

The contents of this document are preliminary and subject to change.

GRAY/20/2269

June 2, 2020

**Statement by Mr. Beblawi and Ms. Fadhel on Barbados  
(Preliminary)  
Executive Board Meeting 20/66  
June 3, 2020**

We thank staff for the comprehensive report and Ms. Levonian and Mr. Weil for the helpful Buff statement. The economic fallout from COVID-19 will be severe on Barbados as its impact on the tourism sector, which represents about 17 percent of GDP while remaining critical to other economic sectors, continues to unfold. We commend the authorities for the swift response to the pandemic through the four stage National Preparedness Plan (NPP) which included pre-emptive measures that helped manage the spread of the virus at an early stage. All quantitative performance criteria (QPCs), and two out of three structural benchmarks for end-March 2020 were met. Prospects for continued strong program performance are good. We, therefore, support the proposed decisions. We agree with the thrust of the report and would like to emphasize the following points.

The pandemic has adversely affected the fiscal position of Barbados whose revenues are now expected to decline further, as a result of the deep recession, while pandemic-related spending will increase. As a result, the authorities have reduced their FY2020/21 primary surplus from 3 percent of GDP, as per the budget adopted by Parliament in March 2020, to only 1 percent. We note the progress in implementing the Economic Recovery and Transformation (BERT) Plan which helped restore fiscal and debt sustainability, as well as rebuild reserves and support growth. We welcome the authorities' efforts to strengthen oversight and tighten reporting requirements of SOEs to help curb related fiscal risks. Continuing to reduce transfers to SOEs would be critical to achieving higher fiscal primary surpluses and securing fiscal space for priority investments. We welcome the steps taken by the authorities to strengthen revenue administration, specifically those related to the implementation of two structural benchmarks aiming to improve processes at the revenue authority and customs department.

Risks to debt sustainability have increased; however, debt is still assessed to be sustainable and is projected to decrease and to reach its long-term anchor of 60 percent of GDP by FY2033/34, following the completion of the external debt restructuring. However, the interim debt target of 80 percent is now expected to be achieved in FY2029/30, instead of FY2027/28, given the urgent financing needs related to the pandemic. In this regard, we positively note the fiscal rule expected to be introduced by mid-2021 to help achieve the long-term debt objective.

Banks remain liquid, while profitability and NPLs are low. Credit to the private sector remains flat, despite the ample liquidity available to banks. Structural reforms to help promote growth are crucial for banks, as it would provide them with more and better lending opportunities, especially in a post-COVID-19 era. Addressing the inefficiencies in financial intermediation, as evident by the high spread between the rate on bank loans and deposits, will be important going forward. We note the measures taken by the central bank to support liquidity in the banking sector, even though liquidity is not a systematic issue at the moment. We welcome the work on the new central bank law, which should help enhance the governance framework of the central bank and limit financing of the government. The central bank should continue enhancing the monitoring of banks and AML/CFT framework should continue to be strengthened.