

---

**GOVERNMENT OF BARBADOS**  
**MINISTRY OF FINANCE**

---

---

**MEDIUM-TERM FISCAL  
STRATEGY  
{MTFS}**

**2010 — 2014**

**JANUARY 2010**



**Medium-Term Fiscal Strategy  
(MTFS)**

**2010 – 2014**

**Prepared by a Special Team**

**comprising members**

**of**

**The Ministry of Finance, The Ministry of  
Economic Affairs & The Central Bank of Barbados**

## Contents

I.	Background.....	1
II.	Executive Summary.....	3
III.	Review and Analysis of Fiscal Performance.....	5
	• Historical Performance.....	5
	• Recent Fiscal Outturn.....	7
	• Macroeconomic and fiscal outlook.....	8
IV.	Medium Term Fiscal Strategy and Framework.....	9
	Fiscal Issues and Challenges.....	10
	Fiscal Adjustment Framework.....	13
	▪ Barbados’s Fiscal Model	
	▪ Fiscal Objectives	
	▪ Main Fiscal Strategies	
	▪ Public Sector Investment Programme	
	▪ Fiscal Policy Scenario and Analysis	
V.	Implementation of the MTFS.....	22
	MTFS Implementation Matrix 2010/11 to 2014/15.....	23
	Appendices.....	29

## I. BACKGROUND

Barbados is a small, open, vulnerable, middle-income economy, which over the last three decades, has demonstrated a high degree of economic resilience by its capacity to rebound from successive external economic shocks. The Government of Barbados remains committed to the manifesto pledge of fiscal prudence as the main hallmark to achieving fiscal stability through good and responsible governance.

Over the medium term the aim will be to reduce the overall fiscal deficit and generate a balanced budget by 2014/15 and a surplus by 2015/16, while keeping economic growth to acceptable levels by focusing on the foreign exchange earning sectors. This will ensure a reduction in the debt ratios to sustainable levels.

In summary, the rationale of the Medium Term Fiscal Strategy (MTFS) 2010 - 2014 is to:

- a) Maintain macroeconomic stability.
- b) Ensure strong growth through increased efficiency, productivity and competitiveness over the medium term.
- c) Reduce the fiscal deficit and hence provide a stable fiscal framework that will enable the Government to better serve the National Goals and the Objectives of its Medium Term Development Strategy<sup>1</sup>.
- d) Reduce the level of debt and improve the country's credit ratings leading to reduced debt service costs.
- e) Ensure that domestic and external confidence, in the ability of the Government to manage its resources in an efficient and balanced manner, is maintained.

This proposed fiscal strategy is being fashioned within a framework that will see improved revenue and expenditure management and institutional strengthening.

**Government Revenues:** The policy will be to improve efficiency of existing revenue collecting agencies and carry out a comprehensive review of the existing tax framework to return the tax base to its relative size. It is also expected that as policies to drive economic growth take effect, then revenues should benefit from increased economic activity.

---

<sup>1</sup> The Medium Term Development Strategy 2010-2014 provides the broad strategic framework for Government's economic and social agenda.

**Government Expenditures:** The policy will be to regularly review the efficiency of government's expenditure programmes and seek to reduce spending, wherever possible as well as improve service delivery. Ministries will be required to reprioritise their programmes to reduce cost. In addition, focus will be given to personal emoluments (this now stands at 36.2 per cent of revenue and 31.1 per cent of expenditure) and transfers and subsidies. Levels of public sector employment will be carefully managed to contain cost, and state owned agencies will be restructured to be more efficient and rely less on government subventions. Greater attention will also be paid to more aggressive debt management so as to reduce the debt service levels which now amount to 16.2 per cent of revenue and 15.0 per cent of current expenditure.

**Institutional Capacity:** Emphasis will be placed on accountability and improving management practices in state owned enterprises as well as in central government. The main aim will be to increase the levels of productivity and efficiency. Where possible, government will encourage the private sector to become involved in the provision of some public goods where this is likely to lead to reduced costs.

## II. EXECUTIVE SUMMARY

The Medium Term Fiscal Strategy 2010 to 2014 of the Government of Barbados is being crafted within the context of the global, regional and domestic financial and economic circumstances affecting the Barbadian Economy. The aim of this strategy is to enable the economy to make a transition from the current fiscal situation to one that is more sustainable. In addition, the fiscal strategy, working in collaboration with the Government's Medium Term Economic Strategy, will lay the framework for sustainable growth through encouraging strong foreign exchange earnings, increased productivity and competitiveness, the creation of private sector jobs and greater social advancement.

The Medium Term Fiscal Strategy provides for targeted policy interventions and strategies over a five year period and will address the fiscal issues and challenges confronting Barbados. These strategies include: Expenditure, Revenue and Debt Management; Public-Private Sector Partnerships; Divestment Policy; Public Enterprise Reform; Incomes and Prices Policy and Financing and Management of the Public Sector Investment Programme. In addition, the framework seeks to advance Barbados' broad long-term strategic vision to become **"A Fully Developed and People-centered Society, through New Development Pathways"**.

Also, it sets out to achieve a number of broad macroeconomic goals and objectives namely; to protect jobs, continue to reduce unemployment, restore sustainable economic growth, stimulate economic activity, stabilise inflation, increase foreign exchange earnings and to reduce the public debt to GDP ratio to more sustainable levels. The medium term fiscal strategy also discusses the Public Sector Investment Programme (PSIP) over the planning period focusing on those projects which will be critical to our development. It focuses also on the issues of financing and implementation of the plan.

The fiscal strategy also makes adequate provisions for a number of international, regional and domestic protocols to which the Government of Barbados is committed. These include; the need to achieve the United Nations Millennium Development Goals by 2015; the objectives of the United Nations Panel on Climate Change; the Monterrey Consensus of March 2002; the Obligations of the World Trade Organisation; the Provisions of the Caribbean Single Market and Economy and the Protocol implementing the Social Partnership Framework.

The MTFS 2010 – 2014 targets putting Barbados' public finances back on a more sustainable footing and ensuring that a balanced budget is achieved by the period 2014/15 and a small fiscal surplus by 2015/16. The reduction in central government's debt to GDP ratio will also be critical to returning

Barbados to a higher credit rating. In this regard, Government will seek to reduce the debt-to-GDP ratio to near 70.0 by 2017/18.

The fiscal policy adjustments, as provided in Table 2, take into consideration a number of revenue and expenditure strategies to be pursued over the medium term. As part of the broad strategy, these adjustments will work in tandem with the government's medium-term economic strategy of maintaining macroeconomic stability and higher economic growth through an export-led (goods and services) policy. Based on these adjustments, the fiscal deficit to GDP ratio should decline to 2.1 per cent of GDP by the fiscal period 2013/14 and then to a balanced position by 2014/15. A small fiscal surplus of 0.6 per cent of GDP is expected by 2015/16. In terms of total debt to GDP, Central Government's total debt stock is forecasted to fall to 67.2 per cent of GDP by the end of fiscal period 2017/18

### **III. REVIEW AND ANALYSIS OF FISCAL PERFORMANCE**

#### **1.1 Historical Performance**

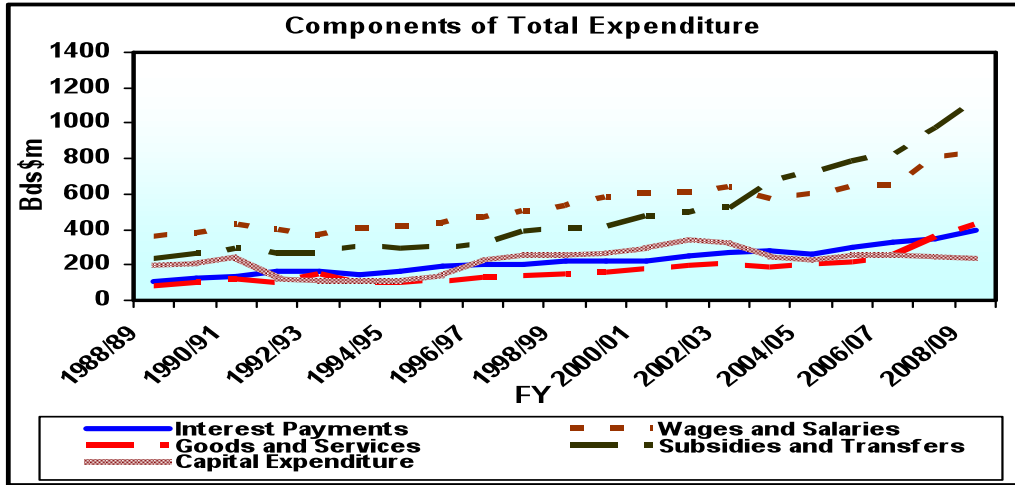
Since the 1990-1992 recessions, the aim of government has been to ensure that the overall fiscal deficit did not exceed 2.5 per cent of GDP. This target was achieved in the ensuing ten years, except in 1996, 2001 and 2002. Also, prior to 2002, government's financing requirements had hardly been far out of line with the fiscal deficit of central government, so that the central government's fiscal deficit generally mirrored the overall public sector deficit. The fiscal deficit of the central government reached a high of 6.4 per cent of GDP in 2002, partly the result of government's counter-cyclical measures to stimulate real economic activity. Recognising the need for greater fiscal prudence, a deficit of 3.0 per cent of GDP was realised in 2003 followed by 2.2 per cent in 2004, 4.2 per cent in 2005 and 1.5 per cent in 2006. However, the average annual deficit as a percentage of GDP did not get back to the 2.5 per cent target over the 2003 to 2006 period.

An examination of fiscal data for the period from 1989/90 to 2008/09 reveals continuous deficits over the past two decades. These were driven mainly by increases in total expenditure which rose from 33.8 per cent of GDP in 1988/89 to 44.4 per cent of GDP by the end of the period 2008/09. The rise in government's spending has largely been on the re-current side, driven by increases in wages and salaries and also transfer payments (See Figure 1). While current expenditure has grown steadily growth over time, there were a few periods when spending accelerated, as seen in 1989/90 (13.0 per cent), 1990/91(10.9 per cent) and more recently in 2007/08 (20.7 per cent). However, these were quickly reduced to more sustainable levels.

In term of capital expenditure, the level of spending, while smaller, has been a bit more sporadic with patterns of large increases, as seen during 1995/96 to 1997/98 and then steep cuts during the 1991/92 and 2003/04 periods. Over the period, some of this spending has been extra budgetary, going towards supplementary capital works to support the operational capacity and building efforts within the tourism sector as well as other capital projects.

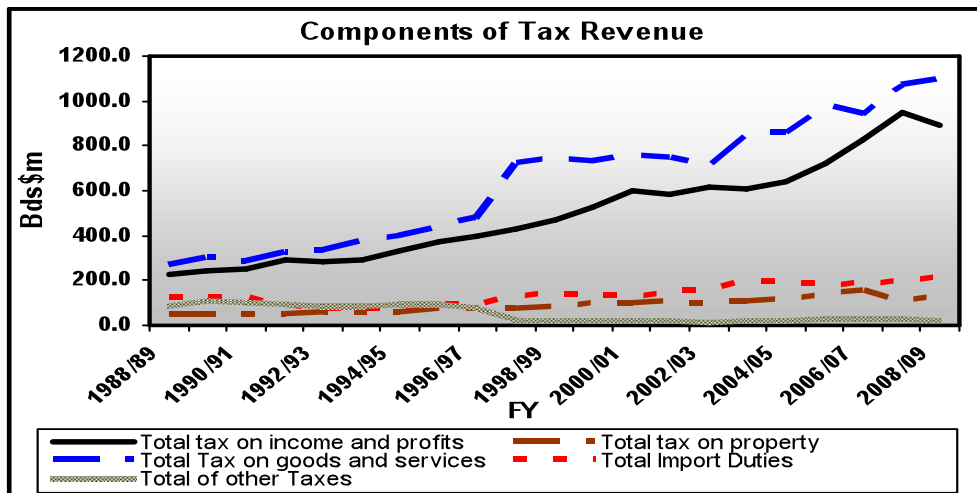


**Figure 1**



On the revenue side, the ratio to GDP has grown relatively steady, moving from 26.0 per cent to 36.8 per cent over the review period. As the main component, tax revenue has been the main composition of total revenue over the decade with non-tax revenue remaining a minor component, and experiencing little growth. The growth in tax revenue has been driven mainly by taxes on goods and services and tax on income and profits (See Figure 2). Alternatively, import duties and tax on properties have played a secondary role to the overall tax collections.

**Figure 2**



Regarding the public debt, this has grown from \$1.4 billion or 52.9 per cent of GDP to an estimated \$6.4 billion or 90.8 per cent of GDP at the end of 2008. Most of this debt has been domestic in nature, a clear policy of government, taken during the early 1990s when the ratio of external debt to

total debt was reduced significantly as compared to domestic debt whose ratio has increased substantially. On average, the domestic debt ratio, between 1990 and 2008, stood at 67.5 per cent compared to an external debt ratio of 32.0 per cent.

**Table 1: Historical Data on Expenditure and Revenues**

Fiscal Years	Expenditures			Revenues			Government Expenditure as a % GDP	Government Revenue as a % GDP
	Re-current Expenditure	Capital Expenditure	Total Expenditure	Tax Revenue	Non-Tax Revenue	Total Revenue		
1999/00	1407.3	261.8	1669.1	1523.3	80.8	1604.1	33.7	32.4
2000/01	1514.4	290.6	1805.0	1596.3	119.8	1716.1	35.3	33.5
2001/02	1581.8	334.6	1916.4	1612.0	111.6	1723.6	37.5	33.7
2002/03	1672.2	321.1	1993.3	1620.3	92.5	1712.8	40.3	34.6
2003/04	1745.4	244.8	1990.2	1758.1	89.1	1847.2	36.9	34.3
2004/05	1838.9	223.5	2062.4	1820.3	77.1	1897.4	36.4	33.5
2005/06	2001.6	252.4	2254.0	2042.3	97.0	2139.3	37.7	35.8
2006/07	2112.4	249.5	2361.9	2130.8	87.7	2218.5	37.1	34.8
2007/08	2955.0	238.1	3193.1	2337.0	111.4	2448.4	46.3	35.5
2008/09	3114.3	317.7	3432.0	2433.4	180.8	2614.2	48.3	36.8

## 1.2 Recent Fiscal Outturn

For the first nine months of fiscal year 2009/10, the central government's operations were estimated to have yielded a fiscal deficit of \$480.9 million compared to \$243.4 million for the first nine months of the preceding year. This outcome reflected the effects of lower tax intake given the fall in expenditures. Tax receipts during the review period decreased by an estimated 9.6 per cent in contrast to a 0.1 per cent decline for the same period of 2008, as indirect tax proceeds fell. This reduction was on account of lower receipts from VAT and import duties, in particular, which declined in line with the reductions in the import bill which in turn declined even faster than overall economic activity.

Total government expenditure during the first nine months of fiscal year 2009/10 fell by an estimated 1.5 per cent, compared to the 8.7 per cent rate of increase reported in the similar period of 2008, mainly on account of a reduction in current expenditure. In particular, wages and salaries surged by 8.4 per cent, as a result of retroactive payments covering the 2008 period and wage increases in the first quarter of 2009.

Although financing for government operations was provided primarily by domestic sources during the April to December period of 2009/10, Government raised an additional \$232.1 million on the Trinidad and Tobago capital market, the proceeds of which were received in the third quarter of the year. With respect to domestic sources, the main contributors continued to be the National Insurance Scheme, private non-bank financial institutions, commercial banks, and the Central Bank.

### **1.3 Macroeconomic and Fiscal Outlook**

Recent figures from the Central Bank of Barbados on the performance of the global economy suggest that the economic recovery among Barbados' main trading partners will probably be modest. The implication of this forecast is that real GDP growth in Barbados is likely to continue to be negative well into 2010. The scenario contemplated by the Bank is a decline of roughly 0.5 per cent by the end of 2010, with growth of 2.6 per cent in 2011. The realization of this forecast hinges on the performance of the tourism sector during the winter season of 2009/2010, which in turn is dependent upon the performances of the economies of the country's main source markets.

The most likely outcome based on current economic indicators for these countries is continued low output in the tourism sector throughout the remainder of the year. In addition, the sector is likely to be further negatively impacted by the increase in the UK's Air Passenger Duty in the last quarter of 2009. All sectors that provide ancillary services to the tourism sector, such as construction, wholesale and retail etc. are therefore anticipated to also experience negative growth.

Based on these expectations the average rate of unemployment would normally rise. However, programmes for increased activity in construction of housing, industrial estate and alternative energy facilities, along with the upgrade of the water system should have a positive impact on employment. The 12-month moving average rate of inflation, however, is likely to remain on its downward trajectory, in line with decreasing aggregate demand as well as lower international commodity prices. The expectation of lower inflation is also supported by the current direction of the point-to-point rate, a leading indicator of the 12-month moving average.

With tax revenue anticipated to slip even more by year-end and into 2010, the position is for the fiscal deficit not to improve substantially for the remainder of 2009 and into 2010. Government should however be able to obtain most of its financing from domestic sources.

## IV. THE MEDIUM TERM FISCAL STRATEGY AND FRAMEWORK

### OVERVIEW

The Government's fiscal strategy aims to ensure fiscal sustainability over the medium term. Sustainability is a core requirement of fiscal policy since government has a responsibility to ensure that it can meet its current and future spending commitments. A sustainable fiscal position provides greater certainty for decision makers, supports broader economic sustainability (including macroeconomic stability) and requires a focus in the budget on policies which strengthen the structure of the economy. Two of the key targets of Barbados' medium term fiscal strategy, identified in the 2009 Budget are a primary fiscal surplus averaging 5.9 percent of GDP from 2011 onwards and a debt to GDP ratio of 70 percent by 2018.

#### Key elements of a sustainable fiscal strategy

The Government's medium-term fiscal strategy involves:

- achieving primary budget surpluses of 5.9% of GDP on average, over the medium term;
- setting targets for both revenue and expenditure as a share of GDP consistent with the medium term objective for the primary surplus; and
- improving the Government's net financial worth over the medium term.

#### Revenue and Expenditure targets

The Government's commitment on revenue will principally require fixing the level of taxes to GDP which over the last fifteen years has averaged 33.2 per cent. On the expenditure side of the equation, Government is constrained by the high level of statutory expenditure for wages and salaries and for debt service. Over the last fifteen years, these two components of government spending have averaged 11.4 per cent and 4.9 per cent of GDP respectively and on average accounted for 49.3 per cent of revenue.

Going forward focusing on quality spending, and reducing wasteful expenditure will allow the Government to allocate resources to high priority areas without placing an additional burden on taxpayers. Government however, may in the short term be forced to consider raising the revenue to GDP ratio while it redirects expenditure to priority areas, such as skills and infrastructure, to achieve the policy priority of ensuring that it is investing in the long-term drivers of productivity and competitiveness.

## Improving the Government's net financial worth

Responsible fiscal policy looks beyond the forward estimates period — promoting fiscal sustainability over a much longer period of time. One indicator of the Government's longer term financial position and ability to withstand adverse economic shocks is its available stock of financially liquid net assets. To promote balance sheet sustainability, the fiscal strategy includes a commitment to improving the Government's net financial worth over the medium term.

The Government's commitment to improving net financial worth puts the focus on sustainability, thereby encouraging policies which structurally improve participation and productivity for the long-term benefit of the economy. This forward-looking perspective ensures that expenditure is directed at areas which help to promote the development of the country's long-term productive capacity, and the wellbeing of future generations.

### **1. FISCAL ISSUES AND CHALLENGES**

#### **1.1 Growth of Government Expenditure**

On the expenditure side, a number of structural factors coupled with the current international financial and economic crises have placed additional demands on government. In order to maintain employment levels it was considered necessary to provide additional funding in the Tourism Sector and increase capital spending. Were this trend to be continued over the medium term, GOB's primary fiscal objective of maintaining macroeconomic stability would be placed in jeopardy. However, it is Government's intention to ensure that there is no further deterioration in the fiscal position, thus resulting in further debt. In particular, wages and salaries, along with subsidies and transfers will be closely monitored, since these constitute a larger expense to government.

#### **1.2 A Slowing of Revenue Yields/Growth**

Over the last two decades, the growth rate of tax revenue has been buoyant with periodic declines being experienced during recessionary periods such as in 2001/2002 and 2002/2003. Notwithstanding the impact caused by the global recession on government's revenue, there are certain structural issues that have to be addressed.

#### Tax Collection and Tax Arrears.

The main revenue collecting agencies in Barbados are at present relatively dispersed and this makes the collection of tax revenue less efficient than it might otherwise be. The major revenue collecting agencies; the

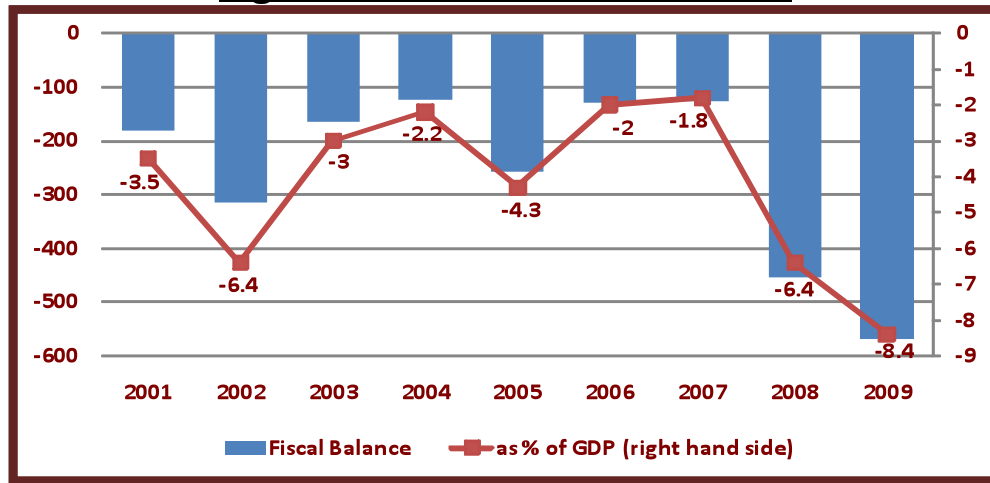
Customs, Inland Revenue and Land Tax Departments, along with the National Insurance Scheme as well as the Barbados Licensing Authority experience a high level of arrears. It is the current estimation that BDS\$500.0 million (excluding NIS arrears) is owed in arrears. Of this total an estimated \$238.2 million is owed to the VAT Department and \$114.5 million to the Land Tax Department. Much of these arrears are not collectible because of its age and the situation of many of the debtor companies going out of business. Still a significant amount of the arrears is available for collection. There is therefore an urgent need to collect this portion of the existing arrears and to minimise the accumulation of further arrears. In this regard, it is expected that the establishment of the Central Revenue Authority should result in an improvement in the collection of tax arrears, through reducing the cost to businesses of compliance, as well as improving the completeness and efficiency of tax collection procedures.

### **1.3 Sustainable Fiscal Balance**

Since the 1990-1992 recessions, the aim of government has been to ensure that the fiscal deficit did not exceed 2.5 per cent of GDP. This target was achieved in the ensuing ten years, except in 1996, 2001 and 2002. Prior to 2002, government's financing requirements had hardly been far out of line with the fiscal deficit of central government. The fiscal deficit of central government reached a high of 6.4 per cent of GDP in 2002, largely the result of government's counter-cyclical measures to stimulate real economic activity. Subsequently, the deficit was reduced to 3.0 per cent in 2003, 2.2 per cent in 2004, 4.3 per cent in 2005, 2.0 per cent in 2006 and 1.8 per cent in 2007.

However, the average deficit over the 2003 to 2007 period did not revert to the target of 2.5% of GDP and was actually considerably higher in 2005-2007 than indicated above when off-balance-sheet expenditure is booked. With the emergence of the international financial and economic turmoil in mid 2008, and the change of government accounting to the accrual system which required the off-balance sheet expenditures to be booked as projects, the fiscal deficit subsequently increased to 6.4 per cent in 2008 and is estimated to have increased to 8.4 per cent at the end of 2009. This scenario is represented in Figure 3 below.

**Figure 3: Historical Fiscal Balance**



#### 1.4 High Debt to GDP Ratio

An area of concern has been the rise in public debt since 2000 to stand at an estimated 87.9 per cent of GDP at the end of 2008 and estimated at around 97.9 per cent of GDP or \$7.0 billion by the end of 2009. This percentage stands well above the 60.0 per cent rate accepted by the international rating agencies. Nevertheless, given the challenges posed by the international financial crises, it was incumbent upon us to pursue countercyclical fiscal policies to stimulate the economy and protect jobs, while reducing pressure on our social welfare system.

#### 1.5 Challenges Confronting the Public Sector Investment Programme(PSIP)

The Public Sector Investment Programme is faced with a number of administrative and structural challenges that serve as a hindrance to the smooth implementation of projects and the efficient conduct of fiscal policy. These include:

- i. The long period between the conceptualisation, implementation and execution stages of projects not only delays the delivery of benefits to targeted beneficiaries but results in high real cost of project financing due to higher than expected transaction/administrative cost, accumulated commitment fees and inflation in cost.
- ii. Inadequately staffed project units, with the consequential delays in receipt of disbursements of project funds.

## **1.6 Inefficient performance of public sector enterprises.**

For the most part, the operations of a number of public sector enterprises need to improve and to rely less on central government's scarce resources. This must and can happen without reducing the service being provided to the public.

## **1.8 Fiscal Commitment to International, Regional and Domestic Protocols**

The Government of Barbados is signatory to a number of international, regional and national protocols which have fiscal implications on both the revenue and expenditure side. These include; the need to achieve the United Nations Millennium Development Goals by 2015, the objectives of the United Nations Panel on Climate Change, the Monterrey Consensus of March 2002, the Obligations of the World Trade Organisation, the Economic Partnership Agreement, the Provisions of the Caribbean Single Market and Economy and the local Social Partnership Compact.

The Government of Barbados has to continually invest in its social capital in order to honour its commitment to achieving the MDGs by 2015. In addition, Government is committed to financing measures aimed at mitigating the adverse effects of climate change. On the revenue side, in seeking to comply with the obligations of the World Trade Organisation, the Economic Partnership Agreement and the Provisions of the Caribbean Single Market and Economy, government has lost a significant amount of its revenue base from tariffs and import taxes.

## **2. FISCAL ADJUSTMENT FRAMEWORK**

### **2.1 Barbados' Fiscal Model**

The MTFS 2010 -2014 will be underpinned by a fiscal model that will seek to maintain a balance between the external and internal balance of the macroeconomy. Growth in aggregate demand has to be maintained to sustain growth in the economy but will be closely monitored and managed to avoid excessive leakages in foreign exchange reserves out of the system. In addition, the model will seek to achieve coherence with monetary policy, trade and industrial policy, prices and incomes policy, exchange rate policy and social policy. In reference to exchange rate policy, the model will be predicated on the policy anchor to maintain the fixed exchange rate parity of US\$1/BDS2. The model will also be driven by the core values of prudence; credibility; responsibility; sustainability; transparency; coherence; equity, efficiency; productivity and competitiveness.



## **2.2 Fiscal Objectives**

The core strategic objectives of MTFS 2010 – 2014 will be to enable Barbados to make the critical transition from crisis to recovery, to turn the page on an era of expanding fiscal deficits and to adopt a set of policies parameters, regulations and reforms to meet the needs of the 21st century global economy. The specific objectives are to:

- i. Put Barbados's public finances back on a more sustainable footing.
- ii. Ensure that a balance budget is obtained by 2014/15 and a small fiscal surplus by 2015/16.
- iii. Reduce central government's debt to GDP ratio to near 70.0 per cent by 2017/18.
- iv. Improve the investment grade rating for Barbados.
- v. Provide a stable fiscal framework that will enable the Government to better achieve national goals and the objectives of its Medium Term Development Strategy.
- vi. Maintain macroeconomic stability through sustainable management of the fiscal deficit and debt.
- vii. Increase productivity and international competitiveness.
- viii. Return real GDP growth to the sustainable annual average rate of approximately 3.0 per cent by 2012.
- ix. Ensure that Government's social policy objectives are not compromised in anyway that will jeopardised the social welfare and well-being of citizens, and the most vulnerable persons/sectors in the society.

## **2.3 Main Fiscal Strategies**

### Expenditure Management

The policy will be to regularly review the efficiency of government's expenditure programmes and seek where possible to remove wasteful spending, remove excess spending due to inefficient and uncoordinated/unshared procedures, reduce cost overruns and improve service delivery. More specifically, ministries will have to review and reprioritise their programmes to help reduce costs by removing programmes no longer needed or not seen as priority by improving procedures to remove inefficiencies, and by sharing more resources and more procedures between programmes. Further, state-owned agencies will have to improve their levels of efficiency and rely less on government subventions. Specific strategies are to:

- i. Contain personal emoluments cost by allowing total growth to be the equivalent of the sum that would normally be paid as increments. This will depend largely on containing the growth in public sector employment.

- ii. Reduce the level of spending on goods and services through more and better use of improved technology, and better assessment of the absolute need for the items to be procured.
- iii. Increase the efficiency of procurement of goods and services through better sourcing and more astute, aggressive and efficient procurement.
- iv. Re-evaluate and rebalance the current programmes of ministries and government agencies.
- v. Place caps on the transfers to the statutory boards, statutory corporations and government owned companies, such as the Queen Elizabeth Hospital, Transport Board, Barbados Agricultural and Development Marketing Corporation and the University of the West Indies.
- vi. Eliminate transfers to other government owned corporations and authorities such as the National Housing Corporation and the Barbados Water Authority.
- vii. Facilitate greater use of Public-Private Sector Partnership (PPP) arrangements in financing capital projects, where Government will make savings in expenditure or earn additional revenues to cover the lease payments on such arrangements.
- viii. Place greater emphasis on the foreign exchange earning sectors of the economy, such as tourism and international business, with the objective of raising the growth level.
- ix. Reduce annual transfers to and the accumulation of debt by the Barbados Agricultural and Marketing Company (BAMC) by Bds\$40.0million to Bds50.0 million by 2013/14.
- x. Manage projects more proactively and on a timelier basis throughout the project cycle.

### Revenue Management

The policy will be to improve the efficiency of existing revenue collecting agencies and carry out a comprehensive review of the existing tax framework. It is also expected that as policies to drive economic growth take effect, then revenues should benefit from increased economic activity. The proposed medium term strategies are as follows:

- i. A review by CARTAC of the Tax system.
- ii. Establishment by the end of the 2010/2011 fiscal year of the Central Revenue Authority in which all major revenue collection agencies are brought under one umbrella.
- iii. Government will adopt a more aggressive approach to the collection of taxes, non-tax revenue and arrears. This will involve greater efforts being made by the departments of Land Tax, Value-Added Tax, Inland Revenue and the Licensing Authority to collect outstanding arrears. In this regard, greater use will be made of

- technology, compliance audits and cost efficient approaches to revenue collection.
- iv. Completing the modernisation programme of the Customs and Excise Department inclusive of the VAT Department, so as to realise an improvement in the collection of taxes and arrears.
  - v. Strengthening and modernising legislation to give the revenue collecting agencies greater authority to enforce compliance.
  - vi. Broadening the VAT base by restructuring fiscal incentives.
  - vii. Increasing excise taxes to capture the loss in import duties due to the EPA. This will be revenue neutral.
  - viii. Increasing dividend yields from commercially focussed government corporations.
  - ix. Keeping increases in licenses and fees in-line with inflation and costs to improve services to which they relate.
  - x. Increasing other property income of government.

### Debt Management

GOB will seek to effect a prudent debt management strategy over the medium term. Emphasis will continue to be placed on accessing long-term funds from international financial institutions to finance public sector infrastructural projects, although there may be selective recourse to external commercial borrowing. In addition, the debt management strategies over the medium term will include:

- i. Establishment of strong debt management capacity within the Ministry of Finance that will ensure debt sustainability.
- ii. Greater use of domestic sources of financing rather than foreign sources.
- iii. Make greater use of IFI sources of concessionary and grant funds rather than going to the market. Over the medium term, it is expected that government will access approximately €40 million Euros in grant funds.
- iv. Making greater use of amortized payment schedules rather than bullet loans.
- v. Seeking to re-finance debt at lower interest rates where possible.
- vi. Greater use of Public-Private Sector Partnership (PPP) arrangements in financing capital projects when such arrangements do not increase the debt levels of government in cash or accrual accounting terms.

### Public-Private Sector Partnerships

Over the medium term, government will seek to make greater use of PPPs arrangements to finance projects such as: the waste-to-energy project; solar power generation projects and other development projects. This will ensure

greater efficiency in construction and operation of these projects and so will have a positive effect on the overall fiscal balance and level of debt.

### Divestment Policy

Over the medium term, the GOB will use the option of divestment where feasible and in the best interests of the country. It will consider this in relation to – Hotel and Resorts Ltd (HRL); Needhams Point; idle government owned lands not required for housing; and other selective assets. The government will also consider the idea of long-term leasing of such assets.

### Public Enterprise Reform

Reform and organisational re-engineering will be conducted within selective state owned enterprises in order to:

- i. Ensure a proper pricing structure for state owned enterprises; and
- ii. Enhance the operational structure of these enterprises. This will assist in reducing the level of inefficiency and reliance on government's scarce resources.

During the planning period, focus will be given to reforming several government corporations. The aim will be to increase the level of efficiency within these agencies. There will also be increased efforts across the entire public sector to ensure service excellence, greater efficiency and productivity. This will be done through enhanced training, increased use of technology and improved managerial and work systems,

### Incomes and Prices Policy

Over the medium term, government will make greater use of incomes and prices policy within the context of the Social Partnership Mechanism. There will be a renewed emphasis placed on issues of efficiency, cost reduction, productivity and international competitiveness. In this regard, government will re-emphasise the important nexus of indexing increases in wages to increases in productivity. Simultaneously, a prices policy will be re-developed by Government with the objective of containing the rate of growth in prices of the major basket of goods.

## 2.4 Public Sector Investment Programme

### Financing and Management of the Public Sector Investment Programme (PSIP)

#### (A) Financing

Over the planning period 2010 to 2014, Government's planned capital investment programmes will realise an estimated injection of loans and grants totalling Bds1,336.1 million or US\$668.1 million from the following international and regional finance development institutions and region:

- (i) Inter-American Development Bank – Bds\$516.1 million or US\$258.1 million
- (ii) World Bank – Bds\$370.0 million or US\$185.0 million
- (iii) Caribbean Development Bank – Bds\$450.1 or US\$225.0 million
- (iv) Grants from the European Union (European Development Fund) – Bds\$120.0 million or Euros 40.3 million/US\$60 million.

These projects and programmes are developmental in nature and will deliver the following results:

- Efficiency and productivity gains for Barbados (the proposed Barbados Competitiveness project with the IADB will deliver on this)
- Employment generation
- Technological enhancement
- Development of entrepreneurship
- Increased foreign exchange earnings
- Increased prospects and opportunities to realise sustainable real GDP growth.

Appendix II shows the loan amount and the status of projects' undisbursed funds over the medium term period.

#### (B) Management

- (i) Greater efforts will be made to accelerate the process between the conceptualisation, implementation and execution stages of projects. This will be facilitated by:
  - Undertaking a comprehensive review of the structure and procedure of the Public Sector Investment Programme.
  - Reducing transaction/administration cost, commitment fees and other costs.
  - Full time project execution units will be formed early in and for the life of projects.

- (iii) Greater focus will be placed on results based management of the PSIP consistent with the requirements of the international development finance institutions.
- (iv) The Public Investment Unit will engage in greater dialogue with its development finance partners, project executing agencies and other strategic partners such as the Solicitor General's Office and the procurement agencies to find optimal approaches and solutions to accelerate the rate of disbursements and reimbursements of projects funds.

## **2.5 Fiscal Policy Scenario and Analysis**

The medium term strategies, as set out above for revenue and expenditure, provides a framework as to how Government over time will seek to reduce its overall fiscal deficit and aim at obtaining a balanced budget by the period 2014/15 and a small surplus by 2015/16. It is within this framework that a fiscal analysis is undertaken with reference to a baseline scenario of no adjustments. This analysis moves from a so called baseline position to one where specific and targeted adjustments are made by government.

As outline in Table 2, and based on expectations regarding future revenues and efficiency gains, the strategy identifies the need to increase earnings in the first fiscal year (2010/11) by 0.25 per cent of GDP or Bds\$17.0 million over trend, after which a further 0.38 per cent of GDP adjustment over trend is made for each of the other years 2011/12 to 2014/15. It is expected that these policy actions will see a combined increase in annual revenues over trend totalling BDS\$137.0 million. These adjustments are spread mainly across key revenue components such as - goods and services and international trade. In terms of direct taxes, the proposed adjustments are much smaller with the main focus being on income and profits. Regarding non-tax revenue, increases are made to this also based on the policy to keep licences and fees constant in real terms but to make necessary adjustments to reflect arrears.

On the expenditure side, the government, for the first year 2010/11 will seek to cut spending, as a per cent of GDP, by 0.50 per cent from trend, a further 0.75 per cent of GDP from trend in the second period, no changes in the third and again a further 0.75 per cent of GDP cut in the fourth and fifth period. As a combined total, this will realise an annual BDS\$216.0 million fall from trend in expenditures. Attention will be paid to reducing spending in areas such as goods and services, and subsidies and transfers. No changes are proposed for wages and salaries, even though a policy to grow emoluments by increments only, through restricting growth in public sector employment, will be put in-place.

With reference to Appendix I, it is shown that these proposed adjustments will result in an overall fiscal surplus totalling BDS\$0.7 million by 2014/15 or an overall balanced budget as a per cent of GDP, and also a reduced debt to GDP ratio of 90.5 per cent. It is government's intension to further reduce this debt ratio to near 70.0 per cent of GDP by 2017/18. Outlined in Table 3 below, these fiscal adjustments will see positive changes in key fiscal indicators when compared to the baseline situation<sup>2</sup>.

<b>Table 2: Fiscal Adjustment Scenarios</b>					
	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
▮ as a % of GDP- Revenues	0.25% or \$17m	0.38% or \$27m	0.38% or \$29m	0.38% or \$31m	0.38% or \$33m
▮ as a % of GDP- Expenditure	0.50% or \$34m	0.75% or \$55m	0.00	0.75% or \$61m	0.75% or \$66m

**Table 3: Fiscal Adjustment and Baseline Indicators**

<b>Fiscal Indicators</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Central Government Total Debt % GDP – Baseline	105.4	111.3	111.1	110.7	107.6	101.5
Central Government Total Debt % GDP – Fiscal Adjustment	105.4	109.6	108.1	105.3	99.5	90.5
Overall Budget Balance % GDP – Baseline	-7.6	-8.0	-7.2	-6.9	-6.1	-5.1
Overall Budget Balance % GDP - Fiscal Adjustment	-7.6	-7.3	-5.2	-4.0	-2.1	0.0
Primary Balance % GDP – Baseline	-1.4	-1.7	-0.9	-0.6	-0.1	0.5
Primary Balance % GDP - Fiscal Adjustment	-1.4	-1.1	1.0	2.1	3.7	5.4
Total Revenues % GDP – Baseline	38.2	35.1	35.8	35.5	35.1	34.4
Total Revenues % GDP - Fiscal Adjustment	38.2	35.3	36.5	36.9	37.1	36.8
Total Expenditures % GDP – Baseline	45.8	43.0	42.9	42.3	41.2	39.5
Total Expenditures % GDP - Fiscal Adjustment	45.8	42.6	41.7	40.9	39.2	36.8
Total Debt Interest % GDP – Baseline	6.2	6.2	6.3	6.2	6.0	5.6
Total Debt Interest % GDP - Fiscal Adjustment	6.2	6.2	6.2	6.1	5.8	5.4
Total Debt Interest % Revenue – Baseline	16.3	17.8	17.6	17.6	17.2	16.4
Total Debt Interest % Revenue - Fiscal Adjustment	16.3	17.5	17.0	16.5	15.7	14.6

## Sensitivity Analysis

<sup>2</sup> A graphical representation is shown in Appendix III.

Based on the actual outcomes, further analysis and scenarios will have to be conducted over the planning period. In some cases, yearly adjustments to taxes (both direct and indirect) and non-tax revenues will have to be and will be done to ensure that the fiscal objective is reached. In addition, government will ensure that there is a contingency plan in the event it misses its targets.

## **V. IMPLEMENTATION OF THE MTFS**



It is important that the MTFs be fully implemented over the period if the core and specific objectives and targets are to be achieved. It is expected that adjustments will be necessary and that smaller or larger cuts or increases will have to be made to expenditures and revenues depending on the growth outturn. This will mean constant monitoring by the Ministry of Finance, Ministry of Economic Affairs and the Central Bank. The Joint Economic Group (JEG), which was re-started by the Prime Minister and for which the Ministry of Economic Affairs has responsibility, will act as the body which would monitor and report on the implementation of the MTFs. This Group which is already made-up of members of the key fiscal and macro agencies, will report quarterly to the Cabinet Committee on Economic Policy.

It should be noted that detailed plans for the execution by the respective ministries, departments and agencies are spelt out in the yearly Estimates and Financial Statement and Budgetary Proposal. These outline government's strategies for revenue and expenditure in that particular year.

Finally, for collective viewing, an implementation matrix outlining the mentioned fiscal strategies; timelines; targets; performance indicators; and responsible ministries is provided below.