

1.0 INTRODUCTION

- The House is reminded that late in December 2013 the Government of Jamaica laid in this Honourable House the **Fiscal Policy Paper – Interim Report and an adjusted Letter of Intent and Memorandum of Economic and Financial Polices (MEFP)**.
- I wish to make some comments on both documents, and I will also use this opportunity to provide an update on the economy and the challenges confronting us in the New Year.

2.0 UPDATE ON THE ECONOMY FISCAL PERFORMANCE – APRIL 2013-NOVEMBER 2013

2.1 CENTRAL GOVERNMENT PRIMARY SURPLUS AND FISCAL DEFICIT

- Fiscal performance has remained resilient throughout FY 2013/14, with Central Government primary surplus and budget deficit targets, all being met.

- Provisional information indicates that the Central Government **primary surplus to November 2013 amounted to \$42.5 billion.**
- This continuing **fiscal consolidation** effort bodes well for the attainment of the key primary surplus target of 7.5% of GDP for FY 2013/14 and over the medium term.

2.2 GROWTH

- **STATIN** has reported that there was **REAL GDP GROWTH of 0.5 per cent in the September 2013 quarter following a decline of 0.2% for the preceding quarter.** This expansion largely reflected increased output in Agriculture, Forestry & Fishing, Mining & Quarrying, Construction and Hotels & Restaurants.
- Specifically, for the December and March quarters, the projection is for growth to continue and indeed to strengthen.

2.3 INFLATION

- With respect to **INFLATION**, the trajectory for the fiscal year to date has shown that inflation has been in line with projections. Inflation for the calendar year 2013 was 9.6 per cent. For the FY 2013/2014, we are projecting an inflation outturn in single digits.

2.4 EXTERNAL ACCOUNTS

- On the issue of the **EXTERNAL ACCOUNTS**, estimates for the fiscal year to September 2013 indicate that there was an improvement in the current account deficit relative to the corresponding period of FY2012/13.
- For the fiscal year to September 2013, the current account deficit was estimated at US\$678.7 million, which represented a reduction of US\$347.8 million (or 33.8 per cent improvement) when compared to the corresponding period in FY2012/13.

- This positive development was reflected in the performance of nearly all sub-accounts. The Goods & Services sub-account recorded the greatest improvement of US\$294.8 million due mainly to a reduction in imports. This trend is expected to continue for the rest of the fiscal year.

2.5 NET INTERNATIONAL RESERVES

- Against the background of estimated improvements in the balance of payments to end-December, the net international reserves increased to US\$1052.8 million at end-2013 relative to US\$884.3million at end-March 2013. This met the IMF target.
- Further improvement, in line with the IMF Programme target, is expected by end-March 2014 due to programmed inflows from multilateral institutions and improvements in net private capital flows.

3.0 FISCAL POLICY PAPER: INTERIM REPORT – MAIN POINTS

- Members of the House will recall that the Financial Administration and Audit (FAA) (Amendment) Act, 2010, requires that upon presentation of the annual Estimates of Revenue and Expenditure, the Minister shall lay before both Houses of Parliament, a Fiscal Policy Paper (FPP) setting out,
 - (a) a Macroeconomic Framework;
 - (b) a Fiscal Responsibility Statement; and,
 - (c) a Fiscal Management Strategy.

- The FAA Act also requires the Minister to lay before each House of Parliament, at least twice in each financial year, a report on the performance of the economy, the public finances of Jamaica and the actions taken under the Fiscal Management Strategy.

- Further, Regulations developed to support the FAA Act requires the Minister to table before each House of Parliament, an Interim Report that shall:
 - Focus primarily on the mid-year outturn, the implications for the remainder of the financial year and the medium term arrangements under the programme;
 - Provide information which will inform discussions relating to the ensuing financial year while providing a preliminary and indicative view of that year's estimates of revenue and expenditure; and,
 - Present expenditure data at a relatively aggregate level.
- **This first interim report which covers the six month period April to September 2013 was presented to Parliament to satisfy this requirement.** Additionally, it serves to engender active

debate and participation in the management of the public finances of Jamaica and the performance of the economy.

- The Fiscal Policy Paper will be considered by the PAAC tomorrow and a report is to be submitted to the Tax Committee which I expect will be appointed shortly. All of this is an important element in ensuring greater transparency in our fiscal process. It should also contribute to adherence to fiscal rules; but hopefully we are equal to the task of having a rationale discussion on the options available to the country on both the expenditure and revenue side of the budget.

4.0 LETTER OF INTENT AND MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES (MEFP)

4.1 THE IMF PROGRAMME

- The IMF Board's consideration of the second review of Jamaica's economic programme (April to September 2013) under the EFF was approved on December 18, 2013. The supplementary MEFP included

an update of the quantitative criteria through September 2014 as well as the addition of specific commitments related to tax reform, streamlining incentives, improving the business environment, financial sector reform, and the strengthening of the social protection framework.

- The IMF Board approval resulted in a drawdown of SDR 19.97 million (about US\$30 million) by Jamaica, bringing the total drawdown from the Fund to date approximately US\$270M. The positive second review also facilitates access to loans from the World Bank and the Inter-American Development Bank of approximately \$270M by way of budgetary support.
- The next IMF Review Mission to Jamaica will be over the period February 5 – 14, 2014 to assess performance of the Quarter ending December 2013 and the outlook going forward. Our assessment

indicates that all quantitative targets and structural benchmarks for the December quarter have been met.

5.0 FISCAL RULES AND THE ROLE OF PARLIAMENT

Among the key tasks going forward and to be undertaken in the current quarter are:

- 1) Legislative amendments for the enhanced fiscal rule;
- 2) Tax Reform; and,
- 3) Other legislative reforms including the passage of the Omnibus Banking Act.

5.1 ENHANCED FISCAL RULES

- The GOJ developed and submitted to the IMF in August 2013, a conceptual framework for the design of legally binding fiscal rules. The enhanced fiscal rules will seek to bolster fiscal transparency, ensure a sustainable budgetary balance and consolidate the gains of fiscal consolidation. The transparency and automaticity of fiscal

adjustment will be enhanced by an explicit, time-bound adjustment path to sustainability. In that regard, legislation to enable adoption of these fiscal rules will be enacted by the end of March 2014.

- The enactment of the fiscal rule means that the Parliament will have a greater responsibility in the management of the fiscal affairs of the country, which will mean even more serious engagement by Parliamentarians about fiscal issues.

- **KEY ELEMENTS OF THE FRAMEWORK ARE:**

1. Aims to limit the annual budgeted overall fiscal deficits of the public sector (covering all fiscal activities), to achieve a reduction in public debt to no more than **60 percent of GDP by 2025/26.**
2. The rule will establish an **automatic correction mechanism** that would be triggered by substantial cumulative deviations from the annual overall balance target. The application of the automatic

correction mechanism can exempt specified social spending from potential adjustment.

3. The rule will also include an **escape clause**, limited to major adverse shocks and triggered only with parliamentary approval. Independent validation of the event or shock will be required before the escape clause can be initiated by the Ministry of Finance and Planning.

4. **Coverage** of the fiscal rule will take into account all fiscal activities associated with the public sector, as well the fiscal implications of PPPs (capturing all associated actual or contingent fiscal liabilities and risks).

5. The effectiveness of the current **enforcement and compliance regime** will be further enhanced to encourage greater *ex ante* compliance with the new rules-based framework. Measures will

include transparency and accountability through parliamentary hearings and public statements by officials. The Minister of Finance and Planning will be required to explain deviations from the fiscal rule in a mid-term budget review in parliament, and outline corrective steps to get back on track with the annual fiscal rule target.

5.2 TAX REFORM

- As was indicated in the FPP tabled in April 2013, comprehensive tax reform is a critical component of Jamaica's economic reform programme and remains a priority of the government. The GOJ recognizes that the tax system needs to become much more supportive of economic growth.
- Among the measures required for the current quarter is the presentation of a **BLUEPRINT FOR TAX REFORM** which has been

prepared and which I propose to have considered by the Tax Committee of Parliament.

THIRD PARTY INFORMATION REQUIREMENT

- Other commitments require a strengthening of tax administration.
- Beginning this quarter Tax Administration Jamaica will implement the third party information provisions of the Revenue Administration Act, 2013 on a phased basis. In the new financial year, starting April 2014, businesses in selected sectors will be required to submit detailed information relating to their depositors, independent contractors, suppliers and business customers.

TAX ON FUEL

- There has been much public debate surrounding the issue of revenue needs for the next fiscal year and specifically surrounding the fact that a study is being conducted regarding the possibility of collecting the

tax on petroleum products by way of GCT. Some of this debate reflects genuine concerns; some of it perhaps has other objectives.

- Let me be clear however, the issue concerns the relative merits of collecting the tax on fuel by way of a special consumption tax (SCT) as we do now, or by way of GCT. There are merits and disadvantages related to each approach which we need not go into here at this point.
- **LET ME STATE HOWEVER THAT IT IS NOT THE INTENTION OF GOVERNMENT TO INCREASE THE REVENUE FROM PETROLEUM PRODUCTS.**
- The issue is about the most efficient means of collecting the revenue.
- The focus of the government going forward is on maintaining our basic fiscal targets including more specifically, the primary surplus target of

7 1/2 per cent, which may require adjustments either on the revenue or expenditure side. **WE HAVE TO LIVE WITHIN OUR MEANS.**

6.0 THE WAY FORWARD AND GROWTH

- Mr Speaker, as I have indicated there has been a return to growth, modest though it is. This has been the result of the greater levels of confidence and the country's performance under the Economic Reform Programme.
- When the government reduces its borrowing, this should have a positive impact on the lowering of interest rates generally and more significantly on the lowering of the debt burden. Our debt as measured by the debt to GDP ratio is firmly on a downward trajectory and should be about 5-7% less for FY 2013/2014 than it was at the beginning of the economic reform programme.

- More immediately, the fiscal incentives introduced towards the end of last year reflect our determination to support the productive sector by reducing duties and the effective rate of taxation on productive enterprises.

- Measures are being put in place as has been explained by the Minister of Energy to bring cheaper sources of energy to market, and to reduce the cost of electricity going forward.

- There have been positive developments in other areas of the economy:
 - **Agriculture** is growing at a rate annualised at about 5 per cent;

 - Arrangements for the divestment **and expansion of the Kingston Terminal** should be concluded this year as has been indicated by the Minister of Transport.

- Plans for the **construction of new port facilities and industrial zones** associated with these are proceeding and more will be said to this House by the Minister of Transport on another occasion.

- We are enhancing the business environment and increasing access to credit by small businesses. To this end we have passed the **Security Interest in Personal Property Bill** and we have established a **Central Collateral Registry**.

- We have also put in place new arrangements to drive the process of **public sector transformation** to make the public sector more efficient and effective at service delivery.

- All these elements and more constitute the growth agenda. It is this that will provide for the improved quality of life for all Jamaicans.

- Mr. Speaker, there have been positive performances and encouraging indicators all around which can be built on to ensure that economic growth is stronger in 2014 and beyond.