BUDGET DEBATE 2012-2013

"A New and Binding Covenant for Stability, Equitable Growth & Prosperity"

Presented by
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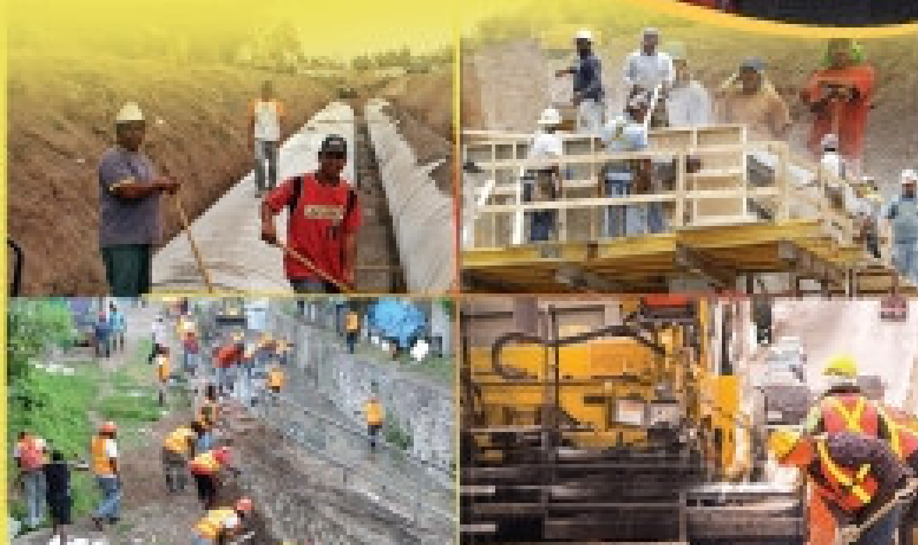
MINISTER OF FINANCE & PLANNING



HOUSES OF PARLIAMENT
GORDON HOUSE
Kingston, Jamaica
Thursday, May 24, 2012

BUDGET DEBATE 2012/2013

PRESENTATION

A NEW AND BINDING COVENANT

FOR

STABILITY, EQUITABLE GROWTH AND PROSPERITY

BY

DR. THE HON. PETER D. PHILLIPS, M.P.

MINISTER OF FINANCE AND PLANNING

THURSDAY MAY 24, 2012

GORDON HOUSE

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1.0 INTRODUCTION

In opening this debate on the 2012/13 Budget, I am mindful that my presence here is first of all a mandate from my constituents in East Central St Andrew who continue to show their satisfaction with the representation they receive by returning me to Parliament. They remain an invaluable and irreplaceable source of support, love and inspiration.

Let me pay a well deserved tribute to Prime Minister the Most Hon. Portia Simpson Miller for her leadership and for the confidence she continues to place in me as a member of the Cabinet with responsibility for an extremely critical portfolio.

I must place on record my appreciation for the support of my colleague, Minister Horace Dalley, who shares with me the responsibilities of an extremely demanding Ministry; the Financial Secretary and the staff of the Ministry of Finance and Planning for their unwavering and professional support; and my personal staff for their patience and commitment, particularly in those difficult moments which come with the territory.

I would also like to recognize the contribution of the staff in the departments and agencies which underpin the work of the Ministry; and in particular the leadership and staff of the Bank of Jamaica and the Planning Institute of Jamaica, STATIN, indeed all the agencies for their invaluable assistance in the budget preparation process.

Mr. Speaker, I want to express a special word of thanks to the thousands of well-wishers and supporters, who with their notes, their telephone calls, their letters, their BB and text messages and their prayers, offer goodwill and guidance.

Finally, let me use this opportunity to thank my family – my wife Sandra and children – one of whom has been bold enough (or foolhardy enough) to follow me into this Parliament. Words cannot adequately express my appreciation for their caring, advice, and love; without which I would not be able to withstand the vicissitudes of public life.

2.0 JAMAICA 50 YEARS ON

Mr. Speaker, this budget debate assumes special significance for the fact that it is taking place in the year that we celebrate the 50th anniversary of our Independence. We have a lot to celebrate, for no one can deny the genuine progress that our country has made over these fifty years. We have sustained and deepened our democracy; we have created a more egalitarian social order by providing unprecedented access to education and training at all levels, the improvements to our healthcare system have made life expectancy in Jamaica comparable to that which obtains in the developed countries of the world. Our performance in housing construction and the modernization of our physical infrastructure is a source of national pride. Our Artistes and Athletes have stamped the imprint of Jamaican culture on the consciousness of the world.

Yet, for all these achievements, there are deficits on our national balance sheet. One major deficit is **our failure to achieve sustained economic growth**. **Average income per person today remains the same as it was in 1973**. **Average annual growth rates have been 0.8% over the past 40 years**. In other words, Jamaica has not fulfilled the economic mission envisaged by the founding fathers.

Unfortunately, to compensate for the weak growth performance over the years we have witnessed a build-up of an unsustainable public debt stock which now stands at J$1.7 trillion which constitutes an increasing burden on the backs of the Jamaican people, and impedes our advancement as a developing country.

The debt to GDP ratio of more than 212% in 1984 was reduced to about 109% by March 2008. The ratio climbed back to about 131% of GDP by the end of March 2011. This debt has now become a burden that places a stranglehold on our capacity to fund vital social services as well as the capital investments required to support sustained growth. Jamaica is classified as a highly indebted middle income country with a Debt-to-GDP ratio of 128.0% at end March 2012. At the close of FY 2011/2012, the country's total public debt stood at $1.7 trillion of which the domestic debt was $912.6 billion and the external debt $749.6 billion (US$8.6 billion). **This translates to J$600,000.00 for every man, woman and child.**

Mr. Speaker, every well thinking Jamaican must ask the question: How did we get here? And it is important that every Jamaican understands why our low credit rating is now the major obstacle to the country's progress and development.

3.0 THE MAKING OF THE DEBT CRISIS

Mr. Speaker, the truth is, we did not get here overnight. In the mid 1970's most of the debt was owed to external commercial banks. By the late 1970's and early 1980's multilateral and bilateral agencies had become our major creditors. During the decade of the 1980s Jamaica's debt was substantially increased by heavy external borrowing from commercial, multilateral and bilateral sources for public expenditure and for balance of payments support.

The situation was further compounded by years of anaemic growth which added pressure to the fiscal resources and created debt servicing difficulties. In the decade of the 1990's, the increased reliance on domestic borrowing led to a sharp increase in the stock of domestic debt. In dollar terms the debt moved from $11.9B at end-March 1991 to $139.2B at end of March 1999. Contingent Liabilities also played a significant part in the growth of the domestic debt, particularly with the assumption of the debt related to the financial sector crisis of the late 1990's, which accounted for 40% of GDP.

Simultaneously, our Debt-to-GDP ratio also increased by 53 percentage points moving from 71% of GDP at the end of FY 1996/97 to 124% at the end of FY 2002/03. That was the cost of the FINSAC rescue of the financial institutions. There was a decrease in the early part of the 21st century, but the debt to GDP ratios again moved sharply upwards from approximately 109 per cent GDP in 2007/08 to 128.0 per cent of GDP at the end of 2011/12.

4.0 JDX

The consequences of the accumulated debt resulted in the effective closure of international capital markets to Jamaica after 2008. So grave was the situation that the previous administration felt compelled to execute a comprehensive liability management programme of its domestic debt which was marketed as the Jamaica Debt Exchange (JDX). The JDX achieved substantial cost savings for the government albeit at the expense of bondholders. Average interest rates declined, and interest payments as a share of GDP declined from 17 per cent in FY 2009/10 to 9.3 per cent in FY 2011/12.

The truth, Mr. Speaker, is that the JDX was a pre-condition for approval of the Stand-By Arrangement with the International Monetary Fund concluded in 2010, and it did provide our public accounts with some "*breathing space"*. Unfortunately, however, the benefits of the JDX have been squandered. The relief provided by the JDX in reduced interest and amortisation on domestic debt is now at an end. The cost of debt servicing will increase sharply from $249 billion last year to over $335 billion for the 2012/13 fiscal year as the payments of principal on our domestic debt, which were deferred, become due.

Simultaneously, the derailing of the IMF Stand-By Arrangement which interrupted the flow of funds from the multilaterals further exacerbated the situation. Today, our total debt service in the budget is greater than our total non-debt expenditure.

5.0 THE LESSONS TO BE LEARNT

What are the lessons to be learnt from this experience? Over the years the high levels of debt increase your vulnerability to "*unanticipated shocks*"; be they weather-related shocks such as drought or hurricanes, or more complex events such as the global financial meltdown of 2008. Indeed, numerous communities across the country still bear the scars of hurricane Gilbert, 24 years after it ravaged Jamaica. Many bridges, roads, breakaways originating from Hurricanes Ivan and Dean still remain unrepaired. These are living testimonies to the burdens of the debt.

The second lesson is the need for properly regulated financial institutions. The cost of the rescue of the financial sector, resulted in a sharp upward movement in the debt; the effects of which the country is still experiencing today.

Third, is the cost of contingent liabilities and guarantees issued on behalf of public bodies, such as Air Jamaica and the Sugar Company of Jamaica.

Mr. Speaker, I want to use two analogies to demonstrate the impact of the debt burden on Jamaican families and businesses.

The first is the case of a family that keeps sending down to Miss Myrtle's shop to trust a half loaf of bread, 2lbs of flour, 2lbs of rice and a bottle of cooking oil until pay day. As happens so often, pay days come and past, but Miss Myrtle's bill remains unpaid. If you keep on sending for your weekly groceries without paying, one day Miss Myrtle is going to send back a message that she is not going to trust anything else until you pay your bill.

Mr. Speaker, the second scenario is that of a Jamaican businessman who has a great investment idea but is up to his neck in debt. No matter how good his ideas are, his banker is not going to approve another loan until he reduces his debt and becomes credit worthy.

Both these analogies illustrate very clearly the **situation that Jamaica is in now in relation to its creditors.** The bottom line, Mr. Speaker, is that as a country, access to loan markets is being reduced until we begin to pay down the debt. The Inter-American Development Bank and the World Bank are reluctant to lend net new amounts until we have an agreement with the International Monetary Fund. And the inescapable precondition of the IMF's seal of approval is that Jamaica must embark on a programme that will steadily reduce our debt over the medium term. The EU is not prepared to allow drawdown of agreed grants funds until a new agreement with the IMF is secured.

What is more, Mr. Speaker, the commercial capital markets are telling us the same thing. They, too, are requiring that we put our debt on a downward trajectory, or face the consequences of higher interest rates.

Mr. Speaker, let me make it clear, this is Jamaica's problem and not that of the IMF. The bottom line is that we must set our debt as measured by its ratio to GDP firmly on a downward trajectory.

6.0 AUSTERITY OR STIMULUS?

There is a debate now as to whether Jamaica should take the path of an austerity programme or implement a stimulus package. Mr. Speaker, I feel compelled at this point to address the question as to whether there is a choice between an austerity budget and a stimulus budget. According to this line of argument the current budget is too tight and we should be engaging in more expenditure, especially on the capital side of the budget in order to grow our way out of our present predicament.

Quite frankly, I empathise with those calling for more expenditure. Who would not want to answer the call to spend more. I certainly would**.** **BUT** seductive as the thought is Mr. Speaker, **IT IS A MIRAGE……**

In these terms stimulus means engaging in higher deficit expenditure. That is just another term for borrowing more in order to engage in greater capital expenditure. That would indeed be a welcome prospect were our debt ratios lower than they in fact are. The fact is that we can only borrow more if someone is prepared to lend to us in sufficient amounts. It is a matter of record that the International Financial Institutions are not prepared so to do. What is more: if we choose to go to the domestic capital markets to finance sizeable deficit expenditure, it would be at the cost of a reversal of the downward path of domestic interest rates.

Mr. Speaker, this administration is not prepared to undertake these actions. Contrary to the doubters and the naysayers this administration is committed to doing all in our power to sustain the downward path on **interest rates**. To set interest rates, on an upward trajectory once again by deliberate government policy action would be self-defeating and reduce the country's capacity to achieve the increased rates of economic growth which we all seek.

In light of our experience this administration will be putting in place a more effective oversight as an integral part of an improved debt management framework. This year the Government will be placing the Public Debt Management Bill on the Parliamentary legislative agenda. The objective is to strengthen the existing governance framework by pulling together the numerous debt laws; defining clear debt management objectives and reporting requirements.

7.0 EXPANDING PARLIAMENTARY OVERSIGHT

This is not just about workers and civil society, other partners need to get involved, as parliamentarians we have been charged with responsibility of being the keepers of this covenant.

Mr. Speaker having steadily increased the nation's debt over nearly forty years and having as a nation suffered its effects in terms of low growth and persistent poverty, we must now determine as a Parliament to do all that we can to reduce the debt and to ensure that as a country we never repeat the mistakes of the past.

Under the Fiscal Responsibility Framework, the Public Administration and Appropriations Committee (PAAC) of the House is required to consider and report to the House of Representatives on any statements of excess, or supplementary estimates before the House votes on any such statements. (This applies to both Central Government and Public Bodies).

We need to further strengthen the role of the Parliament in providing oversight for the country's economic programme and specifically in controlling the debt. To be more precise, we propose under the Financial Administration and Audit Act regulations to present a half-yearly report on the performance of the economy for each fiscal year.

This of course will be within the context of the country's medium term economic programme. The PAAC would be expected to then consider (usually in November of each year):

- The status of the medium term economic programme;
- The progress on meeting the specified fiscal targets, including the fiscal deficit/surplus; the primary surplus; and the resource and borrowing needs for the remainder of the current fiscal year; and,
- The implications for the specified targets for the ensuing fiscal year in the context of the medium term economic programme.

As part of this effort, Mr. Speaker, the PAAC would need to indicate its view of spending priorities, borrowing needs and revenue needs for the ensuing fiscal year. Ultimately though, Mr. Speaker, for these systems to work, the Parliament will need to be seized of national as distinct from sectional interests.

Most of all, it will require a commitment to sound fiscal operations on behalf of the country and its future. I have often said that one of the factors behind our present predicament is that too often, the Parliament is only concerned with expenditure and only the Ministry of Finance accepts responsibility for revenue raising.

The new covenant will require Parliament to change its mode of operations in this regard if proper foundations for growth are to be laid.

In expectation of this, it would probably be appropriate for Parliament to review the role of Parliament's Tax Committee so that it can consider the midyear report of the PAAC before the ensuing fiscal year and make recommendations in relation to revenue raising measures.

Make no mistake about it Mr. Speaker; our present predicament will test the maturity and resolve of our democracy which too often looks at situations only through the prism of partisan competition. Our survival now requires that we change our approach. Can we do this? I believe we can.

Mr. Speaker, the best gift that this Parliament can give Jamaica in the 50th year of independence is a **NEW AND BINDING COVENANT** with the people of Jamaica; **to achieve in the first instance fiscal consolidation and debt sustainability**.

A covenant that goes further, to pursue supply side initiatives and structural reforms to enhance Jamaica's growth and competitiveness, thus creating an environment in which all Jamaicans can begin to experience the sustained prosperity and sense of well being that they deserve. I will speak to this in greater detail later.

8.0 A REVIEW OF MACROECONOMIC DEVELOPMENTS 2011/2012

Mr. Speaker, I would like to look more closely at the broad macro-economic developments over the past year.

Fiscal year 2011/2012 unfolded in what continued to be a challenging international economic environment. There were signs of recovery in the United States but towards the end of 2011, the Euro zone, and by extension, the world economy, were threatened by debt crises in Greece and other European economies. Developing economies, led by China, India, Brazil and Latin America, grew faster than developed market economies but even China grew slower than its annual average over the previous decade. Interest rates in developed market economies remained at very low levels reflecting international recession while oil prices continued to climb upwards.

Monetary policy has remained consistent with sustaining single digit inflation. For fiscal year 2011/2012 growth in the broadest measure of Jamaica dollar money supply (including currency, demand, time and saving deposits and other liquid financial instruments) was contained at 8.9%. This facilitated an inflation out-turn of 7.3%, which was within the range of 6-8% targeted by Bank of Jamaica.

Money growth reflected in part, a growth of bank credit to the private sector throughout the fiscal year. There has been some concern about the distribution of this credit growth between consumption (often motor cars for personal use) and productive activity. In 2011, there was concern about an increase in non-performing loans but the incidence was still substantially below internationally accepted benchmark ceilings. For January to March 2012, there was a decline in the incidence of non-performing loans from 8.8% to 8.4%.

The financial sector, despite the loss of income related to the JDX has remained stable and healthy, the current publicised failure of a securities dealer notwithstanding. There is some evidence that the lowering of interest rates has encouraged financial institutions to deepen their exploration of core business, at profit to themselves. Efforts have continued to strengthen regulatory legislation and processes to include the increased use of risk based assessment.

Driven largely by a US$1 billion deterioration in the merchandise trade account, the **current account deficit** increased by US$1.13 billion in 2011. An increase in merchandise exports of about US$300 million was dominated by an increase in merchandise imports of US$1.3 billion, occasioned primarily by the increase in the price of fuel imports.

Despite a modest increase in earnings from travel, the Services account was dominated by a decline in earnings from Transportation. The continuing increase in private transfers (remittances) exceeded the decline in transfers to Government by US$32.6 million. The increased current account deficit and the fall-out in official capital flows were reflected in a decline in Net International Reserves. At end March 2012 however, gross reserves still exceeded US$2.6 billion representing the equivalent of 17 weeks of imports of goods and services.

Consistent with monetary policy and single digit **inflation, the exchange rate** has remained relatively stable over the past financial year. Concerns about competitiveness and anaemic growth demand that attention be paid now, to factor productivity, and to energy and security costs as well as to the structure of public expenditure and revenue. Low inflation and exchange rate stability have also facilitated the lowering of short term policy interest rates to under 6.5% and the maintenance of these rates.

The administration is committed to the maintenance of a stable macroeconomic environment. The return to high interest rates is not an option. The fforeign exchange rate will continue to reflect the fundamental conditions in the market.

The **Macro Economic outturn** experienced in FY 2011/2012 varies. GDP grew by 1.3% as compared with an average decline of 1.8% over the previous three years. All sectors experienced some growth. The goods sector grew by 5.0 per cent while the services sector grew by 0.2 per cent. This growth was influenced by improvement in the international economy and a slight strengthening of domestic demand.

Modest increases in remittance flows and increases in real wages during the year influenced the strengthening of domestic demand. The marginal increase in domestic demand occurred in a context of high unemployment and some uncertainty of economic prospects given the countries inability to successfully complete the Stand-By Arrangement with the IMF.

The expectations of improved economic performance were pinned on the signing of a 27 month **Stand-By Arrangement (SBA) with the IMF** that was to extend from February 2010 to May 2012. Continuation of loan financing from multilateral development banks and substantial grant financing from the European Union, were then known to be dependent on adherence to the letter and spirit of the SBA.

It is unfortunate that despite the windfall afforded by the **JDX** and generous front-loaded funding by the multilateral financial institutions which provided room to undertake difficult policy initiatives including public sector restructuring, wage containment and pension reform, **Jamaica did not adhere to its commitments made under the SBA.**

There were institutional delays in structural reform and expenditure commitments (weather, public wages, public infrastructure and buses) outside of the budget that was inconsistent with the programme.

After the three quarterly reviews for March, June and September of 2010, there was a deafening silence regarding the status of the SBA. Jamaicans only learnt of the situation they were in when the silence was broken by an IMF representative in late 2011. The information from the IMF was that the fund was unable to take a programme review to the IMF board due to Jamaica's non-realization of its programme commitments.

In accepting generous front-loaded financing but not implementing policy commitments, Jamaica created a massive "*trust deficit*" with the international financial community. As a result, external loan and grant financing for FY 2011/2012 was much lower than expected and as a result, Jamaica must take immediate steps to restore its trustworthiness.

9.0 NEGOTIATIONS WITH THE IMF

Rebuilding trust requires that we begin implementing, a credible programme of fiscal discipline as a matter of urgency. Our relationship with the IMF stands at the centre of our economic recovery programme since our interests are best served by entering into an agreement with the IMF covering an extended period of at least three years.

Further to this objective, we arranged for a visit by IMF staff to meet with us within the first two weeks of taking office. We have made two visits to Washington DC, the first in February for me to meet with the Managing

Director, Christine Lagarde, the second more recently by a technical team last month to advance the discussions. As a part of this reengagement, an IMF team completed an Article IV exercise last month. Through these meetings, we have made substantial progress towards full reengagement with the IMF.

We have jointly reviewed the economic circumstances that place our own particular condition within the context of the evolving international environment that continues to be characterised more by crisis and risk than by resolution and opportunity. In this process of dialogue, we have found that the IMF agrees with our own assessment that high levels of public debt, low economic growth and waning investor confidence provide severely limited policy space and, without a change to the previous policies (of the last administration), Jamaica's vulnerabilities and exposure to risks will only get worse.

Is it possible for us to adopt a comprehensive set of policies to put the debt path on a downward trajectory and to break the cycle of low growth? Yes, but only through the exercise of fiscal responsibility and the adoption of structural reforms that will enhance the external competitiveness of Jamaican businesses and products in the long term.

These reforms span fiscal consolidation, comprehensive tax policy and tax administration reform and pension reform. They include measures to improve the business environment, reduce energy costs and enhance social protections.

In the course of these discussions, we have availed ourselves of the freely offered technical resources of the IMF as we have focussed on the critical areas of enhancing tax administration and work on the technical underpinnings of overall tax reform (which includes the reform of our system of tax incentives and tax waivers). We have arranged for additional technical support in the design of appropriate social protection programmes given our ongoing reforms.

Our dialogue to date has therefore been much more than a negotiation as we seek to craft a macroeconomic programme that will balance the urgent need to tackle our greatest vulnerability, the debt, while simultaneously engaging a reform programme that will unleash the creative and productive energies of our people and protect the most vulnerable in our society at the same time.

This process of reengagement and dialogue that I have touched upon has served us well in restoring a measure of trust in our relationship with the IMF. Indeed, it is noteworthy that the Fund did not set any preconditions before we started programme discussions or negotiations with them, as they might well have been justified in doing. But, at the same time, we must not be in any doubt that there are important actions that we will have to carry out before an agreement with the Fund will be entertained by its Board.

Above all we must demonstrate the resolve to take the actions required to tackle our chronic fiscal deficits and the overwhelming mountain of debt by enhancing revenues and containing expenditures. We cannot defer taking action on the reform of tax policy and dramatic improvement in tax administration. We cannot delay the commencement of structural reforms aimed at improving the competitiveness of our businesses and the economy as a whole.

The presentation of our economic programme today represents the next step along the path and a crucial component in the repair of the trust deficit. The nature of this kind of exercise, the exercise of repairing a deficit of trust, is one of mending fences and is therefore time consuming. As we turn to the implementation of our economic programme presented under this Budget, we expect to have further and more intense discussions with the IMF during the next few months.

10.0 MEDIUM TERM ECONOMIC PROGRAMME

The medium term economic programme which has been prepared is set against the background of persistent low growth, deep fiscal imbalances and unsustainable public debt which has resulted in a worsening of economic and social conditions in the country which has been especially brutal on the poor and marginalized segments of the society.

The challenge that we face is how to secure growth as we tackle the task of fiscal consolidation which we must undertake if we are to reduce debt.

In summary, the medium term programme is shaped around three key objectives:

- Fiscal and debt sustainability
- Economic growth and enhanced competitiveness
- Effective social protection

11.0 FISCAL AND DEBT SUSTAINABILITY

As I have stated Mr. Speaker, tight fiscal management is for Jamaica a necessity. There is no other choice available to us. It will require not only that we increase revenues and reduce expenditure, but it will also mean that we will have to undertake fundamental structural reforms – including tax reform, pension reform and wage containment.

The simple truth is that we are spending approximately 80 per cent of our budget to pay the debt and wages; everything else – all the programmes of supplies for government departments, the expenditure for chalk and blackboard, school desks, road repairs, irrigation subsidy, hospital supplies, medicine, police equipment etc. all the rest has to be paid out of the 20 per cent that is left.

It is therefore, necessary in this special period of economic challenge which we face over the next four years to "*Put our Public Debt on a clear and decisive downward trajectory.*" This means running higher primary balances and lower fiscal deficits.

Table 1

Fiscal Accounts-Active	**11/12**	**12/13**	**13/14**	**14/15**	**15/16**
Fiscal Balance/GDP	-6.2	-3.8	-2.7	-1.5	0.0
Primary Balance/GDP	3.1	6.0	6.5	7.3	8.0
Debt/GDP	128.0	130.5	-----	----	100.0

12.0 TAX REFORM AND PENSION REFORM

Among the key structural reforms to be undertaken are tax reform and pension reform. Members of the House may be aware that the Committee on Taxation which considered the Green Paper on Tax Reform has completed its deliberations. It had been hoped that the House would have had the opportunity to consider and debate the Report of the Committee on Tax Reform. Time did not permit this however. The deliberations are in fact complete and a Draft Report on the findings has been prepared for final consideration by the Committee and ultimately by the whole House.

The Report of the Committee will help to form the basis for a White Paper to be presented to this Parliament before we rise for the Summer Recess.

I would like to take this opportunity to express my appreciation to the more than twenty organizations and individuals who took the trouble to make presentations to the Committee. I would also like to pay tribute to the Civil Society Coalition, the Joint Trade Union Research and Development Centre and the Private Sector Working Group.

The building of national consensus on matters of such national importance is critical to national development. In this regard the example set particularly by the Private Sector Working Group is commendable and worthy of emulation. Their investment of time, effort and resources to engage in extensive discussions among themselves, and in the wider society indicates a level of patriotic commitment and an example of civic duty which deserves the recognition of the parliament.

I do not recall a time when so much effort has been made to educate the public to a better understanding of the issues around tax reform. It is a moment that we must seize to mobilize national goodwill as we embark on a programme to build a new covenant.

The tax reform package being contemplated is to be implemented over a three-year period and is intended to achieve the following objectives:

- Meet the revenue demands of the budget
- Ensure greater equity and simplicity
- Increase compliance

Measures will include but are not limited to:

- Reducing distortions through drastic reductions in tax incentives and waivers
- Widening the tax base for both corporate income tax and consumption taxes
- Legislative and administrative amendments to increase compliance
- Lowering of rates including personal income tax

Budget year 2012/13 represents the first year of the reform programme. Elements of this Tax and Tax Administration Reform package will therefore be incorporated in this year's budget.

13.0 PUBLIC SECTOR PENSIONS REFORM

Equally, Mr. Speaker, we now must face up to the challenge of public sector pension reform. We will not achieve fiscal sustainability without it. Currently pensions are paid from the Consolidated Funds and are expected to cost $24.1B this year.

Discussions are proceeding within the Joint Select Committee appointed to consider pension reform. I expect it to report before we rise at this session of parliament, and a formal policy document presented to this Parliament in order for us to begin implementation of pension reform in this fiscal year.

14.0 THE WAGE ISSUE - "*IT MAKES NO SENSE TO RAID AN EMPTY CUPBOARD*"

Mr. Speaker, containment of the Public Sector Wage Bill is an important element in the effort to ensure fiscal sustainability over the medium term. We understand the reality that it is the public sector workers that keep this country functioning in our schools, hospitals, clinics, and police stations. They man our irrigation systems and our immigration systems.

Yet, it is the case, Mr. Speaker, that fiscal sustainability requires that we reduce our public sector wage bill as a proportion of GDP. We have rejected the views of those who called for massive lay-offs. We would prefer to grow the economy and attain a smaller public sector through rationalisation and efficiency gains, and "*natural attrition*".

Mr. Speaker, everyone should be aware however, that the public resources in this special period of economic challenge are severely limited. We are not adherents of a "*take it or leave it*" philosophy of industrial relations. And I want to pay tribute to the representatives of the workers who have been in dialogue, mainly with Minister Horace Dalley and his team, for the businesslike and professional manner in which the discussions are proceeding. It is important, however, that we bring these discussions to conclusion soon.

The negotiation process must also look at innovative ways of getting more for our workers cognizant of the fiscal constraints facing us.

15.0 PUBLIC SECTOR TRANSFORMATION

The previous administration started examining the matter of public sector transformation. In fact, a Public Sector Transformation Unit was set up to examine all the related issues and determine the modalities of the transformation.

It is our intention to continue the process. Our own view is that Public Sector Transformation should be aimed at, inter alia, improving efficiencies through:

- The rationalization of agencies
- Improved oversight of public agencies and bodies
- Divestment of public sector assets.

16.0 GOING FOR EQUITABLE GROWTH AND PROSPERITY

Mr. Speaker, while the macroeconomic and fiscal reforms will strengthen stability, the sustained growth and prosperity that we all seek will only be achieved by the creative pursuit of strategies to attract investment and improve competitiveness.

Table 2

Growth forecasts through the medium term

FY 2012/2013	FY 2013/2014	FY 2014/2015
1.0%	1.3%	1.9%

(Only incorporates organic growth and known investment projects, which are conservative projections which we expect to surpass)

17.0 FACILITATING BUSINESS DEVELOPMENT

We must admit that the present business environment is hardly conducive to achieving the levels of growth that are needed to create the jobs that we so desperately need. Despite repeated promises over the years by successive administrations to create a more facilitating business environment, Jamaica presently ranks 88 out of a total of 183 countries according to the Doing Business Report published by the World Bank in 2012.

This represents a decline over 2011 where we were placed at 85. I have no doubt about the sincerity of the commitments made. However, it is clear that more needs to be done if the objective of creating a more facilitatory climate and decreasing transaction costs for businesses is to be achieved.

To this end, Cabinet has appointed a sub-committee under the chairmanship of Minister Mark Golding. The measures that are currently being pursued include:

- On incorporating a company in Jamaica, at the same time as the Certificate of incorporation is issued, the company will also receive from the Companies Office the company's Tax Registration Number (TRN) as well as its number for each of the relevant statutory agencies (NIS, NHT, etc). These numbers would either be printed on the Certificate of incorporation, or on a separate certificate issued for this purpose.

  The same would apply on registering a business name. This will eliminate the time spent and cost incurred trekking around all the agencies and applying to them individually to get these essential numbers. The Companies Office would notify each agency of the incorporation of the company, its numbers, and any related information which may be relevant.

- Reduce the time now taken to complete real estate sale transactions, by authorizing the National Land Agency to assess and collect all applicable charges (transfer tax, stamp duty and registration fees) when the transfer instrument is delivered to the Titles Office for registration. This will eliminate 6 time-consuming trips to and from the Stamp Office.

- Establish a single development approvals centre to which all subdivision/development applications are submitted, manned by representatives from each of the agencies which have an input in these approvals.

- Eliminate stamp duty charged on increases in company share capital, which currently applies to companies formed prior to February 2005 (which could not elect to have unlimited authorized share capital) and to new companies which don't elect to have unlimited authorized share capital (perhaps out of ignorance).

- Introduce the Secured Obligations Act and establish a central, web-based system of filing and searching for security interests in assets other than land. This will increase the certainty and simplicity of taking collateral for financing transactions, and improve the flow of credit in the economy, especially to MSMEs.
- Introduce modern insolvency legislation to provide clear rules and procedures for handling corporate and personal insolvencies, including a mechanism in appropriate cases for giving a business a “no adverse action” period in which to attempt to restructure and achieve viability, before the winding up process is embarked upon.

18.0 ENERGY

Since the phenomenal increase in oil prices which took place in 1973 and 1979, the Jamaican economy has never recorded previous growth rates. All strategies for growth and prosperity must include lower energy costs.

My colleague Minister of Energy has already announced the investments that are being made together with specific initiatives to reduce Jamaica’s energy costs by 30% over the next couple of years and diversify the energy mix. The reduction of energy cost is perhaps the single most important factor in enhancing the competiveness of Jamaica's productive sector

The elimination of GCT on solar panels will assist householders and small business enterprises to reduce their energy costs and diversify Jamaica's energy mix.

19.0 FOREIGN DIRECT INVESTMENT (FDI)

The inflows of FDI provide a well needed boost for infrastructure development and the fact that these investments provide significant backward linkages will have a multiplier effect on economic development

The portfolio of investment projects include:

- North South Highway link (Angels to Ocho Rios)
- Port Facilities Enhancement.
  - Jamaica is preparing to take advantage of our strategic location and the possibilities arising following the re-opening of the Panama Canal
  - Container Terminal
  - South Terminal –Gordon Cay
  - Fort Augusta
  - Logistics Hub and Business Centre – Fort Augusta – MOU signed with China Harbour
- Tourism
  - Harmony Cove (US$1.0 billion)
  - Fiesta Hotel (US$500mn)
  - Marriott Hotel Kingston (US$20mn)
  - Expansion of Riu Hotel in Montego Bay

The GOJ will accelerate projects in the public sector that are currently underway. Cabinet took decision to move on the North South link and the Fort Augusta port project, developments vital to survival of the country.

- DBJ line of credit – J$1B small business

- Expressions of Interest – 2000 additional hotel rooms by various investors

- Norman Manley International Airport and Sangster International Airport which are projected to attract US$100M in investment to implement proposed extension of runways and infrastructure upgrade; and,

- Kingston Lifestyles Centre; which is expected to yield a Gross Output of J$14.4B during the construction phase and estimated to generate revenue of J$15.8B annually.

20.0 FACILITATING JAMAICAN INVESTMENT CAPITAL

As important as FDI is to the growth of the Jamaican economy, investment by Jamaicans in Jamaica is perhaps the most important indicator that Jamaica is open for business. We are heartened by investments presently taking place in tourism, agro-processing, and commerce. However, this administration intends to focus on a coordinated programme to both encourage and facilitate Jamaican investment capital.

In this regard, the Junior Stock Exchange will be extended for another five years and we are encouraging businesses to make use of this facility

NOW since after the 5 year period we will be eliminating all these special tax holidays which are presently available.

Available and adequate financing has over the years been major obstacles to the growth of MSME's. To this end we are taking the following steps which will expand the pool of available credit.

- DBJ will lend $1.5 billion to the MSME Sector in 2012/13 facilitating $2 billion in investments. Of this $396 million or 25% will be lent through micro finance institutions to micro businesses

- The DBJ has set aside $250 million as a loan guarantee fund to enable lending to potentially good business borrowers from the MSME who just do not meet the banking sector's collateral requirements. It is projected that this will enable $1 billion in credit for business activities that would not otherwise have received funding.

- The DBJ is managing the Jamaica Venture Capital Programme to provide a conducive venture capital ecosystem focusing on facilitating the legal and structural imperatives, capacity building of SMEs and fund managers and the establishment of a Venture Capital Park. This programme will also see the establishment of an initial private sector managed fund with a target of J$1 Billion for investment in high potential SMEs.

- The DBJ will invest $100 million in programmes geared towards capacity building and technical assistances to the

MSME sector and will attract $400 million in counterpart grant funding from multilateral organizations.

21.0 TAX CREDIT FOR INNOVATION AND GROWTH

As a critical element of the growth strategy of the government, emphasis will be placed on rapidly improving productivity across all sectors of the economy. To achieve this, innovation and entrepreneurship must be placed at the centre of policy. Much of this will come from the private sector along with research and innovation initiatives of private individuals. The government is prepared to play its part in this process. In this regard, we are prepared to offer a tax credit for investment in the development of solar water heaters specified under tariff heading 8419.1910 and 8419.1920 and photosensitive semiconductor devices, including photovoltaic cells whether or not assembled in modules or made up into panels specified under tariff no. 8541.40.

22.0 PRIVATIZATION

The State by focusing on its core functions will be privatizing or leasing a number of enterprises which will provide new opportunities for the private sector to expand. Entities to be privatized include:

- GOJ's 7% interest in Windalco;
- Clarendon Alumina Partners;
- Wallenford Coffee Company Limited (WCC); which will stem losses of approximately J$200M annually and
- GOJ's 50% shareholding in Bloody Bay Hotel Developments Ltd.
- Jamaica Railway Corporation; and
- Caymanas Track Limited.

23.0 MOBILE MONEY

Involves the use of mobile phones for monetary transactions in micro-finance in order to expand participation in the financial system and reduce the cost of financial services. The BOJ is completing its assessment and will be enunciating a policy in short order.

24.0 PETRO-CARIBE FUND

During this fiscal year, the Petro-Caribe Fund will be providing $1.0b to the Jamaica Emergency Employment Programme (JEEP) and funding to social housing programmes and the Student Loans Bureau, among other areas.

25.0 PUBLIC PRIVATE PARTNERSHIPS

Given the limited fiscal space, an important strategy of the Government over the medium term will be to leverage its limited resources through targeted public/private partnerships and through judicious privatization and/or monetization of Government assets.

PPPs are a long-term performance-based approach for procuring public infrastructure where the private sector assumes a major share of the responsibility in terms of risk and financing for the delivery and the performance of the infrastructure, from design and structural planning, to long-term maintenance. This will also allow for the development of a genuine long term capital market shifting funds from investing in short term government paper with little development value.

The immense value of the Public-Private Partnerships is the engagement of private sector capital and innovation to share the risks of development while relieving the Government of the financial obligation of funding the provision of urgently needed infrastructure.

We are far advanced in settling the policy framework for the PPP policy and a secretariat is to be established in the Development Bank of Jamaica. The areas being targeted for PPPs are Infrastructure projects such as port facilities, schools, transportation and hospitals.

Members of the local private sector have already expressed serious interest in participating in the government's PPP programme. We have already received attractive proposals for the funding of PPP projects in the private sector. We welcome this interest and we will be responding and pursuing these projects with some urgency.

26.0 PRIORITISATION OF PUBLIC CAPITAL EXPENDITURE

The necessity to curtail public expenditure dictates that we establish a list of priorities in the investment envelope for public sector projects. I have already indicated the guiding principles and the process involved in determining which areas are to be prioritised. The administration has chosen to target those projects that will generate the highest level of employment, improve competitiveness, strengthen the resilience of the built and natural environment to the hazards of climate change, and maintain social protection systems.

Mr. Speaker, during the course of this Budget Debate my esteemed colleague Ministers will present details of specific initiatives, programmes and projects in these areas. However, in light of the realities of adjustment which we face, I am compelled to highlight the Government's commitment to social protection programmes.

27.0 SOCIAL PROTECTION STRATEGIES

The impact of sluggish growth and reduced fiscal space is felt most by those who are least able to bear it. We must therefore do our utmost to protect these most vulnerable persons. Social protection initiatives are particularly important to maintain the social cohesion required for the success of the GOJ medium-term programme. The Government will be addressing vulnerabilities through programmes and initiatives such as PATH and Steps to Work. Empowerment and adaptability will be attained through programmes and initiatives such as those designed to clarify and protect property rights, provide financing and capacity-building support for MSMEs, enhance agricultural competitiveness of small farmers and displaced agricultural workers.

28.0 CENTRAL GOVERNMENT'S BUDGET FOR FY 2012/13

The central government's budget that we are presenting for fiscal year 2012/2013 is consistent with the objectives outlined in the Medium Term Programme and represents a down payment on the future.

The realities of the weak economy we have inherited and the huge fiscal gaps identified even before the last election, pretty much determined the degrees of freedom we had in crafting the Central Government's Budget for FY 2012/13. Of central importance in the whole budget process was dealing with the crippling effects of the huge public debt. It requires focus, courage and clarity on the part of the Parliament and the entire country to chart through the difficult waters.

For FY 2012/2013, Central Government expenditure is programmed at $612.4B. Revenue and grants (before tax measures) are projected at $337.9 billion. This leaves a financing gap of $274.5B, of which $165.2 billion is programmed to be raised from the domestic market while the remainder of $109.3 billion is to be raised from external sources.

EXPENDITURE

Total Expenditure for FY 2012/13 is budgeted at $612.4 billion, comprised of recurrent expenditure of $238.2 billion, capital expenditure of $39.4 billion and public debt expenditure of $334.7 billion. Once the debt which comprises 54% of total expenditure was taken care of, there was not a great deal more for programmes and capital after covering expenditure for wages and pension. In fact, expenditure on debt and wages is absorbing 78% of total expenditure.

This is at the heart of the difficult choices we have to make and is pointing to the absolute imperative to get the economy growing at a faster pace than we have achieved over the last 30 years.

The context of the budget and the realities of our situation leave very little room for major new spending. This has forced a cut in real terms in many critical areas of expenditure and has required us to engage in expenditure prioritization. Importantly, even while we make the necessary adjustments to accommodate the debt and undertake the needed reforms, we have had to find room to protect the most vulnerable and marginalized in the society by increasing expenditure in targeted social sectors and programmes.

Capital Expenditure

As I had indicated before, capital expenditure prioritization is guided by a focus on fostering broad-based inclusive growth, social protection strategies, and strengthening the resilience of the built and natural environment.

In this year, capital expenditure in these areas amounts to **$25.0 billion compared with $18.0 billion in FY 2011/12, an increase of 38.9 per cent**. Closer examination reveals allocations as follows:

Social Protection & Empowerment	$14.5B
Resilience to Natural hazards & climate change	$5.4B
Improved business environment	$2.6B
Energy Cost reduction	$1.2B

Public Bodies Capital Investment

Mr. Speaker, the capital expenditure programme being undertaken in Central Government in the priority areas is being augmented by capital expenditure programmes to be undertaken by the public bodies.

During FY 2012/2013, investments by public bodies in these priority areas will show an increase of 26.4 percent, with expenditure projected to total $41.4 billion relative to $32.7 billion in FY 2011/2012. Of particular note is infrastructure works to be undertaken by the National Water Commission in FY 2012/13 which show an increase of 124.6 per cent to $9.1 billion from $4.1 billion in FY 2011/2012; and the 57.7 per cent increase in projects to be done by Petrojam.

REVENUE

During FY 2012/2013 Revenue and grants (before tax measures) are projected at $337.9b which represents an increase of 4.9 percent compared with the $322.1B garnered in FY 2011/2012.

FY 2012/13 Revenue Forecast

	2011/12	2012/13	% Change
Revenue & Grants	**322.1**	**337.9**	**4.9**
Tax Revenue	289.9	313.8	8.2
Non-Tax Revenue	16.7	17.1	2.1
Bauxite Levy	1.5	1.7	10.3
Capital Revenue	10.6	1.0	-90.5
Grants	3.4	4.2	27.9

29.0 CONCLUSION

Mr. Speaker, this Budget is not an easy one, but it is necessary. This Administration assumed responsibility in December 2011 for a country whose macroeconomic programme had gone awry; a country burdened by an unacceptable high level of debt in the context of a continuing crisis in the global economy.

In this 50th year of our Independence, we have tabled a budget that sets out to truly lay the foundations for future growth and prosperity. We have taken the necessary steps to set the debt firmly on a downward trajectory and to maintain the gains which have been achieved so far in terms of macroeconomic stability. We have maintained a low interest rate policy and ensured adequate reserve levels.

The administration is committed to sustaining these gains by adhering to the strictest fiscal discipline as we seek to contain expenditures, and to raise the revenues. This is absolutely essential if Jamaica is to have a chance of achieving progress and creating adequate jobs for the thousands who are added to the labour force on an annual basis.

The government's commitment sets the stage for a new covenant for the future. The equitable approach to the new tax measures outlined requires every Jamaican to play their part and consistent with our social responsibility provides relief from some of the burdens borne by the most vulnerable in the society.

While it is always difficult to achieve consensus on all aspects of any programme we welcome constructive suggestions that can help us improve our performance.

Mr. Speaker, in putting this programme together, we have benefited from the consultations among parliamentary committees as well as other critical stakeholders. An even more important task remains after we conclude the budget debate and that is to initiate a dialogue with the Jamaican people to promote a better understanding of our present situation and the URGENT need for a covenant that binds all of us to the objective of nation building.

Our experience during the preparation of the budget informs us that goodwill abounds and that there is a readiness within the society to reenergize the national project and build the new Jamaica as a land of innovation, discipline and prosperity.

We dare to imagine a country which grows at higher rates than have been our experience in the last 50 years and where governance is underpinned by a covenant between workers, investors and government, and where new enterprises are created and small ones expand to generate a steady stream of jobs for our prosperity.

We dream of a country where the creators of wealth invest more in training, research and development to enhance productivity and build prosperity.

This is the Jamaica that our founding fathers dreamed of and that all of us have a responsibility to build. The new Jamaica will require a commitment from each of us; not only as stakeholders in the various sectors, but as citizens committed to building social relationships based on mutual respect, civic discipline and honesty.

This will not happen overnight, it may happen in our lifetime but we must begin now. To grow at higher sustained rates. No matter how long the journey, it begins with the first step. Let us set out with all the courage we can muster, confident in our capacity to overcome all challenges, with our eyes firmly fixed on our enormous possibilities to become the best little country in the world.