

## Government of Barbados

### Response to Initial Questions Submitted by Creditors

1. Has the government crafted a draft economic adjustment plan to present to the IMF?

- *The Government and social partnership are in the process of discussing the policies that should be included in the plan. The first part of the plan will be presented at the mini-Budget on Monday, 11 June 2018. The second part, which will involve more complex structural issues, should be completed in the next few weeks in the context of ongoing discussions with the social partnership.*

2. What are the timelines for engaging with the IMF?

- *ASAP. The dates for the IMF's next mission, which is expected to take place within the next four to six weeks, have not been agreed yet, but the Government has asked that the process be accelerated as much as possible.*

3. What is the full, true, and latest financial position of the Government of Barbados?

- *The Government expects to post an initial set of economic, financial, and debt data on the creditor website soon, and possibly as early as next week.*

4. How will the central government / SOEs fund the repayment of BBD 1.645 billion of arrears? Are discounts contemplated of the unsecured creditors?

- *The timeline and terms for the clearance of legitimate arrears has not been decided, but these are likely to vary depending on the nature of the arrears claim (i.e., tax refund arrears vs. NIS contribution arrears, or other arrears). Before agreeing on a repayment schedule, however, the Government intends to conduct an investigation of each component of the arrears to ensure legitimacy. The arrears clearance strategy will be outlined and explained to all creditors and other stakeholders in due course.*

5. How will the central government and SOEs fund anticipated working capital needs? Has this been quantified for the next 24 months?

- *The Government intends to run a balanced budget or overall surplus once the fiscal adjustment and debt restructuring are factored in. The Government is committed to avoiding deficits that cannot be financed with concessional financing; fresh arrears will not be accumulated going forward, and the Government intends to pass a law to prevent the CBB from being used to finance overspending.*
- *Budgetary requirements for the public sector over the next three years will be quantified as part of the economic adjustment program that will be presented to the IMF for financing in the coming weeks.*

6. How will the government ensure long-term viability of the NIS?

- *The Government expects that the NIS's portfolio of Treasury Bills, Treasury Notes, and Debentures will fall within the scope of the debt restructuring in the same manner as those held by private investors—reducing the institution's expected investment income. This notwithstanding, the Government will ensure NIS's viability in several ways:*
  - a. First, the disruptive and unsustainable practice of the Government and the broader public sector accumulating contribution arrears to the NIS will be brought to an end; to bolster liquidity and cash flow, such contributions will be paid each and every month in a timely manner.*
  - b. Second, the Government will ensure that contribution and benefit levels are regularly reviewed in line with NIS actuarial reviews.*
  - c. Third, the Government will seek to review long-standing restrictions on portfolio diversification placed on the NIS and other investors as the economy and reserve levels recover. In the long run, a more diversified portfolio would bring the NIS greater investment protection.*

7. What is the Government's additional financing need for capital expenditure in 2018/19?

- *Additional capex requirements for 2018/19 will be calculated as part of the formulation of the Government's economic adjustment. However, preliminary costing estimates for emergency capital expenditure is approximately B\$200m: emergency sewage works, around B\$60m, roads, around B\$50m, garbage trucks and public buses, around B\$75m, improving A&E at QEH,*

*around B\$10m. These estimates could change on the basis of ongoing evaluation and discussions.*

8. What protections will the government put in place to safeguard domestic creditors' capital adequacy and overall financial sector stability amid debt re-profiling?

- *The Government believes that a stable and well-capitalized financial sector is critical for confidence, investment, and economic growth. The financial sector regulators are expected to carefully monitor and evaluate the potential impact of future restructuring terms on each affected financial institution— potentially with IMF technical assistance during the program period. Appropriate responses will be taken in the event that these reviews conclude that the proposed debt restructuring terms would destabilize the financial sector.*

9. How will the Government treat re-profiling of the portion of domestic creditors' securities portfolios held as statutory / reserve requirements?

- *Treasury Bills, Treasury Notes, and Debentures are among the instruments to be treated in the debt restructuring regardless of whether they are held for statutory / reserve requirements or other purposes.*

10. Over what period will the 20% securities reserve requirement on domestic deposits imposed on commercial banks be reduced?

- *This question touches upon regulatory and monetary policy matters that are within the remit of the CBB, and go beyond issues relating to debt restructuring and so cannot be prejudged or determined in advance. However, as the requirement was imposed in part to provide financing for the chronic fiscal deficits that were generated by the previous government, and given that the Government is now committed to a fiscal adjustment, the Ministry of Finance, Economic Affairs and Investment is optimistic that when the conditions are safe to do so, this requirement can be reduced over time.*

11. What is the mechanism for oversight for the creditor group?

- *The Government's commitment to fiscal reform and to placing the public finances firmly on a sustainable footing is expected to be checked and incentivized in several ways over the next three years:*

- a. *The quarterly reviews of future program progress by the IMF Executive Board, and conditions of any reserve support or disbursement;*
- b. *Participation of domestic creditors and others in the Social Partnership that will take on a greater oversight role;*
- c. *Enhanced concessional financing role that is expected to be paid by the IADB, CDB, CAF, and EIB; disbursements will be conditional on progress with structural reform, especially within the public corporations and statutory bodies.*

12. What is the mechanism for engagement with the External Advisor?

- *Whilst we wait for the definition of medium-term macroeconomic projections in the context of our forthcoming discussions with the IMF, creditors should feel free to contact our financial advisors with any questions or comments. Those who are not already in contact with the financial advisors should contact them at the following address: [barbados@whiteoakadvisory.com](mailto:barbados@whiteoakadvisory.com)*

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