

OPENING BUDGET DEBATE PRESENTATION

THURSDAY, MARCH 9, 2017

HONOURABLE AUDLEY SHAW, CD, MP
MINISTER OF FINANCE AND THE PUBLIC SERVICE

“The Journey to Prosperity”

Welcome:

- Senators, Diplomatic corps, multilateral agencies (IMF, IDB, World Bank, EU),
Constituents

Thanks:

- Head and staff members – MOF, BOJ, JAMPRO, Jamaica Customs, TAJ, FSC,
PIOJ,
- Ministers of State (Williams and Spencer)
- Thanks to staff in my office (advisors, admin assistants, office attendants,
personal security)
- Thanks members of my constituency who have supported me these many years.
- My family for their love and support

INTRODUCTION

Just over a year ago, the people of Jamaica sent a clear message that they wanted new and better leadership after years of little or no economic growth, social stagnation and decay. By endorsing our proposals to take Jamaica from poverty to prosperity under the leadership of Prime Minister Andrew Holness, the people have placed their hopes and dreams in our hands.

Mr. Speaker, today I want to emphasize the progress we have made thus far on our journey **to prosperity**, and the path we will travel together in the coming fiscal year.

Mr. Speaker, in pursuing our journey together, let us be reminded of what Ralph Waldo Emerson, the famous poet said: *“Perseverance is not a long race; it is many short races one after another.”*

Mr. Speaker, with this brief introduction, I want to turn your attention to the structure of my presentation today:

- I. Review of Economy for FY 2016/17
- II. Macroeconomic and fiscal targets for FY 2017/18
- III. Policy Priorities on Our Journey to Prosperity
- IV. Highlights of the Expenditure Budget FY2017/18
- V. Financing and Revenue Programme for FY 2017/18
- VI. Revenue Measures for FY 2017/18
- VII. Conclusion

I. REVIEW OF ECONOMY FOR FY 2016/17

Mr. Speaker, you will recall that in October 2016, we cancelled the Extended Fund Facility Arrangement with the IMF and signed a new three-year US\$1.64 billion Precautionary Standby Arrangement (PSBA) with the IMF.

Under this new Arrangement, Mr. Speaker, the IMF continues to support our reforms aimed at sustaining macroeconomic stability while at the same time:

- A) Boosting employment and GDP growth
- B) Raising the living standards of the Jamaican people
- C) Progressively reducing a poverty level that remains too high
- D) Strengthening the social safety net for the poor
- E) Improving public sector efficiency

- F) Reallocating public resources to growth-enhancing capital spending
- G) Rebalancing our taxes from direct to indirect taxes
- H) Bolstering the resilience of the financial system
- I) Modernizing the monetary policy framework and building the foundation for an eventual move to inflation targeting, while maintaining exchange rate flexibility and continuing to build precautionary foreign reserves.

Mr. Speaker, we must do all of that while also

- J) Reducing public debt to 60 percent of GDP by 2025/26 and
- K) Maintaining a primary surplus at 7 percent of GDP for the duration of the new arrangement.

Mr. Speaker, this is a broad and ambitious, yet much-needed policy endeavor requiring bringing all Jamaicans on board. It was with a desire to foster ownership and ensure the accountability of our government that we, as a government, extended the monitoring of the reform programme beyond the Economic Programme Oversight Committee (EPOC) to include a Public Sector Transformation Oversight Committee (PSTOC) and the Economic Growth Council (EGC).

So far, Mr. Speaker, I am pleased to report that for the first review period which ended December 2016, we have met all the quantitative performance criteria and structural benchmarks. We are also well on track to meeting our targets for the Fiscal Year as a whole. I am also pleased to inform this honorable House, that the Budget that I will outline to you today for Fiscal Year 2017/18, has been discussed with the Fund, and will be the key anchor for our macroeconomic programme for the upcoming fiscal year.

Mr. Speaker, permit me therefore to provide you with an overview of economic performance and initiatives for 2016/17.

a) Economic Growth

Real GDP growth accelerated to 2.0 percent in the September 2016 quarter, following expansions of 1.4 percent in the June 2016 quarter, and 0.8 percent in the March 2016 quarter. The Planning Institute of Jamaica is estimating continued growth in the December quarter at a rate of 1.3 percent, and we are on track for growth of between 1.6 and 2.0 percent for this Fiscal Year, which would be the highest annual growth rate in over nine years.

Just to note Mr. Speaker, GDP growth in each quarter of 2016, so far, was higher than that of the corresponding quarter in 2015. We are heading in the right direction.

Quarter Ended	2015	2016	
March	0.4%	0.8%	
June	0.8%	1.4%	
Sept	1.7%	2.0%	
Dec	0.9%	1.3%	
Dec 2016 is the PIOJ estimate			

b) Employment

The economic expansion has helped to create more jobs Mr. Speaker. The unemployment rate fell to 12.9 percent in October 2016 compared with 13.5 percent a year before. Over that period, 34,000 new jobs were created of which, importantly, 25,500 went to women and 8,500 went to men. This is significant progress.

Mr. Speaker, as economic growth and business confidence improves, this renewed optimism contributes to more people actively searching for jobs and thereby increasing the labour force. Thus, the labour force rose by 30,100 between October 2015 and October 2016 while the working age population grew by only 4,400.

Despite the good news, Mr. Speaker, as a Government we must continue to accelerate the pace of human development and training for our population. Looking ahead the UN population projections show a **decline** in Jamaica's working age population by 2030— (just thirteen years from now). Thus, we can expect slower growth or even decline in the labour force in the coming years. Mr. Speaker, what this means is that for us to achieve the targeted higher rates of economic growth to ensure prosperity, we must urgently embark on more strategic and focussed human resource development and training programmes to increase productivity. The risk, otherwise Mr. Speaker, is that limited skilled workers will drive up wage pressures and prematurely choke off our growth momentum.

c) Inflation

Turning now to inflation, Mr. Speaker, given its importance as a measure of macroeconomic stability, I am pleased to also report that consumer price increases are well contained within the Bank of Jamaica targets. The Consumer Price Index rose by only 1.7 percent in 2016, a figure we have not seen since 1964. Despite the uptick in January 2017 to a twelve month point to point figure of 2.6 percent, inflation remains contained.

Mr. Speaker, our low inflation rate has benefited from low oil and other commodity prices, but also reflects strong increase in local crop production, relative exchange rate stability especially in the second half of the Fiscal Year, and not least, our continued tight fiscal policy stance.

d) Consumer and Business Confidence

Mr. Speaker, I am pleased to report that consumer and business confidence are at an all-time high. This can be interpreted to mean that they are optimistic about the current economic environment and the future of the Jamaican economy. It is an endorsement of our policies of which we can be very proud. The latest Business Confidence Index for December 2016 shows a 15.4 percent increase compared with the index in the last quarter of 2015. This was reported to be the best four quarters recorded in 15 years.

e) Commercial Bank Lending

Mr. Speaker, lending rates in Jamaica remain too high. Among 181 countries, Jamaica ranked in the bottom 25 countries with high lending rates. Yes, we in Jamaica have seen an inching down in lending rates of about half of a percentage point each year for the last 5 years. That is not good enough. The weighted average lending rates at 16.3 percent at December 2016 is still too high a burden on the Jamaican economy.

Mr. Speaker, it is well known that one of the indicators of economic development and prosperity is the increasing roll of the private sector in the economy. The higher the measure of domestic credit to private sector as a percentage of GDP, the greater is the space for the private sector to develop and grow.

Mr. Speaker, credit to the private sector has continued to increase rapidly, with annual growth of 14.8 percent in 2016 compared with 9.5 percent in 2015. We recognize that in recent times business loans have been expanding. The strong growth of lending to businesses is evidence that Jamaica is yielding benefits from its sustained period of macroeconomic stability underpinned by sound fiscal policies. This is encouraging but we are still a long way off when we compare our private sector credit to GDP of 24.6 percent at end December 2016 against that of approximately 95 percent for the middle income countries and approximately 46 percent for Latin America and the Caribbean.

Mr. Speaker, I will speak to the high banking fees and charges later in my speech.

f) Fiscal Policies

Mr. Speaker, our fiscal balances are performing in line with our targets. The primary balance of 7.0 percent of GDP is expected to be met by end March. We are fully on track based on performance of the budget through January 2017. Our primary balance surplus was \$86.8 billion. This was \$23.9 billion above the budgeted target of \$62.9 billion. Our tax revenues were \$360.5 billion or \$12 billion more than our budgeted target. Mr. Speaker, this was the best tax revenue performance relative to budget since fiscal year 2002/03. And Mr. Speaker, PAYE is performing well, despite the increase in the tax threshold on personal income taxes. The PAYE outturn through January 2017 was \$54.5 billion compared with a budgeted figure of \$51.5 billion. Mr. Speaker, we are moving in the right direction.

Mr. Speaker, the goal of the Personal Income Tax (PIT) reform was to reduce the tax burden on those overburdened PIT payers while at the same time rebalance the overall tax burden towards consumption or indirect taxation. I am therefore pleased that the tax ratio to GDP is expected to be 25.7 percent of GDP, slightly lower than the 25.8 percent of GDP that was budgeted in FY 2016/17. This performance suggests that we were successful in preserving revenue buoyancy and neutrality with the tax measures we adopted to compensate for the increase in the PIT threshold in FY 2016/17.

g) Public Bodies

Mr. Speaker, as you know, the Central Government Budget, along with the financial operations of 61 self-financed Public Bodies (PBs) form the overall public sector. The Public Bodies constitute a very important part of the public sector given their size, their range of regulatory functions, and their contribution to the physical and economic infrastructure of the country.

As a group they now employ 13,638 persons and generated an estimated \$371.5 billion (or 21.1 percent of GDP) in current revenues in FY 2016/17. This is a significant part of the public sector Mr. Speaker when you consider that overall tax revenues are an estimated \$451.7 billion or 25.7 percent of GDP in FY 2016/17. Mr. Speaker, these bodies also transferred \$52.2 billion to the Government in FY 2016/17 in terms of financial distributions or dividends and taxes while still generating an estimated surplus of \$16.98 billion (or 1.0 percent of GDP).

In terms of their capital expenditure, Mr. Speaker, these bodies contribute significantly to the economic growth of the country. In FY 2016/17, their capital spending and investments amounted to an estimated \$41.1 billion (or 2.3 percent of GDP). This is nearly as high as the Central Government's capital spending of \$44.8 billion (2.5 percent of GDP) in FY 2016/17.

Mr. Speaker, the rationalization of the public bodies is an ongoing activity. Therefore, with assistance from the IMF we developed in FY 2016/17, the Policy on Categorization and Rationalization of the Public Bodies. The Policy was approved by Cabinet and implementation has commenced.

I am therefore pleased to report that as part of the rationalization programme, a number of privatization transactions were concluded during the year. These included:

- The sale of the Petroleum Company of Jamaica's (PETCOM) shares and assets was completed with the preferred bidder in June 2016 and sale proceeds of US\$19M collected by PCJ.
- A lease agreement was executed between the Montpelier Citrus Company Limited and Jamaica Green Botanical Producers Company Limited in October 2016 for the lease of 1,609.5 acres of the Montpelier property for agricultural purposes and the lessee has taken possession of the property.

- The Government executed the agreements between Supreme Ventures Limited (SVL) (the preferred bidder) for the privatization of Caymanas Track Limited.
- Cabinet approved the sale of Government's 42.6 percent shares in Kingston Industrial Wharves and 100 percent preference shares to Jamaican Teas Limited in June 2016. The sale agreements are being finalized for execution by the end of the 2016/17 financial year.
- Cabinet also approved the privatization of Wigton Windfarm Limited and appointed an Enterprise Team to spearhead this. The privatisation is being considered via listing the company on the Jamaica Stock Exchange (JSE) and offer of a percentage of the shareholding to the public.

h) Public debt

Mr. Speaker, let me turn briefly to developments on public debt.

Mr. Speaker, the legislation currently in effect regarding Public Debt identifies Public Debt as the consolidated debt of the Central Government, Bank of Jamaica and Government Guaranteed External debt.

A definition of Public Debt that will become effective on April 1, 2017 identifies Public Debt as the consolidated debt of the Specified Public Sector except the Bank of Jamaica, net of any cross holdings. The Specified Public Sector is comprised of the Central Government and Public Bodies excluding any Public Body certified by the Auditor General as primarily carrying out functions that are of a commercial nature. All Government guaranteed debt is therefore captured in this definition.

Public Debt as indicated above to become effective on April 1, 2017 is consistent with the definition being utilized by the International Monetary Fund under the precautionary Stand-By Arrangement. The new Public Debt definition is in line with international

standards and is also consistent with the *Public Sector Debt Statistics Guide* developed by the IMF.

This is a most welcomed development Mr. Speaker.

Following the adoption of this new measure of public debt, Mr. Speaker, I am happy to say that the public debt is expected to now be 115 percent of GDP at end FY 2016/17 compared to 124.1 percent under the old definition. At the end of fiscal year 2017/18, the debt to GDP ratio is projected to be 108.6 per cent of GDP.

Of significance, this brings us that much closer to our sustainable legislative debt target of 60 percent of GDP by FY 2025/26, or before.

Mr. Speaker, affirmation of our sound debt management is evidenced by the fact that Jamaica received three (3) positive ratings action during FY 2016/17. Moody's Ratings Agency upgraded the country's sovereign ratings from Caa2 to B3 in November 2016 and Standard and Poor's Global Rating and Fitch Ratings affirmed the country's 'B' ratings in September 2016 and February 2017, respectively. All outlooks are rated 'Stable'.

i) The Personal Income Tax Threshold

Mr. Speaker, we are proud to have delivered on our promise of increasing the threshold on personal income taxes which, in the first phase, increased from \$592,800 to \$1.0 million on July 1, 2016.

Mr. Speaker, this Increase in the Income Tax Threshold has increased disposable incomes for approximately 200,000 taxpayers out of a tax population of a 469,000. With this additional income, these persons have been better able to access goods and services. Increased consumption has impacted sales of businesses and ultimately driven production and helped to boost economic growth.

Mr. Speaker, it was a tax relief that all working Jamaicans deserved and it represented a much-needed reform to help us on our path to higher economic growth.

j) Growth Related Reforms

Mr. Speaker, the Prime Minister will provide a detailed statement on the progress and plans of the Economic Growth Council. Nonetheless, permit me to highlight a few initiatives to support the growth objective of achieving five percent growth in four years.

(i) Financing for the Southern Coastal Highway and China Economic Relations

Mr. Speaker, we have secured financing for the Southern Coastal Highway Project to allow expansion from Kingston to Port Antonio, and the East-West Highway from May Pen to Williamsfield. On February 16, the loan agreement for US\$326 million was signed with the Ex-IM Bank of China in Beijing, for this very important growth-promoting project. Mr. Speaker, I should note also that during my visit to China, I held a range of meetings including one with the Minister of Finance. There is continued strong interest in further strengthening economic relations between Jamaica and China, now our third largest trading partner.

Mr. Speaker, there are some important growth-promoting financial sector reforms that were also adopted in FY 2016/17.

(ii) Renewal of Tax Incentives for the Junior Stock Exchange

Mr. Speaker, I am pleased to report that we renewed the tax incentives to companies listed under the Junior Stock Exchange. The JSE has been an important catalyst of growth for many small and medium sized businesses. Such companies will now enjoy a 10 year tax break—no corporate tax in the first five years, and 50 percent in the next five years.

(iii) Introduction of Agency Banking

In December 2016, we adopted agency banking regulations for banks to use third-party owned locations to offer banking services. This now allows banks to bring services closer to the population such as deposits and withdrawals, payment of bills and loans, and electronic transfers of funds.

The Regulations for Agent Banking that were promulgated contain provisions to facilitate the offering of certain banking services through agent operations. During 2017, it is expected that these provisions will allow the widening of banking access channels beyond existing deposit taking institutions branch networks and electronic access channels, to include the use of third-party-owned locations that will offer banking services alongside their own products and services.

(iv) New Commercial Banking Licences

Mr. Speaker, Bank of Jamaica approved two new commercial banking licenses. The first, Jamaica National Bank, was opened last month. The JMMB Merchant Bank's application to upgrade its existing merchant bank licence to a commercial bank licence has also been approved.

(v) Mobile Money solutions

As a critical component of the agenda of the National Financial Inclusion Strategy, the Bank of Jamaica last year authorized four electronic retail payment service providers, or mobile money solutions, with services such as: bill payments, mobile phone top-up, person-to-person money transfers, and remittances.

Mr. Speaker, we anticipate that over the next year, the utilization of mobile wallets and other retail payment instruments will expand to facilitate the settlement of transactions such as payment in restaurants, supermarkets and transportation fares. We also expect that mobile wallets will be used for loading and transfer of Government payments such as PATH and pension payments.

(vi) Facilities for Micro finance lending

Mr. Speaker, the Bank of Jamaica approved the Development Bank of Jamaica as a lending agency under the Banking Services Act. This has allowed for a reduction in the risk-weighting for commercial bank loans guaranteed by DBJ's credit enhancement fund to 20 percent from 100 percent. This adjustment should significantly improve access to capital by MSMEs. The DBJ estimates that an additional \$6.0 billion will be available for lending to the MSMEs through the Commercial banks.

(vii) Insurance (Amendment) Act

During FY 2016/17, the Financial Services Commission (FSC) submitted a proposal for amendment of the Insurance Act to the MOFPS. The proposed amendment will facilitate the creation of a micro-insurance legislative framework and also pave the way for the introduction of regulations to govern the industry.

(viii) Relaxation of the Minimum Capital Test requirement

Mr. Speaker, after careful analysis, the FSC has allowed a reduction in the amount of capital that the general insurance industry needs to hold for the purpose of meeting capital adequacy requirements from a statutory minimum of 250 percent for the minimum capital test to 150 percent for a period of two years. This action will free up approximately \$36 billion for investments. Mr. Speaker, let me stress, the insurance companies are required to pursue local investment and growth initiatives and to provide details of the initiatives to the FSC. This is one of the conditions of the relaxation of the regulatory capital requirements.

(ix) Proposed Micro Credit Act

The Chief Parliamentary Counsel (CPC) completed the second draft of the Microcredit Bill in July 2016. The proposed new Act is intended to provide for the licensing and regulation of small privately-owned money lending institutions in an effort to address operational deficiencies in the industry. It will also seek to promote greater

transparency, protect consumers and reduce or eliminate the risks of the industry being used as a vehicle for facilitating money laundering.

(x) *The Banking Services Code of Conduct*

Mr. Speaker, the Bank of Jamaica also issued The Banking Services Code of Conduct in August 2016 in keeping with the need to establish minimum standards of good banking practice for deposit taking institutions in respect to customer related matters. Mr. Speaker, this Code, however, addresses only a specific portion of the existing gap relating to financial consumer protection arrangements. As has become patently clear in the recent months, there is a need to address the high banking fees in Jamaica, and to take comprehensive actions on consumer protection for users of deposit-taking financial services. I will speak more on this shortly.

k) Stabilizing the Foreign Exchange Rate

Mr. Speaker, in response to widespread concerns about the persistent depreciation of the exchange rate in 2016, we took steps to encourage greater information sharing between the Bank of Jamaica and market players. This has led to less volatility and more efficiency in the foreign exchange market, and has strengthened confidence of the business sector and wider population in the Jamaica Dollar.

On the issue of confidence in the Jamaica dollar, Mr. Speaker, we took note of the growing trend in US dollar deposits and foreign exchange lending that has accompanied the persistent exchange rate depreciation. In response to the high incidence of deposit dollarization—with 46 percent of deposits in US dollars at end 2016, the Bank of Jamaica has been steadily increasing the cash reserve requirements for foreign exchange accounts. It also removed the interest on US dollar reserves held at the BOJ. Mr. Speaker, these measures, along with low inflation rates and relative stability of the Jamaica dollar should contribute to a steady decline in deposit dollarization over time.

II. MACROECONOMIC TARGETS FOR FY 2017/18

Mr. Speaker, as stated in my Fiscal Responsibility Statement that was tabled in this Honourable House on February 9, the Government's priority objectives for FY 2017/18 and through the medium term, are to grow the economy and create meaningful jobs and in so doing to facilitate a faster and sustainable reduction of the public debt.

As I noted earlier, in October, we signed a new three-year with the IMF valued at around US\$1.64 billion. The objectives under the PSBA are to sustain macroeconomic stability, while supporting growth, social protection and job creation, thereby reducing unemployment and raising living standards. The Arrangement will provide insurance against adverse economic shocks to the balance of payments.

Mr Speaker, our medium term fiscal and debt profiles have been developed in accordance with the quantitative targets and framework agreed under the Precautionary Stand-By Arrangement (PBSA) and the agreed macroeconomic framework incorporates the revenue and expenditure measures to be implemented in our budget for FY2017/18. Accordingly, the focus of the FY 2017/18 Budget is on adopting strategies geared toward achieving the Primary Surplus target of 7.0 percent of GDP, which represents the operational instrument being utilized to attain a Public Debt/GDP ratio of 89.5 percent by the end of FY 2019/20.

Our key macroeconomic assumptions upon which the FY 2017/18 Budget was cast are real GDP growth of between 2-3 percent, continued low inflation and a relatively stable foreign exchange rate.

III. POLICY PRIORITIES FOR OUR JOURNEY TO PROSPERITY

GROWTH PROMOTING REFORMS

a) Human Development

Mr. Speaker, we fully recognize the crucial importance of human development and training to achieving our economic growth targets. To this end, Mr. Speaker, I would like to announce that the Student Loan Bureau will be reducing its interest rates on loans for selected areas.

Therefore, on **Pay As You Study loans**, interest rates will be lowered from 9.5 percent to 6.0 percent; and on Post-graduate loans interest rates will move from 13.0 percent to 9.5 percent. Mr. Speaker, for study in the areas of Maritime & Logistics, Agriculture, Engineering, and ICT, interest rates will decline from 9.5 percent to 6.0 percent.

The Ministry of Education, Youth and Information, is also moving to implement greater alignment of education and training with the job market. For example, the HEART Trust/NTA has developed and launched its Upskilling programme. Under this programme, parents and other professionals are being trained in programmes to enhance their skills on the job. Over 4,000 persons have been trained so far. In addition, the HEART Trust will this year accelerate its training programme for unattached young people giving them a second chance to acquire marketable skills. All 63 constituencies will be targeted this year with an initial 100 persons being trained in each constituency.

b) Private Sector Pension Reform

The second phase of private sector pension reform seeks to address issues such as vesting, portability and indexation. To achieve this objective, a Bill to amend the Pensions (Superannuation Funds & Retirement Schemes) Act was drafted in November 2016 and is expected to be tabled in FY 2017/18.

c) Accelerating Financial Inclusion

Mr. Speaker, this year, we intend to pursue a range of other initiatives to deepen the financial sector, and expand the range of financial services in Jamaica.

These include:

- Amending the Insurance Act to facilitate the creation of a micro insurance legislative framework. This will include crop and livestock insurance for small farmers. Also, rafts-men on the Rio Grande and the Martha Brae Rivers will be able to insure their rafts in the event that they are damaged or destroyed. They will be able to bounce back a little quicker after a natural disaster. Hundreds of thousands of small entrepreneurs doing business will soon be able to access insurance. This is what we mean when we say **Prosperity for All**.
- Enacting the Microcredit Bill to provide for the licensing and regulation of small privately-owned money lending institutions;
- Facilitating the development of Regulations for financial holding companies and consolidated supervision under the Banking Services Act;
- Assisting in the implementation of the Action Plan of the National Financial Inclusion Strategy (NFIS); and
- Assisting in the various stages of the legislative process to develop appropriate legislation for the enhancement of the resolution framework for financial institutions; and
- Creating an enabling environment for a more active government bond market and other financial products to increase the breadth and depth of the local financial market.

d) Banking Fees and Dormant Accounts

Mr. Speaker, in relation to high banking fees and charges, according to the Bank of Jamaica non-interest income to total income in the banking sector increased by 5.4 percentage points to 38.2 percent relative to end-2015. This growth was primarily influenced by growth in service charges, transaction fees and commissions which collectively increased by 16.5 percent to \$28.9 billion for 2016.

Mr. Speaker, our own studies suggest that dependence on fees by banks in Jamaica is quite stark when compared with other countries based on IMF's data on financial soundness indicators. At the same time Jamaican banks' returns on equity and returns on assets also rank very high. The recent concerns raised by the public are therefore real and warrant an urgent discussion of appropriate solutions.

Mr. Speaker, the issue of bank charges has been a long ongoing complaint from many Jamaicans. In recent months there has been a loud crescendo of negative comments and complaints about the multiplicity of bank charges. Mr. Speaker, this government has a preference not to interfere in markets except through transparent facilitation to all players and the leveling of the playing field for all compliant participants through timely and relevant regulation.

With that said, Mr. Speaker, I am strongly encouraging the banks to listen very carefully to the cries of Jamaicans coming up so loudly from the marketplace. I offer further encouragement to the banks to step up their self-regulation practices and seriously address the complaints of their customers.

There is a related problem with dormant bank accounts, Mr. Speaker. According to some figures I've seen from the Bank of Jamaica, there is an amount in excess of \$45 billion in dormant accounts in banks. That number varies depending, apparently, on how banks define dormant accounts.

In the present controversy the question is often asked - why when the banks lend their dormant deposits at substantial interest rates to borrowers the banks still seek to levy charges against these lucrative accounts?

The Bank of Jamaica's Code of Conduct for banks issued in August 2016 is expected to help to improve the quality of banking services to consumers. The banks have been given until August 2017 to fully comply with the Code.

Mr. Speaker, I have had some consultations with local stakeholders, including the Bank of Jamaica, the Consumer Affairs Commission, and the Bankers Association on the issue of high fees. We recognize that the Code of Conduct by the Bank of Jamaica is necessary, but insufficient to tackle consumer-related issues at the granular level.

Mr. Speaker, with the assistance of the Bank of Jamaica, we will establish a dedicated financial services consumer protection agency, for which technical assistance from the United States has already been requested. I expect, Mr. Speaker, that this agency will be established by the end of FY 2017/18.

I will also be instructing the Bank of Jamaica to strengthen the Code of Conduct to ensure that there is a common definition and standards on the treatment of dormant accounts, that the main provisions of banking standards contained in the Code, are given more publicity in banks, and that a simplified version is routinely made available to customers at the time of opening an account.

Mr. Speaker, in the context of the IMF programme, we are also pursuing the broader issue of banking competitiveness, starting with a study that will analyze issues affecting the efficiency of commercial banks and the factors affecting access to services by various segments of users. The study will also inform the development of policy recommendations to foster greater competition while having regard to financial stability and systemic risk considerations. Mr. Speaker, a draft of this study is expected by August 2017.

e) BOJ Reforms to limit Lending to Government

Mr. Speaker, in the context of the Precautionary Standby Arrangement with the IMF, we are committed to reforms of the Bank of Jamaica this year. We intend to move to a full-fledged inflation targeting regime, and accordingly, the BOJ's operational independence will be reviewed with a view to ensuring its ability to pursue this priority mandate.

The Government has taken significant steps to enshrine greater fiscal responsibility in its laws, particularly as regards debt accumulation, greater parliamentary oversight, and stricter auditing. These have helped to reduce the risks of past fiscal profligacy that fueled high inflation. To further augment these safeguards, the Government is also committed to revising the BOJ Act in order to adopt stricter limits on lending to Government and to modernize arrangements for paying dividends and to the appointments to the BOJ Board.

f) Stepping up Tax Compliance

Mr. Speaker, tax compliance represents one of the most important reform issues in FY 2017/18. As I have indicated earlier, Jamaica's tax rates are already high compared with other similar middle income countries. Ongoing efforts to broaden the tax base have proved successful. But, Mr. Speaker, compliance still needs to be strengthened in some areas, especially at Customs. Mr. Speaker, with higher compliance, we could consider reducing tax rates to support higher levels of consumption and growth in the economy.

Mr. Speaker, let me provide you with the magnitude of the problem. Tax arrears now stand at \$234 billion inclusive of interest and penalties. Property tax arrears are also estimated at \$13.5 billion.

Against this background, Mr. Speaker, we intend to continue to improve the administrative capacity of the staff and broaden the tax base in tandem with the full roll-out of the new information systems – the Revenue Administration Information System (RAIS) and ASYCUDA at TAJ and Customs respectively.

We intend to also further upgrade Customs systems by introducing modern Scanning Devices to be better able to detect and stem the flow of contrabands and counterfeited goods, and ultimately save millions of dollars lost due to revenue leakages.

We will also launch a new project to collect outstanding property taxes.

g) Public Sector Pension Reform

Mr. Speaker, the Government intends to shortly adopt the new legislation for public pensions aimed at improving the actuarial sustainability of the scheme, and to strengthen its governance.

The Bill seeks to:

- Establish a contributory pension scheme that will make it mandatory for all pensionable officers to contribute five percent (5%) of their basic salary towards their pension;
- Gradually increase the retirement age by 5 years to age 65; and
- Harmonize the legislation governing public sector pensions in a single statute while repealing several enactments which previously dealt with pensions.

Beyond this, Mr. Speaker, the Public Employees Pensions Administration System (PEPAS) “Go-Live” project is scheduled for the first quarter of FY 2017/18. It is anticipated that this will modernize the pension system and allow retiring public servants to get their pension benefits on a timely basis.

h) FINSAC Commission Enquiry

Mr. Speaker, in this regard, I am pleased to announce that the FINSAC Commission of Enquiry into the collapse of the financial sector has been re-established with a view to completing the Report and to making recommendations in relation to the findings. It is expected that this Report will be completed within the next six months.

IV. HIGHLIGHTS OF EXPENDITURE BUDGET FY 2017/18

Mr Speaker, for FY 2017/2018, the Central Government has programmed gross expenditure of \$715.6 billion comprising:

- Non Debt Expenditure net of Appropriations in Aid of \$405.2 billion; and
- Public Debt Service of \$310.4 billion, including Amortization of \$172.5 billion and Interest of \$137.85 billion.

Mr. Speaker, the expenditure budget net of amortization spending amounts to \$543.06 billion, or 28.8 percent of GDP. If we further exclude interest payments, our total **primary** expenditure would be \$405.2 billion, or 21.5 percent of GDP. As you will see later, Mr. Speaker, this total when funded from our current revenues and grants provides us with the primary balance that is a crucial target under our IMF-supported programme.

Mr. Speaker, let me to elaborate on a few of the important expenditure priorities for FY 2017/18.

For FY 2017/2018, Compensation of Employees is estimated at \$193.2 billion and accounts for 35.6 percent of the expenditure budget. This covers the cost of Wages and Salaries as well as provisions for statutory deductions and GOJ's contribution to public sector health insurance schemes. The Wage and Salaries bill amounts to \$179.5 billion, which is a 5.2 percent increase over FY 2016/17. Importantly, however, Mr. Speaker is the reduction in the Wage to GDP ratio which is programmed at 9.5 percent of GDP, down from 9.7 percent in FY 2016/2017.

a) Recurrent Programmes

In our Recurrent programme budget, we have included a provision of \$34.5 billion (an increase of \$4.3 billion over the 2016/2017 Revised Estimates), to meet pension payments for public sector employees. Other payments programmed under recurrent programmes in FY 2017/18 include: \$1.2 billion in subsidies to the JUTC, and an additional \$1.3 billion to meet increased tuition grants in secondary schools.

b) Capital Expenditure

Mr. Speaker, Capital Expenditure is budgeted at \$49.28 billion, an increase of \$4.48 billion, or 10% over the 2016/2017 Revised Estimates of \$44.8 billion. This level of capital spending represents 2.6 percent of GDP, up from 2.5 percent of GDP in FY 2015/2016.

Spending on Capital A projects (those financed by local resources only) is budgeted at \$12.2 billion or 24 percent of the total Capital spending. The Ministry of National Security has been allocated \$3.0 billion, or 24 percent of the total Capital A budget, \$1.3 billion has been allocated to the JUTC for the purchase of spare parts, and \$ 1.5 billion to the Port Authority of Jamaica to support the establishment of BPO facilities in Montego Bay.

Approximately \$37.0 billion or 75 percent of the overall 2017/18 capital budget will be spent on Capital B projects (financed with support from multilateral/bilateral sources). Of this sum, approximately 50 percent or \$18.52 billion, the largest share of the capital budget, has been allocated to the Ministry of Economic Growth and Job Creation.

Given their national importance, I would now like to elaborate on three areas of spending.

1. *National Security*

Mr. Speaker, as a means of reducing the level of crime and violence in the country, the Government has committed to providing increased investment in the national security apparatus. The evidence shows that violent crimes in Jamaica are being fuelled by the guns-for-drugs trade and as a result, the government has prioritized this area for attention and has committed expenditure of US\$51.4 million or J\$6.6 billion over a three year period, to improve the offshore patrol and aerial surveillance capabilities of the Jamaica Defence Force Coast Guard and Air Wing. This investment will not only impact the guns-for-drugs trade but will also provide improved protection of the fishing industry and search and rescue operations. I am pleased to announce that the first tranche of the funds, US\$33.6 million (approximately J\$4.3 billion) has already been expended in FY 2016/17. The second tranche of US\$11.6 has been programmed for disbursement in FY 2017/18 and the third tranche of US\$9.0 million will be programmed in FY 2018/19.

In addition, during FY 2016/17, just under \$1.0 billion has been expended to carry out works on upgrading the ICT capability of the police, the JDF and the correctional services department. Funds have been made available to the Ministry of National Security for the upgrading and refurbishing of police stations and the acquisition of motor vehicles (over \$400 million has been spent on improving the mobility of the security forces).

The FY 2017/18 budget allocation will continue the momentum which began in FY 2016/2017, with provisions made to continue with the acquisition of equipment to secure the country's borders; complete the ICT upgrade; acquire additional motor cars (just under \$300 million); continue the rehabilitation of police stations and \$350 million for the construction of the Lathbury Barracks at Up Park Camp.

To promote greater discipline in the society, the Citizens Security and Justice Programme being implemented by the ministries of national security and justice has been allocated \$1.3 billion to continue the implementation of social intervention programmes with an increased focus on improving governance and promoting behaviour change especially as it relates to conflict resolution, social inclusion and safety, and an increased use of gender-responsive justice services through the operationalization of the legal aid council, victim support services and the Justice Training Institute.

2. Infrastructure

Regarding infrastructure, which continues to be crucial to our growth agenda, for F/Y 2017/18, \$16.55 billion or 82 percent of the \$22.8 billion allocated to the Ministry of Economic Growth and Job Creation is earmarked for works-related projects aimed at developing and improving the country's physical infrastructure.

The budget will facilitate the continuation of two major road projects:

- a. **Major Infrastructure Development Project (MIDP)**, which ends in September 2018 - \$16.07 billion to: commence and complete rehabilitation prioritized class 'A' main roads; commence and complete the rehabilitation of 21 class 'B' to class 'C' main roads; complete the construction of three bridges; and complete two cycles/phases of the employment component (rehabilitation of community roads, drainage structures, construction of retaining walls and river training) in 63 constituencies.
- b. **Rural Road Rehabilitation Project II**, \$500 million for completion of the Sour Sop Turn – Chapleton road works contract which is anticipated to be complete within the first half of the FY 2017/18.

Provision has also been made for work to commence on two new infrastructural projects:

- a. **Road Rehabilitation Project II** - \$167 million, to commence upgrading of 14.8 km of road network to support agricultural, industrial and tourism activities in the parish of St. Mary:
- b. **Southern Coastal Highway Improvement Project** - \$246 million, to support consultancies to conduct an environmental impact assessment for both road segments; surveying and valuation of the land parcels along the proposed road alignments and prepare surveyor reports for parcels identified for acquisition

3. Social Programmes

In pursuing greater fiscal discipline Mr. Speaker, we have not lost sight of the need to protect the poor and vulnerable in our society. Thus, we will continue in FY 2017/18 to strengthen the Social Safety Net to ensure that these persons are 'not left behind.' As a result, special attention is being placed on PATH - the programme which targets some of the most vulnerable segments of the population - children/students ages 0 – 19 years; the adult poor including the disabled, elderly, pregnant and lactating mothers and the destitute and the Steps-to-Work Initiative, which targets working age members of PATH-eligible households for referral to relevant support services to enable them to seek and retain employment.

To facilitate improved benefits under the PATH Programme in FY 2017/18, an additional \$3.68 billion has been allocated, bringing the total provision to \$11.47 billion, an increase of 47 percent over the provision in 2016/2017. The increase is allocated as follows: PATH School Feeding Programme - \$1.75 billion; PATH Cash Grants - \$1.9 billion:

- (i) The PATH School Feeding Programme will be expanded to increase the number of lunch days and the value of the lunches to the beneficiaries. A total of \$4.75 billion

has been allocated to the Ministry of Education (reflecting a nominal increase of \$1.75 billion or 58% above the Budget for 2016/2017, to provide a hot meal for five days per week and increase the value of the lunches - both in nutritional content and cost per meal. This is the largest increase which has been made to the PATH School Feeding Programme in recent times.

- (ii) An additional \$1.9 billion, representing a 40% increase in budgetary allocation has been provided for the PATH Conditional Cash Grants. This additional sum will allow the Ministry of Labour and Social Security to provide a 30 percent increase in the rates to PATH beneficiaries with effect from April 01, 2017.

Work will be done during the course of the new financial year to: review the efficiency and effectiveness of the Social Safety net; initiate an evaluation of household's ability to exit the PATH; and review the impact of the PATH benefits on improving school attendance.

The Public Bodies Budget for FY 2017/18

Reforms and Management of the Public Bodies

Under the new Policy on Categorization and Rationalization of the Public Bodies, a principle-based approach will be applied in FY 2017/18 to: (a) Categorize public bodies to facilitate more focussed oversight and monitoring, and (b) conduct further rationalization based on the need for the function/entity and the best modality and most efficient manner in which remaining functions will be delivered.

My Ministry will collaborate closely with the Public Sector Transformation and Implementation Unit of the Office of the Prime Minister in the implementation of the rationalization of the public bodies.

Mr. Speaker, the range of options for rationalizations includes: mergers, closures, privatization, and possible re-integration into MDAs where it is that there are entities undertaking functions similar to the MDAs, and retention as separate entities. We are also cognizant of the need for greater revenue flows—especially earmarked revenues, to the government/Consolidated Fund (CF) from public bodies, within the context of a Public Financial Management (PFM) Reform.

The Public Bodies are expected to continue their significant contribution to the Budget in FY 2017/18. They are projected to generate a surplus of \$1.71 billion and gross flows from these bodies to the Central Government are expected to be \$56.9 billion. Total Capital Expenditure and Investments are expected to be \$62.7 billion (3.3 percent of GDP) which would be higher than that of the Central Government. Three public bodies, namely the NHT (\$26,157mn), NWC (\$7,962mn) and PAJ (\$9,660 mn) account for 70% of the planned capital expenditure and investments. Notably, PAJ and the NWC expect that they will be able to implement the capital programme as scheduled during FY 2017/18 given that requisite approvals have been received as well as other preparatory activities substantially completed.

The National Housing Trust will continue to pursue its drive to develop some 9,000 housing solutions by FY 2020/21; these solutions will comprise houses and residential lots in 42 developments over 11 parishes. It is expected that 2,159 housing solutions will be completed during FY 2017/18. Accordingly, the NHT is expected to spend \$25,572 million on housing activities.

The Port Authority of Jamaica's developmental projects are strategically aligned to the Government of Jamaica's growth and employment agenda and will be focused on Business Process Outsourcing (BPO). The development and expansion of Jamaica's outsourcing industry is expected to be achieved through the construction of two BPO facilities in Kingston and Montego Bay. Cargo and Cruise Port Developments to support and facilitate growth and development in trade, commerce, tourism and cruise are also

planned for Falmouth, Montego Bay and Ocho Rios. These projects are expected to account for 65 percent of planned capital expenditure of \$9,660 mn.

The National Water Commission will continue the implementation of selected strategies and capital projects that are expected to reduce the level of non-revenue water (NRW), achieve energy and other efficiency targets, contain operating costs and enhance revenues. Capital projects are budgeted at \$7,962 mn and include financing for pipeline replacement along the major road works being undertaken by the National Works Agency as well as funding for the KMA Water Supply Improvement project.

V. FINANCING AND REVENUE PROGRAMME FY 2017/18

Mr. Speaker, I will now turn to the revenue estimates and financing of the Budget.

Mr. Speaker, we intend to finance the \$715.6 billion Central Government expenditure budget through a mix of revenue, grants, loan resources and inflows from the PetroCaribe Development Fund.

Assuming current policies, revenue and grant inflows for the year are estimated at \$526.3 billion and consist of:

1. Tax Revenue of \$478.9 billion
2. Non-tax Revenue of \$40.87 billion;
3. Bauxite Levy of \$0.13 billion;
4. Capital Revenue of \$2.2 billion; and
5. Grants of \$4.4 billion

Loan inflows which are expected from both domestic and external sources are programmed at \$159.6 billion, with \$89.0 billion to be raised in the domestic market and \$70.6 billion to come from external sources.

The PetroCaribe Development Fund will also contribute to financing the FY 2017/18 budget as it is programmed to re-pay \$11.7 billion to the Central Government during the year.

Bauxite Levy

Mr. Speaker, the Fiscal Policy Paper had indicated that no inflows were expected from the Bauxite levy. However, after additional consultation with Ministry of Transport and Mining and the Jamaica Bauxite Institute, we have amended our revenue estimates to reflect \$131 million representing expected bauxite levy arrears and \$407 million to reflect the expected minimum inflows from the New Day/Da Da Company that purchased the Noranda operations. The \$407 million is included in non-tax revenues.

VI. Revenue Measures FY 2017/18 AS A SEPARATE PAPER

VII. CONCLUSION

JOURNEY TO PROSPERITY

Mr. Speaker, what I have just presented to this Honourable House is part of Jamaica's journey to sustained economic growth and prosperity. It must be appreciated that the achievement of prosperity is a journey with both smooth and bumpy passage in parts.

I believe in our capability to achieve prosperity and it is that firm belief that forms the foundation of the policy decisions made and ladders of opportunity created for the people of Jamaica. These are necessary elements but however not sufficient for the achievement of prosperity.

I have reiterated for the past year, and will say again; the journey to prosperity is participatory. We are all part of that journey. Each has a part to play. The journey to prosperity begins in the mind of each and every citizen of Jamaica. It begins with a positive mental attitude.

To our students – the journey starts with doing your best at all times, in the classroom, on the sports field, and in community service. An educated population is an essential prerequisite for national prosperity.

To our young adults who are not pursuing educational opportunities or not gainfully employed – the journey starts with making personal plans and goals and engaging in good life practices consistent with strong positive thoughts. Your journey can also start with developing your natural talents; acquiring new knowledge; having faith in yourself and never devaluing your capabilities, skills or potential. Remember that failure is not falling down, but getting up and getting on with life.

To our workers – whether in the private sector or the public service – the journey to prosperity begins with efficiency, productivity and disciplined comportment at the workplace.

To persons in the creative arts and public media; the entertainers, artists and media personalities - the journey begins with a consciousness of positive values and attitudes.

To our leaders; - whether in the church or in the community – the journey starts with respect for self and the full understanding of social responsibility and moral leadership.

To our elected officials – the journey begins with honesty, dedication, propriety and sincerity to the people we serve.

Every citizen has a part to play in creating sustained economic and social development thereby achieving prosperity for all.

The late author Jerry Gillies wrote, and I quote,

*“The strongest single factor in prosperity consciousness is self-esteem:
believing you can do it,
believing you deserve it,
believing you will get it”*

End quote.

Mr. Speaker, members of this Honourable House, May God bless you all and may God bless Jamaica Land we love.

I THANK YOU.

Audley F. Shaw, CD, MP
Minister of Finance and the Public Service

March 9, 2017