



Budget Presentation for Fiscal Year 2003/2004

Belmopan

17 January 2003

Madam Speaker,

THE BIG PICTURE

This, the fifth and last budget of this Parliament, like the four before it, is designed to rationally manage the transformation of our economy from the stagnant mess we inherited in 1998 to the vibrant and productive economy that the people of Belize swept us into office to achieve. Our government's ability to effectively deal with change has been tested and proven time and time again, as we faced and dealt with destructive hurricanes, the challenges of globalization and the global fallout of the terrorist attacks on September 11, 2001. The imperative need for proven managers to deal with change compels Belizeans to once again entrust the duty of nation building to a PUP government whose hallmarks include compassion and vision.

If the last century was difficult for underdeveloped countries to grow and prosper in the harsh realities of world domination by the powerful few, we are learning that the 21st Century is far meaner, more competitive and more demanding of prudent planning and bold initiatives for small countries. But even the world's mightiest nations are facing difficulties. The United States of America, the world's largest economy, grew in 2002 by a meager 2.4%. In Europe, growth is expected at less than 1%. And in Japan, the economy will actually shrink by half a percent. Expectations have become so low that the 1.6% growth forecast for Britain is considered robust and Canada's 3.4% is ranked as stellar.

Closer to home, both the Caribbean and Latin American regions experienced shrinking GDPs. Television images of social unrest in the face of massive unemployment and growing poverty have accompanied these depressing economic data, particularly in South America, where economic instability threatens democracy itself.

In the Caribbean, lower discretionary income for potential travelers in its major tourism markets of North America and Europe, coupled with the threat of terrorism and the after-shocks of 9/11 have crippled the vital tourist industry of many countries, with resulting increased unemployment and loss of revenues.

In this ocean of lackluster economic performance and despair, Belize makes its mark by posting a formidable 4.4% growth in GDP for 2002. That didn't come easy, nor automatically. It is a result of this government's prudent yet bold management of our economy.

How then has our economy fared over the past year?

KEY ECONOMIC INDICATORS

Belizeans will be proud to know that we are beneficiaries of a growing \$1.7 billion economy, up by over \$100 million from 2001. This new economic activity, standing on a balanced base of agriculture, aquaculture, tourism & services and manufacturing & construction, has driven unemployment even lower, down to 9.1% in 2002 from 11% in 2001.

Underpinning this expansion were gross international reserves of \$US 114.3 million as of the end of 2002, up by 2.1% from the previous year and covering almost exactly the optimal position of 3 months of imports.

Total exports climbed to \$589 million, while imports fell for the first time in many years, beginning what we expect will be a trend of reducing the trade deficit. Confidence in government's fiscal and monetary policies was underscored by yet another expansion in

credit to the private sector, which grew by \$110 million to \$885.1 million.

And for the first time in modern Belize, the domestic overdraft of Central Government was not used, showing a positive \$2.1 million, with additional deposits of \$22 million at the end of 2002.

REAL SECTOR DEVELOPMENTS

For our economy to grow by \$100 million and for 2,000 more Belizeans to find jobs in 2002, the engines of the real economy were firing on full throttle, led principally by the phenomenal growth in the tourism and services sector and by transport and communications. Understandably, weak performances came from the citrus and banana belt, where the destruction wrought by Hurricane Iris is still taking its toll.

As we review the national performance, let us start in the North, where sugar exports earned \$65.8 million on sales of 102,923 long tons of sugar exports. This production represents an increase of 10.8% in value and 14.9% in volume. Sugar prices in both the European and US markets increased slightly, while the price of Molasses grew by 23%. Molasses sales totaled 29,099 long tons, earning \$2.8 million, a 62.4% increase compared to 2001.

2003 should witness a further rebounding of sugar production by a projected 3.5% and a further rise in dollars earned, particularly in a growing European sugar market.

In the South, on the heels of the record 2000/2001 citrus harvest, the 2002 performance is less upbeat. Revenues for the year fell all around, from citrus juices by a third to \$51.1 million and from concentrate by \$18.6 million, representing a drop of 25.6% in citrus deliveries.

The growers and the nation can be encouraged, however, by the forecast of a solid 34.5% increase for 2003.

Banana exports fell by 18.7% compared to 2001 but, like citrus, the projection is for a robust 2003 crop.

From the sea, Belize earned \$60.8 million on the export of 6.6 million pounds of marine products. The 2003 projection for marine products, fish, conch, lobster and shrimps, including farmed shrimps, is for earnings of \$137 million, more than double this year's record.

And with the involvement of all districts, tourism has truly blossomed in Belize, even as it has plummeted in the Caribbean and other regions of the world. In 2002, overnight arrivals grew by 1.8%, totaling an expected 199,493 bona fide visitors. Lending the ultimate world-standard stamp of approval to our destination, four new international flights have recently started service: US Air from Charlotte, Air Jamaica from Montego Bay, Continental from Newark and American's second flight from Miami. And I am happy to announce here today that Austrian Airlines has indicated its intention to begin regular flights to Belize via Havana shortly.

Cruise tourism has led the growth trend in the service industry with a increase from under 15,000 in 1998 to over 300,000 in 2002, the highest growth rate in the entire hemisphere for this industry. Reversing the seasonality weakness of tourism, cruise ships will now arrive January to December in 2003 and is expected to grow further in a rationally managed manner.

Other industries also showed strong earnings growth in 2002: papayas, for example,

generated a 50% increase to \$15.5 million and sawn wood rose by 13% to \$2.6 million.

MONETARY STABILITY

Fostering conditions conducive to growth and development has been a major priority for this government. A lowering in 2002 by 90 basis points or almost 1% of the weighted average lending rate has meant lower interest rates from lending institutions for Belizeans borrowing for new homes, cars or businesses.

Our successful US\$125 million Bears Stearns Bond Issue reduced the Central Bank's long-term foreign liabilities by \$72.5 million. The effect of this landmark debt restructuring will be to reduce debt service payments in 2003 and beyond.

To build, we must borrow, and we have done so responsibly. The Public Sector outstanding external debt stood at US\$525 million or 62% of GDP at the end of 2002. Though up by 10.7% compared to 2001, Central Government's portion is \$404.2 million or 47%, well below the level of 60% of GDP. In fact, public sector debt outside of Central Government actually declined \$15.3 million, since it also benefited from the debt restructuring.

FISCAL DISCIPLINE PAYS OFF 2002/03

After the shocks of four storms in three years, we pledged fiscal discipline. It has paid off handsomely, and we will start 2003 with a recurrent surplus of \$35 million, more than three times the surplus achieved last year. Recurrent revenues of \$412.9 million, and recurrent expenditures of \$377.9 million, are expected.

As responsible managers of the people's money, we have been aided by a new computerized Fund's Control Program that prohibits Ministries' spending beyond approved budget allocations. Tighter management of utility expenses, fuel costs, our vehicles fleet and foreign travel have yielded positive results.

This fiscal year we expect capital receipts of \$32.3 million, principally from previous equity investments along with \$10 million in capital grants which, when added to the unprecedented recurrent surplus of \$35 million, make \$77.3 million available for Capital II investments. Capital II investments are expected to reach \$73.5 million, thus producing an operating surplus of \$3.8 million. Add to this \$12.2 million in foreign grants and some \$16 million will become available for Capital III expenditure, along with an additional \$67.8 million in foreign financing.

The bottom line for all these numbers is that we will achieve our target of reducing the overall fiscal deficit to less than 5% of GDP.

THE 2003/04 BUDGET

The 2003/04 Budget proposes a continued responsible and compassionate approach to managing the people's money. We project recurrent revenues of \$448.1 million and recurrent expenses of \$417.1 million, yielding a recurrent surplus of \$31 million.

This surplus, almost at the same level of this year, emerges even after we keep our sacred commitments of salary increases to all public officers, teachers, policemen, soldiers, doctors and nurses. On April 1, 2003 we commence a three-year salary increase package of 8% for junior officers and 5% for senior officers, compounded each subsequent year to achieve a cumulative increase of 26% for junior officers and 16% for the senior ranks. These increases will also benefit all government pensioners. This government promised to negotiate in good

faith and to deliver when we could afford to, and this year we are proud to reward the work of our public servants.

When the recurrent surplus of \$31 million is added to \$22 million in capital revenue and \$10 million in capital grants, this yields \$63 million for Capital II investments. Since Capital II is programmed to spend \$60.8 million for the new fiscal year, an operational surplus of \$2.2 million is achieved, which together with \$8.6 million in foreign grants, provides \$10.8 million for Capital III investments. Capital III investments will total \$77.3 million.

In summary, when all expenditure is netted against all revenue and grants, the overall fiscal deficit is projected at \$51.5 million, or 2.8% of GDP, which is comfortably below our target of 3% of GDP. When you take into account the \$1 billion in lost earnings and the massive reconstruction costs following three years of hurricanes, we believe that we have achieved our objective of investing in our people today without burdening future generations.

PUBLIC SECTOR INVESTMENT PROGRAM

The additional investments proposed in Budget 2003/04 are many and they are targeted to improve our quality of life and our productivity:

We will invest \$9 million for Hurricane Preparedness, for retrofitting 350 schools and public buildings, constructing 9 new buildings for shelters and strengthening NEMO. We will invest \$7.8 million for SIF, CDI and BNTF projects specifically targeting disadvantaged and poor rural areas, in initiatives such as potable water, classrooms, rural housing, income generating projects and feeder roads.

We will invest \$3.8 million to further strengthen our agricultural sector, through BAHA and CARD, in order to improve the variety, quality, packaging and promotion of our products.

We will invest \$9.5 million in the Southern Highway, as we near completion of these 105 miles of paved road that link Toledo, a district bursting with potential, to the rest of Belize.

We will invest \$5 million on the Orange Walk Bypass to improve safety and reduce congestion in Orange Walk Town, and \$3.9 million to improve streets and drains in our municipalities.

We will invest \$4.5 million on expanding and improving our secondary education system, on teaching our youth a trade by extending nationwide Centers for Employment Training Programs and on curriculum and classroom expansion. In the new budget, overall investment in education will once again exceed \$100 million dollars.

And, again this year, \$5 million is allocated to low cost housing for Belizeans.

Some \$13.8 million will be invested in the Blue Creek Road, the San Pedro Pier, the Young Bank Bridge and the extension of Marine Parade, all projects that will immediately impact on trade, transportation and tourism.

Other notable investments to be made include better land management and distribution, tourism infrastructure and public health sector improvements, through ongoing co-financed projects.

QUALITY OF LIFE AND SECURITY

In addition to new projects, we are determined to address the primary functions of

government - personal security, access to quality and affordable health care and education, and opportunities for our youth and for our women.

The Police Department, with the assistance of the BDF, will continue to tilt the balance on our streets squarely in favor of law and order, especially with more Police recruits, a new fleet of 100 patrol vehicles with a modern management and maintenance program, new equipment and staff at the Forensic Lab and new uniforms and gear for the Police officers.

The root causes of crime must and are being confronted, but causes cannot be excuses for committing crimes.

The Commissioner of Police and his team will continue to aggressively monitor deportees, patrol special policing zones, promote neighborhood watch groups, improve communication systems, work with private security firms and prosecute criminals. There is no relenting in this war to make Belize safer and more peaceful.

And Belizeans will be more at peace knowing that when sickness strikes, the NHI will afford them quality healthcare, not just on the Southside of Belize City, as it has for the past two years, but everywhere in the country. Today, our government places on record its intention to introduce the NHI package of health care benefits to the North side of Belize City in 2003, and to subsequently roll out the NHI to all districts, as the public sector health reform projects near completion. This will be accomplished by utilizing the Social Security mechanism, without introducing any new taxes. All Belizeans should have access to specialist doctors and equipment, benefit from quality medicines and have a choice in health care providers.

Those afflicted by the terrible HIV/AIDS disease deserve our special attention, especially if we hope to contain this epidemic affecting all humanity. We will continue our special program for anti-retroviral medications and step up AIDS awareness programs.

One crucial sector of citizens at risk is our youth, who will continue to receive our attention through programs like an expanded Youth for the Future, the Youth Cadet Corp, the Youth Enterprise Fund and more investment in sports. We will invest more resources this year in Scouts, Girl Guides, Cubs, Brownies, YMCA and YWCA, in order to offer more alternatives to young people.

For the most needy in our community, those who receive weekly social assistance, we will double the grants that Social Development and Social Security offer, arranging for delivery of this stipend where possible.

For our elderly women over the age of 65, who have given so selflessly to raise our families and keep the home, we will extend non-contributory Social Security benefits to them all.

Poverty may never completely disappear, but neither should our will to help every Belizean family lift itself from this unacceptable condition.

MONEY BACK TO THE PEOPLE

To rise from poverty, a person often just needs one chance, one break in life. As we continue the education revolution, we will launch a new program to tackle an issue that has been dear to the PUP from its inception - land reform. Land as a marketable asset is a powerful weapon in poverty alleviation, tested and proven by the PUP in the 1950's with the land reform of that era; that is how the modern nation of Belize afforded tens of thousands of citizens a share of the nation's wealth. We will spearhead another phase of this land revolution, offering once again tens of thousands of Belizeans the chance to own a piece of the jewel. We will start

this year with a target of 6,000 house lots for first-time homeowners.

Offering our citizens that chance for a better quality of life, with more opportunities to get a good education, better housing, access to water, electricity and telephone, has been at the heart of our core objectives from the founding of our Party. And so our government also proposes, effective April 1, to put more money in the hands of the people by raising the level of those exempted from personal income taxes from \$20,000 to \$25,000. 2,500 more Belizeans will pay no income taxes whatsoever, which takes the grand total to 50,500 Belizeans that pay no income taxes. Our goal is to eliminate personal income taxes completely, placing this money in the pockets of the hardworking men and women of our country.

There is one other sweeping initiative that this budget offers to put more money back into the pockets of our people. Starting April 1, 2003, the kilowatt cost of electricity will fall by 31% for small and medium consumers.

Over the past three years, three separate and significant reductions in electricity rates were implemented through the Public Utilities Commission and provided to electricity consumers by Belize Electricity Limited.

On April 1, 2000 over 600 commercial customers benefited from a restructuring of the commercial tariff and a reduction in rates, resulting in savings of over \$2,000,000 per annum.

On July 1, 2001 a new Industrial Rate was approved that provided large industries such as the Citrus Industry and the Aquaculture industry a chance to be more competitive internationally.

Between 2000 and 2003 the PUC regulated and implemented a reduction in the cost recovery allowed to BEL for the transmission, distribution, and commercial aspects of their operations. This reduction was used to offset the ever increasing international oil prices and their inflationary effect on the cost of electricity, and to finance the rehabilitation work required to re-establish power after Hurricane Keith and Iris. This, in effect, was a rate reduction in real terms and provided stability and reliability in electricity supply to consumers.

The Government now intends to round out its rate reduction program by providing relief to small and medium residential consumers. The Public Utilities Commission and Belize Electricity Limited will increase the upper limit for qualification for the Social Rate Category from 50 to 125 kwh per month.

Under this initiative, some 14, 500 small and medium residential consumers will enter the program, bringing the total number of households benefiting from the program to 24,000 or 42% of the total customers served by BEL. This means that a qualifying customer who's monthly electricity bill averages 100 kwh per month will be paying \$21 instead of \$30.50, an effective savings of \$9.50 or 31 %.

Upon completion of this initiative, the Government, despite increasing international oil prices and several major hurricanes, would have provided significant rate reductions across the consumer spectrum, facilitating businesses and being socially responsible.

NO TURNING BACK

Madam Speaker,

The people of Belize voted for our government because we are the Party of hope, the Party of vision, the Party of possibility and the Party of results. Look at the last 4 ½ years and the difference is unmistakable:

We inherited a \$1.2 billion economy limping along at 1.4% growth, and we have expanded it to a \$ 1.7 billion economy growing an average 6.5% over the last four years;

We met unemployment at 14.3% and slashed it to 9.1%;

We found 73,330 Belizeans working in 1998 and today there are 90,800 Belizean workers - 17,500 more people on the job;

We inherited foreign reserves of US\$42.2 million in 1998, and we have built this to an impressive \$US114.3 million;

We found the average lending rate at 16.3%, and it is now down to 14.5%
We met the 15% Value Added Tax and the 5% tax on savings and we got rid of both of them.

There is no turning back!

We have taken citrus and bananas to historic highs in production, tripled receipts from papayas and fruits and tree crops, doubled farm shrimps exports, doubled vegetable harvests and hot pepper exports;

We have stood firm by our cane farmers, offering almost \$6 million in fuel subsidy, \$1 million in price support, title to cane lands and quotas and credit lines of over \$6.2 million.

We have led a tourism boom, with four consecutive years of increases in overnights tourist arrivals, a 2000% increase in cruise ship arrivals, a doubling of hotel occupancy and a 25% increase in tourism receipts;

We have launched the International Free Zone at the Airport and will shortly embark on the Western and Southern Free Zones, creating thousands of new jobs;
There is no turning back!

We have built 900 new classrooms, we are installing 5000 new computers, we have made available \$20 million dollars for student loans and created a new University of Belize as highlights of the education revolution;

We have started NHI for affordable quality health care for the 27,000 Belizeans who registered on the south side. At the same time, we have improved public clinics and health posts and placed nurses and nurses' aides in almost every village and doctors in many remote areas.

We have increased the minimum wage for domestic workers and shop assistants and introduced progressive policies for gender equality, the elderly and families and children.

There is no turning back!

We have introduced competition to telecommunication, driving down rates on long distance

calls and soon on cellular telephones and the Internet too;

We have expanded water systems and electricity to almost every village, doubled the capacity of water supply to Belize City and vastly improved the efficiency of water delivery;

We have started the process of building Chalillo for cleaner, cheaper and more independent energy, to bring down electricity rates while installing over 5,000 public lights in every district;

There is no turning back!

We have led a housing boom of over 8000 new houses, creating model communities like Democracia, Los Lagos, Maxboro, Fresh Pond, Santa Rita, Orchid Gardens Extension, Piccini Extension, Mile 8 ½, Hillside View in Santa Elena , San Pablo in San Pedro Ambergris, and Yarborough Development;

We have raised the salaries and benefits of Police Officers, upgraded 57 police stations and substations, built 12 new stations, opened a new Joint Intelligence Gathering Center and re-energized the fight for law and order;

We have removed the requirement for Ministerial approval to mortgage leased properties, provided thousands of new housing and farms lots and introduced a modern land management system with more than 120,000 registered parcels;

We have expanded the Senate to make it more representative, funded the Ombudsman and Contractor General, appointed more judges and a new DPP with security of tenure, elected Mayors directly, empowered Village Councils and even funded constituency offices for Opposition Members of the House;

We have amended the Fiscal Incentives Act to accommodate small and micro enterprises, addressing the urgent need to give tax breaks to Belizean small businesses.

There is no turning back!

In just this term of office, we have made available \$16.5 million to micro enterprises and to farmers, creating 5,685 jobs through the Small Farmers and Business Bank alone.

In just this term of office, 10,000 loans have been processed at the DFC, valued at \$302.8 million and generating in excess of 5,000 new jobs.

In just this term of office, 95 companies have qualified for Development Concessions, bringing \$434.4 million in total investment and employing 5,378 Belizeans countrywide.

In just this term of office, 98 new companies have received Export Processing Zone status, delivering 2,331 jobs and investments valued at \$248.8 million.

In just this term of office, the expansion of the Corozal Free Zone has attracted an additional \$50 million in fresh investments, providing an additional 1,500 jobs.

CONCLUSION: THE MOMENT OF TRUTH

There can be no turning back, Madam Speaker, because this PUP government has been the best government for Belize.

A far better government than the one before and a far better government than those across the aisle now offer Belize.

John Kennedy told us that "Change is the law of life; those who live only for the past and the present are certain to miss the future."

This PUP government has proven its capacity to manage change and face all challenges! We are the Party of change: attracting young and qualified representatives, re-inventing itself, creating novel ways to deliver land, houses, healthcare, education and personal security to the people we serve. There is one constant: we are not motivated by hate, malice or vindictiveness but by our unwavering confidence in the talent, fortitude and wisdom of the Belizean people. The people are the most powerful engine of economic growth and it is in the people that we have made the biggest investments these past five years.

This is the year of truth for our nation, when the people will decide in free and fair elections which party they wish to be their government. We cannot turn back the clock or go back to the world as it was. We must keep moving forward. We must be bold, innovative, compassionate and always changing to meet the challenges of the times. That is the hallmark of the PUP. - the Party with vision and a history of performance; the Party that is committed to peace, prosperity and justice for all; the Party that, especially now, the people of Belize want to see in government.

Let's go Belize. No turning back.