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

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

July 30, 2021

## Introduction

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

## BARBADOS

Barbados has struggled to break free from a vicious cycle of low or negative growth since the 2008-09 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). Since then, Barbados's public debt declined to 125% at the end of fiscal year 2019/2020 before rising to 143% due to the COVID-19 pandemic. Meanwhile, international reserves have rebounded sharply to $1.3 billion from $220 million at the beginning of the program, aided by disbursements from the Inter-American Development Bank and the Caribbean Development Bank. 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. Additionally, because of the need for aid amid COVID-19, the United States has relaxed its policy of being against multilateral development bank (MDB) financing for Barbados that was in place because Barbados is a high-income country. This decision has led MDBs to provide significant financing alongside the IMF which has helped with the sudden budget shortfall that emerged as a result of the significant drop in tourism amid the pandemic.

[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 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.

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 was helpful in reducing economic uncertainty and directly reduced the debt-to-GDP ratio. Barbados met all performance criteria for end-March 2021 except for the performance criterion on limiting central government transfers and grants to public institutions, which was breached due to increased spending to address the COVID-19 health crisis. Barbados has also made steady progress on structural reforms, successfully meeting four of five structural benchmarks on time, with the fifth delayed to end-2021. However, the COVID-19 crisis has necessitated adjusting several of the program's parameters, forcing the government to reduce its primary balance target to a 1% primary deficit in fiscal year 2020/2021. Due to the COVID-related shock to Barbados' external and fiscal accounts, the IMF Executive Board approved a $90 million (70% of quota) augmentation to the EFF in June 2020.

This program involves significant risks due to the extensive nature of the structural reforms and adjustments needed and the government's limited implementation capacity. Moreover, Barbados is vulnerable to a prolonged global downturn in tourism due to COVID-19. However, Barbados has established a solid repayment history following its two previous IMF programs and has shown strong ownership of the current reform effort by following through on numerous policy measures since the start of the program, despite shocks from the COVID-19 crisis. Based on its strong implementation of the program and commitment despite the pandemic, we expect Barbados to repay the IMF in full.

***Debt Status***

At the time of program approval, Barbados' public debt had reached an unsustainable 157% of GDP. Barbados completed a comprehensive domestic debt restructuring in October 2018 and an external debt restructuring in December 2019. Public debt decreased by 26 percentage points of GDP – from 158% of GDP in April 2018 to 122% of GDP in March 2020. Since then, public debt has rebounded to 143% of GDP, due almost entirely to the 18% contraction in GDP rather than a relaxed fiscal stance; the primary fiscal balance registered a 1% of GDP deficit in 2020 but is forecast to return to surplus this year. Since April of 2018, public external debt increased by 24% of GDP (from 28% to 52% of GDP) due to loans from international financial institutions to augment Barbados's foreign exchange reserves and a collapse in nominal GDP. However, public external debt is projected to gradually decrease to about 33% of GDP by FY 2026/2027.

The overarching objective and long-term anchor of Barbados's IMF engagement is to have debt be at 60% of GDP, which the IMF estimates Barbados will reach two years later than the original goal of March 2034, due to the COVID-19 pandemic. The IMF extended the deadline for Barbados to reach its debt target as the health crisis caused a recession and a commensurate deterioration in the fiscal position as the tourism slump weakened revenues and expenditure rose on social support and public health. Implementation of structural reforms, improvements in public revenue mobilization, and the eventual post-COVID recovery in GDP growth should help Barbados meet its target. Treasury has been supportive of the IMF's pragmatic approach, especially in light of Barbados' strong performance before and during the pandemic.

***Debt Management Strategy***

After securing a moratorium of payments of external commercial debt, Barbados completed a debt restructuring agreement that reduced the stock of its external debt, reduced its interest payments, and lengthened its average maturities.

The government's primary objective is to sharply reduce its debt burden through a comprehensive restructuring of its domestic debt and primary fiscal surpluses of 6% of GDP over the medium term, once the immediate crisis has passed. The authorities will work toward these goals via implementation of its IMF-approved reform program. The program's design supports private sector-led investment and growth and restores confidence in the economy.

SOE reforms will be critical to achieving a structural fiscal surplus. Under the Financial Management and Audit law passed in January 2019, the government must approve all SOE borrowing and SOEs submit standardized quarterly reports on SOE performance. SOE monitoring has been enhanced with the development of a risk dashboard that analyzes the financial performance of priority SOEs. This reform will provide oversight of government debts and reduce transfers to SOEs, which was reflected in a 1% of GDP drop in transfers to SOEs (to 6.6% of GDP) prior to the pandemic. However, transfers rose to over 9% of GDP in FY 2020/2021 to accommodate the government's COVID-19 policy response through several SOEs, including the implementation of the vaccination program by the national hospital, and are expected to remain elevated in FY 2021/2022.

Additionally, the Corporate Income Tax reform to unify the treatment of domestic and international companies 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 fiscal discipline/high surpluses over a sustained period; and vulnerability to external shocks, particularly the current COVID-related crisis, as Barbados is heavily dependent on tourism for most economic activity. With an improvement in the global economic outlook including in key tourism source countries as well as faster-than-expected vaccination programs, the IMF predicts that tourist arrivals will start gradually recovering in the second half of 2021 and return to normal levels by 2024. GDP contracted by 18% in 2020, but is expected to increase by 3% in 2021, given the modest recovery of tourism in the second half of the year.

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 reform, a key program component, will also include increases in politically sensitive tariffs and fees which may restore profitability but foster public discontent.  Finally, Barbados remains highly exposed to the risk of significant weather-related natural disasters, including continued volcanic activity in neighboring Saint Vincent which could have a dampening impact on economic activity in Barbados.

***Overall Assessment***

Barbados remains heavily indebted and vulnerable.  However, its comprehensive domestic debt restructuring was highly successful in reducing the overall 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 public support for the reform effort.  The EFF also provides a strong framework to help enable significant fiscal consolidation and an increase in foreign reserves. Notably, Barbados would also receive $129 million worth of SDRs, a reserve asset, as part of a potential upcoming $650 billion SDR allocation. Based on these factors and the IMF's status as a preferred creditor, the Treasury Department assesses that the IMF's loan to Barbados is likely to be repaid in full.

## ANGOLA

Angola's public debt, which had previously been at moderate levels for several years, began to increase significantly starting around 2012 as the Angolan government undertook extensive new external borrowing.  In 2018, with public debt at 87% of GDP, Angola entered into a three-year Extended Fund Facility with the IMF for SDR 2.7 billion (about $3.7 billion), partially focused on improving the quality of the Angolan government's debt management and sustainability.  At the time of Angola's fifth review in June 2021, which resulted in the disbursement of loans as part of the program, Angola's debt to GDP ratio was about 110%.

The key pillars of Angola's IMF program include: (i) fiscal consolidation to improve debt sustainability and reduce the inflationary impact of currency liberalization; (ii) liberalizing Angola's exchange rate to reduce the distortionary impact of the overvalued kwanza; (iii) improving financial sector oversight and resilience; and (iv) reforms to strengthen private sector growth and reduce fiscal risks of state-owned enterprises.

At the start of its program, the IMF had projected that Angola's public debt would decline to 72% of GDP by the time of program completion in 2021.  Instead, debt increased due to the COVID-19 crisis, the global oil price collapse, and Angola's subsequent currency depreciation, reaching nearly 127% of GDP by end-2020.  These shocks have put further pressure on public finances and worsened Angola's debt outlook. Since the end of 2020, Angola's economy has gradually begun to recover, and public debt has decreased to about 110% of GDP. The IMF expects Angola's public debt decline to about 104% of GDP by the end of 2021.

Despite mixed performance on its economic and structural reform program, the Angolan authorities have shown a commitment to maintain fiscal and monetary discipline in a challenging external economic environment and have taken important steps to liberalize their currency regime. They have also committed to addressing external debt issues, including with China. With successful implementation of its program, we expect Angola to repay the IMF in full.

***Debt Status***

Angola's debt sustainability worsened significantly in 2020 due to lower oil production and the depreciation of the overvalued kwanza. Angola is liberalizing its exchange rate under its IMF program, and while this depreciation largely reflected underlying economic conditions, it significantly increased the burden of Angola's large outstanding stock of external debt (101% of GDP at end-2020, up from 79% at end-2019.)

Following the peak in public debt in 2020, Angola's public debt-to-GDP ratio has started to decline in the first half of 2021. As part of the most recent review in June, the IMF projects public debt-to-GDP to decline to about 62% of GDP by 2027, slightly better than projections earlier in 2021, although worse than projections in 2020, which had public debt-to-GDP below 60% by 2027. However, public debt dynamics remain vulnerable to shocks, especially around production and the global price of oil. Although oil prices have started gradually recovering (from a low of nearly $20/barrel in 2020 to consistently over $70/barrel in June 2021), Angolan oil production dropped 8% in 2020 and remained weak into 2021.

***Debt Management Strategy***

The Angolan authorities have committed to reducing their non-oil primary deficit by 2.4 percentage points of GDP over four years to reduce debt pressures; IMF staff assessed in June that continued strong oil revenue performance coupled with fiscal tightening would rapidly reduce public debt to a manageable level.

Additionally, the Angolan government has reduced its issuance of domestic debt, including issuance of bonds indexed to or denominated in foreign currency, thus reducing their exposure to further depreciation pressures. Authorities have also pledged not to contract any further external debt backed by oil revenues and are tightening the use of state guarantees of debt to reduce future contingent liability risks.

IMF staff assess that Angola's debt reprofiling in 2020, robust fiscal consolidation and debt service relief under the G20/Paris Club's Debt Service Suspension Initiative (DSSI), will be sufficient to return its debt to a sustainable trajectory. Under the DSSI, bilateral official creditors agreed to suspend debt service payments through the end of 2021. According to data provided to the G20, Angola has benefitted from over $1 billion in debt service relief from its DSSI request since 2020.

### *Vulnerabilities*

Significant risks exist to Angola's performance under the EFF. Key among them are continued oil price weakness due to the global economic slowdown from the COVID-19 crisis, which will increase fiscal pressure and raise Angola's debt levels. Further rapid exchange depreciation, potentially driven by external economic conditions, could further increase Angola's debt burden. Against these risks, IMF credit outstanding to Angola will remain elevated but manageable at around 7% of GDP and 40% of Angola's gross international reserves, and Angola's oil resources provide a natural, albeit imperfect, hedge against significant currency depreciation. Angola's program performance has improved in the past year, when the government successfully met all but one performance criterion for its last IMF program review. The authorities have shown strong commitment to economic reforms and willingness to tighten fiscal and monetary policy appropriately in response to external shocks. The authorities demonstrated restraint on current spending and approved new non-oil revenue measures. The central bank has taken action to drain excess liquidity from the market and increased bank reserve requirements.

### *Overall Assessment*

While Angola's debt levels and trajectory remain concerning, its ongoing engagement with the IMF and commitment to maintaining appropriate fiscal and monetary policy – while seeking to reprofile its Chinese-held debt – should improve its repayment prospects over the medium term. Further, Angola's substantial oil revenues provide a strong basis for supporting repayments of its external debt obligations. Based on these factors and the IMF's status as a preferred creditor, the Treasury Department assesses that the IMF's loan to Angola is likely to be repaid in full.