



OPENING BUDGET PRESENTATION TO PARLIAMENT

**HONOURABLE AUDLEY SHAW, MP
Minister of Finance and the Public Service
Thursday, April 8, 2010**

INTRODUCTION

Mr. Speaker, the first quarter of this year has been a very busy period for the Ministry of Finance & the Public Service and all the economic agencies under its umbrella.

We entered the year navigating uncharted waters as we set about completing negotiations with the IMF while at the same time designing a debt exchange programme that would not rock financial system stability.

The hours have been long and tedious, but we have pulled through and have now laid a solid foundation on which to build economic growth and prosperity.

It would be remiss of me not to acknowledge the work of the technical staff from the BOJ, FSC, PIOJ, and my own Ministry who have worked tirelessly throughout the last three months.

Mr. Speaker, within 8 days of the new financial year all have managed to present to the House the preliminary macroeconomic outturn for FY 2009/10 and projections for 2010/11.

Mr. Speaker, in terms of the structure of the presentation the approach will be as follows:

1. I will provide an overview of the macroeconomic performance of the country for 2009/10 against the backdrop of the global economy.
2. Fiscal Outturn 2009/10 and projections 2010/11.
3. Next, the Medium Term Economic Programme (2010/11-2013/14) in the context of the Standby Agreement with the IMF will be reviewed.
4. Highlights of the Expenditure Budget for 2010/11 will then be outlined.
5. Financing the Budget 2010/11.
6. I will speak on specific measures on Tax Administration and Tax Compliance and laying the foundation for growth.
7. I will close with a discussion on building the foundation for prosperity.

Mr. Speaker, at the outset of this presentation, let me take the opportunity of saying to the people of Jamaica, that we understand the many difficulties that we face.

From the problem of bad roads to inadequate water supply systems, to increased joblessness in part as a result of world conditions, to reduced purchasing power.

For too long, we have:

- Created generations of people who are used to spending but have no idea of creating wealth;
- Entertained the view that wage increases have no bearing on productivity increases;
- Laboured under the mistaken belief that real wealth can be created as we continue to borrow more while recording annual declines in productivity growth;
- Falsely assumed that we can continue to have annual growth in our Budget without a commensurate growth in our output as a country – our GDP;
- Ignored tax cheats, tax evaders and instead, borrowed more and more money to finance the National Budget.

The result of all this has been disastrous for our economy. While other Caribbean islands have per capita incomes at between US\$8,000 and US\$16,000, Jamaica is still hobbling along at less than US\$5,000. While their economies have grown at between 4-12% annually, we have barely grown at 1.0 % per annum for the past 15 years.

Mr. Speaker, this is the background against which I speak today. This is the background against which the government has had to make serious and

fundamental changes to policies that, over time will put the economy on a path of growth and wealth creation.

It is now crunch time. For too long, we have talked but not acted on the fact that we can no longer afford to live beyond our means, and yet we have the capacity to so organize ourselves that in due course we can build the foundation for a better life.

1. 2009/10 was a difficult year:
 - we saw the full effects of the global recession.
 - Domestic demand was weak as unemployment grew, real income declined.
 - Remittance flows declined.
2. The revenue base of the government was weakened with the fall in bauxite/alumina export.
3. In order to adjust we have to undertake some significant adjustment measures to enhance revenue and cut expenditure.
4. The adjustment measures were difficult but could not have been avoided. No government likes to impose new taxes or to cut wages. The truth is, if we could have avoided it, we would have.

We took these serious and tough measures to secure the future of the country.

Our willingness to take tough measures, not popular, but necessary gave confidence to our development partners.

Mr. Speaker, as we continue to turn the corner in the development journey of our country, we are now on an unprecedented path of bold initiative and firm commitment, to secure sustained growth and development for our country.

This historic moment in the economic life of our country comes within the context of early signs of recovery from what was the worst global economic crisis since World War II; it comes within the context of very grave economic challenges that have plagued this country for far too long; economic problems that, while exacerbated by the recent global economic crisis, started long before the crisis began, and could not be allowed to continue.

1. MACROECONOMIC PERFORMANCE REVIEW - 2009/10

Mr. Speaker, the global economic recovery generally continues to be encouraging:

- The World Bank's most recent forecasts show that global GDP growth is projected at 2.7% for 2010. Developing countries (led by strong manufacturing growth in China and India) are expected to grow by 5.2%.
- In 2011, growth is projected to be 3.2% and 5.8% for the world and developing countries, respectively.
- In particular, growth in the Latin American and Caribbean region is projected at 3.1% and 3.6 % for 2010 and 2011, respectively.

The US economy continues to expand, despite a weaker first quarter 2010 due largely to adverse weather conditions there. Revised GDP estimates show that the

US economy expanded by 5.9% in the December 2009 quarter relative to the previous estimate of 5.7%. The US leading economic index (LEI) rose consistently since November 2009, and this increase is consistent with forecasts for further economic expansion in the March 2010 quarter.

While there is consensus on global recovery some downside risks to this recovery remain:

- There has been a significant buildup of debt in several developed economies as a result of stimulus measures implemented to combat the effects of the global crisis. This has led to unsustainable fiscal positions, and the resulting need to tighten fiscal policy.
- It is deemed by many that the exit from stimulus programmes will begin towards the end of this calendar year, making the risk of a double dip recession higher in 2011 than in this current year.
- The European Commission has advised that economic recovery in the European Union will remain fragile in 2010 as the debt crisis there looms large, led largely by the untenable fiscal position of Greece.
- Consequently, the growth forecast remains unchanged at 0.7% in 2010 for both the EU region and the 16-nation euro zone.
- The Greek debt crisis and worsening public finances in several other eurozone countries pose one of the biggest challenges to the European economic recovery, which contributed to recent volatility in the financial markets.

JAMAICAN ECONOMY

Mr. Speaker, Jamaica's economic outlook and the demand for GOJ Global bonds continue to be buoyed by news of multilateral support for Jamaica following the approval of the Standby Arrangement with the IMF, as well as the recent upgrades by the ratings agencies following the success of the Jamaica Debt Exchange (JDX).

Inflation

- Inflation in 2009 was 10.2%, relative to 16.8% recorded in 2008.
- The latest data show that Headline Inflation, measured by the change in the Consumer Price Index (CPI), was 12.8% for FY2009/10 to February 2010.
- Inflation for the fiscal year to date was largely influenced by the pass-through of higher international commodity prices, mainly oil, and the impact of Government revenue measures in December 2009.
- Current projections are for the inflation rate to be approximately 13.5% for fiscal year 2009/10.

Growth

- For the calendar year 2009 it is estimated that the economy contracted by 2.7%, reflecting primarily weak external and domestic demand. The fall in external demand resulting from the global recession led to a significant reduction in exports. Falling real incomes, increased unemployment and reduced remittance flows led to weak domestic demand and lower consumption. Industries recording significant declines were Mining & Quarrying, Manufacture and Construction. However, Agriculture, Forestry & Fishing grew by 12.1%.

- For the fiscal year 2009/10 it is estimated that the economy contracted 2.3%.

Unemployment

- The unemployment rate increased from 10% in October 2008 to 11.6% in October 2009, due to the fallout from the global recession.
- With measures contained in our Economic Recovery Programme, which I will highlight shortly, we expect this trend in unemployment to reverse, as more jobs are created in the economy.

Interest Rates

- At the end of March 2009, the interest rate on the BOJ 30-day REPO stood at 17.00 % and the 90-day at 18.00 %. Over the fiscal year, the BOJ eased its monetary policy stance in the context of positive trends in inflation as well as stability in the foreign exchange rate and lowered the interest rate on its instruments. By the end of the March 2010 the 30-day REPO stood at 10.00% and remaining tenors were removed from the menu of instruments.
- Concurrently the market responded to the signal of rate reduction sent by the BOJ and the average yields on the 3 and 6-month Treasury Bills also trended downwards moving from 20.51% and 21.77% respectively at the end of March 2009, to 15.95% and 16.80% respectively at the end of December 2009. At the March 24 2010 Treasury Bill auction, after the successful debt exchange, these market rates declined to 10.18% on the 3-month and 10.49% on the 6-month instruments.

- It is significant to note that these interest rates are the lowest they have been in 24 years.

Mr. Speaker, I wish to appeal to members of the financial sector. While the return to core banking activities is a process, the expectation, not just of Government but of the people of Jamaica, is that lending rates will be reduced more significantly so that much more affordable credit is made available to the people of this country who want to invest, produce, create jobs, earn foreign exchange and create wealth.

Exchange Rate

The Jamaica dollar has remained relatively stable in 2009, depreciating by 0.78%. Of significance is the fact that in recent weeks there has been a 0.58% **appreciation** moving from a high of J\$89.77 to the US dollar on February 18 down to J\$89.26 to the US dollar yesterday (April 7). This reflects the increasing confidence in the market and increased availability of foreign exchange due to the support from the multilateral institutions.

Balance of Payments

- Preliminary data for the year 2009 show an improvement in Jamaica's Balance of Payments. The current account deficit is estimated to have narrowed sharply by US\$1.88 billion to US\$912.4 million (7.3% of GDP) and largely reflected a reduction in the merchandise trade deficit, which was complemented by an increase in the surplus on the services sub-accounts. Mr. Speaker, this improvement is significant as it follows four consecutive years of deterioration.

- For FY2009/10, the Bank of Jamaica projects a current account deficit of US\$1.06 billion (8.5% of GDP). This estimated deficit represents an improvement of US\$1.39 billion relative to the previous fiscal year.
- Concurrent with the improved growth outlook, Jamaica is projected to record marked improvement in the current account of the balance of payments. This will stem mainly from the impact of the fiscal adjustment on imports as well as a gradual pick up in remittances. Continued improvement is expected to around 4.0% to 5.0% of GDP over the medium term.

International Reserves

- On March 31 2010 the Net International Reserves of the Bank of Jamaica stood at US\$1.75 billion compared to US\$1.63 billion as at March 31 2009. Gross reserves amounted to US\$2.4 billion, representing adequate coverage of some 17.4 weeks of imports of goods and services.

2. FISCAL OUTTURN 2009/10 AND PROJECTIONS 2010/11

- The fiscal programme for FY 2009/10 was geared towards achieving a fiscal deficit of 5.5% of GDP, down from 7.3% in FY 2008/09 as a precursor towards a sustained reduction in the debt/GDP ratio over the medium term.
- Faced with a significant shortfall in revenue flows and higher expenditure outlay, arising from costs associated with higher than anticipated domestic interest payments due to the JDX. The First Supplementary Estimates were tabled in September 2009. These Estimates reflected a revision in the fiscal deficit target to 8.7% of GDP.

- Under the aegis of the IMF Stand-by Agreement (SBA) the fiscal targets were further revised. The fiscal deficit target was set at J\$106.7 billion, or 9.6% of GDP.
- The SBA however utilizes the Central Government's primary balance (revenue & grants less non-interest expenditure) as the main fiscal quantitative performance target rather than the fiscal balance. The primary balance for FY 2009/10 was set at \$66.9 billion.
- Provisional data indicates that for FY 2009/10, the Central Government primary surplus amounted to \$68.1 billion, which was \$1.2 billion better than the SBA target.
- Central Government operations generated a fiscal deficit of \$120.6 billion or 10.9% of GDP.

Projections 2010/11

- The FY 2010/11 Budget has been crafted during one the most challenging periods in recent years. The challenges arise against the backdrop of a less than favourable international economic and financial climate resulting from lower levels of economic activity in the world's major economies, which contributed to a sharp decline in the domestic economy.
- Budgeted expenditure for FY 2010/11 is \$503.9 billion. The Budget reflects expenditure of \$407.1 billion and amortization payments of \$96.8 billion.

- As in previous years, debt-servicing of \$240 billion accounts for the largest portion of the budget (47%), but is significantly reduced compared to a share of 60% last year. This is followed by education services of \$71.9 billion (14.2%), national security services of \$38 billion (7.5%) and health services of \$31.6 billion (6.2%).
- For FY 2010/11 revenue and grants are projected at \$326.3 billion. This represents an increase of 8.5% over FY 2009/10. Tax revenue of \$287.2 billion is budgeted to grow by 8.0% over collections in FY 2009/10.
- In FY 2010/11, the Government proposes to borrow \$176.3 billion to cover the projected fiscal deficit of 6.5% and amortization payments. Of this total \$118 billion is programmed to be raised from the domestic market. The remainder of \$58.3 billion is to be raised from external sources, in the form of investment project loans and policy based/development policy loans.

3. THE MEDIUM-TERM ECONOMIC PROGRAMME

Mr. Speaker, when this Government came into office in 2007, core issues at the heart of our economic challenges included anemic growth levels, an oppressive and unsustainable debt burden, and poor fiscal discipline and accountability.

In an effort to combat these and to place the country on a firm path of sustainable growth and development, the government has embarked upon a vigorous economic reform programme to raise the real GDP growth rate, reduce public debt, and permanently instill fiscal discipline and accountability through a stronger institutional framework for government finances.

As I have previously explained, the medium-term programme rests on three central and interrelated pillars:

- I. A fiscal consolidation strategy focused on streamlining expenditure and reforming the public sector, including divestment of some public bodies.
- II. Reforms to continue the strengthening of the financial system.
- III. A comprehensive debt management strategy

Fiscal Consolidation

In relation to the fiscal consolidation strategy the Government of Jamaica took a decision to amend the Financial Administration and Audit Act ('FAA') and the Public Bodies Management and Accountability Act ('PBMA') so as to establish Fiscal Responsibility Framework legislation confirming our commitment to institute a culture and process that will promote fiscal discipline. The amendments

to the FAA Act, as passed in this honourable House last month, seeks to correct shortcomings identified in the existing fiscal policy and administrative systems relating, in particular, to the control of expenditure, reporting of financial performance, accountability, and transparency.

For too long we have allowed some Public Sector bodies to incur significant sums of debt which ultimately have to be absorbed by central government, thereby increasing the fiscal deficit. Mr. Speaker some of the examples are NROCC, Air Jamaica, Sugar Company of Jamaica, JUTC, CAP and others.

On March 25, 2010, the first in the history of this Parliament, we tabled consolidated estimates of expenditure for the Central Government and public sector bodies. Total expenditure for central government and the public sector bodies is projected at \$869 billion in FY 2010/11 comprising recurring expenditure of \$634.6 billion and capital expenditure of \$234.6 billion.

Currently, we have 195 active entities and 43 inactive entities. It is projected that Central Government will fund 34 % of these entities, while another 24% will be partially funded by the Consolidated Fund. The remaining 46% is expected to generate adequate revenues to fully finance their operations, including, remitting \$23.37 billion to Central Government as corporate and other taxes.

The Capital Expenditure for the active self-financing entities is projected to increase by \$30 billion this year with the major portion of this expenditure being accounted for in the UDC, NHT, Port Authority, NWC and JUTC.

Of the 74 inactive public sector bodies, 31 are to be wound-up, 34 are to be merged with the existing operations and the remaining 9 are currently under review to determine their optimal mode of operation.

In respect of privatization we are:

- proceeding with the Air Jamaica divestment and have budgeted \$22 billion to spend in this fiscal year;
- we are proceeding with the privatization of the Sugar Company of Jamaica. We successfully privatized two of the entities during the last fiscal year and we expect to complete the process this year;
- we have started the process of privatization of the Port of Kingston, the Norman Manley Airport, and selected bauxite interests, including CAP.

Mr. Speaker, we intend to be extremely aggressive with our privatization efforts during this fiscal year. The current asset base of these public sector entities is projected at \$774 billion for 2010/2011 and it is our opinion that these assets are best utilized by the private sector.

Air Jamaica Divestment

Mr. Speaker, I would like to pause here to inform the House on the progress of the Air Jamaica divestment:-

Over the past few weeks Air Jamaica and Caribbean Airlines have been involved in intense discussions, with a view to finalizing all the terms and contracts.

Caribbean Airlines has been carrying out detailed due diligence, which includes financial, human resource, and other qualitative reviews.

In the meantime the regulatory authorities, and Air Jamaica team, have been having discussions with the US and Canadian Departments of Transport, with a view to ensuring that all regulatory approvals are obtained to facilitate the transition to the Caribbean Airlines operation. This operation will take the form initially of a transition period, where Air Jamaica will continue to operate its routes under the control of Caribbean Airlines, and will eventually morph into a Caribbean Airlines operation.

A newspaper report today stated that the delay in the transition is linked to the Government's "failure to reach an agreement" with the US Department of Transportation. This is incorrect. The fact is that before Caribbean Airlines can take over the routes of Air Jamaica there must be an agreement between the Government of Jamaica and the Government of the US – a process which has just started and will take some months to complete. During this transition period the airline will operate using its current exemption authority.

Yesterday [April 7, 2010] both parties arrived at consensus to extend the date to start the transition arrangement to May 1, 2010 deferred from April 12, given the need to ensure that the transaction gets enough time to be well executed, and that all regulatory requirements are in place.

The teams continue to work towards the date of April 30, 2010 and as a consequence the timing of the full redundancy has been similarly moved to April 30.

Central Treasury Management System (CTMS)

Mr. Speaker, we have spoken of the Government's intention to establish a central treasury management system (CTMS) to bring responsibility for treasury management functions under one agency, thereby eliminating the overlap, duplication and inefficiencies of the current system. The CTMS will establish a Treasury Single Account (TSA) to improve cash management.

The work to establish the CTMS is advancing with the appointment of a Coordinator and the establishment of a working committee to get the CTMS operational by December 2010.

Consistent with the establishment of the CTMS that will ensure the better management of public resources, 16 Public Bodies were recently asked to make financial distributions/dividend payments to the Consolidated Fund to assist the Ministry of Finance and the Public Service in meeting targets under the economic programme for the 2009/10 financial year. The request was made of those Public Bodies whose profitability and cash flow indicated their ability to pay and that their medium to long-term capital programmes would not be jeopardized. The amount contributed is approximately \$5.0 billion

Over the years, the Government has invested substantial sums in public entities and has had to absorb significant losses incurred by some. It is plain good sense that those that operate in surplus make a contribution toward Government's fiscal needs. I would like to thank the Board and Management of those public entities who so readily cooperated.

Financial System Reform

In fulfilling our commitment to strengthening the financial system, the Government made progress in drafting of an enhanced legal framework as part of an omnibus banking law that will allow for more effective supervision of financial conglomerates by harmonizing the prudential standards that apply to commercial banks, merchant banks, and building societies.

The Bank of Jamaica Act will also be amended to establish the legal framework to underpin its responsibility for overall financial system stability by December 2010. This will allow the BOJ to access data from parent or affiliate institutions that might not be a part of a conglomerate group. It will also provide a stronger basis for the BOJ to provide financial support to non-banks, if needed, for securing financial system stability during periods of extreme volatility.

The Government will reform the securities dealer sector to strengthen its ability to withstand shocks. The Government is also taking steps to shift risks to investors by encouraging the development of collective investment schemes, by amending the Unit Trust Act. Amendments to this act will come into effect by December 2010.

Debt Management Strategy

Following an assessment of the impact of the global economic crisis on the operations of the Central Government and in particular on the debt operations, the Government of Jamaica took the strategic decision during the third quarter of the fiscal year, to execute a comprehensive liability management programme with respect to its domestic debt through a debt exchange initiative that was marketed as the Jamaica Debt Exchange (JDX). The JDX was an integral component of the Government's economic programme developed to achieve cost savings

complementary to other savings to be achieved from fiscal and tax measures to ensure sustainability of the public finances.

As you would be aware Mr. Speaker, on January 14, 2010, the Government launched the JDX. The 99.2% unprecedented participation rate succeeded at securing substantial fiscal savings by exchanging existing high cost debt for new instruments that have lower coupons and longer maturities. This has created fiscal space and time to consolidate the economic reform programme.

I wish to commend all participants in the debt exchange for demonstrating an appreciation of the national predicament and for the confidence shown in our ability to carry forward this historic initiative including critical reforms and related monetary and fiscal commitments.

The Government of Jamaica has demonstrated the political will to change Jamaica's economic landscape and our people are demonstrating the strength and resilience to collectively change the country's debt profile.

Economic Performance within the IMF Agreement

In Summary:-

- Economic growth of 0.5% is projected in 2010/11. This is expected to increase to 2% in each year from 2011/12 through 2013/14.
- Inflation is expected to moderate to the range of 7.5% to 9.5% in this fiscal year and trend downwards to the 6-7 % range over the medium term.
- Fiscal policy is aimed at eliminating the overall public sector deficit over the medium-term and putting the debt-to-GDP ratio on a downward trajectory.

The programme projects a deficit of 6.5% for 2010/11, towards a balanced budget in 2013/14.

- The current account deficit of the balance of payments is expected to improve markedly from a projected deficit of 9 1/2 % of GDP in this fiscal year to 5% of GDP.
- Gross international reserves are expected to remain at around 16 weeks of imports of goods and services over the medium term.

| Medium Term Macro-Economic Targets | | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | | | | | | | |
| As @ 12 March 2010 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
| GDP (J\$bn) | | | | | | | |
| Value Added @ 2003/04 basic prices | 508.8 | 500.7 | 488.3 | 490.6 | 500.4 | 510.4 | 520.6 |
| % Chg | 0.6 | -1.6 | -2.5 | 0.5 | 2.0 | 2.0 | 2.0 |
| GDP @ Current Mkt. Prices* | 922.7 | 1037.5 | 1109.8 | 1250.5 | 1355.5 | 1493.4 | 1629.9 |
| % Chg | 13.2 | 12.4 | 7.0 | 12.7 | 8.4 | 10.2 | 9.1 |
| | | | | | | | |
| Inflation | | | | | | | |
| Quarterly | | | | | | | |
| Annual Pt to Pt | 19.9 | 12.4 | 13.5 | 8.0 | 6.9 | 7.6 | 7.0 |
| Annual Average | 12.3 | 20.2 | 9.7 | 12.2 | 6.3 | 8.0 | 7.0 |
| | | | | | | | |
| NIR Passive (US\$mn) (eop) | 2083.3 | 1628.6 | 1751.9 | 1536.0 | 1649.2 | 1763.9 | 1836.3 |
| Change in NIR (US\$mn) | -246.0 | -454.7 | 123.3 | -215.9 | 113.2 | 114.7 | 72.4 |
| Fiscal Deficit (%GDP) | -4.6 | -7.3 | -10.9 | -6.5 | -4.3 | -2.9 | -0.7 |
| | | | | | | | |

As you will recall Mr. Speaker, a Standby Agreement of US\$1.27 billion (SDR 820.5 million) for Jamaica was approved by the Executive Board of the International Monetary Fund on Thursday, February 4, 2010, and paved the way for the other multilaterals to pour in additional credit of some US\$1.1 billion. The US\$2.37 billion pool of funds will support the Government's economic programme and help cope with the consequences of the global downturn over the 27-month period of the agreement. Upon the approval of the agreement, a disbursement of US\$640 million was immediately available to Jamaica. Subsequently, initial disbursements of Policy Based Loans (PBL's) totaling US\$200 million from the Inter-American Development Bank (IDB) and Development Policy Loans (DPL's) of US\$200m from the World Bank were approved.

IMF Performance Criteria

Mr. Speaker, subsequent drawdown of funds under the IMF Stand-By Agreement is conditional on the attainment of agreed specific quarterly performance targets towards meeting the medium term objectives.

The main variables that are subject to quarterly quantitative performance targets are:

- Cumulative Floor of the Central Government Primary Balance
- Cumulative Floor on Overall Balance of Public Bodies
- Ceiling on the Stock of Central Government Direct Debt
- Ceiling on Net Increase in Central Government Guaranteed Debt
- Ceiling on Central Government Accumulation of Domestic Arrears
- Ceiling on Central Government Accumulation of Tax Refund Arrears
- Floor on Accumulation of BOJ Net International Reserves
- Ceiling on Net Domestic Assets of the Bank of Jamaica

An evaluation and assessment of the end-march 2010 performance criteria will be completed in another 4-6 weeks towards the first programme review which will be on May 31, 2010. However, at this point in time let me highlight the performance of some key monetary and fiscal targets against the March 31 performance criteria:-

- In relation to Bank of Jamaica operations, the accumulation of BOJ's Net International Reserves since December 2009 was well above the targeted floor. The extent of this over-performance was broadly reflected in the Net Domestic Assets of the Bank that stood well within the targeted ceiling.
- Mr. Speaker, as I have already stated, preliminary data suggest that the Central Government performance for the fiscal year resulted in a fiscal deficit of 10.9% of GDP. The primary balance, defined as total revenue collected less what is paid out for recurrent and capital expenditure, was kept above the targeted floor.

Multilateral Support

Mr. Speaker, let me take this moment to underscore the extraordinary level of support for the people of Jamaica by our international development partners, particularly since this administration took office in September 2007.

For the period December 2007 to March 2010 loans approved by the IDB totaled US\$766.0 million, for the World Bank US\$406.0 million and for the CDB US\$216.3 million, and grants from the European Union totaled 205.7 million Euros. In this calendar year alone, some US\$200 million was borrowed from the World Bank to support a series of measures to enhance fiscal and debt

sustainability, increase the efficiency of public financial management and budgeting processes, and further strengthen tax administration in order to increase tax revenues. This was at an interest rate of 0.63%. Similarly, some US\$215 million was borrowed from the Inter-American Development Bank (IDB) to support public financial management, competitiveness enhancement, and for the Jamaican education sector. These loans averaged 1.23%.

Mr. Speaker, this level of support is unprecedented. Let me reiterate that our engagement of the multilaterals represents borrowing that is smarter and cheaper and is accompanied by measures to strengthen and right-size the economy, including improved governance, increased transparency and accountability and macroeconomic stability. Our partnerships with the multilaterals are particularly critical at this moment in our development journey and, on behalf of the Government and people of Jamaica, I want to underscore our deep appreciation for the strong support.

4. EXPENDITURE BUDGET HIGHLIGHTS 2010/11

For this fiscal year the Government plans to spend \$503.9 billion of which \$343.9 billion will be on recurrent expenditure, and \$63.2 billion on capital programmes and \$96.8 billion on debt amortization. I wish to now highlight some expenditure items:-

Pension Liabilities

Mr. Speaker, in the 2010/2011 budget we have made an allocation of \$16B for retired civil servants' pension. This represents 5% of the total recurrent

expenditure budget. During this fiscal year we hope to complete the technical assessment as to whether we should move to a defined contributory scheme.

Outstanding Public Sector Wage Obligations

Mr. Speaker, I now turn to the matter of outstanding amounts owed to workers in the public sector.

I consider it necessary however, to give to the House and the nation the background as to the position that now confronts the country in relation to outstanding wage obligations to public sector workers and to the size of the public sector wage bill.

Mr. Speaker, in FY 2006/2007 the public sector wage bill stood at approximately \$82B. In the FY 2009/2010 just ended, the public sector wage bill stood at approximately \$126B, a massive increase of \$40B. This increase was due partly to the 15% wage increase granted to the public sector effective April 1, 2008, but more so, to certain extra-ordinary increases in relation to two public sector groups.

Firstly, the Police, who in addition to the general increase of 15%, was granted an increase in respect of compensation for working over and above 40 hours per week. This was a long outstanding issue for which there was no resolution and the Government considered it necessary to deal with the matter.

Accordingly, while there was a general 15% increase across the public sector, the increase in emoluments to the Police amounted to 35% because of a 19% increase with the introduction of the allowance for working above 40 hours per week and a further 1% in respect of other allowances. [Had the 7% Year 2 increase been

granted, the Police would have received a 42% wage increase compared to 22% for the rest of the public sector.]

Secondly, the Teachers, who had entered into an agreement with the previous Government to institute, as of April 1, 2007, a pay adjustment, commonly referred to as the '80% of Market Study'.

Mr. Speaker, the pay adjustment for the Teachers came at an enormous cost to the Government. In FY 2006/2007 the Teacher's wage bill stood at \$23.8B. With the pay adjustment as well as the 15% wage increase the Teacher's wage bill in FY 2009/2010 amounted to \$43.7B – a massive \$19.9B increase or 84% increase over the 2006/2007 wage bill. This increase represents 50% of the overall increase of \$40B in the public sector wage bill between FY 2006/2007 and FY 2009/2010. Mr. Speaker, this Government therefore has treated in an unprecedented and substantial way with the emoluments paid to the country's Teachers.

Mr. Speaker, everyone is aware of the state of the country's finances which resulted in the Government having to institute a wage freeze in April 2009 thereby freezing the 7% increase which would have been due for the 2009/2010 Financial Year. Mr. Speaker, everyone is also aware that the country has entered into an agreement with the International Monetary Fund (IMF) in which we have committed:

1. to maintain the current freeze on wages and salaries into FY 2011/2012 - a further 2 years;
2. that wage and salary increases agreed to, but which have not yet been paid, are to be paid over the medium term of 4 years; and

3. that new compensation agreements are to be better aligned to the budget process and budget constraints, to ensure that Government's objective of reducing the size of the public sector wage bill from 11.75% of GDP to 9.5% over the next 4 years, is achieved.

Mr. Speaker, against this background we cannot meet all the outstanding obligations which fall due in this Financial Year, totaling \$9.4B, as follows.

| | | |
|--|---|----------|
| Nurses | - | \$1B |
| JDF | - | \$1.3B |
| Contract Police Officers | - | \$74M |
| Law School | - | \$154M |
| West Indies Group of University Teachers | - | \$543M |
| General Allowances to the Civil Service | - | \$2.329B |
| Teachers | - | \$4.0B |

Mr. Speaker, the payments to the Nurses, the JDF, the Contract Police Officers, the Law School and the West Indies Group of University Teachers all involve payment of the 15% wage increase and increase in allowances due April 1, 2008.

The amount due to the Civil Service is in respect of allowances only, the Civil Servants having been paid their 15% wage increase. Likewise Mr. Speaker, the Teachers have been paid their 15% wage increase and what is now outstanding represents arrears on their pay adjustment for the 2007/2008 Financial Year.

Mr. Speaker, the Government has continually restated its intention to satisfy the amount due to all public sector groups but cannot accommodate these payments in one fiscal year, and can only do so over at least three fiscal years.

Mr. Speaker, there has been ongoing consultations with all public sector groups in respect of the outstanding obligations. The Government has been working diligently in exploring all the ways in which it can meet some of these obligations without jeopardizing our ability to meet the quarterly IMF tests. We are near to the stage when we can engage in formal consultation with all groups and expect to do so within a matter of weeks, if not days.

Mr. Speaker, in the meantime, I appeal to all public sector groups to carefully consider the state of the country's finances, to consider our agreement with the International Monetary Fund (IMF), which is designed to improve the country's fiscal and monetary health and to work with the Government in resolving public sector wage issues in an atmosphere of understanding, peace and harmony.

SOCIAL SAFETY NET

Mr. Speaker, the level of support we have given to the social safety net is unprecedented. You may recall that Government gave a firm commitment to preserving and enhancing critical social programmes and government initiatives. The record will show that despite the challenging fiscal environment within which we have had to operate, we have delivered on this commitment. We have not only managed to maintain the social safety net, we have significantly enhanced it, at a time when this support is most needed.

This was not accomplished by chance. It is the direct result of strong political will, careful prioritization and realignment, and efficient allocation of government resources.

Mr. Speaker, The preservation of the social safety net was a **promise made** – and a **promise kept**.

The PATH Programme

Mr. Speaker, the Programme of Advancement through Health and Education (PATH) remains the standard bearer as far as poverty relief is concerned. In pursuit of its mandate to mitigate the hardships faced by the poor and cater to the most vulnerable among us, the PATH programme has distinguished itself as a top quality social programme.

Against this background Mr. Speaker, we expanded the PATH Programme by an additional 114,000 persons, an increase of 50% since this government came to office. And an additional 18,000 beneficiaries are targeted to be registered in 2010/11 for a total of over 360,000 people, an increase of 58% since coming to office.

Beneficiaries – PATH Programme FY 2006/07 – 2010/11

| CATEGORY | FY 06/07 | FY 07/08 | FY 08/09 | FY 09/10 | FY 10/11 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Number of Registered Beneficiaries | 227,949 | 247,629 | 306,699 | 341,453 | 360,000 |
| % Increase | - | 8.63% | 23.85% | 11.33% | 5.43% |

Table 1.0 Total Number of Beneficiaries under the PATH Programme

In respect of expenditure, this will be increased in 2010/11 by 34.19% or \$868.2 million over 2009/10. Since coming to power, the PATH Programme expenditure has increased by 180% moving from \$1.2 billion to \$3.4 billion. This includes a substantial increase of PATH assistance to children attending school which has moved from \$604 million in 2006/07 to \$2.2 billion in 2010/11.

**Expenditure – PATH Programme
FY 2006/07 – 2010/11**

| CATEGORY | FY 06/07 \$ '000 | FY 07/08 & '000 | FY 08/09 \$ '000 | FY 09/10 \$ '000 | FY 10/11 \$ '000 |
|-----------------------|---------------------------------|------------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Health | 246,134.12 | 255,412.30 | 342,565.19 | 391,518.4 | 435,728.30 |
| Education | 604,140.64 | 700,137.42 | 1,108,188.14 | 1,554,973.3 | 2,232,933.34 |
| Pregnancy | 4,223.04 | 4,678.84 | 6,547.70 | 8,411 | 30,796.87 |
| Adult poor | 3,443.94 | 4,331.16 | 6,063.80 | 11,360.7 | 30,796.87 |
| Elderly | 205,751.58 | 232,863.98 | 321,240.50 | 372,106.8 | 461,953.01 |
| Disability | 31,504.26 | 37,341.68 | 59,097.50 | 72,668.7 | 92,390.60 |
| Poor Relief | 117,769.17 | 113,320.28 | 133,068.67 | 128,515.88 | 123,187.50 |
| Hurricane Dean | N/A | 170,534.00 | N/A | N/A | N/A |
| TOTAL | 1,212,966.63 | 1,518,619.66 | 1,976,771.50 | 2,539,554.78 | 3,407,786.49 |
| % Increase | - | 25.20% | 30.17% | 28.47% | 34.19% |

Table 1.1 Total Expenditure under the PATH Programme

SUPPORT FOR EDUCATION/REMOVAL OF COST-SHARING

Mr. Speaker, this government has focused heavily on education. A critical feature of our investment in education is the increased access of students to secondary education through the removal of tuition fees. Mr. Speaker, tuition-free education at the secondary level, was a **promise made** – and a **promise kept**.

**Tuition Benefit Received by Secondary School Students
FY 2004/05 – FY 2009/10**

| FINANCIAL YEAR | Number of Students Benefiting | Type of Benefit |
|-----------------------|--------------------------------------|------------------------|
| 2004/05 | 203,305 | Cost Sharing |
| 2005/06 | 203,329 | “ |
| 2006/07 | 213,526 | “ |
| 2007/08 | 218,101 | Tuition-Free Education |
| 2008/09 | 220,957 | “ |
| 2009/10 | 222,947 | “ |

Table 2.0 Number of Students Benefiting from Tuition-Free Education

Note: FY 2007/08 saw the inception of Tuition-free Education at the Secondary Level. Prior to that students at the secondary level benefited under the cost sharing programme.

Mr. Speaker, under this administration, some 222,947 students at the secondary level have benefited from tuition-free education. Tuition-free education at the secondary level has enabled many students with acute socio-economic challenges to better access this priceless commodity. It has also allowed many to attend school more consistently.

Our investment in the training and development of our people goes way beyond the removal of tuition fess at the secondary level.

**Total (Recurrent and Capital) Expenditure – Education
FY 2006/07 – 2010/11**

| FUNCTIONS | FY 06/07 | FY 07/08 | FY 08/09 | FY 09/10 | FY 10/11 |
|---------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Total \$'000 | Total \$'000 | Total \$'000 | Total \$'000 | Total \$'000 |
| Central Administration | 3,134,237 | 3,711,602 | 4,655,786 | 3,674,189 | 3,159,401 |
| Elections | - | - | - | 833,415 | 761,798 |
| Early Childhood | 1,487,054 | 2,164,534 | 2,178,237 | 2,332,363 | 2,506,627 |
| Primary Education | 14,117,669 | 14,545,411 | 18,431,936 | 22,890,574 | 22,431,144 |
| Special Education | 432,970 | 607,531 | 799,660 | 904,723 | 906,659 |
| Secondary Education | 14,000,793 | 18,112,562 | 21,038,198 | 25,339,992 | 24,659,581 |
| Tertiary Education | 8,571,932 | 10,033,139 | 12,742,624 | 13,122,426 | 12,489,835 |
| Adult Education | 127,781 | 134,951 | 164,103 | 163,529 | 150,366 |
| Common Services | 1,233,168 | 1,265,381 | 1,651,605 | 1,563,762 | 1,965,493 |
| Library Services | 683,143 | 787,493 | 916,014 | 804,592 | 758,667 |
| Students' Nutrition | 579,336 | 1,032,121 | 1,659,613 | 2,582,711 | 2,932,847 |
| TOTAL EDUCATION BUDGET | 44,368,083 | 52,394,725 | 64,237,776 | 74,212,276 | 72,722,418 |
| % Year on Year Increase | - | 18.09% | 22.60% | 15.53% | (2.01%) |
| Promotion of Arts & Culture | - | - | - | - | - |
| Disaster Management | - | 500,000 | 50,000 | 34,933 | 60,237 |
| Youth Development Programme | 596,355 | 712,311 | 721,385 | 562,191 | 584,664 |
| TOTAL MINISTRY BUDGET | 44,964,438 | 53,607,036 | 65,009,161 | 74,809,400 | 73,367,319 |
| % Year on Year Increase | - | 19.22% | 21.27% | 15.08% | (1.93%) |

Table 2.1 Total Expenditure on Education

Mr. Speaker, the education sector continues to receive a most enviable share of the national budget. This year's allocation to the sector amounts to some 14.56% of the national budget – closer to the target of 15%.

This overwhelming investment in the development of our human resources is investment well made, Mr. Speaker.

Expanded School Feeding Programme

Mr. Speaker, appropriate nutrition is essential to the academic success of our children. The School Feeding programme is designed to support the nutritional needs of our children, particularly those who can ill-afford adequate catering to those needs.

The government has seen it fit to expand the School Feeding programme, providing even greater support to our children. Good nutrition is vital to the physical, social and mental development of our children as poor nutrition diminishes their cognitive development and compromises their ability to effectively participate in learning experiences.

Mr. Speaker, it is with this in mind that the government took a decision to expand the School Feeding Programme which has moved from feeding 113,000 students in 2007/08 to a targeted 220,000 students in this fiscal year – 94% increase.

PATH Beneficiaries – Expanded School Feeding Programme FY 2007/08 – 2010/11

| CATEGORY | FY 07/08 | FY 08/09 | FY 09/10 | FY 10/11 |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Number of PATH Beneficiaries | 113,167 | 119,000 | 185,371 | 220,000 |
| % Year on Year Increase | - | 5.16% | 55.77% | 18.68% |

Table 3.0 Total number of beneficiaries under the School Feeding Programme

Note: The first budgetary provision for PATH under the School Feeding Programme was made in FY 2007/08.

**Other School Feeding Benefits
FY 2010/11**

| CATEGORY | NUMBER OF BENEFICIARIES |
|--|--------------------------------|
| Nutrition Products Ltd. (Nutribun & Milk Programme) | 136,000 |
| Feeding Grants | 175,000 |
| Commodities (Used to Prepare Meals) | 86,000 |
| Nutrition Subsidy to Basic Schools | 96,309 |

Table 3.1 Number of Students receiving other School Feeding Benefits

**Total Expenditure – School Feeding Programme
FY 2006/07 – 2010/11**

| CATEGORY | FY 06/07 \$ '000 | FY 07/08 \$ '000 | FY 08/09 \$ '000 | FY 09/10 \$ '000 | FY 10/11 \$ '000 |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Allocation for PATH under the School Feeding Programme | N/A | 438,750 | 938,750 | 1,470,000 | 1,831,888 |
| Allocation for Nutrition Products Ltd. (Nutribun & Milk) | 318,147 | 375,329 | 449,652 | 717,359 | 706,878 |
| Allocation for Feeding Grants (Lunch Programme) | 61,250 | 61,250 | 61,250 | 62,110 | 83,250 |
| Allocation for Commodities Used to Prepare Meals (Lunch Programme) | 191,968 | 149,605 | 199,049 | 297,303 | 297,303 |
| Allocation for the Nutrition Subsidy to Basic Schools | 26,987.45 | 26,686.44 | 25,064.50 | 30,000.00 | 25,834.75 |
| TOTAL | 596,569.68 | 1,049,602.44 | 1,672,805.18 | 2,570,849.18 | 2,945,153.75 |

Table 3.2 Total Expenditure under the School Feeding Programme

Note: The first budgetary provision for PATH under the School Feeding Programme was made in FY 2007/08.

Abolition of Hospital User Fees

Mr. Speaker, the abolition of user fees at public hospitals represents another seminal accomplishment in respect of the social safety net. It has provided access to quality healthcare for many who could ill-afford accessing health care.

**Beneficiaries – Abolition of User Fees at Public Hospitals
FY 2006/07 – 2010/11**

| CATEGORY | FY 2007/08 (Pre-Abolition of Hospital User Fees) | FY 2008/09 | FY 2009/10 | FY 2010/11 |
|---|---|-------------------|-------------------|-------------------|
| Visits to Health Centres | 1,485,993 | 1,728,570 | 1,614,246 | 1,596,130 |
| Number of Persons Admitted to Accident and Emergency | 815,997 | 812,699 | 824,254 | 816,479 |
| Number of Persons Admitted to Public Hospitals from Accident and Emergency | 94,162 | 89,292 | 91,924 | 91,817 |
| Number of Persons Seen for Pharmacy Services | 739,393 | 843,691 | 973,178 | 837,936 |

Table 5.0 Number of Persons benefiting from the Abolition of User Fees at Public Hospitals

Mr. Speaker, since the abolition of user fees at public hospitals, we have seen steady increases in the use of public healthcare services ranging from 16% to 32%. This, Mr. Speaker, represents a significant enhancement in the social safety net.

Constituency Development Fund (CDF)

Despite the challenges, the same level of \$20.0 million per constituency has been preserved because the Government recognizes that the CDF is an important part of our social safety net. The CDF enables Members of Parliament to be more responsive to individual and community needs to include: minor water supplies and trucking of water, housing repairs, community road repairs, back-to-school assistance and welfare assistance to name just a few of the areas supported by the CDF.

Doubling of the Income Tax Threshold

An important part of enhancing the social safety net for our PAYE workers was the Government's decision to double the income tax threshold from \$220,000 to \$440,000, leaving \$55,000 more per year in the hands of workers as disposable income.

Other Social Programmes

Mr. Speaker, the social safety net remains buoyed by benefits derived from various social programmes. The work of several organizations such as the CHASE Fund, the Jamaica Social Investment Fund (JSIF), the National Health Fund (NHF), and the Sports Development Foundation (SDF), continue to make marked contributions to human development and nation-building.

These organizations engage in work aimed at improving quality of life and providing opportunities for self-empowerment. Of note are the 125% increase in expenditure projected for JSIF and 26.0% increase in projected expenditure at the National Health Fund.

**Total Expenditure – Other Social Programmes
FY 2009/10 – 2010/11**

| SELECT SOCIAL PROGRAMMES | FY 2009/10 \$'000 | FY2010/11 \$'000 |
|--|----------------------|---------------------|
| Jamaica Social Investment Fund (JSIF) | 1,046,517.00 | 2,359,603.00 |
| <i>% Increase</i> | - | <i>125.47%</i> |
| CHASE Fund | 1,038,230.00 | 1,068,380.00 |
| <i>% Increase</i> | - | <i>2.90%</i> |
| National Health Fund (NHF) | 2,357,000.00 | 2,976,000.00 |
| <i>% Increase</i> | - | <i>26.26%</i> |
| Sports Development Foundation (SDF) | 409,590.00 | 408,800.00 |
| <i>% Increase</i> | - | <i>(0.19%)</i> |

Table 4.0 Total Expenditure in respect of Other Social Programmes.

Mr. Speaker, when all these social programmes are combined, it is undeniable that the support to hundreds of thousands of Jamaicans through PATH, Education, Health, CDF and Social Benefit organizations, represents an unprecedented level of support in uplifting the life of Jamaicans – **Promise made, promise kept.**

5. FINANCING THE BUDGET FY2010/11

Revenue and Grants

Expected revenue and grants for this fiscal year will be \$326.3 billion with tax revenue contributing 88% of this total.

| | <i>J\$ billion</i> |
|-----------------|---------------------------|
| Tax revenue | 287.2 |
| Non-tax revenue | 20.1 |
| Bauxite levy | 0.7 |
| Capital revenue | 2.7 |
| Grants | 15.6 |
| Total | 326.3 |

The projected deficit for the fiscal year is 6.5% of GDP. Borrowing to close the financing gap will be \$176.3 billion, which is substantially less than the \$301.5 billion borrowed last year. This is another indicator of the success of the JDX initiative.

| | <u>2009/10</u> | <u>2010/11</u> |
|---------------|---------------------------|-----------------------|
| | <i>J\$ billion</i> | |
| Loan receipts | 301.5 | 176.3 |
| -External | 52.7 | 58.3 |
| - Domestic | 248.8 | 118.0 |

6. IMPROVING TAX ADMINISTRATION AND TAX COMPLIANCE

I had previously announced that there would be no new taxes in fiscal year 2010/11, with the exception of changes to the property tax rates. The new property tax rates were announced in this honourable House last week and took effect on April 1, 2010. I stand by our promises for this fiscal year 2010/11.

Cabinet has examined and deliberated on a number of proposed amendments to the GCT and Income Tax Acts, aimed at strengthening the compliance and enforcement capabilities of the Tax Administration. These proposed amendments along with other legislative changes will complement the work now being done by the tax authorities, who will further intensify their enforcement actions against delinquent taxpayers in the 2010/11 fiscal year.

I make an appeal to persons who are in arrears or who are underreporting their taxes to stop doing so and to pay their fair share – no more, no less.

PROPOSED AMENDMENTS TO THE GCT ACT AND REGULATIONS:

The proposed amendments to the GCT Act and Regulations will allow for greater efficiency and effectiveness in the system of collection and a widening of the tax base. Additionally, the current provisions dealing with offences are inadequate and the fines and penalties inappropriate, and will be changed. The changes are aimed at sending a strong signal to delinquents.

Penalties and Fines

In respect of the GCT Act, some of the amendments proposed to increase/impose fines/penalties for the following offences are:

| OFFENSE | CURRENT PROVISION | PROPOSED AMENDMENT |
|--|---|---|
| Failure to apply for Registration | <ul style="list-style-type: none"> • Individual: penalty of \$5,000 • Body Corporate: penalty of \$10,000 | Penalty of \$100,000 |
| Failure to file a GCT return | <ul style="list-style-type: none"> • Individual: penalty of \$1,000 • Body Corporate: penalty of \$2,000 | Penalty of \$10,000 |
| Failure to display GCT Certificate of Registration | No penalty | \$50,000 or imprisoned for up to 3 months or both |
| Failure to issue a tax invoice | Offence, no specific penalty | \$500,000 or imprisoned for 12 months |
| Failure to supply records | Offence, no specific penalty | \$500,000 or imprisoned for 12 months |
| Failure to return a tax certificate | Offence, no specific penalty | \$500,000 or imprisoned for 12 months |

In an effort to encourage persons who have outstanding amounts to come forward voluntarily, the interest rate charged for late payment of GCT is to be reduced from 2.5% to 1.5% per month.

Imported Services

Cabinet is also considering an amendment to the GCT Act, aimed at strengthening the provisions as they relate to imported services, as well as to provide a standard method of calculating input tax credits in situations where there is a combination of taxable and exempt supplies.

The amendments now proposed will also clarify the definition of imported services and specify exemptions, and set a threshold for the purpose of charging GCT on imported services.

Proposed Amendments to the Income Tax Act:

In respect of the Income Tax Act, amendments have been proposed to reduce the interest charge for late payment of Income Tax from 40% to 20% per annum.

Proposed Amendments to TCC Requirements:

We are revisiting the proposal that a Tax Compliance Certificate (TCC) become a requirement for professionals, such as doctors, lawyers, architects, to be registered to practice in Jamaica.

Proposed Introduction of a Flat Tax:

Cabinet will soon examine a proposal to introduce a flat tax for small business operators in certain fields. This proposed change will apply to artisans, such as plumbers, electricians, masons, painters, as well as transport operators. The mechanics of how this will be applied as well as the legislative provisions will be worked out by the tax authorities.

Reform of Tax Administration

The Cabinet has approved a submission paving the way for the transformation of the Tax Administration into a leaner and more efficient entity. Following the required legislative changes, the Taxpayer Audit & Assessment Department, the

Inland Revenue Department and the Tax Administration Services Department will be merged to form a single domestic Tax Administration Department.

Technical Assistance from International Community

As a matter of urgency, we are strengthening the capabilities of the Tax Administration, through assistance from the US Treasury, with the support of three (3) former IRS Agents, to enhance the capabilities of the Department.

Assistance is also being received from the Caribbean Technical Assistance Centre (CARTAC) and the IMF to develop our auditing and compliance capabilities and techniques.

Fraud Against the State

Increasingly, corruption is being discovered in several areas of Taxation and Customs. Billions of dollars have been potentially lost through corrupt practices. Strong measures are being put in place to address this crisis. The Revenue Protection Division (RPD) will be strengthened and enlarged to detect and prosecute tax officials, as well as their co-conspirators in the private sector, who cross the line.

Tax Evasion by Taxpayers

Mr. Speaker, I want to pause here to address another area which continues to wreak debilitating effects on the revenue; that is the issue of Tax Evasion. The matter has been the subject of much public debate, research and technical advice, however it persists at a disturbing rate.

Tax Evasion is globally regarded as a criminal act. It is intentional illegal behaviour, a violation of the tax laws in order to escape the payment of tax. An example of tax evasion is deliberate under-reporting of income. If you are involved in such an activity, you are regarded as stealing from the public revenue.

Mr. Speaker, if you are a businessman, who has not filed his returns, you are involved in tax evasion. If you are a professional who has under-reported his income, you are involved in tax evasion.

Mr. Speaker, we need to stop paying lip service to combating the scourge of tax evasion. We need to send an unequivocal message that you are not “smart” when you evade taxes, just as you are not smart when you steal or commit fraud.

We will tighten the laws and increase the penalties including custodial sentences. The tax authorities will continue with innovations such as the data mining facilities and the improvement of investigative capabilities.

Our goal is to stamp out this pervasive culture of tax evasion which has as its motto “catch me if you can”. Our response resonant with steely determination will be “yes we can”.

7. BUILDING THE FOUNDATION FOR PROSPERITY

The job of the Ministry of Finance and the Public Service is to establish a stable macro-economic climate that is characterized by low inflation, competitive interest rates, a stable exchange rate and equitable tax system.

When combined, these initiatives set the foundation for a competitive economy that will give incentives to entrepreneurs to invest, create jobs and earn foreign exchange.

Mr. Speaker, it is against this background that I once again highlight the Government's achievements in this regard:

- **Reduction in expenditure** – a Government that has the courage to reign in run away government spending and to establish a balanced budget over the medium term.
- **Falling Interest Rates** – with BOJ benchmark rates – the lowest in 24 years – creating the opportunity to borrow at lower cost.
- **Stable Exchange Rate** – with depreciation sharply moderated over the past year leading to an appreciation over the past several weeks.
- **Available Foreign Exchange** – reflecting the confidence placed in governance by our local stakeholders and International Development Partners.
- **Appropriate government policies on energy** resulting in lower energy cost which will lead to lower production costs.
- **JDX Success** – representing a collective understanding among our partners for lower interest costs on the budget and in doing business.

- **IMF Agreement** – to ensure adequate availability of foreign reserves while observing principles of prudent financial management and debt sustainability.
- **Multilateral Support** – which reflects the Government’s firm and irrevocable commitment to bring a new and transformative type of governance to the people of Jamaica.
- **Increased Social Safety Net** – which reflects the Government’s unswerving commitment to assisting our unfortunate people through these difficult times.
- **Fiscal Responsibility Law** – adding teeth to the spirit of accountability, transparency and oversight.
- **Poised for Investment** – job creation and earning our way to prosperity rather than borrowing our way to poverty.

Mr. Speaker, all combined, we are building the foundation for growth and prosperity. We have now created the fiscal space, the financial stability and the opportunity for the private sector to now take the lead in generating new investments and economic growth.

CONCLUSION

Mr. Speaker, this Government has demonstrated the political will to undertake the painful, but necessary measures to create the conditions for sustained development and growth. The Jamaican people are demonstrating tremendous understanding, strength and forbearance at this hour of great challenge.

Throughout history and across the globe, Jamaicans have shown that with determination, sacrifice, and hard work the unachievable can be achieved, the unreachable can be reached and surpassed, and the unattainable will end up in our grasp.

In every time and in every place, we have shown what we can accomplish through our efforts. What must now become our national preoccupation is our preparedness to produce our way to prosperity, to work together for wealth-creation, and to partner for progress.

Mr. Speaker, we have done it before...together we can do it again.

May God bless us all; may God bless Jamaica land we love.

Audley Shaw, MP
Minister of Finance and the Public Service

April 8, 2010