

1. Madame Speaker, I beg leave to move the second reading of the Bill shortly entitled the Appropriation (2007) Act, 2006.

## **INTRODUCTION**

2. Our country is at a critical juncture in its social and economic history. This year, perhaps for the first time in hundreds of years, our beloved Federation has not produced an ounce of sugar. Our cane fields are still lush and green, but this is no reflection of the current state of our sugar industry. The lushness of our abundant but overgrown cane fields, like the epitaph on the grave of a fallen hero, speaks loudly and clearly of the glorious but past days of King Sugar. The uncut sugar cane, now reaching unprecedented heights, stands as a symbol of the overwhelming role that sugar played in our society for so many centuries. But our verdant cane fields speak equally loudly of the great potential of our sugar lands, and of the many opportunities they continue to make available to our people.

3. Madame Speaker, even as we grapple with the challenges of transforming our economy in the aftermath of the demise of King Sugar, the entire world is joining with the Americas in preparing to celebrate the 200<sup>th</sup> anniversary of the abolition of the transatlantic Slave Trade. Indeed, just recently, the United Nations General Assembly unanimously adopted a resolution proposed by CARICOM Member States that calls for the commemoration of the 200th anniversary of the abolition of the transatlantic Slave Trade, which was brought to an end in 1807 by an Act of Parliament in Great Britain.

4. The commemoration of the abolition of The Slave Trade is of particular significance to the people of the Caribbean because so many of our forefathers were brutalized, dehumanized, and quite often killed over the course of that long and arduous ‘Middle Passage’ across the Atlantic Ocean. It is estimated that by end of the Slave Trade in 1807, the Caribbean had taken some 47% of the 10 million Africans brought to the Americas to work as slaves. Hence, Caribbean people must lead the way in commemorating the end of this gross atrocity. We must also view the commemorative activities planned for next year as the celebration of our common heritage. Indeed, as we pursue the establishment of the Caribbean Single Market and Economy (CSME), we must avail ourselves of every opportunity to reflect on our common heritage and to foster a greater sense of kinship and fraternity among Caribbean people across the entire region and beyond.

5. The abolition of the Slave Trade was one of the first major successes of our people in the long march to freedom. Moreover, since then, we have made many other important strides, including the abolition of slavery. Indeed, our attainment of political Independence in 1983 was the culmination of the intense and very effective struggles of our forefathers over many decades. But my Government believes that the march to freedom would never be complete until our people are empowered to move beyond the cane fields and to grasp the increasing array of opportunities for personal advancement and wealth creation in all sectors of our progressive economy.

6. It is in the pursuit of this central goal of people empowerment, that my Government has implemented an expansive and far-reaching social

development programme that has touched the lives of people from all walks of life in our Federation. In particular, it has brought great relief to the poor and underprivileged, and has released many of them from the excruciating grip of poverty and deprivation. Since we assumed office in 1995, we have empowered over 1,000 young people through our Short-term Work Experience Programme by taking them out of their state of joblessness, desperation and disillusionment and transforming them into productive members of our workforce. I shudder when I imagine what would have become of our society if such disillusionment was permitted to evolve into resentment, anger and social deviance.

7. We have empowered nearly two thousand low-income families by giving them homes of their own and freeing them from the unreasonable demands of uncaring landlords. We have empowered our school children by placing computer laboratories in their schools and giving them the opportunity to scale the technology divide that, in a modern world, tends to separate the rich from the poor and the winners from the losers. We have empowered our workers by increasing the minimum wage to more than double the \$120 per week that was the prescribed minimum wage when we assumed office in 1995. We have empowered the indigents by increasing their non-contributory Social Security Assistance Pension by more than 130% over the period that we have been in office. We have empowered our entire population by giving them easy access to comprehensive Primary Health Care and to state-of-the-art medical facilities.

8. These important empowerment initiatives are just a small part of our comprehensive Social Development Programme that has transformed the

lives of so many of our people, and has secured for our Federation, the very outstanding international rankings it has consistently achieved in respect of the United Nations Human Development Index. Yet, there is still much more work for my Government to do. We are determined to continue to provide a helping hand to our former sugar workers until they have secured productive and rewarding lives for themselves in the important sectors of our economy. We will continue the process of transforming our economy into a well diversified, service-oriented economy capable of producing goods and services that are competitive in regional and global markets.

9. Madame Speaker, our people would only be truly free when all of us can look beyond the confines of the cane fields and choose wealth creation opportunities from a range of options – within or outside the cane fields. It is only then, we would have removed the shackles of slavery that tied us to the cane fields and created such disillusionment and such great sense of hopelessness among our forefathers. It is only then we would have given economic substance to the political independence that we achieved in 1983. It is only then we would have fully reaped the benefits of the abolition of the Slave Trade in 1807 and of slavery in 1838.

10. Madame Speaker, history has a way of bunching the celebration of great events together. It should not be surprising, therefore, that in 2007, the same year in which we will be commemorating the end of the Slave Trade, we will also be celebrating the 75<sup>th</sup> Anniversary of our great Party – The St. Kitts-Nevis Labour Party. I am persuaded, Madame Speaker, that this is an event that should draw the support and participation of every proud Kittitian and Nevisian – whatever their party affiliation may be.

11. When the Labour Party (or the Workers League as it was then called) was formed in 1932, it was the only ray of light in the darkness of working class suppression and discrimination. The newly formed political party immediately set about agitating for the improvement in the conditions of the working class and for the right of the working class to be represented by unions. This, along with the agitation of likeminded organizations throughout the region, resulted in a recommendation in the Moyne Commission Report for the recognition of the right of association through Trade Unions and the subsequent formation of the St. Kitts-Nevis Trades and Labour Union in 1940.

12. The Labour Party also successfully fought for universal adult suffrage, which was introduced in 1952 and which for the first time allowed all adults to vote and to participate in the electoral process. Moreover, upon assuming the reins of power in St. Kitts and Nevis, the Labour Party, under the leadership of our National Hero, the Right Excellent Sir Robert Llewellyn Bradshaw, introduced a range of economic policies that dramatically advanced the standard of living of the working class and ensured that our people, through its Government, took ownership of our critical economic resources including the sugar lands and the sugar factory.

13. This is the tradition on which we build. It is a tradition of people empowerment through social and economic transformation. Hence, during this year, we will continue along this path by pursuing a range of social programmes aimed at combating poverty generally and assisting the former sugar workers in finding and pursuing new livelihoods that would secure for

them an improved quality of life. We will also continue to place great emphasis on the safety and security of our people and of our many visitors by giving law and order an even more prominent position among the policy imperatives of my Government.

14. But our social programmes are only sustainable in the context of macroeconomic stability and economic growth. Hence, fiscal consolidation and debt reduction will continue to be important priorities of the Government. In this regard, we will continue with the implementation of the fiscal stabilization programme that has been yielding significant results and we will accelerate the implementation of our strategy for commercialization and privatization of appropriate public sector assets and enterprises, and for enhancing the efficiency and effectiveness of public corporations and statutory bodies.

15. My Government also intends to target real economic growth of over 3 % per annum. For 2007, we believe that the Cricket World Cup will contribute significantly to enhanced levels of economic activity, but we will continue with the implementation of our strategy for sustaining increased levels of growth well into the future. In particular, we will reshape the Public Sector Investment Programme to give greater emphasis to the projects with the greatest growth potential. We will introduce a number of initiatives aimed at boosting private sector investments and enhancing competitiveness in the production and export of goods and services. Already there is a large number of hotel and tourism related projects that have either commenced construction or are expected to commence construction shortly. The implementation of these projects will significantly raise the level of

economic growth over the next few years. However, even as we pursue growth, we will pay very close attention to consumer prices with a view to offering appropriate protection to vulnerable groups and we will strive to maintain an appropriate balance between physical development and environmental sustainability.

16. We expect that increased growth rates will create many job opportunities and will significantly reduce the level of unemployment. Hence, we will devote even greater attention to preparing our young people to occupy the high quality and high paying jobs that we expect will become available. We will also step up our educational and youth development programmes with a view to identifying and addressing the specific needs of our young people. In this regard, we intend to re-orient our education system, with a view to ensuring that our teaching and academic resources are not concentrated in a lopsided manner on the few persons who are able to achieve exceptional grades in exceptionally large numbers of subjects but that such resources are fairly distributed to ensure that the vast majority of students are capable of achieving the standards necessary to occupy a place in the work force or to pursue further studies.

17. Of course, our education system has served us well over the years and we do not propose any major overhaul. In fact, the education system will attain a major milestone in 2007, which we must recognize and celebrate appropriately. We will commemorate the 40<sup>th</sup> Anniversary of our comprehensive education system, which was introduced by the then Minister of Education, the late Clarence Fitzroy Bryant, to remove elitism from the education system and to give every young person a chance to attend secondary school. This comprehensive education system, which is the envy

of the entire Caribbean, has drawn commendations from many regional and international institutions including the World Bank. It is therefore quite fitting that we should at this time be reinforcing the system to ensure that our young people are not only given the opportunity to attend secondary school, but that a greater number of them complete their secondary education and achieve results that would permit them to pursue the careers of their choice especially careers impacted by science, information and communication technology and technical and vocational skills.

18. Madame Speaker, the objectives that we have set for ourselves are quite extensive and their attainment depends to some degree on the very volatile external environment in which we exist. It is therefore necessary that we focus now on international and regional developments of relevance to our Federation.



## **THE EXTERNAL ENVIRONMENT**

### **International Economic Developments**

19. Madam Speaker, strong economic growth continues to characterize the world economy. Despite higher oil prices and natural disasters, activity in the global economy for the second half of 2005 was stronger than expected, especially among emerging market countries. Consequently although the growth in world output of 4.9% in 2005 was lower than the 5.3% recorded in 2004, it was significantly higher than the 4.3% that was projected when I delivered the budget address last year. Since the middle of 2005 the rates of growth of global production and global trade have increased significantly, and consumer and business confidence along with labour market conditions have improved instead of deteriorating as previously projected. Indeed, the IMF in the latest edition of the World Economic Outlook (WEO) has remarked that 2006 represents the third year of significant above trend growth, and world output should be in the region of 5.1% for that year. Extraordinary growth of emerging markets and developing countries has been cited as the key factor propelling this strong global economic performance.

20. Growth in developing countries is expected to remain very strong at 7.3% in 2006. This is largely due to sustained growth in Asia, particularly in China and India which have over the past three years maintained average growth rates of over 10% and 8% respectively. In the Western Hemisphere growth is forecasted at 4.8% in 2006 fuelled by heightened domestic

demand and higher export commodity prices in Latin America. Africa is also projected to enjoy strong growth in 2006, and is in fact currently enjoying its strongest period of sustained economic expansion since the early 1970s. In this region growth is expected to reach 5.2% thereby signifying the third successive year of growth rates above 5%. Underpinned by a strong global environment, the growth rate in the countries of the Western Hemisphere, which includes Latin America and the Caribbean, increased from 4.3% in 2005 to 4.8% in 2006.

21. In the developed countries as a group, the growth rate is projected to increase to 3.1% in 2006 from 2.6% in 2005. Economic growth in 2005 was exceptionally robust in all of the advanced countries but even more so in the United States and Spain which both enjoyed a growth rate of 3.4%... This outstanding growth rate was closely followed by growth rates of 3.1% and 2.7% in Canada and the United Kingdom respectively. Moreover, unemployment in the advanced economies has continued its downward trend, declining from 6.0% in 2005 to 5.6% in 2006 and is estimated to further decline to 5.5% in 2007. Rising oil prices are partly responsible for inflationary pressures in the advanced economies. However, inflation in 2006 is expected to remain subdued at 2.6% from 2.3% recorded in 2005 as a result of tightening monetary policy by the central banks in these developed economies.

22. We must be mindful of the possible negative spill-over that could affect the macroeconomic climate in the Federation. Of particular concern are the relatively high and volatile oil prices. After posting a record high of US\$79 a barrel in July 2006, crude oil prices fell to US\$56.82 per barrel in

October. Recently, OPEC declared that they would cut production by 1.2 million barrels per day so as to halt the downward price drop. Indeed, the commodity market experts are predicting that prices could again climb towards the record high of July. Indeed the IMF in their recent WEO has assumed that it is possible for oil prices to average US\$75.50 a barrel in 2007. The low level of spare capacity and the risk of supply-side shocks in the upcoming year feature prominently in their outlook. High oil prices not only increase the cost of living in our Federation but they also exert a negative influence on our fiscal balances and on our balance of payments. Hence, we must continually monitor oil prices and make appropriate adjustments in domestic policy with a view to minimizing the macroeconomic disruptions of oil price changes.

23. Madame Speaker, the possibility of higher global interest rates in 2007 is a risk that may create problems in relation to Government's borrowing if such resources are sourced externally. Inflationary pressures in the US could intensify requiring interest rate increases. Fortunately, the US economy seems to be slowing somewhat and it is now being predicted that future movements in interest rates are likely to be downwards rather than upwards. But a slowing US economy may also become a source of potential dangers for us. In particular, there is the risk that the US housing market may cool down more rapidly than expected and cause an abrupt slowdown in the US economy. This may dampen the flow of US tourists to our shores and thereby reduce our tourism receipts.

24. Madame Speaker, the global economic climate is a potential source of great instability for small countries like ours, and the risks we face are many

and varied. But we must struggle on. We do not have control over the scale, magnitude and frequency of the massive shocks that the global economy throws up from time to time, but we do have some measure control over our responses to these shocks and over our level of preparation for such shocks. Hence, we must reach for the levers that are within our grasps and manoeuvre the ship of state through to stormy global waters to our cherished goal of a peaceful and happy existence for all Kittitians and Nevisians.

25. In particular, one of our major sources of vulnerability is our high national debt that has reached 180.5% of GDP. We must, therefore, continue along the path of fiscal restraint and the divestment of appropriate state assets to bring the debt to acceptable limits within a reasonable time frame. Our relatively small size is another major source of vulnerability but we many mitigate some of the risks associated with small size by collaborating and forging alliance with our brothers and sisters in the rest of the Caribbean. I will therefore proceed with a review of developments in the Caribbean region.

### **Regional Economic Developments**

26. Madam Speaker, notwithstanding the many challenges faced by Small Island Developing States and the volatility and uncertainty in the world economy in the first half of 2005 and thereafter, member states of the OECS as a whole continued to grow for the fourth consecutive year. In 2005 real GDP for the grouping grew by 5.8%, up from 4.1% in 2004. The expansion was largely fuelled by strong construction activity in hosting member states

associated with the upcoming Cricket World Cup (CWC) 2007. Individually, economic expansion was recorded for all member states, most notably for Grenada (12.1%), Anguilla (10.9%), St. Lucia (5.8%), Antigua and Barbuda (5.3%), and St. Kitts and Nevis (4.1%).

27. In my budget presentation last year I empathized with the plight of the Grenadian people and I was hopeful that their economy would return to the path of economic growth having been devastated by hurricanes. I am pleased that they have accomplished this feat in 2005 in such a resounding way, registering the highest output growth in OECS and for the CARICOM region. The expansion in Grenada was mainly attributable to growth in construction, transport and wholesale and retail trade. Moreover, they also managed to record an overall surplus for the fiscal operations of the central government. The economic fortunes of Dominica have also been improving and economic activity had increased by 3.4% in 2005. It must be remembered that during the period of their economic crisis, economic activity declined at an average 4.7% in 2002 and 2001. It seems therefore that business and consumer confidence have returned to Dominica and have contributed to the achievement of their third consecutive year of growth.

28. Among the larger member countries of the Caribbean Community the economic performances in 2005 were in general quite favourable, with the economy of Trinidad and Tobago growing by 7%, Barbados by 3.9%, Bahamas by 3.5%, Belize by 3.5%, Jamaica by 3%, and Guyana by 1.1%. These performances are attributable to a range of factors including strong growth in the petroleum and petrochemical related sectors in Trinidad & Tobago; increased residential construction activity and preparations for the

Cricket World Cup in Barbados; and heavy foreign investment and expansion in the tourism sector in the Bahamas. In Belize, policies designed to reduce consumption along with adverse weather conditions affected their growth rate. The economic performances of Guyana and Jamaica were adversely affected by flooding and hurricanes respectively.

29. Madame Speaker, the region continues to be fully absorbed with issues surrounding the implementation of CSME, the trade agenda relating to the World Trade Organisation (WTO) and the Economic Partnership Agreement (EPA) negotiations with the European Union. I am convinced that as we advance to the full stages of the CSME we would increasingly be in a position to command greater control over the stability and structure of our economies and in so doing determine the level and depth of our development. However, as I previously stated in my presentation at the 27<sup>th</sup> Regular Meeting of the Conference of Heads of Government of the Caribbean Community on the 3<sup>rd</sup> of July 2006 “it must also be recognized that there are disparities among various member states of CARICOM as development in the OECS in many respects does not match that of some of the bigger countries”.

30. It is for this reason that I, along with the other OECS Heads of Government, have called for the establishment of the Regional Development Fund to assist us in overcoming any transitional problem and economic dislocation that may result from our participation in the CSME. I am now pleased that although progress in the early stages had been relatively slow, the region is steadily moving forward with the implementation of the plans

for the activation of the fund, and we are now quite confident that this Fund will become a critical part of the CSME.

31. It was also with great pleasure that on 22<sup>nd</sup> June at the 43<sup>rd</sup> Meeting of OECS Authority I was able to join with the other OECS Heads of Government in signing the Declaration of Intent signalling the desire of our countries to form an OECS Economic Union. The new Treaty will seek to deepen the integration process in the sub-region and establish the Economic Union as an effective interface between the smaller countries of the OECS and the rest of the Caribbean Community. After consultations with the citizenry of the OECS for about a year, it is expected that the new Treaty will be finalized and signed by the OECS Heads on 1<sup>st</sup> July 2007 followed by ratification by their respective parliaments. I must take this opportunity to state categorically that our push towards creating an OECS Economic Union does not run contrary to the CARICOM integration movement. Indeed the results will be quite the opposite. A stronger OECS predicated on the pooling of our resources will enable us to participate in the CSME in a more meaningful way. It could also serve to mitigate, to some degree, the risk of economic dislocation in individual OECS countries during the transition phase of the CSME.

32. Madame Speaker, the Doha Round Trade Talks initiated by the World Trade Organisation that were suspended in July of this year have resumed at the technical informal level. Although my Government subscribes to the basic ideology of free trade and the implications thereof, it has been a formidable task trying to negotiate trade rules which are fairer for developing countries, including member states of the OECS. Recently progress has been made on this front largely due to the dedication and

persistence of the OECS Technical Mission to the World Trade Organisation (WTO), working with the Small Vulnerable Economies group. The General Council of the WTO, the highest decision-making body at the WTO has accepted a package of proposals that seeks to accommodate the needs of small States in the implementation of obligations arising out of membership in the WTO. The significance of this development cannot be understated as this marks the first time that the WTO has agreed to a specific package of measures put forward by the Small Vulnerable Economies group. However, the struggle is far from over as differences still remain on the key issue of agriculture, particularly market access and the subsidies of developed countries. With the resumption of the Doha Round Trade talks at the WTO, the OECS Technical Mission intends to exert every effort to place Development Issues at the top of the negotiating agenda.

33. Madame Speaker, the European Union (EU) and the ACP countries officially opened negotiations on Economic Partnership Agreements (EPAs) on 27<sup>th</sup> September 2002. These negotiations, which are aimed at redefining the trade regime between the two groups of countries, are to take place over 5 years. The European Union has been an important development partner for the region over many years and it is critical that the EPA strengthens that partnership. Hence the OECS, must combine forces with the rest of Caricom and like-minded countries in the ACP to use all available technical resources and diplomacy to advance our pro-development agenda with the EU and at the same time ensure that this approach is consistent with our negotiations at the WTO level.



34. Madame Speaker, it is clear that, in this global village in which we find ourselves, our small island developing Country has been thrust into numerous trade negotiations arenas that include, in addition to those I have just mentioned, the Free Trade of the America and a number of bilateral trade negotiations. We simply do not have the financial and technical resources required to effectively protect our interest in these forums. At the recently held National Consultations on the Economy, the private sector offered to provide human and technical resources to assist the Government in its various negotiations with non-nationals. We intend to work with the Chamber of Industry and Commerce to establish an appropriate framework through which such assistance may be provided. Unfortunately, in view of our limited size and population even our collaboration with the private sector will not provide all the technical resources that we require to effectively engage in international negotiations. We must, therefore, combine our diplomatic resources with countries of similar perspectives, through institutions such CARICOM and the OECS, with a view towards advancing our trade and economic interests across the globe.

## **THE DOMESTIC ECONOMY**

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

35. Madame Speaker, despite a dramatic reduction in sugar production in 2005, volatile oil prices, the continued implementation of the fiscal stabilization programme, and the completion of a number of capital projects that were ongoing in the previous year, the economy of St. Kitts and Nevis grew at an impressive rate of 4.1% during 2005. What is even more impressive is that in 2006, a year when we have not produced any sugar whatsoever, the IMF, in their recent Article IV Mission, estimated that by the end of 2006 the economy of St. Kitts and Nevis would have grown by 4.6% in that year. This in my view is a clear testimony of the extent to which we had diversified our economy and had prepared for the eventual demise of sugar.

36. The major risk we faced in relation to the closure of the industry was that our economy might have been sent into a tail spin on a protracted path of economic decline. This risk was even more pronounced because of our very high public sector debt and the need to pursue a programme of fiscal consolidation at this time. We are pleased however, that in our economic and fiscal strategy we have found the appropriate balance between fiscal restraint, public and private sector investments, and real sector initiatives, and have successfully kept the economy on a path of economic growth and expansion through one of the challenging periods in the history of our Federation.

37. Madame Speaker, the Tourism and Construction sectors of the economy have continued to solidify their important positions in our development thrust. In 2005 the Hotel and Restaurant sector which is heavily influenced by the ever expanding Tourism Sector grew by an estimated 5.7% due to increased airlift and growth in the number of stay-over visitors. Similarly the Construction Sector grew by 5.7% as a result of ongoing work on several major projects such as the Nursing School, Warner Park Stadium and a significant rise in the construction of homes by individuals. Indeed, besides the major projects indicated above, activity in the Construction Sector in general has been buoyant as evidenced by the increase in building permit applications. For the first nine months of 2006, 354 building permit applications were recorded. This represents an increase of 22.1% from 290 recorded for the corresponding period in 2005. More importantly 82.5% of total building permit applications were new starts. Consequently, new starts increased from 140 to 292, reflecting a growth of 108.6%.

38. Moreover, the forward momentum generated by the Construction and Tourism sectors along with the sound growth-oriented policies of my Government has served to propel other sectors such as the Communications sector which grew by 14.8%, the Banking and Insurance Sector which grew by 7.5% and the Wholesale and Retail Trade Sector which grew by 6.3%. In fact, economic growth in 2005 was broad-based in that for the first time in five years, all service sectors recorded positive growth rates. I believe that performance speaks to the significant strides that my Government is making in the creation of a well-diversified, service-oriented economy. Indeed, more

and more, it is becoming evident that growth is firmly anchored in the fabric of the St. Kitts and Nevis economy.

39. Madame Speaker our favourable economic performance has been accompanied by some increases in the rate of inflation. However, the increased inflation rate is more a reflection of developments in the international economy than the state of our domestic economy. In particular, the increase in international oil prices played a major role in pushing our average inflation rate from 2.3% in 2004 to 3.4% in 2005. It should be noted, however, that my Government held back on passing on any increase in gasoline and electricity rates to the citizens of this Country until it was absolutely necessary, and we did so reluctantly in November of 2005. Up until this time we were subsidizing the price of these products to the tune of millions of dollars. Without this important policy initiative by Government, the rate of inflation would have been much higher than was reported.

40. My Government is particularly concerned about the destabilizing effect of fluctuating oil prices on consumer prices, on the balance of payment account and on the fiscal position of the Government. In responding to this threat Cabinet has recently approved an Energy Policy that will reorient the Federation towards a more sustainable path in relation to energy usage. Our aim is to reduce our reliance on fossil fuels by devising ways of exploiting abundant renewable sources such as biomass, ocean, wind, geothermal sources, solar radiation and domestic waste. My fellow citizens should also note that this policy also focuses on Demand Side Management. Demand-Side Management will be geared towards policy measures, including tax incentives, which will induce consumers to modify

their levels and patterns of energy consumption. Over the upcoming weeks the policy will be fine-tuned, and on completion, will be presented to the citizens of our Federation.

41. The recent decision of the Government to accept the recommendation of the ECCB Monetary Council to adopt the international best practice for implementing the “full pass through” system in respect of the price of unleaded fuel is in some respect a demand-side management policy. It ensures the prices that consumers pay at the pump reflect international movements in the price of oil. Hence, in periods of high oil prices, consumers would, as they do in virtually all countries of the world, reduce their demand for unleaded fuel to minimize the impact of such high prices on their personal budgets. However, in introducing this measure we have sought in every way possible to mitigate the potential adverse effects on our motorists. In particular we have imposed a maximum profit margin for dealers and retailers. We have also introduced this measure at a time when oil prices are still relatively high so that any movement in retail prices is more likely to be downwards rather than upwards. Of course, the price of oil could rise again as many are predicting. But we believe that until that time any reduction in energy prices would be most welcomed by motorists.

42. Madame Speaker, some of the initiatives in the Energy Policy will only bear fruit in the medium to long term. But our consumers require relief now. This is the reason we found it necessary to spare the small consumers of electricity from the fuel surcharge. It is important to note that fuel surcharge is not a tax, levy or bonus to the Government. It is the actual increases in fuel cost that the Electricity Department is forced to pay, when

the price of fuel goes beyond the base price included in the existing electricity tariff. Hence, the decision of the Government to exempt small consumers from the charge means that the Government has had to appropriate money from general revenues to pay for this exemption enjoyed by the small consumers. But my Government has always protected the small man and woman, and we feel strongly that from time to time Government must intervene in the market or provide the resources required to protect vulnerable groups from the ravages of the market.

43. The high price of oil is not the only factor that pushes consumer prices upward. Hence Government's effort to hold down the cost of living requires policies that go beyond the energy market. It is therefore necessary for Government to monitor consumer prices and to intervene in all relevant markets where necessary to protect our people. In this regard, during the upcoming year we will tighten up the price control regime. My Government firmly believes in the efficacy of free markets but in very tiny islands with only a few suppliers of a number of important products, markets are not always free, and the competitive forces which should bring about much of the benefits of free markets are sometimes bridled. Yet, my Government will not attempt to interfere with markets unduly. We will restrict our intervention to those goods and services that are particularly influential on the cost of living and on the quality of life of lower income families.

44. Madame Speaker, I will now speak to the Balance of Payments statistics which record the inflows and outflows of funds arising out of transactions between the Federation of St. Kitts and Nevis and the rest of the world. In 2005, the Federation's Current Account position improved

relative to 2004. The Current Account Deficit narrowed to \$216.3 million or 18.7% of GDP in 2005 from \$233.2 million or 21.6% of GDP in 2004. This reduction in the Current Account Deficit in a year when sugar exports had declined by some 25% is truly commendable in that it is another important indicator of the great progress we had made in diversifying our economy in anticipation of the demise of the sugar industry.

45. The narrowing of the deficit was due mainly to higher tourism receipts during the year under review. Tourism receipts are estimated to have grown by 7% to \$296.6 million, mainly as a result of an increase of 7.5% in stay-over visitors. On the other hand, the deficit on the goods account expanded moderately by 3.6% as increasing electronic exports, to some extent countered the effect of the increase in imported construction materials underpinning a surging construction industry. It is expected that in the medium term the Tourism Sector will pull in even greater receipts as the sector expands in response to increased accommodation infrastructure, additional airlift and marketing.

46. Madame Speaker, during the 2005 period the performance in respect of the Capital and Financial Account was mixed. The Capital Account improved relative to 2004 with transfers more than doubling to \$39.8m as result of the overseas grant funding in respect of a number of government projects including the Warner Park Stadium and Old Road Fisheries Complex. In the Financial Account, Net Foreign Direct Investment grew significantly to \$228.1m compared to \$124.6m in 2004. This is as a result of marked increases in equity investment and land sales. Included here are major foreign investment projects such as the International School of Nursing and Calypso Bay Condos in St. Kitts, and Hamilton Estate Hotel in

Nevis. Madame Speaker, the positive direct investment flow was offset to some extent by outflows in portfolio and other investments. This contributed to an overall balance of payments deficit of \$18 million or 1.6% of GDP.

47. Madame Speaker, the very substantial increase in Net Foreign Direct Investment by \$103.5 million or 83.1% indicates the tremendous confidence that foreign investors continue to place in the policy framework established by my Government. I urge our nationals to become even more assiduous in searching for investment opportunities. In some instances, our nationals may not have all of the financial resources required but our local know-how is also of great value and can be the basis of a joint venture with foreign nationals. You can be assured that even as we encourage and embrace foreign investment, my Government will do everything possible to encourage local entrepreneurship and to ensure that the incentives enjoyed by our nationals will be no less than those offered to foreigners with projects of similar nature, magnitude and economic impact.

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

48. Madame Speaker just over two years ago we joined the Ministries of Tourism and Sports for the first time and brought the Ministry of Culture into the same mix. There was a strategic reason for this which is now bearing results. All three Ministries had made significant strides towards their respective objectives, but it was a critical time for making capital out of the opportunity that we had created to become the smallest ever World Cup



Cricket venue. Much of our expenditure in the Ministry of Tourism, Sports and Culture over the past year has been focused on completing our obligations as a World Cup venue, but also to position our Country as a significant player in the sports, cultural and events tourism business.

49. Madame Speaker, this past year the reality of what the Cricket World Cup could mean to our Country and region has begun to be felt. The legacy of this major world event is already unfolding before our very eyes, especially since the opening of the new Warner Park Cricket Stadium, which is now a premier multi-purpose facility, hosting major sporting, cultural and entertainment events. This facility will increasingly become a significant tourist attraction, adding to our tourism product and revenue. Our Government's vision for our Federation as a World Cup Venue encompassed numerous legacy benefits. These benefits include extensive tourism market exposure, upgraded accommodation and related tourist facilities, improved transport and other infrastructure, expanded local and regional entrepreneurial and business links, and the development of more local skills in event planning and management as well as in security, medical and disaster management. The prospects for these legacy benefits are now upon us and I call on all citizens to not only make positive efforts to contribute to the success of the World Cup, but to capture the opportunities for growth and improvement that are presenting themselves.

50. Madame Speaker, Tourism continues to be the major component of our Economic Growth Strategy, and I am pleased to inform you today that just last week we completed a Strategic Business Plan for the Tourism Sector that will strengthen the positioning of the tourism industry as a source

of prosperity for the average citizen of our Federation. The six-month planning exercise, which preceded this plan, was undertaken in the context of the development of our Government's Adaptation Strategy following the closure of the sugar industry. The plan highlights our need to focus on the following essentials:

- (i) The development of our tourism product while giving due attention to issues of environmental protection, and natural, historical and cultural heritage preservation.
- (ii) The development of our people through training and education to meet the demands of visitors, paying attention to attitudes, skills development and the empowerment of our people to facilitate their involvement in tourism related businesses.
- (iii) The adoption of an integrated and focused Marketing Strategy that recognizes our fiscal limitations, yet seeks to maximize outputs through selective tools, some of which use modern communications technologies while others are based on traditional means, and
- (iv) The building of strong alliances amongst all tourism stakeholders at the national, regional and international levels so that the sharing of our visitors, as customers of our destination, can be seamless and with the result being that of a high quality visitor experience at all locations and with all whom they encounter.

51. The importance of tourism to our economy is reflected in its significant contribution to GDP through visitor expenditure, foreign exchange and employment generation. The Travel and Tourism Industry accounted for 7% of GDP in 2005 when defined in terms of businesses

directly involved with travel and tourism through hotels, and certain restaurants. However when conceptualized in terms of wider economic impact, through its linkages with other sectors, its economic importance increases to more than 30% of GDP.

52. Madame Speaker, it is well-known that tourist arrivals are up significantly in recent years and that there are several new investments either already ongoing or pending. Stay-over visitor arrivals have increased by approximately 50% since 2003 from 90,000 to the approximately 135,000 arrivals expected for 2006. Cruise arrivals passed the 200,000 mark in 2004 and should not fall below that level again, until it is expected to pass the 300,000 mark in 2008. Arrival figures are relevant, but tourist expenditure figures and economic impact are more important. It is therefore critical that we continue to create an environment which will generate increased tourist expenditure by offering a more diverse package of quality destination experiences targeted at the discerning traveller of a reasonably high personal spending power. This year, 2006, total tourist expenditure in our economy is expected to pass the EC\$300 million mark for the first time. This is a powerful indicator that we are moving in the right direction, but the benefits of the industry's expansion must be felt more and more through increased private and public sector revenues, expanded cultural and economic linkages and more people empowerment opportunities for the average Kittitian and Nevisian.

53. Madame Speaker, you are no doubt aware that the Airport Expansion Project which we launched last year is already completed. The recent comments from the captain of the Virgin Atlantic 747, which was the first

large aircraft to test out the new parking apron, indicated that we have been successful in our efforts to improve our ability to handle larger and more frequent airlift and to welcome the expanding flow of visitors and residents through our international airport.

54. The adjoining West Basseterre Bypass Road Project is now underway and will not only expedite access from one side of our capital city to the next, but it will help to improve the visitor experience. Snail-pace traffic through busy city streets is not a desirable experience anywhere for anyone, and we must not allow it to become a regular part of our island experience.

55. Madame Speaker, sustainability in tourism is a difficult but achievable goal and my Government will leave no stone unturned to include all of the critical ingredients. But Tourism sustainability only comes about through the internalization of tourism in the minds of our people. Public spiritedness, industry awareness, skills training and education all must play a major part in the internalization process. My Government's support for empowerment programs through entrepreneurial development workshops and seminars, as well as financial support for viable business plans are now well-established. But the comprehensive movement for achieving positive and productive attitudes as a powerful tool for sustainable Tourism development is the responsibility of all of us. Moreover, our Country's reputation for a genuine, caring people and for cleanliness, safety, natural beauty and a colourful history must be protected and preserved by all citizens.

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

56. Madame Speaker, the Sugar Industry was officially closed in July 2005 and since then my Government has set about tackling the massive challenges associated with such a major transformation. We are quite pleased that we were able to pay all severance payment obligations to sugar workers in a timely manner. But we know that this is just the beginning. Our educational institutions and the Ministry of Social Development have continued to provide opportunities for the former sugar workers to be retrained and equipped to take up new employment and entrepreneurial opportunities in the various sectors of the economy including agriculture, industry, handicraft production, taxi services and passenger bus services. In addition, there is a strong focus on the welfare of sugar workers in our National Adaptation Strategy.

57. Madame Speaker, our social and economic partners would recall that during the National Consultation on the Economy at the Marriot Resort on 25<sup>th</sup> October 2006, I officially accepted the Federation's Adaptation Strategy for 2006–2013, which was prepared by a team of competent and hard-working technicians from the Ministry of Finance and Sustainable Development. This comprehensive document outlines the plans of my Government to reconfigure the economy of St. Kitts and Nevis and implement an economy-wide adjustment programme.

58. In response to our Adaptation Strategy, the European Commission (EC) is proposing within the framework of its 2007-2013 support strategy to promote fiscal sustainability, private sector development, market liberalization, skills development, poverty reduction and institutional strengthening to support St. Kitts and Nevis in implementing its long-term

Development Strategy for sustained growth. It is envisaged that future support to St. Kitts and Nevis will likely be biased towards budget support instead of the usual project approach which based on our experience has proven to be administratively challenging and very time- consuming. My Government will therefore welcome this change.

59. Madame Speaker, the cost of the transition programme that was established for the closure of the SSMC was approximately EC\$72 million. The bulk of this expenditure, which included the severance payments of \$28 million, was devoted to promoting the welfare of the former sugar workers. Moreover, with effect from 1<sup>st</sup> August 2005, the Central Government assumed responsibility for providing health care and other essential welfare services to former SSMC workers, conservation and infrastructure maintenance previously handled by the SSMC and the servicing of the SSMC debt. Based on the costs of the various action plans arising from the Adaptation Strategy the initial total estimate of the cost of implementation stands at EC\$1337.93 million or approximately 115% of GDP.

60. It is therefore quite clear that the sheer magnitude of the adjustment that is necessary dictates that we will need to access exceptionally high levels of external resources very early in the process. Indeed the success of the Strategy will to a large extent depend on the support obtained from the European Community. However, my Government will welcome and aggressively seek partnerships with other regional and international donors to secure adequate financing for the full implementation of the Strategy. Of course, the magnitude of the Public Sector Debt will place serious

constraints on new borrowings. We therefore expect that much of the assistance to us would come in the form of grants.

61. A successful adaptation process requires careful planning, timely access to financial and other resources, availability of a multiplicity of professional expertise and skills and a properly coordinated and carefully managed implementation programme. The multi-year, cross-sectoral programme embodied in the Adaptation Strategy requires significant technical and administrative capacity, which currently does not exist within Government. Consequently, my Government will vigorously pursue programmes for institutional strengthening and capacity building within the Government Ministries involved in coordinating and implementing the Strategy.

62. The institutional arrangements proposed for managing the adaptation process are clearly outlined in the Adaptation Strategy and comprise three main structures namely, a Cabinet Committee on Finance and the Economy; an Inter-Ministerial Technical Committee on National Transformation; and a Coordination and Programming Unit. The Ministry of Finance will continue to perform the lead role in fiscal management. Additionally, their participation in the Inter-Ministerial Technical Committee on National Transformation is expected to integrate the fiscal stabilisation policies and programme into the broader macro-economic and sectoral policies.

### ***Non-sugar Agriculture***

63. Madame Speaker, the primary objective of the Government's strategy for the development of agriculture following the closure of the sugar industry is to significantly increase agricultural production in a sustainable manner through the transformation of the sector to satisfy local demand and to supply selected export markets. The focus of the strategy is on the development of commercial farms for both crop and livestock production. Production will be market-led with special emphasis on commercialization of farms in an attempt to transform the sector into one that is internationally competitive. The main underpinnings of the agricultural thrust are (i) food security, (ii) raising rural incomes, (iii) providing secure employment options, and (iv) foreign exchange savings. The Agricultural Sector has the potential to assist with job creation and income generation particularly for those former sugar industry workers who have indicated their intention to continue working in agriculture.

64. In support of the former sugar industry workers, my Government sought and received assistance from the Food and Agriculture Organization (FAO) in the form of an emergency support project valued at US\$393,000.00 or EC\$1 million. The objective of the project is to assist the Government in its post-sugar industry rehabilitation programme through technical support and the supply of the necessary inputs for the establishment of 100 crop and 46 livestock enterprises for the most affected displaced workers. The project will also assist with the improvement of the Basseterre Abattoir and provide technical assistance in the form of training. Already peanut and sweet potato crops have been established for former SSMC workers in the areas of Cayon, Lodge, Molineux, St. Paul's, Newton Ground and Sandy Point. Forty six livestock farmers who were displaced as



a result of the closure of the sugar industry will also benefit from this assistance. They include pig farmers as well as small ruminant and poultry producers. The benefits to be distributed to these farmers include feed, medication, housing for pigs, wire, water tanks and training.

65. Madame Speaker, crop production generally showed marked increases for the first nine months of 2006 when compared with the same period for 2005. The Department of Agriculture has been placing great emphasis on the production of fruits and the development of the “Kittitian Fruit Plate”. As a result we are observing the return to pineapple production with an increase of 352% from 27,000 lb in 2005 to 122,000 lb in 2006. This increase has resulted from the development of a pineapple farmers’ group and the expansion of the area under production. Another fruit that has shown a marked production increase is watermelon which increased by 60% from 143,000 lb in 2005 to 229,000 lb in 2006. We also saw a return to high levels of papaya production during 2006.

66. Marked increase has also been observed for tomato production which jumped by 55% from 154,000 lb in 2005 to 238,000 lb in 2006. During 2006 we also recorded an expansion of the period of production and local tomato was available during the month of September. Unfortunately the heavy rains restricted the further extension of the period of production.

67. During the period under review production increases were also observed for white potato which increased by 25% from 194,000 lb to 242,000 lb, sweet pepper which increased by 45% from 38,000 lb to 55,000 lb and peanut which increased by 49% from 43,000 lb to 64,000 lb. The

increase in peanut production has partly resulted from the assistance to former SSMC workers under the FAO project that I mentioned earlier. Marked increase in sweet potato production is also being observed and a glut currently exists. Production levels showed marginal changes for cabbage and carrot while onion production more than doubled although it remained relatively low. The only food crop that recorded a significant decline was yam due mainly to the reduced area planted.

68. The impressive performance of food crop production resulted in small exports to the nearby islands. Emphasis is being placed on the development of the export market and the Marketing Unit of the Department of Agriculture has been conducting field visits to the nearby markets. Already a market has developed for hot peppers as well as selected food crops. The development of agro-processing has gained significance with the activation of the processing unit by the Republic of China Agricultural Technical Mission. The unit is currently processing a wide range of local fruits into dehydrated products as well as juices, and is providing training to local entrepreneurs.

69. Madame Speaker, in the area of livestock production, there has been a substantial increase of 22% in pork production. Hence the pork produced increased from 92,400 lbs in the first nine months of 2005 to 112,200 lbs over the same period in 2006. In that period, there were also increases recorded in respect of the production of mutton and of eggs. However, notwithstanding the large number of cattle we see roaming around the island, beef production declined somewhat in 2006. However, the

Department of Agriculture projects in 2007 beef production is likely to rise again to levels capable of satisfying local demand.

70. Madame Speaker, the progress of the Non-sugar Agriculture sector since the closure of the sugar industry has been quite heartening, and reflects the careful planning that has gone into our agricultural diversification programme and into the development of appropriate alternatives to sugar. In particular, the Planning Unit estimates that non-sugar agricultural crop production recorded an estimated 87.0% increase in output for the first nine months of 2006 when compared to the corresponding period in 2005.

71. Madame Speaker, my Government continues to invest heavily in the Farm Sector and to provide solid support to our farmers, including our sugar workers who have opted to go into farming. In this regard, we are in the process of building water storage facility at Con Phipps for the benefit of our farmers in that area. We have intensified our Farmer Training Programme and have specifically targeted the former sugar workers for such training. We have provided a special water rate in respect of the water used by many of our farmers for the purposes of agriculture. We have provided very generous duty and tax concessions on farm vehicles, farm equipment and farm inputs. We have provided our farmers information, research, market intelligence and technical assistance through our very effective extensive services. In a nutshell, we have been a tower of strength for our farmers and they responded admirably to the challenge of agricultural production.

### ***Industrial and Enterprise Development***

72. The growth in the world economy and in the US economy in particular has had a very favourable impact on the Manufacturing Sector in St. Kitts and Nevis. Hence most of the major industrial enterprises in our Federation have been expanding and upgrading their operations in response to increased international demand for their products. Lutron Liamuiga has introduced 47 new products and has recruited some 55 additional employees. This enterprise expects to employ another 50 persons by mid-2007. In addition Jaro Electronics has increased its workforce by 50 employees in 2006 and expects to increase it further by 50 employees in 2007. There have been increases in employment at Kajola Kristada which employed an additional 25 workers; Reeds Data Services which employed 20 new workers and Victory Packaging which employed 9 new workers. All of these enterprises expect to further increase their work force in 2007 based on projected increases in the demand for their products and services.

73. It is also worthy of note, that based on the education and skill levels of our people, some of our enterprises have been retiring some of the low-end products in favour of high value-added products that use more advanced technologies. In particular, Lutron Liamuiga has transferred the production of some of their low end products to other manufacturing plants overseas and has replaced them with products employing higher levels of technology. Similarly Kajola Kristada is now producing more advanced weather sealed cable in place of the basic cable which is now being produced in other locations overseas.

74. Madame Speaker, my Government intends to place even greater emphasis on improving of our investment climate in the upcoming year. I am particularly concerned about our position in the World Bank Doing Business rankings. There are those who take comfort in the fact that more than half of the countries of the World were given a lower ranking than St. Kitts and Nevis. But position number 85 is simply not good enough for us. Even before the publication of the ranking my Government had already obtained the assistance of the Organization of American States to review our administrative processes in relation to investment applications with a view to streamlining these processes and making them more efficient. We intend to accelerate the implementation of this project which is already ongoing.

75. The OAS has already provided us valuable technical assistance in relation to the establishment of an Investment Promotion Agency (IPA), and I am pleased to report that the IPA will become fully operational in the first quarter of next year. The IPA will act as a one-stop shop for local and foreign investors, engage in small and medium-sized business development, actively encourage foreign investments and domestic enterprise creation, provide support services to businesses, and engage in business advocacy aimed at initiating policy and legislative changes to improve the investment climate. In addition, I have specifically mandated the Ministry of Commerce to ensure that in all of the IPA's operation, adequate attention is given to the needs of young people interested in becoming entrepreneurs.

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

76. Madame Speaker, the liberalization of the telecommunications sector continues to derive significant economic and social benefits for the people of the Federation. We have witnessed over the years, significant increases in the number of persons having access to the latest technology as prices continue to fall at a precipitous rate and investment in infrastructure increases. The reduction in prices serves as a platform from which my Government will launch a number of initiatives to build an Information & Communications Technology (ICT) Society so that our people may fully utilize their immense talents, education and capabilities to compete effectively in the new global environment. We expect that our innovations and initiatives in this area will not only allow our people to export ICT services to the rest of world but that it will also ensure that the latest information and communication technologies permeate the very fabric of our society and enhance the competitiveness and efficiency of enterprises in all sectors of our economy.

77. Madame Speaker, the new initiatives to build our knowledge-based economy are embodied in our National ICT Strategic Plan adopted by the Cabinet of Ministers on 6<sup>th</sup> November 2006. It is this plan that will guide the development of the new ICT economy well into the future. The National ICT Strategic Plan was developed through the collaboration of several departments of the government, private sector agencies such as banks, ICT services providers; and individuals such as members of the legal fraternity. The plan identifies for focused attention five main areas for development in the ICT Sector. These are :

- Building of the appropriate physical ICT infrastructure

- Developing and implementing the enabling policies and legal framework
- Developing the requisite human resources and building capacity
- Modernizing the operations of Government through the delivery of services through the electronic medium
- Leveraging ICT for economic and social development through public–private sector partnerships.

78. These five areas, identified as national imperatives, address the policy, institutional and structural obstacles identified in the 2005 Global Information Technology Report, that prevent countries from fully capturing the enormous benefits of ICT. My Government has committed itself to working with the private sector and providing the resources necessary to fully implement the National ICT Strategic Plan to ensure this Country's continued economic and social development.

79. Madame Speaker, during the course of 2007, my Government will implement a modern Government Portal that will provide greater access to the resources of Government, facilitate faster processing of documents, make available information in areas of Health Care, Education, Community and Social Development, and facilitate doing business in this beautiful Federation of ours. In addition, Madame Speaker, Government will continue to develop the human resources by offering training to government employees and members of our communities to upgrade their ICT skills and build the necessary capacity to function in the knowledge-based society.

80. It was with this commitment in mind that on Friday 26<sup>th</sup> November in the city of Taipei in the Republic of China (Taiwan), my Government signed a letter of intent for support from the Government of Taiwan for an e-government and national ICT Training centre to be implemented in the first half of 2007.

81. Madame Speaker, notwithstanding our progress to date, there is still much to be done. My Government is not satisfied with the level of access by citizens, residents and small businesses to affordable, reliable and high quality internet services. That is why in May of this year, my Government awarded a new submarine cable licence to Southern Caribbean Fibre in order to exert downward pressure on the cost of internet services, and the cost of international telecommunications, generally. Government also issued a fixed line telecommunications licence to Caribbean Cable Communications in Nevis to strengthen the competition reforms.

82. Madame Speaker, in the upcoming year, we intend to strengthen the legislative framework by introducing a number of important regulations to improve the Sector. Quality of Service regulations will be introduced to hold service providers accountable for delivering consistently high quality services to consumers and to give our consumers recourse for diminished service quality. Moreover, Alternative Dispute Resolution Regulations, to be introduced early in the New Year, will provide a mechanism for disputes among service providers and consumers to be speedily settled by the due process of mediation, reconciliation or adjudication.



83. Madame Speaker, consistent with our policy to provide our people greater access to information and communications technology, my Government will also introduce regulations that will establish a universal service fund to be financed by telecommunications services providers. This fund will be used to bring access to ICTs to disadvantaged individuals and communities.

84. The policy of my Government is one of people empowerment. That is why my Government will do all that is necessary and reasonable to bring about lower prices, higher quality of service, greater competition and improved access to information and communications technology. Indeed, I am persuaded that the dawn of the e-economy is upon us.

## *The Financial Sector*

### **Commercial Banks**

85. Madame Speaker, the commercial banking system seems well-positioned to support economic growth and prosperity in the Federation. Commercial Banks have been able to adapt to changing circumstances by continuing to innovate and to build stronger relationships with their clients.

86. In 2005, commercial banks assets, deposits, and loans and advances all increased relative to 2004. Assets increased by \$222.3 million or 8.3% to reach \$2.9 billion at year end. Likewise, deposits held by commercial banks increased by 8.9% to reach \$1.9 billion and loans and advances increased by 15.8% to reach \$1.5 billion. Strong intermediation by banks has allowed them to dispense of much of their liquidity as the loans and advances to deposits ratio increased from 75.6% at the end of 2004 to 80.4% as at the end of 2005.

87. Data at the end of September 2006 shows the asset base of commercial banks increasing to \$3.2 billion, an increase of \$265.6 million over the balance at the end of the previous year. In addition, over this period deposits reached the \$2 billion mark, while loans and advances increased to \$1.7 billion. Hence, for the first nine months of 2006, the loans and advances to deposit ratio moved downwards to 71.8% as deposits increased at a faster rate than loans and advances.

88. Madame Speaker, in my budget address delivered to the Nation in 2000, I highlighted the fact that deposits in the Banking system held by our people surpassed the \$1 billion threshold. It therefore gives me even greater pleasure to say that yet again the citizens of this Country have achieved a tremendous feat as in the space of six years this figure has doubled to reach \$2 billion mark at the end of September of this year. In other words, it took us the entire life span of our Nation up to 2000 to achieve \$1 billion in deposits, but in six short years under this Labour Administration, bank deposits have increased by another billion dollars to reach \$2 billion. Madame Speaker, despite the many challenges that we have had over the years, our people have more than doubled the amount of money they have in the bank over a six-year period. This statistic speaks for itself in respect of tremendous progress my Government has made in pushing on the wheels of social and economic empowerment of our people.

### **The Development Bank**

89. Madame Speaker, the Development Bank of St. Kitts and Nevis continues to be an essential institution to the development of this Federation. The Bank, as it has done in the past, continues to increase its credit, specifically to the Agriculture, Education, Industry and Mortgage Financing sectors. In 2005 alone, the Bank approved 1,848 loans amounting to \$67.5 million, 13.3% higher than the total approved in 2004. The major sectors benefiting from the loans allocations were:

Housing-Mortgage Finance	22.7 million
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Education	13.0 million
Industry	0.8 million
Agriculture	0.7 million.

90. Moreover, the Bank has kept true to its promise of serving individuals from all segments of society. That is why, on May 25<sup>th</sup> of this year, my government in partnership with the Development Bank and the Stanford Groups of Companies Ltd, after careful negotiations, established the Empowerment Fund in the amount of EC\$10 million. This Fund can be accessed through the Development Bank and is undoubtedly a symbol of the dedication of this Government and the Development Bank to the promotion of entrepreneurship and to fostering growth in the small and micro-business sectors of this economy.

91. Furthermore, Madame Speaker, through this Fund, individuals desirous of owning their own business can access as much as \$100,000 loan capital at a concessionary rate of 6% per annum to start their own businesses. In addition, my government has provided the necessary facilities for individuals who may not have the adequate know how to develop their own business plan to gain expert assistance from the Development Bank staff in formulating their respective business plans. This is why I urge our young persons who are unemployed or those who are seeking to fulfil their dreams of owning their own business to take full advantage of this golden opportunity to propel themselves forward and by so doing expand the contribution of small and micro businesses to the development of our Federation. The Empowerment Fund also provides an excellent opportunity

for our former sugar workers to take up the challenge of entrepreneurship and firmly establish themselves on the path of wealth creation.

### **International Financial Services**

92. Madame Speaker, the main focus of the Financial Services Department for 2006 has been capacity building. This shift in focus was necessary to ensure that the regulatory staff developed the necessary skills and expertise to properly regulate all entities, namely, Insurance Companies, the Development Bank, Money Remittance Businesses and Credit Unions which will be assigned to them as soon as the Single Regulatory Unit is formed. In addition, the Department has focussed on putting the necessary measures in place to regulate and monitor the new financial services products introduced by the Marketing and Development Department, as well as conducting the necessary back ground checks associated with the newly revamped Economic Citizenship Programme. For 2007, the Department expects to continue its Anti-Money Laundering and Counter Terrorist Financing Examinations, of the financial sector.

93. The Marketing and Development Department in 2006 continued with its international promotional activities. The St. Kitts Foundations have been heavily promoted in Europe this year in Geneva, Zurich, Milan and London. The Department also worked diligently to develop the new Captive Insurance Act which was passed in August of this year. This new legislation was featured on Alexander Haig's World Business Review in October of this year. The Captive Insurance Act contains provisions that cater specifically to the needs of small captives. To date 3 captive insurance licences have

been granted, 2 applications are slated for processing by the end of this year, and 15 are scheduled for processing on the first working day in 2007. The new Captive Insurance Act has also served to boost our company incorporations since captives licensed in St. Kitts must be locally incorporated.

94. The Economic Citizenship Programme has also been reviewed with updated provisions and procedures now in place. The minimum investment requirement into an approved real estate project was increased from US\$250,000.00 to US\$350,000.00 to ensure that the minimum investment was in line with current real estate prices in the Federation. In addition a new option for obtaining economic citizenship has also been introduced. The Sugar Industry Diversification Foundation was established in order to facilitate persons wishing to make contributions to the research and investment that is required to make the transition from sugar production into another viable industry. Persons who make a minimum contribution of US\$200,000.00 to this Foundation would also be eligible to apply for economic citizenship in the Federation.

95. In addition to the above changes, new application forms and regulatory procedures, including tighter anti-money laundering requirements, have been developed, and the processing of economic citizenship applications has been transferred to a new Economic Citizenship Processing Unit under the Ministry of Finance. The Unit is headed by the Legal Adviser to the Ministry of Finance Dr. Ken Ballantyne. This change was effected to strengthen compliance with existing regulations and at the

same time, streamline the application process with a view to making it more efficient.

96. Finally the St. Kitts and Nevis International Ship Registry which works in close collaboration with the Marketing and Development Department has also continued to grow and the number of ships on our Registry has surpassed 250. My Government has earned EC\$250,000.00 in revenue from the Ship Registry this year which is a dramatic increase from the EC\$67,500 earned last year. We expect the number of registrations and total revenue collections to continue to grow at a rapid pace over the medium-term. The Registry is continuing to explore new avenues of growth and the Marketing and Development Department continues to work with the Registry to promote more spin off business locally for our providers and other professionals.

### **Money and Capital Market Development**

97. Madame Speaker, my Government continues to work with the ECCB and the other Governments of the OECS to develop and integrate the money and capital markets of the sub-region. I am particularly pleased that we have been making steady progress. As at 21<sup>st</sup> November, 2006 there were twenty-six (26) debt securities including one corporate bond and nine (9) equities listed on the Eastern Caribbean Securities Exchange (ECSE). The ECSE EC-Share Index, which was introduced in January 2005 to track the performance of domestic equities listed on the Exchange has shown a steady increase in market performance. As at November 2006 the index stood at 120.58, reflecting significant appreciation in the value of investors'

holdings. This means that between January 2005 and November 2006, the market has experienced an increase in the value of equities by 20.58 per cent. Based on this index, the ECSE offers some of the best returns relative to its regional counterparts.

98. The number of ECSE intermediaries now stands at 10 and the licensed brokers spans 7 OECS countries and Trinidad and Tobago. The total market capitalization is currently 10.39 billion with the inclusion of the two foreign regional equities listed on the ECSE. It is expected that other regional companies will be listed on the ECSE in the coming year, which is another significant step towards making the ECSM a truly regional market. The cutting-edge real time multi-country platform currently offered by the ECSE is undoubtedly the only exchange platform in the Caribbean that is appropriate for a truly regional exchange. Hence, St. Kitts and Nevis is of the view that the entire Caribbean Community would reap significant benefits from the development of the ECSE into a region-wide exchange.

99. I am delighted that St Kitts and Nevis has actively utilized the services of the ECSE. In particular, my Government was the first of all OECS Governments to issue and list Government securities on the Exchange. Moreover, compared to its regional counterparts, the Federation boasts the greatest number of listed companies with as many as four of its companies on the Exchange. This is undoubtedly an indication of the vision of the Government and people of St. Kitts and Nevis. It also demonstrates the readiness of our private sector to embrace change and to seek out new opportunities for advancement. I urge our private sector to accelerate the change and development process and to make use of every available



instrument or facility to enhance their competitiveness and improve their profitability.

100. Thus, as we look forward to the establishment of the proposed Eastern Caribbean Enterprise Fund, and we become more fully integrated in our regional CSME, we need to begin to capitalize on the valuable opportunities for the further development of our money and capital markets. This is a challenging proposal that will require the resolve of all countries of the region, including St Kitts and Nevis. However, by working together, there is reason to believe that the ECCU can develop more efficient markets that can help to stimulate sustainable economic growth.

## **PUBLIC FINANCE**

### *Fiscal Review*

101. Madame Speaker, in 2005 total Recurrent Revenue amounted to \$339.46 million, exceeding the 2004 figure by \$52.46 million or 18.3%. On the other hand Recurrent Expenditure increased by \$54.5 million or 17.6 % over the recurrent expenditure for 2004. The resulting deficit for 2005 was therefore \$24.17 representing an increase of \$2.07 million or 9.4% over the deficit for the previous year.

102. A further analysis of the recurrent revenue for 2005 reveals that there was significant improvement in the performance of all categories of revenue with the exception of Taxes on Property which showed a slight decrease. Taxes on International Trade and Taxes on Income showed the largest increases of \$25.3 million and 22.5 million respectively. Non-Tax Revenue collections improved in 2005 showing a \$5.6 million increase over the corresponding figure for 2004

103. The dramatic improvement in Recurrent Revenue has not happened by chance. It is to a large extent due to my government's deliberate policies to spur economic growth and to reform both the Customs Department and Inland Revenue Department. These reform initiatives have resulted in the strengthening of tax administration by training staff in modern techniques of revenue management and collection; modernizing systems and procedures to

align them with present day realities; and adopting a more proactive and business like approach to tax collection. The Inland Revenue Department also continues to pay particular attention to taxpayer education and consulting with various taxpayer groups on a regular basis. This has engendered a more cordial relationship between the Department and taxpayers and has increased taxpayer compliance.

104. The \$54.5 million increase in expenditure was mainly due to Goods and Services, Interest Payments and Transfers which increased by 25.6%, 23.4% and 48.8% respectively. The increase in Goods and Services reflects the high cost of fuel for electricity generation; the increase in Interest Payments was needed to fulfil our debt servicing obligations while the increase in Transfers is primarily attributable to the \$18.7 million paid to former SSMC workers in 2005 from the Severance Payment Fund when my Government took the bold step to close the Sugar Industry.

105. Madame Speaker I now turn to Capital Expenditure. In 2005 Capital Expenditure and Net Lending amounted to \$63.8 million, a decrease of \$2.3 million or 3.5 % less than the 2004 figure of \$65.9 million. The Capital Expenditure combined with the Current Account deficit resulted in an overall deficit of \$51.8 million, \$27.8 million less than the corresponding figure for 2004. The Primary Surplus for 2005 was \$30.5 million representing a \$43.4 million improvement over the \$12.9 deficit for 2004. The achievement of a primary surplus is particularly commendable in that it is indicative of the tremendous progress that my Government has been making in the implementation of its fiscal stabilization programme. We have steadily brought down the primary deficit from as high as \$88.1 million

in 2002 to a substantially reduced deficit of \$12.9 million in 2004 and now we are reporting a substantial primary surplus of \$30.5 million in 2005. Indeed this is the first time since the traumatic hurricane years that we have returned to a primary surplus. What is even more heartening is that, based on the fiscal performance of the Government up to the end of November of this year, it is now estimated that the primary balance will increase further to reach \$73.2 million in 2006.

106. Madame Speaker my government is transitioning the economy away from sugar towards a more diversified economy in which Tourism and Services play a leading role. It is imperative that we invest in upgrading the infrastructure to support these activities. Hence, notwithstanding our strong commitment to a policy of fiscal consolidation and debt reduction, we have continued to invest in vital infrastructure. Indeed, we believe that economic growth is critical to the success of our fiscal consolidation and debt reduction programme and that investment in key economic infrastructure plays an important role in the achievement of appropriate and sustainable levels of growth over time. Hence, my Government has invested over \$14.0 million in the Electricity Supply Improvement Project which has increased generating capacity, improved reliability of electricity and addressed the low voltage problems experienced in some areas. I am happy to report that there has already been substantial improvement in Newton Ground, Sandy Point and Cayon where this problem was most pronounced. The Electricity Department now has in place monitoring mechanisms to identify low voltage problems that may arise from time to time when additional demand is put on the distribution system. Moreover, the Department is implementing a plan aimed at correcting all such problems over time.

107. Madame Speaker besides this there are ongoing projects such the Warner Park Development Project, Hurricane Lenny Rehabilitation Project, and infrastructure for Low Income Projects. We also expended monies in respect of a range of other projects at various stages of development or construction, including the purchase of patrol vehicles and equipment for the Police, Beach Protection, the Health Services Skills Laboratory at the CFBC, the development of a Land Registry, and the repairs and rehabilitation of roads and bridges throughout St. Kitts. Moreover we also expended substantial sums in respect of the construction or upgrading of Community Centres in Challengers, Conaree, Tabernacle, Cayon and Sandy Point as well the construction or upgrading of sporting complexes at Half Way Tree, the Gardens, Newtown, St. Peters and St. Pauls. We believe that the implementation for these projects are very relevant to the needs of our young people in that they facilitate community spiritedness and they provide an important avenue for the our young people to give expression to their immense talents and capabilities. In view of our relatively high per capita income and our graduation from access to the concessionary funding of many bilateral and multilateral donors, most of our Capital Projects have to be funded in whole or in part from our own resources. It is therefore necessary for us to carefully scrutinize projects to ensure that those selected for implementation are the projects that would bring the greatest economic and social returns and have the greatest impact on improving the quality of life of our people.

108. Madame Speaker, notwithstanding the substantial improvements in our fiscal position, we dare not relax or become complacent. We must push

on with the implementation of the fiscal stabilization programme so that we can set the stage for continued economic growth and for debt reduction. In this regard, we propose to expeditiously proceed with the implementation the market-based system of property taxes during the course of this year. We will also repeal the existing Income Tax Act and introduce a new Corporation Tax Act that will not only help to modernize the tax system but will address a number of the anomalies that currently exists in current tax legislation and which have been brought to the attention of the Government at the recent National Consultations and on previous occasions. We are also obtaining technical assistance from CARTAC in respect of the implementation of a comprehensive transaction-based tax. We already have a number of transaction-based taxes on our books. These include consumption tax, trader's tax and hotel accommodation tax. It is our aim to bring all such taxes under a single legislative and administrative structure that would have wider coverage than existing transaction-based tax legislation. We expect during the course of the year to announce a schedule of the implementation of a new comprehensive Transaction-based Tax system.

109. Madame Speaker, it is clear that we are making considerable progress towards the fiscal stabilization goals that we have set ourselves, but it is now necessary to move to the next stage of the process whereby we make a direct assault on the very high public debt which stood at \$2,064 million or 178.3% of GDP at the end of December 2005. Of this amount, 116.4% was attributable to the Federal Government. The balance was shared among the Nevis Island Administration and the public corporations.

110. In view of the size and magnitude of the Debt, a key element of our debt reduction strategy is the institutional strengthening of our Debt Management Unit to facilitate the comprehensive management of the public sector debt on a day to day basis. We have therefore requested the assistance of the Caribbean Development Bank in procuring consultants to support the debt management function and to make recommendations in respect of the future implementation of a comprehensive debt management system. In addition we must continue to contain expenditure in order to curtail any expansion in the debt. We are therefore working with ECEMP on a project that will improve budget procedures and make outcomes more consistent with strategic objectives. This will include the introduction of multi-year budgeting.

111. Madame Speaker, last year I indicated that the divestment or privatization of appropriate public sector assets and enterprises would play a critical role in debt reduction and would at the same time help to empower our people by giving them an opportunity to purchase real estate and to own equity in privatized enterprises. I would like to say that, with the assistance of the Caribbean Development Bank, we are making considerable progress with the commercialization and upgrading of the Electricity Service. We are now at the stage of short-listing consultants to carry the process forward. Moreover, the Privatization Unit is actively engaged in carrying out the necessary valuations and preparatory work with a view to accelerating the implementation of Government's plans for privatization and commercialization.

112. During 2007, the Government will also commence work in respect of the amalgamation and rationalization of all statutory enterprises engaged in land development activities. We will also implement a new Finance Administration Act that will not only strengthen the system of budgetary control but will also give the Ministry of Finance greater oversight over public corporations and statutory bodies. We believe that this initiative is critical to any strategy for debt reduction because the public sector enterprises are major contributors to the national debt.

113. Mr. Speaker the sale of Government lands is a potential source of significant revenues that would not only help in reducing debt but would also serve to advance the overall development process and improve the quality of life of our people. However, this is an area in which Government is proceeding with great care and caution. This land, which is fertile with the blood and sweat of our forefathers, was acquired for our people by our visionary National Hero, the Right Excellent Sir Robert Llewellyn Bradshaw amidst the great hue and cry of myopic naysayers. It belongs to our people. It must, therefore, be used to advance the welfare of our people, especially at this critical time when we have lost the sugar industry, and so many former sugar workers are in the process of looking for new sources of income for themselves. That is why in our Physical Development Plan, we have specifically allocated generous plots of land for a range of activities, including agriculture, village expansion and housing, for the benefit of our people. My Government also took the decision to sell some 1200 acres of land to assist in the retiring of the sugar industry debt and we are determined that, in allocating these lands priority will be given to our nationals at home and abroad, and to our young people acquiring property for the first time.



114. Madame Speaker, foreign investment has always played a critical role in the development of our Federation and we will continue to welcome foreign investors to our shores. We understand that if we are to reap the full benefits of their investment, it will sometimes be necessary to provide them with land. However, we have established clear policy guidelines in respect of the allocation of land to foreign enterprises, as follows:-

- The quantity of land allocated must be no more than is required to implement the particular project that the enterprise is interested in.
- The development impact and overall social and economic benefits to be derived from the use of the land must provide adequate justification for the allocation of the land to the particular enterprise.
- The enterprise will be required to pay the full market price of the land.
- No land speculation would be permitted. Hence, as a matter of policy, the contract for the sale of land will require that in the event the developer does not use the land for the purpose intended, Government would have the right to reacquire the land. In fact, this provision is included in the agreement with Kittitian Heights and it will be included in all major private sector developments requiring the use of Government lands.

- In the use of land, adequate access must be provided to our beaches and other natural or historical treasures. Moreover, Government will retain ownership of artefacts and other items of historical value or of relevance to our national heritage
- The use of all lands must be consistent with the National Physical Development Plan recently released by the Government after extensive consultations with the citizens of this country.

115. Madame Speaker, it is clear that we are well on the road to fiscal stabilization and that we are addressing the problems relating to our high national debt in a comprehensive and definitive way. But we are a responsible Government and we are extremely cognizant of our national heritage and of the cultural sensitivities of our people. We are not prepared to sell our birthright for a few pieces of silver. We are therefore determined to pursue our economic and fiscal objectives in a manner that is consistent with the way we define ourselves as a proud and dignified people.

### ***Fiscal Prospects***

116. Madame Speaker, Recurrent Revenue for fiscal year 2007 has been estimated at \$411,208,763. This represents a 13.12% increase over the 2006 revenue estimate of \$363,502,063. On the other hand Recurrent Expenditure for 2007 has been estimated at \$385,654,330 representing a 14.4% increase

over the comparative estimate of \$336,953,343 for 2006. We are therefore projecting a Recurrent Account Surplus of \$25,554,433 at the end of 2007.

117. Although this year's budget reflects the mammoth task which the Government has imposed on itself to transform the economy through empowerment of our people, we have still been able to put together a budget which takes account of the fiscal constraints that we face and demonstrates my government's commitment to fiscal responsibility and sustainability. In this budget we have carefully distributed our scarce resources to the priority areas which will lead to realization of our mission of transformation and empowerment.

118. In 2005 we saw recurrent revenue collections surpassing the estimates by \$17.2 million or 5.3%. This trend has continued to date in 2006 with recurrent revenue up to September surpassing expectations by 11%. Despite this trend in revenue collections, we have sought in the 2007 budget to restrain recurrent expenditure and to use the surplus recurrent revenue to fund vital capital investment projects.

119. The fiscal stance for 2007 and the planning process for 2008 will continue to reflect the Government's strategy of fiscal constraint. As a result recurrent account surpluses are projected for 2007 and 2008. These projections are highly realizable due to the expenditure reduction and revenue enhancing measures which we continue to pursue as a part of our stabilization programme. In this Budget we have sought to contain the growth in expenditure by holding personnel positions virtually constant except in cases where vital new programmes must be instituted in order to

pursue our transformation agenda. Moreover, we have not increased other line items except in cases where trends over the years have shown that the amounts budgeted have been inadequate.

120. On the revenue side, we have sought to solidify the excellent revenue performance over the last four years and have, as a result, maintained the projections for a surplus operating budget. Whilst we have continued to adhere to our policy of fiscal prudence, we have, at the same time, allocated adequate resources to projects that will promote economic growth and to programmes that will positively impact the lives of our young people, small businesses and the more vulnerable groups in our Communities.

121. Madame Speaker, I will now summarize the main changes which we propose to make to Government Expenditure for 2007 in comparison to expenditure allocations in 2006. The full details of the programmes and activities for each Ministry are contained in the Draft Estimates. I would therefore highlight those programmes and activities which show significant changes in the level of expenditure.

122. The allocation to the Ministry of Justice and Legal Affairs for 2007 has been increased by \$509,088 or 11.15% over the 2006 estimate. This is chiefly as a result of provisions being made for the office of the Ombudsman and for the creation of a new Court Reporting Unit within the Registrar's Office. As my government continues to take steps to restructure this Ministry to meet the demands of the public sector and for the delivery of services in our new economy, the establishment of the Court Reporting Unit

is vital in ensuring that we keep abreast of the reformation in court processes which is taking place in the OECS member States.

123. The office of the Ombudsman, which has been in the planning stage for some time, will ensure that all of our citizens are given an opportunity to have their grievances with the Government's services heard and resolved. It will ensure the protection and enforcement of the rights of citizens of St Kitts and Nevis. To this end, we will ensure that the Office maintains a high degree of independence and objectivity and is staffed by a respected and competent individual in our society.

124. Madame Speaker, the Law Revision Project is due to be completed in 2007. The main objective of this project is to harmonize our laws with the Constitution of St. Kitts and Nevis and to make the laws more accessible and user friendly by placing them on CD-ROM and on the internet. At the conclusion of this project, St Kitts and Nevis will be one of a very few Caribbean Territories boasting a modernized set of laws. This is in keeping with our national development thrust as it will provide both local and international investors with access to updated and reformed laws which would in turn enhance investor's confidence as they conduct business in our Federation.

125. Madame Speaker, the Office of the Prime Minister has been provided with additional resources amounting to \$1.1 million. This amount is chiefly for the provision of resources to the Human Resource Department for persons currently on study leave with pay. My Government is committed to the development of our Nation's human resources as we seek to transform

our economy. To this end we have been sourcing affordable training for Civil Servants and encouraging persons in general to pursue further training on their own initiative. In addition the Office of the Prime Minister was also provided with additional resources to facilitate the increased operating expenditure which we anticipate will come out of the electoral reform process and for the continued dissemination of information as we seek to provide the citizens of this country with up to date information on the activities of the Government.

126. Madame Speaker, The Human Resource Management Department has also established a new one-off bursary to assist four additional students who graduate from the CFB College. The areas which we intend to focus on are Teacher Education, Information Technology and Nursing.. This new system of financial support is intended as an additional incentive for students to excel in all fields at the CFB and demonstrates my Government's commitment to transform our economy through empowering our people, particularly our youths.

127. The Ministry of National Security, Immigration and Labour has been provided with an increased allocation of \$1,095,962 in comparison to its 2006 allocation. This increased amount will allow this Ministry to continue its work in promoting law and order and a safe environment for residents and visitors alike. The areas which will benefit most from these additional resources include personal emoluments, operating and maintenance services, the purchase of tools and instruments as well as training. These resources would also permit the training of our security forces in preparation for ICC Cricket World Cup 2007.

128. Madame Speaker, the increased allocation to National Security demonstrates the strong emphasis of my Government on the importance of Law and Order and the fight against Crime as fundamental pillars of the new economy. We recognize that all of our efforts at economic growth and the improvement in the quality of life for our citizens and residents would be in vain if people are not free to enjoy the benefits of the new economy because of a break down in law and order. It is for this reason that we have endeavoured despite the challenge of limited resources to provide this Ministry with additional resources to fulfil its mission. We expect that these resources will ensure that the Police maintain an effective mobile and quick response unit, that the Immigration Department will be reformed and upgraded, and that the National Crime Commission will be fully operationalized. We have also provided sufficient funds to upgrade certain critical allowances of the armed forces and to bring equity between all of the sectors. These allowances include the Responsibility Allowance, Displacement Allowance, Instructor's Allowance, Allowance for Officers of the Canine Unit and Detective Allowance. Madame Speaker we are aware that the Police is not the only group in Government where a study needs to be undertaken to ensure that there are no inequities. We will therefore undertake a comprehensive review of the compensation packages of the Civil Servants across the board to ensure that there are no imbalances in the system of rewards.

129. Madame Speaker, we will continue to make every effort to introduce preventative measures to ensure that our youths do not resort to criminal lifestyles. Therefore the Ministry of National Security will continue to work

with the Ministry of Education and youth and Social Development, Community and Gender Affairs and other relevant arms of Government. To this end the Youth-at-Risk project lead by the Ministry of Social Development, Community and Gender Affairs and financed by CDB with the objective of containing juvenile crimes through the rehabilitation of young offenders into productive citizens will continue. This project will also result in the establishment of a comprehensive Juvenile Justice System to manage more effectively young people who find themselves in conflict with law, the strengthening of the infrastructure to prevent youth crime as well as the crafting of an adequate response to children who become involved in criminal activities. This will also result in the construction of a specialized facility to bring about change in young people who are considered to be at risk. This will take place in an atmosphere of nurturing and caring under the expert guidance of trained professionals. We expect that these youths would eventually be reintegrated into the society as they would have learnt socially acceptable behaviour and values as well as income generating skills. We expect that the business community will continue to provide employment to those young persons who demonstrate a willingness to bring about the necessary changes in their behaviour.

130. The 2007 allocation for the Ministry of Foreign Affairs and International Trade and the Ministry of Industry, Commerce and Consumer affairs increased by \$553,551 or 3.6% over the 2006 estimate. One of the most important priorities for the Ministry of Industry, Commerce and Consumer Affairs in 2007 will be the start of the Investment Promotion Agency and the Enterprise Support and Development Unit. As I indicated earlier, this initiative will create a one-stop-shop for both domestic and



foreign investors. This is in furtherance of our aim to provide an enabling environment for the growth of businesses and enterprises in order to spur economic growth and development in our nation's economy. We realize that the public is increasingly demanding quick access to investment information, clear procedures and realistic time frames for processing and approval of their applications. In keeping with my Government's thrust to empower small businesses to be among the key players in the transformation of the economy, this Ministry has been mandated to provide the support necessary for entrepreneurial development from the point that an idea is born down to the development of a successful business.

131. Madame Speaker, the Ministry of Industry, Commerce and Consumer Affairs will also target certain areas which have been identified as critical to the overall development of our nation. These areas include the tourism, hospitality and leisure services sector which is the lead sector in the economy; the light manufacturing sector which continues to be a major plank in the economy as it employs and trains so many of our young people; agro-based industries which have been part of economy traditionally but will gain even more significance as we diversify into non-sugar agriculture and the emerging information technology sector.

132. The 2007 allocation under the Ministry of Finance, Sustainable Development, Information and Technology increased by \$31,234,043 or 17.64% over the comparative estimate for 2006. This increase is mainly attributed to debt service payments which have increased by \$26,064,480 or 20% from \$130,473,105 in the 2006 estimates to \$156,537,585 in the 2007

estimates. This amount represents both principal and interest repayments and includes some \$18.1 million for the servicing of the SSMC debt.

133. Madame Speaker, in order to contain these debt service numbers the Ministry of Finance has embarked on a programme of Debt Refinancing which is intended to reduce the debt service payments over the short to medium term. The first of these initiatives is the CDB policy based guarantee which has been provided to the Government as it works with Citibank to market a new bond to regional investors. We expect therefore that early in 2007 we will be able to see a reduction in the debt service payments as the proceeds of this bond issue is used to repay more expensive debt. As the fiscal consolidation programme with its emphasis on fiscal responsibility and sustainability continues, the stock of debt will be reduced substantially and our debt service obligations would fall correspondingly.

134. Madame Speaker, the Ministry of Finance has also been provided with additional resources to facilitate the participation of St Kitts and Nevis in the Regional Catastrophe Risk Insurance coverage being spearheaded by the World Bank with anticipated contribution from other development partners. The allocation for Retirement Benefits has also being increased in anticipation of persons who will reach the retirement age during the year and also to provide funding for the new contributory pension scheme which will be established in 2007. Moreover, during the first quarter of next year, the Government's pension will be expanded to include all Government employees including non-establishment workers. The Cabinet has already approved the report of the actuaries and a small committee has been established to prepare the revised rules, engage in consultations with the

employees, and fully activate the new scheme. It is also worthy of note that provisions will be made for public corporations and statutory bodies to contribute to the scheme so that all of their employees would also be appropriately included in the new scheme.

135. The Ministry of Social Development, Community and Gender Affairs received an additional \$379,623 in the 2007 estimates. These additional resources are being provided to allow the Ministry to continue its mandate to enhance the quality of life of the people of our nation paying particular attention to vulnerable groups. It is extremely critical that this Ministry be able to do follow up work with the former sugar workers to ensure that they and their dependants do not become marginalized because of lack of skills and resources which are necessary for integration into the new economy. We are therefore providing the additional resources that would be required by this Ministry to carry out its expanded mandate.

136. The Ministry of Housing, Agriculture and Fisheries received an increased allocation \$453,102 or 11% over the previous year. A significant portion of this increase has been allocated to the establishment of a Policy Planning Unit within the Ministry. The Unit will be responsible for the policy and planning function in the agriculture sector and the resulting monitoring and evaluation to ensure the success of the planning process. The role of this Unit will also include the planning of new programmes and projects including those dealing with the sugar lands consistent with the strategic objectives of the sector. The Agriculture Department will play a developmental role within the Government's new agenda for adjustment and transformation of the economy. The Department has been provided with the

necessary resources to provide a wider range of technical services, build capacity within the agricultural community and play a catalytic role in the development of agri-businesses.

137. Madame Speaker, Tourism is acknowledged as the leading sector of the economy and it is important that the sector continues to grow and be self-sustaining. Continued growth in this sector is necessary for the full transformation of the economy. The Ministry of Tourism has therefore been provided an increased allocation of \$202,025 in 2007. The Island Enhancement Fund is expected to continue to increase in 2007 to a projected \$5.8 million. All of these resources will go towards the operations of the Tourism Authority. The Authority is mandated to intensify its marketing efforts, in particular in the area of high-end tourism given the eminent construction of several high-end resorts in our country. In addition the Authority's support of airlift continues to be necessary in order to bring in the critical mass of tourists to our island to ensure the economic utilization of our growing tourism plant.

138. Madame Speaker, my Government is determined to ensure that our tourism product emerges as vibrant and competitive as a relatively new destination. We are therefore fortunate that we are at a stage when changes to the design and operation of certain systems can be entertained fairly easily. For this reason we have been engaging in intensive consultations on the Duty Free and Mercantile Regime with a view to introducing an improved system that would be pleasing to both foreign and local store owners. To this end Cabinet has approved a change in the duty free regime to become effective 1<sup>st</sup> January 2006. This will see the phasing out of the

Mercantile Tax system and the creation of two types of Duty Free Licences. The new system will consist of approved duty free zones, an expanded and improved list of goods and new license fees. There will be certain criteria established for the operation of these stores and a Committee will be created to monitor the regime. Details of the new system will be circulated to the relevant parties by the Ministry of Finance.

139. The Ministry of Public Works, Utilities and Posts received an increase of \$13,874,619 or 24.3% over last year. In view of the trend in fuel prices over the past years it has become necessary to provide additional funding to cover the increase in fuel costs for electricity generation. It is projected that the price of fuel will average about US\$60 per barrel in 2007.

140. The allocation for the Ministry of Education and Youth was increased by \$1,609,878 over the 2006 allocation. Consistent with the Ministry's mandate to develop the youth of our country and to improve technical and vocational education to provide the necessary skill sets being demanded in the new economy, the Ministry has been provided with additional funds particularly targeted at secondary and tertiary education. The Ministry of Education will introduce the Competency Based Education and Training (CBET) model in secondary schools, AVEC, Youth Skills and the CFB College. The Ministry will also introduce the new CXC Secondary Level Programme focused on core areas in collaboration with CXC. Additional funding is provided to implement these and other important initiatives being undertaken by the Ministry in support of the country's strategic goal to make

our human resource development more appropriate to our particular situation.

141. Madame Speaker our advanced comprehensive system of education which is now entering its 41<sup>st</sup> year continues to bear fruit as evidenced by the number of students who excel at the CXC Exams. The national pass rate for secondary schools in the CXC/CSEC at general and technical proficiency was 75% in 2006. In addition there has been a 9% increase in the number of secondary school candidates who wrote the CXC/CSEC general and technical proficiency examinations in June 2006. Indeed, the number of students entering these examinations was at a record level in 2006. Our education system has been carrying out the directive given to it by my Government, and reiterated in last year's Budget Address, to ensure that more students of varying abilities are given the opportunity to complete high school and we are very pleased by this. We want to ensure that even those students who are only capable of passing four or five subjects are provided every opportunity to complete their high school education consistent with their capabilities.

142. Madame Speaker, I am pleased to say that in 2007 we will begin to regularize the salaries of teachers, in particular the salaries of Graduate Teachers who have been indicating that they are being treated differently to other graduates in the Civil Service.

### ***Development Projects***

143. Madame Speaker, my Government continues to pursue an ambitious Public Sector Investment Programme that is intended to improve the quality of life of our people. To this end we have strategically selected a mix of capital projects aimed at promoting economic growth and development and to satisfy the growing demand for adequate infrastructure

144. In 2007 the Government intends to concentrate resources on the transformation process while at the same time completing vital capital projects which are ongoing. Accordingly a project for institutional strengthening for social and economic development will commence in 2007. This comes out of the realization that the transformation of the economy will pose a massive challenge when we consider the level of resources, both physical and human which would be required to carry out such a task. We will therefore require a great deal of institutional strengthening and building of capacity in the area of planning, coordination and implementation of the economic transformation. This project is expected to provide the resources necessary to establish the recommended organization structure for managing the transformation process. This organization structure includes A Cabinet Committee on Finance and the Economy; An Inter-Ministerial Technical Committee on National Transformation, the Coordination and Policy Unit within the Ministry of Finance Sustainable Development Information and Technology as well as the implementing agencies within the Central Government, Other Public Sector Agencies, the Private Sector and Civil Society.

145. Madam Speaker, the need for leadership of this economic transformation cannot be overemphasized. We will in effect be sailing in uncharted waters being the first ACP country to make the firm decision to exit sugar manufacturing as a result of the change in the sugar protocol. My Government wishes to clearly express its commitment to the change process and will be actively involved in guiding our beloved nation on the path to our new economy. We will be developing policies to guide the process and programmes to operationalize these policies. I am confident that with all of us working together we will successfully achieve the social and economic transformation that we envision is necessary for our survival after sugar.

146. In keeping with the Government's strategic objective to foster the creation of a knowledge society through the development of ICT, we plan to strengthen the planning capacity of the Technology Department through the development of the ICT Cooperation Centre and the ICT4EDC projects. It is estimated that these two projects will cost over \$10 million in total over a period of time. However for 2007 we expect to spend \$2.7 million of which the major portion would come from development aid.

147. Madam Speaker we must continue with our social development programmes if we are to sustain the gains that we have made in this area as reflected in our position in the United Nation's Human Development Index. In keeping with our commitment to invest in our people we have allocated \$6.9 million in 2007 towards the furtherance of a number of social and community projects. Of this amount \$3.2 million will come from



development aid. The projects which we will work on include the Child Development Projects which are being financed mainly with resources from the Caribbean Development Bank and the Republic of China, Taiwan, repairs to several schools, upgrade of alleys, the Shadwell Road Project and the purchase of equipment for community centers.

148. Madame Speaker, Cricket World Cup 2007 will be one of the highlights of our 2007 economic activities. In this regard the preparation of our country to host ICC World Cup matches in March 2007 is well underway and must be completed on time. We have therefore included the requisite amounts in the budget to facilitate the completion of the Cricket Stadium and the Overlay as well as Security Training in preparation for the event. We have secured development aid amounting to \$4.9 million to support this project in 2007. In addition because my Government sees sports as an important part of national development particularly as it helps to build young people who are well rounded and disciplined, we have therefore allocated an additional \$6 million to the development of other sporting facilities outside of Warner Park. In addition \$10 million in development aid will go towards the construction of an international track.

149. Madame Speaker, we will continue with the Electricity Improvement Project as well as to build and install a new generator and upgrade the powerhouse buildings in an effort to ensure that we continue to have a reliable electricity supply which is critical to our development. As economic development occurs the demand on the generating capacity of the Power Station will increase. Recognizing this we must continue to enhance and upgrade these services despite the high cost.

150. Madam Speaker, infrastructure development is critical to the development of our economy. Recognizing this, my Government has been aiming to ensure that our road network is adequately maintained and that new routes are added to prevent traffic congestions and other hazards which serve to interrupt economic activity. To this end work on the West Basseterre By-pass Road has commenced in 2006 and will continue in 2007. An amount of \$8.5 million has been budgeted for this project in 2007. In addition other road improvement works will continue in 2007 to ensure maintenance of the infrastructure.

151. Madame Speaker, We have been emphasizing the importance of our youth in nation building and this has been demonstrated by the resources which have been allocated to projects which will cater to the needs of our young people. The amount of resources allocated specifically to capital projects for education and youth activities in 2007 is \$12.9 million. This amount includes \$4.7 million in Development Aid. Of course these projects which specifically relate to youth do not include projects already outlined for other areas such as sports which will also benefit our youths. These funds will be used in projects such as the upgrade of the school meals kitchen, repairs to the Newton Ground Primary School, renovation of the Basseterre High School auditorium, the health sciences lab at the CFBC, the upgrade of AVEC, repairs to air condition units at the CFBC and towards the completion of the Basic Education Project and the Secondary Education Development Project which includes the Saddlers Secondary School.

152. Madam Speaker, an amount of \$6.8 million has been provided for the Ministry of National Security, Immigration and Labour to undertake capital projects in 2007. Of this \$1 million represents development aid. These projects are intended to upgrade the facilities which are provided to those who are charged with maintaining law and order in our country. We expect to purchase additional protective gear and operating equipment, CCTV surveillance and traffic management system, refurbish certain police stations and the Defence Force barracks, support the expansion of the Canine Unit and begin the design and construction of certain police stations. We expect to also support the fire and rescue services with vehicles and equipment which are necessary for their operational efficiency and safety.

153. Madam Speaker we continue to intensify our efforts at agricultural diversification as this has become strategically more significant given the closure of the sugar industry and given our goals for food security. This is why funding is provided for the Agricultural Diversification Project, the construction of the Old Road fisheries complex, intensive cattle production, expansion of the Basseterre abattoir and purchase of vehicle for the extension services. The amount provided is highly supplemented by development aid. Another important project which will be introduced in 2007 is the SSMC Asset Liquidation Project. The closure of the sugar industry has released a vast amount of resources which must be put to more productive use. This means that work must be undertaken to catalogue these assets, make valuations and prepare them for sale. Because these assets are scattered it will involve some time and effort to bring them to market. We must ensure that these assets are not misused in any way because they form part of our national heritage.

154. Madam speaker HIV/ AIDS continues to pose a serious threat to our populace. Therefore its prevention and control must be a high priority for the government and people of this nation. To this end the HIV/AIDS Prevention and Control project will continue to be executed in 2007. This project includes the reconstruction of the Pogson Hospital and the provision of a range of health and medical services including control and prevention of HIV/AIDS. We will also continue the HIV/AIDS and Control Project to complement our already extensive range of activities aimed at promoting healthy life styles. This project is estimated to cost \$14.9 Million in total. Our concentration on the promotion of healthy lifestyles is not limited to HIV/AIDS however. We will strengthen the capacity of the Health Promotion Unit so that it is better able to tackle the root causes of the chronic Non-communicable Diseases such as Diabetes, Hypertension, Heart Disease and Cancer.

### ***Fiscal Measures***

155. There is no doubt in my mind that this budget, with its great potential to empower our people and transform our economy, deserves the full financial and moral support of our people. It demonstrates that even in very challenging times, even after the loss of an industry that has been the bedrock of our economy for centuries, my Government is able to chart a course which will take us through a sea of challenges and obstacles, and bring us to an isle that is even more peaceful, stable and progressive. But the success of this budget requires the unswerving support of all of our citizens.

156. It requires that we continue to work hard and to grasp opportunities for advancement and wealth creation. It requires that we all take an active interest in the welfare of our young people and of vulnerable groups among us. It requires that we build enterprises that are competitive and that can hold their own in domestic, regional and global market. It requires that we make full use of the impressive and expansive array of social and economic infrastructure that my Government has put at our disposal to transform our economy and create a better quality of life for everybody in this beautiful Federation of ours.

157. Madame Speaker, it requires that we obey the laws of this Federation, carry out our civic duties, and pay our taxes. Indeed, I have faith in the willingness of our people to pay the taxes that they are required by Law to pay. The dramatic increases in our revenue over the years testify to this. **I AM THEREFORE PLEASED TO ANNOUNCE THAT FOR 2007 MY GOVERNMENT WILL IMPOSE NO NEW TAXES.**

158. I have outlined to you the tremendous progress that we have made in improving the administrative capability of our Revenue Departments. This process will continue and we believe it will generate the resources required during the course of next year to fund the ongoing operations of the Government and to make a significant contribution to the financing of the capital budget. Madame Speaker, as I indicated earlier, while there have been good performances in respect of nearly all Revenue Heads, the collection of property taxes requires some attention. We have moved to the market-based property tax system, and while we do not intend to increase

the rates of property tax, we expect that the new system will capture for Government a portion of the increased property values that our creative blend of investment has been generating in this country. In particular, we will focus on the impressive villas and high-end properties that we have been attracting to this country. We believe that we must do better at realizing the returns that we are due from the heavy investment that my Government has made in Tourism, in particular.

159. Madame Speaker, my Government is also committed to the introduction of Transaction Based Taxes. As I indicated earlier, the new system that we are considering will replace a range of taxes with a single broad based comprehensive and simplified Transaction-based Tax. It will also ensure that adequate protection is given to lower income groups through appropriate exemptions. During 2007 the Government will consult further with our citizens concerning the design and scheduling of the implementation of this proposed new system. I urge you to participate fully in the consultations.

160. Madame Speaker, the impact of rising energy prices on the cost of living has been a major source of concern. We are particularly concerned about the impact of increases in the cost of living on poor and vulnerable groups. Hence, during the course of this year, we will identify a number of food items in particular, that form a critical part of the diet of our low income families and we will remove duties and taxes from such items. In addition we will impose very strict price controls on those items so that our businesses would not be able to charge excessive margins in respect of such items. In other words, what I am proposing is a partnership between the

Government and the private sector to protect the poor. We will give up the relevant taxes and duties and we are asking them to give up a portion of their margins in respect of this limited set of goods deemed heavily influential on the cost of living in our Federation.

### ***Conclusion***

161. Madame Speaker, as we prepare to celebrate the 200<sup>th</sup> Anniversary of the abolition of the Transatlantic Slave Trade, I am particularly pleased to present a budget that seeks to move forward the process of building a new economy out of the ashes of the plantation-based sugar economy that was imposed upon our islands and peoples over 3 centuries ago. It is a budget that builds on the achievement of our forefathers and takes us further along the road of freedom and self-reliance by providing new avenues for our people to make a decent living outside of the sugar factory or the cane field. It is a budget that significantly advances the implementation of the comprehensive programme of development outlined in our Party's Manifesto of 2004.

162. In that Manifesto we promised to provide improved facilities for fishing in Old Road and we are well on the way to implementing a project for the construction of a modern fishing complex in Old Road. We promised to give you a reliable electricity supply and we have invested huge sums in upgrading the distribution and generating capacity of the Department. Even now we are in the process of adding new generating capacity and strengthening the management systems through a CDB project for the commercialization of the operations of the Department. I am sure that

everyone would agree with me that the electricity supply is far more reliable than when we issued the manifesto in 2004.

163. We promised to complete Phase III of the JNF General Hospital. Today, Phase III is not only completed but we are continuously enhancing the capacity of the Hospital to treat a variety of diseases and ailments through the use of state-of-the-art medical and diagnostic equipment. We promised more lands for housing and our newly released Physical Development Plan allocates generous plots of lands for housing. This will allow for the allocation of more lands to local developers and persons interested in building their own homes at Ogees, Buckleys, Olivees, Dewars, West Farm and Dale Mountain and for the acceleration of Government's very successful low income housing project in every village and town in St Kitts.

164. We promised security of tenure to Non-establishment Workers and they have been provided letters from the Human Resource Department (formerly known as the Establishment Division) guaranteeing them more secure employment. Moreover, starting in the first quarter of next year, all government workers would be entitled to receive appropriate retirement benefits and new rules will be introduced that will obliterate the distinction between established and Non-established Workers. We promised Electoral Reform and we have pursued it in a most transparent and consultative manner. Every citizen has been afforded the opportunity to share their views and to influence the reform process. We have promised the establishment of the Office of the Ombudsman and the 2007 Estimates now makes provision for the creation of that Office. Moreover our Legal Aid Clinic which is



critical to protection of the legal and constitutional rights of lower income persons is now fully operational.

165. Madame Speaker, I can go on and on, but I need not go any further. It is clear that we are a caring Government that keeps our promises. We treat as sacred the undertakings we give to our people in our Manifestoes that we present to them when we offer ourselves as candidates in General elections. We know there is still much to be done in respect of the mandate given us, but I am sure that our people are satisfied that although we are not even half way through our most recent 5-year term in office, we have made valiant progress in the midst of many challenges and difficulties. We can assure you that we will continue to press hard on the wheels of progress and carry out our mandate for growth, development and human advancement.

166. Madame Speaker, this budget has been crafted with young people at the forefront of our minds. The excellent growth we have achieved is associated with a dramatic expansion in the employment and entrepreneurial opportunities that would be available for all of our people but for our unemployed young people in particular. And there is even more to come. We have seen the great difference that the Marriott Hotel has made to our landscape. But Marriott will contribute even more through expansion of its facilities through the Marriott Vacation Club International to accommodate time share operations and the addition of a water theme park. In addition there is a wide range of important projects to be implemented shortly. Kittitian Heights, La Vallee Greens, Potato Bay, and Belmont Development are already in progress and we expect that during the year work will

commence in respect of a Ritz Carlton, the expansive Auberge Firesky project on the Southeast Peninsula, and Ocean Edge.

167. I implore our citizens, including our young people, to grasp every wealth creation opportunity that is generated through the implementation of these and other public and private sector projects designed for the economic transformation of our land. This budget makes provision for the usual community centres, sporting complexes, educational facilities and youth at risk projects that are specifically geared to the needs of young people as part of our Social Transformation Agenda. I am persuaded that we must ensure that the needs and aspirations of young people are taken into account in all aspects of our economic and social life. That is why we will ensure that young people get their fair share of the lands that are distributed or sold by Government. We will ensure that the new IPA specifically address the needs of young people and help to prepare them to take their place in the private sector as leading entrepreneurs. We will also ensure that they are given adequate access to the Empowerment Fund and to the resources of the Development Bank. Our motto must be “National transformation through youth empowerment”

168. Madame Speaker, the Nevis Island Administration will implement its own budget in a manner consistent with the constitutional rights that they enjoy and that are appropriately entrenched. However, the people of the island of St. Kitts and of the island of Nevis share the same aspirations for advancement and encounter the same difficulties and constraints. I, am therefore delighted that in our recent joint meeting of the Cabinets of Federal Government and the Nevis Island Administration we established a formal

framework for collaboration, consultation and cooperation in all aspects of the nation building process including fiscal planning, which has assumed great importance in the context of our high national debt. This Madame Speaker is an example of unity that should be emulated throughout our beloved Federation.

169. I contend Madame. Speaker that unity and cooperation must permeate all aspects of our society if we are to accelerate the process of development and continue to improve the quality of life of our people. We must pool our resources and talents to survive and prosper in the very competitive and sometimes hostile global environment in which we find ourselves. We have overcome great odds in the past and we can do it again. I close this address by sharing with you a quotation that I recently came across because I think it is so appropriate to our circumstances at this time. “This is a wonderful moment, an exciting moment, a truly challenging moment when you can join with your Government in creating a new future and not simply be a hitchhiker on the side of the road.”

170. Madame. Speaker, I so move.