of GDP in 2005. While strong capital inflows have financed the external deficit and prevented a further loss of reserves in 2005, financing conditions may deteriorate further in the years ahead.

39. **Early action to tighten macroeconomic policies would reduce the risks of overheating and help to support the exchange rate.** Increases in oil prices explain in part the acceleration of inflation and widening of the external deficit. However, expansionary macro policies, and consequent rapid credit growth have also contributed to an acceleration in core inflation and imports over the last two years. An early and decisive tightening of macroeconomic policies is needed to address macroeconomic imbalances and help safeguard the maintenance of the fixed exchange rate regime as an anchor of macroeconomic stability.

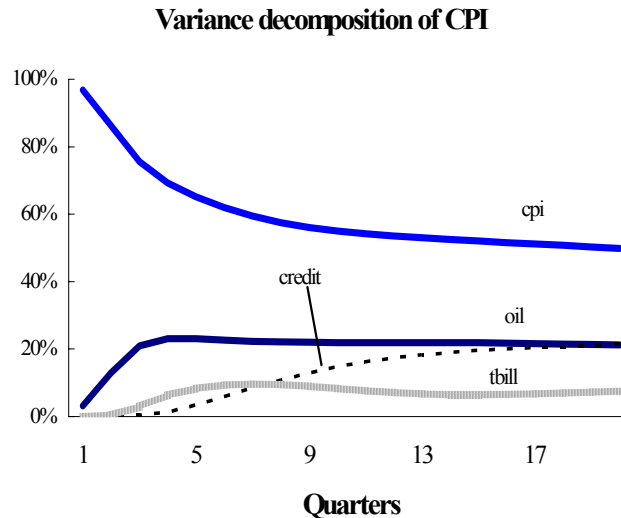
40. **On fiscal policy, a return to the fiscal consolidation path of recent years would be desirable.** On expenditures, further increases in extra budgetary expenditures or PPPs that add to an already buoyant private sector should be offset by reductions in other outlays. Less distortionary indirect taxes could also be increased in anticipation of the removal of the import tariff surcharge, and better pricing policies could consolidate the finances of the major public enterprises.
41. **Public debt levels are being lowered, but they should be brought down to safer levels at a faster pace.** Rating agencies and other market participants consider high public debt one of the key weaknesses of the Barbadian economy, and the current debt path would only gradually reduce debt ratios. Currently favorable cyclical and interest rate conditions will bring debt to GDP ratios down in the near term, but the reversal of such conditions would partly undo this progress. Furthermore, the pension system exposure to the public sector should be reduced.
42. **Further monetary tightening would help contain inflation and curb excessive credit growth.** Real interest rates are low, and the prospects of higher international rates and uncertainties about monetary transmission suggest that further increases in policy rates are warranted. If monetary policy measures fail to slow credit growth to more sustainable levels, a tightening of prudential standards might be considered. Continued efforts as planned by the authorities to develop money and capital markets would facilitate the gradual introduction of indirect instruments of monetary policy.
43. **Official banking indicators appear sound and regulations are being strengthened, although it will be important to monitor potential risks from large capital inflows and rapid domestic credit growth.** The authorities are to be commended for the introduction of a number of measures to strengthen the financial sector regulatory framework and to develop financial market infrastructure. However, since financial indicators generally lag the development of credit and liquidity problems, potential deterioration in credit quality and reductions in net foreign assets need to be watched carefully—especially in an environment of increasing competition from regional banks.
44. **Strengthening competitiveness could facilitate external adjustment in the medium run.** In addition to more sustainable macro policies, competitiveness could best be fostered by structural reforms, including trade liberalization, the rationalization of incentive programs, and privatization, rather than by selective support to sectors that generate or save foreign exchange. Also, support for the sugar adaptation strategy should be limited to commercially viable activities. Finally, flexible labor markets and deeper capital markets are likely to enhance growth in the medium term.
45. **The statistical information provided by Barbados is broadly adequate for surveillance purposes, but weaknesses remain.** In particular, the coverage and transparency of data on public sector entities and capital account transactions could be improved.
46. It is proposed that the next Article IV consultation with Barbados take place on the standard 12-month cycle.

### Box 1. Inflation Dynamics in Barbados

**The acceleration in inflation over the last two years has been driven to a large extent by imported oil prices, but more recently domestic demand pressures have played a bigger role.** From January 2004 until mid-2005, overall inflation was higher than nontraded goods price inflation, reflecting in part the increase in imported oil prices (Figure). However, since July 2005, nontraded goods inflation surpassed the overall CPI index. Similarly, core inflation (which is a better gauge of underlying demand pressures) had been below overall inflation for most of the last two years, but has converged to the broader index over the last six months.



**A statistical decomposition of the dynamics of inflation suggests that while the impact of oil shocks on the CPI is transmitted rapidly, that of domestic demand (proxied by credit shocks) takes longer to manifest itself.** The variance decomposition from a macroeconomic model for Barbados shows that historically oil shocks contribute to inflation in the short run (less than one year, see Figure), while the impact of credit to the private sector on prices operates with longer lags.<sup>1</sup>

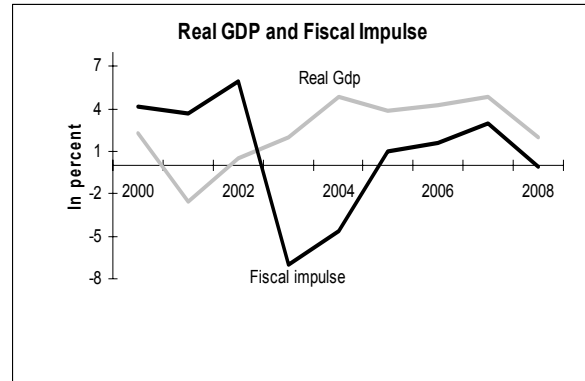


The relative importance of credit shocks grows with the forecast horizon, and it is as important as oil price shocks for a horizon of about three years. This analysis suggests that the impact of the rapid growth in credit to the private sector over the last two years is likely to continue to contribute to inflationary pressures in the medium run.

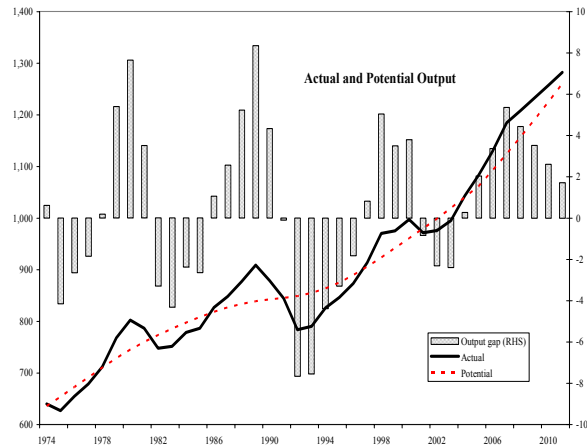
<sup>1/</sup> The model is a four variable vector autoregression (VAR), with quarterly data from 1974Q1 to 2005Q4. The variables included are international oil prices (*oil*), consumer prices (*cpi*), bank credit to private sector (*credit*) and the interest rate on treasury bills (*t-bill*). The results on variance decomposition are robust to changes in the ordering of the variables.

### Box 2. Barbados: Fiscal Policy Stance, 2001–11

**Fiscal policy was countercyclical in the first half of the decade.** Indicators of fiscal stance and impulse<sup>1</sup> show a sharp change in policies in different phases of the cycle. The fiscal expansion of 2001–02 was clearly countercyclical as economic growth was below trend. Similarly, when the economy was rebounding in 2003–04, the fiscal impulse became negative, in a typical countercyclical fashion.



**However, fiscal policy turned procyclical in 2005, and fiscal impulses under the baseline scenario are expected to continue to exacerbate the ongoing cyclical expansion.** Expenditures associated to the CWC and other public projects will extend the expansionary stance to 2007. Fiscal policy becomes neutral in 2008, when projected economic growth would be below potential output growth—while the output gap continues to be positive. An early adjustment, as in the staff’s active scenario, would avoid tightening policies further in the aftermath of the CWC.



1/ The fiscal impulse indicator is calculated as the difference between the fiscal stance in two consecutive years. The fiscal stance is obtained by subtracting the neutral fiscal balance from the observed fiscal balance, where the former is calculated by assuming unitary elasticity of revenues with respect to *nominal* GDP and unitary elasticity of expenditures with respect to *potential* GDP (see S.K. Chand, “Fiscal Impulse Measures and Their Fiscal Impact,” in M. I. Blejer and A. Cheasty “How to Measure the Fiscal Deficit” IMF, 1993).

**Box 3. Implications of the CARICOM Single Market and Economy for Barbados**

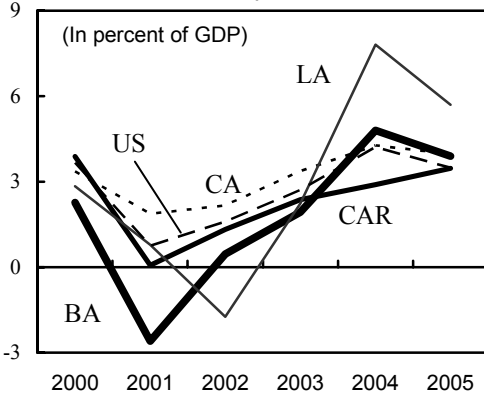
**The single market phase of the CARICOM Single Market and Economy (CSME), designed to facilitate the free movement of goods, labor, and capital, was formally launched on January 1, 2006** with six members. The single economy phase, which will involve harmonization of laws, and coordination/convergence of economic, monetary and fiscal policies, is expected to be implemented by end-2008.

- Barbados is expected to reap net benefits in the area of trade, particularly trade in services. High production costs, related in part to high wages, put Barbados at a comparative disadvantage in the production of most goods. However, significant opportunities to diversify into cross-border financial and service-related activities are expected.
- The provision for the free movement of labor covers five categories of workers - media workers, university graduates, musicians, artists and athletes, and is expected to facilitate labor market flexibility.
- Barbados has adopted several measures to facilitate free movement of capital, but to minimize the risks associated with capital outflows, the authorities are proceeding cautiously with the implementation of full capital account liberalization. Announcement of a commitment date for full capital account liberalization has been deferred until 2007.

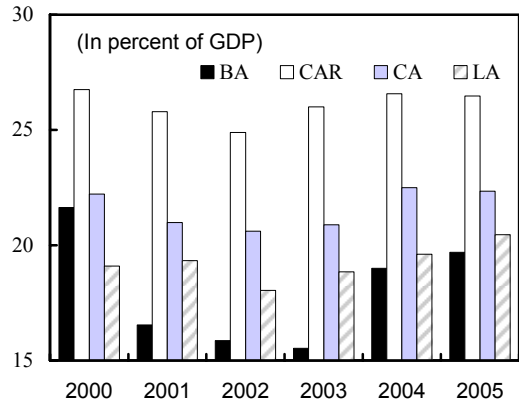


Figure 1. Barbados: Macroeconomic Performance in a Regional Context 1/

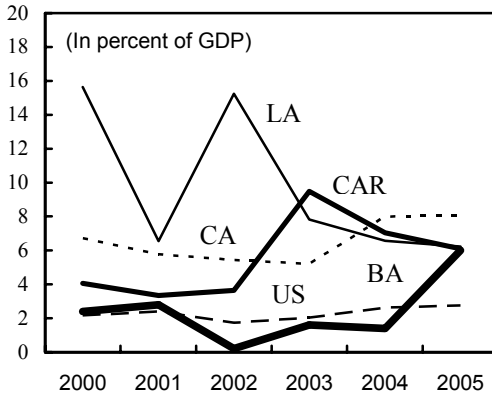
*Barbados experienced strong growth by regional standards in the last two years...*



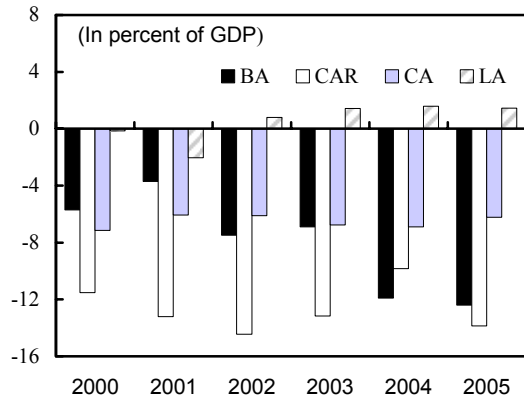
*...while investment increased from low levels.*



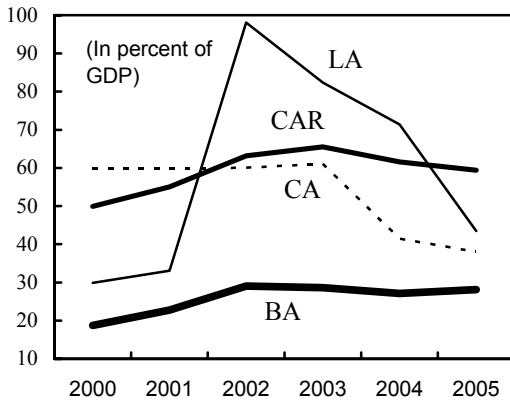
*Inflation picked up pace in 2005 in contrast to other countries in the region...*



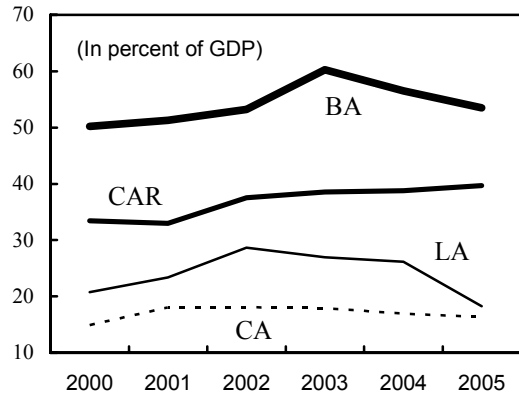
*...and the current account balance deteriorated.*



*Barbados has relatively low external debt...*



*...but much higher domestic debt.*

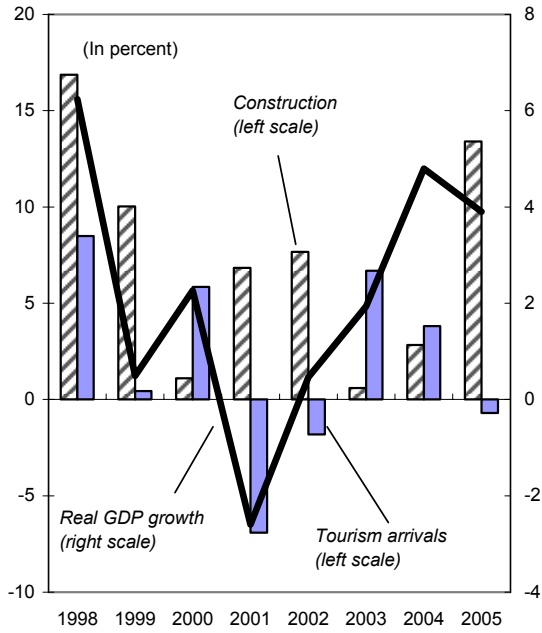


Source: Fund staff projections.

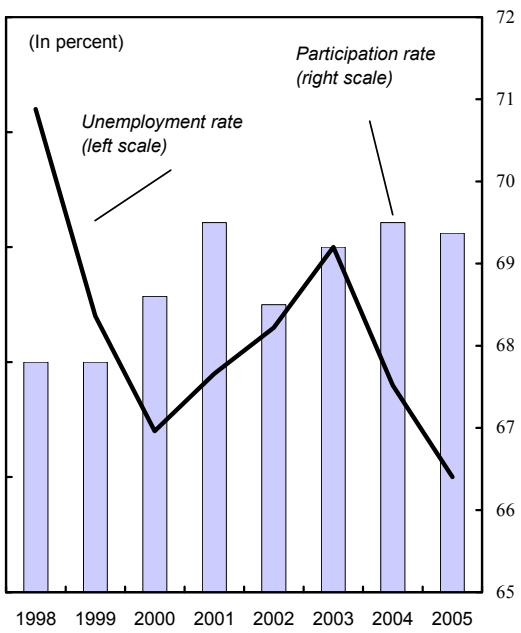
1/ The comparison includes Barbados (BA) and the (unweighted) average of the following regions: the Caribbean (CAR), Central America (CA), and other Latin American economies (LA; including Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay, and Venezuela).

Figure 2. Barbados: Real Sector Developments

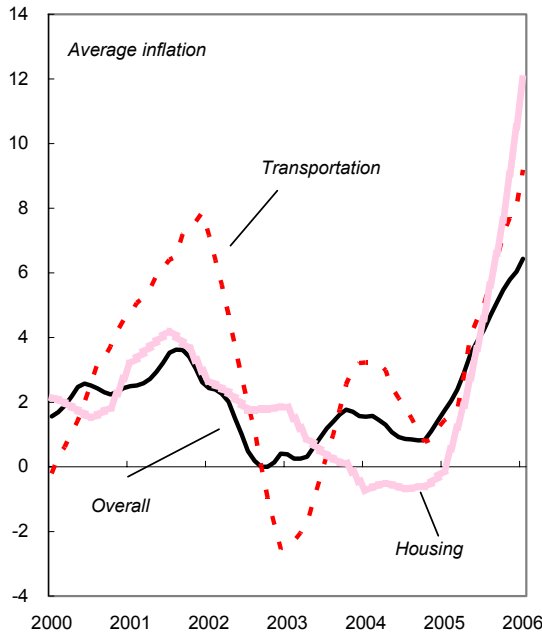
Economic activity has strengthened considerably, driven by the construction sector...



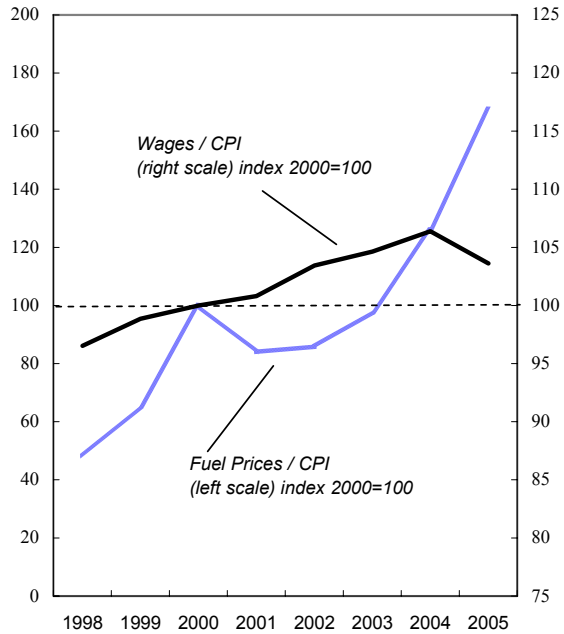
...while unemployment has fallen to historically lows and the participation rate increased.



Inflation has accelerated, pushed by increases in transportation and domestic prices...



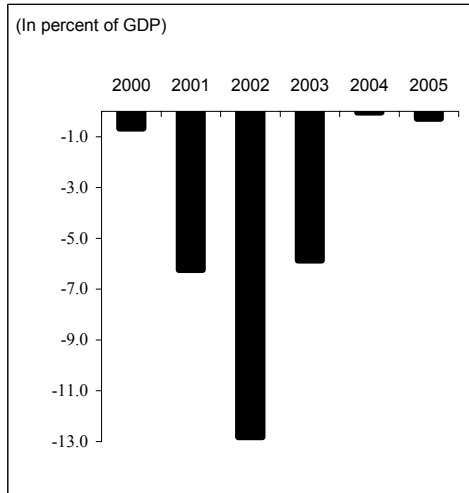
... while international fuel prices are also a source of inflationary pressure.



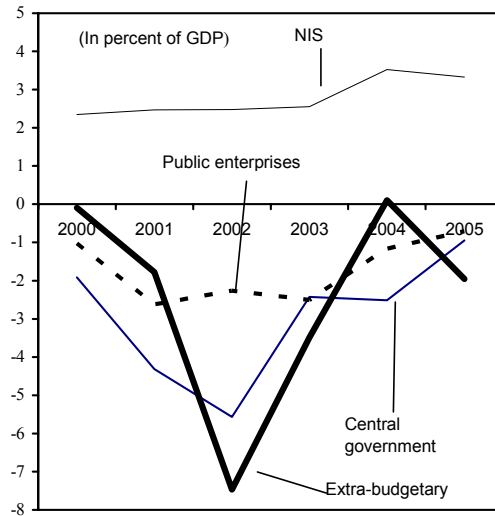
Sources: Barbadian authorities; and Fund staff estimates.

Figure 3. Barbados: Fiscal Sector Performance

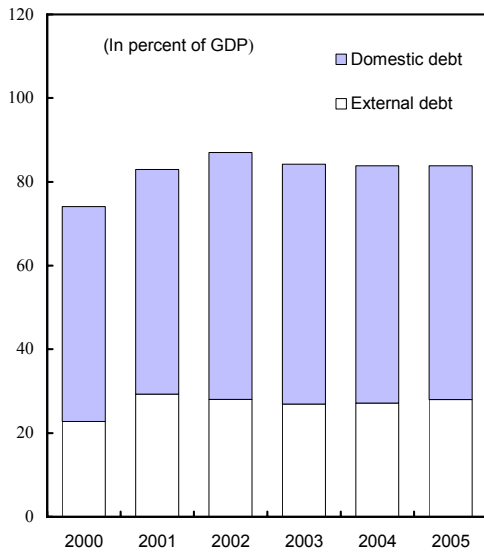
The overall balance improved substantially since 2002, and deteriorated in 2005...



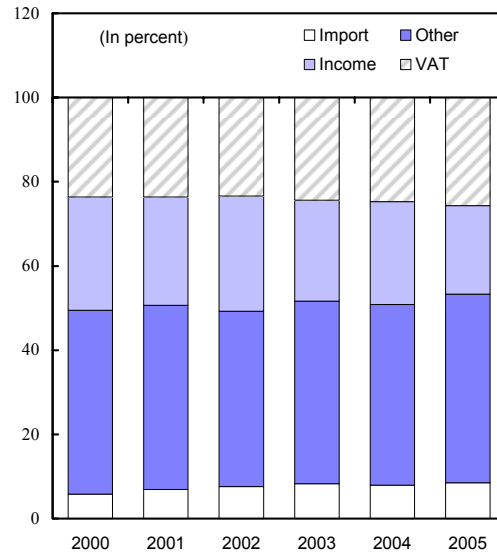
...driven mostly by extra-budgetary expenditures.



Public debt remains above safe levels...

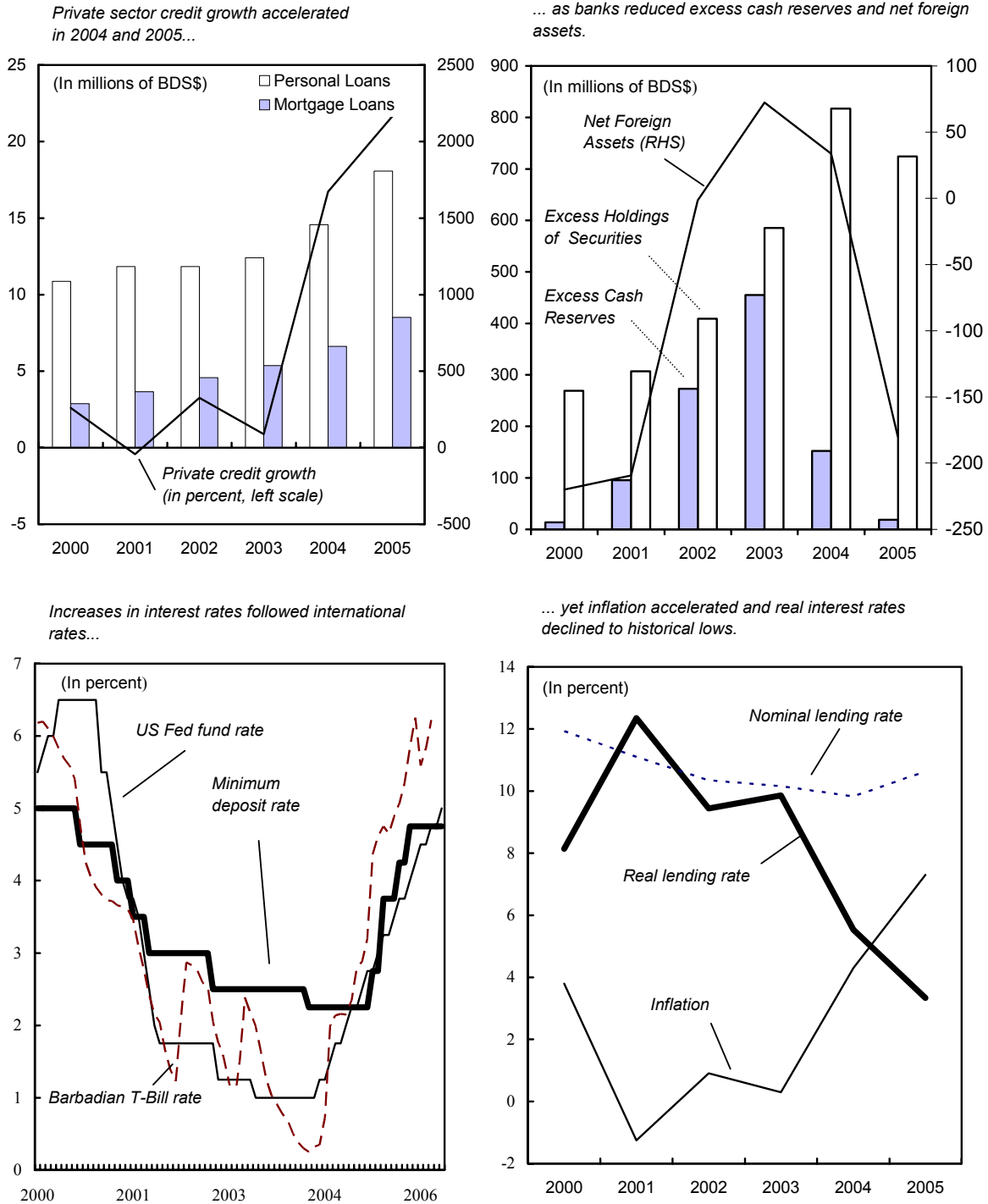


...while income tax rates have declined to enhance competitiveness.



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

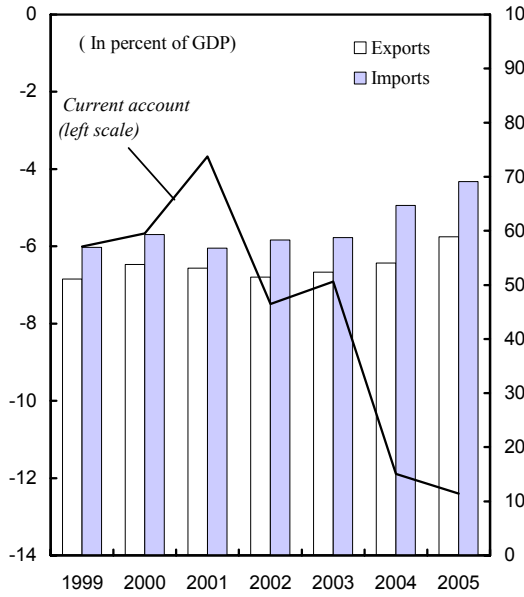
Figure 4. Barbados: Financial Sector Developments



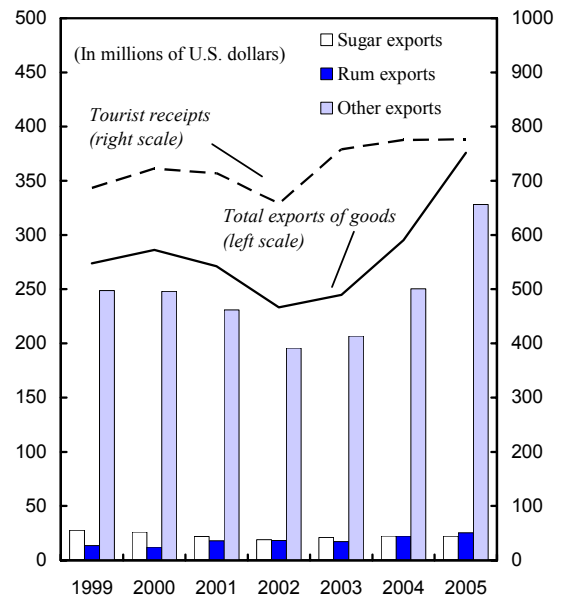
Sources: Central Bank of Barbados; and Fund staff estimates and projections.

Figure 5. Barbados: External Sector Developments

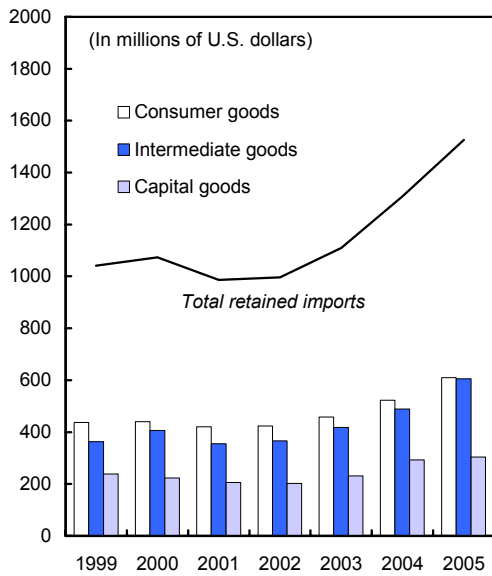
Oil prices and a surge in imports led to a widening of the current account deficit...



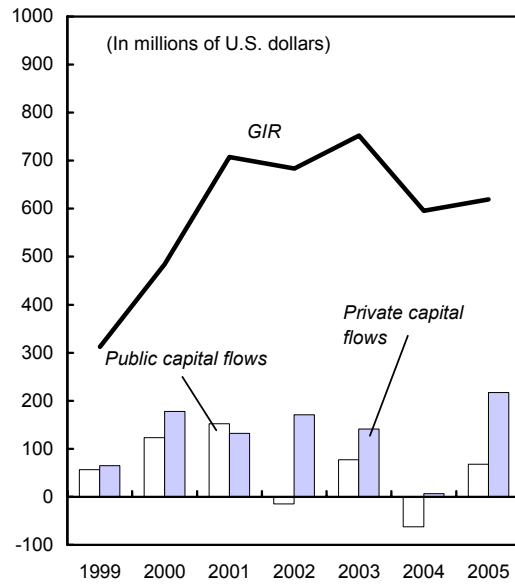
... while exports of goods and services have picked up, tourism receipts were flat in 2005.



Imports remain strong with sharp growth in consumer and intermediate goods...



... while the decline in GIR was arrested with government borrowing and strong private inflows.



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

Table 1. Barbados: Selected Economic and Financial Indicators—Baseline

	2001	2002	2003	2004	Prel. 2005	Proj.	
						2006	2007
(Annual percentage changes)							
<b>National income and prices</b>							
Real GDP	-2.6	0.5	1.9	4.8	3.9	4.2	4.9
CPI inflation (average)	2.8	0.2	1.6	1.4	6.0	6.3	4.9
CPI inflation (eop)	-1.3	0.9	0.3	4.3	7.3	5.6	2.8
Nominal GDP	-0.2	-3.0	8.8	4.4	9.6	11.6	9.7
<b>External sector</b>							
Exports of goods and services	-1.5	-6.0	10.7	7.7	19.5	5.4	9.8
<i>Of which</i> : goods	-7.0	-15.6	-0.6	17.2	21.4	13.5	6.8
Tourism	-1.2	-7.9	15.2	2.3	0.1	9.5	12.2
Imports of goods and services	-4.4	-0.4	9.6	15.0	17.1	7.4	8.4
Real effective exchange rate (depreciation -) 1/	-0.8	-4.2	-6.8	-3.5	6.3	...	...
<b>Money and credit 2/</b>							
Net domestic assets	-8.6	5.7	0.8	25.2	10.9	10.3	10.4
<i>Of which</i>							
Private sector credit	-0.3	2.4	0.6	11.0	14.3	9.5	7.2
Public sector credit	-8.1	12.2	3.6	4.1	-5.7	0.8	3.2
Broad money (M2)	5.6	10.4	6.5	16.4	7.3	9.2	9.7
Velocity (GDP relative to M2)	1.5	1.3	1.4	1.2	1.2	1.3	1.3
Interest rate on deposits 3/	3.9	2.7	2.6	2.5	3.2	...	...
Interest rate on loans 3/	11.5	10.7	10.2	9.8	10.3	...	...
(In percent of GDP; unless otherwise indicated)							
<b>Nonfinancial public sector 4/</b>							
Overall balance	-6.2	-12.8	-5.9	0.0	-0.3	-1.1	-3.0
Central government balance	-4.3	-5.6	-2.4	-2.5	-0.9	-1.7	-2.4
<i>Of which</i>							
Interest payments to private sector	3.8	4.2	3.6	3.2	3.2	3.7	3.3
National Insurance Scheme balance	2.5	2.5	2.6	3.5	3.3	3.4	3.3
Public enterprises balance	-2.6	-2.3	-2.5	-1.2	-0.7	-1.0	-2.3
Extra-budgetary expenditure	-1.8	-7.5	-3.5	0.1	-2.0	-1.7	-1.6
Primary balance	-2.4	-8.6	-2.2	3.2	2.9	2.6	0.4
Government gross debt 5/	82.9	87.0	84.1	83.6	81.6	74.0	71.8
External	29.3	28.0	26.8	27.1	28.1	25.2	23.6
Domestic	53.6	58.9	57.2	56.5	53.5	48.8	48.2
<b>Savings and investment</b>							
Gross domestic investment	16.5	15.9	15.5	19.0	19.7	20.2	20.1
Private investment and inventory changes	10.0	9.2	10.5	14.9	15.6	16.2	15.6
Public investment	6.5	6.7	5.0	4.1	4.1	4.0	4.5
Gross national savings	12.9	8.4	8.6	7.1	7.4	8.3	8.9
Private savings	11.1	13.1	11.0	4.5	3.5	4.9	6.8
Public savings	1.7	-4.8	-2.4	2.7	3.9	3.4	2.1
Foreign savings	3.7	7.5	6.9	11.9	12.4	11.9	11.2
<b>Memorandum items:</b>							
Nominal GDP (millions of Barbados dollars)	5,109	4,953	5,390	5,586	6,216	6,830	7,495
Current account (in percent of GDP)	-3.7	-7.5	-6.9	-11.9	-12.4	-11.9	-11.2
Overall balance of payments (deficit -)/GDP	8.8	-1.0	2.5	-5.6	0.8	-1.7	-0.5
(In millions of U.S. dollars)	224.7	-23.9	68.5	-156.4	24.0	-59.7	-18.9
GIR (in months of imports of goods and services)	5.8	5.7	5.7	3.9	3.5	2.9	2.6

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

1/ Information Notice System.

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

3/ Period average.

4/ Fiscal year beginning April 1st of stated year.

5/ Includes central government debt with NIS.

Table 2. Barbados: Central Government Operations—Baseline 1/

	2001/02	2002/03	2003/04	2004/05	Est. 2005/06	Proj. 2006/07	2007/08
(In millions of Barbados dollars)							
<b>Total revenue</b>	<b>1,703</b>	<b>1,716</b>	<b>1,864</b>	<b>1,897</b>	<b>2,132</b>	<b>2,266</b>	<b>2,397</b>
Current revenue	1,703	1,716	1,864	1,897	2,132	2,266	2,397
Tax revenue	1,613	1,620	1,793	1,836	2,068	2,184	2,305
Nontax revenue	90	96	71	61	64	82	92
Capital revenue and grants	0	0	0	0	0	0	0
<b>Total expenditure</b>	<b>1,922</b>	<b>1,998</b>	<b>1,996</b>	<b>2,042</b>	<b>2,192</b>	<b>2,388</b>	<b>2,584</b>
Current expenditure	1,576	1,673	1,744	1,816	1,956	2,086	2,257
Wages and salaries and NIS contributions	630	666	603	627	667	716	794
Goods and services	203	211	196	209	227	259	285
Interest	253	274	274	263	280	342	352
Transfers	490	522	671	717	782	769	826
Capital expenditure and net lending	346	325	253	226	236	302	327
<b>Balance</b>	<b>-219</b>	<b>-282</b>	<b>-132</b>	<b>-145</b>	<b>-60</b>	<b>-122</b>	<b>-187</b>
<b>Extra-budgetary expenditure</b>	<b>-18</b>	<b>-298</b>	<b>-131</b>	<b>51</b>	<b>-124</b>	<b>-120</b>	<b>-120</b>
<b>Overall balance</b>	<b>-237</b>	<b>-580</b>	<b>-263</b>	<b>-94</b>	<b>-184</b>	<b>-242</b>	<b>-307</b>
<b>Financing</b>	<b>237</b>	<b>580</b>	<b>263</b>	<b>94</b>	<b>184</b>	<b>242</b>	<b>307</b>
Foreign financing	322	-26	144	-48	182	-45	-26
Disbursements	364	58	55	54	263	44	80
Amortization	-42	-84	-101	-102	-81	-89	-106
Privatization proceeds	0	0	189	0	0	0	0
Domestic financing	-85	606	119	142	2	288	332
Banking system	-111	418	22	44	-253	150	100
Private nonbank	-26	83	37	90	106	0	95
National Insurance Scheme	52	105	61	8	118	138	137
Privatization proceeds	0	0	0	0	31	0	0
(In percent of GDP)							
<b>Total revenue</b>	<b>33.6</b>	<b>33.9</b>	<b>34.2</b>	<b>32.9</b>	<b>33.6</b>	<b>32.1</b>	<b>31.4</b>
Current revenue	33.6	33.9	34.2	32.9	33.6	32.1	31.4
Tax revenue	31.8	32.0	32.9	31.9	32.6	31.0	30.2
Nontax revenue	1.8	1.9	1.3	1.1	1.0	1.2	1.2
Capital revenue and grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total expenditure</b>	<b>37.9</b>	<b>39.5</b>	<b>36.6</b>	<b>35.5</b>	<b>34.5</b>	<b>33.9</b>	<b>33.9</b>
Current expenditure	31.1	33.1	32.0	31.5	30.8	29.6	29.6
Wages and salaries and NIS contributions	12.4	13.2	11.1	10.9	10.5	10.2	10.4
Goods and services	4.0	4.2	3.6	3.6	3.6	3.7	3.7
Interest	5.0	5.4	5.0	4.6	4.4	4.9	4.6
Transfers	9.7	10.3	12.3	12.4	12.3	10.9	10.8
Capital expenditure and net lending	6.8	6.4	4.6	3.9	3.7	4.3	4.3
<b>Balance</b>	<b>-4.3</b>	<b>-5.6</b>	<b>-2.4</b>	<b>-2.5</b>	<b>-0.9</b>	<b>-1.7</b>	<b>-2.4</b>
<b>Float and extra-budgetary expenditure 2/</b>	<b>-0.4</b>	<b>-5.9</b>	<b>-2.4</b>	<b>0.9</b>	<b>-2.0</b>	<b>-1.7</b>	<b>-1.6</b>
<b>Overall balance</b>	<b>-4.7</b>	<b>-11.5</b>	<b>-4.8</b>	<b>-1.6</b>	<b>-2.9</b>	<b>-3.4</b>	<b>-4.0</b>
<i>Of which</i> : primary balance	0.3	-6.0	0.2	2.9	1.5	1.4	0.6
<b>Financing</b>	<b>4.7</b>	<b>11.5</b>	<b>4.8</b>	<b>1.6</b>	<b>2.9</b>	<b>3.4</b>	<b>4.0</b>
<b>Memorandum item:</b>							
Nominal fiscal year GDP (In millions of Barbados dollars)	5,070	5,062	5,448	5,760	6,345	7,051	7,631

Sources: Ministry of Finance; and Fund staff estimates.

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

Table 3. Barbados: Nonfinancial Public Sector Operations—Baseline  
(In percent of GDP, unless otherwise indicated)

	2001/02	2002/03	2003/04	2004/05	Est. 2005/06	Proj. 2006/07	2007/08
<b>Nonfinancial public sector 1/</b>							
Current revenue	38.3	40.0	40.0	40.5	41.4	39.2	38.4
Current expenditure	36.6	38.7	37.5	36.6	36.0	34.9	35.2
Interest to the private sector	3.8	4.2	3.6	3.2	3.2	3.7	3.3
Capital revenue	2.8	2.4	2.0	2.8	2.2	2.5	2.7
Capital expenditure	9.0	9.0	6.9	6.9	6.0	6.1	7.3
<b>Balance 1/</b>	<b>-4.5</b>	<b>-5.4</b>	<b>-2.4</b>	<b>-0.1</b>	<b>1.7</b>	<b>0.6</b>	<b>-1.4</b>
<b>Extra-budgetary expenditure</b>	<b>-1.8</b>	<b>-7.5</b>	<b>-3.5</b>	<b>0.1</b>	<b>-2.0</b>	<b>-1.7</b>	<b>-1.6</b>
<b>Overall balance</b>	<b>-6.2</b>	<b>-12.8</b>	<b>-5.9</b>	<b>0.0</b>	<b>-0.3</b>	<b>-1.1</b>	<b>-3.0</b>
<i>Of which</i>							
<b>Primary balance</b>	<b>-2.4</b>	<b>-8.6</b>	<b>-2.2</b>	<b>3.2</b>	<b>2.9</b>	<b>2.6</b>	<b>0.4</b>
<b>Central government</b>							
Current revenue	33.6	33.9	34.2	32.9	33.6	32.1	31.4
Current expenditure	31.1	33.1	32.0	31.5	30.8	29.6	29.6
<i>Of which</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0
interest payments	5.0	5.4	5.0	4.6	4.4	4.9	4.6
Capital revenue and grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure and net lending	6.8	6.4	4.6	3.9	3.7	4.3	4.3
<b>Balance</b>	<b>-4.3</b>	<b>-5.6</b>	<b>-2.4</b>	<b>-2.5</b>	<b>-0.9</b>	<b>-1.7</b>	<b>-2.4</b>
<b>National insurance</b>							
Current revenue	6.1	6.1	6.1	6.6	6.6	6.6	6.6
Current expenditure	5.5	5.7	5.5	5.0	5.2	5.4	5.7
Capital revenue	1.9	2.0	2.0	2.0	1.9	2.2	2.4
<i>Of which</i>							
Interest revenues from central government	1.2	1.2	1.4	1.4	1.2	1.2	1.3
<b>Balance</b>	<b>2.5</b>	<b>2.5</b>	<b>2.6</b>	<b>3.5</b>	<b>3.3</b>	<b>3.4</b>	<b>3.3</b>
<b>Public enterprises balance</b>	<b>-2.6</b>	<b>-2.3</b>	<b>-2.5</b>	<b>-1.2</b>	<b>-0.7</b>	<b>-1.0</b>	<b>-2.3</b>
<b>Total financing</b>	<b>6.2</b>	<b>12.8</b>	<b>5.9</b>	<b>0.0</b>	<b>0.3</b>	<b>1.1</b>	<b>3.0</b>
<b>Foreign financing</b>	<b>6.4</b>	<b>-1.3</b>	<b>3.6</b>	<b>1.0</b>	<b>3.5</b>	<b>-0.1</b>	<b>0.3</b>
Central government	6.3	-0.5	2.6	-0.8	2.9	-0.6	-0.3
Disbursements	7.2	1.2	1.0	0.9	4.1	0.6	1.0
Amortization	-0.8	-1.7	-1.8	-1.8	-1.3	-1.3	-1.4
Privatization receipts	0.0	0.0	3.5	0.0	0.0	0.0	0.0
Public enterprises	0.0	-0.8	1.0	1.8	0.6	0.6	0.7
<b>Domestic financing</b>	<b>-0.1</b>	<b>14.2</b>	<b>2.2</b>	<b>-0.9</b>	<b>-3.2</b>	<b>1.1</b>	<b>2.6</b>
Central government (banking system)	-2.2	8.3	0.4	0.8	-4.0	2.1	1.3
Central bank	-3.9	6.0	-0.3	-0.3	-0.3	2.1	1.3
Credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposits	3.9	-6.0	0.3	0.3	0.3	-2.1	-1.3
Commercial banks	1.8	2.2	0.7	1.1	-3.7	0.0	0.0
Credit	2.3	1.5	0.2	1.1	0.6	0.0	0.0
Deposits	0.5	-0.8	-0.5	0.0	4.2	0.0	0.0
Public enterprises (banking system net)	4.0	4.7	2.6	0.1	0.1	0.5	1.6
Private nonbank sector	-0.5	1.6	0.7	1.6	1.7	0.0	1.2
NIS financing to central government	1.0	2.1	1.1	0.1	1.9	2.0	1.8
NIS financing (-balance)	-2.5	-2.5	-2.6	-3.5	-3.3	-3.4	-3.3
Privatization receipts	0.0	0.0	0.0	0.0	0.5	0.0	0.0
<b>Memorandum items:</b>							
Public sector guaranteed debt	82.9	87.0	84.1	83.6	81.6	74.0	71.8
<i>Of which: central government debt</i>	73.6	78.5	75.2	73.4	71.6	64.0	60.3
Public sector debt less NIS assets	56.1	60.6	57.6	56.2	54.2	45.9	41.9
Public sector debt less NIS holdings of government debt	66.3	68.2	66.0	66.6	64.3	56.6	53.9
Nominal fiscal year GDP (In millions of Barbados dollars)	5,070	5,062	5,448	5,760	6,345	7,051	7,631

Sources: Ministry of Finance; and Fund staff estimates.

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



Table 4. Barbados: Public Sector Debt—Baseline

	2001/02	2002/03	2003/04	2004/05	Est. 2005/06	Proj. 2006/07	2007/08
(In millions of Barbados dollars)							
<b>Nonfinancial public sector debt</b>	<b>4,204.4</b>	<b>4,402.8</b>	<b>4,580.2</b>	<b>4,813.2</b>	<b>5,175.5</b>	<b>5,220.6</b>	<b>5,481.1</b>
External	1,485.0	1,418.8	1,462.9	1,559.9	1,782.0	1,776.6	1,801.1
Domestic	2,719.4	2,983.9	3,117.3	3,253.3	3,393.5	3,444.0	3,680.0
<b>Central government debt</b>	<b>3,733.2</b>	<b>3,973.8</b>	<b>4,097.1</b>	<b>4,225.4</b>	<b>4,542.7</b>	<b>4,514.9</b>	<b>4,601.7</b>
<b>External</b>	1,358.6	1,334.7	1,324.6	1,316.9	1,499.0	1,453.6	1,428.1
<b>Domestic</b>	2,374.6	2,639.1	2,772.5	2,908.5	3,043.7	3,061.3	3,173.7
Short term	511.7	511.0	586.7	669.9	774.3	841.7	890.1
Long term	1,862.9	2,128.1	2,185.0	2,238.6	2,269.4	2,219.7	2,283.6
<b>Public enterprises (government guaranteed)</b>	<b>471.2</b>	<b>428.9</b>	<b>483.1</b>	<b>587.8</b>	<b>632.8</b>	<b>705.7</b>	<b>879.3</b>
External	126.4	84.1	138.3	243.0	283.0	323.0	373.0
Domestic	344.8	344.8	344.8	344.8	349.8	382.7	506.3
(In percent of GDP)							
<b>Public sector</b>	<b>82.9</b>	<b>87.0</b>	<b>84.1</b>	<b>83.6</b>	<b>81.6</b>	<b>74.0</b>	<b>71.8</b>
External	29.3	28.0	26.8	27.1	28.1	25.2	23.6
Domestic	53.6	58.9	57.2	56.5	53.5	48.8	48.2
<b>Central government debt</b>	<b>73.6</b>	<b>78.5</b>	<b>75.2</b>	<b>73.4</b>	<b>71.6</b>	<b>64.0</b>	<b>60.3</b>
<b>External</b>	26.8	26.4	24.3	22.9	23.6	20.6	18.7
<b>Domestic</b>	46.8	52.1	50.9	50.5	48.0	43.4	41.6
Short term	10.1	10.1	10.8	11.6	12.2	11.9	11.7
Long term	36.7	42.0	40.1	38.9	35.8	31.5	29.9
<b>Public enterprises (government guaranteed)</b>	<b>9.3</b>	<b>8.5</b>	<b>8.9</b>	<b>10.2</b>	<b>10.0</b>	<b>10.0</b>	<b>11.5</b>
External	2.5	1.7	2.5	4.2	4.5	4.6	4.9
Domestic	6.8	6.8	6.3	6.0	5.5	5.4	6.6
<b>Memorandum items:</b>							
Central government deposits	14.9	9.4	7.4	7.4	8.4	5.4	3.7
NIS financial assets	26.8	26.4	26.5	27.3	27.3	28.1	29.9
NIS holdings of central government debt	16.6	18.7	18.1	16.9	17.2	17.5	17.9
Public sector debt less NIS assets	56.1	60.6	57.6	56.2	54.2	45.9	41.9
Public sector debt less NIS holdings of government debt	66.3	68.2	66.0	66.6	64.3	56.6	53.9

Sources: Ministry of Finance; and Fund staff estimates.

Table 5. Barbados: Summary Monetary Survey—Baseline

	2001	2002	2003	2004	Prel. 2005	Proj.	
						2006	2007
	(In millions of Barbados dollars)						
Net foreign assets	1,205	1,365	1,576	1,224	1,058	1,003	965
Net domestic assets	2,181	2,373	2,404	3,408	3,911	4,422	4,987
Net credit to public sector	-67	348	481	644	380	421	596
Central government	242	654	723	867	650	700	812
Rest of public sector	-37	-22	154	184	188	214	315
National Insurance Scheme	-272	-284	-396	-408	-458	-493	-531
Credit to private sector	2,508	2,589	2,612	3,049	3,709	4,181	4,569
Other items (net)	-260	-564	-689	-285	-179	-179	-179
Liabilities to private sector (M2)	3,386	3,738	3,980	4,632	4,969	5,425	5,952
Currency in circulation	312	337	329	399	449	452	496
Demand deposits	836	1,104	1,202	1,498	1,540	1,694	1,858
Savings deposits	1,847	1,978	2,140	2,358	2,496	2,746	3,013
Time deposits	390	318	309	377	484	533	584
	(Changes in percent of beginning-of-period M2)						
Net foreign assets	14.2	4.7	5.6	(8.8)	(3.6)	(1.1)	(0.7)
Net domestic assets	(8.6)	5.7	0.8	25.2	10.9	10.3	10.4
Net credit to public sector	(8.1)	12.2	3.6	4.1	(5.7)	0.8	3.2
<i>Of which:</i> central government	(7.2)	12.2	1.8	3.6	(4.7)	1.0	2.1
Credit to private sector	(0.3)	2.4	0.6	11.0	14.3	9.5	7.2
Other items (net)	(0.1)	(9.0)	(3.3)	10.2	2.3	0.0	0.0
Liabilities to private sector (M2)	5.6	10.4	6.5	16.4	7.3	9.2	9.7
<b>Memorandum items:</b>							
Credit to private sector (12-month increase)	(0.4)	3.3	0.9	16.7	21.7	12.7	9.3
M2 velocity	1.5	1.3	1.4	1.2	1.2	1.3	1.3

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

Table 6. Barbados: Summary Balance Sheet of the Central Bank—Baseline

	2001	2002	2003	2004	Prel. 2005	Proj.	
						2006	2007
(In millions of Barbados dollars)							
Net international reserves	1414	1366	1503	1190	1238	1119	1081
Net domestic assets	-767	-458	-421	-419	-464	-357	-244
Net credit to public sector	-765	-477	-407	-428	-536	-428	-316
Central government	-758	-474	-405	-428	-531	-424	-311
Rest of public sector	-7	-3	-2	1	-4	-4	-4
National Insurance Scheme	0	0	0	-1	-1	-1	-1
Credit to commercial banks	0	0	0	0	0	0	0
Credit to rest of financial institutions	9	9	9	9	9	9	9
Other items (net)	-11	10	-22	0	63	63	63
Monetary base	647	908	1083	771	774	762	837
Currency in circulation	312	337	329	399	449	452	496
Liabilities to commercial banks	335	571	754	372	326	310	341
(Changes in percent of beginning-of-period monetary base)							
Net international reserves	79.1	(7.4)	15.1	(28.9)	6.2	(15.4)	(5.0)
Net domestic assets	(64.1)	47.7	4.1	0.1	(5.8)	13.9	14.8
<i>Of which:</i> net credit to central government	(52.8)	43.8	7.6	(2.1)	(13.4)	13.9	14.8
Monetary base	15.0	40.3	19.2	(28.8)	0.4	(1.5)	9.8
<b>Memorandum item:</b>							
NIR (in millions of U.S. dollars)	707.0	683.2	751.7	595.2	619.2	559.5	540.6

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

Table 7. Barbados: Balance of Payments—Baseline  
(In millions of U.S. dollars)

	2001	2002	2003	2004	Prel. 2005	Proj.	
						2006	2007
	(In millions of U.S. dollars)						
<b>Current account</b>	-93.8	-185.5	-186.3	-334.5	-380.9	-409.6	-423.3
Merchandise trade balance	-681.1	-719.8	-818.6	-968.9	-1,052.5	-1,144.8	-1,194.8
Exports	271.2	233.3	245.0	295.2	375.8	384.1	411.5
<i>Of which</i>							
Domestic exports	176.3	148.8	147.9	173.4	210.6	239.1	255.4
Sugar and molasses	22.0	18.8	20.5	22.4	22.2	23.0	23.2
Other	154.3	129.9	127.4	151.0	188.4	216.1	232.2
Imports	952.2	953.1	1,063.6	1,264.2	1,428.3	1,529.0	1,606.3
Services (net)	586.8	549.9	646.6	668.3	737.9	770.9	816.0
Travel (net)	613.1	558.9	653.4	667.8	665.3	732.8	828.3
Investment income (net)	-93.4	-101.8	-107.0	-122.0	-147.8	-117.2	-126.4
<i>Of which</i>							
Interest on public debt	-44.6	-51.5	-51.5	-55.0	-56.1	-52.1	-53.8
Current transfers (net)	93.9	86.2	92.8	88.2	81.5	81.5	82.0
<b>Capital and financial account</b>	290.1	230.2	302.4	120.7	355.5	394.1	404.4
Long-term capital	284.5	78.3	222.3	-69.3	322.7	253.6	212.7
Public sector (net)	152.4	-14.7	77.5	-62.7	82.9	-14.3	-39.0
Central government	155.6	16.9	89.9	-20.7	83.0	5.7	-15.2
Government guaranteed	-3.3	-31.6	-12.4	-42.0	-0.2	-20.0	-23.8
Private sector (net)	132.1	93.0	144.8	-6.7	239.8	267.9	251.7
Short-term capital	5.1	151.9	80.1	190.0	32.9	140.5	191.7
<i>Of which</i>							
Portfolio	-0.3	77.9	-4.2	13.3	-39.2	30.4	55.7
Change in commercial banks assets	4.0	-112.5	-119.5	13.9	92.1	-49.8	0.0
Errors and omissions	25.0	43.9	71.9	43.6	-42.7	5.6	0.0
<b>Overall balance (deficit -)</b>	224.7	-23.9	68.5	-156.4	24.0	-59.7	-18.9
<b>Memorandum items:</b>							
Current account (percent of GDP)	-3.7	-7.5	-6.9	-11.9	-12.4	-11.9	-11.2
Exports of goods and nonfactor services	1,356.5	1,274.6	1,410.5	1,519.2	1,816.2	1,914.6	2,102.3
Imports of goods and nonfactor services	1,450.7	1,444.2	1,582.7	1,819.9	2,130.8	2,288.6	2,481.1
Gross international reserves	707.0	683.2	751.7	595.3	619.3	559.6	540.7
Gross international reserves (in months of imports)	5.8	5.7	5.7	3.9	3.5	2.9	2.6
Second tier reserves	0.0	12.4	91.7	84.3	84.3	84.3	84.3
Second tier reserves (in months of imports)	0.0	0.1	0.7	0.6	0.5	0.4	0.4

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

Table 8. Barbados: Illustrative Medium-Term Scenarios

	Ave. 1994–2003	2004	Prel. 2005	Projections					
				2006	2007	2008	2009	2010	2011
<b>Baseline scenario</b>									
(Annual percentage changes)									
<b>Macroeconomic parameters</b>									
Real GDP	2.1	4.8	3.9	4.2	4.9	2.0	2.2	2.5	2.5
CPI inflation (average)	2.0	1.4	6.0	6.3	4.9	2.4	2.0	2.0	2.0
CPI inflation (eop)	2.0	4.3	7.3	5.6	2.8	2.0	2.0	2.0	2.0
Nominal GDP	5.0	4.4	9.6	11.6	9.7	4.2	4.2	4.5	4.6
(In percent of GDP)									
<b>Nonfinancial public sector 1/</b>									
Overall balance	-1.9	0.0	-0.3	-1.1	-3.0	-2.9	-1.5	-1.0	-1.1
Central government balance 2/	-3.4	-2.5	-0.9	-1.7	-2.4	-2.5	-2.5	-2.5	-2.5
Of which									
Interest payments to private sector	3.3	3.2	3.2	3.7	3.3	3.2	3.1	2.9	2.9
National Insurance Scheme balance	2.2	3.5	3.3	3.4	3.3	3.4	3.3	3.2	3.1
Public enterprises balance	-0.6	-1.2	-0.7	-1.0	-2.3	-2.3	-2.3	-1.7	-1.7
Extra-budgetary expenditure	-1.3	0.1	-2.0	-1.7	-1.6	-1.5	0.0	0.0	0.0
Primary balance	2.7	3.2	2.9	2.6	0.4	0.4	1.5	1.9	1.8
Government gross debt 3/									
External	73.7	83.6	81.6	74.0	71.8	72.6	73.5	74.0	74.8
Domestic	21.5	27.1	28.1	25.2	23.6	23.0	22.4	21.8	21.2
Banking system 4/	52.1	56.5	53.5	48.8	48.2	49.6	51.1	52.2	53.5
Net foreign assets	5.5	-8.8	-3.6	-1.1	-0.7	-1.1	-0.7	-0.2	-0.2
Net domestic assets	3.5	25.2	10.9	10.3	10.4	5.3	4.9	4.8	4.7
Of which: net credit to government	2.5	3.6	-4.7	1.0	2.1	1.6	1.3	2.3	2.6
Broad money	9.0	16.4	7.3	9.2	9.7	4.2	4.2	4.5	4.6
Private sector credit (year-on-year)	8.6	16.7	21.7	12.7	9.3	3.0	2.7	1.9	1.7
<b>External sector</b>									
Current account balance	-1.8	-11.9	-12.4	-11.9	-11.2	-10.1	-9.3	-7.9	-7.0
Gross international reserves (in US\$ million)	420	595	619	560	541	507	487	479	473
(In months of imports of goods and services)	3.6	3.9	3.5	2.9	2.6	2.4	2.3	2.1	2.1
<b>Active scenario</b>									
(Annual percentage changes)									
<b>Macroeconomic parameters</b>									
Real GDP	2.1	4.8	3.9	4.2	4.4	2.0	2.5	3.0	3.5
CPI inflation (average)	2.0	1.4	6.0	7.1	4.7	2.1	2.0	2.0	2.0
CPI inflation (eop)	2.0	4.3	7.3	6.2	2.8	2.0	2.0	2.0	2.0
Nominal GDP	5.0	4.4	9.6	12.5	9.0	4.2	4.6	5.1	5.6
(In percent of GDP)									
<b>Nonfinancial public sector 1/</b>									
Overall balance	-1.9	0.0	-0.3	0.6	1.1	1.4	2.2	2.9	3.0
Central government balance 2/	-3.4	-2.5	-0.9	-1.2	-0.3	0.4	0.3	1.0	0.8
Of which									
Interest payments to private sector	3.3	3.2	3.2	3.9	3.4	3.1	2.8	2.6	2.5
National Insurance Scheme balance	2.2	3.5	3.3	3.6	3.4	3.2	3.1	3.1	3.0
Public enterprises balance	-0.6	-1.2	-0.7	-0.8	-1.0	-1.2	-1.2	-1.2	-0.8
Extra-budgetary expenditure	-1.3	0.1	-2.0	-1.0	-1.0	-1.0	0.0	0.0	0.0
Primary balance	2.7	3.2	2.9	4.5	4.5	4.5	5.0	5.5	5.5
Government gross debt 3/									
External	73.7	83.6	81.6	74.3	68.9	66.9	64.8	61.8	59.2
Domestic	21.5	27.1	28.1	25.0	23.4	22.6	21.7	20.7	19.9
Banking system 4/	52.1	56.5	53.5	49.3	45.5	44.3	43.1	41.1	39.3
Net foreign assets	5.5	-8.8	-3.6	1.6	1.2	0.8	1.0	1.1	1.4
Net domestic assets	3.5	25.2	10.9	8.5	7.8	3.3	3.5	4.0	4.2
Of which: net credit to government	2.5	3.6	-4.7	-0.5	0.2	0.0	0.0	0.0	0.0
Broad money	9.0	16.4	7.3	10.1	9.0	4.2	4.6	5.1	5.6
Private sector credit (year-on-year)	8.6	16.7	21.7	12.6	10	4	4	4.5	5.2
<b>External sector</b>									
Current account balance	-1.8	-11.9	-12.4	-11.0	-9.1	-7.5	-7.3	-4.1	-2.9
Gross international reserves (in US\$ million)	419.9	595	619	584	611	638	668	708	743
(In months of imports of goods and services)	3.6	3.9	3.5	3.3	3.3	3.4	3.4	3.5	3.6

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

1/ Data refer to fiscal years beginning April 1.

2/ Includes extra-budgetary outlays

3/ Includes central government debt with NIS.

4/ In percent of beginning-of-period broad money.

Table 9. Barbados: Financial Sector Structure and Financial Soundness Indicators

	2000	2001	2002	2003	2004	2005
<b>I. Structure of the Financial Sector</b>						
<b>Number of institutions</b>						
Banks 1/	7	7	6	6	6	6
Domestic private banks	1	1	1	0	0	0
Public banks	1	1	1	0	0	0
Foreign banks	5	5	4	6	6	6
Branches	3	3	2	2	2	2
Subsidiaries	2	2	2	4	4	4
Credit unions	n.a.	41	n.a.	n.a.	n.a.	37
Offshore banks 2/	52	56	56	52	55	54
<b>Assets (as percent of GDP)</b>						
Banks	96.0	106.0	126.5	126.4	129.8	134.6
Nonbank financial institutions	14.1	15.3	16.9	16.1	16.8	20.5
Credit unions	8.3	9.7	11.5	12.0	13.5	14.2
Offshore banks	855.6	1120.9	1323.5	1164.5	1106.6	1057.1
<b>II. Selected Financial Soundness Indicators (Onshore Banking Sector)</b>						
<b>Solvency indicators</b>						
Capital adequacy ratio 3/	15.9	18.2	18.8	25.0	17.9	13.0
Leverage (capital, percent of total liabilities) 3/ 4/	10.3	10.6	10.0	12.3	10.4	11.1
Off-balance sheet obligations, percent of liabilities	3.3	3.0	2.7	2.3	1.7	2.4
<b>Liquidity indicators</b>						
Loan to deposit ratio	66.4	62.1	56.6	53.0	54.7	58.3
Demand deposits, percent of total deposits	30.5	29.5	39.0	37.9	39.1	38.5
Liquid assets, percent of total assets 5/	5.8	7.4	10.9	15.3	13.3	9.0
<b>Credit risk indicators</b>						
Total assets, annual growth rate	3.6	10.3	15.7	8.7	6.3	13.6
Loans and advances, annual growth rate	3.8	0.7	6.5	-2.3	15.8	22.0
Total mortgage loans, percent of loans and advances 6/	10.8	13.6	15.9	18.9	21.1	21.0
Nonperforming loans, percent of total loans	3.8	5.0	7.9	9.3	7.5	5.5
Provisions for impaired assets, percent of assets	1.2	1.3	0.9	1.2	0.9	0.8
Sectoral distribution of loans to total loans						
Commercial	14.6	15.1	15.5	17.3	16.1	17.9
Agricultural	1.8	2.5	2.0	1.6	1.5	1.0
Consumer	41.5	40.1	43.3	40.7	43.3	43.5
Construction	7.0	8.6	8.4	7.8	7.2	7.9
Industrial	30.0	28.7	26.2	26.8	28.7	25.4
Others	5.1	5.1	4.7	5.8	3.2	4.3
<b>Foreign exchange risk indicators</b>						
Deposits in Foreign Exchange, percent of total deposits 7/	9.7	11.0	15.8	13.2	14.4	16.7
Net foreign assets, percent of total assets	6.0	7.5	11.0	13.5	12.7	11.6
<b>Profitability indicators</b>						
Profit before tax, percent of total assets 8/	2.5	2.2	2.7	2.0	2.2	1.9
Total noninterest expense, percent of total assets 8/	4.0	3.7	3.0	3.2	3.4	3.2
Spread between lending rate and deposit rate 9/	7.0	8.0	7.7	7.6	7.3	6.5
<b>Memorandum items:</b>						
Banks' mortgage loans (BDS\$ millions)	293.6	370.5	462.1	541.7	666.3	858.1
Trust & mortgage companies' mortgage loans (BRB \$ millions)	400.1	415.3	417.2	410.4	397.8	389.4
Credit unions' mortgage loans (BDS\$ millions)	91.7	98.4	123.0	146.9	183.3	261.5
Banks' mortgage loans, annual growth rate	12.1	26.2	24.7	17.2	23.0	28.8
Credit unions' mortgage loans, annual growth rate	n.a.	7.3	25.1	19.4	24.8	42.6

1/ As of Dec 2005, the two foreign branches are Bank of Nova Scotia and Royal Bank of Canada; and the four foreign subsidiaries are Barbados National Bank, Butterfield Bank, RBTT Bank, and First Caribbean International Bank.

2/ Offshore banks managed 791 trusts and 323 employees at end-2005, and 800 trusts and 298 employees at the end of 2001.

3/ Does not include branches of foreign banks.

4/ Tier-I capital.

5/ Sum of excess cash reserve requirements and excess of the statutory requirement to invest in government securities in percent of total assets.

6/ Other loans, including personal loans, may be used to finance real estate activities.

7/ It includes both resident and non-resident deposits in foreign currency.

8/ Year 2002 includes only five licensed commercial banks.

9/ This spread does not fully reflect the intermediation margin due to fees, commissions, etc.

Table 10. Barbados: Selected Vulnerability Indicators—Baseline  
(In percent of GDP, unless otherwise indicated)

	2001	2002	2003	2004	Prel 2005	Proj. 2006	2007
<b>Real sector indicators</b>							
Tourist sector, percent of GDP 1/	9.2	9.0	9.5	10.2	9.4	9.3	9.5
Travel receipts, percent of total exports of G & S	52.6	51.6	53.7	51.0	42.7	44.4	45.4
Tourist and general services sectors, percent of GDP	13.4	13.3	14.6	15.7	15.0	14.9	15.2
<b>Fiscal indicators 2/</b>							
Overall balance of the public sector	-6.2	-12.8	-5.9	0.0	-0.3	-1.1	-3.0
Primary public sector balance	-2.4	-8.6	-2.2	3.2	2.9	2.6	0.4
Public sector gross debt	82.9	87.0	84.1	83.6	81.6	74.0	71.8
External interest payments to total fiscal revenue (percent) 3/	4.9	5.9	5.5	4.9	4.4	4.8	4.5
External amortization payments to total fiscal revenue (percent) 3/	2.5	4.9	5.4	5.4	3.8	3.9	4.4
<b>Financial indicators</b>							
Broad money (percent change, 12-month basis)	5.6	10.4	6.5	16.4	7.3	9.2	9.7
Private sector credit (percent change, 12-month basis)	-0.4	3.3	0.9	16.7	21.7	12.7	9.3
Three-month T-bill rate 4/	2.0	1.5	0.6	2.8	6.3	...	...
Three-month T-bill rate (real) 5/	-0.8	1.3	-1.0	1.4	0.3	...	...
Capital adequacy ratio	18.2	18.8	25.0	17.9	13.0	...	...
NPLs/total loans	5.0	7.9	9.3	7.5	5.5	...	...
Loan loss provisions/total assets	1.3	0.9	1.2	0.9	0.8	...	...
Loans to tourism/total loans	12.1	10.7	11.5	13.4	10.8	12.7	...
Loans to households/total loans	40.1	43.3	40.7	43.3	43.5	44.3	...
Mortgage loans/total loans	10.6	13.4	15.7	18.7	19.8	20.9	...
Gross government claims/total assets	21.5	21.6	22.3	22.2	21.7	17.1	...
FX deposits/total deposits 6/	1.3	3.8	2.7	4.6	2.6	...	...
(Pre-tax) return/total assets	2.2	2.7	2.0	2.2	1.9	...	...
<b>External indicators</b>							
Exports of goods and services (annual percentage change in US\$)	-1.5	-6.0	10.7	7.7	19.5	5.4	9.8
Imports of goods and services (annual percentage change in US\$)	-4.4	-0.4	9.6	15.0	17.1	7.4	8.4
Current account balance	-3.7	-7.5	-6.9	-11.9	-12.4	-11.9	-11.2
Capital and financial account balance	11.4	9.3	11.2	4.3	11.5	11.5	10.7
Gross official reserves (in US\$ millions)	707.0	683.2	751.7	595.2	619.3	559.6	540.7
Gross official reserves in months of imports of goods and services	5.8	5.7	5.7	3.9	3.5	2.9	2.6
Gross official reserves to short-term debt 7/ 8/	17.1	11.6	12.5	10.3	9.8	7.5	7.0
Broad money to reserves	2.4	2.9	2.6	3.9	4.0	4.8	5.5
Total public external debt service	2.8	3.7	4.1	4.1	3.7	3.4	3.4
Total external debt/exports of goods and services	59.0	61.4	52.0	50.7	47.3	44.7	39.4
External interest payments/exports of goods and services	3.5	4.3	3.7	3.6	3.1	2.7	2.6
External amortization payments/exports of goods and services	2.1	3.5	4.2	3.9	3.3	3.3	3.5
Exchange rate (per US\$, end of period)	2.0	2.0	2.0	2.0	2.0	2.0	2.0
REER -12 month basis (depreciation -)	-0.8	-4.2	-6.8	-3.5	6.3	...	...

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

1/ Direct share (hotels and restaurants) of GDP.

2/ Fiscal data on a fiscal year basis, except for interest and amortization payments to fiscal revenue.

3/ Central government.

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

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

6/ Foreign currency deposits of residents as ratio to total domestic deposits.

7/ Refers to public external debt.

8/ Maturity less than one year, defined on a residual maturity basis.

**APPENDIX I. BARBADOS—FUND RELATIONS**  
As of June 30, 2006

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

II. <b>General Resources Account:</b>	<b>SDR million</b>	<b>Percent Quota</b>
Quota	67.50	100.00
Fund holdings of currency	62.13	92.04
Reserve position in Fund	5.38	7.97

III. <b>SDR Department:</b>	<b>SDR million</b>	<b>Percent of Allocation</b>
Net cumulative allocation	8.04	100.00
Holdings	0.02	0.20

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

V. **Financial Arrangements:**

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
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>Forthcoming</b>				
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Principal					
Charges/Interest	0.15	0.30	0.30	0.30	0.30
Total	0.15	0.30	0.30	0.30	0.30

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 May 31, 2006, the official buying and selling rates for the U.S. dollar were BDS\$1.98 and BDS\$2.04, 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 some invisibles, but bona fide transactions are approved. All capital outflows and certain capital inflows require approval. The authorities accepted the obligations of Article VIII, Sections 2, 3, and 4 on November 3, 1993.

#### VIII. **Last Article IV Consultation**

The 2005 Article IV consultation discussion was concluded by the Executive Board on July 19, 2005; the document was Staff Report, (IMF Country Report No. 05/297); Barbados is on the standard 12-month consultation cycle.

#### IX. **Technical Assistance (1994–2006):**

<b>Department</b>	<b>Dates</b>	<b>Purpose</b>
STA	Sep 23, 2003–Sep 22, 2005	Multisector statistics advisor.
CARTAC	March 8–19, 2004	Regional BOP methodology course.
FAD	September 6–13, 2004	Tax policy.
CARTAC	January 26–30, 2004	Development of supply and use tables.
FAD	July 3–18, 2003	Further reform of the indirect taxes.
CARTAC	March 18–29, 2002	Balance of payments technical Assistance mission.
FAD	May 28–June 8, 2001	Uniform taxation of domestic and offshore activities, and review of tax incentive regime.
STA	Jan. 25–Feb. 2, 1999	Development of metadata for the General Data Dissemination System.
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.

#### X. **Resident Representative:**

The resident representatives post was closed in January 1995.

**APPENDIX II. BARBADOS—RELATIONS WITH THE  
INTER-AMERICAN DEVELOPMENT BANK**

I. Active Loans to Barbados as of June 9, 2006

(In millions of U.S. dollars)

Purpose	Approval Date	Amount	Amount Disbursed	Amount Available
Solid Waste Management	Oct. 1998	13.0	0.0	13.0
Education Sector Enhancement	Dec. 1998	85.0	28.2	56.8
Administration of Justice	Aug. 2001	8.8	0.6	8.2
Coastal Infrastructure	Jan. 2002	17.0	2.7	14.3
Modernization of Customs, Excise and VAT Areas	Nov. 2005	4.4	0.0	4.4
<b>Total</b>		<b>128.1</b>	<b>29.4</b>	<b>98.7</b>

II. Net Cash Flow of IDB Convertible Resources

(In millions of U.S. dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006 <sup>P</sup>
Loan approvals	98.0	0.0	0.0	8.7	17.0	...	...	4.4	51.2
Repayments	7.5	8.1	7.3	7.3	8.1	7.7	13.8	12.2	19.4
Disbursements	17.9	5.8	10.4	24.2	15.8	14.4	7.9	4.4	12.2
Net loan flow	10.4	-2.3	3.1	16.9	7.7	6.7	-5.9	-7.7	-7.2
Interest and charges	8.2	9.7	10.0	8.7	7.2	7.4	7.4	7.1	8.9
Net cash flow	2.2	-12.0	-6.9	8.2	0.5	-0.7	-13.3	-14.8	-16.1
Debt service	15.7	17.8	17.3	16.0	15.3	15.1	21.2	19.3	28.3
Debt outstanding	143.9	141.6	127.0	143.9	151.6	156.6	150.7	146.1	158.8

Source: Inter-American Development Bank. P= Projections

### APPENDIX III. BARBADOS—RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

The Caribbean Development Bank (CDB) approved US\$226.6 million in loans, contingent loans, equity and grants to Barbados between 1970 and May 2006. This represents 8.6 percent of total approvals to CDB's borrowing member countries.

Of the total funds approved US\$61.8 million or 27.3 percent were allocated to the productive sectors which comprise agriculture, manufacturing, tourism, and mining. Within the productive sectors, US\$45.5 million or 20.1 percent of the total was allocated to the manufacturing sector, while tourism accounted for US\$12.0 million, or 5.3 percent.

Economic infrastructure accounted for US\$111.6 million or 59.2 percent of approved funds. Of these funds, US\$55.4 million (24.4 percent) were allocated to the transportation, US\$50.7 million (22.3 percent) to the education, and US\$3.2 million (1.4 percent) to the health sectors.

Approximately US\$13.5 million in new loans (multisector) was approved in 2003 while no new loans were approved in 2004 and 2005. In 2006, for the period up to May, a technical assistance loan of US\$3.5 million was approved.

CDB Loans and Grants Approved to Barbados  
1970–May 2006

Sector	US\$ million	Percent
<b>Productive sector</b>	<b>61.8</b>	<b>27.3</b>
Agriculture	4.2	1.9
Manufacturing	45.5	20.1
Tourism	12.0	5.3
Mining	0.1	0.0
<b>Economic infrastructure</b>	<b>111.6</b>	<b>49.2</b>
Power and energy	0.1	0.0
Water	0.8	0.3
Transportation	55.4	24.4
Housing	1.4	0.6
Education	50.7	22.3
Health	3.2	1.4
<b>Multisector</b>	<b>53.3</b>	<b>23.5</b>
<b>Total</b>	<b>226.6</b>	<b>100.0</b>

Source: Caribbean Development Bank.

**APPENDIX IV. BARBADOS—FOLLOW-UP ON KEY RECOMMENDATIONS  
OF THE 2002 FSAP**

FSAP Recommendations	Action Taken by the Authorities
<b><i>Banking Sector</i></b>	
<b>Financial Institutions Act:</b> The FIA should be amended to strengthen the independence of CBB, impose aggregate limits on large exposure and connected lending, facilitate license revocation and distressed bank resolution, and require CBB's prior approval of the external auditor for licensees.	The FIA is expected to be revised. Guidelines regarding market risk, large exposures, outsourcing, corporate governance (including connected lending) has been drafted. There is no specific date for approval, but CBB's authorities expect some decisions in the second half of 2006.
<b>On-site Examinations:</b> Supervisory resources of the CBB should be boosted to enable it to conduct regular onsite examinations of all onshore and offshore banks on an 18–24 months cycle.	The CBB has conducted more regular on-site examinations during 2005.
<b>Deposit Insurance Act:</b> The potential for financial instability may be contained by a well designed deposit insurance scheme in a properly supervised banking system.	A Deposit Insurance Act has been drafted, and it is expected to be passed by the Parliament of Barbados in 2006. The deposit insurance scheme will also facilitate license revocation and distressed bank resolution.
<b><i>Credit Unions</i></b>	
<b>CBB assisted on site examinations:</b> A high priority should be assigned to completing the CBB assisted on site examinations of the five large credit unions and such examinations should be made regular	There were two rounds of joint inspections (the CBB and the Co-operative department) of the larger credit unions during 2005.
<b>Credit Union Law:</b> Consideration could be given to introducing a separate credit unions law in light of the experience gained with these examinations. In the meantime, the capacity of the Registrar of Cooperatives to effectively supervise credit unions should be strengthened	An amendment to the credit union legislation together with new prudential guidelines standards are going to be implemented in the next months. This new legislation and guidelines are expected to be passed even before the Financial Services Commission Act, which will centralize the regulation of non-bank entities under a single agency. The Financial Services Commission Act is expected to be approved in June 2007.
<b><i>Insurance Sector</i></b>	
<b>Supervisory resources:</b> Supervisory resources need to be increased to allow the instigation of an on-site inspection process supported by a more analytical off-site review using timely and sufficiently detailed returns from companies.	Four supervisory positions were created in FY 04/05 and four more are going to be created this year. Currently, there are two teams of supervisors for on-site inspections, and an additional team is going to be formed with the new positions.
<b>Solvency margins:</b> A solvency margin requirement can be developed for life insurance companies which, if supplemented by a review of provisioning rules and asset requirements will greatly improve the regulatory framework.	Legislation regarding a minimum continuing capital and surplus requirements for life insurance companies, and a minimum capital test for regulated general insurance companies, will be submitted to the Parliament of Barbados in October 2006.

FSAP Recommendations	Action Taken by the Authorities
<p><b>Circulars:</b> The development of several circulars would codify presumed understandings between market participants and the supervisor. In particular, attention to corporate governance and internal controls would offer ready improvement. Such circulars would assist in ensuring that reputational risk is minimized.</p>	<p>The authority to issue circulars, which could codify presumed understandings between market participants and the supervisor, is contemplated in the new Insurance Core Principles Regulations (Regulation 246). This regulation is going to be submitted to the Parliament in October 2006. This bill will complement the Insurance Act.</p>
<p><b>Independence and Transparency:</b> The supervisor has not published information about the operations of the office or the market. A draft has been prepared. Improved transparency would promote independence and would be the most cost effective way to deliver better compliance with the core principles.</p>	<p>The Financial Services Commission (the single regulatory agency of the non-banking sector), which is expected to be approved in June 2007, will increase the independence and transparency of the regulation of the insurance sector.</p>
<p><b>Capital Markets</b></p>	
<p><b>Securities Commission:</b> The well drafted legislation and the authorities' efforts to promote a more efficient and transparent market have been reflected in the assessment of the IOSCO Principles. However, the SC is not yet fully staffed or operational.</p>	<p>The inspection and enforcement of the Security Act has improved since the Securities Commission became fully operational in 2003.</p>
<p><b>Securities settlement period:</b> Securities clearing and settlement should move toward DVP principles and T+3 settlement cycle.</p>	<p>Effective January 1st 2006, the securities clearing and settlement cycle was reduced to T+3, or three business days after trade day.</p>

## APPENDIX V. BARBADOS—STATISTICAL ISSUES

1. The statistical information provided by Barbados is broadly adequate for surveillance purposes, although some important weaknesses remain. Barbados participates in the General Data Dissemination System (GDDS). Dated metadata and the authorities' plans for improving the statistical base are posted on the Fund's Dissemination Standards Bulletin Board (DSBB).

### **Real sector**

2. The Barbados Statistical Services (BSS) compiles national accounts statistics according to the 1968 *SNA*. The exclusion of the offshore enterprises from both the national and external accounts is an issue of major concern because such enterprises have substantial onshore presence due to tax treaties. A lack of timely, reliable source data on nonsugar agriculture, private construction, and nontourism service activities adversely affects production-based GDP estimates. To address some of the weaknesses in this area, in June 2005 the authorities initiated a census of economic activity, including in its coverage tourism, financial businesses, and transport and communications. Expenditure-based GDP estimates are derived from selected surveys; the household survey yields a reliable, albeit out-of-date, estimate of aggregate consumption, but the external trade and investment surveys suffer from certain weaknesses. Constant price GDP estimates have an outdated 1974 base year; the authorities are currently updating the reference year 2000 in order to facilitate comparison within the CARICOM area. CARTAC has recently provided assistance to improve the national accounts through the development of a supply and use table. This program will ultimately lead to the rebasing of the national accounts and the development of better estimates for all sectors of the economy.

3. Despite recent initiatives to update the consumer price index and the index of industrial production, potential misalignments in real estate prices are left unattended owing to the absence of a systematic index of property prices. The consumer price index uses an expenditure basket for 1998–99 for its July 2001=100 series introduced in January 2002. Comparisons of CPI data prior to 2002 with CPI data after 2002 should be undertaken with care. The index of industrial production is based on the sectoral weights prevailing in 1982; the authorities are currently working towards rebasing the series to 1994.

### **Nonfinancial public sector**

4. Fairly comprehensive and timely data for above the line items are available for the general government, but there is a lag in the reporting of transfers. As a result of the under-reporting of off-budget transactions, a significant discrepancy exists between the overall balance and financing data. Public enterprise data is not systematically and promptly reported to the Ministry of Finance and Economic Affairs (MFEA); consequently data supplied by public enterprises, such as on government transfers and capital spending, often differ from those provided by the MFEA. 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. Authorities plan to have full accrual reporting for 2007/2008, and that will be further discussed with a planned FAD ROSC mission for November 2006.

### **Financial sector**

5. Important weaknesses remain in 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 non-residents 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. Accounting conventions underlying monetary data compiled by the CBB are in need of improvement: 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 GDDS.

### **External sector**

6. Lags in the compilation of merchandise trade data limit the timeliness of estimates of the external current account balance, in particular, information on the activities of the offshore sector. Estimates of the components of the financial account also need to be strengthened. Quarterly balance of payments estimates are no longer provided. In October 2005, Barbados provided STA with 1987–2004 annual balance of payments data.

## BARBADOS: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

As of July 5, 2006

	Date of latest observation	Date received	Frequency of Data <sup>6</sup>	Frequency of Reporting <sup>6</sup>	Frequency of publication <sup>6</sup>
Exchange Rates	Fixed				
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	3/31/06	4/29/06	M	M	W
Reserve/Base Money	3/31/06	5/03/06	M	M	M
Broad Money	2/28/06	5/03/06	M	M	M
Central Bank Balance Sheet	3/31/06	5/03/06	M	M	M
Consolidated Balance Sheet of the Banking System	2/28/06	5/03/06	M	M	M
Interest Rates <sup>2</sup>	2/28/06	5/03/06	M	M	M
Consumer Price Index	03/06	4/31/06	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>	3/31/06	5/08/06	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government	03/31/06	5/08/06	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	12/31/05	5/08/06	Q	Q	Q
External Current Account Balance	12/05	5/08/06	A	A	Q
Exports and Imports of Goods and Services	12/05	5/08/06	A	A	M
GDP/GNP	2005	5/08/06	A	A	Q
Gross External Debt	12/05	5/08/06	A	A	M

<sup>1</sup>Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>2</sup>Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup>Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup>The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup>Including currency and maturity composition.

<sup>6</sup>Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).



Appendix VI. Barbados: External Debt Sustainability Framework, 2001–11  
(In percent of GDP, unless otherwise indicated)

	Actual											Debt-stabilizing non-interest current account 7/
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
<b>1 Baseline: External debt 1/</b>	37.7	40.2	37.4	37.6	39.2	36.7	35.4	35.6	35.5	34.7	34.6	-6.0
2 Change in external debt	8.6	2.5	-2.8	0.1	1.7	-2.5	-1.3	0.2	-0.1	-0.8	-0.1	
3 Identified external debt-creating flows (4+8+9)	-0.7	2.8	-2.5	9.3	0.5	2.2	2.7	2.2	1.9	0.2	0.4	
4 Current account deficit, excluding interest payments	2.7	4.6	4.3	10.1	10.5	10.1	9.7	8.6	7.9	6.6	5.8	
5 Deficit in balance of goods and services	3.7	6.7	6.3	10.4	9.9	10.6	9.9	8.7	7.9	6.5	5.6	
6 Exports	53.5	50.4	51.8	52.7	57.2	54.3	55.1	54.6	54.5	55.4	55.3	
7 Imports	57.2	57.1	58.1	63.2	67.2	64.9	65.0	63.3	62.4	61.9	61.0	
8 Net non-debt creating capital inflows (negative)	-5.3	-3.8	-5.8	-0.4	-8.1	-8.1	-7.2	-7.1	-6.6	-6.8	-5.8	
9 Automatic debt dynamics 2/	1.9	2.0	-1.0	-0.4	-2.0	0.2	0.2	0.7	0.5	0.4	0.5	
10 Contribution from nominal interest rate	1.6	2.0	1.9	1.6	1.5	1.5	1.4	1.4	1.3	1.2	1.1	
11 Contribution from real GDP growth	1.0	-1.3	-0.3	-2.2	-1.5	-1.3	-1.2	-0.7	-0.8	-0.8	-0.7	
12 Contribution from price and exchange rate changes 3/	-0.7	1.4	-2.5	0.2	-2.0	...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 4/	9.2	-0.3	-0.3	-9.2	1.2	-4.8	-4.0	-2.0	-1.9	-1.0	-0.5	
External debt-to-exports ratio (in percent)	70.4	79.9	72.3	71.2	68.5	67.5	64.2	65.2	65.1	62.6	62.5	
<b>Gross external financing need (in billions of US dollars) 5/</b>	0.1	0.1	0.1	0.3	0.3	0.4	0.4	0.3	0.3	0.2	0.3	
in percent of GDP	3.5	5.0	4.4	9.9	10.7	10.4	9.7	8.7	8.0	5.3	5.8	
<b>Scenario with key variables at their historical averages 6/</b>						<b>36.7</b>	<b>33.6</b>	<b>31.7</b>	<b>29.9</b>	<b>29.0</b>	<b>28.5</b>	<b>-4.5</b>
<b>Key Macroeconomic Assumptions Underlying Baseline</b>												
Real GDP growth (in percent)	-3.3	3.5	0.8	6.2	4.4	3.7	3.5	2.0	2.3	2.5	2.1	
GDP deflator in U.S. dollars (change in percent)	2.5	-3.5	6.8	-0.5	5.5	7.1	4.6	2.2	2.0	2.0	2.0	
Nominal external interest rate (in percent)	5.6	5.3	5.0	4.6	4.3	4.3	4.2	4.0	3.8	3.6	3.4	
Growth of exports (U.S. dollar terms, in percent)	-1.5	-6.0	10.7	7.7	19.5	5.4	9.8	3.3	4.2	6.2	4.0	
Growth of imports (U.S. dollar terms, in percent)	-4.4	-0.5	9.6	15.0	17.1	7.4	8.4	1.5	2.8	3.7	2.5	
Current account balance, excluding interest payments	-2.7	-4.6	-4.3	-10.1	-10.5	-10.1	-9.7	-8.6	-7.9	-6.6	-5.8	
Net non-debt creating capital inflows	5.3	3.8	5.8	0.4	8.1	8.1	7.2	7.1	6.6	6.8	5.8	

1/ External debt figures differ from other tables because it includes deposits of nonresidents in foreign currency accounts.

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

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

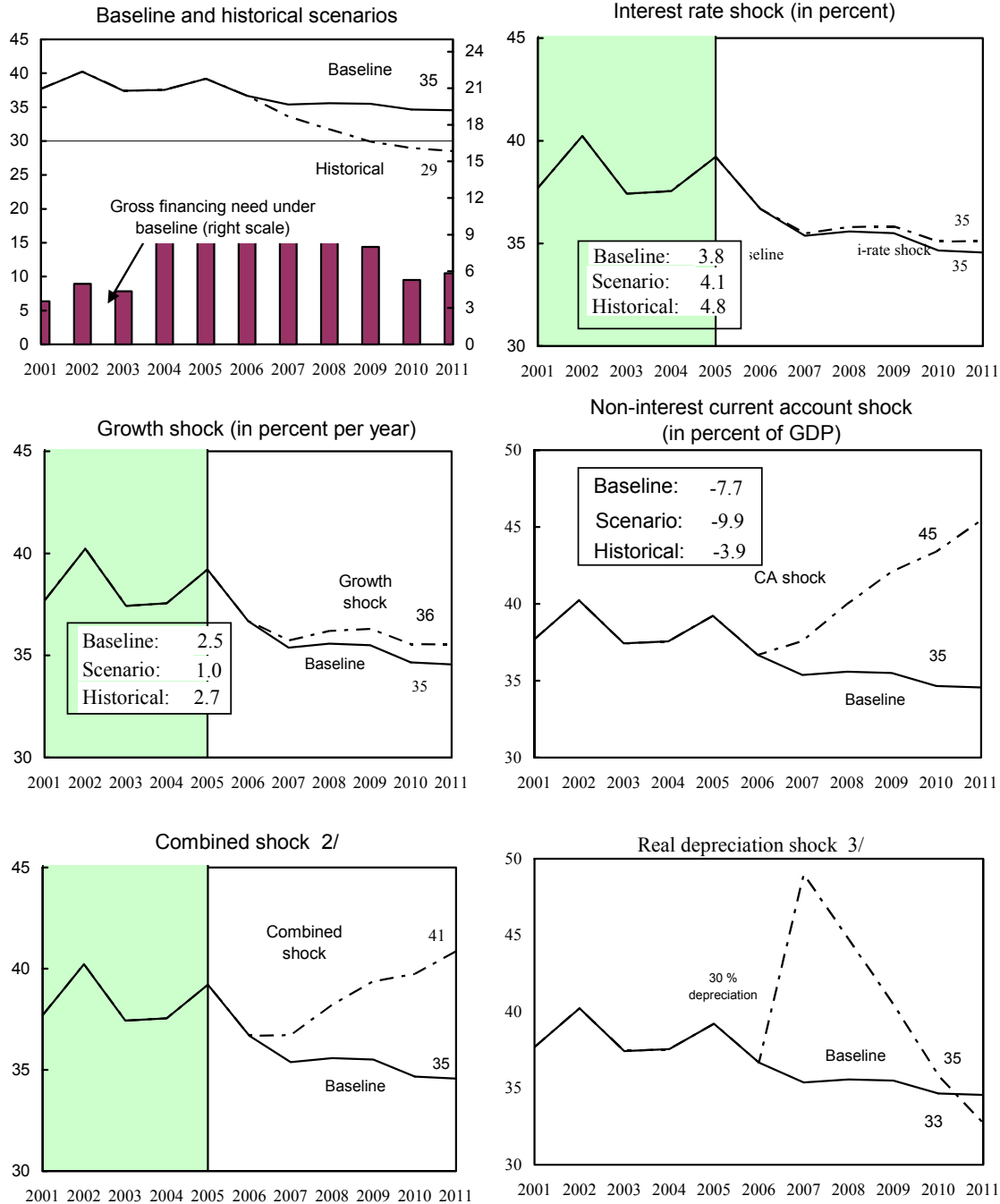
4/ For projection, line includes the impact of price and exchange rate changes.

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

6/ The key variables include real GDP growth in fiscal year, nominal interest rate, dollar deflator growth, and both non-interest current account and nondebt inflows in percent of GDP.

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

Appendix VI. Figure 1. Barbados: External Debt Sustainability: Bound Tests 1/  
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Actual data 2001-2005. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2006.

Appendix VI. Barbados: Public Sector Debt Sustainability Framework, 2001–11  
(In percent of GDP, unless otherwise indicated)

	Actual					Projections					Debt-stabilizing primary balance 9/	
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		2011
<b>1 Baseline: Public sector debt 1/</b>	82.9	87.0	84.1	83.6	81.6	74.0	71.8	72.6	73.5	74.0	74.8	0.0
<i>Of which: foreign-currency denominated</i>	29.3	28.0	26.8	27.1	28.1	25.2	23.6	23.0	22.4	21.8	21.2	
2 Change in public sector debt	8.9	4.0	-2.9	-0.5	-2.0	-7.5	-2.2	0.7	1.0	0.5	0.8	
3 Identified debt-creating flows (4+7+12)	6.9	12.9	-3.8	-4.5	-7.9	-7.1	-2.7	-0.1	-1.5	-2.2	-1.8	
4 Primary deficit	2.4	8.6	2.2	-3.2	-2.9	-2.6	-0.4	-0.4	-1.5	-1.9	-1.8	
5 Revenue and grants	41.1	42.3	42.0	43.4	43.6	41.7	41.1	41.4	41.5	41.7	41.9	
6 Primary (noninterest) expenditure	43.5	51.0	44.2	40.2	40.7	39.1	40.7	41.0	40.0	39.8	40.1	
7 Automatic debt dynamics 2/	4.5	4.3	-2.5	-1.3	-4.5	-4.5	-2.3	0.3	0.1	-0.3	0.0	
8 Contribution from interest rate/growth differential 3/	4.5	4.3	-2.5	-1.3	-4.5	-4.5	-2.3	0.3	0.1	-0.3	0.0	
9 Of which contribution from real interest rate	2.0	7.2	-1.9	3.6	-1.1	-1.7	0.1	1.7	1.6	1.5	1.5	
10 Of which contribution from real GDP growth	2.5	-2.9	-0.7	-4.9	-3.3	-2.8	-2.4	-1.4	-1.6	-1.8	-1.5	
11 Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
12 Other identified debt-creating flows	0.0	0.0	-3.5	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	0.0	0.0	-3.5	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3) 5/	1.9	-8.9	0.9	4.0	5.9	-0.4	0.5	0.8	2.4	2.6	2.6	
Public sector debt-to-revenue ratio 1/	201.7	205.5	200.2	192.7	187.0	177.7	174.7	175.4	176.9	177.4	178.5	
<b>Gross financing need 6/</b>	17.3	24.6	17.1	12.0	12.1	13.3	15.4	15.4	13.9	14.7	13.4	
in billions of U.S. dollars	0.4	0.6	0.5	0.3	0.4	0.5	0.6	0.6	0.6	0.6	0.6	
<b>Scenario with key variables at their historical averages 7/</b>						74.0	72.9	72.2	73.0	74.1	75.1	-0.3
<b>Scenario with no policy change (constant primary balance) in 2006-2011</b>						74.0	69.6	68.1	68.0	67.7	67.7	0.0
<b>Key Macroeconomic and Fiscal Assumptions Underlying Baseline</b>												
Real GDP growth (in percent)	-3.3	3.5	0.8	6.2	4.4	3.7	3.5	2.0	2.3	2.5	2.1	
Average nominal interest rate on public debt (in percent) 8/	5.1	5.0	4.5	4.0	4.3	5.0	4.9	4.7	4.4	4.2	4.1	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	2.6	8.5	-2.3	4.5	-1.3	-2.1	0.3	2.5	2.4	2.2	2.1	
Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	2.5	-3.5	6.8	-0.5	5.5	7.1	4.6	2.2	2.0	2.0	2.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	8.7	21.1	-12.5	-3.5	5.7	-0.4	7.9	2.7	-0.2	1.9	2.8	
Primary deficit	2.4	8.6	2.2	-3.2	-2.9	-2.6	-0.4	-0.4	-1.5	-1.9	-1.8	

1/ Nonfinancial public sector. Fiscal year starts in April 1st. Gross debt is used.

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

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as  $ae(1+r)$ .

5/ For projections, this line includes exchange rate changes.

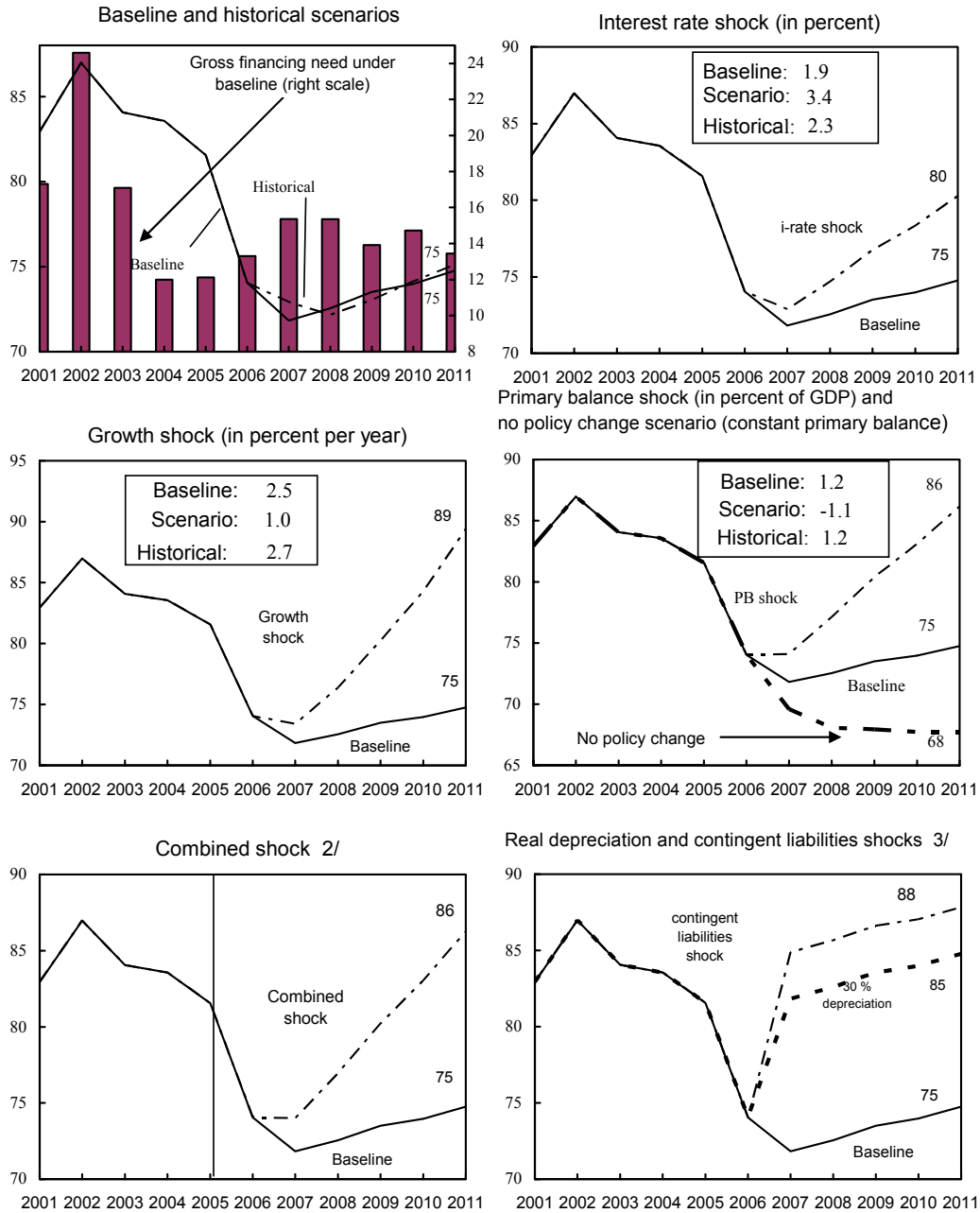
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth in fiscal year; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

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

Appendix VI. Figure 2. Barbados: Public Debt Sustainability: Bound Tests 1/  
(Public debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Actual data from 2001 to 2005. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2006, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

**Statement by the IMF Staff Representative**  
**August 4, 2006**

1. This statement provides information that has become available since the staff report was issued. The thrust of the appraisal contained in the staff report is not affected by these developments.
2. **Revisions of preliminary data for 2005 have reduced the current account deficit.** Revised estimates of the average length of stay for tourists improved travel credits in the balance of payments. This, in turn, reduced estimates of the 2005 current account deficit (from \$380.9 million to \$367.8 million, or from an estimated 12.4 percent of GDP to 11.9 percent), and increased estimated real GDP growth (from 3.9 percent to 4.1 percent).
3. **Preliminary data for the first half of 2006 are in line with projections.** Economic activity remains strong, with real GDP growth at around 4 percent. End of period inflation has slowed slightly to 6.5 percent by end-June 2006. Also, gross international reserves have declined from about \$620 million at end-December 2005 to around \$580 million at the end of June 2006. Finally, credit to the private sector has been growing at an annual rate of above 20 percent in the first months of the year, but slowed to 19 percent in the 12 months to June 2006, in line with the staff report projection of 13 percent for end 2006.
4. **Credit agency outlook reviewed.** Standard & Poor's revised its outlook for Barbados' sovereign rating from BBB+/negative to BBB+/stable. The revision was based on fiscal adjustments that are expected to lead gradually to lower debt levels. However, the agency also warned that the outlook could be revised back to negative if high current account deficits persist and/or the government fails to rein in its fiscal deficit.



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September 13, 2006

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## **IMF Executive Board Concludes 2006 Article IV Consultation with Barbados**

On August 4, 2006, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Barbados.<sup>1</sup>

### **Background**

Barbados has favorable economic and social indicators by regional standards, as well as strong and stable political institutions. Tourism and financial services are major sources of employment and foreign exchange. Per capita income is the highest in the region (US\$17,300 on a PPP basis) and the country enjoys an investment grade rating. The country ranks high in the United Nations Development Program's Human Development Index, poverty is low, and unemployment has been declining. Business conditions are adequate, and corruption and crime are low.

Barbados' economy did well in the 1990s, but the post-9/11 global slowdown led to the emergence of macroeconomic imbalances. Following eight years of 3 percent average real GDP growth, low inflation and fiscal deficits under 3 percent of GDP, economic growth turned negative in 2001 and stayed low in 2002–03. In response, the government launched a “national emergency program” of public investment in late-2001. While this helped revive economic activity, it also contributed to a widening of the

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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.

overall budget deficit, an increase in government debt, and increasing external imbalances.

Barbados' economic growth rebounded to 4 percent a year in 2004–2005, and unemployment fell to a historical low of 9 percent. Higher inflation reflected the pass-through of higher oil prices, as well as domestic demand pressures, as highlighted by an increase in core inflation—which excludes food, transportation, fuel, and light—from almost zero in 2004 to 4 percent in 2005.

The overall fiscal position, which had begun to improve in 2003–04, deteriorated slightly in 2005, as a result of a sharp increase in extrabudgetary capital expenditures. Partly offsetting this, the central government balance strengthened as a result of buoyant tax revenues, public enterprises continued to lower their deficits, and the National Insurance Scheme achieved a surplus of 3.3 percent of GDP.

The authorities tightened monetary policy in 2005, with a four-step 250 basis points increase in the minimum deposit rate to 4.75 percent. Nevertheless, credit to the private sector continued to grow at a fast pace, rising by 21.7 percent in 2005—driven mostly by lending to the tourism and personal sectors. Commercial banks reduced excess reserves and net foreign assets to finance this expansion. Financial indicators suggest that the banking system continues to be sound.

The external current account deficit deteriorated further, reaching 12.4 percent of GDP in 2005, but the level of gross international reserves stabilized. Almost half of the deterioration in the current account deficit in 2004–06, relative to 2000–03, is explained by increased oil imports. Large increases in private spending, fueled by rapid credit growth, have also contributed to the deterioration in the current account—despite the real effective exchange rate depreciation and falling unit labor costs. Strong capital inflows in 2005 nevertheless curbed a decline in international reserves that had started in 2003.

Barbados has made progress in structural reforms in some key areas. The authorities continued their program to cut income tax rates aimed at improving competitiveness. They have also liberalized further the telecommunication sector, and privatized a major insurance company. In 2005, arrangements were concluded for Barbados' formal membership in the CARICOM Single Market and Economy (CSME). More recently, a reduction in foreign exchange controls has effectively liberalized travel arrangements within CARICOM and facilitated the holding of foreign currency accounts.

## **Executive Board Assessment**

Executive Directors welcomed the strong economic growth and the positive outlook for continued economic expansion. At the same time, Directors noted that significant macroeconomic imbalances have emerged, in particular an accelerating inflation and a large external current account deficit.

Directors also welcomed the authorities' commitment to tighten macroeconomic policies if downside risks materialized, and recommended an early tightening of policies to reduce the risks of overheating and help support the exchange rate peg. While increases in oil prices explain in part the acceleration of inflation and the external deficit, Directors stressed that expansionary macroeconomic policies and associated rapid credit growth have contributed to an acceleration in core inflation and imports over the last two years.

Directors observed that the procyclical fiscal stance has contributed to these imbalances, and recommended a return to the fiscal consolidation efforts of recent years. On expenditures, they underscored that further increases in extra budgetary expenditures or public-private partnership projects that add stimulus to an already buoyant private sector could be postponed or offset by reductions in other outlays. On revenues, they encouraged the authorities to increase value-added tax revenue in anticipation of the removal of the import tariff surcharge, carry out a comprehensive review of the pricing policies of public enterprises to help consolidate their finances, and ensure a full pass-through of international oil prices to consumers. Directors also welcomed the authorities' interest in a fiscal Report on the Observance of Standards and Codes to help improve transparency in the fiscal accounts.

Directors noted the envisaged reduction in public debt ratios, but considered that the slow pace of debt reduction left Barbados vulnerable to exogenous shocks, and encouraged a faster pace of adjustment. Directors commended the authorities for the strong performance of the public pension system, and endorsed a further diversification away from public sector assets.

Directors agreed that further monetary policy tightening would be needed to contain inflation, curb excessive credit growth, and support the peg. They pointed out that real interest rates are low, and that the prospects of higher international rates further underscore the need to increase policy rates. Directors welcomed the authorities' plans to develop money and capital markets, which would facilitate the gradual introduction of indirect instruments of monetary policy.

Directors were encouraged by sound banking indicators and upgraded financial sector regulations, and emphasized the importance of monitoring potential risks associated with large capital inflows and rapid credit growth. Directors commended the authorities for the introduction of measures to strengthen the financial sector regulatory framework



and to develop the financial market infrastructure. However, Directors noted that, since financial indicators generally lag the development of credit and liquidity problems, credit quality and reductions in net foreign assets need to be carefully monitored, especially in an environment of increased competition from regional banks.

Directors felt that strengthening competitiveness through structural reforms could also facilitate external adjustment and support the exchange rate peg over the medium term. In this regard, they welcomed the authorities' efforts to advance the agenda of the CSME and in this context recommended further reforms to facilitate private sector-led growth, such as trade liberalization, the rationalization of incentive programs, and privatization, rather than selective support to sectors that generate or save foreign exchange. Directors also noted that the support for the sugar adaptation strategy should be limited to commercially viable activities.

Directors noted that the statistical information was broadly adequate, and suggested improvements to the coverage and transparency of data on public sector entities and capital account transactions.

**Public Information Notices (PINs)** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The [Staff Report](#) (use the free [Adobe Acrobat Reader](#) to view this pdf file) of the 2006 Article IV Consultation with the Barbados is also available.

## Barbados: Selected Economic Indicators

	2001	2002	2003	2004	2005
	(Annual percentage changes)				
<b>Output and prices</b>					
Real GDP	-2.6	0.5	1.9	4.8	3.9
Consumer Prices (12-month increase)	2.8	0.2	1.6	1.4	6.0
Tourism	-5.9	-2.8	7.0	9.4	-3.9
Unemployment	9.9	10.3	11.0	9.6	9.0
<b>Money and credit 1/</b>					
Net domestic assets	-8.6	5.7	0.8	25.2	10.9
Public sector credit (net)	8.1	12.2	3.6	4.1	-5.7
Private sector credit (net)	-0.3	2.4	0.6	11.0	14.3
Broad money (M2)	5.6	10.4	6.5	16.4	7.3
	(In percent of GDP, unless otherwise indicated)				
<b>Public sector operations 2/</b>					
Overall balance 3/	-6.2	-12.8	-5.9	0.0	-0.3
Central government balance	-4.3	5.6	-2.4	-2.5	-0.9
National Insurance Scheme Balance	2.5	2.5	2.6	3.5	3.3
Public enterprises balance	-2.6	-2.3	-2.5	-1.2	-0.7
Extrabudgetary expenditure	-1.8	-7.5	-3.5	0.1	-2.0
<b>External sector</b>					
External current account balance	-3.7	-7.5	-6.9	-11.9	-12.4
Public sector external debt 4/	29.3	28.0	26.8	27.1	28.1
Gross international reserves (in millions of US dollars)	707	683	752	595	619

Sources: Barbadian authorities; and IMF staff estimates.

1/ Changes in percent of beginning-of-period broad money.

2/ Fiscal years (April–March).

3/ Includes central government, social security (NIS), public enterprises; and extrabudgetary expenditure.

4/ Refers to central government guaranteed debt.