



Advances on the Journey from Poverty to Prosperity

SECTORAL PRESENTATION

TUESDAY, MAY 15, 2018 | GORDON HOUSE

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Minister without Portfolio in the Ministry of Finance
and the Public Service



Sectoral Presentation

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Introduction

Mr. Speaker, let me begin by acknowledging our new Finance Minister, the Honorable Dr. Nigel Clarke and thank Minister Shaw for his steadfastness on the road we have travelled together.

Let me also say thanks to:

- Heads and members of staff from the following bodies—
MOFPS, BOJ, Jamaica Customs, TAJ, FSC, PIOJ, STATIN, FID, RPD, SLB, BGLC, Petro Caribe, and The Accountant General's Office
- Thanks to the staff in my office (my advisors, administrative team, office attendants, personal security, and driver).
- Thanks to the members of my constituency who have supported me over the years.
- Thanks to my family, here in Jamaica and abroad, for their continued love and support.

Mr. Speaker, my presentation today, among other things, will speak to the advances we have made thus far on the journey from poverty to prosperity. I will also highlight how we have managed, and will continue to make our budget more responsive to the impact of natural disasters. Of course Mr. Speaker, I could not conclude this presentation without making the case as to why this journey towards prosperity is also about sustaining a low inflation environment, much like we did in the decade of the 1960's.

Mr. Speaker, it was the former President of Liberia, Ellen Johnson Sirleaf who said, "The size of our dreams must always exceed our current capacity to achieve them. If the size of our dreams does not scare us, they are not big enough."

Mr. Speaker among the many developments happening in St. Andrew Eastern such as road infrastructure, education, job creation and zinc fence removal and replacement, I continue to champion the cause for opportunities. It is against this background that a major BPO entity will come to St. Andrew Eastern with the possibility of employing over 500 persons. Let me publicly thank Minister Vaz for being at the forefront of this initiative.

Today, I know that all Jamaicans, both here and in the diaspora, have dreams of what Jamaica could be or should be. I want to

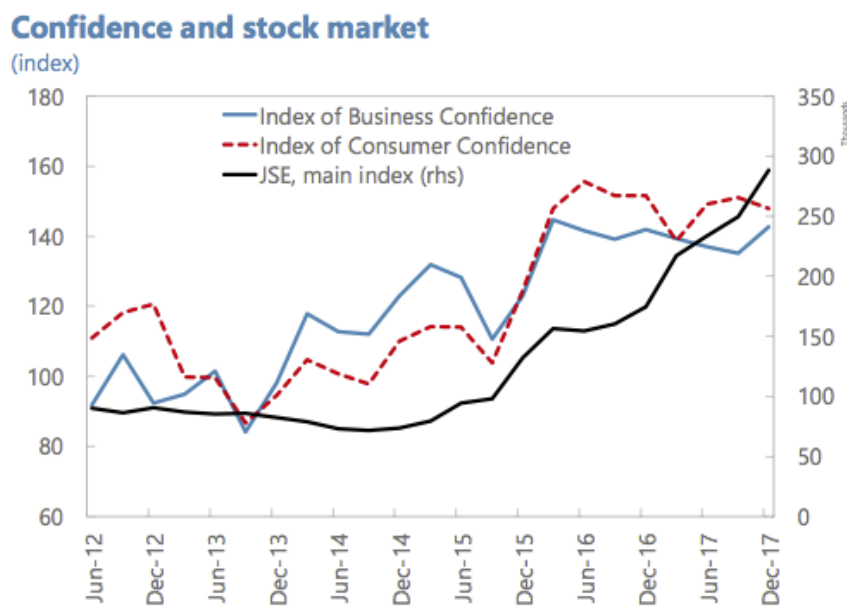
acknowledge with gratitude my management team, supervisors, workers, councilor, councilor caretaker, and persons across the length and breath of St. Andrew Eastern for entrusting me with their dreams.

I want to acknowledge the Prime Minister and other leaders of this great and noble Jamaica Labor Party government for trusting me to help to fulfill the dream of prosperity on behalf of all Jamaicans.

We have much to celebrate

Mr. Speaker, without apology, we have much to celebrate.

In 2017, economic growth continued its fifth year in a positive direction. Furthermore, business and consumer confidence indices remained buoyant through 2017 and into 2018.



Source: IMF

The Jamaica Stock Exchange, a forward looking indicator of confidence set many records in 2017. These include the number of companies listed, the number of transactions across markets, the quantum of capital raised, the volume and value traded, and the trend continues in 2018.

Jamaica recently reached a new milestone. The average employed labour force grew to 1,206,600 people and marked the sixth consecutive year of increase.

Job growth has been robust.

Unemployment stands at 9.6% as of January 2018, and is at a low we have not seen since 2007.

The youth unemployment rate was at 23.8% at January 2018, down from 31.2% in the corresponding period a year ago, a seven and a half percentage point reduction in one year.

More women are finding jobs.

We are seeing a shift in hours worked to 40+ hours and away from lower number of hours.

In the private sector, total private sector financing (including corporate bond issues) is up... expanding by 19.7% at December

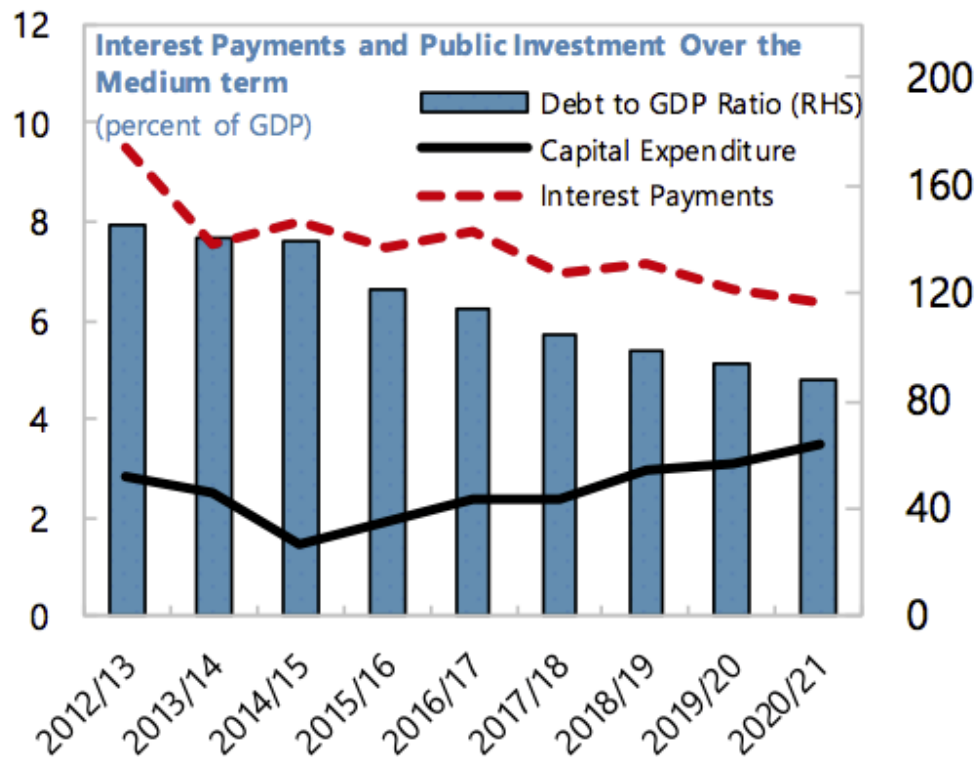
2017; compared with 12% at December 2016. In real terms, this was 13.7% compared to 10.5% the year before.

Bank of Jamaica's signal rate has been on the decline.

Private remittance flow is at its highest in 6 years and similarly our net international reserves are at approximately US\$3.1 billion at the end of March 2018. This is the second highest on record having reached US\$3.2 in December 2017.

Our capital spending, something that matters a lot to the Jamaican people because it is that is what we spend on roads, essential bridges, drainage structures, and general infrastructure, has never been greater. We are projecting to spend approximately \$60 billion dollars for this fiscal year, or roughly 3% of our estimated \$2 trillion dollars Gross Domestic Product.

Mr. Speaker, our Debt/GDP is projected to be less than 100% by the end of this fiscal year. This is reduction of more than 13 percentage points when compared to the 113.2% ratio recorded at the end of FY2016/17. Mr. Speaker, as we continue on this trend, we will be well on our way to achieving a 60% Debt/GDP ratio by FY2025/26.



Source: IMF

And there is more Mr. Speaker:

Jamaica received 2 positive ratings during FY2017/18.

The first was on September 25, 2017, when international rating agency S&P Global Ratings affirmed its B rating for Jamaica and kept a stable outlook.

The second was from Fitch Ratings that affirmed Jamaica's long-term foreign and local currency rating at B and revised the outlook from Stable to Positive.

These ratings confirm their positive assessment of Jamaica's macroeconomic stabilization program and our staunch commitment. They are important milestones on our path to achieving an investment grade rating.

Mr. Speaker, the number of new taxpayers registered for the various tax types for the last fiscal year amounted to approximately 20,000, more than three (3) times the annual target.

Our strong tax revenue performance is attributable in no small measure to the shift from direct taxation to indirect taxation with PAYE outperforming the annual target by \$1.8 billion despite the increase in the tax threshold.

Domestic arrears that we inherited, which stood at \$21 billion, are now \$19.8 billion and tax refund arrears which were \$17 billion are now \$5 billion.

More important Mr. Speaker, our budget for FY17/18 was able to respond very quickly in the order of \$2.3 billion to the excessive rains and floods that damaged our roads, gullies, bridges and other infrastructure island-wide.

Our budget was also able to respond in record time to mitigate the impact of Executive Order 13808 on our energy sector.

Mr. Speaker, we were able to do all that while at the same time completing a massive rebalancing of our tax arrangements, freeing 213,000 working Jamaicans from the burden of income tax while widening the tax net by way of consumption taxes.

Let us set the record straight, as unfortunately there is still erroneous propaganda about how the 1.5 was funded. There was no segregated fund with the fuel tax.

Mr. Speaker, here are some real facts: The PNP government \$32.9 billion of net new taxes across 3 fiscal years; JLP government \$1.32 billion in net new taxes across 3 fiscal years.

This fiscal year, Mr. Speaker, I am proud to have worked with the Honorable Audley Shaw and to deliver a budget for the current fiscal year FY2018/19 with no new taxes. Mr. Speaker, this government must be commended for presenting a budget with no new taxes.

This government must be commended for having forward expenditure estimates for 3 additional fiscal years. Something never done in the history of budgeting in Jamaica.

Yes, Mr. Speaker, without apology, there is much to celebrate. All that the Jamaican people ask of us is to move our country further

along the path of good governance, economic growth and shared prosperity.

Disaster Risk Financing Framework and Policy

Mr. Speaker, the IMF in its recently published book entitled *Unleashing Growth and Strengthening Resilience in the Caribbean* dedicated many pages to talking about “Fiscal Challenges in the Caribbean: Coping with Natural Disasters”

The IMF’s research shows that since 1950, more than 12,000 natural disasters have been registered globally. During that same period, the Caribbean has been hit by 324 natural disasters.

Mr. Speaker, this 324 figure looks like a small number when compared with 12,000, but, the research shows that the economic impact of these 324 natural disasters in the Caribbean has been substantial, exceeding US\$22 billion in constant 2009 dollars over the period 1950 – 2016. Contrast this to the cost of \$58 billion globally (including the Caribbean) and we get a sense of the magnitude of vulnerability of our tourism dependent economies.

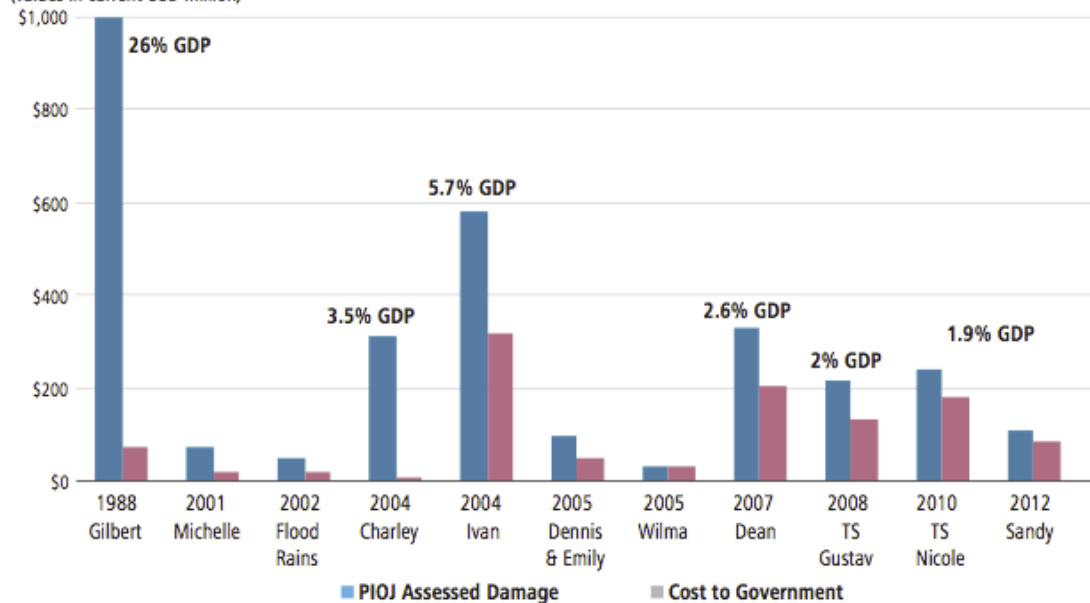
We in the Caribbean have suffered about 38% of the global damage from natural disasters. Our little islands with about 42.5 million

people collectively compared with approximately 7.5 billion people in the rest of the world.

That's the downside of our sea, sand and sun.

Figure 5: Damage and Losses from Major Natural Disasters in Jamaica

(values in current USD million)¹²



Source: Authors, based on Planning Institute of Jamaica (PIOJ).

As we can see from this chart, it bears out the points I have just made.

Mr. Speaker, if you look at the list of factors that rob the Jamaican economy of vitality, natural disasters is second on that list, setting us back by approximately 2.4% of GDP annually.

Mr. Speaker, I am pleased to say that we have put in motion and are far along with the analytic work that will guide the eventual establishment of a **Policy Framework for Disaster Risk Financing** ahead of a disaster. It will be amply consulted with local and international stakeholders. It will be based on the most recent, specialized technical analysis available. In the end, we will have a portfolio, a suite of products for different levels of disaster; and a transparent investment plan to mitigate harm to people and damage to infrastructure.

We will continue to maintain a contingency in the budget to deal with high frequency events but relatively low levels of damage. Rather than the one product that we have now that only kicks in if there is a catastrophe, we envision different market based products with quick disbursement features. We will utilize the market for contingent lines of credit and catastrophic bonds, all within our envelope of affordability.

Analysis of the Caribbean Catastrophic Risk Insurance Fund (CCRIF) will also guide our continued participation in that product.

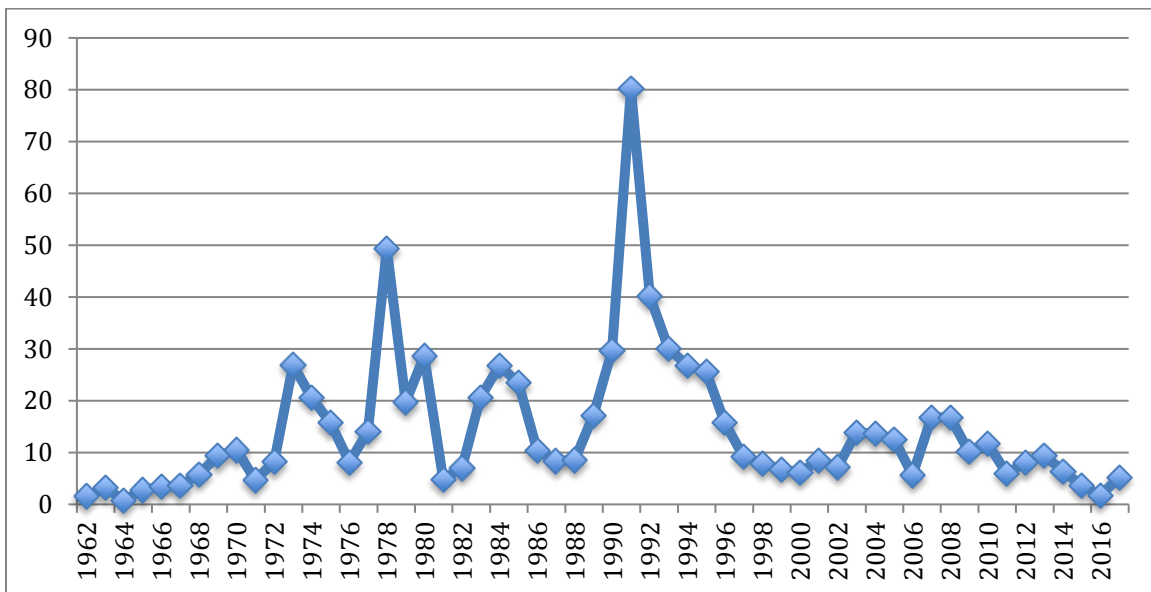
The result of all this Mr. Speaker will be deliberate actions based on analysis. While we are well aware that Jamaica cannot escape the risk of natural disasters, we know that we can take action to

significantly and efficiently reduce our vulnerability and our exposure to risks within the affordability bounds.

I am pleased to note as well Mr. Speaker that international aid and development funding agencies have the strong view that hazard and vulnerability reduction efforts, as well as financial planning, before a catastrophe pay excellent dividends in reducing economic impacts.

The importance of low inflation

Jamaica – annual change in inflation 1962 - 2017



Mr. Speaker, anyone who was at least 18 years in 1972 would have lived his or her adult life in a very volatile inflation environment in Jamaica. In that period, inflation went from 8.2% in 1972 to 26.9% by 1973, falling back to 8.1% by 1976 before spiking to 49.4% by

1978. The low of 4.8% by 1981 was followed by another spike to 26.8% by 1984, back to a temporary low of 8.4% by 1987 only to spike to a high of 80.2% by 1991. By the time inflation reached 9.2% in 1997, six years later, the financial system, including banks and insurance companies, had collapsed... A crash that took with it the businesses of many Jamaicans.

As you can imagine Mr. Speaker, there is no serious long term planning and investments that could have happened during the years of such high inflation. In fact, Mr. Speaker, what those high inflation years did was to encourage the overvaluation of real assets, especially property, used as guarantees for bank loans. The history books have chronicled the devastation of those arrangements.

Since 1997, inflation has trended lower (averaging approximately 8.7% annually), spiking only once to 16.7% in 2007/2008 at the onset of the global financial crisis.

When we think about inflation, we often think in terms of the general increase of the price of goods and services in an economy. That's perfectly fine to think that way.

A more personal way that inflation comes home to me, and should to all of us, is that inflation decreases the value of our money over time and as such will cause residents in my communities such as

Backbush, August Town, and Tavern to be less able to buy the dinner they want or send their children to school.

Because what I have said is true, we should manage and keep inflation low, because it is a monster that robs us of the value of our money.

Across many economies, there has been an increasing recognition of the benefits of low and stable inflation — and equally an awareness of the costs of inflation. In the end, many economies, both developed and developing, have concluded that low inflation is a social good.

Mr. Speaker, we have never lived in a Jamaica in which we had the chance to think of low inflation as a social good.

We have never lived in Jamaica in which our central bank has had the explicit responsibility for keeping inflation at a low.

We have never lived in a Jamaica in which our central bank would be required to explain why inflation has missed their target, what actions the central bank is taking to bring inflation back to the target and when this is expected to happen.

That, Mr. Speaker, is the Jamaica we are heading towards, where price stability is the main goal of monetary policy. A Jamaica in which

there is a public announcement of the inflation range, where there is transparency and accountability.

We have never lived in a Jamaica in which monetary policy was conducted in that way.

Mr. Speaker, except for the ten years (1962 to 1972) in which inflation remained consistently low, we have never lived in a Jamaica in which the level of inflation is such that people do not worry about it.

That is the Jamaica we are creating.

So as we move to change the governance structure of our central bank and strengthen its balance sheet to be able to respond to eventualities that may happen and make it accountable for the level of inflation in the economy, we can expect dividends. The dividends are that the private sector can anchor its expectations about future inflation around the target.

Research has shown that if an independent Central Bank makes a commitment to keep inflation low, people will tend to have lower inflation expectations. We know that low inflation expectations make it easier to keep inflation low. It becomes a self-reinforcing cycle, one that we expect to become a part of our experience for a very long period of time.

No group would be more appreciative of low inflation than those who rely on pension plans to maintain their livelihood when they retire from a lifetime of hard work.

Private Sector Pension

Mr. Speaker, this brings me to the issue of private sector pensions. As at June 2017, the Financial Services Commission (FSC) reported that there were 399 active private pension plans with assets of \$520.6 billion covering 9.4% of the employed labour force or about 115,000 persons. If we add the government's pension that would take us up to about 16% of the employed labour force. I would like to applaud the tourism minister for championing pension funds for the tourism sector.

Since the passage of the Pensions (Superannuation Funds and Retirement Schemes) Act 2004 and the attendant Pensions (Superannuation Funds and Retirement Schemes) Regulations in 2006, phase II (Adequacy Phase) has been languishing. Mr. Speaker, we have taken it on for this fiscal year to get those amendments passed.

These amendments include **portability**, a feature that will allow members of an approved superannuation fund or an approved

retirement scheme to transfer their benefits to another approved superannuation fund or retirement scheme. So if persons are leaving one job for another, they can easily transfer their pension benefits.

The amendments will also include allowing a **Parental Pension** in which a pension can be provided to a parent or legal guardian and is funded by the child of the parent or guardian. This will help to provide the security in the golden years of parents.

Vesting after five years is another feature of the amendments. Five year **Vesting** means that after five years of membership in an approved superannuation fund, a member shall be entitled to the pension benefits based on the employer's contribution. No more uncertainty as to whether it is or is not.

The drafting instructions also include the concept of a **Pension Pay-out Product** as an additional method of paying out pension benefits. This is a structured pension payment arrangement, which guarantees for the life of the pensioner a series of fixed or variable payments. This would be an alternative to annuities.

Mr. Speaker, the Act will also be amended to permit concurrent membership in both superannuation fund and a retirement scheme or multiple retirement schemes as long as the total contributions do not exceed the limit as prescribed by the Income Tax Act.

These are some of the amendments that the stakeholders have been calling for about 10 years now to foster development of the pension industry in Jamaica.

The overarching goal is to move the needle in the private pension industry from only 9.4% of the employed labor force having a private pension or retirement scheme to a significantly higher percentage. When we look across the world we see countries with very high pension coverage rates: Netherlands at 91%, Australia at 85%, and United Kingdom at 70%. Other countries are in the 40 – 50% range. We have much ground to cover. Different countries use different approaches to encourage pension savings. We have chosen a voluntary approach with tax incentives to encourage the growth of private pensions.

Mr. Speaker, we know from all the experience of countries around the world that growing pension savings play a pivotal role in capital market development and have a positive effect on economic growth by increasing savings and thus the availability of long-term capital for investments.

Research shows that with accumulating assets and the longer-term nature of their liabilities, pension funds have incentives to invest more in illiquid and long-term assets that yield higher returns for their members, thus helping their members to stay ahead of inflation

and have the prospects of a sustainable and decent pension in retirement. So that a pension that you thought adequate upon retirement with retain its adequacy 10 or even 15 years into retirement.

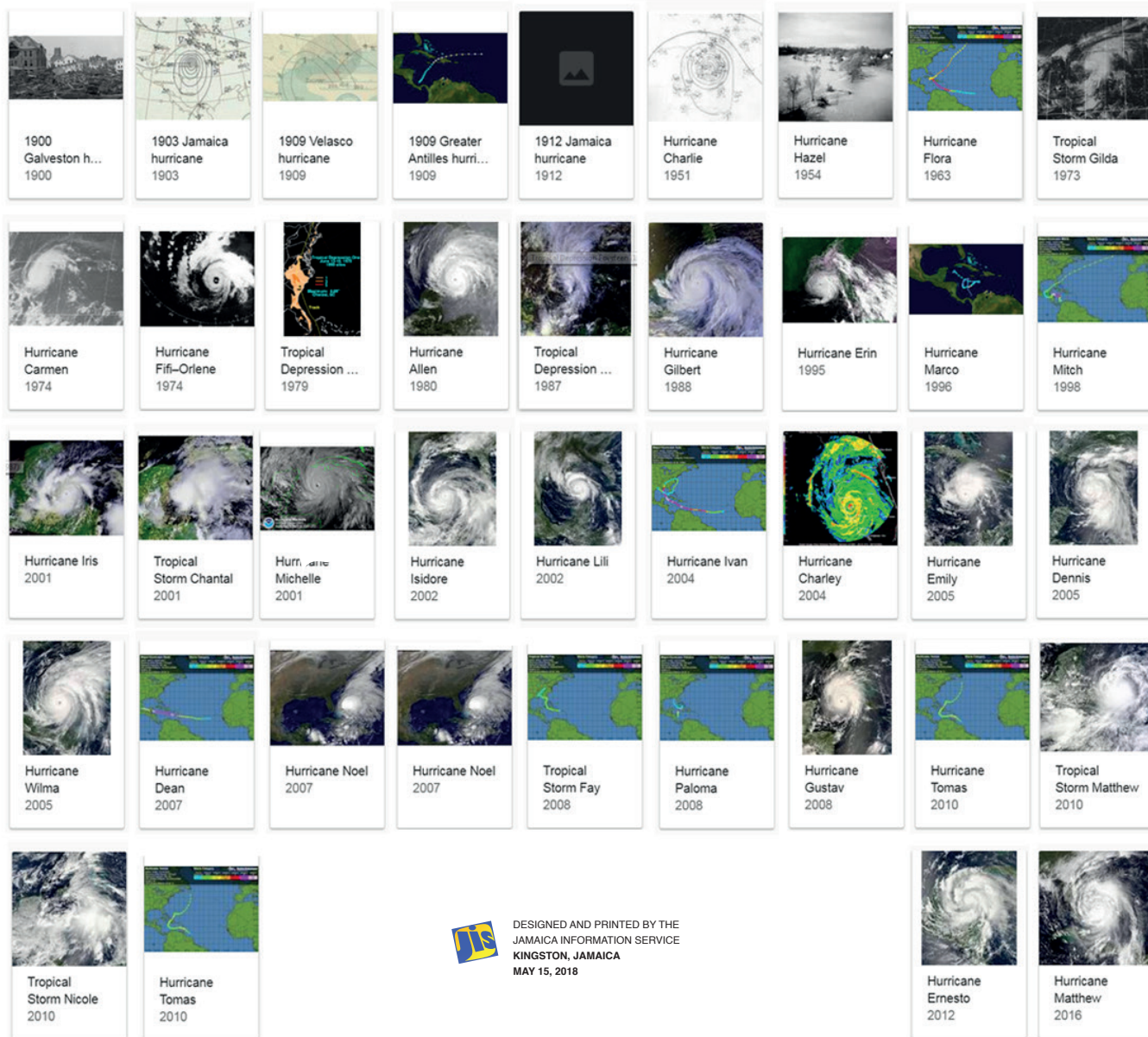
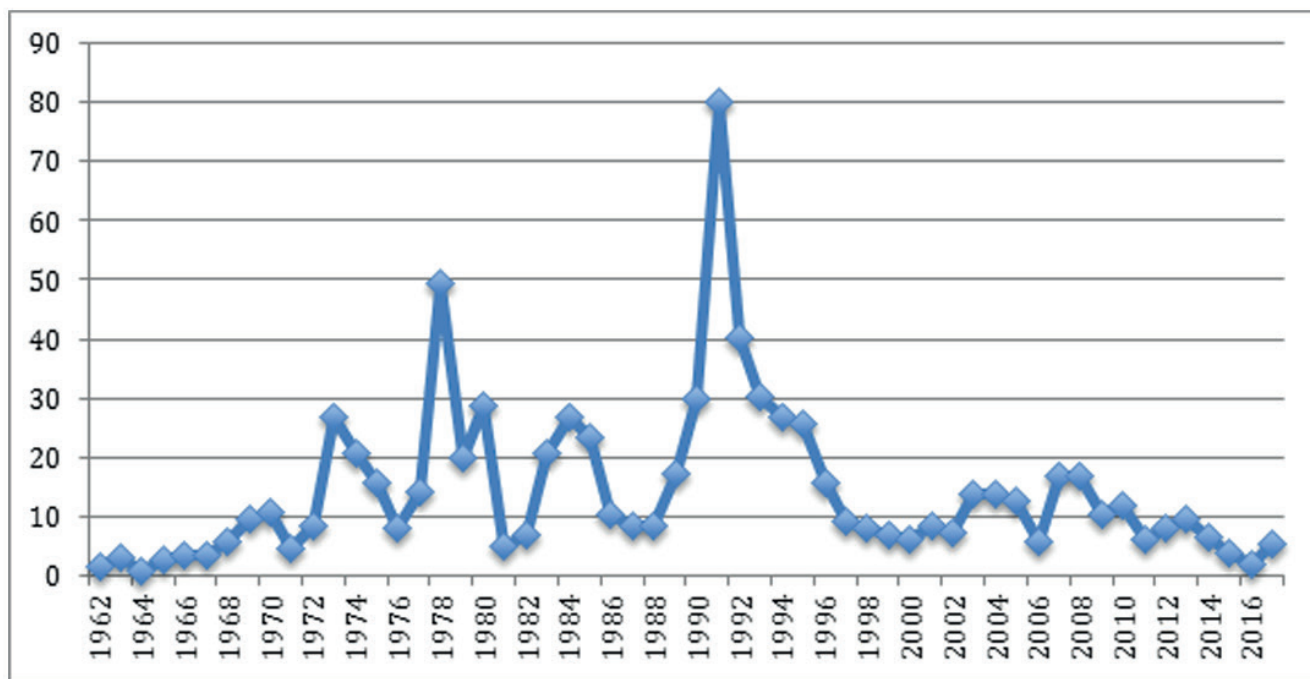
As government, our first biggest contribution is to maintain a low inflation environment for all Jamaicans so that businesses can engage in long term planning and pension savings are not quickly eaten up by inflation.

Our second biggest contribution is to ensure that at the national level we systematically execute year after year in making Jamaica more climate resilient and adequately plan for and develop the capacity and the fiscal space to respond quickly to natural disasters, the second largest risk to economic growth and our budget that we cannot avoid but can mitigate.

Mr. Speaker, we want to be in a position to reconstruct better roads, bridges, drainage systems and other infrastructure. If we do these two things and do them well, Mr. Speaker, I believe prosperity will be ours to claim.

Our journey towards prosperity continues Mr. Speaker.

Thank you Mr. Speaker. God bless Jamaica. Land we love.



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