



# BARBADOS FISCAL FRAMEWORK

2022/23 – 2024/25

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# 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  
Finance

Signature: Director of

## 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.<sup>1</sup>

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 Government's 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.

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<sup>1</sup> The provisions for the Fiscal Framework are stipulated in the PFM Act, section 6.



## A.3 Economic and fiscal challenges for Barbados

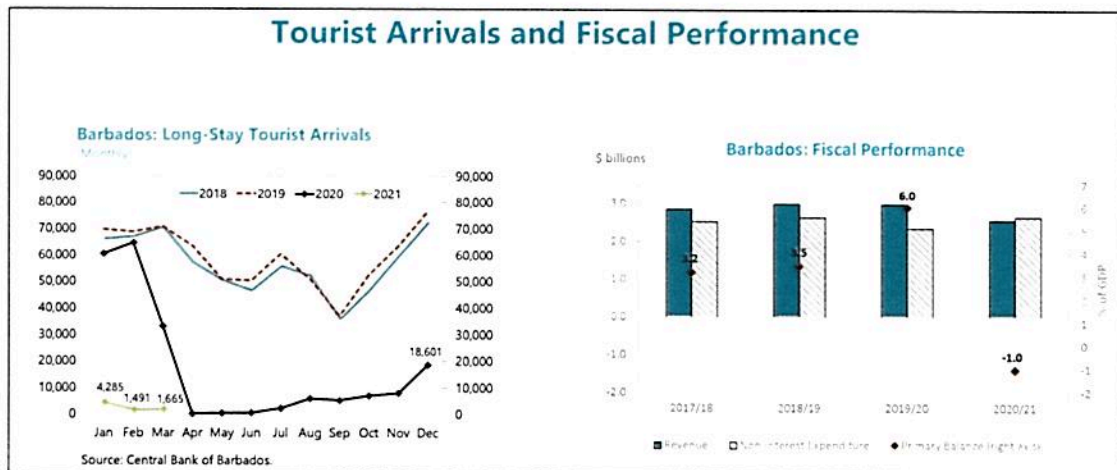
Prior to the pandemic Barbados has made good progress in implementing the Barbados Economic and Transformation (BERT) Plan to restore fiscal and debt sustainability, rebuild reserves, and increase growth. Since May 2018, international reserves have increased from a low of US\$220 million (5-6 weeks of import coverage) to more than US\$1 billion at end-October 2020. This, and a successful 2018-19 public debt restructuring, have helped rebuild confidence in the country's macroeconomic framework.<sup>2</sup>

The ongoing global coronavirus pandemic has had devastating impact on the Barbadian economy, which is heavily dependent on tourism. Tourist arrivals in 2020 were a fraction of normal levels, with a negative impact on economic growth, government revenues, our foreign exchange earnings and jobs. Arrivals fell by over 90 percent during 2020 and all other economic sectors registered declines, resulting in an 18 percent contraction in real GDP compared to an initial forecast of 2.8 percent growth.

Fiscal revenues were decimated 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 153 percent at end of FY2020/21 owing to the effects of the COVID-19 pandemic. The Government 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.

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



Prior to the onset of the COVID 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 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 need to be reduced once the global coronavirus pandemic recedes by a combination of phasing out of COVID-related additional 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) and these will likely remain elevated in FY2021/22. 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.

Like most Caribbean countries, Barbados is highly exposed to natural disasters including climate change vulnerabilities which are expected to increase, and could have a major impact on the economy. The recent eruption of the La Soufriere volcano in St. Vincent dumped tons of ash onto Barbados with a damping impact on economic activity in Barbados. The Government revised down its growth projections for 2021 by



about 3 percentage points reflecting the impact of the ashfall and estimated the cost of cleanup at close to ½ percent of GDP.

## **A.4 Budget policy priorities**

The prolonged global coronavirus pandemic poses a major challenge to the economy, which is heavily dependent on tourism and is expected to have a large impact on the balance of payments and fiscal accounts. A strong recovery from the global pandemic will hinge on accelerating structural reform including improving the business climate and promoting economic diversification. In the upcoming three fiscal years 2022/23 – 2024/25 the budget will 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 and reducing unemployment by training staff and investing in renewable energy;
- strengthening resilience to natural disasters and climate change;
- review of tax system to increase tax base and lower rates;
- 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”.

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

- i. investing in and deepening existing investment in skills training and education;
- ii. better mobilizing private domestic savings for local investment;
- iii. making Government an enabler of growth;
- iv. supporting the mainstays of the current economy: tourism and international business and
- v. 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 spill over 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 marginal 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 71 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 18 percent and unemployment levels averaged an estimated 13.6 percent compared to the original forecast of 10.1 percent.

The pandemic continues to have profound global effects and as the outlook for growth gradually improves, the Barbadian economy will make a modest recovery in 2021 and grow an estimated 3.3 percent and average 4.9 percent between 2022-2024. This forecast for weaker growth than originally estimated for 2021, takes into consideration the impact of renewed travel restrictions in key source markets, and COVID-19 containment measures in February that lowered economic activity more than expected during the first quarter of the year.

Economic activity beyond 2021 is hinged on the country's ability to contain the domestic spread of COVID-19 as well as the resumption of tourism activity particularly



as the main source markets are expected to rebound. Continued success in vaccinated efforts both locally and internationally remains central to the path of recovery and taking this into consideration 2021 tourist arrivals are expected to be 33 percent of 2019 arrival levels, increasing to 70 percent in 2022 and returning to full levels by 2024. The anticipated rise in tourism activity should have a positive effect on all ancillary sectors, driving real GDP activity to pre-COVID-19 levels by end of 2024. 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.

## C. FISCAL OUTLOOK

### C.1 Fiscal performance and outlook

#### **Overview Fiscal Performance FY2019/20**

At the close of FY2019/20 fiscal performance remained relatively strong aided by the stabilisation measures of the Barbados Economic Recovery and Transformation (BERT) Plan, which commenced in the latter half of 2018. The fiscal accounts registered a robust 6.0 percent of GDP primary surplus balance. This achievement marked the successful attainment of the primary surplus target of 6 per cent as established under the Extended Fund Facility (EFF) program with the IMF. However, compared to the \$634.2 million budgeted primary-balance forecast, the final outturn reflects an \$18.3 million moderation downwards, primarily on account of lower than anticipated interest costs arising from debt payments preceding the debt restructuring initiative.

#### **Deviations in Revenue Outturn FY2019/20**

For the FY2019/20 total revenue of \$2,984.2 million, fell short of budgeted expectations by an estimated \$67.3 million (a 2 percent decline). Of the total revenue, tax revenue comprised \$2,771.2 million (or 93 percent) and gave rise to the shortfall on budget, recording a decline of \$80.7 million (or 3 percent). The decline in tax revenue was attributed primarily to a shift in the timing of prepayments made by corporate entities who failed to pre-pay according to their regulatory requirements in March of 2020.



### ***Deviations in Expenditure Outturn FY2019/20***

On the expenditure side, the total budgeted expenditure for FY2019/20 was estimated at \$2,737.5 million while the final outturn for the year amounted to \$2,599.7 million. This represented savings of \$137.9 million which was attributed in part to lower than expected interest costs arising from debt payments preceding the external debt restructuring initiative which concluded in December 2019. Total interest costs from debt payments amounted to \$249.7 million, which was \$89 million less than budgeted. Further deviations were registered in the area of goods and services, in which the budgeted expenditure of \$417.4 million was reduced by \$41.9 on account of renegotiated contractual ancillary services provided to public offices. Wages and salaries also declined by \$10 million which was due to posts not being filled and partly due to the attrition process.

### ***Overview Fiscal Performance FY2020/21***

The COVID-19 pandemic forced the closure of borders and business activities resulting in an immediate falloff in gross revenues by 0.4 percentage points of GDP, year on year. This was primarily due to a significant reduction in tax revenue by 0.5 percentage points of GDP, year on year. Expenditures increased and were repurposed to streamline an effective response to the pandemic resulting in an 8.8 percentage point increase of GDP, year on year. To account for the impact of the crisis, the primary balance target for FY2020/21 was reduced from 6 percent of GDP to -1 percent of GDP and ended up with that percentage.

### ***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 translated to 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.

All tax types registered declines during the period. Primary fallout was felt for VAT, income tax, and excise tax, and secondary declines were felt for property tax, withholding tax, fuel tax and the room rate levy. The exception was noted in the performance of corporate taxes which registered an uptick in tax receipts during tax

year 2020, buffering some of 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 noted above) some entities failed to prepay their tax on time in March 2020 and had to make up for this shortfall. Despite the increase in corporate tax receipts, this outturn was not sufficient to offset the overall revenue decline.

### ***Deviations in Expenditure Outturn FY2020/21***

For FY2020/21, the total amount 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 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.
- \$20 million to the Household Survival program to provide cash transfers to support vulnerable families affected by the economic fallout from the pandemic.
- \$4.5 million to the National Assistance Board to establish an 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).
- \$10.0 million to provide financial relief to vendors, operators of small shops and stalls and medium sized businesses impacted by the national shutdown.
- \$15.0 million to the Rejuvenation Project which deals with the refurbishment of Government buildings.
- \$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**

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

The fiscal period commenced April 1, 2021. Estimates were revised slightly upwards with total outturn expected to be \$2,605.3 million. Tax revenues maintained a similar projection to the previous fiscal period representing \$2,413.6 or 93 percent of total revenues.

Projected non-tax revenues were increased by \$32.1 million from \$158.9 million to \$191.7 million primarily to take account of expected increases in the foreign exchange fee.

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

The amount originally budgeted for FY2021/22 was \$2,948.4 million however, due to mitigating factors including the ashfall clean-up and the protracted COVID-19 pandemic, the budget has been revised upward to \$3,023.6 million, an increase of \$75.3 million. Factors contributing to this increase included

- \$22.1 million to cater to the ashfall clean-up.
- \$17.0 million to assist Barbados Tourism Marketing Incorporated (BTMI) in their operations given the uncertainty of returning to pre-COVID tourist travel to Barbados.
- \$40.0 million to the Barbados Employment and Sustainable Transformation (BEST) program. The BEST program is geared towards providing financing to the tourism sector to prevent large scale retrenchment in the midst of the economic downturn.

### **Medium-Term Outlook FY2022/23 to FY2024/25**

The fiscal outlook expects a step-by-step improvement of the fiscal balance which will, however, stay below the FY2019/20 level. Revenues are expected to increase gradually converging to their new long-term levels as economic activity improves. These increases are expected as follows; for FY2022/23, 10.9 percent for FY2023/24, 7.2 percent and 4.8 percent for FY2024/25. During FY2022/23 in particular, tax revenues are projected to increase by 10.4 percent which was attributable to the rebound expected in the tourism sector.

For FY2022/2023, expenditures are likely to outpace revenues as the country recovers from the impact of the pandemic induced recession and continues to spend to recover from the volcanic ash fall from the recent St. Vincent La Soufriere volcanic eruption. For FYs2023/24 and 2024/25 budgeted expenditures are expected to keep pace with revenues and by FY2024/25 the primary balance is expected to reach a surplus of 5.1 percent of GDP just short of the 6.0 percent primary balance attained in FY2019/20. Higher primary surpluses in the subsequent years will be necessary to ensure that public debt remains on target.

Successful debt restructurings in 2018 and 2019 reversed the upward trend in the debt to GDP ratio and saw a decline in 2019 to 117.5 percent of GDP. However, in 2020 the debt to GDP ratio increased by 25.3 percent to 142.8 percent of GDP. This was primarily due to an 18.0 percent reduction in GDP from 2019 to 2020, as well as increased borrowing to assist in mitigating the effects of the Covid-19 pandemic. The financing of the COVID-19 response has been met by our International Financial Institutions (IFI) partners namely the Inter-American Development Bank (IDB), Latin American Development Bank (CAF) and the International Monetary Fund (IMF) and consequently there has been an increase in the share of external debt in the portfolio. There were no new domestic securities issued since 2018, with the exception of the BOSS bonds in 2020.

Over the forecast horizon 2021 to 2024 the debt to GDP ratio is projected to resume a downward trajectory, as higher primary surpluses are maintained, given Government's commitment to long term debt sustainability and realizing a debt to GDP target of 60 percent by 2036. We must however recognize the severe impact that the pandemic has had on Barbados and indeed the prolonged impact that will be felt



through the slow recovery of the tourism, manufacturing, agriculture and construction sub-sectors and the level of uncertainty that this brings to our environment.

## **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 2019 total debt forecast was \$ 12,257.2 comprising external debt of \$ 3,406.6 (31.9 percent of GDP) and domestic debt of \$ 8,850.6 (82.9 per cent of GDP) while the total actuals were \$ 12,448.2 which include external debt of \$ 3,111.9 (29.4 percent of GDP) and domestic debt of \$ 9,336.3 (88.1 percent of GDP). These variations were the result of implementing a comprehensive debt restructuring process.

In 2020 total debt forecast was \$ 12,167.1 comprising external debt of \$ 3,158.5 (29.6 percent of GDP) and domestic debt of \$ 9,008.6 (84.3 percent of GDP) while the total actuals were \$ 12,814.9 which include external debt of \$ 4,028.0 (44.9 percent of GDP) and domestic debt of \$ 8,786.9 (97.9 percent GDP). These variations were impacted by the COVID-19 pandemic.

For 2021 the total debt forecast was \$ 12,777.7 comprising external debt of \$ 4,209.0 (43.8 percent of GDP) and domestic debt of \$ 8,568.7 (89.2 percent of GDP) while the total estimated debt currently is estimated at \$ 13,081.0 including external debt of \$ 4,410.0 (47.0 percent of GDP) and domestic debt of \$ 8,671.0 (92.5 percent of GDP). These expected variations were the result of the continuing COVID-19 pandemic coupled with the effect of the ashfall from the La Soufrière Volcano.

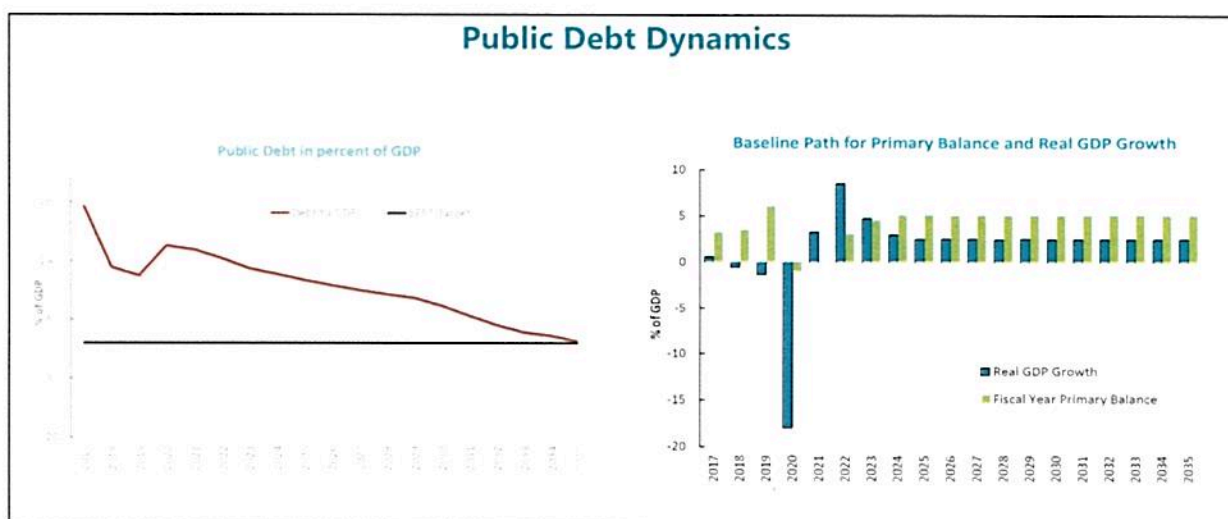
Government's debt-to-GDP trajectory of 60 percent has been impacted by the COVID-19 crisis resulting in a projected debt-to-GDP ratio of 146 percent for FY2020/21 and is expected to decrease in the medium-term to 118,8 percent of GDP by 2024. To



reinforce debt sustainability over the medium and long term, the fiscal rule which is expected to be introduced at the end of September 2021 will target a steady reduction of the debt-to-GDP ratio to 60 percent by FY2035/36.

### 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. Average inflation is also projected to return to its long-term average of around 2½ percent in 2022-24. 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 2009 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 intends to implement 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, including through the passing of a Fair Credit Reporting Act by end-September 2021 and the creation of an online credit collateral registry; digitize property records in the land registry, as part of public sector-wide digitization project; facilitate a more efficient process for the registering of properties; strengthening the company law to provide greater protection for minority shareholders.

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 incentive 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 photo voltaics, electric vehicles) in the public sector. These measures will also 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 2033. 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, 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 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. The government ringfenced expenditures that form the basis of the national safety net. 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 of the domestic economy during and in the aftermath of the pandemic.

The Covid19 pandemic had a significant impact of the reform efforts of the SOEs. 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.

There has been a concerted effort to support and recuperate the tourism industry, which has been hard hit by the impact of the pandemic. 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 technologies. 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 and the Enterprise Growth Fund.

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.

## **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 (W&S)**

The expenditure ceiling for W&S 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



W&S 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 W&S. The ceilings for Wages are set at \$735,1M (combination of personal and statutory emoluments), for 2022/23 while NIS contributions are \$80M. The following two years include estimates of \$739,2M and \$80,5M and \$743,7M and \$81M for W&S and NIS contributions respectively.

### **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 2022/23-2024/25. The expenditure ceiling for goods and services includes important recurrent expenditure for mitigating the impact of the pandemic, such as laboratory supplies, Personal Protective Equipment (PPE) etc. may 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 after the height of the crisis, 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 consistent with a measured subsiding of the adverse impacts of the pandemic. 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 5.1 percent of GDP for FY 2022/23, 4.9 percent of GDP for FY 2023/24 and 4.6 percent of GDP for FY 2024/25.

A large subcomponent of subsidies is the subvention to the Transport Board. The local spread of COVID-19 adversely affected ridership fees for the enterprise. This necessitated government intervention in covering the operating costs of the entity. However, with the anticipated control of the virus 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.



### **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 \$25M in FY 2022/23 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 are capped at 2 percent of GDP given the need to resume larger primary balances after the primary deficits generated during the pandemic period. Projects are therefore 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 as well as the Sustainable Energy Investment Program.

## **C.5 Fiscal risks**

### **General Economic Risks**

Despite expectations of a modest recovery, risks to the economic recovery agenda of Barbados remain elevated as a result of the prolonged impact the COVID-19 pandemic and the recent volcanic ashfall event. While government's job retention and job support schemes have further delayed the labour market impact, demand and income generation prospects are still evolving and are uncertain. The eventual fiscal outturn for FY2021/22 will be contingent on containing the spread of the corona virus and leveraging the vaccination program, thereby making it safe to continue business as usual. In particular, lower than projected tourist arrivals from Barbados' key tourism markets appears imminent with the tightening of COVID-19 restrictions in those countries, which will severely restrict travel to Barbados.

The heavy dependance on tourist travel to boost the resumption of ancillary services in the short-term promotes the likelihood of further downside risks to the performance of the fiscal accounts. The potential lower economic activity might further impact VAT

receipts and excise taxes negatively, and any deviation from expected employment levels would result in a decrease in personal income tax revenue. Corporate tax receipts are exposed to conflicting trends: While they are expected to increase in line with the projected economic recovery, the impact of the OECD Base erosion and profit shifting initiative may adversely affect the expected revenue.

Table 5 summarizes the likely impact of a negative 1.1 percent<sup>3</sup> decline in nominal GDP and an increase in tourist arrivals by 50,000<sup>4</sup> on the fiscal outturn for FY2022/23. As summarized above, a 1.1 percent decline in nominal GDP in FY2022/23 results in a \$28.2 million (about 0.3 percent of GDP) decline in total revenues based on the assumption that a contraction in economic activity reduces employment, business activity and consumption, thus reducing the tax base. This equates to a 0.24 percentage point decline in the primary balance from its original target of 3.0 percent. An increase in tourist arrivals by 50,000 is likely to result in a 0.5 percentage point uptick in nominal GDP growth from the baseline growth of 8.9 percent. Higher tourist arrivals of this magnitude are also likely to generate a \$14.3 million increase (about 0.13 percent of GDP) in total revenues thereby leading to an improvement in the primary balance to 3.2 percent of GDP (up 0.12 percentage points).

In the event there is a reversal to the above scenarios – i.e. GDP increase by 1.1 percent and tourist arrivals decline by 50,000 - this would result in a symmetric budget impact. Revenues would increase by \$28.2 million resulting in a 0.24 percentage point increase in the primary balance and tourist arrivals would decrease GDP by 0.5 percentage points decreasing revenue by \$14.3 million and the primary balance to 2.8 percent of GDP.

### **Volcanic Ashfall**

The impact of the recent ashfall disruptions from the La Soufrière volcano in St. Vincent are likely to be felt in the medium-term as clean-up efforts continue. In addition, downside fiscal risks remain with the threat of future eruptions. In the event that ashfall events continue, future economic activity will be further dampened placing upward pressure on the debt levels. This will translate to further revisions to key fiscal

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<sup>3</sup> This assumes a tax elasticity of one (1) (see, Skeete, Coppin and Boamah 2004).

<sup>4</sup> The magnitude of the impact is assumed to be the same for a 1.1 percentage point increase in nominal GDP or a decline in tourist arrivals by 50,000.



targets. Preserving debt sustainability, therefore, will require fiscal accommodation be compensated with higher primary surpluses over the medium-term.

The Government of Barbados conducted a Loss, Damage and Needs Assessment (LDNA) to determine the impact of the hazard; identifying and detailing the country's resource needs and requesting assistance to address post-event recovery associated with the La Soufrière volcano eruption and ashfall. The economic loss resulting from the volcanic ashfall was estimated at BDS \$89.0 million. A Supplementary of \$22.2 million was provided by the Ministry of Finance, Economic Affairs and Investment to assist Ministries/Departments in expenditure relating to the clean-up as a result of the ashfall.

### **Natural disasters**

The 2021 Atlantic Hurricane Season is already active with Barbados experiencing Category 1 Hurricane Elsa which caused significant damage to property and loss of electricity and water supply to homes and businesses across the island. An active season poses a great threat to suppressing economic activity and potentially reversing the small gains made from the uptick in tourism activity. In the event adverse weather conditions affect the island, leading to economic and social displacement, thereby leading to the country pursuing an increased fiscal policy response buoyed by further debt accumulation in an effort to restore normalcy to the economy. Any further deepening of the current recession brought on by natural disasters of any kind, could make the debt trajectory unsustainable.

In an effort to mitigate against the impact of natural disasters the Government of Barbados is insured through the Caribbean Catastrophe Risk Insurance Facility (CCRIF) to accommodate such circumstances. In addition, the Government has included natural disaster clauses into the new domestic and external bonds to strengthen Barbados' protection against such exogenous shocks to the economy.

### **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 Government's 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.<sup>5</sup> In 2019 guaranteed debt stood at \$66.4M and at 2020, due to regular repayment of principal, this balance fell to \$55.3M.

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 of over SOE borrowing. Prior to the onset of the COVID-19 pandemic, provisions have been made through the establishment of a new Financial Management and Audit (FMA) Act to sanction SOEs for noncompliance.

### **Contingent Liabilities from Property Acquisitions**

The Ministry of Housing and Lands has estimated contingent liabilities of approximately \$312.2M payable by the Crown to landowners whose properties have either been compulsorily acquired pursuant to the Land Acquisition Act, or utilized for public purposes. This sum includes claims that have been agreed, some which are at various stages of negotiation, interest payable and fees. It should be noted that negotiations are on-going to reduce this sum.

### **Public-Private Partnerships**

There are currently no Public-Private Partnerships in operation in Barbados and therefore no risk emanating from contractual obligations.

### **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 are estimated at about B\$160 million. These outlays are likely to remain elevated throughout the remainder of FY2021/22. To facilitate these payments, Government would need to provide liquidity support to the NIS, the challenge is to find the most effective way to do so within the context of limited fiscal space and elevated debt levels. The government is seeking to

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<sup>5</sup> University of the West Indies (UWI), Caves of Barbados, West Indies Shipping Corporation (WISCO) and Barbados Investment and development Corporation (BIDC).

facilitate this through the provision of liquidity support to the NIS by means of repurchasing central government debt 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). Cabinet has agreed to the recapitalization of the unemployment fund over a 3 to 5 year period and to engage in discussions about the National Insurance Fund.



**Table 1: Macroeconomic outlook**

Variable	2019		2020		2021		2022	2023	2024
	forecast	actual	forecast	actual	forecast	estimated <sup>/1</sup>	forecast	forecast	forecast
Nominal GDP market prices; million BBD	10,671.9	10,595.9	10,688.4	8,973.7	9,351.9	9,377.6	10,134.7	11,036.4	11,576.9
GDP real growth (%)	1.4	-1.3	2.8	-18.0	4.1	3.3	8.5	4.7	3.0
Traded sector	2.7	1.2	1.9	-50.1	4.1	3.5	43.3	12.9	7.2
Non-traded sector	1.0	-2.1	1.4	-7.5	4.1	3.2	2.3	2.7	1.9
Consumer prices (%)	3.1	4.1	2.6	3.0	2.3	2.3	2.3	2.1	2.0
Unemployment rate (%)	9.3	10.1	10.1	13.6	9.3	9.3	9.3	9.3	9.3
Employment ('000) (end-period)	127.0	126.0	126.9	117.6	109.3	109.3	116.5	119.8	119.6
Treasury Bill Rate	n.a	0.5	n.a	0.5	n.a	n.a	n.a	n.a	n.a
Weighted Average Interest Rate of Government Domestic Bonds	n.a	2.4	n.a	2.5	n.a	n.a	n.a	n.a	n.a
Monetary Base	2,758.7	2,938.8	3,002.5	3,551.8	3,747.1	3,525.9	3,937.9	4,408.8	4,844.8
Credit to the Private Sector	5,786.9	6,225.1	6,418.3	6,050.6	6,107.7	6,095.5	6,228.3	6,361.3	6,691.6

/1 estimated figure for end of year.

**Table 2: Fiscal outlook (\$ million)**

Variable	2019/20		2020/21		2021/22		2022/23	2023/24	2024/25
	budget	actual	budget	actual	budget	estimated <sup>/1</sup>	forecast	forecast	forecast
Central Government Revenue	3,051.5	2,984.2	3,043.9	2,563.3	2,559.4	2,605.3	2,888.5	3,096.9	3,244.8
<i>of which: tax revenue</i>	2,851.9	2,771.2	2,791.6	2,387.8	2,400.5	2,413.6	2,664.9	2,855.3	2,991.9
<i>non-tax revenue &amp; grants</i>	199.6	213.0	252.3	175.4	158.9	191.7	223.6	241.6	252.9
Central Government Expenditure	2,737.5	2,599.7	2,752.1	2,992.9	2,948.4	3,023.6	3,047.7	3,137.6	3,232.8
<i>of which: current expenditure</i>	2,555.7	2,407.9	2,579.6	2,716.8	2,755.0	2,829.5	2,833.5	2,911.2	2,997.5
<i>of which Wages and Salaries</i>	755.1	735.6	736.7	735.4	763.4	758.8	735.1	739.2	743.7
<i>of which NIS Contributions</i>	69.5	71.8	72.5	72.6	78.0	82.6	80.0	80.5	81.0
<i>capital expenditure &amp; net lending</i>	181.8	191.8	172.5	276.1	193.4	194.1	214.1	226.4	235.3
Central government fiscal balance	314.0	384.5	291.8	-429.6	-389.0	-418.4	-159.1	-40.7	12.0
Central government primary balance	652.5	634.2	653.0	-87.0	30.3	0.8	324.5	500.7	585.2
Total financing	-66.6	-176.2	265.6	491.5	782.0	661.7	208.0	33.5	-14.6
<i>of which: domestic</i>	-123.4	-282.8	0.0	-370.7	448.0	246.5	189.0	15.6	37.7
<i>of which: foreign</i>	190.0	106.6	265.6	862.2	334.4	415.2	18.9	17.9	-52.2

/1 estimated figure for end of year.

**Table 3: Fiscal Outlook (percent of GDP)**

Variable	2019/20		2020/21		2021/22		2022/23	2023/24	2024/25
	budget	actual	budget	actual	budget	estimated <sup>/1</sup>	forecast	forecast	forecast
Central government revenue	28.4	28.2	28.2	30.2	26.6	26.6	27.1	27.7	27.7
<i>of which: tax revenue</i>	26.5	26.2	25.8	28.2	25.0	24.7	25.0	25.5	25.5
<i>non-tax revenue &amp; grants</i>	1.9	2.0	2.3	2.1	1.7	2.0	2.1	2.2	2.2
Central government expenditure	25.4	24.6	25.5	35.3	30.7	30.9	28.6	28.0	27.6
<i>of which: current expenditure</i>	23.7	22.8	23.9	32.1	28.7	28.9	26.6	26.0	25.6
<i>of which: wages and salaries</i>	7.0	7.0	6.8	8.7	7.9	7.8	6.9	6.6	6.3
<i>of which National Insurance Contributions</i>	0.6	0.7	0.7	0.9	0.8	0.8	0.8	0.7	0.7
<i>of which: capital expenditure &amp; net lending</i>	1.7	1.8	1.6	3.3	2.0	2.0	2.0	2.0	2.0
Central government fiscal balance	2.9	3.6	2.7	-5.1	-4.1	-4.3	-1.5	-0.4	0.1
Central government primary balance	6.1	6.0	6.0	-1.0	0.3	0.0	3.0	4.5	5.0
Total financing	-0.6	-1.7	2.5	5.8	8.1	6.8	2.0	0.3	-0.1
<i>of which: domestic</i>	-1.1	-2.7	0.0	-4.4	4.7	2.5	1.8	0.1	0.3
<i>foreign</i>	1.8	1.0	2.5	10.2	3.5	4.2	0.2	0.2	-0.4
<i>Fiscal Year Nominal GDP Million BBD</i>	10,763.1	10,580.5	10,799.7	8,475.6	9,604.4	9,789.7	10,663.8	11,187.4	11,724.3

/1 estimated figure for end of year.

**Table 4: Public Debt Outlook**

Variable	2019		2020		2021		2022	2023	2024
	forec.	actual	forec.	actual	forec.	estimated <sup>/1</sup>	forec.	forec.	forec.
Total debt (incl NIS and CG arrears) in million BBD	12,257.2	12,448.2	12,167.1	12,814.9	12,777.7	13,081.0	13,394.7	13,642.2	13,754.9
Total debt (incl NIS and CG arrears) in percent of GDP	114.9	117.5	113.8	142.8	136.6	139.5	132.2	123.6	118.8
Total external debt in million BBD	3,406.6	3,111.9	3,158.5	4,028.0	4,209.0	4,410.0	4,434.4	4,452.1	4,402.9
Total external debt in percent of GDP	31.9	29.4	29.6	44.9	45.0	47.0	43.8	40.3	38.0
Total domestic debt in million BBD	8,850.6	9,336.3	9,008.6	8,786.9	8,568.7	8,671.0	8,960.3	9,190.1	9,352.0
Total domestic debt in percent of GDP	82.9	88.1	84.3	97.9	91.6	92.5	88.4	83.3	80.8

/1 estimated figure for end of year.



**Table 5: Sensitivity of The Central Government Fiscal Forecast To Fluctuations Of Major Macroeconomic Variables: Average Annual Impact For The Fiscal Year 2022/23**

	FY2022/23			
-1.1 percent GDP Adjustment	\$ million			Percent of GDP
	Baseline	Scenario	Change	Change
Nominal GDP	10,663.8	10,557.2	-106.6	
Percentage Change in Nominal GDP	8.9	7.8	-1.1	
Total Revenue	2,889.1	2,860.9	-28.2	-0.3
Total Expenditure	3,047.7	3,047.7	0.0	0.0
Fiscal Balance	-158.6	-186.8	-28.2	-0.3
Primary Balance	325.1	296.9	-28.2	-0.3
Primary Balance in percent of GDP	3.0	2.8	-0.24	0.0
+ 50,000 Tourist Arrivals	Million BBD			Percent of GDP
	Baseline	Scenario	Change	Change
Nominal GDP	10,663.8	10,711.4	47.7	
Percentage Change in Nominal GDP	8.9	9.4	0.5	
Total Revenue	2,889.1	2,903.4	14.3	0.13
Total Expenditure	3,047.7	3,047.7	0.0	0.0
Fiscal Balance	-158.6	-144.3	14.3	0.13
Primary Balance	325.1	339.4	14.3	0.13
Primary Balance in percent of GDP	3.0	3.2	0.12	0.0

# 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 – Organisation 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 \(barbadosparliament.com\)](http://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](mailto: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;	Not applicable for the first FF
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	Not applicable for the first FF
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 <ul style="list-style-type: none"> <li>(i) the Gross Domestic Product and its components;</li> <li>(ii) inflation;</li> <li>(iii) employment and unemployment;</li> <li>(iv) interest rates; and</li> <li>(v) money supply and monetary conditions including credit to the private sector;</li> </ul> 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

	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 to address any such deviations, and the expected time to achieve this.	Re fiscal responsibility principles: Partly, narrative text; Re previous FF: Not applicable for first FF.



2e (i)	A medium-term expenditure framework stating the Government's annual and medium-term expenditure intentions <i>and an explanation of any changes in the proposed ceilings from the previous Fiscal Framework limits</i> <sup>6</sup> 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.

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<sup>6</sup> Not applicable for the first FF.