

Pannell Kerr Forster

Tax News

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SYNOPSIS ST. VINCENT & THE GRENADINES 2004 BUDGET ADDRESS

INTRODUCTION

On Monday, December 1, 2003, Prime Minister Dr. Ralph Gonsalves delivered, in a three and a half hour presentation, the 2004 budget of St. Vincent and the Grenadines.

Early in his presentation the Prime Minister sought to establish the methodology used in the presentation of the budget, which he stressed is people-oriented, by outlining the philosophical and practical aspects of the budget and its preparation.

Consistent with his previous budget presentations, the Prime Minister reiterated that the areas of education and poverty reduction have been accorded top priority by his Government and offered some updates on the strides made by his administration in addressing these core areas.

Dr. Gonsalves also provided an overview of the major programs undertaken in the areas of health, housing, and disaster management.

In the area of economic management a number of initiatives have been established to guide improved economic management, including the establishment of National Economic and Social Development Council and Tripartite Committee on the economy.

The Prime Minister envisages that with the implementation of several industry initiatives and strategies, the economy will be driven by tourism, international financial services, other services and agriculture and fisheries.

THE INTERNATIONAL AND REGIONAL ECONOMY

The Prime Minister noted that notwithstanding the rebound in the global economy, this growth has been modest and even mixed among countries.

To date, a similar level of performance has been achieved for 2003. The performance of the Caribbean was mixed and not as profound as the global economy, with some countries such as St. Vincent and the Grenadines enjoying modest growth in 2002 while others experienced negative growth.

It is anticipated that the recovery rate in the global economy, during the fourth quarter of 2003, will be more robust than the earlier quarters.

The Prime Minister pointed out that the growth of the regional economy is largely linked to the recovery in the global economy.

THE DOMESTIC ECONOMY

The domestic economy experienced real growth of 1.4% in 2002, propelled by the growth in the agriculture, banking and insurance, electricity and water, wholesale and retail trade and other services.

The following table summarises the performance of these sectors in 2002.

Sector	Real Growth % 2002
Agriculture	11.8
Banking and Insurance	4.4
Electricity and Water	2.6
Wholesale and Retail Trade	3.2
Other Services	4.7

The sectors experiencing decline in 2002 are listed in the following table:-

Sector	% Decline 2002
Mining and Quarrying	(3)
Hotels and Restaurant	(8)
Manufacturing	(2.9)

LOCAL ECONOMY

The annual rate of inflation has registered a steady decline from 1.4% in 2000 to minus .1% in 2002.

The following table compares the annual inflation rates from 2000 to 2002.

	2002 %	2001 %	2000 %
Inflation	(.1)	(.7)	1.4

The current account balance registered marginal improvement in 2002 from a negative balance of \$101.0 million to a negative balance of \$95.7 million.

The Prime Minister attributed the growing importance of service exports to the positive balance on the service account of the Balance of Payments of 6.0 percent in 2002.

AGRICULTURE AND FISHERIES

Agriculture

In 2002, Agriculture's contribution to GDP increased by 1.1% to 12.3%, which was attributed to buoyancy in non-banana production and other crops, along with improved banana output.

Banana

Banana exports for 2003, to date, are down 41% on the corresponding period for 2002. A number of initiatives have been taken to assist farmers to increase production, including:

- Reducing the cost of blue diathene to \$135.00;
- Decreasing the price of fertilizer by \$6 per sack;
- Providing technical assistance to farmers to meet the EUREGAP requirements;
- Participation by the Government in a regional government guarantee of a loan of US10m to WIBDECO.

Arrowroot

In 2002, 205 additional acres of arrowroot were planted. For 2003, starch yield and revenue are projected at 500,250 pounds and \$2.4M

respectively. In 2004, new planting techniques, which allow for more cost effective harvesting, will be employed. The new pulverising plant at Orange Hill will become operational in January 2004. Continued upgrade of the Owia factory and pulverizing plant are planned, along with the cultivation of an additional 250 acres of arrowroot. In light of the anticipated expansion of the arrowroot industry, in 2004, the industry is expected to generate revenues amounting to \$6.2 million and a surplus of \$3.6 million.

Fisheries

The refurbishment of Bequia Fisheries Centre with funding from the Japanese Government is expected to be complete early 2004. In 2004, the Union Island and Kingstown fish markets will be refurbished, the latter at a cost of \$16.3M.

Agricultural Diversification

A comprehensive agricultural diversification programme, which is estimated to cost \$10.2M with support from the EU, is expected to accelerate the diversification plan around bananas.

TOURISM

Pirates of the Caribbean contributed to an increase in occupancy during the first quarter of 2003. Further, the number of cruiseship calls for the 2003/2004 season is projected to be 45% higher than the 2002/2003 season.

During the first quarter of 2003, mainland hotels and apartments enjoyed unprecedented levels of occupancy, with positive spill-over to transportation, communication and the casual labour force; all attributed to the Disney Motion picture production, Pirates of the Caribbean.

In July 2004, the Canouan Carenage Resort will be re-opened under new management under the name of Raffles Resorts.

Government is currently negotiating with a prospective investor for the construction of a one hundred (100) room hotel at Buccament. The Prime Minister also indicated that the local private sector has expressed an interest in partnering with

Government in the development of a hotel project at Mt. Wynne – Peter’s Hope.

The Prime Minister has indicated that the Comprehensive Tourism Industry Incentives Act, which will incorporate standards and enforcement requirements, will replace the Hotel Aid Act.

MANUFACTURING AND INDUSTRY

During the last seven years, economic activity has shifted from manufacturing to services. Government therefore has had to rethink the need for the continuing existence of the Development Corporation, which since its inception in 1976, promoted manufacturing and general industrial development. DEVCO’s financial functions were transferred in 2001 to the Development Bank and the management of the Industrial States has been transferred to the National Properties Limited.

The Government continues to demonstrate its commitment towards the further development of this sector, through the National Commercial Bank, by making available a further \$1.5 million to the Micro Loan Programme, which was introduced in July 2001, to which will be added the \$1.0 million to be provided by the CDB.

The Standards Bureau will continue to provide assistance in the product development, quality control, packaging and labelling and product presentation to entrepreneurs in the agro-processing industry and the Ministry of Trade will continue providing assistance to entrepreneurs in the marketing of their products regionally and internationally.

TELECOMMUNICATIONS

The Prime Minister highlighted that the Government has facilitated the growth in the telecommunications sector through the

liberalization of the market for telecommunication services, which has led to the entry of two new mobile service providers. Over \$20 million have been invested and temporary and permanent jobs have been created.

The next phase of the liberalization process is expected to focus on the implementation of a Price Cap Regime; the reduction in the cost of providing data service, to include the licensing of a new submarine cable provider; granting of a fixed network license and the acquisition of the necessary equipment for monitoring the electro-magnetic spectrum.

During 2004, emphasis will be placed on the finalization of the Information Communication Technology Policy (ICT). The objective is to promote comprehensive strategies for the development of an information society with the involvement of the private sector and the civil society.

Emphasis will also be placed on improving the legislative framework in the following areas:-

- A technology-neutral taxation regime;
- A policy on cryptography;
- Legislation governing the protection of personal information;
- A legal framework for digital signatures and electronic documents;
- Guidelines for consumer protection; and
- Electronic commerce standards.

The Prime Minister recognized that despite the telecommunication advances introduced in the past years, the Post Office remains an important medium of communication for a large number of Vincentians. To this end, the Post Office was restructured as the Postal Corporation of St. Vincent and the Grenadines and is now a Statutory Corporation.

ENERGY

Dr. Gonsalves stressed the importance of the Lowmans Bay Power Plant, which will be the principal means of securing energy in St. Vincent,

and the future location for the receiving and storing of fuel.

The preliminary estimates of cost for the Lowmans Bay plant and its associated transmission lines are EC\$90 million; funding of which is expected to be secured by March 2004. The project is expected to be commissioned by December 2005.

The Prime Minister also highlighted that, in July 2003, the Mayreau power plant was officially opened and completed at a cost of EC\$5.4 million and that Government will invest \$4.3 million in the expansion of the Canouan electricity system, in order to support the expected surge of economic activity in the island, arising from the reopening of the Canouan Resorts Development.

The Government realises VINLEC's problems in securing insurance coverage for its plant and equipment against hurricanes and other catastrophes in the international insurance market. To address this problem, the Income Tax Act has been amended effective January 2002, to clarify the deductibility of all premiums paid by VINLEC, either locally or overseas, to insure its T&D system and to provide that such amount shall not be subject to withholding tax.

EDUCATION & TRAINING

Education continues to be Government's main vehicle in its thrust to alleviate poverty and provide opportunities for improvements in the quality of life for the people of St. Vincent and the Grenadines.

The Government has embarked on a policy objective of providing universal access to secondary education by 2005. At the beginning of the 2003/2004 academic year, 2000 students were admitted into secondary schools. Government plans to increase the enrolment to 2,500 for the 2004/2005 academic year.

Consistent with the universal access to secondary education objective, Government is actively pursuing various funding sources for construction and equipment funding. In this regard, contracts for the design have already been awarded for the

construction of a secondary school, which includes staff and student quarters, for Union Island.

For the 2002/2003 academic year, Government has provided assistance for some 707 university students at a cost of some \$4.0 million.

The Government hopes to achieve this goal mainly through improved access to and quality of education at all levels. To this end, \$70 million or 20% of the total recurrent expenditure and \$24.2 million or 17.6% of the capital expenditure have been allocated towards financing education in 2004.

Among the initiatives are to be or have been undertaken are:-

- Increasing access to early childhood education by converting space 40% in a number of primary schools with declining enrolment, to pre-school sections.
- Train more Pre-school teachers through the VINSAVE Programme.
- The allocation of \$1.5 million for the commencement of preparatory work on primary schools in Port Elizabeth, Fair Hall and Edinboro.
- The extension and rehabilitation of Lodge Village and Owia schools.
- The allocation of \$1.2 million for the construction of the Peruvian Vale All-Aged School, which is expected to commence in March 2004.
- The implementation of measures to ensure that every child of primary school age is not only registered but attends school on a regular basis.
- The construction of additional classrooms and other facilities, which include staff room, cafeteria and students' common room, at the Community College scheduled to commence in the last quarter of 2004, to be funded by the EU.
- The Government's continued negotiations with the donor community for funds to construct new secondary schools. Funding for the construction and equipment of these projects is expected to come from the World Bank, the Caribbean

Development Bank, the Republic of China on Taiwan and the European Union.

- The submission of a proposal of 1.2 million Euros to develop a special programme for slow learners and under achievers.

YOUTH & SPORTS

The YES programs, which to date have provided training for some 500 persons, is expected to continue receiving Government's support during 2004.

In early 2004, work is expected to commence on the roadways and other infrastructure related to the construction of the National Stadium at Diamond. Also, in 2004, work will commence on the upgrading of the Arnos Vale Playing Field for the 2007 Cricket World Cup.

POVERTY REDUCTION

The Prime Minister stressed the importance of poverty reduction and declared the Government's goal of cutting by 50%, the level of poverty in St. Vincent and the Grenadines by 2015. To this end, the Children Against Poverty (CAP) programme was, in addition to Sandy Bay, Calliaqua, Sion Hill and Barrouallie extended to Greggs, Kingstown and Bequia and benefited some six hundred (600) children.

Early in 2004, the Government will also seek to harmonise and upgrade all laws relating to children and families.

Dr. Gonsalves highlighted the measures the Government has instituted as part of its strategy for poverty reduction:-

- Job creation;
- Low Income Housing Project;
- Purchase of a property to be used as a Crisis Centre for victims of domestic violence and other forms of abuse;

- Construction of two Day Care Centres for the elderly;
- Public assistance and the provision of building material for the poor;
- A programme to encourage students not only to save but to develop an entrepreneurial spirit;
- Non-contributory Pension Programme for displaced banana farmers;
- Development of the micro-enterprise sector and the Youth Empowerment Service (YES) Programme; and
- A project to enhance the livelihood of the people of North Windward.

The Social Investment Fund which is to be launched in 2004 will be funded by the European Union at a cost of \$10 million. This project is geared to provide funding for small scale sub-projects for poor and vulnerable groups and communities to improve individuals and their community.

HEALTH

As part of the Government's programme to improve the primary health care, the Biabou and Greggs clinics were completed: 21 existing clinics will be refurbished to an acceptable level; the third phase of the rehabilitation of the Milton Cato Memorial Hospital (MCMH) will be completed by year end and Phase IV has already started. Arrangements for the purchase of properties adjacent to MCMH for further expansion and upgrading of the hospital are well advanced. The Government recognises that HIV/AIDS cases are on the rise in St. Vincent and the Grenadines, and every effort will be taken to reduce the spread of this disease.

WATER AND SOLID WASTE

The Windward Water Supply Project which is estimated to cost \$27 million has recently commenced and is expected to significantly improve the quality of water from Byera to Diamond, and should employ up to 200 persons.

The Prime Minister indicated that in order to provide quality water and ensure regularity of supply:-

- Deforestation and illegal activities at Majorca must be reduced;
- The security at all water supplies should be enhanced; and
- Some 4.8 acres of land which have been farmed in the stream 24 area of the Dallaway system have been purchased by the CWSA and are to be reforested.

Early in the New Year, as a prelude to a reliable water supply to the main Grenadine Islands of Bequia, Union Island and Canouan, a socio-economic study will be conducted on the Grenadines.

Among the other Solid Waste projects the Prime Minister highlighted, were:-

- The new Solid Waste Project for the Grenadines;
- The Belle Isle Landfill, which on commissioning, will result in the closure of the Arnos Vale facility; and
- The transferring of street sweeping functions to the CWSA.

HOUSING

The Low Income Housing Project which includes the construction of houses at Brighton, Green Hill, Ottley Hall, Peter's Hope and Petit Bordel has gained momentum over the past few months. It is anticipated that, on the mainland, one hundred and eighty (180) units will be completed by February 2004 and twenty (20) on Canouan. In addition, two hundred (200) units of a different type of lower income earners will be completed by the end of December 2004.

THE PUBLIC SECTOR

Government will focus on building an efficient and accountable public sector which will improve the implementation of public policy, service delivery and its oversight responsibility. Public servants pay, exclusive of annual increments which average 2.2% will increase in 2004 and 2005 by 4% and 3% respectively. The 2004 public servants' bill is projected as follows:-

	<u>\$ Millions</u>
Salaries	131.9
Allowances	9.5
Pensions and NIS contribution	18.8
Wages	14.2
	<u>174.4</u>

PUBLIC DEBT

Based on preliminary data, the Public Debts as of September 30, 2003 amounted to \$741.3 million, 4.2% increase from December 31, 2002. The Public Debt at September 30, 2003 is distributed as follows:-

	<u>\$ Millions</u>
Local and regional	258.2
External	483.1
	<u>741.3</u>

During the period from December 31, 2002 to September 30, 2003, the external debt increased by \$23.41 or 5.1% which was mainly due to:-

1. A PSIP loan of \$20 million from Royal Merchant Bank Finance Company.
2. Loan of \$4.0 from the Government of Trinidad and Tobago to finance investment in LIAT.
3. Drawdown of \$5.0 million on the Emergency Recovery Loan.
4. Exchange loss of \$5.4 million as a result of the decline in the US dollar, to which the EC\$ is pegged, relative to major currencies.

Government has commenced making use of the Regional Government Securities Market which is expected to result in the further lowering of its financing costs.

RESOURCE REQUIREMENTS

The total budget of \$483.5 million comprises recurrent expenditure, excluding loan amortisation, of \$308.04 million, capital expenditure \$139.77 million and loan amortisation of \$35.64 million, an increase of \$23.6 million or 5.5% over the previous year's budget.

The recurrent revenue, and capital grants and other receipts are estimated at \$343.80 (2003: \$323.63) million and \$136.77 (2003: \$136.24) million respectively. The overall deficit is estimated at \$88.80 million, which is to be financed through external loans of \$43.37 million and domestic and regional borrowings of \$41.50 million and development bond issue of \$3.93 million.

The budget figures for 2004 presented with comparatives for the previous six years are as follows:-

	2004	2003	2002	2001	2000	1999
Current Revenue	343.80	323.63	310.08	305.61	289.58	269.23
Current Expenditure	343.68	323.49	309.74	305.23	286.31	264.74
Current Account Balance	0.12	0.14	0.34	0.38	3.27	4.49
Capital Grant	41.72	34.79	29.54	50.60	48.60	57.14
Other Capital Receipts	9.13	18.81	12.35	22.20	31.29	26.68
Funds available for PSIP	50.97	53.74	42.23	73.18	83.16	88.31
Less: Capital Expenditure	139.77	136.38	109.81	132.48	137.83	135.63
Overall Deficit	(88.80)	(82.64)	(67.58)	(59.30)	(54.67)	(47.32)
Financed by:-						
External Loans	43.37	38.90	29.81	43.50	37.47	27.25
Local Loans	41.50	26.21	14.61	15.80	17.20	20.07
Development Bonds	3.93	17.53	23.16	0	0	0
	<u>88.80</u>	<u>82.64</u>	<u>67.58</u>	<u>59.30</u>	<u>54.67</u>	<u>47.32</u>

FISCAL MEASURES

The Prime Minister outlined that both global and regional trade agreements require a re-examination of the country's fiscal regime. Because of the requirements referred to in the trade agreements, St. Vincent and the Grenadines, together with other OECS Governments, aim to implement a Value Added Tax (VAT) from 2006. It is estimated that a VAT rate of 15% will be sufficient to replace all indirect taxes, excluding import duties.

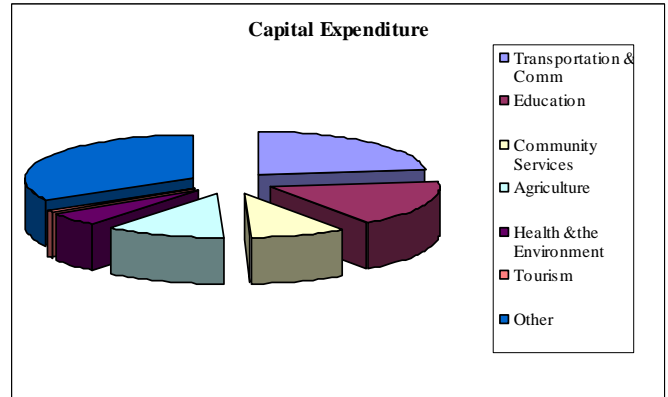
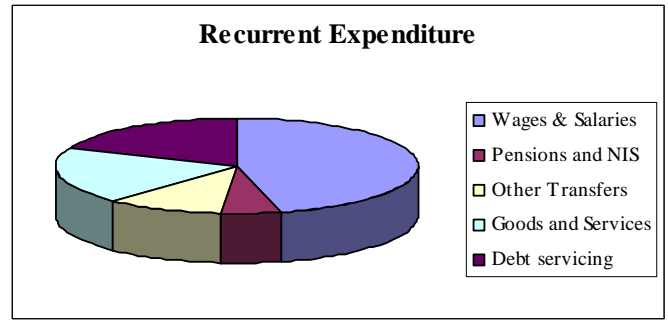
The VAT will be supplemented by an Excise Tax on certain luxury commodities, consumers'

durables and services. A VAT Implementation Unit will be established in 2004 within the Ministry of Finance and Planning.

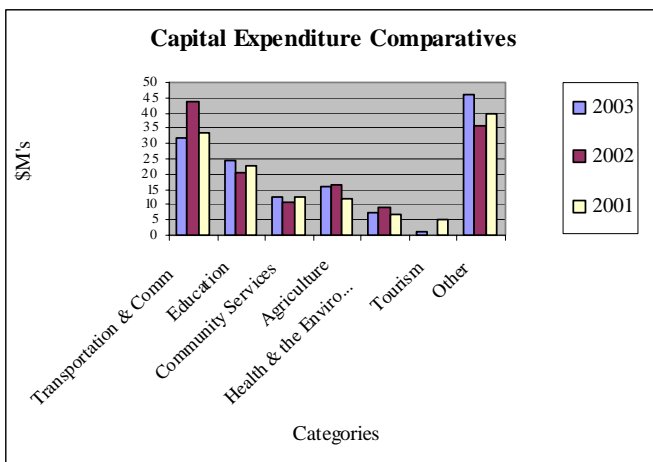
The Property Tax System will be modernised and will be based on a market value system rather than the current rental value system for ease of administration. No increase in property tax is anticipated. The new Property Tax system is expected to be implemented with the VAT systems in 2006.

The following fiscal measures were proposed from the 2004 year:-

1. Exemption Caricom Nationals, under the Professions Licensing Act, from the payment of fees as transient traders;
2. Increase in the insurance premium tax on local insurance companies to 5%;
3. Increase in the Airport Service Charge to \$40;
4. The imposition of a surtax of \$1,000 on imported vehicles over four (4) years old;
5. The annual firearm licence for shotguns, and revolvers, pistols and rifles of \$250 and \$500 respectively; and
6. Passports and other travel documents, \$60.



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