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**Statement by Ms. Levonian and Mr. Weil on Barbados
Executive Board Meeting
December 9, 2020**

Introduction

The authorities wish to extend their gratitude to the Fund for its continued partnership and for demonstrating flexibility in its policy and financial support as the crisis evolves.

Since coming to office, the authorities have been successfully implementing the Barbados Economic Recovery and Transformation (BERT) plan, an ambitious homegrown economic plan supported by the Fund's Extended Fund Facility (EFF). As a result, Barbados now has far greater policy space to tackle the COVID-19 crisis. Since the launch of the EFF, international reserves have increased sharply, a comprehensive public debt restructuring has been completed, reforms of state-owned enterprises have been launched, and Barbados has become more globally competitive.

All performance criteria and indicative targets have been met since the launch of the EFF in 2018, despite limited technical capacity and the immensely trying circumstances of the global pandemic over the last 10 months. This impressive track record is a testament to the authorities' unwavering commitment to the Fund-supported reform agenda.

Program Update

The outlook for 2020 has worsened, with a 15 percent contraction expected, down from 11.5 percent at the time of the last review. With tourism no longer projected to rebound meaningfully in 2020, the recovery is expected to be quite gradual over 2021 and 2022, before Barbados returns to medium-term average growth of around 2 percent. The outlook remains highly uncertain, and the authorities agree that risks are high and tilted to the downside. This is mostly owing to the risk of lower-than-projected tourism arrivals from key markets, in the event that the pandemic and/or voluntary social distancing persist. That said, recent promising news regarding the effectiveness of a number of vaccine candidates, as well as Barbados' growing competitive advantage as a safe and virtually pandemic-free tourism destination, offer some cautious upside risk to the outlook.

The Executive Board's decision to temporarily increase normal annual access limits as part of its crisis response has already been instrumental in meeting Barbados' extraordinary financing needs. The authorities are now seeking to use this temporary flexibility in the form of a second augmentation under the EFF to meet a balance of payments and fiscal financing gap that has opened up as a result of the slower-than-expected tourism recovery.

The BERT plan has been updated to reflect the worsening outlook. Notably, primary surplus targets have been adjusted downward for FY 2020/21 and FY 2021/22 to account for declining revenues and increased spending as a result of COVID-19. While this temporarily relaxed fiscal stance increases debt sustainability risks, the authorities are confident that it will be transitory. In order to stay on track to achieve the long-term anchor of 60 percent of public debt-to-GDP by end FY2033/34, Barbados will run higher primary balances in future years by phasing out crisis spending, containing grants to SOEs, improving expenditure control, strengthening customs and revenue administration, and introducing a fiscal rule. Additional fiscal measures can be deployed under an adverse scenario, but ultimately Barbados can only return to its pre-pandemic fiscal path primary once tourism rebounds.

The authorities have submitted to Parliament a law that enhances the CBB's independence, clarifies its mandate, and limits financing of the government to emergency situations. This was a key structural benchmark and a prior action for the completion of the present review. The legislation passed first reading by the House on December 1 and will now move to the Senate.

Three structural benchmarks have been met in the areas of tax and customs administration. The modernization of the Barbados Customs and Excise Department (BCED) has been progressing smoothly, thanks in part to technical assistance from a resident long-term expert. Reforms at the BCED are aimed at strengthening governance, facilitating trade, and improving compliance and enforcement. Tax administration reforms include implementing new IT systems, improving large file audit, and taking a more risk-based approach to compliance. These initiatives are supporting revenue mobilization at a critical time.

The pandemic has delayed elements of the structural reform agenda, in part due to disruption in the provision of Fund technical assistance. Benchmarks related to the recapitalization of the Central Bank of Barbados (CBB) and the impacts of the debt restructuring on the national insurance scheme as well as the adoption of a fiscal rule have been reset to allow more time for the necessary technical assistance missions. An actuarial review of the civil service pension system has been delayed slightly due to the pandemic but is expected to be completed by year end. This has caused a slight delay in the timetable for the introduction of a revised public pension law.

New structural benchmarks related SOE financial oversight, customs and tax administration reform and the publication of economic statistics are proposed. The latter forms part of a broader push to address data shortcomings by enhancing the preparation and release of social indicators and in parallel Barbados has committed to implement the Fund's Enhanced General Data Dissemination Standard (e-GDDS).

Evolving COVID-19 Policy Response

Barbados has been lauded by the World Health Organization for its fight against COVID-19, and the authorities will continue to take all steps necessary to protect Barbadians and visitors from this global crisis. A decisive public health response that included self-quarantine protocols, the activation of isolation and treatment centers, the closure of non-essential businesses, and a national curfew succeeded in halting local transmission of the virus.

This enabled a phased re-opening of the economy which began in May, followed by the resumption of commercial airlift in July under strict health protocols. Travelers from medium or high-risk countries must be tested within three days prior to their arrival and are retested upon arrival. Visitors' movement is restricted until a negative test result is confirmed. Despite these robust protocols, tourism arrival figures for September were still down almost 90 percent relative to previous years as demand remains depressed and voluntary social distancing persists in key tourism markets.

Whereas the initial policy response to COVID-19 centered on emergency health spending to save lives and temporary targeted fiscal measures to support vulnerable households (e.g., *Adopt-A-Family* monthly cash transfers), the authorities are now focused on getting Barbadians back to work and supporting viable businesses that can drive the recovery. Key measures include:

- The *COVID Relief Programme*. A BDS\$40 million initiative to ensure that anyone seeking to work has an opportunity to do so. Participants will be contracted for 12 months to carry out a range of jobs across the island, including improving infrastructure and supporting food security;
- The *Barbados Employment and Sustainable Transformation (BEST) Plan*. This program makes available a maximum of BDS\$300 million to tourism firms to re-engage their workers at 80 percent of their normal salary for up to two years; and,
- The *Welcome Stamp*. An initiative to help mitigate the economic consequences from the fall in short-term travel by allowing entry to remote workers for up to one year. Over 1,200 applications were received in the first two months of the initiative.

Given a three-fold increase in unemployment, the longstanding National Insurance Scheme (NIS) has been the key mechanism to cushion the impacts of the crisis. The strain on the NIS' balance sheet from spiking unemployment and severance outlays has necessitated liquidity support in the form of buy-backs of central government debt held by the NIS.

The crisis has sharply impacted tourism-sensitive revenues, such as the VAT. However, a successful overhaul of the international business tax regime to comply with international taxation standards has boosted corporate income tax revenues and helped partially offset crisis impacts. These reforms, alongside a commitment to strengthening the AML/CFT framework in keeping with the action plan agreed to with the FATF, have attracted a number of large international companies wanting to do business in Barbados.

Given their commitment to maintaining the highest international tax standards, the authorities were disappointed by the October 2020 decision by the European Council of the European Union to add Barbados to the EU list of non-cooperative jurisdiction for tax purposes. This decision relates to the historic period from 2015 to 2018 and the matters in question have been remedied by the authorities over the last 20 months. The authorities view this action, in the middle of an unprecedented global pandemic, as disproportionate.

The CBB is supporting the credit market through reductions of overnight lending discount rates and minimum statutory holding requirement for government securities. Given ample liquidity, banks have not had to seek support from the CBB. The banking system remains adequately capitalized, and the NPL ratio is stable.

The authorities have not lost sight of the need to boost the competitiveness of the economy. A *Doing Business Sub-Committee of Cabinet* has been struck to execute a series of reforms to address the underlying cost of doing business in Barbados. The *National Payments Systems Act* will make it easier for citizens to transact with the private and public sectors and will support greater financial inclusion. The *Fair Credit Reporting Act* will introduce a new credit reporting system to support the development of the small business sector. Reforms of the corporate registry are ongoing and will help to drastically reduce timelines for key services such as incorporations.

Building Resilience

Barbados continues to take steps to boost resilience to climate change and natural disasters. An Inter-American Development Bank (IDB) contingent credit facility has been secured that allows access to financing of almost two percent of GDP in the event of a natural disaster. Barbados has also launched the ‘*Roofs to Reefs*’ program, a sustainable development model that hinges on six thematic areas: shelter; water; energy; waste; land use; and ecosystems management. A pipeline of projects is being developed under the program that will improve the country’s resilience to climate change as well as increase its push to become carbon neutral by 2030.

Supporting Small Island Developing States

The challenges of small island developing states, and the Caribbean in particular, have only been amplified by COVID-19 which has triggered large financing gaps against a backdrop of limited policy space, high levels of public debt and limited market access. Options for accessing multilateral debt relief are hindered by a focus on per-capita income.

The authorities call on the international community to consider how it can help the Caribbean, given the impact of COVID-19 on tourism and the dependence of the Caribbean on tourism, as it grapples with the economic fallout of COVID-19. Actions could include: (i) taking vulnerability into account when determining need possibly through the development of a Universal Vulnerability Index rather than relying solely on GDP per capita to determine eligibility for development assistance; (ii) moving ahead with a general SDR allocation to

provide unconditional liquidity to vulnerable states; and (iii) creating a multi-donor trust to support the liquidity and resilience-building needs of small island developing states.

Concluding Remarks

The ongoing coronavirus pandemic poses a monumental challenge for a tourism-dependent economy, but Barbados is staying the course with the BERT plan to achieve fiscal and debt sustainability, rebuild reserves, and generate sustainable growth. The authorities would once again like to extend their gratitude to the dedicated staff of the Fund for their tireless efforts in the service of Barbados and to the Executive Board for their support.