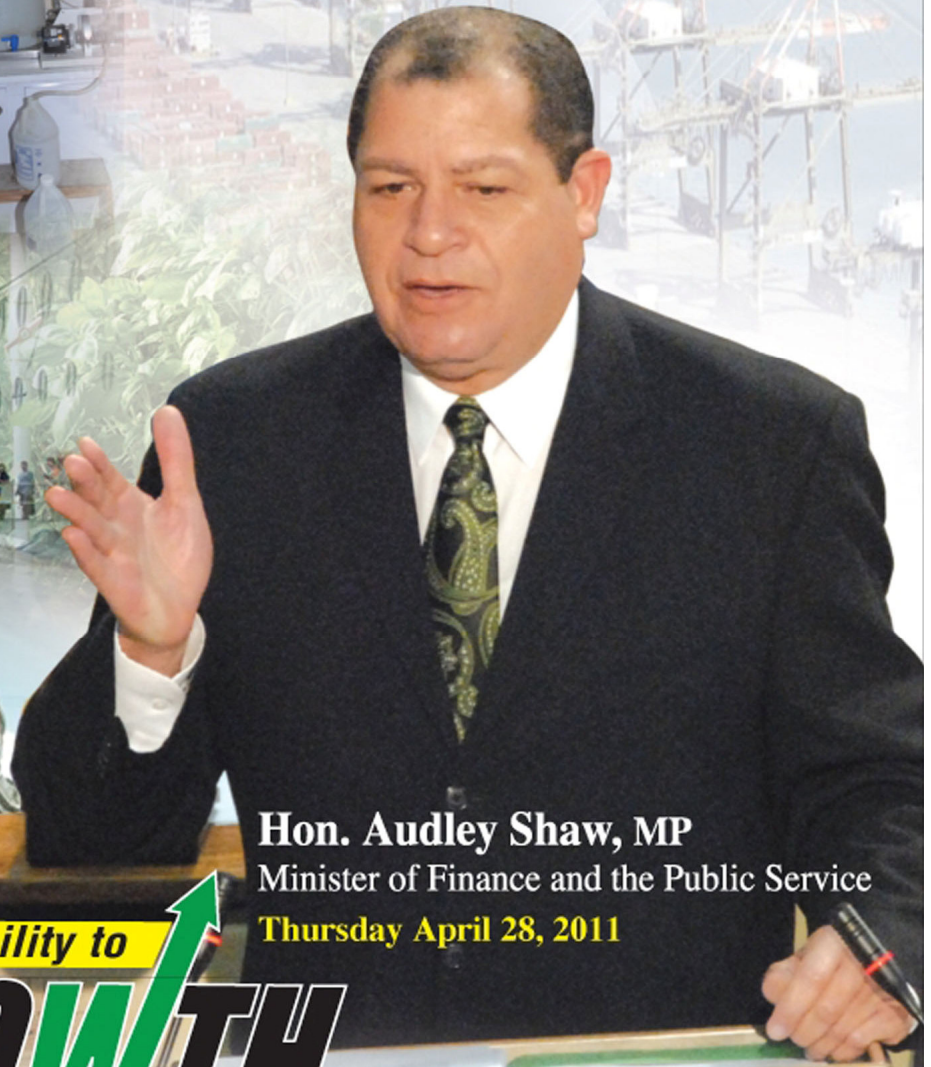




Budget Debate 2011-2012



Hon. Audley Shaw, MP
Minister of Finance and the Public Service
Thursday April 28, 2011

From Stability to

GROWTH

OPENING BUDGET DEBATE PRESENTATION TO PARLIAMENT

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FROM STABILISATION TO GROWTH

INTRODUCTION

Mr. Speaker, exactly a year ago, Jamaica faced a very different reality. Certainly for me, and the Economic Management Team at the MOF, it was a time of intense activity and immense pressure because of what was at stake.

Jamaica was grappling with the fall-out from the most severe economic crisis the world had seen in 80 years. Not only did we face an international economic crisis, we faced many natural disasters: the worst drought in 50 years, the most rain in many decades, storms, and hurricanes. All of this Mr. Speaker, was compounded by an economy that has only grown by 0.5 per cent per year for the past 16 years.

We inherited an economy on the border of collapse. The only option for survival was for us to make significant game-changing decisions. Top of the list was negotiating an IMF Agreement with the most 'bearable' terms possible – given the weak hand we held.

Well, Mr. Speaker, with God's help, we inked an Agreement with the IMF which unlocked unprecedented levels of funding from three other multilateral partners - the World Bank, the IDB, and the Caribbean Development Bank.

This was only the first step along a long journey to mapping out a plan for Jamaica to regain economic health. For although the JDX – an IMF 'prior action' – surpassed expectations in terms of investor support, the reaction of a post-JDX market remained to be seen. Would the interest rate hold? Would the financial sector have liquidity challenges? Would inflation become a runaway train? Would the exchange rate continue to be under pressure and would we have to

resort to, as the previous Government did, a high interest rate regime as the sole mechanism of supporting the local currency? These were but a few of the significant imponderables.

Mr. Speaker, what a difference a year makes! Today, Jamaica enjoys a stable – though ‘delicate’ - macro-economic environment. Much of the genesis of this stability is due to the Jamaica Debt Exchange – the most successful debt swap in history. The debt exchange has – without question – been a major pillar on which our entire recovery plan has been constructed.

A year later, it has come to mean much more than a foundation block for our recovery plan. The JDX has become a symbol of the courage and spirit of undiluted patriotism that we represent as a people.

We have come a long way indeed, but our condition remains delicate. By ‘delicate’ I mean, the economy has stabilized, but we must be aware of storm clouds that could threaten. I speak of rising oil and commodity prices such as the price of grain. I also speak of Jamaica’s vulnerability to natural disasters.

But we cannot afford to focus on the negatives. We must recognize that the waves have calmed; and the thick fog that had descended upon us from inherited and global conditions is beginning to clear. The Ship of State is stable now, and it is time for us to power up and set sail into the wide open sea again.

Mr. Speaker, every responsible Government’s primary objective must be to balance spending with revenue and this is our primary objective from now until 2015/16 when we hope to achieve the dream of a balanced Budget. A balanced Budget will allow us to attain the dreams of Independence. This Government’s objective is to now build on the many gains made in the last three years and to create a base for growth and prosperity.

Permit me to express my profound gratitude to the Financial Secretary, Deputy Financial Secretaries and their teams at the Ministry of Finance and the Public Service for their dedication, expertise and absolute professionalism during one of the most challenging years in Jamaica’s history. This is not a perfunctory gesture for me. I deeply appreciate your support and your willingness to go beyond the call of duty. May I say you inspire me.

I wish to thank the Statistical Institute (STATIN), the Planning Institute of Jamaica (PIOJ) and the Bank of Jamaica (BOJ) for all their hard work in getting information together for this debate.

I also wish to thank my dear wife for her understanding and for her unmeasured love and support during this pressure-filled year. Everyone should have a wife like Susan. She is literally the wind beneath my wings. I am indeed blessed.

To my children Renee, Sasha, Allison and Khristiana: you have my heart. Your unconditional love and support is something I do not take for granted, and I thank you for it.

In order for us to achieve our mutually desired objectives of economic development, wealth creation, job creation and higher living standards for our people, we must have the courage to set priorities in the full knowledge that there are structural pre-conditions necessary to achieving the growth and development that we need.

This also means that in setting priorities, all sectors no matter how deserving, cannot be priorities all at the same time. So while we have sought to maintain high levels of spending in Education, Health and Social Services, ideal levels of expenditure in these vital areas can only come when the economy, having been restructured, begins to grow and earn its way.

Structure of Presentation

I will speak on three broad areas today. Firstly, on the stabilization of the economy, where I will review the performance under the Stand-By Agreement with the IMF.

Secondly, I will examine the issue of growth and within that context, look at the medium term targets, the role of Government - both on issues of governance as well as public investment - and finally, to speak directly to the Budget by way of expenditure and the financing of the Budget.

I will then end the presentation with a discussion on Tax Reform and certain tax measures which are proposed.

I. STABILISATION OF THE ECONOMY

The Bank of Jamaica continued to ease its monetary policy stance during FY2010/11, while maintaining its focus on engendering price stability within the economy. The loosening of the Bank's policy stance occurred in the context of improving inflation prospects, general stability in the foreign exchange market and relatively strong Net International Reserves (NIR). In addition, there was improved market confidence consequent on the achievement of quarterly quantitative targets under the International Monetary Fund Stand-By Arrangement (IMF-SBA).

A. IMF SBA TARGETS OUT-TURN

Mr. Speaker, in relation to Jamaica's Stand-By Agreement with the International Fund, there was continued improvement in many of the key macroeconomic indicators up to the end of FY2010/11. Inflation and market-determined interest rates trended downwards, the Net International Reserves (NIR) remained strong and despite continued weakness in the real economy, all the quantitative targets in the IMF Stand-By Arrangement (IMF-SBA) up to September 2010 were met. A review of the December 2010 and March 2011 quantitative targets and structural benchmarks will be conducted by the IMF in the first quarter of FY2011/12.

However, for the fiscal year 2010/11, we can report that most quantitative targets were met. Notably, the primary surplus of \$53.4 billion was \$4.2 billion below the revised SBA target of \$57.6 billion. The structural benchmarks that are being aggressively pursued include Public Sector Transformation, Divestment, Tax Reform and Debt Management Legislation.

B. INDICATORS OF ECONOMIC STABILITY

Mr. Speaker, there is no doubt about the stability that is emerging in our economy. The economic data tells all:

Interest Rates

- In the context of improved market confidence, the Bank of Jamaica reduced the interest rate on 30-day Certificates of Deposit (CD) over fiscal year 2010/11 by a total of 375 basis points to 6.75 per cent (from 10 per cent in March 2010). The

easing of the Bank's policy stance created the basis for further declines in market rates. In particular, the 90-day and 180-day Government of Jamaica (GOJ) Treasury Bill yields declined to **a historic low** of 6.46 per cent and 6.63 per cent, respectively, at end-March 2011 from 10.18 per cent and 10.49 per cent at end-March 2010. In addition, yields on GOJ Global bonds declined by 50 basis points over the fiscal year.

- In addition to effecting rate reductions, the Bank of Jamaica lowered the cash reserve requirement (CRR) and the liquid asset requirement (LAR) against Jamaica Dollar liabilities of the deposit-taking financial institutions to 12.0 per cent from 14.0 per cent, respectively. This action was in an effort to promote an easing in domestic credit conditions and enhanced the pool of loanable funds within the commercial banks by \$4.5 billion.
- Mr. Speaker, I must pause here to note that despite the easing of monetary policy, the rate of decline in commercial bank rates have not kept pace and demand for loans by the private sector remained weak during the past year; growth in private sector credit demand was a marginal 1.5 per cent over the fiscal year to February 2011.
- Mr. Speaker I am heartened to see that just yesterday (April 27) one of our larger commercial banks has taken the lead to reduce its Base Lending Rate by 100 basis points to **15.75 per cent down from 16.75 per cent - now the lowest it has been in over 27 years**. The bank concurrently announced an additional \$500 Million Productive Sector Growth Loan Fund. This offer will be made available at a concessionary interest rate of **8.95 per cent, down from the previous 9.95 per cent**, to Jamaican businesses in the productive sector. I commend the Bank in taking this lead role.
- But I want to remind our Banks don't stop there because we must continue on our path toward single digit prime interest rates. That vision might be mutual and unshakable.

Foreign Exchange Market

- The Bank of Jamaica continued to purchase and sell foreign currency in order to minimize volatility in the foreign exchange market. The Bank also maintained a foreign exchange facility for the Public Sector Entities (PSE), which contributed to the general stability in the foreign exchange market in the fiscal year. Given favourable conditions in the foreign exchange market, the value of the domestic currency *vis-à-vis* the US dollar appreciated by 4.4 per cent in FY2010/11 relative to a depreciation of 0.8 per cent in FY2009/10.

The Net International Reserves (NIR)

- Mr. Speaker, Jamaica continues to hold high foreign reserves. At end-March 2011, the stock of the NIR was US\$2,532 million (US\$2.5 billion) an increase of US\$801.3 million for FY2010/11. Gross reserves stood at a high of \$3.4 billion. This level covered 23 weeks of goods and services imports. This is the highest level of NIR and gross foreign exchange reserves in Jamaica's history.

Inflation

- Mr. Speaker, I am pleased to announce that the inflation rate for FY2010/11 was 7.8 per cent, well within the target range of 7.5 per cent to 9.5 per cent. Inflation for the fiscal year was largely influenced by adverse weather conditions and rising international commodity prices.
- We all recall the prolonged drought conditions from as far back as June 2009 to May 2010 and the impact of Tropical Storm 'Nicole' in September 2010. These two extreme weather conditions resulted in shortage in some agriculture crops in the first three quarters of last fiscal year and contributed notably to price increases in *Food & Non-Alcoholic Beverages*. On the global market, crude oil prices rose by 17.9 per cent to an average of US\$83.38 per barrel for the fiscal year and higher prices of grains such as wheat, corn and rice were influenced by supply conditions such as droughts and fires, as well as increased demand for biofuel.
- In addition to these factors, there were a number of administrative cost adjustments related to bus fare and wage increases which contributed significantly to domestic

inflation during the review period. However, inflationary impulses were restrained by the appreciation of 4.4 per cent in the value of the Jamaica Dollar against the US dollar and strong recovery in domestic agricultural supply since the start of 2011. The reduced inflation pressures in the fiscal year were also aided by a consistent decline in inflation expectations.

Mr. Speaker, I must take time out to applaud Governor Brian Wynter and his team for their hard focused work and efficiency in keeping our financial system stable and monetary policy responsive.

The Fiscal Outturn

- Mr. Speaker, this year marks the first in over a decade that any Jamaican Government has been able to achieve its projections. This was achieved in a very difficult, almost unprecedented, global environment. The very unstable domestic and global environment made it extremely difficult to project accurately.
- Many who now talk loudest about the accuracy and credibility of projections dealing with debt and deficits had their difficulty during their time; times that were relatively stable globally. **Let us look at that performance.**

| <u>Fiscal Year</u> | <u>Budget</u> | <u>Actual</u> |
|---------------------------|----------------------|----------------------|
| | | |
| 04/05 | -3.7% | -4.4% |
| 05/06 | 0.0% | -3.0% |
| 06/07 | -2.5% | -4.5% |
| 07/08 | -4.5% | -4.6% |
| 08/09 | -4.5% | -7.3% |
| 09/10 | -5.5% | -10.9% |
| 2010/2011 | -6.5% | -6.1% |

Mr. Speaker, Central Government operations generated a fiscal deficit of 6.1 per cent of GDP. This fiscal deficit outturn is much better than the originally budgeted deficit of 6.5 per cent of GDP. The improvement relative to budget resulted mainly from a lowering of expenditure in light of a shortfall in Revenue and represents a considerable improvement over the 10.9 per cent deficit recorded for FY2009/10.

Of note, this is the first in seven years that the deficit target has been met and exceeded.

Economic Growth

We now turn to economic growth – **the ultimate target of our stabilization efforts.**

- Mr Speaker, the latest estimates show that our rate of economic decline has been slowing. For FY2010/11, the Jamaican economy is estimated to have declined by 0.7 per cent, following two consecutive fiscal years of contraction averaging 2.1 per cent per annum. This is indeed encouraging. The slower rate of economic contraction was influenced by improved international economic conditions which facilitated a modest improvement in remittance inflows to Jamaica and resuscitated aspects of our Bauxite and Alumina industry.
- Robust growth was recorded in Mining & Quarrying. The industry is estimated to have expanded by 22.2 per cent in FY 2010/11 following a significant decline of 54.7 per cent in the previous fiscal year. Increased world demand for aluminium led to subsequent revitalization of operations within Jamaica's Bauxite and Alumina industries. One of the three Alumina plants that were closed in 2009 re-opened in the June 2010 quarter. The re-opened plant represented approximately 15.0 per cent of the Alumina industry's capacity. In addition, daily operations at the sole Bauxite plant were increased. Mr. Speaker, I congratulate the young Minister of Energy and Mining for his efforts in stabilising this important sector of the Jamaican economy.
- The Hotel & Restaurants sub-sector is estimated to have grown by 2.8 per cent in FY2010/11 compared with an expansion of 4.1 per cent in FY2009/10. The lower growth in FY2010/11 was partially due to the cancellation of flights from Europe due to volcanic ash clouds as well as the negative travel advisories following the disturbances in West Kingston. The Tourism industry however benefited from

increased airlift to the Island and aggressive promotions by the Government and industry players as well as expanded room capacity. Further, below normal winter temperatures in Jamaica's main tourist markets also aided tourist arrivals. Mr. Speaker I must also congratulate the hardworking Minister of Tourism for the excellent job he has been doing in stabilising this sector during the global crisis.

- Despite reduced performance in the last fiscal year due to tropical storm 'Nicole', the agricultural sector rebounded in the March quarter, with domestic agriculture growing by 24 per cent. The best quarterly performance since 1998. The production and Productivity Programme of the Ministry of Agriculture, through best practices, have helped farmers to mitigate the effects of the unfavourable weather conditions, which affected crop establishments and yields throughout the year. The Minister of Agriculture has shown what hard work, commitment to our farmers, and vision can do. The Sector is now poised for growth as we see demand for agro-processing and more linkages between farmers and the hospitality sector.
- Just yesterday, we launched an innovative programme in Coleyville, Manchester, where a storage, grading and packaging facility will be established as a joint venture between Jamaica Producers and the Christiana Potato Growers Corporation called "Christiana Pride".

Balance of Payments

- Mr. Speaker, the Balance of Payments data available is for the period **April to December 2010** and shows a current account deficit of US\$947.1 million (6.7 per cent of GDP) representing a deterioration of US\$35.3 million, relative to the comparable period of the previous fiscal year. The deterioration reflected an increase in the merchandise trade deficit, the impact of which was partly offset by improvements in the services, current transfers and income sub-accounts.
- The growth in imports largely reflected an increase of 9.1 per cent (US\$97.7 million) in spending on fuel imports. The decline in exports largely reflected a fall of US\$115.6 million in earnings from non-traditional exports. This was related to a reduction of 86.2 per cent in earnings from Ethanol exports due to the closure of two

Ethanol plants in the context of increases in the price of imported inputs. However, the impact of the decline in non-traditional exports was partly offset by increased earnings of US\$68.2 million from Alumina and US\$33.0 million from Bauxite.

Financial Sector Developments

Mr. Speaker, within the stabilization thrust, significant progress was made in FY2010/11 as it relates to the planned reform of the financial sector.

- The concept paper for an “Omnibus Statute” was finalized in 2010. This statute will effectively consolidate the existing Banking Act, the Financial Institutions Act, and the Bank of Jamaica (Building Societies) Regulations into a single legislation. Cabinet also approved the drafting of legislation which will assign institutional responsibility for the oversight of financial system stability to the Bank.
- The Credit Reporting Act was passed on 31 August 2010 and took effect from 01 October 2010. Three applications for the operation of a Credit Bureau have been received by Bank of Jamaica and are currently being reviewed. Mr. Speaker, I sincerely hope that before the end this fiscal year at least one bureau will be in operation. The implication for lending to micro and small businesses will be revolutionary as the access to funding for these persons should be easier and more affordable.
- Mr. Speaker as the House may recall, early in the global financial crisis, the Bank of Jamaica created a special lending window for members of the financial sector who had cross-border investments. I am very pleased announced that the facility for US\$175 million has now been fully repaid by the sector. Mr. Speaker, our financial sector has survived the crisis and is now ready to grow again.
- Mr. Speaker, I can now state that despite the debt burden, natural disasters and a hostile global economic environment, interest rates are trending down, the foreign exchange market is stable, the NIR is stable, the rate of decline in the economy has slowed showing new signs of growth and inflation has moderated. The Jamaican economy has shown signs of stability, setting the stage for new investment and growth.

- Mr. Speaker many wealthier countries have similar challenges as we do, but unlike these other countries we have not defaulted on debt, we have not embarked on massive cuts in the public sector, we have not cut our special assistance programmes for the needy. Rather, we have remained calm and have sought to implement strategies that will create a future of growth. The journey has only started but it is a step in the right direction, a process that we have started and intend to complete.

II. GROWTH

Mr. Speaker, after presenting the indicators of economic stabilization, I would now like to focus on economic growth. Firstly, I will present the medium term macro-economic framework and then speak on the role of Government in the quest for growth in the Jamaican Economy.

As you will recall Mr. Speaker, the medium-term macro-economic programme is supported by the International Monetary Fund (IMF), and the other multilaterals, and forms part of the basis for the country's Medium Term Socio-Economic Policy Framework (MTF) towards achieving the objectives of the National Development Plan (Vision 2030 Jamaica).

A. MEDIUM TERM MACRO-ECONOMIC TARGETS

Our broad strategic priorities from FY2011/12 and through the medium term are **economic growth, job creation and competitiveness**, underpinned by crime reduction, tax reform and public sector transformation. These priority areas complement our commitment to balancing the fiscal accounts over time (by March 2016), as a necessary condition toward creating more fiscal space for investments, mainly in the areas of national security, health, education and infrastructure.

Economic growth of 1.5 per cent is targeted for this fiscal year and growth is expected to increase to around 2 per cent in FY2012/13 and FY2013/14. The improved performance in domestic economic activity is predicated on recovery in the global economy, particularly for USA, as the recession is expected to end in 2011. In addition, the expected re-opening of WINDALCO's Kirkvine plant by mid-2011 and ALPART in 2012/13 provides significant growth impetus over the medium term. We also expect growth in agriculture and tourism.

Inflation has been moderating and having come within the target for FY2010/11, the projections have been revised downward to 7 per cent for this fiscal year and 6.5 per cent for each of fiscal years 2012/13 and 2013/14.

The Net International Reserves level is projected to remain around the US\$2.0 billion level.

The **Fiscal Targets** laid on the table today will be aggressively pursued to demonstrate the Government's unyielding commitment to fiscal adjustment in a manner that the country has not seen for a long time. The medium term programme projects a **Fiscal Deficit** of 4.6 per cent of GDP towards a balanced Budget in FY2015/16.

| Medium Term Macro-Economic Targets | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|
| | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
| GDP (J\$bn) | | | | | |
| Value Added @ 2003/04 basic prices | 489.2 | 484.6 | 492.0 | 501.9 | 511.9 |
| % Chg | -2.5 | -1.0 | 1.5 | 2.0 | 2.0 |
| GDP @ Current Mkt. Prices* | 1109.6 | 1224.0 | 1334.7 | 1450.8 | 1576.0 |
| % Chg | 8.0 | 10.3 | 9.0 | 8.7 | 8.6 |
| Inflation | | | | | |
| Annual Pt to Pt | 13.3 | 7.8 | 7.0 | 6.5 | 6.5 |
| Annual Average | 9.7 | 11.4 | 7.4 | 6.6 | 6.5 |
| NIR Passive (US\$m) (eop) | 1751.9 | 2553.2 | 2000.1 | 2075.1 | 2113.4 |
| Change in NIR (US\$m) | 123.28 | 763.8 | -556.4 | 75.0 | 38.3 |
| Fiscal Balance (% GDP) | -10.0 | -6.5 | -4.6 | -3.5 | -2.3 |

Mr. Speaker, over the past year, **Fiscal Policy** has been carefully reviewed and evaluated with an emphasis on tax policy. Over the years numerous studies on Jamaica's tax policy have been undertaken. The Government is not short of proposals. Action must now be taken – Proposals must now be implemented to create a real and concrete basis towards our aim of eliminating the overall public sector deficit during the medium term and getting our debt ratios down. The Government must begin to use fiscal policy not just to support itself, but to promote economic stability and growth. There will be further details on the 2011/12 Budget and new tax policy later on in my presentation.

B. ROLE OF GOVERNMENT IN ECONOMIC RESTRUCTURING

1) Divestment of Loss-making Public Entities

Clarendon Alumina Partners (CAP)

The Government of Jamaica is now in negotiations for the sale of Clarendon Alumina Partners (CAP) – 45 per cent ownership of JAMALCO. Further details will be provided in due course. We simply cannot continue to subsidize the operations of CAP, including an iniquitous forward sale agreement that is an albatross around our necks.

STATUS OF THE SUGAR DIVESTMENT PROCESS

To date, GOJ has made significant progress in implementing its Revised Sugar Adaptation Strategy (JCS II).

Having divested the first two public sector sugar estates in 2009, on 30th July 2010 the Prime Minister signed the agreements which initiated the divestment of the three remaining GOJ estates, namely Frome, Monymusk and Bernard Lodge to COMPLANT International Sugar Industry Company.

Some US\$150 million is to be spent on refurbishing factories and fields to build a 200,000 tonne sugar refinery, at an approximate cost of US\$200 million. A high level Chinese delegation is due into island next week to help make this determination.

Mr. Speaker, the Government-owned factories used to incur operational losses of an average of \$1 billion per year and a cash loss of over \$2 billion per year. With the divestment of the SCJ, these losses have now come to an end.

AIR JAMAICA DIVESTMENT

Mr. Speaker, Air Jamaica (AJL) is nearing the end of the transition period with Caribbean Airlines (CAL), which is scheduled to end on April 30, 2011. The Transition period was necessary to ensure that control of AJL's operations was successfully transferred to CAL last May, while allowing the time necessary for CAL to secure the necessary licences and properly integrate the operations.

As of today, we have so far had a successful operation, and CAL has secured the rights to fly from Jamaica to North America, and has made significant progress in integrating both operations into one, while maintaining the strong Air Jamaica brand. The country also has benefited as we have not seen any disruption to airlift capacity, and the Government has avoided accruing any additional losses from Air Jamaica.

Liquidation of the majority of the external payables (that is outside of Government related payables), which includes the amount of US\$31million to the IRS, with which we received a refund of some US\$2.4 million based on the fact that we made efforts to liquidate expeditiously;

By the end of April 2011 we would have returned four (4) of the six (6) leased aircraft, based on negotiated early returns, which has saved us significant future liabilities;

It should be noted that last fiscal year the Government budgeted US\$204.3 million (J\$17.6 billion) to pay out certain external payables, and we paid out only US\$163 million (J\$14.1 billion). We were therefore able to apply the difference to pay off a long term loan and thereby save hundreds of thousands of US\$ in interest payments. This is consistent with the way we have treated the IRS liability that is choosing to pay it off early where possible, thereby saving the taxpayers millions of dollars in interest and penalties.

Agreement has been reached on all of the issues involved in the Air Jamaica/Caribbean Airlines merger, and it is anticipated that the Shareholder's Agreement will be signed by the due date of April 30th.

2) Public Sector Entities – Investment Infrastructure

Mr. Speaker, for the last 4 years I have made the performance of the Public Sector entities a major item in my speeches to this Honourable House.

In April 2006 the major public sector entities had employment of 19,000 workers with assets of \$502 billion. Transfers to the central government from these entities totaled \$14 billion. The projections for 2012 are that these agencies will have an asset base of \$834 billion; assets have increased by 60 per cent over the period. For the same period,

transfers to Central Government are expected to be \$24 billion or an increase of 72 per cent.

As you may recall, in March 2010 the Public Bodies Management Accountability Act to establish a Fiscal Responsibility Framework (FRF) for Jamaica. One of the requirements of this Act is the presentation of a combined budget of the Public Bodies and Central Government. The first presentation of this new budgetary requirement was made in April 2010.

This year, the combined expenditure budget is \$987 billion in comparison with \$869 billion in 2010, an increase of 13 per cent.

In 2010 total capital expenditure by the public sector entities was \$72 billion; the projection for 2012 is \$89 billion or an increase of 24 per cent. Most of the projected expenditure will be in the Country's road, water and housing infrastructure and urban renewal Mr. Speaker, when this expenditure is combined with the \$60 billion in non debt capital expenditure of Central Government it totals a whopping \$149.0 billion of capital expenditure – the largest in the history of Jamaica.

Road Maintenance Fund And The JDIP

The objectives of the Road Maintenance Fund (RMF) are to overhaul, upgrade and improve the main and parochial road network throughout the island. The overall intention is to keep the island's main road network at internationally acceptable standards.

Maintenance programmes are geared towards pothole elimination, cleaning of drains, the timely repairs to bridges and road furniture (street signs and pedestrian crossings) thus enhancing general road safety. Consequently, the RMF was commissioned to implement the Jamaica Development Infrastructure Programme (JDIP) to facilitate improvement of the roads and foster economic growth and development.

Projects under the JDIP are designed by the National Works Agency (NWA) and are expected to be executed over five years at a cost of US\$400 million. Eighty-five per cent (85 per cent) or US\$340 million of the cost will be provided as a loan from the China

Export Import Bank (China EXIM) and 15 per cent (US\$60 million) from the Special Consumption Tax (SCT) on fuel.

The main areas of focus for 2011/12 are the:

- Rehabilitation of 120 main and parochial roads
- Rehabilitation of 7 housing schemes roadways
- Construction of 12 new bridges
- Installation of 17 modular bridges
- Construction of 27 retaining walls
- Patching of 200,000 square meters of roadway
- River training solutions in 6 locations.

I wish to stress that in addition to the 20 percent fuel cess of \$1.3 billion and the proceeds of the motor vehicle licenses of some \$738 million, the GOJ has budgeted an additional \$750 million in support for the RMF to ensure financing of 15 per cent down payment on US\$100 million for JDIP expenditure for FY2010/11, \$800 million to finance interest costs on the JDIP and PetroCaribe loans as well as administrative and routine road maintenance by the RMF.

Mr. Speaker, I must stress that notwithstanding the public posturing on this issue, for the second year the summaries of expenditure under this programme is published in the Public Bodies document. It is transparent unlike the previous Deferred Financing Programme.

National Water Commission (NWC)

The National Water Commission (NWC) will commence a revised 3-year operational plan in 2011/12 in its ongoing efforts to realign its operations by developing short to medium term strategies through the implementation of the various activities including:

- Expansion of service coverage and supply reliability
- Increase revenue enhancement measures and growth in the customer base
- Delivery of improved customer service standards

- Increase operational efficiency and compliance level
- Cost reduction and elimination of non-value added activities

As part of the NWC's commitment to execute capital projects to expand and provide reliable water supply services and support economic development in key areas, capital expenditure totaling \$10.3 billion will be undertaken by the NWC.

In addition, a special allocation of \$500 million has been set aside for small rural water supply projects islandwide.

3) Role of EX-IM, PetroCaribe, and SLB, Jamaica Mortgage Bank in economic restructuring for 2011/12

Mr. Speaker, I wish to highlight a summary of the activities of the EX-IM Bank, PetroCaribe Fund, Students' Loan Bureau, and the Jamaica Mortgage Bank.

In part, as these entities underwent significant positive changes last year and will play a major role in going for growth.

National Export-Import Bank of Jamaica Limited (EX-IM Bank)

Mr. Speaker, over the past year, the EX-IM Bank has done a tremendous job to repositioning itself, introduce competitively-priced products, and improved service delivery.

During the current financial year the Bank has set the following objectives:

- Increase loan funding with the successful conclusion of negotiations with:
 - IDB for US\$50 million
 - EX-IM Bank China for US\$50 million
 - Increase loan utilization to \$7.0 billion
- Increase direct lending, thereby delivering lower interest rates – US\$ loans are now

as low as 7.0 per cent.

- Improve service delivery, example, faster loan processing, online payment facility.
- Launch specialized products for exporters and the agri-business sector.

With our strong emphasis on driving growth this year, the Government will continue to throw its full support behind the EX-IM Bank – especially in the area of sourcing additional loan funding. Mr. Speaker, my mandate to the EX-IM Bank is that we must find innovative and creative ways of providing financing to the small and medium exporters. In addition, as lenders the EX-IM Bank must provide better advisory services to the small exporters. They are critical to the future growth strategy.

PetroCaribe Development Fund

Mr. Speaker, during the last fiscal year, the PetroCaribe Development Fund (PDF) continued to play a pivotal role in financing the country's economic and social development. At March 31, 2011 a total of US\$1.4 billion or approximately J\$120 billion accrued to Jamaica under the agreement. This represents the largest source of concessional loan flows available to the Government of Jamaica. The benefits to the public finances and to the macro-economic programme continue to be significant, and I take the opportunity, once again, to express our deep appreciation to President Hugo Chavez and the Government and People of Venezuela for their generosity.

During FY2010/11, the Fund disbursed a total of \$10 billion in long-term loan financing to support a number of critical development priorities, such as the Port Authority, The UDC, the EX-IM Bank, NROCC and others.

Outlook for FY2011/12

The PetroCaribe Fund will make available a total of J\$28.5 billion in loan financing to Central Government and self-financing Public Bodies. The Fund will also play a critical role in financing the implementation of two important programmes which are consistent with the national development strategy, as articulated in Vision 2030 National Development Plan. They are:

- establishment of a sustainable long-term model at the Students' Loan Bureau to provide low-cost financing for tertiary-level students. By the end of August this year, I should be in a position to outline the revised arrangements which will come into effect during the FY2011/12 school year.
- implementation of an ambitious community development plan, named the Community Renewal Programme (CRP), which is a part of the GOJ Growth Inducement Plan. Its objective is the development of human capital and the expansion of economic opportunities for our most vulnerable in both urban and rural areas. Many of the initiatives will promote entrepreneurship and capacity building for micro and small enterprises, while the rural development projects will support innovative agriculture projects and promote food sufficiency.

Mr. Speaker, this Administration is mindful of the fact that PetroCaribe is, at core, a regional development fund. It is for this reason that I am proud that Jamaica is utilizing it to accomplish its true purpose – that of empowering Jamaicans to achieve their fullest potential and thereby contributing to the achievement of a prosperous economy. I commend Mrs. Sharon Weber and her team for their continued dedication.

Students' Loan Bureau

During the 2010/11 fiscal year, a new Board was installed and an (acting) Executive Director brought in to manage the operations of the Students' Loan Bureau (SLB). Notwithstanding previous challenges the Bureau increased its disbursements by 15 per cent or 1,300 new loans.

Mr. Speaker, you would understand why, as a Member of Parliament, the Students' Loan Bureau holds a special place in my heart. It is for this reason that I am pleased to report that the Bureau is in the process of implementing a new sustainable, long-term model which will provide more affordable financing to students. Interim policies have also been implemented, pending the results of an actuarial review now in progress. Among the interim policies are:

- Reduction in interest rates from 12 per cent 'add on', to 9 per cent effective April 1, 2011 and also lengthening the period from 10 years to 15 years;
- Reduction in insurance premiums from \$1.50 per \$1,000, to \$1.00 per \$1,000. This is significant as in some instances, the insurance cost represents over 40 per cent of the total monthly payment.
- Mr. Speaker, for example, a person who borrows \$500,000 for a period of study, the interest saving on this policy change would be \$195,000. But more importantly, the monthly payment would move from \$9,200 per month to \$5,000 per month – a reduction of 45 per cent.

The dynamism of the Bureau's Board and newly appointed Executive Director Miss Monica Brown, is an inspiration and deserves our gratitude.

Jamaica Mortgage Bank

Mr. Speaker, FY2010/11 was a significant one for the JMB, as at the end of March 31, 2011 the Bank recorded unaudited profit of \$130 million against a projection of \$52 million.

The objective is to create an entity which will play an aggressive role in the secondary mortgage market. The new business model is based on accessing low-cost funding to on-lend to developers for housing construction and to the financial intermediates to originate mortgages. We are going back to its original mandate when it was established in 1971.

On April 13, 2011, the Bank officially re-started its Secondary Mortgage Market (SMM) Facility with \$2 billion worth of tax-free bonds. Lower interest rates brought about by the JDX has been of significant assistance in helping the Facility provide low-cost funds for on-lending to Building Societies and Credit Unions. They have already led the way in joint venture with a credit union to introduce a mortgage instrument at 11.95 per cent.

With regard to future funding, JMB is seeking approval to issue up to \$35 billion in tax-free bonds over a seven-year period to help drive the construction of affordable housing solutions with lower mortgage rates.

4) Role of the Multilaterals

Status Of Multilateral Financing

Mr. Speaker, the Government continues to seek financing from Multilateral Development Institutions to support key strategic medium term development objectives of the Vision 2030 Jamaica - National Development Plan. For 2010, concessional loans totaling US\$850.0 million were borrowed from the Multilaterals (IDB, WB, and CDB). In addition, these Multilaterals provided grant support of US\$53.0 million.

Multilateral financing continues to support the government's various reform initiatives being undertaken to improve public sector governance, fiscal and debt management, and tax reform, among others. The interest rates at which these loans were accessed ranged between 0.5 and 2.0 per cent.

The IDB remained the largest source of development loan financing as evidenced by the six policy-based loans for budget support totaling US\$600.0 million which was negotiated and disbursed by that Institution in 2010. Loans for budget support negotiated with the World Bank totaled US\$200.0 million.

The high level of support provided by Multilaterals in 2010 complemented the IMF initiatives and is an indication of the strong confidence which these agencies have in the policies of the Government.

Since 2007, Jamaica has received a record US\$1.9 billion in budget support and investment financing from our Multilateral development partners.

The Multilaterals are expected to provide budget support financing totaling US\$553.0 million during FY2011/12.

The European Union

During 2010 a total of €81.07 million (J\$9.4 billion) was disbursed of which budget support payments accounted for €65.2 million (\$7.6 billion). Budget support programmes include the Debt Reduction & Growth Enhancement, Security Sector Reform and the Sugar Adaptation Programmes. The focus of the EU on budget support as a modality for delivery of its aid to Jamaica is evidence of a maturing partnership. Other projects within the cooperation programme include the Poverty Reduction Programme II which is implemented by the Jamaica Social Investment Fund; the Banana Support Programme implemented by the Rural Agricultural Development Authority; and the Climate Change Adaptation and Risk Reduction Project which is being implemented by the United Nations Environment Programme (UNEP) in collaboration with the Planning Institute of Jamaica.

The EU has disbursed to Jamaica a total of €246.1 million (J\$27.4 billion) in grant resources over the period 2007 to 2010.

5) Good Governance Policies

Mr. Speaker, the Government has embarked on a series of policy considerations and changes geared towards practices of good governance. Good governance embodies processes that are participatory, consensus oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive, and which follow the rule of law.

I will now spend some time in outlining good governance practices being pursued.

- **Fiscal Responsibility - A new paradigm of effective governance**

Mr. Speaker, you will recall that a **Fiscal Responsibility Framework, adopted by this Government**, was passed into law on March 22, 2010. The Financial Administration and Audit (FAA) Act and the Public Bodies Management and Accountability (PBMA) Act are to be amended to incorporate the parameters for achieving fiscal responsibility and fiscal

prudence. The amendment to the FAA Act provides for the Minister responsible for Finance to lay before both Houses of Parliament a Fiscal Policy Paper (FPP) setting out:

- (a) a Macroeconomic Framework;
- (b) a Fiscal Responsibility Statement; and
- (c) a Fiscal Management Strategy

Even though the amendments to the FAA and PBMA Acts and accompanying Regulations have not yet been passed by the Houses of Parliament, I am pleased to announce that the Ministry of Finance & the Public Service has laid on the table, ***for the first time in Jamaica's economic history***, the Fiscal Responsibility Paper, consistent with the requirements as specified in the proposed amended law.

- **The Macroeconomic Framework** of the FPP presents an overview of macro-economic performance over the period FY2009/10 – 2010/11. It focuses on developments in the Real Sector, Labour Market, Monetary Sector and External Sector, and provides a background to the economic challenges that culminated in the IMF Stand-By Arrangement (SBA). The Macroeconomic Framework also details the key macroeconomic assumptions that will inform the development of the estimates of revenue and expenditure and by extension, the debt trajectory over the medium term.
- **The Fiscal Responsibility Statement** is a statement of intent and commitment, with a signed declaration by the Minister responsible for finance, stating that in pursuing policy objectives he will adhere to the principles of prudent fiscal management. The Fiscal Responsibility Statement specifies a menu of revenue and expenditure measures needed to close the fiscal gap and ensure achievement of key fiscal targets. These measures include:
 - Tax reform (both policy and administration);
 - Pension reform – implementation of a contributory pension scheme;

- Public Sector transformation – to generate efficiencies and contain growth in the wage bill;
 - Better management and closer monitoring of expenditure through effective use of the Project Prioritization Tool, implementation of the FRF and enforcement of sanctions; and
 - Continuous assessment and management of fiscal risks and contingent liabilities.
- **The Fiscal Management Strategy** presents an overview of fiscal performance over the period FY2009/10 – 2010/11 for the Central Government and Public Bodies. The Fiscal Management Strategy also provides an assessment of the projected finances of the Government over the medium term. The strategies, specifically with respect to revenue and expenditure measures are designed to indicate how they will ensure achievement of the fiscal and debt targets.

Mr. Speaker, the Paper has been laid in this Honorable House for all to peruse. The propositions presented here are consistent with the novel conceptual framework of the FRF, with respect to the control of public debt and the requirement for public sector solvency. The international experience has demonstrated that countries facing similar problems like ours have also gained credibility by the adoption of a well-designed FRF, underpinned by transparency and fiscal rules, and espousing the following fundamental principles:

1. prevention of high and recurrent fiscal deficits, by striking the balance between the citizen's aspirations towards public expenditures and the resources available for financing them;
2. targeting of public debt at prudent levels, compatible with revenues and public assets, while providing a safety margin to absorb the effects of contingent liabilities and other fiscal risks;

3. adoption of a reasonable tax burden and a stable tax policy;
4. preservation of public assets, including the proper maintenance, at a level compatible with the role assigned to the State;
5. transparency in the production and dissemination of documents concerning the budget, its execution and accounting.

Tax Expenditure Statement

Mr. Speaker, today we also table ***for the first time*** a Tax Expenditure Statement in conformity with the proposed amendments to the FAA Act within the Fiscal Responsibility Framework (FRF). Tax expenditure is, essentially, any provision that results in a reduction of tax for a specific type of taxpayer or activity. The Tax Expenditure Statement, in this context, contains details of the various expenditures including exemptions, deductions and credits granted in the calendar year preceding the previous financial year. In this instance, the tax expenditure estimates presented this afternoon are for the calendar period 2007-2009.

A tax expenditure budget, which essentially provides an overall estimate of the revenue foregone, is a useful tax policy planning tool as it helps to identify how much the various exemptions; deductions, etc. are potentially costing the Government annually. This information will ultimately assist in determining a sustainable medium term framework.

The tax expenditure budget assists policy makers in determining areas where the revenue foregone is significant. Moreover, it is useful in the sense that it also gives an estimate of the various expenditures (other than direct spending) that Government undertook on various programmes and initiatives.

Since 2010 the Government has published all waivers on its website. This is part of our commitment to transparency.

Central Treasury Management System

- I am pleased to announce that the Government of Jamaica has decisively begun its move towards a modern, Central Treasury Management System [CTMS] and has begun the series of strategic improvements. It will create a Treasury Single Account to better manage the cash resources of Government. The new system will be managed by accounting codes, thus eliminating the need for hundreds of separate bank accounts currently used to segregate Government funds. The ultimate objective is more efficient management of Government cash resources.

Mr. Speaker, Achievements in Treasury Management during the Year include:

1. **A process improvement to the payroll mechanism began in January and was improved in February.** The improvements in the payroll has reduced the number of steps required for the funding of the payroll accounts and the time to fund the accounts in ahead of pay day has been reduced from five to two days, resulting in savings of millions of dollars.
2. **Government utility payments for to the National Water Commission (water) and the Jamaica Public Service (light & power) have been centralized through the Accountant General's Department and are working well.** Instead of multiple checks being made to the utility companies the Accountant Generals' department now collates and makes the payment. This activity adds to the already centralized payments through the AGD. With debt, payroll, utilities and statutory deductions which began some 6 years ago approximately 80 per cent of payments are now made through the AGD.

Debt Management

- At the close of FY2010/11, Jamaica's total public debt increased to \$1,570.4 billion, compared with \$1,434.8 billion at end March 2010; this represented a 9.5 per cent increase in nominal terms. However, the debt-to-GDP ratio declined to 128.3 per cent, from 129.3 per cent at the end of FY2009/10.
- The stock movement over the review period was attributable to:
 1. Financing of the fiscal deficit;
 2. Disbursements on existing external loans;
 3. Assumption of debts of the Sugar Company of Jamaica;
 4. Issue of securities to BOJ for capitalized interest on former FINSAC Bonds; and
 5. Assumption of Air Jamaica debts.
- Mr. Speaker, you will recall that on February 14, 2011 the Government of Jamaica successfully executed the placement of the largest single transaction in our history; we re-tapped our 8 per cent Eurobond due 2019 for US\$400 million to bring the total amount outstanding to US\$750 million. With final demand of US\$1.1 billion (3 times oversubscribed), the Government was able to price at a yield of 7.95 per cent. The bond issue will be used to replace Jamaica's outstanding 11.750 per cent Eurobond that was issued in 2001 and due next month (May 2011). I want to specially mention that the annual interest cost of the 2011 maturing bonds at 11.75 per cent was US\$41.125 while the annual cost of the new replacement bond (at 7.95 per cent) amounts to US\$31.8 billion - ***freeing fiscal space of US\$9.325 or J\$801.5 million per annum.***
- The 2011/12 Debt Management Strategy document laid in the House today shows the details of our debt management strategy and our plan to restructure the Debt Management Unit and to enact Debt Management Legislation.

Reform of Tax Administration

Mr. Speaker, in previous Budget presentations I have focused mainly on new tax revenue measures. In this year's presentation I will focus on some fundamental administrative changes which will be made over a period of two years commencing this

fiscal year. Mr. Speaker, we must change our tax culture, and this is my objective in the next two years.

Consolidation of Tax Departments

- As you are aware, the Bill to amend the Revenue Administration Act (RAA) was passed by this honourable House on March 28, 2011 and then by the Senate on April 1, 2011. The purpose of the RAA is to separate the tax administration into three distinctive departments.
- Firstly, the Inland Revenue Department (IRD), the Taxpayer Audit and Assessment Department (TAAD) and the Tax Administration Services Department (TASD) will be merged into a single department called Tax Administration Jamaica (TAJ). This will become effective May 1, 2011. I am hoping by May 2012 this merged entity will be transitioned into a Revenue Authority with an independent Board of Directors. In most countries, such as Canada, Mexico, Trinidad and Tobago, this is referred to as a Semi- Autonomous Revenue Authority (SARA).
- Secondly, the Customs Department will be separated from Tax Administration and be transitioned into an Executive Agency. This will become effective May 1, 2011.
- Thirdly, the Tax Appeal Department will be separated from Tax Administration to become a Revenue Appeal Division under the Minister of Finance. The primary objective is to ensure that the assessment and appeals are separated. This will become effective May 2011.
- The rationale for creating a single administration agency for local taxes is to improve services to the people of Jamaica and to enhance its compliance programmes. More importantly, in this dispensation the Commissioners will be compensated on their performance both quantitatively and qualitatively. They must meet their revenue targets and the customer service requirements of the Jamaican people. They will be entrusted with the authority to hire and terminate as they see best in meeting their targets.

- In the near term, the public can look forward to improved service in a number of areas:
 - Same-day processing for Taxpayer Registration Number Cards, TCC, GCT certificate, and Motor vehicles titles.
 - The creation of 3 additional Tax Revenue Service centres. The new locations will be Mandeville, Kings Street, and St. Ann. This will be in addition to Montego Bay, Constant Spring, May Pen, and Spanish Town. Revenue Service centres will provide a “one shop” service for tax payers. The locations were determined by the needs of the local population. At these locations all taxes, such as transfer tax, stamp duty, income tax, etc can be paid and other tax related matters dealt with.
 - In addition, 22 tax offices, including existing offices, will be established for collection of tax revenue.

Amalgamation of payroll deductions

- The move to amalgamate employer’s monthly statutory remittances has found favour with the business community, as they are now able to make their monthly payroll deductions using ONE FORM, ONE PAYMENT, ONE PLACE. We are now moving to simplify the process of filing employer’s annual returns by creating a single annual return to capture information relating to PAYE (income tax), Education Tax, NIS, HEART and NHT. This new annual form will be rolled out by mid-year, for full implementation January 2012. Other changes regarding payroll deductions are also being considered.

National Compliance Programme

- The Tax Administration will be introducing a National Compliance Programme (NCP) in this fiscal year. Embedded in the programme will be the mandatory requirement for individuals in certain sectors/groups to file an annual income tax return. The NCP will mandate that professionals such as doctors, lawyers, accountants, etc declare

their annual income, even if they are employed in the private or public sectors. This has become necessary as studies have shown that an unacceptable percentage of persons within certain professional groups are grossly underreporting or not reporting their income. Mr. Speaker, everybody must pay their fair share of taxes.

- To close the tax gap of persons operating a cash economy, Tax Inspectors will be appointed to deal specifically with such entities. The Inspectors will be assigned to visit these establishments unannounced to carry out spot audits. Additionally, persons operating on a cash basis will be required to pay over GCT collected by the 15th of each month.

Tax Cheat toll-free Line

- As we move to ensure that persons pay their fair share – no more, no less – the public's support will be engaged to identify persons, individuals and companies that are cheating the Government of its revenue. It is not fair for some persons, such as employed persons paying under the PAYE system to be burdened while others are not meeting their tax obligations.
- However it is difficult for the Tax Administration staff to do this alone. Tax Administration Jamaica will be introducing a mechanism for persons to confidentially call or mail in information on persons suspected of cheating the system of much needed tax revenue. A Tax-Cheat toll-free line -1-888-292-4328- will be introduced May 1, 2011. I am inviting all well meaning, civic minded Jamaicans to report incidents of tax-cheats. And you won't have to give your name. These reports will be confidentially received and discreetly investigated by senior officers, similar to the successful Crime Stop Programme.
- If everyone was to pay what he/she owes, the Government would have more resources to meet the ever growing needs for education, health, national security, and so on.

Mr. Speaker, the creation of these three new departments eventually will revolutionise our tax culture in Jamaica. I would like to thank our international partners for their assistance in creating these reforms.

6) JPSCo – Electricity Cost

Mr. Speaker, the high cost of electricity continues to be a source of concern to all of us, and further underscores the need for the GOJ to accelerate its energy diversification programme and embrace cheaper sources of energy.

While the Opposition and other sources have called for a removal of the GCT on electricity, it is important to note that over 375,823 or 74 per cent of JPS customers do **not** now pay any GCT on electricity because they consume less than 200kh per month, and those who have businesses are eligible to apply for a refund of GCT as an input tax.

Mr. Speaker, while this might sound trite, I must repeat that it is time for every Jamaican to do everything in his/her power to conserve on the use of electricity. Turn off the light bulbs, use energy-saving bulbs, turn on the water heater 15 minutes before you need it and engage in pool driving to work.

At the same time, I wish to announce that the Government intends to use the opportunity of an imminent change in the ownership structure of JPS, to enter into dialogue on a range of issues affecting the terms and conditions of their operations in Jamaica.

There is precedent for this as when Mirant sold its shares to Marubeni, significant amendments were made to the license under which the JPS now operates.

Energy Conservation

The GOJ, realizing the need for energy efficiency, has entered in a technical assistance agreement with the IDB for a grant of US\$350,000 to identify and address energy efficiency in the public sector.

Following a review of previous and new energy audit, the potential savings identified is approximately US\$30 million per annum, requiring an investment of US\$13 million, with a payback of 3.7 years.

The GOJ is in discussions with the IDB regarding financing for the programme which is projected to commence this year. In the meantime, the completed audits have been distributed to the related entities for them to commence implementation of energy saving initiatives that do not require capital outlay.

The Government is also scheduled to sign a J\$1.3 billion (US\$15 million) loan agreement with the World Bank (WB) to finance an energy security and efficiency enhancement project. The loan will fund various projects which will be administered by the OUR, the Bureau of Standards and the Development Bank of Jamaica.

7) Continuation of the IMF Stand-By Agreement SBA

- The local business community, inclusive of the Gleaner, has called for an extension of the SBA. The Opposition Leader, in her contribution to the Budget Debate on Thursday, April 15, 2010, asked: “Why did the Government not choose the Extended Fund Facility (EFF) instead of the Stand-by Arrangement?” Mr. Speaker, an EFF is usually last for years, with a possibility of extending to a fourth year, and is usually more appropriate for countries faced with balance of payments challenges that extend into the long term.
- An extension of the SBA represents the preferred alternative to an EFF as it is strongly believed that, with the right choices now, Jamaica can emerge, within the medium term, from the current economic depression and structural rigidities that exist without subjecting the country to the adverse perceptions that could be generated as a result of seeking an EFF.
- We believe that it is in the best interest of the country to continue its relationship with the IMF. A continuation of the programme will send a positive signal that will: maintain stability; reinforce confidence; and provide the important factor of certainty to stakeholders. All the International Development Partners (IDPs) – the European

Union, the Inter-American Development Bank (IDB) and the World Bank, and the CDB use the quarterly reviews as the primary and first conditionality to be met prior to disbursement of loans and grants. In addition, there is need to foster both confidence and certainty in the capital market – both domestic and foreign, to facilitate incremental reduction of the interest costs on debt.

- Mr. Speaker, I wish to announce that I have been authorized by Cabinet to seek a 24 month extension of the present 27-month Stand-by Arrangement with the International Monetary Fund (IMF), which expires in May 2012.

III. BUDGET FOR FY 2011-2012

The Central Government's FY 2011/12 Budget was formulated within the medium term framework that seeks to first reduce, then eliminate, the fiscal deficit by March 2016, as prescribed by the Fiscal Responsibility Framework and reflected in the Financial Administration and Audit (FAA Act)

For FY2011/12, the Central Government's target is a primary balance of 5.2 per cent of GDP, and a fiscal deficit of 4.6 per cent of GDP. Revenue and grants are projected at \$350.8 billion

with expenditure budgeted of \$412.5 billion (exclusive of amortization payments of \$132.3 billion)

The expenditure of \$412.3 billion represents a 5.9 per cent increase over spending in FY2010/11. Expenditure on Capital Programmes is budgeted to increase by 8.7 per cent, with recurrent spending projected to be 5.4 per cent higher than in FY2010/11.

Interest cost as a per cent of GDP, is estimated to fall to 9.8 per cent in FY2011/12 compared with 10.5 per cent in FY2010/11, largely reflecting the impact of lower interest rates and exchange rate appreciation.

A. Financing the Budget

1. Revenue and Grants

The revenue and grants projection for FY2011/12 is 26.3 per cent of GDP, compared with 25.7 per cent in FY2010/11.

FY 2011/12 Revenue Forecast

| (in millions of dollars) | 2010/11 | 2011/12 | Change |
|---------------------------------|------------------|------------------|---------------|
| REVENUE & GRANTS | 314,558.5 | 350,783.7 | 11.5 |
| Tax Revenue | 279,874.2 | 308,455.7 | 10.2 |
| Non-tax Revenue | 20,473.9 | 18,079.8 | -11.7 |
| Bauxite Levy | 421.1 | 1,786.1 | 324.1 |
| Capital Revenue | 3,664.5 | 9,182.4 | 150.6 |
| Grants | 10,124.8 | 13,279.7 | 31.2 |

Tax revenue is budgeted to grow by 10.2 per cent over collections in FY2010/11. This 10.2 per cent growth includes \$5.6 billion associated with tax arrears owed to GOJ by Air Jamaica and the Sugar Corporation of Jamaica (SCJ). The counterpart is included in the estimates of expenditure. When these amounts are excluded, tax revenue is projected to grow by 8.1 per cent, relative to the 5.3 per cent growth in FY2010/11.

Non-tax revenue is projected to be 11.7 per cent below collections in FY2010/11. Receipts in FY2010/11 were bolstered by inflows of profits from BOJ, amounting to \$4,000.0 million and given the BOJ loss for FY2010/11, no revenue is expected from this source in FY2011/12.

With respect to **the Bauxite Levy**, the downturn in the bauxite/alumina industry that carried over from FY2009/10 into FY2010/11, occasioned largely by the fallout in global demand, as well as higher input costs, is expected to be reversed in FY2011/12. It is anticipated that the industry will continue to experience some recovery in production and exports as a result of plans to re-open WINDLACO's plant in Kirkvine in mid 2011, which will translate into significantly increased levy inflows over FY2010/11.

Capital revenue estimates of \$9.2 billion are \$5.6 billion more than collections in the previous fiscal year and are due primarily to the repayment of on-lent loans amounting to \$8.0 billion by the Development Bank of Jamaica (DBJ). This relates to the repayment of the IDB liquidity facility.

The forecast for **Grants** amounts to \$13.3 billion. This represents a 31.2 per cent increase over receipts in FY2010/11 and includes significant amounts to be received from the EU for budgetary support. Grant receipts in FY2010/11 were significantly below budget (35.2 per cent) due to lower than expected EU flows and slower than anticipated spending on capital projects.

2. Loan Receipts

The revenue forecast just outlined and the expenditure budget, approved by Parliament leaves a financing gap of \$140.8 billion. Of this total, \$97.0 billion is programmed to be raised from the domestic market. The remainder of \$43.8 billion is to be raised from external sources, in the form of investment project loans and policy based/development policy loans. The borrowing profile for FY2011/12 represents a 33.9 per cent decrease in gross receipts relative to the previous fiscal year.

The reduction in the borrowing requirement for FY2011/12 stems largely from a significantly lower fiscal deficit (4.6 per cent of GDP, down from 6.1 per cent of GDP in 2010/11, as well as the raising of US\$400.0 million on the international capital markets in

FY2010/11 to pre-finance a maturing bond of similar value in May 2011. The availability of cash balances accumulated in FY2010/11 also contributes to the lower borrowing requirement in FY2011/12. Of note, the lower domestic borrowings by the GOJ should assist in maintaining the downward interest rate trajectory.

B. PUBLIC SECTOR WAGES

This is a very difficult and challenging area Mr. Speaker, given the constraints faced by the Government. It is well known that a wage freeze was instituted on April 1, 2009 and was scheduled to last for three financial years, to March 31, 2012. We must point out, however, that even while we have had a wage freeze in the public sector, it is not an absolute freeze, as the usual increments, averaging 2.5 per cent of the wage bill have been honoured over these past two years.

However, we acknowledge that public sector workers have faced difficult times, and the Government is determined to find a resolution that will help to cushion the burden that these workers have been facing. But any solution must be affordable and must not undermine the hard-won gains that we have made in stabilizing the economy and must take into account the provision in both the International Monetary Fund (IMF) Agreement and our own Fiscal Responsibility Framework (FRF), to reduce the public sector wage bill/GDP ratio, going forward.

Mr. Speaker, I am to advise that in recent discussions with the public sector leaders, it was intimated to them that the Government would be consulting with the IMF with a view to reducing the length of the wage freeze and how to treat with arrears.

The Financial Secretary recently held these consultations and reported to Cabinet on Tuesday of this week. Accordingly, the Government is now in a position to fully engage the public sector leaders as to precisely how the wage issue can be resolved.

Discussions will therefore be scheduled with public sector leaders immediately after the close of the Budget Debate. Mr. Speaker, I must stress however, that the country is not out of the woods and there needs to be a spirit of goodwill and compromise, of give and take, as we enter in earnest, into those discussions.

C. TAX REFORM INITIATIVES

Tax Reform

Within the ambit of a medium term tax framework which is linked to other frameworks, including the Fiscal Responsibility Framework, the Cabinet has agreed that the tax reform for the ensuing years should be undertaken mainly from the viewpoint of increasing the efficiency and simplification of the tax system.

The Government has committed to implementing tax reform in an incremental way to achieve the objectives of: ***simplicity, equity, and broadening of the taxpayer base; improved compliance; growth and competitiveness arising from policy certainty and confidence in the economy.*** Most importantly, the measures must ***meet the revenue demands of the Budget while maintaining macro-economic and social stability.***

The tax reform proposal contemplates the implementation in three stages:

1. The first stage encompasses the reform of taxes on international trade, Special Consumption Tax (SCT) and General Consumption Tax (GCT).
2. The second stage contemplates the reform of the Corporate and personal Income taxes.
3. The final stage addresses the reform of Payroll Taxes.

Mr. Speaker, the guiding principles of the reform process include:

1. Lower import tariff rates, lower import and domestic consumption taxes;

2. Sufficiency of the revenue (so as to ensure that the current revenue base is protected as well as the success of the Government's financial programme)
3. Economic growth, efficiency and competitiveness
4. Enhanced compliance & ease of paying taxes
5. Credibility of the revenue (Projections and Actual Collections)
6. Reforming the Discretionary Waivers Regime (with a view to reducing these and ensuring that the regime becomes transparent, targeted and justified);
7. Sustainability of the Framework through **buy-in** by the Opposition and other stakeholders and Affirmative Resolution of Parliament, but most importantly, the public at large.

Mr. Speaker, there has been extensive consultation and research on Tax Reform. The Ministry of Finance and the Public Service has engaged the Jamaican private sector, inclusive of the Private Sector Organization of Jamaica (PSOJ), the Jamaica Manufacturers' Association (JMA) and the Medium, Small and Micro Enterprise (MSME) Alliance. There was also consultation with the Partnership for Transformation group.

The Ministry has engaged with its portfolio agencies, inclusive of the Tax Administration, the Customs Department, the Revenue Protection Division and sister agencies such as the Planning Institute of Jamaica, the Statistical Institute of Jamaica and the Ministry of Labour and Social Security.

The Ministry has hosted one inter-agency meeting, with the PIOJ, STATIN, the Ministry of Labour and Social Security and the IDB, regarding amendments to certain Schedules of the GCT Act as well as enhancing social expenditure. This inter-agency collaboration is expected to continue in the coming months and will be informed by public discussion and technical analyses.

Mr. Speaker, it is also important to ensure that all tax reform proposals are compliant with the various trade agreements under the WTO, CARICOM, etc.

A **rolling** medium term (three year) tax policy framework is therefore proposed. This framework will instill discipline in the promulgation of tax policy in Jamaica. In other words, changes to tax rates – the GCT rate – among others – will be implemented over a three-year period. Changes in the purview of income tax will be implemented on a calendar year basis (effective January 1 – at the beginning of the tax year) to allow for smooth transition.

Additionally, there will be a pre-implementation (grace) period, after the announcement of a specific timetable, to sensitize the public to changes so that taxpayers can make the necessary adjustments.

D. Revenue Measures For 2011/2012

IV. CONCLUDING COMMENTS

Mr. Speaker, if 2010 was a 'make or break' year – one which saw us edge away from the precipice over which we were hanging for a decade-and-a-half and finally attain macro-economic stability – then we must all commit to making 2011 a 'come back' year for Jamaica – a year that sees Government building on its fiscal and legislative achievements, while private enterprise gets busy writing deals.

Let us draw some quick inspiration from our achievements last year. But first, let us recall the magnitude of the problems we inherited. Recall that for decades Jamaica has been caught in a vicious cycle of low growth and unsustainable fiscal and debt dynamics:

- Central Government Debt Service as a percentage of Total Revenue jumped from 49.9 per cent in 1991 to an astounding 129.4 per cent in 2002
- Growth averaged a meagre 0.5 per cent per annum for 16 years while other economies were experiencing robust growth, and,
- It took the equivalent of 40 per cent of GDP to avert a total collapse of the financial services sector in the 1990s. Even so, 40 institutions went under, and over 40,000 businesses were closed.

In short, a lack of fiscal discipline and a weak governance structure produced an economy that constantly flirted with disaster.

Recent global conditions like the world food crisis and the world oil crisis only exacerbated conditions, with the most devastating of all – the Global Economic Crisis, triggering a massive downturn in revenue. In practical terms, it was like losing a job when your pay cheque hadn't been covering your expenses in the first place.

Let us fast-forward to 2010 and note the following benchmark achievements: 40-year low interest rates, Single-digit inflation, Gross reserves at historic highs, and a Stable Jamaican dollar – all occurring at the same time.

Add to the list: the divestment of chronic loss-making State entities like Air Jamaica and SCJ, the introduction of powerful pieces of legislation, and the execution of the world's most successful debt exchange.

By any standard, this was a massive list of achievements to clock in a single calendar year. Let us be inspired and be motivated by it.

Mr. Speaker, after a year of solid work the worst is behind us. Significant challenges remain in terms of rising oil and grain prices, and our vulnerability to extreme weather conditions. But we must recognize that the stage has now been set for a credible transition to a new phase of economic development – the transition ***'From Stability to Growth'***.

Mr. Speaker, we must never forget that re-organizing our debt is only a part of the story. The end-game is for us to grow our way out of debt. That can only happen when banks start writing business loans and the creative sector – our musicians, athletes, scientist, inventors and writers – find ways to parlay their talent and ideas into bankable projects.

Let us make 2011 a 'come back' year – a year in which the financial services sector puts creative products on the market, while the entrepreneurial spirit of Jamaicans is unleashed and soars like never before.

Mr. Speaker, let us make this a 'come back' year where students turn in star performances, and workers seek new training opportunities. Let us make it the year that budding entrepreneurs turn good ideas into a thriving businesses.

There is no time to waste. We must muster the courage to resurrect ourselves, like the phoenix, from the ravages of the past, from missed opportunity, and from untapped potential. Let us make it the year that we all – men, women, and students - seize this unique moment created from economic stabilization.

We all have a role to play. But let me throw out this special challenge to the private sector: Re-tool, Re-finance, Re-train, Refurbish. Challenge yourselves to: Make a plan, Develop a new product, Seek new markets, Develop an export programme.

And let us all challenge ourselves to think big again. There is no time to waste. Things are happening. I urge you: take an educated 'leap of faith' and let us work together to kick-start growth in a big way, and to get this train called Jamaica rolling again.

Above all, I urge you to maintain an *unshakeable* sense of optimism about Jamaica. The time for action is now. We must together believe in our future.

May God bless you, and may God bless Jamaica.

Audley Shaw, MP
Minister of Finance and the Public Service

April 28, 2010