



**ST. KITTS & NEVIS PRIME MINISTER'S BUDGET ADDRESS
FOR YEAR 2005
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1. Madame Speaker, I beg leave to move the second reading of the Bill shortly entitled the Appropriation (2005) Act, 2005.

INTRODUCTION

2. This year's budget is being presented at a time when many of the countries of the Caribbean have been busily crafting strategies to surmount some of the most difficult economic challenges that they have faced since they attained nationhood. The massive debt of the region has featured prominently in international publications such as 'The Economist', and one country in the Organization of Eastern Caribbean States (OECS), Dominica, has been forced to undergo a structural adjustment programme in accordance with the financing terms and conditions imposed by the International Monetary Fund (IMF). Moreover, virtually all countries in the OECS have been pursuing fiscal stabilization programmes of varying degrees of severity, and in one country, Antigua and Barbuda, personal income tax has been reintroduced to accelerate the pace of fiscal stabilization.

3. The simultaneous decline in the economic fortunes of the countries of the region seems to suggest that there may be a common factor exerting negative influences on the countries of the region. It is unlikely that such apparently synchronized economic performances and such simultaneous accumulation of debt are purely coincidental. Moreover, it is unlikely that all of the Governments of the region are pursuing bad policies at the same time.

4. Madame Speaker, I am persuaded that the colossal task of adjusting to a rapidly changing global economic system poses a serious threat to the well-being of the people of the region, and consumes a considerable portion of the resources of all Caribbean countries. The fixed cost of such adjustment is particularly burdensome to the smaller countries in the region. In other words, the magnitude of the challenge we face is not proportional to the size of the countries of the region. It is not surprising therefore that the tiny countries of the OECS bear the brunt of the adjustment costs which are manifested in the relatively high Debt to Gross Domestic Product (GDP) ratios of these countries.

5. Moreover, even as the Caribbean Community struggles to find a comfortable place for itself in the global economy, the OECS is faced with the additional challenge of coping with the intense competitive forces that are being unleashed as the CARICOM Single Market and Economy (CSME) takes root. While the enterprises of the OECS are still trying to establish or enhance their export capabilities in response to the emerging CSME, the much larger enterprises in the More Developed Countries of the region are already taking full advantage of economies of scale and of their relatively long experience in export markets to flood the countries of the OECS with a range of goods and services. Indeed, OECS countries are already running a rapidly worsening balance of trade deficit with the More Developed Countries of the Caribbean Community.

6. Yet, I am still of the view that much of these costs are transitional costs, and that over time, our enterprises would develop the capacity to take advantage of the enlarged market and the wide range of opportunities that would be created by the CSME. In our Federation, we have had to bear these enormous transitional costs and, at the same time, commit huge sums of money to the rehabilitation of our Country after the series of hurricanes that struck our islands from the mid-nineties onwards. This has placed a great strain on public finances and has resulted in a massive increase in public debt. But I remain firmly convinced that our economy is now poised to move along a path of rapid economic expansion.

7. For us here in the Federation, the transition has entailed the total transformation of our economic infrastructure including air and seaports; roads and bridges; tourist-related facilities; and public utilities including water, electricity and telecommunications. The transition has also entailed a massive investment in human development through which our education system has been thoroughly upgraded and modernized; our health system has been literally revolutionized; and our extensive social programmes have touched the lives of the poor and underprivileged to bring them hope, optimism, greater self-esteem and renewed confidence in their own capabilities.

We are convinced that it is our investment in these critical areas that will accelerate the transition process by providing our enterprises with an environment that is conducive to profitable business operations, and by providing them the human resources capable of taking up the challenge of regional and international competition.

8. Our success in moving the transformation process forward is evident in every aspect of the social and economic life of our Nation. The pace at which we have scaled the United Nations Human Development Index to reach 39th of 177 countries throughout the world, second of all countries in the Caribbean and first of all countries in the OECS, is indicative of the broad-based progress that we have made in advancing the quality of life of our people, and in preparing them to take their place as capable and proud participants in the global community.

9. We believe that the attainment of international competitiveness is not only about adjusting production facilities and processes. It is primarily about the development of people. It is about providing educational and training opportunities to enable every boy and girl, every man and woman of this Federation to identify and enhance his or her own strengths and capabilities and thereby play an even more effective and productive role in building this beloved Nation of ours. It is about providing a guiding hand to our children and young people so that they may grow into mature and responsible citizens who would shun crime, violence and immorality, and gravitate to those longstanding values of honesty, integrity, ambition, courtesy and godliness. It is about reaching out to the poor and destitute, and rescuing them from the painful grip of poverty so that they too may realize their full potential and unleash their natural talents and abilities to create wealth for themselves and make their contribution to national development.

10. My Government is committed to the view that the allocation of resources to the social sectors is just as important as the allocation of resources to the economic sectors. We understand that expenditure on economic programmes and projects quite often brings immediate gains, but we are also convinced that social expenditure plays a critical role in empowering our people, in enhancing competitiveness and in sustaining growth and development over the long-term.

11. That is why we are exceptionally proud of the 98% literacy rate achieved by our Federation and of the outstanding achievement of our students in the Caribbean Examination Council (CXC) examinations year after year. We are proud of our extensive programme of health and medical care built around the impressive and modern JNF General Hospital and the wide array of community-based health care facilities that deliver preventative and curative health services of a quality and range that is unprecedented in our Federation. We are proud of the 1,600 low-income families that have thrown off the yoke of burdensome rents and now occupy their own homes which were provided through Government's Low-income Housing Programmes.

12. We are proud of the thousands of workers, in the private and public sectors who, through our minimum wage regulations are now guaranteed a wage of at least \$250 per week which compares quite favourably with the minimum wage of \$120 per week in 1995. We are proud of our comprehensive social development programme that provides care, attention and financial assistance to the elderly; provides books, uniforms, nutritious meals and examination fees for our school children; provides free medicines and hospital care for the young, elderly, poor and chronically ill; and provides the indigents with a non-contributory Social Security pension of \$200 per month, which represents an increase of over 130% in 10 years.

13. Madame Speaker, a happy and cohesive society helps to create a proper environment in which businesses may flourish and grow. We believe that our outstanding progress in this regard as well as our modern economic infrastructure have helped to attract businesses such as the outstanding Royal St. Kitts Marriott Beach Resort and Casino to our shores, and will contribute immeasurably to the future viability and success of this important enterprise, which has more than half of the available hotel rooms in St. Kitts, and which has spun-off a wide range of entrepreneurial opportunities for our restaurateurs, craftsmen, taxi-drivers, duty-free shop operators, tour operators and other similar entities.

14. It is our outstanding social and economic progress that has contributed to the massive increase in the number of tourists visiting our shores and to the upsurge in demand for property at Port Zante, and for villas, condominiums and other property throughout the Federation. In Port Zante, for example, almost every property along the main walkway has been sold or is about to be sold. It is our outstanding social and economic progress that has contributed to the issuance of over 1,500 business licences since my Government assumed office in 1995. It is our outstanding social and economic progress that is resulting in the flood of applications which we are now receiving from investors interested in pursuing various hotel and other tourism or entertainment-related projects in our Federation.

15. Madame Speaker, the national debt is high and must be substantially reduced as a matter of urgency. But we know that every dollar of that debt was well spent. We have successfully rehabilitated our Country from the devastating impact of the hurricanes, and at the same time we have made great strides in our quest to build a competitive economy capable of carrying our people forward to an even brighter future, through continuous and sustained improvement in the quality of their lives. It is evident that our economy is just about to enter a new, exciting and elevated stage of growth and development.

16. We simply could not have reached this stage without the massive investment that we have made in human development, hurricane rehabilitation and the modernization of our infrastructure. Indeed, I am convinced that now these public investments are reaping economic rewards in terms of growth development and revenue generation, we are well placed to comprehensively tackle the public debt with a view to bringing the debt to GDP ratio to acceptable levels within a reasonable time frame.

17. Moreover, in the fight against debt, our confidence is boosted by the fact that the marketable assets owned by the Government, such as lands, state enterprises, and equity in limited liability companies, have an aggregate value that is well in excess of the public debts of the Government. In other words, from a strictly commercial standpoint, the solvency and long-term financial capacity of the public sector are not in question. But we must realize some of those assets so that the proceeds may be deployed in accelerating the development process and putting our Country on a better financial footing.

18. Hence, in this year's budget we will continue to implement our very effective Fiscal Stabilization Programme with a view to generating an annual surplus on the Current Account of at least 1.5% of GDP and reducing the overall fiscal deficit to under 3.5% of GDP over the medium-term. We also intend to put even greater emphasis on reducing the overall stock of debt, through our Commercialization and Privatization Programme. We expect that as the stock of debt is reduced and the annual interest payments fall, more and more resources would be released for the continued implementation of our comprehensive programme of development and economic transformation.

19. Madame Speaker, we have set ourselves a number of other important objectives that we would wish to achieve over the medium term. These include:-

Ø The elevation of the real rate of economic growth to at least 6% per annum over the medium term, and the strengthening of the economic base and institutional mechanisms that will support our comprehensive programme of sustainable development. Our revenue projections are based on much more modest growth assumptions, because of the need to be conservative and to take into account the possibility of unfavourable random shocks such as hurricanes and international crises. But in the absence of such occurrence, it seems likely that we would experience a rapid acceleration in the rate of economic expansion over the next five years.

Ø Secondly, the smooth transition away from the production and export of sugar. In this regard, we would wish to ensure that our environment is protected, that the sugar lands are put to their most productive economic use and that sugar workers be provided with the opportunity to, at least, maintain their existing standard of living.

Ø Thirdly, the expansion of employment opportunities to give our young people coming out of school and other educational institutions an even better chance of finding jobs consistent with their career goals. We would also wish to ensure that our sugar workers are able to find acceptable alternative employment where necessary.

Ø Fourthly, the creation of an even more peaceful society by dramatically reducing crime. We intend to achieve this most important objective, through even more effective law enforcement; through the implementation of more comprehensive crime reduction strategies that will take full account of the social and economic dimensions of criminal behaviour; and through a collaborative effort by all segments of society in nurturing our young people even more effectively, and steering them away from criminal activities to more wholesome and productive endeavours.

Ø Fifthly, the intensification of our poverty eradication efforts by ensuring that our social development programmes reach even more poor people and address their needs even more effectively; and by adjusting our taxation systems to shift the burden of taxation away from the poor. In tackling poverty we will continue to be very sensitive to gender issues and pay particular attention to the needs of the elderly.

Ø And sixthly, the narrowing of the balance of trade and current account deficits by enhancing our competitiveness, strengthening our export capability and boosting our receipts from services, including tourism, financial services, and information technology.

20. These are just a few of the objectives that we are pursuing. We are conscious, however, that in the increasingly integrated global economic system in which we exist, the pace at which we move to these goals is significantly influenced by events well beyond our shores. I will therefore proceed with an examination of the international and regional developments of relevance to our Federation.

The External Environment

International Economic Developments

21. Madame Speaker, the pace of global economic activity is quickening and gathering momentum. In 2003 world output grew by 3.9% compared to 3.0% in 2002 and preliminary estimates for 2004 indicate that global GDP growth is expected to be 5.0%, the highest for nearly three decades. This growth is underpinned by increasingly

accommodative macroeconomic policies, rising corporate profitability, the wealth effects from rising equity markets and house prices, and rising employment in Asian countries, particularly in China.

22. In the case of advanced economies, real economic growth for 2004 is estimated to have increased to 3.6% from 2.1% in 2003 with growth recorded in all countries in this category. Japan, United States, United Kingdom and France, are the front-runners, showing growth rates of 4.4%, 4.3%, 3.4% and 2.6% respectively. Moreover, unemployment, in advanced economies is estimated to have declined by 0.3 percentage points from 6.6% in 2003 to 6.3% in 2004 and it is anticipated that unemployment in these countries will decline further in 2005. However, inflation in these advanced economies is an area of concern. Preliminary estimates show that inflation has increased from 1.8% in 2003 to 2.1% in 2004. The rate of inflation in 2005 could possibly further increase to reach 2.6% due to higher commodity prices such as oil and higher global growth if this is not tempered by tighter global monetary policies.

23. Madame Speaker, economic activity for developing countries continues to be buoyant with estimated output increasing to 6.6% in 2004. This growth is pervasive and also reflects strong growth in the economies of Asian countries, which is estimated to have increased by 7.25% of GDP, due mainly to the acceleration of investment and credit growth in China. In addition, it is estimated that developing countries in the Western Hemisphere and Africa, fuelled by global recovery and improved macroeconomic policies, have grown by 4.6% in 2004 from 1.8% in 2003. The growth prospects for developing countries in 2005 continue to be quite favourable.

24. There exists some uncertainty in respect of overall world economic output for 2005. However, it seems very likely that the global economy will experience a slow-down in the rate of growth of world output from a projected 5.0% in 2004 to 4.3% in 2005. According to the IMF's World Economic Outlook, the major contributors to this slow-down are "the expected declines in output gaps across the world, the continued withdrawal of fiscal and monetary stimulus, and the looming impact of higher oil prices". World output is therefore still very volatile and, to a large measure, susceptible to a wide range of random variables that could affect it in either a positive or negative manner.

25. Madame Speaker, this therefore means that our expectations regarding the continued global economic recovery and growth need to be continually reviewed and evaluated so that we can make informed decisions on policies and strategies in respect of our own growth and development. It appears likely that we will continue to be affected by increasing world oil prices that could exert some upward pressure on retail prices. Moreover, tighter monetary policies in advanced economies could push up interest rates and thereby affect the cost of new loans. We must therefore be mindful of these spill-over effects from a changing world economic environment and approach the task of fiscal planning with great caution and conservatism.

Regional Economic Developments

26. Madame Speaker, output in the Caribbean region improved somewhat after the weak performance experienced in 2002. In the OECS, output in 2003 expanded in all countries, with the exception of Dominica where output in 2003 remained flat. As we are aware, Dominica has been experiencing severe economic difficulties for some time and it has embarked on a structural adjustment programme under the IMF's Poverty Reduction and Growth Facility. Notwithstanding the problems encountered by Dominica, there are some positive signs. In particular, the country recorded a growth rate of 2.7% in the tourism sector in 2003. Moreover, Dominica is expected to achieve a growth rate of 1.1% in 2004 as a result of continued increase in activity in the construction and tourism industries.

27. Madame Speaker, we are saddened by the devastation inflicted by Hurricane Ivan on the island of Grenada in September of 2004. In Ivan's wake the economy and people have suffered their worst setback in 50 years. Moreover 39 persons lost their lives and 90% of homes were damaged. My Government responded quickly to the needs of our brothers and sisters in Grenada and sent a contingent of 20 men from our Defence Force to assist them in their recovery efforts. There was also an outpouring of support and assistance from our people and enterprises acting in their private capacities. We sincerely hope that their economy and people will recover quickly from this disaster.

28. Madame Speaker, in the greater CARICOM region in 2003, real economic activity increased despite the uncertainties of the War on Iraq, SARS (Severe Acute Respiratory Syndrome) and the difficulties in the agricultural sector. Growth rates ranged from a high of 6.7% in Trinidad and Tobago to as low as a negative rate in Guyana. All countries benefited from increased economic activity in their respective tourism industries, and Jamaica and Belize also benefited from increased agricultural output.

29. Madame Speaker, I strongly believe that the accelerated implementation of the CSME would provide a further boost to regional economic activity and thereby mitigate some of the effects of the ups and downs of the global economy. This would assist us in stabilizing and restructuring our economies and afford us greater bargaining power and, therefore, more control in determining our levels and direction of growth in the medium term. The CSME would also provide a springboard that would help to launch regional enterprises into markets well beyond the region.

30. Of course, although it is clear to me that in the long run the CSME will bring net benefits to all countries in the region, it is very likely that in the early stages, there would be some winners and some losers. It is therefore necessary that CARICOM immediately set up the appropriate mechanism to ensure that the spoils of greater regional integration are shared justly and fairly among all the participants in the CSME. I believe that such a mechanism will allay much of the fears of the smaller and more vulnerable countries and would engender even greater support for the CSME.

31. In St. Kitts and Nevis, we are firmly committed to the regional integration process and to the advancement of the CSME. We also support the related initiatives including the Caribbean Court of Justice (CCJ). In this regard, we will accept the role of the CCJ as the court of original jurisdiction in matters pertaining to the CARICOM Treaty and related Protocols. Moreover, we will strive to expeditiously remove any legal impediments to our full participation in the CCJ.

32. We also support the CARICOM initiative in respect of the freedom of movement of people and we are moving speedily to take all of the administrative actions necessary give full effect to the Laws that provide for the implementation of this important initiative. We expect that this would help to give the many CARICOM nationals resident here, a greater sense of security. Indeed, the people of our Federation continue to welcome nationals of all countries of the world who would wish to make a meaningful contribution to national development; and I would take this opportunity to assure them, that provided the necessary rules and policy guidelines are followed, we would not unreasonably withhold work permits from persons providing skills and resources that are not readily available in our Federation. I also wish to assure all foreign nationals working or investing in St. Kitts and Nevis that we truly value your contribution to the development process, and the people of St. Kitts and Nevis will continue to embrace you warmly as brothers and sisters and as partners in development.

THE DOMESTIC ECONOMY

Output, Prices and the Balance of Payments

33. Madame Speaker, in 2003, the Gross Domestic Product (GDP) of St. Kitts and Nevis grew by 0.6% in real terms. This improvement is commendable when put in the context of the continued challenges our Federation faces. Foremost among these are the debilitating exogenous factors such as the sluggish recovery of the world economy, the adverse impact of wars, terrorism threats and attacks, and more recently, rising oil prices. Moreover, it is quite remarkable that we have been able to achieve a positive rate of growth in a year when we underwent a fiscal adjustment of 8.9% of GDP. This adjustment, which is essentially a contraction in the overall fiscal deficit, was deemed necessary in the context of our high debt to GDP ratio and the need to ensure fiscal stability.

34. Our ability to achieve a positive growth rate in this period when Government's contribution to GDP had contracted so dramatically, demonstrates quite clearly that the private sector has been taking up the slack. As a matter of policy, my Government stepped forward in the difficult disaster years and kept the economy afloat through its expansive Public Sector Investment Programme that was so successful in accelerating the pace of our recovery from hurricanes and in modernizing our infrastructure. As indicated in previous budget addresses, the intention of the Government is that the private sector would take full advantage of the excellent economic base and the progressive policy framework established by the Government to expand their business venture into new commercial endeavours and generally take the lead in promoting economic growth. The 2003 GDP statistics demonstrate quite clearly that this policy has been bearing fruit, and it has allowed the Government to focus more of its attention on fiscal stability and debt management without compromising the growth prospects of our economy.

35. Indeed, the future growth prospects of our Federation seem quite favourable. The IMF, on the conclusion of a Staff Visit to St. Kitts and Nevis near the end of last month, reported as follows:-

"The acceleration in economic activity underway since mid-2003 has continued, resulting in growth of about 4% in 2004. The economic recovery has been driven by the rapid expansion of tourism with both stay-over visitors and cruise ship arrivals increasing strongly."

36. I doubt very much that anybody in St. Kitts and Nevis would disagree with this statement by the IMF. The evidence of economic growth is apparent in almost every corner of this beautiful twin-island Federation of ours. There are construction sites virtually everywhere throughout the Federation; on almost every street we find new restaurants, duty-free shops, boutiques and other retail outlets; the demand for the services of our entertainers, performers and craftsmen has increased dramatically; the shops at Port Zante that previously "lay idle" are now buzzing with activity; and our towns are crowded with tourists on a daily basis.

37. Indeed, I doubt that any person in our Federation would be surprised if the final growth statistics exceed the very preliminary estimates of the IMF. I contend therefore, this new period we are entering, provides an excellent opportunity for us to strengthen the fiscal position of the Government and move firmly on to the path of debt reduction.

38. Madame Speaker, the economic recovery on the way in St. Kitts and Nevis has been accompanied by relatively low rates of inflation. During the first six months of 2004 the retail price index increased at an annualised rate of 2.2%, which is identical to the rate of inflation reported for 2003. A large portion of the price increases in our Federation is essentially 'imported inflation' and as such, mirrors the price changes in our major trading partners – the USA in particular. However, we have exerted every effort to mitigate the effects of imported inflation through various policy measures including price controls and reduced Consumption Tax in respect of goods with the greatest impact on the cost of living and on the welfare of the lowest income groups in our society. It is not surprising, therefore, that the average inflation rate of 2.25% in St. Kitts and Nevis over the past four years was less than half the average rate for the Western Hemisphere as a whole over the same period.

39. Madame Speaker, I will now proceed to summarize the developments in the Balance of Payments Account, which is a record of all our receipts and payments arising out of transactions with the rest of the world. This account gives an indication of the extent to which the Country is earning the foreign exchange that is needed to finance imports, implement new development projects and service our external debt obligations.

40. In 2003, the external current account deficit narrowed by 2.2% to reach \$328 million or 33.4% of GDP. This improvement is the result of a significant increase in the number of stay-over visitors associated with the opening of the Marriott and Angelus Resorts in February and June of 2003 respectively. It is remarkable that this reduction in the current account deficit was achieved notwithstanding the negative impact of higher fuel prices and reduced foreign exchange earnings from the export of sugar.

41. The cessation of sugar production and export will adversely affect the current account from 2006 onwards. However, this adverse situation is likely to be reversed as the sugar lands are put to better use; as more and more tourism-related enterprises are attracted to our shores; and as our enterprises begin to take full advantage of the CSME.

42. The Capital Account of the Balance of Payments in 2003 was affected by reduced capital inflows resulting from the completion of the construction phase of the Marriott Hotel and by a reduction in official grant funding. Consequently, the surplus on the capital and financial account declined by 20.3% to reach \$281.9 million or 28.6% of GDP. This decline resulted in a small overall Balance of Payments deficit of \$2.6 million or 0.3% of GDP. We expect that with the construction of new hotels, villas and other tourism-related facilities planned for the short- to medium-term, foreign direct investment would be boosted and the overall Balance of Payments would improve substantially.

The Tourism Sector

43. Madame Speaker, in last year's budget address I highlighted some of the very difficult challenges that the tourism industry faced in 2002. Today, I am particularly delighted to report that the tourism sector began a strong recovery in 2003. The recovery was stimulated mainly by a return of the confidence of travellers, which was lost after the terrorist attacks of September 2001. North Americans are therefore now looking to the Caribbean as a safe and secure haven for travel. Meanwhile there has also been an increase in the number of Caribbean arrivals from Europe and this is because the Europeans are now recognizing that the Caribbean, including St. Kitts and Nevis, offers more attractive prices and greater value for their money than most other destinations. Of course the current exchange rates are such that the Pound Sterling and the Euro could fetch much more Eastern Caribbean Dollars than previously, and therefore serve to make an Eastern Caribbean vacation even more attractive for Europeans.

44. In 2003, an estimated 90,557 stay-over visitors graced our shores. This represents an increase of 21,559 or 31.2% over the year 2002 in which 68,998 stay-over visitors were recorded. Yacht and Cruise passenger arrivals on the other hand declined by 5.9% from a total of 165,542 in 2002 to 156,284 in 2003 due to irregular cruise calls predicated by the delays in the response of cruise ship companies to improvements in our tourism product including the completion of correction works on the facilities at Port Zante and the introduction of the St. Kitts Scenic Railway Tours.

45. Moreover, all the indicators suggest that in 2004 we experienced another substantial increase in both stay-over and cruise ship visitor arrivals. This expansion was due mainly to the increased room capacity provided by the impressive Marriott Resort and the continued growth in operations at the Angelus resort. The major challenges for us now are to ensure that the growth in Tourism is sustained over the medium-term; that visitor expenditure increases; and as much of the tourism receipts as possible remain in our Federation. Hence, we are exerting every effort to strengthen the agricultural, handicraft and services sector linkages with a view to increasing the volumes of local goods and services consumed by our visitors.

46. Madame Speaker, it is clear that the tourism industry in our Federation is making great strides forward. The Marriott Resort has sparked incredible increases in the amount of visitors to the Federation, the benefits of which are already being reaped by a wide cross-section of our populace. In addition, the completion of the 18-hole championship golf course at Frigate Bay, a project undertaken jointly by the Frigate Bay Development Corporation and the Marriott Resort, has brought significant benefits to all hotels on the island of St. Kitts, especially those in the

Frigate Bay area. We are confident that our Country has now clearly positioned itself as an attractive private sector investment destination and that significant investment growth in the tourism sector will continue in 2005 and beyond.

47. Indeed, St. Kitts and Nevis is well on the way to achieving our goal of carving out a niche for ourselves in golf tourism. The construction of the La Vallee golf course is progressing smoothly and is expected to be fully operational by the commencement of the next tourist season; private developers are now working on plans to construct a golf course on the Southeast Peninsula as part of a major tourist resort development project; and Conde Nast Traveller, a very prestigious travel industry publication, recently recognized the Four Seasons Hotel in Nevis as having the "number one" golf course in the Caribbean and the eighth leading resort golf course in the entire world. The novelty and uniqueness of playing golf on different world class courses on the two sister islands of our Federation during the same vacation is already becoming a major attraction to our destination. Our aim over the medium- to long-term is that we would be able to invite recreational golfers from around the world to come to our Federation for at least a one-week holiday and experience a different golf course on every day of their vacation.

48. We are also pleased that the Warner Park Development Project is proceeding ahead of schedule and will be operational well in advance of the 2007 Cricket World Cup. In fact I am confident that the new facilities will be ready to host our first One-Day International Match in the middle of 2006. When you add to these developments the fact that the Four Seasons Resort has been named by Tennis Resorts Online as the premier Tennis Resort in the Caribbean, it can only be concluded that our Federation is well placed to begin the process of distinguishing ourselves as an important player in the sports-tourism market.

49. My Government recognizes that if we are to continue to accelerate the development of the tourism industry, then our visitors must be provided with easy and convenient access to our Federation. Hence, the St. Kitts Tourism Authority has been working arduously at increasing air traffic to the Federation. As a result of its efforts, US Airways, since the commencement of its direct services to the Federation from Philadelphia, has introduced another flight to the Federation originating in North Carolina. Even more exciting is the addition of American Airlines to the flight roster. The Airline made its inaugural direct flight on November 3rd of last year, operating 3 flights weekly from Miami, with an increase to 5 flights during the peak months of February, March and April. We expect that over time this schedule would be upgraded to a daily flight.

50. My Government has embarked on a number of other initiatives aimed at improving our tourism product, enhancing the experience of the visitors to our Federation and telling the world about us. We have established a National Cruise Committee that has taken an active interest in promoting the attractiveness of our Federation through ongoing island 'clean-up' programmes. In addition, we have placed multilingual signs at our historical sites for the convenience of our visitors, and have introduced tourism education in our schools with a view to cultivating a more service-oriented culture and greater sensitivity to tourism issues.

51. Madame Speaker, our tourism capital development plan is expansive and creative, and includes the improvement and expansion of the R.L. Bradshaw International Airport to accommodate more private and commercial jets as well as the very rapidly growing number of passengers who use the airport facilities. It also includes the further development of Port Zante through the construction of another pier that would be capable of accommodating all cruise ships, including an increasing number of those in the largest tonnage class of the Queen Mary 2. Over the past year, commercial investment activity at Port Zante has picked up steam considerably and a number of exciting developments are now underway. Not least among these developments is the rapid growth of the Amina Craft Market that now provides the opportunity for some 80 local arts and craft vendors to make a living by selling their various products to our visitors in an organized and well-regulated setting. Over the course of the coming year improved facilities for the smooth operation of Taxi and other transportation dispatching services will be constructed.

52. My Government is actively encouraging investment by the private sector in our tourism industry and the results have been quite heartening. The establishment of a Horseracing Track to international standards, a Golf Course and an Eco Hotel at Crystal Heights in the Whitegate Development area and the development of a Dolphin Park at the Southeast Peninsular will significantly boost our tourism product. Moreover, we are presently in discussion with a number of hoteliers for the construction of new hotels at various areas in the Federation, including the Southeast Peninsula, Frigate Bay, White Gate and La Vallee. At least three of these proposals are sufficiently advanced to give us confidence that construction is likely to commence within the next eighteen months.

53. Madame Speaker, as part of its marketing strategy the Ministry of Tourism in St. Kitts has branded its product as "St. Kitts – The Next Caribbean Adventure". This is indeed a most fitting label for a product that is emerging on the world stage in such a dramatic fashion. Our progress to date as an emerging destination is commendable but there is still much work to be done by all stakeholders. The future sustainability of our Tourism industry will depend largely on how well we plan for the future; raise awareness among our people of the benefits of the industry; strengthen economic and cultural linkages to our local communities; protect our natural environment and provide an interesting, safe, secure and healthy experience for all visitors. Madame Speaker, when you add our ongoing efforts to develop our human resources in all sectors of our economy, I am confident that our Tourism industry holds a very bright future for all of us.

The Sugar Industry

54. Madame Speaker, the performance of the sugar industry has continued to move on its downward path. Sugar output for the 2004 crop fell by 2,098 tons or 12.9% to 14,157 tons relative to 16,255 tons in 2003. The volume of sugar exported fell by approximately 11% to 13,329 tons over 2003 exports, which resulted in a decline in net earnings from sugar exports. It is not surprising therefore that by the end of November 2004 the amount owing by the St Kitts Sugar Manufacturing Corporation (SSMC) to the St. Kitts-Nevis-Anguilla National Bank Ltd. and the Development Bank totalled \$307.6 million. By the end of the 2005 crop this liability will increase even further.

55. As our Governor General, His Excellency Sir Cuthbert Sebastian indicated in his recent Throne Speech, the situation has become even more difficult because the preferences we enjoy in the European Market is rapidly being taken away from us. The European Union Commission (EUC) has indicated that as part of the revision of its Common Agricultural Policy, it will reduce the intervention price from the current 622 Euros per ton to 506 Euros per ton for the period 2005/2006. A further reduction to 421 Euros per ton is proposed for 2007/2008. At these prices, no Caribbean country will be able to produce sugar profitably with their current levels of production cost. In St. Kitts and Nevis, in particular, this would result in the loss of over US\$1,200 for each metric ton of sugar we produce.

56. This decision of the EU Commission to dramatically reduce the price of sugar has carried the projected losses of the SSMC to levels well beyond the capacity of our financial system and our Country as a whole. Even at existing prices, the SSMC is contributing a mammoth 4% of GDP to the national debt each year. Any increase in this percentage would threaten the financial stability of our Country. Hence, we have had to accelerate the implementation of our plans to transition the SSMC away from the production and export of sugar.

57. Of course, we were cognisant of the results of our extensive public consultations which confirmed that the majority of our people appreciated the need for the Country to bring a halt to the massive losses and debt that the industry was accumulating. Moreover, we took full account of the view expressed in a number of meetings by the major stakeholders including the Labour Union, the Management of the SSMC, and a number of international donors such as the Inter-American Institute for Cooperation on Agriculture (IICA), the Caribbean Development Bank (CDB), the OECS, the Eastern Caribbean Central Bank, (ECCB) and the Economic Commission for Latin America and the Caribbean (ECLAC). At the end of this extensive consultative process we took the decision that immediately after the 2005 crop the SSMC would cease the production and export of sugar and reorient its operations to the provision of other agricultural goods and services.

58. Of course, the 2004 Manifesto of the Labour Party, which our people so overwhelmingly endorsed in October of last year, clearly sets out the key priorities that would guide the exit from sugar production. The 2004 Manifest indicates that:

"This exit strategy from sugar will give priority attention to: the provision of alternative job opportunities, particularly those to which sugar workers can easily transfer; worker's entitlements, including notice pay and severance pay; and a clear land use policy that falls in line with the developmental thrust of my Government."

59. The implementation of this exit strategy is now in full gear. My Government has established a Transition Team to manage the transition process, and they are now doing the necessary planning and costing in respect of the benefits to be paid to workers. We expect, therefore, that well before the end of this year's crop we would be in a position to announce a comprehensive package of benefits for the sugar workers.

60. In addition, we have solicited the assistance of a number of regional and international institutions to assist us in implementing the transition programme. In particular, the CDB has indicated its willingness to assist us in setting up a Land Use Management Unit that will play a pro-active role in implementing a land use policy aimed at ensuring that our lands will be put to the most productive use and generate maximum benefits for our people. We have also been working with a number of entrepreneurs to explore the feasibility of using sugar cane for other purposes including the production of animal feed, the co-generation of electricity, and the production of ethanol- and alcohol-based products including rum. Moreover, as part of the Government's overall privatization strategy, a number of units at the SSMC, including the service station and the welding and metalwork operations, have been identified for privatization or commercialization.

61. Madame Speaker, we are particularly concerned about the creation of alternative employment opportunities for the sugar worker. As you would have noted, some of the proposals for the use of the sugar lands still involve the cultivation of sugar cane. In addition, even where sugar cane is not cultivated, there would be need to continue environmental protection activities including the clearing of verges and general soil protection. We intend, therefore, to identify those workers who are least likely to find alternative employment and to give them priority in the allocation of jobs for these activities. We are also fashioning a comprehensive retraining programme to accommodate those workers with an aptitude for working in the others sectors of the economy. We are also in the process of strengthening the Small Enterprise Development Unit with a view to assisting sugar workers in pursuing entrepreneurial activities. The Transition Team has been actively pursuing these initiatives with a view to securing

their implementation before the end of 2005 crop. Indeed, we have received indications from a number of donor agencies of their willingness to help and the Transition Team has been mandated to act as an interface between the Government and the donor community.

Non-sugar Agriculture

62. My Government sees the non-sugar agriculture sector as an important pillar of our economic base. Moreover, its contribution over the years to our socio-economic and environmental stability is immeasurable. With the problems being experienced by the sugar industry, further development of our non-sugar agricultural sector is critical. The major goals of the Non-sugar Agricultural Sector Development Programme include enhanced food security, the reduction of our import bill, the retention of a greater portion of tourism receipts by supplying more food and agriculture produce to the hospitality sector, and the generation of additional employment and entrepreneurial opportunities especially for those persons moving away from the sugar industry.

63. In pursuing these goals, the Department of Agriculture is exerting every effort to improve productivity by providing enhanced extension services to our farmers and by promoting improvements in our irrigation and in the technology deployed by our farmers. In this regard, we have already implemented the Estridge Irrigation Project to provide farmers in that area with easy access to water, and we intend replicate this project in other parts of the Federation. In fact, the Department of Agriculture has successfully submitted a plan to an FAO/CARICOM/CARIFORUM/Government of Italy Food Security Project for the development of irrigated vegetable production and the sum of \$129,000 has been allocated for the demonstration of irrigated vegetable production on farmers' fields in St. Kitts and Nevis.

64. Madame Speaker, the activities of the Department of Agriculture and of our farmers have yielded positive results. During the first nine months of 2004, vegetable production remained at a very satisfactory level and, in a number of cases, surpassed the relatively high levels of production that were achieved in 2003. When compared with 2003, white potato production in 2004 increased from 220,000 lbs to 265,000 lbs; sweet pepper from 54,000 lbs to 81,000 lbs; cabbage from 170,000 lbs to 176,000 lbs; and carrot production increased from 180,000 lbs to 227,000 lbs. Most importantly, local production of cabbages, carrots, sweet peppers and tomatoes was able to meet the domestic demand for some four months during the first half of 2004. Our aim over the medium-term is to fully satisfy local demand and to enhance the relatively low volume of exports to the neighbouring islands, especially those islands with well-developed hospitality sectors but very limited agricultural capabilities.

65. Madame Speaker, these increases in output have enabled our farmers to penetrate the hospitality sector with more and more supplies of fruits and vegetables. This activity is being coordinated by the Marketing Unit at the Department of Agriculture through the distribution of regular market intelligence reports that keep the hospitality sector informed of local produce availability. The Marketing Unit also keeps the farmers informed as to the products that are likely to achieve success in the market place.

66. For instance, the Agriculture Department has successfully promoted the production of cantaloupe and honeydew melon and the results have been quite heartening. We therefore expect that quite shortly production by our farmers will reach to the level necessary to ensure that these items appear on the tables of our restaurants and hotels and on the shelves of our supermarkets on a regular basis. Similarly, the Department of Agriculture has observed that the demand for pineapples is quite high relative to the 20,000 lbs produced in 2003 and 30,000 lbs produced in 2004. Hence the Department has established a pineapple farmers group, and has obtained the necessary financing to import larger quantities of planting material for the benefit of the farmers. Hence, we expect that, over time, the output of pineapples will expand quite rapidly and satisfy a much greater proportion of the demand for this item.

67. Madame Speaker, I am pleased to report considerable progress in meat production. The boneless beef initiative that was launched in October 2001 has continued to positively impact livestock production in St. Kitts. Beef production for the period January to September has increased from 87,000 lbs in 2001 to 128,000 lbs in 2003 and 195,000 lbs in 2004. Local farmers are now supplying over 75% of the boneless beef, ground beef and beef patties that are consumed in St. Kitts. This impressive growth has resulted from several factors including technical leadership from the Department of Agriculture, upgrading of the Basseterre Abattoir, successful control of the Tropical Bont Tick, distribution of land for livestock development, enhanced farmer support, and the operation of two meat processing plants.

68. Madame Speaker, production of pork has also shown significant increases during recent years. The impetus for this has been linked to the formation of the Progressive Pig Farmers Association in 2000. This group is actively involved in the importation of feed and has also imported improved breeds of pigs with a view to improving productivity. Pork production for the period January to September has increased from 55,000 lbs in 2001 to 98,000 lbs in 2003 and has declined somewhat to 95,000 lbs in 2004. A gradual improvement in animal husbandry practices is being observed and this should facilitate greater penetration of supermarket outlets.

69. Madame Speaker, mutton production continues to be low despite a strong market demand for local sheep and goat meat. Mutton production for the first nine months of the year increased from 28,000 lbs in 2002 to 38,000

lbs in 2003 but recorded a marginal decline to 37,000 lbs for 2004. Farmers' attempts at sheep and goat rearing are constantly being frustrated by the high incidence of dog attacks. There is also an urgent need for farmers to develop a commercial approach to small ruminant production. The Ministry of Agriculture intends to play an even more proactive role in promoting greater collaboration among the farmers involved in goat and sheep rearing, and fostering a business culture among this group.

70. Turning our attention to Fisheries, Madame Speaker, total fish landings for the first nine months in 2004 increased to 660,240 lbs from 492,760 lbs in the same period in 2003. This increase was again attributed to landings of the high priced species including snapper, conch and large pelagic species namely dolphin and tuna. It is estimated that 53,089 lbs or 8% of total landings with a value of \$351,372 were purchased from the fishermen and sold by the Basseterre Fisheries Complex. We expect that by providing additional retail facilities for fishermen around the island and by providing even more effective management for these facilities, the value, convenience and usefulness of these facilities to the fishermen will improve dramatically.

71. In this regard discussions are already underway between my Government and the Government of Japan for the establishment of a Fisheries Development Project to enhance the fishing operations in Old Road, Sandy Point and Dieppe Bay. A preliminary study phase of the project has been completed and a basic design phase is presently ongoing. This project is scheduled for implementation in 2005.

Industrial and Enterprise Development, Commerce and Consumer Affairs

Industrial and Enterprise Development

72. Madame Speaker, the performance of the manufacturing sector is heavily influenced by the level of economic activity in our major markets, especially the USA. Hence, the sector which had performed relatively sluggishly up until mid-2004 is now showing signs of recovery in line with the increased economic activity in the USA and our other trading partners. Accordingly, although in the first half of 2004 Sensor Scientific Ltd. closed its operation and a few other enterprises scaled back production, by the end of the second half of that year performance had improved and at least two companies, Jaro Ltd and Kajola Kristada Ltd., had acquired additional factory space. These two companies indicated that they would be expanding their product line and employing additional workers for the manufacturing of the new products. We expect that as global recovery gathers momentum, output in our manufacturing sector will grow even more rapidly.

73. Of course, our manufacturers have been facing much stiffer competition as a result of trade liberalization. My Government is aware that these enterprises would require much assistance in staying afloat and in improving the competitiveness of the goods and services they produce. The Ministry of Foreign Affairs, International Trade, Industry and Commerce has been mandated to establish ongoing dialogue with the enterprises in this important sector with a view to identifying their needs, providing enhanced assistance to them and ensuring that their views and concerns influence all foreign relations and international trade negotiations.

74. This Ministry also has an important role to play in facilitating small business development. In this regard, the Government is now considering a comprehensive policy in respect of small business development including a set of proposals to provide additional assistance and concessions to such enterprises. The Small Enterprise Development Unit (SEDU) is already providing assistance to some of these enterprises through their training, monitoring, mentoring and financing programmes. For instance, in the eleven-month period up to November 30, 2004, the Small Enterprise Development Unit (SEDU) disbursed funds totalling \$494,000 to fifty-six (56) small businesses in our Federation. These businesses included food vending, landscaping, entertainment and garment manufacturing operations.

Commerce and Consumer Affairs

75. Madame Speaker, during 2005 my Government will continue to focus on strengthening the legal and institutional frameworks that are required to adequately administer the affairs of the consumer in a liberalized, integrated economic environment. In addition, Department of Consumer Affairs will continue its campaign to heighten public awareness of their rights as consumers and to assist the public in asserting these rights in an informed and effective manner.

76. With regard to institution building, my Government will provide training for five (5) officers of a proposed Consumer and Competition Affairs Bureau and four (4) officers to serve the Business Tribunal including three (3) Tribunal Adjudicators. The training is being financed by the Organization of American States (OAS), and will be conducted by the Department of Licensing & Consumer Affairs of St. Thomas, United States Virgin Islands and the University of Vermont.

77. The Consumer and Competition Affairs Bureau will be an autonomous statutory body that will administer the Consumer Affairs Act 2003, a proposed Competition Act, the Licensing and Price Control Act, a proposed Consumer Credit and Utilities Regulation Acts, and other relevant laws. The Tribunal will provide expeditious resolution of business disputes in a manner and atmosphere that will be comfortable, accessible and affordable to all consumers.

78. Madame Speaker, the Bureau of Standards continues to play a critical role in consumer protection. In this regard the Caribbean Regional Organisation for Standards and Quality (CROSQ), which was mandated to promote the harmonization of metrology systems within CARICOM, is working with our Standards Bureau to develop metrology capabilities. Such capability would not only help to ensure that the goods consumed in St. Kitts and Nevis meet international standards but it would also help our enterprises to produce goods of the standard necessary to enter foreign markets.

Information Technology and Telecommunications

79. Madame Speaker over the past year, the telecommunications and information technology sector in our Federation has continued to flourish and to open new avenues of advancement for our people. The signing of the Eastern Caribbean Telecommunications Authority (ECTEL) Agreement some three (3) years ago was critical in shaping the direction of the telecommunications sector here in St. Kitts and Nevis.

80. As a result of the liberalized environment created by the ECTEL agreement there are now two cellular phone companies, AT&T and UTS-Cariglobe, busily installing the appropriate infrastructure and equipment which will allow them to begin offering services to the people of St. Kitts and Nevis by the end of the first quarter of this year. In addition, The Cable will be providing fixed line telephone services including local and overseas calling capabilities. A number of other telephone service providers have also entered the market, having obtained simple voice retail licenses.

81. Of course such advances in telecommunications and information technology must be supported by appropriate training and human resource development activities. Hence, my Government will continue to improve on the computer education provided in our primary and secondary schools and expand the activities of the computer laboratories at the schools. We understand however, that even adults need to keep pace with technological developments if they are to function properly at the workplace. We therefore provide them with a variety of training opportunities through programmes, such as the Rural Computer Education Programme, that target adults with little or no knowledge of information technology.

82. Madame Speaker, our initiatives in information technology are achieving the desired results. St. Kitts and Nevis already has a relatively high rate of penetration in both telephone and Internet services. It is ranked 20th in the world in internet access availability. Internet access is already available in all our institutions of learning, and in the coming year, additional services will be made available to community centres, clinics and community-based institutions, so that no one would be left behind in this digital age.

The Financial Sector

83. Madame Speaker, the commercial banks in the Federation have maintained their robust growth in 2003 with total assets reaching \$2.2 billion which represent an increase of \$271 million or 14% over the previous year. Similarly, deposits have also displayed an upward trend growing by a commendable 8% to \$1.5 billion at end of that year. Loans and advances, however, remained constant at \$1.1 billion at the end of 2003. This was mainly because of the fiscal adjustment undertaken by the Government and the resulting reduction in the advances and loans made to the Government in that year. The relative fast rate of growth of deposits served to boost the liquidity of the banking system. The increased liquidity in the banking system pushed down the loans and advances to deposits ratio from 79% at the end of 2002 to 72.0% at the end of 2003.

84. However, in 2004, as banks reduced lending rates and the rate of growth of the economy improved, the demand for loans picked up considerably so that by the end of September 2004 loans and advances had increased by 17.3% to reach \$1.3 billion while deposits had increased by 13% to reach \$1.7 billion. Consequently, the banks were able to reduce their excess liquidity, and the loans and advances to deposits ratio increased from 72% at the end of 2003 to 74.3% at the end of September 2004.

85. Madame Speaker, the Development Bank of St. Kitts and Nevis also plays an important role in the financial sector. In 2003 the Bank approved 1,139 loans totalling \$69.8 million. Of this amount, the Bank allocated \$0.4 million to Agriculture, \$1.2 million to Industry, \$8.7 million to Education and \$13.7 to Home-Mortgage Financing. Over the last eleven months of 2004, the lending activity of the Bank picked up even more significantly, with 1,357 loans being approved for a total of \$105.8 million. A sharp increase in Education and Home Mortgage loans of 54.2% and 50.3% respectively is particularly noteworthy. This is indicative of the Bank's success in allocating resources to the areas identified as priority by the Government.

International Financial Services

86. The International Financial Services sector has been expanding in recent years in response to the effective Marketing and Promotion Programme implemented by the Marketing and Development Department of the Ministry of Finance. In particular, up to November 2004 there was a 10% increase in the number of ordinary companies

registered and a 30% increase in the number exempt companies registered. We have been also consulting with the service providers with a view to making company and trust legislations more user-friendly while at the same time maintaining international regulatory standards. We expect that these activities will significantly accelerate the pace of growth of company and trust registrations.

87. Madame Speaker our new Foundations Legislation is also generating some interest in the marketplace as there are already 24 Foundations registered in St. Kitts and Nevis in under a year since the formal launch of this vehicle. In 2005 we will devote much of our marketing effort to the creation of a niche in foundations and segregated portfolio companies. The Marketing and Development Department will also devote much of its effort and resources to the promotion of our International Ship Registry, which we expect will grow very rapidly over the next few years.

88. The Marketing and Development Department also plays an important role in investment promotion. We expect that during this year, the Department would be upgraded into a 'one-stop' shop for investors. However, for the Department to effectively play this role, it will become necessary for us to streamline the administrative procedures with respect to investment projects, and prepare a comprehensive manual setting out the procedures for undertaking investment in St. Kitts and Nevis. We have already commenced work in these vital areas and we expect that the new system will be fully implemented by the end of June 2005. It is our aim that these innovations will help to remove any 'hassle' and excessive 'red tape' from the investment process and thereby make our Country even more attractive to local and foreign investors.

89. Madame Speaker even as we promote and develop our financial sector, we must pay particular attention to regulatory issues, and we must exert every effort to keep our financial system reputable and clean. Hence, we have been very proactive in implementing our Anti-Money Laundering Programme. In particular, the Financial Services Department, acting in accordance with the provisions of the Proceeds of Crime Act 2000, has conducted on-site anti-money laundering examinations of 100% of the money services sector, approximately 55% of the insurance sector and 40% of the international financial services sector. In addition our Financial Services Task Force, which has representatives from both islands of the Federation, has been working tirelessly to implement the recommendations contained in the reports in respect of the IMF Financial Sector Assessment Programme and the Mutual Evaluation of our Anti-Money Laundering and Combating Terrorist Financing framework.

Money and Capital Market Development

90. Madame Speaker, my Government, along with other Governments of the Eastern Caribbean Currency Union (ECCU), continues to facilitate the ongoing development of money and capital markets and to put in place the necessary enabling environment. The Eastern Caribbean Securities Market (ECSM) is now into its fourth year of operations and it has been making considerable progress. There are now seven companies listed on the Eastern Caribbean Securities Exchange (ECSE), and there have been two very successful initial public offerings (IPO's). The ECSE now seeks to expand its product range by encouraging other existing public companies to list, by encouraging IPO's of leading private companies and by listing companies from the other CARICOM countries. To this end my Government has enacted the necessary amendments to the securities legislation to enable the ECSE to undertake the expansion into the wider CARICOM and thereby position itself to become the leading regional exchange within CARICOM, as we move into the CSME.

91. Of course, regional Governments are also accommodated on the ECSE platform. The Regional Government Securities Market (RGSM), since the initial bond issue by my Government in November 2002, has gathered momentum, and there are now regular monthly issues of securities on this market. There are ten sovereign issues by four ECCU member governments now listed.

92. Madame Speaker, despite the outstanding progress the Currency Union has made in capital market development, there is still much work to be done. In particular, the Eastern Caribbean Enterprise, which is expected to mobilize equity and loans for our enterprises, is now being developed and it is scheduled to be launched during the course of this year. Shortly thereafter we expect the Eastern Caribbean Unit Trust to take form and shape.

93. My Government strongly supports these initiatives aimed at financial deepening and the creation of a single financial space in the Eastern Caribbean Currency Union. They not only further the process of regional integration but they also complement my Government's own Financial Sector Development Programme aimed at making St. Kitts and Nevis a leading international financial centre.

PUBLIC FINANCE

Fiscal Review and Debt Management

94. Madame Speaker, the revenue collections for 2003 totalled \$255.9 million, surpassing the previous year's collections by \$21.1 million or 9%. Recurrent Expenditure recorded an increase of \$9 million or 3.4% ending the year at \$273.5 million. For the second consecutive year the rate of increase in revenue collections has surpassed the rate of increase in expenditure. It is particularly noteworthy that while Recurrent Expenditure increased by 14.5% between

1999 and 2000, it has only increased on an average of 3.8% for the years 2001 to 2003. Madame Speaker, this dramatic slowdown in the growth of Recurrent Expenditure provides clear evidence of the efficacy of our Fiscal Stabilization Programme. Our aim, however, is to expeditiously move the recurrent account balance from the deficit of \$17.7 million recorded in 2003 to a surplus of a sufficient magnitude to make a meaningful contribution to the funding of the Capital Budget.

95. Capital Expenditure, including direct payments and purchases by donors, amounted to \$44.8 million compared to \$100.3 million in the previous year. This substantial reduction in Capital Expenditure combined with the substantially improved performance on the Recurrent Account brought the overall deficit for the year to \$70.8 million, the lowest overall deficit in five years. As a result of this improved fiscal performance, the primary balance improved by over 8.9% of GDP to reach a deficit of just under half of 1% of GDP.

96. Madame Speaker, further examination of Recurrent Revenue reveals that there was improvement in collection in all of the main categories of Revenue, namely Taxes on Income, Taxes on International Trade, Taxes on Domestic Goods and Consumption, and Non-Tax Revenue. This improvement in Revenue collections, in a year in which real economic growth was 0.6%, reflects the great strides that we have been making in enhancing the efficiency of the revenue collections process.

97. The increase in Recurrent Expenditure resulted from increases in Operating and Maintenance Services, Interest on Debt, and Grants and Contributions. Operating and Maintenance Services increased mainly as a result of an increase in the cost of fuel used in the generation of electricity, while Interest on Debt increased by \$8.2 million or 14.4 % to reach \$65.1 million, mainly as a result of the increased stock of debt emanating from the deficit in the previous year. We were pleased, however, that as a result of the tighter controls instituted in respect of the recruitment of new workers and in the payment of overtime and other payroll-related charges, we were able to achieve a reduction of \$600,000 in total salaries wages and allowances without having to lay-off a single person.

98. Madame Speaker, the reduction in Capital Expenditure in 2003 was based on a strategic decision to bring the Capital Budget in line with our fiscal stabilization targets, while at the same time, give emphasis and priority to those projects that facilitate growth and those that make the maximum contribution to the social development goals of my Government. For this reason, during 2003, Capital Expenditure was spent in the General Administration Sector, the Social Services Sector, the Economic Services Sector and the Economic Infrastructure Sector.

99. Hence, during 2003, we continued to move the Country forward by implementing a creative blend of social and economic projects including the Upgrade of the Basseterre Public Market, the Pig Production Unit, the Bourryeau Road, preparatory work in respect of the West Basseterre Bypass Road, the Hurricane Lenny Rehabilitation work including sea defense, the Electricity Supply Improvement Project, the Water Supply Improvement Project, the Basic Education Project, the CFB College Hospitality Unit, HIV/Aids and Pogson Hospital Projects, the third and final phase of the JNF General Hospital Development, the St. Paul's Sporting Complex and the Saddlers Sporting Complex.

100. Madame Speaker, there is no better overview of the performance of the Government in 2003 than that provided by the IMF in the following extract from their Report on the 2004 Article IV Consultations:

"The fiscal position improved markedly in 2003-04, with the primary balance of the central government expected to record a small deficit of ½ of one percent of GDP. The primary deficit of the central government was cut by 10% of GDP in 2003, reflecting major reductions in capital outlays, as well as improved revenue collections (largely due to strengthened tax administration) and enhanced control over non-interest expenditures."

101. However, in that report the IMF also indicated that "despite the improvement in fiscal outcomes, the public debt-to-GDP ratio continues to increase, and notwithstanding debt management operations, interest costs are rising." Indeed the debt stock (including the debt of the SSMC, the Nevis Island Administration and public corporations in St. Kitts and Nevis) is now in the region of 171% of GDP, which is well outside the levels that we would deem acceptable. Consequently, we intend to implement an aggressive reduction strategy that would progressively reduce the debt stock over time. The elements of that strategy, which were outlined in the recent Throne Speech, include the following:

Firstly, the intensification of our Fiscal Stabilization Programme through enhanced efficiency in revenue collections and tax management; reduced expenditure, including the reduction of the number of public sector workers through attrition; and the continued refinement and adjustment of tax policy. In this regard, we will carefully examine the report of the Tax Commissioners appointed by the Monetary Council of the ECCB, with a view to implementing the recommendations that are deemed feasible in the context of specific local circumstances. We also intend to make full use of the study that the World Bank has been undertaking in respect of public sector expenditure management in the OECS.

Secondly, active Asset Management, including the implementation of a comprehensive privatization and commercialization programme aimed at mobilizing considerable resources through more effective utilization of

Government's assets and enterprises and the sale of selected assets and enterprises where this is deemed appropriate and consistent with the interest of our Nation and the aspirations of our people.

Thirdly, continued Liability Management aimed at reducing the cost of debt and minimizing financial risk by adjusting the maturity of debt through refinancing where this is feasible.

And fourthly, the continuation and strengthening of the policies aimed at spurring economic activity and enhancing growth. The acceleration of the pace of growth of the GDP would directly reduce the debt-to-GDP ratio, and would indirectly reduce it by enhancing the revenue intake of the Government, thereby facilitating the commitment of more resources to the repayment of debt.

102. Madame Speaker, all of these activities are ongoing and our efforts over the next few years will be aimed at intensifying these activities. I have already outlined the progress that we are making in fiscal consolidation and in spurring economic activity and enhancing growth. Moreover, in respect of Liability Management, the IMF reports that we have been making some progress in this area. In particular, the 2004 Article IV Report indicates that "the Authorities have extended the maturity of the existing debt stock and lowered the cost – largely by refinancing domestic debt with external commercial debt." Unfortunately, with international interest rates rising and expected to increase even further, the scope of such activities is limited, except we are able to make a serious dent in the stock of debt, and thereby push down the interest rates applicable to St. Kitts and Nevis by changing our risk profile.

103. Madame Speaker, our Privatization and Commercialization Programme is now ready to move into full gear. We have established a Privatization Unit to carry forward the process and that Unit has identified a wide range of public sector assets that would be suitable for privatization or commercialization. The assets or enterprises proposed for privatization or commercialization include the Central Marketing Corporation (CEMACO), the Quarry Operations, the Development Bank, Government's ownership interest in Cable and Wireless and in the Cable, the Electricity Service and appropriate assets, operations and real estate of the SSMC. In addition, we intend that as part of a comprehensive Land Use Management Policy, a considerable portion of the lands that are currently under sugar cane cultivation would be offered for sale for purposes deemed consistent with our developmental goals.

104. Madame Speaker, the IMF, in their visit last month, projected that with the proposed implementation of the Privatization Programme and the strengthening of the Fiscal Consolidation Programme through continued enhancement of the efficiency of tax administration and appropriate change in tax policy, we could reduce the total public sector stock of debt by over 40% of GDP. Moreover, the Privatization Unit has planned an even more accelerated commercialization, privatization and asset disposal programme than that assumed by the IMF. If this is successful, then the reduction in debt over the next five years could be even more substantial, and we could realistically look to bring the debt level to well below 100% of GDP in a ten-year period.

105. I must also mention that the St. Kitts-Nevis-Anguilla National Bank has proposed a creative strategy for dealing with the massive debt of the SSMC. It entails, among other things, the issuance of Government bonds with no maturity and with a much lower interest rate than currently paid by the SSMC. The Government is studying this proposal with a view to entering into detailed negotiations with the National Bank. We expect that our efforts of bringing down the public sector debt-to-GDP ratio will receive a tremendous boost from our recent decision to transition the SSMC away from the production of sugar and from our ability to enter into a mutually agreed arrangement with the National Bank concerning the current stock of debt of the SSMC.

Fiscal Prospects

106. Madame Speaker, the Financial Summary on the first page of the Estimates projects Recurrent Revenue for 2005 at \$322.3 million. This represents an increase of \$37.9 million or 12.3% when compared with the estimate of \$284.4 million for 2004. Recurrent Expenditure has been estimated at \$308.3 million representing an increase of \$39.4 million or 14.7% over the estimate for fiscal year 2004. We are, therefore, estimating a Recurrent Account surplus of \$13.9 million for 2005.

107. Madame Speaker, our ability to reasonably project a current account surplus despite all the challenges which confront us both domestically and internationally is evidence of our commitment to the stabilization of our fiscal position. This signifies that despite the level of the public debt we intend to generate an adequate amount of Recurrent Revenue to meet expenditure on Personal Emoluments, Goods and Services, Transfers and Subsidies, and Interest Payments, and to make a substantial contribution to capital projects. We consider this target to be attainable in view of the revenue trends in recent years and our demonstrated ability to contain the growth of expenditure. Indeed, the attainment of this surplus would build on our achievement in 2003 when we were able to reduce our Recurrent Account Deficit by more than \$12 million.

108. The fiscal targets that we have set ourselves are challenging but definitely within our grasp. However, our progress to the attainment of these targets would be made much smoother if all public servants and citizens in general share our vision and do their part in ensuring that all public entities operate at a high level of efficiency. This would assist us in confronting the fiscal challenges without adopting any policy prescription such as the wanton

laying-off of public sector workers, which would bring undue hardships on our people. Such policy prescriptions are simply not consistent with my Government's strong focus on people development and on the protection of the rights of our working classes. We must, therefore, work together as a harmonious and united people to overcome our challenges, exploit new opportunities, and protect the immense progress that we have made over the years.

109. Madame Speaker, my Government decided to give due recognition to the dedication and hard work of our public servants by paying the 10% increase in salary that they so richly deserved. This increase, which totals \$12.4 million, affects all expenditure heads. Moreover, the allocation in respect of retirement benefits and pensions has also increased because we also awarded retired public servants an increase in the rate of pension at the same time that public servants received their increase in wages and salaries.

110. The 2005 Estimates that were just laid before this Honourable House, provide comprehensive details of the allocation of resources to the various projects, programmes and activities of my Government. However, I think that it is important for me to give a brief overview of some of the major changes in the budget allocations for 2005.

111. The Ministry of National Security, Justice, Immigration and Labour received an increase of \$3.78 million. Apart from the increase in Personal Emoluments, this Ministry was provided with an additional \$175,000 to assist with the canine and other programmes designed to fight crime. We expect to add two more 'sniffer' dogs to that unit in 2005. In addition, we intend to restructure the Special Constables Unit and fill vacant positions in other areas in order to ensure that the Police Department has the necessary capacity to perform its functions as mandated by the law and expected by our citizens. The allocation to National Security has grown quite rapidly over the years, as we have been committing more and more resources to the fight against crime. This year, we intend to put greater emphasis on ensuring that the large sums of money committed to National Security are used even more effectively and efficiently in the pursuit of our goal of dramatically reducing crime.

112. Moreover, we are adopting a much more comprehensive approach to the fight against crime by building on synergies with other Ministries with a view to ensuring that our programmes target the root cause of crime. For instance, we believe that there is considerable scope for enhanced community-based activities that would ensure that our young people, in particular, are productively engaged, and are pursuing wholesome activities that would keep them away from crime and contribute to their personal development.

113. Hence, the Department of Social and Community Development has been provided with an additional \$100,000 to engage in a range of community-based training and personal development activities. These include Summer Camps targeting some 600 children in the various communities around the Federation; After-School Activities targeting 30 children between ages 6 and 12, and also 20 teenagers at each community centre; Self-Improvement Training targeting 25 adults at each community centre; Community-Based Leadership Training; and School-to-Work Transition Workshops targeting school-leavers and preparing them to enter the workforce or take up entrepreneurial opportunities.

114. The Department of Social and Community Development was also mandated to step up its activities in relation to caring for the poor and the elderly. This is particularly important in a period of fiscal consolidation. Hence, we have increased the allocation to public assistance by \$46,000. The 2005 Estimates have also made provision for two additional Social Assistance Officers to ensure that the Department has the human resources required to carry out its very challenging mandate.

115. Madame Speaker, the Education Department plays a critical role in nurturing our young people and preparing them for the workplace. We are conscious that while our comprehensive education system ranks among the best in world, there are still many children who do not make it through the system and they become prone to cynicism, disenchantment and ultimately, criminal behaviour. We have, therefore, increased the allocation to post-secondary education, to facilitate the strengthening of the Non-Formal Youth Skills Programme and Advanced Vocational Education Centre and to enhance their capacity to cater specifically to the children who are not inclined to pursue purely academic studies. We also intend that the brand-new Hospitality Centre at the Clarence Fitzroy Bryant College will provide opportunities for many of them to obtain the training they require to enter the dynamic tourism industry.

116. Madame Speaker, the other Ministries that were allocated additional resources include the Ministry of Foreign Affairs, International Trade, Industry and Commerce, which received an additional \$401,000 in grants and contributions to meet our obligations to international and regional organizations; the Ministry of Finance, Sustainable Development, Information and Technology, which was allocated an additional \$7.5 million in respect of our debt servicing obligations; the Ministry of Public Works, Utilities, Transport and Post, which received an increased allocation of \$3 million to cover increased operating and maintenance expenses including the increased cost of fuel in the generation of electricity; and the Ministry of Health, which was provided with an additional \$800,000 to purchase additional medical supplies in keeping with the dramatic improvement in the range and quality of services that are being provided at the JNF General Hospital and other health care facilities.

Development Projects

117. The Capital Budget for 2005 amounts to \$101.4 million. Of this \$31.5 million will be funded from Development Aid, \$54.7 million from Loans and \$15.2 million from Revenue. We have been very careful to prioritize the capital projects based on the expected economic and social impact and we are convinced that the creative blend of projects that we intend to implement in 2005 will help keep us on track to the creation of that new and progressive society that we have been building.

118. Madame Speaker, as the economy expands, the demands on our physical infrastructure will continue to increase. We must therefore maintain a level of infrastructure commensurate with the growth of our economy and the progress we make towards the achievement of our development objectives. Adequate electricity and water are important prerequisites for growth and development. Hence, during 2005 we will continue to implement the \$35 million Water and Electricity Supply Improvement Projects which will dramatically improve the supply and distribution of water and provide a much more reliable supply of electricity by upgrading the electricity distribution system. In addition, we have allocated \$5.5 million to the overhaul and improvement of the generators at the Power Station, and we will replace the roof of the Power Station to provide additional security for our generating sets in periods of storms and adverse weather conditions.

119. A reliable and well-maintained road network is also critical to growth and development. We will, therefore, continue to implement our very expansive projects for the rehabilitation of roads. During 2004, we constructed or rehabilitated over 67 miles of road over an eighteen-month period. In addition, during 2005, construction will commence in respect of the West Basseterre Bypass Road, which we expect would help to ease the congestion in Basseterre. This project will also include a comprehensive traffic study aimed at devising strategies to facilitate the easy flow of traffic thorough Basseterre. Of course, as we enhance our road structure, we must at the same time protect our roads from erosion that may be caused by rough seas. We will therefore continue to implement the Hurricane Lenny Rehabilitation Project which will repair and reinforce the sea defences at Fortlands and the Bay Road, and correct land slippages at Pump Bay.

120. Madame Speaker, as I indicated earlier, although Social Sector projects do not always bring immediate financial returns, they play a very important role in propelling us to the attainment of our long-term human development goals. Hence, our Public Sector Investment Programme has sought to maintain an appropriate balance between social projects and economic infrastructural projects. In this regard, during 2005, we plan to execute a wide range of social projects including the Challengers Multipurpose and Day Care Centres, the Cayon Community Centre, and the upgrading of the community centres at Conaree and Tabernacle. We will also construct the Pogson Health Facility which will not only give the people of Sandy Point and the surrounding villages easy access to modern health and medical care facilities, but will also play an important role in the fight against HIV/Aids.

121. Madame Speaker, we also consider sports as an important contributor to community and social development and to the fostering of appropriate values among our young people. We have therefore committed resources to the completion of the St. Paul's Sporting Complex, the Newtown Sporting Complex, the Verchild's Playing Field, the Fig Tree/LaVallee Playing Field, the St Peter's Sporting Complex, the Dieppe Bay/Parsons Sporting Complex, the Edgar Gilbert Playing Field; and the upgrade of the Gardens Sporting Complex and the Half Way Tree Grounds.

122. However, notwithstanding the wide array of opportunities that our young people are given to develop their talents and capabilities, there will be some of them that will get into trouble. Hence, in 2005, we will commence the construction of a Co-ed Juvenile Rehabilitation Centre as part of a comprehensive Youth-At-Risk Project. This project would, among other things, provide extensive training for Parents, Teachers, Guidance Counselors, Child Protection Officers, Probation Officers and Magistrates who handle matters in relation to juvenile offences. The project will also provide consultants to develop diagnostic kits for the early identification of children with learning or behavioural difficulties, so that expeditious remedial action could be taken to correct these deficiencies and bring such children within the mainstream of the education system.

123. Of course, we will also continue to upgrade and modernize our entire education system. To this end, we will continue the implementation of the Basic Education Project and the Secondary Education Development Project which will include the construction of a new secondary school at Saddlers and the modernization of the management, content and delivery of secondary education in our Federation. In addition, the implementation of the EU-funded Information Technology Based Training and Management Project will commence in 2005. This is yet another of our initiatives aimed at advancing the Information Technology Sector by helping our young people to acquire the appropriate skills that would enable them to provide information technology services that would be comparable in quality and price to any such service offered anywhere on the face of the globe.

Fiscal Measures and Budget Initiatives

124. Madame Speaker, this portion of the budget address of any country is usually a source of great consternation and anxiety. Indeed, this is usually the section of the address where the citizens of a country are given the opportunity to make a financial contribution to the nation-building process. In view of the difficult financial position of the Currency Union as a whole and the high debt-to-GDP ratio of St. Kitts and Nevis in particular, it should not be a surprise if our people are called upon to make a greater contribution to the fiscal consolidation effort and to the

funding of the many services and development projects I have outlined earlier. After all, I know that you would agree that these essential services and creative development projects are critical to the future growth and development of our Country and to our continuing march along the road to progress and prosperity.

125. Of course, in proposing fiscal measures, we must also be cognizant of the need to spur on the economic recovery that we have been experiencing and to give our people the incentive to pursue economic activities that would push the Country forward to the achievement of its growth and development objectives. It is in this context that I propose the following fiscal measures and budgetary initiatives.

126. Madame Speaker, the surge in tourist arrivals in recent years has resulted in an increase in the demand for the services of local performers and entertainers. My Government would wish to encourage more and more of our talented people to venture into this growing area, and to organize shows, concerts and performances to gain experience, develop their skills and earn the resources necessary to fund the purchase of any necessary material and equipment. Hence, I propose the removal of the Entertainment Tax in respect of shows, concerts, performances and other similar events in which the performing artists are all nationals of St. Kitts and Nevis living at home or abroad or nationals of other countries (including CARICOM countries) who reside in our Federation.

127. My Government had promised to review the Environmental Levy after a reasonable trial period and make a final determination as to the form it would take. Having carried out that review, we are satisfied that the Levy is producing the desired results. For instance, collections in respect of the Levy in 2004 were enough to finance the very successful programme initiated last year to clean our roads and tourist sites and to generally keep our environment clean. However, we recognize that not everybody can afford a new car, and that a second-hand vehicle that is under two years old, would not create as much environmental concern as an older vehicle. I therefore propose the removal of the Environmental Levy in respect of any motor vehicle that is two years old and under.

128. Madame Speaker, the Stamp Duty in respect of the transfer of real property is quite often onerous to purchasers of such property because the banks, as a matter of policy, do not finance stamp duties and taxes. As you are aware, my Government is determined that as many of our nationals as possible should carve out their own little piece of this 'rock', and we continue to demonstrate this determination by providing homes to hundreds of low-income families in the Federation. Indeed, some 400 super low-income houses are now on the ground either fully completed or very close to completion and we intend to complete installation of the appropriate infrastructure including roads, electricity and water over the next few months. But we would also wish to remove any impediment to home ownership, even in respect of those persons who would not wish to participate in Government housing projects. Hence, I propose the removal of all stamp duties payable by purchasers of real property in St. Kitts and Nevis and I further propose that such stamp duty be levied instead on the seller of the property. This provision would not apply, however, to crown grants or in respect of any transaction in which the seller has been exempted from the payment of the stamp duty.

129. Madame Speaker, my Government provides a very generous package of tax and duty concessions for a variety of social and economic purposes. In most instances, entities enjoying exemption from duty and taxes are spared some 52% of the Cost, Insurance and Freight (CIF) value of imported goods. We believe, however, that before we can ask the public-at-large to pay additional taxes, we must find some way of allowing the beneficiaries of tax and duty concessions to contribute a small portion of the concession to the fiscal stabilization effort. I therefore propose that the Customs Service Charge applicable to persons and entities importing goods and enjoying exemption from Import Duty and Consumption Tax on such goods be increased from the current rate of 6% to 12%. The Customs Service Charge for all other imports would remain at 6%.

130. Madame Speaker, this measure is consistent with the purpose for which the Customs Service Charge was established. You may recall that the original purpose of the Charge was to provide the Customs Department with a fee for the time and resources expended in processing imported goods. However, goods imported on a duty-free or tax-free basis take up much more processing time, and utilize much more resources than other imported goods. For instance, the application has to be processed through the Ministry of Finance, the Ministry of Commerce and possibly through Cabinet. In addition when the goods arrive, the Customs Department must devote considerable resources to ensuring that the concession is not abused. Hence, it is only fair that the duty-free and tax-free imports attract a higher Customs Service Charge than other imported goods.

131. Madame Speaker, as you are aware, our fuel retail prices are now the lowest in the Eastern Caribbean. For instance the price of unleaded gasoline in the other OECS countries ranges from \$7.50 per gallon in Grenada to as high as \$9.37 per gallon just next door in Anguilla. The price has remained at that level in Grenada because of the problems encountered in respect of Hurricane Ivan. Over the past year, my Government had to pay a huge subsidy to keep the price of unleaded gasoline at \$6.60 per gallon and the prices of Liquid Propane Gas at \$125 and \$26 for a 100lb tank and a 20lb tank respectively. Indeed, we have suffered revenue losses of over \$4 million in 2004 and we currently owe the oil companies over \$2 million in respect of the subsidy. This outstanding amount is increasing rapidly with the passage of time. I therefore propose that with effect from tonight at midnight the price of unleaded gasoline would increase to \$8.30 per gallon and the price of Liquid Propane Gas would increase to \$140 for the 100 lb tank and \$30 for the 20 lb tank. This is not a fiscal measure in the conventional sense. It does not seek to impose

any new tax. It simply increases the controlled price to a level that would eliminate the subsidy and reflect regional averages.

132. This increase will obviously affect the cost of public transport. However, we are pleased that the representatives of public transport bus drivers have agreed to keep the maximum bus fare at the same level but to simplify and refine the rate structure. The revised bus fares will be published shortly.

133. Madame Speaker, I come now to the issue of Personal Income Tax that has generated some discussion over recent weeks. As you are aware, this Tax was recently re-introduced in Antigua and Barbuda and the Tax Commissioners appointed by the Monetary Council of the ECCB have recommended that the countries of the Currency Union generate a significant portion of their revenue collections from taxes on income. The Labour Party which I lead has, since the inception of the Social Services Levy in the early 1980's, contended that the Social Services Levy was essentially a personal income tax. We still hold to that view, so that we do not see the need to introduce any new legislation at this time in respect of personal income tax.

134. Madame Speaker, you must have noted that none of the proposals that I have made seek to impose any new taxes. In one instance I have produced a reduction in the level concessions enjoyed by entities enjoying tax and duty concessions and in another instance I have sought to eliminate the subsidy paid by Government in respect of the controlled price for fuel. In summary then, this year's budget is a tax-free budget.

135. Madame Speaker, we are persuaded that the efficient and effective administration of the current taxes that we have on the books would ensure that we meet the revenue targets established for 2005. It is noteworthy that over the past three years Recurrent Revenues have jumped by about 42% from \$202 million in 2001 to \$286.6 million in 2004. This tremendous growth is primarily the result of the increased efficiency and effectiveness of the revenue collecting departments, and we believe that there is considerable scope to further enhance revenue collections through greater efficiency. The Inland Revenue Department has been modernized and computerized, and the Customs Department is undergoing a reform process that will modernize its organization, management and operations. It will also give the Customs Department state-of-the-art Information Technology systems that would allow brokers and importers the convenience of electronic transfer of documents to and from the Department.

136. Of course, we will continue to exercise great control over expenditure. To this end, the Treasury's computer system is being upgraded to facilitate real time processing of transactions and greater control over Government's financial operations. In addition, this year's Estimates provide for the conversion of the Establishments Division into a full-scale Human Resource Management Department that will lead the way in reforming the Public Service and in ensuring that the human resources available to the Government would be deployed in the most effective manner and would bring maximum value to the Public Service. As part of this process the new Human Resource Management Department will assume responsibility for established and non-established workers and will ensure that by mid-year the ongoing actuarial studies will be completed, and that the appropriate legislation will be put in place to ensure that all Government employees enjoy appropriate retirement benefits when they reach retirement age.

137. Madame Speaker, this year we consciously decided that we would not tinker unnecessarily with the tax system that is already characterized by a plethora of tax legislations. We will, during the course of this year, undertake a comprehensive review of the tax system and engage in extensive discussions with the public concerning the nature and form of taxation that they would wish to see implemented in St. Kitts and Nevis. We will also examine the fees and charges imposed by the Government Departments with a view to ensuring that they fully reflect the cost incurred by the Government in providing the relevant services.

138. We presently have before us a number of proposals from the Social and Economic Partners relating to a range of tax and fiscal matters including the Corporation Tax, Stamp Duties, Duty-free Shopping and investment facilitation. We intend to specifically address these issues as part of the comprehensive review of the tax system. They also raised a number of issues that were not directly related to the tax system. These include issues relating to work permits and CSME compliance, public transportation, crime reduction, the protection of the environment, land development policies and small business development in general and in preparation for the 2007 World Cup Cricket specifically. We intend to pursue these matters with the relevant Ministries and Departments, with a view to ensuring that the recommendations are properly evaluated and that those recommendations deemed feasible are expeditiously implemented.

139. Madame Speaker, one of the major challenges we will face during 2005 is the transition of the existing workforce of the SSMC into other employment and entrepreneurial activities including farming. We are particularly concerned about those workers who, because of their lifelong orientation and exposure, would not wish to be separated from the land. Hence the package of benefits for sugar workers will include tax concessions and subsidies to assist them in the purchase of seeds, plant material, livestock feed and the tools and equipment that they would require to engage in commercial farming. We will also use vehicles such as the Small Enterprise Development Unit to provide direct financial and technical assistance to sugar workers wishing to pursue entrepreneurial activities.

Conclusion

140. Madame Speaker, the message of this year's budget is quite clear. Our economy has been recovering strongly from a relatively sluggish growth rate in 2003, and we are now poised to enter a new era of accelerated growth and development, led by the tourism sector in particular, and the services sector in general. At the same time, we face challenges in relation to the relatively high public debt and the need to find alternative uses for the resources that have been committed to the sugar industry. Hence, we have set responsible fiscal targets that will keep us on the path of fiscal stabilization for the upcoming year but we have been careful to ensure that we do not choke off the economic recovery with excessive taxation. Indeed, we allocated resources to a creative blend of projects and activities that would boost the growth momentum.

141. We also implemented a range of projects in the social sector aimed at promoting the welfare of the poor, providing adequate health care for our people, and giving our people adequate opportunity for personal development through education, community activities and sports. Our strategy for education and human resource development has focused specifically on young people with a view to giving them the skills, knowledge and values required to make a worthwhile contribution to society, and providing them with alternatives to criminal activities. We view these activities as important elements of our strategy to step up the fight against crime. It is also our aim that through our expenditure on social development and on human resource development, in particular, we would steer our Country towards the goal of achieving international competitiveness that is so crucial to the future viability of our Nation.

142. It is only through the empowerment of our people that we would be able to rise beyond the limitations of the small size of our islands and stand tall among the nations of the world. Indeed, much of the fiscal measures and budget initiatives are about the empowerment of our people. We have empowered our entertainers and performing artists; we have empowered our potential homeowners; we have empowered our young people seeking to purchase their first car but who could not afford a new car; and we intend to empower our sugar workers to move beyond the sugar fields and to take hold of the many opportunities that we have created for productive employment and profitable entrepreneurship. Employment creation is one of the critical objectives that we have set for this fiscal year. We expect that our expansive Public Sector Investment Programme and our initiatives in the various sectors of economy including tourism, agriculture, information technology and financial services will provide hundreds of job opportunities for all of our citizens and for many of the employees of the SSMC, in particular.

143. Madame Speaker, we have also outlined a strategy for bringing down the public debt to acceptable levels. We believe that a well-implemented Privatization and Commercialization Programme will facilitate this process without bringing unnecessary hardships on our people. It would also help to further the empowerment process by giving our people a chance to own shares in privatized enterprises and by fostering a share ownership culture among our people. The mandate of my Government is to advance the standard of living of our people and to offer protection to the working class, the poor, the disenfranchised and the other vulnerable groups in our society. This has been the *raison d'être* of the political party that I lead, and I am determined to do everything necessary to secure the fiscal stability of our Country while at the same time remain true to the ideals of my party.

144. At the same time, we must remember that the struggle to reduce the debt is not for the Government alone. The debt belongs to all us, and if we do not act together in a decisive manner, our children and grandchildren will also have to carry this debt. We know that a major contributor to the debt has been the natural disasters. The IMF 2004 Article IV Report has confirmed this in a very definitive manner. Hence we need to stop playing the blame game. As a people we must combine our talents and capabilities to counter this threat to our future growth potential. We must pay our taxes and contribute to nation-building as responsible citizens. Indeed, this is a matter which, in my view, must be placed beyond partisan politics if our strategy is to reap the expected rewards. We are fortunate that the platform from which we launch our offence against debt is solid. Our wide array of state assets and enterprises, and the tremendous growth potential that our economy has displayed can only enhance the efficacy of our actions.

145. Madame Speaker, I am persuaded that we can overcome our challenges and move as a people to a glorious new society that is harmonious, and replete with opportunities for each citizen or resident to pursue a peaceful and happy existence. I believe that in this budget I have succeeded in giving you a glimpse of that new society. In almost every sector of the economy the indicators are pointing in the right direction. Let us move hand in hand as one people and claim that great future that is before us.

Madame Speaker, I so move.