

GOVERNMENT OF ANTIGUA AND BARBUDA

2005 BUDGET STATEMENT
FOUNDATION FOR A FRESH START

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MINISTER OF FINANCE AND THE ECONOMY
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With your permission, Madam Speaker, I would like to begin by inviting the nation to exhale.

Madam Speaker:

Today, November 30th, 2004, the Sunshine Government of Antigua and Barbuda again breaks new ground in our nation's transition to 21st century governance.

It is my special privilege, Madam Speaker, and it is my honour, to present, in the year 2004, the National Budget for 2005.

I think it is a historic first in this honourable House, Madam Speaker, that the Government is presenting the nation's annual Budget in the year prior to the financial period in which the Budget's judgments and its measures will take effect.

This dramatic departure from accustomed practice, this preparation and presentation of the Budget in advance of the period to which it relates is respectful to, and considerate of, the people whose businesses and lives the Budget will affect.

Advancing the timing of the Budget Presentation is in consideration of individual as well corporate interests, providing time for planning and adjustments in households as well as in businesses.

With typical fiscal waywardness, the previous government practiced a policy of cruising without a compass, well into every budget period, plunging the economy and the people of this country into increasingly troubled waters.

There was, inevitably, a crying need for a rescue mission, Madam Speaker.

Eight months and seven days ago, on the 23rd of March, 2004, an educated and conscious electorate, acting in their considered judgment, and using their inherent and

unfailing common sense, overwhelmingly placed their faith and future in Government in the Sunshine.

The good people of Antigua and Barbuda turned to the United Progressive Party to rescue our nation from the road to ruin, from the continuing corrosion of corruption, and from the arrogance and incompetence of the ALP regime.

The long embedded regime had become glaringly dysfunctional and lacked any perceivable capacity to take this nation into a transition to 21st century governance.

The Antiguan and Barbudan people had long been desperately yearning for rescue from their years of mounting misery at the hands of a decaying dynasty.

The people of Antigua and Barbuda understood on March 23rd, as they understand now, that the bitter harvest that so many of the less fortunate in our society are reaping today, was sown by the seeds of greed and corruption and wanton waste that defined government in this country over the years.

We now face formidable challenges in restructuring and giving our economy a fresh start and in coping with shocks and uncertainties in our external environment.

Let me outline a scenario that will be familiar to everyone, Madam Speaker:

Ribbon-cutting ceremonies marking the opening of investment projects such as roads, power plants, ports, airports, schools and hospitals are many a politician's dream.

These occasions present splendid photo opportunities, while the very act of cutting the ribbon seems to identify the shear-wielding politician as a contributor to the future growth of the economy.

In some countries, however, corrupt politicians appear to choose investment projects, not on the basis of their intrinsic economic worth, but on the opportunity for bribes and kickbacks these projects present.

Such corruption increases the number of capital projects undertaken and tends to enlarge their size and complexity.

The result is that, paradoxically, some public investment can end up reducing a country's growth, because even though the share of public expenditure in gross domestic product may have risen, the average productivity of that investment has dropped.

When corrupt politicians influence the approval of an investment project, the rate of return as calculated by cost-benefit analysis ceases to be the criterion for project selection.

The process of approving an investment project can be an irresistible temptation for the unscrupulous.

In some of these cases, a strategically placed, high-level official can manipulate the process to select a particular project.

He can also tailor the specifications of the design to favour a particular enterprise by, for example, providing inside information to that enterprise at the time of the issuance of the tender.

Corruption can reduce government revenue if it contributes to tax evasion, improper tax exemptions or weak tax administration; and the diversion of funds from the maintenance of existing infrastructure and from social programs such as education and health.

Madam Speaker:

This Honourable House, might, understandably, have thought that I had written the scenario I have just outlined.

That scenario might have seemed a precise fit to such controversial public investment projects as the former Royal Antiguan Hotel; Heritage Quay; the Vendors Market; and the Mount St. John Medical Centre.

Those notorious excesses of the former government are indeed prime examples of public investment projects serving as conduits for personal gain for unscrupulous public officials and their accomplices in private enterprise.

The scenario fits Madam Speaker, but I do not claim authorship.

The references to the manipulation of public capital investment projects that I have just presented are, in fact, taken directly from the IMF publication titled *“Roads to Nowhere: How Corruption in Public Investment Hurts Growth”*.

That thesis was co-authored by Dr. Vito Tanzi, Director of the Fiscal Affairs department of the International Monetary Fund and Dr. Hamid Davoodi, an economist in the same department.

“Roads to Nowhere: How Corruption in Public Investment Hurts Growth” was drawn from an IMF Working Paper captioned, *“Corruption, Public Investment and Growth”* and published in 1988 in an IMF series on economic issues.

The International Monetary fund published that scenario examining corruption in public sector investment projects 16 years ago, Madam Speaker.

The relevance to Antigua and Barbuda over the last couple of decades is quite striking.

15 days ago, the International Monetary Fund published a scenario specific to Antigua and Barbuda today, which was researched by executives of the IMF.

The IMF released that scenario, specific to Antigua and Barbuda today, on November 15th.

This new scenario is defined in an assessment of Antigua and Barbuda by two Directors at an IMF Executive Board Meeting on November 15, 2004.

I quote from this current IMF assessment of Antigua and Barbuda’s economic circumstances and the options that these circumstances mandate for this country, Madam Speaker:

“It is difficult to avoid the conclusion that the country’s current economic difficulties have been largely self-inflicted.

“As a small, open and shock-prone island economy constrained by a narrow economic base and limited capacity, Antigua and Barbuda’s economic progress has additionally been challenged by a problem of governance, particularly in the sphere of fiscal management.

“It is clear that the policy missteps of the past have left the country with a legacy of difficult economic challenges.

“Given the role which governance factors have played in constraining the performance of the economy, it is difficult to overestimate the importance of reforms in this critical area.

“We are encouraged by the current authorities’ determination to break decisively with the past and by the strong legislative and other actions recently taken to improve transparency, accountability and integrity across the board; including a code of conduct for Ministers.

“The new administration in Antigua and Barbuda is making a strong and committed effort to confront the country’s daunting economic challenges.”

End of the quotation.

There could hardly be a more objective, more penetrating, and more authoritative summary of where Antigua and Barbuda stands today and the enhanced regard with which the international community now views Antigua and Barbuda, Madam Speaker.

One of our most daunting challenges is the mountain of mounting debt that is the legacy of the previous administration.

On March 31st, 2003, in what has turned out to be, and certainly was destined to be his final Budget presentation in this or in any other Parliament, the former Member of Parliament for St. John's Rural East and then Prime Minister and Minister of Finance, confirmed that the public sector wage bill was some 74% of recurrent revenue.

This left 26%, just one point over one quarter of recurrent revenue, to fund the government's obligation to the Antiguan and Barbudan people.

After meeting the public sector wage bill, only 26% of recurrent revenue was available to maintain public infrastructure; to provide essential services to the population; to fund social programmes; and to meet the Government of Antigua and Barbuda's crippling debt obligations to our legion of creditors throughout the country, across the region and around the world.

Government revenue cannot support the current public service wage bill, Madam Speaker.

Nor can we arrest the continuing expansion of interest on arrears on the mountain of overdue debt generated by our predecessors that Antigua and Barbuda owes to local and foreign creditors.

The former Prime Minister confirmed this in his final Budget Presentation on March 31st, last year, Madam Speaker.

He ventured no solution to the problem that his irrational policies had created, save and except for hallucinatory wishful thinking that the private sector would some day, in some way, absorb enough public servants to bring the public service payroll down to a manageable size.

The leadership of the previous administration was beyond their depth in dealing with the economic problems they had inflicted upon the country.

The size of the public service payroll and the staggering volume of debt are not the only monuments to the fiscal lunacy of the last administration.

In hopeless and increasing financial crisis, that government perversely gave away some \$200 million in duty free waivers in 2003.

This was a blatant effort to bribe voters in what had been scheduled as an election year.

That gigantic \$200 Million giveaway did not go to any known investment project of any known significance.

In the weeks leading up to the elections this year, the Cabinet approved something in the region of 1,000 duty free waivers for the importation of motor vehicles.

To the enduring credit of the integrity of the Antigua and Barbuda electorate, that astronomical level of bribery by a desperate government could not buy enough votes to prevent the complete rout of the most dismally ineffective group of economic policy makers to have held office in this part of the world.

In what was certainly the most daring fiction committed by any Minister of Finance, in any Budget Presentation, in this or in any other Parliament, former Member of Parliament for Rural East told the Speaker, told Honourable Members, told the nation, and told the world, that his Government had either paid off or rescheduled much of the national debt and was continuing to service what remained.

Madam Speaker:

That was a calculated misrepresentation of indictable dimensions and an arrogant demonstration of contempt for the intelligence of the Antiguan and Barbudan people.

Paid-off, rescheduled and timely debt service could not possibly have attracted arrears on external and domestic debt at the level of \$366 Million, which was where the arrears on debt repayment stood when the United Progressive Party came into government.

The total debt burden was within striking distance of ten times that amount, Madam Speaker.

To underline the magnitude of the past mismanagement of this country's fiscal and economic affairs, comparison with a number of other economies is instructive.

Net debt is now 45% of national income in France.

In America it is 50%.

In Germany, net government debt is 55% of national income.

In Japan it is 86%.

It is 94% in Italy.

This year, the net government debt in the United Kingdom is 34 % of national income.

In Antigua and Barbuda, the Central Government debt is over 500% of the government's highest recorded annual revenue.

Total Debt in 2002 amounted to \$2,649,131,826 or 136.5% of GDP, while total Debt in 2003 grew to \$2,818,314,637 or 137.1% of GDP.

Of these totals, Central Government domestic debt represented \$659,581,000 in 2002, while external debt represented \$1,352,350,000.

In 2003, Central Government domestic debt recorded \$651,232,000, while external debt increased to \$1,538,628,000.

It is obvious that for some time to come, the people of this country will have to live with the cumulative consequences of the aberrant and irresponsible approach of our predecessors in government to fiscal affairs over the years.

It can only be assumed that my predecessor had deluded himself that what the people did not know would not hurt them.

In contrast to such calculated deception of the people, the Sunshine Government has broken new ground with unprecedented public consultation in the formulation of the fiscal and economic policies that are embodied in the 2005 Budget.

Madam Speaker:

Budget 2005 is therefore, quite literally, the people's budget.

It embodies the stated aspirations and concerns of a wide cross section of the population of Antigua and Barbuda.

I am indebted to innumerable persons across the length and breadth of Antigua and Barbuda for their contribution to the judgments that I articulate in Budget 2005.

I wish to place on record my gratitude to all the persons who were participants in the extensive public consultations that the Ministry of Finance and the Economy conducted across the country.

I am grateful to the many units of civil society, including business and labour and the NGO's, whose observations and advice I greatly appreciate and have factored into the judgments I have made in the 2005 Budget.

I am indebted to the Governor of the Eastern Caribbean Central Bank and his staff, and to the Caribbean Development Bank, CARTAC, and other regional and international organisations for their insight and for their valuable counsel on fiscal policies common to the member states of the OECS.

The media have been critical catalysts in making economic realities and fiscal issues subjects of topical public discussion.

I thank you for raising public consciousness in these matters, ladies and gentlemen of the media.

I thank the public service officers in every Ministry, whose labours were vital in the preparation of the voluminous data and the plethora of policies that are coordinated in the Budget process.

I particularly wish to thank officers of the Ministry of Finance and the Economy for their unwavering dedication to the Government's policy agenda for turning around the economy and propelling it on a path to sustainable growth.

Their sensitivity to the needs of the competing groups in the society and their all round professional competence has helped, immensely, to relieve the burden of the Budget exercise that would otherwise have fallen to their Minister.

Of this group, I wish to recognise the work of:

The Budget Director, David Matthias;

The Financial Secretary, Whitfield Harris, Jr.;

The Director of the Economic Policy and Planning Unit of the Ministry of Finance, Yolanda Goodwin;

The Coordinator of the Economic Policy and Planning Unit of the Ministry, Rasona Davis; and

The Tax Consultant to the Minister of Finance, Carey Thompson.

I pay special tribute to Senator, the Honourable Lenworth Johnson, Parliamentary Secretary in the Ministry of Finance and the Economy, an able and committed partner in the overall Budget endeavor.

I ask the forgiveness of those whose names I have not mentioned.

My gratitude to them is just as great.

I especially thank the technical and support staff of the Ministry, and the Budget and Planning Staff who assisted with the national consultations.

They went beyond the call of duty. They were evangelists in this mission of empowering the Antiguan and Barbudan people.

I must thank my colleague Cabinet Ministers for their recommendations for the Budget.

I am grateful, too, for their goodwill and cooperation in holding the line on expenditure in the current Budget period.

Madam Speaker:

It is not the practice of the Prime Minister to ask members of his Cabinet to put people first.

In his actions, and in his injunctions, Prime Minister Spencer has always demonstrated and asserted his core political and economic philosophy that people do, in fact, come first.

Putting people first is therefore not a matter of choice for the UPP administration.

Putting People First is the essential reason why we are all here.

I am grateful to you, Honourable Prime Minister, for keeping us focused on our fundamental philosophy in politics and in governance, People First.

Madam Speaker:

It is self evident that Budget 2005 is informed by the insight of the Antiguan and Barbudan people of all groups in the society; all callings; all walks of life; every station; and from every constituency.

The reconstruction of the economy and the renewal of the nation will call for the combined effort of the government and the people, in common purpose and in joint endeavour.

To maneuver this nation on the challenging path ahead will require the unwavering commitment of all in this nation.

There is a place for everyone; and there is a role for everyone.

This Budget sets out to lay a foundation for a fresh start for Antigua and Barbuda; and a fresh start for everyone in this nation.

It is an honest examination of our nation's economic realities and a solid foundation for a fresh start.

If we are to look forward to happy days for all in this country, all in our nation will have to go through a period of austerity, a period of adjustment.

Every one will have to demand less and give more.

Now, more than ever, the obligation falls to every Antiguan and Barbudan, every citizen, every resident, to ask not what our country can do for us, but rather to ask what we can do for Antigua and Barbuda.

Budget 2005 speaks to both propositions.

Our current circumstances and the global environment present continuing challenge.

The path and priorities we outline in Budget 2005 confront the challenges that surround us, and they will prepare Antigua and Barbuda for the challenges that are coming at us.

That path and those priorities also present exciting opportunities.

INTERNATIONAL ECONOMIC ENVIRONMENT

Madam Speaker:

It is fitting at this point to look at the global economic terrain, which Antigua and Barbuda has to negotiate.

In 2003, real GDP in the world economy grew by 2.6% compared to 1.8% in 2002.

For the first half of 2003, adverse economic and socio-political shocks – particularly the war in Iraq - affected world economic performance.

However, economic performance in the second half of 2003 improved, bringing year end performance above that of 2002.

For 2004 and 2005, economic growth is projected to rise further by 4.2% and 4.1% respectively, reflecting a marked upswing in private investment.

World trade is also projected to expand significantly by 8.9% in 2004 and 10.1% in 2005, with China, the US, Japan and the European Union being the main contributors in world trade.

The pegging of the Eastern Caribbean dollar to the US dollar means that developments in the US economy can have direct economic implications for the Antigua and Barbuda economy.

Real GDP growth in the US is expected to increase over 2003 performance, which was 1.8%.

For 2004, GDP is projected at 4.3% and for 2005 growth is forecasted to slow to about 3.3%.

This upturn in the US economy in 2004 over performance in 2003 reflects an increase in private investment as well as acceleration in private consumption and exports.

However, the continued weakening of the US dollar, which is expected to depreciate a further 2.7% against the Euro in 2004, remains a concern for the US economy.

This weakening of the US dollar, in conjunction with rising oil prices, is expected to increase the rate of inflation from the 1.8% registered in 2003 to 2.4% in 2004.

Despite the growing world economy, the widening US deficit, the large deficits of a number of European Union countries, along with the slow turn around in a number of these key economies, may dampen economic growth in the next few years.

However, the recovery of the Japanese economy and the booming Chinese and South-East Asian economies are expected to contribute possibly to world economic output.

Another key factor that remains paramount is the continued instability of oil prices.

As indicated in a report by the Energy Information Administration earlier this month, the short-term energy outlook shows that oil prices for the fourth quarter of 2004 are projected at just over US\$51 per barrel.

This is US\$20 above prices in the fourth quarter of 2003.

The continued rise in oil prices and the instability has had economic consequences for oil-importing economies and more so for oil-importing developing countries.

For Antigua and Barbuda, rising oil prices, if fully passed on, may place upward pressure on the cost of doing business, drive up domestic prices and further deteriorate our Balance of Trade.

That steady climb in oil prices will have implications for electricity generation and the cost of utilities to consumers and businesses.

The Government of Antigua and Barbuda cushioned motorists from rising prices at the pump by direct subsidy over several months.

Regrettably, the Government is in no position to sustain this subsidy.

On the bright side, the continued depreciation of the US dollar vis-à-vis the Euro offers significant economic opportunity for Antigua and Barbuda.

Euro-rich vacationers are visiting Antigua and Barbuda in increasing numbers, and the prospects for continuing growth in our European business are positive.

The issues of trade liberalization and globalization remain at the forefront of world economic developments.

For Antigua and Barbuda, our more immediate concerns relate to the World Trade Organization and the proposed Free Trade Area of the Americas.

The Government of Antigua and Barbuda is pressing its WTO backed claim, for the removal of the US bar to our access to the US market for Internet Gaming.

The removal of that bar would immediately restore a number of well paying jobs for young Antiguan and Barbudans.

The implementation of a Free Trade Area of the Americas arrangement will significantly impact all economies of the Americas.

Antigua and Barbuda will continue to be an active participant in the CARICOM bloc in FTAA trade negotiations.

We must ensure that our best interests as a small island developing state are well served in the eventual FTAA equation.

REGIONAL ECONOMIC OVERVIEW

Post 9/11 difficulties in the world economy in 2003 led, inevitably, to a downturn in economic performance in the CARICOM region.

However, most Member States have since enjoyed some growth in real output.

In particular, Barbados and Trinidad and Tobago realized 2.2% and 3.4% growth in real GDP respectively.

As the developments that negatively impacted world economic performance in 2003 come under control and a turn around in the US economy takes effect, it is projected that the regional economic environment will show further recovery in 2004.

The turnaround in the world economy is expected to positively impact economic performance in the region.

While inflation remained relatively low – between 1% and 3% - the region experienced unemployment rates in excess of 10%.

Despite the reduction of interest rates in a number of CARICOM member states, high liquidity of commercial banks continues in 2004.

While all CARICOM member states continue to work towards the establishment of the Caribbean Single Market and Economy, Barbados, Jamaica and Trinidad and Tobago are CSME-ready and are expected to implement the treaty from January 2005.

The CSME can help to prepare the region's producers and its professionals for competing in the wider hemispheric and international markets.

This can enhance our economic performance in an increasingly liberalized, an increasingly competitive, and an increasingly borderless global economy.

As we enhance our productivity and competitiveness, the region should see increased export performance driving economic growth.

Recognising the importance of the CSME for Antigua and Barbuda, government is accelerating its efforts to prepare our nation for regional integration.

It is critical that our producers and professionals, and our citizens in general, are equipped to seize the opportunities that the CSME will offer.

THE NATIONAL ECONOMY

From the mid 1980s to the mid 1990s Antigua and Barbuda enjoyed average annual growth rates of 6%. However, between 1994 and 2003, the average annual rate of real economic growth declined steadily from a high of 6% to 2%.

For 2004, it is expected that real GDP growth will expand as projections indicate a 3.97% growth in real output.

Further increase in economic growth is anticipated in 2005.

With the Government focusing on improving its fiscal position, reducing the national debt; making significant investments in social and physical capital accumulation; enhancing development of the tourism sector and promoting expansion in agriculture, light manufacturing and agro-processing activities, conservative projections indicate a 4% growth in real output for 2005.

Madam Speaker:

Between 1999 and 2003, the fiscal situation in Antigua and Barbuda grew progressively worse.

In 1999, the current account and overall deficits were \$74.47 Million and \$70.61 Million, respectively.

By 2003, the current account deficit and the overall fiscal deficit had ballooned to \$83.85 Million and \$158.78 Million respectively.

Through intensive efforts by this Government, the current account deficit and overall fiscal deficit are expected to decline by the end of 2004 to \$68.80 Million and \$80.91 Million respectively.

Despite this anticipated improvement in fiscal performance, there are still significant cash flow constraints, which make it difficult for the Government to meet its current and outstanding obligations.

Consequently, our initial efforts to prevent further declines in the fiscal accounts must be buttressed by a comprehensive programme of fiscal reform.

With such a strategy, government will be able to move to a sustainable level of fiscal operations.

Our current fiscal objectives include:

- i. A Current Account Surplus equal to 4% of GDP within 5 years.
- ii. An overall Fiscal Balance not exceeding -3% of GDP within 5 years.
- iii. Disbursed Outstanding Debt not exceeding 60% of GDP within 10 years.
- iv. Debt Service to Current Revenue Ratio of no more than 15% within 5 years.

The achievement of these fiscal benchmarks should in turn facilitate the realization of our macro-economic goals, which include:

- Full employment in the Antigua and Barbuda economy.
- Containing inflation rates to no more than 3% annually.
- Sustaining real growth in annual output of no less than 5%.

The Government anticipates that new standards of fiscal management will facilitate the attainment of these macro-economic goals within the next 5 years.

Madam Speaker:

Clearly, a significant turn around in the Antigua and Barbuda economy will require more than improved fiscal management.

The National Strategic Development Plan, which will be fine tuned for implementation from 2005, will detail the Government's economic programmes through the next five years.

In formulating the National Strategic Development Plan, Central Government will work closely with the Barbuda Council to prepare a comprehensive and integrated development plan for Barbuda.

However, the court's determination of the Barbuda issue, which it is currently adjudicating, is a prerequisite to full consultation with the Barbuda Council.

The tourism sector remains the most significant foreign exchange earner for Antigua and Barbuda.

A conservative estimate for 2004, projects a 5% expansion in the tourism industry, with a contribution of 12.46% to GDP.

The Government has formulated strategies for accelerated development of the tourism sector as we approach a peak in the wave of visitors for World Cup Cricket in 2007.

OVERVIEW OF BUDGET 2005

The Sunshine Government is committed to dramatically improving Antigua and Barbuda's perilous fiscal situation.

Large and unsustainable deficits will no longer be the order of the day.

Nor will mounting debt and accumulation of arrears of public debt be acceptable.

This Government fully intends to improve revenue generation, as we introduce new standards in expenditure management.

We have to ensure that the chronic fiscal deficits that plagued Antigua and Barbuda over the years are effectively reduced.

To this end, the Government will initiate a comprehensive fiscal reform programme.

This programme will focus on improving revenue collection from existing revenue streams; on the introduction of new revenue measures; on streamlining the public service; on enhancing efficiency and productivity in the public sector; on rationalisation of government expenditure; and on the operation of efficient expenditure management systems.

As the Government works to improve the country's fiscal position, our motto, 'People First', will remain paramount.

We will introduce specific measures to ensure that citizens and residents are not unduly burdened by the revenue and expenditure management imperatives that we have to introduce.

The Government will remain true to our commitment to keep current on payments to Social Security, Medical Benefits and the Board of Education, in respect of public servants' contributions.

RECURRENT EXPENDITURE

Madam Speaker:

Recurrent Expenditure for the 2005 financial year is estimated at six hundred and nine million, six hundred and seventy two thousand seven hundred and two dollars (\$609,672,702).

This represents a decline of \$17,815,858 from the 2003 recurrent expenditure estimate, which was \$627,398,640.

Though government has been able to reduce this estimate through effective rationalisation of expenditure, we recognise that essential services must be adequately funded.

These services will therefore be supported by provision of the resources to ensure efficient and timely delivery of services to the public.

The Police Service

The Royal Antigua and Barbuda Police Force has operated under unsatisfactory and deteriorating conditions over the years.

Our Police officers have been required to function in deplorable conditions, with inadequate equipment, limited technology, and limited training.

Urgent corrective measures will be implemented in the 2005 Budget period.

The Defense Force

The Defense Force is understaffed and urgently needs equipment essential to the proper discharge of its functions.

Allocations have therefore been made for the purchase of equipment and vehicles, and for the employment of 56 recruits.

It is intended that candidates for these positions will be recruited from within the ranks of the public service, in the first instance.

Nurses

The nursing service is seriously understaffed and only a very limited number of persons are currently undergoing training for the profession.

Allocations have been made in the budget to fill 90 vacant nursing positions. These positions will be offered to public servants for first refusal.

Further, funds have been allocated for the purchase of essential medical equipment for the hospital, in particular - a dialysis machine.

Teachers

As the student population increases, so does the need for additional teachers.

The Budget provides for the recruitment of 20 teachers.

These positions will be offered to public servants as the first option.

Newly qualified graduates will also be considered.

Allocations have also been made for the upgrade of existing teaching posts.

In addition Madam Speaker the Board of Education will be required to oversee the establishment of Early Childcare and Education Centers in the Old Road, Nut Grove and Newfield communities.

The Government has approached the CDB for funding for a new secondary school with industrial arts facilities in Antigua.

Efforts will be made to ensure that all classrooms in primary schools across the island are optimally equipped and utilized.

School Meals for our Public Primary Schools

A pilot project for the school meals programme will coincide with the start of the next school year, with nutritious lunches for students in public primary schools.

This programme, which will cost an estimated \$4.5 million, will provide primary school children with a balanced lunch-time meal and will provide employment opportunities for individuals in communities across the country as suppliers of the meal packages.

The school meals programme will provide a significant new market for our farmers, including our poultry farmers.

The Best Brand in Caribbean Tourism

Tourism, the mainstay of the Antigua and Barbuda economy, will receive a significantly increased allocation in the 2005 budget.

This will drive stepped-up programmes for marketing and promotion to position Antigua and Barbuda as the best brand in Caribbean tourism.

\$11.2 million is allocated to the Ministry of Tourism in the 2005 Budget for this purpose. In addition, to the estimated \$6 Million to be generated by the 2% Guest Levy will bring the total allocations for tourism marketing and promotion to \$17.2 million.

Growing Agriculture

The Budget provides allocations intended to boost activity in Agriculture.

Particular focus will be on the increase of cotton and pineapple production and on the development of agro-processing.

Targeted strategies will be geared to production of other crops, to optimize the fishing industry, and to expand linkages between local farmers and fishermen and the tourism sector.

Caribbean Festival Park:

Provisions have been made for a feasibility study for the Caribbean Festival Park.

This project promises to provide significant employment in Antigua and Barbuda during the construction phase and when completed.

This project will be initiated in 2005.

The Caribbean Festival Park will be a permanent showcase and celebration of the cultural diversity that makes Antigua and Barbuda the Caribbean melting pot.

The Caribbean Festival park is intended to be a year-round theme park that will, in time, become a major tourism attraction in the region.

Public Sector Reform/Expenditure Management

To ensure expenditure does not exceed budgeted amounts, new expenditure management programmes will be introduced.

These expenditure management programmes are a critical component of government's overall fiscal reform strategy mentioned earlier.

These expenditure management programmes will focus on reducing the government's wage bill and rationalizing expenditure on other line items.

Government's Wage Bill

As part of a comprehensive public sector reform programme, the Government wage bill will be reduced by 20% in 2005.

The intention is to rationalize public sector spending on wages and salaries; increase efficiency in the service; and to raise productivity within each Government department.

Particular focus will be placed eliminating the need for overtime, through the introduction of best practices.

Further, except where absolutely necessary, there will be no new recruits to the service for 2005.

To streamline the public service, the Government will offer packages of voluntary severance and early retirement to public servants.

In addition, government will provide assistance to ex-public servants who wish to establish their own businesses.

Such assistance will come through special arrangements that will operate through the Antigua and Barbuda Development Bank.

Public Servants will also have the options of transferring to the Defense Force, to teaching and to nursing.

The government will ensure that all public servants voluntarily leaving the public service will be paid all monies due to them.

The government has, in collaboration with the Antigua and Barbuda International Institute of Technology, developed special training programmes for persons leaving the public sector.

These programmes will focus on training in the area of small business development and will prepare individuals to transition from employment to ownership.

The programmes will run for a period of three months, during which participants will continue to receive payment from the Government.

Reducing the cost of Government:

In addition to reducing expenditure on salaries and wages, government will also reduce spending on overseas travel, utilities and overseas telephone calls.

Government's transfer of its international calls service onto the Cable and Wireless Corporate plan which was activated in July 2004 is expected to save about \$200,000 by the end of 2004.

For 2005, a modest estimate of savings on overseas calls indicates total possible savings of about \$435,000.

Government will also strengthen its procurement policies and enhance efficiency and transparency in the manner in which goods and services are acquired.

The use of government vehicles will also be rationalized to ensure efficiency and a reduction in maintenance and repair costs. The abuse and appropriation of government vehicles is scandalous.

At present, Government pays a total of \$20.82 million in rents.

Madam Speaker:

To reduce the cost of government we will renegotiate rents with private landlords with a target of securing a 20% reduction in.

Such a reduction would result in \$4.16 Million in savings annually.

In addition, government will seek to reduce the amount it pays in rent to private parties through a process of consolidating government departments and units.

Controlling Concessions

Cabinet over-reach was a defining deficiency in past administrations.

Persons and organizations entitled to concessions were misdirected into thinking that such concessions could only be accessed through favours from Cabinet Ministers.

This not only generated presumed political indebtedness to such Ministers, it might also have been calculated to create opportunity for kickbacks to ten per centers in previous Cabinets.

Madam Speaker:

An element of expenditure management relates to the level of concessions granted, in particular discretionary concessions.

By granting discretionary concessions, government foregoes much needed revenue.

This represents a form of expenditure which needs to be properly and controlled.

To this end, there will be a cap on the value of concessions to be granted.

In 2005, total concessions will be capped at \$100 Million.

This is \$100 million less than was allowed in 2003.

There will be significant reduction in waivers on vehicles.

Only those categories of persons identified in the Government's Schedule of Parties Eligible for Concessions on Motor Vehicles will be allowed such concessions.

The Government will also strictly enforce its "not waiver" policy of the customs service tax.

This is to ensure that revenues due to the government are collected and applied to the pressing needs of the population.

INSTITUTIONAL REFORM

Madam Speaker:

Institutional reform is an essential element of fiscal consolidation.

Investment in the development of the governance infrastructure necessary to support the restoration of fiscal balance is vital.

We must ensure accountability for the processing and reporting of government's operational budget; and we must re-establish policy credibility, as essential conditions for private sector led growth.

The acquisition of FreeBalance eFinancials, an integrated financial and inventory management system, represents a key investment in the development of a modern and transparent financial management system; and ultimately in the restoration of the fiscal balance.

eFinancials is now the core of the accounting system for the Ministry of Finance and the Economy.

It facilitates the integration of financial management services and delivers the capability for electronically recording expenditures, producing cheques and receipts and generating disbursement reports.

The project has already recorded its first milestone; the Treasury Department has installed a cash management system, which now allows for the generation of electronic cash receipts and deposit statements.

This was made possible with assistance of the CIDA funded initiative, Eastern Caribbean Economic Managing Programme.

Yesterday, Monday 29th November, the Treasury Department generated its first electronic cash receipt.

Madame Speaker:

This is a quantum leap by this Government towards the modernization of government operations in this country.

Effective January 31st, 2005 the Office of the Prime Minister and the Ministries in his portfolio, together with the Ministry of Finance and the Treasury and Audit Departments, will be fully automated with the eFinancials Management System.

This system will efficiently manage funds through electronic receipting, revenue reporting and the generation of electronic cheques by March, 2005.

Another key area of institutional reform relates to the efficiency and productivity of revenue generating departments of the Government.

We will focus on rationalisation and reorganisation of revenue generating departments to ensure greater efficiency and productivity in revenue collection, as well as the service provided to the general public.

This strengthening of revenue generating departments should facilitate the Government's efforts to stamp out the time worn abuse of the duty free system, which now takes place at the Heritage Quay Shopping Centre.

Madame Speaker, the establishment of this duty free centre was intended to be an additional means of attracting visitors to our shores where they could purchase items free of duty.

However, certain tenants at the Heritage Quay Shopping Center have been abusing the system over the years thus depriving the Treasury of significant revenues.

I intend to put an end to this dishonest practice.

An elite cadre of Customs Inspectors will be assigned responsibility for ensuring that duties and relevant taxes are collected at the Heritage Quay.

This special squad will monitor those businesses that acquire inventory duty free and sell such merchandise wholesale to businesses outside the duty free area.

Stiffer penalties for such activity will be introduced, with the possibility of confiscation; fines lease forfeiture fines and imprisonment.

Government is focusing on enhancing institutional and management capacity and a cutoff mechanism in public sector investment projects.

In particular, government has accessed technical assistance through CARTAC to improve the management of our public sector investment programme.

The government will seek further technical assistance in 2005 to ensure specific reforms in procurement and management of public sector investment projects.

As a result of these interventions we should see more transparent and efficient mechanisms for the monitoring, evaluation and overall management of projects under the improved Public Sector Investment Programme.

Statutory Bodies will be called upon to function along the same business principles as private sector enterprises.

In this regard, Statutory Bodies and Government Owned Corporations should not expect that their accustomed and, in some cases, legislated tax free status should continue beyond fiscal year 2005.

The government also acknowledges that it must remit its obligations to such entities in a timely manner.

Madam Speaker:

Given the unprecedented fiscal challenges now facing our Public Finances, and considering the apparent pervasiveness of certain practices that are inconsistent with the tenets of Accountability, Transparency and Good Governance in general, I now put on notice all Public Officers, that is, all persons remunerated from the Consolidated Fund, that where it can be proved that the Government has suffered loss by reason of neglect or fault on the part of said Officers, the Financial Secretary, shall be asked to consider the invocation of Part 10 of the Finance and Audit Act, captioned "SURCHARGE".

RECURRENT REVENUE

Madam Speaker:

I turn, now, to Recurrent Revenue.

Recurrent revenue for the 2005 financial year is budgeted at five hundred and twenty three million, five hundred and forty four thousand two hundred dollars (\$523,544,200).

Indirect taxes account for 62% of anticipated revenue, while direct taxes and non-tax revenue account for 23% and 15% respectively.

To realize these revenues, government will adopt a two-pronged strategy for revenue generation.

The first will be programmes for more efficient collection of existing taxes, while the second will be the introduction of new revenue measures.

The new revenue measures form part of an overall strategy of fiscal reform to help reduce the existing fiscal gap and to place government on a sound and sustainable financial footing.

These measures are elements of a domestic programme for fiscal adjustment and, once the turn-around in the fiscal situation is achieved, government will review these new measures with a view to adjusting them.

Improved Efficiency in Collecting Existing Taxes

Government's efforts to improve revenue collection through existing taxes will focus on the implementation of measures to enhance collection, as well as measures to ensure compliance in respect of certain taxes.

With respect to the latter, the property tax structure is to be upgraded to ensure wider coverage, more equity in its application and the enhancement of revenue for the Government.

The tax will now be assessed on the market value of the property instead of on the construction replacement cost which now applies.

The tax burden on residential properties is not expected to increase.

Government expects that this revenue stream should yield about \$15 million for 2005.

This represents a 50% increase over the \$10 million budgeted in 2003.

The increase in projected revenue is due to an increase in the number of land parcels registered with the Property Valuation Division from just under 38,000 to just fewer than 55,000.

Special provision will be made for residential homes valued under \$100,000 which will be exempt from the property while Senior Citizens (persons 60 years and over) will enjoy an additional 50% rebate on their property tax liability on the next \$100,000.

There will also be a low rate applied to lands being used for agricultural purposes and agriculture buildings will not be subject to the property tax.

Also, mechanisms will be put in place to ensure the more effective collection of the 10% tax on airline tickets (travel tax).

Specifically, government will determine the feasibility of placing the responsibility of collecting this tax with IATA.

Finally, specific measures will be put in place to ensure compliance with the restaurant tax.

Over the years collection from this revenue stream has been woefully inadequate as restaurants either did not collect the tax or they collected and did not remit the proceeds to the Inland Revenue Department.

New Tax Measures:

Prevailing economic circumstances necessitate the establishment of a Stabilization Fund drawn from personal incomes over \$3000 per month.

Incomes below this \$3,000 threshold are personal allowances intended to cover statutory contributions to Social Security and Medical Benefits, and the Education Levy.

The personal allowance is also intended to allow income earners to meet personal expenses.

The structure of income earners' contributions to the Stabilization Fund is designed to exempt the vast majority of the population.

The source of revenue for the Stabilization Fund will be a direct draw on personal income at the following rates:

- 10% on income from \$3001-\$4000
- 15% on income from \$4001-\$6000
- and 25% on income that is \$6001 and above

This proposed structure is less punitive than the pre-1977 structure, which had rates as high as 55% with no provision for allowances.

This meant that, at that time, the income of all persons was taxable.

The allowance of \$3,000 per month means that only 25% of the employed labour force will be required to contribute to the Stabilization Fund, while the remaining 75% will be exempt.

The exempt individuals include police constables and recruits, defense force recruits, junior prison officers and some senior prison officers.

Also administrative and other staff in the public sector such as senior executive officers, secretaries/typists, receptionists, security guards, watchmen, assistant teachers, clerical assistants and a host of other government employees will be exempted.

Further, certain waged and salaried employees in the private sector will be exempt from contributing to the Stabilization Fund.

For those persons who will be contributing to the Stabilization Fund, the tax burden will be kept to a minimum.

The following table presents the amount of tax that would be payable for a number of different income levels.

| INCOME \$ | TAXABLE INCOME AT 10% | TAXABLE INCOME AT 15% | TAXABLE INCOME AT 25% | TOTAL TAXABLE INCOME \$ | TOTAL TAX PAYABLE \$ | EFFECTIVE TAX RATE (%) |
|----------------------|--------------------------------------|--------------------------------------|--------------------------------------|--|---|---|
| 0-3000 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3100 | 100 | 0 | 0 | 100 | 10 | 10 |
| 3500 | 500 | 0 | 0 | 500 | 50 | 10 |
| 4000 | 1000 | 0 | 0 | 1000 | 100 | 10 |
| 4500 | 1000 | 500 | 0 | 1500 | 175 | 11.7 |
| 5000 | 1000 | 1000 | 0 | 2000 | 250 | 12.5 |
| 7500 | 1000 | 2000 | 1500 | 4500 | 775 | 17.2 |
| 10000 | 1000 | 2000 | 4000 | 7000 | 1400 | 20 |

Anticipated revenue from this measure, which will take effect from April 1 2005, would be approximately \$35 million.

To ensure professionals are adequately captured within the system, all professionals practicing in Antigua and Barbuda will be required to undergo a business registration process, at no cost, upon which a certificate of registration will be issued.

Professionals would also be allowed to self-assess and declare their taxable income to the IRD.

To ensure maximum compliance, the auditing capacity of the IRD will be strengthened to allow for increased and more effective random audits.

In addition, to facilitate the identification of businesses for the purposes of taxation, all businesses, regardless of size or nature of operation, will be required to register with the IRD.

This business registration will be done annually, with the authorization for the continuation of such business contingent upon it being current with respect to all taxes payable.

There will be no cost associated with this registration process.

This registration process will allow for better identification of businesses that are subject to the Corporation Tax, the Restaurant and Catering Services Tax and other business taxes.

The Sole Proprietor's salary will be assessed at the same rates as those applied to individual income while the profits of his/her Unincorporated business will be subject to a 25% tax.

Another new revenue measure will be a Retail Sales Tax, which will be introduced by July 1 2005.

This tax is to be applied at a rate of 5% with certain basic commodities being exempted from this tax.

Government will also introduce as of January 1 2005 an excise tax at a rate of 7%.

This will be applied to alcohol and tobacco products and on various luxury items.

In particular, the excise tax will be applied to vehicles with engine capacities above 2.5 litres or 2500cc.

Also, the excise tax will be applied to certain high-end consumer durables.

Recognising, the importance of the rum industry in Antigua and Barbuda, special provisions will be made to ensure this excise tax does not in anyway affect the competitiveness of these businesses.

Consolidation of Existing Revenue Measures:

By the beginning of the tourist season in November 2005, the existing three taxes on the hotel industry (the Hotel Guest Levy, the Hotels Tax and the Guest Tax) will be consolidated into a single Hotel and Holiday Accommodation tax.

This will make for better administration and will ensure greater compliance by hotels in meeting their tax obligations.

This single tax will represent a fixed sum, charged per guest per night, in each hotel and other categories of accommodation.

It will range from US\$4 to US\$53 during the high season, according to the size and category of the property and from US\$4 to US\$36 during the off-season, according to the size and category of the property.

The hotels will be classified according to size and standard so that the rate payable will be determined by such classification.

The revenue expected from hotel taxes in 2005 is estimated at \$29 million.

Also, the various Liquor Licenses (Retail License, Beer License and Bottle License) along with the Hotel Liquor License and the Tavern Club License will all be consolidated into a single, less complicated simple tax.

Removal of Taxes:

To eliminate any unnecessary administrative burden on the revenue departments and on tax payers, a number of existing nuisance taxes will be abolished:

These include the Radio License; the TV License; and fee associated with the Dog License.

Government will remove the 15% Entertainment Tax so that local promoters will not be faced with added costs.

However, in cases where the social events include foreign entertainers, the promoter will be liable to pay the Entertainment Tax in respect of these foreign entertainers.

Further, the 2% tax on gross turnover of unincorporated businesses will be removed.

The government will also eliminate the 3% tax on loans to non-citizens.

This is intended to boost investor interest and economic activity as.

This removal of the 3% tax of loans to non-nationals should in effect reduce the cost of funds to non-nationals wishing to invest in business enterprise or in residential development.

Another tax to be removed is the 1% foreign exchange levy.

This will further encourage investment in Antigua and Barbuda as costs on the transfer of profits from investment are reduced.

Also, the government will remove the administrative bottleneck which requires persons wishing to convert any sum at or above \$250,000 into a foreign currency to apply for government approval.

There will therefore no longer be any restrictions in Antigua and Barbuda on foreign currency transactions.

SUPPORT MEASURES

Madam Speaker:

We recognise that while we attempt to improve the fiscal situation in Antigua and Barbuda, there must still be some effort to alleviate the effect of the new programmes and measures for the more vulnerable sections of society.

Government will implement a number of support measures and incentive schemes to ensure that the people as well as business are able to function at sustainable levels.

To ensure that the more vulnerable in the country will not face increases in staple items such as basic food items and medication, the Customs Service Tax will be reduced by 50% on items specified in the 'basket of essential goods'.

In these instances the Customs Service Tax will be slashed from 10% to 5%.

This is what we mean by putting people first, Madam Speaker.

In addition, these items will be exempted from the sales tax. This means that the cost of most basic food items will be immediately reduced.

I give a few illustrations:

Madam Speaker:

Due to Government's cutting the Customs Service Tax (CST) in half and the exemptions of these basic food items from the sales tax, households will realize direct and immediate savings.

For example, a package of Prince Macaroni, which now retails for \$3.31, will be 25 cents less at \$3.06.

A 5 lb Box of Bravo Chicken Legs, which now sells for \$13.99 will be \$1.27 cheaper at \$12.72.

Tastee Cheddar Cheese, which now retails at \$7.67, will be 54 cents cheaper at \$7.13.

A 400g tin of Ovaltine, which now retails for \$7.27, will be 52 cents cheaper at \$6.75.

A dozen eggs, which now sell for \$7.50, will be 53 cents cheaper at \$6.97. 1lb of salt-fish, which now retails for \$8.75, will be 62 cents cheaper at \$8.13.

| ITEM | QUANTITY | ORIGINAL PRICE | NEW PRICE |
|-----------------------|------------|----------------|-----------|
| Prince Macaroni | 453kg | 3.31 | 3.06 |
| Bravo Chicken Legs | 5lb | 13.99 | 12.72 |
| Bravo Chicken Wings | 5lb | 19.50 | 17.70 |
| Quaker Oats | 500g | 6.11 | 5.67 |
| Hereford Corned Beef | 12oz | 3.81 | 3.62 |
| Tastee Cheddar Cheese | 250g | 7.67 | 7.13 |
| Trinidad Orange Juice | 19fl oz | 4.31 | 4.00 |
| Ovaltine | 400g | 7.27 | 6.75 |
| Colgate Toothpaste | 8.2oz | 7.90 | 7.34 |
| Breeze Soap Powder | 200g | 1.89 | 1.76 |
| Nestle Cornflakes | 500g | 11.85 | 11.01 |
| Crix Crackers | 312g | 3.45 | 3.07 |
| Busta Soft Drink | Case of 24 | 40.00 | 34.50 |
| Eggs | 1 dozen | 7.50 | 6.97 |
| Salt-fish | 1lb | 8.75 | 8.13 |

The Government will ensure that these savings are passed on to consumers by strengthening the monitoring and policing capabilities of the Prices and Consumer Affairs Division.

Items in the basket of essential goods that are not currently on the price control list will be added.

For a family of 3 or 4 persons who would typically spend about \$147 per week on these items, the Government's reduction in the Customs Service Tax would result in savings of about 10% per week.

That represents an increase in spending power of about \$60 a month.

An additional \$60 a month would be of some significance to a lot of people, Madam Speaker.

In essence, this support measure will help reduce the cost of living in Antigua and Barbuda for those in our society to whom it matters most.

Further, the compounding of the consumption tax will be removed from all imported items, in order to reduce costs at the port.

With the removal of the compounding effect, importers should realize an immediate reduction in the amounts payable at the port.

For example, at present, items being imported with a value of \$10,000 duty of 20%, a consumption tax of 15% and a customs service tax of 10% would attract \$4800 in duties and taxes.

With the removal of the compounding effect, the importer will pay \$4500.

This reduction in the compounding effect on imports will not only assist in reducing the cost of living, but should also facilitate expansion of economic activity in the private sector, as the lower port charges should help to reduce production costs.

Madam Speaker:

In the National Consultations preceding this Budget Statement, the people of Antigua and Barbuda expressed concern about the effect the new tax measures could have on home mortgages.

I am pleased to say that the Government has listened to the people and has discussed options for reducing residential mortgage rates with a number of financial institutions.

I can now confirm that the Government has secured a commitment from ACB Mortgage and Trust Company to reduce its mortgage rates by ½% in December 2004 and to further reduce these rates by another ½% in April 2005.

Such a reduction in the rates homeowners face in respect on mortgages will reduce their monthly payments.

For a mortgage of \$150,000 over a period of 20 years, the homeowner will realize a 6% reduction in monthly mortgage payments as a direct result of the 1% decline in mortgage rates.

This in real terms would amount to a saving of \$1,224.84 per year or just under \$25,000 over the life of such a mortgage.

We must grasp the meaning of this, Madam Speaker:

A State Registered Nurse, with a \$150,000 mortgage on a home in Liberta and earning just over \$3,000 a month, will in fact have the equivalent of her income tax liability offset in full by this 1% reduction in her mortgage rate. The same would apply in the case of a Sergeant with a similar mortgage on a home in Cedar Grove.

The government is confident that the other banking institutions will follow this lead by the ACB Mortgage and Trust Company and reduce their residential mortgage rates.

Also, the government hopes that this reduction in rates would increase the demand for mortgages and this should produce an increase in construction activity.

In addition to providing relief on mortgage rates, government will eliminate the stamp duty payable on the Discharge of Charge in on residential mortgages.

Further, the stamp duties on residential mortgages will be reduced from \$6 per thousand to \$4 per thousand. All these measures will reduce the total expenses faced by the homeowner.

This reduction in rates will increase demand for mortgages, which would be linked to increased construction activity.

This government recognizes the need to provide pensioners with a stipend that allows them to maintain some basic living standard.

In this regard, the minimum Government pension will be increased to \$750 monthly as of January 1 2005 in order to provide greater support to pensioners.

In addition, the government will in December of this year, make a one-off payment of \$500 to all Government pensioners who are currently earning pensions of \$500 or below.

This will amount to EC\$553,000 in total payments.

Madam Speaker:

The UPP Administration will right a long outstanding wrong, inflicted on certain sections of the Public Service who were denied salary increments negotiated by their Union and agreed by the previous administration.

This dates back to 2000.

This Government cannot, in good conscience, ignore the plight of these Public Service workers.

We have therefore made special arrangements to meet, in part, this long outstanding obligation.

Affected public officers will receive this relief before Christmas.

Certain other groups in the Public Service, particularly CMC workers, employees of the Fiennes Institute, the Mental Hospital and Holberton Hospital, will also receive some relief.

CAPITAL EXPENDITURE ESTIMATES

Madam Speaker:

Capital expenditure for 2005 is estimated at \$116 million.

This will reflect government's commitment to spending a meaningful proportion of revenue on improving infrastructure; enhancing investment in social development projects; and ensuring there is sufficient capital investment, which should encourage private investment.

The focus of the 2005 Budget will be on preparations for World Cup 2007; expansion of the airport; and various major road enhancement and construction projects – particularly in respect of roads in Barbuda; and a number of road networks in several communities in Antigua.

In total, about \$26 million will be spent on road construction, of which \$10 million is allocated for road construction in Barbuda.

DEFICIT FINANCING

In light of the foregoing, the question naturally arises as to how the recurrent deficit of \$86,128,502.00 will be financed.

We intend to do so by reducing outstanding arrears through negotiations with creditors and by the sale of Treasury Bills and Bonds valued at \$151 Million, which would give us \$48 million in “new money”.

This will be made possible through the efforts of the Antigua and Barbuda Investment Bank to assist government in restructuring and negotiating its high interest debt.

We wish to commend the ABI Group for its initiative and support in partnering with the government as we seek to address the fiscal imbalance and improve the nation’s overall creditworthiness.

The government will also pursue a policy of public ownership and limited divestiture of state owned assets to finance the deficit. The sale of Crown Lands is also a viable policy option for the generation of revenues necessary to close the fiscal gap.

DEBT SERVICING

The Public Debt provisions for 2005 are set at \$100,692,659.

This is a 10% reduction in comparison to the provisions made in the 2003 budget.

The provision for Public Debt servicing represents 17% of the budgeted recurrent expenditure and 20% of the budgeted recurrent revenue.

The 2005 public debt provision is allocated as follows:

| | |
|-----------------------------|--------------|
| Domestic Amortization: | \$30,812,641 |
| Domestic Interest Payment: | \$21,338,645 |
| Sinking Fund Contribution: | \$ 3,976,144 |
| External Amortization: | \$33,248,717 |
| External Interest Payments: | \$11,316,512 |

Madam Speaker:

During 2004, the Government of Antigua and Barbuda, in its attempt to reduce the level of public debt servicing, renegotiated the terms and conditions of its debt to domestic commercial banks and as such has effected significant savings.

In this regard, Madam Speaker, I wish to record the Government’s gratitude to all of our domestic commercial banks.

Further, in an effort to address the floating debt (suppliers' credit) the government will negotiate with domestic creditors for 70% payout on outstanding debt.

The high level of arrears on the Central Government debt has restricted the level of new borrowing over the last few years. Government is currently formulating a plan to reduce the level of arrears and to normalize relations with its external creditors.

The rate growth of external debt is definitely signaling the need for better debt management and structured control mechanisms to ensure that our debt burden does not continue to escalate.

To this end, the Government has re-instituted the National Debt Co-ordinating Committee, which will, among other things, focus on issues for effective management and seek to maintain prudent and sustainable levels of debt for Antigua and Barbuda.

To enhance its debt management, renegotiating and restructuring programmes, government has approached CIDA to provide technical assistance in these areas.

This technical assistance should increase debt management capacity in Antigua and Barbuda and should also, through support in respect of debt restructuring, help reduce the total debt stock and bring our debt servicing requirements to more manageable levels.

Madam Speaker:

I can now confirm that following intensive negotiations since April, the Government has already secured provisional agreement for the net reduction of the Central Government Debt in the region of \$650 million.

The infamous Deep Bay debt of approximately \$600 million on the Royal Antiguan Hotel will be substantially reduced.

So too will the DEVCON debt for the dredging of the St. John's Harbour.

On another creditor account which I shall shortly identify, we have succeeded in negotiating a debt write off of \$50 million on an estimated \$230 million debt.

The question arises, Madam Speaker, did the previous administration ever really care about such matters?

GOVERNMENT/PRIVATE SECTOR PARTNERSHIP

This government recognizes that for high and sustainable levels of economic growth to be realized in Antigua and Barbuda, economic activity must be driven by private enterprise.

In this regard, it is necessary for government to facilitate private sector development by creating an enabling macro-economic environment and also by offering appropriate incentives for private enterprise.

The Antigua and Barbuda Investment Authority:

As part of government's overall programme to promote domestic and foreign investment, Antigua and Barbuda Investment Authority is to be established in January 2005.

This entity will serve as a one-stop-shop for investors and will function as an investment promotion and facilitation agency.

The Investment Authority will be the repository of all necessary information on doing business in Antigua and Barbuda.

Further, it will be that critical link between the various government agencies with which the investor must interact.

The facilitation function of the Antiguan and Barbudan Investment providing support and practical advice to micro small and medium domestic enterprises in order to enhance their capacities in areas such as efficient business operations, effective cash flow forecasting and marketing.

The Antigua and Barbuda Investment Authority will be responsible for global investment.

Incentives for Tourism Investment:

To encourage development of the hotel industry, concessions will be extended to all hotels in 2005 for the expansion and refurbishing of existing properties.

Further, concessions will be granted for the construction of new hotels with at minimum of 10 rooms.

Particular emphasis will be placed on encouraging the development of locally owned small hotels.

These incentives, as well as investment promotion measures in general should assist local businesses and entrepreneurs to position themselves to take advantage of benefits and opportunities anticipated with World Cup 2007.

Agriculture:

With respect to agriculture, allocations have been made to enhance this sector.

As noted previously, particular focus will be on the increase of cotton and pineapple production as well as in the further development of agro-processing in Antigua and Barbuda.

Further, efforts will be made to enhance production of other crops and to enhance the fishing industry so that local farmers and fishermen will benefit from expanded linkages with the tourism sector.

Special measures will be put in place to assist small and micro agro-processing businesses - particularly those involved in producing, bottling and selling pepper sauce, jams and various condiments.

Promoting Manufacturing and Small Business:

A proportion of the \$100 million in concessions provided for in 2005 will be targeted to the manufacturing sector and the development of small businesses.

Provided that certain value added and other requirements are met, manufacturers and small business owners will be allowed the importation of raw materials free of duties and consumption tax for a period of three years.

To stimulate small and micro business in Antigua and Barbuda, Government will seek technical assistance for small and micro businesses in order to enhance efficiency of operations, improve productivity and promote export marketing.

The Government will seek to access resources for on-lending to existing small and micro businesses and to persons starting small business ventures.

Free Trade Zone:

To enhance its operations and to encourage light manufacturing for export, specific measures will be undertaken to further develop the Free Trade Zone.

This will involve a joint venture between an international business developer, the government and local development partners.

International Financial Services:

For an economy to be viable and for economic growth to be sustainable, it cannot rely on a single sector for growth in output.

The government will develop a comprehensive diversification strategy. The financial services sector shows great promise for revenue delivery to the Antigua and Barbuda economy.

Appropriate support will therefore be provided to the Financial Services Regulatory Commission to enhance its capacity to monitor and assess operations in the international financial services sector.

This will include Internet gaming.

Further, with the introduction of new Trust Legislation, it is expected that this agency will generate more revenue.

Mutual Funds Legislation will be introduced.

This will enhance and encourage growth in the international financial services sector.

The government has confirmed an alliance for joint marketing and promotion of the international financial services and tourism sectors.

The Government will lend its support to the Antigua and Barbuda International Marketing Corporation (AIM Corp), which will focus on promoting Antigua and Barbuda's international competitive advantage in international financial services and tourism.

The effective operation of this corporation will depend on strong private and public sector partnership.

The Government gives the undertaking to provide an adequate and enabling policy environment.

The success of AIM Corp will not only have beneficial effects for the targeted sectors, but also for the economy as a whole.

Incentives through Reduction of the Corporate Income Tax:

An additional measure to promote investment in Antigua and Barbuda and to encourage expansion of existing companies will be the reduction of the corporate income tax from 35% to 30%.

Further, government will reduce the corporate income tax rate to 27.5% for banking institutions that maintain commercial lending rates at or below 10% and their residential mortgage rates at or below 8%.

This provision will be applicable for one year in the first instance after which it will be reviewed in order to determine its success.

This provision will not only offer additional support to homeowners, but it should also facilitate an increase in the demand for residential mortgages and this should produce an increase in construction activity.

I expect that with all that I have outlined, together with what I shall yet present, this foundation for a fresh start will turn out to be a launching pad for substantial and sustainable economic growth and ever increasing personal prosperity for the Antiguan and Barbudan people.

ALLIANCE FOR DEVELOPMENT THROUGH EDUCATION AND EMPOWERMENT

Madam Speaker:

I turn now to a preoccupation more dominant than any other, in private contemplation and in public discourse, virtually every day since the United Progressive Party's election to government.

That preoccupation is the role of Mr. R. Allen Stanford in economic and social development in Antigua and Barbuda under the UPP Administration.

No single individual so dominates the investment landscape in any nation in our region as Mr. Stanford does in Antigua and Barbuda.

Many persons have serious problems with this; among them, many colleagues in the United Progressive Party.

We took serious issue with the conduct of ALP Ministers, who surreptitiously compromised themselves and their government by accepting very generous favours from Mr. Stanford while representing the government's and the people's interests in their negotiations with him.

Mr. Stanford, in the view of many, was ill-advised in his response to UPP protests over the matter.

Members of the Government are convinced that it did not take long for Mr. Stanford to become a wiser person after he publicly compounded the problem that had resulted from the former Ministers' deviant conduct.

It is a matter of conjecture as to whether those former ALP Ministers are now any wiser.

The UPP also had serious problems with the questionable Asian Village transaction between the former administration and Dato Tan Kay Hock.

The previous government's acquisition of what had always been private property, and its immediate transfer to new private ownership, at less than what the previous government paid remains a mystery and a scandal that is this Government's obligation to probe.

That is why the Sunshine Government has challenged that transfer in the court, and why we insist on investigating the circumstances that surrounded it.

Mr. Stanford did little to advance his cause when he made a bid earlier this year, to take over the Asian Village project, which gave Dato Tan a number of entitlements that were odious to the Antiguan and Barbudan people.

Mr. Stanford has since stepped way from the Asian Village package.

However, Mr. Stanford's interest in acquiring the real estate that was fleetingly owned by the previous government while the property was en route to Dato Tan, no longer extends to the multiple concessions and exclusives that were part of the ALP Administration's arrangement with Dr. Dao Tan.

Madam Speaker:

We, of the UPP Administration always recognised that our positions had to be subservient to the common good.

I can now confirm that since the Stanford Group's presentation to a representative group drawn from civil society shortly after the election of the Government, there have been continuing discussions between Mr. Allen Stanford and the Government on the bases for a demonstrably win-win partnership between the Stanford Group and the people of Antigua and Barbuda.

Those discussions gained impetus over the last few weeks.

The proposals that had taken shape during those discussions received the unanimous endorsement of last Tuesday's Cabinet Meeting.

After internal discussions in the early hours of Saturday morning, following his return from Hong Kong, the evening before, the Prime Minister met with Mr. Allen Stanford in marathon discussions that started at 11 o'clock Saturday morning and carried through for hours.

During their lengthy discussions on Saturday, Prime Minister Spencer, acting on behalf of the people of Antigua and Barbuda, worked out the fundamentals for a far-reaching and historic alliance between the Stanford Group and the Government.

The Prime Minister has directed that the fundamentals for an alliance between the Stanford Group and the Government of Antigua and Barbuda be embodied in the 2005 Budget Statement.

The prime fundamental of the partnership between the Stanford Group and the Government of Antigua and Barbuda is Development through Education and Empowerment.

To this end, four projects have been agreed between the Government and Mr. Allen Stanford for immediate implementation:

ONE, Mr. Allen Stanford will make an immediate contribution of \$1 Million, together with technical assistance where appropriate, to the completion of the construction of the National Library.

Mr. Stanford has confirmed that he will present that cheque to the Government tomorrow.

TWO, the Stanford Group will make a dedicated \$10 Million Fund for the empowerment of new Antiguan and Barbudan entrepreneurs.

Those funds will be in place from January 1st, 2005.

The Fund will provide financing of up to \$50,000 to support micro and small business ventures owned by Antiguans and Barbudans.

The Stanford Group will provide technical support and counseling for this project, which will operate through the Antigua and Barbuda Development Bank.

Public servants opting for voluntary separation from government employment will be given fast-track access to grants from the special \$10 Million Fund.

This is one of the mechanisms the Government will utilize in moving public servants from employment to ownership of their own businesses.

THREE, the Stanford Group will fund and construct at no cost to the Government a state of the art higher education complex in Antigua on a projected budget of \$25 Million.

This will be Allen Stanford's contribution to the fundamental of development through education and empowerment.

Related to this, Mr. Stanford will fund an ongoing endowment to provide full scholarships to young Antiguan and Barbudans.

Once the site for the new institute is identified, work on this complex will commence in the first half of 2005.

FOUR, Mr. Stanford will transform Stanford Development Company into a professional management services company, which will outsource an estimated 70% of its construction projects to local contractors and other local suppliers.

This is in harmony with the Government's stated policy on reserving 25% of procurement on private sector as well as government projects for qualified small business; as will be mandated by the Buildup Business Act.

In addition to these four immediate fundamentals for development through education and empowerment, Prime Minister Spencer and Mr. Allen Stanford hammered out a number of other fundamentals during their watershed discussions on Saturday.

The country's leader and the business leader agreed on a review of the funding arrangements for the Mount St. John Hospital with a view to relieving the Medical Benefits Scheme of the monthly \$735,000 payment to the Stanford Group, which financed that controversial project.

Mr. Stanford has agreed to assist, where appropriate, in the functioning of the institution, which will provide specialised health care to Antiguan and Barbudans, as well as to patients from overseas.

Together with all of this, Mr. Stanford confirmed his willingness to write off \$50 Million of the estimated \$230 Million debt the Government of Antigua and Barbuda owes his organisation.

Culminating the fundamentals negotiated in Saturday's meeting between the Prime Minister and Mr. Allen Stanford, is the Government green light for Mr. Stanford's

acquisition of Guiana Island and other lands to which Dato Tan Kay Hoc presumably holds title.

The Stanford plan for development of the land package which he is negotiating to acquire from the current title holder is envisaged as a \$3 Billion upscale resort that will inject an estimated \$2 Billion into the Antigua and Barbuda economy in its construction phase.

The project is expected to generate continuing employment for 1,200 persons in direct and indirect jobs over its thirty-six months construction period.

The planned Six-Star resort will offer jobs for 1,000 persons when it is in operation.

Well before its completion, the project will recruit some 500 to 700 employees for extensive training, starting in 2006.

A similar number of persons will be employed next year, with the start up of construction.

Mr. Stanford has proposed a front-end corporation tax arrangement, under which tax concessions will be deferred for 30 years, while he will pay to the Government Treasury a monthly flat tax, amounting to \$34.4 Million a year, starting in January, 2008; aggregating to more than \$1 Billion over 30 years.

Full project funds are on hand for the entire project, which will cater to the wealthiest people in the world, and it will open its doors with \$400 Million cash in hand.

Government is impressed by Mr. Allen Stanford's voluntary submission of all documents pertaining to all agreements he entered with the previous administration.

We are also impressed with Mr. Stanford's voluntary proposal for all his projects requiring government approvals to be subject to performance clauses.

In his meetings with the Government, Mr. Stanford has stressed his sensitivity to, and his respect for the character and conservation of Antigua and Barbuda's environment, which he sees as valuable equity that enhances the value of any business venture.

Mr. Sanford also emphasises his recognition of the birthright of every Antiguan and Barbudan to have access to every beach on our two islands.

The Government is confident that the Stanford Group's business agenda can be in total harmony with the aspirations of the Antiguan and Barbudan people, and with the Government's development agenda.

The Government of Antigua and Barbuda looks forward to an enduring and productive partnership with the Stanford Group.

Madam Speaker:

I trust the significance of the developments I have just outlined permits me the liberty to say to Mr. Stanford:

“Welcome to Government in the Sunshine!”

Madam Speaker:

I sense that the nation is no longer waiting to exhale.

Madam Speaker:

This alliance between the Government of Antigua and Barbuda and Mr. Stanford has the potential to dramatically transform this country’s economy.

Notwithstanding this, I will not encourage a national mindset of spend and splurge.

That would be a formula for an economic bubble that is ultimately bound to burst.

It is just as critical that we avoid overheating the economy as any other obligation we now carry.

A new discipline is fundamental to the new opportunities that come with a fresh start.

We must, above all, recognise that Antigua and Barbuda dare not, I repeat, dare not, risk repeating the mistakes of the past, when bust followed boom, because of fiscal maladministration at the level of the government; and personal extravagance at the individual level among large numbers of the population.

Antigua and Barbuda might well have been singular among our sister nations of the region in not possessing the wisdom that we should have put aside something for the rainy days that were bound to come.

Should this country fail to learn from the mistakes of the past, it is not likely that either we, or our children, or our children’s children, will be allowed a second chance for a fresh start.

The electorate gave this nation a chance for a fresh start on the 23rd of March this year.

This nation now has a chance for a fresh start.

We must seize that opportunity, now.

The economic theology of eat drink and be merry today and let tomorrow take care of itself, is a virtual suicide prescription for individuals as well as for nations.

That is not the path that any of us will consciously follow.

Madam Speaker:

The judgments I have made in constructing the Budget for 2005 are designed to lay a solid foundation for a fresh start.

We are on the threshold of a fresh start.

We cannot afford to blow it.

The 2005 Budget is an instrument for equitable distribution of the entitlements and the responsibilities of the better off in the society, as well as the less privileged.

Every judgment I have made in laying the foundation for a fresh start has been driven by realism.

At the same time, every judgment I have made has been tempered by restraint and by conscious compassion.

Three quarters of the nation's income earners will be exempted from paying income tax or filing income tax returns.

The staples of life will be less expensive and more affordable to all.

This will bring particular and meaningful benefits to those in our society who face the greatest challenge in making ends meet.

Through personal income tax, the better off among us will help to ease the squeeze on those in greatest need.

The vast majority of income earners will have no income tax liability.

Madam Speaker:

The judgments we must make in reducing the public payroll will be characterized by compassion.

This nation has no option but learn to live within its means.

Madam Speaker:

Budget 2005 calls for all in Antigua and Barbuda to contribute in rebuilding our economy and in giving our nation a fresh start.

Budget 2005 affords those who are privileged to earn more, or who are fortunate to possess wealth, the privilege of contributing to the well being of the many who are less fortunate.

"The test of our progress is not that we add more to those who have much; it is whether we provide enough for those who have too little."

Franklyn Delano Roosevelt spoke for all societies, in all places, in all times.

He also spoke for this society, at this time, when he expressed that wisdom, Madam Speaker.

Madam Speaker:

A thinking and educated society elected the United Progressive Party to government eight months and seven days ago.

We continue to trust the commonsense and the considered judgment of the same people.

I am confident that the Antiguan and Barbudan people will maintain that faith in us and that they will respond to the call to work in partnership with their Government in giving our country a fresh start.

I am also confident that they will seize the opportunities for a fresh start that Budget 2005 presents to all.

Madam Speaker:

As I move to the conclusion of my presentation, I must confide that I am not confident of the level of goodwill I will continue to enjoy among my Cabinet colleagues.

In spite of the good news I have shared with the nation, I have not come to this House today with a Santa Claus bag of goodies.

The state of the economy permits nothing of that sort.

As we call upon the Antiguan and Barbudan people to share the sacrifice demanded by the times and by our circumstances, the United Progressive Party will demonstrate that as charity begins at home, austerity, in this case, begins with members of the Government.

Effective New Year's Day, 2005, the Salaries of Ministers of Government, Ministers of State and Parliamentary Secretaries, will be cut by 10%.

This means that when personal income tax becomes operative on the 1st of April, 2005, our Honourable Prime Minister, my colleague Ministers, Ministers of State and Parliamentary Secretaries, and the Minister of Finance and the Economy, will be taking home a lower portion of our salaries than will other income earners in our tax brackets in Antigua and Barbuda.

I take their thunderous response to this contribution to the Stabilization Fund as my colleagues' enthusiastic approval of this measure.

I venture to suggest, Madam Speaker, that other officials, including Senators and Board Members appointed by this administration, will, more than likely, voluntarily take a similar cut in salaries and fees.

I am confident that Honourable Members opposite need no urging to join the United Progressive Party in this symbolic sharing of the burden of adjustment at this time.

On this note of caring and sharing, I take this opportunity to wish the Honourable Speaker and Honourable Members, and the nation, a peaceful, safe, and Holy Christmas Season.

Madam Speaker:

Together, all who love Antigua and Barbuda can transform Antigua and Barbuda into a land of opportunity where every individual has the chance to be the best he or she can be; into a safe and healthy home where people want to raise their families; into an economy which attracts talent and investments; and into a society which offers young people the chance to be shareholders and nation builders; and a global centre of excellence with a quality of life that will be widely envied.

We have a genuine opportunity to start now, to build that land, here in Antigua and Barbuda.

We might not be allowed a second chance.

Let us work together to build that land in our land.

Madam Speaker:

Budget 2005 is accompanied by its primary source, the views that the Antiguan and Barbudan people freely expressed during the public consultations which laid the foundation that makes Budget 2005 genuinely the people's budget.

With gratitude for the gracious attention of Honourable Members, at the pleasure of the Prime Minister, I look forward to 2005 with the firm intention to resolutely direct this nation's fiscal and economic affairs within the parameters and the disciplines I have defined in my presentation.

With this resolution, I commend this Foundation for a Fresh Start, Budget 2005, to the House, Madam Speaker.

I respectfully beg to move, Madam Speaker.