Creditor Update

Government of Barbados

23 January 2019

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Fiscal Update

The roll-out of the various fiscal reforms contemplated under the Barbados Economic Reform and Transformation (BERT) plan and the Extended Fund Facility (EFF) with the IMF have been progressing as planned, building on the public support that has been generated through the ongoing dialogue with the Social Partnership.

The completion of the BBD debt exchange in late October 2018 has significantly improved the outlook for the public finances, and brought the anchor debt/GDP targets within range

- The Government fully expects to hit its 3.3% of GDP primary surplus for 2018/19
- The Government has made steady progress towards meeting end-December structural benchmarks under the EFF, and much work is currently being done on reducing transfers to state-owned enterprises (SOEs)
- The 2019/20 Budget Estimates process began early to ensure measures to effect the 2.7% of GDP correction needed to reach a 6.0% of GDP primary surplus are fully costed and made sustainable

Fiscal Update (cont)

- A comprehensive retrenchment drive, encompassing both the Central Government and SOEs, will reduce the public sector workforce by up to 1,500 persons
- In a parallel drive, contract amounts at SOEs which receive budget subventions are being reviewed, reduced, and, in some case, cancelled
- The Government has also introduced changes to the corporate income tax (CIT) framework, and expects that the resulting unification of onshore and offshore rates will be revenue-positive for Barbados
- Fiscal and economic performance for the 2018 calendar year will be published by the Central Bank of Barbados (CBB) on 30 January 2019
- In February, the IMF will be undertaking a Staff visit to review end-December 2018 quantitative targets
- For the first time in close to a decade, refunds for tax overpayment and Value Added Tax (VAT) in the prior tax year were made on time in December 2018

External Update

Following the approval of the EFF by the IMF Executive Board on 1 October 2018, both the Caribbean Development Bank (CDB) and the Inter-American Development Bank (IADB) approved policy-based loans (PBLs), for US$100 million and US$75 million, respectively

- To date, the full aggregate amount of US$175 million available under the PBLs has been disbursed by the CDB and IADB
- The IMF has disbursed a further US$49 million under the EFF

The underlying international reserves position, after factoring in the non-payment of USD-denominated commercial debt since June 2018, remains fragile; the meaningful recovery of international reserves will require further progress on the reforms envisaged in the BERT plan and EFF, and will be predicated on a sustainable resolution of the external debt overhang

BBD Debt Exchange Highlights

- Closed on 31 October 2018, covering approximately BBD 12 billion (US$6 billion equivalent) in claims– 100% of the eligible total; this means that all economic agents in Barbados, from the large banks and insurers to pensioners and other individuals, have made significant economic sacrifices in support of Barbados's rehabilitation
- The operation has lengthened the average life of the restructured BBD-denominated debt from 4 years to 15 years, and has reduced average interest rates of the treated debt significantly; a total of BBD 2.3 billion has been shaved off the total stock of BBD-denominated debt
- In general terms, claims with maturities ranging from a few weeks to twenty years have been exchanged for new 15-year, 25-year, and 50-year instruments
- All new instruments issued as part of the BBD debt exchange are based on amortising structures– a necessity given the importance of meeting the debt/GDP anchor targets

Arrears Clearance

The BBD debt exchange has resolved a total of BBD 865 million in public sector arrears (8% of GDP) as part of the BBD 12 billion restructuring; approximately half of this amount was owed to private sector companies, many of which have been waiting for periods of up to five years with no payment

The resolution of arrears has, by and large, been achieved by issuing four-year amortising bonds (“F Series” bonds) carrying 0% interest for an amounts equal to vetted amounts

It is estimated that a further BBD 550 million in arrears (5% of GDP) has still to be cleared by the Government once the vetting process has been completed; the treatment of these remaining tax refunds and supplier arrears will be the same in economic terms as to the treatment offered to arrears claimants under the BBD debt exchange