

CLOSING BUDGET DEBATE PRESENTATION TO PARLIAMENT

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OPENING REMARKS

Mr. Speaker, two weeks ago I invited this House and the nation to draw inspiration from the tremendous progress made during the single calendar year of 2010. I spoke of our success at side-stepping economic collapse when the global crisis hit us, halting our decade-and-a-half-long fiscal slide, and our success at stabilizing the Ship of State.

I invited you to consider what this meant about our innate ability, as a people, to face a crisis and to 'fight the good fight' until we emerged triumphant.

In the face of this year's challenge – making the transition *from stability to growth* – I invited you to reflect on the stuff of which we are made, and to use this self-knowledge as a tool to spur us to victory.

I also reminded you of certain facts about our economy – the sheer size of our debt obligations, for example – and I asked you not to be intimidated or be discouraged by them, however grave they appear, but rather to understand and to come to terms with these facts, and to use them as a means of plotting a realistic route to victory.

It is not my intention to retrace all of those steps today, for I believe the country 'gets it'. The country 'gets it' that Jamaica's problems are not skin-deep and that 'band-aid' solutions will meet neither the short-, medium- or long-term needs of our deserving and worthy family members. It has to be a game changing time for us.

Mr. Speaker, the country most definitely 'gets it' that we have run out of corners in which to hide and that Jamaica's economy – despite the gains made – remains in need of deep structural reform. The road will not be easy, but we can do it. But first we must take the time to size-up and understand the dimensions of the challenge before us.

Mr. Speaker, the very worst is behind us now, and the challenge before us is two-fold:

- maintaining the fiscal discipline required to meet our goals, and,
- ramping-up growth and earning our way to a first-class standard of living.

Mr. Speaker, the way forward involves understanding and dialogue, and I wish to thank all the members who contributed in this Debate.

Today, I will, as is customary, respond to some of the issues raised by the Leader of the Opposition, the Opposition Spokesman on Finance and the member from East Central St. Catherine.

Mr. Speaker, I will begin by outlining the basis of Jamaica's current economic reality, followed by a response to the various comments made by the Opposition. I will end with an outline of the policy measures arising from the Budget and targeted to stimulate aggregate demand in the economy.

JAMAICA'S ECONOMIC REALITY

Mr. Speaker, the decline in the Jamaican economy over the past three years can be largely explained by the impact of global economic and weather related events. The specific impact on mining, construction and agriculture has already been presented in my opening speech.

But Mr. Speaker, what has been a constraint to growth over the years?

Jamaica has had an extremely high level of external and domestic debt. Indeed, this debt burden has been a feature of the Jamaican economy for the past twenty years! Actually the debt nearly doubled during the period 1996/97 and 2003/04. This was the direct result of Government's response during Jamaica's financial melt-down.

This has, in addition to diverting resources from growth enhancing activities, encouraged shorter term speculative investments, given the increased macroeconomic risk. The country's high debt levels have also had considerable negative effects on the economy by causing upward movements in domestic interest rates, crowding out of private investment as well as public investment in social infrastructure. Accordingly, critical public sector investment, which was necessary for increasing the effectiveness of private investment, was inadequate.

Mr. Speaker, I want to quote from a May 2011 paper on - '*Jamaica: Macroeconomic Policy, Debt and the IMF*' from the Washington based Center for Economic and Policy Research:

"Jamaica offers a stark example of the long-term costs an excessive debt burden can impose on a developing country, especially when the interests of creditors are prioritized over the needs of the country as a whole. As demonstrated previously, Jamaica's debt burden has seriously constrained government fiscal policy over the last two decades. Public investment in the long-term productivity and development of the Jamaican economy has taken a backseat to debt servicing costs."

Mr. Speaker, the reality is that we are left with this legacy. We have not built the economy on a sound foundation. That is why we have had little or no growth, thereby leaving the economy so vulnerable to adverse shocks from natural disasters and high external commodity prices and financial crises, which then lead to increase in poverty. This is why we have had to change gears in order to put muscle back into the economy, to make it competitive again and to allow for investments to move from stability to growth.

The period not only reflected a doubling of the Country's debt stock and record high interest rates, but it also reflected a virtual execution of the entrepreneurial spirit. I quote from testimonials at the ongoing FINSAC Inquiry:

**1. Mr. Elon Beckford – former Bankers Association of Jamaica (BAJ)
President and former Chairman, Horizon Financial Services Group:**

“It will take generations for us to fully understand what the destruction in the then 90s of several enterprises built by the blood sweat and tears of hardworking, honest, trustworthy and creditable Jamaicans have done to the psyche of our nation. Lives were destroyed – many lives. We are producing a new generation of professionals who are frighteningly risk adverse. The period weakened our entrepreneurial spirit, energy and passion,”

2. Dr. Paul Chen-Young – former Chairman, Eagle Group of Companies:

*“FINSAC’s handling of the crisis was **“anti-entrepreneurial and lacking in any long-term vision”**. He said that, as a result, there will be less risk-taking and long-term investment in the productive sector.*

*“**Within a matter of months**”, Dr. Chen-Young said, **“the ‘Jamaicanisation’ programme of the financial sector was wiped out, and entrepreneurs, who had successfully run financial institutions until the 1990s crisis, lost their businesses and were summarily discarded.”***

3. Former owner of the famous Little Pub Hotel and restaurant, Keith Foote:

“The rapidly rising interest rates had made it virtually impossible for me to keep up with the payments. I remember a time in the 1990s when interest rates rose to 90 per cent,” Foote told the Commission. By that time, he had repaid \$15 million, but at a meeting in Kingston, arranged by the Jamaica Tourist Board (JTB), to help him, he was told he still owed \$33 million.

4. Seasoned realtor, Lascelles Poyser:

“I can easily empathize with my colleagues who have committed suicides. I was told there were persons in a similar position as mine, with FINSAC and JRF, who have committed suicide, or died of stress related ailments,” Mr. Poyser told the FINSAC Commission of Enquiry on Tuesday, March 15.

“My sojourn with the financial institutions, FINSAC and its affiliates from the 1990s to date has been very demoralizing and devastating, and I am left with the prospect of facing imprisonment, because I have been and may be found to be in disobedience of court orders with which I simply cannot comply...”

And in several unfortunate utterances made in this House – as recently as a few weeks ago, the previous Finance Minister bragged of how Mr. Pearnel Charles came crawling on his knees begging him to save his bank. I would never as Minister of Finance want to govern the country’s finances in such a way that business people should have to resort to such desperate measures.

It is an unfortunate period in our history which must never again be repeated.

And while thousands suffered under this hostile business environment, others were laughing all the way to the bank, the recipients of sweetheart deals left, right and centre.....Take the case of the Investment by the then owners of DBG in the construction of a hotel in Runaway Bay which was leased by Super Clubs...."

FINANCIAL SECTOR PREFERENCE

In the heart of the Financial Sector crisis, which destroyed so many thousands of businesses and peoples' lives, the then Government blamed the crisis on everything except themselves. They said it was mismanagement by the bankers; they said this mismanagement was because the Bankers did not focus on core banking but went into agriculture and tourism, amongst other investments.

Despite all of these allegations against the financial sector, on February 22, 1996 during the heart of the financial crisis, the Government of Jamaica through the National Investment Bank approved an equity investment in this hotel of US\$7 million.

The NIBJ's Board of Directors approved the equity investment of US\$7 million despite management's recommendation for the investment to be capped at US\$3.1 million. Further, Mr. Speaker, the management of the NIBJ said that granting the request for US\$7 million exceeded the entity's Investment Policy Guidelines. The Board of Directors that made the decision was comprised of 6 members, of which three were among the "who is who" of the PNP hierarchy.

As of today, the total investment by the NIBJ/DBJ in the project has risen to US\$18.1 million of which US\$12-15 million will most likely to be written off. Simply put Mr. Speaker, J\$1 billion to J\$1.3 billion of poor people's money is likely to be written off.

The project I speak of is Runaway Bay Development Company Limited (RBDL). A project sponsored by a company in which Mr. Peter Bunting and Mr. Mark Golding were two of three directors, and a related entity of Dehring, Bunting and Golding (DBG) of which they were major shareholders. At the time of the NIBJ's investment of US\$7 million, the promoters' total investment was US\$5 million of which US\$1 million was in cash.

Between 2000 and 2004 the RBDL restructured its debts resulting in NIBJ/DBJ becoming the major shareholder with an investment of US\$18 million of which only US\$3.8 million is secured. On the other hand, the promoters had an investment of US\$14 million of which US\$9 million is secured.

In 2006 the shareholders sold their shareholdings in the DBG to Scotia Bank. If this restructuring did not occur during 2000 to 2004, when the NIBJ injected a further US\$11 million, it is a high probability that the balance sheet of the DBG would have been impaired.

Mr. Speaker, NEVALCO Consultants Limited was the project managers. The same persons who were the Project Managers for Sandals Whitehouse, where there was a US\$50 million overrun. In Hedonism 3 the overrun was approximately US\$16 million. Mr. Speaker, the same complaints of Sandals Whitehouse by the operators have been made by the operators of Hedonism 3. As we all know, Mr. Alston Stewart, campaign director, of the Peoples' National Party, is the man behind NEVALCO.

Finally, Mr. Speaker, how hypocritical can we be? Members may remember when the then Leader of the Opposition was being ripped apart by the then Government because he did not charge any GCT to the operator of a hotel he then owned.

Would you believe that Hedonism 3 started operations in 1999 under a management agreement and GCT was never charged? In fact, the company RBDL was not registered for GCT. Only since the change of Government the new Board of RBDL recognised that GCT should have been charged and since requested a waiver/settlement agreement.

So Mr. Speaker, I am forced to ask the question where was the love for poor people when this sweet heart deal was being put together? Where was the empathy for the thousands of business people who were losing their assets at the very same time, while over 40 financial institutions were being closed? When I hear members of the Opposition talking about this Budget will benefit the rich, who did this sweet heart deal benefit?

Its time we stop the hypocrisy and start dealing honestly and truthfully with the people's business! We need to discuss the budget not with rhetoric but with truth and vision. That is where I will now I focus the remainder of my energy today.

RESPONSE TO OPPOSITION

ECONOMIC PERFORMANCE

- **Net International Reserves (NIR)**

Mr. Speaker, I responded to a query in the Standing Finance Committee that the US\$400 million raised earlier this year was not in the NIR. I was misinformed Mr. Speaker; the US\$400 million is in fact counted in the NIR since it is being held on account at the BOJ. I regret this error.

However, Mr. Speaker, this does not negate the fact that the NIR is at its highest level ever for Jamaica (US\$2.6 billion at end-April 2011). The Gross Reserves are similarly at their highest level ever. And Mr. Speaker, while there will be a draw down as debts become due later this month, the reserves have been quite robust for the last three years, and are projected to remain robust through the medium term.

- **A Historic Moment**

Mr. Speaker, for the first time in a long time the following condition prevails: the NIR is at a record level, inflation is under control, BOJ interest rates are at their lowest levels ever, and the exchange rate is stable and revaluing, and the economy is beginning to grow. We are now out of the recession.

- **Economic Growth**

Mr. Speaker, it is disingenuous of the Opposition Spokesman on Finance to downplay the magnitude of the global economic crisis and the impact it has had on countries like Jamaica. Countries in the region that enjoyed economic growth at an average of upwards of 5 per cent saw economic decline as a result of the global recession. Oil-rich Trinidad & Tobago, that averaged over 8 per cent annual growth in the decade prior to the global crisis (1997-2006), and which is even now benefiting from current high oil prices, recorded a decline in 2009 of -3.5 per cent and again in 2010 of -0.6 per cent.

IMF data show that for the last 16 years, countries in the region grew at an average annual rate of over 6 per cent (Trinidad & Tobago), 6 per cent (Dominican Republic) and 4.5 per cent (Belize). Jamaica, with no global crisis, hobbled along at 0.5 per cent average annual growth for the 16-year period. (Incidentally in 2003, when Jamaica grew at 3.5 percent – the one year of seemingly significant growth – T&T grew at 14.4 per cent, Belize grew at 9.3 per cent and Antigua grew at 4.3 per cent. Totally unacceptable Mr. Speaker).

Mr. Speaker, the Opposition Spokesman on Finance and the Leader of the Opposition can bring any bar chart and graph to this House. It simply cannot obliterate the fact that for the past 16 years this economy has only grown by a half a per cent a year and in the entire tenure of the previous Finance Minister. It grew by less than 1 per cent per year.

Growth Rates (Real GDP, %)

YEAR	1997	1998	1999	2000	2001	2002	2003
Jamaica	-1.0	-1.2	1.0	0.9	1.3	1.0	3.5
T&T	7.7	8.1	8.0	7.6	3.8	7.9	14.4
Barbados	4.7	3.6	0.4	2.3	-2.6	0.7	2.0
YEAR	2004	2005	2006	2007	2008	2009	2010
Jamaica	1.4	1.0	2.7	1.5	-0.9	-2.7	-1.2
T&T	8.0	6.2	13.2	4.8	2.4	-3.5	-0.6
Barbados	4.8	3.9	3.6	3.8	-0.2	-5.5	-0.7*

Source: Bank of Jamaica (*Statistical Digest*), Planning Institute of Jamaica (*ESSJ*)

*Estimated

- **Poverty**

Mr. Speaker I must acknowledge that the poverty head count has increased to 16.5 per cent up from 12.5 per cent in 2008. The highest since 2004. This is due to global recession as per the *Living Condition Survey*, Generally, Mr. Speaker the Survey found that 89.1 per cent of the country was aware of the impact of the global recession on the country's economy.

Mr. Speaker, poverty is a blight upon a people, and a scourge that must be drastically reduced if not eliminated. It should not be the subject of political gimmickery.

- **Social Safety Net**

The \$310 million downward revision in the JSIF budget in the last Supplementary Estimates, is not a result of a cut but as a result of delayed spending on contracts that could not be completely executed within the financial year 2010/2011. Implementation of these contracts was delayed as result of a number of factors namely:

- Increased Security Operations within Inner-City Communities
- The take-up of Bids/Tenders within Inner City Communities
- Tropical Storm Nichole
- An extended period of rainfall in October and November.

It is important to note that the revision had no effect on JSIF's ability to fund. JSIF funds were already committed to the projects identified. It is the **expenditure** that was not realized as a result of the factors mentioned resulting in the actual disbursement being carried over into the Financial Year 2011/2012. JSIF has been given the assurance and the 2011/2012 Budget reflects this shortfall amount that has been reserved to honour our commitments in this regard.

This was reaffirmed at a sitting of the PAAC at the time of the review of the second Supplementary Estimates.

We continue to increase expenditure on programmes such as PATH, the School Feeding Programme, access to free health care and education.

- **Increase In The Debt Stock**

Mr. Speaker, the Opposition Spokesman on Finance noted the increase in the debt stock which he said puzzled him. He asked - What was the additional debt used for?

Mr. Speaker, I am here to provide the answers.

Of the \$597.2 billion increase in debt between September 2007 and March 2011:

1. US\$400 million (J\$34 billion) is transitory, representing pre-funding of a bond payment;
2. \$117 billion or 19.6 per cent represents the effect of exchange rate movement and Consumer Price Index (CPI) indexation, significantly relating to the structure of the debt stock inherited in 2007;
3. \$44.8 billion represents External Guarantees secured to finance projects including the Airport Reform, Falmouth Cruise Ship Pier, and Jamaica Water;
4. Mr. Speaker, FINSAC cost the Government over \$140 billion and we continue to fund interest. In 2010/11 the Government issued \$3.9 billion in securities to the BOJ for capitalisation of interest on the Bank's holdings of former FINSAC bonds;
5. \$38.1 billion represents drawdown on loans which were contracted before September 2007;
6. \$53 billion represents new external project loans;
7. Some \$260 billion represents net new loans contracted for budget financing;
8. \$44 billion represents deferred financing and debt relating to Air Jamaica and the Sugar Company of Jamaica (SCJ).

In relation to debt relating to Air Jamaica and SCJ, as you will recall Mr. Speaker, the previous Minister of Finance was of the philosophy that he is a better manager than members of the private sector, resulting in the Government, through the Minister of Finance taking on the direct operations of Air Jamaica and SCJ. This policy approach had a significant impact on the country's stock of debt.

Air Jamaica was privatized in 2004. Losses in 2003 totaled US\$53.4 million. By 2005, losses jumped to US\$121 million peaking at US\$209 million in 2008. Total losses accumulated after government acquired the airline amounted to US\$550 million.

It is the same story for SCJ, acquired in 1998. Operating losses of SCJ in 1998 stood at \$1.2 billion. By 2007/2008 after Government took full control, losses more than doubled to \$3.6 billion. This is the kind of management that has led to an increase in the debt stock. This is our reality!

Mr. Speaker, in addition to the debt just outlined, a further \$25 billion representing Air Jamaica, SCJ and CAP debt will be brought to book in this financial year.

And Mr. Speaker, in regards to CAP, total debt incurred is now US\$440.0 million, which includes a US\$185.0 million subsidy for the forward sale agreement with Glencore. The liability could cost us over \$100.0 million more until the end of the Contract. This is why we are pursuing the divestment of CAP.

Mr. Speaker, the Opposition Spokesman on Finance has made allegations against the Jamaica Development Infrastructure Programme (JDIP) which are patently unfair.

The Minister of Transport and Works has already addressed the issues of transparency and is committed to ensuring the highest standards of work on the projects islandwide.

But Mr. Speaker, what we have to do is to resolve that projects are not overrun as happened in the past with NROCC and the North Coast Highway.

The case of the highway, Ocho Rios to Port Antonio, is a classic case of fiscal recklessness which we are bringing to an end.

A project which started out at a projected cost of \$5.86 billion or \$61.0 million per kilometre has so far cost the Government \$7.3 billion or \$76.0 million per kilometre (the maximum estimated cost at the time of completion of the project was projected at \$80 million per kilometre).

With a claim now made by the contractors, PIHL, of \$10.3 billion, this could cost the Government a whopping \$17.6 billion or \$183.0 million per kilometre, representing a cost overrun of over 120 per cent.

Mr. Speaker, it is this kind of scandalous fiscal irresponsibility that over the years has caused our debt to balloon and has become an albatross around our necks!

- **Silence on Fiscal Responsibility Framework**

The primary plank of this consensus I call: “from stabilisation to growth” is our fiscal management programme. A programme, Mr. Speaker, in which for the first time in the history of this country a Minister of Finance signed a binding commitment to the Parliament and the People to practice prudent financial management of the country’s affairs.

On April 28 I presented to this Parliament a profound document under the fiscal management programme; to my amazement nothing has been said by the Opposition in respect of this document.

Mr. Speaker, is it that the former Finance Minister does not, or has refused to recognize that fiscal policy and the Budget are now in transparent and responsibility mode? Not one member of the Opposition, including its Leader found it fit to comment on the tabling, for the first time, of the Fiscal Policy Paper which contains:

- a) The Macroeconomic Framework to be pursued over the medium term;
- b) The Fiscal Responsibility Statement of intent and commitment signed by the Minister of Finance; and
- c) The Fiscal Management Strategy providing the projected finances of the Government over the medium term and strategies with respect to revenue and expenditure measures designed to ensure achievement of the fiscal and debt targets.

The Fiscal Policy Paper, Mr. Speaker, commits the Finance Minister to a new paradigm of fiscal responsibility. The country must take note of the Opposition's glaring failure to comment on this new path. *The silence is deafening* which may just imply that the PNP administration is still on their track of fiscal looseness and profligacy.

Is this why the former Minister of Finance suggested that we can raid the TEF and the NHT because "without expanding the deficit". If he read these documents he would recognize that there is now an overall fiscal balance, surplus or deficit!

Well, Mr. Speaker that is the wrong track. That is a track that takes us back to irresponsible expenditure and high interest rates. The Opposition Spokesman on Finance should, heed the wise words of the famous Ska and Rocksteady group -the **Skatalites**:

*If you want to be on the right track
You gotta move along with me
You'll never, never be on the right track
Until you move along with me...*

- **The Budgetary Process**

Mr. Speaker, this is the first time in 20 years that the country's budgetary process is under such scrutiny. We are scrutinised by at least three multi-laterals: the IMF, the World Bank and the IDB. This self-imposed scrutiny is ongoing. I challenge the Opposition to question the integrity of the numbers. No longer can we hide things off the Budget, such as, deferred financing, issuing of promissory notes, and hiding expenditure in selected public entities.

In the new paradigm, we disclose all our expenditure and since 2009 we have tabled a complete Budget showing central government expenditure as well as all major public bodies' expenditure. Jamaica has never experienced open Government as is now being practiced. In fact, I will go as far as to say that the previous Minister of Finance does not understand some of the mechanics of the new system. Is that why there has been no comment?

On the issue of certain liabilities not being included in this year's Budget, Mr. Speaker we still operate a "cash budget". We need to stop tricking the Jamaican people. In this respect, the budgetary process is the same it has been for decades. We are indeed trying to move to an accrual system.

Mr. Speaker, I will not stop saying it, let us start to be honest and lift the level the Debate. Budgetary process is not one of those areas which we need debate on. Finally, I am begging the press to try and inform themselves of the many changes. We need to ensure that these changes become a part of the future norms.

The budget deficit is a not subject to any reasonable questioning! Surely the Opposition can find something else to debate. Let ideas and change contend.

- **Revenue Measures**

Mr. Speaker, the Opposition has argued that the revenue measures favour the rich.

Is it hard for them to understand that the only basis for wealth creation is to stimulate investment? While the Opposition's continued focus is to treat the symptoms only. We not only address the symptoms we go further and prescribe preventative measures. The opposition must understand that the only basis for wealth creation and uplifting the poor in our society is to stimulate investment; it is not in Government giveaways!

When will they realize that the socialist/distributionist policies of the past has no place in the world of today. You cannot reap what you have not sown and you cannot distribute what you have not created and you cannot forever borrow to give away, because when you do this, you are borrowing your way to greater poverty.

Mr. Speaker, I am pleading with the Opposition do not try to divide and conquer in the quest for power by setting the poor against the rich! We have done that in the 1970s and we are still feeling the effects of those unfortunate statements. Let us focus on the issue of how to combine labour and capital; both need each other to ensure growth in the future.

Let us focus our energy on sound economic policies, even if we disagree on how to grow the economy and this is where I am very disappointed in this Debate by the Opposition. To date, I have not heard one new idea as to what policies we need to change to ensure growth. After 18 years the Opposition is proposing the same policies, which have brought the economy to the current crisis that we are in. New ideas and new vision is what we need in criticism!

Mr. Speaker, we must move away from the Debate of distribution to a Debate of wealth creation. We will never have enough resources to distribute to the various demands... this is basic economics!

Therefore, Mr. Speaker, while we continue to increase the social safety net measures, most of the revenue measures presented are geared towards reducing the cost of assets and freeing up idle assets, thereby increasing their market mobility and hence, enabling their efficient use in production.

Take for example, Mr. Speaker, the purchase of a brand new Toyota Corolla:

A 2011 Corolla (basic model) with a landing CIF value of US\$13,370 or J\$1.15 million attracting the Customs Duty, SCT and GCT aggregate of 130 per cent will now attract duties of 62 per cent and the purchaser will experience a 32.7 per cent reduction in the overall price of his Corolla.

Therefore, Mr. Speaker, in this new duty regime, the overall price of the Corolla (CIF+Duty) would now move from \$2.65 million down to \$1.78 million, a saving of \$870,000! What about the taxi operator who can now look to purchasing a new vehicle for household? Is he a rich person?

The Automotive Dealer's Association (ADA) has endorsed the new tax regime and stated that the recent changes to the tax regime are expected to increase Government revenue because:

1. The market will be stimulated by price reductions leading to an increase in sales;

2. The incentive to under declare CIF values at customs will be removed;
3. The tendency to abuse Concessions will be removed;
4. Discretionary waivers will be made redundant by the tax reductions;
5. The transaction speed will be improved because of the elimination of most of the concession process due to the CET being changed to 20 per cent.

In the case of estate duties, the Leader of the Opposition was wrong in her calculation, and her Opposition Spokesman on National Security said that poor people don't benefit from lowering estate taxes.

Referring to the Opposition Leader's comparisons of an estate valued at \$40 million and another at \$6 million. The Tax break on the \$6 million property amounts to \$235,000 and not \$19,000 as she stated. Do the math again Opposition leader!

Mr. Speaker, the reality is that thousands of people of modest income could not afford to pay the 7½ per cent up front death taxes to free up those titles. Now they will only pay 1.5 per cent.

It is ignorant of the Opposition Spokesman on National Security who said on a TV programme that estate duties are not for the poor. What of elderly persons who have property but cannot afford the transfer costs? This is a major boost to freeing up idle assets.

We have been talking about tax reform for over a decade. We have had recommendations, borne of reports such as the Matalon Tax Policy Review Committee in 2004 and numerous reports from both the Inter-American Development Bank and the International Monetary Fund, among others.

Today, I am tabling a Green Paper on Tax Reform for Jamaica. The Green Paper provides a synopsis of the central pillars of the medium term tax policy framework which we are seeking to pilot; it gives an overview of the general and specific reform proposals, namely but not limited to changes in the GCT Rate and the Income Tax Rate.

The feedback from the public, especially, the Opposition is important, in arriving at consensus on the measures that can be implemented in this financial year and over the medium term. The aim is to simplify, broaden the base, improve compliance and infuse a greater level of equity than what currently exists. The extent to which the aforementioned aims can be accomplished will determine the impact on growth and competitiveness.

The cards are on the table. Please read the document. Please weigh the options. In all this, we have to be mindful of the impact on the most vulnerable segment of the population and ensure that items that comprise the food basket of these groups are not threatened.

It is my hope that this tax reform initiative will be one of those issues that is truly non-partisan and that all groups – private sector, international development partners, non-governmental organizations, academia, civil servants, among others – will share their views but put the national interest above self-interest.

GROWTH INDUCEMENT STRATEGIES

Mr. Speaker, as outlined in my Budget presentation, the Government's broad strategic priorities for FY2011/12 and through the medium-term are economic growth, job creation and competitiveness, underpinned by crime reduction, tax reform and public sector transformation.

It has been proven that infrastructural development is one of the most effective short- to medium-term catalysts for rapid economic expansion. Against this background, the Jamaica Development Infrastructure Programme (JDIP) should augur well for economic growth. The programme is expected to provide a boost to the current state of weak

aggregate demand through its positive impact on consumption. In total, that is, between Central Government and public sector bodies we have committed to spend \$140 billion in infrastructural projects.

Mr. Speaker, in relation to the new tax measures, the reduction in transfer tax on deceased estates has the potential to increase investment activities through capital availability and wealth effects. The revision of the stamp duty on the refinancing and transfer of existing mortgages as well as the abolition of transfer tax and stamp duty on the transfer of corporate bonds will serve to increase competitiveness in the financial sector and will lead to lower interest rates. The revisions made to the import duty structure on motor vehicles will lower the cost of automobiles and will provide an opportunity for retooling within the transport sub-industry with newer and more efficient vehicles leading to lower maintenance and repair costs.

The provision of credit from external sources through the EXIM Bank, Jamaica Mortgage Bank and Students' Loan Bureau, at concessionary rates, will serve to increase the domestic loan pool, provide more funding at cheaper rates for the export sector, the housing sector and the advancement of education and training and engender further rate reductions in the wider economy. In particular, the initiation of specialized loan products for exporters and the agri-business sector should stimulate additional activities within these industries.

In summary Mr. Speaker, the policy measures from the Budget are targeted to stimulate aggregate demand in the economy while contributing to the process of fostering sustainable growth in the medium-term. The incentives and tax reforms will positively impact investment decisions and lead to greater production and wealth creation.

CONCLUSION

And so, Mr. Speaker, I end where I began two weeks ago: with a call to action.

We have no choice but to make 2011 Jamaica's '*Come Back*' year. The conditions for growth may not be perfect, but we cannot remain in suspended animation until they are. We must seize this moment created from stability and make a run for the tape.

And we must start seeing possibilities again. Mr. Speaker, there are events that took place last year that, had they been suggested to us last January, we would've dismissed as being impossible. But somehow the tough got going, and we managed to make lemonade out of our lemons. We did it with crime and we did it with interest rates – two issues which we had almost come to accept as intractable.

And we can do it with growth and development.

As we prepare for the future, let us begin with some honest evaluation. For a long time we managed, like the juggler, to keep all the balls in the air. For a long time we allowed high margins and quick returns to seduce us into believing that Jamaica was growing. But the truth is we were running a 'Madoff' economy. And as every schemer eventually finds out, you can't duck reality forever. Eventually, payday comes. And it did for us. We side-stepped default, but we certainly have the debt stock and an under-developed economy to show for it.

Last year was a turning point. Last year we banded together and took our first step down from that carousel-to-nowhere we had been riding for a decade. The debt exchange gave us some breathing room, and the IMF and our multilateral partners came to our rescue at a critical juncture. All in all, we did well, and we managed to achieve 40-year low interest rates, single-digit inflation, historic-high gross reserves, and a stable Jamaican dollar – all occurring at the same time, even as the economy began to grow in the last quarter.

Mr. Speaker, the conditions may not be perfect, but we have made considerable progress in creating a more pro-development climate. Cost of funds is decreasing, crime is in retreat, and the third side of the triangle – competitive energy costs – is being worked on, even as we all must resolve to conserve on energy. It is time for us to take that educated leap of faith and get the country growing again.

We need to nurture a spirit of optimism.

Optimism is a habit, take my word for it. All my life – as a parent; as a businessman who had to feed his family; as an investment marketer at JAMPRO in the 1980s – that exciting era of investments and job creation; and now as a Minister of Finance – all of my life I have found optimism to be an indispensable quality to possess. ...an essential instrument in our tool-kit.

Without a sense of optimism, Mr. Speaker, I could never have held fast to the belief that Jamaicans had a right to single-digit interest rates, and to have had the audacity to pursue them. Yes, even in the face of negativity and ridicule, optimism will inspire us to believe we can be prosperous again, and to work with missionary zeal to achieve it.

Mr. Speaker, optimism is what makes our Economic Management Team envision a Jamaica with ‘developed country’ status; with champion growth rates, high-end jobs, a high per capita income and a rosy future – not twenty years from now, not for our grandchildren to enjoy, not in America – but right here in Jamaica; before we grow old.

It is my prayer that you will ‘catch the vision’ too, and that it will drive you to work 26-hour days to make it happen.

We must dream big again. With big dreams and hard work we can turn this ship around – ahead of schedule and in fine-style. We owe it to ourselves to make the effort.

All of us have a role to play, but as always, I throw out my biggest appeal to our sector leaders. Whether you lead a private firm or public entity, a non-profit organization, church or community-based organization, establish a sub-committee and challenge your team to brainstorm ways to fast-track Jamaica's way out of debt and into prosperity.

Along the way, I ask you to remember that not all the answers to 'a better life' are to be found in accounting journals and public expenditure. Some of our most valuable 'line items' are not in the Budget, they are to be found within our hearts.....'line items' like decency, neighbourliness and setting a good example for our young people. These are the things that do not cost money or require additional fiscal space. Yet they are qualities that give dignity, and meaning, and richness to our lives and our national character.

Mr. Speaker, since that terrible tragedy that brought a premature end to the lives of three students in my constituency, I have been thinking non-stop about how we can build layers of dignity in our lives – especially for our children. Tapes found on the ill-fated bus contained material totally inappropriate for the ears of our school children.

I urge you to be a part of lifting our standards, and to develop a plan of action in your community to achieve it. Economic progress will mean nothing if we leave our values behind.

Mr. Speaker, it has been a good debate. A year of work awaits us all. With the help of the Almighty we can make this a banner year for Jamaica. If we ask His help He will not fail us, but let me leave you with the wisdom from an old Quaker saying, "When you pray, move your feet". And the Gideon Society – that leaves a Bible in every hotel room – tells us: "Leave no unguarded place."

Mr. Speaker, let us pray that God will give us the wisdom to work unceasingly together to put Jamaica on the right track, whether we rise or we fall, as leaders we will be called blessed and we will be called game changers.

We must together be devoted to the well-being of future generations rather than be prisoners to the political opportunism of the next elections.

As we approach our 50th Anniversary as a nation let us go forth with confidence to build a new Jamaica.

May God bless you all, and May God bless Jamaica.

Audley Shaw, MP
Minister of Finance and the Public Service

May 11, 2011