REPORT TO CONGRESS ON
THE INTERNATIONAL MONETARY FUND'S
LOANS TO BARBADOS AND SURINAME

A Report to Congress

consistent with

Section 1501 of the
Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010

United States Department of the Treasury

June 10, 2022

Introduction

This report provides an assessment of the likelihood that Barbados and Suriname will repay their loans to the International Monetary Fund (IMF) in full. This report is required by section 1501 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010*.[1] Both countries meet the reporting criteria specified in the legislation: namely, both received loans at a time when the most recent data established that their public debt-to-GDP ratios were greater than 100%, and neither is 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 programs for Barbados and Suriname when they were submitted to the IMF Executive Board. The OUSED and Treasury continue to monitor progress under both programs.

BARBADOS

Barbados has struggled to break free from a vicious cycle of low or negative growth since the 2008-09 global financial crisis. On October 1, 2018, with public debt at around 160% of GDP, the country entered a four-year Extended Fund Facility (EFF) for SDR 208 million (about $290 million). To better manage the impact of COVID-19, Barbados requested and received an augmentation of its EFF for an additional SDR 114 million, bringing total access to 323% of quota. Under the program, Barbados's public debt declined to 125% at the end of fiscal year 2019/2020, before rising to 142% due to the impact of the COVID-19 pandemic.

The main pillars of the EFF include: (i) fiscal adjustment that adopts a primary surplus of 6% of GDP in the medium term; (ii) State Owned Enterprise (SOE) reforms to reduce transfers that have become a significant burden on the budget; (iii) external debt restructuring with foreign commercial creditors; (iv) maintaining the stability of the financial system following the impact of domestic debt restructuring; and (v) growth-oriented reforms aimed at supporting both the traditional and non-traditional private sector.

Because of the need for assistance to respond to the COVID-19 crisis, the United States supported the restoration of access to World Bank Group financing for Barbados, which had previously graduated from eligibility to borrow. In the Inter-American Development Bank, which does not have a formal graduation policy, the United States agreed to support loans to Barbados for the purpose of responding to the pandemic. MDBs have subsequently provided

[1] [1]P.L. 111-203; codified at 22 U.S.C. 286tt(b), section 68(b) of the Bretton Woods Agreements Act: "Within 30 days after the Board of Executive Directors of the Fund approves a proposal [to make a loan to a country whose public debt exceeds gross domestic product and is not eligible for assistance from the International Development Association], and annually thereafter by June 30, for the duration of any program approved under such proposals, the Secretary of the Treasury shall report in writing . . . assessing the likelihood that loans made pursuant to such proposals will be repaid in full, including—(1) the borrowing country's current debt status, including, to the extent possible, its maturity structure, whether it has fixed or floating rates, whether it is indexed, and by whom it is held; (2) the borrowing country's external and internal vulnerabilities that could potentially affect its ability to repay; and (3) the borrowing country's debt management strategy."

significant financing alongside the IMF, which has helped to finance the budget shortfall that emerged as a result of the steep drop in tourism due to the COVID-19 pandemic.

In December 2019, Barbados completed a successful external public debt restructuring (following its 2018 domestic debt restructuring) to further reduce the stock of public debt, lower interest payments, and lengthen maturities to increase Barbados's repayment capacity. Supported by the IMF program, international reserves have recovered from about three months of import coverage pre-program to about eight months of import coverage by October 2021, aided by disbursements from the Inter-American Development Bank and the Caribbean Development Bank.

Barbados continued to face economic difficulties in 2021 due to exogenous shocks. Ash from a volcanic eruption on nearby St. Vincent, and the effects of Hurricane Elsa, reduced Barbados's projected 2021 GDP growth to 1.6% from 3%.

Under the current EFF, the country authorities have shown strong ownership of the reform effort and program implementation. The rapid completion of a domestic debt restructuring reduced the public debt-to-GDP ratio and improved the sustainability of government debt. While Barbados met all program targets for June and September 2021, IMF staff proposed modifying some program targets to reflect the effect of the natural disaster shocks. IMF staff noted that Barbadian authorities will need to need to deliver more ambitious fiscal adjustment in years ahead to compensate for the loosening of these targets.

This program involves significant risks due to the extensive nature of the structural reforms envisioned in the program, the government's limited implementation capacity, and Barbados's still-elevated public debt levels. IMF staff have loosened Barbados's debt targets as a response to the numerous shocks it has experienced, and the country remains vulnerable to natural disasters and a prolonged global downturn in tourism due to COVID-19. However, Barbados has established a solid history of repayment to the IMF following its two previous programs, and the authorities have shown strong ownership of reform efforts amid the COVID-19 crisis. Based on its strong implementation of the program and commitment to reforms, we expect Barbados to repay the IMF in full.

Debt Status

At the time of program approval, Barbados' public debt was 157% of GDP. Subsequently, Barbados completed a comprehensive domestic debt restructuring in October 2018 and an external debt restructuring in December 2019. Public debt decreased by 36 percentage points of GDP to 122% of GDP in March 2020. Since the beginning of the pandemic, the IMF projects that public debt has increased to 142% of GDP, mainly due to the 17% contraction in nominal GDP during the first year of the pandemic. After delivering the program's targeted primary fiscal surplus of 6% in 2019, the government recorded primary fiscal deficits of 1% of GDP in 2020 and 2021. IMF staff now project that Barbados's debt will reach 122% of GDP (its pre-COVID level) in early 2024, on renewed fiscal adjustment and continued gradual GDP recovery. As of the sixth review of Barbados's EFF, less than 10% of public debt was short-term dated, and slightly more than 1/3 was denominated in foreign currency. Since April 2018, public external debt increased from 28% to 52% of GDP due to: (i) loans from international financial institutions to augment Barbados's foreign exchange reserves, and (ii) a decline in nominal GDP. The IMF projects that public external debt will gradually decrease to about 34% of GDP by early 2027.

IMF staff project that Barbados will reach its long-term public debt goal of 60% of GDP in 2036 – two years later than originally intended under its EFF. The Barbadian authorities will need to continue implementing structural reforms and improving domestic revenue mobilization to meet this target; doing so will also depend on an eventual recovery of GDP growth, particularly from a return of normal tourism inflows. Treasury has been supportive of the IMF's pragmatic approach, especially in light of Barbados' strong reform performance before and during the pandemic.

Debt Management Strategy

Following on the government's comprehensive restructuring of its domestic debt, authorities' main goals are to reestablish a sustainable debt load and composition, in part by reducing short-term debt below 5% of GDP. The program's design supports private sector-led investment and growth and is aimed at restoring confidence in the economy. Market confidence in Barbados's strong reform performance can be seen in the significant tightening of its bond spreads to 10-year U.S. Treasuries from 2020 through 2021. The Barbadian authorities are exploring additional measures, such as introducing a fiscal rule and publishing an annual medium-term debt strategy, to further bolster market confidence in their debt management strategy and ownership of reforms.

After securing a moratorium on external commercial debt payments, Barbados completed a debt restructuring agreement in 2019 that reduced its external debt stock, reduced its interest payments, and lengthened its average maturities. Over the medium term, Barbados is shifting its debt mix towards long-term domestic debt. Barbados also has access to additional Special Drawing Rights ($129 million) from the general allocation in August 2021, which it could put towards budget support.

SOE reform is a core part of the IMF program, and a prerequisite for achieving a sustainable debt position in the medium term. Before Barbados's program began, 58 SOEs received an annual average of 7.5% of GDP in central government budget transfers. The EFF program targets a decrease in transfers of 2% of GDP, and Barbadian authorities are actively aligning activities of SOEs with a framework intended to rationalize SOE expenditures.

Additionally, the government's recent corporate income tax reform should foster a business-friendly environment in Barbados, stimulating the economy and decreasing the debt-to-GDP ratio over the medium term.

Vulnerabilities

Key risks to the debt reduction strategy include: limited implementation capacity of the government; untested ability to maintain the fiscal discipline needed to reduce debt over a sustained period; and vulnerability to external shocks, particularly those that affect tourism. Barbados remains highly exposed to the risk of significant weather-related natural disasters, including hurricanes and continued volcanic activity in neighboring Saint Vincent.

There are also vulnerabilities that the IMF program's structural reforms will not generate the forecasted benefits to growth. The authorities have initiatives to diversify the economy into new areas over time such as renewable energy, high-tech, and software development to complement the traditional services sector, but these nascent industries will take time to develop. State-owned enterprise reforms, a key program component, will also include increases in politically-sensitive tariffs and fees which may restore profitability but could foster public discontent.

Overall Assessment

Barbados remains heavily indebted and vulnerable. However, its comprehensive domestic debt restructuring was successful in reducing its public debt burden and putting the country on a path towards sustainability. The Barbadian authorities continue to demonstrate their strong commitment to meeting IMF program objectives, including through strong public communications to maintain support for the reform effort. Although some areas of adjustment are contentious, the government's resounding reelection in January 2022 underscored the breadth of social buy-in for the reform program. The EFF also provides a sound framework to help enable significant fiscal consolidation and an increase in foreign reserves. Based on these factors and the IMF's status as a preferred creditor, the Treasury Department assesses that Barbados is likely to repay its IMF loan in full.

SURINAME

Suriname's public debt hovered near 80% of GDP from 2016-19, even as the country ran up consistent and large fiscal deficits. In 2019, Suriname's government expenditures, at more than 40% of GDP, were roughly double their revenues. As spending pressures grew, the government turned to monetizing its fiscal deficits. This monetization contributed to a sharp increase in inflation.

As a result of this economic mismanagement, Suriname's precarious external position led to a dual fiscal and balance of payments crisis in 2020; its debt-to-GDP ratio nearly doubled to 148% by the end of that year. To correct these imbalances, Suriname's new government, which took office in July 2020, embarked on an ambitious series of reforms and sought an Extended Fund Facility (EFF) program with the IMF. The IMF Board approved the EFF in December 2021 with access of 367% of quota ($688 million).

The key pillars of Suriname's IMF program include: (i) continue fiscal consolidation while further enhancing well-targeted social assistance; (ii) advance debt restructuring discussions with official and private creditors; (iii) strengthen further the new monetary policy framework; (iv) address banking system vulnerabilities; and (v) tackle money laundering, corruption and other governance shortcomings.

Under their EFF program, Suriname's authorities sought to reduce public debt to 120% of GDP by 2024, and below 60% by 2035. The IMF Board approved Suriname's first program review in March 2022 in which Suriname met most of its performance criteria and structural benchmarks. Several benchmarks were met with a delay, and the authorities pursued corrective measures to meet a benchmark related to spending on social transfer programs.

Suriname needs a comprehensive restructuring of its public external debt to return to a sustainable debt load. Based on IMF program documents, at the end of 2020 Suriname owed $1.1 billion (31% of total external debt) to private bond creditors, and $728 million (20% of total external debt) to official bilateral creditors. By the end of 2021, IMF staff estimated Suriname's external arrears at 10% of GDP, with $22 million owed to Paris Club creditors, $7 million owed to India, and $61 million owed to China. According to standard procedures that are accepted by bilateral creditors in the Paris Club, the Paris Club creditors provided specific and credible financing assurances in line with IMF program parameters; bilateral creditors will restructure claims on Suriname without a principal haircut. China and India, however, did not. Unusually for countries that have debts to China, Suriname is not current on its debt service, and the authorities committed to the IMF to make no payments of debt service, or to settle the overall terms of China's debt on terms that are not in line with IMF program forecasts for debt sustainability. China and India both consented to IMF lending proceeding despite the arrears that Suriname owes them. The authorities continue to negotiate in good faith with the country's external private bond creditors.

Surinamese authorities won a significant political mandate in 2020 to implement reforms in the face of spiraling inflation, a balance of payments crisis, and a ballooning deficit. They embarked on an ambitious reform plan well before their IMF program was approved. They have communicated their reform plans to the public in a timely and credible manner. Suriname's government is strongly committed to its reform agenda, and has taken significant ownership and political risks in the process.

Debt Status

The drivers of Suriname's debt increase were largely related to fiscal imprudence by the previous Surinamese government. Ill-targeted transfers and subsidies more than tripled as a share of GDP from the early 2010s to 2019, due largely to increased electricity subsidies and transfers to ministries of health, education, and social affairs. Some of the increase in debt as a share of GDP is also attributable to the economy's contraction in 2020 (15.9%).

Suriname's public debt was at 148% of GDP at the end of 2020, and declined to 125% at the end of 2021 due to the government's fiscal reforms and an appreciation in the real exchange rate. In 2021, Suriname had a primary fiscal surplus of 3.5% of GDP, and the authorities submitted a 2022 budget targeting a primary surplus of 1.7% at the time of the EFF's first review. As of the first review, almost all of Suriname's public debt was medium- and long-term dated, while roughly 3/4^{ths} was denominated in foreign currency.

Debt Management Strategy

Surinamese authorities are pursuing a series of reforms to improve the fiscal outlook. These include increasing electricity prices to achieve cost recovery, lowering the public sector wage bill by capping nominal compensation growth and streamlining the workforce, and reducing tax exemptions. They are also replacing the sales tax with a value-added tax and pursuing technical reforms to improve revenue collection and administration. More broadly, they are implementing institutional guardrails to strengthen fiscal data reporting and create a more robust budget framework.

As noted above, to restore debt sustainability Suriname will need to reach agreement on a restructuring with external creditors, both official and private. The IMF has assessed that Suriname is pursuing good faith negotiations to restructure debt with their private creditors, and the authorities remain engaged in negotiations with China and India. On existing domestic arrears to suppliers, Suriname is undertaking an audit and will subsequently design a plan this coming summer to clear these arrears.

Suriname is also exploring possible oil reserves off its coast. If these oil fields prove to be significant and reachable, Suriname's macroeconomic framework and debt restructuring envelope would be updated by the IMF accordingly.

Vulnerabilities

One key vulnerability to Suriname's debt reduction strategy is the continued unwillingness of China to provide specific and credible financing assurances in line with the parameters of the EFF. The program assumes, and the Surinamese authorities have pledged, that any eventual debt treatment with China will adhere to comparability of treatment with Paris Club creditors, which have already provided specific and credible financing assurances.

Spillover effects from Russia's war against Ukraine poses another risk. The impact of Russia's war has increased commodity prices, including for oil. These increases are likely to push up overall inflation and deteriorate Suriname's current account, and may negatively impact its growth prospects. It may also require higher fiscal outlays to mitigate the pass-through effects of inflation to vulnerable households. In the medium-term, higher oil prices may facilitate investment into Suriname's potential hydrocarbon resources, which, if managed prudently and without corruption, would improve Suriname's macroeconomic prospects.

Another vulnerability is the risk of a financial crisis in Suriname. Several smaller banks are near insolvency, and the system more broadly sees elevated levels of non-performing loans. Recapitalization programs, especially in the event of insolvency, could weaken Suriname's fiscal position and impair the authorities' ability to meet IMF program targets.

Lastly, the structural reforms needed to reverse Suriname's deep fiscal and current account imbalances require significant political commitment. An erosion of political support, or the election of a less-reform-minded government, could stall or reverse Suriname's promising reform trajectory.

Overall Assessment

Suriname remains heavily indebted, and considerable downside risks to its program remain. However, the Surinamese authorities have demonstrated significant commitment to the parameters of their IMF program, and their EFF has a well-defined set of reforms to bring Suriname back to fiscal sustainability. Authorities met their fiscal performance criteria for the first review of the EFF, and have continued to make progress on longer-term structural reforms, while showing strong ownership of the program and political willingness to implement needed changes. Based on these factors and the IMF's status as a preferred creditor, the Treasury Department assesses that the IMF's loan to Suriname is likely to be repaid in full.