

Budget 1996

FINANCIAL STATEMENT

Mr. Speaker,

The transformation of the economy in the manner envisioned must take place within the context of a sound and manageable fiscal state of affairs.

I therefore turn now to the Financial Statement and the general review of the fiscal position for the year ending March 31, 1996.

Revenue

The current revenue for the fiscal year was originally estimated at \$1106.7m. However, the provisional data suggest that the actual amount collected at March 31, 1996, \$1162.8m (1 thousand, one hundred and sixty-two million). This was some \$808.8 m or 7.5% higher than that for the previous fiscal year.

The much better than originally anticipated revenue out-turn was the result of strong performances in taxes on income and profits, Land Tax and taxes on goods and services.

While tax revenue increased by 9.7% or \$96.8 m to a total of \$1089.9m compared with \$993.1 m during the previous year, the non-tax revenue declined by 5.0% or \$4.0 m to \$70.5m

Taxes on incomes and profits grew by 12.4% or \$40.2 m to \$364.8 m. Personal Income Tax rose by 12.1% or \$23.0 m whole Corporation Tax rose by 15.5% or \$17.9m. There is an element of arrears in the Corporation Tax collected and which will therefore not be repeated in the current fiscal year. However, as the economy continues to grow and the

Inland Revenue Department continues to streamline its collection processes, its operations will become more efficient.

The arrears collection efforts of the Land Tax Department resulted in approximately \$15.4 m. Consequently, Land Tax increased by \$11.3 m or 25.3% to \$56.1m.

Taxes on goods and services increased by \$42.8 m or 10.5% to reach \$449.5 m with Consumption Tax contributing \$308.6 m, an increase of \$28.1 m or 10.0% higher than in the previous year.

the growth in taxes on international trade was 7.5% or \$6.4 m higher than the year before.

This outcome was in keeping with the growth which took place in retained imports.

On the other hand, there was a 5.4% decrease in the Non-tax revenue, mainly as a result of the reduction in profits by the Central Bank. these were \$11.2 m compared with \$23.7 m in 1994/95.

Expenditure

Current expenditure originally approved by Parliament was \$119.3 m. During the year supplementary provisions totalling \$65.9 , were approved, making the total current expenditure approved by Parliament to \$1259.2 m.

The approved capital expenditure at the beginning of the year was \$169.4 m. During the year, supplementary amounts of \$35.7 m were approved, making total capital expenditure of \$205.1 m.

The provisional expenditure out-turn for the year shows current expenditure of \$1255.7 m

and capital expenditure of \$123.7 m , making a total expenditure of \$1379.4 m. This has resulted in an overall deficit of \$216.6 m or 7.2% of Gross Domestic Product compared with the original estimate of \$256.0 m or 8.6% on the basis used by the Accountant General. When this deficit is converted to the basis used by the international financial institutions, it becomes %5.0 m or 9.2% of the Gross Domestic Product.

In other words, Mr. Speaker, the deficit for 1995/96 was well within the target of 1% of the Gross Domestic Product and this was achieved inspite of the fact that we allow a reasonable wage increase for Public Servants who had been denied an increase by the last Administration; gave the Barbados National Bank higher interest on the low-interest securities which it was forced to take by the last Administration in return for the sugar industry debt; provided funds for the Barbados Devebpmnt Bank to meet part of its bond redemption; and provided supplementary funds for several critical areas.

The deficit was financed as follows:

a)	Domestic Sources	\$107.2 m
b)	Foreign Sources	<u>\$109.4 m</u>
		<u>\$216.6 m</u>

Of the supplementary provisions for current expenditure, \$10.2 m went towards wages, salaries and National Insurance contributions, \$20.9 m went for the purchase of goods and services while the remaining \$33.6 m went towards transfers to public enterprises.

Mr. Speaker, I consider that some explanation of how the supplementary funds were used is order for the benefit of the public. Those funds were used as follows:

GOODS AND SERVICES

Cabinet Office

- Commission of Enquiry into the
issue of Public Service vehicles
Permits - \$150,000

- Cost of settlement of claims for
compensation for damage or
injury - 500,000

- Payment to suit No. 1267 of
1990 - Megan Smith vs the
Attorney General - 335,332

Attorney General

- To settle claims against
Government by Plaintiff
Caribbean Shores Ltd. - 3,335,000

- Cost of arrears of electricity
supplied to Police Headquarters
at BNB building, James Street,
for the period January 1994 to
March 31, 1996 - 152,877

- Police:
 - (i) Maintenance of property - 299,500

(ii) Operating Expenses

(Allowances etc.) - 1,143,420

Foreign Affairs

- **Cost of engaging local and international consultants - 300,000**

- **Survey on Barbados published by the Financial Times - 250,000**

Ministry of Health

- **Drug Service:**
 - (i) **Increasing cost of maintaining the Special Benefits Programme, The Specially Authorised Drugs and the Family Planning Programme (since U.S. graduated Barbados - 2,307,347**

 - (ii) **Cost of drugs increased during 1994-95 (Arrears) - 1,892,653**

- **Psychiatric Hospital**

(i)	Increasing number of meals due to increased admissions of patients and upgrading of laundry	- 450,403
(ii)	Utilities	- 188,733
-	<u>Queen Elizabeth Hospital</u>	
(i)	Utilities	- 667,370
(ii)	Supplies and Materials:	
	Significant increase in the use of certain medical supplies	- 2,400,000
(iii)	Maintenance of Property:	
	To carry out nine maintenance projects which were important for the maintenance of hospital's fabric plant and grounds	- 338,480
(iv)	Operating Expenses: Frequent breakdown of the Cat Scan Machine	- 150,000
(v)	Medical Aid Scheme: Increase in the number of patients	

being referred overseas for
treatment - 2,321,175

Public Works and Transport

- **Special Drainage Unit**

(i) Maintenance of Property - 700,000
(ii) Operating Expenses - 40,000

- **Housing and Lands**

Insurance premiums to ICB
shortfall in funds provided to
insurers and maintain
Government properties - 322,250

International Transport

- Utilities: To meet the increased
cost in electricity changes resulting
from an increase in night flights
during the summer and winter
seasons - 106,000
- Maintenance of Property at the
Airport - 276,124

Prime Minister's Office

- To meet expenses relating to the

Commission on the Constitution and meetings of the Economic Cooperation Agreement	-	58,000
- Cost of celebrating the 29th Anniversary of Independence	-	140,200

CURRENT TRANSFERS

Prime Minister's Office

- <u>Barbados Defence Force</u>		
(i) Haiti Operations	-	350,775
(ii) Maintenance of Boats	-	250,000
(iii) Cost of Supplies and Equipment for Antigua/ Barbuda (aftermath of Hurricane Luis)	-	13,069
(iv) Salaries Arrears	-	428,858
- <u>Barbados Cadet Corps</u>		
Arrears of Salaries	-	1,487
- <u>Barbados Defence Force Sports Programme</u>		
Arrears of Salaries	-	16,024

Ministry of Finance and Economic Affairs

- **Barbados Agricultural**

Management Co.

Required to allow BAMC to fulfil
its entire debt obligation in respect
of its corporate bond issue

- 1,249,525

- **Barbados National Bank**

To permit the Government to meet
interest costs on Government
Securities issued to the Barbados
National Bank in September 1993

- 11,404,925

Ministry of Home Affairs

- Arrears due on annual contri-
butions to the Universal Postal

Union

- 128,000

Attorney General

- **Regional Police Training Centre**

(i) Operating Cost

- 274,629

(ii) Arrears of Salaries

- 22,542

- Subscriptions and Contributions - 20,000
(Barbados' membership of the Caribbean Finance Action Task Force \$10,00; and subscriptions to British Book Publishers \$10,000)

Ministry of Education, Youth Affairs

and Culture

- National Cultural Foundation
 - (i) To meet cost of salaries, wages utilities, staff training and programming - 825,000
 - (ii) Arrears of salaries - 38,549
- Alma Parris Memorial Secondary School - 590,000
- Assisted Private Schools: Salaries Arrears - 34,368
- Barbados Community College: Salaries Arrears - 71,597
- Youth Affairs: Salaries Arrears - 6,788

Ministry of Foreign Affairs, Foreign

Trade and International Business

- Subscriptions and contributions to International Telecommunications Union - 12,865

- Outstanding contributions to the CARICOM Secretariat, GATT and the West India Committee - 80,603

Ministry of Health

- **Sanitation Service Authority**
 - (i) As a result of the Solid Waste Disposal Unit not becoming functional at July 1, 1996, supplementary was required to meet the resulting operational costs at SSA - 1,692,188

 - (ii) Arrears of Salaries - 380,443

Ministry of Labour, Community

Development and Sports

-	<u>Barbados Vocational Training Board</u>		
	(i)	Implementation of a building project to utilise the skills and resources within the Skills Training Programme	- 130,000
	(ii)	Arrears of Salaries	- 55,355
-	<u>Child Care Board</u>		
	(i)	Arrears of salaries and wages as a result of reclassification in 1991-92, total expenses of moving to rented premises at White Park Road and the expenses of the Investigative Team into the Activities of the Adoption and Foster Care Programme	- 530,900
	(ii)	Arrears of salaries	- 184,311
-	Payment of contributions to UNICEF, INSTRAW, UNIFEM and CINTERFOR		- 16,500
-	<u>TVET Council:</u> Arrears of salaries		- 17,544

- National Assistance Board: Arrears of salaries - 80,615
- National Sports Council: Arrears of salaries - 125,300
- Gymnasium : Arrears of salaries: - 18,663

Ministry of Industry, Commerce and

Business Development

- Barbados Investment and Development Corporation: Arrears of salaries - 90,650
- Barbados National Standards Institution: Arrears of salaries - 27,697
- Subscriptions and Contributions: International Standards Organisation - 476

Ministry of Tourism, International

Transport and the Environment

- Barbados Tourism Authority
 - (i) To meet expenditure for new television advertising in the USA market - 3,000,000

(ii) Arrears outstanding from		
previous financial years	-	2,000,000
(iii) Arrears of salaries	-	187,529
-		
<u>Barbados Tourism Investment</u>		
<u>Corporation</u>		
(i) Arrears of salaries	-	35,811
(ii) To pay utility bills and		
operating expenses	-	148,890
-		
<u>National Conservation Commission</u>		
(i) To return all staff to a five-		
day work week	-	2,796,563
(ii) To pay arrears of National		
Insurance contributions and		
Income Tax Liabilities to		
December 31, 1995	-	5,885,099
(iii) Arrears of salaries	-	366,382

CAPITAL EXPENDITURE

Ministry of Finance and Economic Affairs

- Barbados Development Bank
To permit Bank to honour the
redemption of its Sixth Issue of
National Development Bonds on
March 31, 1996 - 10,843,300

- To provide for the grant of car
loans to Personal Assistants to
Ministers - 383,000

- Tax Administration and Public
Expenditure Management Project - 581,574

Ministry of Agriculture and Rural

Development

- Revotes: Equipment ordered
through Central Purchasing
Department during 1994-95
financial year, but received in
1995-96 - 437,137

Ministry of Home Affairs

- To meet the cost of relief, rehabilitation and remedial activities in respect of those persons and areas that suffered loss and damage as a result of the heavy rainfall and associated flooding which occurred Thursday, August 3, 1995 - 4,821,880
- Repairs to Immigration Department Roof - 148,000

Attorney General

- Hometown Public Centre: Final payment made to the Contractors - 904,969
- Pensions : To meet the cost of consultancy services and reconstruction of the perimeter wall - 250,000

Ministry of Education, Youth Affairs

and Culture

- New Ministry Headquarters: Recommencement of construction of the Ministry of Education

Headquarters	-	667,754
- Primary Education (Domestic Programme): Repairs to primary school building	-	550,000
- <u>Hospitality Institute</u> : Completion	-	665,000

Ministry of Foreign Affairs

- Department of Corporate Affairs and International Business and Financial Services: computer equipment	-	440,000
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Ministry of Health

- Queen Elizabeth Hospital: to permit bringing to account the purchase of one (1) Angiographic Suite in financial year 1995-96	-	2,080,467
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Ministry of Labour, Community Development and Sports

- <u>Gymnasium</u> : The installation of an artificial grass pitch for hockey at the Sir Garfield Sobers Sport Complex	-	1,500,000
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Ministry of Public Works, Transport

and Housing

- To meet inescapable expenditure
in respect of road construction
and maintenance, property
acquisition, drainage works and
major building construction works - 4,675,515

Ministry of Tourism, International

Transport and the Environment

- Airport Development - 1,000,000

- Port Development: To meet the
cost of Phase 2 of the Bridgetown
Port which deals with the
engineering division and cost
estimates - 1,000,000

- Sherbourne Centre: arrears - 2,951,212

NATIONAL DEBT

The National Debt at March 31, 1996, is provisionally estimated at \$2507.3 m, some or 6.5% higher than at the same time last fiscal year. The domestic component was \$1801.3 m, an increase of 7.1%, and represents 59.7% of Gross Domestic Product, while the foreign component of \$706.0 m represents 23.4% of Gross Domestic Product.

The details are as follows:

	<u>March 31, 1996</u>	<u>March 31, 1995</u>
Treasury Bills	\$ 565.5 m	\$ 494.0 m
Ways and Means		
Advances	0.0	40.4 m
Debentures	1,167.5 m	1,087.0 m
Local Loans	11.8 m	12.5 m
Savings Bonds	55.2 m	45.1 m
Tax Refund Certificates	0.7 m	0.7 m
Tax Reserve Certificates	<u>0.6 m</u>	<u>2.0 m</u>
Total Domestic Debt	1,801.3 m	1,681.7 m
Total Foreign Debt	<u>706.0 m</u>	<u>673.0 m</u>

Total Debt	<u>\$2,507.3 m</u>	<u>\$2,354.7 m</u>
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PUBLIC FINANCE - 1996/97

I turn, Sir, to the Public Finances for 1996/97 and the fiscal strategy which informed the preparation of the Estimates which were approved by Parliament recently and which was foremost in my mind as I formulated the budgetary proposals for this evening's presentation.

The Estimates for 1996/97 were prepared with a determination on my part that the way forward is for the Government to proceed as follows:-

- (1) Contain spending on housekeeping so as to facilitate a greater allocation of resources for capital formation;**
- (2) to keep the wage bill increase to a moderate level and in line with productivity increases;**
- (3) avoid any heavy reliance on the Central Bank for financing, and in this regard, it is worth noting that to-date, the Government has not borrowed a cent from the Central Bank.**
- (4) reduce its domestic debt and avoid crowding out the private sector;**
- (5) reduce its foreign debt, especially from commercial sources and make greater use of funding from international institutions such as the IADB and others; and**

- (6) keep the deficit at very low levels as percentage of Gross Domestic Product.

This is the context, Mr. Speaker, within which the Estimates were prepared and within which this evening's budgetary proposals were formulated.

As you recall, Sir, the Estimates of Revenue and Expenditure approved by Parliament show a deficit of 8.9% on the Accountant General's basis or 1.6% on the basis used by the international financial institutions and we do not intend to go very far away from that target.

MONETARY POLICY

Fiscal policy must be complemented by supporting and related monetary and debt management policies, and I now turn to those two matters of policy.

During 1995, monetary policy was geared towards striking a balance between maintaining the momentum of economic recovery and preserving adequate foreign exchange reserve cover. While liquidity in the financial system tightened during 1995 as a result of a surge in credit to the private sector, no changes were made to the minimum deposit rate and loan rates remained unchanged. However, towards year-end, the tightening liquidity situation forced some banks to borrow frequently from the Central Bank. To discourage this, the Bank raised its discount rate to banks from 9 1/2% to 12 1/2%.

During the first quarter of 1996, liquidity in the financial system has recovered, the result of strong deposit growth and a small decline in credit. This outturn has been driven by a

larger than expected buildup in reserves, partly due to larger than anticipated private sector capital inflows. The Central Bank of Barbados continues to monitor economic conditions closely, taking into account expectations on growth, reserves and the fiscal stance of Government. However, in view of the experience of the past three years when liquidity declined sharply during the second half of the year, the Bank has recommended that there should be no adjustment of interest rates at this time.

I have accepted this recommendation.

PUBLIC DEBT MANAGEMENT

Government's indebtedness has grown rapidly since the mid 1980's.

At the end of the last fiscal year, the stock of debt represented almost 80% of GDP and interest payments absorbed nearly 16% of the revenue collected by government. This debt burden is of concern to Government because international evidence suggests that high debt levels can become unsustainable and can exact fiscal and economic costs by crowding out public investment and reducing growth prospects.

Government recognises that its policy on debt management must be an integral part of its overall macroeconomic strategy. The key elements of this strategy will focus on the level of debt, its composition between external and domestic sources and most critically, the maturing structure of the debt. The strategy will be premised on the need to maintain import reserve cover of at least 13 weeks at the end of the fiscal year.

In pursuance of that objective, Government is committed to reducing the debt to GDP ratio over time by containing the size of fiscal deficits. In an economy growing by 5% per

annum, the debt ratio can be reduced to 71.5% by FY 2000/01 if deficits average no more than 2% per annum. However, at existing interest rates, debt will still absorb over 15% of revenue.

Since the implementation of the economic programme in 1995, external debt has declined and has been substituted by domestic debt which has been rising sharply. As a result, overall external debt servicing costs have also been declining. Government is keen not to repeat earlier mistakes when a bunching of external debt service created problems for the economy. Government therefore plans to take advantage of and concentrate on project flows as Government's capital works programme takes off. Government will continue to explore avenues to refinance costly loans and improve its credit rating. Other commercial borrowing will be minimized.

Borrowing to accumulate reserves will therefore be avoided this year. Government also intends this year to borrow, to support its capital programme on the international capital market, an amount (\$50 million) that is less than the repayment on the principal on the foreign debt.

In its efforts to help in the development of a vibrant domestic capital market, the Central Bank is putting in place mechanisms to widen the range of instruments and increase the liquidity of Government paper. As the marketability of Government instruments improves, the stock of Government issues will shift towards an increasing proportion of medium to long term instruments. Government will continue to minimize its borrowing from the Central bank, thus avoiding pressure on the foreign exchange reserves.

NATIONAL INSURANCE

In my Budget Speech in April 1995, I dealt at length with several aspects of the operations of the National Insurance Scheme and indicated some of the measures that would be undertaken to ensure the financial solvency and integrity of the Scheme for the benefit of this and future generations of Barbadians. Recently, both Houses of Parliament passed amendments to the National Insurance and Social Security Act, Cap. 47 of the Laws of Barbados to stop the abuses of which we spoke last year.

It has now been confirmed that the National Insurance Fund is showing signs of financial distress. The Actuarial Review for the triennium ended 31st December, 1993 had established that at the then existing rate of contributions, the reserves of the Fund will be depleted soon after the turn of the century. For this reason, the report has recommended that the rate be increased by one (1) percentage point with effect from 1st January, 1997.

However, the National Insurance Board has advised that any increase be postponed until the review of the operations of the Scheme for the period ending 31st December, 1996 has been completed. The Board's argument, which I have accepted, is that the adjustments to the contribution rates which were recommended in the Seventh Actuarial Review, were not introduced until January 1994, and consequently, had no effect on the period for which the report has just been received.

Negotiations have been started to ensure that the review for the current triennium, along with a comprehensive examination and analysis of the structure of the Scheme is undertaken in a timely manner. It is expected that the results of such a review should be available to the Government no later than June 1997.

In the interim, therefore, I do not propose to increase the contribution rate to the National Insurance Scheme as recommended by the Actuarial Report. There are, however, some adjustments to be made regarding the funding of the National Insurance Scheme and the Unemployment Benefits Scheme, in light of the recent amendment to the legislation establishing a separate Unemployment Fund Account from 1st January, 1997.

Unemployment Benefit Scheme

Since its introduction in July 1981, the Unemployment Benefit Scheme has been legally just a branch of the larger National Insurance Scheme. The reserves of the branch are technically part of the reserves of the larger National Insurance Scheme. As at March 31, 1996, the branch had accumulated a surplus of \$133.7 million.

Currently, the contribution rate for this branch is 3 percent of insurable earnings and benefits, and paid at the rate of 60 percent of insurable earnings for 10 ten weeks and 40 percent for the remaining 16 weeks. The Actuarial Report for the period ended December 31, 1995, did not comment on the rate of benefits payable, but advises against changing the contribution rate.

However, the National Insurance Board, having reviewed the operations of the Unemployment Benefit Scheme over the period of its history, and especially that subsequent to the last valuation date, has suggested that the rate of the benefit could be restored to 60% of insurable earnings for the period of unemployment up to the maximum of twenty-six (26) weeks. I therefore propose to introduce this new regime with effect from June 3, 1996. Consequently, all persons laid-off, or put on short-time on or after that date shall be entitled to unemployment benefits at the rate of 60 percent of insurable earnings for the entire period for which they are eligible in accordance with the National Insurance

legislation.

The experience of the branch will be reviewed over the balance of this calendar year and a decision taken on the contribution rate in the new year. In the meantime, I have agreed that when the branch becomes legally separated from the Scheme at 1st January, 1997, a contingency reserve equal to twice that recommended in earlier actuarial reviews be transferred to the new Unemployment Account. Such reserves should be approximately \$40 million. The remaining reserves of over \$90 million should be left with the National Insurance Fund, greatly enhancing its financial position.