
2005/2006 JAMAICA BUDGET CLOSING PRESENTATION

Dr. The Hon Omar Davies
Minister of Finance & Planning
Wednesday, April 27, 2005

INTRODUCTION

1. This Budget Debate is of significance for a range of reasons:
 - a. FY05/06 is the year which has been targeted for balanced budget
 - b. the initial phase of tax reform measures following Task Force recommendations
 - c. the first time in perhaps 30 years the only payment to IMF is related to obligations of a non-borrowing member.
2. Contributions
 - a. From Government side: PM, Minister of National Security, high quality.
 - b. From the Opposition: Spokesman on Finance, Spokesman on Health and former Leader of the Opposition, and finally the Leader of the Opposition.
3. Wish to welcome back LO. Known him for long time and recall that he welcomed me when I first was elected in a By-Election 12 ½ years ago.
4. Coincidental that he has returned as my constituency neighbour as a result of another By-Election. I have no doubt, hat he will serve as long in his new position as I have in mine.
5. Baugh served a short period as Leader of the Opposition. I know I speak on behalf of all members on the Government side, and I suspect more generally, of the public, in placing on record appreciation for calm dignity with which he handled the position.
6. Reflects that it is possible to hold strong political views, but to express that in a civilized, non-confrontational manner.
7. Not many areas where I differed with the views expressed into his presentation, but feel obliged to speak about one specific – his questioning of the SLC data, on poverty.
8. Jamaica's statistical institutions world renowned. No doubt that there is room for improvement, but particularly, the collection and analysis of social data, path breaking.
9. As regard the SLC – was an evolution of previous survey initiated by former Leader of the Opposition/former Prime Minister.

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10. This Administration built on previous initiative with a team led by local researchers as well as technical expertise from World Bank, to develop the poverty measure.
11. Not perfect but reliable and provides clear indicators as to needed areas of intervention. One must always be careful about public questioning of the validity of results. Cannot endorse results which support our intuitive views, and simultaneously question those which do not.
12. More important, may be seen as questioning either technical competence and/or objectivity of one's profession. I know this was not the intention of Mr. Baugh.
13. Structure of Presentation
First, will respond to issues raised by Leader of the Opposition; then to Opposition Spokesman on Finance, then wrap up.

SECTION B:

Golding

1. Once again, welcome back. "I am back".
2. Rather like the analogy of the Shareholders Meeting. Will return to it. I wondered at characterization of me as the COO, but I can live with it.
3. Poked fun at my optimistic outlook in terms of the medium-term economic fortunes of the country. These are not simply my views, obviously he has not been traveling the countryside nor reading.
4. Could present to him the most recent findings in terms of investor and business confidence produced by the Chamber of Commerce.
5. Let us start with summary consumer confidence. The survey notes "the level of confidence was comparable across all regions And residents of all regions recorded comparable gain in confidence from a year ago".
6. Now to business confidence. This is the highest it has ever been. To quote from the publication "firms cited recent decline in inflation and interest rate, the stabilization of the Jamaican dollar and record tourism. More importantly firms expected the economic recovery to gain strength in 2005. The optimism

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was widespread across all industries and among the largest as well as the smallest firms”.

7. Businesses surveyed felt that the investment climate was the best in four years.
8. So I wonder whether none of these surveys have been brought to the attention of the LO.
9. But we do not have to rely simply surveys, look on the statistics in terms of cement production. That was a record. We do not need surveys to indicate the construction activity taking place in tourism. We do not have to do a survey to see Highway 2000.
10. We do not have to do a survey to know that the Half Way Tree Transportation Centre has come out of the pipeline.
11. But it is not all just about infrastructure and business confidence, we do not have to do a survey to know that 45,000 NIS pensioners are now the beneficiaries of health insurance as good as that which we Parliamentarians receive. There are another 30,000 who are eligible and the Ministry of Social Security will be going on a drive to have them enrolled.
12. LO quoted me in a speech made on March 25, 2004 in Montego Bay as saying “I am more confident now that I have ever been in the more than 10 years that I have been Finance Minister”.
13. Let me update him. When I see what has happened in the tourism sector, the infrastructure, today on the 27th of April, 2005 I am more confident than I was 13 months ago.
14. Let us return to the Shareholders Meeting to which LO made reference. A friend of mine happened to have overheard the conversation between two shareholders who were watching the LO’s presentation – a young lady just turn 18, named Marcia and her Grandfather.
15. Marcia on hearing the LO’s presentation said excitedly, “Grandpa, I just heard the most fascinating presentation by a possible applicant for the post of CEO. It was so refreshing. He was new and different?”
16. Grandpa said, “not really Marcia”. He has been around for some time, in fact, a long time.

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17. Marcia: “But he said if given a chance, coming fresh to the job, he would make a big difference as he would like to be the new CEO”.
18. Grandpa: “Well although he was not the CEO, but for over eight years he was part of senior management so he has been there before”.
19. Marcia: “But he spoke about how indebted we are and that would not happen if he were CEO.
20. Grandpa: “Well, he should know about these things. We are now indebted now but, in 1983 the debt to GDP ratio was 195%. In 1984 it was 212%. In 1985, 202%. In 1986, 170%. In 1987, 165%. In 1988, 147%”
21. Marcia: “Oh you mean things were worse when he was part of senior management”?
22. Grandpa: “I can only tell you the facts, draw your own conclusion”.
23. Marcia: “The LO spoke about the deficit. He said “To economists, deficits mean fiscal imbalance. To shareholders, it means the company is losing money”. I am worried about the deficit as the Minister has said that eliminating it is a priority. Was there a deficit when he was part of senior management?
24. Grandpa: “Again, I do not know these technical matters but I hear that between 1981/82 and 83/84 deficits were 15.9%, 14.1% and 15.8%, respectively.
25. Marcia: I am very surprised and confused, if all you say is true, how could he have spoken with such confidence?
26. Grandpa: “It is nothing new. He is back - to normal”

Capping the Debt

27. There is no substantive difference between the Administration and the Opposition in terms of a desire to cap the national debt. Specifically, we agree that some upper limit on the debt to GDP ratio should be established.
28. I welcome LO’s clarification. We have come a long way. However, the Administration does not support any inclusion of such a cap in the constitution. Our position derives from two premises. The first is legal. In

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pursuing various objectives, we run the risk of unnecessarily “cluttering” the constitution.

29. This is a temptation we must avoid.
30. But there is also a practical reason for our position and it is the same reason which informed our position on the inclusion in the constitution of the “three famous bills” of the former Leader of the Opposition. The plain fact is that the experience worldwide is that placing these things in the constitution is no deterrent to changing them when circumstances demand.
31. Argentina is a good example, but even the most powerful member states of the European Union, Germany and France demonstrated that when “push came to shove”, they had no difficulty in violating the law to which they had sworn adherence.
32. Our view is that the greatest deterrent to fiscal irresponsibility in the modern world is the punishment meted out by creditors – “the market” if you will. No Government of the future will be able to run huge deficits which became common place in the past.
33. The public scrutiny which now attends these matters represents the major check against loose fiscal management by government.
34. Let us therefore, debate about the medium term macro-economic targets, including the level of debt. Once those are put to the public that represents the strongest deterrent to irresponsible behaviour.

SECTION C:

Shaw

1. Opposition Spokesman on Finance made an extremely long presentation covering several topics. Must confess that in seeking to frame my response, found the task difficult in that the plethora of issues raised without there being a clear common thread.
2. Nonetheless, will seek to respond under the following headings:
 - (a) The Economic Model being pursued
 - (b) Transparency/Accountability
 - (c) The Expenditure Budget

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(d) The Revenue Programme

Economic Model

3. In discussing my opening comments on our search for an appropriate economic model, the Opposition Spokesman ridiculed this, suggesting that I have been “groping in the dark”.
4. I make two comments. I honestly thought that we would then have benefited from a full revelation of the new model called “macro-economic harmony”.
5. Secondly, every Administration in every country of the world which is serious about facing challenges in the society must continue seeking to refine the set of policies based both on changing exogenous circumstances, e.g. oil prices, 9/11 as well as changing domestic, social and economic imperatives.
6. Whilst there are certain critical targets which continue to be priorities, a thinking Administration must be prepared to reassess policies as new challenges emerge.
7. But what is the central plan of the Opposition Spokesman’s “alternative”. It is to “borrow low cost money - from multilateral institutions and replace a block of maturing debt instruments”.
8. The Opposition Spokesman has been onto this for many years. Have tried repeatedly to indicate that this block of low cost money does not exist in vacuum. Jamaica’s per capita income and improving socio-economic indicators reduce the range of borrowing options available from the multilateral development banks – e.g. The World Bank and the IDB.
9. Put simply, there is no big block of low cost money available for development financing which the GOJ is refusing. Furthermore, in a range of areas, it has been easier and almost as cheap to get private sector investors to take on projects which were once seen as exclusively the province of Government, e.g. Sangster Airport, Highway 2000, water development.
10. Now to other low cost money to which the Opposition Spokesman is fond of referring to – money from the IMF.
11. First the practical issues. Money from the IMF is available to countries in need of balance of payment support. It would be hard if not impossible for me to make a case that a country with NIR of (US)\$2 billion (Yes (US)\$2 billion

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as of yesterday) as well as private deposits of (US)\$1.9 billion is faced with a BoP problem.

12. But also do we really need to rehash the reasons this Administration decided to stop borrowing from the IMF even when there was a need for BoP support?
13. Is it that difficult for the Opposition Spokesman to accept that throughout the multilaterals, Jamaica stands tall. Will he not accept that we are respected for taking positions of principle and common sense which have benefited other countries?
14. The trauma which the country went through each quarter seeking to pass the various “tests” was unnecessary, unproductive and amounted to a misuse of the time of technicians and the political directorate.
15. In concluding this discussion of the economic model, could we plead for some greater accuracy in our summary judgments?
16. Opposition Spokesman made reference to “increased joblessness” and “deeper poverty”.
17. He knows that the data do not support these wild assertions. The fact is that whilst unemployment is not yet where we wish it to be, the rate is down to that 11.4%. Similarly, whilst we are some way away from our desired poverty level, the fact is that the rate of poverty has been slashed in half during the tenure of this Administration.

Transparency/Accountability

18. Let me once again state publicly, appreciation for the doggedness of Opposition Spokesman in terms of following up on issues of public concern. The fact is that although there is nothing untoward being done with Deferred Financing, we have taken steps to ensure that the process was streamlined, particularly with the introduction of the DBJ in the equation.
19. Let me once again remind Parliament that deferred financing was used extensively by an Administration in the 1980s, particularly by the Ministry of Construction and the Auditor General highlighted it in more than one of his Annual reports.
20. He noted that among the breaches committed

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- (a) instances when no authority was given by either the Minister of Finance nor Cabinet,
 - (b) instances when MOF first became aware when financial institutions wrote requesting payment,
 - (c) GOJ's obligation to repay was not reflected in the public debt register kept by the Accountant General,
 - (d) Parliament was not advised of these transactions.
21. It was this Administration which amended the FAA Act to give the Minister of Finance the authority to enter into "credit" agreements, such as Deferred Financing.
22. We have to be careful that through the loose characterization of every point not fully understood is seen as "corruption". Whilst this may make good "copy" for the media, there are unnecessary negative repercussions. Even when question asked are answered, and allegations refuted, seldom do the media give the responses the same level of publicity as the questions. Furthermore, the impression has already been left in the minds of the public that some corrupt act has been carried out.
23. I turn to one of the major issues raised in this section of his speech – the fact that a total of \$15.3 billion in principal payments and \$3.8 billion in interest are explicitly included in the Estimates of Expenditure to take care of projects carried out under the Deferred Financing Programme.
24. The clear implication of this occupying so much space in the presentation is that something untoward has been effected. Nothing could be further from the truth.
25. By definition the Deferred Financing Programme entails expenditure that has taken place by a private contractor and for which payments would be made by the ministries. The amounts included in the Estimates of Expenditure conform to the requirements of the FAA Act. The clear agreement is for the loan to be assumed by the GOJ on completion of the project.
26. Hence, the associated debt servicing costs are in the Estimates under public debt. The payment of the principal sum is charged to an appropriation for the Ministry having responsibility for the relevant project.
27. For example, the school building programme in Western Jamaica facilitated by Deferred Financing now appears under the Ministry of Education Capital A for a sum of \$2 billion. Based on the agreement arrived at with the Auditor General in terms of the Deferred Financing, the cost of projects is officially

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brought into the expenditure accounts of the GOJ in the financial year in which ownership is formally transferred to the Government.

28. The real question which should be posed by the Opposition Spokesman is whether we obtained value for money, have the schools been properly constructed and more fundamentally, do they exist?

Air Jamaica

29. Everyone is aware of the Government's re-assumption of total ownership of Air Jamaica just before Christmas last year. I appointed an interim board for a period of six months with the specific instruction that Cabinet should be presented with a business plan which would require a maximum of the equivalent of (US)\$30 million in annual subsidy for the airline.
30. The new board has been hard at work and has taken several definitive steps. The Executive Chairman has indicated to me that they have obtained advice from persons with technical expertise in the airline industry and this new business plan will be presented to Cabinet within the six month period. As soon as this is available and has been assessed by Cabinet, it will be presented publicly.
31. In the meanwhile, let me set about dismissing certain erroneous assertions which have been making the rounds.
32. To begin, there is a debate as to the total losses incurred by the airline during the period of privatization. Reference has been made to a figure of (US)\$830 million. Other references to (US)\$675 million and I have even heard a figure of (US)\$1,000 million.
33. As regards the actual losses incurred during privatization the figure is approximately (US)\$675 million including an unaudited figure of (US)\$98 million for 2004.
34. I have no idea where the (US)\$1 billion figure has come from.
35. As regards the figure of (US)\$830 million, the fact is that at the beginning of privatization there is an accumulated deficit of (US)\$157 million. When this is added to the losses during privatization we get the (US)\$830 million figure.

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36. It has also been banded about, even in this House, that the airline was losing over (US)\$30 million per month since the Government's re-assumption of total ownership.
37. I have just received the preliminary accounts for the period January to March. During that three-month period losses amount to (US)\$30 million. Contributory factors were accelerated safety checks as a result of the ruling of the JCAA, the fact that fuel prices was significantly above projected costs and additional cost related to use of charters and interrupted trips resulting from the reduced fleet size.
38. Again, I repeat that as soon as I have received the comprehensive report and business plan from the board and it has been presented to Cabinet, it will be made public.
39. More important, I wish to assure the country that although some drastic actions will have to be taken, the Administration is fully committed to maintaining our national airline within the context of a maximum subsidy of (US)\$30M per year.

Dyoll

40. The Opposition Spokesman posed three questions with regard to Dyoll. Two of these three questions have two parts.
41. When was I aware of Dyoll's "failure". I am not certain what he means by "failure". I became aware of the dangerous level of exposure of Dyoll caused by problems in Cayman in February. That level of exposure raised questions about the future viability of the company.
42. Did I take a proposal to Cabinet for (US)\$20 million to assist the company? No. I am aware of discussions between a company which had initially expressed an interest in purchasing Dyoll and the National Insurance Fund, but these discussions fell through when the full extent of Dyoll's problem became known.
43. When did the FSC know of the "failure"? (Same question of "failure"). The FSC became aware in February that the information that had been provided to it by the company had been misleading in material respect. It immediately took corrective action which included regulatory direction to the company.

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44. Is the FSC conducting its own investigation into reports of illegal insider trading? Yes.

Expenditure Budget

45. Questions were posed during the Standing Committee on the level of expenditure in response to damage brought about by Hurricane Ivan. I have tabled a Ministry Paper providing full details on this matter.
46. I can understand the concerns of those MPs who have constituents who suffered damage but who have not been selected to be a beneficiary. Although he did not explicitly say this, the additional \$2 million per Member of Parliament announced by the Prime Minister in his presentation yesterday, will make a big difference in an attempt to address the needs of many of those who suffered damages.

SLB

47. The Opposition Spokesman on Finance made reference to a study by the JLP affiliate G2K which suggests that students from the poorest group received the lowest amount of students' loans, due in part to them being assessed as being unable to repay these loans.
48. This is not an issue over which we need to have needless controversy and to score political points. I have taken a direct interest in this matter and the SLB officials are themselves puzzled about this assertion. If there is indeed such a study, I would appreciate if it be sent to me and we will take immediate remedial action.

Sandals Whitehouse

49. The Opposition Spokesman has raised questions about this project particularly arising from the GOJ guarantee of a CDB loan of (US)\$15 million to facilitate its implementation.
50. The following are basic facts about the project. The original project cost was estimated at (US)\$74 million, prior to completion of all designs. The intended debt equity ratio was approximately 50/50.

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51. The three principal investors are the UDC, the NIBJ and GORSTEW Limited, (owners of Sandals/Beaches chain).
52. As regards the original equity structure it was as follows:
NIBJ - Ordinary Shares (US)\$8M and Preference Shares \$7M
UDC - Ordinary Shares (US)\$10M
GORSTEW - Ordinary Shares (US)\$8.7M
Shareholders advance (US)\$5M
Total (US)\$38.7M
53. Over time the project has changed in scope as well as the fact that it had been meant to be part of the Beaches chain (family type) but was converted to Sandals (couples only).
54. In January of this year, I was informed that the expenditure on the project was likely to be approximately (US)\$90M. However, the latest information which I received from the UDC indicates that total completion cost will be in the range of (US)\$ 105M.
55. I have asked for a complete comprehensive report indicating the rationale for the difference between original projected cost and what will be the final outturn, a difference at this stage of the order of (US)\$30M.
56. I have specifically asked for this sum to be disaggregated in the following manner:
(a) Increase due to change of scope
(b) Increase due to escalation in the price of materials e.g. steel
(c) Other factors.
57. I have also asked for a full listing of contractors, sub-contractors and suppliers.
58. As soon as I have received these reports for which I have set a deadline of May 31, 2005, I will be tabling a comprehensive Ministry Paper on the matter.

Revenue Programme

59. The Opposition Spokesman on Finance has spoken about the manner in which the Administration has handled the report from the Matalon Task Force. Specifically, he has criticized me for having deviated from the report in which all variables were “hanged” together.

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60. Let me once again go on record as stating categorically my appreciation and that of the Administration for the work of the Committee. At the same time, it is our responsibility to determine some of the socio-economic consequences of the comprehensive reform proposals put forward.
61. I give two specific examples. Consider the situation of hotel workers whose relatively low pay is supported by the special gratuity scheme. The Task Force's recommendation was to raise the threshold to \$275,000 but to immediately eliminate special schemes such as that which applied to hotel workers with the objective of increased simplicity and equity.
62. Technically, this is an acceptable approach but there is no guarantee that hoteliers would immediately raise pay levels of their workers – waiters, housekeepers, etc simply because we had raised the threshold. This represents our reason for not accepting the recommendation in total.
63. Furthermore, we do not believe that the proposed social fund would have compensated for any loss of income to such workers.
64. Similarly, the Task Force's recommendations re the elimination of exemptions and zero-rated articles, etc in the GCT are again noble objectives in terms of improving administration and greater efficiency. However, this would have implied placing GCT on water, on electricity, and it was the Administration's view that, the implied increases in cost of living for lower income households was not acceptable.
65. It is for that reason that the phasing which we have proposed was developed.
66. I would like to use the opportunity to speak specifically to one area of change which I announced in my opening address that which applies to the tourism sector.
67. I have had an initial meeting with the sector and although we have not reached a definitive position I should indicate some concern about the possible repercussions to the take home pay of the lower paid workers to the proposed changes in capping the gratuity allowance.
68. For this reason the changes to the treatment of the sector will be postponed to July 1, during which period the tax officials will meet with the tourism interests to seek to find a resolution to the issues they have raised.

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CONCLUSION

1. This Debate has been wide ranging and enlightening. There have been real insights into various issues and problems facing our society. New departures have been signaled.
2. Even as we debate vigorously, it is imperative that we, the sixty persons honoured by being selected to represent the population, convey to the country that whilst we may differ about approaches, we are united in terms of the fundamental objective of socio-economic upliftment of the less privileged of the society.
3. This Debate and the manner in which the Budget has been formulated have highlighted the Administration's determination to not only confront challenges but to innovate and to find solutions.
4. Despite the daunting fiscal challenges, we have crafted a Budget which includes tax reform as well as significant additional investment in the social sectors - in particular education. On the economic front, we have demonstrated the ability to withstand shocks, both natural and economic, even whilst maintaining stability in the macro indicators.
5. The NIR is at record level; interest rates continue to fall; the rate of inflation is declining, investment flows are at record levels and so is the confidence of consumers and investors.
6. Despite these gains, we still face formidable challenges, particularly in the social sectors. The task is to maintain the hard-won gains, securing the future, even whilst we take on the new challenges.
7. The main signal of our seriousness of the Budget is the commitment to eliminate the deficit. As I said in my Opening Presentation, this is not an esoteric and abstract objective. It has real benefits.
8. It is a basis in which we will bring down interest rates which will support expansion of the small and micro enterprise sectors.
9. It is a basis which we will reduce debt servicing costs and be able to allocate more resources on a sustained basis for the transformation of our education and training system.

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10. It is a basis in which we will be able to fund programmes to rescue our young people between the ages of 15 and 25 – a major source of our problems in terms of crime, teenage pregnancy and other areas of social instability.
11. We here in this House must unite on the task – after we have finish with the Debate – to build on the positives and move the country to another level. The truth is we have no option as there are no friendly forces waiting to help us. We are on our own.
12. There are no longer any ‘let-offs’ for countries like us. And so, whilst the Debate is important in maintaining our democratic system, nothing we say here really matters, unless it leads to a stronger economy. Nothing we say here matters, unless it leads to an education system which graduates persons empowered to make a productive contribution to the world of work. Nothing we say here matters, unless it leads to the reduction of violence in the society at large, and in our communities.
13. This Administration is proud that our 16 years in office, we have laid solid foundations. We are proud that within the limits of resources at hand, the allocations have been granted to areas of greatest challenges.
14. Let us get on with the work to build on the solid foundations, to secure the future and to create a more prosperous country. A country with a population trained and capable of competing with the best in the world.
15. This balanced Budget shows the way to greater economic prosperity and social equity. **FORWARD MARCH!!**