

Deloitte Barbados 2023 Budget Review

Building a better future – the
government's path to transformation

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Introduction





Introduction

NO NEW TAXES!

This was the message loudly sent by the Prime Minister as she delivered her Budget speech for the fiscal year 2023-2024. Noting that the main focus was to engineer and unlock growth, the Prime Minister announced the creation of a National Growth Council, a Fiscal Council along with a National Strategic Council under the mantra of 'Barbados Delivers'. Notwithstanding that the critical issues facing the Barbados economy include but are not limited to:

- The ongoing management of the debt to GDP ratio
- The creation of jobs
- Enhancing revenue collection
- Boosting and maintaining economic growth

The Prime Minister seemingly took a balanced approach by blending Keynesian policies and supply side economics. Indeed, no new taxes would keep consumer demand at least at existing levels, given that it's a critical driving force of the economy. The plans to expand infrastructure inclusive of the new agencies, facilitating access to loans and financing and the recent wage increases in the public sector is the classical approach to expanding fiscal expenditure. The Prime Minister reiterated her Government's commitment to improving the business facilitation climate, hence the introduction of

a Barbados Ex-Im bank, the Sustainable Industrial Development Bill, StartWise and a Unit Trust Corporation. These, along with efforts to remove some of the obstacles to doing business should assist with the growth agenda.

This budget proposes an important government infrastructure and institutional investment programme to the tune of BBD170M over the next three years. The Prime Minister reasserted a commitment to the expansion of housing, repairing roads and expanding the fleet of electric buses. Additionally, the ambition to make Barbados a logistics hub of choice and the introduction of a robust governance regime to ensure the efficacy of customs and other tax concessions are commendable measures that should have the potential to crowd-in much needed foreign private investment.

In this budget, Government's ongoing efforts to promote economic development does not include any tax-related measures, but we imagine that the provision of tax or other incentives to encourage investment and competitiveness in new industries will soon be on the agenda. Attracting new hi-tech enterprises and the right talent would provide the fuel for the engine room of the economy.

The Budget snapshot



The Budget snapshot

Fiscal performance

Taxation

- Increase in the allowance for pensioners from BBD40,000 to BBD45,000.
- Government to introduce transfer pricing legislation in the coming income year.
- VAT on gas and diesel to be capped at 47c/L and 37c/L respectively.

Regulation

- Proposal of the re-registration of warehouse and duty-free shopping.
- participation in business survey for entities receiving concessions
- Introduction Omnibus Financial Guarantee to lower business costs for warehouse and duty-free stores

Innovation

- Introduction of a Film Production regime
- Provision of low-interest financing on the acquisition of electric vehicles.
- Investment in the design (i.e. Fashion) economy in Barbados.

Social and Economic Infrastructure

- Creation of jobs through capital investment projects
- Initiative to own Government buildings to reduce the rental bill.
- Management Trainee Initiative for young professionals.
- Training program for civil servants
- Training program of front-line tourism workers
- BBD12.6M to cover community sporting programmes across Barbados.

Other measures

- Creating a Unit Trust Corporation
- BBD2M revolving fund to provide small loans to farmers to reduce feed costs.

Economic analysis





Economic analysis



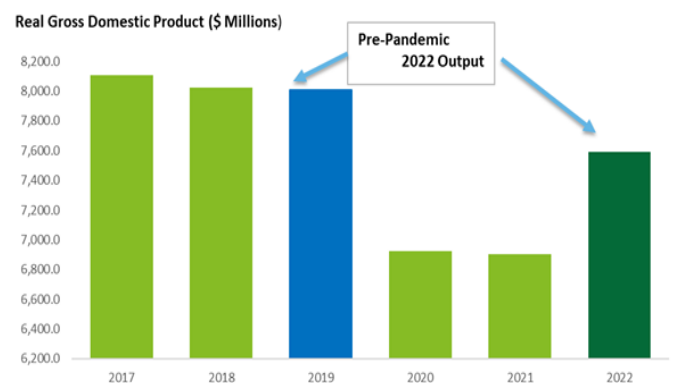
Economic output

Barbados' recovery from the COVID-19 pandemic gained momentum in 2022 with the Central Bank of Barbados (CBB) estimating a 10% rebound following a contraction of 0.3% in 2021 and 13.5% in 2020. This growth rate exceeds the average forecasted rate of 8.9% for the neighboring Eastern Caribbean Currency Union.

The growth in output was largely driven by the tourism industry as total visitor arrivals increased threefold from the prior year, partly as a result of easing of COVID-19 restrictions. The recovery was also buoyed by expansions in other sectors including construction, manufacturing, distribution, and finance and other services. Despite this positive trend, the country's output in 2022 remained below pre-pandemic levels.



Source: Central Bank of Barbados



Source: Central Bank of Barbados

Economic analysis

The economy of Barbados is forecasted to expand by 5% in 2023.

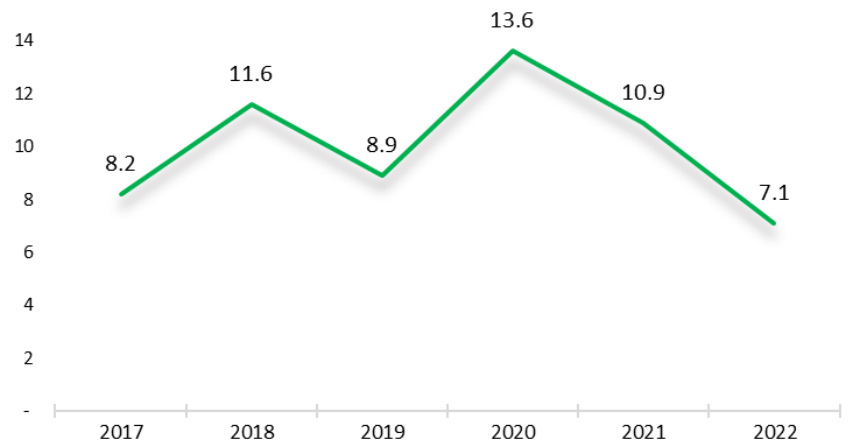
Growth prospects are however subject to notable downside risks including inflationary pressures globally, geopolitical tensions associated with the Russia-Ukraine war, and a resurgence of COVID-19 cases, all of which could weigh on global growth.

Employment

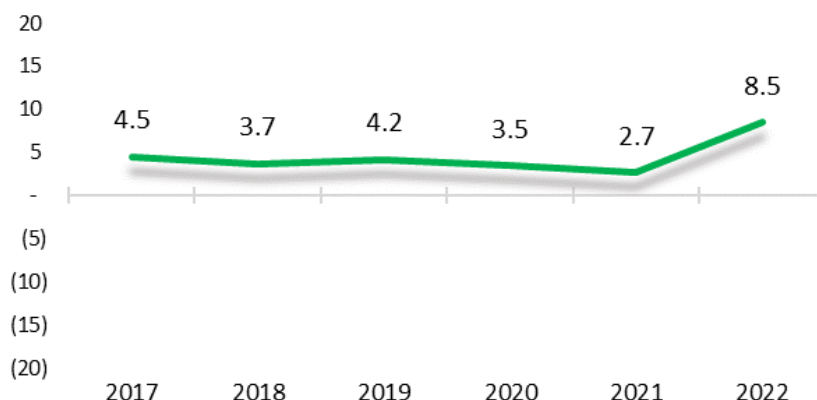
Unemployment levels continued to fall from 10.9% at the end of 2021 to 7.1% by the end of the 2022 reflecting fewer unemployment claims, increased participation rates. The improvement in labour market conditions was primarily seen in the tourism, wholesale and retail trade, construction and quarrying and some service sectors.



Unemployment rate (%)



Average Inflation (%)



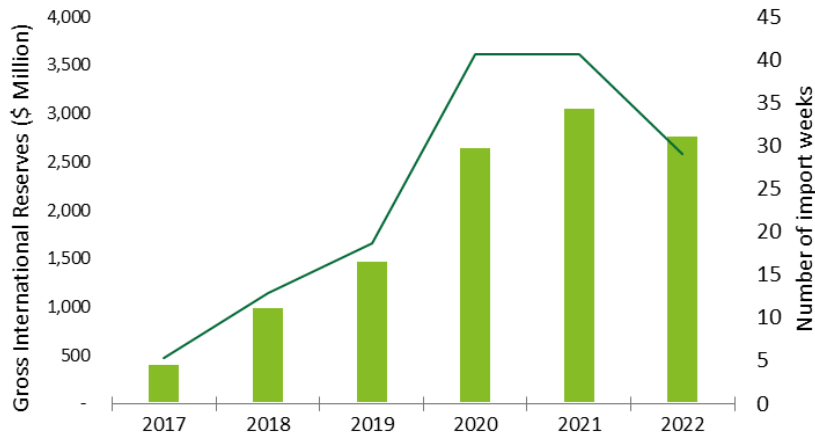
Inflation

Reflecting a surge in global inflationary pressures, the general price level in Barbados rose by 8.5% in 2022, outpacing the inflation rate of 2.7% reported in 2021. IMF expects a moderation in inflation in 2023-26, reaching 2.8% in 2026 supported by an easing of food and energy prices



Economic analysis

Gross International Reserves (\$ Million)



Government operations

The government's fiscal operations in the first three quarters of the fiscal year resulted in a surplus of BBD50.3M, a reversal of the BBD215.0M deficit recorded in the same period of the previous year. The turnaround in the fiscal balance was mainly influenced by a recovery in revenue, in line with the rebound in economic activity. Total revenue rose by 20% to BBD2,393.0M reflecting increases in all tax categories and non-tax revenue and grants. This increase in revenue was moderated by a 7% increase in current expenditure mainly driven by an uptick in interest expenses. In contrast, capital expenditure declined during first nine months of the fiscal year.

Public sector debt rose by 5% to BBD14.1 billion in 2022. However, the debt to GDP ratio decreased to 123.8% in 2022 from 137.9% in 2021, reflecting the recovery in economic activity. As the economy continues to recover from the pandemic the government's fiscal balance is expected to continue to improve aided by a normalization of revenue. Additional economic challenges, including the inflationary pressures, could keep fiscal expenditure elevated.

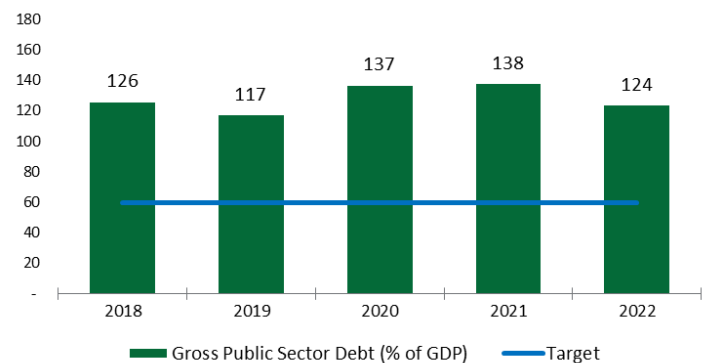
With ongoing IMF assistance, it is anticipated that economic policy will be refocused on addressing external and fiscal vulnerabilities with efforts being made to sustain improvements to the fiscal balance and decrease public debt.

Exchange rate stability

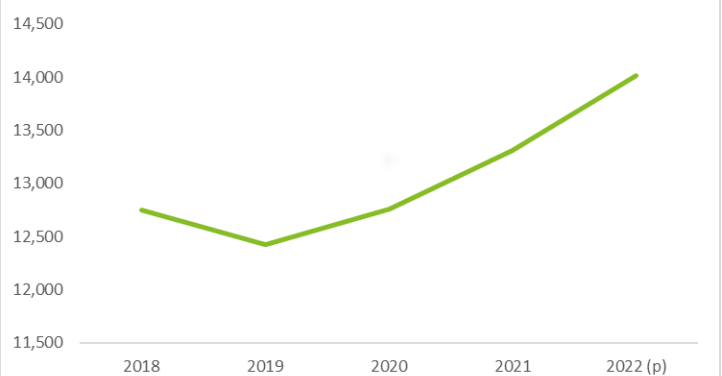
At the end of 2022 the country's foreign reserves stood at BBD2.7 billion, providing import cover for 29 weeks, representing a decline of 11.6 weeks from one year prior. Barbados' current account deficit widened in 2022 (BBD1.2 billion), partially reflecting an increase in imports and rising import prices. The deterioration in the current account was however moderated by improved foreign exchange earnings from tourism.



Gross Government Debt (% of GDP)



Public Sector Debt (\$ millions)



Deloitte's initial thoughts





Deloitte's initial thoughts

Taxation

No New Taxes

Contrary to the expectation of residents and persons carrying on business activity in Barbados, there were no new taxes introduced, neither were there any changes to the personal, corporation or value added tax (VAT) rates.

Notably, there was also no mention of any extension to the current Pandemic Contribution Levy which was introduced on 1 April 2022 and set to end on 31 March 2023 in accordance with Policy Notes "P&F No. 001/2022" and "P&F No. 002/2022".

Personal Income Tax

The budget included tax relief to pensioners, whose personal income tax allowance will be increased from BBD40,000 to BBD45,000 effective income year 2023.

Below is an example of a personal income tax calculation, where a pensioner earns BBD120,000 in a tax year, showing the current and proposed allowance and the impact on the disposable income. The reduction of the allowance increases the disposable income of the pensioner in this example by BBD119 per month which essentially grants the pensioner more spending power.

		Current	Proposed
			Income Year 2023
Assessable Income		120,000	120,000
		120,000	120,000
Personal Allowance		(40,000)	(45,000)
Taxable Income		80,000	75,000
Tax Payable			
Up to BBD 50,000	12.5%	6,250	6,250
Over BBD 50,000	28.5%	8,550	7,125
Total Tax Payable		14,800	13,375
NET PENSION		105,200	106,625
Monthly		8,767	8,885
Increase in Monthly Pension Income			119

Deloitte's initial thoughts

Taxation cont'd

Transfer pricing legislation

In Barbados, the Income Tax Act (ITA) allows the Revenue Commissioner the right to impute the market rate of interest for transactions between related parties, however, in keeping with the requirements of the Organisation for Economic Co-operation and Development (OECD), the Government intends to introduce Transfer Pricing legislation in the coming financial year. This should be a transformative development and will need to be carefully planned to ensure that the process is efficient.

Other

The Government in its attempt to maintain social protection measures to shield Barbadian families from the rising cost of living has reinstated the dollar amount of VAT payable on gasoline which is capped at 47 cents per litre for six months, effective 1 April 2023.

Additionally, effective 1 April 2023, Government will reinstate the dollar amount of VAT payable on diesel which is capped at 37 cents per litre for six months.

These are welcome initiatives in the fight against the rising global oil prices and cost of living.

Regulation

Several regulatory measures will be implemented effective 1 April 2023 to assist with positioning Barbados as a global logistics hub. These measures include:

- A new 2022 Customs tariff will come into effect after ratification in parliament.
- The introduction of a business surveys conducted by the Barbados Statistical Service and Central Bank of Barbados for entities receiving concessions.
- A re-registration of the warehouse and duty-free shopping sector. Conducted by the Customs department and reviewed on a three-year rolling cycle.
- Field audits of the warehouse and duty-free shopping sector by the Customs department.

The measures mentioned above should allow Government to monitor, audit and assess the contribution to the economy emanating from the specific concession; with the view of reducing tax expenditures by a minimum of 20% of BBD150M over the next two fiscal years.

Deloitte's initial thoughts

Innovation

Economic diversification has historically been challenged by the lack of innovation. With a continued focus on sustainability, innovative initiatives have been put forward to address environmental, social, and governance (ESG) issues. The measures include:

- The increase in the number of electric vehicles for the private sector, which will reduce overall vehicle emissions and help Barbados reach its goal to be Net Zero by 2030; and
- Entering into a sustainable financing agreement, through the newly launched Blue Green Bank, which will provide greater support for the conservation of marine life and the ultimate preservation of the economic livelihood of the people of Barbados – particularly those villages that rely heavily on fishing to support their families.

Additionally, the government is committed to fostering creativity through various tax incentives in the film production industry, which aims to bring additional productions to the island. Although this is innovative to the Caribbean region, these are benefits seen in other large film producing countries, which have proven to create jobs, increase local spend and increase overall GDP.

Social and Economic Infrastructure

Most government budgets have to balance social and economic impact of various measures and expenditures. This budget is no different, as it included a number of initiatives that aim at job creation through various capital projects including public/private partnerships with respect to government owned buildings. Also, the training and upskilling of Barbadians and providing support in local communities through sport and parental coaching.

Construction is a large contributor to short and long-term job creation and a critical element of the economic landscape. In this regard, projects such as the Hyatt Ziva, Pendry Hotel and the Royalton, should provide a welcomed injection of capital into the economy, thus increasing revenues (through taxes), and ultimately increasing the spending power.

The government has taken important steps to upskill Barbadians through a variety of training programs for young adults, civil servants, and with a special emphasis on the tourism industry. The primary goal is to reduce overall unemployment of the island and increase GDP through volume and efficiency of services.

Deloitte's initial thoughts

Other measures

Unit Trust Corporation

In an attempt to redirect the large reserve of public savings and encourage Barbadians to channel these funds into investing activities; the government will create a Unit Trust Corporation which would effectively provide a centralized regulated hub for persons to have access to various investment options.

The government is clear in its mandate to provide alternative means of investment and provide options for funds sitting in the banking system. Accordingly, the primary objective is to create a new avenue within the wealth-creation ecosystem for citizens to chart their wealth accumulation path.

Eximbank of Barbados

The Government plans to establish the Eximbank of Barbados which will be key in supporting their agenda towards export growth and capabilities.

Food security

As a small country which relies heavily on imports, prone to natural disasters and threatened by climate change, understanding the importance of food security is vital to the ensuring the survival of our citizens. Providing access to funding for the establishment and development of sustainable practices would ensure the longevity of the farming sector and encourage participation. For this, the Government stated they will create a BBD2M small loan revolving fund at the Barbados Agricultural Society to assist livestock farmers.

Additionally, the Prime Minister also allotted roughly BBD15M for the Tissue Culture Laboratory, which supports their aim to further safeguard food security in the country. Furthermore, the government has undertaken to bolster food security through a strategic partnership with Suriname and Guyana.

Digital Economy

The Prime Minister has expressed government's commitment to continue its focus on modernizing its digital capabilities for payments and online systems. This will be facilitated by placing emphasis on digital economy training and job placements. In addition, the focus will be on Digital payments real time automated clearing.



Conclusion

From a balance scorecard perspective – this budget would rank high in a number of areas. It was certainly a departure from many previous efforts and paid attention to Government’s most natural resource – its people.

The measures to enhance skills development and train young and future leaders are commendable. The proposed investment in infrastructure and innovation should prove advantageous in the future. It is hope that some of the inertia associated with the implementation of government projects is avoided, especially when it comes to new legislation and regulations.

Improvements in productivity, innovation coupled with economic dynamism must be essential elements of the Government’s transformational agenda.

About us





About Deloitte

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This year Deloitte earned an elite AAA+ brand rating and were featured in the top 5 strongest brands across all industries globally. We are committed to providing global, comprehensive and industry-focused perspectives to resolve our clients' most complex problems. Our professionals have a single focus: to help clients navigate their business challenges and achieve success. When you engage with Deloitte, you engage with a global organization that delivers a full complement of resources, capabilities, and services throughout the world.

Most recently, we ranked in Universum's "World's Most Attractive Employer" list for the 13th consecutive year.

Deloitte has an opportunity not just to help repair the world, but also help reshape a better world. Deloitte has made societal investments of US\$223M including US\$102.7M in donations, US\$101.1M in value of volunteer and pro bono hours and US\$18.7M in management costs.

We've also made strides in our WorldClass ambition, a commitment to impact 100 million lives through education and skill-building. Since 2018, WorldClass has helped more than 20 million people globally.

As a global organization, we also made the decision to tackle the climate crisis head on with the launch of our WorldClimate strategy. WorldClimate focuses on reducing our carbon footprint to achieve net zero by 2030, inspiring Deloitte people to make responsible climate choices, and engaging our ecosystems and alliances in the cause



WorldClass commitment

Through WorldClass, we seek to expand opportunities for 100 million individuals by 2030 by providing access to education and job skills.

US\$95.8M WorldClass investments	648,500 Hours of volunteer and pro bono time
8.2M Individuals reached in FY2021	20M Individuals reached toward our 100M goal

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- **The Bahamas**
- **Barbados**
- **Bermuda**
- **British and United States Virgin Islands**
- **Cayman Islands**
- **Trinidad & Tobago**



Though we operate in multiple countries, our professionals have a single focus: to help clients navigate their unique business challenges and achieve success.

The CBC team offers wide-ranging technical and commercial expertise, along with the market insights to help clients meet their business goals.

Deloitte Barbados

Deloitte Barbados is part of the Caribbean and Bermuda Countries (CBC) member firm and consist of 75 professionals and 5 partners. The firm serves clients in the banking, insurance, offshore finance, mining, service and manufacturing sectors. We also service various clients in the Eastern Caribbean. The firm provides a full range of professional services including audit and assurance, tax, risk advisory, financial advisory and an extensive menu of consulting services.

At Deloitte Barbados, our people make the difference. We strive to provide a culture in which our people can thrive and grow professionally and personally. In return, our people are committed to providing outstanding service to clients. We aim to make Deloitte in Barbados the outstanding Firm, renowned in the marketplace for quality in everything we do and for making as impact that matters everyday. This aspiration recognizes the power combination of values, integrity and client service along with our unique capabilities and strong standing in the marketplace.

The Deloitte Barbados leadership team





The Deloitte Barbados Leadership team



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