GOVERNMENT OF BARBADOS

Fiscal Risk Statement 2026

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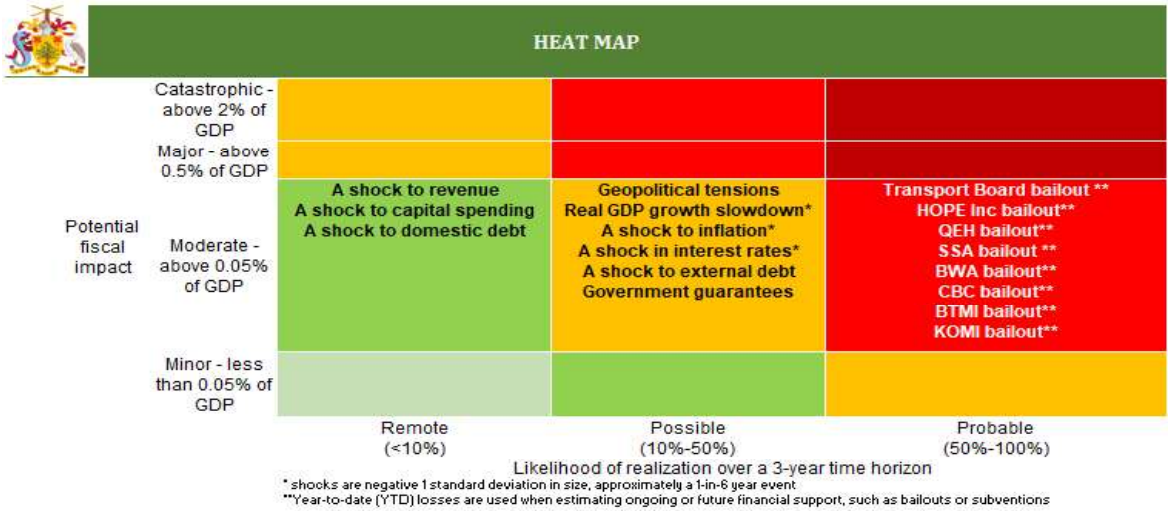
Executive Summary

Barbados Fiscal Risk Heat Map



Source: Ministry of Finance, Fiscal Risk Unit

The *Fiscal Risk Statement 2026* provides a comprehensive evaluation of the key fiscal risks facing the Government of Barbados. These includes macroeconomic, specific, institutional, social and long-term risks that could materially influence the fiscal outlook outlined in the Medium-Term Fiscal Framework FY2026/27. Central to the assessment is a **fiscal risk heatmap**, which presents a visual summary of potential exposures to the Government finances by rating each risk according to:

- **Fiscal impact** (expressed in millions of Barbados dollars and as a percentage of GDP), and
- **Likelihood of realization** determined through historical frequency and informed professional judgement

The heatmap applies a three-tier colour scale to signal the relative urgency and priority level of each risk:

- **Red** - indicates high risk and requires urgent action
- **Yellow** - indicates moderate risk that needs careful monitoring
- **Green -** indicates low risk that requires attention but is not immediately critical

The heatmap identifies several **significant medium-term risks** that could place pressure on the government finances over the next three years. Foremost among these are the **potential bailouts of State-Owned Enterprises (SOEs)** such as the Transport Board, Queen Elizabeth Hospital (QEH), Hope Ownership Providing Energy (HOPE) Inc., Sanitation Service Authority (SSA), Barbados Water Authority (BWA), Caribbean Broadcasting Corporation (CBC), Barbados Tourism Marketing Inc. (BTMI), and Kensington Oval Management Inc. (KOMI), many of which

appears to have a probable likelihood of realization due to one or more of the following: ongoing liquidity challenges, thin capitalization, and operational deficits.

Macroeconomic shocks such as real GDP growth slowdown, geopolitical tensions, increases in inflation and the global interest-rate volatility are assessed as moderate risks with possible likelihood of realization, given their potential to weaken revenues while placing additional pressure on financing conditions and expenditure needs.

External debt also present a moderate fiscal risk under the scenario analysis that a 1-percentage-point increase in interest rates could lead to an increase in the debt-service costs by approximately BBD $40 million (0.25% of GDP) with a possible likelihood of realization. Likewise, **Government guarantees constitutes a moderate risk**, reflecting financial weaknesses within the supported Sate-owned Enterprises. By contrast, **Domestic debt also present a moderate fiscal risk but with a remote likelihood of realization** owing to its long average maturities and well-structured maturity profile which significantly reduces rollover exposure.

Social and long-term risks are not included in the heatmap because they fall outside the Medium-Term Fiscal Framework (MTFF) and extend over a 50-year horizon and beyond. These long-term risks are driven by demographic trends, pension sustainability challenges, rising non-communicable disease (NCD) costs, and climate-related risks. Collectively, an ageing population, a shrinking labour force, the rising prevalence of NCDs, and the growing frequency and intensity of climate-related disasters can place increasing long-term pressure on public finances, particularly in the areas of pension, health care system, and building long-term resilience.

To manage these risks, the Government has implemented a broad suite of mitigation measures and institutional strengthening initiatives. Macroeconomic risks are addressed through continued building of fiscal buffers, maintaining fiscal space, and enhancing resilience to external shocks. External debt risks are mitigated by maintaining international reserves of approximately $3 billion equivalent to 27.4 weeks of imported cover, alongside strengthened fiscal discipline, limits on new guarantees, diversification of the debt portfolio, and incorporate innovative financing instruments. Domestic debt risks are moderated by prioritizing longer-term average maturity structures and avoiding redemption spikes. SOE risks are being reduced through governance improvements, operational reforms, and cost-containment measures. Institutional risks are mitigated through strengthened forecasting, conservative revenue assumptions, improving data quality, and enhancing inter-agency coordination.

To address long-term demographic challenges, Barbados is advancing regional free-movement initiatives, modernizing immigration legislation, reforming the National Insurance and Social Security System, and investing in health-care modernization and community-based elder-care models. Meanwhile, to confront NCD-related risks, the Government continues to enhance preventive health policies, while recognizing the need for a dedicated monitoring and evaluation unit to support evidence-based decision-making.

1. Introduction

Barbados faces a complex and evolving fiscal landscape of risks shaped not only by demographic shifts, climate volatility, and global economic uncertainty, but also by the cascading social and economic consequences these risks generate. As a climate-vulnerable nation, each hurricane, drought, or flood is not merely a weather event, it constitutes a direct shock to the national budget. Such events disrupt development progress and pose significant threats to the country's macroeconomic stability. These risks are further intensified by domestic challenges, including limited fiscal buffers, and the burden of borrowing at high interest rates, which exacerbates the already elevated public debt levels.

In recent years, Barbados has made notable progress in fiscal consolidation and structural reform under its IMF-supported program. The government's commitment to building resilience, managing debt sustainably, and promoting inclusive growth continues to be reflected in its proactive and integrated approach to identifying, quantifying, and mitigating fiscal risks.

This Fiscal Risk Statement outlines the key sources of fiscal vulnerabilities facing Barbados, including contingent liabilities, climate-related risks, exposures from state-owned enterprises, and macroeconomic shocks. It also presents the government's strategy for managing these risks: strengthening fiscal resilience through enhanced risk assessment, innovative financing instruments, as well as improvements in public financial management systems. By embedding risk analysis into fiscal planning, Barbados aims to safeguard its economic future while advancing its climate adaptation and sustainable development goals.

2. Scope of the Fiscal Risk Statement

The Fiscal Risk Statement (FRS) has three main priorities:

i. **Enhancing Fiscal Risk Management:** The Government's strategic commitment in developing a robust fiscal risk management framework is embodied in the strengthening of institutional capacity within each ministry, specifically in the identification of risks, assigning appropriate likelihood and impact ratings, and identifying effective risk mitigation measures for continuous monitoring, as illustrated in Table 1.

Table 1: Fiscal Risk Management Responsibilities in Barbados

Fiscal risk management responsibilities in Barbados

Risk Category	Responsible Entity
Macroeconomic	Technical Fiscal Working Group
Budgetary contingencies	Budget Unit
Asset and liability management	Debt Management Unit
Guarantees	Treasury
Public corporations / SOEs	Management Accounting Unit / Comptroller General, Ministry of Finance
PPPs	Public Investment Unit / Line Ministries
Financial sector exposure	Central Bank of Barbados
Environmental risks	Ministry of Environment and National Beautification, Blue and Green Economy
Legal claims on the government	Attorney General, Treasury
Oversight for Fiscal Risk Management	Fiscal Risk Unit

Source: Ministry of Finance, Fiscal Risk Unit

ii. **Quantifying risk likelihood and impact:** The Fiscal Risk Statement attempts to classify different sources of risk in terms of the likelihood of its occurrence, and the fiscal impact on government finances should the risk materialize. This approach helps the government to prioritize potential fiscal risks. By default, the analysis looks at risks over the medium term. However, some risks, for example linked to climate change and demographic change, are best assessed over a long-term time horizon. The different time horizons are discussed below.

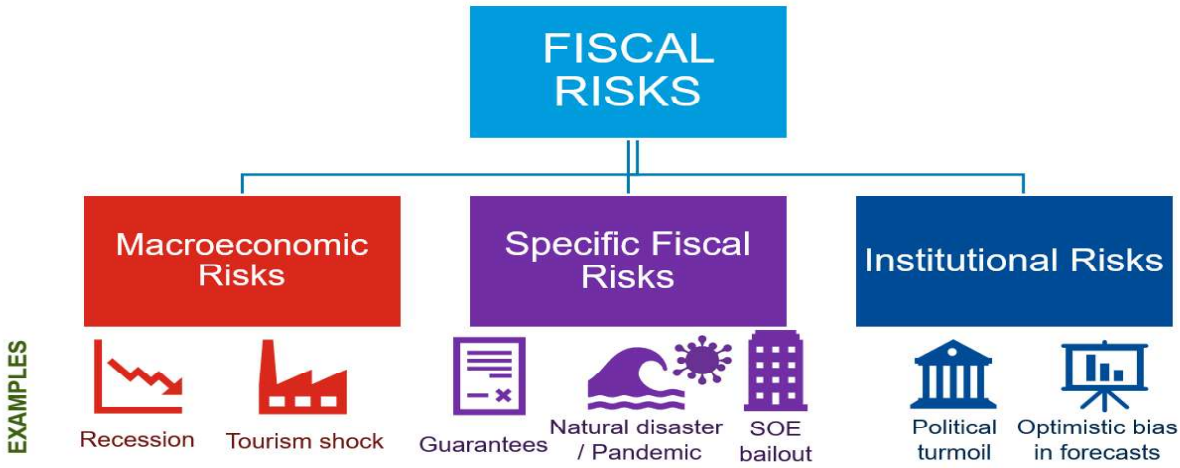
- **Short-term time horizon:** This looks one year ahead, focusing on the discrepancies between the original budget and the actual outturn of revenues and expenditures.
- **Medium-term time horizon**: This extends to three years.
- **Long-term time horizon:** This covers periods greater than three years, up to 50 or more years.

iii. **Developing appropriate and cost-effective risk mitigation strategies.** This fiscal risk statement identifies risk mitigation measures that are already in place, and highlights areas where further strengthening is warranted. In developing these strategies careful consideration is given to balancing the costs of mitigation against both the likelihood and potential impact of identified risks. It is expected that when potential risks arise, mitigative actions will be undertaken to minimize the fiscal impact of these risks on the Government's performance.

3. Main Sources of Fiscal Risks

Fiscal risk can arise from a range of different sources, and it can be classified into three broad groups, Figure 1.

Figure 1: Typology of Fiscal Risks



Source: International Monetary fund | Caribbean Technical Regional Assistance Centre | Ministry of Finance, Fiscal Risk Unit

These broad categories can be further broken down to reflect the diverse and evolving nature of the main fiscal vulnerabilities that the Government of Barbados, through the Fiscal Risk Unit (FRU), actively manages and monitors, Table 2.

Table 2:Barbados Main Sources of Fiscal Risks and Implications

Risk factor	**Implications for government finances**
Macroeconomic Risk	
Reduced Real GDP growth rate Elevated Inflation Increased Interest rates	Impacts revenue (decrease taxes) and shrinks fiscal space Impacts revenue and spending (e.g. higher food prices, higher subsidy payments to SOEs). Impacts interest expenses
Specific Fiscal Risk	
Contingent Liabilities: Government Guarantees State-owned Enterprises (SOEs)	Possible future explicit and implicit claims that a government guarantees to settle if some unexpected event occurs. These represent unplanned fiscal costs that if realized can worsen government's short, medium- and long-term fiscal position.
Natural Disasters	Barbados is located in a multi-hazard zone, making it susceptible to natural events such as hurricanes, flooding, excess rainfall, coastal erosion, high wind speeds and sea level rise. Realization of these events can impair fiscal outcomes due to its inherent uncertainty.
Institutional Risks	
Overestimating revenues or underestimating expenditures	Overestimating revenues or underestimating expenditures can lead to larger than planned budget deficits. When revenues fall

	short or expenditures exceed expectations, it can lead to fiscal instability, making it difficult for the government to balance its budget and manage its debt.
Regional Instability / Wars Cutbacks in Official Development Assistance (ODA)	Geopolitical tensions can impact global economic conditions which can significantly pose a risk to Barbados growth prospects. Risks such as slower global growth, elevated inflation, disruption to tourism, and trade could limit the benefits of the demand for Barbados' goods and services.
Social and Long-term Risks	
Demographic changes, Non-communicable diseases (NCDs), and Pension schemes.	Social and long-term risks such as high dependency ratios, low birth rates and the prevalence of NCDs, can pose significant challenges as they may increase fiscal pressures through a heavier burden on the NISSS pension scheme, reduce workforce productivity, and rising healthcare costs.

Source: Ministry of Finance, Fiscal Risk Unit

3.1. Macroeconomic Risks

Barbados' economy is projected to maintain sustained growth in 2026/27 and beyond, with an anticipated annual average real GDP growth rate of approximately 3 percent in the short to medium term. This forecast is underpinned by continued investments from both public and private sectors, together with ongoing improvements in productivity and competitiveness.

However, despite the strong domestic economic performance in 2025/26, adverse global developments could potentially derail the country's growth outlook. Slower global growth and heightened geopolitical tensions could dampen growth projections by reducing travel demand. Consequently, these developments could potentially place downward pressure on tax receipts for both direct and indirect taxes, leading to an expansion in the fiscal deficit and a deterioration in the primary balance. Although international inflationary pressures eased during 2025, global inflation remains above pre-pandemic norms and susceptible to renewed price surges. Potential supply-side disruptions including shipping delays linked to congestion in the Panama Canal, elevated geopolitical conflict such as the Russia-Ukraine war, and broader commodity market volatility could lead to higher import prices and increased costs of goods and services procured by the public sector. Additionally, rising interest costs on foreign variable-rate debt driven by tighter monetary policy in major lending economies may further strain fiscal projections by increasing the government's external debt-servicing burden.

3.1.1. Sensitivity Analysis

A macroeconomic sensitivity analysis was conducted to estimate the impact of how changes in key economic variables, in particular real GDP growth, affects the government's fiscal outcomes,

thereby supporting more targeted risk-mitigation strategies. The sensitivity analysis framework was prepared in line with Barbados Parliamentary Draft Estimates of revenue and expenditure for FY2026/27 using the baseline economic assumptions for the financial year and into the medium term. The shocks applied were as follows:

- **Sensitivity Analysis 1**: A reduction in real GDP growth of -1.5% in FY2026/27 – this is equivalent to a one (1) standard deviation negative shock to real GDP growth.
- **Sensitivity Analysis 2**: An increase in interest rates on government debt of 1.2 percentage points – this is equivalent to a one (1) standard deviation increase in interest rates in FY2026/27.
- **Sensitivity Analysis 3**: An increase in inflation of 2.5 percentage points above the baseline in FY2026/27 – this is equivalent to a one (1) standard deviation increase in inflation.

Table 3: Macroeconomic Risk Sensitivity Analysis Results

Scenario	Impact on... Nominal GDP	Revenues + Grants		Expenditures		Fiscal Balance		Public debt stock
	2026/27	2026/27		2026/27		2026/27		2028/29
	B$ millions	% GDP	B$ millions	% GDP	B$ millions	% GDP	B$ millions	% GDP
1 standard deviation **decrease in real GDP growth** in 2026								
Baseline value	16,165	27.4	4,431	26.8	4,337	0.6	94	87.5
Value after shock	15,458	27.4	4,237	28.1	4,337	-0.6	-100	95.3
Difference	-706	0.0	-194	1.2	0	-1.2	-194	7.8
1 standard deviation **increase in interest rates** in 2026								
Baseline value	16,165	27.4	4,431	26.8	4,337	0.6	94	87.5
Value after shock	16,165	27.4	4,431	28.0	4,523	-0.6	-92	88.6
Difference	0	0.0	0	1.2	186	-1.2	-186	1.2
1 standard deviation **increase in inflation** in 2026								
Baseline value	16,165	27.4	4,431	26.8	4,337	0.6	94	87.5
Value after shock	16,559	27.4	4,539	26.7	4,425	0.7	114	85.0
Difference	394	0.0	108	-0.1	88	0.1	20	-2.5

Source: Ministry of Finance, Fiscal Risk Unit

Table 4: A Summary of the Macroeconomic Risk Sensitivity Analysis Results

Scenario	Impact on... Fiscal Balance		Public debt stock
	2026/27		2028/29
	% GDP	B$ millions	% GDP
1 standard deviation **decrease in real GDP growth** in 2026			
Baseline value	0.6	94	87.5
Value after shock	-0.6	-100	95.3
Difference	-1.2	-194	7.8
1 standard deviation **increase in interest rates** in 2026			
Baseline value	0.6	94	87.5
Value after shock	-0.6	-92	88.6
Difference	-1.2	-186	1.2
1 standard deviation **increase in inflation** in 2026			
Baseline value	0.6	94	87.5
Value after shock	0.7	114	85.0
Difference	0.1	20	-2.5

Source: Ministry of Finance, Fiscal Risk Unit

Nominal GDP

Based on the summary results Table 4, applying a one standard deviation shock to the baseline forecast of real GDP growth for 2026/27 (reducing growth from 3.0 percent to -1.5 percent) results in a fall in revenue of 1.2 percent of GDP. This shock generates the largest deterioration in the fiscal balance, with a worsening of BBD 194 million in FY2026/27, and it leads to the largest increase in public debt-to-GDP ratio, rising by 7.8 percentage points by FY2028/29 in Table 4 and 5. Among the three scenarios assessed, the decline in real GDP growth has the most significant adverse impact on the Government's fiscal outcomes. The sensitivity analysis therefore underscores that economic growth shocks continue to pose the greatest risk to Barbados' fiscal sustainability. This indicates that fiscal performance is most responsive to changes in real GDP growth. As such, policy makers should continue to mitigate these risks by adopting conservative revenue forecasts, building fiscal buffers, and maintaining adequate fiscal headroom to help absorb shocks and manage periods of lower-than-expected economic growth and hence lower government revenues.

Inflation Rate

A one standard deviation increase in inflation in FY2026/27 (from 2.5 percent to 5.0 percent) leads to a moderate improvement in the fiscal balance of 0.1% of GDP (approximately BBD 20M), Table 4. The higher inflation outturn also reduces the public-debt-to-GDP ratio by 2.5 percentage points by FY2028/29. However, although the fiscal impact appears favourable in the short-term, higher inflation carries broader macroeconomic risks which can cause medium-term fiscal stress. Rising prices increase the cost-of-living, disproportionately affecting low-income households and raising the cost of essential goods such as food, fuel, and utilities. These pressures can weaken real disposable income, dampen domestic demand, and ultimately slow economic growth. As such, while inflation may temporarily improve headline fiscal indicators, it can undermine economic and social stability if not carefully managed.

Interest Rates on government borrowing

In contrast, a one standard deviation increase in the interest rate in FY2026/27 (from 4.8 percent to 6.0 percent) had a significant negative impact on Barbados fiscal position, worsening the fiscal balance by 1.2 percent of GDP (approximately BBD 186M) Table 4. Although its impact on the public-debt-to-GDP ratio is relatively modest, rising by 1.2 percentage points by FY2028/29, the deterioration reflects higher debt-servicing costs. Nevertheless, its long-term impact on the debt stock remains more muted compared to the GDP growth shock.

Barbados's debt comprises of 73 percent fixed rate debt and 27 percent variable interest rate debt. This composition helps reduce exposure to interest rate volatility, as higher share of fixed-rate borrowing provides greater stability in debt servicing obligations over the medium term. Changes

in interest rates predominantly affect the government foreign variable-rate debt through higher interest expenses. Upward changes in interest rates can be costly, especially when there is a high current expenditure. In recent years, interest rates have been one of the largest contributors to increases in expenditure. To mitigate interest rate risks, Barbados has strengthened its fiscal responsibility framework which includes setting fiscal targets and enforcing budgetary constraints. By doing so, this framework supports prudent fiscal management, helps manage debt dynamics, and reduces the economy's exposure to interest rate fluctuations.

Overall, the results confirm that **fiscal outcomes are most sensitive to GDP growth**, followed by interest rate changes, while inflation shocks have the least adverse effect on fiscal aggregates in the short run. These findings support prioritizing risk-mitigation strategies that **strengthen economic growth**, **enhance resilience to external shocks**, and **manage exposure to interest rate volatility**.

3.1.2. Scenario Analysis

Scenario analysis helps illustrate how government finances might change under different possible futures, allowing decision-makers to think ahead and prepare for uncertainty. By presenting both a **plausible best-case scenario** and a **plausible conservative scenario**, the analysis shows how fiscal outcomes could shift if conditions improve or worsen. This approach helps policymakers understand the range of potential risks and opportunities, supporting better planning, stronger resilience, and more informed choices about how to manage public resources responsibly.

Macro Fiscal Assumptions

The Parliamentary Draft Estimates of revenue and expenditure for FY2026/27 were prepared in line with the baseline economic assumptions for the financial year and into the medium term. The fiscal projections are mainly underpinned by estimates for economic activity, prices, and debt service costs for both domestic and external debt. Any deviations in the actual performance of these key indicators may result in variations in the forecasted outcomes for revenue and expenditure.

Baseline

For FY 2026/27, the Government aims to sustain a primary surplus of 4.1 percent of GDP through disciplined expenditure management and enhanced revenue mobilization. Real GDP growth is projected to expand by approximately 3.0 percent, while the overall fiscal balance is expected to register a deficit of 0.47 percent of GDP. The target for public debt remains within the debt trajectory to achieving the 60% target by 2035/36.

Scenario 1: Upside Scenario

The upside scenario has real growth at 3.3 percent for FY2026/27, and all other variables remain unchanged (Figure 2). In FY2027/28 real GDP continues to grow although at a slight moderate rate but remains above the baseline. Beyond this the growth path momentum continues into the medium term and remains marginally higher than the baseline path reflecting a positive economic trajectory. The increase in economic activity leads to an expansion in revenues within FY2026/27, which results in an improved fiscal balance from the baseline over the medium term (Figure 3).

Scenario 2: Conservative Scenario

The conservative scenario assumes a decrease in economic activity in FY2026/27. As a result, the growth in real GDP falls below the baseline projections by approximately 0.32 percentage points and ends FY2026/27 at 2.7 percent (Figure 2). In FY 2026/27 real GDP growth exceeds the baseline, driven by strong economic recovery subsequent to the falloff which then stabilizes in the medium term. The subsequent impact on the fiscal balance is shown in Figure 3, with a slower improvement in the fiscal position during FY2026/27 compared to the baseline which moderates in the medium term.

Figure 2: Real GDP Growth Shock

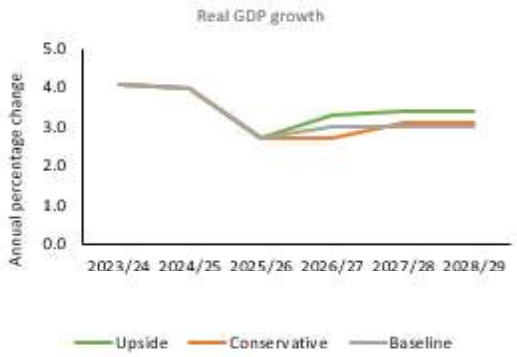
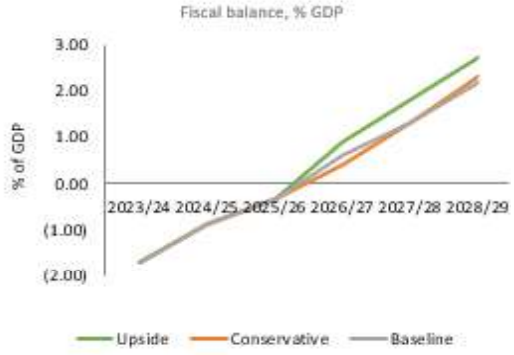


Figure 3: Fiscal balance % GDP Shock



Source: Ministry of Finance, Fiscal Risk Unit

3.1.3. Debt Portfolio Risk

Every debt portfolio inherently carries risks and associated costs. Effective debt portfolio management involves identifying these risks and developing strategies to mitigate them, considering any constraints to avoid undue costs and minimizing potential losses. As of October 2025, Barbados' debt-to-GDP ratio stood at 93.6% and the composition of its debt portfolio, as a share of the total debt stock comprised of external debt (38.8%), domestic debt (59.6%), guarantees (0.4%), and arrears (1.2%), as shown in Figure 4.

Figure 4: Barbados Debt Portfolio, % of Total Debt

Source: Ministry of Finance, Debt Unit and Fiscal Risk Unit

External Debt - Exchange Rate and Interest Rate Risk

As of October 31, 2025, external debt stood at approximately BBD5,815.9 million, an increase of BBD198.9 million when compared to the period ending October 2024. This increase is primarily attributed to borrowing to strengthen social services and climate resilience. External debt accounts for approximately 38.8% of total debt excluding government guarantees. It is composed primarily of multilateral loans and international bonds.

A significant portion of the external debt is denominated in US dollars, which aligns with the country's international reserves and export receipts, also held in US dollars. This acts as a natural hedge against foreign exchange risk. Additionally, the fixed exchange rate of BBD 2:1 to the US dollar helps reduce currency volatility. Consequently, the debt portfolio's currency mix is not overly exposed to foreign exchange fluctuations, keeping FX risk manageable.

Approximately 69% of external debt carries variable interest rates. The Secured Overnight Financing Rate (SOFR) is the benchmark for these variable-rate loans. While global interest rates are still somewhat elevated, they have declined in line with the Federal reserves' interest rate reductions over the past year 2025. Using sensitivity analysis if volatility of interest rates on external debt FY2026/27 increase by one percentage point (from 4.8 percent to 5.8 percent) it is estimated that the debt service cost would increase approximately BBD40 million (0.25% of GDP), representing a moderate impact. Consequently, the Government's exposure from external debt as a percentage of GDP is **considered a moderate fiscal risk**.

Government Guarantees

Government guarantees constitute explicit contingent liabilities and cover external borrowing including multilateral loans and bond issuances on behalf of two State-Owned Enterprises (SOEs): **Barbados Investment and Development Corporation (BIDC)** and **Kensington Oval Management Inc. (KOMI)**, as well as a **national guarantee for the University of the West Indies (UWI)**. As at **October 2025**, the stock of guaranteed debt stood at **BBD$67.2 million**, Table 5.

Approximately 74 percent of the secured debt portfolio is attributed Kensington Oval Management Inc (KOMI), despite representing only approximately one-fifth of the underlying loans. Barbados Investment and Development Corporation (BIDC) holds approximately 23 percent of the guaranteed debt, while the University of the West Indies holds the remaining 3 percent share of the secure portfolio, even though it is responsible for more than half of the loans.

The guaranteed entities have consistently and timely serviced their obligations. However, the likelihood of Government intervening to honour a guarantee is assessed as possible given the financial weaknesses of the SOEs involved. A call on the guarantee for KOMI and BIDC would have a moderate fiscal impact, whereas a call on the UWI guarantees would result in a low fiscal impact. Overall, the guarantees are small representing approximately **0.4 percent of GDP** and therefore considered as a moderate risk.

Table 5: List of Government Guarantees Loans (BDS$)

Oraganization	Amount of Loan BBD (M)
	1,000,000
University of the West Indies-European Union	0.78
University of the West Indies- Mona CDB 9/OR-REG	0.69
University of the West Indies- Mona CDB 1/SFR	0.23
BIDC $38M	15.49
KOMI	50.00
Total Government Guarantee Debt*	**67.19**
*Guaranteed Loans Portfolio as at October 2025	

Source: Ministry of Finance, Debt Unit and Fiscal Risk Unit

External Debt: Response Action and Controls

Barbados is advancing a comprehensive strategy to ensure long-term debt sustainability while strengthening climate resilience. This approach is anchored in two key fiscal pillars:

1. **Reducing public debt** to achieve a debt-to-GDP ratio of 60% by 2035/2036.
2. **Increasing the primary fiscal surplus** to above 4% of GDP.

Consistent achievement of primary surplus targets has reinforced the credibility of this strategy. Any deviation from these targets poses a fiscal risk and could undermine progress toward sustainability. To mitigate vulnerabilities associated with the debt portfolio, the Government of Barbados (GoB) has adopted a comprehensive risk management strategy framework including:

- No new guarantees on domestically financed debt, thereby limiting future exposure.
- Any request for a guarantee is subject to a comprehensive assessment of the entity's repayment capacity, and it must receive prior approval from Parliament, reinforcing transparency, oversight, and fiscal discipline.
- Seeking to extend debt maturities, where possible, to avoid refinancing pressures.
- Utilizing stepped-rate amortizing bonds to manage interest rate exposure.
- Maintaining a diversified debt portfolio with a mix of domestic and external financing.
- Natural Disaster Clauses and Pandemic Clauses in debt instruments, allowing for payment deferrals under specific conditions.
- Debt-for-Nature Swaps, such as the 2022 transaction supported by the Inter-American Development Bank (IDB) and The Nature Conservancy (TNC), which converted high-cost commercial debt into lower cost debt and created space for conservation funding.
- Establishment of contingent credit facilities, such as those with the IDB and the International Bank for Reconstruction and Development (IBRD) via the Catastrophe Deferred Drawdown Option (CAT DDO).
- Implementing reforms under the Barbados Economic Recovery and Transformation (BERT) Plan to strengthen fiscal sustainability.
- Creation of the Resilience and Sustainability Facility (RSF) and the Resilience and Regeneration Fund (RRF) to support climate-related investments and bolster economic recovery.

Together, these measures reflect Barbados' integrated approach to fiscal sustainability and climate resilience, ensuring that its debt management framework remains robust in the face of evolving risks.

Domestic Debt

In September 2023, the Government of Barbados successfully resumed its Domestic Capital Market Operations through the regular issuance of Treasury Bills. To broaden investor participation, a non-competitive bidding option was introduced in January 2024, allowing

individuals to bid without specifying a rate. These bids are allocated at the average rate of successful competitive bids. This approach has been well received and aligns with the Government's goal of expanding the domestic investor base. Disbursements from project loans are complemented by domestic financing, as part of ongoing efforts to revitalize and deepen the domestic securities market.

As of October 2025, **domestic debt accounted for approximately 59.6% of Barbados' total public debt**. The domestic debt portfolio is primarily composed of restructured stepped-up amortizing bonds, Treasury Bills, Treasury Notes and Debentures, with the National Insurance Board (NIB) being the single largest holder of these securities. These facilities carry fixed interest rates allowing for debt servicing costs to be budgeted with a high degree of certainty over the life of the loan.

One of the main risk within the domestic debt portfolio relates to rollover risk. This arises when the Government may face challenges refinancing maturing debt particularly if domestic banks and other financial institutions are unwilling to purchase new or rolled-over instruments at prevailing interest rates. The assessment of this risk was informed by the average time to maturity (ATM) of domestic debt. The ATM of the Barbados domestic debt portfolio stood at 9.05 years as at December 2025, reflecting a well-structured maturity profile and supporting an assessment of low rollover risk, as the government faces limited short-term refinancing pressures and debt obligations are distributed over a long horizon. This assessment is reinforced by international benchmarks[1], as emerging markets with ATMs above 7 years are generally viewed as having low rollover risk, whereas countries with ATMs below 5 years often experience moderate to high rollover vulnerability depending on the concentration of annual redemption profiles.

However, the effectiveness of domestic financing strategies remains constrained by a relatively narrow investor base and limited appetite for government securities, despite ample liquidity within the financial system. This constraint implies that, in some circumstances, required financing may not be available in sufficient quantities or at the desired time. Overall, the Government's exposure from domestic debt, as a percentage of GDP, is assessed as a low fiscal risk.

Domestic Debt: Response Action and Controls

To reduce reliance on external financing, the Government of Barbados is gradually shifting its focus toward increasing the share of **domestic borrowing over the medium term**, which supports the development of the local capital market and enhances financial resilience. These efforts are guided by the **Medium-Term Debt Management Strategy (MTDS)**, which aims to identify the most appropriate borrowing strategy by balancing cost and risk within existing financing constraints.

[1] IMF & World Bank (2009). *Medium-Term Debt Management Strategy (MTDS).*

Government Arrears

As at October 2025, the Government of Barbados (GoB) reported arrears of **BBD 185.5 million (1.2% of GDP)**. The GoB's policy treatment of arrears established under **BERT 1 (2018)** and reinforced under **BERT 2022** remains anchored in strong fiscal discipline, consistent servicing of outstanding obligations, and the **non-accumulation of new arrears**, in line with commitments monitored under successive IMF-supported programs. The non-zero arrears primarily reflects normal timing differences associated with verification, approval, and invoice-reconciliation, as well as obligations currently undergoing validation and regularization prior to settlement.

3.2. Specific Fiscal Risks

The Government of Barbados remains exposed to discrete risks arising from guarantees, State-owned Enterprises (SOEs) bailouts, and natural disasters, any of which can worsen the fiscal position across the short, medium, and long term if unexpected events occur. In such circumstances, the government may be required to intervene and settle associated claims, thereby increasing fiscal pressure. Quantitative analysis was conducted to estimate the likelihood and potential fiscal impact of these specific risks on Barbados public finances.

3.2.2. State-owned Enterprises (SOEs)

State-Owned Enterprises (SOEs) play a pivotal role in Barbados' economic landscape, contributing significantly to GDP, employment, and social welfare. These entities operate across essential sectors including water, transportation, energy, tourism, agriculture, healthcare, and vary widely in size, operational complexity, and the degree of government ownership and control. While some SOEs function as direct extensions of the Government, others operate under joint public–private ownership structures and are mandated to pursue more commercially oriented objectives.

As of December 2025, Barbados' SOE portfolio comprises fifty-five (55) entities, reflecting amalgamations, mergers and dissolutions over recent years, down from fifty-eight (58) in 2019. Of these, thirty-seven (37) are classified as commercial SOEs, while eighteen (18) serve public service or regulatory functions and are designated as non-commercial SOEs (**Appendix 1**).

Reshaping and Restructuring SOEs to Reduce Fiscal Risks

The Government of Barbados has undertaken significant restructuring of State-Owned Enterprises (SOEs) (Appendix 2) to address long-standing challenges, including liquidity pressures, technical insolvency, and persistent operational deficits. Through a proactive and sometimes difficult reform agenda encompassing mergers, amalgamations, divestments, cost reductions, and the strengthening of financial oversight, the Government has successfully reduced losses, enhanced operational efficiency, and improved the financial sustainability of key SOEs. These efforts have helped safeguard fiscal stability and protect the progress achieved under the Barbados Economic Recovery and Transformation (BERT) framework, placing SOEs on a more resilient and sustainable long-term path.

Through restructuring, cost-containment, improved financial management, and operational reforms, Barbados has already reduced SOE losses substantially — cutting net sector losses from **BBD529.1 million (5.3% of GDP)** in FY2021/22, a period that included the COVID-19 related fiscal pressures, to **BBD214.6 million (1.7% of GDP) in FY2023/24.** This significant reduction reflects the Government's ongoing commitment to restoring fiscal balance, ensuring long-term sustainability, and reshaping the role of SOEs in the modern Barbadian economy.

Risk Assessment of SOEs

In assessing financial risks within SOEs, **profitability challenges often emerge first**, which can subsequently lead to **liquidity pressures** and, if unaddressed, **solvency problems**. SOE risks were identified through the analysis of financial statements and key ratios with particular attention given to **three core dimensions of financial performance**: **liquidity**, **solvency**, and **profitability**. The following ratio analyses were undertaken using the following models.to evaluate these areas in a systematic and comparable manner.

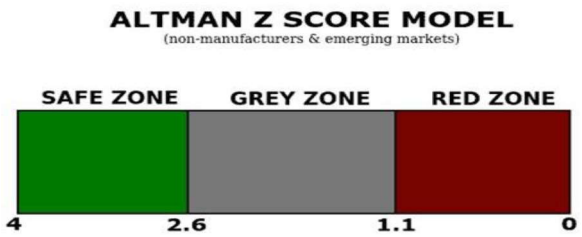
Altman's Z-Score Model

The Altman's Z-Score model was applied to assess the financial stability of the 37 commercial SOEs and estimate the likelihood of bankruptcy within a two-year horizon, Figure 5. In general, higher levels of working capital, stronger profitability, and higher levels of equity contributes to a higher Z-score. A Z-score equal to or above 2.6 indicates than an SOE is operating in the "safe zone," while lower score signals increasing financial distress. The Z-score model is derived from five key financial ratios, each capturing a different dimension of the SOE financial health:

1. Working capital/ Total Assets
2. Retained Earnings/ Total Assets

3. Earnings Before Interest & Tax (EBIT)/ Total Assets before Interest & Taxes/Total Assets
4. Market Value/ Total Liabilities
5. Sales/ Total Assets

Figure 5: Altman's Z-score Model



Source: the businessprofessor.com

Based on **Table 6**, four commercial SOEs recorded Altman Z-scores that fall firmly within the **distress zone**, with values **well below 1.1 threshold**. The extremely negative scores ranging from **–3.3 to –207,** significantly depress their overall financial standing and signals very high levels of financial risk. These results suggest that these SOEs face materially greater financial distress relative to the other SOEs.

The **Transport Board (TB)** continues to exhibit severe financial pressure, while the **Barbados Tourism Product Authority (BTPA)** faces the most acute distress among the group. The **Caribbean Broadcasting Corporation (CBC)** shows deep financial strain driven by persistent operating losses and high fixed costs. **KOMI** also reflects significant, though comparatively moderate, distress, largely due to its volatile, event-dependent revenue streams.

These negative Z-scores point to severe balance-sheet erosion, ongoing liquidity pressures, and structural financial instability. They further indicate that these SOEs are thinly capitalized, with equity levels that are insufficient relative to their liabilities, and that they are consistently generating year-on-year losses. Entities with these characteristics pose a heightened risk of fiscal spillovers, as they are likely to transfer financial pressures to the Government budget. Consequently, these SOEs are expected to remain solvent only with continued and sustained Government support, including periodic bailouts or other forms of financial intervention.

Table 6: Altman's Z-scores: SOEs in Distress Zone

SOE	Atlman's Z-Score (Distress Zone)	
CBC	-35.9	Caribbean Broadcasting Corporation
KOMI	-3.3	Kensington Oval Management Inc
TB	-86.9	Transport Board
BTPA	-207.3	Barbados Tourism Product Authority

Source: Ministry of Finance, Fiscal Risk Unit

Worst-Case Scenario Analysis: Specific SOEs Bailouts

From a fiscal risk perspective, a financial ratio-based analysis was conducted to estimate the potential fiscal impact of an SOE related risk realization. This methodology focuses on assessing both the type and the possible magnitude of a Government bailout using worst-case scenario analyses built on severe stress assumptions. Importantly, this approach represents an upper-bound estimate of potential fiscal exposure, meaning it may overstate the likely fiscal impact, and it does not rely on or incorporate any forecasted expenditure for the SOEs.

The scenario analyses concentrates on SOEs classified as **high-risk**, defined as those with the **largest total liabilities** and the **highest liabilities-to-GDP ratios (Table 7)**. For these entities, the assessment considers a **worst-case scenario** in which the SOE may default on its obligations, requiring Government support to move the SOE ratio from high risk and restore it to a moderate-risk position. While it is unlikely that Government would be required to assume the entirety of an SOE's liabilities, this scenario analysis framework provides a useful benchmark to identify which entities pose the **greatest potential fiscal risk**.

This worst-case scenario therefore signals where fiscal pressures and potential bailout requirements are most likely to emerge. Within this framework risk assessments were conducted for **Barbados Port Inc**. and the **Transport Board**.

Table 7: Barbados SOEs Rank by Largest Liabilities FY2024-25

	Total liabilities	% GDP
Barbados Port Inc.	286	2.0%
Barbados Water Authority	256	1.8%
Grantley Adams International Airport	172	1.2%
Barbados Tourism Investment Inc.	171	1.2%
Transport Board	136	0.9%

Source: Ministry of Finance, Management Accounting Unit and Fiscal Risk Unit

Above-the-line Bailout

Barbados Port Inc.

Barbados Port Inc. (BPI) exhibits a **very high liquidity risk** in FY2026/27, with a **current ratio of 0.6**, indicating that the entity does not possess sufficient current assets to meet even two-thirds of its short-term obligations. This level of illiquidity signals elevated operational vulnerability and a heightened probability of arrears accumulation.

Achieving a **moderate-risk liquidity position** defined as a minimum current ratio of **1.5** would require current assets of approximately **BBD 108.9 million**, given current liabilities of **BBD 72.6 million**. With existing current assets of **BBD 42.2 million**, this results in a liquidity gap of **BBD 66.7 million**, equivalent to roughly **0.4% of GDP**. This figure represents an upper-bound, stress-test estimate of potential exposure rather than a forecast of actual Government spending.

The worst-case scenario exposure would result in a **BBD 66.7 million cash injection**. Such an intervention if required under severe stress, could be structured as an above-the-line payment, such as a long-term Government grant or a targeted subsidy to reinforce BPI's working capital.

This bailout estimate represents a stress-test worst-case scenario illustrating the scale of fiscal exposure that could be required to stabilize BPI's financial position. Although BPI remains a commercially significant and strategically vital national asset, its current liquidity shortfall constitutes a material fiscal risk under severe assumptions.

Below-the-line Bailout

Transport Board

The Transport Board's 2026/27 financial position places it firmly in the **very high-risk** category. Its Debt-to-Equity ratio of **–1.4**, driven by total liabilities of **BBD 135.5 million** and negative equity of **BBD –99.0 million**, reflects severe balance-sheet erosion and an unsustainable capital structure. Negative equity signifies an immediate inability to absorb operational losses without Government intervention.

To restore the Transport Board to a **moderate-risk financial position** defined as achieving a Debt-to-Equity ratio of **1.5** equity must rise to at least **66.6% of total debt**, or approximately **BBD 90.2 million**. Given the current equity deficit, this translates to an equity shortfall of **BBD 189.2 million**, representing approximately **1.6% of GDP**.

This worst-case scenario exposure bailout requirement highlights the magnitude of the intervention needed for the Board to recover financial stability. Under this scenario analysis, support could be provided through **below-the-line operations**, such as an equity injection, a Government-funded debt write-off, or a hybrid approach. While this represents the upper-bound stress-test estimate, it underscores the Board's substantial fiscal vulnerability, and the government continued action of reforming and restructuring the Transport Board.

Macroeconomic Impact Based on MTFF Scenario Analysis

The scenario analyses using the Medim Term Fiscal Framework (MTFF) spreadsheet for FY2026/27 demonstrated the hypothetical fiscal implications under a severe stress test scenario in which the Government is assumed to intervene and fully cover the SOEs' total liabilities, (Table 8): These analyses was designed solely to quantify potential upper-bound fiscal exposure and not indicative of planned policies or future expenditure commitments by the Government.

- **Impact of a BBD 66.7 million grant to Barbados Port Inc. (above-the-line payment):** Under this scenario assumption, Government expenditure increases in 2026/27, which in turn negatively affects the fiscal balance, debt, and interest payments in FY2028/29.

- **Impact of a BBD 189.2 million debt-financed equity injection into the Transport Board (below-the-line payment):** Because this transaction is recorded below the line, the fiscal balance in 2026/27 remains unchanged within the scenario. However, the debt stock rises significantly, increasing future financing requirements and heightening medium-term debt sustainability risks.

Table 8: Potential Bailout Scenarios

Scenario: Above the line impact

The impact of a B$66.7 million grant made to BPI in 2026/27.		
B$ millions	**Baseline**	**Scenario**
Expenditure, 2026/27	4,337	4,401
Fiscal balance, 2026/27	55	-11
Debt stock, 2026/27	15,222	15,288
Interest payments, 2028/29	719	720
Debt: GDP, 2028/29	84.5	85.7

Scenario: Below the line impact

The impact of a B$189.2 million debt financed equity injection made to Transport Board in 2026/27.		
B$ millions	**Baseline**	**Scenario**
Expenditure, 2026/27	4,337	4,337
Fiscal balance, 2026/27	55	55
Debt stock, 2026/27	15,222	15,411
Interest payments, 2027/28	719	729
Debt: GDP, 2028/29	84.5	85.7

Source: Ministry of Finance, Management Accounting Unit and Fiscal Risk Unit

Response Action and Controls

It should be noted that the assessment of the SOEs' total liabilities or negative equity in isolation may not provide an accurate picture of ongoing financial deterioration, as these figures represent only a static snapshot at a single point in time. To better estimate the risk-weighted fiscal impact of these SOEs, year-to-date (YTD) losses were used as a proxy for the level of ongoing or future financial support that the Government may need to provide whether through bailouts, subventions, or other interventions. This approach is particularly appropriate where losses are recurring and are likely to persist, as it provides a more dynamic and forward-looking assessment of short-term fiscal exposure. By capturing cash flow pressures, operational losses, and potential future liabilities, it offers a more accurate reflection of the fiscal implications for the Government. The results of this risk-weighted assessment, expressed as a percentage of GDP, are presented in the heat map in the executive summary.

To mitigate the fiscal risk, pose by the Transport Board, the Government of Barbados is implementing a comprehensive restructuring of the Transport Board, which includes its transition into the newly established **Barbados Mass Transit Authority (BMTA)**. The BMTA is designed to **amalgamate part of the Transport Board and the Transport Authority**, with the primary objective of reform, investment and work enfranchisement. The reform also aims to **enhance revenue generation**, **streamline expenditure**, and **improve operational efficiency**.

Additional SOE Challenges

Key indicators posing moderate risks to Barbados' public finances include **the potential need for bailouts of loss-making state-owned enterprises (SOEs)**, particularly **those facing technical insolvency—**such Hope Ownership Providing Energy (HOPE) Inc., the Caribbean Broadcasting Corporation (CBC), and the Barbados Tourism Marketing Inc. Additional fiscal pressures arise from **severe liquidity challenges** in entities like the Queen Elizabeth Hospital (QEH), Sanitation Service Authority (SSA), and Barbados Water Authority (BWA). Appendix 3.

The 50% Test

International standards, including those adopted by the International Monetary Fund (IMF) and United Nations statistical agencies, classify public corporations or State-Owned Enterprises (SOEs) as government-owned entities that operate on a commercial basis. Under these standards, an SOE is considered *commercial* only if its **own-source revenues** (excluding government subsidies) are sufficient to cover **at least 50 percent of its operating costs over a continuous three-year period**. This quantitative benchmark commonly referred to as the "**50 Percent Rule,"** is widely applied to distinguish commercially viable SOEs from non-commercial or government-dependent entities.

Applying this rule to Barbados reveals that **11 out of 37 SOEs fail to meet the commercial classification**, as they do not consistently cover at least half of their operating costs with independent revenues over three consecutive years (Appendix 4). This indicates that approximately 30% of SOEs currently classified as commercial under domestic practice do not meet internationally recognized criteria for commercial viability, suggesting that these SOEs may be *quantitatively misclassified.*
While the Public Finance Management (PFM) Act introduces **qualitative** criteria that consider an SOE's intended purpose, strategic relevance, and potential to deliver public value, it does **not require a quantitative assessment** of actual financial performance. The absence of an objective financial threshold means that classification decisions may not fully capture the underlying fiscal risks posed by SOEs, particularly those with persistent operating losses or structural revenue shortfalls.

Introducing a quantitative benchmark such as the **50 Percent Rule** would provide policymakers with a clearer, more transparent, and evidence-based framework for SOE classification. It would enhance fiscal transparency, ensure that commercial SOEs are monitored for financial sustainability and operational efficiency, and enable the Government to more accurately identify loss-making entities.

Cybersecurity Risk

Cybersecurity risks refer to threats such as ransomware, data breaches, phishing attacks, and malicious disruptions targeting information systems, digital services, and critical national infrastructure. As Barbados becomes increasingly digital across government, financial services, and the broader economy these risks pose growing threats to economic stability, public service delivery, and national finances. Cyberattacks can shut down essential platforms, compromise sensitive data, disrupt payment systems, and erode public confidence in the financial system, potentially triggering severe economic ripple effects.

Barbados' cybersecurity commitment, as assessed by the International Telecommunication Union (ITU) *Global Cybersecurity Index (GCI) 2024*, places Barbados in the *"evolving"* tier reflecting areas of progress but also underscoring significant gaps in legal frameworks, institutional readiness, and technical incident-response capacity. This classification signals that Barbados' cybersecurity posture, though improving, remains a growing source of fiscal risk, particularly given increasing reliance on digital public services.

In response to these challenges, the Government of Barbados has initiated several reforms aimed at strengthening national cyber resilience and addressing gaps identified in the ITU assessment. The responsible Ministry has onboarded a Consultant Chief Information Security Officer and is working towards establishing an Information Security / Cybersecurity practice across the public sector. The Cyber Resilience Programme initiatives include.

1. The strengthening of the Governance framework in accordance with international good practices, such as ISO 27001, NIST, CIS.
    a. the development and implementation of Information / cybersecurity policies and standards
2. Completion of threat risk assessments of new and modified systems
    a. deployment of SIEM (Security Information and Event Management system), and
    b. SASE (Secure Access Service Edge) platform,
3. Enhanced application security testing capabilities

Together, these measures form the foundation of Barbados' cybersecurity roadmap, aimed at strengthening the protection of digital public services, reducing fiscal exposure to cyber incidents, and progressively moving the country from an "evolving" to a more "maturing" cybersecurity posture in alignment with international benchmarks.

3.3. Institutional Risks

Budget data forecasting is a critical element of Barbados's fiscal management framework. It underpins the preparation of parliamentary draft estimates of revenue and expenditure for FY2025/26 aligning with the baseline economic assumptions for the financial year and into the medium term to guide policy decisions and resource allocation.

In this context, revenue forecasts act as essential benchmarks for assessing budget performance. When actual revenues differ from projected amounts these are known as forecast errors and these variances reveal areas for improvement in forecasting. Persistent or significant forecast errors may

also indicate institutional or methodological weaknesses, such as overestimating revenues or underestimating expenditures.

3.3.1. Revenue forecast error analysis

Analysis was performed using historical budget forecast data to detect potential systematic biases in fiscal projections. The analysis covered fiscal years 2012–13 through 2022–23, excluding Covid-19 year, comparing initial budget estimates against actual outcomes while excluding any revised figures. The average error calculated as the difference between projected and realized results served as the basis for identifying bias. A consistent tendency to overestimate performance indicates an optimistic bias, whereas repeated underestimation reflects a pessimistic bias. We exclude 2020/21 due to the impact of Covid-19 on the revenue forecasts.

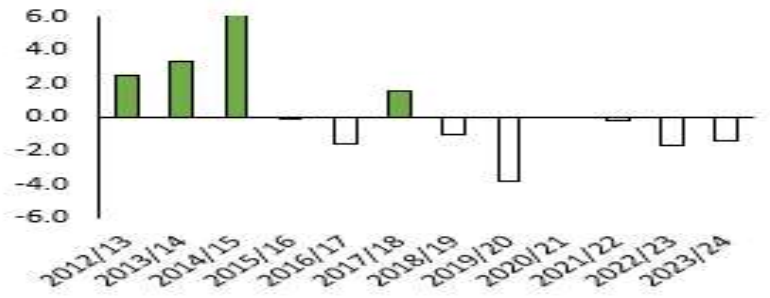
Table 9: Barbados Revenue Forecast Errors Analysis, excluding Covid-19 year

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Nominal GDP	**9315**	**9220**	**9335**	**9393**	**9449**	**9666**	**9963**	**10195**	**10734**	**9560**	**9891**	**11681**	**12776**
Error as a % of nominal GDP		**2.5**	**3.3**	**8.2**	**0.0**	**-1.6**	**1.6**	**-1.0**	**-3.8**		**-0.2**	**-1.7**	**-1.4**
Average error 2012/13 to 2022/23 (indicates bias)													**0.5**

Source: Fiscal Risk Unit, Ministry of Finance.

Table 9 shows that over the last eleven years (excluding the COVID-19-affected FY2020/21), Barbados's revenue forecasts recorded an average error of +**0.5% of nominal GDP**, reflecting a small optimistic bias meaning revenues were generally overestimated by this margin. However, we can see that this average is driven by optimism biases between 2012/13 and 2017/18, and since 2018/19 revenues have generally performed better than the forecast. From a fiscal risk perspective this marks an improvement with conservative revenue forecasting acting as a buffer that can protect public finances should a fiscal risk materialise.

Figure 6: Barbados Revenue Forecast Errors Analysis (as a % of Nominal GDP)



Source: Fiscal Risk Unit, Ministry of Finance.

Figure 6 highlights that in recent years (2018/19–2023/24 excluding 2020/21), errors have turned negative, ranging from **-0.2% to -3.9%**, indicating actual revenues exceeded forecasts. These smaller negative errors suggest improved realism in revenue projections, and possibly more conservative assumptions. However, the overall average error of +**0.5%** still reflects a long-term optimistic bias, as recent improvements only offset the large positive errors observed in earlier years.

This trend highlights that Barbados continues to make notable progress towards more accurate and balanced forecasts, reducing the risk of budgetary imbalances and supporting better resource allocation. Nevertheless, the persistence of any forecast error underscores the importance for the Government of Barbados to continue refining forecasting methodologies, strengthening data systems, and maintaining rigorous monitoring to reduce institutional risks and safeguard fiscal stability.

3.4. Social and Long-term Risks

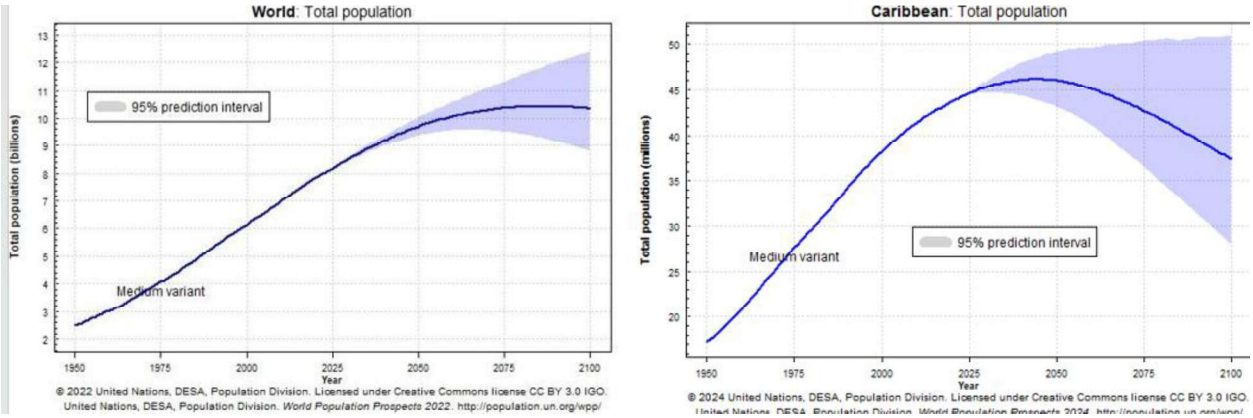
In Barbados, long-term social risk analysis has become an increasingly prominent feature in recent Fiscal Risk Statements, driven largely by the growing recognition of structural vulnerabilities associated with Barbados's demographic changes, pension sustainability, the rising fiscal burden of non-communicable diseases (NCDs) and climate-related risks. These risks extend beyond the three-year horizon of the Medium-Term Fiscal Framework (MTFF), requiring a forward-looking approach that anticipates fiscal pressures over a 50-year horizon and beyond.

3.4.1. Barbados' Demographic Outlook

Demographic changes are particularly important for Barbados. Global population growth is projected to peak later this century, and current UN forecasts indicate that the wider Caribbean population will peak around the mid-2030s, before entering a gradual and prolonged decline (Figure 7). Barbados follows a similar trajectory with even sharper long-term contraction. Barbados' population is expected to peak around the early-2030s, followed by a steady reduction throughout the remainder of the century, Figure 8.

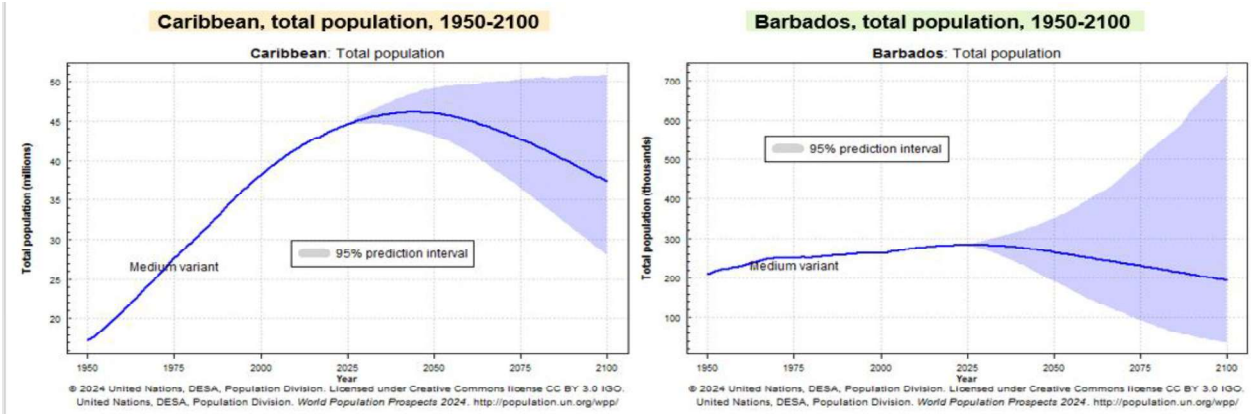
However, significant uncertainty bands surround these projections as shown in Figure 8 and 9 charts reflecting sensitivity to factors such as migration flows, fertility trends, and longevity improvements. This uncertainty complicates long-term fiscal planning, especially for age-sensitive programs such as health care, pensions, and social protection.

Figure 7: World Population Peak level and Caribbean Peak levels



Source: UN Population Projections 2022, median variant; World Bank World Development Indicators; IMF staff calculation.

Figure 8: The future population of Caribbean & Barbados

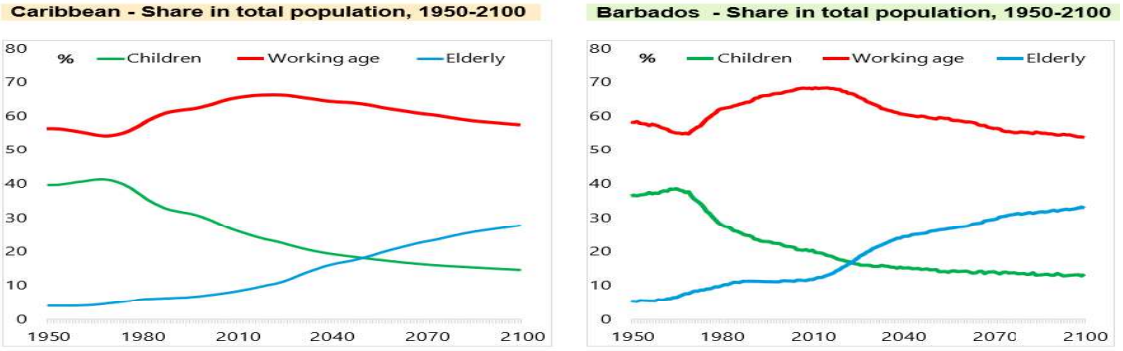


Source: UN Population Projections 2022, median variant; World Bank World Development Indicators; IMF staff calculation.

Furthermore, **Barbados' age structure is undergoing a steady inversion, Figure 9.** The **working-age share (aged 15-64) peaked around 2018** (just under **70%**) and has been **declining since**, projected to fall to the **low-60s by mid-century** and the **mid-50s by 2100**. The **children's share** has dropped from roughly **40% in the 1970s** to the **mid-teens** and continues to edge down. In contrast, the **elderly share** rises from low single digits in 1950 to about **one-fifth by the late 2030s**, overtaking children around 2030–2035 and **approaching one-third of the population by century's end**.

With fewer people of working age and many more elderly, the labour supply tightens, dependency ratios rise, and long-term pressures from pensions and health care (especially NCD management) will put additional pressure on public finances.

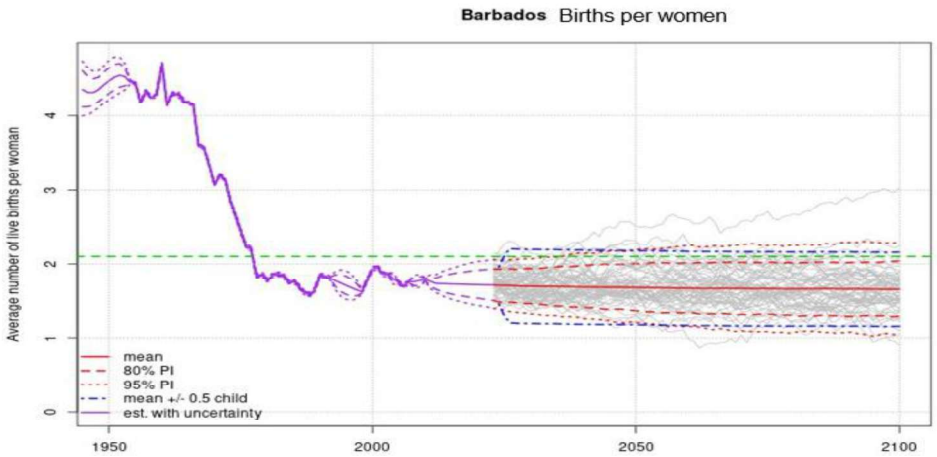
Figure 9: Barbados Demographic changes



Source: UN Population Projections 2022, median variant; World Bank World Development Indicators; IMF staff calculation.

Falling fertility is one of the most significant structural drivers of Barbados' demographic transition. As the shown in Figure 10, Barbados' **total fertility rate (TFR)** has dropped sharply from above **4 children per woman in the 1950s** to **well below the replacement level of 2.1** since the late 1980s. Current projections indicate that fertility will remain **persistently low**, fluctuating around **1.5–1.7** over the long term, with wide uncertainty bands reflecting potential variation in future behaviours.

Figure 10: Barbados Falling fertility rate is Primary Driver



Source: 2024 United Nations, DESA, Population Division. Licensed under Creative Commons License CC By 3.0 IGO. United Nations, DESA, Population Division. World Population Prospects 2024. https://population.un.org.wpp/

Implications for Long-Term Social and Fiscal Risk

Barbados' demographic transition marked by **persistent low fertility**, **longer life expectancy**, and a **shrinking working-age population** has significant consequences for long-term fiscal outcomes. These dynamics directly shape government expenditure needs, the tax base, and the sustainability of core social programs.

i. Rising Health-Care Spending Pressures

As the population ages, a larger share of Barbadians will fall into age groups with **higher health-care utilization**, particularly for chronic non-communicable diseases (NCDs) such as diabetes, hypertension, and cardiovascular conditions. These conditions already account for the majority of morbidity and mortality in the country, and their prevalence increases sharply with age.

The combined effects of **older age structures**, **declining labour-force growth**, and **changing dependency ratios** mean that health-care spending is likely to grow faster than GDP over the long term. A smaller workforce also constrains economic growth, making health spending appear larger relative to the size of the economy. These pressures underscore why demographic trends are fundamental to understanding long-run fiscal sustainability in the health sector.

ii. Higher Pension Expenditures and Sustainability Challenges

Ageing also places upward pressure on pension spending. As fertility remains below replacement and life expectancy rises, the number of retirees increases relative to contributors. Barbados' pension system depends on current workers funding current retirees. With the working-age population declining since its peak around 2018, the contributor base is narrowing.

At the same time, longer life expectancy means individuals collect pension benefits for more years, raising the present value of future pension obligations. Without parametric reforms such as adjustments to retirement ages, contribution rates, or benefit formulas these trends pose risks to the long-term sustainability of the National Insurance and Social Security Service (NISSS) and other pension arrangements.

iii. Labour Market and Productivity Effects

Declining working-age population levels and ongoing out-migration, particularly among younger and skilled workers, reduce the size and dynamism of the labour force. This can weaken productivity growth, constrain private investment, and limit Barbados' capacity to generate the economic momentum needed to support rising age-related spending. A smaller labour force also directly reduces the tax base, amplifying fiscal pressures as social spending needs increase.

iv. Intergenerational Equity and Fiscal Burden-Sharing

The demographic shift raises important intergenerational considerations. With fewer workers supporting a growing number of retirees, younger cohorts may face increasing tax burdens or reduced benefit levels if the system is not reformed. Ensuring a fair and sustainable distribution of fiscal obligations across generations will require careful calibration of social protection policies, tax structures, and pension reforms.

Effectiveness of Existing Mitigation Measures and Controls: Barbados' Demographics

Barbados is proactively addressing the challenges posed by an aging population and a rising dependency ratio through a suite of policy reforms, institutional restructuring, and strategic initiatives aimed at mitigating long-term fiscal pressures and enhancing national resilience.

i. Full Free Movement of Nationals

A landmark regional initiative took effect on **October 1, 2025**, with the **implementation of full free movement of nationals** among four CARICOM Member States—**Barbados, Belize, Dominica, and St. Vincent and the Grenadines**. This policy is expected to expand the available labour pool, ease demographic pressures, and deepen regional integration.

ii. Legislative Reforms

Domestically, Barbados is advancing key legislative reforms through the **Immigration Bill, 2025**[2] and the **Citizenship Bill, 2025**[3], which aim to modernize outdated legal frameworks. These reforms propose a more flexible, skills-based residency system and establish clearer, faster, and more inclusive pathways to citizenship. The overarching goal is to attract skilled professionals, young workers, and investors, while strengthening diaspora engagement and aligning immigration policy with labour market needs.

iii. Reform of National Insurance and Social Security System (NISSS)

As of April 1, 2025, the **Resilience and Regeneration Fund**[4] replaced the previous 0.1% Catastrophe Fund within the NISSS. This fund is designed to enhance **intergenerational equity**, provide a **fiscal cushion** for future liabilities, and support **climate resilience and regeneration activities**.

iv. Upgrades to Healthcare System

Barbados is undertaking a comprehensive healthcare infrastructure upgrade aimed at strengthening resilience against the growing demands of an aging population. Central to this initiative is a significant investment in the transformation of the **Geriatric Hospital** into a state-of-the-art, climate-resilient facility designed to deliver high-quality elderly care and robust emergency response services.

Complementing these physical improvements is a community-centered care model that prioritizes accessibility and inclusivity. Through regular home visits by caregivers and healthcare professionals, the system ensures that elderly individuals receive personalized support within their communities. This

[2] Immigration Bill 2025
[3] Barbados Citizenship Bill, 2025
[4] Resilience and Regeneration Fund

approach not only enhances the quality of care but also fosters local resilience, reduces institutional strain, and promotes a more balanced, fiscally sustainable healthcare framework for the future.

Given the nascent stage of these policy initiatives, the effectiveness in reducing fiscal risks will require ongoing monitoring and evaluation. Nevertheless, these adaptive strategies have enabled the Government of Barbados (GoB) to establish the right enabling environment and infrastructure to respond effectively to evolving demographic trends, implementation challenges, and emerging fiscal pressures thereby ultimately reinforcing the long-term resilience of the country's social and economic systems.

3.4.2. Non-Communicable Diseases (NCDs)

Non-communicable diseases (NCDs) remains one of the most significant long-term social risks in Barbados, posing a major health challenge and exerting a profound impact on healthcare costs, workforce productivity, economic growth, and social welfare.

Currently, NCDs **account for approximately 80 percent of all deaths**[5] in the country. Moreover, it is estimated that NCD-related illnesses, which include cardiovascular disease, diabetes and cancer **costs Barbados US$75 million annually** due to decrease work efficiency and productivity[6].

Effectiveness of Existing Mitigation Measures and Controls: Non-Communicable Diseases

The Government of Barbados (GoB) has made significant strides in addressing non-communicable diseases (NCDs) through investments in health infrastructure and the implementation of key initiatives such as the **2020–2025 National Strategic Plan for NCD prevention and self-management, childhood obesity campaigns**, and **nutrition-policy reforms**. These efforts demonstrate a strong commitment to reducing NCD prevalence and improving public health outcomes.

However, **a critical gap persists: the absence of a dedicated Monitoring and Evaluation (M&E) unit** equipped with robust data collection and performance indicator systems. The last comprehensive "Health of the Nation" survey was conducted in 2015, leaving policymakers without updated trend data for nearly a decade until a new national survey was commissioned in 2025. This lack of structured M&E has limited the ability to assess intervention effectiveness, identify gaps, and allocate resources efficiently.

It is recommended that a dedicated M&E unit be established to enable evidence-based policymaking, strengthened data driven capabilities with continuous performance tracking,

[5] NCDs Burden A Public Health Crisis
[6] **The Economic Impact of Non-Communicable Diseases in the Caribbean,**

enhance accountability, and support targeted actions to reduce NCD prevalence and associated economic costs.

3.4.3. Climate-related Risks

Barbados remains highly vulnerable to an increasingly multi-hazard climate marked not only by greater unpredictability, but also by hazards whose intensity, magnitude and frequency continues to escalate generating repeated and unplanned budgetary interruptions across the economy. This emerging climate era is also characterized by more extreme temperatures, higher sea levels, prolonged dry spells and short intense rain falls that triggers severe flooding. The country's historical exposure and vulnerability to these events are evidenced by a series of significant weather-related shocks over the past decade, Table 10, ranging from Tropical Storm Tomas in 2010 to Hurricane Beryl in 2024. These events have repeatedly resulted in economic losses from localized damage caused by trough systems to island-wide impacts from tropical cyclones highlighting the persistent fiscal and developmental risks posed by climate variability and extreme weather. Notably, the 2024 storm surge associated with Hurricane Beryl produced an estimated USD 193 million in losses[7], or 2.54% of nominal GDP, underscoring the increasing severity and financial burden of climate-related events on Barbados.

Table 10: Barbados Climate Related Events 2010 -2024

Barbados ClimateRelated Events 2010 - 2024							
Year	Month	Climate-Event	Nature of Economic Loss	Estimated Cost USD (M)	Estimated Cost USD (M)	Estimated Cost BBD (M)	% of GDP*
2010	October	Tropical Storm Tomas	Tropical Cyclone	8,560,247.00	8.56	17.12	0.19%
2014	November	Trough System	Excess Rainfall	1,284,882.00	1.28	2.56	0.03%
2016	September	Tropical Cyclone Matthew	Excess Rainfall	753,277.00	0.75	1.5	0.02%
2018	October	Tropical Storm Kirk	Excess Rainfall	5,813,299.00	5.81	11.62	0.11%
2019	September	Tropical Storm Maria	Excess Rainfall	1,917,506.00	1.92	3.84	0.03%
2019	August	Tropical Storm Dorian	Tropical Cyclone	123,500.00	0.12	0.24	0.00%
2021	July	Tropical Cyclone Elsa	Tropical Cyclone	1,345,500.00	1.35	2.7	0.02%
2021	July	Tropical Cyclone Elsa	Excess Rainfall	1,124,424.00	1.12	2.24	0.02%
2024	May	Hurricane Beryl*	Storm Surge	193,074,000.00	193.07	386.14	2.54%
Source: Fiscal Risk Unit, Ministry of finance; Ministry of Agriculture Food and Nutritional Security; DaLA Barbados, ECLAC Report 2024*							
*Nominall GDP (M) from the year of the event							

Source: Fiscal Risk Unit, Ministry of Finance.

The growing frequency and intensity of climate-related disasters are increasing the scale of fiscal pressures facing the Government of Barbados. Each event demands substantial resources for emergency response, recovery, and reconstruction costs that often extend across several budget cycles. As a result, limited fiscal space is further constrained, forcing difficult trade-offs and diverting funds away from essential development priorities. This ongoing strain places critical

[7] Assessment of the effects and impacts of Hurricane Beryl in Barbados, Economic Commission for Latin America and the Caribbean, 2024

sectors such as tourism and agriculture at heightened risk, as repeated shocks undermine investment, productivity, and long-term resilience.

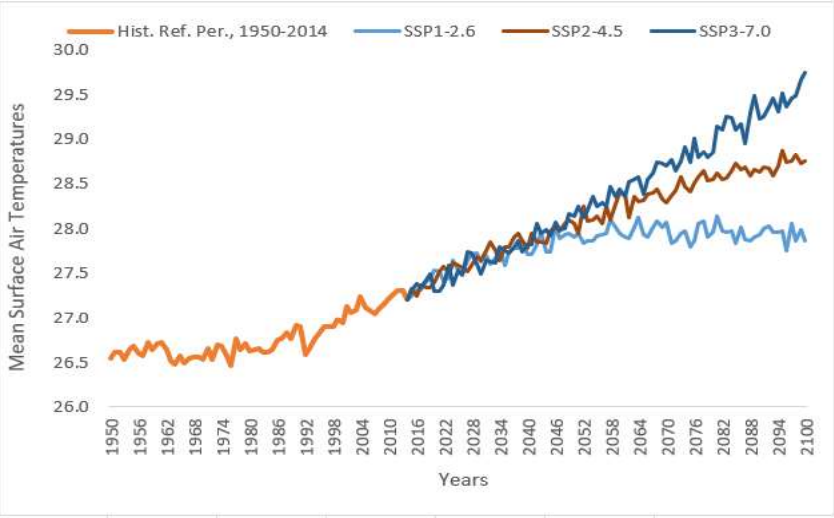
Projected Temperature Rises

Future temperature trends in Barbados depend on three global emissions pathways, Figure 11. In a **low-emissions pathway (SSP1-2.6)**, strong global mitigation efforts lead to warming that slows and stabilizes by mid-century. A **moderate-emissions pathway (SSP2-4.5)** assumes emissions remain significant but level off, resulting in continued warming. Under a **high-emissions pathway (SSP3-7.0)**, emissions rise and temperatures increase more sharply toward the end of the century.

Historically, average temperatures in Barbados climbed from about **26.5°C in 1950** to roughly **27.8°C by 2014**, and by **2024** they fluctuate near **28°C**, making this one of the warmest periods on record, Figure 6. These trends mirror broader changes across the Caribbean, where hotter days, warmer nights, and longer heatwaves are becoming more common. As a result, the island has experienced more intense dry spells, increased pressure on water resources, and greater household discomfort during prolonged heat periods.

Looking ahead, the magnitude of future warming will depend on the global trajectory of greenhouse gas emissions. Under the **low-emissions scenario**, Barbados' temperatures are projected to level off around **28°C by mid-century**, limiting further increases. However, if emissions follow **moderate** or **high** pathways, warming continues throughout the century.

Figure 11 Projected Mean Surface Air Temperatures for Barbados (1950–2100)



Source: World Bank (Climate Change Knowledge Portal)

In these scenarios, average temperatures exceed 29°C and may reach 29.5°C or higher by 2100, driving a wide range of systemic long-term socioeconomic risks. Higher temperatures contribute to rising health-care expenditures, as heat-related illnesses, and dehydration become more

common. The government may also face unplanned public spending, including upgrades to government owned infrastructures, and support programmes for heat-vulnerable populations.

Worsening heat stress can reduce labour productivity particularly in outdoor industries such as construction, agriculture, and transport leading to lower economic output and increased fiscal pressure. Climate-sensitive sectors like tourism and agriculture are also likely to face greater revenue volatility, as extreme heat may trigger coral bleaching, diminish crop yields, and it may lead to reduced productivity in animal husbandry.

At the household level, persistent warming can result in **higher electricity bills** for cooling, elevated water costs during extended dry periods, and damage to heat-sensitive goods and infrastructure. Collectively, these pressures amplify Barbados' overall economic vulnerability, reinforcing the need for strong national mitigation efforts and comprehensive adaptation planning.

Barbados' Climate Mitigation and Resilience Strategy

Barbados is advancing an ambitious and comprehensive climate-resilience strategy that that integrates public investment, innovative financing, regulatory reform, and global advocacy. Through flagship initiatives such as **Roofs to Reefs**, the **Bridgetown Initiative**, and the establishment of the **Blue Green Bank**, the country is working to secure the financial and institutional tools necessary to withstand climate impacts, protect vulnerable communities, and drive sustainable, long-term development across key sectors from water and housing to energy, transport, and coastal protection.

Core Areas of National Resilience Building

Government actions have prioritized strengthening resilience in four major areas:

a. Water Systems and Resource Security

This includes improving potable water supply, sewage treatment upgrades, storm-water management, and the expansion of rainwater-harvesting systems in response to chronic water scarcity, prolonged drought conditions and increasing saline intrusion.

b. Housing, Transport, and Road Infrastructure

Efforts include focusing on making the building environment more climate-resilient through stronger construction standards, improved drainage systems, and investments in storm-resilient transport corridors.

c. Energy, Waste, and Coastal Infrastructure

Barbados is upgrading coastal defenses, modernizing waste-management systems, and accelerating the transition to renewable energy as part of its commitment to a low-carbon economy. Support electric mobility to reduce emissions and energy costs.

d. Ecosystem Protection and Restoration

Initiatives include reef restoration, mangrove rehabilitation, and ecosystem-based adaptation to preserve natural buffers against storms and coastal erosion.

4. Conclusion

The Fiscal Risk Statement 2026 highlights that the most significant medium-term fiscal pressures arise from the potential bailing out of financially vulnerable State-Owned Enterprises (SOEs). Persistent liquidity shortfalls, recurring operational deficits, and weak balance sheets across several SOEs continue to pose material risks to government finances and remain the primary source of immediate fiscal exposure.

Beyond these medium-term challenges, Barbados also continues to face social and long-term risks which extends over a 50-year horizon and beyond. These risks are driven by demographic shifts such as an ageing population and shrinking labour force, and by the increasing frequency and intensity of climate-related disasters. These long-term pressures underscore a context of more frequent unplanned interruptions, where our development trajectories are repeatedly disrupted and the demand for risk-informed decision-making continues to intensify.

Repeated long-term shocks have therefore evolved from response challenges into core planning, financing, and regulatory issues that are central to shaping Barbados' long-term governance and fiscal trajectory.

The Government of Barbados has taken significant steps to mitigate these risks, including strengthening fiscal buffers, advancing operational reform across State-owned Enterprises and improving their governance and oversight, enacting legislative reforms through the Immigration Bill 2025 and the Citizenship Bill 2025, enhancing social security frameworks, and improving forecasting and risk-management capabilities.

Additional measures such as expanding healthcare strategies, supported by the soon to be completed modern geriatric facility and scaling climate-resilient investments are in the pipelines to bolster long-term fiscal sustainability.

Together, these initiatives reflect a proactive approach to managing both the immediate risk associated with SOE vulnerabilities and the long-term demographic and climate pressures, ensuring that Barbados' public finances remain resilient and adaptable in the face of evolving fiscal challenges.

Appendix 1: List of Monitored SOEs

LIST OF MONITORED SOES	
Barbados Agricultural Credit Trust Co. Ltd.	Commercial
Barbados Agricultural Development and Marketing Corporation	Commercial
Barbados Conferences Services Limited	Commercial
Barbados National Energy Co. Ltd.	Commercial
Barbados Port Inc.	Commercial
Barbados Revenue Authority	Commercial
Barbados Tourism Investment Inc.	Commercial
Barbados Tourism Marketing Inc.	Commercial
Barbados Water Authority	Commercial
Caribbean International Airways Ltd.	Commercial
Caribbean Aircraft Handling Co. Ltd	Commercial
Caribbean Broadcasting Corporation	Commercial
Caves of Barbados Limited	Commercial
Enterprise Growth Fund Limited	Commercial
Barbados Agency for Micro Enterprise Development Ltd	Commercial
Grantley Adams International Airport Inc.	Commercial
Hotel and Resorts Limited	Commercial
Kensington Oval Management Inc.	Commercial
National Conservation Commission	Commercial
National Cultural Foundation	Commercial
National Housing Corporation	Commercial
Needhams Point Development Inc.	Commercial
Needhams Point Holdings Ltd.	Commercial
New Life Investment Co. Ltd	Commercial
Queen Elizabeth Hospital	Commercial
Resolution Life Assurance Company Ltd.	Commercial
Sanitation Service Authority	Commercial
Southern Meats Inc.	Commercial
Student Revolving Loan Fund	Commercial
Transport Board	Commercial
Home Ownership Providing Energy Inc.	Commercial
Barbados Aircraft and Aviation Services Company	Commercial
Barbados Agricultural Management Co Ltd	Commercial
GovTech Barbados	Commercial
National Insurance and Social Security Scheme	Commercial
Business Barbados	Commercial
Trust Loans Barbados	Commercial
Barbados Tourism Product Authority	Non-commercial
Barbados Accreditation Council	Non-commercial
Barbados Community College	Non-commercial
Barbados Defence Force	Non-commercial
BARBADOS INTERNATIONAL BUSINESS PROMOTION CORPORATIO	Non-commercial
Barbados Investment and Development Corporation	Non-commercial
Barbados National Standards Institution	Non-commercial
Barbados Vocational Training Board	Non-commercial
Community Legal Services Commission	Non-commercial
Fair Trading Commission	Non-commercial
Financial Services Commission	Non-commercial
National Council on Substance Abuse	Non-commercial
National Sports Council	Non-commercial
Rural and Urban Development Commission	Non-commercial
Technical and Vocational Education and Training Council	Non-commercial
Transport Authority	Non-commercial
Barbados Civil Aviation Authority	Non-commercial
Barbados Medicinal Cannibis Licensing Authority	Non-commercial

Appendix 2: Restructured SOEs

SOE	Rationale	Entity Structure (in cases New)
CBC	Chronic losses, liquidity issues, technical insolvency → restructuring to reduce reliance on subventions.	Caribbean Broadcasting Corporation (CBC)
NHC	Operational inefficiencies, arrears, weak financial performance → stronger oversight & efficiency improvements.	Repurpose – National Housing Corporation (NHC) & HOPE Inc.
TB	Technical insolvency, aging fleet, high deficits → creation of BMTA to reduce subsidies, improve revenue, streamline expenditure, and enhance operational efficiency.	Barbados Mass Transit Authority (BMTA) – amalgamation of Transport Board and the Transport Authority
BNOCL, BNTCL, and NPC	Liquidity pressures & outdated structures → reforms to support energy transition & financial sustainability.	Barbados National Energy Company Limited (BNECL) – amalgamation of BNOCL, BNTCL, and NPC
CCB, NAB, Welfare Dept, NDB	Liquidity issues, arrears, operational inefficiencies → consolidation & cost optimisation; better governance & visibility.	Social Empowerment Agency (SEA) – amalgamation of CCB, NAB, Welfare Dept, National Disabilities Unit
RDC / UDC	Administrative overhead & outdated structures → improved programme efficiency & spending discipline.	Rural Development Commission – merger of RDC and Urban Development Commission (UDC)

Appendix 3: Financial and Operational Status of Selected Barbados SOEs

Technical Insolvency

These entities are technically insolvent, since their liabilities exceed total assets, posing immediate fiscal exposure if their operations collapse or creditors demand settlement.

SOEs
Transport Board (TB)
Caribbean Broadcasting Corporation (CBC)
Barbados Tourism Marketing Inc (BTMI)
HOPE Inc

Operational Underperformance

SOEs	Issues
Hope Inc.	Recurring annual net losses
Barbados Water Authority (BWA)	Prolonged delays in collecting receivables
National Petroleum Corporation (NPC)	Cash-flow issues and consecutive net losses from FY 2019–2025

Liquidity Constraints

These entities face liquidity challenges leading delayed payments to suppliers, and accumulating pension liabilities.

SOEs
National Petroleum Corporation (NPC)
Sanitation Service Authority (SSA)
Queen Elizabeth Hospital (QEH)
Barbados Water Authority (BWA)

Largest Pension Liabilities

SOE	Pension Liability (BBD)
Barbados Water Authority (BWA)	$130.4 million
Caribbean Broadcasting Corporation (CBC)	$47.7 million

Appendix 4: Commercial SOEs below the 50% Rule

SOE	Operating revenue excluding grants / operating expenditure, FY2024/25	
BAMC	39%	Barbados Agricultural Management Company Ltd
BAASEC	8%	Barbados Aircraft and Aviation Services Company
BTII	27%	Barbados Tourism Investment Inc
BRA	7%	Barbados Revenue Authority
CAVES	28%	Caves of Barbados
CBC	37%	Caribbean Broadcasting Corporation
KOMI	17%	Kensington Oval Management Inc
NCF	17%	National Cultural Foundation
QEH	47%	Queen Elizabeth Hospital
SOUTHER	23%	SOUTHERN MEATS Inc.
TB	38%	Transport Board