

**This address was delivered in the St. Kitts and Nevis Parliament on Tuesday 13th December 2005 by Prime Minister and Minister of Finance, the Hon. Dr. Denzil L. Douglas from 10:15 A.M. to 1:45 P.M.**

1. Madame Speaker, I beg leave to move the second reading of the Bill shortly entitled the Appropriation (2006) Act, 2005.

## INTRODUCTION

2. This year we have been confronting the mammoth challenge of dismantling the sugar industry that has held sway in our Federation for over 400 years. This industry has touched the life of every citizen of our Federation, and has exerted an imposing influence on our culture and institutions, and on the shape and form of our society. It is an industry on which we will reflect for many generations to come, with a mixture of pleasant and revolting memories. After all, this industry has been associated with some of the worst atrocities of slavery, immigration and colonialism. But at the same time the sugar industry has also stood as a memorial to the successful struggle of our forefathers to lift themselves out of the pits of deprivation and subjection and to take control of the resources committed to this industry as the means of creating a brighter future for themselves and their successors.

3. For over a quarter of a century since the planters had thrown up their hands in despair and were prepared to cash in on the lands and abandon the industry, our people held on to the reins and continued to eek an existence out of an industry that was continuously troubled by erratic prices in international markets, fluctuating exchange rates, poor weather conditions, natural disasters and a wide array of other maladies.

4. When our people took the reins from the planters in the 1970's, the industry was already in very poor shape, but sugar was the only thing that the vast majority of our

workers knew, and there was hardly any other option available to them at that time. The choice faced by most of them was continued employment in the sugar industry or a protracted state of extreme poverty and deprivation. In short, sugar or starvation.

5. This is the reason why the diversification of our economy has been one of the primary objectives of my Government and why we have so vigorously taken up the challenge of building a well diversified service economy here in our beloved Federation. We were determined that our workers would not be left without viable options in the event that we were forced out of sugar production. We are therefore quite pleased that we have reached the stage where sugar production accounts for about 2.5% of our Gross Domestic Product, and that we can still look forward to increased economic activity in 2006, the first year during which there will be no sugar production in the Federation.

6. In other words, the demise of the sugar industry did not come upon us like a thief in the night. While we were exerting every effort to preserve and protect the industry for the benefit of the numerous estate workers and factory workers, we were also keenly aware that not all of the relevant factors were within our control, and we therefore set about putting the right infrastructure in place to promote the creation of jobs and the transformation of our economy with a view towards opening up new vistas of opportunities for our sugar workers and for all Kittitians and Nevisians.

7. The implementation of the strategy for transforming our economy did not begin when the factory horn signalling the end of crop blew for the last time earlier this year. It has only been accelerated. For instance, from the moment that my Government entered office in 1995, we immediately tackled the unemployment problem that had kept so many of our young people on the periphery of society. Our Short-term Work Experience Programme, introduced within months of the assumption of office by my Government, has made a serious and indelible dent in the level of unemployment in our country, and transformed some 1200 unemployed and disenchanting young people into productive members of our workforce.

8. We understood that unless the unemployment problem was addressed comprehensively and definitively, the closure of the sugar industry, which was being advocated at the time, would only have piled on unemployment upon unemployment with dire social consequences. But we also knew that the economy had to be kept on a path of economic growth, if we were to sustain the expansion in employment and create even more opportunities for our people to unleash their considerable talents, abilities and resourcefulness in the pursuit of self advancement and national progress. We therefore pursued a policy of infrastructure-led growth and of creating an economic climate conducive to domestic and foreign investment.

9. Hence, despite the many hurricanes that destroyed our infrastructure over and over again, our country still boasts some of the finest physical and economic infrastructure in our region. Our road network, which is continually being upgraded, has drawn commendation throughout the region. Our telecommunication systems are state-of-the-art and have facilitated the participation of our people and enterprises in the regional and global economies. Indeed the recent battle between the telecommunication giants that has been bringing down the cost of telecommunication in our Federation at a rapid pace, testifies to the success of my Government's strategy of liberalizing the telecommunications industry and fostering competition for the benefit of consumers.

10. My Government has also invested heavily in port infrastructure. We redesigned Port Zante and made it more secure through the implementation of a massive revetment project that has brought confidence to investors and has resulted in an immense surge in demand for real estate at Port Zante. This facility, which remained idle for so long, is now buzzing with activity and is acting as a magnet for substantial inflows of foreign investment. In addition, the contractors are now mobilizing with the view to implement a contract for the upgrading and expansion of the Robert L Bradshaw International Airport.

11. Our efforts at creating an investor-friendly climate and promoting economic growth have yielded significant results and helped to prepare us for the transition of our economy from the production of sugar. Our ability to attract the impressive Marriott

Hotel to our shores has resulted in a significant boost in tourism arrivals and has spawned a wide array of tourism-related enterprises including hotels, restaurants, gift shops and various entertainment facilities. Moreover our ability to attract foreign capital to our railway operations has allowed our many visitors and residents alike to experience the rich natural treasures resident in the interior of St Kitts, and has placed our Federation at a significant competitive advantage in the relevant segment of the tourism market.

12. A wide range of other private sector investment projects are also at various stages of planning or implementation. These include on the island of St Kitts the impressive La Vallee Golf Course and Tourism Development Project, the Potato Bay Villa and Commercial Development Project, Kittitian Heights in the White Gate Area, the planned expansion of Rawlins Plantation Inn, Horse Racing and Entertainment Facilities at Beaumont Park, a Dolphin Park at Friars Bay and the massive Hotel, Villa Development, Golf Course and Marina Project being pursued by the Auberge Group that currently operates some of the finest and most exclusive hotel properties on the face of the globe.

13. Our economic statistics confirm the outstanding performance of our country in attracting investments to our shores. During the 1980's Direct Foreign Investment stood at an annual average of 11.3% of GDP, then at 12.5% in the 1990's and at an impressive 22.8% since the turn of the century. It is therefore not surprising that in 2002 St. Kitts and Nevis was ranked 3<sup>rd</sup> (third), after Luxembourg and Chad in the United Nations Index of Foreign Direct Investment Performance. The OECS as a whole ranked 20<sup>th</sup> in this important index.

14. Madame Speaker, my Government's very successful programme of social development has also helped to prepare our country to cater to the needs of the persons affected by the demise of the sugar industry. In particular, we have provided affordable homes to over 1500 families in the Federation, including the families of hundreds of sugar workers. We have revolutionized our health system and have provided easy access to medical and health care for all of our people, including the poor, the elderly, the mentally and physically challenged, and persons with chronic ailments. In fact, it is

through this impressive health system that our sugar workers continue to enjoy, free of charge, the high quality medical care that was previously provided by the SSMC.

15. Our Social Security Scheme has grown by leaps and bounds, and has progressively increased its minimum pensions and its assistance pensions to improve the lot of many indigents and many of the elderly persons among us. In particular, over the ten years my Government has been in office, assistance pensions jumped from \$1040 per annum to \$2640 per annum and minimum pensions increased by \$1440 from \$2160 per annum to \$3600 per annum. We have also empowered Social Security to take over the pension obligations of the SSMC as a means of protecting the welfare of retired sugar workers who were enjoying pensions paid by the SSMC at the time of its closure.

16. Madame Speaker, our Ministry of Education provides free education to all of our children and examination fees, free meals, and free books to children of poor families, including the children of hundreds of sugar workers. Our Ministry of Social Development has implemented a wide range of programmes that have brought great relief to the poor and underprivileged among us. These programmes include the provision of school uniforms for children of low-income families, the caring of the aged, the protection of children, and the promotion of gender equity. The success of these social programmes is beyond doubt and is verified by the ability of our Federation to consistently occupy a leading position among the top performers of the world as measured by the United Nations Human Development Index.

17. It is clear, therefore that although my Government has unveiled and implemented an impressive package of assistance tailored specifically to the needs of our displaced sugar workers, the extensive social infrastructure that we have put in place for the benefit of all of our residents and citizens, has helped to cushion the social impact of the closure of the sugar industry. Moreover, the growth of our economy over the years has helped to give our sugar workers a number of employment and entrepreneurial options to choose from as they seek to build a better life for themselves and their families.

18. Of course we fully appreciate that there are still many sugar workers that need help and we will continue to reach out to them and provide support and counselling where necessary. In fact, I have instructed the SSMC Transition Management Office to keep track of every single displaced sugar worker and to report on their progress on an ongoing basis so that appropriate and timely assistance could be provided to them as required.

19. We know that the transition from sugar and the transformation of our economy cannot be completed overnight and that there are still many challenges which we will have to confront along the way but we believe that we are on the right path and heading in the right direction. Hence, as a people, we must therefore continue our efforts to build up the momentum and move our country steadfastly along the road to increased prosperity and a better quality of life for all.

20. Unfortunately, the environment in which we are pursuing our programme of economic transition and transformation is not the most favourable one. Oil prices have been at an all time high for much of this year. This has carried up the price of gasoline and electricity in our Federation and around the entire globe, and threatens to stifle global economic activity and push up the rate of inflation. At the same time, our enterprises are faced with the challenge of sharply raising their competitiveness to take full advantage of the CSME and to survive and prosper in an intensively competitive global economy. In addition, the reconstruction of our economy after repeated natural disasters has carried total public sector debt, including the debt of the SSMC, to \$1966.3 million or over 177% of GDP at the end of the last fiscal year.

21. All of these issues must undoubtedly exert a significant influence on the strategic focus of economic policy formulation and implementation in our Federation. In particular, our development strategy must continue to give high priority to fiscal consolidation and to the reduction of the public debt, which if left unchecked, could undermine the growth potential of our economy and put at risk much of our very outstanding social and economic progress. However, our approach has to be balanced and

it must give due weight to all the objectives that we have set ourselves and to all the factors critical to the advancement of the quality of life of our people.

22. The key objectives that have guided the budget preparation exercise this year, include:

- ❖ The continued transformation of our sugar-based economy into a modern, service-oriented, well diversified economy replete with opportunities for our people, including our former sugar workers, to progressively advance their standard of living.
- ❖ Continued macroeconomic stability characterized by relatively low levels of inflation; improved balance of payments operations including the further narrowing of the balance of trade deficit and continued increases in foreign direct investment; and sustainable levels of economic growth that would not only generate additional employment opportunities but would also support Government's efforts in respect of fiscal consolidation and debt reduction.
- ❖ The progressive reduction of the stock of public sector debt through continued fiscal consolidation, the privatization or commercialization of Government's assets and enterprises deemed amenable to private sector operations, and increased efficiency in the operations of statutory bodies.
- ❖ Further reduction in poverty through the continued implementation of a wide range of social programmes and by the refinement of such programmes to ensure they are more precisely directed and that they reach the people who are genuinely in need of the services delivered by such programmes.

- ❖ The reduction of crime and violence through even more vigilant and effective law enforcement and the continued implementation of comprehensive crime reduction strategies that take full account of the social, psychological and economic dimensions of criminal behaviour.
- ❖ The continued empowerment of our young people through even more focused youth development programmes and the expansion of educational and employment opportunities that specifically target our young people.
- ❖ The maintenance of an appropriate balance between physical development and environmental sustainability.

23. Madame Speaker, our attainment of these important objectives is not only dependent on our own domestic circumstances, but also on the external environment that has been the source of much instability in so many countries, especially small island states such as ours. I will therefore proceed with an examination of the international and regional developments of relevance to our Federation.

## THE EXTERNAL ENVIRONMENT

### *International Economic Developments*

24. Madame Speaker, despite the robust growth in world output in 2004 of 5.0% and the acceleration of services sector output in the first quarter of 2005, world output has been slanting downwards in recent months. In 2005, it is estimated that world output will fall to 4.3%, as a result of the slowing down of global growth in manufacturing and trade in the first quarter, the impact of higher oil prices, and the weakening of business confidence in most major world economies in the second quarter.

25. In industrialized countries, GDP growth is projected to ease moderately to 2.5% in 2005 from 3.3% in 2004. The United States is expected to exhibit growth of 3.5% in 2005 as a result of solid productivity growth. This is likely to be the highest growth rate for any of the industrialized countries in 2005. This estimated level of growth for the USA is quite impressive in view of the enormous cost to life and property and the direct impact on GDP growth inflicted on the US by Hurricanes Rita and Katrina. In Spain and Canada growth output is projected to remain constant at 3.2% and 2.9% respectively, while in Germany, France, United Kingdom and Japan growth is expected to slow to 0.8%, 1.5%, 1.9% and 2.0%. Notwithstanding the overall decline in world output, the impacts of the Tsunami on the South Asian Countries and of Hurricanes Rita and Katrina in the United States, unemployment in advanced countries, surprisingly, has declined from 6.3% in 2004 to 6.1% in 2005 and is forecasted to decline even further in 2006 to 5.9%. Moreover, even with these substantial declines in unemployment, inflation has remained relatively subdued.

26. A recent publication of the IMF World Economic Outlook (WEO) shows that on average, growth in developing countries has declined to 6.4% in 2005 from 7.3% in 2004. In countries such as China and India, however growth is surging and is underpinned by strong liquidity in the banking system, robust expansion in the information technology sector, and accelerating industrial production. In the developing countries of the Western Hemisphere projections reflect the continuation of the downward trend in output growth. For 2005, forecasts indicate a 1.5% decline in output, underscored by declines in domestic demand and political uncertainties in some countries in Latin America.

27. Against the background of higher world oil prices, the World Economic Outlook projects global growth to stabilize at 4.3% in 2006. This stabilization is broadly on track with global expectations for growth brought on by accommodative macroeconomic policies in some countries, benign financial market conditions and increasingly solid corporate balance sheets. However there is still a great deal of uncertainty in the global economy with oil prices threatening to rise in the future. According to the World Economic Outlook, this is not the only area of concern, as attention must be paid to the indirect effects of higher oil prices on household savings. This has negatively impacted private consumption and weakened the purchasing power of households particularly in the United States.

28. Madame Speaker, it has become increasingly clear that the gyrations of the global economy will continue to present significant challenges for us. In particular, the increase in oil prices could stultify our attempts to foster economic growth. While global inflation is still quite moderate, the risk of escalating consumer prices continues to be a source of concern for Central Bankers around the world, and this fear of inflation is exerting upward pressure on interest rates. While the vast majority of our public debt has been negotiated at fixed interest rates, we could still be affected by substantial increases in international interest rates if we find it necessary to raise new loans to refinance maturing loans or to fund our capital budget. It is therefore critical that we generate significant levels of domestic savings through fiscal consolidation and capital market development, and reduce our reliance on external financing for new projects.

29. I turn now to Regional Economic Developments.

### ***Regional Economic Developments***

30. Despite the challenging global economic environment that we now face, most of the countries within the Caribbean managed to improve their economic performance in

comparison to the 2003 period. In the OECS, real GDP growth for the 2004 period accelerated to 3.9% from 3.5% in 2003. The major contributor to this improved performance was St. Kitts and Nevis with a growth rate of 6.4%. St. Lucia placed second in terms of real GDP growth in the OECS region, growing by a commendable 3.6%.

31. Madame Speaker, in my last Budget Address I referred to the economic difficulties that both Dominica and Grenada were facing at that time. I am pleased to report that, to date, the Dominican economy is showing signs of economic recovery anchored by an 11% growth in the Hotels and Restaurants Sector. It is projected that the economy of Dominica, underpinned by strong macroeconomic policy and increased private sector investment, will continue to grow in the upcoming year.

32. Unfortunately, the Grenadian economy is still suffering from the impact of hurricanes. Consequently, the Grenadian economy contracted by 3% for the 2004 period, as most of the major sectors registered declines. Although growth was recorded for the government services sector, the transportation sector, and the communications sector, the increases were not nearly enough to offset the reduction in the other major sectors. We fully appreciate and understand the difficulties of the people of Grenada because we have walked that road before and while our economy has recovered from the spate of natural disasters that shook our islands, the scar of public debt is still with us. We are hopeful though, that with the continued resilience and fortitude of the Grenadian people, their economy will return to the path of economic growth.

33. Most of the larger member countries of the Caribbean Community recorded positive growth in real output in 2004. Among the larger economies of the Caribbean, Trinidad and Tobago experienced the highest growth rate of 6.7%, underscored largely by an increase in the productivity and output of the energy sector. The economy of Belize recorded a growth rate of 5.0%; This however, represented a downturn in growth from 9.4 % recorded in the previous year, as a result of a decline in activity mainly

associated with the tourism sector. The effect of major natural disasters in Jamaica and the Bahamas resulted in economic growth rates falling below earlier projections.

34. Madame Speaker, I have no doubt whatsoever that the CSME will bring great benefits to the Caribbean Community as a whole and would help to raise regional growth rates. The CSME would enhance the region's prospects for the efficient utilization of labour and other factors of production, while providing access to a greater variety of goods and services in a more competitive environment. This could in turn accelerate the pace of regional economic development, and provide improved standards of living and enhanced employment opportunities in the region.

35. However, while the benefits of the CSME for the region as whole is beyond doubt, it has become quite clear that not every country in the region will share in these benefits unless some appropriate mechanism is put in place to redistribute the gains of the CSME in a fair and equitable manner. As I indicated in last year's budget address there could be some winners and some losers as we proceed with the implementation of the CSME. It is now quite clear that OECS countries will be among the losers. Earlier this year, Heads of Government of the OECS received a study commissioned by the OECS Secretariat, which presented hard data highlighting the real and potential benefits and challenges for OECS Member States' participation in the impending CSME. The study highlighted the fact that the balance of trade between the OECS and the rest of CARICOM has been increasingly unfavourable to OECS countries, widening from US\$214 million to US\$481 million between 1980 and 2003.

36. Moreover, one of the distinguished Economists of the OECS and the Caribbean as whole, Sir Alister McIntyre has expressed the view that "the provisions in favour of the LDC's in the revised Treaty of Chaguaramus need to be revisited and operationalized, as a priority matter." He further opined that "a case can be made for elaborating these provisions in the form of detailed annexes to Protocol VII of the Revised Treaty of Chaguaramus or in texts of equivalent legal authority."

37. I fully support Sir Alister's position on the need to activate the provisions in favour of the LDC's. I also believe that the proposed Regional Development Fund could play a significant role in redistributing the gains of the CSME. In fact, I share the view of a number of OECS Heads that the establishment of a properly constituted and well-funded Regional Development Fund is an important prerequisite to the participation of the OECS in the CSME.

38. In addition, even if the issues surrounding the Regional Development Fund are resolved expeditiously and we are able to proceed with the implementation of the CSME in January 2006 as planned, it will also be necessary to monitor the progress of the OECS countries in the CSME and keep the relevant Protocols under review so that appropriate adjustments could be made to ensure that the tiny nations of the OECS are afforded special and differential treatment in the CSME as intended by the original framers of the CARICOM Treaty when they placed the OECS countries in the category of Less Developed Countries.

39. I am confident that the people and leaders of the Caribbean will resolve all outstanding issues in a manner that facilitates the expeditious implementation of the CSME to the benefit of the Caribbean Community as a whole and each individual member state. We are therefore proceeding with our preparations for participation in the CSME. In particular, we have made good progress with the implementation of the provisions relating to the freedom of movement of people, and we have recently launched our machine-readable passport in the format agreed to by CARICOM member states.

40. Madame Speaker, The Political Party that I am privileged to lead, has had a long tradition of giving strong and unwavering support to the regional integration movement. We believe that, in view of the trend toward globalization and the increasingly fierce and intense competition in global markets, regional integration is even more critical to the progress of the Caribbean region than ever before. We will remain true to this tradition. But we firmly believe that the regional integration movement could only stand on a firm footing if the relevant institutions are governed by the principles of fairness and equity,

and if each member draws real and tangible benefits from participation in these institutions.

# THE DOMESTIC ECONOMY

## *Output, Prices and the Balance of Payments*

41. This year has been particularly encouraging for the St. Kitts and Nevis economy. Following a difficult two-year period in 2002 and 2003 when economic activity was relatively sluggish, the Federation of St. Kitts and Nevis posted an impressive growth rate of 6.4% in 2004. This performance is commendable by any standard but especially when viewed against the backdrop of our relatively high public sector debt, the uncertain global economic climate, war and terrorism around the globe, and rising oil prices. Indeed, our growth rate has eclipsed the average growth rate of 3.9% for the Eastern Caribbean Currency Union as well as the average of 5.6% for developing countries in the Western Hemisphere and the average of 3.3% for the industrialized countries. In the Caribbean as a whole, only Trinidad and Tobago, with its massive windfall from increased energy prices managed to surpass the very remarkable growth rate achieved by our Federation.

42. What is even more remarkable is that this exceptional level of economic growth was not accompanied by a massive escalation in consumer prices. In fact, during 2004, the rate of inflation as measured by the movement in retail prices remained relatively subdued at 2.3% for the year. Moreover, a comparison of retail prices in the first six-months of this year with retail prices in the first six months of last year reveals that the inflation rate has remained stable at 2.2% per annum.

43. Madame Speaker, the main impetus for the 6.4% growth in 2004 emanated from increased activities in the areas of Tourism, Transport, Non-Sugar Agriculture, Manufacturing and Construction. The Tourism Sector, in particular, recorded very impressive growth in 2004 as a result of the substantial increases in tourist arrivals that was facilitated by the increase in the stock of hotel rooms and the resulting increased airlift into our Federation. The performance of our Tourist Industry is reflected in our

GDP statistics by a mammoth 32.6% increase in the output of the Hotel and Restaurant sector.

44. Madame Speaker, I will now speak to the Balance of Payments statistics, which records the inflows and outflows of funds arising out of transactions between the Federation of St. Kitts and Nevis and the rest of the world. In 2004, the Federation's current account position improved quite remarkably relative to 2003. The current account deficit narrowed to \$236.4 million or 21.3% of GDP in 2004 from \$312.5 million or 31.3% of GDP in 2003. This significant improvement was due mainly to higher tourism receipts, which grew by 39% to reach \$282.9 million in 2004. On the other hand, the merchandise trade deficit expanded slightly by 1.2%.

45. Madame Speaker, during 2004 several major investment projects were completed. Therefore, significantly lower inflows of foreign direct investment were recorded, and as such, the surplus on the Financial and Capital Account fell by 10.0% to \$267.6 million or 24.1% of GDP. Nonetheless, the overall balance of payments position of St. Kitts and Nevis recorded a surplus of \$36.9 million or 3.3% of GDP in contrast to the deficit of \$2.6 million or 0.3% of GDP that was recorded in 2003.

## *The Tourism Sector*

46. Madame Speaker, my Government has identified tourism as one of the major components of our economic growth strategy and we have therefore channelled much of our resources to the development of this sector. The contribution of the Hotel and Restaurant sector as a percentage of GDP has increased from 5.6% in 2003 to 7% in 2004, which is indicative of our efforts here. However we believe that this increase is very conservative as tourism activity is much more pervasive. In this regard the formulation of tourism satellite accounts is being considered in order to capture activities in the sector, which are not currently included in our formal GDP accounting.

47. Madame Speaker, a much clearer insight into the performance of the sector can be gained by looking at the figures in respect of stay-over visitors. In 2004 there was a whopping 32.6% increase in stay-over visitors in the Federation. This momentum has continued unabated into the first half of 2005 where already a 19.4% increase has been observed. It is therefore anticipated that when the final figures for 2005 are revealed another bumper year would have been achieved. Our efforts at increasing cruise passenger arrivals have also been successful. Cruise ship passenger arrivals to St. Kitts increased by 78% in 2004, up significantly from a 12.5% decline recorded in 2003. This has been attributed to a number of factors including improvements to the port facilities which renewed the confidence of the cruise lines; the operations of the St. Kitts Scenic Railway; and the ongoing efforts by the Tourism Authority to enhance the tourism product and the visitor experience.

48. Madame Speaker, the closure of the sugar industry has therefore come at a time when this government was already laying the foundation for a vibrant and sustainable tourism sector. My Government has sought to maximize the sector's contribution to GDP, to expand the sector's ability to generate additional foreign exchange and to increase the employment opportunities within the sector. It is well known and documented that over the past ten years my government has spent large sums of money

building, repairing and improving and, in the case of Port Zante, rebuilding critical physical infrastructure for the tourism industry.

49. The airport expansion project, which is now getting underway, is directly related to our efforts to improve our ability to handle more airlift and to welcome the expanding flow of visitors and residents through our international airport. The adjoining airport bypass road project will not only expedite access from one side of our city to the next, but it will help to ease the incidence of downtown traffic congestion which threatens the quality of the visitor experience. Snail pace traffic through busy city streets is not a desirable experience anywhere for anyone, and it certainly must not become a regular part of our visitor's experience.

50. Madame Speaker, both of these large capital projects are necessary and economically viable because of the future projections for the growth of our tourism industry. Over the past year, several future private sector owned tourism projects have been announced, valuing in excess of US \$700 million and to be built out over the next two to five years. Such projects will be taking place on the Southeast Peninsula, in Frigate Bay, at Whitegate, at La Vallee and on Nevis. Care will be taken that these projects, one or two of which have already broken ground, will be compatible with the natural environment of our islands while transforming our country's ability to supply additional high quality accommodation and recreation facilities including luxury hotel rooms and villas, world class golf courses, and at least one super yacht marina. The attraction of these high value and high quality investments from the local, regional and international private sector speaks volumes for the high confidence that the financial and entrepreneurial sectors have in the future of our tourism led economy.

51. Madame Speaker, during the past ten years my Government has also invested heavily in the training of our young people and has launched the Hospitality Services Division at the Clarence Fitzroy Bryant College where students are being taught the value of academic training while being exposed to an understanding of the requirements of customer service in the real market place. There are more of our young people being

trained in tourism today than ever before. However, we need to make sure that we continue to expand our ability to marry academic training with internships and real job opportunities in the work place, so that our heavy investment in training can be translated into successful and enjoyable careers in tourism for our youthful population.

52. My government understands that Tourism is an economic development tool, which should not be measured, in mere growth of arrivals. Tourism has been a key component of my government's economic development strategy from our very first day in office. But the need to wind up our sugar industry has brought with it the opportunity for a greater sense of urgency and focus on the development of our hospitality services sector. However, one of the strengths of the sugar industry was its ability to reach into our communities and bring income to even the poorest of families. Hence, if Tourism is to effectively replace the sugar industry we must maximize its impact by fostering strong linkages between the tourism sector and key sectors including agriculture, and craft production.

53. We cannot measure the importance of such a vital sector by just head count. The business of tourism must be measured by the real contribution that it makes to our country's national accounts, by its impact on the livelihood of our people and our communities and by its contribution to the profitability and growth of stakeholder enterprises of all sizes. We need to measure more effectively the contribution that tourism expenditure makes to the sectors of our economy which supply services directly to the visitor, including such establishments as hotels, casinos, bars, restaurants, night clubs, sites and attractions, duty free shops, taxi operators, artists and craft producers. We also must better measure the impact of tourism expenditure on indirect service entities such as food and beverage import distributors, manufacturers of brewery products, soft drinks and other local products, our farmers and fishers, entertainers, security services and other service suppliers to hotels, restaurants and accommodation facilities.

54. Madame Speaker, the increased level of excitement that is now being generated about the future of our tourism industry must not be taken for granted. It has come as a

result of a lot of hard work, in the past and in the present. But there is even more work to be done in future if we are to achieve our objectives as an emerging tourism destination. Our ultimate goal is to create a tourism product and reputation that can compete on the same level with the finest destinations in the world. The future quality of our country's product and reputation will be best measured by the actual Kittitian-Nevisian experience that our visitors have while here, and what they actually say about us to their friends and family when they return home. Madame Speaker, our country's reputation for cleanliness, safety, natural beauty, a colourful history and caring people, must be strengthened and protected at all costs if we are to have a vibrant and sustainable tourism industry in the future.

## ***The Sugar Industry***

55. Madame Speaker, the 2005 sugar crop brought to an end the production of sugar in St. Kitts and Nevis. For this crop output fell by 3,428 tons or 24.2% to 10,729 tons relative to 14,157 tons in 2004. Such a low level of output has been attributed to the fact that only 60% of the crop was harvested. The volume of sugar exported therefore was grossly affected, falling to approximately 10,000 tons, which represents a 25.0% decline over the 2004 exports. Consequently, net earnings from sugar exports also declined. As at the closure of the sugar industry on July 30th 2005 total liability owed by the St. Kitts Sugar Manufacturing Corporation (SSMC) to the St. Kitts-Nevis-Anguilla National Bank and the Development Bank was EC \$347 million. It is anticipated that by the end of the year the debt will increase to \$380 million mainly as a result of interest payments and the winding up expenses, including severance payments to the workers.

56. Madame Speaker there is no doubt that the decision to cease the production of sugar for export under the EU/ACP Sugar Protocol Agreement is among the most momentous that any Government of this Country will ever make. It is momentous not just because it is the culmination of a thirty-year old treaty that had underpinned the social and economic development of our country but more importantly because it brings to an end one of the longest and most significant periods of our history. A history which

saw our free fore parents torn from their ancestral homes and brought here to toil under the most unimaginable circumstances of cruel servitude. A history, which ultimately records their triumph through us their descendants who now inherit the earth so liberally sprinkled with their blood, sweat and tears. To that extent the decision to cease the production of plantation based monoculture heralds the end of an era about which if we are honest we will admit that we have mixed feelings.

57. I believe that all of our citizens and our national and international partners, stakeholders and friends are aware that we are currently in a transitional period vis-à-vis the sugar industry and that a considerable amount of time and effort have been put into carrying out urgent, and critical activities, necessary not just to expiate the past, but more importantly to secure the future. These activities are continuing and include winding up of the sugar industry operations; making arrangements for the redundancy of sugar workers and the payment of severance and other benefits; securing and managing the SSMC's assets; retiring of the debt of the sugar industry; implementing soil conservation, drainage and ghaut stabilization programmes; managing the socio-economic impact; sourcing funding for transitional activities; implementing social safety net programmes; planning for the alternative use of the sugar lands; and charting the course for the wider economic adjustment.

58. Madame Speaker, dealing with the transition to date has been an arduous and difficult task constrained as we are by human, technical and financial resources and I think that at this time it is only fitting for us to thank all those who have assisted us either directly or indirectly through the provision of technical assistance and other resources. I would particularly like to highlight here the role of IICA that from the very outset provided us with the team leader for the Transition Management Team and other resources for feasibility studies. The British Government's Department for International Development has also been quick to assist us and we have benefited from their timely intervention through which we have been provided with corporate advice on the SSMC, and funding for land use analysis and for a review of social protection strategies.

59. Other significant partners that have assisted us and continue to provide essential support include the Republic of China “Taiwan”, CIDA, CARICOM, CDB, CARDI, the OECS, ECCB, the IMF, the World Bank, the Government of Cuba, the OAS, various UN Agencies such as FAO, UNDP and UNEP as well as the USA, Sweden and Norway. The EU is of course our main point of reference on this issue simultaneously fulfilling the roles of treaty and development partner. We will continue to negotiate with the EU and to interact constructively with them through the European Commission to secure the best possible outcome for St. Kitts and Nevis. We thank all of our partners for their support and would ask that they consider that we are at only the very beginning of a long process of reconstruction and development and we will be depending on their continued assistance.

60. While we reflect on the distant and not too distant past, we are more determined than ever to continue to forge an economically bright and prosperous future for our people demonstrating, as one wit puts it, that life can be even sweeter without sugar. That is why our immediate concern following the end of the 2005 crop was to ensure that workers in the sugar industry were given their just desserts and paid the severance package that had been negotiated by their trade union. The total severance package for sugar workers based on the 1961 Collective Bargaining Agreement signed between the Labour Union and the SSMC amounted to some EC\$27 million. Madame Speaker, I am proud to say that despite false rumours and wild conjecture my Government decided to honour that agreement in full. Some EC\$18 million was paid out in September of this year, the rest will be paid over the next few months.

61. Madame Speaker, we have also set out to establish social programmes to support and cushion the most vulnerable as they embark on a working life outside the security of the industry. To this end, we have been implementing a comprehensive package of assistance for sugar workers which includes free access to medical care, the securing of the pensions of retired sugar workers through the Social Security Scheme, training and job attachments with a stipend of \$250 per week, the provision of irrigation and farm equipment, duty and tax concessions to facilitate entry into farming, fishing, and taxi or passenger bus operations, and easy access to land for the purpose of farming. My

Government, supported by our development partners, has also launched a number of social programmes, ranging from managing change and psychological counselling modules to financial counselling and job specific retraining programmes that have been designed for and continue to be delivered to workers from the industry. Former sugar workers are also being assisted in finding alternative employment and many have done so. Indeed, within a few months after the closure of the industry at least 205 of the displaced workers had already found alternative employment. In addition the OECS Labour Survey has indicated that at least 600 jobs are available in the private sector. The challenge for us now is to prepare the former sugar workers to take up these positions.

62. The sugar industry dominated the economy and society of St. Kitts and Nevis for over 350 years and it has only been in the last twenty years or so that we have seen a significant waning of that economic influence as we have been able to stimulate other economic sectors such as tourism, banking and light manufacturing. We recognize, therefore, that the Country must undertake a comprehensive reconstruction programme in the wake of the upheaval caused by the loss of so important an industry in order to maintain economic and social stability and eventually to generate self sustaining growth not only in a post sugar agricultural sector but in all sectors of the economy.

63. Madame Speaker, in the immediate aftermath of the 2005 crop we quite rightly focused on the social impact of the loss of the sugar industry. But we are keenly aware that the standard of living of the former workers could only be secured and improved over the long-term by sustained economic growth. We are therefore devoting much of our attention to the acceleration of the economic transformation necessary to maintain and increase the high level of social development for which we have been cited internationally. We are in the process of completing an Adaptation Strategy and Action Plan, as required by the European Union for the awarding of assistance to mitigate the impact of the changes to the Sugar Protocol Countries from 2006. So far the EU has allocated 40 million Euros for the 18 ACP sugar-producing Countries, including St. Kitts and Nevis for 2006. Allocations for the period beginning 2007 have not yet been determined. We do not know at this time what the allocation for St. Kitts and Nevis will

be for either of these time periods. We do not even know exactly when EU resources will be available. We are therefore entering a period of great uncertainty with regards to both the level and the timing of assistance that we will be receiving to support us through this difficult time.

64. Madame Speaker, while I have spoken of the difficulties and challenges that we face in managing this historic change, I believe that exiting from a failing sugar industry has also provided us with significant opportunities. It is important that we see the adaptation process of the ensuing period as an opportunity to reconfigure the economy of St. Kitts and Nevis to be more productive, responsive and competitive. Earlier in my address I spoke about the contribution of the tourism industry to our economy and its expanding role in generating backward and forward linkages with other industries through creating demand for goods and services. Later I will be looking at the expanded opportunities for non-sugar agriculture as factors of production such as land, once reserved exclusively for the sugar industry are freed up. What I am urging us all to do is to positively embrace the openings that accompany all the changes consequent on the exit from sugar production.

65. In this regard, we are currently exploring the feasibility of using sugar cane to generate energy both in the form of biomass and through the production of ethanol. Similarly, the historical assets of the sugar industry are an invaluable cultural resource that can be preserved while also being used to enrich the tourism experience in our Country. We have therefore requested the assistance of the European Union in establishing a sugar museum and in helping preserve many of the historical assets of the sugar industry for our own education and enjoyment and as tourist attractions. We are also in discussion with private investors in respect of a range of other enterprises that we expect would make good use of the resources released from sugar and provide alternative jobs for sugar workers. These proposed enterprises include rum production, fresh water fish farming, shrimp farming, fruit juice processing and the production of cut flowers.

66. Of course, we expect that non-sugar agriculture would be an important source of employment, growth and foreign exchange earnings in our post-sugar society. Hence, I will now address non-sugar agriculture specifically.

### *Non-sugar Agriculture*

67. Madame Speaker my Government understands the critical importance of non-sugar agriculture in our transition away from sugar production. The agricultural sector is a sine qua non in terms of our economic development strategy and will therefore feature prominently as we position our economy for the future. As the competent authority in this regard the Ministry and Department of Agriculture have developed a strategic plan for the development of non-sugar agriculture over the period 2005 to 2009. One critical area to be addressed would be the development of water for irrigation.

68. My Government has been seeking support from external agencies and during the month of October a positive response was received from the Food and Agriculture Organization (FAO) that funds have been approved for a water harvesting study. Access to water sources will enable farmers to expand the period of vegetable production from six to twelve months of the year. Special focus during the plan period will also be placed on the production of locally grown fruits. Moreover, the Department of Agriculture has already expanded its propagation of fruit trees including the traditional ones such as sugar apple, custard apple and soursop.

69. This year the Ministry of Agriculture successfully hosted the fifth Caribbean Week of Agriculture, which attracted 160 overseas participants, as well as 10 regional Ministers of Agriculture. Of special interest were the Department of Agriculture's 10th Anniversary Open Day and Regional Trade Show that were held this year as part of the Week's activities. The trade show attracted exhibitors from the region who were able to demonstrate a wide range of processed agricultural products thereby demonstrating to local farmers additional opportunities for adding value to their farm produce. Also on

display was a wide range of local crop produce indicating that the technology exists for the production to expand beyond the traditional first half of the year.

70. Madame Speaker, the implementation of the strategic plan has separate programmes for crop and livestock development. The general objective of the crops programme during the plan period is to facilitate commercial production of crops so as to ensure food security, foreign exchange savings and sustainable development. During the first nine months of 2005 crop production generally declined when compared with the same period for 2004. The decline was due mainly to the very high rainfall during October and November of 2004 and the dry conditions during February and March of this year. These extreme weather conditions adversely affected crop growth and resulted in reduced yields. The only increase in production was recorded for yam from 33,000 lb in 2004 to 43,000 lb in 2005.

71. Madame Speaker, the output of the livestock sub-sector has declined in the first half of 2005 but we expect that with the implementation of our strategic plan livestock production will quickly return to the path of growth that has secured for us a doubling of pork production and the approximate quadrupling of beef production over the four years between 2000 and 2004. The strategic plan for 2005 – 2009 clearly outlines a national plan for livestock development with its main objective being to increase food security. In particular, we propose to encourage the establishment of commercial farms, investigate the possibility of using sugar cane for feeding cattle, introduce new breeds of sheep, construct dog proof areas to secure small ruminants, identify appropriate pig production sites with adequate provision for sanitation, housing and feeding and allocate a sufficient area of land to livestock production to facilitate the local production of a greater percentage of the meat consumed in our Federation.

72. Madame Speaker, the Department of Agriculture has also identified potential sites around the island specifically for pig production. This is critically important as we make strides to enhance our tourism product where the issue of aesthetics is of major concern. This is expected to significantly increase pork production once farmers

commence production. Madame Speaker, I personally have noticed the large volumes of hams and other pork products that come into the country at Christmas and other festive occasions and have on several occasions encouraged farmers and other entrepreneurs to get into processing thereby adding value to their produce and getting better prices. My Government is therefore committed to giving the necessary support and incentives to persons who are interested in these kind of value added activities.

73. Madam Speaker let us now turn our attention to fisheries. Total fish landing in 2004 increased to 913,790 lbs or 37.9% with a total value of \$6.0 million, \$1.2 million more when compared to the corresponding period in 2003. This is evidenced by increases in the catch of higher priced pelages such as dolphin, snapper, tuna, mackerel and conch. The first nine months of 2005 was also inspiring as the value of fish landing increased to \$5.1 million, nearly 11% more than the \$4.6 million recorded for the same period in 2004. This is indeed impressive given the fact that total poundage declined for the period. It is very encouraging also to know that our fisher folk are becoming more competitive and looking towards higher priced catches that would yield more value for their efforts.

74. Over the years, my Government has shown its steadfast support for the fishing industry. I am happy to report that the Old Road Fisheries Complex funded by the Government of Japan is presently in the first phase of implementation and significant activity is scheduled to take place in the 1st Quarter of 2006. The complex is marked for completion in 2006 and thereafter similar projects slated for Sandy Point and Dieppe Bay would be undertaken. Plans are also in motion Madame Speaker, to build a much needed fisheries complex in our sister island, Nevis.

## ***Industrial and Enterprise Development***

### **The Manufacturing Sector**

75. Madame Speaker, activity in the manufacturing sector stabilized during 2005. Having withstood varied setbacks originating from instability in the global economy and

the effects of 9/11, we are now seeing new stages of growth and recovery in many factories. In fact, generally, 2005 has shown much improvement in the performance of the manufacturing sector as a whole.

76. For instance, there have been significant expansions at Kajola Kristada Ltd. and Jaro and Lutron Liamuiga. In fact, Lutron Liamuiga opened up some 50 new job opportunities during this year. A number of companies, including Sun Island Clothes, Victory Packaging Company and Kajola Kristada have also introduced new products with a view to enhancing the competitiveness and market appeal of their product lines. On the other hand, Sensor Scientific had to close its doors in March of this year, and Carib Craft Studio and Custom Coil had to downscale their operations as a result of unfavourable market conditions.

77. The prospects for future growth in the manufacturing sector are quite good. My Government is also in discussions with two new manufacturers looking to join the sector, one to be involved in the manufacturing of latex products such as latex gloves, condoms and plastic bags; and the other in creating paper hand bags. Moreover, the continued growth of the economy of the USA is resulting in increased demand for electronic products in particular, and Lutron Liamuiga as well as Electrofab are reaping significant benefits from this growth in demand.

### **Small Enterprise Development Unit**

78. Madame Speaker, My Government continues to pay very close attention to small and micro enterprises. In particular, the Small Enterprise Development Unit (SEDU) continues to help entrepreneurs by providing financial assistance, training, monitoring and mentoring programmes. During the year 2005, SEDU processed thirty-four (34) loans of which one third of the clients were female entrepreneurs. SEDU has also been involved in organizing and conducting training programmes for the SSMC workers. SEDU helped to arrange a two-day training workshop, "From Niche Idea To Business Plan", which was facilitated by the Caribbean Technological Consultancy Services

Division of the Caribbean Development Bank and was attended by forty employees of the SSMC drawn from management, administrative personnel, technicians, tractor drivers and field workers.

79. SEDU continues to place considerable focus on equipping our young people with the skills required to pursue entrepreneurial ventures. In this regard, SEDU played an important role in the establishment of the Innovative Company Project of the Junior Achievement Programme on St. Kitts and Nevis. Groups of students representing most secondary schools in the Federation were involved in the pilot programme coordinated by the Eastern Caribbean Central Bank. The programme sought to help young people better appreciate and understand the role of business in our society. It provided basic education for students at the Secondary level by having them organize and operate an actual business enterprise. The project was delivered in collaboration with the Non-formal Youth Skill Training Programme. It was designed to train fifteen (15) young entrepreneurs for business in three skill areas - Landscaping, Barbering and Hairdressing. The UNESCO funded programme was conducted over a period of three months and participants attended training fulltime. Upon graduation participants also received assistance in the form of equipment.

80. Madame Speaker, another critical activity that is being undertaken by SEDU is the Pan Caribbean SME-ICT Competitiveness Development Programme. This is an initiative by the Commonwealth Secretariat that seeks to enhance the development of SME and ICT/E-Commerce strategies of competitiveness in the Caribbean. Presently the staff of SEDU is undergoing training to enable them to play a major role in the implementation of this important programme that is so much in keeping with my Government's quest to promote the competitiveness of our enterprises so that they fully exploit opportunities in the CSME and in global markets.

## **Information Technology and Telecommunications**

81. Madame Speaker, the liberalization of the telecommunications sector has had a tremendous impact on the economy and on the lives of ordinary citizens in the Federation. Mobile phone service has spiralled to a near 65% penetration rate from its measly 9% level four years ago, surpassing the penetration rate for fixed line telephone service. More significantly, this 65% penetration rate is approximately 12% above the average for the entire Caribbean Region. Since the introduction of pro-competition reforms, the number of internet subscribers has doubled while the price of the service continues to fall. Closely aligned with this trend in the increased access to internet services is the trend towards access to broadband via ADSL or cable. Overall, the range of telecommunications services being offered continues to expand dramatically and we anticipate this will continue well into the future.

82. Madame Speaker, the dramatic reduction in telephone rates is no secret. Four years ago, the cost per minute for a telephone call to the United States was in the vicinity of EC\$3.25. A call between St. Kitts and St. Lucia, two OECS states, cost about \$2.25, and local calls were running above 20 cents in cost. The cost of international calls has now decreased by approximately 50%, the cost of calls within the OECS has been reduced by about 77% while local calls have enjoyed a 70% downward shift in cost. In addition, over the past 18 months, the Telecommunications sector has attracted close to \$25 million in new investment.

83. It is this increasing access to improved services at reduced prices coupled with new capital investments that excites small entrepreneurs and that encourages established business to increase their own capital investment, expand their horizon and explore new areas of business. A commendable number of small entrepreneurs have opened dealerships in mobile phone accessories and pre-paid phone cards. This can only help to put the growth of the economy on an upward trend.

84. Madame Speaker, the advances we have made in information and communications technologies since liberalization have given us reason to continue to invest in the development of our human resources. My government will continue to invest in the development of our people through the implementation of the Information Technology-Based Training and Management Project. The project has three main components. The first component involves institutional strengthening aimed at implementing a strategic ICT policy that will guide the development of the ICT sector for many years to come. The second component involves a number of training opportunities and the construction of new computer labs. The final component of the project involves the provision of community access point for citizens to access, learn and use Information and Communications Technology.

85. It is also the aim of my Government that more and more of our young people would put their training to use and establish enterprises in the Information Technology Sector. Consequently, we are in the process of establishing an Information Technology Park and Business Incubator Division at Conaree Industrial Park with the assistance of the European Union (EU). My Government is also receiving technical assistance from the Mexican Government to advance this important project. During 2005 a delegation visited the Universidad Autonoma del Estado de Hidalgo (UAEH) and various institutions in Mexico to gather information that has been invaluable in assisting the Federation in understanding the institutional context in which such a facility can best be developed. We are also currently in the process of laying the foundation for collaboration between the Clarence Fitzroy Bryant College and the UAEH, which should provide further impetus to the IT Park Project.

## ***The Financial Sector***

### **Commercial Banks**

86. Madame Speaker, growth in commercial banking assets in the Federation continues to be quite remarkable. As at the end of December 2004 assets held by

commercial banks totalled \$2.7 billion, an increase of \$443 million or 19.8% higher than the previous year. Similarly, deposits and loans and advances followed the same upward trend. Deposits increased by \$0.3 billion or 20% from \$1.5 billion at the end of 2003 to \$1.8 billion at the end of 2004, whereas loans and advances increased by \$0.3 billion or 30% from \$1.0 billion to \$1.3 billion. Consistent with the substantial increase in our growth rate and the resulting increased demand for credit, the commercial banking system was able to dispose of much of its excess liquidity as the loans and advances to deposit ratio increased from 72.0% at the end of 2003 to 75.6% as at the end of 2004.

87. However, data for 2005 shows that liquidity in the banking system has been increasing again. As at the end of July 2005 commercial banking assets increased by \$129.2 million thereby pushing assets to the \$3.0 billion mark. In addition, deposits increased at a faster rate than loans and advances, and the Loans and Advances to Deposits ratio decreased from 75.6% at the end of 2004 to 73.5% at the end of July 2005.

### **The Development Bank**

88. Madame Speaker, I now turn to the Development Bank. This important financial institution officially opened the doors to its new and spacious headquarters on May 26th 2005 with much elation. The Bank opened with renewed vigour and a strong determination to continue on the path of serving individuals from all parts of society and thus continues to assist my Government in carrying out its developmental mandate.

89. Indeed the Bank has a solid record of performance on which to build. For instance, in 2004 the Bank approved 1,581 loans to the tune of \$113.8 million. Of this, \$55.2 million or 48.5% was allocated to Industry, \$24.1 million or 21.2% to Housing-Mortgage, \$14.8 million or 13.0% for Education and \$0.9 million or 0.8% to Agriculture. Over the last nine months of 2005, loans approved amounted to 1,551 at a value of \$52.0 million with approvals for Home-Mortgage and Education increasing to 41.7% and 22.7% respectively over the period.

90. The Bank has in 2005 taken on the new initiative of ensuring that workers displaced by the closure of SSMC have the opportunity to source the necessary funds desired to start small enterprises. Towards this end, the Bank conducted three (3) consultations and planning seminars for the former SSMC workers and has developed a special package for individuals who are desirous of becoming entrepreneurs. Presently, loans are available for both farmers and fishers at the following concessionary rates:

<b><u>Loans</u></b>	<b><u>Interest Rate</u></b>
Up to 5000	4.5%
5000 – 10000	5.0%
10000 upwards	5.5%

91. I urge persons making a livelihood from these professions to take advantage of these packages to better themselves, their income earning potential and at the same time increase their contribution to the growth and development of our beloved country.

### **International Financial Services**

92. Madame Speaker, in order to ensure the proper supervision and regulation of the Financial Sector, the Financial Services Department has embarked on an ambitious inspection programme, which involves the conducting of Anti-Money Laundering and Counter Terrorist Financing examinations. In accordance with the Proceeds of Crime Act, 2000, anti-money laundering and counter terrorist financing inspections of 100% of the money services sector, approximately 92% of the insurance sector and 40% of the international financial services sector have been conducted.

93. The Financial Services Commission, which is the ultimate regulatory body for Financial Services in St Kitts and Nevis, is in the process of restructuring so that a single regulatory unit may be formed. This unit will be able to properly regulate non-bank financial intermediaries (insurance companies, development banks, money remittance

businesses and credit unions) and therefore help to bolster even further the stability of the financial system.

94. We are now in a position to devote our full attention to the marketing of our jurisdiction as a well-regulated modern financial centre. In this regard, The Marketing and Development Department has spent a considerable amount of effort promoting the new St. Kitts Foundations. Hence, this year alone we have already registered 116 Foundations, which is more than 4 times the aggregate number of Foundations registered in the two previous years. In addition our Ship Registry, which commenced operations in February of 2005, has already earned a profit of \$67,500 for the few months that it has been in operation. It is projected that the Government will earn up to three times this amount during next year alone, and this figure is expected to increase exponentially as our International Ship Registry is already being regarded as one of the more professional and well-regulated registries in the world. The Corporate Registry operated by the Financial Services Department is making good progress, having collected over \$1 million in fees for the year to date.

### **Money and Capital Market Development**

95. Madame Speaker, my Government continues to provide the requisite support to the further development of the Eastern Caribbean Securities Market (ECSM) and simultaneous transformation of the financial system by putting in place the necessary enabling environment. This has assisted the Eastern Caribbean Securities Exchange, the flagship institution of the ECSM, to better position itself to become the leading exchange within CARICOM, as we move into the CSME.

96. To date, two major non-ECCU companies have listed on the ECSE, namely Grace Kennedy and First Caribbean, which are two of the most dynamic companies in the Caribbean. The total number of listed companies has therefore increased to nine. The number of brokerage firms has also increased from the initial four to nine including

one non-ECCU intermediary from Trinidad and Tobago. The Eastern Caribbean Securities Exchange is recognised as a gateway for channelling foreign investment into the region to augment domestic savings for growth and development. The Eastern Caribbean Securities Exchange also provides an efficient market place in which private sector agents can explore a range of financing possibilities for our new and emerging business sectors.

97. The Eastern Caribbean Securities Exchange's primary trading platform continues to facilitate the efficient issue of member Governments' securities in the Regional Government Securities Market. Since the initial bond issue by my Government in November 2002, activities in this market have significantly increased through monthly issues. Currently there are twelve sovereign issues, including bonds and treasury bills, by four member Governments listed on the market.

98. It is our aim that both the RGSM and the ECSE will usher in a new culture of accountability, good governance and transparency in the financial system as more stringent discipline is demanded of the participating agents. We also expect these initiatives to accelerate financial deepening and the creation of a single financial space in the Eastern Caribbean Currency Union. In my view, the overall programme of capital development in the ECCU will not only serve to give added impetus to the process of regional integration but will also complement my Government's own Financial Sector Development Programme which is geared toward the transformation of our economy to a more service oriented economy and the marketing of St Kitts and Nevis as a leading International Financial Centre.

# PUBLIC FINANCE

## *Fiscal Review*

99. Madame Speaker, the revenue collections for 2004 totalled \$287.03 million, surpassing the previous year's collections by \$31.13 million or 12%. Current Expenditure, recorded an increase of \$35.60 million or 13%, ending the year at \$309.1 million. Over the period 2001 to 2004 Current Revenue increased by \$85 million or 42% while Current Expenditure increased by \$59 million or 23.6%. The rapid growth of revenue relative to expenditure over this period is a reflection of the success of the Government's effort at consolidating its financial position through appropriate fiscal adjustments.

100. However while we were able to achieve substantial slowdown in the growth rate of recurrent expenditure over the period 2001 to 2003 this was disrupted somewhat in 2004 mainly as a result of rising fuel costs, and the very high subsidy Government was providing consumers to cushion the shock of the escalating energy prices. Hence in 2004 we recorded a Current account deficit of \$22.1 million, an increase of \$4.5 million over the previous year's deficit. Of course, increased fuel costs and subsidies accounted for nearly \$20 million of this deficit. Hence, the deficit before we take account of the effect of the increases in oil prices, is approximately \$2.5 million which is less than 15% of the deficit in the previous year and less than one quarter of 1% of GDP. Madame Speaker, we have signed the Petro Caribe Agreement with Venezuela which we expect would assist us in financing a portion of the cost of fuel. It is our aim to use the very cheap financing facility that would become available to us under this agreement to replace some of the higher cost debt that we have incurred to finance development projects.

101. Madame Speaker, Capital Expenditure, including direct payments and purchases by donors amounted to \$64.6 million in 2004 compared with Capital Expenditure of \$44.8 million in 2003. This increase in Capital Expenditure combined with the Recurrent

Account deficit brought the Overall Balance to a deficit of \$79.6 million, about \$11 more than the previous year's Overall Deficit. The Primary Deficit was \$12.9 million or just over 1% of GDP in 2004. This represents a massive improvement in the primary deficit of 9.5% reported for 2000, the year before we embarked on the fiscal consolidation programme. In my view this impressive turnaround speaks volumes about the effectiveness of our efforts at fiscal consolidation.

102. Madame Speaker, a careful examination of Recurrent Revenue discloses that there was substantial improvement in the collection of all categories of taxes over and above the 2003 performance with the exception of Taxes on Property. Indeed there was a 34.4% or 18% increase in tax revenue in 2004. However, Non-Tax Revenue under performed its 2003 level. This is an area to which we will devote considerable attention in the year ahead.

103. The increase in Recurrent Expenditure was due to increases in Personal Emoluments and Wages, Operating and Maintenance Expenses, Interest on Foreign Debt, Pensions and Gratuities and Regional and International Contributions. Personal Emoluments and Wages increased as a result of the 10% increase granted to civil servants in 2004. The increase in Operating and Maintenance Expenses was due largely to the high cost of fuel used in electricity generation and to the amount that Government had to pay suppliers to subsidize the cost of unleaded gasoline and liquid petroleum gas. Interest on debt increased by \$1.5 million to \$66.7 million. Expenditure on Pensions and Gratuities rose in line with the number of public servants attaining the age of retirement and the growth in expenditure on Regional and International Contributions reflected my Government's commitment to fulfilling its membership obligations in very strategic regional and international organizations. The role of these institutions will assume even greater importance in the context of the CSME and the move towards trade liberalization and globalization.

104. Madame Speaker since the demand for public sector investment outweighs the available resources, my Government has been forced to prioritize capital projects in order

to obtain optimal returns from those resources. We continue to pursue mainly those projects which have the potential to increase economic growth and to help to propel the economy towards the desired goal. Capital Expenditure in 2004 amounted to \$54.6 million. The increase in Capital Expenditure was as a result of ongoing projects as well as new projects which came on stream during the year. During 2004 the Economic Infrastructure sector continued to be the largest sector with respect to size of projects undertaken and funds expended. Other sectors in which development occurred during the period were the General Administration Sector, the Social Services Sector and the Economic Services Sector.

105. Madame Speaker, in 2004 an innovative mix of projects aimed at promoting economic growth in the midst of fiscal stabilization was pursued. The specific projects which contributed to capital expenditure included the repairs to roads throughout St Kitts, the Electricity Supply Improvement Project, the Water Distribution Project, the Secondary Education Project, the Warner Park Development Project and Infrastructure for Low Income Housing.

106. Madame Speaker it is evident from the foregoing summary of our fiscal performance that we are continuing our efforts to strengthen our fiscal position by containing expenditure and increasing revenue collections. This is recognized by, the IMF Report at the end of the 2004 Article IV consultations which stated that “revenue performance in 2004 was strong due to both the acceleration in economic activity and the administrative improvements at the Customs and Inland Revenue Departments.” However, Expenditure rose significantly, reflecting higher world oil prices, a factor that is totally beyond our control.

107. Madame Speaker, the public debt of the Government of St. Kitts and Nevis remains excessively high at \$1996.3 million or 177.6% of GDP. Of this amount, which includes the debt of the Nevis Island Administration, the SSMC and the other public corporations, the sum of \$1050.1 million is attributable to the Federal Government. The winding up of the SSMC and the associated severance payments have put some upward

pressure on the debt. Some of these costs, including those relating to the servicing of the debt, the security of the assets of the SSMC, and the protection of the environment, will continue and will place considerable strain on the federal budget.

108. Madame Speaker, the SSMC Debt which stands at \$380 million is a particularly challenging issue. However, this Debt is fully secured by appropriate lands, and we have agreed to enter into an arrangement with the St. Kitts-Nevis-Anguilla National Bank whereby the debt would be serviced and retired over a 25-year period from the proceeds of the sale of lands. We will recruit professionals with the appropriate marketing and land development expertise to spearhead and manage the land sales programme with a view to ensuring that we obtain the best possible prices for the lands sold as part of this arrangement.

109. Madame Speaker, last year, I gave a broad outline of our strategy to reduce the public debt. The components of the strategy included continued and intensified fiscal consolidation, asset management including privatization and commercialization, liability management, and the enhancement of economic growth. It is clear that our strategy for enhancing growth is achieving substantial results, and that, except for the devastating impact of increased energy prices, our fiscal consolidation programme is on track. We are also actively engaged in management of our debt liability and in seeking to identify opportunities for reducing debt service payment through the adjustment of debt maturities and interest rates. Unfortunately, the rising interest rate climate that characterizes global and regional capital markets places considerable limits on the scope of such activities at this time.

110. Madame Speaker, with regard to our Privatization and Commercialization Programme, I am pleased to advise that the Privatization Office has been working steadfastly to identify and value the relevant assets that would be available for sale and to establish a clear timetable for sale that would take into account market conditions. Madame Speaker, I know that there has been some anxiety concerning the pace of the privatization process, but my Government is of the view that this a very sensitive issue

affecting the patrimony of our people and that we should take every precaution to ensure that our people are duly consulted, that they fully understand the process and that they reap maximum benefits from the implementation of a privatization and commercialization strategy. My Government has therefore established the following broad guidelines that would govern the privatization process.

111. Firstly, the Government would, in consultation with our social and economic partners, identify those assets and enterprises which, because of their strategic importance and their impact on our people, should remain under state control or ownership. In the case of such assets and enterprises my Government would be prepared to pursue commercialization and to consider entering into joint venture arrangements or management contracts with private entities, but would maintain majority ownership or control.

112. Secondly, in the case of the sale of assets and enterprises that would result in the creation of a private monopoly in respect of essential services, Government would establish an appropriate regulatory framework that would protect users of the relevant services. Such regulatory framework would complement the Government's initiatives and legislation currently in place in respect of consumer protection.

113. Thirdly, the assets and enterprises must be sold at market value. Moreover, the timing of the sale of the assets must take into account market and liquidity conditions, so that the revenues and benefits to be derived from such sale would be maximized.

114. Fourthly, in allocating the assets and enterprises to potential buyers, the highest priority would be assigned to nationals and residents of St. Kitts and Nevis. We have always welcomed foreign investment to our shores, and we will continue to do so, but consistent with existing policy, foreign participation in the privatized enterprises would only be encouraged where, because of the capital, technical or other requirements, local ownership and management may not be feasible. Of course, even in circumstances where

100% local ownership is not feasible, we will encourage where possible joint ventures between locals and foreigners.

115. Fifthly, in respect of the sale of the shares that Government holds in enterprises identified for sale, every attempt must be made to fully utilize the facilities of the Eastern Caribbean Securities Exchange where possible. Moreover, the allocation of shares should be implemented in a manner that gives priority to the smallest potential shareholders, including low income groups and displaced sugar workers. In other words, the implementation of this programme must facilitate widespread share ownership and foster a share ownership culture among our people.

116. And sixthly, the process of disposing of Government assets must be characterized by high levels of transparency and accountability. In particular, transparent tendering processes must be employed where feasible, the proceeds of sale must be paid into the Government's Treasury, and the Privatization Unit must submit to the Minister of Finance regular reports, including financial reports, on the progress of the privatization and commercialization programme and on the operations of the Privatization Unit.

117. Madame Speaker, we have already identified a number of assets that seem suitable for privatization within a relatively short period of time. These include a number of Government houses and Government shareholdings in Cable and Wireless and The Cable. Hence, during the first part of next year, we expect that the Privatization Unit would be making appropriate announcements in respect of these assets.

118. Regarding the Electricity Department, the Caribbean Development Bank will provide assistance with the commercialization of that Department. The Terms of Reference for this consultancy have already been agreed on. We expect that the Consultant will begin work early in the New Year. The critical components of the project for commercializing the Electricity Service include the provision of additional generating capacity, the enhancement of the reliability of the electricity supply in all areas of St. Kitts and Nevis, and the improvement of the overall operational efficiency of the

Department. In fact, as part of the project, we will be ordering a new generating set shortly with a view to having it delivered and installed by the end of next year.

### ***Fiscal Prospects***

119. Madame Speaker, Recurrent Revenue for fiscal year 2006 has been estimated at \$363,502,063. This represents a 12.8% increase over the 2005 revenue estimate of \$322,256,868. On the other hand Recurrent Expenditure for 2006 has been estimated at \$336,953,343 representing a 9.3% increase over the comparative estimate of \$308,320,698 for 2005. We are therefore projecting a Recurrent Account Surplus of \$26,548,720.

120. This year's Budget comes at a time when our economy is in transition. It therefore seeks to target resources to those initiatives aimed at transforming our economy from one where Sugar played a significant role to a more diversified economy led by Tourism and Services. However, this transformation must be undertaken within the context of our fiscal constraints.

To date we have seen a dramatic improvement in the performance of our main revenue heads and this trend is expected to continue in the 2006 fiscal year. However in this Budget we have sought to contain the growth in expenditure while at the same time providing adequate resources to social programmes that will positively impact the lives of the more vulnerable groups of our Communities. Hence, in keeping with our strong determination to restrain expenditure growth the increased resources provided to some expenditure heads have to a large extent been funded by internal reallocation of funds thus reducing the overall increase in the Recurrent Expenditure. In particular, expenditure on personal emoluments has been reduced as several posts which have remained vacant over a period of time have been removed from the Establishment and excess resources have been reassigned to areas where they can be used more efficiently.

121. Madame Speaker, I now present a summary of the proposed changes to Government Expenditure for 2006. The full details of the programmes and activities for each Ministry are contained in the Draft Estimates. I would therefore highlight those programmes and activities which show significant changes in the level of expenditure.

122. The Ministry of Legal Affairs allocation for 2006 represents an increase of \$171,235 or 7.3% over the 2005 estimate. As our economy continues to evolve into a service economy, the Legal Department is increasingly being called upon to provide a wide range of specialized legal services to the Public Sector. The demand for such services has increased even more with the recent closure of the Sugar Industry.

123. Steps are therefore being taken to restructure the Ministry of Legal Affairs and give it the additional capacity it needs to respond to the increased demand for its services in a more timely and efficient manner. To this end provision has been made in the 2006 Estimates for four additional Counsels. One of these would be attached to the Legal Aide Clinic established earlier this year, to enable it to better discharge its mandate of providing quality services to its clients. The Legal Aid Clinic is an important addition to the wide array of institutions and initiatives that my Government has introduced to specifically help the poor. Through this important initiative, even the very poor among us have easy access to effective legal representation.

124. Madame Speaker, the Law Revision Project is well underway and work will continue during 2006 to ensure its successful completion in 2007. One of the objectives of this project is to harmonize our laws with the Constitution of St. Kitts and Nevis. It also seeks to make the laws more accessible and user friendly by placing them on CD-ROM and on the internet. This is one example of my Government's efforts to use technology more effectively in the delivery of its services.

125. Madame Speaker, law and order continues to be a top priority for my Government. We intend to take strong measures to arrest the present spate of incidences of crime with a view towards keeping St. Kitts and Nevis safe for both residents and

visitors alike. These measures would focus on crime interdiction and crime prevention. As a result in the 2006 Budget the Ministry of National Security, Justice, Immigration and Labour has been allocated a significant increase of \$1,876,062 or 5.8% compared to 2005. This increase represents one of the largest increases allocated to any Ministry in 2006.

126. The increased allocation would permit increased police and army patrols, the procurement of better crime fighting equipment, and the exposure of Police Officers to a variety of training programmes. Particular attention would be paid to upgrading the equipment in the Criminal Investigation Department. This would greatly enhance their capacity to investigate crimes and in bringing criminals to justice. For instance, we propose to upgrade our fingerprinting facilities, so that fingerprints lifted from the scene of a crime may be easily and expeditiously compared to the fingerprints of all previous offenders that would be kept in a computerized database. We also intend to cooperate with other regional countries so that our Police would also have access to their databases. This is a critical initiative in the context of the freedom of movement provisions of the CSME.

127. Madame Speaker, the increased allocation to National Security is consistent with the very high priority that my Government assigns to Law and Order and the fight against Crime. Our Police Hotline, to which people can anonymously report criminal activities, has turned out to be a very useful device in detecting crimes. We have also upgraded the rewards given to informants who provide information leading to the detection of crime. For instance, persons providing information leading to the recovery of guns, or the seizure of drugs or the successful arrest in respect of a wide range of criminal offences such as larceny, burglary, and murder are duly rewarded. These rewards vary with the seriousness of the crime and range from \$300 to as high as \$4,000.

128. The Ministry of National Security is also collaborating with the Ministries of Youth and Social Development to specifically target young people, including gang members, with a view towards engaging them in constructive dialogue and involving

them in what has been referred to as a 'Circle of Peace', which has as its key objective the maintenance of peace, law and order in the various communities around our Federation. My Government views youth crime, in particular, as a complex of social, economic and psychological variables which must all be addressed if we are to progressively bring down the crime rate over time.

129. Madame Speaker, we are determined to get to the root cause of criminal behaviour through our social and educational programmes so that our efforts would not only yield short-term results but would help in the creation of a peaceful, harmonious and crime-free society over the longer term. It is in this context that we have procured the financing from CDB to implement a Youth-at-Risk Program which has as its objectives the reduction of juvenile crimes through the early detection and rehabilitation of young offenders into productive citizens, the establishment of a comprehensive juvenile justice system to cope more effectively with young people in conflict with law, and the strengthening of the infrastructure to prevent youth crime as well as respond to children involved in criminal activities.

130. In this regard, we will construct a specialized facility for nurturing our young people who are considered to be at risk. This facility would allow us to separate young offenders from hardened criminals and it would recruit professionals with the expertise required to provide counselling and training to these young people and enable them to acquire income generating skills as well as values consistent with responsible citizenship. Already, a number of our businesses seem prepared to provide employment to properly rehabilitated offenders so that they may be smoothly reintegrated into the society. This practice will help considerably in keeping these persons out of trouble and in reducing the crime rate.

131. The 2006 allocation for the Ministry of Foreign Affairs, International Trade, Industry and Commerce increased by \$650,070 or 4.7% over the 2005 estimate. The major portion of this is to meet the increased cost of the participation of St. Kitts and

Nevis in regional and International Organizations. Resources have also been provided to give this Ministry the administrative capacity to address CSME and WTO matters. We would also wish to ensure that our people who reside overseas are provided adequate representation and assistance through the consular services that we provide. In this regard we will explore the possibility of establishing a Consulate in the Virgin Islands during the course of next year.

132. The 2006 allocation under the Ministry of Finance, Sustainable Development, Information and Technology increased \$10,565,119 or 6.4% over the comparative estimate for 2005. This increase is mainly attributed to debt service payments. Madame Speaker, we expect as the fiscal consolidation programme continues and as the privatization programme takes root, the stock of debt will be reduced substantially and our debt service obligations would fall correspondingly.

133. The Ministry of Housing, Agriculture, Fisheries and Consumer Affairs received an increased allocation \$207,356 or 4.6% over the previous year. A significant portion of this increase has been allocated to the Agriculture Department which will play an increasing role in the development of non-sugar Agriculture in the post sugar economy. Earlier in my presentation, I outlined our programme for developing non-sugar agriculture in the years ahead. The implementation of this strategy will require the progressive strengthening of the institutional capability of the Department of Agriculture. Hence, this year's increased allocation to agriculture is consistent with this overall strategy for developing the non-sugar agriculture sector.

134. Madame Speaker, Tourism is the leading sector of the economy and continued growth in this sector would offset any negative impacts of the closure of the sugar industry. The Ministry of Tourism has therefore been provided an increased allocation of \$221,920 in 2006. It should also be borne in mind that the Tourism Authority receives all of the revenues collected in respect of the Island Enhancement Fund. This Fund has been growing over time and is helping to provide a portion of the resources required to

intensify our tourism marketing effort including the provision of the guarantees required to expand the airlift into our Federation.

135. The Ministry of Public Works, Utilities and Posts received an increase of \$13,326,134 or 30.4% over last year. Most of this increase is to cover the increase in fuel costs in Electricity generation. The prices of fuel remain very uncertain. However, we have based this estimate on the assumption that the prices in 2006 would be substantially below the prices recorded in the latter part of this year but would still be well over US\$50.00 per barrel. This assumption is consistent with the prediction of a number of Markets Analysts but the differences between the forecasts of these Analysts are very substantial.

136. The allocation for the Ministry of Health was increased by \$3,964,190 or 14.5% over 2005 allocation. This increase would allow the Ministry of Health to enhance its capacity so that it may provide free medical services to former SSMC employees. Additionally, we are continuing to improve the level of health care delivery at the JNF Hospital by providing additional services. In particular, for 2006, we propose to fully operationalize the Private Ward. We are also proceeding with plans to move beyond the peritoneal dialysis that we currently offer to the more technologically advanced and effective haemodialysis. This would bring relief to many of our nationals who find it necessary to go overseas and incur massive costs for this vital service. We are also prepared to implement more aggressively our Community Health Programmes through our Health Promotion Unit and the National HIV/AIDS Council.

137. The 2006 allocation for the Ministry of Education and Youth increased \$317, 507 over the 2005 estimate. This represents a net increase after the transfer of \$1,000,000 to the Human Resources Department to pay the salaries of teachers on study leave. In other words, the education system has benefited from a total increase of the \$1,317,507, but some \$1 Million is being expended on its behalf by the Human Resources Department.

138. Prior to this new arrangement, replacement teachers could not be appointed to the posts left vacant by teachers on study leave. This placed them at a disadvantage and slowed down their progress through the ranks of the teaching service. This initiative would therefore give the Department of Education greater flexibility in managing its teacher resources.

139. Madam Speaker our students continue to excel at the CXC Exams. This we are proud of because it can be attributed to our advanced Comprehensive System of Education, an envy of our Caribbean neighbours. However, we are now changing the focus of the educational system to ensure that more students of varying abilities are given the opportunity to complete high school. We want to ensure that even those students who are not capable of passing 10 or 11 CXC subjects are provided every opportunity to complete their high school education and to attain whatever number of subjects are consistent with their capabilities. Hence in evaluating the performance of schools we will not only be focusing on the number of passes as a percentage of the number of subjects sat. We will also place great focus on the number of successful students relative to the total number of students enrolled at the School.

140. We will also enhance our efforts at identifying students with learning disabilities at a very early stage, and to take corrective action to prevent them from leaving school prematurely in a state of frustration and disillusionment. The Ministry of Education would also be restructuring the remedial programmes in schools to make them more responsive to the needs of the slower students. Focus will be on improving reading and language skills as well as core mathematics skills, basic science and social studies. We are convinced that our success in guiding a greater percentage of our students through the entire school system and reducing the number of dropouts, would help to reduce crime dramatically.

141. Madame Speaker, we also intend to ensure that even where students are not able to complete the formal academic requirements of a high school education, they would be provided with alternative training that would prepare them to take up entrepreneurial and

employment opportunities in our society. In this regard, we have been actively involved in consultations with the CXC and participating Governments to arrive at a new examination structure that would help us to address this need. Consequently a new CXC examination structure will be introduced in 2006-07 that will enable students to select electives that will help to develop skills relevant to the workplace. In preparation for this important initiative, the Ministry of Education has been in consultations with the Caribbean Association of Training Agencies (CANTA) with a view towards identifying skill areas from which students may choose. We are also collaborating with CXC and our regional partners to ensure vocational skills qualification are duly endorsed by CXC and recognized regionally and internationally.

142. We also intend to expand the role of the Advance Vocation Education Centre, Youth Skills and Project Strong to provide life long learning opportunities for school leavers, young adults and unemployed persons. Moreover, in expanding the roles of these institutions we will also seek to build an integrated Vocational Education System by creating linkages and exploiting synergies between the operations of these institutions. Already, The Youth Skills and the Clarence Fitzroy Bryant College have begun to play an invaluable role in retraining the former SSMC workers with the requisite skills to allow them to re-enter the job market. Indeed we propose to convert the Youth Skills Programme into a National Skills Training Programme and expand its mandate to cover a much wider range of skills and to serve a much broader clientele.

143. These activities will become even more critical in the context of the CSME and globalization. Our people must be given the opportunity to benefit from training and retraining to enable them to move smoothly into the new and more competitive sectors as opportunities dry up in old and non-competitive sectors of the economy. Madame Speaker, our people are our most valuable resource. My Government intends to use education as a tool to harness and develop the innate abilities of our people to enable them to participate meaningfully in the economic and social development of our beloved nation.

## *Development Projects*

144. Madame Speaker, since entering office my Government has pursued an ambitious Public Sector Investment Programme that has dramatically improved the standard of living of all our citizens. Despite the financial constraints that we are currently experiencing we have carefully selected the capital projects that would promote economic activity, improve our physical infrastructure and expand our utilities to meet growing demands. Our aim then is to implement the projects that will have the greatest impact on the quality of life of our people.

145. We have made considerable investments in the upgrading of all our roads. During 2006 we will commence the construction of the West Basseterre Bypass Road at a cost of \$20 million. This project will help to ease the current traffic congestion in Basseterre. It is our intention to have this road completed in time for the World Cup as it will help us to cope with the increased flow of traffic at that time. This project will also provide additional employment opportunities for our people.

146. Madame Speaker, a reliable electricity supply is critical to our development. Recognizing this we intend to continue with the Electricity Improvement Project which would upgrade the electrical distribution systems. We also intend to pursue the installation of a new generator in an effort to upgrade the generating capacity of the Power Station to meet the increasing demands for electricity due to economic development. In addition we will continue to upgrade the physical facilities of the Power Station by constructing a warehouse and renovating the Power Station building.

147. The role that Police and Defence Force play in maintaining law and order cannot be underestimated. It is therefore important that they be provided with comfortable physical facilities in order to be able to carry out their duties in an effective manner. The upgrade of the existing facilities would require a large capital investment and therefore

would have to be done in phases. During 2006 we intend to begin the construction of the Dieppe Bay Police Station which has been out of operation for some years now. We are also in consultation with the CDB with respect to the funding of a comprehensive project for upgrading of Police and Army Facilities around the Federation and for providing additional crime fighting equipment for the Police.

148. Madam speaker we are a member of the Global Community. Unfair as it may seem small countries such as St. Kitts and Nevis are expected to put in place the same costly security systems as the more developed countries have in their immigration departments. The 2006 Budget provides resources in the amount of \$865,000 to complete the establishment of a Machine Readable Passport System. St. Kitts and Nevis would be one of the first Caribbean Islands to have such a system in place. A passport reading machine is an indispensable tool used by immigration officers in the efficient processing of persons at our borders. This system is also part of our preparation for the implementation of the CSME.

149. Madame Speaker we have invested heavily in the Customs Reform Project that is being undertaken by the Crown Agents. Under this project Customs Officers have received management training and management procedures and systems at the Customs Department have been upgraded. The effectiveness of the reform is already being reflected in the dramatic improvement in collections. The final phase of the project is the computerization of the entire Customs Department. This includes the installation of the TRIPS Software that would be used to process of customs entries and would provide vital management information. TRIPS would also allow businesses to submit their entries to the Customs in electronic format resulting in a significant reduction in the time it takes to clear goods from the Customs. \$265,000 has been allocated to this Project.

150. During 2006 work will commence on refurbishing the Customs Building so as to improve the physical environment in which Customs Officers currently have to operate. Moreover large amounts have already been invested in computer and other equipment. It

is therefore important that we secure our investment by ensuring that they are housed in proper facilities.

151. Madame Speaker the strides made in Social Development under my Government is unsurpassed in the annals of our Federation. This has been reflected in our Federation's achieving a Human Development Index that is better than some of the more developed countries of the world. This is an achievement that we are proud of. St. Kitts and Nevis did not achieve this by chance but by my Government's massive investment in high impact social development projects. We have seen the building of community centres , the construction and upgrading of our primary and secondary schools, the construction of nurseries and pre-schools, the upgrading of health centres and the construction of sporting facilities to name a few.

152. In the 2006 Budget we have provided \$1.4 million to implement a number of social development projects aimed at further improving the quality of life of our people especially the young. The \$1.4 million would be complemented by \$1.7 million in grant funds. The projects are listed in the draft estimates but I would take this opportunity to name a few. These include:

Fencing of the St. Pauls Health Centre

Construction of alleys at Molineux, Camps and Tabernacle

Expansion of Molinuex Health Centre

Upgrading of Saddlers, Dieppe Bay and Tabernacle Primary Schools

Fencing of Newton Ground Primary School

The Refurbishment of Irish Town Primary School

Construction of the St Paul's Nursery and Pre School

Resources have also been provided for the fencing of the Verchids playing Field and for the continuation of the Warner Park Development Project

153. With the demise of the sugar industry, we must intensify our efforts to develop other sectors that would provide employment for our people. One Sector that shows much promise is the Fisheries Sector. There is great demand by locals and the hospitality industry for fresh fish. It is therefore important for our fishermen to be provided assistance in the form of training, and the processing and marketing of their catch to allow them to take full advantage of the opportunities available to them in fishing. It is for these reasons and more that the Old Road Fisheries Complex has been conceived. The project is estimated to cost \$20.0 Million and construction of the facility would begin in 2006.

154. Madame Speaker we intend to proceed with the construction of the Saddlers Secondary School in 2006. This would be a state of the art facility and would be the first school in St. Kitts Nevis to be completely accessible to the physically challenged. Adult education programmes and skills training programmes will also be delivered at this facility to persons of the neighbouring communities thus relieving them of the inconvenience of travelling long distances to benefit from training. The school would provide both students and adults of Saddlers and the surrounding communities with greater access to education and training in a wide range of subjects and skills.

155. HIV/ AIDS continues to pose a serious threat to our populace. During 2006 we intend to reconstruct the Pogson Hospital to provide a range of health and medical services including control and prevention of HIV/AIDS and we will implement the HIV/AIDS Prevention and Control Project to complement our already extensive range of activities aimed at promoting healthy life styles through our Health Promotion Unit. This project is estimated to cost \$14.9 Million. It is expected that this project would greatly assist in the fight against HIV/AIDS and help to protect our people from this deadly pandemic that could seriously undermine the implementation of our development strategy if not effectively countered.

### ***Fiscal Measures and Budget Initiatives***

156. Madame Speaker, I have outlined my Government's plans to further the growth and development of our economy particularly in light of the need for transformation after the closure of the sugar industry and in addressing our debt situation. All of our citizens would agree that in order for our country to face the challenges which inevitably accompany change, both the public and private sectors have areas of responsibility that must be fulfilled. Government is responsible among other things for creating a stable and predictable macroeconomic environment. However the Government on its own does not have all of the finances, knowledge and social capital necessary to propel the economy along the desired path. The citizens of St Kitts and Nevis must therefore be prepared to contribute to the successful transformation of our country. I am sure that we would all agree that some sacrifices are necessary in order to take us successfully through this period of our development.

157. My Government is committed to tax reform and improvement in tax administration to bring our tax system in line with the realities of the changing structure of the economy. Fiscal measures however must be balanced against our growth objectives and be structured in such a manner that the most vulnerable groups among us are not adversely affected and hence plunged into deeper poverty. Many of our partners in the international and regional community have been emphasizing the efficiency and coverage of income tax and have encouraged us to go this route especially in light of the need for fiscal harmonization of the OECS to permit economies of scale. We have not yet decided on the exact components of the tax structure but during the course of the year we will also be engaging in further public consultations to get the views of our citizens on an appropriate and more progressive tax structure.

158. During these consultations we will expect to obtain the views of our people on the possible implementation of a Sales Tax to permit the reduction of import duties in line with our obligations under the CARICOM treaty, to replace a number of nuisance taxes currently on our books and to prepare the way for the future introduction of comprehensive transaction-based tax. Madame Speaker, it is clear to me that the forces of

trade liberalization and globalization will bring down our import duties over time. It is therefore essential that we set about revising our tax system to protect our revenue base and secure the fiscal stability of our economy as border taxes go down.

159. Moreover, we have sought to act pre-emptively in respect of the possible social and economic consequence of the closure of the sugar industry. But we can never be certain that we have fully and accurately forecasted the extent and magnitude of those consequences. We must therefore do everything possible to bolster our tax systems and accumulate the resources to give us some flexibility in dealing with any unforeseen consequence of the demise of an industry that has dominated the economic life of our nation for over three hundred years. This is a very difficult challenge when viewed against the backdrop of very high levels of public debt that we must address comprehensively to prevent the undermining of the growth potential of our economy.

160. This is the context in which I invite you to participate in the Consultations on Tax Reform scheduled for early next year, and to join with my Government in confronting the monumental challenges that we face at this time. It is also in this context that I propose a number of fiscal and budgetary initiatives for implementation in 2006.

161. Madame Speaker, there is need to further strengthen tax administration as the means of ensuring that new taxes and increased rates of taxes are only pursued as last resort. Our revenue departments have made substantial strides in improving administrative efficiency and we are heartened by this progress. However, we feel that there is still room for improvement in respect of the valuation of properties for tax purposes, and the assessment and collection of property taxes. The real estate sector is booming in our country but we have not been able to realize the level of revenue that is expected from House and Land Tax. We therefore propose to restructure the Property Division of the Inland Revenue Department with a view towards enhancing its effectiveness and to undertake a land cadastral survey to facilitate the work of the Property Tax Division and to strengthen our land registry generally.

162. Madame Speaker, we will also move to pass the necessary legislation to permit the assessment of property tax on the basis of market value instead of annual rental value and to introduce a system of self-assessment by property owners. The property tax system will be restructured so that a greater tax burden will be borne by higher value properties including villas. Owner occupied properties valued at under \$100,000 will be exempted from this tax. My Government has been very successful in promoting home ownership among our low income families. This initiative is part of the process of making home ownership even more comfortable for low-income groups.

163. Madame Speaker, the liberalization of the telecommunications sector has opened up opportunities for not only other companies to engage in this business but the competition has served to reduce prices considerably. We feel that the time is now right to extend the current tax on international calls to land based calls. Therefore effective 1st January 2006 the 5% tax currently applicable to overseas calls will be levied on all telephone calls, including domestic telephone calls. In the context of liberalization and increased competition in the telecommunications sector which is exerting downward pressure on the price of the telephone service, it is unlikely that the overall telephone bill of consumers would increase substantially in 2006 even after the revised tax is levied. It is also worthy of note that the liberalization of the telecommunications sector was a very costly and time consuming exercise. In fact we are still servicing a loan from the World Bank that was used to finance the liberalization process. The increased tax will therefore assist in the servicing of this loan.

164. Madame Speaker, the current Income Tax Legislation requires companies to file their tax returns by the 15th of April each year but allows them three months after their assessment to make payment to the Inland Revenue Department. This does not allow the Government to manage its cash flow in an effective manner. Therefore in order to address this issue the Income Tax legislation will be amended to allow for self-assessment and for payment to be made on the date of filing. Madame Speaker, I would like to emphasize that this does not represent an increase in taxation. It merely requires earlier payment of the Income Tax paid by corporations.

165. Madame Speaker, as we begin to tackle the fiscal impact of the closure of the sugar industry matters such as the servicing of the debt, providing for the health, training and social protection of former sugar workers, the maintenance of the environment and land management issues all have cost implications. In trying to come up with innovative ways of raising revenue to assist with the sugar transition we have been consulting with our economic and social partners on the tax system that they feel would be best suited to the structure of our economy. We have also been studying the proposals of the Tax Reform and Administration Commission. One of the overlapping areas of concern is with respect to the lack of 'progressivity' of our tax system in the absence of personal income tax. To address the foregoing from 1st January 2006 we have decided to increase the Social Services Levy from 8% to 10% for salaries in excess of \$8000 per month. This increase would only apply to the portion of salary in excess of \$8000. Madame Speaker, the transition of sugar will result in substantial increases in the cost of our social services, including health care and social safety net payments. This increase will help in defraying a portion of this increased cost.

166. Madame Speaker, in most countries products such as alcoholic and tobacco products which are injurious to one's health and which place a burden on the health system are normally more heavily taxed than other consumer goods. In St. Kitts and Nevis, the reverse is often true in that these goods are sometimes taxed less severely than other goods. To correct this anomaly, an excise duty will be introduced on alcoholic and tobacco products to be levied on the c.i.f. values of these goods plus any applicable import duties. This excise duty will be applied at the rate of 15% initially. This tax is consistent with our efforts at promoting healthy life styles among our people. Moreover, our health system incurs tremendous cost in respect of diseases associated with the consumption of alcohol and tobaccos. It is only fair that the users of these products be asked to bear a portion of this cost.

### ***Beyond the Fiscal Year***

167. Madame Speaker, although the Budget relates to the next fiscal year, the development plans of the Government extend well into the future. In particular, our multi-year projections, based on an active scenario involving tax reform, enhanced expenditure controls and the privatization of a number of Government's assets and enterprises overtime, is for the attainment by 2010 of a current account surplus of 5.8% of GDP, a primary surplus of 8% of GDP, an overall surplus of 1.1% of GDP, and the reduction of public sector debt to approximately 117% of GDP.

168. However, the attainment of these objectives will require the significant changes in the way we do business. In particular, the public corporations are responsible for a sizable portion of the public debt. We have commenced a major restructuring of the St. Kitts Air and Sea Ports Authority (The Ports Authority) and we are already witnessing substantial improvements in the financial operations of this entity. Indeed we expect that the process will continue and that by the end of the first half of 2006 the Port Authority will be fully commercialized based on the enunciated policy of Government. As part of the commercialization process, the Port Authority will also pursue private-public sector partnerships schemes for the operations of selected assets such as the new jet fuel depot that will be constructed as part of the ongoing Airport Expansion Project. The National Housing Corporation will also be engaged in a similar exercise to improve its operations.

169. We will also consolidate the operations of the various public sector entities involved in land development. These include the Frigate Bay Development Corporation, the White Gate Corporation and the La Vallee Greens Ltd. Madame Speaker, we believe that the land currently owned by the Government will play a significant role in advancing the development process. We are determined therefore that the entities charged with the management of these lands should operate with great efficiency and effectiveness, and should carry on operations characterized by very high standards of transparency and accountability. As part of the consolidation process, we will ensure that the new consolidated entity is provided professional management, and proper financial and accounting expertise.

170. The operations of the new entity will be guided by a comprehensive land policy that Government intends to enunciate shortly. This policy will require compliance with a land use management plan that would provide for the allocation of lands to village expansion, non-sugar agriculture, tourism projects, housing and the other uses based on the priority assigned by the Government. It would also provide for priority to be given to nationals of St. Kitts and Nevis and for concessions to be given to low income families. It will also require that the land allocation and distribution process be transparent and be capable of withstanding even the most intense public scrutiny.

171. During 2006, we will also pass legislation that will require very high standards of accountability for all public sector entities. Draft legislation has been prepared with the assistance of the Eastern Caribbean Economic Management Programme, and we expect that we should be in position to introduce the appropriate Bill in Parliament during the first half of next year.

172. Madame Speaker, a comprehensive energy policy will also be critical to the attainment of the long term goals we have set ourselves. The prices of petroleum products have been unusually high and it seems unlikely that they would return to their previous levels at any time soon. Indeed, with the increasing demand for oil brought about by the rapid growth of the Chinese economy, it seems likely that the increase in the world supply of oil would not be able to keep pace with the demand for it. Hence, there would be continued upward pressure on the price of oil. I have therefore established a Committee to devise an appropriate energy conservation plan aimed at reducing our reliance on fossil fuels. In the meantime we are also exploring the possibility of converting the generator sets at the Power Plant from the use of diesel to the use of heavier fuels that would be substantially cheaper.

173. We also urge the public to exercise care and prudence in the use of energy. It is already clear to us that in light of the fiscal realities that we face at this time, Government simply cannot afford to provide the level of price subsidies to consumers as it did in the past. We also believe that by asking consumers to pay the true price of energy products,

we may actually be fostering a culture of energy conservation as people vary their behaviour patterns to reduce their energy bills. Moreover, we believe that it is unfair to levy taxes on the entire population to subsidize the energy consumption of even the most wasteful and extravagant users of energy among us.

## ***Conclusion***

174. Madame Speaker, we currently face some of the most difficult challenges that our country has encountered since it attained nationhood. Indeed the loss of the sugar industry is a challenge of monstrous proportions that will require great commitment and sacrifice by all of us, if we are to move forward into a new and dynamic society capable of delivering better and better standards of living for all of our people. This year's budget represents another definitive and confident step forward toward that new society.

175. It brings great hope and cheer to our sugar workers who must have felt a sense of despair on that day when the last end of crop horn was blown. Since then, they have been assured that my Government would spare no effort in protecting their welfare. The extensive provisions in this budget for the continued protection of the livelihood of our sugar workers should assure them that the supporting hand of the Government that has kept them steady over the trying period immediately following the end of crop, will continue to hold them up until they can stand on their feet and carve out a new and better place for themselves in this new and dynamic society that we are creating here in St. Kitts and Nevis.

176. This year's budget brings hope and cheer to our young people, who will benefit from a range of training opportunities tailored to meet their needs, inside or outside of the school system. The tremendous growth that our economy has been achieving will open up a whole new set of job opportunities for them. Indeed, the OECS labour survey has indicated that there are over 600 jobs waiting to be filled. We are confident that our expansive programme of vocational training will equip them to confidently take their place in society as entrepreneurs or productive employees.

177. This year's budget brings hope and cheer to the poor. We continue to build on our strong and internationally renowned record of Human Development. Indeed we were proud that our extensive social infrastructure has been able to accommodate many of our sugar workers that fall among the low income groups of society. Moreover, we continue to extend support to the poor. This budget provides for them to have preferences and concessions in the allocation of land and in the allocation of the shares of privatized entities. It also gives them relief from the payment of property taxes. Moreover, despite the ravages of the oil price shock we have managed to keep the rate of inflation to just about 2.3% in 2004 and the first half of 2005, and therefore spared the poor much of the harm that is usually associated with dramatic increases in the cost of living.

178. The budget brings hope and cheer to the entire society. It establishes quite clearly and unequivocally that transformation is on its way, and with the continued hard work and resourcefulness of our people we can overcome the challenges we face. This budget assures our people that law and order remains the first priority of my Government. It empowers the Police to enhance their law enforcement functions by providing them additional resources. It also seeks to tackle the root cause of crime by reaching into our communities through various social and educational projects aimed at preventing our people from moving into a life of crime and reforming those of our young people who have been in conflict with the law.

179. Madame Speaker, all that is left for us to do is to unite as a people, put our shoulders to the wheel, and press on with the job of nation-building. My Government is committed to forging a national consensus on issues pertaining to fiscal and tax policy, public debt, and economic development in general. This commitment has been amply demonstrated by our very extensive National Consultations on the Economy during the budget preparation exercise. During that momentous session, professionals from the Ministry of Finance and Sustainable Development and other Government Ministries presented detailed fiscal and debt data and other information relevant to the development of our Federation. The response was tremendous and this budget has benefited

considerably from the viewpoints expressed at the National Consultations. Indeed I truly believe that this year's budget truly embraces the theme of the National Consultations on the Economy, "Sustaining our Gains, Confronting our Challenges and Building on our Collective Achievements."

180. The Consultative process will continue and I invite the entire public to participate fully. The issues of development and debt are national issues of relevance to all of us. Let us take these critical issues out of the realms of narrow partisan politics and embrace the spirit of our national motto 'Country Above Self'.

181. My Government will support our consensus building activities with appropriate legislation. In particular we will proceed with Electoral Reform and Constitutional Reform, with a view to strengthening our very proud and enviable record of democracy. However, for our efforts to be truly meaningful our people must be prepared to put country above politics. We must look beyond and above the fuss and fury of partisan politics and see the new society that we can create if we would only work together.

182. Madame Speaker, I am persuaded that, notwithstanding our challenges, there is a bright future ahead of us. I have great faith in the talents and resourcefulness of our people. I have faith in our young people who are coming forward every day to take up the mantle of leadership and good citizenship; I have faith in our sugar workers and in their ability to move beyond the estates in pursuit of new and even more exciting opportunities. I have faith in our workers who through their steadfastness and hard work create a steady flow of value for the benefit of all of our people. I have faith in our entrepreneurs and in their ability to deliver products and services comparable in price and quality to any thing offered in the CSME. I truly believe that the new society of peace, harmony and prosperity that we have been building is now in sight and well within our reach. I am confident that this year's budget takes us one step closer to that cherished goal.

183. Madame Speaker, I so move.