



2003 BUDGET STATEMENT

Keeping Hope Alive

Presented to Parliament
by Honourable Lester B. Bird

Prime Minister and Minister of Finance

31 March 2003

Madam Speaker, I rise to present the Budget for 2003 at a deeply troubling time for the entire world. Few could have foreseen that so soon into the 21st Century, a war would be raging in Iraq, States would be deeply divided, economic prospects would be dim, and global stability would be uncertain.

We condemn unreservedly any Government or State that threatens the security of its neighbours and violates the human and civil rights of its own people.

Such States and Governments should be brought to book by the international community acting collectively and through the institutions that we have toiled these last fifty years and more to construct.

At the same time, we are concerned that the forces of unilateralism are seeking to overthrow multilateralism in the present world order.

Organizations, such as the United Nations, which were painstakingly built to promote, preserve and protect the integrity and well being of all nations, have been brushed aside as irrelevant.

This is not a view shared by my Government.

Indeed, quite the opposite is true. We regard the United Nations and the Security Council as vital to our own protection against adventures by larger and more powerful states in both military and economic terms.

For us, the Security Council should not be compromised or undermined by any actions that are inconsistent with the UN Charter. Once this occurs, the world will be governed not by the authority of the law, but by the command of the mighty.

Small nations, like ours, are particularly vulnerable to adventures in their many forms, but no nation is immune from them as 9/11 proved.

In this connection, the need for the United Nations and for the authority of the Security Council has never been greater than it is now. For, all nations now depend on others for cooperation and collaboration in their security arrangements.

As I begin this Budget presentation which sets the parameters for our nation's fiscal survival, I take this opportunity to reaffirm my Government's commitment to the supremacy in international affairs of the United Nations and the principles enshrined in its Charter. No country is an island unto itself; each is intertwined one with the other; each is reliant on collective respect for international rules and norms.

Madam Speaker, in recent years, when small countries, such as ours, have sought to compete with larger and more powerful States, we have faced the prospect of blacklisting and sanctions.

Even our right to compete in the global marketplace has been threatened.

This, Madam Speaker, is the state of the world in which Antigua and Barbuda, now finds itself. It is not a world in which we will survive unless we have a coherent and cohesive strategy that is executed with the wisdom of knowledge, and the power of good judgment that can come only from experience.

My Government is resolute and resolved to press on in spite of the many odds against us. We do not underestimate them, but we are confident in our ability to confront them and, eventually, to overcome them.

CHALLENGES

What are some of the challenges that we as a people must face up to?
A perusal of the 2003 Estimates of Recurrent Revenue and Expenditure provides us with some insight.

For fiscal year 2003, recurrent revenue has been put at five hundred and sixty-three million, one hundred and seven thousand, six hundred and sixty-two dollars (\$563,107,662), and recurrent expenditure estimated to be six hundred and twenty-seven million, three hundred and ninety-eight thousand, six hundred and forty dollars (\$627,398,640).

You will observe, Madam Speaker, that estimated expenditure outstrips estimated revenue by some sixty-four million, two hundred and ninety thousand, nine hundred and seventy-eight dollars (\$64,290,978).

It is clear that the gap between the levels of revenue and expenditure needs to be narrowed and therein lies the crux of our challenge.

The Wage Bill

Madam Speaker, we all know why this Government faces a gap between revenue and expenditure. Plainly and simply, it is our large public service and a very significant wage bill.

The wage bill is estimated at approximately 74% of recurrent revenue.

Past Budget Statements have made mention of this matter, and outlined Government's intention to rationalize its workforce through the implementation of a number of cost-cutting measures.

These measures were determined by a number of assumptions, the main one being that the private sector would have been more robust in coping with the global economic downturn. This appears not to have happened, despite the many incentives and concessions offered by the Government.

It is worthy of note that while the overall rate of unemployment in the country has increased, so too has government's expenditure on salaries and wages.

This has occurred because the Government has had to continue to absorb workers severed from the private sector.

But Madam Speaker, this should surprise no one.

It has been a long-standing policy of the Government, to use employment as a tool to stave off poverty and its attendant social ills, such as crime, truancy and malnutrition.

This method of poverty alleviation has served its purpose well and continues to do so.

Over the last two months, Government has not been able to pay all public servants on time. The monthly income simply did not meet the monthly expenditure.

As my Government pointed out in the Throne Speech, we may have paid late, but we did pay. None went without; all received a piece of the pie.

We could have taken the decision to lay-off hundreds of public servants, and so reduce the wage bill. Had we done so, we would have been praised by the international financial institutions.

But that praise would have come at a high price to all our people, not only those that we dismissed. The price would have been an economic downturn as less goods and services would have been bought. In turn, this would have led to lay-offs in the private sector and a continuous downward spiral in economic activity.

Additionally, crime would have increased. A hungry man is not only an angry man, he is also a desperate man. To survive, many would have turned to crime threatening the safety of our people and requiring greater expenditure on policing, law enforcement and jails.

We do not believe that the benefit of that light was worth the price of the candle. Life in our society would have become intolerable, and our economy would have sunk to a level from which it would be difficult to recover.

However, Madam Speaker, Government has reached its optimal level of employment and can no longer carry the burden of employment alone. We are, therefore, freezing all employment except for work contracted out for specific tasks at specified rates.

In addition, we shall do all that is possible and prudent to encourage the private sector to increase employment. We will further facilitate an environment that encourages new investment, both local and foreign, in a wide variety of productive fields.

Madam Speaker, tackling the wage bill will be a major step forward in addressing our overall fiscal situation. Citizens should be aware, however, that the size of the public sector is not simply the Government's problem; it is a national problem, requiring that we all should participate in its solution.

This means that we will expect the Unions and workers to contribute by accepting that if Government is to pay all those now on its payroll, there can be no unreasonable demands for wage increases, and patience will have to be shown when delays occur in payments.

The alternative is retrenchment and the kind of social and economic consequences that none of us wish to see.

Government will implement measures to reduce the wage bill through a freeze on employment, not replacing workers who leave, and promotions within the service.

Revenue Policy

Madam Speaker, with regard to revenue, a successful campaign to collect long outstanding arrears is in progress.

Our recent efforts have been recognized and applauded both at home and abroad. Our hard work has been reflected mainly in the improved collections of corporate income tax.

Total collections from the corporate income tax, which held steady at around thirty to thirty-five million (\$30m - \$35m) over 2000 and 2001, rose to fifty-five point five million (\$55.5m) for the fiscal year ending 31st December 2002.

In harness with this campaign, the Government's revenue policy is being revised to facilitate enterprise and to encourage compliance with tax laws while at the same time offering tax concessions and incentives to our community.

Tax Reform

Madam Speaker, we recognize that over the years the tax system has become complicated.

Far too many nuisance taxes have been introduced over the years to cope with the rising demands on government to provide more education, more health facilities, better roads, improved communications, expanded water supplies and so on.

The system needs urgent reform.

In this connection, my Government has identified a number of areas that it will address. Some of these include:

- Restructuring the tax department to provide better taxpayer services; reducing transaction costs; strengthening planning and research capacity; and establishing performance standards;
- Redesigning procedures and the legal framework to increase compliance and enforcement;
- Enhancing human and physical resources to foster efficiency in service delivery;
- Strengthening processes for tax transactions to accommodate e-commerce and e-government;
- Speeding up the judicial process for tax collection and the resolution of tax disputes; and
- Improving communication with taxpayers and between tax agencies.

We are confident that these reforms will improve the environment for tax assessments, tax compliance and tax collection making it easier for all concerned.

Debt Management

Madam Speaker, the Government continues to pursue efforts to improve its debt servicing. It is obvious from my earlier remarks that if as much as 74% of our revenue was not being spent on our wage bill, we would be well able to service our debts in a timely fashion.

Nonetheless, it is a tribute to our skills in allocating scarce resources that we have either paid off, or rescheduled, much of our debt and we continue to service others.

The 2003 provision for public debt servicing represents 17.6% of the budgeted recurrent expenditure as compared to 23.2% in 2002.

During 2002, the Government refinanced a portion of its domestic debt, which resulted in monthly savings of ninety thousand, six hundred and eighty-two dollars (\$90,682) in loan payments.

The further repayment of \$5.8 million of domestic loans in 2002, further contributed to the reduction in budgetary provisions for debt servicing in 2003.

In the course of fiscal year 2003, we intend to renegotiate a number of our external loans. When many of these loans were contracted, interest rates in the market were as high as 10%; today interest rates are closer to the 4% mark. It would be usurious if in the current market, interest on these loans continued to be applied at high rates. Therefore we believe that there is every chance of renegotiating these loans successfully.

Financing the deficit

As mentioned earlier, Recurrent Expenditure exceeds Recurrent Revenue by sixty-four million, two hundred and ninety thousand, nine hundred and seventy-eight dollars (\$64,290,978).

The Government intends to finance this deficit by actively pursuing a policy of privatization of publicly held assets. Assets that have been earmarked for sale include the Royal Antiguan Hotel, Newport and holdings in West Indies Oil Company Ltd.

Moreover, Government is also studying proposals made by the IMF and by the Tax Reform and Administrative Commission, concerning the tax status of Statutory Bodies.

Once the best way of implementing these recommendations are settled, then Statutory Bodies such as the Antigua and Barbuda Social Security Scheme and the State Insurance Corporation would be required to pay corporate income tax as is required by privately owned corporations.

In addition, Government revenues could well benefit from offers that are now before Cabinet for consideration, in respect of the Half Moon Bay property. These offers have been made by a number of bona fide investors who are prepared to offer fair value as soon as the property is free from encumbrances.

THE ROLE OF GOVERNMENT

And what Madam Speaker, should the role of Government be with respect to the transformation process?

A few months ago, OECS Heads of Government commissioned a study of the fiscal situation in each of our countries and asked the Commissioners to make recommendations on a number of matters, including the role of Governments. This is what they said in their preliminary report:

"The Governments will need to actively support the economic transformation of the economies. In this regard, governments should conceive of themselves as institutional innovators finding new organizational and management structures to develop the potential for new economic activities. Government will need to provide the initiative, the initial thrust of innovation, some of the start-up finance, and the mobilization of the different partners required for developing the project."

Madam Speaker, I submit to you that successive Labour Party Administrations have been of this view from the inception of their role in government.

The Government of Antigua and Barbuda has involved itself directly in the productive sectors of our economy and continues to do so. The landscape of our Country bears me out on this point for it is dotted with the results of our foresight and innovation: the Royal Antiguan Hotel; the Heritage Quay Shopping Complex; the Heritage Market; the recently commissioned Nevis Street Pier; and the Mount St. John Medical Centre, just to name a few.

With respect to the notion of finding new organizational and management structures, the Government's latest initiative is reflected in its commitment to establishing the Tourism Development Corporation (TDC), which, together with the Ministry of Tourism, will manage and administer our tourism industry, repackage our tourism product and boost Antigua and Barbuda's profile in the market place.

Madam Speaker, the focused attention that the Government is placing on the constitution of the TDC is also reflective of its belief that the time has come for the Government to play a more facilitative role and for the private sector to come into its own.

For years, the Government has been the main "mover and shaker" in our economy, presiding over low inflation and unemployment rates and over consistent economic growth, identified as 2.7 percent in 2002 and projected to be 3.2 and 4.0 percent in 2003 and 2004 respectively .

Government has piloted a development process that has seen Antigua and Barbuda outrank the majority of countries in the world in the United Nations Development Programme's Human Development Index. Many of the countries we surpassed are industrialized nations across the globe.

In short, Madam Speaker, our Citizens and all others who reside in this Country, have superior access to better health care than most; are better schooled than most; and all in all live and experience a better quality of human existence than most.

The Government's commitment to preserving our superior standard of living is reflected in its expenditure profile for the Budget Estimates of 2003, which shows that health, education public works, and public safety programmes will receive the lion's share of Recurrent Expenditure.

Health

The Ministry of Health and Social Improvement accounts for 13.05% of budgeted Recurrent Expenditure translating to eighty-one million, eight hundred and sixty-seven thousand, seven hundred and sixteen dollars (\$81,867,716).

This is the largest allocation to any Ministry.

Under its direction, a number of programmes are executed, including: Primary Health; Secondary Health; General Health and Environmental Health. Through execution of these programmes, the many Health Care facilities, including clinics, and the Holberton Hospital fulfill the expectations of the majority of Antiguans and Barbudans by providing affordable and effective health care services.

In addition, the Central Board of Health is also provided with resources in order that it may execute successfully its programmes in respect of the environment.

Education

The Ministry of Education, Culture and social Improvement receives the second largest allocation for the execution of programmes in Pre-School and Primary Education, Secondary Education, Tertiary Education and General Education.

The allotment to this Ministry is sixty-nine million, four hundred and ninety-two thousand, five hundred and seventy-three dollars, (\$69,492,573) representing 11.08% of total Recurrent Expenditure.

The cumulative investment made by successive Labour Party Administrations in these areas has led to the creation of a labour force that is highly qualified and vastly skilled.

In the many instances where ability and determination have been demonstrated, students have been assisted through the provision of scholarships and other forms of meaningful and tangible support.

We consider this one of our greater achievements: that Antiguans and Barbudans can travel the world over and feel confident that their education has provided them with a basis for exceptional performance in their various fields of endeavour.

Public Safety

The Ministry of Labour Cooperatives and Public Safety accounts for the next largest portion of Recurrent Expenditure, without considering the Ministry of Public Works.

Through the programmes of Justice, Security and Civil Rights and Governance and Democracy, the stability and tranquility for which Antigua and Barbuda is known and which underpins our main industry, Tourism, is maintained.

We are a nation that is proud of our heritage of peaceful democracy, and we aim to sustain and maintain our record of peace and peace keeping. Toward this end, the Government has allocated 8.44% of Recurrent Expenditure, or fifty-two million, nine hundred and sixty-six thousand, three hundred and fifty-three dollars (\$52,966,353) for the maintenance of law and order in our civil and labour relations.

Capital Expenditure

The bulk of Capital Expenditure is geared towards reinforcing the Government's commitment in the areas of health, education and public safety, and is vested in the Ministry of Public Works.

By way of the programme, Public Buildings, the Ministry of Public Works, Communications and Insurance, is the agency that will ensure that the about-to-be-commissioned Mount St. John Hospital is completed, that a number of projects aimed at improving accommodations for the police and military are concluded, and that our inventory of class rooms is substantially augmented.

Apart from its responsibility for Public Buildings, the Ministry of Public Works is also responsible for the upkeep and construction of roads, and will be continuing its road programme throughout this year.

The projected expenditure to service and maintain roads, drains and road equipment, as reflected in the programmes under Transportation and Roads, Streets and Drains, is \$46.5 million.

The increase over the 2002 allocation for Transportation resulted from the reclassification of Maintenance to Roads and Drainage of \$20 million from recurrent expenditure to development expenditure.

There is still a significant amount of work to be done on the upgrade of the facilities at the V. C. Bird International Airport, and the laying of the parallel taxiway. The funds identified for the Upgrade of V.C. Bird International Airport reflects the amount needed to complete Phase 1 of this project in financial year 2003 with the disbursement of the remaining portion of the loan.

There will be continued development of our Education facilities with the upgrading of the Antigua State College. Construction of the new laboratory was completed in 2002 and funds have been identified in the 2003 estimates to furnish the facility as matter of priority.

With respect to Tourism, the continued development of our human resource will take precedence in 2003.

In this regard, Government is anxious to re-open the Antigua and Barbuda Hospitality Training Institute (ABHIT), which has a crucial role to play in preparing our people for the challenges that globalization and trade liberalization present. My Government views its investment in ABHIT as a response to the strong competition being faced globally in the Industry.

Madam Speaker, the Government continues to strengthen the capacity of the military and paramilitary forces to protect the interests of our community.

In this post 9/11 era, when the issue of security is receiving highest consideration, it is imperative that Antigua and Barbuda not be found lacking and that our way of life , be maintained.

In this regard, we have a particular incentive to ensure that our air and seaports are safe, and that our neighborhoods remain peaceful and free from serious crime.

An allocation of \$8 million is provided to facilitate the purchase of vehicles and equipment for the fire brigade, military and police. Funds have also been allocated under Public Buildings for the construction of new police stations.

My Government continues to fulfill its social mandate. This is evidenced by the successful completion of the sanitary landfill at the Cooks disposal site, in collaboration with the OECS Solid Waste Management Project.

For 2003 my Government's attention will focus on Night Soil Eradication. We intend to expend \$1.5 million on this project.

Development projects in Barbuda have been allocated \$19 million.

The Joint Consultative Committee, consisting of representatives of the Central Government and the Barbuda Council, has agreed on these projects. Their implementation should considerably improve the quality of life for Barbudans by generating new employment and commercial opportunities.

It is important to point out at this juncture that the resurfacing of the airstrip in Barbuda is a component of Central Government's capital expenditure and is, in fact, in addition to the \$19 million already allocated.

ANTIGUA AND BARBUDA - INTERNATIONALLY RESPECTED

Madam Speaker, in recent years, the economic path upon which we have traveled has not been easy. And, we anticipate an even rougher road as we continue to strive for development in and unhelpful international environment.

But, the journey has been rewarding.

There have been those who sought to take advantage of us because of our size and vulnerability, never expecting that we would have the temerity to fight back.

Where we have fallen short in riches and international clout, we have more than made up for in resourcefulness and intellect.

In this regard, organizations such as the OECD have rued the day that they did not take us seriously. Now, on the basis of sound argument and reasoning, Antigua and Barbuda's stance on a number of international issues is regarded with admiration and respect; among them our insistence that there should be a level playing field for all with no discrimination in favour of the powerful.

Our jurisdiction now boasts one of the best regulated, and supervised financial services sectors in the world - even better regulated than some OECD members.

On the heels of our passing the criteria in respect of counter money laundering, established by the Financial Action Task Force (FATF) our reputation was further enhanced just recently when Antigua and Barbuda passed, with flying colours, a Caribbean Financial Action Task Force (CFATF) evaluation of our anti-drug trafficking and counter-terrorism regimes. Madam Speaker, I submit that we have every reason to be proud of our accomplishments.

And we are not yet finished.

Right now the employment of hundreds of our people, particularly our young people, is being threatened by the attitude of some persons in the US Congress who, either do not appreciate the extent to which Antigua and Barbuda has a well regulated and supervised Internet Gaming industry, or are influenced by a Gaming Lobby in the US which wants to protect itself from competition.

We cannot sit by and do nothing while bread is taken out of the mouths of our people. And, we will not.

Consequently, a few days ago, we requested consultations with the Government of the United States in the World Trade Organization on the issue of offshore gaming services.

The Internet and electronic commerce offer opportunities to small economies such as ours to diversify and create high quality jobs. This is why we have tried to attract investment in the sector of Internet gaming in a licensed, fully regulated and responsible environment.

The United States, which is not only a major consumer but also a massive producer of gaming services takes the view that only American business can offer gaming services to American consumers. The

United States Government is therefore making it increasingly difficult (and, probably, ultimately impossible) for Antiguan gaming companies to market their services to US consumers.

Our legal advisers have assured us that these actions by the United States are contrary to the international treaties governed by the World Trade Organization.

Madam Speaker, one of the main objectives of the WTO is to introduce the rule of law in international trade relations and to ensure equality before the law for all countries, big or small, rich or poor. It allows for States that are close friends and partners such as Antigua and Barbuda and the United States, to peacefully and legally settle their trade differences.

Thus the Government has decided to use this mechanism, which the United States has itself utilized in its disputes with others, to reach a settlement of this problem.

We believe we have a strong legal case, and while we are prepared to litigate this matter to a satisfactory conclusion in the WTO, we do hope to reach a satisfactory amicable settlement with the United States government as soon as possible in order to protect this important niche to our economy.

This government is resolved to defend the interests of our people. We have an obligation and a right to do so, and we will not flinch from them.

Tax Concessions

Madam Speaker, let me details the tax concessions that my Government has introduced or will introduce to encourage the private sector to invest in the economy and to employ more people.

Recently, we amended the Hotels Aid Act giving unprecedented relief to existing hotels as well as to new ones.

The amendment provides tax relief, ranging from complete tax holidays for seven (7) years to twenty-five (25) years for entire hotel properties, whenever there is any construction or expansion under prescribed circumstances.

This is consistent with the Government's policy of promoting tourism and is intended to give a fillip to fresh investments and employment opportunities in this most vital sector of the economy.

We have already lowered the corporate income tax rate from 40% to 35%.

I am pleased to announce my Government's proposal to consider lowering corporate income tax still further to 30% during the course of the next year.

My Government is aware that some may argue that to contemplate lowering the rate of corporate income tax at a time when expenditure is greater than revenue is imprudent.

Those who support this argument have no faith in the private sector.

My Government is convinced that if we ease the tax burden on businesses, they will invest the windfall in either expanded or new enterprises and, thus, create new employment and further economic activity.

Over the next few months, we will engage the private sector in discussions on how they could utilize the proposed further reduction in corporate income tax to help to expand the economy and increase employment.

Madam Speaker, rates on withholding tax have also been reduced from 40% to 25%.

I am again pleased to announce a further reduction in taxes with respect to the purchase of motor vehicles.

We will reduce to 50% of the CIF, the customs duties, consumption and customs service taxes, which in aggregate have accounted for between eighty-five and one hundred and five percent (85% - 105%) of the cost insurance and freight value of vehicles.

The Government offers this particular initiative as a blanket concession to our bus drivers, taxi operators, business owners and to individuals in general.

In this connection, the Ministry of Finance will suspend the granting of individual concessions on vehicle purchases.

Madam Speaker, as my Government pointed out in the Throne Speech at the opening of this Parliament, we are especially proud of the benefits of our tax policies to the "small" people of Antigua and Barbuda.

It is worth recalling the facts that were detailed in the Throne Speech.

There are now six credit unions with a membership of over 16,000 persons. These six credit unions have savings in excess of \$29 million, assets of more than \$42 million and investments that exceed \$10 million. This clearly shows that the ordinary man and woman in our country has benefited from the employment and tax policies of my Government.

The amount of savings in our domestic banks is also an indication of how all our people generally, including the private sector and professionals, have benefited from my Government's policies.

At the end of December 2002, there was \$2.1 billion in savings in our banks, an increase of \$67.6 million over 2001.

And, these savings were the highest per capita in the Eastern Caribbean Currency Union.

They are a true indication that our people have befitted and done remarkably well under the policies of this Government.

We have every reason to be proud of this significant achievement.

CONCLUSION

Madam Speaker, there are no drums of war in our country; no screaming missiles; no thundering bombs. We live our lives in relative comfort and ease.

In the conduct of this country's affairs, my Government has sought no enemy and spurned no friend.

While we have stood up for our nation's rights in the international community, we have done so on principle and in the context of well established law and precedent

Within our society, while we have our political differences, those differences have been managed with respect for human and civil rights.

We have no political prisoners, no tribal discrimination, no curtailment of fundamental freedoms.

We have given no excuse to any to seek to abridge our independence or compromise our sovereignty.

Ours is a blessed country where we are free of the scourge of war and the abuse of dictatorial regimes.

In our society, government has acted to promote our national interests abroad, and to manage peacefully the contentions over our common interests at home. We are a stronger nation and a better people for it.

We are fortunate to be living here and not in the maelstroms in other parts of the world where human suffering is now so widespread.

Madam Speaker, I am delighted to present this Budget which is free of any new taxes and which, instead, gives sensible tax concessions, to our business sector and to our people, designed to expand our economy and increase employment.

My Government is of the view that the pillars of our democracy are good health, superior education, and a social environment that is vibrant and safe for leisure and for enterprise.

Upon these pillars will rest other building blocks of a sound economy and a self-reliant society: opportunity, personal growth, meaningful livelihoods, confidence and contentment.

This Budget is intended to promote the maintenance and development of the resource that is most fundamental to our advancement: the people of Antigua and Barbuda, particularly our youth.

Madam Speaker, I therefore recommend this Bill to the Honourable House and in so doing wish to thank Senator Asot Michael, Junior Minister of Finance; the Financial Secretary and Deputy Financial Secretary; the Budget Director and his team; and all who worked diligently towards the preparation of this Budget.

Thank you, Madam Speaker.