THE GOVERNMENT OF BARBADOS

MINISTRY OF FINANCE, ECONOMIC AFFAIRS & INVESTMENT

MID-YEAR REVIEW REPORT

APRIL -SEPTEMBER 2022

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1 Executive Summary

This Report reviews the fiscal performance against cumulative targets set under the fiscal framework in accordance with section 7. (1) of the Public Finance Management Act indicates that "The Ministry responsible for Finance shall include information on progress against the Fiscal Framework in a Mid- Year Review Report as specified in the Fourth Schedule by 15th October each year." and suggests possible adjustments to the end of year forecasts given the current macroeconomic environment.

The economy is on the rebound as the deleterious effects of the COVID-19 pandemic, as well as the impact of Hurricane Elsa and Ashfall related to the La Soufrière volcano wane. Strong economic performance underscored by an improved tourism performance provided the basis for the estimates included in the Fiscal Framework.

Prolonged supply chain disruptions as well as the protracted Russia-Ukraine conflict have resulted in elevated prices, dampening demand and reducing real growth. However, the inflationary impact on output has outpaced this contraction, raising nominal GDP and also increased Government's revenue intake for the first six months.

This performance has allowed Government to pursue a stronger fiscal outturn for the 2022/23 financial year. The primary surplus of 1 percent, reported in this year's Fiscal framework, has been revised up to 2 percent with government's core budget priorities remaining the same for the remainder of this year with emphasis placed on protecting the vulnerable, particularly as the cost of living pressures persist. In this effort, additional measures were announced, subsequent to those included in the March 2022 Budgetary proposals.

The additional relief included the expansion of VAT free items as well as a reduction in the VAT rate for electricity. Merchants were encouraged to cut their mark ups and programs that were earmarked to ease the burden of individuals were announced. This included the Summer Nutrition Program, which provided lunches to school children during the summer vacation. Programs that were initiated during the height of the pandemic, including those facilitated by the Welfare Department, continue to be well funded in an effort to provide support to families that are severely affected be increased prices.

Amendments to the fiscal framework include the uptick in government revenue, as well as the inclusion of government backed programs, necessitated by inflationary pressures that have burdened consumers.

2 Overview of Recent Macroeconomic Developments

2.1 Global and Domestic Economic Developments and Outlook

The Barbados economy is on trend to finish this year around 10 percent higher than 2021, slightly lower than the 11.1 percent assumed at the beginning of the fiscal year. The downward revision of the real GDP forecast was predicated on the dampening effect of rising domestic prices as the expected 12-month moving average rate of inflation for 2022 moves from 6.3 percent to 8.9 percent. The rise in inflation has counteracted the loss in real GDP activity thereby increasing the forecast for nominal GDP by $13 million to $11,437 million. The continued recovery in tourism, a slowing in international prices and large construction projects should result in growth around 5 percent in 2023. The economic potential of the Barbados economy is expected to increase over the medium term as a suite of growth enhancing initiatives are pursued aided by access to the new Resilience and Sustainability Trust (RST) facility.

The Barbados economy continues to show strong signs of recovery having expanded by 10.1 percent for the first nine months of 2022. The resurgence of tourism activity has contributed significantly to this recovery and is evidenced by recovery of the labour market to near pre-pandemic levels. While conditions on the international market remain turbulent, as the result of geopolitical tensions and the commodity and equity market uncertainty, prospects for the upcoming tourist winter season remain strong and is expected to support growth going into 2023.

Though growth has predominantly been driven by the tourism sector, increased domestic demand has also stimulated economic activity in the wholesale and retail and business and other services sectors. Manufacturing has also benefited from heightened domestic activity and increased exports to the region.

The windfall from increased domestic exports of goods and services was offset by the rise in imports which came as a result of heightened economic activity and elevated international price levels. The increase in cost and quantity of imports along with the downward revaluation of the investment portfolio due to rising interest rates have placed additional pressure on international reserves. Access to multilateral funding has aided in the financing of recovery efforts and has ensured international reserve cover remains well over the 12-week benchmark.

The economic recovery is still hinged on the external economic environment and the impact of the supply and price of international commodities. Government's price relief initiatives when coupled with the recent easing in international food and energy prices have translated into a slowing of domestic prices. Once sustained, the reduced-price pressures should aid the economic recovery however, with a deterioration of the Pound Sterling and expected supply challenges for fuel in Europe, developments in the international market remain central areas of concern.

3 Fiscal Outturn and Outlook

3.1 Total Revenue

For the first six months of the financial year, total revenue exceeded FY 2019/20 (pre COVID -19) receipts and was 7.7 percent above targeted estimates. The resumption of pre-pandemic activity and the related improvement in domestic demand underscored the FY 2022/23 Fiscal Framework revenue forecasts. However, prolonged elevated global prices, catalysed by supply chain disruptions stemming from the pandemic, as well as geopolitical tensions, have inadvertently led to an improvement in nominal output, further increasing revenues.

In addition to protracted inflationary pressures, strong tourism demand as well as an extension of the corporate tax take, contributed to the over performance` of tax revenues as at September 2022. Additionally, total flows benefitted from grant funding from the Kingdom of Saudi Arabia to support government's housing program, lending to an upward revision of the full year estimates by approximately $127 million or 4.1 percent.

		Table 1: Revenue Indicators		
	Sep-22	Sep-22	FY 2022/23	FY 2022/23
$BDS M	Actual	Target	FF Target	Mid -Year Revision
Total Revenue of which:	**1562.57**	**1450.25**	**3087.4**	**3214.65**
Income and Profits	476.03	413.92	916.96	962.99
Property Tax	162.15	166.88	239.15	238.62
Goods and Services	656.41	642.1	1418.94	1450.83
International Trade	117.13	117.1	253.31	270.69
Nontax Revenue and Grants	104.38	81.35	186.70	211.04

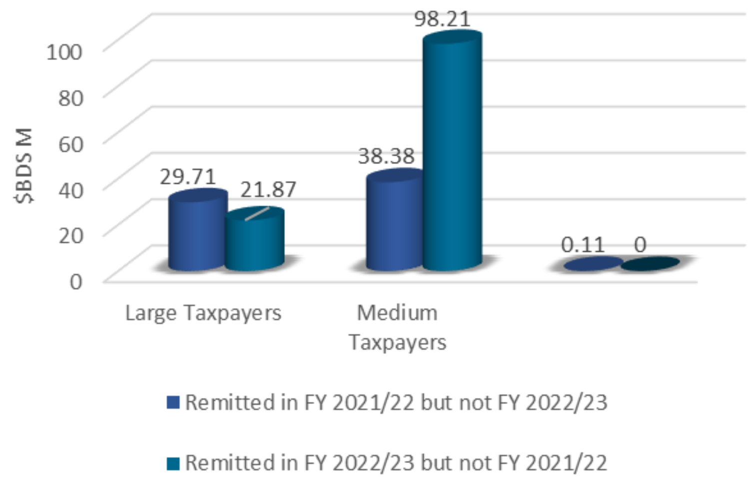
Income and Profits

With the tightening of tax transparency laws and the application of minimum 'substance requirements' in a number of regional jurisdictions as well as domestically, a loss in corporate tax receipts were anticipated for the current financial year. However, the fall in receipts associated with companies that were not expected to meet the criteria, as well as those that signalled an imminent close in operations, were offset by companies that made their first tax payment. This improved corporate tax revenue by an estimated $73 million at the end of September relative to its mid-year target and resulted in an 18.2 percent upward revision of full year receipts.

Receipts from the Pandemic Contribution Levy totalled $31.4 million with earnings from individuals of $5.8 million and and earning from companies of some $25.6 million.

Notedly, the smaller than anticipated outturn in Gross Personal Tax receipts, was largely due to the timing of the collection of taxes owed to BRA from the University of the West Indies during the first half of the year, however this is expected to be corrected by year end.

Figure 1: Corporation Tax variance in Remittances

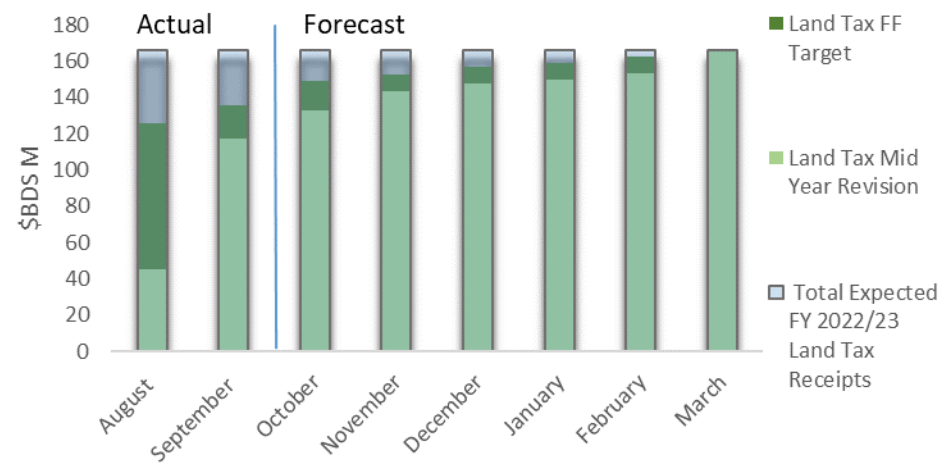


Source: Barbados Revenue Authority, Ministry of Finance

Property Tax

Net receipts for property tax were $4.7 million below anticipated flows. The delayed issuance of the land tax bills, which resulted in lower tax take than expected at the end of August, was corrected by end September as persons took advantage of the discount window. Property transfers receipts performed better than forecasted, offsetting the declines for the period. Given that the disparity in receipts stem from administrative timing, the end of year position remains largely unchanged.

Figure 2: Land Tax Receipts FF vs Mid-Year Revised



Sources: Barbados Revenue Authority, Ministry of Finance

Goods and Services, International Taxes

Transaction type taxes have significantly benefitted from rising output costs. As at September 2022, gross VAT receipts totalled $503 million, 6.8 percent higher than initial projections. In addition, stronger than anticipated tourist arrivals, further buoyed revenues. Net VAT receipts were $53.0 million more than initially targeted for the first half of the year, as refund amounts transferred to Treasury were slower than first anticipated.

Similar improvements were noted for Import Duties at the end of September, however, the slow remittance of outstanding taxes from the Barbados National Oil Company Limited (BNOCL), over the period, depressed some of the gains. The end of year forecast anticipates the full settlement of Import Duties owed by the company and reflects the impact of rising prices on output.

Outstanding revenues from the BNOCL have also impacted the Excise and Fuel tax performance at the end of September which were $22.0 and $18.5 million below initial estimates. The repayment plan for those outstanding taxes extends past the fiscal year, causing a downward revision of those estimates for FY 2022/23.

Table 2: Goods and Services

$BDS M	Sep-22	Sep-22	FY 2022/23	FY 2022/23
Goods and Services	**Actual**	**Target**	**FF Target**	**Mid-Year Revision**
VAT	482.69	429.63	957.41	1,000.51
Excise	79.83	101.82	244.12	240.26
Other Goods & Services	39.06	35.55	65.29	61.79
Bank Assets	27.12	27.06	52.26	52.77
Fuel Tax	20.63	39.10	81.73	79.08
Highway Revenue	7.09	8.90	18.14	16.42

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

Non -Tax Revenue and Grants

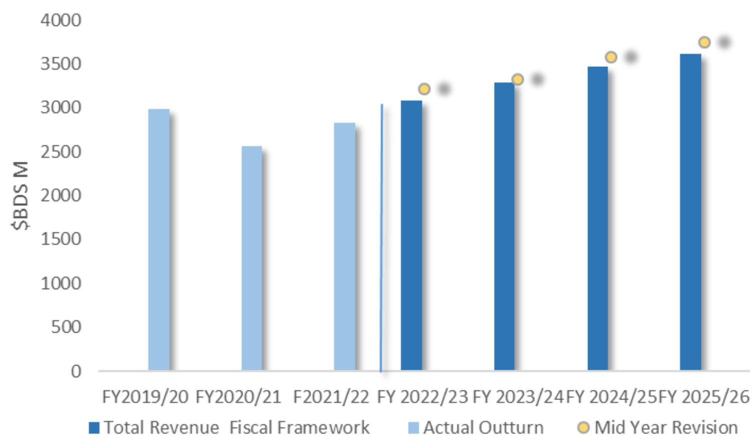
The Saudi-Arabian government gifted the Barbados government with a $20 million grant to aid in the financing of a number of housing development projects currently being undertaken this financial year. These unexpected receipts have led to an upward revision of the non-tax revenue and grant category.

Medium Term Outlook

The dampening effect of the global rise in prices is expected to wane into the medium term. The downward revision in real output extends for the next two years, however, the growth in prices, negates much of the impact, lending to improved tax receipts. For 2024 and 2025, the full return of post pandemic tourism arrivals, will bolster demand, driving anticipated growth in taxes. The inclusion of additional items in the VAT free basket of goods, announced subsequent to the Budget, offsets, albeit to a marginal degree some of the revenue gains into the medium term.

Concurrently, Non-Tax receipts has been revised down for the forward estimates, as the slower than anticipated return to post pandemic tourist arrivals have reduced expectations for investment income for a number of government agencies.

Figure 3: Total Revenue FF vs Mid -Year Revision



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

3.2 Total Expenditure

Total Expenditure stood at $1,473.8 million at the end of September 2022. This was $37.8 million above FY 2021/22's outturn during the comparable period and was 9.7 percent below expenditure targets for the first half of the financial year. The smaller than anticipated expenditure outturn has been attributed to the slow rollout of the capital works program, a lower wage bill, as posts are waiting to be filled and reduced transfers to state owned enterprises. Given that a large part of the variance can be linked to administrative delays, there has been a small upward revision to the end of year forecast, ($11.2million).

Table 3: Expenditure Indicators

	Sep-22 Actual	Sep-22 Target	FY 2022/23 FF Target	FY 2022/23 Mid-Year Revision
Total Expenditure o/w:	**1473.83**	**1617.47**	**3467.04**	**3478.26**
Wages and Salaries	412.33	436.02	852.95	852.95
Goods and Services	240.42	216.97	537.69	540.19
Interest	247.20	241.37	501.07	501.04
Current Transfers	507.57	495.75	1062.37	1062.43
Capital Expenditure	59.63	229.41	511.90	520.59

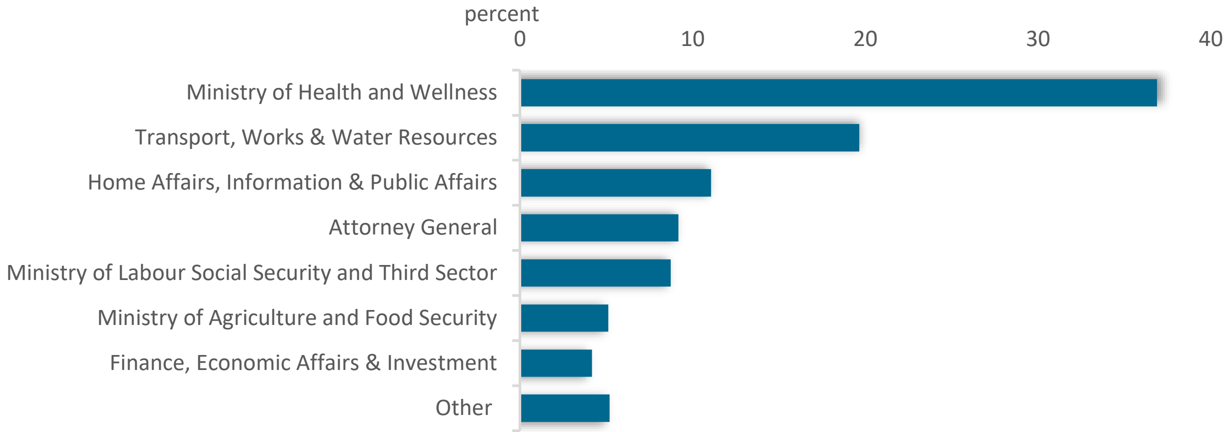
Sources: Treasury Department, Ministry of Finance

Wages and Salaries

Wages and Salaries (inclusive of NIS contributions), totalled $412.3 million at the end of September 2022, $23.7 million below mid- year targets. Smaller than anticipated statutory emoluments ($17.8 million below initial estimates for the first half of the fiscal year) explained the significant variance. The lower outlays relate to the delays in staffing for a number of departments. In addition, while employment for a number of projects under the Ministry of Transport Works and Water Resources, were initially allocated under statutory emoluments, they are currently being financed through Goods and Services.

While this category is expected to be below estimates denoted in the Fiscal Framework, possible downside risks, including the possibility of increased staff advances has stayed any downward revision to the overall category.

Figure 4: Statutory Emoluments percent of Total Variance



Source: Treasury Department, Ministry of Finance

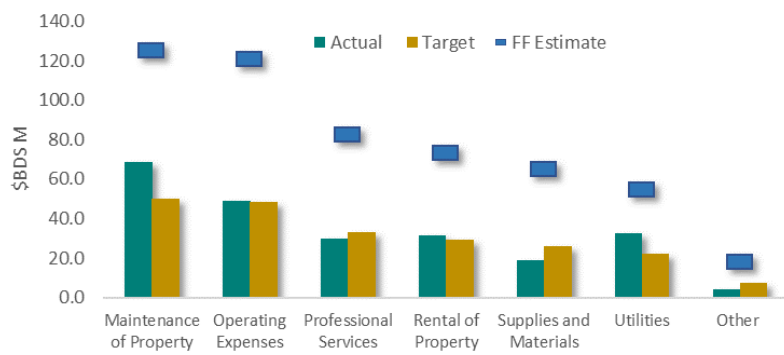
Goods and Services

Total Goods and Services outlays totalled $240.4 million at the end of September 2022. This was approximately $ 23.4 million above the indicative target for the end of the second quarter. A large portion of this variance was due to the settlement of invoices that related to FY 2021/22's budget. These included employee contributions outstanding to the NIS for a number of temporary workers, payments to suppliers that provided medical supplies to the Ministry of Health and Wellness, as well as those that extended their services for the Ashfall clean-up initiative. In addition, previously disputed payments to a utility company were resolved and outstanding payments cleared.

While these unexpected outlays have raised expenditure on goods and services above initial targets, ministries have been encouraged to use their budget allocation efficiently to mitigate large revisions to the budget.

There has been however, a marginal increase in the end of year forecast relative to the Fiscal Framework to accommodate government's initiative in alleviating the burden of increased prices on the vulnerable through the Summer Nutrition Programme. Financing of the project was used from the Ministry of Education, Technological and Vocational Training's current allocation, with plans to reimburse that ministry through supplemental funding.

Figure 5: Goods and Services Actual vs Target



Source: Treasury, Ministry of Finance

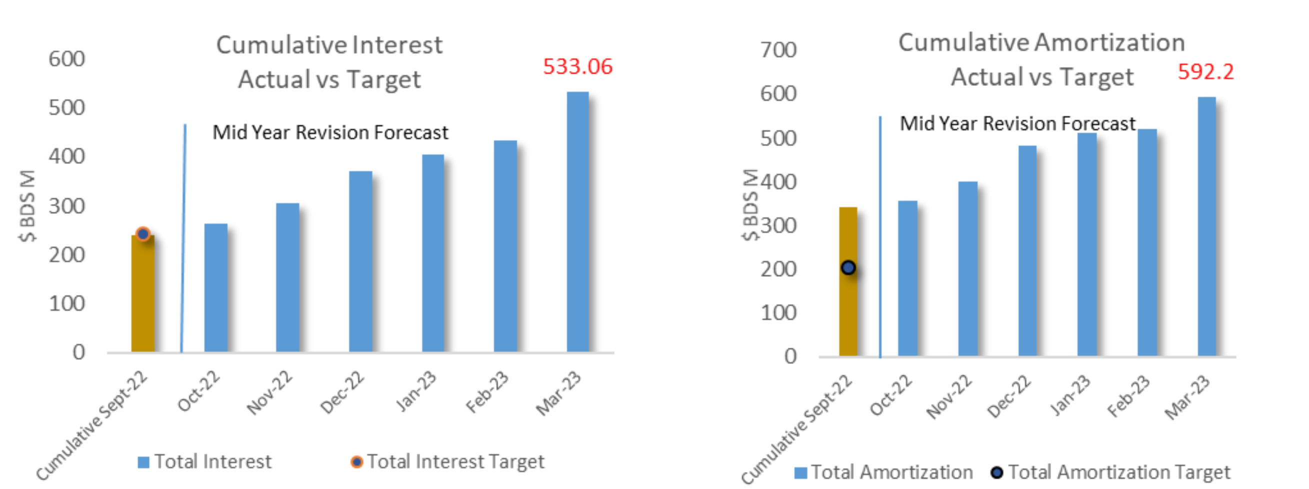
Debt Service

At September 30, 2022, total debt service including Sinking Fund contributions, (actual expenditure under Program 111 - Debt Management) amounted to approximately $587.2 million compared to the Approved Estimates of $458.3 million for the period April to September 2022. The actual outturn included interest payments of $239.2 million, debt service costs of $3.3 million and principal repayments of $ 342.8 million. The higher than anticipated debt service was due primarily to the prepayment of Series E Bonds of approximately $145.8 million as well as redemptions of Savings Bonds of approximately $3.1 million. This was counterbalanced by a timing difference in respect of external Sinking Funds Contributions of $13.3 million and slower than anticipated disbursements resulting in savings of amortisation and related costs of approximately $5.1 million.

Approximately $567.5 million will be required to service existing debt obligations for the period October 2022 to March 2023; $293.8 million for interest expense, $8.5 million for debt service costs, $249.3 million for amortization and $15.8 million for Sinking Fund contributions. This is approximately $44.2 million more than what is budgeted for the period. This is primarily from interest cost of approximately $27.4 million due to higher rates, interest expense and fees of approximately $9.3 million for the two new loans, which financed the Debt Conversion, in addition to approximately $7.4 million for the settlement of claims by way of Series J Bonds and new domestic bond issuances.

Total revised debt expenditure for 2022-2023 is estimated at $1,154.6 million, this is approximately $173.1 million more than what was approved. The projected increase in expenditure is primarily attributed to higher interest costs and the prepayment of Series E Bonds.

Figure 6: Cumulative Debt Service Actual vs Target



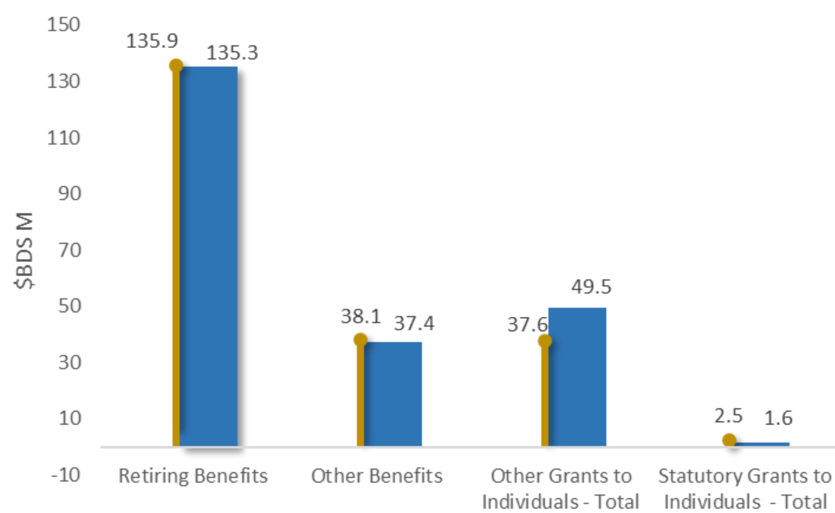
Current Transfers

<u>Grants to Individuals</u>

Transfers to individuals for the first half of the financial year totalled $223.8 million, $4.7 million above estimates that underpinned the Fiscal Framework. Other grants to individuals represented the largest variance owing to larger than expected transfer of funding for the

Programme Management COVID- 19 (Household Mitigation programme). Accelerated spending on Welfare grants inclusive of subventions to the Household Mitigation program for the first half of the year has been partially offset by reductions in grants to fisheries, the Tenantries Relocation and Redevelopment program and other smaller grant recipients.

Figure 7: Grants to Individuals Target vs Actual



Source: Treasury Department, Ministry of Finance

Grants to Public Institutions

Transfers to public institutions were $3.5 million below initial targets for the end September period. A number of enterprises were advanced funding in March 2022, reducing the demand for financing in the first half of the year. However, given that many of these entities have expressed difficulties in meeting cash obligations, particularly as the cost of goods and services have increased, the end of year forecast has not been revised down.

Subsidies

Subsidies granted by the Government, totalled $13.9 million for the first half of FY 2022/23, with the Transport Board being the largest recipient. Continued operating losses and mounting liabilities have required the entity to front load a large part of their overall subvention to cover costs. Total subsidies are currently 33 percent above first quarter targets. Alternative financing, in the form of bond issuances to outstanding creditors (namely the NIS) is expected to alleviate financing constraints of the entity. Given the alternative financing, there has been no increase in the end of year subvention for this category.

Capital Expenditure

The Capital Works program for FY 2022/23 has had a slow rollout due to mounting procurements costs, consistent with global inflationary pressures, lending to delays for a number of projects. Financing pressures have also contributed to the slow execution of the capital program as government has had to respond to ease the cost of living pressures caused by the war in Ukraine. Capital Outlays totalled $59.6 million for the year, compared to its $229.4 million target.

Table 4: Revenue Measures and Impact

Revenue Measure (Budgetary Statement)	Impact /$
VAT payable on gasoline will be capped at 47 cents per litre for six months.	-8.40
VAT payable on diesel will be capped at 37 cents per litre for six months	-4.20
VAT on selected personal and critical care items will be zero-rated	-5.80
A waiver of import duty and VAT for two years on the purchase and installation of generators at residential homes irrespective of the fuel type	-1.95
Freight costs will be capped at 2019 levels of US$7,350 per 20-foot container and US$8,000 per 40-foot container for the calc of customs duties	-18.52
Raise the excise tax on sweetened beverages from the 10% introduced in 2017 to 20%	4.49
A Pandemic Contribution Levy of 1% will be paid by individuals	14.23
A one-off Pandemic Contribution tax of 15% is due on the taxable income for 2020 and 2021 for companies	88.07
Further Revenue Measures	
Raise the excise tax on sweetened beverages from the 10% introduced in 2017 to 20% (External)	2.66
Government will reduce the VAT rate on the first 250 kWh from 17.5% to 7.5%. Any kWh usage above 250 kWh will attract the VAT rate of 17.5%.	-9.17
Expansion in the basket of essential food items (zero-rated)	-5.00
Total Impact	56.42

Supplementaries and Virements

Supplemental expenditure as approved by Parliament at September 30th, 2022 was $7.2 million and represents an increase of 0.2 percent over the budgetary estimates 2022/2023. This additional expenditure was provided under Head 15: Cabinet Office, to cover the cost of the provision of financial contributions to 12,063 recipients of the Humanitarian Awards and to cover the cost of acquisition of medals and lapel pins as well as the hosting of the Humanitarian Awards Ceremonies 2022.

Virement as at the end of September totalled $3.2 million spread across a number of ministries. Chief among the request was $550,000 by the Ministry of Finance, Economic Affairs and Investment to accommodate the unexpected costs of travel to attend official meetings in Washington D.C. in May 2022 as well as hosting the IMF Managing Director as well as the co-hosting of the Caribbean Financial Access Roundtable in collaboration with the US House Committee on Financial Services which addressed issues related to correspondent banking in the Caribbean region. Virements were also done to provision for any supplemental funding necessary for additional meetings in the latter half of the year. A Virement of $460,000 was utilized by the Ministry of Education, Technical and Vocational Training to settle outstanding payments of subcontractors in order to recommence works on the School Meals Centre in Six Roads, St Philip.

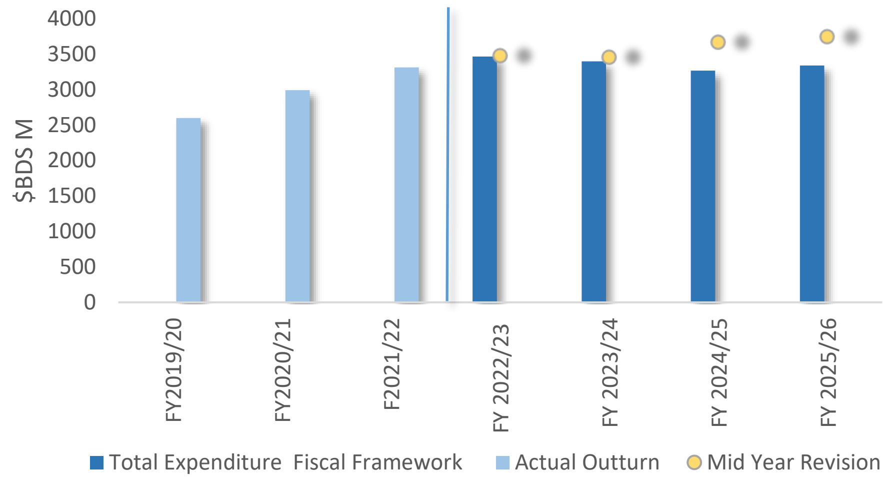
Medium Term Outlook

Expenditure has been revised up in the medium term, in particular, FY 2024/25 and FY 2025/26 as government refocuses the consolidation to a more gradual approach. The reprioritisation of the protection of the vulnerable particularly in a post pandemic era explains the majority of the variance.

Grants to individuals, which averaged at 3.5 percent in the medium term, under the Fiscal Framework, now averages 4 percent as programs geared toward the vulnerable extend past the post COVID-19 era.

Grants to Public Institutions which ends FY 2026/27 at 2.9 percent, down from 7.3 percent in FY 2020/21 (the peak of COVID-19), has been revised up to 4.2 percent on average. While reform and efficiency gains remain of paramount import for state owned entities, space to ensure quality services are maintained for those fit for purpose enterprises has been seen as priority into the medium term.

Figure 8: Total Expenditure FF vs Mid -Year Revision



Source: Treasury Department, Ministry of Finance

3.3 Revised Expected Fiscal and Primary Balance

The upward revision of both revenue and expenditure culminates in a deficit of $264 million or negative 2.2 percent of GDP, and a $236 million primary surplus which translates to 2 percent of GDP. This is a tightening of the fiscal position for FY2022/23 as the Fiscal Framework projected a 1 percent primary surplus for this financial year.

While a stronger than anticipated fiscal effort is being targeted for FY2022/23, there has been an adjustment made to the overall and primary balance path over the medium term. Where a 6 percent surplus was targeted for FY2024/25 and FY2025/26 under the Fiscal Framework, a surplus of 4 percent of GDP has been tied to FY2024/25, while FY2025/26 has an indicative target of 4.6 percent of GDP.

The revised targets remain consistent with the 60 percent debt target for FY2035/36.

4 Net Debt

4.1 Developments during April to September 2022

New Debt

In September, Barbados and the International Monetary Fund (IMF) reached staff level agreements for a new Extended Fund Facility (EFF) as well as access to funding from the newly established Resilience and Sustainability Trust (RST) to shore up the island's resistance to climatic events and its efforts to reduce public debt.

Debt Conversion

The Government of Barbados (GOB) closed a landmark debt conversion that will fund a domestic conservation fund and an endowment trust supporting durable large-scale conservation of the country's fragile marine environment and promotion of the sustainable blue economy for generations. The Barbados debt conversion is the first of its kind to make use of an innovative and efficient structure that maximises the savings generated for marine conservation purposes.

As part of the transaction, GOB repurchased a portion of its 6.5 percent Notes due in 2029 with proceeds of a loan arranged by Credit Suisse International. In parallel, the Government prepaid approximately BDS $145.9 million of its Series E bonds due in 2043, with proceeds of a loan from FirstCaribbean International Bank (B'dos) Limited. This operation benefits from guarantees of up to US$150 million from the Inter-American Development Bank ("IDB") and The Nature Conservancy ("TNC").

Interest Rates

The transition from the use of LIBOR to the Secured Overnight Financing Rate (SORF) as a benchmark interest rate for USD transitions commenced. Thus far, this is reflected in the GOB's loan portfolios with the IADB and World Bank.

Globally, interest rates have increased and this has seen an average increase in excess of 150 basis point for the GOB's external variable rate loans.

Public Debt

Public debt outstanding at September 30, 2022 stood at approximately $13,805.0 million, approximately 126.4 percent of GDP[1]. This is comprised of external debt of $4,689.1 million, domestic debt of $8,837.6 million, external guaranteed debt of $41.0 million and central government arrears of $237.3 million[2].

Figure 9 Public Debt FF vs Mid-Year Revision

Source: Debt Unit, Central Bank of Barbados

[1] Estimated at $10,918.5M

[2] August figure kept constant

5 Financing issues:

5.1 Cash Flow

During the first six months of FY 2022/23 the Government of Barbados was able to meet all obligations due to the availability of various financing options. While the Government realized an overall surplus of $114 million in the first half of the fiscal year the cost of debt service ($583.1 million) and arrears repayments ($20.9 million) resulted in the utilisation of funding acquired from the IMF under the Extended Arrangement ($46 million) as well as proceeds from the issuance of treasury notes and BOSS bonds ($134 million) to meet the financing gap.

Over the second half of the fiscal year, revenues totalling $1.7 billion are expected to be collected, while $2 billion is forecasted to be spent, resulting in an overall deficit of $379 million during the last six months of the fiscal year. Given this forecasted performance, coupled with over $500 million in debt service to be paid over the remainder of FY 2022/23, significant financing is needed to meet the gap and is expected to be met by domestic and external funding.

- On the domestic side, GOB launched BOSS Plus as an extension to the previously issued BOSS programme. BOSS Plus offers approximately $200.0 million in securities for investment by the public.

- The Pandemic Bond, which was issued in two tranches as support for Government

- Finally, with the maturity of Series F bonds in September 2022, the GOB began the issuance of Series J Bonds to facilitate the settlement of arrears in accordance with the Debt Settlement (Arrears) Act 2021, totalling $8.5 million

- Externally sourced financing comprises of inflows related to project funds anticipated for the latter half of FY2022/23 and includes $36 million from CAF and $30 million from EIB. Expected receipts from policy loans currently total $436 million of which, $38 million relates to EFF disbursements, $200 million is anticipated from IADB and the remaining $200 million is expected to be disbursed by the World Bank.

Downside Risks to Financing

A total of $3.2 billion in total revenue is predicted to be collected during FY2022/23. This amount includes outstanding arrears ($63 million) for various taxes accumulated by the Barbados National Oil Company (BNOC). The revenue forecast assumes $50 million of the amount due will be paid between October and March of FY2022/23. In the event the BNOC is unable to fulfil these payments, the revenue outturn would be negatively impacted. Significant transfers to the BRA for the settlement of arrears also have the potential to reduce revenue. The forecast for the latter half of the fiscal year currently estimates $163 million. Any additional amounts required to cover refunds would cause a further decline in revenue.

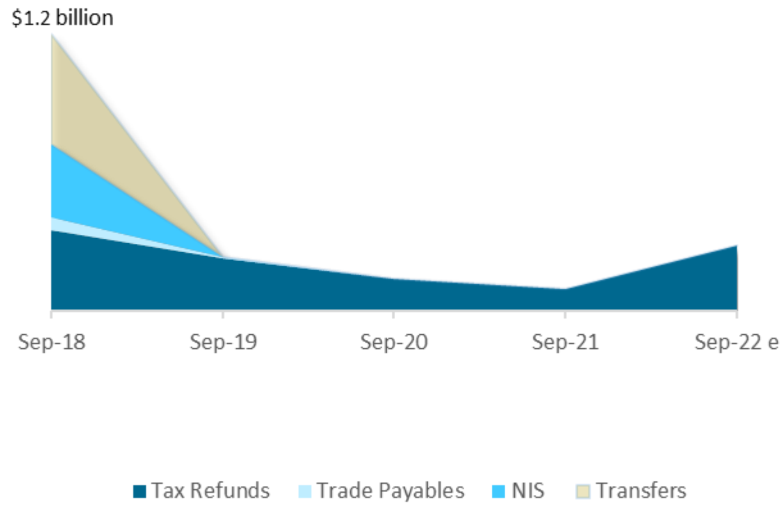
5.2 Central Government Arrears

Central Government Arrears has moved from $22.58 million at the end of March 2022 to $237.35 at the end of August 2022, representing a 222 million increase. This follows from the inclusion of legacy tax arrears (arrears that predated the new TAMIS platform).

The Barbados Revenue Authority was mandated to verify these outstanding amounts before its inclusion as official liabilities. The exercise was completed at the end of the last financial year, and the outstanding amounts were added to the arrears stock at end April 2022.

There are also arrears that remain payable to government from taxpayers that amount to approximately 10 percent of GDP. The verification process of these outstanding amounts is currently being undertaken, and subsequent netting of payable against receivables are in works.

Figure 10: Central Government Arrears



Sources: Barbados Revenue Authority, Treasury, Management Accounting Unit

5.3 State Owned Entities Arrears

Total arrears were $109.2 million at the end of August, of which $101.9 million (93%) is accounted for by seven entities. This represents an increase of $90.3 million during the period compared to arrears of $18.9 million at March 31, 2022.

Arrears of excise tax, VAT and fuel tax due by the Barbados National Oil Company increased by $46.6 million, as the company's margins and cash flow were squeezed by the escalating price of imported fuel. In addition, arrears included liabilities of $22.8 million due by Barbados Agricultural Management Company (BAMC), Transport Board (TB) and Caribbean Broadcasting Corporation (CBC) to the National Insurance Scheme for severance and contributions. It is expected that these arrears to the National Insurance Scheme will be settled under the Debt Settlement (Arrears) Act by the issuance of Series J bonds.

Other entities with large arrears of trade payables include Barbados Water Authority whose collection of receivables has deteriorated significantly, and the Queen Elizabeth Hospital which continues to experience elevated spending, in both cases as a result of the impact of Covid. BAMC, TB and CBC have also accumulated trade payable arrears as a result of the relatively low economic activity, among other factors.

Table 5: Summary of Arrears

	Mar-22	Aug-22	Change $
All SOEs			
Trade payables	18.14	35.22	17.07
NIS	0.00	23.16	23.16
BRA/CED	0.78	50.82	50.04
Total Arrears	**18.93**	**109.20**	90.27

6 Update of Risks

6.1 General Economic Risk

Increased Global Prices

This potential slow-down in demand due to elevated global prices underpins the downward revision of GDP for 2022. While prices are not rising as rapidly as they were in the earlier part of the year, prices are still trending upward. This has further implications for further dampening demand lending to additional impediments to growth for this year and in the medium term.

While rising prices have so far meant a slight contraction in real output, the hike in nominal values have so far benefitted government tax take. A large fall in output however, can outpace growing prices, lending to a fall in revenues. In addition, the cost of procurement of government goods and services have risen over the fiscal year. Given the strict expenditure targets Government has undertaken for this financial year, programmes are being reviewed to ensure that cost overruns are managed within initial budgets. Notedly, additional price pressures beyond what is currently being managed may lend to reduced fiscal space as government grapples to ensure services are maintained.

The rise in the cost of living has culminated in calls for wage increases to mitigate the strain on consumers. The fallout from possible wage increases will have implications for limited fiscal space for this financial year and may unintentionally exacerbate climbing prices. The government has targeted non -wage measures, aimed to alleviate some of the price pressures felt by the most vulnerable. These include the cap on VAT for fuel and electricity as well as zero -rating additional essential goods. They have also worked in tandem with the private sector reduce their mark-ups on a number of goods. The Government has intensified the push for a zero-carbon economy by introducing a number of incentives to increase the consumption of renewable energy and reduce the overall use of fossil fuel.

6.2 Contingent Liabilities

State Owned Enterprises

- Following from 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.

- As at September 2022, a number of SOE's had total liabilities in excess of total assets and were therefore technically insolvent.

- A number of state-owned entities continue to have challenges managing their arrears, with overall arrears increasing significantly compared to the March 2022 position.

- SOE unfunded pension liabilities totalled $257 million at August 31, 2022 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 ($28 million) which are technically insolvent. BWA's unfunded liability was $117 million at August 31, 2022.

- SOE long term liabilities are predominantly denominated in Barbados dollars and this component is not guaranteed by Central Government. These liabilities totalled $751 million at August 31, 2022 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 SOE's for urgent intervention during the current financial period.

6.3 Financial Support to the National Insurance Scheme (NIS)

The strain placed on the National Insurance Scheme in servicing those individuals that were eligible to claim unemployment support at the height of the pandemic led to an untenable liquidity position for the entity and required government intervention. To ensure that the NIS fund remained adequately resourced $143 million was earmarked to recapitalize the entity. In FY2021/22, the first tranche of $60 million was transferred to the NIS with the remaining $83 million to be settled.

The Government has initiated the issuance of series J bonds to the NIS to settle the outstanding funding. These bonds mature 42 months from the date of issuance will be repaid in 42 equal monthly instalments.

While the settlement of recapitalization lessens the financing requirement of government, the inclusion of new debt has implications for the debt trajectory if adjustments are not made on targeted surpluses into the medium term

7 Appendices

7.1 Detailed Breakdown Revenue

Detailed Breakdown $BDS M	Sep-22 **Actual**	Sep-22 **Target**	FY 2022/23 **Fiscal Framework**	FY 2022/23 **Mid- Year Revision**
Total Revenue	1562.6	1450.2	3087.4	3214.7
Income and Profits	**477.0**	**413.9**	**917.0**	**963.0**
Corporation Tax (Net)	206.0	133.4	354.1	418.6
Income Tax (Net)	216.9	221.0	398.5	396.9
Pandemic Levy (Individuals)	5.8	7.8	15.5	13.8
Pandemic Levy (Corporation)	25.6	39.0	104.1	83.7
Withholding Tax	22.7	12.7	44.7	50.0
Property Tax	**162.1**	**166.9**	**239.1**	**238.6**
Goods and Services	**656.4**	**642.1**	**1418.9**	**1450.8**
Excise Tax	79.8	101.8	244.1	240.3
Fuel Tax	20.6	39.1	81.7	79.1
Highway Revenue	7.1	8.9	18.1	16.4
Asset Tax	25.3	27.1	52.3	52.8
Other Goods and Services	39.1	35.5	65.3	61.8
VAT (Net)	482.7	429.6	957.4	1000.5
International Trade	**117.1**	**117.1**	**253.3**	**270.7**
Stamp Duties	**9.3**	**5.2**	**15.5**	**16.3**
Special Receipts	**36.2**	**23.8**	**56.8**	**64.2**
Non-Tax Revenue, Grants	**104.4**	**81.4**	**186.7**	**211.0**

7.2 Detailed Expenditure

$BDS M	Sep-22 **Actual**	Sep-22 **Target**	FY 2022/23 **Fiscal Framework**	FY 2022/23 **Mid- Year Revision**
Total Expenditure	1473.8	1617.5	3467.0	3478.3
Wages and Salaries	**412.3**	**436.0**	**853.0**	**853.0**
Goods & Services	**240.4**	**217.0**	**537.7**	**540.2**
Interest	**247.2**	**241.4**	**501.1**	**501.0**
Current Transfers	**507.6**	**495.8**	**1062.4**	**1062.4**
Subsidies	13.9	8.8	20.0	20.0
Grants to Individuals	223.8	214.1	469.4	469.4
Other Grants to Individuals	*49.5*	*37.6*	*78.3*	*78.3*
Retiring Benefits	*135.3*	*135.9*	*294.9*	*294.9*
Other Benefits	*37.4*	*38.1*	*91.1*	*91.1*
Statutory Grants to Individuals	*1.6*	*2.5*	*5.1*	*5.1*
Grants to Non-profit Agencies	12.8	10.9	23.1	23.1
Grants to Public Institutions	241.6	245.0	524.9	525.0
Subscriptions and Contributions	15.5	16.9	24.9	24.9
Capital Expenditure[1]	**66.31**	**227.36**	**512.95**	**521.64**

1. includes Net Lending