

**2014-2015 BUDGET DEBATE
PRESENTATION BY
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Outline of Speech

Acknowledgements

Introduction

1. STATE OF THE NATION

2. EXPENDITURE

- Arrears
- Withholding Tax and Arrears
- Lack of Transparency in the Budgets for Ministries
- Interest expense
- Capital expenditure

The Tax Package (deposits, alcohol)

3. THE STATE OF PUBLIC BODIES

4. THE MACROECONOMIC PROGRAMME AND THE IMF/EFF

Exchange Rate (currency substitution)
The Debt

5. The Growth Imperative

Conclusion

Acknowledgements

Introduction

A British Army officer was assigned the arduous task of visiting a battlefield to check on reports of heavy troop losses.

Upon his return, he reported to his superiors:

“Gentlemen, I’m afraid the situation is so grave that it is virtually impossible for me to exaggerate.... But I will try.”

Today, in reporting to this Parliament on the ‘State of the Nation’, there is no need for me to exaggerate.

Honourable members can be assured that whatever observations I make will be well grounded in the incontrovertible truth.

It will be supported by facts, by real life, everyday experiences.

Listeners will be obliged to receive the information in either loud or quiet agreement.

Any denial to the contrary, will be a contrivance, a fabrication by persons either in self-denial or with their heads buried in the proverbial sand of political expediency.

1. STATE OF THE NATION

Mr Speaker, as I participate in this Budget Debate today, the question must be asked, what is the true state of the nation?

Over the past two years and four months of the administration of this government, the condition of the lives of the citizens of Jamaica has sharply worsened.

- The overall annual **Unemployment rate** is at a 12-year high at 15.3 percent for 2013.¹
- **Unemployment among young people age 20-24 is 35.2 percent but among young women it is even higher at 44.1 percent** at October 2013.
- **The cost of living** has sharply increased due to a 27 percent devaluation of the Jamaican dollar against the United States dollar moving from J\$86.60 to US\$1 at the end of 2011 to J\$110 to 1 US dollar now.
- **The price of chicken back and basic foods** have flown to unreachable heights while oxtail and steak are now delicacies no longer promised in the public square (and it was not promised by us.) Mr. Speaker, the fact is by even the most conservative assessment of prices of basic foods one would find that the prices have increased at 2 times the rate of the official inflation. This is certainly not balancing the people's lives Madam Prime Minister.
- **The cost of electricity** continues to increase apace closing down more businesses, putting more people out of work and causing more disconnections of service and sending families to steal electricity or resort to the home-sweet-home lamps.

In March, our light bills have been further increased by another 10 percent – one lick! And as we speak, the JPS has applied to the OUR for a 21 percent increase and even as they promise a 2-8 percent reduction to large industrial users in return, small businesses will be called upon to pay 15 percent more for electricity, further eroding their competitiveness.

- And even as our **manufacturers and exporters** put up a brave face and went to the Arena to display their goods,

¹ BOJ Annual Report 2013, p48

many of them worried privately – and not so privately, that they just don't know how much longer they can survive in business with a sliding dollar, increased cost of electricity and declining consumer demand due to the severe contraction in the economy, and its negative impact on people's purchasing power.

- **Volume of total cargo** at all our ports is at a 5-year low at 22 million tonnes per year. When the JLP left office, our ports were handling some 30+ million tonnes. At the end of 2013, volumes were 25 percent lower. That's not progress Minister.
- **Aircraft movements** at our airports were down by 3,460 less in 2013 when compared with 2012. That's not progress Minister.
- The Economic & Social Survey 2013 showed that the **household poverty rate** increased by 2 percentage points moving from 12.4 percent in 2010 to 14.4 percent in 2012. In addition, Jamaica has slipped seven places on the UNDP Human Development Index from 79th to 86th place, showing our worsening poverty. I suggest that the household poverty has increased further in 2013. Mr. Speaker, you can feel the poverty. You can see it as you travel the length and breadth of Jamaica. It is palpable.
- One Social Scientist has recently declared that 1.1 million Jamaicans are **below the poverty line**. Meanwhile, there has been no publication of the Jamaica Survey of Living Conditions for over three years.
- Mr. Speaker, the feeling of increasing poverty is becoming quite pervasive and is amplified in a recent statement by the Reverend Lenworth Anglin, President of the Jamaica Umbrella Group of Churches, representing 99 percent of the Christian community in Jamaica. Here is what he had to say "Basically, people are fearful, people are suffering financially and the cost of living is too high. People are not

earning and then there is the loss of jobs, the unemployment rate is just too high, and so there is a general suffering around, which is evident.”

He continued, “The Minister is trying to appease our minds, but we are feeling it on the ground.”

And he said, “I have never seen so many needy people in all of my life, and they are coming to the church.”

- The rich are no longer getting richer, the middle class is rapidly becoming the lower class, the lower class is becoming the poor and the **poor is no longer getting poorer** – they are getting poorer-er. (poor-ra-ra). Hon PM you are not balancing peoples’ lives.
- **Vital drugs needed by people who can’t afford it**, are increasingly unavailable at public hospitals (one patient recently came to me with one item unfilled from 3 prescriptions given at the hospital, it turned out to be far the most expensive of the 3 drugs). Additionally, an increased number of patients with chronic illnesses like renal failure and cancer await the mercy of the government, the IMF and public expenditure.
- And even as we claim to meet our **expenditure targets to pass another IMF Test**, vital services such as repairs and sanitation in schools are cut, help for the disabled is cut, trucking of water and new supply systems are cut, while raw sewerage runs where we sell food in downtown Kingston and where our people live and children play in the inner cities including Tawes Pen in Spanish Town.

- Thousands of parents are **keeping their children out of school** – some for days – others for weeks because they can't afford the lunch and transport money. We are not balancing our peoples' lives Prime Minister.
- All across the land Jamaicans are stressed out.
- The worker is stressed to make ends meet.
- The businessman is stressed trying to cope with the hostile business climate.
- The transport operator is stressed as he is called upon to find an extra 3/4 million dollars for a license and to duco his bus while his income stream is declining.
- Many people across Jamaica are now buying bread by the half, the quarter or the slice. They are buying eggs one egg at a time, one stick of frankfurter at a time and one squeeze of toothpaste at a time.

Due to the gross management of this government, those of us who have jobs, are stressed out to make ends meet between the food, light bill, transportation, school and the cost of daily survival. We are between the rock and some very hard places. This Government is not balancing peoples' lives.

(One man told us at the OUR consultation in Mandeville on JPS's application for a rate increase that the light bill now is costing more than the food bill.)

And it is not the Churches alone people turn to. MPs, Councillors and caretakers are stressed out trying to cope with the ever increasing cry from the needy for assistance.

- The signs of social disintegration are plain to see. Two newspapers on the same day recently streamed the

headlines: “40 percent jump in child abuse” and “Extortion is back in a culture of silence”.

- For micro and small enterprises the numbers are not thriving. There were 267 fewer of them at the end of December 2013 than when the JLP left office. Sales for the sector, according to the PIOJ, have dropped 15.4 percent or some \$9 billion dollars since the JLP left office. That is not progress, Minister. THAT’S MOVING IN THE WRONG DIRECTION.
- Imports at 44.1 percent of GDP at the end of 2013 is higher than where it was at the end of 2012 at 42.9 percent despite the massive devaluation in the currency. THAT’S MOVING IN THE WRONG DIRECTION.
- Exports at 11.1 percent of GDP at the end of 2013 is lower than where it was at the end of 2012 at 11.7 percent. THAT’S MOVING IN THE WRONG DIRECTION.
- If you drill down into exports in the manufacturing sector, you will see an 18 percent decline in 2013 when compared with 2012 across traditional and non-traditional exports, putting some 5,000 people out of work. Mr. Speaker, this is a sector that employs approximately 2 times more males than females. Imagine the impact on households from the job loss.
- Inflation at 9.5 percent at the end of 2013 is higher than where the JLP left it at the end of 2011. THAT’S MOVING IN THE WRONG DIRECTION.
- Net International Reserves (NIR) at \$1.3 billion at the end of March 2014 is \$700 million less than the approximately \$2 billion the JLP handed over to the PNP at December, 2011. THAT’S MOVING IN THE WRONG DIRECTION.

- The Jamaica Stock Exchange has lost approximately 21 percent of its market value since the JLP left office. THAT'S MOVING IN THE WRONG DIRECTION.
- Ask the question boldly of most Jamaicans, except perhaps, the array of consultants to this government, "Are you better off today than two years and four months ago?"

You will get a resounding "NO!"

- Has this Government kept its solemn promise to balance your lives while they balance the books? You will get another big "NO!".
- Mr. Speaker, the government has passed IMF tests, **but they have dismally failed the test of effective governance and they have failed miserably the people's test.** They have failed the supermarket test. They have failed the test of ensuring all our children are in school on a consistent basis. They have failed the small and medium enterprise test. They have failed the import test. They have failed the export test. They have failed the inflation test, the NIR test and the stock market test.
- They have failed the test to balance the lives of our people.

Mr Speaker, this is the background against which I address this Honourable House today. Mr. Speaker, I now turn to the Budget at hand.

2. EXPENDITURE

The Minister has put forward a budget totalling \$539.4 billion dollars, almost 19 percent of which is debt that needs to be repaid this fiscal year and which the Minister has to ask the holders to roll-over or the multilaterals to lend new money to take out that debt.

We will return to the matter of the debt because there are a few things I want to say on the debt.

Mr. Speaker, I first want to focus on the recurrent and capital expenditure, the \$438 billion segment of the Budget. It is the part of the budget that the hard earned tax dollars of the people of Jamaica support. As such, Mr. Speaker, I believe the government of the day owes it to the taxpayers, in fact, it should be considered the government's sacred duty to report honestly, accurately and completely to the people of Jamaica.

And so, Mr. Speaker, as I reflect on the sacrifices of the Jamaican taxpayers, I am saddened by the inaccurate picture that this Budget presents of the affairs of the government and take this opportunity to call for greater transparency so all Jamaicans can understand and have a clearer picture of the financial state of the nation. One such area that has been utterly abused is the Arrears.

Arrears

Mr. Speaker, the Expenditure Budget is increasingly put together while ignoring the build-up of arrears or late payments which keeps worsening every year. I asked the government to tell me how much are the arrears and they said \$25.51 billion an extremely high figure which still does not include withholding tax on interest owed. Here are the estimates for the arrears:

	Estimated
Withholding tax on interest	\$20.46 billion
Outstanding payments of statutory deductions to Statutory Bodies:	<i>\$15.85 billion</i>
-National Housing Trust (NHT)	<i>\$1.15</i>
-National Insurance Scheme (NIS)	<i><u>\$8.51</u></i>
Other arrears	<i><u>\$25.51 billion</u></i>
Sub-Total	
Electricity for street lights - owed to JPS	\$2.9 billion
GRAND TOTAL	\$47.87 BILLION

Mr Speaker, with a nominal increase of \$39.0 billion in this Budget when compared with last year, and most of that \$39 billion increase is for interest payments and wage settlements, it is clear that the Government has no plan to extricate itself from the stranglehold of persistent and growing arrears for a range of things as I have already enumerated.

In addition to the outstanding liabilities for withholding tax on interest totalling \$20.46 billion, there are \$25.51 billion of arrears (most of which are in chronic arrears of \$21.38 billion) in excess of 90 days, totalling a whopping \$47.87 billion in arrears that clearly are not accounted for in this Budget. (While NHT and NIS arrears of \$15.85 billion and \$1.15 billion respectively are listed as part of these arrears, it is not clear whether arrears to the JPS for street lights of \$2.9 billion is included. How credible does this make this Budget with the Minister bragging that he has met all his IMF targets? And why is the IMF turning a blind eye to this ever worsening situation?

This failure which is now in many cases in excess of 365 days (1 year) is wreaking havoc on the ability of many small businesses to be able to afford to remain as suppliers to the government. The JDF and the Ministry of Health are big-time culprit in this regard.

Indeed, many companies are laying off workers, closing down their businesses, and cutting supplies to government, even as the Ministries, Departments and Agencies (MDA's) simply open new lines of credit with other suppliers to rack up some more payables.

These large and ever increasing levels of arrears left unattended, calls into sharp question, the very credibility of this Budget as the arrears are not included in the Budget and worse, NOT EVEN REPORTED AS A FOOTNOTE IN THE BUDGET.

Beyond the issue of the outstanding payments, is also the question of the accuracy of the information being provided.

There is a stubborn reluctance on the part of the Minister and the Ministry of Finance to come clean and transparent on the arrears. WHERE ARE THE DETAILS? WHY IS THERE SUCH A RELUCTANCE TO PROVIDE IT? WHAT ARE YOU HIDING?

It is just not enough for the Minister to tell me that total arrears of \$25.51 billion comprise the following:

<u>Summary of Arrears</u>	
0-30 days	\$2.04 billion
31-60 "	1.25 "
61-90 "	0.84 "
Over 90 days	<u>21.38 "</u>
	\$25.51 billion

We still require a detailed listing by each Ministry, Department and Agency, of the precise level of arrears.

Mr. Speaker, I am to now report that the list has just come to hand supplied by the Financial Secretary. I notice that neither the NIS nor the JPSCo is listed which would mean an additional \$4.05 billion not accounted for. This requires clarification as this would mean a total arrears of \$51.92 billion.

Let me give some clarity as to why we need the details across Ministries, Departments and Agencies. In this example, there are people working with SERHA (South Eastern Region Health Authority) who have not seen their deductions for insurance and loans that are due to be paid to insurance, credit unions and other financial institutions. Some of them have said the institutions have called to say they have not received payments since October last year. So this is almost 6 months arrears for those people, placing their credit and their welfare on the line. Can you imagine if your insurance premium is among those not paid?

Another example are reports that some members of the medical profession only received part payment of their salaries in March of this year. And in respect of gratuities that are due, for over one year now, have not been paid.

In fact, Mr. Speaker, the report just received reveals that next to large sums owed for withholding tax on interest and statutory deductions to the NHT. The next largest delinquent is the Ministry of Health with a whopping arrears build-up of \$6.731 billion with \$4.472 billion in excess of 90 days.

Mr. Speaker, that is just one example of what is happening when this administration, this government stuffs the bills into the arrears bag and pretends that it is living within its means and gives the IMF the assurance that the arrears are not getting any worse. So, Mr. Speaker, the Minister said the amount of arrears over 90 days was \$21.38 billion for last year. This year he said it is \$21.38 billion. Amazing. What a coincidence?

So when the Minister says,

“By living within our means, the country maintained a primary surplus of 7.5 percent but was also able to achieve a fiscal surplus – our revenues covered all recurrent expenditure including interest costs.”

No Minister, revenues do not cover all recurrent expenditure, not when this government has arrears of \$47.87 billion or \$51.92 billion owing to businesses and individuals. By your own figures, \$4.1 billion occurred in the last 90 days.

Withholding Tax and Arrears

Mr. Speaker, I must remind this Honorable House that under the JLP government, we started a payment plan to pay down the \$20 billion withholding tax on interest liability and brought the arrears we inherited down to \$15.0 billion while paying current obligations on time. Now, the government has apparently scuttled that plan and the arrears are now back to \$20.46 billion.

Lack of transparency in the budgets for the Ministries

I want to turn now to the lack of transparency in the budgets for the Ministries.

Let's take the Ministry of Health. When you look at the budget presented for the Ministry of Health you will see the following:

Approved estimated 2013/14 = \$32.066 billion

Revised estimates \$36.337 billion

Estimates for 2014/15 = \$34.778 billion

This gives the impression that the budget for the Ministry of Health is down almost \$2 billion but that is misleading because the budget that is presented for the Ministry of Health does not include the \$2.33 billion for reclassification, roughly \$1.5 billion for arrears in wages and the second year of another one-off payment of \$25,000 to each Ministry of Health employee or approximately \$700 million.

When you add all of these, the budget for the Ministry of Health is a total of \$39.3 billion, not \$34.778 billion which will not be reflected until the tabling of the supplementary Estimates.

The same misleading information applies to the Ministry of Education, Ministry of National Security and the entire public sector. The budget for wages are underreported in the Ministries.

It is time, high time, to present the budget in a way that gives an accurate presentation to the people of Jamaica whose hard-earned tax dollars go to pay for these expenditures.

Mr. Speaker, I say, if you know already a reclassification amount, if you know there is a 7 percent increase in wages, if you already know there is a one-off payment, allocate them to the respective Ministries from the beginning.

Don't hide them into a thing called "contingency" to be allocated by the 3rd quarter of the fiscal year outside the glare of the spotlight of the Budget season. That's calls into question the integrity of this budgetary process.

Interest Expense

I turn now to interest expense.

Interest expense, Mr. Speaker, took a rather large jump in the budget this fiscal year, to \$132.7 billion up from \$109.9 billion last year. That is an increase of some \$23 billion dollars. If the government were paying down the debt like the Minister said, you would expect the interest expense to decline or certainly not to be up by \$23 billion dollars, a worse situation this fiscal year, and after having done a second debt exchange to bring the interest cost down.

	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15
Interest Expense	\$120.6 Billion	\$126.9 Billion	*\$109.9 Billion	\$132.7 Billion
			*National Debt Exchange reduced interest expense	

The truth is, Mr. Speaker, the nominal debt is up, NOT DOWN. The government closed the fiscal year 2013/14 with central government debt at \$1.946 trillion, up from \$1.812 trillion at the end of FY 2012/13. That is \$134 billion more in debt.

Yes, I fully understand the importance of using the debt/GDP ratio rather than the nominal stock of debt. I will get to the debt/GDP ratio in time. What I want Jamaicans to understand is that thing called **Exchange Rate**. It is wreaking havoc with the interest cost in the budget. The Minister did not touch that in his budget speech, did he?

Mr. Speaker, what we therefore must understand is the umbilical linkage between the increase in the debt stock (not from borrowing only) but from devaluation which then causes higher interest cost which requires more taxation and other measures as we are experiencing now with the additional \$23 billion of interest cost.

Let everyone understand, when 47.2 percent of the total stock of debt is in foreign currency, the exchange rate matters. When 21.5 percent of the local debt is indexed to the US dollar, the exchange rate matters. And so we can't just willy-nilly continue to talk about more devaluation. There are real costs to devaluation.

Here is a big example in the Budget. Tax payers have to find \$23 billion more to pay this higher interest cost this fiscal year because of the devaluation of the Jamaican dollar.

And, Mr. Speaker, what is even sadder is that the benefits of the lower interest cost from the National Debt Exchange are gone, wiped out by the continued devaluation of the currency. What was that sacrifice all about?

Truth is Mr. Speaker, when a country is as highly indebted as Jamaica is with massive amounts of foreign debt, the best strategy is a stable currency. If the country had none or very little foreign currency debt and its singular focus was on stimulating exports, then maybe, only maybe, I would concede the devaluation argument. I will return to the exchange rate discussion as it is critical to the way forward.

Capital Expenditure

Let me now speak about the Capital Expenditure, the segment of the budget that goes to building, improving and maintaining the country's infrastructure. The Capital Expenditure budget has been cut from an approved \$38.6 billion last fiscal year (2013/14) to \$33.9 billion this fiscal year (2014/15). That's a \$4.7 billion reduction.

Interestingly, in the *BOJ Annual Report 2013* on page 47 it gives an explanation for the lower than budgeted capital expenditure outturn in 2013. The Bank of Jamaica's report said the lower than budgeted capital expenditure outturn "...primarily reflected slower than anticipated execution of capital projects." We all know that the Capital Budget is the government's part of the engine of growth (the other being the private sector). Yet, we are all sitting here listening to the government TALK, TALK, TALK about growth, growth, growth but there is absolutely no urgency. Where is all the WORKING, WORKING, WORKING?

I will tell you why there is no urgency in getting capital projects implemented. IT IS HARD WORK.

It is far easier to tax withdrawals on deposits to make up any gap in the Budget than to roll up their sleeves and get out there and implement those projects that would lead to more employment and faster growth. This, Mr. Speaker, is the sorry state of the affairs of our nation.

Education

I have mentioned to the Minister my concerns about the modest sums that are being made available for repairs, renovation and maintenance of our primary, all-age and high schools. And I have expressed even greater concerns that of the small sums allocated due to what is loosely referred to as procurement problems, savage cuts are made while too many of our schools languish in a parlous state of disrepair.

Agriculture

Mr. Speaker, while we celebrate recent growth trends in agriculture, don't forget that the *Economic and Social Survey* says "real value added for agriculture, forestry and fishing industry declined by 0.5 percent in 2013 reflecting contraction in 3 of the 5 sub-industries".

Mr. Speaker, I have concerns about the implementation of a portion of the housing development in Springfield, Clarendon under the socio-economic development of sugar dependent areas. Specifically, infrastructure work, which includes road, water, electricity for 88 housing units which was supposed to cost \$166 million dollars. While being only 60 percent complete, has already racked up a variation overrun of \$50 million. This requires explanation.

In addition, the contract for the actual construction of the houses which was recently cancelled from one main contractor and awarded to a second contractor, who is reportedly paying labourers \$1,600 per day when the approved master-builders rate for compensation of that work is \$2,068 per day. Incidentally, the proper rate is being paid by the infrastructure contractor.

Mr. Speaker, not only are the workers being underpaid but they are being paid late reportedly due to slow payment from the government. I am asking the Minister to investigate this project.

Tourism

In tourism, the other pillar of growth on which the government is relying, growth has slowed down. After healthy growth in 2007-2011, the percentage of growth in real value added for hotels and restaurants is in decline again and stop over arrivals that grew by 120,000 visitors between 2009-2011 has now fallen to a mere 20,000 people between 2011 and 2012.

Revenues

Mr. Speaker, the Minister has announced the need for additional revenue measures in order to fill a financing gap of some \$6.685 billion.

I submit to you Mr. Speaker, had the government kept the exchange stable, we would not have had to have additional tax measures. In fact, you can see where there is an additional \$23 billion budget for interest payments, most of which is as a result of exchange rate movement. This could have easily gone to increasing capital expenditure and reducing the arrears and not require additional tax measures.

So then I ask, are we on the right path in ALL of its aspects? Is this CURRENT ECONOMIC PROGRAMME OF THE IMF AGREEMENT the right one for Jamaica? Is there another Economic Programme that the government could have crafted? Are we headed to the promised land as the Honorable Minister promised in his budget presentation last year?

And I quote:

“So the essential point to be made Mr. Speaker is that in order to reach that “promised land” of sustained economic growth we have to enter through the gates of fiscal consolidation which will lead to low interest rates and over time generate more investment and more revenues. All of these form part of the current economic programme of the IMF agreement.²

² <http://rjrnewsonline.com/business/full-text-of-budget-presentation-by-finance-minister-dr-peter-phillips>

Mr. Speaker, we are not seeing lower interest rates. Treasury yields have trended up. We are not seeing more tax revenues. Most of last fiscal year, tax revenues were running behind projections.

The government got to the primary surplus figure in FY 2013/14 because Minister Paulwell had the telecom companies pre-pay their license fees that were not due for 2 years. Yes, Minister, all of this forms part of the current economic programme of the IMF agreement but it is **NOT** leading to the promised land.

Mr. Speaker, I want this House to note that shortfall in tax revenues were across the board in SCT (special consumption tax) on imports, Customs Duty, PAYE, GCT on imports, companies' corporate taxes and Stamp Duty local. Of significance are the reasons the government gave for the shortfall.

1. significantly lower than budgeted collections from administrative/compliance activities
2. faster than programmed decline in imports
3. reduced employment in some sectors of the economy
4. lower than programmed inflation
5. underperformance of some of the new measures implemented in March and April 2013

Tax Package

Mr. Speaker, once again, we are witnessing deception, rather than straight talk.

You may recall the front page newspaper reports on Wednesday, January 8 in which the headline shouted, "Big relief, no new taxes. Reform, cutting debt on main agenda. The PNP political machinery went into high gear *via* Facebook on the same day and reported.

"Minister of Finance and the Public Service Dr. Peter Phillips has asserted that he harbors no intention of imposing new taxes on Jamaicans in 2014. #NONEWTAXES," the Facebook post said."³

Mr. Speaker, the Minister in introducing the tax package was so smooth that it appears that honey was flowing from his lips and without ANY reference whatsoever to his earlier reported commitment to no new taxes, the Minister never even bat an eyelid to glibly announce a tax package of \$6.685 billion. In fact, shortly after the announcement, he piously reminded us of the holy season as a time for renewal and resurrection. **But he ought to have also reminded us that Easter is also a time of a thing called betrayal.** How many times did the cock crow?

I turn now to the specifics of the tax package.

Tax on alcohol

The proposed tax on alcohol which moves the SCT on alcoholic beverage from \$700 per litre of alcohol to \$1,120 per litre of alcohol for the tourism sector and specifically for white over-proof rum, the rate would be moved from \$960 per litre of pure alcohol to \$1,120 per litre of pure alcohol. The net effect of this decision will militate against the competitiveness of the tourism industry, which will be the hard hit from these additional taxes.

We must bear in mind that the tourism industry hotel trade in Jamaica as it is with so many destinations, is highly competitive and this sharp increase in the cost of alcoholic beverages to the trade will drive a further blow to the industry's ability to be competitive. One company alone, will see a crushing US\$2.0 million hit on its ability to remain competitive. This is serious.

In terms of white rum sales, in 2010, as Minister, while alcoholic taxation on alcoholic beverages was amended from an ad valorem rate of 30 percent to a specific rate per litre of pure alcohol of \$960, I exempted white rum from this regime in order to protect

³ <http://www.jamaicaobserver.com/news/PNP-insists-there-will-be-no-new-taxes-in-budget>

the local white rum industry. This government in 2012 amended the regime to provide for over-proof white rum to be taxed at \$960 per litre of pure alcohol. Mr. Speaker, this move has led to the reduction in sales of white rum. This move in 2012 led to a 230-260 percent increase in the tax intake to government on white rum and virtually doubled the price of a drink of rum.

At one company - Worthy Park Estate - Rum Bar white rum sales have been cut by 50 percent and 50 employees put out of work. This new tax will further militate against the local white rum industry of which there are 7 different brands and will open the doors for greater competition from imported liquor produced in foreign lands using foreign wheat, corn and potatoes, using foreign labour for products such as vodka, gin and whisky that will now compete in price against our white rum.

This decision needs to be reviewed because it relates to the protection of local industry, local jobs, local production of sugar cane produced by many small farmers. This decision needs to be carefully reviewed. It will be ruinous to the cherished and world-renowned white rum industry in Jamaica.

Modification of the Duty Regime for Specified Motor Vehicles

The Minister's decision to impose a special tax on motor vehicles in 2012/13 was ill-advised and he has now realized that the consequence has been lost revenues. I take note of his decision to reverse that decision.

Tax on Withdrawal of Money from Financial Institutions

We come to the issue of the tax on withdrawals on deposits. In addition to the iniquitous bank charges that now exist the Minister has now joined the banks in mauling depositors.

Mr. Speaker, let us look at the pathological trial.

So you pass a law restricting cash transactions. You establish a payment system for public sector workers that require everyone to have an account at a financial institution. You even have a parliamentary committee looking into the vexed issue of bank

charges and before that committee can report its findings the Minister of Finance comes with the tax axe to hijack depositors with this new tax.

It will discourage formal savings and send dollars under the mattress again.

It is inappropriate to impose this tax when you are trying to encourage the use of the formal banking system.

Mr. Speaker, after paying 33 1/3 percent of income in payroll taxes, Jamaicans must then

Pay GCT on most purchases

Pay GCT on electricity

Pay the bank a fee to collect the money

Pay GCT on telephone calls

Pay tax on fuel

Pay property taxes

Pay motor vehicle fitness and Insurance

If you do property transfers, you pay Stamp duty and transfer taxes.

Pay on interest earned in savings accounts and of what precious little that remains to purchase food at higher and higher prices due to devaluation.

Instead of restraining financial institutions with these charges, the Minister has come with a tax of his own, to tax withdrawals.

Also, will the financial institutions now charge an administrative cess to levy the taxes on withdrawals? This question is relevant Mr. Speaker because they will now be telling the government that it requires additional persons and additional computer technology to deduct these taxes and pass them on to the government. The question is what will those additional charges be and on whose backs will those charges be placed? Is it the consumer again? I suspect strongly that it is. This provides yet another opportunity for the financial institutions to further enhance their income by charging this administrative fee.

In an examination of the financial statements of the two major commercial banks, we note that for every \$1 collected by the banks as Fees & Commission, only 20-30 cents out of the \$1 go to cover the actual cost of providing the service. The other 70-80 cents is profit for this line of business.

In addition, this tax will contribute to inflation. Don't be naïve to believe that business of every type, many of whom transfer funds in accounts in different financial institutions. Other people manage other people's money from their accounts, this include lawyers who manage clients' accounts. They will not take this one sitting down. They will pass these extra costs on.

Minister, the President of the Civil Service Association, is quoted as saying, "We will be faced with more than 60% of our income going to paying taxes and fees and very little else to live on...". He went on to say that "for us, this tax is immoral. How much more we bear?"

I call on you Minister to find \$2.25 billion of fat and inefficiency in the bloated bureaucracy and leave people's hard-earned money alone.

In fact, let me identify some areas for you to consider sharp cuts

Minister:

- The government should seek to identify areas of expenditure that can be tightened up. These include foreign travel and smaller delegations on these visits. A smaller budget at the JIS with the advent of public broadcasting and live parliamentary coverage, this should no longer require large sums.

- Cut down on the army of consultants in MDAs. Minister lots of fat there.

- Equally, the programme of developing competence in tax compliance has to be driven more aggressively as there continues to be high levels of tax avoidance and tax evasion in Jamaica.
- And by the way, Mr. Speaker, why are we expending funds destroying marijuana fields when Colorado and Canada want us to export it to them?

Mr. Speaker, I can advise this Honourable House that when I was Minister of Finance this tax was brought to me and I rejected it outright. In the circumstances Minister when you come to close this Budget Debate, we are demanding that you withdraw this tax.

Minister this dog just won't hunt. **This cruel and iniquitous tax must go!!!**

3. THE STATE OF PUBLIC BODIES

Public Bodies

Mr. Speaker, the state of Public Bodies has been a major plank of my presentations since 2005. We have come a very far way in reporting on Public Bodies in Parliament and their treatment in the budgetary process. Our budgetary process can be negatively compromised in five ways:-

- 1) Unplanned interest costs – higher than expected
- 2) Devaluation – higher than expected

- 3) Public Sector Wage Expenditure – unplanned increases due to bargaining claims etc.
- 4) Contingencies – Hurricane, lawsuits, general unplanned expenses
- 5) Public Bodies Debt and losses – the unplanned absorption by Central Government.

Mr. Speaker, the latter, Public Bodies, have created more challenges to the budgetary process than other activities including natural disasters. Historically, the Central Government has had to absorb the losses and debt of some of the Public Bodies resulting in higher Debt/GDP ratios and unplanned Expenditure. We know of Air Jamaica, Sugar Company of Jamaica, which I had to deal with, Wallenford and the list goes on. On the horizon are these following:-

National Water Commission

- 1) The National Water Commission is projected to make a loss of J\$3.5B for the Year 2014/2015 down from \$6.0B in 2013/2014. The reduction in loss is projected on increase in revenue of \$3.5B. This leads to a question of what rate application does the NWC plan to request of the OUR? What is the likely level of increase to be requested?

What concerns me the most is the debt of the Commission and its implications for the budgetary process: (1) long term liabilities of \$33B, (2) Pension liabilities of \$19B – an increase of almost \$2B over 2013/2014, and (3) Trade Payables of \$6.2B.

- 2) **JUTC.** Contrary to the perception created by the many grand public relation statements made by the JUTC recently, it is projected to make a loss of \$3.3B this year. Last year the loss was 2.8B. The main problem is that their cost is increasing much faster than revenue. Yet the Government is seeking to take over many of the existing private operators operations. Last year the Government injected \$6.5B. This year's projection is \$1.1B - is this sufficient to cover operating losses of \$3.3B and a **trade payables** of \$7.2B?

- 3) **NROCC.** The projected loss is \$7.8B this year, which includes projected foreign exchange losses of \$2.5B and finance cost of \$4.2B. The long term liability of the entity is **a massive** \$71.2B. So that the public is clear, this 71.2B does not relate to the North South Highway which will be funded entirely by the Chinese through debt and equity. This relates to Highway 2000. To compound matters, over a three-year period the entity has suffered a foreign exchange loss of \$10B.

- 4) **The privatisation of the Port Authority** continues at a very slow pace. The entity is projected to make a profit \$139M in 2014/2015 coming down from profits of \$1.2B in 2013/2014. Over a three year period the company has incurred foreign exchange losses of J\$9.5B. The entity currently has debts of over \$38B.

Mr. Speaker, the Minister of Finance under the PBMA has a responsibility for these entities. He needs to assure us that these selected Public Bodies will not affect the budgetary process and that there is a plan to deal with each entity's losses.

Depending on how the debt of these entities are dealt with (some are already provided for in the Debt Stock), it has grave implications for all our plans including a Balanced Budget and the projected Debt/GDP Ratios as outlined under the IMF Agreement.

NHT

Mr Speaker, in relation to the special draw down of funds (\$45.6 billion over four years), the Financial Secretary has sent me a brief on the National Housing Trust in which he has noted and I quote: "Having regard to the maturity profile of its investment portfolio and the need to maintain minimum cash balances, it will be necessary to sell \$6 billion of its joint finance portfolio in 2014 and another \$6 billion in 2016."

Now Mr. Speaker, this observation has been made to ensure that the NHT maintains healthy cash balances in view of the significant pay-outs being made. However, I am advised that the mortgage finance

institutions that have the joint finance portfolio are resisting taking over these mortgages as they consider them to be high risk.

My question therefore is, if this is so, what is the alternative plan that the Housing Trust will have to ensure the maintenance of the appropriate level of cash in the system so that its core programmes will not be affected after the substantial pay-out of \$11.4 billion to the government each year?

I also take note, Mr. Speaker, that while the Housing Trust refers loosely to annual housing expenditure of some \$22 billion, this expenditure, unlike several years ago in the previous administration is now heavily weighted in the provision of funds for mortgages in the open market.

Last year some \$19.6 billion was used for this purpose with less emphasis on the Housing Trust directly building more, less expensive and more affordable housing units. For example, the units at Luana which were sold for \$2.8M and units at Portmore that were sold for \$3 million. Equally, with nothing much happening now at the Housing Agency of Jamaica (HAJ), which was a vibrant partner with the Housing Trust in building out low cost housing solutions, this objective is further compromised. This also needs to be looked into.

Mr. Speaker, finally, especially in view of the reduction of low cost housing units being built by the Trust and the provision of mortgages for the acquisition of houses in the open market, it is now time for the National Housing Trust to lift the ceiling on the amount of money loaned to depositors to purchase their homes. The present limit of \$4.5 million. I believe in the circumstances, should be lifted to at least \$6 million which would also make \$12 million available for joint purchase mortgages.

4. THE MACROECONOMIC PROGRAMME AND THE EFF/IMF

Mr. Speaker, within the context of the macroeconomic framework, I now wish to speak about the EFF programme with the IMF and in that context to spend some necessary time on discussion of the exchange rate on which the Minister has invited a debate, the national debt, which requires a debate and to conclude with what I consider to be critical pulse points to drive rapid economic growth in Jamaica.

It was the JLP that started the reforms that are now much talked about.

We established and entrenched the principles of fiscal responsibility in government as a platform for private sector led growth and development.

Accordingly, we passed the fiscal responsibility framework law as an amendment to the Financial Administration and Audit Act.

We introduced the concept of fiscal rules legislation which has now been passed and we introduced major Green Papers and commenced parliamentary consultation on Tax, Pension and Public Sector Reforms.

Indeed Mr. Speaker, in this context, many of the pieces of legislation to which the Minister has made reference were conceived and were in various stages of development while I was Minister of Finance.

Ironically, while the IMF reviews broke down due to alleged slow implementation of the reform agenda, the IMF has given this government a “bligh” by allowing tax reform at a snail’s pace and no reform whatsoever in public sector and pension reform until 2016.

Mr. Speaker, let it be clear, we had no broken relationships with the multilaterals. That is why in November 2011 Jamaica borrowed US\$330 million from the the IDB and the World Bank with the blessings of the IMF who sat at their respective Board approval tables.

While we are in general support of the EEF programme with the IMF, we are not in support of the reckless and ruinous path of devaluation which has the potential to do damage to the economy that is reminiscent to the FINSAC crisis.

Exchange Rate

Mr. Speaker, on the matter of the exchange rate, I listened carefully to the Minister. His belief is that the *“...adjustments that have been made to the Jamaican Dollar will allow what we produce to be more competitive in the external markets and, at the same time allow us to develop what we can produce in Jamaica. Therefore, having a competitive exchange rate is one of the keys to economic expansion and growth in jobs, as we see it.”*⁴

What you said Minister would be genuine if you could say what the competitive exchange rate is? We have gone from \$86.60 JAD to 1 USD at December 31, 2012 to \$109.96 at April 17th, a 27 percent depreciation and we don't have the evidence yet that what we produce is more competitive in the external market. Exports are down Minister in 2013 over 2012, by a lot, 10 percent or US\$165 million. During 2010 to 2011, when the JLP administration kept the currency stable, exports increased by a sharp 21.6 percent.

Minister, they are leading you astray. To make matters worse, it is the non-traditional exports that have cratered, dropping by 17.4 percent or US\$147.2 million.

So Mr. Speaker, not only will the Minister not tell us what is a “competitive” rate he wouldn't even give a target of exports-to-GDP that Jamaica can reach and that his government is prepared to stand by.

So far Minister, the experience is not bearing you out. Let's get back to a stable foreign exchange rate, for the budget's sake, for the manufacturers sake, for the poor consumers that see it in their

⁴ Budget Debate 2014-2015, p15

food and electricity bill every month; for the transportation sector.

A continuously devalued currency is a sure way to pauperism, not the promised land. During the PNP's 18 years in government, you already ran the currency into the ground, from \$5.77 to 1 USD to \$69.06, a 1,097 percent depreciation. Let us not repeat that experience. Jamaica has too much foreign currency debt in the debt portfolio, some 58.7 percent.

Minister, by constantly devaluing, you are pushing the interest expense in the budget back into the stratosphere.

The Minister has welcomed a debate on this issue.

There are as many arguments in favour of a fixed exchange rate policy as there are for a floating exchange rate or a carefully managed floating exchange rate system.

Even among researchers at the multilateral institutions, there are differing views.

One recent paper by Inder Jit Ruprah of the Country Department Caribbean Group of the IDB, issued a policy paper in 2013. In it he discussed the traditional argument that favours devaluation, but issued the following caution for Caribbean countries like Jamaica that are considered to be small open economies that have a high import dependency.

"It is argued (see Worrell 1986) that expenditure cannot be switched from tradable goods to non-tradable goods in countries such as those in the Caribbean. There is no switching effect of a devaluation, either in expenditure or production. Therefore, a real exchange rate devaluation only depresses real income (see also Krugman and Taylor 1978). Worse, a devaluation could result in stagflation, i.e. reduce economic growth and increase inflation. There is a high pass through effect, i.e. the effect of a nominal devaluation on domestic inflation. The pass-through effect is higher in the

instance where the portion of imported goods in the consumer price index and imported inputs is greater and the monetary policy is more accommodative.

In addition, an unexpected external devaluation adversely affects a balance sheet if debts are denominated in dollars while firms' revenue is in local currency (see Allan et al 2002 and Amo-Yartey 2012). This deterioration has two consequences: It limits the firm ability to borrow, and borrowing becomes more expensive as the risk premium increases.

Thus, the balance sheet effect has a dampening impact on economic growth.

Another down-side of an external devaluation is that if an external devaluation is perceived as a sign of economic weakness, the credit-worthiness of the country might be jeopardized. Thus, devaluation might reduce investor confidence and, hence, the country's ability both to secure foreign investment and roll-over public debt without worsening terms."

Jamaica has never really had a fixed exchange rate system in its purest form, but we have had a few periods of stability in the exchange rate since decimalization of the currency in 1969.

Since that time, we have had the exchange rate slipping from J\$1.20 to US\$1.00. In the 1970s, it slipped to J\$1.78 to US\$1.00.

In the 1980s, after the bauxite and alumina fallout, the exchange rate slipped to \$6.00 and was stabilised at J\$5.50 to US\$1 for three years until the change of government in 1989.

The stabilization was a managed float with the implementation of an auction system. This stabilised the economy and led to annual average growth of six percent from 1986 to 1991.

Then followed a period of sharp declines in the value of the currency during the collapse of the financial sector in the 1990s, flying interest rates and inflation rates through the roof and plunging the value of the Jamaican dollar through the floor, ending up at J\$69.00 to US\$1.00 by 2007.

In the 4 years of the JLP administration between 2007-2011, the exchange rate further declined to J\$86.00 to US\$1.00, largely in part due to the devastating effects of the worst global economic crisis in 80 years, and which led to a severe contraction in revenue and foreign exchange earnings.

The economy was stabilised and the exchange rate remained at \$86 for almost two years, largely due to the implementation of a series of policies that worked together to build confidence, including a re-engagement with multilateral institutions on an aggressive scale, a sharp reduction in interest rates and the commencement of major structural reforms including the promulgation of a legislative framework for fiscal responsibility.

We left office in 2011 with NIR at US\$2.0 billion, the lowest single digit Central Bank rate in 30 years which led to single digit mortgage rates, increased employment and GDP growth of 1.5 percent, following negative growth during the world crisis.

What followed was a failure to continue to generate the confidence that we had gained. The NIR fell to US\$800 million and negative growth returned for five consecutive quarters, and the exchange rate has now plunged by 27 percent to J\$110 to US\$1.00.

Where are we today? What is the competitive rate of exchange for the Jamaican dollar?

Is it \$110 or \$120 as implied by the IMF? Others have even suggested \$150!!! The answer is that the structural deformities in our economy, at this time combined with lack of confidence, militate against the possibility of achieving a stable economy and

a stable exchange rate within on orthodox free floating exchange rate.

We must call a halt to this madness of devaluation which is leading us to nowhere but more and more despair. Mr. Speaker, research of the experience of devaluation in Jamaica shows that the overused strategy of devaluations has failed miserably to stimulate exports, contain growth in imports and to significantly reduce balance of payments deficits.⁵ It is not any different at this time.

A stable currency is an essential prerequisite for businesses to succeed within that stable macroeconomic environment.

And there is more to come because the IMF is quoted in the Wednesday, April 16 Business section of the *Gleaner* that the Jamaican dollar is overvalued by between 8-22 percent, noting that the devaluation of 11 percent in the last fiscal year was “at the low end of the estimate”.

The clear inference to be drawn is that further devaluation can be expected until the exchange rate reaches at least J\$120 to 1 US dollar.

The question is, if and when the exchange rate reaches J\$120, what magic in that figure would have made the Jamaican economy suddenly, if not miraculously more competitive?

What fundamental change would have occurred to guarantee no further devaluation and speed up runaway investment, growth and job creation?

Bear in mind Mr. Speaker, that history will show that all the periods of significant economic growth were characterized by a stable currency. It was stable in the 1960's when the economy grew by 6 percent per year. It was stable in the 1986 – 1990 period when we had a managed float and the economy again grew by 6 percent per year. And in 2011, we returned to growth after the worst global recession in part because of a stable exchange rate for 2 years 2010 and 2011.

⁵ <http://jamaica-gleaner.com/gleaner/20060806/focus/focus2.html>

And while we accept that some progress has being made, the million dollar question is: are we doing all the things that are necessary and sufficient to achieve game changing and paradigm shifts in the economy to achieve meaningful and sustaining growth?

The answer is no. And under the present dispensation it will be anyone's guess where the exchange rate will end. **The exchange rate will be like a dog chasing its tail.**

Currency Substitution

A discussion of exchange rate cannot end without a discussion of currency substitution. Mr. Speaker, this Honourable House needs to be aware that the Jamaican economy is silently on a path to currency substitution.

Foreign assets at commercial banks are the highest in 6 years, having increased 33 percent to \$153 billion (denominated in JAD) from \$115 billion in December 2011.⁶

The institutions licensed under the Financial Institutions Act, the securities dealers, showed the same pattern. Foreign Assets moved up 42 percent at the end of Dec 2013 versus when the JLP left government in December 2011. That's not confidence in the government or the Jamaican dollar.

Even the building societies, who are as local as you can get, saw their foreign assets jump 37.6 percent at end of Dec 2013 compared with when the JLP handed over the government in 2011. That's not confidence in the government or the Jamaican dollar. That is a march to currency substitution.

⁶ ESSJ 2013, p9.5

More and more landlords quote rents in US dollars. Our hotels have always priced their products in US dollars. Our monthly electric bill adjusts for the movement in the currency. Petrojam adjusts for the movements in the currency as well. Merchants adjust for the currency movements. Just this past Sunday, I read that more and more companies are choosing the US dollars as their functional currency. They can't take the vagaries of the Jamaican dollar.

Foreign Assets	Dec-11	Dec-12	Dec-13	2011 v 2013
Banks	\$ 115,335.1	\$ 126,042.6	\$ 153,521.2	33.1%
Securities dealers	\$ 9,876.2	\$ 11,716.4	\$ 14,083.8	42.6%
Building societies	\$ 32,987.6	\$ 35,862.1	\$ 45,389.8	37.6%
Total Assets				
Banks	\$ 608,392.2	\$ 656,452.6	\$ 734,996.3	20.8%
% of total	19.0%	19.2%	20.9%	
Securities dealers	\$ 21,693.5	\$ 21,595.1	\$ 25,357.6	16.9%
% of total	45.5%	54.3%	55.5%	
Building societies	\$ 186,923.5	\$ 202,913.0	\$ 212,757.5	13.8%
% of total	17.6%	17.7%	21.3%	
Total Assets	\$ 817,009.2	\$ 880,960.7	\$ 973,111.4	19.1%
% of total	19.4%	19.7%	21.9%	

Source: ESSJ, 2013 page 9.5 – 9.8

Mr. Speaker, the lesson to be learned from this aggressive currency substitution is the rapidly declining confidence in our local currency and this is spurred by the aimless devaluation that is taking us nowhere but to despair.

The Debt

Mr. Speaker, on the issue of the Debt, I would like to underscore the significance of having accurate information on the debt ratio, particularly the debt/GDP ratio as that is one of the major targets against which this government's performance is being measured. It muddies the waters and obfuscates the true state of the nation when the debt/GDP ratio is different depending on who says it and depending on which of the government's publications you read.

Can we just settle on one consistent methodology, so that when the Minister speaks about the debt/GDP his administration inherited and compares it against where the debt/GDP ratio is now, we know that he is comparing apples with apples, not apples with bananas? This debt so absorbs our energies, that it is a must that it be represented truthfully, not sometimes this and sometimes that depending on what political points the administration wants to score.

CENTRAL GOVERNMENT DEBT / TOTAL DEBT STOCK

	At Dec 31, 2011	End of FY 2011/12	At Dec 31, 2012	End of FY 2012/13	End of FY 2013/14
Central Gov Debt/ GDP	131.5%	131.5%		135.6%	131.9%
Debt/GDP Using IMF/ EFF definition		141.5%			144.9%
Nominal Stock of Central Gov Debt (\$million)	\$1,630,415	\$1,662,270		\$1,812,635	\$1,946,005

The Minister is misleading the country. He said on Thursday, the government inherited a debt/GDP ratio upwards of 146 percent and that that ratio had now declined to 139 percent.

On both counts, the Minister is misleading the country and the House.

Mr. Speaker, the fact is the debt/GDP ratio at the end of FY 2011/12 was 141.5 percent (not upwards of 146 percent as stated by the Minister) and that same ratio now at the end of March 2014 was 144.9 percent (not, the 139 percent the Minister said.)

This is the measurement of debt under the Extended Fund Facility (EFF) of the IMF, which includes not just central government debt but net Petro Caribe debt and external and domestic guaranteed debt.

The other common measurement of debt is the central government stock of debt which stood at \$1.662 trillion or 131.5 percent at the end of March 2012 and which now stands at \$1.946 trillion or 131.9 percent of GDP at the end of March 2014.

So, Mr. Speaker, on any measurement, whether under the Extended Fund Facility or under the central government stock of debt, there has been no real progress. The central government stock of debt is up, not down and the debt/GDP ratio, whether you use the EFF measure or the central government measure, is also up, not down.

Mr. Speaker, one thing is for sure, the persistent and unchecked devaluation of the Jamaican dollar is a major cause in the accumulation of the Central government stock of debt.

I asked the government the following questions in relation to last year's Budget. What percentage of the debt stock increase is due to devaluation? The answer:

"The change in the debt stock amounted to 133.4B, an increase of 7.4 percent for the outturn for end-March 2013. Of this, depreciation of the J\$ accounted for approximately J\$108.5bn or 6.0 percent change to the total debt stock. Depreciation of J\$ accounted for 81.5 percent of the change in the debt stock during the fiscal year."

Mr. Speaker, therein lies the direct cause of sharp increases in interest costs as a result of the steep rise in the stock of debt due, not in the main to more borrowing, but to devaluation. But ironically, as we now see from this new Budget that we will have to increase taxes and borrow another \$110 billion to finance the Budget for 2014/2015.

THE GROWTH IMPERATIVE

Real job creators are consumers, whose rising wages generate jobs and growth. If average people don't have decent wages there can be no real recovery and no sustained growth.

Mr. Speaker, real wages declined by 4.7 percent for 2013 following a decline of 4.8 percent in 2012.

Here is the JLP's prescription for Growth.

- (1) Stabilise the Exchange Rate
- (2) Ramp up Education and Training at all levels
- (3) Remake JAMPRO into a well-oiled Investment and trade facilitation machine
- (4) Fast track new and cheaper sources of energy for the economy
- (5) Engineer and incentivise greater access to low cost credit
- (6) Recapitalize and expand the EXIM bank of Jamaica
- (7) Reduce transfer and stamp duty by 1percent each
- (8) Increase NHT lending ceiling
- (9) Fast-track the divestment of the Kingston Container terminal.

1. STABILISE THE EXCHANGE RATE

It is our opinion that given Jamaica's fragile position at this time, there has to be careful management of the exchange rate to stop the present slide of the dollar.

It has simply done too much damage to our economy already.

Within the context of an IMF Agreement in which three tests have been passed and a fourth test is likely to be passed and two billion US dollars in flows are guaranteed from the multilaterals, this is an ideal time to consider fixing the exchange rate for a period of time, after which the regime can then be morphed into a managed, floating system.

Jamaica just cannot take any more devaluation at this time. We are a high cost and highly import-dependent economy for both consumption and production. (one manufacturer of sauces says his production is 67 percent dependent on imports). Of course, we need to wean the economy off imports if they can be produced locally but the simple fact is Jamaica is part of a global system. In order to expand our economy and the well-being of all Jamaicans we must engage in trade.

In Jamaica today, we need to build consensus around many things. One of these is the need to settle down to a stable exchange regime while we work on the other structural impediments that sap investor confidence and retard growth.

I will discuss a few of these issues as part of the growth agenda.

2. RAMP UP EDUCATION AND TRAINING

The second imperative in the Growth Strategy is to significantly ramp up our Education and Training programmes, including retraining the 2,000 trained teachers now without jobs in early childhood teaching methods and deploy them in government-run infant schools.

Let this become a missionary zeal to tackle illiteracy in primary and high schools with remedial programmes, step up vocational training and simultaneously rescue our children in infant schools, use PetroCaribe funding and the Universal Access fund to drive this mission.

Character education needs to be introduced among every cohort in the entire education system – from early childhood to university levels. We must be united in facing the urgent task of tackling the crisis of human underdevelopment in Jamaica.

3. REMAKE JAMPRO into a well-oiled investment and trade facilitation machine that can work effectively with DBJ and EXIM Bank to ensure maximum use of the various programmes, even those just announced by the Minister.

JAMPRO also has to become a major agent of market penetration and merchandising support for the fledging but high potential exporters, many of whom were at the Arena recently.

JAMRPO should also target the tourism sector more aggressively for new investment.

4. FAST TRACK ENERGY SOLUTIONS

We simply must fast track low cost energy solutions, leaving no avenue unexplored, including waste to energy conservation, wind, solar and hydro power.

And the LNG 381 megawatt project must be given national priority to ensure that the financing is put in place expeditiously to make it happen.

The Government should help to target funding from the multilaterals as part of the drive to get the project on a fast track, once it is satisfied of the technical capabilities of the winning bidder.

5. ARRANGE GREATER ACCESS TO LOW COST CREDIT FOR PRODUCTIVE SECTOR

While I acknowledge the additional funding and venture capital for businesses through the DBJ, our larger problem lies in the disorientation of our commercial banking sector towards loans for productive activity.

Our entrepreneurs, old and new, need easier access to lost cost credit from commercial banks for productive, bankable projects.

Claude Clarke, former Minister of Industry, recently noted in an article that less than 10 percent of Jamaican firms that are less than 5 years old have actual and benchmarked access to credit, while 50 percent of Trinidadian firms less than 5 years old have access to credit.

He went on to point out that while Singapore's and Barbados' deposits and outstanding loans are 292 percent and 197 percent of their respective GDPs, the figure for Jamaica is on 57 percent.

That means that they have a much higher ratio of "active capital assets" that are at work to build muscle in the economy.

The 57 percent figure for Jamaica reveals once again, the malnourished and "bang belly" status of the Jamaican economy.

6. RECAPITALIZE AND EXPAND THE EXIM BANK

While we acknowledge and welcome the announced plan for a venture capital fund at the DBJ, a vibrant export sector requires a much larger role for the export/import bank. Multilateral funding should be pursued to recapitalize and expand this institution to play a central role in export development.

7. REDUCE TRANSFER TAX AND STAMP DUTIES BY 1% EACH

In the same way that you have reduced motor vehicle rates by 10 percent, reversing your ill-advised decision to increase it last year, and which led to less income, the government should also reverse last year's decision to increase Transfer taxes and Stamp duties by one percent respectively.

The decision was hostile to the clear need that exists for stimulation of the real estate sector.

The Government has admitted on the Fiscal Policy Paper that the 1.845 billion shortfall in collections of TT and SD indicates that "the projected yield of \$2.0 billion from the one percentage point increase in the Stamp Duty and Transfer Tax rates on April 1, 2013, did not materialise".

By removing the one percentage point from both Transfer taxes and Stamp duties, it will stimulate greater transactional activities and yield the additional income from the increased volumes, which itself can be an effective growth stimulant. It will also encourage greater upward mobility in home ownership.

8. INCREASE NHT LENDING CEILING

The NHT should increase the ceiling on the amount of funds loaned to a contributor, from \$4.5 million to \$6.0 million, which would also make \$12.0 million available in a joint ownership arrangement. This would give NHT contributors greater access to a wider choice of homes.

These proposals are by no means exhaustive but they are organic, (it can't be a little bit here and a little bit there) and when combined with other initiatives now in the pipe line, can lead to yielding dramatic outcomes. These combined strategies over time will yield the real competitiveness that we speak of so often.

9. FAST TRACK DIVESTMENT OF KINGSTON CONTAINER TERMINAL

The dredging of the Kingston Harbour and the divestment of the Kingston Container terminal. This is vital to be ready for the Panama Canal opening, many other countries in the region are getting ready.

The Minister cannot be content to, in his words “continue on this path until we achieve the goals that we have set for ourselves”.

The present path of instability and our overreliance on mega projects cannot accomplish the goals.

We have to act with greater urgency across a broader spectrum of crucial priorities, tackling them simultaneously.

We have no more time to lose.

CONCLUSION

Mr. Speaker, in the context of the IMF Agreement, if we are to achieve sustainable gains, we must take firm and aggressive steps to support the EFF programme. We have no more time to lose.

Mr. Speaker, can we stabilise the exchange rate and give our people a chance? Yes we can.

Can we together ramp education and rescue our people from a crisis of human underdevelopment? Yes we can.

Can we start to promote investment with missionary zeal once again? Yes we can.

Can we fast track energy diversification after 12 years of talk? Yes we can.

Can we arrange greater access to funds in commercial banks and the EXIM bank? Yes we can.

Can we provide a stable environment that encourages investment and develop our people? Yes we can.

Can we change course by giving people opportunity to work our way out of poverty and lift our standards of living and our standards of conduct? Yes we can.

Mr. Speaker, may God guide us all as we continue on our journey, and may He inspire us with hope in our hearts and the firm belief that we can and will overcome.

May God bless you all, and may God bless Jamaica.

Audley Shaw, CD, MP
Opposition Spokesman on Finance and Planning

April 22, 2014