INTERNATIONAL MONETARY FUND

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BARBADOS

2011 ARTICLE IV CONSULTATION

November 2011

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 2011 Article IV consultation with Barbados, the following documents have been released and are included in this package:

- **Staff Report** for the 2011 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on October 14, 2011, with the officials of Barbados on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 21, 2011. 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.
- **Informational Annex** prepared by the IMF.
- **Public Information Notice** (PIN)
- **Statement by the Executive Director**

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INTERNATIONAL MONETARY FUND

BARBADOS

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION

November 21, 2011

KEY ISSUES

Context: Barbados is struggling in the aftermath of the global crisis, with a slow recovery underway. Tourism, offshore financial services and construction were especially hard hit, but some activity has resumed. In response, to limit employment losses and shield vulnerable groups, the government increased social spending, putting pressure on public finances and raising public debt further. The authorities are revising their medium term fiscal strategy to improve fiscal outcomes mainly by reducing spending. Downside risks from the weak external environment are increasing.

Focus of the consultation:

The main policy challenge is to implement a credible fiscal strategy without jeopardizing the still-fragile recovery. To this end, policy discussions focused on fiscal consolidation and external stability in presence of high debt, financial stability (including the resolution of CLICO Barbados), and enhancing medium term growth prospects. The staff made the following recommendations:

- **Fiscal consolidation and external stability:** Push ahead with efforts to put debt on a sustainable path and to sustain the peg. Broaden the coverage of the revised Medium Term Fiscal Strategy to include public enterprises. Focus on expenditure reduction, especially lowering transfers to public bodies and reducing the wage bill since room for further tax increases is limited.

- **Strengthening financial regulation and supervision:** Minimize fiscal costs in the CLICO resolution and seek a private sector solution. Increase provisioning as a prudential measure for insurance companies and make the financial sector more resilient to shocks through frequent monitoring and improved risk management. Strengthen the supervisory capacity of the Financial Services Commission through technical assistance from international agencies, including CARTAC, and intensify efforts to improve regional financial stability.

- **Enhancing medium term growth prospects:** Continue efforts to improve productivity since total factor productivity is low. Improve the efficiency of government services including by consolidating agencies with complementary mandates and reducing the bureaucratic burden on the private sector.

Approved By
David Vegara (WHD) and Claire Waysand (SPR)

Discussions took place in Bridgetown during October 3–14, 2011. Staff representatives comprised Therese Turner-Jones (head), Charles Amo-Yartey, Joel Chiedu Okwuokei, and Kristine Vitola (all WHD). David Vegara (WHD) attended the concluding meeting. Mr. Rolle (OED) attended some of the meetings.

CONTENTS

TABLES

APPENDIXES

BACKGROUND

1. **Barbados has been severely affected by the global economic crisis, which has curbed tourism and offshore activity with broader impact on other sectors**. Economic activity is estimated to have contracted by a cumulative 5 percent between 2008 and 2010 with broad economic weakness also hurting the labor market. Depressed tourism receipts and high commodity prices have adversely affected the external sector putting pressure on reserves.

2. **The government focused on social stability in the face of the economic crisis.** The authorities responded to the economic slump by implementing a number of countercyclical measures to protect employment and minimize the impact of the crisis on vulnerable groups, while sustaining economic activity. A Tourism Investment Relief Fund was set up in 2009 to encourage the renovation of tourism related facilities and an employment stabilization scheme was introduced to allow employers to defer for one year their contribution to the National Insurance Scheme (NIS) contingent on the maintenance of employment levels. These measures combined with weak revenues to create a large fiscal deficit and worsened the debt-to-GDP ratio.

3. **To stem the rising debt, the authorities developed a Medium Term Fiscal Strategy (MTFS) in early 2010**. The strategy aims to reduce the fiscal deficit of the central government, balance the budget over the medium term, and reduce the debt-to-GDP ratio to 90.5 percent by 2014/15 while ensuring moderate growth. The framework proposes a number of revenue and expenditure measures to be pursued over the medium term. Based on these adjustments, the fiscal deficit to GDP ratio is projected to decline to 2.1 percent by 2013/14 and then to a balanced position by 2014/15. The MTFS went off track in the first year of implementation due to weaker global conditions and low revenues, and the authorities are currently revising the strategy. The MTFS is not binding however and no date has been established for the revised strategy to be in place.

Barbados: The Authorities' Medium Term Fiscal Framework as of January 2010
(Percent of GDP)

	2010/11	2010/11	2011/12	2012/13	2013/14	2014/15
	Act.	Projections				
Public debt	116.8	109.6	108.1	105.3	99.5	90.5
Domestic debt	84.7	81.3	82.3	81.8	78.2	71.1
External debt	32.1	28.3	25.8	23.5	21.3	19.4
Overall fiscal balance	-8.3	-7.3	-5.2	-4	-2.1	0
Primary balance	-2.6	-1.1	1	2.1	3.7	5.4

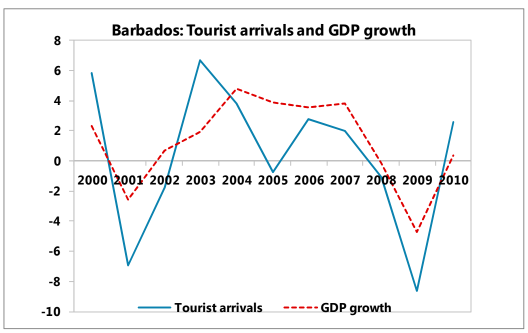
Note: Central government only

4. **Exchange system and statistics. The Barbados dollar has been pegged to the U.S. dollar at the rate of BD$2.00=US$1 since 1975.** Barbados has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on current account transactions. Statistical data are broadly adequate for surveillance, though weaknesses remain.

RECENT DEVELOPMENTS AND OUTLOOK

5. The difficult global economic conditions continue to pummel Barbados with growth at anemic levels despite the rebound in tourism, while inflation is surging:

- After two years of negative growth, real GDP growth in 2010 was a mere 0.2 percent. In the first nine months of 2011 GDP growth is estimated at around 1 percent due mainly to improved activity in the tourism and construction sectors.

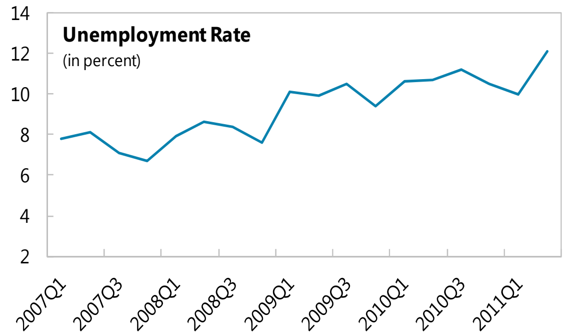


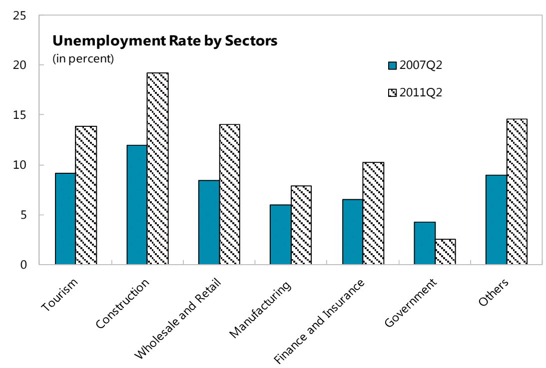
- Tourist arrivals increased by 8.7 percent y/y in August, 2011 (Box 1). However, real tourism expenditure declined by about 15 percent (y/y) in June 2011 as visitors cut their length of stay and looked for value, limiting the economic impact of the higher headcount, notably on reserve accumulation.

- Pressures on prices have increased. Inflation is estimated to have reached 10.4 percent (y/y) in July 2011 due to high international oil and food prices. Non-core inflation—food, fuel and transportation—which constitutes about 57 percent of household consumption, increased by 14.4 percent. Inflation in Barbados consistently exceeds those in neighboring countries and trading partners, possibly reflecting a higher mark-up and wage-productivity gap in the domestic economy.

- Money growth has eased, while credit to the private sector has dried up. Since 2008 broad money has grown marginally, rising only by 2.8 percent in 2010. Total deposit growth in the banking system decelerated after a peak in 2007, and is yet to fully recover. Growth of credit to the private sector has almost vanished, slipping further in September 2011 by 0.2 percent (y/y). At the same time, the spread between the average loan and deposit rates narrowed slightly as the average loan rate declined to 9 percent.

6. The prolonged adverse economic environment has negatively affected the labor market. The unemployment rate has almost doubled since 2007 from 6.7 percent to 12.1 percent in June 2011. Faced with declining profitability, private sector employers are no longer able to maintain employment levels despite government incentives (including postponement of national insurance contributions) to retain workers. The average unemployment rate in tourism, construction, and wholesale and retail trade sectors increased from 9.8 percent in June 2007 to 16 percent in June 2011.





7. The current account deficit has widened in recent times due to higher oil and food prices. The current account deficit rose to 9 percent of GDP for the first nine months of 2011, compared with 8.7 percent for the corresponding period of 2010, mainly due to higher oil and food prices. Even though oil imports volumes declined, price surges of up to 42 percent increased the fuel import bill by about one-third. International reserves, however, reached 4.5 months of imports at end-September 2011 having been boosted by public and private capital inflows.

8. Fiscal performance remains worrisome. The FY 2010/11 central government deficit widened to about 8½ percent of GDP from 8.2 percent of GDP in FY 2009/10. Expenditures increased by ½ percentage points of GDP, while revenue weakness, particularly in corporate taxes, implied an overall deficit in excess of the budget target. The overall fiscal deficit for the non-financial public sector (NFPS) reached 7.3 percent in FY 2010/11. Budget execution in the first half of FY 2011/12 appears to be on track to achieve an overall central government deficit target of 5.1 percent of GDP, and 4.1 percent of GDP for the NFPS.

9. Public debt continues to rise though rollover risks are limited. At the end of FY 2011, total public sector debt was 117 percent of GDP, up from about 91 percent two years earlier. Domestic debt accounts for about 70 percent of public debt, mostly at fixed rates. Its main holders are the NIS and the domestic banking system. Debt rollover risks are limited since the NIS will continue to buy government securities and hold them to maturity (Box 2). In addition, external debts are mostly long term and have a favorable amortization profile.

Barbados: Central Government Debt by Creditor
(Percent of GDP)

	2008/09	2009/10	2010/11
External	*22.6*	*25.7*	*29.0*
Multilateral	5.9	6.7	7.8
Bilateral	1.2	1.0	0.8
Commercial	4.1	4.0	3.9
Bond placements	11.4	14.0	16.5
Domestic	*53.5*	*61.1*	*68.1*
Short Term	10.8	13.6	15.4
Long term	42.6	47.6	52.7
Domestic debt by creditor			
Central bank	1.0	1.2	1.1
Commercial banks	13.4	15.6	16.0
National Insurance Scheme	20.0	22.9	27.0
Insurance sector	4.2	5.0	6.2
Private sector	8.7	10.2	11.3
Others	6.1	6.1	6.5

Source: Barbadian authorities and Fund staff estimates

10. The banking system is stable and well capitalized but non-performing loans are on the rise and loan loss provisioning remains low. At the end of June 2011, bank capital averaged about 17.4 percent of risk-weighted assets. Non-performing loans increased from 7.9 percent in December 2009 to 10.3 percent in September 2011 due to two substandard loans to the hotel sector, while provisioning remained at around 3½ percent. The ratio of liquid assets to total assets increased sharply to 12.8 percent, pointing to ample liquidity in the banking system. Stress test results from the Central Bank show that commercial bank would, under reasonable additional stress, remain adequately capitalized.

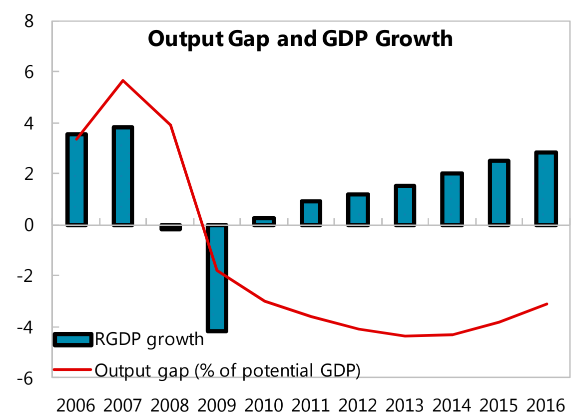
Barbados: Financial Soundness Indicators, 2006-11 1/
(In percent)

	2006	2007	2008	2009	2010	Jun-11
Capital adequacy ratio 2/	14.4	16.4	16.1	17.5	17.1	17.4
NPLs to total loans	4.4	2.8	3.5	7.2	10.9	10.5
Provision for loan loss to total loans	1.5	1.5	2.2	3.3	3.4	3.4
Return on equity	14.3	13.5	11.5	9.9	11.7	7.5
Credit to the private sector, growth yoy	13.2	6.4	11.1	1.4	0.3	-0.7
Liquid assets to total assets	7.9	9.5	9.0	10.8	10.4	12.8

Sources: Central Bank of Barbados; and Fund staff estimates.
1/ Onshore banking system; data for December unless otherwise indicated.
2/ Does not include local branches of foreign banks;

11. The economic outlook for the remainder of this year and 2012 is likely to remain weak, predicated on the tepid global recovery. While tourism is picking up, the rest of the economy is sluggish. Real GDP growth is expected to be just over 1 percent building on an anticipated further rebound in tourism. Higher international oil and food prices are expected to push inflation to slightly above 7 percent y/y in December 2011, with some easing in 2012. The external current account deficit is projected to widen to about 10½ percent of GDP due in part to lower export receipts and high oil and food prices, this year and narrow in 2012. The reserve coverage would remain at around 4 months of imports by year-end supported by steady private and public capital inflows.

12. The medium term economic prospects are uncertain with risks tilted to the downside. The current tepid and uncertain pace of the global recovery is likely to weigh on growth in Barbados. Given the weak labor market conditions in the U.K. and U.S., Barbados' major source markets, sustained increases in tourist arrivals appear challenging. Consequently, the output gap will only narrow in the medium term. Barbados' high level of public debt severely constrains room for further government spending in areas such as capital projects which might boost growth prospects. A further slowdown in advanced economies will dampen the recovery and put additional pressures on the macroeconomic situation.



13. Global economic developments will weigh heavily on the balance of payments in the medium term. Barbados' reserves are projected to fall continuously in nominal terms due to weak external demand for tourism. Reserve coverage above three months of imports would be sustained over the medium term provided that strong net FDI inflows are observed with the revival in the main trading partners and tourism source markets. At the same time, the current account deficit is projected to decline to 5.6 percent of GDP in 2016.

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

			Est.	Projections					
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Real GDP growth (percent)	-0.2	-4.2	0.2	0.9	1.2	1.5	2.0	2.5	2.8
Average inflation (percent)	8.1	3.7	5.8	6.9	5.9	4.2	4.2	4.1	4.2
Fiscal deficit (central government)	-4.6	-8.2	-8.3	-5.1	-4.0	-3.2	-2.4	-1.6	-1.5
Public debt	90.9	104.0	116.8	116.5	116.3	114.8	112.6	110.0	107.2
Current account deficit	-9.6	-5.6	-8.5	-10.5	-9.8	-8.2	-7.7	-6.5	-5.6
Gross reserves (millions of US$)	680	744	786	764	741	721	683	685	692
Gross reserves (months of imports)	3.4	4.4	4.4	4.1	3.8	3.6	3.3	3.2	3.1

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

14. The authorities stand ready to take additional actions if risks were to worsen in the near-term. Staff and the authorities discussed the need to develop fiscal contingency plans to reduce spending or increase revenues should global economic conditions worsen in order to achieve the budget targets and maintain external stability.

POLICY DISCUSSIONS

The main policy challenge is to implement a credible fiscal consolidation strategy without jeopardizing the still-fragile recovery. To this end, policy discussions focused on fiscal consolidation and external stability, financial sector stability and the regulation of the nonbank financial institutions, and the authorities' efforts to improve competitiveness and promote growth.

A. Fiscal consolidation and debt reduction

15. Staff sees the main macroeconomic challenge as fiscal consolidation against the backdrop of the high level of public debt. With public debt on an unsustainable trajectory, the priority is to reduce the debt to below 100 percent of GDP in the medium term. Staff argued for the implementation of a comprehensive medium-term fiscal strategy, based on realistic macroeconomic assumptions as a lynchpin of a credible fiscal consolidation plan. In this context, the coverage of the authorities' revised Medium Term Fiscal Strategy (MTFS) would have to be broadened to include public enterprises, a major source of rising debt. The revised MTFS needs to be supported by a long-term strategy to significantly reduce the debt level since debt levels of around 100 percent of GDP pose unsustainable debt servicing risks.

16. The 2010 Article IV mission recommended a number of revenue enhancing and expenditure reducing measures to consolidate fiscal imbalances and reduce the debt levels. On the revenue side, the mission suggested an increase in the VAT by 3 percentage points to 18 percent combined with the broadening of the tax base, elimination of exemptions and improvements in tax administration. On the expenditure side, the mission recommended bringing down public sector wages and spending on goods and services and adjusting tariffs in public utilities. The authorities implemented some of the recommendations including raising the VAT rate from 15 to 17.5 percent for a period of 18 months, an increase on excise taxes on gasoline by 50 percent, and the elimination of some tax free allowances for travel and entertainment. In addition, bus fares were raised and some fees and charges for dispensary services were adjusted. However, containing expenditure growth generally has proved more challenging.

17. Staff and the authorities agreed on the need to focus fiscal consolidation on expenditure reduction since room for further tax increases is limited. In particular, measures to reduce public wage spending and transfers to public enterprises should remain the focus of the expenditure reductions. In this direction, staff recommended the following measures:

- Curb the public wage bill by freezing wages for at least two years and reduce the wage to GDP ratio to the level in the mid 2000s. This would require reducing the current ratio from 10 percent of GDP to 8.5 percent.

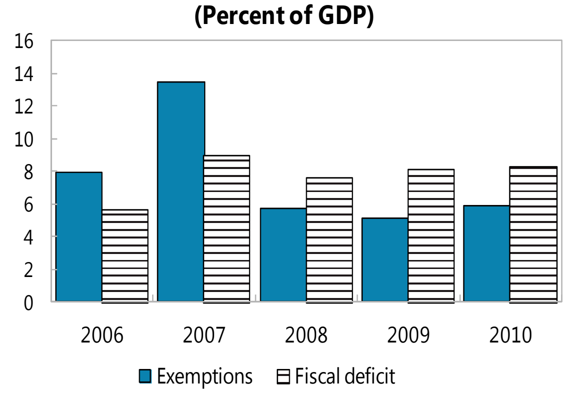
- Similarly, lower the ratio of transfers to GDP to the level in the mid-2000s. This would require reducing the current ratio from 12 percent of GDP to 10 percent.

- Raise tariffs in public enterprises and combine with efficiency improvements to limit losses. Consider privatization and outsourcing where feasible.

- Make the recent increase in the VAT rate permanent, broaden the tax base and explore the scope for increasing the corporate tax rate particularly for offshore operations as activity recovers.

- Develop a plan to reduce tax exemptions (currently estimated at BD$500 million annually, 5.6 percent of GDP) by at least 15 percent by 2015. Intensify monitoring of exemptions in order to minimize leakages and prevent abuses. Publish data on companies receiving concessions to enhance transparency.

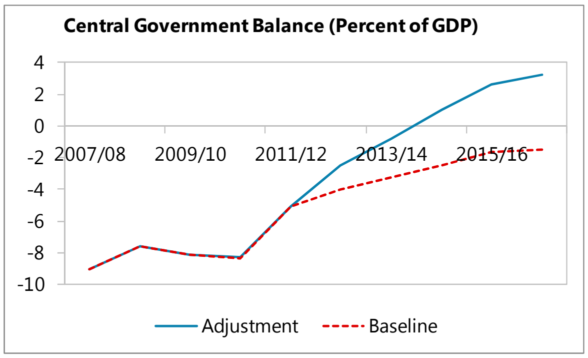
Barbados. Tax exemptions and fiscal deficits (Percent of GDP)

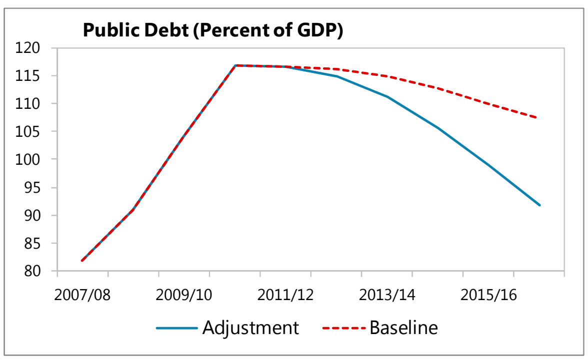


- Continue efforts to improve revenue administration and public financial management.

18. Staff's medium term active fiscal adjustment scenario would put public debt on a downward path thereby enhancing external stability without destabilizing social cohesion. The adjustment scenario is based on an aggressive fiscal effort similar to the one proposed in the medium term fiscal strategy. The cumulative impact of the recommended measures will be a reduction in the central government deficit from 8.3 percent in FY 2010/11 to a surplus of

3.2 percent in FY 2016/17. As a result, total public sector debt would gradually fall to about 92 percent of GDP by the end of FY 2016/17. Relative to the baseline scenario, public debt will be about 15 percentage points of GDP lower in FY 2016/17.[1] Slower wage growth could have beneficial signaling effects on the private sector and would reduce imports' growth and improve the current account balance in the medium term.





[1] Under this scenario, nominal central government spending grows cumulatively by 16 percent between 2011 and 2016 compared with a cumulative 21 percent growth under the baseline scenario. Nominal revenues grow by a cumulative 56 percent over the same period compared with 45 percent under the baseline scenario. The revenue gains accrue mainly from reduction in exemptions and improvements in tax administration.

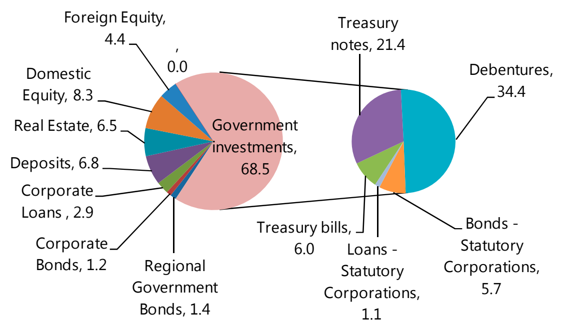
19. **Barbados' high level of public debt raises debt sustainability concerns.** Debt sustainability analysis suggests that even under the adjustment scenario with the required aggressive fiscal efforts, the public debt would not follow a sustained downward path under most standardized shocks. Debt sustainability will remain vulnerable until debt ratios decline further in the long run.

20. **While welcoming the fiscal adjustment proposed in the 2011/12 budget, staff pointed out that even more consolidation would be necessary to put Barbados' debt on a sustainable path. T**he FY 2011/12 budget, presented to Parliament in early August, proposes to reduce the central government deficit further to 5.1 percent of GDP in line with the existing Medium Term Fiscal Strategy (MTFS). The budget narrows the deficit by about 1 percentage point of GDP over the budget estimates. Most of the savings are projected to come from improvements in the efficiency of government and cuts in spending on goods and services, wages, and transfers. The overall deficit for the nonfinancial public sector is projected at 4½ percent of GDP in 2011/12. Staff encouraged the authorities to develop contingency plans in the event uncertainties especially on growth, in the global and domestic environment materialize. Staff urged the authorities to identify concrete measures to help achieve the budget target as well as on a contingency basis. Even under the best implemented MTFS, Barbados' debt remains very high, above 90 percent of GDP.

21. **Staff urged the authorities to reduce reliance on the NIS to finance public sector borrowing, while recognizing that NIS has limited investment opportunities.** Dependence on NIS surpluses to finance

public borrowing has permitted delays in fiscal adjustment (the NIS exposure to the government increased from 54 percent in 2005 to 69 percent in 2011).[2] At close to 70 percent, NIS' current exposure to government is well above the prudential guideline of below 54 percent recommended in the 2005 actuarial report. Noting increasing liabilities as the population ages, staff also cautioned that NIS be allowed to better match its assets and liabilities by limiting further exposure to the public sector. To increase investment opportunities, it remains important for Barbados to intensify efforts to promote the development of domestic and regional capital markets.

Barbados: Portfolio Composition of the National Insurance Scheme (August 2011)



Authorities' Views

22. The authorities indicated their commitment to strengthen fiscal performance and place the public debt on a sustainable path. While recognizing the urgency for fiscal adjustment, they highlighted the risks of a further decline in economic activity by cutting expenditures too fast. They noted that they are currently revising the Medium Term Fiscal Strategy and remain committed to its implementation to help put the debt on a sustainable path. They concurred with staff on the need to reduce the wage bill and transfers and plan to reduce the public work force by natural attrition. Staff and the authorities agreed on the need for engaging the social partnership to initiate a national discussion on the appropriate and affordable level of social spending, especially in light of the doubling in income per capita over the last two decades. The authorities also agreed with staff on the need to reduce tax exemptions since the level of exemptions is too high. They indicated that ad hoc waivers have already been cut by 10 percent and reiterated their commitment to further reducing exemptions by about 10 percent over the medium term.

23. The authorities disagreed with staff that reducing borrowing from the NIS would help NIS better match assets and liabilities. Reiterating limited domestic investment opportunities, they argued that no domestic investment, in the current environment, will yield returns comparable to government securities. Staff and the authorities, however, concurred that reducing the high fiscal deficits in pursuance of the medium term fiscal strategy will reduce the financing needs of the government and help reduce the reliance on the NIS. Staff and the authorities also agreed on the need to discourage direct lending to public corporations by the NIS and for NIS to pay attention to its capacity to monitor the wide range of projects currently being undertaken.

[2] In addition, the share of NIS assets held locally increased from 90 percent to 96 percent over the same period.

B. Monetary and Exchange Rate Policies

24. While the real effective exchange rate is broadly in line with fundamentals, concerns about external stability are increasing. Results from real exchange rate assessments do not provide any conclusive evidence of a significant misalignment of the exchange rate (Box 3). While results from the fundamental equilibrium exchange rate approach show the real effective exchange rate to be close to its equilibrium level, the macro balance and the external sustainability approaches show an overvaluation of between 7 and 11 percent. Further, declining reserves combined with a persistently higher inflation relative to peers, suggests a challenge to competitiveness. Staff shares the authorities' view that the exchange rate peg has served the country and should be maintained. The sustainability of the peg, however, depends on the authorities' ability to successfully address risks to external sustainability including related pressures on the current account from high fiscal deficits. The authorities stand ready to take additional actions if risks were to worsen including a strengthened fiscal effort.

25. Staff argued against further declines in interest rates due to potential pressure on reserves and the exchange rate, with uncertain impact on growth. The central bank's response to the weak economy has been to ease monetary conditions, lowering the minimum deposit rate from 5 to 2½ percent. With inflation close to 7 percent, negative real deposit rates could create misalignment with policy rates in core economies, given usual country spreads, thus exacerbating pressures on foreign reserves and the exchange rate peg. Overtime, it is important to remove the floor on the deposit rates and move towards a market determined rate. Staff urged the authorities to avoid monetizing central government deficits to maintain credibility in the peg and curb inflation expectations.

26. The new foreign exchange regulation sends mixed signals to the financial sector and private investors about the credibility of the peg. In August 2011, the central bank introduced two changes to the foreign exchange regulation:

- The introduction of a surrender requirement whereby authorized foreign exchange dealers are required to surrender 5 percent of their gross foreign exchange purchases to the central bank.

- Reduction in the central bank's selling rate on currency trades from BDS$2.035 per US dollar to BDS$2.015 per US dollar thereby lowering the margin for trades between authorized dealers and the general public. While the 5 percent surrender requirement may boost the supply of foreign exchange to the central bank, it is a backward step in the liberalization process. This change, while increasing the intermediary role of the central bank in foreign exchange transactions, could stymie the development of the interbank market. Staff therefore encouraged the authorities to review progress in the coming months to ensure that it is having the desired effect.

Authorities' Views

27. The authorities reiterated their stance on retaining the floor on deposit rates and defended the new foreign exchange regulation. They noted that the minimum deposit rate acts primarily as a signal to banks concerning the prevailing economic conditions. They argued further that the expected benefits of the removal of the floor such as improved market efficiency and the development of capital markets would not materialize due to the oligopolistic structure of the banking sector in Barbados. On the foreign exchange regulation, the authorities' intention is to boost competition in the foreign exchange market, while agreeing with staff on the need to monitor international reserves carefully.

C. Financial Stability and Regulation

28. The high level of non-performing loans may persist in the near term, while the banking system should remain resilient to adverse shocks in the real economy. Staff pointed out that the recent increase in non-performing loans requires closer supervision. The authorities argued that the recent sharp increase in NPLs is associated with two hotel loans concentrated in one bank. Excluding the two loans, the NPL ratio is estimated to be around 6.6 percent, which is slightly higher than the central bank's prudential guideline of 5 percent. Recent stress tests results from the central bank suggest that in the near term, while loan delinquency is expected to remain high under various macroeconomic stresses, banks' capital positions would remain sufficient to cover the potential losses. Staff stressed the need to make the financial sector more resilient to shocks through frequent monitoring and improved risk management. Staff commended the authorities on the progress made in implementing the recommendations of the 2008 FSAP Update (see Appendix II) and welcomed the fact that the money laundering and financing of terrorism (AML/CFT) bill was before Parliament. Staff looked forward to its final approval.

29. Efforts to resolve problems in the insurance sector are underway. Notably with respect to CLICO, a final report of the Judicial Manager has been submitted to the Supreme Court**.** With the options laid out by the Judicial Manager to the High Court ranging from outright liquidation to the formation of a new company, a decision by the authorities is needed to move ahead (Box 4). The preferred option of the Judicial Manager is unlikely to materialize due to the weak financial position of the Barbadian and ECCU governments. In the absence of fiscal space, it is important to seek a private sector solution to the resolution of CLICO. Meanwhile, the resolution of British American Insurance Company (BAICO) is near completion. The judicial managers for BAICO in Barbados had recommended that the company's assets be liquidated.[3] Staff stressed the importance of a coordinated regional approach to financial sector supervision and the need for providing a mechanism for establishing a framework for crisis resolution.

30. Staff supported the authorities' ongoing efforts to reform the supervisory framework. A new regulatory body—the Financial Services Commission—started work

[3] Negligible costs to the government are expected.

in April 2011 to bring under one umbrella the supervision of insurance, pensions and securities. The BAICO/CLICO affairs have exposed the fragility of insurance supervision in the country and staff urged the authorities to prioritize insurance supervision. Staff encouraged the authorities to continue strengthening the supervisory capacity of the FSC including through technical assistance from CARTAC and other international agencies.

Authorities' Views

31. The authorities affirmed their commitment to minimizing fiscal costs in the resolution of CLICO. They indicated that they are considering a fifth option which may involve a sale of the traditional insurance business and/or liquidation, with the end of 2012 as the timeline for the conclusion of the resolution. The authorities also noted that the resolution of BAICO is near completion with a minimal level of exposure to the government. They concurred with staff on the need for regional frameworks to address financial sector problems and are actively involved in initiatives in this regard.

D. Growth Enhancing Structural Reforms

32. Raising total factor productivity is important to raising medium term growth prospects. Barbados has a relatively good business environment as attested by the World Economic Forum's Global Competitiveness Index and the Travel and Tourism Competitiveness Index (TCI). The TCI ranks Barbados at the top of CARICOM and 3rd in the Americas behind the US and Canada (Box 5). However, total factor productivity in the country has been declining with important welfare consequences. Staff encouraged the authorities to continue their efforts to raise productivity. To this end, it is essential to improve the efficiency of government services including by consolidating agencies with complementary mandates and reducing the bureaucratic burden on the private sector. Staff supported the authorities' efforts to reform public financial management, tax administration and debt management and to improve the energy mix by investing in renewable energy.

Authorities' Views

33. The authorities have embarked on a number of reforms to improve the business environment and make the public sector more efficient. First, they have launched a major IADB sponsored competitiveness project with four main pillars—incentives and regulations, business development architecture, improving trade logistics and trade facilitation, and strengthening the public-private dialogue on competitiveness. Second, they described ongoing efforts to modernize public procurement practices with the objective of improving the transparency and integrity of the system as well as lowering costs.

E. Statistical Issues

34. Given Barbados' level of economic development, more needs to be done to improve the quality and periodicity of statistics. While data coverage is relatively good, serious weaknesses persist in the timely delivery of most macroeconomic data, including national accounts, prices, external, and debt data. Staff recommended the use of CARTAC technical assistance to help improve both the quality and timeliness of data and their release to the public.

STAFF APPRAISAL

35. Barbados continues its struggle out of the global economic crisis and a slow recovery is underway. Real GDP growth will be tepid at less than 1 percent this year despite higher tourist arrivals, as overall economic activity is subdued. Weak external demand for tourism will limit international reserves accumulation. The medium term prospects are uncertain with risks tilted to the downside. The current weak and uncertain pace of the global recovery is likely to weigh on growth in Barbados in the near term.

36. The main policy challenge is to implement a credible fiscal consolidation strategy without jeopardizing the still-fragile recovery, To put Barbados' debt on a sustainable path while supporting the peg, the medium-term fiscal strategy (MTFS) needs urgent implementation, beginning with concrete expenditure cutting measures. While the recent temporary hike in the VAT rate is commendable, it should be made permanent. More effort is also needed to curb spending and rationalize government services, while the coverage of the MTFS should be broadened to include public enterprises.

37. Fiscal consolidation should have an expenditure focus since room for further tax increases is limited. Measures to reduce public wage spending and transfers to public enterprises should remain the focus of the expenditure reductions. Staff recommends reducing the wage bill (including a wage freeze) and transfers to public enterprises to trim spending. Tariffs in public enterprises need to be raised to limit losses and tax exemptions minimized.

38. Staff supports the fiscal adjustment pursued in the 2011/12 budget while highlighting the need for more concrete measures to achieve budget targets and bring the debt to a sustainable level. It is essential to develop contingency plans to ensure that budget execution is above and beyond targets in view of uncertainties in the global and domestic environment. Staff urges the authorities to intensify efforts to rein in government spending particularly on wages and non-essential services, better prioritize new government projects and broaden the tax base to bring the debt on a firm downward trajectory.

39. While the exchange rate peg has served the country well, it needs to be reinforced by a credible fiscal consolidation effort to lower deficits and support external stability. The sustainability of the peg will depend on the authorities' ability to successfully address risks to external sustainability related to ongoing fiscal deficits and high public debt. While the exchange rate is close to equilibrium, efforts should be intensified to address the risks to external stability from large fiscal imbalances. Given the weakening in reserve coverage and the authorities' commitment to the exchange rate peg, it is important to monitor net foreign reserves closely. Staff sees the need to maintain a positive interest rate differential vis-à-vis the United States to encourage capital inflows.

40. The banking system is stable and healthy but regulation needs to be strengthened. The recent increase in nonperforming loans coupled with low loan loss provisioning poses risks to the financial system, although banks have adequate capital buffers. It is essential to make the financial sector more resilient to shocks through frequent monitoring and improved risk management. Financial sector resilience would be enhanced through better risk management and upgrading of provisioning requirements to international standards. Further, monitoring should be stepped up, including through better information from banks on their loan portfolio.

41. Staff encourages the authorities to minimize fiscal costs in any plan to resolve CLICO and to seek a private sector solution. The CLICO failure underlines the importance of a coordinated regional approach to financial sector supervision and the need for providing a mechanism for establishing a framework for crisis resolution. Staff supports the authorities' ongoing efforts to reform the supervisory framework, including through the newly operational Financial Services Commission (FSC). Staff encourages them to continue strengthening the supervisory capacity of the FSC including through technical assistance from CARTAC and other international agencies.

42. Measures to improve productivity should remain high on the agenda. While indicators of non-price competitiveness do not point to serious competitiveness problems, total factor productivity growth has been disappointing. Improving the efficiency of government services including consolidating agencies with complementary mandates and reducing the bureaucratic burden on the private sector will help boost productivity growth. Staff welcomes the authorities' efforts to improve the energy mix by investing in renewable energy.

43. It is recommended that the next Article IV consultation with Barbados be held on the standard 12-month cycle.

Box 1. Barbados: Recent Developments in the Tourism Sector

After a weakening in 2009 following the global financial crisis, tourism in Barbados has rebounded. Tourist arrivals grew by 2.6 per cent in 2010, although comparative destinations appear to be gaining more market share in the wake of the financial crisis. However, while the turnaround continues into the first eight months of 2011, it has yet to reflect on foreign exchange reserves due to declining tourism spending.

Tourist Arrivals in Barbados: Major Source Markets

	2008	2009	2010	Growth Rate (%)		
				2009	2010	Jan-Aug.11
Canada	57,335	63,751	72,351	11.2	13.5	-2.3
UK	219,953	190,632	181,054	-13	-0.5	10.2
Germany	6,098	7,020	7,260	15.1	3.4	30.7
Other Europe	25,727	23,052	23,962	-10	3.9	14.5
United States	131,795	122,306	134,969	-7.2	10.4	7.8
Trinidad and Tobago	28,385	26,289	27,259	-7.4	3.7	26.9
Other CARICOM	72,254	62,482	58,923	-14	-5.7	9.7
Other Countries	26,120	23,032	26,402	-12	14.6	4.1
Total	567,667	518,564	532,180	-8.6	2.6	8.7
Total Cruise Passenger Arrivals	597,526	635,212	664,747	6.3	4.6	4.6

Source: Caribbean Tourism Organisation

Tourist arrivals from major source markets remain strong. Data from January to August 2011 show that arrivals from major source markets improved substantially, with Europe outpacing the others. Notably, the growth in regional arrivals, especially from Trinidad and Tobago, underscores the importance of the Caribbean market to Barbados. Overall, the growth in arrivals was enhanced by intensified marketing, air lift capacity expansion in source markets, due partly to the introduction of low-cost carriers, and a number of sporting events in Barbados. However, arrivals may weaken next year, as the UK Air Passenger Duty is re-introduced, airlines adopt the Emissions Trading Scheme (ETS), and London hosts the 2012 Summer Olympic Games.

Barbados continues to face fierce competition from emerging tourist destinations. Barbados is one of the most mature tourist destinations in the Caribbean offering beach-type products for exclusive clientele. Emerging tourist destinations in the region, particularly the Spanish-speaking countries, which account for 40–60 percent of the Caribbean market share, compete with Barbados for tourists from the same source markets, with the Canadian market being severely affected recently. Available data indicate that these rival destinations offer similar products at much lower prices.

Long Stay Tourist Arrivals: Regional Comparison

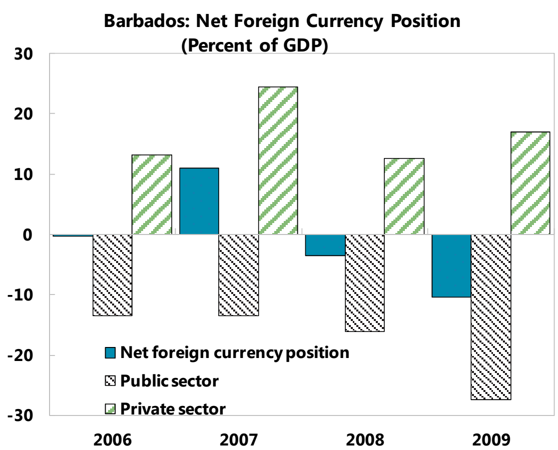
	2008	2009	2010	Growth Rate (%)		
				2009	2010	Jan-May,
Barbados	567,667	518,564	532,180	-8.6	2.6	5.8
British Virgin Island	345,934	308,793	330,343	-11	7.0	3.5
Martinique	481,226	443,202	476,492	-7.9	7.5	3.8
St. Lucia	295,761	278,491	305,937	-5.8	9.8	2.1
St. Maarten	475,410	440,185	443,136	-7.4	0.7	-2.9

Source: Caribbean Tourism Organisation
1/ St. Maarten (Jan - Mar.)

Brand repositioning, further airlift capacity expansion and global recovery are critical to improve tourism activity. Barbados needs to continue to reinvent and expand its products, while engaging more in marketing. Relative to competitors, the destination enjoys a more balanced market penetration. Nevertheless, securing more airlift, especially from emerging markets, reduction in cost of access and global recovery are critical to enhancing growth in tourist arrivals in the near to medium term.

Box 2. Barbados: Sectoral Balance Sheet Mismatches and Macroeconomic Vulnerabilities

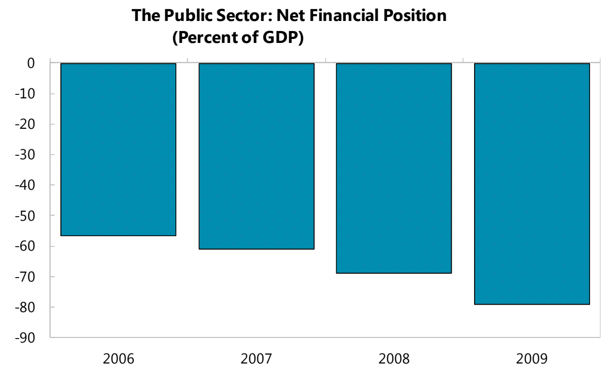
Macroeconomic vulnerabilities have increased in Barbados since 2006 due to the high public sector debt and the deterioration in the net financial position with nonresidents. Staff used the Balance Sheet Approach to analyze changes in macroeconomic vulnerabilities in Barbados between 2006 and 2009. The main finding of the analysis is that the balance sheet of the aggregate economy has weakened by the recent deterioration in the balance sheet of the non financial public sector. The private sector, however, seems to be healthy and resilient to shocks. A sensitivity analysis of the balance sheet impacts of a 30 percent devaluation shows that the economy would struggle to withstand large exchange rate devaluation with the public sector the most vulnerable.



The Non-Financial Public Sector (NFPS)

The NFPS appears to be the most vulnerable sector in Barbados because of its negative net financial and net foreign currency positions. The recent high fiscal deficits have weakened the net financial position of the sector. Most of the NFPS' liabilities are denominated in domestic currency but the limited foreign currency assets have generated a net negative foreign currency position making it less resilient to exchange rate shocks.

However, the negative financial position does not seem to make the public sector particularly vulnerable to sudden shifts in investor sentiment. External debt is mostly long term and has a favorable amortization profile, while domestic debt is held by relatively stable investors, including the domestic financial system and the National Insurance Scheme.



The Private Sector

The balance sheet of the private sector appears sound because of its positive net financial and net foreign currency positions. The financial sector does not appear vulnerable to the direct effects of exchange rate devaluation. Regulatory requirements on liquidity and foreign exchange exposures have induced banks to remain liquid and only modestly exposed to foreign currency risk. Declining profitability has affected the net financial position of the non financial corporate sector but net foreign currency position is still positive.

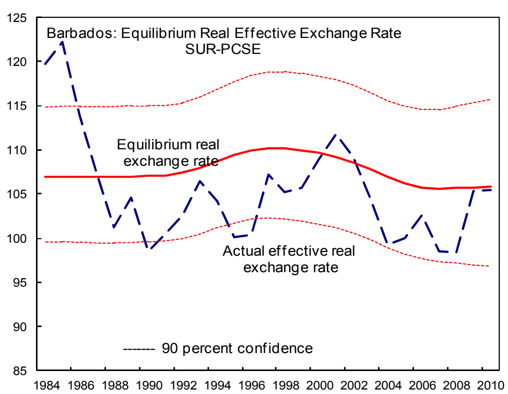
The analysis suggests the need to reduce macroeconomic vulnerabilities by reducing the level of public debt; accumulating foreign reserves; promoting market based hedging mechanisms, strengthening prudential oversights to limit foreign currency mismatches in the financial sector; and promoting the development of domestic securities markets to allow domestic residents to diversify their exposure from the non financial public sector.

Box 3. Barbados: Real Exchange Rate Assessments

Empirical analyses using the CGER methodologies do not provide any conclusive evidence of a significant misalignment of the real exchange rate. Specifically, the results from the fundamental equilibrium exchange rate approach suggest that the real exchange rate was close to equilibrium level at the end of 2010. Results from the macro balance and the external sustainability approaches suggest an overvaluation of between 7 and 11 percent.

The Fundamental Equilibrium Exchange Rate Approach

This standard approach specifies a relationship between the real exchange rate and a set of fundamentals: productivity differentials, terms of trade, government consumption, and net foreign assets. Estimating the equilibrium real exchange rate for Barbados may yield imprecise results given the limitation posed by the short sample size. Thus, the analysis is based on Pineda et al. (2009) specifying a panel consisting of 21 CARICOM and tourism-dependent economies, including Barbados. The results show that the REER was close to equilibrium at the end of 2010.



The Macro Balance Approach

In this analysis, the current account (CA) norm for Barbados is computed in a pooled panel setting based on estimates from Lee et al. (2008). WEO's projections up to 2016 are used for the medium term fundamentals, which include: fiscal and oil balance relative to GDP, relative output and income, lagged CA, population growth and old age dependency ratio. The projected current account deficit of 5.6 per cent for 2016 is used as the underlying CA. The difference between the underlying CA and the CA norm (-3.8) is -1.8 percent. Using the export and import volume elasticities estimated by Lee et al (2008), the elasticity of the current account balance to the real exchange rate was computed as -0.3. As a result, the real exchange rate would be over-valued by 7 percent.

The External Sustainability (ES) Approach

The external sustainability approach computes the difference between the actual current account balance and the balance that would stabilize the net foreign asset (NFA) position at some benchmark level. Based on the assumption of an average medium term growth rate of 2 percent, and a medium term inflation rate for the US of 1.6 percent, stabilizing Barbados' NFA at the 2010 benchmark level of -70 percent of GDP requires a current account deficit of 2.5 percent. Using the elasticity of CA to REER and underlying CA, as in the MB approach, the results point to and overvaluation of 11 percent.

Box 4. The Resolution of CLICO-Barbados

The collapse of the Trinidad and Tobago-based CL Financial Group represented a major financial shock to the Caribbean region. The rapid expansion of the group prior to the crisis was financed mainly by deposit-like annuity products (called EFPA) sold by the group's insurance subsidiaries – the Colonial Life Insurance Company (CLICO) and British American Insurance Company (BAICO). The returns offered on these annuities were substantially higher than bank deposits rates, while not being subject to stricter banking regulation and supervision. These resources were then channeled to finance real estate and other investments (mainly in U.S.). With the deterioration of global economy in 2008, many of CL Financial's subsidiaries faced liquidity and solvency pressures. As news of difficulties spread, investors rushed to withdraw funds, triggering the collapse of its three financial subsidiaries in Trinidad and Tobago and related companies throughout the Caribbean, including Barbados.

While the resolution of CLICO/BAICO in jurisdictions with small exposures is nearly complete, the resolution in Barbados is under judicial management. On April 14, 2011, the Supreme Court of Barbados appointed Deloitte Consulting Ltd. as Judicial Manager (JM) of CLICO International Life Insurance Ltd. (CIL). At that time, the unaudited figures for CIL indicated a shortfall of the life insurance company of about US$196 million (4.4 percent of GDP). The July 28 CIL restructuring plan filed by the JM in the Barbados Court proposed that a new company be incorporated to hold the business of CIL and that on a proportionate basis 60% of policyholder value be transferred to the new company. Both traditional and EFPA policyholders would be issued with common shares in the company in exchange for the 40 percent write off in their policy values. These shares would be issued at little value but based on the company's future growth the shareholders may recover some or all of the amounts lost.

The revised restructuring plan tabled in the Court of Barbados by the JM in September provided four restructuring options with funding implications between US$28 million and US$76 million. Under all restructuring approaches, there would be no financial impact on traditional policyholders, while effects would differ for EFPA policyholders:

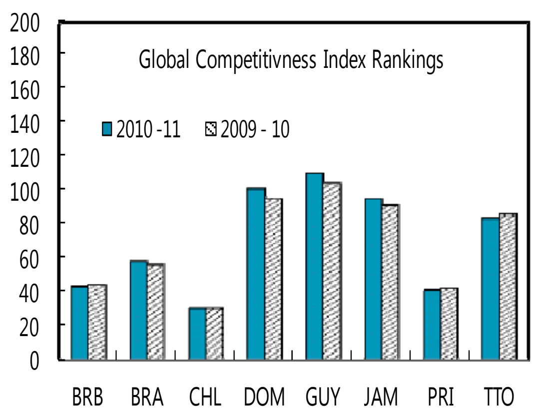
- Under US$76 million financing, individual and quasi government EFPA holders would receive full value for their policies in the form of annuities, while corporate EFPA holders would get full value of their policies in equity in the new company.
- With US$52 million injection, individual policyholders would be 100% refunded in the form of annuities, whereas corporate and quasi government EFPA holders would get shares in the new company.
- Under US$47 million funding, individual and quasi government EFPA holders would be entitled to annuities for the principal balance and shares for the interest on their policies, while corporate EFPA holders would get full value of their policies in equity in the new company.
- With US$28 million financing, individual policyholders would receive the principal in the form of annuities and the value of the interest in shares, while corporate and quasi government EFPA holders would receive the full value of their investments in shares in the new company.

The government is in the process of deciding which option is best. Following the four options outlined by the JM the authorities are considering a fifth option, which may involve a sale of the traditional insurance business and or liquidation. The time frame for CLICO resolution is end of 2012.

The supervisory/regulatory needs in the non-bank sector calls for urgency to bring the Financial Services Commission (FSC) into operation. The collapse of CLICO and BAICO bring to the forefront the weakness of the insurance supervisory system, also responsible for supervising offshore companies. Barbados faces urgent needs to address weaknesses in the insurance regulatory environment.

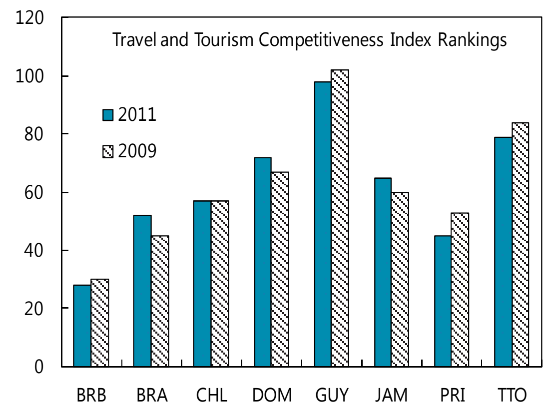
Box 5. Barbados: Structural Competitiveness

Barbados has a good business environment as attested by the World Competitiveness Index and the Travel and Tourism Competitiveness Index. Recent assessments by the World Economic Forum (WEF) show that Barbados has consolidated its global competitiveness position driven by excellent institutional environment, a first-class educational system, a well developed infrastructure, and technological readiness. Ranked 43rd among 139 countries in the 2011 Global Competitiveness Report, Barbados is more competitive than many countries in the Latin America and Caribbean region. Beyond its small market size, Barbados' high deficit and debt levels and to a lesser degree the sophistication and innovation of its business sector affected its overall standing. Trade barriers and tariffs, crime and violence, HIV prevalence, inflexibility of wages, hiring and firing practices, low degree of customer orientation, restriction on capital flows, and low financing through the domestic equity market are factors that negatively affected the country's ranking.



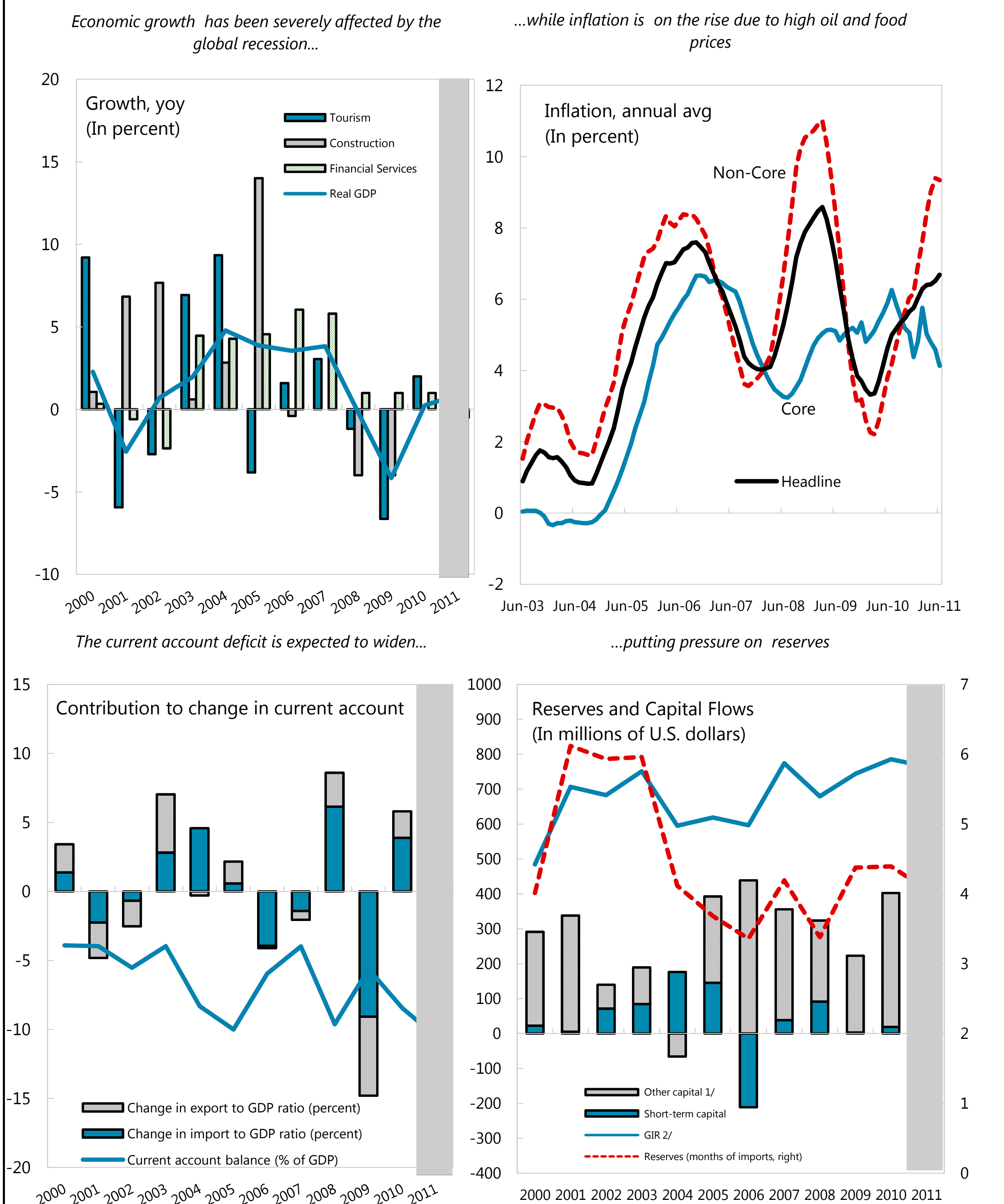
The tourism sector in Barbados is probably the most competitive in the Caribbean. The World Economic Forum's 2010 Travel and Tourism Competitiveness Index ranked Barbados 28th, up two places from 2009.

In the Americas, the country is ranked 3rd behind the US and Canada. The country's two key strengths are its affinity for tourism and the priority given to the sector. High government expenditure, strong destination marketing campaigns, presence at key international tourism fairs and hosting of sport events attest to the importance of the sector to the economy.



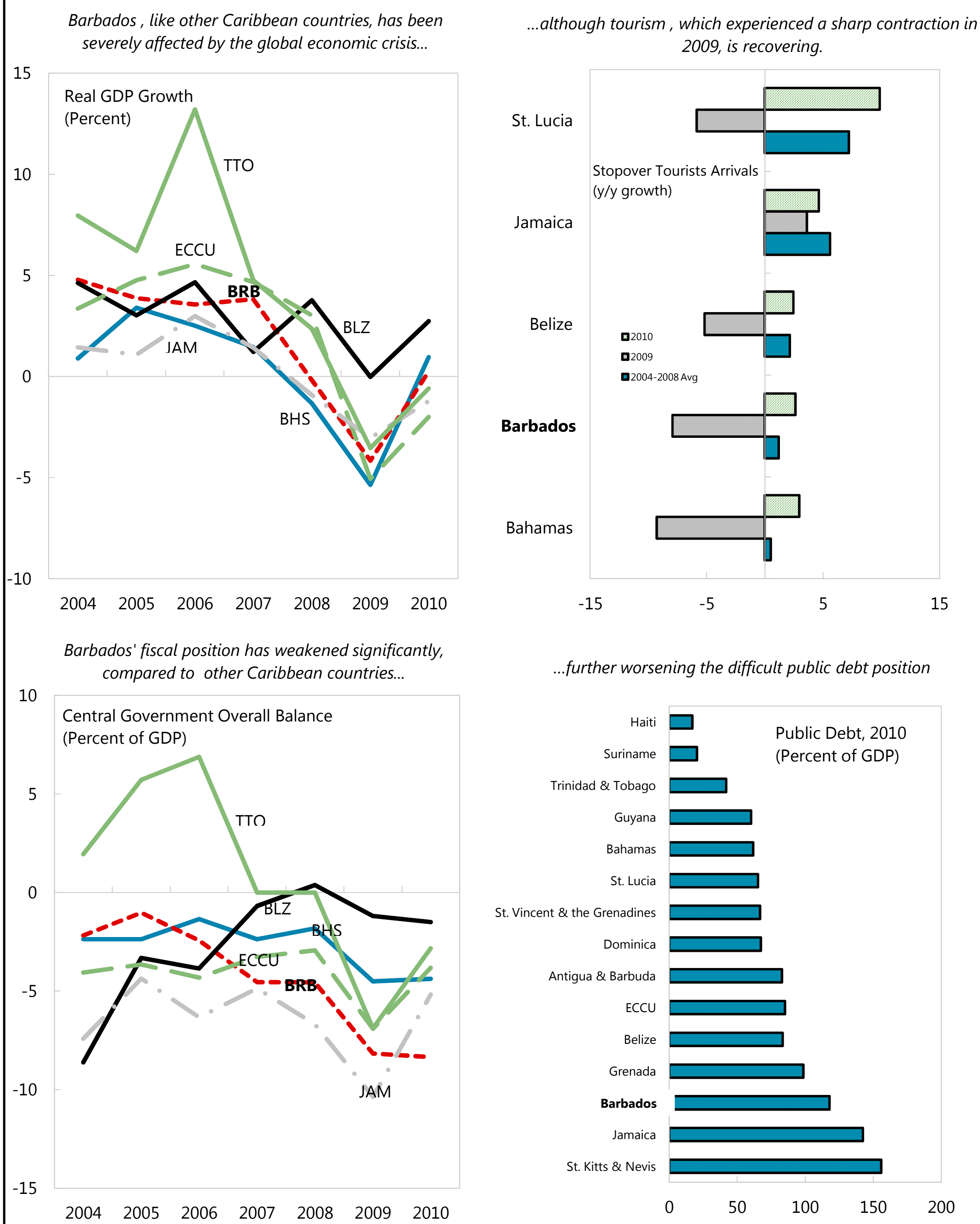
However, Barbados displayed weaknesses into two measures: price competitiveness and policy rules and regulations. High energy cost, relatively high ticket taxes and airport fees, and high accommodation rates drive up the overall cost of stay. Although regulations on property rights, Visa requirements and openness of bilateral Air Service Agreements are commendable, the country appears uncommitted to the General Agreement on Trade in Services (GATS). Overall, to improve the policy environment, it may need to reassess its rules and regulations concerning foreign ownership of investments, capital controls, and the general ease and cost of setting up businesses.

Figure 1. Barbados: Macroeconomic Developments, 2000-11



Sources: Central Bank of Barbados; and Fund staff projections.
1/ Includes errors and omissions.

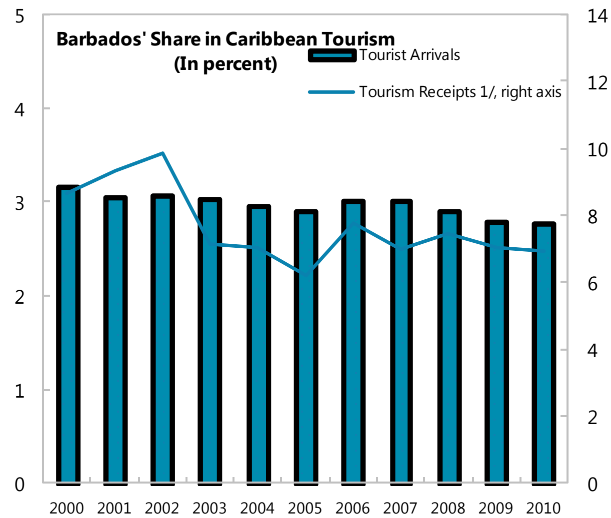
Figure 2. Barbados: Economic Performance in a Regional Context



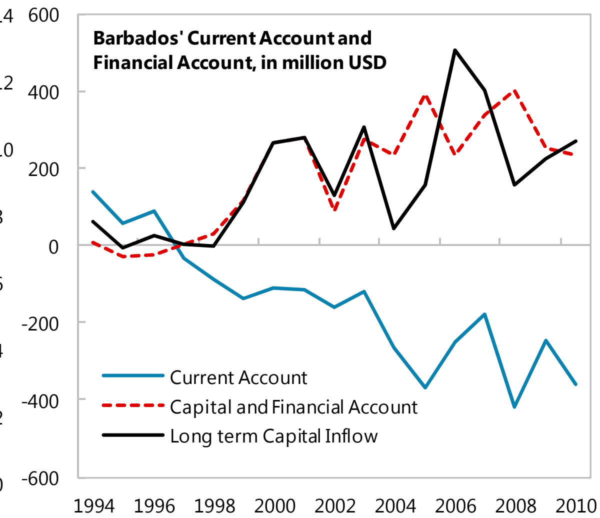
Sources: Central Bank of Barbados; Caribbean Tourism Organization; and Fund staff estimates.

Figure 3. Barbados: External Stability

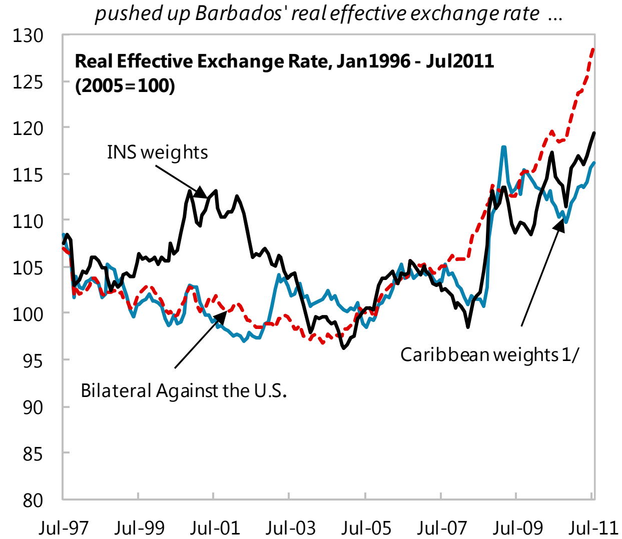
The decline in tourism receipts has put pressure on reserves and economic activity.



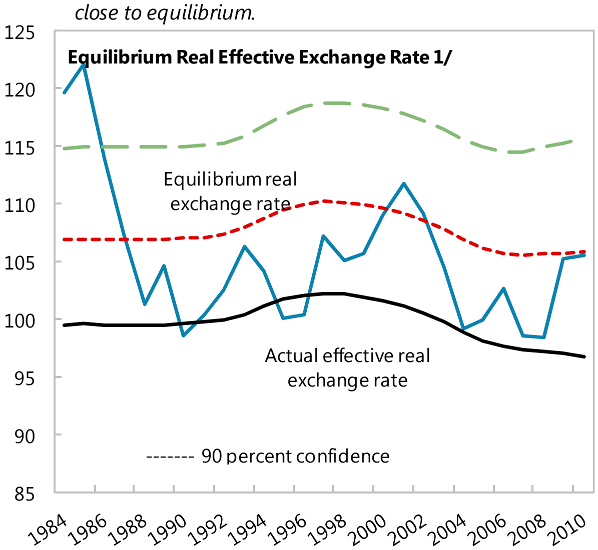
Current account deficits have been financed by long-term capital, which declined with the crisis.



Higher trend inflation than trading partners has pushed up Barbados' real effective exchange rate ...



... and staff estimates suggest that the real exchange is close to equilibrium.



Sources: Caribean Tourism Organization; country authorities; and Fund staff estimates.

1/ Estimation of ERER based on panel data of 21 tourism-dependent countries defined as those where tourism exports exceed 20 percent of total exports: Antigua and Barbuda, The Bahamas, Barbados, Belize, Cyprus, Dominica, Dominican Republic, Egypt, Fiji, Greece, Grenada, Jamaica, Jordan, St. Kitts and Nevis, Malta, St. Lucia, St. Vincent and the Grenadines, Mauritius, Samoa, Seychelles, and Vanuatu.

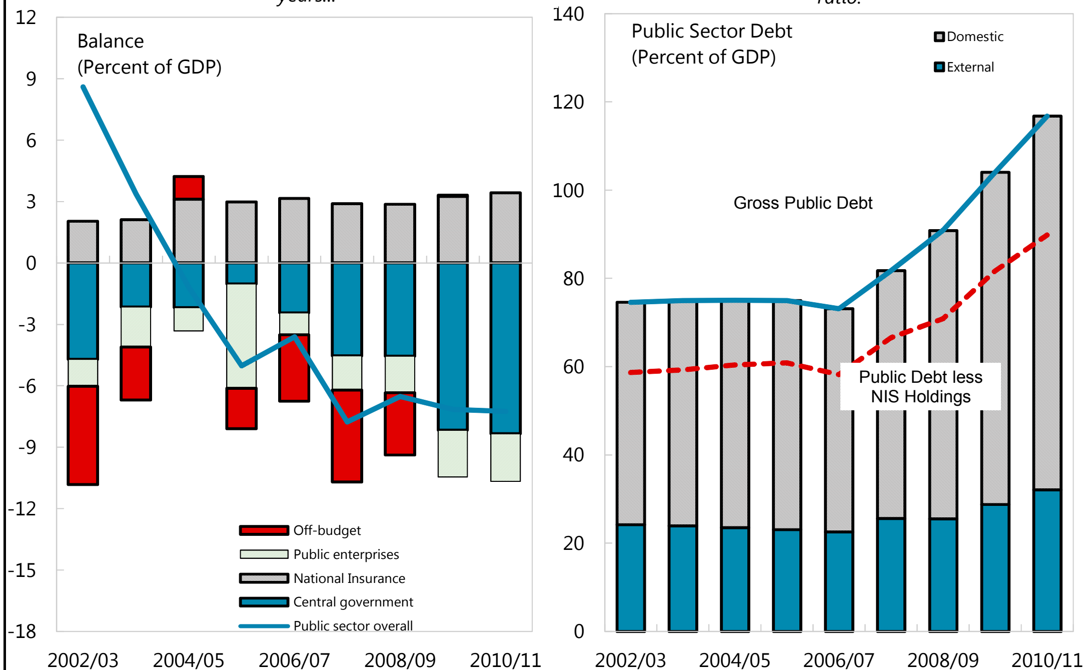
Figure 4. Barbados: Financial Sector Indicators Compared to its Peers in the Region

Sources: International Financial Statistics; National authorities; and Fund staff estimates.

Figure 5. Barbados: Fiscal Sector Developments and Financing

The fiscal stance has deteriorated significantly in recent years...

... resulting in a rapid increase in the debt-to-GDP ratio.



Barbados: Financing of the Nonfinancial Public Sector Operations, 2006/07-2011/12
(In percent of GDP)

	2006/07	2007/08	2008/09	2009/10	Est. 2010/11	Projections 2011/12
Overall public sector borrowing requirement	**3.6**	**7.8**	**6.5**	**7.1**	**7.3**	**4.1**
Central government 1/	**5.7**	**9.0**	**7.6**	**8.1**	**8.3**	**5.1**
Central government	**6.1**	**9.2**	**7.7**	**8.2**	**8.3**	**5.1**
External (net)	2.1	3.9	-0.1	2.5	2.9	0.8
Disbursements	3.8	4.3	0.9	3.6	8.7	2.2
Amortization	1.7	1.2	1.4	1.1	5.8	1.4
PPPs external (net) 2/	0.0	0.8	0.3	0.0	0.0	0.0
Domestic (net)	3.9	5.3	7.7	5.7	5.4	4.3
Disbursements	16.7	18.9	23.4	19.2	19.7	19.5
Amortization	12.7	13.6	16.0	13.5	14.3	15.3
PPPs domestic (net) 2/	0.0	0.0	0.3	0.0	0.0	0.0
Government funds	**-0.4**	**-0.2**	**-0.1**	**-0.1**	**0.0**	**0.0**
Public enterprises	**1.1**	**1.6**	**1.8**	**2.3**	**2.3**	**1.8**
External (net)	-0.2	0.7	-0.2	0.0	0.0	0.0
Domestic (net)	1.3	0.9	2.0	2.3	2.3	1.8
National Insurance Scheme	**-3.1**	**-2.9**	**-2.9**	**-3.2**	**-3.4**	**-2.8**
Banking system	0.3	0.3	0.3	0.6	0.6	0.3
Investments in government securities	-2.3	-0.9	-4.4	-1.7	-4.4	-2.4
Others	-1.1	-2.3	1.3	-2.1	0.4	-0.7

Sources: Barbados authorities; and Fund staff estimates and projections.
1/ Includes off-budget activities and general funds.
2/ Public-private partnerships.

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

I. Social and Demographic Indicators (most recent year)

Population (2009 in millions)	0.3	Adult literacy rate	99.4
Per capita GDP (2009 in US$)	14,050	Population below poverty line	13.0
Life expectancy at birth in years	77.2	Gini coefficient	42.0
Rank in UNDP Development Index (2010)	42	Unemployment rate	12.1

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

II. Economic Indicators

	2007	2008	2009	Est. 2010	Proj. 2011	Proj. 2012
	(Annual percentage change)					
National accounts and prices						
Real GDP	3.8	-0.2	-4.2	0.2	0.9	1.2
Nominal GDP	6.8	-3.1	1.1	-2.9	5.0	5.1
CPI inflation (average)	4.0	8.1	3.7	5.8	6.9	5.9
CPI inflation (end of period)	4.8	7.2	4.3	6.6	7.2	4.6
External sector						
Exports of goods and services	5.4	2.1	-11.0	1.4	0.2	2.3
Imports of goods and services	3.9	8.9	-15.4	5.2	5.1	2.8
Real effective exchange rate (average)	-2.4	3.9	2.6	4.6	...	...
Terms of trade	-1.3	-5.1	7.3	-5.3	-4.7	1.0
Money and credit						
Net domestic assets	9.4	11.3	3.1	0.5	1.8	5.1
Of which: private sector credit	6.4	11.1	1.4	0.3	1.7	3.3
Broad money	13.2	2.8	2.8	2.8	3.3	4.9
Velocity (GDP relative to broad money)	1.4	1.3	1.3	1.2	1.3	1.3
	(In percent of GDP, unless otherwise indicated)					
Public finances (fiscal year)[1]						
Nonfinancial public sector overall balance	-7.8	-6.5	-7.1	-7.3	-4.1	-2.9
Central government						
Revenue and grants	28.5	30.0	25.9	26.6	26.9	28.5
Expenditure	28.8	32.0	32.3	33.7	30.6	30.7
Interests	4.4	4.5	5.0	5.8	5.7	6.1
Balance	-4.5	-4.6	-8.2	-8.3	-5.1	-4.0
NIS	2.9	2.9	3.2	3.4	2.8	2.6
Public enterprises	-1.7	-1.8	-2.3	-2.3	-1.9	-1.5
Off-budget activities	-4.5	-3.0	0.1	0.0	0.0	0.0
Primary balance	-4.2	-2.9	-3.2	-3.6	0.5	2.1
Debt						
Public sector (fiscal year)	81.8	90.9	104.0	116.8	116.6	116.4
External	25.6	25.5	28.8	32.1	30.7	28.9
Domestic	56.2	65.4	75.3	84.7	85.9	87.5
Savings and investment						
Gross domestic investment	20.8	17.3	15.1	14.1	14.4	15.8
Public	7.2	5.9	5.1	4.8	2.6	2.8
Private	13.5	11.2	9.7	9.1	11.8	13.0
National savings	16.8	7.7	9.4	5.6	3.9	6.0
Public	-0.4	-0.6	-4.1	-4.8	-1.4	0.0
Private	17.2	8.3	13.6	10.4	5.4	6.0
External savings	4.0	9.6	5.6	8.5	10.5	9.8
Balance of payments						
Current account	-4.0	-9.6	-5.6	-8.5	-10.5	-9.8
Capital and financial account	7.5	9.2	5.7	5.5	10.0	9.3
Official capital	0.3	-1.4	4.7	3.2	1.3	0.0
Private capital 2/	9.9	5.3	-0.1	7.6	6.8	8.3
Of which: long-term flows	8.6	5.0	0.4	3.2	6.2	7.8
Overall balance	3.9	-2.2	-0.5	1.0	-0.5	-0.5
Memorandum items:						
Exchange rate (Barbados dollars per U.S. dollar)	2.0	2.0	2.0	2.0	...	...
Gross international reserves (millions of US dollars)	774.0	679.6	743.9	785.7	764.2	741.2
Gross international reserves (months of imports)	4.2	3.4	4.4	4.4	4.1	3.8
Nominal GDP (Millions of Barbados dollars)3/	8,971	8,691	8,786	8,529	8,955	9,412

Sources: Barbados authorities; and Fund staff estimates and projections.
1/ Fiscal year is from April to March. Fiscal coverage is the non-financial public sector
2/ Includes short-term and long-term flows, and errors and omissions.
3/ The nominal GDP data series was revised in 2010.

Table 2A. Barbados: Nonfinancial Public Sector Operations 1/

(Percent of GDP, unless otherwise indicated)

	Act. 2007/08	Act. 2008/09	Act. 2009/10	Est. 2010/11	Proj. 2011/12	Proj. 2012/13
Public sector						
Current revenue	33.3	34.6	29.8	30.6	31.7	33.7
Current expenditure	33.4	36.8	36.9	39.0	36.0	36.4
Interest to the private sector	4.4	4.6	4.9	5.7	5.4	5.8
External	1.8	1.9	1.8	2.1	2.2	2.2
Domestic	2.6	2.6	3.1	3.6	3.2	3.6
Capital revenue	2.2	2.4	2.9	4.3	3.6	3.5
Of which : interest from the private sector	0.9	0.9	0.9	2.0	0.8	0.7
Capital expenditure	5.4	3.7	3.0	3.2	3.5	3.7
Balance	**-3.3**	**-3.5**	**-7.2**	**-7.3**	**-4.1**	**-2.9**
Off-budget activity balance	**-4.5**	**-3.0**	**0.1**	**0.0**	**0.0**	**0.0**
Off-budget investment	-3.8	-2.4	0.0	0.0	0.0	0.0
PPPs	-0.8	-0.7	0.0	0.0	0.0	0.0
Funds	0.2	0.1	0.1	0.0	0.0	0.0
Overall balance	**-7.8**	**-6.5**	**-7.1**	**-7.3**	**-4.1**	**-2.9**
Of which : **primary balance**	**-4.2**	**-2.9**	**-3.2**	**-3.6**	**0.5**	**2.1**
National Insurance Scheme (NIS)						
Current revenue	5.7	6.0	6.0	6.0	6.3	6.3
Current expenditure	4.5	4.8	4.6	5.3	5.4	5.7
Capital revenue	1.9	1.8	2.0	3.3	2.4	2.4
Of which: interest from central government	0.9	0.9	1.1	1.2	1.6	1.6
Capital expenditure	0.1	0.2	0.2	0.5	0.5	0.5
NIS Balance	**2.9**	**2.9**	**3.2**	**3.4**	**2.8**	**2.6**
Public sector balance, excluding NIS	**-10.7**	**-9.4**	**-10.4**	**-10.7**	**-7.0**	**-5.5**
Central Government						
Current revenue	28.5	30.0	25.9	26.6	26.9	28.5
Current expenditure	28.8	32.0	32.3	33.7	30.6	30.7
Of which : interest payments	4.4	4.5	5.0	5.8	5.7	6.1
External	1.6	1.7	1.6	1.8	2.0	2.0
Domestic	2.8	2.8	3.4	4.0	3.7	4.1
Capital revenue and grants	0.0	0.1	0.4	0.0	0.2	0.1
Capital expenditure and net lending	4.3	2.7	2.2	1.3	1.6	1.8
Balance	**-4.5**	**-4.6**	**-8.2**	**-8.3**	**-5.1**	**-4.0**
Public enterprises balance	**-1.7**	**-1.8**	**-2.3**	**-2.3**	**-1.9**	**-1.5**
Total financing	**7.8**	**6.5**	**7.1**	**7.3**	**4.1**	**2.9**
Foreign financing	**4.6**	**-0.3**	**2.5**	**2.9**	**0.8**	**-0.3**
Central Government	3.9	-0.1	2.5	2.9	0.8	-0.3
Disbursements	4.3	0.9	3.6	8.7	2.2	1.0
Amortization	-1.2	-1.4	-1.1	-5.8	-1.4	-1.4
Other, including privatization (net)	0.0	0.0	0.0	0.0	0.0	0.0
Public enterprises	0.7	-0.2	0.0	0.0	0.0	0.0
Domestic financing	**3.2**	**6.8**	**4.6**	**4.3**	**3.3**	**3.2**
Central government	5.3	7.7	5.7	5.4	4.3	4.3
Public enterprises	0.9	2.0	2.3	2.3	1.9	1.5
National Insurance Scheme	-2.9	-2.9	-3.2	-3.4	-2.8	-2.6
Funds	-0.2	-0.1	-0.1	0.0	0.0	0.0
Memorandum item:						
Nominal fiscal year GDP (millions of Barbados dollars)	8,901	8,715	8,722	8,635	9,069	9,537

Sources: Ministry of Finance; and Fund staff estimates.
1/ Fiscal year (April–March). Ratios expressed relative to fiscal-year GDP.

Table 2B. Barbados: Central Government Operations 1/

(Percent of GDP) 2/

	Act.	Act.	Act.	Est.	Proj.	
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Central government balance	**-4.5**	**-4.6**	**-8.2**	**-8.3**	**-5.1**	**-4.0**
Total revenue	**28.5**	**30.1**	**26.3**	**26.6**	**27.1**	**28.5**
Current revenue	28.5	30.0	25.9	26.6	26.9	28.5
Tax revenue	27.4	28.5	24.7	25.5	25.8	27.4
Nontax revenue	1.1	1.5	1.2	1.1	1.1	1.1
Capital revenue and grants	0.0	0.1	0.4	0.0	0.2	0.1
Total expenditure	**33.1**	**34.6**	**34.5**	**35.0**	**32.2**	**32.5**
Current expenditure	28.8	32.0	32.3	33.7	30.6	30.7
Wages, salaries and NIS contributions	9.1	9.6	9.9	10.0	9.6	9.5
Goods and services	4.0	4.8	4.7	4.4	4.4	4.2
Interest	4.4	4.5	5.0	5.8	5.7	6.1
Transfers	11.3	13.1	12.6	13.6	11.0	10.9
Capital expenditure and net lending	4.3	2.7	2.2	1.3	1.6	1.8
Off-budget activity balance	**-4.5**	**-3.0**	**0.1**	**0.0**	**0.0**	**0.0**
Overall balance 3/	**-9.0**	**-7.6**	**-8.1**	**-8.3**	**-5.1**	**-4.0**
Of which: Primary balance	-4.6	-3.1	-3.1	-2.6	0.6	2.1
Financing	**9.0**	**7.6**	**8.1**	**8.3**	**5.1**	**4.0**
Memorandum item:						
Total public sector debt (percent of GDP)	81.8	90.9	104.0	116.8	116.6	116.4
Primary balance excluding off-budget activities	-0.1	0.0	-3.2	-2.6	0.6	2.1
Nominal fiscal year GDP	8,901	8,715	8,722	8,635	9,069	9,537

Sources: Ministry of Finance; and Fund staff estimates.

1/ Fiscal years (April-March).

2/ Ratios expressed relative to fiscal-year GDP.

3/ Includes off-budget activity.

Table 2C. Barbados: Statement of Government Operations--Central Government
(Millions of Barbados dollars)

	2008/9	2009/10	2010/11	2011/12	2012/13
Revenue	2622	2296	2301	2458	2722
Taxes	2484	2152	2203	2339	2612
Goods and services	1079	977	1053	1175	1263
Income and profits	893	801	743	771	887
Property	158	115	150	146	172
International trade	220	178	191	207	238
other taxes	19	14	12	14	24
Other revenue	138	144	97	119	110
Grant income	7	35	3	22	8
Non tax receipts	131	108	94	97	102
Expense	2899	2895	2990	2830	2995
Compensation of employess	833	866	860	869	904
Use of goods and services	421	414	378	395	403
Interest	396	437	500	514	578
Social benefits	1137	1097	1174	996	1043
Other expense	112	81	77	56	67
Gross operating balance	-278	-599	-690	-373	-274
Transactions in nonfinancial assets					
Net acquisition of nonfinancial assets	385	108	31	86	106
Net lending/borrowing	-663	-708	-721	-459	-380
Transactions in financial assets and liabilities	-663	-708	-721	-459	-380
Net acquisition of financial assets	0	0	0	1	1
Net incurrence of liabilities	663	708	721	459	381
Domestic	668	488	466	386	410
Foreign	-5	219	254	73	-29
Memorandum item:					
Nominal GDP (in millions of BDS$)	8,715	8,722	8,635	9,069	9,537

Source: Barbadian authorities and Fund staff estimates and projections
Note: Data limitation does not allow a full production of non-financial public sector accounts in GFSM 2001 format.

Table 3. Barbados: Public Sector Debt 1/

	Act. 2007/08	Act. 2008/09	Act. 2009/10	Est. 2010/11	Proj. 2011/12	Proj. 2012/13
(Millions of Barbados dollars)						
Public sector	**7,278**	**7,919**	**9,073**	**10,086**	**10,573**	**11,096**
External	2,278	2,224	2,509	2,772	2,784	2,755
Domestic	5,000	5,695	6,564	7,314	7,789	8,341
Central government	**6,084**	**6,631**	**7,574**	**8,385**	**8,701**	**9,082**
External 2/	2,005	1,971	2,243	2,505	2,518	2,489
Domestic	4,080	4,661	5,331	5,880	6,184	6,593
Short Term	830	944	1,182	1,332	1,179	1,240
Long term	3,249	3,717	4,149	4,548	5,005	5,354
Government guaranteed	**1,193**	**1,288**	**1,500**	**1,701**	**1,872**	**2,014**
External 2/	273	253	267	267	267	267
Domestic	920	1,035	1,233	1,434	1,606	1,748
(Percent of GDP)						
Public sector	**81.8**	**90.9**	**104.0**	**116.8**	**116.6**	**116.4**
External	25.6	25.5	28.8	32.1	30.7	28.9
Domestic	56.2	65.4	75.3	84.7	85.9	87.5
Central government	**68.4**	**76.1**	**86.8**	**97.1**	**95.9**	**95.2**
External 2/	22.5	22.6	25.7	29.0	27.8	26.1
Domestic	45.8	53.5	61.1	68.1	68.2	69.1
Short Term	9.3	10.8	13.6	15.4	13.0	13.0
Long term	36.5	42.6	47.6	52.7	55.2	56.1
Government guaranteed	**13.4**	**14.8**	**17.2**	**19.7**	**20.6**	**21.1**
External 2/	3.1	2.9	3.1	3.1	2.9	2.8
Domestic	10.3	11.9	14.1	16.6	17.7	18.3
Memorandum items:						
NIS financial assets	30.8	34.3	35.5	37.7	37.7	37.6
NIS holdings of central government debt	15.2	20.0	22.4	26.4	27.5	28.5
Public sector debt less NIS assets	51.0	56.6	68.5	79.1	78.9	78.7
Public sector debt less NIS holdings	66.5	70.9	81.7	90.4	89.1	87.9
Assets held in earmarked sinking funds	6.2	7.5	8.6	9.7	9.7	9.7
Public debt, excl. sinking funds	75.6	83.3	95.4	107.1	106.9	106.7
Public debt, excl. sinking funds, and NIS holdings	60.4	63.4	73.0	80.7	79.4	78.2

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

1/ Fiscal year (April–March). Ratios expressed relative to fiscal-year GDP. Coverage is the non-financial public sectc

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

Table 4. Barbados: Balance of Payments

(Millions of U.S. dollars)

	Act.	Est.	Est.			Proj.			
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Current account	**-418**	**-247**	**-361**	**-471**	**-462**	**-408**	**-401**	**-355**	**-324**
Exports	2,088	1,859	1,886	1,890	1,933	2,028	2,115	2,239	2,364
Imports	2,412	2,039	2,145	2,256	2,319	2,393	2,475	2,566	2,664
Exports of goods	488	379	422	449	467	491	519	554	594
Of which: re-exports	120	68	98	106	112	120	130	142	156
Imports of goods	1,710	1,294	1,390	1,463	1,485	1,515	1,549	1,593	1,641
Of which : oil	366	255	287	303	282	268	254	258	263
Services (net)	899	735	709	648	632	660	670	712	745
Credit	1,601	1,481	1,464	1,441	1,466	1,538	1,596	1,685	1,769
Of which: travel (credit)	1,194	1,068	1,052	1,008	1,014	1,066	1,098	1,162	1,197
Debit	702	746	755	793	834	878	926	973	1,024
Investment income (net)	-121	-87	-121	-127	-131	-127	-128	-120	-119
Credit	178	233	228	249	261	275	290	305	321
Debit	300	320	350	376	392	402	419	425	440
Of which: interest on public debt	83	80	86	100	104	110	112	105	105
Current transfers (net)	27	20	20	22	55	82	87	91	96
Credit	121	94	95	104	141	173	183	192	202
Debit	94	73	76	82	86	91	96	101	106
Capital and financial account	**400**	**251**	**233**	**450**	**439**	**388**	**364**	**357**	**331**
Long-term	155	223	270	335	365	328	356	319	290
Public sector	-61	204	134	59	-2	-15	2	-27	1
Private sector	216	19	136	276	367	343	354	346	289
Of which: FDI flows	216	19	136	276	367	343	354	346	289
Short-term	92	3	19	29	24	35	33	38	40
Public sector	0	0	0	0	0	0	0	0	0
Private sector	92	3	19	29	24	35	33	38	40
Change in commercial banks assets	154	25	-57	85	50	25	-25	0	0
Errors and omissions	**-76**	**-28**	**170**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance (deficit -)	**-94**	**-23**	**42**	**-21**	**-23**	**-21**	**-37**	**2**	**7**
Reserve movements (- increase)	**94**	**-64**	**-42**	**21**	**23**	**21**	**37**	**-2**	**-7**
Memorandum items:									
Current account (percent of GDP)	-9.6	-5.6	-8.5	-10.5	-9.8	-8.2	-7.7	-6.5	-5.6
Current account after FDI (percent of GDP)	-4.6	-5.2	-5.3	-4.4	-2.0	-1.3	-0.9	-0.2	-0.6
Exports of G&S (annual growth rate)	2.1	-11.0	1.4	0.2	2.3	4.9	4.3	5.9	5.5
Imports of G&S (annual growth rate)	8.9	-15.4	5.2	5.1	2.8	3.2	3.4	3.7	3.8
Gross international reserves (US $ million)	680	744	786	764	741	721	683	685	692
In months of imports	3.4	4.4	4.4	4.1	3.8	3.6	3.3	3.2	3.1
In percent of short-term liabilities 1/	48.9	65.0	73.2	74.4	72.1	71.3	65.7	71.2	71.9
In percent of short-term liabilities, excluding nonresidents deposits	98.4	135.3	162.6	174.8	169.3	171.2	151.8	183.8	185.6

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

1/ Short term liabilities include commercial banks foreign liabilities excluding foreign currency deposits, nonresident deposits of commercial banks, and public sector amortization falling due the following year

Table 5. Barbados: Summary Monetary Survey

			Prel.	Proj.	
	2008	2009	2010	2011	2012
(End-of-period stocks)					
Net foreign assets	**998**	**1,008**	**1,166**	**1,293**	**1,347**
Net domestic assets	**5,465**	**5,633**	**5,663**	**5,764**	**6,057**
Net credit to the public sector	514	599	439	514	637
Central government	641	721	628	710	809
Rest of public sector	388	279	177	138	138
Of which: NIS	-515	-401	-366	-335	-310
Credit to the private sector	4,959	5,027	5,040	5,126	5,295
Other items (net)	-7	7	184	125	125
Broad money (M2, liabilities to the private sector)	**6,463**	**6,641**	**6,829**	**7,057**	**7,404**
Narrow money	2,458	2,378	2,333	2,450	2,575
Currency	480	493	499	517	548
Demand deposits	1,978	1,885	1,834	1,933	2,027
Quasi-money	4,005	4,263	4,496	4,607	4,829
Time deposits	692	627	817	847	814
Saving deposits	3,313	3,636	3,679	3,761	4,015
(Changes in percent of beginning-of-period liabilities to the private sector)					
Net foreign assets	-6.0	0.2	2.4	1.9	0.8
Net domestic assets	8.8	2.6	0.5	1.5	4.1
Net credit to public sector	1.0	1.3	-2.4	1.1	1.8
Of which: central government	3.2	1.2	-1.4	1.2	1.4
Credit to private sector	7.9	1.1	0.2	1.3	2.4
Other items (net)	0.0	0.2	2.7	-0.9	0.0
(Growth rates)					
Net domestic assets	11.3	3.1	0.5	1.8	5.1
Of which					
Private sector credit	11.1	1.4	0.3	1.7	3.3
Public sector credit	13.6	16.6	-26.6	16.9	24.1
Broad money	2.8	2.8	2.8	3.3	4.9
Velocity (GDP relative to broad money)	1.3	1.3	1.2	1.3	1.3
Interest rate on deposits (in percent per annum)	4.1	2.7	2.7	…	…
Interest rate on loans (in percent per annum)	10.3	9.7	9.4	…	…

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

Table 6. Barbados: Selected Vulnerability Indicators

(Percent of GDP, unless otherwise indicated)

	Act. 2008	Act. 2009	Prel. 2010	Proj. 2011	Proj. 2012
Real sector indicators					
Travel receipts	27.5	24.3	24.7	22.5	21.5
Fiscal indicators 1/					
Public sector debt	90.9	104.0	116.8	116.6	116.4
External	25.5	28.8	32.1	30.7	28.9
Domestic	65.4	75.3	84.7	85.9	87.5
Public sector external debt service	3.2	3.0	6.7	4.7	3.6
Public sector external debt service, in percent of revenues	8.8	9.1	19.2	13.3	9.6
Interest	5.2	5.6	5.8	6.3	6.0
Amortization	3.6	3.6	13.4	7.0	3.7
External indicators					
Gross international reserves (in millions of US dollars)	679.6	743.9	785.7	764.2	741.2
In months of imports	3.4	4.4	4.4	4.1	3.8
In percent of short-term liabilities 2/	48.9	65.0	73.2	74.4	72.1
In percent of short-term liabilities excluding nonresidents deposits	98.4	135.3	162.6	174.8	169.3
In percent of narrow money	55.3	62.6	67.4	62.4	57.6
External debt 3/	34.7	37.9	39.6	37.9	35.9
External interest payments, in percent of exports 4/	6.0	5.8	6.1	6.6	6.6
External amortization payments on public debt, in percent of exports	2.8	2.8	10.6	5.8	3.3

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

1/ On a fiscal-year basis, including central government, public enterprises, and National Insurance Scheme.

2/ Short-term liabilities include commercial banks' short-term foreign liabilities and public sector debt amortizations falling due the following year.

3/ Includes public sector and private debt.

4/ Includes interest payments on public and private external debt.

APPENDIX I: DEBT SUSTAINABILITY ANALYSIS

1. The results of the debt sustainability analyses are broadly similar to those of the 2010 Article IV consultation. This section updates the debt sustainability analysis from the last Article IV consultation. While this assessment projects slightly lower public debt ratio over the medium term under the baseline scenario due to a somewhat stronger fiscal effort this fiscal year, debt remains high and vulnerable to shocks.

2. Staff conducted debt sustainability analyses based on baseline and adjustment scenarios. The baseline scenario assumes some fiscal adjustment based on the 2012 budget and continuation of current policies. The alternative scenario is based on the premise that the current fiscal adjustment would not be enough to bring about the desired reduction in the debt level. It assumes a number of additional policy measures to be implemented beginning in the FY 2012/13 and continuing in the medium term.

A. Main Assumptions and Scenarios

3. The baseline and adjustment scenarios share some common underlying assumptions:

- Economic growth remains subdued and a recovery in the demand for Barbados' goods and services commences in 2013.
- There is no fiscal cost to the budget from the resolution of CLICO.
- The recent increase in the VAT rate is made permanent and the fiscal balance improves in the medium term.
- The exchange rate remains stable and capital inflows increases to finance tourism related investments.

The Baseline Scenario

4. The baseline scenario assumes some fiscal adjustment based on the 2012 budget and reflects continuation of current policies. Under this scenario, the non-financial public sector deficit is projected to decline from 7.3 percent in FY 2010/11 to 0.1 percent in FY 2016/17 as the country recovers from the economic recession and some of the fiscal measures implemented starts bearing fruit. Consequently, the public debt would decline from 117 percent to 107 percent in FY 2016/17. Externally, the current account is expected to adjust gradually to about 5.6 percent of GDP by 2016. Capital inflows will not be enough to cover the current account, resulting in a decline of reserve coverage from 4.1 months of imports in 2011 to 3.1 in 2016.

Barbados: Illustrative Scenarios (Percent of GDP)

	Act.	Est.	Projection					
	2009	2010	2011	2012	2013	2014	2015	2016
Baseline scenario								
Fiscal (Fiscal year)/1								
Non-Financial Public sector balance	-7.2	-7.3	-4.1	-2.9	-1.9	-1.1	-0.2	-0.1
Primary balance	-3.2	-3.6	0.5	2.1	3.5	4.3	5.0	5.0
Revenues	32.7	35.0	35.3	37.1	38.2	38.7	39.3	39.3
Expenditures	39.9	42.2	39.4	40.0	40.1	39.8	39.6	39.3
Public debt	104.0	116.8	116.6	116.4	115.0	112.8	110.3	107.6
External								
Current account (percent of GDP)	-5.6	-8.5	-10.5	-9.8	-8.2	-7.7	-6.5	-5.6
Current account balance after FDI (percent of GDP)	-5.2	-5.3	-4.4	-2.0	-1.3	-0.9	-0.2	-0.6
FDI inflows (percent of GDP)	0.4	3.2	6.2	7.8	6.9	6.8	6.3	5.0
Gross international reserves (millions of US $)	744	786	764	741	721	683	685	692
Gross international reserves (months of imports)	4.4	4.4	4.1	3.8	3.6	3.3	3.2	3.1
Adjustment scenario								
Fiscal (Fiscal year)								
Non-Financial Public sector balance	-7.2	-7.3	-4.1	-1.4	0.6	2.4	4.0	4.6
Primary balance	-3.2	-3.6	0.5	3.6	6.0	7.7	9.2	9.6
Revenues	32.7	35.0	35.3	38.2	40.0	41.1	42.1	42.2
Expenditures	39.9	42.2	39.4	39.7	39.4	38.7	38.1	37.5
Public debt	104.0	116.8	116.6	114.9	111.1	105.6	98.8	91.8
External								
Current account (percent of GDP)	-5.6	-8.5	-10.5	-9.8	-8.0	-7.1	-5.8	-4.9
Current account balance after FDI (percent of GDP)	-5.2	-5.3	-4.3	-1.2	-0.5	0.6	1.0	0.7
FDI inflows (percent of GDP)	0.4	3.2	6.2	8.6	7.5	7.7	6.8	5.6
Gross international reserves (in US $ million)	744	786	766	782	803	844	908	993
Gross international reserves (months of imports)	4.4	4.4	4.1	4.0	4.0	4.1	4.3	4.5

Sources: Ministry of Finance; Central Bank of Barbados; and Staff estimates and projections

1/Fiscal coverage is the non-financial public sector

The Adjustment Scenario

5. The adjustment scenario is based on an aggressive fiscal efforts similar to those proposed in the Medium Term Fiscal Strategy (MTFS). The scenario assumes that additional fiscal measures will be undertaken starting in FY 2012/13 encompassing mainly expenditure reduction measures (see main report for details) and increased efforts to reduce tax exemptions and improve tax administration.

6. Most of the fiscal savings resulting from the expenditure reduction measures are expected to accrue in the medium term. Consequently, the NFPS balance will improve from a deficit of 7.3 percent of GDP to a surplus of 4.6 percent of GDP in 2016/17. Relative to the baseline, this represents a cumulative improvement in the public debt to GDP ratio of about 16 percentage points over the medium term. The scenario also assumes changes in the composition of spending in favor of capital spending and better targeting of social spending since they are critical to boosting growth.

7. The implementation of corrective fiscal measures would put public debt on a downwards path. After peaking in 2010/11 at 117 percent of GDP, public debt will reduce significantly to 92 percent of GDP by the end of FY 2016/17. Stronger investor confidence in the government's fiscal policies will help increase capital inflows including for tourism related activities and thereby generate growth higher than under the baseline scenario.

8. The strengthened fiscal policy will help improve the current account and increase reserve coverage. Import growth will moderate as fiscal policy tightens domestic demand thereby improving the current account balance. The healthier pace of private capital inflows resulting from improved investor confidence would help international reserves to recover around 4.5 months of imports by 2016.

B. Assessment of Debt Sustainability Analysis

Baseline Scenario

9. Bound tests show that the public debt trajectory is vulnerable to standards shocks. Under baseline scenario, fiscal and growth shocks adversely and significantly affect the debt ratio. For instance, a permanent shock to growth of about a ¼ standard deviation from its historic levels will raise public debt to GDP ratio to 150 percent. In like manner, public debt will reach 120 percent of GDP if primary balance were to follow historic trends. A growth slow down in the UK and the US (Barbados' main tourism markets) would raise the public debt to GDP ratio under the baseline scenario.

10. External debt is less sensitive to standard shocks mainly due to the comparatively low share of external debt in total debt. Under baseline scenario, total external debt after peaking at about 43 percent of GDP in 2010 will decline to 32 percent of GDP in 2016. Bound tests show that external debt is mostly sensitive to exchange rate devaluation. In particular, a 30 percent real depreciation would increase external debt to 48 percent of GDP by 2016.

Adjustment Scenario

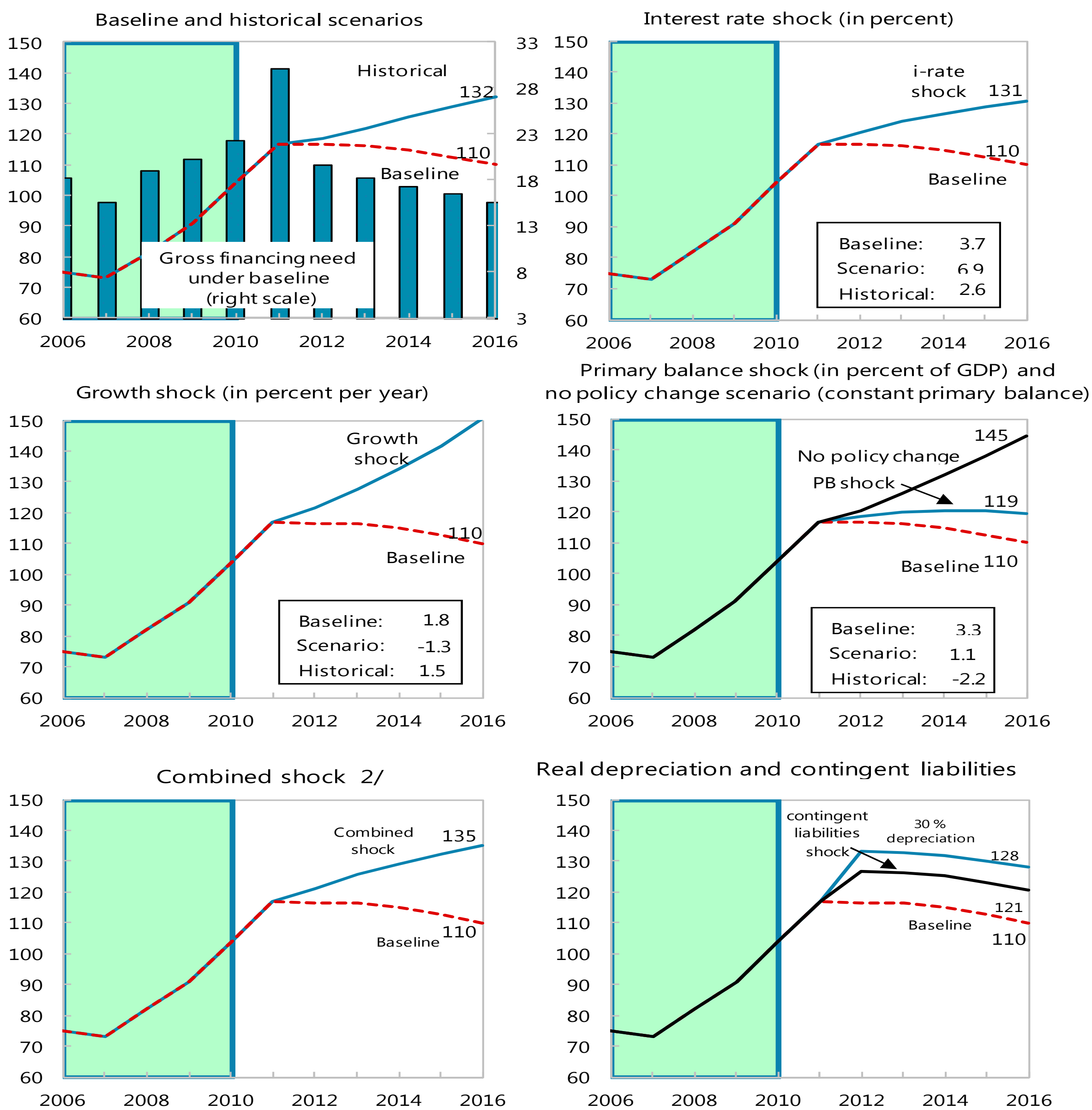
11. Under the adjustment scenario, public debt is more resilient to standard shocks. The debt profile improves significantly under this scenario due to sustained fiscal adjustment and higher overall growth. Bound tests show that public debt will not continue to decline in the presence of most standard shocks and the fiscal account will remain vulnerable to shocks until debt ratios decline further in the long run External debt also improves and is more resilient under standard stress tests.

Appendix Table 1. Barbados: Public Sector Debt Sustainability Framework, 2005-2015
(Baseline Scenario)
(In percent of GDP, unless otherwise indicated)

	Actual					Projections							
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	**Debt-stabilizing primary balance 9/**
Baseline: Public sector debt 1/	75.0	73.2	81.8	90.9	104.0	**116.8**	**116.5**	**116.3**	**114.8**	**112.6**	**110.0**	**107.2**	**2.3**
o/w foreign-currency denominated	23.1	22.5	25.6	25.5	28.8	31.4	30.6	29.3	28.0	26.6	25.4	24.3	
Change in public sector debt	-0.1	-1.9	8.6	9.1	13.2	12.8	-0.3	-0.3	-1.4	-2.2	-2.6	-2.7	
Identified debt-creating flows (4+7+12)	-1.6	-1.3	7.7	11.1	10.3	11.7	1.3	-0.3	-1.3	-2.1	-2.6	-2.6	
Primary deficit	3.3	2.1	5.3	3.9	4.4	3.7	-0.1	-2.0	-3.5	-4.2	-4.9	-4.9	
Revenue and grants	41.5	38.5	41.0	44.5	38.9	42.3	43.2	44.7	45.3	45.8	46.4	46.4	
Primary (noninterest) expenditure	44.8	40.6	46.3	48.4	43.2	46.0	43.1	42.7	41.8	41.6	41.5	41.5	
Automatic debt dynamics 2/	-4.9	-3.3	2.4	7.2	5.9	8.0	1.4	1.7	2.3	2.2	2.4	2.3	
Contribution from interest rate/growth differential 3/	-4.9	-3.3	2.4	7.2	5.9	8.0	1.4	1.7	2.3	2.2	2.4	2.3	
Of which contribution from real interest rate	-8.4	-0.9	4.4	6.2	3.2	8.4	2.5	3.1	3.9	4.3	5.0	4.9	
Of which contribution from real GDP growth	3.5	-2.4	-1.9	1.0	2.8	-0.4	-1.1	-1.4	-1.7	-2.2	-2.7	-2.6	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
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	0.0	
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	0.0	
Residual, including asset changes (2-3) 5/	1.6	-0.6	0.9	-2.0	2.8	1.1	-1.6	0.0	-0.2	-0.1	-0.1	0.0	
Public sector debt-to-revenue ratio 1/	180.6	189.9	199.5	204.1	267.8	276.1	269.6	260.3	253.5	245.8	236.8	231.1	
Gross financing need 6/	18.2	15.5	19.0	20.3	22.3	30.2	19.7	18.2	17.3	16.4	15.5	15.3	
in billions of U.S. dollars	0.7	0.7	0.8	0.9	1.0	1.3	0.9	0.9	0.9	0.9	0.9	0.9	
Scenario with key variables at their historical averages 7/						**116.8**	**118.6**	**122.1**	**125.4**	**128.8**	**132.3**	**135.9**	**1.4**
Scenario with no policy change (constant primary balance) in 2010-2016						**116.8**	**120.4**	**125.9**	**131.9**	**138.0**	**144.5**	**144.5**	**3.0**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline													
Real GDP growth (in percent)	-5.3	3.6	2.8	-1.2	-3.1	0.4	1.0	1.3	1.5	2.0	2.5	2.5	
Average nominal interest rate on public debt (in percent) 8/	7.2	7.0	7.7	6.6	6.6	6.6	6.3	6.7	7.3	7.2	7.2	7.2	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-14.0	-1.1	6.3	7.5	3.4	8.0	2.3	2.9	3.6	4.0	4.8	4.8	
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	21.2	8.1	1.4	-0.9	3.2	-1.4	4.0	3.8	3.7	3.2	2.5	2.5	
Growth of real primary spending (deflated by GDP deflator, in percent)	0.4	-6.2	17.1	3.4	-13.4	6.9	-5.4	0.2	-0.5	1.7	2.4	2.7	
Primary deficit	3.3	2.1	5.3	3.9	4.4	3.7	-0.1	-2.0	-3.5	-4.2	-4.9	-4.9	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.
2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+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 - π (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; 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 Figure 1. Barbados: Public Debt Sustainability: Bound Tests 1/
(Baseline Scenario, public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ 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 2011, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Appendix Table 2. Barbados: External Debt Sustainbaility Framework, 2005-2016
(Baseline Scenario)
(In percent of GDP, unless otherwise indicated)

	Actual						Projections					
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	36.2	35.8	37.0	36.0	37.0	**41.3**	**40.2**	**38.0**	**35.8**	**34.0**	**31.8**	**30.3**	**-3.3**
Change in external debt	-6.7	-0.4	1.2	-1.0	1.0	4.3	-1.1	-2.1	-2.2	-1.8	-2.2	-1.5	
Identified external debt-creating flows (4+8+9)	-1.8	-1.0	-3.5	5.8	4.8	5.2	4.0	1.6	0.8	0.2	-0.6	-0.2	
Current account deficit, excluding interest payments	7.8	3.8	1.3	6.8	3.2	5.7	7.6	7.0	5.4	5.0	4.0	3.3	
Deficit in balance of goods and services	8.3	4.5	3.8	7.4	4.1	6.1	8.2	8.2	7.3	6.9	5.9	5.2	
Exports	46.4	46.2	45.6	48.1	42.3	44.2	42.2	41.1	40.9	40.5	40.8	40.9	
Imports	54.7	50.8	49.4	55.5	46.4	50.3	50.4	49.3	48.3	47.3	46.7	46.1	
Net non-debt creating capital inflows (negative)	-1.7	-2.5	-5.2	-5.0	-0.4	-3.2	-6.2	-7.8	-6.9	-6.8	-6.3	-5.0	
Automatic debt dynamics 1/	-7.9	-2.3	0.4	4.1	2.1	2.6	2.5	2.4	2.3	2.0	1.6	1.5	
Contribution from nominal interest rate	2.2	2.2	2.7	2.9	2.4	2.7	2.9	2.8	2.8	2.7	2.4	2.3	
Contribution from real GDP growth	-1.3	-1.1	-1.3	0.1	1.5	-0.1	-0.4	-0.5	-0.5	-0.7	-0.8	-0.8	
Contribution from price and exchange rate changes 2/	-8.8	-3.3	-1.0	1.1	-1.9	...	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-4.9	0.5	4.8	-6.9	-3.8	-0.9	-5.1	-3.7	-3.0	-2.0	-1.5	-1.3	
External debt-to-exports ratio (in percent)	78.0	77.3	81.2	74.9	87.4	93.3	95.1	92.6	87.5	84.0	78.1	74.0	
Gross external financing need (in billions of US dollars) 4/	0.4	0.3	0.2	0.5	0.3	0.6	0.6	0.5	0.5	0.4	0.4	0.3	
in percent of GDP	11.5	7.5	5.3	11.0	6.8	13.1	13.0	11.2	9.6	8.6	7.9	5.6	
Scenario with key variables at their historical averages 5/						**41.3**	**40.7**	**41.3**	**42.6**	**44.7**	**46.9**	**49.9**	**-1.3**
Key Macroeconomic Assumptions Underlying Baseline													
Real GDP growth (in percent)	3.9	3.6	3.8	-0.2	-4.2	0.2	0.9	1.2	1.5	2.0	2.5	2.5	
GDP deflator in US dollars (change in percent)	25.9	10.0	2.9	-2.9	5.5	-3.2	4.1	3.9	3.7	3.4	2.5	2.5	
Nominal external interest rate (in percent)	6.9	6.8	8.1	7.5	6.9	7.1	7.4	7.4	7.8	8.0	7.5	7.5	
Growth of exports (US dollar terms, in percent)	20.8	13.5	5.4	2.1	-11.0	1.4	0.2	2.3	4.9	4.3	5.9	5.5	
Growth of imports (US dollar terms, in percent)	11.4	5.7	3.9	8.9	-15.4	5.2	5.1	2.8	3.2	3.4	3.7	3.8	
Current account balance, excluding interest payments	-7.8	-3.8	-1.3	-6.8	-3.2	-5.7	-7.6	-7.0	-5.4	-5.0	-4.0	-3.3	
Net non-debt creating capital inflows	1.7	2.5	5.2	5.0	0.4	3.2	6.2	7.8	6.9	6.8	6.3	5.0	

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

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

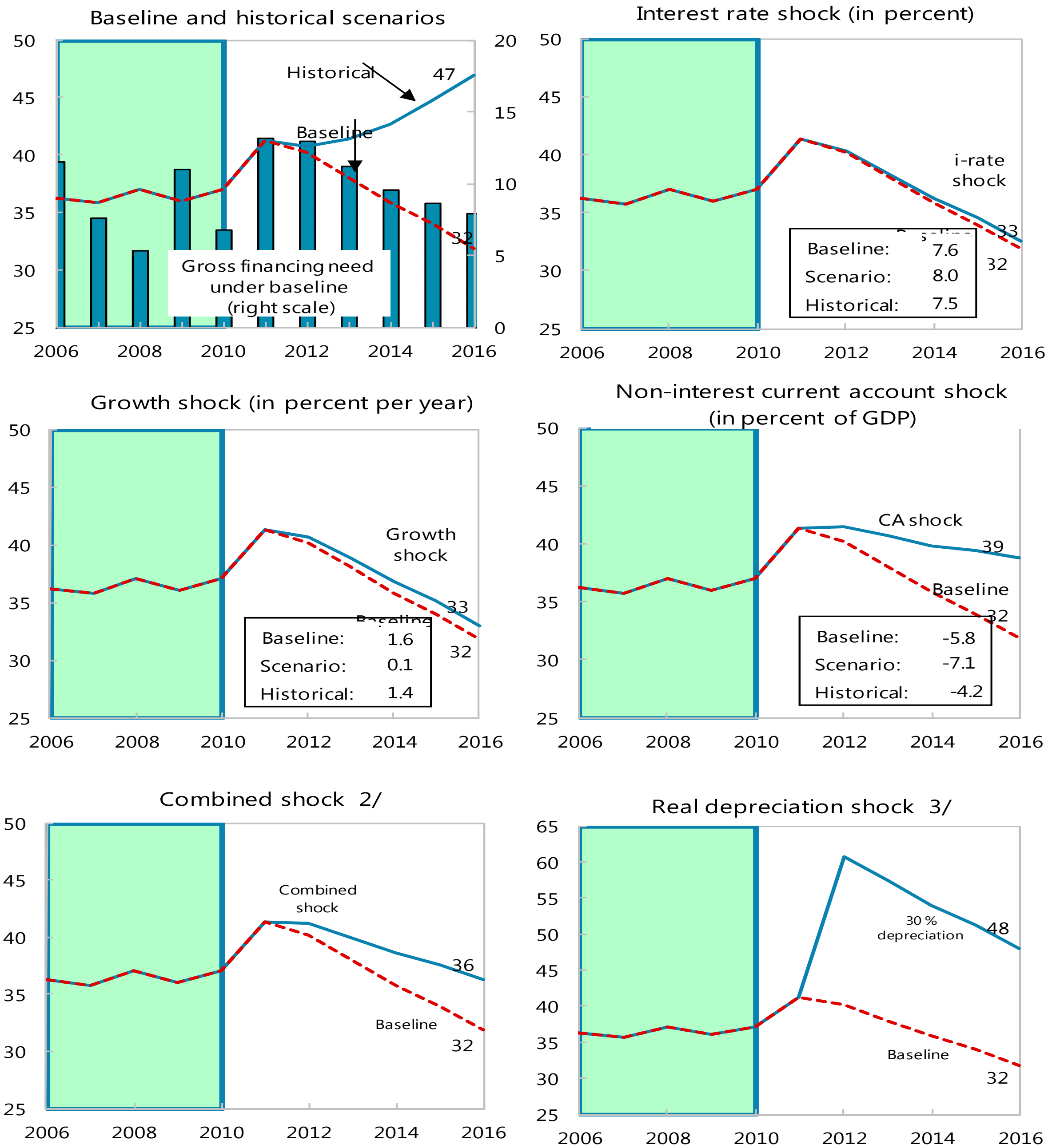
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

Appendix Figure 2. Barbados: External Debt Sustainability: Bound Tests 1/
(Baseline Scenario; external debt in percent of GDP)



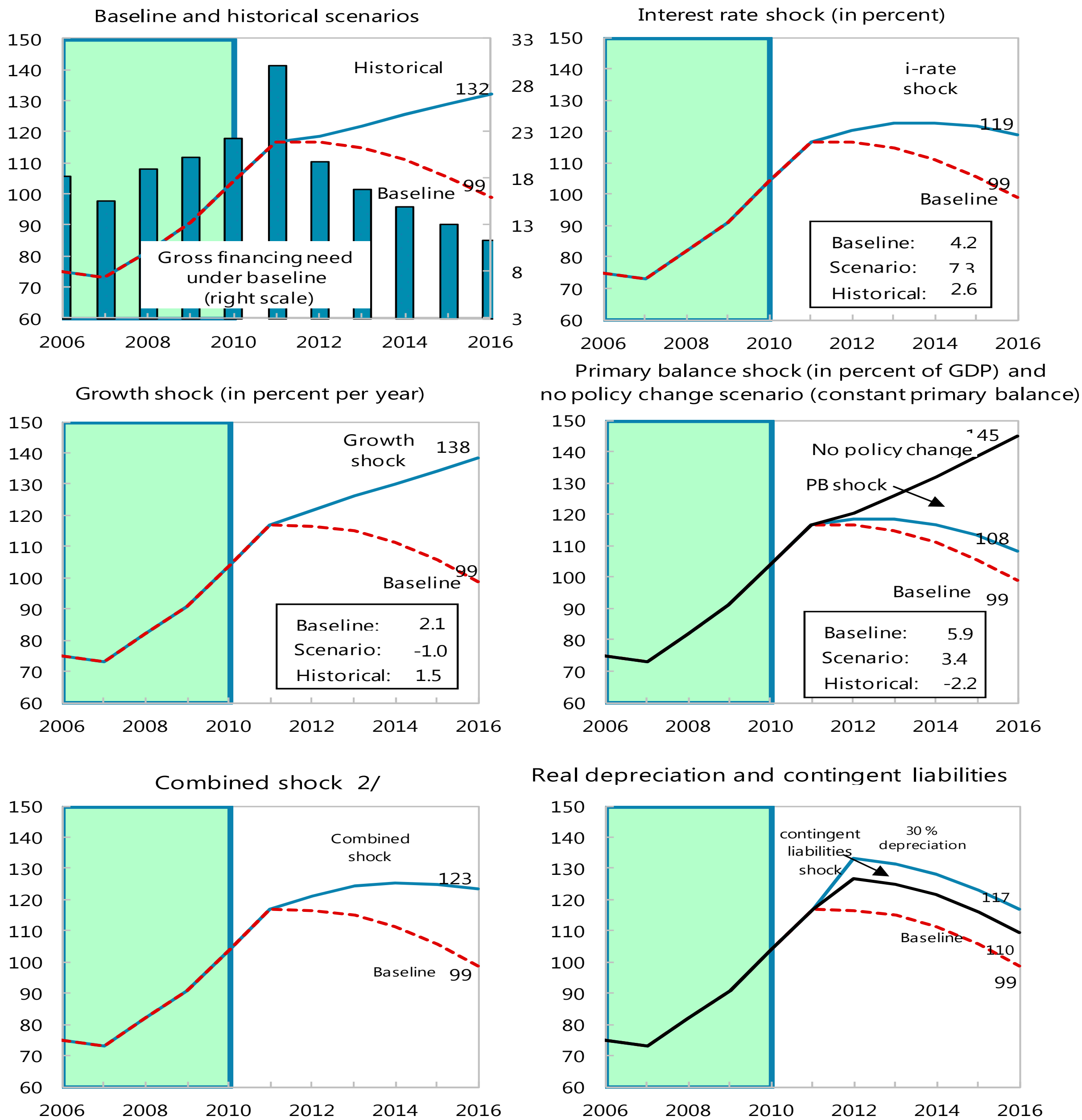
Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ 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 2011.

Appendix Table 3. Barbados: Public Sector Debt Sustainability Framework, 2005-2016
(Adjustment Scenario)
(Percent of GDP, unless otherwise indicated)

	Actual					Projections							
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	**Debt-stabilizing primary balance 9/**
1 **Baseline: Public sector debt 1/**	75.0	73.2	81.8	90.9	104.0	**116.8**	**116.6**	**114.9**	**111.1**	**105.6**	**98.8**	**91.8**	**2.1**
o/w foreign-currency denominated	23.1	22.5	25.6	25.5	28.8	31.4	30.6	29.3	28.0	26.6	25.3	24.1	
2 Change in public sector debt	-0.1	-1.9	8.6	9.1	13.2	12.8	-0.2	-1.7	-3.8	-5.5	-6.9	-7.0	
3 Identified debt-creating flows (4+7+12)	-1.6	-1.3	7.7	11.1	10.3	11.7	1.4	-1.7	-3.6	-5.4	-6.8	-7.4	
4 Primary deficit	3.3	2.1	5.3	3.9	4.4	3.7	0.0	-3.4	-5.9	-7.6	-9.1	-9.5	
5 Revenue and grants	41.5	38.5	41.0	44.5	38.9	42.3	43.2	45.7	47.1	48.2	49.3	49.3	
6 Primary (noninterest) expenditure	44.8	40.6	46.3	48.4	43.2	46.0	43.2	42.3	41.1	40.6	40.2	39.8	
7 Automatic debt dynamics 2/	-4.9	-3.3	2.4	7.2	5.9	8.0	1.4	1.7	2.3	2.3	2.3	2.1	
8 Contribution from interest rate/growth differential 3/	-4.9	-3.3	2.4	7.2	5.9	8.0	1.4	1.7	2.3	2.3	2.3	2.1	
9 Of which contribution from real interest rate	-8.4	-0.9	4.4	6.2	3.2	8.4	2.5	3.3	4.5	4.9	5.3	4.9	
10 Of which contribution from real GDP growth	3.5	-2.4	-1.9	1.0	2.8	-0.4	-1.1	-1.6	-2.2	-2.6	-3.0	-2.8	
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	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	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	0.0	
16 Residual, including asset changes (2-3) 5/	1.6	-0.6	0.9	-2.0	2.8	1.1	-1.6	0.0	-0.1	-0.1	-0.1	0.0	
Public sector debt-to-revenue ratio 1/	180.6	189.9	199.5	204.1	267.8	276.1	269.7	251.2	236.0	219.0	200.4	186.1	
Gross financing need 6/	18.2	15.5	19.0	20.3	22.3	30.2	19.7	16.8	14.9	13.1	11.3	10.6	
in billions of U.S. dollars	0.7	0.7	0.8	0.9	1.0	1.3	0.9	0.8	0.7	0.7	0.6	0.6	
Scenario with key variables at their historical averages 7/						**116.8**	**118.6**	**122.1**	**125.4**	**128.8**	**132.4**	**136.0**	**1.4**
Scenario with no policy change (constant primary balance) in 2010-2016						**116.8**	**120.4**	**125.9**	**132.0**	**138.3**	**145.0**	**145.0**	**3.1**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline													
Real GDP growth (in percent)	-5.3	3.6	2.8	-1.2	-3.1	0.4	1.0	1.4	2.0	2.5	3.0	3.0	
Average nominal interest rate on public debt (in percent) 8/	7.2	7.0	7.7	6.6	6.6	6.6	6.3	6.7	7.4	7.5	7.7	7.7	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-14.0	-1.1	6.3	7.5	3.4	8.0	2.3	3.0	4.2	4.7	5.4	5.4	
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	21.2	8.1	1.4	-0.9	3.2	-1.4	4.0	3.7	3.2	2.8	2.4	2.4	
Growth of real primary spending (deflated by GDP deflator, in percent)	0.4	-6.2	17.1	3.4	-13.4	6.9	-5.3	-0.6	-0.7	1.3	1.9	2.2	
Primary deficit	3.3	2.1	5.3	3.9	4.4	3.7	0.0	-3.4	-5.9	-7.6	-9.1	-9.5	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.
2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+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 - π (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; 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 Figure 3. Barbados: Public Debt Sustainability: Bound Tests 1/
(Adjustment Scenario, public debt in percent of GDP)



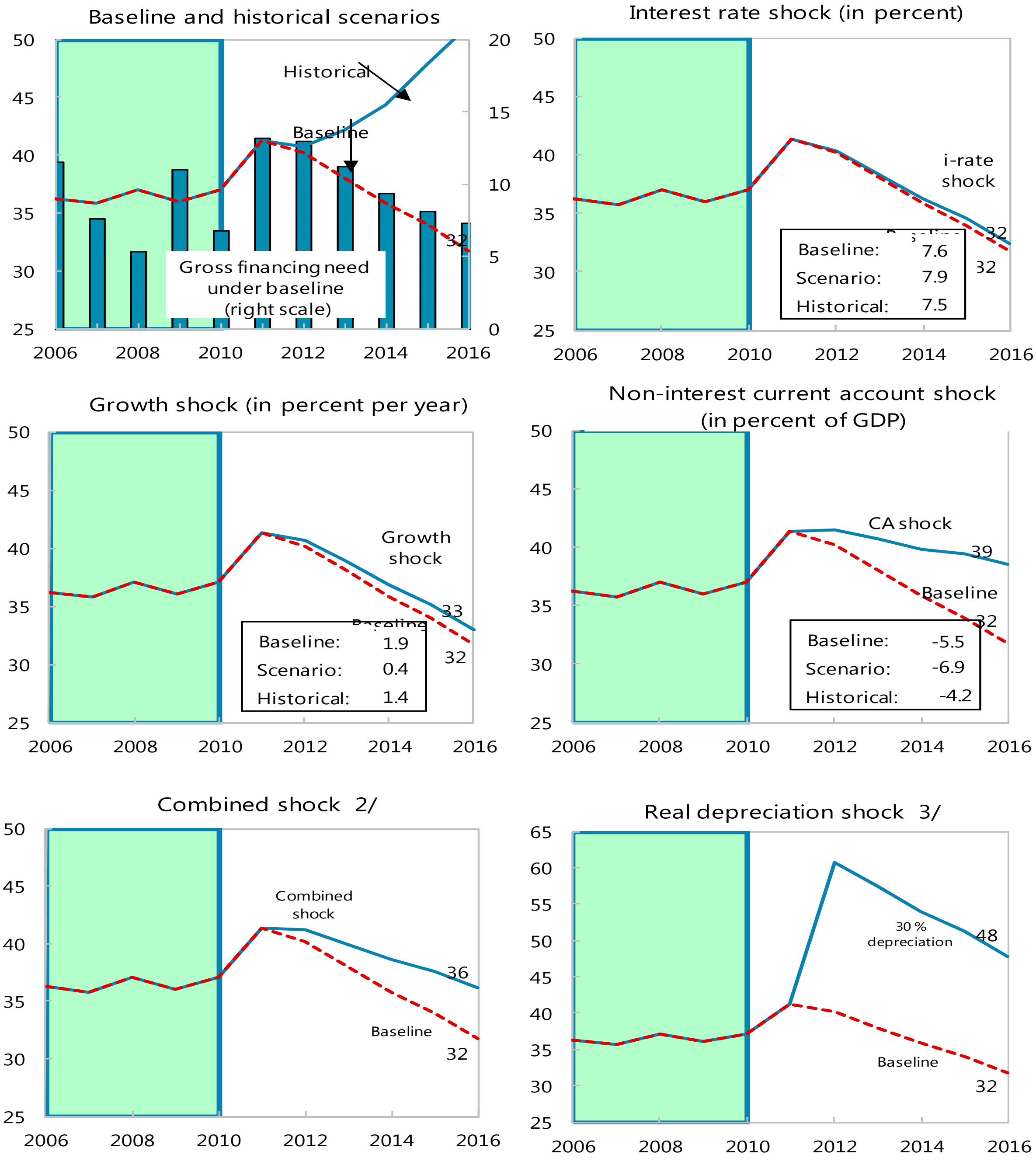
Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ 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 2011, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Appendix Table 4. Barbados: External Debt Sustainbaility Framework, 2005-2016
(Adjustment Scenario)
(In percent of GDP, unless otherwise indicated)

	Actual						Projections						
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	36.2	35.8	37.0	36.0	37.0	**41.3**	**40.2**	**38.0**	**35.8**	**34.0**	**31.7**	**30.1**	**-2.6**
Change in external debt	-6.7	-0.4	1.2	-1.0	1.0	4.3	-1.1	-2.1	-2.2	-1.8	-2.3	-1.6	
Identified external debt-creating flows (4+8+9)	-1.8	-1.0	-3.5	5.8	4.8	5.2	4.0	0.7	-0.2	-1.4	-1.9	-1.7	
Current account deficit, excluding interest payments	7.8	3.8	1.3	6.8	3.2	5.7	7.7	7.0	5.2	4.4	3.4	2.6	
Deficit in balance of goods and services	8.3	4.5	3.8	7.4	4.1	6.1	8.2	8.2	7.1	6.3	5.3	4.5	
Exports	46.4	46.2	45.6	48.1	42.3	44.2	42.2	41.1	40.9	40.5	40.6	40.7	
Imports	54.7	50.8	49.4	55.5	46.4	50.3	50.4	49.3	48.1	46.8	46.0	45.2	
Net non-debt creating capital inflows (negative)	-1.7	-2.5	-5.2	-5.0	-0.4	-3.2	-6.2	-8.6	-7.5	-7.7	-6.8	-5.6	
Automatic debt dynamics 1/	-7.9	-2.3	0.4	4.1	2.1	2.6	2.5	2.3	2.1	1.9	1.5	1.3	
Contribution from nominal interest rate	2.2	2.2	2.7	2.9	2.4	2.7	2.8	2.8	2.8	2.7	2.4	2.3	
Contribution from real GDP growth	-1.3	-1.1	-1.3	0.1	1.5	-0.1	-0.4	-0.5	-0.7	-0.8	-1.0	-1.0	
Contribution from price and exchange rate changes 2/	-8.8	-3.3	-1.0	1.1	-1.9	...	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-4.9	0.5	4.8	-6.9	-3.8	-0.9	-5.1	-2.9	-2.0	-0.4	-0.3	0.1	
External debt-to-exports ratio (in percent)	78.0	77.3	81.2	74.9	87.4	93.3	95.1	92.6	87.5	84.0	78.0	73.9	
Gross external financing need (in billions of US dollars) 4/	0.4	0.3	0.2	0.5	0.3	0.6	0.6	0.5	0.5	0.4	0.4	0.3	
in percent of GDP	11.5	7.5	5.3	11.0	6.8	13.1	12.9	11.2	9.3	8.0	7.2	4.9	
Scenario with key variables at their historical averages 5/						**41.3**	**40.7**	**42.2**	**44.3**	**47.8**	**51.2**	**54.2**	**-1.3**
Key Macroeconomic Assumptions Underlying Baseline													
Real GDP growth (in percent)	3.9	3.6	3.8	-0.2	-4.2	0.2	0.9	1.2	2.0	2.5	3.0	3.0	
GDP deflator in US dollars (change in percent)	25.9	10.0	2.9	-2.9	5.5	-3.2	4.1	3.9	3.2	2.9	2.4	2.4	
Nominal external interest rate (in percent)	6.9	6.8	8.1	7.5	6.9	7.1	7.2	7.3	7.8	8.0	7.5	7.5	
Growth of exports (US dollar terms, in percent)	20.8	13.5	5.4	2.1	-11.0	1.4	0.2	2.3	4.9	4.3	6.0	5.7	
Growth of imports (US dollar terms, in percent)	11.4	5.7	3.9	8.9	-15.4	5.2	5.2	2.8	2.6	2.7	3.6	3.7	
Current account balance, excluding interest payments	-7.8	-3.8	-1.3	-6.8	-3.2	-5.7	-7.7	-7.0	-5.2	-4.4	-3.4	-2.6	
Net non-debt creating capital inflows	1.7	2.5	5.2	5.0	0.4	3.2	6.2	8.6	7.5	7.7	6.8	5.6	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate,
e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).
3/ For projection, line includes the impact of price and exchange rate changes.
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
6/ Long-run constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels
of the last projection year.

Appendix Figure 4. Barbados: External Debt Sustainability: Bound Tests 1/
(Adjustment Scenario; external debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ 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 2011.

APPENDIX II. STATUS OF THE IMPLEMENTATION OF THE 2008 FSAP UPDATE RECOMMENDATIONS

Discussions with the Authorities at the time of the Article IV Consultations reveal progress in the following areas:

- Amendments are being considered regarding asset classification and provisioning. Phase 1 is a research project for delivery in 2012, while Phase II is part of the Basel II project to be finalized in 2015. Industry practices and international accounting standards are under review.

- Capital adequacy regulations to be adjusted to include requirement to support the Market Risk Amendment. Internal training and preliminary discussions with banks have commenced.

- Approach to Basel II implementation updated, focusing on Pillar 2 of the New Accord. The Bank has identified several projects, which will strengthen compliance and lay foundation for its readiness towards full implementation of the requirements in the future. Plans are underway to conduct an in-depth Basel II quantitative impact study.

- Amendments to legislation have been drafted in relation to third party transactions and an aggregate limit for large exposures.

- Revised consolidated returns are being devised as part of efforts to strengthen supervision.

- All amendments to legislation, which are expected to be passed into law in 2012, would also address issues concerning consolidated supervision, the enforceability of the Bank's guidelines and intervention measures, and powers to impose sanctions.

INTERNATIONAL MONETARY FUND

BARBADOS

November 21, 2011

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By Western Hemisphere Department

CONTENTS

ANNEX I. FUND RELATIONS

(As of September 30, 2011)

I. Membership status. Joined 12/29/1970; Article VIII.

II. General Resources Account

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

III. SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	64.37	100.00
Holdings	56.31	87.47

IV. Outstanding Purchases and Loans:

None

V. Financial Arrangements

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

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

VI. Projected Obligations to Fund

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

	Forthcoming				
	2011	2012	2013	2014	2015
Principal		8.28			
Charges/interest	0.01	0.02	0.02	0.02	0.02
Total	**0.01**	**0.02**	**0.02**	**0.02**	**0.02**

VII. Exchange Rate Arrangements:

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

VIII. Last Article IV Consultation:

The last Article IV consultation was concluded by the Executive Board on December 15, 2010; and the staff report was issued as IMF Country Report No. 10/363. Barbados is on the standard 12-month consultation cycle.

Technical Assistance (2005-11):

Department	Dates	Purpose
CARTAC	October 2011	Developing producer price index
CARTAC	September 2011	National accounts, develop values added by industry in constant prices
CARTAC	January 2011	National accounts, develop values added by industry in constant prices
MCM	September 2010	Stress testing of banks
CARTAC	September 2010	BOP, and compilation of International Investment Position
CARTAC	2006-2009	National accounts, revising current GDP data
CARTAC	April 2009	Government finance statistics workshop
STA	February 2009	Monetary and financial statistics
CARTAC	Ongoing	Rebasing national accounts
FAD	March 2008	Administration of indirect taxes and customs
CARTAC	January 2008	Revenue collection enforcement
STA	January 2008	Monetary and financial statistics
STA	December 2006	Monetary and financial statistics

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

ANNEX II. BARBADOS—RELATIONS WITH THE WORLD BANK GROUP

(As of October 31, 2011)

1. **Barbados graduated from World Bank financing in 1993, but has continued to borrow on an exceptional basis.** Two regional HIV/AIDS projects were approved in 2001 and 2008. The second HIV/AIDS Project (US$35 million), the only active loan which became effective in January 2009, is supporting the implementation of the 2008–2013 Barbados National HIV/AIDS Strategic Plan, specifically to promote: (i) adoption of safe behaviors, in particular amongst the most vulnerable groups; (ii) access to prevention, treatment and social care, in particular for the most vulnerable groups; (iii) capacity of organizational and institutional structures that govern the NAP; and (iv) use of quality data for problem identification, strategy definition and measuring results.

Statement of World Bank Loans

(In millions of U.S. dollars)

	Approval Year	Approved Amount	Undisbursed Balance*	Disbursed and Outstanding Balance*
Barbados Second HIV/AIDS Project	2008	35.0	23.9	11.09

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

Disbursements and Debt Service

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

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

ANNEX III. BARBADOS—RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of October 31, 2011)

1. The Inter-American Development Bank (IADB) has a portfolio of twelve loans to Barbados totaling US$248 million of which US$18 million has been disbursed, leaving US$230 million remaining to be disbursed. This portfolio includes a recently approved policy-based loan of $70 million (Support for Sustainable Energy Framework for Barbados II) which is expected to be fully disbursed in the present fiscal year. The portfolio is relatively 'young' with nine operations, amounting to 93 percent of the portfolio in value terms, having been approved since 2008. Execution of this portfolio of operations is programmed to take until 2016.

Current Loan Portfolio

Name	Approval Date	Amount in US$	
		Approved	Disbursed
Administration of Justice	2001	8,750,000	6,878,309
Modernization of Customs, Excise and VAT	2005	4,400,000	4,387,024
Modernization of the Barbados National Standards System	December 2007	5,000,000	747,772
Housing and Neighbourhood Upgrading Program - Phase I	January 2008	30,000,000	1,758,696
Modernization of the Barbados Statistical Service	July 2008	5,000,000	292,304
Modernization of the Barbados National Procurement System	December 2008	5,000,000	568,110
Water & Sanitation System Upgrade	December 2009	50,000,000	190,770
Agricultural Health & Food Control	December 2009	20,000,000	813,238
Competitiveness Program	December 2009	10,000,000	500,000
Coastal Risk Assessment and Management Program	December 2010	30,000,000	0
Sustainable Energy Investment Program	December 2010	10,000,000	2,000,000
Support for Sustainable Energy Framework for Barbados II	November 2011	70,000,000	0
Total		248,150,000	18,136,223

In addition to the loan portfolio, the IADB has an active technical cooperation portfolio of sixteen operations totaling US$7.8 million, six of which are Multilateral Investment Fund grants amounting to US$2.2 million.

2012 Lending Program

Four loans for a total of US$70 million are scheduled to be approved and disbursed in 2012. These loans will provide support in the areas of Education and Energy.

2012 Lending Program

Lending Program 2012 (Public Sector)	Amount (in US$ millions)
Education Sector Reform	20
Smart Energy Program for the Public Sector	17
Support for Sustainable Energy Framework for Barbados III	33
Total	70

Net Cash Flow

Barbados has experienced a negative net cash flow with respect to the IADB over much of the past decade, averaging *negative* US$13 million during 2003-08, and reaching a low point of *negative* US$20 million in 2006. Following a significant rise in disbursements in 2009, the net cash flow turned positive and is expected to reach US$53 million in 2011.

Cash Flow Indicators

(US$ million)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011e
Approvals	17.0	0.0	0.0	4.4	0.7	5.0	41.1	49.0	85.0	70.0
Disbursements	15.8	16.0	7.9	4.4	2.2	2.8	18.5	30.4	49.9	78.9
Repayments	8.1	11.0	13.8	12.2	15.6	15.9	19.7	18.7	20.5	21.2
Interest and Commissions	7.2	8.2	7.4	7.1	6.5	6.3	6.2	6.2	6.3	4.3
Net cash flow	**0.5**	**-3.2**	**-13.3**	**-14.9**	**-19.9**	**-19.4**	**-7.4**	**5.5**	**23.1**	**53.4**
Debt outstanding	**151.6**	**156.6**	**150.7**	**150.1**	**140.6**	**133**	**149.1**	**160**	**190**	**181**

Note: The projections of disbursements and approvals for 2011 include a PBL of $70 million.

ANNEX IV. BARBADOS—RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

(As of October 31, 2011)

The Caribbean Development Bank (CDB) approved US$351.7 million (net) in loans, contingent loans, equity and grants to Barbados over the period 1970 to October 31, 2011. This represents 9.2 percent of total approvals to CDB's borrowing member countries.

Of the total funds approved, US$91.7 million (26.1 percent) were allocated to the productive sectors, which comprise agriculture, forestry & fishing; manufacturing; and tourism. A total of US$45.5 million (12.9 percent) was allocated to the manufacturing sector, while tourism accounted for US$41.8 million (11.9 percent).

Economic infrastructure accounted for US$180.8 million (51.4 percent of approved funds). Of these funds, US$88.1 million (25 percent) were allocated to the transportation and communication, US$50.2 million (14.3 percent) to the education, and US$37.4 million (10.6 percent) to the housing sectors.

Table 1. CDB Loans, Equity and Grants Approved (Net) to Barbados 1970 – 31, October 2011

Sector	Total Value (US$ million)	%
Agriculture, Forestry & Fishing	4.4	1.3
Manufacturing	45.5	12.9
Tourism	41.8	11.9
Sub-total	**91.7**	**26.1**
Power and Energy	0.1	0.0
Water	1.8	0.5
Transportation & Communication	88.1	25.0
Housing	37.4	10.6
Education	50.2	14.3
Health and Sanitation	3.2	0.9
Sub-total	**180.8**	**51.4**
Multi-Sector	79.2	22.5
Sub-total	**79.2**	**22.5**
Total	**351.7**	**100.0**

Source: Caribbean Development Bank.

In order to provide a strategic focus to guide CDB's interventions in Barbados, CDB has prepared a Country Strategy Paper (CSP), outlining its overall intervention strategy for Barbados over the period 2010–13 to achieve the following outcomes: macroeconomic stability; renewed and improved physical and environmental infrastructure; a more competitive productive sector; and enhanced social development. The CSP is consistent with the Government's own development objectives.

Table 2. Approvals of Loans, Contingent Loans, Equity and Grants (Net) 2002–11

	Annual approvals US$ Millions
2002	15.0
2003	13.5
2004	0.1
2005	0.1
2006	24.4
2007	32.7
2008	0.1
2009	12.9
2010	62.0
2011 (October 31)	0.25

Source: Caribbean Development Bank.

Table 3. CDB – Disbursements and Undisbursed Balances to Barbados 2002 – October 31, 2011
(US$ millions)

Year	**Disbursements During the Year**	**Undisbursed Balance at the End of the Year**
2002	3.8	79.7
2003	17.2	76.0
2004	19.9	56.1
2005	8.6	47.5
2006	9.3	62.2
2007	23.6	71.3
2008	25.2	47.2
2009	16.8	46.1
2010	32.8	43.2
2011 (October 31)	10.7	-

Source: Caribbean Development Bank

ANNEX V. BARBADOS—STATISTICAL ISSUES

1. While data provision has some shortcomings, it is broadly adequate for surveillance purposes. Barbados participates in the General Data Dissemination System, with metadata and the authorities' plans for improving the statistical base posted on the Fund's Dissemination Standards Bulletin Board.

Real Sector

2. The Barbados Statistical Services compiles national accounts statistics according to the 1968 SNA manual. A lack of current, reliable source data on nonsugar agriculture, private construction, and nontourism service activities affects production-based GDP estimates. To address some of the weaknesses in this area the authorities initiated a census of economic activity in June 2005. The census covered tourism, financial businesses, and transport and communications. Expenditure-based GDP estimates are derived from selected surveys; the household survey yields a reliable estimate of aggregate consumption, but the external trade and investment surveys suffer from certain weaknesses. Constant price GDP estimates, compiled by the Central Bank of Barbados (CBB), have an outdated 1974 base year; the authorities are currently updating the base year to 2000 in order to facilitate comparison within the Caribbean Community area. The authorities, with the assistance of CARTAC, recently completed a revision of the national accounts data. They published the revised GDP series in current prices, which revealed that current GDP had been underestimated in 2008 by about 10 percent. However, the revised *current* price GDP data are not consistent with the *constant* price GDP data, which rely on 1974 as the base year, and there are no meaningful GDP deflator data linking both series. These data shortcomings add some uncertainty to GDP analyses and projections, as presented in the staff report. An early rebasing of the constant price GDP data should be a high priority.

3. Starting in 2011, the BSS is responsible for compiling value added (VA) by industry at constant prices on an annual basis, previously being the responsibility of BCB. The BSS, with the assistance of CARTAC in 2011, improved methodology of computing VA by industry with 2006 as a base year replacing the dated base years used by the BCB and BSS. Recently, preliminary constant price estimates by industry were completed; however, a continuous improvement of the current and constant price estimates is needed. Work is underway on the compilation of import/export price index and producer's price index (PPI) which when completed would improve the quality of VA of goods producing industries. The estimates can also be fine tuned by improving the survey response rate and instituting proper editing of the data. The BSS should create a section responsible for editing the data and classification of administrative data (VAT and data from Inland Revenue) supplementing the survey data collected by the BSS. The BSS should develop quarterly constant price estimates in constant prices to be followed by both current and constant price estimates of VA by industry. The quarterly estimates should be anchored to the annual estimates.

4. The BSS, with support from CARTAC, has continued work on developing producer price indexes (PPI). The BSS has refined the sample frame, modified the list of establishments in the sample, redesigned the initial collection form, and selected representative products and transactions to include in the sample. The BSS has been following the action plan but there has been a slippage in the timing of the activities. By the time of the CARTAC mission on October 3–7, 2011, the plan called for the sample selection to be completed, the establishment initiation largely completed, and the compilation system in the testing process. Only the sample was finalized, with 27 industries and 68 establishments selected that represent 90 percent of manufacturing output. The initiation process was still underway with only 12 of 68 establishments completed. The BSS needs to to take the following actions: complete the initiation process by selecting the representative products and transactions in the remaining sample of establishments; finalize the PPI compilation spreadsheet; collect back prices from the PPI sample of establishments for the June–October period; and begin monthly price collection for the PPI sample of establishments with reference to prices on the fifteenth of the month. The BSS will try to complete the PPI by January 2012.

5. Despite recent initiatives to update the consumer price index and the index of industrial production, potential misalignments in real estate prices are not addressed due to the absence of a systematic index of property prices. The consumer price index uses an expenditure basket for 1998–99 for its July 2001=100 series introduced in January 2002. The index of industrial production is based on the sectoral weights from 1982; the authorities are currently working towards rebasing the series to 1994. Since these outdated base years do not necessarily reflect the current structure of consumption and production, they possibly distort the derived price data.

Government finance statistics

6. Fairly comprehensive and up-to-date above-the-line data are available for the general government, but government transfers are reported with a lag. As a result of the incomplete coverage of off-budget transactions, a discrepancy exists between the overall balance and financing data in some years. Public enterprise data are not systematically and promptly reported to the Ministry of Finance. Financial sector data on public sector net domestic borrowing usually cannot be fully reconciled with above-the-line fiscal data, partly because of limited availability of nonbank financial sector information. This reduces the degree of certainty about the actual fiscal position. The authorities introduced accrual accounting of public finance in April 2007.

Monetary and financial statistics

7. While some weaknesses remain with respect to the overall quality, coverage, and timeliness of the monetary and financial statistics, they do not hinder Fund surveillance. The 2007 and 2008 STA missions found that the quality of monetary and financial statistics was compromised by various methodological problems, misclassifications, and the inconsistent application of residency criterion. The technical assistance missions recommended correcting a number of misclassifications of accounting data and assisted the CBB in compiling the standardized report forms (SRFs). The CBB has recently started compiling monetary statistics based on the SRFs, which include comprehensive detailed depository corporations' data.

External sector statistics

8. Lags in the compilation of merchandise trade data, and infrequent and incomplete information on the activities of the offshore sector, limit the timeliness of the external current account balance estimates. Estimates of the components of the external financial account need to be improved. The authorities, with assistance from CARTAC, are working on compiling data on the net international investment position of Barbados.

BARBADOS: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

As of October 31, 2011

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	Fixed				
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	7/31/11	9/19/11	M	M	W
Reserve/Base Money	7/31/11	9/19/11	M	M	M
Broad Money	7/31/11	9/19/11	M	M	M
Central Bank Balance Sheet	7/31/11	9/19/11	M	M	M
Consolidated Balance Sheet of the Banking System	6/30/11	9/19/11	M	M	M
Interest Rates[2]	9/30/11	10/31/11	M	M	M
Consumer Price Index	7/31/11	10/10/11	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	9/30/11	10/10/11	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	9/30/11	10/10/11	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	9/30/11	10/10/11	Q	Q	Q
External Current Account Balance	6/30/11	9/19/11	A	A	Q
Exports and Imports of Goods and Services	6/30/11	9/19/11	Q	Q	Q
GDP/GNP	2010	9/19/11	A	A	Q
Gross External Debt	3/31/11	10/10/11	A	A	M
International Investment Position[6]					

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

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

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

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

[5] Including currency and maturity composition.

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

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

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IMF Executive Board Concludes 2011 Article IV Consultation with Barbados

On December 05, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Barbados.[1]

Background

The difficult global economic conditions continue to pummel Barbados with growth at anemic levels and inflation and unemployment rates moving up sharply. After two years of decline, real Gross Domestic Product (GDP) growth was only 0.2 percent in 2010, while estimates for the first nine months of 2011 show an expansion of 1 percent due mainly to improved tourism and construction activities. With overall economic activity remaining subdued, the unemployment rate almost doubled from 6.7 percent in 2007 to 12.1 percent in June 2011. Pressures on prices have increased with inflation estimated to have reached 10.6 percent (year-over-year) in August 2011, as commodity prices surged.

Fiscal performance remains under stress especially in the light of the high public debt. The Fiscal Year (FY) 2010/11 central government deficit rose to about 8.5 percent of GDP from 8.2 percent of GDP in FY 2009/10. Expenditures increased by 0.5 percentage points of GDP, while revenue weakness, particularly in corporate taxes, implied an overall deficit in excess of the budget target. However, budget execution for the first half of 2011/12 fiscal year appears to be

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

on track to achieve an overall central government deficit target of 5.1 percent of GDP. Public debt continues to rise. At the end of FY2011, total public sector debt was 117 percent of GDP, up from about 90 percent of GDP two years earlier.

The current account deficit has widened in recent times due to higher oil and food prices. The deficit widened from 5.6 percent of GDP in 2009 to 8.5 percent in 2010. While import volumes contracted in the first nine months of 2011, higher commodity prices pushed up the import bill, further worsening the current account deficit to around an estimated 10.5 percent of GDP in 2011. International reserves, however, reached a comfortable 4.5 months of imports at end-September 2011 having been boosted by public and private capital inflows.

The economic outlook for 2011 is weak with growth expected to remain soft. While tourism is recovering, the rest of the economy is sluggish. Real GDP growth is therefore expected to turnout at less than 1 percent this year despite higher tourist arrivals. The medium term prospects are uncertain with risks tilted to the downside. A strong pick-up in economic activity depends heavily on improvements in labor market conditions in the U.K. and the U.S. International reserves are projected to come under pressure in the near to medium term.

Executive Board Assessment

Executive Directors noted that Barbados was hit hard by the global crisis and has yet to fully recover. Growth remains tepid despite a rebound in tourism, and risks persist from the weak and uncertain global economic environment. While cushioning the impact of the crisis, the authorities’ policy response has put pressure on public finances and further raised the public debt. Directors saw as the main challenge the need to undertake a credible fiscal consolidation without jeopardizing the fragile recovery and social cohesion.

Directors commended the authorities for adopting a revised Medium Term Fiscal Strategy aimed at generating a balanced budget and reducing the high public debt-to-GDP ratio. They emphasized that fiscal consolidation should focus on expenditure reduction, including lowering the wage bill, reducing transfers to public enterprises, and minimizing tax exemptions. To bring the debt on a firm downward trajectory, Directors encouraged the authorities to make further sustained efforts to curtail and prioritize government spending, and enhance revenue, including by broadening the tax base and making permanent the temporary hike in the Value-Added Tax. They also recommended expanding the coverage of the fiscal strategy to include public enterprises. In view of uncertainties in the global and domestic environment, Directors encouraged the authorities to develop contingency plans to ensure achievement of the fiscal targets. Directors welcomed the authorities’ plan to engage social partners in a national debate on the level of social spending.

Directors observed that the exchange rate peg has served the country well. They emphasized that a credible fiscal consolidation, together with efforts to enhance competitiveness, would be crucial to support the peg and external stability. With the projected medium-term decline in international reserves, Directors recommended close monitoring of net foreign reserves levels.

Directors noted that the banking system is stable and healthy. Nonetheless, the recent increase in nonperforming loans, coupled with low loan-loss provisioning, requires close monitoring and improved risk management. They welcomed the consolidation of supervision of the nonbank financial sector under the newly operational Financial Services Commission, and recommended strengthening its supervisory capacity. Directors encouraged the authorities to minimize fiscal costs in any plan to resolve CLICO and to seek a private sector solution. They noted that the CLICO failure underlines the importance of a coordinated regional approach to financial sector supervision and a mechanism for establishing a framework for crisis resolution.

Directors welcomed the relatively good business environment in Barbados. They emphasized the need to address the structural impediments to growth and improved competitiveness. They saw scope for raising the efficiency of government services and reducing the bureaucratic burden on the private sector.

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.

Barbados: Selected Economic Indicators

	2008	2009	Prel. 2010	Proj. 2011	Proj. 2012
(Annual percentage change)					
Output and prices					
Real GDP	-0.2	-4.2	0.2	0.9	1.2
Nominal GDP	-3.1	1.1	-2.9	5.0	5.1
Consumer prices	8.1	3.7	5.8	6.9	5.9
Money and credit					
Net domestic assets	11.3	3.1	0.5	1.8	5.1
Of which: private sector credit	11.1	1.4	0.3	1.7	3.3
Broad money	2.8	2.8	2.8	3.3	4.9
(Percent of GDP, unless otherwise indicated)					
Public sector operations 1/					
Overall balance	-6.5	-7.1	-7.3	-4.1	-2.9
Central government balance	-4.6	-8.2	-8.3	-5.1	-4.0
Off-budget activities	-3.0	0.1	0.0	0.0	0.0
National Insurance Scheme balance	2.9	3.2	3.4	2.8	2.6
Public enterprises balance	-1.8	-2.3	-2.3	-1.9	-1.5
Primary balance	-2.9	-3.2	-3.6	0.5	2.2
Public sector debt 2/	90.9	104.0	116.8	116.5	116.3
External sector					
External current account balance	-9.6	-5.6	-8.5	-10.5	-9.8
External debt 3/	25.5	28.8	32.1	30.7	28.9
Gross international reserves (millions of U.S. dollars)	680	744	786	764	741
Memorandum item:					
Nominal GDP (in millions of Barbados dollars)	8,691	8,786	8,529	8,955	9,412

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

1/ Fiscal year (April–March).

2/ Includes central government and government guaranteed debt.

3/ Includes public sector and nonfinancial private sector debt; end of fiscal year.

Statement by Thomas Hockin, Executive Director for Barbados and John Andrew Rolle, Advisor to the Executive Director December 5, 2011

In the aftermath of the global recession and an external environment that remains highly uncertain, the Barbadian authorities are committed to pursuing credible medium-term policies to rebuild fiscal buffers, enhance financial stability and strengthen medium-term growth prospects. In this regard, there is agreement with the thrust of the staff's appraisal, including on the downside risks associated with the country's current fiscal situation. Yet, the international environment remains more hostile than was anticipated when the Medium Term Fiscal Strategy (MTFS) was first formulated, hence the need to revise the framework. In this regard, the process of structural reforms will become more entrenched. The authorities will also sustain their efforts to strengthen financial sector regulation and oversight, and pursue a resolution strategy for failed insurance operations that keeps fiscal costs to a minimum. To its advantage, an important feature of the Barbadian society is the cohesive partnership between government, labor, and the private sector which helps in building consensus on key policies.

Economic Background

Barbados' economy is expected to grow very mildly in 2011, strengthening only to a modest pace over the medium term. In particular, the increase in non-traded sector activity should cushion a negative contribution from traded production in the current period, with net foreign exchange earnings compressed due to slightly decreased real tourism receipts and an elevated oil imports bill. Meanwhile, despite successful efforts to narrow the fiscal deficit to a projected 5.1 percent of GDP from just above 8.0 percent in both 2009 and 2010, the debt will rise further. In the protracted weakness in the private sector, retrenchments have led to an increase in the jobless rate, even as the social partnership led by the public sector's initiative has been a source of significant stability. As the recovery strengthens, risks will remain elevated, with tourism hindered by cautious consumer behavior in the advanced economies, and the international businesses sector's momentum slowed by the evolving regulatory environment. FDI flows are also likely to recover at a tempered pace. The upswing should nevertheless have a favorable impact on the banking system, reversing a largely cyclical deterioration in credit quality.

Monetary and Financial Sector Polices

As the staff report acknowledges, the scope for monetary policy easing is limited in an economy such as Barbados' because domestic demand is not sustainable in isolation from the strength of the foreign earning exchange sectors. The authorities therefore agree that further relaxation of interest rates would not be appropriate at this time. The Central Bank of Barbados (CBB) however decided that it was appropriate to take measures to remedy information asymmetries and resuscitate the operations of the foreign exchange market. This explains the August 2011 decision to impose a 5 percent surrender requirement on gross purchases by authorized dealers. Contrary to the staff's interpretation, this policy was not intended to send a negative signal to the private sector, either as a rollback of earlier liberalization or to spark concerns about the credibility of the peg. Both this measure and the reduction in the margin on foreign exchange sales by dealers have been followed up by heightened monitoring of the foreign exchange markets and increased communication between the CBB and authorized dealers. In particular, the CBB began circulating daily reports to dealers on the volume and breakdown of foreign exchange transactions and has further stepped up its internal analysis to monitor the impact of the policy changes.

In the meantime, financial sector supervision and regulation continue to be enhanced. In the banking sector, oversight remains heightened given elevated NPLs and credit risks. In this regard, commercial banks enjoy strong capital buffers even under CBB imposed stress tests. The enhanced banking sector surveillance will be further spotlighted, as the central bank begins regular publication of a financial stability report in December 2011. For non-banks, efforts to consolidate the regulatory regime are now more advanced following the April 2011 startup of the Financial Services Commission (FSC). Supervisory capacity will be built up in this institution over the medium term, aided by technical assistance from CARTAC and other external partners. In addition, the authorities remain focused on implementing the 2008 FSAP Update recommendations, with the Anti-Money Laundering Act approved by Parliament on November 11, 2011.

Barbados is also moving closer to a resolution of the failed CLICO and BAICO insurance operations, with a view to keeping resulting fiscal costs to a minimum. The contingent exposure is expected to be negligible for BAICO, where the judicial management process has already been concluded. In contrast, more substantial liabilities are a potential for CLICO. The judicial management process for CLICO has been set in motion in collaboration with governments in the OECS. This should clear the way for a regionally coordinated plan on restructured as opposed to liquidated operations under private ownership. The judicial managers are expected to present their final reports to the courts in the regional jurisdictions, including Barbados, in December. The Barbadian government then expects to conclude the sale of CLICO's operations in 2012.

Fiscal Policies

The authorities believe that prudent fiscal policies are essential for the sustainability of the exchange rate peg and that buffers have to be restored to weather future external shocks. Larger primary balances meanwhile should also sustain the government's ability to effectively sustain pro-growth public sector investments. In this regard, the medium-term fiscal strategy is still focused on reducing the debt-to-GDP ratio to near 70 percent. Since the pace of the recovery is lagging expectations, the time frame for achieving the target is being reviewed in the context of further adjustments to the MTFS. Nevertheless, the authorities are cognizant of the need to balance the required adjustment against fiscal support to growing the economy.

The government of Barbados has already adopted significant revenue enhancing measures and tightened controls on spending. As to further revenue enhancements, the emphasis will remain on administrative improvements. Just in November 2011, the Central Revenue Authority (CRA) was established with a mandate to consolidate tax administration services. Over the medium term, the CRA will achieve the merger of scarce capacity still located in separate agencies and facilitate one-stop provision of taxpayer services. Looking ahead, the government has also requested the Fund to assist with a comprehensive review of the tax framework, with a view to defining a strategy on further revenue enhancements. The authorities already agree that additional streamlining of tax concessions merits consideration and that the applications and approvals process for exemptions could benefit from more transparency. Notwithstanding staff's advice, they are hesitant, however, to impose higher corporate taxes on offshore operations as this could reduce the sector's competitiveness, particularly in comparison to zero-tax jurisdictions.

Staff rightly observes that even more significant expenditure savings are needed, which will require reforms to social entitlements and more targeted subsidies and transfers. Such initiatives will have to be approached through strong consensus among the social partners. The authorities, though, appreciate the importance of keeping the wage bill under strict control. A wage freeze has existed in government for the last three years, and is likely to continue in the near term as there is no evidence of labor market pressures for changes. The Government further intends to maintain a moratorium on hiring, and expects service delivery reforms to reduce staffing in some public sector operations over time. For the state-owned enterprises (SOEs), there is concurrence that operations have to be kept in line with the MTFS. Subsidies and transfer provisions for SOEs have either been capped or reduced in the current budget, and agencies have been required to identify compensating savings, as part of a medium-term plan to steadily reduce subventions. It will take time to reduce support for education, although the solution might involve a better alignment of subsidies with development objectives. On health sector reforms, steps are already being taken to cap the cost of some programs and eliminate indiscriminate benefits for non-nationals. Costs of supporting the public transportation sector are also being scrutinized, although no policy decision has been taken yet.

Our authorities are also making progress to enhance the debt management capacity, by strengthening the coordination framework between the Ministry of Finance and the CBB. As to vulnerabilities related to the current profile of the debt, they believe these are less heightened than implied from the staff report (Appendix I). The debt is concentrated in domestic currency, mostly at fixed rates, and with limited roll-over risk. In the meantime, most of the external stock is in denominated US dollars, consistent with the currency profile of Barbados' trade, and with a smooth amortization schedule.

The Barbadian authorities noted the staff's assessment that the public sector financing is too reliant on the National Insurance Scheme (NIS) and that the NIS exposure exceeds a prudentially recommended portfolio limit of 51 percent. However, they stress that, in the current environment, reducing the exposure to government would leave a void of investment opportunities for the portfolio. While cognizant of risks, the authorities maintain that the NIS still has an obligation to maximize the return on its portfolio. Opportunities to invest in public sector securities will naturally decline as fiscal consolidation takes hold. This should coincide with greater scope for portfolio diversification into external investments, when more vibrant foreign exchange flows are available to sustain such transactions. Even still, the authorities believe that the NIS should also play an important direct role in supporting private sector developments, within a prudent risk management framework.

Growth

Barbados is committed both to enhancing and diversifying its medium-term growth prospects. Continued public sector investments in infrastructure are critical to this objective, as well as exploiting further efficiencies in the provision of government services and other direct measures to improve the business environment. Efforts are ongoing to bolster the international business sector, by ensuring that the regulatory environment evolves in keeping with global standards. In tourism, new initiatives are underway to increase business from non-traditional sources in emerging markets, such as Latin America. Policies to enhance external competitiveness are also targeting increases in workforce productivity and reductions in the cost of energy. In the case of the latter, the authorities are promoting increased reliance on renewable energy sources, such as wind and solar.

Conclusion

In summary, the Barbadian authorities remain committed to rebuilding the policy buffers exhausted during the global recession. Pursuing reforms in the context of both the medium-term development and fiscal strategies are consistent with this objective. A more resilient and robust financial sector also accords with this strategy, hence sustained initiatives to enhance and consolidate the regulatory framework. Its is also important to strengthen Barbados' medium-term growth prospects, and this is being advanced through measures to further improve the business environment, increase workforce productivity, and aggressive policies to diversify the base of the economy. These initiatives will capitalize on Barbados' highly skilled labor force. The policy dialogue with the Fund as well as TA will remain highly valued in this process.