BARBADOS FISCAL FRAMEWORK

2023/24 – 2025/26

Contents

A. INTRODUCTION

A.1 Statement of Responsibility

Referring to the PFM Act 2019, Third Schedule, Section 2g we hereby declare that the information in this Fiscal Framework is reliable and meets the information requirements of the PFM Act with the following exceptions:

Expenditure data in administrative and functional classification; interest rate projections; Government net worth as a percentage of the Gross Domestic Product and in nominal terms; expenditure ceilings for the annual budget and the 2 further outer years for Ministries and other budget entities.

We are committed to ensure that this missing information will be included in subsequent FFs as soon as the information can be made available.

Signature: Minister responsible for Finance

Signature: Director of Finance

A.2 Purpose of the Fiscal Framework

The purpose of the Fiscal Framework is to review the performance of the previous financial year against the fiscal objectives, present a macro-economic outlook and set out the fiscal objectives and policies for the medium term.[1]

The Minister of Finance shall submit the Fiscal Framework to Cabinet for approval no later than 31st July of the year preceding the Annual Budget and lay it in Parliament for debate no later than 15th August of the same year.

Cabinet shall consider any recommendations made by Parliament in respect of the Fiscal Framework, but is not required to make changes based on the recommendations. If Government is not adopting part or all of the recommendations made, an explanation shall be laid in Parliament by the Minister of Finance no later than three (3) weeks after the Cabinet decision on the recommendations.

The Director of Finance shall publish:

a) the Fiscal Framework on an official website of Government on the same day that it is laid in Parliament and make it available to the public in printed form as soon as practicable;

b) the recommendations of Parliament and Governments response on an official website of Government no later than three (3) weeks after Government's response is laid in Parliament;

c) changes made to the Fiscal Framework in response to Parliament's recommendations no later than three (3) weeks after the changes are agreed to by Cabinet.

The Government may deviate from the fiscal objectives in the Fiscal Framework if the deviation is due to a significant unforeseeable event that cannot be accommodated using other measures provided for in the Public Finance Management Act or prudent fiscal policy adjustments.

The PFM Act, Third Schedule outlines the detailed information to be included in the Fiscal Framework.

A.3 Economic and fiscal challenges for Barbados

Prior to the COVID-19 pandemic Barbados made good progress in implementing the Barbados Economic and Transformation (BERT) Plan to restore fiscal and debt sustainability, rebuild reserves, and increase growth. Since May 2018, net international reserves have increased from a low of US$220 million (5-6 weeks of import coverage) to more than US$1.5 billion at end-March 2022. This, and a successful 2018-19 public debt restructuring, have helped rebuild confidence in the country's macroeconomic framework.[2]

The ongoing global coronavirus pandemic had a devastating impact on the Barbadian economy, which is heavily dependent on tourism. Tourist arrivals in 2020 fell to a fraction of normal levels, and had a negative impact on economic growth, government revenues, foreign exchange earnings and jobs. Arrivals fell by over 73 percent during 2020 and all other economic sectors registered

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[1] The provisions for the Fiscal Framework are stipulated in the PFM Act, section 6.

[2] IMF, Barbados. Fourth Review Under the Extended Arrangement, IMF Country Report No. 20/314, December 2020, executive summary.

declines, resulting in a 14 percent contraction in real GDP compared to an initial forecast of 2.8 percent growth.

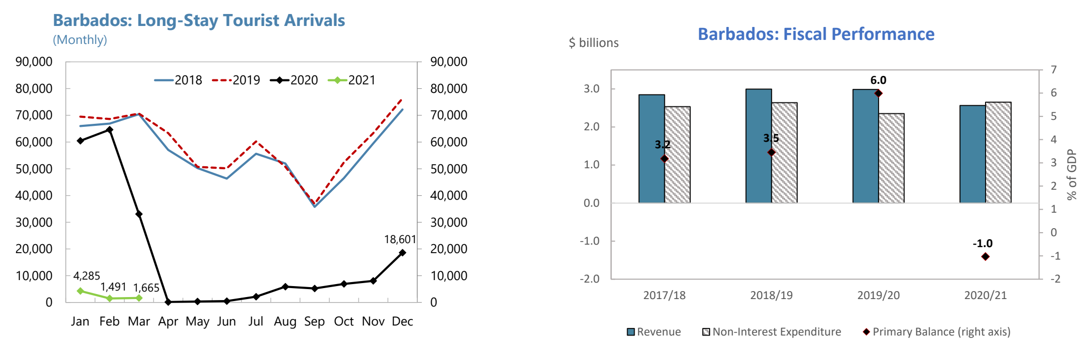
Fiscal revenues fell significantly while expenditures increased as the Government responded to the crisis and instituted various measures to contain and mitigate its impact. Consequently, Government recorded a primary deficit of 1 percent for FY2020/21 compared to the 6 percent primary surplus projected at the start of the year. The stock of public debt, which had declined from 176 percent of GDP (inclusive of arrears) at end-FY2017/18 to 117 percent as of end-FY2019/20, rose sharply to 142.4 percent at end of FY2020/21 owing to the effects of the COVID-19 pandemic.

The COVID-19 pandemic continued into 2021 and the socio-economic impacts were exacerbated by ashfall from the eruption of the La Soufriere volcano in St. Vincent, Hurricane Elsa and the Freak Storm. Though the industrialized economies rebounded strongly from the 2020 economic decline, new COVID-19 variants caused new waves of infections both at home and abroad, with containment efforts slowing the recovery of the tourism sector and keeping economic activity well below pre-pandemic levels. Estimates for 2021 currently show that economic activity remained relatively flat when compared to 2020 growing by only 0.5 percent.

For FY2021/22, total revenue increased by 10 percent and recovered to 95 percent of FY2019/20 levels, driven primarily by increases in VAT (up $178 million), Personal income taxes (up $77 million), import duties (up $29 million) and excise taxes (up $58 million). Government expenditure increased by $266 million on account of increased capital expenditure (up $143 million), wages and salaries (up $27 million) and expenditure on goods and services (up $94 million). At the end of FY2021/22, Government recorded a primary deficit of 0.9 percent of GDP and total Government debt was equivalent to 131.9 percent of GDP.

The Government has indicated that it remains committed to reducing the debt to 60 percent of GDP over the medium term and has agreed with the IMF to extend the committed date for achieving this by two years to 2035/36.

Tourist Arrivals and Fiscal Performance



Source: Central Bank of Barbados.

Prior to the onset of the COVID-19 pandemic, significant progress had been made on reforms to State-Owned Enterprises (SOEs). In particular, Government has greater oversight of SOEs and must approve all SOE borrowing and can sanction SOEs for noncompliance with enhanced reporting requirements in accordance with the new PFM Act. SOE monitoring has been enhanced with the development of a risk dashboard that analyzes the financial performance of priority SOEs. Due to these efforts, transfers to SOEs dropped from 8 to 5 percent of GDP prior to the pandemic. However, transfers to SOEs rose again by roughly 2 percentage points of GDP to accommodate COVID-19 policy responses at several SOEs, including the implementation of a nation-wide vaccination program. Transfers to SOEs will need to be reduced once the global coronavirus pandemic recedes by a combination of the phasing out of COVID-related transfers and building on SOE reforms implemented before the pandemic.

Similarly, the pandemic and its ensuing impact on output and unemployment has led to a sharp rise in unemployment benefit outlays and placed pressure on NIS finances. For FY2020/21, NIS unemployment and severance outlays are estimated at about B$160 million (1½ percent of GDP). To facilitate these payments, Government would need to provide liquidity support to the NIS and the challenge is to find the most effective way to do so within the context of limited fiscal space and elevated debt levels.

A.4 Budget policy priorities

Despite the slowing down of the global coronavirus pandemic, the conflict between Russia and Ukraine now threatens to have a major impact on food security and the cost of goods and could continue to pose a major challenge to the economy and to have an impact on the balance of payments and fiscal accounts. A strong recovery from the global pandemic and indeed the conflict, still hinge on accelerating structural reform including improving the business climate and promoting economic diversification. In the upcoming three fiscal years 2023/24 – 2025/26 the budget will continue to support the following priorities and thereby, create value for money for the citizens of Barbados:

- reducing poverty and inequality through the protection of the vulnerable;
- increasing the long-term competitiveness of the tourism sector;
- reducing unemployment by training staff and investing in renewable energy;
- strengthening resilience to natural disasters and climate change;
- review of tax system to broaden tax base and lower rates;
- significant reduction of tax expenditures
- reform and transformation of the SOEs;
- pension reform and a comprehensive procurement framework;
- upkeep and renewal of the capital stock and expansion of the infrastructure necessary for investment;
- transforming the public sector through fiscal and debt consolidation;

- financial support and the facilitation of innovation and entrepreneurship;
- providing expenditure to facilitate the movement to "go green";
- enhance food production and food security;
- building resilience in the housing market in conjunction with renewable energy to drive sustainable capital formation and provide housing to large numbers of persons waiting on housing solutions
- boost export capacity of traditional and non-traditional goods and services;
- develop a life sciences park as a part of critical thrust to build out the bio-economy;
- establish a Heritage District as a boon to development of the heritage economy; and
- creating a balance sheet of under utilized assets in a soon to be created Barbados Legacy Fund.

To achieve these priorities Government will continue its strategy, which rests on six pillars of the Barbados Economic Reform and Transformation (BERT) Plan:

i. investing in and deepening existing investment in skills training and education through the National Transformation Initiative;
ii. better mobilizing private domestic savings for local public/private investment;
iii. making Government an enabler of growth;
iv. supporting the expansion of agricultural production and agro-processing to enhance food security and to drive export growth;
v. fast tracking the integration of the mainstays of the current economy: tourism and international business with manufacturing, agriculture, education, health, housing and heritage; and
vi. promoting a new high skilled, knowledge-based, technology-empowered and more diversified economy that encompasses renewable energy;

B. ECONOMIC OUTLOOK AND ASSUMPTIONS

In 2019 economic activity was to be buttressed by construction activity and increased aggregate demand, supported by tourism and its spillover to key sectors like Wholesale and Retail and Business and Other Services. Against this backdrop the economy was expected to expand by 1.4 percent. However, delays in some tourism related construction projects adversely affected employment in the sector and overall construction activity. Additionally, gains in the key tourism source markets of the United Kingdom and United States were offset by declines in visitors from Canada and Caribbean Community and Common Market (CARICOM), which resulted in lesser than expected tourism value-added. These shortfalls in expected activity coupled with fiscal consolidation resulted in the decline of 1.3 percent in real GDP. Price levels were higher than anticipated as adverse climatic conditions reduced agriculture output placing upward pressures on food prices and, cost recovery measures increased some fees at state-owned enterprises resulting in an inflation of 4.1 percent. Credit to the private sector performed better than originally expected as loans to the tourism, distribution and utility sectors increased in a low interest rate environment.

With concerted marketing efforts and increased airlift resulting in record tourism activity in the five years prior to 2020 and delayed construction projects due to commence, real economic activity in 2020 was expected to increase by 2.8 percent. This was marred by the onset of the COVID-19 pandemic as global travel collapsed and arrivals to Barbados declined by 73 percent. This was exacerbated by domestic COVID-19 containment protocols which constrained movement and by extension domestic business activity outside of tourism. This resulted in the largest economic decline in recent history with activity falling by 14.0 percent and unemployment levels averaged an estimated 13.6 percent compared to the original forecast of 10.1 percent. The subdued economic environment continued into 2021 as the disruption in the tourism industry coupled with the two climatic events resulted in the economy growing by only 0.5 percent.
Economic activity in 2022 is expected to expand by close to 10 percent when compared to 2021. Economic growth is dependent on a strong return of the tourism industry and its effect on the ancillary sectors. Current estimates show that tourist arrivals are anticipated to be around 60 percent of 2019 levels which represents more than twice the amount of tourist arrivals a year earlier. There are some downside risks to this forecast. International prices for food and fuel are expected to rise substantially during 2022 due mainly to supply chain disruptions linked to geopolitical tensions. These price pressures may lower domestic demand as individuals lose disposable income and, dampen global economic activity which may in turn reduce the demand for international travel.

Economic activity beyond 2022 is dependent on the country's ability to contain the domestic spread of COVID-19 as well as the continued recovery of tourism activity. Continued success in vaccination efforts both locally and internationally remains central to the path of recovery and taking this into consideration, tourist arrivals are expected to return to pre-pandemic levels by 2024. The anticipated rise in tourism activity should have a positive effect on all ancillary sectors.. There are some downside risks to the forecasts as uncertainty surrounding the proliferation of new potentially vaccine resistant strains and outbreaks in heavily populated segments of the World could jeopardize the demand for global travel. Additionally, geopolitical tensions have placed further supply pressures on commodities, which have resulted in rising international prices. Actions being taken by the Federal Reserve, the Bank of England and the European Central Bank to raise interest rates so as to contain inflation, will result ultimately in higher interest rates for both the public and private sector. If these conditions persist, global shortages and high prices are expected to continue into the medium-term and would have significant implications for Barbados' economic growth prospects.

C. FISCAL OUTLOOK

C.1 Fiscal performance and outlook

Overview Fiscal Performance FY2020/21

The COVID-19 pandemic forced the closure of borders and business activity, resulting in an immediate falloff in gross revenues by 3.7 percent of GDP, between FY2019/20 and FY2020/21. This contraction was primarily due to a significant reduction in most tax categories, with the exception of corporation taxes which increased by 3.4 percent of GDP as a result of one-off payments made by a number of international business entities. In managing the effects of the COVID-19 pandemic, the Government incurred a 3.3% ($300 million) increase in non-interest expenditure which was driven by increased grants to individuals and grants to public institutions. These developments led to the primary deficit ending FY2020/21 at 1 percent of GDP.

Deviations in Revenue Outturn **FY2020/21**

For the FY2020/21 total budgeted revenue was estimated at $3,043.9 million while the actual outturn was $2,563.3 million representing a decline of $480.6 million (a 16 percent decline). This outturn was largely attributed to the unexpected halt in business activity following the onset of the COVID-19 pandemic response and in turn resulted in a significantly reduced tax revenue intake. Total tax revenue declined by $403.7 million (a 14 percent decline) with a reduction in VAT revenues of approximately $298.9 million accounting for the majority of the falloff. Non-tax revenue decreased by approximately $76.9 million, representing a 30 percent decline.

With the exception of corporation tax, all tax types registered declines during the period. In addition to VAT, primary fallout was felt for, income tax, and excise tax, with secondary declines in property tax, withholding tax, fuel tax and room rate levy revenues. The exception was noted in the performance of corporate taxes which registered an uptick in tax receipts during tax year 2020, buffering the negative impact of the overall reduction in tax revenues.

The increase in corporate tax revenues was primarily a result of payments made by the entities operating in the international sector. In addition, there was also an increase in final tax payments made in June 2020,) as some entities failed to prepay their tax on time in March 2020. Expenditures increased and were repurposed to streamline an effective response to the pandemic resulting in an 8.8 percentage point increase in GDP, year on year. To account for the impact of the crisis, the primary balance target for FY2020/21 was reduced from a surplus of 6 percent to a primary deficit of 1% . Despite the increase in corporate tax receipts, this outturn was not sufficient to offset the overall fall in revenues.

Deviations in Expenditure Outturn **FY2020/21**

For FY2020/21, the total expenditure budgeted was $2,752.1 million whereas the actual expenditure was $2,992.9 million. This represented an increase of $240.8 million attributed to expenditure required to mitigate the impact of the COVID-19 pandemic. Additional funding of $225 million was made available through international institutions.

Additionally, financial resources were redeployed from various programs during FY2020/21 including: the Job Start Plus programme (which was geared towards providing young persons with job attachments); the Barbados Youth Advance Corps residency phase; the 2020 Housing and Population Census which was deferred until FY2021/22; the Barbados Digital ID and National ID card replacement project which was also deferred until FY2021/22; and expenditure related to overseas travel was foregone.

Only funding for essential expenditure was released in the first quarter of the FY2020/21 making funds available to be spent where most needed. Key expenditures were geared primarily towards the COVID-19 response and included:

- $10.0 million to the Welfare Department to meet the additional costs of grants to individuals.
- $10 million to the Household Survival program and $10 million to the Adopt a Family program to provide cash transfers to support vulnerable families affected by the economic fallout from the pandemic.
- $3.5 million to the National Assistance Board to establish the Community Elderly Care program.
- $48.8 million for the Management of the COVID-19 program administered by the QEH (this includes funds for the purchase of vaccines).
- $10.7 million to the QEH to assist with current operations.
- $23.8 million to the Transport Board to meet operating costs (due to the reduction in ridership attributed to the island shutdown and adherence to the spacing protocols on public transportation).
- $3.5 million to provide financial relief to vendors, operators of small shops and stalls and medium sized businesses impacted by the national shutdown.
- $10.0 million to the Ministry of Education, Technological and Vocational Training to provide tablets and laptops to assist with the online classes.

Overview Fiscal Performance FY2021/22

The Government continued to battle with the spill-over effects arising from the global pandemic and faced a number of unexpected climatic events throughout FY 2021/22. Despite these challenges, the fiscal year was characterized by a 95 percent recovery of revenues to pre-COVID levels as receipts increased by $261 million compared to the previous fiscal year.

This outturn was driven by the phasing out of a number of travel restrictions which reignited tourism activity within the island. Additionally, the resumption of previously delayed construction and manufacturing activities, led to the growth in both direct and indirect taxes attributed to these sectors. Financial services which remained mostly unaffected by the pandemic exhibited slight growth during the period.

Total expenditure ended the fiscal year $322 million above FY 2020/21 following increases across all categories with the exception of transfers and subsidies. Subsidies also declined as improved ridership during FY 2021/22 resulted in lower transfers to the Transport Board. The performance of revenue and expenditure resulted in a primary deficit of $92 million or 0.9 percent of GDP. The fiscal deficit ended FY 2021/22 at $491 million or 5 percent of GDP.

***Deviations in Revenue Outturn* FY2021/22**

At the end of fiscal year 2021/22, actual revenues surpassed the revised estimates by $203 million mainly due to the pick-up in economic activity which was negatively impacted by the onset of the COVID-19 pandemic in 2020. Total revenue increased by $262 million (10 percent) over the previous period as a result of the uptick in VAT receipts which were driven by higher domestic activity, a $31 million fall in refunds being transferred and increased imports during the period. This improved outturn also led to the category surpassing the revised estimates by $47 million (6 percent).

Increased employment levels resulted in a $77 million improvement in personal income taxes with the former accounting for a $6 million over performance in the category above the revised projections. The additional property tax intake was also supported by an increased settlement of land-tax arrears, higher compliance rates and increased collections from real estate transactions all of which surpassed projections. Additionally, import duties made a 95 percent recovery to 2019/20 levels with a pick-up in imports while higher imported fuel volumes contributed to the increase in excise taxes.

The growth in tourist arrivals benefitted collections with the related room-rate and shared accommodation levies surpassing the revised estimates by $4M and registering a $16 million increase above the previous period. Higher than expected prepayments led to corporation taxes exceeding projections by $60 million. However, this improvement was not enough to counteract the loss in corporate taxes during the period.

***Deviations in Expenditure Outturn* FY2021/22**

The total expenditure of $ 3,104.5 million was budgeted for FY 2021/22, while actual expenditure amounted to $3,314.4 million. The $210 million increase in spending over the budget estimates was spread across all categories with the exception of interest and was primarily driven by a number of unforeseen climatic events as well as COVID-19 related expenditure as the Government continued to grapple with the global pandemic.

By the end of March 2022, wages and salaries rose $27 million above the previous period as a result of the hiring of additional staff to implement Government's pandemic control measures. Goods and services also exceeded initial budgetary targets following the ash fall clean up from the eruption of the La Soufriere volcano in St. Vincent, as well as increased spending on the national clean-up and beautification programmes. Grants to public institutions, which stood $26 million higher than anticipated, was the foremost category pushing spending on transfers and subsidies above budget estimates. Transfers to the Queen Elizabeth Hospital (QEH) totalling $206 million was the main contributor to this increase, as the state-owned enterprise needed additional funds to support their operations and COVID-19 management.

Capital expenditure ended the period at $425 million, $148 million above the category's original allotment in the budget estimates. Additional expenditure was utilised for the recapitalisation of the Unemployment Fund of the National Insurance Scheme ($60 million), COVID-19 management ($12 million), as well as for the provision for homes damaged by the passage of Hurricane Elsa.
Other major capital works included:

- Barbados Water Authority Projects ($48.0 million)
- Sanitation Service Authority's (SSA) Residential Waste Collection Improvement project ($18 million)
- Speightstown Flood Mitigation project ($6.6 million; 2020/2021 $3.7 million)
- Constitution River Flood Mitigation project ($9.0 million; 2020/2021 $5.3 million)

Medium-Term Outlook FY2023/24 to FY2025/26

During FY2022/23 the Government made a concerted effort to improve its fiscal position as it grappled with the economic challenges triggered by continued external shocks including the global pandemic, climatic events and the Russia-Ukraine war. Due to these events, a number of budgetary proposals were introduced in 2022 to ease the burden placed on consumers. These measures included, but are not limited to, a VAT cap on fuel, a waiver of VAT and import duties charged on imported generators, a cap on freight costs, and the zero-rating of VAT on selected personal care items. Additionally, the implementation of the one-off Pandemic Contribution Levy charged on individuals and corporations, is expected to assist with bolstering the country's fiscal stance in attaining its 1 percent primary balance target by the end of FY2022/23.

In the medium term, revenues are projected to surpass pre-COVID levels as both direct and indirect tax revenues continue to benefit from the projected growth in nominal GDP. Despite an estimated loss in revenues of approximately 1 percent of GDP in FY2023/24 mainly due to one-off budgetary receipts related to the pandemic levy charged to both individuals and companies, revenues are projected to grow at a rate of 5.8 percent and end the period at approximately 26.4 percent of GDP. As economic activity continues to improve, revenues are projected to surpass non-interest expenditure and increase at an average rate of 5 percent in the medium term.

In FY2023/24 non-interest expenditure is expected to decline to 22.9 percent of GDP (down 2.5 percentage points) mainly due to one-off capital spending occurring in the previous fiscal year. This downward trajectory in spending is expected to continue as the Government implements the necessary adjustments to attain primary surpluses that will support the public debt target in the medium term. As a result, the primary surplus in FY2022/23 is estimated at 3.5 percent of GDP and will end FY2025/26 at 6 percent of GDP.

Since the commencement of the IMF programme in 2018, the Government made progress in reducing its debt stock as it gradually settled its external debt and outstanding domestic debt from the 2018 debt restructuring. These efforts led to the debt stock moving from 149 percent of GDP in 2017 to 118 percent of GDP in 2019. However, in 2020, the downward trend reversed mainly resulting from an 11.5 percent contraction in economic activity due to the COVID-19 pandemic and to a lesser extent, Government's increased borrowing from external sources.
To further support the COVID-19 response, the Government issued its first Treasury Note since 2017, in December 2021, followed by a second issuance in April 2022, both valuing $125 million. By the end of 2021, the debt stock reached 137 percent of GDP as external debt from international financial institutions increased by $497 million compared to the end of 2020.

Over the medium-term, the debt-to-GDP ratio is projected to resume on a downward trajectory and will be supported by higher primary surpluses. These surpluses which are underpinned by anticipated economic growth, will be crucial in assisting the Government with achieving its debt-to-GDP target of 60 percent by FY2035/36.

C2. Implementation of the fiscal responsibility principles and setting fiscal policy targets

The fiscal responsibility principles are stipulated in the PFM Act, section 5 and read as follows:

- Achieving and maintaining a prudent level of public debt;
- managing fiscal risks in a prudent manner (dealt with in chapter C5);
- pursuing macro-economic stability, inclusive growth and intergenerational equity.

Achieving and maintaining a prudent level of public debt: Reduce the debt-to-GDP ratio to 60 percent by 2036

In 2020 total debt forecast was $12,167.1 million comprising external debt of $3,158.5 million (29.6 percent of GDP) and domestic debt of $ 9,008.6 million (84.3 percent of GDP) while the total actuals were $12,814.7 million which include external debt of $4,028.0 million (42.9 percent of GDP) and domestic debt of $8,786.7 million (93.7 percent GDP). These variations were impacted by the COVID-19 pandemic.

For 2021 the total debt forecast was $12,777.7 million comprising external debt of $4,209.0 million (45 percent of GDP) and domestic debt of $8,568.7 million (91.6 percent of GDP) while the total actual were $13,358.2 million including external debt of $4,531.9 million (46.6 percent of GDP) and domestic debt of $8,826.2 million (90.8 percent of GDP).

For 2022 the total debt forecast was $14,420.4 million comprising external debt of $4,765.2 million (42.4 percent of GDP) and domestic debt of $9,655.2 million (85.9 percent of GDP) while the total debt at May 2022 is approximately $13,582.3 million including external debt of $4,509.6 million (42.8 percent of GDP) and domestic debt of $ 9.072.6 million (86.0 percent of GDP).

These variations were the result of the continuing COVID-19 pandemic coupled with the effect of the ashfall from the La Soufrière Volcano, the Freak Storm and Hurricane Elsa.

Government's debt-to-GDP trajectory of 60 percent has been impacted by the COVID-19 crisis and natural disasters resulting in a debt-to-GDP ratio of 131.2 percent for FY2021/22 and is expected to decrease in the medium-term to 117.4[3] percent of GDP by 2024. To reinforce debt sustainability over the medium and long term, the fiscal rule will target a steady reduction of the debt-to-GDP ratio to 60 percent by FY2035/36. This may have to be revised to accommodate the spending triggered by Hurricane Elsa, the Freak Storm and the ashfall from the La Soufriere volcano in St. Vincent.

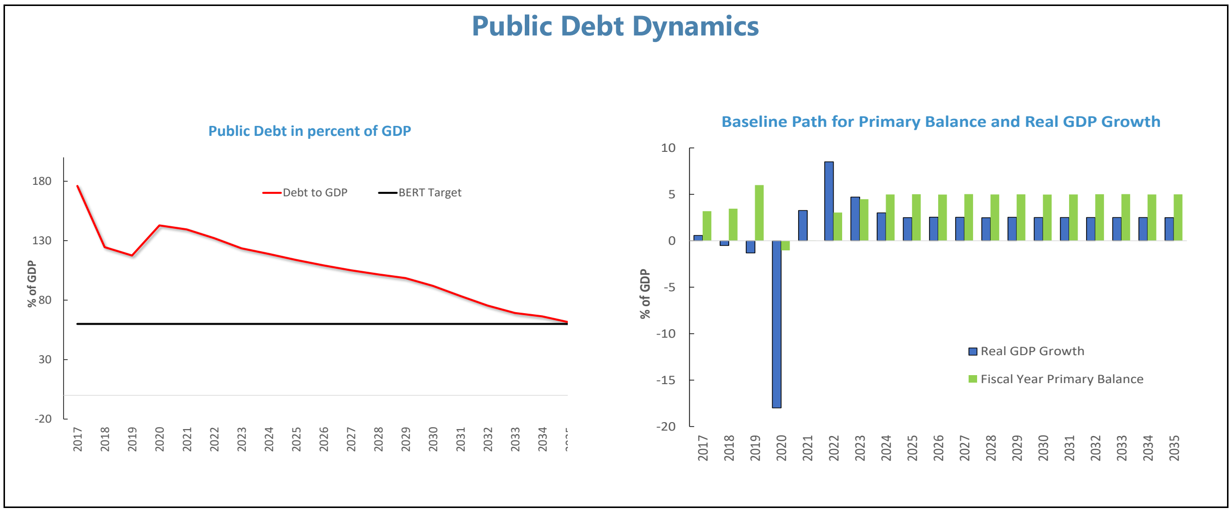
Assumptions for the forecasted debt development

After a recovery in GDP growth rates, as shown in Table 1, growth is expected to return to the long-term average growth rate of around 2½ percent. This assumes that Barbados will return to its full potential. The performance is predominantly driven by tourism as well as activity in the

[3] F/Y 24/25 114.6

non-traded sectors such as wholesale and retail, business and other services and transportation storage and communication.

Average inflation is also projected to return to its long-term average of around 2 percent. With the expected gradual economic recovery, the primary balance is projected to gradually increase towards its pre-crisis level of 6 percent of GDP over the medium-term. This combination of growth and primary balances will allow the debt-to-GDP to converge to 60 percent by FY2035/36.



Pursuing macro-economic stability, inclusive growth and intergenerational equity

Following a 10-year economic recession from 2008 to 2017, macroeconomic stability was restored prior to the pandemic with a combination of strong fiscal adjustment, a comprehensive sovereign debt restructuring, and structural reforms to boost economic growth. However, the collapse of tourism from April 2020 onwards has taken a significant toll, with reduced economic activity, rising debt and an overall heightened level of macroeconomic instability.

Reducing the debt level in the short-term and preserving its sustainability over the medium and long term will not only promote macroeconomic stability but argues well for inclusive growth and intergenerational equity. The government expects the debt-to-GDP ratio to return to its pre-pandemic level once the economy rebounds and to continue on its previous downward trend towards 60 percent by 2035/36. To support this effort the government implemented a fiscal rule which will improve transparency in fiscal policy making and set fiscal targets that are consistent with debt sustainability.

Post-pandemic continuation of the work started on improving the business climate will also serve to facilitate inclusive growth and intergeneration equity. The government plans to: provide greater and easier access to credit by strengthening credit registries through the creation of an online credit collateral registry; digitizing property records in the land registry and digitizing the Archives as part of public sector-wide digitization project; facilitating a more efficient process for the registering of properties; and strengthening the company law to provide greater protection for minority shareholders. Off budget expenditure utilizing the Housing Credit Fund (HCF), the Industrial Credit Fund (ICF) and the Catastrophe Fund will also facilitate inclusive growth and intergenerational equity.

Pursuing macro-economic stability and inclusive growth will also require building resilience to climate change, particularly as such vulnerabilities are expected to increase over the medium term with potentially devastating effects on the economy. In this regard, the government commences several initiatives which when fully completed will foster competition and investment in renewable energy. These initiatives include: the 'Roofs to Reefs' program to incentivize the private sector to invest in renewable energy, water conservation, and building resilience; the Feed-in-Tariffs program to expand the share of renewable energy in total energy generation; the Home Ownership Providing Energy program, which provides housing for middle-to-low income earners, is designed to generate savings in electricity costs and construct 1,000 energy efficient and solar powered houses; and, the Public Sector Smart Energy Program to promote energy efficiency measures (LED street lights, solar photovoltaics, electric vehicles) in the public sector. Additionally the upgrade or relocation of the Queen Elizabeth Hospital and food security projects (Aquaculture, Water Catchment, Abattoir upgrade, Barbados/Guyana food terminal. will serve to promote intergenerational equity.

C3. Proposed budget priorities for the medium-term

After almost a decade of anemic growth and unsustainable debt, the government of Barbados sought to reestablish macroeconomic stability by developing the Barbados Economic Reform and Transformation (BERT) Plan. The BERT details key medium-term strategies that focus on transforming the public sector through fiscal and debt consolidation, while facilitating the rebound of the domestic economy on a sustainable path. A core mandate of the program was to return the debt on a manageable path of 100% by 2023 and 60% by 2035/36. This required government to achieve large primary surpluses in the medium term (6% for four years).

Larger primary surpluses ran concurrent with the need to streamline expenditures. Unsustainable outlays to SOEs (8% of GDP in 2017/18) was deemed a deterrent in achieving the medium-term macro policies and the transformation of public sector entities was determined a key policy priority in accommodating fiscal consolidation. The BERT detailed that the bulk of the overall expenditure adjustment entrenched in a "1.6 percent of GDP reduction of transfers to statutory corporations, agencies and SOEs spread over two years".

Reform of SOEs included the absorption of commercial entities into the private sector, strengthening data collection and analysis, a revaluation of user fees and reduction of subsidies, structural adjustments of entities to achieve efficiencies as well as the creation of addendum income streams to cover operational expenses of firms, thus reducing its reliance on central government.

While reducing expenditure was seen as critical in achieving a downward trajectory of the debt, there was also need to facilitate growth through the upkeep and renewal of the capital stock as well as through the expansion of infrastructure necessary for investment. The BERT detailed a 2.4%

of GDP target for capital spend into the medium term, though it also stipulated that any capital spend must be done at a pace consistent with available financing. "Mission critical" investment in sewerage, sanitation, transport and road repairs were to be identified and supported through the capital budget over the medium term. Focus was also placed on investments on renewable energy, food security and health care in line with "promoting a new, high skilled, knowledge -based economy that is tech-heavy, carbon neutral and marine -conscious". Spend that facilitated the movement to "go green", including the conversion of all government buildings and vehicles into carbon neutral inventory was prioritized.

Reducing poverty and inequality through the protection of the vulnerable, particularly through the period of structural adjustment, was another important developmental consideration over the medium term. Life Sciences, the Blue and Green economy, Heritage, ICT and creatives will all form part of the budgetary reforms. The government ring-fenced expenditures that form the basis of the national safety net such as restructuring of people empowerment and welfare. Outlays to the National Assistance Board, Child Care Board and Welfare Department were all absolved of spending cuts. Priority has also been given to investment in human capital. Spending on education and health were to be ringfenced in the budget planning process. Financial support and the facilitation of innovation, entrepreneurship have also been included in the medium-term budget planning.

COVID-19 Pandemic

The COVID-19 pandemic which broke out at the onset of FY 2020/21, the third year of the fiscal adjustment program caused a reprioritization of medium-term goals. There was a shift from attaining large primary surpluses as the pandemic required large government outlays to health as well as financial support to the domestic economy. Expenditure over the medium term is centered around mitigating the spread of the virus, as well as facilitating the rebound and growth of the domestic economy during and in the aftermath of the pandemic.

There has been a concerted effort to support and recuperate the tourism industry, which has been hard hit by the impact of the pandemic, by expanding airlift and marketing support. The advent of the Barbados Employment and Sustainable Transformation program (BEST) is geared towards providing financing to the tourism sector to prevent large scale retrenchment in the midst of the economic downturn, but also to allow for entities to reinvest into the tourism product through modernization and green energy and conservation or water/energy technologies, training, digitization and synergies with agriculture, culture and manufacturing. There is also increased spending into the medium term on support for small and medium sized enterprises that have been adversely affected by the decline in domestic activity. Additional financing of credit vehicles to these entities in the private sector is channeled through trust loans, the Barbados Agency for Micro Development ltd, the Enterprise Growth Fund and Financial Literacy Bureau.

While support for the vulnerable was determined as critical within the BERT framework, the pandemic intensified the need to prevent any increase in poverty. The Household Mitigation Unit, created to help ensure the stability of the national social safety nets during the restructuring, has been given further financing to provide support to the most vulnerable during the height of the pandemic and during its aftermath. This has been done in conjunction with the Welfare

Department and the National Assistance Board which are now seen as pivotal in ensuring that poverty levels do not rise over the medium term.
The increased importance of a number of SOEs in mitigating the impact of the pandemic has re-shifted the goal of reduced outlays in total grants to public entities, to a more focused consolidation. Increases in transfers to key entities centered around the mitigation of the pandemic is accommodated while cost savings accrued from the ongoing reform of other entities help to offset some of the increased subventions over the medium term.

As such, regulatory compliance (OECD/FATF), additional staff, new systems and laws, Ease of Doing Business,legislative and policy reform are all seen as budget priorities.

C.4 Medium-term expenditure framework

Prior to the pandemic, the targeted primary surpluses, (consistent with achieving the 60 percent debt target), were determined, and the aggregate expenditure ceiling, constrained by the level of revenue forecasted, would then be estimated. However, the uncertainty of the revenue performance, as well as the added need for emergency spending to mitigate the effects of the pandemic resulted in a temporary relaxation of the targeted primary surpluses which have been adjusted to accommodate critical spending to support the economy.

Total Expenditure
The overall expenditure ceiling averages at 28.8 percent of GDP over the next 3 years. This is then disaggregated into (i) further expenditure categories which include Wages and Salaries, Goods and Services, Interest, Transfers and Capital Expenditure and (ii) spending ceilings for ministries and other budget entities.

Wages and Salaries
The expenditure ceiling for wages and salaries for the immediate fiscal year is usually compiled by ministry and then aggregated. However, estimates beyond the one-year horizon is forecasted at the aggregated level. Historically, there has been little variation in the wage bill and so the expenditure cap in the medium term is kept relatively flat, allowing for the inclusion of annual mandated increments, and adjusted in case of approved plans for new departments or programs requiring additional staff. The aggregated wages and salaries category comprises of other personal emoluments (temporary posts) and statutory personal emoluments (established/permanent posts), as well as national insurance contributions. The NIS component usually averages 9 percent of the total computation for wages and salaries. The ceilings for wages and salaries are set at $759.4M (combination of other personal and statutory emoluments), for 2023/24 while NIS contributions are $75.5M. The following two years include estimates of $760.8M and $75.7M and $762.0M and $75.8M for wages and salaries and NIS contributions respectively. However, Government will be revisiting allowances and be participating in salary renegotiations.

Goods and Services

This category usually includes supplies and materials, operating expenses, maintenance of property and professional services. Goods and Services average 4.4 percent of GDP over fiscal years 2023/24-2025/26. The expenditure ceiling for goods and services includes important recurrent expenditure for continuing to mitigate the impact of the pandemic and that will remain necessities even after spread of the virus is under control. The overall ceiling for goods and services also assumes that with a pickup in economic activity, government services may also expand to accommodate this.

Interest

Interest is subdivided into domestic and external payments. The ceilings related to interest are projected using the medium-term debt framework which forecasts cashflows consistent with the current debt stock as well as any planned uptake in new debt over the medium term.

Total Grants

A number of social programs centered around the mitigation of the pandemic have been facilitated through departments and SOEs. While recurrent spending in these categories are expected to subside as effects of the pandemic decreases, the full rebound of the economy is estimated to occur gradually. This requires that the ceilings determined for total grants reflect continued spending on poverty alleviation programs as well as aiding corporate entities and small businesses that have been adversely impacted.

Grants to Individuals

Grants to individuals include outlays to the Welfare Department and Household Mitigation Unit which are then used to protect vulnerable persons. These grants that support those individuals that are not eligible for unemployment benefits are expected to decline with a pick-up in employment. However, provisions are made for those persons that may not have been reabsorbed into the private sector in the short term. Grants to individuals also include retiring benefits and gratuities which historically account for 60% of the category. The expenditure ceiling includes small increases in pension benefits to accommodate the growing number of retirees in the public service over the next three fiscal years. Lastly, the ceiling on grants to individuals reflects fees relating to tertiary level Barbadian students. The government currently covers the economic cost as well as tuition for Barbadian nationals that attend the University of the West Indies. Estimates for students that are awarded scholarships are also included.

Grants to Public Institutions

Prior to the pandemic the policy strategy set out by the BERT included the gradual shrinkage of grants committed to SOEs. The pandemic temporarily derailed this policy target, as critical spending funneled through the Queen Elizabeth Hospital, the National Assistance Board and the Enterprise Growth Fund increased grants to SOEs. The indicative budget ceilings, set for the upcoming three fiscal years include a gradual reduction in grants to a number of these entities. The government will continue its reform of a number of enterprises which provides further cost savings and reduction in total grants. The ceiling for grants to public institutions is set at 4.9 percent of GDP for FY 2023/24, 4.6 percent of GDP for FY 2023/24 and 4.3 percent of GDP for FY 2025/26.

A large subcomponent of subsidies is the subvention to the Transport Board. At the peak of the community spread of COVID-19, ridership was severely affected. Government intervened in covering the operating costs of the entity. However, with the ridership almost back to pre COVID-19 levels and continued reform policies, transfers to the Transport Board are expected to stabilize at 0.2 percent of GDP for the next three fiscal years with the anticipated transition to a mass transit authority by the end of the current fiscal year.

Subscriptions and Contributions and Transfers to Non-Profit Enterprises.

Government subscriptions are established with no immediate plans to include new contributions. Similarly, outlays to Non-Profit Enterprises are relatively steady across fiscal years. The ceiling for this is set at $23.1M in FY 2023/24 and generally stays at this level for 2 years thereafter.

Capital Expenditure

Capital investments are essential in facilitating growth however, the ceiling for capital expenditure needs to match with available financing. Capital spend over the next three fiscal years averages 3.1 percent of GDP and will include off budget expenditure (HCF, ICF and the Catastrophe Fund); PPPs and the facilitation of local and foreign investment. Projects are selected based on how closely they align to prioritized infrastructural needs, particularly for sewage, sanitation, road repairs and green energy. Some of the capital investments planned over the medium term include upgrading the South Coast Wastewater Treatment Plants, the Scotland District Road Rehabilitation Project, the Barbados Water Infrastructure Rehabilitation Project, the Sustainable Energy Investment Program, Airport/seaport upgrades, digitization, agricultural projects, Barbados Heritage District, Belle, Tenantry road Rehabilitation, Licorish Village and Housing Industrial Estates.

C.5 Fiscal risks

General Economic Risks

The Barbados economy has shown promising signs of recovery following the fallout from the pandemic and natural disasters in 2020 and 2021, with tourism arrivals nearing pre-pandemic levels, business activities generally returning to a state of normalcy and the unemployment rate nearing 2019 levels. However, global supply chain disruptions, surging food and energy prices, the protracted military conflict in Ukraine and prolonged restrictions on movement in China, as well as the likelihood of global recession and stagflation could imperil Barbados' economic recovery. Global economic growth is projected to remain sluggish until 2024[4], with the current decade expected to be one of the slowest growth rate periods on record. Nevertheless, global inflation is expected to moderate in 2023.

[4] World Bank Group (2022): Global Economic Prospects.

The risks of a protracted global economic downturn and elevated global inflation to Barbados' recovery include weak tourist arrivals; depleted foreign reserves; high unemployment; and a widening of the current account deficit due to higher global commodity prices. Other negative spillover effects include inflationary pressures; higher borrowing costs with related increases in domestic debt burdens; and reduced fiscal space even as the Government implements measures to cushion the impact of sharp increases in energy and food prices, particularly on the most vulnerable.

Some of these risks are expected to be mitigated by the economic benefits to be derived from the commencement and continuation of several public and private sector capital projects and Public and Private Partnerships (PPPs). These include a multi-million dollar master plan for the modernization of the ports of entry over the next ten years, the construction of a cruise terminal at Speightstown, redevelopment of the Shallow Draught Marina; development of a local yachting industry and expansion and enhancement of the operations of the Grantley Adams International Airport.

Additional projects valued at over Bds$1.8 billion include the construction of a new Geriatric Hospital; the conversion of the Treasury building into commercial and residential units; the redevelopment of the Glendairy Prison as a tourist attraction; the redevelopment of Sam Lord's Castle into a 422 room hotel to be managed by Wyndham Corporation; Hotel Ziva; Pierhead redevelopment (a 300-400 room hotel with additional condos and retail space); redevelopment of Fort Willoughby and the Screw Dock; redevelopment of the old Caribbee hotel; construction of a hotel at Holetown; and the Discovery Bay Hotel. The Government has also secured over USD$430M in international funding for road resilience programmes.

In addition to PPP arrangements, the Government will implement non-fiscal tools, such as continued regulatory reform; improved public sector service delivery; domestic and foreign investment mobilization; facilitation of economic diversification; and strengthened climate resiliency.

Given its limited fiscal policy space, the Government embarked on several targeted initiatives to alleviate inflationary pressures on households while simultaneously maintaining fiscal sustainability. These measures include capping the VAT on fuel and electricity; providing school lunches over the summer holidays; and reaching an agreement with the private sector to reduce its markups on 45 basic consumer items over a period of six months. The Government has also taken steps to reduce Barbados' dependence on fossil fuels and transition to a zero carbon economy by providing additional duty concessions for electric and hybrid vehicles, and enhancing the regulatory framework for the renewable energy sector. Measures were also implemented to shore up food and nutrition security through improved cooperation with Guyana and Suriname in the area of agricultural production and the build out of greater capacity on island towards reducing food import bill and expanding export markets especially geared towards tourism economy in Barbados and the Eastern Caribbean.

Natural Disasters

The Atlantic hurricane season, which has been forecast to be "well above average", poses a serious threat to economic activity and the tourism sector which has begun to return to pre-pandemic levels. In an effort to mitigate the financial impact of natural disasters, the Government of Barbados procured insurance through the Caribbean Catastrophe Risk Insurance Facility (CCRIF). In addition, the Government has included natural disaster clauses in its domestic and external bonds to reduce its exposure to such exogenous shocks. In future Government will include both natural disaster and pandemic clauses in bonds issued.

The Government has increasingly highlighted to the international community the importance of implementing a Climate Vulnerability Index (CVI) to allow small developing states to build resilience against external shocks and structural vulnerabilities such as the climate crisis.

Contingent liabilities

SOE Guaranteed Debt

In accepting the terms offered under the 2018 Domestic Debt Exchange, creditors agreed to lift the guarantees, which had secured their facilities (Parliamentary Guarantees and Letters of Comfort). In addition, some USD denominated guaranteed debt was included in the Governments restructured external bond issue. As a result, only external guaranteed SOE debt remained as part of Government's commitments. These consist of multilateral debt and one bond issue secured on behalf of four SOEs.[5] For FY 2020/21, guaranteed debt stood at approximately $52.0M and for FY 2021/22, due to regular repayment of principal, this balance fell to approximately $46.0M.

The Government of Barbados has implemented strategic SOE reforms including the enhanced management of quasi-government operations through a much stronger oversight mechanism. The strengthened oversight is supported by improved reporting and tighter control over SOE borrowing. Prior to the onset of the COVD-19 pandemic, provisions have been made through the establishment of a new Public Finance and Management Act to sanction SOEs for noncompliance.

Contingent Liabilities from Property Acquisitions

During 2020, the Ministry of Housing and Lands estimated contingent liabilities of approximately $312.2 million payable by the Crown to landowners whose properties had either been compulsorily acquired pursuant to the Land Acquisition Act, or utilized for public purposes. This sum included:

- an amount of $61.67 million which was negotiated with eight landowners;

[5] University of the West Indies (UWI), Caves of Barbados, West Indies Shipping Corporation (WISCO) and Barbados Investment and development Corporation (BIDC).

- an amount of $140.12 million, representing the total value of eight (8) counterclaims submitted by landowners, whose lands were valued at $24.73 million by the Barbados Revenue Authority (BRA). Two of these counterclaims alone total $128.54 million and involve Mount Six Men's Limited and St. Philip Land Limited;
- an amount of $66.58 million, representing forty eight (48) valuations submitted by the Commissioner of Land Tax/Barbados Revenue Authority but which are still to be processed. This sum comprises $50.06 million as assessed by BRA, plus a further $16.52 million recommended by the then Ministry of Housing, Lands and Rural Development, to take account of projected increases in settlements with respect to private treaty transactions still to be negotiated; and
- interest payable on acquisitions, plus payments for legal and valuation fees and claims for injurious affection, estimated at $44.20 million.

Since 2020, $62.7 million has been issued in bonds to settle claims. It should also be noted that negotiations are on-going to reduce the amount owed.

Public-Private Partnerships

There are currently no Public-Private Partnerships (PPPs) in operation in Barbados and therefore no risk emanating from contractual obligations. However in the future, Government is expecting to create PPPs with private sector partners and State Owned Enterprises (GAIA and Barbados Port Inc.) and a number of Ministries, namely:

- Ministry of Energy and Business (Off shore, On shore wind turbine)
- Ministry of Finance, Economic Affairs and Investment (Blue, Green Investment Facility)
- Ministry of Health and Wellness (Ursuline Convent)
- Ministry of International Transport (Maritime Transport)

Special Issue – Financial Support to NIS

As a result of the sharp unemployment uptick brought on by the pandemic higher than normal outlays on unemployment benefits placed pressure on NIS finances. For FY2020/21, NIS unemployment and severance outlays were estimated at about $160 million. To facilitate these payments, Government provided liquidity support to the NIS, however the challenge is to find the most effective way to continue this support within the context of limited fiscal space and elevated debt levels. The government is seeking to facilitate this through the provision of liquidity support to the NIS by means of repurchasing central government debt (approximately $150M) held by the NIS. This operation while providing the necessary fillip to the NIS would also help reduce central government's gross financing needs (GFNs).

Table 1: Macroeconomic Outlook

	2019		2020		2021		2022	2023	2024	2025
	forecast	actual	forecast	actual	forecast	estimate	forecast	forecast	forecast	forecast
Nominal GDP market prices; million BBD	10,671.9	10,608.3	10,688.4	9,379.1	9,351.9	9,739.9	11,424.9	12,258.9	12,887.0	13,442.2
GDP real growth (%)	1.4	-0.7	2.8	-14.0	4.1	0.7	11.1	5.0	4.1	2.9
Traded sector	2.5	1.7	1.9	-45.8	4.1	-6.8	72.7	13.8	9.4	4.4
Non-traded sector	1.9	-1.2	1.4	-6.4	4.1	1.7	3.3	3.2	2.9	2.5
Consumer prices (%)	3.1	4.2	2.6	3.0	2.3	3.0	6.2	2.3	1.0	1.9
unemployment rate (%)	9.3	10.1	10.1	21.3	9.3	14.1	10.0	9.6	9.6	9.3
Employment ('000) (end-period)	127.0	126.0	126.9	117.6	109.3	118.4	127.1	128.5	130.6	131.3

Table 2: Fiscal Outlook ($million)

$M	2019/20		2020/21		2021/22		2022/23		2023/24	2024/25	2025/26
Variable	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Estimated[1]	Forecast	Forecast	Forecast
Central Government Revenue	3051.5	2984.2	3043.9	2563.3	2621.2	2823.8	2778.3	3087.40	3283.5	3471.4	3614.6
Tax Revenue	2851.9	2771.2	2791.6	2387.8	2473.3	2646.1	2622.7	2896.01	3040.8	3213.6	3346.2
Non-tax Revenue & Grants	199.6	213.0	252.3	175.4	147.9	177.8	155.6	191.39	242.7	257.8	268.4
Central Government Expenditure	2737.5	2599.7	2752.1	2992.9	3104.5	3314.4	3221.1	3467.04	3399.2	3269.3	3340.0
Current Expenditure	2555.7	2407.9	2579.6	2716.8	2827.7	2889.2	2954.1	2954.09	2995.9	2919.1	2877.6
Wages & Salaries	755.1	735.6	736.7	735.4	778.2	757.5	774.9	774.93	759.4	760.8	762.0
NIS Contributions	69.5	71.8	72.5	72.6	80.9	77.3	78.0	78.02	75.5	75.7	75.8
Capital Expendiutre & Net Lending	181.8	191.8	172.5	276.1	276.8	425.2	267.0	512.95	403.3	350.2	462.4
Central Government Fiscal Balance	314.0	384.5	291.8	-429.6	-483.3	-490.6	-442.7	-379.64	-115.6	202.1	274.6
Central Government Primary Balance	652.5	634.2	653.0	-87.0	-83.5	-91.6	58.3	121.43	434.9	782.1	814.0
Total Financing	-66.6	-176.2	265.5	491.5	782.4	531.7	442.7	492.9	227.4	-90.3	-163.1
Domestic Financing (Net)	-123.4	-275.0	0.0	-344.7	448.0	101.0	189.0	192.7	236.7	-50.1	287.4
Foreign Financing (Net)	190.0	98.8	265.5	836.2	334.4	430.7	253.7	300.3	-9.2	-40.1	-450.5
[1]Estimated figure for end of year in line with May 2022 IMF visit estimates											
Arrears Repayment		-208.3		-61.9		-41.1		-40.9	-85.2	-85.2	-84.9
Non-deficit Transactions								-72.4	-26.6	-26.6	-26.6
Total Financing	-66.600	-384.522	265.500	429.606	782.400	490.562	442.718	379.605	115.643	-202.051	-274.633
Difference between deficit and financing	247.400	0.000	557.300	0.000	299.110	0.000	-0.001	-0.038	0.013	0.000	0.000
							488.537				

Table 3: Fiscal Outlook (percent of GDP)

$M	**2018/19**	**2019/20**		**2020/21**		**2021/22**		**2022/23**		**2023/24**	**2024/25**	**2025/26**
Variable	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Estimated[1]	Forecast	Forecast	Forecast
Central Government Revenue	2993.6	3051.5	2984.2	3043.9	2563.3	2621.2	2823.8	2778.3	3087.40	3283.5	3471.4	3614.6
Tax Revenue	2812.4	2851.9	2771.2	2791.6	2387.8	2473.3	2646.1	2622.7	2896.01	3040.8	3213.6	3346.2
Non-tax Revenue & Grants	181.2	199.6	213.0	252.3	175.4	147.9	177.8	155.6	191.39	242.7	257.8	268.4
Central Government Expenditure	3024.1	2737.5	2599.7	2752.1	2992.9	3104.5	3314.4	3221.1	3467.04	3399.2	3269.3	3340.0
Current Expenditure	2826.4	2555.7	2407.9	2579.6	2716.8	2827.7	2889.2	2954.1	2954.09	2995.9	2919.1	2877.6
Wages & Salaries	765.2	755.1	735.6	736.7	735.4	778.2	757.5	774.9	774.93	759.4	760.8	762.0
NIS Contributions	46.7	69.5	71.8	72.5	72.6	80.9	77.3	78.0	78.02	75.5	75.7	75.8
Capital Expendiutre & Net Lending	197.8	181.8	191.8	172.5	276.1	276.8	425.2	267.0	512.95	403.3	350.2	462.4
Central Government Fiscal Balance	-30.5	314.0	384.5	291.8	-429.6	-483.3	-490.6	-442.7	-379.64	-115.6	202.1	274.6
Central Government Primary Balance	354.3	652.5	634.2	653.0	-87.0	-83.5	-91.6	58.3	121.43	434.9	782.1	814.0
Total Financing	40.53	-66.6	-176.2	265.5	491.5	782.4	531.7	442.7	492.9	227.4	-90.3	-163.1
Domestic Financing (Net)	-274.85	-123.4	-275.0	0.0	-344.7	448.0	101.0	189.0	192.7	236.7	-50.1	287.4
Foreign Financing (Net)	315.38	190.0	98.8	265.5	836.2	334.4	430.7	253.7	300.3	-9.2	-40.1	-450.5
[1]Estimated figure for end of year in line with May 2022 IMF visit estimates												
Arrears Repayment			-208.3		-61.9		-41.1		-40.9	-85.2	-85.2	-84.9
Non-deficit Transactions									-72.4	-26.6	-26.6	-26.6

Table 4: Public Debt Outlook

	2018		2019		2020		2021		2022	2023	2024
Variable	forec.	actual	forec.	actual	forec.	actual	forec.	actual	forec.	forec.	forec.
Total debt (including NIS and CG arrears) in million BBD	12,901.0	12,848.9	12,257.2	12,498.7	12,167.1	12,814.7	12,777.7	13,358.2	14,420.4	14,534.9	14,886.3
Total debt (including NIS and CG arrears) in percent of GDP	125.0	125.4	114.9	118.0	113.8	136.6	136.6	137.3	128.3	121.3	117.4
Total external debt in million BBD	2,856.5	3,293.2	3,406.6	3,162.4	3,158.5	4,028.0	4,209.0	4,531.9	4,765.2	4,776.8	4,717.7
Total external debt in percent of GDP	27.7	32.1	31.9	29.8	29.6	42.9	45.0	46.6	42.4%	39.9%	37.2%
Total domestic debt in million BBD	10,044.5	9,555.6	8,850.6	9,336.3	9,008.6	8,786.7	8,568.7	8,826.2	9,655.2	9,758.2	10,168.6
Total domestic debt in percent of GDP	97.3	93.3	82.9	88.1	84.3	93.7	91.6	90.8	85.9%	81.4%	80.2%

I. ANNEXES

Abbreviations

BIDC – Barbados Investment and Development Corporation
BERT Plan – Barbados Economic Recovery and Transformation Plan
BEST Program – Barbados Employment and Sustainable Transformation program
BTMI – Barbados Tourism Marketing Incorporated
CAF –Latin America Development Bank
CCRIF – Caribbean Catastrophe Risk Insurance Facility
CARICOM – Caribbean Community and Common Market
PFM Act - Public Finance Management Act (2019)
EFF program – Extended Fund Facility program
FF – Fiscal Framework
FMA Act – Financial Management and Audit Act
FY– Fiscal year
GDP – Gross Domestic Product
IFI – International Financial Institutions
IMF – International Monetary Fund
IDB – Inter-American Development Bank
LDNA – Loss, Damage and Needs Assessment
OECD – Organization of Economic Cooperation and Development
NIS – National Insurance Scheme
PPP – Public-Private Partnerships
PPE – Personal protective equipment
QEH – Queen Elizabeth Hospital
SOEs – State Owned Enterprises
UWI – University of the West Indies Cave Hill Campus
VAT – Value Added Tax
W&S – Wages and Salaries
WISCO – West Indies Shipping Corporation

Glossary of key terms used in the document

Arrears – The stock of domestic expenditure arrears of the central government and state owned enterprises (SOEs) is defined as the sum of: (a) any invoice that has been received from a supplier of goods, services, and capital goods delivered and verified, and for which payment has not been made within the contractually agreed period (taking into account any applicable contractual grace period), or in the absence of a grace period, within 60 days after the due date; (b) non-contributory pension transfers (by central government only), wages and pensions contributions to the NIS for which payment has been pending for longer than 60 days; (c) rent and loan payments to the NIS pending for longer than 60 days; and (d) arrears on refunds of Personal Income Tax (PIT), Reverse Tax Credit (RTC), Corporate Income Tax (CIT), and Value Added Tax (VAT). Tax refund arrears are defined as obligations on tax refunds in accordance with tax legislation that remain unpaid six months after the filing date.

Balance of Payments - A statement summarizing the economic transactions between the residents of a country and nonresidents during a specific period, usually a year. The BOP includes transactions in goods, services, income, transfers and financial assets and liabilities. Generally, the BOP is divided into two major components: the current account and the capital and financial account.

Debt - Outstanding financial liabilities arising from past borrowing. Debt may be owed to external or domestic creditors and typically, debt financing is in the form of loans or bonds. The debtor may be either a public (government) or private sector entity.

Fiscal balance = Total Revenue – Total Expenditure (If positive results in a surplus, if negative results in a deficit)

Fiscal consolidation – Policies aimed to minimize government deficits and debt levels.

Fiscal year – The financial year for the Government of Barbados runs from April to March.

GDP - Gross domestic product is the most commonly used single measure of a country's overall economic activity. It represents the total value of final goods and services produced within a country during a specified time period, such as one calendar year.

Go green – This includes conducting practices that help to protect the environment and preserve its natural resources.

Inflation - A sustained increase in the general price level, often measured by an index of consumer prices. The rate of inflation is the percentage change in the price level in a given period.

Interest - Scheduled payments made to a creditor in return for the use of borrowed money and which will be determined by the interest rate, the amount borrowed (principal) and the duration of the loan.

International reserves – These are external assets that are readily available to and controlled by monetary authorities for direct financing of payments imbalances, for indirectly regulating the magnitudes of such imbalances through intervention in exchange markets to affect the currency exchange rate, and/or for other purposes.

Nominal GDP – This is a measure of the country’s gross domestic product using current market prices without adjusting for inflation.

Primary balance = Total Revenue – Non-Interest Expenditure (If positive results in a surplus, if negative results in a deficit)

Real GDP - This is a measure of the country's gross domestic product that is adjusted by the price level within a given financial year.

Social safety nets - Programs used to protect the vulnerable individuals within society which can include cash transfers, unemployment benefits, fee waivers as well as implementing food, housing and school assistance programs.

Other sources for additional information on key aspects covered by the FF

PFM act – Public Finance Management Act (2019): View Bills (barbadosparliament.com)

Barbados Economic Recovery and Transformation (BERT) Plan (available upon request from the Ministry of Finance, Economic Affairs and Investment at Financep.s@gob.bb)

Central Bank of Barbados quarterly economic reviews: Central Bank of Barbados > Research & Publications > Publications > Quarterly Economic Review

IMF staff reports for Barbados for Extended Fund Facility program: Barbados and the IMF

Annex 2. Draft FF and PFM Act: Comparison

This Annex outlines which elements of the Fiscal Framework required by the Third Schedule of the PFM Act are covered by the draft FF. The subsequent table lists the legal FF requirements and indicates what is included in the outline.

PFM Act section	**content**	**Outline covers: (Yes/No/Partly); any remarks**
2a (i)	Report for the recently concluded financial year which shall include an updated macro-economic and fiscal outturn to show changes from the forecasts	Yes
2a (ii)	a summary of actual expenditure compared to the appropriations and statutory commitments for the information required in subparagraph (c)(i) to (v) and (viii) of this Schedule, if applicable	Partly: most data available, expenditure in administrative and functional classification missing
2a (iii)	a summary report on the performance of all key policies identified in the previous Fiscal Framework identified in sub-paragraph (h) (ii) of this Schedule;	Partly: narrative text
2a (iv)	report on the extent to which the risks identified in the previous Fiscal Framework Paper were realized and the effect on fiscal performance; and	Partly: narrative text
2a (v)	information on reasons for any deviations from the fiscal responsibility principles and fiscal objectives with plans to address any such deviations, and the expected time to achieve this.	Partly: narrative text
2b	A medium-term macro-economic forecast setting out actual, estimated and projected values of the following economic variables for no less than the previous 2 years, the current year, and the next 2 years including (i) the Gross Domestic Product and its components; (ii) inflation; (iii) employment and unemployment; (iv) interest rates; and (v) money supply and monetary conditions including credit to the private sector; and for (i) to (v) the source of the data shall be identified, and for historical information, a statement	Partly: Most of the data available; interest rate projections missing

PFM Act section	content	Outline covers: (Yes/No/Partly); any remarks
	provided of whether it is official or estimated in cases where official data are not available.	
2c (i)	Medium-term fiscal forecasts setting out actual, estimated, and projected values of the following fiscal variables for no less than the previous 2 years, the current year, and the next 2 years including revenues by type;	Partly, see below
2c (ii)	aggregate expenditures by economic, administrative, and functional classifications;	Partly, just for economic classification
2c (iii)	budget balance for the overall budget;	Yes
2c (iv)	a summary of the sources of budget financing;	Yes
2c (v)	the level of debt by external source, domestic source and total; and	Yes
2c (vi)	any other information the Minister responsible for Finance determines is material to the Fiscal Framework;	No other information determined.
2d (i) A	Fiscal policy targets for revenues, debt, deficit and expenditure for the forthcoming budget year and 2 subsequent years including a summary table of the fiscal targets for no less than the previous 2 years, the current year, and the next 2 years including, where possible	Partly; fiscal targets of the IMF program.
2d (i) B	Government expenditure on wages and National Insurance Contributions as a percentage of the Gross Domestic Product and in nominal terms for all positions funded from the Annual Budget including all positions funded by direct charge on the Consolidated Fund and all positions funded by appropriation;	Yes
2d (i) C	Government revenues as a percentage of the Gross Domestic Product and in nominal terms;	Yes
2d (i) D	overall budget balance as a percentage of the Gross Domestic Product and in nominal terms;	Yes
2d (i) E	Government debt as a percentage of the Gross Domestic Product and in nominal terms; and	Yes
2d (i) F	Government net worth as a percentage of the Gross Domestic Product and in nominal terms when net worth can be measured; and	No
2d (ii)	information on reasons for any deviations from the fiscal responsibility principles and fiscal objectives in the previous Fiscal Framework with a summary of the plans	Re fiscal responsibility principles: Partly, narrative text;

PFM Act section	content	Outline covers: (Yes/No/Partly); any remarks
	to address any such deviations, and the expected time to achieve this.	
2e (i)	A medium-term expenditure framework stating the Government's annual and medium-term expenditure intentions *and an explanation of any changes in the proposed ceilings from the previous Fiscal Framework limits* which shall include the aggregate expenditure ceiling to be used in the preparation of the Annual Budget which shall include indicative ceilings for 2 further outer years; and	No explicit ceilings formulated.
2e (ii)	ceilings for central Government expenditure by a Ministry and other budget entity for the budget year and next 2 years to be used as the basis for the preparation of the Annual Budget.	No
2f (i)	A fiscal risk statement including contingent liabilities;	Yes
2f (ii)	any commitments not included in the fiscal forecasts; and	Not applicable as authorities confirm that there are no such commitments
2f (iii)	all other circumstances which may have a material effect on the fiscal and economic forecasts and which have not already been incorporated into the fiscal forecasts and such fiscal risks shall be quantified where practicable.	No
2g	A statement of responsibility signed by the Minister responsible for Finance and the Director of Finance attesting to the reliability of the information in the Fiscal Framework and its compliance with the law.	Yes
3	If the Government is unable to provide any of the information required by this Schedule the Ministry responsible for Finance shall state in the Fiscal Framework the reasons for any missing information and shall ensure that such information is available as soon as practicable for future Fiscal Frameworks.	Yes; statement of responsibility addresses the missing information and commits to improve information.