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**BARBADOS**

# Financial & Statement Budgetary Proposals

Presented by

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**The Hon. Owen S. Arthur**

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Prime Minister and

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Minister of Finance and

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Economic Affairs

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**Tuesday, April 25, 1995**

## Introduction

Mr. Speaker, Sir, today I have the honour to present to Parliament the first Financial Statement and Budgetary Proposals of the Barbados Labour Party Administration which assumed office on 6th September, 1994.

If great expectations have been excited at the prospects of the articulation of my Government's economic and financial policies – and apparently they have been – those expectations are securely rooted in the clear understanding by one and all that we simply cannot afford to stand where we are.

Barbados has much to be thankful for. The dint of effort of many, exhibited over several generations, our national commitment to practise sound and creative policies in all areas of national endeavour, and the resolve of the people of Barbados to do everything in their power to see that Barbados succeeds have contributed to the creation of a quality of life in this nation which is far superior to that of most developing states, and nearly akin to that of the industrialised and developed world.

Our national accomplishments however, should not cause us to wish to rest on our laurels nor from directly confronting the very many challenges with which we have yet to grapple.

And they are many.

The economic, financial and social policies of this administration will work themselves out in an environment which is remarkably different from that which has faced any recent generation.

Everywhere, the march of technology is expanding the boundaries of production and creating new and exciting economic opportunities, but equally reordering social relations, the way people live, work and relate to each other. In its wake, the globalisation of production is rapidly drawing countries, great and small, into increased reliance on the

workings of the international free market, and into intense competition to secure their place in that market.

For us as a nation, these developments will herald major, far-reaching and irreversible changes in the way in which we conduct business domestically and in the way in which we relate to the wider international economic community.

Indeed, Sir, for generations, a very large proportion of our economic progress was founded on our being able to have access to guaranteed and protected international markets for our goods at guaranteed prices. We benefitted, too, from the access we enjoyed to financial resources from donor countries and lending institutions at concessional rates. There was also the expectation that, equipped with such resources, activist Governments could forever expand the boundaries of social and economic opportunities in our nation.

Mr. Speaker, all of this has changed. The age of market preferences and concessional finance is coming to an end for Barbados. In addition, the limits of possible state expansion have been reached and perhaps even exceeded.

As a small country Sir, our economic prospects now and for the foreseeable future will therefore depend heavily upon the manner in which we gear ourselves to compete in the new, competitive, international economy and, more especially so, Mr. Speaker, to take advantage of the very many opportunities which are even now being created as a result of the changing international demand and technology.

I am confident that we can make it. And this budget will therefore address itself to the concerns of a new Barbados, functioning in a new competitive international economy.

At home, despite considerable social and economic progress on many fronts, there are yet a number of problems to be addressed. The

burden of unemployment bears grievously on the best educated and trained generation of young Barbadians in our history. The growth and expansion of the national economy has benefitted many, particularly large established enterprises; but it has not been as beneficial to smaller, newer economic entities and, indeed, the recent process of adjustment has left many floundering. Breadwinners and households have also been made to carry the brunt of the national structural adjustment efforts, but their contribution to increasing productivity is critical if national economic progress is to be secured. They await, Sir, signals that their contribution to national development is understood, welcome and will be stimulated.

In addition, although recent efforts have been made to reform direct taxation in Barbados, this country continues to have one of the highest ratios of direct tax to national output in our region. And the present system of indirect taxation is so punitive that it serves largely to drive much of our business underground or abroad. Added to this, the development of our money and capital markets has neither kept pace with our economic and financial requirements nor with developments in neighbouring Caribbean countries, where potential savers and investors are now profiting from the availability of a wider and more exciting range of financial instruments.

On the fiscal side, the appearance of stability has camouflaged the growth in arrears by Central Government's departments and the widespread recourse to slipshod and illegal practices which threaten to undermine the integrity of our system of public finances. In addition, Sir, public sector projects have been badly planned and even more poorly executed. And there is still very much the threat that unless concerted action is taken now to curb the financial appetites of some state institutions or to restructure those which have been bankrupt for some time, they will come to constitute a major drain on the public purse.

Above all, Mr. Speaker, despite the superficial evidence of recent economic growth, the economy continues to be at its weakest where it matters most. Economic growth cannot be indefinitely sustained, nor existing jobs maintained nor new ones created by enterprises which are insolvent, under-capitalized and cash strapped, or earning rates of returns that are too low to maintain investor interest.

Yet, regrettably, this happens to the unhappy lot of a large proportion of the enterprises operating in all of the main productive sectors of this Barbados economy.

Mr. Speaker, it is my Administration's intention to work assiduously towards building a strong, modern and competitive economy in Barbados, an economy in which the principal thrust in the generation of incomes and jobs comes from the expansion of activity in those sectors which compete in the international business arena; an economy so structured and so managed as to enable Barbados, with its wonderful endowment of human resources, to grasp the opportunities daily being created in a world of skill-intensive, knowledge-based industries, an economy in which there is a broad range of thriving, prosperous and well managed small businesses, filling important niches in our domestic and regional economy, an economy in which investor confidence is securely anchored in our pursuit of sound and stable policies which allow enterprises to realise reasonable rates of returns and to plan their corporate affairs within the context of well-defined macro-economic policies. We look to build an economy which can pay its way in the world, maintain a sound foreign exchange reserve position and maintain the existing value of the Barbados dollar relative to the U.S. dollar. We will build an economy in which the burdens of any adjustment are fairly distributed, in which increases in productivity are at the centre of our considerations, and in which productivity gains are fairly shared between capital, labour and technology.

We will build an economy in which the longstanding Barbadian penchant for fiscal prudence will govern the administration of our affairs and save Barbadians from the spectacle of economic and financial disorder which regrettably has done so much harm to our society recently.

Above all, Mr. Speaker, we accept that it is feasible, in the climate of our times, to conceive of and to execute economic and financial policies which will over time reduce unemployment in this country to negligible proportions.

Barbados has recently been subjected to a stabilisation programme and a series of structural adjustment policies carried out in collaboration between the then Democratic Labour Party Administration and international lending institutions.

Mr. Speaker, there are two critical options facing Barbados today, and both are predicated on the assumption that we see ourselves as having a responsibility to influence future events.

One option is to recognize that we have reached a point in our history where we can construct a sound economic foundation for ourselves in the new century that is already beckoning us.

The other choice is to procrastinate, or to refuse to consult a wider cross-section of expertise, as we have done over the last eight years and continue thereby to be helpless victims of our changing times.

I firmly believe that this country has suffered needlessly from excessive reliance on the second option over the last eight years, but it is not my intention to dwell unnecessarily on the circumstances that placed Barbados in its worst economic experience since Independence.

Those facts are still very fresh in memory, and need no embellishment by me. On the other

hand, where reference is made to them by this Government during discussion of the Budget for 1995-96, it is principally to set the context for the reasons why, and the means whereby, we must chart a different course.

I am persuaded, Sir, that undue dependence on external judgments has undermined national initiative. It has also robbed our people of the inspiration to achieve. This country can gain nothing from such subservience, and we must reverse this trend without further delay.

Under the new Barbados Labour Party Administration, there will therefore be renewed opportunity for our people, whether as individuals, as families, as corporate citizens within the private sector, or as agencies of Government, to apply their considerable aptitude, knowledge and skills in constructing a just society.

We will not follow the example of the unwise steward and hide our talents under a bushel.

The task that lies before us, indeed, the task on which we must embark immediately is one that puts a premium on national integrity and loyalty. It will recapture the pride that once prompted and rewarded our productive efforts. It will renew in us the spirit of brotherhood and community that, for many a decade, has made Barbados a model widely admired within the Commonwealth and far beyond.

As is well known, Mr. Speaker, much of what we do in the real world depends on what we afford. In seeking to rebuild the desired society, we must face certain fundamental facts. Beset, as other countries are, by economic complications that are both domestic and external in origin, Barbados has still not emerged from serious financial difficulty. Prudence



dictates that we exercise utmost care in clawing out of this situation, lest we lose control and plunge to a condition possibly worse than that of our recent experience.

It is therefore, Sir, out of a need to be circumspect, but equally with a responsibility to be creative, that the Budget for 1995-96 has been designed.

I would wish at this point, Sir, to make a brief acknowledgement. In shaping and refining this budgetary instrument I am indebted to my colleagues at Cabinet and in Parliament, to the Civil Service, to the Boards of Statutory Corporations, to the leaders in the Private Sector, Trades Unions and Staff Associations. The proposals that I am presenting today owe a great deal to the information, suggestions, recommendations and cooperation of persons in all of these groups.

I am pleased to let you know that I have also had the benefit of views expressed by persons in other areas, including the Church, social and charitable organisations and other individuals who have no known affiliation to any group, including political parties.

In canvassing or otherwise lending an ear to such an extensive cross section, effect was being given to a policy set out in our 1994 General Election Manifesto. Our emphasis on developing a participatory democracy must be seen to extend beyond strictly political issues. The Budget is no exception, even though, if we are to be realistic, it is perhaps least likely to reflect the fond desires of every taxpayer.

I am nevertheless gratified, Mr. Speaker, that as a result of sifting and refining the aggregates of all the various contributions, Government has produced a formula that is best able to purge impurities from our financial system, revitalise our productive sectors and restore Barbados to robust economic health.

The darkness at the end of the tunnel we recently inherited must be illuminated. This Government, which I have the honour to lead, will bring a brightness that the people crave and desire. They cannot function and thrive in the encircling gloom.

In the words of the poet John Milton: "...Doth God exact day labour, light denied?" But, like Milton, encompassed with the deep shadow brought on by his blindness, we are not so heavily shrouded that we cannot think. Like him; too, we must with fortitude assail our affliction to produce an inspirational and enduring work. Such I trust, Mr. Speaker, is the nature of this Budget.

## The Barbados Economy

It is against this background that I wish to present a perspective of the performance of the Barbados economy in 1994, the performance so far and the outlook for 1995 and an appraisal of our economic prospects for the short and the medium term.

Mr. Speaker, it is estimated that the value of goods and services produced in Barbados in 1994, adjusted for price increases, was just over 4% more than the value of output in 1993. This growth in 1994 followed upon a 0.6% increase in real GDP in 1993 coming after declines in national production in the order of 3%, 3.9% and 5.7% in 1990, 1991 and 1992 respectively.

In the circumstances, Sir, it would be therefore fair and appropriate to say that a turn around has started to gain momentum in the Barbados economy.

For the first time in 5 years, the expansion of economic activity was driven by the expansion of the export sectors. The performance of the tourism sector was particularly striking, with growth of approximately 10% being realised on the strength of a surge in long stay visitors in the first half of the year. Sugar production registered an increase for the first time since 1990, with 51 000 tonnes being produced falling marginally

short of the amount needed to meet Barbados' EEC quota. Non-sugar agriculture, however, declined by 5.3%, continuing a trend which has set in since 1991.

Manufacturing output is estimated to have increased by 7.3% in 1994, in contrast to declines recorded in the previous 4 years. Economic growth was also recorded in the domestically oriented sectors such as construction, the wholesale and retail trades and the general Business and Other Services Sectors.

Overall, Sir, it was estimated that the value of goods and services produced, as measured by GDP at factor cost amounted to \$2.9218 billion in 1994, up from \$2.788 billion in 1993. Significantly, however, the GDP in 1994 at factor cost was lower than the GDP at factor cost of \$2.9653 billion in 1990, although prices have risen and the population has grown in the interval.

Nineteen-ninety four was also characterised by significant investment in the tourism sector, involving hotel construction, general upgrading, golf course construction, general refurbishment and investment in ancillary services such as water sports, duty-free outlets and restaurants. It is estimated that these investments amounted to \$86 million, of which about 30% was met from foreign capital inflows.

In keeping with recent trends, and influenced by low prices abroad, consumer prices abated in 1994 and it is estimated that the average rate of inflation for the year amounted to 0.1% compared to 1.1% for 1993 and 6.1% for 1992.

The growth of the economy also allowed for modest job creation and the rate of unemployment which stood at 22.1% at the end of 1993, is reported to have declined to 21.2% at the end of 1994. At the end of the year it is estimated that some 27 000 Barbadian, who have actively been seeking work, were unemployed in this country.

The financial sector exhibited a contrasting performance in the two halves of the year. In the first half of 1994, the commercial banks recorded excess liquidity ratios as high as 13%, as a result of the growth of deposits accompanied by weak private sector demands for credit.

In the second half of 1994 however, the liquidity position tightened considerably with the ratio falling to 5.7%, as a result largely of a major surge in credit to the private sector.

Indeed, Sir, 80% of the \$142.4 million in the growth of commercial bank credit to the private sector occurred in the second half of 1994.

In December 1994, the Central Bank tightened credit policy in a belated response to a rapid increase in bank credit to the private sector in the preceding months that had been financed by a reduction in the banks' holding of Government securities, which have resulted, since August, in a larger than programmed decline in our country's international reserves. It raised the minimum deposit ratio from 4% to 5% and its own discount rate from 8% to 9<sup>1</sup>/<sub>2</sub>%. Banks responded by increasing the prime lending rate by a percentage point, and the Treasury Bill rate, which had declined in the middle of the year, was pushed up to 7.4% by year-end.

Deposits at non-bank financial institutions fell by \$55 million during the year. In relation to the capital market, the significant developments were the placing of a \$45 million cross border issue by the CIBC, the issue of \$98 million in bonds by the Government, and a \$45 million bond placement on behalf of the sugar industry.

Mr. Speaker, during 1994, there was an improvement in the balance of payments as was reflected in \$117 million increase in the country's net international reserves. The favourable current account balance, a feature of the preceding two years, was supplemented in 1994 by favourable capital account transactions. Principal among

these were increasing foreign capital inflows to finance private sector projects and, in addition, Sir, the Central Bank in 1994 borrowed enough funds on foreign capital markets to exceed its foreign amortisation payments.

As a result of the improved balance of payments performance by the end of the year, the country's liquid foreign reserves were estimated to be equivalent to 11 weeks of imports, compared to 7 weeks at the end of 1993.

Outflows for foreign debt service totalled \$243.7 million, some \$25 million more than in 1993. Total debt service payments represented 17.5 per cent of the value of the exports of goods and services, somewhat below the 22.9 per cent for the four year period ending in 1993.

Overall, Mr. Speaker, and certainly by comparison of the recent record, the performance of the economy in 1994 can be described as having been encouraging. There were, however, a number of features in the functioning of the economy of sufficient gravity to cause us to temper optimism with caution.

To begin with, and as previously observed, the value of goods and services produced in Barbados in 1994 was less than the value of output in 1990, despite the fact of price increases and population growth in the intervening period. The implication is that the growth over the past two years, though welcome, has simply not been large enough to compensate for the far substantial declines in the preceding years. In the circumstances, it would be an illusion for us to believe that the growth realized can support a return of the national quality of life to earlier levels without a substantial recourse to foreign resources.

This feature at the macro-level was represented in a similar pattern at the sectoral. For instance, tourism arrivals grew in 1994 over 1993, but again the arrivals for 1994 were below 1989 and 1990 levels. More to the point, Sir, the

Central Bank's Annual Report for 1994 indicates that the upturn in the United Kingdom market alone contributed 79 per cent of the overall growth in tourism arrivals and that this was in itself explained by an influx of cricket fans during the second quarter of the year, cheaper fares, more charters and intensified marketing.

It is, therefore, clear that unless those same predisposing factors were to exist in subsequent years, and this has not been the case, tourism would not be able to sustain its contribution to national growth. Of equal concern is the fact that in 1994, Barbados continued to lose ground in its main market, the U.S. Market, with arrivals which stood at 154.3 thousand in 1989 falling to 109.1 thousand in 1994. These things point to the need to have our tourism affairs put in such a solitary state as to have strong growth driven by market forces rather than arise from infrequent special events.

It must also be observed that although Barbados continues to do well in the development of its offshore business and financial sector, major windows of opportunities that can lead to the generation of many millions of dollars in new areas such as trusts and mutual funds management have been missed out because there was tardiness in having the relevant legislation put in place. Of equal concern, Sir, is the fact that many of the enterprises operating in tourism, manufacturing and agricultural sectors continue to experience financial distress, as reflected in low or negative rates of returns and a build-up in their arrears to lending institutions and government's revenue departments.

The policy implication therefore must be, Sir, that structural adjustment at the macro-level taken in the form of trade liberalization tax reform, financial liberalization and the like, designed to improve the macro-economic indices such as the growth rate, reserves and the level of inflation now have to be supplemented by adjustments to underpin and improve the solvency and the viability of enterprises in much of the productive economy of Barbados.

Mr. Speaker, there has been a slow down in the rate of growth in the Barbados economy in the first quarter of 1995 and the Central Bank, which initially estimated growth for the year of over 2 per cent, has now revised its preliminary estimate to approximately 1 per cent. Sugar production which amounted to 51 000 tonnes in 1994 is now expected to decline 30.6 per cent as a result of the drought last year and tourism has not reproduced its performance of last year and is expected to grow only marginally in 1995. These are the chief factors at work in explaining the slow down in the rate of growth of this economy. The non-trading sectors and the other sectors of the economy are, however, expected to expand.

More than considerable interest continues to be shown in Barbados' informatics and offshore business and financial services sector and we expect that these sectors will be continued.

We are also sanguine about the prospects for the expansion of manufacturing in the light of concessions given, and the policies and concessions to come.

Despite the fact, Sir, that more than 2<sup>1</sup>/<sub>2</sub> times as much foreign debt had to be repaid in the first quarter of 1995 as in 1994, the net international reserves of the Central Bank increased by almost \$29 million in the first quarter and the gross holding of foreign reserves by the Central Bank and the Central Government amounted to approximately \$450 million at the latest count.

It is anticipated, therefore, that although we will commence the repayment of IMF loans in May and the Yen denominated loan repayment that will be made this year will require a larger Barbados dollar equivalent to service it, we will nonetheless end the fiscal year to govern. It is expected however, Mr. Speaker, that the liquidity position of the banking system will remain tight, and that has already been reflected in the proposed structure of Government financing for the fiscal year 1995-96.

Sir, we anticipate that the output of the sugar industry which will be depressed in 1995 will reach over 60 000 tonnes in 1996 and that the performance of the tourism industry will gather renewed momentum by the winter of 1995.

The slow down in the growth rate in the Barbados economy in 1995 is therefore likely to be a temporary and a passing phenomenon and it is therefore envisioned that over the short and the medium term the economy will operate on a sustainable growth path, realising an annual average rate of growth of between 3% and 4%.

At this juncture, Sir, I need to spell out the nature of Barbados' relationships with the International Financial Institutions, since these relationships will have a bearing on the course of economic events in this country.

In 1994, in presenting his budgetary proposals to this Parliament, the then Minister of Finance indicated the intention of the administration, on whose behalf he spoke, to enter an Enhanced Surveillance Facility programme with the International Monetary Fund to meet the preconditions of accessing an Investment Sector Loan from the Inter-American Development Bank.

I said then, and my party pledged in its Manifesto, not to entertain an Enhanced Surveillance Programme or any financial programme with the International Monetary Fund. The IMF is free to send teams to Barbados as set out in its various Articles to consult with our authorities and our advisers on economic matters, and to render such advice through such consultations as it sees fit. And this it has recently done.

I must, however say for the record, Mr. Speaker, that I was powerless in Opposition to enter any deal, secret or otherwise, with the IMF for any purpose, least of all to bring about the devaluation of the Barbados dollar. And this administration has not entered any deal, secret or otherwise, with the IMF since 6th September, 1994. There is also, Sir, no longer an IMF representative stationed in the Ministry of



Finance and Economic Affairs. This Government, however, proposes to maintain a constructive relationship with the institution without entering any financial programme.

In relation to the World Bank, Sir, Barbados is due to graduate from having access to its loans. During this fiscal year outlays will be made on three projects which have been agreed to before the expiry of the phase-out period. One of these is a Human Resource Project for U.S. \$18 million designed to strengthen the human capital-base of Barbados by providing resources to train our people.

The Democratic Labour Party administration had agreed that, as a precondition for the receipt of those loans, the Government of Barbados should charge students at the Samuel Jackman Prescod Polytechnic and the Barbados Community College fees.

This arrangement was entirely unacceptable to this administration and we so advised the World Bank.

I wish to thank the World Bank for having agreed to revise the terms and conditions of this loan and I am pleased to be able to announce that this project, which can mean so much in our fight to reduce unemployment, will now go forward without the conditions earlier entered into.

The Inter-American Development Bank has evolved and will continue to function as the main source of project and other development finance for Barbados.

For the past three years, the Government of Barbados has been discussing with the Bank an Investment Sector Loan which is intended to provide quick disbursing balance of payments support to assist in cushioning the effects of structural adjustment in the economy.

Again, the condition for the loan was the stipulation that Barbados should enter an

Enhanced Surveillance Facility Programme with the International Monetary Fund.

Since September 1994 the Government of Barbados has been conducting extensive negotiations with the IADB to clear obstacles in the way of accessing this loan. An IADB team visited Barbados in March, one is at present in the island and another is expected in May to deal with matters pertaining to this loan facility.

It is anticipated that arising out of these efforts, the necessary documents pertaining to the Investment Sector Loans with the Inter-American Development Bank should be ready for presentation to the IDB's Board of Executive Directors for approval in September of 1995.

Barbados is also in line to have access to the IDB's Multi-lateral Investment Fund. This is a U.S \$1.3 billion Fund, financed by 30 member countries, including Barbados, and administered by the IADB through which investment funds are provided for the following purposes:

First, to help Governments modernise their judicial systems, particularly in matters related to private investment such as business and corporate law and arbitration mechanisms;

Second, to finance schemes geared towards the development of human resources. And eligible recipients of funds will be drawn in this instance principally from the non-governmental sector and other entities such as training centres, private training firms and vocational schools; and

Thirdly, to provide funds for micro-enterprises and small businesses to meet credit needs, to fund business advice, technical know-how and market information, equity financing to Small Enterprise Investment Funds and the creation of partnerships and sub-contracting.



The Government wishes to urge all non-governmental and private sector organisations to make the fullest use of the opportunities presented by this Multi-lateral Facility, and once the way is clear, the resources of the Ministry of Economic Affairs will be pressed into service to work with the non-governmental organisations of Barbados and the private sector to ensure that Barbados benefits to the fullest from this facility.

### Incomes Protocol

I turn, Sir, to the question of an Incomes Protocol. Mr. Speaker, in considering the short and medium term prospects of the Barbados economy, I should also wish to spell out our position on any Incomes Policy. The Incomes and Prices Protocol which had at its core a freeze on basic wages, together with productivity and profit-sharing arrangements, expired on 31st March, 1995.

The Government and Social Partners have held a series of meetings since September 1994 to discuss the workings and impact of the original Protocol and to examine the feasibility of devising a successor to take with us into the future.

Arising out of these meetings, a Committee drawn from representatives of the public and private sector, trade unions and other worker institutions, has been established to, among other things, develop a successor Protocol on the understanding, Mr. Speaker, that the collective bargaining process will operate in the future as the framework within which wages and incomes packages are arrived at, in both the public and private sectors, and that productivity gains be the benchmark used in arriving at settlement at the enterprise, departmental and sectoral levels.

The Committee will also keep under purview industrial relations practices in this society and will through its investigations and recommendations make its best endeavours to ensure that Barbados continues to benefit from a climate of stable industrial relations.

Mr. Speaker, Barbados is not yet out of the woods. Formidable matters pertaining to our international competitiveness await national resolution.

Our national accounts show that in 1994 the value of goods and services produced in this country was less than in 1990. This dramatic piece of information requires that for the future we must continue to pay ourselves increases out of productivity gains.

I must therefore grasp this opportunity, Sir, to impress the need for restraint and moderation in the size of wage settlements arrived at now and for the immediate future, and I trust that all concerned will continue to see the national purpose in this matter with the same clarity that was evident over the past few years.

### Monetary Policy

I turn now to monetary policy.

The objectives of monetary policy in this fiscal year will be:

1. to maintain adequate foreign exchange reserve stocks so as to guarantee a stable value of the Barbados dollar;
2. to ensure continued health of the financial system; and
3. to support initiatives for financial investment in export and the tradeable services.

Government recognises that a small fiscal deficit, designed to prevent increased levels of Central Bank financing or an excessively high interest rate regime, is integral to its objectives of sustainable economic growth and a strong balance of payments. By accompanying restrained fiscal operations with a sober monetary stance, we can ensure a strong balance of payments and a maintenance of adequate foreign exchange reserves.

Government believes that a low interest rate regime will be conducive to enhanced competitiveness and strengthening export potential. However, the interest rate regime must be consistent with the country's short and medium term reserves objectives.

In this regard, the monetary policy framework has changed significantly over the course of the past three years. The liberalisation of the financial system by the Central Bank and particularly the dismantling of selective credit controls has placed additional emphasis on the use of interest rates as the main instrument of monetary policy.

To this end, in 1993 and more recently last December, the Central Bank raised the minimum deposit rate as a result of strong credit growth and a tightening of the domestic liquidity position. While there has been a moderate improvement in banking liquidity during the early months of 1995, some deterioration is expected later in the year. Moreover, despite the foreign reserve gains in recent years, the foreign exchange situation remains fragile when viewed in terms of the medium term objective of building reserves equivalent to three months of imports.

Accordingly, the current monetary stand will be maintained for the time being and no increases in interest rates is envisioned at this time or in the immediate future.

Mr. Speaker, Sir, to indicate its commitment to fiscal discipline, this Government will restore the statutory limit on temporary borrowings from the Central Bank to 10% of Government's estimated revenue, where it stood prior to 1990. Government will borrow through the issue of securities at market rates so as to encourage financial savings. Towards this end, Government will review its cashflow management practices with a view to providing timely forecasts in order to avoid breaches of the new overdraft limit of 10% of Government's revenues.

Financial regulations are under continuous review in the light of changing conditions at home and abroad. In 1994, a regional study of bank regulation was completed. Recommendations which are pertinent to Barbados include amendments to the Financial Intermediaries Regulatory Act, particularly with respect to strengthening the legal framework. New guidelines are also proposed for loan classification and capital adequacy criteria and financial statements as well as to deal with money laundering. Institutional strengthening will focus on greater training and supervision, especially enhanced offsite surveillance.

Strengthening of the foreign exchange reserve levels depend in part on the development of our export industries. In this regard, the financing of new investment by firms engaged in the export of goods and services is crucial. The Central Bank of Barbados already provides support for the exports of goods and services through its export credit and guarantees schemes. Financing for the export sector is also provided through the Industrial Credit Fund and the Barbados Investment Fund administered by the Caribbean Financial Services Corporation.

The Bank has increased its contribution by the injection of a further \$1 million to assist in the capitalisation of small business projects. While good progress has been made with the financial aspects of economic stabilisation, the Barbados economy remains fragile and it is necessary to ensure that financial resources flow in the first instance towards exports and trading sectors.

Government particularly welcomes any such initiatives that may come from the private sector.

### **External Debt Management**

Mr. Speaker, Sir, declining levels of external debt, improved foreign exchange earnings and falling debt servicing requirements have enhanced Barbados' external debt profile. This has contributed to a favourable Ba2 rating obtained in December 1994 by Moody's

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Investor Service on Barbados' US\$50 million global medium term note programme. I am pleased, Sir, to report to this Parliament that despite falling bond prices due to the Mexican crisis, the price of Barbados' bonds put in the market has been rising, which suggests that contrary to suggestions raised elsewhere investors still have confidence in Barbados' economic prospects.

Government accepts the need to exercise prudence in new external borrowings and will continue to manage its borrowing requirements judiciously by engaging in selective commercial borrowing designed to refinance maturing debt. In addition, Sir, Government will strive, wherever possible, to lengthen maturities on commercial loans and thus avoid the bunching of repayments.

### **Policies Relating to CARICOM**

Mr. Speaker, Sir, I now turn to policies related to our trading in CARICOM. In 1989 at Grand Anse, Grenada, the Conference of CARICOM Heads of Government decided to establish a Caribbean Single Market and Economy. One of the basic elements of this programme is the establishment of free trade within the region. This was to have been accomplished by September 1990.

To date, despite the repeated urgings by the Common Market Council, three member states have not yet given effect to the decision by removing licences on CARICOM goods, which are inconsistent with their Treaty obligations. Barbados is one of these countries. And I must emphasise that Barbados took part in all of the decisions relating to the creation of regional free trade, both at the level of Council and at the level of Heads of Government Conference.

Currently, Mr. Speaker, there are 58 tariff headings for CARICOM products which require an import licence in Barbados. Twenty-one of these are primary agricultural products, 23 are agro-processed products and the remaining 15 are manufactured goods. Of the 23 agro-

processed products, 9 must remain under Schedule by virtue of the Oils and Fats Protocol of Schedule IX of the Annex to the Treaty establishing CARICOM.

Within the 15 manufactured products category, 6 products are kept under licence for safety reasons.

At the Intercessional Meeting of the Conference of Heads of Government held in Belize in February this year, I gave the undertaking that Barbados would endeavour to remove licences on CARICOM goods as soon as possible.

In pursuit of that undertaking, I met with the private sector to assess the implications to them of the removal of the licences. One of the results of our initial meeting was the decision to establish a Public/Private Sector body to identify non-tariff barriers which confront our exporters in CARICOM, assess the implications of the removal of licences for domestic manufacturing and agricultural industries, and to evaluate the effectiveness of the relevant safeguard mechanisms of the CARICOM Treaty.

The Committee has identified barriers to the Food, Beverages, Agriculture, Garments, Furniture, Plastics, Packaging, and Chemical sectors for Barbados. These barriers range from the implementation of discriminating standards, to the use of subsidised inputs in the manufacturing process by other Caricom countries. In addition to the above, other factors have been identified as impacting on the manufacturing sector. These include the high cost of energy and the high port charges in Barbados which are among the highest in the world.

I have decided, Mr. Speaker, that generally, licences which are inconsistent with our Treaty obligations will be abolished with effect from June 1, 1995. However, it is recognised that even within the context of a free trade regime, there are, at times, certain sectors or sub-sectors which,

given their sensitivity and, indeed, their vulnerability, cannot be exposed to free trade. This is so, Sir, in the Canada/US Free Trade Arrangement, and in the North American Free Trade Agreement which embraces the United States of America, Canada and Mexico. And it is also reflected, Mr. Speaker, in the Agreements of the recently established World Trade Organisation.

For instance, the poultry and egg industries of Canada are insulated from free trade under NAFTA. The agricultural sector is also protected in all three countries that participate in that free trade arrangement as well.

Mr. Speaker, in Barbados there are certain aspects of our industrial and agricultural sectors which we cannot as yet commit to free trade, without exposing them to serious adverse consequences. I refer, Sir, to the Poultry, Egg, Ham and Bacon sub-sectors as well as certain agricultural products. In addition, our soft drinks industry could suffer untold harm if it were now to be opened up to free trade in the region.

There is a strong case indeed, Sir, for retention of licences in respect of the soft drinks industry in particular. The CARICOM Council has recognised the difficulties inherent in free trade in soft drinks in the region. That is why it has requested an in-depth study of the regional industry and before any decision is taken to remove licences from soft drinks in Barbados we prefer to await the results of the study as well as the pronouncement of the CARICOM Council on that matter.

Similarly, Sir, my Government will not remove licences from agricultural products until adequate protection is provided under the Treaty for this sector. This position has already been clearly conveyed to the CARICOM Council. In addition, Sir, even with the safeguard provision contemplated by the Council, Barbados will have to retain licences, at least for the medium term, on poultry, eggs, ham and bacon production. We are prepared, Sir, to make this

submission to the next meeting of the CARICOM Market Council later in the year.

My Government, Sir, recognises that trade liberalisation is the centrepiece of the results of the GATT Uruguay Round, and is the major objective of the World Trade Organisation. This means that Barbados, like any other country that is participating in multilateral trade, will have also to respond to the process of trade liberalisation. Indeed, we have already begun to do so, as evidenced by our tariff reductions, as well as the abolition of a number of licences on certain imports into Barbados.

However, Mr. Speaker, I wish to make it abundantly clear that Barbados is prepared to engage in free trade to the extent that it is capable of so doing. And we expect that trade will not only be free but will also be fair. We expect this to be so in the extra-regional arena and we also expect this to be so in CARICOM as well.

Mr. Speaker, it is my Government's intention to deal firmly with any unfair trading practices against Barbados' exports to CARICOM, once we have removed licences on regional goods. In this context, I have institutionalised a public/private sector body, under the Chairmanship of the Minister responsible for Industry, to monitor any unfair trading practices perpetrated against Barbados and to bring them to the attention of the Government for necessary action.

In summary, Sir, my Government will pursue the following policies in respect of its trade with our CARICOM partners:-

1. All licences inconsistent with Barbados' obligations under the CARICOM Treaty will be removed as of June 1, 1995.
2. We will identify to CARICOM those products which, because of their sensitive nature, Barbados is unable to fully expose to free trade.

3. We will seek, wherever it becomes necessary, to invoke the relevant safeguard provisions under the Treaty to protect any industry or sector from threat or actual injury due to an increase in imports from member states.
4. Licences on soft drinks will be reviewed after submission of the CARICOM intra-regional trade in brewery products and soft drinks study.
5. Licences on ham and bacon will also be reviewed when more detailed information can be made available and decisions made regarding the sourcing of raw materials.
6. Licences on primary agricultural products are to remain until the new Article 29A is ratified by all member states and therefore comes into force. This article will provide for restrictions to be imposed on competing imports in cases where agricultural enterprises experience serious difficulties as a result of opening the market to regional imports;
7. Investigations are being carried out to determine if applications should be submitted for relief under Article 29 of the CARICOM Treaty in respect of beer, pasta products, Tee shirts, wooden furniture and other sensitive industries which may qualify for such treatment.
8. Barbados will, if we consider it necessary, invoke the relevant provision of Article 56 which confers on us the same right as the LDC countries of the region to impose quotas and tariffs on regional imports;
9. To deal with subsidized and dumped goods entering Barbados, the Government will invoke the relevant

provisions of the Customs Duties (Dumping and Subsidies) Act, Cap. 67. This Act will also be revised to bring it into line with the recently concluded GATT-World Trade Organization Agreements on dumping and subsidies.

Mr. Speaker, in leaving this aspect of trade, I wish to emphasize the Government's commitment to free but fair trade within our region. In this context, we will continue to play our part in moving the region towards the establishment of a single market and a single economy. But we will not do this at any price.

### **Reform of Financial Institutions**

I turn next, Sir, to the reform of our financial institutions. Mr. Speaker, two financial institutions owned by Government, the Barbados Development Bank and the Barbados National Bank have been performing poorly for some time now and, if allowed to continue in their present form, will create problems for the Treasury and undermine the integrity of our financial system.

Many studies have been undertaken to inform the restructuring of these institutions but no action has yet been taken to deal with the problems identified.

The hour of decision, has come.

### **Restructuring of the Barbados Development Bank**

The Barbados Development Bank, has accumulated losses of approximately \$65.0 million over the 25 years of its operations, and is at present technically insolvent. My Government sees a continuing need for a financially sound development finance institution to assist in the growth and diversification of our productive sectors.

To be effective, the Barbados Development Bank will have to be fundamentally restructured.



The case for restructuring the Bank is rooted in our belief that a well functioning development finance institution can make a difference in the development of the financial and capital markets in Barbados by mobilising domestic financial resources for investment purposes and, with appropriate policies in place, contribute to the creation of employment opportunities and the earning of net foreign exchange. In this context, Sir, a restructured Barbados Development Bank can assist in promoting indigenous development in Barbados, thereby making growth more buoyant and robust.

The main elements of a restructuring plan for the Barbados Development Bank will involve the abolition of the Barbados Development Bank in its present form and to replace it by two (2) new companies to be established under the Companies Act of Barbados, a new Development Finance Institution and a Recoveries Company.

### **New Development Finance Institution**

The new Development Finance Institution will assume responsibility for the performing loans on the existing Barbados Development Bank. It is proposed that this institution should be jointly owned by Government and non-Governmental entities and Government's shareholding in this institution will be achieved, in part, by the conversion of \$19.0 million of the Barbados Development Bank's debt to equity in the institution.

The new Development Finance Institution will also mobilise funds from the Industrial Credit Fund, the Caribbean Development Bank and through issues of National Development Bonds. Initially its main activity will be the provision of loan financing. But we believe, Sir, that a new Development Finance Institution should also be in the business of providing financing in enterprises by holding equity. Therefore, Sir, the new institution will seek to diversify its functions by offering a range of financial services including:

- (i) Equity and Venture Capital Financing;
- (ii) Corporate and Management Services and Consulting Services.

### **Recoveries Company**

The non-performing loans of the existing Barbados Development Bank will be assigned to the new Recoveries Company. Those projects consist of loans that can be rehabilitated and also those that are deemed non-salvageable. The new entity will be 100% owned by the Government and will seek to rehabilitate those loans that have good prospects for restructuring and will sell them back to the new Development Finance Institution. It will, however, seek to liquidate as quickly as possible those projects deemed unsalvageable.

The company will seek to develop a capacity to undertake receiverships, liquidations and restructurings. This capability will be used not only to rehabilitate and liquidate the loans on its own portfolio but also to offer services to other businesses in Barbados in competition with existing operators in the field.

This entity will specifically address the needs of the troubled small to medium size hotel enterprises in Barbados. While there has been significant refurbishment and expansion on the West Coast, the South Coast properties have lagged significantly behind in this regard.

My Government has therefore formulated a package of assistance aimed at restoring these properties to viability, in addition to creating an enabling environment for sustainable growth and increase foreign exchange earnings.

The main element of this package would include:

- (i) The provision of a \$10 million facility for the upgrading and refurbishment of hotel plants which are in debt to the Barbados Development Bank.

- (ii) Debt relief by conversion to equity in the region of between 20 – 30% of debt liabilities of the enterprises concerned amounting to between \$4 – \$5 million of the sum concerned.

- (iii) Arrangements for Group Management and the marketing of properties, involving the employment of a Canadian Management company with considerable experience in this area.

The success of this programme will require the co-operation and collaboration of the existing owners who must appreciate the fundamental differences between the ownership and management of business enterprises, and I look forward to the co-operation of all concerned in this endeavour.

### **The Barbados National Bank**

The new Board of Directors of the Barbados National Bank have instituted measures to structure and operate the institution as a genuine Commercial Bank.

These measures have included the establishment of a centralised credit administration and corporate lending department and the recruitment of professional management to fill key posts in the Bank.

Despite the foregoing initiatives there are a number of structural problems which will continue to impede or adversely affect the Bank's performance unless remedial action is taken.

### **Impaired or Non-performing Loan Portfolio**

As at December 31, 1994, the Bank's impaired or non-performing loan portfolio consisted of approximately 1 284 accounts aggregating to an estimated \$60 million. Every effort will be made to restructure a number of these accounts and, where this is not possible, to minimise the loss to the Bank.

The Board believes, Mr. Speaker, that inadequate loan loss provisions had been made

in previous years. The Bank's management and the Auditors have conducted a review of the Bank's loan portfolio and have made a loan loss provision of approximately \$13 million for the year ended December 31, 1994.

The Bank is therefore, expected to show a loss in the vicinity of \$10 million for the year 1994, and a further loss of \$3 million is estimated for 1995 as the effort is made to restructure the Bank's portfolio. Thereafter, it is expected that the Bank will return to profitability in 1996 and show sustained growth thereafter.

### **The Low Yield on Government Securities**

In addition, Mr. Speaker, arising out of the restructuring of the Sugar Industry Portfolio, the Barbados National Bank was required to accept a bundle of Government Securities with yields as low as 4%, in circumstances where the Barbados National Bank has to pay upwards of 7.25% to attract sizeable deposits. This yield disparity will continue to undermine the performance of the Barbados National Bank and will in due course become a fiscal problem unless timely remedial action is taken to address the problem.

Presently, the Bank holds almost \$350 million in Government securities of which in excess of \$200 million relates to the settlement of the Sugar Industry debt. Each percentage point below market prices on the latter results in a loss to the Barbados National Bank in excess of \$2 million a year.

The bank will, therefore, need to have these securities carry a coupon rate as near to the market rate as possible and discussions between the Bank and the Ministry of Finance are in train to have this matter resolved as soon as possible.

### **National Insurance Scheme**

Mr. Speaker, Sir, I turn to matters pertaining to the National Insurance Scheme dealing first with the issue of pensions. National Insurance

pensions were last increased in 1990 when in fact there were two increases – a \$3.00 per week increase on May 21 and by a further sum of \$6.00 per week in December. The current minimum old age contributory pension is \$76.00 per week and the non-contributory pension is \$63 per week.

In 1984, Sir, it was established by the then Barbados Labour Party Government that a non-contributory pension would be pitched at 80% of the value of the minimum contributory National Insurance pension. It was determined also that consideration would be given to increasing the value of all pensions payable under the National Insurance Scheme, not annually, but every two years.

In our Manifesto of 1994 we recognised that the need for increased pensions was urgent and we also pledged to provide and protect the entitlement of all workers to their retirement benefits. Government is committed to increasing the current levels of National Insurance pensions, but it is deeply aware of the fact that this has to be accomplished without doing damage to the Fund.

The pension costs of the fund are high, with a pension roll at December 31, 1994 of some 31 383 persons. As recently as 1993 payments in respect of old age contributory and non-contributory pensions, reached a total of \$122 million, representing some 96% of the contribution income of the Fund. Though expenditure in respect of these pensions increased to \$136 million in 1994, their share of the contribution income was reduced to approximately 80.4% consequent upon the increase in contribution rates with effect from January 1994.

Barbadians must share the burden of being responsible for our elderly. But in so doing, we must reward thrift and hard work. I therefore propose, Sir, to re-establish the 20% differential between the non-contributory and the contributory pension payable out of the National Insurance Fund but in two phases. At the

moment, Sir, the difference is 17.1% and I propose to increase it to 18.8% on this occasion by increasing the minimum contributory pension from \$76 to \$82.50 per week and the non-contributory pension from \$63 to \$67 per week.

Mr. Speaker, those who have contributed to our National Insurance Scheme and are now retired, will from the next pension period of 15th May 1995, receive an increase of approximately 8.4% in their pensions, whereas the non-contributory increase is approximately 6.3%.

Mr. Speaker, these proposals on pensions are estimated to cost the National Insurance Scheme \$10.5 million in a full year. This increase, in my opinion, will not damage the finances of the Scheme, but the structure of the contributions to the several branches of the Scheme will have to be changed.

In this respect, Sir, members of the last administration in their collective wisdom, saw it fit and necessary to increase contributions to the unemployment branch of the scheme by some 450% in 1991 while at the same time decreasing the rates of benefits. Consequently and notwithstanding the belated reduction in the contribution rate to 3% of insurable earnings in January 1994 the Unemployment fund has continued to accumulate the reserves at a scandalously high rate. When it is considered that a contingency reserve of one year's expenditure is the actuarial recommended reserve for such a fund and the greatest level of expenditure for any one year has been the \$27 million that was paid in 1992, reserves, Sir, of \$94.4 million at the end of 1994 are gross to say the least.

This has to change, Mr. Speaker! However, I have been advised that I should await the actuarial report for the triennium ended December 1993 which is expected by Mid-May this year before effecting the change. But you can be assured, Sir, that the change in the structure of the contribution rate to the Unemployment Benefit Scheme will be made once we are in

receipt of the actuarial review in Mid-May 1995.

Mr. Speaker, before I turn my attention to the other issues related to the Social Security Scheme there are three further matters involving pensions which I must simply address.

When we assumed responsibility for the Government of this country in September 1994, we found a recommendation from the National Insurance Board relating to persons living in Barbados who were in receipt of a pension from another Government or Social Security Scheme of a lesser amount than the Barbados non-contributory pension. The legislation existing then disqualified such persons from receiving the non-contributory pension and the Board was firm in its resolve that the more equitable way to deal with the matter was to top up the pension to the level of the non-contributory pension.

But, Mr. Speaker, what was the response of the then DLP administration? They dilly-dallied with this matter for years and demitted office without bringing to a conclusion a simple issue which would have brought joy and relief to a number of poor Barbadians in the evening of their days.

This Government, however, Mr. Speaker, has taken action on the recommendation of the National Insurance Board and I have signed the statutory instrument to give effect to the topping up of all such pensions. Never again, Mr. Speaker, should the elderly in our community, who meet the age and the residency criteria of the National Insurance regulations, be in receipt of a pension income of a sum less than that established for non-contributory pensions under the National Insurance Scheme.

I also adverted earlier in this presentation, Sir, to our Manifesto commitment to protect the entitlement of all workers to their retirement benefits. It is within this context, Sir, that I am pleased to announce that favourable consideration will be given to the approval of the

CARICOM Social Security Agreement. This Agreement seeks to protect the migrant or travelling worker's entitlement to pension benefits and to ensure him equality of treatment in his movement from one country to another within the region. The Agreement, therefore, provides for the pooling of the contributions paid in the various countries, and for the payment of the pension by one or more of the Social Security Schemes once you have satisfied the contribution criteria.

Mr. Speaker, the last pension related matter I wish to deal with is more of a compliance matter. I have stated already in this presentation that we all have to carry the cost of what is generally recognized to be the most comprehensive Social Security Scheme in the English speaking Caribbean. But, Mr. Speaker, a particular category of insured persons, the self employed, have always sought to renege on their legal obligation to contribute to the Scheme. I, therefore, propose to instruct the Honourable Attorney General to draft the necessary legislation to exclude from the receipt of non-contributory pension all those persons who during their working life were meaningfully engaged in economic activities as self-employed persons but neither paid their contributions nor were exempted from doing so by the National Insurance Board.

### Compliance

All tax systems in democratic countries rely heavily on voluntary compliance for its success in collecting revenue. Over time, Sir, and particularly in recent years citizens have proven to be quite adept at circumventing the legislative provisions and Governments have found themselves having to amend and upgrade the laws on a continuing basis to keep abreast of the legal manoeuvrings being employed to avoid the payment of taxes.

Notwithstanding the generous *quid pro quo* of the contributions paid, the National Insurance and Severance Payments Scheme have been plagued with problems of non-payment of

contributions and non-compliance generally. Some of the practices employers have resorted to, Mr. Speaker, are in the language of the Chairman of the Board, "highly questionable". Indeed, he has informed me, Mr. Speaker, that:

"ordinary workers including maids, store clerks and persons employed in factories are being deemed independent contractors by their employers.

Some employers are very prompt in making the statutory deductions from their employees' pay, but then they forget to pay the monies over to the National Insurance Scheme.

Others accumulate large liabilities to the Scheme and then they shift their indebted company's assets into other companies and continue on in the same line of business as though nothing has happened."

Mr. Speaker, these abuses must stop! As Minister responsible for National Insurance, I have accepted the recommendation of the Chairman and the Board on the measures needed to tighten the legislation to put an end to these objectionable practices. I can inform Members of this House that the focus of the amendments shall be on making directors of companies personally liable for the non-remittance of statutory deductions such as National Insurance Contributions to the relevant statutory institutions. At the same time active consideration will be given to debarring all those companies guilty of the practices adumbrated from qualifying for the award of Government contracts.

## Financial Review

Mr. Speaker, Sir, I now turn to the Financial Statement and review of the Government's domestic situation during the year ending March 31, 1995.

### Revenue

The current revenue for the fiscal year 1994/95 was originally estimated at \$1 022.2m.

Provisional data suggests that actual collection up to March 31, 1995 was \$1 billion 72.9 million, some \$63 million or 6.2% higher than for the fiscal year 1993/94. This outturn was due primarily to a very strong revenue performance during the quarter January to March, led mainly by an extraordinary performance in the Corporation Tax. The amounts collected during February and March were higher than anticipated and the data to date suggests that the overall yield from the Corporation Tax was \$116.3 million compared to \$86.5 in 1993.

### Expenditure

On the expenditure side, current expenditure for the fiscal year 1994/95 was originally set at \$1 billion 99.5 million. During the year, supplementary provisions of \$69.6 million were approved, making total current expenditure approved by Parliament some \$1 billion 169.1 million. The approved estimates of capital expenditure for the year amounted to \$172.1 million. During the course of the year, supplementary provisions totalled \$13 million approved by Parliament, making approved capital expenditure \$185.1 million.

The expenditure outturn for the year is provisionally estimated at \$1301.9m of which \$1177.6m is current expenditure and \$124.3m capital expenditure. As a result, the overall deficit is estimated at \$229 million or 7.8 per cent of the Gross Domestic Product. When this is converted, Sir, to the basis used by the international institutions, the deficit is \$13.6 million or 0.5 per cent of the Gross Domestic Product.

Mr. Speaker, this was achieved in spite of the fact that we decided to pay off a large number of debt and arrears which the previous administration left outstanding, converted two loans – one of \$7 million and another \$6.7 – into grants for the Severance Fund and the Caribbean Broadcasting Corporation respectively, and gave significant concessions to manufacturing,



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agriculture including fishing, hotel sector, handicapped and other individuals.

Throughout the year, and particularly since September, deliberate efforts were made to restrict the growth of expenditure and to create a climate which would allow businesses to flourish after years of hardship resulting from the misguided policies pursued by our predecessors.

It is obvious from the fiscal outturn, Sir, that there has been a great measure of success with these endeavours. In fact, Sir, the outturn clearly shows what can be achieved if prudent financial management is pursued and if there is a determination on the part of those responsible for the management of the system to maintain its integrity.

Of the \$82.6 million in supplementary appropriations approved by Parliament during the last fiscal year, the staggering sum of \$44.3 million had to be used to settle the unpaid bills and other arrears left by the former Minister of Finance and his colleagues of the Democratic Labour Party. The breakdown, Sir, of these sums is as follows:

\$4 607 726 – Welfare Department to pay arrears to the Transport Board for the travelling of old people on the buses of the Transport Board

\$6.4 million – To the Transport Board to pay arrears to the Inland Revenue and the National Insurance Department.

\$23.8 million – To the University of the West Indies to pay arrears to the University particularly, Sir, the fees of the students from Barbados attending the University of the West Indies.

\$3.8 million – To pay outstanding bills on the Sherbourne Complex.

\$2 million – To pay for land acquired in the past.

\$2.5 million, Mr. Speaker, to pay the arrears and the debts of the Barbados Tourism Authority.

\$158 000 – To settle the unpaid bills of the Hometown Complex and \$1.1 million to settle the debt of the other institutions on behalf of the agricultural sector.

Mr. Speaker, I must repeat that in spite of the fact that we settled all of these debts and did all other things, including relief to manufacturing and agriculture we were still able to keep the deficit to 0.5 per cent of GDP. It has to be understood that the diversion of financial resources to clear arrears rather than to stimulate new activity means that this new administration was constrained from making a much greater impact on the social and economic life of the country in our short tenure of office.

## National Debt

The National Debt at March 31 is provisionally estimated at \$2 329.8 million, 0.5% higher than at March 31, 1994. The domestic debt rose by 1.2% while the foreign debt fell by 2.7%. At March 31, 1995 the domestic component of the debt was estimated at \$1 683.2 million or 58.4% of the Gross Domestic Product, while the foreign component was estimated at \$646.6 million, or some 22.4% of GDP.

## Public Finances – 1995/96

I turn, Sir, to Public Finances for 1995/96. The Estimates of Revenue and Expenditure recently approved by Parliament provide for revenues of \$1 106.7 million and expenditure of \$1 362.7 million leaving an overall deficit of \$256 million. In spite of the fact that the revenue outturn for the fiscal year just ended was higher than the base we used in projecting revenue for this fiscal year, I propose to retain the proposed estimate of revenue for 1995/96 which reflects only a modest growth.

As I explained to Parliament a few weeks ago, Sir, the Estimates for 1995/96 have been prepared with one of the major objectives being to keep the deficit around 1% of GDP while at the same time to increase spending on Capital

Formation and to make provision for spending in special areas to help create a climate which is conducive to new investment by the private sector.

The Government has developed a medium term strategy and the various measures which are being proposed this year must be taken in conjunction with those adopted since October, as well as those planned for the coming years.

Among the special contributions in the Estimates or the budgets of Statutory Corporations are the following:

- (i) Provision for studies relating to the Carlisle Bay Redevelopment Project
- (ii) Provision for studies relating to Speightstown Redevelopment
- (iii) Provision for Rural Development and Urban Renewal Programme
- (iv) Water Resources Development
- (v) Housing Development
- (vi) A new Youth Programme
- (vii) Provision for the Rehabilitation of the Sugar Industry and
- (viii) Assistance and Incentives to encourage people to plant sugar cane on lands now lying idle.

I wish, however, Mr. Speaker, to sound a word of warning to all those persons who are responsible for spending public funds. Our aim is always to get value for money and to see that Accounting Officers remain accountable for the funds entrusted to their care.

Therefore, I wish to state that the sums of money approved by Parliament constitute the limits within which everyone must operate. That is so for the Central Government Agencies as

well as those Statutory Corporations which receive subventions from Government.

In other words, Sir, if Parliament has approved, for example, a provision of \$1 million for a particular programme, a programme which costs \$1 million should be developed for implementation by the Department and not one which costs \$3 million on the assumption that this Parliament will come back and grant a supplementary appropriation later in the year. This practice must stop as we seek to restore soundness to the management of our public affairs.

Furthermore, in no circumstances should anyone undertake expenditure in excess of the warrants released by the Ministry of Finance and Economic Affairs or in excess of the amounts approved by Parliament or, worse yet, Sir, incur expenditure when there is no provision for such expenditure in the Estimates approved by this Parliament.

The recent Report by the Auditor General highlighted a number of instances where such things were done and I trust I will see no such things occurring in future reports.

A review of the Financial Rules is therefore now being undertaken by a Committee under the Chairmanship of the Permanent Secretary in the Ministry of Finance and, without pre-empting the recommendations which that Committee will make, I think that there is need for additional penalties to be provided to deal with the disregard for proper financial management which the Auditor General has highlighted in his Reports.

During the year the staff of the Management Accounting Section and the Budget Section of the Ministry of Finance and Economic Affairs will be visiting Statutory Boards and Ministries and Departments on a regular basis to monitor their expenditure and to ensure that they are operating within the agreed fiscal framework.

The Statutory Corporations will be required to submit regular and timely financial information to the Ministry of Finance and Economic Affairs so that we will have a good understanding on how the consolidated public sector is performing.

During 1990, as one of the many instances of financial recklessness practised by the last administration, the Financial Administration and Audit Act was amended to increase the amount which the Government can borrow in any financial year from the Central Bank by way of overdraft from 10% to 17.5% of estimated revenue for that year.

At the time, I did not agree with the decision of the Government because I was aware of the implication for the foreign reserves of excessive borrowing from the Central Bank.

Therefore, as part of my effort to restore financial integrity to Public Finances and to ensure that Government's expenditure does not in any way create foreign reserve problems for the Central Bank, I have decided to reduce the Ways and Means limit from 17.5% to 10%, and that will take effect from tomorrow.

## Debt Management Strategy

In relation to our Debt Management Strategy, during this fiscal year the Central Government has to repay foreign loans totalling \$80.9 million in principal and \$52.9 million in interest.

Our debt management strategy for this year will be to borrow on the foreign market loans equivalent to the amount of principal which we have to repay.

We will pay maximum attention to the implementation of foreign funded projects and the early submission of claims for reimbursement so as to minimise the net outflow of foreign exchange.

In addition, Mr. Speaker, discussions have been initiated with a number of interested parties with a view to working out a refinancing package for the major commercial loans which are very costly to service. The objective here is to reduce the interest costs and to lengthen the maturity structure of those loans.

During this year, Sir, the Central Bank has to make four repayments to the IMF towards the loan which was raised from the Fund in 1991. These will amount to some \$54.5 million by the end of the fiscal year.

## Divestment and Commercialisation of Statutory Corporations

In relation to our divestment and commercialisation of Statutory Boards policy, Sir, during this year the Government proposes to divest interest in a number of enterprises. These are as follows:

- (1) The shares which the Government now owns in the Barbados Light and Power Company will be sold to the National Insurance Department at the prevailing market price. It is expected that some \$2 million will be realised from this sale.
- (2) The shares which the Government owns in the Pine Hill Dairy will also be sold.
- (3) Contrary to popular belief, the present arrangement with the Hilton Hotel is not one which the Barbados Tourism Investment Corporation has benefitted from significantly. In fact, the Corporation is now experiencing great difficulty in servicing its loans and is now faced with the possibility of a huge refurbishment bill. Therefore, it is clear to me that the time has come for the Government to re-evaluate its involvement in the Hilton Hotel and consideration is being given to selling that entity.

(4) Government will also reactivate plans to restructure and to privatise the Caribbean Broadcasting Corporation. Cabinet has had to take the decision to convert a loan of \$6.5 million to that institution into a grant because it is at present technically insolvent.

(5) The Government is also committed to fully commercialising the airport and we will shortly be establishing an Airport Authority.

At that time, it is expected that institutions such as the National Insurance Department will take the opportunity to invest some funds in the re-development of the airport in an effort to diversify its investments and to improve its returns.

Government also, as you know, Mr. Speaker, owns a significant number of under- or unutilised properties and parcels of land scattered all over Barbados, most of which could be used effectively in the private sector.

It is proposed, therefore, that efforts be stepped up to dispose of these properties and the sums realised from such sales will be earmarked to support the new housing thrust of the National Housing Corporation, which is attracting \$11 million this fiscal year.

## **Outline of Budgetary Proposals**

### **Statement of Policies**

Mr. Speaker, I now turn to the outline of the budgetary proposals. As I turn to the budgetary proposals, Sir, I wish to outline the kinds of policy concerns that have inspired the composition of the package of measures before this House, and the ends being sought by Government's fiscal and other economic and financial policies.

Mr. Speaker, the structural adjustment of the Barbados economy will not be complete, nor will we meet our employment objectives unless we act now to restore the viability of that broad

cross section of the productive sector which is now facing grave financial stress. This part of the budgetary exercise seeks to address this as our main priority this year. It also accepts the need for us, in the interest of employment and foreign exchange generation to put in place concessions which can lead to an expansion in profitable business activities, particularly in areas that expand tourism and international business activity. The budgetary process also acknowledges that we have to use fiscal and other economic policies to assist in reducing the cost of doing business in Barbados and to remove many of the encumbrances which prevent the expansion of existing enterprises and the creation of new ones.

Our policies are also based on the recognition that there are some matters, particularly the development of our water resources and the protection of our environment, which are so crucial to improving the quality of life in this country that immediate policy initiatives need to be taken in order to deal with longstanding problems.

Our policies also acknowledge the need to treat the households of Barbados as social partners and to give such reasonable and affordable relief as our present financial circumstances will allow. At the end of the day, we wish to put Barbados on a sustainable growth path in which the growth and development of this society will be underwritten by the expansion of our foreign exchange earning capacity and the improvement in our way of doing business in every sphere. We also wish to ensure that the cost of adjustments will be fairly distributed and not borne most heavily by those who are least able to contribute.

We seek, Sir, to accomplish all this, without increasing the size of the deficit beyond 1.5% of GDP nor putting our foreign exchange reserves in any jeopardy.

## The International Business Sector

Mr. Speaker, it is beyond doubt that one of the most important ways in which the performance of this economy can be improved in the short-term is by taking advantage of the opportunities existing in the international business sector. We have already made moves in this direction by computerising the Corporate Registry and by arranging for a decrease in international telephone rates.

We need, however, to put in place new legislation that will enhance the range of business opportunities Barbados offers, and we need also, Sir, to vigorously promote this legislation in the market place.

While we have made provision in this year's Estimates to more than double the allocation to the International Business Division, I fear, Sir, that the provision of \$900 000 will not be enough to get the job done.

Accordingly, I propose to allocate an addition of \$1 million to the International Business Division of the Ministry of Foreign Affairs, Foreign Trade and International Business.

I am confident that this expenditure will generate increased foreign exchange earnings over the short and the medium term.

### Other Productive Sectors

Sir, I turn now to the other productive sectors. During the month of October, 1994 the first part of the plan to rehabilitate the productive sectors of the economy saw the Government removing all taxes and duties on inputs, including machinery and spare parts for the manufacturing and agricultural sectors, including the horticulture and fishing industries.

The full impact of this decision, which is expected to result in a revenue loss of \$10 million, will be felt this fiscal year.

Indeed, Sir, the Estimates of Revenue recently approved by Parliament were prepared on that basis. Therefore, in order to fully appreciate the impact of the measures which will be announced this evening, we must keep foremost in our minds that only 7 months ago the first set of measures involving \$10 million in relief aimed at reviving those sectors were implemented.

My view is that there is much that has to be done for those sectors but as you will appreciate, Mr. Speaker, we cannot do it all in one year. Instead, I intend to bring relief to those sectors over a period of time, addressing the most critical first.

In this regard, our objective is to reduce the costs of carrying on business and to increase the returns so that investors will have an incentive to get involved.

Only in such a context can one conceive of sustainable growth and the creation of jobs on a scale required adequately to address our massive unemployment problem.

In my recent meetings, Mr. Speaker, with persons in the manufacturing, agricultural and hotel sectors, certain matters kept cropping up. Among these is the problem of heavy indebtedness to the Barbados Development Bank, the Inland Revenue Department, the Customs Department, the Land Tax Department, the National Insurance Office and the Barbados Water Authority.

All of the persons involved accept that the debts have to be repaid but they are asking for time to do so and relief from excessive interest and penalty costs.

I am sympathetic to those requests and have decided to deal with the problem in relation to all of the agencies involved except the Barbados Water Authority as follows:



- (i) At April 30, 1995 the institutions cited will stop incurring interest and penalties on all amounts outstanding to sectors cited;
- (ii) Manufacturers or Agriculturalists will be given a two-year grace period on their arrears and then will have 7 years to repay the amounts outstanding at April 30, 1995;
- (iii) they must keep current the payments from May 1, 1995 in order to continue to enjoy this facility.

I have singled out the Barbados Water Authority because although the Authority will make arrangements with the entities concerned, the nature of the operation is such that it cannot get involved in such long-term arrangements and still maintain itself.

Therefore, the individuals will have to enter separate arrangements with the Water Authority which will be as sympathetic as possible in view of the declared policy of Government.

Next, Sir, there is the question of energy costs. On this occasion, I am not able to deal with the question of electricity but will leave that for the next stage. However, I will deal with the cost of fuel to the manufacturers and agriculturalists on this occasion.

Effective May 1, 1995, the consumption tax on fuel oil, industrial diesel and natural gas used by manufacturers or persons engaged in agriculture on a full time basis will be waived.

The revenue loss estimated from this decision is \$3.6m in a full year.

There is a provision in the Estimates for 1995/96 to support the establishment of a Secretariat for small businesses. The prompt creation of this Secretariat is crucial for the advancement of the Small Business Sector since it will be among the Non-governmental Organisations

which will be able to access funds from the Multilateral Investment Funds of the IADB with the assistance of the Ministry of Finance and Economic Affairs.

In addition, Mr. Speaker, the Government has decided to use \$2.0m from the Public Investment Fund to establish a Venture Capital Fund for the small business sector of this society.

In addition to support for the Small Business Secretariat and the establishment of a Venture Capital Fund, the Government is currently working on additional incentives for small businesses, Sir. The regime will be one mainly in the area of income tax relief for individual investors in such businesses and corporation tax relief for small business enterprises in Barbados.

Mr. Speaker, we have to do everything possible to boost our exports and to this end, the Board of the Barbados Port Authority has decided to reduce the Port Charges on containers with exports by 50% from June 1, 1995.

The charge on a 20ft. container will now be \$45 and that on a 40ft. container will be \$90. Hopefully, Sir, we will be able to eliminate these charges in the next phase of adjustment.

In 1994, when the Surtax was imposed by the last administration as part of its trade liberalisation programme, it was agreed, according to the records, that it would be phased out by April 1, 1998 as follows:

It was to be reduced to 50% effective April 1, 1995

To be reduced to 25% by April 1, 1996

Then reduced to 12<sup>1</sup>/<sub>2</sub>% by April 1, 1997

And abolished entirely by April 1, 1998.

The 1995/96 Estimates of Revenue were prepared on this basis and the revenue lost this

year was estimated at \$6.2m. However, Sir, during my recent discussions with the manufacturers, I have discovered that they were not prepared to accommodate such a reduction by April 1. Therefore, I have decided to vary the arrangements and to phase out the surtax as follows:

The 100% Surtax will remain in force until March 31, 1996

Then it will be reduced to 75% from April 1, 1996

It will be reduced to 35% by April 1, 1997

And it will be reduced to 0 by April 1, 1998.

While this means, Sir, that the Surtax will still be reduced to 0 on April 1, 1998, the manufacturers will be in a better position to deal with that situation when it comes, in view of the various initiatives which the Government is to put in place this year and will put in place in subsequent years.

Mr. Speaker, it also means that the estimated revenue of \$6.2m. can now be increased as explained earlier.

### **Duty Free Sector**

In relation to the Duty Free Sector, the present regime for duty free shopping is being reviewed with the intention of expanding the list of items which can be sold at such centres and making the present entry arrangements less burdensome on new entrants.

Operators of duty free shops presently enjoy a 50% reduction on duty and taxes on items used in the refurbishment of existing facilities or the construction of new buildings.

No duties or taxes are paid on the sale of items to visitors. However, there is evidence that the present system is abused by sales to local

persons and the result is severe revenue loss for the Government without the earning of any foreign exchange.

As a result I think that it is time that something be done to stop such revenue loss and I have decided that a charge of 5% will be levied at the point of entry on articles destined for duty free shops to help pay the administrative costs of monitoring the system and make up for any revenue lost through sales to local persons.

This charge is expected to yield revenue, Sir, of \$3.0m. in a year.

It has been drawn to my attention that there are instances where locally produced goods which are sold in the duty free sector have to pay consumption tax. I have decided that effective May 1, 1995 such locally produced goods sold to the duty free sector will no longer bear the consumption tax.

### **Hotel Sector**

In relation to the hotel sector, I am concerned that while the luxury hotels are doing well, those smaller properties on the South and West Coast for a variety of reasons are experiencing major difficulties in making ends meet.

Part of the problem, Sir, especially the problem facing the small ones, is coping with their outstanding debts and attracting financing for refurbishment. As was done in the case of the manufacturing sector, the Government has decided to put in place a regime to allow those small hoteliers to deal with their arrears to various Government agencies.

In addition, Mr. Speaker, funds will be earmarked from the Public Enterprise Investment Fund to establish a \$10.0m facility to make soft loans available to small hotels in this country to enable them to carry on refurbishment programmes.

I have also indicated the approach intended to be applied by the new recoveries agencies of the Barbados Development Bank to otherwise assist small hoteliers.

The Hotel Association has submitted a new list of items which they think should be allowed in free of duties and taxes for use in the hotel sector.

After examining the list, I have decided that in addition to those items which are already being provided, I will allow in free security equipment, safes, safety deposit boxes, commercial pressers and sewage plants. The revenue loss is expected to be \$1.0m.

The Hotel Aids Act is being revised but meanwhile, I have decided that for new hotels or substantial renovations or refurbishment, in addition to those items on the above list, all duties and taxes will be waived on the items shown in the schedules to the Hotel Aids Act. Similar treatment will be given to all-inclusive hotels where substantial sums are being spent.

## **Income Tax**

### **Tax on Interest Income**

Mr. Speaker, I turn to the matter of Income Tax. The 1992 tax reforms were predicated on the basis that it was creating a "level playing field". Yet interest income to individuals who would, under the old system, have had such income taxed at the appropriate tax rate, were given the privilege of being taxed at the reduced rate of 12.5%. Pensioners whose total income, including interest was less than the basic allowance, were forced to pay tax on interest of 12.5%.

Mr. Speaker, I consider that some adjustment in the present system is necessary. Therefore, effective from January 1, 1996, interest income to all persons other than pensioners will be treated in the manner prior to the change in 1992 and it will be added to other income and subject to the appropriate income tax rate at the time of filing.

Secondly, effective from May 1, 1995, pensioners 60 years and over, on presentation of appropriate identification and through a simple declaration to the commercial banks, will not be charged any withholding tax on interest. However, if they earn other income in excess of the basic allowance of \$20 000 they will be subject to income tax on that income but will not be required to declare any interest income. In other words, Mr. Speaker, from May 1, pensioners will no longer pay any tax on interest income.

### **Dividends**

In relation to dividends, as is being done in the case of interest income, effective January 1, 1996, income from dividends will be treated in the same way as it was treated prior to the changes made in 1992 and will no longer be liable to a 12.5% final tax.

### **Group Relief**

Mr. Speaker, there is some need to remove incumbrances to the manner in which the corporate system of Barbados works with a view to expanding business activity in this country. One such area relates to the need for group relief. Under existing legislation, tax losses incurred by a company which is a member of a group of companies cannot be relieved against the taxable income of other members of the group.

As a result, Sir, companies in Barbados have been forced to go through the lengthy process of amalgamating companies or end up charging additional management fees.

Therefore, to avoid such situations, I have decided that from income year 1996, group relief will be permitted.

## **Caricom Double Taxation**

### **Double Taxation**

I deal next with the question of CARICOM Double Taxation Treaty. The previous administration for some reason had decided not to sign the Caricom Double Taxation Treaty and

the Reciprocal National Insurance Agreement. In relation to the first matter, Sir, this presents a significant barrier for any Barbadian incorporated enterprise to expand into Caricom where the natural flow of dividends back to the Barbados parent is envisaged. I can therefore see no good reason why the previous position was adopted. Consequently, Mr. Speaker, to facilitate the expansion of our enterprises in CARICOM, the Government has decided to sign both the Caricom Double Taxation Treaty and the Reciprocal National Insurance Agreement without further delay.

### **Net Foreign Exchange Earnings**

Mr. Speaker, Sir, I turn next to a matter that affects the functioning of the offshore business sector in particular. In 1986 a net foreign exchange earnings allowance was introduced as a means of inducing persons particularly in the offshore financial sector to generate foreign exchange earnings for the benefit of the country. From all available information, Sir, members of the accounting and legal fraternities have made a commendable effort in obtaining business but because of a number of difficulties, no assessments have been allowed up to now to enable them to take advantage of this allowance. In the meantime, the offshore business sector is generating almost \$100 million a year for Barbados. The time has come, Mr. Speaker, to put this right.

I have examined the submissions from the Commissioner of Inland Revenue as well as from the affected persons and have decided that the matter should be resolved as follows:

- (i) I will retain the concept of the definition of "net foreign exchange currency earnings" as the base for the application of an open percentage rate;
- (ii) I will remove the tax credit restriction clause completely and introduce an open rate of 30%.

While this will not exactly meet what all the affected persons have been requesting, I am sure that even they will agree that their interpretation is too liberal and would in some instances completely wipe out their tax liability.

The proposed changes will take effect from 1996 and will apply to members of the legal profession as well as the accounting fraternity. Enterprises which will qualify for a refund for that extended period will be encouraged to take those refunds in the form of tax reserve certificates. A successor proposal is now being studied and will be discussed with all interested parties for implementation when the present one expires at the end of this income year.

### **Accrued Interest**

In relation to accrued interest, effective from Income Year 1995, associated or related companies or persons will be allowed to claim interest payable in accounts for one year only. Thereafter, the amount will be brought into charge to tax if not paid in the following income year.

Other persons will be allowed to claim interest payable in accounts for each of two successive income years only. Therefore if not paid in the third income year, it should be brought back into charge to tax.

### **Capital Allowances**

Sir, I turn next to capital allowances. It is acknowledged that computer equipment becomes obsolete very quickly and as an incentive to business to keep up-to-date with the latest technology and to make Barbados more competitive, Sir, I have decided that effective January 1, 1996 the capital allowance for such equipment will be increased from 12.5% to 33<sup>1</sup>/<sub>3</sub>% annually. The other rates and categories of capital allowances applicable to other items will be reviewed in due course.

Mr. Speaker, I spoke earlier of the need to expand business activity in this country in the fight against unemployment.

## **Special Development Areas**

As you are aware, Mr. Speaker, there are provisions in the Estimates of Expenditure for this fiscal year to finance the cost of dealing with the development of Speightstown and Carlisle Bay.

It is my view that Government's involvement in these projects should be that of an enabler providing the money to pay for the studies and that it should arrange a package of tax incentives for the private sector to make investments in new businesses in these areas.

Therefore, I have decided to declare four areas as special development areas and to grant duty and tax relief as well as investment allowances to new approved areas which are established.

The areas are as follows:

- (i) Speightstown
- (ii) Carlisle Bay
- (iii) Scotland District
- (iv) St. Lawrence Gap

In relation to the Carlisle Bay Development and the City area concessions will be provided for city hotels, conference facilities and residential accommodation as well as the restoration of dry dock facilities.

The Florida Cruise Ship Association has already decided to designate Speightstown as a port of call and plans are in train by the private sector to make the necessary investments to take the fullest advantage of that opportunity.

Also, Sir, plans are being made to optimise Speightstown's potential in the area of heritage tourism and this and other similar investments which broaden the scope for business activity will qualify for favourable duty and tax relief and the appropriate investment incentives.

The legislation will be brought to Parliament shortly and further details will be made available at that time.

## **Establishment of Jetties and Marinas**

In relation to jetties and marinas, a number of private individuals have expressed an interest in establishing jetties and marinas at their expense for public use.

I feel that these individuals should be encouraged to make such investments and propose to grant duty and corporation tax incentives for these projects.

## **Watersports Equipment, Yachts and Vessels - Tariff Heading 89.03**

Mr. Speaker, Sir, it is futile to speak in terms of having marinas without having yachts. As a result I often refer to the tourism sector as the hospitality sector because I recognize that the hotel sector is only part of the tourism industry and that activities such as Watersports are as much a part of the industry as the hotel sector itself.

The present duties and taxes which are levied on these activities are indeed quite onerous and I consider that some relief is merited. Therefore, I have decided that with effect from May 1, 1995 the consumption tax of 25% and the surcharge of 20% will be removed from yachts and sporting vessels imported under Tariff Heading 89.03. This would cover not only water sports equipment referred to as vessels but would include sporting vessels as well as yachts. The revenue loss is estimated at only \$0.6 million because the rates are presently so burdensome that they have inhibited any significant imports. However, as we seek to develop attractions for visitors and the establishment of marinas, it is imperative that we provide some incentives in this particular area.

## **Heritage Foundation**

Government, Sir, has also decided to establish a Heritage Foundation and to transfer



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the \$1.5 million in funds which are now held in the Barbados National Bank for the repair of "listed properties" to that Foundation.

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In addition, Sir, a package of incentives under the Income Tax Act is being discussed with the National Trust and will be implemented when the legislation for the establishment of the Heritage Foundation is submitted to Parliament shortly.

### Water Development

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I deal next, Sir, with measures to promote water development in Barbados. With total water developable water resources amounting to 249 000 cubic metres per day, Barbados affords only 350 cubic metres of renewable water resources per person per year and falls squarely in the group of "water stressed" countries alongside such countries as Jordan, Libya, Somalia, and Djibouti.

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Recently, the demand for water (which was already high) has been growing at about 4% annually and by 1994, Sir, the groundwater resources were almost 90% used up or committed. Therefore, if water is not to become a constraint on our future development, action must be taken now to maximise the use of existing resources while preparing a long-term plan for economical alternatives.

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In this regard, it is felt that consumers should be encouraged to use water saving devices and between the 1st October and the 31st December, 1995 the Barbados Water Authority will distribute free of cost to domestic consumers whose accounts are not in arrears, a kit containing a Barbados National Standards Institute approved water saving shower head or kitchen sink aerator.

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The Barbados Water Authority has about 61 000 domestic consumers of whom about 44 000 have accounts free of arrears. Therefore, it is estimated that the additional expenditure to the Authority will be \$1.3 million but the amount

of water saved will be about 1.7 million gallons daily and justifies the expenditure.

Effective from January 1, 1996 all new commercial buildings as well as new Government buildings will be required to instal water saving taps, and where applicable shower heads.

This requirement will be enforced through an amendment to the Town and Country Planning Regulations and it is already in place in several Caribbean countries.

Retro-fitting of existing commercial buildings will be encouraged by allowing claims for corporation tax purposes for the cost of these water saving devices.

All regular taps and shower heads should be phased out over a 5-year period starting from the 1st January, 1996 and as an incentive, individuals will be allowed to make a claim for Income Tax purposes for such devices as part of the new Home Allowance Package which will shortly be announced.

As a further measure to save water, from January 1, 1996 all new residences will be required to construct water storage facilities in cases where there is a roof area or living area of 3 000 square feet or more.

Also it will be mandatory for all new commercial buildings with a roof plan of 1 000 square feet or more to construct water storage facilities. These water storage facilities are to be constructed on the basis that they will store rain water and not water from the public supply.

As an incentive, Mr. Speaker, the Barbados Water Authority will give a rebate of \$1.00 per gallon of installed tank capacity up to the equivalent of one quarter of the total roof plan area for residences as well as for commercial buildings.



Owners of existing residences or commercial buildings who construct such storage facilities will also qualify for the rebate.

At present individuals are granted permission to extract water. However, there is no system in place for monitoring their activities. In view of the seriousness of our water problem, it has been decided that the Water Authority should monitor such activity and effective the 1st January 1996 such persons will be required to pay an annual fee to the Authority to help defray the administrative costs involved.

Finally, Sir, Government has approved an \$18 million programme of capital works for the Water Authority this year to improve its operation and to identify new sources of water.

### **Solid Waste Management**

I turn next, Sir, to the matter of solid waste management. Mr. Speaker, it is estimated that it will cost the Government approximately \$5.0 million to establish and operate a new landfill at Greenland.

You are aware of the problems which were allowed to develop at the Mangrove Landfill. It is our determination that such problems should not be allowed to exist in the future.

Therefore, our intention is to make sure that the new Landfill is properly managed and that the cost of constructing and maintaining that facility should be met from a stream of income through a levy imposed on those items which create the need for a facility in the first place as well as recourse to tipping fees.

As a result, I now make the following proposals to deal with the management of our solid waste and to encourage people to get involved in recycling activities:

- (i) a tipping fee of \$40.00 per tonne will be charged at the new landfill;

- (ii) a levy will be imposed on all plastics, glass bottles, fridges, stoves, paper board boxes and cartons, tyres, washing machines, motor vehicles, car batteries, TV sets and mattresses; as follows:

Motor vehicles	\$150.00 per vehicle
Tyres	\$10.00 per tyre
Fridges	\$15.00 per fridge
Stoves	\$15.00 per stove
Washing Machines	\$15.00 per machine
T.V. Sets	\$10.00 per set
Mattresses	\$10.00 per mattress
Plastic sacks and bags	\$1.00 per kg.
Plastic bottles	10 cents per bottle
Plastic Sheets	\$1.00 per kg.
Glass bottles	10 cents per bottle
Car batteries	\$10.00 per battery
Boxes of paper board	\$1.00 per kg.

In addition, Sir, business engaged in recycling activities will receive the same concessions as those presently granted to manufacturers on machinery, spare parts and equipment.

In the case of the imports, Sir, the Environmental Levy will be collected by the Comptroller of Customs at the point of entry. In the case of locally manufactured items, the levy will be paid to the Comptroller of Customs where the consumption tax is paid.

It is estimated, Sir, that revenue amounting to \$2 million a year will be collected from this new source.

### **Concessions to Households and Individuals**

I turn next to concessions to households and to individuals.

Mr. Speaker, by decision of the previous administration we are committed to increasing the Child Allowance this year to \$1 000 and to providing an allowance for a spouse without income from \$2 000 to \$3 000 from this income

year. Therefore, I have decided that any further relief to the individual shall take effect 1st January, 1996. In keeping with our Manifesto to restore the allowance for mortgage interest and repairs, I have decided from the 1st January, 1996, a Home Allowance of up to \$3,500 will be granted annually to cover mortgage interest, repairs, renovation, energy or water saving devices, solar water heaters or water storage tanks. This allowance will be periodically reviewed in the light of changing cost conditions.

This allowance will be in addition to the basic allowance of \$1300 and can be made up entirely of one of the above or any combination of the above. In the case of the water storage tanks, a certificate from the Barbados Water Authority must be presented to show that rain water and not the public supply is being used.

The expected loss from this proposal is \$6.0 million in a revenue year.

### **Motor Cars**

Mr. Speaker, representation has been made to me by the various car dealers and a number of private individuals about the extremely high rates of duties and taxes which now apply to motor cars. In the present circumstances, I am unable to grant the kind of relief that persons may be expecting immediately but some relief, Sir, will be granted nevertheless.

With effect from tomorrow, the luxury tax of 20 per cent and the stamp duty of 20 per cent will be removed on cars of 1 600 cc or less on the basis of the view, Sir, that cars above 1 600 cc are regarded as being in the luxury class.

If I may illustrate, Sir, what this will mean, it will mean that on a 1 600 cc Starlet there will be a saving of \$6 184 to the consumer. On a 1 300 cc Tercel, Sir, a saving of \$7 300 and on a 1 600 cc Corolla, a saving should come to \$11 000. The revenue loss, Sir, is estimated at \$11 million but it is estimated that most of this will be recovered from the appreciation of the Yen and any

increase in sales. In addition, the present policy of granting 100 per cent waivers to a large number of individuals and organisations is being changed and in future, Sir, very low rates of taxes will be applied. Based on information which we now have, any short-falls from the reduction of duties and taxes on motor cars as proposed which is not compensated for through increased sales and the appreciation of the Yen will be made up, Sir, from these savings.

### **Taxes on Sporting Goods**

I turn, Sir, next to taxes on sporting goods. In keeping with our manifesto promise and as a gesture to the youth and the sporting community of Barbados, I have decided that effective May 1, 1995 the Consumption Tax on sporting goods under Tariff Head 95.06 - 01 to 95.06 - 07 will be removed. The revenue loss is estimated at \$0.3m per year.

### **Liquified Petroleum Gas**

I deal next with liquified petroleum gas. Based on the steady decline of the world market price of LPG between August 1994 and March 1995, there is a clear case for a reduction in the price. Therefore, with effect from tomorrow, the price of liquified petroleum gas will be as follows:

100 lb cylinder - \$89.30 instead of \$94.25

25 lb cylinder - \$24.58 instead of \$25.35

20 lb cylinder - \$19.66 instead of \$20.25.

The margin to the dealers will be increased by 2 cents from 7 cents to 9 cents per pound.

### **Duty free Cycles to Postmen/Postwomen**

In keeping with our manifesto pledge, I have also decided that effective May 1, 1995, postmen and postwomen will be allowed to purchase motor cycles free of duties.

### **Fees**

The next is the question of fees. The Gaming and Betting Committee has made a number of recommendations to me which I have accepted.

It has been drawn to my attention that even though 396 licences to operate gaming machines have been issued only 260 machines are being operated.

As a result, the Government is losing as much as \$0.3m annually even though there are persons who are willing to operate those machines but cannot have access to them because the owners of the licences keep close control over the industry.

Therefore, I have decided to implement the recommendation of the Gaming and Betting Committee to increase the number of licences to operate gaming machines from 396 to 500 from July 1, 1995. At present, Sir, there is an anomaly between the fees paid by persons operating gaming rooms in hotels and those operating arcades. Therefore, in order to create a more level playing field, I have decided that from 1st July, 1995 hotels will be allowed to operate a maximum of two machines without paying an annual fee.

However, if operators at hotels wish to have more than two machines, the facility will be termed a gaming and betting room and they will be permitted to do so on the following basis:

Hotels with 1 - 25 rooms having 3 to 5 machines an annual fee of \$50 000 - 1/2 yearly fee of \$30 000. Those between 26 and 50 rooms, Sir, with machines between 6 and 10 an annual fee of \$100 000 and 1/2 yearly fee of \$55 000. Hotels with rooms between 51 and 100 with machines between 11 and 15 an annual fee of \$150 000 or 1/2 yearly fee of \$80 000. Hotels of over 100 rooms that have 16 and 20 machines an annual fee, Sir, of \$200 000 or 1/2 yearly fee of \$105 000.

The above games room annual fees are payable in addition to the current machine fees.

Arcades will be allowed to increase the number of machines from 15 to 20 by using some of the licences which are not being used at the moment.

Additional revenues from this source is estimated at \$2.5 million in a full year.

### **Lotteries and Sweepstakes**

Continuing with taxes on gambling. There is every indication that lotteries and sweepstakes are doing well enough to be able to make a greater contribution to the exchequer. Therefore, effective from 1st May, 1995 the tax per ticket on lotteries and sweepstakes will be increased from 10 cents to 25 cents per ticket. Bingo games are apparently becoming popular again and the tax on this form of entertainment, Sir, will be doubled.

It is estimated that additional revenues of \$0.6 million will be obtained from these changes.

### **Pool Betting**

Continuing taxes, Sir, on gambling. Presently, pool betting agencies pay an annual licence fee of \$150 and it is felt that the fee should be increased. Therefore, with effect from 1st July, 1995, the annual licence fee will be increased to \$300.

Continuing taxes. Still on gambling.

### **Racing Services**

There are 4 registered racing services which now pay an annual licence fee of \$60 000 each and I propose to increase that to \$75 000 from July 1, 1995. This change is expected to yield additional revenue of \$60 000 in a year.

## **Miscellaneous Fees Charged by Customs Department**

### **Warehouse Licensing Fees**

Warehouse licensing fees have not been increased since the mid 80s. Meanwhile, the cost of administering the system has increased significantly, and it is now necessary to increase the fees as follows:

- (i) Where the duty liability coverage does not exceed \$200 000 the fee will be \$3 000 per annum instead of the present fee of \$2 400 per annum.
- (ii) Where the duty liability coverage exceeds \$200 000, the fee will be \$6 000 per annum instead of the present fee of \$2 400 per annum.

It is expected, Sir, that these changes which will take effect from July 1, 1995 will yield additional revenue of \$300 000.

I also wish to deal with fees for the unlawful removal of goods from warehouses.

### **Unlawful Removal of Warehoused Goods**

At present there is a penalty of \$25 per container in respect of every container removed unlawfully from a warehouse. The practice of removing goods unlawfully has been so serious that even at that small fine the Customs Department collected some \$300 000 in fines during 1993/94.

In an effort to reduce this problem, I have decided that with immediate effect, the fine in such cases should be increased from \$25 per container to \$500. I have not included an estimate for any traditional revenue from this source because I expect that the practice of removing goods unlawfully from warehouses will cease in view of the increase in the fine. But if for some unknown reason the practice continues at the present level, additional revenue of \$5.7 million will go into the Exchequer. A more realistic

estimate of the contribution to the Treasury from this source will be some \$3 million per year.

### **Charges for Officers' Part-time Services**

The Customs Regulations 1963, No. 117, imposes a charge per hour for the part-time services of officers deployed at private warehouses. The amount is unrealistic given today's salaries.

Therefore, I have decided that effective from July 1, 1995, the fee charged will be not less than the proportionate cost of the salary of the grade officer whose services are engaged.

### **Customs Brokers/Clearing Agents Fees**

In keeping with the Customs Regulations 1963, No. 183, Clearing Agents or Customs Brokers pay an annual fee of \$500 and I propose that effective from July 1, 1995 that fee should be increased to \$750.

The additional revenue from this measure will be only \$13 000 which is small but it will help to defray the administrative costs of policing the system.

I turn finally to fees, Sir, for public service vehicles.

### **Public Service Vehicles**

Mr. Speaker, some of the drivers of Public Service Vehicles continue to create chaos in the bus stands and confusion on the roads. In my view, the situation has gotten out of hand and the time has come for strong and decisive action to restore law and order on our roads.

The existing members of the Police Force and the Inspectors of the Ministry of Transport as well as the present staff of the courts have enough problems on their hands already.

Therefore, I have decided that an additional 45 special constables will be recruited and trained to police the bus terminals and to



monitor the operations of these Public Service Vehicles among other duties. In addition, magisterial and clerical personnel will be recruited for the Courts to deal with the traffic cases. I am sure, Sir, that everyone will agree with me that the persons whose behaviour has caused us to undertake this expenditure and their employers should be the ones to bear the costs.

Therefore, effective May 1, 1995 the fees paid by Public Service Vehicles and personnel will be as follows:

### Proposed Fees for Public Service Vehicles

Description	Existing Fee	Proposed Fee
Licence to drive a Public Service Vehicle:	\$	\$
(a) Taxi	10.00	20.00
(b) Maxi-taxi	10.00	40.00
(c) Tour Bus	-	100.00
(d) Omnibus	-	20.00
(e) Mini-bus	-	300.00
(f) Route Taxi	-	300.00
Conductor Licence or duplicate	20.00	100.00
Duplicate Licence	10.00	Half the cost of new licence
Drivers Badge or duplicate	10.00	100.00
Conductor Badge or duplicate	10.00	100.00
Special Permits/Licences	2.00	10.00
Mini-buses - permits	10 000.00	12 000.00
Mini-buses - Annual Tax	5 000.00	7 000.00
Mini-buses - Renewal Fee	1 000.00	1 500.00
Route Taxi Permit	3 000.00	8 000.00
Route Taxi Annual Tax	2 000.00	4 000.00
Route Taxi Renewal Fee	1 000.00	2 000.00
Transfer Fee	1/3 permit fee	Same as permit fee

	\$	\$
Weight Certificate	2.00	12.00

The additional revenue from these increases is estimated at \$2.9 million.

### Summary of Proposals

The proposals which I have announced this evening are expected to yield additional revenue of \$25.3 million as follows:

	\$
1. Retention of 100% Surtax	6.2m
2. Levy on items for duty free shops	3.0m
3. Environmental Levy	2.0m
4. Recovery of duties and taxes on motor cars through increased sales appreciation of Yen and change in policy on waivers	5.0m
5. Increase in Gaming and Betting Fees	2.9m
6. Increase in Miscellaneous Customs Fees	0.3m
7. Increase in Public Service Vehicles and related fees	2.9m
8. Warehouse Fines	3.0m
TOTAL	25.3

The revenue losses and additional expenditure amount to \$21.0m as follows:

	\$
1. Supplementary appropriation for International Business Division	1.0m
2. Reduction of Consumption Tax on fuel oil, industrial diesel and natural gas	3.6m
3. Removal of Surcharge and Consumption Tax on Yachts and Luxury Vessels	0.6m

4.	Removal of Stamp Duty and Luxury Tax on motor cars 1600cc and under	11.0m	
5.	Removal of Consumption Tax on Sporting goods	0.3m	
6.	Cost of employment of Special Constables and other Legal Officers	1.0m	
7.	Revenue loss from Net Foreign Exchange Earnings Credit	3.0m	
8.	Removal of Duties and Taxes for hotels	1.0m	
9.	Concessions to Re-cycling Industries	<u>0.5m</u>	<u>21.0m</u>

Therefore, Mr. Speaker, the net gain in revenue will be \$4.3 million which will contribute towards meeting the cost of any salary increase which will be completed later this year with the Trade Unions.

Mr. Speaker also, the other proposals will either be funded off-budget or as indicated earlier will take place in subsequent financial years since they are related to future income. Therefore, they will not result in any revenue loss this fiscal year.

Mr. Speaker, when economic historians come to consider the economic policies set out in today's presentation, I should wish them to say that they represented a resounding statement of confidence in the future of Barbados.

They will come to recognise that this was, as intended, the first in a series of similar such efforts which I intend to make in the years ahead, which combine humanity, creativity and pragmatism in the search to make Barbados the just and prosperous society we all wish it to become.

In the months ahead, Sir, there are additional initiatives which I will launch to make Barbados a better place for all of us. I think immediately of the exciting initiatives that must

be made to build our financial system and our capital markets. I think also of the initiatives of which I will be a part soon with my colleagues in other Caribbean countries to create a foreign exchange market in the Caribbean, revolving around the holding of foreign exchange by Caribbean citizens and enterprises in the Caribbean and in the wider world. I think of the work which will be undertaken to reform our indirect taxation system to make it an instrument of enduring value to this society.

And I look to be part of that great effort to make Barbados ready to go into the 21st Century as a computer literate society.

Mr. Speaker, you will note that I have broadly identified problems and opportunities relating to our country's economic health. I have identified, as well, the means whereby those problems may be minimized or eliminated, provided we recognise and grasp the available opportunities.

I have also indicated, Sir, that Barbadians possess the talent to create opportunities where none seem to exist; that, in keeping with our long history of self-sufficiency, we must re-discover the will to capitalise on those opportunities.

In seeking creative solutions to our economic welfare, I have ventured upon territory that conventionalists may regard as taboo. I admit that it is a departure from some of the orthodoxy to which we have become accustomed, but we must not be afraid to be pioneers. We must not be fearful, Sir, of challenging well-rooted customs, if such customs prove inappropriate for dealing with new realities.

The challenge, Mr. Speaker, confronting us on the verge of the 21st Century is to lay the foundations for a well-crafted economic model that will sustain generations of Barbadians.



We cannot resign from that challenge.

We are mandated to face it.

Our proud tradition of industry and thrift says we can do it.

Our future demands that we do it.

Our people expect us to do it.

And we WILL do it, because it is our will so to aspire and so to achieve.

Mr. Speaker, the people of this country have endured much of late; but they nonetheless look to the future with confidence and resolution, and with the determination to make Barbados succeed.

So does this Administration.

We will make it.

For as I said, Sir, in my first address to this nation:

"They who wait on the Lord shall renew their strength;

They shall mount up with wings like eagles;

They shall run and not be weary;

They shall walk and not faint".

It is in this spirit, Sir, that I commend the following Resolution to this Parliament:

WHEREAS the Government during its short eight months in office has demonstrated that it has the capacity, will and foresight to deal effectively and efficiently with the several social and economic problems facing this country;

AND WHEREAS the fiscal and economic measures implemented so far have had a positive impact on the productive sectors of the economy, and restored confidence;

AND WHEREAS the additional measures which were introduced during the presentation of the 1995 Budgetary Proposals are designed to further stimulate economic activity, reduce unemployment, bring relief to households, guarantee better quality of life for all our people and provide a sound basis for the total development of this country;

BE IT RESOLVED that this Honourable House of Assembly:—

1. Take note of the 1995 Financial Statement and Budgetary Proposals; and

2. Congratulate the Government for its skilful and astute management of the economy and for the timely and outstanding leadership provided in laying the foundation for sustainable development in our country.

I am obliged to you, Sir.