

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

GRAY/20/2255

June 2, 2020

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

We thank staff for the report and Ms. Levonian and Mr. Weil for their insightful Buff. **We support the completion of the third review under the Extended Fund Facility (EFF), Barbados' request for augmentation of access in the amount of SDR 66 million (70 % of the quota), and the modification of performance criteria.**

While we broadly agree with the staff appraisal, we would welcome additional comments on the capacity to repay and want to provide some further remarks for emphasis:

We take note that while Barbados will reach the normal annual access limit this year with the requested augmentation, whereas overall access will appropriately remain well below the normal cumulative access limit. We would furthermore highlight that gross reserves are expected to remain substantially above 100 % of the ARA metric at the end of 2020, implying some buffer in case of higher-than-expected pressure on the BoP in the short term.

Regarding capacity to repay, we have some concerns and would welcome additional staff comments on the trajectory of gross reserves over the repayment period. In particular, we would highlight that once larger repurchases to the Fund [EFF schedule] will fall due, gross international reserves are projected to fall from 134 percent of the ARA metric in 2024 to just 51 percent of the ARA metric in 2029. Given such a substantial decline, we have some concerns about i) how much the repayments to the Fund are expected to contribute to such a potentially unsustainable decline in gross reserves (in nominal terms to just 394 Mio USD in 2029 from 739 Mio USD in 2019) and ii) whether this is consistent with an adequate capacity to repay. *Staff's comments are welcome.* Moreover, the statement in the staff report with a reference to table 10 that “gross reserves are projected to remain adequate at about 100 percent of ARA” seems factually incorrect in light of gross reserves being significantly below 100 percent of ARA for a number of years. *Additional staff comments would be welcome.*

On fiscal policy, we take note of the lower-than expected fiscal revenue (4 percentage points of GDP in FY 2020/21) as well as the currently heightened expenditure needs to

accommodate health-related spending (1/4 of a percentage point in FY 2020/21). We acknowledge that this implies an unavoidable deviation from previously agreed fiscal targets. We encourage the authorities to follow an appropriate budget consolidation path once the immediate effects of the crisis have abated. In this context, we agree with staff's assessment that the fiscal accommodation in FY2020/21 will need to be compensated by higher primary surpluses in the medium term to reach the long-term debt anchor of 60 percent in FY2033/34. In particular, further expenditure rationalization and improvements in revenue administration will need to be achieved, to increase the primary surplus to its compensation target.

Regarding the budget in FY 2020/21, could staff comment on how much of the expected revenue shortfall is due to delays in the implementation of newly introduced tax measures (including taxes on online purchases of goods, Airbnb, and gambling taxes).

Following through on the clearance of outstanding domestic arrears until FY2022/23 remains an important element

Grants to SOEs from the government budget should be limited to bridging liquidity squeezes during the crisis and further reform efforts should be pursued to reduce fiscal risks from possible SOE recapitalization needs (para. 18). We also support the swift introduction of a flexible fiscal rule as envisaged by the authorities for mid-2021.

We support staff in their call for a swift implementation of the new central bank law and emphasize the centrality of strengthening central bank independence to limit fiscal financing by monetary means in Barbados. Moreover, we encourage the swift implementation of safeguard recommendations by the Central Bank of Barbados.