



St. Christopher & Nevis



*Presented to the National Assembly*

# FY2008

*On Tuesday, 11th December 2007*

# BUDGET ADDRESSES

**Presented by the Honourable Dr. Denzil Llewellyn Douglas  
Prime Minister & Minister of Finance**



**Strengthening human and social capital:  
Key elements in our economic transformation.**

1. Madame Speaker, I beg leave to move the second reading of the Bill shortly entitled the Appropriation (2008) Act, 2007.

## **INTRODUCTION**

2. During this year's National Consultations on the Economy, my Government paid careful attention to the numerous views expressed by a wide cross-section of our society in relation to the theme of the Consultations, "Strengthening Human and Social Capital – Key Elements in our Economic Transformation." Many of these views have medium and long-term policy implications, and will significantly influence our Medium-term Economic Strategy Paper, but a number of the ideas generated at the National Consultations are of immediate relevance and must be addressed in this year's budget. Moreover, based on the enthusiasm with which the theme of the National Consultations was embraced and discussed by the participants, I have decided that in this year's budget address I will focus, inter alia, on the issue of human and social capital development and its role in the transformation of our economy.

3. Madame Speaker, the father of modern economics, Adam Smith, defined human capital as "the acquired and useful abilities of all inhabitants or members of the society." Of course, such useful abilities are acquired through training and education or through any process that enhances the skills and knowledge of the people in a society or community. Moreover, for Adam Smith and a number of subsequent Economists, the cost of acquiring such abilities, knowledge and skills represents an investment in human capital from which future economic returns should accrue to the individual and to the society as a whole.

4. The pursuit of human development and advancement through appropriate and consistent investment in human capital has been one of the major planks of the Labour Party since its inception. Indeed our comprehensive education system that was introduced by the Education Act, 1966 amidst great hue and cry, ushered in universal secondary education in St. Kitts and Nevis well ahead of all other Caribbean Countries. Even now, over forty years after our comprehensive education system was implemented, many of these countries are still struggling to replicate various aspects of our education system, in keeping with international trends that have now confirmed the perspicacity, foresight and vision of our Labour Leaders.

5. Madame Speaker, the Education Act 1966 made the education of our children free and compulsory. Today, we continue to build on this outstanding achievement by making education even more accessible through the removal of a number of social and economic obstacles that quite often prevent lower income families from accessing the free education provided by the Government. In particular, we provide free school uniforms, free exercise books, free textbooks and free access to overseas examinations for our students whose parents and guardians cannot afford to meet the expenses in respect of these items.

6. In addition, we have dramatically upgraded the School Meals Programme to ensure that all of our primary school students enjoy a well-balanced, nutritious and enjoyable meal each day. We are also expanding the coverage and reach of the education system through the construction of Day Care and Early Childhood Education facilities in the communities throughout our Federation, and through the ongoing construction of a new state-of-the-art secondary school in Saddlers that will have the capacity to provide life-long learning opportunities to the people of Saddlers and the neighbouring communities.

7. At the same time, we continue to improve the quality of education through enhanced teacher training programmes, the continuous refinement and upgrading of the curricula, and the provision of computer laboratories in our schools that benefit not only the schoolchildren but also the entire community served by the respective schools. We have also strengthened the vocational and skills training component of the school curricula to cater to the varying needs of our students and to provide more of the skills required by our enterprises. Most recently, the Green Paper on Education was laid in Parliament and is now being circulated for comments.

8. In addition, we allocate resources to a number of special programmes, including the Youth Skills Programme, AVEC, and Project Strong, that enhance the capacity of the education system to reach more and more people of various walks of life and to give them the means of enhancing their income through the acquisition of practical knowledge and skills. The capacity and variety of our education system was amply demonstrated when the Youth Skills Programme and CFB College of Further Education rose to the challenge of training and equipping hundreds of the displaced sugar workers in a range of skills that prepared many of them to move out of the sugar industry into the expanding sectors of our economy.

9. Our commitment to the strengthening of human capital is demonstrated quite forcefully by the level of resources we have committed to education and training in this budget. The proposed expenditure on education, training and youth development for 2008, including capital projects, the provision of scholarships, and contribution to the University of the West Indies, totals \$ 72.6 million. It must also be noted that the substantial resources committed by the Development Bank

and by Social Security to scholarships and student loans are not included in these statistics.

10. Madame Speaker, for Adam Smith and many of his followers, human capital is not significantly different from other forms of capital. Hence, in his famous “Enquiry into the Nature and Cause of the Wealth of Nations”, he listed human capital among four different categories of capital which include machines, buildings and improvements of land. When viewed from this standpoint, investment in human capital is not justified unless the economic returns exceed the cost outlay. This is why my Government places even more focus on what I refer to as ‘people development’ than on the strengthening of human capital. An effective strategy for people development must recognize the complex set of social, economic, cultural, psychological and other needs human beings face, and strive to address as many of those needs as possible with a view to enhancing the capacities of the people that make up a society and advancing the quality of their lives.

11. My Government believes that people development is an end in and of itself and not just the means of procuring economic returns. Hence, our strategy for development goes well beyond the strengthening of human capital, defined narrowly, to the implementation of a range of projects, programmes and activities aimed at people development in the widest sense. We believe that a key element of our role as Government is the creation of opportunities for our people to advance themselves in a holistic way and to realize their full potential as human beings. We also believe that we must continue to empower each individual, group and entity in our society so that each takes full advantage of all such opportunities for advancement and thereby facilitate overall social and economic progress for the entire Nation.

12. Indeed, since my Government assumed office in 1995, we have made great strides in the creation of opportunities for social and economic advancement and in the empowerment of our people. We are currently making available to our people some 5,000 plots of land that were previously under sugar cultivation at a price well below commercial prices. Moreover, to ensure maximum participation in the programme, we are granting a special subsidy through the National Housing Corporation to people with incomes below \$1500 per month. We are also giving the prospective landowners adequate time to raise their financing and we have solicited the cooperation of our Financial Institutions, with a view to having them provide adequate funding to these prospective landowners in a sensitive and expeditious manner.

13. For too long, our people have been described as landless. Almost overnight, my Government will see to it that the percentage of landowners among the population is as high as, or higher than, in any other Caribbean country. We believe that the ownership of land by our people will open up new vistas of opportunity for them and create new avenues of growth for the economy as a whole. In particular, land ownership may provide the collateral required for our people to raise loans for home construction, business commencement and operations, tertiary education, and a range of other activities consistent with their various goals and objectives.

14. Since we have been in office, we have also put some 2,000 low-income families in their own homes. We have dramatically improved the minimum wage, the minimum pension payable to contributors to the Social Security Scheme and the minimum non-contributory pension payable to indigents. We have removed the distinction between non-established and established workers and we are well

on the way to ensuring that all public sector workers enjoy retirement benefits and pension rights based on prescribed rules. We have provided personal care and assistance for the aged at their homes and in public institutions and have given them the opportunity to interact with each other and to obtain information in relation to health, nutrition and other critical issues through the Golden Years Clubs. We have radically transformed the health system and have constructed a modern hospital that delivers high quality medical services to the people of our Federation at a heavily subsidized cost.

15. In a nutshell, Madame Speaker, our people have been at the centre of our development strategy, and our projects, programmes and activities have not only served to strengthen human capital, but have touched all aspects of the lives of our people. It has secured for them huge quantitative benefits, as well as qualitative benefits that are not always expressible in purely financial or economic terms.

16. In recognition of the value of social networks in the society, the Ministry of Social Development, Community and Gender Affairs has been exerting every effort to foster greater interaction among our people through the family, the community and other key institutions in our society. In this regard, they have conducted leadership training in communities, organized summer camps and kite-making workshops for our young people, provided training in parenting for our young mothers, and have collaborated with the National Men's Association to launch a 14-week Men's Relationship Programme at the Ferry Terminal covering topics such as "Managing Conflict" and "Men as Fathers". We have also sought to re-invigorate community life by constructing Community Centres, Sporting Facilities, and Day Care Centres in the various communities throughout our Federation.

17. Madame Speaker, we believe that civil society as well as all public and private sector institutions have critical roles to play in building social networks and thereby facilitating social cohesion. This can only strengthen our democracy by permitting greater community involvement in the Governmental decision-making processes, and by fostering more harmonious political and economic debate among our people.

18. I am also convinced that the tendency of some of our young people to become involved in gangs reflect the need for the key institutions in our society to embrace these young people and to permit a transfer of appropriate values through inter-generational interaction within the framework of these institutions. The need for people to associate and socialize is a basic human need, which some of our young people are striving to fulfill by various means, including participation in dysfunctional gangs. My Government will continue to do its part to provide wholesome alternatives for them, but the society as a whole must reach out to these young people and invite their full participation in all useful societal and institutional activities.

19. Madame Speaker, stronger social networks would undoubtedly contribute to greater social cohesion, which would facilitate greater cooperation among our people and allow us to put our heads together to confront the challenges we face as a nation, and achieve the developmental goals and objectives we set ourselves. Perhaps one of the most urgent of these objectives is debt reduction. The national debt, which stood at 178.6% of GDP in 2006, must be rapidly placed on a downward trajectory if we are to preserve the stability of our Nation and protect the tremendous social and economic gains that our people have procured over the period that my Government has been in office.



20. There can be no doubt that the debt was incurred for very good reasons. Indeed the IMF has demonstrated in publication after publication that there is high correlation between the incidence of natural disasters and the accumulation of debt in St. Kitts and Nevis. Moreover, even the most cursory glance at the state of development of our Federation would reveal that every dollar incurred in debt was well spent. Our infrastructure - including road, water, telecommunications and power is among the best in the Caribbean; our air and seaports are continuously being upgraded to meet the increasing demands of our growing economy; and our people development programmes have consistently pushed our Federation to the higher echelons of the United Nations Human Development Index.

21. Indeed, without our heavy investment in our people and in our infrastructure through the procurement of loans, the attractiveness of our Federation to investors would have been seriously compromised. I am persuaded that there would have been no Marriott Hotel; no Kittitian Hill; no Ocean Edge; no prospect for attracting Auberge Resorts, Mandarin Oriental, and Kiawah; no Ritz Carlton and Port Zante would have remained barren. In other words, our Federation is about to enter a new and exciting period of economic expansion and it is the loan funds that we invested in our people and in our infrastructure that have brought us to this point and have prepared the way for the attainment of unprecedented levels of growth and development.

22. Our substantial investments will undoubtedly yield the returns necessary to bring down the debt. However, many of the projects, programmes and activities that we have invested in will bring returns in the medium-term to long-term. Unfortunately, we cannot wait; we must begin to bring down our debt as urgently as possible. Hence, in this budget, we have sought to find an appropriate balance between fiscal prudence on the one hand and continued implementation of

projects aimed at achieving a range of social and economic objectives including economic expansion and people development.

23. Bearing this in mind, in 2008, we will proceed with the implementation of the National Adaptation Strategy with a view to advancing the transformation of our economy into a modern service-oriented, well diversified economy capable of meeting the varied aspirations of our people. Moreover, we expect to reduce public debt from the projected 170% of GDP at the end of 2007 to 165 % of GDP at the end of 2008. We also propose to increase the Primary Balance on the fiscal account from a projected 5% of GDP to a projected 8.4% of GDP and to improve substantially the Overall Balance. We should note that these are updated projections since the National Consultation on the Economy. At the same time, we will target real economic growth of at least 4.0%, while we exert every effort to keep inflation below 4%. We also expect that the deficit on the Current Account of the Balance of Payments would only be reduced slightly. This is because the very substantial increased foreign exchange earning that is projected in respect of visitor arrivals will be countered somewhat by the foreign exchange outflows to procure raw material for constructing the large number of private and public sector projects that we expect will be implemented next year.

24. Even as we pursue these targets aimed at ensuring continued macro-economic stability, we will continue to protect the environment, reduce poverty, protect vulnerable groups in our society including the displaced sugar workers, and empower our young people by giving them the opportunity and the capacity to participate in all aspects of the social, cultural and economic life of our Nation. We will also intensify our efforts to reduce crime and violence through even more effective law enforcement and through the implementation of comprehensive crime reduction strategies using increased local and overseas work force. We

shall specifically target gang-related criminal activities, and take full account of the social, psychological and economic dimensions of criminal behaviour.

25. Madame Speaker, I am aware that developments in the external environment could influence the pace at which we move towards the goals and objectives we set ourselves. Hence, I will now give specific consideration to international and regional developments of relevance to our Federation.

# **THE EXTERNAL ENVIRONMENT**

## **International Economic Developments**

26. Madame Speaker, world output grew by 5.4% in 2006. However, growth in the global economy is expected to fall to 5.2% in 2007 and 4.8% in 2008. According to the IMF in the latest edition of the World Economic Outlook (WEO), the largest downward revisions to growth are in the United States and in countries where financial and trade spillovers from the United States are likely to be the largest, namely, Canada, Mexico, and parts of emerging Asia. Growth in the United States is projected to slowdown from 2.9% in 2007 to 1.9% in 2008. This is attributed to ongoing difficulties in the mortgage market which is expected to extend the decline in residential investment. In addition, higher energy prices, sluggish job growth, and weaker house prices are likely to dampen consumption in that country.

27. Advanced economies as a group are projected to achieve a positive growth rate of 2.5% in 2007. The newly industrialized Asian economies which include Korea, Taiwan, Hong Kong and Singapore recorded the highest growth rate of 4.9% while Italy recorded the lowest with a growth rate of 1.7%. In 2008, financial market turbulence related to the mortgage market is likely to result in a reduced growth rate in a number of advanced economies. For instance, in the Euro area growth is forecasted to slow from 2.5% in 2007 to 2.1% in 2008, while in the United Kingdom it is projected that the growth rate will fall from 3.1% in 2007 to 2.3% in 2008. The appreciation of the Euro and the pound sterling against the dollar, and reduced external demand will contribute significantly to the reduction in the rate of economic growth in the United Kingdom and the Euro

area. The slower growth rate in advanced countries is likely to be accompanied by slightly higher levels of unemployment and lower levels of inflation.

28. Madame Speaker, economic indicators are showing that growth in emerging and developing countries have been strong and thus their growth in output for 2007 is projected at 8.1%. This favourable performance resulted primarily from exceptionally rapid growth in Asia estimated to be in the region of 9.2% per annum. The major contributors to this performance include China, where GDP is estimated to have grown at 11.5% per annum due to acceleration in exports and investment, and India where GDP is estimated to have grown by 8.9% per annum mainly as a result of increased domestic demand and investment.

29. While it would appear that the problems in the mortgage market have had only limited direct impact on developing countries, the slowdown in advanced economies is likely to reduce demand for the exports of developing countries and exert downward pressure on economic activity in these countries. Hence, it is projected that economic growth in developing and emerging economies will fall from the estimated 8.1% in 2007 to 7.4% in 2008.

30. Madame Speaker, we are quite pleased that the turbulence in the mortgage market in the United States does not appear to have affected the real estate market in our Federation. In fact, real estate developers are reporting dramatic increases in demand for villas, condominiums and tourism-related residential units. However, a slowdown in the global economy could exert some negative influence on tourist arrivals and on the demand for goods produced on our industrial estate. Moreover, the erratic movements in oil prices are likely to affect the levels of growth and inflation in our economy.

31. Of course, the region as a whole is affected by these international developments and it may be necessary, in some circumstances, to cooperate with other Caribbean countries in developing regional solutions and strategies.

32. Hence, I turn now to the Regional Economic Developments.

## **Regional Economic Developments**

33. Madame Speaker, it is no easy task to manoeuvre a small island developing state through the treacherous waters of uncertainty and volatility brought about primarily by unfavourable developments in the global economy. However, despite the enormity of these challenges, member countries of the OECS managed to continue along the path of strong economic growth in 2006. The grouping was able to achieve an estimated real growth rate of 6.2%, which is an improvement over the growth of 5.3% in 2005.

34. Increased economic activity in 2006 was centred on solid growth in the construction sector as member countries prepared themselves for the hosting of the Cricket World Cup (CWC) 2007 alongside a surge in tourism related investments. Improved performances in the hotels and restaurants, agricultural and transport sectors also contributed to the expansion. All countries with the exception of Grenada and Montserrat registered positive growth rates. Double digit growth rates were achieved in Anguilla (15%) and Antigua and Barbuda (12.2%), which achieved its best economic performance in 25 years.

35. Growth in the larger Caribbean Community member states was also strong. The grouping's expansion by 6% was backed mainly by buoyant growth in the construction and tourism sectors. Economic expansion in Trinidad and

Tobago continued for the 10<sup>th</sup> straight year driven mainly by petroleum-based activities. Consequently, that country's economy grew by 12.5% in 2006. In Jamaica, the economy grew by 2.8% for 2006 despite challenges posed by shortages in cement that negatively impacted the construction sector. Barbados grew by 4.2% as a result of increased activity in the construction sector in anticipation of Cricket World Cup 2007 and other related private and public sector projects.

36. Madame Speaker, my Government firmly believes that over time the **CARICOM** single market and economy (CSME) will open up new avenues of growth for the countries of the region. But we also believe that the fruits of economic integration are unlikely to be shared equitably unless the provisions of the Revised Treaty of Chaguaramas, in relation to the protection of disadvantaged states, are fully implemented. We therefore hope that the ongoing work in respect of the structure, management and operations of the Regional Development Fund would be expeditiously finalized, and we look forward to the early commencement of operations of the Fund.

37. Madame Speaker, the Regional Development Fund will not become a panacea in respect of the problems faced by the countries of the OECS. Even within the context of the Caribbean Community, OECS states are relatively tiny and face difficulties that are peculiar to them. It is therefore necessary for OECS countries to pursue economic cooperation and integration among themselves that goes even deeper than the wider regional integration movement. Economic Integration in the OECS must, inter alia, focus specifically on the attainment of economies of scale and cost savings in the production and marketing of goods and services, and in the provision of Government services. It must also serve to equip

OECS member states to participate fully in the Caribbean Community and maximize their gains from the CARICOM Single Market and Economy.

38. It is with these objectives in mind that the member states of the OECS declared their intent to form an OECS Economic Union. The Heads of Government of the OECS have agreed that in order to facilitate and accelerate the movement towards this goal the citizenry of the entire OECS region needs to understand and embrace the proposal for an Economic Union. Thus the OECS Heads agreed to the immediate launch of a campaign of public education and consultation, which we decided should include opposition political parties, national cabinets, parliaments and all segments of the public. Progress towards the Economic Union also will involve a certain amount of technical work in relation to a range of issues including labour and manpower flows and an examination of how OECS skills can be absorbed and how more jobs can be created. Much of the technical work is expected to proceed concurrently with the public consultations.

39. Madame Speaker, that attainment of closer economic integration in the OECS, will also facilitate greater cooperation in trade policy and international negotiations. In my budget address last year, I alluded to the fact that the General Council of the WTO accepted a package of proposals that seek to accommodate the needs of small states. I am now pleased to report that the OECS member states have successfully concluded the second review of their trade policies, as part of a mechanism to assess the extent to which member states have adhered to their WTO commitments.

40. Since the first review in 2001, members have followed all guidelines as set out by the General Council and have strengthened their institutional and legal



frameworks. The particular challenges faced by the OECS as a result of our small size and vulnerability were of particular concern, accentuating the point that trade liberalization should correspond with our level of development.

41. The coordination of trade policy and negotiations in the framework of the OECS Economic Union will undoubtedly enhance our capacity to carry out our obligations under the WTO Agreements and other international treaties and agreements such as CARIFORUM EU Economic Partnership Agreement (EPA) that comes into effect next year. The intention of this agreement is to remove barriers to trade between the EU and the CARICOM states (including the OECS). The barriers to be removed include tariffs imposed on imported items at the ports as well as import quotas and other similar measures. OECS member states have agreed on a common list of products imported from the EU which will be excluded from tariff liberalization.

42. The OECS exclusions list comprises largely of agricultural products, products produced or manufactured in the region and products which are revenue sensitive. The list is currently being reviewed by member states, following which it will be incorporated into the CARIFORUM market access offer. Our ability to negotiate an OECS Exclusion List as part of this International Agreement which includes parties from the European Union as well as African, Caribbean and Pacific Countries, is an indication of what the OECS countries can achieve when they work together.

43. I turn now to the Domestic Economy

# **THE DOMESTIC ECONOMY**

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

44. Madame Speaker, 2006 was perhaps the first year in nearly 400 years during which no sugar whatsoever was produced in St. Kitts and Nevis. Although, my Government had achieved considerable progress in diversifying our economy and reducing our reliance on sugar production, we still looked to 2006 with some anxiety and trepidation. When we assumed office in 1995, we were determined to protect the livelihood of our sugar workers for as long as possible, by forestalling any attempt to close the sugar industry prematurely. However, we also knew that we could have been overtaken by events and circumstances beyond our control. We were aware that, notwithstanding our most valiant efforts, the global phenomenon of trade liberalization could have pushed us out of sugar production.

45. We therefore took up the challenge of preparing for this eventuality by constructing a solid foundation to support a new, well diversified, service-based economy. But that foundation was going to be tested for the first time in 2006. We understood that unless that foundation was well constructed, the closure of the sugar industry could have resulted in social and economic collapse and could have sent our economy reeling down a slippery slope of economic recession, mass poverty and social disarray. It is therefore with a great sense of pride and joy I report that, to date, that foundation has stood firm, and the economy in St Kitts and Nevis has continued on its path of economic growth and expansion. Specifically, the rate of growth in real GDP for the economy of St. Kitts and Nevis is estimated at 4% for 2006.

46. The closure of the sugar industry directly reduced GDP by some 1.9% when the contribution of sugar cane and sugar manufacturing sub-sectors are taken into account. Of course, the indirect impact of the closure of the sugar industry on GDP is much greater because the money earned in the sugar industry was spent to procure various goods and services throughout the economy and therefore produced a significant multiplier effect. However, the unfavourable impact of the closure of the sugar industry was negated by significant growth in other sectors including the Construction, Distributive trade, Transportation, Communications, and Financial Services sectors.

47. Construction activity was particularly buoyant in 2006 when the output of this sector increased by 9%. A significant portion of the increase was the result of the construction of several major projects such as Sunrise Villas – Half Moon Bay, the West Basseterre Bypass Road, RLB International Airport expansion, Warner Park Cricket Stadium and the Old Road Fisheries Complex. However, the buoyancy of the sector was not just concentrated in the large projects. It was quite widespread and impacted the entire sector. As more and more people responded to the Government's empowerment strategy through home ownership overall building permit applications increased by 26.9% from 379 in 2005 to 481 in 2006. Moreover, new housing starts rose significantly by 74.9%, from 223 in 2005 to 390 in 2006. It is also noteworthy that construction-related imports such as cement and lumber increased by 11.1% and 14.0% respectively in 2006 when compared to 2005.

48. Madame Speaker, the growth of our economy has been accompanied by a significant increase in inflation. The consumer price index, on a period average basis, rose by 8.5% in 2006, from 3.6% in the previous year. This higher rate of inflation can be generally attributed to spiralling fuel prices and the consequent

increase in the price of food. We understand that much of this inflation is generated outside of the Federation, and that countries all over the world are affected in a similar way. However, this is no excuse for us to sit idly and fold our arms while the disposable income of our people is being eroded.

49. In the Budget Address last year I promised that the Government would take definitive action to alleviate some of the difficulties our people experience as a result of increases in the cost of living. Today I am pleased to announce that the Government has identified a number of goods that exert considerable influence on the cost of living, and have prescribed the maximum profit margins that wholesalers and retailers can add to the landed cost of these goods. Moreover, the Ministry of Commerce and Consumer Affairs will enhance its surveillance activities with a view to ensuring full compliance with the relevant statutory order.

50. This initiative is only one element of my Government's response to rising prices. We know that high energy prices are of particular concern to our people. Hence, Cabinet has approved a new energy policy aimed at reducing our reliance on fossil fuels and our vulnerability to the fluctuating price of oil, through demand management and the use of alternative sources of energy. Even now, we are evaluating proposals for the generation of energy from wind, biomass, ethanol and waste.

51. Moreover, the Nevis Island Administration is proceeding with plans to explore geothermal energy, which if successful has the potential to lower energy cost in both islands of our Federation and perhaps, in neighbouring islands. My Government expects to be in a position to proceed with the implementation of one or more of the feasible alternative energy options during the course of this year. In

the meantime, we are proceeding with plans to retrofit the generators at the Electricity Department to permit the use of heavy fuel. We expect that this would reduce the cost of generating electricity and result in lower electricity bills for consumers. We also believe that the operationalization of the Petro Caribe Agreement will impact St Kitts and Nevis in a positive way.

52. Madame Speaker, I will now speak to the Balance of Payments statistics which records the inflows and outflows of funds arising from transactions between the Federation of St. Kitts and Nevis and the rest of the world. The Current Account deficit widened to \$256.6 million or 23.8% of GDP in 2006 from \$192.5 million or 19.7% of GDP in 2005. However, this widening was, in large measure, due to increased outflows on the Current Account in respect of the importation of large quantities of construction material to facilitate the upsurge in construction activity during the year under review. The Current Account was affected positively by tourism receipts which increased in 2006 to \$315.4 million or 29.2% of GDP from \$309.4 million or 31.7% of GDP in 2005 but this was not enough to offset the outflow of funds in the Current Account and produce surplus on this account.

53. The Capital and Financial Account as a whole recorded an increased surplus in 2006. The major contributor to this increase is the rise in the level of foreign direct investment, which grew by \$47 million or 18.7% from \$251.1 million in 2005 to \$298.1 million in 2006. This increase in Foreign Direct Investment is particularly noteworthy because it highlights the fact that our heavy investment in our people and in our infrastructure continues to bear fruit and to enhance the appeal and attractiveness of our Federation to investors.

54. Madame Speaker, the surplus on the Capital and Financial Account, arising mainly from Foreign Direct Investment, was more than enough to compensate for the deficit on the Current Account. Consequently, during 2006 our Federation achieved an overall Balance of Payments surplus of \$46.3 million or 4.3% of GDP.

55. I will now examine the performance and prospects of the key sectors of the economy starting with the Tourism Sector.

## **The Tourism Sector**

56. Economic growth in St. Kitts and Nevis over the last decade has been increasingly based on the continual improvement of our tourism product. The tourism sector's significant and growing contribution to GDP through visitor expenditure, foreign exchange earnings, and employment generation is critical to the continued progress of our nation. In 2006, the Tourism Sector continued to record significant growth and to make a substantial contribution to economic activity. Specifically, stay-over arrivals in the Federation increased by 6.2% from 127,728 visitors in 2005 to 135,691 visitors in 2006. More importantly, this has resulted in a direct increase in expenditure by stay-over visitors of \$10.9 million or 4.6%.

57. Cruise passenger arrivals to our Federation declined by 5.7% from 215,351 in 2005 to 203,075 in 2006. However, onshore expenditure by cruise ship passengers increased from \$19.5 million in 2005 to \$19.9 million in 2006 caused by an increase in per capita expenditure. This is clearly a sign of success for our strategy to create more shopping and other activities for cruise passengers.

This trend is expected to continue in 2007 and beyond. We also expect significant growth in the Cruise Tourism Sector in the upcoming season. The current itinerary for cruise ship arrivals in our Federation suggests that we could reach record levels of passenger arrivals in 2008.

58. Madame Speaker, tourism is a dynamic industry which has become globally competitive in every respect, with travellers having more leisure options available at better prices than ever before. Consequently, it has been necessary for our Federation to engage focused strategic planning with a view to enhancing our competitiveness in the global tourism marketplace and attracting more visitors. Indeed in last year's budget address I reported that my Government had carried out a strategic planning exercise for the Tourism Sector and I outlined the overriding objectives of the Strategic Plan. This year, I am pleased to report that we are already making progress in implementing the Strategic Plan.

59. The tremendous international exposure obtained by our hosting of Cricket World Cup in March this year, coupled with several public relations initiatives since, has resulted in our destination's image receiving a significant upward bounce, and there is now a discernable positive buzz about St Kitts & Nevis in the travel and tourism markets of England, Canada and the USA in particular. More than thirty (30) travel media visits have taken place in St Kitts since the March 2007 Cricket World Cup. This is the highest ever number of media visits to St Kitts in one year, generating media exposure for both St. Kitts and Nevis in more than one hundred and fifty (150) outlets in targeted geographic and demographic markets, including world class publications such as The New York Times, Travel & Leisure, Condé Nast Traveler, The Wall Street Journal, National Public Radio and Islands Magazine.

60. It was not by accident that the prestigious Islands Magazine voted St. Kitts earlier this year one of the “20 Best Islands to Live On”. In discussing the island’s current transition away from sugar and into hospitality and tourism, Northeast Dive News says, “Environmental issues and protecting the island’s culture and history factor high in the plan”. About.com recently declared Brimstone Hill Fortress “One of the Seven Man-Made Wonders of the Caribbean”. Regarding St. Kitts’ Scenic Railway, The Cleveland Plain Dealer stated, “Its appeal reaches beyond railway buffs to captivate those seeking a genuine scenic or historic tour”. Talking about the island’s several new investments and developments, The Wall Street Journal noted that St. Kitts is “clearly establishing itself as a future high-end destination” and Travel & Leisure magazine featured our island as “Where to Go Next” in a story entitled, “St. Kitts: Paradise Found.”

61. Madame Speaker, when in 2004 we took the bold and visionary decision to bid for Cricket World Cup venue status in an event to be held three years later, without even having a stadium in place, it was a most significant and timely expression of my Government’s commitment to invest further in our local sporting infrastructure as well as to create the opportunity for a more significant and international Sports Tourism sector. Along with the 11% increase in visitor arrivals in March 2007 and the unusually high hotel occupancy generated during that month, it is clear to us that the recent announcement that the Australia Cricket Team will spend a week here in July as part of their 2008 West Indies Tour, is further evidence of the legacy benefit of our involvement in the Cricket World Cup earlier this year.

62. Madame Speaker, our decision back in 2005 to bid for hosting the 2008 CARIFTA GAMES was another major step to the attainment of our goal of



making St. Kitts and Nevis one of the important sports tourism destinations in the region. In this regard, we will witness the completion of the new \$14 Million Bird Rock Athletics Stadium which, like the new Warner Park Stadium, has been designed to optimize the cost of construction, minimize the cost of future maintenance, and at the same time, to take full account of the environmental needs of the surrounding community including the need for the structures to be aesthetically appealing. We believe that, in the same vein as the Warner Park project, the Bird Rock facility is a timely investment in the future development of our young local athletes and in our capacity to offer sports tourism facilities and services to potential visitors from all over the world.

63. Madame Speaker, with the continuing and proposed influx of large amounts of foreign direct investment into the Federation, the Tourism Sector and the economy at large is positioned for an increase in the rate of economic growth over time. Currently, there are several projects still under construction or nearing completion which are already impacting positively on the sector; these include Ocean's Edge, St Christopher Club, Sundance Ridge Estates, Calypso Bay Villas, Half Moon Heights, Marriott Vacation Club International, and Sun Rise Villas. Moreover, within the next two years several major resort developments are scheduled to commence. These include the Christophe Harbour project which comprises three luxury resorts, a championship Golf Course and a modern Marina Village, and Kittitian Hill. I have no doubt these major developments in the tourism sector will give momentum to the Government's programme of economic transformation, and help to push St. Kitts and Nevis to the forefront of the high-end luxury segment of the tourism market in the Caribbean.

## **Agriculture**

64. Madame Speaker, increasing agricultural production in a competitive and sustainable manner through the development of farmers is the major focus of the agricultural thrust. With the closure of the sugar industry special focus is being placed on former SSMC workers with interest in agriculture. We are pleased that a number of international agencies have been providing assistance in respect of this important endeavour. In particular, we have been receiving assistance from the Food and Agriculture Organization in the form of an emergency support project under which some 150 crop and livestock farmers have benefited directly through the supply of inputs and from technical assistance. This support has contributed directly to the increased production of peanuts and sweet potatoes.

65. We have also received much support from the Taiwan Technical Mission in the area of agro-processing as well as fruit and flower production. As a result several processed fruits including mango, carambola, pompserrat and papaya are available almost on a year round basis. The Mission is also focusing on the production of anthuriums and orchids, and the local horticulture industry is expected to benefit from this initiative.

66. The Caribbean Agricultural Development Institute (CARDI) has been providing us assistance in hot pepper production with a view to developing our export capability. This has resulted in shipments to a processor in nearby Antigua and a few trial shipments to Miami. The Republic of Cuba has provided two technicians to assist in the establishment of an organoponic project at the La Guerite Experimental Station. Organoponic agriculture is the production technique that uses organic material mixed with soil for the growing of crops and biological agents for the control of pests and diseases. This approach reduces the

use of synthetic fertilizers and pesticides that can have negative effects on the environment.

67. Of course, all of these initiatives require much coordination and administrative support from the Ministry of Agriculture. Hence, we have solicited assistance of the Inter-American Institute for Cooperation on Agriculture (IICA) in respect of the implementation of an institutional strengthening project aimed at enhancing the capacity of a reorganized Department of Agriculture to carry its expanding administrative and managerial functions.

68. Madame Speaker, our farmers have been responding positively to the various initiatives of Government aimed at enhancing agricultural production. Fifty five (55) farmers who previously cultivated land in the upper lands of Belmont and Brotherson's have been successfully relocated to lands in Belmont Estate and Newton Ground. Over 80 acres of land were prepared and allocated to the farmers. These farmers are currently producing a wide range of crops including peanut, sweet potato, cassava and dasheen along with a wide range of vegetables. A significant level of production is also being observed by a group of 12 farmers in the upper Mansion area. This group has become the major producer of white potato and yam and are significant producers of sweet potato and peanut.

69. The statistics in respect of agricultural output during the first nine months of this year clearly demonstrate the progress that we have been making in developing the agricultural sector. During that period the production of peanuts doubled from 64,000 lb in 2006 to 128,000 lb in 2007. Peanut production by former SSMC workers was a major factor that contributed to this growth. My Government is promoting the commercialization of peanut production, and has

therefore procured equipment for dry roasting. This is expected to improve the processing of peanuts and to expand the product range.

70. There were also very significant increases in other food crops. In particular, the production of cabbage increased by 43% to reach 152,000 lbs in 2007; White potato production increased 15% to reach 288,000 lbs; and the output of carrots and onions increased by 15% respectively. Significant increases were also reported for pineapples, sweet pepper and tomato but there was a small decline in respect of the output of watermelons.

71. Livestock production recorded marked increases for beef, mutton and goat meat during the first nine months of 2007 when compared with the same period of 2006. The production of beef increased by 35% from 100,000 lb in 2006 to 135,000 lb. Local beef production is now meeting the domestic demand for boneless beef, ground beef and beef burgers. The production of goat meat also increased significantly by 39% from 18,000 lb in 2006 to 25,000 lb in 2007 while mutton increased by 15% from 13,000 to 15,000 lb over the same period. Notwithstanding these significant increase, goat and mutton production remains much lower than the domestic consumption resulting in many opportunities for expansion.

72. In respect of fishing, there have been some increases in the registration of fishers and fishing vessels, as more and more displaced sugar workers take up opportunities in fishing. We expect that this would result in significant future increases in fish landings and thereby reverse the small decline of about 6% reported in respect of the value of fish landings in 2007.

73. Madame Speaker, a growing Agricultural Sector is essential if St. Kitts and Nevis is to achieve an optimal level of food security and provide more income and employment opportunities for people in our rural communities. However, we must exert every effort to foster great economic linkages between the Agricultural Sector and the Tourism Sector if the fruits of our expanding tourist industry are to reach our farmers, including many of the displaced sugar workers and residents of rural communities.

74. I am therefore pleased to report that, with assistance of the Ministry of Agriculture, St. Kitts Farmer's Cooperative Society Ltd and the St. Kitts Marriott Resort signed a Memorandum of Understanding for local farmers to supply fruits and vegetable to that hotel on a regular basis. We will work assiduously to extend this arrangement to other hotels and tourism-related facilities. Moreover, my Government has been insisting that as one of the conditions for duty and tax concessions, all new hotel enterprises must give an undertaking to procure locally produced agricultural products and handicraft.

## **Industrial and Enterprise Development**

75. Madame Speaker, the Manufacturing Sector has continued to expand in recent years in response to continued economic expansion in the global economy and specifically in the United States of America which is a major market for the output of the sector. Hence a number of existing enterprises expanded their operations. Kajola Kristada Ltd introduced two new product lines and employed an additional 25 workers this year, while Lutron Liamuiga Ltd. introduced 75 new products/models and received an award for quality and production from its parent company in the United States of America. Harrow Servo employed 20 new employees and introduced a new product line while Jaro employed 93 new

workers and expanded its existing transformer production line. Reed Data Services also expanded its operations and recruited 60 new employees.

76. The prospects for the upcoming year also seem quite favourable. Kajola Kristada Ltd expects to move one of its production lines from Brazil to St. Kitts and Nevis in 2008, and Harrowe Servo is projecting a 15% increase in production in 2008. In addition St. Kitts Bottling Company Ltd., has been penetrating a number of regional markets and it expects to expand its range of products to include diet products, flavoured water, juices and franchised water.

77. Madame Speaker, in respect of enterprise development, I am pleased to advise that this afternoon we will launch the new Investment Promotion Agency (IPA) that will spearhead Government's strategy for enterprise development and investment promotion. The new IPA, which will incorporate the existing Marketing Development Department of the Ministry of Finance, will begin to function at an intermediate level to provide information to both local and foreign investors and to facilitate their needs by accepting applications on their behalf, passing them to the relevant departments or ministries for processing and following up on responses from the various Governmental entities.

78. At present, consultants from the Caribbean Open Trade Support Programme, which is being funded by USAID, are working with the Marketing and Development Department to standardize and streamline procedures for investment facilitation and provide training in promotion and investor tracking techniques to enable the IPA to efficiently and effectively research new investment opportunities and sectors; actively pursue potential investors who may be able to undertake investments in the Federation that are consistent with the National Adaptation Strategy; and facilitate local and foreign investors in their

quest to obtain approvals, permits, licences or incentives to develop or expand their enterprises. Madame Speaker, during the National Consultations of the Economy, there was general agreement that the IPA needed to operate in a transparent and accountable manner. We have taken this concern quite seriously and have specifically requested that the Consultants address this important issue in their proposals in respect of the structure and operations of the IPA. Moreover, in the legislation that will support the operations of the IPA, we will also strive to ensure that this issue is fully addressed.

79. By the middle of next year, after all of the legislative reform and consultations have been concluded the IPA should be able to process and approve many of the applications that are currently submitted to various government departments and operate a full one-stop shop for investors. It is anticipated that the ongoing discussions to raise the level of functionality of the agency will commence early in the New Year.

80. We expect that with the legislative and administrative reforms that we are now undertaking simultaneously with the development of the IPA, investors and entrepreneurs will find it much easier to do business in St. Kitts and Nevis. Moreover, while the IPA will facilitate both local and foreign investors, we will continue to provide special services and technical assistance to small and medium enterprises through the Ministry of Commerce which will be appropriately restructured to enable it to play an enhanced role in small and medium enterprise development and in improving the business and investment climate.

## **Information Technology and Telecommunications**

81. Madame Speaker, over the years, my Government has repeatedly emphasized the importance of Information and Communication Technology (ICT) as a sector, and our commitment to the development of this sector. I am delighted to report to this Honourable House that concrete steps have been taken to realize the goals of building a knowledge- based economy and an e-society through offering universal access to and the use of modern information and communications technologies. Our actions in this regard have been guided by the National ICT Strategic Plan that was adopted only a year ago and already we are seeing results.

82. I was indeed pleased that on October 25th of this year my government officially opened a modern state of the art ICT training centre and e-government facility with the assistance of the Government and people of Taiwan. From this platform we have launched a number of bold initiatives. Immediately thereafter, a number of government officials were issued with Government-Owned email addresses through which the official business of Government will be conducted. My Government is also pleased that we have successfully implemented a modern government portal that provides access to key government departments and information. Included in the suite of services we have made available, is a new Human Resource (HR) package that will be used to professionally manage the human resources of the Public Sector. This new HR package, when placed in the context of our ongoing Public Sector Reform, will facilitate the transformation of the Public Sector into a modern, responsive and effective operation where public sector employees are further empowered by having access to more timely information.



83. In this global internet environment, it is important that countries safeguard their national identity. Like many countries in the Caribbean, we in the Federation are taking control of our internet Country Code Top Level Domain name, used to identify the Federation on the internet. The opening of the new ICT centre and e-government facility has afforded us the opportunity to effectively manage this resource for the benefit of our internet community. In this regard I would like to make an appeal to the internet community and businesses operating in the Federation to take advantage of this resource by registering their personal business internet presence using the dot KN domain names. It is the policy of my Government that all government presence on the World Wide Web must use the dot KN and I encourage all individuals and businesses doing business on the internet to do the same. Madame Speaker, this initiative will help to successfully market our destination globally and further illustrate that the Federation of St. Kitts and Nevis is open for business to the entire world.

84. In my budget address delivered to the Nation last year I made a commitment to citizens of this Country that my Government will continue to develop our human resources by offering training to government employees, teachers in particular, and persons in the wider community to upgrade their ICT skills and build the necessary capacity to function in the knowledge-based society. I am delighted to announce that even before the ICT Training Facility was officially opened, training for public servants working in the Ministry of Finance was conducted there. The Centre is open to all citizens of the Federation including those who possess the skills to conduct training for the benefit of others. We encourage our private sector partners to come and utilize the facility for the training of their staff or to offer training to the general public.

85. It is envisaged that the Centre will work very closely with the Ministry of Social Development in designing and implementing training at the community level. That is why we are equipping the community centres with computer labs so that relevant training can be delivered to every person in the society who wants to enhance his or her personal ICT skills.

86. The importance of Information and Communications Technologies to our livelihood and competitiveness as a nation cannot be overstated. In an effort to educate the populace on this matter, the Department of Information and Technology will organize a month of activities that will focus the Country's attention on this important issue. The highlight of this month of activities will be a Technology Fair, where students, businesses and others in society will be afforded the opportunity to display their technological skills, products and services.

87. These new initiatives will build our knowledge base and will continue in the New Year as we seek to create greater awareness of the importance of ICT and deliver more services to the people of this Federation electronically. We are encouraged by the support we have received from the private sector and we look forward to their continued support.

88. Madame Speaker, in the New Year we will introduce three pieces of legislation that would enhance the legal and regulatory environment for the conduct of electronic transactions, and provide for the protection of computer systems as well as the protection of information used in electronic transactions. I wish to express my Government's sincere thanks and appreciation to the members of the legal fraternity, private sector organizations and members of the business community who contributed to the development of the legislations.

## **The Financial Sector**

### ***Commercial Banks***

89. Madame Speaker, it is without question that the Commercial Banking Sector over the years has grown into one of the major pillars that support the economic thrust of our Nation. The tremendous growth witnessed over the years under the tenure of my Government is a true reflection of the success of my Government's programmes for poverty reduction and wealth creation as well as the efforts of our citizens in achieving financial security.

90. At the end of December 2006, assets held by the Commercial Banking Sector have grown to \$3.2 billion, which represents a 10% increase over the amount of \$2.9 billion at the end of last year. For the year under review deposits as well as loans and advances have also grown. Deposits grew by \$0.2 billion to reach \$2.1 billion at year end while loans and advances grew by \$0.3 billion to reach \$1.8 billion. The increase in loans and advances has been attributed to increased lending to the distributive trade, construction and personal sectors. The faster pace of growth of loans and advances relative to deposits allowed the Banks to dispense of much of their excess liquidity during the period under review. In particular, the loans and advances to deposit ratio rose from 80.4% at the end of 2005 to 85.1% at the end of 2006.

91. Madame Speaker, the first eight (8) months of 2007 point to further strengthening of the banking sector. Assets increased by a further \$222.9 million bringing the total assets to \$3.6 billion. Deposits grew over the same period to reach \$2.4 billion while loans and advances increased to \$2.0 billion and the loans and advances to deposit ratio fell to 83.3%. Thus, over the period liquidity in the banking system increased slightly.

### ***The Development Bank***

92. Madame Speaker, the Development Bank plays an important role in advancing the development agenda of the Government. The Bank as it has done in the past continues to provide exceptional service in the areas of Education, Housing-Mortgage Finance, Agriculture and Industrial Development. Thus in 2006, the bank approved 1,136 loans valuing \$42.8 million. The majority of this lending was distributed to the Mortgage Financing Sector to the tune of \$11.0 million. Lending to Education followed closely with loan approvals of \$10.7 million. Agricultural loan approvals totalled \$0.4 million, while Industry loans totalled \$0.1 million.

93. To further emphasize the Development Bank's commitment to the advancement of this Nation, the bank has willingly partnered with Government and several other banks to provide credit under the Special Land Initiative that will enable some 5,000 nationals to own land in our Federation. We expect that all Banks involved in this important people empowerment initiative will do everything within the limits of the relevant regulatory and prudential requirements, to assist the people of the Country in realizing their aspiration to proudly take up their birthright by owning a piece of this precious rock that we affectionately refer to as 'home'.

### ***Financial Services***

94. Madame Speaker, the Financial Services Sector is continuing to grow and to generate increased revenues for the Government. The new Financial Services that we have introduced are doing particularly well. For instance the number of captive insurance companies registered increased from 5 at the end of last year to

51 at the end of October this year. Moreover, during the first 10 months of 2007 we registered an additional 55 Foundations, 127 private exempt companies, and 86 private ordinary companies. In addition, our ship registry, which has been fully functional for just over 3 years, now have 500 ships registered and the revenue from this activity increased from EC\$250,000 in 2006 to over EC\$1 million for the year to date. The registry has already begun to focus its attention on yacht registration in keeping with the recent launch of the Christophe Harbour project which could become the home of numerous luxury yachts within a few years.

95. Madame Speaker, we also continue to strengthen the regulatory regime in relation to financial services. In this regard, the Financial Services Department has carried out inspections of two major Credit Unions and 80% of the money services business as required by the relevant legislation in respect of anti-money laundering and counter financing of terrorism.

96. Next year, St. Kitts and Nevis will be subject to a Caribbean Financial Action Task Force (CFATF) Mutual Evaluation and we intend to refine our regulations and systems in preparation for the Evaluation. The Joint Task Force headed by the Financial Secretary and the Permanent Secretary Finance (Nevis) that was so successful in having us removed from FATF black list will be reactivated to spearhead the activities in relation to the CFATF Mutual Evaluation. We also intend to work closely with the Nevis Island Administration with a view to strengthening the role of the Financial Services Commission and unifying the regulatory systems in relation to non-bank financial institutions. In this regard, the Financial Services Department will assume full responsibility for registering and supervising domestic insurance companies from January 2008.

97. Madame Speaker, our progress in building a clean and reputable financial centre here in St. Kitts and Nevis is increasingly being recognized regionally and internationally. In this regard, we are pleased to advise that St. Kitts and Nevis has recently been elected as the Deputy Chair of the Caribbean Financial Action Task Force, which is a regulatory body whose objective is to ensure that member territories have a properly developed Anti-Money Laundering and Counter Financing of Terrorism Regulatory Framework, in keeping with international standards.

98. Madame Speaker, I turn now to Public Finance.

# **PUBLIC FINANCE**

## **Fiscal Review**

99. Madame Speaker, the report that I am about to give on the fiscal performance of the Federal Government is based on data that is presented in the economic classification format. The amounts stated in my report will therefore differ somewhat from the figures that are reflected in the audited annual accounts for the year ended 31 December 2006. However, you would note that in Volume 3 of this year's Estimates there is a detailed statement reconciling the differences between the audited annual accounts and the fiscal data prepared using the Economic Classification Format.

100. The annual accounts are prepared in accordance with the relevant financial Laws and Regulations in force in our Federation. Although the relevant Laws and Regulations have changed on a number of occasions the requirements in relation to the form of presentation of the annual accounts have not changed significantly. Hence, the format of the accounts has remained the same since colonial times. That format was quite appropriate for a Colony in which the major decisions in relation to the finances of the Colony were made outside of the Colony, and the focus of the accounts was to ensure that effective controls were in place and that grant-in-aid received from the United Kingdom were properly accounted for.

101. However, upon the attainment of Independence and Nationhood, the scope and function of Government have changed dramatically and it has become necessary to use the fiscal accounts and the budget as management tools and as instruments for the conduct of fiscal policy. In particular, in a modern independent country it is necessary to, inter alia, use the fiscal accounts to analyze

the size of the public sector; its contribution to aggregate demand, investment and saving; the impact of fiscal policy on the economy including resource use, monetary conditions and national indebtedness; the tax burden; and the effectiveness of spending in respect of poverty reduction and the social safety net. While the accounts that we have inherited from colonial times are effective in respect of financial controls, they are grossly inadequate in relation to these matters and to economic management generally. Moreover, if we were to disseminate information internationally based on the annual accounts as it stands, such information would not be useful in comparing the performance of our Federation with other countries of the world because the most prestigious international publications, including the Government Financial Statistics published by the IMF does not use the format of the annual accounts.

102. The Ministry of Finance has bridged this gap by preparing financial statistics in accordance with international best practice and by using such statistics in support of fiscal policy decisions and economic management. Hence, it is these statistics that guide the allocation of resources and the budget system generally. Of course, we still rely on the annual accounts as the primary means of financial control. Moreover, in the Finance Administration Act recently passed in this Honourable House, the Economic Classification Format adopted in the budget has been formally recognized by Law so that from next year when the Finance Administration Act is fully operationalized, the annual accounts will have additional statements based on the Economic Classification format, and any misunderstanding arising from the differences between the two formats would be fully resolved.



103. Madame Speaker, in 2006 the Federal Government realized \$386.3 million in Total Recurrent Revenue. This exceeded the \$339.5 million that was recorded in 2005 by \$46.8 million or 13.8%.

104. All categories of Recurrent Revenue reflected an increase over the previous year with the exception of Taxes on Income which was \$5.0 million or 5.4% less than the \$91.7 million that was reported in 2005. Significant increases were, however, recorded in Taxes on Domestic Goods and Consumption which grew by \$23.7 million and Non-Tax Revenue which rose by \$22.1 million.

105. The growth in Recurrent Revenue was mainly due to the collection of stamp duty from the private sale of lands, mostly on the South East Peninsula and the introduction of the electricity fuel surcharge. You may recall, Madame Speaker, that my Government reluctantly took the decision to pass on the increase in fuel charges to the consumers in November 2005 as we could no longer afford the huge subsidies that we were forced to pay because of the dramatic increases in the price of oil. Even now the monies received in relation to the fuel surcharge do not fully cover the increased cost of fuel. This is because we were particularly concerned about the impact of the increased cost on low-income families and granted an exemption from the surcharge to all households consuming less than 100 kilowatt hours per month. This is consistent with the tradition and mandate of the Labour Party to defend and protect the poor and vulnerable groups in our society.

106. Madame Speaker, my Government remains committed to containing expenditure as part of our Fiscal Stabilization Programme. For 2006, Total Recurrent Expenditure amounted to \$398.9 million, an increase of \$35.3 million or 9.7% over the amount reported in 2005. The expansion in Recurrent

Expenditure was mostly due to an increase in interest payments to service the debt. It should be noted, Madame Speaker, that having taken the bold step to close the Sugar Industry, the Government now has to service the SSMC debt. The debt service payments that were made on behalf of the SSMC in 2006 totalled \$19.9 million. Total Transfers, however, declined by 15% or \$8.3 million when compared to 2005 when severance payments were made to the SSMC workers.

107. Recognition must be given to the Revenue Collection Agencies, which continue to make a concerted effort to ensure compliance with the various tax acts and build on their training in tax administration and collection. As a result of their hard work coupled with the various Ministries' efforts to contain expenditure, the Recurrent Account Deficit of \$12.6 million was a great improvement over the 2005 deficit of \$24.2 million and the lowest since 1998. The rate of growth in revenue collections continues to surpass the growth in Recurrent Expenditure. This has translated into improved Recurrent Account and Primary Balances.

108. Madame Speaker, with reference to the capital projects, my Government continues to prioritize and select these projects based on the availability of resources and their ability to stimulate growth in the economy. In 2006, Capital Expenditure and Net Lending, including direct payments and purchases by donors, totalled \$86.8 million compared to \$63.9 million in 2005. The expansion in Capital Expenditure and Net Lending moderated by funds received to facilitate the execution of the capital projects resulted in an Overall Deficit of \$45.5 million, an improvement over the 2005 Overall Deficit of \$51.8 million. Madame Speaker, I am pleased to report that a Primary Surplus was recorded for the second consecutive year - \$30.5 million in 2005 and \$67.7 million in 2006. This trend, Madame Speaker, is expected to continue into 2007 and 2008 as my

Government continues to implement various strategies that will eventually ensure fiscal and debt sustainability.

109. Madame Speaker, I will examine Government's Capital Expenditure in 2006. Over 52 % of the total Capital Expenditure was spent on the Social Services Sector in that year. Funds totalling \$25.0 million were expended in the area of sports, mostly on the completion of the Warner Park Stadium as my Government fulfilled its promise to provide a world-class multi-purpose sporting facility. I must express my sincere appreciation to the Republic of China on Taiwan for financing the construction of the stadium. As I indicated earlier, we expect that the new Warner Park Stadium will provide further opportunities for the youth of the Federation to excel in sports and open up avenues for Sports Tourism here in St. Kitts and Nevis.

110. The education of our youth is another area that is quite important to my Government. It is for this reason that funds totalling \$10.9 million were expended on education, in particular the Basic Education Project, the Secondary Education Development Project and construction and furnishing of the St. Peter's and Tabernacle Day Care Centres. This is consistent with my Government's heavy focus on strengthening social capital and on people development. We do not believe in just giving handouts to our people in perpetuity. We are firmly committed to strengthening the capacity of our people to earn income and create wealth for themselves by taking advantage of the many opportunities that abound in our Federation. We see education and training as critical tools for the empowerment of our people and for allowing even the poorest among us to stand on their own feet and reach for a better life.

111. Madame Speaker, monies were also spent during 2006 on projects such as the Old Road Fisheries Complex, the West Basseterre By-pass Road, the Hurricane Lenny Natural Disaster Management Project and the Road Improvement Project. These projects are aimed at building or protecting our infrastructure, with a view to proving additional conveniences and facilities to our people and creating an investment climate that would facilitate profitable business operations and act as a magnet for domestic and foreign investment.

112. With respect to the public debt, Madame Speaker, we continue to strive to bring the debt to more acceptable levels. At the end of 2006 the total public sector debt was \$2.39 billion or 178.6% of GDP. Of this, \$1.3 billion or 95% of GDP was attributable to the Federal Government while \$0.9 million and \$0.2 million was related to public corporations and Nevis Island Administration respectively. I should point out Madame Speaker, that last year I reported that the public debt stood at 178.3% at the end of December 2005. This suggests that the public debt increased only marginally in 2006 by less than one-third of 1% of GDP. This represents a dramatic slowing in the rate of growth of the public debt.

113. Moreover, the evidence in respect of the fiscal performance for the year to date suggests that at the end of 2007 the public debt as a percentage of GDP is likely to be reduced for the first time in over a decade. In particular, we project that public debt as a percentage of GDP will be in the region of 170% by the end of this month, December 2007. Moreover, based on the Debt Strategy that we are implementing we expect that by 2011 the public debt as a percentage of GDP would be no more than 136% of GDP. Out of an abundance of caution, our medium-term projections are based on very modest assumptions in respect of growth and in respect of the implementation of the privatization and commercialization strategy. However, we believe that in the most likely scenario

the public debt would be reduced even more substantially than suggested by these projections.

114. Madame Speaker, from time to time I have outlined our strategy for reducing this debt. This is an area on which we remain committed as the attainment of fiscal stabilization and debt sustainability relies on our ability to execute our Debt Management Strategy. I am therefore pleased to report that we have implemented some aspects of this strategy and will be forging ahead in the New Year to bring other aspects of the plan to fruition.

115. In September 2007, Madame Speaker, after much negotiation and with the interest of the people of St. Kitts and Nevis foremost in our minds, my Government sold its 17% shareholding in Cable and Wireless with an agreement that 5% of the total issued share capital would be sold to the people of the Federation at a concessionary price significantly lower than the price at which Cable and Wireless purchased the shares from Government. This was part of our Asset Management Strategy which seeks, through privatization and commercialization, to utilize government's assets in the most efficient way and to sell lands and other assets in order to acquire the necessary resources to reduce the debt stock and to give enhanced momentum to our programme of development. The proceeds from the sale of the Cable and Wireless shares went towards the partial reduction of our short-term debt and it is expected that we will be able to repeat this act as similar negotiations are currently being made with The Cable. This should be concluded in the near future and would contribute to our goal of debt reduction.

116. Madame Speaker, my Government has also been actively seeking ways of diversifying our debt portfolio in order to significantly reduce the debt servicing

cost. To this end, the recently passed Refinancing of Existing Short Term Demand Debt Bill will pave the way for us to refinance up to \$150 million of our short term debt in the banking system. We are particularly grateful to the Caribbean Development Bank for the tremendous assistance that they have been providing us in this regard. The positive impact that this would have by way of lowering our debt service payments combined with the reduction in the debt stock from the application of sale proceeds from lands and assets will carry us further along the path to sustained debt reduction.

117. Madame Speaker, our performance for the fiscal year 2006 was quite satisfactory and this indicates quite clearly that our fiscal policies have been contributing to our achievement of fiscal stabilization and debt reduction. We cannot, however, rest on our laurels. Our ability to stay on course to the attainment of our medium and long-term debt and fiscal projections will require sustained effort over a number of years.

## **Fiscal Prospects**

118. Madame Speaker, Recurrent Revenue for the fiscal year 2008 is estimated at \$425,584,639. This represents an increase of \$14,375,875 or 3.5% over the 2007 revenue estimates of \$411,208,764. On the other hand, Recurrent Expenditure (excluding loan principal payments) for 2008 is projected at \$412,062,481 representing an increase of \$45,144,238 or 12.3% over the 2007 estimates of \$366,918,243. We are therefore projecting a Recurrent Account Surplus \$13,522,158 at the end of 2008.

119. Our revenue projections, Madame Speaker, are based primarily on the expected growth in the economy in 2008 and continued improvement in the revenue collection process. As I indicated earlier, I am especially pleased that we can project growth in our real GDP notwithstanding the demise of the sugar industry in 2005 and the challenge we face in respect of the continued transformation of our economy into a modern, well diversified service-based economy.

120. Madame Speaker, in this Budget we have sought to contain the growth in expenditure and at the same time provide adequate resources to reflect my government's commitment to the strengthening of human and social capital and to economic transformation. Moreover, to achieve maximum benefits from the resources available to us, we have reallocated funds to projects and programmes that make the greatest contribution to my Government's agenda for development.

121. Madame Speaker the introduction of Performance Budgeting in the 2008 Budget has brought about some significant changes in the way the budget is presented. Firstly, the Recurrent Expenditure and Capital expenditure are no longer displayed separately but have now been integrated so as to give a ready appreciation of the total resources allocated to each Ministry. Secondly, there is now a strong emphasis on the outputs that would be delivered with the resources that have been allocated as opposed to inputs. In accordance with this new thrust I would now seek to highlight some of the major initiatives for Ministries which have been allocated a significant increase in resources in 2008 compared to 2007.

122. Full details of the expenditure for all programmes and activities of each Ministry together with performance measures are outlined in the Draft Estimates for 2008. Indeed Honourable Members would have noted that the Estimates now

come in three volumes instead of a single volume. Volume 1 and Volume 3 focus on expenditure and revenue respectively while Volume 2 is a detailed compilation of the plans, priorities, and projected output of each Ministry. Hence, Honourable Members should be well equipped to assess the performance of the Government and its various Ministries and to give their own perspectives on the way forward for our country. It is my hope that the provision of this very substantial volume of information on the plans and programmes of the Government would help to focus the Parliamentary debate on the policy issues of relevance to the continued development of our Federation.

123. Madame Speaker, under the Governor General additional resources in the amount of \$473,000 have been allocated compared to 2007. Adequate resources have been provided for the hosting of official events and official travel during 2008. During 2008 Government House and the Officers' Quarters would be renovated and resources in the amount of \$461,500 have been allocated for these activities.

124. Madame Speaker, the upholding of justice and the maintenance of law create the enabling environment for sustainable economic development and for our people to enjoy the resulting improvements in the quality of life. It is for this reason that law and order occupies a most prominent position on my Government's agenda. Therefore in 2008 the Ministry of Legal Affairs has been allocated \$6,561,000 representing an increase of \$471,000 or 7.7% over the allocation for 2007. The present unacceptable situation with respect to crime requires that the capacity of the Ministry of Justice and Legal Affairs be continually strengthened so that justice can be swift and effective. In 2008 the Court System would be outfitted with the full complement of Magistrates to allow it to process cases expeditiously and mete out the appropriate trial decisions



swiftly. In addition, the capacity of the office of the Director of Public Prosecutions would be strengthened with the addition of a Senior Crown Council so that prosecutions can be done in a timely manner.

125. My Government strongly believes that it is a fundamental entitlement of every citizen to have their rights protected under the law and so it is important that all our people have access to legal services irrespective of their socio-economic status. It is for this reason that two years ago we took the innovative step to establish a Legal Aid Clinic so that those who cannot afford the services of a private lawyer could have access to quality legal services. The ever increasing demand for the services of the Legal Clinic clearly demonstrates the wisdom and foresight of my Government in establishing such a service. During 2008, the needs of persons in the various communities who are not in a position to travel to Basseterre would be addressed by taking the services offered by the Legal Clinic to the various communities in our Federation.

126. Madame Speaker plans are currently underway to operationalize the Office of the Ombudsman early in 2008. The establishment of this office is part of our ongoing efforts to protect our citizens, residents and investors alike by giving them a forum where they can lodge complaints and have them addressed in an effective and timely manner. We consider that protection of the rights of all our citizens to be an essential part of economic and social development.

127. Madame Speaker I am happy to report that the Law Revision project is progressing well and is in the final phases of completion. Despite our fiscal challenges my Government has invested heavily in this project because of the benefits that would accrue in updating our laws and making them more accessible not only to practitioners but to the public in general. The completion of this

project would make St. Kitts and Nevis one of a few countries in the Caribbean with a modern set of laws with mechanisms and systems for keeping them continuously updated and revised. The necessary resources have been provided in the 2008 Budget for the completion of this project.

128. Madame Speaker the Ministry of National Security has been allocated \$40.3 Million, an increase of \$292,000 over the allocation for 2007. The additional resources would be used in the implementation of strategies that have been carefully drawn up to deal aggressively with the recent upsurge in gun crime in our Federation.

129. We have made tremendous strides in developing our economy into a service economy with Tourism as the leading sector. All the gains that we have made so far can be swiftly swept away by the misguided actions of a few. The Ministry has therefore developed a number of strategies aimed at containing crime in general but more specifically gun crimes that are being perpetuated by youths in gangs. The Coast Guard in stepping up their coastal patrol activities with a view to reducing the flow of illegal guns into our Federation is not sufficient. The Customs Department will also have to be so staffed and organized that it plays a more proactive role. There will also be an increase in the activities by the Anti-Gun Unit and Strike Force to recover guns from the street and to dismantle the gangs. In addition, the Security Forces have been provided with more and improved vehicles to increase the frequency of patrols and to enhance their visibility in the communities.

130. Crime fighting requires a multi-agency approach to be effective. Therefore in 2008 there will be greater collaboration between the Ministry of National Security and agencies such as the Customs, Ministry of Social Development and

the Ministry of Education which have expertise to bring to bear on various aspects of the crime problem. We shall recruit more manpower for the Security Forces and bring both Departments up to full strength and we shall mobilize the support of our friendly metropolitan Governments to boost the manpower at the highest administrative and management levels. We also plan to operationalize the National Commission and to develop and implement a community policing plan during the course of the upcoming year. Moreover, Cabinet recently took the decision to reactivate the National Defence Council which I chair. We shall meet weekly with the National Security Cabinet Sub-Committee and the Police High Command to monitor the situation in relation to crime and violence and provide appropriate guidance and policy directions.

131. Madame Speaker my Government will continue to honour its commitment to our Security Forces to improve the physical facilities that they occupy. In this regard, the construction of the multi-agency law enforcement facility in Dieppe Bay is well underway and is expected to be completed on schedule. This is to be followed by the construction of a police station in Tabernacle commencing in 2008 and the construction of additional barracks for the Defence Force quarters at Camp Springfield. The inadequacy of the Sandy Point Police Station is being addressed by the construction of a modern facility and there will also be a general overhaul of the Force Headquarters in Basseterre. The Security Forces will also deploy new equipment and technologies in the fight against crime. In particular, during the course of 2008 we will provide additional protective gear and equipment for Security officers; we will fully implement the Closed Circuit Television Project designed to enhance the surveillance capabilities of the Law Enforcement Agencies and we will continue with the project to upgrade and modernize the fingerprinting facilities of the Police.

132. The Ministry of National Security, Immigration and Labour is not only concerned with catching criminals and bringing them to justice but is also involved in some aspects of rehabilitation in facilities which are appropriate. In this regard it is the intention of the Ministry of National Security to address the overcrowding of Her Majesty's Prison facilities and to collaborate with the Ministry of Health in the establishment of counselling services for persons who suffer from alcohol and drug addictions. The Ministry will also intensify its efforts and activities in relation to drug reduction counselling, information sharing and public education on the misuse and abuse of drugs. The challenges that this Ministry face are formidable but this is more than matched by unwavering resolve and commitment of the Ministry to effectively discharge its mandate.

133. Madame Speaker, the Office of the Prime Minister plays a leading role in managing the affairs of the Federation. The 2008 fiscal year will be a particularly active year for this Ministry as it would be engaged in a number of critical activities aimed at enhancing governance and transforming the Civil Service so that it can deliver a higher quality of services to the public in a more timely and efficient manner. The Office of the Prime Minister has therefore been provided with \$ 14.0 million, an increase of \$3.5 million or 33.5% over the 2007 allocation to undertake these activities.

134. The continuation of the Electoral Reform process is one of the major activities to be carried out by this Ministry during 2008. Much progress has been achieved in the area of Electoral Reform during 2007 climaxing with the consideration by Parliament of the Election (Amendment) Bill in October 2007. In 2008 the Ministry will conduct several public awareness campaigns to educate the public on the new Electoral Laws and registration system. My Government has spared no resources in ensuring that as many of our nationals at home and

abroad were given the opportunity to make an input in shaping our new electoral laws. The number and magnitude of consultations held have been unprecedented in St. Kitts and Nevis. My Government did this because we believe that having the broad based inputs would lead to an electoral system that all of us could be proud of and one that would serve this Federation well into the future. To support the reform process we will also enhance the capacity of the Electoral Office. In this regard, during the first quarter of 2008 the building that houses the Electoral Office will be renovated in preparation to house the new electoral system that is to make the electoral process more transparent, modern and efficient.

135. Madame Speaker, my Government is keenly aware that Civil Service Reform is an area that must be given much attention. We are living in a global village where size does not matter as much as the ability to deliver services to nationals, residents and investors in an efficient and timely manner. This to my mind signals to the outer world whether or not we are ready to do business. We can therefore conclude that an inefficient and unresponsive Civil Service could be an impediment to growth and development.

136. We also recognize that Civil Service Reform is not a one-time event but an ongoing process that sometimes takes a number of years before tangible changes can be seen. However my Government will do all that is needed to facilitate and accelerate the process. In this regard, Government has recently engaged the services of the Caribbean Centre for Development Administration (CARICAD) to assist it with addressing a number of issues relating to civil service reform. This exercise will include a comprehensive review of salary scales and allowances with a view to regularizing a number of anomalies that have emerged over the years. CARICAD is expected to complete the assignment sometime in 2008 and present its findings to Government for further action.

Meanwhile efforts are ongoing to transform and upgrade the Human Resource Division. Three professional staff have recently been recruited to among other duties assist in driving the transformation processes.

137. Madame Speaker the Ministry of Foreign Affairs and International Trade has been allocated resources in the amount of \$13.06 Million which will be used to facilitate the conduct of foreign policy and trade policy, provide consular services to our nationals overseas, and to accommodate our participation in the CSME, the OECS Economic Union as well as a number of other trading arrangements. This amount represents a decrease of \$942,000 or 6.7%. The reason for this decrease is that in previous years this Ministry was provided with a block of funds to pay contributions to Regional and International organizations on behalf of all Government Ministries. In order to conform to Performance Budgeting practices, each Ministry would now be responsible for paying its own contribution thus allowing this expense to be properly captured as an expense of the respective Ministry.

138. Madame Speaker, I now direct my attention to the Ministry of Industry, Commerce and Consumer Affairs. This Ministry's allocation for 2008 is \$1.9 Million, an increase of \$104,000. One of the main thrusts of this Ministry is the development of small businesses. Madame Speaker it is extremely pleasing to see the increasing number of our people who are seizing the business opportunities that our thriving economy is providing especially in the tourism sector. It is envisioned that small businesses would contribute significantly to job creation over the foreseeable future.

139. Recognizing the potential, a National Entrepreneurial Development Division (NEDD) would be established very early in 2008 to further foster the development of the entrepreneurial spirit by focusing on new, emerging and existing small businesses. NEDD would administer the package of concessions already in place for small businesses. It would foster entrepreneurial development by providing technical assistance to potential entrepreneurs moving from the conceptual stage to the development stage and running of a successful business.

140. Madame Speaker, the Ministry of Finance, Information and Technology has an important role to play in managing the economy so as to maintain fiscal stability and to create the enabling environment to foster growth and sustainable development and promote investment. This Ministry has been allocated \$236.9 Million, an increase of \$27.5 Million or 13.2 % over the 2007 allocation to carry out its functions during 2008. The increase is mainly to provide the additional resources needed for debt servicing.

141. Madame Speaker during 2008 the Ministry of Finance will continue with the implementation of its debt strategy which seeks among other things to refinance high cost debt, rationalize the incurring of new debt and strive to achieve a healthy primary balance which would positively affect the domestic debt. It would continue to seek opportunities to dispose of selected assets, the proceeds from which would be applied to reducing the debt. Some of these strategies are already being successfully implemented. Of course, the Ministry recognizes that enhanced domestic and foreign investment is required to raise the level of real economic growth and enhance our capacity to reduce the debt to GDP ratio within a reasonable time frame. Hence, the Ministry has actively promoted the establishment of the IPA and have made provision for the funding of IPA in its 2008 allocation.

142. Madame Speaker, the Ministry of Social Development Community and Gender Affairs has been allocated \$12.6 Million, an increase of \$1.6 Million over the 2007 allocation. During 2008 the Ministry will use these resources to implement programmes to protect the vulnerable groups, the elderly, disadvantaged women and children as well as teen mothers. It will also continue to promote and facilitate community self-help and community activities in an effort to build social capital by fostering community togetherness and community pride.

143. The Ministry will also continue its social assistance program which provides food and cash transfers to poor households and which assists poor persons with expenses relating to medical emergencies. Moreover, the Ministry is specially mandated to monitor the progress of the displaced sugar workers as they seek to find new sources of income, and to intervene with appropriate assistance where necessary.

144. The Ministry of Social Development Community and Gender Affairs is also charged with the implementation of the Child Development Project which is now progressing smoothly. Under this CDB funded project a co-ed facility will be constructed to replace what was previously called the Harris' Home. This institution will be used to implement a comprehensive rehabilitation program aimed at rehabilitating youth who have been in trouble with the law, providing the necessary life skills to allow them to become productive citizens. The staff at this facility will be well trained and will have the requisite skills and expertise to administer the various programs for the youths especially those who have been placed in the institution by the court. This project is estimated to cost \$9.6 Million.



145. Madame Speaker, the Government has been facilitating the work of the Ministry of Social Development Community and Gender Affairs by investing heavily in community-based social infrastructure. Hence in 2008, monies have been allocated for capital works in respect of Molineux Health Centre Expansion, Dieppe Bay Primary School, Saddlers Primary School, St Paul's Day Care Centre, Molineux Primary School, Tabernacle Alley Upgrade, Lower Verchields Walkway, Alleys in Camps village, Verchild's Playing Field, Trinity/Boyds Playing Field, Challenger's Playing Field, Halfway Tree Grounds and the Ferry Terminal in Basseterre. Madame Speaker, our heavy investment in community infrastructure is consistent with our goal of strengthening social capital and bringing our communities to the centre of the social and economic life of our Nation.

146. Madame Speaker the Ministry of Housing, Agriculture Fisheries and Cooperatives has been provided with \$9.4 Million which is \$3.9 Million less than what was provided in 2007. The 2008 figure includes \$4.3 Million for Capital Projects which is approximately half of the resources which were allocated for Capital projects in 2007. The reduction in the allocation for capital projects is the result of the completion or near-completion of some of the projects that were ongoing in 2007.

147. Madame Speaker, the National Housing Corporation (NHC) is the primary agency for implementing Government's Low Income Housing Strategy. In this regard, the NHC will be assisting some 300 families construct or upgrade homes under a US\$10 million project funded by the Government of Venezuela. The focus of this project will be on the displaced sugar workers and those persons with starter homes who would wish to have them expanded. The Ministry responsible

for Housing and NHC are collaborating with a number of private developers with a view to facilitating the construction of over 500 affordable homes within the next three years.

148. With respect to Agricultural development, the Ministry will be assisting farmers in raising the quality of their products to the standards required by local consumers and by hotels. In this regard, the Ministry has been undertaking a capital project to establish a Pack House. This would facilitate the process of selecting, washing, sorting, grading and packaging fruits and vegetables in order to achieve the standards of quality being demanded by the various outlets. The Ministry will also implement a pilot irrigation project next year, which it hopes to replicate in a number of farming communities and thereby assist farmers to produce high quality fruits and vegetables throughout the year.

149. Of course, access to adequate financing is critical to the ability of farmers to upgrade their farms and enhance production in response to market conditions. However, without adequate land tenure, they are not always able to provide the security required by financial institutions. Hence, during 2008 my Government will review the existing land legislation to provide greater security to farmers producing agricultural products on lands owned by the Government.

150. In the area of fisheries a project would be undertaken with the assistance of Taiwan to acquire two (2) multipurpose fishing boats for use in the training of fishermen. This training would facilitate better management of marine resources. The Department of Fisheries will also implement another project that will result in the procurement of the necessary equipment to support training in long line, squid and other modern fishing techniques. We expect that these initiatives will help to increase fish production significantly.

151. Madame Speaker the Ministry of Tourism, Sports and Culture has been provided with \$31.6 Million in 2008 to carry out activities related to the promotion and development of Tourism, Sports and Culture. This amount represents an increase of \$480,000 or 1.5% increase over the comparative figure for 2007. Over the years we have consistently increased the amount allocated to this Ministry in recognition of the important role it plays in the economic life of our nation. We also placed great emphasis on sports and culture, which creates important outlets for the energies and talents of our young people in particular. We are therefore proud of the recent spectacular performance of our Special Olympians. We are pleased that we can look forward to hosting international sporting events such as the CARIFTA games and the International Cricket. We hope that our athletes and sportsmen would strive to emulate the outstanding performances in these regional and international competitions

152. Madame Speaker the Ministry of Public Works, Utilities, Transport and Post has an allocation of \$88.9 Million including resources for Capital projects. During 2008 this Ministry will be undertaking a number of initiatives to improve the quality of the various services it provides to the public. In respect of Electricity a new generator will be installed along with the changing of switches and upgrades to power protection systems. This will all lead to a better and more reliable supply of electricity. The upgrades done so far are already resulting in significant improvements in the reliability of supply. I am also happy to report that the first shipment of fuel under the Petrocaribe agreement with Venezuela has arrived and should help to reduce operating costs at the Power Station. This is therefore the main reason for the decrease in the allocation provided to this Ministry in 2008.

153. The other initiatives of the Ministry that will be implemented in 2008 include the Corporatisation of the Electricity Department, the automation of the Post Offices to allow it to offer a wider range of services to the Public, the West Basseterre Bypass Road and the drilling and rehabilitation of wells to enhance the supply of potable water.

154. Madame Speaker the Ministry of Education and Youth has been allocated \$72.6 Million to Manage Education Services and Youth Development for 2008. This includes \$25.1 million for Capital Expenditure. During 2008 the Ministry will continue to focus much attention on improving the lot of young people. Programs would be undertaken to improve the reading skills of primary school children. In this regard the Ministry will establish reading resource centres in every Government primary school to ensure that children with reading difficulties can be identified and given remedial help. This is critical because it is well known that good readers are usually good performers in other subject areas.

155. Furthermore, the Ministry intends to introduce new curricula in special areas, implement quality assurance for the delivery of TVET programmes in all institutions and increase the number of students graduating from College by 70% and the number graduating from secondary school by 60%. Indeed, it is noteworthy that in 2007 the number of students sitting the CXC examinations increased by 20% to reach 751 and still the national average pass rate did not decline. This performance is consistent with our goal of increasing the number of students that make it through the school systems and thereby reducing the number of drop-outs.

156. The Ministry is also moving ahead with its plans to transition the Clarence Fitzroy Bryant College into a semi-autonomous tertiary institution. This would

allow the College the flexibility it needs in expanding its Associate Degree offerings and in addressing issues in relation to curriculum development, accreditation and quality assurance mechanisms.

157. Madame Speaker, the Ministry of Education and Youth is an important instrument of development. It plays the lead role in the strengthening of human capital, which is so critical to the progress of our nation. It is also responsible for youth development which continues to be one of the major priorities of my Government. During 2008, we will empower the Youth Department to expand the scope of its operations beyond the implementation of youth training and development programmes to youth advocacy. We would wish the Youth Department to monitor the major developments in all sectors of the economy and to ensure that the interests of our young people are taken into account in the design of projects and programmes and in all policy initiatives of the Government. Our young people must get their fair share of the fruits of our development. Young people must be visible among our entrepreneurs, among our landowners, among our shareholders, among our professionals, among our policymakers and among all significant groups contributing to the development of our Federation.

158. Madam Speaker, the Ministry of Health has been allocated \$40.6 Million in 2008 to manage healthcare and environmental health services. This figure includes \$10.2 Million for capital projects.

159. Healthcare in our Federation has shown dramatic improvement over the years. This is most pronounced in the area of child health where most of the childhood infectious diseases have been all but eliminated as a result of our comprehensive and effective immunization programmes. This is further

supported by the increase in life average expectancy to 72.15 years- 69.31 years for males and 75.35 for females.

160. Despite these improvements we are now faced with new and formidable challenges as a result of a change in our lifestyles and disease patterns. Non Communicable Diseases (NCD's) such as heart disease, stroke, diabetes, hypertension and cancer are now the main reasons for mortality and morbidity. These diseases are very costly to treat and consume the largest portion of the health budget. It has been shown that the occurrence of these diseases could be significantly reduced by changing dietary practices, increasing physical activity, reducing alcohol intake and using preventative health care services. Of course HIV/AIDS continues to be a health challenge for our Federation and to the rest of the Caribbean region.

161. Madame Speaker in 2008 the Ministry of Health will continue to strengthen our Health Promotion Unit and proactively engage in Health Education, with a view to encouraging our people to adopt healthier lifestyles. We will also proceed with the implementation of the Pogson Hospital Project, which we intend to become a Centre of Excellence in community health generally and in the care and treatment of persons with HIV/AIDS. This will all be done within the framework of an approved National Health Policy.

162. Madame Speaker, I turn now to the section of a budget address which usually generates the greatest interest – Fiscal Measures.

## **Fiscal Measures**

163. Madame Speaker, as I indicated in a recent Press Conference, when public servants were paid their last salary increase in January 2004, my Government undertook to ensure that the terms and conditions of service of Government employees would be reviewed periodically with a view to adjusting such terms and conditions at least once every three years, based on the results of the review. Hence, a review should have taken place in 2006 to permit an adjustment of the terms and conditions of service of Government employees on January 1, 2007.

164. That review is currently ongoing. We have engaged the services of CARICAD in Barbados to examine the compensation of Government employees and to advise Government as to an appropriate pay increase. Unfortunately, the review is taking much longer than expected mainly because we have expanded the terms of reference of the Consultants to include a review of Job Descriptions and Job Specification as well as the development of a comprehensive manpower plan to ensure that the public service is adequately positioned to play a proactive developmental role in the dynamic environment in which it operates.

165. However, we strongly believe that Government employees must not be made to wait any longer. They work hard and they deserve due reward and recognition for their outstanding service. Hence, I am pleased to advise that the Cabinet, at its meeting of 2<sup>nd</sup> December 2007 approved a 5% interim pay increase for all Government employees with effect from January 1, 2007. The retroactive payment in respect of the period January 1st, 2007 to December 31st 2007 will be paid during the course of this month. The effect of this retroactive payment is that

each Government employee would receive an extra 60% of his month salary before Christmas this year.

166. We have further agreed that we would request the Consultants to expedite the review so that we can decide definitively on the level of the increase during the course of 2008. If the increase accepted by the Government, based on the report of the Consultant, is higher than the interim increase, we will, during 2008, approve a further retroactive payment to adjust the 5% upwards to the final level of the increase approved by Government.

167. Madame Speaker, the fact that we are approving an increase of salary at a time when our National Debt continues to be very high, and when we face numerous fiscal constraints is an indication of the strong commitment of the Government to the well-being of our public servants. We will undoubtedly have to cut costs and make sacrifices on other items of Government expenditure, but we are determined to give priority to Government employees. They are the ones that must play the key role in implementing the plans and programmes that I have outlined in this budget and in the National Adaptation Strategy. They must therefore share in the fruits of their labour.

168. A double salary was one of the options that we considered in relation to the compensation of Government employees in December of this year. But then I asked the following questions: After the double salary has been used up, then what? How would our public servants cope with the increased cost of living that we have been experiencing as a result of the continuing fluctuations in the price of oil? I therefore decided that we had to immediately pay public servants a portion of the increase to which they are entitled, while at the same time provide them a lump sum retroactive payment equivalent to 60% of a month's salary to assist in



defraying the extra expenditure that they will undoubtedly incur during Christmas and Carnival. They can also be assured that, as soon as we receive the report of the Consultants in 2008, they will receive the balance of the increase to which they are entitled.

169. I urge our public servants to allocate some portion of their increased salary and retroactive payment to investment. Our economy is growing and new opportunities for wealth creation arise on a daily basis. I urge our public servants to participate fully in Government Special Land Initiative. I urge them to give careful consideration to the offer of shares that Cable and Wireless will be making during the course of the year, based on the agreement with the Government. I urge them to follow the Government's efforts at privatization and seek out investment opportunities that are consistent with their respective risk profiles. I also give this advice to all citizens. This country belongs to all of us, and we must make sure that every one – young and old, men and women, rich and poor - gets a piece of the action.

170. Madame Speaker, we know that the society as a whole has felt the impact of increased consumer prices arising mainly from the surge in the cost of oil. That is why we introduced legislation to curtail the margins that vendors include in the price of certain items that constitute a substantial portion of the basket of goods typically consumed by lower income families. That is also the reason why we gave our bakers a package of concessions to encourage them to keep the price of bread affordable. But we are determined to go even further. Just last week I announced in a Press Conference that the duty and taxes in respect of the food barrels that our people import from overseas would be dramatically reduced. In particular, the current system whereby gift packages of food are allowed the first 100 lbs free of duty and taxes continues to operate. Moreover travellers spending

seven or more days outside the Federation continue to enjoy duty-free and tax-free entry of the first \$400 of the c.i.f value of the goods imported by them through the airport.

171. In respect of other travellers, including the one-day shoppers, importing food items for their personal use, the following concessional charges are now levied in place of usual rates of duties and taxes:-

Jumbo or Large Barrels	\$60.00
Small Barrels	\$40.00
Barrels 70 lbs or less	Free (i.e. no duty or taxes)

This measure brings significant relief to our people who travel overseas and return with food items. We believe that food is a basic necessity and good nutrition should never be outside the reach of any citizen of St. Kitts and Nevis. Hence, we will bolster these initiatives with our continuing programme of poverty reduction that would continue to identify distressed families, including those of our displaced sugar workers and of the aged, and bring direct and special relief to them where necessary.

172. I am pleased to announce yet another initiative aimed at assisting our people to cope with the rising price of fuel. Specifically, in respect of electricity bills of householders for consumption of electricity in the month of January 2008 and thereafter, the fuel surcharge would be capped at 50% of the primary charge for electricity. This cap, which would be reviewed periodically, would help to ease the burden of electricity charges on many household consumers who are sometimes called upon to pay fuel surcharges as much as 100% of the primary electricity charge.

173. Madame Speaker, there can be no doubt that the very extensive set of projects, programmes, activities and relief measures that I have outlined here today, will go a long way in helping us achieve our goals in respect of people development, the strengthening of human and social capital, and continued social and economic progress. However, this creative programme of growth and development must be funded. But we cannot rely too heavily on loans if we wish to achieve our target for debt reduction. We must therefore find ways of generating revenue to fund the implementation of our development agenda.

174. The programme I have outlined will benefit the entire nation so that any contribution made to the development agenda through taxes and fees would be well worth it and would bring substantial returns for our citizens, individually and collectively. Fortunately, notwithstanding the ups and downs of the international economy, we have continued on a path of growth and we expect further growth in the upcoming year. We therefore expect that our revenues will continue to grow in response to the expansion of the economy. Therefore the fundamental question that needs a profound answer is: Do we have to impose new taxes or increase existing taxes to meet our national development goals for 2008 and beyond? Madame Speaker, I am pleased to announce that the budget for 2008 is a tax-free budget. We are satisfied that there is no need to introduce new taxes this year.

175. Of course, we will continue to be vigilant in the collection of taxes. Our Revenue Collection Agencies have been doing exceptionally well in collecting arrears and we expect that process to continue because there are still substantial sums outstanding. We also propose to rationalize the system of taxation. That is why we have been giving careful consideration to the possible introduction of a Value-Added Tax (VAT). The VAT would consolidate a wide range of taxes including Consumption Tax, Mercantile Tax, Traders Tax, Hotel Room Tax,

Island Enhancement Fund, Travel Tax, Insurance Premium Fee, Parcel Tax, Vehicle Rental Tax, Overseas Call and Telecommunication Fee, Export Duty and Rum Duty. It would also bring them under a single legislative and administrative framework.

176. The introduction of a VAT would also enhance the coverage of our tax system and eliminate the need for excessively high taxes on the persons who currently fall within the tax net. The Fiscal Division of the IMF and the Caribbean Regional Technical Assistance Centre (CARTAC) have been assisting us in our evaluation of the VAT. Indeed the Fiscal Affairs Division of the IMF has conducted a study that has established the feasibility of VAT in St. Kitts and Nevis. Cabinet will consider the report during the course of 2008 and make a final decision in respect of VAT.

## **Change and Renewal**

177. Madame Speaker, this year's budget allocations represent a very careful and creative deployment of the limited resources available to us. It provides for a current surplus and for a reduction in the debt to GDP ratio without setting any overly ambitious targets for growth in revenues. At the same time, it brings relief to every citizen of our Federation. In particular, it launches a major assault on inflation that would bring much needed relief to the poor, the aged, the displaced sugar workers and the population as whole. It provides for the implementation of a vast array of private and public sector projects that will enhance economic activities and bring new avenues of income and employment. Moreover, it has put in place the institutional mechanisms for continued private sector development by allocating resources for the establishment and operations of the IPA and the National Enterprise Development Division (NEDD).

178. Madame Speaker, this year's budget provides for the intensification of the fight against crime through a range of organizational, institutional and operational innovations in the Security Forces and through the deployment of better equipment and new technologies in the fight against crime. But it also targets the root causes of crime by committing resources to youth development and to a range of social issues that give rise to criminal behaviour. It provides for our communities to be reinvigorated and to play prominent roles in the social and economic life of our nation. It provides for the Education System to create a variety of learning opportunities that caters to the varying interests and aptitudes of our young people and of the population as a whole.

179. This year's budget recognizes the significant contribution of Government employees to national development and provides for them to be appropriately rewarded. It provides for the acceleration of the Public Sector Reform Programme aimed at modernizing the public service and equipping it to play an even more proactive role in development through the delivery of services of the highest standard.

180. This year's budget provides for our people to own shares in privatized entities, to acquire their own homes and to become landowners. In particular, this budget advances Government's land management and distribution programme that will erase from the annals the condition of landlessness that tainted the image of our people.

181. Madame Speaker, the dramatic changes in the form of presentation of the Estimates tells the whole story about this year's budget. It is an instrument of change and renewal. It is an instrument that significantly advances Government's

plans to create a new and transformed society that is peaceful and harmonious and that gives our people the opportunity to create wealth for themselves, to advance the society as a whole and to realize their fullest potential as human beings created by the Almighty God in his own image.

182. Madame Speaker, we intend to proceed with even greater urgency with our agenda for change. The world is not waiting on us. We must move on. As part of the change process, we will pay even greater attention to protecting the social and economic gains that we have secured for ourselves. In particular we will evaluate our institutions and the role they play in strengthening social capital and in promoting social cohesion. I am persuaded that the surest way of protecting our immense achievements as a nation is through the creation of a more cohesive society, characterized by peaceful and harmonious interaction between all individuals and entities and by regular dialogue and consultations in respect of all decisions that affect the society as a whole or a significant segment of the society. This is the surest way of preventing social disorder and chaos that could wreck the ship of state overnight.

183. We are fortunate that we have had a long history of democracy and solid institutions on which our democracy has been built. Our rich democratic tradition, characterized by a number of constitutionally entrenched rights and freedoms, contribute significantly to the stability of our nation. But we need to continuously embrace change and innovation to strengthen our democracy. This is why my Government has been vigorously pursuing electoral reform and has engaged in a public consultation on the proposed reforms that has been unprecedented in this Federation. Our aim is to ensure that no Kittitian or Nevisian is improperly disenfranchised and that any person who casts a ballot in any of our Elections is

duly authorized to do so under our laws, and presents an appropriate picture ID as proof of his or her identity.

184. But democracy is not just about elections. It is about the extent to which people are involved in the decisions that affect their lives. We believe that our National Consultations on the Economy and our regular Face to Face meetings are important avenues through which our people can make their feelings known and can have input in critical policy decisions. But we must also re-invigorate community life, strengthen community organizations and position our communities to become more involved in social and economic decision-making. With stronger communities, it would be possible to establish formal mechanisms at the community level to influence national policies and take decisions on local community issues.

185. Madame Speaker, the prevention of crime and violence is one area where the communities can play a greater role. Many of the gangs that commit crimes are centred in particular communities and the gang members interact with others in the community on an ongoing basis. Community leaders and other responsible members of the communities have quite often earned the respect of some of the young people in gangs, and they are more knowledgeable of the issues faced by these young people than others in the wider society. They are therefore well placed to intervene and to assist in bringing resolution to some of the issues faced by these young people, on behalf of the society as a whole. I fully understand that in many instances such resolution would require Government support and assistance, and we stand ready to help in any way possible. Let us not forget that not too many decades ago our communities took responsibility for the discipline and training of the young people in such communities. They did not just leave it up to the family. In such communities, each person was his brother's keeper. My

Government will mandate the Ministry of Social Development, Community and Gender Affairs to seek to reactivate Community Councils where feasible, and to develop a comprehensive strategy for putting the community at the centre of the social and economic life of our nation.

186. Madame Speaker, the strengthening of our democracy also entails the continued enhancement of transparency and accountability in Government. Our people must know and understand what is going on in Government, and they must not have to rely on misinformation peddled by person pursuing various agendas that are quite often inconsistent with the well-being of our people. The vast amount of information presented in the three volumes of this year's Estimates is indicative of my Government's strong commitment to transparency and accountability. I urge all our citizens to procure for themselves copies of these important documents and to equip themselves adequately to engage in discussions and consultations about our country or to assess for themselves the performance of my Government.



## **Conclusion**

187. Madame Speaker, the Secretary General of the Commonwealth, the Rt Honourable Don McKinnon, in a recent publication prepared for the Heads of Government of the Commonwealth, has advocated the transformation of societies for attainment of political, economic and human development. In his view “transformed societies are societies in which all the people understand what is happening and why; and in which everyone plays a part and everyone benefits – individually and collectively”. By this definition, we are well on the way to creating a fully transformed society in our Federation. The documents which we have prepared in support of the budget presentation clearly provides our entire society with substantial details of what is happening and why. Moreover, the plans and programmes that we have outlined in this Budget will benefit everyone. I urge each of our citizens to make it their business to understand and embrace the change that my Government is bringing about in our Federation. I urge them to make their views felt, to contribute their ideas to the change process, and to support the Government in building an even more flourishing, happy and peaceful society. My Government of course remains fully on course and focussed on people development which is a very important component of our Transformation Agenda.

Madame Speaker, I so move.