
2006/2007 JAMAICA BUDGET CLOSING PRESENTATION

**Dr. The Hon Omar Davies
Minister of Finance & Planning
Wednesday, 2006 May 10**

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A: INTRODUCTION

1. Signaled in my opening the need to “raise the bar” as it were, in the debate. From public reaction, as well as from Media comments, this has occurred.
2. Some of the proposals put forward have greater appeal initially than when they are subjected to detailed scrutiny. More of that anon.
3. Two persons who have never spoken before in Opening Budget Presentation - the Prime Minister and the Opposition Spokesman on Education.
4. As regards the Opposition Spokesman on Finance, and LO, they covered a variety of issues; not possible to deal with all.

Approach will be to address some of the specific issues raised by each and then deal with (4) ‘BIG TICKET’ items which have significant implications for policy formulation and the direction of the country.

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B: HOLNESS

1. First contribution to Budget Debate. Opposition Spokesman on Education and Youth but presentation ranged much wider.
2. Contribution was refreshing. Obvious that he had carried out a fair amount of research.
3. Raised many issues which all here, as Members of Parliament, are confronted with on a regular basis.
4. Do not agree with him in certain cases. However, his presentation provides the basis for further deliberation.
5. Expressed views of family life, limitations faced by single parent households. Have no doubt that Minister of Education and Youth will facilitate further discussions.
6. Prime objective is to encourage, but feel obliged to caution against the attempt to downgrade NW's contribution to Education. Do not try to re-write history.
7. The drive to provide educational opportunities at the secondary level for children from poor and working class households, came from NW. Introduction of free places through "eleven plus" examinations.
8. For my own part, this was my route to secondary education and then tertiary studies. Most from my generation and socio-economic background would only have achieved this because of NW's educational initiatives. They spawned the founding of a whole set of new high schools and technical high schools, e.g., Glenmuir, Vere Tech and St Andrew Tech.

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C: SHAW: SPECIFIC ISSUES

1. **Fixed Exchange Rate:** Pleased to note that after many years of debate the Opposition has taken a definitive position on this matter. Suffice it to say that the rationale provided by the Opposition Spokesman on Finance sounds almost like a direct quote from several previous presentations which I have made.
2. No intention to tarry long on the matter. Now that we have an identical policy position we can jointly assess issues such as the approach to monetary policy within the CSME. The Administration has long argued that given our commitment to a flexible exchange rate, it is not possible for a unified exchange rate policy, given the commitment of some countries to fixed exchange rates.
3. **Calculation of Devaluation:** Opposition Spokesman, in usual dramatic fashion states “the situation is even more startling when we compare the change from 1989 to the outturn last year. In Jamaica’s case, there has been a most precipitous fall of some 1,021%.”
4. New arithmetic. An exchange rate cannot decline by 1,021%. In fact, the maximum anything can decline by is 100%.
5. It may seem as a minor point but if we cannot get basic numbers straight, it is not possible to have a useful debate.
6. **SLB:** The Opposition Spokesman whilst welcoming the reduction of interest rate on loans nevertheless takes the opportunity to slam the Bureau on various counts.
7. He argues that each year there are thousands of students leaving the universities who are unable to find suitable jobs and meet their obligations. “No wonder our tertiary graduates are migrating in such numbers”.
8. Need first to address the issue of the level of migration of tertiary graduates. For some time, many persons including some of our own academicians have been quoting an IMF study by Prachi Mishra suggesting that 80% of tertiary graduates in Jamaica have migrated over the 1965-2000 period.
9. Must confess that whilst I have always known the figure to be incorrect, I was prompted to do further research at the suggestion from the Member of Parliament from North Central Clarendon. As such I went to the original papers which revealed a fatal flaw in the author’s assumptions.

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10. The paper based its conclusions on surveys taken in the US and other OECD countries. Whenever a tertiary trained resident of those countries identified himself as a Jamaican, the assumption was made that he was trained in Jamaica (**QUOTE FROM PAPER**).
11. If this had been applied to the member from North Central Clarendon or Opposition Spokesman on Finance, they too would have been included as Jamaican-trained tertiary students who migrated.
12. Opposition spokesman also expressed concern about the level of service provided for students applying for loans. A basic problem was that too many students waited until the last moment to put in their applications.
13. Partly resulting from a motion moved by the Member from Western St Mary, the problem has been greatly reduced by allowing applications to be submitted online. This year, just over 7,000 applications were received, fully 2,581 were submitted online.
14. **Cost of Pensions Legislations:** Until recently, there was the absence of legislation/regulations for pension industry. Only addressed in the Income Tax Act because of tax concessions granted.
15. Too many in the industry wish to preserve this concession without any corresponding need for transparency in their operation. As such there have been roadblocks and challenges every step of the way. Let it be clear that the only beneficiary from increased transparency and regulation are pensioners.
16. Opposition must be careful that it does not become part of the problem, doing the bidding of those who wish to maintain, for whatever reason, the *status quo*. As such, on our way to passage of the relevant legislation there have been many “red herrings”.
17. One such “red herring” is that because the pension fund managers will be charged fees by the FSC this will mean a reduction of pension benefits. We do not resile from the principle which obtains in most other jurisdictions, that the regulation of an industry must be funded by the firms in the industry. The alternate option would be that this funding would come from the Consolidated Fund.
18. The clear commitment stated explicitly by the FSC, and by me, is that once all pension funds and management organizations have been registered, adjustments will be made to the fees charged, depending on the level of inflows. Same principle operates with regulation of the insurance industry and there is no quarrel here.

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19. The notion that there will be \$125 million received by the FSC from fees is mere speculation as no one, neither those who have conjured up the figures nor the Government, knows the size of the industry. Similarly the claim that the FSC will be building up annual surpluses of \$90 million at the expense of the poor pensioners is downright misleading.
20. As I have said, no one can give an estimate at this stage. Secondly, as has been said before, the commitment is to adjust fees in line with costs, once we have full registration and a clear assessment of the level of revenues from the fees.
21. Important that we cease propaganda and stick to the facts.

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D: GOLDING: SPECIFIC ISSUES

1. **Contracts:** Leader of the Opposition argues that at present the procedures for tendering, consideration and award of contracts do not have the force of law. Furthermore, there are presently no sanctions for breaches of the Act, nor for bypassing the National Contracts Commission.
2. He is correct and we give the commitment that these issues will be addressed as these deficiencies limit the effectiveness of the Act.
3. **Constitutional limits on debt and deficits:** This proposal has been around for some time. Was linked to the three Bills proposed by former Prime Minister/Leader of the Opposition to fix exchange rate and to solve all problems.
4. No one can quarrel with the objective of placing a limit on debt as well as on the size of the deficit. However, to believe that legislation placed in the constitution is the answer defies not only logic but recent experiences.
5. Argentina is a case in point. In addition, reference can be made to France and Germany which, when faced with severe problems in terms of social security system, simply violated iron-clad rules to which they had been committed, in terms of their budget deficits.
6. Have no doubt that the immediate reaction is that the Minister of Finance wishes to be free to incur as much debt as is possible and to operate with significant budget deficits.
7. The fact is that such an approach is antiquated. Of far greater significance is the punishment of the market, both domestic and external. That punishment will come through inability to raise loans or through the high rates of interest which will have to be paid, in order to raise money.
8. As regards the size of the deficit, if there were these constitutional limits in the 80s would have led to the impeachment and removal of both the Prime Minister and the Minister of Finance – one and the same.
(GO TO THE DATA)
9. **Garrison Politics:** I listened carefully to the speech of the LO on transforming garrison politics. He, like me, represents a constituency which has been so characterized and he argues for practical steps to “cut the umbilical cord between the politics and criminality.

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10. Listened carefully as I recall vividly the LO in a previous dispensation (when he was new and different), standing with me in Rema together with former Governor General. He looked to the South East and commended me for actions I had taken to break the history of violence and political tribalism which had separated Rema and Arnett Gardens. He further argued that if the representative of the constituency to the South East had the will which I had demonstrated, the same could be achieved even in those communities.
11. He has now succeeded that former MP and hence has the opportunity to live out his own advice. I stand ready to work with him to de-garrisonize the whole region. But this takes courage, resilience and commitment. It takes the will to allow the security forces to carry out their tasks in a professional manner, regardless of the political affiliation of the criminals.
12. Not for one moment supporting abuse of human rights but even as we “talk the talk” we must be prepared to “walk the walk” even if we have to take a stance against some who support us.
13. **Economic Performance**: The LO in damning the performance of the economy over the last fiscal year points out that a host of critical targets were not met.
14. He lists revenue inflows, borrowing, debt stock, the debt to GDP ratio, the fiscal deficit, amongst others, as targets missed.
15. Given the challenge to raise the bar in this debate, there is a sleight of hand being carried out here. The LO knows that when he identifies missed targets for (i) borrowing, (ii) debt stock, (iii) debt to GDP ratio and the fiscal deficit, they are all the same. If the fiscal deficit is missed, then we must borrow to make up the difference which will simultaneously increase the amount borrowed as well as the debt stock.
16. But here he is a bit too clever and he points out that the fiscal deficit was \$21 billion above target but we borrowed \$37 billion more than planned. How could that be?
17. Simple answer is that, as he knows, or should know, \$16 billion of that borrowing was related to the 30-year bond (US\$250 million) the proceeds of which were not used in FY 05/06.
18. As such, this also accounted for approximately 2.5% of the debt to GDP ratio.
19. **Development Strategies**: LO raises points related to the inability of the economy to date to convert the high levels of FDI to growth. This clearly is a problem but also an opportunity for domestic entrepreneurs to capitalize on the needs of the

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large projects financed through foreign direct investments. Need for continued national dialogue on how local entrepreneurs can become more competitive to maximize access to such markets.

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E: DEBT

1. In this section of my speech I will focus on four (4) issues which I have termed the “BIG TICKET” items.
2. The first of these is debt. The country’s debt stock is at an undesirably high level. This is not controversial. I was the one who placed this matter on the table in the House for discussion years ago and for each year have tabled a Debt Management Ministry Paper indicating the approach to be taken during the next fiscal year.
3. But this discussion must take place within the context of internationally accepted rules. Whilst the size of the national debt in nominal terms is clearly of importance to each country, it would obviously be impossible for international comparisons to be based on nominal figures. Rather, for good common-sense reasons, these discussions are always couched in terms of ratios – debt to GDP, debt to XGS. As such, it is possible to make meaningful comparisons over time and between countries.
4. In countries, particularly ones which face BOP problems, of greatest importance is the external debt and its relationship to GDP and the country’s foreign exchange inflows.
5. And now to some facts. Fact 1 – The country’s worst period of indebtedness was during the period 1981 to 1988. Both in terms of the ratios of overall debt as well as the external debt compared to any of the critical variables.
6. It is a fact that over the period 1983 to 1985 Jamaica’s debt to GDP ratio averaged over 200% reaching an astronomical figure of 212% in 1984. The Opposition Spokesman on Finance in trying to confuse the public, points out that when the JLP demitted office in 1989, the public debt amounted to \$31.3 billion and then seeks to create hysteria by comparing that figure to the present debt in current dollar figures. (Actually 1988)
7. To be complete, let us put that 1988 debt figure into context. The debt of \$31.3 billion amounted to 146.8% of GDP. But what is of greater interest, to demonstrate the crisis of the economy at that stage, was that the external debt to GDP ratio was then 102.9%. In other words the external debt was larger than the GDP. This had been true since 1983 due to the level of foreign borrowings conducted by the JLP Administration.
8. Comparison of interest rates – go to data.

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9. It is one of the achievements of this Administration that having inherited a country which had a crisis in terms of its external indebtedness – 102.9% of the GDP - systematically reduced it to approximately 56% of GDP in 2005.
10. As regards the overall debt, the fact is that the PNP Administration had by 1998 reduced total public debt to 100% of GDP or under for a 7 year period - 1994 to 2000.
11. It was the assumption of the debt related to the intervention in the financial sector which ballooned the overall debt but particularly domestic debt from a figure of 107% of GDP in 2000 to the high of 143% in 2003 and 2004.
12. Let me now turn to the proposals advanced by Opposition Spokesman in terms of addressing our debt problems. These he termed “new debt solutions”.
13. PetroCaribe – Opposition Spokesman proposal that the PetroCaribe Agreement provided Jamaica with an opportunity to retire expensive debt with longer term low cost debt. Excellent idea, but nothing original. Let me quote from Submission which I took to Cabinet on January 12, 2006 entitled (**read the title**). It states among areas which could qualify for funding are as follow:

Reducing the Government’s overall cost of borrowing through the use of the funds to refinance existing expenses to GOJ domestic debt. (my emphasis)
14. I have deliberately noted domestic as the agreement limits its use of this facility in this manner. Therefore, we have no disagreement on this use of the facility but there are other areas which will be eligible, including investment in energy projects aimed at reducing Jamaica’s reliance on oil, upgrading the physical infrastructure - in particular roads and bridges.
15. I turn to the second proposal advanced by the Opposition Spokesman, which is the borrowing against GOJ inflows denominated or linked to foreign currency. He argues that such bonds would receive interest rates significantly below Jamaica Eurobonds.
16. Again, whilst this sounds like a new proposal, there are two factors limiting use of this. The first is that the only major inflows over which the Government has control are those from bauxite/alumina. These have already been used to securitize loans to facilitate Government’s involvement in the industry.
17. Obviously, there are significant inflows from tourism or from remittances. But these inflows do not belong to the GOJ and cannot be used to secure bonds. Obviously, there are benefits to the country in so far as such inflows provide assurance to creditors that foreign exchange loans can and will be repaid.

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18. The third area suggested by the Opposition Spokesman, is to borrow a “block of funds” from a consortium of multilateral institutions (the IDB, World Bank and the CDB). He even gives the notional figure of US\$1 billion. These low cost funds will be used to replace existing expensive instruments.
19. He even suggested that this proposal has arisen from discussions with representatives of the multilaterals.
20. Let’s get real. No such funds of that magnitude are available. We have previously received loans from these three institutions to assist with healing the financial sector. However, this amounted to (US)\$325 million over a two year period (150 million each from the World Bank and the IDB and 25 million from the CDB).
21. This is a far cry from the billion dollar suggestion and in any event, there is no crisis such as that occasioned by financial sector problems to justify any similar “block of funds” being made available.
22. Mr. Speaker, I wish to assure the Honourable House that there could be no good reason why this Administration would seek to avoid entering into an agreement which would reduce debt servicing but these “notions” by the Opposition Spokesman cannot face the reality test.
23. Finally, to the issue of the debt, Mr. Speaker, I was most puzzled; in fact anyone with even a passing knowledge of the international capital market would be deeply puzzled by the criticism of the 30 year bond of 8.5%.
24. It is the objective of every government to seek to extend the tenure of loans for as long as possible, if the interest rate is attractive.
25. It is indeed strange when all market players, at home and abroad were congratulating Jamaica on this achievement that the Opposition Spokesman feels that the 7 year bond at 10.785% was a superior deal. I would welcome the explanation of this.
26. Finally, Opposition Spokesman suggested that given the debt stock presented, \$847 billion and the estimated borrowing of \$136 billion during the fiscal year, total debt would be close to \$1,000 billion, the trillion dollar mark by the end of the fiscal year.
27. The \$136 billion listed for new borrowings for fiscal year represents the gross figure. Of that, close unto \$114 billion will be used to pay off existing debt. In other words the stock of debt is projected to just have a net increase of \$21.5 billion or an increase to 2.5% above the present stock.

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F: MOU

1. Just over 2 ½ years ago a remarkable development took place in terms of the maturation of the Jamaican society, particularly as it relates to the relationship between the largest employer of labour, Government and the leadership of the Trade Unions representing public workers.
2. Faced with a deepening fiscal challenge, the Administration invited the leadership of the trade unions, to meet to discuss the way forward. Simply put, the choice was straight forward. Either the workers received increases in line with their original demands resulting in a significant reduction in the number employed (in the range of 15,000) or there would be an accommodation over a two year period, whereby, apart from previously agreed increases basic pay would remain constant.
3. Although the “wage freeze” as it was termed was a critical feature of this agreement, the Memorandum of Understanding (MOU) contained several other features which represented a breakthrough in this society.
4. There were several sectors of the society who were pleasantly surprised at this agreement between government and trade unions. Others for their own reasons were disappointed. As such, from the beginning there were predictions that the agreement would collapse as there was nothing in favour of the workers.
5. The MOU with the workers assisted with an improvement in the fiscal accounts and certainly helped the country to withstand the shocks experienced during fiscal years 2004/2005 and 2005/2006.
6. Let us fast forward to the attempts towards a successor agreement to take effect as of April 1, 2006 and lasting until March 31, 2008. Again, there are many who have aligned themselves for a variety of reasons against any such agreement, predicting doom and urging workers not to enter into any such agreement.
7. The Leader of the Opposition in his presentation has joined in the Debate and has attempted in a variety of ways to seek to undermine the attempts at a new MOU. He has produced selected figures asserting that whilst inflation over the period 2000/2006 was 79.2%, the increases granted to various workers, examples of which he gave over the period, ranged between 10.3% and 29.9% implying that there was a need for increases ranging from 38% to 62% for these workers to “catch up”.

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8. Let me begin with a correction. Unless the Leader of the Opposition, like his Spokesman on Finance has his own count on inflation, the movement in prices over the period to which he refers was 62% - not 79.2% as he asserts.
9. Not surprisingly, the Leader of the Opposition has sought to quote figures related only to base salary and has ignored the range of special allowances which supplement that salary. As such, the overall wage bill over the period 2000/2001 and 2005/2006 increased by 80% from \$35 billion to \$63 billion. Therefore, overall, despite the two year wage freeze workers are still ahead of inflation and have had a real increase over the period of some 13% as reflected in the increase in the wage bill.
10. The Administration is not, for one moment, suggesting that workers have received all that they deserve. However, let us not try to insult the intelligence of the workers and assume they do not understand fiscal realities. The wage bill last year stood at \$63 billion dollars, fully 53% of the non-debt servicing expenditure. In order to finance increases above that which we have budgeted for, there are two simple choices.
11. The first is to introduce a significant tax package to meet the additional demands as supported by the Leader of the Opposition. The other is to cut expenditure in various areas in order to accommodate additional expenditure on wages and salaries.
12. I have no doubt that immediately there will be shouts of cut expenditure on World Cup 2007. That is simply playing to the gallery. Although that expenditure is significant for one year, what of the next fiscal year and successive years over the medium term?
13. I still expect that a new MOU will be signed with the workers, not because anyone has held a gun to their heads but because they recognize that there are benefits, above and beyond wages and salaries, to be reaped from entering into an MOU with the government.
14. It is interesting to note that Spokespersons for the Opposition are quick to suggest that actions being taken are with elections in mind. No clearer example of electioneering can be had than the position being taken by the Opposition on the MOU.
15. I have every confidence that good sense will prevail and that a mutually acceptable Memorandum of Understanding will be signed between the Administration and the trade unions in the near future.

G: CONSOLIDATION OF STATUTORY DEDUCTIONS

1. For years the representatives of the private sector have complained about the inefficiencies associated with paying over the various salary based statutory deductions. There are five such main deductions, namely: PAYE, NIS, NHT, HEART and Education Tax.
2. Although they are aimed at different objectives, deductions contributed by employers amount to 10.5% of the total wage bill and 5.5% by employees giving a total of 16% of the total wage bill.
3. For the NIS there is a cap at \$500,000.00 per annum for any worker.
4. Therefore, a first order of business which has long been mooted is structuring these deductions such that an employer can draw one cheque and then at the point of collection the allocation is made to each institution with each employer's record being appropriately credited. Clearly, no one could quarrel with such a move as there are clear implications for improved efficiency.
5. However, there is a more significant issue which arises. It relates to the fact that indeed this Parliament had come to the agreement that there is need for a significantly higher level of investment in education and training over an extended period. This is needed not only to address deficiencies in early childhood education but to ensure that our students at the primary and secondary level are properly prepared to either enter tertiary institutions or to become productive members of the labour force.
6. Former Prime Minister, P J Patterson, appointed a Task Force which worked assiduously at these challenges and attempted to assess the additional financial resources required to bring about the transformation in our educational system.
7. So far, so good. We all accept that there is need for the additional resources and we all accept that this is an imperative if the country is to compete in the global economy.
8. The billion dollar question – from whence will come these additional resources? In assessing the possibilities there are two obvious choices.
9. The first would be to impose a significant new tax package adding at a minimum about 1% of GDP per year for the next several years. This Administration is firmly of the view that those who are presently paying taxes are to use an expression “maxed out” and one could not reasonably seek additional resources

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- from that group. Furthermore, the projections for fiscal year 2006/2007 require that all efforts would be made to bring into the tax net a larger percentage of those who are presently operating outside of it.
10. The second would be to examine the existing pool of funds to which contributions are already being made and determine whether the additional resources which we all agree are needed for education and training can be found.
 11. Therefore led us do an examination of possible sources of additional resources and last year in order to “kick start” the education transformation effort, a sum of \$5 billion was transferred from the NHT. Obvious question, why the NHT? The answer is that although we clearly have not solved all housing problems in the country, this institution has an extremely strong asset base. Furthermore, the annual level of inflows is adequate to meet the demand for new units and for mortgages, even with an expanded programme.
 12. The proposal being made is not to touch the institutional operations of any of the existing organizations – NHT, NIS, NHF. There may be need for changes to formalize the Education Transformation Team. The only significant change would be to adjust allocation of this folio of 16% of the wage fund to increase the amount available to education.
 13. The reaction by the Leader of the Opposition is, to put it bluntly, playing to the gallery. It is interesting that he does not complain when flexibility is demonstrated in the rules of the NHT by allowing the construction of units in his, the Prime Minister’s and my constituency for persons who would not normally qualify if the rules governing beneficiaries are strictly enforced.
 14. The fact is what is being proposed is not to “rob” the NHT but to legally reduce the percentage of wages/salaries allocated to that institution and to direct these additional resources to another fund created to facilitate transformation in education. No firm decision has been taken concerning the new levels which will be assigned to the NHT or the new levels to be assigned to education and training.
 15. At present, a combination of HEART and the Education Tax means that approximately 6% of the total wage bill is available for education and training. If this figure could be increase by say 1 1/2 percentage points, that is 25% above present levels, this would certainly provide a good start for the build up of the fund needed to transform education.
 16. At the same time, the NHT would still have more than adequate resources to discharge its obligations, even on an expanded scale.

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17. The Administration is open to suggestions, not only from the Opposition but from special interest groups and the public at large, as to how this fund for education and training should be governed and how should allocations be made to different areas of need.
18. It is simply not adequate for the Leader of the Opposition to shout, to much desk thumping “keep your sticky fingers off poor people’s money”. Who will be the major beneficiaries of a transformed education system?
19. The Leader of the Opposition must indicate whether his commitment to improve education and training is nothing more than talk, without the resources to support the effort.
20. This is not a matter which should be solved by playing to the gallery. This is an issue which is deserving of serious analysis and thought.
21. I encourage the Leader of the Opposition and the Opposition in general to rethink their position. The country and the children deserve more.

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H: FINANCIAL SECTOR CRISIS (FINSAC)

1. I had not intended to make this issue a substantive part of my contribution but several developments both within the formal Budget Debate as well as in the cross talk have caused me to change my mind.
2. In any event, constant references to the size of the national debt bring into sharp focus the cost of rehabilitating the sector.
3. The cost has been significant as the intervention in the financial sector is the critical factor which caused the national debt to move from the safe internationally acceptable levels of approximately 80% of GDP in 1997 and 1998 to over 140% of GDP the point from which we are working our way down. **(READ DATA)**.
4. Observers and commentators, some through ignorance and others with their own “axes to grind”, have sought to simply forgive and excuse the activities of those who were in charge of the financial sector simply saying this was a result of high interest rates. Nonsense!
5. Why is it that BNS, CIBC and Citibank prospered under the same conditions?
6. The Administration took the decision to intervene and we do not resile even in hindsight from taking that decision. We know that the individuals holding the 1.5 million deposits in the different institutions would have been wiped out.
7. We know that the holders of 570,000 insurance policies would have been devastated had we not intervened.
8. But perhaps the most serious consequences would be in terms of the 55,000 pensioners who would have been left destitute as their pension funds had also been wiped out.
9. I want to speak directly to the Opposition Leader and the Spokesman on Finance and indicate that it is the knowledge of what went wrong and what could go wrong again unless the regulators are able to closely monitor decisions which make us unrelenting in our drive to put in place an appropriate regulatory framework for the pensions industry. It must not happen again!!
10. From my particular position, I have listened in amazement to some of the comments being made – some borne out of ignorance and some based on a

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cynical manipulation of the media and public opinion because of the realization that if prominent officials in the Government play by the rules we are not allowed to make public statements derived from confidential information. Nonetheless, it is a fact that international experts, including the multilaterals have explicitly commended the Jamaican authorities on the way in which the crisis has been handled. Very few people realize that Japan, which experienced a similar crisis, despite having interest rates for years at close to zero percent has still not reconstructed its financial sector. The same holds for Mexico.

11. **Fact:** It is a fact that despite our concern about the state of the justice system, the Government has won every single case which has been taken before the courts either at home or abroad.
12. I now turn to the most recent of the numerous cases which have resulted from the crisis in the sector. I can comment on this because it is no longer *sub judice*.
13. Let me state that this case involved a member of this Honourable House appearing on behalf of a defendant, Dr. Paul Chen-Young. I state this simply for the record.
14. The judgement handed down by Justice Roy Anderson covers 91 pages and it should be compulsory reading for anyone who wishes to speak authoritatively on this specific matter, but even more generally, about the problems which faced the financial sector in the 1990s.
15. In terms of background, the GOJ took control of the Eagle Group of Companies in March 1996 roughly 10 years ago. This case arose from the fact that the Government, having taken charge of the companies, sued Dr. Chen-Young and two of his personal companies on several counts suggesting that he had acted in ways which were detrimental to the companies.
16. At the same time, Dr. Chen-Young, in turn, counter-sued the companies claiming that his contract was wrongfully terminated and hence he was entitled to compensation for leave not taken, holidays not taken and for pension benefits.
17. As Justice Anderson points out, this was a historic trial spread over several months with more than 20 volumes of transcripts. Furthermore, history was made in that Dr. Chen-Young became the first person in Jamaican legal history to give his evidence from overseas by way of video link.

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18. Part of Dr. Chen-Young's defense was that he was not in "control" of the Group of Companies. This issue was of particular importance in that a decision here would determine whether he should be held liable for the actions which had led to problems in the institution.
19. Several persons testified but I wish to draw particular reference to the testimony of Dr. Ossie Harding, who the Judge describes as a sometime Deputy Chairman of the Group. Dr Harding states of Dr. Chen-Young that "he always wanted to be in control" and that he ran the Eagle Financial Network "like a fiefdom."
(PAGE 10)
20. The Judge, in discussing the evidence given by one of Dr Chen-Young's chief lieutenants, who still holds a prominent place in the financial sector, makes reference to him as **(PAGE 11)** "a witness who quickly dissipated any credibility with which he might have come to the witness stand". Judge Anderson goes on to state "Indeed, I should note *en passant*, that if his is typical of the behaviour of corporate executives in Jamaica, then we as a country are in serious trouble". **(CONTINUE QUOTING FROM PAPER)**
21. One of the more critical issues to be decided on in the case was whether Dr. Chen-Young personally benefited from the renovations, refurbishing and additions done to the Group Corporate Headquarters at Grenada Crescent which was owned by one of his personal companies. Incidentally, the total cost of this refurbishing and renovation was (J)\$64 million in 1995. This converted to (US)\$1.8M or (J)\$137M today.
22. On this matter Judge Anderson came to the following conclusion: **(GO TO PAGE 38/39)**
23. Another matter which came to be decided relates to the purchase by the Group of shares in IBM. Of this Judge Anderson was also definitive. **(GO TO PAGE 58/59).**
24. The final issue to which I wish to make reference on which Judge Anderson was asked to pronounce was whether the Government thought the Eagle Network was entitled to claim restitution on the ground of unjust enrichment. Again, Judge Anderson was clear and unambiguous. **(GO TO PAGE 74).**
25. Mr Speaker, I have spent some time on this matter because it represents a definitive justification of the position taken by the Government and a clear condemnation of the actions of many who have paraded themselves as entrepreneurs. Whilst Judge Anderson was not passing judgement on the whole financial sector, the findings about the Eagle Group and Dr Chen-

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Young's behaviour are not dissimilar to that which took place in other institutions.

26. The country has paid a tremendous price incurring debt of approximately 40% of GDP, not to mention the additional cost incurred by the BOJ in intervening and protecting the depositors.
27. All who wish to speak on this issue should first read Judge Anderson's masterly analysis and findings.

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I: CONCLUSION

1. Have been heartened by the variety of contributions to the Budget Debate, e.g. Minister Roger Clarke provided one of the clearest expositions on rural development. As a man of action, expect much.
2. The Budget has provided the opportunity for further discussions on national issues. Hopefully, we will see positive spin-offs in terms of discussions in the media.
3. One critical issue which needs further analysis is the “How to” question. Natural complement to identifying deficiencies – in the economy, in the education sector, and virtually all areas of national life. The danger is to assume that if a problem exists, then it is the Government’s job to fix it.
4. E.g. - how do we stimulate higher levels of economic growth? Hard to balance Government’s role as a facilitator with that of direct intervention. How much are acceptable levels of losses when there is direct intervention? Should Government go into an area when private sector entrepreneurs decline to so do? Should the incentives be direct and up-front, or granted as a reward for performance?
5. Several references by the Opposition to new economic activity would implicitly suggest direct government action. Is that what is meant? We need clear answers.
6. The Administration, whilst expecting that everything cannot be left to the market and private entrepreneurial initiative, is also cognizant of the difficulty of government, having entered into investment, saying “no more” and stepping out of an investment.
7. Also challenges in social sectors. How much of cost must be borne by Government and how much by the individual or the family? It is not possible for Government to assume responsibility for all costs. Too often no appreciation of the cost of intervention for those who reap benefits freely.
8. Constant struggle to determine who should be totally protected by the State, who should be partially protected and who should stand on their own. Too often the clamour is for all to be protected.
9. All these issues have to be taken on board in formulating an annual Budget. This year no different. We have imposed no new taxes because we are

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honestly of the view that no additional burden should be placed on those who pay their fair share. We are going after those who do not pay their share, or who pay no share at all.

10. At the same time, there is the reality of the significant cost of servicing the national debt. This won't go away through wishes or through simplistic schemes. Debt will only be reduced when the Budget is balanced and when we move to a surplus situation. It is not that complicated but it is not achieved just by talking about it.
11. Despite all the challenges this Administration has faced, there have been positive achievements in virtually all sectors of the economy. The challenge, agreed to by virtually all, is how to assist/facilitate domestic producers to benefit from the demand for goods and services brought about by the large investments.
12. In the educational field, the challenge we face is how to utilize existing capacity and move up our achievement levels significantly to match those countries against which we have to compete – at home and abroad. Additional financial resources are needed but that is not the whole story. There is scope for greater efficiency in how we spend what we presently have.
13. There is a role for all: Government, Opposition, special interest groups and NGOs. Let us unite around the goal of making this great country even greater.
