



GOVERNMENT OF ST. CHRISTOPHER (ST. KITTS) AND NEVIS  
**2015 BUDGET ADDRESS**



**Presented By:**  
**The Right Honourable Dr. Denzil L. Douglas**  
Tuesday, December 9th, 2014

**Keeping The Edge - Energizing Growth And Human Capital Development**



**ST CHRISTOPHER AND NEVIS**

**2015**

**BUDGET ADDRESS**

1. Mr. Speaker, I beg leave to move the second reading of the Bill shortly entitled the Appropriation Act (2015), 2014.

## INTRODUCTION

2. The St. Kitts and Nevis economy is poised to record a second consecutive year of positive growth demonstrating resilience in the face of the lingering effects of the global economic and financial crisis. The pillars of our Nation's economic foundation have been strengthened and we are now reaping the gains from the comprehensive structural reforms of the last decade, particularly the past three years. We have witnessed a turnaround in the economy which is buttressed by a significantly reduced public debt and a strong fiscal position which my Government intends to maintain into the foreseeable future.

3. Mr. Speaker, I hasten very early in this address to give thanks to Almighty God for his abundance of favour on this Nation which we love and call home. Truly, we are blessed as a people-Kittitians, Nevisians and indeed all who call these fertile isles home. In the context of a weak global economy, what we have accomplished here is impressive as we have set a track record of reforms and successes to the point where we have attained an edge in several areas that are important to the advancement of a Small Island Developing State. Our successes did not come easily. They did not come overnight nor did they come by accident but rather as a result of visionary leadership, a credible strategic plan, hard work and sacrifice by many of our citizens. Thus to date, these successes are well documented and widely acknowledged locally, regionally and internationally. Members of this Honourable House, you too are aware, as the public is aware, that St. Kitts and Nevis is currently the leading economy in the Organisation of Eastern Caribbean States (OECS). We are number one in terms of economic growth, exports to the United States of America (USA), foreign direct investment, social safety net provisioning and the list goes on.

4. My Government has focused its attention on securing lower prices to the consumer, primarily the cost of living for the most vulnerable households. We have also ensured that consumer spending remains vibrant by providing more disposable income to minimum wage

earners. In July of this year, this Government increased pension benefits so that pensioners who live on a fixed income can afford the essential goods and services needed to maintain their standard of living and meet their nutritional needs.

5. Mr. Speaker, our country has been blessed to have visionary leadership at the most critical times in our development. Leadership that has sought to address the needs not just of some in the society but all of our people. Maintaining the edge in our development is inextricably linked to the welfare of our workers who are highly trained, highly skilled, and dedicated to their chosen fields resulting in the accolades achieved by our small Nation. Therefore, it was necessary for our Tripartite Committee comprised of public and private sector partners and the Trade Union to dialogue and negotiate a wage increase that would benefit those individuals that undertake services in organizations that are viewed as lower ranked but are essential to the operation of the business. My Government was pleased to have been able to reach an agreement to increase the minimum wage for those persons in the private sector from \$320 per week to \$360 per week which took effect on 1<sup>st</sup> November. I emphasize the private sector because the public sector wage earners have experienced an increase in their minimum wage to \$370 per week with the increase in public sector salaries which took effect on January 1<sup>st</sup> of this year. We now have the highest minimum wage in the English speaking Caribbean and to further protect this achievement, on 24<sup>th</sup> October this august body passed an amendment to the Housing and Social Development Levy Act to raise the threshold for contribution from \$16,640 to \$18,720 to preserve the value of the increase by exempting minimum wage earners from payment of the 3.5% Housing and Social Development Levy.

6. On 1<sup>st</sup> November my Government officially launched the Long Service Gratuity Scheme which will impact the lives of a number of our people, particularly those employed in our manufacturing sector who have fought for this benefit for over thirty (30) years. The Scheme will ensure that workers who have given long years of dedicated service can be appropriately rewarded for their valuable contribution and leave their employment after a decade or more of service with a sense of dignity and a certain level of financial security. It is important to highlight that in the event of the unfortunate demise of any worker provision has been made that the payment from the Scheme would be made to their Estate. This is what we have been striving

towards - visionary and sustainable policies and programmes that position us to keep our edge in human development, rising to the next level locally, regionally and internationally.

7. As a Nation, we now stand at a pivotal juncture from which we can shoot for the stars and make giant leaps towards accelerating economic growth and development of our people. That is why I can confidently make a pledge to the Nation that my Government will not become complacent in working to build a stronger Federation. That is why my Government, while acknowledging our accomplishments in terms of economic growth, fiscal management and social cohesion, has already initiated work on key policy initiatives to usher in the new economy that will underpin our bid to become one of the world's first Sustainable Island States.

8. The signs are evident that we have effectively moved from the early days of our agrarian economy based on sugar production to one based primarily on services. Tourism now stands firmly as a leading sector in the economy. There is therefore no doubt that our future prosperity dictates that we must focus our efforts on boosting competitiveness and productivity in all sectors with particular attention given to services. During 2015, emphasis will be placed on implementation of the dynamic set of policies my Administration has already adopted. At the same time, we will be looking at the creation of new policies that will further support innovation, integration of technology, skills development, wealth creation, capital accumulation, strong fiscal frameworks, and a modern legal and regulatory framework needed to energise growth and human capital development. It will also be important for us to explore ways to build a more dynamic and innovative private sector, with special emphasis on Small and Medium Enterprise development. This is a key ingredient in our efforts to promote entrepreneurship and build a solid foundation for future growth and development.

9. Given the nature of our economy, it is always wise to be equipped with up to date information on developments on the international and regional scene. I will therefore move to summarise some of the recent developments in the international and regional economies.

## **THE INTERNATIONAL AND REGIONAL CONTEXT**

### **The Global Economy**

10. Mr. Speaker, the legacy of the financial crisis has proven to be much tougher to resolve than the global community had anticipated. The protracted effects of unsustainable debt and high unemployment remain a real and present challenge as global growth rates are being revised downward for 2014. The severity of the effects of the crisis and the pace of the recovery not only differ across regions but between countries within the same region. This view has been supported by the International Monetary Fund (IMF) in the latest edition of the World Economic Outlook (WEO). The emerging markets are adjusting to rates of economic growth lower than the levels reached during the pre-crisis period. Overall, the pace of the recovery is becoming more country specific as there are no easy solutions to the many problems confronting individual countries. The current situation calls for vigilance particularly in light of the downside risks posed by international developments that are yet unfolding. We must remain alert to the potential for i) a worsening of geopolitical tensions which could have effects on the price, production and distribution of oil and a myriad of other negative effects; and ii) the reversal of high equity prices, compressed spreads and low volatility in the international financial markets.

11. Since the publication of the October 2014 edition of the World Economic Outlook there has been cause for concern as twenty-five (25) banks in the Euro zone have failed a stress test administered by the European Central Bank (ECB). Further, the spread of the Ebola virus has become a global problem which can develop into a real threat to productivity, international travel and trade. This deadly disease has the potential to reduce global economic output. We believe, however, that the challenges that I just mentioned are not insurmountable but require sustained, decisive, strategic action to ensure that the required structural reforms and protocols are identified and implemented. For certain, action will be necessary in order to achieve any fundamental increases in global output and to sustain growth over the medium to long term.

12. The performance of global economic output was weaker than had been expected in the first half of 2014 triggering a downward revision to 3.3%, an output level more in line with that

achieved in 2013. Similarly, the latest estimates for world economic output suggest that it will expand by 3.8% in 2015. The economies in China and India have stabilized recording single digit growth rates as the economies continue to cool down after several years of rapid economic growth. In 2014 economic activity in China is estimated to slow slightly recording a positive growth rate of 7.4% when compared to 7.7% recorded over the past two years while output in India is projected to expand by 5.6% in 2014 compared to 5.0% in 2013. Closer to our region, Brazil continues to struggle as the economy is expected to expand by a mere 0.3% in 2014 after a more positive showing of 2.5% in 2013.

13. The advanced economies are projected to expand by 1.8% in 2014 after recording a growth rate of 1.4% in 2013. Our main trading partners, the United States and the United Kingdom, show signs that their economies are moving beyond the effects of the financial and economic crisis as the recovery appears to be gaining momentum. For instance, economic activity in the United States' economy is projected to expand by 2.2% in 2014, while the IMF has reported that the economy in the United Kingdom is the fastest growing among the advanced economies with economic activity projected to expand by 3.2% in 2014, a positive outturn when compared to a growth rate of 1.7% in 2013.

14. As a whole, the situation in the Euro area remains challenging with economic output expected to expand by 0.8% as some of its major economies record little or no growth. Mr. Speaker, notwithstanding the past setbacks and the new challenges on the horizon, the global recovery continues and the international community remains watchful. Naturally, it is our hope and the hope of many around the world that the recovery would find a firm foothold thereby providing support for strong sustainable growth over the medium to long term.

## **Regional Economic Developments**

15. Mr. Speaker, recovery in the Caribbean region continues to be protracted as the region continues to struggle with the after effects of the financial and economic crisis. The rebound in the economies of our trading partners continue to be tepid as a result of political gridlock, slow recovery in the jobs market and very measured steps in making the necessary structural

adjustments necessary to secure a sustained recovery. Further, as Small Island States, we remain susceptible to climatic changes that can erode the gains achieved or further cause a weakened economy to collapse and render our social services incapable of addressing the needs of the populace.

16. The economies of the Eastern Caribbean Currency Union (ECCU) expanded at a modest pace of 1.1% after recording a marginal growth rate of 0.3% in 2012. This performance can be attributed primarily to improved output in the tourism and construction sectors. Value added in the tourism sector expanded by 2.2% in 2013 when compared to economic output of 1.3% during 2012. The construction sector made a significant rebound when both periods were compared recording a growth rate of 3.4% after having contracted by 3.7% in 2012. Growth within the member states of the OECS in 2013 ranged from a contraction of 2.3% to an expansion in economic activity of 3.8% recorded by none other than our beloved country, St. Kitts and Nevis. Preliminary data for the period January to June 2014 has indicated that economic output within the ECCU expanded by 1.5%.

17. The economies within the larger Caribbean Community are beginning to show signs of a recovery albeit slower than had been anticipated. The economy in Trinidad and Tobago recorded an increase in output of 1.6% in 2013, a slight improvement when compared to 1.2% recorded in 2012 as a result of positive growth in the non-energy sectors. Economic activity in Jamaica recorded a notable rebound of 1.8% in 2013 following a contraction in economic output of 1.2% in 2012. This outturn was due to expansions in the mining and quarrying, and construction sectors. However, the Barbados economy contracted by 0.2% due to declines in the tourism and construction sectors.

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

## **THE DOMESTIC ECONOMY**

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

19. Mr. Speaker, it is with great pride and a sense of accomplishment that I stand before this Honourable House and report that as a result of the carefully crafted economic, fiscal and structural reform policies of this Government, the economy of St. Kitts and Nevis rebounded in 2013 recording positive growth of 3.8%. In its Ninth and Final Review of the Stand-By Arrangement the IMF stated, “St. Kitts and Nevis has made substantial strides under its home-grown economic programme...Despite the challenges, significant reforms were implemented and considerable progress was achieved.” The Report went on to highlight that the economic performance was as a result of “...robust labour market developments fuelled by the People Employment Programme (PEP), and stronger construction performance related to both Citizenship By Investment (CBI) inflows and a substantial increase in public sector capital spending.” This momentum of growth has continued into 2014 as preliminary estimates have indicated that as of June the Gross Domestic Product (GDP) has increased by 4.4%. In addition, by all reports there are positive signs that the economy will achieve a growth rate of 4.6% by the end of the year due to expansions in the manufacturing, construction, wholesale and retail, tourism and, transport, storage and communications sectors.

20. Clear, decisive actions have resulted in the rebound and maintenance of buoyancy in the economy as creative and innovative initiatives have facilitated the stimulation of economic activity in key sectors, as well as increased employment and increased income generation. This has allowed St. Kitts and Nevis to emerge stronger, pioneering new approaches which are now being emulated by other nations within and beyond the Caribbean. Our efforts continue to be lauded the world over by reputable organizations. During the past few months the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) in its 2014 report identified St. Kitts and Nevis as the fastest growing economy in the OECS and the fifth fastest growing economy among the sixteen (16) Caribbean nations analysed. This organization also highlighted the Federation as a leader in the Caribbean in regards to attracting Foreign Direct Investment (FDI) which increased in 2013 by 19.0% totalling US\$112 million when

compared to US\$94 million in 2012. St. Kitts and Nevis also leads the Caribbean recording US\$2,090 per capita in FDI inflows.

On a period to period basis, the rate of inflation in 2013 was recorded at 0.7% compared to 1.4% recorded in 2012. This outturn was as a result of the stabilization in domestic prices and the lower international import prices due to lower fuel prices. As at June 2014, the inflation rate was recorded at 0.4% and is expected to remain low for 2014. My Government continues to be vigilant in regards to the monitoring of prices in the local market place. As a result of past observations, we have implemented various strategies designed to keep prices at reasonable levels. Numerous basic food items and medications for chronic non-communicable diseases (NCDs) have been kept either VAT exempt or zero rated, and concessions have been provided to businesses to lower start-up and operating costs.

### **The External Account**

21. Mr. Speaker, as a net import country it is understandable that the Current Account deficit would widen as the economy expands. During 2014, in line with increased economic activity, the Current Account recorded a deficit of \$181.6 million, an increase from \$132.1 million or 37.5%. This can be attributed to an increase in the importation of capital and intermediate goods to facilitate economic activity particularly in the tourism and construction sectors. The surplus on the Services account is expected to increase by 5.2% to \$355.4 million or 16.2% of GDP as a result of a projected increase in net travel receipts as the tourism sector continues to record an increase in stay over arrivals.

22. Preliminary estimates indicate an overall surplus on the external account of \$168.6 million or 7.8% of GDP in 2014. This performance was due to a sizable surplus on the Capital and Financial Account which increased by 43.6% to \$417.3 million or 19.0% of GDP. This reflects the impact of significant FDI inflows related to the Citizenship by Investment Programme. The surplus on the Capital and Financial Account continues to be sufficient to offset the Current Account deficit of \$181.6 million or 8.3% of GDP. The USA continues to be our main trading partner, accounting for approximately 63.5% of our total imports followed by

Trinidad and Tobago and the United Kingdom which accounted for 4.7% and 2.8% of total imports respectively.

### **Performance Review - National Adaptation Strategy**

23. Mr. Speaker, the time is right for us to take stock of our journey as we approach the 10<sup>th</sup> anniversary since July 2005 when my Government took the bold step to close the over three hundred (300) year old sugar industry which had dominated our physical, economic and social landscape. I say the time is right for reflection now because our experience today is very much like our experience back then when those without vision maliciously attempted to paint a picture of doom and gloom just because they are sadly lacking the leadership skills, vision and ideas to steer the ship of state. Looking back to 2005 when we were faced with the closure of the sugar industry, my Administration did not lament the misfortunes that lay ahead but rather focused on developing a sound strategy to guide the way forward as well as to build partnerships with the regional and international partners. Our strategic planning gave rise to the production of the National Adaptation Strategy which has been used as the blueprint for the development of this country since then to today. This document was spot on with the identification of four (4) pillars for economic transformation namely; Non-sugar Agriculture, Tourism, International Financial Services and Information and Communication Technology (ICT).

24. In spite of the slow inflow of official development assistance and other challenges, we forged ahead and today we have achieved success in most of our endeavours to reform and build. The onset and deepening of the financial and economic crisis added to the challenge as it seriously impacted the various sectors we were trying to develop. Notwithstanding these challenges, proactive steps were taken to formulate and implement innovative initiatives which would accelerate and sustain economic growth and development. In this regard, emphasis was placed on five strategic areas; (i) macroeconomic policies to reduce vulnerability and encourage and facilitate investment; (ii) improving competitiveness in the production and export of goods and services (iii) interventionist social policies to support economic development and protect the most vulnerable (iv) ensuring an environmentally sustainable development agenda and (v) organizing to achieve success in economic restructuring and transformation. The efforts to

advance progress in these areas have been undertaken in tandem with activities to strengthen our vital institutions through initiatives to address public sector reform, private sector development, regional integration and infrastructural upgrades to facilitate increased investment. On an annual basis the progress made in the implementation of the National Adaptation Strategy is assessed. Therefore, I am pleased to confirm that my Government has successfully initiated action on approximately 95% of the 340 actions identified for implementation with over 200 activities (approximately 70 percent) fully completed and requiring no further actions based on the plans originally outlined.

25. The substantial gains that were achieved through these various actions have resulted in St. Kitts and Nevis becoming a leader in the regional and international community in development strategy formulation and implementation. My Government recognized that macroeconomic stability and sustained growth would be vital to ensuring that we secure the economic and social standing of our people and the country in its entirety. In an effort to provide oversight for the implementation of the reform agenda, my Government instituted the Public Financial Management (PFM) Committee which monitors and initiates steps to facilitate the efficacy of the public financial system, a Cash Management Committee to closely assess the revenue collection and expenditure requirements of the public sector and the Government Entities Oversight Board (GEOB) which monitors the operations of the statutory corporations. In 2009 the Government partnered with the European Union (EU) in the development of a Private Sector Development Strategy which was undertaken in consultation with key stakeholders from the private sector. The objective of the strategy was to identify priority areas and actions required to enhance competitiveness, socio-economic wellbeing and the quality of life of our citizens and residents.

26. In keeping with the multifaceted approach to private sector development my Government facilitated various financing instruments through our partnership with the Sugar Industry Diversification Foundation (SIDF) to assist in business development such as the Small Entrepreneurial Assistance Fund (SEAF), the commitment to and negotiation of trade agreements such as the European Partnership Agreement (EPA) and the Partial Scope Agreement (PSA) and, employment and training opportunities such as the Youth Empowerment through Skills (YES) Programme and more recently the Peoples Employment Programme (PEP). The

recent approval and launch of the National Manufacturing Strategy (2014-2020) is the latest achievement in our efforts to advance the development of micro, small and medium enterprises (MSMEs) as we continue to expand opportunities for business development and export potential.

27. Mr. Speaker, a vital component of the National Adaptation Strategy concentrates on land administration and land management which has been a primary focus for this Government over the past nine (9) years. Land is a very important factor of production and an essential driver of social and economic development. Therefore, with the guidance of the National Physical Development Plan (NPDP), my Government set about deepening our diversification and empowerment programmes through the identification and distribution of lands for residential, agricultural, commercial and industrial purposes. In 2007, my Government took the monumental step to launch the Special Land Distribution Initiative (SLDI) which has facilitated the empowerment of our people and the reduction of poverty through land and home ownership. Likewise, our focus on the expansion and development of the agricultural sector required clear and decisive action in ensuring that existing and potential farmers could have access to land. To this end, in 2009 my Government earmarked and transferred 1,500 acres to the Ministry of Agriculture thereby giving the requisite Department direct responsibility for the management of lands for agricultural purposes. In order to protect our biodiversity and our water supply my Government passed legislation designating two terrestrial protected areas namely; the Central Forest Reserve and National Park (CFRNP) and the Royal Basseterre Valley National Park in 2007 and 2011 respectively. A Water Resource Management Plan and Park Management Plan have been formulated for the medium to long-term development of the Royal Basseterre Valley National Park while the comprehensive formulation of a sustainable protected areas management system will be pursued.

28. Our social intervention programmes that were developed in line with our clearly articulated strategy will also require continued commitment to ensure that poverty reduction is achievable. Therefore, despite the downturn in the economy during 2009-2012 this Government continued to ensure that recurrent annual budgetary allocations to the social sector, specifically education, health and, social and community development were maintained and expanded.

29. Mr. Speaker, in 2011 the impact of the global financial and economic crisis intensified and threatened to erode our gains by undermining the transformation agenda that was being pursued in context of the National Adaptation Strategy. In an effort to stabilise the fiscal situation and set the economy on a solid foundation, we developed a comprehensive stabilisation strategy and invited the IMF to assist with the implementation of that home-grown programme. It is only fitting that we use the lessons learnt from this experience as a guide for future planning and implementation of prudent fiscal policies. In this regard, I now provide this Honourable House and the listening public with a summary of the performance of the Recovery Programme.

### **Performance Review - Economic Recovery Programme**

30. Mr. Speaker, in my last Budget Address, I gave this Honourable House an update on the progress we had made with our Economic Recovery Programme. Progress that took us from the deep crevice of the global recession to where we are now – a country with an edge above the rest and head of our class. Mr. Speaker, we cannot, and do not, take our progress for granted. It was a long and challenging journey to get to where we are today. A journey that was fraught with some difficult decisions and sacrifices. Sacrifices by our creditors who were affected by the debt restructuring exercise, sacrifices by our Civil Servants whose salaries were frozen and increments withheld and sacrifices by our people in general. I say to all, a big thank you. I also express gratitude to the International Monetary Fund which was instrumental in helping us implement our Economic Recovery Programme. The objectives of the Programme were to strengthen public financial management and revenue administration, streamline our Social Safety Net Programme and ensure financial sector stability. These objectives were achieved through the implementation of several structural reforms that were undertaken over the life of the Stand-By Arrangement.

31. The Stand-By Arrangement came to an end in July of this year at which point we would have completed 21 of the 24 structural reform activities that contributed to us now having an edge in a number of areas critical to our continued development; an edge that we intend to keep and expand. Some of the structural benchmarks that were completed include the enactment of legislation to guide the process for the procurement of goods and services, the approval by my

Cabinet of a Civil Service Reform Plan and a Social Safety Net Strategy and the development of a Medium Term Debt Management Strategy and a Medium Term Expenditure Framework. We also corporatized the Electricity Department and undertook activities related to restructuring the public sector debt. In respect of the financial sector, a Banking Sector Reserve Fund was established at the Eastern Caribbean Central Bank to provide temporary liquidity support to solvent locally incorporated domestic banks during the debt restructuring process, if the need arose. During the debt restructuring process none of the banks were threatened and none made a request to access the funds. This was testament to the resilience of the financial system and our own conviction that the restructuring exercise was the right way forward. The money was borrowed from the IMF and since there was no demand for the facility, my Government returned the unused funds to the IMF in June 2014 as the borrowed money was attracting interest.

32. Our progress with implementing our Economic Recovery Programme was monitored by the IMF who conducted nine reviews over the three-year period. Mr. Speaker, I am quite pleased to report that in addition to completing the majority of the structural benchmarks, we met all the quantitative performance criteria with one exception. That exception was the continuous criterion on the non-accumulation of external arrears related to debt contracted or guaranteed by the Government. The value of the accumulated arrears was relatively small and was cleared within a short timeframe after the due date. Our efforts to date have resulted in a significant reduction in the public sector debt, improved fiscal balances and growth in economic activity. We remain committed to our goal of fiscal consolidation through the implementation of relevant and innovative policies and we have a firm commitment to complete the three remaining structural reforms. In fact, work is quite advanced in respect of the development of a method for the proxy means testing for eligibility criteria for our Social Safety Net Programme. The finalization of the implementing regulations to the Procurement and Contract (Administration) Act and the drafting of a proposal for a comprehensive pension reform will be addressed in 2015.

33. Notwithstanding the achievements made and the formal conclusion of the IMF Stand-By Arrangement, we will remain committed to adhering to prudent fiscal management. Our immediate priority will be to save a portion of the Citizenship by Investment revenues to facilitate the financing of an accelerated debt reduction strategy as recommended by the IMF, and to build up policy buffers against adverse shocks. While we will continue the policy to

dialogue with the IMF, I am indeed very proud to report the successful completion of the three-year Stand-By Arrangement. The gains that we have achieved are reflected in our fiscal performance of which I will now provide a brief overview.

### **Performance Review 2013 Fiscal Operations**

34. Mr. Speaker, I am pleased to report that the Government's fiscal operations for 2013 resulted in a Primary Surplus of \$317.1 million or 15.2% of GDP and an Overall Surplus of \$252.6 million or 12.1% of GDP. Recurrent Revenue for the 2013 fiscal year was \$692.4 million; 30.2% above what we realized in 2012. This outturn was mainly influenced by the continued success of our Citizenship by Investment Programme which brought in fees of \$276.9 million. Revenue from taxes amounted to \$331.9 million, 2.1% below our estimate but 5.5% above the 2012 level. Taxes collected on Income, Property, Domestic Goods and Consumption and International Trade and Transactions all surpassed the amount collected in the previous year. A notable increase was observed for Stamp Duty which is consistent with the increased sale of land and property under the Citizenship by Investment Programme.

35. On the Expenditure side, Recurrent Expenditure amounted to \$446.7 million. This was 9.1% above our estimate and 6.5% higher than the amount spent in 2012. The increased expenditure was due primarily to higher due diligence fees for the Citizenship by Investment Programme application process commensurate with the increase in applications received, and an increase in the amount paid for the consumption of electricity. These increases were moderated by a reduction in Interest Payments, a direct result of the debt restructuring exercise. With Recurrent Revenue exceeding Recurrent Expenditure, a Recurrent Account Surplus of \$245.7 million was achieved.

36. Mr. Speaker, Capital Expenditure and Net Lending for 2013 was \$132.1 million or 6.3% of GDP. This was \$60.7 million higher than the estimate and \$76.6 million over what was spent in 2012. Some of the major projects that were undertaken were the upgrade of the Dr Kennedy Simmonds Highway and other road improvements, the upgrade of our education institutions including the Basseterre High School, the construction of the St. Paul's Day Care Centre and the

Warner Park Lighting that has so ably facilitated the Caribbean Premier League (CPL) cricket matches at nights. Funds were also spent to upgrade community centres, install solar street lights, upgrade the ASYCUDA system for the Customs and Excise Department, expand the Canine and Marine Unit also at the Customs and Excise Department and complete the construction of a new police station at Tabernacle.

# CONFRONTING THE CHALLENGES - MAXIMISING THE OPPORTUNITIES

## Consolidating the Recovery

### Protecting the Macroeconomic Gains from the Adjustment Period

37. Mr. Speaker, the experiences of the last several years send a clear message that we are living in a different world. The world has changed and brought with it huge challenges to our door step. We have successfully responded to many of these challenges and today our Nation stands tall, punching above our weight and delivering hope and progress at a time when countries around the world are searching for solutions to jump-start their economic engines. We believe that every challenge provides at least one good opportunity and therefore we will continue to focus on maximising the opportunities presented by the challenges that confront us. We must endeavour to tackle any existing and emerging issues that threaten our attempts to consolidate our economic recovery. In this regard, we must get busy in building competitiveness, enhancing public sector efficiency, developing social capital, maintaining safety and security, transforming the social landscape, enhancing the business climate and expanding output.

38. Mr. Speaker, in reflecting on the idea of consolidating the economic recovery we have experienced over the last two years, I am compelled to touch on a very important aspect of our current and future foundation for growth and development of this country. Make no mistake that the Citizenship by Investment Programme has been a mainstay in our economy. I do not think that I have to remind anyone about the far-reaching impact of this Programme, as the many initiatives spawned from this base is well known to the members opposite and the public at large. However, what is important for us to understand is the fact that **we, all of us, I repeat all of us must guard and protect this Programme.** We have nothing to gain by treating any issue related to this Programme as a political football. Putting it simply, when it comes to the CBI Programme we only have an interest in the things that can make it stronger.

39. The Citizenship by Investment Programme has seen remarkable growth in 2012, 2013 and 2014. Revenues have exceeded expectations contributing to our fiscal surplus and the

implementation of important programmes and projects. Having initiated this Programme since 1984, St Kitts and Nevis is now considered a pioneer and leader in this business. Over time we have improved on the original concept and we have seen other programs in the Caribbean region, Europe and other parts of the world forming or having interest in pursuing a model similar to ours. Our success is testimony to the fact that my Government has taken the necessary steps to ensure the viability and integrity of the Programme. Further, we have always provided for the highest standards of due diligence on prospective investors and commit to making any and every improvement to the due diligence process that is required by our international partners.

40. Going forward, our strategy will be underpinned by the need for continuous upgrade in key areas of the Programme's operations, with particular focus on security. Such actions will assist us to strengthen relations with important partner countries as well as help to maintain relevance and a competitive edge in the marketplace. More specifically, we will enhance the due diligence procedures by engaging additional reputable international companies and collaborating with friendly countries to ensure that the integrity and credibility of the Programme is upheld. The introduction of a new Document Management System developed specifically for the Citizenship by Investment Unit (CIU), will automate the application process which will significantly improve the operation of the Programme. Other areas of improvement will include: i) training of the entire CIU staff in Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT); ii) closer collaboration with the Financial Services Regulatory Commission (FSRC); iii) scaling up the monitoring of Service Providers and amendment of the existing compliance regulations; and iv) enhancing guidelines for prospective investors as well as for promoting the Programme. It is our intention to roll out the new system and have these reform actions taken by the second quarter of 2015. We will continue to review and improve the overall program quality, customer service, data quality, accuracy, and increase enhanced due diligence and vetting procedures.

## Building Competitiveness

### Energy

41. Mr. Speaker, an affordable and reliable energy supply remains a vital element in sustaining the continued development of St. Kitts and Nevis. The high cost of fossil fuel prompted my Government to strategise and explore options to curb the escalating cost of producing energy. Although in recent months global markets have indicated a notable reduction in the price of oil, this Government will not roll back its policy to develop alternative sources of energy. We continue to take proactive steps to facilitate the reduction in fossil fuel consumption and engender a culture of energy conservation. This is evidenced by the recently launched Light Exchange and Distribution (LED) Programme which is a collaborative effort between the Ministry of Housing, Public Works, Energy and Public Utilities and the Sugar Industry Diversification Foundation (SIDF). The objective of the LED Programme is to replace the incandescent bulbs utilized by households with Light-Emitting Diode energy-efficient light bulbs which burn 20 percent of the energy used by incandescent lighting and last 40 times longer. These bulbs also use 8 percent less energy than compact fluorescent lights. Several communities have already benefited from the Programme and work will continue to ensure that as many households as possible benefit from this important initiative. I use this opportunity to encourage residents to invest in this and other energy efficient technologies as part of their own individual drive to continue to conserve energy in their homes.

42. Mr. Speaker, we have charted an ambitious course to have renewable energy account for 60% of our energy generation by 2020. In order to adequately capitalize on the opportunities that such a transformation can bring, it is necessary to update our policy and legislative framework. In this regard, during 2014 my Government partnered with the European Union to recruit the necessary technical assistance to assist with the revision of the National Energy Policy 2011, the St. Christopher (Energy Supply) Act 2011 and the Nevis Electricity Ordinance to incorporate provisions to facilitate the use of Net-metering and Feed-in Tariffs (FITs) in renewable energy generation and distribution. Guidance was also provided on other policy alternatives and complements such as renewable portfolio standards, energy certificates and renewable energy certificate systems that can support the uptake of renewable energy technologies and enhance the

benefits of alternative energies to advance the development of the energy sector in St. Kitts and Nevis. We are pursuing these revisions in the policy and legislative framework and will complete the process in 2015 when we expect to submit the amended legislation to this Honourable House for safe passage.

43. Mr. Speaker, I use this opportunity to reaffirm the commitment of my Government to the development of geothermal energy. The development of geothermal remains an important component in providing a renewable base load of energy which will substantially reduce the cost of energy generation and thereby reduce the cost of energy to businesses and households. This is critical to building the foundation for energy security in the Federation. We continue to hear the cries of our people about the high cost of energy and feel compelled to do more to introduce cheaper renewable sources to power homes and businesses. We have considered the options and have decided that we must not only accelerate the pace of introducing geothermal energy but must also begin the groundwork for augmenting the resources in Nevis with new exploration of the resources on St. Kitts. Every Kittitian and Nevisian has a stake in the success of our twin island Federation's geothermal venture, as it holds the solution to one of the biggest challenges confronting our Nation. In the interest of the future growth and prosperity of our Nation, we must dedicate the time and resources to the development of this natural resource.

### **Business Climate**

44. Mr. Speaker, my Government through the St. Kitts Investment Promotion Agency (SKIPPA) continues to ensure that St. Kitts and Nevis attracts a continuous stream of investments as evidenced by its facilitation of a number of important development projects. Our attempts to diversify the mix of business are evident in a number of instances but the one I would like to highlight here is the ongoing negotiations with Frigate Bay Filmworks Limited for the development and production of films in the Federation. Once it is successfully launched, this initiative can support our efforts to diversify the private sector investment portfolio, provide alternative job opportunities, and facilitate knowledge transfer in film production. Attracting investments is not easy in an international atmosphere of uncertainty. However, it is encouraging to note that we are building on the strong performances from previous years, and Foreign Direct

Investment (FDI) into the country continues to increase with the approval of projects worth approximately US\$1.1 billion. An additional US\$630 million is already in the pipeline which is anticipated to significantly enhance FDI growth prospects for 2015 and beyond.

45. While we actively promote St. Kitts and Nevis as a place for establishing and operating viable businesses, it is imperative that we also rise to the challenge of ensuring that we maintain an environment that is conducive to growth and expansion of the private sector. It is very exciting to hear the good news of businesses thriving and making notable profits before and after taxes. However, we all know there is tremendous potential for expansion of the private sector and making improvements in the way we do business. Earlier this year, my Government initiated some very important technical studies aimed at tackling the outstanding weaknesses identified as impediments to the proper conduct of business in the Federation according to the World Bank Doing Business Report. The work completed to date includes a Gap Analysis of our performance under the World Bank Doing Business Report and the development of a comprehensive strategic plan for reform. It is envisaged that the Strategic Plan to Improve St. Kitts and Nevis Doing Business Rankings will be finalised by the first quarter of 2015. The time horizon for implementing this Strategic Plan is five years (2015-2019). Over the next five years therefore, we will work together with all relevant stakeholders to implement the agreed actions. Special emphasis will be placed on four Doing Business Indicators, namely i) Resolving Insolvency, ii) Enforcing Contracts, iii) Getting Credit; and iv) Registering Property.

46. Mr. Speaker, even as the five year Strategic Plan is being drafted, my Government has already initiated work aimed at improving some of the factors that affect business operations in St. Kitts and Nevis. To advance this effort, my Government with support from the European Union undertook the drafting of a new Land Registry Bill, amendments to the Title by Registration Act and the Registration and Records Act, and the development of an action plan in order to facilitate the establishment and operation of a dedicated Land Registry. We are intent on modernising land administration through a more efficient process for identifying registered land owners, enhancing storage, retrieval and maintenance of land registration records. The European Union is also assisting the Government to implement an aerial digital imaging project to produce updated geospatial datasets and maps for St. Kitts and Nevis. This project is timely as the last digital mapping exercise was undertaken almost fifteen (15) years ago. The maps produced will

be entered into the existing Geographical Information Systems (GISs) which will provide the basis for continued development of land use policy, land management, physical planning and other administrative activities. These new maps will lay the foundation for the achievement of the overarching goal of the establishment of a Digital Land Cadastral System. This System will serve as a comprehensive register of land ownership and the definition of all property boundaries outlining ownership, tenure, precise location, dimensions, and cultivated areas. All these efforts will work in tandem to reduce incidents of land disputes, strengthen the land administration system, promote improved confidence in individual rights as land owners and provide a sense of security of tenure. I use this opportunity to thank the European Union for their continued partnership in these initiatives. These clear actions towards the modernization of land administration will serve to build confidence in the way we do business and solidify our position as a premier country for investment.

### **Public Sector Efficiency**

47. Mr. Speaker, we have certainly made some notable inroads in addressing some of the critical issues affecting productivity and efficiency within the public service. We, however, acknowledge that there is more to be done. The discipline and momentum gained from the implementation of our Economic Recovery Programme will be used as the impetus to move this very important agenda of the Government forwarded. My Government continues to take steps towards the modernization of public services and to manage the cost associated with delivering these vital services. The Government's partnership with the World Bank to undertake the Enhanced Public Sector Governance and Efficiency Project is an important step towards developing a new policy framework for human resource management and public sector modernisation. As an integral part of this Project, functional reviews of four pilot line Ministries and Departments, namely the Ministry of Health, Ministry of Education and Information, Ministry of Housing, Public Works Energy and Public Utilities and the Human Resource Management Department will be undertaken. Further, emphasis will also be placed on collaboration between the Government and the private sector, development partners and other important stakeholders and customers of the various public institutions. We will continue to seek technical assistance and financing to ensure the transformation of operating processes in the

public sector. We are therefore determined to work towards positive outcomes from the various initiatives planned with a view to improve efficiency in the public sector.

48. I wish to draw your attention briefly to two other important aspects that should be given continued support as we strive to improve efficiency in the public sector. One relates to the integration of Information Communication Technology (ICT) and the other is the adoption and enforcement of standards. The importance of ICT in the enhancement of efficiency in public service delivery remains a priority for my Government. I think my reference to ICT is easily understood by most and may not necessarily need a full discussion at this point. However, I would like to elaborate a little more on the point related to standards as they are not only necessary to guide operations within the public service but they are essential to guide operations in the conduct of business.

49. Mr. Speaker, the development and maintenance of standards in our operational processes instils confidence among consumers, businesses, governments and other entities with whom we do business around the globe. As we continue to advance in our development, it will be vital to have the appropriate facilities and human capacity to formulate, implement and monitor standards that are based on international best practices and relevant industry guidelines. As we prepare for an expanded and more active international trade in goods and services with other countries we must be prepared to provide quality assurance of the goods and services we produce. In this regard, the Multipurpose Laboratory and Bureau of Standards remains a vital institution in advancing development objectives we have set for ourselves as a modern country operating in the 21<sup>st</sup> century. The Bureau of Standards will continue to be strengthened in order to keep up to date on the latest global initiatives and revisions to international guidelines.

## **Emerging Challenges and Opportunities**

### **Banking and Finance**

50. Mr. Speaker, I am pleased that on an annual basis I have been able to report to this Honourable House that our commercial banks continue to be sound and well capitalized securing

their position as a major stakeholder in the National Development Agenda. As at December 2013, the assets held by the commercial banks totalled \$6.0 billion representing a 9.3% increase when compared to the same period in 2012. During 2013, deposits grew by 12.1% to \$4.2 billion over the previous period. The Eastern Caribbean Central Bank (ECCB) continues to execute its duty which is to maintain the stability of the Eastern Caribbean Dollar and the integrity of the banking system in order to facilitate the balanced growth and development of member states. In context of the regional development agenda, a critical challenge is completing the task of creating a single financial space within the Currency Union. The work must continue in respect of strengthening the financial sector particularly as it relates to enhancing the regulatory framework and bank supervision. In this regard, the Government of St. Kitts and Nevis remains committed to the efforts of the ECCB to review and amend banking legislation with a view to achieving success in the stabilisation of the regional banking sector. In the interest of keeping the OECS Region strong, we cannot afford to delay this process. We therefore use this opportunity to signal our intention to endorse the proposals by the ECCB for legislative changes. In the very near future, we will make amendments to the ECCB Agreement and the Banking Act, and table legislation establishing an Asset Management Corporation as well as regional legislation on foreclosure.

### **United States of America's Foreign Account Tax Compliance Act (FATCA)**

51. Another challenging issue is the fact that in March 2010, the United States of America passed an Act that has far reaching effects, well beyond the shores of the USA. That Act is the Foreign Account Tax Compliance Act, otherwise referred to as FATCA. FATCA was enacted by the USA as a means of combating tax evasion by ensuring that the US Internal Revenue Service (IRS) could obtain information on US persons who may be investing and earning income through non-US institutions. Such income is taxable by the USA. FATCA requires financial institutions outside of the USA to report to the IRS any tax relevant information on US citizens who have assets of US\$50,000 or more in their institutions. In the context of St. Kitts and Nevis, such institutions would include entities that accept deposits in the ordinary course of banking or similar business such as commercial banks, credit unions and insurance companies. If these institutions do not submit the required information, a 30% withholding tax may be levied on

certain payments and, in the case of the banks, they run the risk of losing their correspondent banking relationships – a situation that would cripple the operations of our banks and quite possibly cripple our ability to freely conduct business with the rest of the world. Mr. Speaker, these institutions really have no option but to comply.

52. My Government recognized the challenges that were confronting the financial institutions as they would have had to revisit their customer acceptance, account openings and due diligence procedures and undoubtedly incur some expense to change their reporting and data management systems. Changes will also have to be made to the legal framework to allow the affected financial institutions to pass on the required information. It is for this reason, Mr. Speaker, that my Government will bring to this Honourable House a Bill entitled Foreign Account Tax Compliance (United States of America) (Implementation and Enforcement of Inter-Governmental Agreement) for safe passage. The Bill has been drafted by the Legal Subcommittee of the ECCU Working Group on FATCA – a group that was initiated by the ECCB to treat with the compliance of financial institutions that are licensed in the ECCU territories. In the mean time, my Government took the opportunity to come to an agreement, in substance, with the USA on an Inter-Governmental Agreement. We expect to sign this Agreement in the very near future. The Agreement will facilitate the transfer of the required information by the relevant financial institutions to the designated Government Competent Authority. The Competent Authority would then submit the information to the US IRS on behalf of the financial institutions. The introduction of FATCA means that the Government will therefore have to incur costs to develop the capacity to send this information in a manner that ensures confidentiality. This will include the acquisition and maintenance of software to facilitate the transfer of information in the specified format and the training of staff.

### **Organization for Economic Cooperation and Development's (OECD's) New Standard for Automatic Exchange of Information**

53. Mr. Speaker, several years ago, the Federation was on the OECD's "Grey List" for not having adequately implemented the standards of fiscal transparency. We were removed from that list after we did a number of things – (1) we renewed our commitment to the global

community to implement the international standards for transparency and exchange of information; (2) we enacted legislation that would facilitate exchange of information for tax purposes; and (3) we signed well over the minimum number of twelve (12) Tax Information Exchange Agreements (TIEAs). Our implementation of the standards in practice was recently reviewed by our peers and we were assessed as being Largely Compliant with the international standards.

54. Even though we received such a favourable rating, we cannot become complacent as the environment for exchanging information for tax purposes keeps changing. In fact, it has now evolved to a point where Automatic Exchange of Financial Account Information has emerged as a new global standard. The new standard is to a large extent based on the USA's FATCA, and will require similar due diligence procedures and reporting obligations by the relevant financial institutions. The first set of exchanges under the new standard will take place in 2017 but jurisdictions with international financial centres will have until the end of 2018 by which to comply. The Global Forum recognizes that some jurisdictions, like St. Kitts and Nevis, would require technical assistance to implement the new standard. Special attention is therefore being paid to Developing Countries as it is understood that this group of countries would have capacity constraints and resource limitations with respect to the implementation of the new standard. Automatic Exchange of Information is seen as an opportunity for Developing Countries to assist with the fight against cross-border tax evasion and fraud as well as to enhance our reputation in the international arena. It, however, will pose a challenge for us as it will require significant financial resources to acquire the necessary software that could facilitate the transfer of information from financial institutions to the foreign tax authorities. The implementation of the new standard will also mean that staff will have to be trained and redeployed from our core tax administration functions to undertake activities that will be required to exchange information automatically. We are committed to the work of the Global Forum but we will need assistance to build capacity and develop the necessary domestic infrastructure. As we will have competing priorities, we will also need to ensure that we are able to strike a balance with our tax reform agenda that will have an impact on our local economy and our obligations to the international community.

## Financial Services

55. Mr. Speaker, still focusing on the financial sector, the Financial Services Regulatory Commission (FSRC) continues to fulfil its mandate to monitor and ensure Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) compliance by regulated entities. In this regard, the FSRC has increased the number of onsite examinations of financial institutions and licensed trust and corporate service providers. In May 2014, at the thirty-ninth (39<sup>th</sup>) Plenary Meeting of the Caribbean Financial Action Task Force (CFATF), St. Kitts and Nevis was removed from the CFATF's International Cooperation Review Group monitoring process as a result of the significant progress made by the Federation in improving our AML/CFT supervision and regulatory regime. The Task Force noted that St. Kitts and Nevis has established the legal and regulatory framework to meet the commitments in its agreed Action Plan for addressing deficiencies and strengthening the regulatory regime. This is a significant achievement for our Nation.

56. During 2015 we will focus on preparing for the Fourth (4<sup>th</sup>) Round of Mutual Evaluations by the CFATF in 2018. The efforts of the FSRC and other allied institutions will be intensified to ensure that St. Kitts and Nevis maintains this high level of compliance with the recommendations of the Financial Action Task Force thereby demonstrating the effectiveness of our regulatory and supervisory systems. The National Financial Action Task Force has been mandated to identify and assess the relevant risks facing our country in order to devise the appropriate actionable strategy and standards to mitigate the systemic risks. This will go a long way in helping to preserve the integrity of our financial services sector. We therefore encourage all individuals and institutions to pay attention to the new developments in the financial and corporate services sector, especially emerging threats and risks to the integrity and stability of the sector. Every effort should be directed towards ensuring that adequate training and technical assistance are sought by all financial institutions, non-bank financial businesses and professionals, including licensed trust and corporate service providers. The support and cooperation of all stakeholders in both the public and private sectors is encouraged as the robustness of our financial sector in the detection of money laundering and terrorism financing will serve to maintain our edge in investment.

# MAJOR PROGRAMMES AND POLICIES

## BUILDING SOCIAL CAPITAL

### Social Development

57. Mr. Speaker, one of the most important lessons learned as our Nation emerges from the ravages of the economic downturn is that adversity can provide the start of opportunities for transformational change that bring about long-lasting improvements in the lives of a resilient people. As we chart the course for the next stage of our social and economic advancement, we remain cognizant that the future growth of this country rests on our ability to accelerate the development of our human capital in an effort to reduce poverty and energize growth and competitiveness. Franklin Delano Roosevelt said, “The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little.” Therefore, while we continue to invest in the development of a new and vibrant economy, it is imperative that my Government remains dedicated to fulfilling our social protection reform agenda to ensure that the most vulnerable within our society are adequately equipped with the knowledge, skills, abilities, and support required to fully benefit from the opportunities that are made available to them.

58. During the course of 2014, the Ministry of Social Services, Community Development, Culture and Gender Affairs commenced the implementation of some of the key activities outlined under Phase 1 of the 2013-2016 National Social Protection Strategy which are critical to addressing many of the challenges faced in eradicating poverty. These are:

1. The review and reform of the Social Development Assistance legislation;
2. The development of a Single Beneficiary Registry and a monitoring system for administrating social assistance;
3. The establishment of an objective targeting formula for means testing; and
4. The implementation of the Mold, Empower, Nurture, Direct (MEND) Families Programme as a consolidated cash transfer social safety net.

59. In order to provide a modern legislative framework which will facilitate the efficient administration of social assistance and social protection reform, my Government with the assistance of the European Union undertook the revision of the Social Development Assistance Act (1998). The new Bill incorporates key clauses that would be essential for providing social services in a modern society. The revised legislation contemplates the inclusion of several new clauses to address i) the implementation of a complaint and appeal mechanism, ii) financial and process audits, iii) external evaluations, and iv) co-responsibility mechanisms that would contribute tremendously towards improving the quality and coverage of services, thereby facilitating greater impact of initiatives. The updated legislation is being prepared for submission to this Honourable House in 2015 and we are fully confident that it will receive the necessary support to make it law. This would provide the vehicle for the delivery of our social assistance programmes while ensuring that the objectives outlined in the National Social Protection Strategy are implemented in an efficient and effective manner.

60. Mr. Speaker, at the nucleus of my Government's social development plan is the principle that strong and stable families are the foundation of our society. In this regard, in February of this year, twenty one (21) of our most vulnerable families commenced participation in the pilot phase of the MEND Families Programme. This Programme will be implemented over a period of two (2) years and represents the consolidation of four social assistance programmes namely; the compassionate grant, poor relief, school uniform and food vouchers. There will also be co-responsibility targets such as; attendance at budget and family planning workshops, participation in skills training workshops, regular school attendance and regular health checkups. This is a new approach to social assistance delivery which emphasizes not only the responsibility of the State to the individual/household but the responsibility of the individual/household to the society. The objective of the Programme is to ensure that upon completion of the inception phase in 2016 the participating families would be empowered to make informed financial and life decisions that would place them in a better position to break the cycle of intergenerational poverty. This Government will continue to provide resources to finance our other high quality social assistance programmes which target our children, physically and mentally challenged, and our elderly.

## Education/Human Capital Expansion

61. Education is the cornerstone of the development of our Federation. For this reason, my Government has invested heavily in education even during difficult economic times. The 2015 Estimates is no different. We will continue to provide more and more opportunities for our people to receive quality education and training to enable them to make a positive contribution to the development of our beloved Federation. I am therefore pleased to report that the Education Foundation has been launched and is now operational. It has been created specifically to assist those who are desirous of accessing improved learning opportunities. Other programmes that will be implemented in 2015 include:

- The establishment of a Student Support Services Department as part of the Ministry's Child Friendly School initiative to help children and young persons with learning barriers to achieve their education and development potential; and
- The Successful Transition and Academic Readiness (STAR) Programme which seeks to address skill gaps by strengthening students' skills and performance in remedial English, Reading and Mathematics.

62. Mr. Speaker, in order for our Federation to remain on the cutting-edge of development it is important that our most important resource, our people, is provided every opportunity to acquire educational qualifications and certification beyond the secondary level. In order to make this goal a reality, in August of this year my Government, in partnership with the Sugar Industry Diversification Foundation (SIDF), launched the Recognizing Everyone's Ability to Climb Higher (REACH) Programme. This initiative has two components namely; the Educational Scholarships for Students in Advanced Institutions (ESSAI) Programme and the Training for Optimal Performance of School-leavers (TOPS) Programme. The ESSAI initiative awards two-year scholarships to students pursuing studies at the Clarence Fitzroy Bryant College (CFBC) - Division of Arts, Science and General Studies and Division of Technical and Vocational Education and Management Studies, as well as the Nevis Sixth Form College. This scholarship provides an annual allowance of \$2,500.00 with an additional \$250.00 for every pass above five (5) CXC CSEC subject passes up to eight (8) subject passes and an additional \$100.00 above (8) subject passes. Recognizing the importance of a human resource base trained in critical areas

such as mathematics, biology, chemistry, physics and foreign languages each student enrolled in these subject areas will receive an additional \$1,000 per year as a special incentive.

63. Under the TOPS Programme, individuals are provided with a two-year grant to pursue technical and vocational studies at the Advanced Vocational Education Centre (AVEC) leading to the Caribbean Vocational Qualification (CVQ) certification. To be eligible for an annual grant of \$2,000.00, students must have completed compulsory education or fifth form in the Federation. These scholarship programmes are also being provided to those students who had already completed their first year in either of the institutions identified or may have been desirous of transferring from AVEC to the CFBC. The professional tier of the TOPS Programme provides short-term professional and life and work skills training to recent school leavers who are committed to advancing their personal and professional development in preparation for employment. In addition, participants will receive a monthly stipend of \$1,400.00. To be eligible, students must have completed fifth form, AVEC, CFBC or the Nevis Sixth Form College in 2014.

64. Mr. Speaker, our education system is known around the Caribbean for high quality, equity and comprehensive access. Our Early Childhood Education System is also highly rated and used as a model for improving early childhood care in a number of countries around the region. Our early childhood system provides care and education to about 2100 children both in public and private centres. My Government is determined to keep this edge that we have already accomplished in terms of quality and ease of access to education. Therefore, we took some time out to take a deeper look at the operations of the Early Childhood Education System and found that there were a few areas where we can provide additional support to maintain our edge in this vital aspect of caring for our children. Mr. Speaker, we are a Government that pays attention to our children and their parents. Therefore, I am very pleased to announce that this 2015 Budget will provide support to all children whose parents find it difficult to meet the cost of sending them to pre-school. We will further subsidise the cost of early childhood education with the provision of an additional subvention via the Ministry of Education. This will provide a grant of up to \$25.00 per week for each child receiving assistance. This programme will be rolled out when the school term reopens in January 2015 and more details will be provided in a subsequent communication.

## Health Care

65. The Ministry of Health has made remarkable gains over the past two decades. These include but are not limited to increased life expectancy, a decline in infant and maternal mortality rates, and an efficient expanded program on immunization that is second to none in the region. However, like many other health systems, the health sector is faced with the tremendous task of positioning itself to manage the challenges faced in the delivery of 21<sup>st</sup> century health care services. Diseases of sanitation, poor hygiene and under nutrition that were characteristic of past decades are no longer today's main challenges. In fact, we have witnessed a drastic shift in the epidemiological profile of our Federation. Life style diseases, more popularly referred to as Chronic Non Communicable Diseases, have emerged as the leading causes of morbidity and mortality in St. Kitts and Nevis. Also, due to the impact of globalization, new and re-emerging infectious diseases that can have a rapid impact on our Nation's health are of concern to my Government.

66. Hence, we will continue with our efforts to reorient the health system to effectively prevent and treat Chronic Non Communicable Diseases and new and re-emerging diseases while simultaneously implementing measures to offset the financial burden they place on the system. Therefore, we intend to continue implementing our health agenda by focusing on the following priority areas that were selected based mainly on national needs, the Federation's disease burden, and the Millennium Development Goals.

1. Non Communicable Disease and Physical Activity
2. Health and the Environment
3. Family Health
4. Health Systems Development and Financing
5. Mental Health and Substance Abuse
6. HIV/AIDS and STIs and Infectious Diseases
7. Human Resource Development

67. Our strategies will involve a full commitment to Primary Health Care renewal, including the reorientation of our population through increased health education and promotion to encourage healthier living. This will be based on the cause and effect principles of engaging in risky behaviour related to lifestyle. In 2015, the Ministry of Health will continue to advance our

agenda by revising certain pieces of legislation and the implementation of various interventions to ensure a strong and robust health system.

68. We have made major investments in the security of the J.N. France General Hospital, through the retrofitting of the Private, Surgical, Medical and Maternity wards. These include major up-grades and the installation of security cameras and monitors throughout the facility. In addition, we have approved new positions to establish a security team to support the two armed police men stationed at the Institution. This investment in security will ensure that staff, patients and visitors can work, visit and receive medical attention in a safe and secure environment.

69. The Government, through the Ministry of Health, is committed to the Renewal of Primary Health Care services to adequately address our changing epidemiological health profile. In doing so, the Ministry will continue to work with regional and international partners to ensure that our public health workers are equipped with the appropriate training necessary to function at an optimal level in the delivery of primary health care. The Government will continue to put plans in place to mitigate against the global Ebola Virus threat. We continue to have a three pronged approach to this threat, that is, border protection and surveillance, training and procurement of equipment, and implementing an appropriate communication strategy to keep the citizens and residents of this Federation fully informed. To date, training of all categories of staff is ongoing. We have procured Personal Protective Equipment (PPE) in accordance with the standards set by the WHO. In fact, the Ministry of Health commenced its Ebola preparations and response in mid August, immediately following the declaration of Ebola as a public health emergency of international concern by the World Health Organization. My Government wasted no time in putting in place travel prohibitions on passengers from Guinea, Sierra Leone and Liberia in an effort to protect our people. These prohibitions have also been extended to persons who have visited these countries in the preceding 21 days before arrival in the Federation. We will continue to work with our external partners like the Pan American Health Organization (PAHO), WHO and Cuba to ensure that the Federation is prepared for the Ebola Virus threat.

## Housing

70. In order for our progressive Nation to maintain its edge in an ever evolving global environment, it is important that our most valuable resource, our people, are equipped with the necessary assets to facilitate their sustainability and that of generations yet unborn. In our efforts to generate sustained economic growth and development of our human capital, we have devised policies and programmes within the housing sector which provide a balance between people empowerment and economic stimulation. In 2014, this Government reinvigorated its land and homeownership programme through the launch of the Independence 30 Habitat Housing Initiative which has a goal of the construction of one thousand (1000) homes. To date, we have approved the construction of approximately 197 homes to be built in nine (9) communities in St. Kitts namely; Challengers, Halfway Tree, Fig Tree, Pine Garden Horizon, La Guerite, Saddlers Park Housing Extension, Ottleys Extension Housing Development, Estridge Housing and Stone Castle in Tabernacle. The National Housing Corporation (NHC) has commenced the building of a number of these housing legacies. I say legacies because these homes will foster generational empowerment and traditions. Work has commenced on approximately six (6) housing legacies in Challengers, twenty-seven (27) housing legacies in Halfway Tree, twelve (12) housing legacies in Fig Tree, fifteen (15) housing legacies in Pine Garden Horizon, five (5) housing legacies in La Guerite and nineteen (19) housing legacies in Ottleys and works are expected to commence shortly in the Saddlers, Estridge and Stone Castle communities.

71. In addition to the new initiatives, we continue to develop our existing housing programmes such as Housing Solution 500 and the Ex-SSMC Workers Housing Assistance Programme. Our Housing Solution 500 programme has provided approximately 368 homes to our citizens. In 2014, twenty-one (21) houses were completed and another fourteen (14) homes remain under construction. In 2015, an additional ninety-seven (97) homes are scheduled to be completed. My Government approved \$9.6 million to recapitalize the Ex-SSMC Workers Housing Assistance Programme to facilitate the re-launch of this initiative to continue the improvement and construction of over 100 homes for those ex-sugar workers who had not benefited during the earlier phase of the Programme. About eighty-seven (87) former sugar workers will receive new homes and another thirteen (13) will benefit from greatly improved residences. This is a clear indication of my Government's appreciation for the service that was

provided by our ex-sugar workers in building and sustaining our Nation during the early decades of our development. It is only fitting that they are given this extra tangible means of support in keeping with our commitment to ensuring that they continue to live with pride and dignity.

72. Mr. Speaker, the sustainability of our development rests both on the agility of our human capital to engage in new ventures while at the same time reaping the rewards of their past investment. In this regard, our programmes must be inclusive of all facets of the society leaving no one behind. We have crafted housing solutions that have benefitted low and middle income families most of which are single female headed households. Recognizing that this familial structure comes with unique challenges and a heightened level of vulnerability, in January of this year my Government, through the NHC, launched the National Housing Corporation Housing Refinancing and Incentive Programme and the National Housing Corporation Land Refinancing and Incentive Programme. These Programmes are designed to provide relief to homeowners who have been paying annual mortgage interest above 6% prior to January 1, 2014. The new initiatives will reduce the current mortgage interest from a range of 5% to 8% to 5% to 6% per year.

73. We went one step further and made provision for all persons paying for houses provided by the NHC to be eligible for their interest arrears as at the end of December 2013 to be cleared once they make their payments on time over a twenty-four (24) month period, that is, during 2014 and 2015. Additionally, those who are currently making payment on land purchases will benefit from a reduction in the interest rates from 10% to 7% per year. Similarly, all persons paying for lands with the Corporation are eligible to have their interest arrears accumulated prior to December 2013 cleared if payments are made on time and consistently over the twelve months of 2014. We recognized that there was need to give careful attention to our young professionals who have returned home hoping to build their lives having completed their studies but are challenged by their student debt obligations. Sensitive to the needs of these young persons, this Government has once again partnered with the SIDF to develop the Graduate Relief Assistance Student Programme (GRASP). GRASP offers individuals who have graduated from colleges and universities over the past four years the opportunity to access financing up to \$500,000 at an interest rate of 6% to refinance their existing student loan, purchase land, and build or buy a

home. The response to these initiatives has been overwhelming and I encourage our people to capitalize on these opportunities devised to serve you in achieving your personal goals.

## **Safety and Security**

74. Mr. Speaker, the issue of crime and the maintenance of law and order is a complex issue which requires cooperation and dedicated support from all groups within our society. This Government has been taking proactive steps and will continue to create innovative policies and programmes targeted at removing the scourge of criminal activity in our Federation. The records show that as a result of strong leadership at the executive and administrative levels within the security forces, we have been successful in reducing the crime rate quite dramatically over the past three (3) years. Notwithstanding these accomplishments, recent occurrences have reminded us that there remain some persons in our society who have lost our sacred value for life and are intent upon infringing upon the rights of law abiding citizens. When our Nation confronts major challenges like this I must repeat what I said earlier regarding the CBI, there is no room for politics. No reasonable person can expect the Government to tackle crime alone. Rather it is vital that **all of us, all, all of us** band together to rally against the misguided few, the minority in our society who insist on acting against the law. Let us therefore then, individually and collectively, redouble our efforts to reduce crime even further, so that the Federation of St. Kitts and Nevis can continue to be a leader and shining beacon not only within the Caribbean but internationally as well.

75. During 2015, my Government will continue to implement a number of on-going programmes and projects that are already yielding good results in terms of reducing criminal activity. We will also continue the implementation of a multi-year programme to enhance the capacity of our security forces, prison officers and our rehabilitative specialists. As a part of the 10<sup>th</sup> European Development Fund (EDF) Safety and Security Improvement Programme (SSIP), technical assistance was acquired to assess the capacity constraints of the police and prison services and to develop a five (5) year plan of action. This technical assistance has also provided for the development of a detailed human resource policy and staffing manuals inclusive of practical systems to ensure objective and transparent processes for promotions and appointments,

aligned with the Public Service Standing Orders and human resource policies. This is geared to enhance the effectiveness and efficiency of operations and to improve morale through transparent career path guidelines.

76. In today's environment, the utilization of technology and the integration of modern equipment are crucial in preparing for success in law enforcement. Therefore, my Government has continued to collaborate with our development partners to ensure the upgrade of existing systems and expansion of operational capacity. During 2014, with the assistance of the Taiwanese Government we were able to commission Phase One of our digital Closed Caption TV (CCTV) Programme with the deployment of forty-eight (48) megapixel cameras in strategic locations. This cutting edge CCTV system is slated to provide increased levels of surveillance throughout the entire Federation particularly in those isolated areas and identified hotspots where the nefarious few have sought to disrupt our way of life through senseless acts of violence. This system is being monitored by well trained personnel twenty-four (24) hours per day.

77. The Government of the Republic of China (Taiwan) has also provided assistance with the upgrade of the vehicle fleet when it presented ten (10) new police cars equipped with the latest in policing technology to ensure that our police officers can increase their mobile patrols to maintain an advantageous position. The European Union under the 10<sup>th</sup> EDF Safety and Security Improvement Programme also continued to play a major role in the upgrade of the vehicle fleet through the provision of the first Mobile Command Unit in the Federation which will bolster security in crime hot spots and remote areas. It will also be deployed at important national events and during times of national emergency. Critical for the people of Nevis, is the procurement of a new Fire Tender dedicated specifically for use on Nevis. Our development cooperation with the EU has also resulted in the purchase of six (6) four wheel drive vehicles for the security forces in order to improve their ability to patrol and respond in areas where the terrain is more rugged.

78. In 2015, also through the Safety and Security Improvement Programme, my Government will pursue other major initiatives to enhance the technological capacity of the security forces such as the procurement of information technology equipment, and additional surveillance and monitoring equipment. These efforts will assist us to complete the second phase of the on-going

upgrade of surveillance programmes and will result in the deployment of approximately one hundred (100) CCTV cameras.

79. The provision of modern infrastructure is vital to the maintenance of efficient operations of the security forces. In this regard, my Government, in collaboration with the European Union under the 10<sup>th</sup> EDF Safety and Security Improvement Programme, broke ground earlier this year to commence work on the construction of our new, modern Multipurpose Training Facility that is designed for use by our security personnel operating in the public and private sector. It is also our vision for this facility to be developed as a regional centre of excellence for security training. Work is currently ongoing and we anticipate completion by the end of 2015. In March of this year, we were pleased to officially open the new police station in Tabernacle which was constructed in partnership with the Government of Mexico. This station includes identical facilities as the Dieppe Bay Police Station and provides for deployment of police officers, Customs and Excise officers and Fire and Rescue services personnel. Plans are already being formulated for the construction of a new police station in the town of Sandy Point and extensive refurbishment to the Newcastle Police Station on Nevis.

80. Mr. Speaker, we recognize that improving safety and security is not complete without the appropriate legislative framework. The laws of the Federation should be kept up to date in order to provide a holistic and sustained approach to both crime fighting and rehabilitation of offenders of the law. Therefore, during 2014 my Government presented for debate and subsequently passed in this Honourable House several pieces of legislation to advance this mandate. The Cluster Munitions Prohibition Act and the Anti-Personnel Mines Prohibition Act were passed to prohibit the stockpiling of certain dangerous munitions and weapons in the Federation. The Domestic Violence (Amendment) Bill 2014 has been enacted to include provisions allowing for harmonization with similar legislation in the region as part of an initiative being spearheaded by the OECS Family Law Reform Project allowing for greater protection of our people. A vital piece of legislation which was passed was the Criminal Records (Rehabilitation of Offenders) Act 2014 which provides for persons convicted of certain categories of minor offences to apply for their records to be expunged once the relevant criteria such as the applicable waiting period and evidence indicating the rehabilitation of the offender have been met. This type of law is demonstrating the progressive nature of our judicial system and provides our people, particularly

young persons who have made a mistake, with the assurance that genuine attempts to put one's life on the right path are not encumbered by the repercussions associated with having broken the law in the past. My Government also presented and passed the Police Complaints Act 2014. This legislation defines the process for receipt, investigation and determination of complaints made by the public against the police and for related matters. This represents a major step forward in ensuring increased accountability within our primary law enforcement agency, the Royal St. Christopher and Nevis Police Force, and will be implemented through the Office of Professional Standards which will be made fully functional in 2015. The legislation will ensure that our security forces are able to effectively discharge their duties utilizing the highest possible standards, while guaranteeing that the rights of our citizens are not infringed and justice can prevail.

## **Economic Expansion**

### **Agriculture**

81. Mr. Speaker, the agriculture sector continues to be an important contributor to the economic and social development of this Nation. Through the implementation of various programmes the sector has embodied the national agenda to enhance food security and nutrition, reduce food loss, empower our women and young people and encourage the involvement of communities in food production. The commitment of my Government to continue the transformation of the sector has been articulated in the Agriculture Development Strategy (2013-2016). The Strategy presents a paradigm shift from a sub-sector specific approach to the holistic development of the sector which adopts the value chain process giving equal value to all stakeholders. This inclusive approach addresses the needs of suppliers of inputs, service providers, financiers, and wholesalers and retailers to create efficiencies which would reduce the overall cost of production, increase profit margins and enhance the reliability of supply. The incorporation of more sustainable processes and practices have begun to show results as

indicated by a positive growth rate of 12.2% recorded in 2013 after having declined by 5.0% in 2012.

82. The development of the 20-acre St. Kitts Eco Park at Sir Gilles is an example of this new dynamic approach to agricultural development resulting in the re-branding of the sector not just as a vehicle for food production but an attraction or destination. Over the past two (2) years we have worked with the Republic of China (Taiwan) to develop this new experience which provides an opportunity to conserve and display the biodiversity and culture of our proud Nations. Facilities such as the Green House and Tourist Service Centre, a tea house, restaurant, interpretation centre, and a botanical garden have been constructed to enhance the experience of our citizens, residents and visitors. On 21<sup>st</sup> November, 2014 the Park was officially opened therefore the public can visit and enjoy the picturesque scenes. At the same time visitors can sample our local fruits and vegetables while gaining insights into our heritage as the Park pays homage to the legacy of the sugar industry. The collaboration between the agriculture and tourism sectors is not a new idea but the Eco Park is the latest addition to our growing number of first class attractions that will assist us in wooing more discerning travellers. This attraction is testimony to our commitment to reduce the carbon footprint of development making us more appealing to the discerning traveller who does not want to contribute to additional “food miles”, that is, the distance food is transported from production to the consumer. The St. Kitts Eco Park also provides a tangible means by which our citizens and residents can appreciate and develop expertise in horticulture effectively merging research and development to enhance crop yields, nutritional value and, pest, disease and environmental resistance while utilizing smaller, and when necessary, technologically enhanced environments to improve crop and flora propagation. The Eco Park has the potential to provide a new dimension to the traditional agriculture sector while enhancing the tourism product and increasing revenue generation.

83. Agro-processing remains a viable niche market as our people continue to see the benefits of a diversified agricultural market. As a result of the increased interest in this sub-sector, my Government collaborated with the Republic of China (Taiwan) which understands the vision of this Government to transform the agriculture sector and therefore partnered with us in establishing the agro-processing facility since 2007. The Food and Agriculture Organization (FAO) and the Caribbean Agricultural Research and Development Institute (CARDI) are also

important partners in this venture. With continued investment in the sub-sector over the past seven (7) years, the Unit now produces twenty-three (23) products including plantain and banana chips, yogurt, various drinks, guava cheese, jams and jellies which are sold locally and regionally and are in great demand by citizens, residents and visitors.

84. Mr. Speaker, my Government took proactive steps in 2013 to reduce the impact of the challenges faced by the Livestock sub-sector which had resulted in a significant reduction in production. These efforts included the reengineering of the genetic stock, upgrade of the infrastructure and use of advanced technology which has resulted in a rebound in output which recorded an increase of 15.6% as at June 2014 when compared to the same period in 2014. In order to ensure that the gains are not short lived, my Government solicited the assistance of the FAO in the development, modernization and strengthening of the small ruminant industry. The objective of this FAO initiative is the enhancement of the capacity of farmers to build resilience in the small ruminant stock through the provision of training in the use of local forages or feed by-products in small ruminant nutrition, breeding and reproduction techniques, housing, pasture and fodder bank development and management. Training will also be provided in preventative veterinary medicine and health care, record keeping and market development. Livestock Extension Officers, animal health assistants and veterinarians will also be targeted to enhance their knowledge and abilities to provide expert advice in the development of the sub-sector. A Memorandum of Understanding has been signed and work is expected to commence in 2015. My Government believes that this initiative will strengthen the associations for long-term development of the subsector and enhance the capacity of St Kitts and Nevis to address the limitations to small ruminant production.

## **Tourism**

85. Mr. Speaker, the performance of our tourism sector continues to inspire great confidence from our nationals, visitors, investors and the private sector as the decision of my Government to discontinue mass tourism and pursue high-end tourism has proven to be one based on sound market assessment and an understanding of sustainable tourism development. The benefits of this strategy do not easily translate into increased visitor numbers but into greater expenditure as

we attract high value and ultra-high value visitors. As a result of our global partnerships and continued investment, St. Kitts and Nevis continues to receive accolades the world over identifying it as a premier tourism destination. In 2014 we were ranked third (3<sup>rd</sup>) on the List of the Best Islands in the World and the Best Caribbean Vacations, seventh (7<sup>th</sup>) on the list of Best Beach Honeymoon Destinations in the World, eighth (8<sup>th</sup>) in the List of Best Caribbean Honeymoons and the Best Affordable Caribbean Destinations by U.S News and World Report, and number eight (8) on the list of the Top ten (10) Best Islands for a Holiday by ‘Places to See In Your Lifetime’. We have also ranked number four (4) on the List of Destinations Leading the Caribbean in the Number of Hotel Rooms Under Construction as cited by the latest Caribbean/Mexico Hotel Development Report. These are a mere few of the achievements as time will not permit me to name them all. For many years we spoke with confidence of the development of sports tourism and in 2014, we brought what was thought to be a dream into reality with the hosting of the semi-final and final cricket matches of the Caribbean Premier League (CPL) which was hosted in our very own premier cricket venue of Warner Park under lights. Based on the assessments undertaken, St. Kitts and Nevis was viewed by 220 million households worldwide, generated an economic impact of US\$26 million and has been adjudged the Best Pitch and Best Outfield of the 2014 series. As we look to 2015, my Government will continue to pursue all opportunities to provide a high quality product that caters to the particular interests of both our nationals and visitors in order to facilitate sustained economic growth and development, maintaining our edge in the tourism sector.

86. In order to meet the demands of the visiting public for quality accommodations, my Government has continued to facilitate the development of private-sector driven projects that meet the standard of our targeted clientele. In July of this year, Kittitian Hill opened the Great House of its Belmont Farm Hotel, a restaurant aptly named ‘The Kitchen’ and The Mill Bar. This opening was complimented by the launch of an employee training programme that includes a culinary academy which is a clear indication of a holistic development approach. It is anticipated that shortly we will see the opening of eighty-four (84) guest houses and seven (7) four-bedroom farmhouses at Belmont Farm, to be followed by the Beach House Bar at the iconic Golden Lemon Inn, and the Irie Fields Golf Course. This past June, Christophe Harbour opened the Salt-Plage Beach Bar and Dock facility at White House Bay, designed to appeal to discerning guests from both land and sea. The much anticipated construction of the Park Hyatt Hotel at

Banana Bay is now well underway and is expected to be completed by the end of 2015 and the works on the Koi Resort and Residences at Half Moon Bay is proceeding nicely. The Imperial Residences Project, which comprises eighty-six (86) one-bedroom condominium units in six buildings, is nearing completion. Meanwhile, our historic Ocean Terrace Inn (OTI) continues to undergo extensive renovation and refurbishment and is scheduled to reopen shortly as a much improved Four-star hotel. The forty (40) year old Royal St. Kitts Hotel has also been undergoing major renovations which include upgrades to its 175 guest rooms into studio and one (1) and two (2) bedroom accommodations, improvements to the conference centre, the night club, a restaurant and the lobby, all of which are anticipated to be completed by the end of this year. During 2015, work will commence on Phase II of the renovations which include the upgrades to the remaining seventy-eight (78) guest rooms into thirty-six (36) two-bedroom suites. Upon completion of this Phase in August of 2015 its status will be upgraded to a Four-star Hotel.

87. Mr. Speaker, the ongoing growth and diversification of our tourism sector justifies the significant investment in our public infrastructure at our ports of entry which provides a welcoming atmosphere for all travellers upon arrival in the Federation. The world-class YU Lounge in the new private jet terminal at the R. L. Bradshaw International Airport is already welcoming passengers from both private and commercial aircraft. This private jet facility particularly appeals to high and ultra high-end travellers who currently and over the medium to long term will frequent developments such as Christophe Harbour, Kittitian Hill, Park Hyatt, Four Seasons Resort and Residences, Koi Resort and Residences and other similar luxury developments. It will also complement marina development projects now underway on both St. Kitts and Nevis, particularly the super yacht marina located at Christophe Harbour. The cruise sector continues to expand with an estimated increase in cruise passenger arrivals to more than one million passengers during the 2014/2015 season. To facilitate the increasing size of the cruise vessels, the construction of a second pier at Port Zante is scheduled to commence in April 2015 with an estimated completion of June 2016. The estimated cost of this investment is in the region of US\$32 million.

88. Mr. Speaker, our direct airlift into the Federation has proven to be a critical component in the development of our tourism product which has enhanced our appeal as a destination of choice and demonstrates our strong relationship with top carriers such as American Airlines,

Delta, Air Canada and British Airways. The visitor numbers from the Caribbean market had experienced a significant decline during the economic downturn but I am pleased to report that our recent meeting with top LIAT officials has given indication of a more productive relationship with LIAT in the future.

## **Manufacturing**

89. The Manufacturing Sector continues to perform adequately despite the challenges of the slow economic recovery in the major markets, in particular the USA. However the sector has been pro-active by diversifying its markets to include Poland, Turkey, Malta, Belize, Singapore, Australia, and Colombia. The most dynamic export markets between 2009 and 2013 included Poland, Belgium Greece, Australia, Brazil, China, Montserrat, and Germany.

90. The manufacturing sector continues to be a major contributor to the socio-economic development of the Federation. It contributed approximately 8% of the GDP over the last three years. It is the fifth highest contributor to GDP, and sustains over 2000 jobs in the Federation (of which more than 90 percent are women) either directly or indirectly. That translates into over 10% of the Federation's total workforce most of which are employed year-round. My Government appreciates the significant contribution the sector continues to make to the Federation's economy and will continue to provide technical and financial assistance to the sector whenever possible. Therefore, in an effort to ensure the structured development of the sector and to maintain its prominence, my Government joined with the Manufacturing Division of the St. Kitts and Nevis Chamber of Industry and Commerce and developed a Strategic Plan for the sector captioned "National Manufacturing Strategy 2014 – 2020. This Manufacturing Strategy was approved by Cabinet on 23<sup>rd</sup> July 2014 and launched in November 2014. Within this comprehensive policy document there are clear guidelines and obligations on the part of Government and the private sector respectively, to achieve the objectives of the Strategy.

91. The Manufacturing Sector will be in a good position to take advantage of the expanded market opportunities created by accessing the vast economy of Brazil through the facilities of the Guyana-Brazil-St. Kitts and Nevis Partial Scope Agreement (PSA). Whilst we await the

completion of the final administrative arrangements by the Government of Brazil, the Ministry of International Trade, Industry, Commerce and Consumer Affairs is preparing the manufacturers to export their finished products free of duty in light of the concessions obtained through the PSA. The Government is aware of the many challenges facing the Small and Medium Size Enterprises (SMEs) in the Federation, in particular access to finance and the cost of electricity. Through the Caribbean Development Fund, the Government secured loan financing to the tune of US\$3 million to the Development Bank of St. Kitts and Nevis in 2012 for on-lending to SME's in manufacturing at concessionary interest rates. On the issue of energy, the Government continues to work diligently at making electricity available to the sector at a competitive price. The removal of Import Duty and Customs Service Charge on green energy products and the use of solar energy have resulted in significant savings to some manufacturers who have invested in renewable energy technology. The Government will continue to review and evaluate its energy policies to ensure that, as far as possible, the concerns of manufacturers are addressed.

## **Construction**

92. Mr. Speaker, the construction sector is now thriving again as evidenced by the positive growth rate of 12.2% recorded in 2013 after recording a decline in economic activity of 10.3% in 2012. The buoyancy of the sector is buttressed by sound policies geared towards the stimulation of public and private sector infrastructure development. In 2014, my Government continued to expedite vital upgrades to the Sir Kennedy Simmonds Highway and its environs. Two (2) major achievements have been the completion of the new round-a-bout at the junction of the Kim Collins Highway and Frigate Bay Road and the installation of proper drainage systems within the Ponds Pasture/Newtown area. Both initiatives have provided a safer driving experience for road users allowing for the free flow of traffic through the junctions as well as alleviating the concerns of drivers and pedestrians who traverse the large volumes of water that settled on the roadway during heavy rain. The drainage aspect has also brought great relief to the residents in the East Basseterre area and I use this opportunity to thank them for their patience and cooperation during the construction phase. As you would recall work had commenced on the terracing at Timothy Hill. We have since completed this undertaking and are in the process of procuring the tunnel

which is currently being fabricated for installation as a means of providing a safer gateway into the South-East Peninsula which is fast becoming a premier resort and entertainment hub in the Federation.

93. Mr. Speaker, there is no doubt that the construction sector makes a very important contribution to building the competitiveness and prosperity of our economy. Public and private construction activities are primarily responsible for the modernization of our built environment. We are optimistic about continuing growth of the construction sector as we have a healthy mix of development projects in the pipeline, some of which I outlined a moment ago. These projects will help to further stimulate growth of the sector over the short to medium term. As I mentioned earlier, the pipeline of investment projects is vibrant. In 2014 alone, my Government approved about fifteen (15) private sector based projects that are expected to invest in the region of US\$576 million and create over 3,200 jobs in the economy. The economy will also benefit from spin-off effects from these projects as directors, managers, accountants, chefs, architects, engineers, landscapers, plumbers, electricians, domestic workers, and the like will be needed.

### **Public Sector Investment Strategy**

94. Mr. Speaker, it is my Government's policy to use the Public Sector Investment Programme (PSIP) to close any existing infrastructure gaps in order for us to keep our edge in development and foreign direct investment. In 2015, we will complete the reform of the operation of the PSIP system as well as the work started on developing a comprehensive Public Sector Investment Strategy that will contain detailed projections for a multi-annual investment plan. We will strive to use the PSIP to develop a modern and efficient infrastructure network capable of driving productivity in the new St. Kitts and Nevis economy.

95. Our vision for the new St. Kitts and Nevis therefore, will rely heavily on our ability to find innovative and cost effective ways of delivering modern infrastructure. Naturally, the PSIP

has a role to play in delivering this vision for using construction and maintenance of public infrastructure to the advancement of economic development and increased private sector investment. Businesses throughout the economy are dependent on the performance of built environment such as roads, telecoms networks, port facilities, water and reliable energy supply to remain competitive and foreign investors consider the quality of our infrastructure as one of the key factors when making decisions to invest here. To this end, this Government has implemented a number of major projects in the past and will continue to facilitate continuous improvements to our physical plant. Over the next five years, my Government will continue to advance our vision for a new St. Kitts and Nevis with investment in new and impactful infrastructure projects. This vision includes the development of a second cruise Pier at Port Zante, construction of a modern highway from Basseterre to Capisterre, refurbishment of two prime beaches (South Frigate Bay and South Friars Bay), expansion and modernisation of the Robert Llewellyn Bradshaw International Airport and the Vance Amory International Airport, revitalisation of our historic sites and towns including down town Basseterre, Charlestown, New Town, Irish Town, Old Road, Sandy Point and Cayon. One other major possibility is the construction of modern structures to bridge the waters and thereby joining St. Kitts and Nevis. This will not involve building a regular bridge but rather can be achieved using an innovative concept of applying appropriate technology and engineering solutions to building up real estate as a means of bridging the two islands.

## **MEDIUM TERM ECONOMIC MANAGEMENT STRATEGY**

### **Medium Term Fiscal Outlook and Growth Targets**

96. Mr. Speaker, with respect to the fiscal outturn for 2014, we are projecting an even better performance than 2013. Recurrent Revenue is expected to be in the region of \$746.2 million; 7.8% higher than the amount realised in 2013 and 44.2% above the estimate. The various categories that comprise Tax Revenue are projected to exceed collections for 2013 but would yield mixed results in comparison to the estimates with Taxes on Property and Taxes on International Trade and Transactions falling slightly below the estimated amount by 3.4% and 0.7% respectively. Inflows from the Citizenship by Investment Programme will continue to have a strong influence on Non-Tax Revenue which is expected to fall slightly below the 2013 amount by \$0.3 million but will surpass the 2014 Estimate by approximately \$207.8 million. Recurrent Expenditure is projected to reach \$462.8 million, 3.6% and 3.5% above the amount incurred for 2013 and the 2014 estimates respectively. However, Capital Expenditure and Net Lending which is expected to be \$105.1 million would be 20.4% below the amount spent in 2013 and 2.3% less than the budgeted amount. With these results, we are anticipating that we would realize a Recurrent Account Surplus of about \$283.4 million, an Overall Surplus of \$247.1 million and a Primary Surplus of \$305.9 million.

97. Mr. Speaker, you would recall that in 2011 my Government took a bold, and might I add unpopular, decision to undertake a comprehensive restructuring of the public debt. At that time, the public sector debt stood at \$2.9 billion or 147% of GDP. Today, Mr. Speaker, I can report that at the end of September 2014 the total public sector debt was \$1.8 billion or 81% of GDP - 37% or \$1.1 billion less than what it was when we made the decision to restructure. The significant reduction in the debt stock was made possible, in large measure, by the Debt for Land swap which resulted in a decrease of \$767.8 million in the debt. This was in addition to the \$130.9 million decline as a result of the exchange of some of our existing debt instruments for new instruments and the cancellation of a \$9.7 million debt by the UK Department for International Development (DFID). The public sector debt is firmly trending downwards and is projected to decrease at a pace which will see us meeting the ECCB's target of 60% of GDP in

2017 - 3 years ahead of the 2020 timeline. I must point out here that one of the underlying assumptions of this projection is that the Nevis Island Administration will conclude its Debt for Land swap in the very near future.

98. Mr. Speaker, the impact of the restructuring did not only reduce the stock of public sector debt but also the annual interest payments for the Federal Government, the NIA and some public corporations. This has provided us with some fiscal space which we will use to undertake activities that would further develop our human capital and energize growth in our Federation. The actions we have taken with respect to the debt are very much in line with the overall objective of our Medium-Term Debt Management Strategy which is to steadily reduce the public debt in a manner that minimizes cost and risk. Our Medium-Term Debt Management Strategy was first laid before this Honourable House in April 2013 and covered the period 2013 – 2015. Since then, we have made significant progress and therefore thought it fitting to update the Strategy as we chart the way forward and plan for the upcoming years, 2015 – 2017. The updated Strategy was laid before this Honourable House earlier today.

99. Looking ahead, we are conscious of the need to consolidate the recovery while at the same time sustaining the gains of the adjustment programme. In broad terms, this Budget is designed to maintain the Government's policy stance of prudent fiscal management and simultaneously provide for public sector support for strategic investments. The 2015 Budget and Medium Term Fiscal Framework are therefore guided by three guiding principles which are natural progression of values adopted in 2014. We will continue to be judicious in our plans for expansion in expenditure and recognise the need for reasonable increases in capital spending to stimulate growth. The second principle commits the Government to accelerate the pace of debt reduction to create greater fiscal space to support investment in physical infrastructure and human capital development. The third principle is grounded in the commitment of my Government to saving a portion of any surplus generated to facilitate the build-up of policy buffers to fill any fiscal gap that may result from adverse shocks in the future.

## **Stabilisation and Growth Fund**

100. Mr. Speaker, the commitment to generate savings is taken very seriously by my Government especially when we contemplate the emerging challenges related to our inherent vulnerabilities as a Small Island Developing State, our recently designated status as a high income country and the changing international aid architecture. Since 2011, we have experienced strong growth of revenues associated with our Citizenship by Investment (CBI) programme. Over the 4 year period 2011-2014, the revenues from this source have been increasing and have been instrumental in supporting the improved fiscal and external account outcomes experienced during this period. In line with our prudent fiscal management principles we intend to formalise a more robust mechanism and accompanying institutional arrangements to manage the financial resources generated and ensure that adequate returns are sustained well into the future. Consistent with this commitment, my Government has commissioned the research and design of practical options for the establishment of a Growth and Stabilisation Fund (GSF).

101. The main objective of pursuing this strategy is to use the accumulated savings to build policy buffers against exogenous shocks, and support the financing of major transformational public sector investments. As an added benefit, the establishment of a sovereign wealth management mechanism such as the GSF could also contribute to improving transparency and boosting public and investor confidence in the public expenditure management system. Given that our stated immediate goal is to consolidate economic recovery, the initial focus of the proposed fund will be on stabilization and growth and other areas of national importance can be considered over the long term. During 2015, more definitive decisions would be made to take these plans forward in consultation with all relevant stakeholders.

## **2015 Fiscal Measures**

102. Mr. Speaker, I have made it well known to this Honourable House what the level of the public sector debt was before the debt restructuring, what it is now and what we are projecting the level of debt will be over the medium term. This is public information and shows that we, as a Government, are indeed walking the walk when it comes to transparency in the public sector.

With the reduction in the stock, the pressure to find resources to service the higher level of debt has been minimized and with the exchange of debt instruments under the first part of the restructuring exercise, we now have fewer instruments that we have to manage. Our Debt Management Unit is charged with the management of these instruments and the implementation of our Debt Management Strategy. The Unit is expected to carefully and continuously monitor the debt portfolio to ensure that we meet our obligations on time, every time. The Unit is also expected to ensure that the Debt Management Strategy is implemented as intended and that we achieve the debt ratio targets that we have set for ourselves. It is therefore critical that the Unit's efficiency in executing its duties be elevated. It is for this reason that in 2015 we will improve the institutional arrangements for debt management by centralizing all the functions relating to debt in one Unit within the Office of the Financial Secretary. Currently, staff of the Debt Management Unit who are responsible for recording and paying the debt are located in the Accountant General's Department and those who are responsible for negotiations and cost and risk assessments are located in the Office of the Financial Secretary. The new arrangement should result in better monitoring and assessment of the debt stock, improved information flows and improved quality of output and productivity. Activities relating to the issuance of Treasury Bills will, however, remain in the Accountant General's Department.

103. In addition to centralizing the functions of the Debt Management Unit, we will give that Unit the additional responsibility of managing the Government's investment portfolio. The success of our Citizenship by Investment Programme has blessed us with resources that we have been saving for future use in the event of any shock to our economy. This way, if we are affected by a natural disaster, for example, and we certainly hope that this would not be the case, we would have resources at our disposal to facilitate a speedy recovery without having to incur debt. These resources must be managed properly and in a manner that allows the Government to make a reasonable return without undue risk. The Debt Management Unit will therefore be renamed the Investment and Debt Management Unit to give credence to the importance of the Funds Investment aspect of the Unit.

104. Mr. Speaker, our tax reform efforts over the years have achieved many successful outcomes and will continue as we strive to ensure an even more efficient and fair system. During 2015, my Government, led by the Ministry of Finance, will continue to spearhead a

number of initiatives that are on-going and will require additional efforts and resources to complete. Work will continue in respect of the implementation of the project to migrate customs and excise operations to ASYCUDA World – a system that will better facilitate the clearance of cargo through online processing, the management of concessions and the general work flow of the Customs and Excise Department. We will complete the final leg of the restructuring of the Inland Revenue Department (IRD) and continue with our tax reform efforts. In terms of tax reform, we will join other OECS countries in implementing the World Bank supported Caribbean Tax Reform Project. Accordingly, emphasis will be placed on tax compliance. With technical assistance from the International Finance Corporation (IFC), efforts will be made to devise additional ways to simplify the tax system to reduce the time it takes businesses to comply with tax processes and regulations. With the help of the IFC, the Caribbean Regional Technical Assistance Center (CARTAC) and other partners, IRD will work towards further improvements in efficiency in its operations particularly in the areas of taxpayer services and enhancing the tax appeals mechanism.

105. Mr. Speaker, I have openly said that this is a tax free but there are a few tax measures which we would like to implement. The first one has to do with the amount that companies are allowed to deduct for employees' earnings. Since 1982, the Income Tax Act was amended to limit the deduction related to employees' earnings to \$60,000 per annum. As part of our efforts to close loopholes in the tax system, the Act was amended in 2012 restricting personal income deduction to one cost centre in a business entity and the threshold was increased to \$75,000. Our consultations with members of the Chamber of Industry and Commerce over the past year included discussions on their request for the Government to re-examine the threshold with a view to adjusting it upwards even more. As a direct result of this intervention, my Government gave due consideration to the request and now I am pleased to say that, based on technical advice, in 2015 we will amend the Income Tax Act to increase the threshold from \$75,000 to \$90,000. This action will enable private sector entities to attract and retain personnel with the skills, knowledge and experience necessary for building competitiveness in the private sector.

106. The other measure that we have put in place relates to the Value Added Tax (VAT). I do not have to remind anyone that one of the difficult decisions taken as part of the efforts to stabilise the economic situation in the country was the introduction of VAT. For the most part,

the VAT has delivered in terms of improving the efficiency of the tax system, widening the tax base, and enhancing fiscal stability. It is now four years since the VAT was introduced in the Federation and during these four years my Government has ensured that essential items required for basic everyday living were either exempt or zero rated. That is, no VAT is charged on these items. When VAT was introduced we gave our commitment to review its performance and its impacts, particularly on the wellbeing of vulnerable households. During these four years, my Government has listened to the feedback from the people and has never wavered in our determination that at the earliest opportunity we would do what we can to provide relief to the people.

107. Mr. Speaker, efforts have been made in the past through the temporary implementation of reduced VAT days usually in December, particularly to help households expand their purchasing power during the Christmas holiday season. Against the backdrop of the successes of the stabilisation and adjustment efforts, the return of growth in the economy and the need to progress our agenda for people empowerment, my Government commissioned a review of the performance of the VAT. While the technical report advised that the timing may not be right to roll back the VAT, it provided the basis for my Government to revamp the list of food items that would not attract VAT. It therefore gives me great pleasure to reiterate that in addition to milk, oats, rice, sugar, bread, flour and infant formula, VAT will not be charged on a number of meat and fish products, certain fruits, cheese, pasta, juices, cereals and legumes. We have carefully selected these items in the hope that our people will be encouraged to eat healthy meals for if we have a population that consumes a balanced diet then we would have fewer instances of Chronic Non Communicable Diseases and a healthier and more productive society. The list of zero rated items remains the same and we have identified an expanded list of exempt items to create what we have called a Family Shopping List which also includes hygienic products to incorporate the broader but yet basic needs of the family.

108. Mr. Speaker, we are a caring Government and listen to our people. As such, not only have we removed the VAT from these additional items but we will not charge import duties when these items are imported to the Federation. This we believe would serve to assist households, particularly the large number of female headed households, to be in a better position

to afford to feed themselves and their families. They would be able to rely on the Family Shopping List that has been created to care for themselves and their families.

109. Another area that my Government has been asked to revisit is that of medications. Presently, medicines for chronic diseases that are approved by the Chief Medical Officer are exempt from VAT. We are aware that with ongoing research in the medical field new medications would become available and older ones would be discontinued. This requires the list of VAT exempt medications to be constantly updated which is not the most efficient way to administer the tax. We have therefore simplified the issue regarding the rate of VAT applied to medicine whereby all medications, not just those for chronic diseases, will be exempt from VAT.

110. These measures are intended to alleviate some of the financial pressures on our people so that the quality of their lives could be improved even further. I therefore take this opportunity to appeal to the business community to partner with the Government and the general public by guaranteeing consumers lower prices for food, hygienic products and medicine. The **Consumer Affairs Department** will continue to monitor prices of such goods in the local market. Closer attention will be paid to ensuring that the changes in policy that are intended for the benefit of consumers are reflected in lower prices on the shelves of shops, supermarkets and pharmacies.

111. Mr. Speaker, the other VAT related item I would like to address is VAT on commercial rent. Small business owners have indicated that they are suffering because of the VAT that they have to pay on the rental of their business spaces. My Government has considered the request of these businesses and will reduce the VAT rate on commercial property to 10%. This will be implemented for a trial period of twelve months commencing from December 2014. It is anticipated that this would reduce the operating expenses for these businesses who are expected to pass on some of their savings to consumers of their products and services.

112. A key feature of any tax system is that it should be equitable where the tax burden should be distributed fairly across taxpayers. As we continue with our tax reform initiatives, we noted that there is a wide disparity in the stamp duty paid on condominium units and that paid on other real property. Presently, the stamp duty that is payable on the transfer of a condominium unit is 5% which is payable by the vendor. However, stamp duty that is charged on the transfer or conveyance of other real property is 12%. This is also payable by the vendor. This gap is too

wide and will be closed in the upcoming year. From 2015, Mr. Speaker, stamp duty on the transfer of condominium units will be increased from 5% to 10%. Also from 2015, the stamp duty that is payable on the transfer of other real property will be reduced from 12% to 10%. We are of the view that this will make our system a much fairer and equitable one as we continue the transformation and modernisation of our tax system.

113. Finally, Mr. Speaker, in the last Budget session I announced the decision of my Government to discontinue the wage freeze and the resumption of the payment of increments to our hard working Civil Servants. When I witness the overwhelming gratitude expressed by so many of our officers, it reinforced my conviction that we are doing the right thing. Last year I also outlined the Government's new and upgraded pay package for Civil Servants which involves an increase in wages and salaries by 10% over three years starting in 2014. Therefore, in 2015 all Civil Servants can count on an overall increase in their wages and salaries by 3%. Those who are eligible for increments will also benefit once they meet the established requirements including good performance on the job. Our retired Civil Servants will not be left behind. They have completed their tour of duty to their country and therefore should be afforded the opportunity to continue to experience a decent standard of living. As I indicated earlier in this Budget presentation, the resources required for implementation of these commitments are included in this Budget. It must be reiterated here that we believe wage policy considerations must achieve at least two things: i) strike a balance between sustainability of Government finances; and ii) ensure that the public sector continues to attract and retain the level of talent and commitment required to efficiently deliver high quality services.

114. Mr. Speaker, when it comes to the Civil Servants, we believe that many Civil Servants have been called to serve above and beyond the call of regular duty. Collectively, the level of performance has been high and in large measure has assisted the Government to attain the resounding success story now reflected in our records. As a demonstration of our gratitude, we have determined that in this month of December 2014, all Civil Servants will be paid an extra month's salary. This will help to boost morale and provide an added stimulus to the economy. While it might be very tempting to spend all that you receive, I want to encourage you to save a portion for investment in your own future and that of your children and family.

## Conclusion

115. Mr. Speaker, a fundamental principle that should guide the development agenda in any country is that the quest for the attainment of sustained economic growth should not be at the expense of the small and vulnerable. This philosophy should also be applied to the relationship between developed countries and small states. As a small nation we must become more attuned to the developments around the world. There is a growing concern that small states like St. Kitts and Nevis will experience challenges as large developed countries implement national policies that are inward looking and that may have serious consequences for the smallest and most vulnerable within the global economy. We must not waver in our conviction that we too have fundamental rights to social and economic development. It is therefore important for us to be vigilant and proactive in our engagements with the rest of the world.

116. My Government has been tested and tried and has achieved a solid track record of performance. Thomas Edison said, ‘There is no substitute for hard work’ and these results are testimony to the hard work of this Government and the knowledge, dedication and creativity of our technical officers in strengthening the economic and fiscal stability of our Nation. Therefore we know that we can work in collaboration with **all** stakeholders and development partners to fine tune our already ambitious policy agenda to strengthen the prospects for stimulating further growth while continuing to keep a damper on consumer prices. Over the next five years, we will continue to mobilise the talent and skills within the public sector to implement policies to generate economy-wide, growth enhancing impacts and outcomes.

117. As we move towards the implementation of the post 2015 Agenda with a focus on the Sustainable Development Goals (SDGs) it will become vital for the strategic partnerships to transcend lofty statements at international forums and translate into tangible outcomes and long term impacts. A critical interest for my Government therefore is the National agenda for transformation of our economy, our physical infrastructure, our social landscape, indeed our entire society. My Government will never reduce our care for the wellbeing of our people to mere talk. This 2015 Budget speaks loudly to the heart of our determination to put words into action and transform commitments into **Real Progress - Real Change** – substantive change in the lives of every Kittitian and Nevisian. Mr. Speaker, I can assure you that my Government has

a long term vision for advancing the wellbeing of this country. My Administration has delivered on our promise of progress for our people and our Nation. Over the last four years we have delivered on our promise to move St. Kitts and Nevis into a stronger position than we were back then. We are a people on the move! Therefore, the best is yet to come. My Labour Government is filled with men and women with big hearts overflowing with love for our people, big dreams for a brighter tomorrow and together we created a big vision for progressing this great Nation, St. Kitts and Nevis, forward. A vision that we want to continue to make a reality here in this land that we cherish, for the people that we love. Because we are a Government that values the views of our citizens and residents we started a public conversation with the people. I am pleased to report that our Conversations for Progress series has been a resounding success. We have used these sessions to interact with our people from all walks of life to share information and more importantly to listen. We have listened and we share in the desires of our people to **build, build** I say and not to break down, but rather to **build St. Kitts and Nevis**. We must conscientiously guard our gains because we achieved them together and they are ours to keep and expand.

118. Our vision is rooted in the Labour Party's moto "**For the Good That We Can Do**". Indeed we can do a lot of good together - together we can! And we shall together achieve resounding success in our bid to implement our vision for the new St. Kitts and Nevis. Let me reinforce the point that there is much more that binds us together as Kittitians and Nevisians than what divide us. We are a people ordained to be together for life and therefore we should not allow a few without vision, empty of love and compassion for people to bring enmity and distrust to destroy what we have now and what we can continue to build together. Let us use our common destiny to climb higher giving us an even greater edge in economic advancement and a better and brighter future for all.

119. Together we can continue the work to reduce vulnerability, particularly our vulnerability to natural disasters, external economic shocks and price volatility in the international petroleum market. We have accomplished much but there is a lot more we can accomplish together if only we can individually and collectively commit to putting country first above all that threaten to divide us. When it comes to building our Nation, let us at all time remember our goal and rise high above partisan politics and other vices that can threaten to erode our innate sense of caring

for our fellowmen, our ancestral spirit of cooperation and historically unrivalled harmonious relations that forever binds the people of St. Kitts and Nevis to this land.

120. Mr. Speaker, allow me to give members of this Honourable House and the Nation a glimpse into the vision we have shaped for our future. Over the next five years, the new St. Kitts and Nevis will flourish with:

- A robust and vibrant economy with sustainable and inclusive growth
- Affordable living standards with access to health care, education and human rights and freedom of speech
- Protection and care for the most vulnerable
- Decent work with decent pay
- Strong and stable families and caring communities
- A strong sense of belonging and keen cultural identity as Kittitians and Nevisians
- Safety and security for all
- A shared prosperity by all

We are indeed living in exciting times where the possibilities are boundless if we make the right choices. That is why my Government is **working, working hard for you** and will continue to work hard on your behalf so that you can continue to experience Real Progress - Real Change – progressive change for your benefit and for the benefit of future generations of Kittitians and Nevisians.

121. Mr. Speaker, I so move.

**ST CHRISTOPHER AND NEVIS**

**2015 BUDGET**

**FISCAL PROSPECTS**

## 2015 Fiscal Prospects

1. Mr. Speaker, the policies and actions of my Government have created an environment that will facilitate sustained growth, a better quality of life for our people and continuous improvements in our infrastructure that will undoubtedly encourage further investments in our country. We are ever mindful of our role as a Government and the activities that must be undertaken to achieve our goals. These activities are numerous and have been carefully prioritized so that they can be financed from the resources that we expect to have at our disposal. It is therefore essential that we collect the revenue that is due to the Government as this is the means by which we finance our programmes and activities. This is not always an easy or pleasant task but it is necessary if we are to have sufficient resources to properly provide the services and infrastructure that are demanded of us without increasing our debt. We have therefore invested in our revenue collecting agencies and have encouraged them to ensure that our tax laws are administered and enforced in an efficient and effective manner. Once this is executed as envisioned, and based on the level of economic activity that we expect for 2015, we are projecting that Recurrent Revenue for our 2015 fiscal year will be \$657.4 million. This would be \$140.1m or 27.1% more than our estimate for 2014. Taxes on Income are expected to generate \$86.3 million while Taxes on Property are expected to be \$14.0 million. We are anticipating that Taxes on Domestic Goods and Consumption will be \$111.3 million and Taxes on International Trade and Transactions, our largest tax category, will be \$190.3 million. Non-Tax Revenue is projected to be \$255.5 million for 2015. With an estimated \$81.0 million for Budgetary and Capital Grants, Total Revenue and Grants are expected to amount to \$738.4 million, 22.1% in excess of the 2014 estimate.

2. With these resources, my Government will allocate \$466.7 million for Recurrent Expenditure to be shared amongst the various Ministries so that they can implement their activities for the 2015 fiscal year. The 2015 allocation for Recurrent Expenditure will represent an increase of 4.4% over the amount that was provided for 2014. While this includes a 3% increase in salaries for Civil Servants with effect from January 2015 and the payment of increments during the fiscal year, we have made every effort to otherwise contain expenditure. A total of \$133.2 million is also being proposed for Capital Expenditure and Net Lending in 2015. This will be in excess of the 2014 Estimate by \$25.6 million or 23.8%. The details of the

activities to be undertaken by the various Ministries are documented in Volume II of the 2015 Draft Estimates. I will, nonetheless, draw your attention to some of the larger allocations that have been proposed for the upcoming fiscal year.

3. Mr. Speaker, the Office of the Prime Minister has been allocated \$70.3 million for its 2015 recurrent activities. This surpasses the amount that was provided in 2014 by \$2.8 million or 4.1%. An amount of \$19.4 million was also allocated for capital projects in the upcoming fiscal year. The Anti-Crime Unit will receive \$32.7 million or 46.5% of the total recurrent allocation to carry out its mandate. The Unit, through its crime fighting and prevention activities, continues to play a critical role in protecting our citizens and creating a safe environment in which to live and do business. In fact, the work of this Unit is important to the economic development of our Federation especially where Foreign Direct Investment is concerned. The Anti-Crime Unit remains undaunted in its efforts to stamp out crime and will continue to develop and implement strategic initiatives to reverse the recent upsurge. One such initiative is to address the root cause of crime through the Unit's Crime Prevention Strategy which focuses on at-risk youths with a view to redirecting their talents, energy and skills to more productive lifestyles.

4. In the upcoming year, more focus will be placed on community policing which has already brought tremendous returns for 2014 especially with the introduction of the Crime Stoppers initiative. It is in this regard that the Law Enforcement Explorers' Programme (LEEP) has been introduced. This Programme will lead to heightened visibility of the law enforcement agency in community outreach activities which in turn would lead to more effective law enforcement.

5. The other Unit that will receive a substantial amount of funds is the Citizenship by Investment Unit. A total of \$21.5 million will be distributed to this Unit which is charged with promoting and managing our Citizenship by Investment Programme. Most of the funds will be spent on fees for conducting proper due diligence on prospective investors as it is crucial that the integrity of our Programme is maintained. The Unit will also strengthen its operations in 2015 so that it can further enhance its efficiency and concretize our success with the Programme.

6. Mr. Speaker, the Ministry of Homeland Security and Labour has been allocated \$12.2 million for 2015's recurrent activities. This represents a 3.3% increase over its 2014 allocation. An amount of \$8.5 million has also been provided for capital expenditure. In 2015, this Ministry will continue to implement policies and initiatives aimed at enhancing Homeland Security, transforming labour relations and the industrial climate and promoting sustainable economic growth. In this regard, the Secretariat of Homeland Security will seek to enhance our border management system and will therefore explore the possibility of introducing e-kiosks at our ports of entry and improving the e-visa system as well as procedures at the passport office. In addition, the funds allocated to this Ministry will assist the Department of Labour with the implementation and management of transparent systems for the payment of the recently introduced long service gratuity to former employees of the hospitality and manufacturing sectors who would have retired after serving for ten or more years. With respect to the Fire and Rescue Services, the Ministry of Homeland Security and Labour will utilize a portion of its resources to provide educational programmes and conduct audits of institutions that rely on the use of chemicals in their organizations. It is expected that by working closely with public and private sector entities in these areas, we would be able to minimize risks and promote a culture of health and safety in the work place.

7. The largest allocation for 2015 will be given to the Ministry of Finance which will be granted \$168.2 million for recurrent expenditure and \$13.8 million for capital projects and net lending. The allocation for recurrent expenditure is \$1.0 million or 0.6% above the amount that was provided in 2014 while the estimate for capital projects and net lending is in excess of the 2014 budget by \$0.6 million or 4.5%. The Ministry will use a portion of its allocation to meet the Government's obligations with respect to interest payments on our debt which in 2015 is expected to be \$39.0 million. This is \$9.1 million below the 2014 estimate; a direct consequence of our comprehensive debt restructuring exercise. In 2015, the Ministry will also facilitate pension and gratuity payments of about \$34.3 million to retired Civil Servants and will continue to subsidize the consumption by the general public of liquefied petroleum gas (LPG), more commonly referred to as cooking gas, by an estimated \$5.0 million. The consumption of electricity by Government Ministries is projected to be \$18.0 million. This will be paid by the Ministry of Finance as well as \$10.5 million for Civil Servants' medical insurance and insurance on the Government's assets. In terms of capital projects, these will include the acquisition of

software to facilitate Automatic Exchange of Information for Tax Purposes and the renovation of public buildings to house the Inland Revenue and the Accountant General's Departments.

8. In 2015, the Ministry of Finance will continue to implement and monitor the Government's Economic Recovery Programme within the context of the Medium-Term Fiscal Framework and the Medium-Term Debt Management Strategy. The funds that are allocated to the Ministry will be used to enhance our border security, to detect and deter money laundering and terrorist financing activities in our Federation, and to optimize the Government's revenue generating capacity through the enhancement of our tax administration systems.

9. The Ministry of Tourism and International Transport, Mr. Speaker, will be allocated \$19.5 million for Recurrent Expenditure in the 2015 fiscal year. This will exceed the amount that was allocated in 2014 by \$1.6 million or 8.9%. Most of the allocated funds will be used to promote and develop the Federation as a major tourist destination. Through the implementation of its Tourism Strategy and Yachting Policy, this Ministry will contribute to the growth in GDP through increased visitor expenditure and consumption. The additional funds are being granted to facilitate increased airlift to our Federation. Our investment in airlift and marketing initiatives are critical if our Nation is to grow as a major tourist destination. Our investment has already begun to bear fruit. For 2014, the number of inbound seats to the destination has increased by over 11,000 when compared to 2013. This trend is expected to continue as American Airlines will continue to expand its Miami service, and Delta has resumed its weekly flights into St. Kitts from November 8, 2014. Air Canada will recommence its operations into the Federation from December 20, 2014 to April 25, 2015 and negotiations are underway for the continued expansion of this service.

10. Mr. Speaker, a total of \$16.6 million will be granted to the Ministry of Housing, Public Works, Energy and Public Utilities to carry out its recurrent activities in 2015. This will be \$0.7 million or 4.6% over its 2014 allocation. The Ministry will also be given \$29.6 million for capital projects. During the upcoming year, this Ministry will continue to upgrade our physical infrastructure and implement the green energy solution to meet the ever increasing demands for energy especially with the implementation of a growing number of development projects. Some of the major initiatives that will be undertaken by the Ministry in 2015 include:

- Extensive well drilling to increase our potable water supply to two (2) million gallons of water per day;
- Replacing our street lights with LED lights which are the most energy efficient lighting solution available; and
- The installation of 300 solar units on residential homes.

11. The Ministry of Education and Information has been provided with \$67.9 million to finance its recurrent activities for 2015. This is \$4.3 million or 6.7% more than its 2014 budget. An amount of \$8.9 million is also being provided for capital projects in 2015, of which it is expected that \$2.7 million will be spent to further upgrade our schools. Mr. Speaker, my Government has expended large sums of money on the renovation of schools island-wide. It is with this in mind that an additional \$1.0 million will be granted to augment the existing maintenance vote established for schools, so that the necessary maintenance work on our learning institutions could be done in a timely manner.

12. Mr. Speaker, the Ministry of Health has been allocated \$40.6 million for its 2015 recurrent activities and \$11.4 million for capital expenditure. When compared to its 2014 allocation, this represents increases of \$2.7 million or 7.0% for recurrent expenditure and \$1.2 million or 11.9% for capital expenditure. This Ministry will continue to strengthen its strategies, systems and services so that the highest level of health care is available to all. In 2015, the Ministry of Health will continue to partner with all relevant stakeholders as it continues the phased implementation of the National Health Insurance Scheme. This Scheme is the transition towards my Government's goal of universal health insurance coverage. We understand the value of health equity where people need to have access to health services without experiencing financial ruin. Already, 32% of the population has medical insurance including public sector workers whose premium is paid by Government. In 2015, coverage will be expanded to those without medical insurance in a phased manner starting with the most vulnerable individuals and families who access our social assistance programmes and workers at the C.A. Paul Southwell Industrial Estate.

13. Additional resources have been provided to the Ministry of Health to procure medicines, equipment and other supplies and to strengthen the human resource capacity of our health facilities especially with respect to medical and security personnel. Appropriate staffing positions were added to support extending the operating hours of the Laboratory and Radiology Departments at the Joseph N. France General Hospital. This will help to reduce the waiting time for patients and enhance the overall service delivery at the Institution. We intend to continue to enhance and increase services at the Joseph N France General Hospital through the continued upgrade of the physical plant and by continued investment in new and modern life saving diagnostic equipment. Additionally, we are fully committed to the construction of a new Tabernacle Health Center, and the reconstruction of the Mary Charles Hospital into an integrated Health Facility that houses both a hospital and health center under one roof.

Mr. Speaker, the 2015 allocation for the Ministry of Foreign Affairs is \$22.9 million, of which \$17.7 million will be used to undertake recurrent activities and \$5.2 million will be used for capital projects. The total allocation for the Ministry of Foreign Affairs is \$6.4 million – 38.8% more than its 2014 allocation. The additional resources will allow the Ministry to bolster our relations with Canada through the establishment of a St. Kitts and Nevis High Commission in Ottawa. St. Kitts and Nevis has enjoyed excellent relations with Canada for quite an extended period of time and we believe that strengthening the ties between the two countries will redound to the benefit of our people. The Ministry will also expand its diplomatic capacity through the forging of alliances that can contribute to the achievement of our goals. In addition to having a presence in the international arena, the Ministry of Foreign Affairs will continue to support regional integration initiatives and the overall goals of CARICOM, the Organization of Eastern Caribbean States (OECS) and the Organization of American States (OAS).

14. Mr. Speaker, this is a Budget for the people, where every citizen and resident living here can identify benefits that would make their lives better. These Budget Estimates will provide the resources necessary for my Government to introduce new programmes and to carry on with the work that has already started in the various Ministries and Departments. We therefore believe that the Estimates reflect the strategic areas of focus for 2015 designed to energise growth and

human capital development. Equally important is the avenue it provides for laying the foundation and cementing the vision for our Nation's development for the next five years.