



## Ministry of Finance and the Public Service



Honourable Fayval Williams, MP  
Minister of State



# SECTORAL PRESENTATION 2017

GORDON HOUSE,  
TUESDAY, MAY 9, 2017

**THEME** | ENABLING INCLUSIVE ECONOMIC  
GROWTH AND JOB CREATION



**Ministry of Finance and the Public Service**  
**Enabling Inclusive Economic Growth and Job Creation**

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## **1. INTRODUCTION**

Thank you Mr. Speaker:

Mr. Speaker, it is for me a tremendous privilege, to be standing in this honourable house once more as Member of Parliament for St. Andrew Eastern and State Minister in the Ministry of Finance and the Public Service. I thank the people of St. Andrew Eastern for their belief in me and their hard work to ensure our victory on February 25<sup>th</sup> 2016.

I thank the Honorable Prime Minister and the Minister of Finance and the Public Service for their confidence in me. I am grateful to my entire family for continuing to stand with me, my husband and our two daughters especially, my management team, my councilor and caretaker councilor, our worker core, community and business stakeholders, for whose support I cannot over-emphasize appreciation and thanks. I thank God for making all this possible.

May I hasten also to express full appreciation to the team at the Ministry of Finance and the Public Service for their work. Since coming to

government, I have an even greater appreciation for the dedication and hard work of the staff.

I also want to join my colleagues MP's as well in acknowledging the former Prime Minister of Jamaica and former Opposition Leader, the most Honorable Mrs. Portia Simpson Miller, and to say that your becoming Jamaica's first female Prime Minister of Jamaica is a milestone for women, regardless of our political choice.

Mr. Speaker, my primary goal continues to be to work with my colleague MP's and all other stakeholders to ensure that this economy moves from poverty to prosperity in our generation.

In my inner city communities, we are restoring community centers bringing in technology and programs to empower and engage our young people so they can find meaningful jobs. We are building peace, especially in communities such as August Town. I want to take this opportunity to salute the August Town peace builders, the churches, the police and the residents who have tirelessly worked for peace.

In my middle class communities, already I have started to restore parks while I focus on raising the bar for service delivery.

## **2. Enabling Inclusive Economic Growth and Job Creation**

Mr. Speaker, my presentation is entitled “Enabling Inclusive Economic Growth and Job Creation” and so I want to begin by saying we have much to be proud of in 2016 and already in 2017.

- GDP growth in the Jamaican economy accelerated to 1.4%, the highest in 4 years. You would have to go back to 2011, our last time in office, to see a higher figure than this.
- There was a sustained level of optimism and confidence in the Jamaican economy across both businesses and consumers in 2016.
- Almost two-thirds of firms reported that it was a good time to expand their productive capacity to take advantage of future economic opportunities.

- A majority of our firms expect improvements in their financial prospects as well as growth in profits.
- In the financial sector, asset quality improved significantly during 2016. Non-performing loans as a percentage of total loans declined from 4.1% at the end of 2015 to 2.9%.<sup>1</sup> This outperformed the global average of 3.9%.<sup>2</sup>
- Monetary policy implemented at the Bank Of Jamaica has facilitated a 14.8% expansion in bank credit to the private sector in 2016. This growth represents a significant acceleration relative to the increase of 9.6% in 2015 and was above the average growth of 11.4% for the previous 5-years. This bank credit was largely denominated in local currency, a show of confidence in the local currency.

Mr. Speaker, I am done yet.

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<sup>1</sup> Bank of Jamaica Annual Report 2016).

<sup>2</sup> <http://data.worldbank.org/indicator/FB.AST.NPER.ZS>

- We have established a financial inclusion council to address access to capital, increased competition in the banking sector, promote agency banking and the use of mobile money.
- We are seeing foreign currency deposits to total deposits decline again after racing from 36% at the end of our prior term in 2011 to 48% at the end of 2015.
- Our junior market companies, new and existing, raised approximately \$830.6 million in financing to expand their businesses.

Mr. Speaker, I will give one more.

- Employment, which is the ultimate test of a government, has also been moving in the right direction. At January 2017, twenty one thousand nine hundred more persons had jobs than in January 2016. Of this figure, ten thousand one hundred more women and eleven thousand eight hundred more men were gainfully employed in a variety of industries. We know, Mr. Speaker that

the “best way for poor people to leave poverty for good and experience prosperity is for them to get good, well-paying jobs.”<sup>3</sup>

Unemployment at 12.7% in January 2017, although still high by any measure, is moving in the right direction versus the 13.3% in January 2016.

Mr. Speaker, the economy is moving in the right direction, 5-in-four.

Mr. Speaker, last year I said, in my sectoral presentation, “The Ministry of Finance and the Public Service, is at the heart of Jamaica’s economic and fiscal policy development, playing an important role to ensure mobilization of public resources for the whole of Government.” But, as I said then and will say again, “It is not only about the budget and holding the line on expenditure.

It is also about how we at the Ministry proactively and intentionally support the other ministries, department and agencies so that they successfully provide the highest level of roads, education, health services, citizen security, garbage disposal, and other social services for the Jamaican people. It is about how to accelerate the reforms to allow

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<sup>3</sup> Shared Prosperity, p40

our government to respond with speed in service delivery to the people of Jamaica; how to widen and deepen our capital markets to get financing to the far corners of Jamaica; how to facilitate the private sector so there is job creation and sustainable employment for Jamaicans.

Ours, Mr. Speaker, at the Ministry of Finance and the Public Service is an unwavering commitment to fiscally sound, fiscally responsible budgets **and** an unwavering commitment to inclusive economic growth and job creation. Our budget, Mr. Speaker, is a critical lever for mobilization of all our capacities, a critical lever of change for our shared prosperity.

And so I say again, Mr. Speaker, we have much to be proud of in 2016 and already in 2017 as we look across the various Public Bodies, Ministries, Departments and Agencies, we are enabling inclusive economic growth and job creation:

Here are a few examples:

- From MEGJC (Ministry of Economic Growth and Job Creation), we are building out space for the BPO sector, an industry that employs roughly 25,000 persons currently.
- From MSET (Ministry of Science, Energy and Technology), we are increasing our renewable wind energy;
- From NWC (National Water Commission), we are expanding the water supply into parishes such as St. Elizabeth. Residents of Newell, Bigwoods, Bethany and others are to benefit.
- From the Ministry of National Security, we are spending to equip and boost the crime fighting capabilities: installing more cameras, upgrading police stations and facilities, improving the mobile capacity.
- From the Ministry of Labor and Social Security, we have launched the Jamaica Empowerment Partners for Persons with Disabilities to advance the inclusion agenda of the disabled, which is to include employment and workforce integration.

Mr. Speaker, the economy is moving in the right direction. Allow me to offer a few more examples in which we are enabling inclusive economic growth and job creation:

- From the Ministry of Transport and Mining, the bauxite industry has begun to see major investments of some US\$2 billion; more than 3,000 persons are expected to be employed. There was seamless transition of ownership from an uncertain future at Noranda Jamaica Bauxite operation in St. Ann to a company called New Day, creating opportunities and a more stable future for the workers. Mr. Speaker, CMI is now CMU.

Mr. Speaker, the economy is moving in the right direction.

- From our Ministries, we passed legislations including the Special Economic Zones Act, Local Governance Act, and the International Corporate and Trusts Service Providers Act.
- From the Ministry Of Education Youth and Information, we abolished mandatory auxiliary fees at secondary schools and increased funding to these institutions. We allocated \$300 million to hire part-time sixth-form teachers; schools were funded with a

first payment by June to enable early preparation for the new academic year. We shifted the balance to allocate more funds to the neediest schools and we increased the maintenance grants for all primary schools by 40 percent. Under the Housing, Opportunity, Prosperity and Employment (HOPE) program, teachers from early childhood institutions were trained and placed in schools. We removed 34 schools from the shift system.

- From the Ministry of Local Government & Community Development, we continued local government reforms and elevated the status of parish councils to municipal corporations and gave the business title of Chief Executive Officers to secretary managers or town clerks, signaling a mind shift in the quality of service local government provides to Jamaicans at the very first level of government.

Mr. Speaker, the list is not exhaustive but I just need to indulge this honorable house a little bit more.

- From our own Ministry Of Finance and the Public Service, we have passed the Public Sector Contributory Pension Bill. We have a Cabinet approved action plan to accelerate public sector transformation, increasing the efficiency with which state entities deliver services to Jamaicans. We can say as well that the Jamaica Customs is now better equipped to support the operations of the JCF and the JDF with it fleet of patrol boats.

Mr. Speaker, the Ministry Of Finance and the Public Service, stands at the intersection ensuring that capital flows to its highest use, that expenses are contained, taxes are maximized, our 7% primary surplus remains anchored and that we reach our debt target of 100% Debt/GDP by Fiscal Year 2019/20. Mr. Speaker, there is much for which we can be proud in our first 14 months in government.

### **3. Sovereign Credit Ratings**

Mr. Speaker, international rating agency, Moody's Investor Service recognized our economic, fiscal and monetary performance and in November 2016, upgraded Jamaica's sovereign senior unsecured rating and provisional shelf ratings from Caa2, where it was on May 28, 2015, to B3 and assigned a stable outlook.

Mr. Speaker, this was the first time in Jamaica's credit rating history dating back to 1998, that Jamaica's sovereign credit ratings improved by 2 notches (grades) in one go. It is also the first time since 2010 that all three rating agencies have a stable outlook on Jamaica and their ratings converge within a notch of each other: Moody's at B3; Standard & Poors and Fitch at a notch higher at single B.

We are moving in the right direction, Mr. Speaker.

#### **4. a) Primary Surplus**

Mr. Speaker, our primary surplus, meaning that amount that services the debt, ended the fiscal year 2016/17 at approximately 7.7% of GDP, outperforming the 7% target. In dollar terms, the primary surplus ended fiscal year 2016/17 at \$135.9 billion, an out performance of \$12.8 billion driven by stronger tax revenues and expenditure containment. Of note, Mr. Speaker, we got to 7.7% primary surplus not by cutting capital expenditure. In fact, actual capital expenditure of \$42 billion was approximately 22% higher than the \$32.7 billion for FY2015/16 and represented roughly 2.4% of GDP versus 1.9% in the prior year.

Mr. Speaker, the economy is moving in the right direction.

#### **4. b) Our One-Point-Five**

You see Mr. Speaker, our One-Point-Five, yes, our increase in the threshold for personal income tax to \$1.5 million helped to achieved this outperformance. Tax revenues overall for fiscal year 2016/17 outperformed the budget by 3%, the best in more than four years. PAYE (Paye As You Earn) personal income tax also outperformed budget by 5% or \$3.1 billion dollars.

Mr. Speaker, this house will recall that the Minister of Finance and the Public Service announced at the opening of the 2016/17 Budget Debate, the Government's decision to raise the income tax threshold of Pay-As-You-Earn (PAYE) workers from \$592,800 to \$1.5 million, to be implemented in two phases, the now famous "phase it in."

The first phase took effect in July last year, when the annual personal income tax threshold moved to \$1,000,272.

At the beginning of this fiscal year, we announced the second phase of the personal income tax reform to the full \$1.5 million threshold, which allowed an additional 200,000 Jamaican workers a chance to continue

to share in the prosperity. This brings to a total of 397,083 the number of workers who are now fully exempt from paying PAYE, approximately, 84% of the 469,131 taxpayers on the personal income tax roll.

Mr. Speaker, the naysayers criticized and even belittled this move away from personal income taxes to indirect taxation. Well, Mr. Speaker, the results strongly support our decision. In addition to PAYE outperforming, GCT local improved 7.5% year-on-year, almost two times the growth rate of the nominal GDP, but more important, GCT local outperformed our budget by roughly 2%. It is clear that our ultimate goal that Jamaicans have more money in their pockets to spend in the local economy is being achieved. We are moving in the right direction, Mr. Speaker, 5-in-4.

### **Reducing Inequality**

Mr. Speaker, the \$1.5 million threshold is more than a shift to indirect taxes away from direct personal income tax. The shift is simply the “How”. The “Why” is our belief that personal income tax reform can improve the lives of Jamaicans. In fact, the World Bank’s publication entitled “Poverty and Shared Prosperity 2016” said, “The spectrum of

domestic policies that can lead to higher living standards among the poor – and that may reduce inequality – is large.” The World Bank’s study highlighted the six high-impact inequality-reducing strategies based on evidence as the following:

- 1) Early childhood development and nutrition interventions
- 2) Universal health coverage
- 3) Universal access to quality education
- 4) Cash transfers to poor families
- 5) Investing in rural infrastructure (such as rural transportation, rural roads, rural electrification)
- 6) And finally Mr. Speaker, the number 6 high-impact inequality-reducing strategy based on evidence is tax reform.

Mr. Speaker, all of these, all six, form the basis of this government’s inclusive economic growth and job creation strategy.

Additionally, Mr. Speaker, the World Bank also found that “In most societies, family income levels powerfully determine the educational, social, and professional opportunities that will be open (or closed) to children. Income inequality shapes unequal life opportunities in the

next generation. This also means that unequal societies waste critical resources (the productive capabilities of many of their members) in a way that is economically inefficient.”

Mr. Speaker, we are proud of implementing the One-Point-Five.

We are proud of being able to significantly improve benefits under the PATH Programme in FY2016/17 and again in FY 2017/18, when we improved benefits by an additional \$3.68 billion, a 47% increase. Of that, \$1.93 billion is for the PATH Cash Grants and \$1.75 billion is for the PATH School Feeding Programme, the largest increase in recent time.

#### 4. c) Net International Reserves

Mr. Speaker, our Net International Reserves (NIR) are at the highest they have ever been at US\$2.849 billion when we look at data stretching as far back as 2002. Add to this, what we refer to as an insurance policy in the form of a Precautionary Standby Arrangement from our international partner, the International Monetary Fund, totaling approximately US\$1.7 billion dollars. These resources are available for current account support in the event of unforeseen external events beyond our control.

Mr. Speaker, Jamaica's natural beauty, its people, its music, its foods beckon to the world but we face the challenge of recurring extreme weather events, natural disasters, and rising sea levels. So while we continue to make the needed reforms, structural and otherwise, while we seek to make our infrastructure climate resilient, we are very conscious that the recurring climate and disaster shocks can reduce our fiscal space and can increase the risk of our external accounts. A Precautionary Stand By Arrangement + healthy net international

reserves give us Jamaicans the assurance of a safety net, a strong safety net.

<b>5. a) Public bodies - Categorization and Rationalization</b>
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Mr. Speaker, last year we indicated to this parliament that we were completing, with the assistance of the Fiscal Affairs Department of the International Monetary Fund (IMF), the development of the Policy on Categorisation and Rationalisation of the Public Bodies. Since then, Cabinet approved the policy and implementation has commenced. Under the policy, principle- based approaches are being applied to:

(a) categorisation of public bodies, which will facilitate more focused oversight and monitoring, and

(b) rationalisation of public bodies using the best modality and most efficient manner in which remaining functions will be delivered. This study began under the prior administration in September 2015 and we completed it in 2016. We saw no need to start from scratch.

Mr. Speaker, the Public Bodies play an important role in Jamaica's economy in terms of revenues, capital and operating expenditures and

employment. The Public Bodies cut-cross 13 sectors and include a wide range of activities that provide many of the basic infrastructure services on which private firms depend for their competitiveness. Think companies' registration. Think Standards Board.

Mr. Speaker, the size of the Public Bodies sector in Jamaica is large. The total earmarked taxes and non-tax revenues flowing to now 58 self-financing public bodies are projected to be \$391.1 billion for fiscal 2017/18. Gross assets which total \$1.2 trillion represent about 63% of our \$1.9 trillion GDP figure. The public bodies employ approximately 13,800 persons and their capital spending budget for fiscal 2017/18 is projected at roughly \$59.2 billion versus \$52.5 billion at central government.

The IMF study entitled "Jamaica - Reforming Public Bodies" October 2015, noted that aggregate information on revenue, expenditure, capital account flows, and gross transfers represented in the Estimates of Revenues and Expenditure for Public Bodies are limited to Self Financed Public Bodies. Those public bodies that are fully or partially funded by central government are treated as part of MDAs and so the entire Public

Bodies sector is not measured in a comprehensive and consolidated way.

Mr. Speaker, over the years, some of the Public Bodies have been accumulating more reserves than are needed for current operations from the earmarked taxes and non-tax revenues while at the same time other critical Public Bodies are starved for resources.

The consolidation of cash resources through a Central Treasury Management System reduces the fragmentation of the cash resources of the government. It avoids borrowing and paying additional interest charges to finance the expenditures of some public bodies while other public bodies keep idle balances in their bank accounts. All cash received should be available for debt reduction and carrying out government's capital and operating expenditure programs. Effective aggregate control of cash, Mr. Speaker, is a key element and a first step in public financial management.

Mr. Speaker, recently, the Member from Western Westmoreland highlighted a great example of why we need to continue efforts with consolidating the resources of government in order to maximize their

usage. In talking about the problem with water in Westmoreland in general, he made a recommendation that the Prime Minister mandates that the NHT and NWC develop a commercial arrangement to provide water to the new developments and Westmoreland in general.

He said he acknowledges that the NWC is cash strapped and that they just can't do the national water projects. He also talked about the magnitude of investment needed in water and that the problem is a long standing problem, some 8 to 10 years, and that it needs a big solution but big solutions cost money.

I want to thank the Member from Western Westmoreland for making a very strong case for consolidation of cash resources through a Central Treasury Management System so that resources not immediately needed at any of the cash rich public bodies can flow to critical cash starved public bodies in an annual whole-of-government budget process in which all entities make the case for their resources and are subjected to the rigors of Parliament along with the MDA's. This would be a more nimble and efficient process than a plethora of commercial

arrangements that public bodies and lawyers and technical people have to negotiate.

So, Mr. Speaker, if we had a whole of government budget process, instead of Parliament examining projected tax and non-tax revenues and grants of \$523 billion for fiscal 2017/18, it would be considering \$914 billion instead if it looked at the whole of government. Rather than examining a capital budget of \$52.5 billion, Parliament would instead be considering a capital budget of \$112 billion. Then, Mr. Speaker, we all would begin to realize that taxes and fees are a more significant burden on the Jamaican economy and therefore the reforms are urgent to take back into central government services that are being duplicated in public bodies, to consolidate into their respective ministries, bodies that are too small to stand alone with the overhead of their own infrastructure and to begin to get closer to 100% of the various government entities using the central treasury management system. Mr. Speaker, we will continue to move ahead with Public Bodies reform.

## 5. b) Debt/GDP

Mr. Speaker, the extraordinary benefits of the consolidation of the financial figures of central government and the public bodies is most evident in our Debt/GDP ratio. Beginning this financial year, fiscal 2017/18, we have added together (consolidated) the Central Government Debt with the Public Bodies debt, excluding the debt of the Bank of Jamaica, in keeping with international standards and consistent with the *Public Sector Debt Statistics Guide* developed by the IMF.

Of significance, Mr. Speaker, this consolidation now allows us to net off any cross-holdings among the various entities. This means that if the National Water Commission, for example, owes PetroCaribe \$100, bringing the entire financial affairs of the whole of government together in a consolidated way allows us to net off that \$100. In this case, what is a liability in one government entity is an asset in another. By this process of consolidation, netting off and excluding the liabilities of the Bank of Jamaica, Mr. Speaker, we now have Debt/GDP ratio at the end of

March 31, 2017 at 115% rather than 124.1% as per the then GOJ definition of debt or 122.5% under the EFF (Extended Fund Facility) definition of debt. Looking forward, the projection is for the Debt/GDP ratio to be at 108.6% at the end of this fiscal year 2017/18 and at 89.5% by the end of fiscal year 2019/20.

Mr. Speaker, public bodies reform is moving in the right direction.

## **6. Conclusion**

In conclusion, let me end where I began. The Ministry of Finance and the Public Service stands at the intersection of inclusive economic growth, job creation, revenue maximization, expenditure containment, primary surplus and debt reduction. The Ministry of Finance and the Public Service can impede growth or facilitate and enable growth. It is the Ministry to which all sorts of issues come to be resolved from across a broad cross-section of industries and other ministries. We have to be innovative in our solutions and we have to move at the speed of business.

We still have much to do:

We have a commitment to reduce the government's wage bill.

We have a commitment to lowering pension costs in an effort to shift Jamaica's limited fiscal resources to productive spending.

We have a commitment to modernize the Bank of Jamaica and move to a full-fledged inflation targeting and a market based exchange rate mechanism for better price discovery.

We must continue the reform of our public bodies by reducing the number of them and improve their monitoring.

We must continue to reduce our debt while making our infrastructure climate resilient, keep strong international reserves while balancing inflation and inclusive economic growth and job creation.

Mr. Speaker, we are, and the people of Jamaica are, very encouraged by our results in 2016 and already in 2017. We pray for God's guidance to keep us humble and focused on the work that is still to be done on behalf of our fellow Jamaicans.

Thank you Mr Speaker. God bless this Parliament. God bless Jamaica, land we love.

