MINISTERIAL STATEMENT

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The fiscal programme for 2019 - 2020 approved by Parliament showed current revenue of $3,148.44M on the accrual basis and $3,051.51M on the cash basis. Estimates for 2019 - 2020 projected total expenditure at $3,180.81M inclusive of amortisation of $373.38M and capital expenditure of $199.90M.

During the period under review, total revenue inclusive of arrears was $1.45B, an increase of $121.1M over the previous year and $4.5M more than projected.

Tax revenue for the first half of the year was $1,370.4M, reflecting an increase of $123.0M when compared to the previous year and $2.3M when compared to projections for the period of $1,3681M. Of the total collected, revenue from Direct taxes was $583.0M and Indirect taxes, $787.4M.

Increases over projection were mainly recorded for Property taxes and Value Added Tax (VAT) and to a lesser extent Personal Income tax (net). The main decreases in projections were seen in Corporation tax (net), Excise taxes and Other Indirect taxes.

Property taxes which were recorded at $171.5M, increased by $52.2M when compared to the budget of $119.3M. Timing of the issuance of land tax bills for the year 2019/2020 resulted in a significant increase of $143.1M when compared to the previous year. It is however anticipated that there will be no significant increase in collections over the entire fiscal year.

Despite a reduction in Excise Taxes of $17.7M when compared to the budget of $132.5M; Revenue from Indirect taxes increased by $8.7M due mainly to an increase in Value Added Tax (net) of $49.3M. VAT on Imports increased marginally by $8.7M while VAT on domestic sales increased by $39.6M. Collection of arrears of domestic VAT was approximately $4M. When compared to the previous year the increase in VAT of $27.3M was marginally lower, with VAT on domestic and imports increasing by $8.1M and $19.21M respectively.

Taxes on Personal Income (net) showed a slight increase of $2.1M over projections. During the period under review the Treasury transferred

$27.9M to the Barbados Revenue Authority for the payment of tax refunds for Tax Year 2018 payable by October 31, 2019. During the previous year an amount of $20.0M was transferred for payment of arrears of refunds. The budgeted amount for refunds for the period under review was $14M.

Corporation Tax, recorded at $124.1M, showed a significant decrease when compared to the budgeted amount of $170.9M and the previous year amount of $161.7M. Collection of arrears in this sector of $10.58M was recorded during the period and helped to reduce the overall impact on collections of the decline in revenue.

Other areas of taxes showed moderate increases with the exception of International Taxes, Bank Asset taxes and Other Indirect Taxes which recorded declines over the budgeted amounts.

Import duties showed a slight decline of $5.9M when compared to budget though it was $3.7M higher than the previous year. This decline could be attributed to the teething problems associated with the implementation of the new software, as the Customs Department sought to implement the new ASYCUDA World system.

Other Indirect Taxes at $92.2M, recorded an increase of $28.2M when compared to the previous year but was below the budgeted amount of $110.6M by $18.3M.

Special Receipts performance was lower than both the previous year and the projections for the period under review. This poor performance in the area of Special Receipts can be partially attributed to the less than anticipated performance of the Direct Tourism Services Product Levy and the Room Rate Levy inclusive of the Shared Accommodation Levy which is still awaiting the passing of the requisite legislation to affect the collection of this tax. It should be noted that the National Social Responsibility Levy (NSRL) was repealed during the second half of the previous year.

Fuel Tax has performed in line with projections recording $38.4M for the period.

Non-tax revenue, reported at $73.9M, performed below both the budget and previous years' balances. Highway revenue was marginally below projections though higher than the previous year. All other areas of non-tax revenue performed cumulatively below the budget and the previous year.

Grant income of $10M was received during the period under review.

Overall, the revenue outturn for the period was positive. Total revenue projected for the period October 2019 to March 2020 is now $1.60B, for total revenue of $3.06B for the financial year. This is marginally more than the approved amount of $3.05B.

During the first half of the year, expenditure forecasts remained broadly in line with original budgets, with no significant new or altered spending decisions.

Total expenditure for the period April 2019 – September 2019 was $1,158.6M exclusive of loan amortization of $147.1M. This compares to $1,314.1M during the same period 2018-2019, reflecting a fall of $155.5M.

This fall in total expenditure was as a result of a decrease in current expenditure of $160.8M or 12.6% and a net increase in capital expenditures of $10.7M or 42%. When compared to the projected expenditures of $1,290M, there was a gap of $131.4M.

With regards to wages and salaries, Compensation of employees accounted for 29% of the total spent. Overall salaries and wages for the Half Year ending September 2019 totaled $364 million compared to $372 million for the same period last year. This actual figure represents savings of $12.1M when compared against the budgeted amount. The budgeted amount of $1,620,461 should be adequate to cover for the financial year.

To date $145M has been spent on Goods and Services, an increase of $4.9 million when compared to the previous year. This is slightly below the budgeted projections. For the next six months it is projected that $244 million dollars will be spent. This is in keeping with previous norms where the majority of spending is done in the latter half of the year.

Total Current Transfers fell by $36 million for the period under review. 'Grants to Public Institutions' fell by $79 million due to the fact that transfers to State Owned Enterprises are now current and no arrears are being paid as was done during the previous year.

For the period under review, total transfers to SOEs were $235.5 million compared to $314.3 million for the previous year. Of the $235 million, $183 million was paid to those entities monitored under the Barbados

Economic Recovery and Transformation programme. Of this group the University of the West Indies and the Queen Elizabeth Hospital received 30% and 31% respectively.

Additionally, transfers to the Barbados Tourism Marketing Inc., the Queen Elizabeth Hospital and the Sanitation Services Authority were reduced with the introduction of the Airline Travel and Development Fee, the Health Service Contribution and the Garbage and Sewerage Contribution respectively. Total collections in these three levies were $37.84M; $ 30.3 M and $33.9M respectively for the period under review.

Whilst transfers to SOEs fell, transfers made through retiring benefits increased by $33M, of which $5.6 million was related to Pensions and Gratuities and $28 million to Other Retiring Benefits.

Capital expenditure projected for the period was $86.9 million. To date only $36.5 million or 42% of the projected amount has been spent. However when compared to the same period last year capital expenditure increased by $10.7 million or 29%.

Capital Formation totaled $28.5 million, compared to $8 million for the previous period, an increased spent of 256%. Capital Transfers moved in the opposite direction falling 55% or $9.8 million. For the period under review, $8 million was spent compared to $17.8 million for the corresponding period last year.

For the next six months total capital expenditure is projected at $207.8 million, allocated between capital formation and capital transfers at $181.1M and $26.7M respectively.

At the beginning of the financial year Government arrears of payments to trade creditors stood at $577.7M. The outstanding balance at September 30, 2019 was reduced to approximately $316.8M. Payments were made to reduce tax refund arrears by $40.5M, SOE trade creditors by $176.2M in the form of cash ($30.2M) and bonds ($143.3M) and arrears of Central Government transfers to private sector agencies by $29.6M.

Overall, expenditure for the financial year has kept in line. Total expenditure for the period October 2019 – March 2020 is projected at $1,609.4M for total expenditure of $2,768.0M for the financial year. This is below the approved amount of $2,807.43M.

During the first half of the financial year the suspension on external commercial debt payments announced June 1, 2018, remained in effect as negotiations with the external commercial creditors continued.

On the domestic side, a decision was taken in respect of the winding up of Reslife which saw Series G bonds previously issued to Reslife being exchanged for Series B and Series I bonds and cash to the individual policy holders.

Additionally, the Government assumed $26.3M in liabilities, namely overdraft facilities previously held by three state owned enterprises and converted them to a Term Loan to be serviced by the Government.

Public debt outstanding at September 30, 2019 stood at approximately $12,411.9M, approximately 118.2% of GDP. This is comprised of external debt of $3,046.8M, domestic debt of $9,109.8M, external guaranteed debt of $89.8M and central government arrears of $165.5M.

At September 30, 2019 the outstanding debt is under the IMF ceiling on public debt of $12,689M by approximately $277.09M.

The actual expenditure during the period amounted to approximately $269.8M compared to the Approved Estimates of $369.9M for the period, a difference of $100.1M. Approximately $85.0M of this was not expended due to the delay in the settlement of the external commercial debt. Slower project disbursements and lower interest rates during the period compared to original projections accounted mainly for the remainder.

Approximately $316.6M will be required to service existing debt obligations for the period October 2019 to March 2020; $129.1M for interest expense and $187.5M for amortization. This is approximately $43.5M less than what was budgeted for the period, resulting from the delay in settlement of the external commercial debt.

Total revised debt expenditure for 2019-2020 is estimated at $586.4M, this is approximately $143.6M less than what was approved. The projected reduction in expenditure is primarily attributed to the delay in the resolution of the external commercial debt, which will now see the commencement of payment on the restructured bond from April 2020.

During the period under review Government continued its efforts in reducing transfer to the State Owned Enterprises through a combination of much stronger oversight, improved reporting. Cost reduction and revenue enhancement. It should also be noted that to date, the SOE sector is undergoing significant reform under the BERT programme, following which it is expected that the measures implemented will assist the GOB in addressing the challenges facing this sector.

There are currently thirty-three (33) State Owned Enterprises listed in the Technical Memorandum of Understanding, between the IMF and Government. Twenty-two of which are commercial and eleven, non-commercial.

For the period April to September 2019, the entities reported an aggregate net profit of $60.95M. Commercial SOEs were the major contributors to the aggregate net profit accounting for 83% or $50.85M of the total, while the non-commercial SOEs accounted for the remaining 17% or $10.10M of the amount. This represents an increase of $50.70M when compared to $10.24M earned in the previous year.

Fifteen of the entities reported profits of $87.90M, while the remaining thirteen incurred losses of $26.95M. The top five performers were New Life Investment Company Inc., Barbados Tourism Marketing Inc., Barbados Water Authority, Queen Elizabeth Hospital and Barbados Agricultural Development Marketing Corporation with profits of $23.87M, $17.30M, $8.82M, $8.38M and $6.56M respectively. For 2018, the reverse was true with thirteen entities reporting profits of $55.78M while the remaining fifteen incurred losses of $45.54M.

The five major underperformers were Transport Board, National Conservation Commission, National Assistance Board, the Fair Trading Commission and the Child Care Board, with losses of $9.05M, $5.78M, $2.72M, $1.99M, and $1.49M respectively. It should be noted however that NLICO's improved performance was mainly due to gains on disposal of assets.

While it is expected that the commercial entities would comprised the top performers, it is noted that two of the five under performers, the Transport Board and National Conservation Commission , had combined losses of $14.83M, representing 55% of the total.

The aggregate revenue for the SOEs amounted to $451.33M, increasing by $80.63M over $370.69M reported for the previous year. Overall, the commercial SOEs were responsible for $373.11M or 83% of the aggregate revenue.

The Queen Elizabeth Hospital was the top revenue performer mainly because of a Government subvention of $72.37M, followed by the 2.5% Health Service Contributions Levy, which contributed $30.37M. Without these sources of income, the operations would not be sustainable since the QEH's core business of patient services fees only brought in $5.30M or 5% of its total revenue.

Within the commercial entities, Operating revenue was the largest component, accounting for 55% or $203.31M of the Group's combined income of $371.01M. Subventions from Government were still significant however, comprising 30% of the total, while Other Income was 15%.

Within the non-commercial entities, the situation was the opposite as Government grants totaled $62.37M or 80% of this Group's income. Operating income contributed $15.12M or 19%, while a mere 1% or $0.72M was accounted for by Other Income.

The aggregate Total Expenses were $389.35M for the period under review, rising by $27.88M over the 2018 period's expenditure of $361.47M. Wages and salaries accounted for 48.5% of the total, followed by operating expenses with 38.3%. For 2018, Wages and salaries was $184.91M or 51% followed by operating expenses with $127.94M or 35.4%. The commercial SOEs were the significant contributors to the costs for both 2019 and 2018 accounting for 83% and 82% respectively.

The top five spenders for 2019 were Queen Elizabeth Hospital - $99.52M, Barbados Water Authority - $78.32M, Barbados Tourism

Marketing Inc. - $37.01M, Transport Board - $26.44 M and Sanitation Services Authority - $24.02 M. This was largely similar to 2018.

SOE arrears for trade creditors at April 1, 2019 were $263.51M with statutory arrears of $6.46M and non-statutory arrears of $257.05M. Within the TMU the arrears at April 1 2019 totaled $252.92M with non-statutory arrears of $252.63M. At the end of September 2019, the arrears declined by $176.2M and stood at $87.31M.

The decrease in the arrears between the beginning of April 2019 and the end September 2019, was primarily due to the measures put in place over the past few months, namely the issuance of bonds and a discounted offer of 85% to trade creditors.

Although the entities in the TMU showed improved performance in 2019, a number of them experienced escalating operating costs when compared to 2018; the four major entities identified were the Queen Elizabeth Hospital, Barbados Water Authority, Barbados Tourism Marketing Inc. and Transport Board. Given the financial context in which the entities are operating, special focus will be given in order to identify effective measures to reduce these costs.

Additionally, based on the analysis, entities such as the National Assistance Board, Caribbean Broadcasting Corporation, Transport Board and National Conservation Commission, have experienced operating losses ranging from $2.00M–$9.00M, and these will continue to be carefully monitored.

Unfortunately, the review still identified financial and structural deficiencies that could increase the GOB's exposure to fiscal risk if not properly managed. It is therefore important that we continue to regularly engage with these enterprises and to provide strong oversight especially in the area of financial reporting.

A number of highlights have however been achieved during the period, namely;

- The Public Finance Management Act has been proclaimed and this provides Government with a strong legal framework to target areas of deficiencies within the SOEs such as gaps in accountability, transparency and fiscal prudence.

- A great effort has been made to accelerate the completion of the outstanding Audited Financial Statements, with a majority of these now up to date. This would give Government better assurance with regards to the reliability of the information contained in the financial statements and lastly

- A thorough review has been done of the tariff and user fee structures which will assist in addressing the poor cost recovery in the SOE sector.

In closing, the mid-year period April 2019 to September 2019 saw Government achieving and surpassing the projected targets. Based on the revenue earned to date of $1,454.4M, the expenditure spent of $1,158.6M and the projected revenue and expenditure for the period October 2019 to March 2020, Government should also achieve its target of a primary balance of 6.0 of GDP, for the financial year April 2019 to March 2020.