

CLOSING REMARKS BUDGET DEBATE 2012/13

Closing of the 2012/2013 Budget Debate by Dr. Peter Phillips

INTRODUCTION

Mr. Speaker, we have come to the end of our budget process which began on May 10th with the presentation of the Estimates of Expenditure. Let me thank all who contributed to the Debate which I opened on May 24th, 2012.

This budget process has been predictably difficult coming as it does at this time of crisis. We have heard the comments from my colleagues inside Parliament and from Jamaicans of all walks of life. Some more shrill than others, some more understanding of the predicament that the country faces and some, I must say quite frankly, were more concerned with self than with the national interest.

I will certainly be taking on board all the comments and suggestions that recognize the nature of the crisis that we are in and the kind of action that is required to take us out. In the final analysis Jamaica can only be saved by collective effort and we must use every opportunity to begin building national consensus.

Mr. Speaker, the burden of my presentation was to bring to the attention of every Jamaican the fact that we are in a **DEEP CRISIS**, and it will take a **paradigm shift** in how we conduct our business as a nation. And it will take a sustained effort to take us out of this crisis. For example, it is a sad commentary on our collective efforts to resolve national issues, that some 40 years after the first oil price shock in 1973, we are still reliant on a volatile supply of oil to produce 95% of our energy.

Let me once again remind all in this Honourable House and the country at large, that our present debt stock of US\$8.6 Billion or J\$1.7 Trillion is **UNTENABLE**.

As I stated before, Mr. Speaker, this means that every man, woman and child in Jamaica, including the newly born owe approximately **\$600,000.00 each**. Mr.

CLOSING REMARKS BUDGET DEBATE 2012/13

Speaker, I think we should recognize that the build up of debt over the years is a reflection in large measure of the deficiencies of our politics.

Mr. Speaker, it could be said that except for the sterling efforts made in the early 1990s and again in the early part of this century, to pay down the debt, the political system as a whole has not demonstrated the resolve required to reduce Jamaica's national debt to manageable levels.

As a consequence, Mr. Speaker, our per capita income, i.e., GDP per capita, is today the same as it was in 1973. Over the past forty years, the economy has grown at an average rate of less than 1 per cent per annum. In effect, we have lost four decades and we have sought to compensate for our failure to achieve effective growth with an insatiable appetite for borrowing. So while our per capita GDP is the same as it was in 1973, our debt to GDP has grown seven times; that is, 700% - Debt to GDP was 18% in 1973 – today it is 128% of GDP.

Mr. Speaker, despite a few positive indications, particularly from the Opposition Spokesman on Finance, we still have not grasped the opportunity in this House to face squarely the predicament of the country.

APPROPRIATIONS IN AID

It is against this background that I welcome the proposal from the Opposition Spokesman on Finance with regard to the Appropriations in Aid. I am in agreement with his observation that at the present time there are too many funds operating outside of the purview of the Consolidated Fund. Mr. Speaker, my own view is that the PAAC should be asked to examine their operations and make recommendations to the House as to how these can be rationalized.

Having made such a positive contribution I was somewhat disappointed to hear the Opposition Spokesman on Finance express the view that he is not obligated to provide alternatives. But the truth Mr. Speaker is that we will sink together if we do not

CLOSING REMARKS BUDGET DEBATE 2012/13

collectively find alternatives to the way we have been conducting our affairs. Somewhere along the line the Parliament as a whole, will find that it is imperative to find common cause in moving our debt on a downward path if we are to survive as a country.

CLARENDON ALUMINA PARTNERS (CAP)

Mr. Speaker, the Opposition Spokesman on Finance identified the sale of Clarendon Alumina Partners as a critical prior action for any new agreement with the IMF. He went further to criticize the forward sale alumina agreement between Jamaica and Glencore.

Mr. Speaker, this is another clear example of opportunism and mischief because, in our discussions with the IMF, the sale of CAP has not been raised as a prior condition to a new agreement.

The Opposition Spokesman attacked the 2004 forward sale agreement between the GOJ and Glencore, describing it as reckless. In addition, he launched a scathing and vulgar attack on the experienced Jamaican team and their advisors who conducted the negotiations. Mr. Speaker, this attack was quite unfounded. It should be noted that the Agreement was positively rated by Fitch and Moody's and our own advisors, J.P. Morgan.

While taking this blind partisan approach, the Opposition spokesman failed to recognize that, his administration missed valuable opportunities to hedge against unfavourable oil and alumina prices when they were the government.

At the same time, they failed to hedge against high oil prices when oil prices were low or to secure a hedge in respect of alumina prices when those prices were higher. They recognized the legitimacy of hedging in other transactions in respect of sugar, and in respect of a foreign exchange risk incurred in a loan from Venezuela. One must ask the question why they did not hedge to reduce the possible losses in respect of CAP. Was this simply a political decision?

CLOSING REMARKS BUDGET DEBATE 2012/13

Mr. Speaker in a volatile market situation hedging can go wrong. Indeed they lost a lot of money in the two hedges I referred to earlier. It is about time Mr. Speaker that the Opposition Spokesman on Finance demonstrate a greater willingness to deal with this matter in a mature way, and resist the temptation to engage in partisan posturing about serious national issues. It does him no credit.

Mr. Speaker, I put it to this House that if the Opposition Spokesman had taken a national position in dealing with the Glencore forward sale agreement, the country's interest would have been better served.

MR. SPEAKER, I CANNOT SAY IT ANY CLEARER - THE PRESENT LEVEL OF DEBT THREATENS THE STABILITY AND THE VERY SURVIVAL OF OUR COUNTRY.

Let me explain:

1. If we refuse to do anything to reduce this debt from its present level, Jamaica will receive no further financing from the main multilateral institutions, such as the Inter American Development Bank (IADB), the World Bank and the EU. From the IADB and the EU alone there are some US\$306M in loans and grants that we are not able to access at this time because the IMF Stand-By Arrangement went off rails.
2. What is more, Mr. Speaker, with our present debt stock, the only loans we may be able to get from private capital markets will be those at unacceptably high rates of interest because they perceive Jamaica as a high-risk client.

In the absence of access to these sources of funds, we would face the prospect of:

CLOSING REMARKS BUDGET DEBATE 2012/13

- **A Decline in the reserves to dangerously low levels.** Normally we regard our safety net as having enough reserves to pay for 12 weeks of imports of goods and services. These goods and services include oil for electricity, transportation, basic foods, medicines for people in hospitals and other essentials. This administration will not countenance the prospects of a return to those days in the 1980's when supplies of oil etc... would demand payment first before they unload their supplies.
- **We would face an increase in Domestic Interest Rates** because without the inflow of funds for the country to stay alive the GOJ will now have to borrow at high interest rates from the domestic market. Over time this translates to a further increase in the debt; and would compromise the country's prospects for achieving growth. Private borrowers would also be faced with higher interest rates.
- **It would mean further cutbacks on all capital expenditure programmes,** for example, construction of roadways, schools and water supply systems,
- **And it would also mean drastic cutbacks in recurrent expenditure** which means **loss of jobs in the public sector** and it will only be a matter of time before it begins to affect the private sector.

Mr. Speaker, those of us who follow international affairs will detect a certain familiarity with what I am describing as this is currently happening in Greece. **My job, therefore, as the Minister of Finance and Planning is to take all necessary steps to ensure that Jamaica remains stable and is set firmly on a path of growth.**

It was against this reality that I presented this year's budget which called on every Jamaican to make some sacrifice in the national interest. **I know it is difficult for**

CLOSING REMARKS BUDGET DEBATE 2012/13

many especially those who just don't have it, and I assure you that every effort was made to ensure fairness and equity.

Mr. Speaker, **the current reality is, there is no solution to the crisis we are in that does not begin with paying down the debt.** To begin paying down the debt, we are forced to consider every possible means of revenue. In such a crisis as the one we presently face, things that we might never have considered as being taxable, had to be considered.

Let me make it abundantly clear, we need all the revenues budgeted for, and as such, any concession made on any of the measures that result in revenue loss will have to be found elsewhere.

THE OPPOSITION LIVING IN DENIAL

However, I must confess to a certain level of **disbelief and amazement, but most of all disappointment**, that within this House, where we should be providing the leadership required for this national effort, there are some among us who, I must say frankly, seem to have forgotten the contribution that they made to creating the crisis which threatens our very survival. It is unfortunate that I find it necessary to include the Leader of the Opposition in this category.

Mr. Speaker, let me remind this Honourable House that the Leader of the Opposition was over the last 4 years a Senior Member of the administration and ultimately became Prime Minister. Against the background of this reality I find it disingenuous that he should come to this Honourable House and speak in this manner, which suggests that he has either been asleep over the last 4 years, or he simply cannot recall the events in which he was an active participant.

CLOSING REMARKS BUDGET DEBATE 2012/13

The first source of my disappointment in the Leader of the Opposition is his failure to acknowledge that in four years the administration of which he played a leading role, doubled the country's debt from approximately J\$900 billion to J\$1.7 trillion dollars.

The second source of my disappointment is his failure to admit that his administration reneged on solemn commitments entered into with the IMF which has created the **trust deficit** that now exists with the IMF and the other multilaterals.

Mr. Speaker, let me remind the Leader of the Opposition of the circumstances in which this trust deficit developed.

In January 2010, a Letter of Intent was sent by the then Government of Jamaica to the Managing Director of the IMF, asserting that:

"The Government of Jamaica is deeply committed to the objectives and measures underlying this programme, and intends to pursue them regardless of any formal lending arrangement with the International Monetary Fund".

The IMF took his administration at their word and their solemn commitments in good faith. This was the basis on which the IMF and the other multilateral financial institutions extended unprecedented levels of financial support to Jamaica.

The IMF Staff Report speaks for itself:

US\$2.4 Billion was committed to Jamaica over a two year period which represents the largest financial commitment to Jamaica by multilateral financial institutions in such a short time.

CLOSING REMARKS BUDGET DEBATE 2012/13

In return, the agreement with the Fund committed the administration, of which the Leader of the Opposition was a part, to:

- Begin implementation of Public Sector Reform by December 2012. **That was breached;**
- It was agreed also that by September 2010, the JLP administration was to have prepared and announced a plan for the reform of tax incentives; **that was not fulfilled;** and,
- The Government was also committed to having a Central Treasury Management System operational *"by end-December 2010 in order to support the implementation of the FY2011/12 budget"*. **This commitment was also breached.**

It is for these reasons, Mr. Speaker, that a trust deficit now exists with the IMF and other multilaterals, the creation of which the Leader of the Opposition was a willing and active participant.

In the early stages of the agreement with the IMF, the administration had three successful end-quarter assessments for March, June and September 2010. The Leader of the Opposition was in the forefront of the celebrations which were loud and long. There was no shortage of public announcements.

Unfortunately for Jamaica, these successes were not sustained. Mr. Speaker, you would recall that the administration maintained the silence for 12 long months, and in the end, it was the IMF that broke the silence and informed the Jamaican people on the status of the agreement. It was only then that it became apparent that the IMF agreement had been aborted.

CLOSING REMARKS BUDGET DEBATE 2012/13

Mr. Speaker, as a result of the previous administration's failure to meet its targets and commitments, and with the agreement aborted, fiscal discipline completely broke down.

Nothing points more clearly to this than the unauthorized ordering of buses by the Opposition Spokesman on Finance when he was Minister of Finance. He signed a loan agreement to purchase 230 buses and spare parts at a cost of over \$10B. Simply put, he was increasing the debt. There was no Cabinet approval. This loan was not part of the agreed programme of borrowing and he was made aware of the fact that the proposed expenditure on the purchase of buses would mean cutbacks in the critical areas of Health, Education and Security.

Faced with this choice he opted to put the social agenda and national security on the backburner.

Mr. Speaker the most recent demonstration of the existence of the trust deficit is to be seen in the comments of the IMF Board last week during their consideration of Jamaica's recently concluded Article IV appraisal. The appraisal was done in March 2012, and considered by the IMF Board last week. Here is what they said:

"Executive Directors generally agree with the thrust of the staff appraisal. They regretted that the successful debt exchange under the 2010 Stand-By Agreement had not been accompanied by fiscal consolidation to put Jamaica's public debt on a sustainable downward path".

There was no word from the previous Government even when it became apparent that the primary surplus target at March 2011 would be missed. Mr. Speaker, let me remind this Honourable House that the primary surplus target is the key measure of the country's ability to service the public debt.

Mr. Speaker, the previous administration did not include in the IMF agreement, the wage settlement that was legally due to workers. Therefore a trust deficit developed

CLOSING REMARKS BUDGET DEBATE 2012/13

also with the Jamaican people. It was during that period, that the unbudgeted contracting of debt through the Jamaica Development Infrastructure Programme (JDIP) began, and an agreement for the importation of buses was signed.

In the case of the JDIP, it was clearly a manoeuvre for the government to pretend that the road maintenance fund could afford to borrow US\$500 million. In the case of the buses, the IMF may have been entirely "*outside of the loop*". You will recall, Mr. Speaker, that the investment in the buses was undertaken despite the express warning of public servants who pointed out that it would mean cuts in the critical areas of Health, Security and Education.

The deliberate breaches of the fiscal targets by the previous administration were compounded by their failure to implement the commitments they had made to structural change.

In light of all that transpired, I must confess Mr. Speaker, that I find the comments of the Opposition leader to be disingenuous. After taking financial support and not keeping commitments, he has the temerity to demand of this Government that these same commitments be implemented immediately. What they were not able to do in 4 years they want us to do in 5 months.

And let us not forget the state of the economic performance of their Administration:

- **4 years of negative growth**
- **Debt almost doubled**
- **Poverty Doubled**
- **Commitments were broken**

They are a main cause of the difficulties that the country now faces.

IMF PROGRAMME DISCUSSIONS

Mr Speaker, let me respond to the issue of where we are in our current negotiations with the IMF. After my opening address to the House in this budget debate, **the IMF Board met on May 30, 2012 to review Jamaica's 2011 Article IV consultation.** This is a regular part of the Fund's duty where the staff economists visit each member country on a regular cycle, develop an understanding of the member's situation and policy framework and then provide an assessment to the Executive Board. In our current circumstances, the Article IV also provides an insight into the issues that will be of concern to the IMF's Board when it is asked to consider approving a successor programme to the aborted Stand-By Arrangement (SBA).

The report on the Article IV consultation will be published both by the Fund and ourselves as soon as it is cleared for release. The draft report we have seen contains no surprises to anyone who followed my analysis of our current situation. The Board discussion and conclusions focused on some of the very areas which we have emphasized, that is, the need to:

- boost growth and competitiveness; and
- enhance fiscal sustainability.

The Board broadly agreed with the assessment that a strong upfront fiscal adjustment is necessary to place the public debt on a clear downward path and to create buffers to protect against further negative shocks. In this regard, the IMF Board stressed the importance of tax reform, containing public wages and employment, improving public financial management and strengthening tax administration as necessary underpinnings of the fiscal consolidation efforts.

Now, as I have outlined, the effort this year is designed to place Jamaica on a path of declining fiscal deficits and reducing our insatiable appetite to borrow hence, an improvement in our debt indicators. There are those, including Fund staff, who believe

CLOSING REMARKS BUDGET DEBATE 2012/13

that more could be done in this year. I do not think so. Whether, and to what extent our initial effort can be supplemented is an area for negotiation. A key issue, therefore, is the appropriate degree and pace of fiscal consolidation, given the need to unlock growth after nearly four decades of low growth.

REFORMS TO BE UNDERTAKEN

We have made unprecedented efforts to correct the slippages of the past year and are moving steadfastly to put in place a tax policy that aims at equity. We also intend to implement a system for parliamentary review that allows all of the People's representatives to participate to a greater degree in monitoring the programme. Hopefully, this will enhance and entrench the objectives of the fiscal responsibility framework. A broad range of issues and details are involved in coming to an agreement with the IMF. Some of the areas of key importance are:

- Wage restraint;
- Pension reform;
- Tax reform (including incentives and waivers reform and improvement in tax administration); and
- Competitiveness reform (reducing impediments to doing business and reducing significantly the cost of energy).

We must make clear progress in all of these areas NOW.

With respect to the negotiations with the IMF, I expect in the next few weeks to visit Washington to determine with the Fund the timelines for the next phase of our negotiations in light of this Budget (including the revenue package) and the other outstanding issues.

Quite frankly, while one cannot predict with certainty the exact timing of the conclusion of the negotiations, I am working to bring them to a conclusion later this year.

GROWTH STRATEGY

There are some who have argued that there is no growth strategy in the budget. I believe that the Most Honourable Prime Minister would have set the record clear yesterday. Nevertheless let me simply set out the essential elements of the government's plan.

First is to reduce the cost of energy by diversifying our fuel sources away from oil to cheaper and more sustainable sources of energy.

Second, we propose to fast-track major public sector projects such as:

- the North South Highway link;
- The redevelopment of the Port; and,
- The Fort Augusta Project and logistics centre.

Third, we propose to reduce the cost of doing business by streamlining the approvals process by creating a more business friendly environment. As I indicated earlier when I opened the debate – Cabinet has approved a sub-committee under the chairmanship of the Minister of Justice. Among the measures being pursued are:

- On incorporating a company in Jamaica, at the same time as the Certificate of incorporation is issued, the company will also receive from the Companies Office the company's Tax Registration Number (TRN) as well as its number for each of the relevant statutory agencies (NIS, NHT, etc). The same would apply on registering a business name.
- Reduce the time now taken to complete real estate sale transactions, by authorizing the National Land Agency to assess and collect all applicable charges

CLOSING REMARKS BUDGET DEBATE 2012/13

(transfer tax, stamp duty and registration fees) when the transfer instrument is delivered to the Titles Office for registration. This will eliminate 6 time-consuming trips to and from the Stamp Office.

Among the other measures being pursued in this regard is:

- The establishment a single development approvals centre to which all subdivision/development applications are submitted.
- The introduction of the Secured Obligations Act and establishment of a central, web-based system of filing and searching for security interests in assets other than land. This will increase the certainty and simplicity of taking collateral for financing transactions, and improve the flow of credit in the economy, especially to MSMEs.
- We propose also to prepare modern insolvency legislation to provide clear rules and procedures for handling corporate and personal insolvencies, including a mechanism in appropriate cases for giving a business a “no adverse action” period in which to attempt to restructure and achieve viability, before the winding up process is embarked upon.

The **fourth** element of growth strategy, Mr. Speaker, involves the promotion of foreign direct investment in all sectors, but specifically in Tourism and ICT. Already in tourism plans for an additional 2000 rooms are far advanced.

Fifth, we are also placing particular focus on promoting investment by Jamaicans including those operating Micro, Small and Medium Enterprises.

JUNIOR STOCK EXCHANGE

CLOSING REMARKS BUDGET DEBATE 2012/13

In this regard, the Junior Stock Exchange will be extended for another five years and we are encouraging businesses to make use of this facility NOW since after the 5 year period we will be eliminating all these special tax holidays which are presently available.

Available and adequate financing have over the years been major obstacles to the growth of MSME's. To this end, we are taking the following steps which will expand the pool of available credit. The DBJ, which has an excellent track record, will in this year be making financing available as follows:

- \$1.5 billion to the MSME Sector in 2012/13 which will facilitate \$2 billion in investments. Of this \$396 million or 25% will be lent through micro finance institutions to micro businesses.
- \$250 million has been set aside as a loan guarantee fund to enable lending to potentially good business borrowers from the MSME sector who just do not meet the banking sector's collateral requirements. This will enable \$1 billion in credit for business activities falling in this category.
- The DBJ will invest \$100 million in programmes geared towards capacity building and technical assistances to the MSME sector, and will attract \$400 million in counterpart grant funding from multilateral organizations.

MOBILE FINANCIAL SERVICES

As I indicated in my opening presentation, the BOJ is well advanced in its assessment and development of the broad policy framework for mobile financial services (MFS) and a policy position will be enunciated in short order.

CLOSING REMARKS BUDGET DEBATE 2012/13

I am also pleased to announce that the Bank of Jamaica has authorised the Development Bank of Jamaica (DBJ) to proceed with a Mobile Money Pilot Project targeted to the micro-financial sector. The parameters of this Pilot Project will be confined to what is now allowed under the existing banking statutes. It is expected that this Pilot project will provide additional information and experience to help guide us in establishing a framework for the full operation of mobile financial services.

PRIVATIZATION

The **sixth** element in our growth strategy involves a continued privatization programme which will enable the private sector to expand through judicious privatization and/or leasing of Government assets. Entities to be privatized include:

- GOJ's 7% interest in Windalco;
- Clarendon Alumina Partners;
- Wallenford Coffee Company Limited (WCC), which will stem losses of approximately J\$200M annually;
- GOJ's 50% shareholding in Bloody Bay Hotel Developments Ltd;
- Jamaica Railway Corporation; and
- Caymanas Track Limited.

PUBLIC SECTOR CAPITAL INVESTMENTS

Mr. Speaker, the **seventh** element of the growth strategy is the contribution made by capital expenditures by central government and public entities. This year between central government and public entities, the capital expenditures are budgeted at \$119B, \$75b of this being expenditure by public entities.

Of particular significance in this regard is the modernization of the water and sewerage systems for the Kingston Metropolitan Areas, where \$5.3B will be spent, the UDC will be spending \$1.2B included in this is the improvement to the Hellshire Sewerage plant. Of course, as the Prime Minister indicated yesterday, the National Housing Trust will be spending a total of \$25B to provide housing solutions for the Jamaican people.

CLOSING REMARKS BUDGET DEBATE 2012/13

SOCIAL PROTECTION STRATEGIES

Mr. Speaker, the Leader of the Opposition has been very vocal in their advocacy of social protection. He is on record as saying that social protection should be part of tax reform. Yet, I cannot find any evidence of any social protection programmes in the tax reform proposals that came from his administration.

I would like to again remind him that his administration came to Parliament with four tax packages totalling over \$49B in 2009. This was the period in which the poverty rate doubled. Even more to the point they left no plans in place for the expansion or enhancement of social protection programmes.

This administration despite the limited resources has found ways to protect the most vulnerable and marginalized in the economy by increasing expenditure in targeted social sectors and programmes. And I should indicate Mr. Speaker, that a team from our multilateral partners will be visiting Jamaica at our request on June 26th, 2012, to begin the planning for enhanced social protection programmes.

Nevertheless, in this budget Mr. Speaker, there are important increases in expenditure to address vulnerabilities through programmes and initiatives such as PATH.

This year we will be spending \$14.5B on programmes aimed at providing social protection for the vulnerable. This represents an increase of \$3.6 billion or 33.2% over the last financial year. Specific allocations are outlined below:

FY 2012/13 (J\$B)

PATH	4.2
Community Renewal	4.9
School Feeding Programme	3.6
Other	1.8

CLOSING REMARKS BUDGET DEBATE 2012/13

Total	14.5
-------	------

And that money does not include JEEP where as the Prime Minister stated yesterday we will be spending some \$6B.

FINSAC

Mr Speaker, the Opposition Spokesman on Finance raised the issue of the FINSAC Enquiry. This matter is highly controversial and emotive, and I do not intend to be drawn into rehashing the very unfortunate saga of events surrounding the establishment of the Commission and how it has gone about its business.

I wish to report the following facts:

1. The Commission was established on January 12, 2009 to last for six months with hearings for 60 days.
2. As of today June 6, 2012 there is no report, interim or otherwise despite the taxpayers paying out some \$65 million and there are bills outstanding for rent and other costs.
3. There is no indication as to when we will have a final report. And as I said before there has not even been a single status report from the Commissioners (this was not part of the TOR).
4. There is no limit on the number of extensions that the Commissioners may give themselves. There is no termination date set. Indeed, the previous Minister of Finance, instructed the Commission to complete their work by early November 2011, so concerned was he. The Financial Secretary also wrote to the Commission requesting that they complete their work.

CLOSING REMARKS BUDGET DEBATE 2012/13

5. When the Secretary of the Commission was asked about the basis on which the Commission kept extending its work, he indicated that the extension of the lease agreements and budget approvals by the Ministry of Finance was seen as implying tacit approval for them to continue extending their time.
6. The Commissioners have written to the Ministry proposing to complete the report in two parts – April 2012 and August 2012. We still await the report.
7. The Ministry of Finance is prepared to honour invoices for work done specifically for the writing up of the final report and the Financial Secretary is to arrange with the Secretary of the Commission how this is to be done.

IN THIS FISCAL SITUATION THE ONLY FURTHER EXPENDITURE CONTEMPLATED IS PAYMENT FOR SUCH SECRETARIAL SERVICES (*AND HERE MR. SPEAKER I AM TALKING ABOUT THE STENOGRAPHERS FEES ETC...*) AS ARE REQUIRED TO FORMALLY BRING THE ENQUIRY TO A CLOSE.

TAX PACKAGE

The tax package outlined to support the expenditure budget has been the subject of criticism. I am therefore going to spend some time explaining why it was important, and necessary to implement this package. As I stated earlier, the country has a very serious debt problem.

Mr. Speaker, you will recall that the Private Sector Working Group put forward a reform package that sought to achieve a Net Revenue Gain of \$7.5B. This was before the extent of deviation from the targets agreed under the Stand-By Arrangement became apparent. In fact, the gap in the budget left a deviation of \$43B not \$7B. It therefore became necessary to design a budget that reflected both expenditure adjustments and a tax package.

CLOSING REMARKS BUDGET DEBATE 2012/13

The tax package of \$19.4B for the ten month period June to March has come under criticism because of its size, design and the likely impact on the poor.

This package is certainly not the largest tax package passed by this Parliament to fund expenditure in any one fiscal year. Mr. Speaker, the Opposition Spokesman on Finance in his contribution to the debate has described the present tax package as the largest presented to the Parliament. Mr. Speaker, if the Opposition Spokesman on Finance cannot recall, the records of the Parliament will show that in fiscal year 2009/2010 the government of the day implemented four tax packages, (April, May, September and December) totaling just under \$49.5B.

The notion that the tax package of \$19.4B will lead to a contraction in the domestic economy is not true. Given the significant holdings of government debt by Jamaican investors, any repayment of debt transfers resources to Jamaican investors which become available to them for re-investment.

In the absence of increased taxes, the government would have to borrow more resulting in an increase in the debt stock, in addition to putting pressure on domestic interest rates.

Therefore, Mr. Speaker, we have designed the tax package in such a way that that every sector in the population is being asked to make a contribution to help solve this critical problem. The bulk of the contribution is expected to come from those who can afford to pay. The reduction of the standard GCT rate to 16.5% should have resulted in a reduction in the prices on the vast majority of goods.

CIVIC DUTY

In our present situation we all have an overriding civic duty not to take advantage of the powerless in the society by placing the burdens that we should bear, as our contribution to the national effort, on their backs.

CLOSING REMARKS BUDGET DEBATE 2012/13

Unfortunately, we are already witnessing situations where prices on some food items have been unjustifiably increased and this is outrageous. **How can the lowering of GCT result in an increase in the price of a chicken patty? A chicken patty that cost \$115 last week should not cost \$120 today.**

We will therefore ask the Consumer Affairs Commission to focus its monitoring on some food items to ensure that the benefits are passed on to consumers. Equally, we are asking consumers, in their own interest, to reject unjustified price increases, report instances of questionable prices to the Consumer Affairs Commission and shop around.

ADDRESSING THE PSWG PROPOSALS

The reduction of the standard GCT rate, coupled with the reduction of the Corporate Income Tax rate on non regulated companies to 25 percent and the lifting of the Personal Income Tax threshold will result in loss in revenue of approximately \$4.0B. This is an injection into the domestic economy, which will help to stimulate economic activity. Mr. Speaker, we have removed some goods from the exemption list to the taxable list while at the same time preserving a basket of goods on the exempt list. This is aimed at protecting the poor and the vulnerable.

Mr. Speaker, the PSWG recommended a GCT rate of 12.5%; we were not able to reduce the GCT to that rate because for every percentage point by which we reduce the rate, we lose approximately \$3.2B annually. If we were to accept the rate recommended by the PSWG, it would mean that we would have to find an additional \$12.8B in taxes. Unless there is a more significant broadening of the GCT base to include more basic goods.

Is there a way this could be achieved without significant negative repercussions?

The Opposition Spokesman on Finance said he would have reduced the GCT rate to 10%. This would translate into a revenue loss of about \$24B per annum. This is from a man who in 2009 imposed some \$50B in new taxes in one year. **MOUTH MEK FI CHAT!!**

REMOVAL OF GCT ON ELECTRICITY

Mr. Speaker, this administration gave a commitment to remove the GCT from residential customers. However, given the very dire fiscal situation we face, our approach was to honour this commitment in two stages. The first stage which I announced, removed GCT on electricity for 90% of all households who were consuming less than 300 Kwh per month. As a result, the poorest of households were protected first.

Having protected the poorest households we seized the opportunity to build some inducement for energy conservation by rewarding all who reduced the electricity consumption to below 300 kwh. In a country as energy dependent country as Jamaica such initiatives must be encouraged. Unfortunately, the Opposition seized the opportunity for political one-upmanship by accusing the Prime Minister of reneging on a solemn campaign promise in the hope of instigating public outcry. In that situation, as the Prime Minister announced yesterday, we had a discussion and decided to forego the two step approach and offer relief to ALL households by removing the GCT from all residential customers with **EFFECT FROM JULY 1, 2012.**

Since GCT compliant businesses can claim the GCT as an input tax there is no need to make further adjustment. We intend to make up the lost revenue, which potentially could be as high as \$450m annually by compensating measures on administration.

BOOKS – GCT REGIME

Mr Speaker, on the issue of GCT on textbooks, I want to remind this Honourable House that the Tax Reform Committee of this House, which included members of the Opposition, quite calmly and rationally deliberated on the issue and made the recommendation that printed matter should be taxed.

Unfortunately, this is an emotive issue and many of the statements made seem not to have understood that our policy exempted textbooks for schools and Bibles from the tax. We even agreed at the Port Royal deliberations that the Planning Institute of Jamaica, the Ministry of Finance and the Ministry of Education would come up with a mechanism to ensure that school books would not pay the GCT if it was done through the Ministry of Education.

A totally separate, but related issue, is the reality that the book selling industry with whom we have had discussions would be undermined were the existing bookshops to lose the sale of school text books. We have no intention of undermining the viability of any existing business, and we are therefore proposing to allow the list of text books agreed with the Ministry of Education to continue to pay no GCT and for these to be distributed through the book shops.

We think that this is a workable compromise that will see the students getting approved textbooks free of GCT and the bookshops remaining viable.

THIS MEASURE TAKES EFFECT ON JUNE 15TH, 2012

TELECOMMUNICATION

When I made my budget presentation two weeks ago it was announced that a special tax would be imposed on inbound telephone calls terminating in Jamaica, and calls emanating and terminating in Jamaica. In the light of the ensuing debate I have decided to make some adjustments on the domestic side.

CLOSING REMARKS BUDGET DEBATE 2012/13

It is now proposed that:

- J\$0.05 per minute be imposed on calls originating and terminating on a fixed network in Jamaica;
- J\$0.40 per minute be imposed on all other calls (domestic and international) originating in Jamaica; and
- US\$0.075 per minute be imposed on international calls terminating on a mobile network in Jamaica.

However, on the international side the status quo remains.

It should be noted that where free minutes are offered by service providers, tax will **NOT** be applicable for these minutes up to 30% of the total call time, both free and billed, for each call category (Call category means on net, off net and international).

Let me now deal with the details of the tax to be imposed:

- On all **international call minutes** which terminate on the public land mobile network; and
- On all domestic and international call minutes originating from the public switch telephone network and public land mobile network, subject to exemptions listed below.

Exemptions

The following domestic calls will be omitted from the taxable base:

- Numbers used to access emergency and special services such police, fire, ambulance and other emergency services;
- Numbers used to activate and de-activate services;
- Calls to access voice mail;
- Calls to on-net customer care;
- Calls to voice mail; and,

CLOSING REMARKS BUDGET DEBATE 2012/13

- Calls to add or determine available credit

These new measures will yield just about the previously estimated amount of \$5.25 billion for the rest of 2012/13. And will take effect on July 15, 2012.

ANIMAL FEED, RAW FOOD AND VEGETABLES

We have taken the decision to keep animal feeds and raw food and vegetables in the exempt category. This is expected to cost approximately \$250M. After discussions with the Ministry of Agriculture the decision was taken to impose a protective duty on certain imports.

These are:

Fresh, Chilled or frozen meat of sheep or goats (mutton)

It is proposed that all imports under this tariff heading will attract an additional stamp duty of 15%, this is in addition to the CET of 5% which currently applies to these goods. THIS MEASURE TAKES EFFECT ON JULY 1st, 2012

In addition to the duties applicable to the imports of hams and bacons, an additional stamp duty of 10% will now be imposed. This will provide additional level of protection to the local pig industry which is largely self sufficient. THIS MEASURE TAKES EFFECT ON JULY 1st, 2012

It is expected that these duties together with administrative action we propose to take of placing a cap on waivers on these goods will not only secure the revenues lost by replacing the exempt status but will also give a stimulus to domestic food production.

A Ministry Paper setting out the changes will be tabled. **THIS MEASURE TAKES EFFECT ON JUNE 15TH, 2012**

MODIFICATION TO ASSET TAX

The House is reminded that during the tabling of revenue measures FY 2012/2013, it was announced that modifications would be made to the Asset Tax for non-financial institutions. In light of the continued policy deliberations, the decision has been taken to adjust the tax liability payable by the non-financial institutions with assets valued less than J\$50,000 to J\$5000 per annum. This reduction from \$10,000 to \$5,000 per annum will provide incentives to small and medium sized enterprises.

TOURISM

Mr. Speaker, with regard to the tax measures which affect the tourism sector, we have been having discussions with representatives of the sector and they have made a number of proposals which are being given consideration. However, let it be clear that, in the final analysis, the revenue targets outlined for the sector remain.

CONCLUSION

Mr. Speaker as we come to the end of this budget debate the most urgent task facing us is to build national consensus around a national effort to reduce the debt, and put Jamaica on a growth path. This will determine whether we continue to stumble along from crisis to crisis, or embark on a truly national effort to realise our potential for greatness. However, this national consensus must begin with a Parliamentary platform that unites both government and Opposition.

In opening the debate I made the observation that the best gift that this Parliament can give Jamaica in the 50th year of independence is a **NEW AND BINDING COVENANT** with the people of Jamaica; **to achieve in the first instance fiscal consolidation and debt sustainability**. We will demonstrate our willingness to make this gift by acting in a manner that provides the public with an example of the consensus we are asking them to join us in building.