



GOVERNMENT OF ANTIGUA AND BARBUDA

BUDGET STATEMENT 2008

Monday 3rd December 2007

Introduction:

Madam Speaker, on March 22nd 2004, the then Government of the day was the crew charged with plotting the course for the Ship of State that we all know and love, Antigua and Barbuda. It was a motley ALP crew, ill-equipped to navigate the choppy seas of globalization, run-a-way debt, chronic fiscal mismanagement and allegations of misbehaviour in public office. It was clear to all aboard that the captain, a sizeable man, had lost his way; and there was little confidence reposed in his second in command, a considerably more diminutive figure, who himself could not sense the direction of the wind. The other crew members, more often than not at odds amongst themselves, bonded together to discuss mutiny and in the heated arguments that ensued, ignored the collective cry emanating from the bellies of those entrusted to their care, "Captain, this ship is sinking". That, Madam Speaker, was March 22nd 2004.

When the dawn of March 24th broke, it was to the soulful strains of a different tune: "Fair Antigua and Barbuda; We thy Sons and Daughters Stand", for on March 23rd 2004, the people aboard the Ship of State had taken matters into their own hands and installed a new captain and crew, and not a day too soon. The seas were still very choppy, but on November 30th 2004 a new course was charted and by December 2005, the Foundation for a Fresh Start was laid.

Madam Speaker, here we are in December 2007, and I am about to present to the people of Antigua and Barbuda through this Honourable House a report detailing the sustained accomplishments of this relatively new Administration, captained by the Honourable Prime Minister, Winston Baldwin Spencer, with the committed assistance of his talented, extremely capable and caring crew. I will also be speaking to the people of Antigua and Barbuda about the plans and policies that will be implemented in fiscal year 2008 under the theme **“Sound Policies: Sure Success - Building a Brighter Future through Sacrifice and Perseverance”**.

Madam Speaker, no one who is, by any stretch of the imagination, fair and objective, can deny that in just three and one half years, the Baldwin Spencer Administration has achieved so much in so short a period at the helm: the restructuring of the economy; significant legislative reform; far reaching fiscal reform; and Institutional reform, amongst others. These accomplishments, Madam Speaker, have not been achieved by capricious and whimsical policies that are the hallmarks of expediency, but through deliberate, thoughtful and intelligent interventions that have taken into account the voices of the people.

In this regard, Madam Speaker, it gives me great pleasure to deliver the People’s Budget for Fiscal Year 2008. I say the People’s Budget, Madam Speaker, because as this document is contemplated and studied, it will become evident that the Baldwin Spencer Administration has been listening to the People and has crafted a policy document that speaks to

and is reflective of the developmental aspirations of the people of Antigua and Barbuda. In this vein, Madam Speaker, Budget 2008 has been very carefully and thoughtfully compiled and collated and I wish at this time to acknowledge the yeoman's effort of my Budget team namely:

- Senator the Honourable Lenworth Johnson – Parliamentary Secretary in the Ministry of Finance and the Economy
- Mr. Whitfield Harris Jr. – Financial Secretary
- Mr. Dean Evanson – Deputy Financial Secretary
- Mr. David Matthias – Budget Director, Mrs. Carolyn Charles-Tonge, Deputy Budget Director, Mr. Ralph Warner, Senior Finance and Statistics Officer, and other members of the Budget Staff
- Mr. Kevin Silston – Macro-economic Adviser;
- Ms. Yolanda Goodwin – Director of Economic Policy and Planning and members of the PSIP team;
- Ms. Rasona Davis – Coordinator of Economic Policy and Planning;
- Mrs. Nadia Spencer-Henry – Debt Management Adviser; and
- Mr. Ted Lewis, Senior Economic and Financial Analyst.

Madam Speaker, I would also like to make special mention of the assistance received from the Eastern Caribbean Central Bank (ECCB) and from the Caribbean Regional Technical Assistance Centre (CARTAC) who have remained true partners with the Government of Antigua and Barbuda in its capacity building endeavors. In addition, the Government wishes to

express its deepest appreciation to the many friendly Governments within the region and beyond for their continued support. Specifically, we thank the Peoples Republic of China, the Republic of Cuba, the Bolivarian Republic of Venezuela, the Republic of Trinidad and Tobago, the United States of America, Canada and the European Union.

Last, but by no means least, Madam Speaker, I would like to thank the people of Antigua and Barbuda for their presence and for their input at the numerous consultations that were held throughout the year. I do hope and trust that they will be pleased with what will be presented to them today in this Honourable House.

Madam Speaker, I have developed a tradition in this Honourable House of delivering fairly lengthy Budget speeches. I however propose to break with tradition today and provide this Honourable House with an executive summary of the actual Budget Statement, the full text of which will be available for the leisure reading of all.

World Economic Trends

The global economy is projected to expand at a rate of 5.2% in 2007, which is marginally below the 5.5% recorded in 2006. Growth in world output was driven by expansion in economic activity in both developed and developing economies. In particular, real output was propelled by the

continued robustness in the Chinese and Indian economies along with the economies known as the Asian Tigers.

China's economic momentum was fuelled by significant expansion in investment activity and rising net exports - especially to the US. This increase in economic activity resulted in the Chinese economy growing by 11.5% making it the largest contributor to global economic growth. India continued to grow at a rate above 9% and Russia grew at almost 8%. These three countries alone accounted for one-half of global growth over the past year but emerging markets and developing countries have also maintained robust expansion.

The United States economy rebounded in the second quarter after very slow growth and economic activity in the first quarter of 2007. This improved second quarter performance reflects the positive impact of net exports associated with exchange rate competitiveness and a boost in investment occasioned by strong corporate profits. However, overall performance in the first half of 2007 remains moderate for the US economy, which grew at approximately 2.25%.

Strong economic demand, rising net worth, and improvement in the terms of trade fuelled by high commodity prices led to continued growth for the Canadian economy. However, the rate of growth slowed during the second quarter of 2007 to 2.8% compared to 3.7% for the preceding quarter.

In the United Kingdom, output increased by 8% in the second quarter, which was marginally above the first quarter performance. Overall, output is expected to grow at a rate of 3.1% for 2007 which is marginally above the rate of growth in 2006. In the Euro Area, economic growth is estimated at 2.5% and was driven by strong domestic demand and a favourable external environment. With respect to Japan, economic growth is estimated at 2% for 2007. This is marginally below the 2.2% recorded in 2006 and reflects notable decelerations in business investment and export growth along with subdued consumer expenditure.

Outlook

Global economic output is expected to slow further in 2008 to 4.8 % and will hinge largely on strong economic performance in China and India, which are projected to grow by 11.2% and 9% respectively. The outlook for the European Union is largely positive, although the appreciating Euro and its attendant implications for the export sector are expected to precipitate a slowdown in economic performance. The European Central Bank is likely to raise interest rates to contain inflationary pressures. In addition, successive interest rate increases by the Bank of England to stem inflationary pressures are likely to gradually diffuse demand in the housing sector and subsequently consumer demand.

The US, for the first time since 2003, will not lead major industrialized countries in GDP as growth will likely decelerate during the second half of 2007 to 2.0% and is projected to remain at 1.9% in 2008. Ongoing difficulties

in the housing market are expected to extend the decline in residential investment, while higher energy prices, sluggish job growth, and weaker housing prices are likely to reduce consumption spending. For Japan, the growth projection has been reduced to 2% for 2007 and 1.7 percent for 2008 reflecting, *inter alia*, slower global growth and a somewhat stronger yen.

Finally, major downside risks to the projected levels of growth include the potential for restrained global economic output as a result of the international credit crunch and high volatile oil prices.

Despite the apparent standstill in respect of major multilateral and hemispheric trade negotiations, Antigua and Barbuda remains committed to the trade liberalization and globalization processes. We are confident that once these arrangements take into account the peculiarities and vulnerabilities of developing countries - particularly small island developing countries - our economies could reap real benefits from the various international trading regimes.

As the Caribbean region intensifies its negotiations with the European Union that will lead to an Economic Partnership Agreement (EPA), we continue to signal our concerns regarding the thrust and content of the negotiations. Antigua and Barbuda believes that any EPA agreement should translate into corresponding technical and financial assistance for the region's priority programmes. In this regard, we continue to firmly assert the vital need for Development support that moves beyond mere

technical assistance. Moreover, we are of the view that a key element of this negotiation process and the ultimate arrangement should be the elaboration of a distinct Development Chapter in the final Agreement. As such, we agree with the decision of the Fourth Meeting of the CARIFORUM Council of Ministers on External Trade Negotiations that “the Development Chapter as well as other relevant chapters of the EPA needed to be further strengthened, particularly with regard to EU development commitments and its provision of the necessary resources for the implementation of these commitments”.

While these negotiations have been ongoing, Antigua and Barbuda continues to receive support from the European Union through its 9th Economic Development Fund (EDF). Over 2007 and 2008 Antigua and Barbuda will receive total assistance amounting to about 6.3 million Euros or approximately EC\$25 million. These resources have been allocated for strengthening technical and vocational education, upgrading facilities at the Antigua State College, and providing technical assistance and training in respect of the implementation of the country strategy.

Regional Economic Overview

Economic growth in the Caribbean region will continue to moderate following very strong growth of 8.4% in 2006. Growth for 2007 is estimated at 6% reflecting a slower pace of investment and construction

activity compared to 2006. For 2008, the rate of expansion in real output is projected to slow further to 4.4% as the region's economies continue to cool after the significant activity associated with preparing for and hosting Cricket World Cup (CWC) 2007.

Trinidad & Tobago is expected to grow at a rate of 6% for 2007 reflecting a strong energy sector, expansion in the construction and manufacturing sectors and increased credit to the private sector. For 2008, the Trinidad and Tobago economy is projected to grow at a slightly lower rate of 5.8%. Consumer prices are also expected to decline from 8.5% to 7.5% reflecting a cooling of the level of aggregate demand.

In Jamaica, economic output is expected to grow at a rate of 1.4% for 2007 due mainly to a higher level of activity in mining and quarrying and construction. For 2008, the real economic growth is projected at 2% and prices are expected to increase by over 10% compared to 6.6% for 2007.

Real GDP growth for Barbados is estimated at 4.2% for 2007 reflecting strong performance in the tourism sector mainly associated with arrivals for CWC 2007. In 2008, the rate of growth is projected to slow to 2.7% and prices are projected to moderate from 5.5% in 2007 to 3.6% in 2008.

The rate of growth of economic output in the Eastern Caribbean Currency Union (ECCU) is estimated at 4.33% for 2007. This compares with a rate of growth of 6.22% in 2006 and reflects a cooling of the ECCU economies

following considerable increases in output as a number of the countries prepared to host CWC 2007.

Economic growth in 2007 will be driven mainly by expansion in the construction, manufacturing and wholesale and retail trade sectors. Performance in the tourism and agriculture sectors is expected to be mixed. With respect to tourism, cruise passenger arrivals are estimated to increase compared to 2006 while stay-over arrivals are expected to be lower. Output in the agricultural sector is set to decline due to the impact of Hurricane Dean on crops in major banana producing countries.

For 2008, economic output in the ECCU area is projected to grow at a rate of 3.7% reflecting a further slowdown in the high level of investment and construction activity that preceded the CWC 2007. With the increased room capacity in the region, the main driver of economic growth in 2008 is expected to be the tourism sector. This sector is expected to experience significant increase as the countries intensify marketing and advertising initiatives in new and traditional markets. Agriculture and wholesale and retail trade are also projected to experience strong growth while the rate of growth of the construction sector is set to slow further as the boom in the sector comes to an end.

Despite the forecast for real economic growth in the ECCU region for 2008, there are several risk factors that may constrain growth and a number of challenges that continue to threaten long-term economic sustainability in

the region. These include the escalating prices of oil and some essential non-oil commodities and the associated inflationary pressures, a possible downturn in the US economy, debt management issues, and high fiscal deficits. It is imperative that the ECCU countries focus on collectively addressing these issues and challenges. Given our resource constraints and limited technical capacity, we will need the assistance of key sub-regional and regional institutions to facilitate our efforts to engender economic growth and sustainable development.

Regional Integration

This Government is fully cognizant of the benefits associated with the regional integration process and the implications for growth and development in Antigua and Barbuda. As such, the Government, through the CSME Unit, continues to work towards fulfillment of all outstanding obligations created under the Revised CARICOM Treaty. In keeping with our commitment to honoring these obligations, we amended the Caribbean Community Skilled Nationals Act during the October sitting of Parliament, thereby allowing qualified community nationals to move freely into Antigua and Barbuda.

However, Antigua and Barbuda remains firmly of the view that our citizens should have every opportunity to share in the benefits of the Caricom Single Market (CSM). In this regard, during the course of 2008 the

CARICOM Secretariat will provide technical assistance initiatives to Antigua and Barbuda in the following areas:

1. A 105,000 Euros project to support OECS participation in the CSME through the investigation of required measures for more effective involvement;
2. Upgrade and installation of best practices in Antigua and Barbuda aimed at addressing capacity building issues through a 90,000 Euros project which will also cover the purchase of equipment and supplies;
3. Antigua and Barbuda along with St. Vincent and the Grenadines will serve as pilot countries for the implementation of a common system for the registration of companies. The 210,000 Euros project involves procurement of equipment, technical assistance and training;
4. Pursuant to a request made by Antigua and Barbuda, a consultant will be hired to conduct a study entitled: “measures to redress socio-economic impacts of free movement on Member States”. The value of this initiative is estimated at 90,000 Euros;
5. Antigua and Barbuda will also benefit from a Canadian-funded project to help CSM Member States to complete outstanding CSM implementation actions, develop capacity in the OECS to certify artisans, and establish mechanisms for greater stakeholder participation in the CSME; and
6. A team from the Caribbean Court of Justice (CCJ) will visit Antigua and Barbuda during the first quarter of 2008 for a series of meetings

aimed at public sensitization of the role of the Court. Meetings will be held with the legal fraternity, the public and private sectors, civil society, the media and the general public.

These initiatives form part of the first year of the 9th EDF Caribbean Integration Support Programme (CISP) financed by the European Union to support CSM integration arrangements. The Government appreciates this level of intervention and expects that these various activities will better prepare the OECS countries in general and Antigua and Barbuda in particular to take full advantage of the opportunities presented by the Caricom Single Market.

The forces of globalization have left small, open economies like those of the OECS with no other option but to deepen their integration processes by putting in place the appropriate legal framework, institutions, policies and practices to create an Economic Union.

At this time the OECS Authority, which is comprised of the Heads of Governments of Member States, is committed to a road map that would guide the countries of the Sub-region along a path towards Economic Union. In this regard, a New OECS Treaty is being considered which seeks to establish an appropriate legal framework for the OECS countries as they move in this direction. In an OECS Economic Union all Member Countries, including Antigua and Barbuda, would be expected to reap the benefits derived from a shared economic space that is underpinned by coordinated

macro-economic objectives, harmonized legislation, synchronized policies including labour policies, similar governance arrangements and transparent business practices that are enhanced by appropriate use of cross-border technologies.

In order to facilitate the objectives of an OECS Economic Union, certain rights and privileges would be conferred on both natural and legal persons that are resident in member states. In this regard, nationals of Antigua and Barbuda would have the freedom to pursue employment opportunities in any other Member State, to establish businesses in any other Member State and to receive goods and services produced and provided in any other Member State without undue tariff or non-tariff restrictions.

In due course, these matters will have to be put to the people of the OECS to ensure that the process leading to Economic Union is people-led, and to ensure full discussion and disclosure on all matters pertaining to this objective. We are convinced however, that OECS integration is the vehicle that will sustain and strengthen our collective efforts to create the kind of environment that would facilitate significantly improved opportunities for the economic and social development of our peoples.

National Economic Developments

During its annual Article IV Consultations in September 2007, the International Monetary Fund (IMF) estimated real economic growth of 6% for Antigua and Barbuda for 2007. The Eastern Caribbean Central Bank (ECCB) also projects that the Antigua and Barbuda economy will experience real economic growth of between 6 and 7 percent in 2007. Our own projections in the Ministry of Finance and the Economy put **real economic growth for Antigua and Barbuda in 2007 at 7%**.

Over the period 2004 to 2007, real economic growth averaged over 7% per annum while for the period 2000 to 2003, real GDP grew at an average annual rate of about 3%. This strong economic performance may be attributed to robust growth in the tourism and construction sectors. Between 2004 and 2007, tourism, as represented by hotels and restaurants, grew at an average rate of about 3% compared to about 1% between 2000 and 2003. Further, the construction sector grew at an average rate of 17% between 2004 and 2007 compared with 5% between 2000 and 2003.

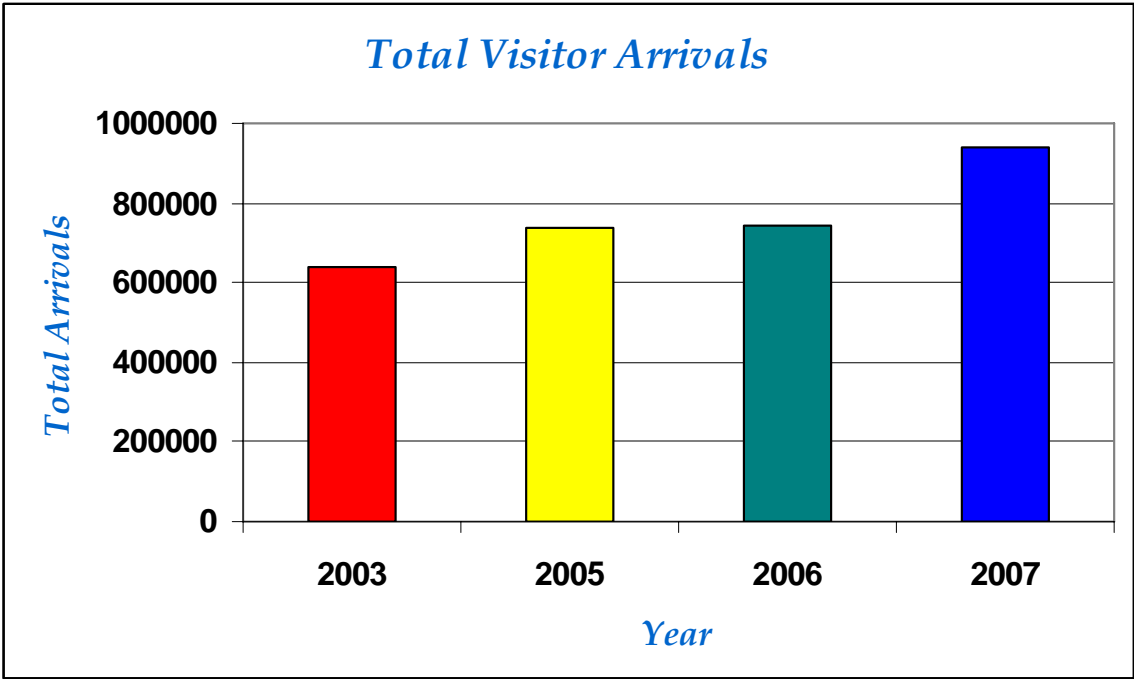
Construction

The construction sector is expected to continue to play a major role in driving economic growth in 2007. Following growth of 35% in 2006, the construction sector is projected to grow by 10% in 2007. The expansion in this sector will be driven by private and public sector projects including

construction of the new American University of Antigua campus, construction of housing and apartment complexes, residential construction, construction of new tourist accommodation properties, and the development of the Sunrise Community Hub.

Tourism: The Beach is Just the Beginning

Tourism activity in Antigua and Barbuda expanded in the first ten months of 2007. Total visitor arrivals grew by 38.3% to 732,418 in the period under review compared with the level in the corresponding period of 2006. This outturn partly resulted from a 56.7% increase to 500,385 in the number of cruise ship visitors, reflecting 29 additional ship calls for the period January to October 2007.

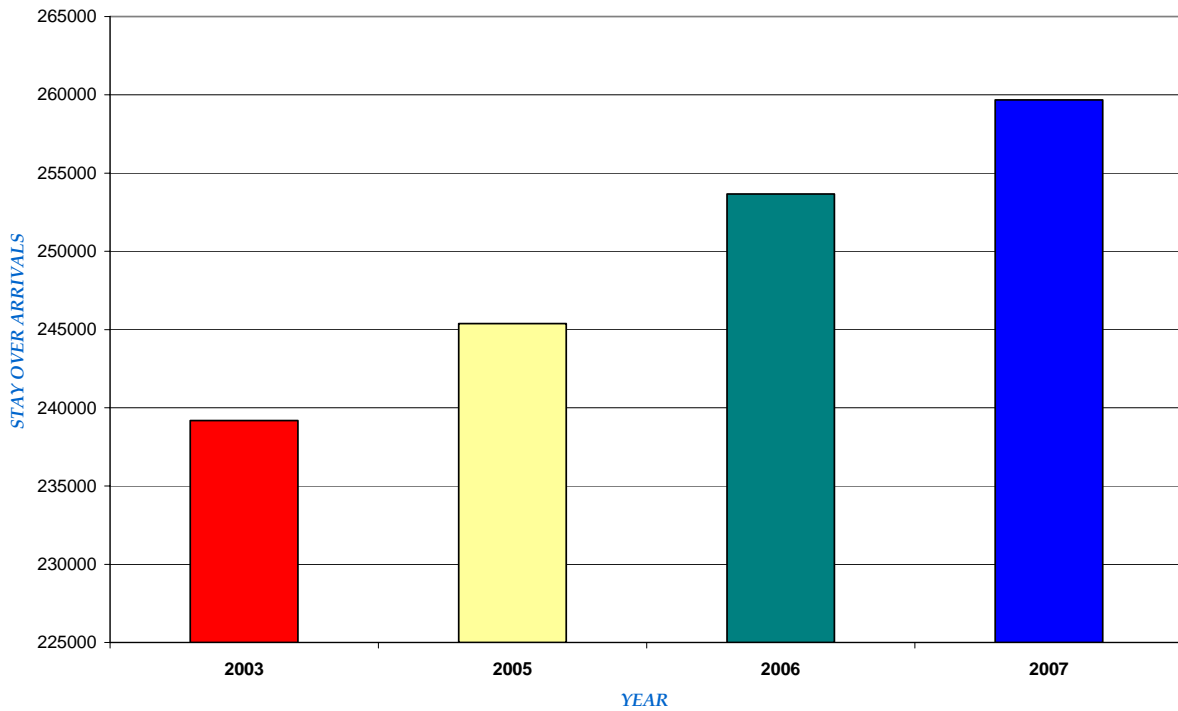


Stay-over arrivals grew by 1.2% to 137,157 compared with the total in the first ten months of 2006. Stay-over arrivals declined monthly by an average of 4.7 per cent in the first five months of 2007 except in March when an increase of 11.5% was recorded. This was primarily attributed to the country's hosting of Cricket World Cup matches during that month. Activity in the industry strengthened significantly between July and October with the number of stay-over visitors increasing by an average of 5.9% per month.

Projections for the rest of the year indicate overall growth in tourism of 3% with total visitor arrivals amounting to 939,174. This represents a 26.5% increase over arrivals in 2006 and a 47% increase over the 640,381 total visitors in 2003. Stay over arrivals are expected to amount to 259,679, reflecting a 2.7% increase compared to 2006 and an 8.6% increase above stay over arrivals in 2003.

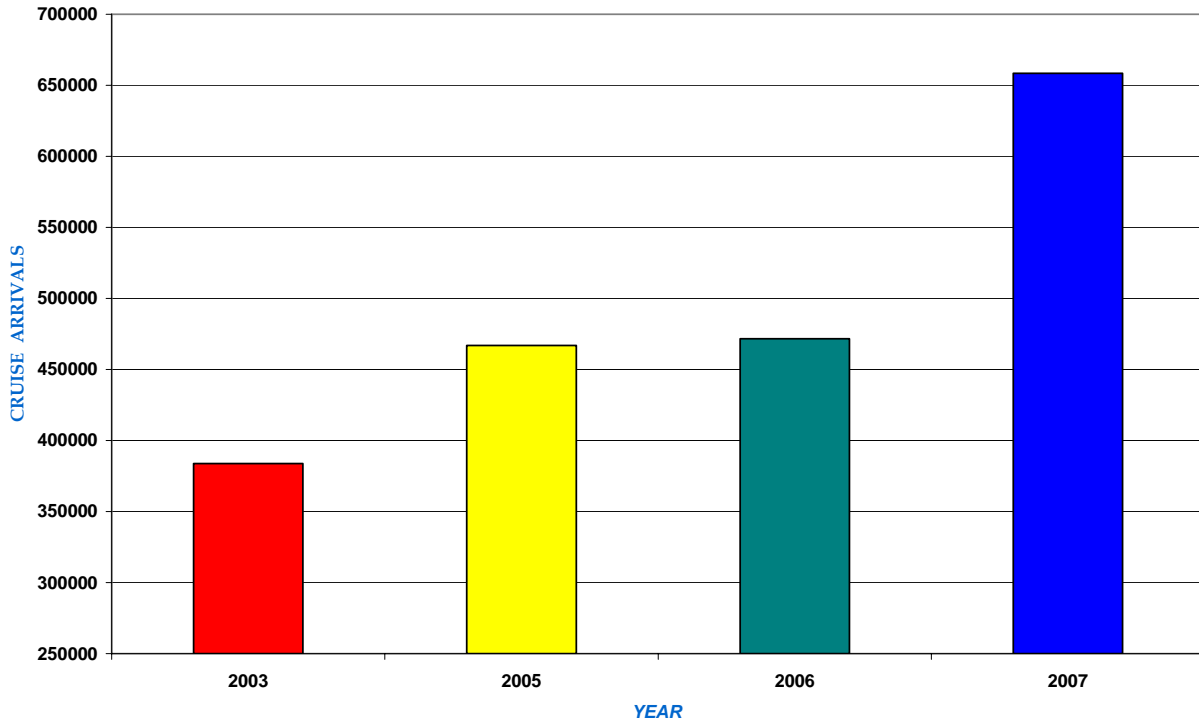
Increases in stay-over arrivals are expected from France (25.6%), UK (8.0%), Germany (3.5%) and the USA (4.6%). There was also a 63% increase in arrivals from other non-traditional markets.

STAY OVER VISITOR ARRIVALS



Cruise passenger arrivals are estimated to rise by 39.6% from 471,623 in 2006 to 658,535 in 2007. This anticipated strong performance in the cruise sector is associated with the expected 11.4% increase in the number of cruise ship calls - from 352 in 2006 to 392 in 2007.

CRUISE PASSENGER ARRIVALS



The robust performance of the tourism industry reflects the Government's efforts to increase the country's profile through marketing, additional airlift and the opening of Sandals Grande Resort and Spa and the Verandah Resort.

Growth in Other Sectors

The expansion of the two main economic sectors in 2007 is expected to have positive spillover effects on the other sectors of the economy.

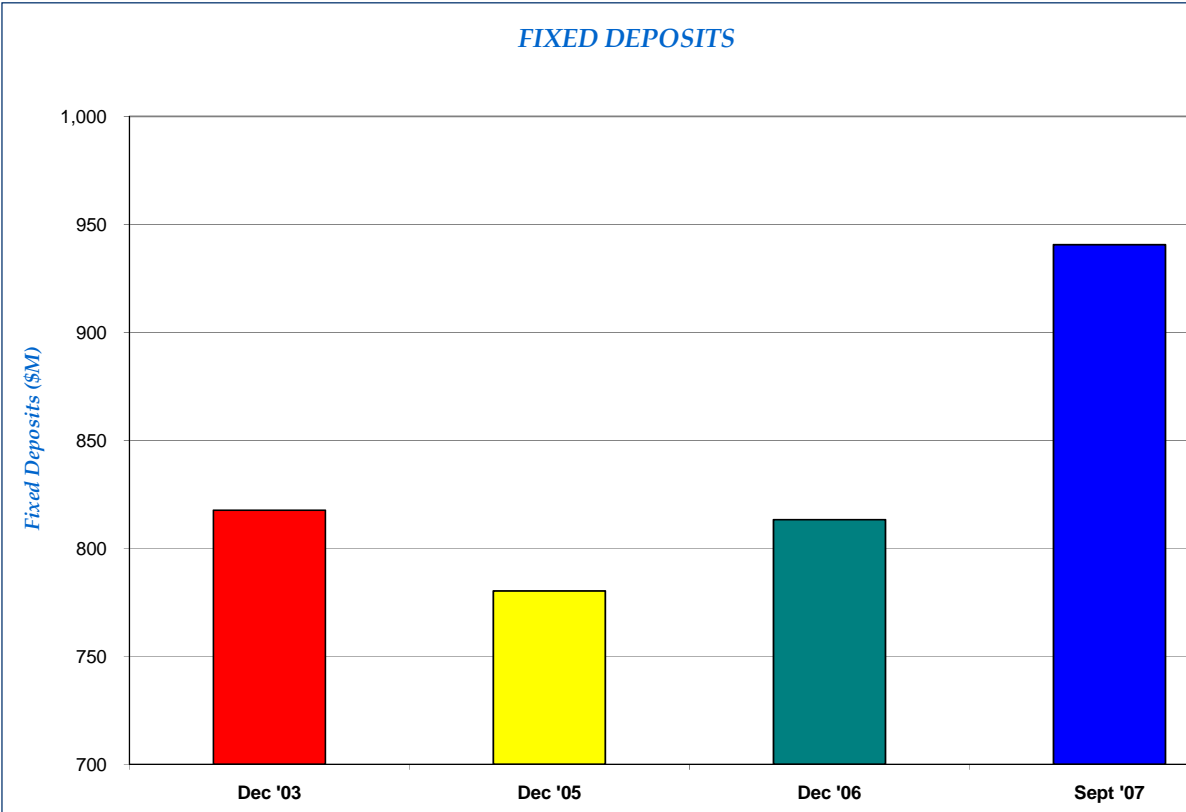
In particular, the wholesale and retail trade sector is expected to grow by 5%, agriculture by 3.3%, manufacturing by 7.5%, banking and insurance by 6.3%, communications by 7% and the transport sector by 6.5%. The performance in these sectors indicates sustained strength in the Antigua and Barbuda economy - strength made possible by sound and effective economic policies.

It is also important to note that while other sectors are growing, the share of government services in gross domestic product has declined steadily from about 17% in 2003 to 14.8% in 2007. Between 2000 and 2006, the sector grew at an average rate of 4%. However, for 2007, government services is expected to grow by 2.3%, which is 3.2 percentage points below the rate of growth of the sector in 2006. This decline in the contribution of government services to GDP reflects the Government's policy to promote private sector led growth and reduce the level of public sector involvement in economic activity.

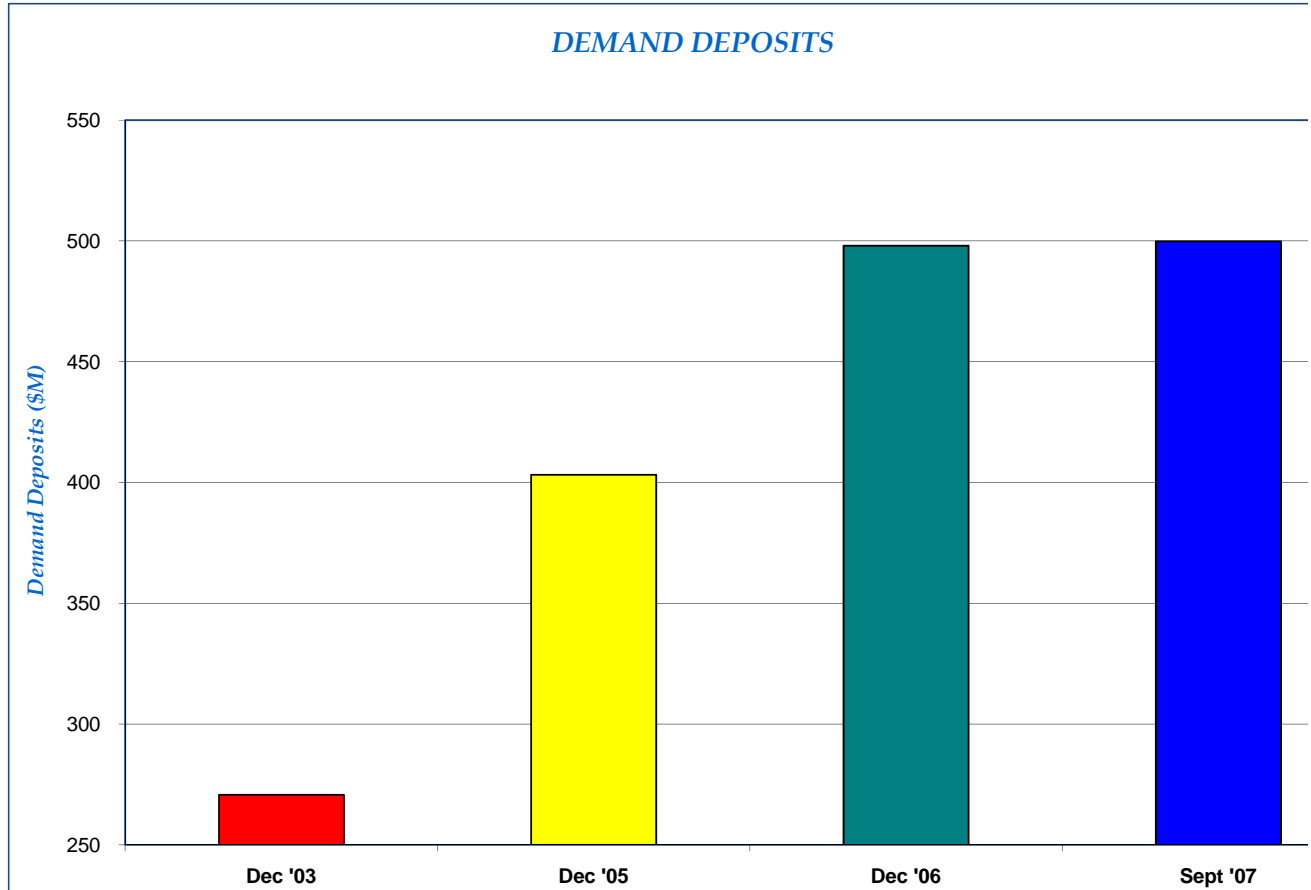
Savings and Credit Performance

Strong economic performance in 2007 is underpinned by continued expansion in the level of savings and other deposits and increases in credit for the acquisition of property, for consumer durables and for commercial activity.

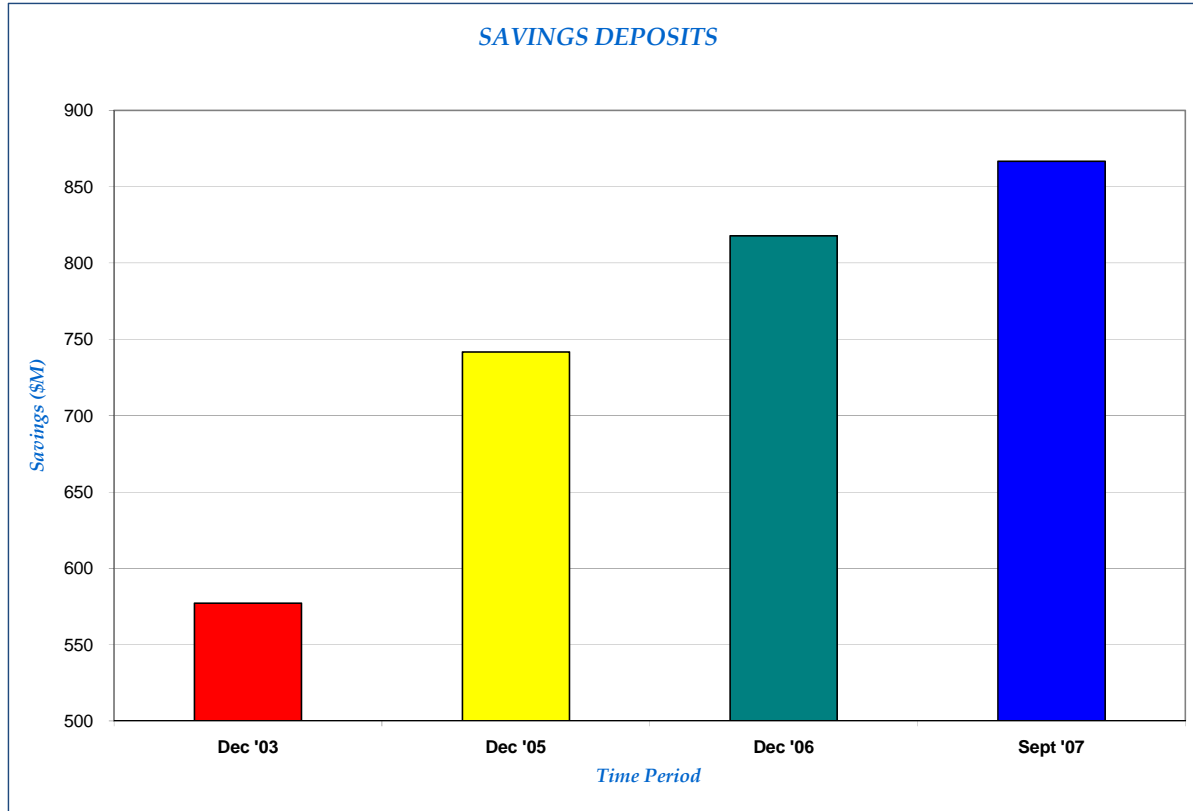
At the end of December 2006 fixed deposits amounted to \$813.2 million. By the end of September 2007 fixed deposits increased by 15.7% to \$940.5 million.



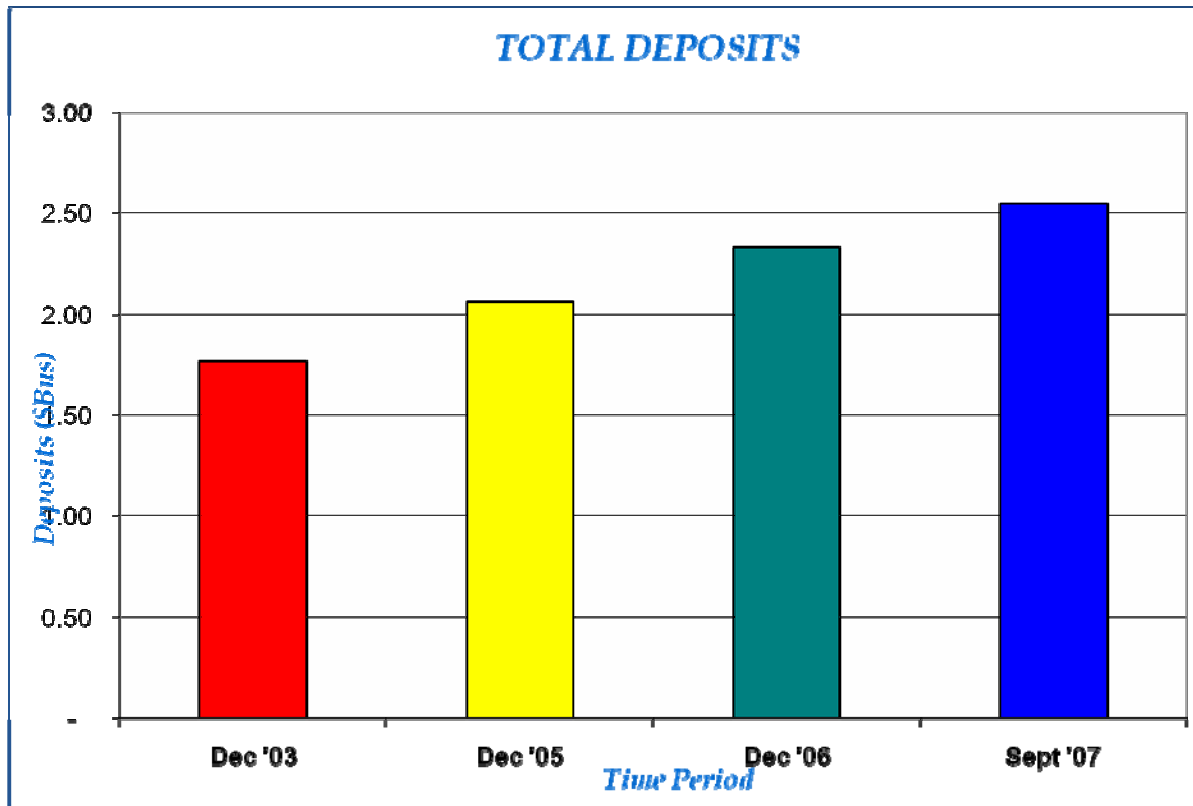
Demand deposits, which are essentially non-interest bearing account balances from which withdrawals can be made upon demand, are also expected to increase. At the end of September 2007, demand deposits amounted to \$499.8 million, which is slightly higher than the \$498.04 million in demand deposits for 2006. By the end of 2007, it is expected that demand deposits will be markedly higher than the previous year.



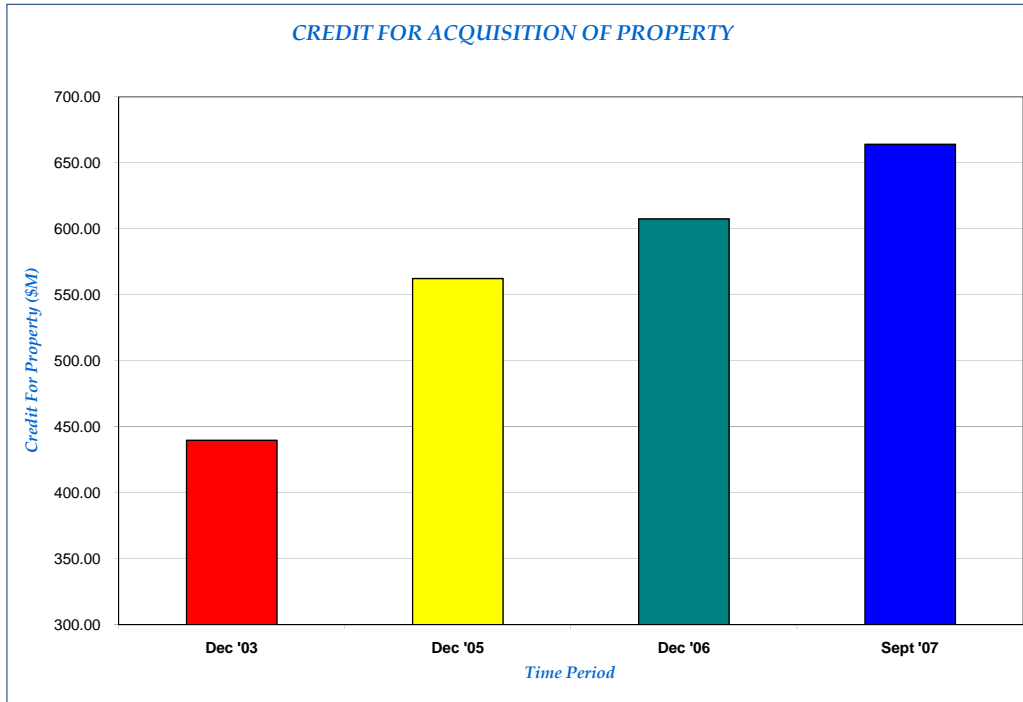
With respect to savings deposits, the ECCB Monetary Survey indicates a 6% increase from \$817.9 million at the end of December 2006 to \$866.7 million at the end of September 2007. Further, savings deposits at the end of September 2007 were 50% higher or \$289.6 million greater than the \$577.1 million recorded in 2003.



This continued strong performance in the level of savings belies our opponents' crystal ball economics where they sought to convince the public that this Government's efforts to reverse their legacy of macroeconomic mismanagement would lead to substantial dissaving and overall economic decline. The reality, however, has been persistent growth in the level of total savings. At the end of September 2007, total deposits amounted to \$2.55 billion which is 9.4% higher than the \$2.33 billion in total deposits at the end of 2006. Further, the level of total deposits for September 2007 was 44% or \$780 million greater than the \$1.77 billion recorded in 2003.



The picture with respect to credit performance is much like that of deposits and further underscores the point that the Antigua and Barbuda economy is stronger than ever. At the end of September 2007, loans for the acquisition of property amounted to \$664.1 million, which was 9.3% higher than the \$607.5 million recorded in 2006. The total amount in loans for the acquisition of property was also 51% higher than the \$439.6 million recorded in 2003.

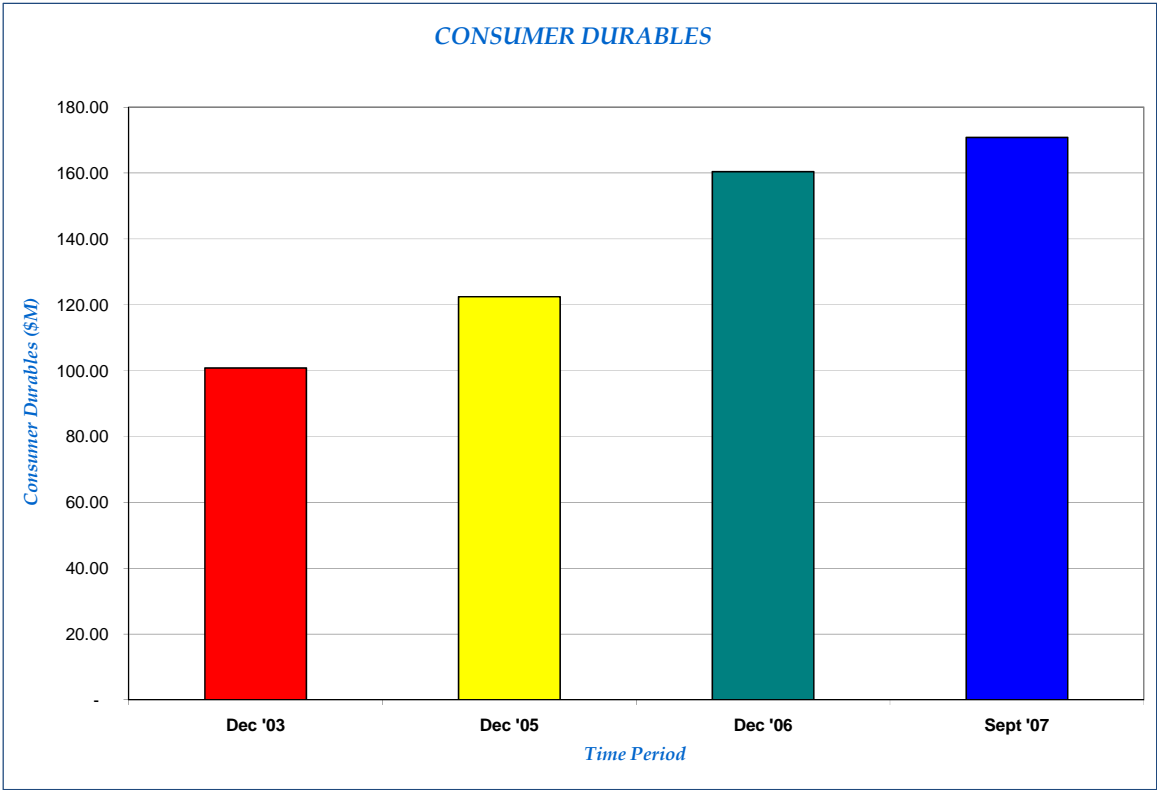


This degree of performance is reflective of a robust residential housing market and, Madam Speaker, we have yet to see the widespread foreclosures on mortgages as foretold by the esteemed panel of economic apprentices across the floor.

This increase in loans for the acquisition of property is highlighted by growth in the number of applications to the Development Control Authority (DCA) for residential construction. As at October 2007, there was a total of 633 applications to the DCA for residential construction. It is expected that this amount should increase to about 756 applications by the end of the year. This is about 24% greater than applications submitted in

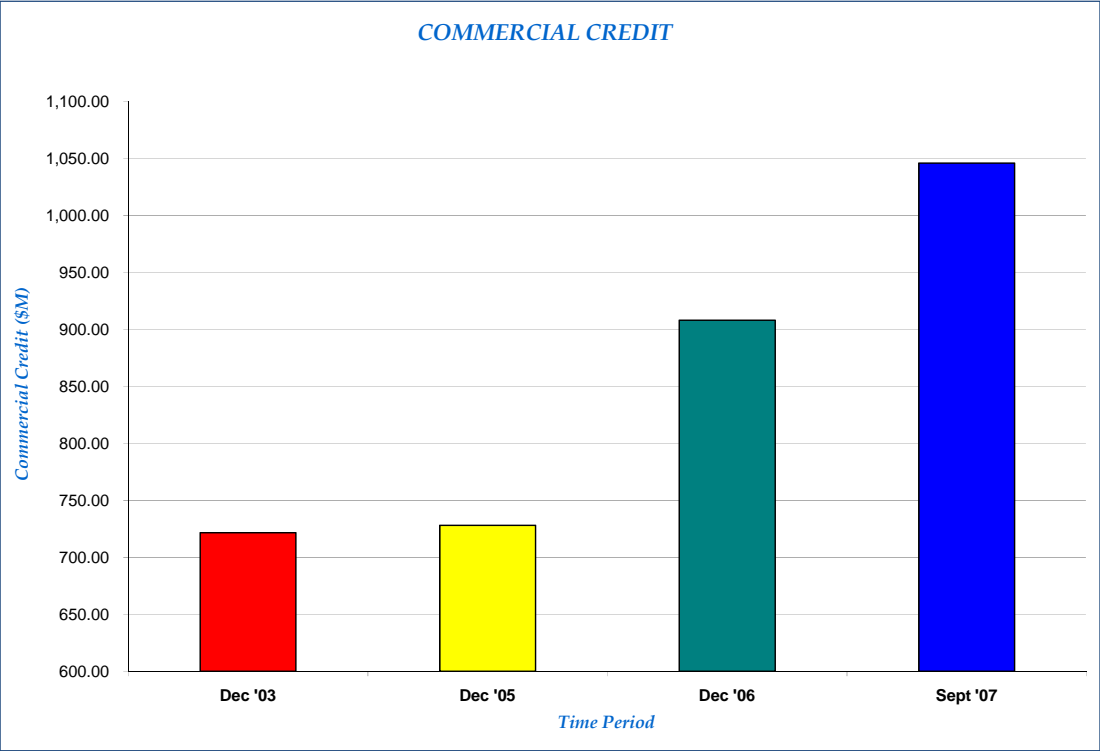
2003 and further demonstrates the growing desire of Antiguans and Barbudans to own their own homes.

An important yardstick for economic vitality is the degree of consumer confidence as demonstrated in the level of consumer expenditure. In this regard, loans for consumer durables amounted to \$170.8 million at the end of September 2007. This was 6.4% higher than the \$160.5 million recorded in 2006 and 69% above the \$100.8 million recorded in 2003.



There was also considerable growth in private sector borrowing for commercial activity, which further points to a strong economy. Loans for

business activity increased by 15% from \$908.1 million at the end of 2006 to \$1.05 billion at the end of September 2007. Further, the level of borrowing for business activity was 45% or \$328.9 million higher than the \$721.1 million recorded in 2003.



Also in support of this are the 117 applications to the DCA for commercial construction as at October 2007. If this rate of increase in applications continues, it is anticipated that there will be about 140 applications by the end of the year. This will make applications in 2007 nearly two and a half times greater than the 57 applications submitted to the DCA in 2003.

Financial Services Sector:

The Government remains confident in the potential of the financial services sector to be economically viable and to create jobs for Antiguan and Barbudans. There are over 8000 international business corporations (IBCs) registered in Antigua and Barbuda – providing direct employment for about 680 persons. These companies include ordinary IBCs, banks, insurance companies, trusts and gaming companies. The average entry level hourly wage for companies within the sector ranges from \$20 to \$25, which means weekly entry level wages in the sector range from \$800 to \$1000. This makes the financial services sector one of the highest paying and incredibly attractive sectors for our citizens. Further, total government revenue from license and other fees from companies operating in the sector is estimated at US\$15.1 million for 2007.

Ensuring a strong regulatory framework that is in keeping with international standards remains a priority for the Government. As such, efforts are ongoing to strengthen and, where necessary, introduce new legislation that will allow the Financial Services Regulatory Commission (FSRC) to operate as the single regulatory authority for companies in the financial services sector and all non-bank financial institutions. This strengthening of the regulatory framework should allow for greater control and more effective enforcement of anti-money laundering and anti-terrorist financing legislation.

In addition to enhancing the regulatory framework, the Government is also pursuing a number of initiatives to further diversify the sector. In particular, the Government has been working along with key industry and legal experts to develop new and innovative products that will increase the number and types of international businesses registered in Antigua and Barbuda. To this end, the Government has recently passed a series of laws that will make Antigua and Barbuda the foremost jurisdiction for asset protection and wealth management.

These laws are:

- The International Trust Act;
- The International Foundation Act; and
- The International Limited Liability Company Act.

Internet Gaming:

Despite ongoing challenges the Government continues to pursue the development of the internet gaming industry. This determination is due, in part, to the demonstrated viability of this industry both as a revenue earner and creator of employment. In 1999, gaming companies generated US\$546 million in revenue. By 2001, these companies had generated US\$2.4 billion in revenues and Antigua and Barbuda controlled over 60% of the global remote gaming market. By 2002, the sector began to experience the first impact of the United States ban on cross border

provision of internet gaming and revenues generated therefrom have fallen significantly and now stand at an estimated US\$948 million.

As the gaming companies' revenues have declined, so too has the level of employment. In 2001 over 3,500 locals were directly employed by gaming companies. However, with the restrictions imposed by the United States, employment declined steadily and now stands at less than 350. Given the industry's economic viability and the losses as a result of the actions of the United States, Antigua and Barbuda has engaged the United States at the World Trade Organization (WTO) for the past four years.

Antigua and Barbuda has successfully challenged the United States using the WTO Dispute Settlement Mechanism. However, the US has failed to comply with the rulings of the WTO and has since sought to withdraw its commitments under the General Agreement on Trade in Services (GATS) in respect of the provision of cross border internet gaming services. The Government continues to utilize the WTO mechanism in an effort to arrive at a suitable resolution and to seek compensation for the losses experienced as a result of this ongoing dispute. At the same time, Antigua and Barbuda continues to pursue opportunities to negotiate a settlement with the United States that addresses both that country's concerns and allows for the further development and economic viability of the internet gaming sector.

Civil Aviation Sector:

While LIAT (1974) Limited has long struggled with significant financial challenges, the airline remains an indispensable mode of intra-regional transportation. The carrier is also one of the most crucial and tangible symbols of the Caribbean integration movement. With this in mind, the Government has, since 2004, invested over \$30 million in LIAT to ensure the continued operation of the airline. However, notwithstanding this substantial financial investment on behalf of the Government, LIAT's financial woes continued.

In an effort to find a sustainable and long term resolution to the regional carrier's difficulties, the three major shareholder Governments approached the Caribbean Development Bank to provide a loan of US\$60 million. These resources would be used for financial and institutional restructuring of LIAT. Of this amount, Antigua and Barbuda would borrow US\$21,819,000.00, representing 36.3% of the entire facility.

This loan, along with the over \$30 million injected in LIAT since 2004, will bring this Administration's total investment in LIAT to over \$90 million. Given the importance of the airline to intra-regional travel and facilitating tourism development, the Government views this as an imperative investment in the social and economic advancement of the region. Furthermore, LIAT is a major employer in Antigua and Barbuda - employing 525 persons and having an estimated annual payroll of

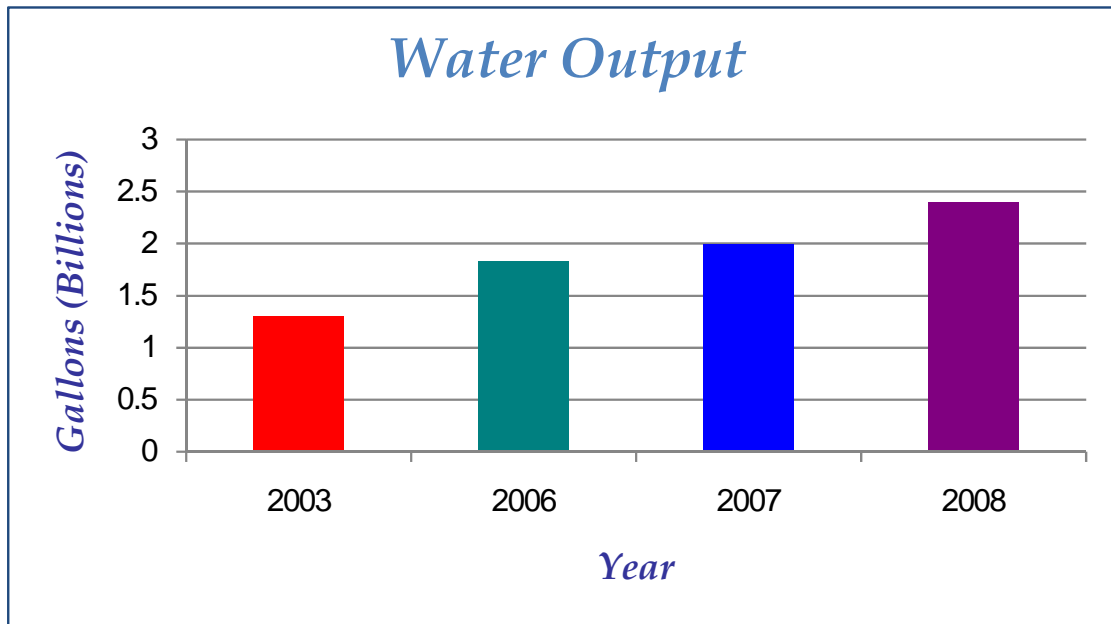
approximately EC\$45 million. Therefore, it is our responsibility as a caring Government to ensure the survival of LIAT and thereby secure the welfare of the many families in Antigua and Barbuda who depend on LIAT for their livelihoods.

In this connection, the Government will be following closely the performance of LIAT, in order to ensure that its investment in the company will yield returns that will be evidenced by a viable, well structured, efficiently managed entity, committed to meeting the highest standards of excellence in customer service.

Utility Services Sector:

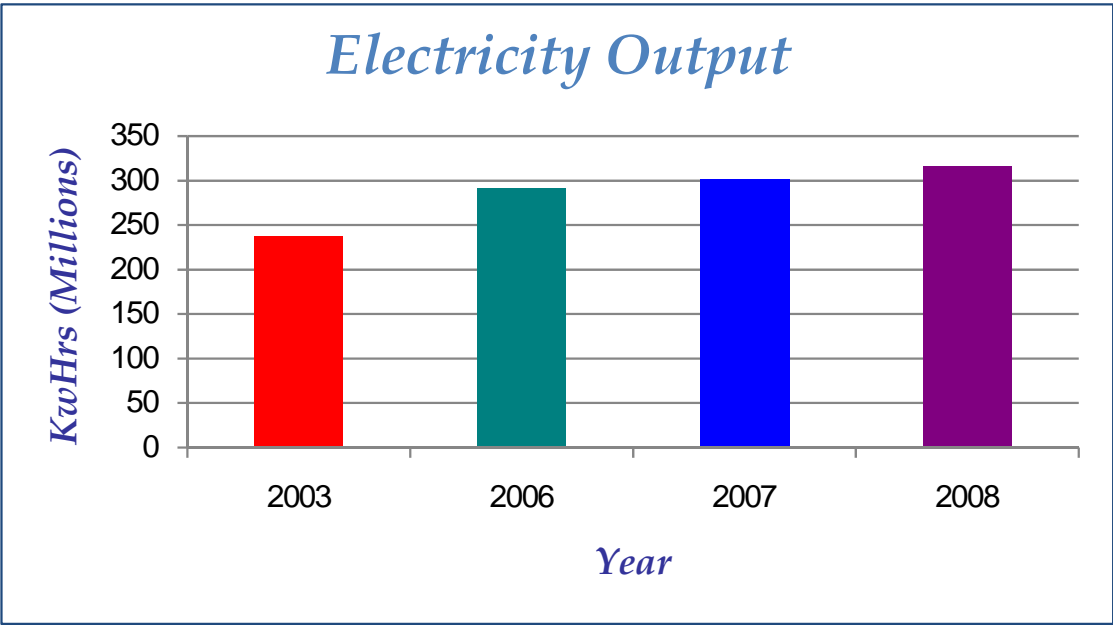
High quality and dependable utility services are critical for the wellbeing of individuals and to support efficient commercial activity. In this regard, the Government is dedicated to ensuring that the appropriate infrastructure is in place to allow for stability and reliability in the provision of utility services to the people of Antigua and Barbuda. To this end, the Antigua Public Utilities Authority (APUA) has sought to enhance water and electricity production to satisfy the expanding demand for these services.

Total water output amounted to 1.83 billion gallons in 2006 and is expected to increase by 9.3% to about 2.0 billion gallons by the end of 2007. Further, with the APUA Water Division's plans to increase production capacity in 2008, the people of Antigua and Barbuda can expect a further augmentation in water output to about 2.4 billion gallons. This 20% increase in water output will be made possible through the construction of additional reverse osmosis plants, the first of which will be completed during the first half of 2008.



In terms of electricity, total output in 2006 amounted to 292.4 million kilo watt hours (KwHrs) reflecting the increased production capacity associated with the commissioning of a temporary power facility from the Government of Venezuela with an output of 10Mw. In 2007, production capacity was further enhanced through the expansion of the Antigua

Power Company facility by 17 megawatts (Mw) and is expected to facilitate electricity output of about 302 million KwHrs. To further enhance production capacity in 2008 and ensure greater reliability of service, the Government will finalize arrangements to secure approximately 30 MW of additional power generating capacity. This should further augment overall electricity output in 2008 to about 317 KwHrs.



Domestic and International Prices

High international prices continue to pose a significant challenge not only in Antigua and Barbuda but also in the ECCU and the wider Caribbean region as a whole. The ECCB Monetary Council at its October 2007 meeting identified this phenomenon as one of the most critical factors

affecting the sub-region and commissioned a working group, which includes public sector officials from across the ECCU, to “investigate the developments related to the rising trends in consumer prices and to make recommendations” to mitigate the impact on the region’s economies.

This working group, during its first meeting, held preliminary discussions on:

- the possible causes of the current increase in prices in member countries and
- the policies and programmes that could be adopted to alleviate the impact of the high prices.

The working group is expected to present its first report to the Monetary Council in February 2008.

Antigua and Barbuda is a highly open, small island economy which means it is a price taker and is thus vulnerable to external shocks such as spikes in international prices.

Given our high degree of openness, there is very little we can do by way of policy to mitigate the effects of external shocks on the economy without significantly affecting tax revenue and other macroeconomic variables.

One of the concerns raised at our National Economic Symposium and at the recent tax consultations is that prices in the economy are rising and, for

many individuals, this has had a significant impact on their disposable income. Some perhaps ill-informed persons have suggested that this rise in prices is a direct result of the introduction of the Antigua and Barbuda Sales Tax (ABST).

The Government recognizes that the upward pressure on domestic prices is a matter of grave concern. However, we do not accept the suggestion that the introduction of the ABST is the cause of these increases. It should be noted that Antigua and Barbuda has the largest list of zero rated items in the region so that a wide range of commodities are not subject to the ABST. Also, for a vast majority of other items, the ABST has resulted in a net reduction in the amount of taxes charged on these goods. Simply put, if the ABST was not introduced the prices on a number of these goods would have been significantly higher.

The reality is that the prices of a number of key commodities have increased world wide and this, not the ABST, is primarily responsible for the rise in the general price level. For the period January to October 2007, the Consumer Price Index (CPI) in the US, our major trading partner, grew by an average of 2.6% per month. The prices of other key commodities, which are inputs for a number of the products we consume, also rose. For instance:

- The price for a metric tonne of Barley increased by 29.6% moving from US\$152.13 in January to US\$197.11 in October.

- The price for a metric tonne of Wheat rose by 70.9% to US\$335.15 between January and October this year.
- The price for a metric tonne of copper grew by 40.1% from US\$5,689.34 to US\$8,020.59 over the same 10 month period in 2007.
- Over the same period the price for a pound of cotton increased by 16.7%, rubber 11.8%, poultry 11.8% and oranges 8.2 percent.

The increases in prices for essential inputs are exacerbated by the devaluation of the US dollar. For the ECCU countries whose currency is pegged to the US dollar, the problem of rising prices is further compounded when we import products from non-US dollar areas.

When one contemplates the fact that the price of a barrel of oil was US\$53.40 in January and is now approaching US\$100.00, and consider how these prices together can affect the overall cost of production and transportation, we begin to disentangle the myth that the rise in domestic prices is due to the ABST.

This Administration is a caring Administration, and in spite of the aforementioned internationally driven price increases, we continue to find creative policy responses to mitigate the impact of exogenous shocks on the economy. One such policy response has been our decision to cushion the

general public from the mounting cost of fuel by foregoing revenue from the tax on the domestic consumption of fuel. As a result, and despite our agreement at the ECCB Monetary Council to adopt a full pass through mechanism, this Government has kept the price of gasoline, diesel and LPG unchanged.

A direct result of this policy choice has been that the Government, in November 2007, received tax revenue of 90 cents per gallon of gasoline sold and 14 cents per gallon of diesel sold. This is far below the minimum \$2.00 per gallon tax that each country agreed to maintain at the level of the ECCB Monetary Council.

However, the Government will not be able to continue to absorb the increases in fuel prices indefinitely. Also, as a member of the ECCB Monetary Council, we cannot continue to disregard our obligations at the sub-regional level. In 2008 therefore, the Government will, in accordance with its agreement at the Monetary Council, develop a framework that will seek to implement a pricing mechanism to adjust prices quarterly and facilitate the pass-through of a portion of the change in the international price of petroleum products.

It is clear that, given the high cost of oil, we can no longer afford to rely solely on the importation of fuel to satisfy our growing demand for energy. In this regard, the Government will, in 2008, seek to develop a comprehensive energy policy that will pay particular attention to the use of

alternative sources of energy. As a first step, we will zero rate solar water heaters and offer similar concessions to any business that is seeking to invest in the development of alternative energy sources in Antigua and Barbuda.

The Sunshine Government remains committed to enhancing the wellbeing of the people of this country and ensuring that everyone can afford the basic necessities that are required to live a comfortable life. In this regard, we have re-examined the tax structure on a number of commodities and will, effective December 15th 2007, reduce the Customs Service Tax (CST) on a wide range of essential items from 10% and 5% to 2.5%. Some of the commodities that will be affected include corn beef, sardines, tuna, salt fish, chicken, turkey, toothpaste, soap powder, pasta, cereals, and all types of water.

The Government will go one step further and completely remove the Customs Service Tax on a number of additional items that hitherto attracted that tax. Some of the commodities that will fall into this category include rice, margarine, butter, milk, vegetables, fruits, Soya Milk, Soya chunks, corn meal, oats, pharmaceutical goods, toilet paper, juices and a wide range of baby products.

Improvements in Human Development

With respect to the issue of human development in Antigua and Barbuda in 2007, the discussion begs the questions; how does the world perceive us? Are our social and economic policies working? Has the Government been able to put the necessary mechanisms in place to allow the population to benefit from the unprecedented growth in output we have seen over the past three years? According to the United Nations Human Development Index report, we have much to be proud of.

The United Nations uses a three dimensional approach to measure the overall level of human development in a country. These are:

- (1) Life expectancy at birth;
- (2) Adult literacy; and
- (3) Standard of Living

On this basis the 2007 Human Development Report shows that Antigua and Barbuda continues to be ranked as one of the countries whose residents experience a high level of human development.

In this report, out of the 177 countries surveyed world wide, Antigua and Barbuda ranks 57th in 2007 compared with a ranking of 59th in 2006. Of all the Caricom countries Antigua Barbuda maintained its position of 4th behind Barbados, Bahamas and St. Kitts and Nevis.

The UPP Administration is extremely pleased to be the architect of the rise in the standards and quality of living of our citizens and residents in every year of this Government's three year tenure, as measured by the United Nations Human Development Index.

Economic Cooperation with the United States of America through the United States Agency for International Development:

Antigua and Barbuda continues to benefit meaningfully from bilateral economic cooperation with the United States Agency for International Development (USAID) through its Caribbean Open Trade Support (COTS). Due to the cooperation agreement between the Government and USAID, public and private sector entities have benefited from the assistance of the COTS which has the objective of fostering economic growth and competitiveness. Over the past year, the COTS has provided support in several areas that have been of particular benefit to private businesses, civil society and public sector organizations.

The COTS was instrumental in facilitating the establishment of the Antigua and Barbuda Investment Authority (ABIA). In addition to providing hands-on assistance and training the COTS also conducted a Competitiveness Review and Benchmarking Study which outlined the strengths and weaknesses of Antigua and Barbuda as an investment

location, compared Antigua and Barbuda to approximately twenty of its competitors and provided recommendations to improve the investment climate.

Also with respect to the public sector, USAID has proven to be an ardent supporter of the ongoing Customs Renewal Programme. In particular, the COTS has sought to strengthen capacity in the Customs and Excise Department by carrying out a Risk Management Assessment in which the framework will be implemented to improve trade facilitation. It has also facilitated the completion of a Baseline Survey that measures the time it takes to release goods from Customs and the Port Authority and provided financing for twenty data entry clerks to undertake critical work that would allow for the smooth transition to the new customs management system.

The COTS has also been very supportive of private sector development and has engaged in several initiatives that have benefited private businesses. Specifically, it conducted a diagnostic assessment of forty five firms and assisted in increasing sales for several businesses. Also, the COTS was instrumental in the establishment of the Antigua Barbuda Business Alliance (ABBA) which provides a unified platform to advocate for private sector interests with a single voice on key policy, economic and trade issues. To ensure the effective operations of the ABBA, the COTS has also provided an economic and trade policy analyst to identify, prioritize,

analyze and prepare position papers on relevant economic trade and policy issues.

Other areas on intervention by the COTS include convening an Integrated Planning Workshop for representatives from the private sector, development planning agencies and the national disaster management office, which resulted in the formulation of a plan of action to improve the disaster planning process. Training was also provided to hotels and other private and public sector entities in respect of the development of Disaster Preparedness and Recovery Plans.

The Government of Antigua and Barbuda and, I dare say, the private sector and civil society are extremely appreciative of the work undertaken by the USAID through COTS. We anticipate that these activities will serve to strengthen the private and public sector entities that have been directly impacted by the work of the COTS. It is expected that in 2008, the COTS will build upon the initiatives undertaken to date and will further assist Antigua and Barbuda in developing more productive, competitive and growth inducing practices.

Social and Economic Cooperation with the Republic of Cuba

As the Government continues to undertake a series of initiatives aimed at addressing cultural, social, economic and infrastructural issues, we have strengthened our collaborative efforts with the Republic of Cuba. These collaborative efforts have yielded successes in several areas that are of great importance to the social and economic development of Antigua and Barbuda.

One area in which the Government and people of Antigua and Barbuda have benefited tremendously from our cooperation with Cuba has been that of Education. The Cuban scholarship programme continues to be an avenue for academic advancement for some 200 Antiguan and Barbudans who are currently engaged in different fields of study in the Republic. To date, over 300 Antiguan and Barbudans have benefited from this programme and we expect that in the 2008-2009 school year another 50 scholarships will be provided for our citizens.

The assistance provided by the Cuban Government in the area of infrastructural development cannot be overstated. We have gained significantly from the use of their technicians and workmen in a number of initiatives including road works, energy conservation and building construction. As the road programme intensifies in 2008, we will once again benefit from the support of Cuban workers and engineers.

In the area of medicine, Antigua and Barbuda has realised considerable gains from the Cuban Medical Brigade working at the Holberton Hospital and the Miracle Eye Care Programme. The Government is happy to have received this invaluable support from the Government of Cuba as we strive to develop a high quality, world class health care system in Antigua and Barbuda.

The energy sector is another critical area in which the support of the Government and people of Cuba has benefitted Antigua and Barbuda. Through tremendous assistance from Cuba, the Government, through APUA, was able to install 163,108 energy saving light bulbs in 19,508 households across the country. This translates into energy saving of over 21 million kilo watt hours in one year. As a result, Antigua and Barbuda was able to see a reduction in the level of oil imports by over 30,000 barrels.

At peak energy times, the use of these energy saving bulbs has saved some 4.5 mega watts in required power generation. The Government intends to roll out this programme in Government offices and buildings. Further, through a special arrangement with the Government of Cuba, the Government will acquire energy saving bulbs and make these available to the people of Antigua and Barbuda at a reduced price that would make the use of energy saving light bulbs more affordable.

Our relationship with the Government and people of the Republic of Cuba has proven to be very fruitful and has impacted key social and economic

sectors of our society. The Government and people of Antigua and Barbuda are very grateful for the more than two decades of support that we have received from Cuba and we look forward to further strengthening and expanding this relationship.

Social and Economic Cooperation with the Bolivarian Republic of Venezuela

Antigua and Barbuda continues to benefit substantially from its diplomatic relationship with the Government and people of the Bolivarian Republic of Venezuela. In 2006, this social and economic cooperation focused on the areas of civil aviation, airport development, and utilities services. In 2007, the generosity of the Government and people of Venezuela continued – particularly as the Petro Caribe Energy Cooperation Agreement became fully operational.

Under the Petro Caribe Agreement, Antigua and Barbuda has received seven shipments of fuel from Venezuela since November 2006. As at November 2007, Antigua and Barbuda received about 210,000 barrels of gasoline 234,000 barrels of diesel, and 279,000 barrels of jet fuel valued at \$168 million as a result of this arrangement. The Government has paid 60% or \$100.8 million of this amount to Venezuela while the remaining 40% or \$67.2 million represents the concessionary loan to Antigua and Barbuda. A portion of this \$67.2 million has been invested to ensure the loan can be

repaid without drawing on the Consolidated Fund. The balance represents grant funding which will be utilized by the Government to undertake social and economic development projects that will benefit the people of Antigua and Barbuda.

The Government is very grateful for the support and generosity of the Government and people of Venezuela and continues to explore other avenues for cooperation that will redound to the benefit of the people of this nation. Specifically, we have concluded negotiations in respect of the financing and development of a low income housing project, which will commence shortly. Also, we are engaged in discussions with the Bank for Economic and Social Development of Venezuela (BANDES) in respect of financing a water expansion project that would facilitate enhanced water production and greater reliability in the provision of water services. Our governments have also developed a draft Memorandum of Understanding in respect of sports development where there will be a focus on sports infrastructure and training.

At the end of November 2007, the Venezuelans conducted an energy survey of Antigua and Barbuda. This survey focused on determining the current level of demand for electricity and forecasting future energy demands. Coming out of this study will be recommendations for enhancing the electricity production system in order to meet this growing demand.

Finally, the Government will soon finalize the relevant agreement with Venezuela for financing the first phase of a low income housing project in Paynters. This will be undertaken at a cost of US\$10 million and will allow the Government to deliver on another of its promises to the people of Antigua and Barbuda.

Cooperation with other Countries in Latin America

Along with its relationship with Venezuela, Antigua and Barbuda has deepened its relations with other South and Central American nations. Specifically, we recently established an Honorary Consul in Sao Paulo Brazil which will serve to advance our nation's relationship with Brazil and other South American countries. Our associations with Chile and Mexico continue to be strengthened with the Chilean Government offering training opportunities for the police. With respect to Mexico, over twenty Antiguan and Barbudan students have received over 20 university scholarships. Our students are studying for undergraduate and graduate degrees in areas such as economics, public administration, tourism, financial accounting, agricultural engineering, and international relations.

Antigua and Barbuda is indeed very grateful for the assistance provided by these nations and looks forward to further engaging the Governments and peoples of Brazil, Chile, and Mexico in additional areas of economic and social cooperation.

Social and Economic Cooperation with the People's Republic of China:

The Government of Antigua and Barbuda continues to enjoy excellent diplomatic relations with the People's Republic of China (PRC). The PRC continues to support the government's initiatives particularly in the areas of health care, education and the development of infrastructure.

Special mention should be made of the training opportunities made available to the citizens of Antigua and Barbuda. Most notably 10 Antiguan and Barbudans received full scholarships to pursue studies at university level in Beijing. These scholarships are valued at \$600,000. Additionally Civil Servants from Antigua and Barbuda have had the opportunity to attend seminars and training courses in the PRC focused on improving their knowledge and skills in key areas.

In 2008, the PRC has pledged its assistance for the street lighting project. They will provide street lighting all across the island that will take up about 65 kilometres of road. The street lighting programme is one of the priorities of the government in this upcoming year and we are happy that the PRC has agreed to assist us in this exercise. As you may recall, the PRC assisted us with the lighting of the highway between the V C Bird International Airport and the Sir Vivian Richards Stadium as well as the Sir George Walter Highway and the Sir Sydney Walling Highway. This project was done at a cost of \$3 million dollars and we can see the significant improvement in the lighting of these areas. We are confident that this new

lighting project will be completed with a similar degree of diligence and expediency.

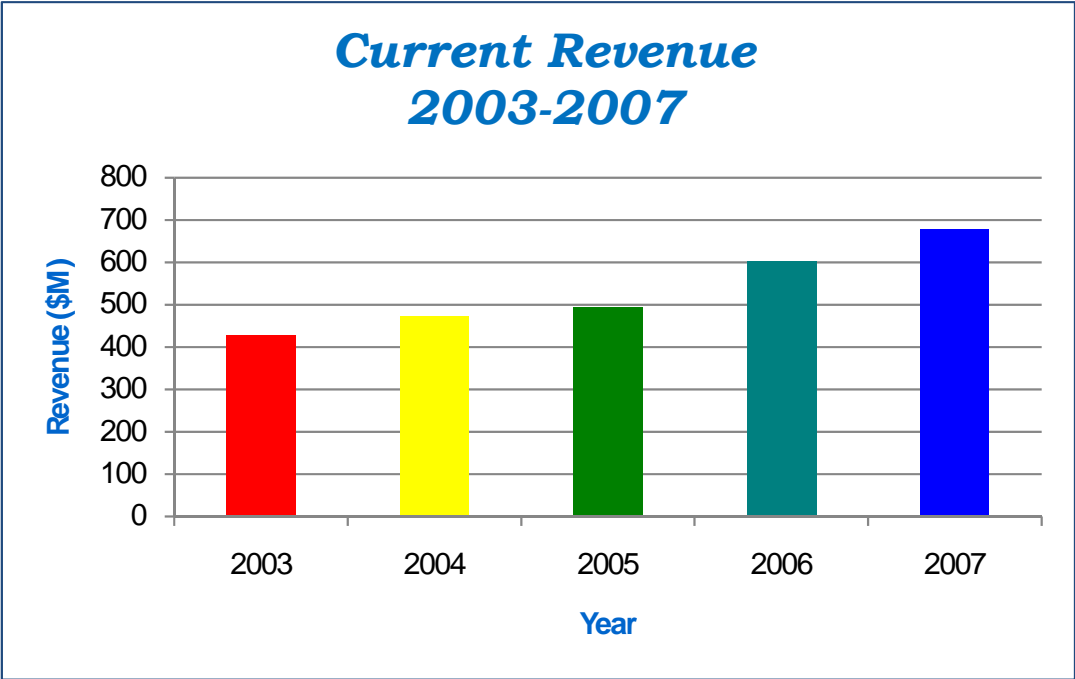
The PRC is happy to not only offer projects here on Antigua, but they have also committed to building a social centre on Barbuda in 2008. This centre is expected to benefit the entire Barbudan community.

At this juncture, the Government wishes to offer our deepest appreciation to Ambassador Ren Xiapong who recently completed her tour of duty in Antigua and Barbuda. Madame Ren offered untiring service to the people of Antigua and Barbuda and was instrumental in implementing various economic projects on behalf of the PRC. In the same vein, we welcome Ambassador Chen and look forward to establishing a strong, collaborative relationship over the course of his tenure in Antigua and Barbuda. We are excited to work with him for the mutual benefit of our peoples.

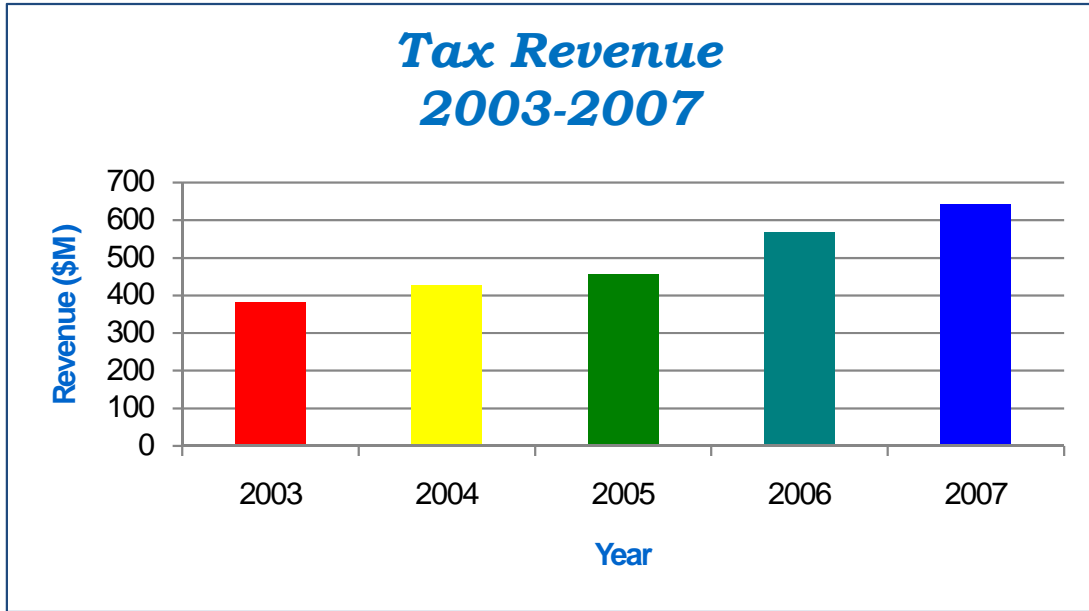
Revenue Performance 2007

For 2007, Government's revenue is expected to increase by 12.5% over revenue collected in 2006. Overall, current revenue is estimated at \$678.04 million for 2007 while current revenue amounted to \$602.7 million in 2006. As indicated in the graph below, revenue collection has improved significantly over the past few years reflecting the effectiveness of the

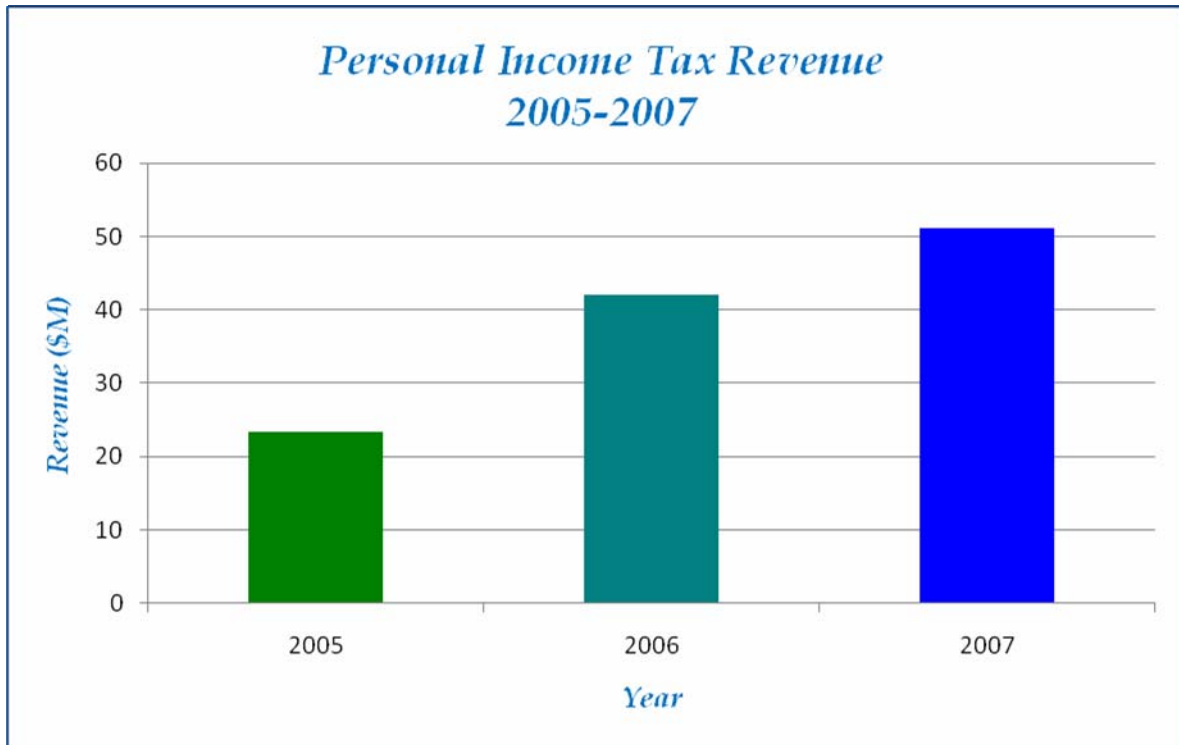
Government's tax reform and collection initiative. Also driving the strong revenue performance has been the growth in the economy which has averaged about 7% for the period 2004 to 2007.



Tax revenue, the key component of Government's revenue portfolio, amounted to \$641.3 million in 2007 and represents a 13% increase over tax revenue collected in 2006. Of the \$641.3 million in tax revenue, direct taxes accounted for \$109.8 million of which the corporate income tax is expected to yield \$48.8 million, the property tax \$9.5 million and the personal income tax (PIT) \$51.1 million.



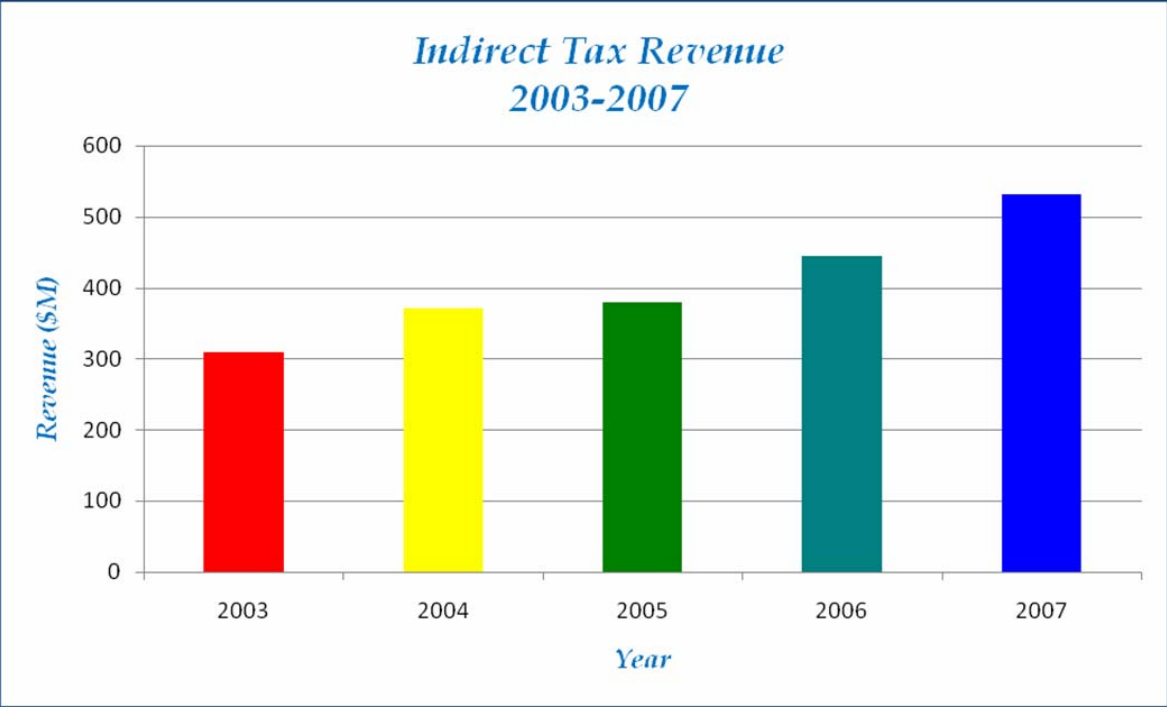
Since its re-introduction in April 2005, the personal income tax has generated significant revenues for the Government. By the end of 2007, this measure would have generated an aggregate of about \$116.6 million in revenue. With respect to 2007, the personal income tax is expected to generate \$51.1 million in revenue. This represents a 21.6% increase over the \$42.02 million collected in 2006. The performance of this measure continues to improve as the Inland Revenue Department increases the efficiency with which it administers the tax. Specifically, the personal income tax generated average monthly revenue of \$2.6 million in 2005, \$3.5 million in 2006 and \$4.3 million for 2007.



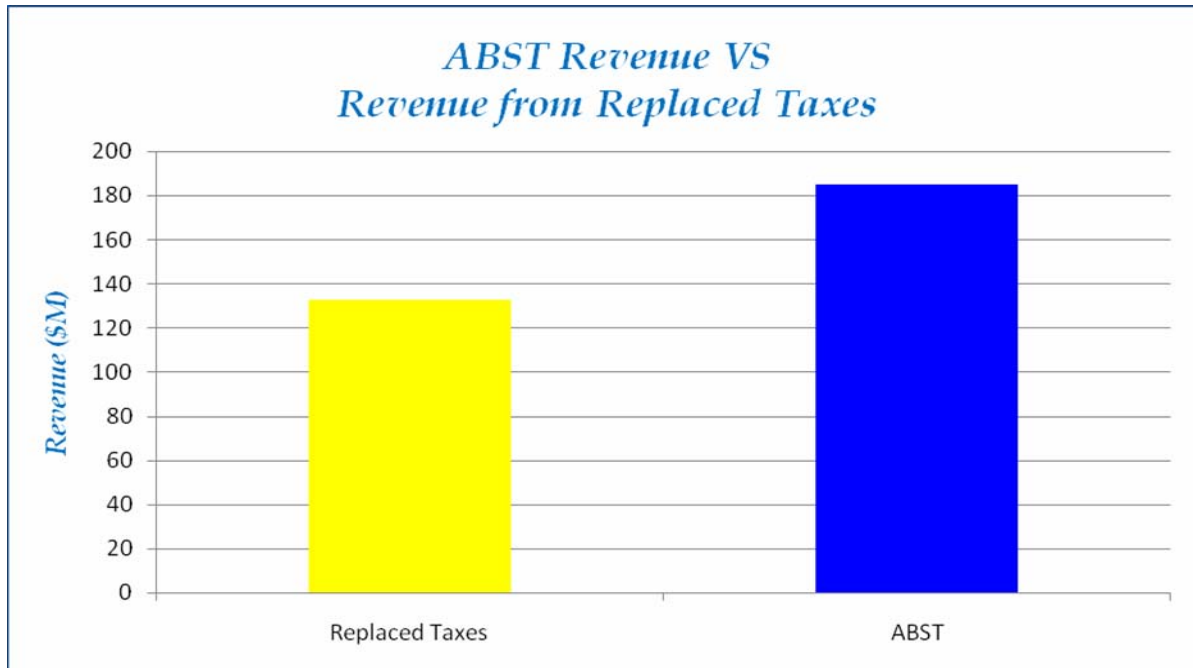
The revenues collected through the PIT have made it possible for the Government to undertake a number of infrastructural development projects – particularly road works, and to fund key social programmes such as the school meals and school uniform grant programmes.

Indirect taxes generate the lion’s share of Government’s tax revenue and comprise taxes on domestic production and consumption, and taxes on international trade and transactions. For 2007, indirect tax revenue is estimated at \$531.5 million, which is 19.5% greater than the \$444.8 million collected in 2006. Of the indirect tax revenue for 2007, \$266.9 million represents revenue from taxes on domestic production and consumption. Revenue from taxes on domestic production and consumption more than doubled in 2007 compared to 2006. Key revenue measures in this category

include stamp duties and the Antigua Barbuda Sales Tax (ABST), which was introduced in January 2007 and replaced the hotel taxes, telecommunications tax, the restaurant and catering services tax, and the consumption tax.



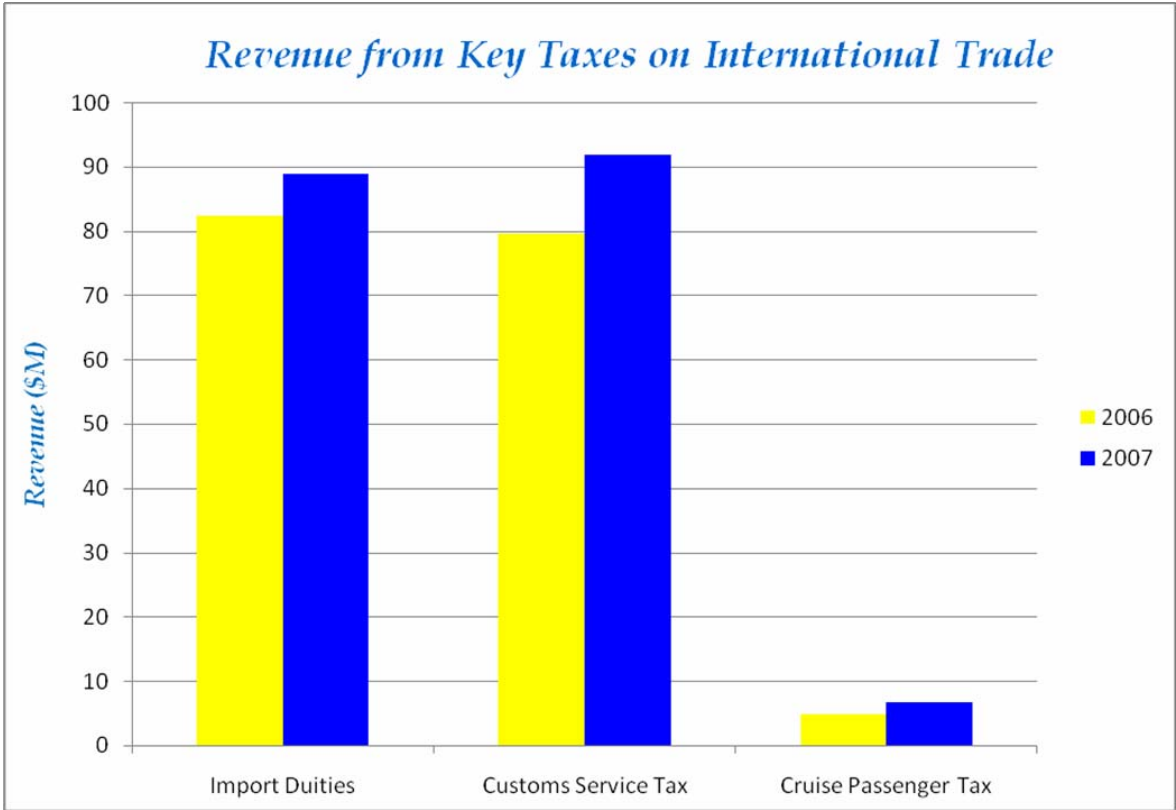
The significant increase in revenue for this category of indirect taxes was driven mainly by the ABST, which is estimated to yield \$185 million in 2007. It should be noted that the revenue generated from the ABST will be about 40% or \$52.4 million higher than the \$132.6 million in revenue yielded from the six taxes that it replaced.



Taxes on international trade and transactions are expected to yield \$264.6 million in revenue for 2007. This is 18.7% or \$61 million less than the \$325.5 million generated in 2006. This decline in revenue from this category was mainly a result of the replacement of the consumption tax by the ABST. Also, the decline in revenue from this category of taxes is attributable to the significant decline in revenue from the taxes on fuel. In 2006, the tax on fuel yielded \$42.8 million in revenue while for 2007 this is expected to decline by 36.5% to \$27.2 million. This reduction in revenue from taxes on fuel is due to the continued escalation in oil prices and the Government's decision to absorb these increases and not pass them on to the public.

Some key taxes in this category include import duties, customs service tax and the cruise passenger tax. Revenue from import duties is estimated at

\$88.9 million for 2007 which is an 8% increase over the \$82.3 million generated in 2006. The customs service tax is set to yield \$91.8 million which represents a 15.5% increase over the \$79.5 million generated in 2006. With respect to the cruise passenger tax, it is expected that this measure will generate \$6.7 million - a 36.7% increase over the \$4.9 million collected in 2006.



This impressive revenue performance attests to the effectiveness of the Government’s tax reform initiatives and firmly demonstrates that sound policies and judicious fiscal planning will lead to positive and sustainable outcomes. Of course, the success of these policies was heavily dependant upon the hard work and dedication of the persons charged with

implementing the new measures and administering the transformed tax system. In this regard, special mention must be made of the Commissioner and staff of the Inland Revenue Department and the Comptroller and staff of the Customs Department. Their efforts were indeed invaluable to ensuring that the tax reform initiative yielded a more efficient system and higher levels of revenue.

Major Expenditure Areas 2007:

In 2007, the Government undertook expenditure in a number of key areas in order to ensure the provision of effective social services, the development of infrastructure, and the liquidation of a number of outstanding obligations.

The Police Force

The Government views the prevention and control of crime and violence as one of its most important responsibilities. We recognize that a sound macroeconomic environment and strong economic growth mean very little if appropriate systems that safeguard the public are not in place. The Royal Antigua and Barbuda Police Force is charged with the mammoth task of ensuring the safety of the citizens and residents of this country.

In this regard, the Government provided resources in 2007 that facilitated the employment of 43 new recruits to the Police Force, thereby increasing the complement of Police available to fight crime and violence. Further, we provided resources to equip the Police Force with necessary crime fighting equipment and vehicles so that they would be better able to carry out their responsibilities to the nation. Overall, the Government spent some \$41 million in 2007 on the Police and on matters of security and public safety.

Expenditure on Health Care

Adequate healthcare is another critical element that is absolutely necessary for sustainable development in any country. With this in mind, the Government continued to pursue strategies for the creation of high quality health care services in Antigua and Barbuda. As such, we spent in excess of \$100 million on all areas of health care including the training and recruitment of 15 additional nurses and the acquisition of six new ambulances.

School Uniform Grant and National School Meals Programmes

The School Uniform Grant, which was started in 2004 has continued to gain momentum and has seen tremendous success in the number of primary and secondary students benefiting from the programme. Since the inception of the programme, the number of uniform grants distributed has increased steadily from 10,240 in 2004 to 12,589 in 2005. In 2006, we

distributed 17,503 uniform grants to our primary and secondary school students and for 2007 this number has increased to over 19,000. The programme will continue in 2008 and is expected to bring further assistance to families across Antigua and Barbuda.

The national school meals programme (NSMP) is one of the most meaningful and successful social programmes launched by this administration. This initiative has evolved in a manner that, by any measure, can be seen not merely as a UPP party promise being fulfilled but as an initiative aimed at the very soul of this nation.

When social scientists speak about implementing pragmatic policies that will foster growth and development this is one of the policies they are talking about. This Government strongly believes that education is one of the best avenues through which individuals can rise from poverty to prosperity and this is one of the reasons why many governments seek to provide free education for the entire population.

But, this by itself is not enough. Governments need to go further and create conducive environs for learning. To this end, the underlying objective of the NSMP is to facilitate better learning through nutrition and hence contribute to the long term growth and development of this nation.

It is on this basis that the Government will forge ahead with the National School Meals Programme in 2008. To date over 210,000 meals have been

served to participants across 15 Government primary schools without a single occurrence of any food borne illnesses. Thus, the NSMP continues to provide substantial financial savings to parents and guardians thereby affording them more disposable income.

In 2007, the NSMP also engaged in commercial ventures and to date has generated and deposited into the Consolidate Fund in excess of \$255,000.

In 2008 we will continue to expand the programme with the goal of incorporating an additional 7 to 8 schools, including Barbuda, before the end of the first half of the year. This will impact an additional 1,600 students. In this regard the ongoing training of staff in areas addressing sanitation, safety and hygiene protocols *vis-à-vis* food preparation, handling and delivery remains a vital component of this project.

Finally, the Government wishes to extend a heart felt thank you to the Private Sector in Antigua and Barbuda for their generosity in the sponsorship of the Serving Centre Facilities at the various Government primary schools. The value of this contribution exceeds \$2,000,000 signifying their unconditional support to nation building and more importantly the youth of this country.

The Government also wishes to thank the Government of Trinidad and Tobago for making grant funding available through the OECS Special

Window Facility for the construction of the second central kitchen facility which will commence in 2008.

ICT Development

In 2007, the Government advanced its Digital Agenda by continuing to implement various elements in the overall Information and Communication Technology (ICT) policy. In particular, the Government launched seven new Community Access Centers in communities across the island through which Antiguan and Barbudans can have ready access to computer technology. Each centre is equipped with state of the art equipment and manned by technical experts who can guide users in understanding and utilizing the technology. To facilitate the effective implementation of elements of the ICT policy, the Government spent about \$10 million on ICT in 2007.

Road Works

The UPP Administration has, over the past few years, made the provision of a high quality road network one of its priorities. This Government is cognizant of the role that good infrastructure plays in supporting economic activity, attracting investment, and advancing the social welfare of our people. As such, in 2007, we intensified our road programme with particular emphasis placed on enhancing the roads and drains in St. John's.

We also commenced the implementation of our Village Concrete Roads project.

Overall, the Government spent over \$125 million on road works in relation to the ICC Cricket World Cup preparations and in several communities including:

- ◆ Parham
- ◆ Vernons
- ◆ Potworks
- ◆ Cedar Valley To Cassada Gardens
- ◆ McKinnons
- ◆ Freemansville
- ◆ Buckleys Main Road
- ◆ Grays Green Community
- ◆ Fitches Creek
- ◆ Golden Grove
- ◆ Belmont
- ◆ Barbuda

Between 2005 and 2007, this Government has spent over \$200 million on upgrading, refurbishing and constructing road ways that hitherto were woefully neglected and in a state of dire disrepair. Many communities across the island have benefited from this injection of resources into road works. The road programme is ongoing and it is this Government's

intention to ultimately repair every road in the country that needs repairing.

Finally, the tremendous amount of work done on the road network was made possible by the significant work undertaken by the staff of the Public Works Department as well as the technical assistance and manpower provided to us through the kind generosity of the Republic of Cuba.

Voluntary Separation

As part of its ongoing fiscal reform programme, the Government has sought to develop strategies for better expenditure management and to streamline the public sector. In this regard, the Government commenced its public sector transformation initiative through the implementation of a Voluntary Separation and Early Retirement Programme (VSEP) in 2006. The objective of the VSEP was to generate a reduction in the Government's wage bill through the severance and early retirement of public servants. This Government did not and does not consider any proposal to abruptly cut thousands of persons from the public sector as a viable option. In fact, we firmly believed that this would be an inhumane approach to the challenge and could very likely create various socio-economic difficulties.

This VSEP allowed the qualifying persons to opt out of the public sector through an application process. Having received and processed the applications, the Ministry of Labour, Public Administration and

Empowerment offered packages to public servants who wished to exit the service. Over the past several months the Government has paid out over \$43 million on separation and early retirement packages. We anticipate that this programme should be completed within the first quarter of 2008.

Liquidation of Back Pay to Public Servants and Other Obligations

This Government commenced the arduous task of liquidating decades of accumulated back pay owed to public servants by paying out \$15 million to affected categories of public servants in December 2004. In 2005, the Sunshine Government continued its campaign to correct this wrong and appalling state of affairs by implementing the long outstanding 7% wage increase that was promised to civil servants since 2000. In 2006, we started the process of clearing back pay that was owing to civil servants since 1995. The outstanding amount was \$32 million and we started the liquidation process by paying \$8 million to public servants in December 2006.

This Government then promised to pay the remaining \$24 million over the course of 2007. We started in January 2007 with the teachers and have to date paid over \$22.7 million in back pay to public servants across all ministries. It is expected that by year end, all persons who were owed back pay for the 1995/1996 period would be fully paid. This is yet another promise made and honoured by the Sunshine Government. While we take pride in this achievement it is not yet time to celebrate for there is about \$100 million in back pay that is still owing to public servants. Due to the

irresponsible and callous actions of the former Administration, this Government will need to find about \$71 million to liquidate back pay that is still outstanding for the period 2000 to 2002 and about \$30 million in back pay for travelling and mileage increases that were promised as far back as 1994 and never paid. This Government, however, intends to honour these obligations. It will take time, but as a caring Government, we view it as the right and honourable thing to do.

Other Obligations:

The extent of the Government's compassion in respect of the issue of monies owing to workers of this country is not constrained by political, sectoral or any other concerns. This Government is a caring Government and our compassion runs deep. We are about to demonstrate once more how very deep these pristine blue waters run.

The Government has, over the past few years, been engaged in a difficult struggle in respect of the Half Moon Bay property which has involved costly and lengthy litigation. While this has been ongoing, many of the former employees of the Half Moon Bay Hotel have suffered unconscionable abuse. These workers have been owed severance and other terminal benefits for well over a decade. This Government is fully cognizant of the importance of sacrifice and perseverance in order to attain shared goals. However, this treatment of the Half Moon Bay employees is unjust and must be corrected.

To this end, the Government will, before the end of this month, ensure that all of the over 160 former employees of the Half Moon Bay Hotel receive the principal amount owing to them for severance, vacation, and notice pay. This will be done at a cost of over \$635,000. In early 2008, we will proceed further and seek to liquidate the interest that has accrued on the principal amounts.

Economic Prospects for 2008:

Economic activity is projected to expand in 2008, fuelled primarily by developments in tourism and supported by construction and the other service sectors. Output in the tourism industry is forecasted to strengthen in 2008 partly attributable to an increase in the number of hotel rooms. The completion of the Hodges Bay Club and portions of the Emerald Cove Resort is expected to complement the existing stock of hotel rooms which currently stands at 3,910 including the Sandals Mediterranean Village and the Verandah Hotel which had soft openings in 2007 but will be in full operation in 2008.

The increase in the number of hotel rooms in 2008 will be supported by additional airlift from North America and Europe. Also, three major airlines -Delta, Continental and American Airlines - will be making weekly direct flights from New York, New Jersey and Florida to the island. In

addition, seat capacity will be increased on existing flights originating out of Atlanta, Charlotte, Philadelphia, Toronto and London.

Airline	Gateway	Frequency/week	Total Number of Add'l Seats - Yearly
Delta	JFK - New York	Twice	15,000
Continental	NWK - New Jersey	Daily (Jan - April)	20,000
American Airlines	MIA - Florida	Daily	55,000

The performance of the industry in 2008 will be further strengthened by the increased marketing of the destination. In addition to the marketing done by the various hotels which has a spillover effect on the destination as a whole the government will continue to play a pivotal role in promoting the destination world wide. This will ensure that the country receives maximum benefit from the tourism industry given the importance of the industry to the overall growth and development of the country.

Another significant development in the area of marketing in 2008 is the Stanford 20/20 Cricket Tournament scheduled to take place from 25 January to 24 February. This sporting event is expected to have a significant impact on the number of visitors coming to the country - particularly from the Caribbean region. However, a long term benefit of hosting this event is the international exposure the country will receive

from the broadcasting of the tournament world wide. The Government wishes to commend this truly inspired venture, which has no doubt served to further fuel the region's passion for the game.

With respect to the construction sector, new and ongoing projects are expected to contribute to increased economic activity in 2008. In the private sector, work is projected to intensify on the building and expanding of a number of hotels and condominium developments including Sugar Ridge Development, Emerald Cove, Pineapple Beach Hotel, Phase II of the Veranda Project, Sapphire Beach Resort, and the further development of Jolly Harbour by the La Perla Group. In addition, the construction of private homes will contribute to the growth in economic activity. Activity in the public sector will focus on roads and other infrastructural development, the Sunshine Community Hub and Phase I of the Airport Development Project.

Consistent with the development in construction and tourism in 2008 growth in output is also expected in the other sectors including "wholesale and retail trade", "transport", "communication" and "banking and Insurance".

In the Financial sector monetary liabilities and domestic credit are projected to increase as economic activity expands. In the external accounts, the merchandise trade deficit is likely to widen, fuelled by an increase in payments for imports associated with rising oil prices and an

expansion in economic activity, particularly tourism and construction. Gross travel receipts are expected to increase, driven by growth in stay-over arrivals.

Strategy for 2008

Having completed the major elements of its tax reform initiative in 2007, the Government will now seek to intensify activities on the expenditure component of the fiscal reform programme. Particular emphasis will be placed on enhancing efficiency in the public sector and ensuring more effective expenditure management. The attainment of these objectives will be dependent on a successful combination of legislative reforms, institutional reorganization and modernization of public service procedures. On the revenue side, while the Government does not intend to introduce any new measures, we will continue to strengthen the revenue collecting agencies with a view to creating a more efficient tax administration and raising the level of compliance.

Another critical element of the fiscal reform programme is the Government's debt management strategy. In the coming year, we will advance the implementation of the strategy in an effort to reduce the debt burden and to facilitate the achievement of debt sustainability.

We are well aware of the need for additional policies to support the expansion of the private sector and encourage real economic growth. To this end, the Government will pay particular attention to strengthening the business environment, encouraging domestic and foreign investment, and supporting small business development. The Government will also continue to pursue avenues for economic diversification while at the same time seeking to strengthen the tourism sector which continues to be the mainstay of the Antigua and Barbuda economy.

In the coming year, this Government will target specific areas that are of particular importance to the general public and have long term implications for the social and economic advancement of Antigua and Barbuda. We will enhance expenditure in the areas of education, crime and violence, health and infrastructural development. These will be the priority for this Administration as we seek to secure a brighter, more stable and abundant future for all Antiguan and Barbudans.

Tourism - Creating a World Class Visitor Experience

Tourism is recognized as an important earner of foreign exchange, a strong generator of sustainable employment, a meaningful contributor to economic growth and a vehicle for social and economic transformation. In Antigua and Barbuda, the sector is responsible for approximately 40% of

all employment, 85% of foreign exchange earnings, 70% of GDP and 52% of total investment [**World Travel and Tourism Council -2007**].

The Ministry of Tourism will continue to fully exploit the enormous potential which exists in the tourism industry. Our strategic thrust is to:

- Upgrade the existing room stock to international standards, and establish a critical mass of new rooms led by the 5-star end of the market;
- Position Antigua and Barbuda as the Meetings, Conventions, Sports and Wedding Capital of the Eastern Caribbean and the Business Centre of the Sub-region;
- Upgrade selected sites and attractions and develop various facets of the product;
- Increase airlift service to both islands;
- Enhance industry standards and quality service through human resource development and on-going industry training;
- Upgrade the room and physical capacity of small hotels below 25 rooms; and
- Generate a higher level of tourism awareness among the population

To facilitate this process and to achieve the desired outcome, the Ministry with the support of the Commonwealth Secretariat has crafted a national

development policy – the Antigua and Barbuda Tourism Master Plan – for the development of the sector. Additionally, it is the intention of the Ministry to draft a three year business plan with annual operational plans to guide the short term goals and objectives of the Ministry in keeping with its long-term vision – to attain and maintain the position as one of the top five island destinations globally.

Tourism is the engine of growth in the economy and hence it is critical that we adopt a business approach to tourism development and management which will ensure:

- strategic repositioning of the country in the global tourism marketplace;
- a culture of service excellence is developed ; and
- the visitor experience is unique and second to none internationally.

The **Tourism Business Approach (TBA)** therefore requires not just dialogue and consultation, but that the dialogue and consultation be institutionalized to achieve **effective and greater stakeholder buy-in resulting in a shared vision for the industry**. Such a **constructive and mutually beneficial partnership** between the public and private sector is absolutely necessary for sustained growth.

The reorganization of the Antigua and Barbuda Hospitality Training Institute and the creation of the Antigua and Barbuda Tourism Authority

are the result of the aforementioned dialogue and consultation. Both institutions will have a very positive impact on the way we conduct business in the sector.

In 2008 the Ministry will work with the Central Statistics Office and other stakeholders to establish the framework for the development of the Tourism Satellite Accounts as a medium to measure the real impact of tourism on the national economy.

The challenge for the Ministry in 2008 is to provide quality tourism experiences that are derived from environmentally sustainable tourism, whilst fostering ongoing growth in a highly competitive globalized market.

Thus, the Ministry will be working with the Caribbean Tourism Organisation to embark on the Tourism Assured Project. This project will measure excellence in tourism service in ten critical areas:

- Customer research
- The customer promise
- Business planning
- Operational planning
- Standards of performance
- Resources
- Training and development
- Service delivery
- Service recovery

➤ Customer satisfaction improvement

One initiative to further develop the tourism industry in Antigua and Barbuda will be the construction of a new shopping, entertainment and recreational facility at Fort James. The objective of this Project is to transform the Beach and its facilities into a modern, safe, clean, well-managed and environmentally-sustainable attraction of the highest international standard. Work is expected to begin on this project early in the New Year. Similar beach enhancement work will commence on a number of beaches including Ffrys beach, Jabberwock, Morris Bay, Darkwood, Long Bay, Half Moon Bay and Pigeon Point.

Promoting Small Business Development:

Having recognized the importance of a thriving micro and small business sector for economic growth, job creation and poverty reduction, this Government has sought to create an enabling environment that would encourage the expansion and viability of small businesses. In an effort to further develop this essential sector the Government enacted the Small Business Development Act in November 2007. This legislation focuses on incentivizing and assisting small businesses that are majority-owned by citizens of Antigua and Barbuda.

For the purposes of the legislation, a small business is defined as one with no more than 25 employees, capital investment not exceeding \$3 million, and total annual sales of not more than \$2 million. Small businesses that are not majority-owned by citizens of Antigua and Barbuda may also qualify for incentives and assistance provided they meet certain additional criteria.

The Act provides fiscal incentives and concessions for small businesses and offers technical assistance for small business owners in areas such as budgeting, accounting, product development, marketing, development of business plans and general management procedures. In addition, the legislation allows for the establishment of a Loan Guarantee Scheme to be administered by the Antigua and Barbuda Development Bank. This Scheme will assist in the provision of guarantees for loans for small businesses in an amount not to exceed \$100,000.

The Government has gone one step further in its effort to promote the development of small businesses by enshrining in the Small Business Development Act the provision that it will reserve at least 25% of the procurement of its goods and services for small businesses registered under the Act.

A further concrete demonstration of this Government's dedication to small businesses is its decision to offer a preferred corporate tax rate to commercial banks that develop and extend special credit facilities to small

businesses. It is envisioned that these credit facilities will be characterized by interest rates that are below prime and more flexible lending requirements than what currently obtains with typical commercial loans. Where commercial banks have demonstrated, on prescribed criteria, an expansion in the level of credit extended to small businesses the Government will offer a corporate tax rate of 22.5% to the eligible banking institution.

Finally, the Antigua and Barbuda Development Bank (ABDB) continues to play a meaningful role in the financial sector and, through its programmes and lending practices, has contributed to the Government's efforts to promote and support indigenous micro and small businesses. In 2007, Bank continued to execute the Empowerment for Ownership Initiative, which provides concessionary financing for micro and small businesses in Antigua and Barbuda.

As of October 31 2007, 149 loans totaling over \$5.4 million were approved under this initiative. These loans have been granted to businesses engaged in varying types of economic activity. The sectors in which these businesses operate include wholesale and retail trade, information technology, agriculture, manufacturing, fishing, restaurant and catering, transportation and education services. As a direct result of the resources provided under this Initiative, these businesses have created additional employment for over 325 persons in Antigua and Barbuda. This Initiative

has certainly been successful and is no doubt an important contributing factor to the development of small business.

In addition to implementing the Empowerment for Ownership Initiative, the Bank continued to provide mortgages and student loans under the Caribbean Development Bank (CDB) loan facility that targets the low-income to lower-middle income segments of the population. Further, the Bank, in collaboration with the Ministry of Agriculture, Land and Fisheries will begin working on a low income housing development project in 2008. The Bank will also explore avenues for building partnerships with the Barbuda Council to develop a similar low income housing project in Barbuda.

Antigua and Barbuda Investment Authority:

The Antigua and Barbuda Investment Authority (ABIA) commenced operations in May 2007 and is the Government's one-stop-shop for investors. Its mandate is to attract foreign direct investment, develop and grow indigenous investment, and provide assistance to all investors wishing to establish or expand their businesses in Antigua and Barbuda.

This Government's vision, which will be manifested through the work of the Authority, is for Antigua and Barbuda to be a world class destination

for significant levels of investment that will help to create better and more fulfilling economic opportunities for our people.

Over the past seven months, the Chairman, Executive Director and Heads of Departments at the Authority have made significant strides in ensuring the organization is on the right path towards achieving its objectives. In fact, the Authority has already identified Medical Transcription as a new industry with tremendous potential for Antigua and Barbuda. Medical Transcription is the process of converting voice dictation by doctors to an electronic format. Many hospitals in the United States and Europe have utilized this method to prepare patient records. There is a significant and growing market for these services. For instance, US hospitals have outsourced over US\$14 billion to production centres outside the US for the provision of Medical Transcription services. We believe that this industry has the potential to provide between 300 and 500 jobs in Antigua and Barbuda within the next 3 years.

As of November 27th 2007 ABIA has facilitated foreign and local investment to the value of over \$140 million. Concessions were processed and granted to a value of over \$20 million. The investors comprised 50 locally owned businesses and three foreign owned businesses. These businesses are expected to generate additional employment for over 475 persons. The sectors in which these investments are concentrated include manufacturing, construction, agriculture, education, information services and tourism.

The Government is pleased with the work undertaken by the Authority to date and anticipates that it will be able to generate even more substantial results in the coming year. From January 2008 the Authority will fully commence its pro-active marketing and promotion of Antigua and Barbuda for the attraction of foreign direct investment. While the Government wishes to attract investment in as many areas as possible, particular emphasis will be placed on four main areas for investment:

- Tourism (premium resorts and developments);
- Financial Services (offshore industry);
- Health and Wellness, and Education (specialized medical services for overseas patients, set-up of university campuses, etc.); and
- Business Support and Logistics (ICT, Call Centers, etc)

A total of \$2,880,000 has been allocated in the budget to facilitate the work of the Authority and to ensure it is able to position Antigua and Barbuda as a first-rate destination for investing and doing business.

Customs Renewal Programme:

In September 2005, the Government of Antigua and Barbuda embarked upon a revolutionary Customs Renewal Programme aimed at modernizing the management and operation of the Customs and Excise Department.

With the assistance of the Caribbean Regional Technical Assistance Centre (CARTAC) we were able to undertake the necessary analyses and preparatory work in 2006 that would facilitate the implementation of the programme.

One of the major goals of this programme is to make Customs more efficient and transparent by taking advantage of the opportunities offered by Information and Communication Technologies (ICTs). After conducting the necessary investigations, including a two-day workshop in Jamaica organized by the Organisation of American States (OAS), Institute for Connectivity of the Americas (ICA), the Development Gateway Foundation and other International donors, and recognizing that the Jamaican government had developed a recognized Customs Automated Management System (CASE), the Government of Antigua and Barbuda identified CASE as a proven solution that perfectly fits its needs.

In addition, the USAID Caribbean Open Trade Support (COTS) signed a Memorandum of Understanding to assist the Government in its Customs Renewal Programme in the non-ICT related areas. These areas include the re-organization of the Customs Department, creation of modern Customs operations with Intelligence, Risk Analysis, Post Audit and other units, along with reviewing all Customs related laws to bring them in line with international best practice.

In the re-structuring of Customs, the Customs Renewal Programme hopes to be able to guarantee that most goods will be able to be cleared by importers within 24 hours. Greater emphasis will therefore be placed on Trade Facilitation, as the country moves to acquire a higher international rating in ease of doing business for investors and local importers.

The transfer of the Customs Automated System (CASE) to Antigua and Barbuda is being documented as a pilot project, with the intention that the entire project could be duplicated in other Caribbean countries that require such a modern and efficient solution.

This entire CASE solution will be the foundation of a major thrust of the Government to fully automate and modernize every trade related area within Government, and every area of Government that involves Customs operations. In addition, Government will use the online payment system that is integrated with CASE, for online payment of other Government related goods and services. In this aspect, therefore, the Customs Renewal Programme will be the major foundation for E-Government within Antigua and Barbuda.

The Government of Antigua and Barbuda is indeed very grateful for the invaluable support provided by regional and international organizations in respect of this Customs Renewal Programme. We are particularly appreciative of the generosity of the Government of Jamaica which has offered the CASE system to Antigua and Barbuda. This will no doubt be

an integral factor contributing to the success of this project and to ensuring that come February 2008, Antiguan and Barbudans and visitors alike will be interacting with a new and improved Customs and Excise Department.

Finally, this Government views the Customs Renewal Programme as one step towards ensuring Antigua and Barbuda is better equipped to honour its obligations within the multilateral trading system. We, however, recognize that as the globalization and trade liberalization processes continue to move apace, greater pressures will be placed on countries to further reduce barriers to international trade. As a proactive and forward-thinking Government, we have undertaken to assess the implications of reducing and ultimately removing all import duties in Antigua and Barbuda such that we would become a duty-free port. To this end, the Government has requested the assistance of the Economic Commission for Latin America and the Caribbean (ECLAC) to conduct a comprehensive study of, inter alia, the implications of making Antigua and Barbuda a duty-free port.

Treasury Reorganization

In 2005, the Government embarked on an initiative to improve the efficiency and transparency of the Treasury. The goal of this programme is to ensure that the Treasury becomes a model for cash management that can be emulated and replicated throughout Government. Central to this

process is streamlining manual control systems while at the same time utilizing computer technology for real time reporting and monitoring. Additionally the programme aims at equipping the staff to carry out these new processes with targeted training sessions for both staff members of the Treasury and the wider Government service. Progress has been steady and the Treasury intends to build on its successes in the coming year.

In addition to introducing new technology and modern procedures to Treasury operations, focus has also been on ensuring that the appropriate legal and regulatory framework, accounting standards, Chart of Accounts, business processes, management and leadership skills are in place. There are plans to further streamline the operations of the Treasury and to implement more modern management techniques. Particular emphasis will be placed on ensuring more timely submission of Government Accounts, reorganizing the Treasury's organizational structure and integrating all revenue reporting systems within the financial management system.

The efforts to date in respect of this critical programme have been supported by a number of regional institutions. In particular, the Caribbean Regional Technical Assistance Centre (CARTAC) has provided technical assistance in the form of a treasury expert who has, over the past several months, given invaluable support and expert insights into the treasury reorganisation initiatives.

Finally, the Accountant General, Mrs. Ernestine Hodge, and the management and staff of the Treasury must be highly commended for their hard work and for their efforts to ensure the transformation of the Treasury into a first-class Government agency.

Enhancing Expenditure Management - FreeBalance

As part of the ongoing fiscal reform and public sector transformation programme, the Government has successfully reached a number of key milestones in achieving improved financial accountability and transparency. The deployment of the FreeBalance Integrated Financial Management System (IFMS) extends the benefits of public expenditure management across all Ministries and Departments in the Government of Antigua and Barbuda. Key achievements in 2007 included the rollout of the system to departments located at the Government Office Complex. The rollout to all remaining departments will be complete when Wide Area Network is expanded to all government entities. Since January 2007, over 50,000 system generated cheques, including payroll cheques, have been produced by the IFMS.

In addition, the National Estimates presented today have been fully prepared using the FreeBalance Performance Budgeting Module and the budget figures will be streamlined into the Financial Accounting Module of the IFMS.

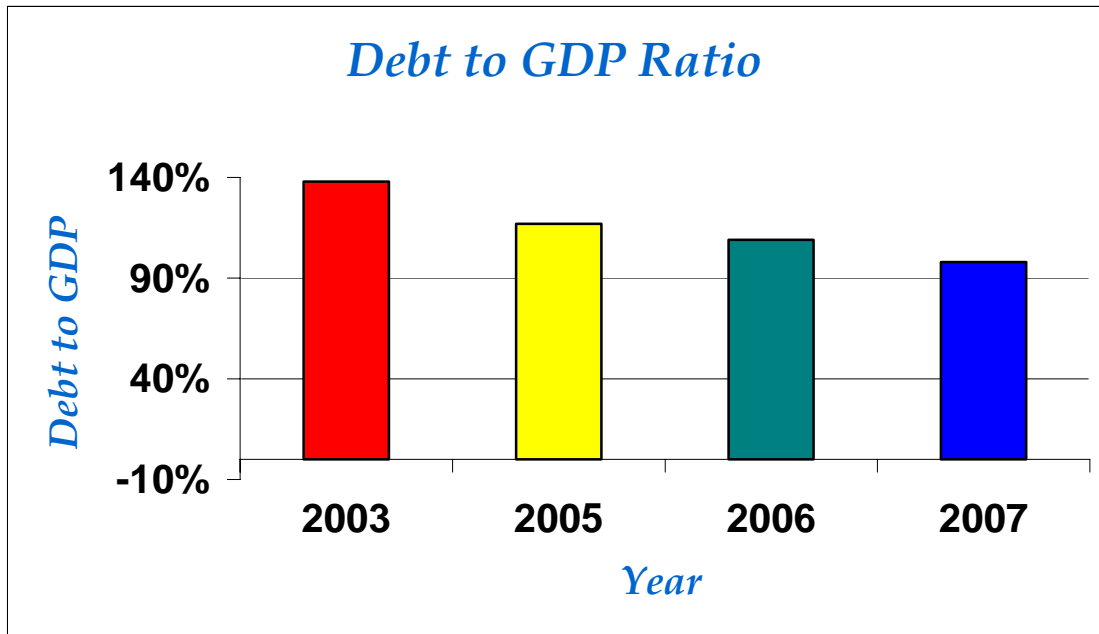
Employment data pertaining to the majority of employees of the Government have been entered in the Human Capital Accountability (HCA) module of the IFMS. This module will ease the processing of the Payroll at Treasury by removing the requirement of producing manual payment vouchers and the requirement of salary imprest accounts. All salary cheques and direct deposit payments will now be processed with HCA.

The strategic objective of rolling out IFMS to all Government entities is to ensure operational efficiency of data processing and increase Government's effectiveness in managing information for decision making. The FreeBalance IFMS software is used as a tool to accomplish this objective and to ensure fiscal discipline, operational efficiency, transparency and accountability. However, the success of the IFMS roll-out does not rest solely on the IFMS software. Effective change management and human resource capacity development are also important for the success and sustainability of the IFMS.

Debt Management

Turning now to the subject of Government's debt position, the Government is pleased to report that we are making further inroads in dealing with a difficult and complex situation. Since 2005, we have worked intently to define and implement a comprehensive debt management strategy that will complement our efforts to achieve fiscal sustainability. This is a daunting task and there are a large number of issues to address and goals to achieve in this respect. Ultimately, however, the debt strategy seeks to establish a debt service profile consistent with Government's evolving payment capacity, and will help to normalise relations with all our creditors.

For the past couple of years, the Government has worked to rationalise its borrowing needs and strengthen its debt management capacity. In addition to bringing on board internationally recognised experts in debt management – the London-based firm of Houlihan Lokey Howard and Zukin – we have sought to ensure that financing needs and payment obligations are met at the lowest possible cost over the medium to long term, consistent with a practical degree of risk. We are now beginning to see the results of these efforts. At the end of 2005, the public sectors debt, which includes government guaranteed liabilities, stood at over 117% of Gross Domestic Product. By the end of this year, this ratio is expected to decline to 98%.



However, our efforts must not, and will not, stop here. There is still much to do to ensure that Antigua and Barbuda achieves a viable debt position. In particular, and to ensure that these efforts are sustainable, we are in the process of establishing wide-ranging guidelines to enhance efficiency in Government's borrowing and debt management operations. These efforts are all part of a larger strategy which includes establishing a comprehensive inventory of all public sector liabilities, reconciling each debt individually, moving to resolve accumulated arrears, and building technical capacity within Government.

Our next priority is to deal with Government's obligations to the Social Security Board (SSB), Medical Benefits Scheme (MBS), and Board of Education (BOE). These bodies are essential elements of the social safety net of Antigua and Barbuda. As such, I am making a commitment to

address the liabilities owed to these institutions to ensure that the social fabric of our society is strengthened and the interests of the citizens of Antigua and Barbuda are protected. We have made provisions in this Budget to address the situation in a definite manner, consistent with our fiscal capabilities. This means that come January 2008, after decades of non-payment, this Government will begin to make full and consistent payments to these statutory bodies. Further, over the next few weeks, we will be holding discussions with each statutory body as well as all stakeholders to formulate an adequate plan to resolve the long outstanding arrears to these critical institutions.

All these efforts at improving debt management have had a positive impact on the Government's credibility. As a result, we were able to successfully implement our Treasury Bills and Bonds programme in 2006. Since March 2006, we have managed to issue treasury bills on the Regional Government Securities Market (RGSM) every month. All of our issues were oversubscribed – a feat of which every Antiguan and Barbudan should be proud. In fact, on November 30th 2007, we returned to the market and issued another \$17 million in treasury bills. The instrument was again oversubscribed and, as a result of the strong demand for our securities, the interest rate fell to 6%, which was 0.5% lower than the interest rate we were willing to accept. Further, in keeping with our commitment to honour our obligations, we ensured that every Treasury bill was repaid upon maturity and that principal and interest payments on the bonds were paid on time.

The Government had a number of objectives when this programme was initiated and is happy to report that all of these objectives were accomplished. We intended not only to diversify our financing sources, but also to begin the process of rehabilitating Antigua and Barbuda's credit standing domestically, regionally, and internationally.

Finally, I wish to take this opportunity to thank the consultants from Houlihan Lokey Howard and Zukin for their hard work in developing our debt management strategy. We look forward to working closely with them in 2008 to complete the implementation of this very important strategy. Further, I wish, on behalf of the Government, to thank the Canadian International Development Agency (CIDA) for providing the funding for both the first and second phase of our debt management project. We are certain that all Antiguan and Barbudans will benefit from this generous support for many years to come

Budget Projections 2008:

In 2008 the Government will continue its programme of Fiscal consolidation. Having completed our revenue measures in 2007 our emphasis in 2008 will be on curtailing the growth in recurrent expenditure particularly as it relates to expenditure on employment and good and services. This budget seeks to be extremely prudent on the expenditure

side. In this regard, the Government's overall objective will be to increase expenditure only in priority areas.

Recurrent Expenditure for Fiscal Year 2008 is budgeted at \$792,289,122 while Recurrent Revenue and Transfers, is estimated at \$810,719,134, which translates into a current account surplus of \$18,430,015.00. Additionally, we expect to realize a primary or operational surplus of \$21,959,325 in 2008.

Recurrent Expenditure

Recurrent expenditure for 2008 is budgeted at \$792,289,122 compared to revised expenditure of \$847,240,305 for 2007. The spike in expenditure in 2007 primarily reflects increased outlays related to preparation for Cricket World Cup 2007, payment of back pay owed to civil servants, and the implementation of the Voluntary Separation Package. These were one off payments and do not form a part of the 2008 Budget.

Government's recurrent expenditure is comprised of the following categories:

- Salaries, wages and allowances
- Contributions to Social Security and Medical Benefits
- Pensions and Gratuities
- Goods and Services, including utilities
- Transfers and Grants

- Debt Payments

In 2008, expenditure for salaries and wages is budgeted at \$349,926,318 compared to \$405,619,153 for the revised estimate for 2007.

Government's Social Security and Medical Benefits contributions are budgeted at \$25,115,186 compared to \$26,450,942 in the revised estimates for 2007.

For Pensions and Gratuities a budgetary allocation of \$39,234,950 is included in Budget 2008. This compares to \$39,227,470 in the revised estimates for 2007.

We have budgeted \$170,673,153 for expenditure on Goods and Services in 2008. This compares with \$243,912,877 in the revised estimates for 2007. This decline is due to the absence of the extraordinary expenditure including some one off payments related to our Cricket World Cup obligations for 2007.

In terms of Transfers and Grants, we budgeted \$80,604,563 for 2008 compared with \$74,934,368 in the revised estimates for 2007.

Finally, Debt Service payments are budgeted at \$184,937,891 for 2008 compared to a revised estimate of \$169,361,723 in 2007.

The following is a breakdown of Budget 2008 expenditure across the Government's Ministries.

Expenditure in the Prime Minister's Ministry

Total budgetary allocation for the Prime Minister's Ministry in 2008 is \$93,853,755.

Departments in the Prime Minister's Ministry include:

The Defense Force

The Antigua and Barbuda Defense Force will receive funding in 2008 in the amount of \$15,982,047 to facilitate the work of the Military in meeting the National Security needs of the country. These resources will allow for the acquisition of additional equipment and for increasing capacity within the Defense Force.

Investing in the Development of Barbuda

The Government is very committed to promoting the further development of infrastructure in Barbuda. As such, we allocated \$10 million to undertake a road programme which commenced in 2006 and continued into 2007. In Budget 2008, we have allocated an additional \$5 million to undertake additional roadworks in Barbuda.

In response to the need for more suitable accommodations to house the police and visiting Magistrates, the Government has made resources available to construct a Justice Complex in Barbuda. The work on this complex has already commenced and it is expected to be completed in 2008. This Justice Complex is being constructed at a cost of \$2.8 million.

The designation of Barbuda as a port of entry remains an important consideration for this Government. To facilitate this, an assessment of the feasibility and impact of such a venture was undertaken to guide further actions in pursuit of this objective. In 2008, the appropriate legislation will be enacted to allow for Barbuda to be designated as a port of entry.

In accordance with the Government's Agenda for Change, the Barbuda Land Act was passed in Parliament last month, thereby granting legal status to Barbudans to own the lands in Barbuda in Common.

Information and Communication Technology(ICT)

The Government will build upon the success experienced in 2007 in respect of the implementation of our Digital Agenda. In 2008, we expect to further execute elements of our Information and Communications Technology policy by establishing additional Community Access and Empowerment Centres. Further, the Ministry will commence the process of implementing a project that would allow for ICT-based learning in primary schools.

Also of importance to the Government is the modernization and liberalization of the telecommunications sector so that the people of Antigua and Barbuda can benefit from first class telecommunications service at reasonable prices. To this end, the Ministry of Telecommunications and the Antigua Public Utilities Authority will conclude their collaborative efforts in the formulation of a new Telecommunications Act that will seek to liberalize the market in a manner that minimizes any negative impact on the operations of the Public Utilities Authority.

To facilitate these and the many other areas of work of the Ministry of Information, Broadcasting and Telecommunications, a total of \$18,767,668 has been allocated in Budget 2008.

Expenditure in the Ministry of Tourism, Civil Aviation, Culture and the Environment

A total of \$72,979,484 has been allocated to support the work of this Ministry in 2008.

These resources will allow the Ministry to make significant progress in implementing the elements of its Tourism Development Strategy - especially those elements relating to promotion and marketing of Antigua and Barbuda in lucrative traditional and non-traditional markets. Additionally, some \$26.5 million has been allocated for the airport to allow

for, inter alia, the establishment of the Airport Authority and to facilitate the implementation of Phase I of the Airport Development Project.

Also, an amount of \$3,354,276 has been budgeted to fund the efforts of the Environment Division in 2008 as it seeks to ensure the pursuit of both private and public sector development strategies that are environmentally sustainable.

St. John's Development Corporation

The St. John's Development Corporation will continue to concentrate on the maintenance and upkeep of the area under its jurisdiction. The work of the Corporation in 2008 will focus on assisting with repairs and maintenance of the drains and sidewalks in the city.

Recognizing that traffic congestion continues to be a major problem in the city, the Corporation will move forward with a programme to install parking meters in the city.

In 2008, the Corporation will engage consultants to develop a comprehensive City Master Plan. As part of the development of this Plan, the Corporation will convene a number of public consultations in an effort to generate discussions and ultimately gain consensus and stakeholder buy-in for the St. John's City Master Plan.

A total of \$1.5 million is budgeted to help finance the work of the Corporation.

Expenditure in the Ministry of Agriculture, Lands, Marine Resources and Agro Industries

To promote the development of this vital sector, we have allocated \$30,022,565 in Budget 2008 to fund the operation of the Ministry.

The Ministry continues to focus on the following activities:

- Provision of training and support to farmers to increase crop production and enhance farm management capabilities;
- Development of an adequate land use and distribution policy;
- Implementation of a Livestock Farmers Resettlement programme; and
- Development and maintenance of Agricultural Stations.

The Fisheries Division continues its work in the area of Marine Resources recognizing that the comprehensive development of the sector will result in a greater contribution of the Fisheries Sector to GDP. Specific focus will be on:

- Continuing work on the OECS Protected Areas and Associated Livelihood (OPAAL) Project by focusing on more local projects. These projects will include:
 - Creating the enabling environment to facilitate the establishing of small businesses by fishermen, shell collectors, vendors, etc. geared towards the tourism market;
 - Providing technical support to operators within the North East Marine Management Area (NEMMA) on matters such as boat improvement, training, marketing, etc;
 - Introducing non-capture fishing techniques *viz* fly-fishing as a sport in which entrepreneurs can invest;
 - Construction of an Interpretation Centre at Parham Town to serve as the base for all NEMMA activities;
 - Erecting mooring facilities for boat anchorage, channel marker, buoys and zoning the area.

The division will intensify its work in the area of quality control of seafood products especially for export. This project is being facilitated with the assistance of the Japanese Government. In this regard, staff training and

improving the standards of the various fisheries complexes have been prioritized.

Also in 2008, the Division expects to facilitate the introduction of new fisheries products to the local market *viz* smoked and salted food products all of which will be processed at the Point Wharf Fisheries Processing Facility.

Finally, the National School Meals Programme will continue apace in 2008 and a sum of \$10,560,212 has been budgeted for this purpose.

Expenditure in the Ministry of Health

The 2008 Budget allocation for the Ministry of Health is \$89,653,452.

Of this amount, an allocation \$10.4 million has been made for the Central Board of Health's continued contribution towards the ongoing National Beautification Programme.

The Government continues to pursue the development of a modern primary health care facility that would serve all the medical needs of the people of this nation. While there has been some financial and other challenges with this endeavour, we anticipate that come 2008, we will have overcome these hurdles and open the doors of the Mount St. John Medical Centre to the public. This medical centre will be equipped with state of the

art facilities, thereby allowing it to provide upgraded healthcare services to all citizens and residents of Antigua and Barbuda.

While we await the completion of the final activities leading up to the opening of the Mount St. John Medical Centre, we have made allocations in Budget 2008 that would allow for the continued operations of the Holberton Hospital as well as for the smooth transition of these operations to the new facility at the appropriate time.

The Government recognizes the importance of suitably equipped secondary health care facilities within the communities across the country. In this regard, we will continue our focus in 2008 on refurbishing and building clinics in the communities to better serve the people who most need these facilities.

Expenditure in the Ministry of Housing and Social Transformation

A budgetary allocation of \$9,665,051 has been made for the Ministry of Housing and Social Transformation in Budget 2008. These resources will allow the Ministry to implement programmes such as the Elderly Home Care Programme which has been renamed the Government's Residential Assistance and Care programme for the Elderly and Eligible (GRACE). This revamped programme is expected to ensure that a high standard of care is maintained and that an environment of professionalism and compassion will be engendered.

The Ministry will also continue the Home Improvement Grant through the Board of Guardians and enhance community development initiatives across the country.

This Ministry was responsible for ensuring the execution of the Poverty Assessment Study which was undertaken in 2005/2006. The report on this study was finalized in 2007 and presented a comprehensive picture of the nature and level of poverty in Antigua and Barbuda. The information garnered through this study will guide the preparation of a Poverty Reduction Strategy Paper (PRSP) for Antigua and Barbuda. The Poverty Reduction Strategy Paper (PRSP) will provide the critical links between economic and social policies and will set the framework to harness and strengthen collaborative programmes between Government, the Private Sector and Civil Society, and regional and international development partners in combating poverty.

The Government of Antigua and Barbuda wishes to thank the Caribbean Development Bank (CDB) for its contribution and support towards the realization of the Country Poverty Assessment. Sincere thanks and appreciation is also extended to Dr. Ralph Henry and the team of KAIRI Consultancy Limited out of Trinidad and Tobago, the National Assessment Team Coordinator - Mrs. Almira Henry and her assistants, the Statistics Division, Survey Administrators, officials from the Ministry of Finance and the Economy and the general public for their keen participation. We anticipate an even greater response for future studies.

Finally, the Government remains relentless in its pursuit to provide high quality and affordable housing particularly taking into consideration the difficulty some public servants encounter to obtain mortgages from financial lending institutions. We hope to conclude negotiation in early 2008 that will allow for the commencement of a major low income housing development project.

Expenditure in the Ministry of Education, Sports and Youth Affairs

In Budget 2008, an allocation of \$76,932,832 is made to facilitate the implementation of the programmes and activities of this Ministry.

This Government views the provision of quality education as critical for the socio-economic advancement of Antigua and Barbuda. While it is important to pursue policies to promote economic growth and create a stable macroeconomic environment, we recognize that such efforts would be futile if we did not invest in the system that is responsible for generating tomorrow's human capital. In light of this, the Government will, in 2008, make \$17 million available to construct a new Secondary School. This will no doubt assist in reducing the student to teacher ratio in our schools and foster a more conducive learning environment.

With financial support from the European Union's Economic Development Fund (EDF) amounting to over \$22 million, the Government will continue

work on strengthening technical and vocational education and upgrading facilities at the Antigua State College.

Also the Government intends to continue work on the National Public Library in an effort to ensure the library is opened in 2008. To facilitate this, an amount of \$1,106,371 has been allocated in Budget 2008.

The UPP Administration is very serious about educating the people of Antigua and Barbuda and will seek to demonstrate this in the coming year. As a first step, we will, through the Antigua and Barbuda Development Bank (ABDB), establish a student loan programme. The Government will make resources available to the ABDB to commence a student loan programme which will, in the first instance, offer student loans to 100 Antiguan and Barbudans wishing to pursue tertiary education in duly accredited institutions. Through this programme, prospective students will be able to receive a \$20,000 student loan at an interest rate of 3%. The Government is currently finalizing the details of this programme and will, in early 2008, make all the relevant information available to the public.

To complement the efforts in respect of education, we have also made resources available in Budget 2008 to advance work in relation to the National Youth Policy, to officially commence operations of the Antigua Barbuda National Training Agency, and to the promotion of sports development through, inter alia, the construction and refurbishment of recreational and sporting facilities across the nation.

Expenditure in the Ministry of Labour, Public Administration and Empowerment

This Ministry has been allocated \$11,211,476 of the Recurrent Expenditure in Budget 2008.

These resources will be utilized by the Ministry to continue work on the public sector transformation initiative, with specific emphasis on completing work on the ongoing Man Power Audit which is intended to assess the skills and expertise within the civil service.

The Ministry, through the Department of Gender Affairs, will further expand activities in 2008 in order to more effectively address issues that are critical to gender development and empowerment.

Expenditure in the Ministry of Finance and the Economy

The total budgetary allocation for the Ministry of Finance and the Economy is \$92,377,105.

These resources will be used to continue implementation of the fiscal reform programme. Particular focus will be placed on completing the customs renewal programme, reorganizing the treasury, enhancing the auditing capacity at the Inland Revenue Department, ensuring the

completion of the debt management project, and advancing the work of key departments such as the Bureau of Standards, Industry and Commerce, and Cooperatives.

Other Budgetary Allocations

Expenditure for Democracy and Governance

The Budget 2007 allocation for the Governor General's Office is \$1,132,144.

For the Legislature, the allocation is \$2,140,603.

The allocation for the Cabinet Office is \$3,570,799.

Expenditure for the Justice System

The allocation for The Judiciary is \$2,391,158.

For the Office of the Attorney General and Ministry of Legal Affairs, an allocation of \$12,546,229 is made available to allow the Government to continue the implementation of its legislative agenda in 2008.

For the Ministry of Justice and Public Safety, we have allocated \$56,071,952. With these resources, the Ministry will build on the work done in 2007 and seek to provide enhanced services in areas such as legal aid and counseling

services to the general public, and to ensure the effective administration of justice through the Industrial, Magistrates, and High Courts.

The Ministry will also place greater emphasis on enhancing capacity in the Prices and Consumer Affairs Division to allow this very important agency to better protect the rights and interests of consumers.

This Ministry now has responsibility for public safety which is provided through the Royal Antigua and Barbuda Police Force. It is the arm of Government that will endeavour to effectively address the rising level of crime and violence in our society. This Ministry will be at the forefront of implementing the strategy to improve law enforcement and to provide a greater level of security for Antiguan and Barbudans. One important aspect of this initiative will be to invest in a state of the art communications network that will allow for more rapid response to reports of criminal activity. This communications network will be shared between the police, the military and the emergency medical services. It will also allow for the creation of a modern and efficient 911 rapid response centre. The Police will also benefit in 2008 from the purchase of new finger printing equipment that will positively impact on their ability to successfully resolve certain criminal activities.

Further, resources have been allocated in Budget 2008 to upgrade the facilities at the prison and to improve the rehabilitation programme so as to minimize the level of repeat offenders.

Finally, \$7,389,446 is budgeted to provide additional equipment to the Fire Brigade and to facilitate its efforts in ensuring fire safety and fighting fires across the island.

Allocations for the Service Commissions, Audit Department, Pensions and Gratuities, Charges on the Account of the Public Debt, Electoral Commission, Office of the Ombudsman

The 2008 Budgetary allocation for the Services Commissions is \$738,806.

The provision for the Audit Department is \$1,294,313.

For Pensions and Gratuities, we have allocated \$39,234,950.

The provision for Charges on the Account of the Public Debt is \$184,937,891.

The 2008 provision for the Electoral Commission is \$3,898,888 and \$480,076 has been allocated for the Office of the Ombudsman.

Expenditure in the Ministry of Public Works, Transportation and the Environment

The 2008 Budgetary allocation for this Ministry amounts to \$106,894,970.

These resources along with the \$160,000,000 budgeted for capital expenditure will allow the Government to continue to implement its infrastructural development programme in 2008. The bulk of these resources will be utilized to continue the process of repairing, constructing and undertaking maintenance work on the road network across Antigua and Barbuda. While some may seek to condemn the Government for investing heavily in the road network, I am certain the majority of Antiguan and Barbudans are happy for the improved roadways in their various communities.

The road works programme is indeed a mammoth task both financially and in terms of the sheer requirement for human resources. The Government is very appreciative of the assistance provided through regional governments that have allowed us to deal with some of these challenges. First, we thank the Government of Cuba for the team of workers and engineers provided to assist with the road development programme. Also, the Government wishes to extend its deepest appreciation to the Government of Trinidad and Tobago for providing Antigua and Barbuda with grant funding of over \$20 million to facilitate the implementation of the Village Concrete Roads project. These resources

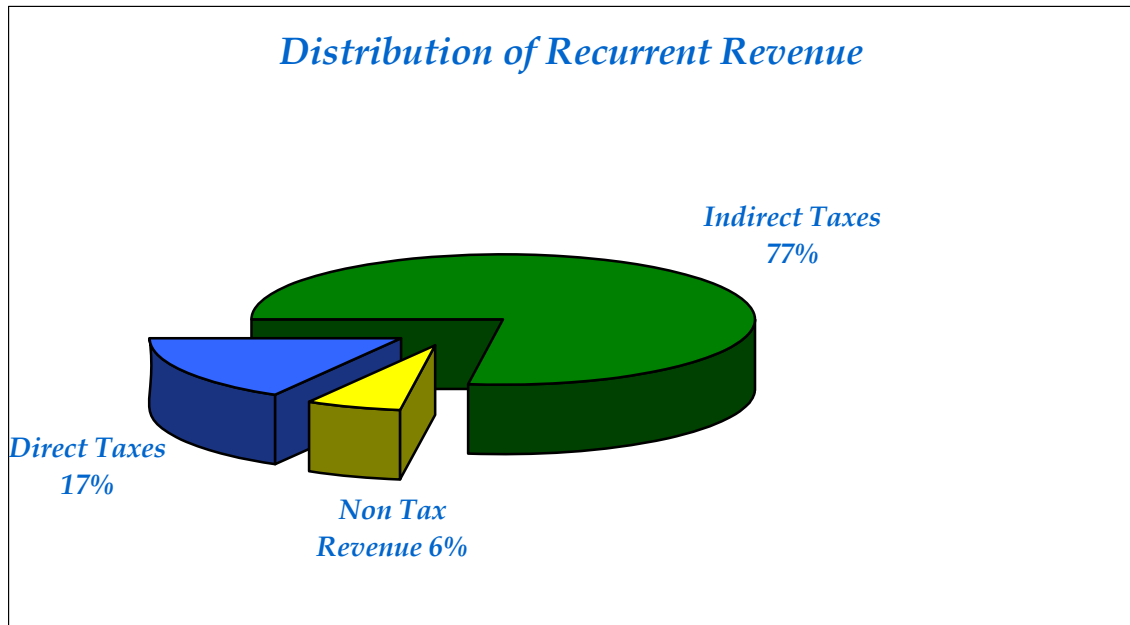
were made available through the Government of Trinidad and Tobago Petroleum Fund and will allow us to advance the project in 2008.

Some communities that will benefit from the road programme in 2008 include, Old Road, Bendals, Briggins, Fort Road, Point, Cashew Hill, and the Grays Green Community.

In addition to the road programme, the Ministry will be responsible for additional capital programmes including repairs and maintenance to Government buildings.

Recurrent Revenue 2008

Recurrent revenue for fiscal year 2008 is budgeted at \$759,719,134. The three major sources of this revenue will be direct taxes, which make up 16.8% of recurrent revenue, indirect taxes, which make up 77.1%, and non-tax revenue, which comprises 6.1%. Tax revenue accounts for about 94% of total recurrent revenue and is budgeted at \$713,543,664. Non-tax revenue makes up the remaining 6% of recurrent revenue and is budgeted at \$46,175,470.



Direct Taxes

In 2008 direct taxes are projected to yield \$127,408,775. Of this total, \$108,828,775 represents revenue from taxes on income while \$18,580,000 represents revenue from property taxes.

The projected revenue from taxes on income will be driven mainly by an estimated 22% increase in corporate income tax revenue and an estimated 25% increase in revenue from the personal income tax over last year's budgeted figure.

The corporate income tax is expected to yield \$53,778,775 while the personal income tax is projected to generate \$55,000,000 in 2008. These increases will be brought about by increased efficiency with respect to tax

administration and collection in the Inland Revenue and Customs Departments.

In terms of the property tax, we expect that having resolved the challenges with the new and modernized system this year, we can expect improved efficiencies and greater compliance which will translate into additional revenue. As such, this tax is projected to yield \$18,000,000 in 2008.

The successful implementation of the modernized property tax was made possible by the Property Tax Consultant, Mr. Carey Thompson, the Chief Property Valuation Officer, Mr. Lesroy Samuel, and all other personnel at the Property Valuation Department. Their hard work must be commended and it is anticipated that the same level of commitment will continue in the coming year.

Indirect Taxes

The yield from indirect taxes is budgeted at \$586,134,889, which is about 82% of tax revenue. Of this, taxes on domestic production and consumption are expected to yield \$420,325,600 in revenue while the taxes on international trade and transactions are projected to yield \$148,774,289 in revenue.

A total of \$230,400,000 or 39% of the revenue from indirect taxes will be generated from the Antigua and Barbuda Sales Tax (ABST). The ABST is a

VAT-type tax applied at a rate of 15% on goods and services. There is a 10.5% transitional rate for the hotel sector and an extensive zero rated list for which the ABST rate is 0%.

It should be noted that the ABST replaced six taxes:

- The Consumption Tax;
- The Hotel (bed-night) tax;
- The Hotel Guest Tax;
- The Hotel Guest Levy;
- The Restaurant and Catering Tax; and
- The Telecommunications Tax.

The items that are zero rated include food products, medicines and pharmaceuticals, baby products and baby food, lumber, books, computers for personal use, and essential household goods. The legislation also exempts the supply of a number of services including education services, the sale of residential property, the provision of prescription medications, and the supply of medical, dental, nursing, optical and other health services. Further, in an effort to facilitate the development of the agriculture sector, the supply of inputs for the agriculture sector - including fisheries - is exempt. This means that inputs such as seedlings, cuttings, and fertilizers, fibreglass or wooden boats, and equipment used by farmers and fishermen are exempt from the ABST.

As indicated above, the ABST has performed very well and has generated more revenue in 2007 than the combined revenue generated in 2006 by these six taxes. The success of this measure was due to the unwavering support and technical assistance from regional agencies and governments, and international organizations. The ABST could not have been implemented nor generate the level of revenue it has without the hard work and perseverance of a number of critical personnel in the Government service. These include the Commissioner of Inland and staff of the Inland Revenue Department – especially Mr. Everton Gonsalves and Mr. Doug McLaren. The Comptroller and staff of the Customs Department were also instrumental in ensuring that the ABST was implemented and was able to generate substantial revenue.

The Government is very pleased to announce that there has been significant compliance on the part of businesses. Also, the ABST legislation requires that the Government makes refund payments to businesses and other eligible taxpayers on a timely basis. We have been able to achieve this and have made in excess of \$5 million in refund payments.

In 2008, we intend to strengthen the ABST Unit at the Inland Revenue Department by providing additional personnel and critical equipment that would facilitate the work of the Unit in administering the tax and securing greater levels of compliance.

Deficit Financing

Total revenue inclusive of grants and transfers for 2008 is estimated at \$882,951,932 while total expenditure is estimated at \$952,289,119. The result is an overall deficit or a financing gap of \$69,337,190 which is significantly below the deficit of \$293,721,497 reported in the 2007 budget estimates. This underscores the Government's very prudent approach to budgeting and is a testimony to the Government's commitment to following a strategic fiscal programme in order to achieve fiscal and debt sustainability. To bridge this financing gap, the Government will seek to raise funds through other types of debt instruments including the issuance of securities on the Regional Government Securities Market (RGSM).

Debt Servicing

As of the end of September 2007, Central Government's total outstanding debt stood at \$2,617,315,077, a slight increase over the same period last year following strong efforts by Government to keep borrowing to an absolute minimum and only for projects deemed essential. This amount incorporates arrears accumulated to a number of creditors over many years and not yet normalised. Of that amount, Domestic Debt represented approximately 64% of the total, or \$1,664,136,513.

For 2008, Government is budgeting approximately \$184,937,891 in total debt service payments to honour its obligations to both domestic and

external creditors. This is an increase of approximately \$15 million, over the amount of debt service that is expected to be spent during 2007, reflecting a larger amount of amortizations coming due during 2008.

Support/Relief Measures 2008

Since assuming the captaincy of the Ship of State in March 2004, this Administration has sought to ensure that the needs of the citizens and residents of Antigua and Barbuda were always at the forefront of any policymaking process. This was not always an easy feat since we were faced with and still face the numerous challenges that were created by twenty-eight years of economic missteps and mishaps. However, despite the difficulties, we attempted to create a balance between, on the one hand, the implementation of policies that were essential for a sustainable economic future and on the other hand, providing the appropriate social safety nets and relief programmes that would benefit all persons in the society.

The Government has been quite successful at striking this balance. While we have had to make hard decisions, implement difficult policies, and make some sacrifices along the way, our perseverance has paid off and we have realized a strong improvement in the macroeconomic environment. At the same time, this Government has offered a myriad of support

measures and relief programmes that have impacted every segment of the Antigua and Barbuda population.

Though in 2008 we fully intend to continue to build on our successes by remaining on the path towards fiscal consolidation, this Government will again place particular emphasis on Putting People First. To this end, the UPP Administration has identified a number of support measures that are intended to provide relief to all Antiguan and Barbudans.

Relief for Pensioners

Recognizing the impact of rising international prices on the cost of living, the Sunshine Government has decided to further adjust the minimum pension in order to bring some relief to this critical and vulnerable segment of the society. While our fiscal position does not, at this time, allow for the increase in the minimum pension to \$1,000, the Government is determined to make some adjustment. As such, effective January 2008, the minimum Government pension will be increased to \$800 per month.

Further, there is a particular group of pensioners who have not benefited from any of the increases this Government has granted over the past few years. We are of the view that all pensioners should benefit from the Government's efforts to assist this class of citizens. In this regard, the Government will grant an increase of \$250 to all those pensioners whose current monthly pension is between \$751 and \$2,400. This means that the

category of pensioners that hitherto fore has not benefited from an increase over the past decade will now have that benefit. This increase will also take effect as of January 2008.

The Sunshine Government recognizes the important role played by the Pensioners' Association and its President, Mr. Eddie Hunt, in providing assistance to and meeting some of the critical needs of pensioners. In this regard, we have, in the past, provided a grant to the Association to facilitate its work on behalf of pensioners. In 2008, the Government will establish the relevant administrative mechanisms that will allow us to once again extend a grant of \$50,000 to the Pensioners' Association.

Further, this Government is very cognizant of the fact that pensioners have no flexibility in respect of their incomes. As such, we will work along with the Pensioners' Association in an effort to establish arrangements with the business community through which special discounts on purchases may be extended to pensioners.

Additionally, the Government, through the Ministry of Health, will collaborate with the Medical Benefits Scheme to examine the financial feasibility of expanding the list of ailments currently being covered under the Scheme to include those illnesses that are of concern to the Pensioners' Association. In particular, we will assess the implications of expanding the list to include:

- Ear Nose and Throat diseases;
- Alzheimer's;
- Arthritis; and
- Acid Reflux

Finally, these measures are merely an interim undertaking of the Government to bring relief to pensioners as we plan to embark on a comprehensive review of the pension system in 2008. This, of course, will be done in consultation and collaboration with the Pensioners' Association and with other key stakeholders.

Dollar Barrel

In November 2004, the Government introduced the Dollar Barrel initiative in an effort to "Ease the Squeeze" on the population. Under this programme, families have the opportunity to import barrels of food, toiletries, clothes and other items between 15th November and 31st December at a charge of one dollar. Over 12,000 households have taken advantage of this initiative between 2004 and 2006 and we anticipate that the number of barrels will grow this year and in 2008.

The Sunshine Government is happy to see Antiguan and Barbudan families benefitting from this initiative and will continue to put mechanisms in place that would make the process of clearing the barrels much smoother.

Tax Credits and Personal Income Tax Deductions

In 2006, this Administration enacted legislation that would allow for tax credits and personal income tax deductions. Specifically, the legislation allows for a reduction in the tax liability of businesses that support the development of culture, education, and sports in Antigua and Barbuda. In terms of the personal income tax, the Personal Income Tax (Amendment) Act of 2006 makes provisions for income tax deductions in respect of interest payable for residential mortgages and in respect of contributions to taxpayers' approved pensions schemes. The Inland Revenue Department is now in the process of establishing the relevant administrative mechanisms that would give effect to the legislation. We anticipate that within the first quarter of 2008, taxpayers will be able to submit their claims for either tax credits or income tax deductions to the Inland Revenue Department.

The Sunshine Government has prided itself on being committed to the consultative process and to responding to the expressed needs of the people of this nation. We will again demonstrate that we take the issues raised in consultations seriously and that we have and always will actively seek to incorporate the recommendations put forward in the policy initiatives we pursue. In this regard, the Government has decided to provide personal income tax deductions for taxpayers who pay health insurance premiums and for taxpayers with a child in university for whom

they make tuition payments. In order to give effect to these, we will draft and enact the requisite legislation early in 2008.

Reduction of the Stamp Duty on the Transfer of Property

Over the past few years, the UPP Administration has made a number of adjustments to the stamp duty legislation in an attempt to reduce the tax burden on certain types of transactions being undertaken by our citizens. One such adjustment was the reduction in the stamp duty in respect of mortgages for residential construction. We reduced the rate from \$6 per thousand to \$4 per thousand. This meant that for an individual receiving a \$300,000 mortgage, the total cost to be paid by that individual would be \$1,200 instead of \$1,800.

Further, this Government, after receiving the recommendation during a tax consultation in All Saints in October 2004, removed the stamp duty on the discharge of charge for residential property. What this has meant is that once a person has paid his residential mortgage in full, he will no longer have to pay any stamp duty in order to retrieve his land certificate.

The Government went further in 2006 and enacted legislation that would make it less costly for a parent or grandparent to transfer property to a child or grandchild. Before the passage of this new legislation, the aggregate stamp duties payable on a transfer of property from a parent or grandparent to a child or grandchild was 10%. Now, for all residential

property valued at \$500,000 or less, the aggregate stamp duty payable on the transfer of such property from a parent or grandparent to a child or grandchild is 2%. Since coming into force, citizens and residents of Antigua and Barbuda have taken full advantage of this provision and have realized substantial savings.

In 2008, the Sunshine Government, having heard the concerns raised by a number of citizens, will make further adjustments to the stamp duties legislation. Specifically, we will also reduce the stamp duty on the transfer of property between spouses. What currently obtains is that, where a husband wishes to add his spouse's name to a property owned by him, this is treated in the same manner as a sale of property between the two parties. As such, the stamp duty applicable will be 10% of the value of the property as required by the law. This is clearly a financial deterrent and a possible obstacle to smooth marital relations. As a consequence, the Government will amend the legislation such that spouses wishing to transfer title or ownership of property into their joint names will be able to do so at a nominal charge of 2% stamp duty instead of 10%. This, again, is yet another tangible expression of the Sunshine Government's caring and compassionate nature.

Reduction of the Corporate Income Tax

This Government has stated time and time again that its interest is in seeing the development and expansion of the private sector. We firmly believe that to ensure long term economic sustainability, the private sector must be the engine of growth. Our role is to be one of facilitator and to create the enabling environment that would serve as a catalyst for private sector development. As such, we have pursued a number of policies targeted at creating that enabling environment. Specifically, we reduced the corporate income tax rate from 35% to 30% in 2005 and offered a further reduction to 27.5% for banks that lowered their residential mortgage rate to no more than 8%. In addition, we established the Antigua and Barbuda Investment Authority and embarked on our Customs Renewal Programme all in an effort to encourage private sector activity and make it easier to conduct business in Antigua and Barbuda.

In 2008, we will again seek to give incentives to the private sector and encourage investment and business expansion by further lowering the corporate income tax rate. The tax will be reduced from the current 30% to 25%. Further, we will yet again offer commercial banks the opportunity to partner with the Government to make owning a home a reality for all of our citizens.

For any commercial bank offering a residential mortgage interest rate of not more than 7%, the corporate income tax will be reduced to 22.5%. This

is intended to facilitate the realization of the Government's objective for each Antiguan and Barbudan to have the opportunity to own his or her home.

To complement this, the Sunshine Government will go one step further to ensure the reduction in the cost of building a new home. We have heard the concerns put forward by the general public and the Contractors' Association, in particular, in respect of the cost of home construction. As a caring Government, we have listened to the concerns and will provide some relief in this regard. In early 2008, we will make provision in the ABST legislation to zero rate goods and services utilized for the construction of new residential properties. Essentially, all building materials and construction services in relation to the construction of a new home will face a 0% ABST. This will no doubt go a long way in making home ownership a reality for most Antiguan and Barbudans.

Grant to Association of Persons with Disabilities

The Sunshine Government has always stated that while its policies are intended to benefit all persons within society, there must be special allowances for the more vulnerable segments of the population. Persons with disabilities are certainly among the more vulnerable in society and therefore require as much support and compassion as possible. To this end, we commend the Association of Persons with Disabilities for its hard work as it seeks to address the issues that most impact its members. In

2008, the Government will play its part in facilitating the work of this very important organization by providing a grant of \$25,000 to the Association. The grant will be administered by the Ministry of Health and is intended to help finance the various activities of the Association.

Tax Incentives for Manufacturers

The UPP Administration is well aware of the critical role played by our local manufacturers in creating value-added and generating employment. As such we believe that it is important for there to be in place appropriate support mechanisms that will encourage the expansion of manufacturing activity. There currently exist specific provisions in various pieces of legislation, including the Fiscal Incentives Act, which provide concessions and fiscal incentives to a number of our local manufacturers. However, there are some manufacturers that may not necessarily qualify for concessions and incentives under existing legislation and as a result have not been able to benefit. This Government has held many discussions with this group of manufacturers in an effort to identify a way in which we could provide meaningful assistance.

In this regard, the Sunshine Government will enact legislation through which the duty and customs service tax on the inputs of eligible manufacturers will be eliminated. This should certainly go a long way in relieving some of the difficulties faced by manufacturers in respect of the high cost of inputs used in production.

Increase in the Minimum Wage

In 2006, the Government undertook to review the minimum wage with a view to determining if and by what amount it should be increased. In this regard, a Minimum Wage Committee comprising public sector, private sector, trade union, and civil society representatives was established to conduct the review and make recommendations to the Minister of Labour for approval. This Committee has worked tirelessly under the chairmanship of His Excellency Sir Keithlyn Smith to ensure every aspect of the minimum wage debate was given due consideration. During its deliberations, the Minimum Wage Committee not only examined the issue of whether the minimum wage should be raised but also assessed the feasibility of a multi-tiered sectoral minimum wage structure. Upon completion of its analysis, the Committee presented its findings and recommendations to the Cabinet Sub-Committee on Economic Development and Infrastructure.

Following this extensive review of the minimum wage, the Government is pleased to announce that the minimum wage will be increased from \$6.00 per hour to \$7.50 per hour in accordance with the recommendation of the Minimum Wage Committee. In terms of the establishment of sectoral minimum wage rates, the Government accepts this proposal in principle and is in the process of finalizing the rates which will be applicable to the various sectors.

The new minimum wage will take effect as of January 2008 and the Government will adopt a zero tolerance stance in respect of non-compliance.

The Government wishes to thank the Minimum Wage Committee for accepting this mandate and undertaking an incredible amount of work to meet the objectives set before it. There is no doubt that many workers in Antigua and Barbuda will be impacted by the labours of this Committee.

Salary Increase for Public Servants

Since 2004, the Sunshine Government has made the payment of outstanding back pay and wage increases to public servants one of its priorities. While we believe that sacrifice and perseverance are critical ingredients for the achievement of any worthwhile goal, we are also of the view that the degree of sacrifice cannot be too burdensome. It would be a difficult task for anyone to challenge our assertion that public servants have been forced to make too many significant sacrifices in the past. The amount owed in back pay is a testament to this fact.

In addition to paying the back pay owed for the period 1995/1996, this Administration, in 2007, granted the long delayed increase in traveling and mileage allowance to public servants. This increase was owed from as far

back as 1994, over a decade, and was implemented by the Sunshine Government at a cost of \$10 million.

In 2008, we will go one step further in addressing the plight of public servants. Having taken all factors into account, including our fiscal limitations, the Government has agreed to raise the wages and salaries of all public servants. Such an increase in remuneration is overdue given the fact that the last contracted increase negotiated by public servants was for the period 2000 to 2002.

In an effort to address this, the Government launched a series of negotiations with all unions representing various segments of the public service. This was an especially difficult undertaking, particularly where some unions were adamant that their workers receive increases as high as 40%. Following many months of negotiations, the parties negotiating on behalf of the public servants became more appreciative of the Government's financial constraints and were, in the end, willing to compromise.

As such, the Sunshine Government is pleased to announce that, come January 2008, all public servants will receive a 10% increase in their wages and salaries. This Administration, unlike our predecessors, will ensure that this increase is implemented in January as promised and will not allow for the accumulation of arrears to our public servants. However, it should also be noted that while we are a caring Government, we are also very

pragmatic and, as such, will demand a greater level of productivity from our public servants as we seek to provide quality and efficient service to the general public.

Conclusion:

In conclusion, Madam Speaker, I trust that this presentation has further demonstrated that by embarking on **Sound Policies**, the UPP Administration has brought “**Sure Success**” to this nation of Antigua and Barbuda.

Madam Speaker, the Sunshine Government knows that the road to success is normally plagued with many obstacles. It is usually a narrow and difficult path to tread. More often than not, the road to success requires **Sacrifice and Perseverance**. But, **Sacrifice and Perseverance** is only for a season. However, seasons change, bringing Sunshine and clear Blue Skies in time.

Madam Speaker, the **Sacrifice and Perseverance** of the citizens and residents of Antigua and Barbuda will be rewarded with a **Brighter and more Prosperous Future**. Indeed, the many successes already attained by the Sunshine Government are all helping to pave and widen that narrow path along which we journey.

Before concluding this presentation, Madam Speaker, permit me to articulate one more support measure. One of the general themes that came out of the Personal Income Tax consultations was that most people were not against the idea of the Personal Income Tax. Further, after most people looked at the two presentations that outlined the Government's current fiscal position and the fiscal projections up to 2012, they agreed that although the Personal Income Tax was introduced in 2005 as a temporary fiscal measure, the Government was not yet in a position to remove the tax.

This notwithstanding, Madam Speaker, some individuals suggested that their disposable income is being squeezed by both the income tax and the general increase in the price level and they urged the Government to look at possibly adjusting the bands and/or the rates.

Madam Speaker, despite the fiscal challenges that we continue to face and despite our desire to continue on a prudent fiscal path, the Government must listen to the cries of the people of this country and strive to find that elusive balance between economic policy and social policy. It is against this backdrop, Madam Speaker, that we have decided not to abolish the Personal Income Tax but to change the structure by adjusting the bands and the rates.

Madam Speaker from January 2008 the new structure of the income tax will be as follows:

Bands	Rates
\$0 to \$3000	0%
\$3001 to \$6000	10%
\$6001 to \$8000	12.5%
\$8001 to \$10,000	15%
\$10,001 to \$15,000	20%
\$15,000 and above	25%

Madam Speaker:

Under the current regime, there is one band that ranges from \$4000 to \$10,000 and attracts a tax rate of 15%. Our research indicates that individuals who fall in this group are affected the most by the Personal Income Tax. Madam Speaker, in order to provide the requisite relief, the new tax structure seeks to divide the targeted group into three. The income tax is then reduced by one-third for the portion of income earned between \$4,000 and \$6,000 (i.e. from 15% to 10%). In addition, the new structure reduces the income tax by 2.5% for the portion of income earned between \$6,000 and \$8000 (i.e. from 15% to 12.5%).

For example, Madam Speaker:

An individual earning \$8,000 per month now pays income tax of \$700 under the current tax structure but that individual will now pay tax of \$550

under this new tax structure. This represents a 21% reduction in the tax liability of anyone earning \$8,000 per month. Similarly, an individual earning \$6,000 per month will pay income tax of \$300 under the new tax structure as compared with \$400 under the current structure. This is a 33.3% reduction in the tax liability of someone earning \$6,000 per month.

However, Madam Speaker, based on the tiered nature of the income tax, it is not only the persons in these categories that will benefit from this adjustment but everyone above these adjusted bands will also realize some savings. In essence, Madam Speaker, most people will see some reduction in their effective income tax rate.

As a final note on this issue, Madam Speaker, when the Government introduced the Personal Income Tax in 2005, we indicated that it would be temporary and that it would be removed once the fiscal imbalances stabilize. As indicated by the figures during the tax consultations, the fiscal position has improved but it has not yet stabilized. Therefore, the removal of the Personal Income Tax at this time would be, in the Government's opinion, premature. However, we fully intend to keep our promise to the people of this country and this adjustment is merely a first step towards realizing that goal. It is our intention to continue to make adjustments to the Personal Income Tax as our fiscal performance improves and to ultimately remove the tax once the country's fiscal position is fully stabilized.

Madam Speaker:

On behalf of the United Progressive Party Administration, under the leadership of Prime Minister, the Honourable Winston Baldwin Spencer, I wish to thank the citizens and residents of Antigua and Barbuda for staying the course and we urge that they continue to travel the path that will allow us all to fully enjoy the fruits of our hard labour.

We must always remember that **fiscal reform is not a sprint but rather a marathon.**

Madam Speaker, with all hands on deck and with some **Sacrifice and Perseverance** this Ship of State will be sure to arrive safely on the **Shores of Success.**

I close, Madam Speaker, by wishing you; the Honourable Prime Minister, the Honourable Leader of the Opposition, and all other Honourable Members of this Honourable House; and most importantly, the citizens and residents of this beloved country, a Blessed and Happy Christmas; and a Peaceful and Joyous New Year.

I thank you, Madam Speaker, and I commend Budget 2008 to the Honourable Members and ask that they endorse the proposals presented therein.

ACKNOWLEDGEMENTS

We wish to thank the following persons for their contribution:

- ❖ Honourable Senator Joanne Massiah
- ❖ Ambassador David Shoul
- ❖ Ambassador Joan Underwood
- ❖ Ambassador Colin Murdoch
- ❖ Mrs Almira Henry - Ministry of Housing and Social Transformation
- ❖ Dr. Clarence Henry
- ❖ Mrs Ann Jonas – National School Uniform Grant Programme
- ❖ Mr. Leroy King – Financial Services Regulatory Commission
- ❖ Mr Winston Henry – Public Relations Officer – Ministry of Finance
- ❖ Mr Nicholas Savoie - Free Balance Consultant
- ❖ Dr Eliahu Kreis – Consultant (CARTAC)
- ❖ Ms Desirée Burton – Economic Policy and Planning Unit
- ❖ Mr Lyndon Francis – Electricity Manager (APUA)
- ❖ Mr Austin Joseph – Deputy Electricity Manager (APUA)
- ❖ Mr Don Charles - Antigua Barbuda Development Bank

This document could not have been completed without the invaluable input of the Budget Office Staff:

- Mr Daniel Knight
- Ms Cordella Weston
- Ms Jannelle Whenner
- Ms Sandra Henry
- Mrs Claudia Steele-Henry
- Ms Yolanda Joseph
- Mr Yannik Gordon