

Barbados' Medium-Term Fiscal Framework

2024/2025 to 2026/2027

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List of Acronyms

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
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
NIS – National Insurance Scheme
OECD – Organization of Economic Cooperation and Development
PFM Act - Public Finance Management Act (2019)
PPP – Public-Private Partnerships
PPE – Personal protective equipment
QEH – Queen Elizabeth Hospital
SOEs – State Owned Enterprise
UWI – University of the West Indies Cave Hill Campus
VAT – Value Added Tax
W&S – Wages and Salaries
WISCO – West Indies Shipping Corporation

Statement of Responsibility



The Hon. Ryan R. Straughn, M.P.
Minister in the Ministry of Finance and Economic Affairs



The Most Hon. Ian St. C Carrington, FB
Director of Finance and Economic Affairs

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 provisions for the Fiscal Framework are stipulated in the PFM Act, section 6.
2. IMF, Barbados. Review Under the Extended Arrangement, IMF Country Report No. 22/XXX, December 2022, executive summary.

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 the 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.

OVERVIEW

The Barbadian economy has weathered a global pandemic, natural disasters and high global inflationary pressures through transitory public financial support. Even with the short term softening of fiscal consolidation efforts to ensure the resumption of macroeconomic stability, the government's commitment to its long-term debt anchor of 60.0 percent of GDP by FY2035/36 ensured that any temporary expenditure increases could be absorbed over the medium term.

Post crisis, the government has recommitted to further consolidating public finances by resuming public sector reform, reducing debt and meeting its medium-term priorities through prudent fiscal management. Programs that were targeted in mobilizing support in response to the pandemic have been gradually winding down, reducing expenditure particularly to those public enterprises that acted as the executing agencies. In addition, surplus revenues were diverted to repay debt, lending to the attainment of a larger than targeted primary balance in FY2022/23. Further consolidation is planned for the FY 2023/24 as residual Covid-19 related programs have ended.

The FY2023/24 budget envisages an increase in the primary surplus to 3.5 percent of GDP, in line with program targets. The fiscal policy stance over the medium-term and continuing in line with the Barbados Economic and Transformation Plan (BERT 2022) strikes an appropriate balance between advancing fiscal consolidation to secure public debt sustainability and safeguarding social and investment needs. On the revenue side, the discontinuation of the temporary pandemic levies is expected to be largely compensated by a cyclical revenue rebound from the continued economic recovery. On the expenditure side, COVID spending is expected to be almost fully phased out in FY2023/24. The wage bill is expected to remain broadly stable as a share of GDP, reflecting the adjustments in public sector salaries announced in the Financial Statement and Budgetary Proposals in March 2023. However, persistent price increases have necessitated government response through public sector wage hikes, while elevated interest costs have inflated overall expenditure, stymying some of the planned fiscal tightening over the medium term.

The medium-term fiscal strategy aims to:

- Prioritize stabilization of the debt through prudent public expenditure management and revenue generation.
- Facilitate private sector led growth through the modernization of public infrastructure and prioritizing policy initiatives aimed at boosting competitiveness, diversifying the economy and improving the business environment.
- Advance social inclusion through public investment in public education, health, social development and poverty eradication
- Build climate resilience and facilitate the transition to sustainable green growth.

The Fiscal Framework over the medium-term does not assume any tax increases over the medium term. As the economy continues to recover post pandemic, revenue performance will grow in line with economic activity. There is some expectation however, that through structural reform, improvements in revenue collection as well as a reduction in leakages through improved management of tax expenditures should lead to some efficiency gains thereby increasing the revenue base.

The looser fiscal stance initiated by the pandemic and other external shocks has necessitated the resumption of tighter fiscal policy over the medium term in order to maintain the long-term anchor. Primary surpluses “step- up” over the medium term though do not peak at the levels required under the previous framework. Nevertheless, larger surpluses entail further consolidation of the fiscal, inclusive of targeted spending to ensure the achievement of policy objectives.

Policy objectives for FY 2023/24 remain broadly in line with fiscal strategy targets. Given the tighter fiscal stance the government has taken in the new financial year in order to meet its primary surplus target of 3.5 percent, policies that were deemed essential received additional resources.

Economic Developments and Outlook

INTRODUCTION

Economic and fiscal challenges for Barbados

Barbados' economy continued to grow during the first half of 2023 as economic activity expanded by 3.9 percent when compared to the corresponding period of 2022 representing the ninth consecutive quarter of economic expansion. This growth resulted in fiscal surpluses, improved employment, reduced debt-to-GDP ratio, a narrowing gap between the value of exports and imports, and record foreign reserve levels. The increased economic activity also fed into the financial services sector, improving credit quality, as well as boosting assets and profits.

A strong winter tourist season and broad-based increases in the non-traded economic sectors fuelled the growth. The spill-overs from tourism and robust construction activity enabled the non-traded sectors to contribute two-thirds of overall real GDP growth. Long-stay tourist arrivals outpaced 2022's performance. A number of factors drove tourism growth, including persistent demand for travel, especially from the island's main source markets, improvements in airlift, and increased cruise activity. The United Kingdom (UK) market has recovered beyond pre pandemic levels, while the other markets are close to pre-pandemic levels and continue to exhibit strong growth.

Gross international reserves remained high mainly due to the tourism rebound. In addition, borrowing from multilateral institutions and a decrease in the value of imports aided in reserve accumulation. Domestic factors kept inflation elevated despite falling international prices for fuel and other commodities. Government recorded a primary surplus for the first quarter of FY 2023/24 (April-June).

Government revenues benefitted from the buoyant economy, and higher excise and fuel tax receipts from imported fuels. However, a rise in Government interest expenses, public sector labour costs and transfers to state-owned enterprises (SOEs) partially offset revenue collections.

The debt-to-GDP ratio, at 117.5 percent, is now back to its pre-pandemic level. This ratio has continually declined since July 2021, in line with the expanding economy. Though the debt stock was higher at end-June 2023 than at end-December 2022, primarily due to policy loans from international financial institutions, the continuous expansion in economic activity drove down the ratio.

Government achieved the primary balance target of \$104.0 million set under its BERT-2022 IMF-supported programme for the first quarter (April-June) of FY2023/24. Total revenues exceeded non-interest expenditure resulting in a primary surplus of \$157.2 million (1.2 percent of GDP), while the overall fiscal balance stood at \$13.9 million or 0.1 percent of GDP. Indirect tax receipts climbed during the first quarter owing to an increase in imported fuel volumes and the transfer of residual receipts from the Airline Travel and Tourism Development Fee. However, the shift in the timing of corporation tax collections and lower real estate activity, resulted in a fall-off in total revenue by the end of June 2023. Expenditure exceeded that of the previous fiscal year in order to accommodate increased public sector wages, transfers to SOEs and higher interest payments.

Revenue Direct tax receipts were lower than in the same quarter of the previous fiscal year primarily because of a timing difference in corporate tax collections. The corporation tax (CIT) intake declined by \$69.1 million as companies prepaid more of their taxes during the third quarter (October to December) of FY2022/23. Property taxes were also lower, owing to a slowdown in transactions in the real estate market. Conversely, an improvement in earnings bolstered personal income tax receipts by \$16.5 million, while residual inflows related to the Pandemic Levy charged on individuals contributed \$3.3 million to the revenue pool. The sustained economic performance coupled with the timely transfer of import-related taxes to the BRA, led to an increase in indirect tax revenue. Excise and fuel tax receipts benefitted from the growth in fuel consumption as well as the resumption of scheduled tax payments on fuel imports. Stronger economic activity generated a \$20.8 million increase in gross VAT collections. However, an additional \$33.8 million in VAT refunds during the same period, counteracted this improvement, and yielded a net decline of \$13.0 million in VAT receipts. A buoyant tourism season in the previous fiscal year facilitated a transfer of approximately \$8.7 million in residual receipts from the Airline Travel and Tourism Development Fee the first quarter of fiscal year 2023/24.

Rising global interest rates, transfers to SOEs and higher public sector wages and salaries led to an increase in current expenditure for the first quarter of FY2023/24. The impact of rising global interest rates on the floating-rate external debt and the effects of step-up rates on the domestic restructured debt, contributed to a \$39.0 million increase in interest payments. Non-interest expenses grew by \$69.9 million, owing to increased transfers to cover the operational expenses of the University of the West Indies, the Queen Elizabeth Hospital and the Barbados Agricultural Management Corporation. Public sector wage and salary increases partially contributed to a larger outlay for labour, while rising costs influenced the \$5.2 million growth in spending on goods and services, particularly within the areas of operating expenses, supplies & materials and rental of property.

Capital expenditure increased in the first quarter of FY2023/24. Capital spending totalled \$27.3 million, representing an increase of \$8.5 million relative to the first quarter of the previous fiscal year. The bulk of capital outlays was by the Ministry of Transport, Works and Water Resources for Barbados Water Authority projects as well as the Road Rehabilitation and Road Improvement programme.

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. Over the medium-term 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;

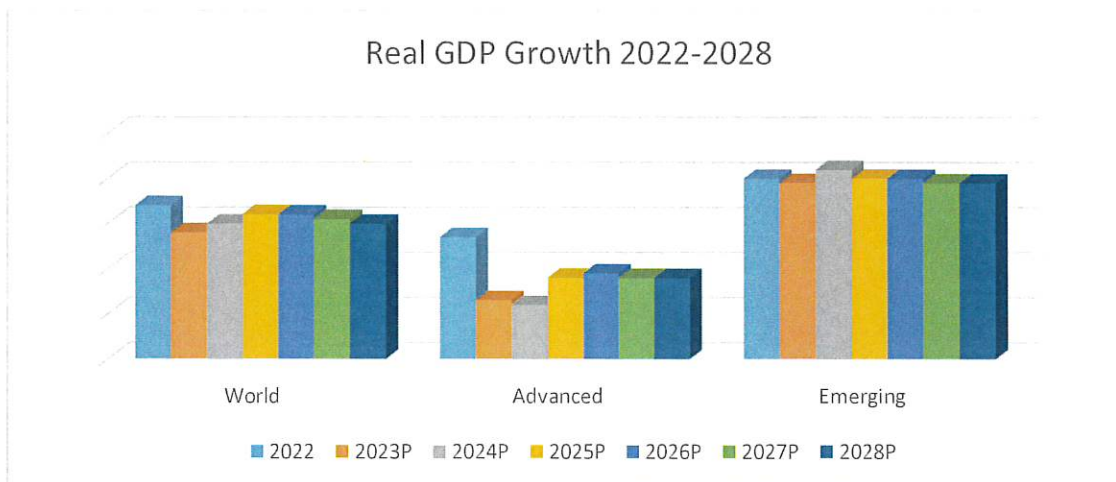
- building resilience in the housing market in conjunction with renewable energy to drive sustainable capital formation and provide housing to large numbers of persons waiting on housing solutions
- boost export capacity of traditional and non-traditional goods and services;
- develop a life sciences 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 (6) 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.

GLOBAL ECONOMIC OUTLOOK

The global economy grew by 3.5 per cent in 2022 and is anticipated to end 2023 and 2024 at 3.0 percent, remaining below the pre-pandemic average. Persistent inflation, and the increases in policy interest rates in response, has eroded purchasing power and credit simultaneously. In addition, China's sluggish recovery induced by issues within its real estate market as well as youth unemployment, has stymied expectations for consumption.

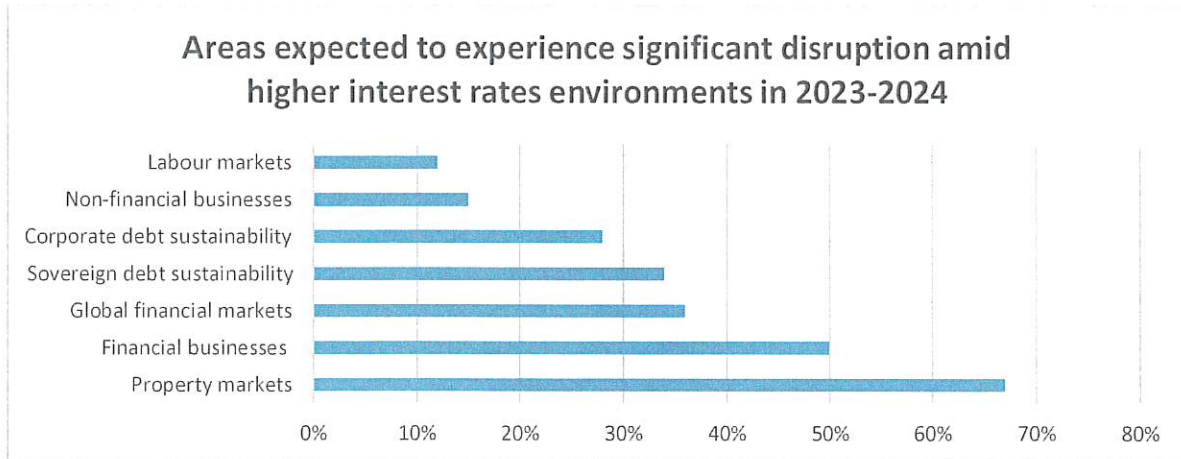


Source: Chief Economist Outlook, World Economic Forum, May 2023

It is further projected that the real GDP growth rate will be around 3.0 per cent in 2028, suggesting that growth will not return to the pre-pandemic levels in the medium term. Growth in advanced economies is forecast at 1.5 and 1.4 per cent in 2023 and 2024, respectively. Emerging and developing economies are estimated to grow by 4.0 and 4.1 per cent, respectively, over the same period.

Inflation has been on the rise, from 2.9 per cent in 2020 to 8.9 per cent in 2022. Tensions in Russia caused energy and food prices and the cost of living to rise while real disposable income fell. The global inflation rate, which is 6.1 per cent as at June 2023, is projected to fall to 3.3 per cent in 2028.

The global financial system was dealt a blow in March 2023 with the collapse of Silicon Valley Bank, Silvergate Capital and Signature Bank while the failing Credit Suisse Bank in Switzerland was taken over by its rival, UBS. The collapse of these institutions incited panic as uncertainty loomed with memories of the 2007-2008 financial crisis. While concerns have waned since then, the rapid increase of interest rates has ignited several pockets of uncertainty throughout the international financial sector. While some insiders believe that the sector is systemically stable, they have warned that there is a possibility of future isolated disruptions which still can increase the probability of global economic crises.



Source: Chief Economist Outlook, World Economic Forum, May 2023

REGIONAL OUTLOOK

According to the Caribbean Development Bank's (CDB), regional growth of 5.7 percent is forecast for 2023. This is based on the continued revival of tourism arrivals and investments in the energy sector. The performance is, however, subject to some risks associated with Advanced Economies which are on track to register lower growth relative to Despite facing multiple challenges, Borrowing Member Countries' (BMCs) economic performance will continue to improve over the medium-term. While cautiously optimistic about the near-term outlook and recognising the uncertainty regarding the war in Ukraine, it is difficult to estimate growth with a large degree of certainty.

The reopening of worldwide travel and the lifting of Covid-19 restrictions brought growth to the region especially in tourism-dependent countries. Tourism bounced back after global travel commenced and Covid-19 restrictions were discontinued. According to the Caribbean Tourism Organization (CTO), 28 million visitors, which represented 90.0 percent of pre-pandemic levels, were recorded in 2022. However, the International Air Transport Association (IATA) forecast that passenger numbers in the Caribbean would not return to pre-pandemic levels until 2025. In addition, a relatively more expensive tourism product, particularly in light of high global prices and overall weak growth expected in its main source market economies, significant downside risks remain for the region.

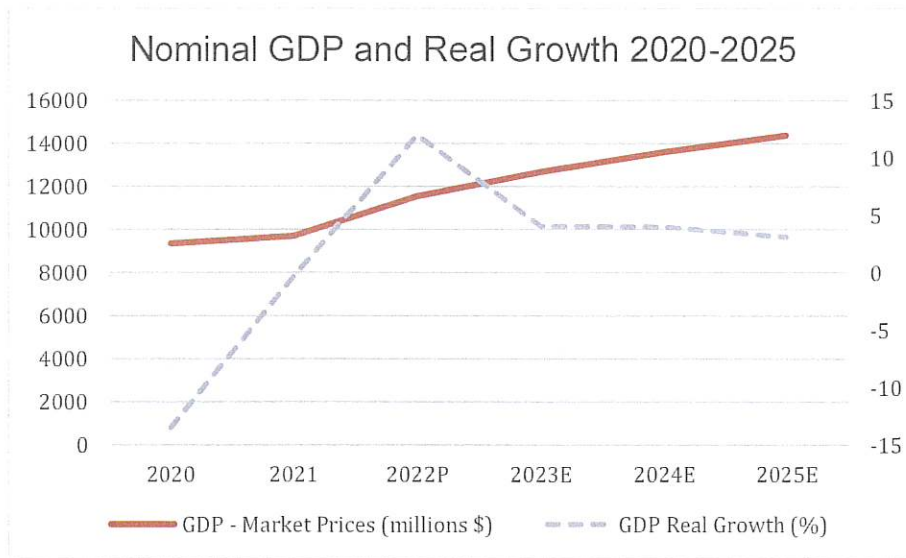
Inflation reached a peak of 15.4 percent at the end of 2022, but began falling to 10.1 per cent in 2023. As central banks raised interest rates to combat rising inflation, commodity prices fell, and growth slowed, inflation began to fall and is projected to continue falling to 4.4 percent in 2028. However, if inflation persists in advanced markets, led by the war in Ukraine and supply disruptions, the outlook for the Region will deteriorate as higher prices in the global market will strain foreign reserves as well as increase prices regionally.

The debt to GDP ratio in the Caribbean has been on the decline since 2020 due to borrowing to procure vaccines, import health supplies and shore up failing sectors of the

economy. Even though debt ratios have been on the decline, forecasts suggest that this is dependent on potential risks in advanced economies. If growth in the U.S and Europe is below what is currently projected, interest rates remain high for too long, and the banking sector is strained in advanced economies, growth in the Caribbean will decrease and the debt ratio may rise as well as the cost of borrowing.

DOMESTIC ECONOMIC OUTLOOK

Barbados’ post-pandemic economic resurgence is expected to continue, with the economy projected to grow by 4.1 percent and 4.0 percent in 2023 and 2024, respectively. Barbados’ economy rallied in 2022, led by the tourism sector. The full restoration of international cruise travel, the resumption of major tourism-related activities and the loosening of domestic travel restrictions helped to push economic growth to 12.0 percent.



SOURCES: Central Bank of Barbados and Barbados Statistical Service

P - Provisional

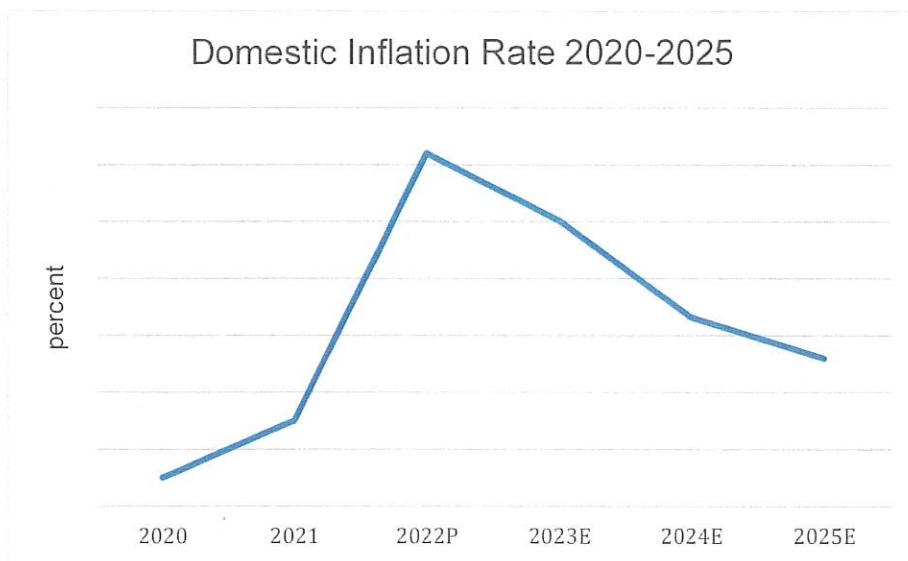
E - Estimate

The moderation of inflationary pressures in advanced economies, strong demand for air travel and increased inbound airlift capacity augur well for improved tourist arrivals in 2023 and over the medium-term. Furthermore, the opening of the 422-room Sam Lord’s Castle Wyndham Hotel, hosting of major international business conferences and cricket matches for the West Indies series against England, and a temporary reduction of inbound CARICOM travel fees during the latter half of 2023 are expected to boost inbound tourism above pre-pandemic levels.

Spillovers from the tourism sector is expected to propel growth within ancillary sectors, particularly manufacturing, wholesale and retail and transport, storage and communication sector and business and other services sectors. Manufacturing grew by 3.4 percent at the end of 2022 owing to the pick-up in domestic consumption as well as demand within the tourism sector. This is expected to continue into 2023. The non-traded sector inclusive of Wholesale and retail also benefited from the strong tourism recovery in 2022.

Sugar production benefited from favourable climatic conditions at the time of planting and harvesting during late 2022 and early 2023. Moreover, there was increased acreage, as approximately 687 acres of land were brought back into production, culminating in estimates of 7.8 percent growth for 2023. On the other hand, non-sugar agriculture and fishing for 2023 is expected to recoup the losses experienced in the prior year with an estimated growth rate of 2.7 percent.

Annual global inflation for 2022 was 8.9 per cent, a level not seen in more than 40 years. International supply chain disruptions and pent up consumer demand in advanced economies fuelled global inflation which seeped into the domestic economy, increasing inflation to 5.0 percent at the end of 2022 compared to 1.5 percent the previous year. Nevertheless, sluggish global economic growth, uncertainty and elevated interest rates have put downward pressures on international commodity prices, dampening global inflation. As a result, domestic inflation is expected to remain at 5.0 percent or decline by year's end, should current international prices be maintained or decline over the second half of 2023.



SOURCES: Central Bank of Barbados and Barbados Statistical Service

P – Provisional
E - Estimate

Meanwhile, the average unemployment rate fell approximately to 8.2 per cent in 2022, the lowest level in 14 years, boosted by major infrastructural projects and the positive spillover effects of an uptick in the tourism sector. For the first quarter in 2023, the unemployment rate stood at 8.9 percent, slightly below the rate recorded a year earlier and 3 percentage points below 2019's first quarter rate. The unemployment rates are projected to continue on its downward trajectory and remain stable over the next 3 years.

Risks to the outlook

While Barbados' economic outlook for 2023 and beyond is promising, economic growth forecasts face significant downside risks given its vulnerability to external shocks. Escalating global prices for construction materials may hamper planned infrastructural projects. High airfares and persistent inflation continue to erode disposable incomes, weighing heavily on consumer spending in the United Kingdom and other major markets for inbound tourism.

Aggressive interest rate hikes by central banks in advanced economies to tackle high inflation increase Barbados' debt service payments and impede fiscal space. In addition, geo-political tensions, looming OPEC+ production cuts and plummeting consumer demand due to surging borrowing costs increase the possibility of a recession in the United States and Europe in the latter half of 2023. Recent economic slowdown in China, the world's second largest economy, has upended its post-pandemic recovery, further amplifying weak global economic forecasts.

International commodity prices are expected to surge, imperilling food security in net food importing countries such as Barbados, as the El Niño weather phenomenon, which develops every 3 to 7 years, commences. Furthermore, El Niño is expected to curtail global economic growth by \$3 trillion over the next five years¹, exacerbate developing countries' debt service challenges amid rising interest rates, and strain health services due to outbreaks of mosquito-borne diseases such as dengue fever and the Zika virus.

The implementation of the new four-year BERT (2022) Plan will feature prominently on the Government's agenda, underscoring its commitment to continue on the path towards inclusive and sustainable growth while maintaining fiscal and debt sustainability. The following policy priorities which are geared towards propelling social and economic development over the short-term are expected to help mitigate some of the downside risks:

¹ Justin Mankin and Christopher Callahan: [Persistent Effect of El Niño on Global Economic Growth](https://www.science.org/doi/10.1126/science.adf2983). SCIENCE 18 May 2023. Vol 380, Issue 6649, pp. 1064-1069; <https://www.science.org/doi/10.1126/science.adf2983> and <https://home.dartmouth.edu/news/2023/05/years-after-el-nino-global-economy-loses-trillions>.

Policy Priorities			
Fiscal Reform	Climate Resilience	Social Protection	International Competitiveness
<ul style="list-style-type: none"> ● Reform and transformation of the SOEs. 	<ul style="list-style-type: none"> ● Strengthening resilience to natural disasters and climate change. 	<ul style="list-style-type: none"> ● Reducing poverty and inequality through the protection of the vulnerable. 	<ul style="list-style-type: none"> ● Increasing the long-term competitiveness of the tourism sector.
<ul style="list-style-type: none"> ● Pension reform and a comprehensive procurement framework. 	<ul style="list-style-type: none"> ● Providing expenditure to facilitate the movement to “go green”. 		<ul style="list-style-type: none"> ● Reducing unemployment by training staff and investing in renewable energy and through strategies that target job creation.
<ul style="list-style-type: none"> ● Review of tax system to broaden tax base and lower rates. 		<ul style="list-style-type: none"> ● 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. 	<ul style="list-style-type: none"> ● Upkeep and renewal of the capital stock and expansion of the infrastructure necessary for investment.
<ul style="list-style-type: none"> ● Reduction of tax expenditures 			<ul style="list-style-type: none"> ● Financial support and the facilitation of innovation and entrepreneurship.
<ul style="list-style-type: none"> ● Transforming the public sector through fiscal and debt consolidation. 			<ul style="list-style-type: none"> ● Enhance food production and food security.
			<ul style="list-style-type: none"> ● Boost export capacity of traditional and non-traditional goods and services.
			<ul style="list-style-type: none"> ● Develop a Life Sciences park as a part of critical thrust to build out the bioeconomy.
			<ul style="list-style-type: none"> ● Establish a Heritage District as a boon to development of the heritage economy.
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Fiscal Developments and Outlook

Introduction

The Barbadian economy has weathered a global pandemic, natural disasters and high global inflationary pressures through transitory public financial support. Even with the short term softening of fiscal consolidation efforts to ensure the resumption of macroeconomic stability, the government's commitment to its long-term debt anchor of 60 percent of GDP by FY2035/36 ensured that any temporary expenditure increases could be absorbed over the medium term.

Post crisis, the government has recommitted to further consolidating public finances by resuming public sector reform, reducing debt and meeting its medium-term priorities through prudent fiscal management. Programs that were targeted in mobilizing support in response to the pandemic have been gradually winding down, reducing expenditure particularly to those public enterprises that acted as the executing agencies. In addition, surplus revenues were diverted to repay debt, lending to the attainment of a larger than targeted primary balance in FY2022/23. Further consolidation is planned for the FY2023/24, as residual Covid-19 related programs have ended. However, persistent price increases have necessitated government response through public sector wage hikes, while elevated interest costs have inflated overall expenditure, stymying some of the planned fiscal tightening over the medium term.

The medium-term fiscal strategy aims to:

- Prioritize stabilization of the debt through prudent public expenditure management and revenue generation.
- Facilitate private sector led growth through the modernization of public infrastructure and prioritizing policy initiatives aimed at boosting competitiveness, diversifying the economy and improving the business environment.
- Advance social inclusion through public investment in public education, health, social development and poverty eradication
- Facilitate the transition into a green economy

The Fiscal Framework does not assume any tax increases over the medium term. As the economy continues to recover post pandemic, revenues naturally grow in line with economic activity. There is some expectation however, that through structural reform, improvements in revenue collection as well as a reduction in leakages through improved management of tax expenditures should lead to some efficiency gains thereby increasing the revenue base.

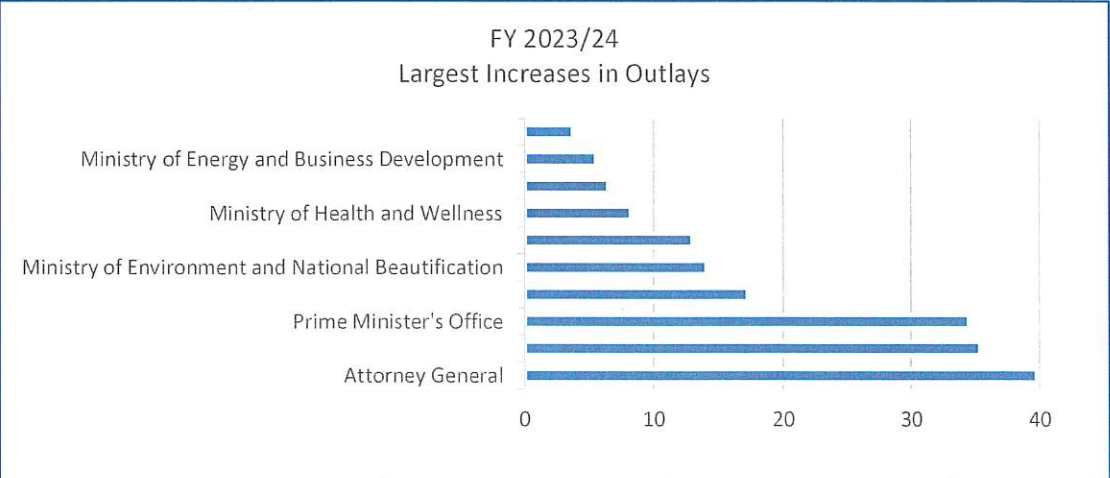
The looser fiscal stance initiated by the pandemic and other external shocks has necessitated the resumption of tighter fiscal policy over the medium term in order to maintain the long-term anchor. Primary surpluses “step- up” over the medium term though do not peak at the levels required under the previous framework. Nevertheless, larger

surpluses entail further consolidation of the fiscal, inclusive of targeted spending to ensure the achievement of policy objections.

Policy objectives for FY 2023/24 remain broadly in line with fiscal strategy targets. Given the tighter fiscal stance the government has taken in the new financial year in order to meet its primary surplus target of 3.5 percent, policies that were deemed essential received additional resources.

Targeted Spend FY 2023/24

Targeted spending for this financial year includes increased outlays for health, education as well as outlays for social development. Spending that promote improvements to the business environment as well as competitiveness in traditional sectors also feature heavily in financial year 203/24 policy objectives



Source: Treasury Department

The health sector has benefited from increased budgetary allocation to better serve the operations of the public and psychiatric hospitals.

Ministry of education, which has one of the larger total budgets annually, has additional resources for this financial year. This includes increased subventions to the school meals program to facilitate the provision of high-quality meals in line with the school nutrition policy.

Concerted effort has also been made in dealing with structural social disparities by increasing investment in youth development programs. This includes outlays to the national crime prevention program which offers training and employment opportunities for at-risk- youth. Barbados' aging population has necessitated government taking pre-emptive action in accommodating the needs of its elderly. Funding for a new geriatric hospital to be executed through the Barbados Tourism Inc. have been budgeted for this financial year.

Targeted spend has also been earmarked to facilitate private sector led growth through the increased expenditure to the department of corporate affairs and intellectual property, and other administrative arms of business facilitation as well as increased funding of the trust loans scheme.

The medium-term strategy of stabilizing the debt through prudent fiscal policy is anchored by an overall debt to GDP target of 60% by FY 2035/26, supported by the requisite fiscal surplus and growth trajectory necessary to attain the overall target.

Fiscal consolidation is a key element of medium-term consolidation. Over the medium term, the government resumes its pre-pandemic stance of public sector reform, particularly as it relates to the efficiency of state-owned enterprises. Expenditures transferred to public enterprises fall by another 1.0 percent of GDP by the end of the fiscal framework forecast period relative to FY 2019/20, the last period of major reform.

Provisions have also been made for the carry-through costs associated with the public sector wage increases which were negotiated in FY 2022/23 and reflect increases until FY 2024/25. Thereafter any increases are linked to an upside scenario of growth performance anticipated within the framework.

Overview Fiscal Performance FY2022/23

At the end of FY2022/23, Government revenues surpassed pre-pandemic levels as a full recovery was made across both transactional and income related taxes. Most of the performance was underpinned by the newly implemented pandemic levy charged on individuals and companies as well as the continued improvement in economic activity which supported an increase in VAT, income taxes and taxes levied on foreign transactions. Government spending expanded by almost two times the increase recorded in the previous period as a result of higher interest rates on domestic and external debt, public sector wage increases and increases in goods and services. Despite these developments, the Government met all fiscal targets under the BERT-2022 IMF-supported programme with the primary surplus ending the period at \$304.3 million (2.5 percent of GDP).

Deviations in Revenue Outturn FY2022/23²

At the end of FY2022/23 total revenue improved by \$496.2 million compared to the previous period and surpassed initial estimates by \$232.6 million. The over performance was driven by corporate income taxes which surpassed the target by \$194.6 million due to lower refunds, increased business profitability and the early settlement of corporation taxes by some entities. Though property taxes benefitted from the expansion in real estate activity during the period, a shift in the timing of property auctions resulted in property taxes underperforming by \$22.2 million at the end of the period. The pandemic levy charged on individuals and companies contributed an additional \$88.2 million to the revenue pool. However, the pandemic levy charged on companies underperformed by \$22.2 million as a result of the exemption of manufacturing companies from the final legislation and the lower than expected reported profits for fiscal year 2021/22 by some entities.

² (+) reflects an over performance in the category compared to initial estimates, while (-) reflects an underperformance in the category compared to initial estimates.

VAT collections surpassed the target by \$65 million, buttressed on lower refunds coupled with the continued pick-up in economic activity across the tourism and accommodation, retail and the manufacturing sectors. The rebound in tourism activity generated an \$11 million over performance in room rate levy while increased foreign transactions benefitted foreign exchange fee receipts (+ \$7.8 million). Non-tax revenues were supported by a \$20 million grant from Saudi Arabia for housing development which led to grants surpassing initial targets by approximately \$14 million.

Deviations in Expenditure Outturn FY2022/23

Expenditure totalled \$3,564.9 million by the end of FY2022/23, representing an increase of \$97.9 million compared to initial estimates. The expenditure performance primarily stemmed from higher than anticipated spending related to current transfers.

Higher than expected transfers to State Owned Enterprises (SOEs), which exceed initial estimates by \$56.5 million, mainly resulted from pay-outs related to the public sector wage increase, financial and debt support for the Barbados Agricultural Marketing Company (BAMC) as well as the payment of salaries for Caribbean Broadcasting Corporation (CBC) staff. By end March 2023, interest expenses surpassed projections and the previous fiscal year by \$48.2 million and \$150.3 million, respectively, having been impacted by step-up interest rates on domestic restructured debt and a spike in global interest rates on floating-rate debt. During FY2022/23 wages and salaries expanded by \$19.8 million compared to the previous fiscal year. However, the outturn was in line with projections which incorporated increases related to the March 2023 settlement of public sector wage negotiations.

Goods and services ended FY2022/23 \$35.8 million above the previous fiscal year due to the full year payment of wages for the National Clean-Up Programme paired with higher spending on utilities and other operating expenses. At the end March 2023, actual spending on subsidies stood at \$28.1 million over projections, primarily as a result of the Transport Board requiring additional funds to cover salaries and other operating costs. Despite grants to individuals increasing by \$20.7 million relative to FY2021/22, actual spending ended FY2022/23 \$5.6 million above estimates following additional spending on welfare, payments to LIAT employees and also funds transferred to start the 2023 sugar crop.

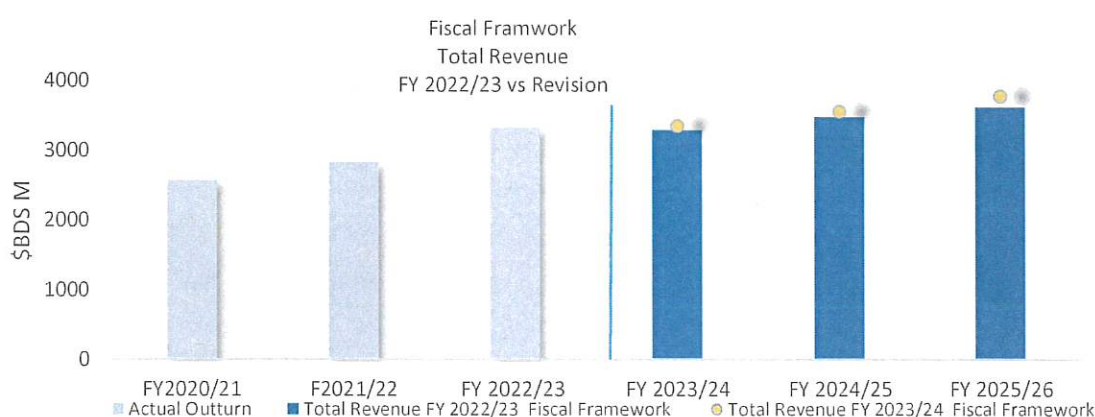
Capital spending at end March 2023 grew by \$27.9 million compared to the preceding fiscal year with large amounts being allocated to recapitalisation of the Unemployment Fund (\$83 million) and capital transfers to assist in financing the construction of the new geriatric hospital (\$40 million), Barbados Water Authority projects (\$30 million), road rehabilitation projects (\$22 million), Queen's Park and River Bus Stand Redevelopment projects (\$15 million), the Electrical Upgrade and Sewage Rehabilitation Programme (\$15

million) as well as the expansion of the Accident and Emergency Department at the Queen Elizabeth Hospital (\$5 million).

Medium-term Fiscal Forecasts

Revenue

The forecast for total revenue under the FY 2023/24 medium-term fiscal framework has been revised upward by \$62.5 million. This is largely due to an upward revision to Corporation Taxes, VAT and Excises which offset declines in Property Taxes, Import Duties and Non-tax Revenue. Medium term revenue projections have been revised up by 1.0 percent on average.



Source: Ministry of Finance, Central Bank of Barbados

Initial estimates of income taxes from corporate entities were heavily discounted to consider companies leaving Barbados due to uncertainty related to the implementation of a global minimum tax rate. Any uncertainty surrounding the reform did not materialize into reduced tax intake by the end of financial year 2022/23. Possible fallout from the operationalization of the reforms domestically has not been built into the framework over the medium term.

Property Tax flows were revised down for FY 2023/24 and over the medium term. The previous Fiscal Framework included lump sum payments associated with the sale of properties that were in arrears. The revised framework reflects a more gradual improvement in land tax arrears as persons opt to enter into one, three or five-year repayment plans with the Barbados Revenue Authority.

The Improvements in the consumption taxes are due to higher estimates for Vat and Excises resulting from the upward revision in anticipated economic activity in FY 2023/24 and over the medium term. There are also anticipated windfalls from reduced tax expenditures given ongoing work on improving processes within the tax exemptions framework. Receipts from the other goods and services taxes have been revised down primarily due to reduced expectations for receipts from insurance premiums, betting and

gaming tax and other indirect tax revenue given the lower than anticipated performance in FY 2022/23.

Non-tax revenue projections were also revised down to reflect a more conservative position on expected investment income as well as dividend payments given some of the operational challenges faced by a number of commercial state-owned enterprises. The category was also revised down to reflect smaller than anticipated gains related to the disposal of fixed assets at the end of the FY 2022/23 financial year.

\$BDS M	FY2020/21	F2021/22	FY 2022/23	Budget Year	Medium Term Projections	
				FY 2023/24	FY 2024/25	FY 2025/26
Tax Revenue	2390.8	2650.1	3112.9	3145.4	3344.9	3519.9
Income and Profits	951.0	874.0	1074.6	973.1	1031.7	1088.1
Property Tax	181.6	205.2	217.0	216.5	202.6	205.0
Goods and Services	1021.4	1284.9	1478.8	1578.6	1716.5	1810.8
International Trade	191.9	220.6	241.9	260.9	279.3	294.8
Other Tax Revenue	44.8	65.4	100.7	116.3	114.9	121.2
Non-Tax Revenue	172.4	173.8	207.1	204.6	219.8	231.8
				Deviation from FY 2022/23 Framework		
Tax Revenue				98.6	125.3	167.6
Income and Profits				123.9	136.4	159.1
Property Tax				-29.8	-47.2	-54.9
Goods and Services				-3.1	32.6	55.5
International Trade				-13.4	-8.9	-5.9
Other Tax Revenue				21.0	12.4	13.8
Non-Tax Revenue				-32.2	-32.0	-30.3

Source: Ministry of Finance, Central Bank of Barbados

Expenditure

Higher anticipated revenues coupled with smaller fiscal surpluses required into the medium term have allowed an upward revision in expenditure. Expenditure projections under the updated fiscal framework are on average 2.5 percent higher than FY 2022/23 forecasts.

The new framework requires smaller primary surpluses to meet the long-term debt target. Non-interest current expenditure was revised up by \$139.7 million in FY 2023/24, primarily to accommodate the FY 2022/23 wage negotiations for central government as well as those in the wider public sector. In addition, increased allocations were given to the Ministry of Education, Attorney General and Public Affairs in the current financial year

to better reflect staffing needs. Over the medium term, wages assume that the size of the central government remains at similar levels to FY 2022/23 with increases reflecting the cumulative increase in wages and allowances.

	FY 2023/24	FY 2024/25
Percentage increase in wages	3.0%	3.0%
	Cost (mil)	Cost (mil)
Central Government	22.2	22.9
State owned enterprises	10.4	10.7
Total	36.7	37.8
Percentage increase in allowances	3.0%	3.0%
	Cost (mil)	Cost (mil)
Central Government statutory and other emoluments	1.4	1.5
State owned enterprises	1.2	1.3
Total	3.0	3.1
Specialty Appointments		
	Cost (mil)	Cost (mil)
Teachers and Nurses	2.9	2.9
Total Increase	42.6	43.8

Source: Ministry of Finance

Spending related to the service delivery for a number of priority programs initiated by the government for the current financial year. Greater fiscal space allows a more gradual reform program for state owned enterprises which includes the continued support of essential programs while gaining efficiencies in others. Grants to public institutions fell from 7.4 to 4.0 percent from FY 2021/22 to the end of the forecast period in FY 2026/27.

Interest is revised up by 1.1 percent of GDP in FY 2023/24 primarily to reflect global interest rate environment. Debt service costs over the medium term are assumed to remain elevated and includes costs associated with new borrowing.

\$BDS M	FY2020/21	F2021/22	FY 2022/23	Budget Year	Medium Term Projections	
				FY 2023/24	FY 2024/25	FY 2025/26
Current Expenditure	2716.8	2889.2	3088.7	3273.2	3443.1	3427.7
Wages and Salaries	808.0	834.8	854.6	894.4	921.9	926.6
Goods and Services	399.8	493.2	529.0	572.5	611.1	644.6
Current Transfers	1166.3	1162.3	1155.9	1118.2	1182.9	1221.4
Interest	342.6	398.9	549.2	688.1	727.3	635.2
Capital Expenditure	276.1	425.2	476.2	318.9	316.6	308.5
				Deviation from FY 2022/23 Framework		
Current Expenditure				277.3	524.0	550.3
Wages and Salaries				59.5	85.4	88.8
Goods and Services				51.7	98.6	122.3
Current Transfers				28.5	192.8	243.5
Interest				137.6	147.3	95.7
Capital Expenditure				-84.4	-33.6	-153.9

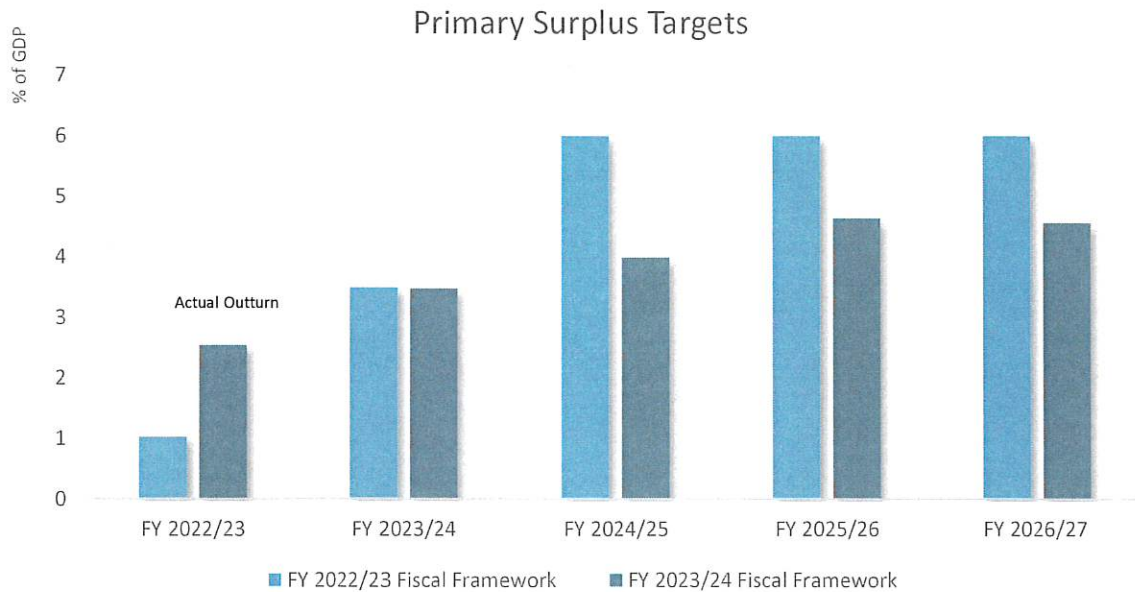
Source: Ministry of Finance, Central Bank of Barbados

Capital is expected to average over \$340 million over the medium term as the government continues to invest in public sector infrastructure. Major capital programs for this financial year include housing through the HOPE program, the geriatric hospital, a lab by the ministry of agriculture for tissue culture, the construction of dorms for the Barbados Youth Service, as well as the continuation of road works.

Government continues to be a main investor into the Barbados capital stock in the medium term, plans are in place to improve the tourism experience by investing in a renewed museum, national art gallery, a new tram tour and investments into other tourist attractions. Significant investment into improving Barbados agricultural export market is underway through the establishment of a number of fish farms and greenhouses and food processing plants. There are also plans to supplement the public health service with additional medical facilities.

Consolidated Framework

The upward revision of both revenue and expenditure over the medium term culminates in smaller primary surpluses over the forecast period. A primary surplus of 3.5 percent is expected for the current financial year (FY 2023/24), up from 2.5 percent at the end of FY 2022/23. Larger primary surpluses are targeted over the medium term before stabilizing at 4.6 percent by end FY 2026/27.



Source: Central Bank of Barbados

Performance and Outlook for Major SOES

Budget Allocation and Transfer for Major SOEs

Public Institution	2022/23 Initial forecast	2022/23 Actual	2023/24 Forecast
Queen Elizabeth Hospital (QEH)	133.0	141.2	139.0
University of the West Indies (UWI)	95.2	75.0	95.2
Transport Board (TB)	12.2	31.7	12.2
Barbados Agricultural Management Corporation (BAMC)	7.0	20.4	7.0
National Housing Corporation (NHC)	8.0	22.8	6.1
Caribbean Broadcasting Corporation (CBC)	0.0	15.9	0.0
Other	269.5	274.4	310.8
Total	524.9	581.4	570.3

Grants to public institutions totalled \$581.4 million for 2022/23 compared to an initial target of \$524.9 million. Many SOE's incurred higher than forecast expenses as a result of inflation and other factors, while revenue did not recover to pre-Covid levels. In particular, BAMC, NHC, CBC, TB and QEH all received higher subventions than initially forecast. In contrast transfers to UWI were below forecast

as the entity had received excess funding in 2021/22.

Grants to public institutions are forecast at \$570.3 million for 2023/24 including a limit of \$477 million under the EFF supported programme for TMU monitored entities. Almost half of expected TMU transfers is represented by UWI (\$95.2 million) and QEH (\$139 million) which together represent 49% of the forecast figure. Significant forecast transfers to entities not monitored under the TMU include BDF \$42.0 million and BRA \$34.9 million.

Government has resumed the SOE reform programme which was interrupted by the Covid-19 pandemic, and has identified a number of entities for reform in the 2023/24 financial years. Plans for the restructuring of Barbados Agricultural Management Company are at an advanced stage while detailed plans have been drafted for the restructuring of the Transport Board and the National Housing Corporation, and for the amalgamation of the operations of the Rural Development Corporation and the Urban Development Corporation. These and other reform measures are expected to result in reduced SOE transfers from 2024/25.

State Owned Entities Arrears

Total arrears were \$54 million at the end of May, of which \$39.7 million (74%) is accounted for by five entities (QEH, BWA, BAMC, NPC, NHC). This includes arrears of \$40 million for entities subject to the Technical Memorandum with the IMF, and for which the agreed limit at that date was \$31 million.

Cash flow of the Barbados Water Authority continues to suffer as a result of the economic fallout from the pandemic, and a payment amnesty instituted during 2022/23 has not yet had the desired effect. NPC's margins have suffered as a result of an increase in the average cost of LNG which they have not been able to pass on to their customers. QEH derives a large portion of its revenue from the health levy collected through the National Insurance Scheme and its arrears are expected to decrease once this levy rebounds during 2023/24. BAMC and NHC however are at risk of requiring higher than forecast subventions from the Central Government until the planned reforms have been completed.

Contingent Liabilities

Explicit SOE guarantees

Following the 2018 Debt Restructuring initiative, only external guaranteed debt remained part of Government's commitments. This consists of multilateral debt and one bond issue secured on behalf of four SOEs. As of June 30, 2023, guaranteed debt stood at approximately \$32.8 million.

Implicit SOE guarantees

Due to the poor financial condition of some SOE's, there is an elevated risk that the Government's implicit guarantee of their liabilities may crystallize in the future periods. A number of SOE's had total liabilities in excess of total assets and were therefore technically insolvent while others are experiencing challenges managing their accounts payables arrears.

SOE unfunded pension liabilities totalled \$252.9 million at March 31, 2023 and SOE's such as Transport Board (\$84.1 million) and CBC (\$29.7 million) are technically insolvent and therefore highly likely to require Central Government support to eventually fund these liabilities. BWA's unfunded liability was \$122.1 million at March 31, 2023 and following its weak performance in recent years will need to see a significant improvement if it is to fund its pension liabilities when they become due, without Government support.

SOE long term debt liabilities totalled \$841.0 million at March 31, 2023 and appear generally to be manageable without Central Government assistance. Debt balances at higher risk include BAMC's debt liability of \$22.7 million for its storage tanks (repayable at \$1.45 million per year), and a bullet payment of \$29.5 million due by BWA in 2028/29. The ability of HOPE Inc. to generate sufficient cash flow to service its liability of \$38.2 million to the Housing Credit Fund (\$2 million per quarter commencing March 2024) is also under close surveillance.

ANNEXURES

ANNEX 1: Fiscal Risk Report

Compliance with the new FMA Act involves establishing required reporting and analytical frameworks. Ministries, SOEs and Agencies are now to produce annual and quarterly reports. A health dashboard that analyses the financial performance of SOEs monitored by the Ministry of Finance, Economic Affairs & Investment (MFEI) has been developed and provides a mechanism to assess risks and further elaborate targeted reform measures to enhance SOEs' performance and reduce Government dependence.

The Government intends to:

- Strengthen risk management capacity within the MFEI further by creating a dedicated Fiscal Risk Unit. The Unit would contribute to budget formulation and planning by identifying and proposing options to contain macroeconomic risks (including contingent liabilities) through the preparation of quarterly fiscal risk reports. It will also play a lead role in the preparation of annual fiscal risk statements, including an assessment on climate change risks that are to be included in budget documents from FY2023/24.
- Clarifying fiscal vulnerabilities emanating from the National Insurance Scheme (NIS) is a key priority. The NIS is committed to clear its backlog of financial statements as a matter of urgency, with a view to submit all outstanding financial statements (2010 to 2021) for audit by the Auditor General.

A Fiscal risk statement focusing on climate change risks was approved by the Cabinet. The statement highlights that the increased frequency of climate-related events can weaken Barbados' fiscal position and debt dynamics by undermining economic growth, eroding the public revenue base, and leading to higher expenditure for disaster relief and reconstruction.

The foundation surrounding this fiscal risk statement was intimated to in the Budget for FY2023/24 on Tuesday 14, 2023 by Prime Minister Hon. Mia Amor Mottley S.C. M.P in the House of Assembly as follows:

- “Expanded Multilateral Development Bank lending for climate and SDGs by one trillion dollars. The truth is that we need to be able to make sure that we have more money to fight the battles that we have to fight in this climate crisis.”
- “Funding loss and damage... We are not the ones who are causing it. We should not have to pay for it on our own”
- “The maintenance of the dense roads and water infrastructure in a climate crisis will always put pressure on us.”
- “The drawing-in of \$5 trillion in private savings for climate mitigation.”

Barbados' inherent vulnerability to natural disasters and extreme weather events poses severe fiscal risks and constraints. At the same time, climate change is expected to increase the frequency and intensity of natural disasters in the future.

Natural disasters weaken Barbados' fiscal forecasts and outcomes by undermining economic growth and eroding the public revenue base over the short to medium term, particularly for consumption and income taxes. At the same time, increases in expenditure for disaster-related contingent liabilities³ impact debt and fiscal sustainability. Disaster-related delays on capital projects further inhibit avenues for economic growth.

The prolonged pandemic-related economic shocks present a significant challenge to sustainable economic recovery, exacerbate the fiscal risks created by natural disasters, and impede efforts to build climate resilience and meet future disaster-related contingent liabilities. Simultaneously, the Government must make other trade-offs with respect to the allocation of resources due to its limited fiscal space.

Natural disasters exact a significant toll on public finances. Three major natural disasters over the past 13 years, which included a tropical storm, a volcanic eruption, and the first hurricane in a century, caused significant destruction and damage, with the latter two further curtailing economic recovery during the height of the pandemic. The current total fiscal costs for these disasters, which were primarily for rebuilding and repairs, are \$102.93 million or an aggregate of 1.1 percent of GDP, with the final total costs estimated at \$138.1 million.

ANNEX 2: Summary on government debt

[including medium-term debt management strategy, borrowing performance, projections and debt service costs].

The debt-to-GDP ratio, at 117.5 percent, is now back to its pre-pandemic level having continually declined since July 2021, in line with the expanding economy. Though the debt stock was higher at end-June 2023 than at end-December 2022, primarily due to policy loans from international financial institutions, the continuous expansion in economic activity drove down the ratio.

For the first quarter of FY2023/24, Government's gross financing needs increased by \$132.6 million when compared to the previous fiscal year, to reach \$129.5 million or 1.1 percent of GDP. The expansion in Government's financing requirements was mainly reflective of a reduction of approximately \$85.4 million in the primary balance and a rise

³ Disaster-related contingent liabilities include the provision of temporary shelter, building materials and hurricane straps; rebuilding and repairs for public infrastructure and assets and private accommodation for vulnerable people; and transfers to SOEs at the forefront of disaster relief efforts such as the Welfare Department, Rural Development Commission and Urban Development Commission.

in debt service of \$67.5 million. However, total debt service stood at 35.6 percent of revenue, compared to the pre-debt restructuring level of 69.1 percent.

Amortisation and interest payments. Amortisation rose by \$28.4 million, mainly on account of the scheduled repayment of the domestic Series B bonds, primarily to commercial banks, the National Insurance Scheme, and individuals. Interest payments were \$39.1 million higher due to the additional disbursement of foreign funds since the corresponding period last year, the rising interest rates on external floating-rate loans and the step-up feature of the restructured domestic bonds.

Foreign financing was led by IMF support as policy-related loans of \$75.7 million were secured from the IMF's Extended Fund Facility (EFF) and the Resilience and Sustainability Facility (RSF). The EFF, which has reduced borrowing requirements for the past three years, accounted for \$37.8 million under the second EFF programme, while an identical amount was received from the RSF.

Domestic financing led to the Central Banks financing of Government's deposits and the sale of securities. Domestic resources came from drawdowns on Government deposits held at the Central Bank and the sale of the second tranche of the Barbados Optional Savings Scheme (BOSS+) bonds. The appetite for BOSS+ bonds continued to improve in the first quarter of the fiscal year, and, as a result, purchases during the April to June period totalled \$110.9 million, with the financial sector being the majority investor, and the private non-bank sector also participating.

Public sector debt as a ratio of GDP continued to decline as the debt stock was approximately 117.5 percent of GDP at the end of June 2023, compared to 118.4 percent of GDP at the end of March 2023. The marginal improvement in the ratio was driven by the continued economic recovery, as the debt stock grew by \$122.9 million, primarily as a result of inflows from multilateral institutions and the sale of domestic securities.

REVIEW OF DEBT MANAGEMENT STRATEGIES

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

Concerted efforts continue to be made to:

- (i) avoid bunching of debt maturities, where possible, thus minimizing unnecessary pressure on either revenue or foreign reserves;

- (ii) make greater use of amortized debt payment schedules;
- (iii) seek to refinance debt at lower interest rates, where possible; and
- (iv) increase sources of official financing at extended maturities.

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

COST AND RISK CHARACTERISTICS OF THE EXISTING DEBT PORTFOLIO

There will be some degree of risks inherent in any debt portfolio and corresponding costs associated with addressing said risks. Active portfolio management requires, *inter alia*, identifying the risks and developing strategies, which have taken account of any constraints, in order to mitigate the risks. In doing so, any undue cost is avoided and potential losses minimized.

Risk Definitions

Interest rate risk

Interest rate risk refers to the vulnerability of the debt portfolio, and the cost of Government debt, to higher market interest rates at the point at which the interest rate on variable rate debt and fixed rate debt that is maturing is being re-priced.

Refinancing (roll-over) risk

Refinancing risk captures the exposure of the debt portfolio to unusually higher interest rates at the point at which debt is being refinanced; in the extreme, when this risk is too high it may not be possible to roll over maturing obligations.

Foreign exchange rate risk

Foreign exchange risk relates to the vulnerability of the debt portfolio, and the government's debt cost, to a depreciation/devaluation in the external value of the domestic currency.

MEDIUM TERM DEBT STRATEGY 2023-2026

1. The macroeconomic framework underpinning the Barbados Economic Recovery and Transformation Plan 2022 is anchored by a debt to GDP target of 60% by 2035-2036. It sets out a framework of fiscal adjustment and structural reforms geared towards creating conditions to place the debt on a downward trajectory.

- The objective of the MTDS is to determine the most appropriate borrowing strategy for the Government within the context of a cost/risk trade-off, taking into account the financing constraints.

Selected Strategy

- The selected strategy, Strategy 1, maintains the status quo where over the medium term approximately 77.8% of gross financing needs will be met from external official sources, mainly multilateral. The remaining 22.2% of gross financing needs will be met from domestic security issuances.
- While initially more costly, it capitalizes on readily available funding sources over the medium term, while gradually rebuilding the domestic market in the face of strong signs of increasing market confidence. The increased cost of multilateral borrowing, stemming from the variable rate benchmark, will need to be continuously managed with a view to mitigation through available liability management operations and switching to fixed rates based on a cost benefit analysis.
- Table 4 below provides a comparison of the cost and risk indicators of the current portfolio relative to the selected strategy at the end of the period under review.

Table 4: Comparison of Cost and Risk Indicators - Current vs. Selected Strategy at end 2026

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

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

7. Refinancing risk. Debt maturing in the next 12 months is approximately 7.2%, an increase of more than 50%. The average time to maturity will decrease from 10.1 years to 9.2 years as a result of the increased issuance of more shorter-term domestic debt.
8. Interest rate risk. Debt refixing in one year will increase to 37.9% primarily as a result of the variable rate nature of the increased multilateral debt. The portfolio average time to refixing will decrease to 5.8 years, also driven by the higher share of variable rate multilateral debt.
9. This strategy, which meets gross financing needs with greater proportions of mainly external multilateral financing, capitalizes on already identified sources of financing over the medium term. As articulated in the Barbados Economic Recovery and Transformation Plan 2022, approximately BBD1.0 billion has been identified for direct budget support over this period, inclusive of the IMF's Resilience and Sustainability Facility and Extended Fund Facility. This will allow for the maintenance of adequate reserve coverage, while avoiding excessive reliance on expensive financing from capital markets much beyond roll-over needs. On the domestic side, it also aligns with the Government's overall strategy of restoring regular issuance in the domestic market.
10. This strategy will be further complemented by utilizing liability management options available in some of the multilateral contracts, to fix interest rates on eligible loans, where appropriate. This will assist in lowering the share of external debt re-fixing in a year. The new securities issued, except T-Bills, will contain natural clauses and pandemic to assist in further mitigating the risks associated with the impact of natural disasters on the portfolio.
11. The success of the strategy will be contingent on a number of factors, including meeting the conditions precedent to disbursement for the external loans and doing so in a timely manner. On the domestic side, the capacity of the domestic investors to absorb the increased issuance and their willingness to do so will also be key. To this end, the Government will seek to provide additional mechanisms for domestic investors to trade, including reverse auctions.
12. Also critical to the success of the strategy and maintaining debt sustainability is to continue on a path of fiscal sustainability, maintaining primary surpluses over the medium-term to reduce the debt levels to the target by 2035/36. A primary surplus of 3.5% is targeted for FY2023/24 and 4.0% for FY2024/25. Thereafter, 4.6% is maintained for three years, before the fiscal effort is moderated as debt levels reduce.

GOVERNMENT BORROWING PLAN 2023-2024

13. The gross financing requirement for 2023-2024 is projected at approximately BBD903.0 million, approximately 7.1% of GDP. This sum is exclusive of BBD495.0M in T-Bills, which will be rolled over, as per the agreed terms in the

2018 Domestic Debt Exchange and BBD220.6M, which will be covered by Government's overdraft at the CBB. It will be financed from the following sources:

Table 5 - Financing Sources 2023-2024

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

ANNEX 3:

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 non-residents 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 (2023):
[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)

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

(ii) **The Government is working to increase the efficiency and quality of the public procurement process.** In this regard, the Cabinet approved Procurement Regulations to help operationalize the 2021 Procurement Act and support 'green procurement' processes (proposed *reformulated reform measure for end-September 2023*).

- The effectiveness of the Public Accounts Committee has been strengthened to allow the public to monitor in real time its oversight role, thereby ensuring full transparency. A new procurement law was approved by Parliament in December 2021 to promote integrity, fairness, transparency, and value for money in public procurement and ensure that outlays—including those related to COVID-19—are efficiently allocated.
- The GOB is committed to the implementation of enhanced public procurement practices, including from a sustainable-green perspective.
- Enhancing governance frameworks is an overarching priority. The 2021 Procurement Act includes several innovations to enhance governance, such as by charging the Chief Procurement Officer with the responsibility to i) conduct procurement audits and ii) establish and maintain a register for all suppliers. It also requires the publication of all procurement contracts awarded in the year as well as reports on supplier performance.
- The publication of beneficial ownership information of companies bidding for public procurement would face legal impediments relating to data privacy.

- As a result, we propose to remove this element originally contemplated under reform measure #2 under the RSF and reformulate this reform measure incorporating new climate-related policy actions.
- In addition to the procurement reforms, we have reintroduced into Parliament a revised Integrity in Public Life Bill, which seeks to mitigate scope for acts of corruption by persons in public life. This initiative builds further on the GOB's previous efforts to fight against corruption. Specifically, the Government laid two key pieces of legislation in Parliament in September 2021:
 - (i) a revised Prevention of Corruption Act to provide for the prevention, investigation, and prosecution of acts of corruption (passed both Houses of Parliament in October 2021); and
 - (ii) a Deferred Prosecutions Act to empower the Director of Public Prosecutions to meet with and construct agreements concerning criminal liability (passed both Houses in December 2021). Cabinet also approved a Whistle-blower Protection bill in October 2021 that was passed by Parliament in December 2021. October 2021); and
 - (iii) a Deferred Prosecutions Act to empower the Director of Public Prosecutions to meet with and construct agreements concerning criminal liability (passed both Houses in December 2021). Cabinet also approved a Whistle-blower Protection bill in October 2021 that was passed by Parliament in December 2021
- **Strengthened cash management.** An absence of dedicated cash management functions in the Central Government complicates the adequate management of daily cash balances and risks a build-up of payment arrears. We intend to establish a cash management unit within the Treasury by end March 2024 (*structural benchmark*). The functions of the unit would include the day-to-day management of the Consolidated Account, managing Government's suite of bank accounts, preparing a monthly cash plan, addressing bank reconciliation issues, and monitoring the execution of MDAs' and SOEs' cash plans. The unit would also define and lead on the key policies, procedures, and processes to facilitate cash management functions across Government.
- We are reviewing our legal and regulatory framework for engaging in Public-Private Partnerships (PPPs).