

**BUDGET DEBATE 2015-2016  
CLOSING PRESENTATION**

**By**

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**STRONG FOUNDATIONS FOR GROWTH  
AND  
THE EXPANSION OF OPPORTUNITIES**

## **INTRODUCTION**

- Mr. Speaker, let me begin the closing presentation for the 2015/2016 Budget Debate by again thanking the staff of all of the Ministries, Departments and Agencies across Government and, in particular, the Financial Secretary and the other members of the team at the Ministry of Finance and Planning; the Governor and staff of the Bank of Jamaica; the Director General and staff of the Planning Institute of Jamaica for ensuring that the new budget process was successfully implemented.
  
- Let me repeat, this was a ground-breaking exercise, which provides the opportunity for the House, and indeed the country, to have a much more informed discussion and debate about our future.
  
- In this regard, I would like to again thank you, Mr. Speaker and the members of the House for supporting this new process:
- For the most part, the process went well:
  - ✓ The Estimates, and accompanying documents, were submitted on time as planned;
  
  - ✓ The Auditor General was able to review the Fiscal Policy paper and respond on the veracity of the content; and
  
  - ✓ The Standing Finance Committee of the House was able to complete its deliberations in a timely fashion.

- In spite of the challenges, we are on schedule to approve, for the first time in Jamaica's history, the national budget before the beginning of the next fiscal year.
- However, while the deliberations were for the most part constructive, it is regrettable that towards the end, discussions at the Standing Finance Committee seems to have lost focus.
- What has bedevilled us over the years, Mr. Speaker, and was unfortunately all too evident during the debate in the House, is the excessive partisanship and political point-scoring which devalues the debate and results in:
  - the misrepresentation of facts; and,
  - the abuse of public officials and our international partners.
- For example, the abuse of the IMF, whether it be in reference to the passing of tests, or worse, to state that these tests are "*contrived*" is not befitting of the Opposition Spokesman on Finance and does the country no favours [page 40 – 2015/15 Presentation].
- In fact, it is an insult to the very sacrifice that the people of Jamaica have had to make to meet the pre-conditions set in order to secure an agreement with the Fund. What is more, it belittles the sacrifices that the Jamaican people have made and continue to make in meeting the country's obligations under the programme, which have been critical to the country's economic recovery.

- His reference to EPOC as a farce is typical of someone who places no value on transparency and attaches no importance to keeping the Jamaican public informed on matters critical to their survival.
- He then goes on to abuse the co-Chair of EPOC and impugn the reputation of the leadership of the PIOJ.
- What is alarming is that the Spokesman on Finance and the Leader of the Opposition seem to share the same capacity to distort reality.
- Mr. Speaker, listening to their contributions to the debate we are presented with the view that everything was fine in the period 2007-2011, following which there was a sharp depreciation in the country's economic, financial and social conditions.
- Mr Speaker, everyone is entitled to their own views but not to their own facts. **WHAT ARE THE FACTS?**
- **Debt to GDP**, using the definition under the Extended Fund Facility, which stood at 115.2 per cent in 2007/2008 moved to 126.7 per cent in 2008/2009; moved to 142.5 per cent by 2010/2011 and **140.1 per cent in 2011/2012**. The truth is that during that 2007/2008 – 2011/2012 period, the debt grew by \$713.35 billion, a whopping 68%. In spite of this, the Net International Reserves declined from \$2.1 billion to \$1.8 billion and the dollar devalued by 22.8%. Goods and services exported as a percentage of GDP dropped from 40.8% to 29.1%. Based on the exchange rate yesterday of \$115.13 the current estimate of **Debt to GDP for 2014/2015 is 138.5%**.

- **If we look at Growth in GDP;** it moved from negative 0.8 per cent in 2008, to negative 3.1 per cent in 2009 and negative 1.4 per cent in 2010;
- This presents a combined contraction in three years of more than 5 per cent of GDP.

**THESE ARE THE FACTS.**

- **Let's look at Unemployment,** which was 9.8 per cent in 2007, rose to 10.6 per cent in 2008; to 11.4 per cent in 2009; to 12.4 per cent in 2010 and 12.6 per cent in 2011.

**THESE ARE THE FACTS:**

- **Poverty,** which was 9.9 in 2007 moved to 12.3 per cent in 2008; 16.5 per cent in 2009; 17.6 percent in 2010. They did not do a survey in 2011.
- The Opposition Spokesman on Finance makes much of his supposed stabilisation of the exchange rate. What are the facts?
- **The exchange rate** moved from \$70.61 in 2007 to \$80.47 in 2008 to \$89.60 in 2009; that is, 26.9 per cent over two years; and then it “artificially” appreciated, contrary to their agreement with the Fund, as gross reserves were bolstered by the injection in 2010 of US\$1.6B from the multilateral financial institutions thereby increasing gross reserves by US\$1.22B to close the year at US\$2.98B.

- What was significant in all of this was the failure to undertake the necessary structural reforms in order to achieve a sustainable balance of payments.
- The **current account deficit** on the balance of payments was 18.9 per cent of GDP in 2008/2009 and although it was reduced between 2009 and 2010 by 2011/2012 the current account deficit had climbed again to 13.4%.
- **MR. SPEAKER, THOSE ARE THE ESTABLISHED FACTS, NOT A FIGMENT OF SOMEONE'S IMAGINATION.**

#### **Jamaica's Credibility with our Partners**

- Mr. Speaker, as I said before, everybody is entitled to their own opinion, but not to their own facts. This also applies to the whole issue of our relationship with the multilaterals and the credibility of the Jamaican authorities. I see the Opposition Leader as a young man who is trying to build credibility. It is, therefore, sad to see the Leader of the Opposition trample on his own credibility in an effort to score political points.
- I could not believe the statement made by the Leader of the Opposition that crime falls under the JLP and increases under the PNP. This statement is not only toxic but is patently false.
- Once again – the facts. The murder rate for 2007 was 59 per 100,000 and the major crime rate was 260 per 100,000 (as recorded by the JCF). By 2009, they had risen to 62 per 100,000 and 424 per 100,000 respectively.

- Let me remind the Opposition Leader that it was not until the country determined that the extradition request should be satisfied, and I repeat, the country determined that the request should be satisfied, that the murder rate fell in 2010 to 53 per 100,000 with major crimes declining to 400 per 100,000. For 2014, the murder rate was 37 per 100,000 with major crimes down to 290 per 100,000.
- To understand the background to Jamaica's loss of credibility with the IMF and the multilaterals, after 2010, we have to recall the factors of the Standby Agreement that the then government entered into with the IMF. We should probably even go further back, but, for now, in order to be merciful, we will not. You may recall, Mr. Speaker, that when the world financial crisis hit in 2008, the then Minister of Finance actually said "*it would be beneficial to Jamaica*".
- They were told also that unrealistic wage settlements with the public sector workers in the context of the economic situation were unaffordable. Instead they proceeded recklessly to make promises they could not honour or satisfy.
- At that point, the Unions were pilloried with ultimatums to "*take it or leave it*" or in the words of the then Minister of Finance "*not one red cent*" was there for the workers. **THOSE ARE THE FACTS.**
- As the global crisis evolved, the 27-month Stand-By Arrangement provided significant funding up-front by the IMF, World Bank, the IDB, the CDB and other multilaterals. That programme which the then Minister described as "*the most bearable terms possible*" (Opening Budget

Presentation by Audley Shaw April 28, 2011) required a number of actions:

- a) fiscal consolidation including tax and public sector reform;
    - i. an increase in the primary surplus from 4.8 per cent in 2008-2009 to 6.2 per cent in 2009-2010, 7.0 per cent in 2010-2011 and 7.7 per cent in 2011-2012. By the 3rd review, these had been relaxed to 4.7 per cent in 2010/11 and 6.8 per cent in 2011/12;
  - b) a debt strategy to lower exceptionally high interest costs and to address the problem of debt overhang; and,
  - c) financial sector regulatory reform to reduce systemic risks.
- All of these commitments were necessary features if we were to correct the economic imbalances. However, contrary to the commitments given, the programme went off track from the very earliest days of its existence.
  - There were three programme reviews completed by the IMF Board in August 2010, December 2010 and February 2011. By April 2011, the programme had already begun to go off track. The Fund stated that the Fourth Review would be combined with the Fifth Review – but this was never completed and the IMF despatched a senior official to meet with the then Prime Minister (not the Minister of Finance) to indicate the measures to be taken to put the programme back on track. To be absolutely clear, no effective or meaningful discussion regarding the programme took place between the IMF and the then Government after that visit of mid-2011.

- To be factual, in January 2012, we found that the primary surplus for FY2011-2012 was approximately 3 per cent of GDP as compared with an SBA target that had been lowered by the IMF to 6.8 per cent – in effect Jamaica (under the previous administration) simply “*took the money and ran*”.
- These are the facts, Mr. Speaker, up to the end of 2011.
- An assessment in early January 2012 showed that all borrowing had dried up. No draw-down was available from the IMF or the World Bank, The European Union suspended grant funding, and despite the loan with the IDB having been signed in late 2011, no funds were transmitted – not one penny. On the contrary, a negative Macro-economic Sustainability Assessment (MSA) was issued by the IDB, based upon their assessment of the previous fiscal year, which effectively blocked access to any IDB funds to Jamaica.
- To put the programme of economic reform back on track was going to be difficult. No doubt, this was what caused the new Prime Minister (Andrew Holness), following his visit to Washington to indicate in his famous Eucalyptus oil speech in Mandeville that there would be, in his words, “*bitter medicine*”.
- Now, the Leader of the Opposition retreats from his own words to imply that there was a path of economic reform available without confronting the difficult, even painful, choices that we have had to face. **Which Holness are we to believe, the one in Mandeville or the one last week?**

**Passing Tests**

- Mr. Speaker, the failure of the then Administration to pass the tests to which they had agreed and which they described as “bearable” made the task of adjustment far more difficult and the burdens that the country has had to endure since 2012 far more onerous.
- It took this administration almost eighteen months to get the IMF, the IDB and the World Bank to agree to give Jamaica another chance and commit to support the Economic Reform Programme.
- They refused to give Jamaica up-front funding given their past experiences with the last programme. They also required that Jamaica commit to a series of very significant prior actions.
- During that period of negotiation with no international support our Net International Reserves declined, business and consumer confidence was eroded while the international community decided whether Jamaica could be trusted again.
- I am, therefore, astounded that the Leader of the Opposition who should know better is now joining his Opposition Spokesman on Finance in belittling and making a mockery of the passing of the IMF tests.
- Let me once again spell it out for them. This administration is going to continue honouring its commitments and meeting its obligations to our international partners, in order to make sure we pass our tests and establish a viable base for economic growth.

- What is clear is that our track record under this programme has re-established our credibility internationally in the markets. We have not requested one waiver from the Board under the Extended Fund Facility.
  - That is why we can raise finances in the international capital markets at the lowest rates ever;
  - That is why the Managing Director of the IMF feels able to visit;
  - That is why the President of the IDB visited Jamaica;
  - And, no doubt, that is why we are on the itinerary of President Barack Obama.
- a) Also, it is because we are honouring our commitments and passing the tests why Jamaican businesses are benefitting from the lowest interest rates in decades;
- b) It is because we are honouring our commitments and passing the tests why Jamaican home buyers are getting the benefit of single-digit mortgage rates; with the rates trending even lower to make more housing available to the Jamaican people;
- c) It is because we are honouring our commitments and passing the tests why more than 200,000 farmers in Jamaica are having the best markets for their produce that they have had for years, making money for our Jamaican farmers rather than for overseas farmers;

- d) It is because we are honouring our commitments and passing the tests that more than 6,000 Jamaicans are getting jobs in the BPO sector;
- e) It is because we are honouring our commitments and passing the tests that Jamaica is the best place in the Caribbean to do business and why we have improved our global ranking by 27 places to 58 out of 189 countries as reported by the World Bank;
- f) It is because we are honouring our commitments and passing the tests that we have had more than 36,000 workers in western Jamaica – (The opening of the Hyatt Hotel) for example;

## **GROWTH**

- Perhaps what has emerged most in the debate is the concentration on growth as a priority interest of all the contributors to the debate. I am also pleased that there has been an expressed interest in this issue in the wider society and I have noted particularly the comments of the Jamaica Exporters Association.
- That having been said, some of the commentary seems to have missed some of the fundamental issues that arise in the consideration of growth and how to achieve growth in the country.
- I was particularly astounded by the comments of the JEA who said that ***“the Minister of Finance and Planning, Dr. Peter Phillips has no clear and definitive initiatives to support the growth of Jamaica’s Export Sector.”*** These sentiments were echoed by both the Opposition

Spokesman of Finance and the Opposition Leader, and reflect the same inadequacy of understanding.

- First of all, it ignores a point that we were at pains to make clear, not only in my own remarks but also in a document prepared by the Planning Institute of Jamaica, which has been laid in the House on the Growth Agenda.
- Equally, this theme has been dealt with extensively in the Memorandum of Economic and Financial Policies linked to our Extended Fund Facility with the IMF which has been laid in the House on successive occasions and which I presume would have been read by those interested in production and export.
- **What is this?** Simply put, it is that the major impulse for growth will come from the macro-economic adjustments that are being made. A competitive exchange rate, for example, opens up possibilities for production of new products to replace imports and for the production of export lines that would not have existed before.
- This is why, for example, it has become possible for Red Stripe to explore the production of cassava for replacement of imported barley to provide the carbohydrate base in their product. This is also why producers of animal feeds are looking at cassava and sorghum to replace imported corn and wheat from the United States. And that is why some of our bakeries are now selling to New York and London.

Secondly, **fiscal consolidation**, including a (close to) balanced budget which we have operated for the past two (2) years, makes possible low interest rates which again increases the incentive for production.

- The Central Bank signal rate (the 30-day CD rate) remains at an unprecedented low since the issue of the instrument started over two decades ago;
  - Treasury bill rates are currently at 2-year lows, with the latest outturn in March for the 180-day Treasury bill rate below 7.0 per cent;
  - Commercial bank loan rates are around a 3-year low;
  - Building societies' lending rates are at an all-time low, at rates not observed as far back as the beginning of the millennium; and,
  - Short-term money market interest rates, in particular the average rate in the overnight private money market, are at historic lows.
- **What is more** there seems to be no understanding of the fact that all the adjustments that have been made to Customs and Tax Administration Jamaica for example, as part of the Public Sector transformation effort, are intended to facilitate the emergence of more efficient private enterprises and facilitate exporters, as well as anyone else.
  - As is also the case with the improvement of electricity generation and the lowering of energy costs, the implementation of significant tax reforms

which, as I indicated, has been the most expansive ever undertaken has been aimed at boosting businesses and production.

- The defining concept of reform of the tax incentives is not to pick particular winners – whether industries or firms in an industry - but rather to create an economic environment in the country as a whole that will allow the enterprising investor, small, medium and large, to organize efficient production of goods and services, whether for domestic consumption or for export.
- They seem, whether by way of ignorance or oversight (if we are to be charitable), to have ignored the fact that effective tax rates have been reduced not for some, but for all. They also conveniently ignored the fact that duties have been reduced for all productive inputs and intermediate goods and that the corporate tax rate has been reduced, except for regulated institutions, from  $33\frac{1}{3}\%$  to 25%.
- Generous capital depreciation allowances have been introduced as well as employment tax credits to compensate for any statutory deduction. Even more so, we have expanded our efforts at labour reform with the passage of the flexi-work legislation and the establishment of a **Labour Market Commission**.
- Mr. Speaker, the word incentives, by its very nature, creates an imbalance in a small country like Jamaica and suggests that the poor, or least connected, must pay which is at the heart of the injustice. The tax reform that the Government implemented allows for a levelling of the playing field so that all can benefit.

- Mr. Speaker, it is in the context of all of these structural reforms (to the Business environment, the incentives, the labour market, etc.) that I wish to make a comment on a specific proposal or suggestion by the Opposition Spokesman on Finance regarding the introduction of investment tax credits. This proposal albeit summarily presented, has received some attention in the media.
- Mr. Speaker, this is not the place to enter into an extended technical debate on the relative merits of different types of tax incentives, so I will be content to note the following:
  - A variety of tax incentive instruments (whether tax credits, investment allowances, depreciation allowances, or lower tax rates) may be used to achieve the same objective of increasing the competitiveness of production domiciled in Jamaica, increasing investments, economic growth and job creation. Simply put, there is more than one way to skin a cat.
  - All of these instruments operate to reduce the effective rate of corporate income tax and increase the after-tax rate of return on investment. There are various pros and cons to each of these instruments which, on the face of it, may make them different in their marginal impact but the reality is that in practice, the “*employment tax credit*” that we have introduced can be calibrated to have the same impact on investment, as an “*investment tax credit*” and more specifically incentivises employment creation.
- Mr. Speaker, the fact of the matter is that after considerable consultation with various interest groups and segments of civil society, and based on

the advice and recommendations of the Incentive Working Group, the Government decided to choose a combination of tax incentive instruments which achieved the following:

- A reduction in taxes on productive inputs via tariff reform;
  - An increase in the incentives for investment and re-investment in physical capital (machinery and equipment and industrial buildings) through a more generous regime for capital depreciation allowances; and,
  - An increase in the incentives for the utilization of labour through the provision of an employment tax credit.
- Taken together, (and bearing in mind that an income tax surcharge of 5% was also removed to bring the statutory Corporate Income Tax Rate to 25% for all enterprises except regulated enterprises), the changes have provided a significant increase in after-tax returns on investments in Jamaica. Especially, bearing in mind the need for all segments of the society to share in tax obligation and for tax reform to be “affordable”. We are of the view that the current arrangements are not only much more beneficial to businesses but fair and affordable.
  - All of this is part of our **growth strategy** which includes improving the business environment, maintaining a competitive exchange rate and increasing exports. But, this pattern of ignoring what is said or written seems to go to ludicrous lengths, when for example; the Leader of the Opposition can state that I did not mention the Goat Island project.

- I said, and I quote:
  - *“In relation to the Portland Bight Development Project the detailed technical and feasibility studies are being concluded by the investor team and discussions are ongoing with the Port Authority of Jamaica. It needs to be understood that a billion U.S. dollar project, such as this, doesn’t just happen without extensive studies, technical preparation and negotiation. An investment interest of this magnitude expressed a year ago would not have come to conclusion as yet”* (see page 26 Opening Presentation 2015/2016).
  
- Perhaps, Mr. Speaker, he is not aware that the Portland Bight Development Project is otherwise known as the Goat Island Project.
  
- I will not repeat the extensive list of projects underway in the Business Process Outsourcing Sector, Tourism Sector, Energy Sector, Agricultural Sector, Infrastructure and MSME sector, all of which are aimed at expanding export competitiveness and exports.
  
- The reason why the Cabinet took the decision to provide a detailed matrix, setting out the responsibility of each Ministry and the timelines within which these tasks were to be performed in the growth agenda, is not to score any political points but to further increase transparency and accountability so that any member in the House or public can see what we intend to do and our progress in implementation.
  
- This has formed the basis of our arrangement with the IMF and other development partners where one can hold the relevant public official or

the Administration on a whole accountable for the progress along this path.

**TWENTY (20) POINT PRESCRIPTION**

- I don't believe that the Opposition Spokesman on Finance intends his 20 point prescription for growth to be considered. I believe he was trying to just get to 20 by hook or by crook.
- For one thing, more than half have already been done or are underway. I spoke to the government policy on education transformation and the elimination of the shift system. We removed 20 schools from the shift system over the last year and 24 should be removed this year.
- I spoke also of the BPO Sector and the plan we have to expand employment in this sector. A strategic plan approved by the Cabinet for which funds are provided and for which we will develop an appropriate fiscal regime that keeps this sector competitive.
- We indicated the stage that the process has reached in relation to the divestment of the Kingston Container Terminal. (The Prime Minister announced the conclusion of negotiations yesterday – “control yourself it's later than you think”).
- We indicated also what is being done for the MSME Sector and the Minister of Industry Investment and Commerce will speak more on this.

- While the issues such as the fire at Riverton, FINSAC Report and monies for the Electoral Commission may well be issues of importance in their own right, they can hardly be considered central elements of a prescription for growth except with a great intellectual contortion.
- Early Childhood Education is undoubtedly essential for a more productive work force, but we are left to ask over what time horizon this initiative will yield its dividend to stronger growth.
- Even more, what are the expected benefits in terms of incremental growth to be expected from this 20 point prescription? How much added growth and when?
- This seems to be a prescription without a diagnosis. A face card rather than a serious engagement with the issues.

### **BUDGET AND REVENUE**

- Before addressing specific revenue measures in the budget, the notion was posited that given our track record with budgeting it is unlikely that we will be successful in meeting the budgeted targets.
- The Public Expenditure and Financial Accountability (PEFA) Framework, a standard established by the European Union to assess budget creditability, gives a Grade A to countries whose actual domestic revenue (excluding grants) to budget is between 97% - 106% for at least 2 of the last three years.

- Jamaica's performance in 2012/13 was 95.5% and 2013/14 was 97.2%. Given our projections to at least achieve 97% or better of the budgeted domestic revenue performance in 2014/15 Jamaica is likely to earn a grade of A for budget credibility.
- Tax revenues for FY 2015/16 are projected to be \$34 billion more than what we expect the outturn to be at end FY 2014/15 (i.e. \$411.9 billion in 2015/16 versus \$377.9 billion in 2014/15).
- This is correctly noted by the Opposition Spokesman on Finance. However, if we exclude the expected impact of both additional compliance measures and new tax policy measures (combined yield of \$22.8 billion), then 2015/16 revenues are **PASSIVELY** projected to increase by only **3%** relative to the expected outturn for 2014/2015. This is a fairly conservative assumption, against the background of a projected real GDP growth of 1.6% and targeted inflation of 5%-6% for FY 2015/2016.
- Additional compliance is projected to yield roughly \$12.4 billion in additional revenues, on the basis of, among other things:
  - a) specific and enhanced auditing and enforcement initiatives; and,
  - b) A reduction in tax leakage through the implementation and enforcement of new legislation to be effected very early in FY 2015/16 (including transfer pricing rules, and broader arrangements for tax withholding). These compliance initiatives also take place against a background of significantly enhanced legislative and institutional capacity for effective revenue administration as a result of reform

- efforts at the JCA and the TAJ over the past three years, and especially in 2014/15. This includes, for example, giving the TAJ the authority to compel the provision of Third Party tax-related information, and the strengthening of its Large Taxpayer monitoring.
- As I have said before in this Honourable House, the expectations for additional compliance yields are not based on simple exhortation.
  - Mr. Speaker I will briefly comment on the position posited by the Opposition Spokesman on Finance (on March 17<sup>th</sup>) and the Leader of Opposition (on March 19<sup>th</sup>) that I and the team at Ministry of Finance were “*deceptive*” or “*tried to trick*” the country about the gap in the budget.
  - This is not an innocuous observation (if true). It would represent a potentially damning indictment of the professional and ethical standards of the leadership and staff of the Ministry of Finance and Planning.
  - Firstly, the **Fiscal Policy Paper** statement, tabled on February 19<sup>th</sup>, makes it clear that a gap of \$10.4 billion exists after we account for additional compliance (Part I Page 7 and Part III Page 32).
  - Secondly, the first six hours of the Standing Finance Committee on March 3<sup>rd</sup> was with the Ministry of Finance and Planning on the Fiscal Policy Paper and the macro-economic environment. Interestingly, nothing was asked about these estimates.

- Then, on March 12, when I opened the budget debate, I made it clear that, if we exclude both additional compliance and any new measures then, a gap of approximately \$22.8 billion will exist (Page 2, Revenue Measures). Hence, far from being a “deceptive presentation”, the budget presentation has actually made it transparent that an additional \$12.4 billion in compliance yield has been programmed into the revenue estimates for 2015/16. This should have been clear and straightforward for any reasonable person reading the tabled documents and presentations.
- We have to do better than this, Mr. Speaker. We cannot just cavalierly impugn the reputation of the country, and the integrity of its officials, not to mention, threaten the country’s access to global financial markets just to score some political points.

#### **FUEL HEDGE**

- The Opposition Spokesman asked some relevant questions in relation to the oil hedge programme. As I indicated, Mr. Speaker, the oil hedge programme to be implemented by the Government provides a unique and timely opportunity for us to manage how the country responds to the vagaries of oil price management and energy dependence over the short, medium and long term.
- More to the point, it is the Government’s intention to establish an **Energy Stabilization Fund** to receive and manage the resources generated from the oil hedge programme. Mr. Speaker, these resources include the proceeds from a portion of the additional \$7 per litre of specific SCT – specifically \$5 per litre – as well as any future payment from the hedge contract should future oil price movements lead to such

payments. These resources will flow into a dedicated sub-account in the Bank of Jamaica for the Fund which will be administered by the Development Bank of Jamaica in conjunction with the Ministry of Finance.

- These resources, Mr. Speaker, will be made available to service the costs of implementing the initial hedge transaction, any future hedging, as well as, a number of possible energy stabilization initiatives, where the resources permit.
- We will shortly table a Ministry Paper outlining the relevant governance arrangements for the Energy Stabilization Fund, including reporting and transparency arrangements. We also intend to bring legislation, in the not too distant future, which will establish in a binding and transparent way the Energy stabilization purposes for which these resources may be utilized.
- Mr. Speaker, simply put, we intend to establish a transparent binding covenant with taxpayers regarding the use of their tax dollars for the purposes for which we have asked them to contribute.
- In order to reflect the costs of implementing this hedge programme on the expenditure side of the budget in fiscal year 2015/2016, an allocation has been made in the Ministry of Finance and Planning's contingency provision in relation to expenditures for this transaction which was based on preliminary discussions held.

- **GCT on Electricity** – The reintroduction of the GCT at the standard rate on monthly residential electricity consumption above 350kwh is, above all things, a conservation measure. It is deliberately designed to exclude most of the current residential customer base and will be borne substantially by the higher income consumers. This measure is very targeted in that, based on current levels of usage, only the top 6% of residential customers will be impacted. So, for those who feel exposed, it is recommended that you step up your energy conservation.

**Environmental levy**

- With regard to the Environmental levy, Mr. Speaker, it seems clear from his comments that the Opposition Spokesman is labouring under a misconception. The reform of the environmental levy broadens the tax base by including CARICOM imports while at the same time levelling the playing field for domestic manufacturing.
- In the interest of clarity, I would like to note the following:
  - The environmental levy is designed as an excise tax applicable to the import and/or manufacturing of goods, including CARICOM imports;
  - Domestic manufacturers will be able to claim a credit for any environmental levy paid at the port;
  - This is a better situation for domestic manufacturers whose products compete with CARICOM imports of finished goods – currently manufacturers face the impact of the environmental levy while corresponding imports from CARICOM do not.

**NORANDA**

Mr. Speaker in relation to tax compliance issues, I want to report on a matter between the Government of Jamaica and Noranda Bauxite Company in relation to a dispute regarding their non-payment of the full bauxite levy for the period beginning January 1 2015, as required under the Bauxite Levy Act.

The background is this:

An interim regime was agreed with NORANDA in 2009 in the context of the global economic crisis and was provided to cope with the crisis and support the efforts of raising the efficiency of the company. The clear understanding was that this arrangement would cover the period 2008/2009 to December 31, 2014 and that NORANDA would revert to the standard regime on January 1, 2015.

NORANDA is insisting on a 5-year extension of the concession. The Government has honoured the agreement with NORANDA, which involved substantial revenue foregone and, in the circumstances facing the country, we are not able to grant an extension. While I am not in a position to expand further on this matter now, the Government's position is that we must collect taxes due from all taxpayers, be they small, medium or large.

This is a matter that will go to arbitration. Of note is that US Rusal, the owner of Alpart, has agreed to pay the bauxite levy at the standard (non-concessional) rate when it begins shipments of bauxite later this year.

**PUBLIC BODIES**

- Mr. Speaker, the public entities to which the Opposition Spokesman on Finance made reference in his budget presentation have had have serious financial problems over an extended period of time, including the

period when the Opposition Spokesman was the Minister of Finance. This administration is making attempts to correct some of the problems inherent in these institutions but the results will not be evident immediately.

- Firstly, the Ministry of Finance and Planning has taken steps to strengthen the oversight of Public Bodies with enhanced supervision under the PBMA Act and Corporate Governance Framework and so limit potential fiscal risks to the Central Government.
- Approximately 98% of Self Financing Public Bodies now have audit committees, and significant strides have also been made in achieving compliance with the requirement for annual reports to be submitted to the portfolio Minister.
- Today I will briefly address two of the public bodies referenced. In relation to **Clarendon Alumina Partners (CAP)**, the projected improvement in the company's position from an anticipated loss of US\$25.88mn in 2014/15 is driven by the projected reduction in its cost of production, primarily raw materials (oil); an increase in operational efficiency at the JAMALCO plant and improved price arrangements from its alumina sales.
- With respect to debt servicing and capital expenditure for CAP, there is no budgetary provision by the Central Government as CAP is expected to sustain its operations from its own resources. Under the terms of the arrangement with the Noble group there is absolutely no intention or ability for CAP and/or the lender to make a call on the national budget as the financing to CAP is secured by its assets.

- Mr. Speaker, with regard to the **National Insurance Fund (NIF)**, an actuarial review has already been undertaken to assess the sustainability of the pension fund in the medium to long-term period. That report will be tabled in the House in April. In fact, a Roadmap for the National Insurance Scheme (NIS) in Jamaica was completed and a presentation made at the Labour Market Forum staged in December 2014. The Government is currently reviewing the study to determine how to phase the implementation of the recommendations.

I am sure that the respective ministers will elaborate further on the concerns raised on Public Bodies during the sectoral presentations.

## CONCLUSION

- Mr. Speaker, as we conclude this debate, I would like to quote a former Prime Minister and a former Minister of Finance.

- First the former Prime Minister and I quote:

*“Jamaica remains ‘perpetually hooked’ on borrowings. Our earnings cannot support our level of indebtedness so we have to keep borrowing to repay what we have borrowed and to do with whatever little we can to provide desperately needed services to the people”*

***(Page 3 - Address to Parliament September 2009)***

He goes on:

*“So often we have postponed what needs to be done waiting for a more appropriate time... but the time can never be more appropriate than when it is necessary and when that necessity is so significant that it becomes an imperative”.*

***(Page 4 - Address to Parliament September 2009)***

- And now to the quote from a former Minister of Finance:

*“Our history is replete with missed opportunities; in the past we have placed political opportunism above the national interest; for too long, we have postponed the inevitable and believed that we can ‘do the same thing the same way under the same conditions and yet expect a different result. Many times we have underestimated the good sense and intelligence of our people, even though time and again they have proven their strength, resilience and deep*

*appreciation of what is good for us and the development of our country”.*

**(Page 24 - Budget Presentation 2009/2010)**

- The first quote, Mr. Speaker, was from then Prime Minister, the Honourable Bruce Golding in September 2009; and the second quote is from the then Minister of Finance, now Finance spokesman – Mr. Audley Shaw in April 2009. I would commend the opposition, and particularly the opposition spokesman on finance, to heed those thoughts.
- Mr. Speaker, those two comments highlight a dilemma which faces us in this House. It is perfectly understandable, that each side in this House would seek to present themselves in the most favourable light. Electioneering is never far from the mind of any representative inside this House.
- Yet, what history and circumstance demand of us Mr. Speaker, as was so evident in 2009 and now, is that amidst this concern for the electoral contest we nevertheless find the way to identify and debate, with truthfulness, honesty, sincerity, those issues that are fundamental to the existence and progress of our country. Truth should not become a casualty of our search for political advantage.
- If we don't proceed in that fashion, we would have forfeited not only the possibilities and prospects of our generation, but even more dauntingly, we would have forfeited the possibilities and prospects of future generations of Jamaicans.

- The truth is that this Budget continues to support the progress that has been made by the country in correcting gross imbalances in our national accounts.
- It seeks to remain faithful to the solemn obligations that this government has entered into with the people of Jamaica to reduce the debt, and honour our obligations that we have entered into with other members of the international community, including the International Monetary Fund and the other multilateral institutions and our bilateral partners.
- This budget provides the resources for the improved delivery of health services;
- This budget provides the resources to continue the progress, bringing an end to the shift system in high schools and to expand the programme of nutrition for our students as we continue our efforts to create a labour force educated and trained to global standards;
- This budget expands credit and training to the MSMEs in order to create more jobs and make these sectors more competitive;
- This budget sets the stage for dynamic expansion of employment in the BPO sector;
- Mr. Speaker, in spite of our challenges, this budget makes provision for us to meet our obligations to protect the poorest and most vulnerable in the society by expanding the social budget to \$4Bn;

- This budget also provides further relief to tax-payers by raising the tax-free portion of their income and relieves another 9,000 Jamaicans of low income of the obligation to pay taxes;
- This budget ensures that our spectacular programme of infrastructural development continues with an allocation of another \$3Bn;
- This budget will finance the upgrading of our tourism townships through the integrated resort development programme. A sum of \$3.3Bn has been allocated for the improvement to the living space for citizens and visitors alike in our tourism areas;
- This budget will make the investment required for the continued reduction of cost of energy;
- This budget will expand the Agro-parks initiative as we bring underutilized land and labour into a more efficient agriculture production system to produce crops at competitive prices and facilitate import substitution.
- This budget sets the stage for sustained economic growth and the expansion of opportunities;
- The time has come Mr. Speaker, and I move the second reading of the Bill before us.