September 2007
IMF Country Report No. 07/315

Barbados: 2007 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the Article IV consultation with Barbados, the following documents have been released and are included in this package:

- The staff report for the 2007 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on July 19, 2007, with the officials of Barbados on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 16, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its September 10, 2007 discussion of the staff report that concluded the Article IV consultation.

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International Monetary Fund
Washington, D.C.

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BARBADOS

Staff Report for the 2007 Article IV Consultation

Prepared by the Staff Representatives for the 2007 Consultation with Barbados

Approved by Ranjit Teja and Scott Brown

August 16, 2007

- ***Outlook***. Economic prospects for 2007 are favorable, with growth projected to exceed 4 percent and inflation to decelerate to 5½ percent. However, the current account deficit is likely to remain high at 8½ percent of GDP, and the fiscal position is set to deteriorate.
- ***Focus of streamlined consultation***. The discussions were framed around the announced liberalization of the capital account, starting initially vis-à-vis Caribbean partner countries, next year. While the immediate impact is not expected to be large, there are medium-term risks to external stability and the 32-year peg to the dollar, if vulnerabilities are not addressed. The discussions, therefore, focused on three critical policy areas:
    - ***Fiscal consolidation***—to bolster international reserves and reduce public debt so as to ensure the sustainability of the peg and an effective policy response to shocks.
    - ***Market-based monetary policy instruments***—to manage domestic liquidity in a more volatile environment.
    - ***Financial sector regulation and supervision***—to guard against excessive exposures in an open capital account environment.
- ***Exchange system***. Barbados has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The Barbados dollar has been pegged to the U.S. dollar at BDS$2=US$1 since 1975.
- ***Mission***. The discussions were held in Bridgetown, during July 10–19. The staff team, comprising C. Daseking (Head), G. El-Masry, M. Kandil, and S. Martin (all WHD), met with officials in the Ministries of Finance and Economic Affairs, the Central Bank of Barbados, other supervisory and regulatory agencies, as well as representatives of the private sector and the opposition.

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I. BACKGROUND

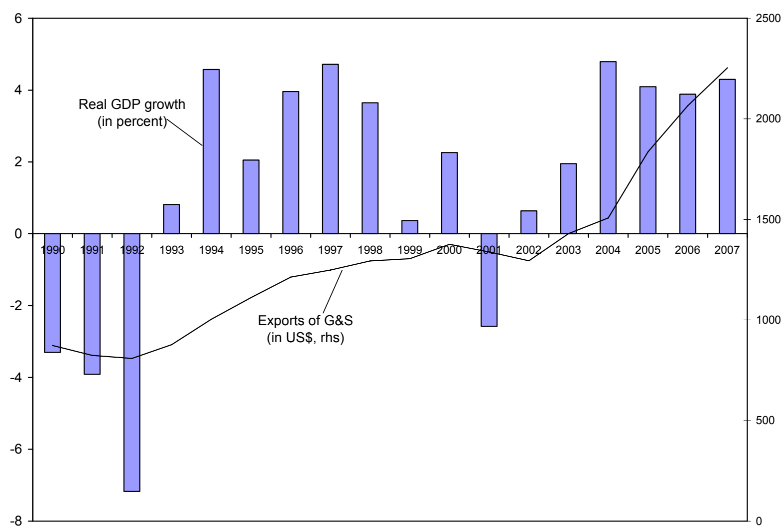
1. **Barbados benefits from strong institutions and political stability**. The country has one of the largest per capita incomes in the region, ranks high on social, political, and competitiveness indicators, and enjoys an investment grade rating. The ruling Barbados Labor Party, led by Prime Minister Owen Arthur, has been in office since 1994. The next elections must be held by August 2008.

Selected Caribbean Countries—Key Economic, Social, and Political Indicators
(Ranking, if available, in parantheses)

	Barbados	Jamaica	Trinidad & Tobago
Economic indicators			
GDP per capita (USD 2006)	12,523	3,952	13,892
S&P sovereign rating (forex long-term debt)	BBB+	B	A+
Moody's sovereign (forex long-term debt)	Baa2	B1	Baa1
Social indicators			
Human Development Index (UNDP)	0.9 (31)	0.7 (104)	0.8 (57)
Health and Primary Education Index (WEF)	6.7 (28)	6.4 (65)	6.4 (64)
Business climate			
Global Competitiveness Index (WEF)	4.7 (31)	4.1 (60)	4.0 (67)
Market Efficiency Index (WEF)	4.3 (49)	4.2 (61)	4.1 (69)
Regulatory Quality (percentile rank; WB)	77.7	60.4	69.8
Political indicators			
Corruption Perception Index (TI)	6.7 (24)	3.7 (61)	3.2 (79)
Political Stability (percentile rank, WB)	88.7	34.9	43.4
Rule of Law (percentile rank, WB)	88.4	37.2	52.7

Sources: IMF World Economic Outlook, World Bank Governance Indicators, World Economic Forum Indices, Transparency International, and UNDP.

2. **Barbados' economy is dominated by services and highly dependent on tourism**. Services, particularly tourism and increasingly also financial services, account for three-quarters of GDP and 80 percent of exports. In tranquil times, Barbados' growth rate has averaged 3 percent but external shocks have triggered periodic recessions, including most recently after 9/11. Expansionary fiscal policies helped ease the impact but also raised public debt, which has remained close to 90 percent of GDP.



3. **The government's recent decision to liberalize the capital account is guided by its vision of Barbados as a prime center for tourism and financial services**. Liberalization will start next January vis-à-vis the Caribbean Community (CARICOM), and "as soon as practicable thereafter" with all other countries. At the same time, the government remains firmly committed to the dollar peg, which has served as a credible policy anchor over the past 32 years and remains an appropriate arrangement for Barbados, provided macroeconomic policies stay successfully focused on keeping external imbalances in check.

II. Recent Developments and Short-Term Outlook

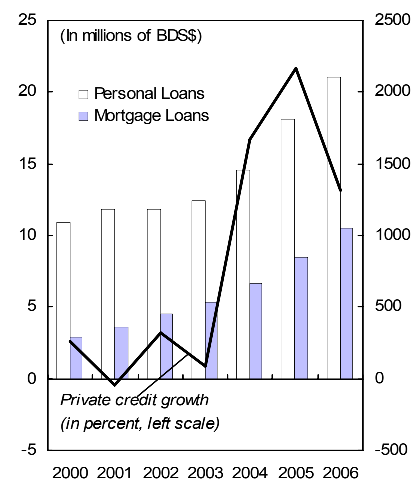
4. **Barbados' economy grew at a solid pace in 2006, accompanied by a welcome narrowing of the current account deficit (Figure 1 and Table 1)**. Robust output growth helped bring the unemployment rate to historical lows, while the external current account deficit eased thanks to growing tourism receipts and the impact of a temporary import surcharge on consumer goods. The latter, however, in conjunction with the pass-through from higher oil prices, also pushed up inflation, and despite the lower current account deficit, official reserves further declined relative to imports.

Barbados: Main Economic Indicators
(In percent of GDP unless otherwise indicated)

	2002	2003	2004	2005	Prel. 2006	Proj. 2007
Real GDP (annual percent change)	0.6	2.0	4.8	4.1	3.9	4.2
CPI inflation (average in percent)	-1.2	1.6	1.4	6.0	7.3	5.5
Current account	-6.8	-6.3	-12.4	-12.5	-8.4	-8.6
GIR in months of imports of G&S	5.7	5.7	3.9	3.5	3.3	3.1
Nonfinancial public sector overall balance	-10.1	-5.0	1.3	-3.7	0.0	-4.0
Central Government balance	-5.5	-2.4	-2.5	-1.4	-2.0	-2.2
NIS	2.4	2.4	3.6	3.6	3.9	3.9
Public enterprises	-1.3	-2.0	-1.0	-4.0	-0.5	-2.3
Off-budget activities	-5.7	-2.9	1.3	-1.9	-1.4	-3.3

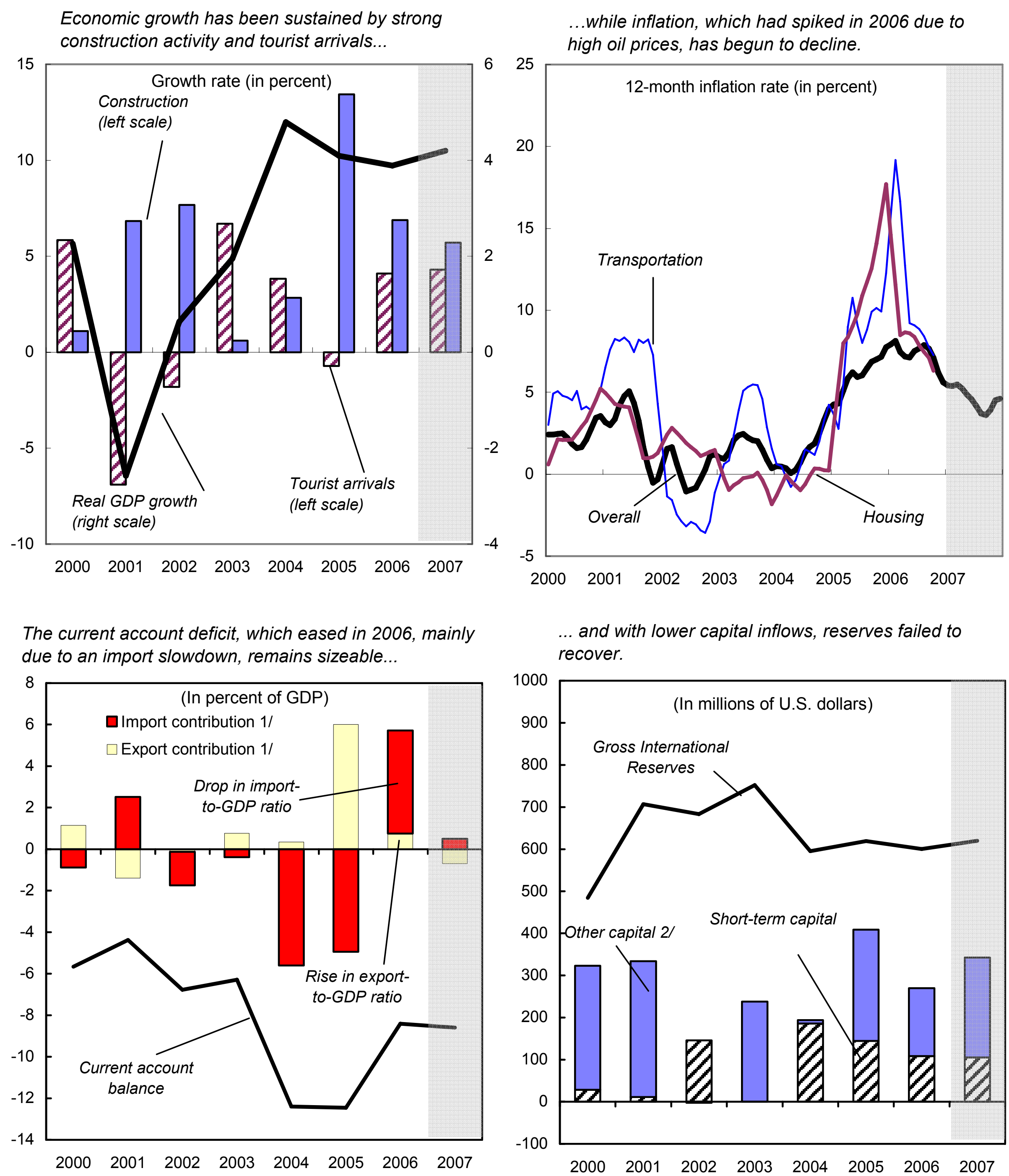
Sources: Central Bank of Barbados; and Fund staff estimates and projections.

5. **Macroeconomic policies were tightened considerably in 2006, implying an appropriate countercyclical withdrawal (Figure 2)**. Due to a large improvement in the public enterprise position, the overall public sector accounts moved into balance, with a surplus in the National Insurance Scheme (NIS) sufficient to offset the combined deficit in the other sub-sectors. Real interest rates remained low, as nominal rate increases were more than offset by higher inflation, but with an appreciating real exchange rate, financial conditions still tightened, and private credit growth slowed to 13 percent from 22 percent in 2005.



6. **Barbados' real effective exchange rate appears to be broadly in line with fundamentals (Box 1)**. The authorities agreed with this assessment, noting that their own calculations also suggested a slight overvaluation as a result of the real appreciation of the past two years. While the measured overvaluation is small, competitiveness could become a concern if inflation remained above that of partner countries without a corresponding improvement in fundamentals.

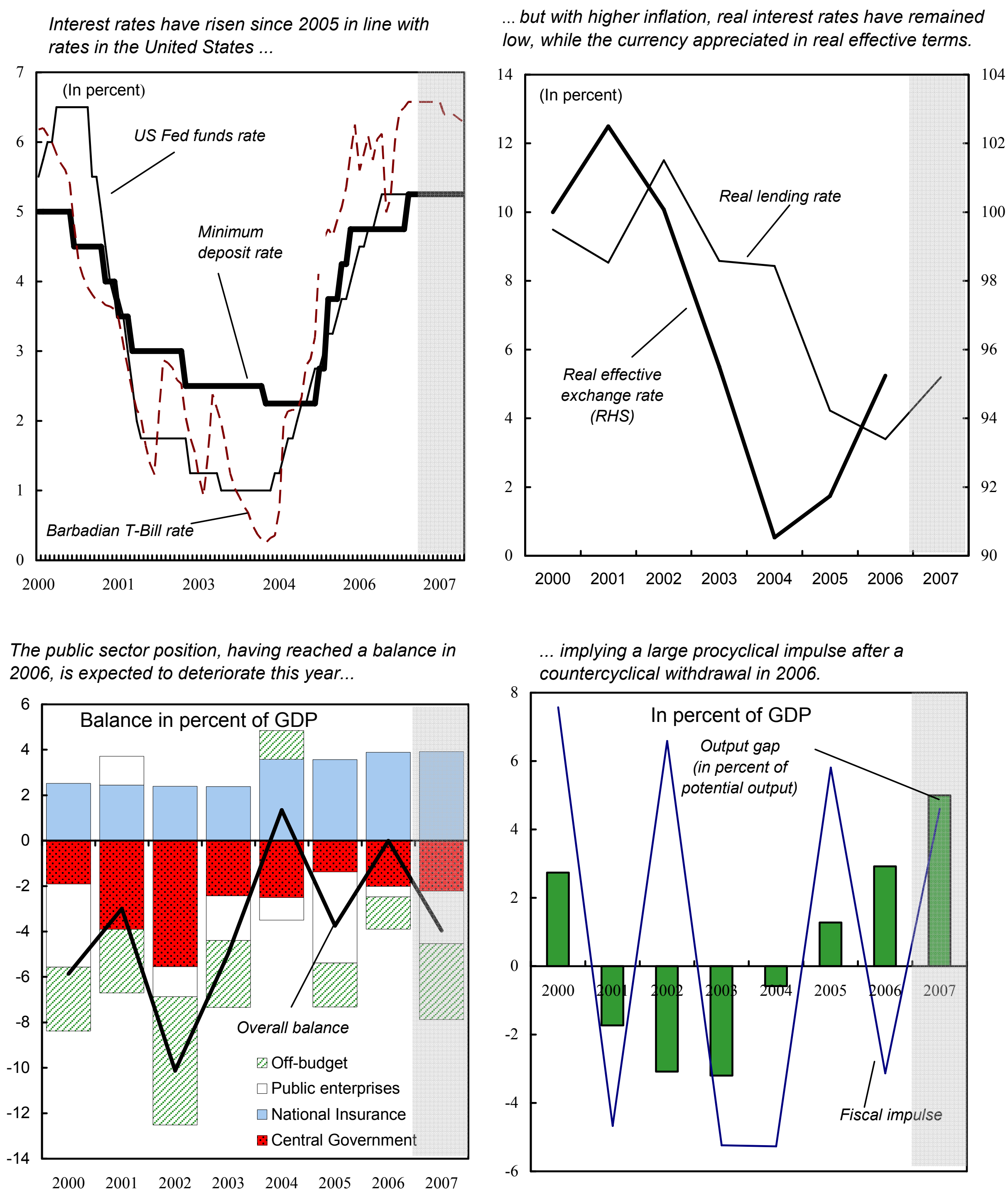
Figure 1. Barbados: Macroeconomic Developments, 2000-07



Source: Central Bank of Barbados.

1/ An increase in the export (import) ratio is shown as a positive (negative) contribution, and vice versa.
2/ Includes errors and omissions.

Figure 2. Barbados: Macroeconomic Policies, 2000-07



Sources: Central Bank of Barbados and Fund staff estimates.

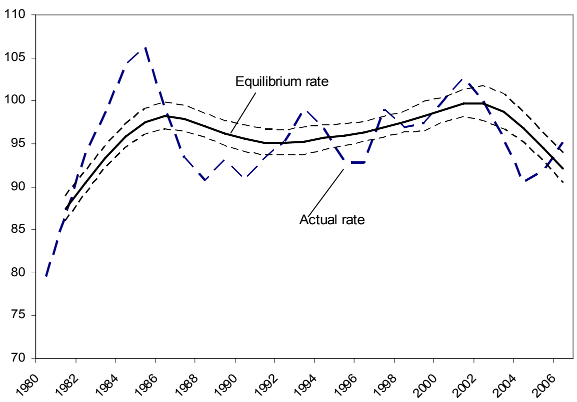
Box 1. Barbados: Real Exchange Rate and Competitiveness Assessment

Barbados' real exchange rate is assessed using the Fundamental Equilibrium Real Exchange Rate (FEER) approach. It is based on a panel regression for a sample of Caribbean countries, including Barbados, the six ECCU countries, Jamaica, Belize, and the Bahamas.[1] The fundamentals of these tourism-dominated economies include:

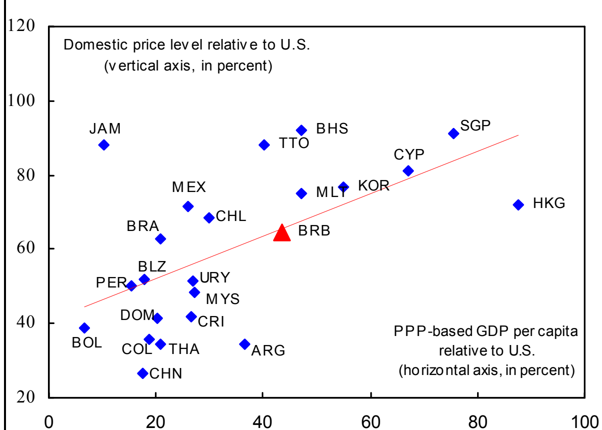
- *productivity differentials,* proxied by per capita tourist arrivals relative to those in the Bahamas;
- *terms of trade for tourism*, proxied by movements in overall terms of trade that are not explained by those for goods.
- *government consumption*; and
- *net foreign assets.*

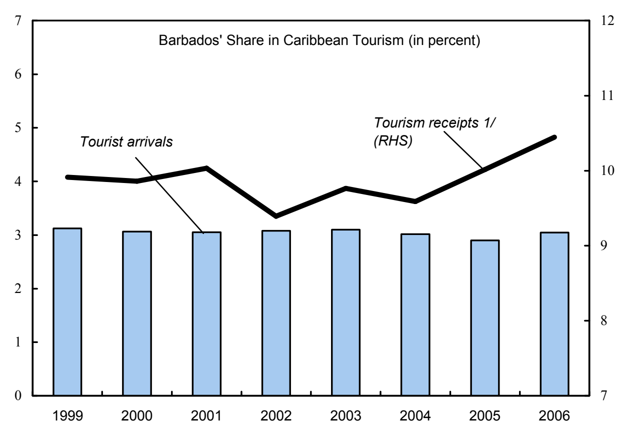
In line with economic theory, all four variables display a positive long-run relationship with the real exchange rate.

The results for Barbados show that the real effective exchange rate is broadly in line with fundamentals. Both the actual and equilibrium rates have fallen since the beginning of the decade—the former due to a depreciating U.S. dollar, and the latter because of a parallel decline in government consumption, terms of trade, and, since 2003, relative tourist arrivals. The estimation implies a relatively small overvaluation in 2006 in the range of 1½–5 percent, using a one-standard-error band.



Other indicators confirm this assessment.
Barbados' domestic price level seems broadly consistent with its level of development, suggesting no evidence of misalignment. Recent tourism developments also confirm Barbados' competitiveness: its share of Caribbean tourist arrivals has remained flat, while its tourism receipts have actually risen relative to others, reflecting its successes at the higher-end segment.





Sources: Caribbean Tourism Organization and country authorities.
1/ The share in receipts is based on a smaller comparator market, including the Bahamas, the Dominican Republic, Jamaica, and the ECCU countries, which together with Barbados account for about half of Caribbean tourist arrivals.

[1] The results are obtained from Pineda and Cashin (2007), "Is the Eastern Caribbean Dollar Overvalued?" forthcoming IMF Working Paper.

7. **Prospects for economic activity in 2007 are favorable, but the fiscal position is expected to weaken and the current account deficit to remain high**. Staff projects:

- A slight increase in economic growth to 4¼ percent, reflecting a positive impact from the 2007 Cricket World Cup on tourism and continued strong construction activity, including from public projects.

- A decline in inflation to 5½ percent, helped by the removal of the import surcharge.

- A broadly unchanged current account deficit of about 8½ percent of GDP, with solid tourism growth, on the one hand, and a rebound in consumer goods imports, on the other. Official reserves are projected to return roughly to their end-2005 level, implying a further reduction relative to imports to just above three months.

- A public sector deficit of 4 percent of GDP, the bulk of which reflects a number of large-scale government projects, including a multipurpose sugar factory, a new prison and judicial center, and a highway expansion. A reduction in property taxes and some weakening in the performance of public enterprises are also contributing.

The authorities broadly shared this outlook but anticipated less of a rebound in consumer goods imports and a correspondingly lower current account deficit of 7 percent of GDP.

III. Medium-Term Challenges Under a Liberalized Capital Account

8. **The discussions were framed around the authorities' decision to liberalize the capital account**. The immediate impact of this step—a commitment under the CARICOM Single Market and Economy (CSME) to enhance regional integration—is not expected to be large, owing to the credibility of the peg and the fact that the current approval requirements have not prevented most transactions from taking place. Indeed, removal of the remaining controls on foreign-currency accounts, purchase and sale of real estate, and cross-border borrowing and lending, may have a positive impact on the capital account, to the extent that they have discouraged certain inflows. However, over time, liberalization may expose Barbados to the danger of sudden capital account reversals, particularly if it permits sizeable current account deficits to be financed by short-term inflows. In the absence of a larger reserve cushion, such reversals could challenge the credibility of the peg or force sharp and disruptive policy adjustments.

9. **The discussions, therefore, focused on policies to contain these risks**:

- **Fiscal consolidation**. With a peg and an open capital account, fiscal policy is the only macroeconomic policy tool available to contain external imbalances and respond to shocks.

- **Market-based monetary policy instruments**. A transition to indirect instruments will be important to manage domestic liquidity in a prospectively more volatile environment of liberalized capital flows.

- **Strong financial sector regulation and supervision**. Liberalization will expose the financial sector to greater volatility and risks of currency mismatches and cross-border spillovers.

A. Fiscal Policy: The Case for Consolidation

10. **The government is committed to fiscal consolidation but current plans may not go far enough in reducing vulnerabilities**. The authorities' objective of lowering central government debt from the current 73 percent of GDP to less than 60 percent by 2012 is ambitious. They have not yet announced measures to achieve this, other than committing to a reduction in the central government deficit to 1 percent of GDP starting next year. Staff prepared an illustrative baseline scenario, reflecting this adjustment and a return in off-budget activities and the public enterprise balance to their 2005–06 levels after the implementation of current projects (Figure 3 and Table 5). In this scenario, the central government debt target would not be achieved and total public debt, including guaranteed debt of public entities, would remain around 90 percent of GDP. Moreover, the reserve coverage would deteriorate significantly relative to both imports and staff's estimate of short-term external debt, which combines short-term liabilities of the public sector and banks with an estimate of nonbank debt, based on cumulative short-term capital inflows.

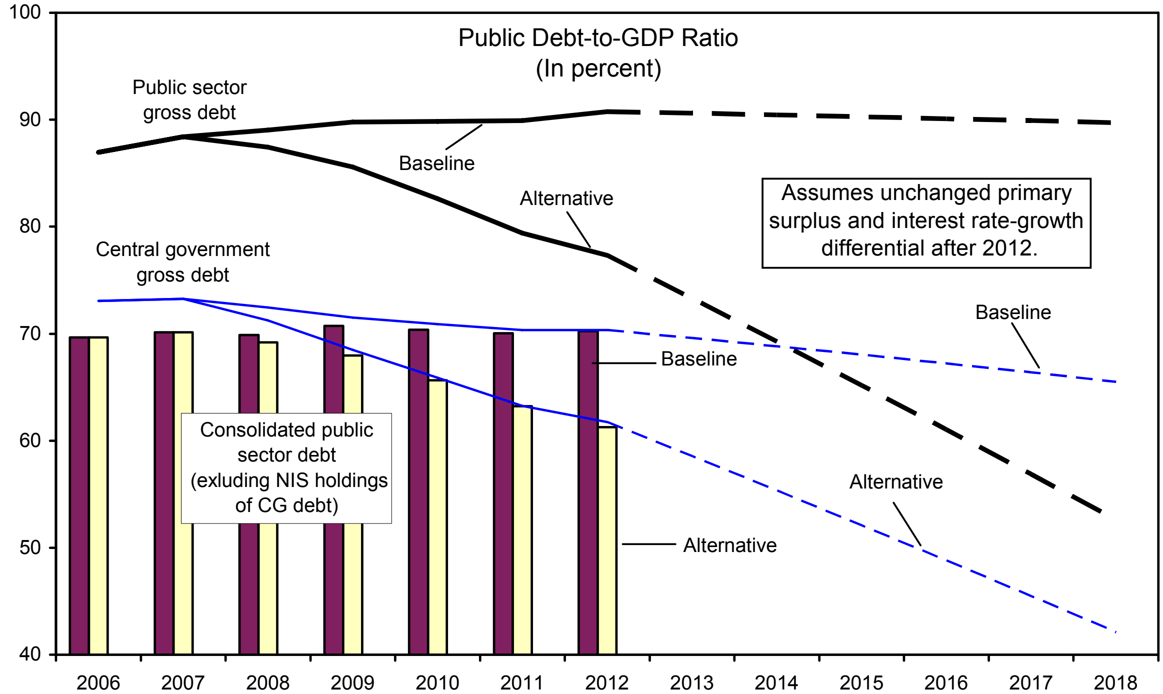
Fiscal and Macroeconomic Assumptions, 2006-12

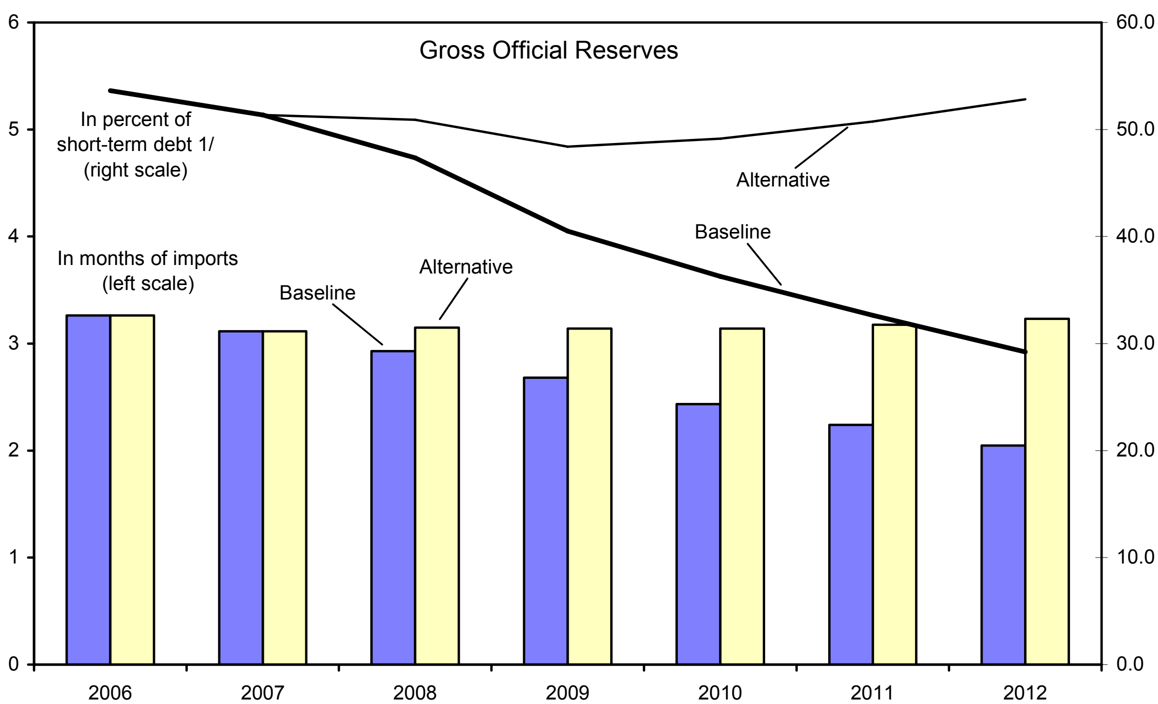
	Prel.	Proj.	Baseline scenario			Alternative scenario		
	2006	2007	2008	2012	Avg. 2008-12	2008	2012	Avg. 2008-12
Fiscal Assumptions 1/			(In percent of GDP)					
Public sector balance	**0.0**	**-4.0**	**-1.6**	**1.2**	**0.1**	**-0.1**	**4.2**	**2.6**
NIS	3.9	3.9	4.0	5.0	4.5	3.8	4.3	4.0
Public sector, excluding NIS	**-3.9**	**-7.9**	**-5.5**	**-3.9**	**-4.4**	**-3.9**	**0.0**	**-1.4**
Central government	-2.0	-2.2	-1.0	-1.0	-1.0	-0.5	0.0	-0.1
Offbudget activities	-1.4	-3.3	-2.2	-1.3	-1.6	-1.5	0.0	-0.5
Public enterprises	-0.5	-2.3	-2.3	-1.5	-1.9	-1.9	0.0	-0.8
Primary balance	**4.5**	**0.3**	**3.1**	**6.6**	**5.2**	**4.3**	**8.2**	**6.8**
o/w non-NIS	**1.7**	**-2.6**	**0.3**	**3.0**	**2.0**	**1.5**	**4.9**	**3.8**
Macro Assumptions			(In percent)					
Real GDP growth	3.9	4.2	2.7	2.5	2.5	2.5	3.2	2.8
Current account balance	-8.4	-8.6	-8.5	-7.9	-8.3	-8.2	-6.4	-7.4
Private investment-to-GDP ratio	16.0	15.0	15.5	16.0	15.9	16.0	17.3	16.6

1/ Data are on fiscal-year basis, with 2007 corresponding to FY 2007/08.

11. **Accordingly, the mission encouraged the authorities to adopt a more ambitious fiscal target of an overall balance of zero by 2012, excluding the NIS surplus**. This

Figure 3. Barbados: Public Debt Ratio and Reserve Coverage Under Alternative Scenarios, 2006-2018

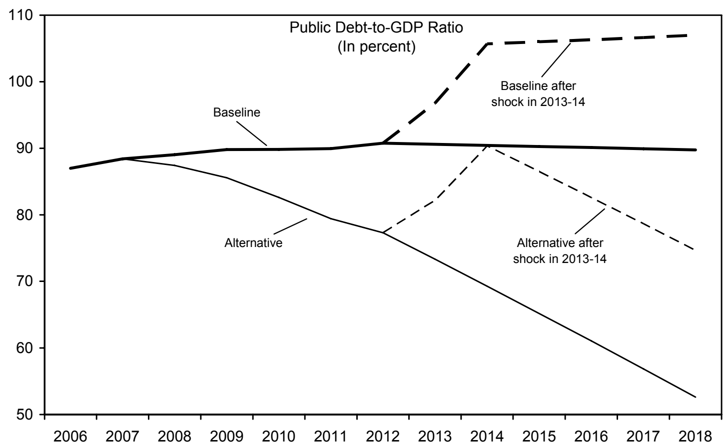




Source: Staff projections.
1/ Includes maturing public sector external debt, commercial banks' short-term foreign liabilities, and an estimate of non-bank liabilities, derived on the basis of cumulative short-term private sector inflows in the balance of payments.

alternative scenario implies an additional tightening in the primary (non-NIS) balance of about 2 percentage points of GDP over the coming five years. In staff's projections, the adjustment is sufficient to stabilize reserves relative to both imports and short-term debt and to bring public debt on a firmly declining trend, with economic growth benefiting from lower risk premia on interest rates. Thus, vulnerabilities, arising from large current account deficits, a declining reserve coverage, and high public debt would be significantly reduced.

12. **The benefits of additional fiscal consolidation would be felt most strongly in the event of a shock**. In the baseline, a shock of the magnitude experienced after 9/11, simulated for 2013–14, would lift the public debt ratio permanently above 105 percent of GDP in the absence of corrective actions. In the alternative scenario, on the other hand, the debt ratio would peak at 90 percent of GDP and subsequently decline.



Source: Staff simulations.

13. **To reduce the fiscal deficit, the mission advanced a menu of options, covering the wider public sector**.

- **Reduction of quasi-fiscal activities**. The government is undertaking a number of large public projects that will add some 10 percentage points of GDP to public debt. Reining in such activities in the future will be crucial, and presenting all quasi-fiscal activities on a consolidated basis in the budget will help rational planning.

- **Improvements in tax administration**. The planned establishment of a Central Revenue Authority, bringing different tax offices under one umbrella, should generate some small savings, while also facilitating a strategic approach to tax policies.

- **Increase in VAT rate and reduction in exemptions**. With unchanged collection efficiency, a rate increase from 15 to 17 percent would raise revenues by 1¼ percent of GDP; curbing exemptions would create additional savings.

- **Adjustments in the prices of public utilities**. Adjustments appear warranted where prices are below operating costs, including public transportation, natural gas, and water—possibly combined with targeted support to protect vulnerable groups.

- **Reduction of tax incentives**. Tax expenditures arising from various incentive schemes for foreign investors were estimated at 6 percent of GDP in 2005/06. A reduction would be most effective if coordinated with other countries in the region that apply similar practices.

Taken together and to their full extent, these measures could generate savings of 8–10 percent of GDP, far in excess of the additional 2 percent of GDP in the alternative scenario. The mission, therefore, encouraged the authorities to identify and implement a combination of those measures that they consider most effective and consistent with their economic and social priorities.

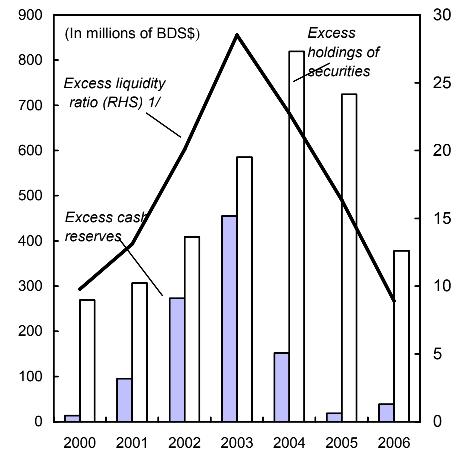
14. **The authorities reaffirmed their commitment to reduce central government debt but were not convinced of a pressing need to adopt fiscal measures**. They accepted that fiscal policy would have to adjust in the face of an eroding reserve coverage and were committed to act in such a situation. However, they were more optimistic than the mission about future trends, while pointing out that current projects were unavoidable (new prison and judicial center), had a positive economic impact (highway expansion), or were self-financing (multipurpose sugar factory). Regarding the specific measures advanced by the mission, the authorities highlighted the role of tax incentives in attracting foreign investment and expressed concerns about the inflationary and social consequences of raising the VAT rate and the prices of public utilities.

15. **The authorities also highlighted factors mitigating existing vulnerabilities**. On public debt, they emphasized that only one-third was external and of the remainder, another third was held by the NIS. On reserves, they considered the current level adequate, taking issue with the mission's estimate of short-term debt. While acknowledging the need to assess the nature and risks associated with recent nonbank short-term inflows, they argued that banks' foreign liabilities were fully matched by liquid foreign assets. Excluding these liabilities would raise the reserve coverage from about 55 to 120 percent of short-term debt. The mission agreed that this was an important factor reducing existing vulnerabilities, but pointed out that even if banks' liabilities were excluded from the debt measure, reserve adequacy would still deteriorate significantly over the medium term, should external imbalances persist. It stressed that an early response would reduce the need for stronger and more disruptive adjustments later.

B. Monetary Policy: Developing Market-Based Instruments

16. **The mission welcomed the authorities' intention to liberalize domestic interest rates in conjunction with the opening of the capital account**. While the authorities' ability to freely set domestic interest rates is already constrained under limited capital mobility, liberalization will further curtail the room for any independent monetary policy. While specifics remain to be decided, the CBB is developing options for shifting from interest rate controls and reserve requirements to market-based policy instruments and is preparing a framework to monitor interest rate differentials and forecast liquidity. In parallel, the CBB is developing options to activate its discount facility, using repos and reverse repos, and to make the discount rate its prospective policy rate.

17. **The authorities are also considering the use of open-market policies, which will require building up a stock of securities**. While doubtful about the effectiveness of such operations at a time of excess liquidity in the banking system, the CBB agreed that the procedures should be put in place. They shared the mission's view that the creation of additional (government or central bank) paper was preferable to purchases from the market to prevent injecting more liquidity and to safeguard international reserves. In the case of government paper, this would require holding the proceeds in blocked accounts, unavailable to the government. Irrespective of the specific arrangement, the CBB was concerned about fiscal costs of sterilization.



1/ In percent of deposits.

C. Financial Sector Policies: Strengthening Regulation and Supervision

18. **In anticipation of banks' rising exposures to market and cross-border risks, the authorities have taken steps to enhance the prudential regime**. Currently, the banking system appears stable, appropriately capitalized, and resilient to plausible shocks (Table 7). However, as exchange controls are abolished, the risks of foreign-currency mismatches and cross-border spillovers will increase. In line with 2003 FSAP recommendations, the CBB has already issued a number of guidelines, including on AML/CFT, and is consulting with the industry on others aimed at containing excessive exposures (Table 8). An FSAP update is planned for next year.

19. **While financial integration will lead to additional risks, it was agreed that these could be contained by**:

- **Passage and implementation of pending financial sector legislation,** including further revisions to the Financial Institutions Act to clarify large exposure and concentrated lending.

- **Improved regulation and supervision of nonbanks,** including planned guidelines for minimum capital requirements for insurance companies and establishment of the Financial Services Commission, as the single supervisor of the nonbank financial sector.

- **Development of a regional approach to financial regulation and supervision,** including effective mechanisms of cooperation between regional supervisors and a clear delineation of home/host country responsibilities for financial conglomerates that operate across jurisdictions.

IV. Staff Appraisal

20. **The prospects for economic activity in 2007 are favorable but imbalances persist**. The economy is growing at a solid pace, and inflation is expected to decline. However, in the absence of further policy tightening, the wider public sector position is set to weaken, while the external current account deficit is likely to remain sizeable.

21. **Barbados' real effective exchange rate appears to be broadly in line with fundamentals**. The real appreciation of the past two years has lifted the exchange rate somewhat above its estimated equilibrium but neither the small measured overvaluation nor other indicators suggest a current competitiveness problem.

22. **The government's decision to fully liberalize the capital account marks a milestone in its strategy of regional and global integration**. While the removal of remaining controls is unlikely to trigger large market reactions, it does entail medium-term risks. Liberalization heightens the threat of sudden capital reversals that could undermine the peg in the absence of an adequate reserve cushion. Policies should aim to contain these risks.

23. **Fiscal consolidation is needed to bolster international reserves and reduce public debt**. Announced policies are unlikely to achieve the government's debt objective. A more ambitious target of eliminating the public sector deficit, excluding the NIS position, by 2012 would bring the debt ratio on a firmly declining trend. Most importantly, vulnerabilities, arising from high current account deficits and a declining reserve coverage, would be significantly reduced. The government has a range of options to achieve such savings, including reining in future projects, improving tax administration, raising VAT rates and reducing tax exemptions, and adjusting selected utility tariffs. Consolidating the activities of all public entities would facilitate proper planning.

24. **To manage domestic liquidity in a more volatile environment, the CBB is rightly preparing a shift to indirect policy instruments**. Preparations to activate the discount facility as the main vehicle for managing liquidity are progressing well, but to allow time for the market to develop, the minimum deposit rate should be phased out gradually. The authorities are also encouraged to establish procedures for open market operations by creating additional paper that can be used for sterilization purposes.

25. **Plans to improve prudential oversight of the financial sector should be implemented swiftly**. The focus should be on finalizing and implementing pending guidelines and legislation, establishing a strong Financial Services Commission to supervise the nonbank sector, and pressing for an effective supervisory framework at the regional level.

26. **It is recommended to hold the next consultation on the standard 12-month cycle**.

Table 1. Barbados: Selected Economic, Financial, and Social Indicators

I. Social and Demographic Indicators (Most recent year)

Population (people in millions)	0.274	Adult literacy rate	99.4
Per capita GDP (in US$)	12,523	Population share below poverty line	13.0
Life expectancy at birth in years	75.4	Gini coefficient	42.0
Rank in UNDP Development Index	31	Unemployment rate	8.7

Main products/services and exports: Tourism, financial services, rum, sugar, and chemicals

II. Economic Indicators

	2002	2003	2004	2005	Prel. 2006	Proj. 2007	2008
					(Annual percentage change)		
National accounts and prices							
Real GDP	0.6	2.0	4.8	4.1	3.9	4.2	2.7
Deflator	-3.7	6.8	0.0	5.2	6.8	4.6	3.5
Nominal GDP	-3.1	8.8	4.8	9.5	11.0	9.0	6.3
CPI inflation (average)	-1.2	1.6	1.4	6.0	7.3	5.5	3.6
CPI inflation (end of period)	0.6	0.3	4.3	7.4	5.6	4.9	2.3
Domestic demand (contribution to growth)	3.6	1.9	10.9	5.1	-7.1	3.5	1.4
Foreign demand (contribution to growth)	-3.0	0.0	-6.1	-1.0	11.0	0.7	1.3
External sector							
Exports of goods and services	-3.3	10.4	5.5	21.8	12.4	7.7	7.4
Imports of goods and services	-0.3	9.5	14.8	17.9	3.0	8.2	6.8
Real effective exchange rate (average)	-2.4	-4.6	-5.2	1.3	3.8	...	...
Terms of trade	1.2	-0.1	1.4	-0.7	-4.8	-1.9	-1.5
Money and credit (end of period)							
Net domestic assets	8.7	1.3	43.5	14.1	14.2	8.6	6.7
Of which							
Private sector credit	3.3	0.9	16.7	21.7	13.2	7.5	6.3
Public sector credit	-621.4	38.3	33.6	-40.8	-11.4	28.3	11.7
Broad money	10.3	6.5	17.4	6.9	11.3	9.0	6.3
Velocity (GDP relative to broad money)	1.3	1.4	1.2	1.2	1.2	1.2	1.2
Interest rate on deposits (avg in percent per annum)	2.8	2.5	2.3	4.0	4.8	5.2	5.0
Interest rate on loans (avg in percent per annum)	10.4	10.2	9.8	10.3	10.7	11.3	11.1
					(In percent of GDP)		
Public finances							
Nonfinancial public sector overall balance	-10.1	-5.0	1.3	-3.7	0.0	-4.0	-1.6
Central Government							
Revenue and grants	33.9	34.2	32.8	33.7	31.4	31.0	31.1
Expenditure	39.5	36.6	35.3	35.1	33.5	33.3	32.1
Interests	5.4	5.0	4.6	4.7	4.6	4.3	4.7
Balance	-5.5	-2.4	-2.5	-1.4	-2.0	-2.2	-1.0
NIS	2.4	2.4	3.6	3.6	3.9	3.9	4.0
Public enterprises	-1.3	-2.0	-1.0	-4.0	-0.5	-2.3	-2.3
Off-budget activities	-5.7	-2.9	1.3	-1.9	-1.4	-3.3	-2.2
Primary balance	-5.3	-0.3	5.5	0.8	4.5	0.3	3.1
Debt							
External debt 1/	50.5	43.7	44.7	49.2	48.8	50.0	50.2
Public sector	87.8	86.0	87.4	89.0	87.0	88.4	89.0
External	28.5	27.1	27.1	27.7	26.8	27.9	27.3
Domestic	59.3	58.9	60.3	61.3	60.1	60.6	61.7
Savings and investment							
Gross domestic investment	20.8	20.7	23.6	24.1	21.7	21.9	22.1
Public	10.6	8.6	7.2	7.7	5.7	7.0	6.7
Private	10.2	12.1	16.4	16.4	16.0	14.9	15.5
National savings	14.0	14.4	11.2	11.7	13.3	13.3	13.7
Public	0.4	3.6	8.6	4.0	5.7	3.0	5.6
Private	13.6	10.8	2.6	7.7	7.6	10.3	8.1
External savings	6.8	6.3	12.4	12.5	8.4	8.6	8.5
Balance of payments							
Current account	-6.8	-6.3	-12.4	-12.5	-8.4	-8.6	-8.5
Capital and financial account	5.8	8.8	6.9	13.2	7.9	9.2	8.6
Official capital	-0.7	3.2	-1.8	3.3	1.1	2.7	1.5
Private capital 2/	6.5	5.7	8.6	9.9	6.7	6.5	7.0
Of which							
Long-term flows	3.8	5.7	1.2	1.0	4.4	4.6	4.4
Overall balance	-1.0	2.5	-5.5	0.8	-0.5	0.5	0.1
Memorandum items:							
FX denominated debt (in percent of public debt)	32.5	31.5	31.0	31.2	30.9	31.5	30.6
Exchange rate (domestic currency/U.S. dollar)	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Gross international reserves (in US$ millions)	683	752	595	619	600	620	623
Nominal GDP (domestic currency in millions)	4,952	5,390	5,648	6,183	6,863	7,478	7,951

Sources: Central Bank of Barbados; and Fund staff estimates and projections.

1/ Includes public sector and commercial banks' debt; data on nonbank private debt is not available.

2/ Includes short-term and long-term flows, and errors and omissions.

Table 2. Barbados: NonFinancial Public Sector Operations 1/
(In percent of GDP, unless otherwise indicated)

	2002/03	2003/04	2004/05	2005/06	Prel. 2006/07	Proj. 2007/08	Proj. 2008/09
Public sector							
Current revenue	41.1	41.5	41.0	41.6	38.5	38.0	38.1
Current expenditure	38.7	37.4	36.4	36.2	34.7	34.5	33.6
Interest to the private sector	4.8	4.6	4.1	4.6	4.5	4.2	4.7
External	2.1	2.1	1.9	1.7	1.8	1.7	1.9
Domestic	2.7	2.5	2.2	2.9	2.8	2.6	2.8
Capital revenue	2.6	1.9	2.4	2.4	2.5	2.7	2.8
Capital expenditure	9.5	8.0	7.0	9.6	4.9	6.8	6.7
Balance	**-4.5**	**-2.0**	**0.1**	**-1.8**	**1.4**	**-0.6**	**0.7**
Off-budget activity balance	**-5.7**	**-2.9**	**1.3**	**-1.9**	**-1.4**	**-3.3**	**-2.2**
Off-budget investment	-5.7	-2.9	1.3	-1.5	-0.9	-1.0	-1.5
PPPs	0.0	0.0	0.0	0.0	-1.1	-2.5	-0.9
Funds	0.0	0.0	0.0	-0.5	0.5	0.2	0.2
Overall balance	**-10.1**	**-5.0**	**1.3**	**-3.7**	**0.0**	**-4.0**	**-1.6**
Of which : **primary balance**	**-5.3**	**-0.3**	**5.5**	**0.8**	**4.5**	**0.3**	**3.1**
Central government							
Current revenue	33.9	34.2	32.8	33.7	31.4	31.0	31.1
Current expenditure	33.0	32.0	31.4	31.1	29.8	29.6	28.4
Of which : interest payments	5.4	5.0	4.6	4.7	4.6	4.3	4.7
External	2.0	1.9	1.6	1.5	1.5	1.4	1.6
Domestic	3.4	3.2	2.9	3.2	3.1	2.8	3.1
Capital revenue and grants	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Capital expenditure and net lending	6.4	4.7	3.9	4.0	3.7	3.8	3.6
Balance	**-5.5**	**-2.4**	**-2.5**	**-1.4**	**-2.0**	**-2.2**	**-1.0**
National Insurance							
Current revenue	5.9	6.0	6.5	6.6	6.6	6.6	6.6
Current expenditure	5.6	5.4	4.9	5.1	4.9	4.9	5.2
Capital revenue	2.2	1.9	2.0	2.1	2.1	2.2	2.5
Of which: interest revenues from central government	1.3	1.1	1.1	1.1	1.0	1.0	1.1
Capital expenditure	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Balance	**2.4**	**2.4**	**3.6**	**3.6**	**3.9**	**3.9**	**4.0**
Public enterprises balance 1/	**-1.3**	**-2.0**	**-1.0**	**-4.0**	**-0.5**	**-2.3**	**-2.3**
Total financing	**10.1**	**5.0**	**-1.3**	**3.7**	**0.0**	**4.0**	**1.6**
Foreign financing	**-0.9**	**3.5**	**0.8**	**2.6**	**1.4**	**3.1**	**1.0**
Central government	-0.5	2.6	-0.8	2.9	1.4	2.5	0.5
Disbursements	1.2	1.0	0.9	4.6	2.5	1.5	1.0
Amortization	-1.7	-1.8	-1.8	-1.7	-2.1	-1.5	-1.0
Privatization receipts	0.0	3.5	0.0	0.0	0.0	0.0	0.0
Public enterprises	-0.4	0.8	1.6	-0.3	0.0	0.5	0.5
Domestic financing	**11.0**	**1.5**	**-2.1**	**1.2**	**-1.4**	**0.9**	**0.5**
Central government	11.7	2.7	2.1	-0.1	2.5	3.2	2.9
Public enterprises	1.7	1.1	-0.6	4.4	0.5	1.8	1.8
National Insurance Scheme (NIS)	-2.4	-2.4	-3.6	-3.6	-3.9	-3.9	-4.0
Funds	0.0	0.0	0.0	0.5	-0.5	-0.2	-0.2
Memorandum item:							
Nominal fiscal year GDP (In Barbados dollars, mln)	5,062	5,454	5,782	6,353	7,016	7,596	8,061

Sources: Ministry of Finance; and Fund staff estimates.

1/ Fiscal year (April-March). Ratios expressed relative to fiscal-year GDP.

Table 3. Barbados: Public Sector Debt 1/

					Prel.	Proj.	
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	(In millions of Barbados dollars)						
Public sector	**4,446**	**4,693**	**5,053**	**5,656**	**6,102**	**6,716**	**7,177**
External	1,444	1,480	1,566	1,762	1,883	2,116	2,199
Domestic	3,001	3,213	3,486	3,894	4,219	4,600	4,978
Central government	**3,974**	**4,115**	**4,416**	**4,765**	**5,126**	**5,564**	**5,839**
External 2/	**1,335**	**1,325**	**1,317**	**1,535**	**1,656**	**1,849**	**1,892**
Domestic	**2,639**	**2,790**	**3,099**	**3,230**	**3,470**	**3,715**	**3,947**
Short Term	511	587	670	606	635	737	782
Long term	2,128	2,203	2,430	2,624	2,849	2,978	3,166
Government guaranteed	**472**	**579**	**636**	**891**	**976**	**1,152**	**1,337**
External 2/	110	156	249	227	227	267	307
Domestic	362	423	387	664	749	885	1,030
	In percent of GDP						
Public sector	**87.8**	**86.0**	**87.4**	**89.0**	**87.0**	**88.4**	**89.0**
External	28.5	27.1	27.1	27.7	26.8	27.9	27.3
Domestic	59.3	58.9	60.3	61.3	60.1	60.6	61.7
Central government	**78.5**	**75.4**	**76.4**	**75.0**	**73.1**	**73.2**	**72.4**
External 2/	**26.4**	**24.3**	**22.8**	**24.2**	**23.6**	**24.3**	**23.5**
Domestic	**52.1**	**51.2**	**53.6**	**50.8**	**49.5**	**48.9**	**49.0**
Short Term	10.1	10.8	11.6	9.5	9.1	9.7	9.7
Long term	42.0	40.4	42.0	41.3	40.6	39.2	39.3
Government guaranteed	**9.3**	**10.6**	**11.0**	**14.0**	**13.9**	**15.2**	**16.6**
External 2/	2.2	2.9	4.3	3.6	3.2	3.5	3.8
Domestic	7.2	7.8	6.7	10.5	10.7	11.6	12.8
Memorandum items:							
NIS financial assets	31.4	31.8	33.5	34.2	34.8	36.1	38.0
NIS holdings of central government debt	18.7	17.8	16.9	17.0	17.3	18.3	19.2
Public sector debt less NIS assets	56.5	54.3	53.9	54.9	52.2	52.3	51.1
Public sector debt less NIS holdings	69.1	68.3	70.5	72.0	69.6	70.1	69.9
Central government debt less NIS holdings	59.8	57.7	59.5	58.0	55.7	54.9	53.3

Sources: Ministry of Finance; and Fund staff estimates.

1/ Fiscal year (April-March). Ratios expressed relative to fiscal-year GDP.
2/ External debt is all medium- and long-term debt.

Table 4. Barbados: Balance of Payments
(In millions of U.S. dollars)

			Prel.	Proj.					
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Current account	**-350**	**-385**	**-289**	**-322**	**-337**	**-354**	**-370**	**-370**	**-380**
Merchandise trade balance	-971	-1,086	-1,001	-1,124	-1,229	-1,314	-1,399	-1,478	-1,575
Exports of goods and services	1,507	1,836	2,063	2,223	2,387	2,544	2,701	2,870	3,051
Imports of goods and services	1,819	2,144	2,209	2,389	2,552	2,711	2,866	3,020	3,198
Exports	293	379	462	489	511	543	578	617	659
Of which									
Domestic exports	173	211	246	245	251	265	280	297	315
Sugar and molasses	22	22	20	18	14	14	13	13	13
Other	151	188	226	228	237	251	267	284	302
Other exports	15	19	20	21	23	25	26	28	30
Re-exports	105	149	196	222	237	254	272	292	314
Imports	1,264	1,464	1,462	1,613	1,740	1,858	1,977	2,095	2,234
Retained Imports	1,308	1,456	1,433	1,564	1,689	1,803	1,906	2,018	2,139
Other	4.1	0.4	0.0	0.5	0.5	0.5	0.5	0.5	0.5
Imports to re-exports	-48.3	8.3	28.7	48.1	50.6	53.7	70.9	76.0	94.1
Services (net)	660	778	855	958	1,064	1,148	1,234	1,327	1,427
Credit	1,214	1,457	1,602	1,734	1,876	2,001	2,123	2,253	2,392
Of which									
Travel (credit)	776	897	978	1,071	1,171	1,257	1,345	1,440	1,541
Debit	555	680	747	776	812	853	889	926	964
Investment income (net)	-127	-172	-228	-246	-268	-293	-315	-334	-352
Credit	75	85	97	101	107	113	118	124	129
Debit	202	257	325	347	375	406	434	458	481
Of which									
Interest on public debt	53	8	52	55	63	71	75	79	83
Current transfers (net)	88	95	85	90	95	105	110	115	120
Credit	126	162	163	161	171	185	193	202	211
Debit	38	67	78	71	76	80	83	87	91
Capital and financial account	**189**	**384**	**278**	**342**	**340**	**337**	**346**	**352**	**361**
Long-term	-14	133	190	272	235	210	206	212	221
Public sector	-48	102	39	100	60	25	13	10	10
Private sector, *of which*	33	31	151	172	175	185	193	202	211
FDI Flows	33	31	151	172	175	185	193	202	211
Short-term	184	144	108	105	112	134	139	139	139
Public sector	-2	0	0	0	0	0	0	0	0
Private sector	186	145	109	105	112	134	139	139	139
Change in commercial banks assets	19	107	-21	-35	-7	-7	2	1	1
Errors and omissions	**5**	**25**	**-8**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance (deficit -)	**-156**	**24**	**-19**	**20**	**3**	**-18**	**-24**	**-18**	**-19**
Official financing	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Reserve movements ((-) increase)	**156.4**	**-23.9**	**18.8**	**-20.0**	**-2.6**	**17.7**	**23.7**	**17.6**	**18.7**
Memorandum items:									
Current account (percent of GDP)	-12.4	-12.5	-8.4	-8.6	-8.5	-8.4	-8.4	-8.1	-7.9
Exports of G&S (annual growth rate)	5.5	21.8	12.4	7.7	7.4	6.6	6.2	6.2	6.3
Imports of G&S (annual growth rate)	14.8	17.9	3.0	8.2	6.8	6.2	5.7	5.4	5.9
Net international reserves	595	619	600	620	623	605	582	564	545
Gross international reserves (in US $ million)	595	619	600	620	623	605	582	564	545
In months of imports of G&S	3.9	3.5	3.3	3.1	2.9	2.7	2.4	2.2	2.0
In percent of short-term liabilities 1/	103.6	68.0	53.6	51.4	47.3	40.5	36.3	32.6	29.2
In percent of short-term liabilities, excl. banks	271.4	170.9	117.9	103.8	88.3	68.4	58.5	50.5	43.4

Sources: Central Bank of Barbados; and Fund staff estimates and projections.

1/ Includes maturing public sector short-term external debt, banks' short-term foreign liabilities and an estimate of nonbank short-term foreign liabilities based on capital account inflows since 2003.

Table 5. Barbados: Medium-Term Projections—Baseline and Alternative Scenarios

	Prel.	Proj.					
	2006	2007	2008	2009	2010	2011	2012
Baseline Scenario							
	(Annual percentage change)						
National accounts and prices							
Real GDP	3.9	4.2	2.7	2.5	2.5	2.5	2.5
CPI inflation (average)	7.3	5.5	3.6	2.2	2.0	2.0	2.0
	(In percent of GDP)						
Balance of payments							
Current account	-8.4	-8.6	-8.5	-8.4	-8.4	-8.1	-7.9
Capital and financial account 1/	7.9	9.2	8.6	8.0	7.9	7.7	7.5
Overall balance	-0.5	0.5	0.1	-0.4	-0.5	-0.4	-0.4
Gross international reserves (in US$ million)	600	620	623	605	582	564	545
In months of imports of G&S	3.3	3.1	2.9	2.7	2.4	2.2	2.0
In percent of short-term liabilities 2/	53.6	51.4	47.3	40.5	36.3	32.6	29.2
In percent of short-term liabilities, excl. banks	117.9	103.8	88.3	68.4	58.5	50.5	43.4
Public finances							
Nonfinancial public sector overall balance	0.0	-4.0	-1.6	-0.8	0.8	0.9	1.2
Central Government balance	-2.0	-2.2	-1.0	-1.0	-1.0	-1.0	-1.0
Net interest payments	4.6	4.3	4.7	4.9	5.1	5.2	5.3
Off-budget activities	-1.4	-3.3	-2.2	-1.6	-1.3	-1.3	-1.3
NIS	3.9	3.9	4.0	4.3	4.6	4.7	5.0
Public enterprises	-0.5	-2.3	-2.3	-2.5	-1.5	-1.5	-1.5
Primary balance	4.5	0.3	3.1	4.2	6.0	6.3	6.6
Non-NIS primary balance	1.7	-2.6	0.3	1.2	2.8	2.9	3.0
Public sector debt	87.0	88.4	89.0	89.8	89.8	89.9	90.8
Central government debt	73.1	73.2	72.4	71.5	70.9	70.3	70.4
Implicit interest rate on central government debt	6.7	6.2	6.6	7.0	7.3	7.4	7.4
Gross domestic investment	21.7	21.9	22.1	21.9	20.8	20.6	20.6
Public	5.7	7.0	6.7	6.0	4.9	4.6	4.6
Private	16.0	14.9	15.5	16.0	16.0	16.0	16.0
Alternative Scenario							
	(Annual percentage change)						
National accounts and prices							
Real GDP	3.9	4.2	2.5	2.3	2.8	3.0	3.2
CPI inflation (average)	7.3	5.5	3.3	2.0	2.0	2.0	2.0
	(In percent of GDP)						
Balance of payments							
Current account	-8.4	-8.6	-8.2	-7.9	-7.6	-6.9	-6.4
Capital and financial account 1/	7.9	9.2	9.4	8.7	8.4	8.1	7.8
Overall balance	-0.5	0.5	1.1	0.8	0.8	1.2	1.4
Gross international reserves (in US$ million)	600	620	665	698	735	789	857
In months of imports of G&S	3.3	3.1	3.1	3.1	3.1	3.2	3.2
In percent of short-term liabilities 2/	53.6	51.4	50.9	48.4	49.1	50.7	52.8
In percent of short-term liabilities, excl. banks	117.9	103.8	95.6	83.9	83.0	83.5	84.7
Public finances							
Nonfinancial public sector overall balance	0.0	-4.0	-0.1	1.6	3.5	3.9	4.2
Central Government balance	-2.0	-2.2	-0.5	0.0	0.0	0.0	0.0
Net interest payments	4.6	4.3	4.4	4.4	4.2	4.0	3.9
Off-budget activities	-1.4	-3.3	-1.5	-0.7	-0.2	0.0	0.0
NIS	3.9	3.9	3.8	3.9	4.1	4.1	4.3
Public enterprises	-0.5	-2.3	-1.9	-1.7	-0.4	-0.2	0.0
Primary balance	4.5	0.3	4.3	6.0	7.8	7.9	8.2
Non-NIS primary balance	1.7	-2.6	1.5	3.1	4.7	4.8	4.9
Public sector debt	87.0	88.4	87.4	85.6	82.6	79.4	77.3
Central government debt	73.1	73.2	71.2	68.5	65.9	63.2	61.7
Implicit interest rate on central government debt	6.7	6.2	6.2	6.3	6.3	6.2	6.2
Gross domestic investment	21.7	21.9	22.4	21.7	20.6	20.3	20.5
Public	5.7	7.0	6.4	5.4	4.1	3.5	3.3
Private	16.0	14.9	16.0	16.4	16.6	16.8	17.3

Sources: Central Bank of Barbados; and Fund staff estimates and projections.

1/ Includes errors and omissions

2/ Includes maturing public sector short-term external debt, banks' short-term foreign liabilities and an estimate of nonbank short-term foreign liabilities based on capital account inflows since 2003.

Table 6. Barbados: Selected Vulnerability Indicators
(In percent of GDP, unless otherwise indicated)

	2002	2003	2004	2005	Prel 2006	Proj. 2007	Proj. 2008
Real sector indicators							
Tourist sector (value added in sectoral GDP)	15.0	15.7	16.4	15.4	15.1	15.0	15.1
Travel receipts	26.6	28.1	27.5	29.0	28.5	28.6	29.5
Fiscal indicators 1/							
Public sector debt	87.8	86.0	87.4	89.0	87.0	88.4	89.0
Domestic	59.3	58.9	60.3	61.3	60.1	60.6	61.7
External	28.5	27.1	27.1	27.7	26.8	27.9	27.3
Public sector external debt service	3.5	3.8	3.7	1.7	2.9	3.1	2.7
Public sector external debt service, in percent of revenues	8.1	8.8	8.5	3.8	7.1	7.6	6.6
Interest	4.7	4.7	4.3	0.6	3.7	3.6	3.9
Amortization	3.4	4.1	4.2	3.2	3.4	4.0	2.7
External indicators							
Gross international reserves (in millions of US dollars)	683.2	751.7	595.2	619.2	600.4	620.4	623.0
In months of imports	5.7	5.7	3.9	3.5	3.3	3.1	2.9
In percent of short-term liabilities 2/	...	...	103.6	68.0	53.6	51.4	47.3
In percent of short-term liabilities, excl. banks	...	...	271.4	170.9	117.9	103.8	88.3
In percent of narrow money	95.3	98.3	61.5	61.6	53.1	51.6	50.4
External debt 3/	50.5	43.7	44.7	49.2	48.8	50.0	50.2
Of which							
Short-term debt (original maturity)	22.0	16.5	17.7	21.5	21.9	22.1	22.9
External interest payments, in percent of exports 4/	17.1	16.0	10.2	10.1	13.3	13.4	14.2
External amortization payments on public debt, in percent of exports	2.8	3.4	3.4	2.4	2.3	2.7	1.8

Sources: Central Bank of Barbados; and Fund staff estimates and projections.

1/ On a fiscal-year basis, including central government, public enterprises, and National Insurance Scheme.
2/ Includes maturing public sector short-term external debt, banks' short-term foreign liabilities, and an estimate of nonbank short-term foreign liabilities based on capital account inflows since 2003.
3/ Includes public sector and commercial banks' debt; data on nonbank private debt is not available.
4/ Includes interest payments on public and private external debt.

Table 7. Barbados: Financial Sector Structure and Financial Soundness Indicators

	2001	2002	2003	2004	2005	2006
I. Structure of the Financial Sector						
Number of institutions						
Banks 1/	7	6	6	6	6	6
Domestic private banks	1	1	0	0	0	0
Public banks	1	1	0	0	0	0
Foreign banks	5	4	6	6	6	6
Branches	3	2	2	2	2	2
Subsidiaries	2	2	4	4	4	4
Credit unions	41	...	39	38	37	37
Offshore banks 2/	56	56	52	55	54	54
Assets (as percent of GDP)						
Banks	106.0	126.5	126.4	129.8	133.5	132.1
Nonbank fnancial institutions	15.3	16.9	16.1	16.8	20.3	18.5
Credit unions	9.7	11.5	12.0	13.5	14.1	13.7
Offshore banks	1120.9	1323.5	1164.5	1106.6	1048.6	1340.9
II. Selected Financial Soundness Indicators (Onshore Banking Sector)						
Solvency indicators						
Capital adequacy ratio 3/	18.2	18.8	21.3	14.2	12.7	12.3
Leverage (capital, percent of total liabilities) 3/ 4/	10.6	10.0	12.3	10.4	11.1	11.5
Off-balance sheet obligations, percent of liabilities	3.0	2.7	2.3	1.7	2.4	3.2
Liquidity indicators						
Loan to deposit ratio	62.1	56.6	53.0	54.7	58.3	64.5
Demand deposits, percent of total deposits	29.5	39.0	37.9	39.1	38.5	36.6
Liquid assets, percent of total assets 5/	7.4	10.9	15.3	13.3	9.0	4.6
Credit risk indicators						
Total assets, annual growth rate	10.3	15.7	8.7	6.3	13.6	9.3
Loans and advances, annual growth rate	0.7	6.5	-2.3	15.8	22.0	15.5
Total mortgage loans, percent of loans and advances 6/	13.6	15.9	18.9	21.1	21.0	23.1
Nonperforming loans, percent of total loans	5.0	7.9	9.3	7.5	5.5	4.5
Provisions for impaired assets, percent of assets	1.3	0.9	1.2	0.9	0.8	0.7
Sectoral distribution of loans (in percent of total loans)						
Agriculture	2.1	1.6	1.5	1.0	1.1	1.1
Commercial	9.2	9.9	9.5	9.6	9.0	8.8
Construction	8.3	7.8	7.2	7.9	7.7	7.7
Consumer	43.3	40.7	43.3	43.5	44.2	45.8
Industrial	3.4	3.0	3.5	2.9	2.7	2.9
Tourism and entertainment	12.0	12.6	14.6	11.9	13.6	12.0
Others	21.8	24.4	20.4	23.1	21.6	21.8
Foreign exchange risk indicators						
Deposits in Foreign Exchange, percent of total deposits 7/	11.0	15.8	13.2	14.4	16.7	14.2
Net foreign assets, percent of total assets	7.5	11.0	13.5	12.7	11.6	9.6
Profitability indicators						
Profit before tax, percent of total assets 8/	2.2	2.7	2.0	2.2	1.9	2.4
Total noninterest expense, percent of total assets 8/	3.7	3.0	3.2	3.4	3.2	2.9
Spread between lending rate and deposit rate 9/	8.0	7.7	7.6	7.3	6.5	5.8
Memorandum items:						
Banks' mortgage loans (BDS$ millions)	370.5	462.1	541.7	666.3	858.1	1089.1
Trust & mortgage companies ' mortgage loans (BDS$ millions)	415.3	417.2	410.4	397.8	389.4	415.8
Credit unions' mortgage loans (BDS$ millions)	98.4	123.0	146.9	183.3	261.5	296.4
Banks' mortgage loans, annual growth rate	26.2	24.7	17.2	23.0	28.8	26.9
Credit unions' mortgage loans, annual growth rate	7.3	25.1	19.4	24.8	42.6	13.3

Sources: Central Bank of Barbados.

1/ As of Dec 2005, the two foreign branches are Bank of Nova Scotia and Royal Bank of Canada; and the four foreign subsidiaries are Barbados National Bank, Butterfield Bank, RBTT Bank, and First Caribbean International Bank.
2/ Offshore banks managed 791 trusts and 323 employees at end-2005, and 800 trusts and 298 employees at the end of 2001.
3/ Does not include branches of foreign banks.
4/ Tier-I capital.
5/ Sum of excess cash reserve requirements and excess of the statutory requirement to invest in government securities in percent of total assets.
6/ Other loans, including personal loans, may be used to finance real estate activities.
7/ It includes both resident and non-resident deposits in foreign currency.
8/ Year 2002 includes only five licensed commercial banks.
9/ This spread does not fully reflect the intermediation margin due to fees, commissions, etc.

Table 8. Barbados—Follow-Up on Key Recommendations of the 2003 FSAP

FSAP Recommendations	Status as of July 2007
Banking Sector	
Financial Institutions Act: The FIA should be amended to strengthen the independence of CBB, impose aggregate limits on large exposure and connected lending, facilitate license revocation and distressed bank resolution, and require CBB's prior approval of the external auditor for licensees.	A number of amendments to the FIA were enacted in 2006, including those that related to the sharing of information with local regulators, the approval of auditors for banks, and additional powers for the CBB to refuse or revoke licenses. The authorities are currently working on amendments on large exposure limits and concentrated lending. The CBB has also issued guidelines on corporate governance, operational risk, and revised AML/CFT. Others, such as on managing market risk, liquidity risk, foreign exchange and settlement risk, and stress testing, are being discussed with the banking sector and are expected to be issued by end-2007.
On-site examinations: Supervisory resources of the CBB should be boosted to enable it to conduct regular onsite examinations of all onshore and offshore banks on an 18–24 months cycle.	The on-site examination program is being adapted to implement a risk-based supervisory framework.
Deposit Insurance Act: The potential for financial instability may be contained by a well designed deposit insurance scheme in a properly supervised banking system.	Legislation establishing a deposit insurance system for bank deposits was enacted in 2006, and a Board has been put in place to oversee the operations of the deposit insurance fund.
Credit Unions	
CBB assisted on site examinations: A high priority should be assigned to completing the CBB assisted on site examinations of the five large credit unions and such examinations should be made regular	In 2006, the CBB participated in risk-focused inspections of large credit unions in conjunction with the Registrar of Cooperatives.
Credit Union Law: Consideration could be given to introducing a separate credit unions law in light of the experience gained with these examinations. In the meantime, the capacity of the Registrar of Cooperatives to effectively supervise credit unions should be strengthened	Plans are advanced to establish a Financial Services Commission which will bring under one roof the supervision of all nonbank institutions, including the insurance companies, credit unions, and the stock exchange. It is expected that such legislation will be passed in by mid- 2008.
Insurance Sector	
Supervisory resources: Supervisory resources need to be increased to allow the instigation of an on-site inspection process supported by a more analytical off-site review using timely and sufficiently detailed returns from companies.	Four more supervisory positions were created in 2006, but have yet to be filled.
Solvency margins: A solvency margin requirement can be developed for life insurance companies which, if supplemented by a review of provisioning rules and asset requirements will greatly improve the regulatory framework.	Legislation regarding a minimum continuing capital and surplus requirements for life insurance companies, and a minimum capital test for regulated general insurance companies, is yet to be submitted to, and voted upon, by Parliament.
Circulars: The development of several circulars would codify presumed understandings between market participants and the supervisor. In particular, attention to corporate governance and internal controls would offer ready improvement. Such circulars would assist in ensuring that reputational risk is minimized.	Circulars covering segregated cell companies and imposing fines for the late submission of required information by the industry is expected to be issued by end-2007.
Independence and Transparency*:* The supervisor has not published information about the operations of the office or the market. A draft has been prepared. Improved transparency would promote independence and would be the most cost effective way to deliver better compliance with the core principles.	The Financial Services Commission (the single regulatory agency of the nonbank sector), which is expected to be approved by mid-2008, will increase the independence and transparency of the regulation of the insurance sector.
Capital Markets	
Securities Commission: The well drafted legislation and the authorities' efforts to promote a more efficient and transparent market have been reflected in the assessment of the IOSCO Principles. However, the SC is not yet fully staffed or operational.	The inspection and enforcement of the Security Act has improved since the Securities Commission became fully operational in 2003.
Securities settlement period: Securities clearing and settlement should move toward DVP principles and T+3 settlement cycle.	Effective January 1st 2006, the securities clearing and settlement cycle was reduced to T+3, or three business days after trade day.

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September 13, 2007

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IMF Executive Board Concludes 2007 Article IV Consultation with Barbados

On September 10, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Barbados.[1]

Background

Barbados has one of the highest per capita incomes in the region, ranks high on social, political, and competitiveness indicators, and enjoys an investment grade rating. Services, particularly tourism and increasingly financial services, account for three-quarters of GDP and an even higher share of exports.

The economy has been growing at a solid pace, and the outlook for this year is generally favorable. Robust output growth of about 4 percent is expected to continue this year, supported by tourism and construction. Inflation, which was pushed up in 2006 by higher energy prices and a temporary import surcharge, is set to decelerate to 5½ percent in 2007. However, the current account deficit, despite having narrowed in 2006, is still high and projected to remain unchanged at about 8½ percent of GDP.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

Macroeconomic policies were tightened significantly in 2006. Nominal interest rates were raised in line with U.S. rates, and even though real interest rates declined, financial conditions tightened as a result of an appreciating real exchange rate. More importantly, the combined public sector position strengthened by 3¾ percentage points of GDP to achieve a balance in 2006. This year, however, the public finances are projected to return to a deficit of 4 percent of GDP, reflecting mainly a number of large-scale government projects.

Discussions took place against the backdrop of the government's decision to liberalize the capital account, starting next January vis-à-vis other Caribbean countries. This move reflects a commitment under the CARICOM Single Market and Economy (CSME), and the government has announced that liberalization with respect to all other countries will follow as soon as practical thereafter. At the same time, it remains firmly committed to the dollar peg, which has been in place since 1975.

Executive Board Assessment

Executive Directors welcomed Barbados' strong economic performance and the favorable near-term outlook for economic activity and inflation. Looking forward, Directors observed that the authorities should be prepared to tighten fiscal policies in order to improve the public sector position and reduce the large current account deficit.

Directors generally regarded the announced liberalization of the capital account as a milestone in the government's strategy of regional and global integration. They noted that, while the removal of remaining controls is not expected to trigger large immediate market reactions, liberalization does entail medium-term risks. In particular, sizeable current account deficits financed by short-term capital inflows could heighten the risk of sudden capital account reversals and challenge the credibility of the peg or force sharp and disruptive policy adjustments. Directors agreed that Barbados' real exchange rate currently appears to be broadly in line with fundamentals, and stressed the importance of continued sound policies to maintain competitiveness and contain risks. Sufficient internal economic flexibility will be needed to allow the real effective exchange rate to continue to move in line with the equilibrium over time.

Directors welcomed the government's commitment to fiscal consolidation and to a reduction in the public debt. Given the government's debt objective and the importance of reducing vulnerabilities arising from high current account deficits and a declining trend in international reserve coverage, they observed that fiscal policy needs to be strengthened further, while acknowledging the authorities' commitment to take additional steps should risks materialize.

An early tightening of policies would reduce the risks of stronger and more disruptive adjustments later. Directors saw a range of options for the government to achieve fiscal savings, including reining in future public projects, raising VAT rates, reducing tax exemptions, and adjusting selected utility tariffs. Directors also encouraged the authorities to consolidate the activities of all public entities in the budget presentation to facilitate proper planning.

Directors welcomed the authorities' recognition that market-based monetary policy instruments will need to be developed to effectively manage domestic liquidity in a more challenging open capital account environment. In this connection, they supported the authorities' intention to liberalize domestic interest rates and stimulate banks' use of the discount window. They recommended a gradual phasing out of the minimum deposit rate and encouraged the authorities to also put in place procedures for conducting open market operations.

Directors also noted that capital account liberalization will expose the financial sector to greater volatility and risk taking, and thus will require stronger prudential regulation and supervision. Directors welcomed the progress being made on containing financial risks in the banking sector and encouraged the authorities to proceed with the speedy passage and implementation of pending financial sector legislation, and improved prudential oversight of non-bank financial institutions, and encouraged the development of a regional framework for financial regulation and supervision.

Barbados: Selected Economic Indicators

	2002	2003	2004	2005	Prel 2006	Proj. 2007	Proj. 2008
			(Annual percentage change)				
Output and prices							
Real GDP	0.6	2.0	4.8	4.1	3.9	4.2	2.7
Consumer prices (12-month increase)	-1.2	1.6	1.4	6.0	7.3	5.5	3.6
Unemployment	10.4	11.1	9.6	9.1	8.7	8.4	9.0
Money and credit							
Net domestic assets	8.7	1.3	43.5	14.1	14.2	8.6	6.7
Of which	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector credit	3.3	0.9	16.7	21.7	13.2	7.5	6.3
Public sector credit	-621.4	38.3	33.6	-40.8	-11.4	28.3	11.7
Broad money	10.3	6.5	17.4	6.9	11.3	9.0	6.3
			(In percent of GDP)				
Public sector operations 1/							
Overall balance	-10.1	-5.0	1.3	-3.7	0.0	-4.0	-1.6
Central government balance	-5.5	-2.4	-2.5	-1.4	-2.0	-2.2	-1.0
Off-budget activities	-5.7	-2.9	1.3	-1.9	-1.4	-3.3	-2.2
National Insurance Scheme balance	2.4	2.4	3.6	3.6	3.9	3.9	4.0
Public enterprises balance	-1.3	-2.0	-1.0	-4.0	-0.5	-2.3	-2.3
Primary balance	-5.3	-0.3	5.5	0.8	4.5	0.3	3.1
Public sector debt 2/	87.8	86.0	87.4	89.0	87.0	88.4	89.0
Central government debt	78.5	75.4	76.4	75.0	73.1	73.2	72.4
External sector							
External current account balance	-6.8	-6.3	-12.4	-12.5	-8.4	-8.6	-8.5
Public sector external debt 2/	28.5	27.1	27.1	27.7	26.8	27.9	27.3
Gross international reserves (in millions of U.S. dollars)	683	752	595	619	600	620	623

Sources: Barbadian authorities; and IMF staff estimates.
1/ Fiscal year (April–March).
2/ Includes central government and government guaranteed debt.