

2010 Budget Address

by St. Kitts and Nevis Prime Minister and Minister of Finance

Hon. Dr. Denzil L. Douglas

1. Mr Speaker, I rise to move the second reading of the Bill shortly entitled the Appropriation (2010) Act 2009.

INTRODUCTION

2. This year's budget address comes a few months after our people have overwhelmingly demonstrated their confidence in the plans and programmes of my Government by definitively and decisively renewing our mandate to provide leadership for this country for a most remarkable fourth Parliamentary term in succession. Our people have witnessed the massive change that my Government has brought about, against great odds, in just under 15 years, and they have mandated my Government to continue moving forward with the implementation of our impressive agenda for change.

3. This is the context in which I present to you today the economic and fiscal plans of the Government of St Kitts and Nevis for the year 2010. The year 2009 was a very challenging one for the global financial community. The global financial crisis, marked by lower revenues especially as it relates to tourism receipts, a fall off in remittances, the resultant unemployment and negative growth, reached our shores very early in 2009 as our major trading partners began to feel the brunt of its effects. However, we had anticipated this and had begun to make the necessary preparations. You will recall that in the 2009 Budget Address we did indicate that we would need to take certain precautions as we live in a global village.

4. Mr Speaker, in coping with the risk of financial turmoil and depression in our real economy, my Government acted swiftly and pre-emptively, to reduce uncertainty and stimulate the economy. According to the World Economic Outlook of 2009, it was the actions such as those taken by governments, which are largely responsible for the expansion that is now being experienced globally. The report states that the triggers for the rebound were strong public policies across advanced and emerging economies, together with measures employed by the International Monetary Fund (IMF) at the international level that served to allay fears over systemic financial collapse, supported demand and eliminated fears of global depression.

5. Mr Speaker, these types of actions were not difficult for us to take because as a visionary Government we have always been engaged at some level in these activities. Maintaining an environment that is conducive to growth and development has long been a strategic priority for this Government. The outcome of this has been the high level of Foreign Direct Investment, which we have been experiencing

over the years. Taking care of the poor and vulnerable is a long standing tradition of this Government and this is evidenced by our continued high ratings on the Human Development Index, in our record for providing housing solutions especially for the most vulnerable and by the extensive array of social safety nets which we have in place to ensure that all of our citizens are able to live a decent life.

6. As we look back at the actions that this Government has taken over the past fourteen years, which have proven to be extremely strategic and highly effective, let us not forget the successful closure of the Sugar Industry in 2005 after years of preparation of our economy to be transitioned from one highly dependent on sugar manufacturing and export to one based on services. The transformation of the economy, though on-going, has already demonstrated that we made the right decision given the success to date of our Tourism, Construction and Transportation Sectors. Let us also reminisce on the development of our comprehensive Education System with its extensive support mechanisms. Let us also examine the development of our Health Services and the access by all of our citizens to high quality primary and secondary health care with provisions for free services to those who are most vulnerable in our society. Surely, we can say without a doubt that these programmes have helped to cushion what would otherwise have been the severe blow that the global financial crisis would have dealt to our people.

7. Mr Speaker, we have built a strong, resilient foundation through collaboration and consultation with all stakeholders in our society. I am sure that all of our citizens and residents would agree when examining the past record of this Government that we have performed well in terms of the scope and depth of activities that the Government has been engaged in over the years. These actions have borne fruit in every sector in the form of exceptional results including excellent performance by our students in overseas examinations, outstanding performance by our young people in sports, higher than expected Foreign Direct Investment, dramatic increases in visitor arrivals, and consistent improvement in fiscal performance over the years.

8. Mr Speaker, no one should underestimate the effort that was involved in these achievements. We have toiled day and night, tirelessly, in leading this country into the position that it has attained today. All of our efforts were geared towards the overarching goal of creating a better standard of living for our people. I am pleased to report that the results of the recent Poverty Assessment have indicated that the number of persons living below the poverty line has decreased by seven percentage points. It is on the basis of this sterling performance that we move forward into the future with confidence in our ability to weather the storms that come our way from time to time. We have demonstrated that we are capable of navigating dangerous terrain and we have the mettle and resolve to overcome seemingly

insurmountable obstacles. We are confident that with the help of Almighty God we will continue to lead this country into greener pastures as we fuel the process of Nation building through innovative thinking.

THE EXTERNAL ENVIRONMENT

International Economic Development

9. Mr.Speaker, approximately one year and a half ago the global economy faced the deepening of the worst economic and financial downturn since the Great Depression with record market failures precipitated by turmoil in the financial markets after the disintegration of the United States' sub-prime mortgage markets in 2007. The impact of these events is evident in the deceleration of World Economic Output which grew by 5.2% in 2007 but decelerated to 3.0% in 2008. Furthermore, it was anticipated in 2009 that the world economy would contract and the rate of growth would turn negative to reach approximately -1.1%.

10. However, the IMF in the latest edition of the World Economic Outlook (WEO), has reported that the global economy is again expanding and financial conditions have improved but it will take some time for economic fundamentals such as employment to make a significant rebound. Notwithstanding this, the IMF has cautioned against complacency as the pace of recovery will be slow for some time as indicated by the most recent projections for global economic activity which is expected to reach 3.1% in 2010, notably well below growth rates achieved prior to the crisis. In the advanced economies as a group, output is estimated to have contracted by 3.4% in 2009 while in the newly industrialized Asian economies which include Korea, Taiwan, Hong Kong and Singapore, which experienced substantial declines in industrial production during 2008, output is estimated to have contracted by 2.4% in that year.

11. In 2010, the newly industrialized Asian economies are projected to expand by 3.6% while the Euro area growth is forecasted to expand from -4.2% in 2009 to 0.3% in 2010. In the United Kingdom it is estimated that economic output will increase from -0.4% in 2009 to 0.9% in 2010 while growth in the United States will also move upwards from -2.7% in 2009 to 1.5% in 2010. These rates are insufficient to reduce unemployment. With relatively high unemployment rates persisting in the advanced economies, the prospects for growth in developing economies like St. Kitts and Nevis is dampened as a result of the likely negative impact on remittances, tourism receipts and Foreign Direct Investment.

12. It is anticipated that recovery in the sectors that have been most adversely affected by the events in the global economy will be slow during 2010 coinciding with the gradual rebound of the United States' economy as the freeze on credit and finance begins to dissipate, paving the way for new inflows of Foreign Direct Investment. On the positive side, inflation may continue to be low as increases in commodity prices remain moderate. However, energy prices, in particular, could rise somewhat in 2010 as a result of increased demand in China and other Asian countries. The challenges presented by the economic and financial crisis are not specific to St. Kitts and Nevis, but have encompassed the entire region. Hence, I turn now to the Regional Economic Developments.

Regional Economic Developments

13. Mr. Speaker, during the first half of 2008, the Caribbean region struggled with the commodity crisis which manifested itself in high prices for oil and food. The financial meltdown in the United States occurred in the latter months of that year and quickly spread to other markets across the globe significantly affecting many firms through reduced consumption and investment. The effects of the crisis initially materialized as a downturn in tourism, the major exchange earner for most states in the region, and eventually resulted in declines in other vital sectors as credit tightened and consumer demand dwindled.

14. The circumstances were made even more difficult by the collapse of the CL Financial Group, which placed strain on a region that was already struggling to manage the fallout of the global recession. However, we are fortunate that, through the effective regulation and supervision of commercial banks by the Eastern Caribbean Central Bank (ECCB), the Banking Sector has demonstrated considerable resilience. It has become clear, therefore, that the stability of the financial sector would be significantly enhanced by regional approaches to the regulation of non-bank financial institutions and greater integration of the regulatory and supervisory functions in the entire financial sector, including the banking sector and the non-bank financial sector.

15. Mr. Speaker, the OECS member Countries recorded an estimated growth rate of 1.9% in 2008, which represents a significant decline relative to the rate of 5.6% reported in 2007. The slowdown was due to a deceleration in the rate of growth in value added for Construction, Transportation and Communications, Government Services and, Banks and Insurance coupled with declines in output in the Wholesale and Retail Trade, Manufacturing and Hotels and Restaurants Sectors. The ECCB Real Sector Analysis for January to June 2009 indicated that the situation had worsened significantly and economic

output had contracted by 6.2% during the period. This compares very unfavourably with the relatively weak growth rate of 2.6% recorded during the corresponding period of 2008.

16. Economic output in the first half of 2009 contracted in most ECCU member states at rates ranging from -0.9% in St. Vincent and the Grenadines to -20.9% in Anguilla. In St. Kitts and Nevis, the contraction was at a rate of 7.3%. The Commonwealth of Dominica and Montserrat were the only member countries that recorded an increase in output during the period recording 0.8% and 4.4% respectively. The performance of the economies in the larger Caribbean Community member states decelerated further during 2008. Economic growth in this group declined from 3.8% in 2007 to 1.1% in 2008. The rate of economic growth in Barbados slowed to a rate of 0.5% in 2008 compared to a healthy rate of 4.4% in 2007. The slowdown in economic growth was mainly attributed to a downturn in tourism activity. In Jamaica, output contracted by 0.6% in 2008 in contrast to a positive growth rate of 1.4% in 2007. This decline is primarily attributed to a reduction in output from the Agriculture Sector. Trinidad and Tobago recorded a slight decrease in economic activity from 5.5% in 2007 to 3.5% in 2008.

17. Mr. Speaker, the strengthening of our regulatory institutions and the implementation of appropriate policy measures to address the effects of the crisis is crucial to our stability during this period of economic downturn and to our ability to capitalize on the opportunities that will present themselves when the recovery takes place. The Monetary Council of the ECCB has played a vital role in devising a response to the fallout of the crisis on the ECCU member states. These actions include the decision to complete the implementation of the Single Regulatory Units (SRUs) and to increase the coverage of the Regulatory System. Moreover, the members of the Eastern Caribbean Currency Union have entered into a formal agreement in relation to the implementation an Eight-Point Stabilization and Growth Programme that is intended to help the countries mitigate the impact of the global economic crisis, maintain financial and macroeconomic stability, protect vulnerable groups through social safety net programmes and promote economic growth and transformation. We expect that the programme would provide an important framework for fiscal and macroeconomic policy coordination in the Eastern Caribbean Currency Union and would make a significant contribution to the stability and growth of the member countries of the ECCU overtime.

18. I turn now to the Domestic Economy.

THE DOMESTIC ECONOMY

Output, Prices and the Balance of Payments

19. Mr Speaker, I am pleased to report that the economy of St. Kitts and Nevis continued to expand in 2008 in the face of the negative effects of rising oil and food prices, and the collapse of the global financial markets in the latter months of that year. Despite the prolonged period of recession and the anticipated slow recovery globally, this Government is even more committed to the transformation process aimed at creating a diversified, service-oriented modern economy. We are not, by any means, ignorant of the burgeoning ill-effects of the financial crisis on our economy but this Government is fully cognizant of the benefits that could be derived from the implementation of sound economic and financial policies, and the strengthening of institutions during these challenging times.

20. The continued investment in important Sectors has resulted in St. Kitts and Nevis recording real GDP growth of 4.6% in 2008, a higher rate of growth than the 3.0% recorded for global output and the 0.6% recorded by the advanced economies during the same period. This expansion in economic growth is attributed to increased activity in the Agriculture, Construction, Distributive Trade, Tourism, and Transportation Sectors.

21. Mr. Speaker, the Construction Sector has played a vital role in the overall performance of the economy accounting for 15.0% of Gross Domestic Product (GDP) in 2008 with an increase in value added of 2.7%. This was largely due to ongoing work on several major projects such as the West Basseterre By-pass Road and the Ocean's Edge and Silver Reef Resorts Projects. However, the strong performance of this sector was not limited to these large scale projects, but included other areas in the sector. Our expansive land distribution programme has continued to empower our people by facilitating land and home ownership resulting in an increase in home construction. New residential housing starts increased by 31.3% from 128 in 2007 to 168 in 2008. Additionally, the ECCB's Commercial Banking Statistics Report indicated that loans and advances for construction activity increased by 14.8% to \$491.2 million in 2008, of which financing for home construction and renovations accounted for 54.6%. We expect that over time, as the full impact of the Special Land Distribution Initiative is felt in our economy, the Construction Sector will grow at an even faster pace.

22. The Government's agenda to assist the citizens of this country in the creation of wealth through land and home ownership goes much further than the Special Land Distribution Initiative. The National Housing Corporation (NHC) currently has three new home improvement and construction projects under implementation namely; the NEMA Starter Home Improvement Project, the Ex-SSMC Basic Housing Assistance Project and the NHC Housing Solution 500 Programme. We have invested \$6.0 million in the NEMA Starter Home Improvement Project to assist 158 households in the expansion of their homes thereby improving their living conditions. I am happy to report that to date 78.5% of these persons, approximately 124 families, have benefitted from this Project. Moreover, through the implementation of the Ex-SSMC Housing Assistance Project we have kept our promise to ensure that persons who have worked tirelessly in the sugar industry are provided the opportunity to acquire a piece of the land on which they toiled for so many years. We have already constructed 66 new homes for ex-sugar workers and have made improvements to 30 more. Currently, there are 15 new homes under construction and 11 being renovated under this Project. The NHC Housing Solution 500 Programme presently has 122 homes under construction and another 73 has been completed.

23. Mr. Speaker, acknowledging the potentially devastating effects of the global recession on the Construction Sector and the role of the Government in providing the facilitating environment for expansion, we approved a new package of incentives for contractors to afford them the opportunity to import equipment vital to the building process on concessionary terms. It has been estimated that this initiative will reduce the total cost on construction projects by 8% resulting in a multiplier effect, increasing home ownership and employment in the sector aiding overall economic growth.

24. Continued expansion in the economy was accompanied by a slight increase in inflation. The Consumer Price Index on a period basis rose by 5.4% in 2008, compared to 4.5% in the previous year. The moderate increase can be linked to the success of the interventions implemented to restrain the effects of the escalating prices in oil and other commodities such as the capping of the fuel surcharge and restricting the margins that wholesalers and retailers can levy on certain goods that make up a high percentage of the basket of goods.

25. The susceptibility of our economy to world oil prices has caused this Government to continue to explore alternative sources of energy to reduce our dependence upon petroleum products and thereby mitigate the impact of rising oil prices. Since our last Budget, the Federal Government has played a vital role in ensuring that the Geothermal Energy Project in Nevis achieves its projected outcomes for the Federation and the neighbouring islands. In April of 2009 the Federal Government signed a Memorandum

of Understanding (MOU) with CARICOM to facilitate the provision of technical assistance to advise on the most sustainable, safe and environmentally friendly method of harnessing this energy in order to move the process forward and realize the full operation of the new facilities during 2010. Upon completion of the Project, a new source of energy would be readily available to the Federation. This new source of energy is expected to generate 50 to 100 megawatts of clean power that would complement the benefits that will be derived from the corporatisation of the Electricity Department also slated for completion during 2010.

26. Geothermal energy is only one of the promising options available to the Federation in reducing our dependence on fossil fuels. In recent months this Government has undertaken testing at Belle Vue Mountain, to determine the viability of a Wind Farm Development at that site. The results have proved to be so encouraging that this Government, with the assistance of the Organization of American States (OAS), has prepared a draft contract between North Star (St. Kitts) Ltd, a local company, and the Government. This draft contract, when finalized and executed, with the subsequent power purchase agreement will require that North Star (St. Kitts) Ltd supply at least 8 megawatts of wind generated electricity at prices expected to be substantially lower than the existing cost of generating electricity from diesel. These forms of clean energy will create downward pressure on the price of electricity and thereby boost economic activity and improve the quality of life for our people.

27. Mr. Speaker, I will now proceed to summarize the Balance of Payments Statement which records all receipts and payments between our Federation and the rest of the world. In 2008, the Current Account deficit increased by 18.7% to \$352.47 million or 22.9% (\$1,539.97 million) of GDP at market prices. This increase in the deficit was mainly attributed to an increase in the net importation of goods and services by 37.1% to \$412.97 million or 26.8% of GDP. The upturn in net goods and services can be attributed to outflows for merchandise for construction to facilitate ongoing activities in that sector, activity in the Distributive Trade Sector and increased activity in Tourism; specifically cruise tourism. Additionally, the Services Account surplus declined by 16.3% to \$163.20 million, or 10.6% of GDP, as a result of a decline of 4.9% in tourism receipts. Also contributing to this contraction was the expansion of the deficit for transportation of 10.9% as a result of the increased cost in transportation.

28. The Capital and Financial Account recorded a surplus of 21.0% totalling \$386.14 million (25.1% of GDP) in 2008. Foreign Direct Investment declined by 44.4% to \$236.68 million (15.4% of GDP) due to the downturn in the global economy. In the final analysis, the surplus on the Capital and

Financial Account was enough to cover the deficit on the Current Account, therefore resulting in an overall surplus on the Balance of Payments of \$39.5 million or 2.6% of GDP.

29. I will now examine the performance and prospects of the key sectors of the economy starting with the Tourism Sector.

The Tourism Sector

30. Mr Speaker, the Tourism Sector remains vital to stimulating economic growth and development in St. Kitts and Nevis. However, the financial meltdown has created another challenge for the sector. Nonetheless, in 2008 the sector rebounded significantly compared to a 11.5% contraction in 2007, mainly as a result of marketing and promotion, and additional airlifts to the Federation. Consequently, total visitor arrivals increased by 39.9% to 531,245 from 379,676 recorded in 2007.

31. Stay-over arrivals recorded a slight recovery of 1.5% in 2008 totalling 125,147 persons reflecting the negative impact of the closure of the Four Season's Resort due to extensive damage during the passage of Hurricane Omar in October 2008. The deepening of the economic slowdown in the United States economy, our main source market for the Tourism Sector, has resulted in a further deceleration of air passenger arrivals during the period January to September 2009 of 14.6%. However, we expect that stay-over arrivals will show signs of recovery in late 2010. We continue to form new partnerships within markets that show the potential for expansion such as the United Kingdom.

32. Yacht and cruise passenger arrivals continued to show great potential in 2009 expanding by 2.7% to 270,674 passengers during the period January to September 2009 when compared to the same period in 2008. The performance of this industry is expected to remain positive throughout the 2009/2010 season as preliminary reports indicate ship calls at Port Zante almost every day during the season. We are pleased that our hard work and commitment to the expansion of this sector is consistently yielding rewards.

33. Mr. Speaker, there has been considerable direct investment in the expansion of the tourism plant within the Federation which has positively impacted the economy. Although the global economic and financial crisis has affected the inflow of Foreign Direct Investment, development projects continue without major impediments. The Silver Reef Resort Development has remained on schedule as work has

been consistent even as the global recession intensified. In addition, there has been considerable progress on the Ocean's Edge Resort Development which is moving forward with its plans to construct 188 condominiums and operate a first class resort facility. The 2500-acre Christophe Harbour Project at the South East Peninsula is entering its second phase of development. Preparatory work has started on home sites which are expected to be completed during the summer of 2010. In addition, work has commenced in respect of the Marina which has the capacity to accommodate the largest and most luxurious yachts in the world.

34. Over the past few months, we have moved another step in the direction of the high-end tourism market as steady progress has been made towards the development of another five star resort on the South East Peninsula, which will infuse US\$860 million into the economy. The resort will span 153 acres of land at Cockleshell Bay and will encompass several properties including a 125 room Park Hyatt Resort and Spa.

35. Mr Speaker, in order to buffer the impact of the downturn in the economy, the Government approved a proposal from the Hotel and Tourism Association (HTA) to allow qualifying Full Service Stand Alone Restaurants to import food, wine, cutlery, plates, glasses, furniture, kitchen appliances and other equipment duty free as part of a stimulus package to assist small business owners in their quest to continue to be competitive and profitable in these tough economic times.

36. Although we are mindful of the projections for a slow recovery in the global economy we remain optimistic that the positive reports regarding St. Kitts and Nevis will hold us in good stead during this difficult time. I urge all stakeholders in the sector to be proactive and by all means realistic, for in the words of Arthur Golden, "Adversity is like a strong wind. It tears away from us all but the things that cannot be torn so that we see ourselves as we really are." Therefore, consider this as a challenge from which we will all emerge stronger and ready to reap the benefits of our perseverance.

Agriculture

37. Mr. Speaker, this Government continues to work assiduously towards the achievement of food security and increased export capability as highlighted in the Agriculture Development Strategy. The concern surrounding rising food prices on the world market and the issue of food scarcity, which threatens the tenuous position of the world's poorest citizens, makes it imperative that we continue to invest in the Agriculture Sector in order to ensure that the citizens of this country enjoy a sustainable food

supply. We are fully aware that our accomplishments thus far could not have been achieved without the support of several regional and international agencies.

38. I am happy to report that in connection with the Food and Agriculture Organization (FAO) funded initiative to provide inputs to vulnerable small farmers, 1,124 farmers have received assistance.

39. Mr. Speaker, we continue to invest heavily in the sector to empower our local farmers. Over the past year we approved 1,470 acres of land for farming and made certain that the tenancy of farmers occupying lands without formal agreement was regularized so that they can reap the benefits of the various assistance programmes being offered by the Ministry of Agriculture. Additionally, this Government has commissioned another 170 acres of land encompassing twenty (20) sugarcane fields in the Wingfield Estate (Old Road), Whites (Cayon) and Sir Gilles (Sandy Point) areas to further assist local farmers.

40. Mr Speaker, we have moved forward with the commercialization of crop production through the development of a commercial farm in St. Peter's parish named the Ogees Farmer Group Settlement Project. This is a collaborative effort between the Ministry responsible for Agriculture, Agricultural Resource Management Project (ARMP), the Inter-American Institute for Cooperation and Agriculture and the Republic of China on Taiwan (ROC). This fourteen (14) acre, fully equipped farm will be managed by seven former sugar workers under the guidance of the Department of Agriculture. This Farm Project will be duplicated in the foothills of the Verchields Mountain by a group of ambitious youths from Old Road. To complement the commercialization of the Agriculture Sector we continue to foster the linkages between Agriculture and Tourism.

41. Mr. Speaker, this Government has applied equal attention to the improvement of animal husbandry practices. As a result, livestock production increased by 14.1% during the period January to September 2009 when compared to the same period in 2008.

42. Mr Speaker, we have done considerable work in the development of the Fishing Industry which has led to significant expansion in the sub-sector. Total fish landings in 2008 increased by 20.4% to 832,050 lbs, with a total value of EC\$7.4 million. This considerable growth was influenced by the introduction of new fishers, increases in the average fishing time and catch of fish, and favourable weather conditions which persisted throughout the year. Preliminary reports have indicated that fish sales at the fishing complexes between January and October 2009 have totalled \$469,625.

43. The vision of this Government to modernize the Fishing Industry includes efforts to move away from primarily artisan fishing to a commercialized approach. In our efforts to effect this change, we commissioned the construction of a 40 ft multipurpose fishing vessel in 2008. This vessel, constructed by our very own Indigo Yachts, has now been completed and was launched in June 2009. The vessel will be leased to individuals or groups who are skilled in manoeuvring a boat of that size. This Government endeavours to commission the construction of the second boat in 2010.

44. In order to aid in the further advancement of the fishing industry we have begun to strengthen our partnerships with other stakeholders in the industry. Presently, the Department of Fisheries, in collaboration with Ross University of Veterinary Medicine, is investigating ways to advance the development of an Aquaculture Industry. The Japanese International Cooperation Agency (JICA) has also provided valuable assistance in the form of training in the area of Product Development. In addition, the Department of Fisheries and the Department of Cooperatives have been working assiduously towards the formal establishment of a national Fisher-Folk Association which will assist in the development of skills and knowledge and a unified approach to problem resolution.

Industrial and Enterprise Development

45. Mr. Speaker, a high percentage of the Nation's total manufacturing output is exported making the sector highly susceptible to global economic shocks. The current global economic recession has resulted in a fall off in demand for our manufactured products negatively affecting the sector's output. Exports of electronics to the USA decreased by 16% in 2008. However due to this Government's careful and deliberate efforts in creating a well diversified manufacturing base, I am pleased to announce that in 2008 the Manufacturing Sector as a whole grew by 2.7% in real terms. Moreover, the sector accounted for 10.9% of GDP in 2008.

46. Growth in sector output in 2008 was mainly due to the strong performance of the Masonry Products and Beverages sub-categories which grew in real terms by 52.7% and 20.0% respectively. Expansion in the Masonry Products sub-category largely resulted from the increased demand for concrete blocks and premix concrete used in large ongoing projects such as the Ocean's Edge and Silver Reef Resorts, and the West Basseterre By-Pass Road whereas growth in the Beverages sub-category was largely attributed to an increase in exports by the Bottling Company.. Mr. Speaker, despite this positive performance, the Manufacturing Sector experienced tremendous challenges. Employment

data showed that 207 persons were laid off between March 2008 and June 2009. The Youth Empowerment through Skills (Y.E.S) Programme has provided a temporary means of employment through skills learning for a number of these persons. This Government remains cautiously optimistic that the recovery in the US economy will gain momentum in the months ahead facilitating the resurgence in demand for our manufactured products, an increase in production and the re-hiring of former and new employees.

47. Increased business activity predicated on the provision of land for commercial and industrial purposes continues to be a priority for this Government. This is evidenced by the establishment of commercial and industrial parks around the island. To date, commercial/industrial areas are established at Shadwell, Lime Kiln, Trinity, Sandy Point, Fig Tree, St. Pauls, Phillips, Cayon, Canada, Conaree and St. Peters. Efforts are on the way to earmark other sites especially within those areas where communities are expanding. It is anticipated that business activity at these Parks will facilitate increased employment opportunities and, as a result, will contribute meaningfully to the economic and social well being of our citizens.

Information Technology and Telecommunications

48. Mr. Speaker, the passage of the Electronic Crimes Act of 2009 signifies an important accomplishment in the promotion of the use of Information and Communication Technology (ICT) within the Federation of St. Kitts and Nevis. The Bill provides the deterrent to electronic crimes. It also responds to the need to accommodate growth in the use of ICT for business transactions, work, education and entertainment purposes. We expect these kinds of enactments will give our people greater security as they use the internet and various information technologies.

49. In an effort to further our goal towards improving the uptake and usage of technology to facilitate increased productivity and accessibility, several initiatives have been completed or remain ongoing. The ICT Centre has been involved in the provision of training programmes to all sectors. During the last six months, a number of young persons have benefitted from IT training as part of the Y.E.S Programme. The capabilities of the Centre have been upgraded further allowing for the provision of professional examinations in IT for which persons previously travelled abroad. The Centre has testing capacity for all exams provided by the Pearson Vue Test Centres and the International Computer Drivers License (ICDL) Programme. Mr. Speaker, I encourage our people to take advantage of these facilities in an effort to improve their skills and professional qualifications.

50. The Department is also involved in the implementation of the Information and Communication Technology for Education, Diversification and Competitiveness (ICT4EDC) Project. This Project will promote the productive application of ICT tools in government and business processes and empower the development of communities and citizens. The Government would like to use this opportunity to thank the Republic of China Taiwan and the European Union for their continued support in the development of ICT in St. Kitts and Nevis.

51. I turn to the Financial Sector.

The Financial Sector

Commercial Banks

52. Mr. Speaker, the Commercial Banking Sector has played an instrumental role in the development of our economy over the years. In the face of global financial turmoil, our Commercial Banking Sector has performed commendably.

53. As of the end of December 2008, assets held by the Commercial Banking Sector grew to \$4.0 billion, representing a 7.2% increase over the \$3.7 billion recorded at the end of the previous year. For the year under review, deposits as well as loans and advances also grew. Deposits grew by \$63.2 million to reach \$2.5 billion at year end while loans and advances grew by \$100.5 million to reach \$2.2 billion. The increase in loans and advances is attributed to increases in lending to the Agriculture, Construction, Distributive Trade, Tourism and Personal Sectors. Liquidity in the banking system remained healthy over the period under review

Financial Services

54. Mr. Speaker, In May 2009, the Federation successfully defended its Mutual Evaluation Report which is now posted on the Caribbean Financial Action Task Force (CFATF) website and a number of recommendations made by the CFATF Examiners have been considered. These recommendations resulted in the amendment of Anti-Money Laundering/Counter Financing of Terroism (AML/CFT) legislation to ensure compliance with the Financial Action Task Force's 40 plus 9

recommendations. In addition, a White Collar Crime Unit which is a Division of the Criminal Investigation Department of the Royal St. Kitts and Nevis Police Force has been set up to investigate all white collar crimes including those which are predicate offences to money laundering.

55. In keeping with the mandate given by the Monetary Council of the Eastern Caribbean Central Bank, it is my pleasure to report that the Financial Services Regulatory Commission Bill has been passed and the Single Regulatory Unit (SRU) will be established early in 2010. The SRU will regulate the Non-Bank Financial Swhich includes Insurance Companies, Credit Unions, Money Services Businesses and the Offshore Sector. The SRU will be autonomous with a Regulatory Division in St Kitts and another in Nevis.

Cross-cutting Issues

Social Development

56. Mr. Speaker, in a period of economic and financial slowdown existing social programmes and initiatives are usually at risk of loss of funding at a time when it is most needed. This Government has remained steadfast in its commitment to the improvement of the quality of life of all citizens of this nation through the strengthening of the delivery of social programmes and projects which are focused towards family wellness, gender mainstreaming, full participation and involvement in national development, promotion of child rights and the enhancement of the quality of life. These initiatives will continue to effectively address a number of challenges facing the most vulnerable in our society using preventative, intervention and rehabilitative measures.

57. One such measure is the Capacity Training Programme which places emphasis on community leadership and the use of resources from within the specific community. I am pleased to report that two communities have received approval for their projects and we will soon see the benefits in the construction of the Conaree Community Centre Emergency Storage Tank and the provision of IT classes to residents, particularly small business entrepreneurs, in the Old Road community.

58. Poverty Reduction remains a core development issue for St. Kitts and Nevis. In order to ascertain the progress that had been made since the 1999/2000 Country Poverty Assessment (CPA), this Government again sought the assistance of the Caribbean Development Bank in the contracting of Kairi Consultants of Trinidad and Tobago to undertake the 2007/2008 Country Poverty Assessment. The

findings of this Assessment indicate that great strides have been made in poverty alleviation within the Federation. In particular, the poverty rate fell by some 7 percentage points since 2000 and the indigence level by some 10 percentage points to reach 1.4 percent. We intend to use the results of the study to fine-tune our Poverty Reduction Strategy with a view to ensuring that our poverty programmes are better targeted and even more effective in assisting the poor and bringing them into the mainstream of economic development.

59. Mr. Speaker, the Department of Social and Community Development, partnered with Concordia University in the development of a Management Information System (MIS) which will facilitate a one-stop service to beneficiaries of the various social services which are currently provided through the Ministry of Education, the Ministry of Health and the Ministry of Social and Community Development, Culture and Gender Affairs, and assist in evidence based social planning. This Programme allowed for the development of a means test that will ensure more effective targeting of social services to those in need, as well as the creation of developmental programmes to facilitate eventual graduation from the system.

60. The Ministry of Social and Community Development has increased its support of rehabilitative programmes to stem criminal tendencies in juveniles and young adults, and provide psychological support to these offenders, their families and others at risk. The Co-ed Juvenile Facility is currently being constructed as a component of the Child Development Project. This Facility will help to address the need for proper rehabilitative programmes and effective re-entry of youth offenders into society.

61. Mr Speaker, we would like to express gratitude to the Caribbean Development Bank (CDB), the European Union (EU), the Organization of American States (OAS), the Governments of Venezuela, Cuba and Taiwan and all other contributors to our social development initiatives. The Government is committed to further collaboration with local, regional and international organizations to build on the progress that has been made thus far.

Law and Order

62. Mr Speaker, the maintenance of law and order remains a priority for this Government as we continue to work towards the development of our nation. We are not prepared to have our economic and social progress threatened by those who wish to destabilize our society by undermining the rule of law.

This Government considers the increase in violent crimes among the young people in our community to be a matter requiring the attention and energies of all members of society. We therefore discourage efforts to trivialize or politicize the issue and we recommit ourselves to elevating the fight against crime through even more rigorous enforcement and by attacking the root causes of the antisocial behaviour exhibited by some of our young men, in particular. I therefore call on all parents, relatives, friends, teachers, religious leaders and concerned members of our society to join in the movement to redirect the minds of our youth in a more positive direction.

63. The Government, cognizant of the limited expertise resident in the Federation to deal with gang violence, which is not indigenous to our Federation, continues to seek support regionally and internationally. The Gang Analysis Unit of the Federal Bureau of Investigation (FBI) has been approached to provide their expertise to the Security Forces, in respect of gang behaviour and structure analysis. In addition, a former senior member of the FBI has been contracted and continues to advise on matters related to crime analysis, prevention and investigation.

64. The Regional Security System (RSS) and the recently established Caribbean Implementation Agency for Crime and Security are also working with international agencies to develop a regional gang study to assess the region's environment and assist in addressing youth crime related problems. This Caribbean-United States security cooperation mechanism will assist in establishing a balanced and integrated approach to the development of security policies and strategies. Cooperation in the region regarding forensic analysis has been strengthened with the recent opening of the Regional Cyber Forensics Investigation Laboratory (RCFIL) at Langford's Police Station in Antigua and Barbuda. This Laboratory will positively impact the ability of Regional law enforcement to detect, deter and prosecute cyber crimes through the collection and analysis of information technology-related evidence. St. Kitts and Nevis is a member of the Cyber Lab along with Montserrat, Barbados and, Antigua and Barbuda.

65. Mr Speaker, work is ongoing in regard to the construction and upgrade of police stations on both islands. The Dieppe Bay Police Station is currently nearing completion and we would like to thank the Mexican Government for their willingness to partner with us on this initiative. The Basseterre Police Station was also refurbished during 2009 and now boasts an environment which is conducive to higher levels of productivity. During 2009 members of the private sector contributed to the Closed Circuit Television (CCTV) initiative through the provision of equipment and additional technical support to the Police Force. We place great value on these important contributions to the fight against crime, and we

commend the private sector contributors and representatives of friendly Governments for their outstanding demonstration of good corporate citizenship.

66. Mr. Speaker, I turn now to Public Finance.

PUBLIC FINANCE

Fiscal Review

67. Mr Speaker, 2008 proved to be a challenging year not only for the Government of St. Kitts and Nevis but the world as a whole. The global financial crisis worsened during 2008, resulting in extremely high prices for food and fuel thus prompting governments and individuals alike to respond to the crisis and adjust their spending habits accordingly. Hence, during 2008, we exerted every effort to keep the increase in public expenditure to a minimum, notwithstanding an increase in public sector salaries in that year.

68. Mr Speaker, during 2008, Recurrent Expenditure totalled \$428.3 million. This was \$21.8 million more than in 2007 as there was increased spending for Personal Emoluments and Wages, Interest Payments, Grants and Contributions, Pensions and Gratuities and Public Assistance. You may recall, Mister Speaker, in September 2008 the Government took a decision to provide Civil Servants and Pensioners with a 7.5% increase in salaries and pensions that was retroactive to January 2008. This followed the 5% increase that was given in 2007. These increases were in response to Government's recognition that the people of the Federation were feeling the effects of the global financial crisis and needed more disposable income to combat the increase in the cost of living. The Government was, however, able to contain its expenditure on Goods and Services by an impressive \$9.4 million to partially offset the increase in salaries and pensions.

69. The growth in Recurrent Expenditure was financed primarily by an expansion in Recurrent Revenue, which grew by \$20.4 million or 4.9% over collections for 2007 to reach a total of \$432.7 million. We express our gratitude to the Management and Staff of the Inland Revenue and Customs and Excise Departments as they continue to be vigilant in the collection of revenues and the administration of the tax laws in these trying times. Exceptional performances were noted in Taxes on Income and Taxes on International Trade and Transactions, which surpassed receipts in 2007 by \$17.9 million and \$2.5 million

respectively. Collections from Non-Tax Revenue in 2008 also exceeded what was received in the previous year by \$3.3 million.

70. It is worthy of note Mr Speaker, that although Taxes collected from International Trade and Transactions in 2008 were higher than in the previous year, they were less than expectations. This was due in part to the Government's efforts to provide relief to the citizens and residents of the Federation from the escalating food prices by the removal of the consumption tax from certain basic food items, and thereby sacrificing some \$2.6 million of revenue collections in 2008.

71. Mr Speaker, for the second consecutive year, we recorded a Recurrent Account Surplus in the amount of \$4.4 million. This was quite an achievement given the economic environment in which we had to operate and is evidence of the Government's continued efforts at fiscal stabilization.

72. Mr Speaker, I now address the Capital Budget which also recorded a surplus of \$3.1 million in 2008. This was a significant improvement over 2007 when a deficit of \$7.9 million was recorded. Capital Revenue and Capital Grants for 2008 totalled \$86.0 million, \$21.9 million more than was collected in 2007. Of the amount collected, \$48.0 million represented proceeds from land sales which were used to reduce the stock of debt in accordance with our Debt Management Strategy.

73. Capital Expenditure and Net Lending amounted to \$82.9 million, an increase of 15.0% over that which was spent in the previous year. Mr Speaker, the Government was aware of the devastating effects that the global financial crisis could have on not only the Public Sector Investment Programme but on the economy as a whole. We therefore made every effort to ensure that those projects that would stimulate growth in the economy, those projects that would keep key industries such as the construction industry buoyant, and those projects that would create employment for our citizens, did not come to a standstill but continued as planned with the resources that were available to us.

74. Mr Speaker, the well-being and safety of the youth in our country continues to be a priority for this Government. It was therefore no accident that 50.8% of expenditure on capital projects was spent on the Social Services Sector, especially in the area of Youth and Sports, Education and Health. Mr Speaker, the Government of St. Kitts and Nevis for the first time hosted the prestigious CARIFTA games, which were held at the Silver Jubilee Athletic Stadium. Approximately \$12.5 million was spent on the stadium and other expenses that were related to the hosting of the games. Several other sporting events have since been held at the stadium, all for the benefit and advancement of our young people.

75. In 2008, we also committed resources to a number of other critical social projects. In particular, \$4.5 million was spent on the Information Technology Based Training and Management Project, \$3.1 million was incurred for the Secondary Education Development Project and \$2.5 million on the reconstruction of the Pogson Health Facility.

76. Expenditure on Economic Infrastructure accounted for 34.8% of Capital Expenditure. The focus here was on the Energy Sector as priority was given to improving the reliability of our electricity supply and making the necessary repairs at the Electricity Department in order to rectify the problems that arose following the fire at the Power Station. A total of \$7.6 million was also expended on the West Basseterre By-Pass Road. This road, which was funded primarily from a loan from the Caribbean Development Bank and which was opened near the end of last year, is already helping to ease the congestion of traffic on the streets of Basseterre and is facilitating the smooth flow of traffic to and from the various communities in St. Kitts.

77. The activity on the Recurrent and Capital Accounts, Mr Speaker, gave rise to an Overall Surplus of \$11.6 million at the end of the 2008 financial year. That is, when all of Government's recurrent and capital expenditure is subtracted from all of Government's recurrent revenue, capital revenue and budgetary grants, a surplus of \$11.6 million was realized. This compared very well to 2007 when a deficit of \$1.3 million was recorded. Again, Mr Speaker, this is evidence of the success and our commitment to our Fiscal Stabilization Programme.

78. Likewise, Mr Speaker, the Government achieved a Primary Balance Surplus of \$122.9 million, a 25.9% improvement over the previous year when a surplus of \$97.6 million was recorded. This was the fourth consecutive year in which a Primary Surplus was realized. The Primary Balance, Mr Speaker, refers to the excess of all the Government's revenue over its expenditure net of interest payments and is an indication of the resources that the Government has at its disposal to meet its obligations with respect to servicing its debt. The Primary Balance is a key indicator that is monitored by regional and international financial organizations such as the Caribbean Development Bank and the International Monetary Fund. We are therefore pleased that in 2009 the preliminary indicates that we also achieved a substantial primary surplus for the fifth year in succession.

79. Mr Speaker, with regard to the debt of the Public Sector, the Government is making considerable progress in this area. The Total Public Sector Debt expressed as a percentage of GDP fell by

17.8 percentage points from 182.8% in 2007 to 165.0% in 2008 while that of the Central Government fell from 118.4% of GDP in 2007 to 106.8% of GDP in 2008. At the end of December 2008, the total stock of Public Sector Debt stood at \$2.54 billion, a 1.1% increase over the stock at the end of 2007. The debt of the Central Government, which accounted for 65% of the total debt of the Public Sector, also rose by 1.1% or \$17.6 million.

80. This Government remains committed to executing its debt management strategy aimed at accelerating the pace at which we reduce the public debt. To this end, in 2008 we were able to refinance a substantial portion of our overdraft balance with a lower cost bond. This translated into savings for the Government as the interest paid on the overdraft facility in 2008 declined by \$12.1 million when compared to that paid in 2007. Mr Speaker, we will continue to explore the options that are available to us so that we may take advantage of any further potential savings for the Government.

81. Mr Speaker, when we examine the debt of the rest of the public sector, we note that the debt of the public corporations in both St. Kitts and Nevis was 24% of the Total Public Sector Debt while that for the Nevis Island Administration comprised 11% of the debt. The Public Corporations' debt reflected a net decline of \$11.4 million or 1.8% as they continued to meet their obligations with respect to their external loans.

82. It is clear, therefore, that we have steadily brought down the deficit over many years, we have substantially reduced the debt to GDP ratio, and we have decelerated the rate of growth of the stock of public debt to almost zero. This is an achievement of which every citizen should be proud. But the road to acceptable levels of debt is still long and arduous, and filled with many obstacles and risk. We must, therefore, in this budget, and in future budgets, give due prominence and priority to debt reduction as a critical objective.

Fiscal Prospects

83. Mr. Speaker, the global economic downturn will continue to seriously impact growth in our economy during 2010. This in turn will result in a significant reduction in revenue intake. Given this reality, expenditure has had to be reduced significantly in order to maintain fiscal balance.

84. Recurrent Revenue for 2010 has been estimated at \$432,939,051 representing a decrease of \$20,585,547 or 4.5% below the 2009 estimate of \$453,524,598. On the other hand, Recurrent Expenditure

for 2010 (excluding loan principal payments) has been estimated at \$430,030,842 – a decrease of \$16,982,708 or 3.8% below the 2009 Estimate of \$447,013,550. The Current Account Balance projected for 2010 is \$2,908,211 while the primary balance anticipated is \$187,693,301 or 12.8% of GDP.

85. Capital Revenue (including grants, loans and sale of assets) for 2010 is projected at \$136,078,295 representing an increase of \$1,704,611 or 1.27% over the \$134,373,684 estimate for 2009. On the other hand, Capital Expenditure for 2010 is projected to be \$99,904,744 –a decrease of \$11,585,697 or 10.4% below the 2009 estimate of \$111,490,441.

86. Mr. Speaker, the current environment requires us to do more with less. Therefore in preparing the 2010 budget estimates careful attention was paid to allocating resources in such a way so as to ensure that the level and quality of critical services are maintained. The Draft Estimates give comprehensive details on the programs and activities to be carried out by various Ministries and Departments during 2010 along with performance indicators which outline the deliverables. In light of the expenditure cuts, it is important for me at this time to outline some of the important initiatives that would be implemented during 2010.

87. Mr Speaker, the Ministry of Justice and Legal Affairs has been provided with \$8,957,048 comprising \$8,346,018 for Recurrent Expenditure and \$611,030 for Capital Expenditure. With respect to this Ministry, I am happy to report that the Law Revision Project has entered its final phase. Camera ready files are already in the hands of the publishers for final preparation. It is expected that the revised laws for St. Christopher and Nevis would be ready for publication in June of this year. The Ministry of Justice and Legal Affairs should be applauded for this major undertaking.

88. Mr. Speaker, the Office of the Prime Minister has been allocated \$14,103,908 for 2010 to carry out its various programs and activities. Of this amount \$11,921,052 is budgeted for Recurrent Expenditure and \$2,182,856 for capital expenditure. A number of initiatives will be implemented during 2010. The Human Resource Management Department will complete a Job Evaluation exercise which will facilitate the development of standardized job descriptions in all Ministries. To complement this, assistance would be sought to implement a project to establish a Performance Management System. During 2010 the Administration Division of the Office of the Prime Minister will be strengthened to provide greater support to the Prime Minister in the discharge of his duties and to ensure greater efficiency and responsiveness.

89. Mr. Speaker, the St. Kitts Investment Promotion Agency is in its second year of operation and has been actively promoting St. Kitts as a premier destination for foreign and domestic investment. Just over one hundred (100) investment enquiries were received in 2009 and currently, there are nineteen (19) projects at various stages of the investment process. SKIPA has adopted a multi-faceted approach to investment promotion including the launch of its website and the publication of a new St Kitts Investment Guide.

90. Mr. Speaker, in 2010 SKIPA will continue to facilitate new investments and the diversification of existing investments in St. Kitts, and advocate for ways to improve the investment climate.

91. Mr. Speaker, the Ministry of National Security, Immigration and Labour has been allocated \$46,976,686 to carry out its various activities during 2010. Although we have achieved a measure of success in reducing crime overall by 18%, arresting the present escalation in gun related crimes attributed to gangs has become a major preoccupation of the Ministry. To this end, in 2010 the Anti-Gun Unit and the Strike Force will continue to focus on recovering firearms from our streets and dismantling gangs.

92. Mr. Speaker, we believe that increased visibility of our Security Forces is an important factor in deterring crime. Resources have therefore been allocated to providing vehicles to assist the Security Forces in this regard and to allow them to discharge their functions with greater efficiency.

93. Much is demanded from our Security Forces in their unrelenting efforts to rid our communities of criminal elements and to preserve the peace and tranquilly that our communities have been accustomed to. My Government intends to continue giving them all the support they need including training, equipment and modern physical facilities to allow them to do an effective job.

94. Mr. Speaker, the Ministry of International Trade, Industry, Commerce and Consumer Affairs has been allocated \$3,297,583 an increase of 22.5% over the 2009 estimate. During this year, this Ministry will continue to actively participate in Multilateral Trade Organizations to ensure that domestic service providers are able to take full advantage of Regional and International market opportunities. The implementation of the Caribbean Single Market will continue and the Ministry will negotiate bilateral and multilateral agreements aimed at protecting the interests of the Federation along with other negotiated bilateral and multilateral trade agreements.

95. Mr. Speaker, the Ministry of Finance has been allocated \$172,139,968 to carry out its various programs and activities in 2010. This represents a slight decrease of 5.5% below the 2009 allocation and is attributed mainly to a reduction in the amount required for debt servicing. Although we have been meeting our debt servicing obligations without failure, we will continue to pursue strategies to drastically reduce the debt to more acceptable levels. In doing so, more resources could be allocated to other important areas.

96. As the global economic crisis continues, the Ministry of Finance will institute more stringent fiscal discipline in order to maintain fiscal stability in the face of low economic growth and the resulting lower intake in revenue. Moreover the Ministry will implement several initiatives including the establishment of a Single Regulatory Unit, continue its Tax Reform Program and strengthen its Debt Management and Public Finance Management capacity.

97. Mr Speaker, during this fiscal year the Ministry of Finance will increase its efforts to vigorously collect outstanding taxes. This becomes even more critical in this financial year when revenue intake is expected to contract.

98. Mr. Speaker, for 2010 the Ministry of Social and Community Development, Culture and Gender Affairs has been allocated \$15,685,622 in Recurrent and Capital resources representing a 4.8% increase over the 2009 allocation. This Ministry has people at the core of all its programs and activities and will continue its mandate to address the human and social development needs of our people. Given the global economic recession, the work of this Ministry is even more important in providing assistance to the vulnerable groups to ensure that their living standards are not unduly affected. In particular, this Ministry would continue its programs and activities aimed at poverty reduction and providing opportunities for vulnerable groups and families to improve their quality of life. This Ministry's programs have already begun to bear fruit in that the 2009 Country Poverty Assessment report has shown a marked reduction in poverty.

99. The Ministry of Agriculture, Marine Resources and Constituency Empowerment has been provided with a total allocation of \$7,678,319 comprising of \$5,647,618 for Recurrent Expenditure and \$2,030,071 for Capital Expenditure. The overall estimate represents a 3.1 % decrease below the previous year.

100. During 2010 the Ministry will continue to implement various aspects of the National Adaptation Strategy to further the development of non-sugar agriculture. In particular, the Department of Agriculture would continue to meet the increasing demand for land preparation and management services and to offer services to a wider group of clients such as schools, youth organizations and home gardeners. In addition, the Ministry through the Department of Agriculture will continue its role in distributing land to farmers and in providing marketing and business development services to subsistence farmers and new agri-business entrepreneurs. The Ministry will also seek to enact the Animal Disease Protection Act and review its water policy and legislation to support agricultural development.

101. Mr Speaker, Constituency Empowerment is a new program under this Ministry. This is a new initiative of my Government geared towards enhancing governance by ensuring that all our citizens, irrespective of socio-economic status, can meaningfully participate in issues of governance. A Constituency Empowerment Secretariat will be established to support the activities of this program.

102. Mr. Speaker, Tourism is presently the dominant sector of our economy. Despite the challenging economic times that we are experiencing we have sought to provide the Ministry of Tourism and International Transport with the resources required to effectively discharge its mandate. With this in mind, the Ministry of Tourism and International Transport has been allocated \$17,947,358 comprising Recurrent Expenditure of \$17,550,358 and Capital Expenditure of \$397,000. Although the overall allocation represents a 0.1% decrease below the previous year, there is a 3.5% increase in the Recurrent Expenditure allocation which relates to the day to day operating expenditure of the Ministry.

103. Despite the challenges resulting from the global economic recession the Ministry will continue to find innovative ways to sustain direct airlift to and from our destination in full recognition of the fact that without airlift we would be unable to maintain our market share in the key tourism markets.

104. The Civil Aviation Division and the Maritime Affairs Division which are new additions to this Ministry will continue their important functions of air and maritime safety and security

105. Mr. Speaker, I now turn to the Ministry of Housing, Public Works, Energy and Public Utilities. This Ministry has been allocated \$104,903,810 for 2010 comprising Recurrent Expenditure of \$62,630,605 and Capital Expenditure of \$42,273,205. The overall allocation for 2010 is an increase of 7.1%.

106. During 2010 the Ministry will continue its ambitious Home Ownership and Home Improvement Programme which has been one of the hallmarks of my Government since its first term. Home ownership is one of our strategies to empower our people. This programme will continue at full pace in 2010 under the Home Ownership and Home Improvement Programmes of the National Housing Corporation. We intend to evaluate other building technologies with the potential to provide safe homes using more efficient construction techniques with lower construction costs. More multiplex housing solutions will be constructed to optimize the utilization of land identified for affordable housing.

107. The Ministry will continue with upgrades in both power generation and transmission. Power generation has been augmented by the addition of a 4 MW Holeby Generator in late 2009 and another 4MW generator is currently being procured and will be installed later in 2010. These additions represent the Ministry's efforts to restore generating capacity which was seriously diminished by the fire at the power station in October 2008. Every effort is being made to restore a reliable supply of power in as quick a time as feasible. The demand for electricity is increasing dramatically in line with the pace of economic development and so the Ministry continues to explore ways to make significant investments to ensure that the supply of electricity is more than sufficient to satisfy current demand.

108. The Water Services Department is pursuing ongoing initiatives to identify new sources of water. The Department is presently negotiating with companies that have the technology to tap sources island wide which would be difficult to access with the technology that has been traditionally used. Seeking other sources of water is vital given the reduction in rainfall as a result of climate change on one hand and the dramatic increase in the demand for water on the other.

109. Mr. Speaker, the Ministry of Education and Information has been provided with \$61,900,465. Of this amount \$52,649,972 has been allocated for recurrent expenditure and \$9,250,493 for Capital Expenditure. Resources from this Capital Expenditure Budget will be used to construct the long awaited St Paul's Day Care Facility. The overall budgeted amount reflects a decrease of 16.5% due the completion of some of projects; however funds budgeted for Recurrent Expenditure has increased by 2.1%. Despite the harsh economic times that exist worldwide, my Government would continue to make significant investment in education considering the critical role education has played in the development of our human resource and the development of our Federation as a whole.

110. Our Education System continues to perform well at every level. The recent CXC exams saw our students attaining a 79.8 % pass rate - the highest ever. The performance at CAPE also continues to be

outstanding. The Ministry is now implementing exams such as the Caribbean Certificate of Secondary Level Competence (CCLSC) and the Caribbean Vocational qualification (CVQ) aimed at giving our students more opportunities to achieve certification for the job place.

111. The Saddlers High School, which opened in September 2009, will continue to provide education using a new mode of delivery and efforts are underway to develop this school into a Multi-Purpose Learning Center. During 2010 efforts will continue to develop AVEC into a recognized trade school and the National Skills Training Program will be strengthened to better meet the training needs of our young people, in particular.

112. I am pleased that the Clarence Fitzroy Bryant College (CFBC) Board of Governors has been established and is now operational. This Board will now have the responsibility for charting the next phase of development of the CFBC. Meanwhile, the Ministry of Education has entered into Memoranda of Understanding with a number of regional and international universities that would assist the CFBC in developing internationally accepted standards and procedures and in expanding its course offerings.

113. Mr. Speaker, \$34,879,609 has been provided to the Ministry of Health to carry out its programs and activities for 2010. Of this amount, \$33,882,309 is allocated for Recurrent Expenditure and \$997,300 for Capital Expenditure.

114. HIV/AIDS and non-communicable diseases such as diabetes, hypertension and strokes continue to pose a major challenge to the Health Sector. However the non-communicable diseases are the main cause of mortality and morbidity in the Federation. During 2010 the Ministry of Health will continue to provide leadership in addressing these health issues. The Ministry intends to strengthen stakeholder involvement and participation in tackling various health issues. This year, the Ministry's plan of action involves using the National Strategic Plan for Health and Development to achieve various objectives in reducing mortality and morbidity caused by non-communicable diseases.

115. Some of the Capital Projects to be implemented by the Ministry of Health in 2010 include: National Strategic Plan HIV/AIDS Project; Health Sector Improvement Project; Establishment of a Haemodialysis Unit at JNF; and Upgrading Mary Charles Hospital.

116. Mr. Speaker, the Ministry of Youth Empowerment, Sports, Information Technology, Telecommunications and Posts has been allocated \$12,678,129 for 2010. This amount comprises

\$7,144,932 for Recurrent Expenditure and \$5,533,197 for Capital Expenditure. The Ministry of Youth Empowerment was created to attend to the peculiar needs of our young people in light of the important role that our youths play in the development of St. Kitts and Nevis. During 2010 the Ministry will focus on activities aimed at encouraging youth to follow positive lifestyle, early intervention in the lives of troubled youth and to empower youth by developing in them an entrepreneurial spirit.

117. The Ministry will continue to provide leadership in the development of Information Technology which is a necessary component of economic development. In this regard, the Department of Technology has identified the provision and maintenance of IT infrastructure, applications and networks underpinned by IT education as one of its primary areas of focus. The Information Technology Division will also focus on the development of e-government which will enable greater efficiency in communication and the timely collection and dissemination of information.

118. In the area of Sport, the Ministry will continue with the development and maintenance of sporting facilities. These facilities will be used to develop our young athletes so that they can excel regionally and internationally. The Ministry will also collaborate with the Ministry of Tourism to enhance our tourism product by further developing Sports Tourism.

119. Mr. Speaker, the 2010 allocation for the Ministry of Sustainable Development is \$18,194,624 comprising of \$4,081,223 for Recurrent Expenditure and \$14,113,401 for Capital Expenditure. In 2010 this Ministry would continue to oversee the National Adaptation Strategy which seeks, among other things, to guide the transformation of our economy into a more service oriented economy with Tourism, Information Technology and Financial Services being the leading sectors in the economy.

120. During 2010 the Ministry of Sustainable Development will continue to play a leading role in coordinating the implementation of various programmes and projects. These include the European Union Accompanying Measures Programme, the Information and Communication Technology for Improving Education Programme Project, the Institutional Strengthening for Social and Economic Programme and the Tourism Statistics Update Project. Activities will also continue to prepare for the 2011 Population and Housing Census.

121. The 2010 allocation for the Ministry of Foreign Affairs is \$13,227,357. Of this amount \$12,997,057 has been allocated for Recurrent Expenditure and \$230,300 for Capital Expenditure. During 2010 this Ministry will continue its role in coordinating and promoting the foreign policy of the

Federation, safeguarding the welfare of our citizens overseas, formalizing agreements and among other things, increasing financial and technical cooperation from bilateral arrangements. The Ministry will continue to promote and protect the interests of the Federation working through its overseas Missions and Consulates and would pursue closer relationships with the Diaspora.

122. Mr Speaker, I now turn to Fiscal Measures.

Fiscal Measures

123. Mr Speaker, our economy appears to be under threat from the global crisis, which is abating only very slowly. In addition, it is apparent that the global economy will throw new challenges with increasing frequency in the years ahead. Hence, notwithstanding the very impressive improvement in our fiscal position over the years, we must accelerate the pace at which we reduce the public debt in absolute terms and as a percentage of GDP. So long as our public debt continues to be excessive, the ability of the Government to cope with crises will be hampered and the risk we face in respect of exogenous shocks emanating from an increasingly uncertain global economy would be elevated. We must never take the progress and achievements of our country for granted. Instead we must give thanks to Almighty God and be prepared to take definitive and pre-emptive action to mitigate the global economic and financial risks in order to protect the standard of living that we have worked so hard to achieve. I will announce in this section some very important prescriptive measures that are necessary if we are to continue the diversification and transformation of our economy and thereby secure continuous and progressive increases in the quality of life of our people.

124. Mr Speaker, I am sure that you are aware that many of our OECS brothers and sisters have been forced by the vagaries of the global environment to request financial support from the IMF and with this support to enter into IMF programmes for the stabilization of their economies. The ECCB has indeed recommended that all OECS countries approach the IMF for funding during these difficult times. The Ministry of Finance has been examining this proposal and the impact that it could have on our country. This evaluation is not yet complete and in the coming months we expect to carefully examine all of the relevant issues including the results of the IMF Article IV Consultations scheduled for later this year and to arrive at a decision by the second quarter of 2010. We in St Kitts and Nevis however, have been working on the stabilization of our fiscal situation over the past six years with remarkable success. Regardless of our decision on the IMF, we must make some hard decisions with respect to debt

management, fiscal sustainability,, public sector modernization and tax reform, and seek to have them implemented immediately. These are the areas that we recognize need to be addressed and we feel that a properly resourced Ministry of Finance, with the necessary technical assistance from our development partners, will largely be able to achieve our short to medium term fiscal and debt management goals through these measures.

125. Mr Speaker, on the question of Debt Management we recognize that the Back Office functions are being effectively managed by the Debt Unit in the Accountant General's Department of the Ministry of Finance. The Unit has an understanding of the nature of the debt, maintains a comprehensive listing, monitors payment dates and makes payments in a timely manner. They also maintain an updated inventory of the Public Corporations' debt. However, there is need to reinforce the capacity of the Ministry in respect to Front and Middle Office functions. We have had several assessments by our development partners such as the IMF in the form of the IMF Article IV Consultation and a special study on our institutional arrangements by the IMF Money and Capital Markets Department, as well as the World Bank in the form of a recent DeMPA Assessment. These reports have all made recommendations for the strengthening of the institutional capacity of the Ministry in respect to debt management in particular. The Ministry of Finance will therefore be reconfigured in 2010 to include these functions which entail analysis, forecasting, trading and providing advice on our debt. This will involve the creation of a unit fully that is staffed with professionals who will actively manage the Government's debt.

126. In addition, to support this new area consultants will be reengaged to elaborate the Debt Strategy which was presented to you in 2009 and through the help of our development partners it is expected that we will have the services of a resident macro economic and debt advisor for a period of one year to two years to guide the Officers assigned to this new function as well as other related areas through the set-up stage.

127. Mr Speaker, the main intention behind Fiscal Reform is the prudent management of resources. This would lead to curtailment of expenditure. The reality of the situation is that debt service in the form of interest payments accounts for 24% of our Recurrent Expenditure while Personal Emoluments accounts for an additional 41%. The additional 35%, which is left to support the programmes of Government cannot be cut in any meaningful way without sacrificing the service delivery capacity of the Government and, therefore, cannot contribute in any significant way to expenditure control efforts. This is not to say that we will not continue our efforts to control expenditure on goods and services. Indeed the Ministry of Finance has done a tremendous job working with the various line ministries in prioritizing

and cutting expenditure over the past years. It was because of these efforts that we were able to navigate the global financial crisis thus far with some measure of success. In this regard, the Ministry of Finance will present a comprehensive plan for the control of expenditure to the Cabinet for approval during the second quarter of 2010. Once this is approved we expect to receive the support and cooperation of all Civil Servants to ensure the successful implementation of this plan with a view to ensuring that the actual expenditure is kept within budget limits and available cash resources.

128. Mr Speaker, with respect to Personal Emoluments, we must find ways of cutting Government's payroll without compromising the services that we provide. We are aware that there are some areas in Government where our human resource capacity is insufficient while there are other places where there is an abundance in supply. We intend to identify these areas and rearrange resources so that vital positions in Government can be filled internally. No additional positions will be approved or filled in Government except if it can be proven that some attempt has been made to fill the position internally without the incurrence of additional expenditure. In other words, if a person is transferred from one Ministry with excess resources to another Ministry with scarce resources, the Ministry from which that person was transferred is expected to rearrange its functions internally to compensate for the departure of that individual without additional hiring. In this way, we intend to streamline the public service and attempt to dispel any notion that people in Government do not have sufficient work to do. We will now be expecting Ministries and Departments to do more with less. This will be an integral part of our Human Resource Modernization Strategy.

129. Mr Speaker, as you are aware, the official retirement age in Government is fifty-five. However on attaining the age of fifty-five most Civil Servants request additional years of service. This is usually because many persons have not planned properly for their retirement. Since we are a caring Government we usually try as far as possible to accommodate such requests. These extended services sometimes continue year after year on a month-to-month basis. We have found this situation to be unsustainable over the years and we intend to begin to address this issue in 2010. All persons who have reached the age of retirement or who make a decision to take early retirement will be requested to utilize their services in a more productive manner by seeking alternative employment in our expanding private sector or by taking advantage of the many opportunities for entrepreneurship that abounds in our economy. Only in very rare circumstances where it is determined that persons possess particular skills that cannot be obtained elsewhere in the Public Sector that persons will be hired on contract in a consultancy or advisory capacity for a specific period or on a job basis if applicable and justifiable. One of the conditions of such a contract would be the transfer of knowledge and skills to younger individuals who would assume those roles after

the contract period ends. Therefore by September 2010 all Civil Servants who have reached retirement age and are still working month to month will be formally required to retire. Permanent Secretaries are therefore expected to use the next six months to ensure that the functions undertaken by these individuals can be undertaken by current staff. The intention of this measure is to reduce payroll costs. This can only happen if the functions undertaken by such persons are assumed by persons currently being paid. It is anticipated that this measure will save the Government over \$2 million annually. This is only the beginning of the reform which we intend to pursue with respect to controlling the Personal Emoluments bill of Government. Other areas such as outsourcing, public-private partnership and part-time workers as well as the freezing of wages and increments will be more fully explored and implemented in 2010 as part of a comprehensive strategy for the reduction in the Government's wage bill. We will also seek to reduce payroll costs through natural attrition.

130. Mr Speaker, we will now look at Tax Reform, which is the most comprehensive of the measures which will be undertaken in 2010. In the 2009 budget address, it was announced that the Government of St. Kitts and Nevis had established a Tax Reform Team within the Ministry of Finance to analyze whether the Federation should consider introducing a Value Added Tax (VAT) and to examine the technical issues of implementing a VAT within the Federation.

131. The technical team reviewed reports from the Eastern Caribbean Currency Union (ECCU) Tax Reform and Administration Commission, as well as from the International Monetary Fund (IMF) through the Caribbean Regional Technical Assistance Centre (CARTAC) that have recommended the introduction of a VAT within the Federation. In addition, the team has travelled to other CARICOM countries with the objective of evaluating the operation of a VAT in small open economies like that of the Federation. The Team has also studied our Tax System in depth in light of the environment in which we are now operating and the developmental goals of our economy. The Team, after extensive research and analysis, has produced a White Paper outlining why a VAT should be introduced within our Federation and elaborating on the technical issues relating to its design in light of the uniqueness of our economic and social environment. Faced with the external constraint of lower revenues from Taxes on International Trade, the Government of St. Kitts and Nevis, after careful consideration of the various recommendations, has decided to embark on a comprehensive Tax Reform Programme. The implementation of VAT will form an integral part of the reform process aimed at increasing overall administrative efficiency in the tax system and broadening the tax base to improve its revenue generating capacity. A VAT regime will provide some measure of fiscal stability as it is capable of generating reliable and consistent revenues for the Government.

132. Mr Speaker, in many developing countries, like our Federation, the tax base is narrow, so governments must rely on relatively high tax rates to generate revenue. Fortunately, we have managed to keep our tax rates relatively low and attractive notwithstanding our small size, but we must enhance the coverage of our taxes if we are to continue to keep our tax rates sufficiently low to attract investment and foster productivity. Successfully reforming our tax system will involve shifting from a reliance on a narrow international trade base plus a limited domestic production base to a broader consumption base. This is precisely what a tax like the VAT will do.

133. In addition, the ECCU and CARTAC studies have noted various weaknesses in our current tax structure. Firstly, there are too many indirect taxes at different rates that make the system complex. Secondly, the current tax system promotes cascading of taxes or double taxation of goods. The ECCU Tax Reform and Administration Commission in fact recommended that all indirect taxes within the sub-region be replaced by a VAT. A VAT would streamline the tax system by replacing the Consumption Tax, Hotel and Restaurant Tax, Cable TV Tax, Traders Tax, Vehicle Rental Levy, Export and Rum Duty, Telecommunications Levy (IDD Calls) and Parcel Tax.

134. To offset any significant shortfall in revenue due to the introduction of a VAT at a lower rate, an Excise Tax is often implemented in conjunction with VAT. The Excise Tax is normally limited to a small range of goods such as alcoholic beverages, tobacco products, petroleum products, motor vehicles and aerated beverages.

135. The introduction of a VAT is not unique to St. Kitts and Nevis. A number of other Caribbean countries have implemented or are considering the implementation of a tax similar to VAT. Jamaica, Barbados and Trinidad and Tobago have implemented VAT with positive results for several years. Belize, Dominica and Guyana have also introduced a VAT since early 2006. Our fellow OECS countries such as, Antigua and Barbuda, St. Vincent and the Grenadines and Grenada have recently introduced VAT, while Saint Lucia is currently working on the implementation of VAT within the next year. The implementation of VAT in the Federation will foster harmonization in the Eastern Caribbean Currency Union.

136. Mr Speaker, the Tax Reform Team, with technical assistance from CARTAC, has developed a detailed Implementation Schedule for a VAT. The implementation process for the introduction of VAT has a number of key components including Publicity, Public Consultation and Education; Enactment of

VAT & Excise Tax Legislation; Institutional and Capacity Building of Staff Systems and Procedures; and Taxpayer Registration and Training.

137. The Public Awareness and Education Campaign for the introduction of the VAT is scheduled to begin in April 2010. This will be accompanied by the circulation of the White Paper and several pamphlets, booklets and posters which the public and potential taxable persons can refer to from time to time. There will also be radio and television programmes as well as publications in the newspapers and the internet.

138. The Tax Reform Team will conduct workshops and seminars targeted at specific interest groups, businesses and individuals. The team will also be available to meet with members of the general public to answer any question and address any concern that they may have. Potential VAT and Excise taxpayers will be identified and provided with application and registration forms. Registered businesses would be required to adopt proper accounting standards for the collection of VAT. The Tax Reform Team will design a series of advisory visits targeted at registered businesses to ensure that they understand their book keeping requirements and provide assistance to ensure that their operations are VAT compliant.

139. Mr Speaker, another important part of the process is the passage of the relevant legislation. It is imperative that the legislation be drafted and enacted several months before the introduction of the tax. This will allow for meaningful consultation on the specific impact and operation of the VAT and facilitate timely registration of VAT taxpayers as well as effective dissemination of information to taxable persons and the general public. Hence, the VAT Legislation is required to be passed by May 2010.

140. Mr Speaker, in concluding this issue, the proposed VAT must be seen as an opportunity to completely reform our existing tax structure. The VAT will apply to many services which hitherto have not been bearing their fair burden of responsibility in our country even though they are full beneficiaries of the fruits of a burgeoning economy. It is highly anticipated that this measure will improve the efficiency in the tax system, add some degree of equality and fairness and also provide fiscal stability as an alternative source of revenue for Government away from its heavy dependence on Taxes on International Trade.

141. Mr Speaker, we therefore expect that, provided all of the consultations, discussions and training exercises are completed as planned, we will introduce the VAT by the beginning of November 2010.

142. As Minister of Finance, I therefore invite all stakeholders, interest groups, the business community, churches, taxpayers and the wider public to participate in the discussions, debates and consultations. It is your responsibility to be informed of all the issues and to make valuable contributions to the design of a VAT for the Federation in order to facilitate a successful implementation.

143. Mr Speaker, the VAT and Excise Tax are not the only areas of Tax Reform that this Government intends to address in 2010. We have also drafted a new Corporation Tax Act which is intended to address many of the shortcomings of the current legislation. Internal discussions as well as initial discussions with the private sector have already been initiated and it is anticipated that the process will culminate with the passage of this legislation by the third quarter of 2010.

144. Mr Speaker, some three years ago the Government introduced a new Duty Free Store Regime to replace the system of Duty Free stores which existed then. We have been evaluating this system and have recognized that even though Government has kept its part of the bargain by providing a system which is simple, easy to operate, and regionally competitive and which provides upfront relief to the store operators, there are those who are beneficiaries of the system who have failed to live up to their side of the bargain to pay the Government the 4% Turnover Tax which is due after they have sold the items.

145. We have therefore drafted the Duty Free Stores Act which embodies all of the elements of this system and which provides for effective regulation. We intend to hold discussions with the Duty Free Store operators during the second quarter and to enact this legislation as soon as possible thereafter. The implementation of this legislation should provide Government with some additional revenues to help to support its programmes. I wish to encourage all stakeholders to participate in this process and to continue to collaborate with the various arms of Government which are seeking to ensure that we all benefit from the fruits of our enhanced tourism product.

146. Mr Speaker, I would like to encourage all Duty Free Store operators to assist the Government in its efforts to operate an efficient, fair and transparent system. Those who have received Duty Free benefits upfront on the condition that the Government would be able to receive some revenue after the goods have been sold and have failed to pay their Turnover Tax are reminded that if the Turnover Tax is not paid, then the Duty must be paid. The Government is able to go back in its records to assess the Duty which was due and have it collected. Government wishes to attract investors to our country who are partners in development, who care about St Kitts and Nevis in the long term and not just a quick, fast buck. It is for

this reason that we will review the system especially as it relates to the sale of alcohol in the domestic economy and ensure that the system relating to the Duty Free business is operating as intended.

147. Mr Speaker, this Government has fought many battles with international organizations about the concessions which we give in order to support the transformation of the economy. I am sure that we would all agree that the performance of our economy over the past two years in the face of global economic and financial crisis is evidence that these concessions were indeed necessary to keep our economy afloat during that period. However there comes a time when all systems need to be evaluated to ensure that they are performing as intended and to adjust them accordingly. We feel that the time has come to look at our system of discretionary concessions and make the necessary changes.

148. Mr Speaker, as we seek to encourage small business development as a major force in our economy with the most recent passage of the Small Business Legislation, we must find ways of supporting new businesses while ensuring that those which have been given the support that was necessary to get them off the ground are weaned from these concessions and begin to operate in a more self-reliant manner. We have therefore been analyzing the concessions currently being granted to certain segments of the economy, some of which have been in place for over twenty years and have come to the conclusion that these concessions need to be reviewed. As a result, the Cabinet has instructed the Ministry of Finance to carry out a comprehensive analysis of the policies in relation to discretionary duty concessions with a view to evaluating their efficacy and prepare recommendations to reduce certain concessions and thereby increase revenue collections.

149. Mr Speaker, we are all aware that the Government has in place an environmental levy on used vehicles, which is intended to protect our country from the dumping of used vehicles which we do not have the necessary resources to dispose of. However, it has been brought to our attention that all vehicles provide an environmental challenge and that all should bear the cost of this impact. As a result we will seek to spread the burden more evenly across all ages of vehicles including new vehicles. A new levy of \$1,000 will therefore be introduced on vehicles which are not currently subject to the Environmental Levy, that is new vehicles up to two years old.

150. Mr Speaker, I believe that these measures demonstrate the seriousness of my Government in managing the affairs of St. Kitts and Nevis in a prudent manner. I have no doubt that a careful and objective assessment of these measures will reveal that they are reasonable and well thought out and that

when successfully implemented should be the main vehicle through which we can ensure the continued stability, growth, and development of our Federation.

151. I will now summarize and conclude this Budget Address.

SUMMARY AND CONCLUSION

152. Mr. Speaker, the budget I have presented here today is a budget that is appropriate for the times. The entire global community is in the midst of what is undoubtedly the most challenging times of this century, during which policy makers all over the globe have had to tackle economic problems that rival many of the major crises of the last century in scope and magnitude. Moreover, in this era of globalization when problems in the remotest corners of the world reverberate throughout the entire globe, it seems likely that the global economy will generate obstacles and crises of relevance to our Federation with even greater frequency.

153. Mr. Speaker, we are strongly committed to expeditious implementation of the OECS Economic Union Treaty to which all countries of the OECS pledged here in Basseterre, and we believe that joint approaches to our economic problems within the framework of the Treaty will yield positive results for St. Kitts and Nevis and the other countries of the OECS. The member countries of the Eastern Caribbean Central Bank are committed to an Eight-Point Plan for stability and growth which is already being implemented, and contributing in a meaningful way to the stability of the region in these very difficult times. However, we in St. Kitts and Nevis must continue to do our part to implement the Eight-Point Plan and to secure the well-being of our people in the midst of the economic mayhem that has pervaded the entire global economy in recent years.

154. This year's budget unfolds a bold and creative strategy aimed at mitigating the elevated risk that we face as a small island state which must traverse increasingly turbulent global waters to secure the immense social and economic progress that we have made over the years, and to reach our goal of creating a modern, vibrant, and service-oriented economy. An economy in which our people are afforded the opportunity to enjoy a decent and dignified standard of living in a happy, free and secure environment, as they pursue their respective goals and ambitions and, at the same time, contribute to national development.

155. This year's budget recognizes that we must address, in a definitive and meaningful manner, the very high Public Sector debt that we accumulated in the hurricane years, if we are to survive the many challenges that are being thrown up by the global economy from time to time. At the same time, the measures to be implemented in this budget have been crafted such that any potential adverse impact on our people is minimized.

156. For instance, in cutting the cost of Public Sector emoluments we have ensured that no Public Servant would be fired, but that cost savings would be realized by constraining new recruitments and increments, reassigning persons to fill vacancies that arise from time to time and enforcing even more effectively the laws, regulations, and policies in relation to retirement. Moreover, instead of imposing onerous increases in tax rates, the budget seeks to replace a series of indirect taxes with a single value added tax that is sufficiently broad in coverage and sufficiently sensitive to cost of living concerns, to ensure the tax burden is fairly distributed among our people. In addition, the budget provides financing for a range of social projects that would empower various vulnerable groups including lower income groups and our young people, and provide them protection from the ravages of global crises. It also provides for the implementation of a number of capital projects that will foster economic growth and open up new employment and entrepreneurial opportunities for our people.

157. Mr. Speaker, just a few weeks ago, His Excellency, the Governor General, in the Throne Speech delivered on the occasion of the opening of Parliament, outlined the impressive plans and programmes of the Government for the development of our Federation over the next five years. We are determined to implement every project, every programme, and every initiative outlined in the Throne Speech. These include, among other things, the provision of computers to our school children, the provision of a range of economic and social infrastructure including housing infrastructure, the construction of homes on the land distributed as part of the Special Land Distribution Initiative, the provision of modern diagnostic equipment at our Hospitals, the financing of professional and tertiary education for our young people, and the upgrading of the accommodation, facilities and equipment of the Security Forces. This year's budget establishes the fiscal foundation, from which the very expansive and creative plans and programmes outlined in the Throne Speech, would be launched over the next five years. It helps to create the fiscal space we require to combat exogenous shocks and at the same time, move forward with the implementation of our creative programme of development.

158. Mr. Speaker, I close with a quotation from William Jennings Bryant, "destiny is not a matter of chance; but a matter of choice. It is not a thing to be waited for. It is a thing to be achieved." I am

persuaded that St. Kitts and Nevis is destined to overcome its challenges and become a model of development for small island states. But we must make the right policy choices now. We cannot just sit and wait while we hope for the best. We must be prepared to make small sacrifices now for huge future gains. We must combine our energies and push hard against the wheel of progress to achieve that haven of peace and happiness which is our destiny as a Nation. I am confident that the Almighty God will crown our efforts with success.

159. Mr. Speaker, I so move.