GOVERNMENT OF BARBADOS

MEDIUM TERM DEBT MANAGEMENT STRATEGY

Fiscal Year 2024-2025 to 2026-2027

DEBT MANAGEMENT UNIT. MINISTRY OF FINANCE, ECONOMIC AFFAIRS AND INVESTMENT

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LIST OF ABBREVIATIONS

ATM – Average Term to Maturity

ATR – Average Time to Re-fixing

BOSS Plus – Barbados Optional Savings Bonds Plus

CAF – Corporación Andina de Fomento

CBB – Central Bank of Barbados

CDB – Caribbean Development Bank

CCRIF – Caribbean Catastrophe Risk Insurance Facility

DMU – Debt Management Unit

DSA – Debt Sustainability Analysis

EFF – Extended Fund Facility

FX – Foreign Exchange

GDP – Gross Domestic Product

IADB – Inter-American Development Bank

IMF – International Monetary Fund

IR – Interest Rate

MFEI - Ministry of Finance, Economic Affairs and Investment

MTDS – Medium-Term Debt Strategy

NIB – National Insurance Board

PBL – Policy Based Loan

RSF – Resilience and Sustainability Facility

S1 – Strategy 1

S2 – Strategy 2

S3 – Strategy 3

S4 - Strategy 4

SDR – Special Drawing Rights

ST – Short Term

SOFR – Secured Overnight Financing Rate

T-Bills – Treasury Bills

T-Notes – Treasury Notes

MINISTER'S STATEMENT

In accordance with the Public Finance Management Act, 2018, the Minister responsible for Finance shall present a Medium-Term Debt Management Strategy with the Annual Budget to Parliament. The Medium-term Debt Management Strategy shall be consistent with the following fiscal responsibility principles:

(i) achieving and maintaining a prudent level of public debt;
(ii) managing fiscal risks in a prudent manner; and
(iii) pursuing macro-economic stability, inclusive growth and intergenerational equity.

In seeking to satisfy Government's financing needs, the MTDS evaluates the costs associated with various forms of available financing within a framework that is consistent with an acceptable level of risk. It is reflective of our commitment to reduce the debt-to-GDP ratio to 60 percent by 2035/2036 and the associated policy reform efforts articulated in the Barbados Economic Recovery and Transformation Plan 2022.

The publication of this MTDS seeks inter alia to continue enhance debt transparency and accountability, while providing greater context around Government's borrowing decisions. The Borrowing Plan for 2024-2025 seeks to capitalize on the liquidity in the domestic market, as well as the strong relationships built with official sector development partners.

Minister responsible for Finance

EXECUTIVE SUMMARY

The Medium Term Debt Strategy 2024/2025 to 2026/2027 is the Government of Barbados' plan aimed at achieving the desired composition of the debt portfolio over the stated period. Public debt ratios have resumed a downward trajectory following Government's policy response to address the weaker revenues and higher expenditure outlays resulting from managing the effects of the global pandemic COVID-19, as well as the impact from the natural disasters.

Barbados is in the second year of a 36 month successive IMF Extended Fund Facility (EFF) program. The EFF combined with funding from the Resilience and Sustainability Facility (RSF) continue to assist in supporting the successful implementation of the Barbados Economic Recovery and Transformation Plan 2022. To date, this second program has unlocked approximately USD122.5 million (SDR 99.2million) in funding from the IMF and continues to help the Government to access concessional funding from multilateral development banks and bolster the reserves.

Public debt as a share of GDP is expected to continue to fall throughout the forecast period from 114.3% at end March 2024 to approximately 97.7% at end March 2027. This decline, which is forecast to be driven by robust growth of more than 3% per annum in real terms as well as strong fiscal discipline, is critical to achieving buffers for the country in the case of shocks.

The debt stock currently has low refinancing risk, with the majority of domestic debt held in stepped rate bonds which amortize over an extended period and the external debt portfolio consisting primarily of multilateral loans along with a sovereign bond which amortizes over five years.

The stock of debt remains a source of vulnerability. Debt service costs have increased as a result of the higher interest rates on external multilateral debt as well as scheduled payments on the restructured debt obligations.

The focus of the public debt strategy during the period will be to maintain the current average maturity of the debt stock through medium to long-term domestic debt issuance. This policy will build on the ongoing economic consolidation, successful restart of the Treasury Bill market, liquidity to be provided through scheduled amortizations and debt swaps, and improving confidence in the Government's credit profile.

OBJECTIVES AND SCOPE

1. The principal objectives for debt management in Barbados are to:
   (i) ensure that the Government's financing needs and payment obligations are met on a timely basis;
   (ii) ensure that the Government's financing needs are met at the lowest possible cost;
   (iii) ensure that the Government's financing needs are met within a framework that is consistent with an acceptable level of risk;
   (iv) ensure that public debt levels are put on a downward trajectory towards sustainability with a long term debt to GDP target of 60 percent by 2035/2036; and
   (v) develop the domestic securities market.

2. This debt management strategy covers the period commencing fiscal year 2024-2025 to 2026-2027. The scope for coverage is public debt defined as Central Government debt, guaranteed debt and Central Government arrears. External debt is defined by currency.

REVIEW OF DEBT MANAGEMENT STRATEGIES

3. Barbados' 2023-2024 to 2025-2026 debt management strategy which was predicated on utilizing majority external official sector funding to meet gross financing needs materialized largely as envisaged. Inflows from PBLs and the disbursements from the IMF were as projected, however, there was a shortfall in disbursements from investment loans compared to what was forecast, as some projects experienced delays. This shortfall in multilateral investment loans was offset by increased domestic securities issuance, particularly T-Bills, as there was a strong demand, once regular issuance recommenced.

4. Concerted efforts will continue to be made to (i) avoid bunching of debt maturities, thus minimizing unnecessary pressure on either revenue or foreign reserves; (ii) make greater use of amortized debt payment schedules; (iii) seek to refinance debt at lower interest rates, where possible; and (iv) increase sources of official financing at extended maturities.

RECENT DEVELOPMENTS IN PUBLIC DEBT

IMF Arrangement

5. Barbados entered the second year of its 36-month EFF with the IMF and subsequently accessed approximately USD38.0 of the approved USD 113.0 million under the EFF, as well as received the first, approximately USD72.5 million, of its disbursements of the USD 189 million approved under the RST. The credibility of this second Program combined with the continued successful execution of a broad set of identified reform measures, act as a catalyzing agent in unlocking financing from other international financial institutions.

Climate Resilience Mitigation Strategies – Extension of Natural Disaster Clauses

6. Barbados continues to proactively adopt strategies for building climate resilience into its debt portfolio. In this regard, it extended instruments to be covered by natural disaster and pandemic clauses with the enactment of the Barbados Optional Savings Bonds Plus (Offer to the Public) (Amendment) Act, 2023–9 and the Debt (Natural Disaster and Pandemic Deferment of Payment) (Miscellaneous Provisions) Act, 2024-9. Through a consequential amendment, the existing pieces of debt legislation at Appendix 1 were amended so that future borrowings made under these Acts will include provisions for the deferment of principal and interest, subject to certain conditions, in the event of the occurrence of a natural disaster or pandemic event.

Multilateral Borrowing

7. In the last year, Barbados has increased its external borrowing by approximately BBD921.8 million, to assist inter alia with much needed budgetary support geared towards managing the residual health (human) and economic fallout from the effects of the global pandemic COVID-19, as well the country's efforts towards building climate resilience.

BOSS Plus II

8. Another BBD 200.0 million 4.5% issuance of BOSS Plus (II) bonds was opened and made available to the public.

Credit Rating

9. In October 2023, Standard and Poor's revised Barbados' long-and short-term local currency and foreign currency ratings to B- with a positive outlook, while Fitch Ratings affirmed its "B" rating for Barbados' long-term foreign currency denominated debt.

Restart of Domestic Market – Treasury Bills

10. In September 2023, the Government successfully restarted its Domestic Capital Market Operations through the issuance of regularly scheduled Treasury Bills. In January 2024, a non-competitive window was introduced to make it easier for individual investors to invest, while allowing for the gradual widening of the investor base. This optional mechanism, which has been well utilized, allows individuals to submit bids for the amount and tenor of Treasury Bills that they wish to purchase, without specifying a tender rate. They may then be allocated the amount tendered at the average rate of the successful competitive bidders.

Reverse Auction

11. In February 2024, the GOB launched a Reverse Auction targeting the repurchase of some of its Series D bonds. This initiative was intended to help stimulate the secondary market and investment activity in Government securities, while providing a market for bondholders who were desirous of selling their securities to increase liquidity or to invest in alternative assets.

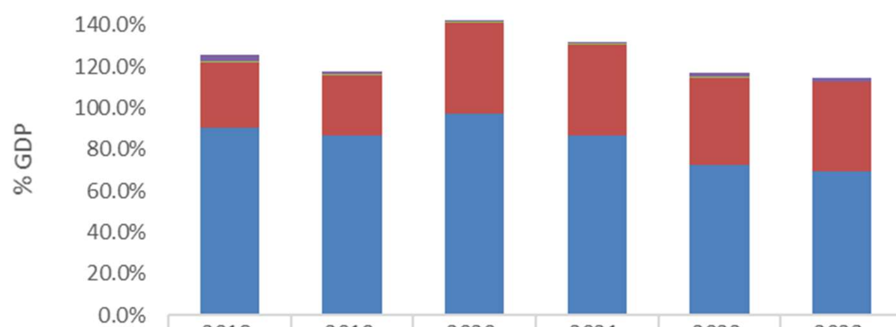
12. The Reverse Auction was successfully concluded on March 8, with settlement made on March 15, 2024. The first of its kind, the auction received a high degree of interest from bondholders, with approximately 12% of the outstanding bonds offered for repurchase. Auction pricing was highly competitive with the Government accepting the lowest priced offers of up to $2.0 million.

CHARACTERISTICS OF THE EXISTING DEBT PORTFOLIO

Central Government Debt

13. At March 2024, public debt stood at approximately BBD14,903.6 million compared to BBD14,278.4 million at March 2023 (see Table 1). This represents an increase of approximately BBD625.2 million in nominal terms. The increase is primarily attributed to an expansion in multilateral borrowing geared towards supporting policy based reform programs and climate resilience, as well as efforts to restart the domestic securities market with regular issuance of T-Bills. As displayed in Figure 1 below, public debt as a share of GDP continues to decrease, falling from approximately 117% at March 2023 to 114.3% at March 2024.

Figure 1: Central Government and Guaranteed Debt (% of GDP)



	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
CG Arrears	2.9%	1.5%	0.9%	0.2%	2.1%	1.8%
Guaranteed	1.0%	0.6%	0.6%	0.5%	0.3%	0.2%
External	31.7%	29.4%	43.7%	44.1%	42.0%	43.2%
Domestic	90.1%	86.4%	97.3%	86.5%	72.6%	69.2%

Source: Ministry of Finance, Economic Affairs and Investment

14. Domestic debt (excluding arrears) increased from BBD8,860.4 million at March 2023 to BBD9,016.5 million at March 2024, an increase of BBD156.1 million. The increase is primarily attributable to the restart of T-Bills issuance. These new T-Bills complement the 2018 restructured fixed rate T-Bills[1] held by commercial banks and the Central Bank, which continue to be rolled over every 90 days. Domestic debt accounted for approximately 60.5 % of total debt. The domestic debt portfolio is mainly comprised of securities, of which the NIB is the single largest holder (See Figure 2). A classification of public debt by instrument type is shown in **Table 1** below.

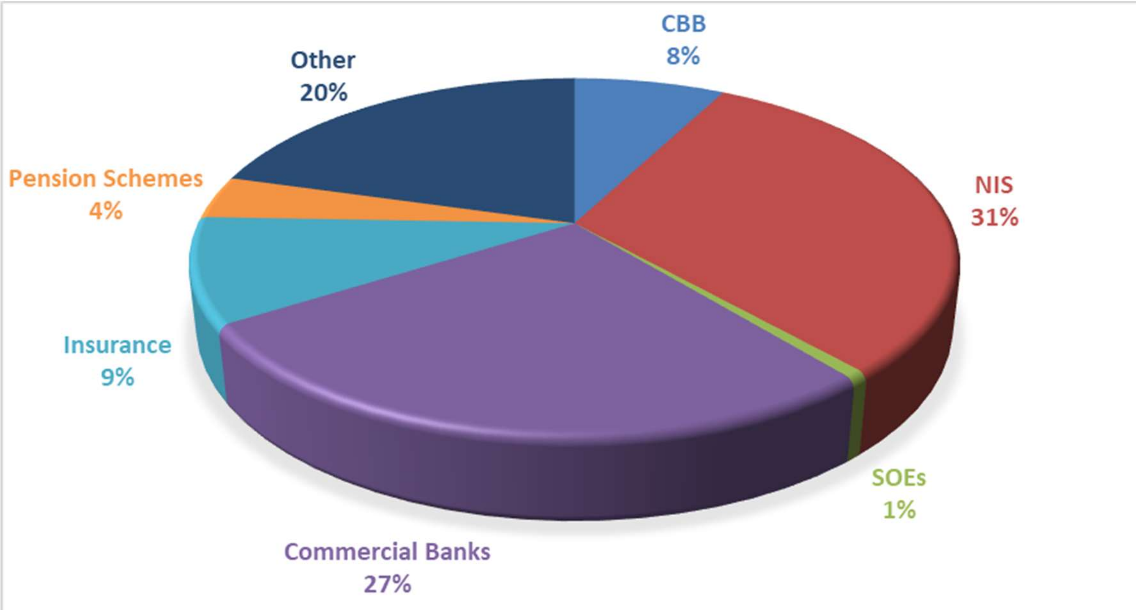
[1] The interest rate is fixed for the first 10 years, thereafter subject to market rates.

Table 1: Total Debt Stock by Instrument Type

	Mar-23		Mar-24		Change
	BBD$M	% Total Debt	BBD$M	% Total Debt	BBD
External Debt	**5,124.3**	**35.9%**	**5,627.3**	**37.8%**	**503.0**
Bonds	*1,071.4*		*1,070.0*		
- Sovereign Bonds	1071.4	7.5%	1,070.0	7.2%	(1.5)
Multilateral Loans	*3,340.1*	*23.4%*	*3,865.2*	*25.9%*	*525.1*
- CDB	469.4	3.3%	439.5	2.9%	(29.9)
- IADB	1499.6	10.5%	1,849.3	12.4%	349.6
- EEC	22.4	0.2%	42.3	0.3%	19.9
- IBRD	442.9	3.1%	440.0	3.0%	(2.9)
- CAF	357.4	2.5%	345.3	2.3%	(12.2)
- IMF	548.4	3.8%	748.9	5.0%	200.5
Bilateral Loans	*376.3*	*2.6%*	*384.9*	*2.6%*	*8.6*
- EXIM Bank of China	312.5	2.2%	335.3	2.2%	22.8
- Citibank NA	63.8	0.4%	49.6	0.3%	(14.2)
Commercial Loans	*336.5*	*2.4%*	*307.2*	*2.1%*	(29.3)
- Barbados Correction Corp. (Prison Proje	190.0	1.3%	160.7	1.1%	(29.3)
-MTFA BB Blue DAC USD	146.5	1.0%	146.5	*1.0%*	*0.0*
Domestic Debt	8,860.4	**62.1%**	9,016.5	**60.5%**	**156.1**
Securities	8,546.7	**59.9%**	8,714.8	**58.5%**	**168.1**
- Treasury Bills	495.1	3.5%	667.7	4.5%	172.6
- Bonds (inc'd restructured)	7918.0	55.5%	7923.8	53.2%	5.8
-Other Bonds	101.3	0.7%	101.3	0.7%	0.0
- Savings Bonds & Tax Certificates	32.3	0.2%	22.0	0.1%	(10.3)
Temporary Borrowings (Overdraft)	167.2	1.2%	155.2	1.0%	(12.0)
Commercial Loans					
-MTFA BB Blue DAC BBD	146.5		146.5	1.0%	-
Guaranteed Debt (External)	**36.2**	**0.3%**	**26.3**	**0.2%**	**(9.9)**
- Multilateral Loans	9.0	0.1%	3.0	0.0%	(6.0)
- Bonds	27.2	0.2%	23.3	0.2%	(3.9)
CG Arrears	257.5	1.8%	233.4	1.6% -	24.0
Total	**14,278.4**	100.0%	**14,903.6**	100.0%	625.2

Source: Ministry of Finance, Economic Affairs and Investment

Figure 2: Domestic Debt by Holder



Source: Central Bank of Barbados and Ministry of Finance, Economic Affairs and Investment

15. At March 2024 external debt stood at approximately BBD5,627.3 million, an increase of BBD503.0 million when compared to the period ending March 2023. This increase is primarily attributed to additional official sector borrowing, including PBLs geared towards supporting policy based reform programs to strengthen the effectiveness and efficiency of social policies and sustainability of social security (ii) improve the country's governance for sustainability through the strengthening and modernization of the regulatory framework and (iii) green and blue resilient recovery and macroeconomic support in accordance with the EFF and RSF and bolstering climate resilience. External debt accounts for approximately 38.0% of total debt. As is evident in Table 1 above, the majority of external debt is comprised of loans from official sources, including the Inter-American Development Bank, Caribbean Development Bank, CAF, IMF and Export Import Bank of China and sovereign bonds.

Central Government Arrears

16. At March 2024 Central Government's stock of domestic arrears stood at approximately BBD233.4 million, a decrease of approximately BBD24.0 million from the previous year.

Government Guaranteed Debt

17. External guaranteed debt stood at BBD26.3 million at March 2024, a decrease of BBD9.9 million from the previous year, due to scheduled amortizations. No new guarantees were extended.

COST AND RISK CHARACERISTICS OF THE EXISTING DEBT PORTFOLIO

18. There will be some degree of risks inherent in any debt portfolio and corresponding costs associated with addressing said risks. Active portfolio management requires, inter alia, identifying the risks and developing strategies, which have taken account of any constraints, in order to mitigate the risks. In doing so, any undue cost are avoided and potential losses minimized.

Box 1: Risk Definitions

Interest rate risk

Interest rate risk refers to the vulnerability of the debt portfolio, and the cost of Government debt, to higher market interest rates at the point at which the interest rate on variable rate debt and fixed rate debt that is maturing is being re-priced.

Refinancing (roll-over) risk

Refinancing risk captures the exposure of the debt portfolio to unusually higher interest rates at the point at which debt is being refinanced; in the extreme, when this risk is too high it may not be possible to roll over maturing obligations.

Foreign exchange rate risk

Foreign exchange risk relates to the vulnerability of the debt portfolio, and the government's debt cost, to a depreciation/devaluation in the external value of the domestic currency.

Source: Developing a Medium-Term Debt Management Strategy (MTDS) - Guidance Note for Country Authorities – IMF/World Bank.

Risk Indicators

Table 2: Cost and Risk Indicators as at March 31, 2024

	Mar-23	Mar-24	Change
Amount (in millions of BBD)			
Domestic	9,117.9	9,250.0	132.1
External	5,160.5	5,653.7	493.2
Total	14,278.4	14,903.6	625.2
Nominal debt as percent of GDP			
Domestic	74.7	71.0	(3.75)
External	42.3	43.4	1.1
Total	117.0	114.3	(2.66)
Cost of Debt			
Domestic			
Interest payment as percent of GDP	3.0	3.3	0.2
Weighted Av. IR (percent)	4.0	4.6	0.6
External			
Interest payment as percent of GDP	2.6	2.5	(0.12)
Weighted Av. IR (percent)	6.2	5.8	(0.43)
Total			
Interest payment as percent of GDP	5.6	5.8	0.2
Weighted Av. IR (percent)	4.8	5.1	0.3
Refinancing risk			
Domestic			
Average Time to Maturity (years)	12.0	11.1	(0.90)
Debt maturing in 1yr (percent of total)	4.9	7.8	2.9
Debt maturing in 1yr (percent of GDP)	3.7	5.5	1.8
External			
Average Time to Maturity (years)	6.8	6.9	0.1
Debt maturing in 1yr (percent of total)	4.3	4.3	0.0
Debt maturing in 1yr (percent of GDP)	1.8	1.9	0.0
Total			
Average Time to Maturity (years)	10.1	9.5	(0.63)
Debt maturing in 1yr (percent of total)	4.6	6.5	1.8
Debt maturing in 1yr (percent of GDP)	5.6	7.4	1.8

	Mar-23	Mar-24	Change
Interest rate risk			
Domestic			
Average Time to Refixing (years)	10.9	10.0	(0.88)
Debt refixing in 1yr (percent of total)	10.3	13.1	2.8
Fixed rate debt incl T-bills (percent of total)	100.0	100.0	-
T-bills (percent of total)	5.4	7.2	1.8
External			
Average Time to Refixing (years)	2.1	1.7	(0.36)
Debt refixing in 1yr (percent of total)	66.3	69.7	3.4
Fixed rate debt incl T-bills (percent of total)	35.1	31.6	(3.52)
T-bills (percent of total)	-	-	
Total			
Average Time to Refixing (years)	7.7	6.9	(0.85)
Debt refixing in 1yr (percent of total)	30.5	34.6	4.1
Fixed rate debt incl T-bills (percent of total)	76.5	74.0	(2.50)
T-bills (percent of total)	3.5	4.5	1.01
FX Risk			
FX debt (percent of total debt)	36.1	37.9	1.8
ST FX debt (percent of reserves)	6.8	7.5	0.6

The above cost/risk indicators do not take account of (i) BBD495M in Monetary Policy Treasury Bills, which are rolled, as agreed under the terms of the 2018 Domestic Debt Exchange and (ii) Government's overdraft at the CBB, which had a limit of BBD220.6 million. These were excluded to avoid artificially increasing the refinancing risk.

19. **The weighted-average cost of the overall portfolio is around 5.1%** (See Table 2). This is due largely to the increases in the SOFR, which continued to rise during the year, albeit at a slower rate. During the financial year, the US Fed increased interest rates by 475 bps. This rate increase, combined with a greater share of external (multilateral) debt and contractual interest rate step-ups on domestic debt, resulted in the average cost of the portfolio increasing from the 4.8% at the end of FY 2023 to 5.1% at the end of FY 2024.

20. **Refinancing risk is relatively low** (Table 2). The portfolio average time to maturity is 9.5 years. Domestic debt has an average time to maturity of 11.1 years compared to 6.9 years for external debt. Approximately 6.5% of the total debt stock, BBD962.0 million will be refinanced in the next 12 months. Around 4.3% of external debt, approximately BBD243.0 million, will mature in the next 12 months. In contrast, 7.8% of domestic debt, approximately BBD719.0 million will mature in the next 12 months.

21. The 2018 restructured T-Bills held by the Central Bank of Barbados, commercial banks and other financial institutions are designed to be rolled over every ninety days. Regular T-Bills are normally issued for ninety-one and one hundred and eighty-two days.

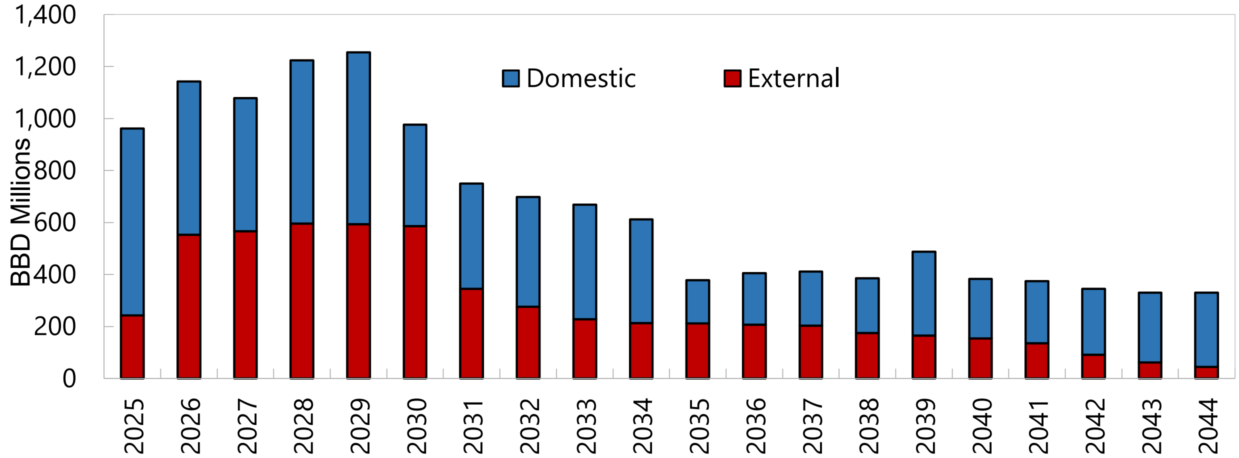
22. **Foreign exchange risk remains at a manageable level.** Currently, the majority of external debt is denominated in US dollars. Since the international reserves and export receipts are also denominated in US dollars this continues to act as a natural hedge. The implementation of the Barbados Economic Recovery and Transformation plan assists in managing pressure on the exchange rate by reducing fiscal deficits in the short term and maintaining an anchor for responsible fiscal policy over the medium term. The EFF continues to provide access to foreign exchange reserves and improved credibility with official and private sector creditors.

23. **Interest rate risk**. The increased multilateral debt in the portfolio carries variable interest rates, which results in 69.7% of external debt refixing in one year as at March 2024, compared to 66.3% at March 2023. SOFR is the reference rate for the majority of the variable rate external loans. Elevated interest rates continued to increase but at a slower pace in the last year. Market projections of the US forward rates predict that rates will fall generally (see Appendix 4). However, overall the majority of the debt portfolio, approximately 74.0%, carries a fixed rate structure (Table 2, Figure 5). This is attributable mainly to the domestic stepped-up amortizing bonds and fixed rate T-Bills, as well as the fixed rate sovereign bond and external loan.

Redemption Profile of Total Public Debt

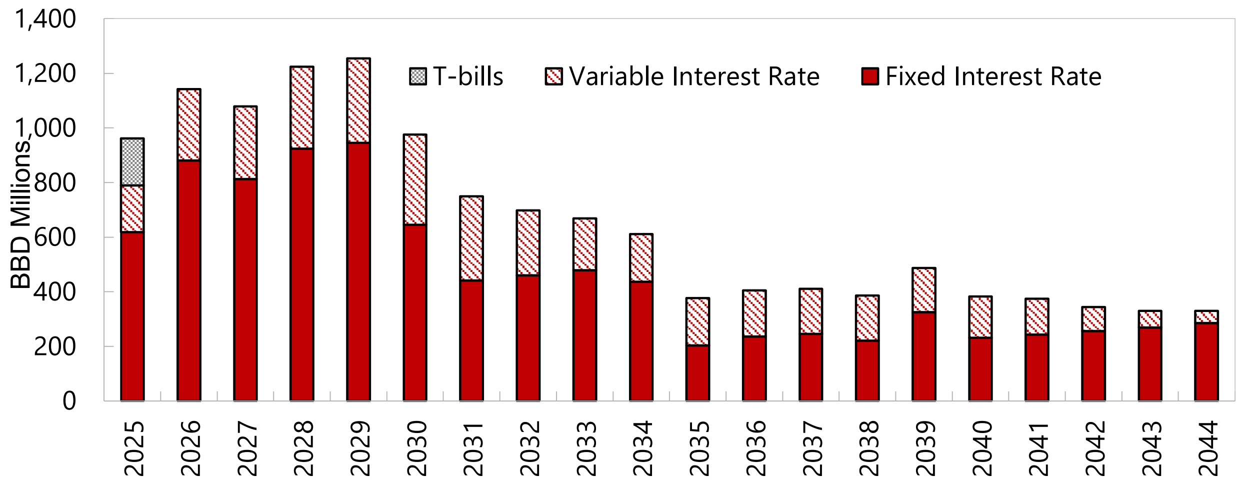
24. As evidenced in Figures 3 and 4, the repayment profile is somewhat skewed towards the front end with elevations between 2026 and 2030. These elevations are attributed primarily to the restructured external commercial debt, which commence repayment in 2026, as well as the commencement of repayments during this period on a number of PBLs, which were contracted between 2018 and 2023.

Figure 3: Redemption Profile as at March 31, 2024



Source: Ministry of Finance, Economic Affairs and Investment

Figure 4: Redemption Profile as at March 31, 2024 by Interest Rate Type



Source: Ministry of Finance, Economic Affairs and Investment

Profiles in Figures 3 and Figure 4 exclude BBD495.0 million in Treasury Bills, which are assumed to be rolled over each year as agreed under the terms of the 2018 Domestic Debt Exchange. The interest rates on these Treasury Bills are fixed for the initial 10-year period.

POTENTIAL SOURCES OF FINANCING

Official Sector

25. Barbados continues to have access to funding from the IMF under its second EFF and first RSF. Other sources of financing over the medium term are expected to continue to come primarily from multilateral sources, which will be combined with increasing levels of domestic financing. Barbados' major development partners for accessing finance include the IADB, IMF and CAF.

26. Policy based loans continue to be a major source of financing. Although support for Barbados' reform program remains strong, this type of support is expected to be gradually reduced over the medium term given the country's middle-income status. Disbursements from project loans will be buttressed with domestic financing as the Government continues efforts to redevelop the domestic securities market.

Domestic Creditors

27. Building upon the regular Treasury Bills issuances that commenced last year, increased domestic issuance will be a priority for Government during the strategy period. The Government plans to develop a comprehensive program in which investors are offered a lengthened set of maturity and trading options. This engagement of domestic investors is expected to benefit from periods of sustained economic growth in the economy, continued engagement with the IMF and multilateral partners, and scheduled amortization of domestic securities. As confidence builds, larger volumes and longer maturities will be offered to meet the redemption profile of the existing debt stock.

Sustainability Linked Bonds and Loans

28. The Government also expects to continue to issue sustainability linked bonds and loans to boost domestic demand. This strategy, which was adopted in 2022 as part of the Government's inaugural blue bond, involves the issuance of debt which is 100% guaranteed by multilateral partners (or other highly rated international partners) to indirectly fund projects which include conservation goals. Although such sustainability linked projects require significant time to develop, they allow the Government to broaden its product offering to domestic investors seeking diversification and environmental impact. The Government plans to continue to use the proceeds of sustainability linked bonds and loans to fund debt swaps

to meet the goals of its debt strategy, including developing the domestic securities market and maintaining the downward trajectory of the debt to GDP ratio.

Risks Associated with this Source of Financing

29. The primary risk to the debt strategy from official sector financing would be a rise in external floating interest rates or a decline in official sector willingness to provide loans on concessional terms; both of these risks are viewed as relatively low given the market expectation of a decline in the forward interest rate curve (please see Appendix 4) as well as continuation of the IMF program throughout most of the strategy period. The primary risk to the debt strategy from domestic financing would be a rise in the interest rate in line with an extension of average maturities and a departure from terms agreed in the 2018 debt restructuring.

30. Issues in meeting some of the conditions precedent continue to affect the pace of disbursements on project loans, which in some cases have been somewhat slow to materialize. Measures continue to be employed to foster more active project management and timely disbursements.

31. Demand for short-term domestic issuance is strong and likely to increase as investor confidence grows and amortizations on the existing stock accelerate. Demand for longer term maturities is expected to expand with ongoing economic growth, heavy liquidity provided to the market from amortizations in the existing stock, continued performance under the IMF program and credit rating upgrades. Plans are in train to further strengthen the Government's investor relations program, including enhancing transparency, which should assist in building demand.

32. The primary risk to continued issuance of sustainability linked bonds and loans targeting domestic investors would be a lack of support from multilateral partners to provide highly-rated guarantees. However, this risk is viewed as minimal given the significant work completed during the prior strategy period toward continued issuance around conservation-focused projects, specifically the construction of a water reclamation facility on Barbados's South Coast; given the strong levels of support, during the strategy period for the Government will explore including issuances to external commercial creditors in its sustainability linked issuance program.

BASELINE PROJECTIONS AND KEY RISKS FACTORS

33. External financing and the issuance of domestic securities, inclusive of the resumption of Treasury Bills assisted Government with budgetary support in light of higher interest payments. Nonetheless, the lower debt-to-GDP ratio (2.3 percentage points below March, 2023) stemmed from the gradual recovery of economic activity. In 2023, economic recovery was equivalent to 4.4 percent as a result of increased tourist arrivals combined with expansion in the non-traded sectors.

34. In line with the projected increase in global economic activity in 2024 and beyond, growth over the next three years is expected to stabilize and average around 3.2 percent. Recovery is forecasted to continue during 2024, assisted by the hosting of the ICC T20 World Cup cricket in addition to investments in the public and private sectors. However, risks to this forecast are linked to global economic slowdown, significant geopolitical shocks and negative weather conditions.

35. Debt ratios have resumed their downward trajectory, after increased borrowing to assist with mitigating the macro-economic fallout from the COVID-19 pandemic and natural disasters occurred during FY2021/22. Fiscal discipline and economic growth will continue to be key to the maintenance of debt sustainability into the medium term. Over the next two fiscal years, primary balances are forecasted to equal to 4.0 and 4.4 percent of GDP, respectively.

36. As a net importer, Barbados is exposed to shocks in international commodity prices, and movements in these prices (which are difficult to determine over the medium term) significantly influence the movement of domestic inflation. The elevated cost of freight following the disruption of supply chains globally, geopolitical tensions in Eastern Europe, and the rise in energy and food prices which continued throughout 2022, led to higher domestic prices. For 2024, oil prices are forecast to average around US$82 per barrel, which is higher than the price registered in 2023 due extended voluntary production cuts by OPEC+ members. Over the medium to long-term, oil prices are expected to stabilise, a trend which should ease recent inflationary pressures.

37. International reserves reached $3.3 billion at the end of FY2023/24, compared to $3.2 billion at the end of the previous fiscal year and are expected to remain within the vicinity of $3.0 billion over the medium term. Any substantial hikes in oil prices and other unexpected external shocks can adversely impact reserve levels.

Table 3: Macro Economic Assumptions 2023/24 to 2026/27

	2023/24	2024/25	2025/26	2026/27
(BBD Millions)				
Public Sector revenue (including grants)	3,378.0	3,527.2	3,718.8	3,895.5
in percent of GDP	25.9	25.3	25.3	25.2
Public Sector Primary Expenditures	2,901.2	2,969.5	3,065.3	3,211.2
in percent of GDP	22.3	21.3	20.8	20.8
Public Sector Expenditure	3,608.5	3,759.9	3,688.3	3,837.0
in percent of GDP	27.7	26.9	25.0	24.8
Public Sector Interest Expenditure	695.0	790.4	623.0	625.8
in percent of GDP	5.4	5.7	4.2	4.0
Primary Fiscal Balance	476.8	557.7	653.5	684.3
in percent of GDP	3.7	4.0	4.4	4.4
Overall Fiscal Balance	-230.5	-232.7	30.5	58.5
in percent of GDP	-1.8	-1.7	0.2	0.4
Inflation rate	5.0	4.0	2.9	2.0
Gross International Reserves	3,250.4	2,981.1	2,890.5	2,842.4
in percent of GDP	24.9	21.3	19.6	18.6
GDP Nominal (fiscal year)	13,034.1	13,964.4	14,726.8	15,464.3

Source: Central Bank of Barbados

38. The above ratios are premised on a continued growth assumption, as well as the continuation of public sector reforms as articulated in the BERT Plan 2022.

Risks Affecting the Debt Portfolio

39. Barbados' fiscal and debt dynamics can be negatively impacted by adverse variations in the baseline macroeconomic and market variables. The risk to the debt portfolio is based on the probability of occurrence and the financial impact of the change. Below are select sources of potential risks and the related impacts on debt management.

RISK SOURCE	IMPACT	IMPLICATIONS	COMMENT
Weak Economic Activity	Taxes and revenues Lower GDP	Weakened debt repayment capacity Debt Sustainability	Economic forecasts factor in IMF DSA assumptions; EFF program requires fiscal adjustments in case of economic slowdowns
Fiscal Slippage	Primary balance	High financing needs IMF support fallout (Disbursement suspension)	Fiscal policy restricted under EFF; Government is committed to achieving the maximum correction and primary balance required until the debt target is met in 2035-2036
Natural Disasters	Increased fiscal cost	Higher financing needs	Inclusion of Natural Disaster Clauses in Issuance Contracts and activation of Principal Payment Options on eligible loans assist in mitigating.

MEDIUM TERM DEBT STRATEGY 2024-2027

40. The macroeconomic framework underpinning the Barbados Economic Recovery and Transformation Plan 2022 is anchored by a debt to GDP target of 60% by 2035-2036. It sets out a framework of fiscal adjustment and structural reforms geared towards creating conditions to place the debt on a downward trajectory.

41. The objective of the MTDS is to determine the most appropriate borrowing strategy for the Government within the context of a cost/risk tradeoff, taking into account the financing constraints.

Selected Strategy

42. The focus of the public debt strategy during the period will be to maintain the current average maturity of the debt stock through a restart of medium to long-term domestic debt issuance. This policy will build on the ongoing economic consolidation, successful restart of the Treasury Bill market, liquidity to be provided through scheduled amortizations and debt swaps, and improving confidence in the Government's credit profile.

43. The selected strategy increases the share of domestic borrowing where over the medium term approximately 60.0% of gross financing needs will be met from domestic securities issuance, medium term increasing to longer term. The remaining 40.0% of gross financing needs will be met from external official sources, mainly multilateral.

44. Table 4 below provides a comparison of the cost and risk indicators of the current portfolio relative to the selected strategy at the end of the period under review.

Table 4: Comparison of Cost and Risk Indicators - Current vs. Selected Strategy at end 2027

Risk Indicators		2024	As at end 2027
		Current	S2
Nominal debt as percent of GDP		114.3	97.7
Interest payment as percent of GDP		5.8	5.0
Implied interest rate (percent)		5.1	5.3
Refinancing risk	Debt maturing in 1yr (percent of total)	6.5	9.8
	Debt maturing in 1yr (% of GDP)	7.4	9.6
	ATM External Portfolio (years)	6.9	7.3
	ATM Domestic Portfolio (years)	11.1	9.7
	ATM Total Portfolio (years)	9.5	8.8
Interest rate risk	ATR (years)	6.9	5.9
	Debt refixing in 1yr (percent of total)	34.6	37.8
	Fixed rate debt incl T-bills (percent of total)	74.0	70.1
	T-bills (percent of total)	4.5	5.0
FX risk	FX debt as % of total	37.9	38.5
	ST FX debt as % of reserves	7.5	21.0

45. **The weighted-average cost of the overall portfolio is expected to increase marginally by 0.2 percentage points to 5.3%.** This is due primarily to the higher interest rates on the medium to long-term domestic securities, as well as the larger volume and associated higher interest rates on the external variable rate (multilateral) debt.

46. **Refinancing risk**. Debt maturing in the next 12 months is expected to rise to approximately 9.8% by end March 2027, an increase of more than 50%. The average time to

maturity of the overall portfolio at the end of March 2027 is expected to decrease from 9.5 years to 8.8 years as a result of the increased issuance of shorter term domestic debt.

47. **Interest rate risk.** Debt refixing in one year for the overall portfolio at the end of March 2027 is expected to increase to 37.8% primarily as a result of the variable rate nature of the increase multilateral debt. The portfolio average time to refixing is expected to decrease to 5.9 years, driven by the high share of variable rate multilateral debt.

48. This strategy, which meets gross financing needs with greater proportions of medium term domestic securities issuance (initially), also capitalizes on already identified sources of external financing over the medium term, including remaining funds for budget support under the IMF's EFF and RSF programs. This will contribute to the maintenance of adequate reserve coverage, while avoiding excessive reliance on expensive financing from capital markets much beyond roll-over needs. Equally important, the strategy aligns with the Government's overall strategy of restoring regular issuance in the domestic market in line with practices prior to the domestic debt restructuring.

49. This strategy will be further complemented by utilizing liability management options, including reverse auctions and prepayments to further stimulate market activity, where appropriate. This will assist in lowering the share of external debt re-fixing in a year.

50. The success of the strategy will be contingent on a number of factors, including domestic investors' willingness to participate. Additional resources to conduct marketing efforts and staffing dedicated to investor outreach will also be important to the success of the strategy. The standard inclusion of natural disaster and pandemic clauses into the majority of domestic securities issuance will necessitate greater engagement with the market to allay any concerns that may arise, as well as considerations of innovations in structuring.

51. Equally important to the success of the strategy and maintaining debt sustainability is the continuation on a path of fiscal sustainability, maintaining primary surpluses over the medium-term to reduce the debt levels to the target by 2035/36. A primary surplus of 4.0% is targeted for FY2024/25. Thereafter, 4.4% is maintained for three years, before the fiscal effort is moderated as debt levels reduce.

GOVERNMENT BORROWING PLAN 2024-2025

52. The gross financing requirement for 2024-2025 is projected at approximately BBD1,161.0 million, approximately 8.3% of GDP. This sum is exclusive of BBD495.0M in T-Bills, which will be rolled over, as per the agreed terms in the 2018 Domestic Debt Exchange and BBD220.6M, which will be covered by Government's overdraft at the CBB. Approximately BBD200.0 million in cash buffers will be utilized. The remaining financing needs be met from the following sources:

Table 5 - Financing Sources 2024-2025

	BBD Millions
Domestic Financing	**577.0**
T- Bills	185.0
Domestic Bonds	392.0
External Financing	**384.0**
Investment Loans	158.0
IMF EFF	76.0
IMF RSF	151.0

APPENDICES

Appendix 1

Legislation Amended with the Enactment of the Debt (Natural Disaster and Pandemic Deferment of Payment) (Miscellaneous Provisions) Act, 2024-9

- External Loan Act Cap 94D
- Guarantee of Loans (Companies) Act Cap 96
- Local Loans Act Cap.98
- Special Loans Act Cap. 105

Appendix 2

Stylized Instruments

Instrument	Instrument Type	Fix/Var	Maturity (Y)	Grace (Y)	Currency Type	Description
USD_2	Multilateral_Var_USD	Var	25	5	FX	Multilateral loans from IDB, CDB IBRD, IMF RSF, etc.
USD_3	Other Multilateral _VAR_USD	Var	12	5	FX	Multilateral loans from CAF, IMF EFF and CDB (PBLs)
USD_4	Bilateral_Fixed_USD	Fix	20	5	FX	Bilateral loans, Citibank and EXIM
USD_5	Commercial Bank_Fix_USD	Fix	10	0	FX	Borrowing from commercial entities
USD_6	Ext Bonds_FIx_USD_10Y	Fix	10	5	FX	International Sovereign bonds
USD_7	Multilateral PBLs _VAR_USD	Var	7	3	FX	Policy Based Loans
BBD_8	Bonds_Series B&C Fixed_BBD_15Y	Fix	15	5	DX	Principally Amortizing Bonds
BBD_9	Bonds_Series D Fixed_BBD_35Y	Fix	35	15	DX	Amortizing Bonds
BBD_10	Bonds_Series E Fixed_BBD_25Y	Fix	25	5	DX	Amortizing Bonds
BBD_11	Bonds_Series J Fixed_BBD_4Y	Fix	3.5	0	DX	Amortizing Bonds
BBD_12	Bonds_Series G Fixed_BBD_50Y	Fix	50	15	DX	Amortizing Bonds
BBD_13	Bonds_ Fixed_BBD_5Y	Fix	5	4	DX	Amortizing Bonds, Savings Bonds, CBB Securities and BAICO bonds
BBD_14	Bonds_Fixed_BBD_10Y	Fix	10	9	DX	Amortizing Bonds, CBB Securities and BAICO bonds
BBD_15	Bonds_ Fixed_BBD_15Y Fix	Fix	15	14	DX	Amortizing Bonds, CBB Securities and BAICO bonds
BBD_16	Bonds_Fixed_BBD_20Y	Fix	20	19	DX	Amortizing Bonds, CBB Securities and BAICO bonds
BBD_17	W&M (Overdraft)	Fix	1	0	DX	Ways & Means
BBD_18	T-Bills	T-bills	1	0	DX	T-bills

Appendix 3

Technical Note on Modelling the MTDS

1. The Medium Term Debt Management Strategy for 2024-2025 to 2026-2027 is developed using the IMF/World Bank MTDS Analytical Toolkit. This Toolkit enables a quantitative assessment of the key cost and risk indicators of the debt portfolio at the end of the projection period. Central Government's debt, arrears and guaranteed debt was utilized for the analysis.

Baseline Assumptions and Shock Assumptions

2. Table 3 outlines the baseline assumptions of the Government's fiscal balance, as well as key macroeconomic variables used in the analysis. These were combined with the following assumptions. It should be noted that the rates for fixed rate instruments are based on the weighted averages of similar existing instruments in the portfolio.

Source of Financing	Interest Rates	Interest Rate Type
Multilateral	5.15% – 6.5%	Variable
Bilateral	2.5%	Fixed
Sovereign Bond	6.5%	Fixed
Bonds < 5 years	5.7%	Fixed
Bonds 5-10 years	7.3%	Fixed
T-Bills	2.5%	Fixed
Overdraft	3.5%	Fixed

Strategies

Using the MTDS Analytical Toolkit the four following strategies were assessed based on various characteristics and assumptions to determine the cost/risk tradeoffs at the end of the period under review:

Strategy 1 (S1): Status Quo – Circa 70 % of gross financing needs over the medium term will be funded from external multilateral and bilateral sources, approximately BBD673.0 million. On the domestic side, the 30% will be financed by way of T-bills and medium term issuances, approximately BBD288.0 million.

Strategy 2 (S2): Increase domestic borrowing. 60% of gross financing needs will be met from domestic sources, approximately BBD577.0 million. This strategy aims at gradually reducing the level of external debt and increasingly engaging the domestic securities market. Domestic financing will be through the issuance of medium to long term securities, as well as T-Bills. External financing of approximately BBD384.0 million will be from official sources.

Strategy 3 (S3): Sovereign bond issuance. 74% of gross financing needs will be met from external sources, approximately BBD634.0 million. However the borrowing from multilateral and bilateral sources will be complemented with an issuance in the international capital markets in year 1. Domestic financing of BBD250.0 million will be met through the issuance of T- Bills and bonds with maturities up to 5 years.

Strategy 4 (S4): Increased domestic and sovereign bond issuance. Assumes that 66% of gross financing need will be met from external sources in year 1 and equally from external and domestic sources in years 2 and 3. External borrowing will be from multilateral and bilateral sources, as well as an issuance in international capitals market in year 1 only. Domestic financing will be through the issuance of T-Bills and bonds with maturities up to 10 years.

3. In all of the strategies, the financing mix percentage utilized represents new financing only and assumes that the existing stock of T-Bills, BBD495.0 million, is constantly rolled over. Approximately BBD 200.0 million in cash buffers from the prior year will also be utilized.

Baseline Scenario: In the baseline scenario the reference rate for the variable rate external instruments is forecast to decrease marginally by 25bps in 2024-2025 and 2025-2026. There are no exchange rate changes, in light of the fixed peg regime maintained with the USD.

Scenario 1: Interest Rate Shock

i. <u>Moderate</u>: A 100 basis points increase in the reference rate for variable rate external instruments and the external bond. The shock was applied to the projected baseline interest rate for each year of the strategy period.

ii. <u>Extreme</u>: A 200 basis points increase in the reference rate for variable rate external instruments and the external bond. The shock was applied to the projected baseline interest rate for each year of the strategy period.

ANALYSIS OF OUTPUT

4. Table 5 shows the risk indicators at the end of 2027 for the four strategies analyzed.

Table 6: Cost and Risk Indicators of the Debt Portfolio as at March 31, 2027

Risk Indicators		2024	As at end 2027			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		114.3	97.6	97.6	97.7	97.7
Interest payment as percent of GDP		5.8	5.0	5.0	5.0	5.0
Implied interest rate (percent)		5.1	5.2	5.2	5.2	5.2
Refinancing risk	Debt maturing in 1yr (percent of total)	6.5	9.5	9.9	9.6	9.2
	Debt maturing in 1yr (% of GDP)	7.4	9.3	9.7	9.3	8.9
	ATM External Portfolio (years)	6.9	8.2	7.3	7.7	7.4
	ATM Domestic Portfolio (years)	11.1	9.7	9.2	9.6	9.5
	ATM Total Portfolio (years)	9.5	9.0	8.5	8.8	8.6
Interest rate risk	ATR (years)	6.9	5.3	5.6	5.5	5.6
	Debt refixing in 1yr (percent of total)	34.6	43.7	37.9	40.5	38.0
	Fixed rate debt incl T-bills (percent of total)	74.0	63.8	70.0	67.1	69.2
	T-bills (percent of total)	4.5	4.7	5.1	4.7	4.3
FX risk	FX debt as % of total	37.9	44.8	38.6	44.1	41.4
	ST FX debt as % of reserves	7.5	21.0	21.0	21.0	21.0

Risk to Baseline Projections for the Under Shock Scenarios

5. The maximum risk levels for select portfolio indicators under the four financing strategies are shown in Figures 5 and 6. Using the projected outturns for end of 2027, the maximum risk is determined by the largest impact on each of the indicators arising from the interest rate shocks at Scenario 1.

6. Interest cost to GDP is identical at 5.0% for all four strategies. The maximum risk is only marginally lower by 0.1% in S2 and S4 compared to the other two strategies.

7. Total debt service cost to GDP is lowest under S4 due to the projected lower fixed rates on the combined external sovereign and domestic bonds. S2 is the most costly strategy under this indicator, with a baseline outturn of 13.7%. However, the maximum risk is marginally lower in S2 and S4 by 0.1%.

Figure 5: Sensitivity of Interest Cost to GDP to Shock As at end of 2027

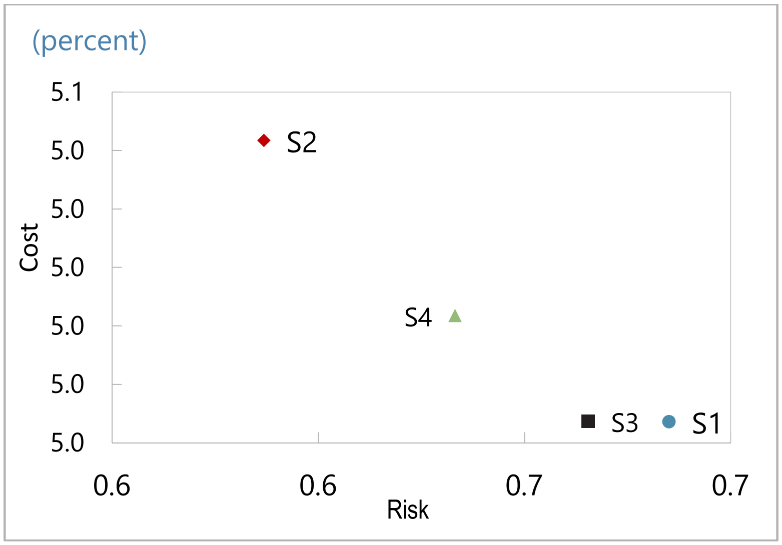
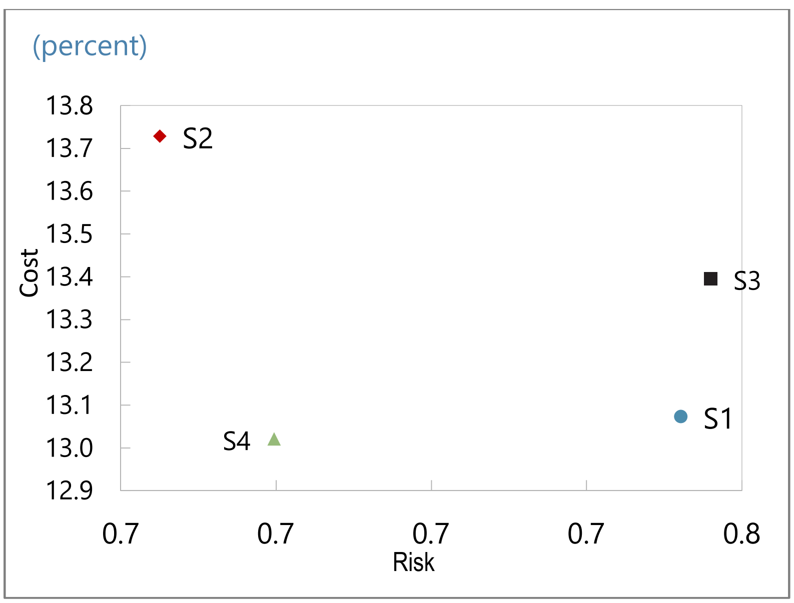
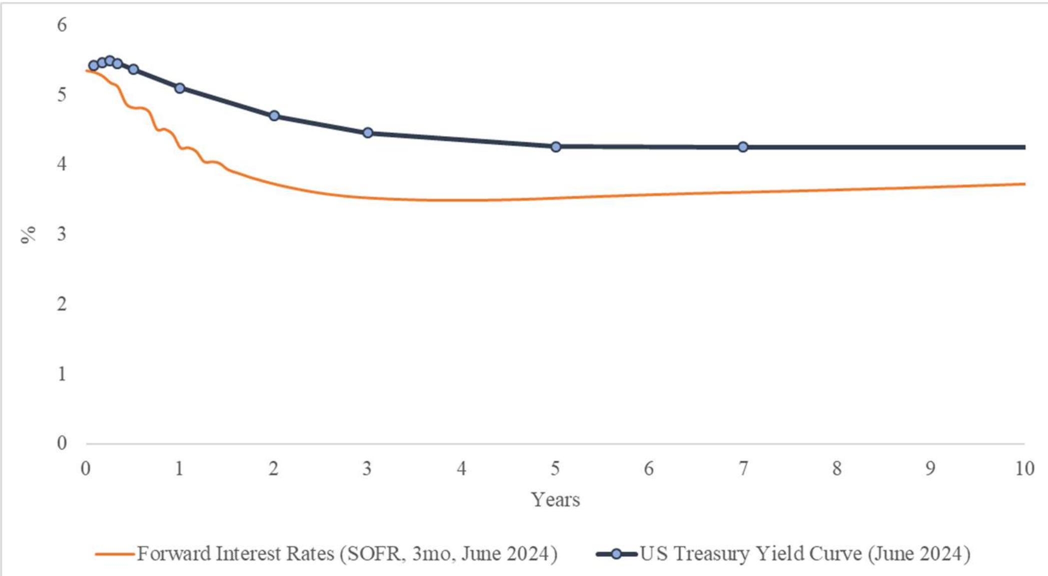


Figure 6: Sensitivity of Total Debt service to GDP to Shock As at end 2027



Appendix 4

Figure 7: Market Projections of Interest Rates



Source: [Resource Center | U.S. Department of the Treasury]

The market projects interest rates to fall generally, especially for shorter maturities, with the base SOFR rate charged by multilateral development banks expected to fall from just over 5.3% to 4.25% in a year's time and below 3.7% in two years' time before declining to just over 3.5% for the remainder of the next ten years.

Appendix 2: Climate Change Scenarios

	Scenario	Value of Capital Stock after Natural Disaster	Decline in Capital Stock & Tourist Arrivals (%)	Recovery Period
A. Moderate Scenarios	*A1. Wind 50 year*	3,155	4%	1 year
	A2. Wind 100 year	3,006	8%	2 years
	A3. Rainfall Flooding 50 year	3,021	8%	2 years
	A4. Rainfall Flooding 100 year	2,990	9%	2 years
B. Severe Scenarios	*B1. Storm Surge 50 year*	2,551	22%	4 years
	B2. Storm Surge 100 year	1,547	53%	5 years