

## **2008/2009 BUDGET DEBATE**

# **“DEVELOPMENT WITH EQUITY – THE PEOPLE AT THE CENTRE OF OUR CONCERN”**

### **INTRODUCTION**

Mr. Speaker, Honourable Members,

I begin by expressing my appreciation to all who have worked tirelessly in the preparation of this budget.

- a) To the Prime Minister and the members of the Cabinet who have nipped and tucked their budgets and kept them lean.
- b) To my fellow Ministers – Senator Wehby and Senator Nelson. (Team work)
- c) To members of the Civil Service, especially those from the Ministry of Finance and the Public Service – the team in my office, the Financial Secretary, all the Deputy Financial Secretaries, and the Tax, Debt and Fiscal Units; the Governor of the Bank of Jamaica; and the Director General of the Planning Institute of Jamaica; the Director General of the Statistical Institute of Jamaica and their staff.
- d) To members of the public and the business community who have inundated my office with recommendations for good governance, reducing expenditure and increasing revenue.

- e) To my constituents and all those who have shown great patience and given much support while I've been consumed with putting this Budget together over past few weeks.
- f) Finally and most importantly, to the Almighty Father for wisdom to lead, and health and strength to endure.

Mr. Speaker, the last Budget Presentation made in this Parliament by a Jamaica Labour Party Government was in April 1988, 20 years ago by the Rt. Honourable Edward Seaga, then Prime Minister and Minister of Finance and Planning.

At the time of that presentation, Mr. Seaga announced the spectacular news that not only was “the Recurrent Budget financed entirely from revenue in 1986/87 without any loan funds, but even more spectacular was the financing of the entire Central Government Budget Expenditure, net of amortization, all from revenues, again without any loan funds. This wiped out the deficit and actually achieved the first surplus in 22 years”. He also announced “the highest level of investment in 11 years (21% of GDP)”; and the highest rate of growth (5%) in 16 years”. In fact, “the performance of the economy in 1987/88 was the best in more than 15 years”.

Mr. Speaker, we must also recall that later that year in September, Jamaica was ravaged by Hurricane Gilbert – considered one of the worst natural disasters ever to hit us. In spite of this, the Jamaican economy rebounded and was rebuilt under the steady hand of the JLP Government, achieving 2.2% growth in GDP. Our ability to quickly rebound from Hurricane Gilbert was in no small measure due to the sound foundation on which the economy was rebuilt after the ravages of the 1970s.

And so today, as I embark on the first Parliamentary presentation of a JLP Government in 20 years, I cannot but note in passing, some of the similarities that confront this new administration and the people of Jamaica at this time.

I am compelled to bring to the attention of the Jamaican people an accurate account of our record in office. For the 45 years, since Independence [1962 to 2007], Jamaica's economy has grown cumulatively by only 97%. However, of these 45 years, the Jamaica Labour Party Government accounted for 84% while the PNP Government has chipped in with a meagrely 13% in its 25 years of mismanagement.

Mr. Speaker, there is no time to lose because over the past 18 years we have fallen behind other countries in the region. While they have grown by over 100 per cent Jamaica has barely grown by 30 per cent in the period. The manifestations of this lack of growth are plain to see in every sphere of our daily lives. We would like to return our economy to a state where Budget Expenditure is met from Revenues and not loans; where Social Well-Being is backed by the cash that it takes to care.

Whilst we ought not to engage in excessive recrimination for the mis-governance and malpractices of the past, we are obliged to seek answers from an objective assessment of serious policy errors which must never be repeated if we are to move forward in a purposeful and surefooted embrace of the future. It is an embrace that must be inclusive, where everyone feels that this is an opportunity for a better life.

**Mr. Speaker, it is against this background that we begin this Budget Debate. This Budget must therefore lay the framework for Development with Equity, with the People at the Centre of our concern.**

Mr. Speaker a necessary precondition to the creation of the framework is the recognition of the Constitutional role and function of the Minister of Finance. In his book entitled "Constitutional Law of Jamaica", leading constitutional lawyer in the Commonwealth Caribbean, Dr. Lloyd Barnett, wrote the following:

*"The position of the Minister responsible for finance is traditionally and functionally important. He is entitled to inspect the financial records of the government departments and may require returns as to departmental progress in the expenditure of the amounts*

*voted. He is empowered to, and in fact does, issue instructions regarding the preparation of departmental estimates, the management of public monies and for other purposes necessary for the efficient administration of the financial business of the government. Even where money has been appropriated to a department the Minister may in his discretion limit or suspend its expenditure if in his opinion the exigencies of the financial situation render such limitation or suspension necessary”.*

Dr. Barnett’s interpretation of the Constitution leaves little doubt about the proprietary role of the Minister of Finance in ensuring the proper fiscal management of the country’s affairs and the protection of the country’s resources.

Mr. Speaker, this is not the first time that I have read this quotation to Parliament. I first did so in 2002 when I reminded the former Minister of his unique and important role. While it is apparent that he had failed to follow that guide scrupulously, I feel a deep and fundamental obligation to discharge my duties with the utmost of diligence – the exigencies of the time demand it.

## **FRAMEWORK OF BUDGET PRESENTATION**

Mr. Speaker, today’s Budget Presentation will take the following format:

- A. Review of the Macroeconomy 2007/2008***
- B. Review of 7 month JLP Administration***
- C. Macroeconomic Targets for Fiscal Year 2008/2009***
- D. A New Framework for Economic Development***
- E. Highlights of the Expenditure Budget***
- F. Loss Making Public Entities***
- G. New Initiatives to be pursued***
- H. The Revenue Programme – FY 08/09***
- I. Financing FY 2008/09 Budget***
- J. Conclusion.***

## **A. REVIEW OF THE MACROECONOMY 2007/2008**

During FY 2007/08 the economy was confronted with a number of challenges. For the most part, the challenges were triggered by exogenous factors related to deteriorating global conditions and weather-related shocks. The world witnessed and continues to experience rapidly rising oil and agricultural commodity prices, a severe tightening of international credit markets and a sharp housing downturn in the United States. The convergence of these three factors is unprecedented and resulted in a very challenging external environment.

The country was also faced with challenges arising from the passage of Hurricane Dean in August 2007 as well as the prolonged period of adverse weather conditions which followed and which destroyed agricultural crops creating shortages of domestic food items. Together these challenges had the effect of undermining the pursuit of price stability in Jamaica and contributed to a significant increase in inflation, from 7.4% in the previous fiscal year to an estimated 19% in fiscal year 2007/08.

The Net International Reserves (NIR) remained robust, ending the fiscal year at US\$2.08 billion.

GDP growth in 2007 was an anemic 1.2 per cent. Although much in line with the trend we have seen over the last five years, it is to be observed that this growth took place despite the local and external shocks to which the economy has been subjected in the latter half of the year, especially as it relates to domestic agriculture which was devastated.

Hurricane Dean and heavy rains in September to October had negative effects on the following sectors: agriculture, forestry, fishing, mining and quarrying. On a more positive note, the manufacturing sector grew by 0.9 per cent in 2007, the construction sector, the star performer in the goods producing sector grew by 5.4 per cent. The services sector which, represents over 65 per cent of the Jamaican economy all registered growth during 2007 for an overall figure of 1.2 per cent.

## **B. REVIEW OF 7 MONTH JLP ADMINISTRATION – WE HAVE DELIVERED**

A review of the 7-month period during which we have had responsibility for the people's affairs will show that **we have delivered**. We have achieved this by preparing ourselves for today's responsibilities and by recommending proposals to This Honourable House, which over the years seem to fall on deaf ears.

Mr. Speaker, we recognized the state of the nation in my presentation in 2000. I stated that *“our standards are falling and the social fabric disintegrating at such a rapid pace that many of our young people do not know right from wrong, or appropriate social behaviour instead of crude disrespectful and unacceptable behaviour.”*

In 2001, that recognition led to us offering a prescription for correction which we called “A Framework to rescue the nation”. We went further in 2002 and offered a framework for wealth creation. In 2003 we proffered to Parliament the “10 commandments for good governance”.

In 2004 we reminded Parliament of the role of government as the engineers of a macro-economic framework that allows for the creation of a productive, prosperous and safe society. In 2005 I demonstrated that for too long the government has actively and systematically been involved in the **corruption of the budgetary process**. In the process, there has been **lack of transparency** and a **steady increase in corruption** in the public sector due to lack of oversight and the implementation of adequate safeguards.

We began 2006 inviting the people of Jamaica to choose between the status quo and the JLP policy proposals which were based on the concept of creating a productive culture in Jamaica. In 2007, I was reminded myself that this House is entrusted with the stewardship of the nation's finances. That we are not debating the Government's money, rather, we are debating the people's money.

## **A CLEAR ALTERNATIVE**

In my budget address to the House last year, I stated that the Jamaica Labour Party believes that it is the role of Government to develop and implement economic policy that allows for the creation of a *productive, prosperous* and *peaceful* society, and offered the country “a clear alternative”.

Mr. Speaker, in our stewardship we are already beginning to show a clear alternative.

For years I have spoken about accessing cheaper loans through the multilateral organizations. I have courted the IDB, the CDB and the World Bank and we have begun the process of delivery. While the loan amounts signed to date may seem small to some, old time people said in their wisdom “one one cocoa full basket”. **We have delivered.**

I spoke last year of carrying out a comprehensive audit of the public sector operations. This process has also begun, starting with the commissioning of a diagnostic study on corruption and a forensic audit of FIS / FINSAC. We have started the process to effect the elimination of waste and improve efficiency in the public service. **We have delivered.**

The Government is serious about collecting its taxes in order to carry out its duties to the people of Jamaica. We have urged the people of Jamaica to voluntarily comply with paying their taxes in the past few months and subsequently we have seen a significant increase in revenue in almost all tax types. **We have delivered.**

There has been tremendous road work – in particular the fixing of potholes after serious flood rains. **We have delivered.**

In the Jamaica Chamber of Commerce’s survey of Consumer and Business confidence for the first quarter of 2008, it was reported that 75% of all Jamaicans reported that the economy was average or better during the first quarter. The JCC stated that overall the data shows that

“businesses are more optimistic about future economic conditions whilst consumers are more confident about present economic conditions.” **We have delivered.**

The Government introduced a price subsidy of J\$500 million to help offset the rising cost of basic food items. **We have delivered.**

We have replenished the Net International Reserves to US\$2.08 billion and have even seen a revaluation of the exchange rate. **We have delivered.**

During the general election campaign, we promised free tuition for public secondary school education. **We have delivered.**

We promised to abolish hospital User fees on April 1, 2008. **We have delivered.**

And Mr. Speaker, most importantly, this administration has done in 7 months what has not been achieved in seven years. In October 2007, based on the state of the economy, we revised the fiscal deficit target from a projected 4.5% to 5.5%. Mr. Speaker, we had to cut expenditure and take tough decisions. We had to demonstrate our ability to exercise fiscal discipline. Had we not done so, the deficit would have climbed to over 7.0%.

**Mr. Speaker, I am pleased to report today that we have met, and in fact, exceeded our first fiscal deficit target. The deficit for fiscal year 2007/2008 was not 5.5% but 4.7% of GDP. We have delivered!**

### **C. MACROECONOMIC TARGETS FOR THE FISCAL YEAR 2008/2009**

The macroeconomic programme for 2008/09 is aimed at creating the conditions that can support sustainable growth into the medium term. The main features of the programme are the restoration of growth in agriculture, the implementation of additional capacity in the manufacturing and export sectors, improvement in fiscal performance and debt indicators, monetary conservatism to minimize inflation risks and the maintenance of adequate reserves to support investor confidence. The programme is couched in the context of challenging international financial conditions. The range of outcomes associated with the domestic policy path takes account of the extent to which changes in these external conditions could alter expectations and outcomes.

#### ***GDP Growth***

Economic growth is projected to accelerate to 3.0 per cent in FY2008/09, a rate that is significantly above the average of 1.2 per cent recorded over the past ten years. The projected acceleration in growth reflects capacity expansion, financed mainly by local and foreign direct investment. The forecast also assumes recovery in the sectors that were affected by adverse weather conditions and other exogenous factors in 2007. Growth in the fiscal year will be driven mainly by gross fixed capital formation in the tourism, manufacturing, agriculture, and mining sectors as well as growth in consumption.

#### ***Inflation***

Inflation is projected to moderate in FY2008/09 to a range of 9.0 per cent to 10.0 per cent. This outlook is based on an anticipated deceleration in the rate of increase in international commodity prices, relative stability in the foreign exchange market, and recovery in domestic agriculture. The moderation in inflation is expected to be underpinned by a conservative monetary policy stance and much lower inflationary expectations. Inflation in the first two quarters of the fiscal year is projected to range between 4.0 per cent and 8.0 per cent and to slow to below 4.0 per cent in the second half of the year.

Notwithstanding this outlook Mr. Speaker, it is to be acknowledged that we are in somewhat uncharted waters of uncertainty with unprecedented global demand for food driven by China and India, as well as the demand for bio-fuels driven by the United States, that combined with oil prices are putting severe pressure on the cost of living.

### ***Balance of Payments***

In the context of an expected slowdown in economic growth among Jamaica's main trading partners and lower inflation, the Jamaican current account deficit is projected to decline to approximately 15.2 per cent of GDP in FY2008/09, relative to the 17.6 per cent envisioned for FY2007/08. The current account is expected to reflect the impact of growth in tourist arrivals, continued growth in remittances, and a continued reduction in capital transfers due to an increase in confidence and internal investments from profits generated locally. Shocks to international oil prices are however expected to continue to have a negative impact on the current account.

### ***Potential Risks***

The risks to the macroeconomic programme projections largely emanate from the possibility of sharper than anticipated increases in international commodity prices (including oil prices), adverse weather conditions, and a recession in the USA.

Simulations show that Jamaica's GDP growth would not be significantly affected and the external accounts would improve marginally in a scenario where a recession in the US lasts for two quarters only. The correlation between Jamaica's economic performance and the US business cycle has not been strong and the sources of the main financial flows, tourism and remittances, have become less sensitive to these business cycles. Inflation could be lower by approximately 1.5 percentage points, relative to the baseline, depending on the impact of the lower global demand on commodity prices.

### *Medium Term Economic Profile*

The Medium Term targets are GDP growth of 3%, 3.5% and 3.5% in 08/09, 09/10 and 10/11 respectively; Inflation of 9-10%, 7-8% and 6-7% for the three year period. By FY 2010/11, we intend to bring the Debt/GDP ratio to below 100% and the Fiscal Balance to 0%.

## **D. A NEW FRAMEWORK FOR ECONOMIC DEVELOPMENT**

Mr. Speaker, when we were elected, the expectation of the electorate was for change and improvement in their living standards based on a new approach to governance along with new economic initiatives. It is the commitment of the new administration to honour the expectations of the electorate.

This new Budget marks the start of this new journey, admittedly in more difficult global and domestic circumstances than we envisioned. This will mean that the pace of advance that we planned for will be slower. This however, does not mean an abandonment of our goals.

Since taking office I have consistently outlined five pillars that will be given priority by this administration to rebuild the foundation for a vibrant and competitive economy, and which this Budget will seek to advance. These are:

- 1) *The need to apply a strong, disciplined approach to fiscal and debt management,*
- 2) *The need to reform the tax system to improve efficiency and to create a business friendly environment,*
- 3) *The need to reduce bureaucracy, corruption, waste and impediments to investment,*

- 4) *The need to aggressively drive local and foreign direct investment above the levels achieved over the last five to 10 years; and*
- 5) *The need to aggressively move on the issue of energy conservation and the development of alternative energy – we must make Jamaica the alternative energy centre of the Caribbean.*

## **1. Strong, Disciplined Approach To Fiscal And Debt Management**

Mr. Speaker, the first pillar of rebuilding the foundation for a competitive economy is the institution of a strong, purposeful and disciplined approach to the management of the fiscal affairs of the country, including a credible debt management strategy.

We have already demonstrated our ability to set targets and to stick to them. Achieving our first fiscal target is just the beginning. We intend to achieve a balanced budget by fiscal year 2010/2011.

This will require a commitment to cutting waste and increasing efficiency across the entire spectrum of public sector management.

In terms of debt management, Mr. Speaker, the government is serious about the need to take a new approach to the management of our national debt.

While it is a work in progress and while we will pursue the strategies outlined in the Ministry Paper being tabled today, the Government is insistent that, over time, we intend to lower the cost of borrowings, and grow our way out of our debt, so that debt as a percentage of GDP will become a diminishing factor.

### **Engagement with Multilaterals**

Even as Jamaica spearheads talks with Multilateral Institutions for better terms on loans for Heavily-Indebted Middle Income countries, we have already started to secure additional loan

funding from the Caribbean Development Bank (CDB), the World Bank (IBRD), and the Inter-American Development Bank (IDB) for project-based or policy-based loans.

Since September, I have signed loan agreements with these institutions totaling US\$116.77 million and another US\$219 million in loans is being negotiated for the remainder of the fiscal year, all priced at interest rates between 4.2 and 6.5 percentage points.

Just last Sunday, at the Annual Meeting of the IDB in Miami, I signed a US\$30 million policy-based loan with the President of the IDB, Mr. Luis Alberto Moreno. This forms part of a 3-year US\$90 million policy based loan with the IDB, and comes several weeks after signing a US\$10.4 million loan with the IDB for Hurricane Dean Relief. Mr. Speaker, these two loan agreements are the first signed with the IDB in four years. Two additional policy based loans of US\$30 million each will be signed with the IDB in this fiscal year for Educational Transformation and Fiscal Management.

Mr. Speaker, I have been courting the multilaterals aggressively and it is beginning to bear fruit. As you know, the Vice-President of the World Bank visited Jamaica two months ago – her first visit as Vice President. Subsequent to this visit, The World Bank has upgraded the status of their office here, by assigning a Special Representative, Mr. Badrul Haque. This a further indication of the renewed and revived relationship.

Mr. Speaker, our more intensive re-engagement with the multilaterals will over time, gain us greater access to cheaper loan funds for investment in vital social and infrastructural projects such as Education, Health, Water Supplies and Road Construction.

## **2. Reform of the Tax System**

We have highlighted the need to improve efficiency and to create a business-friendly environment. I intend to expand on this issue in my discussion on the Revenue Programme for the new fiscal year.

### **3. Reduce Bureaucracy, Corruption and Impediments to Investment**

The Government is insistent that we must leave no stone unturned in ensuring that the public sector is more productive, efficient and responsive in delivering services to the private sector and the ordinary citizens.

We will cut the red tape and put in place a red carpet for investment facilitation.

There will be zero tolerance for corruption in the corridors of Government.

#### **MOU**

Mr. Speaker, the prudent management of public sector wage costs has been the subject of extensive discussions and deliberations between the Government of Jamaica and public sector employees represented by the Jamaica Confederation of Trade Unions.

Whilst we acknowledge the need for periodic examination of the adequacy of wage packages, we are also cognizant of the need to ensure balance. A balance that protects and provides for growth and development of the economy and consequently improvement in the lives of all our people, even as we expect higher levels of productivity among public sector workers.

I want therefore to recognize the meaningful efforts of the negotiation teams from the Ministry of Finance and the Jamaica Confederation of Trade Unions for an agreement on a new Memorandum of Understanding for the period 2008 to 2010.

The parties are now engaged in the processes of ratification and this agreement will be signed shortly.

### **4. Aggressive Investment Promotion**

Mr. Speaker, the fourth pillar of rebuilding the economic foundation for growth and competitiveness is the aggressive promotion of investment in all sectors.

These include small and micro enterprises, manufacturing, tourism, construction, the information industry as well as finance and other services.

The promotion of linkage industries - like packaging and food production will be highlighted to support the expanding tourism industry.

## **5. The Energy Sector**

The Government fully recognizes the need to embark on an aggressive plan to conserve energy, rationalize traditional energy production methods as well as take maximum advantage of global technology-driven and financing initiatives from such institutions as the European Investment Bank (EIB) and the Inter-American Development Bank (IDB) in investing in renewable energy projects – that are offering low-cost financing for private sector investment.

In fact, the EIB offers a 3-percent subsidy which could yield loans at 4-5 per cent for such projects, while the IDB is pushing for investments under the Sustainable Energy and Climate Change Initiative (SECCI).

## **E. HIGHLIGHTS OF THE EXPENDITURE BUDGET**

### **1. *Debt Servicing / Tidying Up Exercise***

Debt servicing in FY 2008/09 is estimated at \$263.93 billion, comprised of \$181.304 billion in domestic payments and \$82.626 billion in external payments. Interest payments of 123.643 billion consist of \$87.051 billion in domestic payments and \$36.592 billion in external payments while amortization payments of \$140.3 billion consist of \$94.3 billion for domestic amortization and \$46 billion for external amortization.

Mr. Speaker, the record must show that the new Government has become involved in quite a tidying up process. In addition to the unbudgeted items we took on board in the last fiscal year 2007/08, we have taken on board the following debt obligations in the new

fiscal year 08/09 that have helped to crowd out the fiscal space for other much needed areas of expenditure.

These items, in addition to increased interest and amortization costs on the budget for FY 08/09 have caused additional debt servicing of \$53.0 billion in 08/09 over 07/08. These include:

	<b>\$ Billion</b>
Arrears in Loan Raising Expenses	1.9
Air Jamaica Debt Service Payment	3.3
Sugar Company of Jamaica	2.7
JUTC	0.214
BOJ's Interest Payments	<u>12.795</u>
<b>Total</b>	<b>20.909</b>

## ***2. Non-Debt Capital Expenditure***

Mr. Speaker, non-debt approved capital expenditure last fiscal year was \$38.88 billion. However, of this figure, some \$14.259 billion was for the settlement of deferred financing obligations and for other expenditure undertaken in previous Budget years, leaving only \$24.62 billion or 3.1 per cent of GDP for actual expenditure.

The issue of deferred financing, now becoming a thing of the past, has served to obscure the real level of non-debt capital expenditure.

This year, Mr. Speaker, with the non-debt capital expenditure set at \$44.648 billion, and no deferred financing obligations – pure new expenditure, this represents a whopping \$20.02 billion or an 80% increase over the actual expenditure last year or 4.7% of GDP.

The allocations for Education, National Security, Roads and Bridges as well as Agriculture have all seen real **substantial** increases over previous years. These comparisons must be made after the deferred financing components are excluded from last year's budget.

### **3. Education**

Of the Capital Budget of \$6.046 billion last year, some \$1.754 billion was for deferred financing obligations. This year, the full allocation of \$4.354 billion is for expenditure this year.

### **4. Roads & Works**

Last year of the initial Capital A allocation of \$9.096 billion for Roads, \$7.531 billion of this amount was used to pay outstanding expenses from previous years. The \$7.531 is broken down as Deferred Financing \$3.386; PetroCaribe \$2.945b and Bills carried forward of \$1.3 billion. The Government had to find additional resources to fund island wide repairs to our road network due to Hurricane Dean and the October flood rains.

The Minister and Ministry must be commended for the excellent work being done to rehabilitate our main roads within the short space of time. We are seeing value for money on our roads these days.

This year the Capital A Budget allocation is \$2.509 billion for actual expenditure this year. When combined with Capital B of \$6.434 billion, and discounting for deferred financing of \$7.531 billion last year represents an effective increase of 21% over last year. (\$7.411b 07/08 compared to \$8.943b in 2008/09)

### **5. Agriculture**

The Capital allocation (A & B) for agriculture has increased by \$1.3 billion from \$2.3 billion last year to \$3.7 billion, representing a 56% increase, and signaling this Government's commitment to reviving the agricultural sector. Large allocations are made for revitalization of the dairy sub-sector, grant for rural development, national irrigation development project and sugar transformation project.

***Food Security***

Mr. Speaker, the allocations reflect this Government's commitment to the development of our rural farming communities and to the need to produce more for local consumption as well as for export and sale to the tourist trade.

But Mr. Speaker, allocations are not sufficient to ease the tremendous burden on the poor brought on by imported inflation. This must be mitigated not just by subsidies, but targeted subsidies and more importantly, by putting in place a programme for food security by significantly expanding domestic agriculture. This must now form a major part of our strategy to fight inflation. We must grow more and eat more of what we grow.

New technologies like Greenhouse and hydroponics technology will help to drive reform in agricultural productivity.

**6. *National Security***

The Capital A Budget of \$2.5 billion in the Ministry of National Security for FY 08/09 has seen a \$1 billion increase over the revised estimate of \$1.489 billion for 2007/08. It represents a \$1.5 billion increase over the original estimate for FY 2007/08 of \$994 million.

This substantial increase in resources will be allocated to acquire new police vehicles, repair police stations and purchase other vital equipment such as weapons, bulletproof vests and telecommunication equipment.

A new long-awaited public mortuary will be constructed in Kingston in this fiscal year.

**7. *Social Security & Health Care***

An additional \$1.0 billion will be spent in FY2008/09 to widen the social safety net to include Jamaicans who have difficulty making ends meet, and who are experiencing

greater difficulty coping with the rapid increases in food prices due to global market conditions. This is a more targeted approach to assisting the poor and marginalized.

**And Mr. Speaker, they said we could not do it but on the first of April, we fulfilled our commitment to abolish User Fees at Public Hospitals island wide.**

And we are going further, free access to certain critical care such as diagnostics, kidney dialysis among other procedures has now been opened.

### **8. *Investment Promotion***

Mr. Speaker, the Government's renewed emphasis on the promotion of industrial development, Investment and export promotion as well as the planned expansion of activities of the Jamaica Business Development Centre are indicative of the seriousness of the Government's investment drive. More information will be forthcoming on this during the Budget Debate.

Equally, resources for research and development at the Scientific Research Council has moved from \$220.163 million in 2007/08 to \$311 million in 2008/09.

### **9. *Constituency Development Fund***

In fulfillment of the pre-election promise of the new Government, a Constituency Development Fund will be established in which \$2.4 billion has been set aside for allocation equally among all 60 constituencies.

Accordingly, allocations will move from \$3.0 million per constituency under the previous SESP programme to \$40 million per constituency.

The Government will ensure that these funds are expended in a transparent and accountable manner, while ensuring full participation in the decision-making on project priorities at the community level.

The decision to start with expenditure at a lower level than previously announced while due in part to resource constraints is also calculated to ensure that we work out the implementation details carefully to ensure maximum value for money is obtained.

Mr. Speaker, the implementation of the **Constituency Development Fund** will be managed in a rigorous fashion and Members of Parliament and implementation agencies are encouraged to ensure the highest degree of probity and inclusiveness as it is rolled out in this fiscal year.

### *The People At The Centre*

**Mr. Speaker, these expenditure highlights demonstrate that where there is a will there is a way. This Government led by The Honourable Prime Minister who believes passionately in all these programmes has shown that we must be guided by the courage of our conviction and set those priorities that put the people at the center of our policy focus.**

## **F. LOSS MAKING PUBLIC ENTITIES**

Approximately sixty-five (65) Public Bodies are under the rigorous management of the Ministry of Finance and the Public Service. Of these 40% are fully or partly funded from the Consolidated Fund.

Mr. Speaker I will briefly focus on four (4) entities, namely, Air Jamaica, Sugar Company of Jamaica, NROCC, and Clarendon Alumina Productions Limited (CAP).

- 1) ***Air Jamaica.*** To date Air Jamaica has accumulated losses of US\$1 billion and debt in excess of US\$550 million. We have projected to spend \$3.2 billion for debt and interest financing. We have commenced privatization of the Airline with the appointment of the

International Finance Corporation as the lead financial advisors. We project to have the privatization finalized by March 2009.

- 2) ***Sugar Company of Jamaica.*** We have absorbed \$14 billion of debt and this year we expect the debt service to be J\$2.7 billion. Mr. Speaker, as the Members are probably aware we are in advanced negotiations with the preferred bidder for the company's assets and as such I cannot comment much further on this company and the implications for this year's budget.
  
- 3) ***NROCC.*** Mr. Speaker this entity continues to be a great challenge for the Government. Prior to our election to office the then Government agreed to the expansion of the Mount Rosser Bypass, and to the construction of the Sandy Bay to the Williamsfield section of the Highway. These expansions will be financed through concessionary loans. Currently, NROCC has a projected loss of \$8 Billion and projected liabilities of \$40 billion (an increase of \$10 billion over last year due to exchange rate movement and inflation-indexed Bond) for this Fiscal Year. Mr. Speaker, going forward our primary plan is to refinance the company's debt with lower interest rates and longer maturity periods.
  
- 4) ***Clarendon Alumina Productions Limited.*** Mr. Speaker, this company is projecting a loss of US\$34M. As the Members may know this loss is due to an agreement which the previous Government entered which entails a loan of US\$125M and the forward sale of alumina at historical prices, which bear no relationship to the present cost of production or the prevailing market prices. This matter is being addressed by the Government.

Mr. Speaker, overall the Ministry will continue to review the performances of these entities and make recommendations for rationalization and restructuring where appropriate. A formal Rationalisation Plan is being developed and should be completed by the end of May 2008.

Further, Mr. Speaker, we will be aggressively seeking to privatize several entities during this fiscal year. However, no provision for any revenue from this privatization has been included in this Budget.

## **G. NEW INITIATIVES TO BE PURSUED**

The new Government under the leadership of Prime Minister Bruce Golding is firmly and irrevocably committed to good governance, and within the Ministry of Finance and the Public Service, the following initiatives will be initiated during the fiscal year 2008/09.

1) *World Bank Study on Corruption and Good Governance*

A World Bank diagnostic study on Corruption and Good Governance will be conducted with recommendations made for appropriate policy and programme adjustments. An initial grant of US\$297,000.00 (J\$21,087,000) has already been approved by the World Bank.

2) *Management Efficiency Review*

Management Efficiency Review of some Ministries, Departments and Agencies of Government will commence this year, the objective will be to examine present operational mechanisms to ensure that we cut waste and maximize efficiency. The Ministry of Finance and the Public Service and its Departments will be the first to be audited – charity begins at home.

3) *Public Accountancy Inspectorate*

In the past there was a Public Accountability Committee in the 1980s and a Financial Management Division in the early 1990s, both were disbanded by the previous government. At present, there is no clear financial monitoring function of the Ministry that can give adequate substance and support to the Constitutional role of the Minister of Finance.

**I intend to establish within the Ministry of Finance and the Public Service a Public Accountancy Inspectorate (PAI) in order to allow me to properly discharge my duties as Minister of Finance and the Public Service, under Section 24 (A)(4) of the *Financial Administration and Audit Act*.**

The PAI will carry out inspection of Public Offices, programmes and projects across all Ministries and Agencies for the purpose of establishing that public funds are being expended in the most efficient, effective and economical manner and in accordance with the law.

This will provide a basis for the Minister to establish early warning systems, even before the Auditor General's reviews, as well as serve as a means of following up immediately on issues raised and recommendations at sittings of the Public Accounts Committee (PAC) and the Public Administration and Appropriations Committee (PAAC).

4) Central Treasury Management

Mr. Speaker, we currently have 65 public bodies and a large number of public sector entities handling billions of dollars through different individual treasury management units. In this Fiscal Year a Central Management Treasury Unit will be introduced for the sole purpose of the management of all the treasury investment needs of selected public bodies and public sector entities. In this regard, I will be looking at the Irish and Canadian models.

I also believe that there is the need for improvement in the treasury management functions of the government which could be enhanced by the consolidation of available public sector funds.

These consolidated funds could be used to:-

- a) Fill short-term financing gaps in central government
- b) Increase the efficiency of government borrowing especially with respect to the amount, price and timing of issues.
- c) Consolidate public sector deposits, done through the Bank of Jamaica
- d) This consolidation will also assist the central bank in achieving its objective of price and financial system stability, facilitating liquidity management.

5) *Making Jamaica the Financial Centre of the Caribbean*

Since election to office we have established a committee chaired by Mr. Eric Crawford of PricewaterhouseCoopers, Jamaica to consider and advise the Government on the necessary changes in tax laws and policies required to make Jamaica, and specifically, Downtown Kingston, a Financial Centre. I am hoping that by the end of this Fiscal Year we will have the Committee's recommendations. To date, we have had at least two major financial conglomerates expressing interest in establishing offices in the Financial Centre.

Despite the devastation that FINSAC created on the entrepreneurial spirit of many Jamaicans, in the last decade, we as a people have shown our ability to excel in the financial arena. I am proud of the creativity of many of our indigenous financial entities in their ability to become the leading securities dealers in the Caribbean. It is an achievement that we all should be proud of.

It is for this reason that the Government will give urgent attention to the development of a legal and regulatory framework within which the creative entrepreneurial spirit in the financial sector can further grow and develop.

6) *Micro Export Drive*

Mr. Speaker, we must improve our exports but in doing so we must focus not only on our large traditional exporters but also on the creation of small to medium exporters. The Ex-Im Bank will be embarking on a \$3 billion financing facility during this fiscal year with the objective of providing financing to small and medium size exporters comprising of farmers, craft makers, unique furniture makers, manufactures, amongst others. Mr. Speaker this concept is still in the early stages and the new Board under the Chairmanship of Mr. Butch Hendrickson, will aggressively work towards its early implementation.

7) *Student Loan Problems*

Mr. Speaker there are thousands of students who have financed their tertiary education through the Student Loan Bureau. These loans were obtained as a result of guarantees provided by their parents' friend(s), whether a church friend, or the friendly shopkeeper, or the local farmer, etc, but due to no cause of their own they are unable to adequately finance the repayment of the loans. Their inability to do so is either because of the lack of jobs or jobs that are paying below the loan repayment requirements.

Mr. Speaker we understand their suffering and frustration and as such we will be addressing their concerns after consultation with the Students' Loan Bureau.

## **H. THE REVENUE PROGRAMME – FY 08/09**

### *a. Tax Reform*

Mr. Speaker, a technical team in the Ministry led by Senator Don Wehby, Minister Without Portfolio, has been engaged in an extensive review of proposed Tax Reform measures, taking into account several benchmark studies that have been done by the Matalon Committee, a study by Professor Bahl of Georgia State University and a Competitiveness Study sponsored by the Inter-American Development Bank (IDB).

The IDB also recently sponsored the further consultancy of an international tax expert to work with Senator Wehby. Senator Wehby and a local task force on Tax Reform will be making the final recommendations to Cabinet for implementation during this fiscal year.

I must stress that the Government is committed to Tax Reform. It is long overdue, having last been overhauled in 1986 – 21 years ago.

In a 2008 Joint “*Paying Taxes*” World Bank and PwC Report, Jamaica is listed amongst the 10 (of 178) economies where it is most difficult to pay one's taxes due to the number of different tax types, payment dates and tax rates. **To address issues such as these, the reform will**

**include the planned consolidation of statutory deductions into one social security payment to be implemented during this fiscal year.**

This is meant to be a part of the strategy of simplification that is an objective of tax reform. The government re-emphasizes its commitment to comprehensive fiscal reform as a means to improve fiscal sustainability and create an environment conducive to economic growth by increasing competition while decreasing transaction costs.

The overriding principle that will guide the reform process is simplicity and equity in the imposition and collection of taxes.

***b. Administrative Reform***

A number of major events will occur this year:

1. The Ministry will continue to upgrade Revenue Collection Centres island wide to make the facilities more accessible and user-friendly with the appropriate conveniences for our bosses – the taxpayers of Jamaica.

A new Revenue Centre will be established in Portmore, and other Collectorates including Sav-la-mar and Cross Roads will be improved. Mandeville and Christiana Revenue Centres are in the pipeline for improvement. Efforts will be advanced to facilitate online payment of taxes and statutory obligations.

2. The Government's initial priority items in relation to ICT, is to engage in a long-term IT strategy to support Tax Administration's and Custom's functions.

In doing so, priority will be placed on the need to:

- 2.1 Significantly expand the menu of options available for online *e-payment*, as well as the implementation of an *e-filing* facility, beginning with GCT/SCT to be followed by Income Tax and PAYE and Withholding tax. These measures should

have the added benefit of significantly alleviating the overcrowding in Collectorates at peak filing and payment periods.

2.2 Implement a newly developed *Electronic Export System* within the Customs Department by June 2008 to expedite, simplify and standardize the processing of exports. Trade facilitation will be enhanced.

2.3 Introduce Third Party Collections Agreements to allow for the collections of specific tax types through agencies like the Banks, Bills Collections Agencies.

3. Refocus the specific procedures of Tax Fraud to its single, principal objective of getting prosecution of those tax fraud cases;
4. Amend Tax and Customs Laws to impose stiffer fines and penalties/imprisonment on any tax official arrested and convicted of aiding and abetting a taxpayer to evade taxes or commit fraud

*c. Improve Collection*

**The clear emphasis of my Ministry is to improve collection of taxes due, significantly increase the collection of arrears due, re-establish the Revenue Protection Division (RPD) to protect major revenue windows from leakage through corruption and fraud and take steps to widen the tax net by encouraging new entrants into the system.**

I believe in the correctness of this decision because our level of compliance across all tax types is 38 per cent compared with 60-80 per cent in more developed countries.

The Matalon Committee cited the following compliance rates among all tax types:

- P.A.Y.E. effort is approximately 50%
- Corporation returns – approximately 17%
- Property Tax – less than 50%

- GCT – approximately 55%
- Collected Tariff is approximately 5.3%; Expected rate is approximately 10.8%

**Mr. Speaker, as a result of this low compliance rate, coupled together with increased delinquency rates and tax evasion, the current portfolio of active and dormant outstanding arrears plus interest and penalties across all tax types is \$138 billion or just under US\$2.0 billion.**

**Mr. Speaker, even when you remove the portion of interest and penalties from this total, the principal amount is \$59.0 billion, which is some \$16.0 billion more than the fiscal deficit programmed for this year. This could wipe out our deficit and create a surplus of 16.0 billion!**

**Mr. Speaker, with \$138 billion of arrears, tax compliance initiatives must be the first priority in collecting the needed revenue to finance the Budget and close the fiscal deficit gap.**

*d. Tax Amnesty*

**Accordingly, the Cabinet has decided that as a first step, and being mindful of the stresses and strains that many taxpayers have faced in recent years, we will introduce a tax amnesty during the course of this new financial year in which waivers of interest and penalties will be granted across all tax types, once the principal sum owed is paid in full.**

**If the arrears in principal are paid in full by June 30, 2008, the full (100%) interest and penalties will be waived. Thereafter, the following levels of waiver of penalties and interest will apply:**

<b>July 31, 2008</b>	<b>-</b>	<b>80%</b>
<b>August 31, 2008</b>	<b>-</b>	<b>50%</b>
<b>September 30, 2008</b>	<b>-</b>	<b>40%</b>
<b>October 31, 2008</b>	<b>-</b>	<b>20%</b>

**The amnesty will end on October 31, 2008.**

I also encourage taxpayers to talk with the tax representatives and work out arrangements, they are all good people trying to do their jobs properly. I want to invite all unregistered businesses and self-employed people to come into the tax net, no questions asked.

Mr. Speaker, the Government is ever mindful that engendering a culture of increased tax compliance from the electorate and business community must represent an ideal social partnership in which our taxes are paid, are paid on time, and the Government in turn pledges to spend those tax dollars in an efficient, open, corrupt-free and transparent way such that taxpayers can see, feel and experience value for money in government expenditure.

Mr. Speaker, the country must see, understand and feel a new culture of Good Governance that is characterized by discipline, good conduct and good order, starting from the top.

This is the only basis on which we can witness a return to law and order including the respect for paying our taxes according to the laws of the land. We fully intend to enforce the tax laws of the country.

**I. FINANCING FY 2008/09 BUDGET**

The FY 2008/09 Budget has been one of the most challenging in recent years. The challenges arise against the backdrop of less than favourable international economic developments, with a potential recession in the world's largest economy, aggravated by rising oil and commodity prices. Expectations of the Jamaican public for the efficient delivery of public goods and services represent a further challenge to the budget.

At the same time the external capital market and international financial institutions are paying particular attention to Jamaica's medium term fiscal profile. Access to international financing sources at reasonable cost will depend to a large extent on investor's perception of the

Government's fiscal programme. Consequently a sound programme of fiscal consolidation that entails a reduction of the fiscal deficit and eventual balancing of the budget in 2010/11 is critical to addressing the medium term debt dynamics.

For FY 2008/09 the Central Government is targeting a fiscal deficit of 4.5% of GDP, equivalent to \$43,195.7mn. The Budget of \$489,529.4mn reflects above-the-line expenditure of \$349,242.4mn and amortization payments of \$140,287.0mn. Achievement of the fiscal deficit target of 4.5% of GDP will therefore require revenue & grants of \$306,046.8mn.

### ***REVENUE AND GRANTS***

The projection of revenue and grants for FY 2008/09, represents an increase of 18.3% over FY 2007/08 and is broken down as follows:

	<b>2007/08</b> <b>(in millions of dollars)</b>	<b>2008/09</b>	<b>Change</b> <b>(%)</b>
<u>REVENUE &amp; GRANTS</u>	256,640.7	303,696.8	18.3
Tax Revenue	219,517.6	262,721.6	19.7
Non-tax Revenue	18,235.0	18,229.3	-0.0
Bauxite Levy	4,998.3	8,645.1	73.0
Capital Revenue	9,350.4	8,569.1	-8.4
Grants	4,539.4	5,531.6	21.9

This increase is however less than the 21.4% that occurred in the previous fiscal year. Additionally, the revenue and grant estimate for FY 2008/09 is 31.6% of GDP, slightly down from 32.3% in FY 2007/08.

### **Loan Receipts**

In FY 2008/09 the Government proposes to borrow \$183,482.7 to cover the fiscal deficit and amortization payments. Of this total \$130,751.7mn is programmed to be raised from the domestic market and the remaining \$52,731.0mn from external sources. The programmed external borrowing includes \$9,009mn from multilateral/bilateral sources for capital projects and the equivalent of \$43,722.0mn from the international capital market.

The borrowing profile for FY 2008/09 represents a 35.7% increase in gross receipts over the previous fiscal year but this is mainly due to a 32.3% increase in amortization payments. In terms of net borrowing therefore the programme for FY represents only a marginal increase over FY 2007/08.

In light of the outlook for the macroeconomic fundamentals and the continued prudent and effective borrowing programme, the Debt-to-GDP ratio is projected to continue to improve in FY 2008/09.

### **Tax Revenue**

Tax revenue of \$262,721.6mn is budgeted to grow by 19.7% over collections in FY 2007/08. The estimated tax revenue for 2008/09 is about 27.4% of GDP, marginally lower than the 27.7% in the previous fiscal year. This projected growth in tax revenue is underpinned by (i) the elasticity of the tax system, which will result in a natural increase in tax revenue arising from buoyancy in economic activity (ii) the implementation of a robust revenue enhancement programme. The revenue enhancement measures will entail a profound administrative/compliance plan with a menu of initiatives geared toward improving the tax system, reducing the incidence of non-compliance and bolstering collections.

### **New Revenue Measures**

The combination of the revenue forecast (inclusive of the baseline and administrative component) outlined above and the expenditure budget approved by Parliament leaves a fiscal gap of \$2,350.0mn, or 0.2% of GDP. Achievement of the 4.5% fiscal deficit target will therefore require additional revenue enhancement measures. Consequently, a revenue package of this

amount has been identified and will be implemented to enhance the revenue flows and close the fiscal gap.

*e. A Limited Tax Package*

Mr. Speaker, while the dominant emphasis will be placed on collection of arrears, revenue protection and widening the tax net, due to the extraordinary expenses associated with the tidying up of the budgetary process, we have found it necessary to impose a limited tax package of some \$\_\_\_\_ billion.

## **J. CONCLUSION**

Mr. Speaker, in the course of this presentation, I have set out the challenges faced by the Government as it embarked on its first full year in office.

The challenge has been to craft a Budget that has been burdened by a debt that hangs like an albatross around the neck of every Jamaican citizen.

There are no easy solutions to the serious problems and social dislocations that we have inherited. But, we believe that we have made a surefooted and responsible start to managing the affairs of the country, so that we can invest, work, earn and grow our way out of debt and into a productive, prosperous and peaceful society.

- We have met and exceeded our fiscal deficit target, despite the inheritance of billions of dollars of unbudgeted expenditure and Air Jamaica, Hurricane Dean, Bank of Jamaica and Deferred Financing expenditure – the first time out for the new administration and the first fiscal deficit target met in seven (7) years. **This disciplined approach to fiscal management is the starting point to creating the macroeconomic climate for Development with Equity – the People at the Centre.**
- We have presented an expenditure Budget that has a record amount of non-debt capital expenditure almost twice as much as last year to spur growth and development in real

time during this fiscal year – **This is a framework for Development with Equity – with the People at the Centre.**

- We have abolished cost-sharing in high schools and added the capital required to advance the Educational Transformation Programme – **Development with Equity – the People at the Centre.**
- We have abolished Hospital User fees and opened our health services to be accessed by our citizens. **Development with Equity – The People at the Centre.**
- We have widened the social safety net to assist more Jamaicans below the poverty line. **Development with Equity – The People at the Centre.**
- We have established a Constituency Development Fund to ensure greater service delivery at the constituency level, to foster social and economic development. **Development with Equity – The People at the Centre.**
- We have provided more funding to foster investment and growth in the productive sectors of the economy. **Development with Equity – The People at the Centre.**
- We have established the framework for Good Governance in exchange for significantly increased tax compliance from our citizens. **Development with Equity – The People at the Centre.**
- We have set in this Budget, the framework for a new paradigm of growth, economic development, prosperity, peace and the raising of our standards of personal and business conduct. **Development with Equity - the People at the Centre.**

Mr. Speaker, Honourable members, please permit me to close on a personal note. After 18 years in Opposition, I have found the experience to be humbling and it was one that sent me into many moments of quiet seclusion within my own thoughts.

Many times I said my quiet prayers, asking the good Lord to give me the patience to endure sometimes even unnecessary vilification and abuse, one of the unfortunate aspects of our politics which I think is unnecessary and should be discarded.

Mr. Speaker, I want to give you, the Prime Minister and Honourable members the full assurance that my actions as Minister will never be guided by a mentality of malice, or a persecution complex. My actions will be guided by the tenets of Good Governance. **I pledge that I will never abuse my authority as Minister.**

Mr. Speaker, I am inspired as I close to leave the Book of Micah Chapter 6 verse 8 with you:

*“And what does the Lord require of us, but to act justly, to love mercy and to walk humbly with thy God.”*

May this be our mutual prayer.

May God bless you all and may God bless Jamaica!

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

April 10, 2008