



GOVERNMENT OF BARBADOS

FINANCIAL STATEMENT  
AND  
BUDGETARY PROPOSALS  
2011

PRESENTED  
BY

HON. CHRISTOPHER P. SINCKLER  
MINISTER OF FINANCE AND ECONOMIC AFFAIRS

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Mr. Speaker Sir, it is with a chastened outlook yet calmed assurance that I rise to deliver to this Honourable House the Financial Statement and Budgetary Proposal for 2011.

I am chastened Sir, not only by the enormity of the task that confronts me as Minister of Finance and Economic Affairs, as it does indeed the entire Government and people of Barbados, but equally as well by the massive responsibility which has been imposed on us to safely navigate our country through this most challenging period of the country's history.

Lesser men and women would have shirked from this responsibility in favour of more certain waters and a less contentious atmosphere.

Surely at times Mr. Speaker, my own human frailty has led me, as I am sure it has led many others across this country, in moments of weakness to ask: why me?

But for those of us on whom God Almighty has vested the burden of leadership in trying times, it is expected that we do as the Apostle Paul instructed the early Christians in his letter to the Corinthians and I quote: "Keep alert, stand Firm in your faith, be courageous, be strong"

That is why for my own part, as I walk this treacherous path of uncertain economic times, I do so with a resilience to do what is mine to do. For I know that my strength also comes from the certainty that I am not walking this path alone.

Indeed Sir, I stand here before this Chamber comforted in the knowledge that I have the unreserved support of my political leader

and Prime Minister, the Honourable Member for St. Michael South, just as I have the overwhelming backing of my colleagues who, each in their own way, have contributed mightily to the framing of this policy statement to be imparted today.

I am equally assured in my task Mr. Speaker by the rich guidance which I received from the representatives of labour, the private sector and wider civil society across the country as they participated vigorously in the annual pre-budget consultations that set the stage for my presentation.

To be certain, less than two weeks ago at the most recent consultation of the full Social Partnership on the economy of Barbados, I gathered a renewed sense of deep national commitment for the forging of new linkages among ourselves to aid in the restructuring and revitalisation of our economy and society. We know that the challenges are great and the demands greater, but we also know that our commitment to seeing Barbados through this is unshakable and that working together as Team Barbados we will succeed.

But Sir, my ultimate sense of assuredness has come from scores of ordinary Barbadians who on a daily basis offer up prayers of intercession on my behalf and for this country and its government as we lean on each other to confront our most complex challenges.

I am happy this afternoon to know that even though times are tough and things are hard on many in Barbados as is the case with so many from across the region and the world, Barbadians have not lost faith in their government nor their country.

And they have not lost faith Sir, I believe, for principally two reasons. The first is that they understand and appreciate that Barbados does not exist on a planet all by itself where no one and nothing touches the serenity of our existence. Barbadians are educated enough to appreciate the reality that,

contrary to the opinion propagated by critics of this Government, this country has been and continues to be severely affected by an economic crisis that is the worst in the post-modern history of the world. A crisis whose dimensions, virulence, duration and impact have defied the best economics brains in the world, if not the few economic experts we have right here in Barbados.

They know that the veritable collapse of many Western European economies, and the 'hobbled' nature of the United States (US) and British economic recoveries, means that less people will fly to our beautiful country and those that do will bring less money with them simply because they have less money to spend.

They know that less foreign investment will come to our shores not because of any policy of this Government but simply because investors not only have less to invest but are highly skeptical about investing in these uncertain economic times.

They know and understand that less of our goods and services will sell overseas not because as a country we are not trying to be competitive or to find ways to increase our exports, but simply because high unemployment and less disposable income overseas has hampered consumers from enjoying the luxury of as we would say buying Bajan.

Secondly, and on the converse Sir, Barbadians have kept faith with this administration because they know that we have kept faith with them, and that this Government has walked side by side with them in these very challenging times.

They know Mr. Speaker that we have done our best to support them, and in particular the most vulnerable among us, from the worst effects of this terrible global economic downturn.

For example Sir, Barbadians know that in 2008 at the start of this recession, this Government took a decision to give public servants a salaries increase so as to assist them to cope with the impact of rising prices. Barbadians know that this Government also took the decision to accelerate the increase in the reverse tax credit for the working classes among us from \$750.00 straight to \$1300.00 to help them to adjust to the inevitable negative impact the coming downturn from the recession would produce.

Barbadians are well aware that it is this Government that determined that those among us who fell from employment because of the recession should not only be given an opportunity to re-train for successful re-entry hopefully at a higher into the work force but importantly as well, that we should hold their hands by extending their unemployment benefits a further 14 weeks as they and their families sought to adjust to the loss of income in the household.

Further to this Mr. Speaker, who in Barbados could deny that it was this Government that increased welfare grants to the most vulnerable, removed the payment of the National Housing Corporation (NHC) rents at an average of \$300.00 per month for more than 2000 households (and growing); that freed many a parent from the payment of bus fares for their school aged children and instituted summer camps that relieved the financial and other burdens from scores of families over the summer holidays but also created earning opportunities for several small business people who service those camps.

Or who could credibly argue against the fact that through this Government once again Barbadians like you and I can have the hope of owning or renting an affordable house through the National Housing Corporation which has finally been restored to its original mandate of housing people across this country.

This is not a figment of the imagination. It is not a pie in the sky dream expressed only in a brochure. These are real housing solutions Sir that can be touched, where real people live and, as the Honourable Leader of the House would say, where toilets are flushed every day. It is Greens, St. George; it is Four Hill and French Village, St. Peter; Marchfield and Work Hall, St. Phillip and the palatial Covereley, Christ Church.

Indeed Sir, letters are being prepared to be sent out to the next batch of honest, hard working Barbadian families who have been chosen as the new occupants of NHC homes at Stuart Lodge (Tweedside Road) and Country Park Towers (Country Road). In the months to follow it will be Lancaster 1 and 2, Valarie, Grotto, Mason Hall Street, Eckstein Village, Haggatt Hall and yes Sir, Deacons Road too as this Government replaces talk with action in our quest to house every last person in this country.

But above all else Mr. Speaker, Barbadians, in spite of every challenge which we might face in this period of economic slowdown, can declare that its Government, this Democratic Labour Party Government, has fought tooth and nail to ensure that as many of them as possible can hold on to their jobs. Indeed Sir, it is a claim which not many other populations across the world can make about their government with any degree or credibility.

Why? Because few others have taken a firm policy stand that as part of a national strategic response to the recession Government would work with its colleagues in Labour and the Private Sector to keep people employed for as long as thank God we have been capable of doing so up to now.

Fewer still can boast that their government not only made that commitment but that they went about systematically and strategically extending instruments of support to their private businesses to help them through the darkest days of the recession.

Are you aware Mr. Speaker how many companies in the region or elsewhere in the world would have been happy to be able to access a direct financial support mechanism such as the Tourism Relief Fund with nearly \$25 million in non-reimbursable grant funding? Or perhaps be able to have the penalties for the nonpayment of taxes and social security impositions waived even as they were allowed to enter into a mitigated repayment programme?

Or better yet Sir, to be able to defer payments of such obligations and have them treated as a loan to the company to help ease their cash flows during the worse effects of the recession. I would venture to say that very many businesspeople would love to have a government like this one.

A government that did not throw them and their employees to the wolves in a gleeful attempt to show bravado in a recession; rather an administration that sought to show empathy with employers and employees alike and hold their hands through the most difficult times.

A government which in spite of the most stringent fiscal circumstances, could still find ways to incentivise local and foreign business investors to encourage them to carry on with their projects to help grow the local economy.

However Mr. Speaker, if you listen and/or read much of the anti-Government commentary, you would believe that this Government has stood idly by twiddling its thumbs doing nothing to help Barbados or Barbadians in these troubling times.

And so, true to form, those commentators are those among us who for their own narrow, naked self interests and personal self-aggrandisement have opted not to play with Team Barbados to hold the country together, but try at every turn to pull it down.

Daily Mr. Speaker, Barbadians are fed a diet of how bad and miserable things are in the country and how just about everything and anything is about to collapse and be no more.

We even recently had the very unfortunate, yet not totally unexpected example of no less a person than the Leader of Her Majesty's Loyal Opposition, saying that he had in his possession figures that would show that Barbados' revenues for June 2011 were abysmal and that our expenditures were horrendous. This Sir, even before the Accountant General, the single national authority on these things, had even finished collecting information for June. Well, as we found out less than two weeks after he vomited up such scare-mongering tactics, the real facts show his intervention to be totally untrue.

Mr. Speaker, I believe that the people of Barbados deserve an unreserved apology from him, but greater men than him have misspoken before and failed to correct themselves when caught. My advice to Barbadians, don't hold your breath.

Even more sadly Mr. Speaker, I am sure that come tomorrow afternoon and in the succeeding days of this debate, Barbadians are going to be treated to more of the same unsubstantiated commentary designed with one purpose in mind.....to undermine faith in the Government and confidence in the country's economy.

Little wonder Sir, that Barbadians are bombarded almost every weekday in at least one of our Dailies, (which shall remain nameless), by those whom I call the proverbial Four Horsemen of the Apocalypse (if you study carefully Sir you would know to whom I refer) spewing out their respective veils of misery, gloom, and ultimate destruction on this poor little island of Barbados.

Sadly Sir, it is as if these folk derive some unexplained orgasmic pleasure out of seeing or hearing that Barbados has done badly or will do poorly, just so that they could say that they were right.

I would never be so bold as to accuse any national of this country of being unpatriotic because I genuinely believe that everyone of us wishes Barbados and Barbadians well. But at the same time Mr. Speaker one has to wonder what motives really drive much of the unsubstantiated and at times derisive commentary you hear about what is happening in this country.

Mr. Speaker there is no doubt that Barbados has serious challenges. No one in this Government, least of all me, has hidden that from the people of Barbados. We have laid the facts out to the people, said what we intended to do to deal with the problems, even as we set about on a course correction to put the country on a better footing.

But can we really as a people accept as some would have us believe that everything in Barbados has gone bad since January 15<sup>th</sup> 2008?

Can't you Mr. Speaker, like the Leader of Opposition, and all the rest of us living in this country, close our eyes and successfully predict that our refuse will be collected this week from in front of our homes free of cost? Nothing has changed in that regard.

Can't you, the Leader of the Opposition and I, like most other Barbadians still claim that were we to fall ill today that we could avail ourselves of quality medical care at the QEH, the best to be found anywhere in the Caribbean, I might add, free at point of delivery?

Can't we still boast of having a country in which free education from nursery school straight to the University level still exists in Barbados for the vast majority who qualify and even some of those who don't? Or that we still continue to enjoy subsidised water rates, bus fares, school meals and text books in primary and secondary schools respectively?

Aren't our social agencies still working on behalf of the poor and vulnerable and delivering assistance to those who are in need, albeit

with some structural efficiency challenges, which the Minister of Social Care is manfully tacking as we speak.

This is not to say Sir that critical commentary and even robust and vehement argumentation in opposition to Government policies do not have their place, but surely all and sundry must know when it is time to put aside the cudgel and seek to work cooperatively in the interests of all Barbados.

We must know where and when to draw the line.

I recall anecdotally Sir, a personal experience when I was the Leader of the Caribbean NGOs Policy Development Centre (CPDC) leading a massive rally in the heart of Castries to protest Caribbean peoples' exclusion from, and the potential negative impact of the proposed European Economic Partnership Agreement (EPA) negotiations.

Back then our rhetoric was vehement and analysis biting, as well we felt it ought to be, given the stakes that faced the region. And under the pressure of the protests the regional trade negotiators sent for the leaders of the movement. We exchanged arguments with accusations left and right and yes some unfortunate things were said. Towards the end of that highly contentious session, Dame Billie Miller, who was the then lead negotiator for the Caribbean turned to me and said, "Young man, you are very intelligent and articulate and have a bright future not just here, but perhaps also in the politics of Barbados. Who knows you might even occupy the very ministerial portfolio which I have the honour to hold right now and I am sure if that happens you will do well.

"But you will also do well to remember that Barbados and region belongs to all of us. We have nowhere else to go. And so it is our duty to protect what we have achieved and grasp the opportunities which we create. Pulling the region down in the full face of the world will not help us do any of that. All sides have to be careful what we say and how we say it, just as we must be mindful of what we do and how we do it."

She concluded by reminding me of the advice once rendered by the Late Sir James Tudor to people in Barbados then vehemently critical of Barrow administration. Advice Sir, which I now in turn render to the most vehement critics of this administration, including some members of the Opposition:

***“Be careful not to spit in soup; we all have to drink it”.***

Barbados has its challenges but we are no worse off than any other country, and better off than most in the wake of the worse global economic and financial downturn in recent memory.

I am aware that many of this Government’s critics hate for us to reflect on what it happening globally, or even compare our experience with the relative stories of others who are being asked to suffer the indignity which a recession inevitably brings but Barbadians must be able to appreciate how we as a people are coping with similar challenges.

For instance Mr. Speaker, a twist of fate of birth could have landed any of us in Greece this evening, with me delivering an austerity budget as the Greek Minister of Finance.

If that were the case Sir, I would stand before you and this country and announce in part, some of the following measures:

I would impose a 5% solidarity tax on all household income. Lower the tax-free threshold for incomes from 12,000 to 8,000. Impose a 50% rise in property taxes; raise VAT from 19% to 23 %; scrap most tax exemptions; increase corporation taxes; cut public servants salaries by 15%, while laying off all temporary public servants; I would cut spending on health by 30%, public investment by nearly 40% and close 2000 public schools. I would even cut social security benefits and pensions and raise the contribution period for qualification for full pension from 33 years to 40 years.

That is the budget I would deliver here this evening if we were to share the fate of the Greek people and have that placed on the Barbadian public. The funny thing is Mr. Speaker, there are actually some among us who would not mind if I did, even though they don't have the intestinal fortitude to say it openly.

But we are not in Greece, or Ireland, or Portugal or Spain, we are in Barbados, and we fashion our responses to the problems we have with a level of responsibility and understanding that as a small, fragile and highly vulnerable economy and society, it will not take a whole lot to unravel and destroy the very social and economic fabric of this country.

In this regard therefore, we must be firm yet fair, ready but responsible, hungry for success but not hasty in our ignorance. When we are wrong, we have to be bold enough to admit it, and we have

done so, Sir. When we fall, we have to get up again. As a Government we have endeavoured to be patient not pretentious, opened not opportunistic, caring not callous; but ultimately we have held the people of Barbados in our confidence.

It was against that back drop Sir that last November, only a short nine months ago, I came to the nation and in my characteristic forthright manner and I laid out quite expansively the challenges facing Barbados at that time and potentially for the future ahead.

I indicated to the people of Barbados, that behind the negative impact of the most virulent recession this country has ever faced, and Government's attempt to hold the economic and social fabric of the country together, that we were faced with the prospect of continued negative economic growth and a worsening public finances position.

Indeed Mr. Speaker, I highlighted the fact that even in spite of our previous efforts to increase revenues and contain expenditures that there was every likelihood that due to the prolongation of depressed economic conditions globally, regionally and at home, our deficit reduction efforts would not only fall short of the then predicted target of 7.2% of GDP but would likely rise to above 10% in the fiscal year 2010/2011.

To be sure Sir, my specific words at page 94 of the Financial Statement and Budgetary Proposals for 2010-2011 were as follows:

*“In the Medium Term Fiscal Strategy the target established for the fiscal outcome for 2009-2010 would be 7.2 percent. On current projections the fiscal balance is expected to end the year at 10.1*

*% short of any intervention from government and based on key supplementaries [including] for the University of the West Indies of \$60 million and the Ministry of Transport (Transport Board) of \$30 million.”*

So we knew that while it would not have been possible from that distance into the fiscal year to reach the medium term fiscal policy target of 7.2%, we had to intervene to prevent an even worse and potentially impossible fiscal situation from occurring. To this end, we laid out an 18 month programme to assist in progressive fiscal consolidation through revenue raising measures and further expenditure reduction initiatives which we promised would start in the 2011/12 Estimates of Revenue and Expenditure.

But we did not stop there Mr. Speaker. We outlined initiatives geared specifically towards giving greater impetus to the economic recovery so as to try to better the 0.5% decline which we anticipated for 2010 and accelerate growth into 2011.

We specifically targeted the tourism sector providing additional marketing resources for the Barbados Tourism Authority (BTA) to aggressively go after the British market which up until that time, was continuing to register negative growth. We zeroed in on the international business sector with additional resources for Invest Barbados to increase their efforts at attracting more international business companies and investment alike. We provided additional incentives for agriculture and laid out a programme for increased government investments in housing and roads rehabilitation to help generate and increase activity in the construction sector and provide for some job growth.

Our critics Sir, led by members of the Opposition, castigated our programme as an impending failure that would, as they put it, drive the economy further into recession. According to them, our fiscal measures would not prevent a deficit of 10% based on the number of supplementaries we expected to approve and the lack of revenue that we would get from these measures during the next financial year.

Given that both sides had very clearly drawn positions on what would happen in the economy for the rest of 2010 and into 2011, it would now be of benefit to this House and the rest of the country for me to give a report card on the international, regional and of course most importantly, the domestic economic and financial situation to the latest point for which confirmed data is available.

#### *INTERNATIONAL ENVIRONMENT*

Following an estimated 0.5% decline in world output in 2009, the prospects for global recovery appeared mixed at the end of 2010. According to the IMF World Economic Outlook (June 2011), global activity expanded by 5.1% at the end of the period under review. This expansion was supported by increased private consumption in major advanced economies along with sustained private demand, accommodative policy stances and resurgent capital inflows in emerging and developing economies.

However, during the first quarter of 2011, the global economy expanded by an annualised rate of 4.3%. An outturn affected by many unanticipated negative factors, such as the devastating effects of the earthquake and tsunami on the Japanese economy, coupled with

higher commodity prices, bad weather, and supply chain disruptions in the U.S.'s manufacturing sector.

In advanced economies, including most of Barbados' major trading partners, with activity moderately less than expected, coupled with high unemployment, growth remained subdued.

On the other hand, in many emerging economies, activity remained buoyant, combined with increasing inflationary pressures primarily driven by strong capital inflows. Global financial conditions showed signs of rebounding as evidenced by rising equity markets and the easing of bank lending conditions. Strong public policies and measures deployed by the IMF helped in this rebound.

### Advanced Economies

Within the Advanced Economies, real GDP increased by 3.0% in 2010 compared with a contraction of 3.4% a year earlier. In the U.S., economic activity rose by only 1.6% compared with a decline of 2.6% at the end of 2009. This positive performance was due to unprecedented macroeconomic policy stimulus, emergency financial stabilisation measures, and a modest cyclical upswing. However by the end of the second quarter of 2011, the US Commerce Department had not only reported slower than expected GDP growth at 1.6% as opposed to the 2.4% previously forecast, but actually revised its earlier first quarter estimate of economic output from 2.1% to 0.4% of GDP.

In the United Kingdom, domestic demand remained relatively subdued, particularly following the recent measures to cut the budget deficit. Economic activity increased by 1.3% compared with a decline of 4.9% in 2009. The Canadian economy, which grew by 3.2% at the

end of 2010, was relatively buoyant as monetary and fiscal stimuli and strong international demand for commodities helped to boost the growth rate. The unemployment rate at 8.0%, is well below that in the United States and has been declining steadily since early 2009. According to IMF data, GDP growth in Japan increased by 4.0% compared with a fall-off of 6.3% at the end of 2009. Stimulus measures were primarily responsible for this strengthened outturn.

In the Euro Area, economic activity increased by a small 1.8% compared with a contraction of 4.1% a year earlier. Major contributors to this growth were Germany (3.5%), France (1.4%) and Italy (1.3%). Recovery was modest in both Germany and Italy as a result of weak growth among its trading partners, persistent competitiveness problems, and planned fiscal consolidation which weakened private demand. In France, growth was moderate, as private consumption was weakened by high unemployment and the withdrawal of stimulus measures. Constrained by high debt, fiscal and competitiveness imbalances, growth in Greece, Ireland, Portugal, and Spain was much lower.

### *Emerging and Developing Economies*

Within the emerging and developing economies, real GDP increased by 7.4% in 2010 relative to 2.8% a year earlier. Driven by domestic demand, economic growth in China and India rose by 10.3% and 10.4% respectively. Growth in these economies was bolstered by sustained performances in retail sales and industrial production. In Latin America and the Caribbean, economic activity increased by 6.1% compared with a contraction of 1.7% a year earlier; of course, this refers to Latin America . Major contributors to this growth were Brazil (7.5%) and Mexico (5.5%). This performance reflected solid

macroeconomic policy fundamentals, sizable policy support, favorable external financing conditions, and strong commodity revenues.

### REGIONAL PERSPECTIVE

Economic conditions in the Caribbean region remained depressed during 2010, even as the world economy rebounded from the global economic and financial recession. While the global recovery has largely been driven by growth in developing and emerging economies, the recovery in the more advanced economies (the Region's main source markets for tourism, investment and remittance flows) has been weak and sometimes uncertain.

As a result of the challenges which the region faced during 2010, most countries reported contractions in real output. The level of economic decline was marginal for - Jamaica, Dominica and Trinidad and Tobago (under 1.0%); moderate in Grenada and Saint Vincent and the Grenadines (1.0% to 3.0%); and between 3.9% and 8.5% for Anguilla, the Cayman Islands, Montserrat, Antigua and Barbuda, Saint Kitts and Nevis and Haiti. The six (6) countries posting growth, ranging from 0.2 % to 3.6% were - Barbados, The Bahamas, Saint Lucia, Turks and Caicos Islands, Belize, British Virgin Islands and Guyana.

The protracted weakness in economic activity was reflected in severe labour market dislocation in terms of employment and wages, and dampening domestic demand. Resurgent international commodity prices exacerbated these effects, pushing up import costs, with negative implications for the balance of payments and domestic prices. Sluggish activity and rising cost pressures also placed acute strain on

public finances and worsened already large debt overhangs, necessitating fiscal consolidation measures and limiting the scope for economic stimulus by regional governments.

Reduced economic activity and foreign inflows, together with the ongoing fallout from the CL Financial Group collapse, continued to dampen financial markets. Natural disasters also had an adverse impact on economic conditions, most notably the earthquake that devastated Haiti on January 2010, as well as the destruction wrought by Hurricane Tomás in Saint Lucia and Saint Vincent and the Grenadines at the end of October 2010.

### DOMESTIC ECONOMIC REVIEW

#### Annual Review 2010

During 2010, the Barbados economy expanded by a provisional 0.2% compared with a contraction of 4.7% in 2009 (and a predicted decline by the Opposition!) The overall increase in real GDP growth was led mainly by an improved performance in the non-traded sector. This sector grew by 0.4% in 2010, following a 4.2 % decline a year earlier.

This growth was attributed to improved activity in the mining and quarrying sub-sector which rose by 10.5% reflecting higher demand in the construction sector. In relation to the traded sector, activity marginally declined by 0.4% in 2010 compared with a fall-off of 6.1% in 2009. Value added in tourism was estimated to have risen by 2.9% following a fall of 6.6% in 2009. This turnaround reflected the strong efforts of this Government and in particular the Ministry of Tourism through the BTA to claw Barbados back to its lead position in many of our traditional markets and in new jurisdictions.

In the International Business sector the number of new entities licensed during 2010 totaled 442 as compared with 407 at the end of 2009, representing an 8.6% increase in overall new company formation. There were 420 new International Business Companies (IBCs) licensed during the year compared with 379 in 2009. This represented an increase of 10.8%. Societies with Restricted Liability (SRLs) new licenses totaled eleven (11) at the end of December 2010, which was eight (8) less than what was recorded in 2009.

The annual rate of unemployment for 2010 was 10.7%, 0.7 percentage points higher than the 10.0% recorded at the end of 2009. At the end of 2010, the average rate of inflation was estimated at 5.8% compared with 3.7% at the end of 2009. This reflected the pass-through effect of rising oil and commodity prices.

#### *The First Six Months Review 2011*

Mr. Speaker Sir, behind a properly thought-out and targeted programme as enunciated by me in last November's budget, together with a light recovery in North Atlantic economies, overall economic growth stood at 2.1% at the end of the first half of 2011. This was a healthy improvement to the 0.5 % decline at the end of the second quarter 2010.

Foreign exchange reserves stood at \$1.4 billion at the end of June 2011, a reserve cover of approximately 19.8 weeks of imports, above the recommended minimum of 12 weeks, which is the international standard. Private capital inflows were significantly higher than in the corresponding period of 2010.

However, rising oil prices during the first half of 2011 remained a major concern, as this contributed significantly to the growth in retained imports. Imports at the end of June 2011, were projected to have increased by an estimated \$142.6 million primarily on account of a 37.0% increase in the average price of oil on the international market.

Moreover, the residual effect of the crisis has continued to restrain the growth of some sectors. This scenario has continued to generate low levels of government revenue, a current account deficit of \$359.1 million and uncomfortable levels of unemployment across sectors. Nonetheless real gains are starting to show across the economy.

### Traded Sectors

The latest six-month economic review for the Barbados within the economy has largely been driven by improved tourism activity which increased by an estimated \$90.7 million or 5.2% above the same period 2010. Observed data suggest that the increase in tourism activity was due mainly, primarily though not totally, to improvements in long-stay arrivals particularly in the UK market which showed a robust turnaround in the winter months to grow by 8% over the first six months of 2011. This is as a direct result of the decision which this Government took and that the Opposition opposed in the Budget last year to put additional marketing resources at the disposal of the BTA for the UK market.

Recent information for the month of June 2011 showed long stay tourist arrivals overall to have increased by 3,311 persons or 9.4% when compared with the same period 2010. Arrivals from the U.S market rose by 14.5%, CARICOM by 23.8%, and Canada by 0.6%. The only market that did not show an increase was the U.K market which

declined by 4.3% when compared to the same period last year but figures for July will show a turnaround. Cruise Passenger arrivals for June 2011 increased by 3,672 persons or 20.4% when compared to June 2010.

Manufacturing output fell by an estimated 2.3% for the first half of 2011 when matched against a 7.9% decline for the previous year. The delay in sugar harvest, due to adverse weather conditions, resulted in reduced sugar production earnings and as a result contributed slightly less foreign exchange when compared with the amount received in 2010.

The International Business and Financial Services sector continued to exhibit moderate growth despite the challenges faced. At the end of June 2011, the number of new entities licensed grew to 320 when compared with 267 for the same period in 2010. There were 274 International Business Companies (IBCs) licensed at the end of June 2011 compared with 199 in the similar period of 2010. With regard to Societies with Restricted Liability (SRLs), the new licenses at the end of June 2011 numbered 11 in contrast to 9 recorded at the end of June 2010. These increased registrations notwithstanding, tax revenues from the sector, because of the prevailing international climate, remained low.

### *Non-Traded Sector*

In relation to the performance of the non-traded sector, the indirect effects of tourism activity were also reflected in all sub-sector activity which expanded slightly in 2011. Performance in the construction sector remained at the pinnacle, with output increasing by a projected 2.9 % at the end of June 2011.

Value-added in the other major non-traded sector also improved, as the wholesale, retail and the financial and other services sectors increased by 2.3% and 2.1%, respectively, for January to June 2011.

Second quarter output in the transportation, communication and storage sector grew by 1.2% over the same period in 2010, following a previous annual growth of 0.1% for 2010. Similarly, value-added for electricity, gas and water fell by 1.2%.

### Unemployment and Inflation

The lingering effects of the global and financial crisis coupled with slow economic growth reflected the level of unemployment, which declined to 10.0% in March 2011, 0.6 of a percentage point below the level for the first quarter of 2010. With the increased cost in consumer goods and services, the average inflation rate for the twelve month period ending May 2011 stood at 6.5%. This was slightly higher than the inflation rate of 6.4% for the period ending April 2011.

### Financial Sector

On the financial sector side, domestic deposits of commercial banks improved during the first quarter of 2011, while cash levels remained moderately flat, when compared with the same period of 2010. Liquidity in the financial system during the second quarter of 2011 remained relatively high with cash reserves at 12.2% of deposits. At the end of June 2011, interest rates on deposits and loans softened, while the interest rate on treasury bills increased marginally.

Mr. Speaker from the foregoing, it would take even the most negative and blinded critic of this administration not to admit that in the face

of a bitter, contentious and highly uncertain international economic environment that Barbados is doing comparatively well against the performance of most similar small vulnerable developing economies with limited resources and little export commodities.

Contrary to the declared failure of this Government's economic policies as further outlined in last year's budget debate and subsequently by the Opposition, our economy has begun to show definite signs of economic turnaround. Indeed Sir, this performance which we expect to continue to improve is as good as, or better than, the early recovery years of any previous recession which we have encountered in this country in the last 30 years.

For example, if we assess the performance of recovery and impact on unemployment we would see that in all cases at the end of the first year after the recession it was slow.

In 1983 the year immediately following the recession of 1981-82, the economy grew by 0.5% and unemployment was 15.0% having risen from 10.8% in 1980. In 1993 the year following the 1990-92 recession, the economy grew by 1.2% and unemployment was 24.3% having risen from 16.1% in 1990. In 2002, the year following the slight economic downturn in 2001, the economy grew by 0.7% and unemployment was 10.2%.

So far for this year 2011, following the worse recession the world and this country have ever faced, our economy is growing at an average rate of 2.1% and unemployment is now at 10.0%.

Yet Sir, if you listen to the commentary which has emerged from some of the strangest quarters you would believe that this Government burnt down the barn; that this is the worst they have ever seen a Barbados economy managed; and that this Government does not have a clue what it is even doing.

Some are even going as far as to question the integrity of the hard-working officials in the Ministry of Finance and Economic Affairs and the Central Bank of Barbados (the same people who served them when they were in Government), claiming that the information put out on the economy of Barbados is not true and that this economy could not have possibly grown.

That is the extent to which some would go to get back in Bay Street.

It is absolutely amazing Sir. UNBELIEVABLE!

**Let me now turn to the fiscal situation.**

The fiscal year 2010/2011 was indeed challenging for the central government in an economic climate which saw continued declining revenues even as Government sought to contain its expenditure especially in the area of discretionary spending. The deficit for the year, as reported by the Accountant General, was \$751.1 million representing 8.8% of GDP at market prices of \$8,528.0 million. The revised deficit for the corresponding period in 2009-2010 was \$702.9 million representing 8.5% of GDP at market prices of \$8,246.2 million.

Information received from the Accountant General indicates that current revenue for the period April 1st 2010 to March 31st, 2011 was

\$2,304.4 million, a decrease of \$3.6 million or 0.2% from the amount recorded for the corresponding period during 2009-2010.

The decline in economic activity, locally, regionally and internationally continued to affect reported tax revenues with the greatest impact being recorded in the area of Income and Profits which declined by \$49.8 million or 6.1% to \$765.5 million despite the change in timing of refunds of taxes paid by the Inland Revenue Department and the VAT Division of Customs.

Both corporation and withholding taxes recorded declines, with the greatest impact being felt in the area of corporation taxes which declined by 20.4% or \$76.3 million during the reported period. Revenue from income taxes recorded an increase of \$30.6 million or 7.9% over the corresponding period in 2009-2010 to end at \$416.9 million.

Taxes on property increased by \$36.4 million over the corresponding period in 2009-2010 to \$150.1 million. Taxes on goods and services increased by \$52.1 million or 5.3% to \$1,027.9 million. Of note are taxes on insurance companies which increased by \$12.7 million due to the fact that payment of these taxes are made every two years and receipts of VAT which totaled \$737.7 million, an increase of \$33.9 million reflecting the early impact of increase in VAT from 15 to 17.5%. Excise Duties recorded \$147.7 million, a decrease of \$0.6 million from the actual outturn for 2009-2010.

Import duties increased by \$12.4 million to \$190.8 million. This represented an increase of 7.0% from the amount collected in 2009-2010.

Special Receipts decreased by \$6.8 million or 10.3% to \$59.2 million due to the removal of the environmental levy on imports with effect from December 1, 2010. Non-Tax Revenue also recorded a decline falling by \$12.7 million over the corresponding period in 2009-2010, to \$94.3 million. This reduction was partly due to the fact that the gain of \$22.0 million that was recorded in relation to the re-evaluation of Government's Special Drawing Rights with the International Monetary Fund in June 2009 was not repeated in 2010. The full impact of this reduction was however not felt due to the receipt of the insurance payout from the Caribbean Catastrophe Risk Insurance Facility (CCRIF) for the damage caused by Tomas during the month of November 2010.

On the expenditure side current expenditure, exclusive of amortisation of \$821.0 million, increased by \$105.8 million or 3.8% from the 2009-2010 figure to \$2,916.6 million. Due to the implementation of various cuts in spending and other cost reduction measures expenditure on goods was reduced and services decreased by \$38.9 million or 9.3% to \$378.4 million. However, expenditure on current transfers increased by \$80.6 million, moving from \$1,095.8 million in 2009-2010 to \$1,176.3 million for the period April 2010 to March 2011. This was mainly due to increases in Retiring Benefits of \$23.3 million or 14.7% and Subsidies of \$54.3 million or 11.7%, mainly as a result of supplementaries to the Transport Board, Sanitation Service Authority and the University of the West Indies.

Total debt payments for the period April 2010 to March 2011 amounted to \$1,322.7 million an increase of 49.3% over the previous year. Interest payments which were recorded at \$501.7 million increased by \$65.0 million or 14.9%, while amortisation increased by

\$372.07 million or 82.9% over the corresponding period in 2009/2010 mainly due to the repayment of the US\$100 million bond which matured in June 2010.

Capital expenditure for the period under review was \$138.4 million compared to \$200.2 million for the corresponding period in 2009-2010. This brought total expenditure for April 2010 to March 2011 to \$3,876.6 million compared to \$3,459.9 million in the corresponding period of 2009-2010, an increase of 12%.

From the foregoing, therefore, Mr. Speaker it can clearly be seen that the last financial year was challenging for the country in marshalling the public finances. The intervention which we made last November was not only critical but ultimately timely. Whilst we did not reach our target set at the beginning of the year for a much lower deficit, the measures which were introduced saved us from having an even worse and potentially debilitating performance. In fact, Sir, given what eventually transpired relative to the sharp decline in taxes on corporate profits of nearly \$72 million over the 2009 figure, had we not introduced the measures we did when we did the deficit could easily have reached 11 % of GDP with disastrous consequences.

I don't say this to win any points Sir - it is the reality within which we worked. Once as Social Partners we took the decision that we would fight to protect and keep jobs for as many Barbadians and for as long as we could do so, we knew in government that cutting expenditure in as deep a fashion as others would like and as fast as recommended would be difficult. We equally knew that if this economic downturn persisted beyond what was normal as far as recessions in the past were concerned that maintaining levels of revenue would be extremely

challenging. That is why we asked for an additional effort from the public of Barbados. We did not do it because we liked to do it, we did it because it was absolutely necessary.

Clearly, Mr. Speaker, from the evidence of outturn for the first six months of this year and in particular for the first quarter of this financial year, that effort appears to be bearing fruit. Revenues are stabilising and growing over last year and expenditures behind more stringent inputs from the Ministry of Finance are beginning to come down.

Yes, Mr. Speaker, the additional effort called for has been burdensome for most and for some painful. I did not shy away from acknowledging that this was likely to happen. I said as much last year when I introduced the measures. But as a Government we surmised after weighing the options that this was the lesser of the most difficult choices we had to make.

Working together as Team Barbados, we are seeing improvements in the economy and in our public finances. Yes Mr. Speaker, they are coming slowly; like the mantra for the popular cough medicine, the plan – the ‘Chris Sinckler Plan’ – it tastes awful but it works.

But the economic cold is not gone yet, and while some symptoms are clearing, the deeply imbedded ones still linger and a discontinuation of the medication after only a relatively short period would be a grave mistake. Indeed Sir, given what is transpiring globally even as we speak, and with the dampened prospects for a continued strong recovery in our major trading partners, it would be foolhardy of us to let our guard down.

We must be firm, focused and forward looking if we are to entrench the gains we have made on this long road to recovery and the resumption of our march towards fostering sustainable socio-economic development for Barbados.

It is with this in mind that I turn my attention to articulating additional measures in support of Government's overall recovery programme for Barbados.

### OUTLOOK FOR 2011

The original forecast of the International Monetary Fund was for world growth to be in the region of 4.4% in 2011. This was predicated on advanced economies expanding by an estimated average of 2.4% in 2011 in real terms, while in emerging and developing economies, the aggregate rate of real growth would be 6.5%. Economic performance, however, will vary widely. This is now becoming patently obvious as several of the major industrialised economies on which Barbados relies so heavily, are now predicting a further slowdown in growth prospects. Indeed, the current upheavals in the financial markets globally, contingent on the recent US downgrade by Standard and Poors (S&P), is itself likely to place an even greater restraint on second half growth prospects. This together with continued high oil and commodity prices and internal and external financial imbalances could all combine to not only limit fiscal space for stimulating these economies but usher in a new wave of austerity measures leading to the realisation of the much feared double-dip recession globally.

It means that countries in the region, Barbados included, will have to adopt a judicious mix of defensive and offensive measures aimed at underwriting our economic recovery, while putting ourselves on a more sustainable financial footing. Continuous high debt and deficit levels are simply not going to be affordable going forward and we have to accelerate our efforts to tackle these problems systematically. At the same time we are going to have to continue to strengthen our economic reform programme, while attending to a serious restructuring of all aspects of national economy including both private and public sectors.

### Domestic Economy

Against this background Barbados' economy is expected to grow between 2.0-2.5% in 2011. This increase is based on the apparent recovery in tourism over the last year. The industry is expected to grow in real terms by in excess of 3.0% in 2011. The early warning economic mechanism, which is now widely used in the Ministry of Finance and Economic Affairs to assess and predict sectoral movements across a set of defined indices, is predicting that economic activity in key sectors like manufacturing and agriculture will pick up though not to pre-crisis levels. While non-traded sectors such as construction, and retail and wholesale trade are likely to see less significant declines if not achieve marginal growth. However, tax revenues from the international business and financial sector are expected to remain depressed. Inflation is expected to continue to accelerate, under pressure of international oil and commodity prices. Foreign exchange reserves should end the year around the same level as at December 2010, provided materialise as expected.

### Challenges for 2011-2012 Fiscal Year

The original budgetary programme for fiscal year 2011-2012 was designed to produce a deficit on the cash basis of \$582.1 million or 6.8% of nominal Gross Domestic Product (GDP) at market prices, calculated on the International Financial Institutions' (IFIs') basis. On the accrual basis, the net operating balance was projected at negative \$517.8 million or 6.0% of GDP.

Current revenue was projected at \$2,490.2 million with current expenditure of \$3,381.8 million and capital expenditure of \$134.9 million. Total cash requirements of the Treasury for the year was projected at \$1,026.5 million or 12.0% of nominal GDP at market prices estimated at \$8,564.0 million. Financing for the financial year was therefore projected at \$271.2 million from foreign sources and \$755.3 million from domestic sources.

This out-turn was predicated on a number of assumptions, namely:

**A reduction in the level of tax arrears owed to major revenue agencies through enhanced collections.**

**The implementation of a stabilisation programme, which will involve reducing discretionary expenditure in order to maintain a positive net operating balance.**

**A continuation of the introduction of measures to reduce costs and enhance revenues which will include encouraging state enterprises to implement measures.**

**to enhance their revenue generation, keeping discretionary expenditure in line with inflation and reduction of the negative net operating balance of the Post Office.**

*First Quarter 2011/2012 Performance*

Preliminary information received from the Accountant General indicates that current revenue for the period April 1st to June 30th, 2011 was \$584.7 million, an increase of \$43.9 million or 8.1% from the amount recorded for the corresponding period during 2010.

Taxes on incomes and profits realised \$206.5 million, an amount of \$3.8 million more than collected for the corresponding period in 2010 while Corporation Taxes continued its decline falling by \$1.6 million for the period under review.

Taxes on goods and services increased by 16.4% to an amount of \$300.8 million when compared to the same period last year with receipts from VAT being the main contributor to this increased performance. Excise Duties recorded \$41.0 million, an increase of \$12.7 million or 45% from the actual outturn for 2010.

On the other hand current expenditure, exclusive of amortisation of \$70.0 million, decreased by \$29.9 million from the 2010 figure to \$628.4 million and total expenditure for April to June 2011 was \$717.4 million compared to \$966.7 million in the corresponding period of 2010.

The first quarter deficit was projected at \$62.69 million which represents 0.7% of GDP at market prices of \$8,804.0 million compared to an amount of negative 1.7% for the same quarter of the last fiscal year when GDP at market prices was reported at \$8,528.0 million.

The level of debt to be financed of \$1.026.5 million still remains too high suggesting that there would be a need for new domestic debt issuances of approximately \$755.3 million during the year (\$605.3 million in new debt and \$150 million rolling over).

In the next five years, maturities of the medium term securities will increase from \$256.0 million in 2012 to \$413.6 million in 2016. Consequently, if the deficit continues to be at the 2011-2012 level, annual issuances of local debt will increase to approximately \$1.0 billion in order to satisfy maturing issues and to finance the deficit.

Mr. Speaker Sir, this is an unsustainable position and therefore we at the Ministry of Finance and in fact, all Ministries, departments and statutory corporations alike, must make every effort to bring our performance in line with the medium term fiscal strategy, so that the deficit and by extension the debt are reduced accordingly.

*Proposed Strategy to Reduce the Deficit in Line with the Medium Term Fiscal Strategy (MTFS)*

The Government is working towards the attainment of the goals set out in the medium term fiscal strategy and it is the policy of the Government 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 are being required to review and re-prioritise 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 have to improve their levels of efficiency and rely less on government subventions.

Specific strategies include:

- i. Containing personal emoluments costs by allowing total growth to be the equivalent of the sum that would normally be paid as increments. The Ministry of the Civil Service is conducting a staff rationalisation program with assistance from the IADB. Assistance is also being given to the Chief Personnel Officer with respect to the re-structuring of the department and re-engineering of its various operational functions. It is expected that this program would result in some savings in the area of personal emoluments;
- ii. Reducing 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. Increasing the efficiency of procurement of goods and services through better sourcing and more astute, aggressive and efficient procurement. This is also being done with technical assistance provided through an IADB funded project, entitled the overhaul of the procurement system in Barbados;

- iv. Instituting cuts and caps on the transfers to the statutory boards, statutory corporations and government-owned companies, such as the, Transport Board, Barbados Agricultural and Development Marketing Corporation as well as the University of the West Indies;
- v. Managing projects more proactively and on a timely basis throughout the project cycle and the use of monthly project review meetings with ministries and departments chaired by the Minister of Finance;
- vi. Designing of a borrowing package from the NIB to three statutory entities (UWI, Transport Board, BTA and Needhams Holdings Ltd) for the cleanup of the Needhams area, to allow for financing of \$110 million during the course of this financial for specific aspects of their programme. This will address the level of current transfers made to these entities from government but allow for greater flexibility to do more to stimulate the economy. Servicing of this debt will however be provided for, where necessary in the Consolidated Fund;
- vii. Restricting supplementaries to emergency cases only and the introduction of virement from this financial year to allow Ministries/Departments which have savings in one area but would like to use the funds in another area, to move those funds without having to return to Parliament for approval via a supplementary.

This strategy is expected to result in the following financial performance for 2011 – 2012:

**A revised deficit of \$461.9 million or 5.2% of GDP at market prices of \$8,804.0 million based on performance for the first**

**quarter of the year. This is slightly better than that of the MTFFS of 5.6%.**

- 1) current revenue of \$2,455.4 million, an increase of approximately \$150.9 million or 6.6% over the actual out-turn for 2010/2011.
- 2) Total expenditure, inclusive of amortisation, of \$3,361.7 million: a decrease of \$514.8 million from the previous year's figure of \$3,876.6 million.

However, while we are projecting a deficit-to-GDP in keeping with the MTFFS, we are still considered to be in a precarious situation. Currently we are borrowing to finance the total amount of annual debt service. This is unsustainable as we need to get to a position where we borrow to finance only the repayment of the principal and make a contribution to our capital budget. With this as the focus for the future it will be necessary to reduce the deficit including amortisation to within \$500 million as a matter of urgency.

As you are aware Mr. Speaker, in May of this year the ratings agency Moody's issued a downgrade of Barbados's debt from Baa2 to Baa3 with a negative outlook. This sparked a whirlwind of commentary in Barbados - quite a bit misinformed - but none the less disconcerting for people of Barbados.

As the mighty United States found out just recently, no country likes to be downgraded by any of these agencies as it reflects poorly on the fundamentals of your economy and could make life extremely difficult for economic planners in both the public and private sectors.

In this vein, we in the Government treated the Moody's downgrade with the level of seriousness it deserves and with a resolve to work even harder to repair the weaknesses in our economy.

That notwithstanding Sir, it would be remiss of me if, for the benefit of a proper contextualisation of the national discourse, I did not decompose or better put expose the issue of ratings downgrades in Barbados for all to see.

In an early 2008 press release Moody's issued the following assessment of Barbados:

***“Moody’s Investors Service has placed Barbados’ government bond ratings on review for possible downgrade to assess the credit impact of further deterioration in the country’s debt metrics in the coming years. The review affects both the A3 local currency and the Baa2 foreign currency government bond ratings. The A1 foreign currency country ceiling for bonds, and the Baa2 foreign currency country ceiling for deposits are also under review.”***

***“Barbados’ key debt metrics have been deteriorating in recent years and are now at levels that compare poorly with other countries in the Baa rating category,”*** said Moody’s Vice President - Senior Analyst Alessandra Alecci. ***“Such deterioration was observed prior to the onset of the global crisis,***

***suggesting structural elements as part of the cause.”***

*One of those elements is a persistent increase in government expenditures, including those off-budget, as revenues have remained at roughly the same level in terms of GDP. Since Moody’s last rating action in 2000, Barbados’ public debt stock has more than doubled, and relative to revenues, it has increased significantly”.*

And let me for the record substantiate the observations of Mr. Alecci by giving some empirical evidence on the debt in Barbados.

Financial yr.	Debt Outstanding	Debt-GDP Ratio
1999-2000	2,885.1	58.2
2000-2001	3,225.6	63.6
2001-2002	3,784.5	74.1
2002-2003	3,975.6	76.5
2003-2004	4,211.8	78.1
2004-2005	4,472.1	79.4
2005-2006	4,742.6	78.9
2006-2007	4,911.0	77.0
2007-2008	5,762.1	84.5

It gets worse Mr. Speaker, between 2008 when we assumed the reins of Government and 2010 this Government was called upon to bring close to a billion dollars in off-budget spending and debt by the last Government, and to which Mr. Alecci of Moody’s referred, on to the books further exploding an already untenable debt situation.

This was not done by any amateur Finance Minister on a frolic of his own. This was done by the great economist from St. Peter who, when warned about these practices said to us, “Ignore the ratings agencies.” The same great economist who when the last Moody’s downgrade came then jumped in front the camera and declared that I should be fired as Minister of Finance. It was a classic attempt to divert attention from himself. But now the facts are laid bare.

If anybody in Barbados is responsible for the downgrade of Barbados by Moody’s it is the Rt. Hon. Member for St. Peter.

But where Moody’s failed to act Standard and Poors did not; and again for the record I alert the country to the fact that between 1999 and 2007, in the so-called “great years” of the last administration S & P downgraded Barbados no less than three times, moving the country from a high of AA to A- 1999 and all the way down to BBB+ by 2005 with a negative outlook.

Mr. Speaker I say no more on this matter – for now.

What all of this says to us Sir, is that we have serious work to do as a country and the sooner we get to it the better for all of us. In that vein and bearing in mind the objectives of consolidating our fiscal accounts, sustaining our economic recovery and preparing for a restructuring of Barbados’ economy over the medium term, I commend the following budgetary proposals and other initiatives to this Honourable House.

### Taxation

Mr. Speaker as you are aware, this is the year for revaluation of properties in Barbados and so Barbadians would have received their demand notices showing the new valuation on which their land tax will be based. We are, however, cognisant of the difficulties being experienced by many persons in this recessionary period and are of the opinion that this rise in property values and the associated rise in taxes payable will have a major impact on the ability of the taxpayers to meet their obligations in a timely manner.

I therefore propose that effective this tax year 2011/2012 the existing tax bands should be adjusted while maintaining the current rate structure, to allow parity to be maintained with aggregate taxes payable for tax year 2010-2011. These will be done as follows:

For residential properties:

1. At present the first \$150,000 is exempted from tax. I propose to raise that to \$190,000.
2. The rate of 0.1% is applied up to the next \$400,000 in value. I propose to raise this to \$500,000.
3. Up to \$1,250,000 in value a rate of 0.45% will be applied. This moves up from \$1,000,000, and
4. A rate of 0.75% will be applied to all properties in excess of \$1,250,000. This is an increase of value of \$250,000 up from the previous value of 1,000,000.

**This reduction in land tax payable for the 2011 – 2012 tax year is not expected to have an impact on taxes collected by the Commissioner of Land Tax when compared to 2010/2011, but will allow land and home owners to forgo increases in taxes for the next period.**

Mr. Speaker, there are currently four categories of properties which enjoy rebates and/or exemptions from taxes: those used for hotels, agriculture, villas and by pensioners. There has been some concern by the Commissioner of Land Tax that this process has been abused. To reduce, if not eliminate, the incidence of abuse of these concessions, it is recommended that all tax rebates should be based on the tax demanded and not on the site or improved values of the properties.

It is also recommended that approved manufacturers who can certify exports to a value of \$100,000 or more in any one calendar year will also be afforded these rebates.

Additionally, any company certified by the Division of Energy to be engaged in the production of solar energy and/or the manufacturing sector of solar energy equipment, will also be added to this category.

I, therefore, propose that with effect from next tax year a rebate of no more than 50% will be granted on the land tax demanded for that year, for properties which can prove that they have engaged directly in the manufacturing activity and those which have been certified by the Division of Energy to be engaged in the production/manufacture of solar energy.

To further strengthen the management of the collection process, all rebates and exemptions will be tied to generation of income and therefore a tax clearance certificate from IRD and/or VAT would be required to access the rebate. This is also a requirement of the Auditor General.

In addition to the measures outlined above the following amendments will be made with respect to the granting of rebates and exemptions:

- a) all rebates shall be granted within the year in which the tax is due. This is critical for revenue recording and forecasting cash flows in light of Government's adoption of the accrual basis of accounting
- b) discounts shall be applied **ONLY** at the time of payment hence the Demand Notice will highlight the gross amount payable and not the amount net of the discount available if payment is made before a specified date.

With respect to the hotel sector we have been made aware of the challenges which some of our properties face regarding the payment of their land taxes within the existing period for the discount. Land tax bills are now issued in August with the discounted payment periods being in the third quarter of Government's fiscal year. While this change in issue date works well for the smoothing of Government's cash flows with its cash requirements, this runs concurrent with a period in the industry when cash flow is at its lowest. The Commissioner of Land Tax has indicated that it would be possible to issue tax bills to this sector at such time as to allow hotels to enjoy the discounts offered in the same manner as all other tax payers.

Therefore, with effect from tax year 2011/2012 it is proposed that registrants of the hotel sector and stand alone restaurants off property be allowed to pay their land tax bills during the last quarter of the fiscal year (January to March) without losing access to the discounted rate. This will, however, have to be done within the context of an approved tourism property through an agreed tourism body.

**This will result in a very small revenue loss if any to the Treasury due to an extended discount period for the hotel sector.**

Mr. Speaker, currently the homeowner and businesses can benefit up to a maximum of \$7,000 per annum by way of Income Tax deductions in respect of energy audits, renewable energy and energy efficiency retrofits. They also benefit at the point of importation by way of a ministerial duty waiver – 20% on the importation of approved goods. This is applicable to all persons to a limit of 50% of the investment over 5 years. It is recommended that the current allowance be increased from \$5,000 to \$10,000 for individuals and \$25,000 for registered small business. In addition, it is recommended that this allowance be extended to lessees once it is proven that approval was granted by the owner of the property.

I, therefore, propose that with effect from the current tax year, the energy conservation and renewable energy deduction will be increased from \$5,000 to \$10,000 per year for individuals and \$25,000 per year for registered small businesses. I further propose to make this allowance available to lessees of properties once it is proven that approval was obtained from the owner of the property.

Additionally, businesses whose filings with the Inland Revenue Department and VAT Division and whose compliance with NIS and Land Tax are up to date or who have in place arrangements to settle their arrears will be allowed to write-off 150 percent of conversion to alternate energy over a five (5) year period.

**The result of this incentive will be a revenue loss to the Treasury of approximately \$8.0 M, however it will be spread over multiple years and so the impact in any one year will be entirely manageable.**

Mr. Speaker Sir, over the last year we have heard of many issues raised by the OECD with regard to peer reviews and exchange of information and Barbados being placed on a “grey list”. The low level of filing by tax payers in Barbados also has been raised as an issue and one which we have to concede is a spot of bother for domestic tax authorities.

We, therefore, propose a set of additional measures to encourage all applicable Barbadians to get into the routine of filing their returns even if a refund is not due.

It is also proposed that effective tax year 2011 the late filing fee will be increased from one hundred dollars (\$100) to five hundred dollars (\$500). This measure is not for revenue generation purposes but to increase the level of compliance with the Income Tax Act with respect to filing whether or not a tax refund is due.

Additionally, as is well known to this House and further afield, it has become almost folklore the stories of the non-filing of income tax and payment of national insurance and VAT by some among the professional class in Barbados. Indeed, only recently the Prime Minister in a debate in this very House was moved to make an appeal to some among the professions and self-employed to make their contributions to the various state agencies as legally required. The Commissioner of Inland Revenue is already on record lamenting his

utter frustration in getting compliance in these matters, and several international agencies and many of our key Double Taxation Treaty Partners have complained about the low level of tax filing and information available in Barbados.

It is a matter of the gravest concern to this government and our regulators, as it has the potential to cause Barbados to lose good standing internationally and face possible sanctions.

Given this situation and the need to ensure that everybody not only makes their fair contribution to our national recovery efforts but most importantly that they bring their fillings up to date, I will shortly propose to Cabinet a series of measures designed to impose the severest penalties on the most egregious offenders for non-filing of income tax, and the payment of VAT in particular. When one considers the fact that between these two departments, the outstanding arrears amount to more than \$600 million, the public will realise what an embarrassment this is for a country of Barbados' standing.

The Inland Revenue Department has also noted that many individuals are seeking to reduce the amount of taxes payable on their employment income by using losses from other business ventures and incorporating these in other filings. This while practiced in all sectors, is particularly noticeable in the agricultural sector.

I, therefore, propose, with effect from tax year 2011, that there will be a separation of business and employment income for computation of tax payable. This requirement is similar to that which currently exists for residential and commercial rents.

### High Net Worth Individuals

In 2009 the late Prime Minister in his budgetary presentation proposed to amend the Income Tax Act to reduce the effective rate of tax that an individual resident but not domiciled in Barbados would be required to pay on their foreign income. He also proposed that an individual domiciled in Barbados would be allowed to claim a foreign currency earnings credit in respect of his income earned outside of Barbados. Following a thorough review of the entire section in the Act dealing with this matter by a Special Committee including the Commissioner of Inland Revenue and the Permanent Secretary in the Ministry of Finance, I can inform the House that the changes are now ready and appropriate amendments will be finalised for its implementation effective income year 2012.

### Waiver of Interest and Penalty (WIP) Programme

This programme was re-introduced recently with the purpose of assisting persons in arrears to government agencies to meet their obligations at a minimum cost. The current programme which ends in December 2011 offers a 50% waiver of outstanding penalties and interest where taxpayers who join the programme are able to settle their liabilities within the stipulated time frame, while remaining current on their obligations. As an added incentive to encourage even greater participation it is therefore proposed that with immediate effect the following conditional amnesty will be offered under the Waiver of Interest and Penalty programme offered by the National Insurance Department, the Value Added Tax Division and the Inland Revenue Department:

“A 100% waiver of interest and penalty on outstanding tax due to the departments if payment of eighty percent

(80%) of the amount due is made in full by a one-off cash payment. This incentive will remain in place until the close of the current calendar year, December 31, 2011.”

This conditional amnesty will also be available on computations of penalty and interest for all persons who have not filed personal income tax for any period prior to the calendar year 2007. The 5% late fee on taxes payable will be waived under this amnesty, however, the flat fee of \$500.00 will be charged for each year of filing.

Sir, when we look at the arrears on the books of the Inland Revenue Department, this initiative will be at a loss to the Treasury of approximately \$59 million on arrears of \$252 million owed to the Inland Revenue Department. It is, however, felt that this is for the good of the economy on a whole in order to ensure that our filing of tax information is improved and be at a more acceptable level.

Fees:

In 2007 the paramedics, emergency medical technicians and emergency medical dispatchers were brought under the Paramedical Professional Act. The professional registration fees for this category of professionals were captured in the increase in fees payable under the Professions, Trade and Business Registration Act, Cap 373. This caused them to pay an inordinately high fee vis-à-vis their salary scale. To correct this imbalance, I now propose that this category of professionals will be treated in the same manner as nurses and therefore, pay the fee applicable to that category of medical worker.

Amendments to the Occupational Pensions Benefit Regulations

Mr. Speaker, prior to the proclamation of the Occupational Pensions Benefit Regulation on April 1, 2011, pensions which were registered under Part VII 25(4) of the Income Tax Regulations, 1969 were provided with tax free status as follows:

*“not more than 25 percent of the benefits payable may be commuted and paid in the form of a tax free lump sum...”*

To ensure that there were no conflicts between the Income Tax Regulations and those of the Occupational Pensions Benefit Regulations, the Income Tax Regulations were repealed.

Section 29(5) of the Occupational Pensions Benefit Regulations, while making provision for the computation of pension benefits on retirement, does not however make specific provision for a similar tax free basis for the payment in the form of a lump sum. This was inadvertently omitted.

Since the proclamation of the Occupational Pensions Benefit Regulations a number of issues and concerns have been raised that need to be addressed. These are currently being reviewed by the Financial Services Commission (FSC) and assisted by a Pension Advisory Committee drawn from the private and public sectors.

Notwithstanding this, it is opined that all matters that relate to Income Taxes should be consolidated under the Income Tax Act. During the current financial year the Ministry of Finance will be undertaking, for the Cabinet’s attention, a complete review of the domestic tax regime in Barbados, out of which is expected to come a number of recommendations on the way forward to further improving our domestic tax system.

Nonetheless, we believe that current and prospective pensioners should not be disadvantaged during this review process and therefore I have determined that the provision permitting the tax free status of the 25% lump sum payment to persons on reaching retirement age will be re-instated in the Income Tax Regulations. The effective date of this re-instatement will be the date of the coming into operation of the Occupational Pensions Benefit Regulations, February 15, 2011.

Additionally, a number of concerns have also been raised with respect to the onerous nature of the current fee structure as set out in the Occupational Pensions Benefit Regulations. The Financial Services Commission has therefore reviewed these and has recommended that they be revised, taking into consideration the size of the pension plan based on its membership. I agree with the fee structure that has been recommended by the FSC, which is set out in Schedule I to this document and propose that the new structure shall take effect from September 1, 2011.

Finally, Mr. Speaker, with respect to the Occupational Pensions Benefit Regulations: The Occupational Pension Benefits Act, 2003 permits members of a Defined Contribution pension plan to purchase an annuity at retirement. Given the high cost associated with annuity purchases, it was determined that another option should be made available to ensure that retirees receive maximum benefits at reduced cost.

I, therefore, propose that the Occupational Pensions Benefit Regulations be amended to permit a drawdown account to be used as a variation on the form of pension payment available to a member upon retirement from a defined contribution plan. The draw-down

account will permit controlled withdrawal of pension benefits over a period of time within a defined contribution pension plan.

### Tourism

I now turn to the tourism sector. Mr. Speaker it has been brought to my attention that in order for local businesses that offer attractions and tours to travelers in the cruise industry to contract with the cruise ships, it was deemed necessary by the cruise liners for them to obtain global insurance coverage. These cruise ships have also mandated which insurers can be used by the local businesses, all of which are based outside of Barbados. This results in significant taxes being paid by businesses on the remittances to these insurers.

A representation has been made by the sector to this Ministry for a reduction or elimination of these taxes which would ultimately enable companies to offer a better product at a reduced rate.

I have acceded to their request and propose that effective income year 2012 these taxes will be removed.

Furthermore, Mr. Speaker, concerns have been raised over an anomaly in the treatment of input tax paid in respect of goods purchased locally by hotels offering time share properties. Under the Tourism Development Act, the construction and furnishing of timeshare properties and the construction of a hotel are included under the definition of Tourism Projects. One of the benefits to which such Approved Tourism Projects is entitled is the “refund of customs duties paid by the holder of a permit where the holder satisfies the Comptroller of Customs that the building materials and supplies

purchased for the tourism project have been purchased in Barbados in accordance with the terms of the permit”.

It should be noted that the definition of “Customs Duty” under the Tourism Development Act includes import duty, environmental levy, which no longer exists, excise tax and VAT.

Under the VAT Act, the sale of real property or the lease of real property for a term of at least 25 years is exempt from VAT. Suppliers of exempt products or services are not entitled to claim refunds of input VAT. Consequently, an entity which operates a timeshare property is not allowed to claim a refund of the input taxes since the time share activity constitutes a transfer of real property.

The sale of time share properties generates foreign exchange on which VAT is paid. Therefore, if the sale of a time share by an Approved Tourism Enterprise is zero-rated, then such a classification would entitle the enterprise to recover all VAT on inputs without reducing the competitiveness of the enterprise.

The Ministry of Finance will take the necessary action to have the VAT Act amended accordingly so that these properties can benefit.

*International Business Sector:*

As you heard, the international business sector continues to be of critical importance to the economic fortunes of the Barbados economy and certainly to our recovery efforts.

In order to ensure that Barbados remains relevant in this highly competitive international market, our IB policy makers and

practitioners are constantly looking for ways to improve business facilitation efficiencies and develop new products to assist in attracting even more players to our jurisdiction.

In this regard Government has agreed with the Barbados International Business Association (BIBA) that in the coming months a laser-like focus should be put on pursuing the following:

Legislation:

Reviewing and bringing to the Parliament of Barbados:-

1. Amendments to the Society with Restricted Liabilities Act to effect mergers between these entities;
2. Enactment of Foundation Legislation which would put Barbados on competitive footing with Panama, Malta and the Bahamas;
3. Amendments to the Companies Act and if necessary the Securities Act;
4. Amendments to International Corporate and Trust Providers Companies Acts and the finalisation and laying of the accompanying regulations;
5. Amendments to the Companies Act to allow for incorporation of companies with Chinese names along with an English equivalent in order to attract more businesses from Asia;
6. Enactment of Private Trust Company Legislation.

In addition to these, the Ministry of Finance has invited the Attorney General's Office to work alongside the International Business Unit to devise a multi-year licensing application to allow International Business Companies desirous of procuring a multi-year license in one go with an appropriate discount to do so. We hope that this will be made available from next financial year. Finally, while Barbados will never be able to compete on price levels in the fee structure set for the International Business sector with many other jurisdictions, it is still necessary to ensure that we remain as competitive as possible. In this regard, Government through the appropriate agencies and in conjunction with BIBA will review the entire rate structure in the sector, with a view to looking at areas that might be in need of intervention. This will be done to ensure that Barbados as a jurisdiction remains relevant while not unduly affecting our revenue intake.

### Agriculture

Mr. Speaker, the agriculture sector. Given the current high cost of energy, there is a need for assistance to the poultry and animal farmers in keeping their livestock housing well lit and at the appropriate temperatures.

I, therefore, propose that, with immediate effect, a rebate of up to \$5,000.00 be provided to farmers who retrofit these structures with the use of solar energy.

**This will result in a revenue loss to the Treasury of approximately \$4.35 million to be borne over multiple years.**

The Medium- Term Development Strategy (MTDS) of Barbados (2010 – 2014) recognises that the current external environment has undoubtedly posed new challenges to an already vulnerable agriculture sector. These challenges are evident in a high import food bill, high global energy costs, rapid climate change and the decrease in agriculture exports by some major food suppliers. In 2010, prices of locally grown fruits and vegetables generally remained stable with minor fluctuations in the cost of these commodities. With regard to food imports and foreign exchange spending, the 2010 fruit and vegetable import bill (including nuts and root crops) was \$41.4 million, a 15% increase over 2009. Of this, an estimated \$21.8 million can be suitably substituted.

With this in mind Mr. Speaker, Government has acceded to the requests of the Fruit and Vegetable Growers Association for the establishment of an Organic Matter Programme. This programme will see the provision of financial assistance for the purchase of three mulch compositors to give fruit and vegetable farmers access to cost effective equipment to be used for the production and application of disease and weed-free organic matter.

The equipment will be provided as part of the Tractor Cultivation Scheme under the Ministry of Agriculture, Food, Fisheries and Water Resources for on-lending to farmers at a ‘pepper-corn’ rate inclusive of insurance of the equipment. The estimated cost for one Mulch Compositor is US\$55,000 or Bds\$110,000 while the cost of one row mulcher or mulch spreader is US\$50,000 or BDS\$100,000.

I, therefore, propose to provide the Ministry of Agriculture, Food, Fisheries and Water Resources with financial resources to facilitate

the purchase of the recommended three composters and three row mulchers. We will further accede to the provision of two transplanters and two mulch lifters that accompany these very critical pieces of equipment. I will equally review on a case by case basis applications from registered farmers for partial waivers of duties on similar equipment.

**The costs to the Government of Barbados for this initial programme will be in region of US\$215,000 or BDS\$430,000.**

#### *Agricultural Development Fund*

The Agricultural Development Fund (ADF) was established in Barbados by an Act of Parliament on December 12, 2001 for the improved development of agriculture in the country. The financial resources of the Fund are needed to finance projects and programmes that are designed for the development of agriculture.

The source of income to the ADF was set out in legislation as (i.) revenue from the bound rates on agricultural products and (ii.) income recovered from the heavily indebted plantations by the Barbados Agricultural Credit Trust (BACT). Over the last couple of years there has been no income contributed to the ADF from the BACT. Discussions are currently underway with the Minister of Agriculture with a view to the recapitalisation of the ADF.

Since October 01, 2005, the interest rate applicable to loans under the Agricultural Development Fund has been set at 6.5%. I, therefore, propose that once the Fund has been recapitalised, interest rates will be reduced to 5% over the next three years.

**This is not expected to have a direct impact on the resources of the Consolidated Fund.**

Manufacturing

The Government of Barbados is seeking to increase the use of other energy sources as an alternative to the use of fossil fuels. It is, therefore, imperative that incentives are given to encourage greater use of solar power which is available abundantly given our climatic conditions. Currently duty free concessions are offered to the hotel and manufacturing sector on the importation of electric water heaters. I propose that effective January 1, 2012 these concessions will be discontinued. This discontinuance should in addition, reduce the amount of foreign exchange required by the Central Bank of Barbados to facilitate such purchases.

**The discontinuance of these concessions will result in a small saving to the treasury.**

Mr. Speaker, in recent times this country has been producing some highly skilled persons at the Samuel Jackman Prescod Polytechnic in the area of computer system building and customisation. However, the development and sustaining of a profession in this area has been difficult since the importation of computer systems in a box have been tax exempt but the importation of parts for assembly in Barbados have attracted import duties and VAT. This is tantamount to the exportation of jobs to countries which assemble and ship computers to Barbados.

In order to correct this imbalance effective 1<sup>st</sup> September 2011, all parts imported into the country for the purpose of assembly of personal computers will be free of all import duties and VAT. This initiative seeks to provide an opportunity for these skilled young persons to become entrepreneurs in their chosen field.

**Mr. Speaker Sir, this will have only a very marginal impact on the revenues of the Treasury.**

#### *The International Securities Market*

Mr. Speaker I will now look at the securities market. From as far back as 1991, it was envisioned that the way forward for the development of the securities market was the establishment of an international trading floor for the listing and trading of offshore products. The Board of Governors, of what was at that time, the Securities Exchange of Barbados amended its By-Laws to establish an “Exempt Trading Floor (ETF) for the trading of “exempt securities”.

The International Securities Market (ISM) has the potential of creating a number of benefits for the country and the International Business Community, further solidifying Barbados as an international business destination. Though long in coming, the establishment of the International Securities Market is well on its way to becoming a reality with the completion of a Business Plan and a draft Memorandum of Understanding for consideration by the Ministry of Finance. I will, therefore, in the very near future, be approaching Cabinet for its support of this initiative.

#### *Dematerialisation of Government Paper*

It has always been envisioned that in addition to the primary market for the trading of Government paper and other securities that there

would be introduced initiatives for the promotion of a secondary market to provide additional investment options to potential investors.

At present the process for trading of government paper is very cumbersome which means that once an investor purchases any type of government instrument it is more often than not held for the entire period until maturity. This does not provide for a vibrant secondary market and limits the opportunity for investors to optimise the returns on their funds. Discussions have already commenced between the main stakeholders to make this dematerialisation a reality.

Therefore with effect from January 1, 2012 sale and trading in all Government Paper will be dematerialised.

*Prospectus Requirements for Small and Medium Sized Enterprises (SMEs).*

Mr. Speaker Sir, it has been brought to the Ministry's attention that the existing prospectus requirements under the Companies Act may be somewhat onerous for SMEs wishing to raise capital in the market and eventually list on the Junior Market (JM) of the Barbados Stock Exchange (BSE).

Only recently in the United Kingdom, the Financial Secretary of the Treasury introduced two deregulatory amendments based on the EU Prospectus Directives. These amendments meant that fewer small issuers are caught by the prospectus regime thus lifting a significant number of SMEs outside the obligation to issue a prospectus thereby making access to equity finance more efficient for SMEs and saving them a significant amount of pounds sterling a year.

Representation has been made by the Management of the Stock Exchange for a similar amendment to the prospectus requirements for local SMEs. I, therefore, propose that with effect from January 1, 2012, SMEs wishing to access equity through an issue of shares shall under the following conditions be exempted from publishing a prospectus;

- 1) Issues shall be no more than \$5 million Barbados dollars;
- 2) Issues shall be made to no more than 500 persons;
- 3) The issuing company must be listed on the Barbados Stock Exchange.

*Social Welfare and Development:*

*HOUSING*

Mr. Speaker, as you are no doubt aware, it is part of this government's stated policy on housing as contained in the Throne Speech, that the National Housing Corporation (NHC) initiates a transfer of terrace units in its rental portfolio for those persons who were tenants of the NHC Estates for longer than 20 years up to 2008.

To date, 2161 persons have qualified under this programme of which 1951 have accepted the offer and benefitted. However, as was the case with a previous programme under the last Government for sale of the said units and for which deposits and even full payments were received, the vast majority of the tenants have been unable to receive conveyances for the properties due to a number of challenges. While most of these challenges, vesting, changing of asbestos roofs, construction of parting walls etc, are well on the way to being solved, the issue of the vast number of illegal extensions attached to these

units has proved a major stumbling block to the issuance of certificates of compliance by the Chief Town Planner.

Following an extensive set of meetings and discussions between Housing Officials, the Office of the Town Planner, the Cabinet Committee on Infrastructure, and lawyers from across the government, the Prime Minister and the Minister responsible for Town Planning has instructed the Ministry of Housing and Lands, working in conjunction with the Office of Chief Parliamentary Counsel and the Office of the Chief Town Planner, to prepare “special purpose legislation” with an appropriate Validation Order and Schedule in respect of those extensions now in breach of the Town Planning Regulations across NHC housing estates.

This legislation should reach this House in a matter of months and will in our view bring closure to this very difficult situation. It should be noted Mr. Speaker that no extensions started after September 1<sup>st</sup> 2011 will be eligible for this programme and will therefore have to seek full permission from the Chief Town Planner.

I am also advised to notify this House that on February 17<sup>th</sup> 2011, the Cabinet of Barbados agreed to a formal extension of the twenty year programme. This means that any resident having been a tenant of the NHC in any of its rental estates under the original list of estates, and who meet the eligibility criteria, will now be able to benefit from the programme once they reach the twenty year qualification time.

#### Energy costs mitigation assistance

Mr. Speaker Sir, the increasingly high cost of fuel which is contributing to the burgeoning cost of electricity, has been a major

source of concern to all Barbadians especially the unemployed indigent, pensioners, and members of the disabled community who are clients of the Welfare Department. It is in times like these when we have to be mindful of the impact of these things on the most vulnerable among us.

To this extent, and notwithstanding our difficult fiscal situation, I propose to offer this fiscal year some level of relief to these persons by way of a one-off “energy grant”. This grant funding will be provided through the Welfare Department and targeted towards the most vulnerable groups such as the elderly, disabled and the unemployed indigent. Persons who qualify but who are unable to physically make it to the Department should direct their requests through their respective Constituency Council.

**This initiative will commence October 1, 2011 and will be to a maximum of \$5 million.**

*The New Economy:*

Mr. Speaker, it has now become common place for many commentators in Barbados to speak expansively on the creation of a new economy in Barbados. This discourse takes many shapes with suggestions ranging from a downsizing of government and a shift towards more private enterprise intervention, to propositions for whole new economic sectors to be created within the country.

Indeed, the debate has only recently shifted and intensified around such concepts as new industrialisation thrusts, innovation, entrepreneurship expansion, and even a realignment of international

strategic economic linkages from the “old west” to the newly emerging east and south economies.

If there is but one common denominator running through all of these suggestions it must be the reality of the need for a paradigm shift in traditional notions of economic capital formation, management and distribution.

While it is true that these discussions only seem to rear their heads when the domestic economy is in recession, cold hard realities dictate that Government and all of its partners make haste to begin the process of shaping the new Barbados economy.

In this context the concept of newness is not used to mean the jettison of existing economic pillars but rather the addition of new areas of potential and actual economic activity which would work not only to add greater value to the country’s GDP, but provide employment opportunities, while rebalancing its centres of dependency.

Mindful of these objectives, constrained by our resource limitations, but desirous of pushing forward, your Government has taken the policy decision that it will initiate the process of building out new potential areas of sectoral economic activities in the short to medium term.

Our strategic moves in this regard will be built around three critical objectives:

1. Increasing or even tripling Barbados’ GDP growth over the next 20 years through strategic investments in differentiating

existing economic sectors and building out of new ones in such areas as alternative energy, cultural industries, logistics and sports and health tourism that are driven by the earning of foreign exchange;

2. Creating new employment opportunities through building an expanded domestic entrepreneurial base consisting of a network of properly funded and equipped small businesses, and;
3. Shifting Barbados' over-reliance on the advanced economies and towards linkages with emerging economies such as India, Brazil and China.

In recognition of these broad objectives for economic enhancement, I will shortly propose to the Cabinet the undertaking of a strategic sectoral reform and creation initiative to be undertaken by a joint team of internal and external businesses, economic and financial practitioners to produce for Government an implementable blue print to triple Barbados' GDP value added over the next 15 to 20 years.

This work will be conducted in close collaboration with and under the guidance of the Social Partnership whose members have all declared their desire to engage a bold reform agenda across public, private and civil society sectors in Barbados in order to revitalise the Barbados economy and further deepen our extensive social development network. More details of this will follow shortly.

But even as we prepare ourselves for the completion and implementation of that major piece of work, we should not let pass any opportunity to move ahead with strategic investments in areas

where considerable work is already under way and we know results can be garnered in short order.

In this vein, permit me to address initiatives in three of the following areas: Motor Sports, Alternative Energy and the Entertainment, Recording and Performing Arts Industry.

### Motor Sports

Motor Sports today have become an extremely popular spectator sport in Barbados. Indeed, over the past 20 years or so, Barbados has distinguished itself as a hub for regional race meets and a potential destination for international racing events. With this clearly in view, the sport also provides very exciting prospects for the further development of sports tourism in Barbados targeting not only the regional but also the international market as well.

Additionally, it is my belief that motor sports can also provide serious professional and job opportunities for several young people in Barbados studying auto mechanics and electronics.

Mindful of all these opportunities, and as part of Government's programme to diversify its economic sectors to assist in further GDP development, we have decided to partner with authorities in the motor racing sector to set out a programme for the further development of the sport in Barbados.

To this end, Government will shortly approve an agreement to lease the Bushy Park Facility to the Barbados Rally Club to facilitate a full upgrade of the race track and adjoining facilities to international

racing standards. Resources for this upgrade work are expected to come in part from the International Racing Federation (FIA). It is my understanding that Barbados is already the first country to have taken advantage of the FIA Institute's grant for facility development funding to improve race track facilities.

As such, the Ministry of Finance will give favourably consider an appropriate package of tax and other concessions to facilitate a successful building of the facility.

The completion of this facility will elevate Barbados by having the newest Category 3 Circuit and Kart Facility in the Western hemisphere, truly putting us on the world stage in terms of motor sport.

In addition, with effect from September 01, 2011, I also propose that all sporting vehicles, equipment and gear temporarily imported for the sole purpose of competitive activities will be exempted from VAT.

*Alternative Energy:*

The economy of Barbados continues to be severely impacted by high oil prices. The average price of crude oil on the international market for this year is \$95.00 a barrel and analysts project that the price will continue to remain at this level for the duration of the summer. Indeed the harsh reality is that the days of low oil prices are over. What does this mean for us in Barbados? Let me remind you of the cold, hard facts.

The domestic demand for oil is about 10,000 barrels per day. Since we produce less than 1000 barrels per day, we must import more than 9000 barrels of oil per day. The cost of the oil imports for 2009 was

US\$233.51 million representing 6% of GDP, a level comparable to government expenditure on education.

Almost all of the electricity generated by the electric utility is fossil fuel based, predominantly with fuel oil and the remainder with diesel fuel. Power generation represents the main use of the petroleum products in the country (50%), followed by the transport sector (33%).

The importation of petroleum products therefore represents a significant expenditure and drain on Barbados' foreign exchange reserves with a significant negative impact on direct production costs and therefore on the competitiveness of the Barbadian economy.

In an effort to ease the burden on residential consumers, the last Government subsidised the cost of electricity in the sum of US\$18 million in 2007/2008. This occurred due to the Government preventing the full impact of the increase in the fuel clause adjustment due to the increase in the price of fuel oil used for the generation of electricity. Similarly the Barbados National Oil Co. Ltd. accumulated losses in excess of US\$80 million due to the Government not passing on the increase in the price of oil to consumers. Unfortunately, due to the prevailing international economic climate and its impact on the Barbadian economy, the Government is simply not in a position to subsidise the cost of these products for any sustained period. The cost to the Government of nearly BDS\$200 million in seeking to shield consumers from these price increases was significant. Indeed, the Barbados National Oil Co. Ltd. almost became technically insolvent in the process and is still seeking to recover these losses.

It is on this basis that the Government is seeking to implement a paradigm shift in the move to renewable energy and energy efficiency within the context of the establishment of a Green Economy. This initiative is imperative in view of the vulnerability of the economy to the volatility of oil prices.

In last year's statement I alerted the country to the fact that Government had signed off on a US\$45 million loan to facilitate the design and implementation of its new sustainable energy framework that would tackle the issue of effective alternative energy interventions across the economy.

I am happy to report that work on that is now at an advanced stage, with both the demand side conservation framework almost ready to be rolled out through the \$10 million Smart Energy Fund, and on the supply side with the policy framework for the Sustainable Energy Investment Programme.

Indeed, Mr. Speaker, we have made such considerable progress that we have already agreed with the Inter-American Development Bank (IDB) for Barbados to negotiate a second energy Policy Based Loan (PBL) of US\$75 million to execute the preparation of renewable and energy efficiency programmes through the necessary legislation.

The Government recognises that in an effort to facilitate the promotion of renewable energy and energy efficiency, the necessary enabling environment must be in place. In this regard within the next few weeks, draft renewable energy and energy efficiency policies will be submitted to the Cabinet along with proposals for the amendment of the relevant legislation. It is the Government's intention to have draft

legislation in respect of the renewable energy policy within the next few months to facilitate the generation of electricity by renewable energy systems and the sale of electricity to the grid so that it can be passed on to the consumer.

This comprehensive programme will create an institutional, policy and operational framework that will set the appropriate incentives to generate substantial energy savings, reduce the cost of electricity to households and businesses and contribute to a reduction of oil imports and hence liberate funds for other purposes. It is projected that Barbados will be able to reduce oil imports cumulative costs over the next twenty years from US\$2.648 billion to US\$1.978 billion.

Indeed Sir, as a symbol to Government's commitment to this process, some government agencies and Ministries, including the Ministry of Transport and Works, have already gone ahead and retrofitted their buildings with solar energy generating mechanisms. This has cut their energy bills by as much as 40% in some cases.

And today I would wish to announce that as a further demonstration of our seriousness in this regard, that the Ministry of Finance has agreed to work with the Clerk of Parliament to identify available resources to retrofit this Parliament with sufficient alternative solar energy generation capacity as to cut its current \$1 million a year electricity bill by at least 50 % per year. I am advised by the Clerk of Parliament that preliminary estimates indicate that such an investment is not likely to exceed BDS\$200,000.

*The Entertainment, Recording and Performing Arts Industry.*

Mr. Speaker, few can deny that the last few years of constrained economic conditions have given us cause to reflect on the fact that when all else fails it is our people on whom we must rely. The strength and tenacity of the Barbadian people especially under pressure would give even the faintest of hearts the encouragement to continue to work for the development of this country.

This is especially so when we reflect on the fact that in just these past weeks we have recognised, witnessed and celebrated both the class and genius of some outstanding citizens of this country.

The celebration of the 75th birthday of our lone living National Hero the Right Excellent Sir Garfield Sobers gave us cause to acknowledge the greatness of his achievements at the global level. The celebrated return of our multi-award winning Culinary Champion Team, and latterly, Rihanna's triumphant and spectacular home performance at the Kensington Oval, all served to remind us that smallness is not a barrier to the attainment of global prominence when talent abounds.

Of course, Mr. Speaker while Rihanna and Sir Garry and our Master Chefs are global and regional icons, we are equally proud as a nation of the thousands of Barbadians who use their creative genius to enhance our human condition and increasingly, in the last few decades, to earn a living for themselves their families and even for their country.

Successive governments have recognised that the creative economy ought to be one of the pillars on which our future economic growth must be premised. And while there have been gains - and noticeable

ones- if we are to ensure that this sector is truly to be regarded as one of the mainstream economic sectors in Barbados we must address in a coherent manner some of the structural barriers confronted by the creative economy.

It is for this reason that the Division of Culture has worked so painstakingly on preparation of the draft Cultural Industries Bill which we are happy to announce is now ready. My understanding is that consultations with the relevant stakeholders will take place shortly before the Bill is debated in Parliament towards the end of this calendar year.

It is envisaged that an entire suite of incentives and concessions will be attached to this Bill that we believe will act to trigger a fundamental transformation of the cultural sector in Barbados. Such transformation should lay the ground work for Barbados to finally move from being a net importer to being a net exporter of cultural services to the world.

This intention notwithstanding, it cannot be denied that a clear anomaly exists where those within the traditional private sector who have access to capital, do not readily invest in this area as they are not familiar with how returns are made from such investments. Equally, many of our cultural workers in whom creativity abounds have no access to money. While an abundance of money may not always be required to create, it is definitely needed for the promotion, marketing and distribution of what it is that has been created and this Mr. Speaker, is the case whether we are dealing with music, art, theatre, dance or culinary arts.

Indeed, Mr. Speaker, the difficulties faced by our cultural workers are not very different from those persons in our small hotel sector or our manufacturing or agricultural classes. However, persons in these sectors all benefit from structured institutional and financial support through the various statutory entities or mechanisms in a manner that gives some level of certainty, if not total comfort and transparency.

If nothing else, the recent Rihanna production, and the progressive success of a now growing list of internationally contracted cultural artistes from Barbados should serve as a wake-up call for policy makers to get cracking with the growth, development and promotion of this aspect of our cultural industries.

Clearly Sir, the time has come for us to not only talk the talk but walk the walk as well.

Accordingly, Mr. Speaker, this Government will work with our cultural workers, across disciplines to establish a public/private sector mechanism whose focus will be to promote, market and distribute the products and services of our cultural workers. It is hoped that after the appropriate consultations with all stakeholders, which I suggest should begin in short order under the auspices of the Ministries of Culture, Tourism and the Ministry of Finance (Investment Division), the mechanism will be put in motion in the shortest possible timeframe.

Further, Mr. Speaker, given the diffidence of our commercial banking sector to financing enterprises in the creative economy, especially as it relates to working capital, the Government of Barbados will provide by

way of a government backed guarantee to a special purpose vehicle, a facility to provide for the borrowing of \$50 million dollars in amounts of \$10 million every year for the next five years starting in 2012 to support this mechanism. These resources will go directly to support the promotional, marketing and distribution efforts outside of Barbados of Barbadian musicians, artistes, designers and chefs. Further details will be enunciated at a later date.

As an adjunct to this and in support especially of our musicians and recording studios, the Ministry of Finance will undertake on a case by case basis to support requests for partial waivers of duties and VAT on some equipment required to upgrade music studios across the island. This will be facilitated in collaboration with the Ministry of Culture and the Small Business Association.

Mr. Speaker, what I have outlined amounts to a quantum leap forward in the way in which government - any government - has dealt with this sector in the last fifty years. Perhaps, some may say it is a little late in coming, but it is a start.

What I am absolutely convinced of Sir, is that this initiative will not be a success without the full commitment of all Barbadians including our private sector. It is for this reason in particular that I will use this Parliament, on this our most publicised day, to issue a call to all radio stations and networks in Barbados, including the State Corporation, to hold our hands in helping to build a strong music/entertainment industry in Barbados by committing to a policy of playing no less than 60% locally produced music on all the stations in their networks. It is time for you too to walk the walk and help us to unearth, develop and

sell to the world the next generation of cultural Ambassadors from Barbados.

Finally on a recent State visit to China, the Honourable Prime Minister in his very fruitful deliberations with Chinese Premier Wen Jiabao engaged the continued interest of Barbados in developing a dedicated home for the performing arts in Barbados. The government of China equally expressed its desire to see that such a facility could become a reality in Barbados in the very near future.

To this end, it would be remiss of me to let pass this opportunity to inform the country that following months of analysis and consultation, this government has decided to move ahead with the construction of a brand new multi-purpose state of the art Cultural and Performing Arts Centre.

It is expected that the Centre will be financed and constructed through a grant from the Government of the People's Republic of China and it is proposed that it will be located, once the Town Planner approves, on the land at Spring Garden opposite the Brandon's Beach facility in the constituency of St. Michael North West. Further details on that too will be revealed shortly.

Conclusion:

Mr. Speaker there is a saying that goes something like this:

"I do not know what the keys to success are, but I know the key to failure is trying to please everybody". The measures and programmes which I have just outlined on behalf of this Government are unlikely even in the most ideal of circumstances to please everybody in Barbados.

While we would have liked to offer every Barbadian everything which they might desire to see or ever wanted, we knew that our constrained fiscal and other circumstances would not allow us that luxury.

What we do know, however, is that Barbados is the sum total of its parts and achieving the lofty objectives of advanced status in the shortest possible time will not be achieved if we do not join hands to work together as Team Barbados.

And as a great cricketing nation, we know that working as a team means combining resources just as it means each sacrificing self for the advancement of the team.

When the team is in trouble it is not time for selfishness and individualism, but a time for preservation, collectivity and application. This relatively young government has had more than its fair share of setbacks and challenges, most not even of our own making.

But having been called upon by the people of Barbados to lead the team in its most challenged period we have applied ourselves to the task of developing a clear and workable plan, and have rallied the people of Barbados to play together to successfully execute that plan.

As with any plan even the best of circumstances, there will be setbacks. But it is not how many times you stumble or even fall but how quickly you get up, compose yourself and push on towards the victory. This Budget is but yet another installment in the Plan of Team Barbados to bring us out of the recession even better than we went in. The plan is working. We lost an early wicket at the top of the

order, but the middle order is holding ground and runs are beginning to come.

Now is the time for all to pull together for the good of the team. No cheeky singles or no big and irresponsible shots will get us where we want to be. The wicket will get better. The sun is coming out again and the early moisture is beginning to dry.

We need to stick to basics, play ourselves in, take the runs that we know we can safely get, and rack up a big score for our country.

This strategy, which we have pursued is designed to get us just that, but it must be a full and total team effort.

As we close this last session in today's play, I urge all Barbadians to reflect on the words of the second verse of our national Anthem:

“The Lord has been the peoples guide for pass three hundred years. With him still on the people's side we have no doubts or fears. Upward and onward we shall go, inspired, exulted, free, and greater will our nation grow in strength and unity”

Mr. Speaker, Honourable Members, fellow Barbadians, may God Bless us all. Thank you.

## APPENDIX 1

### Summary of Budgetary Proposals

- The adjustment of the existing land tax bands while maintaining the current rate structure.

For residential properties: -

5. At present the first \$150,000 is exempted from tax. I propose to raise that to \$190,000.
  6. The rate of 0.1% is applied up to the next \$400,000 in value. I propose to raise this to \$500,000.
  7. Up to \$1,250,000 in value a rate of 0.45% will be applied. This moves up from \$1,000,000, and
  8. A rate of 0.75% will be applied to all properties in excess of \$1,250,000. This is an increase of value of \$250,000 up from the previous value of 1,000,000.
- The basing of all land tax rebates on the tax demanded.
  - The granting of a rebate of no more than 50% on the land tax demanded for that year, for properties which can prove that they have engaged directly in the manufacturing activity and those which have been certified by the Division of Energy to be engaged in the production/manufacture of solar energy.

- The requirement of a tax clearance certificate from Inland Revenue Department and VAT Department in order to access the rebate on land tax.
  
- The granting of all rebates on land tax within the year in which the tax is due.
  
- The payment of land tax bills by the hotel sector and restaurant during the last quarter of the fiscal year without losing access to the discounted rate.
  
- The increase in the energy conservation and renewable energy deduction from \$5,000 to \$10,000 per year for individuals and \$25,000 per year for registered small businesses.
  
- The write-off of 150% of costs associated with the conversion to alternate energy over a five year period for businesses whose filings with the Inland Revenue Department and VAT Division and whose compliance with NIS and Land Tax are up to date or who have in place arrangements to settle their arrears.
  
- The increase in the late filing fee for income taxes from one hundred dollars (\$100) to five hundred dollars (\$500).
  
- The separation of business and employment income for the computation of tax payable with effect from tax year 2011.

- A 100% waiver of interest and penalty on outstanding tax due to the departments under the Waiver of Interest and penalties programme if payment of eighty percent (80%) of the amount due is made in full by a one-off cash payment.
  
- The reduction of the fees payable by paramedics, medical technicians and medical dispatchers under the Profession, Trade and Business Act, Cap 373 in line with that payable by nurses.
  
- The reinstatement into the Income Tax Regulations of the tax free status of the 25% lump sum payment to persons on reaching retirement age.
  
- The implementation of the new fee structure under the Occupational Pension Benefits Regulation with effect from September 1, 2011.
  
- The amending of the Occupational Pension Benefits Regulation to permit a drawdown account to be used as a variation on the form of pension payment available to a member upon retirement from a defined contribution plan.
  
- A reduction of the taxes paid by businesses on remittances to insurers based outside Barbados who provide global insurance coverage from income year 2012.
  
- An amendment to the VAT Act to allow hotels offering time share properties to claim a refund of input tax paid in respect of goods purchased locally.

- Zero rating for VAT purposes of all sporting vehicles, equipment and gear temporarily imported for the sole purpose of competitive activities with effect from September 1, 2011.
  - The provision of a rebate of up to five thousand dollars (\$5,000) to farmers who retrofit their livestock housing structures with the use of solar energy.
  - The provision of financial assistance for the purchase of three mulch compositors and three row mulchers and the accompanying mulch lifters to give fruit and vegetable farmers access to cost effective equipment to be used for production and application of disease and weed-free organic matter.
  - The reduction of the interest rates on loans from the Agricultural Development Fund to 5% over the next three years.
  - The discontinuation of duty free concessions to the hotel and manufacturing sector on the importation of electric water heaters effective January 1, 2012.
1. Effective 1<sup>st</sup> September 2011, all parts imported into the country for the purpose of assembly of personal computers will be free of all import duties and VAT.
- The dematerialisation of all Government Paper with effect from January 1, 2012.

- With effect from January 1, 2012, the exemption from publishing a prospectus by SMEs wishing to access equity through an issue of shares under specific conditionalities (where issues are no more than BDS\$5 million, where the issues are made to no more than 500 persons and as long as the issuing company is listed on the Barbados Stock Exchange).
  
- The provision of an energy grant of \$5 million through the Welfare Department to assist the disabled and aged with payment of their electricity bills.
  
- Government of Barbados will provide by way of a government backed guarantee, a facility to provide for the borrowing of \$50 million dollars in amounts of \$10 million every year for the next five years starting in 2012 to support this mechanism. These resources will go directly to support the promotional, marketing and distribution efforts outside of Barbados of Barbadian musicians, artists, designers and chefs.
  
- The Ministry of Finance will undertake on a case by case basis to support requests for partial waivers of duties on some equipment required to upgrade music studios across the island. This will be facilitated in collaboration with the Ministry of Culture and the Small Business Association.

**RESOLUTION**

**Whereas** the Financial Statement and Budgetary Proposals 2011 delivered by the Minister of Finance and Economic Affairs is made against the background of an expected improvement in the global financial and economic environment, the impact of which is reflected in marginal growth in the domestic economy;

**And Whereas** Barbados has had to adjust its economy to face the challenges presented by sectors such as tourism, manufacturing and agriculture, to accommodate the reality of these global conditions;

**And Whereas** the Government proposes to institute policies and programmes to maintain levels of employment, a steady rate of export growth and take our productive sectors to a higher level of performance and competitiveness;

**And Whereas** the Government seeks through the Financial Statement and Budgetary Proposals 2011 to address the issues and the fiscal performance within the Barbados economy, to stabilise and expand the economy and to take Barbados to a higher level of economic accomplishment;

**Be It Resolved** that the House take note of the Statement delivered by the Minister of Finance and Economic Affairs;

**And Be It Further Resolved** that the House strongly endorses the proposals set out in the Financial Statement and Budgetary Proposals 2011 which seek to reduce the fiscal deficit; facilitate business operations and development; and lay the groundwork for sustainable growth.

**Schedule 1**

**Appendix III**

<b>Service</b>	<b>Current fee</b>	<b>Proposed fee</b>
Application for registration of pension plan	\$2,500	\$250
Registration of pension plan for 1 year	\$5,000	\$5 per member with a min of \$250
Registration of amendment	\$500	\$250
Annual registration /renewal	\$5,000	\$5 per member with a min of \$250
Late submission of fee		10% of annual fee plus 1% of annual fee for each month or part of a month that the imposed fee remains unpaid
Filing of annual returns with valuation	\$500	Nil
Filing of triennial returns with valuation	\$500	Nil
Filing of valuation separately	\$200	Nil
Filing of windup report	\$500	\$250
Filing of notice of proposal to windup pension plan	\$10	\$250
Penalty for late submission of actuarial reports and financial statements		\$500 plus \$100 for each month or part of a month that the fee imposed remains outstanding
Reproduction of document filed with Supervisor/FSCB	\$0.50 per page	\$0.50 per page
Certification of copy of document filed with the Financial Services Commission	\$10	\$10