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June 14, 2021

Statement by Mr. von Kleist and Mr. Krahnke on Barbados
(Preliminary)
Executive Board Meeting
June 16, 2021

We thank staff for the informative report and Ms. Levonian, Mr. O'Brolchain, and Mr. Weil for their helpful Buff statement. **We agree with the adoption of the proposed decision.** Barbados was hit particularly hard by the standstill in international tourism and the implementation of some reforms, including a number of structural benchmarks (SBs), was delayed by the outbreak of COVID-19. Nonetheless, we welcome the authorities' progress on their reform agenda and the overall satisfactory program performance. With this in mind, we want to highlight a number of remaining issues, including the importance of debt reduction and fiscal credibility, necessary financial reforms to increase transparency and the need to improve the business climate and to invest in infrastructure as well as in resilience to natural disasters.

We agree with staff that the implementation of reforms under the EFF-arrangement has progressed despite the setbacks induced by the pandemic. We take note that the nonobservance of the PC on transfers and grants to public institutions was missed due to measures to address the health crisis. We expect these expenses to be only temporary and they are justified as long as the vaccination campaign requires targeted financing. *Could staff provide more detailed information on the contribution of crisis-related measures to the higher-than-expected transfers and grants to public institutions?* Given this financing need and the continued slack in the tourism sector, we support the modification of the relevant PCs. Furthermore, we welcome the proposed introduction of new structural benchmarks to support the authorities' reform progress (para. 28).

While we understand that pandemic-related expenses were necessary and the drop in GDP inevitable, the sharp increase in the debt-to-GDP ratio is concerning. Therefore, we strongly encourage the authorities to adhere to their pre-pandemic commitment to reduce

debt and bring the debt-to-GDP ratio on a downward path to reach the proposed anchor of a 60 percent debt-to-GDP ratio in FY 2035/36.

In our view, establishing a procedural fiscal rule as proposed by the FAD TA appears adequate as long as increased uncertainties remain. Nonetheless, we encourage the authorities to implement a numerical fiscal rule as soon as the situation allows and thereby provide a transparent and externally monitorable path to a steady reduction of debt. We agree that PFM systems should be strengthened and therefore welcome the proposed SB in this regard. We welcome the authorities' work on this topic beyond the implementation of the proposed SBs, including their efforts to increase the efficiency and quality of the public procurement processes.

We call on the authorities to continue their efforts to repay domestic arrears and support staff's proposal to include a SB to verify the newly discovered tax arrears. We welcome the plan to eliminate CG arrears by FY 2022/23 and the authorities' commitment to avoid accumulating new expenditure arrears. *How does staff evaluate the potential impact of the newly discovered tax refund arrears of around 4 percent of GDP on program performance (e.g. ceiling on the stock of CG expenditure domestic arrears) and debt sustainability?*

We are pleased to learn that a new central bank law aimed at strengthening the autonomy of the CB while limiting the provision of credit to the government has been adopted. We concur with staff that the authorities should continue to strengthen the central bank's balance sheet and look forward to the timely implementation of the related end-June 2021 SB.

We note staff's assessment that the foreign exchange tax constitutes a CFM that should be phased out once conditions allow. We acknowledge that the tax is a means to raise international reserves and might be appropriate when reserves are low and substituting measures cannot be implemented. However, as reserves have recently increased and liberalizing capital flows could incentivize foreign investments and spur growth, we agree with staff that the authorities should consider phasing out the measure as soon as possible.

While we welcome the removal from the EU list of non-cooperative jurisdictions for tax purposes in February 2021, the authorities should intensify their commitment to implement the action plan to exit the FATF's "grey list". *How does staff evaluate the progress on implementing the FATF action plan?*

For a post-crisis recovery and robust GDP growth in the medium term, structural reforms will be crucial. We agree with staff that these reforms as well as accompanying investments should accelerate once the pandemic recedes. We support the measures proposed by staff that are intended to improve access to credit for smaller businesses, as this seems particularly important in light of weak credit growth and high excess liquidity by banks.

Reforms should also aim at reducing unemployment by training and retraining workers and incentivizing job creation by improving the business climate.

Building resilience against climate-related risks is a key priority. With Barbados being prone to natural disasters with a potentially large impact on GDP level and growth, the authorities should increase their efforts to build resilience. This could include investments in climate-resilient infrastructure as well as increasing efficiency of post-catastrophe recovery efforts. In this regard, we commend the authorities for their efforts to build financial resilience by insuring the natural disaster risks through the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and by having introduced natural disaster clauses into the new domestic and external bonds.

Finally, we take note of the low contribution of the Barbadian tourism sector to GDP growth even before the pandemic. Nonetheless, we see its importance for the economy, with its large impact on employment and on the current account. Therefore, we would encourage the authorities to improve the sector's international competitiveness and the resilience to climate change and natural disasters. *We would be interested in how staff evaluates the prospects of the tourism sector and its potential to contribute to economic growth going forward.*