



MINISTER OF FINANCE, ECONOMIC AFFAIRS & INVESTMENT
BARBADOS

October 29, 2018

Mr. Luis Alberto Moreno
President
Inter-American Development Bank
1300 New York Avenue, N. W.
Washington, D.C. 205771
United States of America

Dear President Moreno,

**MACROECONOMIC EMERGENCY PROGRAMME TO PROTECT
ECONOMIC AND SOCIAL PROGRESS**

Over the last ten years, the Barbados economy has recorded very low growth, widening fiscal deficits and increasing debt. International reserves fell to 1.7 months of import cover, well below reserve adequacy levels, while Central Government (CG) debt reached an unsustainable 170% of GDP including CG arrears (157% excluding University of the West Indies arrears). The new Government of Barbados (GOB) that took office in May 2018 has, in close consultation with its social partners, developed and embarked on a comprehensive Economic Recovery Transformation Plan (BERT) aimed at regaining macroeconomic stability and promoting inclusive and sustainable economic growth. A sharp reduction in the debt burden will support higher private sector-led investment and growth as economic confidence is restored. In addition, the increased fiscal space will allow Government spending to be directed toward the catalytic development of infrastructure to support growth. The Plan also includes measures to improve the business climate. We aim to make Barbados the best place to live, work, and enjoy life - a country that is green, climate resilient, and that aims to be fossil-fuel free by 2030; a smart, technological, high-skilled, knowledge-based economy; and a culturally rich and diverse nation built on principles of equal access to social justice and economic opportunity for all.

The GOB reiterates its unwavering commitment to strengthening of the fiscal framework and taking decisive actions in managing fiscal risks. A critical pillar of the immediate overall strategy is the continued adherence to the commitments presented above, under the Extended Fund Facility (EFF) with the International Monetary Fund (IMF), which was approved by the Board of the IMF on October 1st, 2018. The GOB recognizes and appreciates the support of the Inter-American Development Bank (IDB) through its provision of budgetary support under the Macroeconomic Emergency Programme to Protect Economic and Social Progress through a Special Development Lending (SDL) Operation.

The Government's Barbados Economic Recovery and Transformation Program outlines the GOB's priority medium term objectives of: i) restoring macroeconomic stability, ii) putting the economy on a path of strong, sustainable and inclusive growth and iii) safeguarding the social sector.



Actions to achieve these objectives include a strong front-loaded fiscal adjustment focused on curbing current expenditure, while maintaining space for bolstering social safety nets and infrastructure spending. In this context, the measures to reduce government expenditures announced in late August are a critical and important first step. These measures aim to improve the efficiency and effectiveness of public services and reduce government transfers to state-owned enterprises by reviewing user fees; exploring options for mergers; and strengthening oversight. The measures should help reach a primary surplus target of 6 percent of GDP in FY2019/20. The fiscal adjustment will be complemented by a comprehensive debt restructuring, aimed at securing meaningful debt reduction, reducing financing needs, and restoring debt sustainability.

Barbados' public debt will be put on a clear downward path towards a target of 60 percent of GDP by 2033. These actions will contribute to improving macroeconomic stability, a sustainable debt reduction trajectory, enhanced investor confidence and an improved business climate that will attract new investments.

The IDB is supporting the implementation of BERT through the provision of US\$100.0 million following the approval of the 48-month Extended Fund Facility by the IMF Executive Board. The GOB anticipates the Bank's continued support in its consideration of budgetary support.

Components of the SDL

The GOB will demonstrate its firm commitment to the reform agenda in the execution of the operation by the maintenance and enforcement of the policy actions contained in the four (4) components of the Policy Matrix, namely:

- I. Supporting macroeconomic stability;
- II. Revenue policy and administration;
- III. Public expenditure control and public financial management;
- IV. Protecting social spending.

Component I: Supporting macroeconomic stability

Maintaining macroeconomic stability will be pursued through the strict adherence to the BERT and the targets established in the EFF. Recognizing that fiscal and debt unsustainability have been major sources of external and macroeconomic vulnerability in Barbados, the GOB aims to eliminate the fiscal deficit and substantially reduce the debt burden with a debt-to-GDP ratio target of 60 percent by 2033. This will be achieved with a combination of fiscal consolidation, policies to boost growth, reform public finances and debt restructuring.

Fiscal adjustment will be at the heart of the reform and transformation plan. The program aims to achieve a cumulative 2.7 pp of GDP relative to FY2017/18 (when the central Government registered a primary balance of 3.3 percent of GDP), to reach and maintain a primary surplus of 6 percent of GDP in FY2019/20; while protecting vulnerable groups through strengthened social safety nets, and increasing room for capital spending.



Page 3
October 29, 2018

The 2.7pp of GDP adjustment is understated considering that the 3.3 percent reported outturn for 2017/18 did not reflect the true cost of Government, due to unreported arrears. We aim to impose more effective taxes, increase compliance and allow for a better share the tax burden between residents and visitors. We have already passed a revised budget in Parliament that includes higher taxes on tourism, increased corporate income tax and top personal income tax rates. We are also committed to reducing transfers to SOEs, as discussed in greater detail below. The fiscal adjustment effort will be supported by the adoption of a fiscal rule, as discussed below.

Component II: Revenue Policy and Administration

Strengthening tax policy and administration is a main priority objective of the GOB. Recent actions captured under the Policy Matrix, which have been fully implemented are:

The repeal of the National Social Responsibility Levy and the implementation of the following tax reforms measures:

- A new top Personal Income Tax bracket of 40 percent
- Increase of the Corporate Income Tax (CIT) rate from 25 to 30 percent;
- An Airline Travel and Tourism Development fee;
- A Room and a Shared Accommodation levies; and
- A Fuel Tax that will replace the Road Tax

In addition, a Request for Proposals has been published that will allow for the assessing of VAT on all online transactions for the purchase of goods and services, and an action plan has been developed for a Large Taxpayers Unit (LTU) to update all LTU taxpayer accounts, ensuring that they reflect accurate balances and the number of audits to be carried out for FY2018/19.

Component III: Public Expenditure Control and Public Financial Management

Promoting public expenditure control and reinforcing public financial management structures and processes will be key during fiscal consolidation. Towards this aim, The GOB has launched an exchange offer for debt restructuring of the stock of central government domestic debt. The offer was launched on September 7, 2018 with a deadline for investors to accept of October 29, 2018.

The GOB also introduced a new Garbage and Sewage Contribution, levied through Barbados Water Authority bills, to allow removal of the Sanitation Service Authority from Central Government expenditure.



Page 4
October 29, 2018

To strengthen the budget formulation process, a revised Financial Management and Audit (FMA) Act proposal was developed, allowing for a permanent binding budget calendar that would envisage budget approval prior to the fiscal year. Within the revised FMA Act, more autonomy is granted to the Ministry of Finance, Economic Affairs and Investment to oversee SOEs, including the approval process of all borrowings and assumptions of other liabilities undertaken by SOEs. The new FMA Act also establishes: a) clear definitions for the classification of public entities, and their related roles and responsibilities; b) tighter and more precise reporting requirements for SOEs and; c) sanctions for non-compliance.

Component IV: Protecting Social Spending

To protect the poor during an economic downturn and to ensure the functioning of essential services in health, nutrition, education and early childhood, the GOB set a spending floor for:

- Child Care Board spending on protection of vulnerable children;
- Youth Entrepreneurship Scheme assisting jobless youth to start their own businesses;
- Strengthening Human and Social Development programme targeting the unemployed and vulnerable families and youth;
- Alternative Care for the Elderly programme targeting the elderly transferred to private care;
- Provision of medication to HIV patients;
- Welfare Department spending, including cash transfers and assistance for house rents, utilities, food, and education to the poor and vulnerable.

The Government of Barbados's Commitment

In support of BERT, the IMF has reached staff-level and Executive Board approval on a 48-month Extended Fund Facility (EFF), with access of Special Drawing Rights \$208 mn (equivalent to 220% of quota or about \$290 mn). The GOB will be responsible for keeping the committed primary balance and the level of reserves and will review progress via an Economic Program Oversight Committee (EPOC) established as a sub-committee of the Social Partnership to deal with the monthly reporting and monitoring of the program. The Committee will maintain regular communication with IMF staff in the monitoring of the BERT and the EFF.

The GOB hereby reiterates its commitment to the Programme as presented and welcomes the continued support of the Bank under the Special Development Lending operation.

Sincerely,

Minister of Finance, Economic Affairs and Investment