



ST. CHRISTOPHER AND NEVIS

2011 BUDGET ADDRESS

*Presented to the National Assembly
On Tuesday, 14th December 2010 by*



*The Honourable Dr. Denzil L. Douglas
Minister of Finance, Sustainable Development and Human Resource Development
(With some of the members of the VAT Implementation Team)*

Budget Theme:

*St. Kitts and Nevis Building the Foundation for Accelerated Growth and Development
“Let us therefore demonstrate faith and confidence in our ability to successfully
navigate the turbulent global waters and arrive safely on the other side”*

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1. Mr. Speaker, I beg leave to move the second reading of the Bill shortly entitled the Appropriation (2011) Act, 2010.

INTRODUCTION

2. We meet to discuss this year's budget at a time when the global economic crisis, which has been battering countries all over the world since 2007, has undergone yet another mutation. Starting essentially as a housing crisis it quickly became a financial crisis as it devastated many subprime institutions in the United States and spread to hedge funds and financial institutions across the globe. This reduced credit availability, diminished asset values in capital markets worldwide, depressed global economic activity, threatened the existence of a number of iconic global enterprises, and pushed millions of workers out of work as the crisis took on a new label, the Great Recession, and assumed proportions comparable to the worst economic crises of the last century.

3. This year, the crisis has become a fiscal and debt crisis as many national and local Governments around the world have been encountering difficulties in honouring their debt and other obligations. Indeed, the International Monetary Fund (IMF) and the European Union (EU) have had to assist in bailing out countries such as Greece and Ireland, and the yields on the debt instruments of Spain and Portugal have been increasing as investors grow increasingly fearful of default on debt obligations by these Governments. The rate of exchange of the Euro has been gyrating unnervingly in recent weeks in response to the fear of investors that the debt problems of some of the EU countries could spread as a result of contagion and escalate beyond the capacity of the EU to contain and manage the debt of the Euro Zone.

4. Mr. Speaker, it is in this context that we welcome the recent statements of the IMF that the Government of St. Kitts and Nevis *"needs to be commended for their determination to implement key fiscal measures"* and that *"while some benefits have started to materialize, the full impact is expected in 2011."* Our economy has also felt the impact of the crisis, and during the first half of this year, revenues fell short of the budget estimates by 20%. However, our swift

and definitive action on the fiscal front has resulted in a significant decline in the revenue shortfall which is now expected to be reduced to 3% by the end of this year.

5. In addition, we have been very prudent in the management of Government expenditure and have ensured that the fiscal deficit did not balloon out of control. At the same time, we have also ensured that the limited resources available to us were allocated to areas with the greatest potential in respect of economic growth. It is not surprising therefore that after a decline in economic activity in the latter part of 2009 and in the earlier months of 2010, the IMF was able to report in November of this year that “*there are incipient signs of economic turnaround...*”

6. Of course, at this early stage of the economic turnaround, recovery is still fragile so that our major goal over the next fiscal year must be the quickening of the recovery process and the establishment of a proper platform from which our economy may be propelled to rates of growth that are sustainable in the long-term and that enhance the capacity of our economy to continuously deliver significant improvements in the quality of life of our people over time. We were therefore very careful to ensure that the introduction of the Value Added Tax (VAT) would not stifle growth. We granted exceptions and concessions in relation to a number of key sectors, such as construction, tourism and agriculture, which contribute significantly to economic growth. Hence, for the upcoming fiscal year we are confidently targeting a growth rate of at least 1.5%, which would represent a significant turnaround in our economy and would set the stage for the attainment of growth rates over the medium to long-term that will serve to double our per-capita income over the next decade.

7. While we fully appreciate that profit and income must reward effort and enterprise in a progressive economy, it is our aim that the increase in per capita income will not just be an indication of the rich getting richer, but will be indicative of the success of my Government’s strategy to lift more of our people above the poverty threshold and give them the opportunity to make a greater contribution to the national development effort, create wealth for themselves and their families, and meaningfully pursue their various goals and aspirations.

8. Mr. Speaker, the fiscal measures that we have introduced during the course of this year are not just intended to counteract the effects of the global economic crisis, but they are designed to set the stage for the enhancement of growth and development over the long-term. In particular, our tax reforms, including the recent introduction of the (VAT) and the Unincorporated Business Tax, will bring greater equity to our tax system by broadening the tax net and ensuring that more of our people share the tax burden. We expect that over time, these measures will enable us to make our corporation tax rates even more competitive relative to the rates applicable in countries that make up the CARICOM Single Market and Economy (CSME), and would therefore put St. Kitts and Nevis in an even better position to attract investment capital from regional and international sources and thereby create new opportunities in our Federation for employment, entrepreneurship and other wealth creation activities.

9. Moreover, these tax initiatives will combine with the other fiscal measures that were introduced this year or that are planned for next year, to strengthen the public finances, halt the accumulation of public debt, and generate more resources for the social safety net initiatives and for pursuing projects and programmes of critical importance to the long-term development of our Federation. The other fiscal measures that were implemented this year include the streamlining and rationalization of tax exemptions, a public sector wage and hiring freeze, the curtailment of travel and overtime expenses, the enforcement of existing regulations in relation to the age of retirement from the Public Service, and the restructuring and downsizing of the St. Christopher Air and Sea Ports Authority. We expect to see much of the effect of these measures as early as 2011. Indeed, we project that the Primary Balance will move from about 4% of GDP in 2010 to a surplus of at least 8% of GDP in 2011.

10. Mr. Speaker, one of the critical policy objectives of the Government at this time, is the steady reduction in the public debt over time. We intend to mount a major assault against the debt in this budget. We believe that the fiscal measures and other actions we are proposing in this budget will generate the surpluses required to substantially reduce the debt over time, especially after the growth rate picks up. Our economy has demonstrated great resilience in the face of the many challenges the global economic system has thrown at us, but we believe that the risks to the continuing progress of our people would be substantially reduced and our capacity to face

future challenges and problems of natural or man-made origins would be significantly enhanced, if we were to aggressively reduce the public debt over the medium-term.

11. In pursuing this objective, we have benefitted from the advice and assistance of our many regional and international partners including the EU, Caribbean Development Bank (CDB), the Eastern Caribbean Central Bank (ECCB), the Caribbean Regional Technical Assistance Centre (CARTAC), and the IMF. In fact, we invited the IMF to mount a mission to St. Kitts and Nevis during the budget preparation exercise and to give us the benefit of their very extensive technical expertise, especially in the context of the extremely challenging global economic climate that we face now, and we are grateful for their hard work and generous advice in relation to this year's budget. We are not under any IMF Programme at this time and all policy decisions presented in this budget reflect the deliberate judgment of the Government after taking into account the best technical advice available locally, regionally and internationally. In crafting the budget, we have also taken full account of the Eight-Point Stabilization and Growth Programme that was agreed to by the member states of the Eastern Caribbean Currency Union (ECCU).

12. We are pleased, however, that the IMF has expressed confidence in our home-grown package of fiscal initiatives and has indicated that it is unlikely that an IMF Programme would require any significant increase in the measures. Hence, while our budget proposals are fully funded based on our current projections, if during the upcoming fiscal year we encounter any substantial shortfalls in revenue or financing, we would be prepared to engage the IMF further in relation to accessing its financing facilities. As we are coming out of the recession, which was triggered by the global economic and financial crisis, we have now the unique opportunity to create the conditions for strong economic growth with the objective of creating prosperity and improving the living conditions of all. To accomplish this we have embarked on a comprehensive economic strategy that will lay the foundations for years to come. But we will need our international and development partners to assist us in this endeavor. In this context, we have had a very close and fruitful dialogue with the IMF and expect that the IMF will not only support our economic program, but be our ally and partner. Among others, the IMF as an important catalyst in mobilizing additional resources, could effectively provide us with an insurance policy, and lower our borrowing costs.

13. Such a precautionary arrangement may also be necessary as we seek to tackle the debt problem. This could be in the form of a virtual insurance policy in the event that there is any adverse impact on the Financial Sector as we pursue our Debt Reduction Strategy. This arrangement with the IMF, if it becomes necessary in 2011, would provide confidence to the Financial Sector that the country would be provided with the necessary resources should they be required. It should be borne in mind that we are members of the IMF and that we have access to the resources of this organization in a similar manner as members of a Credit Union. There are certain conditions which would apply and I know that we will be able to satisfy such conditions for we have done most of the work that is necessary to stabilize our economy. Resources from this institution are available at an interest rate of around 1.5%.

14. Mr. Speaker, even as we devote considerable effort to fiscal stabilization and debt restructuring, we are also determined to minimize the impact of the various measures on the cost of living. Hence, the VAT has been designed such that exceptions were made in relation to certain items that constitute an important part of the typical food basket of lower income families. We still expect a temporary increase in the rate of inflation, but we expect that this would be countered significantly by the current deflationary tendencies in some of the countries from which we import goods.

15. Moreover, we propose to focus heavily on containing food prices over the medium-term. We are concerned that as the global economy recovers and as more and more people in Asia and Africa are lifted above the poverty line, global food prices could increase dramatically. Hence, we intend to devote even more effort to local food production to blunt the impact of increases in global food prices and to attain greater food security for our people. We are also persuaded that as global food prices increase over the medium-term, our farmers will benefit from new opportunities to export farm produce to neighboring islands. We have therefore acted preemptively to establish a farm at Capisterre with resources from the Sugar Industry Diversification Foundation (SIDF) and we will work even more vigorously to empower our farmers through increased access to financing, market intelligence and technical assistance so that they may take full advantage of new opportunities that arise in relation to food production.

16. Mr. Speaker, even as we pursue long-term growth and development, we must also do everything possible to protect our environment so that growth would be sustainable and that future generations would derive as much pleasure and sustenance as we do from our most exquisite and aesthetically appealing islands and from their generous endowment of water, fresh air, marine resources, biodiversity and other natural resources and attributes. As a small island state that faces considerable risk from climate change, we must also strive to be a model of environmental sensitivity in the implementation of our development plans and programmes. In this regard, we intend to reduce our dependence on fossil fuels through the development and use of geothermal energy, wind energy and other alternative sources of energy, and to implement a comprehensive environmental protection programme aimed at giving our Federation an international reputation for responsible and sustainable development. This, we believe, will not only serve to secure the future of our islands but will also enhance the appeal of our tourism product by facilitating 'green' branding.

17. Ultimately, the ability of our Federation to grow and prosper over time depends on our capacity to compete in international and regional markets by offering high quality goods and services at competitive prices and thereby earn the foreign exchange that we require to facilitate improvements in the standard of living of our people. This in turn depends on the productivity of our work force, the employment of appropriate technologies by our enterprises, the efficiency of Government services that support and facilitate private enterprise, and the level of taxes that our enterprises must pay. We must therefore reform the Public Sector to ensure that its services are efficient and cost effective. We must come together as a nation to fight crime even more vigorously with a view to protecting our people, ensuring that our Tourist Industry remains competitive and enhancing the appeal and attractiveness of our Federation to residents and visitors. We must ensure that groups in our society, including our young people, our women, our low income families and our physically challenged, are provided the tools they require to make significant contributions to national output.

18. In addition, we must train our people in the use of relevant technologies and foster a culture of productivity among our people. My Government's programme to provide laptop computers to school children will go a long way in ensuring that our schools produce graduates

who are adequately prepared to play a meaningful role in the workplace. Moreover, we expect that the National Competitiveness Council, established by my Government late last year, will play a leading role in generating ideas and proposals for the enhancing of national competitiveness. The first report of this council contains many innovative proposals which the Government will adopt, and which will over time make their way into the various Government policy documents including the budget and the Medium-Term Strategy Paper.

19. Mr. Speaker, our aim is to build now so that we could protect the impressive achievements of our people over many years, and put our economy on course to the creation of an abundance of new opportunities for our people to create wealth and income for themselves and their families and procure even the loftiest of their aspirations and ambitions. Hence, in the upcoming year, we intend to strengthen the mechanisms that promote fiscal stability, put in motion a variety of initiatives to reduce debt at a faster pace, and lay a solid foundation for enhanced growth and development.

20. Mr. Speaker, if we are to achieve our goals, our Federation must stand tall and compete effectively in overseas markets. To do this, we must have a clear understanding of the workings of other economies of relevance to our development. I will therefore highlight some of the recent developments in the international and regional economy.

THE EXTERNAL ENVIRONMENT

International Economic Development

21. Mr. Speaker, the recovery of the global economy remains laden with uncertainty as the effects of the economic and financial crisis have been more protracted than anticipated. In order to stem the impact, central banks across the globe have intervened with large cuts to interest rates and through significant expansion in the money supply along with the provision of guarantees and capital to the Banking Sector. As a result, world economic output contracted by 0.6% in 2009 instead of the 1.1% that had been projected by the IMF in October 2009. Furthermore, it is anticipated that in 2010 the world economy would continue to rebound and a positive rate of growth of approximately 4.8% would be achieved.

22. However, the IMF has reported that downside risks remain elevated as most advanced and a few emerging economies still face large adjustments. The recovery in these economies remains sluggish and high unemployment poses major social challenges. By contrast, many emerging and developing economies are seeing strong growth, because they did not indulge in major financial excesses just prior to the “Great Recession”. The IMF has indicated that in order to facilitate a sustained, healthy recovery two rebalancing acts are required. Firstly, an internal rebalancing with a strengthening of private demand in advanced economies allowing for fiscal consolidation. Secondly, an external rebalancing with an increase in net exports in deficit countries, such as the United States, and a decrease in net exports in surplus countries, notably emerging economies in Asia.

23. In the advanced economies as a group, output is expected to expand by 2.7% in 2010 after contracting by 3.2% in 2009, while the newly industrialized Asian economies, including Korea, Taiwan, Hong Kong, and Singapore, which experienced a contraction in economic activity of 0.9% in 2009 are expected to grow by 7.8% in 2010 as private demand strengthens and global financial market conditions stabilize.

24. In 2011, the newly industrialized Asian economies are projected to expand by 4.5% while the Euro area growth is forecasted to expand by 1.5%. In the United Kingdom it is estimated that economic output will increase from 1.7% in 2010 to 2.0% in 2011 while the United States will experience a slight slowdown in growth from 2.7% in 2010 to 2.2% in 2011. Despite these incipient signs of recovery consumer confidence remains low and reduced household incomes continue to restrain consumption in the advanced economies. Higher rates of unemployment remain a possibility if improved business investment does not translate into job creation. With the continued uncertainty in respect of growth and employment in the advanced economies, the growth prospects in developing economies like St. Kitts and Nevis remain constrained as a result of the negative impact of poor economic performances in advanced countries on some of our key economic variables including remittances, tourism receipts and Foreign Direct Investment. However, we are confidently laying the fiscal foundation to ensure that our economy is well placed to take advantage of any pick up in global economic activity in 2011 and beyond.

25. Mr. Speaker, the protracted effects of the global economic and financial crisis have been a challenge not only to St. Kitts and Nevis, but to the entire region. Hence, I turn to the Regional Economic Developments.

Regional Economic Developments

26. Mr. Speaker, the Caribbean region experienced a deepening of the effects of the global economic and financial crisis resulting in drastic declines in vital sectors which had contributed to growth in past years. In addition, the threat of new penalties on offshore financial centers by the G20 and the OECD pose serious concerns as these occurrences could further constrain the flow of foreign investment. These factors remain a threat to our economic and social development emphasizing the need for a regional approach towards safeguarding the gains that have been achieved, as well as our future prospects.

27. The OECS member countries recorded a contraction of approximately 7.3% in 2009 in contrast to an expansion of 1.9% in 2008. This decline was due to the deceleration in tourist arrivals, Foreign Direct Investment flows and weak external demand for manufactured goods. The ECCB Real Sector Analysis for January to June 2010 indicated that economic output remained suppressed contracting by 2.8% during the period. However, this indicates a notable recovery in the growth rate when compared to the decline of 6.2% recorded during the comparative period of 2009.

28. Mr. Speaker, economic output in the first half of 2010 contracted in most ECCU member states at rates ranging from -1.6% in Saint Vincent and the Grenadines to -9.7% in Antigua and Barbuda. In St. Kitts and Nevis, the contraction was at a rate of 0.3%, a substantial rebound in economic output when compared to the decline of 7.3% recorded during the comparative period in 2009. The Commonwealth of Dominica, Grenada and Saint Lucia were the only member countries that experienced an increase in output during the period, recording rates of growth of 1.8%, 1.7% and 0.7% respectively. The economies in the larger Caribbean Community member states also faced severe challenges in 2009 as the global economic and financial crisis intensified. Economic growth in this group declined from 0.9% in 2008 to a contraction of 2.2% in 2009. The rate of contraction in Barbados worsened to reach 5.3% in 2009. The downturn was due to a slump in the Tourist Industry which had effects on other sectors including

manufacturing, construction and non-sugar agriculture. In Trinidad and Tobago, output contracted by 3.0% in contrast to a positive growth of 2.3% in 2008. This is attributable to declines in the non-energy sector, specifically the manufacturing sub-sector. The economy in Jamaica declined by 2.7% following a contraction of 0.9% in 2008 as a result of weak external and domestic demand which impacted upon the mining and quarrying, manufacturing, transport, storage, communication and construction sectors.

29. The collective response through our various regional organs, particularly the ECCB, has been vital in buttressing our economies during this challenging period. In keeping with the decision of the Monetary Council of the ECCB to complete the implementation of the Single Regulatory Units (SRUs), this Government passed the Financial Services Regulatory Commission Bill in 2009 and established the Financial Services Regulatory Commission in October 2010. Moreover, work is ongoing in respect of the harmonization of our financial, macroeconomic and social response to the economic and financial crisis as outlined in the ECCU Eight Point Stabilization and Growth Programme. We expect that these measures will help to enhance macroeconomic and financial stability in the ECCU and will propel the region towards the attainment of the social, economic and financial goals that the Monetary Council has established for the ECCU.

30. In traversing these difficult times, the OECS Authority has also played an important role by the strengthening of mechanisms that will help to mitigate the impediments of small size and populations, and encourage the exploration of opportunities using a coordinated and unified approach. To this end, the OECS member countries deepened their commitment through the signing of the Revised Treaty of Basseterre on June 18, 2010 establishing the OECS Economic Union. The ratification of the Revised Treaty by January 21, 2011 will bring the OECS Commission and the OECS Assembly into operation. These institutions will formalize and expand the mechanisms for consultation, collaboration and coordination of regional policies among member states and will help to strengthen and expand the platform from which the member states of the OECS would pursue their objectives in respect of enhanced growth and development.

31. Mr. Speaker, I now turn to the Domestic Economy.

THE DOMESTIC ECONOMY

Output, Prices and Balance of Payments

32. Mr. Speaker, 2009 proved to be a very difficult year for St. Kitts and Nevis as the effects of the global economic and financial crisis intensified resulting in substantial downturns in our major economic sectors namely, tourism, construction and related Foreign Direct Investment, as well as manufacturing. Specifically, output in our Federation contracted by 4.5% in 2009. This negative rate of growth is out of sync with the economic the positive growth rate of 5.7% reported in 2008 and the economic expansion that we experienced year after year over the five previous years, but it is consistent with the trends reported regionally and internationally in respect of economic activity during a period that has been dubbed by economists throughout the western world as the “Great Recession.”

33. Mr. Speaker, these growth statistics are based on the National Accounts, which were rebased with the assistance and collaboration of the ECCB, to improve the accuracy, reliability and relevance of Gross Domestic Product Estimates. In our view, the National Accounts constitute an important element of the overall macroeconomic framework as it provides critical information to guide policy formulation and analysis of the performance of the various sectors that contribute to economic output. Hence, the production of more accurate National Accounts, through the rebasing exercise, will improve economic decision-making in the Federation and enhance the effectiveness of Government’s continuing efforts to make a greater quantity of high quality information available to the public, and thereby enhance transparency and accountability.

34. Mr. Speaker, the Construction Sector which has played a vital role in the overall performance of the economy, averaging approximately 12.0% of Gross Domestic Product over the past five years, declined by 15.7% in 2009. This was largely due to the downturn in private long-term financial inflows as credit from the Financial Sector in the advanced economies remained constrained and work slowed on some of the major projects that were under construction. The value-added in the Tourism Sector also contracted by 28.3% as tourist receipts

declined due to the uncertainty in the global economy and increasing unemployment rates in our primary source markets such as the United States.

35. Mr. Speaker, my Government has had to call on our experience in leadership and economic management to confront the challenges arising from the global recession and to prevent our economy from falling into crisis. Hence, even as we pursued fiscal initiatives to mitigate the risks associated with our relatively high debt and falling revenues, we also worked hard to stimulate growth and to sustain the momentum of the transformation process that we initiated when we assumed office in 1995, and accelerated in 2005 when the Sugar Industry collapsed under the weight of globalization and trade liberalization. In this regard, we saw the distribution, sale and development of lands as a viable and effective option for enhancing our economic output. In 2009, to further foster personal empowerment and the entrepreneurial spirit, this Government approved the reduction of the price of land sold to Nationals under the Special Land Distribution Initiative from \$4.95 per square foot to \$2.95 per square foot for the first 4,000 square feet of land purchased. This new approach has clearly worked as there has been a marked improvement in home and property ownership in the Federation as evidenced by the ECCB's Commercial Banking Statistics Report which indicated that financing for home construction and renovations has increased by 10.5% from \$268.1 million in 2008 to \$296.1 million in 2009.

36. Moreover, in 2009 this Government, with the assistance of the National Housing Corporation, constructed a total of 204 new homes under the NEMA Resettlement Project following the passage of Hurricane Omar, the Ex-SSMC New Home Construction Project and the NHC Housing Solution 500 Programme and has provided assistance for the expansion of 79 homes under such projects as the Ex-SSMC Home Improvement and the NEMA Starter Home Improvement Projects. This outcome is quite impressive given the challenging real estate market situation in the United States and other parts of the world.

37. Mr. Speaker, although we give very high priority to economic growth and employment, we are not prepared to pursue growth at any cost. Our aim is to achieve sustainable growth that would bring benefits to us, to our children and to generations yet unborn. In this regard, my Government has established a clear multi-sectoral path to development in which clean energy is

a key component. We remain cognizant of the need to foster the exploration and development of alternative energy sources in order to reduce our dependence on fossil fuels and our vulnerability to fluctuating oil prices. We are, therefore, very pleased that the Geothermal Energy Project on Nevis has reached an important milestone. The Environmental Impact Assessment and the design of the production wells have been completed. Work has commenced on the design of the physical plant. Indeed, we have been advised that the drill, along with other relevant equipment, is expected to arrive in the Federation in time for the drilling of the wells to commence in January 2011.

38. We have also made great strides in Wind Energy Development since our last budget session earlier this year. After conducting 'step loading' exercises to determine the best method of integrating the power generated by the Maddens Windwatt Farm into the NEVLEC grid, wind energy production officially commenced in June 2010 on the island of Nevis. As of August this year, NEVLEC had reported that over 500,000 kilowatt hours of electricity had been received from the wind farm and it is projected that 10,000,000 kilowatt hours will be received per year going forward. I am also happy to report that a contract for the production of wind energy in the island of St. Kitts by North Star (St. Kitts) Ltd was officially signed on October 26, 2010. Moreover, we have been assured that the wind farm will be established in 2011 and production of wind energy will commence shortly thereafter.

39. The importance of the development of green energy sources cannot be disputed in this uncertain global environment. However, while we explore renewable energy options, we continue to invest in our current electricity generating plant to ensure that our people are provided with a reliable source of energy at an affordable cost in the meantime. During the latter half of this year we procured 4 new Holeby generators at a cost of US\$22 million. Two generator sets were received in August and were commissioned in October of this year. The remaining 2 generators arrived in October and are expected to be commissioned by February 2011. The MAN engineers have been on island to assist with the commissioning of the generators and additional expertise has been provided to train the relevant staff at the power plant, install the electrical components, diesel modules and centrifuges. Therefore, we anticipate that by the end of this year the efficiency of the Energy Sector will be significantly improved, and the capacity

of the Electricity Department to meet our growing demand for energy will be significantly enhanced.

40. As part of our strategy for securing fiscal stability in face of the Great Recession that adversely affected revenue collections, my Government, after careful consultation with all stakeholders and numerous public awareness and education campaigns, implemented the VAT on November 1, 2010. In so doing, St. Kitts and Nevis joined several other countries in the Caribbean that have accepted the recommendation of the ECCU Tax Commission and utilized this tax regime as an essential component in improving the efficiency of the tax system and bolstering the Government's fiscal account in keeping with the ECCU Eight Point Stabilization and Growth Programme.

41. However, in designing the VAT, we exercised great care in ensuring that this new tax regime would not undermine our efforts to stimulate growth. In this regard, this Government has endeavored to protect our major economic sectors and enhance growth by the approval of transitional exemptions from the VAT. In particular, exemptions have been provided on contractor's fees for Long Term Construction Contracts that are in progress; on the inputs imported by projects that were previously granted exemptions from consumption tax; and on selected construction inputs namely blocks, cement and ready-mix cement for all construction projects until April 30, 2012. At the same time, the VAT on accommodation, guest services, tours and restaurant services will be at the rate of 10% instead of the standard VAT rate of 17%. Moreover, the tour operators and destination management companies are excluded from paying VAT until October 31, 2013. Producers in the Agriculture Sector have also received exemptions on a number of agricultural inputs such as seeds, seedlings, fertilizers and herbicides which will enable the continued expansion and diversification of the sector.

42. Mr. Speaker, this Government has continued to give priority to ensuring that food items remain affordable to all of our citizens particularly the poor and most vulnerable. The Consumer Price Index on a period basis has indicated that the rate of inflation has been relatively low in recent years, decreasing from 5.4% in 2008 to 1.9% in 2009. The suppression of inflationary effects can be attributed to the continued success of the interventions implemented and the

monitoring system established by this Government. The monitoring systems will be enhanced with a view to ensuring that VAT is fairly implemented and that consumers are protected from attempts at illegal practices in relation to the imposition and collection of VAT.

43. In addition, the new VAT system provides safeguards to preserve the purchasing power of all our citizens by exempting and zero rating certain basic food and non-food items such as milk, infant formula, rice, infant and adult diapers, sugar and medications for chronic diseases. In addition, we have removed the import duty on 20 of the 27 items in the basket of goods introduced in 2008 and reduced the duty on the remaining 7 items, ranging from 5% to 20%. Hence, while we expect some increase in prices as a result of the VAT, we believe that deflationary tendencies in the global economy will help to minimize any price increases, and that the design of the VAT would ensure that our lower income families are provided protection. We will monitor the impact of VAT on vulnerable groups and offer assistance through appropriate social safety net programmes.

44. Mr. Speaker, I will now proceed to summarize the Balance of Payments Account which records all receipts and payments between our Federation and the rest of the world. In 2009, the Current Account deficit decreased by 3.6% to \$461.48 million or 25.4% of GDP at market prices. This improvement in the deficit position was due mainly to the decline in the net importation of goods and services by 6.2% to \$445.44 million or 24.5% of GDP. The downturn in net goods and services can be attributed to a decline in outflows for merchandise for construction given the contraction in activity on private and public projects, and the fall off in tourism receipts as a result of the global recession. In addition, the Services Account surplus decreased by 21.6% to \$86.76 million, or 4.8% of GDP, as a result of a contraction of 23.7% in tourist receipts.

45. The Capital and Financial Account recorded a marginal decline in the surplus of 0.5% to reach \$498.70 million or 27.4% of GDP in 2009. Foreign Direct Investment declined by 41.5% to reach \$281.03 million or 15.4% of GDP over the same period due to the prolonged downturn in the global economy. Notwithstanding the slight fall off, the surplus on the Capital and Financial Account was enough to offset the deficit in the Current Account. Consequently, the

overall Balance of Payments position yielded a substantial overall surplus of \$70.16 million. This outturn is a remarkable achievement having occurred in a period when the economy has suffered numerous setbacks as a result of the Great Recession.

46. Mr. Speaker, in essence, the Domestic economy has been adversely affected by the Great Recession, but the timely intervention of my Government has helped to contain the impact of unfavourable global developments and establish a foundation for accelerated future growth and development. Indeed, the report by the IMF in November of this year that there are incipient signs of recovery testifies to the success of the pre-emptive measures by Government. It is clear, therefore, that our people choose well when in January of this year they overwhelmingly decided to leave the ship of state under the leadership of experienced hands.

The Tourism Sector

47. Mr. Speaker, although we are now seeing encouraging signs of market recovery, the Tourism Industry in the Caribbean region is still suffering from the negative effects of the global recession. The resulting fall off in real incomes and consumer spending, higher cost of airfares, and reduced travel demand in key source markets, has caused a significant downturn in visitor expenditure in tourism dependent countries such as ours, with resulting negative impacts on revenues for both the private and public sectors.

48. Therefore, it was with good foresight and anticipation that my Government launched a most timely economic stimulus programme in January 2009 which lowered food and beverage procurement costs for the local Hotel and Restaurant Sector. Preliminary indications have revealed that this visionary stimulus programme has made the critical difference between the closure of local tourism establishments and remaining viable over the past 12 to 18 months. Despite some of the lowest hotel occupancy rates in recent times, I am pleased to report that none of the hotels or restaurants in St. Kitts has closed down operations as a result of the effects of the global recession. In this regard, my Government will remain vigilant and continue to monitor the operations of the hotels and restaurants, and other key enterprises, as we continue to

provide support to those small and medium sized businesses in the productive sectors that are serious about improving their service standards and global competitiveness.

49. Mr. Speaker, notwithstanding the recent market difficulties, our Tourism Industry has maintained its role as a major driver of our economy, generating foreign exchange through visitor expenditure, and creating employment directly and indirectly for over a third of the residents here. We have been fortunate to have continued growth in cruise arrivals averaging 20% year on year over the past three years. Tourism-related real estate and related investment has survived the worst of the downturn in the market without shutting down, as has been the case in several of our neighbouring countries. The sustained growth of the Education-Tourism Sector, with over 2,000 international students now resident on St. Kitts and Nevis, has also been an important life line boosting local consumption over the past year as it has been estimated that these students and the institutions they attend contribute approximately US\$50 million to our economy annually. It has been projected that both the Cruise Sector and the Education-Tourism Sector will continue to expand in 2011, with a slow but steady recovery in the stay over tourism sub-sector. Therefore, the prospects for recovery and growth in the Tourism Sector continue to be encouraging.

50. Our Tourism Development Strategy is based on the leveraging of the genuine warmth of our people, the richness of our heritage, and the uniqueness of our natural and historical assets in ways that excite potential visitors. The primary target of our marketing efforts is focused towards the more discerning visitor who will fully appreciate the uniqueness of our people, culture and environment. It has been determined that attracting a more high end visitor will increase the per capita spend outturn by our visitors and provide the necessary economic boost as opposed to increasing the number of arrivals only. Results from exit surveys at Port Zante in 2009, and the R.L.B International Airport in July this year, have shown that we are achieving impressive results with our efforts to increase the number of higher spending visitors.

51. Mr. Speaker, we have continued to take a pro-active approach to building and supporting international airlift infrastructure so that our visitors and nationals alike can move more easily between our source markets and our destination. To date, the results have been positive and have

spilled over into our cruise markets as the availability of direct international airline services to major international airport hubs has helped to build confidence among our cruise sector partners that they can relocate their passengers or crew in an emergency or when necessary.

52. Mr. Speaker, to address the shift in consumer behavior as a result of the economic downturn over the past year and the competitive nature of the industry, the St. Kitts Tourism Authority (SKTA) and its industry partners have been working assiduously to maintain the viability of our destination. To this end, efforts have been dedicated towards the utilization of new technology in an effective e-marketing strategy. Consequently, a well documented e-marketing strategy has been prepared with the help of a global tourism market research company and a redesigned website was launched recently. In addition, the Authority has successfully completed the establishment of a standards programme with a focus on excellence in service. One of the highlights of this programme as it continues to unfold is the improvement of the local Transportation Sector. In this regard, a significant amount of training has been provided to taxi and tour operators with respect to the new standards and I am pleased to report that to date over 225 taxi drivers have been certified under this new approach.

53. In 2011, the tourism related marketing efforts will be geared towards strengthening our ability to be globally competitive on all fronts. To be successful, our small nation must continue to join hands internally and with our international partners to achieve more with less. As a country and destination we must continue to punch above our weight in a challenging market place which requires that we perform at our best. Every dollar spent must be carefully targeted, and every decision made must be in tandem with our strategy to enhance competitiveness. On the home front, we must continue to build our service standards to international levels without losing the authenticity of our island style culture and the quality of our natural environment. I assure all citizens that my Government will continue to do all we can to attract the right mix of visitors to our beautiful islands and to ensure that their local island experience is of excellent value.

Agriculture

54. Mr. Speaker, the issue of food security remains a priority for this Government as the slowdown in most of the world's economies threatens the ability of individuals to gain access to one of their basic needs. In 2009, it was determined that there were one billion hungry people in the world. This unprecedented threshold was reached in large part as a result of the world economic crisis, soaring food prices and declining aid and investment in agriculture. This Government has had the foresight to give priority to the Agriculture Sector in our Development Agenda, as clearly outlined in the National Adaptation Strategy and the Agriculture Development Strategy. We continue to invest in the re-orientation and expansion of the sector as a means of ensuring the sustainable production and supply of fruits and vegetables to the citizens and residents of this country.

55. Mr. Speaker, local farmers are being empowered through the provision of land and other essential inputs. Currently 1,800 acres of land are under crop cultivation generating approximately \$8 million per year. It is interesting to note that there is an estimated 200 full-time farmers working on farms extending from 1 acre to 30 acres in size. This Government has also provided training opportunities in the areas of pest control, post-harvest technology, pesticide awareness, sweet potato production, control of the sweet potato weevil, control of obsolete pesticides inventory, and environmental risk assessment. This training is critical to the sustainability of crop cultivation in an increasingly technologically advanced business environment.

56. The impetus towards the development of commercialized farming has also continued with the establishment of the Government owned Vegetable and Tree-Crop Farm at Capisterre. This initiative was undertaken with the assistance of the Mission of the Republic of China on Taiwan (ROC) and resources from the SIDF with the objective of boosting domestic production, reducing the price of vegetables, and supplying overseas markets where feasible. This 115 acre farm is located in St. Paul's, south of the Kittitian Hill development site and provides employment for 13 former SSMC workers. It is the vision of this Government that Capisterre

Farm would serve as a pilot for creating a strong synergistic relationship between the Agricultural Sector and the Tourism Industry.

57. Mr. Speaker, collaboration with our regional and international development partners has been critical to the progress made in the Agriculture Sector. During the period under review, the Government of Venezuela has been one of the largest contributors through the provision of a US\$2.0 million grant through the ALBA Alimentos Project. This Project was designed in response to soaring food prices. The resources provided under this Project facilitate the purchase of inputs such as, seeds, fertilizers, medicines and agricultural and fishing equipment at significantly reduced prices. Valuable assistance has also been received from the Inter-American Institute for Co-operation and Agriculture (IICA) and the Mission of the Republic of China on Taiwan (ROC) in the completion of a well needed Water Catchment System located at Ogee's Ghaut in St. Peters at a cost of US\$27,769. A total of eight farmers cultivating approximately twelve acres will be the beneficiaries of this new system.

58. My Government has undertaken a multifaceted approach to agricultural development inclusive of a comprehensive strategy to enhance livestock production. However, this sub-sector is facing a number of challenges which have resulted in an overall decline in production by 8.4% in 2009. Factors such as the high cost of commercial animal feed and poor husbandry practices among farmers affected the outturn. However, from 2009 onwards emphasis has been placed on genetic engineering in order to enhance livestock production. To date, we have been able to successfully cross breed approximately 2,000 animals and it is anticipated that this new stock will enhance the market weight of small ruminants from roughly 11 pounds to 27 pounds.

59. Mr. Speaker, the fishing sub-sector remains a vital component of the overall strategy towards enhancing food security and income generation. During 2009, fish landings contracted by 23.7% as a result of adverse weather conditions which reduced fishing time. In order to further advance the fisheries sub-sector my Government will continue to provide modern facilities and technical assistance to our fishermen. For instance, through the assistance of the Japanese International Cooperative Agency (JICA), we are proceeding smoothly with plans to construct a fisheries complex at Gallows Bay, Charlestown, Nevis. Designs are currently being

drafted and preliminary work in regards to the development of the Community Fisheries Complex is being undertaken. The Fisheries Department in Nevis, along with the experts, has conducted various tests and the results of these tests will be submitted to the Japanese Government for approval. We therefore expect that the final agreement with JICA will be signed by February of next year and that construction will begin in November of that year. This new infrastructural investment will combine with similar facilities in St. Kitts to facilitate the transformation of the Fishing Industry from primarily artisan fishing to a commercial based industry.

Industrial and Enterprise Development

60. Mr. Speaker, the Manufacturing Sector has continued to be impacted negatively by the global downturn as a result of declines in exports particularly from the Light Manufacturing Sector to the United States as consumer demand fell off. This reduction did not adversely affect employment in the sector as some plants were able to increase their workforce due to the diversification in products and export markets. On average, the sector directly employs over 1,000 persons of which over 95% are women. It adds value to numerous support services such as shipping, freight services and financial services.

61. This sector is vital to the socio-economic development of St. Kitts and Nevis. In 2009 the sector contributed over \$63 million to the economy notwithstanding a decline of 17.0% when compared to 2008 (\$76.8 million). This Government will continue to provide the necessary support which will enable the Manufacturing Sector to expand into other viable markets in Europe and Latin America. Currently, negotiations are ongoing to enable accession to the Guyana/Brazil Partial Scope Agreement which will allow local manufacturers to expand exports to the Brazilian market when negotiations are completed in 2011. The expansion of market opportunities presented by the CARIFORUM-EC Economic Partnership Agreement (EPA) will also be exploited to ensure that the benefits of this Trade Agreement are realized throughout this and other relevant sectors.

62. Mr. Speaker, an important aspect to the expansion of the Manufacturing Sector is the prospects for increasing the Professional Services Sector which provides a new frontier for trade. There are tremendous opportunities for the export of professional services throughout the CSME and beyond. This market has been estimated at over US\$3.0 trillion and St. Kitts and Nevis is considered to have potential in the areas of education, medical and wellness, legal, management, consulting, Information and Communication Technology (ICT), cultural and, construction and construction-related services. The National Coalition of Service Industries (NCSI) will be the main vehicle through which technical and other assistance will be made available to service providers in the Federation.

Information Technology and Telecommunications

63. Mr. Speaker, I am pleased to announce that the one laptop per child programme is now on its way and that some 1,000 fifth formers will receive their notebooks as the first phase of the project. Eight years ago this Government recognized the importance of providing access to computers to all our students and embarked upon an ambitious programme that ensured that every school in this Federation had access to computers. This was a revolutionary decision, but it is through this Government's vision that our children and others in our communities will be able to participate in the digital age which requires equal access to technology not only for recreational purposes but to foster learning and creativity in order to remain competitive with those in the developed world.

64. The use of the most recent technology in the daily operations of the Public Service remains a priority for this Government. The Department of Technology has been vigorously undertaking efforts to improve the telecommunications infrastructure by which the Government interacts within its Ministries and Departments, as well as with the populace here and abroad. To this end, the Department has sought to improve the Public Sector phone system through the development of an IP base system that will allow calls to be made more efficiently and in a cost effective manner. This new system is expected to be rolled out in 2011 and it has been estimated that it would allow for a 50% reduction in the operational cost which equals to a reduction of

roughly \$1.0 million in the Government's communication costs.

65. Mr. Speaker, we continue to advance our goal towards the utilization of technology to increase productivity within our various public institutions. In collaboration with the Republic of China on Taiwan (ROC) we introduced the Hospital Management System. A Human Resource Management System has also been introduced to improve the capacity of that Department to manage employee records. In addition, a new Traffic Management System is slated to be delivered to aid the Traffic Department in addressing the issues that have arisen from the steady increase in the number of vehicles on the road and to provide more timely service to all road users.

66. The Department of Technology continues to partner with the Ministry of Sustainable Development in the implementation of the Information and Communication Technology for Education, Diversification and Competitiveness (ICT4EDC) Project. This initiative has provided several training opportunities to persons in both the public and private sector to enhance their capacity to utilize ICT in the execution of their daily duties and to provide a competitive advantage in their area of expertise. One such workshop was the training of 10 Public Sector employees, inclusive of three police officers, in the area of computer forensics. This course provided the necessary investigative techniques to discover and retrieve evidence of computer crimes and present potential evidence for prosecution. I am happy to report that each participant passed the first certification level. This Project has also provided technical and financial assistance in support of the Tax Reform and Modernization Programme through the development of a website for the Tax Reform Unit and the production of brochures as part of the public awareness campaign undertaken to educate our citizens about the VAT. In addition, training in the use of the QuickBooks software was provided for 31 officers from the Inland Revenue and Customs and Excise Departments.

67. I turn now to the Financial Sector.

The Financial Sector

Commercial Banks

68. Mr. Speaker, the Commercial Banking Sector continues to play a very important role in the development of our economy and has shown remarkable resilience despite the global economic downturn. As of December 2009, the assets held by the commercial banks totaled \$4.6 billion, representing a 14.8% increase over the \$3.9 billion recorded at the end of 2008. During the year under review, deposits as well as loans and advances also grew. Deposits increased by 20.8% to \$2.9 billion, while loans and advances grew by 5.4% to \$2.3 billion. The increase in loans and advances is consistent with the increased lending to the Agriculture, Construction and Personal Sectors.

Development Bank

69. Mr. Speaker, the Development Bank continues to play an important role in the advancement of our people in the Federation. During 2009, the Bank approved 801 loans with a total value of \$25.2 million. Some \$10.6 million was allocated to general and business lending, \$8.4 million to higher education, and \$5.5 million to Housing and Mortgage Financing. We intend that during the upcoming year the Development Bank will be even more proactive in raising financing and carrying out its development mandate. In this connection the Bank has secured a new line of Credit from the European Investment Bank (EIB) in the amount of US\$8 million. Of this amount US\$1.0 million will be allocated to the Renewable Energy Sector while US\$7.0 will be allocated to the Productive Sector in support of Small and Medium Sized Enterprises as part of the EIB's priority focus on Private Sector development. We believe that this facility will go a long way in promoting growth, employment, economic diversification and competitiveness as we build the foundation for accelerated growth.

Financial Services

70. Mr. Speaker, the Financial Services Regulatory Commission, which was established as a statutory body, was made fully operational on 1st October, 2010. This institution is responsible for supervising all credit unions, the international financial sector, money remittance businesses, the insurance sector and the Development Bank of St Kitts and Nevis. This year, the St. Kitts Branch of the Commission has conducted onsite inspections of 3 insurance companies, 2 money remittance businesses, 1 trust company and 1 law firm. Another 4 inspections are expected to be carried out before the end of the year.

71. In addition to the regulatory reforms that are being undertaken at the Financial Services Regulatory Commission, there are also reforms being undertaken which pertain to the Company Registry. The initiative which is being undertaken by the International Finance Corporation and the Government of St. Kitts and Nevis seeks to simplify business entry by creating a single access point for entrepreneurs which entails establishing proper linkages between agencies. Therefore the processes required for incorporating a company, obtaining a business license, applying for a tax number and applying for a social security registration number will be integrated into a single step, thereby reducing the number of required approvals and eradicating the need to interface with more than one organization.

Developments in ECCU Money and Capital Markets

72. Mr. Speaker, during 2009 there was a marginal decline in activity in the region's debt and equities markets which can be attributed to the prolonged effects of the global crisis and its impact on investor confidence. There are currently thirteen listed companies on the Eastern Caribbean Securities Exchange (ECSE), eleven of which are domestic to the ECCU and five of which reside in our Federation. Domestic equity market capitalization was valued at EC\$1.7 billion in September 2010, a slight decline from the EC\$1.8 billion which was recorded one year earlier. There was a significant improvement in trading in the regional equity market during the first nine months of the year, as securities traded during the period increased by 64% to reach a

value of EC\$15.6 million. This high level of liquidity in equity trading suggests there is increased efficiency of our regional markets and gradual restoration of investor confidence.

73. The ECSE Share Index, which stood at 139.9 in September 2008 increased by 4.6% to 146.4 in September 2009, reflecting a positive return for investors. The Regional Government Securities Market (RGSM) saw a small decline in issuances during the period. Regional member governments raised a total of \$476.3 million in the primary debt market in the first nine months of 2010, this included a Treasury Bill issued by the Nevis Island Administration and facilitated by a guarantee by the Federal Government.

St. Kitts Investment Promotion Agency (SKIPA)

74. Mr. Speaker, the St. Kitts Investment Promotion Agency (SKIPA) continues to be proactive in ensuring that investment opportunities for both local and foreign investors are effectively marketed, by providing the necessary facilitation to encourage investment and providing aftercare service to promote sustainability. In order to increase awareness of its services, the Agency embarked on a two-fold vigorous campaign to create awareness to the general public and to stimulate investment, by hosting its first Investment Summit and Expo from June 29th to 30th, 2010.

75. Mr. Speaker, SKIPA also has an advocacy programme to assist in improving the investment climate. Our small hotels have and continue to benefit from the Small Incentives Package formulated under this programme which provides concessions for refurbishment, energy saving equipment and the importation of food and certain beverages. Restaurants have also benefited from a similar package which provides concessions on furniture and, food and wine while contractors have received incentives under the Retooling Initiative Policy.

Cross-cutting Issues

Social Development

76. Mr. Speaker, my Government remains committed to improving our social development initiatives amidst the challenges emanating from the global economic recession. The constraints on financing posed by the economic slowdown reinforces the urgency for a re-examination of social and economic policies and programmes to facilitate further progress towards the reduction of poverty thereby enhancing the quality of life of all our citizens. Relentless efforts will continue towards strategically creating and improving initiatives in the areas of community development, family wellness, gender mainstreaming, the promotion of children's rights and the overall enhancement of the standard of living.

77. Our Federation has made significant investment in the development of social protection initiatives in an effort to assist the poor and vulnerable. Although the components of an appropriate safety net system exist, it has become necessary to strengthen and rationalize these programmes to ensure that they address priority vulnerabilities and risks in a more efficient and effective manner. To this end, the Ministry of Community Development, Culture and Gender Affairs has undertaken preparatory work to develop an integrated and comprehensive National Social Safety Net Strategy based on recommendations outlined in the 2009 Social Safety Net Assessment Report. It is envisioned that this strategy would achieve the establishment of a clear eligibility criteria, a Central Beneficiary Registry, a monitoring and evaluation tool and the consolidation of existing social programmes to improve the overall delivery of social services.

78. Mr. Speaker, in an effort to further improve our social protection strategies this Government, along with other CARICOM states, have engaged in the sharing of best practices from our neighbours in the Caribbean and Latin America. One programme which gained much success is the Chile Puente Program which has assisted in the reduction of poverty in that country. This programme empowers families in extreme poverty through psychosocial support, subsidies and assistance in areas for improving the quality of life namely; health, education, housing, employment, family dynamics, civil registry and income generation. We look forward

to the pilot study of the implementation of the “Chile Puente Programme in the Caribbean” in St. Kitts and Nevis in 2011. I would like to express our gratitude to the Organization of American States and the Chilean Government for their collaborative efforts with the Ministry of Community Development, Culture and Gender Affairs in facilitating the exchange in expertise as it relates to this important initiative.

79. The Ministry of Community Development, Culture and Gender Affairs remains focused on the rehabilitation of juveniles and young adults. The Ministry continues to actively monitor the construction of the Co-ed Juvenile Facility, a component under the Child Development Project, which will help in addressing the need for proper rehabilitative programmes and effective assimilation of youth offenders into society. To date, a total of 51 teachers have completed training in the application of participatory methodologies to identify behavioral changes in children in school. Initiatives such as the training of Social Workers and Juvenile Court Officers as well as the development of a toolkit for early detection of behavioral changes and learning difficulties to be utilized by schools are ongoing.

80. Mr. Speaker, much has been said about our achievements in the reduction of poverty in the Federation as documented within the 2007/2008 Country Poverty Assessment. Despite the great strides that have been made there is no room for complacency and work must continue. In light of this, with assistance from the Caribbean Development Bank (CDB), we have contracted Kairi Consultants of Trinidad and Tobago to undertake the development of our National Poverty Reduction Strategy to provide a cohesive approach to our poverty reduction programmes. Work commenced in October 2010 and will continue into the first quarter of 2011.

Law and Order

81. Mr. Speaker, law and order remains a top priority for this Government as we remain steadfast in our efforts to eradicate those destabilizing forces which undermine the tenets of law and order in this country. We will remain diligent in undertaking tactical initiatives to ensure that the stability and sustainability of our economy is buttressed by the rule of law and is fortified

against criminal acts that would undermine the gains that have been achieved, particularly in this difficult time, thus making our readiness for recovery even more difficult.

82. Mr. Speaker, my Government continues to lend its support to initiatives spearheaded by the Regional Security System (RSS) and the recently established CARICOM Implementation Agency for Crime and Security. Both agencies are working in collaboration with international agencies to undertake a regional study to assess the challenging issues surrounding the proliferation of gangs. These regional initiatives are complementary to activities that will be undertaken as part of the United States-Caribbean Security Basin Initiative (CSBI) which includes in the Plan of Action and Framework a balanced and integrated approach to effective law enforcement with youth crime prevention and the provision of viable options for rehabilitation and reintegration for young people who leave gangs. The CSBI will also enable this Government to continue its efforts to improve the capabilities of our Coast Guard with assistance in the upgrade of our maritime assets. I encourage our officers and the general public to remain vigilant in their communities and on our seas in order to enable a holistic approach to eliminate criminal activity wherever it occurs.

83. While the Government makes substantial allocation for capacity building through training in the annual Budget, we are not oblivious to the fact that simultaneously, the curriculum used in the institution has to be revamped as it must keep pace with the changing developments and skills in the field of criminology. Under an expanded programme of action involving new avenues of cooperation, the commitment of assistance to the Safety and Security Sector will materialize under the 10th European Development Fund (EDF) that will enhance the capacity of this sector in the execution of its mandate to create the enabling environment for investment, in social, political and overall economic growth and governance. Focus will be on institutional strengthening, policy formulation as well as establishment of a multi-purpose centre of excellence as we raise the level of expertise and professionalism in the Security Forces.

84. The need for thorough investigative skills and improved crime detection and conviction rates has lead the Government to introduce a Homicide Unit within the Police Force. This Unit,

along with other Units within the Security Forces, will benefit from the assistance of the Organisation of the American States (OAS) to boost our data collection capabilities. This will facilitate the analysis of crime trends in order to provide strategic approaches in informing multi-sectoral responses toward addressing issues relating to crime and violence. In addition, we have expanded the use of Closed Circuit Television (CCTV), which has already been deployed in several strategic areas within the Federation, to further fortify our crime detection efforts.

85. Mr. Speaker, my Government will strive to make more effective use of the available technology to secure our borders and to reduce the incidences of fraud especially in relation to travel documents. In this regard, we will continue to utilize technological development to secure the integrity of our passport. The new machine readable passport has been upgraded and St. Kitts and Nevis will be among the first in the region to issue the biometric passport. The biometric passport is the most secure document based on the standards of the International Civil Aviation Organization (ICAO), to ensure that the incidences of fraud and identity theft are eliminated.

86. We constantly remind the members of the Security Forces that their mandate and motto, as defenders of law and order, the territorial integrity and sovereignty of this land, demand that they take a firm stand against lawlessness and lend support to each other in confronting the enemies of peace and justice. Together, they must unite for the common good. They must fortify themselves for the challenges ahead as they persist in ensuring the rule of law in this our fair land.

87. Early in the new year the top Management of the Police Force will be reviewed and in whatever area the capacity is deemed to be weak, it shall be strengthened with internal and (or) external human resource assistance.

88. My Government and indeed, the leaders of the Member States of the region, are determined to ascertain the root causes of the antisocial behaviours demonstrated by a selected group from among the male population, that continue to be a major concern to the responsible people in our communities, our Nation, our region and indeed the international community on a whole. Furthermore, we are acutely concerned over the prevalent use of illegal firearms, being

cognizant of the debilitating effects that this can have on the efforts of the Security Forces to impact reduction of violent crime. We have seen from the statistics, an overall reduction in homicides and violent crimes in the Federation which for the most part are gang related.

89. I use this occasion to commend the Security Forces and those responsible citizens who continue to collaborate in ensuring that the perpetrators of crime are brought to justice and to give support to crime detection and prevention initiatives. I reiterate my Government's strong condemnation of those criminal elements that target our Tourism Industry and the perpetration of lawless acts by those who have no regard for the rights of others. My Government will continue to support the efforts of our Security Forces. I reiterate the call to you, the Security Forces, to redouble your efforts and be consistent in the operationalization of your Strategic Crime Reduction Plan that targets, among others, this type of criminal activity. Citizens, residents and visitors to our shores must and will be safe.

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

PUBLIC FINANCE

Fiscal Review

91. Mr. Speaker, during 2009 the global economic recession proved to be very potent and adversely affected the revenue-earning potential of all of the major sectors of our economy. It led to a contraction in our Federation's economic activity and threatened our efforts at fiscal sustainability. We therefore had to be extremely prudent in the management of our cash resources so as to ensure that the Government remained in a position to serve the people of our beloved country and to carry out the services that we have been mandated to provide. Our efforts were not in vain as we realized, for the third consecutive year, a surplus on the Recurrent Account. An Overall Balance Surplus was also recorded for the second year in a row and a Primary Surplus for the fifth consecutive year.

92. These outcomes were attributable in part to the outturn of Recurrent Revenue which amounted to \$449.9 million in 2009; \$17.2 million more than collections in 2008. This was, however, slightly below our estimate by 0.8%.

93. Taxes on International Trade and Transactions were the largest contributor to Recurrent Revenue accounting for \$138.9 million or 31% of total Recurrent Revenue. This source of revenue was severely affected by the global recession as evidenced by an overall decline in imports. It was therefore no surprise that this group of taxes was less than the previous year and the budget by 12.8% and 19.5% respectively. Taxes on Income also contributed a significant 30% to Recurrent Revenue, exceeding the amount collected in 2008 by 12.2% and our estimate by 6.0%. Growth was also recorded in Non-Tax Revenue which surpassed the previous year's receipts by \$20.0m or 20.9%.

94. With respect to Recurrent Expenditure, Mr. Speaker, a total of \$440.1 million was expended in 2009. For the avoidance of doubt, this does not include principal payments on our

outstanding debt. Mr. Speaker, as we were cognizant of the likely downturn in revenues, all line Ministries were requested to prioritize and curtail their spending. Our efforts yielded expenditure that was 1.5% below our budget, however, this was 2.8% more than Recurrent Expenditure in 2008. Interest Payments amounted to \$107.6 million; \$3.7 million less than the previous year and \$16.6 million or 13.3% below the budget. When compared to 2008, we were able to reduce expenditure on Goods and Services by \$6.2 million and Transfers by \$2.1 million. Personal Emoluments, Wages and Allowances, which accounted for 40% of Recurrent Revenue, amounted to \$180.8 million; 6.9% above the budgeted amount.

95. Mr. Speaker, given that Recurrent Revenue exceeded Recurrent Expenditure, a Recurrent Account Surplus of \$9.8 million was realized. This was an improvement of \$5.4 million over the surplus that was recorded in 2008 and \$3.3 million or 51.2% more than the estimate.

96. Capital Revenue and Grants for 2009 totalled \$84.9 million. 66% of this amount was in the form of Budgetary Grants, most of which came from the Government of Venezuela and the European Union. The funds received from the European Union represented part of the budgetary support that related to 2007. We were anticipating that the remaining portion for 2007 would have also been released in 2009 but our application for the funds is still under review. We anxiously await the conclusion of the various assessments of the conditions that are tied to the release of the funds which are intended to supplement the Government's budget in the years immediately following the closure of the sugar industry.

97. Mr. Speaker, Government's investment in capital projects is one way of stimulating growth in the economy. In 2009 Capital Expenditure amounted to \$67.1 million, 0.6% less than the previous year. Given that resources are limited, our Public Sector Investment Programme is carefully managed to ensure that the projects that are undertaken are crucial to the development of our Federation and would have a significant bearing on the economy. It is for this reason that our focus in 2009 was primarily on Economic Infrastructure. In fact, 50% of Capital Expenditure was spent in this area. In particular, \$11.4 million was incurred to procure a 3.9 megawatt generator and \$9.2 million was spent to maintain generation capacity at the Electricity Department following the fire at the Power Station in 2008. Other significant outlays included

\$10.9 million for the West Basseterre By-Pass Road, \$4.9 million for Institutional Strengthening for Social and Economic Development, \$3.0 million for the Secondary Education Project and \$2.2 million for the Child Development Project.

98. The Overall Balance Surplus for 2009 was \$20.0 million or 1.4% of GDP. This fell below our expectations by 47.2% but compared well to 2008 when a surplus of \$11.6 million or 0.8% of GDP was recorded. Similarly, the Primary Balance Surplus for 2009 was \$127.6 million or 9.0% of GDP. This too was less than our estimates by 21.2% but exceeded the surplus that was realized in 2008 by 3.8%.

99. Mr. Speaker, our ability to achieve a Primary Surplus during a global recession is a great achievement. Nonetheless, despite our best efforts at sound fiscal management in these turbulent times, the Primary Balance, an indication of the resources available to Government to meet its debt service obligations, was a bit short of our total debt service payments. Consequently, the debt of the Central Government increased by 2.2% to 118.8% of GDP as funds were borrowed to finance capital projects.

100. Consistent with our predictions, Total Public Sector Debt also grew by \$90.5 million or 3.5% to stand at \$2.6 billion at the end of 2009. This was comprised of \$0.8 billion in external debt and \$1.8 billion in domestic debt. The debt to GDP ratio was 186.2% of GDP, an increase of 20 percentage points. The ratio was influenced not only by an expansion in the debt stock but also a contraction in economic growth. The growth in the debt stock was attributable to increases in the debt of the Nevis Island Administration, \$42.2 million, the Central Government, \$35.9 million and Public Corporations, \$12.5 million.

101. Mr. Speaker, in my 2010 Budget Address I informed the Nation of our intention to create a unit within the Ministry of Finance that will perform the functions of a Front and Middle Debt office including the active management of the Government's debt. I am pleased to announce that this unit has recently been created and the staff is being trained by consultants whose work is being funded by the European Union. The staff of the unit are also benefitting from the various training programmes that are organized by the Debt Management Advisory Service Unit which

is funded by the Canadian International Development Agency (CIDA) and located at the Eastern Caribbean Central Bank. I take this opportunity to express my sincere appreciation to all of our partners who are lending their support to the Government, whether it be financial or technical, as we strive to improve our fiscal situation.

102. Mr. Speaker, I wish to update this Honourable House on the progress with respect to the implementation of the Value Added Tax Vat (VAT). To date, 688 businesses have been registered of which 505 are registered in St. Kitts and 183 in Nevis. The VAT Team has been dealing with the various teething issues that will arise whenever a new system is introduced. To cope with the volume of work involved, the Unit has been divided into teams to deal with issues such as registration, complaints, compliance and public relations. The Revenue Sharing Arrangement was finalized at a distribution rate of 76% for St Kitts and 24% for Nevis. We have been operating a very transparent and efficient system of depositing revenues in one account and then transferring the revenue based on the agreed formula to the Consolidated Fund of the Federal Government, the Consolidated Fund of the Nevis Island Administration and the Refunds Account.

Fiscal Prospects

103. Mr. Speaker, the effects of the global economic downturn is expected to persist in 2011. Therefore our revenue intake is expected to be negatively impacted in a manner similar to that experienced this year. This required us to significantly curtail Recurrent and Capital Expenditure for the 2011 Budget. Although some reductions have been made in some programmes, my Government has been careful to ensure that critical Ministries such as National Security, Health and Education were adequately resourced so that there would be no decrease in the level or quality of service. Recurrent Revenue for 2011 has been estimated at \$432,920,711 representing a slight decrease of \$18,342 below the 2010 estimate of \$432,939,053. On the other hand, Recurrent Expenditure for 2011 (excluding loan principal payments) has been estimated at \$401,319,304 a decrease of \$28,711,538 or 6.7% below the 2010 estimate of \$430,030,842. The

Current Account Balance projected for 2011 is \$31,601,407 while the Primary Balance anticipated is \$138,433,119 or 9.0% of GDP.

104. Mr. Speaker, the Ministry of National Security, Immigration and Labour has been provided with \$50,367,032 for 2011. Of this amount, \$40,972,999 has been allocated to Recurrent Expenditure and \$9,394,033 for Capital Expenditure. This amount represents an increase of 7.2% over the 2010 allocation and represents the largest increase given to any one Ministry.

105. This Ministry has an extremely serious role to play in helping to secure the economic gains we have made in transforming our economy into a service economy led by tourism. The present situation with respect to crime has the potential to erode the high standard of living we have grown accustomed to. Recent incidents have helped us to understand the impact that one single incident could have on our very livelihoods. It also showed us how quickly criminals can be apprehended and taken off the streets when the public cooperates with the police by providing information.

106. Mr. Speaker, the escalation in crime has required the Ministry of National Security to tweak existing strategies and formulate new ones. More and more it is being recognized that crime fighting requires a multifaceted approach involving domestic, regional and international stakeholders. In the upcoming year the Ministry of National Security intends to use a myriad of strategies to step up its fight against crime. They include the application of technology to crime detection; Development of increased interoperability of security agencies with the implementation of the Closed User Group initiative that makes provision for improved intersectoral collaboration; Implementation of the Revised Strategic Plan by the Law Enforcement Agency outlining robust crime reduction and detection strategies, increased patrols and intelligence gathering; Improved information technology applications in law enforcement in the processing of crime scenes and as a part of the investigative technique and improved networking and information sharing. We will also undertake infrastructural development and modernization with focus on the construction and refurbishment of police stations in St. Kitts and Nevis and identifying the financing for a new correctional facility.

107. Mr. Speaker, the Ministry of Justice and Legal Affairs has been provided with \$9,103,171 comprising \$8,250,362 for Recurrent Expenditure and \$852,809 for Capital Expenditure. The allocation for this Ministry represents an increase of 1.6% over the 2010 Budget allocation. I am happy to report that the Revised Laws of St. Christopher and Nevis were launched in March of this year. The Law Revision Project is ongoing and would involve the publication of the Supplementary Laws for the years 2003 - 2011 as well as revised Ordinances for Nevis. The Ministry of Justice and Legal Affairs presides over the legislative agenda of the State and in the coming year there would be continued focus on creating the legislative framework to support the ongoing transformation of the economy into a service economy.

108. In the area of Criminal Justice, the Ministry will continue to provide leadership in the fight against crime by increasing capacity in the justice system. Moreover, the Legal Profession Act was passed and the Evidence Bill is under review. During 2011, the Ministry will also continue the initiatives to modernize our Court Reporting System through the installation of state of the art digital Court Recording electronic devices. In addition, the Eastern Caribbean Supreme Court is assisting in reviewing the operations of the High Court Registry with a view to promoting greater efficiency through upgrading work flow and restructuring.

109. Mr. Speaker, the Office of the Prime Minister has been allocated \$12,919,442 for 2011 to carry out its various programmes and activities. Of this amount, \$11,853,442 is budgeted for Recurrent Expenditure and \$1,066,000 for Capital Expenditure. During 2011, the Human Resource Management Department will continue its efforts to develop the human resources of the Civil Service by stepping up its training programs for Public Servants. The main objective is to improve the efficiency and responsiveness of the Public Service. In addition, the Human Resource Management Department will be using the information from a job evaluation exercise to develop standardized job descriptions for the personnel in all Ministries. Technical assistance would be sought to develop and implement a Performance Management System.

110. Mr. Speaker, St. Kitts and Nevis is fast becoming what I will call an investment hot spot as more and more persons continue to show keen interest in investing here. As a result, the St. Kitts Investment Promotion Agency (SKIPA) continues to be approached with applications and

inquiries from potential investors. SKIPA has to date surpassed its targets for 2010 having responded to one hundred and eighty-eight (188) investment enquiries and facilitating the establishment of thirteen (13) new businesses with five (5) of these being investment projects of at least US\$1.0 million. SKIPA is in its third year of operations and continues to surpass expectations in 2010.

111. Mr. Speaker, the Ministry of International Trade, Industry, Commerce and Consumer Affairs have been allocated \$3,230,787 for 2011. During 2011, the Ministry will continue to play a pivotal role in implementing the Caribbean Single Market and Economy (CSME) and the CARIFORUM-EC Economic Partnership Agreement (EPA). The National Bureau of Standards, a division of this Ministry, plays a vital role in our trade support infrastructure by providing laboratory testing and standards certification services to our exporters to enable them to participate in international trade.

112. In addition, the National Entrepreneurship Development Division (NEDD) continues to ensure that the entrepreneurial spirit of our people is developed and unleashed. In this regard technical assistance will continue to be provided to existing and aspiring entrepreneurs to enable them to achieve their dreams and contribute to the economic development of our Federation. The services of NEDD are already being well utilized, evidenced by the fact that for 2010 over 150 applications have been processed.

113. Mr. Speaker, the Ministry of Finance has been allocated \$147,661,923 to carry out its various programmes and activities in 2011. This represents a decrease of 14.2% below the 2010 allocation and is attributed to a decrease in the amount required for debt service interest payments. In addition, no provision has been made for the Financial Services Regulatory Department in the 2011 Budget as the Department has now been converted to a Statutory Body called the Financial Services Regulatory Commission.

114. The Ministry of Finance continues to be in the forefront of the Government's holistic approach to the management of the economy which includes strong fiscal adjustment, debt management strategies aimed at placing the debt on a downward trajectory and enhancing the

regulatory framework for the Financial Sector. This strategy is intended to create an environment conducive to increased domestic and foreign investment in the economy. During 2011 the Ministry will implement several initiatives including the passing of the Financial Administration Regulations and the continued strengthening of our Debt Management and Public Finance Management capacity.

115. Mr. Speaker, the Ministry of Social and Community Development, Culture and Gender Affairs has been allocated \$11,455,644 comprising \$6,464,467 for Recurrent Expenditure and \$4,991,177 for Capital Expenditure. Included in this amount is a 4.4% increase in the Recurrent Expenditure allocation available to run the day to day programs in the Ministry.

Poverty reduction will continue to form a core component of this Ministry's activities as it provides immediate relief and improves living conditions of the vulnerable groups in our society. In this regard the Government is receiving assistance from the Caribbean Development Bank in developing a Poverty Reduction Strategy.

116. The Ministry is presently reforming its Social Assistance Programmes to use a more targeted approach. By making the programmes more targeted the Ministry will be able to make additional resources available to more persons who qualify for assistance. In the upcoming year, the Ministry intends to complete the National Ageing Policy that will lay the groundwork for the protection of the rights of our elderly population and will continue the work on developing the National Gender Policy that will provide a firm foundation for gender equality and equity in our Federation.

117. Mr. Speaker, the Ministry of Agriculture, Marine Resources and Constituency Empowerment has been allocated \$7,949,312 comprising \$5,708,611 for Recurrent Expenditure and \$2,240,701 for Capital Expenditure. This allocation represents an increase of 3.5% over the previous year.

118. This Ministry continues to play a critical role in the development of non-sugar agriculture as we seek to achieve a greater measure of food security and create stronger linkages between the Agricultural Sector and the Tourism Sector. During 2011, the Department of Agriculture will be stepping up activities to combat various threats to increasing output in the sector including, climate change, the vulnerability of soil conditions and knowledge gaps by food producers. Crop and animal production will be boosted through the construction of dams to tap water leading to an increase in the availability of local foods during the dry season. In addition, the fencing of farms to reduce damage by roaming animals and artificial insemination programs to improve breeds would be pursued. The Agriculture Department will also develop and implement projects to train, re-skill and upgrade the skills of farmers in general.

119. The Department of Marine Resources will continue to provide leadership in the OAS sponsored Marine Zoning Project aimed at facilitating sustainable development and activity use in marine and coastal areas. This project brings into focus activities that would result in coastal protection, food security, tourism amenities, biodiversity protection and climate change protection. During 2011, the ROC funded fishing boat designated for deep sea fishing will be made available to qualified fishermen as the exploration of deeper waters is critical to sustaining our near-shore species.

120. Mr. Speaker, for 2011 the Ministry of Tourism and International Transport has been allocated \$17,995,281 of which \$17,748,281 has been provided for Recurrent Expenditure and \$247,000 for Capital Projects.

121. The Tourism Sector continues to be one of the dominant sectors in the economy. Despite the global economic downturn and its concomitant effects on the industry and the scarcity of financial resources, the Ministry of Tourism has been finding creative ways to grow our market share. During 2011, the Ministry of Tourism and International Transport will continue to do whatever is required to maintain direct airlift to St. Kitts and Nevis. This is critical to the Federation having a competitive edge in the key tourism markets.

122. In the coming year more emphasis will be placed on fostering greater collaboration in the areas of marketing, product improvement and customer service.

123. This Ministry will continue to emphasize the importance of training our citizens to provide quality customer service to our visitors. During 2011 the St. Kitts Tourism Authority will implement the Organization of the American States (OAS) sponsored Tourism Training and Certification Project. This project includes one-week skill certification workshops in Guest Room Attendant Hospitality, Banquet Server Hospitality and Food and Beverage Service.

124. Mr. Speaker, I now turn to the Ministry of Housing, Public Works, Energy and Public Utilities. This Ministry's allocation for 2011 is \$68,973,320 comprising \$49,640,935 for Recurrent Expenditure and \$19,332,385 for Capital Expenditure. The overall allocation represents a 34.8% decrease compared to the 2010 allocation. This is as a result of the completion of a number of high value capital projects in 2010. In addition it is expected that the Electricity Department will be corporatized by April 2011. In this regard, a Transition Committee has already been established and has begun to work on overseeing the transition of the Electricity Department to a corporate body.

125. During 2011 work will continue on expanding and improving the reliability of the electricity supply. To this end, the Ministry has already purchased four (4) 4 MW Holeby MAN Diesel engines at a cost of around US\$22.0 million. At the completion of this project the power station would have the capacity to meet the demand for electricity well into the foreseeable future.

126. Mr. Speaker, our economic development has also resulted in an ever increasing demand for water. In 2011 the Water Department will be implementing plans and programmes to augment the water supply by rehabilitating old wells and drilling new ones. In addition, the Ministry is presently in negotiations with private companies who have the technology and knowledge to tap new sources of supply for utilization island-wide.

127. In the area of housing, the affordable housing programme which has improved the lives of so many persons through home ownership will continue in 2011. Particularly, consideration will be given to those families along the coastline who were displaced by hurricanes and who would not be able to relocate without assistance under the affordable housing program. In 2011

the Ministry will also be exploring various construction technologies to provide safer homes at more competitive prices by the application of more efficient construction techniques and will also be providing Multiplex housing solutions in order to optimize the utilization of land.

128. Mr. Speaker, Education continues to play an important role in unleashing the inert abilities of our people and providing the human capital necessary to drive the development of St. Kitts and Nevis. Education is therefore one of the important pillars on which the development of our country stands.

129. My Government has made every effort to preserve the allocation to Education. Therefore in 2011 \$62,105,247 has been allocated to the Ministry of Education and Information. This amount represents a slight increase of 0.33% over the 2010 allocation.

130. Our education system continues to be one of the most progressive in the region and now ranks in the top five in respect of the performance of our students in the CXC-CSEC and CAPE examinations. We can also be proud that our education system has, in large measure, achieved universal secondary education. Although over the years we have achieved much success, the Ministry will continue in its pursuit to improve performance while at the same time ensuring that more of our students graduate from high school with enough subjects that would allow them to go on to tertiary level education if they so desire.

131. A White Paper on Education and Policy was completed in 2009. It provides a blueprint for the development of the Education Sector over the period 2009 – 2019. During 2011 various aspects of the White Paper will be implemented. To facilitate this, a White Paper Implementation and Monitoring Committee was established in February of this year to come up with an implementation schedule for the various plans and programmes in the White Paper.

132. In addition, priority will be given to empowering the TVET Council and strengthening the National Skills Training programme in order to provide high quality technical vocational training for students and out of school youth who show a preference and an inclination for this type of training. The Saddlers Secondary School will feature prominently in the delivery of such training.

133. Mr. Speaker, the 2011 allocation for the Ministry of Health is \$34,916,553 comprising \$33,919,253 for Recurrent Expenditure and \$997,300 for Capital Expenditure. My Government holds the view that high quality health care is a sacred right to which every citizen of our beloved Federation is entitled. This is why even though we are facing austere economic challenges, we have decided, just as in the case of the Ministry of Education and Information, not to reduce the Ministry of Health's allocation for 2011.

134. During 2011, the Ministry of Health will continue to implement the National Strategic Plan for Health in its drive to fulfill its regional and international commitment to reduce morbidity and mortality rates associated with HIV/AIDS and non-communicable diseases such as diabetes, hypertension and obesity. The emphasis would be on prevention as many of these diseases are lifestyle diseases brought on by poor diet and lack of physical activity.

135. The Ministry of Health will also focus on seven (7) key areas in its quest to fulfill its mission of "Utilizing its resources to ensure a healthy population by guaranteeing access to health services which are available, acceptable and affordable to all users in the Federation." These include Non-Communicable Diseases and Physical Activity; Health and the Environment; Family Health; Health System Development; Mental Health and Substance Abuse; HIV/AIDS and STD's; and Human Resource Development.

136. Mr. Speaker, I now turn to the Ministry of Youth Empowerment, Sports, Information Technology and Posts which has been allocated \$10,582,149 to carry out its program and activities for 2011. Of this amount, \$7,660,032 has been provided for Recurrent Expenditure and \$2,922,117 for Capital Expenditure.

137. This Ministry will play a critical role in the development of youth during 2011. In particular it will be undertaking various programmes and activities aimed at providing youth with the necessary social and other skills to allow them to participate fully in nation building. Among other things this would be done through programmes that aim to provide training,

leadership skills and develop positive attitudes and life styles that would allow young people to be able to make a positive contribution.

138. During 2011 the Ministry will seek to maximize the benefits that Information Technology has brought and continues to bring to the learning process in our school system. This dovetails well with Government's continued thrust in the development of e-government. Our intention is to give as many young people as possible the skills to participate meaningfully in the digital economy as is happening in more developed countries. The Department of Technology will be taking the necessary steps to expand e-government across more government agencies so as to create greater efficiency and allow citizens more flexibility in accessing Government Services.

139. The Ministry will continue its focus on sports which has proven to be a useful vehicle in the holistic development of our young people. Sports allows them to unleash their energies in positive ways, encourages them to follow healthy life styles, develop in them interpersonal skills that allow them to function effectively as members of a team as well as develop leadership skills. Many of our young sports men and women have received scholarships to universities and colleges as a result of their outstanding performance in various sports, in particular basketball and athletics. It is therefore the intention of the Ministry to continue to develop and implement programmes such as the "Reach One Touch One" summer Basketball Programme organized by the Department of Sports. As a result of this programme several youths have been able to win basketball scholarships to further their education in the United States.

140. Mr. Speaker, the resources allocated to the Ministry of Sustainable Development for 2011 amounts to \$17,337,553. Of this amount, \$4,009,927 has been allotted to Recurrent Expenditure and \$13,327,606 for Capital Expenditure.

141. During 2011 the Ministry of Sustainable Development will continue to play a leadership role in the coordination and implementation of the National Adaptation Strategy that was designed to create a new economy for St. Kitts and Nevis. The projects include the European

Union funded Institutional Strengthening for Social and Economic Development Project and the Information and Communication Technology for Improving Education Project.

142. In 2011, the Statistics Division of this Ministry will conduct the 2011 Population Census. Preparations for this important activity are well underway. We understand the importance of the collection of reliable statistics in general and will continue our thrust towards improvement in this area in the New Year.

143. The 2011 allocation for the Ministry of Foreign Affairs is \$13,037,582. Of this amount, \$12,807,282 has been allocated for Recurrent Expenditure and \$230,300 for Capital Expenditure. During 2011 this Ministry will continue its pursuit of a cohesive and comprehensive foreign policy, based on friendly, bilateral, regional and international relations which will safeguard and enhance the political, economic, cultural and other interests of the Federation.

Fiscal Measures

144. Mr. Speaker, the global recession has forced countries all over the world to tighten their fiscal stances and strengthen public finances to reduce the risk of crises. Indeed throughout Europe, advanced countries have been forced to introduce austerity programmes to save their financial system and institutions from collapse. Greece and more recently Ireland, has been forced to adopt structural adjustment programmes with the assistance of the IMF and the European Union. Portugal and Spain are doing everything possible to avoid default on their debts. But even more critically, large and powerful countries such as the UK, France and Germany have had to considerably tighten their fiscal stance by introducing a number of measures to raise revenues and cut expenditure. In the UK in particular, it became necessary to cut expenditure, introduce new tax measures and raise their VAT rate to 20% although they also collect personal income taxes.

145. Our economy has demonstrated great resilience over the years, but we simply could not put the many achievements of our people at risk by sitting idly as the Great Recession, one of the worst crises for over a century, devastates economies all over the world and threatens our stability. We had to demonstrate the leadership and common sense that has characterized our period in office, and act definitively and preemptively to maintain the macroeconomic and fiscal stability of our beloved Federation.

146. Hence, in June 2010 I read into the records of this Honourable House a number of fiscal measures which my Government had decided to implement in order to mitigate the risks of the global financial and economic crises. We have been very successful in implementing most of these measures to date, and today I will provide you with details of how we intend to complete this process as well as the additional measures that need to be undertaken as we execute our multi-pronged Reform Agenda which consists of comprehensive Fiscal Reform, reorganization of the debt portfolio and Public Sector Reform to set the stage for sustained economic growth. This virtuous circle of reform, management and growth is the strategy that we intend to employ as we persevere with the transformation of our economy.

147. The first measure that we will undertake is the revision of the electricity tariffs. Our tariffs are by far the lowest in the OECS. This has contributed to many of the problems that we have encountered with respect to the reliability of the electricity service because the tariffs have not been enough to provide the resources necessary to fund the maintenance and upgrade of the system. We have therefore been forced to take money from revenue and tax sources to deliver a reliable supply of electricity. However, we were not prepared to move forward with tariff increases without a careful study of the tariff structure and the cost of providing a reliable service. Hence, I had indicated in my presentation to Parliament in June 2010 that we would require technical assistance to perform the necessary study on the electricity tariff.

148. Under the current tariff it is estimated that Government subsidizes the cost of electricity to the tune of \$48 million annually. I am sure that we would all agree that there is no justification for Government to continue to provide broad based subsidies on the cost of any utility especially for those who can afford to pay for these services, and especially in the midst of a global

economic crisis that is adversely affecting tax revenues. Government will therefore take the approach for electricity, as well as for other services, that the cost of providing the service must be recouped and that the Social Safety Net Programme will assist those who cannot afford to pay the true cost.

149. The new tariff which will come into effect from 1st January 2011 will bring the base tariff closer to the cost of producing electricity. It is important that we do this prior to the scheduled corporatization in order to ensure the success of the corporatized entity. We are determined that this new entity must at least break even. We do not expect to provide any subvention to the Electricity Corporation hence we are proposing that the subsidy must be eliminated now. Under the new Tariff Structure the tariff will increase by 27¢, 30¢ and 31¢ respectively for the three KWH ranges for domestic rates and will increase by 30¢, 33¢, 35¢, 37¢ respectively in the four KWH Ranges for Commercial Consumption. The new Tariff will be implemented in January 2011 and the corporatization of the Electricity Department should be concluded by April 30th 2011.

150. Mr. Speaker, we also received technical assistance from the Caribbean Regional Technical Assistance Centre (CARTAC) in reviewing the Housing and Social Development Levy as well as our system of tax concessions. Earlier this year, I announced that these studies would be undertaken with a view to revising the current system. The Ministry of Finance has studied the report and I will now outline the measures that we propose to implement in 2011.

151. Currently, the structure of the Housing and Social Development Levy includes the following four tiers. Tier one consists of annual income up to \$13,000 per annum. The employer contributes 3% of income and the employee falling within this tier does not contribute. Tier two is made up of annual incomes ranging from \$13,000 to \$78,000. The employer pays 3% of income and the employee in this tier pays 3%. Tier three is made up of annual incomes ranging from \$78,000 to \$96,000. The employer contributes 3% and the employees in this tier pay 8%. Tier four is made up of annual incomes over \$96,000. The employer pays 3% and the employee contributes 10%. In the proposed measure the tiers will remain the same, employers will continue to contribute 3% for each tier and tier one employees will continue to be exempted from the Levy. However, Tier two employees will contribute 3.5% instead of 3%, Tier three

employees 10% instead of 8% and Tier four employees 12% instead of 10%. The legislative amendment necessary to effect this new measure will be passed early in the New Year.

152. Mr. Speaker, during the 2010 Budget Address I signaled that we would be streamlining and eliminating certain discretionary concessions. After examining the study on concessions conducted by the CARTAC Consultant, it has become clear that the level of exemptions which are currently being granted cannot be sustained. For example the amount of Customs Service Charge (CSC) exempted in 2009 was \$19.6 million. All Customs Service Charge exemptions will come to an end in 2011. It means therefore that discretionary concessions will be limited to Import Duty only as the Value Added Tax (VAT), by its structure does not allow discretionary concessions. Discretionary concessions will therefore be limited to Import Duty only and in some cases the concessions on vehicles in particular will be limited to 50% or 75% of the Import Duty.

153. In addition the Ministry of Tourism and International Transport and the St. Christopher Air and Sea Ports Authority (SCASPA) with the Ministry of Finance will work to have all taxes on air travel collected by the International Air Transport Association (IATA). It is anticipated that this will centralize the collection and monitoring of this group of taxes and eliminate leakages from the system.

154. Our efforts to prioritize Capital Expenditure will be intensified in 2011 as we concentrate on those projects which will foster economic growth. We have therefore prepared a much more realistic capital budget for 2011 in line with our funding capability. However, there are some critical projects that we must implement in 2011 if we are to advance the transformation process. For instance, we must repair and rehabilitate the South East Peninsula Road during 2011 if we are to provide convenience and safety to our people who use that road and facilitate the establishment of the South East Peninsula as a major center of growth over the medium-term. This project, which will cost in the region of \$12 million, will help to ensure that the South East Peninsula, with its abundance of exquisite natural attributes, realize its full potential to become one of the leading destinations in the world for high-end tourists and villa owners pursuing luxurious lifestyles.

155. Mr. Speaker, our aim is to achieve a Primary Balance Surplus of at least 5.8% of GDP and the measures just outlined will go a long way in achieving this target. However, the Ministry of Finance has determined that these measures may prove insufficient to achieve the desired level of fiscal consolidation. Therefore, we will also introduce the following expenditure measures in 2011.

156. We will be placing strict caps on expenditure heads such as Allowances and Overtime. This means that each Department will be given a limit for expenditure on these expenditure items and they will not be allowed to exceed the assigned limit. We will rationalize study leave and the expenditure that this entails as well as the University of the West Indies (UWI) Economic Cost and contributions to regional and international organizations in line with what we can afford and in keeping with the priorities that Government has established in respect of the skills and resources required to advance the development process. We will begin the process of removing subsidies such as that which is in place for liquid petroleum gas and of setting up a Government-wide system to monitor the use of Government's assets such as vehicles and heavy equipment, with a view to reducing maintenance, operating and fuel costs.

157. Mr. Speaker, there are certain activities in which Government is involved which can be effectively undertaken by the Private Sector under proper regulation. The Supply Office function is one such activity that we intend to relinquish to the Private Sector with targeted social safety nets to ensure that the vulnerable in our society will still be able to afford these basic necessities. Moreover, we will accelerate the pace at which Government moves forward with the privatization of entities engaged in commercial activities and previously identified for commercialization and privatization.

158. The rationalization of the Civil Service through job evaluations will also be tackled in 2011. This includes the identification and elimination of excess staffing as well as ensuring that full-time salaries are paid only for full-time work. We will also review the operations of the Centralized Purchasing Unit (CPU) to ensure that we are receiving value for money through centralized purchasing of equipment and supplies. In this connection, technical assistance will be sought to provide the necessary advice for the restructuring of the CPU to enhance efficiency

and effectiveness and to deal with the issues of Government's payment of the VAT. We have estimated that these additional measures will save approximately \$7 million.

159. Mr. Speaker, on the revenue side, we will increase the Excise Tax on cigarettes by 30% and we intend to increase several of the fees which we charge for services provided by Government. These include Visa Fees and certain Licence Fees which we have determined are not at the level required to cover the administrative cost of providing the relevant services.

160. Mr. Speaker, in 2011 we propose to mount a major assault against debt through an Asset Disposition Programme and Refinancing Programme. A carefully selected Debt Advisor will work with the Ministry of Finance to implement the approved strategy. We estimate that this strategy, along with the fiscal measures, will reduce our debt by approximately 70% of GDP over the next five years and will close the financing gaps for those years.

161. Mr. Speaker, every international organization which reviews our fiscal and debt situation indicates to us that the situation in St. Kitts and Nevis is different from that of other highly indebted countries. The difference is that the Government of St Kitts and Nevis is asset rich. We therefore intend to make the best use of our assets to improve the fiscal and debt situation. Hence, asset disposition, including privatization of some State enterprises, will constitute a very important element of our comprehensive Debt Reduction Strategy.

162. Mr. Speaker, I am very confident that this mix of measures will go a long way in our quest for fiscal consolidation and will put our debt on a firm downward trajectory.

SUMMARY AND CONCLUSION

163. Mr. Speaker, I have presented to this Honourable House and the people of the Federation of St. Kitts and Nevis a report on the performance of my Government over the past year and the short to medium-term plans and priorities of my Government. I am convinced that the Budget

that I have presented today is most appropriate for the journey on which we have embarked. As the economic turnaround takes root and gathers momentum, the benefits of the measures introduced will become even more apparent. We believe that macroeconomic stability is a major precondition for growth, and we are confident that this year's budget will promote fiscal and economic stability; will enable us over time to devote less of our limited resources to debt servicing and more of our resources to growth and development; and will lay a solid foundation for accelerated growth and economic transformation in the years ahead.

164. We have been making a concerted effort over the past years to ensure fiscal consolidation and it has paid off as evidenced by the reduction in the debt to GDP ratio in 2008 and the commendable Primary Balances which were utilized in the repayment of debt obligations. The global recession threatened to derail our efforts and throw our economy off course, but we acted preemptively earlier this year to blunt the impact of the crisis, and we will continue to proceed with the introduction of the fiscal measures and initiatives to ensure that our economy remains on a sound foundation.

165. Mr. Speaker, a Government has a duty to always act in the best interest of the people it serves. This is the *raison d'être* of any Government in a democratic country such as ours. This requires that a Government continually weighs the options available to it, with a view to choosing courses of action, which may involve some sacrifice, but which would minimize or avert economic dislocations with the attendant hardships and suffering. My Government faces a similar challenge at this time. We agonize over the sacrifices that our people must make but we also know that the cost of doing nothing or of not doing enough, would be even more severe and would bring much pain and suffering on our people, especially the poor and vulnerable. In other words, the economic mayhem that would result from a failure to act would be far more severe in its impact on our people than the sacrifices that they are called upon to make in this budget.

166. Mr. Speaker we are confident that the challenges we face represent opportunities for future growth and development. They force us to evaluate our economy even more closely and to build new structures for the attainment of sustained growth and long-term economic

transformation. Indeed, notwithstanding the focus of this budget on debt reduction and fiscal stability, we have remained true to our mandate to protect the poor and vulnerable by designing tax systems that are sensitive to the needs and peculiarities of low income groups, and by strengthening our Social Safety Net Programmes. We have moved forward with critical Public Sector projects and committed resources to the key sectors of the economy including tourism, agriculture, and construction with a view to stimulating economic activity and boosting the rate of economic growth. We have provided the resources, facilities and systems required for our Security Forces to mount a more vigorous assault against crime and to provide greater safety and security to our people and our many visitors.

167. We have launched an innovative programme for strengthening our Education System and making it more relevant to the needs of our young people and our businesses that require skills and expertise to function effectively and to compete domestically and internationally. We will increase our efforts to make our education system more holistic including emphasis on moral and ethical values. We continue to strengthen our Health System, to step up the fight against communicable and non-communicable diseases and to promote healthy life styles through our impressive Health Education Programme. We continue to protect our environment with a view to ensuring that growth and development are sustainable over the long-term and that our environment resources yield benefits that will continue to flow to our people over many generations. Indeed we believe that through our comprehensive budget initiatives, including the Debt Reduction Strategy, we will build a solid foundation for future growth and development. We have demonstrated our commitment to deal with the issues of national security through the strategic plan that has been laid out and the commitment of resources that will help us to achieve our stated objective of zero tolerance to crime and, in particular, our stance against the possession of illegal firearms.

168. Mr. Speaker, Norman Cousins once said that “Man is not imprisoned by habit. Great changes in him can be wrought by crisis - once that crisis can be recognized and understood.” We have initiated a programme of change in response to the global economic crisis, and we have not allowed ourselves to be lured into a state of denial. We have openly and transparently

recognized the impact of the global crisis, and we are exerting every effort to understand it and to blunt its devastating effects.

169. We are confident that we are on the right path and that the economic turnaround is at hand. We have reached the stage where we can now see a glimmer of light at the end of the tunnel. Indeed the IMF has reported that they see even more than a glimmer of light. They already see the signs of incipient recovery, fragile as it may be at this time. I urge our people to be confident and courageous, and to take courage from our success in confronting past challenges. We overcame a barrage of hurricanes, we overcame the challenges associated with the collapse of the Sugar Industry, and we will, with the help of Almighty God, overcome the global economic crisis that is confronting us. Let us therefore demonstrate faith and confidence in our ability to successfully navigate the turbulent global waters and arrive safely on the other side.

170. Mr. Speaker, I so move.