Barbados' Medium-Term Fiscal Framework

2025/2026 to 2027/2028

Table of Contents

List of Acronyms

BAMC – Barbados Agricultural Marketing Company

BADMC – Barbados Agricultural Development Management Corporation

BDF – Barbados Defence Force

BERT Plan – Barbados Economic Recovery and Transformation Plan

BIDC – Barbados Investment and Development Corporation

BNOCL – Barbados National Oil Co. Ltd.

BPI – Barbados Port Inc.

BRA – Barbados Revenue Authority

BTII – Barbados Tourism Investment Inc.

BWA – Barbados Water Authority

CBC – Caribbean Broadcasting Corporation

CCF – Contingent Credit Facility

EFF Programme – Extended Fund Facility Programme

FF – Fiscal Framework

FMA Act – Financial Management and Audit Act

FY – Fiscal year

GAIA – Grantley Adams International Airport

GDP – Gross Domestic Product

GOB – Government of Barbados

GSC – Garbage and Sewage Contribution

HOPE Inc. – Home Ownership Providing Energy Inc.

ICC – International Cricket Council

IADB – Inter-American Development Bank

IFI – International Financial Institutions

IMF – International Monetary Fund

NHC – National Housing Corporation

NPC – National Petroleum Corporation

NSC – National Sports Council

PBLs – Policy Based Loans

PFM Act – Public Finance Management Act (2019)

PPE – Personal protective equipment

PPP – Public-Private Partnerships

QEH – Queen Elizabeth Hospital

SOEs – State Owned Enterprise

SSA – Sanitation Service Authority

TB – Transport Board

TMU – Technical Memorandum of Understanding

USD – United States Dollar

UWI – University of the West Indies Cave Hill Campus

VAT – Value Added Tax

W&S – Wages and Salaries

Statement of Responsibility

Signature: Minister responsible for Finance

Signature: Director of Finance

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, at section 6.

2. IMF, Barbados. Review under the Extended Arrangement, IMF Country Report No. 23/436, December 2023, 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 the recommendations made, an explanation shall be laid in Parliament by the Minister of Finance no later than three (3) weeks after the Cabinet decision on the recommendations.

The Director of Finance shall publish:

a) the Fiscal Framework on an official website of Government on the same day that it is laid in Parliament and make it available to the public in printed form as soon as practicable;
b) the recommendations of Parliament and Governments response on an official website of Government no later than three (3) weeks after Government's response is laid in Parliament;
c) changes made to the Fiscal Framework in response to Parliament's recommendations no later than three (3) weeks after the changes are agreed to by Cabinet.

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

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

OVERVIEW

The Barbadian economy has demonstrated resilience and adaptability amidst global economic uncertainties, including the aftermath of the COVID-19 pandemic, natural disasters, and ongoing global inflationary pressures. Despite these challenges, the government's commitment to fiscal prudence and sustainable economic policies has fostered a positive economic trajectory. The primary focus remains on achieving a long-term debt anchor of 60 percent of GDP by FY2035/36, a goal which has shaped fiscal policies and medium-term economic strategies.

For FY 2023/24, the government's fiscal position improved, achieving its primary surplus target of $476.8 million, equivalent to 3.7 percent of GDP. This improvement is attributed to increased tax revenues from enhanced economic activities and strategic fiscal management. However, increased interest costs, impacted overall expenditure resulting in a fiscal deficit of $242.6 million or 1.9 percent of GDP.

For the first half of 2024, Barbados saw a significant economic recovery, driven by robust performance in critical sectors such as tourism, construction, and financial services. Real GDP growth of 4.5 percent in the first half of 2024 underscores the economy's strength. The tourism sector, bolstered by increased airlift capacity and strategic marketing, remains the cornerstone of this growth, with substantial gains in long-stay arrivals and cruise tourism.

Over the period 2025/26-2027/28, the medium-term fiscal strategy will be underpinned by five key pillars:

1. **Debt Stabilization**: Prioritize debt stabilisation through prudent public expenditure management and revenue generation.

2. **Private Sector Export-led Growth**: Facilitate private sector export-led growth by modernising public infrastructure, fostering entrepreneurship through the development and expansion of Micro, Small and Medium sized Enterprises (MSMEs) and implementing policies to enhance competitiveness, diversify the economy, and improve the business environment.

3. **Social Inclusion**: Advance social inclusion through targeted public investments in health, social development, poverty eradication, education, training and skills development.

4. **Green Economy Transition**: Support the transition to a green economy through sustainable environmental practices and renewable energy investments.

5. **Digitisation** – prioritise advancing the digital transformation by investing in skill enhancement and fostering the development of digital competencies, inclusive of the knowledge-based economy.

Over the medium term, the Government of Barbados (GOB) intends to focus on improving revenue collection efficiency and reducing tax expenditure leakages. Structural reforms are expected to enhance revenue, debt sustainability, efficient expenditure management, facilitating a more sustainable fiscal environment.

Additionally, public sector reforms remain crucial for fiscal consolidation. Efforts to increase the efficiency of State-Owned Enterprises (SOEs) and reduce reliance on government transfers are ongoing. Significant resources have been allocated to critical sectors, including education, health, and renewable energy, reflecting the government's commitment to long-term sustainable growth.

Overall, Barbados's economic outlook remains positive. Government initiatives focused on enhancing fiscal discipline, promoting private sector export-led growth, modernising public services, strengthening climate resilience and social cohesion, are expected to support sustained economic development. Ongoing public sector reforms and efficient management of public resources will be vital to maintaining the fiscal discipline required to meet long-term debt targets and ensure the country's sustainable development.

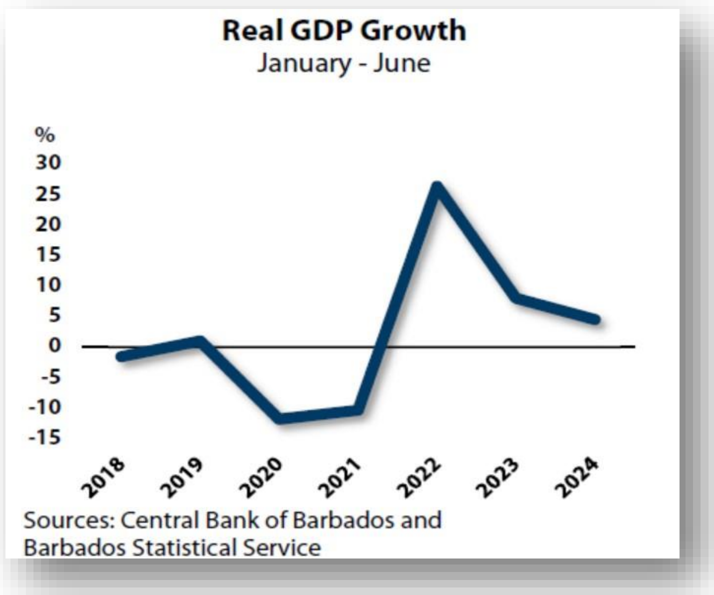
Economic Developments and Outlook

INTRODUCTION

Economic Developments

Barbados' economy demonstrated resilience and growth in the first half of 2024, with real GDP expanding by 4.5 percent[1]. This growth was mainly driven by the strong performance of critical sectors such as tourism and construction.

Figure 1: Real GDP Growth January-June[2]



Source: Central Bank of Barbados

The tourism sector played a pivotal role in the economic growth, with a remarkable 17.9 percent increase in long-stay tourist arrivals during the first half of 2024. This surge can be attributed to events like the ICC Men's Cricket World Cup and increased airlift capacity. Source markets that experienced strong performance included CARICOM with a 20 percent increase, Canada with a 20 percent rise, and the US with a significant 45 percent growth. Despite a slight decline, the United Kingdom market remained 14 percent above pre-pandemic levels.

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[1] https://www.centralbank.org.bb/news/economic-reviews/central-bank-of-barbados-review-of-barbados-economy-january-june-2024

[2] Depicts point to point January to June data from 2018 to 2024

The robust performance of the tourism sector also had a significant impact on related services such as restaurants, recreational activities, and accommodation services. Demand for the sharing economy, particularly platforms like Airbnb, increased, with average occupancy rates reaching 56.9 percent, marking a 5.5 percentage point increase by the end of June 2024. Additionally, average hotel occupancy rates increased to 68.9 percent, which was 2 percentage points higher compared to 2023.

Cruise tourism also rebounded strongly, with in-transit arrivals growing by 17.9 percent to 348,316 visitors by the end of June 2024, supported by increased cruise calls and continued homeporting arrangements. This resurgence further contributed to the tourism industry's impact on economic growth.

In the first half of 2024, the agriculture sector experienced a growth of 5.4 percent, primarily driven by increased chicken and fish production, despite a decline in some food crops due to adverse weather conditions. The manufacturing sector also displayed positive growth of 1.1 percent, attributed to increases in food and beverage, furniture, and chemicals segments.

During the first six months of 2024, the construction sector saw a notable growth of 7.1 percent, benefiting from increased hotel activity and public sector-related projects, making a substantial contribution to economic expansion. Ongoing projects, including developing tourism and commercial properties and significant public infrastructure initiatives such as road and water improvements, drove the sector's growth. Notable public investments included the Roads Project, the Water Infrastructure Rehabilitation Project, and the construction of a new Geriatric Hospital.

Additionally, by the end of June 2024, the Business and other services sector experienced a 5.4 percent upswing, reflecting growth in the demand for insurance, finance, and tourism-related services, while the Wholesale and retail sectors benefited from heightened demand for food, beverages, and tourism-related distribution, growing by 3.6 percent.

Positive changes were observed in the labor market, with the unemployment rate declining to 6.9 percent in March 2024 from 8.9 percent in March 2023. Unemployment claims also recorded a substantial decline, with 4,132 claims in the first half of the year compared to 6,182 claims in the same period the previous year.

In terms of inflation, the point-to-point inflation rate stood at 1.6 percent at the end of May 2024, compared to 2.2 percent in May 2023. The 12-month moving average inflation rate moderated to 2.7 in May 2024, down from 4.2 in May 2023, primarily due to declining global oil and international food prices. However, rising prices in dining, entertainment, and other services, along with adverse weather affecting agricultural output, kept the inflation rate somewhat buoyant.

At the end of June 2024, Barbados' external position remained robust, with gross international reserves reaching 3.2 billion, providing 32.2 weeks of import cover. The increase in reserves resulted primarily from a rise in net tourism receipts and higher current transfers from the global business sector. Moreover, Barbados' debt-to-GDP ratio declined to 105.3 percent by the end of June 2024, continuing its downward trend due to sustained economic growth and prudent fiscal management.

For the first quarter of FY 2024/25, the government's fiscal operations resulted in a fiscal surplus of 341.9 million, or 2.3 percent of GDP, and a primary surplus of 509 million, equivalent to 3.5 percent of GDP. This was attributed to increased corporation tax revenue and property tax revenue due to the implementation of reforms for insurance companies[3] and corporate tax[4]. While expenditure was effectively managed, non-interest expenditure fell compared to the previous year, with interest expense increasing due to elevated interest environment on the foreign debt.

At the end of June 2024, Barbados' financial system remained stable and resilient, with improved credit balances in commercial banks. Non-performing loans continued to trend down to a rate of 4.7 percent, reflecting enhanced asset quality across the banking sector. Capital adequacy ratios remained robust, underpinning the sector's stability.

Budget policy priorities

Despite facing challenges, the GOB is unwavering in its commitment to prioritizing policies aimed at strengthening economic recovery, addressing social disparities, and promoting sustainable development. To achieve these objectives, the Government will persist with its strategy based on the six pillars of the Barbados Economic Reform and Transformation (BERT) 2022 Plan which are:

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

[3] Due to the implementation of the IFRS17 accounting framework, effective for annual reporting periods beginning on or after January 1, 2023, assets that were previously excluded are no longer deductible for tax purposes.
[4] From Income Year 2024 as of January 1, 2024, companies in scope for the GloBE Rules (including the 15 percent global minimum corporate tax rate) shall be required to pay corporation tax on a monthly basis. All other companies with the exception of small business companies registered under the Small Business Act will be required to prepay in monthly installments with effect from Income Year 2025 as of January 1, 2025

vi. promoting a new high skilled, knowledge-based, technology-empowered and more diversified economy that encompasses renewable energy.

Further, the GOB is fully committed to Mission Transformation Barbados 2030 and its six Missions, which serve as a comprehensive framework for the sustainable and inclusive development of the country. The mission objectives are as follows:

i. By 2030, become a clean and beautiful large-ocean state, championing sustainable development locally and globally – with the goal of all domestic activities becoming 100 percent sustainable by 2035.

ii. By 2030, transform Barbados into a country of active, involved citizens. All Barbadians will feel empowered and engaged in the social, economic, and cultural development of the country as confident, creative, compassionate and entrepreneurial citizens.

iii. By 2030, ensure that every Barbadian has equitable and reliable access to clean water and nutritious food that are affordable.

iv. By 2030, create a society that prioritizes wellness and happiness. Improve public health and safety, leading to a 50 percent reduction in new cases of non-communicable diseases and a 50 percent reduction in crime.

v. By 2030, empower and enfranchise all Barbadian workers and families by creating opportunities for ownership and wealth creation that enable Barbadians to take better care of themselves and each other and reduce the rate of poverty by 50.

vi. By 2030, transform Barbados to be a high-functioning, resilient society with seamless access to services and meaningful digital inclusion for all Barbadians.

To support economic recovery during the fiscal years 2025/26 – 2027/28, the government will maintain its focus on the following priorities:

1) Creating Business Barbados;

2) Increasing public and private sector partnerships;

3) Reviewing tax structures and new investment funds;

4) Further modernising the tax system;

5) Digitisation and reengineering business through the establishment of a new National Data Center, alongside ongoing investments in skills development;

6) Unlocking the mortgage market through a comprehensive review and modernisation of related systems and processes;

7) Increasing access to financing for the private and public sectors;

8) Unlocking renewable energy investments;

9) Addressing Barbados' demographic challenges by population and skills management which involves making provisions for the development of facilities to support the elderly;

10) Monetising liquid and derelict assets in the public and private sectors through the recently established Growth Council;

11) Exporting capital to diversify investments;

12) Establishing the pharmaceutical industry;

13) Developing Barbados as an agro-processing hub;

14) Incentivising a vibrant creative industry and film industry; and

15) Strategically allocating investments to capital projects that both foster economic growth and meet the country's essential requirements.

GLOBAL ECONOMIC OUTLOOK

The IMF's July 2024 World Economic Outlook[5] indicates that the global economy is showing resilience, forecasting a steady global growth rate of 3.2 percent in 2024 and 3.3 percent in 2025. Despite this positive outlook, it is important to note that these growth rates fall below the 3.8 percent average observed between 2000 and 2019. Factors impacting expansion include the lingering effects of the COVID-19 pandemic, elevated borrowing costs, the Russia/Ukraine conflict, sluggish productivity growth, and escalating geo-economic fragmentation.

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[5] https://www.imf.org/en/Publications/WEO/Issues/2024/07/16/world-economic-outlook-update-july-2024

Advanced economies are projected to experience a slight acceleration, with growth rates expected to rise from 1.7 percent in 2024 to 1.8 percent in 2025, mainly due to the resilience of the United States. However, there will be a modest slowdown in emerging markets and developing economies, with growth rates expected to decrease from 4.4 percent in 2023 to 4.3 percent in 2024 and 2025.

Figure 2: GDP Growth Projections 2024-2025

According to the latest forecast, the global disinflation trend is losing momentum. This has raised the potential for prolonged higher interest rates due to increased inflation risks, especially in the face of escalating trade tensions and heightened policy uncertainty. Nevertheless, monetary policy rates of major central banks are anticipated to decrease in the latter half of 2024. The speed of normalization is likely to differ due to varying inflation conditions.

Global inflation is projected to fall, especially in advanced economies, where the deceleration is anticipated to slow down in 2024 and 2025. This forecast is attributed to the persistent inflation in service prices and higher commodity prices. However, the gradual stabilization of labor markets and an expected decrease in energy prices are expected to moderate headline inflation by the end of 2025. In emerging market and developing economies, inflation is projected to remain elevated and recede at a slower pace compared to advanced economies. Despite this, inflation in the median emerging market and developing economy is already approaching levels seen before the pandemic, partially due to declining energy prices.

Looking ahead, the global economic landscape is poised for significant changes marked by promising opportunities and intricate challenges. Furthermore, a heightened focus on climate change and environmental sustainability is reshaping the strategic orientations and investment priorities of many. Renewable energy, circular economy practices, and carbon emissions reduction are increasingly receiving attention as ways to mitigate climate-related risks and foster sustainable development.

REGIONAL OUTLOOK

The Caribbean showed signs of recovery from the impact of the COVID-19 pandemic, with an average growth rate of 6.7 percent in 2023[6]. This growth indicates a return to more typical levels following the exceptional effects of the pandemic. By the end of 2023, some countries had exceeded their pre-pandemic output levels.

The increase in oil production in Guyana played a substantial role in driving the average regional growth in 2023. The production saw a notable uptick of 35.2 percent, which had a positive impact on the growth of non-energy sectors and contributed to an overall expansion of Guyana's economy by 32.9 percent. While economic activity in other commodity exporters like Suriname and Trinidad and Tobago also saw growth, it was at a more moderate pace. Notably, the energy sector in Trinidad and Tobago experienced a slight contraction during this period.

The rejuvenation of the region's tourism industry also played a significant role in the economic performance, particularly for service-exporting countries, which experienced an average growth rate of 2.4 percent. This performance was buoyed by the strong demand from key source markets, especially the United States. Additionally, the recovery of air travel, the resumption of festivals and sporting events across the region also bolstered total arrivals, with some economies reaching 99 percent of pre-COVID levels. The tourism sector and sustained private and public construction activities drove real growth for most countries.

However, concerns about inflation and its impact on food and energy security persisted. While inflation rates generally declined across the region, persistently high energy and food costs, logistical challenges, and robust consumer demand kept inflation at elevated levels.

The Caribbean Development Bank predicts an average growth rate of 8.6 percent in 2024, primarily due to increased oil production in Guyana and the continued growth of the tourism sector. However, excluding Guyana, this growth projection decreases to 2.3 percent, aligning with the broader trend of slowing global growth and the ongoing normalization of economic conditions in the Caribbean.

DOMESTIC ECONOMIC OUTLOOK

[6] https://www.caribank.org

The economic outlook for Barbados remains positive and continues to improve due to the government's proactive approach to implementing measures to achieve a long-term growth target of 5 percent. The economy is projected to maintain its growth trajectory through 2024, with an expected growth rate of around 3.9 percent, driven by ongoing expansion in the tourism and related sectors. Over the medium term, the government will need to capitalize on and consolidate gains realised thus far to drive sustainable development.

The tourism industry is expected to perform favourably, buoyed by anticipated increases in tourist arrivals, particularly due to the hosting of Crop Over festivities and improved air connectivity. Additionally, the sector is set to benefit from expanded flight routes and the resumption of cruise traffic over the medium term.

The agricultural sector is also poised to improve with continued support and promotion from the government for the expansion of agricultural production and the thrust towards Barbados emerging as an agro-processing hub. Further, emphasis has been placed on enhancing food security and driving export growth through policies such as expanding irrigation infrastructure, intervention in the dairy industry through tax rebates, and stimulating milk output for exports.

Also, on the upside, as global inflation continues to decline, it is anticipated that domestic inflation will moderate over the medium term. This not only has positive implications for the cost of living but also the cost to service the government's outstanding debt. The 12-month average rate is projected to range between 3.0 percent and 3.5 percent by the conclusion of 2024.

To boost economic growth and competitiveness, key infrastructure projects being undertaken by the GOB include the upgrade of the national grid to support renewable energy integration, improvements in road drainage systems to enhance climate resilience, and investments in digital infrastructure to facilitate business operations. The establishment of a Blue-Green Investment Corporation aims to support financing for climate-related infrastructure projects. Concurrently, pivotal structural reforms are underway to enhance growth and the business environment.

Box 1: Business Barbados

BUSINESS BARBADOS

The government is making significant progress in the launch of Business Barbados. This initiative aims to centralize all business facilitation services, creating a comprehensive ecosystem that supports businesses at every stage of their growth and development. This includes assistance for inbound and local commercial operations, expansion, and outbound

Barbados is also advancing its ambitious climate policy agenda, which includes significant measures to build resilience to natural disasters and climate change. Key initiatives include amendments to the Planning and Development Act to improve road resilience, the adoption of a new water re-use policy, and the operationalization of the Barbados

Environmental and Sustainability Fund. These efforts aim to address vulnerabilities such as water scarcity and enhance marine protection, which is crucial for the tourism sector. Initiatives to transition to eco-friendly practices and reduce dependence on fossil fuels are making significant progress. Additionally, initiatives to access climate financing include a novel debt-for-climate swap aimed at generating savings for initial green investments.

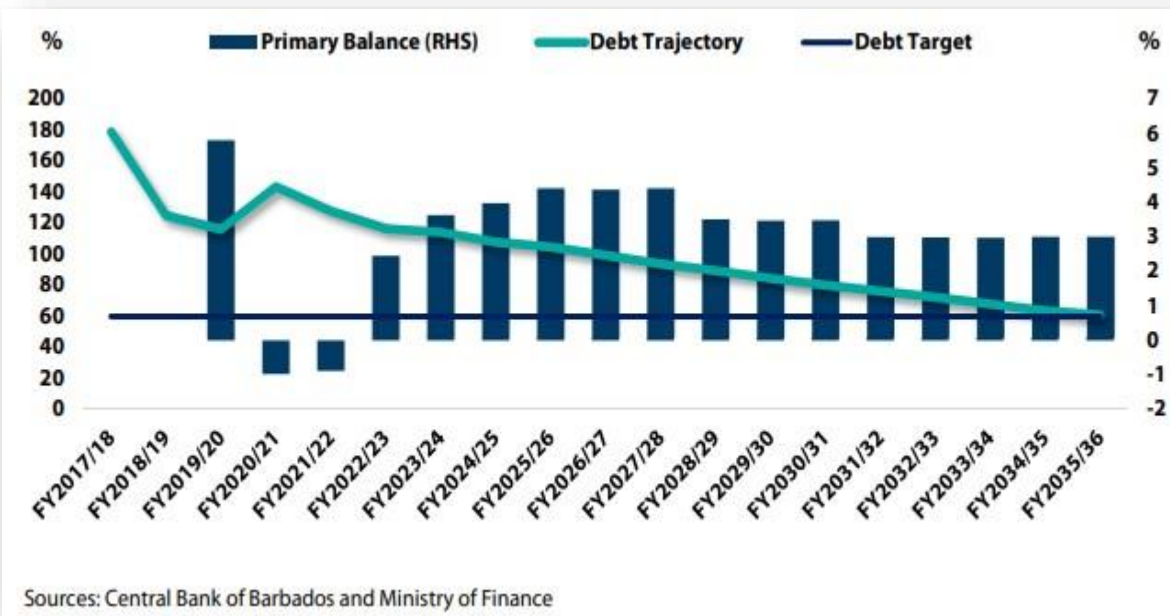
Box 2: The Bridgetown Initiative

THE BRIDGETOWN INITIATIVE

The launch of the Bridgetown initiative has played a pivotal role in reshaping the global discourse on climate finance and development. A notable outcome of this initiative is the allocation of an $80 million grant from the Green Climate Fund to the Barbados Water Authority, marking a substantial stride towards sustainable development and climate resilience in the region.

In light of the projected economic growth, it is anticipated that the debt to GDP ratio will continue its downward trend, moving closer to achieving debt sustainability. With sustained economic growth and consistent primary surpluses, it is expected to reach the target debt level by FY2035/36. As the government implements measures to bolster fiscal discipline, stimulate economic growth, and modernize public services in support of long-term economic progress, a specific emphasis on diversification and nationwide efficiency improvements are poised to bolster sustained economic growth.

Figure 3: Debt-to GDP Trajectory and Primary Balance



Risks to the outlook

Whilst the economic outlook for Barbados is optimistic, it can face vulnerabilities that could cause its growth trajectory to diverge from its target. Potential risks include:

- **Geopolitical Conflicts.** Ongoing disputes in various regions around the world can create instability and uncertainty, affecting global trade and investment patterns, which could indirectly impact Barbados' economy. Such exogenous shocks hinder foreign investments, and lead to a sudden slowdown in tourism from key source countries, which could have a significant impact on Barbados, a nation heavily dependent on tourism.

- **Supply-chain disruptions.** Limitations in freight supply can lead to delays and increased costs, impacting industries reliant on global supply chains. For a small island nation like Barbados, these disruptions can have significant impacts on the cost of goods and services especially food and fuel.

- **Inflationary Pressures.** Extended periods of tight monetary conditions, implemented as strategies to control inflation, can slow down economic activity and investment. This could potentially affect Barbados' economic growth if not managed effectively. Additionally, further increases in global interest rates and external financing costs may augment Barbados' debt service payments and constrain its fiscal capacity.

- **Extreme weather conditions.** Barbados is experiencing more extreme weather events, as well as more subtle changes to temperature and precipitation patterns. Observations confirm that temperatures are rising, the frequency of extreme weather events are increasing, sea levels are rising, and coral bleaching events are more frequent. Such adverse weather conditions stemming from climate change harbor the potential to adversely affect the agricultural and tourism sectors while concomitantly contributing to inflationary stresses.

These factors underline the importance of resilience and adaptability initiatives as highlighted in the BERT Plan 2022. It also highlights the role of sound fiscal and monetary policies in managing these risks and ensuring sustainable economic growth. Barbados remains committed to implementing strategies and policies aimed at unlocking capital, increasing investment, and stimulating economic growth.

Box 3: The National Resilience Plan

THE BARBADOS NATIONAL RESILIENCE PLAN

The Barbados National Resilience Plan is strategically tailored to dovetail with the mission economy and the 2030 agenda. Its primary objective is to leverage Barbados' distinctive resources and position the country as a pioneering center for climate-positive innovations. The plan furnishes a comprehensive framework for investment decision-making that aligns with specific targets essential for bolstering the country's resilience

Economic and fiscal challenges for Barbados

Barbados, like other small island nations, faces distinctive economic and fiscal challenges. In 2023, the country encountered a complex array of challenges influenced by internal and external factors.

The economy was notably impacted by the COVID-19 pandemic, Hurricane Elsa, the volcanic ash fall resulting from La Soufriere eruption, as well as the Ukraine/Russia war and the conflict in Gaza. Fluctuations in commodity prices and global economic conditions also pose significant challenges. Import dependence, particularly from the US, exposes Barbados to increased import prices, which affects the economy. It is evident that measures need to be taken to enhance resilience and fortify external buffers to reduce the impact of external shocks.

Besides external shocks, Barbados faces structural weaknesses such as low productivity and limited export diversification. Implementing structural reforms aimed at improving the business environment, fostering innovation, and enhancing competitiveness is essential for stimulating sustained economic growth and creating job opportunities.

Similarly, careful planning and implementation of fiscal consolidation efforts are necessary to reduce expenditure without compromising essential services and social protection programmes. Improving expenditure efficiency and reforming public sector institutions can contribute to fiscal sustainability. Addressing social welfare needs and reducing poverty levels are vital for promoting inclusive growth and socioeconomic development in Barbados. However, fiscal constraints may limit the government's ability to expand social assistance programmes and invest in human capital development as desired.

Fiscal Developments and Outlook

Introduction

Fiscal Developments and Outlook

The Barbadian economy has demonstrated resilience through global challenges, including the COVID-19 pandemic, natural disasters, and elevated global inflationary pressures. The government remains committed to its long-term debt anchor of 60 percent of GDP by FY2035/36, absorbing temporary expenditure increases over the medium term to ensure macroeconomic stability. Post-crisis, the government has refocused on fiscal consolidation by resuming public sector reforms, reducing debt, and meeting medium-term priorities through prudent fiscal management.

Recent Developments

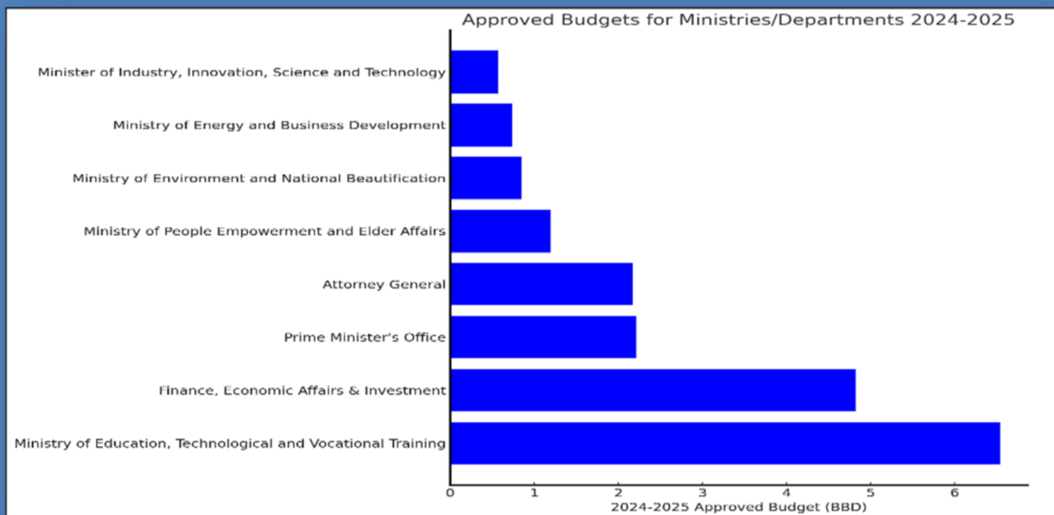
In FY2023/24, the government continued to wind down pandemic-related support programmes, reducing expenditure, particularly for public enterprises that acted as executing agencies. Surplus revenues were directed towards debt repayment, achieving a larger than-targeted primary balance for FY2022/23. However, persistent inflationary pressures have necessitated government intervention through public sector wage hikes. At the same time, elevated interest costs have increased overall expenditure, complicating some of the planned fiscal tightening over the medium term.

The government continues to implement its ambitious Economic Recovery and Transformation (BERT 2022) programme, focusing on sustainable economic growth, structural reforms, and resilience to climate change.

Box 4: Targeted Spending for FY 2024/25

Targeted Spend FY 2024/25.

Targeted spending for this financial year includes increased outlays for health, education and renewable energy as well as outlays for social development. Spending that promotes improvements to the business environment as well as competitiveness in traditional sectors also feature heavily in financial year 2024/25 policy objectives.



Source: Ministry of Finance

The Ministry of Education, as customary for its significant budget, received additional resources for the current financial year as part of the Government of Barbados' continuous investment in skills development programmes. This allocation encompasses the initiation of the Skills for the Future Project and the School Digital Technologies Programme.

Similarly, the Ministry of Industry, Innovation, Science, and Technology (MIST) experienced an augmented budgetary allocation to propel Barbados' digital transformation initiative. This encompassed funding for two new programmes, namely GovTech Barbados Ltd. and BNSI, along with amplified financial support for Cyber Security and Digital Solutions in the present fiscal year.

The government has intensified its efforts to address the effects of social disparities and an aging population, prompting increased expenditure for the Ministry of People Empowerment and Elder Affairs, including provisions for the development of two respite and daycare facilities.

Furthermore, the energy sector witnessed an increase in financial support due to the inclusion of Business Barbados and funding for the Deployment of Cleaner Fuels project.

Medium-Term Fiscal Strategy

The medium-term fiscal strategy focuses on five key areas:

1. **Debt Stabilization**: Prioritize debt stabilisation through prudent public expenditure management and revenue generation.

2. **Private Sector Export-led Growth**: Facilitate private sector export-led growth by modernising public infrastructure, fostering entrepreneurship through the development and expansion of Micro, small and medium sized enterprises (MSMEs) and implementing policies to enhance competitiveness, diversify the economy, and improve the business environment.

3. **Social Inclusion**: Advance social inclusion through targeted public investments in health, social development, poverty eradication, education, training and skills development.

4. **Green Economy Transition**: Support the transition to a green economy through sustainable environmental practices and renewable energy investments.

5. **Digitisation** – prioritise advancing the digital transformation by investing in skill enhancement and fostering the development of digital competencies, inclusive of the knowledge-based economy.

As the economy continues to recover, revenues are expected to grow in line with economic activity. Structural reforms, revenue collection improvements, and the reduction in tax expenditure leakages should lead to efficiency gains and an increased revenue base.

Fiscal Consolidation

The fiscal consolidation plan, initiated due to the pandemic and other external shocks, necessitates a return to a tighter fiscal policy over the medium term to maintain the long-term debt anchor. Although primary surpluses do not peak at the levels required under the previous framework, larger surpluses involve further fiscal consolidation, including targeted spending to achieve policy objectives.

For FY2024/25, the government has adopted a tighter fiscal stance to meet its primary surplus target of 4.0 percent. Essential policies have received additional resources to ensure their implementation despite the tighter fiscal environment.

Public Sector Reform

Public sector reform remains a key element of medium-term consolidation. The government has resumed its pre-pandemic stance on public sector reform, particularly regarding the efficiency of SOEs.

The Barbadian government remains committed to fiscal consolidation and prudent fiscal management to ensure long-term economic stability and growth. By prioritising debt stabilisation, facilitating private sector growth, advancing social inclusion, and transitioning to a green economy, Barbados aims to achieve its fiscal and economic objectives over the medium term. The ongoing public sector reforms and the efficient management of public resources are crucial to maintaining the fiscal discipline required to meet the long-term debt targets and ensure sustainable development for the nation.

Overview Fiscal Performance FY2023/24

In FY2023/24, the government performed above revenue expectations, primarily driven by transactional and income-related tax revenues while expenditure ended the period above the initial 2023/24 Fiscal Framework estimates for the period. The over performance in revenue was largely due to the newly implemented tax reform for companies and robust economic growth, leading to higher VAT and income tax collections. Concurrently, government spending increased, in large part influenced by higher interest rates on domestic and external debt. Despite these factors, the Government successfully achieved all fiscal targets under the BERT-2022 IMF-supported programme, with the primary surplus reaching $476.8 million (3.7 percent of GDP) at the end of FY 2023/24.

Deviations in Revenue Outturn FY2023/24

At the end of fiscal year 2023/24, total revenue improved by approximately $58.0 million when compared to the previous year and exceeded expectations by $28.0 million. This outcome was primarily attributable to the $52.9 million over performance of Corporation taxes, largely driven by the early payment of taxes following the implementation of the tax reform measures announced in November 2023. Benefitting from the continued pick-up in economic activity in FY 2023/24, Personal income tax also surpassed expectations by $26.2 million, which was further augmented by smaller than anticipated refunds during the period.

Table 1: Revenue Outturn

	Actual FY2022/23	Actual FY2023/24	Original Target FY2023/24
Total Revenue	3,319.99	3,377.97	3,350.02
Income & Profits	1,074.63	1,053.09	973.07
Corporation Tax	548.76	563.14	510.21
Income Tax	393.38	443.42	417.22
Property	216.96	218.68	216.47
Goods & Services	1,478.81	1,522.43	1,578.62
Excise	247.24	228.58	294.32
Fuel Tax	80.91	76.77	88.97
International Trade	241.85	257.24	260.88
Other Taxes	100.67	157.05	116.34
Airline Travel	-	38.91	8.73
Nontax Revenue	207.07	169.48	204.65

	Deviation from FY 2023/24 Framework		
	FY23 vs FY24	%	FY24 vs Orginal Target
Total Revenue	57.98	1.7%	27.95
Income & Profits	- 21.54	-2.0%	80.02
Corporation Tax	14.39	2.6%	52.93
Income Tax	50.04	12.7%	26.20
Property	1.72	0.8%	2.21
Goods & Services	43.62	2.9%	- 56.19
Excise	- 18.67	-7.5%	- 65.74
Fuel Tax	- 4.14	-5.1%	- 12.20
International Trade	15.39	6.4%	- 3.64
Other Taxes	56.38	56.0%	40.71
Airline Travel	38.91		30.19
Nontax Revenue	- 37.59	-18.2%	- 35.17

Source: Ministry of Finance and Central Bank of Barbados

The strong economic performance was also realized in VAT, where receipts were up relative to 2023/24 by $72.8 million and surpassed expectations by $37.5 million when compared to initial estimates. A strong tourism performance improved receipts of the Airline Travel and Development fee which exceeded its target by $30.2 million. [7]

The initial framework included expectations of improved revenue collection given the revised framework on waivers particularly for external taxes, however the process of waiver reform remains ongoing.[8] Additionally, a fall in fuel imports reduced the expected receipts of Excises and the fuel tax. Excise taxes fell short by $65.0 million exacerbated by larger than anticipated rebates compared to initial projections, while fuel tax underperformed by $12.2 million.

[7] Initial forecast for Airline Travel and Development Fee was zero as it is not a Central Government revenue item, however, because collections exceeded the 75 million quota mandated to go to BTII, the residual amount goes to Central Government

[8] In the March 2024 Budgetary Proposals, the Government of Barbados issued a formal process under which preexisting exemptions are required to requalify under a modernized framework

Deviations in Expenditure Outturn FY2023/24

Total expenditure amounted to $3,608.5 million by the end of FY2023/24, marking an increase of $16.3 million compared to initial estimates. This spending surge primarily stemmed from higher expenditures related to transfers to state owned enterprises as well as interest payments.

Table 2: Expenditure Outturn

	Actual FY2022/23	Actual FY2023/24	Original Target FY2023/24
Total Expenditure	3,564.9	3,608.5	3,592.2
Goods & Services	529.0	522.4	572.5
Current Transfers	1,155.9	1,156.8	1,118.2
Grants to Public Institutions	581.4	661.9	570.3
Interest	549.2	709.1	688.1
Capital Expenditure	449.5	357.6	311.5
	Deviation from FY 2023/24 Framework		
Total Expenditure	43.5	1.2%	16.3
Wages & Salaries	1.9	0.2%	- 32.4
Goods & Services	- 6.6	-1.2%	- 50.1
Current Transfers	0.9	0.1%	38.6
Grants to Public Institutions	80.5	13.8%	91.6
Interest	159.8	29.1%	21.0
Capital Expenditure	- 91.9	-20.4%	46.1

Source: Ministry of Finance and Central Bank of Barbados

Transfers to SOEs exceeded initial estimates by $91.6 million, mainly due to financing related to the dissolution of the Barbados Agricultural Marketing Company (BAMC), additional funds allocated to the National Housing Corporation (NHC) to cover wages, salaries, and other operating expenses, procurement of specialized supplies to the Barbados Defense Force (BDF)in preparation for the ICC T20 Cricket World Cup , as well as the disbursement of additional support to the Barbados Agricultural Development Management Corporation (BADMC) for operational expenses.

Interest payments were $159.8 million higher by year end when compared to FY 2022/23. However, when compared to initial forecasts, the deviations were substantially smaller ($19.2 million), given the inclusion of anticipated elevated interest rates in initial forecasts.

Actual spending on goods and services at the end of March 2024 represented a $6.6 million decrease from the previous fiscal year while spending on subsidies exceeded projections by $24.6 million, primarily due to additional funds required by the Transport Board to cover salaries and other operating costs. Grants to individuals decreased by $61.2 million relative to FY2022/23, and actual spending at the end of FY2023/24 was $73.9 million below estimates.

Capital spending at the end of March 2024 decreased by $91.9 million compared to the preceding fiscal year. Nevertheless, significant supplementary allocations were provided for specific projects, including the Pathology Department at QEH ($5.6 million), deployment of cleaner fuels and renewable energies in Barbados by the National Petroleum Corporation ($18.6 million), projects by the Barbados Water Authority ($17 million), road rehabilitation projects ($33.5 million), the Amphitheater at the Botanical Gardens ($3.5 million), and work on the headquarters of the Barbados Youth Advance Corps ($8 million), thereby causing the target to be exceeded by 46.2 million, when compared to initial estimates.

Medium-term Fiscal Forecasts

Revenue

Based on the performance of FY 2023/24, the total revenue forecast for the medium-term fiscal framework has been revised downward from the initial estimates. This adjustment is mainly attributed to the projected shortfall in revenue from Excises, Fuel Taxes, and Non-tax Revenue, despite upward revisions to Corporation Taxes, Personal Income Taxes, VAT, and Property Taxes. On average, medium-term revenue projections have been adjusted down by 1.0 percent. However, it's important to note that this is subject to review over the medium term.

The initial income tax estimates for corporations did not include revenues related to the global minimum tax rate. However, updated projections now reflect an increase due to the revised tax rates for in scope companies, which will have a positive impact on tax revenue in the medium term. Personal income tax receipts have been revised up in the medium term given stronger pass through from projected economic activity. Property tax revenues also reflect an upward adjustment due to revised expectations for the collection of receivables.

The enhanced performance of value-added tax (VAT) receipts in the fiscal year 2023/24 culminated in upward revision of expected VAT receipts over the medium term. There are also anticipated gains resulting from the efforts of the government in terms of strengthening the tax policy domain and tax administration. This upward revision in the VAT forecasts also encompasses the extension of the waiver of VAT charged on generators and on the sale and installation of water tanks, septic tanks and electrical pumps for residential properties.

The projected receipts from excises and fuel taxes have been adjusted downwards, mainly due to reduced expectations for fuel consumption. The modernization of public transport vehicles (swapping out of diesel to electric buses) has led to a fall in diesel consumption. This is expected to continue into the medium term along with a fall in consumption in fuel for the wider economy as demand for electric and hybrid vehicles increase.

Projections for non-tax revenue have also been revised downwards due to a more cautious outlook. Anticipated receipts from investment income and dividend payments by several State-Owned Enterprises over the medium term did not materialize as expected, reflecting a slower-than-anticipated rebound in the financial performance of SOEs.

Expenditure

Given the lower revenue inflows and targeted primary balances, the new Fiscal Framework reduces expenditure. In the medium term, the fiscal strategy focuses on fiscal consolidation while directing extra resources towards essential investments aimed at enhancing the economy's productive capacity. Expenditure projections under the updated fiscal framework are on average 0.6 percent lower than FY 2023/24 forecasts.

Over the medium term, wage projections have been adjusted downwards, based on the expectation that the central government's size will remain consistent with the levels seen in FY 2023/24. Any increases reflect legislated incremental growth in wages and allowances.

The Goods and Services expenditure budget for FY 2024/25 is expected to increase to support the government's key priorities outlined in the Budgetary Proposals and Financial Statement 2024. Allocations have been raised for initiatives such as the Skills for the Future Project, the One Family Programme, Mission Transformation, and the Alternative Care of the Elderly Programme.

In the upcoming fiscal year 2024/25, an initial rise in interest expense is forecasted due to the current global interest rate environment. However, a decrease is expected in the following fiscal year 2025/26 as debt service costs are projected to decline over the medium term. This reduction is linked to the anticipated decrease in global interest rates, driven by a gradual drop in inflation. This projection takes into account expenses associated with new borrowing as well as the impact of domestically restructured debt with step-up interest rates.

While grants to public institutions exceeded targets in FY 2023/24, transfers are anticipated to decline over the medium term due to the ongoing SOE reform programme and reductions in pandemic-related spending. Projections for transfers under the updated fiscal framework are, on average, 9.0 percent lower than the FY 2023/24 forecasts.

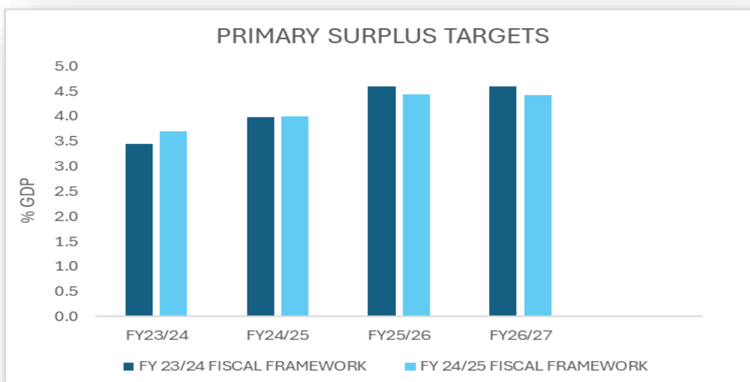
A higher level of Capital expenditure is expected as the government continues to invest in public sector infrastructure over the medium term. Major capital programmes for this financial year include the Geriatric Hospital Redevelopment, the Plant Tissue Culture Laboratory, Barbados Youth Advance Corp Dormitories, the Richard Stoute Amphitheatre, and the continuation of road works.

Over the medium term, it is the aim of the government to remain a significant investor in the Barbados capital stock over the medium term, with a focus on improving the agricultural export market and establishing Barbados as an agro-processing hub. Additionally, plans are underway to enhance the public health service with the addition of medical facilities.

Consolidated Framework

The projected primary surplus for FY 2024/25 stands at 4.0 percent, aligning with initial estimates and marking an increase from the 3.7 percent recorded at the conclusion of FY 2023/24. The primary surplus is expected to stabilize at 4.4 percent from the end of FY 2025/26.

Figure 4: Fiscal Framework Primary Surplus



Source: Ministry of Finance and Central Bank of Barbados

Performance and Outlook for Major SOES

Under the IMF supported government consolidation programme (BERT 2022), several SOEs are closely monitored on a monthly basis. These have been identified in a Technical Memorandum of Understanding (TMU) between the International Monetary Fund and the GOB. Some of which are shown in the table below.

Budget Allocation and Transfer for Major SOEs

Table 3: Budget Allocation and Transfers for Major SOEs

Public Institution	2023/24 Initial forecast	2023/24 Actual	2024/25 Forecast
Queen Elizabeth Hospital (QEH)	139	110.7	100.9
University of the West Indies (UWI)	95.2	98	98.4
Transport Board (TB)	12.2	36.5	12.2
Barbados Agricultural Management Corporation (BAMC)	7	51.1	0
National Housing Corporation (NHC)	6.1	21.8	6.5
Caribbean Broadcasting Corporation (CBC)	0	6.2	0

Source: Ministry of Finance

The above table illustrates that several SOEs received higher funding than initially projected due to higher than expected operational expenses. However, the GOB managed to adhere to the cap set under the EFF supported programme for entities monitored by the TMU, which was $477 million.

Anticipated grants to public institutions for the 2024/25 period are estimated at $542.3 million. Of note, transfers to the Queen Elizabeth Hospital (QEH) ($100.9 million) and the University of West Indies (UWI) ($98.4 million), constitute approximately 37 percent of the total forecast. Expected transfers to entities not monitored under the TMU include $50.0 million for the Barbados Defence Force (BDF) and $39.8 million for the Barbados Revenue Authority (BRA).

Government has resumed the SOE reform programmeme which was interrupted by the Covid-19 pandemic and has identified several entities for reform. 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; the National Petroleum Corporation and Barbados National Oil Company Ltd.; as well as for the merger of the social services entities of the Child Care Board, National Assistance Board, Welfare Department and the National Disabilities Unit. These and other reform measures are expected to result in reduced SOE transfers over the medium term.

State Owned Entities Arrears

As of June 2024, total arrears amounted to $44.2 million, with $30.5 million (approximately 70 percent) of the arrears belonging to four entities (NPC, BWA, BAMC, and NSC). Out of the total arrears, $19.4 million pertained to entities subject to the IMF's TMU, with the agreed limit at June 2024 being $23 million.

BWA's arrears were influenced by cash flow issues arising from challenges in collecting receivables, despite a payment amnesty introduced in the 2022/23 financial year to improve collections, while the NSC faced cash flow challenges due to timing delays in receiving its subvention.

NPC's arrears stemmed from liquidity challenges caused by recurring net losses, which were in turn a result of reduced profit margins due to increased LNG costs that couldn't be passed on to customers.

Although BAMC's operations were divested during December 2023, it continues to retain the responsibility for operation of the sugar production equipment, and for facilitating cane payments to farmers. BAMC experienced cash flow issues due to delays in receiving subvention after making payments to cane farmers from its own funds and requesting reimbursement. However, cash-flow issues are expected to improve following the transfer of the cane production equipment on July 1, 2024, to the ABC Company, and the receipt of subvention to support the payments to cane farmers.

Contingent Liabilities

Explicit SOE guarantees

Guaranteed debt stood at $56.0 million at June 30, 2024, an increase of $23.3 million from the same period in the previous year, due mainly to a new loan secured on behalf of Kensington Oval Management Inc. Guaranteed debt consist of external multilateral loans and one external bond issue secured on behalf of three SOEs.[9]

Implicit SOE guarantees

The financial situation of several SOEs poses a fiscal risk as the Government's implicit guarantee of their liabilities may become a reality in the future.

[9] University of the West Indies (UWI), KOMI and Barbados Investment and Development Corporation (BIDC).

This risk is most significant for a few SOEs with total liabilities exceeding total assets, making them technically insolvent, namely TB, CBC, and Hope Inc. Additionally, other SOEs, such as NPC, BWA, and QEH, are facing liquidity challenges related to settling accounts payables arrears and/or pension liabilities.

Hope Inc. has experienced recurring annual net losses since its inception in January 2021. The Barbados Water Authority (BWA) has been adversely affected by prolonged delays in collecting accounts receivables, while the NPC has faced cash-flow issues due to consecutive net losses from 2019 to 2024.

The SOEs' unfunded pension liabilities amounted to $282.7 million as of June 30, 2024. The largest pension liabilities were attributed to the Barbados Water Authority ($128.6 million) and the Caribbean Broadcasting Corporation ($45.2 million). Given the fiscal challenges, these entities are likely to require Central Government support to address these liabilities.

As of June 30, 2024, the SOEs' long-term debt liabilities totaled $732.5 million, with seven SOEs responsible for approximately 85 percent of the total debt. These include BPI: $177.2M; GAIA: $137.2M; BTII: $84.0M (currently serviced by the GOB); BWA: $72.6M; BNOCL: $56.8M; Hope Inc.: $54.0M; and NPC: $50.2M.

While the SOEs have been meeting their debt repayments, the fiscal risk remains elevated due to the liquidity and cash-flow issues outlined above.

Debt

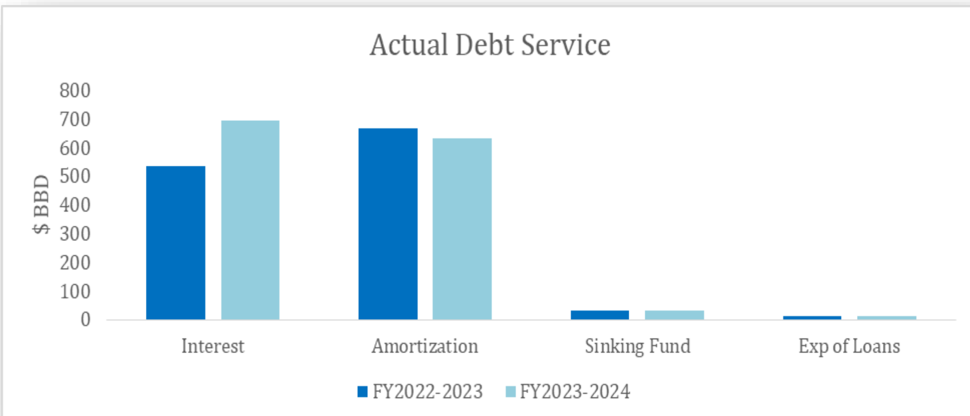
Summary on Debt

At the end of June 2024, the debt-to-GDP ratio, at 105.3 percent, continued its downward trajectory, in line with the expanding economy. Though the debt stock was higher at end-June 2024 compared to June 2023 by approximately $311.6 million, primarily due to policy loans from international financial institutions, including disbursements from the IMF’s RST, the continuous expansion in economic activity underpinned the improvement in the ratio.

Amortization decreased by $34.5 million in FY2023/24 when compared to FY2022/23. This decrease was largely attributable to the buyback of Series E bonds as part of the debt for nature swap, as well as prepayment Series B that occurred in FY2022/23, which counterbalanced repayments on the Series E and Series H bonds, as well as on Series D from a successful reverse auction undertaken in March 2024. Amortization payments for the first quarter of 2024-2025 totalled $160.0.million, an increase of $20.1 million compared to the same period in the previous financial year. This was due primarily to scheduled increased payments on the restructured domestic securities.

Meanwhile, interest payments for FY 2023/24 were $159.8 million higher due mainly to increases in the SOFR, which is the benchmark the external variable rate debt, additional disbursements of foreign funds and domestic securities, as well as scheduled step-ups on the domestic bonds. Sinking Fund contributions increased marginally from $30.9 million in FY2022/23 to $32.5 million in FY2023/24. Expenses related to loans decreased by $1.75 million to $11.8 million at March 2024. By the end of June 2024, interest payments totalled $165.3 million, approximately $18.2 million more than the corresponding period for the previous financial year. There was no change in the Sinking Fund contributions for quarter ending June 2024 and there was a marginal decrease of $52,000 in the period for Expenses related to loans.

Figure 5: Actual Debt Service



Source: Ministry of Finance

During FY 2023/24, foreign financing of approximately $730.0 was led by support from the IADB with policy-based loans of $400.0 million, which complemented disbursements from the IMF's Extended Fund Facility (EFF) and the Resilience and Sustainability Facility (RSF) and other project related loans.

The government raised domestic financing in FY2023-2024 by issuing debt securities and drawing on Central Bank deposits. The resumption of regular issuance of Treasury Bills during the second quarter of the fiscal year, for the first time since 2018, yielded approximately $172.6 million. Purchases of BOSS+ and BOSS++ bonds of approximately $211.1 million by commercial banks, households, credit unions and insurance companies boosted domestic financing. Additionally, the Government withdrew approximately $554.8 million from its deposits at the Central Bank. As at June 2024, financing totally approximately $197.8 million has been met predominately from the issuance of domestic securities.

Review of Debt Management Strategy

Barbados' 2023-2024 to 2025-2026 debt management strategy which was predicated on utilising majority external official sector funding to meet gross financing needs materialized largely as envisaged. In the last FY, inflows from PBLs and the disbursements from the IMF materialized as projected, however, there was a shortfall in disbursements from investment loans compared to what was forecast, as some projects experienced delays. This shortfall in multilateral investment loans was offset by increased domestic securities issuance, particularly T-Bills, as there was a strong demand, once regular issuance recommenced.

Cost and Risks Characteristics of the Existing Debt Portfolio

Box 5: Risk Definitions

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.

The debt portfolio currently has low refinancing risk, with the majority of domestic debt held in stepped rate bonds which amortize over an extended period and the external debt portfolio consisting primarily of multilateral loans along with a sovereign bond which amortizes over five years. This risk is expected to remain largely unchanged over the medium term. Debt service costs increased due to the higher global interest rates on the variable external multilateral debt and scheduled payments on the restructured debt obligations. However, over the medium-term global interest rates are expected to decline.

Foreign debt accounts for approximately 37.9 percent of the overall portfolio, however as the majority of this is in USD, the foreign exchange rate risk is largely mitigated due to the fixed Barbadian dollar: United States dollar peg.

The stock of debt remains a source of vulnerability however targeted primary balances and systematic reforms have been identified and are being implemented in accordance with the BERT 2022, to attain the debt sustainability target of 60 percent of GDP by 2035-2036. The below Table 4, highlights the cost and risk of the Government's public debt portfolio as at March 2024.

Table 4: Debt Portfolio Risk Indicators

Risk Indicators		Mar-24
Amount in Millions		14903.6
Nominal debt as percent of GDP		114.3
Interest payment as percent of GDP		5.8
Implied interest rate (percent)		5.1
Refinancing risk	Debt maturing in 1yr (percent of total)	6.5
	Debt maturing in 1yr (% of GDP)	7.4
	ATM External Portfolio (years)	6.9
	ATM Domestic Portfolio (years)	11.1
	ATM Total Portfolio (years)	9.5
Interest rate risk	ATR (years)	6.9
	Debt refixing in 1yr (percent of total)	34.6
	Fixed rate debt incl T-bills (percent of total)	74.0
	T-bills (percent of total)	4.5
FX risk	FX debt as % of total	37.9
	ST FX debt as % of reserves	7.5

Source: Ministry of Finance

Medium-Term Debt Strategy 2024-2027

The macroeconomic framework continues to be underpinned the Barbados Economic Recovery and Transformation Plan 2022 and is anchored by a debt to GDP target of 60 percent 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 Medium-Term Debt Strategy is to determine the most appropriate borrowing strategy for the Government within the context of a cost/risk trade-off, considering the financing constraints. Cognizant of this, the funding strategy for 2024-2025 to 2026-2027 aims to capitalize on greater liquidity in the domestic securities market, as the Government continues to make scheduled repayments on the restructured bonds. It also aligns with the Government's strategy of restoring regular issuance in the domestic securities market.

Over the medium term, increased domestic securities issuance will be buttressed by utilising innovative financing mechanisms such as debt for climate and other swaps which will assist with building out Barbados' critical infrastructure while mitigating the impact on debt sustainability. Building on the success of the reverse auction executed in March 2024, the Government will seek to utilise these, where appropriate.

The non-competitive window introduced in January 2024 for individual investors in Treasury Bills will continue as the Government seeks simplify the investment mechanisms for individuals and broaden its investor base.

The focus of the public debt strategy during the period will be to maintain the current average maturity of the debt portfolio of approximately 9.5 years through medium to long-term domestic debt issuance. This policy will build on the ongoing economic consolidation, successful restart of the Treasury Bills market, liquidity to be provided through scheduled amortizations and debt swaps and improving confidence in the Government's credit profile.

Barbados continues to proactively adopt strategies for building climate resilience into its debt portfolio. In this regard, it extended instruments to be covered by natural disaster and pandemic clauses to include guarantees, external borrowings contracted under specified Acts, as well as domestic securities, excluding T-Bills and Savings Bonds. Future borrowings will therefore include provisions for the deferment of principal and interest, subject to certain conditions, in the event of the occurrence of a natural disaster or pandemic event. These natural disaster clauses complement the CCF with the IADB, which continues to provide quick access to financing in the event of a natural disaster emergency.

The Fiscal Risk Report

Barbados faces considerable fiscal risks. These include international risks, Climate risks, macroeconomic risks, cyber risks and social risks. The above risks are explained below.

International Risks

The unpredictable nature of international investments, business operations, and cross-border relations can lead to unexpected, external shocks. The external factors driving inflation and economic slowdown are tied to geopolitical tensions, including the ongoing conflict in Ukraine, which has triggered disruptions in the supply chain. These disturbances persistently affect food and energy prices, especially given that the island heavily relies on imports.

Climate Risks

Barbados' susceptibility to natural disasters and the impacts of climate change have been exacerbated by a rise in extreme weather events. This includes more potent hurricanes, accompanied by heavy rainfalls and windfalls, and an increasing frequency of storm surges, such as those seen with Hurricane Beryl. Forming as a Category 4 Hurricane in July 2024, Hurricane Beryl had a detrimental impact on various sectors in Barbados. The fishing industry, coastal areas (indirectly affecting the tourism sector), housing sector, and agriculture sector (including both crops and livestock) all suffered, as did the island's road infrastructure. Torrential rainfalls leading to widespread flooding pose a significant challenge for Barbados, coupled with extreme heat with temperatures surpassing 95 degrees Fahrenheit.

Cyber Risks

Cyber-attacks can target financial institutions and its consequences extend beyond comprising sensitive data and data loss to include disruptions to operations, financial losses, and undermining the overall trust in financial systems. Some reports indicate that since the onset of the global pandemic cyber-attacks have more than doubled and estimated losses from cyber-attacks can be as high as US$2.5 billion. Understanding and managing cyber risk are crucial for Barbados to protect its assets, reputation, and long-term viability.

Social Risks

Social factors associated with spikes in crime, shifts in population trends, and health-related issues such as non-communicable diseases (NCDs) can adversely affect public finances. For instance, the evolving demographics of Barbados pose significant risks due to its low fertility rates, which are below the replacement rate of 2:1 children per woman. This is coupled with an increase in the elderly population and a decrease in the working-age population (WAP). These demographic shifts have implications for maintaining a productive workforce and ensuring continued economic growth. They also influence the dependency ratio, which is the ratio of non-working-age individuals (children and the elderly) to the working-age population. A higher dependency ratio can put pressure on social services and pension systems.

Mitigation Strategies

The government of Barbados (GoB) have initiated measures to identify and quantify these potential risk exposures aiming to enhance future preparedness. Recognizing that understanding and assessing fiscal risk is crucial for effective governance, the GoB, in accordance with the Public Financial Management (PFM) Act of 2019, has proactively taken steps to gain a comprehensive understanding of these risks. The government's efforts include:

1. **The formation of a fiscal technical working group (FTWG), responsible for macroeconomic coordination**. The group comprises of key decision-makers from the Ministry of Finance, Economic Affairs and Investment (MFEI) (Finance), the Central Bank of Barbados (CBB) and the Barbados Revenue Authority (BRA). The FTWG utilises the CBB's macroeconomic model to forecast the fiscal aggregates required in the budget formulation. While various macroeconomic assumptions and scenarios are employed, risks are not systemically quantified or evaluated.

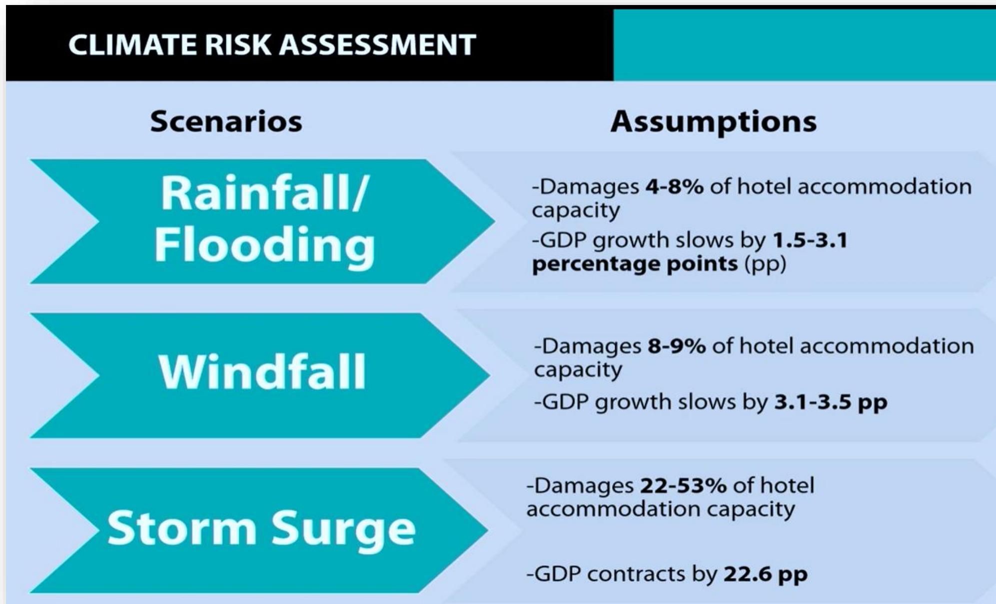
2. **The establishment of the Fiscal Risk Unit (FRU) within the MFEI (finance) to bolster the risk management capacity.** The Cabinet of Barbados approved the creation of the FRU in the MFEI, effective from September 1, 2023, during a meeting held on August 17, 2023 (Note (23) 737/MFEI (F) 54). The FRU serves as an oversight body, identifying and quantifying potential risks, developing risk mitigation strategies in key areas of fiscal risk management, and ensuring compliance with international best practices. Additionally, the FRU contributes to the annual budget formulation and planning process, which includes an assessment of climate change risks and the preparation of the budget statement.

3. **The performance of the 55 State-Owned Enterprises (SOEs) in Barbados, is actively monitored with a particular focus on those most vulnerable based on the size of fiscal transfers and other indicators.** SOEs are rigorously evaluated against benchmarks to ensure immediate actions if deviations arise. These benchmarks include reporting requirements consisting of key financial ratios, prepared and submitted to the Cabinet on a quarterly and end-of-year basis. Several SOEs are currently undergoing significant reforms to enhance efficiency, eliminate service redundancies through mergers and divestitures, and reduce their dependence on government support.

4. **The creation of a fiscal register, a repository for recording potential risks, along with additional information such as the nature of the risk, the severity of impact, the likelihood of its materialization, and risk mitigation strategies.** The fiscal risk register assists policy makers in identifying, analysing and managing fiscal risks, thereby ensuring sound public finances and fiscal transparency.

5. **The Central Bank of Barbados 2023/24 Financial Stability Report focused on climate risk by designing relevant physical climate scenarios and estimating economic potential damage.** The physical climate risk scenarios were based on three events: Rainfall/Flooding, Windfall, and Storm surge. Each scenario was analysed by reducing the hotel stock, thereby utilise a ratio of capital stock to tourist arrival to estimate the impact on GDP growth. The storm surge scenario was the most severe given that it resulted in damages of approximately 22-53 percent of the capital stock as indicated in Figure 8.

Figure 6: Climate Risk Assessment

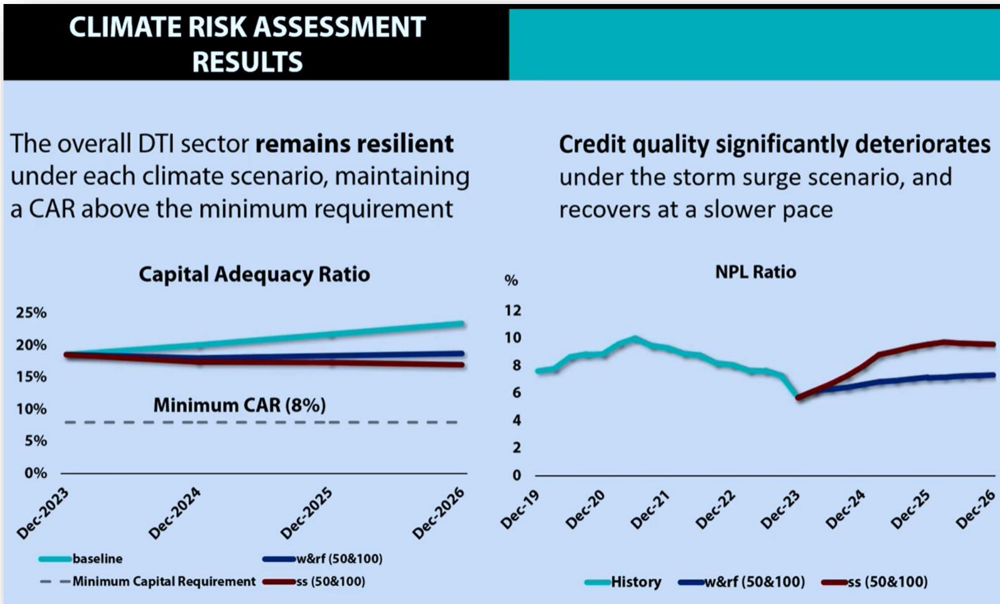


Source: 2023/24 Financial Stability Report (Central Bank of Barbados/Coastal Zone Management Unit)

In Figure 9, the climate risk assessment highlighted two key areas. The Deposit-Taking Institutions (DTIs) demonstrated resilience under each climate scenario, maintaining a Capital Adequacy Ratio (CAR) above the minimum requirement of 8 percent, despite a decline to 17 percent in the CAR under the storm surge scenario.

These scenarios underscore the severity of financial risk associated with severe weather events and highlight the importance of effective risk management strategies in the banking sector.

Figure 7: Climate Risk Assessment Results



Source: 2023/24 Financial Stability Report (CBB)

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6. **The Central Bank of Barbados 2023/24 Financial Stability Report also highlights the strengthening of its cyber risk supervisory framework.** In this regard, the CBB has issued a technology and cyber risk management guideline, a cyber incident reporting template and a classification matrix to the financial industry to more effectively monitor cyber-attacks in the financial industry. The local institutions continued to enhance their cyber security framework by hiring skilled workers, educating the employees and implementing technologies to limit damage from any attacks and where necessary contracting employees from external companies. Most institutions have implemented board approved security strategies and incorporated recovery activities into their cyber risk framework.

7. **The GoB is currently developing a registry of natural disasters and their impact on fiscal policy operations.** The purpose is to manage the fiscal cost associated with natural disaster risks. The registry of natural disasters can play a crucial role in managing the fiscal costs of natural disasters, planning for future risks, and ensuring efficient and transparent use of fiscal buffers once a natural disaster has struck.

Natural disasters[10] 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 hurricane Elsa, caused significant destruction and damage, with the latter two further curtailing economic recovery during the height of the pandemic. The total fiscal costs for these disasters, which were primarily for rebuilding and repairs, were estimated at total cost of $138.1 million.

The increasing frequency and severity of natural hazards and extreme weather events have raised the economic costs associated with these events. Therefore, such a registry can help build climate resilience and meet future disaster-related relief [11] in:

i. **Building Fiscal Resilience**: It can help government withstand shocks, adapt and recover quickly and effectively from natural hazards and strengthen fiscal management after a disaster.

ii. **Fiscal Risk Management**: It directly relates to fiscal policy, fiscal risk management, and the budget process.

iii. **Financing Recovery Efforts**: The registry can focus on fiscal strategies for financing recovery efforts and consider approaches to mitigate disaster impact.

iv. **Risk Analysis**: It provides guidance on how to conduct regular risk analyses of natural disasters' potential fiscal consequences.

v. **Accounting for Contingent Liabilities**: It outlines best practices for defining and accounting for the contingent liabilities associated with natural disasters in budgeting frameworks.

vi. **Risk Reduction and Transfer**: It touches on approaches for risk reduction, disaster risk financing strategies, and risk transfer mechanisms.

The Government of Barbados is proactively addressing fiscal risk management in compliance with international best practices. By adopting a forward-looking approach, they aim to enhance fiscal stability and ensure effective policy implementations. To achieve this, the Fiscal Risk Unit collaborates with all local risk management entities. They proactively assess future scenarios, focusing on what is likely to happen. By

[10] The island has been affected by several natural disasters over the past decades, including Hurricanes: Thomas (2010), Ernesto (2012), Harvey (2017), and Elsa (2021) Beryl (2024); Tropical storms: Matthew (2016), Maria (2017), Kirk (2018), and Gonzalo (2020); and Black Swan event COVID-19 pandemic (2020); Volcanic eruptions: ashfall from the eruption of Mount Soufriere (2021).

[11] 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.

identifying key potential risks and evaluating their severity, policymakers can devise effective mitigation strategies.

ANNEXURES

ANNEX 1: 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 NISSS 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.

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 1st April to 31st 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.

ANNEX 2: Other sources for additional information on key aspects covered by the FF

PFM Act – Public Finance Management Act (2023):
View Bills (barbadosparliament.com)

Barbados Economic Recovery and Transformation (BERT) Plan 2022 (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 programme:
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);

  (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).

PARLIAMENT

RESOLUTION

WHEREAS the Public Finance Management Act requires the Ministry of Finance, Economic Affairs and Investment to prepare a Fiscal Framework 2025-2026 to 2027-2028;

AND WHEREAS the Fiscal Framework 2025-2026 to 2027-2028: review the performance of the previous financial year against the fiscal objectives; present a macro-economic outlook and; sets out the fiscal objectives and policies for the medium term;

AND WHEREAS the Fiscal Framework 2025-2026 to 2027-2028 includes the information and statements set out in the Third Schedule of the Public Finance Management Act;

BE IT RESOLVED that the Barbados Fiscal Framework 2025-2026 to 2027-2028 be debated in Parliament;

AND BE IT FURTHER RESOLVED that any recommendations made in respect of the Fiscal Framework 2025-2026 to 2027-2028 be considered by the Cabinet.

APPROVED by the House of Assembly this day of , Two Thousand and Twenty-four.

Speaker

APPROVED by the Senate this day of , Two Thousand and Twenty-four.

President