



GOVERNMENT OF BARBADOS

The Hon. Mia Amor Mottley, Q.C., M.P.

Prime Minister

Minister of Finance, Economic Affairs and Investment

Budgetary Proposals and Financial Statement, 2019

“STAY THE COURSE”

March 20, 2019

Budgetary Proposals and Financial Statement 2019

Stay The Course -The Arc of Stabilisation, Growth and Transformation

Mr. Speaker Sir,

Sunday coming will mark 10 months that we embarked on our journey

The commitment Barbadians have shown to this trek knows no equal.

In this critical passage of our history, the Social Partnership has played a vital role. We have committed to a voyage for love of country and we must see it through. We must stay the course.

Much progress has been made. Important points along the way have been seen and passed. The IMF's approval of the Barbados Economic Recovery and Transformation Plan; the domestic debt restructuring and a budget surplus.

But, trust me, everyone knows we cannot rebuild in 10 months what they destroyed in 10 years.

And even as we embark on this path, we have been beset by some major challenges, led of course by the issue of gun-related violence. It is a scourge we will not ignore or tolerate and we have already begun taking steps to counter. We must and we will do all in our power to save your young people.

And the international background today has made the task harder than ever before. Brexit has curbed the enthusiasm for travel from our largest source market. The OECD has forced us to abandon a 30-year old separation of tax rates between international and local business. Guns poured into Barbados over

the past five years and we now have a problem of gun crime not previously seen. Barbadians are naturally wary.

Mr. Speaker Sir, I would like to set out where we are along the arc of stabilization, growth and transformation. That is what we promised the people of this country. When I use these words, words of stabilization, of growth and of transformation, I am not referring to just our economy, but also our society.

The last ten years has proven what almost everyone knew, that our society and economy are formlessly entwined.

They are deep in the foundations of each other. Under the guise of some false distinction between the economy and society, the last administration so bankrupted our economy with its corruption and willful incompetence, so robbed tax payers, so ripped apart our social safety net, so betrayed the legacy of our great founders, that it is **our society** that is in need of stabilizing, regrowing and being made resilient.

Stabilization, growth and transformation are not three separate steps. They are interconnected. We cannot grow without first stabilizing. The longer our dollar remained under threat, the more foreign investors sat on the sidelines and the jobs and confidence did not come. As long as a debt default loomed ahead of us, banks became more reluctant to lend. As long as the Government held on to hundreds of millions of dollars of tax refunds, tax payers started slowing down their payments, and government agencies became starved of funds and incapable of performing the basic functions of running the buses, collecting the garbage, maintaining roads and pipes, fixing our hospital, fixing our schools and defending our borders from the entry of guns.

And we cannot transform our economy until we have growth.

But stabilisation, growth and transformation are more linked than just that.

We cannot stabilize independently of the way we plan to grow. Our grandparents used to say *start as you mean to continue*, so the commitments we made as we started our stabilization efforts continue to be what will propel our transformation.

That is why, bewildering to those searching for things to criticise - the atmospheric noises - we hit our budgetary targets by cutting expenses, while also investing in education, health and welfare.

We cannot cut our way to growth, Mr. Speaker. There is no point cutting those investments that will help fuel growth and transformation. This Government is about careful, considered choices, choices that weigh up where we are and where we need to go, choices that prepare us for the arduous journey ahead.

It is why while we hit our debt limits by restructuring expensive debt, we also borrowed low cost debt to repair critical infrastructure. It is why we are shifting not just the level of taxation, but its mix, from direct to indirect taxation, so that we spur economic growth.

But what we must not do, Mr. Speaker, is to blink, is to forget the prize and give up too soon. We must, Mr. Speaker, above all else, stay the course.

The economy is no different from when you have an infection and you have to go on a course of antibiotics. You start to feel better after three or four days - the temperature is down, the pain is not as intense and the fever is going but you can't stop taking the antibiotics. And God forbid - you certainly cannot yet go for a drink. If you do, you are back where you started.

Many diabetics stop taking their medication when they are feeling better. And that often turns a bad situation into something much worse. Just as we would say to our loved ones who are beginning to feel a little better from an acute illness, hold tight. All will be well, so long as we stay the course. We know it only too well.

And why stay the course, you ask?

We cannot recover a lost decade in a few years, but we can do so within seven. So what will the choices we are making now mean for 2025 when our pride and industry are restored? Barbadians can expect their children returning on an electric bus from a well equipped school, a 2025 when our kids will be inspired by motivated, well-paid master teachers: excited, curious children, unconstrained in their ambition for life.

More Barbadians will feel a sense of command of their lives, of their security and their safety - safe in their jobs, in their communities and in their homes.

More will be confident that with the education and training they too can have a great idea, they can develop that idea here, fund it here, and export it to the world from here - just like young Barbadian Carlton Cummins whom we are working with to bring to Barbados the production of his world-beating innovation around long-life, reusable batteries.

And in this near future, all Barbadians will be secure in the knowledge that if they fall ill they will have universal access to well-equipped, well-staffed health care facilities by 2025; that if they fall on hard times they will have access to retraining, low income housing to reduce density and a social safety net without having to know someone “high up” to call a “shot” for you.

We must and will build a Barbados where Bajans are not defined by the circumstances of their birth. A Barbados where Bajans realize that no one owes us a living and that we must stay focused on all that we want to achieve and not be deterred by obstacles.

We must hold the line. We must stay the course.

But Mr. Speaker, where are we on this journey?

We have further to go; but equally, we are deep into it. We are no longer on the foothills. We have left base camp and are climbing the mountain. Today, we are preparing to depart stabilization and moving on to the paths of growth and transformation.

In our manifesto we described the mission critical phase and identified three main tasks of stabilisation: rebuilding our foreign reserves, dealing with debt and helping people to live.

Over the past ten months, we have pulled our dollar to safety. As of today our reserves have risen from just over \$400m at its lowest point early last year to \$1 billion and 100 million as of yesterday.

In our manifesto we set ourselves a target of pulling up our reserves to 15 weeks of import cover. Mr. Speaker sir, we will hit that target in the next few days.

Fundamental to the long-term recovery of reserves has been end of deficit financing.

The Government is no longer paying for its expenditures by asking the Central Bank to buy its bonds with printed money. That has ended. Because these printed dollars were not backed by foreign exchange earnings, whenever they were to pay for imports our reserves fell. We said goodbye to that insanity.

Mr. Speaker, sir, to restrict the capacity of the Central Bank to engage in the financing of fiscal deficit in the future, my Government amended two pieces of legislation - the Financial Management and Audit Act and the Central Bank Act. First, in July 2018 less than 3 months in government, we reduced the limit of the government's overdraft at the Central Bank, the Ways and Means Account, to 7.5% of net receipts of estimated revenue. This was down sharply from the previous 10% limit that did not provide the country with enough protection from the last Government's behaviour.

Second, Mr Speaker, at the same time we removed the right of the Board of the Central Bank to hold unlimited primary issues (securities of the government), by a simple amendment. Long before there was an IMF programme, we imposed a limit on the amount on the Central Bank's holding of primary securities to 10% of government's expenditure. Mr. Speaker, Jamaica's limit stands at 40% of expenditure but we sir, were confident in our ability to manage the country's finances.

It was also our deliberate plan to boost our reserves through a debt restructuring and by swapping expensive borrowing with the very low cost borrowing rates available from the IMF, IDB and CDB. Mr. Speaker Sir, swapping high borrowing rates for low rates makes sense not only for your households but your country too.

Last November we completed the domestic debt restructuring that covers approximately 80% of our debt. As a percent of GDP, it is one of the largest debt restructurings in history. Our interest payments are now affordable. Our debt level has fallen from over 170% of GDP, the third highest in the world to under 125% of GDP. We are on target to bring that below 100% in seven years and thereafter to 60% by 2033.

The external commercial debt restructuring, covering less than 15% of our debt, is not yet complete. We always knew it would take a longer time because this debt was issued under foreign law jurisdiction.

Mr. Speaker Sir, we have also embarked on a process of renegotiations of expensive and untendered public contracts, focusing primarily on SSA and BWA, where the largest such contracts existed. These negotiations alone are expected to yield annual savings of about B\$25 million, of which 2/3rds have already been agreed.

The Ministry of Finance Mr. Speaker, has negotiated on behalf of the SSA a significant reduction of contractual negotiations for the lease of the new Sanitation Headquarters at Vaocluse. These amount to savings of approximately \$21 million over the next 20 years. Despite these savings Mr. Speaker achieved by the Ministry of Finance, the building still requires significant retrofitting,

including the replacement of the tiles, the installation of partitions in order to make it habitable.

Mr. Speaker Sir, going forward, my Government will seek to renegotiate other one-sided contracts entered into by the previous Government. We will also enforce public sector wide procurement rules and create and train a college of negotiators to ensure such sweet deals are never provided again. [or where the level of the steal in the deal will cause corrosion and rust of the Treasury]

Our Government is now for the first time paying its bills on time and running current.

VAT and tax refunds for 2019 are being sent out. It is a sad reflection of where we had got to under the last administration, Mr. Speaker, that getting a cheque in the post from the Government of Barbados caused shock and awe to many.

Alongside vigorous efforts to make ourselves fiscally fit, we also gave priority to social justice, to helping people to live and protecting the most vulnerable in order to stabilize our society.

After not receiving a pay rise for nine long years, nine years in which the cost of living had risen substantially, we gave a 5% wage increase to public sector workers. They said we could not do it - BUT WE DID.

We reintroduced tuition free access to Barbadian students at the University of the West Indies bringing financial relief to thousands of households and giving hope to the youth of this country. They said we could not do it - BUT WE DID.

We raised the minimum non-contributory pension from \$155 to \$225, a 45% increase. In addition, the minimum contributory pension was raised twice - in July, 2018 and January , 2019. They said we could not do it - BUT WE DID.

We paid the reverse tax credit of \$1300 for those earning less than \$18,000.

We introduced the Trust Loans programme to improve the access to finance for small and micro businesses to build credit history. They said we could not do it - BUT WE DID.

We boosted our welfare budget by \$5m in this last 9 months a 33% increase. They said we could not do it - BUT WE DID.

We made immediate, temporary, progress with repairing the South Coast sewage system, providing the time to put in place the more permanent solution. They said we could not do it - BUT WE DID.

We have started a massive and comprehensive 3 year road repair program that will cost approximately \$130m, which will not fix all of our roads but will go a long way.

Mr. Speaker, we knew it would be difficult after we won. It has not been easy. It has been tough at times.

Very regrettably, some Barbadians have lost their jobs over the course of the last few months as the Government sought to stabilize its condition. This process was difficult - especially so. I cannot begin to tell you how difficult these decisions were for me at the personal level, and how much they still keep me up at night. But taking the tough decisions is what leadership is all

about, and what guides me every day is my faith that if we act now, there will be light at the end of the tunnel for all.

We have tried to ease the pressure on those laid-off workers through the establishment of a Household Mitigation Unit which has worked in conjunction with other departments and agencies across the public and private sector to resettle displaced workers and retrain them. The programs that will see relief being made to those who have been disadvantaged will continue apace, as we cannot reach everyone in a few months. Nevertheless, virtually everyone who has been sent home would have already received the payments. That did not happen in 2013 and 2014.

If we had not shared the burden we would have seen over 10 000 workers go home, a number that would have broken our society and economy, and not the 1000 thus far. In every other previous downturn since Independence, the workers of Barbados have taken almost all of the adjustment: in 1974, in 1981-1982, in 1991-1994. Workers bore the adjustment. This is the first in which we have done things differently. And make no mistake Mr. Speaker, this has been the worst recession in our history as it encompassed 10 years of no economic growth, escalating debt, a deterioration of our reserves and unsustainable fiscal deficits.

The Barbados Economic Recovery and Transformation Plan has set the historical and international standard for shared sacrifice and burden. No other plan in our history or indeed internationally has shared the burden to such an extent. BERT shares the adjustment between labour and capital, between domestic residents and foreign tourists and between public sector layoffs and tax increases.

Mr. Speaker, sir, to make sure that we do not need to do this again, to make sure that Sir Lloyd, or anyone else for that matter, will never ask again how did we ever *get back here*, we have introduced legislation to bring greater levels of accountability to our Parliament and our Executive.

We passed the Public Financial Management Act, legislation to hold the Government more accountable than ever. Equally, we have before a Select Committee of Parliament, rafting proposals for far-reaching new Integrity legislation.

We have as you know done much more besides stabilization. This has been the most active ten months in the recent history of our ancient Parliament.

Mr. Speaker sir, Stabilisation done; but I tell you, stay the course.

Participatory Democracy

It is important to say a few words about the manner in which we have gone about achieving stabilisation and the manner we will achieve what comes next.

It would be easy for a Government that won all 30 seats in Parliament to become aloof and superior. But we know that the reason why we have been able to achieve more in 10 months than what the last government did in 10 years, is that we have done so through listening and dialogue we have continued to rub shoulders.

From our very first morning we pulled the Social Partnership back to the centre of our policy making process. It is the social partnership that is playing the key monitoring role for the Barbados Economic Recovery and Transformation Plan.

Many of our problems in Barbados have at their root a lack of empathy, a lack of caring created by an absence of dialogue. Under the last government we had become a small nation with smaller conversations.

And so, beyond the social partnership I have taken it upon myself to go and to listen and talk; to try and work with people, together to try to untie the Gordian knots that have so tied up this country.

In the last week we met with LIAT workers past midnight, the SSA workers at six in the morning and Transport board for four hours.

It is through national dialogue and conversation that we will return our country to its rightful place.

Mr. Speaker, sir, this is not a passing exercise. We are deliberately developing a new participatory democracy.

You saw it first in our online survey in August last year to all Barbadians on what they thought about government agencies and functions and what they thought was necessary for Government to continue doing or not. This ended up being one of the largest exercises in participatory democracy, over 5000 people giving us their considered views in a survey that took an hour to complete.

We changed the structure of the Estimates debate so that for the first time in Parliament's 380 year history, Parliamentarians could quiz not only the Ministers, but the high public officials implementing policy, to understand first hand and independently, what the issues are. This is part of the process of reducing political interference by moving these independent officials back to the centre of policy implementation and opening them to greater scrutiny. That is

participatory democracy. Our country will only succeed if we can do in three days what it currently takes 3 months to do.

It is why, too, we have changed the timing of this budget debate, to let the public see and have a better understanding of the link between government expenditures discussed over the last three weeks and how these expenditures are funded by the revenue measures announced in this budget immediately afterwards. It makes little sense to announce spending decisions in March and then how they are to be funded in October, if the Minister of Finance so decides. If the public loses the connection between why government raises revenues, they will not be able to make good judgements. True transparency is not just about publishing data, but making sure people understand it. It is also the art of communication - not just the use of big words and high sounding phrases.

I have no discomfort, Mr. Speaker, telling you that to deal with a big problem in an open and participatory manner, I have assembled a big team. And they have delivered big.

Barbadians should understand that our advisors are world-class experts. You could ask your GP to be your brain surgeon, but I wouldn't advise it.

Mr. Speaker sir, we intend to be judged by our performance.

And we need this team of Ministers, Boards and Experts to help us deal with the next set of mission critical challenges that we only learned the detail of in coming to office.

Let me tell you about some of the most important of these new challenges.

GUN CRIME

The issue that I am sure is of greatest concern to Barbadians is the escalation in gun-related violence. It is a scourge we will not ignore or tolerate and we have already begun taking steps to counter. We must do all in our power to save our young people.

We know that this problem is as deep as it is broad. There is no easy, no singular, no magical solution. The solutions must be multiple and comprehensive.

The police must be part of the solution: more technology, better morale, and a protective services commission, and they must work in trusted and committed partnership with Communities everywhere.

Social policy must play a critical role too. All social workers must be first responders.

Training and education initiatives

PORT

Although the Port under the last administration appeared to have money to buy cranes it did not need, and did not have space for, it insanely, did not have any money to repair or buy new security scanners. For four years the port had a single functioning scanner which was able to scan a paltry 6% of all containers. The Port has subsequently become the principal avenue through which guns have been coming into the country. You might wonder whether that was deliberate. However it happened, and we must take immediate steps to correct

this dangerous deficiency. Which means spending approximately \$41m, that was not previously budgeted for. t We will shortly go from one to three scanners, as well as new geo fencing, over 253 new cameras and a new canine unit at the Bridgetown Port. We need to make sure we are getting the right equipment and it is part of the right processes that delivers security but does not disrupt the flow of trade, and Mr. Speaker we need to do all of that fast for security, competitiveness and revenues.

I should also say sir, that the private sector of this country being cognizant of the national security concerns have agreed that scanners and other security infrastructure will be installed at all privately operated off site clearance facilities.

CUSTOMS

We, Mr. Speaker, have therefore to deal with a Customs Department that is demoralized, that has had more than 160 posts unfilled over the course of the last five years. Persons were promised that they were going to BRA, yet Customs did not have its system of operations reviewed and modernized. Indeed Mr. Speaker, Barbados was the first country in the early part of the 21st century to implement ASYCUDA Plus-Plus. It is now the last country in the region and among the last in the world to be using ASYCUDA Plus-Plus. It has not moved to the modern system of ASYCUDA World which provides far greater efficiency and far less discretion to persons operating the system. Similarly Mr. Speaker, the last Government did nothing to revised the customs tariff. We are still using a 2007 customs tariff even though there have been two revision since then.

Mr. Speaker, my Government has not accepted this state of affairs gladly. We have received a report two weeks ago from the IMF and we have started to take the essential steps. This Parliament voted \$700,000 three weeks ago in order to pay to have ASYCUDA World completed within three months. Similarly, we have also signed a contract with a number of retired customs officers to be able to revised the 2007 tariff to the 2017 tariff within the next month. Finally, Mr. Speaker, we have also agreed that Barbados must not be one of the ones lagging behind when the region goes live with the Advanced Cargo Information System, and we have determined that, whatever it takes in the next two to three months, we shall do it.

Mr. Speaker, this will not solve all the problems we have to solve at customs to make it responsive to the protection of the nation's security, the protection of the nation's revenue, and the enhancement of the competitiveness of our private sector. But what it will do is to set us on a path where between now and the next 18 months we will do all within our power to make customs that beacon department that it hereto was in this nation's history.

The Grantley Adams International Airport was also treated in a similar manner. There was no expansion of the terminal and little to no maintenance of the infrastructure, resulting in the runaway being deemed a hazard to the safe landing of aircraft. Imagine that? Criminal incompetence. One of our first orders of businesses then was to approach the Caribbean Development Bank for a US\$40 million loan to repave the runway, at a time when the last Government was seeking to do a \$100m loan for this and little more else.

LIAT

I am pleased to announce that we have made significant progress on

restructuring LIAT. Year after year, Barbados has coughed up capital subsidies for the airline without requiring burden sharing. And year after year, losses and debts have piled up, pilots work less and less, and ticket prices rise and keep on rising— to the point that it is now cheaper to fly to Miami and even New York than to Antigua or Trinidad.

Why the previous government did this really isn't clear? Yes, LIAT is a tough issue to crack.

There are more government shareholders in LIAT than in any airline in the world. The open secret is, if a loss-making route gets cut, calls are made, pressure is put on management, and the route reappears. There are flights LIAT now has that will have one passenger— a flight that any airline anywhere else in the world would cancel, but not LIAT. Pilots and other groups have contracts that let them get paid regardless of whether they work or not. And as debts have mounted, the airline has got behind on its bills and into what is a slow death spiral, just waiting for someone to move first and seize a plane.

But solving tough issues and saving the Barbadian taxpayer money is why we have been elected. Is it impossible to put in place a sustainable solution? Of course not. Nearly every government in the region subsidizes airlines delivering arrivals through a minimum revenue guarantee. Those airlines certainly aren't losing money and there are few complaints about having to pay more to the airline if the fare falls or the seats go empty. And when we engage with Caricom with our sleeves rolled up ready to do heavy lifting as a partnership, the fact is, we as a region can get things done.

So we have taken a different approach to LIAT from the previous government. Instead of complaining and then writing a blank check, we got deep into the

numbers and day to day problems facing management. Then at the meeting of CARICOM Heads on 26 February, we drew a line in the sand. Barbados will no longer be a part of an airline that isn't run on a commercial basis. And, unless there is fair burden sharing, not a cent will come from the Barbados budget.

On 1 March LIAT management sent a letter informing shareholders that it would cut flights starting with below average revenues if minimum revenue guarantees are not put in place. This approach to burden sharing allows management to run the company as a business. The following week, management launched into crisis meetings to negotiate cuts from all suppliers and labour. When all suppliers responded that they would support the restructuring except the pilots, shareholders immediately called pilots to a meeting to explain that the alternative for the company was bankruptcy and a new company would only rehire them on its own terms.

While we won't know the full result for a few weeks, the core elements of a new, sustainable model for LIAT are already clear:

- Suppliers, commercial financiers, and labour will provide major cost cuts;
- Any flight with below average revenues will need to be subsidized or cut. Several countries that haven't paid for service until now have committed to do so;
- The airline will put in place a hub and spoke model and use wet leases to improve service, especially during holiday travel periods; and

- Between one and three planes will be sold to pay down debt.

This restructuring is expected to dramatically cut the airline's cost to the Barbados taxpayer. Although our goal is to eliminate the need for capital contributions to the airline altogether, our fiscal year 2019 budget includes a small subsidy assumption for minimum revenue guarantee agreements on specific flight arrivals to BGI. The exact cost will depend on ticket fares and how full the planes are, but, needless to say, we think it makes sense to guarantee specific flights given the taxes and benefits to the broader economy that accompany arrivals.

OECD and EU Lists

Mr. Speaker Sir, During the Global Financial Crisis, the summit of G20 Presidents and Prime Ministers from the world's largest countries agreed that the OECD would be responsible for creating greater fairness in the taxation of international profits of companies. When we arrived we had a few months before the OECD were going to declare Barbados an uncooperative jurisdiction. The previous Government had put no plan in place.

In the June 11, 2018 budget, it was stated "we will review the framework within which the International Business Sector must operate given the blacklisting by the OECD and the grey listing by the European Union."

The OECD's concern was that our corporate tax rate depended on whether a company was local or international and that this ring fencing of the tax system was considered a way to poach profits from other jurisdictions.

Mr. Speaker, sir, We had a big choice to make fast: remove the local versus foreign distinction and converge our tax rates to the local rate and lose all of our international business, or converge to the international rate and lose much of our local revenues. Up to that point, everyone else had fudged the decision to avoid the day of reckoning. We decided the time for fudges was over. If our destiny was to be a successful economy that our children would want to live and work and not just visit on holidays, we need to be globally competitive, and so we took the bold move to converge to the international tax rate. Barbados now has the most competitive corporation tax rates in the world save for zero tax regimes which we believe are unlikely to survive. We did the work to ensure our total revenue collection would not fall, by raising the rate on the largest profits, and by eliminating concessions. In response to our new corporate tax rates, the OECD, which is the only body with the authority to declare us tax compliant or not.

But it seems our bold move, wrong footed the European Union. And without a full assessment they branded us as uncooperative regime simply because we had become a low tax regime. While it is the OECD and not the EU that has been given the responsibility for reaching global agreement on tax matters and we are OECD compliant, we do not want to appear on anyone's uncooperative list. We have been working with the EU as recent as yesterday in the same way we worked with the OECD before and we are confident that we will be likely removed from this list around May of this year.

In dealing with these new challenges, we have neither overreacted nor underestimated. In essence we agree on the fundamentals, that countries that declare their tax home is in Barbados must have real substance here and if they don't comply with our substance rules after a reasonable set of warnings they would be struck off. Substance rules will mean that we attract companies that

bring greater employment and revenues to us. What we had to agree on is the process we will follow if they introduce new tax rules. We have not been full of bluster, but have quietly got on with the job in defining and agreeing principles and processes. That, Mr. Speaker, is our way, the Barbadian way. Mr. Speaker Sir, We got this. Stay the course.

VENEZUELA

Mr. Speaker, Sir, Instability in Venezuela will undermine peace in the southern and eastern Caribbean. We have been in a zone of peace for so long that we are in danger of underestimating how important that is. If God forbid there is military intervention, it would destabilise the region for a long time, we could be living with the adverse social and human effects for the rest of our lives. That is why Caricom has played a global role in pressing for and offering to be a supportive forum for dialogue between the parties. We strongly believe that a lasting and democratic solution to the situation in Venezuela can only come from the people of Venezuela themselves. Externally-imposed regime change, with all the baggage it brings with it, will not create the conditions of stability and national reconciliation that the Venezuelan people so desperately need.

CLIMATE CHANGE

Mr. Speaker, Sir, the Atlantic Hurricane season of 2017 brought it home in a way that nothing before had done. Climate change is not some theoretical construct. It is a lived reality. In a few hours between a hellish night and a red dawn, Dominica lost 226% of its GDP, one of the biggest natural disasters to befall a whole nation in history. Given the back sliding on the issue by the

international community, we have no choice but to become resilient to this new reality. We must become one of the first resilient countries in the world.

We are developing a roof to reefs program to respond to the threats of climate change. This year we will start a pilot to try and regrow our inner reefs from the effects of climate change with positive impact on our tourism and fishery industries.

We have also become one of the first, and maybe last countries to successfully negotiate Natural Disaster Clauses in all of our restructured government bonds. Following negotiations between White Oak and bondholders, if a disaster of specified force strikes, our bond holders have agreed to automatically suspend principal and adding interest payments to the bond for a period of up to two years to give the country time to respond before they resume. Only one other Caribbean country has a similar clause and given the new prevalence of strong hurricanes, investors will be less likely to give this clause to anyone else in the future.

CONTEXT OF DOMESTIC AND INTERNATIONAL ECONOMY

Mr. Speaker Sir, I would like to provide you with a brief review of the domestic and current economy. The last ten years, from 2008 to 2018, will be recorded in history as a lost decade for economic development and social progress in Barbados. That period in our history, Mr. Speaker, is characterized by zero growth, very high fiscal deficits, debt rising to unsustainable levels. A decade of zero growth led to an unraveling of our social capital. Our previously low levels of poverty, inequality and crime reversed. It was our view that if these traditional Barbadian features were allowed to unravel further, the level of economic development would drop precipitously.

Mr. Speaker Sir, over the last decade, the country suffered 22 downgrades by the rating agencies and consequently lost all access to international capital markets. Our international reserves dwindled from almost BDS\$2 billion, when we demitted office in 2008, to just about BDS\$400 million in May 2018. Our dollar was teetering on the edge.

Mr. Speaker Sir, my Government took office at the end of May 2018 and began rapidly implementing plans long prepared for the occasion in close consultation with our Social Partners. Out of those consultations came The Barbados Economic Reform and Transformation (BERT) Plan, a medium-term strategy aimed at restoring macroeconomic stability and putting the economy on a path of sustainable and inclusive growth. Mr. Speaker, we have embarked on a strong Fiscal adjustment process through the restructuring and modernization of our public sector, higher taxes, lower expenditures and the restructuring of our debt.

Mr. Speaker Sir, we engaged the International Monetary Fund and other multilateral financial institutions to provide financing to support our reform program at the same time as we were restructuring our debt , recognizing that their endorsement will assist with containing risks and boosting investor confidence.

Mr. Speaker, On October 1, 2018 our program was approved at the IMF's Executive Board in the form of an Extended Fund Financing arrangement. This arrangement makes available to Barbados the equivalent of US\$291 million, or 220 percent of Barbados' IMF quota. Mr. Speaker our other development partners, including the Inter-American Development Bank and the Caribbean Development Bank are providing budget support and technical assistance in priority areas.

Mr. Speaker Sir, closely following the approval of BERT by the IMF Board we executed one of the largest exchanges of government debt as a percent of national income in world history.

Mr. Speaker, as a result of this and the economic adjustments we have made, the Government will not need to borrow domestically for the next four years, and our debt level has fallen from approximately 170% of national income to 125%. The international credit rating agencies gave their support with the first credit upgrade by 3 notches in over fifteen years.

Mr. Speaker, our reserves have recovered during the latter half of 2018 to reach \$1.1 billion or just shy of 15 weeks of import cover.

Mr. Speaker we have put our fiscal house in order.

We are committed to achieving a primary surplus of 3.3% of GDP for the FY2018/19. Mr. Speaker, at the end of 2018 the Government was on track to achieve its objective, recording a surplus of \$428 million, well in excess of the target. In addition Mr. Speaker, interest costs for the first nine months of the fiscal year were contained to \$316 million, enabling government to register an overall surplus of \$112 million.

Mr. Speaker Sir, it is at this stage that the Minister of Finance would normally present a detailed exposition on the fiscal situation along with the other major economic developments that has taken place. This year sir, I depart from that

tradition as the detailed information is available in the appendices to this document.

Mr. Speaker Sir, as a small open economy, Barbados is vulnerable to the vagaries of the international economy, including a slow-down in global growth, BREXIT, rising oil prices, and increasing political instability next door in Venezuela, that could also serve to boost oil prices. Mr. Speaker, on top of these challenges, we have to deal with the unwarranted listing of Barbados by the EU as an uncooperative jurisdiction on tax matters. We will not remain on that list Mr. Speaker as I have already explained.

Mr. Speaker, sir, I would now like to turn to growth and transformation.

The immediate picture

Our Growth and Development Strategy has short and long run elements.

In the short run we seek to kick start the consumer spending and corporate investment with a substantial amount of immediate tax relief.

Starting 1 July, individuals owed personal income tax refunds for tax years 2011- 2016 will receive up to B\$1,000 in cash. That will repay approximately 63,000 Barbadian households in full, or 74% of the 85,000 households affected by overdue tax refunds. This one-off payment, will cost [\$39] million, but because this represents a debt owing to tax payers, this payment will not only put cash into pockets, it will keep us on track with our debt-reduction targets.

To receive refunds, individuals need to go to the BRA website or office and fill out a simple form.

Mr. Speaker, the second lump sum payments for pensioners will be made on March 29.

Mr. Speaker Sir, on the matter on income tax, I wish to remind the public that the online filing of personal income tax for 2018 will be done this year in the new Tax Administration Management Information System (TAMIS). Registration is still taking place through the website of the BRA www.bra.gov.bb. I now wish to inform the public that Tax filing will commence on April 8, 2019.

Amounts above \$1,000 will be repaid in full over the course of the next three years as and when cash flows allow. In total, the last Government held back \$108m of tax payers money. In three years time we would have paid back every last cent.

In total, non-reimbursement of overpayments of VAT and corporation taxes by companies from 2011-2016 reached a staggering \$166 million.

We will also repay this amount.

This financial year all companies owed VAT refunds or corporate income tax refunds for years 2011- 2016 will receive up to B\$10,000 in cash. This will repay in full 1,700, or 71%, of companies owed refunds. This one-off payment will cost \$10 million. The remaining balances owed will be repaid over 42 equal monthly installments beginning May 1, 2019 unless cash becomes available

sooner. BRA will provide eligible companies with a form to complete and return before the payment is made.

As with personal income tax refunds, these payments will directly reduce our debt and in addition to boosting growth in our economy, lower our debt levels, which will support our credit rating.

These are one off payments to tax payers, timed to help transition the economy from stabilisation to growth. We expect this tax relief will pull the economy out of the contraction we saw last year. Against this background we look forward to a resumption of growth in 2020.

CLICO

Mr. Speaker as we reverse the lost decade of zero growth, we resolve once and for all its most sordid saga, CLICO.

Sir, you may recall that I brought a motion of no confidence against a previous Minister of Finance in this honourable chamber regarding this matter, and a former Prime Minister mocked the motion by saying it should be punished with laughter. This whole sordid affair sir, demonstrates quite clearly the inability of the previous Democratic Labour Party administration to separate their business at George Street and from that at Pinfold Street and hold that bond eventually led the introduction of the business at Bay Street to the equation.

In a fit of generosity, the previous government committed the taxpayers of this country to the resolution of an entirely private affair because of the relationship earlier identified.

On coming to government sir, we discovered that the previous government committed taxpayers to \$600 million in liabilities by issuing debt the country could not afford. What was shocking Mr. Speaker sir, was that the previous government left only \$60 million in assets in return. I simply ask sir, what kind of government would disadvantage its people in such fashion? Not even on Wall Street sir would such returns be evident. Clearly sir, this was the last ditch effort of a hapless government in the lead up to the last general elections as a means to gain favor with the electorate.

Luckily sir, the people spoke loudly and clearly last May and we can now move forward and provide those Barbadian policyholders greater clarity and long awaited relief.

Since its inception, ResLife has been unable to operate as a viable Life Insurance company and is yet to issue any new policies. A review of the operations by White Oak Advisory revealed that despite the previous administration commitment to repay the claims of policyholders at a generous interest rate, this could only be done with extremely long-dated bonds that are likely to result in large short to medium term payout requirements from the Government.

Mr. Speaker sir, two weeks ago the Cabinet of Barbados approved the orderly wind up of Resolution Life which I now wish to announce for the benefit of those impacted.

The Government will offer the liquidator (Financial Services Commission) enough cash that will enable it to pay a maximum of \$20,000 to life insurance policyholders of ResLife. This would allow 8,944 persons, or 77% of the company's portfolio to be paid in full immediately. An additional 1,394 persons

(12%) would receive at least 50% of their claims in cash and a further 697 persons (6%) would receive at least 20% of their claims in cash. This will result in 95% of persons receiving a cash payment that is substantially relative to their insurance claim.

Mr. Speaker, for policyholders with claims over \$20,000 the Government will provide enough Series B 15-year Bonds in its offer to allow FSC to eventually provide payment in full to the life insurance policyholders of ResLife.

For individuals holding Executive Flexible Premium Annuities (EFPAs), the Government will provide FSC with a special 15 years bond to cover the investors' original principal. The accrued interest previously proposed will be eliminated. The special bonds will repay the original principal over 15 years at an interest rate of 0.25%. This structure is the same as previously promised to EFPA holders with the exception of stripping out the interest earned up to 2011 and extending the repayment period by five years.

Mr. Speaker sir, with the acceptance of these solutions policyholders shall release the company ResLife or other affiliate from any future liability.

Mr. Speaker, on the incorporation of NLICO under the previous administration, it was expected that the taxpayers of this country would provide the initial funding for the company. It all went wrong as the funding did not materialize. Strangely enough, an amount of \$52 million was lent to NLICO by the Central Bank of Barbados to be drawn down over time. This was strange for a bank that eventually admitted that it was lending the government \$50 million a month to pay public sector wages and salaries.

Sir, the amount due stands at \$45M on the books of Central Bank inclusive of interest, no repayments have been made to date. It is being proposed that Central Bank be instructed to write off its claim on NLICO with immediate effect as the legal basis surrounding the loan is questionable.

It is expected that the wind-up of the ResLife will save Government approximately \$315M in interest alone when compared to the solution previously proposed and substantially more when compared to the Series G Bonds currently on offer. Additionally, it will stave off what is likely to be substantial budget requests if the companies are to survive beyond one year as well as accelerate the reduction in Barbados' Debt-to-GDP ratio.

In short order, the Ministry of Finance and the FSC will convene a town hall meeting with all CLICO policyholders to further sensitise them of the process through which settlement will be delivered.

The Long-Run Growth & Development Model

I hear people ask what is our growth strategy?

The question tends to be asked by people who have only one growth strategy in their mind. And if you don't tell them what they want to hear they conclude there is no growth strategy. But these people are stuck in a world that no longer exists. They are stuck in a 1970s world when growth came from governments and there were heavy restrictions on anybody else doing anything. When growth was considered synonymous with large, energy intensive factories and thousands of employees clocking in and out in blue overalls. A world without the internet. A time when international agreements did not interfere in tax

policy, subsidy policy and trade policy. When people could only buy and sell local. When people did not have two addresses, passports and mobile phones, when other developing countries were places of risk and poverty not of opportunity. That is not today's world.

Old growth models no longer work in the new economy. But even when they were tried in the past they were found wanting. In large part because at the centre lay government, officialdom and the lucky few who had money or knew how to work the system. There was often growth for the few but limited development for the many.

Our growth and development strategy, sir, is explained in some detail in the Covenant of Hope launched in May 2016 and also in our BERT Plan document in Section E under the heading 'Growth Reforms'. It is also published in the IMF Staff Report No. 18/290, Section E on 'Structural Reforms to Support Growth'.

Mr. Speaker, at the heart of our growth strategy is our people. It is a citizen-centric model, it's objective is to so invest in people and communities that everyone has what it takes to choose the life they wish to lead, to be captains of their own journey. To have economic security. To be anything they want to be if they put their mind to it, untethered to the circumstances of their birth. To live a considered life, without fear. That means investing in education and skills and in their health. It means investing in the infrastructure that delivers those things and connects people and products and markets.

Growth will spring from this development. There are no higher investment returns to be had from well considered investments in public education and public health. While the average return in the international equity markets is

around 7.5%, returns to education are estimated at over 17% for primary education falling to 11% for tertiary education. And the word “public” here is important. Delivering health and education, universally, to the whole community, through the community, together, is what gives these investments their power. It is why we believe Barbados must be the hub for education and health in the region and hemisphere.

Our growth and development model has at its centre rights for citizens to education and health. And with those rights come societal responsibilities, to behave ethically, to have empathy and concern for all members of our community, to participate in the community, to give back, to support the least fortunate. This is a Barbadian model, our model, brought down through successive leaders one based on investing in opportunity and community. This is a model Grantley Adams and Errol Barrow and Tom Adams and all others fought for.

It is why in the substantial budget adjustments being made to get us back to fiscal sustainability, we have still managed to ring-fence our investments in education, public health and poverty reduction. The character of the Barbadian Economic Recovery and Transformation Plan can be seen as much in what we have not done as what we have done.

The growth and development model explains why it was an imperative to restore free tertiary education and to invest in higher wages for master teachers at schools which we are now about to implement. People said we could not do it, that we could not afford it, that we should not do it. But governing is about choices and I have said so over and over we chose to not waver from the principle that advancement of all of our people should not be determined by whether your parents can afford it or not. Not bout here. That is fundamentally

how a country grows, its people command higher incomes by raising the quality of their output. We have to make sure that our spend on education and training is well-spent and on the right things, but that spend is fundamental to our growth policy.

It is also why at the same time as we are making cuts to government expenditure where we can, to be fiscally fit, we have created the room to shortly invest in the largest **National Training Initiative** in our history, to give all more skills and better skills, skills that equip us for the 21st century, skills in digital technologies, in coding, and in service quality in general. There is no point cutting government and not having the capacity to grow the rest of the economy. That is growth strategy.

Too many kids leave school without much certification to show for it and do not get a job. We have a youth unemployment problem in this country and because it has been so for some time, it is becoming a contributory factor in the destabilization of some of our local communities. This National Training Initiative, sir, then is a key part of our social strategy as well as our growth strategy. The two go hand in hand.

We know that work skills and technical skills are not enough. A productive working life depends on life skills too, skills to negotiate and compromise, skills to get along with people and work well together, skills in taking responsibility and making a commitment to colleagues. And that is why we will also be starting over the next twelve months a **First Jobs Initiative** to supplement the National Training Initiative to support those who have never had a job to be better prepared for the world of work.

It's not just the young people who we need to bring back to our workforce. Participation of women is also too low in Barbados, this restricts the income of women, their households and the national economy. One of the principal impediments to greater participation of women in the workforce is the lack of appropriate day care facilities. We shall facilitate the opening of day care facilities in industrial parks and key Government office buildings over the next 2 years. There are Barbadian entrepreneurs waiting for this opportunity.

Another factor influencing the return of women to the workforce after child birth is support they can get from the child's father. Our intention is that through the course of the next 12 months we will establish paternity leave.

As the Government gets its fiscal house in order, Government cannot be a direct driver of growth. The source of growth has to shift from Government to the private sector. That is why a critical path of our growth strategy is to recover growth that is being lost by Government bureaucracy and restrictive practices.

The World Bank Doing Business Report now ranks Barbados at a regrettable 129th out of 190 countries. These are the kind of numbers that send a message to the rest of the world that we were not previously serious about being a place to do business. As important as these global measures are, the truth is that even without that Report, anyone who has tried to start a business in the last 10 years knows the pain of Government bureaucracy and process. The confidence of investors is sapped by a system that is slow and with very little predictability. The system sends away investors and entrepreneurs for good and in the process we lose investment, jobs and growth.

This is why we have made dramatic changes to the 53 year old Town and Country Planning Act that is now driven by a disposition to support

development speedily, transparently, predictably and to provide pathways to approval of all applications that are at first denied. The provisional refusal and conditional acceptance is a powerful tool that will revolutionize the granting of town planning permits in this country.

We are to make similar changes to our Fiscal incentives to attract foreign direct investment which I will speak to shortly.

In return for offering investors a faster, more predictable, more transparent and more positive process for planning and fiscal incentives we will maximise the growth potential of new investments through planning gains. A planning gain, sir, is where we say to an investor that they can redevelop a site, but on condition that they repair road and pavements, street lights and bus stops, access to beaches, and community parks, playing fields that lie on or within their boundary. Or indeed sir as is happening now that they provide land for public housing. Mr. Speaker, sir, in two instances we have agreed with potential applicants for the provision of substantial acres of land to assist us in the reduction of density of housing for people living in the Pine area and in the Silver Hill/Gall Hill area we will see more about this in the future.

Mr. Speaker, sir, there will be growth to come from making it easier for citizens to do business with Government. In our manifesto ,we pledged to do so by using technology to improve the quality and speed of the delivery of services including:

- Facilitating online payments for Government services.
- Clearing goods through Customs
- Facilitating the payment and collection of child maintenance whilst allowing for privacy and sensitivity in the management of the process.

- We will work with the Central Bank of Barbados and government's suppliers to pay for goods and services digitally utilizing both the Real Time Gross Settlements and Automated Clearing House platforms.

Mr. Speaker, one of the major pet peeves for citizens is the inability to pay taxes to government easily.

I am happy to announce that by June 30, 2019, citizens will be able to pay taxes online to the Barbados Revenue Authority. During the remainder of this year the Ministry of Finance will work to integrate options for the collection of taxes through mobile payment platforms. The BRA will also be eliminating the issuing of cheques during the next fiscal year and will transition to become a fully digital organization.

Mr. Speaker, in order to reform the Public Sector to improve the quality and speed of the delivery of high-demand services across the island, the Government intends to facilitate a wide range of Government activities and services online, including:

- renewing drivers' licences;
- clearing goods through Customs;
- applying for passports;
- Planning and Development applications;
- applying for and obtaining liquor and public entertainment licences;
- obtaining Police Certificates of Character and Accident Reports;
- facilitating the payment and collection of money for maintenance while allowing for privacy and sensitivity in the management of this process; and
- ticketing and fines, for certain traffic offenses, that can be paid online.

The Ministry of Innovation Science and Technology has earmarked seven (7) departments to start the digitization of government due to the high volume of activity which they generate, the public outcry for improved services at these departments and the recurring demand for services.

These departments which constitute the first phase of the digitization programme are:

- The Immigration Department;
- The Registration Department – Civil Registry and Courts;
- The Police Department;
- International Business Division;
- Customs and Excise Department;
- Town and Country Planning Office; and
- Barbados Licensing Authority.

The Ministry of Finance will work closely with Ministry of Innovation, Science and Technology and the Treasury to ensure that as these departments are digitized that not only are their services offered and their respective fees collected online, but also that the systems of government are integrated. This integration of systems would allow for each cash point of government to become a Revenue Point where for those citizens that still need a human interface, that all business can be conducted with government at a single contact point

The digital transformation of Government will be an engaging process lead by the Ministry of Finance and the Ministry of Innovation, Science and Technology and will involve constant engagement and public education of all

citizens.

We plan to outsource the management of CAIPO to a professional team that can guarantee efficiency and timeliness in the registering of new businesses. Mr. Speaker we expect that this new team will be in place by the month of July and the reforms and digitization of the Corporate Affairs registry should be in place by early 2020.

We will establish a self-financing Commercial court before the middle of this year to speed up adjudication and judgement by the courts. We will also introduce new forms of legislation to deal with arbitration and alternate dispute resolution in our society. It is important that the legislation be compliant with UNCITRAL. We have been advised that there is a model piece of legislation that can be made available to help us move swiftly. This will address with International and domestic arbitration . At the same time, we are committed to the establishment of three temporary additional criminal courts to deal with this significant backlog of criminal cases while at the same time allowing us to ensure that all serious cases from Murder to firearms to burglary to robbery to rip up the large traffic and can be dealt with within 6 to 9 months out of the charge of the offenders.

These reforms are part of a new thrust towards a new global competitiveness. We are identifying one by one, indicator by indicator, process by process, department by department, the obstacles to competitiveness, and are establishing a Competitiveness Council as a sub-Committee of the Social Partnership to drive that work.

Mr. Speaker, our approach to growth is not sector-driven. We facilitate investments in all high-skill, high-wage activities. But we believe there are

greater opportunities today in the agricultural and fisheries sector than in recent times.

Barbados is suffering from the rapid growth of non-communicable diseases, like hyper-tension and diabetes. It is essential that we change our diets and lifestyles. We are working with the United Nations Conference on Trade and Development to promote the consumption of fresh vegetables and discourage the consumption of processed foods and or foods with high sugar content, using fiscal measures. Barbados already has a sugar tax which currently falls disproportionately on locally produced goods. We will make sure its coverage is more even across local and imported goods and then we will consider a further extension. We expect this initiative will provide a fillip to locally grown fresh vegetables.

Sir, we will also start speaking with fast food establishments and with the Pine Hill Dairy to ensure that in the manufacturing of their juices or in the preparation of the foods that they will adhere to using healthier ingredients and reduce sugar content help us in this battle against obesity (especially among children) and diabetes. We believe that a conversation is preferable to a heavy hand but believe you me Mr. Speaker, if we have to go there we will use fiscal measures to achieve this.

Mr. Speaker, sir, my Government has recently approved the policy framework for the establishment of a medical cannabis industry that will produce value-added products for global export and domestic consumption. The framework includes stringent regulatory and traceability guidelines to:

- guarantee the quality, safety and efficacy of the products being produced and consumed for medical use.

- ensure the health and safety of consumers of medicinal cannabis and its by-products are adequately protected, by appropriately regulating the importation, sale, distribution, possession, purchase, manufacture, cultivation and personal consumption of medicinal cannabis.

The four (4) basic pillars of the programme will be:

- (i) Research and Development - positioning the country as an internationally recognized hub for providing training, as well as research and development in medicinal cannabis and value added products;
- (ii) The establishment of the necessary regulatory framework, including an appropriate licencing regime;
- (iii) The establishment of training and certification programmes to ensure the safety and efficacy of the products produced;
- (iv) The legalization of medical cannabis allows Barbados to become a hub for persons interested in structuring financial transactions or domiciling companies involved in the international trade in this industry, in particular, from the Canadian market;
- (iv) expansion of the tourism industry through the provision of cannabinoid therapies, including rehabilitation services and treatments. This is a fancy way of saying that Barbados must never again export a primary product but rather we must seek to extract the total value along the chain with respect to that product.

A Medicinal Cannabis Industry Project Implementation Unit will be established by the start of the new Financial Year, which will be tasked with establishing the administrative framework for the timely implementation of the project. The Unit will be headed by a Director, who will be responsible for championing the programme and ensuring that an expansive educational and sensitisation campaign is implemented. And that we must take our time to explain to Barbadians what we are doing with the development of this new industry and how it can help many many Bajans in the management of serious medical conditions which the fees in this country.

One of the tasks of the Unit will be to facilitate the establishment of a Medicinal Cannabis Authority and Board, which will be responsible for regulating the medicinal cannabis industry, through the formulation and implementation of appropriate policies, procedures and guidelines, as well as for the conduct of inspections.

Barbados will be seeking to establish partnerships with entities who have the necessary experience and who are willing to invest in the development of the industry. This will include:

- (i) The assistance of the University of the West Indies with establishment of a train-the-trainers programme;
- (ii) The Technical and Vocational Education and Training (TVET) Council will assist with accreditation through Caribbean or National Vocational Qualifications (CVQS/NVQS); and
- (iii) The University of Guelph for the establishment of a research and development, as well as a certification programme.

It has not escaped my government that any policies related to medical cannabis cannot exclude the participation of the Barbadian population. As a result, we will ensure that Barbadian entrepreneurs will be given opportunities for full participation.

The roll out of the implementation of activities leading to the establishment of the vertically integrated industry will commence during the upcoming Financial Year.

Mr. Speaker, my Government has committed to transitioning Barbados to be the first green, 100% renewable and carbon neutral island by 2030. Essentially we are on the cusp of an energy revolution that will see transformative policies implemented which will be grounded in the practical realities of Barbados as a Small Island Developing State with an existential threat posed by climate change and an economic imperative to save foreign exchange and improve the competitiveness of the country.

This transition is based on the elimination of fossil fuels for domestic consumption and the export of all hydrocarbons produced on and offshore for the generation of foreign exchange.

Over the last 10 months Mr. Speaker, we have been working on concrete measures to achieve this goal. These include the revision of the National Energy Policy, the preparation of an Implementation Plan, and Road Map which should be completed before the end of the year.

As my Government seeks to achieve this goal, in the process we will democratize the sector and provide opportunities for Barbadians to invest in this sector. We will create the framework where special purpose vehicles can be developed to allow for the proper mobilization of domestic financial resources for a better return on investment.

But Mr. Speaker Sir, these are positive developments.

I need to speak to the people of Barbados on a matter of concern to me. My Government has been in negotiations in recent weeks with the Sandals Group over their proposed Beaches investment in St Peter.

We have reached a difficult moment in the negotiations that may result in the project being stalled or pulled.

We worked hard to make this project a reality, despite the fact that as an administration, we were not in agreement with the extent of the excessively generous concessions granted to that company by the former DLP administration and former Minister of Finance.

One of the fundamental principles of government and of the separation of powers doctrine, is that there is always a government. The political administration may change, but obligations entered into by a government with arms length third parties, will continue to bind an incoming government.

It is that approach that my administration followed when after the last election, we entered into discussions with Sandals Group on their bringing the Beaches investment to Barbados. For us not to honor a contractual arrangement made by a previous Executive would have so destroyed our reputation as a country that

follows the Rule of Law, that we accepted that we were bound by the terms of the agreement with Sandals that was signed by the last administration and given effect to through the making of an Order under the Duties Taxes and other Payments Act.

In other words Mr. Speaker, the damage to our government and our country and failing to honor this commitment would be immeasurable where is the damage to the treasury those significant would be measurable if we honored it.

Sandals however wanted and continues to want an even greater level of assurances and guarantees than they have already received; assurances and guarantees that the government of Barbados would indemnify them if any future Parliament were ever to tax them or the industry for any goods or services. Essentially to make total the range of protection the group will enjoy against any possibility of future taxation from a Barbadian Government in the next 40 years.

Mr. Speaker, we are running a country - not a company. Thus we cannot play fast and loose with the future of this country. When we were elected last year, we promised that we would not make decisions that would compromise the stability of this country nor would we act in a manner that was capricious with respect to the stability of future generations. And in our judgment, a sovereign country cannot abandon its right to tax because we simply do not know what events lay in our future.

Mr. Speaker this gives me no comfort. We worked hard to make this Beaches project a reality, but this we cannot give in to Sandal request.

We cannot agree to this incursion into the powers of our Parliament that would be circumscribed unless the Government of Barbados compensates and makes them whole.

This would be unfair to the Government and people of Barbados. I do not negotiate in public. I never have and I never will.

We hope that Sandals will come to view Barbados as an excellent Partner with which to make further investments in the future. We welcome Sandals here. We are certainly open for business; but not at any price. And in our current predicament in an IMF Programme Mr. Speaker there is a limit.

I now truly appreciate what inspired the “me too” movement.

Mr. Speaker sir, I learnt as a child that if you don't say no to something; you will say yes to everything.

Mr. Speaker Sir, we will strongly support foreign investment in the tourism sector.

But the sector is our flagship and dominant industry. If this tourism industry does not help us carry its fair share, who else will? Who will help pay for the police that keep our people and tourists safe, who will help pay for our roads and sewage systems of which the hotel sector is such a big user? Our small business sector? Our cultural industries? Our nascent tech sector? Our farmers?

In the light of this development, Mr. Speaker, my Government will establish a Commission to review the investment code and tax concessions with private and public sector appointees. It is clear to us that the current legal framework

serves to support a raid on the Treasury and that we need a new more sustainable framework that strikes a delicate balance between economic and social development and transparent concessions to encourage investment.

The new framework must also remove the element of discretion that is too often the engine of corruption. The degree of discretion the Minister of Finance now enjoys under chapter 67B makes the Minister the most powerful person with absolute discretion for the award of incentives.

This is another area in which we can learn from other countries in the region who have already made the transition to legislation that protects the Treasury while allowing investors to get more than decent returns on the capital that they invest.

Mr. Speaker, sir, the point of making the changes we are making to the Planning Act, Fiscal incentives, and the modernisation of our laws in general is to attract a new set of investors so that we are not beholden to any one investor.

Beaches is just one brand and while large in the region, it is small globally.

Already, the new direction in competitiveness together with our convergence of taxes between the local and international sectors has led to a return of confidence and a queue of new investment.

The set of projects that are well advanced in their planning applications and funding represent near 2 billion dollars of investment, near 20 % of GDP, over the next three years which will add more than 1500 new hotel rooms and 3000 new tourism jobs.

Let me describe just seven of these projects that will likely start in the next year.

The Hilton is a 350 room hotel that is owned by the Government. The hotel reopened 14 years ago and needs new investment of \$40m. Our Government rejected the deal reached by the last government to sell the hotel for just \$150 million which would have barely been able to repay the existing debt, leaving little or nothing for the shareholders. Instead, we have successfully renegotiated the deal so that the Government remains in full ownership, the \$40m investment still takes place and is funded by a share of new profits - in other words profits over and above what the Government is now receiving.

The Hyatt will be a 350 room hotel in Bridgetown. The Government has taken a decision to compulsorily acquire liquidation center so that this project can proceed in the national interest. The Hyatt project on three lots as opposed to the two previously announced, in addition to a fourth on the Tucker property which will provide an open space plus vending stalls, will provide a completely different planning equation than the previous plans. The proportions will be completely different to what was proposed earlier, and amenities that would have to be accommodated on the other side of the road will now be accommodated on the enlarged footprint. We look forward, subject to the receipts of the revised plans and studies, to moving forward with this hotel.

The eye-sore that is the old Caribee hotel at Hastings will be a brand new 170 room hotel. The promoters are Polycom out of Europe.

The refurbishment of Blue Horizon will create a 189-room hotel. The government has taken a decision not to pursue a joint venture as the previous

Government, but to sell the property outright. We are in the process of so doing and also awaiting the detailed plans for the hotel.

The Government has received an unsolicited proposal for the purchase of Savannah hotel by an investor group who wants to refurbish the hotel. We have a duty to advertise to determine whether this is the best proposal.

Sagicor's Retirement Village, is a near \$200m, medical tourism project in St George whose groundbreaking will be in Friday this week. This project will also be associated with a cardiovascular/oncology clinic . The agricultural impact assessment is to be shortly submitted so that we may consider the subdivision of the land for this project.

Sam Lord's is a 400 room, \$400m hotel project. Construction is underway, progressing steadily with completion due in 2020 although it is behind schedule. The Government currently owns the project as a result of a decision by the last administration. But we cannot afford the levels of capital expenditure and debt. We will facilitate the completion of the hotel and will shortly issue a request for proposals for new equity investors or for an outright sale. A number of investors have already approached us and so we are confident that the project will proceed with potentially 1000 new permanent jobs on completion. The RFP will be issued shortly.

And there are many other private projects that we will be hearing more about. There are hotel expansions at Cobblers, Settlers and Royal Pavillion. New offices blocks for Gildan and ICBL, the new Kooyman's retail hardware investment (which I launched last week) and a new entertainment and retail complex at Kendal for Massey. There is also a major agroprocessing facility that will start in St George next month.

We expect even further activity in this area as a result of next month's Tourism Investment Forum on April 24, where we have invited leading international investors to join local investors to consider a new development plan for Bridgetown — (12 potential new hotels, 7 expansions and a major conference facility/convention Centre) from Savannah to Paradise.

Mr. Speaker Sir, these private sector investments are in addition to the public sector investment program. In addition to the \$130m road program I mentioned earlier and the even greater set of investments by the BWA and in the South Coast and Bridgetown sewage systems, we are also resuming the Constitution River Flood Mitigation Project. This will expend Bds \$8.5 million on infrastructure works from the Constitution Road Bridge to the James A. Tudor Roundabout to reduce flooding, stagnation of water and their associated public health and safety risks. Mr. Speaker the residents of Halls Road deserve better. The project is a flagship urban renewal project for the Greater Bridgetown Area. We aim to create a green space and public recreational area in the area of the canal, along Halls Road. The plan foresees the dredging of the canal for a permanent flood solution, aeration of the water for safe, public use such as kayaking and other activities, placement of trees, plants and benches, and the creation of space designed for vendors. The project expects to make full use of procurement and planning gains opportunities to promote local employment and the engagement of the community in the implementation of project activities.

Mr. Speaker sir, I speak now to you as not only Prime Minister, but MP for the constituency of St Michael North East. There is tremendous potential for a heritage, recreational and sporting zone moving from Tyrell Cot in Codrington Hill to the National Stadium, which will be redeveloped, to the National Botanical Gardens which we are starting to layout from this year. We already

have in hand initial plans from all of the landscaping architects in Barbados. Similarly, we have started the cleaning up off the more than 220 acres. Anyone passing through Waterford Bottom has already had their imagination excited when a bottom turns into a boulevard. We are establishing a charity to help Government raise the funds to undertake this gift of this zone to Barbadians. Government will of course play it's part but we believe that average Barbadian families as well as visitors to our country who see themselves as Barbadians by choice want to help make this difference.

Mr. Speaker Sir, The growth and development challenge for most developing countries is how to find capital, often from abroad. Barbados is not short of capital. It has \$9bn of domestic savings currently sitting on bank deposits earning 0.1% interest. Our growth and development challenge, Mr. Speaker, is how to mobilise these savings for domestic investment.

A critical part of our growth strategy therefore are six initiatives to mobilise domestic savings and support the spread of ownership of assets to ordinary Barbadians. In other words a Programme of economic enfranchisement.

First, the Financial Services Commission will create regulatory regimes to create new types of investment funds centred on small investors, such as platforms for crowd-financing and peer-to-peer lending. On a crowd financing platform, small investors invest equity in new projects. In peer-to-peer lending, small investors lend collectively to borrowers. Unlike in the past, when only banks were presented with investment opportunities and the people were asked to provide funding at 0.1%, we will ensure that all Barbadians have the ability to participate as investors if they so choose.

Second, the Financial Services Commission will also support the development of a regulatory regime for Green Energy Bonds. These are a new type of financial instrument that will allow those who cannot use renewable energies themselves, to get renewable energy credits for investing in a renewable energy projects. The FSC will work with the Barbados Stock Exchange to support Barbados becoming a global hub for solar-power financing instruments.

Third, the Government will facilitate the creation of a National Unit Trust, modelled on the Unit Trust of Trinidad and Tobago with professional investors, investing in primarily local projects. The credit unions are likely to be a major investor in these unit trusts.

Fourth, the FSC will work with the Barbados Stock Exchange to create an Innovation and Growth Market for small or start up companies with a capitalisation of greater than \$200,000, with at least 30% of ownership available to investors. We see this as the key platform that will enable Barbadian entrepreneurs to tap into the \$9 billion of savings lying dormant in the banking system, while still being able to retain control of their business.

The truth is, Mr. Speaker is that the junior market has never taken off because of rules that have been overly restrictive.

Fifth, the Government will develop a program for using the local stock market to spread ownership of Government assets, through the sale of small denominations of minority stakes in the Hilton and Sam Lords, to ordinary investors.

Sixth, I have asked the Ministry of Finance to begin the process of building a robust and open capital market in Barbados. We know, for instance, that many Barbadians would like to be able to buy and sell restructured Government debt.

This will ensure that there is a secondary market for Government debt in a transparent and fair way.

BUDGETARY MEASURES

Mr. Speaker, Sir, we can only reach where we want to go if we stay the course. This will require some additional revenue measures. In some instances I am able to protect those who need the most protection and in other instances I am asking others who can afford to lift some weight with me for a little bit longer. Let us now turn to the detail of our revenue measures.

Between 2009 and 2017, the last administration stripped Barbadian income taxpayers of their capacity to consume and save at the levels of 2007. They froze the salaries for public sector workers for nine years. This, in turn, triggered a reaction in the private sector that contained salaries regardless of the performance of individuals, entities or sectors.

Mr. Speaker, the effects on consumption and savings were evident in the decline of economic activity in the country. These effects were compounded by the removal of almost all the allowances and deductions for income tax purposes.

In the face of these measures, the spending power of Barbadians fell drastically. This affected the most vulnerable in our society.

Our collective humanity demands nothing less than the pursuit of social justice and fairness. Tax and expenditure policies are critical in such a pursuit.

Mr. Speaker, this brings us to a mix of taxation that is just and fair. We have to balance the choice between direct versus indirect taxation; taxing income versus taxing wealth and consumption and sharing the burden of taxation across businesses and households and locals versus foreigners and tourists.

Sir, in this regard, when we come to income taxation, we have to balance a set of tax tools that includes the rates; the treatment of allowances and the use of credits. Ultimately, the aim is to protect the most vulnerable groups, using the ability to pay criterion, while allowing for more disposable income to fuel growth.

In terms of indirect taxation or a tax on expenditure, the emphasis is on the efficiency of the tax and the use of exemption versus zero-rating in the VAT system, for example, to protect the poor.

Mr. Speaker, it is widely accepted that a well-designed VAT is the preferred tax for raising adequate revenues with the smallest negative effect on economic growth. The one thing we have to guard against is its effects on the poor or lowest income groups.

The country's capacity to carry an extensive zero-rated schedule for all in the society is challenged after a prolonged period of economic decline. Mr. Speaker, this is because zero-rated goods require of government significant refunds to be paid to the private sector.

While it is necessary to change the schedule from zero-rated to exempt for the most part to reduce the level of refunds, we must provide protection for the

most vulnerable. Mr. Speaker, one of the ways we do this is in the form of the Reverse Tax Credit.

Currently, persons earning up to \$18,000 per annum are entitled to a Reverse Tax Credit of \$1300. Mr. Speaker, there is a group of persons who do not pay income tax but who nevertheless are affected by the burden of VAT in the country. These are persons earning between \$18,000 and \$25,000 per annum.

Mr. Speaker, beginning for the income year 2018, we are offering protection to an additional 7,000 individuals at a cost of \$9 million. This is the direct result of raising the qualification income to \$25,000, which is effective immediately that is my government will pay the RTC to individuals with gross income between \$18,001 and \$25,000 starting in the year 2018.

Mr. Speaker, once an individual within this income bracket submits his/her income tax form for the income year 2018, and his/her income is within the gross income bracket mentioned above, that individual qualifies for the first time for the Reverse Tax Credit. The money would become available around September of this year.

Therefore, Mr. Speaker, immediately based on income year 2018, we are adding the \$9 million to the existing allocation of \$11.3 million for thousands more Barbadians who earn \$18,000 or less. Overall, the reverse tax credit is putting just over \$20 million back into the hands of low income Barbadian workers.

Mr. Speaker we will continue to provide a \$25,000 personal allowance for all taxpayers. For those who earn above that \$25,000 but below \$35,000 per year, my government is introducing a Compensatory Income Credit (CIC). In

essence, Mr. Speaker, no one earning less than \$35,000 will pay income tax in Barbados.

The CIC is accessible after the filing of the income tax form for income year 2019. The CIC is applied such that it provides a credit of up to \$1,250 to anyone earning from \$25,001 up to \$35,000 such that they are in a position of paying no income tax. It is a non-refundable credit that brings the tax paid in this income range above to zero. Mr. Speaker, this tax policy takes care of another range of low income workers.

Therefore, Mr. Speaker, we have introduced two types of credit approaches to protect low income Barbadians as we change the incidence of taxation. Imagine earning \$35,000 per annum and not paying a single cent of income tax. Further imagine earning \$25,000 per annum and receiving a Reverse Tax Credit of \$1,300.

Sir, with the CIC, we are putting back \$13.4 million of disposable income into the hands of low income earners once they file their income taxes in April 2020.

Mr. Speaker, typically in a VAT system, Exports are zero-rated. This allows all of the VAT paid on inputs to be claimed back. The concept of value-added is easy in a manufacturing process, where the value of the good is measurable at all stages of the production and supply chain.

In the area of services, Mr. Speaker, the Export of certain services is not quite as easy to measure. In the circumstances, we are moving the Export of certain Services as Scheduled from zero-rated to exempt. This will broaden the base of the VAT and help us to contain the rate of the VAT.

In the area of water, we are reverting to the original classification for VAT. Water will once again be an exempt supply rather than zero-rated. This change starts from April 1, 2019. This will save about \$10 million in refunds in a full year.

This brings me, Mr. Speaker, to the VAT on the accommodation sector. It is being increased from 7.5% to 10%, effective January 1, 2020. In last year's budget, I announced that the rate would have been doubled to 15% beginning in January 2020.

After persistent representation from the tourism sector, it was recognised that the doubling of the rate would have adversely affected the competitiveness of the sector and its packages in the international market. As a consequence, Mr. Speaker, we conceded and backed off the suggested rate of 15%.

So effective January 1, 2020, the VAT on accommodation will increase from 7.5% to 10.0%. The tax generated by this measure will be \$27 million in a full calendar year but only \$4.5 million in this fiscal year.

Equally, Mr. Speaker, as part of our strategy of many hands make light work, we have taken the decision to shift the Villa sector to Exempt status in the VAT Act with effect from April 1, 2019. This is intended to make the sector bear its share of VAT rather than receiving ongoing refunds from the Barbados Revenue Authority (BRA).

Mr. Speaker, the output tax on a Villa attracted only 7.5% and consequently, the sector was always in a refund position because its inputs attracted the standard

rate of 17.5%. This results in the sector having more VAT on its inputs than what it pays on its output.

To remedy this unfortunate occurrence, it is recommended that the output is exempt from VAT thus preventing the sector from claiming back any VAT on its inputs.

The shift to exempt status for Villas will result in savings to the Government of \$5 million for a full year.

Mr. Speaker, over the years, changes in the design of the VAT system have compromised its base. The narrowing of the base has put pressure on the rate to be increased. We believe that this approach needs to be reversed.

Sir, we seek to arrest this base-erosion by changing the status of the other items in Schedule 1 of the VAT Act from being zero-rated to exempt. The affected items now move to Schedule 2 of the Act effective April 1, 2019.

Furthermore, Mr. Speaker, we have kept medical drugs and devices, education services, fisheries, agriculture supplies, export of goods along with some basic food items as zero rated supplies.

Whatever the price effects resulting from moving the affected items to Schedule 2, Mr. Speaker, we are ensuring that the most vulnerable are protected via the use of the RTC and CIC mentioned earlier.

Mr. Speaker, we are convinced that it is better to maintain the integrity of the VAT system and then use these measures to protect those persons earning at the bottom of the income ladder.

Mr. Speaker there has been a lack of clarity as to the manner in which the provisions of this legislation has been applied. This cannot continue in a modern competitive Barbados. We will establish a working group within the Social Partnership to review these matters and report back within 2 months such that we can correct any remaining anomalies by the mid-term Review.

In addition to the additional revenue and savings already listed, the move in other items not specifically addressed from zero rated to exempt will yield the government net revenue approximately \$ 7 million over the course of a full year.

Existing Item in Schedule 1 to be moved to Schedule 2
(5) A supply of scheduled goods by an authorized person to a tourist, where the authorized person obtains evidence satisfactory to the Comptroller that the conditions specified in the Customs, (Drawback of Duties on Sale of Goods to Tourists) Regulations, 1958 for the payment of a drawback of duties in respect of the goods have been complied with.
(6) In subparagraph (5), "authorized person" means a registrant who is an authorized person within the meaning of the Customs (Drawback of Duties on Sale of Goods to Tourists) Regulations, 1958; "scheduled goods" means goods of the kind specified in the First and Fifth Schedules to the Customs, Drawback of Duties on Sale of Goods to Tourists) Regulations, 1958; and "tourist" has the meaning assigned to it by the Customs Regulations, 1963.
(5) The supply of services to a shipping line by an agent of that line for the services require by a vessel of the shipping line during its stay at port.
(6) The payment of charges for the supply of stevedoring services require for the cargo handling operations of a vessel.
5A. A supply of water or sewage services by the Barbados Water Authority.
19. A supply by hoteliers of a service of providing hotel rooms free of consideration to foreign travel agents or other foreign persons in the travel trade and certified by the Barbados Tourism Authority as part of the hotel industry's marketing strategy.

Mr. Speaker, we have passed legislation to improve the collection of VAT from e-commerce transactions. We expect collections to start from May 1, 2019 and approximately \$7 million will be raised within a full year.

Mr. Speaker, this is a new method of VAT collection and we will have to engage in a public education exercise. I would only add here that while there are millions of websites there are only a small number of payment processors for on-line transactions. BRA's agent will sit in with the payment processors and VAT will only be charged, if it is VAT eligible, where there is high certainty that goods for which VAT is due in Barbados will be consumed in Barbados like a hotel room, villa or car rental. There will be no double collection of VAT.

Mr. Speaker, allow me to treat to the room rate levy at this stage because it applies to the accommodation sector. The introduction of this levy was met with some skepticism by those in industry. However, while the levy has had some compliance issues, the sector is now persuaded that an increase in the levy is preferred to increasing the VAT rate. As such, the room rate levy will be increased by 75% effective April 1, 2019 as follows:

- Apartment from BDS \$5.00 to \$8.75 per bedroom per night.
- Guest House from BDS \$5.00 to \$8.75 per bedroom per night.
- Hotel "B" Class from BDS \$5.00 to \$8.75 per bedroom per night.
- Hotel "A" Class from BDS \$11.00 to \$19.25 per bedroom per night.
- Hotel Luxury class from BDS \$20.00 to \$35.00 per bedroom per night.
- Vacation Rental Properties from 2.5% to 3.75% of the rate charged per bedroom per night however, where that amount exceeds BDS \$35.00 per

night, the rate to be charged shall be BDS \$35.00 per bedroom per night.

- Villas from 2.5% to 3.75% of the nightly rate. However, where that amount exceeds BDS \$35.00 per night, the rate to be charged shall be BDS \$35.00 per bedroom per night

This measure will add \$15 million to government revenue over the course of a year.

Mr. Speaker, one of the major principles we have outlined in our broad fiscal policy is that the burden must be shared by all of us, in accordance with our ability to pay. In this vein, we believe that the time has come to shift the burden of taxation from income to assets. This encourages those who can afford to pay to do so.

Furthermore, the shift protects the low income earners.

Consequently, Mr. Speaker, the following measures are proposed for residential properties:

Persons whose property is valued at \$150 000 and less will continue not to pay any land tax.

Similarly, there will be no increase in land tax rates for properties valued up to \$450, 000.

Properties valued above \$450,000 and up to \$850,000 will attract an increased rate of 0.7% up from 0.45% effective this coming Fiscal year, 2019-20.

Those properties with a value of over \$850,000 will now pay a rate of 1.0%, up from 0.75%. However, the maximum amount of tax that can be collected on such a property now goes to \$100,000 up from \$60,000.

Mr. Speaker, the rate on non-residential properties rises to 0.95% from 0.7%.

In an effort to protect low-income property owners, we have decided to exclude vacant lots of 4,000 square feet or less from any increase in property tax. However for larger lots over 4,000 sq. ft, the rate to be now applied will be 1.0% up from 0.8%. This is to encourage persons to make productive use of non utilised lots.

Land Tax Rates		
Residential	Range	Rate
Improved Value	0 – 150,000	0.00%
	151,000-450,000	0.1% on excess over \$150K to \$450K. 0.7% on excess
	451,000-850,000	0.1% on excess over \$150K to \$450K. 0.7% on excess
	Over 850K	0.1% on excess over \$150K to \$450K. 0.7% on amounts between 450K and \$800K. 1% on the excess. Capped at \$100,000
Site Value	(Vacant)	0.80% on up to 4000 sq ft; 1.0% on excess.
Non Residential		0.95%

The expected revenue from the changes to property tax rates is \$61.9 million. Mr. Speaker, it must be noted that non-residential properties will account for

some \$39 million of this collection. This is consistent with the theme of asking those who can afford to pay more to do so. In the face of a lowering of the corporate tax rate for domestic companies, the shift in the burden is part of the change in our tax philosophy.

In similar vein, the high-end of the residential market is being called upon to put some of the benefit from the reduction in income tax rates (that I will shortly announce) to the payment of property tax.

Mr. Speaker, I come to the issue now of aligning residential and corporate water rates. This is part of our effort to assess the use of water and its pricing. In addition, Sir, we want to innovatively address the question of conservation.

Typically, we expect on the basis of fairness that businesses should pay more per unit for water than residential users. For the business sector, water is seen as an intermediate input in the production of some goods and/or services. On the other hand, Mr. Speaker, water is an essential item to the household.

Sir, Barbados's water resources are precious and scarce. Yet the previous Government not only failed to encourage conservation, but they also failed to maintain our water and wastewater infrastructure. Mr. Speaker, everyone knows about the South Coast because it exploded into a national crisis. But there will be other disasters but on a zonal basis. It will only get worse if we do not address our massive deficit in infrastructure—and do it now.

Mr. Speaker Sir, the BWA has more than B\$200 million in urgent investment needs, roughly half of which are accounted for by the South Coast. We will finance these projects in three ways. First, in a process we have already begun

to put an end to the BWA's inflated contracts. Second, we will complete urgent financing requests to our partners at multilateral development banks. Finally, and crucially Mr. Speaker, the tariff realignment will not only have the effect of preserving our water for Barbadians, but it will also allow BWA to fund critical maintenance and preventative investments.

Sir, it is not widely known that Barbados has among the lowest water rates in Caribbean countries. We intend to keep our rates affordable. However we are going the route of conservation for all users as this will also result in a reduction in people's bills.

Sir, we propose to create an interest-free loan fund at the BWA for the change out of toilets to water-saving toilets.

We estimate that the water-bill savings per year for a family of four is about Bds\$769.62 from using a water-efficient toilet. If the family uses a high-end model (at a cost of approximately a \$1,000) the toilet pays for itself in 1.2 years and in 7 months with the low-end model (costing around \$500).

Mr. Speaker, householders can take their own action, but it is also proposed that the BWA can offer 24 months financing with monthly payments of \$20 (for the low-end) and \$40 (for the high-end).

We are also going to require that all houses being built from January 1st, 2020 over 1,000 sq. ft. install a potable water tank. Financing arrangements will also remain in place for these tanks.

We now come to the issue of aligning the corporate rates with residential rates.

Currently, Mr. Speaker, the BWA charges corporate customers a flat tariff of \$4.66 / m³, rather than the tiered rates charged to residential customers— which reach \$7.78 / m³ for water consumed above 40m³ per month.

Mr. Speaker, Sir effective May 1, 2019 the commercial rate will move from a fixed \$4.66/m³ for all water levels to \$4.66/m³ for up to 40 cubic meters and then \$7.78/m³ for usage in excess of 40 cubic meters with a monthly cap of 12,000 cubic meters, after which the rate reverts to 4.66/m³. This tariff change is expected to result in a net revenue increase of \$2.1 million per month for BWA. My Government accepts that there will have to be a consequential change in the garbage and sewage contribution fee for commercial entities and this will be announced within 60 days. Mr. Speaker I wish we could do better but the problem we face at the Barbados Water Authority is the lack of available accurate information as a result we are working towards having the Barbados Light and Power work with us to undertake the billing infrastructure for the Barbados Water Authority. The cooperation with the Barbados Light and Power will also likely extend to joint venture arrangements in renewable energy given that that the highest cost in the provision of water is the cost of energy.

GAMING TAX

Barbados has had gambling since the 1970s under the Betting and Gaming Act. It allows for slot machines, VLTs, sports betting and lotteries. The two areas that have not been operating in Barbados have been on-line betting and gaming tables — poker, blackjack etc. There has been a strong request from investors within the tourism sector to extend the presence of gaming tables and machines in private members gaming establishments that will be focused primarily on visitors to the island. All transactions in these establishments will be in foreign exchange and will be intended to boost earning.

These will be linked to high-end mega investments. Mr. Speaker, I don't gamble but I recognize that there are a lot of people who do, and there are those who come here for all kinds of reasons who can afford to spend considerable sums on gaming. Equally we will introduce a regulatory regime for on line gambling as we do live in a digital world.

Mr. Speaker, the gaming industry has not paid any taxes since 2011, with the argument that a "Standstill" Arrangement was reached with the Government in relation to license fees. However, Mr. Speaker, there is no public record as evidence of such an arrangement and no public officer has borne witness to such. It seems Mr. Speaker to be an arrangement of some political undertaking at best.

Mr. Speaker, effective May 1, 2019, there will be a 20% withholding tax on gambling winnings and a 17.5% gambling tax on the net-drop of all gaming establishments. Gaming establishments have until January 1, 2021 to change out slot machines to auditable machines. Mr. Speaker, the Government will collect 3% of the monies owed for the period 2011 and 2018, over a 4-year period.

In addition, Mr. Speaker Sir, Gambling and its regulation is a highly specialised area. It is absolutely clear to me that we do not have within the Government the capacity to appropriately regulate the betting and gaming sector. My Government believes that this is one area in which we may be best served through a public-private approach toward the regulation of this complex sector.

Against this background we will advertise for requests for proposals regionally, and if necessary internationally, for entities who are interested in pursuing such a partnership over the medium term with the Government of Barbados on a

revenue sharing model. There are simply certain sectors that require a high level of technical expertise to appropriately monitor and regulate operations.

BUS FARES

Mr. Speaker, the failure of the last administration to purchase even one new bus over ten years has put tremendous strain on the ability of the Transport Board to deliver quality, reliable and efficient service to the public. Over the same period, private owners have increased their share to about 80% of the market.

Sir, the sector was effectively privatised as the last government increased the number of licences for PSVs from 500 to more than 800 over the last five years. The fleet of Transport Board buses fell from 160 to 70 over the same period.

Mr. Speaker, the annual financial condition of the Board has become untenable as it has revenue of \$20 million compared to cost of \$65 million. This situation demands some increase in bus fare given that a fare hike has occurred once in the last 30 years and the hike was 50 cents.

Mr. Speaker, I now announce a bus fare of \$3.50 effective April 15, 2019. We recognise that heavy users of the transport system ought to benefit from discounts as in other areas of the economy. Frequent commuters will have the choice of purchasing discounted weekly or monthly passes and transfers. The details of these additional options will be released within the next week.

In addition to an increase in bus fare, there will be legislative changes to the sector to deliver affordable, reliable and orderly transport to the public. These changes have been discussed with both private sector associations and we have reached agreement to bring back to our roads.

Mr. Speaker sir, I now turn to the corporate tax. In order to further simplify the tax system, the Government proposes to introduce the following additional tax measures.

We will eliminate withholding tax on payments made to non-residents, other than dividends, including:

- 1) interest;
- 2) management fees;
- 3) royalties

In the case of management fees there will no longer be a deduction for payments to non-residents.

On the other hand, withholding tax on residents will increase effective as follows:

On Interest from 12.5% to 15%;

On dividends from local sources from 12.5% to 15%.

Please note that withholding taxes on pensioners will not be touched.

These changes will be effective from today and will be accompanied by the following anti-avoidance rules:

Interest - thin capitalisation rule

A company is typically financed through a combination of debt and equity. Where its level of debt is much greater than its capital, a company is said to be

thinly capitalised. The way a company is capitalised has a direct impact on its profits because interest is deductible for tax purposes whereas dividends are not.

To avoid any potential abuse where a company could fund its operations mainly with debt, we will introduce a limitation on the amount of related party interest that can be deducted from income derived from a business or property.

Effective as of 1 September 2019, a thin capitalisation rule of 1.5 to 1 will be introduced. Interest payable on outstanding debts due to non-resident related parties that own more than 10% of the company will be deductible to the extent that the total amount of the debt does not exceed one and a half times the equity of the company. Any portion of interest that exceeds this ratio will no longer be deductible.

Transfer Pricing

As part of our commitment to the OECD, we intend to introduce transfer pricing rules in the near future governing the taxation of transactions involving the sale of goods and services between legal entities within the same controlled group.

Branch Profits

To bring the withholding tax treatment of branch profits in line with that of dividends, branch profits paid out of income earned outside of Barbados will no longer be subject to branch profits tax.

PERSONAL INCOME TAX

Mr. Speaker, I now turn to personal income tax.

The removal of income tax allowances demands the lowering of income tax rates if the most vulnerable are to be protected.

Mr. Speaker, such simplification of the system - of a few lower rates and less allowances, redounds to the benefit of all taxpayers, particularly those in the lowest income bands.

Going forward, Mr. Speaker, we will credits to individuals for specific benefit. Allowances are available to all who qualify while credits are available to those who are deserving. Credits better protect our cash flow.

In the circumstances, we are using a combination of lowering rates, a universal allowance and targeted credits to achieve greater social justice and fairness. We now announce the following measures:

In 2010, the Income Tax Act was amended to effectively reduce the income tax rates applicable on foreign income that is remitted to Barbados by an individual who is resident but not domiciled in Barbados. This was effected by allowing these individuals to claim a foreign currency earnings credit in respect of income derived from outside Barbados. In 2011, this concession was extended to all individuals who are resident in Barbados and remit income from foreign sources. Persons who earned all of their income from foreign sources were able to reduce their effective income tax rate to 1.995. We now wish to change this credit such that the minimum effective rate will

be approximately 10%. The new scale will be as follows:

	Current Factor	Balance of 2019	Effective 1 Jan 2020
81% and Over	93%	70%	65%
61% to 81%	79%	59%	55%
41% to 61%	64%	48%	45%
21% to 41%	45%	34%	31%
Up to 20%	35%	26%	24%

Mr. Speaker, we will reduce the rates on taxable income, we will extend the first tax band and we will use an income credit to give Barbadians significant income tax relief in a phased manner.

The universal personal allowance of \$25,000 that is tax free is retained.

Effective July 1, 2019, we are getting rid of both the first tax band on which a rate of 16% is applied and the second tax band on which a rate of 33.5% is applied.

The rate on the third tax band of 40% is also being abolished.

Mr. Speaker, effective July 1, 2019 the first tax band will be \$50,000 and a rate of 12.5% will be applied. Sir, the second tax band is on taxable income over \$50,000 which is charged a rate of 33.5%.

Effective July 1, 2019, as previously noted we will also introduce a Compensatory Income Credit on gross income above \$25,000 and up to \$35,000. This Credit will ensure that this income range pays zero income tax.

The Compensatory Income Credit is non-refundable and is designed simply to ensure that there is zero income tax paid on gross income between \$25,000 and \$35,000 per year.

As of January 1, 2020, the rate of 33.5% on taxable income over \$50,000 will drop to 28.5%. The first tax band and the rate applied to the band will not change.

Mr. Speaker, what has been achieved, using a phased approach, is a significant reduction in the effective rate of tax applicable to Barbadians as follows;

Gross Income	Current Taxes Paid	Proposed Taxes Paid	Change in Taxes
75,000	10,625	6,250	4,375
	(14.2%)*	(8.3%)*	
125,000	30,625	20,500	10,125
	(24.5%)*	(16.4%)*	

*The bracketed number is the effective tax rate.

Mr. Speaker, the tax relief which takes full effect in 2020 is significant across income groups. An individual earning \$75,000 per year currently pays \$10,625 for an effective tax rate of 14.3%, assuming the standard allowances. In income year 2020, he/she pays only \$6,250 as the effective rate falls to 8.3%.

Sir, as the income rises, the relief from the relative burden of the 40 percent tax kicks in even more. Thus with an income of \$125,000, the effective rate decreases to 16.4% from 24.5%, realising a saving of \$10,125.

After several years of rising taxation on income, Barbadians must feel some sense of relief is truly coming their way. Mr. Speaker, having endured a decade characterised by the removal of allowances and deductions in the income tax system, Barbadian workers will experience higher take-home pay, starting in July.

Furthermore, Sir, they can look forward to more relief come 2020. Every category of worker, in the public and private sectors will be able to contribute to growing the Barbados economy.

The naysayers could never have anticipated that my government in the throes of the BERT programme, which is supported by the IMF, would be in a position in less than ten months to be on a path of growth having stabilised the country's economic fundamentals.

Mr. Speaker, apart from the pending tax relief, we will put millions of dollars into hands of individuals and companies for payment of arrears. This will be happening within weeks and will provide greater opportunity for spending that will trigger some economic growth.

Mr. Speaker sir, as I have said, we are shifting the burden of taxation, away from taxing work and production, towards taxing assets and consumption. This is part and parcel of making us a more modern, productive economy.

Today, in just 10 months we have transformed our system of taxes so that our new corporation and personal income tax rates are some of the most competitive, not just in our history, or in the Caribbean, but in the world.

We can afford this radical step but on the basis that there is no room for allowances and we are more effective at collecting what is owed. We shall be shortly making a request for proposals for professionals to help us in the collection of unpaid taxes and we will reward them with a modest share of the collection. We will publish a schedule of commissions against the amount of tax collected.

Mr. Speaker, sir, we are in a debt reduction program and so we have been very conservative with our estimates of revenue collection. It is likely that we will overshoot our targets and our primary surplus rises above our target of 6%. If it does, we commit, Mr. Speaker, to sharing any additional surplus, either through further tax relief, or increased capital expenditure on roads and infrastructure.

Exchange Controls

Mr. Speaker Sir, Our commitment to our 2:1 peg with the US dollar is unwavering.

Like most countries operating a fixed exchange rate peg, Barbados has exchange controls on foreign currency transactions. These controls were originally designed to mitigate and regulate the flow of foreign exchange to ensure that the country has sufficient reserves to defend the exchange rate. These controls have been in place since the establishment of the Central Bank of Barbados.

However, Mr. Speaker, with the advent of greater trade and globalization, a consensus emerged that exchange controls, if not managed and administered well, can create distortions and can disrupt economic efficiency and growth. Many countries successfully relaxed their controls. We did not. Indeed as reserves were tumbling under the last administration their application became tighter. Our exchange control regime has been cited by international competitiveness surveys as one of the critical impediments to doing international business.

Mr. Speaker Sir, from being down to covering just 7 weeks of imports our reserves are now close to the target of 15 weeks we set out in our manifesto, a figure considered as a reasonable buffer.

Our efforts to cut bureaucracy and boost competitiveness will strengthen our reserves further.

The switch from direct taxes to indirect taxes will support work and discourage imports, boosting our reserves.

The list of investments projects I have touched on today will bring in foreign exchange in the short run and long run.

Mr. Speaker Sir, the time is now right for us to begin a gradual relaxation of exchange controls

We will be gradual and targeted in our approach. We will focus first on those areas that boost investor confidence, lead to increased capital inflows, and better

support economic growth by for instance allowing savings to be channeled to their most productive use.

Effective July 1, we will allow all Barbadian to open foreign currency denominated bank accounts, to hold foreign currency they have earned here or abroad.

We will eliminate the surrender requirement of 70% of foreign exchange brought into Barbados.

We will allow foreign currency proceeds from the sale of assets to be repatriated in foreign currency or kept locally in a foreign currency account. These proceeds will not be subject to the capital appreciation policy.

We will also increase the annual limit on personal travel facilities increase from \$7,500 to \$20,000. Other limits will also rise.

Finally, we will cap the foreign exchange fee at Bds\$100,000 so it does not become an impediment to doing business in Barbados.

Our reserve position and the macro-economic background permits us to make this move now. Our desire to do so, is driven by our genuine goal of being a global hub for business. The hub for business between Africa and the Americas, between Asia and the Caribbean.

We will follow developments closely, and when the time is right, we will look to further relaxation. We are on our way.

Conclusion

Mr. Speaker Sir, the biggest challenge facing Barbadians today, is an as yet unspoken one.

The constellation of stars that we went to bed with every night when we were growing up, has changed beyond recognition.

For the first fifty three years of our independence, Barbadians went to bed and awoke the next day, in a world that placed value on the rule of law. That is not today's world. See the ambivalence of the world to attempts the invasion of Crimea, the raiding of Venezuela's embassies and worse.

We went to bed every night and woke the next day in a multilateral world. Where the world's trade, financial and security arrangements were debated in the United Nations General Assembly, not hashed out in private meetings between a few big countries.

Multilateralism stands defeated. It is only in this world that the European Union, encompassing the world's largest international financial centres, can draw up lists of other financial centres to name and shame them, counter to all traditional notions of natural justice and legitimacy.

We went to bed every night and awoke in a world in which it was understood that excessive individualism would undermine society, and that without society individuals would flounder. Today too many people shamelessly ask their Government, employers or employees for everything and more, and expect that they can enjoy the benefits of a peaceful, safe, well functioning society because someone else is supporting it.

Faced with these challenges countries have retreated inwards. Trump is building walls. Europe is turning back refugees. Britain is having a messy divorce from Europe.

We will not stoop to strategies like that.

But the night has grown colder for small states: A world of no rules, of where might is right, where people and businesses can move on a whim, a world of rising sea levels is a world that is particularly harsh for small islands.

We are in open waters, alone, and the storms are wild and free.

But we will find our way home. We have done it before. Our parents and grandparents got us there safely, firmly and without fuss.

These are challenging times. We can rely on no one else. But we got this.

Because we are on this voyage together. We have thrown a rope across the entire population and each and everyone of us is holding each other.

We got this, because with transformation comes opportunity - whether in a new industries like renewable energy or medical cannabis, whether in new attractions within existing industries. Our commitment to education and training, our new stance on taxation, exchange controls and access to finance, all of these things empowers Barbadians, empowers them to grasp opportunities, to be the Best Barbados, to shine. Barbados Rising.

Mr. Speaker sir, we can make it. I know we can and we shall. But we must stay the course!

My friends - trust me - we got this!

Fiscal Measures and Impact

- i. **Effective April 1, 2018 the following changes will be made land tax, with a net yield of \$61.9 million for FY2019/20:**
 1. The discount goes from 10% to 5% and is applicable for 60 days, starting May 27, 2019.
 2. Tax on vacant lands goes from 0.8 to 1% for lots over 4,000 sq ft.
 3. For property valued between \$451,000 to \$850,000, the rate goes from 0.45% to 0.7%.
 4. For property valued over \$850,000, the rate goes to from 0.8% to 1%, and cap increases from \$60,000 to \$100,000.
 5. Tax for non-residential goes from 0.7% to 0.95%.
 6. A deed of a gift to a child is exempted from the property transfer tax for properties valued under \$500,000. Over \$500,000 property transfer tax will apply.
- ii. **Effective July 1, 2018 the following changes will be made to the Personal Income Tax:**
 1. The tax bands on which a rate of 16%, 33.5% and 40% are applied will be abolished.
 2. The first tax band will be \$50,000 on which a rate of 12.5% is applied will be introduced.
 3. The second tax band on taxable income over \$50,000 on which a 33.5% is applied will be introduced.
 4. Child allowance will be eliminated.
 5. A Compensatory Income Credit (CIC), for those earning between \$25, 000 and \$35,000 of up to \$1,250 per person will be introduced.
 6. The Reverse Tax Credit will be extended to persons earning up to \$25, 000.
- iii. **Effective January 1, 2020, the rate of 33.5% on taxable income over \$50,000 will be reduced to 28.5%:**

- iv. **Effective April 1 2019, withholding tax on residents will increase as follows:**
1. On interest from 12.5% to 15%.
 2. On dividends from local sources from 12.5% to 15%.
- v. **Effective April 1 2019, withholding tax on payments to non-residents will be eliminated on the following:**
1. Interest;
 2. management fees but there will be no deductibility for taxes;
 3. Royalties.
- vi. **Effective April 1 2019 the items in Table 1 will be moved from the zero-rated (schedule 1) to the exempt (schedule 2), with a net yield of \$7 million.**
- vii. **Effective January 1 2020 the VAT in accommodation sector from 7.5 percent to 10 percent, yielding \$4.5 million in FY2019/20 and \$27 million in for a full year.**
- viii. **Effective April 1 2019, water will be exempt, and expected to save \$10 million in refunds.**
- ix. **Effective April 1 2019, all Villas will be exempted with and expected saving of \$5 million.**
- x. **Effective April 1 2019, the Room Rate levy will increased by 75%, yielding \$15 million gain:**
- Apartment from BDS \$5.00 to \$8.75 per bedroom per night.
 - Guest House from BDS \$5.00 to \$8.75 per bedroom per night.
 - Hotel “B” Class from BDS \$5.00 to \$8.75 per bedroom per night.
 - Hotel “A” Class from BDS \$11.00 to \$19.25 per bedroom per night.
 - Hotel Luxury class from BDS \$20.00 to \$30.00 per bedroom per night.
 - Vacation Rental Properties from 2.5% to 3.75% of the rate charged per bedroom per night however, where that amount exceeds BDS \$30.00 per night, the rate to be charged shall be BDS \$30.00 per bedroom per night.

- Villas from 2.5% to 3.75% of the nightly rate. However, where that amount exceeds BDS \$30.00 per night, the rate to be charged shall be BDS \$30.00 per bedroom per night.
- xii. **Effective May 1 2019, the following taxes will apply to gambling, yielding Lottery (\$17 million):**
 1. A 20% withholding tax on winnings.
 2. 17.5% of monthly net drop.
 - xiii. **The gambling industry has until January 1 2020, to change out their machines to auditable machines.**
 - xiv. **The Government of Barbados will collect, over a 4-year period, 3% of the monies owed to it by the industry for the period 2011 and 2018.**
 - xv. **Effective April 1, 2019 private membership clubs will be allowed.**
 - xvi. **Effective April 15, 2019 bus fare will increase to \$3.50.**
 - xvii. **Effective May 1, 2019 VAT will be collected on Online transactions:**
 - xviii. **The following changes are relate to water:**
 1. Effective April 1 2019, BWA will offer an interest-free loan fund to consumers to change out of toilets to water-saving toilets.
 2. All houses constructed after January 1st, 2020 over 1000 sq ft install a potable water tank.
 3. Effective May 1, 2019 the commercial rate will move from a fixed \$4.66/m³ for all water levels to \$4.66/m³ for up to 40 cubic meters and then \$7.78/m³ for usage in excess of 40 cubic meters with a monthly cap of 12,000 cubic meters, after which the rate reverts to 4.66/m³.



MACROECONOMIC PERFORMANCE 2018

1. Introduction

The Barbadian economy started the year 2018 facing a fiscal crisis that had spilled over into an environment of a sustained low level of economic activity, declining international reserves and rising public sector indebtedness. The national credit rating had fallen well below investment grade, resulting in reduced access of government to domestic and foreign capital markets. The Central Bank had become the major source of financing for government.

The new administration's decision to approach the International Monetary Fund (IMF) promptly for endorsement of its home grown economic recovery and transformation plan and for balance of payments support helped to alter the trajectory of economic performance during the second half of the year. Fiscal consolidation efforts were strengthened and were complemented by initiatives to restructure government's domestic and external commercial debt obligations in order to facilitate a return to fiscal and debt sustainability. Access to funding from international financial institutions together with the suspension of external debt service, enabled a restoration of the buffer of international reserves to acceptable levels. In addition, the credit rating on domestic debt improved.

2. Economic Growth

Economic activity contracted by an estimated 0.6% in 2018, as tighter fiscal policy and delays in project implementation offset modest gains in the tourism sector.

The tourism sector expanded by an estimated 0.6% even though long-stay arrivals were 2.8% higher than the previous year. Most of the increase in arrivals was attributable to the United States market which grew by 8.4% and a cumulative 37.5 % over the past three years. However, the overall average length of stay declined, given the larger share of shorter staying visitors from that market. Arrivals from Canada and the United Kingdom were both up, with the latter continuing to account for the largest share of long stay tourists. In contrast, cruise visitors suffered a near 10% loss as the regional cruise sector returned to normalcy after the need to re-route vessels in 2017 as a result of severe hurricanes.

Agricultural output rose, the result of improved sugar cane harvest and higher poultry and food-crop production, while fishing declined. Latest data suggests manufacturing output inched up slightly with marginal growth in food and beverages production, metal products and assembled goods, and other manufactured products. However, output remains well below that of 2009.

Activity in the construction sector declined by nearly 7.0%. In nominal terms, gross capital formation fell 6.7% in 2018 as public sector investment was hampered by the fiscal circumstances while implementation of private sector projects was slower than anticipated. Demand fell across the other services sectors, including distribution, business and other services and transportation, storage and communication. Electricity consumption was unchanged but there was increased usage of solar power electricity generation.

3. Prices and Employment

The unemployment rate of 10.1% on a four quarter moving average basis was largely unchanged from the previous year. Towards year-end, unemployment was impacted by select public sector layoffs as part of the fiscal consolidation effort.

Inflationary pressures eased, with the inflation rate falling to 3.7% from 4.5% in 2017 as the abolition of the national social responsibility levy offset the impact of rising oil prices. Increased agricultural output also assisted in containing inflationary trends.

4. International Reserves

The international reserves recovered during the latter half of 2018 to reach 1,047 million or 13.5 weeks of import cover. This outturn reflects the impact of borrowings from the International Monetary Fund for balance of payments support and from the policy -based loans provided by the Inter-American Development Bank and the Caribbean Development Bank. In addition, the reserves benefitted from the suspension of commercial external debt payments after May and from improved foreign exchange liquidity in the banking system.

5. External Current Account

The external current account deficit improved to 3.8% on the strength of rising travel credits and lower import demand. However, domestic exports were flat, as declines in rum and sugar exports offset gains in other sub-sectors. Of note is that sugar production was used principally for domestic consumption rather than for export.

The increase in tourism earnings reflected higher arrivals and improved room rates. Total imports fell just under 2%, the result of lower imports of consumer goods, capital goods and non-oil intermediate goods. Higher average international fuel prices during the year led to increased fuel imports, with prices rising by almost 20%.

6. Financial System

The debt restructuring and the adoption of the new accounting standard IFRS9 eroded capital in the financial services sector. However, the banking system remained stabled as commercial banks continued to hold capital in excess of the minimum capital adequacy ratio.

There was no growth in domestic deposits but liquidity in the banking system remained high with an excess cash ratio of 16.5%, compared to 14.6% in 2017. The excess securities ratio also increased partly because the improved fiscal position allowed the Bank to reduce the commercial bank's securities requirement ratio from 20% to 17.5%.

Weak credit demand persisted into 2018, with credit to the non-financial private sector declining by approximately 0.5% after adjusting for an intra-group amalgamation of a commercial bank and a trust and finance company. Loans to the distribution sector rose but loans to real estate and to hotels and restaurants declined.

Interest rates remained low, with the weighted average deposit rate of 0.2% virtually unchanged from a year earlier. The weighted average loan rate was 6.8%, approximately twenty basis points higher than the year before.

7. Public Finances

A critical element of the government's recovery programme is premised on the restoration of the sustainability of the public finances. For FY 2018-19, government has committed to achieve a primary surplus on a cash basis of 3.3% of GDP. At year-end, government was on track to achieve its objective, recording a surplus of \$428 million, well in excess of the target. In addition, interest costs for the first nine months of the fiscal year were contained to \$316 million, enabling government to register an overall surplus of \$112 million.

There was a modest increase in revenues as the resumption of payments for tax refunds and the dampening of import demand contained the growth in revenue. Revenue from corporate taxes rose by \$33.8m despite \$26 million in tax refund payments, owing to significant first time payments by recently registered international business companies. Property taxes were up by \$21 million given the collections from the tax amnesty. However, Government refunded \$54 million in income tax and \$18 million in value-added tax (VAT), resulting in lower than anticipated collections from income tax and VAT. There were also declines in excise revenue and import duties. The new fuel tax realised \$35 million during the period while the foreign exchange fee yielded \$56 million in tax receipts.

Government's current expenditure fell \$330 million with debt restructuring and the suspension of foreign interest payments accounting for about \$292 million of these savings. Additional savings of \$32 million were recorded in transfers and subsidies as government's efforts to restructure its portfolio of state owned enterprises gathered pace. In addition, some \$29 million in savings were realised in goods and services expenditure in the first nine months of the fiscal year compared to fiscal year 2017/18. However, with the granting of public sector wage increase, the wage bill was about \$22 million higher than a year ago.

8. Financing

The improved fiscal outturn helped the Government to reverse the reliance on domestic funding that had been a feature of the financial landscape in recent years. Policy-based loans of \$350 million from the IDB and CDB during the last quarter of the year contributed to an overall decline in Central Bank financing of approximately \$242 million, in contrast to the increase registered in the first half of the fiscal year.

9. Public Debt

Developments with respect to debt were dominated by the suspension of external debt service and by the restructuring of the domestic debt portfolio. With government adopting a comprehensive approach to debt stabilisation, the debt stock of central government now includes the arrears that have been accumulated in recent years because of Government's cash flow difficulties.

The domestic debt restructuring resulted in Government eliminating approximately \$2.9 billion or 29% of GDP from the stock of debt held by public sector institutions, including the Central Bank and the National Insurance Scheme. Given the low yield on the restructured securities, particularly in the early years, Government mitigated the impact on pensioners by accelerating repayments during the last quarter. As a result, at year end the gross public sector debt was reduced to \$12,677 or 126.9% of GDP.

Discussions on the debt restructuring related to foreign currency denominated claims on the public sector are on-going.

DEBT SUMMARY

On 1 June 2018, Barbados announced the suspension of both principal and interest payments due on debts owed to external commercial creditors. This extraordinary action was taken as a result of a number of factors which included critically low levels of international reserves, unsustainably high levels of public indebtedness and poor economic growth.

In addressing its high and unsustainable debt to GDP ratio, Barbados embarked on a multi-pronged economic reform program which includes fiscal consolidation, corrective economic measures and debt restructuring to stabilize public finances and create conditions for sustained economic growth. The long-term anchor of the reform program is a public sector debt to GDP target of 60% by FY 2033/34.

Barbados launched the Domestic Exchange Offer on September 7, 2018 to restructure approximately \$11.9 billion in domestic claims on Government and the public sector. The domestic debt restructuring was successfully concluded in mid-November with a participation rate of 97%.

The successful domestic debt exchange resulted in loans, Treasury Bills, Treasury Notes and Debentures of Central Government and loans and bonds of eligible SOEs being exchanged for a new series of amortizing bonds. This resulted in lower interest rates and significantly extended the maturity profile on Government's debt portfolio. Additionally, it created fiscal space in the short to medium term.

With the debt restructuring and the IMF supported BERT Program underway, Barbados began to access funding from official sources, with a US\$100.0M Special Development loan from the Inter-American Development Bank and a US\$75.0M Policy Based loan from the Caribbean Development Bank.

Negotiations with external commercial creditors remain on-going, hence the suspension on external commercial debt service payments remains in force.

Debt Stock

Government's disbursed and outstanding debt¹ stood at approximately \$ 12,425.1 million as at February 2019, approximately 121.1% of projected Gross Domestic Product² (GDP), compared to approximately \$14,714.8 million for the corresponding period ending February 2018. The decrease in debt stock was primarily attributed to the Domestic Exchange Offer, which included a write-off of approximately \$2,929.1 million in debt held by the Central Bank and the NIS.

¹ Central Government debt plus guaranteed debt. Excludes arrears.

² Estimated at \$10,263.9M as per CBB's January 2019 Press Release

Debt Service

Total debt payments in the period April 2018 to February 2019 amounted to approximately \$707.7 million with interest payments of \$364.0 million and amortization payments of \$343.7 million. This was a decrease of approximately \$952.0 million in total debt service when compared the \$1,659.5 million to the corresponding period last year. This significant decrease is attributable to the Domestic Debt Exchange and the on-going suspension of foreign commercial debt payments.

International Trends & Developments

As a small open economy, the international economy will significantly impinge on Barbados' economic performance. The foregoing represents some of the key risks that could derail Barbados' nascent recovery.

1. Global Outturn for 2019

The World Bank projects that global economic growth is projected to soften from a downward revised 3 percent in 2018 to 2.9 percent in 2019 amid rising downside risks to the outlook. International trade and manufacturing activity have softened, trade tensions remain elevated, and some large emerging markets have experienced substantial financial market pressures.

Growth among advanced economies is forecast to drop to 2 percent this year. Slowing external demand, rising borrowing costs, and persistent policy uncertainties are expected to weigh on the outlook for emerging market and developing economies. Growth for this group is anticipated to hold steady at a weaker-than-expected 4.2 percent this year.

US Economic Trends

The US economy expanded by 2.9% for 2018, in part because of fiscal stimulus. However, growth is expected to decline to 2.5 percent in 2019 and soften further to 1.8 percent in 2020 with the unwinding of the stimulus and as interest rates are anticipated to rise further. Nevertheless, the projected pace of expansion is above the US economy's estimated potential growth rate in both years. Strong domestic demand growth is expected to support rising imports and contribute to a widening of the US current account deficit.

The USA is once again contemplating using Section 232 of its Trade Expansion Act to impose tariffs on grounds of national security, this time on auto imports. If enacted, those tariffs could disrupt global trade and potentially tip already-weakened economies of Japan and Germany into recession. Global trade growth has slowed to well below 2017 averages.

UK Economic Trends³

The UK economy grew by 1.4 per cent, its lowest since 2009 as business investment experienced four consecutive quarters of contraction.

The IMF has noted that there is substantial uncertainty around the baseline projection of about 1.5 percent growth in the United Kingdom in 2019-20. The unchanged projection relative to the October 2018 World Economic Outlook reflects the offsetting negative effect of prolonged uncertainty about the Brexit outcome and the positive impact from fiscal stimulus announced in the 2019 budget. This baseline projection assumes that a Brexit deal is reached in 2019.

³ <https://www.ft.com/content/75a5187a-2ddf-11e9-ba00-0251022932c8>

Canada⁴

Canada's GDP is expected to grow by 1.9 per cent in 2019, easing from 2.1 per cent in 2018.

Household spending is slowing due to several factors, including weaker job growth, rising interest rates and a softening of house prices. While job growth has picked up in recent months, overall employment growth in 2018 was modest.

In addition to the weaker outlook for consumer spending, the collapse in oil price and pipeline capacity constraints have impacted Canada's energy sector. Investment in the oil and gas industry in Alberta is expected to decline for a second year in a row in 2019 as weak oil prices and the uncertainty associated with transportation bottlenecks and the provincial government's mandated oil production cutbacks are hurting investment intentions. Despite Alberta's ongoing struggles, overall investment in Canada's energy sector will increase in 2019, thanks to the LNG Canada project and the Coastal GasLink pipeline, which will generate substantial investment in British Columbia.

Non-energy investment is expected to be boosted by the signing of the new Canada-U.S.-Mexico agreement (CUSMA) and the new federal measures that allow for accelerated write-off of several types of investments. Assuming that the U.S. Congress passes the trade bill, some of the uncertainty that had restrained investment spending should be alleviated. The CUSMA should also help boost Canada's export performance. A pickup in non-energy exports is forecast for 2019 but growth will be limited by weak investment and high capacity utilization rates in the manufacturing sector.

China

One key risk identified is that systemic financial stability risk is a deeper-than- envisaged slowdown in China, with negative implications for trading partners and global commodity prices. China's economy slowed in 2018 to 6.6% mainly due to financial regulatory tightening to rein in shadow banking activity and off-budget local government investment, and the effects of the widening trade dispute with the United States. Further deceleration is projected for 2019. The authorities have responded to the slowdown by injecting liquidity through cuts in bank reserve requirements, and by applying fiscal stimulus, through increased public investment. Nevertheless, activity may fall short of expectations, especially if trade tensions fail to ease. As seen in 2015–16, concerns about the health of China's economy can trigger abrupt, wide- reaching sell-offs in financial and commodity markets that place its trading partners, commodity exporters, and other emerging markets under pressure.

Latin America and the Caribbean⁵

Risks to the regional outlook remain tilted to the downside. The experience of Argentina in 2018 is a stark reminder of the risk of sudden and widespread shifts in investor sentiment. Tightening global financing conditions are a particular concern for countries with large current account deficits or reliance on volatile capital inflows (e.g., Argentina, Bolivia, and several Caribbean countries), with high external debt loads (e.g., Jamaica,

⁴ <https://www.conferenceboard.ca/press/newsrelease/2018/12/18/canada-s-economy-to-slow-in-2019-as-risks-mount?AspxAutoDetectCookieSupport=1>

⁵ Global Economic Prospects, World Bank January 2019

Nicaragua, Venezuela), or with sizable foreign-currency-denominated debt as a share of GDP (e.g., Costa Rica, Honduras, Nicaragua).

External financing conditions have tightened. Against the backdrop of rising U.S. interest rates, U.S. dollar appreciation, and weaker investor sentiment toward EMDEs, the region has experienced a generalized rise in bond and credit default swap spreads and a fall in equity prices. Capital inflows, particularly bond flows, steadily diminished through the third quarter of 2018. Current account deficits have widened in most commodity-exporting and commodity-importing economies. Several Caribbean economies that were not significantly damaged by hurricanes in 2017, however, registered narrowing deficits or widening surpluses as a share of GDP in 2018 on strong tourism inflows or rising oil prices (e.g., The Bahamas, Belize, St. Vincent and the Grenadines, and Trinidad and Tobago).

2. Interest Rates⁶

Concern over the outlook for US interest rates was one of the dominant themes of 2018, especially as the year progressed. Despite pressure from the US president, the Fed did raise rates in December as expected, to a range of 2.25-2.50%.

At the same time, the Fed changed its projections for interest rates in 2019. The US central bank now expects only two further rate rises, whereas previously three more were anticipated. This is due to lower economic forecasts, with the Fed revising its 2019 GDP growth forecast down to 2.3% from 2.5%. However, since that December meeting, the Fed has grown more cautious.

3. Oil and Commodity Prices ⁷

The average Brent crude oil spot price for 2018 was US\$71 per barrel, up from US\$ 54.20 per barrel. At year end, the price was US\$57.40 and it is expected to average \$63/b in 2019 and \$62/b in 2020. However, geo-political risks, including developments in Venezuela could offset favourable supply factors elsewhere.

4. Renewable Opportunities⁸

Longstanding obstacles to greater deployment of renewables eased as a result of rapidly approaching grid parity, cost-effective and reliable grid integration, and technological innovation. Once dismissed as too expensive to expand beyond niche markets, solar and wind can now beat conventional sources on price while increasingly matching their performance.

The speed of solar and wind deployment and their steeply declining cost curves have surprised industry players and observers. Ahead of projections and despite lingering

⁶ <https://www.schroders.com/en/insights/economics/what-is-the-outlook-for-interest-rates-in-2019/>

⁷ https://www.eia.gov/outlooks/steo/pdf/steo_full.pdf

⁸ <https://www2.deloitte.com/insights/us/en/industry/power-and-utilities/global-renewable-energy-trends.html>

perceptions to the contrary, wind and solar power have become competitive with conventional generation technologies across the top global markets, even without subsidies.

Outturn April 1st 2018– February 28th 2019

Current Revenue

1. Preliminary information received from the Accountant General indicates that current revenue for the period April 1st 2018 to February 28th 2019 was \$2,569.4 million, an increase of \$139.0 million or 5.7% more than current revenue for the same period in fiscal year 2017-2018.

2. Direct Taxes comprising of Income tax, Corporation tax, Property tax, Withholding tax and Asset taxes realised \$918.4 million, an amount of \$94.7 million or 11.5% more than that collected for the corresponding period in 2018. Corporation taxes and property taxes increased by \$40.0 million and \$27.7 million respectively for the period under review. With respect to income taxes, \$1.9 million less was recorded for the period April 2018 to February 2019 as a result of \$53.5 million in refunds being paid out.

3. Indirect Taxes increased by \$22.8 million over the corresponding period in 2017-2018 to \$1,501.6 million. Receipts of VAT totalled \$838.9 million, an increase of \$48.2 million over the corresponding period in 2017-2018. Excise duties recorded \$237.5 million, an increase of \$0.6 million from the actual outturn for the same period in 2018. Import duties decreased by \$7.6 million to \$194.5 million. An amount of \$50 million was collected for Fuel tax, \$26.6 million for the Garbage & Sewage Contribution and \$69.1 million for the Foreign Exchange fee.

Expenditure

4. Current expenditure, exclusive of amortization of \$342.9 million, decreased by \$364.0 million or 13.3% from the 2017-2018 figure to \$2,365.9 million. This is mainly due to the debt restructuring being undertaken by the Government.

5. Wages and Salaries increased from \$713.1 million in the corresponding period of 2018 to \$740.1 million mainly because of the 5% salaries increase. Expenditure on goods and services and current transfers decreased by \$26.7 million and \$16.3 million respectively.

6. Total debt payments in the period April 2018 to February 2019 amounted to approximately \$704.7 million with interest payments of \$361.8 million and amortization payments of \$342.9 million. Capital expenditure for the period under review was \$82.4 million compared to \$86.0 million for the corresponding period in 2017-2018.

Deficit/Surplus

7. The fiscal surplus of \$109.7 million represents 1.1% of GDP at market prices of \$10,368.1 million. The primary balance represents a surplus of \$471.4 million representing 4.6% of GDP on the cash basis.

Food items moved from Schedule 1 to Schedule 2

Tariff Number	Description
20,622.00	Livers
0206.41.00	Livers
0207.14.30	Livers
0207.14.90.100	frozen Of turkeys;
0207.24.00	Not cut in pieces, fresh or chilled
0207-25.00	Not cut in pieces, frozen
0207.26.00	Cuts and offal, fresh or chilled
0207.27.00	Cuts and offal, frozen
0207.27.10.100	Wings of turkeys
0302.32.90.100	Yellowfin tuna fresh or chilled
0302.62.00	Haddock (Melanogrammus
0303.42.90,900	Other yellowfin tunas frozen
0303.42.90.100	Yellowfin tunas frozen
0304.29.90.300	Fillet of yellowfin tuna (Thunnus albacares)
030429.90.300	Fillet of yellowfin tuna (Thunnusalbacoeres), fresh or
0709.40,00	Aubergines (egg-plants)
0709.40,00	Celery other than celerica mushroom mushrooms and
0709.60.00	Fruits of the genus Capsicum or of the genus Pimenta:
0709,70.00	Spinach, New Zealand spinach and orache spinach (garden
0713.33.00	Kidney beans, including white pea beans (Phaseolus
0713-33.10	Red kidney beans
802.11.00.100	In shell, fresh
0802.12-00.100	Shelled, fresh
080440.00. 100	Avocados, fresh
0805.20.20.100	Ortaniques, fresh
0805-20.90.100	Other, fresh
0805.50.20.100	Lemons, fresh
0808.10.00	Apples
0908.20.100	Pears
0810.10.00	Strawberries
0810.20.00	Raspberries, blackberries
0810.40.100	Blueberries
0810.50.00	Kiwifruit
16.04	Prepared or preserved fish, caviar and caviar
1602.50.10	Luncheon meat, bovine
1905.32.20.900	Rice paper and similar products