



**STATEMENT TO PARLIAMENT ON THE ECONOMY
BY THE
HONOURABLE AUDLEY SHAW, CD, MP
MINISTER OF FINANCE AND THE PUBLIC SERVICE
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Mr. Speaker, thank you for this opportunity to provide an update today to this Honourable House on recent economic policies and performance.

Let me at the outset state that the economic growth momentum is improving, all the government's macroeconomic targets under the IMF-supported programme are being met — both as they pertain to the budget performance, as well as to monetary policy and the country's official international reserves.

With this in mind, let me start with our performance against the targets under the IMF-supported programme.

Mr. Speaker, on Friday, September 16, the IMF's Executive Board concluded the Thirteenth Review under the Extended Fund Facility. The decision by the IMF Board was made on a lapse-of-time basis procedure reflecting the fact that there were no major issues.

The characterization by the IMF in their staff report summarizes it most aptly; I quote **“Programme implementation remains exemplary.”**

Jamaica met all its quantitative performance targets through end-June and our structural reforms are progressing broadly as scheduled.

Mr Speaker, there have been statements by the Opposition that we passed the IMF test on a conditional basis. Let me make clear that in their consideration of the Thirteenth review under the programme, no prior policy or other conditions were sought from the Government of Jamaica.

Mr Speaker, it is standard practice by the IMF that policy commitments be considered in any programme review. This simply reflects the continued commitment of the Government as expressed in its revised **Letter of Intent** that I sign at each Review. Thus, I can only conclude that such comments were misleading at best and disingenuous at worst.

The IMF staff reported that domestic confidence indicators are at an all-time high, and there are signs of improvement in economic activity, including agriculture sector recovery, strong performance in tourism and manufacturing, increased FDI inflows, and stronger private sector credit growth. Real GDP growth is projected to reach 1.7 percent in FY16/17, and could make the 2 percent mark.

The Government remains committed to fully meeting its targets for the remaining two reviews under the IMF Arrangement that ends in March 2017.

Indeed, preliminary economic indicators thus far suggest that Jamaica will surpass the quantitative benchmarks for the end of September.

We are also on-track to meeting the two structural benchmarks that we have set ourselves namely, submitting to Cabinet an action plan for public sector transformation, and approving a more efficient organizational structure in the Accountant General's Department.

Mr. Speaker:

- The economic growth outlook is improving and producing more jobs,
- Budget implementation is broadly on-track.
- Tax performance is ahead of target, including performance following the implementation, in July, of the first phase of the rebalancing of our dependence on Personal Income Taxes—the now famous “1.5”.
- Our expenditures are broadly in line with the budget although capital spending is slower-than-desirable.
- Inflation remains low and interest rates are falling.
- Credit to the private sector is picking up strongly.
- The financial sector is stable, and
- The external position of the economy continues to improve

Mr. Speaker, permit me to highlight a few details of the encouraging developments that support these general improvements.

Leading economic indicators of output through June support the forecast of a 1.5-2 percent growth in the economy for this Fiscal Year.

Electricity consumption rose by 5.2 percent in the first quarter of this FY compared with the first quarter of FY 2015/16.

Fuel import volumes have also risen by 4 percent in the first quarter of this FY compared with the first quarter of last FY. This is a reversal of the trend we have seen over the past two years.

Private sector credit continued to grow as the fiscal consolidation helps to lower interest rates and crowd-in private investment. The twelve month growth in private sector credit reached 14.7 percent in July compared with 4.9 percent the year before.

In contrast to previous trends, more of the recent growth in lending has been to businesses and the productive sectors, including construction, tourism, and electricity, gas and water.

Average lending rates have declined noticeably to 16.4 percent in July compared with a high of 17 percent in November. The spread between lending and deposit rates have also narrowed to 15 percent in July from 15.6 percent in November. While these declines are welcome, I maintain that the spreads between deposit and lending rates in our commercial banks in Jamaica continue to be unacceptably high and must come down

further. They are nearly three times that of spreads in the Caribbean and five times the spreads in developed countries.

Access to credit by small businesses therefore remains challenging in Jamaica, an issue that the Government intends to tackle urgently and comprehensively under a broader financial inclusion strategy that will be shortly launched.

Mr. Speaker, in the productive sectors, domestic crop production has been most encouraging.

Production rose by 13.9 percent in the first quarter of this Fiscal Year compared with production levels in the first quarter of last Fiscal Year.

In the tourism sector, despite international uncertainties as well as sluggish growth in main advanced country markets stopover arrivals grew by 2.3 percent in the first quarter of this Fiscal Year compared with 0.7 percent in the first quarter of Fiscal Year 2015/16. Confidence in the tourism sector remains high as, over the next four years, 15,000 new rooms are expected to be added, representing a 30 percent increase in room capacity.

Mr Speaker, although the data are early for this Fiscal Year, I am pleased to also report that, in line with the increased growth momentum in the economy, the number of employed persons in the Labour Force in April to June 2016 was 40,100 more than it was in the corresponding period of 2015.

Of interest, Mr Speaker, the manufacturing sector added 10,800 new jobs between July 2015 and April of this year. Notwithstanding this welcome development, the unemployment rate in April-June 2016 was 13.7%, slightly higher than the 13.2% in April-June 2015, reflecting the fact that more persons have entered the labour force—that is, more persons are actively seeking employment, which itself is indicative of a more hopeful and confident workforce.

Mr Speaker, as evidence of the stable macroeconomic platform that we are providing for private sector businesses, and households, the twelve month inflation rate through August 2016 continued its downward trend, slowing to a low of 1.8 percent compared with 3.5 percent one year ago.

This downward trend has benefited from continued sound fiscal and monetary policies combined with slower-than-expected recovery of oil prices and declining prices in other imported commodities such as wheat, corn, and rice.

Mr. Speaker, also capitalizing on our improvements under the IMF programme, the Government has continued to actively pursue strategies to reduce its external debt in the international capital markets as the country's credit rating strengthens.

Thus, in August, the Government conducted a market-friendly liability management operation under which we successfully extended our debt maturity profile and reduced our debt stock, extended our debt maturity profile and reduced our average annual interest costs by repurchasing

some outstanding 2017 and 2019 bonds totaling US\$743 million and replacing them with longer term bonds that will mature in 2039.

Mr Speaker, I want to say a few words on the foreign exchange rate market.

The value of the Jamaica dollar against the US dollar was J\$127.90 on September 16. The value has depreciated by 4.8 percent for the FY to date compared with a depreciation of 3.2 percent in the same period of last FY.

Mr Speaker, I recognize that the depreciation of the Jamaica dollar in recent weeks has triggered some legitimate concerns by local businesses given that Jamaica has, according to the IMF, achieved a broadly competitive exchange rate against its major trading partners.

Based on the available data, BOJ has indicated that the recent movements (approximately 0.5 per cent per month) are more or less in line with its expectations but noted that the higher than expected fiscal year-to-date depreciation reflects the excessive movement of 3.6 per cent that took place during the June quarter when unusually large capital account transactions took place.

Additional demand during August correlates with increased private sector credit expansion and a surge in imports as reflected in customs data from the ASYCUDA system.

Increased import demand associated with expanded credit to businesses is the expected precursor indicator of the increased investment activity that is the foundation for stronger sustained economic growth and job creation that we are seeking.

Against this background, Bank of Jamaica met the increased demand with active intervention sales to the FX market. It should be noted that the main recipients of intervention flows were in the manufacturing, distribution and energy sectors.

I want to emphasize that with our current gross international reserves we were able to cover 25 weeks of projected imports of goods and services — there is no shortage of foreign exchange.

While the government remains committed to maintaining a competitive exchange rate, we are studying ways, including hedging and other market instruments that can, in the future, help to improve the functioning of the foreign exchange market.

Mr Speaker, let me quickly highlight our progress on the quantitative benchmarks under the IMF supported programme for end-September.

Based on the fiscal year data through August, we expect to fully meet our performance targets. Provisional central government data that are subjected to revision, shows:

- A primary balance of \$41.6 billion that exceeds the budget target of \$17.5 billion.

- An overall fiscal deficit of \$19.5 billion—way below the targeted deficit of \$46.2 billion.
- Total revenues and grants of \$190.4 billion that exceeds the target of \$177.5 billion.
- Tax revenues of \$177.7 billion that exceeds the target of \$168.5 billion.
- Total spending of \$209.9 billion, well-within the target of \$223.7 billion.
- Recurrent spending of \$197.2 billion compared with the target of \$204.0 billion.
- Capital spending of \$12.7 billion, compared with the target of \$19.7 billion.

As at September 16, the stock of gross international reserves was US\$3.077 billion, representing 25 weeks of projected imports of goods and services. And, with the NIR also at US\$2.524 billion, significantly in excess of the BOJ's NIR target of US\$1.835 billion set for end-September.

While I am pleased with our continued fiscal savings effort, I want to bring to Honourable members' attention, three particular developments:

- The better-than-programmed fiscal savings effort, by restraining domestic demand, has aided the BOJ to maintain low inflation and thereby facilitate lower interest rates.
- While it is still early after the first phase of the tax reform aimed at reducing our dependence on PIT and rebalancing towards more indirect taxes, the tax yields for August were encouraging, exceeding the monthly target by 2 percent.

We will step up our vigilance and security efforts to close revenue loopholes, especially at the ports, given that Jamaica's consumption and related revenues, remains highly linked to imports.

- Regarding the under-spending on the capital programme by \$7 billion, this was partly caused by delayed passage of the budget. We are, however, carefully reviewing the causes with a view to taking appropriate steps to ensure that the capital expenditure programme is fully spent in the priority areas that support our growth and social infrastructure imperatives.

Finally, Mr Speaker, let me also update the Honourable members on the structural benchmarks under the IMF-supported programme.

While Jamaica has already delivered on one of the largest numbers of such benchmarks under an IMF programme, there are still ambitious outstanding reforms to be completed in the coming months.

By end-September, we have committed to submit to Cabinet, an action plan for public sector transformation. The final action plan will specify time-bound actions to improve efficiency in the public sector through a combination of shared corporate services, and the closure, merger and privatization of some entities.

It is important to emphasize Mr Speaker, that the aim is not to reduce employment. The draft of the Action Plan has already been prepared and will be submitted to Cabinet by the 26th of September.

By end September, we have also committed to approve a new organizational structure for the Accountant General's Department as part of our effort to strengthen public financial management. This is also on-track.

Concluding remarks

Mr. Speaker, although we have made progress thus far, there are still many challenges in the next year:

- We need to complete the second phase of rebalancing of the tax structure that we started this year in order to reduce the burden of PIT, while broadening the tax base through a greater reliance on more growth-friendly indirect taxation;

- We need to step up revenue compliance measures to ensure that the benefits of the tax reform are not lost from continued leakages, especially at the ports;
- We are conscious of the need to ensure that the adjustment program does not have negative effects on the poor. Thus, we intend to broaden the **coverage and increase the levels** of social assistance that we provide through the PATH programme, the school feeding programme, our support for poor relief, Children's' homes, Golden Age Homes, the Career Advancement Programme, and the National Youth Service;
- We will commence the ambitious but, much-needed public sector transformation program aimed at improving the efficiency of the public sector, reducing the costs of government, and supporting growth in the economy; and
- Not least, we will continue to strengthen Jamaica's global business competitiveness by lowering the bureaucratic and other costs of doing business here.

Mr. Speaker, the IMF country team will return this week to continue discussions with the Government on a successor arrangement that could be supported by the IMF. In the meantime our inter-agency technical team has been working assiduously to frame the draft policy content of a

successor arrangement that could be supported by the IMF. Our emphasis is on:

- Accelerating economic growth by pursuing more strategic and transformative private sector investments,
- Creating more fiscal space to increase our capital spending, while targeting such spending on infrastructure that supports our growth strategy,
- Continuing to re-align our tax structure towards indirect taxes with a view to stimulating economic efficiency, while broadening and safeguarding the revenue base through enforcement and compliance actions,
- Continuing to improve Jamaica's economic solvency through active liability management operations aimed at extending our debt maturities, and further reducing our annual public debt service costs, where possible.
- Maintaining our focus on fiscal and debt sustainability, and
- Strengthening Jamaica's competitiveness and business climate by further elimination of red tape and other legal and administrative bottlenecks.

I look forward to keeping the Honourable Members of this House and the country closely informed of further developments in the economy and to seek your support for our ambitious efforts to, once and for all, make Jamaica grow and prosper.

I thank you.

Audley Shaw, CD, MP
Minister of Finance and the Public Service

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