

**REPORT TO CONGRESS ON
THE INTERNATIONAL MONETARY FUND'S
LOAN TO BARBADOS**



A Report to Congress

United States Department of the Treasury
November 1, 2018

Introduction

This report provides an assessment of the likelihood that an International Monetary Fund (IMF) loan to Barbados, approved in October 2018, will be repaid in full. This report is required by section 1501 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010. Barbados' public debt is equivalent to around 157 percent of its GDP, and the country is not eligible for assistance from the International Development Association.

As directed by section 1501, and consistent with its longstanding practice with respect to all loans, the Office of the United States Executive Director (OUSED) at the IMF, in close coordination with the Treasury Department, conducted a careful and thorough evaluation of the proposed program for Barbados when it was submitted to the IMF Executive Board. The OUSED and Treasury will continue to monitor Barbados' progress under the program.

Overview

On October 1, 2018, the IMF Executive Board approved a 4-year Extended Fund Facility (EFF) program of SDR 208 million (around U.S. \$290 million at the time of approval) for Barbados. Over the last decade, the previous Barbadian government pursued undisciplined fiscal and structural policies inconsistent with the country's exchange rate peg to the U.S. dollar, and the economy has been caught in a cycle of widening fiscal deficits and increasing debt. The new government, which took office in May 2018, inherited a precarious economic situation, with depleted foreign exchange reserves and an unsustainable debt position. Since taking office, the new government has demonstrated its commitment to pursuing significantly improved and extensive reforms to restore economic stability. The new government also has very strong political space for reforms, with Prime Minister Mottley's party having won all of the seats in Parliament.

IMF financing is aimed at supporting the government's program to restore economic stability and debt sustainability, boost reserves, and raise growth over the medium-term. The main pillars of the EFF include: 1) decisive fiscal reform, including frontloaded fiscal consolidation calibrated to be ambitious, but feasible; 2) monetary policy consistent with a pegged exchange rate; 3) a significant restructuring of public debt, both domestic and external; and 4) growth-enhancing structural reforms, including reform of the over-sized, inefficient state-owned-enterprise (SOE) sector.

Debt Status

At the time of program approval, Barbados' public debt reached an unsustainable 157 percent of GDP. Of this, about 136 percent of GDP was issued by the central government, 10 percent of GDP was issued by SOEs and guaranteed by the central government, and domestic expenditure arrears amounted to over 11 percent of GDP. The overarching objective and long-term anchor of the IMF program is to reduce public debt to a more sustainable 60 percent of GDP by FY 2033/34 (this target is consistent with other recent IMF programs in the region, such as Jamaica's successful IMF-supported reform program).

Debt Management Strategy

To meet the debt objective, the government is committed to running primary fiscal surpluses over several years that reduce the need for public debt issuance. The government also has plans to undertake a significant debt restructuring that is aimed to deliver around 33 percent of GDP in debt relief, which will help reduce Barbados' gross financing needs to a sustainable level.

Barbados' debt restructuring will primarily reduce its domestic debt, which makes up the large majority of public debt at 109 percent of GDP. In September 2018, the authorities launched an exchange of the sovereign debt held by domestic private creditors as a prior action in the IMF program. Barbados is aiming to restructure its debt by extending maturities, mainly to 15 years, and lowering interest rates, particularly for the next few years, to reduce gross financing needs. The domestic debt exchange subsequently gained the requisite agreement from creditors, and its implementation has already improved Barbados' fiscal position relative to the IMF program's baseline assumptions. Since program approval, the government has also cleared around half of its domestic expenditure arrears and has plans to fully clear the remaining arrears over the medium term. The authorities continue to engage in intensive discussions with Barbados' external official creditors. With the domestic debt exchange successfully completed, we expect the authorities to engage constructively with Barbados' external private creditors with the intention of renegotiating these claims on appropriate terms, consistent with debt sustainability. To safeguard the gains from the domestic and external debt restructurings, the authorities plan to strengthen their debt management capacity under the program with the help of IMF technical assistance.

Vulnerabilities

The program involves significant risks, including limited implementation capacity coupled with the need to implement extensive structural reforms to boost growth; the need to sustain large fiscal surpluses over time; and risks inherent in the debt restructuring process. However, these risks are mitigated by the government's strong sense of urgency to address Barbados' vulnerabilities and the authorities' extensive outreach to build support for necessary economic reforms. The authorities have shown strong program ownership since taking office (in May 2018) – including by taking key revenue and expenditure measures and initiating reforms to the SOEs, including stronger oversight, cost reduction, revenue enhancement, and mergers and divestment. In addition, the authorities have undertaken significant public outreach to build societal support for the program, including establishing an Economic Program Oversight Committee.

Overall Assessment

Barbados is heavily indebted and vulnerable. However, the IMF-supported reform program provides the best opportunity for the country to restore macroeconomic and debt sustainability, rebuild international reserves, and undertake growth-enhancing structural reforms. The Barbadian authorities have demonstrated strong commitment to meeting IMF program objectives through their Economic Recovery and Transformation Plan, and the IMF program will help provide a framework for further action. Based on these factors and the IMF's preferred creditor status, the Treasury Department assesses that the IMF's loan to Barbados is likely to be repaid in full.