2024 Barbados budget highlights

"Barbados - A New Security and Prosperity"

March 18, 2024

Contents

Foreword

Prime Minister and Minister of Finance, Economic Affairs and Investment

For the second consecutive year, the Hon. Mia Mottley, S.C., M.P. commenced the Budgetary speech with an eagerly awaited statement: **"No new taxes"**.

Additionally, Barbados' current debt trajectory was highlighted given the fact that the country moved from a Debt to GDP ratio of 178.9% in 2018, to 114.6% as of February 2024. The Government has set a target Debt to GDP ratio of 60% by 2035.

Other areas of note which the Prime Minister highlighted were the unemployment rate being at 8%, forecast growth for the economy of 4% to 5% for 2024 and existing import cover of approximately 33 weeks or 8 months.

The Prime Minister continued to outline the Budgetary Proposals under three themes:

1. Growing the Barbados Economy
2. Resilient Bajans and a Resilient Barbados, and
3. A People-Centred Barbados.

With regard to the first theme, Growing the Barbados Economy, there were a number of strategies noted:

1. Creating Business Barbados
2. Increasing public and private sector partnerships
3. Reviewing Tax Structures and new investment funds
4. Further modernising our tax system
5. Digitisation and reengineering business processes
6. Unlocking the Mortgage Market
7. Increasing access to financing for the private and public sectors
8. Unblocking Renewable Energy Investment
9. Addressing our demographic challenges by population and skills management
10. Monetizing illiquid and derelict assets in the public and private sectors
11. Exporting Capital to diversify investments given Barbados' limited size and vulnerability (starting with Caribbean Single Market and Economy (CSME) and wider Caribbean and Central and Latin American basin)
12. Establishing a pharmaceutical industry to aid in the protection of citizens' health, as well as for export and the earning of foreign exchange
13. Developing Barbados as an agro-processing hub
14. Incentivising a vibrant film industry, and
15. Capital Projects.

As it relates to Resilient Bajans and a Resilient Barbados, the focus areas were:

1. Social resilience,
2. Economic resilience, and
3. Climate resilience.

A People-centred Barbados:

1. The level of national debt,
2. Inflation and the cost of living,
3. Health care, particularly the Queen Elizabeth Hospital
4. The state of the roads,
5. Access to jobs, and
6. Education reform.

Removal from the Grey List

In 2023, Barbados was removed from the grey list by a number of international bodies, including:

1. The Financial Actions Task Force (“FATF”),
2. European Union (“EU”), and
3. Organisation for Economic Co-operation and Development (“OECD”).

It is envisaged that Barbados will continue its journey on tax modernization by introducing transfer pricing legislation, revising its tax treaties to make them more attractive to foreign investors and amending the Economic Substance Act.

Comprehensive Investment

The Prime Minster also noted there would be 12 investment priority areas with the objective of: generating 10,000 jobs, achieving a 50% reduction in the poverty rate, ensuring 100% of the population has access to primary and secondary healthcare and attaining 100% renewable energy generation.

Grant McDonald
Managing Partner
& Head of Tax
KPMG in Barbados
& the Eastern
Caribbean

Christopher Brome
Partner, Advisory
KPMG in Barbados
& the Eastern
Caribbean

Roger Kirton
Director, Advisory
KPMG in Barbados
& the Eastern
Caribbean

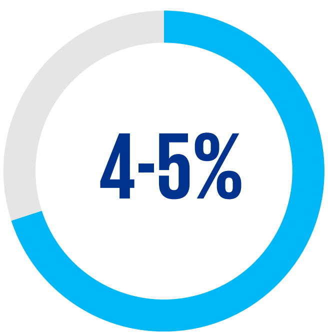
Economic snapshot

All amounts are in BB$ unless otherwise stated

Key economic metrics:

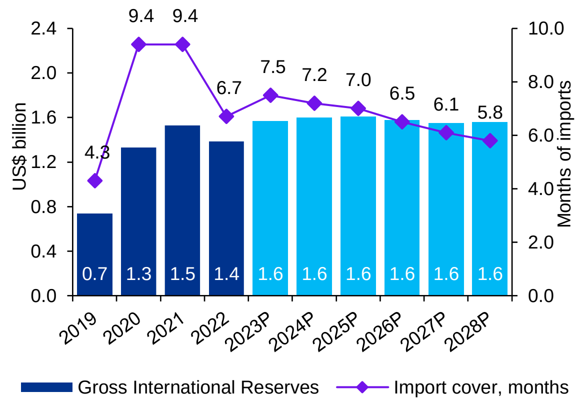
$12.8b

GDP as at December 2023



Projected Growth – Continued investments in key areas of the economy are expected to spur job creation

Foreign Reserves



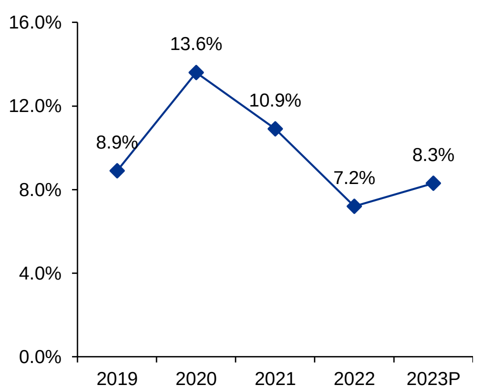
14.6b

Current national debt levels as at December 2023

114.6%

Debt to GDP Ratio as at February 2024

Current unemployment is at 8% following a historical average of approximately 10%



33 Weeks

Current import cover

B-/B

Debt rating: Standard & Poor's

5%

Current consumer inflation

Legislative update

In her Budget speech before Parliament today, the Hon. Mia Amor Mottley, S.C., M.P., Prime Minister and Minister of Finance and Economic Affairs, indicated there would be "no new taxes". On the other hand, a number of new "tax credits" were proposed, which are described in the following section.

However, there are two tax bills currently before the House of Assembly which reflect previously announced tax changes. These relate to the Prime Minister's statement made in November 2023 proposing to implement the OECD's global anti-base erosion (GloBE) minimum tax rules (also known as Pillar Two).

See [KPMG November 2023 release here]

Draft legislation was released in December 2023 for public consultation, which contained two bills:

- Amendments to the Income Tax Act, which included a general increase in the domestic corporate tax rate to 9%, effective for 2024, and
- A new Corporation Top-up Tax Act, impacting multinational enterprises (MNEs) with consolidated revenues above €750 million, requiring a "top up" to a rate of 15%, effective for income years beginning on or after January 1, 2024.

The draft Income Tax Act amendments issued in December provided exceptions to the 9% tax rate for a number of entities:

- Small businesses, which will pay 5.5% (defined as those with gross revenue below BB$2 million),
- International shipping companies (which remain subject to the sliding scale from 5.5% to 1%), and
- For 2024 only, companies which are part of an in-scope MNE group where the ultimate or intermediate parent entity is located in a jurisdiction which has not implemented top-up tax legislation (also subject to the sliding scale).

Insurance companies continue to enjoy the 0-2% tax rates.

Also included in this bill was a requirement for monthly prepayments of corporation tax (previously such payments were only made twice a year). As well, tax credits were provided for eligible corporations, including a jobs credit (up to 100% of eligible payroll expenditures depending on the number of employees, reduced from 475% in the original announcement); and a research and development ("R&D") credit of 50% of eligible expenditures on qualifying R&D activities.

The draft Corporation Top-up Tax Act contains a detailed set of rules based on the OECD guidelines, generally applying IFRS accounting standards and enabling the consolidation of income for constituent entities based in Barbados.

Other Measures

The final legislation was tabled in Parliament in February 2024. The amendments to the Income Tax Act contain two additional measures not previously announced, both effective for 2024:

- a "patent box" regime, and
- the re-introduction of "group relief" for the surrender of losses between corporations in Barbados.

The patent box rules result in the income earned from qualifying intellectual property being taxed at one-half the new domestic corporation tax rate, being 4.5%. The group relief provisions allow the trading losses of a "surrendering company" to be set off against the profits of a "claimant company", subject to satisfying a number of requirements.

The Economic Substance Act will be amended to reduce reporting obligations, most of which are no longer necessary as the tax system has been modernized.

Transfer Pricing

The 2023 Budget proposed the introduction of transfer pricing legislation by March 31, 2024 and today's speech reconfirmed that this would be introduced shortly. We understand that Barbados intends to model its law on the OECD Transfer Pricing Guidelines for Multinational Enterprises, which provides for the consistent application of the arm's length principle.

Tax Treaties

It was announced today that the Barbados tax treaties will be revised and extended to take advantage of the recent tax reforms to make the country more attractive to foreign investors.

Proposed tax measures

Tax credits

The Budget proposes over a dozen new tax credits in the following sectors:

Proposal	
Technological	• 100% tax credit for local companies digitising and/or reengineering their business processes and upgrading their systems up to June 30, 2025, for use within the same income year on completion • 50% tax credit for centres offering artificial intelligence, coding, robotics and digital training • 50% tax credit for construction of laboratories
Social	• 50% tax credit for the provision of elderly care facilities and hospices • 75% tax credit for the provision of educational and life skills facilities for persons with special needs • 50% tax credit for the provision of educational centers for gifted persons
Cultural	• 50% tax credit to boost investment in sports venues, ensuring world-class facilities for our athletes and affirming Barbados as a premier sports tourism destination • 50% tax credit for the provision/development of entertainment and sports venues • 50% refundable tax credit is introduced for the purchase of local art up to $1 million for the outfitting of investment projects
Environmental	• 50% refundable tax credit for projects resulting in net zero emissions in Barbados • 50% tax credit for beach rehabilitation, coral reef restoration and other marine conservation works approved by the Coastal Zone Management Unit • 25% non-refundable tax credit to boost the 50% research and development tax credit, for projects related to the Ocean and to the Greening of the economy
Other	• 50% refundable tax credit for investments in projects identified and approved by the Government in the context of the National development strategy.

KPMG comment

While the proposed tax credits are positive measures for companies who qualify and whose projects are approved, further analysis will be required when the specific criteria for granting of the credits, and approval of the projects, become known.

Tax concessions

Tax concessions, which are defined as preferential tax treatment for certain entities, are not uncommon to promote foreign direct investment or to achieve defined social objectives. Corporate income tax holidays and exemptions from import-related duties are often provided. However, realizing that concessions can be very costly as a tool to promote investment, steps to restrict eligibility criteria and enforce compliance are being considered.

To track the level of revenue foregone from previously provided concessions, rebates or other exemptions granted by successive governments, the beneficiaries of concessions will be required to reapply to the Ministry of Finance for the grant of those concessions as follows:

Concessions Granted	Reapply to Ministry of Finance
Prior to January 1, 2005	January 1, 2025
Between 2005 and 2010	January 1, 2027
From 2011 onwards	as current concession expires

Compliance

The Government will establish a Monitoring and Enforcement Unit to ensure that the public purpose for which tax concessions are granted is adhered to and the beneficiaries are compliant with established rules.

From January 1, 2025 where an infraction is discovered, if not remedied in 90 days on each occasion.

1st Infraction	the beneficiary of the concession will be allowed to claim a waiver of up to 75% of the assigned duties and pay 25% of the prescribed duties for a period of 3 months.
2nd Infraction	the beneficiary of the concession will be allowed to claim a waiver of up to 50% of the assigned duties and pay 50% of the prescribed duties for a period of 6 months.
3rd Infraction	the beneficiary of the concession will be allowed to claim a waiver of up to 25% of the assigned duties and pay 75% of the prescribed duties for a period of 9 months.
4th Infraction	the beneficiary's status will be revoked and be required to pay 100% of the prescribed duties for 12 months before they could apply again.

Tax concessions (cont'd)

Businesses that will be given favourable consideration for the granting of concessions are those that are:

- earning foreign exchange, depositing foreign currency into the banking system to support the country's balance of payments,
- creating quality local jobs and training opportunities,
- greening their infrastructure,
- digitising business operations, systems and processes as far as possible, in the furtherance of public policy initiatives to build resilience;
- introducing new technology or new business ecosystems.

New Investments with Capital expenditures	Time Frame	Annual aggregate concession level cap
Exceeding $200 million	20 years	up to $1 million.
$100 million up to $200 million	15 years	up to $750,000
$50 million up to $100 million	10 years	up to $500,000
$25 million up to $50 million	5 years	up to $250,000

KPMG Comment

Over the years concessions have been granted by different administrations under different pieces of legislation, to various industry sectors such as Tourism, Manufacturing, Agriculture and Fishing, and the Cultural sector.

This initiative will provide order and control to the granting of concessions and rebates. It will also result in the creation of a consolidated database providing information on who receives concessions and what concessions were given. As such it can be an effective tool in future tax expenditure management, may increase jobs, training and improve the country's foreign exchange position.

Economic review

Foreword
Snapshot
Budget Proposals
Economic Review
About KPMG
Contact us

State of the economy

Since the initial implementation of the Barbados Economic Recovery and Transformation ("BERT") program, Barbados continues to make strides in achieving the goals outlined under this program. This program, as well as Barbados' ambitious goal to be a 100% renewable energy and carbon neutral state by 2030, are supported by the Extended Fund Facility ("EFF") and the Resilience and Sustainability Facility ("RSF"), which have been provided by the International Monetary Fund ("IMF"). Toward the end of 2023, the IMF completed a review of Barbados' economy and approved the drawdown of approximately US$19.0 million and US$57.0 million, under the EFF and the RSF, respectively.

The Barbadian economy has proven resilient in recent years, as it has been able to withstand the impact of shocks from the impact of the COVID-19 pandemic and weather events, while maintaining macroeconomic stability. More specifically, Barbados has been able to strengthen its fiscal balance, reduce the public debt-to-GDP ratio through higher primary surpluses and increase international reserves amidst these challenges.

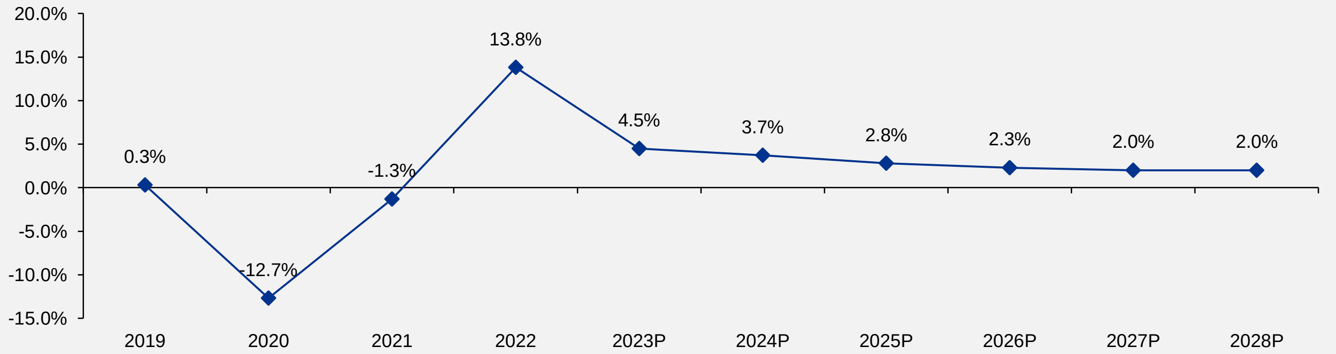
The Barbados' economy has seen 11 consecutive quarters of growth, mainly as a result of a rebound in tourism. Government has refocused its efforts on structural reform with the objective of achieving inclusive and sustainable growth and enhancing climate resiliency, while maintaining debt sustainability and social cohesion. Corporate income tax reform revenues are intended to increase public investment, including efforts towards building climate resilience.

GDP growth

As per the IMF, the Barbados economy is estimated to have expanded by 4.5% in 2023, marking a slowdown from the post-COVID surge of 13.8% in 2022. The growth in 2023 is attributable to the robust performance of the tourism sector. As per the Central Bank of Barbados ("CBB"), tourist arrivals to Barbados increased by approximately 18.0% from 2022 to 2023, indicating continued recovery in the tourism industry. Increased arrivals can be credited to increased marketing efforts, improved air capacity to the island and the staging of cultural and sporting events. The full return of the Crop Over festival in 2023, which draws visitors from key source markets is of note in relation to the increase in arrivals to the island. The increase in the performance of the tourism sector influenced the growth in performance of other related sectors such as trade, entertainment, construction, and manufacturing output.

The IMF predicts medium-term real GDP growth to average approximately 2.6%; growth and inflation are expected to converge to long-term historical averages of approximately 2.0% and 2.4%, respectively. While Barbados appears to be well on its way to continued recovery and macroeconomic stability, there are risks such as climate change and weather events, global macroeconomic shifts and geopolitical conflicts.

GDP growth rate (YoY, %)



Source: IMF

Inflation and unemployment

Inflation

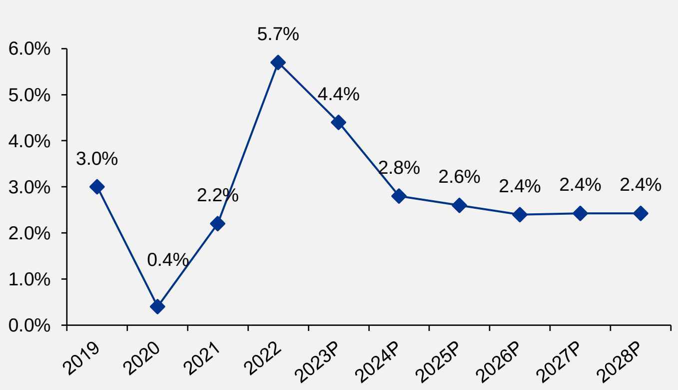
The IMF estimated inflation at 4.4% in December 2023 down from 5.7% in 2022, despite there being a higher domestic demand for dining, non-alcoholic beverages, clothing and household furnishings.

The island also experienced adverse local weather conditions which reduced the supply of certain local agricultural crops, however, there was an ease in international food prices, which resulted in a slight reduction in domestic food inflation.

Additionally, despite the increase in global oil prices, electricity and gas sub-indices experienced an average decrease.

Amidst an increase in shipping and freight costs towards the end of 2023 arising from geopolitical instability due to the Russia-Ukraine crisis and the Israel-Hamas conflict, as well as congestion in the Panama Canal, Barbados was able to decrease inflation by 130 basis points in 2023.

Consumer prices (end of period, %)



Source: IMF

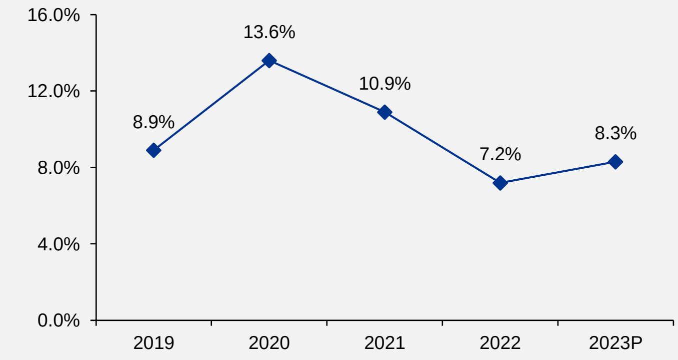
Unemployment

Though the island's employment level is highly correlated to the tourism industry, which has continued to show post-COVID recovery, an increase of 110 basis points was noted in the unemployment rate in 2023.

There was an adjustment to the labour market of approximately 3.5 thousand, at the end of September 2023, due to a 2.3 thousand increase in the number of retirees. Further to this, there were job losses in agriculture and administrative and other services.

Despite this increase, the 2023 unemployment level remained well below the historical average of 10.3% and positive job growth has been noted in the trade, manufacturing and utilities sectors.

Unemployment (end of period, %)



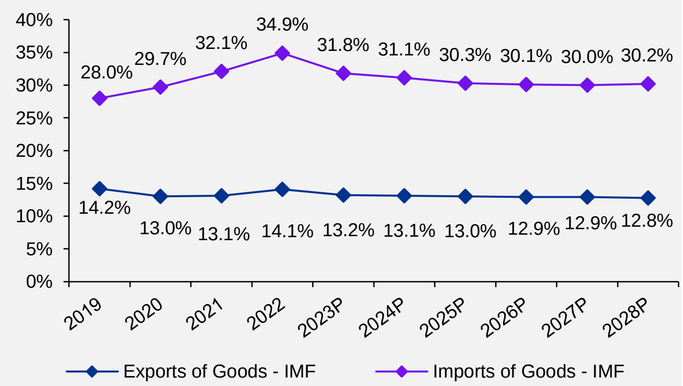
Source: CBB

Trade balance and foreign exchange reserves

Trade balance

The gap between imports and exports as a percentage of GDP is expected to widen by 220 basis points in 2023. The increase is a result of exports increasing by US$23.0 million and imports decreasing by US$7.0 million.

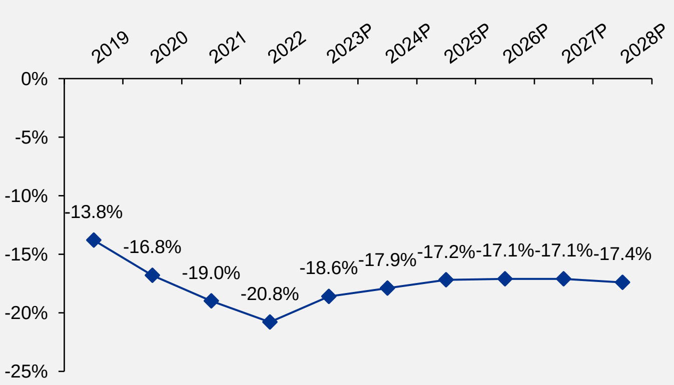
Imports and Exports of Goods (As a % of GDP)



Source: IMF

However, the IMF anticipates the trade balance difference to decrease in the short to medium term, from 18.6% in 2023 to 17.4% in 2028.

Trade balance (As a % of GDP)



Source: IMF

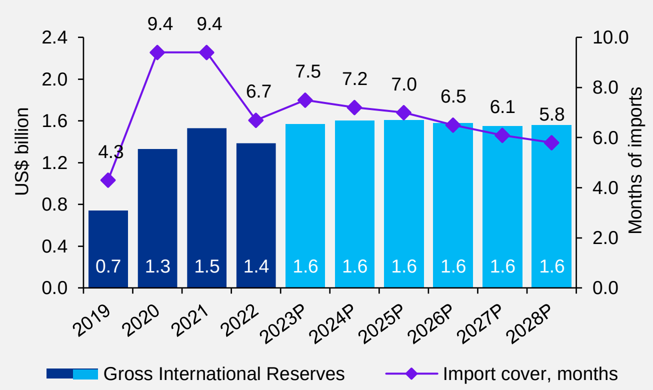
Foreign exchange reserves

Foreign exchange reserves increased in response to the COVID-19 pandemic and other external shocks, as the government received assistance from international institutions while restructuring its debts. In 2022, gross international reserves stood at US$1.4 billion, providing 6.7 months of import cover.

According to the IMF, ample international reserves support the exchange rate peg, which provides a key anchor for macroeconomic stability. Furthermore, a strong rebound in tourism has contributed to strengthening Barbados international reserves position.

The decrease in 2022 international reserves compared to 2021 was due to the timing of multilateral financing payments. However, the government is in a good position to cover its import bills and foreign debt.

Foreign exchange reserves cover (Months of imports)



Source: IMF

Budget balance and public sector debt

Foreword
Snapshot
Budget Proposals
Economic Review
About KPMG
Contact us

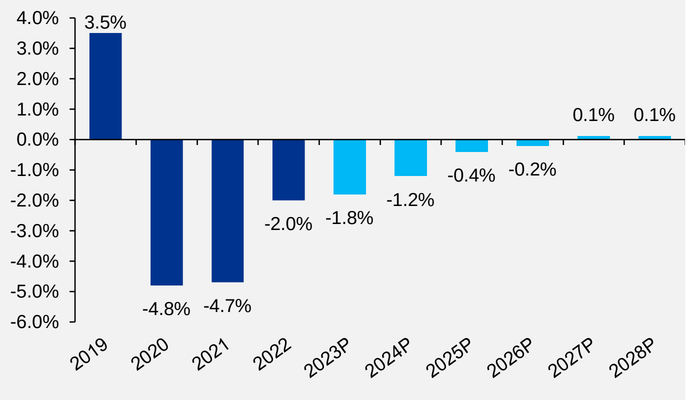
Fiscal balance

Though a fiscal balance deficit of 1.8% of GDP was recorded for 2023, it has strengthened as compared to 2020 through 2022. As a result of a shift in the payment schedule of land tax bills, as well as corporate income tax, and the discontinuation of the pandemic levy, fiscal revenues were below those recorded in the first half of FY2022/23.

Interest payment outflows increased as a result of higher interest rates on floating rate foreign debt and the step-up feature of the restructured domestic bonds. Wages and salaries increases, as well as grants to public institutions, were significant factors which contributed to sustaining expenditures.

Despite this, through prudent fiscal management, the Government was able to meet the fiscal target and it is expected that continued adherence to the fiscal program, predicated on prudent expenditure management, will serve to improve the fiscal balance.

Fiscal balance (As a % of GDP)



Source: IMF

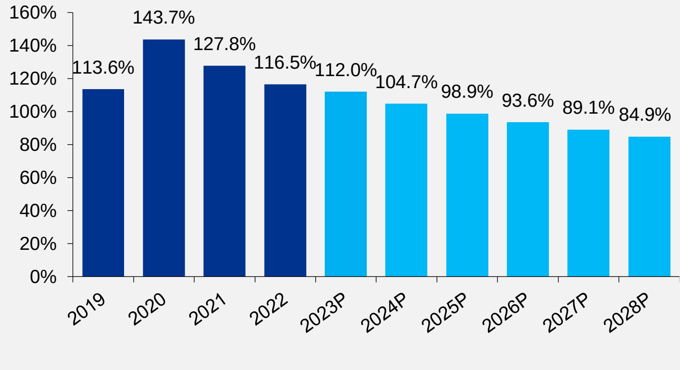
Public sector debt

Barbados' public debt increased in 2020 as the Government received assistance from international organizations, but it has since been gradually decreasing as a result of Barbados' successful implementation of Fund-supported programs, commitment to structural reforms, a favourable debt service schedule and improving market risk perceptions.

Gross public sector debt as a percentage of GDP has been on a downward trajectory, which fell from 143.7% in 2020 to 127.8% in 2021, before further decreasing to 112.0% in 2023. As at the end of February 2024, this has marginally increased to 114.6%.

The authorities are committed to reducing the public debt and achieving a long-term debt to GDP target of 60% by 2035.

Gross public sector debt (As a % of GDP)



Source: Budget Proposal 2024, IMF

Economic overview

Selected economic indicators	2019	2020	2021	2022	2023P	2024P	2025P	2026P	2027P	2028P
Economic indicators (annual percent change, unless otherwise indicated)										
Nominal GDP (BB$ millions)	10,734	9,560	9,891	11,681	12,772	13,725	14,525	15,269	16,016	16,800
Real GDP	0.3	-12.7	-1.3	13.8	4.5	3.7	2.8	2.3	2.0	2.0
Nominal GDP	5.3	-10.9	3.5	18.1	9.3	7.5	5.8	5.1	4.9	4.9
Consumer price (end of period)	3.0	0.4	2.2	5.7	4.4	2.8	2.6	2.4	2.4	2.4
Consumer price (average)	2.3	0.5	1.5	5.0	5.0	3.7	2.8	2.4	2.4	2.4
Unemployment rate	8.9	13.6	10.9	7.2	8.3	n.a.	n.a.	n.a.	n.a.	n.a.
Fiscal operations, fiscal year (In percent of GDP)										
Central government debt (BDS$ million)	12,322	12,822	13,302	14,222	14,556	14,572	14,528	14,452	14,419	14,399
Central government debt	113.0	143.1	127.4	116.2	111.8	104.6	98.7	93.5	89.0	84.8
Public Sector Debt (BB$ millions)	12,380	12,874	13,348	14,258	14,587	14,596	14,546	14,464	14,426	14,402
Public sector debt	113.6	143.7	127.8	116.5	112.0	104.7	98.9	93.6	89.1	84.9
Interest	2.3	3.8	3.8	4.5	5.2	5.2	4.9	4.7	4.4	4.4
Total revenue	28.9	30.2	28.2	29.0	28.5	30.2	30.2	30.3	30.3	30.3
Total expenditure	25.4	35.0	32.9	30.8	30.4	31.4	30.6	30.4	30.2	30.1
Fiscal balance	3.5	-4.8	-4.7	-2.0	-1.8	-1.2	-0.4	-0.2	0.1	0.1
Balance of payments (In percent of GDP, unless otherwise indicated)										
Current account balance	-2.7	-5.9	-11.0	-10.7	-8.1	-7.2	-6.2	-5.8	-5.3	-5.2
Trade balance	-13.8	-16.8	-19.0	-20.8	-18.6	-17.9	-17.2	-17.7	-17.1	-17.4
Exports of Goods	14.2	13.0	13.1	14.1	13.2	13.1	13.0	12.9	12.9	12.8
Imports of Goods	28.0	29.7	32.1	34.9	31.8	31.1	30.3	30.1	30.0	30.2
Gross international reserves (US$ millions)	740.5	1,330.3	1,529.4	1,385.1	1,565.4	1,600.5	1,608.8	1,578.0	1,552.0	1,560.0
Gross international reserves cover, months	4.3	9.4	9.4	6.7	7.5	7.2	7.0	6.5	6.1	5.8
Credit ratings										
Standard & Poor's	B-/B	B-/B	B-/B	B-/B	B-/B	n.a.	n.a.	n.a.	n.a.	n.a.
Moody	Caa1	Caa1	Caa1	Caa1	B3	n.a.	n.a.	n.a.	n.a.	n.a.

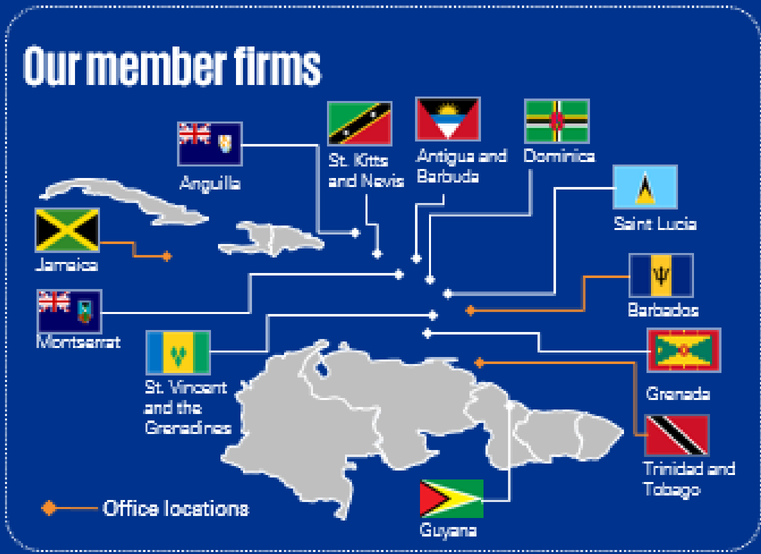
Note: Source: CBB, IMF

KPMG in Caricom

KPMG in Barbados forms part of KPMG in Caricom, a member of the international network of KPMG firms that operate in 143 countries and territories, with more than 273,000 partners and employees. These professionals collaborate across industry, service and national boundaries to deliver professional services for the benefit of their clients, KPMG people and the capital markets.

Member firms are located in Barbados, Jamaica, and Trinidad and Tobago, (also practising in Antigua and Barbuda, Anguilla, Dominica, Grenada, Montserrat, Saint Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines). Our practice has strong professional contacts with the KPMG member firms in the Bahamas, Bermuda and Cayman Islands, all of which have similar cultures and operating environments.

KPMG in Caricom operates across the region with a specific understanding of the cultural, economic and political facets of each individual economy. In-depth industry knowledge is available through the global KPMG network which provides access to skilled member firm professionals, across a wide range of industry sectors.



Our people

49

Partners and Directors

1,200+

Professionals

70% | 30%

Gender split (F | M)

KPMG Caricom at a glance

Practising in,
12 countries

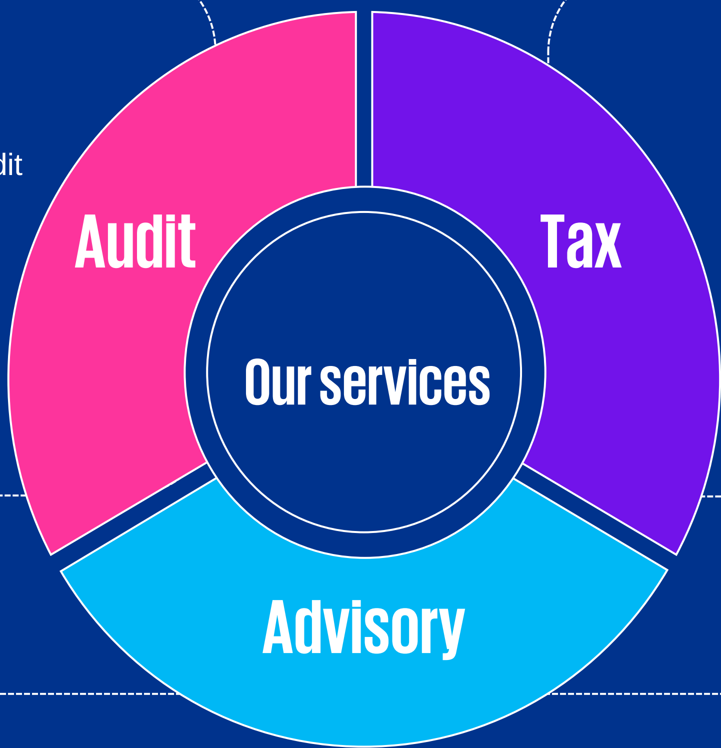
- Anguilla
- Antigua and Barbuda
- Barbados
- Dominica
- Grenada
- Guyana
- Jamaica
- Montserrat
- Saint Lucia
- St. Kitts and Nevis
- St. Vincent and the Grenadines
- Trinidad and Tobago

Offices in,
4 physical offices

- Barbados
- Jamaica (two offices)
- Trinidad and Tobago

Celebrating,
100+ years
of service

KPMG in Caricom



Audit and Assurance

- Statutory audit
- Non-statutory audit
- Assurance

Tax

- Tax advisory
- Personal and corporate tax
- International tax
- M&A tax
- Transfer pricing
- Tax due diligence

Management Consulting

- Customer and operations
- IT advisory
- People and change
- Internal audit risk and compliance
- Accounting advisory
- Cyber Security Services

Risk Consulting

- Financial risk management
- Internal audit and risk consulting
- Accounting advisory services

Deal Advisory

- Corporate finance
- Infrastructure
- Valuation services
- Transaction services

Foreword
Snapshot
Budget Proposals
Economic Review
About KPMG
Contact us

Contact us

Grant McDonald
Country Managing Partner and Head of Tax KPMG in Barbados & the Eastern Caribbean

E: grantmcdonald@kpmg.bb
T: +1 246 233 7866

Christopher Brome
Partner, Advisory KPMG in Barbados & the Eastern Caribbean

E: cbrome@kpmg.bb
T: +1 246 243 8709

Roger Kirton
Director, Advisory KPMG in Barbados & the Eastern Caribbean

E: rkirton@kpmg.bb
T: +1 246 832 9572

Naweed Nuhuman
Associate Director, Advisory KPMG in Barbados & the Eastern Caribbean

E: naweednuhuman@kpmg.bb
T: +1 246 233 5014

Juan Wright
Senior Manager, Tax KPMG in Barbados & the Eastern Caribbean

E: juanwright@kpmg.bb
T: +1 246 253 4736

Marianne Greenidge
Senior Manager, Tax KPMG in Barbados & the Eastern Caribbean

E: mariannegreenidge@kpmg.bb
T: +1 246 230 2059

Kara Holder
Assistant Manager, Advisory KPMG in Barbados & the Eastern Caribbean

E: kjholder@kpmg.bb
T: +1 246 230 5425

Ronald Rice
Senior Associate, Advisory KPMG in Barbados & the Eastern Caribbean

E: ronaldrice@kpmg.bb
T: +1 246 233 6363

Disclaimer

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

kpmg.com/socialmedia