

CHECK AGAINST DELIVERY

CLOSING PRESENTATION BY DR. THE HONOURABLE PETER PHILLIPS, MINISTER OF FINANCE AND PLANNING
BUDGET DEBATE 2014-15
APRIL 30, 2014

- Mr. Speaker, in rising to close this debate, I would like to acknowledge the contributions of all the participants.
- The Most Honourable Prime Minister yesterday set out with clarity the record of this administration in mobilising the national community around the Economic Reform Programme (ERP), which is on track and has already returned the Jamaican economy to growth. Simultaneously, she has indicated the effective steps taken by the administration to protect the poor and vulnerable and to ensure that each sector makes its contribution to the national effort.
- Minister Roger Clarke is to be congratulated along with his team and the farming community for the phenomenal growth that the country is witnessing in agriculture. Food security continues to be a major plank of our **Economic Reform Programme**.
- While there is much that has divided us in this debate there has nevertheless been a consensus around two critical imperatives:
 - (i) The need to reduce our public debt, which is far too high and has become a stranglehold on the national economy; and,
 - (ii) The urgency of restoring the economy to sustained growth.
- That a national consensus should exist around these two critical priorities is a good thing, and it can only redound to the national good that the priorities of debt reduction and economic growth have been the central themes in this debate.

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- It is unfortunate that throughout our history in modern Jamaica, a consensus around the essentials of our development path and the strategies to achieve developmental goals has eluded us as a nation.
- The truth is, we have too often allowed the pursuit of partisan political advantage, as well as, the narrow self interest of different social and economic groups to weaken and divide the national effort. This has certainly weakened the level of social cohesion required for nation building.
- This sense of togetherness, this sense of being part of a joint endeavour and a common mission is what the political economists refer to as social capital and it is unfortunately in short-supply in Jamaica.
- A survey conducted a few years ago by the Centre for Leadership and Governance at the University of the West Indies (UWI) highlighted the fact that some 73 per cent of Jamaicans said they trusted no one but themselves or believed that most people would take advantage of them. This survey also revealed that 60 per cent of the population believed you can only trust yourself.
- In the context of our economic reform programme and all the difficulties and sacrifice that it involves and which will persist, for some time yet there is a special responsibility which we in this House will have to accept.
- It is against this background that I want to urge all of us that having agreed on the national objectives, let us have honest debates, stripped of the dishonest and debilitating search for partisan narrow self advantage or sectional interest.

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- I now turn to the contributions of the Opposition Spokesman on Finance and the Leader of the Opposition, and I propose to address FIVE areas in this closing budget presentation.

1. **Trust;**
2. **Arrears in the Government;**
3. **Debt Perspectives;**
4. **Foreign Exchange Markets; and,**
5. **Taxation Issues**

TRUST ISSUE I

- Indeed, it is ironic that one allegation made directly against me by the Opposition Spokesman on Finance and repeated by the Leader of the Opposition concerns the supposed breach of commitment regarding “*no new taxes*”.
- Let us examine it:
The headline which appeared in the Daily Gleaner of January 8, 2014, [which I did not write] says, “*Big Relief – No new taxes says Phillips; reform, cutting debt on main Agenda*”. Mr Speaker, all those words are the words of the editor, not mine. Neither did the article indicate the context in which I spoke. I was responding to a question about the imposition of GCT on petroleum.
- My words can be found in the body of the same article, and I now quote them verbatim for this Honourable House:

“We don’t have plans for taxation. We have plans for tax reform generally. But we will have to maintain our deficit targets”.

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- In another part of the same article, I am again correctly quoted as saying:

“The revenue targets have been missed slightly in relation to taxation ... but we are going to have to maintain our 7.5 per cent [primary] surplus as it is the only way we are going to pay down this debt”. [January 8].

- I accept that I could have and perhaps should have insisted that the Gleaner print a retraction of their headline. However, when the story was published I spoke to them on this matter and in their own way they printed a retraction in the Sunday Gleaner of January 19, 2014.
- My point, however, is that the debate would have been far more honest if care had been taken to credit me with what I actually said.
- So, far from representing any breach of promise, the budget represents a fulfilment of every undertaking made by this government. We have lived up to our word.
- It is in fulfilment of our commitment to meet our wage obligations to public sector workers that more than \$161Bn is in the budget for wages; \$4Bn of which is in fulfilment of obligations that the previous administration tried to walk away from – and had to be ordered by the courts to fulfil.
- In presenting this budget we have fulfilled Jamaica’s obligations to public sector workers, bondholders, pensioners and others who have made the sacrifice already – and who have demanded of us that we meet our obligations under the **Economic Reform Programme**.
- The Budget fulfils Jamaica’s obligations to maintain a 7.5 per cent primary surplus.

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TRUST ISSUE II

- The truth is the Opposition Spokesman is in no position to lecture us or anyone for that matter on matters of public trust.
- No one on this side promised workers unrealistic wage increases and then walked away, as that administration did, telling the workers to “*take it or leave it*”.

TRUST ISSUE III

- We did not sign up to an agreement with the multilateral lending agencies led by the IMF committing Jamaica to deliver a 6.8% per cent primary surplus in 2011/2012, which was revised downward to 5.0% but they still were only able to deliver an output of 3.1 per cent.

TRUST ISSUE IV

- We did not sign up to a Jamaica Debt Exchange [JDX] and then threaten bondholders and pensioners with default because of our failure to meet obligations to the Fund programme.

TRUST ISSUE V

- No one of this side implemented a fiscal responsibility framework, with great fanfare in 2010 and then proceeded to break all procurement rules and fiscal controls by ordering buses without Cabinet approval and without budgetary provision.
- You cannot come and claim credit for initiating fiscal rules and fail to acknowledge that you broke your own rules.
- Jamaican People say “*mout mek fe chat*” – BUT NUH SO.

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THE COSTS OF IRRESPONSIBILITY

- Mr. Speaker, what needs to be understood is that there are real costs to the trust deficit and to political recklessness.
- The insistence by the IMF that the wage – restraint agreements should be a prior action was the direct consequence of the previous administration’s failure to meet its wage to GDP obligations under the previous programme.
- The 7.5 per cent primary surplus that is part of the current programme was necessitated by the failure of the previous administration to meet their primary surplus target in 2011/2012. Their failure imposed on this administration the need to raise 4.4% of GDP in revenues over two years.
- The major revenue package – as a pre-condition for a Fund programme is part of the cost that Jamaica had to pay because of the failure of the previous government to meet their obligations.
- These – and more – are the concrete costs that Jamaica had to endure because of the irresponsibility of the previous administration.
- The €60Mn that Jamaica was unable to draw-down in grants from the European Union is a direct consequence of the abandonment of the programme.
- Mr. Speaker, I was astounded to hear the Opposition Spokesman say that the IMF has given Jamaica a “*bligh*”:
 - 7.5 per cent primary surplus is not a “*bligh*”
 - 15+ pieces of path-breaking legislation in one year is not a “*bligh*”

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- Wage-restraint for public sector workers is not a “*bligh*”
- A national debt exchange less than two years after the previous debt exchange is not a “*bligh*”
- But what is most distressing about the Opposition Spokesman’s comment, is the ease with which he would impugn the reputation of the IMF and the other multilateral institutions, in believing that they simply play favouritism and “*give out blighs*”. No wonder he thought that he could sign-up to agreements and simply walk away.
- It is clear that the Opposition did not understand that there are consequences to commitments given and not honoured. They did not understand it then, and apparently they do not understand it now.
- This is a problem that affects the Leader of the Opposition as well.
- He accuses the Jamaica Urban Transit Company (JUTC) of being “*insensitive*” to the plight of its sub-franchise operators - **NOT TRUE** – as the Minister of Transport, Works and Housing pointed out.
- But it would be fairer if he were to acknowledge the role of the administration which he led in under-cutting the financial foundations of the JUTC when his Minister of Finance the now Opposition Spokesman on Finance signed a loan – unauthorized by Cabinet – for €96Mn in order to purchase buses for JUTC. **THIS LOAN MUST BE REPAYED.**
- To add insult to injury, in addition to ordering the buses, they also approved more than 1000 licenses to private operators over a two year period.

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- So, Mr. Speaker, what we are trying to do is to rationalize the operators in KMTR to make the JUTC as viable as possible now that the buses are here and we paid for them.
- The most logical way to earn the resources to repay the loan is for the buses to be used to carry paying passengers. It is either that, or the taxpayers would have to pay, many of whom, reside in rural Jamaica and elsewhere and do not use the JUTC buses.
- So to come and lambast the JUTC and the Minister of Transport, Works and Housing for trying to bring order to the KMTR transport arrangements is to ignore the hard reality that we have to repay a debt for these buses.
- As usual – in a way that is typical of old-style politics – the Leader of the Opposition promises to give away as much as possible and saddle the taxpayer with more debt.

ARREARS IN BUDGET

- Mr. Speaker, there were many misleading and inaccurate statements made last week as it relates to arrears. It is unfortunate that this occurred as the Fiscal Policy Paper tabled in this House on April 17 provides information not only on this Government's acknowledgement of the arrears that exist but also our plan for addressing this issue. In opening this debate, I also made very clear statements about the high level of arrears and the challenge they pose to both this and the previous administration.

For the record, this is the plan to “extricate’ the government from arrears build-up”:

- Controlling Growth in Stock of Over 90 Days Arrears by placing a cap on the sum which existed at March 2013:

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- i.* This cap is one of the quantitative targets on which the government reports to the Fund;
 - ii.* Making direct payments to suppliers of goods and services through the CTMS thereby reducing risk of diversion of the resources;
 - iii.* Withholding all Statutory deductions (NIS, NHT, PAYE, EDTAX) from central government MDAs, educational institutions and Regional Health Authorities and transferring the amounts directly to TAJ; and,
 - iv.* Ongoing monitoring of high risk expenditure areas (e.g. electricity, drugs, statutory deductions) to manage any threats of arrears build-up.
- Changes in the management and dispensing of pharmaceuticals in the public health system:
 - i.* All public sector pharmacies are to be taken over by the NHF with the takeover of the pharmacy at the Bustamante Hospital for Children;
 - ii.* The pharmacies at KPH/VJ, Port Maria, Percy Junior and Cornwall Regional hospitals are to follow. The plan is to complete full takeover by end 2015;
 - iii.* The value of the assets in the pharmacies, at the point of takeover, will be used to set-off existing arrears for drugs and medical supplies to the NHF.

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- Increasing the budget for drugs and medical supplies on an annual basis in line with inflation – as was done in this current budget where the provision moved by 9% from \$3.7Bn to \$4.1Bn.
- Working with suppliers to set-off arrears against their tax liabilities;

“...Budget is increasingly put together while ignoring the build-up of arrears or late payments....”

- This statement is misleading. No attempt to ascertain the facts. The fact is that, notwithstanding the tightness of the expenditure budget and the several competing demands, approximately \$1.5b has been provided in the 2014/15 budget to meet payments arrears. This follows the \$1.5b which was allocated in the Supplementary Estimates approved in February of the last Financial Year.

DEBT PERSPECTIVES

- Regarding the public debt Mr. Speaker, the Opposition Spokesman on Finance has sought to reduce the issue to one of blame for the accumulation of debt during administrations led by this side of the House. The truth is that if we are playing that (unproductive) game, there is more than enough blame to go around.
- At a time when there was no highly developed domestic debt market, Jamaica’s external debt doubled in the latter half of the 1970s (this has often been cited). What is perhaps less well known is that this external debt again doubled in the first half of the 1980s. On the basis of strong inflows from multilateral financial institutions and from friendly Governments, Jamaica’s ratio of public debt to GDP peaked at over 200% in the mid-1980s.

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- In a context of fiscal consolidation beginning in 1984/85 and successive Paris Club restructuring of bilateral debt, the debt/GDP ratio was set on a downward trajectory from the late 1980s up to the mid 1990s. By 1996/97, on the cusp of the resolution of the financial sector crisis, and following the successful completion of a three year Extended Fund Facility arrangement with the IMF, the debt/GDP ratio had fallen to under 80%.
- The cost of rescuing depositors in failed financial institutions through FINSAC pushed this ratio to almost 125% by 2002/03. Following this and in the context of our own economic programmes, designed at home and monitored by the IMF, the debt/GDP ratio declined to 113.87% by 2006/07 and 109.43 by 2007/08.
- In four years, from end 2007/08 to end 2011/12, the external debt (denominated in foreign currency) went from US\$6.2Bn to US\$8.6Bn. During the same period the Jamaica dollar depreciated by about 22% and the US\$2Bn in reserves left by this Government in 2007 had not grown despite the massive inflows from multilateral financial institutions in 2010/2011.
- It cannot be overemphasized Mr. Speaker, that it was our failure to complete the 2010 Standby Arrangement with the IMF, following massive inflows from multilateral financial institutions, that laid the basis for:
 - i. a sharp reversal of flows from these institutions;
 - ii. the protracted (16 month) negotiations for the current EFF;
 - iii. the resulting decline in official foreign exchange reserves; and,

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iv. exchange rate depreciation cited by the Opposition Spokesman on Finance.

- The Opposition Spokesman on Finance also claimed that Jamaica borrowed loans of US\$330Mn from the World Bank in November 2011 as evidence that trust had not been broken with the multilateral financial institutions. The reality is that only US\$100Mn was actually disbursed.
- Despite this, it needs to be explained why, by then, there had been no reported reviews by the IMF Board for almost one year; why the IMF staff indicated an inability to approach their board regarding progress under the SBA; and why external flows had dried up relative to the euphoria of 2010.
- In fact, Mr. Speaker, official loan and grant flows from all sources declined from US\$1,267.37Mn in 2010 to US\$595.9Mn in 2011 and US\$267.7Mn in 2012, the first year of this government. In 2010 Mr. Speaker, our development partners front-loaded disbursements for budget support. Actual disbursements in 2011 were US\$919.9Mn, compared to original commitments of US\$870.1Mn. By 2011, however, disbursements of budget support had declined to US\$195.9Mn relative to commitments of US\$350.5Mn. In 2012, the first year of this administration, disbursements of budget support were a paltry US\$0.5Mn relative to earlier commitments of US\$345.6Mn.
- Our development partners, Mr. Speaker, are unambiguous in their communication that the disbursement of budget support is contingent on being “*in good standing with the IMF*”. The **fourth** and **fifth** reviews should have been combined for convenience. However, this was not approved by IMF Management for Board presentation, scheduled for June 2011. The Fund Management advised the Prime Minister that unless decisive, irreversible steps were taken by the government of Jamaica towards

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meeting the agreed medium term targets, a resumption of SBA could not be recommended to the Board.

- The conclusion is unavoidable, that had we not fallen off the wagon of the 2010 Standby Arrangement, external official flows, especially budget support would have been sustained, foreign reserves could have been maintained and the foreign exchange system would have demonstrated more secular stability.
- With the stock of public debt increasing from \$923Bn at end 2006/07 to over \$1,600Mn at end 2011/12, the ratio of debt/GDP again increased to 131.93% by end 2011/12.
- On the basis of these official Government of Jamaica statistics, the debt/GDP ratio then peaked at 135.64% at end 2012/13 before being brought down to 131.9% at end 2013/14.
- The IMF's measurement for purposes of the current EFF, adds PetroCaribe debt and domestic guaranteed debt to the GOJ's official measurement. We were forced to use PetroCaribe and other sources of funding in the period prior to the EFF being approved by the IMF board, which led to an increase in the debt stock. What is good about the programme is that the debt to GDP that stood at 149.4% at the beginning of the current EFF (end 2012/2013) has declined to 139.2% at end 2013/14. **It is coming down, but it is still too high.**
- It is clear Mr. Speaker, that by whatever measure used, there has been a clear decline in the burden of public debt already being generated by the adjustment programme.

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- The initial success of the programme, Mr. Speaker, underlines the importance of the perspective that it is critical to avoid the negativity and futility of looking back in anger and trying to ascribe blame. That we have a programme at all, with all its challenges, is testimony to a successful effort to rebuild trust with our international development partners, not least of all by faithful adherence to our commitments under the programme.
- Breaking from tradition, the IMF provided a part of its financing as budget support. Late in 2013, the European Union became the first of our (international) partners to resume budget support. The IBRD and IDB have subsequently resumed budget support.
- Just yesterday, the IBRD approved a **Country Partnership Strategy Report** for Jamaica that will facilitate growth and further disbursements under that institution's commitment to Jamaica.
- **The World Bank has also indicated its support in three key areas.**

These include:

- **Modernizing the public sector:** Activities in this regard will focus on:
 - ✓ the implementation of a new Debt Law;
 - ✓ support to the reform of the public pension system and the Public Sector Investment Program;
 - ✓ improving customs administration;
 - ✓ standardization of the Kingston port; and,
 - ✓ continued support to Public Private Partnerships in energy, transport, waste water treatment and education.
- **Creating an enabling environment for private sector growth.**
Activities will include:

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- ✓ the fostering of investments in high potential sectors, such as logistics and agriculture;
 - ✓ helping to reduce the time needed for an entrepreneur to register a new business, obtain a construction permit and pay taxes;
 - ✓ the provision of digital training opportunities for the youth; and,
 - ✓ the establishment of regional incubators for mobile and climate innovations.
- **Building social and climate resilience. Activities include:**
 - ✓ strengthening the government's social protection programs;
 - ✓ supporting the development of a comprehensive framework for disaster and climate risk management;
 - ✓ increasing the number of Jamaicans benefiting from social assistance programs; as well as,
 - ✓ the number of households with access to water, electricity and regular solid waste collection.
 - Looking forward towards the objective of debt sustainability, it is imperative for Jamaica (not just the Government) to stay on the programme, maintain constructive dialogue with our international development partners, and among ourselves, and to pool our efforts in striving for stronger economic growth.

FOREIGN EXCHANGE MARKETS

THE EXCHANGE RATE

- Mr Speaker, we welcome the fact that the Opposition Spokesman on Finance has chosen to join the debate on the exchange rate. Having stated however that *"There are as many arguments in favour of a fixed exchange rate policy as there are for a floating exchange rate or a carefully managed*

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floating exchange rate system", he proceeded to outline the most superficial and obvious case on the benefits of stability and predictability of a fixed exchange rate.

- It is true that a relatively stable (as distinct from fixed) exchange rate moderates, the rate of price increase of imports and facilitate predictability in the economic environment. We too, indeed everyone, seeks a stable exchange rate.
- In proclaiming the virtues of a fixed exchange rate, the Opposition Spokesman on Finance points to the experience of the mid 1980s. But in his account some simple facts escape from view.
- For one thing, - although the opposition spokesman does point it out, when the rate was fixed at J\$5.50/US dollar in the auction system, this represented a significant devaluation from \$1.78 in 1980. Secondly, while he is quick to cite the negative international environment in 2008-09, he makes no reference to increased oil prices and depressed aluminium prices from 1983-85 and their reversal in 1986-89 in trying to explain the rates of growth in 1986-1989. That at least would have been a more balanced analysis.
- Equally, Mr. Speaker, when he touts the Auction system - for honesty's sake, let us not forget the inability of the auction system to meet legitimate demands; there was a large build-up of arrears to purchasers.
- We should also recall the explosion of the black market in foreign currency and the rigid police enforcement of exchange control with allotments for personal travel being limited to US\$50.00 [and later \$150] written and stamped in passports.

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- Let us not be under any illusion Mr Speaker, fixing the exchange rate involves an administrative choice of where to fix it and a responsibility to ensure that people who want to buy foreign exchange at the official fixed rate can in fact do so.
- The Opposition Spokesman may then be tempted to defend his fixed exchange rate by a return to exchange control. If there is one thing we learned from the late 1980s, it is that no matter how draconian the regulations and the sanctions, exchange control is as expensive as it is ineffective; people will buy foreign exchange at whatever price it is available to them.
- What is particularly surprising is that the opposition spokesman on finance discussed the issue of the Exchange Rate without any reference to the chronic imbalances in the current account of our Balance of Payments.
- The exchange rate system has strong implications for the balance of payments. In our small and vulnerable developing countries, natural shocks and productivity differentials almost guarantee that our inflation will exceed that of our developed trading partners.
- Without any capacity to correct this imbalance through exchange rate adjustment, you are left with the improbable prospect of increasing productivity faster than the rate of increase of your trading partners.
- There are other economies which have been held up to Jamaica as an example of the benevolence of fixing the exchange rate. These economies have now lost competitiveness to the extent that their foreign exchange earnings and official reserves have declined precipitously and public debt has climbed alarmingly.

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- Nobody wants protracted exchange rate instability. The benefit of devaluation that results in a switch from consumption of foreign goods to domestic products is not instantaneous.
- There are some *"low hanging fruits"* where depreciation creates opportunities for local production. This is nowhere seen more clearly than in the case of agriculture where opportunities are being created for replacement within a food import bill of some US\$1Bn.
- We have to balance the benefits of stability with the opportunity for increased output and employment. There is attractiveness to stability, but its pursuit must not be at the expense of productive opportunities where there is concern about poverty, unemployment and low growth.
- While relative exchange rate stability is desirable, this is not a product of the exchange rate mechanism. Whether "fixed" or "managed float", stability has to be the product of the quality of the macroeconomic programme. That is why we must stay the course in fiscal adjustment towards debt sustainability.
- Mr Speaker, we understand that the adjustment entails great difficulty and hardship for many people. We don't delight in this fact. Indeed, we have done everything within our resources to provide for the most vulnerable in order to cushion the impact of the adjustment on them. Let me remind the House of what we have done:
 - A 15% increase in payments to PATH beneficiaries
 - An increase in the minimum wage
 - Provision of J\$500Mn for pensioners

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- Increase in the income tax threshold by J\$49,920 in this budget year which will see taxpayers benefitting J\$12,480
- Expansion in the school feeding programme
- Increase in the transportation subsidy for students under PATH

All of this was provided in a budget that in real terms has declined.

I also want to emphasise that there is evidence that the programme is working.

- The latest labour force survey conducted by STATIN which was released today indicates that between April 2013 and January 2014 the unemployment rate fell by approximately 3 percentage points and now stands at 13.4 % down from 16.3% in April 2013. This has occurred in the context of an increase in the labour force. However, there are still too many persons unemployed.
- Yesterday the Surveys of Business and Consumer Confidence for the First Quarter of 2014 showed significant increases over the closing quarter of 2013;

“There have been only three surveys since 2001 in which firms held a more positive assessment of their current profit situation. When asked about prospects for the year ahead, 57% of firms expected improvement in the 1st quarter, up from 45% last quarter and the highest percentage in two years.”

In speaking to investment, the survey indicated:

“For the second quarter a record number of firms expressed their intent to increase their investments in their own business in the year ahead so that they could

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more fully take advantage of future economic opportunities.”

CLOSING REMARKS

Tough though the program is, Mr. Speaker, it is bearing fruit as:

- We have seen a return to growth;
- Inflation has been curtailed;
- Debt/GDP is going down
- The unemployment rate is on a downward trajectory - the most recent Labour Force Survey conducted by STATIN confirmed the anticipated downward movement in unemployment – January 13.4%
- Agriculture is bearing fruit;
- There is growth in tourism;
- The expansion of the BPO sector is continuing;
- The construction sector is showing positive signs; and
- The most recent Business and Consumer Confidence Surveys have recorded that both indices have increase by double digits for the first quarter of 2014;
- The World Bank Group is launching a new country partnership strategy for Jamaica paves which will pave way for additional support.

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It is time, Mr. Speaker, for Jamaican business people to invest more in Jamaica and not join the voices that say nothing good is happening. We need to pull together and not be distracted by the naysayers.

It is time, Mr. Speaker that we move to a national resolve to continue to eschew our lust for political power and pursuit of political interest and keep in front of us the prize of national advancement.

There are some big hurdles to get over:

- We must get public sector transformation right and get rid of the bureaucracy which provides blockages to those that would invest;
- We must raise the level of tax compliance and pursue the people who see it as their business to avoid tax and see a good tax as one that is levied on the most vulnerable;
- We must work towards sustaining the educational gains of the past year not only providing access to basic schools but also to tertiary facilities.
- We must continue being fiscally responsible;
- We must live within our means so that we can continue to reduce the debt.

And all this we must do in a still fragile world economy.

Let us not forget those who have made considerable sacrifices such as:

- the public sector workers;
- the pensioners and bondholders; and,

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- ordinary Jamaicans who have seen their purchasing power eroded.

God forbid, even as we are seeing the gains being made that we should abandon the course – JAMAICA deserves better than that.

Our resolve must be that come what may, we will stick to the path.

- We have an investor community that needs the services of the Government;
- We need the youngsters in schools to keep their eyes on the prize and stay focussed;
- Bankers and investors must recognise that one sector cannot succeed on its own;
- The Opposition must recognise that while we are not against opposition, now is not the time for idle threats.