# 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

August 30, 2024

## 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*.[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 made impressive progress in its ongoing struggle to emerge from decades of low or negative growth and mounting public debt since the global financial crisis. This effort began in October 2018 when public debt reached roughly 160 percent of GDP and the country entered an IMF four-year Extended Fund Facility (EFF) for about $290 million (SDR 208 million), amounting to 220 percent of quota. It aimed to restore debt sustainability, strengthen the exceptionally weak external position (reserves had fallen below two months of imports), and improve growth prospects. To better manage the impact of COVID-19, Barbados requested and received two augmentations of its EFF in June and December 2020 for an additional total of about $159 million (SDR 114 million), bringing total access to about $450 million (SDR 322 million) and 341 percent of quota. By the conclusion of this program in 2022, Barbados' public debt had declined to 123 percent after successful 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 about $114 million (SDR 85.05 million) at 90 percent of quota, as well as access to about $190 million (SDR 141.75 million) under a Resilience and Sustainability Facility (RSF) program at 150 percent of quota. To access an RSF, 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.

[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."

The first three reviews of the current EFF were completed in July 2023, December 2023, and May 2024, with all program targets met. Barbados is progressing on reforms to strengthen public financial management, improve tax and customs administration, consolidate state-owned enterprises (SOEs), and improve the business climate. Under the RSF, the authorities are implementing important adaptation measures to support resilient infrastructure, green procurement, and investment in renewable energy to reduce Barbados' vulnerability to climate-related shocks.

Barbados' macroeconomic outlook is improving, and it is well positioned to meet its debt target of 60 percent of GDP by 2036 due to broader progress under its IMF-supported reform program. The economy not only recovered but surpassed its pre-pandemic level of real GDP growth and is expected to continue growing, while inflation is expected to moderate. Following a 13.5 percent contraction in 2020-21, real GDP rebounded by 10 percent in 2022 and moderated to 4.4 percent in 2023, driven by a recovery in tourism. The primary fiscal balance recorded a surplus of 3.7 percent of GDP in FY2023/24, surpassing its initial target of 3.5 percent, which puts the 4.0 percent of GDP target within reach for FY2024/25. The authorities strengthened procedures to support additional fiscal consolidation and growth-enhancing reforms. International reserves rose to $1.5 billion in 2023, covering over 7 months of imports. Inflation fell to 4.8 percent (year-over-year) by end-2023 from 5.7 percent at end-2022, and the IMF projects that it will decline to 3 percent by end-2024 and will converge to 2 percent 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, solid international reserves position, and commitment to reform, 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 third review of Barbados's current EFF in June 2024, public debt has declined to 117 percent of GDP and is expected to continue on a downward trajectory. External debt stood 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. About 5 percent of public debt was domestic, short-term debt, and slightly more than one third was denominated in foreign currency. IMF staff project that Barbados will reach its long-term public debt target (60 percent of GDP) by 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 a continued recovery of GDP growth, particularly from a return of normal tourism inflows.

### *Debt Management Strategy*

Following the government's comprehensive restructuring of its domestic debt, the authorities' main goal was to reestablish a sustainable debt trajectory and composition while undertaking complementary fiscal reforms related to revenue policy and administration and SOEs to bolster fiscal sustainability. 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. Investor confidence in Barbados has strengthened, as evidenced by tighter bond spreads 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 percentage points of GDP, and the authorities are actively aligning SOE activities with a framework intended to rationalize SOE expenditures. The government is also moving forward with the implementation of public pension reforms to enhance the pension system's sustainability, which were approved by Parliament in 2023.

### *Vulnerabilities*

Key risks to the debt reduction strategy include: limited implementation capacity of the government; the potential for reform 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 natural disasters, including hurricanes and volcanic activity in neighboring Saint Vincent.

There are also risks that the IMF program's structural reforms will not generate the expected 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 utility rates and fees, which may restore profitability but could foster public discontent. Key risk mitigants include collaboration with development partners such as the Inter-American Development Bank to enhance public sector efficiency, the government's continuing strong political mandate, investments in disaster resilience, and prioritization of targeted social spending.

***Overall Assessment***

Barbados remains heavily indebted and vulnerable. However, its comprehensive debt restructuring was successful in reducing its public debt burden and putting the country on a path towards sustainability. The 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 RSF also provide a sound framework to help enable significant fiscal consolidation 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

After experiencing a dual fiscal and balance of payments crisis in 2020 amid the COVID-19 pandemic, the Surinamese authorities embarked on an ambitious reform plan which, supported by its 3-year IMF program, spurred an ongoing economic recovery. After years of running large fiscal deficits, with public expenditures roughly double the level of revenues in 2019, the debt-to-GDP ratio nearly doubled from 80 percent in 2019 to 148 percent by the end of 2020. As spending pressures grew, the government turned to monetizing its fiscal deficits, which contributed to a sharp increase in inflation and led to the depletion of foreign reserves and accumulation of arrears to creditors. To correct these imbalances, Suriname's current 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 36-month EFF in December 2021 with access of $688 million (SDR 472.8 million) or 367 percent of quota.

Having won a significant political mandate in 2020, Suriname's government has remained strongly committed to its reform agenda and has taken significant ownership and political risks in the process. Suriname's IMF program sought to: (1) continue fiscal consolidation while enhancing well-targeted social assistance; (2) complete a comprehensive debt restructuring with official bilateral and private creditors; (3) strengthen the new monetary policy framework; (4) address banking system vulnerabilities; and (5) tackle money laundering, corruption, and other governance shortcomings.

The IMF Board approved the first program review in March 2022. 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 $516.4 million (SDR 383.9 million) or 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. As part of the fourth review in December 2023, the Executive Board approved the authorities' request for a three-month extension of the EFF until end-March 2025 and an access augmentation of about $63 million. The extension and augmentation allowed for a more gradual path of fiscal consolidation than originally envisaged to allow the authorities to continue supporting the poor and vulnerable amidst ongoing erosion in real wages. The authorities met all performance criteria at the time of the fifth review, approved in March 2024. The Board approved the sixth review in June 2024, recognizing that while the authorities missed fiscal and monetary targets, they continue to demonstrate commitment to the program and have taken appropriate corrective actions to get back on track.

Suriname's economy continues to recover, but the IMF expects it could take several years before growth in the real economy returns to its pre-pandemic levels. Inflation soared during and after the pandemic, reaching a height of 65 percent year-over-year by mid-2023. It has since moderated to 21 percent as of April 2024 and is expected to continue falling to 14 percent year-over-year by end-2024. During the program, the authorities have consolidated the primary fiscal deficit by about 10 percent of GDP, and restored international reserves from $118 million in end-2020 (less than one month of imports) to $1.1 billion by end-2023 (about six months of imports).

Under their EFF program, Suriname's authorities are seeking to reduce public debt from 148 percent of GDP as of end-2020 to below 60 percent by 2035. At the time of EFF approval, Suriname required a comprehensive restructuring of its public external debt to restore debt sustainability. According to IMF staff estimates, 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 first stage restructuring of Suriname's bilateral debt without a principal haircut, which included a rescheduling of arrears and all maturities falling due during the IMF program period. Paris Club creditors also agreed to a second stage restructuring for all maturities due at the end of the IMF program if Suriname meets all of its program commitments. By the fourth EFF review in January 2024, Suriname reached agreements on comparable debt treatments with its remaining official bilateral creditors (China and India) and with the bondholders. Paris Club creditors will also implement the second phase of the treatment in 2024.

***Debt Status***

The drivers of Suriname's debt increase were largely related to fiscal imprudence by the previous Surinamese government. Ill-targeted social transfers and subsidies, particularly for electricity, more than tripled as a share of GDP from the early 2010s to 2019. Some of the increase in debt as a share of GDP is also attributable to the economy's large contraction in 2020 (15.9 percent). Suriname's public debt was 148 percent of GDP at the end of 2020, and IMF staff project that it will decline to 87 percent by the end of 2024 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 0.9 percent by end-2024. As of the sixth 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 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. The authorities are also replacing the sales tax with a VAT 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. Market confidence in Suriname's strong reform performance can be seen in the tightening of its bond spreads to record lows, which marks a significant step towards the restoration of market access. 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. 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 positively updated by the IMF.

***Vulnerabilities***

Suriname's macroeconomic outlook remains vulnerable to potential global economic and financial shocks, natural disasters, and spillover effects from regional conflicts in Europe and the Middle East. 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 on vulnerable households. In the medium term, higher oil prices may facilitate investment into Suriname's potential hydrocarbon resources, which, if managed prudently and with sufficient government safeguards, would improve Suriname's macroeconomic prospects. Suriname also needs to strengthen its financial sector, given the vulnerabilities that some domestic banks face from non-performing loans. Recapitalization programs could potentially strain Suriname's fiscal position. However, with the IMF's support, the authorities are addressing these vulnerabilities through stronger bank resolution and supervision legislation, as well as a governance framework that will help put state-owned banks on a more commercially viable path. The authorities are committed to taking corrective actions with banks that have breached capital adequacy 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 at high risk of debt distress following its comprehensive debt restructuring, and considerable downside risks to its program remain. However, the authorities have demonstrated significant commitment to their IMF program, which has a well-defined set of reforms to bring Suriname back to fiscal sustainability. The authorities have continued to make progress on fiscal and longer-term structural reforms, while showing strong ownership of the program and the political will 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.