

# St Kitts & Nevis 2003 Budget Address

Mr. Speaker, I beg leave to move the second reading of the Bill shortly entitled the Appropriation (2003) Act, 2002

## INTRODUCTION

We meet today to consider the budget for the upcoming year against a backdrop of global economic slowdown, erratic capital markets, financial crises in diverse places, frequent and inhumane terrorist acts, and the continuing and pervasive fear generated by war and rumours of war. These adverse conditions are magnified by the spectre of globalization that is steadfastly and relentlessly covering the face of the globe. Every crisis or adverse circumstance in even the remotest corner of the world spreads like an epidemic to the rest of the world. Indeed the term 'contagion' now litters economic literature and it is used in economic and financial circles as often as it is used by health professionals. The phenomenon of globalization has resulted in a high degree of synchronization and correlation in the performances of the economies of the world. It is not surprising therefore that in 2001 virtually every major advanced economy in the world experienced a reduction of at least 50% in real economic growth. Moreover, the IMF estimates that all of the major advanced economies of the world, with the exception of Canada, will record fiscal deficits in 2002. In respect of developing countries, it is projected that their combined fiscal deficit in 2002 would be the highest recorded over the past 12 years. In the OECS in particular, the sub-region as a whole recorded a negative current balance on the fiscal account in 2001 for the first time in many years.

This tale of woe extends to the labour market. There have been business closures and organizational restructuring in a number of advanced economies resulting in substantial layoffs and increased unemployment over the last 12 to 18 months. The social impact of these problems is even more severe because so many people have seen their savings virtually blown away with the dramatic decline in the price of securities traded on international stock exchanges.

In St. Kitts and Nevis, my Government has exerted every effort to spare our people much of the pain of such global economic turbulence. In this regard, we have pursued a host of social programmes and other initiatives that have helped to preserve the standard of living of our people and provide a buffer against many of the economic shocks that our small and fragile economy has encountered. Of course, this has not been an easy task because the global economic slowdown has occurred in one of the most challenging periods in the economic history of our Federation. It is a period that was characterized by frequent natural disasters, reduced sugar export earnings as a result of trade liberalization and currency fluctuations, reduced aid flows, restricted access to concessionary loans as a result of premature graduation, and the devastation of our tourist markets by global terrorism.

Serious and costly damage was inflicted on our economy by 5 hurricanes over the period 1995 to 2000. Although we have done a marvellous job in repairing our homes and our infrastructure and in restoring our country to normalcy, the hurricanes – Luis, Marilyn, George, Jose, Lenny - have left behind a trail of debt and fiscal difficulties which we must seriously tackle if we are to preserve and protect the progress that we have achieved over the years. The impact of the hurricanes is easily appreciated by comparing the fiscal position of the countries in the Eastern Caribbean. The islands such as St. Kitts and Nevis, Antigua and Barbuda, Dominica, Montserrat, Anguilla and St. Maarten that are located in the north Eastern Caribbean, where most of the hurricanes have passed in recent years, are experiencing the greatest difficulties in maintaining fiscal stability.

Over the same period that we were experiencing the hurricanes, our country has been forced to borrow large sums of monies on commercial terms because of the decision of the international financial institutions to graduate us from the group of countries that qualify for concessionary funds. The effect of this decision by these institutions has been amplified because many bilateral donors have taken their cue from the World Bank and have severely restricted our access to their grant funds and soft loans. The loan for the construction of the airport provides a very

explicit example of the impact of such decisions. When we started to negotiate that loan, the applicable interest rate was in the region of 2% and the term of the loan was in excess of 15 years. Once we had been graduated by the World Bank, the conditions of the loan changed so that we were forced to pay an interest rate of nearly 8% and the term of the loan was reduced dramatically to approximately 7 years. It is not difficult to appreciate that the effect of such decisions on our debt servicing obligations has been horrendous.

Mr. Speaker, over this same period, we were also victims of trade liberalization. In particular, the value of the trade preferences we enjoy in international markets has been eroded as the world move towards selectively removing so-called trade impediments and preferences. I have used the word 'selectively' because it seems that the preferences and protection enjoyed by producers in developing countries are being removed at a much faster pace than those enjoyed by producers in advanced economies. The impact of reduced trade preferences on our sugar industry, which dominated the economic life of our nation for so many decades, has been devastating. For instance, over the period 1995 to 2001, the EC\$ price per ton of sugar dropped by 34% from \$2019 per ton to \$1,336 per ton as a result of reductions in the preferential prices and currency fluctuations. There are not many enterprises that could survive such a massive drop in price over a few years.

These are the problems that we were confronting when the terrorist attacks of September 11 brought our tourist sector to a virtual halt in the last quarter of 2001. Moreover the subsequent war as well as the continuing threat of war and of retaliatory terrorist acts have instilled fear in the hearts of potential travellers and have acted as a damper on the growth of the international tourist market. This has combined with the global economic slowdown to reduce the flow of tourists to most Caribbean destinations including St. Kitts and Nevis.

In responding to these challenges, we have not just sat down with our hands in our laps. My Government has been proactive in protecting the standard of living of our people and in moving our country forward in the midst of these adverse

circumstances. In fashioning our response to the problems, we were guided by two over-riding objectives. Firstly, we were determined to protect the poor and to ensure that they are provided with the basic necessities of life including food, shelter, and access to various social services including health care and education. Secondly, we were determined to ensure that our ability to survive and compete in the new global economy over the long-term was not irreparably compromised by the many adverse circumstances that had befallen our nation. Our record in protecting the poor is unquestionably outstanding. We have constructed well over 1,200 homes for low income families since we assumed office in 1995. Our starter homes, in particular, have proven exceptionally useful in catering to the needs of the very poor families that had been displaced by the hurricanes. Indeed, I am convinced that our initiatives in the housing sector during the hurricane years, have helped to avert a massive social problem that could have resulted from the displacement of so many of our people.

As part of our agenda for social development and poverty alleviation, we substantially upgraded the minimum wages payable to low wage earners including the workers on the industrial estate and we increased the assistance pension payable to the poor by 130% since we assumed office in 1995. We have also instituted a package of social assistance for the aged and have continued to provide free medical care to children, indigents and the elderly. Moreover, the children of low wage earners benefit from school uniforms provided by the Government. We also empowered hundreds of our young people by preparing them for a permanent place in our work force through our very successful short-term work experience programme. These initiatives have helped tremendously in protecting the vulnerable groups in our midst from the ravages of hurricanes and an unfriendly global environment.

To secure the long-term viability and competitiveness of our country, we directed much of our limited resources to infrastructure development and human resource development. We were convinced that if we fell behind in these two vital areas of economic development, we would have seriously jeopardized the future capacity

of our country to survive and thrive in the new competitive global economy that is rapidly emerging. Hence, we transformed and modernized our physical infrastructure through the construction and rehabilitation of roads, air and sea port expansion, and heavy investment in the improvement of basic utilities including electricity, water and solid waste management facilities.

In human resource development, we have equipped our schools with computer laboratories so that our young people could move smoothly into the workforce with the capacity to employ the latest technology and to compete effectively with their counterparts in other countries of the world. We are moving forward with the construction of a Hospitality Centre at the CFB College which we expect will become a centre of excellence in the Eastern Caribbean and which will provide the tourist sector with much of the skills and expertise required to offer world class service to our many visitors.

These initiatives have contributed to the accumulation of public sector debt, but we believe that the long-term benefits that will accrue from them will more than outweigh the cost. It is our decisive and courageous actions in these areas that have been attracting considerable levels of foreign direct investment to our shores. It is the success of these initiatives that will generate the economic activity required to ensure our continued progress as a nation and to guarantee the prompt servicing of the debts accumulated during the hurricane years. It is our ability to lift our heads above this sea of short-term problems and look to the future that will bring us to our goal of progress and prosperity for all.

Mr. Speaker, small island developing countries like ours cannot take future survival and viability for granted. We must tackle the immediate problems and yet keep our eyes on the future. The world is not waiting on us. Hence, in crafting our strategy for development, we have always been acutely conscious of the fact that for a small fragile island economy such as ours, the failure to pre-emptively take up the challenge of globalization could put the long-term viability of our nation at risk. Hence, even as we sought to remedy the immediate problems that we

faced, we simply could not ignore the issues of critical importance to the long-term survival of our Federation.

We are convinced that our strategy has paid dividends. Notwithstanding the multiplicity of problems that we have encountered in recent years, we believe that our country is about to enter an era of unprecedented growth and development. The impressive Marriott Hotel will double the tourist plant in St. Kitts almost overnight. The establishment of the Scenic Railway enterprise and the redesign, reinforcement and reopening of Port Zante have put new vigour into the cruise ship industry, and it is now projected that the number of cruise ship passengers that will visit our shores each year could reach as high as 500,000 over the medium-term. Indeed, the capacity of our berthing facilities to handle the largest cruise ships on the seas will enhance our competitiveness in cruise tourism and is expected to push us even more rapidly to the goal that we have set for ourselves in this important sector.

However, there is one critical risk factor that could jeopardize our future prospects if it is not handled expeditiously. In particular, we must maintain fiscal stability and strengthen our efforts to curtail the growth of debt which has been pushed upwards by the many challenges that we have faced in recent years. Mr. Speaker, in the current global economic climate, countries all over the world are preoccupied with fiscal problems. For instance, in the OECS, all of the countries have agreed to design and implement stabilization programmes. In our case, we have been particularly hard-hit by the global economic slowdown because it has come on the heels of the series of adverse developments that I mentioned earlier.

We believe, therefore, that we must accelerate the pace at which we return to fiscal balance if we are to maintain macroeconomic stability and thereby protect and preserve the progress that we have made over the years. This would also help to minimize our exposure to future external shocks including natural disasters. Hence, for the year 2003, the major objective that we will set out to achieve is the reduction of the fiscal deficit and the establishment of the

appropriate macroeconomic platform for the launch of our economy into a new era of progress and prosperity.

Of course, our policy options are constrained by the external environment. Hence I will now survey the relevant international economic developments of relevance to our Federation.

## **THE EXTERNAL ENVIRONMENT**

### ***International Economic Developments***

Speaker, according to the World Economic Outlook published by the International Monetary Fund, world output grew by 2.2% in 2001 compared to 4.7% in 2000. The economic indicators projected for 2002 are mixed but it seems likely that any recovery during this year would be relatively mild. In particular, in the advanced economies, only the United States of America and Canada are likely to show some improvement in real economic growth rates in 2002. It is projected that in the United Kingdom, France, Italy and Germany output growth will slow to 1.7%, 1.2%, 0.7% and 0.5% respectively, while in Japan output will decline by 0.5%. It is not surprising, therefore, that unemployment in advanced economies is expected to rise from 5.9% in 2001 to 6.4% in 2002. Fortunately, inflation is expected to remain at relatively moderate levels.

In the case of developing countries as a whole, Mr. Speaker, growth is projected to increase to 4.2% from 3.9% in 2001. However, the outturn for developing countries in the Western Hemisphere is expected to reflect a continuation of the downward trend in output growth. For 2002, projections point to 0.6% decline in output, stemming from the deterioration in economic and financial conditions mainly as a result of the crisis in Argentina, economic weakness, rising debt levels, large external financing requirements and to a certain extent fragile banking systems.

Mr. Speaker, although the outlook for 2003 points to some economic recovery, adverse global economic and financial developments including the decline in financial markets, the depreciation of the US dollar, particularly against the euro and the yen, and the uncertainty in emerging markets suggest that the recovery may be weaker than originally envisaged. Consequently, the 2003 growth

forecasts have been revised downward. Overall, global output is expected to grow by 3.7%, some 0.3 percentage points less than what was forecasted in April.

It seems, therefore, that the global waters are still very choppy and uncertain. The possibility of war in Iraq adds another risk factor to models for predicting global economic performance. What is quite clear though is that in view of the current challenging global economic circumstances and the increased uncertainty surrounding the unfolding developments in Iraq, it is incumbent that we take the necessary steps to stabilize and restructure our economy. While we will not be able to provide total protection from the effects of external shocks, maintaining strong economic fundamentals can no doubt provide a cushion to help minimize the adverse effects.

I now turn Regional Economic Developments.

### ***Regional Economic Developments***

Mr. Speaker, the susceptibility and vulnerability of the region to external shocks has been highlighted in recent years. The global slowdown as well the September 11 crisis and the continuing threat of war have substantially reduced the flow of tourists to the region and have reduced public sector revenues, employment, growth and foreign exchange earnings, especially in the countries that depend heavily on tourism.

Hence, growth in Barbados in 2001 was negative for the first time in nearly a decade. The contraction of output in Barbados in that year was in the region of 2.8% and it is projected that the economy will experience further contraction of about 2.5% in 2002. In the Bahamas growth in 2002 is not expected to exceed the relatively meager 1% recorded in the previous year. In fact Latin America Monitor reported in its November issue that the Prime Minister of that country recently announced a freeze in public sector employment in response to a loss of US\$100 million in tourism revenue over the past year. Even in the larger and more diversified economies of the region, including Jamaica and Trinidad & Tobago, there has been a marked slowdown in economic activity in 2002. In



Guyana though, it is expected that the growth rate will increase marginally from 1.9% in 2001 to 2% in 2002.

Closer home Mr. Speaker, it is estimated that real GDP in the economies of the Eastern Caribbean Currency Union (ECCU) declined by 1.5% in 2001, mainly on account of the global economic slowdown which was exacerbated by the events of September 11. Contractions in output were recorded in St. Lucia (5.4%), Dominica (4.6%), Grenada (3.4%) and Montserrat (3.8%). The other four members of the ECCU recorded positive but lower growth rates (with the exception of Anguilla where growth was higher). The rates ranged from 2.0% in Anguilla and in St. Kitts and Nevis to 0.2% in St. Vincent and the Grenadines. The weak performance of the ECCU member countries was influenced by weakness in the agricultural sector, particularly with respect to bananas, the decline in construction activity with the completion of major public and private sector projects, and the reduced competitiveness of the ECCU's tourism sector coupled with the effects of the global slowdown, and the terrorist attacks on the United States. Meanwhile, inflation in the currency union remained subdued, with consumer prices increasing by 2.1% compared with 2.4% in 2000.

Based on the projections for a weaker than expected recovery in the global economy, it is likely that the quickening of the pace of economic activity in the currency union may be somewhat delayed. In view of this, and cognizant of the fact that globalization and trade liberalization have important implications for international competitiveness, it is imperative that the region undertake the necessary steps to accelerate the implementation of plans for the establishment of the Single Market and Economy, to stabilize and restructure the economies of the region and to set the stage for the resumption of growth along a path which can be sustained over the medium term.

### **THE DOMESTIC ECONOMY**

#### ***Output, Prices and the Balance of Payments***

Mr. Speaker, after recording strong growth of 5.5% in 2000, economic activity in the Federation slowed. According to preliminary estimates of GDP, St. Kitts and Nevis recorded real economic growth of 2.0% in 2001. The September 11 crisis,

which severely dampened tourism arrivals in the latter part of the year, exerted a strong negative influence on the growth rate. The slowdown may also be attributed, in part, to reduced activity in the construction sector, which resulted from the completion of a number of public and private sector projects. In addition, some contraction in the manufacturing sector stemming from a reduction in output in response to decreased demand from the United States, our main export market, also contributed to the economic slowdown experienced by the Federation. Fortunately, inflation remained subdued in 2001 and generally in line with that in our major trading partners. The inflation rate for 2001 as measured by the change in the consumer price index was estimated at 2.5%. Based on data through September 2002, indications are that the rate of inflation declined to 2.2%.

The achievement of positive growth against the backdrop of a global economic slowdown, a recession in the US economy, one of our major trading partners, and the major disruption to our tourism sector caused by the terrorist attacks on the United States is no mean feat, Mr. Speaker. To a large extent it reflects the responsiveness and flexibility of my Government in implementing sound macroeconomic policy measures in an effort to minimize the effects of such external shocks. However, it also reflects the fortitude and capabilities of our people and the resilience of our economy.

It is noteworthy that, notwithstanding the difficult and challenging economic circumstances with which we were faced, economic growth in the Federation during 2001 was more or less in line with the 2.2% growth in world output. It was also well above the 0.6% average growth rate for developing countries in the Western Hemisphere. Additionally, whereas overall growth in the ECCU was negative, with four of the member countries recording declines, St. Kitts and Nevis along with Anguilla recorded the highest rate for the sub-region.

Yet Mr. Speaker, a growth rate of 2% is well below the rate required to generate adequate levels of public sector revenue and progressively improve the standard of living of our people in a meaningful way. Hence, we will continue to diversify

our economy and create an economic base capable of generating and sustaining rates of growth that are consistent with our development objectives. Of course, we recognize that we are an integral part of a regional community of nations. We will, therefore, continue to collaborate with other governments in the currency union, the ECCB, the OECS Secretariat, CARICOM and other regional and international institutions in formulating appropriate policies and strategies to stabilize our economies, stimulate economic growth and transform the economies in the region so that the entire region will be much better placed to confront the challenges of the emerging global economy.

Mr. Speaker, I now turn to the Balance of Payments Account, which is a record of our receipts and payments arising from transactions with the rest of the world. This account indicates the extent to which the country is earning the foreign exchange that is needed to finance imports, service our external debt obligations and implement new development projects.

The balance of payments out-turn for 2001 resulted in the recording of an overall surplus of \$29.5 million or 3.2% of GDP compared to an overall deficit of \$11.8 million or 1.3% of GDP. These remarkable developments in the balance of payments resulted primarily from an increase in the surplus on the capital and financial account from \$193.5 million (21.7% of GDP) in 2000 to \$325 million (35% of GDP) in 2001. Factors which influenced the increase in the surplus on the capital and financial account included increased net inflows of portfolio investment resulting from the issue of bonds by the Federal Government and the Nevis Island Administration, and net inflows of official capital in contrast to net outflows during 2000.

In the current account, the deficit increased to \$258.6 million or 27.9% of GDP from \$172.7 million or 19.4% of GDP. The widening of the deficit on the current account was primarily attributed to a significant reduction in current transfers. Mr. Speaker, it is important for me to explain the developments in respect of current transfers. In 2000, net inflows of current transfers were extraordinarily large because of the inflows of insurance proceeds to settle claims for hurricane

damage to our hotel plant and the seaport. In 2001 however, the inflows returned to normal levels, thus resulting in a reduction in current transfers.

Meanwhile, the merchandise trade deficit narrowed to \$307.8 million (33.2% of GDP) from \$332.3 million (37.3% of GDP). The surplus on the services account increased to the equivalent of 10% of GDP from 7.2% in 2000. Net tourism receipts amounted to \$147.2 million (15.9% of GDP) in 2001. Despite the widening in the current account deficit, the surplus on the capital and financial account was more than adequate to cover the deficit and allow for an increase in our international reserves.

### ***The Tourism Sector***

Mr. Speaker, international travel has been relatively stagnant in recent years mainly because of the continuous threat of terrorism and war, and consequent hassle and inconvenience that travelers must encounter to pass through airport security posts in countries all over the world, including in our own Federation. Hence, the countries in the Caribbean that depend heavily on tourism have encountered significant economic challenges. We are no different here in St. Kitts and Nevis.

A review of the performance of our tourist sector showed mixed signs. Stay-over tourist arrivals for 2001 totaled 70,565, some 3.5% less than in 2000, mainly as a result of the deceleration in travel following the September 11 attacks. Despite the 9/11 events, the performance of the Yacht and Cruise ship visitors showed a marked improvement relative to 2000. A total of 259,134 yacht and cruise ship passengers disembarked on our shores in 2001 reflecting an increase of 51.6%. Data for the first six months of 2002 indicated that there was a decline in the number of stay-over and cruise ship visitors entering the Federation, in comparison to the same period in 2001. For the first half of 2002, a total of 31,140 stay-over visitors and 122,227 cruise passengers arrived in the Federation, compared to the 37,431 stay-over visitors and 127,933 cruise ship passengers in 2001. However, we expect to reverse this declining trend during

the course of this year and to launch out into a new period of rapid tourist sector expansion.

Mr. Speaker, many experts have expressed the view that Caribbean tourism is losing its competitiveness and have suggested that in a number of the major destinations the decline in tourist arrivals had commenced even before September 11, 2001. According to these experts, the Caribbean tourism product may have reached the high point of the product cycle and that considerable effort needs to be devoted to renewing and refreshing the product. We believe that part of that renewal and refreshment will entail the development of smaller and newer destinations in the region, including our own Federation.

The opening of The Marriott Hotel with a capacity of 900 rooms here in St. Kitts and Nevis, will give a tremendous boost to this process. The tourism sector is already the leading sector in our economy and the doubling of this sector in a relatively short period should usher in a new period of unprecedented levels of economic growth. Presently, the redevelopment of the 18-hole golf course in Frigate Bay is underway, and it is anticipated that work on an additional golf course will commence during the course of next year. This would contribute immensely to our efforts to establish St. Kitts and Nevis as a leading international golf tourism destination.

In the area of cruise tourism, I am pleased to note that reconstruction work on the cruise ship pier at Port Zante is complete. We have not just reconstructed the pier but we have also completely redesigned the pier with a view to improving its capacity and substantially enhancing its ability to withstand storms. Port Zante is now one of the ports in the region that has the capacity to accommodate mega cruise ships.

With this modern facility now in place, strategically within reach of the beautiful town of Basseterre, my Government has embarked on a programme to provide visitors with expanded choices for on-shore activities. By so doing, we hope to entice even more passengers to disembark, explore our shores and sample our culture, our history and the warm hospitality of our people. Initiatives in this

regard include the St. Kitts Scenic Railway. The railway train tour will offer visitors and residents a unique and scenic way of exploring the island, complete with breathtaking views of the island and a stop at Brimstone Hill Fortress National Park. This is the first such venture in the Caribbean, and as such, should attract the curious and the adventurous from around the world.

### ***The Sugar Industry***

Mr. Speaker, sugar output for 2002 totalled 21,398 tons compared to 22,486 tons in 2001. Although, production was lower than in 2001, actual production exceeded the planned production of 19,736 tons by some 1,662 tons. This was due to the favourable weather in December 2001 and January 2002 which improved conditions for the second part of the crop, thus contributing to extra growth of cane, and by extension the production of more sugar than originally envisaged. Net earnings from sugar exports totalled \$27.9 million, around the same level as in 2001, although the volume of sugar exported in 2002 was 1,134 tons less than in 2001. The appreciation of the Euro facilitated the maintenance of net earnings at around the 2001 level, in spite of a decline in the volume of sugar exported from 21,610 in 2001 to 20,476 in 2002.

Mr. Speaker, the many problems confronting the sugar industry, some of which I have expounded on in past budget addresses, continued to plague the industry during 2002 thus impacting negatively on production, financial viability and its contribution to GDP and foreign exchange earnings. Some of these problems include diseases that affect the sugarcane plant, as well as damage to the crop caused by stray animals, and loss of cane due to fires. The combination of these factors hampered even more favourable production this year.

The preferential access which sugar enjoys on the European market continues to be challenged under the World Trade Organization (WTO) rules. Mr. Speaker, if the joint efforts of the Brazilians and the Australians to challenge the European sugar regime in relation to its compatibility with the WTO rules are successful, the price of sugar is likely to be reduced even more dramatically than in past years and the market would be fully liberalized. This would further exacerbate our

situation as far as exporting sugar is concerned. Consequently, Governments in the African, Caribbean and Pacific (ACP) countries have increased their vigilance and have asked the WTO to participate as a third party in the consultations between the EU and the Brazilians and Australians.

It is evident that the sugar industry has had its full share of tribulations and challenges. It has reached a very decisive juncture in its history. However, given the critical nature of the decision to be made on the future of the industry, my Government continues to closely review the findings and recommendations from a series of studies done on the industry in order to make an apposite decision rather than a hasty one. Our aim is to ensure that all of our resources, including the scarce lands available to us, are put to the best possible use. The strategy that we will adopt will also give considerable to the welfare of the workers in the industry and to the protection of our environment.

### ***Non-Sugar Agriculture***

Mr. Speaker, two major highlights of the non-sugar agricultural sub-sector during the year 2002 were the launching of the five-year Agricultural Diversification Project and the construction of the fisheries complex at New Town. The Agricultural Diversification Project which builds on our already impressive achievements in agricultural diversification, was officially launched on October 16th, 2002 with the following objectives.

To improve and modernize the existing production of non-sugar agriculture;

To expand it further to accelerate the process of diversification from sugar production through increased involvement of the private sector; and

To significantly reduce the large food import bill by the production of high quality products that are internationally competitive.

Crop production during 2002 benefited from improved rainfall and a high level of enthusiasm among farmers. As a result, vegetable production during the first nine months of 2002 increased for cabbages, carrots, onions, sweet pepper, yams, peanuts, watermelons and tomatoes when compared with the same period for 2001. The production of carrots almost doubled from 135,000 lbs in 2001 to

223,000 lbs in 2002 while tomatoes increased from 120,000 to 165,000 lbs.

There was also a marked increased output of fruit trees from the Plant Propagation Unit and the demand from the general public was met for the main part of the year.

Mr. Speaker, the new beef marketing initiative that was launched on October 16, 2001 continued to make significant impact during this year. Up to the middle of November 2002 at least 47,000 lbs of boneless beef was produced from 123 cattle that were owned by 63 farmers. The value of the boneless beef sold was \$127,000. This new initiative has resulted in increased local beef production during the first nine months of the year from 54,000 lbs in 2000 to 87,000 lbs in 2001 and 97,000 lbs this year. The successful control of the Tropical Bont Tick and the improved livestock extension activities have also been major contributing factors to the increased beef production.

Increases in pork production have also been observed over the past two years. During the first nine months of the year, local pork production increased from 41,000 lbs in 2000 to 55,000 lbs in 2001 and 78,000 lbs this year. Many pig producers are now feeding commercial ration to their animals as a result of the importation of feed by the recently formed Progressive Pig Farmers Association. The livestock staff of the Department of Agriculture has facilitated the implementation of improved pig husbandry practices.

Mutton production continues to be low and declined during 2002 despite a very strong demand in the local market. The mutton production during the first nine months of the year declined from 32,700 lbs in 2001 to 25,200 lbs in 2002. The major challenge to sheep and goat production continues to be the high incidence of dog attacks. The Ministry of Agriculture has initiated the process to upgrade the dog control legislation in an attempt to reduce the high incidence of attacks. Egg production is being severely challenged as a result of trade liberalization and the effects of September 11. As a result, poultry farmers are suffering serious competition in the hotel market. A marked decline in the demand for local eggs is being observed, and farmers have had to reduce production.



Fish landings during the first nine months of 2002 increased from 578,000 lbs in 2001 to 598,000 lbs. This relatively high level of production has resulted from the use of new fishing methods that have been introduced by the Fisheries Management Unit. The activation of the completed Basseterre Fisheries Complex at New Town is expected to significantly improve the volume and quality of fish caught by the local fishermen. The facility includes a ramp for the 'hauling out' of boats, a landing pier and fuel pump as well as facilities for the preparation and sale of fish.

Mr. Speaker, during the year the Ministry of Agriculture has made available several hundred acres of land for livestock farming as part of the diversification thrust. Several farmers have already occupied some of the assigned land but a major concern is the high incidence of roaming livestock that has resulted in a marked increase in vehicular accidents. The Ministry of Agriculture has also secured funding from the Republic of China on Taiwan for the relocation of pig farmers in the Conaree area to allow for production under more hygienic conditions. The Republic of China on Taiwan is also providing funds for the upgrading of the Basseterre Public Market.

We expect that the planned expansion of the tourism sector will generate even greater demand for agricultural produce. To meet this demand, it will become necessary to irrigate our farms to facilitate the supply of produce throughout the year. In this regard, the Department of Agriculture has been pursuing plans for the development of a 25-acre irrigated farm at Estridge. This farm is expected to significantly extend the period of local vegetable production. We are also devoting considerable resources to agricultural training. Hence, in support of the diversification project, an extension evaluation and training workshop has recently been completed for technical staff of the Department.

My Government is of the view that we must increasingly develop the capacity to feed ourselves and thereby provide our people with an additional buffer against the vagaries of international markets. Of course, our ability to feed our many

tourists would enhance the value of our tourism sector by ensuring that more of the tourist dollar spent here is retained in our economy.

***Industrial Development, Commerce and Consumer Affairs***

Mr. Speaker, during the year 2002, the enclave industries at the Industrial Park continued to feel the effects of the downturn in the US economy since the terrorist attacks of September 2001. A majority of the industrial enterprises had to scale back production during this period and reduce working hours. In an effort to provide continued employment for their workers, some of the manufacturing companies introduced shorter work weeks. A few companies however, were forced to lay off some of their employees because of the decline in business. Within the last few weeks, Jaro Electronics Ltd., an electronic plant at the Industrial Park, has advised that it is expanding its product line and that it would be employing additional workers shortly. A few other companies have indicated that they are exploring avenues to expand their product lines in an effort to improve their businesses. We therefore expect to see increased activity in the manufacturing sector early in the year 2003.

Mr. Speaker, the Small Enterprise Development Unit (SEDU) continues to assist small enterprises in our country. SEDU is aligning itself to become a full-fledged business advisory service that would be able to offer extension services to the small business sector. During 2002, the Unit held several town hall meetings throughout the island and, as a result, SEDU field officers interviewed about fifty (50) persons who were interested in establishing small enterprises, and financing was provided to twenty-one (21) entrepreneurs.

My Government is also very vigilant in ensuring that our enterprises are given adequate time and scope to compete with enterprises from much larger countries. For the past several years quantitative restriction (quota system) was placed as a protective element on imported pasta, aerated drinks and brewery products. It was recently decided to replace this quota system with a tariffication system that would result in a higher tariff being imposed on the above named products that are imported from overseas. It is felt that the tariffication system

would be a more effective tool for protecting our local manufacturers of Article 56 products. This new initiative will be fully implemented in the upcoming year. The Consumer Affairs Department concentrated its efforts on advancing the process of public consultations on the Consumer Affairs Bill. The Bill, which has benefited from extensive public consultations, was introduced in Parliament for its first reading in August and it is anticipated that it will be passed into law early in the New Year. The passage of the Consumer Affairs Legislation will greatly enhance the Department's ability to discharge its responsibilities. It is anticipated that during 2003 the groundwork will be laid for the inauguration of a 'Business Tribunal or Small Claims Court' early in 2004. The operations of the Tribunal will heighten sensitivity to consumer rights by expediting the resolution of commercial disputes, and ease the burdens on the Magistrate Court.

### ***Information Technology and Telecommunications***

Mr. Speaker, we are presently living in an era where Information and Communications Technology (ICT) continues to define the standards by which individuals, businesses and indeed governments should operate, if they want to remain competitive in today's global environment. Given the continuing developments and innovation in this field, it is very likely that ICT will soon become the engine of economic growth in many countries, especially because of the ongoing process of globalization. My Government is mindful of these developments and has therefore embarked upon a number of initiatives to position the Federation to take advantage of the significant opportunities and benefits that this sector has to offer.

Over the last year we witnessed a significant increase in the availability and use of Information Technology (IT). This is mainly attributed to the computerization of all secondary schools and colleges and a number of primary schools, the implementation of a computer literacy programme for adults in our society by the Adult and Continuing Education Division of the Clarence Fitzroy Bryant College (CFBC), the establishment of call centers on the island, the deregulation of the

telecommunications sector and the reduction in the rates charged for international direct dial calls and internet service.

Mr. Speaker, while these initiatives signify an impressive start to further enhance the environment for the growth of a thriving IT sector, the process still needs to move forward. This is to ensure that our citizens are equipped with the necessary tools and ICT skills to participate productively in the new global economy. In view of this, my Government is in the process of establishing an ICT industrial park and plans to provide at least one access point in each community where persons without computers can access technology and information. My Government has also computerized the Immigration service, is in the process of upgrading the billing system for electricity and water, and will establish an IT Department within the public sector to maintain and upgrade the IT infrastructure within the public service. This IT unit would facilitate my Government's thrust to establish an E-Government environment, where Government services and information will be offered online, thereby facilitating increased transparency in Government, and increasing the visibility and competitiveness of the Federation.

As stated in my last budget address, perhaps the most critical element of any programme for the development of a thriving information technology sector is the availability of affordable modern telecommunications facilities. Therefore, in keeping with my Government's commitment to smooth the process of the development of ICT, I am pleased to report that the Eastern Caribbean Telecommunications Authority (ECTEL) issued licenses to two (2) local companies after evaluating applications received from a number of potential telecommunications providers. We expect, therefore, that very shortly, residents in the Federation will have the opportunity to choose their telecommunications provider.

Mr. Speaker, while my Government was in the process of receiving and evaluating applications and issuing licenses, negotiations with Cable & Wireless were ongoing to terminate the exclusive license granted to this company. This culminated in the signing of an agreement on May 20, 2002 in Grenada, when a

new interim tariff structure was introduced, pending the collection of data for the establishment of a price cap regime. When this price cap regime is introduced, the price of telecommunications services will be realigned to be more in line with the cost of providing those services.

### *The Financial Sector*

Mr. Speaker, the soundness of the commercial banking system in St. Kitts and Nevis continued to be reflected in the growth of its asset base. During 2001, the assets of commercial banks increased by \$93.2 million or 5.5% to reach \$1.8 billion by the end of the year. At the same time, deposits grew by 4.3% to total \$1.3 billion by year-end. Loans and advances declined 2% to \$1.0 billion as credit to the private sector, especially the manufacturing, distributive trades and tourism sectors, decreased in response to the slowing down in the economy. The combination of a reduction in loans and advances and the growth in deposits led to the further improvement of liquidity in the commercial banking system. This was reflected in a decline in the ratio of loans and advances to deposits from 86.1% at the end of 2000 to 80.9% at the end of 2001.

Statistics for the first nine months of 2002 indicate an increase in the assets of commercial banks by \$175.3 million to reach about \$2 billion. Meanwhile, deposits increased by \$107.4 million to reach \$1.4 billion, while loans and advances increased to \$1.1 billion. Liquidity in the commercial banking system improved as the ratio of loans and advances to deposits fell further to 79%.

Mr. Speaker, the Development Bank continues to provide an invaluable service to citizens of the Federation by extending credit to the finance Industry, Agriculture, Education, and Mortgages. In 2001 alone, some 573 loans were approved totalling \$21.4 million. Of this, \$7.8 million or 36.4% was approved for Housing (Mortgage Finance), \$5.4 million or 25.2% for Education, \$4.4 million or 20.6% for Industry and \$0.7 million or 3.3% for Agriculture.

In the area of money and capital market development, with the joint efforts of ECCU member governments and the ECCB, October 19, 2001 marked the opening of the Eastern Caribbean Securities Exchange (ECSE) and the start of

trading of regional securities. On November 20 of this year, just one year and one month after the launch of the ECSE, we witnessed another momentous occasion in the history of the sub-region. I refer to the 9:00 am ringing of the bell to launch the Regional Government Securities Market (RGSM) and the start of trading of securities of regional governments. Mr. Speaker, my Government played an important role in this opening, as we made history by being the first government to issue bonds on the market.

The issue was for \$75 million worth of government bonds offering a 7.5% return over a ten year period. Within the first 45 minutes of trading, bids valued in excess of \$30 million were placed by the six licensed regional intermediaries on behalf of investors. At the close of trading at 2 p.m. on November 22, the bond issue was oversubscribed by some \$3.7 million. This over subscription of my Government's first bond issue on the RGSM is an overwhelming vote of confidence by investors in my Government and the economy of St. Kitts and Nevis. We will therefore continue to work with the ECCB and other regional Governments to further promote saving and investment in the region through the establishment of the Eastern Caribbean Unit Trust and the Eastern Caribbean Enterprise Fund.

Mr. Speaker, in the area of International Financial Services my Government continues to focus on ensuring that the sector is properly regulated as a means of maintaining the integrity of our jurisdiction. Following the establishment of the Financial Services Commission and the Financial Intelligence Unit, my Government worked diligently to address the concerns expressed by the FATF. At the end of June 2002, following an extensive onsite visit by FATF members, St. Kitts and Nevis was removed from the FATF list of non-cooperative territories. We were the first of the listed OECS countries to meet the stringent international standards required for removal from the FATF list. We will devote our attention to promoting our jurisdiction and generating more revenues from the provision of international financial services.

## **PUBLIC FINANCE**

### ***Fiscal Review***

Mr. Speaker, the revenue collections for 2001 amounted to \$204.4 million, an increase of \$2.6 million or 1.3% over the collections of the previous year. At the same time, recurrent expenditure was \$259.6 million, an increase of just under a half of 1%. The increase in revenue, though very meagre, is quite remarkable in view of the fact that in the latter quarter of the year, economic activity took a nose dive as a result of the September 11 terrorist incident. What is even more remarkable is that we were able to keep expenditure almost constant through very tight expenditure controls and frequent policy interventions to deal with the economic fallout from the September 11 crisis. The dramatic slowdown in the growth in expenditure in 2001 was also consistent with the goal of fiscal consolidation that we had set ourselves at the beginning of that year.

Despite the success of our attempts to contain expenditure, we still recorded a recurrent account deficit of \$55.2 million which was \$1.4 million or 2.4% less than the deficit in the previous year. This reduction in the deficit in a year when we were faced with a global economic slowdown and a crisis of the magnitude of the September 11 terrorist attacks, is commendable, but it falls well short of the target we must achieve if we are to eliminate deficits and curtail the growth of debt over the medium-term.

The Capital Expenditure for the year amounted to \$35.5 million, of which \$6.9 million was funded from grants and \$28.6 million was funded from loans and overdraft. Of course, the capital budget is a very important instrument for effecting the long-term transformation of our economy and the enhancement of the quality of life of our people. For 2001, in particular, resources provided in the capital budget were used to implement a variety of development projects including the Basic Education Project, the provision of computer training facilities in primary schools, the Basseterre Fisheries Project, the construction and furnishing of the Newton Ground Day-care Centre, the purchase of vehicles and equipment for fire and rescue services, the upgrading of sporting facilities, the construction of multi-purpose community centres and the rehabilitation and improvement of the JNF General Hospital.

Mr. Speaker, I will now address an issue that has been the source of much confusion in recent months – the public debt. The total debt of the Federal Government at the end of the last fiscal year stood at \$678.1 million. This is the figure reported by the Director of Audit in his report for the year ended 31st December 2001. This figure is also consistent with the data presented by the International Monetary Fund in respect of the debt of the Federal Government at the end of 2001. It is worthy of mention that this debt includes debts of well over \$100 million incurred in respect of the Electricity Department, the Water Department and the Government Quarry, which in the countries of the OECS are public corporations or privatized entities. Hence in comparing the debt of St. Kitts with other countries of the OECS, full account must be taken of such differences in the structure of the public service.

There has been some misunderstanding in recent years because the figure reported by the IMF in their Press Information Notice appears to indicate much higher levels of debt. However, it should be borne in mind that the debt reported by the IMF is in respect of the public sector as a whole including the Nevis Island Administration and the public corporations. For instance, the debt of the Nevis Island Administration at the end of 2001, as reported by the International Monetary Fund totalled \$125.9 million, while the debt of the public corporations including the Sugar Industry totalled \$477.6 million.

Mr. Speaker, we are not satisfied with this level of debt so we will be devoting much effort to debt reduction in the upcoming years. However, we are not afraid to disclose the debt of the Government because we know how it arose, and we are satisfied that every cent of that portion of the public debt incurred since we assumed office was very well spent.

It is also very important to recognize that when my Government assumed office in 1995 the debt of the Federal Government was already well over \$300 million and although the debt of the sugar industry was paid off with monies from the Social Security Scheme in 1986, by 1995 the liabilities of that industry were already escalating again.



Since then we have had five hurricanes, each of which caused damage to our Federation estimated at hundreds of millions of dollars. Since 1995, we have had to rebuild the street at Old Road Bay in record time to allow the free flow of traffic throughout the island of St. Kitts. Even now we are still developing a permanent solution to this problem. Since 1995, we have had to put poor families in starter homes after their original homes and all of their belongings were washed away by water rushing down our ghauts. Since 1995, we have had to replace the roofs of many of our schools at least twice and of the JNF General Hospital perhaps even more frequently. Since 1995 we have had to replace virtually every electricity pole in our Federation and the related wires and fittings. Since 1995, we have had our revenue collection capacity disrupted over and over again by hurricanes, by the September 11 terrorist attack, and the global economic slowdown.

Port Zante is a typical example of the pains and struggles that my Government has gone through, and of the debt that we had to accumulate because of poor decisions long before we assumed office. This facility, which was hastily constructed without taking full account of views of the public in St. Kitts and Nevis, has been destroyed on two occasions at great cost to us. The total debt now accumulated in respect of this facility is now well in excess of \$110 million. Moreover, problems that should have foreseen and addressed in a properly conducted environmental impact assessment are now causing us great distress. In particular, we have had to build sea defence structures along East Basseterre Bay Road at great cost to the Government and we are now faced with similar problems on the Bay Road, west of Port Zante. We have virtually started from scratch in redesigning and rebuilding the berthing facilities at Port Zante at great cost to the Government. We hope that this new and reinforced Port Zante will at last bring returns to the people of the Federation.

Mr. Speaker, it is clear that the increase in debt is quite easily justified. However, we still must face up to the challenge of addressing it comprehensively. Hence, I

will now turn to the fiscal prospects, and will indicate some of the actions that we are proposing to take to eliminate deficits over time and curtail the growth in debt.

### *Fiscal Prospects*

Recurrent Revenue for 2003 has been estimated at \$242.4 million. This represents an increase of \$18.2 or 8.1% over the previous year's revenue estimates of \$224.2 million. On the other hand, recurrent expenditure for 2003 has been estimated at \$293.6 million representing an increase of 5.6% over the comparative estimate of \$277.9 Million for fiscal year 2002.

Mr. Speaker, as revenue growth slows in response to the global economic slowdown and other external economic shocks, the countries around the region have engaged in a variety of cost-cutting measures to attempt to minimize the gap between revenue and expenditure. In fact, I have heard of views expressed at political meetings here in St. Kitts and Nevis suggesting that we may be forced to cut civil servants' salaries by as much as 10%. This scenario is consistent with what is happening in many countries around the world, and it is perhaps the most technical and clinical approach to the current economic problems that are stretching the minds of policymakers throughout the region and beyond.

However, my Government comes from a party that has a long and strong record of championing the rights of workers. We do not rush to embrace policy options that will force workers into the ranks of the unemployed. Our goal is the exact opposite. We exert every effort to empower people and give them the opportunity to advance the standard of living of themselves and their families and participate constructively in the process of nation-building. Hence, in this budget we have sought by every means possible to keep expenditure under control without forcing public sector employees out of work and without touching a penny of their hard earned salaries.

Our focus is on improved efficiency through better procurement procedures, the identification and elimination of waste and extravagance, and the enhancement of productivity through human resource development. To a large extent, our ability to contain the growth in expenditure in 2001 and 2002 reflects some of

these measures, but we are continuing the process with a view to achieving reductions in the cost of public sector programmes without compromising their overall value and effectiveness. A comparison of the overall budget allocation for 2002 with the allocation for the previous year, will reveal that we have managed to reduce the total allocation to personal emoluments and wages by \$5.1 million or 4.29 % from \$118.8 million to \$113.7 million without laying off any person or reducing anybody's salary. We have managed to reduce this budgetary allocation by agreeing to freeze public sector employment and to restrict the filling of vacancies, save in exceptional circumstances.

The total allocation to goods and services has been reduced by \$8.8 million or 13.5% from \$65.0 million to \$56.2 million. We have already been realizing great savings through better procurement practices and centralized purchasing. We expect to further reduce the cost of goods and services by even greater vigilance and tighter control mechanisms in the upcoming year. In other words while the cost of purchasing goods and services has been reduced very substantially the actual quantity of goods and services purchased would not be reduced to the same degree because much of the savings are expected to come from lower prices.

Mr. Speaker, because of these budgeted savings in Personal Emoluments and Wages as well as Goods and Services for 2003, we have managed to reduce the budgetary allocations to all major Ministries, with the exception of the Ministry of Finance. The item under the Ministry of Finance that has been allocated the largest increase is Debt Service Charges. In fact, after account is taken of the increase for debt service in respect of debts incurred in respect of all Ministries, the rest of the allocation to the Ministry of Finance is reduced.

Notwithstanding the reduction in recurrent expenditure across the various heads, we have managed to use some of the savings to provide additional resources to programmes that we deem critical. For instance, we have provided \$107,357 for the establishment of a Legal Aid Clinic. We consider this initiative critical to the protection of the legal rights of persons who are too poor to meet the cost of their

legal defence. In addition, we consider public sector reform and enhanced public sector training to be crucial to the attainment of Government's goal of greater efficiency and effectiveness in the delivery of the services provided by the public sector. We have therefore allocated an additional \$180,000 to the Public Sector Reform Unit. Of this, an additional \$174,000 is to be devoted to the training function. Much of this function was previously carried out by the Establishments Division but we hope that by combining training functions with public reform activities we would realize significant efficiencies and synergies.

We have also allocated an additional \$606,734 to telecommunications. This will enable the Ministry of Telecommunications to play the lead role in ensuring that St. Kitts and Nevis exploits, to its fullest advantage, the benefits of modern-day technological development and the liberalization of the telecommunications industry. We have also assigned the Telecommunications Unit the responsibility for managing Government wide communications expenses with a view to ensuring that inefficiency and wastage in this critical area are minimized.

Mr. Speaker, the Fisheries Department has been provided an additional \$862,621 to allow for the operations of the new, ultra-modern Fisheries Complex. We believe that the resources we commit to this area will yield significant returns through increased supply of fish to meet the demands of locals and of the increasing number of tourists projected to visit our shores. Of course, in support of our efforts in tourism development and to protect our fragile environmental resources we have allocated an additional \$443,803 to Beach and Marine Protection.

### ***Development Projects***

The capital budget for 2003 amounts to \$52.6 million of which 38.1 million is expected to be funded from loans, \$5.2 million from revenue and \$9.3 million from Development Aid. In preparing the capital budget, we have been very meticulous in ensuring that only projects that will be implemented in 2003 are included. We do not intend to perpetuate the practice that we inherited in 1995 of inflating the capital budget by including projects year after year, which have little

or no chance of implementation. The appropriate place for projects that will not be implemented in the short-term is the Public Sector Investment Programme, which forms part of our Medium Term Strategy Paper that we prepared earlier this year.

The capital projects to be implemented in 2003 were very carefully selected based on their expected developmental impact and their ability to generate economic activity. In particular, we will strive to ensure that the development of our infrastructure keeps pace with the demands that will be placed on it by the expected increase in tourism. We are therefore implementing a major Electricity Supply Improvement Project, which will result in a much more reliable electricity supply by correcting the distributional deficiencies that have been causing power outages. In addition, we will substantially upgrade the supply and distribution of water by the implementation of a project that will involve the drilling of additional wells, the construction of water storage facilities, and the enhancement of the water distribution system. This project will help to ensure that people throughout the island of St. Kitts, especially those in a number of rural communities, would have access to a reliable supply of potable water. Both of these projects are being implemented by the Crown Agents and funded by the Bank of Nova Scotia in Europe as well as the local branch of the Bank of Nova Scotia.

During 2003, we will implement a World Bank funded project, costing \$12 million, for HIV/AIDS Prevention and Control and for the reconstruction of the Pogson Hospital in Sandy Point. My Government views the deadly HIV/AIDS virus as one of the most serious threats to young people in developing countries including the Caribbean. We intend, therefore, to commit the resources necessary to mount an effective campaign against this disease. It is our aim to ensure that persons from all communities in our Federation would have easy access to the necessary drugs and to adequate medical facilities. This is one of the reasons why we feel that the reconstruction of the Pogson Hospital must proceed expeditiously so that the people of one of the most populous towns in the Federation and those from neighbouring villages would have easy and quick access to a wide range of

primary and secondary health care amenities. It is therefore our aim to ensure that the construction in respect of the Pogson Hospital commences in the first half of next year. Of course, Mr. Speaker, the very impressive JNF General Hospital is now entering the final phase of the rehabilitation project, and already the elegant structure that is visible from the island main road is drawing commendation from many of our residents.

Mr Speaker, in the Education Sector, we propose to continue with the implementation of the CDB funded Basic Education Project and to complement it with a new \$18.8 million Secondary Education Project, which we expect will result in a new secondary school in Saddlers and will transform the management as well as the content and delivery of secondary education in our Federation. We strongly believe that our future in this new competitive global economy depends on how well we educate our children. We are therefore sparing no effort in ensuring that our children are exposed to the very best educational facilities and resources.

To further our plans for social development and to give a key role to community institutions in the development process, we intend to construct a Community Centre in Cayon and upgrade Community Centres in Conaree and Tabernacle with funds provided by the Republic of China on Taiwan. We also intend to use a portion of the funds provided by the Republic of China on Taiwan to build a Multi-purpose and Day Care Centre in Challengers and a Multi-purpose Centre in Sandy Point. We also view Sports as an important instrument for developing community spiritedness. Hence, as part of our community development initiatives we are pursuing projects in respect of the construction of the Newtown Sporting Complex, the development of the Sandy Point Recreation Ground, the Construction of the St. Paul's Sporting Complex and the construction of the Saddlers Sporting Complex.

Mr. Speaker, my Government is convinced that the blend of capital projects that we propose to implement in 2003 will achieve a range of developmental objectives including the promotion of productivity and competitiveness through

education and human resource development; the strengthening of our capacity to provide quality health care to residents and visitors; the development of the infrastructure necessary to support trade and commerce and the production of goods and services; the development of our communities through the implementation of a variety of social, recreational and community oriented projects; and the creation of opportunities for people to generate income for themselves and advance their quality of life. We are in challenging times and my Government is determined to implement projects that would equip our people to take up the challenges as they come, and to continue their courageous march forward to our cherished goal of a peaceful, happy and prosperous existence for all.

### ***Fiscal Measures***

Mr. Speaker the story of this year's budget presentation is that we have achieved great progress in moving the standard of living of our people upward, and in achieving real economic growth, notwithstanding severe economic challenges including hurricanes, the September 11 terrorist crisis, loss in sugar export earnings, increased cost of debt as a result of graduation, and the global economic slowdown. The fact that we occupy one of the leading positions in respect of the growth record of OECS countries in recent years testifies to the flexibility and creativity of the macroeconomic policy stance that we have adopted. The fact that we have been elevated to the 44th position on the United Nations Human Development Index, a position higher than that of all other Caribbean Countries except Barbados and Bahamas, testifies to the scope, effectiveness and impact of our social development and poverty alleviation initiatives.

The story of this year's budget is that we continue to attract substantial amounts of foreign capital and to achieve balance of payments surpluses in some of the most perilous times of the post World War II history of the world. This speaks volumes in respect of the confidence that the international community continues

to place in the policy stance of my Government and in the fortitude and capabilities of our people.

But, Mr. Speaker, much of the growth and development in recent years has come through the implementation of a whole range of social, economic and hurricane rehabilitation projects that have pushed our debt beyond the levels that we deem consistent with our development objectives. There are many classical approaches to bringing down the debt. These include massive layoffs and salary cuts that quite often lead to social disruption with costs far in excess of the economic gains resulting from such actions.

Indeed, it must be borne in mind that when my Government assumed office there was much social discontent; and crime, including unsolved murders, had reached unprecedented levels. Fiscal contraction in such an environment could have sparked social disorder that would have scarred our social and economic progress for decades to come. Of course, we have dealt with these social problems comprehensively and we continue to work assiduously to keep crime at a minimum to ensure that our people and our visitors are able to go about their business with a sense of security and safety. Even this, Mr. Speaker, has been achieved through a substantial increase in the establishment and in the operational cost of the Police and Defence Force.

Hence, in addressing the fiscal deficit, we have adopted a fairly gradual approach. In 2001, we restricted expenditure growth to less than a half of one percent. It also seems likely that in 2002 overall recurrent public expenditure, excluding service payments, would decline. In this year's budget, all major expenditure heads other than debt service payments have been reduced. Yet, the Estimates for 2003 reveal that we would be faced with a recurrent deficit of \$51.2 million, which is just about \$2.4 million short of the estimated recurrent deficit in the previous year. Moreover, in addition to this projected deficit on the recurrent account, we would have to incur debt of \$43.4 million to fund a portion of the capital budget.



Mr. Speaker, the story of the budget is that our economy is on the verge of entering a new era of rapid expansion fuelled largely by tourism development. But our growth prospects could be put at risk if we do not reduce our deficit at a faster pace. We have been very vigilant in controlling expenditure but it is not enough.

Last year alone we had an Article IV Mission from IMF and then we invited them for yet another year to sit with us and discuss fiscal strategies. Of course, we are not under any IMF programme and they have acted in a purely advisory capacity. We have also benefited from technical assistance from the ECCB, the Caribbean Development Bank, and the Caribbean Regional Technical Assistance Centre (CARTAC). Their advice has been the same. They have said to us that our economy has been adversely affected by a whole range of external economic shocks, and we must take action now to avoid putting the future prosperity of our people at risk.

We have studied all of their reports and we have decided on a package of measures and actions that we feel would best meet the objectives of the government. In making our decision, we had to find an appropriate balance between short-run macroeconomic adjustment and long-term development. We believe that we have chosen well, and that our country will reap the rewards of this courageous and visionary budget.

Mr. Speaker, in addition to the measures that I will shortly outline, we are proposing to take measures to allow us to implement our programme of development while at the same time reduce our debt. In particular, we propose to reduce the size of Government by commercializing and privatizing a number of the enterprises that Government own that are amenable to private ownership and operation. We also plan to dispose of various assets including a portion of our shares in various enterprises with a view to ensuring that more of our people are given the opportunity to own productive assets and participate meaningfully in the development of our country. These initiatives will not only provide additional funds for Government, but they will help to downsize the public sector and allow

policy-makers to focus all of their efforts and energies on mainstream Government operations. These initiatives should give momentum to our efforts at developing capital markets in the region. We expect that some of the privatized operations will be listed on the Eastern Caribbean Securities Exchange and provide additional trading volume for this most important institution.

Mr. Speaker, it is noteworthy that in the lead up to this presentation, pundits, particularly those in the political arena and those with political agendas, have articulated purported recommendations from various advisory bodies. Much of what has been speculated upon by opposition forces is unfounded, but some also bear close resemblance to measures recommended by various advisory groups. We have heard of the planned lay off of public workers, we heard of the planned cut in public worker salaries by between four and 10 per cent, we heard of the planned increase in water and electricity rates, we even heard of likely increases in fuel prices and the cost of basic food items, commonly referred to as a "basket of food items". All these predictions I am sorry to tell the opposition but happy to tell the country were without foundation. It is true that some advisors have recommended what can be considered as draconian measures, but, this is a caring government with its ear close to the ground. We know what further sacrifice the people of this country can make. In light of this therefore, we have spent several hours in consultation with the social partners and have agreed on a set of measures that are relatively painless and which ought not to significantly diminish the quality of life of residents.

In our quest to raise the minimum \$20 million required to reduce the deficit, we now propose the following adjustments, which as I said ought not to be overly burdensome, if persons exercise prudence in the management of their earnings. Effective financial year 2002-2003, I propose the following revenue measures: An increase in the wheel tax payable in respect of all categories of vehicles by 25%.

An increase in all categories of drivers' licence fees by 25%.

An increase in the rate of Customs Service Charge payable in respect of imported goods from 5% to 6%. This new rate would still be within the range of rates charged around the region. For instance, countries in the region charge customs service charge as high as 8% and 10%.

An increase in consumption tax payable in respect of goods imported into the Federation, from the current rate of 20% to 22.5%. The other rates of consumption tax including the exemptions and concessions in respect of certain food items that occupy a large percentage of the expenditure of poor families, will remain unchanged. This increased rate is still below the rate in a number of other countries of the Caribbean where Consumption taxes reach as high as 35% in some cases.

The abolition of the Mercantile Tax Act under which Duty Free Shops currently operate. Duty free shops will now be accorded in-bond status and will be permitted to sell prescribed goods to non-resident persons providing evidence of their intention to travel within a prescribed time frame. This should enable us to increase the list of items that are duty free and thereby enhance the competitiveness of our tourism shopping facilities relative to those in neighbouring islands. It would also end the distortion created by the current system whereby shops situated side by side selling the same goods to residents are charged vastly different levels of import taxes.

A change in the basis of computing consumption taxes on the importation of tobacco and alcohol from a specific basis to an ad valorem basis. An ad valorem rate of consumption tax of 25% will be applicable to these items. This will end the anomalous situation in St. Kitts and Nevis whereby alcohol beverage and tobacco attract a lower rate of taxation than other items.

An increase in the price of the products of the Government Quarry as follows:-

- i. Crusher Dust from 15.00 per cubic yard to 22.50 per cubic yard.
- ii. Graded Aggregates and Crusher Run Stones from \$50.00 per cubic yard to \$75.00 per cubic yard.

iii. Rock armouring and Quarry Waste from \$25 per cubic yard to \$37.50 per cubic yard.

We have invested heavily in the Quarry, and the operational cost of the quarry has increased dramatically since the last price increase in 1992. In view of the present financial circumstances, we cannot afford to carry the burden of heavy subsidies to the users of quarry products. However, the new price of quarry products is still subsidized but the degree of the subsidy will be reduced substantially.

Mr. Speaker, with these measures, our taxes and Government fees would still be among the lowest in region. It should also be borne in mind that although many countries in the OECS have not gone through the very difficult period of disaster that we went through, all countries have agreed to strengthen their fiscal position by instituting stabilization programmes.

We believe that through these initiatives, we have put our country on a much more solid foundation and in a much better position to deliver a better quality of life for all – not only in the short-term, but well into the future.

Mr. Speaker, my Government is a caring Government and for us, increases in taxation are always the last resort. As I said before, these measures were formulated on consultation with various regional and international organizations. We asked them to review the fiscal position of the Government and to provide advice on the way forward. We wanted to determine whether there was another way of pursuing our development objective without jeopardizing the macroeconomic stability and future growth prospects of our country. The measures as outlined this evening represent a best case scenario, made possible by our respected record of fiscal responsibility and reliability.

### ***Conclusion***

Mr. Speaker, the achievements of our people have been manifold. We have withstood problems after problems and have continued to grow. I believe that the performance of our little economy in these perilous times have stunned many a pundit. We must therefore protect and secure the progress that we have made,

by taking concrete action and by uniting our creativity and capacities to ensure that we remain firmly on the path of progress.

Mr. Speaker, in these difficult times, our motto 'country above self' assumes great importance. It calls upon us to put aside petty differences of opinion and combine forces to pursue with vigour those things that are critical to the progress of our nation. We believe that the budget initiatives that we have enunciated today are critical to the continuing progress of our nation. Booker T. Washington once said that "in all things that are purely social we can be as separate as the fingers, yet one as the hand in all things essential to mutual progress." Let us become 'one as the hand' in embracing and pursuing these budget initiatives intended to help us cope with the continuing and relentless bombardment of the economic shocks emanating from an increasingly unfriendly global economic environment.

As a government with its ear close to the ground, we know there will be those who will breathe a sigh of relief, knowing that the measures could have been harsh and direct. We know many persons were led to believe that the Minister of Finance would have outlined measures this evening to reverse the progress that we have made over the last seven years. Some persons we know were even warned of the possibility of losing their homes, cars and other cherished possessions. But, with the going getting tough, the tough got going and I am relatively happy with the package we have formulated, with the help and assistance of various public and private sector agencies and individuals.

By the same token I know there will be those at the bottom of the social and economic ladder who would have expected a little helping hand. In the past we have offered such whenever we could. We could not on this occasion, but I wish for them to remain confident that at the very earliest opportunity this government will return to its regime of social assistance initiatives, aimed at minimising human suffering in the Federation of St. Kitts and Nevis. We will, at the first sign of a positive turn around in our economic fortunes, address the plight of the elderly, the indigent and those recognised as living below the acceptable levels.

Mr. Speaker, St. Kitts and Nevis is a model for other OECS and western hemispheric nations. Others will be looking to see how our beloved federation weather the current and looming economic challenges. We need now to end the partisan rhetoric and recognise that the future of our country is in our hands. There is no budget that could have been presented in St. Kitts and Nevis in December, 2002 that would not have asked a little more of the population. This is the view of local, regional and international independent observers. The challenge now is for us to put the spectre of partisan political polarisation behind us and get on with the task of developing this country for all Kittitians, Nevisians and those who share these beautiful shores with us.

The package outlined here this evening is a practical budget for the relevant times. I urge members to support the package and I call upon the wider society to embrace the policies in the knowledge that they are but an investment towards a secured, bright and productive future for us all.

Mr. Speaker, I so move.