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Minister of Finance and the Public Service
Statement on Budget for Fiscal Year 2021/22

OPENING REMARKS

The 2021/22 fiscal year central government and public body budgets have been formulated around the continuing global and local impact of the Covid-19 pandemic and the efforts to counter its spread and restore higher levels of economic activity.

The Covid-19 pandemic generated both a health crisis and an economic crisis during the current financial year 2020/21. The pandemic has impaired the health of thousands of Jamaicans, strained the health systems and led to the reduction of economic activity across Jamaica including the virtual shutdown of the tourism sector for much of the year.

This translated into a significant loss of revenue for the Government and, simultaneously, to the need for new expenditure to address the health consequences while cushioning the social and economic impact.

The hit to the revenues in FY 2020/21 is estimated at an unprecedented decline of 11.3% or \$73.3 billion as compared with the FY 2019/20 inflows. Despite this overall expenditure is programmed at 3.8% or \$24.2 billion higher than the FY 2019/20 spend.

To enable the Government to pursue the required expenditure in the face of the unprecedented revenue fallout, the Government requested and obtained suspension of the fiscal rules for FY 2020/21, following amendment of the Financial Administration and Audit (FAA) Act that included an adjustment of the target date for achievement of debt/GDP of 60% (or less) from FY 2025/26 to FY 2027/28.

The FAA Act requires that in periods following suspension of the fiscal rules corrective action, in the form of a constraint on the fiscal balance, be taken to restore the trajectory for achievement of the debt/GDP target. This corrective action has been applied in developing the FY 2021/22 Central Government and Public Bodies budgets.

AIDING PUBLIC UNDERSTANDING OF THE BUDGET

Under our fiscal responsibility framework it is a requirement that the budget is passed before the beginning of the fiscal year to which it applies, that is, by March 31st of each year. It is also a requirement that the auditor general (and soon, the Independent Fiscal Commission) reviews the budget for compliance with the fiscal rules prior to its consideration by the standing finance committee of parliament. These two requirements together make it necessary to table the

budget at this time each year to be followed three weeks later by the opening budget presentation by the minister of finance.

The budget is presented in a rigid format that conforms to international best practice chart of accounts for public finance. It is not presented in a policy framework. As a result, it is difficult to decipher the policy intent of the Government from a perusal of the printed accounting entries.

For this reason, since this timetable change took effect, it has been necessary to offer a few remarks at the time of the tabling of the budget.

Furthermore, at this unprecedented time, when Jamaica is in the grip of the Covid-19 pandemic and its impact, the public interest is best served by the people of Jamaica having an understanding, as early as possible, of the policies and programmes planned for the upcoming fiscal year.

While I may be taking attention away from the budget speech, it is in the public interest that I outline some facts that I think are important for the public to be aware of.

PLANNING FOR RECOVERY

This budget follows a year in which Jamaica experienced the worst economic contraction in its history due to the measures necessary to slow the spread of the coronavirus.

Inclusive of the current January – March 2021 quarter, by the end of March we will have experienced five consecutive quarters of economic decline. We lost \$73 billion in revenues last year, we had to suspend the fiscal rules and we were fortunate to have the ability to draw down on substantial cash resources last year which we were warehousing to accelerate debt repayment.

In previous downturns, economic contractions have lasted several years in a row. In the global financial crisis that began in 2008, for instance, the economy declined for three consecutive years and 11 out of 12 quarters. In the 1970s, we experienced five consecutive years of economic contraction from 1976 to 1980 inclusive.

From the very outset of this economic crisis we positioned ourselves to absorb the shock and to recover faster and stronger than we have before. We have made public our intention to recover quickly and this informed the commissioning of the Covid Economic Recovery Task Force, its deliberations and Report.

Our task this year is to begin the economic recovery. We aim for economic recovery to begin the upcoming fiscal year and furthermore to begin this upcoming April – June quarter. Our budget, within the strictures with which we have to operate, and to the greatest extent possible, is aligned with this objective.

Make no mistake about it. This is a dangerous economic crisis and the wrong choices could prolong and deepen its effects.

On the positive side, however, the path out of this crisis is clear but it is a very narrow path. Meaning, we can't do everything, we have to prioritize and even prioritize within priorities, and we have to be very strategic and deliberate in what we do.

PRIORITIES FOR RECOVERY

Our priorities for recovery include:

- We need to ensure that we make adequate provisions for vaccines. For economic recovery it is essential that the financing exists for Jamaica to procure sufficient vaccines to reach herd immunity, with respect to the coronavirus, in the quickest possible time.
- We need to ensure that we bolster social support to assist the vulnerable persons and those who are most affected by the pandemic.
- We need to continue to finance the provision of the public goods and services on which our society and economy depends.
- We need to maintain stability in the economy –

I want to say a few remarks on the latter imperative.

Due to this crisis, our debt is now at 110% of GDP. We have been here before. This time, however, it is important that we steer clear of the edge of the precipice with which we have painful familiarity. Any kind of instability would greatly magnify existing challenges.

At a minimum we have to ensure that we cover our interest costs, which constitute a major component of our non-discretionary expenditure, from our own revenue. This means we have to reserve \$125 billion of our revenue to pay interest. With the approval of the parliament, we suspended the fiscal rules, and hence this requirement this year 2020/21, and we were greatly aided by a substantial opening cash balance averting the need to borrow to pay interest.

Not covering interest from revenue again this year would mean that we would borrow to pay our interest bill which, given elevated debt levels, could quickly put us on an unsustainable path once again, with adverse implications for jobs, investment, interest rates, inflation and other economic variables, complicating recovery efforts. Nobody wants that.

PUBLIC SECTOR COMPENSATION

The expected continuation of the impact of the pandemic on Jamaica during FY 2021/22 as well as the fiscal balance constraint has limited the Government's ability to commence implementation during FY 2021/22 of the compensation

restructure arising from the comprehensive compensation review undertaken over the last several years.

The Government is therefore seeking a one-year delay with respect to the commencement of implementation of the compensation restructure as the GOJ focuses on facilitating Jamaica's recovery from the pandemic.

We have undergone a thorough review and examination of public sector compensation as we promised we would. Given the massive impact of the pandemic we do not have the resources to begin the implementation of the review and finance our recovery at the same time.

Furthermore, it is critical that whatever resources we can corral are used this year on vaccines, the distribution of vaccines, our social and economic recovery - inclusive of jobs as well as social support of those who have been hardest hit by the pandemic.

Unlike other countries, Jamaica's public sector has been largely shielded from the financial impact of the pandemic. There have been 130,000 job losses in Jamaica as a result of the Covid-19 pandemic and none of them are from the public sector.

So we ask for your understanding and your continued patience. And this includes all who are paid by the public purse, and are not necessarily unionized in the traditional sense, inclusive of parliamentarians and others.

After factoring in annual increments, a very modest increase in wages has therefore been programmed for FY 2021/22 with the expectation that the compensation restructure will commence implementation in FY 2022/23.

We will use this year to fine-tune the parameters of the compensation restructure with the union movement so that we can move towards beginning implementation in FY 2022/23.

SUMMARY OF BUDGET

As a result of the above factors taken into consideration in preparing the FY 2021/22 budget, the Central Government plans to spend a total of \$830.8 billion during the year, comprised of:

Recurrent Programme Expenditure	\$247.8 billion
Compensation of Employees	\$239.2 billion
Capital Expenditure	\$ 54.2 billion
Debt Service	\$272.2 billion
Loans to Public Bodies	\$ 17.3 billion

Though programmed 2021/22 recurrent programme expenditure, compensation expenditure and capital expenditure are all higher than this 2020/21 year, total expenditure of \$830 billion is lower than the \$850 billion of

the current fiscal year as a result of lower debt service costs and lower volume of loans to public bodies.

The full programme to be undertaken by the Government during FY 2021/22 will be outlined during my presentation of the budget in March.

BOJ DISTRIBUTION

There is one area that I need to expand on today however.

Our revenues this year include a one-off \$33 billion dividend from the Bank of Jamaica, which we expect in the first week of April.

Rarely are the fruits of right and appropriate policy as powerfully evident, in as short a time period.

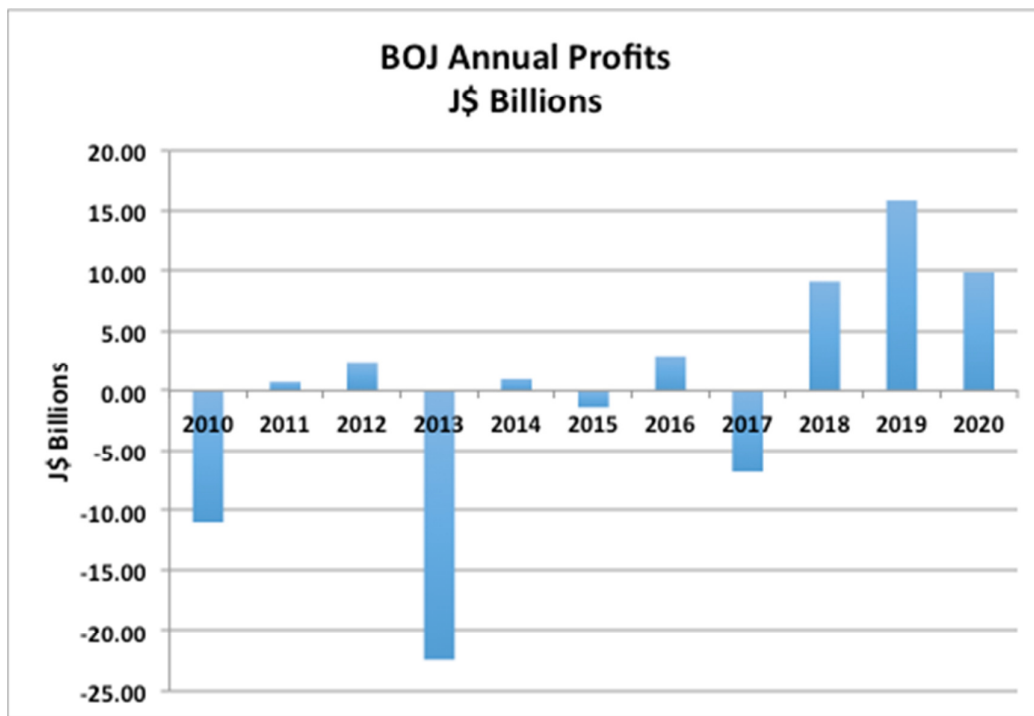
It is only appropriate that I say a few words about this.

Madam Speaker, after a long period of BOJ losses, low profits and high profit volatility, including a loss of \$6.8 billion in 2017, the BOJ made a profit of \$9.1 billion in 2018, \$15.8 billion in 2019 and \$9.9 billion in 2020.

BOJ Annual Profits J\$ Billion

Year	J\$ Billion
2010	-10.99
2011	0.72
2012	2.40
2013	-22.43
2014	0.96
2015	-1.40
2016	2.91
2017	-6.80
2018	9.10
2019	15.81
2020	9.89

*losses in 2010 and 2013 primarily
due to impact of JDX and NDX*



This reversal of fortunes of the BOJ resulted from the BOJ modernization exercise and the deliberate shift in monetary policy towards inflation targeting which began in earnest in 2018, and away from previous policy where exchange rate preoccupation biased policy towards excessive interventions, which ultimately have a hidden and non-transparent fiscal cost.

I will remind you that this policy shift also paved the way for 10 consecutive reductions in the policy interest rate since 2018 all the way to 0.5% or just above zero, and a large expansion in private sector credit since then.

You have heard me speak about this policy shift many times. To make the point consider for a moment that, in 2017, prior to this policy shift, the BOJ reported \$7.7 billion of foreign exchange losses!

The transfer of debt securities to the BOJ in 2018/19 and 2019/20 to cover this and other prior year losses, which was also a part of the BOJ modernization exercise also assisted in the improved BOJ performance.

Under the BOJ act it is required by law to distribute dividends to the Government whenever it makes a profit and for the GOJ to transfer resources (typically debt securities) to the BOJ to cover BOJ losses whenever these occur.

In effect, however, dividends cannot be paid on profits unless receivables, due to the BOJ from the GOJ, in respect of historical losses, are covered by the GOJ. This explains why it was not practical to pay dividends connected to 2018 and 2019 profits then (as the government still owed the BOJ for previous losses) and they are only being paid now.

I will have more to say about this in the opening budget presentation but dividends from the central bank to its government are the natural order of things, albeit not on this scale as this dividend relates to three years cumulatively.

A central bank is not designed to be a drag on taxpayers with consistent losses. A central bank is not set up to bear non-transparent FX losses at as a matter of course. The central bank is not designed to allocate subsidies through losses, as it is utterly non-transparent. On the contrary a sovereign nation's central bank is designed to make profit and for its profits to be transferred to the GOJ for transparent allocation in the budgetary process.

Four things to note:

1/ To be clear only about 20% of the dividend relating to the three year period 2018 - 2020 arises from foreign exchange gains for the BOJ. The remainder is from ordinary operations).

2/ When the BOJ Amendment Act comes into force, the dividend regime will be updated. BOJ dividends will not be paid if its capital at the end of the financial year is less than 5% of monetary liabilities even if it makes a profit during that year.

3/ After paying this dividend the Central Bank is projected to have its capital be 5% of monetary liabilities during this year 2021.

4/ That BOJ Amendment Act cannot come into effect until we have identified the appropriate persons with the requisite levels of skills and who have no conflict to discharge the functions on the board and committees of the BOJ as envisaged under the Act. We are working hard to have that occur as soon as possible.

I will share just for example the distributions of central banks in New Zealand, Australia, Canada, the UK and the US over the past decade by way of example. Their experience demonstrates what ought to be the norm in Jamaica.

So Madam Speaker, the Central Bank will pay a one-off dividend of \$33 billion in the first week of April straight into the Consolidated Fund. The Government's policy of BOJ modernization is literally paying dividends Madam Speaker at a time when we need it most.

It is important that the country recognize however, that this level of dividend from the Central Bank will not be repeated on an annual basis and cannot therefore be treated as a sustained and recurring source of revenue for the Government.

The SERVE Jamaica Programme

The one-off BOJ dividend of \$33 billion will facilitate a \$60 billion Social and Economic Recovery and Vaccine Programme for Jamaica

The \$60 billion SERVE Jamaica Programme will consist of the following elements:

- \$10.5 billion in special resources for the Ministry of Health including
 - \$6 billion for vaccines,
 - \$1 billion for PPE's, \$1 billion for drugs and reagents,
 - \$2 billion for regional health authorities and
 - \$500 million for additional Covid related expenditure – extra cleaning, catering security

Madam Speaker, based on current prices and supply, we are making provisions for the GOJ to be able to finance the procurement of, and completion of the coronavirus vaccination of 2 million Jamaicans (double dose or single dose depending on the specific vaccine requirements).

That is, the GOJ will allocate the funds, under the SERVE Jamaica Programme to make the attainment of herd immunity in a single fiscal year fiscally feasible. The rest is up to the availability of supply, the logistics and distribution all of which the Minister of Health will soon address.

- \$31.1 billion infrastructure program to drive jobs and economic activity, improve productivity and strengthen resilience consisting of
 - \$17.7 billion South Coast Highway. The highway is linked to a loan. However, because we have fiscal balance constraint, without adequate fiscal space created by the BOJ dividend revenues this discretionary spend could not have been accommodated anywhere near this magnitude.
 - \$8 billion special public investment infrastructure program to improve productivity and increase resilience with the installation of drains, widening and dualisation of major thoroughfares, construction of sidewalks etc, This is captured in the Contingency Provision for the Public Investment Management System
 - \$3.7 billion in secondary roads, repairing roads across Jamaica,
 - \$1.2 billion for the Montego Bay Bypass.
 - \$0.5 billion for construction of new police divisional headquarters in westmoreland and new forensic pathology suite

This will be the largest programmed allocation to physical infrastructure tabled by any GOJ in the budget and Madam Speaker this is pure infrastructure, not merely capex.

- \$5 billion in targeted financing for businesses affected by the pandemic
- \$1.7 billion for rural farm roads and productivity incentives to boost agriculture
- \$1.8 billion to expand WiFi and broadband in schools and communities, in particular in rural areas.

- \$8.1 billion in targeted social support above and beyond what is usually provided which will be targeted to the vulnerable and those who have fallen on hard times as a result of the Covid pandemic. \$6 billion of this amount is captured under the Ministry of Finance and Public Service.
- \$0.7 billion to the UDC to complete construction of close Harbour beach park and other activities
- \$0.8 billion to other MDA's

A total of \$59.7 billion dedicated to our Social and Economic Recovery and Vaccines for Jamaica – SERVE Jamaica Programme.

I wish it could be bigger - 100 billion, 200 billion perhaps. But this isn't possible without so-called "running with it" and racking up debt that we cannot sustain, and punishing the poor and vulnerable with the consequences OR by stopping the provision of certain services by the GOJ both of which would be undesirable.

Madam Speaker the SERVE Jamaica Program will provide the foundation of our economic recovery beginning in the upcoming fiscal year.

It will finance the procurement of the vaccines required to keep us safe and healthy and that are essential to our social and economic recovery

It will finance record spend on infrastructure to drive jobs and economic activity, improve productivity and strengthen resilience.

It will finance social support for the vulnerable and those who are most affected by the pandemic

It will finance an improvement in digital connectivity, and WiFi schools and communities

It will finance support for businesses including agriculture to boost the production that will provide the foundation for our recovery.

Madam Speaker, Jamaica will recover. Jamaica will recover stronger.