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

Public Report #10

Activities

Since its last report, the BERT MC has continued to receive reports from the Government of Barbados (GOB) on its progress through March 2021 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 March 31, 2021 coincides with the tenth set of targets under the EFF on which the BERT MC now comments.

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 March 2021		
	Target	Actual	Met Yes/No
Fiscal targets:			
Floor on the CG Primary Balance[1]	-103	-87	Yes
Non-accumulation of CG external debt arrears	0	0	Yes
Ceiling on CG Transfers and Grants to Public Institutions	444	530	No
Ceiling on Public Debt	13,204	12,938	Yes
Monetary targets:			
Ceiling on Net Domestic Assets of the CBB	2,152	1,726	Yes
Floor on Net International Reserves[2]	1,388	2,106	Yes

Note 1 – No budget support grants were received versus $12 million projected in the MEFP. As a result, the floor on CG primary balance was decreased by the shortfall, as required under the MEFP (Attachment II paragraph 5 on page 68).
Note 2 – No budget support grants were received versus $12 million projected in the MEFP. As a result, the floor on net international reserves was decreased by the shortfall, as required under the MEFP (Attachment II paragraph 12 on page 69.)

Floor on Central Government Primary Balance

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

While overall revenue collection fell short of the target under the BERT Plan, expenditure was sufficiently contained allowing the adjusted primary balance minimum target of -$103 million to be achieved.

a. Revenue Collection

Total revenue for the fiscal year ended March 31, 2021 was $2,563 million, representing a decrease of $421 million on the total of $2,984 million collected in the same period in the prior year.

Tax revenue was $2,388 million versus $2,771 million in the prior year, a decline of 13.8%. The primary contributors to the shortfall in revenue versus the prior year were:

- $147 million from income tax due to the significant lay-offs arising from the pandemic and two reductions in the personal tax rates that became effective in July 2019 and January 2020.
- $33 million related to land tax.
- $501 million on various indirect taxes including VAT, excise tax, import duties, fuel taxes and tourism levies because of reduced economic activity caused by a COVID-19 pandemic.
- $38 million on non-tax revenue.
- These shortfalls were partially offset by additional collections of corporation tax of $304 million, primarily from foreign currency permit companies and other international business entities following the convergence of the tax rates across all sectors for the 2019 fiscal year.

b. Expenditure Control

Total expenditure in the fiscal year was $2,993 million, which was $393 million or 15.1% higher than the $2,600 million in the prior year.

The largest component of the additional expenditure ($191 million) related to transfers and subsidies to individuals and public institutions followed by an additional $93 million of spending on capital expenditure over a broad range of areas including in the ministry of energy and water resources on infrastructure upgrades, the ministry of housing, lands and rural development on housing development projects, the transport board on the bus fleet and in the ministry of health and wellness related to COVID-19 management. There was also an additional $93 million spent on interest now that the restructured debt is being serviced again. Spending on goods and services also exceeded that incurred in the prior year by over $24 million.

It should be noted that the additional 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 $530 million versus the $444 million limit. The need for additional transfers and grants related mainly to the reduction in revenue experienced by several of the State-Owned Enterprises due to the impact of COVID 19 combined with additional expenditure requirements to address the pandemic. The major recipients of supplemental funding were the Queen Elizabeth Hospital which required $200 million in total funding during the year and the Transport Board where $46 million was advanced overall. The other significant recipient of transfers was the University of the West Indies where $103 million was advanced, however that was in line with expectations for that institution.

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 March 31, 2021, the stock of total debt was $12,938 million versus the cap of $13,204 million under the MEFP.

Ceiling on Net Domestic Assets of the Central Bank of Barbados

Net Domestic Assets of the CBB were $1,726 million versus the ceiling of $2,152 million.

Floor on Net International Reserves

Net International Reserves ('NIR') at $2,106 million were well in excess of the $1,388 million adjusted minimum target and is quadruple the level of NIR versus the low reached in the first half of 2018.

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 March 2021		
	Target	Actual	Met Yes/No
Fiscal targets:			
Ceiling on CG Domestic Arrears	81	79	Yes
Floor on Social Spending	40	62	Yes
Ceiling on Public Institutions Arrears	37	29	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 within the limits established under the BERT program. It should be noted these are confirmed debts only, as any amounts still being processed by the various agencies are not included.

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. Overall spending at $62 million was ahead of the minimum limit, partially driven by the COVID-19 pandemic.

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 $29 million is within the maximum limit of $37 million.

3. Structural Benchmarks under the EFF

There are a number of structural benchmarks that are also required to be achieved under the EFF. There were four benchmarks that were due during the quarter ended March 31, 2021 and the status of these is as follows:

Benchmarks due during the quarter ended March 2021	Current Status
The Barbados Statistical Services (BSS) to publish a calendar of statistical publications covering national accounts, prices and the labor market.	Met
The Management and Accounting Unit (MAU) to prepare a dashboard that analyzes the financial performance of government's 19 priority oversight SOEs as input to quarterly progress updates based on this dashboard to Cabinet.	Met
Create in Barbados Customs and Excise Department an Information Technology Division of at least six employees.	Met
Large Taxpayer Unit (LTU) to implement its compliance improvement plan and achieve 'on-time' filing of returns for all large taxpayers of at least 90 percent for all core taxes (VAT, CIT, PAYE).	The improvement plan has been implemented but efforts to increase 'on-time' filing levels are on-going.

4. Key considerations to future performance criteria and structural benchmarks

Despite the impact of the COVID-19 pandemic the GOB has managed to achieve the majority of its performance targets and, in particular, the primary balance surplus of minus 1% of GDP and the growth in Net International Reserves to levels well above the program target.

The severity of the impact of COVID-19 and the resultant significant levels of unemployment, coupled with the shrinking of GDP (down 18% according to the latest Central Bank report), continue to be the principal risks to the program. The Committee is particularly concerned about the ability to meet the primary balance performance target of zero percent for the upcoming 2021/22 fiscal year in light of the following factors:

(i) the quarantine restrictions on those travelling to Barbados from major tourism source markets, particularly the UK and Canada;

(ii) the expectation that the overperformance of corporation tax seen in the current fiscal year is unlikely to be repeated in 2021/22 due to a combination of the EU tax blacklisting inhibiting new business, the reduced profitability anticipated by businesses in 2020 due to the pandemic and a number of large transaction-based tax payments that are unlikely to be repeated; and

(iii) the additional spending that the GOB will need to incur in its continued response to the pandemic, including the humanitarian response in light of the continued elevated levels of unemployment and continued implementation of the vaccination program.

In addition, the committee looks forward to seeing the results of the new MAU Dashboard which will be used to publish the financial reporting information of the country's State-Owned Enterprises (SOEs). We also look forward to further progress being made in the planned review and transformation of the SOEs in order to improve the financial reporting, operating efficiency and service levels across these enterprises.

BERT MC MEMBERS ARE AS FOLLOWS:

Edward Clarke	Co-Chair	Representing the Barbados Private Sector Association
Toni Moore, M.P.	Co-Chair	Representing Barbados Workers Union
Edwin O'Neal	Member	Representing Congress of Trade Unions and Staff Associations of Barbados
Robert de Silva	Member	Representing the Creditors' Group
Greg McConnie	Member	Representing the Barbados Private Sector Association
Donna Wellington	Member	Representing the Barbados Private Sector Association
Akanni McDowall	Member	Representing the National Union of Public Workers