
2007/2008 JAMAICA BUDGET CLOSING PRESENTATION

Dr. The Hon Omar Davies
Minister of Finance & Planning
Wednesday, May 2, 2007

A: INTRODUCTION

1. Important Budget Debate
 - Last before elections
 - Obviously affected presentations
2. Acknowledgement of other contributors
3. Will group responses under headings
4. Presentation structure as follows:
 - a. Specific issues
 - b. JPS
 - c. Fiscal responsibility
 - d. Economic model
 - e. Closing

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B: SPECIFIC ISSUES

World Cup Expenses

1. The Opposition has consistently taken issue with the expenditure, which has been incurred as part of Jamaica's preparation for World Cup Cricket.
2. Has some resonance with the public, particularly when the suggestion is that the \$9 billion spent would have been better directed at interventions in the social sectors, particularly to assist the poor.
3. Superficial, as any expenditure incurred is always at the expense of something else.
4. Yesterday the PM clinically dissected the objections, noting that we cannot wait until all "needs" are met before establishing some Points of Excellence.
5. Now we have a set of sporting facilities consistent with our tradition and presence on the world stage.
6. Secondly, a large percentage of the expenditure was on capital works, which will remain with us after World Cup and will benefit the society in the medium to long term.
7. The fact is, expenditure on the two stadiums was approximately US\$67 million and roughly 50% of that came by way of a very concessional loan from the Chinese. This loan was not in the form of cash and hence would not have been available to renovate basic schools, etc.

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8. Also included in the \$9 billion price tag are improvements to the health system, equipment and motorcars for the security force, additional buses for the JUTC, and improvements to the road infrastructure.
9. As such, the public should not be fooled by the notion that \$9 billion had been spent to host the seven cricket matches. Much of the expenditure has been on infrastructure which will benefit the total population.
10. I cannot think of one Jamaican who was not proud of the manner in which we conducted ourselves on show to the world during this period. The thousands who attended the Opening Ceremony and the matches came from all strata of society. It was a refreshing reminder of what we are capable of doing when we are united as one family.
11. Rather than doing what they do all too frequently, which is to see every single negative, let the members of the Opposition join in identifying ways in which these national assets can be maintained, consistent with Jamaica's pride of place internationally as a centre sporting excellence.

CAP

12. In his presentation, the Opposition Spokesman listed a set of public enterprises which he argued, represent a drain in the public purse. Included in these, he made reference to a company - Clarendon Alumina Partners which he indicated had accumulated a deficit of US\$84 million. He asked, how will this be dealt with?
13. Let me confess first that I had a difficulty, in that no one could find a company called Clarendon Alumina Partners. There is an entity called

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Clarendon Aluminum Production Limited, which I assume is what the Opposition Spokesman was referring to. It is ironic that he made this error, in that CAP was established during the last JLP regime when Alcoa temporarily closed the Halse Hall plant.

14. The Opposition Spokesman's interpretation of the documents appearing in the public bodies estimates of expenditure reflects a clear, unfortunate misunderstanding of CAP's accounts.
15. The accumulated deficit referred to in that document (page 111) is not a deficit to be funded, but rather details the losses that CAP has incurred over its 22-year history. These losses are stated as they can be applied against future earnings in order to reduce the company's tax liability.
16. This sum includes non-cash expenses such as depreciation. The fact is that CAP over the years has made a positive return on its operations. However, at this time, the demand for capital is extraordinarily high because it is undertaking special projects with a life time exceeding 25 years.

FSC

17. Again, I turn to another entity about which the Opposition Spokesman raised questions. This time it is the Financial Services Commission the FSC. Here he indicated that the Commission had accumulated losses for the last three years of \$120 million, and then exclaims "how ironic is this"!
18. Repeatedly, I have told the Opposition Spokesman on Finance, if ever there are issues about which he wishes clarification, he should just ask me and the information will be provided. In fact, his boss, the Leader of the Opposition, uses this **modus operandi** and calls me if he needs clarification on any issue.

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19. What is the problem with the FSC? The fact is that this institution was established as a self-financing entity which recovers the cost of regulation from the entities which it supervises. This has been the approach for all the sectors the FSC supervise, as the existing fee structures for those industries have provided sufficient revenues to cover regulatory costs.
20. The last area placed under aegis of the FSC is the pensions sector. Since 2000 FSC has incurred significant costs to put in place the required regulatory framework for that sector.
21. The costs relate to activities such as recruitment and training of staff, public education and other necessary steps leading to the establishment of a new regulatory regime.
22. As the corresponding legislation was not passed in Parliament until late 2005, the FSC did not have the legal basis to collect fees from the industry until March 2006.
23. The law provided entities and professionals in the pension industry with up to six (6) months to apply to the FSC and then these applications had to be processed.
24. The licence fees are paid by investment managers only upon approval. Therefore the losses by the FSC in the initial stages were inevitable.
25. The amount of fees collected for 2006/07 was in tune with projection but most was only received in the fourth quarter of FY 06/07.

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26. These fees were treated on an accrual accounting basis as deferred income which will be accounted for this fiscal year 2007/08.

Merger of DBJ/NIBJ

27. The Opposition Spokesman asked what has happened to the bad loans – e.g. to NETSERV and other companies. How will these bad loans be dealt with. Furthermore, he says this is the continuation of FINSAC in a different form.
28. In responding, I cannot resist the temptation to be a little naughty.
29. Let me go back to a presentation made by someone in this House nearly five (5) years ago to the date when he characterized being a debtor to FINSAC as being akin to “wearing a badge of honour”.
30. I do not know whether he wishes to accord the same accolade to those who owe DBJ/NIBJ.
31. The specific answer to the question is that the new DBJ management and Board have established a special unit to work on the bad loan portfolio of both institutions. As is the case with all bad debt portfolios, the assessments vary and the loans and the investments have been segmented between entities which it is felt can be placed back on the road to viability, as opposed to those where the best bet will be to maximize possible returns and finally these loans/investments which will need to be written off.
32. The MD has recently presented me with a “first cut” of these loans/investments and work is already ongoing in line with the three categories identified.

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C: JPS

1. I have decided to spend some time discussing the proposed sale by Mirant Corporation of its 80% holdings in the JPS to Marubeni Corporation of Japan.
2. All three speakers for the Opposition have in one form or the other raised questions about the sale suggesting that there needs to be greater public scrutiny and even wondering about Marubeni's credentials.
3. Let me begin by indicating that the Administration recognizes the critical importance of the JPS given that it is the major provider of electricity and holds monopoly rights for transmission and distribution. Furthermore, there have been developments and occurrences which speak to the need for continuing close monitoring of the activities of the firm.
4. However, these are not problems unique to Jamaica. Fact is - the regulation of utilities is an evolving "science" worldwide. In both North America and Europe, from time to time there are occurrences which present challenges to regulators. The energy sector is not one which can be administered like say banking or insurance where many providers can exist in the same market with the customers free to choose their supplier.
5. The capital costs involved in providing electricity require some exclusivity in service provision.
6. Have we got it totally right? The obvious answer is no. Over time there has been clear improvements particularly since the advent of the OUR. Whilst this is not a time to discuss the efficiency of that institution, whatever

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deficiencies have been identified must not be seen as the basis for condemning that entity's value.

7. Rather the question must be how we can bring about greater improvements - to ensure that simultaneously the customer is protected, national interest is protected and investors are treated fairly and in a predictable manner.
8. In all the discussion which is taking place about Mirant's performance, let us not forget that under State monopoly, whether by this Administration or by the JLP, JPS' track record left a great deal of room for improvement. Let us not forget extensive periods of blackout annually, caused either by inadequate capacity or unreliability of equipment.
9. Mr Speaker, simply put, I am appealing for us to view the issues dispassionately and as objectively as possible. I can indicate that I became fully converted to the need to privatize when JPS came to the Ministry of Finance in order to borrow to pay recurrent expenses, including wages and salary.
10. In such a situation how could that company raise adequate capital to finance expanding capacity?
11. That is the background to the decision to privatize.
12. I am not here to defend Mirant's period of ownership but the fact is that over the five-year period 2001-2006 energy generation has increased by 15%. The average customer minutes lost has decreased by 24% and in general, there has been improvement in service levels.

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13. The Opposition Spokesman on Energy has raised certain issues such as the need for the publication of the audit of the JPS billing system, as well as the results of an investigation into the tragic accident at the Old Harbour Plant. These are legitimate questions which will be responded to.

14. I now turn to the question of the proposed sale of shares to Marubeni by Mirant. First, the issue of the manner in which these discussions have been conducted.

15. I have noted with some amazement the demand for full public scrutiny of the negotiations leading to the agreement in principle, for Mirant to sell its shareholding to Marubeni. In fact, even in this House such a demand was voiced. In passing, I should note that I saw great consternation on the faces of some Opposition members, as they know that such a demand simply cannot be met.

16. Why? The fact is that until an agreement, in principle, has been reached between seller and potential buyer, any public utterance on such negotiations can lead to criminal charges as millions of dollars can be made through access to such confidential information whether the prospects are positive or negative.

17. If, for example, the prospects for a company are negative then one could profit greatly by off-loading shares in advance of public disclosure when the share prices would drop. Correspondingly, knowledge of an impending action which will improve share prices could allow someone to acquire shares of a company at bargain prices based simply on insider knowledge.

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18. For those who follow news on US business activities, they would be aware that even as we speak there are certain high profile business people in the US who will be spending time at the expense of the State for precisely such activities.
19. Let me once again place formally on record the fact that both the Minister with responsibility for energy and I met with the four leading contenders to purchase the 80% of JPS owned by Mirant. Let me also indicate that the officials from Marubeni have told us that they would have expressed no interest in the Caribbean holdings of Mirant were it not for the shareholding in JPS.
20. What of Marubeni itself? I was shocked and amazed when the Opposition Spokesman on Finance alluded to JPS being sold “to some other company in some far away place”.
21. Here are some facts about Marubeni. Marubeni Corporation of Japan is one of the biggest corporations in Japan and indeed in the world. In 2005/06 it had revenues of (US) \$26.8 billion with its gross trading profit being (US) \$4.4 billion.
22. Its credit rating is ‘A’ stable. It has 5,200 employees worldwide, 3,500 in Japan and 1,700 overseas.
23. The overall company has operations in 72 countries and in terms of its power generating activities it has installed capacity of over 72,000 megawatts.
24. Just to place things into context, the installed capacity of JPS is 623 MW.

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25. The above data would indicate that we are dealing with a big company, but furthermore, in terms of its proposed investment in Jamaica it is backed by the Government entity, JBIC (The Japan Bank of International Cooperation). JBIC represents a merger of Japan's Ex-Im Bank, and its OECF (Overseas Economic Cooperation Fund).
26. In 2006 JBIC's disbursement of concessionary loans, commercial financing and grants amounted to approximately (US) \$18 billion making it the biggest supporter of bilateral economic cooperation worldwide.
27. Whilst JBIC has been active in Jamaica, supporting several projects, e.g. Negril Water and Sewage, Montego Bay Sewage, Ocho Rios Cruise Ship Pier, this will be the first major support for a commercial investment in Jamaica.
28. A word to the unions representing workers at JPS and to the workers themselves. A critical element of the proposed agreement is that Marubeni is obliged to maintain the current compensation and benefits enjoyed by JPS employees.
29. Furthermore, during the transition period Mirant will continue to comply with all its obligations including the IDT ruling regarding the 2001 job evaluation and reclassification exercise. This has been confirmed to me in a letter dated April 23, 2007 by Mr William P von Blasingame, the Chairman of the Board of JPS.
30. I now turn to the actual financial transaction. The proposal is that Marubeni will purchase Mirant's Caribbean portfolio for a total amount of (US) \$1,082 million. However, of that amount, existing debts account for (US) \$350 million and purchase power obligations (US) \$153 million.

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31. This means that the portfolio cash equity value is (US) \$579 million. Of this amount the rest of Mirant's Caribbean portfolio (Trinidad, Grand Bahamas and Curacao) is valued at (US) \$215 million leaving Mirant's 80% interest in JPS at approximately (US) \$365 million.
32. Put another way, whilst the total value of Mirant's 80% holdings was approximately (US) \$800 million if we take out the debt which will be assumed by Marubeni and the purchase power obligations, the cash to be received by Mirant is approximately (US) \$350 million.
33. Is this too much? One of Jamaica's top businessman once told me that the only fair price in any transaction was that on which a willing buyer and a willing seller agreed. But having said that, let us consider that Mirant purchased the JPS in 2001 for (US) \$200 million and over the six year period has invested in generation expansion as well as improvements to the quality of service.
34. Let us not seek to condemn profits by making wild accusations. Rather, let us ensure that the rules governing the operations of the entities protect the rights of consumers but also provide an attractive environment within which investors, domestic and external, wish to do business.
35. I am aware that the principals of Marubeni have some concern about some of the comments which have been made locally. We need to reassure not just Marubeni, but all potential investors that when we say Jamaica is "open for business" we mean it.

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36. This is not a suggestion that there should be no rules governing business operations. However, once they have been laid out clearly and unambiguously and an entity abides by them, it is imperative that we do not seek to erode confidence in the country by making wild, baseless and uninformed accusations.

D: FISCAL (IR) RESPONSIBILITY

1. A major criticism of the Government's performance by the Opposition - particularly during the years that we have run a deficit - has been the need to take corrective measures to eliminate this deficit.
2. Even whilst there may be good explanations for the deficits, no one can question the validity of that objective.
3. And so in their presentations, both the Leader of the Opposition (LO) and the Opposition Spokesman on Finance spent some time pointing to the fact that the Government had failed to stick to its deficit target.
4. In fact, the Opposition Spokesman on Finance flattered me by quoting, at length, from previous statements I had made on the deficit. The truth is that there is only one way to close and eliminate the deficit. It is - after taking out capital spending - total expenditure must be financed from revenues.
5. Preferably, as the LO stated, at length, this increase in revenues should come from expanding the economy rather than through taxes or grants. So far, so good.

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6. One would have thought that having preached on this topic, we would have been faced with a clear presentation from the Opposition as to how the projected deficit of 4.5% of GDP for 07/08 could be reduced, putting us on the path to a balanced budget or even a fiscal surplus. But this was not to be.
7. I sat in amazement and listened as the LO and the Opposition Spokesman on Finance proceeded to make promises which when accumulated would have made the present deficit target of 4.5% look like a joke.
8. Let us review some of the promised “giveaways” starting with the Constituency Development Fund. The Opposition Spokesman on Finance says that this will be implemented by a new JLP Administration and it calls for 2½% of the budget to be set aside for this Fund, to be divided equally amongst the 60 constituencies.
9. As you know Mr Speaker, in the media world when speeches are circulated they often put on the cover page the request/instruction “check against delivery”. When the Opposition Spokesman said 2½% of the budget I checked his utterances against his written speech. In the speech it said 2% of the budget. Hansard will recall that I spoke to him and said “you have 2% in here”.
10. His response was “2½%, I made the correction”. Just to demonstrate the cavalier approach to spending. 2% of the budget amounts to \$7.6 billion. That is bad enough on its own, but the Opposition Spokesman in one sentence simply corrected his own text to increase that projected expenditure by another \$1.9 billion - to a total of \$9.5 billion.

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11. Is he serious? From where would these funds be reallocated? Which projects would be cut? Can anyone believe that one who wishes to project himself as a possible Minister of Finance could speak of increasing the budget by \$9.5 million in such a cavalier manner? But wait – the LO will not be left out.
12. All of us understand the problems faced by parents in terms of the cost of sending children to school. It is an issue which every Member of Parliament is aware of and there is a reason why this Administration, even whilst recognizing the burden, has not attempted to simply abolish school fees. But the LO would do this immediately on being elected. That represents a minimum of \$2 billion of additional expenditure.
13. But there is more. In a pitch clearly aimed to elicit populist response, the LO states that he would abolish all health charges. Last year fees collected at public health institutions amounted to \$1.7 billion. If we assume the same level of collection this year, this is what will be foregone under a JLP Administration.
14. But the health institutions are not collecting these fees, just to be wicked. They are using them to finance needed purchases to keep the facilities going and so someone would have to provide them with these resources to compensate for the abolition of fees. But we are not yet finished.
15. In an attempt to purchase voter support, the Opposition Spokesman now turns to the sugar industry and indicated that they had once articulated a plan to provide a subsidy of (US) 5 cents per pound to sugar producers. In case you thought that was an old promise/commitment, he himself clarifies it. He states “we stand by that commitment but the numbers have changed”.

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16. The LO does not tell us for how long this subsidy would last or whether it would be on all levels of production. He makes reference to output of 150,000 tonnes of sugar. We will not make that total this year. However, even if we produce only 110,000 tonnes this would immediately imply an additional \$20M of expenditure.
17. But we are not done yet. There are more promises. The LO promises that “we intend to establish properly equipped Regional Diagnostic Centres to be located at specific hospitals across the country so that poor people do not have to go home to die”. How many such centres are we speaking about? Does he have any idea as to what would be the cost?
18. Let us not try to paint a picture that the failure to provide everything free in terms of health care is simply a function of lack of care. The LO would know, and should have personal knowledge, that this Administration has sought to work in a creative partnership with private practitioners in the medical field to expand the number of private Diagnostic Centres and the sophistication of the equipment in them.
19. We have developed a partnership whereby all duties are waived on the equipment being imported by such centres and in return a certain level of service is provided to public patients through the Ministry of Health.
20. This is not the total solution, but it provides a credible way in which the quality of service can be improved on a sustainable basis.
21. Without counting in the cost of establishing and running the Diagnostic Centres – we are unable to do so as we do not know how many the LO intends to build or over what time period, we have firm commitments to expend an

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additional \$14 billion. But note - there is no mention of additional revenues. Hence rather than a deficit of 4.5% of GDP, we would have moved easily to one of 6.5% of GDP.

22. How should we assess these commitments? Is it that they do not understand the implications of these wild promises? Or is it that they do understand but assume that John and Jane Brown will be taken in.
23. I must express personal disappointment at these utterances. It is not becoming of leaders in a serious budget debate. Persons abroad, not understanding the games people play at election time, may take them seriously. What do we tell them? We just “running a joke”? Is that how we wish our budget debate to be assessed?

E: ECONOMIC MODEL

1. I believe the House and the Parliament waited with bated breath for the presentation from the Opposition on the economic model which they intended to pursue, were they to become Government.
2. The Opposition Spokesman on Finance stated explicitly “**I will outline plan a to grow and to develop the economy and will put forward a credible debt reduction strategy that will form an important component of this growth plan**”.
3. To paraphrase Mr. Marley – “We’re still waiting”.
4. The Leader of the Opposition spoke of the main objective of the government which he would head as “Jobs, Jobs, Jobs!!! Again, his presentation was not

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dissimilar just headline news. There was nothing “beyond or behind the headlines”.

5. I will spend some time looking at some of the proposals advanced by both speakers and with special emphasis on the “credible debt reduction strategy” promised by the Opposition Spokesman on Finance.
6. However, there are some preliminaries which we need to get out of the way. The first relates to the Opposition Spokesman’s presentation on “tax reform”. In this section of his presentation, he speaks of a “social security tax” involving the NHT, NIS, HEART Trust and “a new national health service”.
7. Growing up in the country – I do not know whether the same implies in town – we had an expression “bare face”. I could not believe that the Opposition Spokesman on Finance would advance this as an initiative from the Jamaica Labour Party. One would assume that he would have been gracious enough to indicate that this is a proposal which was advanced by this Administration for which technical work has been carried out. Furthermore, I sent the principal consultant to meet with the Leader of the Opposition and when he was finished, a copy of the technical report was sent to him. I cannot believe that he did not share this information with his Spokesman on Finance.
8. How in heavens name could this now be advanced as an initiative of the Opposition? Let me seek to put this initiative in its proper perspective and invite the Opposition to participate in the discussion leading to the consolidation of the statutory deductions - not the “social security tax” as he termed it.

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9. Furthermore, I assume that by claiming it, there is some implicit endorsement of the proposal and the country can hope that tribalism will not dominate the discussion of how we can proceed on this significant and important initiative.
10. Three Money Bills – I was also taken aback when the Leader of the Opposition indicated that the three money bills, which have been debated on different occasions in this House, would represent a critical plank in their new economic model.
11. I do not know whether during his absence from this House, the Leader of the Opposition lost track of discussions which had taken place in various debates on these bills. It was clearly established that not only were they irrelevant to Jamaica but the notion of fixing the exchange rate in an inflexible manner, had been totally discredited by various countries – most tragically, and spectacularly in Argentina.
12. The most obvious deficiency arises in situations where a loss of foreign reserves would automatically require an automatic contraction of money supply with possibly grave consequences for the domestic economy.
13. I thought, like everyone else, that the public declaration by the Opposition last year of acceptance of the Administration's exchange rate policy implied an abandonment of the three money bills. There is some confusion here and clarification is needed.
14. If the Leader of the Opposition is signaling that he wishes to reopen the debate he may wish to consult with his technical advisors to determine the consistency of that position with the announced endorsement the of flexible exchange rate system.

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15. If he wishes to reverse his position, the public deserves to know and we can resume the debate.

Measure of Unemployment

16. Let me turn to the way in which unemployment is measured – the Prime Minister took out the “long handle” yesterday but I believe that the issue is of such importance that we must revisit it.
17. The Leader of the Opposition and Opposition Spokesman on Finance spent a lot of time ridiculing the data published by STATIN on employment. Furthermore, whilst claiming that he was not seeking to quarrel with the statisticians, the Leader of the Opposition, sought to question the validity of the data produced.
18. He knows better than this, and he should know better than to engage in such practices. It is not worthy of someone who aspires to lead the nation and this Government. The fact is that all measures of employment/unemployment used by STATIN in 2006, are the same ones which have been used historically during JLP and PNP regimes.
19. However, we go further. The methodology used is the same used internationally, mandated by the ILO in terms of guidelines established for labour statisticians worldwide.
20. If the Leader of the Opposition is questioning the unemployment figures in 2006, he is also questioning it for all previous period. Let us not play games which could affect the credibility of our institutions.

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21. Let me hereby acknowledge the high esteem in which STATIN is held in international circles. Names such as Carmen McFarlane and Vernon James, former Director Generals of STATIN are revered internationally.
22. This was the same methodology they used in measuring unemployment in the 70's and 80's. Were they misleading us then?
23. The international standard definition of unemployment approved by the ILO is based on three criteria.
 - a) without work;
 - b) currently available for work
 - c) seeking work
24. These criteria are not a Jamaican concoction.
25. The unemployment figures in Jamaica are based on these three criteria and include persons who are willing to work but are not actively seeking to work, the so-called "discouraged workers".
26. If the point the Leader of the Opposition and Opposition Spokesman wish to make is that we need to go further and target the unemployed youth and women, then say so. We would have no difficulty in agreeing. However, let us never seek to score cheap political points by undermining the credibility of our institutions and our professionals.
27. Growth - I have carefully read both the presentations of the Leader of the Opposition and Opposition Spokesman on Finance. It has been difficult to discern how growth which we all agree is critical will be fostered by a JLP

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Administration. It is simply not good enough to say we need measures that have to be taken to stimulate production and employment creation.

28. Consider the Leader of the Opposition's pitch to the manufacturing sector. He proclaims "The manufacturing sector can be assured of the strong support of a JLP government".
29. What in heavens name would provide the basis for hope? What should members of the sector glean from such an empty statement? How does the Leader of the Opposition respond to the government's unprecedented increase in credit at reasonable interest rates to the production sector?
30. Speaking of interest rates, I was fascinated by the Opposition Spokesman's position on reducing interest rates through partnership with the private sector.
31. He stated, "a major component of the JLP's debt management strategy is greater cooperation with the private sector to lower the debt and interest rates for the mutual benefit of the Government, the private sector and the Jamaican people".
32. Can anyone claim to understand what in practical terms that means. Would he host a meeting at the Arena, or the Conference Centre and pass a resolution?
33. Debt Management Strategy - I now turn to what was heralded as the centerpiece of the Opposition Spokesman's presentation on economic growth. The section entitled "A Credible Debt Management Strategy"
34. There are some areas on which there is agreement e.g. carrying out a comprehensive audit of government's assets, with the objection of divesting

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those which could provide some resources to assist in paying down debt. The Port Authority is mentioned.

35. However any divestment of the Port Authority would need to carry with it a guarantee that the aggressive expansion programme in place would be maintained. Kingston is poised to assume pride of place amongst the ports in the Western Hemisphere.
36. There is also reference made to using proceeds of the PetroCaribe to paying domestic debts.
37. I have addressed this question on various occasions. To begin, this is explicitly listed in the condition presented to this Parliament for the use of the funds flowing from the PetroCaribe facility. However, I have been at pains to point out that there are other important objectives to which these funds can also be allocated, e.g. providing lower cost fund to the productive sector through Ex-Im and DBJ; also, to tertiary students through the Students' Loan Bureau.
38. Providing a stimulus for growth through properly administered credit is as good a use of these resources as paying down domestic debt. The fact is that, it is generally agreed that growing the economy is a priority objective.
39. The Opposition Spokesman also raised the point of the Jamaican Diaspora Bonds. Let me state that the Administration recognizes the value of our "kith and kin" living abroad and their potential contribution to economic development.

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40. However, let us be realistic. For us to believe that there is a host of wealthy Jamaicans living in the Diaspora who would be willing to purchase Diaspora bonds at a lower interest rate than they could obtain by buying other bonds (Jamaican and otherwise) is both naïve and simplistic.
41. I turn to what has been and remains the main plank of the Opposition Spokesman's debt management strategy - securing lending from multilateral agencies on Jamaican terms.
42. This is a proposal which has been advanced every year in recent memory by – the Opposition Spokesman. He is now fortified by his meeting with representatives from the multilaterals and boasts that he is now interfacing with the “big guys”.
43. In fact, he speaks of his meetings in South Africa and Washington with representatives of the IMF, World Bank and the IDB.
44. Mr. Speaker, let me be very clear for the record and for the information of the Opposition Spokesman.
45. The first point I wish to make is that Jamaica continues to maintain good relationship with the multilateral partners. Each year I meet with representatives of the IDB, CDB and the World Bank to discuss their loan programmes to Jamaica, to determine progress on existing projects/programmes and to determine what is possible in the medium term.
46. The results of these meetings are not secrets.

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47. Standard Operating Procedure – I am tabling a set of tables indicating these programmes for the three institutions over a period of 1990 to 2006.
48. IMF - On various occasions, I have pointed out to the House and to the Opposition Spokesman on Finance that we do not qualify to borrow from the IMF because we do not have a balance of payments problem.
49. Furthermore, even if we had such problem and qualified for IMF loans, the resources would go to the Central Bank to pay for imports and debts and would not be available for budgetary use. I have said it before and I repeat it.
50. As regards loans from the development banks, e.g. World Bank, IDB and the CDB, such loans are available for programmes/projects. Hence, contrary to the claim by the Opposition Spokesman on Finance, such loans cannot be used to refinance more expensive debt.
51. The Opposition Spokesman, in boasting of his new found friends and acquaintances in the international communities said he put forward the JLP's policies and they said to him "Mr. Shaw, what you are proposing makes a lot of sense" ... how condescending.
52. I wish to pose to him a question. Reference is made to his discussion with the IMF officials, it would be useful for him to tell the public and this House whether the IMF has since responded explicitly to his question as to Jamaica's ability to qualify for concessionary loans e.g. through its Poverty Reduction and Growth Facility (PRGF).
53. I invite him to tell the public whether he has had any response from the IMF indicating that whatever concessionary loans exist have to be targeted at the

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poorest countries and furthermore that Jamaica does not qualify because of its per capita income.

54. I am inviting him to tell the public what have his newfound acquaintances and high-powered Washington technocrats offered. Could it be that they have dismissed his entreaty about loans and suggested that they could provide policy advice and how to reduce debt through fiscal consolidation.
55. I urge the Opposition Spokesman to indicate what has happened since he posed his questions and he was assured that he was “talking sense”.
56. I note that “solution” to the debt problems lies with accessing more debt from the multilaterals which seems to be a central plank of the Opposition’s new economic policy. For example, the Leader of the Opposition himself referred to accessing additional support from the multilaterals to finance the educational transformation initiative.
57. Such a proposal is deficient for two reasons. The first is that, at best, the amount available from the multilaterals, regardless of how compliant they are will not be adequate to fund this programme. However, a far more significant point is that even if we do seek some funds from the multilaterals to assist with educational transformation, these resources must represent “topping up” of our own resources.
58. What the Administration is saying is that we are committed to financing the education transformation programme - not from new debt but rather from our own internally generated resources. That is one of the critical elements of the proposal, consolidation and rationalization of statutory deductions. This is a

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clear line of demarcation between our position on financing the transformation in education and that of the Opposition.

59. They, who have argued that we are already too indebted, wish to incur more debt. We say that this investment in human development must be essentially funded from our own resources.
60. In summary, at the heart of the position of the Opposition on debt management is to return to the reliance on multilateral funding agencies.
61. As I have said repeatedly, whilst we remain a member of these institutions, and will borrow from them, where such borrowing meets our criteria, their role in terms of financing programmes and projects in the future is a declining one.
62. This is not because we are rejecting cheap money which is offered. The fact is, they too wish to wean us.
63. In summary, the heart of the Opposition's position on debt management is flawed by being based on a false premise. They will have to do more homework and come back to the Parliament and the country with something more realistic.

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F: CONCLUSION

1. Mr Speaker, we have now come to the end of what has been an interesting debate. The debate comes at the end of a calendar and fiscal year in which both Mother Nature and the world economy treated us favourably.
2. As such, there are significant positives which have been highlighted by the Prime Minister, the Minister of Agriculture and myself in our presentations. No need to repeat them at this stage.
3. At the same time, the fiscal year coincides with the end of the first year in office of the new Prime Minister and we all know, whether it is stated explicitly or not, that there were many who were assessing her performance. The fact is that from the point of view of fiscal responsibility, there is no way to grade her stewardship other than with an 'A'. This has confounded those who expected a wild spending binge.
4. This fiscal responsibility has been further underlined and reinforced by the presentation of a credible budget for 07/08, with expenditure in real terms reduced compared to last year.
5. The budget has taken on additional significance as it presented the platform for a major debate on economic policies prior to the General Elections.
6. From the perspective of the Administration - yes, we have been in power for 18 years but whilst the achievements have been many, the real question is how will we address the new challenges for the medium and long-term?
7. We have placed those challenges frontally before Parliament and the people.

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8. But we have gone further and articulated realistic credible approaches to addressing them. Not only to deal with them, but to achieve higher levels of economic growth and more important greater social equity.
9. It is for that reason that we have not simply talked about pro-poor programmes, but have implemented them in education, in health, in social security. It is for that reason that we have put in place macro-economic policies which have attracted record levels of investment.
10. These are not claims which are even subject to debate. In fact, the main question posed by the Leader of the Opposition on various occasions has been why have not these record levels of investment translated into higher rates of growth and employment.
11. Mr Speaker, whilst the contributions of the Opposition speakers have been lively, they would represent what I would call “headline news”. However, when one seeks to probe behind the headline, there is very little in substance.
12. Furthermore, we have had wild commitments of additional expenditure of 2% of GDP without any corresponding revenue measures.
13. So even whilst the Opposition condemns the deficit target of 4.5% of GDP, they are committing themselves to increasing it through additional expenditure of \$14 billion to 6.5% of GDP.
14. We were promised, by the Opposition Spokesman on Finance that at the heart of his credible debt management strategy was to access increased funding

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from the multilaterals. He has come to Parliament bolstered by encouraging words from high ranking officials. “Mr Shaw, you are talking sense”

15. Now those officials have told him what I have been telling him for years. Jamaica no longer qualifies for special concessionary loans. By and large we are in charge of our own destiny.
16. So Mr Speaker, the choice before the public is clear. On the one hand, there is an Administration cognizant of the challenges, cognizant of the needs of the people, but even more cognizant of the requirement that we be credible in presenting solutions.
17. On the other hand, we are faced with an Opposition which is either unprepared or worse yet, prepared to promise anything including spending an additional \$14 billion which does not exist, prepared to seek additional funding from multilaterals who have indicated that such funding does not exist.
18. No one is fooled by wild promises which defy reality tests. Not domestic investors; not foreign investors; not foreign creditors; not the multilaterals and not the voters.
19. Mr Speaker, the choice is clear.