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

November 13, 2023

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 percent, 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 percent of GDP, the country entered a four-year Extended Fund Facility (EFF) for SDR 208 million (about $270 million), amounting to 220 percent of quota, aiming to restore debt sustainability, strengthen its external position, and improve its growth prospects. To better manage the impact of COVID-19, Barbados requested and received an augmentation of its EFF for an additional SDR 114 million (about $150 million), bringing total access to SDR 322 (about $425 million) and 341 percent of quota. By the conclusion of this program in 2022, Barbados' public debt declined to 123 percent after undertaking a domestic and external debt restructuring operations.

Shortly after completion of its 2018-22 EFF, in December 2022 the IMF Board of Directors approved Barbados' request for a follow-on 36-month EFF for SDR 85.05 million (about US$114 million) at 90 percent of quota, as well as access to SDR 141.75 million (about US$190 million) under the Resilience and Sustainability Trust (RST) program at 150 percent of quota. To access the RST, a country must have a concurrent upper credit tranche IMF-supported program, such as an EFF. Through these two programs, Barbados aims to enhance resilience to climate change while sustaining efforts to reduce public debt and facilitate capital expenditure to boost growth.

The first review of the current EFF was completed in July 2023, with all targets having been met. Under the current EFF, Barbados is progressing on reforms to strengthen public financial

[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."

management, improve tax and customs administration, consolidate state-owned enterprises, and improve the business climate. Under the RST, the authorities are implementing important adaptation measures to support marine conservation, sustainable water usage, and green procurement to reduce Barbados' vulnerability to climate-related shocks.

Barbados' macroeconomic outlook is improving, and progress under its IMF-supported reform efforts is positioning it to meet its debt target of 60 percent of GDP by 2036. The economy is expected to continue recovering and inflation to moderate. Real GDP rebounded by 10 percent in 2022, following a 13.5 percent contraction in 2020-21, driven by a recovery in tourism. The primary fiscal balance recorded a surplus of 2.5 percent of GDP in FY2022/23, with a more ambitious target of 3.5 percent of GDP set for FY2023/24. Authorities strengthened procedures to support additional fiscal consolidation and growth-enhancing reforms. International reserves rose to $1.6 billion in 2023, covering over 7 months of imports. Though inflation remains elevated, projected to be 5 percent (year-over-year) by end-2023, the IMF projects that inflation will converge to 2 percent (year-over-year) in the medium-term.

This program involves elevated risks due to the uncertain nature of Barbados' tourism sector recovery, continued inflationary pressures, tight global financial conditions, and still-elevated public debt levels. Barbados' vulnerability to climate change could also undermine economic activity and fiscal sustainability. However, Barbados has established a solid history of repayment to the IMF following its three previous programs, and the authorities have shown strong ownership of reform efforts and fiscal adjustment amid recent crises. Based on its strong implementation of the current and recent IMF programs, adequate international reserves position, and commitment to reforms, we expect Barbados to repay the IMF in full.

Debt Status

At the time of the 2018 EFF program's approval, Barbados' public debt was 157 percent of GDP. Subsequently, Barbados completed a comprehensive domestic debt restructuring in October 2018 and an external debt restructuring in December 2019 to reduce the stock of public debt, lower interest payments, and lengthen maturities to increase Barbados's repayment capacity. As of the first review of Barbados's current EFF in June 2023, public external debt stands at 46 percent of GDP, down from 52 percent of GDP in 2022, with the IMF projecting it will fall to about 31 percent of GDP by early 2028. Less than 5 percent of public debt was short-term, and slightly more than one third was denominated in foreign currency.

IMF staff project that Barbados will reach its long-term public debt goal of 60 percent of GDP in 2036. 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 the government's comprehensive restructuring of its domestic debt, the authorities' main goal was to reestablish a sustainable debt load and composition, in part by reducing short-term debt below 5 percent of GDP, which was achieved in 2023, and to undertake complementary fiscal reforms related to revenue policy and administration and state-owned enterprises (SOEs) to work towards a more sustainable debt position. The program's design supports private sector-led investment and growth and is aimed at restoring confidence in the economy. The Barbadian government approved a procedural fiscal rule in December 2021, under which it commits to: (1) annually prepare a medium-term fiscal strategy/framework; (2) regularly publish outcomes against this strategy; and, (3) take remedial action when required. The authorities plan to establish a numerical fiscal rule once public financial management systems have been strengthened. To further demonstrate commitment to sound fiscal management, the authorities established a Fiscal Council in May 2023. This Council will hold the government accountable for transparent implementation of the fiscal strategy, which focuses on reducing public expenditure particularly through SOE reform and institutionalizing the Medium-Term Fiscal Strategy, approved in June 2022, to return Barbados to a sustainable debt path over the long term. 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 over the past few years.

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 percent of GDP in budget transfers from the central government. The EFF program targets a decrease in transfers of 2 percent of GDP, and Barbadian authorities are actively aligning the activities of SOEs with a framework intended to rationalize SOE expenditures. The government is also moving forward with public pension reform legislation, which it aims to finalize by early 2024.

Vulnerabilities

Key risks to the debt reduction strategy include: limited implementation capacity of the government; the potential for political fatigue, which could limit the government's willingness to maintain fiscal discipline in the long-term in cases of lower-than-projected growth ; 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 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. SOE reforms, a key program component, will also include politically-sensitive increases in 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 current EFF in tandem with the RST also provide a sound framework to help enable significant fiscal consolidation and an increase in foreign reserves, while improving resilience to the impacts of climate change. 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 percent 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 percent 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 experienced a dual fiscal and balance of payments crisis in 2020; its debt-to-GDP ratio nearly doubled to 148 percent by the end of that year following the depletion of foreign reserves and accumulation of arrears to creditors. To correct these imbalances, Suriname's new government, which took office in July 2020, embarked on an ambitious series of reforms and requested an EFF program with the IMF. The IMF Executive Board approved the EFF in December 2021 with access of 367 percent of quota ($688 million).

The 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 began, and have communicated their reform plans to the public in a timely and credible manner. Suriname's government remains strongly committed to its reform agenda and has taken significant ownership and political risks in the process. The key pillars of Suriname's IMF program include to: (1) continue fiscal consolidation while further enhancing well-targeted social assistance; (2) advance debt restructuring discussions with official and private creditors; (3) strengthen further the new monetary policy framework; (4) address banking system vulnerabilities; and, (5) tackle money laundering, corruption and other governance shortcomings.

Under their EFF program, Suriname's authorities sought to reduce public debt from 148 percent of GDP as of end-2020 to below 60 percent 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. Higher commodity and food prices in the second half of 2022 slowed economic growth and undermined fiscal performance under the program. The authorities sought to demonstrate renewed commitment to the program by passing a conservative 2023 budget, which signaled their commitment to eliminating costly fuel and electricity subsidies and broadening the VAT base, while preserving fiscal space to strengthen the social safety net and make growth-enhancing investments. In June 2023, the IMF Board approved the second review of the program, as well as the authorities' request for a reduction of the total access under the arrangement to an amount equivalent to SDR 383.9 million (297.8 percent of quota). In September 2023, the IMF Board approved Suriname's third review, with public debt projected to fall to 107 percent of GDP by the end of 2023, down from 120 percent in 2022.

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 percent of total external debt) to private bond creditors, and $728 million (20 percent of total external debt) to official bilateral creditors. In June 2022, Paris Club creditors agreed to a restructuring of Suriname's external public debt without a principal haircut, which included a rescheduling of arrears and all maturities falling due during the IMF program period. By the end of 2022, IMF staff estimated Suriname's external arrears at $385 million, or 14 percent of GDP, with $8 million owed to Paris Club creditors, $13 million owed to India, $107 million owed to China, and $257 million owed to private creditors. 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 on this debt service and not to settle the overall terms of China's debt on terms that are not in line with IMF program requirements for debt sustainability. China and India both consented to IMF lending proceeding despite the arrears that Suriname owes them. Ahead of the third review, India reached an agreement to restructure, on comparable terms with those offered by the Paris Club. The private sector has also reached an agreement in principle on its debt treatment with Suriname on comparable terms. China, the remaining large creditor for Suriname, still has not reached an agreement with Suriname to restructure, but both sides expressed commitment to work towards an agreement on comparable terms with other creditors by the fourth review. The IMF has therefore assessed that the remaining arrears do not jeopardize Suriname's external viability over the medium-term or its capacity to repay the IMF.

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 percent).

Suriname's public debt was at 148 percent of GDP at the end of 2020, and IMF staff project that it will decline to 107 percent by the end of 2023 due to the government's fiscal reforms and an appreciation in the real exchange rate. Since the start of the EFF, Suriname has narrowed its primary fiscal deficit from 9.7 percent of GDP as of end-2020 to a projected fiscal surplus of 1.7 percent by end-2023. As of the third review, almost all of Suriname's public debt was medium- and long-term dated, while roughly three-quarters was denominated in foreign currency.

Debt Management Strategy

The Surinamese authorities are pursuing a series of reforms to improve the fiscal outlook. These reforms 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. The authorities 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 needed to reach agreement on a debt restructuring, which it has now concluded with all of its external creditors, both official and private, except for China. Suriname continues to pursue good faith negotiations with China. On existing domestic arrears to suppliers, Suriname completed an audit and has been clearing arrears in line with a designated plan.

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 with respect 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 pose another risk. The impact of Russia's war has increased commodity prices, including for oil, which has pushed up overall inflation. Sustained elevated prices may strain Suriname's current account and growth prospects and may 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 in 2025, 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 three reviews 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 Suriname is likely to repay its IMF loan in full.