GOVERNMENT OF BARBADOS

FINANCIAL STATEMENT

ECONOMIC

AND

FINANCIAL POLICIES

OF GOVERNMENT

Presented By

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And

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BARBADOS

OCTOBER 22, 2002

The poet Ovid many years ago reminded us that "There is no excellence without difficulty".

Since I last had the honour to present the economic and financial policies of the Government of Barbados to this Honourable House, our nation had had to endure more than an ordinary measure of economic difficulty.

It may, however, be said of the Barbadian personality that our greatest character is to be found not in never falling, but in rising every time we fall.

And so, although the times have been tough and the challenges testing, our little nation has weathered its difficulties well.

I therefore have a report to make to this Parliament of the economic stewardship of a resilient and resourceful people, who have had to face adversity and have come away stronger and better girded for the economic battles ahead.

Fortified by such an experience, I bring to this Parliament today policies which are intended not to beat the retreat but to sound a clarion call to advance.

I ECONOMIC PERSPECTIVE AND PROSPECTS

Historians will report that the longest period of economic growth ever experienced in Barbados came to an end in the year 2001.

After expanding, as planned, at an average annual rate of 3% over the previous eight years, the economy in 2001 contracted by 2.7% effectively taking us back to the level of activity realised in 1999.

Happily, Barbados would have, over the preceding period of expansion, stored up enough buffer resources, especially in relation to our foreign exchange reserves, to absorb such a reversal. There was therefore no need for us to rely upon the international financial institutions to mount a rescue mission on our behalf, as was the case in 1981 and again in 1991.

But it is important that we fully understand the causes of our recent reversal if we are to chart the proper course forward.

It must never be said that the economic decline recorded by Barbados in 2001 was a consequence entirely of the catastrophic events that have come to bear the mark of September 11.

Indeed, when last I addressed this Parliament on an occasion such as this, prior to September 11, 2001, it was to report evidence of a slow down in activity in our main productive sectors in the second quarter of the year, following a relatively positive first quarter performance.

It was evident before September 11 that our tourism industry was being very negatively affected by a sharp global recession, our international business and financial sector was still limping away from the heavy damage inflicted upon it by the OECD Harmful Tax Initiative, and that the application in 2000 of our international trade commitments, as agreed by Barbados under the Uruguay Round in April 1994, was taking a particularly heavy toll on the fortunes of our agricultural and manufacturing industries.

To the extent that such factors continue to be operative in setting the environment within which our material development takes place, to that extent our scope for orderly robust and sustained growth will be narrowly circumscribed, in the absence of a countervailing response on our part.

All told, however,the confluence of global recession, the OECD threat, the negative impact of trade liberalisation and the effects of the events of September

11th, was enough to trigger a recession which has lasted into the first half of this year.

Given the nature of the factors adversely affecting our economy, the brunt of the decline was felt most in those sectors which depend upon international demand. Indeed, the two leading sectors of our economy - tourism and international business and financial sectors which had respectively reported growth of 7.7% and 3.1% in 2000, suffered declines of over 6% in 2001.

Manufacturing and agriculture, exposed on the front line to the forces of trade liberalisation also realised substantial declines - in the case of manufacturing, by as much as 8.2%.

As is to be expected, this fall off in activity in the export sectors necessarily triggered a general softening in spheres of activity such as distribution and the construction industry which cater largely to domestic demand - making the recession felt across all of the productive sectors of the economy.

It would, however, be grossly erroneous to represent the performance of the Barbados economy in 2001 as a case of unmitigated gloom and doom.

Quite to the contrary, there was evidence of great resilience and buoyancy in certain vital economic indices for that year, reflecting the fact that we came to this cycle in our economic affairs better prepared than before to accommodate shock and adversity, and with a stronger platform on which to mount a sustained recovery.

Indeed, Mr. Speaker, the historical trend apparently is that every ten years a recession occurs in Barbados. It happened in 1981 and again in 1999.

On those two previous occasions, periods of decline in the value of production were also accompanied by severe foreign exchange shortages, balance of payments instability, rising and rampant unemployment, very high interest rates, a surge in inflation, a tight domestic liquidity situation and a severe fall off in investor confidence and private savings.

Indeed, we can still remember with great anguish, the savagery of the economic and financial measures which had to be instituted in 1991, under an IMF programme when not just recession but general macro economic instability and disorder of the kind just described swept the land.

The character of our recent economic management, however, has been such as to contain our economic decline largely to a fall in real GDP, while ensuring that across a wide band of indices of economic stability and performance the record has been distinctly positive.

As such, our foreign exchange reserves, even net of external borrowing, have mounted even during the recession to levels of comfort - $1.4 billion or over 6 months import cover - that far exceed safety requirements, and far above the $11 million recorded a decade ago. Unemployment which reached a record level of 27% in the 1991 recession has hovered around the 10% level in the recession of 2001 - a level of employment creation that would be regarded as impressive in Barbados at any time. Inflation has stabilised at under 3%, interest rates have been reduced to record low levels, energy prices have been contained to the lowest possible level, Government finances have been kept in sound order, and domestic savings have increased. Indeed, there now exists a large pool of domestic financial liquidity which, with the correct policies, can be pressed into service in support of stronger and sustained growth over the foreseeable future.

Mr. Speaker, the factors conducive to instability in the Barbados economy in 2001 were of a character that could have caused damage greater and more lasting than 2.7% decline in the real GDP.

That they did not was due largely to the institution of a package of Emergency Economic Measures as soon as possible after September 11th which not only mitigated their worst consequences, but have helped to set the stage for renewed growth at the earliest possible occasion.

Indeed, it is important that we remind ourselves of what it has taken to stabilise our economy in the wake of September 11th for the virtue that some of the policies may yet possess as part of the permanent way forward.

To begin with, the institution of a successful 100% Bajan Campaign as the counter to the negative effects of trade liberalisation on activity in the agricultural and manufacturing sectors established that there can be a stable, vibrant future for these sectors as a vital part of the Barbadian economy, without our having to breach our regional or international trade commitments to achieve such.

Secondly, the re-focusing and expansion of our tourism marketing effort, together with a new aggressive approach to tourism product development, all supported by carefully targeted financial support and relief to enterprises in our most important industry is a post September 11th initiative which has worked well and must be sustained.

Thirdly, despite the lamentations of the Jeremiahs, the Government moved early while the international capital market was still favourable to raise a substantial loan to offset any potential adverse disruptions to international travel and tourism and the flow of capital. No one knows how long the fight against terrorism will last, what tosses and turns it will take, nor what new forms of economic and financial risk and uncertainty it will engender.

What is certain is that we have provided for Barbados' foreign exchange needs to counter any reasonable contingency, such that our plans for renewed stable growth can now proceed apace without fear of balance of payments crises being a consequence.

Fourthly, in the economic environment after September 11th we have searched for and are coming close to applying the ideal mix of policies which balances the need to afford tariff protection to manufacturing and agriculture while not imposing excessive burdens on tourism and international business activity.

This balanced trade-off that reconciles the competing interests of respective sectors must be carried with us into the future to ensure the prospect of balanced growth in the economy.

Mr. Speaker, the initiatives to which I have just alluded have helped us to contain our most recent recession to tolerable proportions.

The information now available also indicates that the recession persisted into the first half of the year, when GDP is estimated to have contracted by 1.6%.

The evidence also, however, indicates that real economic activity picked up in the third quarter of the year, and the signals are that the recession is nearing its end. It is especially gratifying that there has been a growth in tourism arrivals in each of the last three months, and the prospects for the rest of the year are for a much stronger performance than the last quarter of 2001.

It is also significant that the manufacturing sector in the first half recorded growth for the first time in three years.

The immediate prospects in general for the economy is that the decline in real GDP for the year 2002 is expected to be about 1%, compared to a fall of 2.7% in 2001, growth of around 2% will be realised in 2003, and an annual average rate of growth of between 2.5% and 3% should be achieved between 2004 and 2006.

In short, after a recession stretching over twelve months and which triggered a cumulative decline in real GDP of about 4%, it is anticipated that our economy has gone back on a growth path as early as the third quarter of 2002, and should realise a growth performance over the next few years that compares favourably with the GDP performance over the past decade.

This is contingent on a resurgence of activity in tourism, continued growth in manufacturing and agriculture, an increase in private capital formation associated with the implementation of major new investments in tourism related capacity and housing, and major public investments in projects to expand to airport and seaport, to enhance our tourism product and capacity, to protect and enhance our marine and coastal environment, in housing, in the energy sector, and in education.

Our efforts to place Barbados on a sustained and sustainable growth path, however, will be accompanied and indeed may come to be constrained by a number of developments, many of which are beyond our immediate control, but which can have a considerable bearing on our economic fortunes.

To begin with the international economic environment within which our economy will function is racked with more risk and uncertainty than at any time, certainly since 1974, and possibly since the Great Depression. To be sure, the negative wealth effect that has been triggered by the loss of over $10 trillion globally in stockholders' values does not bode well for any immediate return to buoyant consumer or investor confidence or increase spending to stir international demand from its present sluggishness. Many of the major economies of the world remain mired in recession, with their scope for recovery constrained by fundamental structural weaknesses in their financial sector, as in Japan, or in the strange practices relating to corporate governance that has so sapped investor confidence in the U.S.A.

In our own region, the economies of the Eastern Caribbean, which are important markets for Barbadian goods and services are engulfed in grave economic and financial difficulties that can pale into insignificance any crisis they have confronted in recent times.

We had also envisioned that with the removal of Barbados from the OECD's black list of tax havens, the chains which had held back the strong growth of our second most important industry since 1998 would have been released.

We however now face a new and unanticipated challenge to the continued survival and success of our international business and financial sector.

It has taken the form of the initiative by the USA Treasury Department to deal with corporate inversion - a transaction through which the corporate structure of a US multinational group is altered so that a new foreign corporation typically located in a low or no-tax country replaces the existing parent corporation as the parent of the group.

Such transactions have in the past been inspired by the desire of corporations to minimise the incidence of US taxes, and to avoid the complexities of the US tax system.

This effort by the US Treasury to deal with such fiscal and corporate matters has resulted in legislative initiatives that have, in our view, improperly named Barbados as a tax haven, and has raised concerns about the use of the US/Barbados Tax Treaty.

Officials of Barbados and the USA are engaged in discussion and negotiations to resolve this issue.

It however signals the need for the Government of Barbados to modify the instruments and policies we will use in the future to secure the survival and

development of our international business and financial sectors. This will have far reaching consequences for the structure of our Corporate Tax System. None of this helps to make our efforts at economic development easier.
I would have alluded earlier to the havoc that trade liberalisation played especially with the performance of our manufacturing and agricultural sectors since 1999.

Negotiations in four trade theatres have now begun or intensified and will envelop our future economic development in an environment in which accelerated trade liberalisation, designed to further remove or reduce on a regional, hemispheric, and global basis the barriers to the movement of goods, services, capital, technology and intellectual property, will take full effect.

To be specific the directions of our economic policies now have to be set to simultaneously meet the requirements of functioning in the new Caribbean Single Market and Economy, the FTAA which comes into being in January 2005, to fit the outcome of the WTO Post Doha negotiations especially in services and agriculture which are scheduled to be concluded by 2005, and to meet the new specifications of an Economic Partnership Agreement with Europe that comes into force in 2007.

Each of these offers the opportunity of a larger market and more liberal market access for our goods and services. They offer equally to regional and extra-regional enterprises the prospect of improved access to the Barbadian market, the opening of areas to foreign competition that have historically been reserved only for national enterprise, and the prospect of our enterprises having to compete in the same space with larger, better capitalised and more technologically dynamic firms.

We also face the spectre that those who have the greatest say in making the new rules of trade and of ensuring that others follow them are also those who bend them or disregard them if they do not suit their national purposes.

Our national development will therefore take place within the context of a more intensely competitive regional, hemispheric and global arena.

We cannot opt out. Rather we have to continue to refashion our own economy, and our way of doing business in the public and private sector to give ourselves a fair chance to hold our own and succeed.

It therefore goes without saying, Mr. Speaker, that in an international environment characterised by such risk, uncertainty, complexity and competition our own odds for achieving economic stability and development cannot be improved by any actions in the international political sphere which retard or disrupt global economic recovery.

There is no doubt that the proliferation of armed conflict, for whatever cause, can so severely affect international travel and tourism and cause such a spike in energy prices as to undermine everything we are seeking to do to restore the conditions for stable, sustained growth in Barbados.

Mr. Speaker, I often these days refer to Naipaul's graphic opening to his novel "A Bend in the River".

> ***"The world is as it is. And men who are nothing or who allow themselves to become nothing have no place in it".***

We cannot avoid living in a dangerous world where persons will take decisions bearing on our interests without regard for how our best interests are affected.

But we must not allow ourselves to become nothing.

And this we can successfully accomplish by the policies that we choose to generate our own opportunities, to take the fullest advantage of those that others offer to us, and to mitigate the adverse effect on our situation of actions and developments originating outside our borders over which we have no control.

It is against such a background that I now spell out the focus, and the objectives intended to be achieved by the economic, fiscal and financial policies of the Government of Barbados over the immediate planning horizon.

First, in every presentation since 1998, I have introduced new measures, all of which have been intended to restructure the Barbados economy, to condition it to become less reliant on trade preferences, old forms of protection and concessional finances, and to gradually develop the competitive capacities to achieve sustained development, in the post 2005 global economy.

This remains our most important strategic objective and this presentation of economic policies will outline additional new policies to make for a more competitive Barbadian economy.

Secondly, after a brief but sharp recession, sustained growth is once again a realistic possibility within our grasp.

We need now to implement the measures to translate the recent signs of renewed growth of the Barbadian economy into a strong and lasting recovery.

In this respect, I judge that tax reform can serve both as an instrument for economic repositioning, particularly of the corporate sector, and as a stimulus for growth, and I propose to go as far as possible with a phased programme of personal and corporate tax reform as our fiscal circumstances will allow.

In addition, our recent policies of offering strategic, selective stimulation to those areas of economic activity that hold the promise of strong growth will be expanded.

Third, it is evident that the greatest under-utilised resource in Barbados today is the financial resources bottled up in our financial system.

I propose to introduce new policies to unleash such resources in search of stronger economic growth. I believe that the time is ripe for greater financial innovation and further managed liberalisation in Barbados, and these two will be addressed.

Fourth, Barbados now has the full features of an ageing society. A chief consequence is the threat to the future viability of our Social Security System.

I will announce today the measures to reform our pension arrangements to assure the viability of the social security regime of Barbados well into the second half of this century.

Fifth, the State has recently played an important counter cyclical role in stabilising the economy and minimising the worst effects of recession by incurring a deficit that is larger than we would regard as sustainable.

The State still has a crucial role to play in ensuring that the economy climbs out of recession. But it now has to temper its intervention so as to bring the fiscal deficit down, to restrain the accrual of new debt and to assist in generalising, through its own new entrepreneurial behaviour, a new enterprise culture for our economy.

Mr. Speaker, there is always the tendency to dismiss the seriousness of a policy focus and orientation such as I have just specified as having nothing to do with the small man or about the eradication of poverty.

But the interest of the small man and the eradication of poverty are all bound up in how we generate first of all more production and output, how we make ourselves more competitive in the global economy, and how we create more sustainable jobs to afford more people sustainable livelihoods.

And this, Mr. Speaker is what today's proposals, in the final analysis, are intended to achieve.

FINANCIAL STATEMENT AND FISCAL POLICY

In compliance with Section 12(1) of the Financial Administration and Audit Act, the Financial Statement for the fiscal year ended March 31, 2002 was today laid in Parliament.

Beyond this formality, I wish to use the occasion to outline certain new orientations and instruments for the conduct of fiscal policy arising from our recent financial experience.

Over the course of the last year, we have relied upon a counter cyclical fiscal policy to help offset the severity of the recession facing this country. This essentially has entailed as a means of maintaining a satisfactory level of domestic demand in the economy the incurring of an overall fiscal deficit that has been larger than the deficit we would normally seek to incur.

This policy was feasible and could be implemented without severely impairing the balance of payments because of the extraordinarily strong foreign exchange reserves position that has been built up over the past eight years.

There is a limit however to the degree to which expansionary fiscal policies of this kind can be used if we are to achieve sustainable economic growth. In addition, the Government does not propose to foist on Barbados, debt service difficulties of a kind that have wrought so much havoc in so many developing countries.

We propose therefore as soon as circumstances permit to return our overall fiscal deficits to a level (approximately 2.5% of GDP) that we regard as being sustainable.

Fiscal Performance, 2001-2002

In relation to the fiscal year which ended in March 2002, the fiscal policy of Government was formulated to support the expansion of the economy and hence to generate a deficit of 3.5% of GDP at market prices. Parliament approved current revenue of $1,795.4 million, current expenditure, excluding amortisation of $1,621.8 million and capital expenditure of $352.8 million.

The recession taking place in the economy obviously had an effect principally on the growth of Government's revenue.

Final data on the fiscal performance for the 2001-2002 financial year indicate that there was a marginal increase in current revenue of 0.3% over the previous year's level, while total expenditure, excluding amortisation, grew by 6.1%. This resulted in a fiscal deficit of 3.8% of GDP at market prices. Despite our economic difficulties, therefore, we virtually achieved the fiscal target that was set at the start of the fiscal year.

The decline in current revenue was mainly due to the fall off in taxes on income and profits by 3.4% and Special Receipts by 4.6%. However, this decline was offset by increases in Property Tax of 9.4%, Import Duties of 8.1% and Non-tax Revenue of 12.2%.

Expenditure

The 6.1% expansion in total expenditure, net of amortisation, for the 2001-2002 financial year reflected increased spending on both current and capital items. The growth in current expenditure of 4.4% was attributed mainly to higher interest payments.

Some $346.8 million was spent on capital projects. This was 14.8% ,more than the previous year and was as a result of the extensive road repair programme undertaken by Government, along with continued work on the South Coast Sewerage Project and Edutech.

National Debt

At March 31, 2002 the National Debt stood at $3,784.6 million, a 17.3% increase over the period ended March 31, 2001. Domestic debt grew by 7.3% while foreign debt increased by 43.0%. The increase in the foreign debt was, due to precautionary borrowing by Government to prepare the country for any financial eventuality in the face of the international fight against terrorism.

Fiscal Year 2002 - 2003

In relation to the present financial year, the 2002-2003 Estimates of Revenue and Expenditure approved by Parliament in March this year were formulated within the context of an overall fiscal deficit of 4.3% of GDP at market prices.

The estimates projected current revenue of $1,795.4 million, current expenditure excluding amortisation of $1,661.4 million and capital expenditure of $362.0 million giving a fiscal deficit of $228.0 million.

Preliminary information for the first half of the year indicates that total current revenue had declined by 6.4% when compared with the same period last year. The decline in current revenue was triggered by a decrease in taxes on Incomes and Profits and Taxes on Goods and Services. The financial performance reflects the continued downturn in the economy for the period.

It is expected that the economy will recover from its present decline during the latter half of the fiscal year thereby reducing the level of revenue losses.

It is therefore projected now, that current revenue for the fiscal year 2002-2003 will be 2.2% less than the amount collected for 2001-2002.

At the end of the first half of 2002-2003 current expenditure, less amortisation, was 2.4% more than that recorded for the corresponding period last year. The main contributors to this increase were payments for Goods and Services, which rose by 10.3% and current transfers, which increased by 6.7%.

In relation to expenditure on wages and salaries, it is to be noted that there was a decline of 3.2% despite wage increases and the payment of arrears during August and September 2002 respectively. This trend merely reflects the fact that the repayment of the 8% wage cuts came to an end in 2001; and is no longer showing as an expense in the public account.

There was a 5.5% increase in capital expenditure over last year as a result of ongoing work on projects such as the South Coast Sewerage Project and Edutech.

Based on the current performance, it is projected that total expenditure, net of amortisation, will be 1.8% higher than in 2001-2002, resulting in a fiscal deficit equivalent to 5.1% of GDP.

Details of the fiscal performance for 2001-2002 and for the first half of 2002-2003 are appended.

Other Fiscal Issues

As part of its overall macro-economic strategy, the Government has sought to maintain relatively small and manageable fiscal deficits, approximately 2.5% of nominal GDP at market price. This has consistently been achieved between fiscal years 1994/95 to 2000/01. Since then, however, economic circumstances have changed, and as reported earlier, a fiscal deficit of 3.8% of GDP was realised for 2001/02 and is expected to reach 5.1% for 2002/03.

The Government acknowledges that such high deficits are unsustainable since they ultimately must be financed either by raising taxes or by further borrowing.

In an environment where tax reform is imperative and where there is the need to contain the level of the national debt, those options are not viable. The government will therefore introduce other measures to return the deficit to around 2.5% of GDP.

The Government proposes, therefore, to continue with its programme of strengthening revenue collection capabilities, to minimise the area of tax evasion and avoidance, and to place more emphasis on controlling expenditure growth by reducing discretionary spending without losing sight of the need to uplift the basic amenities of communities.

A key element of the strategy to contain the size of the fiscal deficit will have to do with new arrangements for the financing of the public sector investment programme. Capital expenditure has grown from $135.8 million for the fiscal year 1995/96 to $346.8 million at the end of the last fiscal year. The Government recognises the importance of its investment programme in promoting economic activity and does not propose to substantially reduce it. Rather we will employ other means to carry out its capital programme. These measures will include the use of Build-Operate-Transfer (BOT) arrangements and increasing reliance on Public Sector/Private Sector partnerships to create capacity in areas historically deemed to be spheres for the exclusive occupation of the State.

In addition to the above measures, the Government will accentuate the completion of outstanding projects and the implementation of those that are externally funded.

Public Debt Management

The Government's debt to GDP ratio has increased to 72.8% in 2002. It is Government's intention, therefore, to reduce the debt to GDP ratio overtime to around 60% to conform with international standards. This will be achieved by implementing the measures outlined above to reduce the level of the fiscal deficit.

In addition, the government of Barbados does not propose to raise any new commercial issues on the international capital market for the immediate future. And we will use much of the proceeds of the $300 million bond issue of 2001 to finance activities for which additional borrowing would have been required. In the final analysis, however, stronger economic growth must be the lasting solution to any fiscal situation that confronts us.

SECTORAL POLICIES

The objective of achieving strong sustained growth requires that the chief priority of our economic policy must be to assist in creating vibrant and competitive enterprises in every sector of our economy.

The State can, and has been attempting to do so, by creating more enabling environments for businesses focusing largely on measures to reduce costs and to enable enterprises to realise reasonable rates of returns. We are also determined to provide our industries with tariff and other forms of protection up to the extent possible under our regional and international trade and economic agreements.

We have also put in place special development finance institutions and regimes for every productive sector to ensure that capital is available to fund the creation of new enterprises and the transformation of existing ones. We have also provided special incentives to stimulate activity in selected areas where there is the prospect of growth, and have met the cost of technical assistance to our manufacturing sector and small businesses where technological changes have had to be met.

Financial and fiscal constraints do not allow us to do everything that needs to be done all at once. Hence in each year since 1998, I have presented new measures to support sectoral development within the policy framework I have just outlined, and I propose this year to continue the march forward.

1. **Agriculture**

There is no doubt that the agricultural sector is the most vulnerable of all of our productive sectors, and its circumstances will be made more difficult by the new trade arrangements which are set to be ushered in.

Agriculture is, however, too vital to our way of life for us to lose faith in it, or to allow it to vanish.

Consistent with our policy framework for supporting general sectoral development, we have, in recent years, made available to the sector a new Agricultural Development Fund, new incentives to stimulate activity in selected areas, tariff protection, new arrangements to provide it with an expanded local market, and have set out a framework for the reform of the sugar industry.

There is evidence that these measures have begun to have some desirable effect. There is, however, even more evidence that there has to be a greater nimbleness in implementing incentives, in stimulating activity in areas where there is strong local demand but falling local production, and to help contain the costs of production generally.

These matters will be the focus of the new measures now to be announced.

Sustainable Agricultural Development Act

It is clear that the legislation pertaining to agriculture bears no relationship to the needs of a modern industry. Most of it is focused on sugar, although that industry only now accounts for one third of agricultural output. Much of it is 19th century and is irrelevant. Above all, the incentives and other supports for the sector are not built into the law and hence are administered in a discretionary and sometimes indifferent manner.

Recently, we enacted a New Tourism Development Act encapsulating a broader approach to the development of the sector than was possible through the old Hotel Aids Act.

We seek now to put agriculture on a similar legislative footing, and as such, will, within 9 months introduce to Parliament and enact a new Agricultural Development Act.

National Agricultural Commission

We have determined that the best way to help agriculture is not by higher tariffs but by income transfers and special incentives.

It is, however, clear that the subsidies to agricultural enterprises are not being transferred nor are the incentives being implemented as fast as the situation warrants.

Hence, pending the new Agricultural; Development Act, a new Agricultural Commission comprising producers, services providers and officials of the Ministry of Agriculture to oversee the smooth implementation of all policies to support agricultural development will be created.

Water

Access to a reliable water supply is perhaps the chief means at our disposal to increase agricultural productivity and to reduce costs to the farming community. Government will therefore -

- Expend $ 2.5 million over the next three years to refurbish the irrigation systems at Ruby, Jackmans, Spring Hall, St. Patricks, Friendship, Marchfield, Marshall, and Poyer. Financing will come from the Agricultural Development Fund.

- Establish ten new irrigation districts over the next three years at Three Houses, Sedge Pond, Diamond Valley, Bath, South District, Pine Basin, Burnt-House, Back River, Sweet Vale and Newcastle. It is estimated that the new irrigation districts will cost $3,768,000 and $425,000 for capital works and professional fees respectively. Some $1,198,000 will be required in the first year.

We will increase the rebates for use of mulch as a water conservation measure to 50%for individual farmers and 75% for registered farmers organisations.

The estimated cost is $150,000.

Selective Stimulation

There are two major areas of activity where production has been falling while local demand has been rising. We seek now to reverse that.

The Pig Industry

Pork Production in Barbados declined significantly from 2,795,400 kg in 1997 to 1,402,500 kg in 2002 and continues to decline. Yet most of us love ”proper pork”. Revitalisation of the pork industry is a must.

The Ministry of Agriculture, Barbados Agricultural Society and the Barbados Pig Farmer Cooperative have agreed on strategies that will raise production to approximately 1.98 million kilograms of pork by the end of 2003. Strategies include designated technical assistance by the Ministry of Agriculture, Gilt Build Up Programme to increase the breeding herds, expansion of artificial insemination, farm mechanisation, training and financing.

This short-term programme is estimated to cost $585,000. In addition farmers have made requests for $1,865,000 to facilitate reinvestment in the pig industry and these will be accommodated through the Agricultural Development Fund and the Rural Enterprises Fund.

Poultry Industry

The poultry industry in Barbados has an estimated total annual turnover of $128 million, with a capital investment of approximately $100 million. The industry supports more than 400 farmers and provides more than 80% of the total poultry consumed in Barbados. The implementation of trade liberalisation since April 2000 has resulted in increased hardship on the industry. Analyses show that even with the bound rates and the Special Safeguard Mechanism, importation of chicken leg quarters threaten to destroy the local industry. Similarly marked increase in the importation of turkey wings, despite the 70% duty, has had a negative effect on the local industry.

To rectify these problems -

- The rate of duty on imported Turkey wings will be increased from 70% to 110% to afford greater protection to the local industry, and

  - The BADMC's importation of all poultry products will be limited to a maximum of 308, 000 lbs (140,000 kg) per month. This quota would include BADMC's importation of products such as turkey wings and offals.

Development of the Scotland District

The Scotland District represents one seventh of our land area, and although it possesses strong potential for production, agricultural activity in the area has fallen into serious abeyance in recent years. The Ministry of Agriculture has prepared a Plan for the agricultural rehabilitation of the area. It will seek to maximize the efficiency and profitability of agricultural activity in the Scotland District, without increasing the environmental fragility of the area, and to restore its pastoral charm.

The overall cost of the plan is $62.9 million dollars which includes $30.9 million for the regular operations of the soil conservation unit over a five year period Year one projects are expected to cost $8.7 million of which $2.9 million is required off budget.

Export Agriculture

Not withstanding the apparent opportunities, fresh produce exports from Barbados have declined dramatically. Data show that fresh produce, cut flower and foliage plant exports declined from 1,769,253 lbs valued at $1,677,611 in 1996 to 77,396 lbs valued at $144,969 in 2000. The Ministry of Agriculture assigned priority to hot peppers for export development. Government will therefore establish an Export Development Fund to support agricultural exports. This fund will be initially capitalized at $500,000. Resources will be derived from the Agricultural Development Fund.

The Cotton Industry

During 2001 Government established a fiscal framework for the development of the local cotton industry. The framework was predicated on the fact that cotton offers the best alternative to replace some if not all of the sugar cane production.

The first order of business is to expand primary production. It is clear, however, that the fiscal framework alone will not revive the industry .

Government will therefore establish the National Cotton Forum to act as a clearinghouse for information on the cotton industry and promote functional co-operation among stakeholders.

The Barbados Agricultural Development and Marketing Corporation will establish a joint venture company with local growers, input suppliers and investors to establish a sustainable production base for West Indies Sea Island Cotton.

The Cotton Ginnery will be relocated and upgraded and leased to the company to be established by the Barbados Agricultural Development and Marketing Corporation. The estimated cost of the ginnery recapitalisation is $ 2.0 million.

Government will continue to assist West Indies Sea Island Cotton Association to establish its right to its trademark whilst at the same time facilitate the reformation of that organisation into a contemporary corporate structure.

Barbados Cotton Growers' Association will be provided with a grant of $75,000 to re-activate the organisation.

Barbados Agricultural Development And Marketing Corporation

The Barbados Agricultural Development and Marketing Corporation is now largely functioning as a State Trading Monopoly, concerned with the importation of chicken wings and other such commodities.

BADMC will be converted into an institution that provides services to facilitate greater investment in the agricultural sector, performing a role similar to and beyond those which the Barbados Industrial Development Corporation provides to manufacturing, and the Barbados Hotel Association and the Barbados Toursim Investment Inc. to the Tourism Industry. Elements of the new BADMC role will include making strategic investment on a joint venture basis in certain areas of commercial agriculture, coordinating and organising the export of fresh agricultural produce, establishing a market intelligence service to cater to the domestic and export markets, assisting the stakeholders in meeting the benchmarks and standards to be established for the sector, and assisting the Barbados Agricultural Society in organising a farmer wholesale market, and generally spearheading the implementation of the Scotland District Development Plan.

This restructuring will take place over the next 18 months.

Land Use

The Land for the Landless Programme was launched in 2001 and approximately 880 acres have been made available to farmers across the country. However, there is an unsatisfied demand for 3040 acres to be distributed to 304 farmers. There is a need for measures to make it attractive for landowners to make idle land available to the Land for the Landless Programme. To accomplish this:

- Government will assign public lands at Bath plantation in St. John and River in St. Philip to the land for the Landless Programme.

- In order to bring private land into the programme, Government will effect tax reform. The threshold for access to the rebate on land tax to un- improved lands and improved agricultural land is $100,000 and $300,000 respectively.

These will be lowered to $25, 000 and $75,000 so that more small farmers can benefit. I now propose to waive the property transfer tax payable on the lease by private owners of arable land to the Land for the Landless Programme or any private arrangement registered with the Ministry of Agriculture where the lease is for a minimum of 10 years.

Manufacturing

After three years of decline, the manufacturing sector showed itself amenable to policy stimulation and as a result has recorded growth of 2.2 % for the first six months of 2002.

Since 1998 the Government has consistently sought to apply a policy to Manufacturing to afford it protection in all forms and up to a level consistent with our regional and global trade obligations to mitigate the effects on the sector of trade liberalisation. We have also sought to encourage the sector to begin to find industrial solutions to industrial problems, and the Government has facilitated this transformation by undertaking to mount on the sector's behalf a technical assistance programme amounting to $5 million per year over a period of three years. We have recognised the need to find new means by which to finance the creation of new competitive industrial enterprises. As such we have created a $25 million Industrial Investment and Employment Fund. Above all, we recognise that Manufacturing can be restored if it is afforded a larger domestic market, and hence Government has supported the bringing on stream of the 100% Bajan Campaign.

These policies have had the desired effect and will be kept in place. However, some refinement is required to ensure that the signs of recent growth in the sector can be translated into robust recovery. We need especially to institute a major new initiative for export marketing and to expand the pool of funds available to finance the creation of new competitive enterprise.

I deal first with the refinement of our policies. Tariff protection at the rate of 60% on a number of goods formerly under the surtax was recently introduced. This measure covered a range of industrial products spread over ninety tariff headings. In granting protection by way of high tariff, it is the wish of the Government to shield sensitive manufacturing activity in Barbados from foreign competition but to do so in a manner that does not bear adversely on the consuming public and our tourism sector. It has been found that of the ninety goods now enjoying such tariff protection at least thirty are either not produced in Barbados or produced in such minimal quantities as not to warrant the protection at all. As such, with effect from January 1st, 2003, the 60% duty will be removed from a list of goods under thirty tariff headings. The full list is appended. These goods include some items of furniture, household articles and food.

We will retain in place, as is our right under WTO rules, the special safeguard mechanism to protect our agro processed food industries and our beverage industries from surges in low priced extra regional imports. The use of this safeguard mechanism will remain in place for the foreseeable future but will be reviewed to ensure that it is having the desired impact.

The 100% Bajan Campaign has been of great value and will not only be maintained but will, with Government's financial assistance, be expanded into a third phase to cover all aspects of domestic production of goods and services.

These efforts to boost domestic demand for manufactured goods must now be supplemented by efforts to expand production for exports. Hence, through a joint public/private sector partnership we propose to establish a new trading and marketing enterprise to exercise major responsibilities for selling Barbadian goods abroad. The enterprise will function by buying goods from local manufacturers to sell overseas, thereby allowing manufacturers to focus on production and to avoid having to carry the risk of export marketing.

This initiative will initially benefit twenty-five export manufacturers and will in the first year exploit already identified opportunities in the U.S and British Virgin Islands, Bahamas and Atlanta. The creation of the enterprise is estimated to cost $2 million dollars, and it is proposed that it be financed from the Industrial Investment and Employment Fund.

Second, additional finance for the sector will be provided through the $30 million dollars which was recently borrowed from the Caribbean Development Bank and placed at the disposal of the Industrial Credit Fund for on-lending to financial institutions providing credit to industrial projects.

International Business

Barbados has recorded an improvement in the performance of the International Business Sector so far this year. Of particular note, has been the strong growth in the registration of International Trusts. So far this year 115 International Trusts have been registered compared with only 2 for all of last year. In the International Insurance Sector 17 companies have been registered this year so far, compared to 8 for last year. For Offshore Banks, 4 were licenced this year as compared to 2 for last year. This year 202 International Business Companies have been licenced to far compared to 210 last year. So far this year 17 Societies with Restricted Liability have been registered, compared with 22 for the entire of last year.

As part of our emergency response to September 11, 2001, a programme for the accelerated development of the sector was put in place. The essential elements of the programme were:

- Enhanced marketing of the sector
- Expansion of the Tax Treaty Network
- Lower cost and increased capacity in telecommunications
- Acceptance and implementation of international best practice in the supervision and regulation of financial services
- Expansion of services exports beyond financial services

In support of this programme additional resources were placed at the disposal of the sector. The more aggressive marketing of Barbados has clearly contributed to the improved results achieved this year.

Support for the Programme for the Accelerated Growth of the International Business Sector will continue. Particular emphasis will be placed on the areas where growth, is most possible, namely Insurance and International Trusts.

Nothwithstanding the improvement in the sector, it is clear that several challenges remain. The chief is to bring about the comprehensive convergence of all aspects of international and domestic sectors of the economy and especially the tax regime available to them. I will later specify the framework within which tax convergence will be undertaken.

Tourism

Mr. Speaker I now turn to the tourism sector which is expected to continue to the main engine of national economic growth into the foreseeable future.
Recent increases in tourism arrivals during the third quarter of the year, after a decline in the first half have been welcomed. It is important however that this pattern however be sustained if we are to return positive growth to the economy.

Government has already begun the process aimed at strengthening the viability of the sector by offering significant new incentives through the new Tourism

Development Act. This new comprehensive piece of legislation has broadened the range and scope of incentives available to the sector.

Many of the concessions given under the Tourism Development Act are new. In addition, for the first time these benefits are now also being made available to the ancillary industries. Although it is foreseen that these concessions must be given time to take effect, the sector is encouraged to take full advantage of the comprehensive provisions under the new legislation.

Mr. Speaker, representation has been made by the industry for further reductions in taxes on inputs. However in addition to those tax incentives given under the new legislative arrangements, the industry stands to reap significant benefits in the form of the reduction of import duties and taxes as we meet our FTAA and WTO obligations within another 18 to 24 months.

The sector has been given a new, attractive and enabling environment and the financial resources for marketing have been substantially expanded, despite the decline in Government revenues.

We, however, believe that at this stage, product development must become our principal priority. It is clear that Barbados like many other destinations in the

Caribbean is a mature destination and that many of the main product elements which make up the sectors are in need of renewal and upgrading.

Our objective is to develop Barbados as an upscale destination, without the introduction of mass attractions like casino gambling or the use of a variable currency exchange rate. As such, it must be recognised that a premium be placed on the improvement in the quality of the products and attractions we offer.

The work of the Barbados Tourism Investment Incorporated during the past 5 years has seen substantial improvements being made to our product base. This effort must now be accelerated.

The BTII's urban renewal programme has brought new life to our Capital City. Additionally infrastructural improvements work in the St. Lawrence Gap and Speightstown will build new tourism investment capacity and facilitate greater scope for marketing.

Additional emphasis now needs to be placed on continued product renewal and development and the building of new capacity. The Government will therefore support a bond issue of up to $150 million to be utilised by the BTII and other relevant agencies for an expanded programme of product development.

Areas that will be considered for funding under this new programme include the dredging and redevelopment of the inner and outer careenage, redevelopment of the street scape of Bridgetown and the transformation of Independence Square.

Similar enhancements are planned for the other city centres and phase 2 of the street scape improvements at St. Lawrence Gap will be undertaken.

Airport Facilitation at the Grantley Adams International Airport including an upgrade of all services offered and an improved ambience will be part of the programme. This will be achieved through improvements to signage, training for red caps and security personnel and the deployment of additional immigration and customs officers as necessary.

The programme will also provide for the development of interpretative and directional signage island wide to allow for the island to be traversed with ease and comfort.

Part of the proceeds will also be committed to an expansion of the existing programmes for human resource development in the industry, to promote a culture of excellence in service delivery.

It is further envisioned that a part of this funding will be utilised to permit BTII to be involved in joint venture arrangements to build new capacity for the sector; pertaining in relation to the creation of more heritage assets.

Tourism like most of our other productive sectors has also came under pressure from rising insurance costs. To counter this trend, Government is prepared to provide the sector with support for an initiative to establish its own captive insurance enterprise.

Mr. Speaker, for our tourism to continue to develop and to move to the next level we must continue as well to diversify out product offerings. As such boating and yatching as a natural fit will upscale our image.

Indeed, Barbados has never leveraged to the fullest extent, our geographic location as the first port of call for vessels traversing the Atlantic Ocean.

We intend therefore to offer a new range of concessions and to extend new legislative and administrative arrangements to offer the boating and yatching community a much improved and welcoming environment.

The Government therefore proposes to address this matter principally by amendments to the Shipping Incentives Act, improved marketing of the sector and improved institutional arrangements with an emphasis on facilitation.

Amendments to the Shipping Incentives Act, CAP 90A

The shipping Incentives Act, Cap 90A only extends concessions to 'approved shipping companies'. It is now proposed that the Act be amended to allow for a wider application of the incentives to all boats.

It will also be amended to support -

- The introduction of a refurbishment program to facilitate the alteration, equipping, maintenance or repair of existing boats which are being used commercially in the tourism industry, as well as acquisition of all marine equipment, sports fishing gear, fittings and furniture.

- Concessions with regards to marketing in the industry will now be introduced and will coincide with those.

The full set of the new arrangements for facilitation and marketing of this sector are set out in an Appendix.

Energy

During the year 2001, production of both crude oil and natural gas fell as a result of the natural decline of wells in production and also because no new wells were drilled during the year. In the prevailing international climate, we anticipate difficulties with energy supplies and prices.

To counter this the Barbados National Oil Company and its joint Venture Partner Waggoner Barbados Ltd. will in November 2002 start a $25 million programme which will entail the drilling of 9 development wells. This will stimulate production of crude to 1500 barrels per day and natural gas to 2.5 million cubic feet per day.

At the same time the National Petroleum Corporation will from November 2002 embark on a $15 million mains expansion programme to bring natural gas to an additional 5000 Barbadian homes.. The expansion will be in approximately 42 areas in 7 parishes and will last over 2 years. The NPC will also reduce the cost of installation of natural gas from its present $517 to a maximum of $250.

When the decision was made to close the Mobil refinery in 1998, it was decided that the terminaling facility would be operated by the Barbados National Terminal Company Limited until a new terminal could be established at another location. In 1999 Government agreed to enter into negotiations with a consortium of four oil companies, Shell, Esso, Texaco and BNOC for the establishment of a local company to operate a terminal facility using sites at Holborn and Spring Garden. After almost three years of prolonged negotiations, no agreement has been reached with the parties on issues such as the rate of return and participation by the public in the new shareholder company.

Time is of the essence since the BNTCL temporary operation must cease and the site remediated in order that the new Hilton Hotel can be properly marketed and opened in 21 months time. Cabinet has therefore agreed that the BNTCL should be made responsible for the importation of energy products and the installation of facilities for such products in Barbados. The facility will cost over $50 million and is estimated to be completed in 20 months time. On completion, the public will be able to purchase shares in the new company.

Investment Programmes

Mr. Speaker, the capital works programmes of the public and private sectors have, in my view, the potential to make a significant contribution to the Government's efforts to return the local economy to a positive growth path.

Over the last twelve months, the Government has completed a number of capital projects and has reached substantial completion on several others.

While one can be justifiably satisfied with the progress of the capital works programme since my last Economic and Financial Statement a year ago, the Government cannot afford to rest on its laurels but must seek continuously to add sound projects to its capital investment programme. It is therefore my pleasure to present to this House a number of such initiatives that will come on stream during the next 18 months.

- With the start of construction on the New Barbados Hilton Hotel, Government, through the Needham's Point Development Inc. which has responsibility for the project, has redoubled its efforts to interest prospective investors and developers in the future development of three separate parcels of land located at the Needham's Point Peninsula for tourism-related purposes. These lands have been identified as potential sites for the construction of condominiums and two 200 – 250 room hotels.

- A framework has been put in place for the resolution of all the issues relating to the implementation of the Pierhead Development Programme. It is expected to start during the first half of 2003, and will now include the construction of a marina The construction of the marina is expected to be financed by a US$35.0 million loan that is currently being negotiated with the Caribbean Development Bank.

- Under a Public-Private Sector Partnership, the Barbados Tourism Investment Inc. will join with two private sector entities to develop a major beach facility on Crown lands at Harrison's Point, St. Lucy. This project, estimated to cost in excess of $100 million, will complement the inland tourism developments of the private sector entities that include golf courses, hotels and residential units. This project will also involve the relocation of the headquarters of the Barbados Youth Service.

- Following the completion of the Bridgetown Roads and Safety Improvement Project, the Government will be turning its attention to the expansion and rehabilitation of some of the major roads of Barbados. These will include the reconstruction of Martindales Road and Hindsbury Road. The major new activity, however will be the phased expansion of the ABC Highway into a four-lane highway, commencing with the section between the Emancipation Statute and the Garfield Sobers Roundabouts.

- In the Health Sector, the Government will continue its programme for the redevelopment of the Queen Elizabeth Hospital. A study has been commissioned to spell out a programme on the rationalization of the use of space at this health institution and will facilitate decisions by Government on issues such as the relocation of common hospital services for the purpose of releasing space for additional patient care and clinical use.

- Mr. Speaker, we need to broaden the range of services Barbados offers. Government has received a number of proposals for the establishment of retirement villages and resorts in Barbados. Typically, these resorts offer residential accommodation, including assisted living suites, state-of-the art medical facilities, as well as surgical, specialist and intensive care, and a range of amenities including spas, saunas, gyms, tennis courts, swimming pools, lakes and parks. The Government is convinced that Barbados, with its highly developed physical and human resource base, is ideally placed to reap significant benefits from these proposals. Consequently I am prepared to put in place an appropriate enabling environment that would facilitate the establishment of such retirement community projects on the island.

- With the Cheapside Market Rehabilitation Project almost completed, the Government will focus its attention on upgrading the Fairchild Street Market which, as you are fully aware Mr. Speaker, is in dire need of attention. The project is designed to provide modern, functional and comfortable facilities for vendors and is estimated to cost $8.5 million, of which approximately $5.4 million is expected to be financed by a loan from the Government of Venezuela.

- The Pierhead Development Programme will utilize the land area of Fort Willoughby, the current headquarters of the Barbados Coast Guard. Consequently, the Coast Guard headquarters will be relocated to reclaimed lands at Spring Garden, St. Michael. The objective of this project, which is estimated to cost $45.0 million, is to provide a modern naval facility that will contribute to the efficient delivery of maritime services to Barbados. The project will involve the design and construction of breakwater, mooring and haul-out facilities, living accommodation for 300 persons, administrative buildings, workshops, fuel storage areas and car parks. The project is scheduled to be completed by October 2004.

In addition to the projects that comprise the public sector investment programme, a number of private sector financed projects that have obtained the approval of Government's regulatory agencies, are expected to commence over the next year and a half.

Planning permission has been granted for the restoration, renovation and conversion of a listed building at the Pavilion, Hastings, Christ Church, into a 16,000 foot conference facility and associated bar and restaurant. In addition, a new 219-room hotel will be constructed on the compound of the Pavilion.

At Rices, St. Philip, a holiday resort will be established on 24 acres of beachfront land. The resort will comprise 58 villas and other ancillary facilities.

Also in the tourism sector, Mr. Speaker, a number of hotels will be adding to their room capacity over the coming months. At Coconut Creek Hotel, St. James, approximately 75,000 square feet of floor area will be used to develop 21 condominium units carrying a total of 63 beds. At Cacrabank Apartment Hotel, Christ Church, permission has been granted for the extension of the hotel to make provision for an additional 46 one and two-bedroom units. At Accra Beach Hotel, Christ Church, an additional 19 units, carrying a total of 24 beds, will be constructed and the existing restaurant renovated. And at the Crane Resort, St. Philip, construction of 63 units will commence as Phase 2 of the hotel's expansion programme.

In the industrial sector, permission has been given granted for the construction of a building to house a new still at the West Indies Rum Refinery. The still is expected to increase the volume of rum produced by approximately 50 per cent.

Finally, Mr. Speaker, the Government has, over the last nine months, granted permission for the subdivision of land into approximately 1, 700 residential lots across the island. This significant increase in the number of residential lots creates the potential for further expansion of housing construction in the medium term.

Business Facilitation

It is crucial that we find ways of reducing the cost and removing much of the hassle associated with doing business in Barbados.

I now propose to introduce a few measures to assist in this regard.

Insurance Issues

Without doubt the cost of insurance has risen faster than any other cost in Barbados. The General Insurance Industry has continuously made representation that the high cost of property insurance is a consequence of high re-insurance costs as a result of the designation of the Caribbean, which includes the southern USA, as a high risk area.

The events of September 11th, 2001 and subsequent hurricane activity has served to exacerbate the situation.

Re-insurance rates have risen between 25 to 30% since September 11th, 2001 and these costs are passed on to the consumer.

A partial solution to the problem is for the industry to retain a larger share of the risk, thus reducing the amount ceded.

In 1996 the Insurance Act made provision for property insurance companies to deduct 20% of net written premium income, provided that amount was set aside in catastrophe reserves.

It was expected that over time sufficient catastrophe reserves would be built up to enable the companies to retain increasing amounts of the risks underwritten.

The industry has now made representation for an increase in the tax deductible allowance for catastrophe reserves in an effort to further encourage companies to retain more risks and cede less thus reducing re-insurance costs.

I have therefore agreed to increase the tax deductible amount of premium income for catastrophe reserves from 20% to 25% of net written premium income.

I also propose to reduce the premium tax on property insurance from 5% to 3.75%. Both of these measures will come into effect from income year 2003.

Customs

The operation of the Customs Department is an area cited frequently as raising considerable difficulties to the carrying on of business.

As part of an exercise to rectify this the Customs Department will embark on the automation upgrade from the current Automated System for Customs Data

(ASYCUDA) version 2.7, to the latest ASYCUDA ++, version 3. The upgrade is expected to be completed in 18 months at cost of $2.5 million.

The upgrade will enable the department to embark on full electronic document processing, and will assist in reducing the cost of doing business to facilitate increased revenue collection, faster turnaround times, improved trade data collection and retrieval and will generally enhance departmental efficiency and effectiveness. Barbados will be the first administration in the Caribbean to complete this system.

Customs administrations worldwide have had to address the increasing challenges of the movement of containerised cargo across national borders.

In the Caribbean and in Barbados in particular, the system of direct deliveries saw increasing volumes of containers being sent to importers premises all over the island.

There are several inherent risks in the current system including the unauthorised opening of containers, movement of contraband and ineffective deployment of resources.

Agreement in principle has therefore been reached for the establishment of the Central Container Examination facility where all regulatory agencies will be accommodated and where all containers released from the Bridgetown Port but targetted for examination will be processed.

Containers released from the Bridgetown Port and not targetted for examination at the Facility will be delivered directly to the importers who will be permitted to start unstuffing them as soon as they arrive at their premises. The regulatory agencies reserve the right however to visit and examine those containers even after the direct delivery.

Mr. Speaker at present residents of Barbados are permitted under the Customs Regulations 1963 No.85 to import duty free quantities of tobacco and spirits for their personal use. It is not clear why these "sin" goods occupy such an exalted position.

Much friction has however developed between some members of the travelling public and Customs officials, because other goods intended to be used for non-commercial purposes do not enjoy any such similar provision.

To remove this hassle, I now propose to provide a duty exemption of Barbados of up to $500 per annum for residents, which residents can claim on all items intended for non-commercial use - and not just for cigarettes and liquor - with effect from January 1st, 2003.

Such a provision would facilitate and expedite the movement of legitimate travellers while enabling officers to concentrate on high risk cases.

The provision of a duty free allowance on non-commercial items will be consistent with similar provisions in other jurisdictions.

Justice System

The modernization of our judicial system is seriously constrained by an insufficiency in the number of judicial officials.

Delay in justice is now endemic. This state of affairs has been occasioned by the high incidence of matters now being brought before the Court as well as the paltry number of judicial officials.

Since 1995 when we last made an increase in the number of High Court Judges the number of cases referred to them has increased by 27 per cent to over 3400 and it is estimated to reach 4200 by 2007.

The situation at the level of the Magistrates Court is even more grim. There currently exists a backlog of about 4000 cases at this level of the judiciary where the case load has increased ten to twenty times since 1956 when there was last a permanent increase in the magistracy. Over 22 300 cases were lodged in the Magistrates Court in 2001 of which nearly 20 per cent were drug cases compared to none in 1960.

This situation needs urgently to be rectified. Hence it is now proposed:

- to increase the number of magistrates by two;
- to add two High Court Judges to the bench; and
- provide another Appeal Court Judge.

Mr. Speaker these measures will cost the Consolidated Fund about $1.1 million and will have to be funded by an increase in court fees which have remained unchanged for nearly twenty years.

STATE ENTERPRISES

Mr. Speaker, an important part of the restructuring of the Barbados economy must entail the creation of a new enterprise culture within which commercial or quasi-commercial enterprises owned by the state will be made to function. Those enterprises such as the Transport Board and the Barbados Water Authority that are providing public goods in a monopoly situation must do so in an efficient and cost effective manner. In addition, transparency must be brought to the determination of their costs and charges and we must reduce their dependency on the consolidated fund for operating transfers.

The fees and other charges for services rendered by these enterprises have not been increased for almost a decade while major component costs, especially wages, have risen over the period.

At some stage, the issue of revenue enhancement and cost containment for these enterprises will have to be addressed.

It is proposed that any requests for adjustments to fees and charges of these enterprises must be made via submissions to the Fair Trading Commission, and only after public hearings that facilitate a full public evaluation of all aspects of the operation of the enterprises.

These state enterprises will be required as part of that process to outline programmes for cost containment and the improvement in the quality and delivery of services, and to accept new benchmarks for operational efficiency that they will have rigorously to apply.

In relation to the financial sector, Government's principal focus is to exercise effective supervision and regulation, to become less involved in owning and running such institutions. For those that are now owned by the state we want to support their institutional development in a sector that has become consolidated and liberalized.

Mr. Speaker, the last quarter of the year 2000 saw initial public offerings by two government corporations: the Insurance Corporation of Barbados and the

Barbados National Bank. In my economic policy statement of 2001, I announced the intention to allow the two institutions to return to the market to continue the process of divestment of a substantial portion of the remaining shares owned by the Government of Barbados. I also stated that this offer would not be limited to the local market, but would also be targeted at regional pension funds, insurance companies, social security schemes and strategic partners either regional or international. Since that time the Board of the Barbados National Bank acting as agent of the Government, has been in discussion with possible strategic partners.

With the consolidation taking place in the local and regional financial services sector, it cannot be business as usual for small local banks. The recent merger of CIBC and Barclays as First Caribbean International Bank Ltd, has created a mega institution, which will give it a competitive edge in the pricing of financial products. The days of a local bank being successful by focussing only on retail banking are therefore coming to an end. There is the need for the Barbados National Bank to seek a strategic partner who can add value to the institution and so facilitate it expanding into other areas of financial services, which would provide the opportunity for higher value added and the earning of foreign exchange.

A strategic partner would be expected to enhance the operations of BNB by providing the following benefits for its employees, shareholders and customers It should :

- Allow for greater diversification of products and services in order to keep up with and possibly stay ahead of the expected competition created by mergers and acquisitions

- Increased revenue and growth through an increased customer base through external redirecting of business

- Allow access to regional and international markets

- Enable the Bank to accommodate US dollar financing to assist in providing more cost effective financing for the tourist industry.

At the end of this process the Government intends to be only a minority shareholder in the Bank.

The Insurance Corporation of Barbados Ltd is facing similar challenges as the Barbados National Bank, a small local institution operating in an industry where there has been consolidation both at the regional and international level. The recent acquisition of Life of Barbados by the Barbados Mutual has led to consolidation in the life insurance and pension business. No doubt we will also see consolidation in the local property and casualty business. ICBL as a small local institution must of necessity look for a strategic partner in order to reposition itself to deal with the challenges that liberalization and the emergence of financial conglomerates offering a multiplicity of services will bring. The board of ICBL has therefore been mandated to look for a strategic partner either regional or international, who can add value to the institution and ensure its long term survival.

Hotels & Resorts Ltd

Mr. Speaker, it has never been the intention of the Government to enter the hotel business but merely to salvage those heavily indebted properties to the Barbados Development Bank. Hotels & Resorts Ltd, trade name, GEMS OF BARBADOS, was formed in 1995 to purchase the hotel properties indebted to the Barbados Development Bank (BDB), and develop the Gems of Barbados Project. The Government of Barbados currently owns 93% of the issued share capital of the company and two former hotel owners own the remaining 7%.

The Company is highly geared, having been financed mainly by debt. The Government is therefore preparing the Company for divestment and has taken the first step by restructuring the debt in an effort to eventually improve the debt to equity ratio.

The privatisation of the GEMS of Barbados will be undertaken at the earliest opportunity.

Caribbean Broadcasting Corporation

It is my Government's intention to prepare the Caribbean Broadcasting Corporation for the widest possible participation in its ownership. The Government has therefore provided a loan for the conversion from analog to digital. The move from analog to digital will allow the corporation to offer more channels, cut back on piracy and enhance the coverage areas to allow the signal to reach more persons. These activities will allow the corporation to enhance its revenues and to become attractive for potential investors .

FINANCIAL REFORM AND LIBERALISATION

A sound financial sector is integral for the achievement of sustained economic and social development, since financial activity provides the fulcrum for real economic growth by channelling scarce resources into those areas that are most productive. We need also to liberalise our financial system. In order to be effective, financial liberalisation has to be a part of a broader set of macroeconomic reforms, and must be well managed and implemented on a phased basis.

The financial system in Barbados has been characterised in recent times by a significant level of under-utilised funds in the form of excess liquidity. The management of these under-utilised resources presents both a challenge and an opportunity. The challenge is to find efficient ways to channel these financial resources as quickly as possible away from speculative activities and into such productive activities necessary to spur economic growth. On the other hand, when as expected, the pick-up in real economic activity gains momentum in the second half of next year, the ready availability of these resources means that both the private sector and public sector activities can proceed apace without fear of Government activity crowding out the private sector.

During the nine-month period ending September 2002, commercial banks' excess liquidity rose by 8.1 percentage points or $383 million. This growth in liquidity, which has been a source of concern for both the Government and the private sector, was deemed to have been caused by the implementation of an indicative weighted average lending rate on commercial banks. However, the reasons for this rise in liquidity may be more accurately traced to three main sources.

First, in an attempt to stimulate the real economy the Government of Barbados undertook counter-cyclical policies, which resulted in approximately $228.4 million entering the financial system. This took the form of a $133.9 million draw-down in Government's Special Deposits at the Central Bank and a $94.5 million rise in the Ways and Means Account. Second, the funds paid to persons who sold their shares in Life of Barbados Ltd. to the Barbados Mutual Life Assurance Society infused the banking with an additional $151 million. These two one-off factors injected $379 million into an already-liquid system. Thus, more than 90% of the rise in liquidity can be attributed to these two reasons. Thirdly, the Central Bank of Barbados lowered the total reserve requirement by 1 percentage point, which resulted in liquidity rising by approximately $30 million. Therefore, the current level of liquidity is mainly due to one-off factors and will most likely be reduced as the economy recovers.

In the recent past, the main objective of monetary policy has been to provide a low interest rate regime, which is conducive to economic growth, particularly in the foreign exchange earning sectors. Such an environment is extremely important for economic recovery. The Central Bank's decision on August 1, 2001 to introduce an indicative weighted average lending rate has resulted in a reduction in that rate from 11.06%, as at end-June 2001, to 8.32% at the end of August 2002, representing a reduction of 2.74 percentage points. At the same time, the minimum deposit rate was reduced by 1.0 percentage point. Since that time, with the exception of the 4th quarter of 2001, the credit response has been positive. It is estimated that businesses in Barbados have saved over $50 million in operating costs, which would not have been possible or as pervasive with other support mechanisms such as subsidies.

The Government stands committed to maintaining the minimum deposit rate in the foreseeable future. Targeting the weighted average lending rate was always intended to be a temporary measure, and the Central Bank will remove the limit by March 2003.

The analysis of the economic impact of Central Bank's policies suggests that there is scope for more competition in the sector. Furthermore, the surplus of funds in the system provides the commercial banks with an opportunity to increase their level of financial intermediation and aid in the country's development. Over the past years, Government has been meeting the challenge of providing funds to many of the island's development schemes, including the Housing Credit Fund, the General Workers' Fund, and Fund Access. Government has decided that this financial intermediation role is best provided by the existing financial institutions, with Government providing guarantees for bond issues by these corporations. This would help to reduce the rising negative impact of discretionary expenditure on the fiscal deficit. As such, the Housing Credit Fund will be made a legal entity and will be administered by the Central Bank.

Deposit Insurance

The Government of Barbados believes that it is timely to introduce a deposit insurance scheme. Such schemes are designed to offer the greatest protection for small depositors and to facilitate an orderly wind-up of failed institutions. Accordingly, Government plans, during the first half of 2003, to establish as a statutory body, a deposit insurance corporation, which will be charged with the responsibility of:

- Insuring deposits held by licensees up to the amount prescribed;
- Levying, receiving and investing premiums;
- Monitoring the performance of licensed banking institutions;
- Educating the public on deposit insurance;
- Paying off depositors of closed institutions; and
- Conducting resolutions and liquidations in the event there is a failure.

The Central Bank has already discussed the proposal with the banking community and the Deposit Insurance Act which will govern the deposit insurance scheme, and which is presently in draft form, will soon be available for comment. Amendments to the Financial Institutions Act and the Central Bank Act will also be required in order to ensure flexibility and speed in the resolution of problem institutions.

The principal features of the insurance system are as follows:

- The Central Bank will contribute the required capital of $1 million dollars;

- There will be mandatory membership for all deposit taking institutions licensed under the Financial Institutions Act (FIA);
- Depositors will be guaranteed payouts up to a limit of $25,000 in the event an institution fails. Payouts in excess of this will depend on the corporation's ability to recover the assets of a failed instruction. It is estimated that this limit will cover one third of the value of deposits in the financial system;
- The Deposit Insurance Fund (DIF) will be funded by flat rate premiums levied on all member institutions. The premium rate is still under discussion but is likely to lie between 0.05% and 0.075% of insurable deposits;
- All member institutions will pay an initial contribution equal to the size of its assessed premium immediately on start–up and an annual premium assessed in the first quarter of each year; and
- The Central Bank will also be required to make an initial contribution to the Fund of an amount equal to the sum of the initial contributions to be paid by member institutions.

Tax on Bank Assets

The tax on bank assets was introduced in 1983 as a revenue-raising measure. However, with the introduction of the deposit insurance scheme, it will represent an added cost to commercial banks in the short term. To offset this, the Government of Barbados will phase out the current tax on commercial bank's assets beginning in income year 2004.

Secondary Mortgage Market

As part of the initiative to create new financial products and meet the pent-up demand for housing, the Government will seek to create a secondary mortgage market. This endeavour would encourage the diversification of financial products through the issuance of mortgage-backed securities, and provide a viable alternative instrument for potential investors. While it is recognised that the benefits of such a market are best realised in situations of tight liquidity, it is imperative that we be proactive and begin this process immediately. In order to expedite the process, the Central Bank will take responsibility for the development of this market.

PENSION REFORM

Mr Speaker, we now come to Pension Reform.

In common with many developed nations Barbados is experiencing fundamental demographic change. Improvements in infant mortality in the 1950's, then falling fertility rates brought about by Family Planning initiatives from 1975 and improved medical care leading to better mortality all spell out a success story that now presents us with a new challenge, that of a rapidly ageing population.

The National Insurance Scheme is on the soundest footing it has achieved over the 35 years of its existence. The Scheme's assets currently exceed 1.5 billion and its Reserve Ratio, (the ratio of its reserves to annual expenditure, including administrative expenses) is 5 to 1 and will continue to grow in the medium term. So the management of the Fund has thus far fulfilled its mandate of maintaining growth and financial viability. However this mandate handed to the managers of Social Security systems the world over does not merely concern itself with current financial viability but also is framed to look considerably into the future and to ensure similar security and viability for the current working population and the nation's children.

The Ninth and Tenth Actuarial Reviews of the National Insurance Scheme indicated that the changing demographics of the Barbadian population meant that unless there is change to the Scheme, the Scheme's currently healthy assets will ultimately be eroded completely – the latter Review indicating the year of complete erosion to be 2032. To illustrate the impact of future circumstances on the Scheme in another manner, the estimated rates of contribution to the National Insurance Fund as a percentage of earnings such that contribution income equals benefit expenditure in the year will have to move from the current 12.9% to 41.5% in 2059 assuming indexation of all benefits.

I must stress at this point that this eventuality is driven only to a limited extent by economic and financial influences, but is almost exclusively due to the current demographic metamorphosis our nation is undergoing. To illustrate the point graphically, today in Barbados there are 3.4 contributors to our National Insurance Scheme for every one of our treasured senior citizens drawing a pension. In the year 2060, based on our current population projections, there are expected to be only 1.3 contributors to the Scheme for every person receiving pension. Mr. Speaker Sir, because of the absolutely vital role our National Insurance Scheme plays in the lives of practically every one of our nation's citizens, this transformation requires considered, early and radical action. And for those who may feel that 2060 is too far off to worry about, pause a moment and reflect that a person reaching pensionable age in that year, is already in primary school .

Mr Speaker as this chamber is aware, the National Insurance Board responded to the challenges I have outlined by establishing a Sub-Committee to research and recommend the best course to ensure the long term financial viability of this vital national asset. The approach taken by the Board involved detailed actuarial analysis of the current state and future prospects for the Fund, wide dissemination of information about the status of the Scheme and various options for Pension Reform and an extensive consultative process which gave the opportunity for every Barbadian and representative group to contribute to fashioning a solution.

There is one element of the debate on Pension Reform about which I wish to comment. After studying the experiences of several countries, including the oft quoted Chilean Model, the Sub-Committee came to the conclusion, with which we in government readily concur, that Privatisation was not the way for Barbados. Mr Speaker, the route of privatisation and the consequent creation of individual accounts (with its lack of guarantees and safety nets and potential for tragically wrong choices by citizens left to be their own financial advisers) amounts to a reversal of the spirit of solidarity so long and carefully nurtured in this country and a spirit which has been concretised by the series of tripartite protocols. Apart from this philosophical departure the experiences of those countries which have followed this route of social insurance have by no means been such as to commend this approach to Barbados at this stage of our social and economic development.

The Options ultimately put to debate were reduced to three:

i Maintaining the existing benefit structure with a substantial increase in contributions;

ii A significant reduction in benefits while leaving contributions unchanged, and

iii An increase in retirement age combined with a smaller increase in contributions.

In deciding which option to pursue the committee was guided by a desire to ensure that the Scheme maintained a ratio of reserves to actual expenditure of 5 to 1; that is, the size of the Fund should equal at least five times annual pension expenditure at the chosen projection year of 2030.

The National Consultation held earlier this year has given rise to a consensus on pension reform which I wish to commend to the House to take effect, except where otherwise stated, from January 1st, 2003:

i Increase the NIS contribution rate by 1% of insurable earnings each year for four years shared equally between employees and employers. The new resulting rate will remain in effect and take us to the year 2030;

ii Increase the standard NIS retirement age from 65 to 67. This process will start in 2006 by allowing the retirement age to be increased by 6 months for every 4 years thereafter until the new standard retirement age of 67 is reached in the year 2018;

iii the introduction of some flexibility in retirement age by permitting retirement between the ages of 60 and 70. Persons who opt for retirement prior to the standard retirement age will be given an actuarially reduced pension, while those who retire later will get an increased pension;

iv For early retirement the person requesting it must have actually retired from regular employment to qualify. Early retirement will be allowed from age 64 only next year, with the intention of gradually reducing that age each year. This phased introduction will allow monitoring of the early retirement experience in order to protect the Fund's finances. Late retirement up to the limit of age 70 will be allowed immediately.

At present the insurable earnings limit on which the payment of pensions and other benefits is based is adjusted by the Minister. There will however, now be a formula for the adjustment of the insurable earnings limit and the payment of increases in line with the National Average wage increases. Pensions and Maternity and Funeral benefits will be increased by a formula which will take into account the lesser of the average wage increase and the average price increase over a three year period. The actual increase granted will however be subject to actuarial advice on the maximum increase which may be granted to maintain the target Reserve Ratio of 5 times pension expenditure, through to the year 2030. The latter increases will commence with effect from January 1st, 2004.

Mr. Speaker, there are further changes of a more detailed and technical nature which will also form part of Reform. These are itemised as follows:

Currently a person is able to receive a pension of 40% of insurable earnings after only 10 years. This represents an accrual rate of 4% per annum. Persons can abuse the system by contributing for only the last 10 years of their working life and receive a relatively high pension. It is therefore proposed to change the rate of accrual of pensions to 2% per year of "final insurable earnings" for the first 20 years, thus ensuring that a pension of 40% of "final insurable earnings" will be paid for the first 20 years of contributions. Thereafter the rate of accrual will be 1.25% per year of "final insurable earnings" with the maximum pension remaining at 60%.

This new arrangement will be phased in gradually. Insured persons within 10 years of the existing NIS standard retirement age will see no change. For those who are between 10 and 20 years to retirement age, 50% of pension benefit will be based on the new basis and 50% on the old. Only those with more than 20 years to go to the new NIS retirement age will now earn pension on the new basis entirely.

The definition of final insurable earnings will be amended to be the average of the best 5 years' insurable earnings instead of the best three as at present.

Mr Speaker, we would like to take the opportunity to announce a new initiative We have noted during the Pension Reform consultation that several requests were made for the NIS to provide for persons to make voluntary additional contributions with a view to increasing their pension entitlement beyond that which the State normally provides. I believe that the National Insurance Board should be in a position to honour the request of interested individuals to allow them to contribute on a voluntary basis in this manner.

The Management of the NIS has set in train a study to work out the details of an appropriate vehicle to give effect to this expressed need/desire.

I have dealt with the changes that are necessary to be made to the National Insurance Scheme to keep it in a healthy state for the next thirty years or so. I will now focus my attention on the structure and management of the Fund. As managers of the single largest pool of funds in Barbados, I deem it absolutely essential that the National Insurance Board should have at its disposal all the resources necessary for the efficient management of those funds.

The Board currently controls its own finances, but exercises no control over its human resources. It is serviced by a department of government whose staff are recruited by the Public Service Commission and its structure determined by the

Ministry of the Civil Service. This state of affairs does not provide the Board with the flexibility needed to satisfy the vision identified.

The Board has expressed the view that it should be in a position to recruit and retain the talent necessary to properly carry out its mandate. In that regard, it has commissioned an Institutional Strengthening Study and listed among its objectives the achievement of an optimal organizational and operational structure that supports NIS's vision. On receiving the recommendations of the consultants, I would be willing to work with the Board, the workers' representatives and the management to ensure that the NIB evolve into a fully autonomous and professionally run financial institution without placing the workers in any less favourable position than they currently are in.

Mr. Speaker I also want to announce my Government's intention to enshrine in legislation the tripartite tradition and practice which has attended the composition of the Board of the National Insurance Scheme. This approach to corporate governance has served the Scheme well in the past and we feel it is time that it now be elevated from the level of discretionary to that of compulsory. At a time when sister Social Security Schemes in the region and elsewhere have floundered upon the rock of inappropriate political intervention to the extent of compromising the very existence of these Schemes we feel that the Barbados National Insurance Scheme must be protected for all time from any such fate. We therefore intend to include in the amending legislation to the National Insurance Act which we will bring to this House provisions to codify the current Board membership comprising membership representative of Government, the Unions and the Private Sector.

Mr. Speaker in coming to the decisions which my Government has reached we set in train a comprehensive consultative process which included inputs from the entire social partnership, the Leader of the Opposition and the woman and man in the street. It is my view that the debate has truly engaged the society in a genuine and interactive manner, which is entirely appropriate for a national asset in which we all have a stake. And while it is clearly impossible for every single view to be accommodated in the ultimate outcome, I am satisfied that these measures represent as far as humanly discernible the will of the people in the matter of the future development of the National Insurance Scheme. I wish to place on record our gratitude to all those who managed and participated in the consultation for the spirit that has allowed us to reach a national consensus on a matter that has such far-reaching but potential divisive implications.

TAX REFORM

Framework for Reform

It is important that it be understood that our approach to tax reform should be driven by considerations that are greater than fiscal issues.

First, Barbados will hereafter function as part of a Caribbean Single Market and Economy. There is also the need to secure the future of the international business and financial sector by addressing the wide disparity that now exists between tax rates for domestic and offshore entities. For strategic competitive purposes, a major sustained revision must be made to our Corporate Tax structure.

Secondly, tax reform must now be used as stimulus for economic activity to ensure that our economic recovery can be made as robust as possible.

Above all, the long term sustainable development of Barbados is best ensured within a tax regime featuring low rates, a clearly defined base, one that inspires personal and corporate initiative, and exhibits characteristics of fairness, simplicity and equity.

Finally, to be meaningful, the relief provided has to be substantial. Hence, the adjustments we propose to make must be designed as a programme to be implemented over a period of years.

CORPORATION TAX

It is necessary that we continue the reform of our Corporation Tax to make Barbados as competitive as possible, and to encourage higher levels of investment in the local economy.

In this regard, the adjustments announced today to Land Tax, tax on leases for Agriculture, the tax rate on bank's assets and tax rates for the insurance industry are all part of that process.

Sir, there is the perception that there is a high rate of corporate taxation in Barbados. However, the corporate tax system of Barbados is made up of an array of incentives such as tax holidays, tax credits in respect of foreign exchange earnings and export sales, investment allowances, a special regime for small businesses, special development areas tax breaks and special regimes for hotels, shipping and agriculture among others.

This proliferation of special allowances and regimes serves to make the effective corporate tax for domestic companies, which make use of these incentives, much less that the nominal of 37.5%.

Indeed it has been calculated that the effective rate of tax, may be in the vicinity of 25%.

It is possible therefore to simplify the system by rationalizing this array of allowances and by bringing the corporate nominal tax rate of 37.5% down and closer to the effective rate of 25%.

I propose to continue the process announced last year when I indicated that it was my intention to reduce the corporate tax rate to allow local businesses to be on a level footing with their Caricom competitors. The legislation to reduce the Corporation Tax from 40% to 37.5% from income year 2002 has been passed in Parliament. I therefore propose this year to further reduce the corporate tax rate by a further 1.5% for income year 2003.

I wish now to go further.

Last year I indicated my intention of reducing the corporation tax rate to 33% by 2006.

I now wish to accelerate that process and to announce that the rate will be reduced to 25% in that income year, setting it on par with the best rate in Caricom.

To bring down the rate by that additional extent, there will have to be a consolidation and rationalisation of allowances, taking into account regional standards and international accounting best practices, That issue will be addressed in income year 2003.

These adjustments will allow us to establish the platform on which to mount the major transformation that must take place to secure the long term viability of the economy.

That is to bring about the convergence between the tax rate on onshore and offshore business.

International businesses have been attracted to Barbados under a regime which charges no more than 2 1/2% on profits. Local business until recently paid tax at the rate of 40%. That differential has inspired much of attention paid to us by the OECD and now the US Treasury, has caused concern by some countries with which we have double taxation treaties, and has stood in the way of some countries entering tax treaties with us at all.

By comparison, our immediate competitors in the international business field such as Ireland set a common but relatively low tax rate ($12^{1}/_{2}$%) applicable to all types of business.

We too have to move to a common, converged rate for all businesses, and to set it at a rate that matches those of our competitors, allow us to keep and expand the number of enterprises doing international business here, and meet the concerns of our Treaty partners.

It is very difficult to do all of that when the differential between the onshore and offshore rate is as great as 40% - 2 ½%. We are therefore bringing down the rate for domestic enterprises faster than we had initially planned, to enable us, as soon as practicable to have a common rate for both offshore and onshore enterprises.

This has to be very carefully planned and implemented to avoid simultaneously losing all of our international enterprises on the one hand, and much of our revenue from taxes on domestic enterprises on the other. But it is the next major step that we have to take in corporate tax reform.

PERSONAL INCOME TAX

There was a reform of the personal tax system in Barbados in 1992, which was aimed at simplifying the system by reducing the number of rates and consolidating a number of allowances. Since that time additional allowances have been reintroduced aimed at encouraging savings and home ownership. In addition the income threshold below which tax is not paid was increased from $13,000 to $15,000. These have contributed significantly to the situation where the average individual paid no more tax in 1999 than he or she did in 1993, and for some individuals the tax paid in 1999 was lower than in 1993.

However, if no adjustments are made now, tax payers will be disadvantaged because of inflation, and by being put into higher income brackets through wage increases.

This matter has been the subject of intensive consultation and proposals were developed and reviewed by a committee made up of representation from the Social Partners.

They have recommended acceptance of an option that involves, the reduction of the basic rate (now 25% on the first $24,200 of taxable income) and to the marginal rate which is now set at 40% in all taxable income above that level.

I however propose that the following approach be followed in relation to reform of the personal income tax:

- The basic and marginal rates will be both lowered in line with the recommendations of the committee, beginning in income year 2003 and spread over 4 years to income year 2006.

- The structure of personal allowances will be reviewed. I feel strongly that householders should be able to offset more of the expenses in maintaining and managing their homes by way of tax credits. This home allowance should not only be retained but should be increased and the range of expenses allowed should be expanded.

② Secondly, there should be one consolidated and increased allowance for savings, and the individual should be permitted to determine how he or she will apply it as between the various instruments available, including shares in credit unions, registered retirement plans and the like.

② Thirdly, some of the restructuring of allowances should take place immediately, and the rest phased in over a period.

② Fourthly, the threshold below which income tax is payable now at $15,000 should be reviewed and increased at the earliest opportunity.

In keeping with this approach, I now wish to announce the following:

1. For income year, beginning 1st January, 2003, the basic rate of income tax levied on taxable income of $24,200 or less will be reduced from 25% to 22.5%.

2. For income year 2004, that basic rate will be further reduced to 20%.

3. In income year 2005, the marginal tax rate applicable to taxable income in excess of $24,200 will be reduced from 40% to 37.5% and in income year 2006 further reduced from 37.5% to 35%.

4. In addition to reducing the basic rate in 2003, I propose to increase the activity that qualify for the home allowance by allowing home owners to deduct the cost of insurance on their properties. This allowance will now be set at $6,000 rather than the $3,500 which now applies, except in those instances where homeowners can claim for the retrofitting of their homes.

5. The home allowance is to be increased from $6000 to $10,000 in 2004.

6. In that year the consolidated savings allowance will be introduced and set at an appropriate level.

7. As regards the raising of the threshold of $15,000, that will be reviewed in time for a decision and implementation in income year 2004.

For those who despair about the keeping of commitments made in manifestoes, I simply say, there is still time.

CONCLUSION

Mr. Speaker, in 1998 I set the chief strategic objective of the economic policy of the Government of Barbados as that of introducing in a carefully structured and sequenced manner, a series of new measures to so reposition and so transform our economy to ensure that by the year 2005 it will be fully competitive and capable of affording our people a higher standard of living.

Transforming a small economy in a short space of time is not an easy task because the options for diversification are so few.

But we have stuck to the task, despite the ups and downs.

We now therefore virtually have in place the new economic framework that can support a new Barbadian economy in a new global economy.

Sadly, sometimes some cannot see the woods for the trees. But the changes introduced since 1998 have been vast.

- We have created a new enabling environment to reduce the cost of doing business, and improve the possibilities of the realisation of reasonable returns in every sector of the economy.
- We have introduced new instruments to provide protection to efficient industries.
- We have created new development finance institutions to provide risk capital and subsidies to enable enterprises in every sector to restructure and improve themselves.
- We have paid for the technical assistance to bring our industries to a stage of meeting international standards.
- We have kept interest rates and energy prices down to historically low levels.

- ② We have set in train the liberalisation of the telecommunications sector.

- ② We have introduced legislation to support electronic commerce, to create a Fair Trading Commission, to modernise our approach to insolvency to bring out intellectual property regime up to international best standards. A new Competition Bill is ready for introduction to Parliament, as well as new legislation pertaining to Consumer Affairs.

- ② We have entirely recast and modernised our laws pertaining to the operating and regulation of our financial institutions, and have broadened the range and attractiveness of financial services Barbados can offer.

- ② We have revolutionised our approach to the development of our human resources through Edutech 2000, and the plans laid for a new University College of Barbados to remove the existing deficit in our capacity to train Barbadians with skills required to function both at home and abroad.

- We have sought to take the computer and the internet to the masses through the Community Technology Programme.

- We have sought through our Public Investment Programme to create infrastructure that can support an economy in the Information Age, to protect and enhance our environment.

- We have pioneered the use of public-private sector partnership as a new instrument for building a stronger economy. A new Public Sector Bill to give legislative effect to the permanent reform of the Barbados Public Service will be introduced before the end of the year.

- We have built more roads, more houses, created more house spots, more community facilities and carried out the most aggressive assault on poverty by any administration in this country.

② We have deepened the social partnership, and made it an instrument to support coherent national development to an extent that is not cited as the model for others to follow.

Many of the little things that matter in the life of the ordinary man and women have been treated with sensitivity.

Indeed, I cannot think of any previous experience where over two terms, an administration has not increased bus fares, road taxes, NHC rents, licence fees, nor presided over substantial increases in telephone rates and a wide range of other charges for a variety of public goods.

The measures contained in the proposals I have announced to Parliament will better the condition of the ordinary household, put more spending power in the hands of the tax payer, create a better deal for every Barbadian enterprise, take us a long way in the march to making our industries more competitive, and pump hundreds of million of dollars into our economy as new investment and tax relief to bring about sustained recovery.

The consequences of the measures will be felt as far as the year 2060, for we have moved today to ensure that children in pre-school enjoy the prospect of having their pensions guaranteed rather than become the victims of a bankrupt National Insurance Scheme .

The preparations of the measures have involved the deepest and widest ever consultation by a Minister of Finance in designing proposals to bring to this parliament.

These measures are in the nature of a Charter for National Transformation that has evolved from a process of national engagement.

I thank all who have been engaged.

As the servant of the people, I now invite this House to accept and embrace these proposals and the policies embodied in them as fully reflecting the will of the people of Barbados.

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