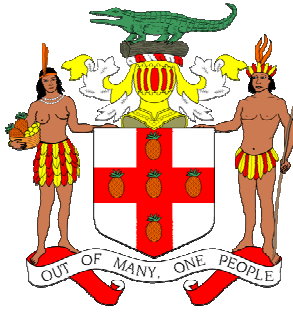


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CLOSING BUDGET PRESENTATION TO PARLIAMENT

**HONOURABLE AUDLEY SHAW, MP
Minister of Finance and the Public Service
April 21, 2010**

I. INTRODUCTION

The title of this year's presentation "Building the Foundation for Jamaican Prosperity" was carefully and deliberately chosen to give the clearest indication of the Government's task at hand.

A careful and dispassionate review of my presentation reveals the elements that are essential at this time and which constitute the building blocks of a foundation for Jamaican prosperity:

- Low inflation
- Competitive interest rates,
- A stable exchange rate and an
- Equitable tax system

When combined, these elements set the foundation for a competitive economy that will give incentives to entrepreneurs:

- To invest,
- Create jobs and
- Earn foreign exchange

In the contributions to this debate there have been no serious challenges to these building blocks.

The comments and criticisms have been as to form and not substance.

In closing the Debate therefore I will address some of these criticisms for amplification and clarification.

II. RESPONSE TO ISSUES RAISED

A. SPOKESMAN ON ENERGY AND TELECOMMUNICATIONS

1. UAF/E-Learning

The Spokesman on Energy and Telecommunications took us to task in respect of the use of the Universal Access Fund. How can he say this when of the \$2 billion spent so far, \$1.2 billion was expended last year and the remaining \$800 million spent from 2005. The new budget projection of \$1.5 billion for FY2010/11 represents the maturation of the programme that is clearly in full swing.

2. MICRO, SMALL & MEDIUM-SIZED ENTERPRISES (MSMEs)

Mr. Speaker, it is clear that Micro, Small and Medium-Sized Enterprises (MSMEs) have an important role to play in the growth and development of this country. MSMEs are indeed essential to economic growth and job creation.

While the Minister of Industry, Investment and Commerce will speak more extensively on government policy toward MSMEs when he makes his contribution to the Sectoral Debate, let me take the opportunity to clear up any misunderstanding amongst the Opposition or elsewhere.

Mr. Speaker:

1. The Government has decided to increase the loan facilities available to MSMEs by \$2.0 Billion – to be made available through the DBJ at competitive interest rates.
2. Cabinet is to examine a proposal to introduce a flat tax, which should go a far way in addressing concerns with respect to the **ease of paying taxes** and **tax compliance** among small business operators.

Mr. Speaker, the Government believes that supporting MSMEs and investing in our entrepreneurs is the way to grow the economy. It is against this background that Government has concentrated heavily on creating an enabling environment for MSMEs to flourish and unlock their potential.

We remain committed, Mr. Speaker, to exploring new ways of supporting and enabling this most crucial sector.

The Jamaica Stock Exchange and Junior Stock Exchange

I wish to state that since the close of the JDX in February, the Exchange has been enjoying a rally, with both volumes and values increasing. A comparison of the Exchanges performance in March over February bears this out:

In February, a total of 64.2 million of ordinary units were traded, while in March a total of 249.14 million units crossed the floor, making for a total increase of 288%

In terms of the ordinary value of stocks traded \$744.3 M was were traded in February, in comparison to \$2,042M in March.

Mr. Speaker, allow me to also say a word about the Junior Stock Exchange. The Junior Exchange is already proving to be a critical link in the transformation of the investment and production landscape. For one thing, it will allow small- and medium-size companies to access equity financing, which will improve their competitiveness – locally, and on the international market. For another, it will have a direct and positive impact on local job creation.

The establishment of the Junior Exchange is already bearing fruit. One company – Access Financial – has already been listed, and another – the Blue Power Group – will formally list tomorrow. And Members of this

House will join me in sending a message of encouragement to the other 5 or 6 companies that are – as we speak – positioning themselves to list this year.

All of this also augurs well for investors, since - as we know - there is a positive relationship between falling interest rates and increased stock market activities.

B. OPPOSITION LEADER

1. **JDX and Pensioners**

The Jamaica Debt Exchange (JDX) was designed to help deal with the issue of the unsustainably high debt servicing costs facing the government. It was a critical component of an economic programme aimed at raising the real GDP growth rate, reduce debt costs, and permanently instil fiscal discipline and accountability. The savings realized through the JDX are critical as they complement other savings to be realized from the tough fiscal and tax measures implemented over the last year.

The Leader of the Opposition cannot say that the Opposition supports the JDX and then criticise its impact on Pension Funds. Pension Funds must take into account that for many years they enjoyed significant real returns from Government Paper. It was the best investment in town. But the truth is that while Government Paper will continue to be an important part of the mix of investment for Pension Funds, there must be more dynamism in the portfolio mix for these funds.

Let the message be clear. Do not expect to rely on high interest rates on Government Paper to keep Pension Funds viable. That goes for the NIF and all other funds.

2. Public Sector Wages

The Opposition has called on the Government to meet the extra \$30 billion to the public sector workers. This is not an honest effort at being constructive. It is not helpful to raise expectations of the workers knowing fully well that there is no possibility for these expectations to be met.

The Opposition cannot have it both ways. It cannot tell the country that the Budget is tight and that we run a risk in not meeting our targets while at the same time asking us to find \$30 billion more. That extra \$30 billion can only realistically come from more taxes or more borrowings as there is not surplus from which to pay it. At the same time the Opposition has told the country that tax payers are “maxed out” and cannot or should not be taxed anymore. They have even issued a veiled threat about the matter. They have also told the country of the heavy debt burden we face.

How then are we to finance the extra \$30 billion? If we cannot borrow and we cannot tax anymore and we have no surplus, then country must ask the question of the Opposition: Is this simply politics or is it a serious debate to find answers to the country’s problems.

The Opposition Leader’s reference to a five-year wage freeze is misleading.

A simple reading of the IMF document would inform the Opposition Leader that her claim of a wage freeze for 2009, 2010, 2011, 2012 and 2013 was wrong. The IMF agreement clearly states:

“The government is committed to maintaining the current public service wage freeze on salary increases into FY 2011/2012, while it develops a comprehensive reform of the public sector”.

Mr. Speaker, this represents a 3-year wage freeze inclusive of the fiscal year just ended – 2009/10.

I again call upon the public sector workers not to be influenced by political rhetoric, but to understand the situation that faces the country and to play their part in putting Jamaica first on a stable financial path for the future.

3. The Stand-by Agreement vs. The Extended Fund Facility

The discussion about the Government opting for the IMF’s Extended Fund Facility (EFF) as against the Stand-by Agreement (SBA) is largely a non-issue but must be addressed before it becomes a distraction. Sparked by the comments of the Opposition Leader, the public debate has started.

Let me just make a clear statement on the matter.

The IMF Stand-by Agreement, is usually for 24 months but it can, and is often extended for a longer period (up to 36 months). It is usually designed for short term balance of payments problems. Repayment of the borrowed funds under the SBA is usually due within 3-5 years of disbursement. The SBA is quite flexible in terms of the amount borrowed and timing of

disbursements. The amount can be above normal access (200 per cent of quota) and can be front loaded.

The IMF Extended Fund Facility was established to enable borrowing countries to overcome balance of payments problems that stem largely from structural problems and require a longer period of adjustment than is possible under the Stand-by Agreement. The EFF is typically for 3 years.

Jamaica opted for an SBA because the balance of payments outlook identified a clear need for external support over two fiscal years. Beyond that period, the likelihood was for stabilization in the external accounts once the initial high-risk period had passed. The initial consideration in approaching the IMF was to establish a line of credit in the event that the recovery in the world economy was protracted and capital inflows declined sharply.

Given the focus on the two year implementation period, there was no compelling reason to stretch the precautionary IMF support to span three years with no increase in the amount available. The reform programme, which is represented in the consolidated matrix and is integral to multilateral support, was also concentrated over the next 2 fiscal years. These were policy based loans, secured on concessional terms with long maturities.

It was important to the success of the reforms and the support of the other multilaterals that they be front-loaded so that the benefits from the reforms of tax administration, fiscal management and public sector restructuring could begin to contribute to the new paradigm of fiscal responsibility as early as possible. These benefits could be secured under an SBA and

involved a shorter IMF programme, heavily front loaded funding and a shorter repayment period.

It is baffling that the Opposition Leader has now raised this issue after the IMF negotiations have been extensively discussed and debated in this very House over the past several months and the Opposition Spokesman on Finance did not find it necessary to question the choice of a Stand-by Agreement. How Come?

4. Social Safety Net

Mr. Speaker, never before in our history have we seen these overwhelming levels of support for the Social Safety Net. It is no wonder therefore, why the Opposition Leader was unable to criticize this government's **impressive Social Safety Net Programme**.

And while I need not elaborate on the unprecedented support we have extended to the Social Safety Net, there are a few things I wish to reiterate.

- **The PATH Programme**

Mr. Speaker, we have managed to expand the PATH Programme by an additional 114,000 persons. It is anticipated that a further 18,000 beneficiaries are to be registered in 2010/11 for a total of over 360,000 people. This represents a 58% increase in the number of PATH beneficiaries since this administration came to office.

The Member of Parliament has written that the amount allocated in the various categories is a “measly” sum. Let me point out that since taking office this Government has not only increased the number of beneficiaries,

but we have also increased the amount to each beneficiaries. The Minister has now proposed substantial additional increases which are to be considered by Cabinet next week. The increased budgetary allocation already anticipates this.

Mr. Speaker, these increases will be significant and go a far way in enhancing the Social Safety Net at a time when this support is most needed. The increases will be announced in due course and will take effect on **June 1 of this year.**

Mr. Speaker, I need not repeat the high level of commitment shown by this Government despite the budgetary constraints for education (Cost-Sharing and School Feeding), health, the CDF and the lifting of the income tax threshold.

C. OPPOSITION SPOKESMAN ON FINANCE

1. Presentation of the Budget

Let me start with the shrill bawling of the Opposition Spokesman on Finance that the Budget was presented using information in the first Supplementary Estimates (as opposed to the second) for comparative purposes.

Mr. Speaker, while I regret that due to time constraints, we were unable to present the second Supplementary Estimates to facilitate the convenience of ease of comparison, the Opposition Spokesman on Finance, has repeated with righteous indignation that he is unable to make the comparison unless he pulls out the publication showing the second Supplementary Estimates.

I have already stated that having tabled the second Supplementary Estimates on March 16, (due to JDX data) time between that and the tabling of the new Estimates did not allow for the updated information to be included in the new publication.

Well, Mr. Speaker, despite his protests, the Opposition Spokesman is well aware that circumstances affected the budgetary processes in the same way for quite a few years under his watch. On those occasions I did not make an issue of it, I simply pulled out my supplementary publication and dutifully did my comparisons.

Financial Year*	Approved Budget	Revised at 1st Supplementary Estimates	Revised 2nd Supplementary Estimates	Revised Estimates which <u>Should</u> be Reflected in Estimates As Presented	Revised Estimates <u>Actually</u> Reflected in Estimates As Presented
	\$'000				
2000/2001	167,387,973	188,459,488		188,459,488	167,387,973
2002/2003	210,064,493	223,524,105	225,043,654	225,043,654	223,524,105
2004/2005	328,153,402	331,547,754	328,176,233	328,176,233	331,547,754
2007/2008	380,364,747	402,884,431	405,385,169	405,385,169	402,992,499
2009/2010	555,040,106	561,535,407	593,064,274	593,064,274	561,535,407

In 2000/01 despite having first Supplementary Estimates, it was the approved budget from the previous year that was shown for comparisons with the new Estimates. And in 2002/2003 and 2004/05 there were first and second Supplementary Estimates, but it was the first Supplementary Estimates that was shown for comparison with the new Budget.

I repeat once again that with the exception of the debt exchange and some tidying up, there were no major deviations from the first Supplementary Estimates.

I can only conclude that the Opposition Spokesman on Finance was short on items to criticize so he had to expose himself in this way.

2. Macroeconomic Framework

Mr. Speaker, this year's Budget has been presented after extensive negotiations with the IMF and our other multilaterals, negotiations which include our technical persons at the Ministry of Finance and the Public Service, the Planning Institute of Jamaica and the Bank of Jamaica. So how come Dr. Davies can say that there is no macroeconomic framework?

I totally refute the irresponsible claim by Dr. Davies. The IMF programme is available for all to see and I challenge Dr. Davies to say which Budget presentation has outlined a detailed macroeconomic programme as this one.

3. Deficit Out-turn against Projection

Mr Speaker, the central line of attack by the Opposition is that "the Budget is not credible". The arguments used to support their positions are, *inter alia*:

- the data are confused and not clear
- the 2009/10 Budget had to be revised several times with several tax packages
- several targets were missed

- lack of economic framework

I wish to state that the data is not confusing.

Maybe some who are using the data are themselves confused – as they try to use the data to confuse others!

Indeed, many of the critics have a vested interest in sowing seeds of confusion.

It is important to note that most of the critics and commentators have avoided discussion about the broad stable macro-economic environment. This was achieved in a very difficult, and unprecedented, global environment. The very unstable domestic and global environment made it extremely difficult to project accurately.

Mr. Speaker, no one should be allowed to ignore the fact that the fundamentals of our macroeconomic variables are pointed in the right direction. The dollar is stable and appreciating (\$89.08 to US\$1 yesterday). Interest rates are set to fall, the NIR and gross reserves covers 17 weeks of imports and inflation is moderate.

Many who now talk loudest about the accuracy and credibility of projections dealing with debt and deficits had their difficulty during their time; times that were relatively stable globally.

Fiscal Year	Budget	Actual	Deviation	Deviation
			as a %	as a %
			of GDP	of Missed target
96/97	0.8%	-6.1%	6.9%	860.0%
97/98	-2.0%	-7.5%	5.5%	273.3%
98/99	-4.6%	-6.7%	2.1%	45.0%
02/03	-2.5%	-6.3%	3.8%	152.5%
05/06	0.0%	-2.9%	3.0%	290.0%
06/07	-2.5%	-4.5%	2.0%	79.8%
07/08	-4.5%	-4.6%	0.1%	2.4%
08/09	-4.5%	-7.3%	2.8%	61.5%
09/10	-5.5%	-10.9%	5.4%	98.2%

- In 1996/97 a **fiscal surplus** of 0.8% was projected, the outturn was a **fiscal deficit** of 6.1%. This represented a deviation of 7% of GDP or 860% of the missed target!
- In 1997/98, a fiscal deficit of 2% was targeted, - out-turn was a deficit of 7.5%. This deviation represented 6% of GDP or 273% of the missed target!
- Similarly the fiscal balance targets of 2002/03 and 2005/06 were exceeded by over 150%.

Mr. Speaker, all these missed occurred when there was no crisis in the world economy.

Mr Speaker, the fact is very few countries, corporate or International institutions were able to escape having to change their projections during 2008-2009 and to make major adjustments as the depth and extent of the global crisis unfolded. Many countries, including developed ones, not only missed their projections, but many had to put forward revised Budgets during the year.

Some countries found themselves in deep crisis (examples: Greece, Ireland, Iceland and Latvia). In Jamaica, while our revenue and deficit targets were off, our growth was in line with projections, our inflation rate was in line with forecast, interest rate moved down as we planned. The exchange rate was stable. Foreign exchange was available. We held our own.

4. Falling Interest Rates

We undertook the JDX to treat with the unsustainably high debt servicing costs, through the lowering of interest rates and the extension of maturities on government domestic debt instruments. BOJ benchmark interest rates are now at the lowest levels they have been in 24 years.

I quote Dr. Davies: “At present inflation is running at over 13%. At the same time the interest on government instruments is between 10% and 12%. Simply put, after tax, the real interest rate is in the range of 7-9%. Is it reasonable to expect that investors will continue being irrational by accepting negative interest rates?”

May I state clearly, Dr. Davies must do better than that! When inflation was 13% last year, the average rate paid on Government Paper was 17%. Post-JDX, this has fallen to 10-12% but inflation projections for this year is 7 ½ - 9%.

5. Education Budget

Mr. Speaker, I quote from Dr. Davies speech: “Schools have been recouping some of the revenues lost by the so-called abolition of tuition fees”.

What revenues lost? Prior, to abolition, there was hardly any school that was able to collect the full amount of fees from every student. Some of the better-off schools achieved a high compliance rate. Many Schools, especially those in poorer communities and rural areas, were not able to collect even 50% of the fees.

With the removal of Cost-Sharing, every school receives a cheque covering the full amount due for every child. Yes, the cheque may at times be delayed but the full amount is paid for every child in every school.

Mr. Speaker, this year we have increased the education budget to 14.56% of the total budget, this year marks the highest year of allocation to education – close to the 15% target set many years ago. Despite this Government commitment to the education of our children, we take note of the complaints from the tertiary students.

Mr. Speaker, the Prime Minister yesterday called for a national debate on how this country should spend its Education Budget, I repeat this call! Let us look at the composition of this year's Budget.

Secondary Education	33%
Primary Education	31%
Tertiary Education	17%
Administration	6%
Special Education	1%
Early Education	3%

Where should we reallocate money from? Early education is a mere 3%, where as tertiary education is 17%, is this best way to spend our resources.

Mr. Speaker, tertiary education is the most important investment any one of us can make in our lifetime and it is for this reason why we have increased the Student Loan Bureau lending facilities.

6. Debt

The Opposition Spokesman on Finance has stated that the national debt has grown by 55% between September 2007 to March 31, 2010 (2½ years). This is not true. The debt grew by 43.4% between FY 2007/08 and 2009/10 due in a large part to increased borrowing in part as a result of falling revenues and it must also be noted that the debt stock to which the Opposition Spokesman referred to is the overall public debt, including the \$57 billion borrowed in the IMF Stand-by Agreement and not an increase in the stock of Central Government debt.

But Mr. Speaker, I want to point out that under the Opposition's Spokesman's watch as Finance Minister when there was no world crisis, the national debt increased by **58.0%** between fiscal years 2000/01 and 2002/03 and **70.2%** between 1992/93 and 1994/95.

7. Arrears

Mr. Speaker, I quote from Dr. Davies' speech last week "...this out-turn of 10.9% of GDP is artificial. It is artificial because not included in this deficit target are the significant amounts owed by Government to just about everyone: the workers, creditors..."

Mr. Speaker, this is an absolute fallacy, and quite frankly the Opposition Spokesman on Finance knows better.

Mr. Speaker, the budgetary process of Jamaica has not changed since I took office so how does the Opposition Spokesman end up defining the deficit to include payables or arrears. Our budgetary process is based on cash payments and cash receipts.

Government is an on-going dynamic operation which will result in short-term bills outstanding at all times. We do not immediately include bills owed to a contractor in the debt stock the moment an invoice is submitted. Neither do we count it as part of the deficit.

When I assumed office there was a very large stock of outstanding arrears which we inherited and have been working to clear. That is part of the programme with the IMF. Those arrears were not included in the deficit then, under the previous Minister and they are not included now.

8. China Road Improvement Loan

I wish to state that this loan will be financed from proceeds of the fuel cess and will be administered by the Road Maintenance Fund. It will be implemented over a 5-year period and the debt is part of the projected increase in the stock of debt submitted to the IMF.

The Minister of Transport and Works will give details on this programme in due course.

9. Raiding the Barn

I quote from the Hansard June 17, 1993, where the then Minister of Finance indicated the Government's intention to create a Dividend Policy for selected public sector enterprises. I quote:

"...Each and everyone of them represents investments of tax payers money and in a properly managed system those investments should pay dividends, because nobody invests their money without expecting to make a return. And in the course of this year, we are going to try and refine the policy of getting returns from those investments which we have made, and the returns have to be related to the capital invested"

Mr. Speaker, in my opening Budget presentation I stated that we have received \$5 billion from selected public sector enterprises primarily through dividends. Our action is not inconsistent with the previous Administration.

Cabinet has already approved an amendment of the Public Bodies Management and Accountability (PBMA) Act to accommodate a financial distribution by Public Bodies which will be presented to Parliament shortly.

In respect of the Health Fund, the \$300 million is a one-off transaction and will not be a part of this Dividend Policy.

10. GDP

Mr. Speaker, the projection from the PIOJ is for real GDP growth of 0.5% - 1% for this fiscal year. Growth is expected to come from various sectors: This is a conservative projection.

Agriculture

The agricultural sector has recorded six (6) consecutive quarters of growth since July 2008. In 2009, the sector grew by 12%, largely underpinned by the 22% growth in the domestic food crop sector. This growth has now put production levels above the pre-hurricane Dean and tropical storm 'Gustav' levels.

Growth in the sector has been facilitated by deliberate and strategic interventions by the Ministry of Agriculture and Fisheries, including:

- A doubling of Extension Officers,
- Establishing a Marketing Unit with 18 officers
- Providing inputs support to farmers through, *inter alia*:

- A Production and Productivity Programme of some J\$46 million
- A Financial Access for Responsible Members (F.A.R.M) Programme of some J\$86.3 million
- A \$420.2 million subsidy in the provision of irrigation water.

Mr. Speaker, I would like to highlight other developments in the agricultural sector for 2009. While the sector grew by 12.1% the value of farmers' produce amounted to \$110 billion. Ten thousand new jobs were created in the sector bringing the amount of persons employed in the agricultural sector to 235,000. Food imports were US\$70 million less in 2009 which reflects the growth in the domestic agricultural sector.

Growth is expected to continue in the 2010/2011 financial year as the Ministry continues to provide support to the farmers.

Other Sectors

Growth is also anticipated for FY2010/11 from other sectors, including Tourism, Finance and Insurance, Electricity and Water, and Construction.

11. Bank of Jamaica accommodation of the Central Government

The Opposition Spokesman on Finance has demanded full disclosure of the 'financing arrangements' between the BOJ and the Ministry of Finance.

Mr. Speaker, I will lay out the facts:

At various points during the last fiscal year, the BOJ provided bridging financing to the Government. In some instances, the financing was required as expenditure had to be made before the Government's normal debt issues had accumulated sufficient funds. In other cases, such as just prior to the passage of the 2nd Supplementary Estimates, the Bank advanced sums to settle securities that had matured not because the Consolidated Fund had no money, but because Parliamentary approval had to be obtained for the Consolidated Fund to be debited. **All advances were for short periods and consequently, all were repaid.**

The balance sheet of the BOJ will show that at December 2009 there was a net increase in their holdings of Government securities relative to a year earlier. The acquisition, as the Bank has explained in news releases, occurred in the context of the virtual closure of the bond market when uncertainties about the JDX were high. Since then, these securities have been gradually sold to the market such that by the end of March 2010, only \$6.8 billion remained to be sold. The securities have been welcomed by institutions seeking suitable instruments for their portfolios at a time when Government has not been making primary issues.

Mr. Speaker, let me refute the Opposition Spokesman of Finance's claim on the increasing control of Government by the Bank of Jamaica. But we must insist that the role of the Central Bank is critical to maintaining financial system stability and its amplified role during the period of the JDX is a good example of that responsibility.

III. OTHER ISSUES

1. Stability in the Economy

Mr. Speaker, throughout this Debate and despite the many challenges that we have faced, no one has questioned the stability that now exist in the Jamaican economy.

2. Inflation Rate

STATIN has released the **inflation out-turn** for March 2010. I am pleased to inform the House that inflation in March 2010 slowed to 0.5% compared with 1.4% in January and 2.2% in February. This brings inflation for the fiscal year 2009/10 to 13.3%, which is just under the upper end of our projections. Last fiscal year, when many pundits published private forecasts of anything from 15% to over 20%, the outturn for March proved them all wrong. The sharp slowing in March is a good indicator going forward in achieving a lower rate in 2010/11 consistent with our projections of 7 1/2% to 9%.

3. Exchange rate

Since the start of 2010 up to 20 April 2010, the exchange rate **appreciated** by 0.57 % (51 Jamaican cents). It **appreciated** by 0.10 % in the March 2010 quarter, which compares favourably with the **depreciation** of 0.58 per cent in the December 2009 quarter and the 9.40 per cent in the March 2009 quarter. The exchange rate has continually appreciated over the past several weeks and is now at \$89.08 to the US dollar.

4. NIR/Gross reserves

We continue to maintain healthy foreign reserves.

On April 19, 2010 the Net International Reserves (NIR) stood at US\$ 1.78 billion, with gross reserves covering 17.6 weeks of estimated imports of goods and services.

5. Remittances

Data on remittance inflows in February show a 7.4% increase over last February. This follows a reported 1.5% growth in January.

6. IMF Agreement

Has ensured adequate availability of foreign reserves while observing principles of prudent financial management and debt sustainability.

7. Multilateral Support

Reflects the Government's firm and irrevocable commitment to bring a new and transformative type of governance to the people of Jamaica.

IV. CONCLUSION

The Background - A Reminder

What did we start with?

1. **Devastation from Tropical Storm Gustav** – This demanded extensive repair to infrastructure island wide. There was further worsening of the poor conditions of roads that remained un-repaired after Hurricane Ivan.
2. **The World Food Crisis**, which saw sharply rising prices of basic food items putting pressure on their prices in the local market.
3. **The World Oil Price Crisis**. The price of crude oil climbed to US140 per barrel putting pressure on our foreign exchange reserves.
4. **The Global Economic Crises**, which closed the international capital market to Jamaica, virtually closed down our bauxite/alumina industry and sharply cut foreign exchange inflows from remittances.
5. **A Public Sector Bodies Debt** of over \$200B for CAP, Air Jamaica, SCJ, amongst others.
6. All of this preceded the worst crisis of all – **the crisis of inheritance of an economy** that had only grown by 11.0 % under the 14 years of stewardship of the former Finance Minister.

The main cause of this crisis was a '**raiding of the barn**' to sustain a high interest rate policy – a big spender who borrowed expensively to support public expenditure.

This led to interest costs consuming an average of 49.3% of revenue and averaging 13.2% of GDP for the past 6 years. For 2010/11 interest costs are at a lower level – 43.6% of revenue and 11.4% of GDP.

This contrasts with the American's being worried that by the year 2030, 7% of their GDP might have to be dedicated to paying interest. What they are worried about is what we have been doing for years – **Thanks to the Pastmaster of 'raiding the barn!'**

Mr. Speaker, as we strive to ensure that Jamaica is the place of choice to live, work, raise families and do business, this Government has been implementing a number of national strategies, including:

- Ensuring fiscal and debt sustainability
- Developing an efficient and equitable tax system
- Maintaining financial system stability
- Increasing access to capital, and
- Developing the capabilities of Micro, Small and Medium-Sized Enterprises

Despite what critics may try to say to the contrary, our mission at the Ministry of Finance and the Public Service is crystal clear. Our role is to help to provide the enabling environment to the economy through ensuring:

- Low inflation
- Competitive interest rates
- A stable exchange rate
- An equitable tax system

Reduction in Expenditure

Against the backdrop of a history of runaway expenditure, whether due to the then Administration “running wild it” or to public entities that were not closely monitored, this Government has cut the budget for FY2010/11 to \$503.9 billion, representing the largest cut, in both nominal and real terms in the nation’s history.

Debt servicing has fallen to \$240.0 billion or 47% of the FY2010/11 Budget, down from 60% in FY2009/10, and which has been the average for many years.

A number of loss-making public entities are being privatized to reduce the burden on the public purse (including Air Jamaica, Sugar Company of Jamaica, Clarendon Alumina Producers, and the Norman Manley International Airport).

Fiscal Reforms (FRF, tax reforms)

We are undertaking a number of administrative reforms, as well as legislative reform to establish a Fiscal Responsibility Framework (FRF) which will enshrine fiscal discipline into law.

Stable Exchange Rate

The Jamaican dollar depreciated only 0.78% in 2009. This compares to average annual depreciation of approximately 70% for the 18 years to 2007.

The Jamaican dollar has appreciated against the US dollar in recent weeks.

Available Foreign Exchange

There has been available foreign exchange afforded by the Stand-By Arrangement with the IMF and the overwhelming multilateral support.

VISION OF THE GOVERNMENT

Mr. Speaker, the overarching vision of this Government is that found in the National Development Plan, *Vision 2030 Jamaica*:

“Jamaica, the place of choice to live, work, raise families and do business.”

The Government is committed to a balanced budget by 2013, realising the national outcomes of a stable macroeconomy, an enabling business environment, effective governance, strong economic infrastructure and internationally competitive industry structures.

Mr. Speaker, we have taken tough decisions; we have taken strong and even unpopular action; we have demonstrated the necessary leadership to make this vision a reality.

We have the opportunity, Mr. Speaker, to make a lasting difference; to be felt over time by ourselves and our children, for generations to come. It is time to unite for a better Jamaica. Together, let us press on to prosperity, as we partner together in shared sacrifice and collective vision. Together, let us press on to prosperity, with the firm determination and hard work that will make us great as Jamaicans.

If we hope together, endure together, and work hard together we will achieve together.

Together, let us work on building the foundation of our economy.

In the book of Isaiah, Chapter 57, verse: 14, it gives us good inspiration:

“And it will be said, build up, build up, prepare the way, remove every obstacles out of the way of my people”.

May God bless us all; may God bless Jamaica land we love.

***Hon. Audley Shaw, MP
Minister of Finance and the Public Service***

April 21, 2010