GOVERNMENT OF BARBADOS

MEDIUM TERM DEBT MANAGEMENT STRATEGY

Fiscal Year 2023-2024 to 2025-2026

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 Fund

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 2023-2024 capitalizes on the strong relationships built with official sector development partners, as well as domestic stakeholders.

Minister responsible for Finance

EXECUTIVE SUMMARY

The Medium Term Debt Strategy 2023/2024 to 2025/2026 is the Government of Barbados' plan aimed at achieving the desired composition of the debt portfolio over the stated period. Public debt ratios have returned to 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 entered a three-year arrangement under a second Extended Fund Facility (EFF) with the IMF, building on the successful implementation of the Barbados Economic Recovery and Transformation Plan 2018. The new EFF combined with funding from the Resilience and Sustainability Facility will support the Barbados Economic Recovery and Transformation Plan 2022. To date, this has unlocked approximately USD465.0 million (SDR 336.2 million) in funding from the IMF.

At March 31, 2023, public debt stood at approximately BBD14,278.3 million, around 119.6% of GDP. The majority of domestic debt is held in stepped rate amortizing bonds while the external debt portfolio comprises primarily of multilateral loans and a sovereign bond.

The size of the debt is a source of vulnerability, as is the increased share of external debt. The majority of the external debt is owed to multilateral creditors at floating rates and thus exposed to rising global interest rates. While the 2018 and 2019 Debt Exchanges assisted significantly in mitigating some of the risks inherent in the debt portfolio at that time by extending out maturities, debt service costs have increased as repayment of these obligations commence.

The analysis considers four strategies that utilize all potential sources of funding. In light of significant increases in interest rates over the last year, shocks to interest rates were applied to the external variable rate debt in the portfolio, as well as to the external bond issuance in all strategies.

Strategy 1, which utilizes majority external official sector funding to meet gross financing needs, was considered as the preferred option. Though initially more costly, it capitalizes on already identified sources of financing, in addition to fulfilling Government's objective of reigniting the domestic securities market. The success of this strategy will be heavily dependent on the completion of the necessary reforms to satisfy the structural benchmarks and other conditions precedent to access the funding.

Overall, steady reform of the domestic economy and the generation of primary surpluses will be key to ensuring the success of the strategy in light of (i) the uncertainty in the global economy and (ii) the increasing vulnerabilities to contingent liability shocks due to natural disasters.

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 2023-2024 to 2025-2026. The scope for coverage is public debt defined as Central Government debt, guaranteed debt and Central Government arrears. External debt is defined by currency.

LEGAL FRAMEWORK FOR DEBT MANAGEMENT

3. The Minister of Finance is the necessary and sole authority in respect of all public borrowings, the authority being delegated in accordance with the various pieces of debt legislation. The Constitution of Barbados (Section 111), the Public Finance Management Act and the Financial Management and Audit Act (Section 3 (2)) require that all public debt charges shall be a charge on the Consolidated Fund. The Constitution (Section 107) provides for the establishment of the Consolidated Fund.

4. Currently, there is not a consolidated piece of legislation in Barbados that deals with borrowing and debt management. There are various pieces of legislation governing and establishing limits[1] with respect to local and foreign borrowing, including the Financial Management and Audit Act; the Public Finance Management Act, 2019, the Local Loans Act Cap.98, Treasury Bills and Tax Reserve Certificate Act Cap. 106, the Savings Bond Act Cap. 104A, the Special Loans Act Cap. 105, the External Loans Act Cap. 94D, the Guarantee of Loans (Companies) Act Cap. 96 and the Central Bank of Barbados Act Cap. 323C.

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[1] See Appendix 1

5. In addition, the Debt Holder (Approval of Debt Restructuring) Act 2018, the Debt Holder (Approval of Debt Restructuring) (Amendment) Act 2019 along with the Dematerialisation of Government Securities Act were passed in 2018 and 2019, respectively.

THE INSTITUTIONAL FRAMEWORK FOR DEBT MANAGEMENT

6. Various divisions of the Ministry of Finance, Economic Affairs and Investment and the Central Bank of Barbados (CBB) have customarily administered the debt management functions. Steps have been taken towards a more focused and coordinated approach to the administration of debt management with the establishment of a Debt Management Unit (DMU) within the Ministry and the formation of a number of Committees.

7. The Finance Division undertakes back, middle and front office functions, the Treasury Department back office operations and the Economic Affairs Division front office operations. The Central Bank provides advisory services as well as acts as fiscal, paying and subscription agent.

REVIEW OF DEBT MANAGEMENT STRATEGIES

8. Barbados' 2022-2023 to 2024-2025 debt management strategy that was predicated on an increased use of domestic and external commercial funding did not materialize as envisaged. The increase in domestic funding was realized through the offering of BBD200.0 million in BOSS Plus bonds. Although Barbados did return to international capital markets in 2022, it did so for the issuance of a landmark blue bond which financed a debt neutral repurchase of more expensive commercial debt. As concessional multilateral financing was readily available in 2022-2023 given Barbados' ongoing strong performance under the IMF program, the majority of the funding was sourced from multilateral sources.

9. Concerted efforts continue to be made to (i) avoid bunching of debt maturities, where possible, 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.

10. In addition, pandemic clauses have now been added to the natural disaster clauses introduced into new debt issuances. These clauses, under certain conditions and following the occurrence of certain events under Barbados' insurance contract with CCRIF, or the declaration of a pandemic by the WHO, gives Barbados the option to defer payments for a period of two years. Interest will be capitalized during the period.

RECENT DEVELOPMENTS IN PUBLIC DEBT

Debt for Nature Swap

11. In September 2022, Barbados completed a landmark debt for nature conversion deal, the proceeds of which will fund a domestic conservation fund and an endowment trust supporting durable large-scale conservation of the country's fragile marine environment and promotion of the sustainable blue economy for generations. The Barbados debt conversion is the first of its kind to make use of private and nonprofit sector capital under an innovative and efficient structure that maximises the savings generated for marine conservation purposes.

12. In executing the transaction, the Government repurchased USD77.6 million in aggregate principal amount of the Government of Barbados' 6.5% Notes due 2029 by means of a modified Dutch auction that was launched on 9 September 2022 and expired on 16 September 2022. The clearing price of the auction was set at USD92.25 per USD100 in principal amount of the Notes accepted for purchase. In parallel, the Government prepaid USD72.9 million equivalent of its Barbados dollar-denominated Series E 8% bonds due 2043.

13. The operation was funded through a dual currency USD146,518,800 equivalent term loan facility, or blue loan, that benefits from a 100% guarantee of up to USD150.0 million from the Inter-American Development Bank ("IDB") (75%) and The Nature Conservancy ("TNC") (25%), the non-profit's first such guarantee.

14. The interest rate savings from the differential between the repurchased debt and the blue loan are expected to be approximately USD50.0 million over a 15-year period.

15. In executing the blue loan the GOB extended its natural disaster clause to include pandemics, a first in international capital markets.

IMF Arrangement

16. In December 2022, Barbados entered into a second Extended Fund Facility (EFF) Program with the IMF. This new IMF-supported program builds on the achievements of Barbados' 2018-22 EFF and draws on the updated Barbados Economic Recovery and Transformation Plan 2022 (BERT 2022), including on efforts focusing on building resilience to natural disasters and climate change as well as reducing greenhouse gas emissions and

transition risks. The 36-month EFF gives Barbados access to USD113.0 million over the period.

17. Barbados also became the first country to reach an agreement to access the IMF's new Resilience and Sustainability Facility (RSF), which aims to provide long-term financing, 20-year maturity with a 10.5-year's grace period, to help build resilience against climate change. This refinancing provides an important extension of maturity against the previous IMF program during the debt strategy period.

18. The arrangement under the RSF will provide approximately USD189.0 million to assist in funding the country's climate change adaptation and mitigation efforts, as well as, supporting the goal of transitioning to a fully renewable-based economy by 2030. The RSF, combined with a broad set of identified reform measures, are expected to go a long way in unlocking financing from other international financial institutions and the private sector.

Climate Resilience Strategies

19. Barbados continues to proactively adopt a strategy of building climate resilience into its debt portfolio. In this regard, a suite of other climate resilience financing instruments has buttressed the natural disaster clauses first introduced into instruments in 2018. These include the IADB's Contingent Credit Facility for Natural Disasters, as well as the activation of the Principal Payment Option (PPO) for eligible and future IADB loans. These seek to mitigate financial risk to the Government in the event of certain natural disasters, in the short and medium (long) term by providing cost effective and quick access contingent financing to cover extraordinary expenditure during emergencies caused by natural disasters and a one-time two-year principal deferral, respectively.

BOSS Plus

20. Government sought to build on the success of its BOSS domestic security issuance, which was targeted to public servants and opened an issuance of BBD 200.0 million in BOSS Plus bonds which was expanded to include the general public.

Prepayment Series B bonds

21. Due to the Government's improved financial position, a partial principal repayment of up to BBD17,500 was made to individuals holding Series B bonds. This totaled approximately BBD74.8 million. This repayment was targeted to impact a maximum number of retail holders

of domestic debt and allowed the full repayment of [nearly half] of all individual holdings in the Series.

Multilateral Borrowing

22. In the last year, Barbados has increased its external borrowing by approximately BBD826.9 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.

Credit Rating

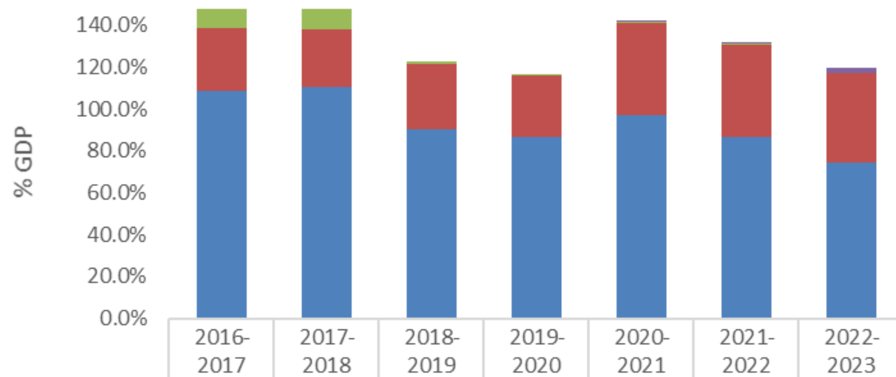
23. In November 2022, Barbados received a 'B' rating from Fitch Ratings (the agency's first rating of the country) for its long-term foreign currency denominated debt. Barbados' long- and short-term local currency and foreign currency ratings with Standard and Poor's remains currently B- with a stable outlook.

CHARACTERISTICS OF THE EXISTING DEBT PORTFOLIO

Central Government Debt

24. At March 2023, public debt stood at approximately BBD14,278.3 million compared to $13,356.1 million at March 2022 (see Table 1). This represents an increase of approximately BBD922.2 million or 7.7% of GDP when compared to the previous year. The increase is primarily attributed to an expansion in multilateral borrowing geared to assist in (i) mitigating residual impacts associated with the COVID-19 pandemic (ii) green and blue resilient recovery and macroeconomic support in accordance with the EFF.

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



	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
CG Arrears					0.9%	0.2%	2.2%
Guaranteed	9.2%	9.8%	1.0%	0.6%	0.6%	0.5%	0.3%
External	30.2%	27.5%	31.7%	29.4%	43.7%	44.1%	42.9%
Domestic	108.3%	110.4%	90.1%	86.4%	97.3%	86.5%	74.2%

Source: Ministry of Finance, Economic Affairs and Investment

25. Domestic debt (excluding arrears) increased from BBD8,801.4 million at March 2022 to BBD8,860.4 million at March 2023, a marginal increase of BBD59.0 million. Domestic debt accounted for approximately 62.0 % of total debt. The domestic debt portfolio is mainly comprised of securities, of which the NIB is the single largest holder (See Figure 2). Two categories of T-Bills resulted from the Domestic Debt Exchange, (i) a statutory reserve T-Bill[2] held by commercial banks and other financial institutions and (ii) a fixed rate T-Bill held by the CBB which is to be used to assist in recapitalizing the CBB and for monetary policy purposes. Each of these 90-days T-Bills are to be rolled over. A classification of public debt by instrument type is shown in **Table 1** below.

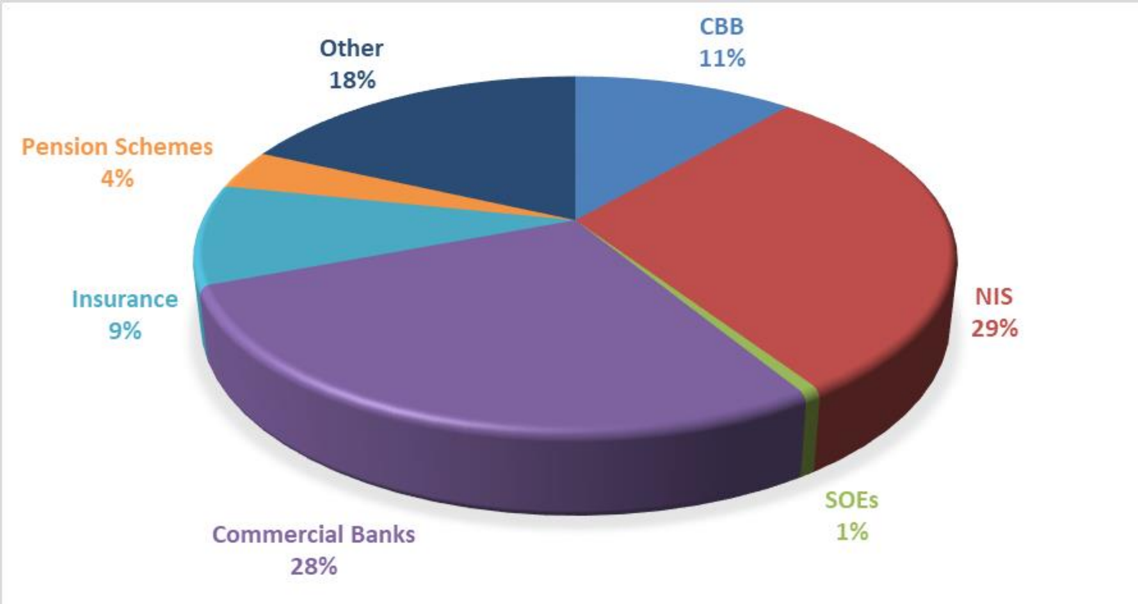
[2] The interest rate is fixed for the first 10 years and will be subject to market rates thereafter

Table 1: Total Debt Stock by Instrument Type

	Mar-22		Mar-23		Change
	BBD$M	% Total Debt	BBD$M	% Total Debt	BBD
External Debt	**4,486.1**	**33.6%**	**5,124.3**	**35.9%**	**638.3**
Bonds	*1,072.9*		*1,071.4*		
- Sovereign Bonds	1,072.9	8.0%	1,071.4	7.5%	(1.5)
Multilateral Loans	*2,882.3*	*21.6%*	*3,340.1*	*23.4%*	*457.8*
- CDB	493.5	3.7%	469.4	3.3%	(24.2)
- IADB	1,314.8	9.8%	1,499.6	10.5%	184.9
- EEC	22.9	0.2%	22.4	0.2%	(0.6)
- IBRD	245.7	1.8%	442.9	3.1%	197.1
- CAF	340.6	2.6%	357.4	2.5%	16.8
- IMF	464.8	3.5%	548.4	3.8%	83.6
Bilateral Loans	*312.6*	*2.3%*	*376.3*	*2.6%*	*63.7*
- EXIM Bank of China	234.6	1.8%	312.5	2.2%	77.9
- Citibank NA	78.0	0.6%	63.8	0.4%	(14.2)
Commercial Loans	*218.2*	*1.6%*	*336.5*	*2.4%*	*118.3*
- Barbados Correction Corp. (Prison Proj	218.2	1.6%	190.0	1.3%	(28.2)
-MTFA BB Blue DAC USD			*146.5*	*1.0%*	*146.5*
Domestic Debt	8,801.4	**65.9%**	8,860.4	**62.1%**	**59.0**
Securities	8,586.5	**64.3%**	8,546.7	**59.9%**	**(39.7)**
- Treasury Bills	495.1	3.7%	495.1	3.5%	-
- Bonds (Restructured)	7,942.6	59.5%	7,918.0	55.5%	(24.6)
-Other Bonds	101.3	0.8%	101.3	0.7%	0.0
- Savings Bonds & Tax Certificates	47.4	0.4%	32.3	0.2%	(15.1)
Temporary Borrowings (Overdraft)	215.0	1.6%	167.2	1.2%	(47.8)
Commercial Loans					
-MTFA BB Blue DAC BBD			146.5	1.0%	146.5
Guaranteed Debt (External)	**46.0**	**0.3%**	**36.2**	**0.3%**	**(9.8)**
- Multilateral Loans	14.9	0.1%	9.0	0.1%	(5.9)
- Bonds	31.1	0.2%	27.2	0.2%	(3.9)
CG Arrears	22.6	0.2%	257.5	1.8%	234.9
Total	**13,356.1**	100.0%	**14,278.3**	100.0%	922.2

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

26. At March 2023 external debt stood at approximately BBD5,124.3 million, an increase of BBD638.3 million when compared to the period ending March 2022. This increase is primarily attributed to additional official sector borrowing, including PBLs aimed at providing budget support to offset the fallout from the COVID-19 pandemic and bolstering climate resilience. External debt accounts for approximately 36.0% of total debt. As is evident in Table 1 above, the majority of external debt is comprised of loans from official sources, like the Inter-American Development Bank, Caribbean Development Bank, CAF, IMF and Export Import Bank of China and sovereign bonds.

Central Government Arrears

27. At March 2023 Central Government's stock of domestic arrears stood at approximately BBD257.5 million, an increase of approximately BBD234.9 million from the previous year. The increase is attributable to legacy arrears discovered in the Barbados Revenue Authority's previous VAT VETAS system as the department transitioned to a new system.

Government Guaranteed Debt

28. External guaranteed debt stood at BBD36.2 million at March 2023, a decrease of BBD9.8 million from the previous year, due to scheduled amortizations.

COST AND RISK CHARACERISTICS OF THE EXISTING DEBT PORTFOLIO

29. 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, 2023

	Mar-23	Mar-22	Change
Amount (in millions of BBD)			
Domestic	9,117.9	8,824.0	293.8
External	5,160.5	4,532.1	628.4
Total	14,278.3	13,356.1	922.2
Nominal debt as percent of GDP			
Domestic	76.3	86.7	(10.40)
External	43.2	44.6	(1.34)
Total	119.6	131.3	(11.74)
Cost of Debt			
Domestic			
Interest payment as percent of GDP	3.0	3.5	(0.42)
Weighted Av. IR (percent)	4.0	4.0	(0.01)
External			
Interest payment as percent of GDP	2.7	1.3	1.34
Weighted Av. IR (percent)	6.2	3.0	3.19
Total			
Interest payment as percent of GDP	5.7	4.8	0.92
Weighted Av. IR (percent)	4.8	3.7	1.13
Refinancing risk			
Domestic			
Average Time to Maturity (years)	12.0	13.1	(1.12)
Debt maturing in 1yr (percent of total)	4.9	3.2	1.63
Debt maturing in 1yr (percent of GDP)	3.7	2.8	0.91
External			
Average Time to Maturity (years)	6.8	6.9	(0.05)
Debt maturing in 1yr (percent of total)	4.3	4.5	(0.28)
Debt maturing in 1yr (percent of GDP)	1.8	2.0	(0.18)
Total			
Average Time to Maturity (years)	10.1	11.0	(0.87)
Debt maturing in 1yr (percent of total)	4.6	3.7	0.97
Debt maturing in 1yr (percent of GDP)	5.6	4.8	0.72

	Mar-23	Mar-22	Change
Interest rate risk			
Domestic			
Average Time to Refixing (years)	10.9	12.0	(1.08)
Debt refixing in 1yr (percent of total)	10.3	8.8	1.45
Fixed rate debt incl T-bills (percent of total)	100.0	100.0	-
T-bills (percent of total)	5.4	5.6	(0.18)
External			
Average Time to Refixing (years)	2.1	2.3	(0.17)
Debt refixing in 1yr (percent of total)	66.3	65.3	0.95
Fixed rate debt incl T-bills (percent of total)	35.1	36.1	(0.97)
T-bills (percent of total)	-	-	
Total			
Average Time to Refixing (years)	7.7	8.7	(0.97)
Debt refixing in 1yr (percent of total)	30.5	28.0	2.51
Fixed rate debt incl T-bills (percent of total)	76.5	78.3	(1.76)
T-bills (percent of total)	3.5	3.7	(0.24)
FX Risk			
FX debt (percent of total debt)	36.1	33.9	2.21
ST FX debt (percent of reserves)	6.8	6.8	0.02

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 currently has a limit of BBD220.6 million. These were excluded to avoid artificially increasing the refinancing risk.

30. **The weighted-average cost of the overall portfolio is around 4.8%** (See Table 2). This is due largely to the increases in the SOFR, which is the benchmark reference rate for USD denominated debt. As the US Fed continued to increase its interest rates, SOFR, which is the Fed's overnight rate, has increased in parallel. 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 3.7% at the end of FY 2022 to 4.8% at the end of FY 2023.

31. **Refinancing risk is relatively low** (Table 2). The portfolio average time to maturity is 10.1 years. Domestic debt has an average time to maturity of 12.0 years compared to 6.8 years for external debt. Approximately 4.6% of the total debt stock, BBD663.0 million will be refinanced in the next 12 months. Around 4.3% of external debt, approximately BBD220.0

million, will mature in the next 12 months. In contrast, 4.9 % of domestic debt, approximately BBD443.0 million will mature in the next 12 months.

32. The 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.

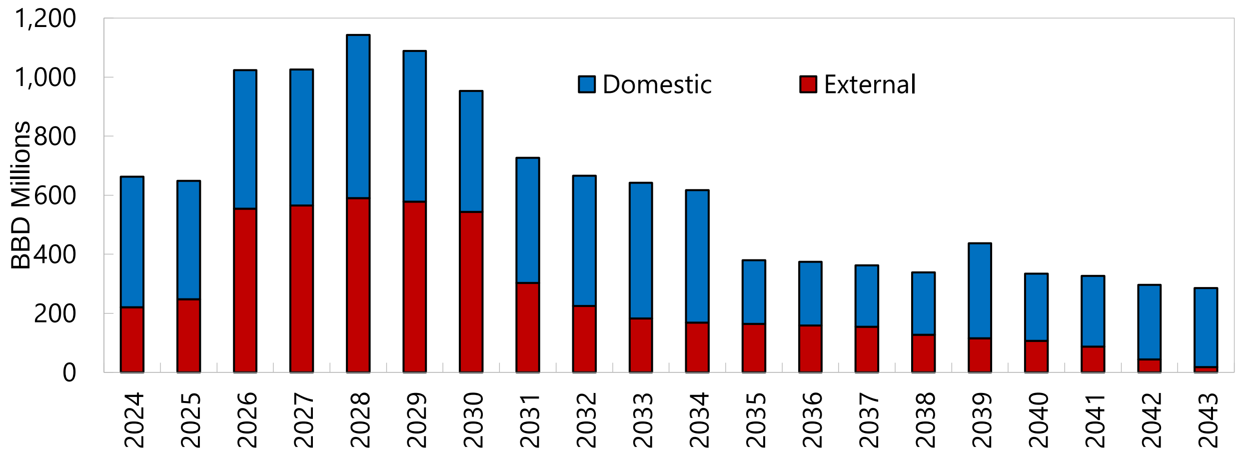
33. **Foreign exchange risk remains at a manageable level.** Currently, almost all of the external debt is denominated in US dollars. Since the international reserves and export receipts are also denominated in US dollars this acts as a natural hedge. The Barbados Economic Recovery and Transformation plan reduced pressure on the exchange rate by reducing fiscal deficits in the short term establishing 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.

34. **Interest rate risk**. The increased multilateral debt in the portfolio carries variable interest rates, which results in 66.3% of external debt refixing in one year as at March 2023, compared to 65.3% at March 2022. The reference rate for the majority of the variable rate external loans is SOFR, given the market's transition away from LIBOR. Interest rates have increased significantly 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 76.5%, 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

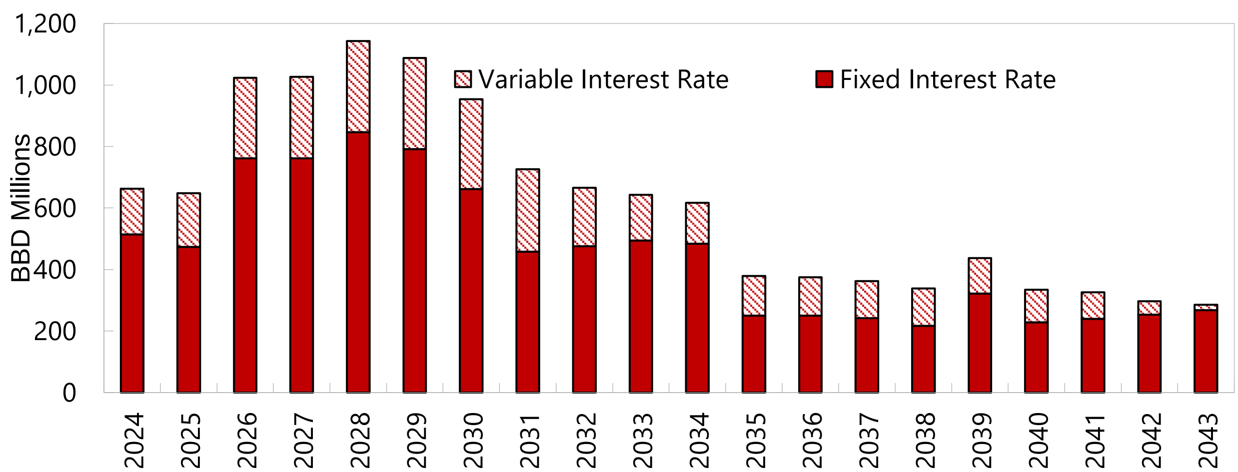
35. As evidenced in Figures 3 and 4, the repayment profile is somewhat skewed towards the front end with elevations between 2026 and 2030. These elevations are attributed primarily to the restructured external commercial debt, which commence repayment in 2026.

Figure 3: Redemption Profile as at March 31, 2023



Source: Ministry of Finance, Economic Affairs and Investment

Figure 4: Redemption Profile as at March 31, 2023 by Interest Rate Type



Source: Ministry of Finance, Economic Affairs and Investment

Profiles in Figures 3 and Figure 4 excludes 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

36. Barbados entered a second IMF Extended Fund Facility Program. In addition to the funding under the EFF and RSF programs, 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, CDB and CAF.

37. 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 makes a concerted effort to reengage the domestic securities market.

Domestic Creditors

38. Restarting domestic issuance will be a priority for Government during the strategy period. The Government plans to launch a comprehensive program in which investors are offered a lengthened set of maturity and trading options. This reengagement of domestic investors is expected to benefit from the forecast return to economic growth in the economy, continued engagement with the IMF and multilateral partners, and scheduled amortization of domestic securities. The Government intends to begin with limited volumes of Treasury Bills and Notes with maturities of 1-5 years; as confidence builds, larger volumes and longer maturities will be offered to meet the redemption profile of the existing debt stock.

Risks Associated with this Source of Financing

39. The significant rise in interest rates and projections for continued slower paced increases will prove costly for the portfolio's variable rate debt. Options will therefore have to be employed, where appropriate, to mitigate some of the increased debt service cost.

40. 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. Recent measures have been implemented to foster more active project management.

41. Demand for domestic issuance is likely to increase as investor confidence grows and amortizations on the existing stock accelerate. This has been boosted by a show of confidence in the Government's domestic issuances by some commercial banks.

BASELINE PROJECTIONS AND KEY RISKS FACTORS

42. External financing, of which the majority was received in the last quarter of the fiscal year, along with the issuance of domestic securities assisted Government with the much-needed budgetary support in light of higher expenditure outlays mainly related to interest payments. Nonetheless, the lower debt-to-GDP ratio (11.8 percentage points below March 2022) stemmed from the gradual recovery of economic activity. In 2022, real economic growth was equivalent to 9.8 percent as a result of the rebound in tourist arrivals from the major source markets combined with increased domestic demand.

43. In line with the projected increase in global economic activity in 2023 and beyond, real growth over the next three years is expected to stabilize and average around 4.1 percent. Economic growth is forecasted to continue during 2023, following the implementation of tourism related investments and Government's capital work projects. However, risks to this forecast are linked to the supply chain disruption, significant geopolitical shocks and inflationary pressures.

44. Following the completion of both the domestic and external debt restructurings, debt levels began to stabilize. The objective of reducing debt levels was interrupted as borrowings to assist with the macro-economic fallout from the COVID-19 pandemic and natural disasters occurred during FY2021/22. Of note, with the positive forecast of economic growth anticipated, the debt-to-GDP ratio is projected to resume its downward path however, fiscal discipline and economic growth are key to the maintenance of debt sustainability into the medium term. Over the next two years forecast primary balances are equivalent to 3.5 and 4.0 percent of GDP, respectively.

45. 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) predominate domestic inflation. Of recent, 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 has led to higher domestic prices. For 2023, forecast of oil prices are expected to average around US$79 per barrel, slightly lower than the price registered in 2022. The pressures of significant price increases and supply shocks

if continued can negatively impact economic activity. However, inflationary pressure on interest rates is expected to soften over the medium term.

46. International reserves were around $3.2 billion at the end of FY2022/23, compared to $3.0 billion at the end of the previous fiscal year and are expected to remain above $3 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 2022/23 to 2025/26

	2022/23	2023/24	2024/25	2025/26
(BBD Millions)				
Public Sector revenue (including grants)	3,320.0	3,344.5	3,568.9	3,789.6
in percent of GDP	27.8	26.2	26.3	26.4
Public Sector Primary Expenditures	3,015.7	2,900.5	3,027.6	3,122.1
in percent of GDP	25.3	22.7	22.3	21.7
Public Sector Expenditure	3,564.9	3,552.6	3,702.6	3,743.2
in percent of GDP	29.8	27.9	27.3	26.0
Public Sector Interest Expenditure	549.2	652.1	675.0	621.0
in percent of GDP	4.6	5.1	5.0	4.3
Primary Fiscal Balance	304.3	444.0	541.3	667.5
in percent of GDP	2.5	3.5	4.0	4.6
Overall Fiscal Balance	-244.9	-208.1	-133.7	46.5
in percent of GDP	-2.1	-1.6	-1.0	0.3
Inflation rate	5.0	5.1	3.2	2.6
Gross International Reserves	3,216.6	3,304.3	3,449.8	3,491.1
in percent of GDP	26.9	25.9	25.5	24.3
GDP Nominal (fiscal year)	11,943.2	12,754.0	13,553.7	14,375.4

Source: Central Bank of Barbados

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

Risks Affecting the Debt Portfolio

48. The 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 2023-2026

49. 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.

50. 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

51. The selected strategy, Strategy 1, maintains the status quo where over the medium term approximately 77.8% of gross financing needs will be met from external official sources, mainly multilateral. The remaining 22.2% of gross financing needs will be met from domestic security issuances.

52. While initially more costly, it capitalizes on readily available funding sources over the medium term, while gradually rebuilding the domestic market in the face of strong signs of increasing market confidence. The increased cost of multilateral borrowing, stemming from the variable rate benchmark, will need to be continuously managed with a view to mitigation through available liability management operations and switching to fixed rates based on a cost benefit analysis.

53. 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 2026

COST-RISK INDICATORS - Baseline Scenario			
Risk Indicators		2023	As at end 2026
		Current	S1
Nominal debt as percent of GDP		119.5	103.3
Interest payment as percent of GDP		5.7	5.6
Implied interest rate (percent)		4.8	5.5
Refinancing risk	Debt maturing in 1yr (percent of total)	4.6	7.2
	Debt maturing in 1yr (% of GDP)	5.6	7.4
	ATM External Portfolio (years)	6.8	8.0
	ATM Domestic Portfolio (years)	12.0	10.2
	ATM Total Portfolio (years)	10.1	9.2
Interest rate risk	ATR (years)	7.7	5.8
	Debt refixing in 1yr (percent of total)	30.5	37.9
	Fixed rate debt incl T-bills (percent of total)	76.5	67.6
	T-bills (percent of total)	3.5	3.6
FX risk	FX debt as % of total	36.1	43.4
	ST FX debt as % of reserves	6.8	16.2

54. **The weighted-average cost of the overall portfolio is expected to increase by 0.7% to 5.5%.** This is due primarily to the larger volume and associated higher interest rates on the external variable rate (multilateral) debt.

55. **Refinancing risk**. Debt maturing in the next 12 months is approximately 7.2%, an increase of more than 50%. The average time to maturity will decrease from 10.1 years to 9.2 years as a result of the increased issuance of more shorter term domestic debt.

56. **Interest rate risk.** Debt refixing in one year will increase to 37.9% primarily as a result the variable rate nature of the increase multilateral debt. The portfolio average time to refixing will decrease to 5.8 years, also driven by the higher share of variable rate multilateral debt.

57. This strategy, which meets gross financing needs with greater proportions of mainly external multilateral financing, capitalizes on already identified sources of financing over the medium term. As articulated in the Barbados Economic Recovery and Transformation Plan 2022, approximately BBD1.0 billion has been identified for direct budget support over this period, inclusive of the IMF's Resilience and Sustainability Facility and Extended Fund Facility. This will allow for the maintenance of adequate reserve coverage, while avoiding excessive reliance on expensive financing from capital markets much beyond roll-over needs. On the domestic side, it also aligns with the Government's overall strategy of restoring regular issuance in the domestic market.

58. This strategy will be further complemented by utilizing liability management options available in some of the multilateral contracts, to fix interest rates on eligible loan, where appropriate. This will assist in lowering the share of external debt re-fixing in a year. The new securities issued, except T-Bills, will contain natural clauses and pandemic to assist in further mitigating the risks associated with the impact of natural disasters on the portfolio.

59. The success of the strategy will be contingent on a number of factors, including meeting the conditions precedent to disbursement for the external loans and doing so in a timely manner. On the domestic side, the capacity of the domestic investors to absorb the increased issuance and their willingness to do so will also be key. To this end, Government will seek to provide additional mechanisms for domestic investors to trade, including reverse auctions.

60. Also critical to the success of the strategy and maintaining debt sustainability is to continue 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 3.5% is targeted for FY2023/24 and 4.0%for FY2024/25. Thereafter, 4.6% is maintained for three years, before the fiscal effort is moderated as debt levels reduce.

GOVERNMENT BORROWING PLAN 2023-2024

61. The gross financing requirement for 2023-2024 is projected at approximately BBD903.0 million, approximately 7.1% 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. It will be financed from the following sources:

Table 5 - Financing Sources 2023-2024

	BBD Millions
Domestic Financing	**200.0**
T- Bills	24.0
Domestic Bonds	176.0
External Financing	**703.0**
PBLs	200.0
Investment Loans	276.0
IMF EFF	76.0
IMF RSF	151.0

APPENDICES

Appendix 1

Existing Debt Legislation and their respective Limits

Local Loans Act Cap.98	BBD10.5 billion
Treasury Bills and Tax Reserve Certificate Act Cap. 106	BBD1.5 billion
Savings Bond Act Cap. 104A	BBD250.0 million
Special Loans Act Cap. 105	BBD2.5 billion
Guarantee of Loans (Companies) Act Cap 96	BBD1.0 billion
External Loan Act Cap 94D	No limit specified
Public Finance Management Act, 2018	7.5% of net revenue to be collected for the year
Barbados Optional Savings Bonds Plus (Offer to the Public) Act, 2022	BBD200.0 million
Debt Settlement (Arrears) Act, 2021	

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 2023-2024 to 2025-2026 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	5.5% – 7.3%	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 – 77.8 % of gross financing needs over the medium term will be funded from external multilateral and bilateral sources, approximately BBD703.0 million. On the domestic side, the 22.2% will be financed by way of limited T-bills and medium term issuances, approximately BBD200.0 million.

Strategy 2 (S2): Increase domestic borrowing. 60% of gross financing needs will be met from domestic sources, approximately BBD542.0 million. This strategy aims at gradually reducing the level of external debt and increasing engaging the domestic securities market. Domestic financing will be through the issuance of T-Bills and bonds with maturities up to 10 years. External financing of approximately BBD361.0 million will be from official sources.

Strategy 3 (S3): Sovereign bond issuance. 74% of gross financing needs will be met from external sources, approximately BBD668.0 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 BBD235.0 million will be met through the issuance of 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 5 years in the first instance and increasing 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.

Baseline Scenario: In the baseline scenario the reference rate for the variable rate external instruments are forecasted to increase marginally over 2023-2024 and 2024-2025. There are no exchange rate changes, in light of the fixed peg regime maintained with the USD.

Scenario 1: Interest Rate Shock

i. Moderate: 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. Extreme: 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 2026 for the four strategies analyzed.

Table 6: Cost and Risk Indicators of the Debt Portfolio as at March 31, 2026

Risk Indicators		2023	As at end 2026			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		119.6	103.3	103.1	103.3	103.2
Interest payment as percent of GDP		5.7	5.6	5.5	5.5	5.5
Implied interest rate (percent)		4.8	5.5	5.4	5.5	5.4
Refinancing risk	Debt maturing in 1yr (percent of total)	4.6	7.2	8.7	6.9	7.9
	Debt maturing in 1yr (% of GDP)	5.6	7.4	8.9	7.1	8.2
	ATM External Portfolio (years)	6.8	8.0	6.9	7.2	6.9
	ATM Domestic Portfolio (years)	12.0	10.2	9.6	10.1	9.9
	ATM Total Portfolio (years)	10.1	9.2	8.6	8.9	8.7
Interest rate risk	ATR (years)	7.7	5.8	6.1	6.1	6.1
	Debt refixing in 1yr (percent of total)	30.5	37.9	32.9	33.1	32.5
	Fixed rate debt incl T-bills (percent of total)	76.5	67.6	73.9	72.0	73.6
	T-bills (percent of total)	3.5	3.6	5.1	3.3	4.4
FX risk	FX debt as % of total	36.1	43.4	36.7	42.4	39.2
	ST FX debt as % of reserves	6.8	16.2	16.2	16.2	16.2

Risk to Baseline Projections for the Under Shock Scenarios

5. The maximum risk for select portfolio indicators under the four financing strategies are shown in Figures 5 and 6. Using the projected outturns for end of 2026, 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 5.5% for S2, S3 and S4 and higher by 0.1% when compared to S1, which carries a greater share of higher cost, variable rate external debt. The maximum risk is only marginally lower by 0.1% in S2 compared to the other three strategies.

7. Total debt service cost to GDP is lowest under S3 due to the projected lower fixed rate on the external sovereign bond. S2 is the most costly strategy under this indicator, with a baseline outturn of 13.9%. However, the maximum risk is identical in all four strategies at 0.6%.

Figure 5: Sensitivity of Interest Cost to GDP to Shock As at end of 2026

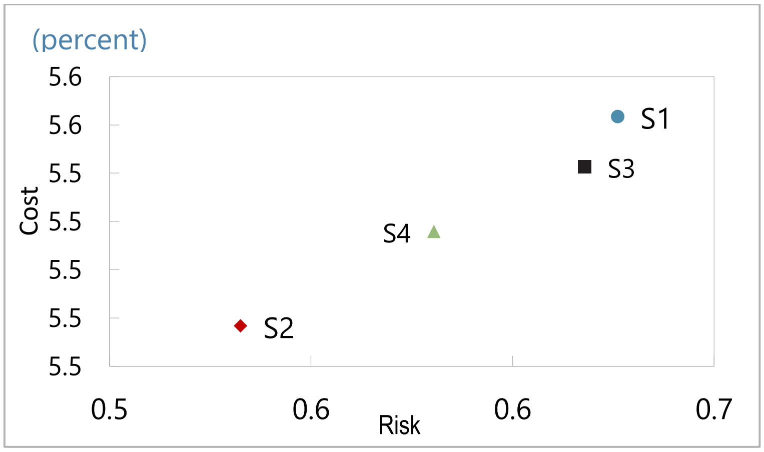
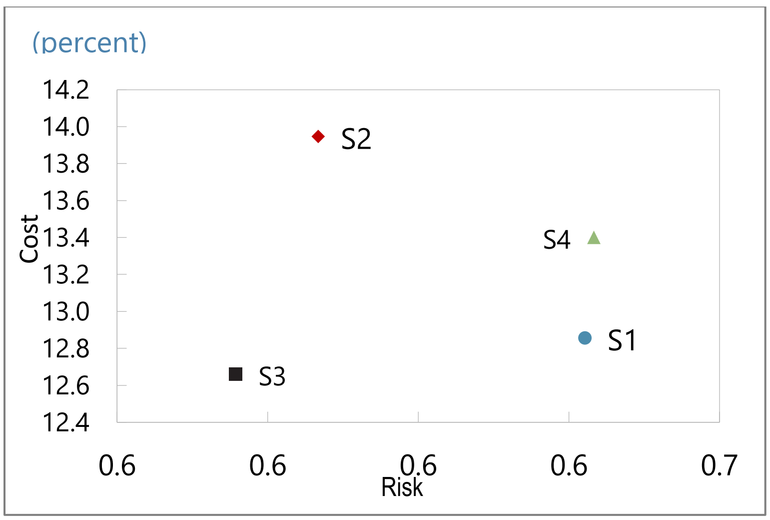
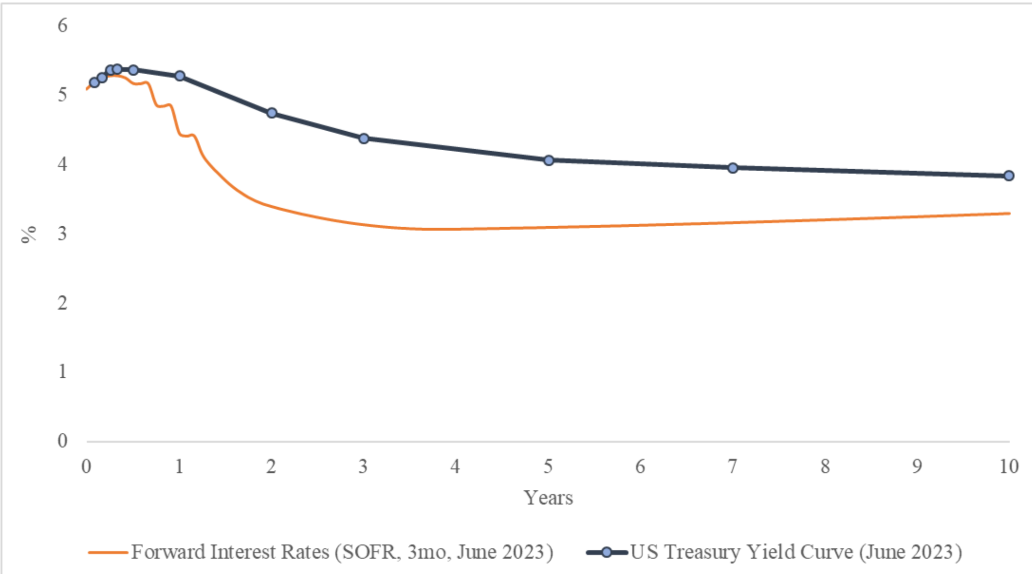


Figure 6: Sensitivity of Total Debt service to GDP to Shock As at end 2026



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 charges by multilateral development banks expected to fall from just over 5% to 4.5% in a year's time and below 3.5% in two years' time before declining to just over 3% for the remainder of the next ten years.