



Ministry of Finance and
the Public Service

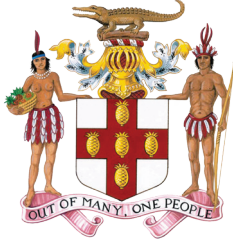
2022
CLOSING

BUDGET PRESENTATION

RECOVERY, REFORM and RESTORATION



Hon. Nigel Clarke, DPhil., MP
Minister of Finance and the Public Service
TUESDAY, MARCH 22, 2022



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1.0 Introductory Remarks

Madam Speaker, I rise this afternoon to close the budget debate on the Appropriation Bill for the 2022/23 fiscal year.

This is the 60th budget debate in Jamaica's independent history.

We honor and salute all of the leaders who came before us, who fought for our freedom, who established these noble institutions, and who helped build our country while steadfastly and faithfully adhering to the tenets and principles of our Constitution.

This process of transparently laying before the peoples' representatives the fiscal plans and programmes for the year, and the means of financing them, forms a cornerstone of our democratic order. We approach this process with tremendous humility and respect for all those who came before us and who have paved the way.

Indeed, Madam Speaker, we stand collectively on the shoulders of giants.

Madam Speaker, we thank the presenters in the debate for their robust presentations, even when misguided!

We thank the Prime Minister for his masterful presentation last Thursday. The Prime Minister continues to bring calm and steady leadership, particularly during a time of crisis, and he continues to provide hope for millions.

We thank the Leader of the Opposition for his pretty, pretty presentation. Lots of graphics designers up at the Office of the Leader of the Opposition! He huffed and he puffed, with a message of doom and gloom, but sadly butchering figures along the way!

We also thank the Opposition Spokesman on Finance for his presentation. You noticed that he came with accurate Consumer Affairs Commission data this time, unlike last year! And so he saved me a few pages today, for that I am grateful.

Thanks to you, Madam Speaker. You have been doing an excellent job in maintaining the order of these proceedings.

Thanks to the Parliamentary staff, the Clerk and Deputy Clerk, the Marshals, the Stenographers, and all who work at the House of Parliament for your dedication and professionalism.

Thanks to the Financial Secretary and the entire staff at the Ministry of Finance, who are among the finest in this region, and indeed among the finest anywhere in the world.

Thanks also to my security detail and driver.

Thanks to the members of the media and the listening public for tuning in. A special word of thanks for those in the diaspora and those following on social media, on Instagram or YouTube or on Facebook or on Twitter, thank you for your participation and interest.

And, of course, I again express thanks to my family, for their loving support.

2.0 Economic Recovery

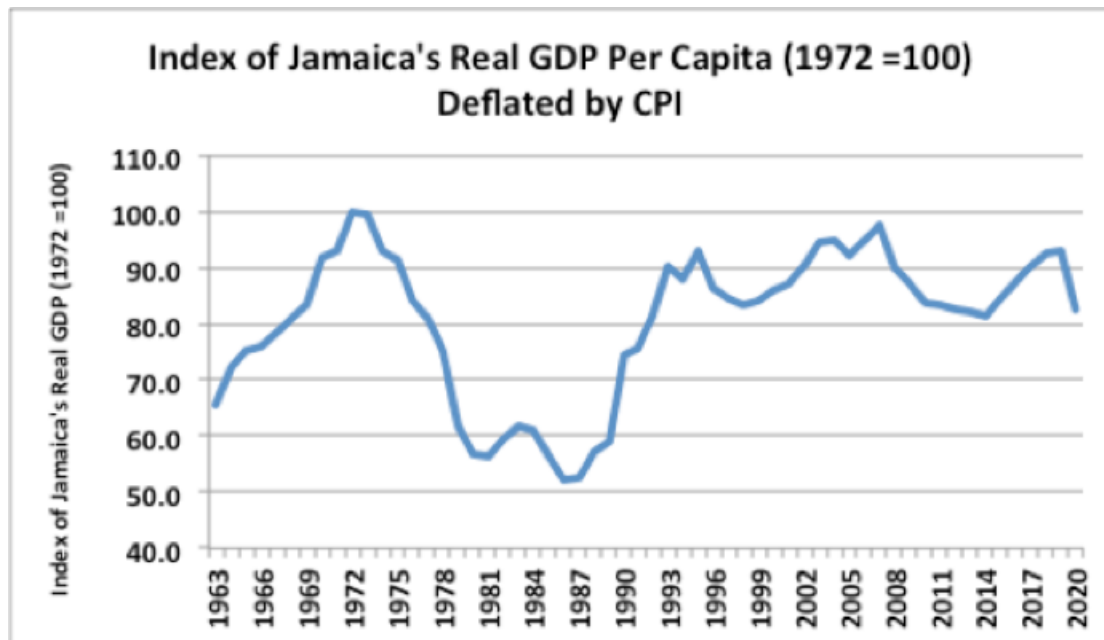
Madam Speaker, the Budget Debate opened with an overview of the progress with Jamaica's economic recovery.

Madam Speaker,

- We are very pleased that the Jamaican economy has rebounded with momentum from the depths of pandemic induced contraction.
- We are pleased that we are among the leaders in the Caribbean with the pace and magnitude of economic growth coming out of the pandemic.
- We are pleased that we are likely to be among the first in the region to attain pre-COVID levels of economic output.
- We are pleased that 100,000 jobs have been restored.
- We are pleased that we are fiscally sustainable and our debt ratio is again on a downward trajectory after the significant increases in 2020/21.

Let us never take this ongoing economic recovery for granted, nor sacrifice the discipline it requires to maintain it.

Madam Speaker, I showed this chart in my Opening Budget presentation.



Source: IMF 2021 Article IV Consultation on Jamaica

Jamaica's per capita income is lower today in real terms than it was in 1972.

Madam Speaker, I am a humble student of Jamaica's economic history, which is flush with very valuable lessons that can teach, as much as – or even more than – the textbook. We have the case studies right here.

When you go to graduate school, they teach by using case studies of actual situations that occurred in different countries in the past. Those case studies are almost always from the developed world.

Here, we have an abundance of historical economic data and an array of policy approaches. We also know the initial conditions as well as the outcomes. This is a goldmine that we must have the courage and maturity to leverage.

So when I reference the IMF's 2021 Article IV consultation on Jamaica, which was published in February 2022, and I quote the very first paragraph which states that Jamaica's real per capita income is 20% lower in 2022 than it was 50 years ago in 1972, I'm not just sharing data. I'm sharing the central economic lessons, which are relevant to our times.

Across those 50 years, the economic lessons are manifest and include:

- Unsustainable economic policies, even in pursuit of the noble of causes, leads to financial ruin. Furthermore, the poor and vulnerable are most adversely affected from macro-economic instability.
- Fiscal, balance of payments, and banking crises are terribly expensive and can take a generation to resolve.
- Jamaica has been frequently affected by crises of external origin such as commodity price shocks, geo-political tensions, and natural

disasters. These have in the past precipitated many fiscal balance of payments crises which frustrate, hamper, delay, and reverse recovery efforts.

- Our development is best assured through **steady progress** rather than the “two steps forward and three steps back” process that has characterized the last 50 years.
- Our small size, our open economy, and our geographical location make us vulnerable to economic shocks which can have dislocating effects. To avoid “two steps forwards and three steps back” we must prioritise **economic resilience** which allows us to bounce back quickly from economic shock.

I am sure that there are other lessons too.

Madam Speaker, over the next fifty years, the Jamaican economy should increase in size by at least 10 times in real terms. That should be our ambition.

That can happen, Madam Speaker, provided that we **consistently make sustainable policy choices, share the benefits, and compound our gains** over time.

2.0 Banknotes

The new banknotes featured prominently.

I have heard persons question why now? Why spend money to upgrade our banknotes now?

I provided answers to these in my opening budget presentation but spoke quickly. Let me recap and clarify.

The Bank of Jamaica, in its independent view, and without prompting, wrote to me about the need to upgrade Jamaica’s banknotes.

When the BOJ makes technically sound recommendations to the Minister of Finance, on challenges with banknotes, it is advice that the Minister ought to take seriously.

The problems the BOJ cited in its memo to me were (i) the higher than necessary cost of producing the existing suite of notes, (ii) the higher than tolerable incidence of counterfeiting of existing suite of notes, (iii) the challenges of the visually impaired with distinguishing between denominations, and (iv) the BOJ’s independent assessment that Jamaica needs a \$2,000 denomination among its banknotes.

The latter may seem convenient. However, the BOJ’s independent and unprompted technical assessment demonstrated the need for a \$2,000 note. The \$5,000 note is the least used note. It is often rejected in street-level transactions as, without a denomination in between the \$1,000 and the \$5,000, the \$5,000 absorbs too much change. So while the \$5,000 note is very much appreciated by professional groups and many others, it’s not a preferred note for the taxi man and corner shop.

The introduction of a \$2,000 banknote will offer the consumer and the corner shop greater flexibility. Also, the introduction of the \$2,000 banknote will allow for some

reduction in costs. We print a lot of \$1,000 notes. The \$2,000 note and the \$1,000 note cost about the same to print but now we will need much fewer of both notes combined, reducing overall costs.

We therefore accepted the BOJ's technical advice to upgrade the suite of banknotes using the latest advances in material science to (i) **produce notes that last between 50% and 100% longer, thereby reducing costs**, and to (ii) **leverage the latest security features** available for banknotes we had to place images on the front and back of the banknotes.

There has also been no policy change with respect to what category of persons should appear on banknotes. The existing policy, with an origin well before my time, is that National Heroes and deceased Premiers and Prime Ministers appear on Jamaica's banknotes.

Neither has there been a change in the images of Jamaica and the Jamaican people that appear on the reverse side of the new banknotes. These images appear on either current or past banknotes.

Now if we had taken the path suggested by the Leader of the Opposition, in his Budget presentation, of placing Edward Seaga on one banknote with Michael Manley remaining on the banknote on which he is currently, without any pairing, we would produce upgraded banknotes, but with no place for the Marcus Garvey, no place for Paul Bogle, and no place for the George William Gordon, all National Heroes.

In that sense, I consider his view very shortsighted. Because his view would again mean that some of our National Heroes would continue to be excluded from our banknotes!

When you review the 1866 Commission of Enquiry Report into the Morant Bay Rebellion, which I have a personal copy of, with thousands of pages of evidence and witness statements.....where the violence meted out to Jamaicans was recorded in painful detail....every single lash of every patriot was recorded, every hanging duly listedwhere Paul Bogle and George William paid with their lives and their sacrifice, and those hung on the gallows with them, led to representative government being established in Jamaica.

Madam Speaker, there would be no us without them.

We are proud that we will restore the Right Excellent Paul Bogle and the Right Excellent George William Gordon to our banknotes.

When you consider Marcus Garvey and his legacy, his influence on our consciousness, his influence on civil rights, he is not only an important figure of our past, he is also important to our future.

We are proud that the Right Excellent Marcus Garvey will be restored to our banknotes and stands alone.

We are proud too to restore the Right Excellent Norman Washington Manley and the Right Excellent Sir Alexander Bustamante, Jamaica's Founding Fathers to our banknotes.

The only way to accommodate this restoration would be for more than one image to appear together on a banknote.

And we are proud to have taken the bold decision to restore all of our National Heroes to our banknotes.

With respect to the co-location of Michael Manley and Edward Seaga, all I will add to what I have already contributed is that this is about the future.

The unique legacies and contributions of Michael Manley and Edward Seaga cannot be contained or influenced by their joint placement on a note. Therefore, our reaction to placement, is not about them, it's about putting focus on us.

So if you are upset, remember this is not about you. This is about the youth, the young Jamaicans, who are the future. We desire that they not grow up perpetuating hate and division. This is about symbolizing the unity and political maturity we wish to see in our society.

3.0 The Oppositions' Presentation

Madam Speaker, in the midst of an incredible economic recovery from a historic economic setback, the Opposition presented a picture of doom and gloom.

Their approach was to simply fit into a mould of what Oppositions are expected to do, focused on a partisan approach.

Sadly, the Opposition relied on a few well-worn tactics, like raising the alarm about global developments with local effects, such as inflation and oil prices, in an unfortunate manner.

First, their analysis was entirely one-sided and omitted critical variables, which led to false conclusions and, worse, misguided recommendations.

Second, their analysis, in one particularly egregious case, was based on incomplete, faulty and even erroneous data presented to the Jamaican people as if the Jamaican people cannot reason on their own.

Third, and most problematic, they put forward a number of proposals that are unsustainable, unworkable, and grossly irresponsible. Proposals that would put Jamaica "three steps back" when we are moving forward. And they made these proposals with a straight face and without blushing.

3.1 Inflation

Madam Speaker, in my Opening Presentation I shared and acknowledged the challenges caused by post-COVID global inflation and more recently the impact of the Russian invasion of Ukraine.

The Opposition engaged in repetition of the very same observations contained in my opening presentation and delivering these said observations as if they were inspired revelations. They almost presented them as if they were our fault.

The Opposition suggested that the inflation assumptions are lower than is likely to be experienced. I agree. I said so in Standing Finance Committee and I expounded on this in my opening Budget presentation. How much higher could inflation be? Based on data available today, it could be between one and two points higher for the full fiscal year. One cannot be 100% sure. It depends on how global developments unfold.

Updating key macro-economic variables in response to global developments is to be expected. That happens everywhere else in the world quite frequently. For example, the Federal Reserve Bank in the United States recently updated its inflation forecast.

Does a one to two point variation a recasting of a budget. Absolutely not. If that was the case, we would be recasting budgets all the time. In the past several years it has been normal for inflation to land within a two-point band of the expectation.

The omission that permeated the Oppositions' arguments, however, is that inflation affects both revenues AND expenditure.

The Opposition focused on inflation's impact on revenues (and debt service) but surprisingly ignored the basic fact that inflation affects Government's expenditure too!

The Government of Jamaica is the largest procurer of goods and services in the economy. When there is inflation, the Government's expenditure goes up.

Inflation outcomes exceeding budget assumptions therefore doesn't provide a "windfall". What provides a "windfall" is real economic growth, where revenues increase without a commensurate increase of expenditure.

Again, we know this from our own economic history.

- If inflation caused a "windfall" then we would not have had a fiscal challenge in the 1990's and 2000's when inflation was the highest in our history.
- If inflation caused a "windfall" the Government of the day wouldn't have gone years, even a decade, even without paying statutory deductions on behalf of government workers that we are having to pay today.
- If inflation caused a "windfall" my friend, former Minister Peter Phillips, we would not have had the unenviable task of writing off hundreds of billions of uncollected taxes owed by Government ministries, departments, and agencies.

With all respect and humility, those fallacious impressions and arguments must be rejected outright.

Knowing our economic history is important, and from our history we know that no government, including this government, derives a net benefit, fiscally, from high inflation.

They may be confusing what happened last year, when we experienced a sharp growth in revenues – that was mostly due to the high level of economic growth we had last year.

3.2 Budget Timetable

Now let me address a structural issue. As a part of our reforms, the Government of Jamaica tables the budget six weeks before the opening Budget presentation. So the Budget goes to Cabinet eight weeks before the Opening Budget presentation. That is a full two months.

Overall, that is a good thing. It means the level of planning involved, and the organisation required is much greater and much better than was the case decades ago. Let us not make this structural reform that we have put in place over the last ten years into a bad thing.

It does have the downside that two months is a long time, especially for a small, open economy that can be easily affected by global developments.

In most years nothing will happen in those two months to have an impact. In some years, however, conditions can change in those two months. If so, we deal with it. The value of the structural reform is that we now have a fixed timetable over a period of two months that allows for greater transparency, planning and interrogation of the budget and it allows us to start the new fiscal year in an organized manner.

But it is a bit disingenuous to argue that global developments in March should be incorporated two months earlier in January when the budget is considered by the Cabinet. The best practice is not to speculate in the budgetary process. The practice around the world is that you use the best available information at the time while retaining the ability to incorporate future information, if of a material nature, at a later stage.

3.3 \$99 Billion More

The Opposition seems rattled by the fact that the Government has established an unmatched record of seven consecutive years of no new net taxes, five consecutive years of no new taxes at all, and a broad array of tax give-backs to the people of Jamaica.

- We gave back personal income tax.
- We abolished the wicked asset tax on small businesses.
- We abolished the hated minimum business tax that stifled small businesses.
- We abolished the distortionary stamp duty on real estate and financial transactions.
- We dramatically reduced transfer tax on real estate and financial transactions.

- For the first time in history, we put in a threshold for small businesses established as companies where they don't pay corporate income tax on their first 1.5 million of profits.
- And we are the only Government to ever lower the standard rate of GCT across all goods to which it applies.

This, Madam Speaker, is an unmatched record. The people of Jamaica know that where it is feasible, where it is sustainable, and where it can be afforded, this Government will give back to the Jamaican people.

And they have been in power for $8 + 18 + 4 = 30$ years and have never, not once, ever presided over a net tax give back to the Jamaican people in any budget that they have delivered.

It's an orientation Madam Speaker, a way of thinking and doing.

So because of that the Opposition Leader go and play the spin ball and was caught by everybody, on the offside, at silly point.

Because, quite incredulously, he would want you to believe that revenues rising by "\$99 billion", even if this was the case, is the same as taxes going up by "\$99 billion".

Firstly, point of correction, tax revenues are projected to grow by \$65 billion in 2022/23 *and not \$99 billion* as erroneously and inaccurately claimed by the Opposition Leader.

See page 6 in the Fiscal Policy Paper.

He has been all over town with the wrong figure, and wrong by a big amount, on a crucially important variable, misinforming the Jamaican people.

Strong and Wrong.

Dem nuh ready, Madam Speaker. Dem nuh ready.

What can I say? He uses an inaccurate figure and engages in wrong analysis and ends up with wrong solutions.

And beyond that, him surely take Jamaican people for fools, expecting them to confuse revenue growth for tax increases.

I have a word for you: the Jamaican people are much smarter than to fall for that nonsense.

My fellow Jamaicans, by the Opposition's logic when the Government's revenues fell by \$75 billion in the 2020 pandemic year, as compared with 2019, it must have been because we reduced taxation by \$75 billion!

We all know we didn't do that. Revenues fell by \$75 billion in 2020 as economic activity plummeted, the economy contracted, and revenues that are derived from economic activity fell as a result of the contraction, not because you were being taxed less!

Similarly we have experienced record economic growth this year, from the lows of that historic contraction. Economic activity is flourishing and revenue growth is associated with growth of economic activity. That is not a result of you being taxed more!

Let's look at an example. In 2020, tourist arrivals plummeted. As such departure tax revenue sank to \$5 billion during 2020/21. This fiscal year, 2021/22, departure tax revenue is projected to end the year at \$15 billion. That 200% increase in departure tax revenues is not because you are taxed more! Or because departure tax has gone up! It's because there are more flight departures from Jamaica! And thank God for that.

During the pandemic, imports fell as tourism was closed, and domestically, we stayed home and consumed less. As a result tax revenues derived from imports fell precipitously. Not because the rates of taxation fell. As the economy reopened and has rebounded and grown from those depths, imports are rising again and associated revenues are projected to rise, not because you are taxed more, taxes remain the same, but because more business is being done.

When you look across all categories of tax revenue, this is the phenomenon being observed. More economic activity leads to more revenue generation and collection for the Government.

And that is a good thing. It may be confounding for the Opposition as we haven't experienced an expansion at this pace since the recovery from Hurricane Gilbert in 1988/89.

It shows that Government can increase its revenues by structuring taxes more efficiently, as direct to indirect achieved, and then even lower the indirect tax for everyone—a fine example of how taxes can actually decrease.

So the expected \$65 billion rise in revenues – not \$99 billion -- isn't because taxes are up, but because the economy is up.

The Opposition can't fool any Jamaican with their claim because the Jamaican people know what tax increases look like.

First, the Minister brings Revenue Measures and lays them in the House.

Back in the day you see these pink documents and you start fret, "Lawd God what dem going to come wid now?"

New taxes, and new tax increases called new revenue measures, covered between 5 and 19 pages in length in several instances in the 1990s and 2000s.

I will just give you a sample:

- 15 pages of new taxes and new tax increases in 1995/96!
- 15 pages of new taxes and new tax increases in 1996/97!
- 19 pages of new taxes and new tax increases in 1998/99!

- Only 8 pages of new taxes and tax increase in 2000/01
- 5 pages of new taxes and tax increases in 2005/6!
- 8 pages of new taxes and tax increases in 2015/16!

Just to give you a sample.

The question I have for the Opposition Leader, “Where di page dem deh this year, Markie G?”

The fact is that for the 16 years prior to 2016, however, Governments levied \$100 billion in new taxes on the Jamaican people representing a cumulative 14% of GDP.

\$100 billion is closer to the erroneous \$99 billion figure heralded by the Opposition, but seems more fitting. They gave us \$100 billion in new taxes. Maybe that is what he meant!

The Opposition misses the point. The point is that the historical experience of tax upon tax upon tax every single year was a tyrannical experience for the Jamaican people. And we don’t want to go back there!

It is because of our historical experience why we are proud of the fact that over the last seven years when you see this pink document it has contained a give back of taxes to you. By the grace of God, supported by sound policies, even in a pandemic, we have given back to the Jamaican people.

So don’t try and fool the people. Revenues are growing because the economy is growing.

3.4 Inflation and Taxes

Now let’s put inflation and taxes together.

Again trying to fool people they advance another false argument that it is because of inflation why we don’t have to increase taxes.

Well I have already shared why that is so grossly wrong. A high school student in economics knows that inflation increases government expenses *as well as* revenues and, on a net basis the Government is most often worse off. The Opposition can’t just look at one variable!

Furthermore, if inflation explained no new taxes then tell me

- Why then when Jamaica experienced the highest ever inflation in 1991/92 did the Government have to implement new taxes and new tax increases covering 7 full pages?
- If inflation explains “no new taxes”, why when inflation was nearly 12% in 2005/6 did the Government have to implement new revenue measures that increased taxes by nearly \$13.8 billion or 2.2% of GDP (at that time)?

- If inflation explains “no new taxes”, why when inflation was about 9% in 2012/13 did the Government have to implement new revenue measures that increased taxes by nearly \$20.4 billion or 1.4% of GDP (at that time)?

And to demonstrate that this is not a partisan argument, this is just objective economics:

- If inflation explains “no new taxes”, why when inflation was about 13% in 2010/11 did the Government also have to implement new taxes?

Their argument is simply, irresponsibly wrong.

Dem nuh ready.

The contrary is in fact the case. High inflation often leads to higher taxation as the Government tries to raise revenue to keep up with spending needs.

Thus: (i) higher revenue does not mean higher taxes and (ii) Our history shows that high inflation often creates the need for higher taxes.

The impact of inflation, if sustained over long periods, can lead to business failure and unemployment increases that act as a drag on revenues.

Who are you trying to woo over with the miseducation?

Markie G you can fool some of the people some time but you can't fool all the people all the time.

Our approach is based on our confidence in the capacity of the Jamaican people their capacity to understand, to discern, and to reason.

We empower people with knowledge and information, even technical information and we commit to always telling you as it is.

3.5 Fuel Prices

The Opposition Spokesman on Finance asked a question about the difference between Petrojam's average price as seen in the Public Body Estimates and the Ministry of Finance's in the Fiscal Policy Paper.

The Public Body Estimates says “*Petrojam's budget for the 2022/23 FY projects the average **sale price** of petroleum at US\$79.36 per barrel¹*” (highlights are mine)

Whereas the Fiscal Policy Paper has average oil prices at US\$67.5

The Oppositions Spokesman makes much of the fact that the documents were tabled on the same day, Feb 10, so why the difference?

Madam Speaker, the answer is simple: Well numbers can be different if they measure different things!

¹ Page 212, Public Body Estimates of Revenue and Expenditure, 2022/23

Building impressions of doom and gloom on absolutely nothing.

Madam Speaker Petrojam sells refined product and so this benchmark in the quote above uses US Gulf Reference Prices, which are the prices of **refined products** that are used as reference in markets for which there may be no market price quotes for such products.

In the fiscal policy paper we are concerned with the price of crude oil, and so the reference in the fiscal policy paper uses the West Texas Intermediate crude oil benchmark which is one of the three main benchmarks in oil pricing, along with Brent and Dubai Crude. WTI is known as a light sweet oil because it contains around 0.34% sulfur, making it "sweet," and has a low density (specific gravity), making it "light."

The difference between the two prices is the cost to refine crude oil into products. Price differentials may also arise because of temporary disjuncture between demand and supply conditions for either commodities.

As such Madam Speaker you should always expect a difference between these two benchmarks and these two numbers in documents tabled as part of the budgetary process.

The Opposition advanced other arguments based on the fallacy that the GOJ has earned and is earning a windfall from taxes on fuel.

They have misled a great many people with this fallacy.

Madam Speaker, their analysis is faulty and leads to incorrect conclusions and unwise policy proposals as again they consider only one variable, price, and this time they leave out the other variable, that determines revenue, which is volume. It is these two variables that influence revenue inflows to the government and not price alone.

So they say, and I am paraphrasing, "the budgeted oil price was \$45 and the actual average price looks more like \$73 dollars, then wow the GOJ must have made or must be making a windfall". And that is what they have told the Jamaican people.

Madam Speaker, for people who have ambitions to handle the affairs of the country, this represents either a worrying gap in their understanding or a serious omission in their analysis.

Either way, dem nuh ready, Madam Speaker. Dem nuh ready.

Taxes on fuel are an integral and very important part of government revenues. All governments tax fuel.

But overall revenues from fuel depend critically on the **volume** of fuel imported.

Madam Speaker the pace and momentum of Jamaica's economic recovery has been so strong that the Opposition can be forgiven for forgetting that overall economic activity is *still* lower than pre-pandemic levels.

The facts are that the volume of fuel imports to Jamaica declined considerably during the pandemic and they have not yet recovered to pre-pandemic levels. Simple fact.

As a result Madam Speaker, even with fuel prices where they are, at this stage the *projections* are still that in this year 2021/22 fiscal year the Government will still take in *less* in fuel taxes than it did in 2019/20 prior to the pandemic. When you factor in inflation, the Government's tax revenues from fuel in 2021/22 is substantially behind where it was in 2019/20 in real terms. Again, a simple fact.

Now, the Opposition Spokesman mentioned ad valorem tax, which is a % of fuel price and the special consumption tax which is a fixed dollar price per liter of fuel. So the ad valorem should go up when price goes up. True.

But ad valorem is a much smaller part of the overall fuel tax makeup....accounting for between 22% and 26% of overall fuel tax intake. So, even, if prices rise sharply and GOJ gets more from ad valorem, if volumes fall, the amount from derived from SCT, which is approx. 74% - 78% of the revenue intake, can fall more than ad valorem rises.

That is exactly what has happened.

So the analysis of the Opposition Spokesman, parroted by the Opposition Leader of looking at average price in the fiscal policy paper and average price outcome is very faulty as a means of commenting on the impact on GOJ's revenues. Clearly, I mean no harm. But you gave that faulty analysis to the country, repeated it in interviews, and that is a problem. It's my job to correct it and explain it to the country.

You have to look at the average price throughout the year, yes, and also volume. As of now there are no bumper revenues from fuel tax. Our revenues from fuel taxes are still substantially below 2019/20 in real terms.

3.6 \$40 Billion Additional Expenditure

Now the Opposition leader points to 3.5% growth projection and states that "*the Government plans to collect \$99 billion more in taxes in this coming year*"² and says we could therefore afford a \$40 billion social assistance this year.

Excerpt from Opposition Leader's Presentation:

The Government plans to collect \$99 Billion more in taxes in this coming year.

That is an increase of \$99 Billion in taxes from the people. Imagine, this is happening in a year when many have not recovered from the Covid recession, and many more are facing hunger and sufferation from the affects of the war in Ukraine!

\$99 Billion more in taxes! That is unconscionable at a time like this!

We believe that the Government must rearrange the budget, and find a way to give some of this \$99 Billion back to the people. Help thepeople to survive this world crisis that is overcoming us.

² Page 12, Leader of Opposition's Budget Presentation 2022/23

Well, as I explained earlier, he has made a \$34 billion error or a \$34 billion misrepresentation, which shows you the attention to detail he employs when going about your business.

Here is the Table from the Fiscal Policy Paper that clearly shows the Government's plans for tax revenues to reflect an increase of \$65 billion over what will be collected this year.

Table 1B: Medium-Term Fiscal & Debt Indicators

<i>(J\$mn)</i>	Actual	Actual	Est.	Proj.	Proj.	Proj.	Proj.
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Revenue & Grants	649,759.2	575,401.1	717,428.1	749,780.1	820,315.9	863,883.1	915,890.0
<i>of which Tax Revenue</i>	579,397.0	505,686.7	606,239.6	671,536.1	741,671.0	786,932.7	834,424.0
Expenditure	630,354.4	635,911.3	711,771.6	742,945.5	812,050.4	854,152.5	881,623.4
<i>of which Wages & Salaries</i>	195,935.5	208,002.2	223,789.7	267,725.1	303,339.6	329,042.7	348,785.3
<i>of which Interest</i>	131,487.3	129,037.9	136,422.5	138,409.1	134,200.9	131,460.6	118,905.3
Cent Govt Fiscal Balance	19,404.8	-60,510.2	5,656.5	6,834.5	8,265.5	9,730.6	34,266.6
Cent Govt Primary Balance	150,892.1	68,527.7	142,079.0	145,243.6	142,466.4	141,191.1	153,172.0
Domestic Debt	761,804.5	795,225.0	827,207.6	801,801.0	841,277.4	832,123.7	857,380.1
External Debt	1,184,995.0	1,295,272.7	1,321,618.8	1,335,179.8	1,295,421.0	1,301,094.0	1,264,177.6
Net Public Bodies	65,060.7	47,072.9	25,348.1	24,988.2	4,213.1	-24,023.5	-37,265.2
Total Debt	2,011,860.1	2,137,570.7	2,174,174.5	2,161,969.0	2,140,911.5	2,109,194.2	2,084,292.6

Yet he stood here last week and told you that it was \$99 billion !!

Dem nuh ready yet.

Madam Speaker the Government plans to collect \$65 billion more in taxes next year as compared to the current year due to the growth in the size of the economy.

So, having made a \$34 billion dollar error or a \$34 billion misrepresentation in justifying the irresponsible \$40 billion splurge I suppose I have already demonstrated the preposterous nature of his splurge !

It is financed by an error. The Opposition will try and obfuscate. But check it for yourselves.

So, anyway, what we are doing with \$65 billion tax revenue growth?

Well, first of all goods and services cost more this year than last due to inflation. And there is room made for that.

Second, we are using considerable resources to begin the implementation of the public sector compensation restructuring where we will restructure public sector compensation. We delayed this restructuring last year and we will not agree to delaying it again.

Third we are increasing investment in capital expenditure to catalyse economic activity, boost productivity and support jobs

Then the Opposition Leader proposed to apply \$40 billion in social assistance.

Last year Opposition Spokesman said we needed \$20 billion more in expenditure to help the recovery along. We pointed to him that it couldn't be afforded, and we maintained discipline and PIOJ is projecting growth of 6% - 9% more than he expected.

So we couldn't afford an extra \$20 billion last year and now the Opposition Leader, not to be outdone comes this year with \$40 billion? What are we to expect next year? \$60 billion?

Madam Speaker the problematic element of the Opposition Spokesman proposal is that he did not really spell out how to credibly achieve this.

Madam Speaker, the expenditure envelope of the budget is crafted in accordance with Jamaica's fiscal rules laid out in Section 48 of the Financial Administration and Audit Act.

These fiscal rules prescribe the envelope of expenditure, for any given level of revenues, by targeting a specific fiscal balance. This fiscal balance is calculated to be consistent with our debt objective of a 60% debt ratio by 2027/28.

So the fiscal balance is not "my fiscal balance" as he makes it out to be. It is what the rules prescribe. Anyone in the role of Minister of Finance of Jamaica, if he/she is to abide by the Fiscal and Audit Administration Act would be required to table a budget with the exact same fiscal balance.

He makes much of the fact of pursuing a small fiscal surplus. That is, revenues cover our expenditure with a small margin. He attributes that to me personally of pursuing a fiscal conservative path.

Madam Speaker, again he is attempting to fool the Jamaican people. I am faithfully following the laws of Jamaica. If I table a budget that deviates from what is prescribed in the Fiscal and Audit Administration Act, the Auditor General would be obligated to write me up.

You know the real irony of the situation? These are fiscal rules that he and I, together, helped put in place. I was appointed by then Opposition Leader Andrew Holness to the Senate and, though in Opposition, I supported the then Government's introduction of the amendments to the Fiscal and Audit Administration Act that strengthened Jamaica's fiscal rules.

Mark Golding, piloted those amendments in the Senate and I supported him.

So, as Minister of Finance I am abiding by laws he and I helped put in place and he seeks to label me for doing that. Now, that is what you call an irony; well, some could even call it hypocrisy.

You really think Jamaican people can't reason.

Dem nuh ready, Madam Speaker.

And we have the courage to be faithfully doing this without having the IMF watching over our shoulders, and without having the IMF to blame or without using the IMF as cover....

Madam Speaker, the Opposition Leader cannot on one hand, claim the high ground of having helped to strengthen Jamaica's fiscal rules (the fiscal rules were first implemented in 2010) and on the other make a proposal, "*slow the pace of debt reduction*"³, that if applied would imply an abandonment of them.

It is to the credit of former Prime Minister Portia Simpson Miller and former Minister Peter Phillips who greatly strengthened the fiscal rules first introduced by Prime Minister Bruce Golding and former Minister Audley Shaw.

Don't undo their collective legacy. Too many people worked too hard and sacrificed too much for that.

And their legacy only exists if we maintain the path, and we create our own legacy by building on it, strengthening and protecting it; not destroying it. I once told Peter Phillips privately in this Chamber that his legacy on these matters is safe with us. Based on the irresponsibility of some of your utterances, I'm not so sure we can conclude that his legacy is safe with you.

- Madam Speaker, though we managed our debt ratios efficiently during the pandemic, Jamaica is still the 9th highest indebted country out of 34 countries in Latin America and the Caribbean.⁴ The average debt ratio in Latin America and the Caribbean region today, even in the midst of the crisis, is 72%.⁵
- The problem with high debt is that it intensifies the structural vulnerability of small size and an open economy and susceptibility to tropical cyclones and hurricanes. These structural vulnerabilities leave us susceptible to shocks whose economic effects are exacerbated by high debt. And while the structural vulnerabilities can't be easily changed we have a path to reducing our debt over time which will greatly enhance our economic security.
- And as government finances have improved from debt reduction, more capital has become available for the private sector to grow, and, as a result, pre-pandemic, more Jamaicans were working than ever before. In addition, social spending has far outstripped real GDP growth and inflation. That is social spending has benefited disproportionately from the fiscal improvements that have accompanied this path.
- Also capital expenditure has also far outpaced nominal GDP growth. As I like to tell people, I never see a pothole in an uptown-gated community. Never. The wealthy don't depend as much on GOJ capital expenditure. Capital Expenditure benefits everyday Jamaicans.
- Improvement in our finances allows us to turn our attention to an ambitious restructuring of public sector compensation.
- Why risk this progress with a reversal on our fiscal rules?

³ Page 13, Leader of Opposition's Budget Presentation 2022/23

⁴ IMF

⁵ IMF

- Jamaica gets a lot of credit, that affects people's lives positively, for faithfully adhering to these fiscal rules over the past ten years and reducing our debt ratio, across administrations, across finance ministers and these rules are now interpreted as being institutionalized. It is very important we keep it that way. Our debt is priced below our peers who have similar debt burdens because they believe in Jamaica's direction. This is real. When our debt is priced lower we can deploy those resources elsewhere in the budget.
- Now when the pandemic came it triggered the escape clause in our fiscal rules. If the escape clause conditions are met again, God forbid, then we suspend. Otherwise let us maintain the credibility of the fiscal regime that so many sacrificed for.

If we are to maintain the fiscally responsible path that Jamaica has been on now for 10 years, with much progress, the Opposition Leader would only be able to fund his proposal by reallocating expenditure or raising taxes. He did not comment on either.

Schematic of GOJ Expenditure - Approximate

Social Assistance & Utilities & Cap Ex	Social Assistance & Utilities & Cap Ex	Social Assistance & Utilities & Cap Ex
Grants to Public Bodies/Institutions	Rentals, Goods & Supplies	Rentals, Goods & Supplies
Interest	Pension	Grants to Public Bodies/Institutions
Wages & Salaries	Interest	Interest
Wages & Salaries	Wages & Salaries	Wages & Salaries
Wages & Salaries	Wages & Salaries	Wages & Salaries

- Each block represents approximately \$40 billion. There is rounding to accommodate the schematic for ease of presentation. For instance, interest represented by three blocks is actually budgeted at \$130 billion etc.
- Grants to Public/Bodies/Institutions includes UWI, UHWI, UTECH, Other colleges, Early Childhood Institutions, CHASE, UDC, JUTC, JTB, TEF.
- Goods and services includes drugs and medical supplies, maintenance, machinery and fixtures, security services, fuel, oil and lubricants, technology services, janitorial pest control and waste management among many other goods and supplies. Rental includes costs of renting buildings for Government use.
- 18 blocks of \$40 billion gives \$720 billion. Actual expenditure is Approx \$740 billion as employers contribution of \$20 billion is not included.

When you look at the composition of Government expenditure, please tell the Jamaican people what you propose to adjust to finance your \$40 billion splurge.

The only way Madam Speaker is through increased taxes – which is their usual approach anyway.

4.0 Revenue Measures

The GOJ has committed to or spent \$6.6 billion on digital devices for Jamaican students and teachers under the Ministry of Education Programmes representing over 200,000 digital devices. This exceeds by a factor of six what the government collects in GCT on computers. We believe in delivering targeted support and when we target we go big.

4.1 Lithium-ion Batteries

Madam Speaker I like to try to find common ground with the Opposition where that is possible. We agree on the addition of lithium batteries to the list of energy efficient products to benefit from tax relief. And the submission in support of this went to Cabinet even before I opened.

In keeping with the thrust of the National Energy Policy (2009), the MOFPS has been updating our policy framework to encourage the use of energy efficient technologies. From as early as 2013, the MOFPS incentivised the use of selected energy efficient technologies by suspending the Common External Tariff (CET) and granting General Consumption (GCT) exemption on the importation of such items.

We recognize that lithium-ion batteries are rechargeable batteries that use lithium-ions as the primary component of its electrolyte, commonly used for portable electronics and electric vehicles. Their popularity has been growing as an energy storage technology, which should help to reduce the cost associated with the generation of electricity. The Ministry has already provided relief of the CET on such batteries and now believe the time is right to exempt these batteries from GCT. The Ministry has sought and obtained Cabinet's approval to exempt Lithium-ion batteries from GCT, to be implemented in the first quarter of FY 2022/2023.

In terms of our debt ratio reduction the implication of applying our fiscal rules is simply that we pay interest out from government revenues instead of borrowing to pay interest.

5.0 Social Assistance

The \$750 million food assistance programme that I announced in my opening budget presentation will target 75,000 persons Madam Speaker across a mix of modalities.

In my opening presentation I shared that the Government is making a \$2 billion provision to provided targeted assistance to those who are most affected by the volatility in energy prices and the least able to respond.

I added that further details would be disclosed in my closing presentation.

Madam Speaker, there has been increased volatility in the price of oil as Western countries apply economic pressure on Russia. In addition to an unprecedented block of

sanctions, the United States has also stopped purchasing Russian oil and there are fears that other countries could follow, restricting the supply of oil on the world market.

This caused concern and a few weeks ago we saw oil prices establishing a 10 year high from which prices have since retreated. However oil prices remain elevated this is a source of unease.

For one, prices of petroleum products for motorcars have increased. In addition electricity prices have also increased.

5.1 Assistance to Taxi Operators

In applying relief Madam Speaker, we aim to be targeted in our approach. That is, as much as practically possible, direct the relief towards persons who have been and are most affected and who have the least ability to cushion for themselves.

We recognize that everyone feels it Madam Speaker. But Government assistance should go to assist those who are most vulnerable, who are in the lowest consumption deciles and to those who need it most.

The population of Jamaicans who depend on public transportation is substantial and is at least three times as large as the population fortunate enough to own their own motor vehicle.

Madam Speaker we need to protect those who depend on public transportation and we will do so by supporting public transport operators.

1. The GOJ will provide \$25,000 in vouchers to operators of public passenger vehicles, including route taxi operators and contract carriage operators, in recognition of the higher cost of fuel at this time. Madam Speaker this programme will cost just under \$600 million. This voucher program will begin towards the latter half of April and will be administered by the Transport Authority under the stewardship of Minister of Transport and Mining, the Hon. Audley Shaw who I am sure will speak more fulsomely to it.
2. In addition, the GOJ will make available \$200 million in revolving loan financing for public passenger vehicle operators, which will be available through Microcredit and Approved Financial Institutions, by way of the Development Bank of Jamaica. This financing will be available for short term loans for tyres, batteries and spare parts required for public transportation operations.
3. At the same time we appeal to public transportation operators, to abide by the fares set by the regulatory authorities.

5.2 Transportation Assistance for PATH Students

Madam Speaker we will increase the allocation towards transportation assistance for students on PATH by 40%.

This will cost \$152 million.

5.3 Assistance to JPS Customers

Madam Speaker, electricity prices are influenced by the price of fuel oil. In fact the price of fuel oil is a direct pass through to the customer.

We will seek to cushion the impact of higher electricity prices on the most vulnerable.

Madam Speaker, JPS has a retail customer base of approximately 563,451 households as at February 2022⁶. As at this date the consumption bands were as follows:

- 105,855 households use less than 50 kWh per month
- 145,476 households use between 50 kWh and 100 kWh per month
- 128,556 households use between 100 and 150 kWh per month
- 77,899 households use between 150 and 200 kWh per month
- 65,900 households use between 200 and 300 kWh per month
- 28,793 households use between 300 and 500 kWh per month
- 5,884 households use between 500 and 700 kWh per month
- 2,784 households use between 700 and 1000 kWh per month
- 2,304 households use over 1000 kWh per month

So you get an idea of how kWh consumption relates to standard of living, here is an example:

Madam Speaker, usage of a modest sized fridge, a TV, radio, an iron, a few light bulbs, and charger ports for your phone equates to about 75 kWh per month.

You add a few other appliances, a washing machine that you use very sparingly, etc...maybe a few more rooms with their own lights, fans and sockets and you get up to 150 kWh.

Madam Speaker across urban and rural areas there are approximately 379,000 such households in Jamaica. Yes it is the case that empty, unrented apartments are among this number at any point in time. But, arguably, these represent less than 5% of this bracket. The overwhelming majority of households consuming less than 150 kWh are those on smaller incomes in our society: Vendors, many security guards, housekeepers, household workers, those who clean and maintain buildings, factory floor workers, room attendants at hotels, bartenders and waiters at restaurants, handymen and porters and many other occupations in the informal economy and all those hardworking Jamaicans on minimum wage or just above.

We are concerned madam speaker that those on lower incomes are adversely affected by much higher energy prices, at this time, and more and more of their income is consumed by electricity consumption.

So when we construct social assistance policies to respond to times like these, these we wish to target lower income groups. It is only morally right, Madam Speaker, that the proceeds of social assistance resources go to these persons first.

Madam Speaker we propose to a temporary intervention on behalf of these JPS customers.

⁶ Source: JPS

Now some will add that ok, we get you but not only the persons on the lowest incomes are affected. I will agree.

At 200 kWh of energy consumption, the customer could be living modestly in a housing scheme or in a multi family dwelling in an urban community and this level of energy consumption, while not particularly associated with lower incomes is not associated with higher income either.

In an effort to include some in the middle madam speaker we will add those who consume up to 200 kWh of electricity to our temporary intervention effort.

Now, Madam Speaker, adding this group brings the total number of households on whose behalf we propose this temporary intervention to 457,786 out of a total of 563,451 households or 81% of the JPS retail customer base.

Madam Speaker the top 19% of households accounted for nearly half of JPS's household billing with the bottom 81% accounting for the other half.

So, Madam Speaker, the Government of Jamaica will be implementing the We CARE Energy Co-Pay where the GOJ will contribute 20% of the JPS bill for all households that consume 200 kWh of electricity or less, per month, for the months of April, May, June and July 2022.

Madam Speaker, 81% of households will benefit from this temporary GOJ initiative to cushion the impact of rising energy prices.

This is expected to cost in the region of \$2.0 billion.

Now, Madam Speaker JPS also has pre-paid customers who pay in advance for small amounts of electricity at a time by topping up their accounts.

The GOJ, through the Jamaica Social Investment Fund, has been regularising communities where unauthorized electricity connection was once the norm.

Communities like

Marverley (Kingston),
Tower Hill (Kingston),
Cassava Piece (Kingston),
Stand Pipe (Kingston),
August Town (Kingston),
Majesty Gardens (Kingston),
Grants Pen (Kingston),
Homestead (St Catherine),
Caanan Heights (Clarendon),
Steer Town (St Ann),
Copperwood (St James),
Liliput (St James),
Granville (St James)

all have new JPS customers on the pre-paid modality.

Madam Speaker, We CARE Energy Co-Pay program will assist these pre-paid customers as well.

For the months of April, May, June and July every JPS electricity pre-paid top up purchased will receive bonus credit from the GOJ representing 20% of the top-up amount.

So Madam Speaker we have increased the \$2 billion allocation announced in the Opening Budget presentation to \$2.95 billion inclusive of loans financing support of \$200 million for taxi operators.

And the overall social assistance support, inclusive of the \$200 million allocation to NGO's this month, to \$3.7 billion.

Madam Speaker the Government is working to cushion the impact of the rise in fuel prices on those who need it most.

No social assistance program in the world has perfect targeting; meaning everyone who receives is in need and perfect efficiency meaning all those you intended to target receive benefits. But targeting by energy consumption is recognized as highly correlated with income.

6.0 Closing Remarks

