

THE GOVERNMENT OF BARBADOS

MID-YEAR REVIEW REPORT

APRIL - SEPTEMBER 2024

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1 Executive Summary

The mid-year fiscal review for FY 2024/25 assesses Barbados' fiscal performance from April to September 2024. The report compares actual fiscal outturns against the Medium-Term Fiscal Framework (MTFF) forecasts. It highlights any revisions made to the projections for the full fiscal year ending in March 2025. Despite global economic challenges, Barbados has maintained fiscal discipline, with key sectors such as tourism and construction driving economic activity. The government's prudent fiscal management has resulted in a stronger-than-expected performance for revenue and expenditure, although some areas of underperformance remain.

The Barbadian economy experienced growth during the first half of the year, primarily fuelled by a strong recovery in the tourism sector. Tourism performed well as cruise arrivals and long-stay visitors increased, contributing to stronger economic activity. This recovery has positively affected other sectors, such as construction, wholesale and retail trade, and professional services. The construction sector has also seen an uptick due to public infrastructure projects, though some delays in execution have tempered the overall impact.

The total revenue for the period was \$1.870 billion, exceeding the fiscal forecast of \$1.662 billion by 12.5 percent. The overperformance was driven primarily by higher-than-expected collections in corporation taxes. Property tax collections also exceeded expectations, due to the earlier billing date. However, an unanticipated increase in VAT refunds contributed to the underperformance of VAT receipts.

Expenditure performance was also largely positive, with total expenditure for the first half of the fiscal year amounting to \$1.70 billion, below the forecasted \$1.76 billion. The government successfully contained recurrent spending, particularly in goods and services, which fell by \$35.56 million while wages and salaries were in line with projections. Interest payments came in at \$22.30 million below forecast. On the other hand, delays in infrastructure projects have faced procurement and administrative hurdles, causing capital expenditure to be significantly lower, by \$28.52 million, than the forecasted \$136.0 million.

As of September 30, 2024, Barbados had a fiscal balance of \$169.38 million, compared to the projected deficit of \$100.32 million, while the primary balance stood at 3.7 percent of GDP. This fiscal performance resulted from higher revenue collections and the government's ability to manage expenditures effectively.

The primary balance for the period stood at \$544.14 million, significantly surpassing the forecast of \$294.8 million. The stronger-than-expected fiscal performance has provided the government with sufficient buffer in the event of an adverse shock in the second half of the year. If the performance persists, it can also create an opportunity to retire debt early.

The outlook for the remainder of FY 2024/25 remains optimistic. The total revenue forecast for the full fiscal year has been revised upward to \$3.543 billion, reflecting the expected gains from corporation tax and non-tax revenue. Consequently, expenditure forecasts have also been adjusted upward. While recurrent expenditure is expected to remain relatively stable, the government has revised its forecast for capital expenditure upward due to the execution of key infrastructure projects occurring in the latter half of the fiscal year. The revised forecast for total expenditure for FY 2024/25 now stands at \$3.775 billion, slightly higher than the initial forecast. The primary balance target of \$558.0 million for FY 2024/25 is unchanged; however, due to an upward revision to GDP, it now equates to 3.8 percent of GDP instead of the initial target of 4.0 percent. Despite the strong start to the year, some risks remain, particularly regarding the potential impact of global economic uncertainties, interest rates, inflationary pressures, and natural disasters. Notwithstanding this, the successful implementation of structural reforms under the IMF EFF and RSF along with Barbados Economic Recovery and Transformation (BERT) Plan 2022 has driven fiscal progress resulting in Barbados' upgrade to B+ from the Fitch Rating Agency on 15th October 2024.

The mid-year fiscal performance highlights Barbados' ability to navigate global challenges while maintaining fiscal stability. The substantial primary balance provides a solid foundation for the remainder of FY 2024/25, with the government well-positioned to meet its fiscal targets and continue driving economic recovery. The government remains committed to maintaining fiscal discipline, enhancing tax compliance, and reducing public sector arrears. The reforms to state-owned enterprises (SOEs) and measures to improve efficiency in public spending will also support the government's medium-term fiscal objectives.

2 Overview of Recent Macroeconomic Developments

2.1 Global and Domestic Economic Developments and Outlook

Barbados' economy showed strong growth during the first half of 2024. Economic growth was estimated at 4.5 percent, primarily driven by robust tourism and construction performance. The global economic environment, while challenging, has seen some moderation in inflationary pressures as commodity prices stabilise. However, geopolitical tensions, interest rates, and the lingering effects of the Russia-Ukraine conflict continue to create uncertainty in global markets, impacting economies like Barbados, which depend heavily on tourism and imports.

2.1.1 Global Economic Environment

The global economic landscape has remained uncertain in 2024, with inflationary pressures persisting across major economies, including the United States, the Eurozone, and emerging markets. The IMF's World Economic Outlook in July 2024 projected global growth at 3.2 percent, a slight decline from previous forecasts, as central banks worldwide tighten monetary policies in response to high inflation. While moderating from the highs seen in 2022, energy prices remain volatile due to geopolitical tensions, particularly the ongoing conflict between Russia and Ukraine.

These global trends pose significant risks, particularly in borrowing costs and import prices. Global interest rates are beginning to fall; however, volatility remains, which can impact the cost of debt servicing. Fluctuations in energy and food prices have exerted upward pressure on inflation. Barbados is heavily dependent on imported goods; therefore, any increase in freight or food costs would have a negative impact on the country's vulnerability to global price shocks.

2.1.2 Domestic Economic Developments

Domestically, the economic performance has been robust, with the tourism and construction sectors continuing to lead the recovery. During the first half of 2024, the tourism sector saw a 17.9 percent increase in long-stay visitor arrivals compared to the same period in 2023.

The recovery in tourism has had positive spillover effects on related sectors, including accommodation, wholesale and retail trade, transportation, and food services. The construction sector has also benefitted from ongoing public and private sector investments, with projects such as road rehabilitation programs and private developments like Apes Hill Villas driving economic activity.

Labour market conditions have also improved, with the unemployment rate falling to 7.7 percent by July 2024 as the tourism and construction sectors absorbed more workers. The rise in employment has contributed to higher personal income tax receipts, further bolstering government revenue.

2.1.3 Inflation and Price Developments

Inflation in Barbados remains elevated but has shown signs of moderation compared to the highs recorded in 2022. As of June 2024, the inflation rate stood at 2.7 percent, down from 4.2 percent when compared to the same period in 2023. The fall in inflation is primarily attributed to lower global energy prices.

Inflation is expected to settle between 3 and 3.5 percent in the second half of FY 2024/25 as global commodity prices stabilise. However, risks remain if geopolitical tensions intensify or global supply chains experience further disruptions. Inflation is closely monitored, and the government is prepared to mitigate the impact of rising food prices on households, such as the price compact.

2.1.4 External Sector Performance

The external sector performance has improved significantly, supported by the recovery in tourism and a reduction in imports. As of June 2024, the external current account deficit narrowed to 2.3 percent of GDP. This improvement was driven by higher export earnings from tourism and lower import values, particularly for fuel and food, as global commodity prices moderated.

Gross international reserves stood at \$3.2 billion at the end of June 2024, providing 32.2 weeks of import cover, well above the international benchmark of 12 weeks. This strong reserve position reflects improved external receipts from tourism, foreign direct investment, and support from multilateral partners under the IMF's Extended Fund Facility (EFF) and Resilience and Sustainability Trust (RST) programs. The healthy

reserve buffer has strengthened Barbados' external position and protects against potential external shocks, including fluctuations in global commodity prices and disruptions in international trade.

2.2 Fiscal Outturn and Outlook

Barbados' fiscal outturn for the first half of FY 2024/25 was stronger than anticipated, with total revenue exceeding the mid-year fiscal forecast by \$207.30 million. This overperformance was driven by higher-than-expected collections in corporation taxes and property taxes. Total revenue for the period stood at \$1869.73 million when compared to the \$1662.43 million forecasted. On the expenditure side, total spending was \$1699.67 million, lower than the forecasted \$1762.75 million by \$63.09 million, reflecting controlled recurrent expenditure and underperformance in capital spending.

Table 1: Revenue Indicators

	Sep-24	Sep-24	FY 2024/25	FY 2024/25
	Actual	Target	FF Target	Mid-Year Revision
Total Revenue of which:	1760.93	1575.89	3334.17	3336.43
Income and Profits	658.09	516.12	1112.82	1167.96
Property Tax	180.00	86.47	223.55	223.04
Goods and Services	752.17	791.16	1615.80	1564.35
International Trade	125.01	132.62	275.56	274.96
Nontax Revenue and Grants	108.12	81.16	172.04	186.04

	Sep-24	Sep-24	FY 2024/25	FY 2024/25
	Actual	Target	FF Target	Mid-Year Revision
Total Revenue of which:	1732.77	1575.89	3334.1661	3336.4321
Income and Profits	661.97	516.12	1112.82	1167.96
Property Tax	180.00	86.47	223.54658	223.04215

2.2.1 Revenue Performance

Income and Profits

Net corporation tax receipts amounted to \$384.49 million, exceeding the mid-year forecast of \$237.3 million by \$141.96 million. However, net income tax receipts underperformed by \$3.75 million when compared to the initial mid-year target.

Corporation Tax

Total remittances, both revenues and arrears, were \$147 million above the mid-year forecast. This shift could be decomposed between the direct impact of taxpayer behaviour and profitability. Approximately \$36 million was attributed to financing activities undertaken by reinsurance groups in response to IFRS17. For holding companies, interest income drove approximately \$23 million in increases. Similarly, a significant amount of taxable income not expected post-tax year 2023 was observed in the financial service and other credit-granting sectors, totalling approximately \$60 million. Other balances are considered general shifts in profitability for tax year 2023.

Additional Receipts

Per the Income Tax (Amendment) Act, 2024, and Corporation Top-up Tax Act, 2024, effective January 2024, taxpayers who are part of an in-scope (multinational enterprise) MNE group were mandated to remit twelve equal instalments of prepayments. Each of these monthly payments will be based on their prior income year's taxable income, subject to current tax rates.

Additional receipts attributed to this regime are approximately \$102 million, above the initially estimated \$10 million per month for the first half of the year.

This performance is attributed to a few entities accelerating the rate at which they remitted their prepayments.

Property Tax

Property tax receipts totalled \$180.0 million, exceeding the forecasted \$86.5 million by \$93.53 million. This overperformance was mainly due to net land tax receipts exceeding the mid-year target by \$85.87 million, which resulted from the earlier issuance of land tax bills.

Year-end collections were expected to remain constant relative to the fiscal year 2023/24, even with the increase of the zero-rated band from 150,000 to 300,000, as some appreciation in levies counterbalanced this.

Given the earlier billing date (April as opposed to July) and the discount period (July as opposed to December), payments were received much earlier in the fiscal year. Receipts for the remainder of the year are expected to be proportionately lower as year-end cash flows equilibrate.

Table 2: Land Tax Compliance

	Mid-Year 2023/24	Mid-Year 2024/25
Complete Payments made (YTD)	14766	45710
Partial Payments made (YTD)	402	2682
Revenue collected (YTD)	\$58.03 M	\$135.706 M
Expected number of payments	81713	81,775
Expected revenue value	\$240.303 M ¹	\$219.728 M

Expected revenue = tax levied at billing + tax adjustments – rebates – discounts at billing – discounts at the cashier. Taxpayers did not remit as early as 2023/24, so their expected revenue value appeared somewhat higher until discounts were applied.

Goods and Services

Goods and services showed a significant deviation from the forecast in the first half of FY 2024/25. Total goods and services revenue amounted to \$752.17 million, \$38.99 million lower than the mid-year forecast of \$791.2 million. The shortfall was primarily driven by underperformance in VAT, excise, and fuel taxes. Total net VAT receipts amounted to \$524.55 million, \$30.21 million below the target. Similarly, excise and fuel taxes fell below the mid-year fiscal targets by \$8.74 million and \$0.98 million, respectively.

¹ Expected revenue = tax levied at billing + tax adjustments – rebates – discounts at billing – discounts at the cashier

Value Added Tax

Shifts in the net position of value-added tax were mainly attributed to the increased transfer of VAT refunds to the BRA over the period.

Table 3: Goods and Services

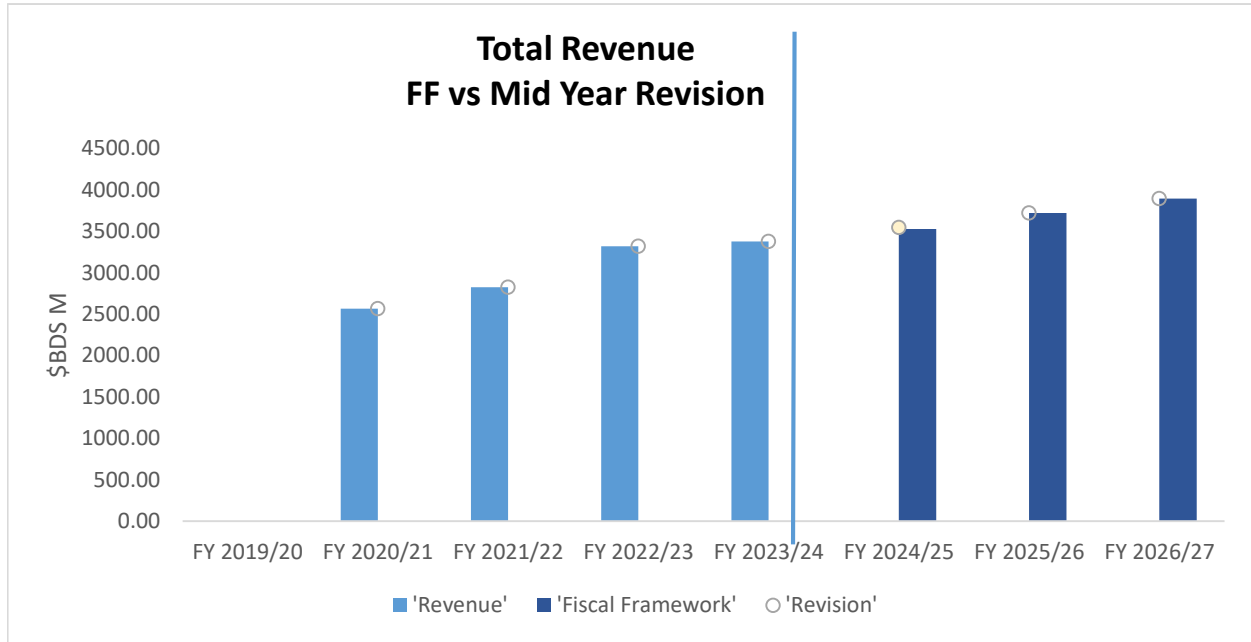
\$BDS M	Sep-24	Sep-24	FY 2024/25	FY 2024/25
Goods and Services	Actual	Target	FF Target	Mid-Year Revision
VAT	524.55	554.76	1156.9419	1109.1197
Excise	115.56	124.3	251.44219	250.73233
Other Goods & Services	36.45	34.604	54.072843	52.919172
Bank Assets	22.44	23.242	46.597979	44.990893
Fuel Tax	37.78	38.759	77.069919	76.882908
Highway Revenue	9.86	10.227	18.981479	18.937993

Source: Barbados Revenue Authority, Customs Department, Ministry of Finance

Non-Tax Revenue

Non-tax revenue reached \$108.12 million, exceeding the forecast of \$81.2 million by \$26.95 million. This was mainly attributed to investment income, which exceeded expectations by \$20.12 million. The main portion of this is related to the dividend income from the industrial credit fund. In contrast, foreign exchange fees accounted for \$52.94 million, slightly below the forecasted \$54.0 million.

Figure 25: Total Revenue FF vs. Mid-Year Revision



Sources: Barbados Revenue Authority, Customs Department, Ministry of Finance

2.3 Expenditure Performance

Total government expenditures for the first half of FY 2024/25 were \$1,642.3 million, compared to the forecast of \$1,762.8 million. Delays in capital project execution drove this lower-than-expected expenditure performance.

Table 4: Expenditure Indicators

	Sep-24	Sep-24	FY 2024/25	FY 2024/25
	Actual	Target	FF Target	Mid-Year Revision
Total Expenditure, of which:	1699.67	1762.75	3759.90	3775.71
Wages and Salaries	392.39	393.36	781.87	781.872
Goods and Services	233.03	268.58	647.30	647.303
Interest	372.80	395.10	790.36	790.36
Current Transfers	541.84	532.83	1038.15	1038.15
Capital Expenditure	107.44	135.95	426.38	441.65

Sources: Treasury Department, Ministry of Finance

Figure 26: Grants to Individuals – Target vs Actual Table 11: Expenditure Indicators

2.3.	Sep-24	Sep-24	FY 2024/25	FY 2024/25	
	Actual	Target	FF Target	Mid-Year Revision	or forecast
Total Expenditure, of which:	1642.306	1762.754	3759.896	3775.714	professional
Wages and Salaries	389.83	393.3553	781.8724	781.8724	expected to
Goods and Services	209.39	268.583	647.3034	647.3034	
Interest	374.07	395.0963	790.3556	790.3557	
Current Transfers	515.54	532.8331	1038.148	1038.148	
Capital Expenditure	102.56	135.9531	426.3806	441.6485	

2.3.2 Wages and Salaries

Sources: Treasury Department, Ministry of Finance

Wages and salaries, including National Insurance and Social Security Scheme (NISSS) contributions, stood at \$392.39 million, mainly in line with the mid-year target.

2.3.3 Transfers and Subsidies

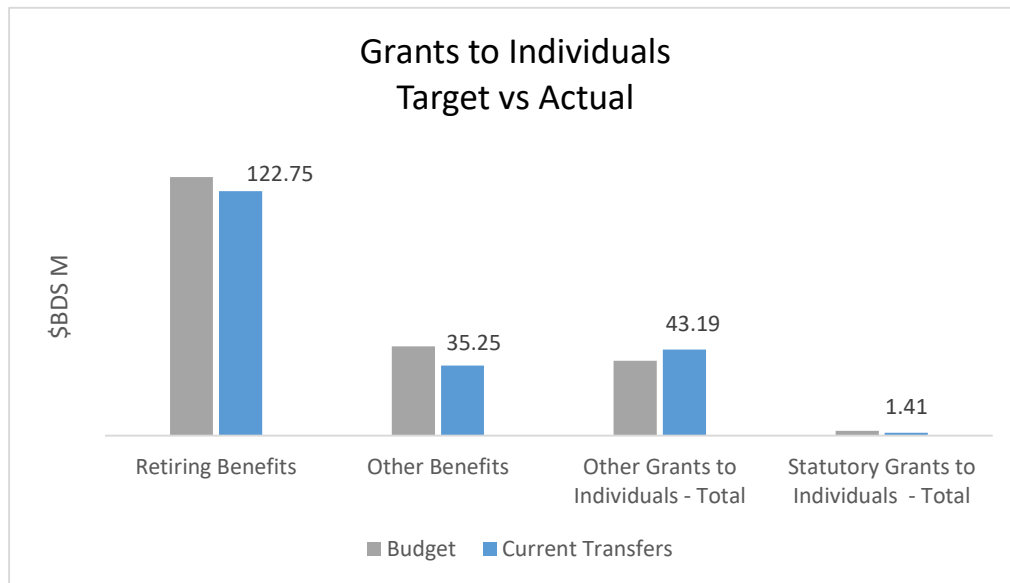
Current transfers to individuals, including pensions and social welfare payments, totalled \$541.84 million,

above the mid-year estimate of \$532.8 million. This was mainly due to transfers to public institutions, which amounted to \$307.3 million, above the forecast of \$287.3 million. Barbados Revenue Authority (BRA), Barbados Investment Development Corporation (BIDC), and GovTech Barbados, a new SOE, received more transfers during the first half of the fiscal year than forecasted. This was tempered by the lower-than-expected retiring benefits of \$7.11 million.

2.3.4 Capital Expenditure

Capital expenditure was the area of underperformance, with spending for the period totalling \$107.44 million, below the forecasted \$136.0 million by \$28.52 million. The underperformance in expected capital expenditure is primarily attributed to delays in infrastructure projects. Several public works projects have been initiated, including road repairs and housing developments.

Figure 79: Grants to Individuals – Target vs Actual



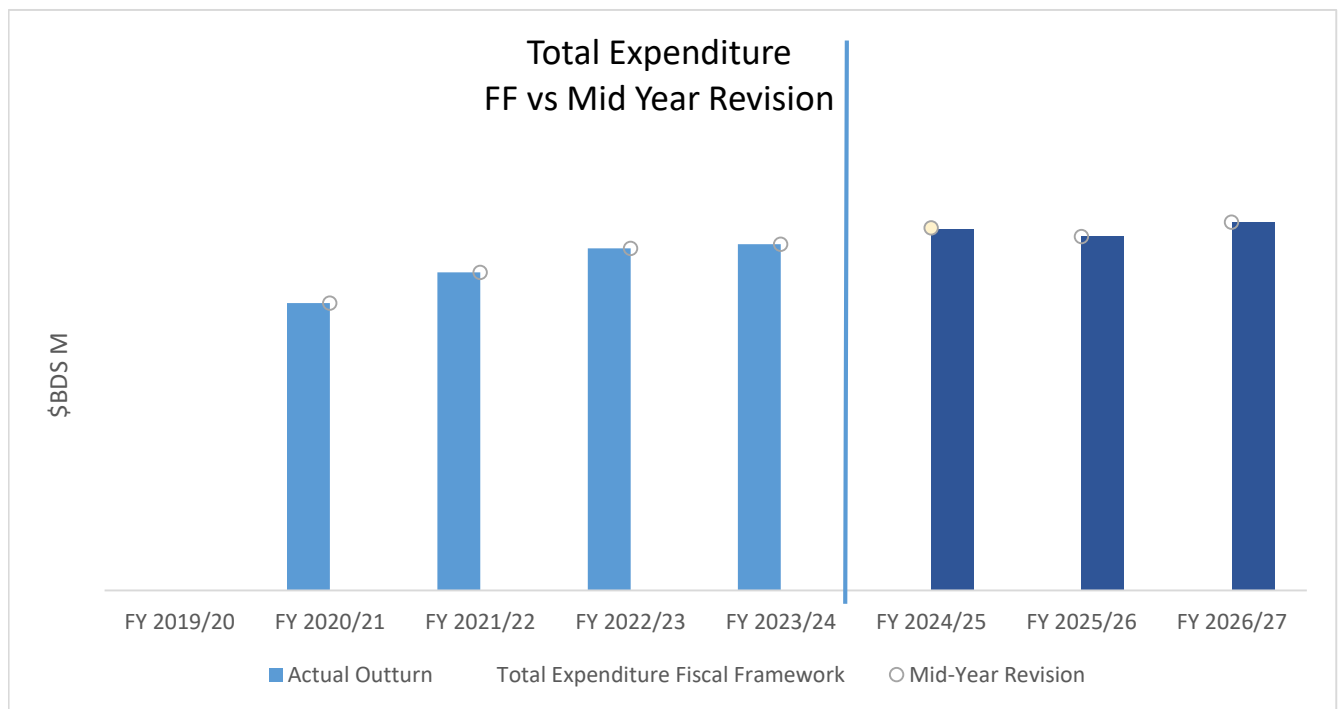
Source: Treasury Department, Ministry of Finance

2.3.5 Supplementaries and Virements

As at the end of September 2024, there were no supplementary provisions.

Virements as at the end of September 2024, totalled \$3.0 million spread across several ministries. Chief among the requests was \$1,211,000 from the Ministry of People Empowerment and Elder Affairs. A virement was made to place funds in various Standard Account Codes (SAC) under the One Family Programme to assist with literacy and learning programmes and consultancy services for the Country Assessment of Living Conditions with the Bureau of Social Policy Research and Planning Department.

Figure 119: Total Expenditure FF vs Mid-Year Revision



Source: Treasury Department, Ministry of Finance

2.4 Revised Expected Fiscal and Primary Balance

At the end of September 2024, Barbados achieved a fiscal balance of \$169.38 million, or 1.16 percent of GDP, compared to the forecasted deficit of \$100.32 million. This significant improvement reflects the overperformance in revenue and controlled expenditure, particularly in recurrent spending. The primary balance was even more impressive, at \$544.14 million, accounting for approximately 3.7 percent of GDP, far exceeding the mid-year forecast of \$294.8 million or 2.1 percent of GDP.

The larger-than-expected fiscal and primary balances have provided the Government with additional fiscal space in the second half of FY 2024/25. However, risks remain, particularly in managing the cost of debt servicing and the potential impact of global economic uncertainties on revenue performance. The Government is committed to maintaining fiscal discipline and ensuring that fiscal targets are met by the end of the fiscal year. The primary balance target of \$558.04 million for FY 2024/25 is unchanged; however, due to an expected improvement in the GDP, it now equates to 3.8 percent of GDP instead of the initial target of 4.0 percent. As at end of September 2024 the primary balance stood at 3.7 percent of GDP. The government aims to continue its fiscal consolidation efforts under the Barbados Economic Recovery and Transformation (BERT) Plan.

2.5 Medium-Term Outlook

Given the stronger-than-expected fiscal outturn for the first half of FY 2024/25, the Government has made several revisions to the fiscal framework to reflect the updated projections for revenue, expenditure, and the overall fiscal balance.

2.5.1 Revenue Forecasts

The total revenue forecast for FY 2024/25 has been revised upward to \$3.543 billion, up from the initial projection of \$3.527 billion. This upward revision is temporary because of the IFRS 17; however, it is not expected to persist into the medium term.

Expenditure Forecasts

The total expenditure forecast for FY 2024/25 has been revised slightly upward to \$3.775 billion, compared to the initial forecast of \$3.759 billion. The increase in the forecast is primarily driven by higher expected capital expenditures in the second half of the year as delayed projects are executed and additional projects commence. The forecast for capital expenditure has been revised upward by \$15.27 million to \$441.6 million from the initial forecast of \$426.4 million. Targets for wages and salaries and grants to public institutions

remained unchanged. The initial fiscal framework assumes that salaries will grow incrementally in the medium term to account for inflation and assumes that grants to public institutions are reduced in the medium term as efficiency gains are realised.

2.5.2 Fiscal and Primary Balance Targets

The primary balance target of \$558.04 million for FY 2024/25 is unchanged; however, due to an expected improvement in the GDP, it now equates to 3.8 percent of GDP instead of the initial target of 4.0 percent. As at end of September 2024 the primary balance stood at 3.7 percent of GDP.

3 Net Debt

3.1 Developments during April to September 2024

3.1.1 Debt Service

At September 30, 2024, total debt service including Sinking Fund contributions, (actual expenditure under Program 111 - Debt Management) amounted to approximately \$717.8 million compared to the Approved Estimates of \$742.6 million for the period April to September 2024. The actual outturn included interest payments of \$372.8 million, debt service costs of \$6.3 million, principal repayments of \$ 322.9 million and Sinking Fund Contributions of \$15.7 million. Total expenditure was lower than projected primarily due to slower uptake of domestic securities and redemption of Savings Bonds than projected, as well as Policy Based Loans (PBLs) which ultimately were not pursued as envisaged.

Approximately \$865.0 million will be required to service existing debt obligations for the period October 2024 to March 2025; \$362.3 million for interest expense, \$7.0 million for debt service costs, \$487.0 million for amortisation and \$15.8 million for Sinking Fund contributions. This is approximately \$32.1 million more than what is budgeted for the period. This is primarily due to slower disbursements on project loans and lower uptake of domestic securities than projected.

Total revised debt expenditure for 2024-2025 is estimated at \$1,582.7 million, this is approximately \$57.0

million less than what was approved. The projected reduction in expenditure is primarily attributed to the non-utilization of PBLs and slower disbursements on project loans than projected, as well as a lower uptake of domestic securities than predicted.

Figure 157: Cumulative Interest Actual vs Target and Cumulative Amortization Actual vs Target



3.2 New Developments

3.2.1 Debt for Climate Swap

Barbados continues to utilize innovative financing solutions, embarking on its second debt for nature conversion. Partnering with the Inter-American Development Bank, European Investment Bank and the Green Climate Fund, the Government of Barbados is at advance stage of negotiating a debt for climate swap, which will result in the issuance of sustainability linked debt. The savings are earmarked primarily for the sewage treatment plant upgrades that should boost the water supply, while mitigating the impact on debt sustainability.

3.2.2 Contingent Liabilities

The Government guaranteed a new USD 25.0 million term loan facility contracted by Kensington Oval Management Inc. from the African Export-Import Bank. The loan was acquired in preparation for Cricket World Cup 2024 and assisted, inter alia, with the Oval's renovations and refurbishing works, pavilion and infrastructure systems upgrades.

3.2.3 Public Debt

Public debt outstanding at September 30, 2024 stood at approximately \$14,878.0 million, approximately 104.8 percent of GDP². This is comprised of external debt of \$5,616.9 million, domestic debt of \$8,983.3 million, external guaranteed debt of \$55.8 million and central government arrears of \$222.0 million.

4 Financing issues

4.1 Cash Flow

The Government's financing needs were successfully met in the first half of FY2024/25. Between April and

² Estimated at \$14,196.6 million

September 2024, Government's cash operations culminated in a fiscal deficit of \$95.3 million. Outflows of \$365.9 million, also contributed to the financing requirement \$461.2 million. A combination of sources was used to accommodate the Government's financial obligations for the first half of the year. FY2024/25 began with \$482.4 million in deposits which rolled over from the previous fiscal year and were bolstered by the receipt of \$9.7 million in project funds from the Inter-American Development Bank and \$111.9 million in policy funds from the IMF through the Extended Fund Facility (EFF) and Resilience and Sustainability Fund (RSF) arrangements. Further, activity on the money and bonds market during the first 6 months of FY2024/25 yielded \$110.3 million in net Treasury Bill proceeds, while the second tranche of BOSS+ Bonds generated \$30.3 million in proceeds. The Government also made use of the temporary borrowing facility with the Central Bank of Barbados, increasing the ways and means stock by \$52.5 million.

During the remainder of FY2024/25, revenue and expenditure are expected to total \$1.6 billion and \$2.1 billion, respectively, resulting in a fiscal deficit of \$449.8 million between October 2024 and March 2025. Additionally, outflows are projected to total \$583.7 million. The total expected financing requirement for the second half of the financial year is currently estimated at \$1033.5 million of which 324.3 million remains unidentified.

The following identified options are anticipated to aid in supporting the financing requirement for the latter half of FY2024/25:

- Policy financing from the IMF (\$113.5 million in the third quarter) as well as IADB (\$200 million in the fourth quarter).
- Project funds totalling \$79.7 million.
- Net Treasury Bill proceeds are expected to generate \$87.5 million, while BOSS+ Bonds and Savings Bonds are projected to yield \$30.2 million and \$37.2 million, respectively.

4.1.1 Downside Risks to Financing

Unidentified financing for the remainder of the fiscal year could worsen in the event of lower than expected revenue or elevated spending. The financing position also hinges on appetite for Government securities. A

slow rate of purchase for BOSS+ bonds or Savings Bonds would reduce the amount of financing available during the forecast period. The forecast for the last 6 months of FY2024/25 also assumes at least \$24.2 million in project funds will be withdrawn from deposits, contingent on successful project implementation.

4.2 Central Government Arrears

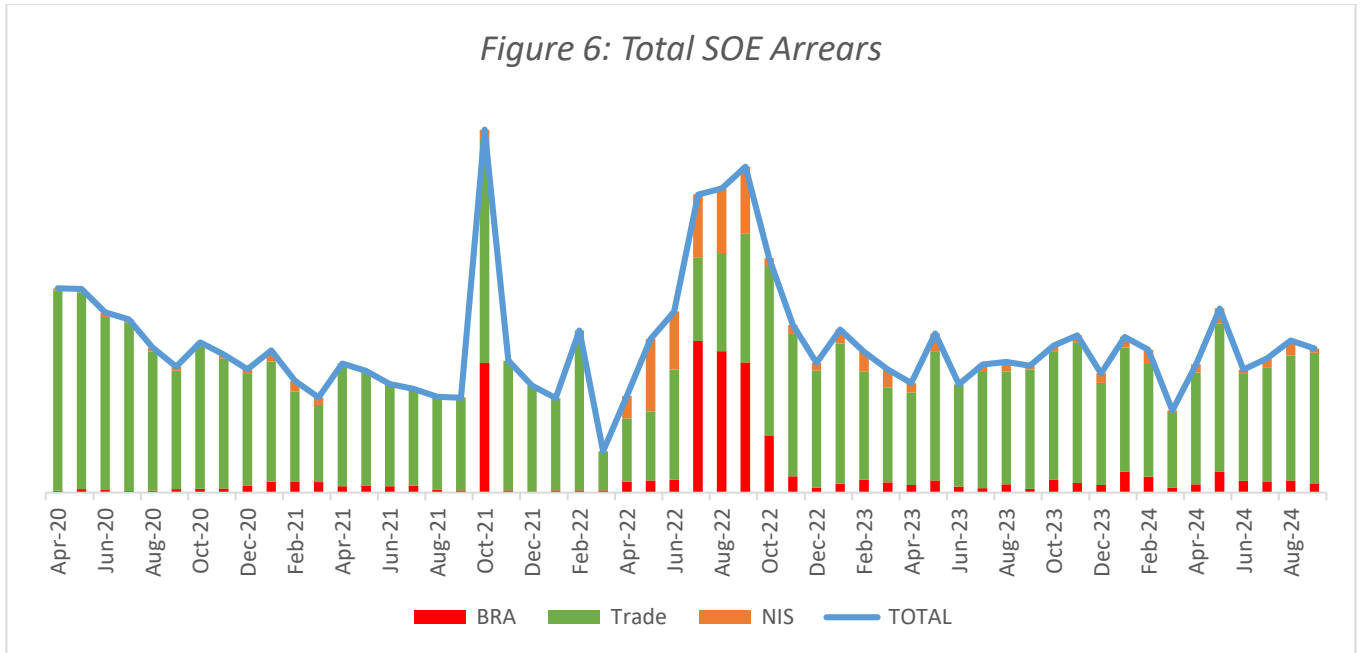
At the end of August 2024, gross Central Government Arrears stood at \$226.4 million, representing a decline of \$22.5 million compared to August 2023. The settlement of VAT refund arrears (down \$18.1 million) accounted for the majority of the reduction in the arrears stock. The payment of Corporation tax refund arrears (down \$4.5 million), also contributed to the decline in Central Government arrears. A minimum repayment of \$20 million per year has been established in an effort to reduce the stock of Central Government arrears over the medium – long term.

4.3 State Owned Entities Arrears

At the end of September 2024, total SOEs arrears contracted to \$51.8 million following a peak of \$117.8 million in July 2022, which was the direct result of tax arrears accumulated by the Barbados National Oil Company Ltd (BNOCL) and NIS arrears related to outstanding severance and NIS contributions by other SOEs.

SOEs monitored under the BERT-2022 IMF-supported programme accounted for 57.7 percent of the total SOE arrears stock at the end of September 2024, the majority of which represents trade arrears. Forty-eight point seven (48.7) percent of total SOE arrears are held by entities such as the Barbados Water Authority, Rural Development Commission, Sanitation Service Authority and the Transport Board. It is expected that the tightening of SOE monitoring systems will continue to limit the build-up of arrears. Additionally, on average, the stock of SOE arrears is expected to decline by at least \$10 million during FY2024/25.

Figure 6: Total SOE Arrears



5 Update of Risks

5.1 General Economic Risk

While the economic recovery is now well underway, there are several risks to the outlook, including Barbados' vulnerability to global economic and financial shocks. The ongoing conflict in Ukraine, the Israel-Hamas, and the war involving Israel and Iran continue to shape global geopolitical dynamics. These conflicts have disrupted supply chains, increased fuel costs, and raised freight and shipping expenses. These persistent disturbances may impact the domestic market, leading to anticipated inflationary pressures in price hikes in goods, services, and energy, especially given the island's heavy reliance on imports.

Barbados susceptibility to natural disasters, with more frequent and intensified events such as heavy rainfall, windfalls, and storm surges. The recent impact of Hurricane Beryl in July 2024 exemplifies this trend. These natural disasters not only highlight the economy's vulnerability to climate change risk but also have the potential to dampen economic activity, increase the fiscal deficit and public debt, and pose significant risks to financial stability.

Barbados has become increasingly exposed to cyber-attacks which can target financial and data institutions with far-reaching consequences. These attacks can compromise sensitive data, cause data loss,

disrupt operations, lead to financial losses, and undermine trust in financial systems. Recognising the critical nature of this threat, the GOB remains vigilant, updating and enhancing its policy measures against cyber-attacks. Continuous efforts are being made to strengthen cybersecurity infrastructure, improve response strategies, and ensure the resilience of financial and data institutions.

5.2 Steps to Reduce Economic and Fiscal Risks

The GOB continues to take aggressive steps to alleviate economic, fiscal and climate-related risks, as follows:

- i) Strengthening fiscal institutions. The Government of Barbados (GOB) continues to follow up on implementing and enforcing a fiscal rule to enhance fiscal transparency and lock in fiscal consolidation gains. Under the procedural fiscal rule, the government commits to preparing an annual monitorable fiscal strategy, regularly publishing outcomes against this strategy, and taking remedial action when required.*
- ii) The establishment of a Fiscal Council to promote sound fiscal management and ensure the government's accountability and transparency regarding the implementation of the fiscal strategy.*
- iii) Implementation of additional reforms to bolster the public financial management framework and rationalize state-owned enterprises (SOEs). To this end, the government continues to strengthen its oversight of SOE reforms through revenue enhancement, cost reductions, mergers, and divestments. Reducing government subventions to public entities is essential to sustain medium-term fiscal viability and boost growth potential by redirecting scarce public resources into critical productive investments.*
- iv) Development of a digital platform to improve the monitoring and the execution of the public sector investment program, and it is currently in its testing stages.*
- v) The assessment of its human resource needs by competency and position at the Barbados Customs and Excise Department (BECD) to address capacity and operational needs, including an assessment of the obstacles to filling critical vacancies and a roadmap to fill these vacancies with IMF technical assistance.*

- vi) *The improvement of the infrastructure of central Government and SOEs ability to mitigate cyber threats. The GOB has also joined the network for Greening and Financial System.*
- vii) *On the international circuit, the GOB has aggressively led the fight in the Bridgetown Initiative to garner concessional, grant support and debt forgiveness to mitigate economic and fiscal risk occasioned by climate impact.*

5.3 Contingent Liabilities

5.3.1 State Owned Enterprises

- *Subsequent to the 2018 Debt Restructuring initiative, only external guaranteed debt remained part of Government's commitments. However, reduced cash flow has increased SOE liabilities, some of which they are unable to service on their own.*
- *SOE unfunded pension liabilities totalled \$154.6 million at September 30, 2024 (August 2024- \$153.1 million) and a few SOE's are highly likely to require Central Government support to eventually fund these liabilities. This includes Transport Board (\$84 million) and CBC (\$45 million). In addition, the BWA had an unfunded pension liability, which totalled \$129.3 million at September 30, 2024.*
- *SOE long term liabilities are predominantly denominated in Barbados dollars and this component is not guaranteed by Central Government. These liabilities totalled \$648 million at September 30, 2024 (September 2023 - \$794 million) and appear generally to be manageable without Central Government assistance.*
- *While the SOE reform programme was interrupted due to the impact of COVID, Government has engaged a Special Advisor to the Ministry of Finance who is working along with external consultants to target a number of individual SOEs for urgent intervention during the current financial period.*

6 Appendices

6.1 Detailed Breakdown Revenue

	Sep-24	Sep-24	FY 2024/25	FY 2024/25
\$BDS M	Actual	Target	Fiscal Framework	Mid-Year Revision
Total Revenue	1,870	1,662	3,527	3,543
Income and Profits	658	516	1,113	1,168
Corporation Tax (Net)	384	237	616	667
Income Tax (Net)	253	256	455	460
Withholding Tax	21	23	42	42
Property Tax	180	87	224	223
Goods and Services	752	791	1,616	1,564
Excise Tax	116	124	251	251
Fuel Tax	38	39	77	77
Highway Revenue	10	10	19	19
Asset Tax	6	5	11	11
Other Goods and Services	36	35	54	53
VAT (Net)	525	555	1,157	1,109
International Trade	125	133	276	275
Stamp Duties	8	7	19	19
Special Receipts	38	43	87	87
Non-Tax Revenue, Grants	108	81	172	186

6.2 Detailed Expenditure

	Sep-24	Sep-24	FY 2024/25	FY 2024/25
\$BDS M	Actual	Target	Fiscal Framework	Mid-Year Revision
Total Expenditure	1699.67	1762.75	3759.90	3775.71
Wages and Salaries	392.39	393.36	781.87	781.87
Goods & Services	233.03	268.58	647.30	647.30
Interest	372.8	395.10	790.36	790.36
Current Transfers	541.84	532.83	1038.15	1038.15
Subsidies	11.11	9.31	22.08	22.08
Grants to Individuals	46.43	37.66	75.52	75.52
<i>Other Grants to Individuals</i>				
<i>Retiring Benefits</i>	122.75	129.86	270.57	270.57
<i>Other Benefits</i>	35.25	44.78	84.64	84.64
<i>Statutory Grants to Individuals</i>	1.41	2.34	5.59	5.59
Grants to Non-profit Agencies	9.83	7.67	14.58	14.58
Grants to Public Institutions	307.30	287.32	542.25	542.25
Subscriptions and Contributions	7.76	13.90	22.92	22.92
Capital Expenditure¹	107.44	135.95	426.38	441.65

1. includes Net Lending

