THE 2012 FINANCIAL STATEMENT AND BUDGETARY PROPOSALS

PRESENTED TO THE HOUSE OF ASSEMBLY OF BARBADOS

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Mr. Speaker, honourable colleagues, fellow Barbadians, the famous Jamaican artiste "Admiral Tibet" in one of his more popular standards entitled "Serious" is moved to chant the refrain "times are serious, cantankerous and dangerous……all over the world everyone is in a heated rush…….it's only in the Father that I put my trust."

As I rise to deliver these Budgetary Proposals and the accompanying Financial Statement, I am ever mindful Sir, that these very telling words sung more than 20 years ago could very easily be transposed into the current reality in which the whole world has found itself and by which so many countries, Barbados included, have been and are being affected to varying degrees.

Economic hardship, social dislocation, environmental degradation, crime and violence, doubt and despair appear to be the everyday experience of so many across the globe, that one is left to wonder if this era of challenge will ever draw to a close.

Given recent developments and the underlying implications associated with them such pessimism is almost justifiable. For just as planners and populace alike were about to breathe a sigh of relief believing as we did that the worst had past us and the world economy was ready for a new round of growth and prosperity, the bedeviling impacts of the world's greatest recession have begun to re-emerge.

As if it was not already troubling that financial stability and economic recovery from the crisis of 2008 was slow at best, our worst fears of a second round of economic contraction seems now to be a real possibility.

Small wonder then, Sir, that the World Bank in its most recent update of the World Economic Outlook for 2012 has issued the chilling caution to developing countries in particular to wish for the best but prepare for the worst.

The report states in part Sir and I quote:

"The resurgence of tensions in the high-income world is a reminder that the after-effects of the 2008/09 crisis have not yet played themselves out fully. Although the resolution of tensions implicit in the baseline is still the most likely outcome, a sharp deterioration of conditions cannot be ruled out. While the precise nature of such a scenario is unknowable in advance, developing countries could be expected to take a large hit. Simulations suggest that their GDP could decline relative to baseline by more than four percent in some regions, with commodity prices, remittances, tourism, trade, Finance and ***international business confidence, all mechanisms by which the tribulations of the high-income world, would be transmitted to developing countries."***

It goes on, Sir, to proffer the following advice:

"A return to more neutral macroeconomic policies would help developing countries reduce their vulnerabilities to external shocks, by rebuilding ...fiscal space, reducing short-term debt exposures and recreating the kinds of buffers that allowed them to react so resiliently to the 2008/09 crisis. Currently, developing country fiscal deficits are on average 2.5 percent of GDP higher than in 2007, and current account deficits 2.8 percent of GDP higher (while) short-term debt exceeds 50 percent of currency reserves in 11 developing countries."

For us in the Caribbean, Barbados especially, the characteristic features directly associated with years of inflexible economic modeling, and cruelly exposed by a most virulent and deep rooted recession, have become a present day reality. A reality Sir, that we may want to wish away but one which will only be conquered by sensible neutral economic policy interventions that avoid extremities whether pro or counter-cyclical, and which focus on laying a platform for medium and long-term structural reform characterized by a well-balanced and diversified economy; A platform that prioritizes economic stability and growth, social advancement and security, and human, cultural and psychological development.

It is to these lofty but imminently achievable objectives that this Democratic Labour Party administration commits itself. It is against the backdrop of the uncertainty of the times in which we live and are forced to manage that I will today outline the third installment of this Government's programme of policy interventions to protect, promote and procure the future of all Barbadians.

I do so Sir, humbled by the great opportunity given to me by my constituents of St. Michael North West, to serve at this the highest level. Moreover Mr. Speaker like my colleagues on this side I am infused with a sense of immense confidence that the path we have taken in dealing with our economic challenges is indeed the correct one based on the continued high level of strong support and understanding which the vast majority of average right-thinking Barbadians have quietly reposed in this administration over the past four years.

These are not the ones we see writing in the Daily Nation every week with a diet of doom and gloom and a constant repetitive harangue of this administration and its leader. We all know their politics and their political desires.

These are not even the regulars on the daily talk shows, the "masters of the game" and experts of the discipline of everything, tossing around the latest social and economic jargon to give credence to their submissions.

And they are definitely not drawn from the ranks of members of the Opposition, both of the first choir and the second strings whose unity is exhibited only in the hunger for office to waste another fourteen years as they squander opportunity after opportunity.

No Sir, it is regular folk in Deacons, and Black Rock, and Brittons Hill, in Six Roads and Oistins, or Wanstead and Pie Corner, and yes Sir in Parris Gap who, as you could attest, Sir have cautioned, encouraged, cajoled, demanded and flat out motivated us as a Government to do our best to keep this country stable and safe.

Those are the people that matter, the ones whose children will have to inherit the legacy of the decisions we take today in an even more challenged world tomorrow. It is to the welfare of these people that we feel a sense of solemn duty to protect the gains which this country has made since the introduction of self-Government in 1954, to promote a higher spirit of productivity and self worth in our citizens and through this to procure an even greater standard of living across this nation.

And Sir, it is to those people that I speak this evening hoping Sir that at the conclusion of my presentation they will be better informed of where we are at in our efforts to keep their economy stable, further educated as to the choices we have had to make in pursuit of those objectives and ultimately reassured that once we stay the course making wise and opposing wild decisions that we too shall emerge stronger for having gone through this experience.

Our remit as a people is not to curse our luck but to learn from the lessons of our experiences in handling economic and social dislocation. It is not to lament what we could have or should have done but to deal with the current reality that confronts us.

It is ultimately about the choices we make and responsibility we take for making them.

It was the choice of the last administration to squander the opportunities of the boom years and not restructure the Barbados economy thereby making it more diversified and resilient to economic shock. That was their choice. Today as a country we are living the fall-out from that lack of foresight, and we must face it and fix it.

It was the BLP's choice to waste millions of tax payer dollars in a slew of poorly conceptualized and badly implemented projects such as nearly 300 million dollars in GEMS, 40 million on a dump that never opened, 400 million on a prison, more than 100 million on the infamous Barack building (with 70 million more still owing), 165 million on the ABC highway without even a contract in place, 125 million on the Judicial Centre, etc etc etc. It was even their choice Sir, to knock down the old Kensington Oval and build a new one at a cost of nearly 150 million dollars and enter into a 99 year lease with the Barbados Cricket Association that would cost the tax payers of Barbados 813 million dollars.

It was their choice not to spend those large sums on diversifying our source markets for tourism, or agriculture, or manufacturing or small business development; their choice not to restructure the sugar industry when the country could afford it and invest in alternative energy technologies to reduce our dependence on foreign oil.

It was their choice Sir, not ours, to hoard land into a land bank, waiting for the highest bidding developer to put his money on the table, rather than seeking to construct houses for ordinary Barbadians to live in, thus creating what can only be described as a massive housing crisis among the poor of this country.

And this Democratic Labour Party Government that in the worse recession has built more houses and provided homes in four years that they did in fourteen is being called a “do nothing Government”.

It was their choice Sir to sell a dream of Barbados becoming a second rate knock off version of Miami where the rich and famous played and life was built around consuming rather than producing; copying rather than innovating.

That Sir was their choice.

Our choice was not to inherit a recession. We would have loved to govern this country in a period of massive global economic expansion and prosperity where between 1994 and 2007, world output almost doubled, Finance capital grew nearly six fold, world trade grew faster than at any time in the post World War 2 period and foreign direct investment virtually tripled.

In that environment practically any Government bar the most wayward would have done well enough for itself and its citizens.

But that Mr. Speaker was not our fate. Indeed the stark reality today fellow Barbadians is that we are not living in those times anymore. The very premise upon which that version of the global economy was constructed has now collapsed. What's more Mr. Speaker it is highly unlikely that it will ever be coming back, at least not in the short to medium term. The free and unbridled access to capital through poorly regulated and inappropriately secured credit to facilitate profit making and pleasure seeking is now at its end.

Unfortunately its devastating collapse has instituted a paradigm shift in the way in which the world economy and national economic spaces comport themselves. Put another way, the old ideas of economic management so slavishly clung to by myopic academic economists are no longer intimately relevant to the current day practicalities of socio-economic engineering.

Small wonder then Sir, that when in a famous encounter at the London School of Economics at the height of the financial crisis, Queen Elizabeth II asked a room full of economic experts why they never saw the crash coming and what's their best advice to Governments to extricate themselves from it, a deafening silence rang out.

The most that anyone of these so-called experts could muster was that it really depends on what choices you make. And that Sir is the object lesson of Government and governance in recessionary times.

The choices we make today if not conditioned by prudence and characterized by appropriateness to circumstance will not only act to wipe away the gains we have made but condemn the next generation to a future of backwardness. We cannot conspire to do that.

Given our state of affairs, our limited resources and fiscal space, our undiversified economy, our high dependence on the global economy and resultant vulnerabilities in many of these things we frankly have little or no choices to make. But when we do have the chance to exercise choice we must as a country do so wisely.

It wasn't this Government's choice was to inherit massive debt burden but we did, made worse by copious levels of ill-advised off budget spending which had to be brought to book. It wasn't our choice to have tourists stop coming in their numbers, or to have financially wrecked or otherwise anxious investors pull back their money from our economy in massive amounts. It was not our choice to see off-shore business registrations decline or profits in the sector fall off because of the global recession.

And it certainly was not of our choosing to have consumers of our exports lose their jobs by the millions and have less of our goods and services purchased in foreign markets.

That Sir was not of our making but we had no choice to face it and face it we have.

Our goal Mr. Speaker in facing these invidious realities was to ensure we achieved three broad objectives:

1. To cushion Barbadian businesses and households from the mal effects of the worse recession the world has encountered.

2. To halt the economic decline in the shortest possible time, by stabilizing the economy.
3. To restore a growth trajectory in the fastest time possible, while beginning a process for structural reform of the economy to allow for a more resilient, faster growing economy.

Mr. Speaker I make bold to say that when one considers the magnitude of the problems we have faced, and the failure of so many economies around the world which have feared much worse than this country, that this Democratic Labour Party regime has done very well to keep the country stable and capable of fighting its challenges every day.

Yes Mr. Speaker we would like to boast of a GDP that is growing at a rate of over 3% per annum, and surely we are working to return to those days. But I ask the question who among us, either developing our developed economy, is growing at that rate.

Is it Trinidad with all of its oil and gas reserves and large manufacturing sector? I don't think so. Maybe it is St. Lucia, whom they say is getting more tourists than Barbados every year? I don't think so. Is it St. Vincent, Dominica, Belize, Antigua?

Or maybe it is the United States, the UK, perhaps France, Spain, Ireland?

The plain truth Mr. Speaker Sir is that among our closest trading partners and across the rest of the western liberalized economies economic recovery has been shallow at best and non-existent at worse.

Yes unemployment has risen to above 11 percent. But surely without the policies we adopted to hold the hands of businesses in the toughest part of the recession, and our commitment to retaining public service jobs it would have been terribly worse.

Yes, visitor arrivals hit rock bottom in 2009, but surely were it not for the efforts of this country's Minister of Tourism and his officials we would not have seen the recovery in numbers in 2010 or 2011.

Yes the off-shore business and financial services sector took a bad beating from the financial collapse in 2008/2009, but surely were it not for our persistence in fighting to bring new business to Barbados we would not have seen a near 20% growth in new registrations in 2011.

Yes our fiscal deficit increased as we sought to protect the poor and vulnerable in the country but surely the spectre of having tens of thousands of public servants laid off from work and lining up at the welfare office waiting in the weekly dole as banks foreclosed on their homes and other creditors hustle them before the courts for non-payment of debt, would have been far more damaging to the economy of Barbados.

And so Sir, having taken the choice to hold the hands of Barbadians in October 2010 we equally ask the public to embrace their Government's efforts to deal with our fiscal challenges.

Today, on behalf of the Government of Barbados I wish to publicly express our profound gratitude for the support and maturity which Barbadians have exhibited these past eighteen months.

So that Sir, in the context of what this country has had to face over the last four years, the debate in this country cannot be framed either by simplistic comparisons to what transpired between 1994 and 2007 or by the sterile discourse over austerity versus growth.

Permit me a moment to explain.

Daily we are inundated by members of the Opposition and their misguided supporters declaring how well Barbados did during their years in office. They speak continually about “the lowest unemployment in the history of Barbados” and highest levels of foreign reserves (2.8) billion, and how our economy grew by an average of 2.5 % over the course of their time in Government.

Then they simplistically say look, look at what the Dems did to Barbados, and find every possible negative piece of news to conjure up a feel of total destruction in Barbados. Indeed Sir, if one member of the Opposition was as good at fortune telling as he is at hyperbole Barbados would have disappeared off the map by now given his constant, four-year-long prediction of collapse.

But yet Sir we are still here. Garbage is still being collected, school children and still going to school, people are still shopping in supermarkets, businesses though under some stress are still functioning, we just installed a new Governor General and the Queen is still on the Throne. The country has not gone down the chute.

But yet we are to compare an economy operating in the most difficult of global and regional circumstances with an economy which operated when the world was booming. It is like comparing apples with oranges and lamenting the fact that neither tastes alike.

No Government of Barbados has had to face what this administration has had to in the past four years. And the measure of a Government is not how well it does when managing in prosperous times; it is how well it manages when times are tough.

Then the other amazing thing, picked up no doubt from the talk overseas, is this artificial debate about austerity versus growth. It is being put forward as though the two are two mutually exclusive types of economic interventions and one cannot take place if the other is to succeed. This is a dangerous piece of reasoning Sir which is being championed in Barbados by people who frankly should know better.

In most of Western Europe the choice has been for heavy fiscal austerity and that has driven many of those Eurozone economies into deep recession. In the United States the choice was to go for the big federal stimulus spending package matched by permanent tax cuts for the wealthiest Americans. It worked partially for one year and now has seemingly tapered off and decline has begun to step in again.

So that neither side of the policy prescription – overdose on austerity or intoxication from over-spending and tax cuts – has worked with any credible results.

Yet we in Barbados are supposed to get caught up in that the polemic. I strongly disagree. We know by practice and convention in Barbados that neither extreme austerity nor wasteful counter-cyclical spending is good for a small vulnerable economy such as ours.

Rather, our best results are always based on finding a correct balance between demand and supply management. When one or the other is too far out of line economic problems are bound to emerge.

In times of global economic downturn, and depending on its severity, we may be called upon to relax our hand somewhat to protect our businesses and households. Other times because of the impact of those choices we may have to exercise restraint through the imposition of difficult measures.

It is this latter approach of trying to find a balance between fiscal consolidation and strategic investments in traditional and non-traditional economic sectors that this Government has sought to engineer over the past eighteen months.

This evening Mr. Speaker I give the country a report card on what we have been able to achieve and the challenges we still face.

In doing this Sir I feel it is incumbent on me to share with the people of Barbados how we go about keeping our economy stable and the process which is engaged by the Government to achieve our overall objective as highlighted above.

As I indicated to this House in the Estimates Debate in March, it is now widely accepted Sir that the most critical variable for any small, open, and vulnerable economy is its foreign exchange variable. That is not to say Sir that other variables in the economy are not important but the country's ability to earn foreign exchange to pay for its imports of goods and services and amortize its debts rank highest above all.

This importance is further amplified because of our policy of maintaining a fixed exchange rate peg. To this extent, in the absence of adequate levels of foreign exchange reserves to meet the demands for daily activities in the economy the value of the domestic currency cannot be defended by the Central Bank and inevitably will have to be devalued.

So that in that context Government's most critical tasks are to ensure that:

1. Our capacity to earn foreign exchange is maintained and where possible enhanced and;

2. Ensure that our reserves management policy and tools are effective enough to maintain reserves adequacy especially for those periodic occasions when task number 1 is weakened or compromised.

That therefore Mr. Speaker is the fundamental bed rock policy, the central objective of this Government and any other Government of Barbados whether D or B. In the context of needing to have adequate stocks of foreign reserves our policy options at the fiscal level are particularly constrained, thereby limiting how far we can go with certain policies.

The Barbados economy is highly dependent on a few key sources of foreign exchange inflows: earnings made from the export of our goods and services such as tourism and manufacturing, taxes remitted to the Treasury from the operations of our international business and financial services sector companies, and private, and public investment flows for projects and other activities. From time to time we also go to the private capital markets to sure up our reserve position as necessary.

The earnings we garner from these activities are then used to help the country make its current payments and build up a surplus of reserves to underwrite our capacity to defend our domestic currency.

In the throes of a global economic recession, for a small open economy such as Barbados that is so highly dependent on the international economy for growth in the foreign exchange earning sectors, it is normal to expect that any slow down or contraction in our source markets will compromise our ability to earn foreign exchange.

As you have heard repeatedly Sir, this last recession and the resultant recessionary drag which it has produced hit our foreign exchange earning sectors particularly hard. What's more, this downturn in the business cycle has lasted way longer and caused more damage that any of us would have expected.

Sir it is no mystery that our foreign exchange earnings have taken a major hit. Corporate receipts from the international business and financial services sectors are still below pre-crisis levels, and the tourism spend is down even though the numbers are up.

On top of that Sir, we have been called upon to expend more foreign exchange on fuel, now more than US $300 million per year and on commodities with our food import bill more than US $350 million a year. And the point must also be made here Sir, that our food import bill has jumped not only because we are importing more of what we eat, but because the prices at which we import have increased tremendously in the last four years.

That is why this administration has sought to pursue a set of policies to increase our competitiveness in the productive sectors, diversify our source markets and invest in alternative technologies that would help save foreign exchange.

But given the fact that most of these interventions would at best require some time before their fully begin to bear fruit, our administration has taken the only sensible decision it could take in the circumstances, that is to employ a strategic foreign reserves management policy to ensure that the country maintains an adequate stock of reserves to meet our current and future foreign exchange needs, defend our domestic currency peg and the value of the local currency and ensure stability in the financial system and overall economy.

In the absence of an effective interest rate tool, fiscal policy may be used to stabilise the economy by controlling aggregate demand. The balance of external payments and receipts is the best measure of the stability of an open economy like ours because of the very high import content of all production and consumption. This is so to the extent that any excess of aggregate demand over the supply of goods and services will immediately spill over into an additional demand for foreign exchange which, if it persists, will erode the reserves of foreign exchange at the Central Bank. This is precisely what we were trying to avoid occurring in this economy.

And since our foreign exchange earning prospects were being so severely challenged, in the short run adjustment policies had to be adopted to shore up the reserve management tools.

It is for this reason Mr. Speaker that we were so careful to design a set of policies as iterated in the MTFS and given expression to through the Financial Budgetary Proposals for 2010 and 2011, and the accompanying fiscal programmes as laid out in the Estimates of Revenue and Expenditure for the current financial year and the previous one.

That programme was and is not only correct but it is absolutely necessary to maintain stability in our economy. We surmised from our intensive analysis of domestic, regional and international trends that the resumption of normalcy in the global economy was not imminent and so it could not be business as usual.

We concluded that the best way to tackle Government's deficit was through a mix of expenditure reductions and increases in tax rates, both resulting in a smaller deficit to be Financed and reduced aggregate spending in the economy.

Today I am happy to report to this House and to the country that not only is the programming working but it has largely brought stability to and economy operating in a highly unstable international environment.

We have been able make significant gains this past year in reducing our deficit; liquidity in the banking system remains strong; and our stock of foreign reserves have remained on average at around 1.4 billion dollars for the duration of this tough economic period.

ECONOMIC REPORT 2011-2012

INTERNATIONAL ENVIRONMENT OVERVIEW

Following a 5.3 per cent increase in world output in 2010, the prospects for full global recovery weakened somewhat at the end of 2011 as the global economy, according to the IMF World Economic Outlook (April 2012), expanded by 3.9

per cent. Earlier during the first half of 2011, the global economy progressed steadily even though this period witnessed weather-related reductions in crop production, as well as oil supply disruptions associated with the "Arab Spring" unrest in the Middle East.

However, by the third quarter, prospects for recovery abated as reflected in worsening fiscal conditions in Europe and the United States (US) which resulted in credit rating downgrades. Moreover, during the fourth quarter, risks sharply escalated as a result of intensifying strains in the Euro area and elevated downside risk. As such, there was a reduction in confidence, which triggered further fall-out in financial, labour and housing markets in advanced economies. What is more, growth in emerging and developing economies slowed, although this reduction in pace helped to temper inflationary pressures.

Given these developments, policymakers maintained explicitly accommodative monetary stances, aimed at boosting recovery, while intensifying efforts to address fiscal imbalances and make debt more sustainable. Fiscal policy received particular emphasis in advanced economies, given the challenges faced during the review period.

Due to continued global economic weakness job creation remained sluggish, particularly in Europe. However, in the United States where economic activity gained some strength during 2011, job growth was evident.

ADVANCED ECONOMIES

Within the Advanced Economies, Real GDP rose by an estimated 1.6 per cent in 2011 compared with an increase of 3.2 per cent a year earlier. In the U.S., economic activity rose by an estimated 1.7 per cent compared with an increase of 3.0 per cent at the end of 2010. That economy witnessed attempts to balance fiscal consolidation with support for an economic recovery during 2011. However, a slight improvement in consumer spending and business investment in the final quarter helped to sustain output growth.

In the United Kingdom, economic activity rose by a projected 0.7 per cent compared with an increase of 2.1 per cent in 2010. In Canada, growth was projected to have moderated, reflecting ongoing fiscal withdrawal and down-drafts from the U.S. slowdown. The unemployment rate, at 7.5 per cent, was well below that in the United States and has been declining steadily since early 2009. IMF projections were that output would rise by 2.5 per cent by the end of the review period.

Preliminary IMF estimates showed real GDP growth in Japan to have declined by 0.7 per cent compared with an increase of 4.4 per cent at the end of 2010. The slowdown from the earthquake was concentrated in the first half of 2011, as activity started to recover in the third quarter, with supply-side constraints having eased significantly and fiscal policy oriented towards support for reconstruction activities. In the Euro area, economic activity rose by 1.4 per cent compared with an increase of 1.9 per cent a year earlier. Major contributors to this growth were Germany (3.1 per cent), France (1.7 per cent) and Spain (0.7 per cent).

EMERGING AND DEVELOPING ECONOMIES

In the Emerging and Developing Economies, the emphasis was generally on macroeconomic policy tightening, given that many were combating domestic overheating and inflationary pressures. However, some tightening cycles were stopped and in some cases reversed, as these pressures subsided over the course of the review period in line with moderating growth rates. Within this region, Real GDP was estimated to have increased by 6.2 per cent in 2011 relative to 7.5 per cent a year earlier. Driven by domestic demand, economic growth in China and India was estimated to have risen by 9.2 per cent and 7.2 per cent respectively.

In the Latin America and the Caribbean, economic activity rose by 4.5 per cent compared with an increase of 6.2 per cent a year earlier. Major contributors to this growth were Mexico (4.0 per cent) and Brazil (2.7 per cent). During 2011, this region benefitted from strong terms of trade and easy financing conditions.

industrial production during March 2012. And in the Euro Zone, the grouping was able to avoid going back into recession as growth at the end of the first quarter 2012 remained flat, compared with a 0.3 per cent decline for the fourth quarter 2011. This outcome was due to strong performance by the **Global Economic Developments for 2012.**

The latest analysis of global economic developments, both from the IMF and the EU, suggest that the global economy should improve during 2012 despite a marked slowdown in Europe and still cautious recovery in other industrialized nations. According to IMF projections, world output should expand by 3.5 per cent, with advanced economies growing by 1.4 per cent and emerging and developing economies by 5.7 per cent, mainly on account of China and India.

Results for the first three months of 2012 showed the performances of the major industrial economies to have been moderate yet encouraging. In the United States real GDP increased at an annual rate of 2.2 per cent in the first quarter of 2012 even though this was down from 3.0 per cent in the previous quarter. In Japan first quarter growth stood at 1.1 per cent given a bounce back in German economy.

Alternatively, economic activity in the United Kingdom continued to be subdued as real GDP again declined by 0.2 per cent at the end of the first quarter owing to a contraction in construction activity. In the emerging markets, real GDP in China decelerated to 8.1 per cent in the first quarter of 2012 as external conditions remained weak.

REGIONAL PRESEPCTIVE

While Caribbean countries economies gained some momentum during 2011, most of them continued to struggle as the negative effects of on-going developments in Europe and other developed markets slowed the economic recovery process. This was particularly so for those service- or tourism-based economies, such as Barbados and the Bahamas, who are dependent on travellers from these advanced economies. Alternatively, high commodity prices strengthened the growth of those commodity-based countries in the region, particularly Guyana. Overall, economic growth within the region averaged 1.7 per cent, an improvement from the 0.2 per cent recorded for the same period in 2010. However, this growth still lagged behind pre-crisis levels.

As a result of the challenges which the region faced during 2011, most countries reported low or negative growth. Countries registering negative growth included: Antigua and Barbuda (-3.2 per cent) and Trinidad and Tobago (-1.4 per cent). St. Kitts and Nevis, St. Vincent and the Grenadines, Jamaica and Barbados recorded growth rates under 1.0 per cent. The five (5) countries posting growth, ranging from 1.0 per cent to 3.0 per cent were – Anguilla, The Bahamas, Dominica, Grenada, and St. Lucia. While commodity producers Guyana (4.5 per cent), and Belize (3.1 per cent), recorded growth rates above 3.0 per cent.

The growth outlook for the region remains tied to what will happen in the global economy. The best projections are for most countries to grow modestly between 1.0 to 2.5 per cent. This will hinge on the recovery in regional tourism which continues to face challenges from the Air Passenger Duty. It is also not expected that foreign direct investments will pick-up significantly, given the continued uncertainty in the global financial markets. Also, with limited fiscal space and the need for fiscal consolidation, the countries of region will continue to face challenges to their development.

DOMESTIC ECONOMIC REVIEW

Annual Review 2011

At the end of 2011, growth in the Barbados economy, as measured by the change in real GDP, stood at a revised 0.5 per cent compared with 0.2 per cent in 2010. Provisional data also showed that Gross Domestic Product at market prices increased by 1.6 per cent, a significant improvement from the 3.4 per cent decline in 2010.

The overall increase in real GDP growth was led mainly by an improved performance in the non-traded sector. This sector grew by 1.2 per cent in 2011, following a 0.4 per cent increase a year earlier. This growth was attributed to improved activity in the construction sub-sector which rose by 4.4 per cent.

In relation to the traded sector, overall activity declined by 2.5 per cent in 2011. This was attributed to weak performances in all the sub-sectors including tourism which fell by 0.2 per cent due mainly to a 6.9 per cent decline in cruise arrivals even though long-stay arrivals would have expanded by 6.7 per cent.

In the International Business sector the number of licenses issued during 2011 totalled 616 as compared with 515 at the end of 2010, representing a 19.6 per cent increase in overall new company formation. There were 508 new

International Business Companies (IBCs) licensed during the year compared with 420 in 2010, an increase of 21.0 per cent.

The pass-through effect of rising oil and commodity prices led to the inflation rate increasing during 2011, moving from 5.8 per cent at the end of 2010 to 9.4 per cent at the end of 2011. On account of the weak economic recovery, the unemployment rate remained unacceptably high at 11.2 per cent compared with 10.7 per cent at the end of 2010.

At the end of 2011, the balance on the external current account was estimated to be in deficit of 8.6 per cent of GDP. This was due a noticeable increase in imports by 15.0 per cent, mainly on account of a 27.4 per cent increase in fuel imports.

Fiscal Outturn 2011/2012

Current Revenue

Information received from the Accountant General indicates that current revenue for the period April 1st to March 31st, 2012 was $2,513.0 million, an increase of $211.6 million or 9.2 per cent from the amount recorded for the corresponding period during 2010-2011. The actual revenue for April to March 2012 was $22.9 million below the original projection for the period.

Taxes on incomes and profits realized $776.3 million, an amount of $33.1 million or 4.5 per cent more than collected for 2010-2011 and $23.5 million less than the original April to March's projection for this financial year. The amount of withholding tax collected during the period under review was $66.1 million, an amount of $12.6 million more than the corresponding period in 2010-2011. Taxes on property increased by $0.7 million over the corresponding period in 2010-2011 to $150.8 million. The amount collected was $24.1 million less than the original projection for the period under review.

Taxes on goods and services increased by $179.0 million or 17.0 per cent to $1,232.1 million. The original projection was $1152.7 million for the period April to March 2012. Receipts of VAT totalled $949.6 million, an increase of $184.9 million. The original projection was $823.9 million. Excise Duties recorded $170.2 million, an increase of $24.2 million from the actual outturn for 2010-2011 and $4.4 million less than the original projection.

Import duties increased by $4.4 million to $195.7 million. This represented an increase of 2.3 per cent from the amount collected in 2010-2011. Special Receipts decreased by $2.6 million to $51.2 million while Non-Tax Revenue decreased by $13.4 million over the corresponding period of 2010-2011 to $81.0 million.

Expenditure

Current expenditure, exclusive of amortization of $454.6 million, decreased by $103.0 million or 3.5 per cent over the 2010-2011 figure to $2,819.0 million.

Wages and Salaries increased, due to emoluments, by $7.4 million from $798.5 million in the corresponding period for 2010-2011 to $805.9 million. Expenditure on goods and services increased by $17.9 million to $396.4 million, while expenditure on current transfers decreased, moving from $1,174.0 million in 2010-2011 to $1,017.3 million for the period April to March 2012.

Total debt payments in the period April 2011 to March 2012 amounted to $981.9 million with interest payments of $527.3 million and amortization payments of $454.6 million. Interest payments increased by $26.9 million whereas amortisation decreased by $366.4 million from the corresponding period in 2010-2011. Capital expenditure for the period under review was

$91.9 million compared to $108.3 million for the corresponding period in 2010-2011.

Total expenditure for April 2011 to March 2012 was $3,356.5 million compared to $3,842.5 million in the corresponding period of 2010-2011, a decrease of $486.0 million.

Current Balance

The current balance for the period ending March 2012 was negative $751.6 million. By comparison, the current balance for the period ending March 2011 was negative $1,432.7 million.

Fiscal Balance

At the end of the review period ending March 2012, the fiscal balance was in deficit to the amount of $388.9 million. This represented a deficit of 4.5 per cent of GDP at market prices of $8,626.0 million or approximately $8.6 billion. The deficit for the corresponding period in 2010-2011 was $720.0 million, which represented 8.8 per cent of GDP at market prices of $8,208.2 million or approximately $8.2 billion.

The First Quarter Review 2012

The Barbados economy remained stable during the first quarter 2012. Real output increased by an estimated 1.5 percent, stimulated in part by a 2.4 percent growth in tourist arrivals. The economy recorded a balance of external receipts and payments in the first quarter of the year, and the Central Bank's foreign exchange reserves increased by $3.8 million.

Net long-term capital inflows for the private sector were sufficient to cover external debt service, including $37.0 million in amortisation and $50.0 million in interest payments on foreign bonds and loans from international institutions. However, the current account of the balance of payments continues to be adversely affected by persistent increases in the prices of oil and commodities, and the deficit for the first quarter is estimated at 3.8% of GDP.

In the International Business and Financial Services (IBFS) sector there was an 11.0 percent increase over last year in licenses renewed up to February, but new licenses granted during the first two(2) months of the year were 37.0 per cent fewer than those issued during the same period in 2011.

Traded Sectors

Preliminary estimates showed activity in the productive sectors to have expanded by 2.1 per cent for the first three months of 2012. This was driven by a 5.1 per cent expansion in tourism output as long-stay tourist and cruise arrivals increased by 2.3 per cent and 16.5 per cent respectively. The primary factors in the growth of long-stay arrivals were increased performances in the Canadian market by 8.0 per cent, the CARICOM market by 8.5 per cent and the European market which grew by 18.0 per cent on account of a fortnightly charter service out of Sweden.

Disappointingly, the US and UK market fell by 4.3 per cent and 5.6 per cent respectively. In the case of the UK market, cruise and stay-over packages that were previously offered by two cruise ships were discontinued, while the USA market was adversely affected by the reduction of seating capacity out of Dallas and the discontinuation of the Delta Airlines flight from Atlanta.

The International Business and Financial Services sector continued to be faced with strong tax competition from other Caribbean jurisdictions. However, Barbados was able to retain its relative market share. A total of 2,834 licenses were renewed between January and April 2012, 5.0 per cent above the renewals that were issued during the comparable period 2011. The number of new licenses issues stood at 186 for the period January to April 2012, compared with 232 in the corresponding period of 2011. There were 128 new licenses issued to international business companies, down from 197 in the similar period of 2011.

The manufacturing sector continued to be depressed during the first quarter of 2012 as output fell by 1.7 per cent, while non-sugar agriculture is projected to have contracted by 4.1 per cent

Non-Traded Sector

Activity in the non-traded sector expanded by 1.3 per cent at the end of March 2012, as the indirect effects of tourism activity were reflected in the construction and wholesale & retail sub-sectors. The construction sector is estimated to have advanced by a further 3.4 per cent during the first quarter on account of activity in the housing market, as well as tourism-related projects. The wholesale and retail sector is estimated to have grown by 2.0 per cent, spurred in part by an improved tourism outturn and increased imports.

Unemployment and Inflation

The lingering effects of the global and financial crisis coupled with slow economic growth reflected the level of unemployment, which rose to 11.2 per cent in 2011, up from 10.7 per cent at the end of 2010. The inflation rate stood at 9.1 per cent at the end of February 2012, compared with 6.3 per cent a year earlier.

Financial Sector

Domestic deposits at commercial banks fell by $38.2 million for the year (data up to March 21), while credit to the non-financial private sector increased by $15.6 million. The excess liquidity ratio edged up slightly, moving from 9.6 percent in December 2011 to 10.9 percent at the end of March 2012. The majority of this increase was attributed to increased cash holdings by commercial banks ($61.0 million), in addition to excess Treasury Bill holdings of $38.0 million. The average Treasury Bill rate and the interest rate on commercial banks' deposits and loans remained unchanged.

Loans extended by credit unions expanded by 6.5 percent (or $74.0 million) for 2011 and were primarily driven by new mortgages which generally represent about 40.0 percent of the credit unions' loan portfolio. Deposits at credit unions and other nonbank deposit taking institutions grew by 8.0 percent and 4.0 percent, respectively, by the end of 2011. Data to January 2012 show that the mortgage portfolio at trust and Finance companies fell marginally (by less than one percent), while private mortgages at commercial banks declined by 1.8 percent.

From this report Mr. Speaker we can see that the general trajectory of our economy is headed in the right direction. Clearly gains have been made in halting the massive negative declines experienced recorded in the 2008/09 period our key foreign earning sectors and some marginal growth has returned even though conditions in many of our key trading partners remain challenging.

Equally, we have made significant progress in bringing our fiscal deficit down to the extent that we are in fact slightly better than the targets we set in the Medium-Term Fiscal Strategy for this stage of the programme.

Relative to what we expect in 2012, as has been outlined earlier, much of that will depend on how the global economy handles this new round of seeming down turns across key economies.

With our two most relevant source markets, UK and USA clearly heading back into recession of slowing down dramatically, Barbados and the rest of the region can expect as the World Bank predicts, to experience another steep economic and financial shock.

Remaining optimistic, but yet cautious, the expectations are that real economic growth in 2012 could lie between 1.0 per cent and 1.5 per cent. This would be driven by construction activity both in the tourism and Government sectors. Beyond 2012 and into the medium term, growth rates of 2.0 to 3.0 per cent are possible, provided key sectors such as tourism, construction and international business are able to fully recover. Continued macroeconomic stability will be contingent on Government's ability to carry on the implementation of its Medium Term Fiscal Strategy. It will also be dependent on maintaining a comfortable level of foreign reserves, which are expected over 2012 to cover imports and other foreign payments, as in 2011. In this regard, the foreign reserve cover is expected to be about eighteen (18) weeks of imports.

It is expected that inflation pressures should abate somewhat as long as the current trend of reduced global fuel and food prices is maintained. There has been some evidence of this as domestic prices would have fallen at the end of February 2012. Hence, if this pattern continues then we could see inflation falling to below 9.0 per cent. Regarding the unemployment outlook, improvements will be dependent not only on a sustained global economic recovery, which would positively benefit our exports of goods and services, but also on current domestic policies designed to boost growth. As such, the aim over the short to medium term will be to work towards bringing the unemployment rate back to single digits.

Fiscal projections 2012-2013:

The Estimates for 2012-2013 project current revenue on the accrual basis at $2,656.1 million. Revenue to be collected during the 2012-2013 fiscal year is set at around 29.1% of GDP estimated at $9,292.7 million to yield $2,620.1 million.

Taxes on incomes and profits are projected at $834.6 million on the accrual basis. When bad debts are taken into account, the amount to be collected is expected to be $819.6 million, an increase of $44.0 million or 5.7% above the amount to be collected in 2011-2012. Income tax is expected to increase by $32.1 million or 7.8% to $444.6 million. The increase in projected revenue for income tax is due to increased efficiencies of the new automated tax system. In general the information system is better particularly as it relates to the capturing of data which was previously entered by the individual on a manual basis.

The uploading of data from third parties has widened the net for income taxes - For example (1) data uploaded from the NIS has served to identify individuals who receive benefits which should be taxed and (2) individuals who previously received income from more than one employer but only declared one source are now faced with the fact that employers are required to upload this data. This allows an individual's additional income to be taxed. These are some of the major efficiencies of the new automated tax system that have served to widen the tax base.

Corporation Tax is projected to increase by $8.3 million or 2.8% to $305.0 million. On the other hand, taxes on property are expected to realise $146.7 million, an amount of $3.4 million less than was collected during 2011-2012.

On the accrual basis, taxes on goods and services are projected at $1,267.6 million. Taxes to be collected on goods and services during the year are expected to rise by $82.9 million or 7.1% to $1,249.1 million. This tax category receives its principal impetus from receipts of VAT and Excise Duties, which are expected to contribute $923.9 million and $179.4 million respectively to the Treasury in the fiscal year. This higher projection is based on the actual receipts up to January 2012 and the expected amounts for February and March 2012.

Import duties are projected at $212.0 million, increasing by $23.6 million over the projected amount for fiscal year 2011-2012. This projection is based on projected growth in 2012-2013 as well as the actual receipts up to January 2012 and the projected outturn for 2011-2012.

Special receipts are expected to decrease by $26.2 million to $27.5 million. An amount of $30 million was received in 2011-2012 for Sundry Receipts and this amount is not expected to be received in 2012-2013.

Non-tax revenue is expected to increase from the amount approved in 2011-2012, increasing by $13.0 million to $130.6 million due to dividend income from the Barbados National Oil Company Limited.

The Government of Barbados is expected to receive grant income of $20.5 million, of which $18.5 million will come from the European Development Fund (re the Human Resource Development Strategy).

Current Expenditure 2012-2013

Current expenditure, exclusive of amortization of $440.5 million, is projected at $2,933.1 million. When converted to the cash basis, and bad debts and depreciation expenses are excluded, current expenditure is expected to increase by $139.9 million or 5.1% over the 2011-2012 revised figure to $2,890.3 million.

Wages and Salaries are expected to increase over the revised amount in 2011-2012 by $22.9 million or 2.8% to $818.6 million. This increase is mainly due to increments. Constituency Empowerment and Poverty Alleviation were previously shown as transfers but the staff components have been shown separately in the Personal Emoluments for 2012-2013.

Expenditure on goods and services is expected to decrease by $0.2 million from the approved figure for 2011-2012 to $432.8 million. Current transfers are also projected to decrease over the amount approved in 2011-2012 by $9.2 million or 0.9% to $1,017.5 million.

Bad Debt and Depreciation expense are projected to be $15.8 million and $25.0 million respectively.

Non-Capital Assets consisting of repayment of loans to Government are projected at $0.7 million, the same amount as that approved for 2011-2012.

Interest payments in 2012-2013 are expected to increase over the 2011-2012 revised figure by $13.1 million or 2.4% to $555.0 million due to new loans being brought on to the books.

Amortisation of $571.6 million is projected, increasing by $129.1 million or 29.2% over the 2011-2012 revised figure due to an increase in the issue of debentures.

Capital Expenditure 2012-2013

Capital expenditure is projected to increase from the amount approved for 2011-2012 by $19.7 million or 7.8% to $272.3 million on the accrual basis.

Capital assets are projected to increase over the revised 2011-2012 figure by $28.7 million to $86.3 million. The amount is expected to be $18.5 million more than the amount approved in 2011-2012. Capital transfers are projected at $49.3 million, $2.8 million less than the revised figure for 2011-2012.

Fiscal Balance 2012-2013

As indicated previously, current revenue of $2,620.1 million is expected to be collected, of which $2,469.1 million is tax revenue and $151.0 million is non-tax revenue and grant income. Total expenditure of $3,596.7 million consists of current expenditure of $3,461.9 million and capital expenditure of $141.9 million on the cash basis. When amortization is excluded, a deficit of $412.1 million on the cash basis is expected, representing 4.4% of GDP. On the accrual basis, the negative net operating balance is $326.2 million representing 3.5% of GDP.

Debt Stock

Stock Outstanding	2012- 2013 (Projected)	2011- 2012 (Estimated)	2010-2011	2009-2010
External Debt	2,526.29	2,435.5	2,384.3	2,119.8
Domestic Debt	6,698.51	6,522.4	5,618.0	5,133.4
Total Public Debt	9,224.8	8,957.9	8,246.7	7,451.1
Central Government Debt to GDP ratio	95%	96.4%	97%	84.8%
Contingent Liabilities	1,507.1	1,437.1	1,434.4	1,179.7
Debt to GDP ratio (Includes Contingent Liabilities)	110%	111.9%	113.5%	98.2%

Debt Service

	2012-2013 (Projected)	2011-2012 (Estimated)	2010-2011 (Actual)	2009-2010 (Actual)
Interest	**555,045,286**	**523,530,501**	**501,251,734**	**434,791,966**
Domestic	396,461,261	371,543,827	341,007,701	292,929,797
Foreign	154,999,018	148,472,591	147,491,383	137,446,332

Exp of Loan	3,585,007		12,752,650	4,415,837
Amortization	**571,632,605**	**425,064,902**	**845,096,829**	**440,385,559**
Domestic	302,487,843	192,616,134	439,865,862	241,628,828
Foreign	138,047,022	134,751,028	290,783,227	97,261,371
Sinking Fund	131,097,740	124,697,740	114,447,740	101,495,360
Total	**1,126,677,890**	**922,495,403**	**1,346,348,563**	**875,177,525**

Debt Sustainability Analysis

A recent Debt Sustainability Analysis (DSA) carried with assistance from CARTAC, concluded that Barbados remains at high risk of debt distress. This is largely consistent with the results of the IMF's most recent DSA conducted on Barbados which indicated that the country's debt "remains high and vulnerable to shocks."

The debt to GDP ratio remains high and debt sustainability is a cause for concern, particularly if projected economic growth is slower or lower than expected and in the absence of policy changes. This is particularly acute in light of the negative primary balances that Barbados has recorded since 2008.

Consequently, efforts were concentrated on finding credible revenue enhancing and expenditure restraining measures which could be implemented to change the upward trajectory in the debt ratio.

The results yielded a steeper and quicker decline in the debt to GDP ratio, and are being actively considered for inclusion in the Medium Term Debt Strategy.

Deficit Financing 2012-2013

In 2012-2013 it is expected that $754.3 million or 76.7% of the fiscal deficit on the Accountant General's basis will be Financed by domestic sources. The balance of $229.4 million will be foreign Financed in the form of capital project inflows and borrowing in respect of Policy-Based Loans.

Mr. Speaker, having set the context within which we are operating, outlined Government's programmatic and operational approach to managing the economy in recessionary times, and highlighted the results we have achieved thus far and what we expect over the next year, allow me to move on to specify the additional policy interventions which we believe will assist the country in achieving our objectives.

In this regard Sir, for the avoidance of doubt I am mindful to remind Barbadians what those overall objectives are:

1. To maintain stability in economy by managing our foreign exchange function to ensure we have adequate levels of reserves to meet the demands of society and thereby defend our current peg
2. To meet the revenue and expenditure targets as set out in the Medium-Term Fiscal Strategy (set at 4.6 % of GDP for 2012/13) and a balanced budget by 2016/17

3. To raise the level of investment in traditional and new economic sectors to grow or economy at a faster rate and thereby either expand our foreign exchange earning capacity and at the same time reduce the amount we utilize for key national activities.
4. Continue with our programme for national economic restructuring in strategic areas so as to build a strong platform for sustained economic growth in the medium and long term
5. To protect the most vulnerable in our society from the worst effects of the economic challenges we face.

Against this backdrop Mr. Speaker it is critical for all Barbadians to appreciate the depth of the economic challenges we face. We have to understand that injudicious decision-making on either side of the spectrum will not only unravel the gains that we have made so far on the road to recovery but seriously compromise the things which we have come to cherish as part of the Barbadian model.

Free education and health care at point of delivery, subsidized transport, refuse collection and others have all been critical to our success as a nation but will be severely affected if we do not all pull our weight to afford these social amenities.

Strategic investments in tourism, manufacturing, agriculture, small business development and innovation are all needed now and in the medium term if Barbados is to weather this economic storm and emerge even better for it. We cannot grow our economy if these investments are not made. We cannot make these investments if the Government cannot bring its high deficits down and eventually balance its budgets.

And we most definitely will not be able to keep people employed or generate more job-creating activity if a small segment of the population is doing well financially while the vast majority of the others are not.

We have to strike a delicate balance between adjustment measures, growth interventions and defending the Barbados dollar against devaluation. It means Mr. Speaker that collectively everyone must, during this period of economic challenge, carry some of the burden of helping the country to firMy regain its footing.

The following measures I submit Sir, are intended to take us a further step along the way to achieving that. They are not perfect, because we are not perfect. But, they are appropriate to the circumstances we face and allow us to gradually restore, repair and rebuild this proud society of ours in a real way.

We have had scores of meetings these past weeks, with traditional and even new sector groups that never got the chance to engage the Finance Team before. Equally we have listened with great humility to the concerns of the average Barbadian on the streets and have reflected deeply on their requests. I want to thank all of them for their sincerity and input. I say to them we share your deep concern for what is happening in Barbados and we accept your assurances of support. You may not see reflected in these measures everything which you asked for but I know you appreciate that we cannot do everything at once. Your desires will not be forgotten.

The Budgetary Proposals

Taxation:

Mr. Speaker, in October of 2010 I introduced a series of adjustment measures designed to assist with a programme for fiscal consolidation. These included: principally, an increase in the VAT from 15% to 17%; the imposition of a 50% increase in the Excise Tax on Gasoline and Diesel and; a removal of the tax-free allowances for applicable workers.

I promised at that time to review these impositions after eighteen months to see what progress we have made with our programme and whether there was need to either remove or continue with these measures in place.

We have completed our reviews and have decided on the follow:

1. The VAT rate of 17.5% will remain in place until further notice. The VAT has proven to be a most effective and efficient instrument in our efforts to increase revenues and help close for fiscal deficit.

2. Given the seeming continual reduction in the price of oil on the World market, now put at just over 80 dollars a barrel, and which is beginning to filter through to domestic price for the refine products, we have decided to retain the 50% increase for a little while longer to assist in attaining our revenue targets and contribute to our expanding alternative energy programme. We will however give the assurance that should the price spike upwards again pass the 95 dollars a barrel in the near future we will adjust the rate downwards at an appropriate rate to give an ease as necessary.

3. Following the imposition of the taxes on the travel and entertainment allowances and in the preparation of the legislative instruments, it was drawn to the Ministry's attention that in fact there was no legal basis for these exemptions but this had developed over time as an

administrative practice by the Inland Revenue Department which was increased in amount over the years by successive Governments. As an instrument for assisting people in having increased disposable income the tax free allowances have been very effective in assisting with both spending and savings in the local economy. As a result their removal has been a cause for understandable concern. However over the years this method has been extensively abused by employees and employers who have received extensive allowances for activities which in many cases never occurred in the manner in which the allowances were conceived to be used. As such the revenue loss to Government has grown exponentially over the years as more and more individuals in the higher tax brackets continued to receive a lower base salary and a high allowance payment.

While we have surmised that some level of relief is now desirable in helping people in Barbados to continue to meet their obligations and invest in our economy we have decided that other ways to effect this reality must be found. Added to this Mr. Speaker, is the fact that, as the figures clearly demonstrate, we are not yet out of the woods with our fiscal situation and prudence dictates that any actions we take must be in moderation and in keeping with our stated goals as I have outlined.

In order to strike this delicate balance I proposed that as of August 1st 2012, we will increase the tax threshold from 24,200 to 30,000 and adjust the effective tax rate at the bottom from 20% to 17.5 %. This will effectively mean that all those persons earning between $24,200 and $30,000 will pay 17.5 % on the amount between $24,200 and $30,000 and those earning more than $30,000 will pay 17.5 % on the assessable income up to $30,000 and will continue to pay the upper rate of 35% on anything above 30,000 dollars.

Mr. Speaker this measure is expected to give full restoration to some categories of workers particularly those in the lower allowance granting salary scales and partial restoration of the amounts previously given as non-taxable allowances to those in middle and higher grades. It means that all will be better off than what currently obtains with the taxed allowances but not all will be fully restored.

As I indicated this is what we have surmised is feasible in the circumstances and what will help to ensure that we all assist the country to achieve its objectives.

Finally on this point allow me to advise the House that it is the Government's intention to undertake a complete review of the entire tax system next year and it is our firm expectation that coming out of that exercise a further lowering of the income tax thresholds and rate of tax will come down and full restoration will result.

This measure is expected to result in a revenue loss to the Treasury of 29 million dollars. And to compensate in part for this expended loss in revenue the Ministry will immediately instruct all ministries to adjust their expenditure budgets downwards by 2 percent for their 2012 allocation appropriated by this House in March. This will be to ensure that we stay firmly with our fiscal targets for this year and the overall Medium-Term Fiscal Strategy. It is expected that this cut will bring

Health and Human well-being:

Sir, it is now widely accepted that Barbados as a relatively sophisticated small developing country has seen in the last two decades significant changes in our life styles as we enjoy the modern trappings of convenience. While most of these have been for the better there is a growing concern that these same life style changes have contributed in large measure to the growing prevalence of life style illnesses such as chronic non-communicable diseases. A variety of cancers, hypertension, diabetes, and heart disease are only but a few of the critical health challenges confronting thousands of Barbadians.

We also know Sir, that especially with these types of illnesses early detection and treatment can often lead not only to the saving of lives but the leading of a far more comfortable existence post diagnosis. It can also lead to a massive reduction in personal and state cost for treatment due to hospitalization. Additionally it can contributing to a drastic reduction in man hours lost due to time away from work while contributing to maintaining work place productivity.

Bearing these factors in mind and following consultations with our colleagues in the Ministry of Health and further afield I now propose to introduce this income year an "ounce of prevention tax credit" for up to $750 dollars on a comprehensive annual medical examination for persons 40 years and over. The allowance can be claimed at filing time and should be accompanied by an electronic copy of a certificate verifying the procedure was done and signed by a registered medical practitioner.

INTERNATIONAL BUSINESS AND FINANCIAL SERVICES SECTOR:

Since 1995, Barbados through its Double Taxation Agreement with Canada has been the lowest tax jurisdiction whose companies were permitted under Canadian law to generate exempt surplus i.e. taxed income in Barbados that could be repatriated to Canadian parent companies without further tax being incurred by the parent companies. However Canada has recently changed its Income Tax Act to expand the number of countries that qualified to have the earnings as a subsidiary be categorized as exempt surplus as defined under the Act. The change extended the exempt surplus status to countries that signed a Tax Information Exchange Agreement (TIEA) with Canada. The TIEA measures were first announced in the 2007 Federal budget in order to encourage foreign Governments to enter into TIEAs with Canada. The Canadian Government also announced that it would take measures to assist in the negotiation of TIEAs with jurisdictions with which it does not have a comprehensive double taxation treaty. This measure came into effect in January 2010.

Countries therefore with zero taxation regimes e.g. Bermuda, Bahamas and Cayman which have signed TIEAs with Canada have become the lowest cost tax option that can generate exempt surplus. This has caused the international tax advisors both internal and external to review their companies' existing structure with a view to possibly moving their organizations to zero tax jurisdictions.

In 2011 Invest Barbados contracted a retired Inland Revenue officer to conduct a study which attempted to identify the sector's contribution to the economy. Information from the Inland Revenue Department, the International Business Unit of the Ministry of International Business and International Transport and the Central Bank as well as from some international business entities was sourced. The study garnered statistical information on international business entities for income year 2010, and it was discovered from the sample that for every dollar collected in corporate tax revenue ($186 million), a further three dollars and seventy-two cents ($692 million) had been spent in the economy. This included $208 million in employment costs, $264 million in professional services, $53 million in leasehold arrangements and assets purchased locally, $32 million in rents and $26 million in other Government revenues. In assessing the impact of companies migrating from Barbados to zero tax jurisdictions it should be noted that apart from the $212 million in Government revenue, the $667 million of additional spend in the economy generated by these entities should also be considered. It should also be noted that while the top 20 IBCs contributed $120 million in corporate taxes, the spend in the economy was only $58 million, while the majority of the money spent in the economy ($643 million) was by smaller tax-paying and non tax-paying companies.

A further study was done by the Inland Revenue Department providing comparative analysis with the information provided by Invest Barbados. The following was submitted:

Conclusions of the Study

1) Based on the analysis by the Inland Revenue Department the Canadian risk is estimated to be about $40M, as compared to $88.5M for the total entities.

2) A move from the 1% rate to 0.5% would result in a revenue loss projected at $58M;

3) A move from the 1% rate to 0.25% would result in a revenue loss projected at $87M; and

4) A move from the 1% rate to 0.1% would result in a revenue loss projected at $104M.

Notwithstanding the above scenarios, a Committee comprising representatives from the Ministries of Finance, International Business, Office of the Chief Parliamentary Counsel, Invest Barbados and tax consultants from Ernst and Young, who examined all of the issues recognised that other measures for the longer term needed to be considered and it would wish to continue looking at these so that a wider and fairer scope of measures that include those smaller companies with the majority of spend in the economy could also be realised. It should also be noted that although the initial intention was to look at International Business Companies only, it was realised after further investigation that Societies with Restricted Liabilities and Offshore Banks could also be impacted by the migration effect. All scenarios therefore include these entities.

Having considered the conclusions of the study undertaken by the Inland Revenue Department, the Committee recommends and we propose that the following measures be taken to attempt to stave off the exit of international business entities from Barbados:

i. that the International Business Companies Act Cap 77 and the Societies with Restricted Liabilities Act be amended to change the tax rate on the highest band for taxable income for income years 2012 and 2013;

ii. that the tax schedule in Section 10 (1) of the International Business Companies Act be amended to read as follows:

(a) 2.5% on all profits and gains up to $10,000,000;

(b) 2.0% on all profits and gains exceeding $10,000,000 but not exceeding $20,000,000;

(c) 1.5% on all profits and gains exceeding $20,000,000 but not exceeding $30,000,000; and

(d) 0.5% on all profits and gains in excess of $30,000,000.

iii. that the lower band of 0.5% apply for income year 2012 and that this be changed to 0.25% for income year 2013;

iv. that the changes apply to legislation for Societies with Restricted Liabilities as well as offshore Banks;

v. that the range of services eligible for the Foreign Currency Earnings Credit be expanded to include exploration, extraction and other mining, oil and gas activities, licensing and sub-licensing of intellectual property and shipping services; and

And finally that even though there was a projected revenue loss of approximately 58 million dollars in the first year there was likely to be a claw back of close to 25 million dollars as a result of new entities establishing in Barbados particularly because of the new low rates. This would therefore result in a net revenue loss of about 23 million dollars.

While I am on matters pertaining to this sector Mr. Speaker, I will also take the time to alert the House that very shortly after we return from the post budget break the Ministry of International Business and the Office of Attorney General will be bringing four pieces of major IB legislation to the House for debate and passage in a special International Business legislation day. These pieces will look at:

1. Money Laundering and Financing of Terrorism (Prevent and Control) Bill
2. Foundations Legislation
3. International Corporate and Trust Providers legislation
4. Societies with Restricted Liability Act.

The passage of these pieces of legislation will provide our jurisdiction with a set of critical new tools with which to market the country as a premier destination for IB investment.

Land Tax Rebates

Mr. Speaker, as you are aware, the methodology regarding the application of rebates for land taxes was changed for the financial year 2011-12. This change meant that the tax demanded was used as the base rather than the value of the property. While this amendment did not have any impact on the resultant tax for the hotel sector, there were changes in the agricultural and the pensioners sectors.

On account of the varying rating structure for residential properties, the level of tax rebates enjoyed by pensioners ranged from 50% at the bottom, and rising to as high as 82% as the values increased.

For the financial year 2010-2011, 6,323 properties benefitted from the rebate awarded to pensioner-occupied homes. The pre-rebate charge for these properties had amounted to $5,585,495.30. As a result of the pensioner rebate, the total tax demanded was $1,759,225.22, a saving of 69% on average.

For the financial year, 2011-12, there were 6,654 properties which would have been granted the pensioner rebate. This year the rebate level was standardized at 50% across the board with the resulting pre-rebate figure of $5,152,688.25 being demanded and a post-rebate of $2,576,344.13 being charged, a saving of 50%.

The year 2011-12 was also the start of a re-evaluation cycle, and some properties, with an increased valuation and the change in the application, saw a rise in their tax demanded.

Proposal

Since it was not the intention of the adjustment to penalize taxpayers, it is proposed to increase the rate of rebate in order to compensate for the increase in the tax demanded which came about from the increases in the land values. Therefore the level of rebates for pensioners can be raised from the 50% to 60% or as is appropriate.

The revenue impact will be negligible.

Land Tax Amnesty:

The arrears owed to the Land Tax Department date back to 1981 to 1982 tax year. Of the amount owed over the thirty-one (31) years the principal accounts for 68% of the total, the penalty 3% and the interest 29%. During the first twenty-three (23) years of arrears, that is, 1981/ 1982 to 2003/ 2004, the amount owed to the Department totaled approximately $46, 632,825.65 of which 39.5% was principal, 2% was penalty and 58.5% was interest. In is only in the latter years that Principal has outpaced the interest charged.

Proposal

In our continued efforts to reduce the high level of arrears, an amnesty will be offered to all tax payers for amounts owing from 1981-82 to 2011-12 with the attached conditions:

- The proposed amnesty will be for thirty (30) days commencing July 2, 2012 and ending July 31, 2012
- The amnesty will allow for 100% waiver of both the penalty and interest dependent on the full amount of principal being paid in a one-off payment for the respective year due. This will allow persons to take advantage of multi-year payments even if they were not in a position to pay off the full amounts.
- There will be no extensions of the amnesty.

Motor Vehicle Duties:

Since 2008 available evidence has demonstrated that costs from foreign car Manufacturers have been escalating so rapidly that it has almost reached an unavoidably critical point. Indeed so steep has been the rise that some popular models have increased in price by more than $10,000 per unit putting them out of the reach of the average customer.

When the chargeable value on vehicles was introduced many years ago it was never intended to negatively impact on mid-size cars, and the limit was at $30,000 which allowed these vehicles to be available to the average consumer. However, in 2002, against a backdrop of manufacturer's increases and appreciating currencies, an approach to the Ministry at that time for an increase in the limit to counteract rising prices was acceded to and the limit was raised to $45,000 to address this issue and to ensure that smaller vehicles were not penalized.

It would appear that a very similar situation has arisen again and when matched with the reported decline in new car sales because of the downturn in the business cycle estimates are that some garages are losing up to 40% in sales.

In this regard, the Barbados Automobile Dealers Association has petitioned the Ministry of Finance for an adjustment in the chargeable value on mid-sized vehicles and a 40% reduction in the excise tax.

Having consulted with the Comptroller of Customs on this matter and given the national contribution of the sector to the economy of Barbados - not least among which is the employment of close to 20,000 Barbadians - I propose to:

1. Increase the chargeable value on new vehicles from $45,000 to $55,000 with a review after one year.

2. Lower the Excise tax by 25% with a review after one year.

Mr. Speaker I am however also proposing that with immediate effect that the excise tax rate of 9.31% for locally manufactured cars should be removed from the Act thereby applying the same rates of 20% to 120% to various categories of motor vehicles whether imported or not by registered manufactures. By continuing to have a local rate, the revenue loss in some cases would be approximately 100% of the excise taxes on each vehicle.

WTO rules prohibit the discriminatory practice of having the tax on any locally produced goods at a rate lower than that of the imported goods. This anomaly was also drawn to the attention of the Barbados delegation during the EPA's negotiations.

FEES and LEVIES:

Solid Waste Disposal and Treatment:

Mr. Speaker over the past twelve years or so Barbadians have witnessed an almost doubling of the volumes of solid waste which the society has produced for treatment and disposal by the Sanitation Services Authority. To be sure available data from the Ministry of the Environment indicates that between 2002 and 2011 the following average annual amounts were handed by the SSA at varying sites:

Construction and Demolition:	**572,925 Cubic Meters**
Lonesome Hill	**15,387,422 Gallons**
Bagatelle	**119,079 Loads**
Asbestos Site	**952 Loads**
Mangrove Pond Landfill	**2,573,317 Tons**

Most of this is spawned from an average annual collection stream of 863,601 tons of garbage by the SSA. In addition there are currently an estimated 5 million used tyres at the landfill posing severe headaches for the operators. Recognizing this huge and still growing problem the former administration surmised from expert advice that the existing landfills, particularly the one at Mangrove would have been incapable of carrying this load for any extended time in the future.

To that extent they sought to have a new sanitary landfill constructed at Greenland but after spending near $40 million the project was abandoned. The then Government engaged and entered into an arrangement for a PPP with a company called Sustainable Barbados Recycling Centre for the construction of a waste treatment facility to treat this ever growing volume of garbage so as to reduce the amounts going to the sanitary landfill at Mangrove. That arrangement was adopted by this administration and the Centre has been in operation since 2008.

Available evidence I am advised suggests that the Centre has been able to reduce current volumes of garbage to near 2003 levels and were it not for this intervention Mangrove would probably have maxed out its current capacity.

Sustainable Barbados Recycling Centre Ltd

Year	Loads entering SBRC	Tons entering SBRC
2009	66,786	168,775.51
2010	161,234	437,748.58
2011	144,932	348,593.10
Total	**372,952**	**955,117.19**

Concomitant on the rise in the volumes being treated by the Centre, the costs Government has to pay for this process have risen appreciably as the number of loads entering the Centre have more than doubled since its opening. On recent submissions from the Ministry of the Environment the least cost in any given year for this absolutely essential service would be $21 million, and at the higher end could reach as much as $28 million as it did in 2010.

However while this service has become critical to us continuing to operate sanitary landfills or disposal sites, it has pushed up the transfer cost to the SSA by nearly 30 million dollars per year. To further strengthen my point Sir in 2008 the current transfer from the Government to the SSA was around 32 million dollars. By 2010 it had reached near 62 million dollars.

What's more Sir, given the fact that it is projected that Barbadians will produce solid waste in ever increasing volumes over the next two decades we are facing a particularly dangerous situation that could negatively affect our economy financially, and our environment as well. It is for this reason that this administration has put so much stock on our greening economy initiatives including a recent decision by the Cabinet to vigorously pursue the construction of a waste-to-energy facility to convert some of our waste into renewable energy for domestic and commercial use.

However with the best will in the world it is not likely that such a facility will be ready within the next five years or so, and will cost hundreds of millions to erect. In the interim we will have to continue to find the resources to pay for the facilities already existing to help manage this massive problem.

Mr. Speaker while as a country we continue to enjoy free and regular refuse collection and will do so long into the future, it has now become necessary for us as a nation to assist our Government in meeting, at least partially, some of the costs for the treatment of the volumes of garbage we produce on a daily basis. Due to our waste Government has had to engage additional costs to treat garbage without any mechanism for recovery to ensure that traditional services which the SSA provides free of cost to Barbadians can continue.

In light of this, and somewhat regrettably, Government will be forced to introduce a small "greening levy" to assist in meeting the extensive costs associated with the treatment of the garbage which we all produce on a daily basis.

Given the harsh realities of the economic times we in the Ministry of Finance have tried to keep this imposition as small as possible across certain salary categories so as not to create any undue burden. As such I now recommend that a national greening levy be imposed on the salaries of Barbadian workers as follows:

1. Persons earning up to 25,000 per year 0%
2. Persons earning between 25,000- 50, 000 per year 0.1%
3. Persons earning between 50,000 and 100,000 per year 0.15%
4. Persons earning above 100,000 per year 0.25%

This will bring the total levy to be collected per month to 0.5 % of insurable earnings for an annual collection total of approximately 15 million dollars per year. The levy will be collected through the NIS and remitted to the Consolidated Fund.

Sir we have kept the level of the imposition especially low so as not to impact too harshly on workers while shielding those in the lower salary brackets from the imposition altogether. It means Sir by way of example that a person earning under 25,000 will pay nothing; a person earning say 30,000 a year will pay $30 a year or $2.50 a month. A person earning 50,000 a year will pay $50 a year or $4.17 per month and a person earning 100,000 a year will pay $150 a year or 12, 50 a month.

Whilst I am well aware Sir that this imposition will likely be heavily criticized and probably be unpopular among those who have to pay it, I would only urge right-thinking Barbadians to deeply reflect on the facts which I have just provided and determine for themselves whether this situation could be allowed to continue unaddressed without doing severe harm to the country, its society and economy.

Immigration:

Mr. Speaker for some time now local Immigration authorities and policy makers alike have been bombarded by several investors, retirees, and others interested in investing in Barbados about the possibility of special entry permits and other forms of status in Barbados. While the existing legislation did make provision for some of this to occur it was highly restrictive and not particularly friendly to credible foreign investor requests. Equally, retired staff of regional and international organizations who resided in Barbados for periods exceeding ten years and whose children were born here while these individuals were on mission where not properly provided for in the legislation and often were placed at a distinct disadvantage.

To this extent, the Ministry of Immigration and the Immigration Department having studied the relevant issues over several months and consulted with a cross section of public and private sector actors, recently made representation to the Cabinet and secured approval for the following:

Agreement to the Revised Policy on Special Entry Permits for Non-Nationals who wish to retire in Barbados as follows:

i. <u>Property owners who are retired and 60 years or older</u>
The property should have a market value prescribed by the Minister from time to time;

ii. <u>The parent of a citizen of Barbados</u>
The person must be retired and 60 years or older,
should have no dependants, and would not be required to own property in Barbados;

iii. <u>Grandparent of citizen of Barbados</u>

The person must be retired and 60 years or older, should have no dependants, and would not be required to own property in Barbados;

iv. <u>Retired staff of regional and international organizations</u>

These persons must be retired and 60 years or older and should have spent at least ten (10) years in Barbados with the organization. Retired staff from regional organizations are not required to be property owners;

v. Property owners who are retired and under 60 years, but not less than 50 years

There should be provision for retired persons with properties at a value prescribed by the Minister, who are not yet 60 years, but at least 50 years to benefit from a special entry permit for a period until the age of 60 years is reached. At that time, on application, they may then qualify for an indefinite special entry permit;

vi. Property owners who are under 50 years

There should be provision for property owners who are under 50 years with properties at a value prescribed by the Minister, to benefit from a special entry permit for a period until the age of 60 years is reached. At this time, on application, they may then qualify for an indefinite special entry permit.

vii. High Net Worth Persons

These individuals must have net assets of not less than $10,000,000.00. They may be required to submit copies of income tax returns and/or audited statements of net assets to show that they continue to meet the threshold and if the threshold is not met for five years, the indefinite special entry permit should be withdrawn. The proposed sub-categories of high net worth persons are as follows:-

1. Persons Over 60 years and Retired

These individuals should be granted indefinite permits once they meet security requirements, have adequate health insurance, and are retired or not engaging in employment in Barbados;

2. <u>Persons Under 60 Years and Retired</u>

These individuals should be granted temporary permits which are valid until they reach the age of 60. Once all security requirements are met, their source of the wealth is clear, with confirmation through the Central Bank of Barbados or a commercial bank and there is evidence, (high net worth) that the individual would not be likely to seek employment in Barbados and some of their income is taxable in Barbados, they should then be granted a special entry permit;

3. <u>Persons over 60 years who wish to engage in employment in Barbados</u>

These individuals should be granted an indefinite special entry permit on payment of an additional work permit fee;

4. <u>Persons under 60 years who wish to engage in employment in Barbados</u>

In this case of the indefinite special entry permit for high net worth individuals, the fee should be equivalent to the value of multiple long- term work permits.

5. Persons who intend to function as non-executive directors of a company should pay an additional fee for a work permit to cover the period of directorship. Persons who at first opt to acquire the status in retirement with no intention of engaging in employment should be permitted to change that status at any time on payment of the additional fee;

(viii) Dependants of High Net Worth Persons

While other persons who qualify for special entry permits are not permitted to have accompanying dependants except a spouse of similar age, high net worth individuals should be permitted to have minors accompanying them as dependants. Spouses should be permitted a similar status. Minor children, while permitted to accompany their parents, should not as minors, be granted indefinite time. They might be granted special entry permit for a period of five years or a term of eighteen years whichever is less. Student visas should be automatic for this period. Permanent status as adults should depend entirely on the circumstances of the dependant himself and not simply on the basis that they resided in Barbados as accompanying minors;

(ix) Requirement for Special Entry Permits

All applicants and dependants over 16 years must satisfy security checks and submit police certificates of character, proof of adequate health insurance and evidence that they are able to support themselves and dependants. A minimum of $700,000.00 medical insurance coverage for persons under 50 years will be required, and $1,000,000.00 for those persons over 50 years.

Applicants under 60 years who wish to run their worldwide businesses from Barbados, but not work for a Barbadian registered company, will not require a work permit.

The spouse of the applicant should get a residency visa for the same period as the applicant.

Minor children of the applicant, or children who are at University or College and are still fully dependent on the applicant should be given the same term as the applicant, but the applicant must produce evidence every three years that the child is enrolled in a school in Barbados, or is being home schooled with the approval of the Ministry responsible for education.

To accompany these new provisions in the rules I now propose a new fee structure as set out in Appendix 1 to this document to have immediate effect.

In addition to these I also propose to increase the fees for re-entry applications and approvals for re-entry applications to $300 dollars.

Police Fees:

Sir the heavy demand for specialized police services and equipment has been taking its toll on both technical and human resources within the Royal Barbados Police Force. Commensurately the cost of most of the inputs into these processes have increased tremendously over time while the fees charged for such things as forensic services, certificates of character, crash barriers, and operational support services have remain static over the last ten years or more.

In this regard the Commissioner of Police has petitioned the Ministry to allow for a small increase in the fees quoted and charged for a specified set of special services. These services can be found at Appendix 2 of the document.

I propose that with effect from August 1^{st}, 2012 the attached fee increases as listed with the Appendix 2 shall become effective.

AGRICULTURE:

For many years, Agriculture has performed the role of reducing poverty and eradicating hunger within many civilizations. For us within this developing country, Agriculture has been recognized as being a key developmental tool for stimulating economic growth both directly and indirectly in the country and indeed throughout the region.

The ongoing Global Financial Crisis has affected the food prices locally. The food crisis of 2008 would have taken us all by surprise and its continued affect has persisted until this day.

Recognizing the significance of these occurrences the agricultural sector of Barbados has shifted its emphasis to ensure that food sovereignty is maintained whereby we have the ability to feed ourselves as a nation as well as the visitors to the island. To facilitate the growth and development of the

Agricultural Sector, the Government of Barbados on assuming office in January 2008 provided the Sector with a package of incentives aimed at counteracting the constraints being faced within the Sector. This effort has borne fruit resulting in positive growth in the Agricultural Sector in 2009.

Given the impact the global economic downturn is having on this Country's Balance of Payments position, consideration must be given to the reduction of the country's food import bill which rose to as high as $678.5 Million in 2008. The Agricultural Sector has been proven to contribute and continues to contribute towards the reduction of the Food Bill on the level of the householder which is of paramount importance in times of unemployment and underemployment.

There is therefore the need to ensure that the provisions of incentives are upgraded as the country seeks to respond to the needs of a modernized Agricultural Sector. The following proposals are therefore aimed at achieving this objective by promoting the development of this Sector on a Sustainable growth path:

1. Over the next five years Agro businesses will have access to $20 million in financing from the proposed ***"Hotel Refurbishment, Energy Efficiency and Food Production Fund.*** Further details on this will follow later on.

2. Increase in the rebate for returning idle lands into production
   It is proposed that the current rebate for returning idle lands into production to be increased from $500 per hectare to $1, 000 per hectare;

3. We will allocate $3.0 Million to facilitate the re-establishment of the Tractor Cultivation Scheme to be managed by the BADMC;

4. Increase of rebates by 100% to farmers who utilize the Services under this Scheme as proposed below;

SERVICE	EXISTING RATE $ per hectare	PROPOSED RATE $ per hectare
Ploughing	100	200
Farrowing	80	160
Harrowing	120	240
Rotorvating	100	200
Subsoiling	100	200

5. A rebate of $500 for each gilt that is raised to breeding stage. 1000 gilts will be drawn from the programme to increase pig production. This will cost Government an additional 500,000.

6. A rebate of 50% up to a maximum of $4,000 per animal imported to for the purpose of improving livestock quality.

<u>Business Facilitation:</u>

Trade Receivables Liquidity Facility (TRLF) (Factoring)

The Factoring programme has been in place for more than a year now and while it has worked relatively well it has encountered some bureaucratic challenges that have at times frustrated the people it was designed to assist. Following a review of this programme by the Ministry of Industry, Small Business and Rural Development and relevant stakeholders and on recommendation from the Ministry we now propose the following adjustments:

> The Programme has been lacking in momentum simply because most of the requests have been coming from individuals, micro and small businesses who are owed less than ten thousand ($10,000), the required minimum to be factored. These entities would have to accumulate a debt of ten thousand ($10,000) before they can benefit from the programme and this may not be possible since it depends on the frequency of procurement of goods and or services from their particular establishment. It is therefore proposed that:
>
> - the existing requirement that allows for a minimum of ten thousand ($10,000) to be factored to be reduced to a minimum of five thousand ($5,000);
> - the list of financial institutions acting as intermediaries to provide financing under the factoring programme be expanded to include Credit Unions which have indicated an interest to participate in the Programme

Fund Access has been one of the veritable success stories coming out of the recession with a flood of requests for support from scores of young small business people eager to provide employment for themselves and others through investments in various business enterprises. In an effort to assist the Fund in coping with this excess demand for its services I propose to top up the current allocation provided in the Estimates of Expenditure to the tune of

$600,000 more. This should help the Fund to deal with a growing list of expectant and budding young entrepreneurs.

As a companion to investment in our young people I equally propose to inject an additional $400.000 into the Micro Enterprise Grant Scheme to also assist the Ministry to deal with the flood of very solid requests that has come in since the initiation of this programme two years ago.

Business Re-organisation:

Following numerous requests by businesses both domestic and international and in an effort to contribute to the proper and orderly restructuring of business entities in the country I have acceded to requests to remove the Property Transfer Tax when shares are transferred during a corporate reorganization of a group of companies and with no change of beneficial ownership.

This should become effective from August 1st.

Barbados Cooperative Credit Union League Limited

Mr. Speaker as most of us know the Credit Union sector is a critical part of the financial system in the non-bank financial sector in Barbados. Indeed from very humble beginnings the sector now controls billions of dollars in assets on behalf of their members. A part of these assets represent substantial deposits in various institutions across the island.

However, unlike Insurance companies the law does not offer the same level of protection to credit union members of those financial institutions.

Unfortunately credit union members face no less risk than these and believe that they should be similarly protected at least in the minimum under the law.

I agree with this contention. As such I have instructed the Ministry's staff to begin research to prepare a brief for the Chief Parliamentary Counsel for the amendment of the Deposit Insurance Act and the Financial Services Commission Act to facilitate the creation of a separate ex ante fund for credit unions to have protective cover for their members at a basic rate no less favourable than coverage offered for depositors in commercial banks.

Barbados Association of Retired Persons (BARP)

BARP serves a very important constituency in Barbados and has performed admirably in sensitizing members of wider civil society as to critical issues affect or retired population. They are to be commended. However, as is widely known volunteer work in civic organization can not only be taxing but equally as costly. This Government has over the course of the last four years sought wherever possible to assist proffer assistance where practicable and affordable.

On this occasion the Association has made certain representations to the Ministry of Finance relative to some state impositions on the work of the organization which we concur could be a bit burdensome. To this extent I therefore propose that the Ministry will see to amend the VAT Act to:

- Exempt BARP from the payment of VAT on supplies made by the Organisation, supplies mean the provision of goods, services, real property or any other thing in any manner and includes a sale transfer, barter, exchange, gift, lease, rental, hiring, letting, licensing or deposition.

- Amend the Income Tax Act to exempt BARP from the payment of corporation tax on income.

<u>Single Parent child support Fund:</u>

Mr. Speaker for some time now the very troubling issue of the non-payment of child support by delinquent parents has attracted public attention as much as it has caused consternation among hundreds of single parents across the country.

Indeed Sir, this situation has reached a particularly unsettling stage where on a weekly basis several parents who have ventured into the various Magistrates' Courts to collect payments have had to leave empty-handed as these payments have not been made and Court Marshalls have been unable to locate the delinquent parent. The downside of this Sir is that several of the nation's children are then left to struggle without basic amenities and supplies necessary for a meaningful existence.

While this deep sociological issue bears extensive research and study to understand the true parameters of its impact on society, it is evident that its presence and persistence is causing major social dislocation among a particularly vulnerable segment of the country's population.

While it is not the intention of the Government to encourage delinquent parents to continue with these nefarious practices, or to support the deliberate flouting of the law, we are satisfied that this matter has reached such an unhealthy state that lack of intervention by Government at this stage will lead to the emergence of a dangerous set of circumstances that will work to undermine the household fabric of the society.

To this extent, Government has decided to establish a temporary child support assistance fund to help parents to carry some of the load of maintenance while the state aggressively pursues the delinquent parents to recover the amounts owed. We therefore propose that:

a) Monies in the amount of **$400,000** should be allocated to a Vote to establish a Fund that would assist with the provision of child support payments which have been delayed, under the Maintenance Act, Cap. 216, and that this cap be reviewed in accordance with changes in economic and social conditions.

b) The administration of this fund would be done in consultation with the Magistrates' Courts which currently process child support payments under the Maintenance Act, Cap. 216.

c) Applicants would be entitled to apply for payment from this Maintenance Fund within one month of defaulting parents not adhering to the Court Order to pay child support.

d) Until a comprehensive study is conducted for each child in the system, the amount that each child may receive in a week shall not exceed $50.00 unless in extenuating circumstances where an assessment is made by a Social Worker.

Towards Greening Barbados Economy:

Background

It is now widely accepted Sir, that in years of prosperity very little was done to diversify the economy. There has been an over reliance on tourism receipts and more recently international business as the main foreign exchange generating engines of the economy. However, in focusing on these two sectors, what was ignored was the fact that as foreign exchange was being generated, hardly any effort was being made by the country to prevent the leakages of foreign exchange fuelled largely by the increases in the importation of fuel, motor vehicles and food. In practice, there was a fundamental failure to make the necessary structural changes to the economy as a means of retaining most of the gains made in the two main foreign exchange generating sectors. So the net effect of this situation was that as the country made more foreign exchange it started to spend even more.

Support for this position, can be seen as the importation of fuel into Barbados is now the highest single category of imports on the island's total import bill. A 2010 research study conducted by the Central Bank of Barbados indicates that fuel as a percentage of total imports increased from 7% in 1998 to over 20% in 2009. The significant increase in Barbados' fossil fuel consumption can be directly linked to the fact that the generation of electricity and transportation represents 50% and 33% respectively of total fuel imports in 2010.

Over the past 18 years, we have seen a twofold increase in the number of fossil fuel-driven motor vehicles imported on the island from approximately 55,668 in 1994 to 116,675 in 2011. Of importance, there is a noticeable correlation between the increases in the number of motor vehicles on the island and the marked increase in the island's importation of fuel. This scenario had long been identified as unsustainable and required a radical shift in the island's energy policy.

The proposals contained in this presentation will seek to further support the several efforts made since 2008 at implementing the necessary initiatives, in particular through a strong focus on Renewable Energy as being a critical, if not the most important, component of restructuring the Barbadian economy within the next five years.

The large scale use of Renewable Energy in Barbados is not a new buzzword. In fact, Barbados has been seen as one of the leaders in the green revolution and this can be observed as the island has been ranked as high as fifth in the world for solar water heater penetration. The recently completed, Green Economy Scoping Study Synthesis Report, produced by the Government of Barbados in conjunction with the University of the West Indies, the United Nations Environment Programme and several private and public sector stakeholders indicated that :

In 2002, Barbados saved 15,000 metric tonnes of carbon emissions and over USD 100 million in energy savings from the 35,000 solar hot water heater systems that had been installed at the time.[page 22]

Government's vision, the foundation of which has been laid through the series of Renewable Energy initiatives and incentives previously introduced in budgets since 2008, is to aggressively pursue a policy of matching the level of solar water heater penetration on the island with photo voltaic ("PV") and wind installations within the next five years. This policy could radically reduce the shocks that the economy has been facing during the current recession from the impact of high fuel and energy prices on Barbados' external account, which has negatively resulted in slowing down efforts at accelerating economic expansion. This situation has had an extremely severe impact on the cost of doing business on the island, as several local manufacturers and businesses in general have publicly cited the costs associated with electricity as being their largest monthly expense outside of the payment of wages and salaries. In addition to contributing to the high cost of doing business, the high cost associated with electricity generation and fuel for transportation has also substantially contributed to the rising costs of living on the island throughout the last 18 years.

In light of the above scenario, Government has undertaken a careful study of the island's generation and consumption of electricity. At present the Barbados Light & Power Company Limited (BL&P), the sole licensed producer of electricity on the island, has a total installed generating capacity of 239 megawatts from three generating stations, with a peak demand for electricity of approximately 165 megawatts daily. A major part of Government's vision for restructuring the Barbadian economy is through diversifying the current sources of generating electricity through the large scale introduction of renewable energy generated electricity into the island's total installed capacity. Towards this end, Government has identified the bold mission of facilitating the large scale penetration and distribution of PV and wind generating technology on the island to match the current levels of solar water heater penetration in domestic households. This mission can be seen through the fact that if a 5 year target of installing at least 35 megawatts of renewable energy in the form of at least 35,000 one kilowatt solar PV or wind turbines was achieved, it would translate into renewable energy comprising approximately 20 percent of the island's peak demand generating capacity.

The realization of this target would result in substantial benefits to the island's economy through the long term retention of foreign exchange as PV systems have extended payback periods of 20 to 25 years with virtually no operating and maintenance costs and would significantly offset the importation of fuel currently employed to generate electricity. With the gradual introduction of energy-efficient vehicles such as hybrid and electric vehicles, the island's fossil fuel requirements would be further reduced thereby saving foreign exchange. In addition to contributing to the greening of the island's economy, the large scale integration of renewable energy has the potential for creating thousands of jobs as additional services would be required by electricians, roof installers and engineers to facilitate the installation of the necessary infrastructure. Based on current global prices the total cost of such an initiative would range between BDS$350 to 400 million.

In support of this aggressive vision of restructuring of the economy through renewable energy, government has already examined and proposed several amendments to the Electricity Act of Barbados to facilitate the orderly distribution of excess electricity produced outside of the main power company into the national Grid. This Amendment Bill should be before the House In August and it is expected that the new legislation will provide for prices to be set each year for each renewable energy source. The feeder tariff will hold for a number of years at a level to enable investors to cover their debt service and recover their capital. It will also put a mechanism in place to ensure that the price to the public is kept to a minimum.

In addition, Government through the assistance of a US$20 million Grant from the IADB has set up the Smart Energy Fund to assist SME's and entrepreneurs with financing at subsidized interest rates of 3.75% for renewable energy-generating and energy-conservation projects.

A fundamental component of Government's vision towards achieving this transformation is through the utilization of local or homegrown private sector capital investment. The core of this local or homegrown strategy is to create an environment where the excess liquidity in the banking system and credit unions, recently cited as being over BDS$4 billion, can be released to provide the necessary private sector- and private citizen-driven capital investment into entrepreneurial ventures such as increasing the penetration of renewable energy and energy efficiency technologies.

INCENTIVES FOR BUSINESSES GENERATING and DISTRIBUTING ELECTRICITY FROM A RENEWABLE ENERGY SOURCE (RE), BUSINESSES PRODUCING, DISTRIBUTING and/or INSTALLING RENEWABLE ENERGY SYSTEMS FOR ELECTRICITY GENERATION and ENERGY EFFICIENT (EE) PRODUCTS

- Government will provide financial assistance of $100 million in the form of low-interest loans over a eight (8) year period to tool and capitalize the industry, and to provide improved credit to the consumers of RE and EE products produced locally. This loan facility will be available to the industry via the financial intermediaries (including banks, credit unions, and finance companies) and administered by way of a special window under the Industrial Credit Fund and the Credit Guarantee Scheme of the Central Bank of Barbados;

- Building materials and supplies for construction of a facility dedicated to the generation and sale of electricity from a renewable source shall be duty free and VAT free;

- A zero rate of VAT will be applied to all RE and EE systems and products produced in Barbados;

- Developers, manufacturers and installers of RE products will be granted an income tax holiday of 10 years;

- Eligible businesses will now have a 150% deductible on interest paid on loans entered into for:
    - upgrading an existing property so as to generate and sell electricity from a renewable source;
    - Construction of a new facility to generate and sell electricity from a renewable source;
    - Construction of a facility for the installation or supply of renewable energy generation systems or energy efficient products ;

- Eligible businesses will now have a 150% deductible on expenditures for staff training related directly to the generation and sale of electricity from a renewable source in the installation, as well as the installation and servicing of renewable energy electricity generation systems or energy efficient products;

- Individuals will be able to claim the funds spent on RE and/or EE training provided by educational and vocational institutions that are approved by the Barbados Accreditation Council as a separate deduction on their income tax. This deduction can also be made by the parents of minors and adult students (up to the age of 25 years) who are not working and who are studying in the area of RE and/or EE;

- Eligible businesses will now have a 150% deductible on expenditures directly related to the marketing of products for the generation and sale of electricity from a renewable source in the installation, as well as the installation and servicing of renewable energy electricity generation systems or energy efficient products;

- Eligible businesses will now have a 150% deductible on expenditures for product development/research related directly to the generation and sale of electricity from a renewable source in the installation, as well as the installation and servicing of renewable energy electricity generation systems or energy efficient products;

INCENTIVES FOR INVESTORS IN BUSINESSES GENERATING AND DISTRIBUTING ELECTRICITY FROM A RENEWABLE ENERGY SOURCE (RE), BUSINESSES PRODUCING, DISTRIBUTING AND/OR INSTALLING RENEWABLE ENERGY SYSTEMS FOR ELECTRICITY GENERATION and ENERGY EFFICIENT (EE) PRODUCTS:

- Interest earned by financial intermediaries (including banks, credit unions, and Finance companies) for financing the development, manufacturing, and installations of RE and EE products and technologies shall be free of withholding taxes for 10 years;

- Venture capital funds where investments are made in the RE and EE sectors shall be free from corporation taxes for a period of 10 years;

- Contributions to venture capital where investments are directed to the RE and EE sectors shall be deductible from taxable income for a period of 10 years;

- Dividends for shareholders of companies investing in entrepreneurial businesses engaged in installation or supply of renewable energy electricity generation systems or energy efficient products shall be exempted from withholding taxes for a 10 year period;

The income households earn from the sale of electricity produced from the utilization of RE equipment shall be exempted from all taxes;

- **INCENTIVES FOR ELECTRIC CARS & HYBRIDS**
- An electric vehicle is one powered primarily by an electric motor drawing its charge from rechargeable batteries or fuel cells and is recharged by an external source of electrical power. It is proposed that the Customs Tariff (Amendment) (No. 9) Order, 2009 be amended to include the following categories of electric vehicles and recommended rate of duties.

Category		**Rate of Duty**
(i)	Where the motor capacity does not exceed 100hp	20%
(ii)	Where the motor capacity is more than 100hp but less than 125hp.	35%
(iii)	Where the motor capacity is more than 125hp	46.95%

- Currently the rate of duty on Solar Powered Vehicles is 20%. The use of solar energy in transportation will result in replacing gasoline for vehicle use without requiring oil for electricity use. The use of the Solar Powered Vehicles in the transport sector can also reduce the country's importation of fossil fuels: It is now proposed that the Customs Tariff (Amendment) (No. 9) Order, 2009 be amended to reflect a new duty of 10% on Solar Powered Vehicles.

Off-SHORE DRILLING PROGRAMME:

Finally, while I am on this issue of energy Sir, it would be remiss of me if I didn't update the House on the off-shore drilling programme much vaunted by the last administration but which ran into server difficulties at the beginning of the economic recession when virtually all of the proposed bidders backed away from pursuing the investment. As you know Sir there were almost major deficiencies identified by several of these companies with the two pieces of legislation – the Off-shore Petroleum Exploration License Act and the Off-shore Petroleum Taxation Act. We have now completed the draft amendments and will very shortly lay the Bill in parliament foe debate and passage.

I can also alert the House that we have reached agreement for an exploration with the one remaining company from the first batch of bidders, BHP Billiton, who will be free to proceed with its operations once the amendments are passed in Parliament. We expect that that agreement will be signed shortly and government will receive a signing bonus of US$6 million.

Unleashing Strategic Investment capacity in key economic sectors:

At present, with an asset base of over BDS$4 billion in its various schemes, the National Insurance Scheme is the institution with largest pool of capital in Barbados. In its most recent actuarial review, the independent actuary reports that the National Insurance Scheme of Barbados has assets of a reserve ratio of eight (8). This implies that the NIS can meet its obligations to beneficiaries for eight years from its current asset base. A common benchmark for a "sound" Social Security Fund is a reserve ratio of five (5). The actuarial review also states that "the greatest challenge the National Insurance Fund will face in the coming years is the ability to find suitable investment opportunities. Already representing almost 40% of GDP, National Insurance Fund reserves are projected to grow at a faster rate than the local economy for many more years." At present approximately $300M of the NIS portfolio is in the form of various deposits in the banking system as the scheme struggles to find suitable investments. As a pension fund these are not ideal investments as pension funds which have long term liabilities prefer long term investments.

To this extent the National Insurance Board will be directed to:

1. Establish a "Hotel Refurbishment, Energy Efficiency and Food Production Fund" as part of its investment portfolio. The fund will initially be capitalized with $18million of the NIS surpluses. For the next twelve months, in every month where the NIS earns a surplus of more than $10M, $1M of that surplus will be directed to further capitalization of the fund. A further $50M of financing will be provided from the receipts of the Government's divestment programme for a total fund of $80M. Of the $80M, $20M will be allocated to the initiation of a National Food Production Initiative to be managed the BADMC in conjunction with key agriculture stakeholder over five years with a specific mandate to focus on an agreed list of crops and meats for which acceptable programmes can be implemented to achieve self-sufficiency in production. This will not only cut the food import bill but provide work for hundreds of Barbadian small farmers keen to assist in this programme.

2. Additionally a special 15 million dollar envelope will be place in the agri-business component of the fund to provide direct funding to private sugar farmers to underwrite a reasonable price support mechanism as a top up to that currently being offered by BAMC for the next two crops. This support is being given on the condition that farmers agree to use their rotation fields for food crop into the production as agreed with the ministry of agriculture. The proceeds for this special envelope with come

from government's divestment programme but will be provided in this year from the consolidated fund on reimbursement terms.

3. 50 million dollars will go to a Hotel Refurbishment and $10M to the National Alternative Energy. Manufacturing and Agricultural Firms may also apply to the fund for financing of comprehensive energy efficiency plans and alternative energy electricity generation projects.

The "Hotel Refurbishment, Energy Efficiency and Food Production Fund" will have a board comprised of two members from the NIS, two members of BTII, two members from the Enterprise Growth Fund and a representative each from the Ministry of Finance, Ministry of Energy and Ministry of Agriculture. The board will have the mandate to commission analyses of proposals and decide on the proposals that will be funded. The NIS will provide funding for approved proposals in return for Redeemable Preferred Shares in the entities. The shares will be redeemable in 10 years and carry a dividend rate of 8%. Due to the fact the "Hotel Refurbishment, Energy Efficiency and Food Production Fund" will be financed out of NIS surpluses, and hence these funds would have been invested anyway, the establishment of this fund has no immediate actuarial implications for the NIS fund.

Establish a "Tertiary Education Fund." For the next five years, in every month where the NIS earns a surplus of more than $10M, $4M of that surplus will be directed to further capitalization of the fund, for a fund of $48 million in the first year, After the NIS provided its share of the "Hotel Refurbishment, Energy Efficiency and Food Production Fund," in every month where the NIS earns a surplus of more than $10M, $5M of that surplus will be directed to further capitalization of the fund, for an annual fund of $60M. These funds will be transferred to the Consolidated Fund and will be used to assist in the funding of the University of the West Indies, The Barbados Community College, Samuel Jackman Polytechnic, Sixth Forms and Special Education Projects in Barbados.

The public should note that the NIS funds earmarked in these proposals will be accessed if, and only if, the NIS runs a surplus in excess of $10 M per month. Also, the funds in the proposed “Hotel Refurbishment, Energy Efficiency and Food Production Fund” are investments in business entities in the new growth areas of our economy, and stand to provide returns for the NIS. Barbadians more than most appreciate the value of an investment in education, and the public should note that the remaining funds are to be invested in education and education alone.

ENHANCING THE COMPETITIVENESS OF THE TOURISM & HOSPITALITY SECTOR

Barbados has become a highly attractive location for hotel and other tourism development and is now a world renowned leader in the area of tourism. In 2011, World Economic Forum ranked Barbados #28 out of 139 countries in terms of Travel & Tourism Competitiveness with top marks in affinity and prioritization of travel & tourism. In the Americas, Barbados was ranked 3rd overall among the region, behind only US and Canada. The sector in Barbados is currently challenged by an aged plant and high operating costs. The aged nature of the plant creates a challenge for entities to generate the room rates needed to cover costs. The uncertain global economic environment has also created a need for a greater focus on domestic tourists as part of the business model. The following proposals aim to begin to address these three issues.

1. Land taxes on hotel accommodation will be frozen at current levels (11/12) for the next two evaluation cycles.

2. Hotel Refurbishment Fund: Small and medium sized hotels can apply to the newly established "Hotel Refurbishment, Energy Efficiency and Food Production Fund" for financing to refurbish and/ or upgrade the hotel plant. The refurbishment/upgrade plan must include a comprehensive energy efficiency plan and an alternative energy electricity generation component.
3. Provision of an additional $5 million dollars to the BTA to assist with special marketing activities through the end of 2012 to improve visitor numbers in the second half of year.

A SECOND EDUCATION REVOLUTION

The DLP administration recognizes that access to education at all levels has been key to the success of Barbados. The DLP remains committed to and fully supportive of the continued growth and development of UWI Cave Hill and increased access to tertiary education for Barbadians.

What we do not support is a continuation of the current strategy which sees a sizeable majority of students disrupt their normal educational progression by moving directly to UWI from fifth form as lower matriculation students. UWI has always had Lower Level Matriculation. We have no problem with persons who for whatever reason may have left school after fifth form and now want to advance their studies coming into UWI as lower level matriculation students. What we do not however as a policy encourage is fifth form graduates entering UWI directly as a matter of course. To this end we are committed to adding more sixth forms (we have already added two new ones) and expanding places at The Barbados Community College and Samuel Jackman Prescod Polytechnic as resources permit.

Through the expansion of Sixth Form Schools, The Barbados Community College and Samuel Jackman Prescod Polytechnic this administration envisages a situation where the vast majority of students going on to UWI would have completed a course of study at one of the above-mentioned entities. This approach will yield several benefits including:

a. Students entering UWI will be much more prepared for education at the university level, which is expected to enhance the university experience for students, the throughput of students and the quality of the final graduate;

b. Substantial savings to the state due to articulation arrangements between UWI and the rest of the tertiary system. At present, through a system of articulation arrangements that exist between UWI, CAPE and the Barbados Community College, students entering the Faculty of Social Sciences in particular, who have completed certain CAPE subjects, and certain Associate Degree programmes at BCC are granted exemptions from Level One courses at UWI, such that they are to complete their degrees in approximately two academic years, instead of the typical three academic years. In addition, certain programs are specifically articulated as "Two plus Two Programmes" where students do two years at BCC and two years at UWI. The Ministry of Education has been mandated to engage BCC, CAPE and UWI Cave Hill to expand the range of "Two plus Two Programmes" and other articulation arrangements to more programmes across the University. Of course such expansions would be subject to the requisite quality requirements.

To further strengthen my point Sir, if one looks at the comparative costs between educating a student at UWI for a year as oppose to the Barbados Community College, the potential for substantial savings is immediately discernible. These savings can serve to reduce the size of the "Transfers and Subsidies" and help the ongoing process of fiscal consolidation while maintaining access for Barbadians.

Schedule of Fees

	Approximate number of students in 2011/2012	Annual Full Time Fees	Annual Part Time Fees	Total for Three Years at UWI	Approximate Cost of Associate Degree at BCC	Approximate Total for Two plus two" degree
Pure & Applied Sciences	1,000	$33,750	$16,875	$101,250	$12,000	$67,504
Humanities & Education	940	$33,750	16,875	$101,250	$12,000	$67,504
Social Sciences	4,200	$33,750	16,875	$101,250	$12,000	$67,504

The second point is that we do not support the notion of Tertiary Education being defined almost exclusively in terms of a Bachelors or higher degree. We believe that appropriate and relevant Associate Degrees, Technical and Vocational Qualifications and a range of Professional Qualifications are an integral part of Tertiary education. The available evidence suggests that Barbados may well be suffering from a shortage of skilled persons in the Technical and Vocational areas. We take the view that the state should seek to create an environment where Barbadians are provided with a menu of tertiary education options. We see tertiary education as including Professional Designations, Associate Degrees, Certificates and Diplomas in a wide variety of areas. For example, in terms of driving the International Business Sector, we would like to see more persons pursuing the Certified Financial Analyst Designation (CFA), The Society of Trust and Estate Practitioners (STEP) qualifications in International Trust Management, International Succession and Probate, Corporate Secretarial Qualifications, and so on. We would wish to see persons pursuing Professional Designations, Certificates and Diplomas in Health Care, Computer and Information Services, Project Management, Security and Protective Services, Videography, Graphic Arts and Culinary Arts to name a few. This is why in the 2008 budget (our first budget) we increased the loan limits, eased the loan conditions and expanded the range of course offerings eligible for funding from the Student Revolving Loan Fund as part of this thrust in tertiary education. We continue to take a very broad view of tertiary education and as resources permit we are committed to expanding the offerings of the Barbados Community College, Samuel Jackman Polytechnic, resources of the Student revolving Fund and the range of courses funded by that entity.

In support of these and other efforts at maintaining our strategic investments in educational development as a key plank in our economic transformation programme we propose the following:

Establishment of a "Tertiary Education Fund."

- As outlined earlier, for the next five years, in every month where the NIS earns a surplus of more than $10M, $4M of that surplus will be directed for the capitalization of the Fund, for a fund of $48M in the first year, Thereafter, from the second year onwards every month where the NIS earns a surplus of more than $10M, $5M of that surplus will be directed to further capitalization of the fund, for an annual fund of $60M. These funds will be transferred to the Consolidated Fund and will be used to assist in the funding of the University of the West Indies, The Barbados Community College, Samuel Jackman Polytechnic, Sixth Forms and Special Education Projects in Barbados. It is expected that the transfers to UWI, BCC and Polytechnic, and the education budget will be reduced commensurately.

- Also as mentioned earlier, the Ministry of Education has been mandated to engage BCC, CAPE and UWI Cave Hill to expand the range of "Two plus Two Programmes" and articulation arrangements across the university. The aim is that for academic year 2013 to 2014, 75% of Barbadian students entering UWI Cave Hill will be able to complete their degrees in two academic years.

- A 50% reduction in the interest rate on loans from the Student Revolving Fund for training in the following Technical & Vocational areas:

Mobile and Web Applications Development; (Writing Apps for Ipads, Cell phones and so on)
Information Systems Security;
Network Technologies;
Animation;
Videography;

Nursing and Health Care;

Criminal Justice and Security;

Photovoltaic and Wind Generation Electrity Generation systems installation and maintenance.

CAPITAL MARKET DEVELOPMENT & INVESTMENT FINANCING

The capital markets play a crucial role in economic development, facilitating the movement of capital from savers to investors which serves to drive economic growth and development. Investment as opposed to consumption is the ultimate driver of growth in an economy. The future growth and development of the Barbados economy is contingent on adequate funds being available and invested in the key areas that will drive the economy. While Barbados has developed a sophisticated and modern financial system, at present we are faced with a situation in Barbados, where there are high levels of liquidity in the financial system but an acute shortage of capital for investments in the economy. This shortage of capital is especially acute for investments in Agriculture, Alternative Energy, Creative Industries, Education, Health Care, Information Technology, Manufacturing and Tourism and Hospitality - the very sectors we need to drive growth in our economy! The reality is that investments in these types of projects often fail to meet the risk profile of the conservative Commercial Banks and Insurance companies. In many economies, equity investments and the stock market where investors in riskier type projects have access to high levels of liquidity are the mechanisms whereby a number of these types of investments are able to access capital. However, while the Barbados Stock Exchange has grown large in terms of market capitalization (the ratio of the stock market capitalization to GDP is 101% compared to a global average of 55%), the number of listed companies continues to decline and the viability of the exchange seems under threat. The Junior Stock Market has also remained grossly underdeveloped with SunBeach Corporation being the only listing to date. An active Junior Stock Market provides an additional avenue for Small and Medium firms which do not meet the financial and other requirements of the “Main” stock market to access capital without having to resort to borrowing. A vibrant Junior Stock Market which can facilitate the financing of small and medium type enterprises is a critical piece of the puzzle in restructuring the Barbados economy with a focus on Agriculture, Alternative Energy, Creative Industries and Information Technology.

The available evidence therefore points to a bank-dominated capital market, an illiquid stock market dominated by a few large firms, an almost non-existent Junior market, a National Insurance Scheme desperate for suitable investments and an economy facing an acute shortage of “risk capital” for the investments needed to drive a restructuring of the Barbados economy. However, we cannot afford to delay the much needed investments in Energy Efficiency, Food Production and upgrades of the hotel plant. The traditional financial institutions are not providing the financing and we cannot wait on international capital, we must act now to secure our own future in Barbados. Having spoken to the NIS part already I now propose the following additional measures to assist with this problem:

- ✓ Undertake an Initial Public Offering of 30% of the shares of Grantley Adams International Airport Inc, the Oil Company and Barbados Port Authority, and the listing of these companies on the Barbados Stock Exchange. Over the next few months, a valuation of the entities will be undertaken and the IPO process initiated. The listing of these three major entities on the stock exchange will serve to inject some much needed life in the exchange. The IPO process will be undertaken in a manner that will ensure broad share ownership which promotes economic democracy and market liquidity.

- ✓ Providing a fiscal incentive for companies to list on the Junior Stock Market, where firms that choose to list on the Barbados Stock Exchange's Junior Stock Market will be provided with a tax incentive for ten years structured as follows:

  a. An income tax holiday on 25% of the company's operation for the first five years of the ten year incentive period;

  b. A full income tax holiday for the first five years of the ten year incentive period;

  c. A half income tax holiday for the second half of the incentive period;

  d. An exemption from withholding tax on dividends and other distributions from companies listed on the junior market;

  e. An exemption from transfer tax on transfers of shares in Junior market companies;

To promote liquidity and encourage economic democracy, in order for a company to qualify for the above-mentioned tax incentives the following could be required:

a. The company must have a minimum of 50 shareholders;

b. No single shareholder should own more than 25% of the shares of the company and no other shareholder should own more than 5% of the shares.

c. If at any point these are violated the company must repay the Government all taxes claimed.

Budget Financial Impact

Mr. Speaker the measurers which I have just outlined are intended to add value to the Barbados economy without doing violence to our fiscal consolidation programme. In this regard I am minded to point out that on a calculated basis we expect that the measures will cost the treasury a maximum of 87 million dollars. On the converse we expect that through direct revenue gains, and savings due to direct expenditure cuts, government will garner 96 million. There should therefore be a net positive gain of approximately 8 million dollars.

SPECIAL ISSUES:

CLICO

Overview

Deloitte Consulting Ltd. (acting through Messrs Oliver Jordan and Patrick Toppin) was appointed as Judicial Manager for CIL's operations in Barbados and the Eastern Caribbean by the High Court of Barbados on April 14, 2011 following the appointment of Richard Surage of PKF as Judicial Manager for CIL's branch in St. Lucia on April 11, 2011.

On April 29, 2011, Omax Gardner of PKF was appointed as Judicial Manager for CIL's branch in St. Kitts - Nevis and subsequently Deloitte was appointed as Judicial Manager of CIL's remaining EC Island branches located in Grenada, St. Vincent, Dominica, Antigua and Anguilla. Montserrat remains the only territory not to appoint a Judicial Manager.

It is important to note that, unlike the situation with CLICO in Trinidad where there was a separate insurance company doing business exclusively in that country, CIL through its branch network, operates in Barbados and eight other Eastern Caribbean jurisdictions. This distinction creates a variety of legal and other challenges to developing an effective restructuring plan for the company.

Activities of the Judicial Manager

Since the date of its appointment last year as Judicial Manager, Deloitte has taken control of CIL's head office operations and with the cooperation of the Judicial Managers across the region has taken necessary steps to ensure the survival of the company.

The Judicial Manager has since completed its examination of CIL's financial condition and the most recent information at March 31, 2012 is that the current estimated value of its assets is Bds$454milion while policyholder liabilities are estimated at $854million. Note these figures are preliminary and subject to change.

A breakdown of current estimated value of CIL's assets and liabilities by country are set out below:

	St. Vincent	Anguilla	Barbados	Antigua	Dominica	Grenada	Montserrat	St. Kitts	St. Lucia	Total
Fair market value of total assets	$13,615,305	633,454	633,454	633,454	633,454	633,454	633,454	633,454	633,454	633,454
Policyholder liabilities	98,368,624	4,242,885	369,570,752	70,873,781	58,913,259	99,312,755	37,940,564	8,980,077	106,019,794	854,222,493

The Judicial Manager has for the past year, explored a number of alternative options for restructuring the company but has now settled on a sale to a reputable insurance company as the best option in the interest of all the policyholders. After an extensive search process within the region and internationally they have received two credible offers which they are currently evaluating.

A common element in both offers is that the Executive Flexible Premium Annuities (EFPAs), which are non-traditional insurance products, would not be acceptable to the buyers in their current structure. Therefore unless these products are restructured as traditional insurance products they would have no interest to potential buyers for CIL.

Another concern raised by potential buyers is the high proportion of real estate assets within CIL's total assets. This is a concern because any purchaser of CIL's policyholders' liabilities will have to receive eligible assets for inclusion in the relevant insurance statutory funds, and in most instances real estate assets are limited to 20% of those statutory funds.

There therefore has to be an innovative way of converting CIL's real estate assets into qualifying assets for the purposes of deposit to the statutory funds, failing which any sale for CIL's business would be unlikely.

A final challenge to a successful sale of CIL's business is that the majority of CIL's assets are located in Barbados and St. Lucia. However, to facilitate the sale of policyholder liabilities located in the other EC island jurisdictions where the CIL does not hold significant assets, eligible assets would have to be transferred to these jurisdictions. A mechanism will therefore have to be developed which transfers part of the asset value within Barbados and St. Lucia to the other Eastern Caribbean island jurisdictions.

Current proposal from the Judicial Manager

The Judicial Manager has developed an approach which it believes would facilitate the transfer of CIL's insurance business to one of the current bidders, as well as the partial settlement and restructuring of its EFPA portfolio. This approach envisages transferring CIL's existing assets into a Special Purpose Vehicle ("SPV") and with necessary backing from regional Governments, floating a bond estimated to range from Bds$550million to Bds$650million on the regional capital markets.

The Judicial Manager has been advised that given the current level of excess cash reserves of commercial banks in the Eastern Caribbean, the proposed bond might have a high degree of interest in the market.

The net proceeds from the bond would be used to acquire qualifying assets that would be transferred to a buyer of CIL's insurance business as well as to fund the partial settlement and restructuring of CIL's individual EFPA policies.

Upon successful completion of the sale, CIL's Individual & Group Life, Pension and Annuity policyholders would become new policyholders of the successful bidder for the business.

Individual EFPA policyholders in Barbados and the EC islands would receive a cash payment of up to Bds$25K and 70% of their principal balance above Bds$25K would be converted into a long-term Annuity. These annuities would be backed by qualifying assets purchased by the SPV and transferred to the purchaser. Corporate and Government EFPA policyholders in Barbados and the EC islands would have 100% of the principal balance of their EFPAs converted into an instrument issued by the SPV.

Given current market conditions, the successful issue of a multicurrency bond by the SPV will require the support of regional Governments to ensure its success. The amount of this support required for the restructuring outlined above has been estimated at Bds$200million which would be in the form of Government guarantees or other acceptable credit enhancements required for the bond to be successfully placed in the market.

Should additional support over and above the Bds$200 million be available from the regional Governments, then restructuring of the non-individual (Corporate and Government) EFPA policies into an annuity product will also be possible. The conversion rate of these EFPA's will be entirely dependent upon the level of support received from the regional Governments.

Upon confirmation of support from regional Governments and the respective regulators for the proposed approach of structuring a bond to facilitate the sale of CIL's insurance business and the partial settlement/restructure of EFPA policies as well as for the amount of financial support available for the proposed bond issue, Deloitte as the Judicial Manager will prepare a final sale/restructuring plan for submission to the Court for approval in Barbados and the other jurisdictions. It is anticipated that similar submissions will be made by the Judicial Managers in St. Lucia and in St. Kitts-Nevis.

Mr. Speaker, on the 3rd of next month a team from the Ministry of Finance and myself, will gather with other CARICOM Ministers of Finance at the CARICOM Finance Ministers' meeting at which these proposals by the Judicial Managers are expected to be presented and discussed. Our hope is that at the end of those deliberations these proposals or some amended version of them will be given broad support and receive the general endorsement of all of the affected regional Governments, with each accepting and agreed share of the responsibility for the execution of the proposal.

This is critical since a shared responsibility ensures that policy holders in each country will be given the only reasonable solution to their predicament, and regional Governments a responsible and palatable burden to carry. A regional technical Committee made up of official and regulators from all of the affected countries together with the Judicial Managers in the different jurisdictions who have been working assiduously on examining options for a resolution of this matter have also surmised that this proposal seems at a broad level to be the most orderly option for a resolution of this very sad and unfortunate debacle.

It is important to appreciate Sir that should this effort at a resolution fail, the likelihood of a disorderly and separated resolution on a country by country basis will ensue with likely devastating consequences for thousands of policy holders including those in Barbados as the company will be forced into liquidation and become entangled in myriad legal suits.

I give this House and the people of Barbados the assurance that this Government will at next week's meeting seek to secure the best interests of all Barbadian policy holders and investors affected by this matter and will not give a final commitment to any solution unless and until an appropriate consultation is held with them to present and discuss such so that their views might be incorporated.

I equally give the assurance Sir that at a date to be determined by the Cabinet, that members of this Honourable House will also be given an opportunity to examine the proposed solution before in is fully implemented so that they too may input into the crafting of the final solution.

Redjet:

Mr. Speaker in the last few weeks a rather unfortunate set of statements and commentaries have emerged following the collapse of the Barbados registered airline Redjet, which have sought to, in the least, question this administration's support of this business venture, and at most cast aspersions on members of this Government including myself as to our alleged commitments to the principals of this company. This has been rather unfortunate, though not entirely surprising for a community populated by some who delight in the propagation of lies, half truths and gossip. Tonight I will set the record straight.

During the course of October last year, at the request of the principals of the company Redjet, I acceded to have a meeting with them to discuss what they called serious issues affecting the airline. That meeting took place at the Ministry of Finance.

During the course of the meeting I was made aware by company officials that the company was having severe financial difficulties just months into its operations, blamed in large part as they put it to "Government's" delay in granting the airline permission to fly in a timely manner. I was told that the delays severely affected their business plan as they couldn't get sufficient routes when they wanted them to increase their load factors and earn enough money keep the operation profitable.

I thought it myself a little odd that an airline would have planned its business in such a way as to anticipate regulatory approval in a specified time up front knowing how complicated and thorough airline approval regulations could be.

The principals requested to know if the Ministry of Finance would be willing to issue them with a sovereign guarantee so as to allow for them to go to a financial institution to raise resources to support their operations.

I immediately indicated to the principals that this was not possible as Government cannot issue a guarantee for a private company. This they understood and subsequently withdrew.

Early in January, at the request of the Hon. Prime Minister, a team of ministers including, International Transport, Tourism and the Minister of State in the Prime Minister's office met with the same principals of Redjet. An identical set of lamentations were placed before us only this time the principals were threatening to close the airline in a few weeks time if some level of support was not forthcoming from Government.

Having discussed the matter at length the meeting came to a number of broad understandings which included a commitment from Government to explore the possibility of assisting with the arrangement of a facility through the BTA that would allow for a small capital injection in the airline and a marketing support initiative. Redjet on the other hand undertook to itself inject sufficient additional capital into the company as to keep it in operation, produce for analysis by Government its financial statements so we could ascertain the true state of the airline, and a new revamped business model.

For the record Mr. Speaker permit me to both read and enter into the records of the House a letter which I wrote to the management of that company as to my understanding of the outcomes of that meeting:

Clearly Mr. Speaker even a blind man on a trotting horse could see from this letter that at no time did I guarantee to Redjet or any other person an absolute commitment to inject eight million dollars into that airline. I clearly pointed out that we were committed to exploring the possibility of a possible guarantee through the BTA for resources to be identified to assist the company. I further went on to advise the principals that no such facility if it were deemed possible could be effected without the approval of Cabinet and as such they should not take any such commitment as a *fait accompli*. Sir shortly after that letter was issued the company had a separate meeting with the Minister of Health who was acting in the stead of the substantive minister and he too reiterated the position which I took in the letter and advised the company accordingly.

In the ensuing period Sir, Redjet did submit its financial accounts for the period up to February 2012 and these were sent for analysis by our business and financial analysts in the Ministry of Finance. Sir I received from the PS in Finance a copy of that analysis which concluded in part that based on the accounts submitted "...that not only has Airone Ventures Inc. been making substantial losses, but also the Company has been budgeting to make these losses. The actual revenues and budgeted revenues are not sufficient to cover the respective costs. More critically, the revenues are not even sufficient to cover the Company's variable costs comprising passenger and aircraft costs and thus cannot make any contribution towards maintenance and overhead costs. This is not sustainable. As a consequence of the foregoing the management accounts indicate that the Company is technically insolvent."

I immediately informed the Prime Minister and other colleagues of the findings of the financial review but we still agreed that we would try to see if it were possible to assist in anyway. In that time it was made clear to the principals of Redjet that one of the conditions for any level of Government support was that the airline had to remain in the air. This would entail the shareholders putting in sufficient resources to capitalize the airline to allow for continue operation.

The BTA subsequently finalized a marketing and operational support programme which it submitted to the Ministry of Finance and and we met and agreed that instructions would be given to the BTA to proceed to negotiate with a local financial institution to secure the financing necessary to support the plan for Redjet. Sir in the middle of these negotiations while the BTA was awaiting the final term sheet from a preferred lender for submission to the Ministry of Finance for approval, all of us were shocked to hear the breaking news that days after launching a new regional route that Redjet's principals were pulling it from the sky.

However Sir, even with that happening the relevant ministries and departments still proceeded to conclude negotiations on the facility and sent it off to Finance for final approval. Our hope was that even at that stage that it would have been possible to assist them but this was snuffed out once the company filed for bankruptcy.

So that Mr. Speaker Sir, it is not true to say that I or anybody else in this Government misled Redjet or reneged on any promise to lend financial assistance to that company. Redjet was a private operation not a Government department. It had no right to any direct financial assistance from Government and was promised none.

Having given potentially million of dollars in concessions to the company we still undertook to try to see how it would be possible to get it through a surprisingly early and difficult financial period. In the end the airline clearly did not have sufficient of its own private capital to survive and even if the eight million dollars were given immediately upon request it is clear that it would have only postponed the inevitable. May the company rest in peace.

Conclusion:

Mr. Speaker as I draw to the end of this presentation I am minded to reflect on the course which we as an administration have had to take over the past four years. Many a day Sir, some of us have cursed our luck, others still have fallen on periods of time when the sheer weight of the challenges has caused us to feel depressed over our circumstances.

However at no time during these turbulent economic times have we lost ultimate faith in the generosity of God and the goodness of his Son. From the throes of the world's greatest economic recession, through the loss of a leader, sickness of colleagues, and the carping criticism of our detractors, team DLP has held together and not lost faith.

And we have done so Sir knowing that we have continued to retain the love and respect of the vast majority of fair-minded Barbadians who know that we have been dealt an extremely difficult hand and frankly Sir have played it well. We have kept our economy stable, protected the Barbados dollar from devaluation, contained job losses as best we could, maintained a high level of service in our social services, enhanced the social safety net, and hold the hands of our private businesses through a variety of mechanisms.

Given the challenges which we faced most Governments as we have seen by example across the world would have collapsed by now. And while it has been a weekly prediction from our opponent almost from the 16th of January 2008, we are still here and going to work on your behalf every day.

In the preparation of this statement I was blessed to have received from friends and strangers too, many versions of their views on how I should conclude this address. I am thankful for this wonderful support.

However, I had the privilege of reading a column in the local newspaper a few weeks ago penned by a very intelligent young man called Corey Worrell as he related his own personal encounter with disappointment and hardship. Entitled the Wilderness Experience this very moving piece to my mind demonstrated what a strong belief in God and supreme confidence in his power to deliver us from tough situations can do to liberate both mind and spirit so that we can together achieve even greater things. Sir I feel compelled to read to this House and to all Barbadians:

HARD TIMES HIT ME

OVER THE LAST 12 MONTHS, many people have been experiencing some kind of hardship. It may be due to many reasons but there is one thing they all have in common and that is hope.

Many people are touched and encouraged by these articles and some people have this perception that I have it all together since these articles are inspiring to read. In today's article, I want to make myself vulnerable to you and share with you some of what I have experienced over the last 12 months, so you will know that I, too, share that hope. If you know someone who is unemployed, struggling financially, going through a divorce, battling with an illness, fighting for custody of the kids or going through any other hardships, encourage that person to read this article. One week ago I came to the realization that in the last 12 months I have worked for only three months (the first three months of this year). This realization caused me to sit and reflect. As I reflected, I started to feel so bad, tears welled up in my eyes. I felt embarrassed, I felt like a failure as a man, husband and father since I wasn't able to provide for my family the way I wanted to. The more I reflected, the more depressed I got. While sitting there, a voice whispered to me, "But look what I have done", and the voice repeated, "But look what I have done". Immediately, a fresh revelation came to me. Even though I had been unemployed since June last year, all my bills were paid in full and on time; my car was not taken up and had a full tank of gas every week; my wife and daughter were clothed, fed, provided for and housed; my health did not deteriorate. As a result of not working, I spent the majority of my time with my daughter, which in my opinion is more work than any other job I had. Being home with her gave me the privilege of seeing when she first crept, walked, clapped her hands, talked, climbed and fed herself. And anyone who sees us together knows she is truly a daddy's girl. Sometimes we spend so much time wallowing in our despair and situations that we often don't see the goodness of God in our lives and the positives that are birthed out of challenging times.

We as a people will face numerous hardships and dry seasons in our lifetime but they are there for a purpose. I call these hard and challenging times – wilderness experiences. A wilderness is a dry, uncomfortable and lonely place.

A wilderness experience is a time of hardship and dryness in your life, which will lead you to celebration, peace and freedom once you don't give up or stop moving. (Think about it as your promised land.)

During these experiences there isn't much that others can do to help because it is a time when God deals with you one on one. It's a time for building character, renewing perceptions and mindsets, and reforming the heart and focus.

During my wilderness experience I have been dealing with areas of laziness, procrastination, selfishness, jealousy and pride in my life. Yes, I have issues too but one thing is sure, because of this wilderness experience I am a better person today than I was last June. We are often tempted to ask God to take away these hard times from us but I want to encourage you not to make this prayer. Instead, ask God to give you the grace and strength to face these challenges so that, in the end, He gets the glory. God didn't take Daniel out of the lion's den; he didn't stop the three Hebrew boys from going in the fiery furnace; he didn't rescue Joseph from his brothers or Potiphar's wife and neither did he save Jesus from the cross. What He did was give them the grace and strength to overcome. All of these men were facing wilderness experiences. The wilderness experience lasts only for a time, once you don't stop moving or give up.

- ***Corey Worrell***

I say to you fellow Barbadians, stand firm, keep the faith, and we shall overcome.

The DLP will not fail because we are made to succeed. Barbados will not fall because we are constructed win.

I am obliged Sir.