

# **PROTECTING JAMAICA'S GAINS**

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BUDGET DEBATE 2016/17**

I am thankful to the people of the Constituency of East Central St. Andrew who have been continuously faithful to me since I entered representational politics in 1994; and who have once again honoured me with their confidence and returned me to this Honourable House as their Member of Parliament.

I also want to express my appreciation to the Leader of the Opposition The Most Honourable Portia Simpson Miller for the confidence she continues to place in me. She has requested and I have agreed to continue making my contribution to the people of Jamaica, this time as Opposition Spokesman on Finance and Planning. I endeavour to serve the Jamaican people, this Parliament and my Party with humility and sincerity.

No expression of gratitude is too great for my wife, my children and the rest of my family, who continue to be a tower of strength and a haven of comfort in good times and in not so good times.

I must express my apology to Members of this House for my inability to have attended the opening of the Budget Debate and the presentation of the revenue measures by the Finance Minister last Thursday. In a conversation and formal letter, I had extended my personal apology to the Finance Minister, and he indicated his understanding of the circumstances that resulted in my unavoidable absence.

## **OPENING**

Budgets, represent the main instrument of both economic and social policy. I intend today to examine whether this Budget is faithful to the requirements of Jamaica's social and economic development at this time.

I shall examine the state of the country and its performance under Jamaica's Economic Reform Programme in which the Jamaican people sacrificed so much and worked so hard to secure the success of the economy and their own progress. I want to thank the people for working with the previous government: The public sector workers, tourism workers, taxi drivers and many others.

I will also examine the Expenditure Budget, and the revenue measures and the implications of both for the economic and social progress so earnestly desired and needed by the Jamaican people and for which, so many including workers, pensioners and others have sacrificed so much. I, for one, will always appreciate the support they gave to Jamaica's Economic Reform Programme. Is the present government on track with the economic programme which is supported and accepted by the people or is that vital programme now at risk?

## **CONTEXT**

Before I present a more detailed critique of the expenditure estimates and revenue proposals, I want to provide this House and the nation with the context of where the country is and where we are coming from.

This budget that is before us for consideration is two months late, in relation to the timetable set out in the fiscal rules approved by this House last year. That is understandable given the fact of the elections and a new government having to be formed. It is absolutely essential however, that we ensure for the future that we meet the targets and the deadlines set out in the Fiscal Responsibility Framework.

We need to recall the grave financial and economic challenges our country has faced, and the bold, deliberate and successful steps that have been taken to surmount those challenges and improve the lives of our people. We need to measure the progress that has been made and assess the challenges that remain.

## **THE PROBLEM OF THE DEBT**

As I have said many times before in this House, the chief stumbling block to the country's ability to grow and to provide the many jobs and better quality of life so urgently needed by our people is the high level of public debt.

For over forty years, the country has accumulated a massive public debt and failed to implement the policies necessary to ensure improved productivity, or a sustained expansion of employment and innovation which would lead to greater production and higher incomes for workers.

As a consequence, our average national income in 2012 was the same as it was in 1971; but our debt was approximately 6 times more. By 2011/12 "story had come to bump" as they say. Our debt was unsustainable.

Jamaica was spending approximately 80 cents out of every dollar of revenues paying back loans and debt-service charges. Only a woefully inadequate 20 cents out of every dollar earned by the country, remained to invest in new roads, schools, hospitals, police stations, training facilities etc. necessary for the country to make progress.

In 2011, when we on this side won the election, Jamaica's public debt was the highest in the Caribbean and among the highest in the world.

One of the most reliable measurements of indebtedness of any country is the debt to GDP ratio as this gives an indication of the capacity of the country to take care of its financial responsibilities including providing social services for its people.

The higher the Debt: GDP ratio, the deeper the financial hole that the country is in and the more vicious and continuous will be its cycle of poverty and underdevelopment.

In 2011, Jamaica's debt to GDP ratio was high at well over 140%. The country was therefore in a very deep financial hole.

The Government then, which is again the Government today, had unilaterally abandoned the Stand By Agreement that they negotiated with the International Monetary Fund. With that programme having “gone off the rails”; so bad was the situation that the Prime Minister then (and now re-elected) promised “bitter medicine” to the country given the urgency of the situation.

Not only was our debt unsustainable, but our economy was uncompetitive. As a result, our balance of payments on the current account was in deficit; (put simply we were spending more money in foreign exchange than was flowing in). Inflation rates were close to 10 per cent and poverty and unemployment were unacceptably high.

It was in this context that the then Government, led by the Most Hon. Portia Simpson Miller, negotiated a Four Year Extended Fund Facility to support and give international approval to the country’s economic programme – that Agreement carried with it weighty and difficult prior conditions. These prior conditions were made all the more stringent because of the flagrant disregard that the Government of 2007-2011, (and now the Government of the day), had for the economic programme and targets they had agreed to. These prior conditions included:

1. The continuation a freeze on public sector wage increases (excluding regular increments for the 2012-2014 contract period;
2. A re-scheduling of domestic debt (the NDX)
3. A significant increase in public sector revenues in order to achieve an increased primary surplus target given the failure of the previous programme under JLP Government.

To fix the economy, stimulate growth and to give Jamaica and Jamaicans a better chance of progress, we fashioned and implemented the Economic Reform Programme, supported by the IMF and other multilaterals. It was bold and ambitious, but a necessary programme aimed at:

1. Reducing the public debt to a level of 96 per cent debt to GDP by 2020 – a target critical for creating growth;
2. Undertaking public sector reforms including Tax Reforms to make Jamaica an easier place in which to do business; and reduce the economic burden on the Jamaican people.
3. Improving public financial management to ensure the sustainability of public finances.

## **RESULTS OF THE ECONOMIC REFORM PROGRAMME (ERP)**

What were the results?

- To give the Jamaican people a better quality of life now and in the future, we brought down the Debt to GDP ratio from 140% to 124% by the end of the last fiscal year 2015/2016. We had programmed to bring it down to 120% by the end of this budget year 2016/2017.
- The Debt Service/Tax Revenue ratio has fallen from 67.3 per cent in FY 2012/13 to a projected 48.5 per cent in FY 2016/17. That means by the time we left office, Jamaica was no longer spending 67 cents out of every dollar the country earns to pay

debt, but we were SPENDING only 48.50 cents out of every dollar to pay debt leaving more money to invest in our people.

- That was a remarkable accomplishment by our Administration.
- As a result there was more money available to support priority social programmes. The country was in a better position to invest in education, in health care, in youth programmes, in programmes to assist people with disability, in the protection of our children.
- We created a balanced budget for the first time in decades and were running a surplus on government operations.
- In other words, we were living within our means and utilizing available resources to invest more in the people and to respond to national emergencies. That was not easy, but it was absolutely critical to give the country and our people a fighting chance for a better life and a better future for our children.
- Following a surplus of 0.4% of GDP in FY 2014/15, the overall Public Sector generated a larger surplus of 1.4% of GDP in FY 2015/16. Up to when we left office, the overall Public Sector was expected to generate surpluses over the later years of the medium term. That was prudent, responsible management.
- Jamaica recorded a Current Account surplus on its balance of payments of (US\$39.4mn) for the March quarter of 2015, the first in nearly 15 years (since 2004 to be exact). The Current Account deficit of the Balance of Payments (BOP) declined from 8.1 % of GDP in FY 2013/14 to an estimated 2.4% of GDP for FY 2015/16 and it was programmed to remain close to 3.0% over the medium term. This means that the country was earning and retaining more foreign exchange flows.
- When inflation is low, the Jamaican people are spared high and frequent price increases.
- When inflation is low the people are less burdened.
- When inflation is low, people with resources - small and large, in Jamaica and overseas, have the confidence to invest and generate more economic activity.
- Through the economic programme we implemented, inflation was brought down from some 7.5 in calendar year 2012 to 6.4% in 2014 and further to 3.7% for calendar year 2015. For the fiscal year to March 2016, inflation was 3.0 per cent, the lowest rate in almost 50 years.
- During our period of managing the economy, there was some depreciation of the Jamaica dollar against the US dollar. However, with the narrowing of the gap between Jamaica's inflation rate and the inflation rate of our trading partners, the rate of depreciation of the Jamaica dollar slowed considerably up to February this year.
- The country's Foreign Exchange Reserves increased from US\$884.3 million at end-March 2013 to US\$2.4496 billion at the end of March 2016.
- The average unemployment rate fell from 15.2% in 2013 to 13.7% in 2014 and further to 13.5% in 2015.
- We created more than 20,000 full time jobs each year; In fact, 31,000 for the 12 months up to January this year according to the latest job numbers released by STATIN.
- Add to that, more than 60,000 part time jobs through the JEEP programme.
- Both Standard and Poor's and Moody's rating agencies upgraded Jamaica's credit rating in June 2015. These were followed by a rating upgrade by Fitch in February 2016.

- Jamaica moved up 27 places from 85 to 58 out of 189 countries in the World Bank's "Doing Business 2015" report.
- As a result of the improved business environment and increased business confidence in the economy, there were new investments and advanced plans for new local and foreign investments in Tourism, Renewable Energy generation, Business Process Outsourcing and Call Centers, agriculture, mining and others areas of the economy.
- The increased business activities coupled with the proper management of the macro-economy, resulted in the early signs of GDP growth. We recorded growth of approximately 1 per cent in 2015.

None of us is satisfied with this level of growth, but we know, the multilaterals know, the local and global investors know, the Jamaican people know, that Jamaica had finally got its economic fundamentals in order and was poised for sustained higher levels of growth now and in the years ahead.

- When the members of the Government were in Opposition they used to criticize us for passing tests. We are proud that before we left office we passed all 11 ECONOMIC reviews. Ironically, the Finance Minister who then objected to the passing of tests was pleased when last week he announced that Jamaica has passed the 12th test for the quarter ending March 31. We on this side applaud Jamaica's success. It was based on the work that we on this side did. I particularly want to congratulate all the public officials who worked to ensure Jamaica's success in this regard.
- Because of our unblemished record of passing consecutive economic performance reviews
- Because of the remarkable improvements in the country's macro-economic fundamentals
- Because of our good management of the economy-
- Because of our better than projected reduction of the debt;

We were able to successfully negotiate a reduction in the primary surplus target under the economic programme. We secured a reduction in the target from 7.5 per cent, to 7.25 last fiscal year, and to 7 per cent for the current year.

What is particularly noteworthy and indeed disturbing is that for all his talk last week about macro-economic targets and about growth, the Finance Minister made no mention at all about the centrality of the problem of Jamaica's Public Debt.

There is no quick fix, it is hard painstaking difficult work of making choices and seizing opportunities. Our debt reduction efforts were facilitated by the Petro-Caribe debt buy-back.

That reduction of the country's primary surplus target freed up some \$8 billion which we agreed would be used to finance a range of growth-inducing projects. These projects were to create jobs, stimulate greater economic activities and encourage greater levels of economic growth. The search for economic growth is not the exclusive purview of those on that side.

It is also absolutely essential that we remind this House and the country of the fact that the current Economic Programme had a novel feature, unique among all such programmes; specifically, I am referring to the floor on social expenditure. That is a limit below which social expenditures would not fall. Indeed, we exceeded the targets every year and kept our

faith with and commitments to the most vulnerable segments of the society through investments in social programmes.

More specifically, over these three years, pensions payments for public sector workers increased by 66 per cent. PATH payments increased by 30 per cent - higher than the rate of inflation or the rate of depreciation of the Jamaican dollar. In addition, investments in programmes like JEEP aimed at easing the effects of the adjustment programme, were increased.

Through our bold and prudent tackling of the fundamental challenges in the economy, we on this side bequeathed to the people of Jamaica the legacy of a better, stronger economy. We encourage the Government of Jamaica to secure this legacy for the Jamaican people. And we call on the people of Jamaica to be active in defending those gains they have made.

## **GROWTH**

One issue on which we are all agreed is the need for greater levels of growth both in production and employment. Where we may differ is on how to bring this about.

Growth is the result of proper planning, coordinated action, and continuously doing the right things in the economic management of the country. Growth comes not from deficit budgeting but from building up surpluses, national savings and ensuring less debt, and more investments to improve the performance of factors of production including importantly raising the skill levels of people through education and training. Growth results also from facilitating higher levels of innovation, through the application of science and technology to production. Growth will involve more and more Jamaicans starting their own businesses and getting onto the playing field of production.

Growth comes when owners of capital have the confidence to invest, expand, employ more people and pay them more because they are more productive and enter the workforce with a higher quality of education and training.

Growth is the product of partnership between businesses and government to expand production and keep the cost of inputs to production low.

The previous Administration left in place a coordinated growth strategy involving major new private and public investments to deliver high levels of sustainable growth. This included major investments on economic infrastructure such as highways, road and ports to act as catalysts for growth.

- The North-South highway has been successfully completed involving a total foreign investment of US\$730 million.
- Cabinet approval had been given for land acquisition and financing arrangements to be settled for the Harbour View to Morant Bay leg of the Southern Coastal Highway.
- The privatization and expansion of Kingston Container Terminal was on track with the signing of the concession agreement and the mobilization of funding by the concessionaire.
- Technical feasibility studies were being done by China Harbour Limited for the submission of Environmental Impact Assessments other detailed proposals for the

development of port infrastructure and an industrial park in the Portland Bight area of Clarendon (Goat Island Project).

- The passage of the Special Economic Zone Act laid the foundation for the development and expansion of economic zones and industrial parks including the Caymanas Economic Zone.
- Additional BPO operating space was being built to add more jobs to the 18,000 we created.
- Investment in 9 established agro-parks and development of several others in Westmoreland, St James and Hanover.

#### Energy Projects

- JPS will replace the existing Heavy Fuel Oil Power Plants at Old Harbour and Hunts Bay with a 190 MW Plant fuelled by Liquid Natural Gas.
- Co-generation plans at Jamalco in Clarendon
- Co-generation plans at Alpart and creation of industrial park
- Conversion of Bogue Power Plant from Heavy Fuel Oil to gas
- Billions of dollars in Wind and solar energy investments
- In addition there were numerous Tourism Projects started and to come:
  - A third Secrets resort in Montego Bay
  - Riu Montego Bay
  - Bahia Principe
  - Karisma Hotel
  - Royalton Trelawny and Negril
  - Harmony Cove
  - Celebrations Jamaica, Rosehall, Montego Bay
  - New hotel at the former Oceana
  - Braco Resort, Trelawny (completed and opened)
  - Moon Palace Ocho Rios (completed and opened)
  - Marriott New Kingston (completed and opened)

These have started to provide jobs and drive growth.

Don't forget either, that it is the increase in this Capital Budget that was directly negotiated by this side and which was the direct result of the fiscal space created by the Petro-Caribe debt buy-back. The sustained expansion of the Capital Budget will over time continue to be a major driver of growth.

Growth without social inclusion, social mobility or indeed social justice or indeed financial inclusion will not satisfy our striving for a more equitable society nor will it achieve the rate of advance which Jamaica seeks. For this reason we appointed the Governor of the Bank of Jamaica to Chair a Financial Inclusion Task Force and I am pleased to see that the Government is continuing this initiative.

For the same reason we emphasized a small business component in the Foundations of Growth and Competitiveness loan signed with the World Bank. We also included a special role in our programmes for providing low interest rates and business advisory services through the Development Bank of Jamaica and other institutions for small business operators.

Most of all, it should be clear that we will never address the issue of poverty and social exclusion unless we have a new deal for the Jamaican Farmer and a new dispensation for Jamaican Agriculture. We are pleased indeed that we were able to reduce Jamaica's food imports by more than US\$300M. But that represents just a start. Agriculture still represents the single most significant sectoral employer of labour, which for the most part is low-waged and low productivity labour. A new deal for Agriculture must involve:

- Competitive access to productive land in a fair and transparent manner for Jamaican producers
- Expanded Advisory Services for farmers
- Expanded involvements in irrigation
- A total re-organization of the often abused system of licences and tariffs which in many instances stifles agricultural production

We had secured advisory support from the International Development Bank (IDB) to work on the diagnosis for the changes. It is urgent - yet not a word was said about this by the Government.

### **Expenditure Estimates**

We turn now to the Budget Estimates directly.

Any objective assessment of the 2016/17 Budget must be undertaken against the background of the likely overall impact of the budget on lives of the people of Jamaica and in the context of the targets of the Economic Reform Programme.

The Budget is the main instrument of Economic Policy for the country and a prime indicator of the overall economic and financial strategy of the government. Unfortunately, what we are seeing from this Budget is a blatant disregard for prudent and responsible economic management and a failure to protect the gains made by the country, for which so many of the Jamaican people have sacrificed.

When we stop to think that today the main cause of our persistent poverty, and the main explanation for the less than adequate quality of the public social services most of our people receive is the high levels of public debt which, I am astounded that the Government has retreated from the path of debt reduction set out in Jamaica's Economic Reform Programme.

The forecast for the 2016/17 budget is for the debt: GDP ratio to remain flat at 124.5 per cent where we brought it last year.

This is a deviation of 3.5 per cent from the firm path which we laid up to 2015/16 and is the clearest indication we have that, if we are not careful, the objectives of Jamaica's Economic Reform Programme may be jeopardized to the detriment of the people.

The Fiscal Policy Paper has given a clear indication that we have drastically slowed the pace of reduction of the debt. There is an 8.3 per cent projected deterioration of our debt to GDP ratios by 2018/19, by the government's own numbers.

I urge the Administration to put in place credible programmes that will correct this deterioration and prevent future high and recurring fiscal deficits which drain the economic

life blood of the country and cause hardship for the people. Economic growth rests on fiscal responsibility, the improvement of the macro-economic fundamentals, the transformation of the business climate and the continued reduction of unsustainable public debt. There can be no sustainable progress, no prosperity if we do not fix those things.

That is what will set the framework for creating high quality, good paying jobs and providing the services and social investments required for raising the standard of living of the all the people.

As I have said, debt diverts vital resources which should otherwise be used for growth inducing investments, or for improvements in Education, Health, and Community services.

The Government says that they are committed to debt reduction but in reality they are worsening the problem.

We note that total expenditure is projected to grow by 9.1 per cent over last year. In keeping with the relaxation of the primary surplus targets negotiated by the previous government, it is the capital side of the budget which is showing the increase by 31% over 2015/16. We must emphasize that the reduction of the primary surplus targets we negotiated on behalf of the country was to be spent exclusively on agreed Capital projects which would enable greater levels of growth, including irrigation systems, rural roads, and water systems, etc.

On the recurrent side, that is the side that covers the basic operational expenses of the government, the situation is different; and it is here that, I have major concerns. The Budget here is smaller in real terms; although in nominal terms it is 7.3 per cent more than the expenditure for last year. However, when we take into account the fact that this Budget will have to pay out additional travelling and other benefits to public sector workers; and when we take account of projected inflation of about 5 per cent, the result will be less resources in real terms to provide the services needed by the people.

I have no intention here of belaboring the point in respect of each Ministry. But there is no doubt that key areas of the country's operations will be compromised by the inadequacies of the re-current budget.

Take Education, , we all agree that Education and Training remain the single most important source of social mobility; personal advancement and National Development for the Jamaican people. We all agree that everyone should have access to education and that more resources are needed. The Education Budget on the recurrent side is essentially the same in nominal terms as last year which means that it is in effect 10 per cent less in real terms when we take account of the projected inflation rate of 5 per cent and the more than 3 per cent addition on salaries and allowances.

So, despite the provision of some \$200M from HEART to support the CAP Programme, there really is no adequate provision of resources to support the much announced removal of auxiliary fees, and the expanded lunch programmes. These are admirable objectives, but without adequate resources what we have are mere announcements: Pure talk. As the principals have pointed out it makes no sense to remove resources from the schools and ask those same schools to deliver more with less. The children will suffer and the quality of education will deteriorate in order to fulfill an opportunistic election promise that is short-sighted in the extreme.

It cannot be sound budgeting policy to cut spending on security when we are facing a sharp spike in crime rates in recent months and when murders are becoming more vicious and brazen. When we consider that much of this criminal upsurge is directed at the nation's children, it is also a travesty to so whittle away the state's capacity to respond by effectively cutting the Budget of institutions like the Children's Advocate even as we ask that office to do more. But that is exactly what has been done.

For the Office of the Children's Advocate, the budget for goods and services has been cut from \$30 M in 2015/16 to \$19 M in this budget. And the Compensation Budget from \$65 M in 2015/16 to \$56 M in 2016/17. And these unconscionable cuts are being administered even as the Office is being given increased responsibilities to counteract Human Trafficking among children.

The resources being made available in the budget cannot meet the needs of the Jamaican people in critical areas like Security, Health, Education or Child Protection which are all essential for sustaining the well-being and advance of the Jamaican people.

We have to ask ourselves the question as to the reliability of the overall budget numbers, when we further take account of the fact that it includes no provision in either the Central Government Budget or Public Bodies for the take-over of two sugar factories at Monymusk and Long Pond. This is likely to add a half a billion dollars to the budget which is not provided for.

There are further amounts owing – J\$3 B for the Jamaica Public Service Company for street lights which, and while properly to be charged to the Parochial Fund will have to be settled by the government. When additional charges come on to the Budget for the operations of the sugar factories for example, these will add to the deficit and further set back the crucial debt reduction strategy and economic growth efforts.

If this happens we would once again -

1. Jeopardize the Economic Reform Programme;
2. Reduce the amount we should be providing to protect the most vulnerable in the society;
3. Lose the confidence of domestic and foreign investors which we have built up over the last four years;
4. Jamaica's sovereign credit ratings could be downgraded;
5. The cost of securing funds on the Domestic and International market would be increased and;
6. While they claim to be reducing austerity, this sham budget is in reality going to make life harder for the Jamaican people and set back their progress.

## **REVENUE MEASURES**

It is not only the Recurrent Budget that is a sham; the financing programme for the 2016/17 Budget set out by the Minister also lacks credibility. The projected increases in revenue, not including new measures, are over-stated. The numbers are suspect and this makes the Budget presented unsustainable and unrealistic.

The anticipated tax revenue of \$445.5bn is 8.2% or approximately \$34B higher than the revenue out-turn of \$411.8B in 2015/16.

The main areas of increase are Customs, GCT, STC and Income Tax. With respect to Customs, the full implementation of the ASCYCUDA system should assist with the level of inflows so, in that regard, the projected 9.7% growth should be possible.

GCT – However, is another matter. It is projected to increase by \$18.3B or 13.2%. When this is looked at, against the background of the projections for inflation 5.8% and the rate of real GDP growth 1.8%, it raises questions about the reliability of this target. It is unlikely to be achieved.

SCT – A similar situation arises with respect to the projected growth in S.C.T. A significant portion of the SCT is levied on a fixed rate basis (i.e. on increases in volume) and will therefore not grow in line with nominal GDP. So again, the government is projecting a 9.7% increase in revenues (i.e. to say in volume of consumption), which is not likely to materialise to \$8.1B. I ask, therefore, where will the 9.7% growth in this tax type expected to come from?

The projected growth of 6.3% in Income Tax; 7% from Corporate and 2.7% from individuals is questionable, particularly the 2.7% growth in individual income tax. It is important to note that:

1. PAYE income tax paid by public sector employees is a significant component of this tax, and in 2016/17 the GOJ's wage bill is projected to grow by only \$300 M.
2. The full year's cost of the increase in the income tax threshold, approved by our previous government in 2015/16 and which became effective on January 1, 2016, will be felt in fiscal year 2016/17. This is estimated to result in a loss in revenue of \$1.3 B.

Where is the growth in Individual Income Tax expected to come from?  
Personal Income Tax

The opposition supports increasing the tax free portion of income tax – both personal and corporate to increase wealth. We raised the personal income tax threshold three times since 2012. Earlier, we on this side had reduced the rate of personal income tax from 33 1/2 per cent to 25 per cent. We reduced the corporate income tax. Our policy is to reduce both personal and corporate income tax over time as the economy improves through proper management.

Our policy is to provide real tax relief that the economy can afford without having to impose massive tax packages to pay for those increases.

Now, I turn to the tax package announced by the Minister with so much fanfare. It is good that the Minister has acknowledged, finally, that their estimate of costs were false. We had indicated at the onset, that the plan they outlined was unworkable.

What has been presented NOW, is NOT WHAT WAS PROMISED. Let me remind all of what was promised:

1. Relief from income tax for workers earning up to a maximum of \$1.5M; thereby releasing up to a promised maximum of \$18,000 per month to some workers.
2. You said this income tax relief would be implemented without imposing new taxes.
3. You said Government revenues would not be affected nor would the relief be inflationary.

### **WHAT HAS THE GOVERNMENT DONE?**

1. Effective July 1, 2016 the tax threshold will be increased to \$1,000,272 for all individuals
2. Income in excess of \$6 M will be taxed at a rate of 30% instead of 25%
3. Effective April 1, 2017, the tax threshold will be increased to \$1.5 million for all individuals

There is no April Pay Day.

There is no \$18,000

There is no \$1.5 M threshold.

As we on this side said in February, it was not possible without the people being forced to pay for pay for it dearly. So now there is only a plan to increase the income tax threshold in phases starting in July, financed by \$13.8 B in new taxes starting last week. So what you have is not \$1.5M or \$1.5M plus. It is \$1M plus tax.

- It is a \$1M threshold plus immediate taxes on all Jamaicans
- The promise of \$1M plus reduced spending on social services; and
- The promise of \$1M plus hardships

And the taxes levied will not be achieved. Therefore, the amount expected to be raised from the additional 5% rate on those persons earning over \$6 M will no doubt force those persons to engage in elaborate tax planning to avoid the additional taxes as they did in 2011. This is a failed approach which was tried before by this same government and it did not work. They never learn.

It is important for the country to understand the following:

1. The full year cost of increasing the threshold to \$1.0 million is \$16.5 billion (because the \$12.5 billion is only for 9 months).
2. The second phase of the threshold increase proposed for April 1, 2017 and the full year impact of the July 1, 2016 threshold increase will result in a loss of revenue in 2017/18 of \$20 B.
3. The current transfer of \$11.4 billion from the National Housing Trust will end with 2016/17

Taken altogether, this means, **THERE WILL BE ANOTHER MASSIVE TAX PACKAGE IN 2017/18.** It is also clear from the unreliable budget numbers that the Government will impose additional taxes on the people of Jamaica later in this financial year. They did it before. They imposed four tax packages in 2009-2010. They will do it again.

SCT – The imposition of the SCT of \$7.00 per litre on automotive fuels will lead to price increases in transport cost for all Jamaicans including helpers, security guards, school children, pensioners and other poor people as the transportation sector cannot absorb these increases. Most of these persons will not benefit from any tax break. The taxi fare price hike has already started.

Pump prices for gasoline and diesel used by motorists has been increased by \$7.00 plus the margin adjustments from the marketing companies and retailers. This is seeing the price at the pump moving up by between \$9 to \$17 per litre.

Light bills for all, individuals and companies, will also be increased as the diesel fuel component used by JPSco, except for power from Bogue which has a waiver, will attract the SCT of \$7. All fuel costs are usually passed on to the consumer.

The costs of all goods and services will increase due to increased transportation cost.

In light of the above, there is bound to be an inflationary impact.

I just want to make this point clear: The previous administration's imposition of the \$7.00 SCT on fuel was not inflationary because it occurred in the context where oil prices were declining so there was not an increase in the price of fuel at the pumps. Currently world oil price is trending upwards certainly above the US \$36 on which the budget is based.

SCT on Liquefied Natural Gas (LNG) & Heavy Fuel Oil (HFO): The Minister announced the imposition of an SCT regime for LNG and the revision of the HFO regime.

The Minister has indicated that the removal of GCT from LNG and the replacement with the imposition of a Specific SCT, as well as an ad valorem SCT on LNG were done in order to make the treatment consistent with that applied to competing petroleum products.

In an attempt to reduce the country's reliance on diesel and HFO, the JPS has retrofitted at a cost of almost \$3 B, its major power plant at Bogue in St. James to use LNG. At present, the GCT charged on LNG would be fully recoverable as the supply of electricity attracts GCT.

The proposed removal of the GCT and its replacement with the SCT, which is not recoverable, implies an incremental cost that would have to be absorbed by JPS or passed on to the consumers who use electricity for Industry, commerce or residential purposes.

LNG will not come into use until about August when the retrofitted Bogue plant should become operational. So the government will only start collecting from this revenue source in the second half of this fiscal year.

Heavy Fuel Oil is used largely by JPS and manufacturing entities that use boilers in their production processes. These companies would similarly not be able to recover the tax as they are able to do now. Manufacturing entities adversely affected include the sugar industry.

Subsequent to the Budget Presentation, the Minister is quoted as saying that JPS will not be affected by the tax measure. If he was quoted accurately, the targeted \$1.4 B tax intake may also be in jeopardy. The taxes on fuel highlight the illusionary aspects of this budget.

There is this illusion of adequate revenues. Persons who earn below the current threshold will receive no benefit from the tax relief but they will face the rising costs of electricity, bus and taxi fares, as well as transportation costs built into the carriage of goods to the market and supermarket ,plus electricity .

SCT on Tobacco Products: There is a proposed increase of \$2 per stick on all tobacco products excepting unbundled tobacco. I have no objection to taxing tobacco products but it would be remiss of me not to warn about the impact this increased tax might have to encourage the illicit trade and result in a loss of customs revenue.

Increase in Departure Tax:

The imposition of an additional US\$20.47 on Departure Tax has taken Jamaica above our competitors in the Caribbean in terms of the total taxes on airline tickets. This has major negative implications for tourist arrivals. This move has reduced Jamaica's competitiveness as a tourist destination. It has the distinct possibility of impairing Jamaica's ability to attract airlift particularly from low cost carriers. This is also of concern given:

1. The normalisation of relations between Cuba and the USA
2. And the softening of markets in Europe and Canada

There is need to evaluate what impact this measure will have on the existing and planned investments in the Tourism sector given that sector's importance as the main driver of economic growth and job creation at present.

The fact is that, after all these tax increases, even the person who is supposed to benefit, will be worse off.

Take a worker, Mary – earning \$7,000.

- Her savings from the threshold increase is \$2,640 per month;
- All of this and more will be used up in –
  - Taxi Fare increase,
  - Electricity bill increase,
  - Water rate increase,
  - Food cost increase,

...and more arising from the tax package instituted by the government.

For many, this is a “con” or “Samfie Trick” pure and simple.

Give with one hand and take more with the other.

It is the same for Donald earning \$1M.

- His savings are just \$2,146 per month.
- He, likewise, will face increases in
  - Gasoline for car
  - Electricity and Water rate
  - Cost of food and clothing etc.

These increases will more than use up his “benefit”.

## **SUMMARY**

- On both the recurrent side and on the revenue side this Budget is a sham. It is unreliable. The numbers don't add up.
- It was put together to satisfy a JLP election promise which was not feasible at the very outset. As it turns out, the only feasible way was not the way they proposed, but by raising the threshold and imposing a major Tax Package.
- Even now as it retreats from the position that there would be no taxes the government is still not being forthright with the country. The Budget as presented requires \$33.7B in new tax revenues - \$13.8B is introduced in new measures – which suggests that the remainder is to come from compliance. Neither will compliance provide the \$20B
- Nor will the \$13.8B result from the new measures

The fact that the IMF Team is returning in July specifically to look at Tax Reform should be a signal that there is more to come this year.

What is more is that, we are only facing the first phase of the “promise”. Next year the remainder, (in fact the larger portion) of the so-called commitment has to be met at the same time as ways will have to be found to replace the \$11 B that had to be voted from the National Housing Trust to support the Debt reduction strategy. So at minimum, we are looking at an even greater Tax Package next year.

We on this side are not averse to raising the threshold. We did it three times in the last three years. But it must not be done recklessly in a manner that puts the entire country at risk.

This Budget was put together in furtherance of a power-seeking election gimmick. The Minister did not speak to Public Sector Reform or Reform of Pensions and Public Sector wage policy which are all essential elements of a long term growth strategy.

## **CONCLUSION**

The challenges which most of us face today have been with us for too long. Too many of our people – whether it is Miss Edna of the Gully-bank or Red Hills Road or Lloydie in Maxfield Park or another citizen in Catherine Hall, in Mobay or Greyground in Mandeville – wake up every day facing the challenges of poverty and low income. They have to fret to find the doctor bill if they get sick or to meet the light bill and live hand to mouth from pay-bill to pay-bill.

The issue is not whether or not this situation must be changed; the question is now to change it. How do we create the conditions that offer the prospect of jobs and improved wages, and social services, including better education, better health-care and more security for all Jamaicans?

In order to achieve this there is no quick fix. We must reduce the public debt and contain expenses, while using the resources to provide the critical infrastructure that will boost

production and productivity that will improve wages and salaries. The government in their quest for elections promised wildly. Now they have broken the promise. There is

- No April Pay-day
- No \$1.5 M
- No \$18,000.00

Instead, the JLP promises that swept them to power will be paid for by the farmers in Litiz and Kellits – and by the school children and their parents paying more for taxi fares to go to school.

The moral legitimacy of the government has been lost. But we must insist on our side that the prospects for the Jamaican people not be sacrificed.

We will insist that:

- The debt reduction continues so that real growth can be accomplished
- We will insist on the reform of the Agricultural Sector in order to raise rural incomes
- We will be demanding fair treatment for the poor and the vulnerable and our children through realistic budgetary provisions.
- We will cooperate on behalf of what is good
- But most of all we will protect the gains made by the Jamaican people.

I have in this presentation, provided this House and the nation with a synopsis of the challenging road the people of Jamaica have walked as a country over the past four years.

I have presented the data that demonstrate the important economic recovery the country has started to make, laying the foundation for a significantly better life for all our people.

I have contended that the Budget is not consistent with the path necessary for the preservation of those national gains. In doing so, I have recommended some necessary correction to economic management and the implementation of social policy.

The Opposition wants what is best for the country. We are committed to working with the Government and all sectors of the society to achieve that.

That is why I have highlighted the many sacrifices and commitments that the Jamaican people have made together to create a sustainable path to growth and a better life for all.

We want what is best for Jamaica. That is why we took the bold decisions and disciplined actions to improve the economy, reduce the debt, invest more in the people and launch a range of major growth projects.

We on this side are committed to creating a better life for the Jamaican people. That is why we insist that the Government must protect the gains made and not waste the sacrifices of the people through a budget that is deceptive, oppressive and unreal.

We will not be silent on this matter.

As Mahatma Ghandi once reminds us: “Silence becomes cowardice when the occasion demands speaking out the whole truth and acting accordingly.”

It is our pledge to continue speaking out the whole truth while working towards a shared vision for the growth and development of the great Jamaican nation and its remarkably talented people.

That vision compels us to call on the Jamaican people, and to mobilise every sector of our society, to be active protectors of the important social and economic successes that Jamaica has made.

That must be the foundation of a better life for all.