Barbados Economic Recovery and Transformation Plan Monitoring Committee ("BERT MC")

Public Report #5

Activities

Since its last report, the BERT MC has continued to receive reports from the Government of Barbados (GOB) on its progress for each of the months of October through January 2020 towards the targets agreed in the Memorandum of Economic and Financial Policies ("MEFP") agreed with the IMF within the Extended Arrangement under the Extended Fund Facility for Barbados ("EFF").

This report for the period ended 31st December 2019 coincides with the third set of targets under the EFF on which the BERT MC now comments.

During the period the IMF executive board completed its second review under the EFF agreeing that all performance criteria had been met, all structural benchmarks had been completed, and the Board approved a further US$48.7 million disbursement.

Concurrent with its review the IMF executive board agreed with the GOB's requests for the modification of performance criteria for December 2019 and March 2020, the resetting of four structural benchmarks and the introduction of one new structural benchmark.

1. Quantitative Performance Criteria under the EFF

The quantitative performance criteria required to be met compared with the actual results achieved are outlined below:

Performance Criteria (BDS$ millions)	End December 2019		
	Target	Actual	Met Yes/No
Fiscal targets:			
Floor on the CG Primary Balance	439	511	Yes
Non-accumulation of CG external debt arrears	0	0	Yes
Ceiling on CG Transfers and Grants to Public Institutions	313	274	Yes
Ceiling on Public Debt [1]	12,694	12,448	Yes
Monetary targets:			
Ceiling on Net Domestic Assets of the CBB	2,002	1,762	Yes
Floor on Net International Reserves [1]	977	1,130	Yes

Note 1 – Policy based loans received from the CDB were $150 million versus $0 million projected in the MEFP. As a result, the ceiling on public debt (initially $12,544) and the floor on net international reserves (initially $864) were increased by 100% and 75% of that $150 million excess, as required under the MEFP (Attachment II paragraphs 19 and 12 on pages 96 and 95.)

Floor on Central Government Primary Balance

The primary balance represents total revenues and grants less all expenditure but excluding interest.

While revenue collection fell short of the target under the BERT Plan, expenditure was contained, which allowed the primary balance minimum target of $439 million to be exceeded by a significant margin achieving a $511 million primary balance. The primary balance target for the fiscal year from April 1, 2019 to March 31, 2020 is $630 million, and the generation of a primary balance of $511 million in the first three quarters is a significant step towards realizing the full year goal.

a. Revenue Collection

Total revenue for the nine months ended December 31, 2019 was $2,139 million representing a shortfall of $56 million compared to the plan. However, this still represents an increase $78 million or 3.8% increase on total of $2,061 million collected in the same period in the prior year.

Direct tax revenue was $795 million in line with the target and representing an increase of $41 million over the $754 million in the prior year. There was a shortfall of $41 million versus the target in respect of corporation tax due to reduced profitability of some businesses impacted by the government domestic debt restructuring. This shortfall was largely offset by property tax and income tax collections that exceeded target. The 5.4% increase in direct tax revenue compared to 2018 was driven primarily by $49 million of additional land tax arising from higher rates, together with an additional $21 million of income tax collections also due to increased rates. Declines of $8 million in corporation tax collections and $6 million in banks asset tax partially offset these gains.

At $1,219 million indirect tax revenue was $51 million or 4% below the $1,270 million BERT target, as all areas of indirect taxation reflected shortfalls versus expectations, other than the fuel tax where collections were $2 million more than anticipated. Lower than anticipated VAT receipts, import duties and excise taxes of $32 million combined all likely were impacted by the delays experienced in clearance of imports during the ASYCUDA World system implementation during the quarter. Tourism related taxes and levies were $13 million less than anticipated due to continued challenges with taxpayers complying with these requirements. Indirect tax exceeded the total for the 2018 period by $31 million or 2.6%, as the $49 million loss of revenue from the elimination of NSRL was more than offset by additional VAT, import duties, excise taxes, fuel tax and tourism related taxes and levies.

b. Expenditure Control

Total expenditure was $1,818 million which was $143 million or 7.3% below the target, and $169 million or 8.5% less than the prior year period.

The containment in expenditures compared to the target was spread across several expense categories with interest being $57 million below expectations, $45 million less spent on goods and services, $14 million less on wages and salaries and $13 million less on grants to individuals. These savings were partly offset by transfers to public entities (PEs) and subsidies which were $23 million higher than target. Capital expenditure was lower than previously planned where $87 million was invested compared to $126 million originally planned.

Compared to the prior year there were savings on interest of $126 million, transfers of $80 million, and salaries and wages of $3 million. Only the goods and services category within

current expenditure showed an increase of $22 million while an additional $25 million funded capital expenditure.

It should be noted that the saving on interest expense has no impact on the primary balance.

Non-accumulation of Central Government external debt arrears

Under this performance metric the central government may not incur new arrears in the payment of its external (foreign) debt obligations at any point during the program. It should be noted that the definition of new arrears excludes debt where a debt restructuring is being pursued.

Ceiling on Central Government Transfers and Grants to Public Institutions

This maximum transfer target applies to a list of 33 public institutions listed in the MEFP. Transfers to these public institutions were $274 million versus the $313 million limit.

Ceiling on Public debt

This maximum limit applies to Central Government's domestic and external debt, Central Government's guaranteed debt, and arrears. As of December 2019 the stock of total debt was $12,448 million versus the adjusted cap of $12,694 million under the MEFP.

Ceiling on Net Domestic Assets of the Central Bank of Barbados

Net Domestic Assets of the CBB were $1,762 million versus the ceiling of $2,002 million.

Floor on Net International Reserves

Net International Reserves ('NIR') were $1,130 million versus the $977 million adjusted minimum target. The reserves continue to be positively impacted by the suspension of external debt payments pending resumption of external debt service on the restructured external debt.

2. Indicative Targets under the EFF

The three indicative targets required to be met compared with the actual results achieved are outlined below:

Performance Criteria (BDS$ millions)	End December 2019		
	Target	Actual	Met Yes/No
Fiscal targets:			
Ceiling on CG Domestic Arrears	180	167	Yes
Floor on Social Spending	35	35	Yes
Ceiling on Public Institutions Arrears	120	58	Yes

Ceiling on Central Government Domestic Arrears

Central government domestic arrears include overdue trade payable for goods and services, overdue contributions, rents and loan payments to the NIS and overdue tax refunds. The GOB

has managed to continue to reduce these arrears ahead of the schedule it had established under the BERT program.

Floor on Social Spending

This minimum limit on social spending applies to programmes intended to have a positive impact on education, health, social protection, housing, community services and recreational activities. The measurement of the spending on social programs has been modified under the MEFP to exclude operational expenditure of the administering agencies. Overall spending at $35 million was in line with the minimum limit.

Ceiling on Public Institutions Arrears

Public institution arrears include purchases of goods and services not settled within applicable contractual grace periods or within 60 days after the due date, together with contributions to the NIS overdue more than 60 days and tax obligations not settled within legislated timeframes. The current level of arrears at $58 million is well within the maximum limit.

Structural Benchmarks under the EFF

There are a number of structural benchmarks that are also required to be achieved under the EFF. There were 4 benchmarks where additional time has been granted as follows:

Benchmarks amended	Current status
Government to conduct an actuarial review of the civil service pension system with a view to reform it.	Deadline extended from December 2019 to June 2020.
Customs Department to (i) deploy staff to the exemption monitoring unit and undertake at least eight exemption verification assignments in 2019; (ii) train and deploy at least 6 officers in the post clearance audit unit and undertake at least 8 field audits in 2019; (iii) establish a trusted trader program that gives defined benefits to program members by the end of 2018 and have at least eight companies participating by the end of 2019; and (iv) undertake post release verification of entries and subject at least 3500 entries to this control by the end of 2019.	Benchmark split into two elements and extended from December 2019 to March 2020 (part iii) and August 2020 (parts i, ii and iv).
Government to table a revised public pension law to enhance the sustainability of the public sector pension scheme.	Deadline extended from June 2020 to September 2020.
Government to table legislation for a fiscal rule to enhance fiscal transparency, developed with the support of IMF technical assistance, and lock in the gains of fiscal consolidation.	Deadline extended from June 2020 to December 2020.

In addition, one new structural benchmark has been introduced as follows:

Benchmarks added	Deadline
BRA (i) to execute an initial 20 “issue based” audits on taxpayers in the large taxpayer segment, and (ii) to develop a risk-based compliance plan to improve “on-time” filing and payments compliance rates.	June 2020

The structural benchmark that was due to be achieved by the end of December 2019 and its current status is outlined below:

Benchmark from December 2019	Current status
Parliament to enact an amended Central Bank Law aimed at enhancing the Central Bank’s institutional, personal, and financial autonomy and, in particular, limiting Central Bank financing of the Government to short term advances. The revised CBB law, prepared in consultation with IMF staff, will also clarify the mandate of the CBB, and strengthen its decision-making structures	Not met – this remains to be addressed.
The Barbados Revenue Authority (BRA) to adopt measurable performance targets that increase on-time filing for corporate Income Tax and VAT from current levels (less than 50 percent for both respectively) to 75 percent over calendar year 2019.	Met.

<u>Key considerations to future performance criteria and structural benchmarks</u>

The GOB has continued to make good progress on its requirement of increasing the primary balance to a surplus of 6% of GDP in 2019/20, with actual results for the first nine months of the fiscal year exceeding the interim target by a wide margin mainly as a result of expenditure control, despite shortfalls of revenue versus target.

It is encouraging that the external debt restructuring has been substantially completed and the Barbados credit ratings have been adjusted accordingly. The recent upgrade is encouraging news for eventual access to the international capital markets in the future. However, the economic growth that is a critical component of the BERT plan is yet to be achieved. The committee is keen to see “ the ease of doing business " reforms within the public sector being implemented at a faster rate. These reforms are expected to improve the efficiency and productivity across the various sectors in Barbados, help to attract new foreign investors and facilitate the commencement of some investment projects that have not yet started. These projects are vital for increased employment and ultimately sustained economic growth.