THE FINANCIAL STATEMENT AND BUDGETARY PROPOSALS

DELIVERED TO THE HONOURABLE HOUSE OF ASSEMBLY BY

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MINISTER OF FINANCE AND ECONOMIC AFFAIRS

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Mr. Speaker,

Just over 25 years ago I had the opportunity to sit in close proximity to an unfolding set of circumstances facing Barbados and Barbadians regarding some deep challenges confronting the country's economy. Sir, as a very young 23-year-old man, practically fresh out of the University of the West Indies, I was thrown in at the deep end of what was then considered to be the worst economic crisis to hit Barbados in the post-independence period.

Things appeared pretty grim. Our deficits on external and internal current accounts had reached dizzying and unsustainable heights. GDP growth was in negative territory and the delivery of public goods and services was facing significant challenges. Government had exceeded its legally stipulated borrowing limits on the Ways and Means Account at the Central Bank of Barbados.

But perhaps most worrying of all was the stark reality that the country, on its then trajectory, was heading for a certainly devastating devaluation of the Barbados Dollar vis-a-vis the US dollar as Foreign Reserve levels at the Central Bank had been almost exhausted.

As you could imagine Sir, for even the most experienced public and private sector practitioners in Barbados, far less a newcomer like myself, this was a chilling set of circumstances to face, and one that frayed the nerves of many across the country as Barbados came to grips with the sheer magnitude of the problem. Naturally, as is an ever-present feature in these situations, the blame game was in full force with both government supporters and detractors trading accusations and spinning political webs as to who or what was to blame for the crisis.

Voices from the private sector, some of them ever ready to denounce public sector management capabilities in running the country, eagerly offered up their version of salvation, varying as it were from the privatization of everything that moved in government, to less formal requests for the introduction of "government by committee", populated of course, with a ready supply of "wise men" from the private sector.

On the other hand, our colleagues in the labour movement, then populated by mature, highly trained but equally militant leadership, pressed a clear, consistent and reasonable case for the protection of the gains of workers and their seminal right to be at the centre of any conversation for national reform, repair, and ultimate resuscitation.

The Official Opposition Sir, was as could be expected, the opposition.

Doomsday scenarios were a dime-a-dozen. Tempers flared and nerves were frayed as a collective nation was literally caught in a vice grip of fear of the prophesy of the demise of Barbados as we know.

I saw this upfront and close Sir, in a way that has lived with me from then until now and will perhaps remain for the rest of my natural existence. It was the type of stuff that, were it not for the strength and assurances of one man who stood almost singularly resolute in his confidence in the capacity of his country to weather the storm, I would have, as some others did at the time, fled the scene and left the side of the man who gave me the opportunity of a lifetime.

Fortunately, Mr. Speaker Sir, I did not, and the opportunity to serve as Personal Assistant to the then Prime Minister and Minister of Finance Erskine Sandiford, (now Sir Lloyd Sandiford), didn't just expose me to the acute pressures of the time; it also permitted me to see up close how steely resolve, clarity of purpose, resolute and visionary leadership, and above all a selfless love of country, can ultimately be the difference between success and failure in governance.

I was able to witness how, amidst all the noise and fury, and the doomsday predictions and, yes, the vitriolic abuse of himself by others, that our leader, the then Minister of Finance and Economic Affairs (my boss) stood steadfast in the breach, and doggedly pushed through an unpopular programme that eventually led to the steadying of the ship of state and the laying of the ground work for more than a decade of strong and sustainable economic growth and development in Barbados.

His mission was not popular; his policies were disliked, and even he was despised, ridiculed and mocked, but that never deterred him from sticking to the mission to save Barbados. He put Barbados first even though many Barbadians didn't appreciate it at the time. I personally saw him suffer the political consequences of strong beliefs, for doing what was right, knowing full well it would not endear him to many, but he did it nonetheless. He led from the front.

Today I have lived long enough to see some of the very abusers and naysayers exclaim his virtue, albeit 25 years later, saying that this is the type of leadership which we require in Barbados at this time. While fortunately it didn't take me 25 years after the fact to recognize greatness, I do agree with them and others who have formed the view that this is a time for strong, determined and unflinching leadership.

Leadership, Sir, that will be unafraid to take tough and resolute decisions which may be unpopular but which, ultimately, would be in the best interest of the country. Leadership, Mr. Speaker, that will be open, frank and honest with the people of Barbados as to what the challenges are that continue to confront us so many years after the debilitating impact of the most severe global recession since the Great Depression.

But ultimately Sir, leadership that is prepared to take action now, not in an attempt to willfully punish people for the sake of it, but to secure a sustainable and successful way of life for those who are here now but especially for those who will come after.

Put another way Sir, we need leadership that will continue to put people and country above politics, party, popularity, and yes, even the polls to come. Leadership, Sir, that will do as Erskine Sandiford did in the early 1990s, and put Barbados first.

If ever there was a time for that type of leadership it is now.

Mr. Speaker the state of our economy is not yet where it should be. Yes, we have made great progress in facing down the continuing stiff head winds that have negatively affected us ever since the recession hit back in 2007 - 2008. But that progress now needs to enter a phase where growth is faster and higher.

From a position of negative GDP growth of 4.7 percent and a fiscal deficit of about 8 to 12 percent of GDP at the height of the recessionary conditions, government has been able to oversee a return to positive economic growth of about 1.2 percent on average for the past two years, while our fiscal deficit has been shaved to an average of 7 percent in the same period.

Sir, when we consider that, even in the most advanced industrialized economies, economic growth has not averaged more than that, and according to the IMF Global Growth Report, generally under that figure, we begin to realize just how difficult global and national conditions have really been. What we do know however, and must frankly admit, is that while for some other countries such figures might be enough to get them through, particularly in the industrialised economies, given the structure of our economy and society, such numbers are inadequate to permit us to continue to support the quality of life we have become accustomed to.

Indeed, it certainly cannot help us to achieve the ambitious developmental agenda we have set ourselves for the next 50 years of Independence.

Don't get me wrong, Sir. Yes! Tourism is not just growing but doing so at rates not registered even in the pre-crisis boom years. To be sure, industry players are set or poised to see a third straight year of growth that surpasses even the previous two years which themselves were record numbers.

Certainly no one can dispute this as the figures don't lie, even if they might not wish to give credit to this administration for having the foresight and fortitude to literally save this vital industry from collapse through such critical interventions as the 24 million dollar Tourism Industry Relief Fund (TIRF) grant fund, to help local hotels weather the early impact of the recession; as well as the much cursed "Sandals Deal" which has not only driven close to 500 million dollars of new investment into Barbados, but has led to the strategic shift of the tourism industry to a full export industry.

Yes! We have successfully initiated the build-out of a growing and increasingly more attractive alternative energy sector which, standing behind the most comprehensive package of tax incentives granted to any single industry in one go in Barbados' history, and with a properly defined national policy on alternative energy, has not fallen away even as oil prices have receded to decades' lows. Rather, this sector continues to attract more investment from inside and outside Barbados, while creating new business and job opportunities for Barbadians.

Yes! We have finally reached a stage again, (the first time since 2007) where most major economic sectors in Barbados - traded and non-traded- have begun to register growth, particularly in construction, where several stalled projects have finally started;

international business and financial services sector; domestic exports; and wholesale and retail distribution have started to grow again.

Certainly, there is no denying that though still unacceptably high, the rate of unemployment has come down from significant highs of near 13 percent to 9 percent in the last year or so. And this, Sir, even after the Government was forced to retrench workers in 2014 as part of its 19-month programme, and has not re-employed more than a few of these.

Yes, Mr. Speaker, there is no denying that, with regard to our real economy, significant progress has been made and is being made to turn our fortunes around. If seven consecutive quarters of economic expansion in the county's GDP is not a sign of growth and that growth is returning, then perhaps I don't know what is.

So that, when we hear the refrain that the Minister of Finance and Economic Affairs must concentrate on creating growth, it seems that it glides past the intelligence of those repeating these statements. Not only has growth returned to the Barbados economy but every action we take is a small part of the puzzle that will eventually lead to the level and pace of growth we need, in order to achieve our national objectives as set out by this administration.

We have long acknowledged as a country that in order for us to maintain the quality of life and standard of living we have come to expect and frankly that we demand, fiscal prudence must be a hallmark feature of the management of the public finances.

We have also concluded that while it is not ordinarily necessary or advisable for us to reach for a balanced budget every financial year, strict discipline in the ordering of priorities should hold centre stage in the operations of government, so as to ensure that any gaps between revenue and expenditure would be small enough to permit easy and sustainable financing over time.

This we know is absolutely critical to the maintenance of a fixed exchange rate of the Barbados dollar against a US dollar, which is the centre piece of monetary and economic stability in the country and the purveyor of confidence among investors both foreign and domestic .

It is these few but very important elements of our economic strategy that allow for the national objectives of poverty alleviation and socio-economic transformation in the lives of our citizens, to take place in a manner that adds value to the country while not undermining its financial integrity.

But it is also Mr. Speaker the balance between trying to maintain the social and economic fabric within this society – whose principal characteristic feature for more than 60 years has been a heavy investment in the development of our human capital – and, on the other hand, ensuring financial efficacy in our economy, that has now come to a potential fracture.

A fracture Sir, that if not immediately and assertively addressed portends potentially devastating consequences for Barbados.

Sir, this balance is really not a clash of philosophies because I sincerely believe that most if not all right-thinking people in Barbados support the view that this country could not have achieved as much as it has, were it not for our vast social investment in human capital.

Our free education and health care systems, access to clean piped water to practically all households, the heavily subsidised public transportation system, free sanitation and community development services aided by a social welfare system that touches the elderly, children, the unemployed and the indigent, all have served to separate Barbados from several of its peers in the world and even many a developed and developing country across the world.

It is not by chance Mr. Speaker that more than one-third of this country's national budget or 1585.8 million dollars of a total expenditure budget goes towards some type of social development activity by the State.

This is Barbados! The Barbados that we love and brag about to many inside and outside of our country who in turn marvel and exclaim the wonders of our highly advanced social systems. This is our Barbados Sir, which, even when it cannot pay a salary increase, can still afford to find the resources to pay our public servants increased increments every year and guarantee them a pension on retirement that not one of them in the public service had contributed to.

This is our Barbados, that guarantees every citizen high or low, rich or poor, high quality treatment at our polyclinics or the Queen Elizabeth Hospital when entering as public patients without demanding a cent; that guarantees all school age children in Barbados a seat in a school from primary to secondary and, for those who matriculate further in post-secondary institutions, education and training free of cost at point of delivery.

A Barbados that affords all of us the luxury of the collection, treatment and disposal of our domestic waste without charge at source (even if nowadays that is not at the usual standard).

This is our Barbados. The Barbados where the State cleans our streets, maintains our roads, provides for our security and even markets our country so that our hotel owners can make a profit and make a living in Barbados.

This is the Barbados we know. The Barbados that has given and continues to give to us generously so that we can have the luxury and privilege to be free, and free to be critical of anything and everything.

No! This is not a clash of philosophies. It is not even a clash of economic strategies or perspectives per se. This a case of us Barbadians confronting the need to accept full responsibility of the type of economy, society and yes country that we want to maintain and develop over the next fifty years of independence.

And this is the ultimate question which will confront every single Barbadian in the coming days, weeks and months ahead starting from tonight.

Given the fact that it is now patently clear that our country cannot continue at current pace to provide all of the things that we have grown accustomed to and in the magnitude that we desire, given the limitation of our economic resources, are we Barbadians prepared to make the major sacrifices necessary to ensure that we confront and correct this situation once and for all?

Are we prepared to stand together as one in a concerted effort to stabilise our economy and protect and defend the strength of our currency, the standard and quality or our lives and even our sovereignty as a nation? Or are we prepared to surrender to any narrow agendas whether political, social or economic?

Are we prepared to engage in a national discourse whose ultimate objective will be to devise and agree on a sustainable national economic and social reform programme to resuscitate our economy, revitalize our social systems and liberate us from the deleterious impact of deficits, debt, downgrades and possible devaluation?

Are we prepared to put Barbados first?

Honestly Sir, I would not profess like some others in here, on the other side, to having any extra-special knowledge as to what and who Barbadians want. What I would feel confident saying is that the Barbadians I know and relate to every day, the Barbadians we on this side represent, do not wish to see this country collapse.

And in this regard, I believe that *they* are more than prepared to support all reasonable efforts by this or any government to protect our economy, maintain our social systems and protect the vulnerable among us. They are prepared to do this even if it means that we will have to sacrifice and be inconvenienced a little more.

What they ultimately want is a clear and concise narrative of the nature and magnitude of the problems facing us, what corrective actions are required to address them, and what results we can expect to achieve from any sacrifices that we are asked to make.

This is not an unreasonable demand or expectation coming from a recession-weary population and one which all of us in leadership positions must be prepared to deliver to Barbadians.

This evening, Mr. Speaker, as I set out to do exactly this, it is my hope that the ensuing debate will be conducted with the level of maturity and seriousness that not only befits this Honourable House, but parallels the seriousness of the challenges that confront us; that a wellspring of ideas rather than insults would be the order of the next three days and that, at the end of the exercise, we leave here ready to work together as Team Barbados to win the future for our children and their children to come.

With this in mind Sir, permit me to turn my attention to the business at hand.

Review of the Performance of the Barbados Economy

A. The Real Sector

Overview

The Barbados economy continued a slow but resolute growth trajectory in 2016. Real GDP is estimated to have expanded by 1.6 per cent at the end of the last year. This marks three consecutive years of positive growth, with improved economic activity in key sectors.

The traded sector grew by 2.2 per cent on account of the robust performance of the tourism sector which increased by 4.8 per cent. The non-tradable sector grew stronger in 2016 with a 1.5 per cent growth aided primarily by the construction sub-sector which grew by 2.8 per cent and the finance and other services sub-sector by 2.5 per cent.

At the end of 2016 the average inflation rate stood at 1.1 per cent and the unemployment rate fell to 9.0 per cent, compared with 11.3 per cent at the end of 2015. Per capita GDP (basic prices) declined by an estimated 1.6 per cent to record BDS$28.6 thousand (US$14.3 thousand) compared with BDS$29.1 thousand (US$14.5 thousand) in 2015.

Real value-added output in the traded sector increased by 2.2 per cent. This growth was largely attributable to the tourism industry which recorded the largest growth rate of 4.8 per cent. This was followed by non-sugar agriculture production which recorded a 1.5 per cent growth. Sugar production recorded its largest decline of 33.3 per cent marking the fourth consecutive year of a significant slowdown in production owing to a combination of drought, disease and financial challenges in the sector.

Other sub-sectors slowing the pace of growth in the traded sector were the chemicals and the manufacturing industries recording a fall in output by 3.7 and 1.6 per cent respectively. The rum and other beverages industry was the largest contributor to the overall reduction seen in manufacturing.

The tourism sector registered just around 1.2 million visitors, comprising both long-stay and cruise ship passengers coming to the shores of Barbados. The number of stay-over visitors rose by 6.7 per cent while cruise ship visitors increased by 1.2 per cent compared to the previous year. The major stay-over source markets were the United Kingdom recording 218,638 persons representing an increase of 2.1 per cent, the United States with arrivals of 168,945 persons, an increase of 14.1 per cent, and the

Caribbean Community (CARICOM) with tourist arrivals of 99,679 persons, which is an increase of 13.3 per cent over the previous year. Canada, another important source market, recorded an increase of 5.9 per cent, to bring Canadian arrivals to 78,903 visitors.

The number of new entities licensed in the international business sector at the end of 2016 totaled 491 compared to 456 entities in 2015.

Non-Traded Sector

The non-traded sector increased by 1.5 per cent. This was largely attributed to expansion in construction as well as the finance and other services industry, which recorded a 2.8 and 2.5 per cent respectively. The mining and quarrying sub-sector was the only industry registering a decline in output of 8.6 per cent.

In 2016, total value-added activity at market prices had tapered off somewhat compared to the previous period, as low international prices coupled with dampened domestic demand led to a cost competitive environment.

Driving the decline in nominal output levels were key sectors such as the manufacturing sector which declined by 14.9 per cent amounting to a $76.8 million fall-off of the value-added.

This was followed by a decline in nominal output in the construction industry, whose value-added contribution contracted by 7.6 per cent or $40 million while the real estate sub-sector also declined by 5.6 per cent reflecting a market price decline of $58.4 million.

On the other hand, the Accommodation and Food Services sub-sector increased by 5.6 per cent equaling a total value added of $58.5 million; Business Services sub-sector also increased by 3.7 per cent or $25 million; followed by personal and other services which increased by 3.2 per cent with a total and business nominal increase of $17.4 million.

Gross capital formation amounted to an estimated $1.5506 billion, representing a decline of 2.5 per cent over 2015. This out-turn was attributed to a net reduction in building assets, which decreased by 7.6 per cent. At the end of 2016, exports of goods and services rose by an estimated 2.1 per cent to register $3.2977 billion compared with $3.2298 billion recorded a year earlier. This increase was largely attributed to a rise in the export of goods by 7.0 per cent. On the other hand, imports of goods and services increased at a slower pace by 4.3 per cent in total. Goods importation, which increased by 5.6 per cent was the main element contributing to the increase. Demand for exported services and imported services remained flat throughout the review period.

Balance of Payments

In 2016, Barbados recorded a reduction in its external current account deficit. This out turn was as a result of increased export earnings as well as a falloff in retained imports. At the end of 2016, the balance on the external current account was estimated to be in deficit to the tune of $444.6 million or approximately 4.9 per cent of GDP (at market prices). This represented a reduction in the deficit when compared with the deficit of $558.2 million recorded a year earlier.

The capital and financial account recorded a surplus of $171.1 million in 2016, a 58.0 per cent decrease when compared with the surplus of $406.8 million for 2015. Net long-term private inflows was estimated at $243.6 million compared with inflows of $431.3 million a year earlier. Net long-term public sector investment amounted to an outflow of $170.4 million compared with an outflow of $72.2 million in 2015. Net short-term outflows for 2015 were $76.8 million relative to $8.6 million in outflows registered a year earlier.

The Net International Reserves

The stock of foreign reserves at the end of December 2016 was estimated at $681.1 million, representing 10.3 weeks of import cover. This represents a decline of 26.5 per cent when compared to the previous period end of year stock of $926.8 million which was previously estimated at 13.6 weeks of import cover.

First Quarter 2017 Review

The Barbados economy registered moderate growth during the first three months of 2017. The expansion was primarily driven by activity in the tourism sector, but a more robust recovery was hampered by on-going delays to the start of anticipated investment projects. The delays also impacted the growth of international reserves during the quarter but higher tourism earnings contributed to a modest increase in reserves and a slight improvement in the import reserve cover at the end of the review period.

Gross Domestic Product is estimated to have expanded to 2 percent for the first quarter, above the average first quarter performance of the past five years. Real tourism value-added rose by 3.0 % following a strong performance during the corresponding quarter the previous year. Long stay arrivals were up 4.4 %, on the strength of increased demand and the on-going expansion of airlift from the USA and Canadian markets.

The other traded sectors made a modest contribution to growth during the first three months of 2017 with the manufacturing and agricultural sectors estimated to have trended upwards. Construction activity is estimated to have expanded by almost 2% during the first three months of 2017. This out-turn was influenced by the construction of various commercial projects, including Sandals Royal, the luxury arm of Sandals Resorts International, which is scheduled to open towards year end.

Other non-traded activity, principally in wholesale and retail and other business and general services, registered modest growth, the result of the performance of the tourism and construction sectors are seen feeding into this.

External Sector

As at March 31, 2017, the international reserves stood at $705.4 million, following an increase of $24.3 million in the first quarter.

This improvement compares with an average first quarter increase of $19 million over the past five years. However, the import reserve cover of 10.7 weeks at the end of March 2017, still remained below the 12-week benchmark, in part a reflection of the larger than usual net public sector capital outflows in Financial Year 2016/17.

For the first quarter of 2017, the external current account registered a surplus of $45.4 million, $13.0 million below that recorded for the corresponding period of 2016. Tourism earnings grew moderately on the basis of improved activity, but these gains were largely eroded by higher retained imports, which were up 6.6%.

As at May 25, 2017 international reserves were recorded at $750 million, up by $45 million from the end of March position.

Review of Fiscal Performance for the Period

April 1, 2016 to March 31, 2017

Current Revenue

Preliminary information received from the Accountant General and the Barbados Revenue Authority indicates that current revenue for the period April 1, 2016 to March 31, 2017 was $2, 619.6 million, an increase of $53.1 million or 2.1% above the amount recorded for the corresponding period during 2016.

Taxes on incomes and profits realized $795.0 million, an amount of $71.5 million or 9.9% more than that collected for the corresponding period in 2016. Corporation Taxes increased by $16.4 million for the period under review.

Income taxes increased $72.9 million over the previous financial year. It should be noted that refunds of income taxes for the period under review were $20.4 million while there were $88.0 million for the corresponding period in 2015 - 2016.

Taxes on property decreased by $52.4 million from the corresponding period in 2015-2016 to $135.1 million. Amounts of $120.1 million and $15.0 million were collected for land tax and property transfer tax respectively.

Taxes on goods and services increased by $36.4 million to $1,285.2 million. Receipts of VAT totalled $914.2 million, a decrease of $10.6 million from the corresponding period in 2015-2016. Excise Duties recorded $218.7 million, an increase of $49.8 million above the actual outturn for 2016. This increase was partly due to an amount of $28.45 million received in March from the Barbados National Oil Company Limited. Import duties increased by $16.2 million to $247.9 million. This represented an increase of 7.0% above the amount collected in 2016.

Special Receipts increased by $7.0 million to $37.2 million. It is to be noted that an amount of $28.4 million was collected for the National Social Responsibility Levy. An amount of $10.2 million was collected for Training Levy for the period April 2016 to September 2016. The amount collected for the period October 2016 to March 2017 has not been brought to account as yet since my Ministry is still awaiting information on those amounts from the National Insurance Department. Non-Tax Revenue recorded $104.3 million, an amount of $6.7 million less than the corresponding period in 2016.

Expenditure

Current expenditure, exclusive of amortization of $805.5 million, decreased by $64.2 million or 2.1% from the 2016 figure to $3,021.3 million.

Wages and Salaries declined from $729.0 million in the corresponding period of 2016 to $720.8 million. Expenditure on goods and services decreased by $66.0 million to $375.3 million.

Expenditure on current transfers decreased by $52.9 million, moving from $1,184.5 million in 2016 to $1,131.4 million for the period April 2016 to March 2017. The main contributors to this decrease were Retiring Benefits, Grants to Public Institutions and Subsidies which reduced by $9.5 million, $20.1 million and $12.8 million respectively.

Capital expenditure for the period under review was $181.9 million compared to $216.6 million for the corresponding period in 2016. Capital formation increased by $69.9 million whereas capital transfers decreased by $102.8 million. Total expenditure for April 2016 to March 2017 was $4,008.7 million compared to $4,185.4 million in the corresponding period of 2016.

Debt/Debt Stock

Central Government's disbursed and outstanding debt stood at approximately $13,407.4 million as at March 2017, approximately 144.7% of projected Gross Domestic Product (GDP), compared to $12,625.1 million for the corresponding period ending March 2016. Of the $782.3 million increase in Government debt, there was a $41.2 million decrease in external debt compared to the same period in the previous year. Net borrowings from EXIM Bank of China and First Citizens Bank totaling $98.0 million were counterbalanced by repayments on the Caribbean Development Bank and Credit Suisse loans. Domestic debt increased by $824.0 million, financed principally through the issuance of Debentures and short term T-Bills. The net increase of $782.3 million was attributed mainly to the need to finance the Government's deficit.

Debt Service

Total debt payments in the period April 2016 to March 2017 amounted to approximately $1,54.4 million with interest payments of $739 million and amortization payments of $805 million. Interest payments saw a net increase of approximately $67 million, primarily attributed to domestic interest costs. This was largely as a result of additional issuance of domestic securities, as well as increases in the interest rates.

External amortization decreased by approximately $81.0 million, principally as a result of the repayment of the Barclays de Zoete Wedd (BZW) bond which was repaid at the end of June 2015. Domestic amortization increased largely due to the maturity of an additional $130.0 million debenture during the period, compared to the previous financial year. The overall net decrease in amortization payments was therefore Bds$13.4 million.

Contingent Liabilities

Government's contingent liabilities stood at approximately $898 million at the end of March 2017, compared to $1,02.1 million at March 2016. The decrease was primarily attributable to regular amortization payments, as well as the repayment of a $55.0 million loan by Barbados Tourism Investment Inc. (BTII) to the National Insurance Board.

Deficit

Therefore, given these figures, we were left with a deficit of $583.6 million represents 6.3% of GDP at market prices set at $9,233.3 million. The deficit for the corresponding period in 2016 was $735.5 million representing 8.2% of GDP at market prices set at $8,936.3 million.

What is the Current State of Affairs?

Mr. Speaker Sir, from the foregoing review it is clear that with regard to the performance of our economy we have been seeing appreciable progress as real sector growth has seemingly settled in and is getting stronger quarter by quarter. This is most evident as both traded and non-traded sector activity continue to expand, helping to create more value-added in the economy and push down the unemployment rate.

However, as I stated earlier in this presentation, this progress now needs to be accelerated so that the economy could grow at a much faster pace and, in so doing, assist government to better meet the demands of our citizens, while creating sufficient wealth to pursue social and economic transformation across the landscape.

Now, contrary to popular belief in some quarters, there could not have been any tardiness, disinterest or lack of leadership on the part of the government to pursue initiatives to generate economic growth. Such a view is misinformed; the facts simply do not support that view. Indeed, this administration has put in place and pursued more initiatives for growth than most others in recent memory, and has done so in very challenging and unsafe circumstances.

Whether it is incentivising the tourism, alternative energy and cultural industry sectors to levels never seen in Barbados, or clearing the way for major investment projects such as the Bridgetown Port Berth expansion, Bushy Park, Hyatt, the Sands and Sam Lord's, this administration has done it.

In the coming months (August to be exact) this administration will launch the duty-free zones initiative across a number of locations in the country, and we will also lay in this House very shortly the amended Special Development Areas Legislation which has been finalized by the staff of the Ministries with responsibility for Finance, Housing and Lands and Town Planning.

Equally as well Mr. Speaker, I will shortly lay in the House an amended Housing Incentives Act which will extend even more generous and targeted concessions for developers interested in pursuing what we now call low income housing projects, to assist not only in providing more affordable options for Barbadians seeking to own their own homes, but to drive construction and economic activity in the country.

We have already begun to make available to small businesses in Barbados 10 million dollars of the 50 million dollars promised to their sector to support their development and expansion in addition to completing the first national project for Small Business Development.

Naturally our efforts in tourism source market expansion will intensify just as our efforts to defend and even expand our product offerings in international business and financial services sector will continue apace.

Mr. Speaker, we have taken the measures necessary for growth. And while we continue to pursue such initiatives, we have now to focus on our biggest challenges, our fiscal deficit and our foreign exchange reserves.

The reality is that the biggest obstacle right now to us growing faster and more sustainably, is the persistent deficit in our fiscal accounts that is driving the growth of debt and now eating away at our foreign reserves in a manner that cannot be at all comforting to even the most optimistic among us.

Put another way Sir, the fiscal deficit is now public enemy number one. And to this we will address strategic attention over the short term and medium term.

The cold hard facts are simply:

Macroeconomic stability in an economy cannot be successfully maintained if the chief pillar which is the fixed exchange rate peg is subject to question. The fixed exchange rate peg comes into question if the country does not and cannot maintain adequate levels of reserves to meet external payments which then places demand on the monetary system. The monetary system which is managed overall by the Central Bank has to be sufficiently liquid, as far as foreign exchange is concerned, to ensure that not only can open market requests from citizens and businesses be met, but if for any reason a shortfall occurs, the central monetary authority, in this case the Central Bank, will have adequate stocks in reserve to satisfy legitimate requests in the short term.

If those reserves fall below a certain level, confidence in the capacity of the Authorities to meet those short-term demands, and of course meet the recurrent external debt service obligations of the country, is weakened and the peg is called into question.

Since government is not a significant earner of foreign exchange but, through its activities in support of managing the affairs of the state, can in fact be a contributor to the net outflow of foreign exchange, it is always advisable that government keep its spending within certain levels and ultimately its deficits small and manageable.

We have found ourselves having to deviate from these core macro-economic fundamentals because, as I outlined earlier, as a country we have either not been earning enough to support the standard of living we enjoy and/or we are spending more than we can afford on the public goods and services we provide for all Barbadians.

By way of illustration Mr. Speaker, as a country in the past 7 years we have run an average fiscal deficit of close to 7 per cent per year, or more than 685 million dollars of new money every year to manage the operations of government. On aggregate Sir, this represents approximately 4.8 billion dollars in financing over the period. Of course, it meant that an equivalent amount of short term debt had to be created to satisfy the demands.

And, as if this was not serious enough, these amounts would have come in addition to the amounts government has had to outlay for the amortization of both aged domestic and foreign debt which at its peak reached near 700 million dollars per year.

Now as we know, this situation has resulted from a combination of revenue shortfalls, principally headlined by the fall-off in tax revenue receipts from the international business and financial services of more than 200 million dollars per year since 2010, and weaker economic activity generally from the recession, but also because of the fact that, in spite of the successful efforts we made throughout the period, and especially in 2013/14, to bring down expenditure, situations have arisen which have demanded our resources.

Indeed, in respect of revenue, the loss of revenue from the international business sector alone is now running close to 1.4 billion dollars in the last 7 years. You will recall that in 2010, Canadian legislation passed in 2007 came into force which changed the tax system for Canadian businesses domiciled abroad. This saw Canadian businesses leaving our shores as we lost our competitive and comparative advantage. In an effort to prevent the collapse of this important sector, this administration took the tough decision to forego some of the taxes and retain the businesses for the longer term. We lost that 1.4 billion dollars but today, as a result of our bold move, that sector continues to grow.

With regard to expenditure, while most non-interest expense categories such as wages and salaries, and goods and services have actually been flat have fallen a bit, overall this has not been enough to compensate for the major declines in revenue. This of course is compounded by the fact that other areas of expenditure did not see such reductions, including the transfers to state owned enterprises for their debt, and necessary capital works.

This is borne out in the figures for the same period which show that on average, revenue for the seven year period was around 29 % of GDP, while expenditure has been about 35 % of GDP. And of that expenditure amount, interest expense growth which is being driven almost exclusively by the high deficit financing required, has been around 611 million dollars annually or, cumulatively, 4.2 billion dollars over the period.

So the system is approaching the saturation point where absorption capacity has been reached and it can take no more of that issue of level of debt. To be sure not only is the system finding it difficult to support government's need for additional capital to finance the large deficit, but the players in the system are losing their appetite for lending such large sums continuously as the current scenario raises legitimate questions as to whether, in the long-term, government will be able to honour those commitments.

Now in the context of this, overall investor confidence has been dampened as slow growth, weaker foreign investment inflows, lower reserves levels and burgeoning debt levels which now stand at 144.7 % of GDP, have led to successive downgrades of the country's international and domestic currency ratings by the credit rating agencies.

This is leading to a sharp increase in the cost of borrowing for the country, even as the available sources of reasonable capital shrink or become shut off completely. Above all though, and the most critical warning signal for us, is the fact that foreign exchange reserves levels have declined below the industry standard benchmark of 12 weeks of import cover which is considered an acceptable minimum for an economy of our size and nature.

The low level of exchange reserves is of particular concern now because of the number of critical "x factors", or unknowns, which exist in the international economy and which may very well present exogenous shocks to Barbados. In the absence of an appropriate foreign exchange reserve buffer these could expose our monetary system to collapse. These "x factors" would include, but are not limited to, another major international recession, a sharp and sustained rise in oil prices, increased fallout from BREXIT, especially a continued weakening of the British Pound, or a major terrorist or other incident in this part of the hemisphere that affects travel from our tourism source markets.

It therefore means Mr. Speaker that the margin for error and manoeuvrability for the government and people of Barbados is small and getting smaller by the day. Not to mention the fact that the higher and more sustained levels of debt and deficits we continue to run, the less resources we will have to apply to the provision of timely, adequate and reliable social services to the people of Barbados in critical areas such as water, sanitation, public transportation, public health, education and physical infrastructural maintenance and upgrades.

Fellow Barbadians, colleagues, this is a vicious cycle in which we have found ourselves at the moment and from which we must extricate the country with alacrity.

Now the acuteness of the challenge that confronts us, is really to be found in how our need and desire to maintain the social foundations of our advancement these past 50 years, is running up our economic and financial capacity to maintain the very systems that have made us who we are.

Sir, we often boast of our outstanding ratings on the regional and international developmental measurement systems. For example, even in spite of our recent economic challenges Barbados continues to rank extremely high on the United Nations Human Development Index in all major categories of social development.

This is not a ranking arrived at by the drawing of lots in a game of chance Sir; this is as a result of a deliberate policy by successive governments to invest in the social and human capital of Barbados.

It is by supporting this model of development that we can now brag of having one of the most highly educated populations in the world supported by a world class educational system, superior acute care health management systems, and with international best practice in the delivery of water, sanitation and care of the elderly services. Our public transportation system, is adequate enough and our physical infrastructure is still among the best in the developing world.

These, Mr. Speaker, are absolute facts of everyday Barbadian existence and have been for many decades now. What is also a fact Sir, is that the provision of these services and other critical services have and continue to cost government a tremendous amount of financial resources which must be drawn from a pool of clearly shrinking resources.

You would recall Sir, that in the Estimates debate this year, I was at pains to lay out for the country some of the core areas of expenditure into which much of the non-debt spending goes to support the vast social system of the country.

Some of this bears repeating because there is this view being set abroad by people who we know should know better, that somehow the financial difficulties which we currently face are entirely because this administration has wasted the taxpayers' money. Indeed they say it so often that some ordinary people in Barbados on whom most of this money is actually spent are heard repeating the same things on call-in programmes and elsewhere.

Of course Mr. Speaker nothing could be farther from the truth. In fact I take the liberty to break down for the country the major Heads of expenditure in the public finances and the amounts allocated to these as per the 2017-2018 estimates:

1. Wages and salaries for workers (including provisions for statutory corporations) $1.23 billion;

2. Goods and Services (including those supplied predominantly by the domestic private sector) $419.86 million;

3. Grants to public institutions (including the provision of support for the Queen Elizabeth Hospital (QEH), Sanitation Service Authority (SSA), Transport Board, Barbados Tourism Marketing Inc. (BTMI), University of the West Indies (UWI), National Assistance (NAB), Samuel Jackman Prescod Polytechnic (SJPP),

Barbados Community College, National Cultural Foundation (NCF) and the list goes on) $219.28 billion;

4. Retiring Benefits (for which there is no employee contribution) $270 million;

5. Debt service (including interest expense and amortization) $1.67 billion; and

6. Capital Expenditure (including road and building infrastructure provision and repairs and environmental protection etc.).

All of this money Sir, is not taken up in a plane and dropped into the ocean, or as some people seem to think, stuffed in bags and carted away by greedy politicians. This money is spent on all of us that inhabit this country; you and me and people here in the public gallery and those making their way home from work or just liming on a block somewhere.

We are the people Sir that spend this money. So we have to realize when we go to a polyclinic or drop our children off to a school somewhere, nobody gives us a bill at the end of the week so we don’t take note that it costs government a whole lot of resources to provide and maintain these services.

But on the converse side Sir, it is also we who have collectively as a country participated in these services through the taxes, levies, duties and other fees which government imposes on us.

Which option do we prefer? Do we want to cut the services down to a level where it matches the current levels of revenue? Or do we prefer to raise the level of our contribution so that revenue meets the required cost to provide these things?

Are we at the stage in our development journey where, as is being proposed in some quarters, we have as a country to ask some of our citizens to begin to pay at point of delivery for some of the critical social and economic services which this country provides?

Are we at the end of the line for the universal access and ‘free at point of delivery’ social system that has been a hallmark feature in the development of Barbados for more than 50 years?

Or is it time for government to, as is being recommended principally by our private sector partners, divest some critical service provisioning such as sanitation services, water supply, school meals, postal services, public transport and environmental services into the hands of our “more capable” business people in Barbados?

Is the average Barbadian willing to pay between $800 and $1100 per average 8-day stay at the QEH, should it be decided to make patients pay their own hospital costs?

Or perhaps for the average passenger on a Transport Board bus to pay the real economic cost of $5 dollars per trip to get to a destination?

Should we charge parents the full cost of a daily school meals serving for their children, which I am advised can be anywhere between 5 to 8 dollars per meal per day?

Alternatively, Mr. Speaker, we can decide as a country that, actually, we have *not* reached the point at which, without comprehensive analysis backed by empirical data as to their impact, such radical changes can be made.

I suspect that, in spite of the fact that we all recognize that urgent attention has to be paid to a complete change in the fundamental structure of our economic and social systems, so as to make them more affordable and sustainable, such change can and must only be done after deep, widespread consultation based on empirical investigation rather than whim and fancy.

The point I am making here Sir is that it would be just as irresponsible for anybody in Barbados, most of all government, to allow the current crisis to scare us into making ill-defined and inappropriate policy interventions to address our fundamental issues, as it would be to pretend that they do not exist or will sort themselves out eventually.

Neither approach would be effective and, more than this, might worsen the situation, causing a tremendous amount of social and economic dislocation across this society. This administration will never agree to that, nor will it subject the people of Barbados to such a spectacle.

The Rt. Hon. Prime Minister, recognizing both the urgency and magnitude of the challenges, and following consultation, instituted the establishment of two critical working groups from among the Social Partnership to begin the process of examining the fiscal and foreign exchange issues confronting the country and to make preliminary recommendations as to how else government might go about addressing some of these issues.

The Working Groups, constituted of representatives from government, private sector and labour, met over a two-week period for intense discussions and have both submitted their preliminary observations and recommendations.

Some of those recommendations could be used immediately to assist in addressing some of the challenges, while the majority of those recommendations are in fact of a more medium term focus and definitely will require more extensive stakeholder and national consultation to define them out, improve on the apparent weaknesses and shortcomings of them and gain widespread support before implementation.

Some of the proposals range from major changes to the VAT system and rates, privatisation of state entities, the introduction of user fees for certain social services on a means tested basis, to the restructuring of parts of the country's debt.

In a follow-up meeting with the members of the Working Groups, all sides agreed that, given the magnitude of the challenges which we face, but equally the extensive nature of the interventions which will be required to rectify the problem over the medium term, a rush to implementation without consultation will make matters worse.

It was decided that government should first seek to address the short term fiscal and financial challenges which confront the public sector via the Financial Statement and Budgetary Proposal with the intention of ensuring that the 2017-2018 budget is financed without creating further monetary and economic instability. Then, in the coming weeks and months immediately following the budget presentation, open up a series of intense and wide-ranging discussions across critical sectors in the country with the singular objective of fashioning a short to medium term fiscal and economic growth plan whose implementation all parties could initiate before year end.

To this end Sir, permit me to alert this House and the country at large that the Ministry of Finance and Economic Affairs is putting the final touches on a comprehensive National Economic and Social Development Restructuring and Enhancement Programme, which will be published in the coming weeks and serve along with all of the other proposals, including those from the private sector and Social Partnership which government has received as the centre piece for the national discourse which must take place this summer to chart a short, medium and longer term agenda for growth and development of Barbados' economy and society.

This programme which is being crafted by the Planning Division of the Ministry will focus its attention on setting out a clear and concise national plan aimed at addressing several of the key areas of restructuring which this economy urgently requires.

The main areas of focus will include:

1. Boosting foreign exchange earnings through creating even more attractive conditions of foreign direct investment by the standardisation of investment

incentive regimes in an omnibus incentives legislation and reforming the platform for implementing mechanisms across the public and private sectors;

2. Productive sector reform focusing on reducing the cost of doing business in critical sectors such as agriculture, manufacturing, tourism and international business, finding appropriate mechanisms to capitalize emerging sectors such as cultural industries;

3. Instituting a Competitiveness Commission and Operational Unit to drive implementation of the work currently being undertaken by the tripartite Competitiveness Action Teams (CAT) which are focused on improving output and efficiencies in the following areas:

   - The Grantley Adams International Airport;
   - The Bridgetown Seaport;
   - The Legal System in the Offices of the Chief Parliamentary Counsel (CPC) and the Solicitor General (SG);
   - Registration of Properties;
   - The Court System;
   - Physical planning permission - Town and Country Development Planning Office; and
   - Tax Efficiency – with respect to the Barbados Revenue Authority (BRA) and the Customs Department merger.

4. Implementation of the new national energy policy to accelerate the government's plan to make Barbados energy independent by 2035 based on the extensive use of alternative energy while saving the country millions in foreign exchange;

5. Fiscal consolidation through: Public Financial Management reform including, the passage in Parliament of a new Financial Management and Audit (SOEs) Act to govern the financial affairs of government statutory boards and enterprises;

6. SOE reform, including mergers, operational consolidation and divestment;

7. Completing the tax policy reform and tax administration upgrade project including the final transition of Customs into the BRA and the implementation of a single taxpayer IT system;

8. Debt growth stabilisation and reduction through fiscal reform and debt management enhancement including debt re-profiling; and

9. Social sector reform in critical areas such as health, education, sanitation, social care services and environmental protection.

Our hope Sir, is that before October this year, this parliament and the country as a whole will have a comprehensive, well thought out and extensively consulted national plan which can be debated here and approved for immediate implementation by the government and this will become Barbados' plan.

The final point in this Sir is the increasing calls for government to enter into an IMF programme. Sir, it was at the Barbados Chamber of Commerce's luncheon that the Rt. Hon. Prime Minister made this government's position on this matter very clear. At that time, amidst much anxiety and howling, the Prime Minister indicated that the reason Barbados joined and remains a member of the IMF is not to boast of being part of some global club but to access its technical, policy and yes, financial resources, if the time came for such to be done. This he indicated, and the facts would show, would not be inconsistent with history since on at least two occasions in the post-independence history of Barbados, we have exercised that option to enter into special programmes with that entity.

The Prime Minister made it clear that if at some future time such resort to the Fund was necessary, then government would do what is in the best interest of the country. However, we do not believe that any panicky resort to the IMF at this time was necessary or appropriate. It is a position that we stand by.

We are committed to dealing with the fiscal gap in a manner that recognizes the unique features and peculiarities of Barbados' economy and way of life. In the same way that a child is not a small adult, post-colonial small developing economies are not just smaller versions of advanced economies. A number of experts, commentators, local, regional and international agencies seem to believe and appear blissfully unaware of this and are locked into standard, one size fits all for every circumstance of fiscal policy. We cannot afford the luxury of surrendering policy to the hands of entities that may not be as sensitive to the nuances and historical legacies of Barbados.

In any case, should we take that decision we must be aware of two things: Firstly, it normally takes between six to nine months to initiate and conclude the process for an IMF programme tailored to suit the circumstances which we currently face; and this is provided that negotiations with the Fund and then with stakeholders in the domestic space are not protracted around policy and operational differences.

Secondly, and connectedly it is really incumbent on any country seeking the IMF programme to determine and even design what type of intervention it wants that would suit its conditions and which would get broad sectoral support before approaching the Fund. There is way too much historical evidence to show that countries which have been unable or unwilling to do so have been left having to implement badly designed IMF programmes which only reflect the wish list of Washington technocrats but end up causing massive destruction in their wake.

This cannot and will not be the fate of Barbados!

The approach which we are proposing in our view Mr. Speaker, represents a sensible, realistic and appropriate approach to the situation we face and it is to that mission that I want tonight, with the support of my colleagues, to commit this administration.

As I indicated earlier Mr. Speaker, and as the figures demonstrate, since 2013 government embarked on an intensified fiscal consolidation programme to contain the fiscal deficit and tried to slow its rate of growth. While we have met with some level of success relative to trimming the current fiscal deficit, that progress has not been sufficient. There have been several factors which have impeded progress as I mentioned earlier, including lower than expected tax receipts and higher levels of expenditure related to increased statutory transfers associated with increased debt service cost for government SOEs, and critical capital works interventions for the Barbados Water Authority, the Bridgetown Port Inc. and Barbados Tourism Investment Inc.

Though these were all understandable situations, they nonetheless caused government's targets of reducing the deficit, and by extension the financing requirements, to remain unmet. Of course, Mr. Speaker, these transfers have been judged extremely harshly by the domestic and international stakeholders and pundits alike. This has been interpreted by some people as us not having the "political will" to tackle the financial issues confronting the country, when they don't appreciate the need and political responsibility for those interventions. Should this undermine confidence in government's policy, investors across a spectrum of activities critical to achievement of sustainable growth in the economy could become fearful about current and future investments.

With these conditions prevailing, financial institutions normally accommodative of government's requests for financial support to service our deficit, are pulling back any new support, while making real choices about whether to roll over existing debt. This in turn places pressure on government to cover its financial requirements and leading, as we have seen, to an over-reliance on the Central Bank of Barbados to fill the financing gaps.

This is not only an untenable situation but has reached unadvisable limits that now threaten not just the macroeconomic stability of the country but its capacity to meet its overall developmental objectives.

If Barbados intends to maintain the level of goods and services that makes the country stand out as an economic and social leader in the region and the world, then swift, intensive and appropriate actions must be taken to arrest this situation.

For this fiscal year, Government's gross financing requirement, which includes the fiscal deficit and amortisation, totals $1.5 billion. The total amortisation coming due during the fiscal year is $971.3 million, comprising of $682.5 million and $288.8 million in domestic and foreign payments, respectively.

It is generally assumed each fiscal year that Government's financing requirement will be satisfied from both domestic and foreign sources, principally by domestic institutional investors, such as commercial banks, insurance companies, pension funds, and other private sector agents rolling over all maturing Government debt and acquiring a proportion of newly issued domestic securities in the form of Treasury Bills, Debentures and Treasury Notes. In addition, Government utilizes foreign project-related flows to supplement the domestic financing, which has the added benefit of bringing foreignb exchange to the country.

For this fiscal year, it is anticipated that Government is likely to experience some financing challenges, namely:

1. **Roll-over Risk**

Commercial banks have significantly reduced their holdings of Government paper over the past year and while the recent increase in the mandatory securities reserve requirement by the Central Bank for these entities will cushion the impact, roll-over risk remains elevated.

2. Foreign Borrowing Focused on Multilateral Lending

Since 2015, Government took a strategic decision not to pursue high-cost borrowings on the international capital market, preferring to secure concessional project-related multilateral foreign funding. However, after successfully securing these concessional flows, administrative delays and other unforeseen impediments have limited the timely disbursements of funds for the intended purposes. For those projects that are currently under way, most notable of which is the Sam Lord's Redevelopment Project, expected foreign project inflows of $113 million are expected this fiscal year but this is still below the average public foreign inflows of $242 million, over the last four years.

3. Reduction in Central Bank Financing

As stated above, the Government is committed to reducing its dependence on Central Bank financing over the medium term, beginning this fiscal year.

4. Government Guaranteed Debt

Government is also expected to be faced with the burden of meeting the debt obligations of some of its state-owned enterprises, which creates further financing pressures. This was the case with the take-over of the Barbados Agricultural Management Company Limited's debt. In such circumstances, the Government has to provide funds to these entities to service their debt via transfer payments.

Now, facing this level of financing requirement and the likely associated downside risks, some ease to the financing constraint must be created by Government, through a fiscal adjustment to further reduce the fiscal deficit well below the 4.4 percent of GDP presented in the Estimates of Revenue and Expenditure laid in the House in March. In doing so, Government will better align its operations withavailable financing from the domestic financial system.

The second major and related immediate concern for the government is to stem the decline in the foreign reserves so as to ensure that the Monetary Authorities possess sufficient reserves to meet government's external debt service requirements, while creating adequate buffers to meet any additional or unexpected demands which might be placed on it by market participants.

As you are aware Sir, at the end of 2016, the net international reserves as reported by the Central Bank stood at $681 million. This was down by almost $245 million for the same period in the previous year, and represented a cumulative decrease of $719 million since 2013 when the reserves stood at approximately $1.4 billion.

After registering a 12% improvement between 2000 - 2009, over the last seven years the reserves have steadily declined, with the exception of 2012 when private capital inflows bolstered this performance. The Central Bank's principal sources of foreign exchange are derived from public sector inflows and those originating from the surrender requirements of foreign exchange (FX) dealers and that is a 5 per cent surrender. The inadequacy of these capital inflows to offset movements in the current account was most evident in 2015 and 2016. In particular, the net public sector outflows and the impact of lower foreign exchange purchases from commercial banks on a net basis, contributed to the reserves position deteriorating to a low of $681 million (10.3 weeks of import cover).

Net private capital inflows peaked at an average of $905 million between 2005 – 2008, which supported the Central Bank's average net foreign exchange receipts from the commercial banks for the same period of $173 million per year. In contrast, these net foreign exchange receipts only averaged $120 million per year between 2014 and 2016, representing a decline of about 31% over the above periods. In part, this reflects the structural shift in the foreign exchange inter-bank market that has taken place over recent years, such as changes in the foreign exchange surrender requirement and required trading margins, as well as delayed inflows for tourism-related development projects.

The downward movement in the stock of reserves based on the capital account would have also stemmed from lower public external borrowings in recent years. Net public inflows, which increased from an average of $92 million between 1999 - 2008, almost doubled this average thereafter, up until the last two years when they bottomed out to register overall public outflows of $73 million and $122 million respectively.

So that, even though over the last two years the current account has improved as a result of reduced fuel prices and improved tourism earnings, the net capital inflow has been insufficient to cover the reduced current account deficit.

Select Foreign Exchange Movements

(2006-2016) Bds $M

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Capital Inflows											
Private	1,410.9	1,717.3	1,405.1	724.4	536.2	1,110.5	1,343.9	494.6	919.6	834.2	836.2
Public	230.6	136.9	89.5	519.9	808.4	225.8	54.9	393.7	234.2	272.2	111.8
Total	**1,641.5**	**1,854.2**	**1,494.6**	**1,244.3**	**1,344.6**	**1,336.3**	**1,398.8**	**888.3**	**1,153.8**	**1,106.4**	**948.0**
Capital Outflows											
Private	176.7	565.8	452.2	208.1	101.3	119.4	363.6	185.4	287.7	330.7	422.2
Public	163.7	108.0	212.1	111.3	501.8	131.6	139.3	167.8	146.6	344.4	282.1
Total	**340.4**	**673.8**	**664.3**	**319.4**	**603.1**	**251.0**	**502.9**	**353.2**	**434.3**	**675.1**	**704.3**
Travel Credits	2,121.2	2,381.6	2,391.8	2,145.6	2,076.5	1,925.3	1,835.7	1,927.9	1,776.7	1,913.8	2,048.1

**Figures for 2015 & 2016 are provisional.*

I hope Sir, that you begin to see the picture which I am painting here regarding this very critical issue of foreign exchange, its earning, inflows and outflows and the real structure of the foreign exchange market in Barbados. I have asked the Central Bank of Barbados to do a complete study of the foreign exchange market, including an audit of all foreign exchange dealers in Barbados.

So that if we are to arrest these negative trends, the policies we adopt going forward must not only seek to enhance the earning of foreign exchange through improving the value of external investments and export sector receipts, but must mandate immediate measures to boost foreign exchange availability while constraining demand for available cash.

In this regard Mr. Speaker, it has long been a proven fact that the fastest and most effective way to contain demand for limited supplies of foreign exchange is to utilize available fiscal tools at the disposal of the policymakers. These can both be found on the revenue side through higher, more targeted taxes and equally, through an adjustment in the expenditure patterns of the country, especially the government.

It is to these tools that successive administrations have had to turn and certainly they are the same tools to which government turned throughout the course of the economic and financial crisis that has affected us since 2008.

Our best assessment in the Ministry of Finance and Economic Affairs is that, as much as we would prefer not to have to turn in that direction, once again, the seriousness of the circumstances dictates that we do so now and at a level commensurate to the challenge which we have before us.

To this extent your government has determined that the budgetary and policy interventions I will announce shortly will be necessary to assist in restoring order to the public finances and foreign reserves in short order.

Mr. Speaker, the specific objectives of the measures can be listed as:

- **Protect and enhance the level of foreign reserves at the Central Bank;**

- **Complete the process of fiscal consolidation by achieving a balanced budget on the current account with at least a primary surplus of around 5**

% for the next fiscal period;

- **Reduce the net financing requirement for government and through this, reduce the need for Central Bank financing of government;**

- **Slow the growth of the national debt in the first instance and over time reduce it to below 100 percent of GDP;**

- **Place Barbados on a path to regaining a healthy credit rating sufficient to permit the country to retain the option of tapping the international capital markets for reasonable financing in the near future; and**

- **Strengthen investor confidence in Barbados' economy.**

Strategic Fiscal and Monetary Policy Measures to Address the Budget Imbalance and Financing Requirements of Government for 2017-2018

Mr. Speaker, in composing the fiscal measures we have decided to use, we had to take a number of factors into consideration. Among these were: the need for simple yet credible measures which would achieve our objectives of bringing the budget deficit as close to balance as possible; the capacity of the fiscal agents to implement the required impositions as quickly as possible and to collect what is imposed efficiently; the level of fiscal tax weariness of the population even in the face of the obvious need to raise additional revenue; the fairness and range of any imposition on the public especially in light of the narrowness of the effective tax net; the distortive and regressive nature of any impositions given the negative growth of wages particularly in the public sector.

In relation to expenditure, the precision of the cuts necessary to get us just the amount required to achieve the objectives, while not compromising the delivery of critical social services, national security and legal obligations such as debt payments and pensions was also an important determining factor.

In this regard, the Ministry undertook a series of internal and external consultations, together with studying submissions from both Social Partnership Working Groups established by the Prime Minister to advise on short and medium term interventions to tackle the challenges we face.

As I indicated earlier, following today's budgetary intervention it is government's intention to intensify that process of consultation particularly on some of the more medium term suggestions which, though useful, require further study as to their overall impact on the economy and society, as well as fuller national consultation, refinement and buy in.

Options such as reducing the VAT to 15 percent while eliminating all zero rated and exempted items were considered but found at this time to be inappropriate in light of the fact that the overall impact of removing such things as the near 300 basic items from the VAT basket for the poor, and the imposition of VAT on water, financial services, prescription medicines, medical supplies and would be a dangerously devastating lash to the population.

We also felt that a rushed standardisation of the VAT rate across all vatable supplies. including hotel accommodation, which was recommended by the private sector, and direct tourism services as recommended by some private sector groups, would likely cause short term harm to the tourism sector at a time when the sector was struggling with negative effects of the reduced value of the pound, from our most lucrative source market, as well as price competitiveness issues associated with the rising US dollar.

There was also the proposal mooted to move VAT to 22 % for a gross yield of $391 million in a single financial year and just over $225 million in the remaining nine months of this financial year. This would clearly give us sufficient revenue to approach our target of $422 million and another $150 million in additional financing along with some other measures. It would also have a very pervasive impact on a wide selection of goods and services causing elevated negative impacts on the poor that even moderate increases in the reverse tax credit would not compensate for. Equally it would place significant upward pressure on government to standardise the various VAT rates across sectors to close the gap and eliminate the hemorrhaging caused by the differential rates between the input VAT and output VAT.

We also examined the option of reducing the level of the personal non-taxable allowance from $25,000 to $15,000 per annum, as well as further reducing the tax bands in both the upper and lower levels as compensatory interventions to offset the impact on the average taxpayer. While it was calculated that such a move would have brought in upwards of $72 million in a full financial year, that would be insufficient to achieve our objectives and we would have to impose additional measures elsewhere to supplement. In addition, since the income year is a calendar year and income tax cannot be imposed retroactively, government would still not bring in sufficient revenue from this measure since we are at the middle of the year already.

Most importantly though, this would mean the reintroduction of income tax to a segment of the wage-earning low-income working class, that we deemed to be undesirable at this time.

And then, on the expenditure side, we received recommendations for government to significantly reduce the outlay for State Owned Entities (SOEs) in particular, by introducing user fees for such public services as health care mainly at the QEH, placing Transport Bus fares at the actual rate it costs per trip, further increasing the fees for students at the UWI, and privatizing sanitation and water supply services.

We have received recommendations aimed at cutting government's wages and salaries bill by 10 % which at current rate would amount to savings of more than $140 million dollars in a full financial year. This translates to further retrenchments, another measure not deemed desirable, especially when the private sector is not in a position to absorb the affected workers.

We have been and will continue to be pragmatic about these matters and only where appropriate will introduce new, or higher, user fees. This will be matched by all feasible and responsible efforts to cut costs and explore greater efficiencies in operations. For example, we are examining the recommendations of the PricewaterhouseCoopers' Report on improving operations within the state-owned enterprises, which was commissioned by the Central Bank of Barbados.

However, we are equally of the view that if the nation is being asked to sacrifice to provide these services, we must hold these State Owned Enterprises to a higher level of accountability and demand that will provide higher quality service to the public and be efficient in their operations. If we are going to ask people to pay more money than these entities will have to do better.

In this regard, government will invite bids from professional service firms to provide performance benchmarks and monitoring systems for key social agencies that receive transfers from central government. This will be backed up by the introduction of a compendium of legislation to the Financial Management and Audit Act (and Financial Regulations) exclusively geared towards State Owned Enterprises.

The new Act will provide for clear and strict financial management and operational rules for these entities including sanctions for those managers and those boards that do not adhere to established rules and procedures as well as reporting requirements. The Draft of the Bill is completed for review by the Chief Parliamentary Counsel's office following strong technical support from CARTAC.

The challenges which we face relative to our public finances was caused over many years and contributed to by every Barbadian. We have all benefitted from the public goods and services that government provides and we must all contribute collectively to the solution. Singling out just one segment of the public to carry the burden of adjustment will not get it done and will only serve to create frictions between social and economic groups in this society.

We must all carry some of the burden even if some of us with the capacity to do so carry just a little more than others. This is the strongly held view of this administration and one from which we cannot and will not recoil.
With this in mind Sir, I now propose to introduce the following budgetary measures to the country.

Revenue Measures:

National Social Responsibility Levy:

The National Social Responsibility Levy (NSRL) was introduced on the first of September 2016. It was imposed on goods imported into Barbados and on domestically manufactured goods. The NSRL was designed to finance the burgeoning cost of health care on the island and to assist with the maintenance of a clean environment, which is critical not only for Barbadians, but for the survival of our tourism industry. Barbadians are well aware that we as a country continue to battle with deficiencies in these two areas as well as in a number of other critical areas of social service provisioning.

Following some early implementation challenges, we are satisfied that the administration of the National Social Responsibility Levy has settled down and, based on net collections over the first 4 months of this year, is set to come close to, if not achieve, the targets which we had originally set. Like the VAT, it has become an efficient tool for gathering of tax revenue but without many of the administrative and process challenges of the VAT.

It is also a preferred method of revenue generation because it exempts critical sectors as per its original design, is charged predominantly at the port on imports, and compounds the VAT for additional coverage. It can also have a dampening impact on imports hence reducing the demand for foreign exchange, shifting the consumption patterns more towards domestic consumption and production.

In this regard, I now propose that effective July 1 2017 the rate for the NSRL will move from 2% to 10 %. It is anticipated that this will result in increased revenue of $291 million for a full financial year and $218 million for the remaining nine months of the current fiscal year.

The expected break down in the contributions is projected to be NSRL $186 million and VAT $32 million arising from this movement in the NSRL rate to 10 %.

Commission on Foreign Exchange Transactions:

As stated earlier, over the last calendar year the foreign exchange cover moved from 13.6 weeks to 10.3 weeks at the end of the calendar year 2016. The latest report provided by the Central Bank indicates that currently, this import cover has improved slightly to 10.7 weeks by the end of March 2017 and current levels now stand at $749 million at the end of last week, representing 11 weeks of import cover. However, more has to be done to stem the demand for foreign exchange, particularly the demand for consumer durables.

In an effort to signal the need to reduce the demand for consumption goods, I propose that, effective July 1, a broad-based foreign exchange commission be charged on all sales of foreign currency at a rate of 2%. This will extend to, inter alia, all wire transfers, credit card transactions, and over the counter sale of foreign currencies.

This measure is also expected to raise an estimated 52.5 million dollars over the remainder of the current financial year and 140 million dollars over a full financial year.

EXCISE ON GASOLINE AND DIESEL FUELS

Mr. Speaker, over the past two years the price oil and concomitantly the price of fuels have come down from the historic highs just before and during the early years of the economic crisis. As you well know, Barbados shifted its pricing mechanisms on diesel and gasoline products a few years ago, permitting for a pass-through of the price plus the various statutory and marketing fees attached to these products directly to the consumer. This has allowed for a general price reduction in the cost of fuel to Barbadians across the board.

Additionally, following the conclusion of the debt servicing requirements for the CESS which was placed on the fuels to meet those liabilities, government decided that part of that CESS would be retained to assist with the financing of some of the stock of arrears held by our main hospital. Earlier this year those resources were transferred to government following the conversion of these amounts into excises.

Given the continued relatively subdued levels of price increases for both the world oil and imported refined products, we have determined that an increased excise would be useful in assisting government to meet its current deficit reduction targets without placing undue burden on Barbadians.

To this extent, I now propose that effective July 1 the excise tax on gasoline will be increased by 25 cents per litre from $0.74 to $0.99 and on diesel by $0.24 from $0.20 to $0.44. The July 2017 retail prices on gasoline and on diesel will now be as follows based on the above two scenarios:

Gasoline $3.05

Diesel $2.25

It should be noted that the current prices on gasoline and diesel are $3.00 and $2.15 respectively.

EXTENSION OF TAX AMNESTY

Due to numerous requests by stakeholders, and the very high level of success of the last amnesty offered by Government on certain taxes for which liabilities were owed, government has decided to implement an additional period during which taxpayers can benefit from a waiver of penalty and interest on taxes owed to the BRA for land tax and Value Added Tax.

The amnesty will run from June 1 2017 until November 30 2017 and the same rules which were applicable to the last amnesty will apply in respect of this new period. Preliminary figures from the last amnesty indicate that just over $35 million was collected in outstanding taxes and on this occasion the authorities are anticipating that an additional $25 million can be realised. This measure has really done very well.

The BRA will republish the rules governing the programme and all necessary laws will be amended to give legal effect to the initiative. Proceeds from this initiative will go directly to assist with the liquidation of income tax refunds owed to taxpayers by the BRA.

TAX ADMINISTRATION

On this matter of tax administration I wish to make the point Mr. Speaker that government is fully cognizant of the often repeated and very legitimate charge that part of the issue with revenue collection in Barbados lies in the fact that too many people fall outside the net. These persons can be found across all classes of persons and businesses in the country, yet they are able to enjoy the benefits which the tax dollars of a shrinking pool of taxpayers contribute to.

Indeed empirical evidence has shown that the smaller the tax base the greater the pressure on government to increase the rates to get the required revenues to manage the Government. This is an issue that has dogged tax authorities in Barbados for a number of years but one which we must act decisively to deal with now.

I am therefore in a position to advise that in the coming months the BRA will be instructed as a matter of policy to establish a special task force within that organization. This special task force will work in collaboration with a competent private sector tax firm to establish a national tax administration registration initiative, aimed principally at ensuring all of those persons who are operating businesses, are self-employed, sole traders or professionals and artisans are registered with the BRA and brought into the tax net.

The BRA will be provided with special financial, human and technological resources by the Ministry of Finance and Economic Affairs to execute the programme. It is anticipated that recent University of the West Indies and BCC graduates will be retained on a temporary basis by the programme to execute the mass registration exercises that will flow from the work of the task force.

More details of this will follow in the coming weeks.

Finally I am also in position to announce that in an effort to alleviate the backlog of VAT refunds which are owed to many businesses across Barbados and creating severe cash flow challenges for them, that I have advised the BRA to sit down with the Ministry of Finance and Economic Affairs, the Treasury, and the Central Bank of Barbados to design a simple, uncomplicated and easy to access but effective VAT factoring programme to attend to this issue of VAT refunds, which will be managed out of the Central Bank.

The details of this programme will be revealed shortly in the hope to get it started before October this year.

Divestment of State Assets:

Mr. Speaker, earlier in my presentation I said, as indeed I have said both in and outside of this chamber, that this administration, while holding a firm negative position on privatising particular state entities that deliver social services to the public of Barbados, we would consider the divestment of any appropriate state asset which we believe could be subject to such treatment.

Certainly as a party in government, the Democratic Labour Party is no stranger to the issue of privatization having itself at some junction in the past taken decisions to divest particular state assets into the private sector. Indeed, as recently as two years ago this administration took a decision that terminal operations of the Barbados National Terminal Company Ltd. (BNTCL) which is owned by Barbados National Oil Co. Ltd. (BNOCL), should be divested. The process for the completion of that sale is now awaiting final regulatory approval from the Fair Trading Commission (FTC) of Barbados.

We saw that decision as a process that would further expand the private interest in the energy sector, while allowing the government to earn valuable foreign exchange to boost its reserves and revenue to assist with the financing of critical productive areas in the administration.

While we were expecting the process of the sale to have been completed by the end of the last financial year, this did not happen as the FTC had not issued its ruling by March 31 this year. It is expected that this should come during this financial year and so the expected boost to the foreign reserves of 100 million dollars and revenue of 70 million dollars will assist government in tackling both of the major challenges confronting us at this time.

Mr. Speaker, as in the case with the BNTCL, Cabinet has also taken the decision to empower me to advise this House and the country as a whole of government’s intention to divest the Hilton Hotel at Needham's Point which is currently held under the portfolio of the Needham's Point Holdings Ltd., a company in which the Government of Barbados is majority shareholder.

As members of the House would know, the original Hilton Hotel was first opened to receive guests in November 1966, the year of national independence, and served as a major stimulant to investor interest in the hotel sector when many private sector interests were risk averse about going into the newly emerging tourism sector.

For several decades, until its demolition in 1999, the Hilton Hotel served as a beacon of excellence in accommodation and hospitality services in the region, receiving many regional and international awards for its very high standards. It was also a major hub for social, conference and entertainment activities in Barbados and provided employment for hundreds of Barbadians who went on to have distinguished careers in the tourism sector.

In 2005, following the construction of a new property, the Hilton Hotel was re-opened and has since then gone on to pick up where the old property left off, bringing great acclaim to itself and Barbados as a whole. It is considered to be one of the top properties on the island and has begun to turn a profit under the very capable leadership through Needham's corporation and board and has begun to see this increase every year since 2011.

Earlier this year, following some months of negotiation with the EXIM Bank of China, government began the drawdown of loan resources to initiate the construction of a new Sam Lord's Castle Resort redevelopment project to replace the previous property which had closed some years ago and was subsequently destroyed by fire.

This investment is estimated to be in the range of US$200 to US$250 million and is expected to add tremendous value to the domestic hotel stock and its offerings. With this in mind, government believes that, in keeping with its policy to limit the number of hotel properties it holds within its asset portfolio, that now would be a good time to divest itself of the Hilton while preparing to welcome the Wyndham Sam Lord's Castle into the fold.

Government through the Barbados Tourism Investment Inc. and the Ministry of Tourism and International Transport will be receiving, analyzing and recommending bids to the Cabinet shortly for the sale of the property which on recent valuations is said to be worth just under US$100 million.

If a successful bid is accepted, government is expecting to receive no less than BDS$100 million as the net proceeds from the sale, taking into account the liquidation of existing debt liabilities attached to the property and of course sharing some of those resources with other stakeholders. Provision for these proceeds have already been taken account of in the 2017-2018 Estimates of Revenue.

Additionally government is expecting a boost to the country's foreign exchange reserves of at least $100 million this year from the sale, once all paperwork can be finalized by the parties.

Expenditure Measures

Debt Re-profiling

Mr. Speaker the single fastest growing line item in government's expenditure budget is debt service costs. Earlier I would have shared some figures relative to the financing which is required every year to meet our debt service commitments which have grown exponentially on the continued high fiscal deficits which the country is carrying.

Ordinarily, this government's stance on debt is patently clear and remains firm hat Barbados meets all of its commitments and debt obligations on time and in full. We have an enviable record which we intend to keep intact and which at this time is not in jeopardy so long as we take some serious corrective measures as we are doing now.

Equally as well, though we are mindful of the very heavy contribution which interest costs contribute to the overall recurrent expenditure of government, any intensive fiscal consolidation programme will have to contemplate seeking non-disruptive ways in which to lower interest costs over short, medium and longer terms.

In this regard government has begun the process of fully examining its portfolio of short and long term securities instruments to determine where and how any profiling of some of the interest on some of these securities could be done.

As is well known, a significant proportion of government securities is held by the Central Bank and the National Insurance Scheme and we have surmised that if such an intervention were to be initiated on a voluntary basis government should invite these two entities at first to engage in discussions for a possible swap programme where they and government can reissue some existing securities in their portfolios at lower interest rates agreed by the parties.

I can inform the House that preliminary discussions have already taken place between the parties and more of such will continue apace in the coming weeks. The Ministry of Finance and Economic Affairs is expecting that in this financial year savings from the proposed debt re-profiling will be in the region of $70 million in savings on the interest expense. It is also expected that part of the proceeds from the savings accrued will in turn go to assist with the liquidation of outstanding arrears owed to the NIS.

Other Expenditure Reductions

As the House is aware, during last year's Budget presentation I announced that the Ministry of Finance and Economic Affairs would institute a mid-year review process to attempt to reduce expenditure by at least $50 million of the approved allocations across ministries from the 2016-2017 Estimates of Expenditure. I am happy to report to the House that not only was the exercise carried out, but it was successful in identifying savings across ministries in excess of the $50 million target. That exercise was done with government having already completed more than half of the financial year already.

Given the financing pressures which government currently faces in this financial year and into the next, the Ministry of Finance and Economic Affairs has requested and Cabinet has approved an across the board 10 % cut in the existing approved Estimates of Expenditure for the financial year 2017-2018.

The total Approved cash estimate for expenditure 2016-2017 amounted to approximately $4.5 billion. Of these expenses:

- Debt service (interest + amortization) - accounts for 41 per cent of the budget (amortization 25 per cent and interest payments 16 per cent);
- Wage and salary expenses within Central Government - occupies another 19 per cent share of total expenditure (i.e. wages & salaries 17.4 per cent and NIS 1.0 per cent);
- Wage and salary expenses within state-owned enterprises (SOEs) - accounts for an additional 10 per cent. This accounts for up to 69 per cent of the approved budget allocation;
- Furthermore, once we take into consideration the Pension and Gratuities from both Central Government and the SOEs, debt payments of the SOEs, statutory grants and investments, rental of property, building maintenance, as well as insurance coverage, this brings the overall operating expenditure coverage to 82 per cent of approved expenditures.

This leaves us with just around 18 per cent or a residual value of about $826.8 million which we can possibly touch without displacing workers or disrupting the provision of services offered through our vital public agencies, some of which I must add, are the critical pillars of our development – namely the Queen Elizabeth Hospital, the Transport Board and The University of the West Indies.

At 10 per cent we will see an additional $82 million reduction in total expenditure this financial year.

Fiscal Impact of the Measures

The measures introduced within this budget set out to achieve two broad objectives; to move as close as possible to a balanced budget with a view to reducing the dependence on Central Bank financing and secondly, to reduce the demand for foreign exchange. To balance the budget therefore the task would be to define a strategic set of measures which will bring to balance the $422 million deficit announced in the March 2017 Budget estimates. Based on the underlying trends since the Budget estimates the new deficit could end around $537.6 million.

These measures in total account for an additional $ 542 million, as a result of increased revenues, expenditure savings and divestment proceeds. Therefore with the revised deficit of $537.6 million, the new measures will effectively lead to a small fiscal surplus of $4.4 million. This balancing of the fiscal accounts will yield a primary surplus of 7.34 per cent or $702.4 million. As a result of this adjustment, the new financing requirement from the Central Bank of Barbados is likely to be just about $87.0 million, representing $640 million less than the projected pre-adjustment deficit financing by the Central Bank.

It is expected that with the size of this fiscal adjustment to be implemented there will be some dampening in the rate of economic growth by about half a percentage point. It is expected that some of this slowdown will be offset by other planned private sector activity, which must now be undertaken with some level of urgency. It is important to note also that this adjustment will impact on the general price level.

However, having demonstrated that these measures are necessary to stabilise debt levels and to create a platform for the realisation of greater, more sustainable growth, it is anticipated that economic activity will rebound after a short period of sacrifice, and we will all reap the rewards.

Fiscal Measures	**Fiscal Impact 17/18**
REVENUE MEASURES:	**BDS Million**
1) Adjustment to the national social responsibility levy commencing July 01, 2017. It is proposed that the social responsibility levy rate be increased to 10.0 per cent on all taxable imports and domestic production. The measure will effectively raise an additional $186 million from the increase in the NSR and an additional $32 million from VAT.	$218
2) Commission on the sale of foreign exchange sales by authorized dealers to be collected by the Central Bank. This measure will commence on July 01, 2017.	$52
3) Increase in Excise taxes on petroleum fuels to raise the excise on gasoline by 25 cents from $0.74 to $0.99 and the excise on diesel by 24cents from $0.20 to $0.44.	$50
4) As part of government's divestment strategy government will be able to realise net proceeds of $70 million from the sale of the BNTCL.	$70
EXPENDITURE MEASURES:	
5) Interest rate savings on the domestic debt held by statutory corporations	$70
6) For the Mid-term Financial and Economic Review exercise, an additional $82 million in savings from overall expenditure will be identified. This represents a 10.0 per cent reduction of the residual expenditure amount captured within the March 2017 Budget Estimates.	$82
OTHER MEASURES:	
7) A Tax Amnesty for a further 6 months. For the purpose of additional financing.	$25

Conclusion

Mr. Speaker Sir, your government is once again demonstrating the steely resolve, clarity of purpose, resolute and visionary leadership we need at this juncture. Leadership, Mr. Speaker, that continues to be open, frank and honest with the people of Barbados as to what the challenges are. Leadership that is, yet again, taking the tough decisions in the best interest of the country and putting people and country above politics, party, popularity, and yes, even the polls to come.

Mr. Speaker Sir, I began this presentation on a personal note recounting my experience of sitting close up and observing the circumstances which confronted Barbados in the early 1990s and the resolve which the then Prime Minister, his Cabinet and the other Social Partners were called upon to show to save their country.

It wasn't an easy time, tough decisions had to be made, pain was everywhere and even personal relationships were sacrificed. This was the measure of the challenge.

For me it was a truly defining period personally not only because it helped me to build resolve, but it showed me in a most demonstrable way why Barbados is such a special place. It showed me that, notwithstanding the things that divide us as a people – politics, religion, colour, economic status, etc. - there are two unshakable things which bind all Barbadians, fear of God and love for this blessed country of ours.

It is these redeeming features, these fundamental characteristics, that allow us to confront the worst of conditions and the most difficult of circumstances.

Sir, it is never welcomed, but perhaps unavoidable, that challenges similar to those confronting us at this time will happen from time to time. And perhaps too, they may even become more difficult on every occasion they pass our way. But what we must do as a people, I believe, is to learn from the example of those who have passed this way before and combine our collective efforts to face down the challenges and overcome them, one by one.

The valiant leaders of the early 90s were able to set aside their narrow agendas to build a national consensus for economic and social reform and resuscitation. They won the day and saved a country.

Sir, once again our country's circumstances require us of this latter-day generation of leaders to rise to the task of working hand in hand to guide Barbados back to safer waters. I believe it can and will be done, because I believe in the good nature of all Barbadians and in our desire to see our country succeed.

I believe it because I know we have the skills, knowledge and fortitude to suppress our narrow wants and attend to the broader needs of a nation.

I believe it because I know that Barbadians are winners and that Barbados never fails.

And finally, I believe it because I know we fear God and love country.

The measures that I have just announced were designed to give us that small window of opportunity to sit down and carve out a more comprehensive and far reaching national resuscitation and revitalization plan that permanently corrects our structural problems and sets new heights for our economy and society to scale. But the window is closing fast and we must act now to win the victory for Barbados.

Tonight is therefore a national call to arms of all Barbadians to join your government as we set about in the next weeks and months ahead to define the future for Barbados.

Tonight, tomorrow, and in the days that will follow this debate, it is time for all of us to demonstrate leadership and put Barbados first…Barbados first forever.