

MINISTER'S STATEMENT

STATUS OF THE INTERNATIONAL MONETARY FUND (IMF) NEGOTIATIONS

Mr. Speaker

Honourable Members

Tuesday, October 23, 2012

It is well known that a negotiating mission from the International Monetary Fund (IMF) visited Jamaica between September 24 and October 5 this year and, as the Fund indicated then; significant progress was made in those discussions. Mutual understandings were established relating to a growth agenda, structural reforms and a preliminary timetable for implementing structural benchmarks to monitor progress. Still there remain some technical issues to be resolved.

I also had the opportunity to have further discussions while in Tokyo, recently with senior members of the Fund Management regarding the Programme being negotiated with the Fund. In view of the fact that I have not had an opportunity to report to the Parliament directly, and in view of extensive public comments about the IMF negotiations, I am taking this opportunity to brief the House.

As I had said previously, there is no delay in the process of negotiations with the IMF, and that we are proceeding in accordance with the timetable originally set out. It is also the case that the essential outlines of the Programme to be concluded with the Fund have been settled and we are at the point of discussing the contents of a draft Letter of Intent.

This includes:

- i) Virtual elimination of the fiscal deficit by 2015/16, in other words a central government budget consistent with an overall fiscal balance close to zero per cent of GDP.
- ii) Bringing the ratio of Debt to GDP down to 100 per cent.
- iii) Programmes and policies that would reduce the ratio of wages to GDP of central government to no more than 9 per cent by 2015/16
- iv) A programme and timetable for pension reform. The Report of the Parliamentary Committee which outlined the proposals agreed to should be laid in the House very shortly.
- v) Important structural benchmarks for tax reform, including improvement to Tax Administration, and the legislative framework regarding tax reform have also been settled. The White Paper setting out the

Government's comprehensive policy stance on tax reform has been considered by Cabinet and further work is being done prior to tabling in the House. It will be laid in Parliament in November.

- vi) Changes in policies and procedures that improve the environment for doing business and enhance the potential for faster economic growth by improving the competitiveness of Jamaican businesses.
- vii) The preservation of expenditure on social spending and improvements in the delivery and effectiveness of these programmes.

**THERE ARE NO AREAS OF FUNDAMENTAL DISAGREEMENT
BETWEEN THE IMF AND THE GOVERNMENT OF JAMAICA
REGARDING THESE MATTERS.**

There are, however, some important technical issues which remain to be finalized. The primary issue centres upon the shared view that given the generally precarious conditions within the world economy and the risks that this negative outlook entails for indebted and vulnerable economies such as ours, there is a need for us to construct buffers for such eventualities. Discussions regarding such buffers continue and we are exploring issues regarding the possibility, for example, of additional debt initiatives such as debt for assets swaps with public sector bondholders and debt for nature swaps.

Mr. Speaker, we need to devote attention, time and energy to what we can do to grow the economy – which must always be seen as the most sustainable way of achieving success and prosperity for our people. Indeed, it must be understood that the

central objective of this programme is to create the conditions for faster, more sustainable growth.

Let me draw attention to the fact that despite our constraints in the fiscal budget, the country is addressing the growth agenda.

For example:

1. The Honourable Prime Minister will on November 23 be launching the re-start of the North-South Highway Link (the old Mt. Rosser by-pass project) which had begun under her watch in 2007.
2. The discussions to expand the Port of Kingston to accommodate the giant vessels which will utilize the newly developed Panama Canal are well underway; this will help to position Jamaica as a major logistics centre and maritime hub in this hemisphere.

3. The hotel sector is embarking on a new wave of expansion with several hundreds of new hotel rooms to be built and major international hotel brands investing in the Jamaican hotel sector for the first time.

4. We are taking steps to reduce Jamaica's electricity charges substantially over the next three years. JPS's owners are investing in infrastructure to allow for cheaper, cleaner fuel to become a major part of our energy supply.

5. The programme for expansion of capacity in the area of ICT/BPO is underway with two recent approvals by DBJ to finance the creation of facilities which will provide 3,800 jobs; another application is under

consideration which will facilitate another 2,500 jobs– the programme has the capacity to finance ICT/BPO facilities totaling 10,000 jobs

6. Our sports and entertainment industries, built on our unique Jamaican culture, vibe and creativity which the rest of the world finds so engaging, provide us with other unique opportunities to leverage Brand Jamaica in a wide range of economic enterprises.

7. We are working on the legal, regulatory and operational reforms as well as the enhancement of productivity of our people through better and more targeted training. These will ensure that we regain and surpass the positions we previously held as a place in which it is good to do business.

So, Mr. Speaker, Honourable members, our approach is strategic, our programmes are sound and our prospects are bright. There is work to be done. But we are in a position to move forward in confidence.

I see us as being on the cusp of an IMF agreement that will bolster that confidence. We will have as a Parliament, as a Government, as a people, to make sure that when an Agreement has been signed, we – all of us and all Jamaica – keep to the commitments which we make. *(It did not happen that way in the last agreement, but that is the past. Today, we have a new reality to face and I believe we must put the past behind us, come together, think future and seize the present moment).*

I understand that as we look at the movement in the exchange rate, there is concern. Let us not forget that we are still in the

high season for commercial purchases and there is always pressure at this time of year. The exchange rate movement has also been a reflection of the uncertainty that some people have expressed about the timing of a programme with the IMF.

It is a very difficult time, but we all have to exercise some patience as there are processes that we have to go through. These involve the technical discussions, the local decision making and consultation processes, the IMF's own internal discussions and decision making and ultimately the Board of the IMF.

What are some of the things we have done to speed the process?

The technical work has advanced to the point where our medium-term economic programme is accepted as the basis for starting the negotiations.

1. We have completed the Parliamentary work for both the Pension and Tax Committees. As I said earlier, the White Paper on Tax Reform was considered by Cabinet in October and further work is being done before final approval and tabling in the House in November.
2. The White paper on Pension Reform is being drafted and will be tabled during the month of November.
3. We passed a tough budget which raised the primary surplus to 6% from 3% at the end of the previous financial year. This was the outcome of a significant tax package which called for sacrifice from a wide cross-section of the country, as well as a significant cut in real expenditure affecting all areas of the government.
4. The basic study on tax waivers and concessions has been completed by the consultant. We are now moving to the stage of policy recommendations to guide Omnibus

Legislation on Incentives early next year. In the meantime, we have taken the policy decision to significantly cut back on waivers and to reduce the powers of the Minister of Finance to grant discretionary waivers.

5. We will be tabling a new Debt Bill in Parliament shortly to deal with the comprehensive management of debt from a modern perspective and to ensure that we limit the growth of the debt over time.

6. We have cut 3000 posts from the Central Civil Service establishment and work is well under way for a similar number of posts to be eliminated from the Public Bodies.

As I said at the outset of my statement this afternoon, Mr. Speaker, we are progressing well in our negotiations towards an Agreement. Where the final details remain outstanding, the

negotiation is less about substance and more about pace and timing.

As the negotiating teams move to conclusion, we also say that we are committed to a process of consultation with those whom we represent, the people of Jamaica.

So, knowing that we are all of us stakeholders in this project, we ask for patience and responsible action from our citizens as we tie up the last elements of our negotiations with the IMF. We need the support of every sector, every organization, and every individual as we go forward.

I do not expect that everyone will be happy with every aspect of the programme. What I ask for is an understanding that, as a

Government, we have been seeking and will continue to seek the best possible agreement with the Fund; one that embodies a consistent set of policies that will lead to long term stability and growth.

We recognize that our growth strategy is central to our medium and long term prosperity and the improvement of the lives of all, especially the poor, the vulnerable, and the aspiring youth among us.

The Agreement will give us access to the international financial flows, providing the best opportunity to restore confidence and allow our country to embark on our next 50 years towards a much stronger and brighter future.

But we must for our part apply local commitment, creativity, energy and discipline into making that confidence and those resources work for us.

It is our programme. It is our country. It is about our future. I am confident that we can achieve together.