



GOVERNMENT OF BARBADOS

The Hon. Ryan Straughn, M.P.

MINISTER IN THE MINISTRY OF FINANCE & ECONOMIC AFFAIRS

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Mrs. Reina Irene Mejía Chacón
President a.i.
Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 205771
UNITED STATES OF AMERICA

Dear President a.i. Reina Irene Mejía Chacón,

**Policy Letter Programme to Strengthen Public Policy and Fiscal
Management in Response to the Health and Economic Crisis
caused by COVID-19 in Barbados II**

The health and economic crisis caused by the global emergence of the COVID-19 pandemic led to a period of unprecedented challenges for Barbados. Tourist arrivals have been negatively impacted, decreasing to only a fraction of normal levels since 2020. This has had a significant impact on economic growth, government revenue, our foreign exchange earnings and jobs.

From the start of the pandemic, our government was very proactive to tackle the increase in cases and the strain on the health system, while also taking measures to protect the income of households and businesses. The budget allocation to the health sector was significantly increased during FY2021/22 to ensure the availability of resources to implement our testing and vaccination programme, as well as to maintain adequate levels of service. The latest information on COVID-19 reports shows a total of 102,580 cases and 560 confirmed deaths since 2020. Barbados has continuously reduced infection cases and, currently, reports the lowest number of daily active cases in the last 12 months. Vaccination remains one of the main tools to prevent

further infections, with more than 50% of the population fully vaccinated. The government will continue its efforts to increase this figure in the coming months.

Our policy response also involved several economic support programmes targeting vulnerable households and businesses. The most important programmes targeting households included a US\$10 million household survival programme, which was set up to cover both a 40% increase in the Welfare Department's programme's rates; "Adopt Our Families", which provided economic relief to 2,700 vulnerable households; a US\$1 million stimulus programme to assist artists and athletes; and the "Home Ownership Providing Energy" (HOPE), designed to help over 1,000 households earning below US\$2,000 a month, to construct and own affordable housing and that aims to complete 201 housing solutions by the end of this financial year. Additionally, businesses were supported through our "Business Interruption Benefit Programme", which targeted self-employed persons affected by the pandemic and provided US\$750 per month for three months; and the "Small Business Wage Fund for SMEs", which focused on small businesses and provided US\$250 per month per employee, up to five employees, for two months. We intend to renew these efforts to support businesses economic recovery through a programme to support SMEs to help boost business continuity in an online environment. Additionally, the government has also been working on a new industrial policy to help local businesses.

On the fiscal front, progress has been made under difficult external conditions. The primary balance target for FY2021/22 of -1% of GDP was met. Additionally, our government has approved a procedural fiscal rule, which comprises a debt anchor and a primary balance path consistent with the debt anchor. Further measures include comprehensive tax administration improvements to strengthen the BRA and customs enforcement capabilities, as well as the preparation of a fiscal incentives bill and a new customs bill. With these policies, we expect to gradually improve the primary balance, targeting a 1% of GDP surplus for FY2022/23. Our government remains committed to sustained primary surpluses over the medium term in keeping with the target of bringing the debt-to-GDP ratio below 60% by FY2035/36.

In the short term, however, the lasting impact of the pandemic continues to weigh on economic activity while the outlook remains uncertain in light of global economic spillovers emanating from the evolving war in Ukraine. Barbados' economy is expected to grow 11.2% by 2022, supported by a recovery in tourism. Among the risks facing

our economy are a further lengthening of the pandemic economic consequences, an intensification of the war in Ukraine that could further increase global commodity prices, and repeated natural disasters, aggravated by climate change. These issues continue to put pressure on our economic recovery and represent a major challenge for the Government in the medium term.

In this context, the Government recognizes and appreciates the support of the IDB through the provision of budgetary support under the “Programme to Strengthen Public Policy and Fiscal Management in Response to the Health and Economic Crisis caused by COVID-19 in Barbados II”. The programme’s components, objectives, and policy measures are as follows:

- **Component I: Macroeconomic stability.** The objective of this component is to ensure the maintenance of a macroeconomic context consistent with program objectives as set forth in the policy matrix.
- **Component II: Strengthening public policy and fiscal management to respond to the health crisis caused by COVID-19.** This policy objective is to ensure the timely availability of financial resources to respond to the health crisis caused by COVID 19. For this purpose, the Government of Barbados will focus on the allocation of budgetary resources to the health sector to:
 - (i) Manage the health consequences of COVID-19.
 - (ii) Attain the required level of health services to manage and/or suppress future COVID-19 cases.
 - (iii) Realise any potential increases in health personnel to support COVID-19 efforts.
- **Component III: Strengthening public policy and fiscal management to respond to the economic crisis.** The policy objective of this component is to strengthen the countercyclical effect of public policy through the temporary introduction of measures to protect the income of vulnerable households and businesses during the health and economic crisis. In order to achieve this goal, the Government of Barbados will implement the following measures:

- (i) Complete an evaluation report on the implementation of all the programmes listed in 3.1 (i) to (iv) of the Policy Matrix for the First Programmatic Operation to measure their performance and goals achieved.
 - (ii) Approve a system of digital, national identification cards.
 - (iii) Evaluate performance of the Business Interruption Benefit.
 - (iv) Support economic recovery in the post-pandemic period through:
 - a. a programme to support SMEs to help boost business continuity in an online environment; and
 - b. A Draft of the Sustainable Industrial Development Bill completed and approved by the Cabinet.
 - (v) Develop a plan to address capitalisation and structural issues of the National Insurance Scheme (NIS).
 - (vi) Review the need to extend or terminate the deferment of employers' contributions to the NIS in the post-pandemic period.
- **Component IV: Economic and fiscal strengthening for the post-pandemic period.** This component coordinates fiscal sustainability measures, improves collection, and strengthens public investment management, in line with the component's objective of promoting economic and fiscal recovery in the post-pandemic period. To achieve this objective, the Government of Barbados has committed to the following:
 - (i) Present a progress report of the measures prioritized by the Jobs and Investment Council.
 - (ii) Draft Customs Bill approved.
 - (iii) Presentation of amendments to CAP 67B of the Laws of Barbados to take measures to:

- a. strengthen tax revenue take;
 - b. reduce tax expenditures; and
 - c. update fiscal incentive regulations
- (iv) Simplify the tariff structure under the Customs Act by Order.
 - (v) Strengthen macro-fiscal management by tabling a procedural for a fiscal rule.
 - (vi) Undertake comprehensive tax administration improvements to strengthen the Barbados Revenue Authority (BRA) and Customs enforcement capabilities.
 - (vii) Approval of an Excise and VAT holiday on electric vehicles for twenty-four (24) months commencing April 1, 2022.
 - (viii) Approval of a Draft Climate Change and Fiscal Work Plan.

The Government of Barbados hereby reiterates its commitment to implement these policies and welcomes the support of the IDB through its approval of the loan programme under consideration.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ryan Straughn', with a stylized flourish at the end.

HON. RYAN STRAUGHN, M.P.

Minister in the Ministry of Finance and Economic Affairs