

A: INTRODUCTION

1. Protocol/Thanks
 - (a) Agencies/Heads/Vernon James
 - (b) Special Interest Groups

2. Significant Presentation for many reasons
Personal Note - Tenth opening of the Budget Debate

3. More important. Seldom has there been so much anticipation leading up to the presentation of the Revenue Budget. No secret that the last four months have witnessed volatility in the foreign exchange and money markets, both external and domestic.

4. Add to that mix, war in Iraq, turmoil in the airline industry, SARS – only certainty is uncertainty.

5. What is clear, whatever the problems, however they originate, we are on our own..

6. Whilst there is no magic solution, and whilst there are several external factors beyond the control of any government, it is generally accepted that a clearly defined credible path to reduce and then eliminate the fiscal deficit will provide the framework within which more rational decision-making can take place.

7. I am convinced that by the end of the presentation, this would have been achieved.

8. Everyone agrees that there are difficult choices to be made. I have been bombarded with suggestions and proposals as to how these can be executed. Whilst most have been well meaning, a large percentage would seek to have the maximum revenue inflows from sources which affect no one. Clearly impossible.

9. Over the years I have indicated that with increased liberalization of the economy, with the publication of more information and more data on a regular basis, there is greater interest in the budget process than ever before.

10. I know for a fact that what is said today is being monitored in New York, in Washington and in London, with as much interest as in Kingston or Port Antonio. Perhaps, of greater importance than what is said today is how we behave as a country over the next fiscal year and the medium term. Social instability is no longer of local interest only. We had better learn to express differences of opinions in ways which are not destructive to the economy and to our international reputation.

11. This external interest is not simply from Jamaicans living abroad, but also from managers of mutual funds, officials in insurance companies or banks, who have committed resources from their clients to purchase GOJ bonds and hence, have a very strong interest in the decisions which we take here.

12. Similar interests from their counterparts in Jamaica, but at the same time, there is another element to the equation which transcends the mere balancing of the books, per se. As all of us in this Honourable House who face the electorate, and were selected through a democratic process know, the books must be balanced. However, in

the final analysis, the result must be a society and a country where we wish to live and where we hope our children and grandchildren will choose to live.

13. In short, the credibility of the budget rests partially on our being able to produce a financial programme, which satisfies our creditors and at the same time, provides the ordinary citizen of this country, clear reasons for hope for a better life. At the same time, the credibility of the country rests on our demonstration of social stability.
14. So as I seek to address various components of this “audience”, it is imperative that every special interest group, even as they seek to advance and defend their positions, views with equal respect the positions of others who feel as strongly about their own cause.
15. Our job, as an Administration, is to take all these viewpoints into consideration and yet produce a mix which meets the criterion of technical credibility which is most important to the creditors, even whilst protecting the inputs for greater social equity and providing the stimulus for increased economic activity.

16. Within the context of the above, my presentation will be structured as follows:
17. First, I will review the last calendar year as well as fiscal year 2002/03.
18. Then I will address the major challenge for this year and for the next three – reducing and then eliminating the fiscal deficit.
19. I will then look at the main targets/objectives for the present fiscal year 2003/04 and as we have done over the last several years, targets for the medium term.
20. I will then speak directly to the health of the financial system. Over the past several months that issue has been the focus of much attention, particularly with respect to the operations of the entities, loosely called the “securities dealers”.

21. I will then provide highlights of the expenditure budget. Obviously, given the fact that this document has been in public circulation in the past two weeks, there are no real secrets here. I wish only to highlight those activities which signal special thrusts by the Administration.

22. The penultimate section of the presentation is perhaps the most critical – how will this budget of just over \$260 billion be financed. I will then wrap up the presentation.

B: REVIEW OF 2002 AND FISCAL YEAR 2002/03

In reviewing the calendar year and fiscal year 2002/03, given the level of documentation provided, I will only speak briefly to some of the major highlights. I will not review the fiscal outturn in this section as that will be given extensive treatment on its own.

GDP

1. The GDP for the calendar year 2002 recorded growth of 1%.
For fiscal year 2002/03 the estimate is that this had increased to 1.7%.
2. Although these growth levels are still low, they are positive given the background of domestic and external factors.
3. Major areas which contributed to growth in the calendar year – mining and quarrying which grew by 3.4%, electricity and water which grew by 4.8% and transport and communication which grew by 5.6%.

4. For the calendar year the major sector showing decline was agriculture (mainly domestic agriculture). This declined by 8.3%. This result is not surprising given the impact of unusual weather conditions. However, the improved outturn for fiscal vs. the calendar year (1.7% vs. 1%) is due mainly to the significant recovery in domestic agriculture as more normal weather conditions have prevailed.

INFLATION

1. Inflation for calendar year 2002 was 7.3% compared to 8.8% for 2001. That marked the sixth consecutive calendar year of inflation below 10% (single digit). We have to go back forty years to find a comparable period.
2. The figure for fiscal year 2002/03 was even lower than for the calendar year, 6.2% - seven consecutive years below 10%. Again we have to go back forty years to find a comparable period.

3. Two additional points must be made about inflation. The first is that a major question following liberalization of the foreign exchange market in the early 90s and the consequential period of high inflation was whether the inflation psychology was now a permanent feature of the macro-economic landscape. Although the battle is never won, it is clear that much progress has been made whereby workers, householders have come to expect single digit inflation, thus laying the basis for greater social stability.
4. The second point relates to the pass through resulting from the depreciation of the currency. Again, this was once automatic e.g. in calendar year 1991 inflation was 80% and fiscal year 1991/92 106%.
5. One of the benefits of increased competition is that such automatic pass through in prices could place a businessman in jeopardy in terms of his market share. Hence, despite significant depreciation of the currency, particularly in the last

four (4) months, the inflation outturn is better than the previous year.

EMPLOYMENT/UNEMPLOYMENT/POVERTY

1. The unemployment level remained flat, approximately 15.1% in 2001. However, the chronic problem of the gender differential rates remains - female unemployment remains twice as high as that of males. Similarly the high level of youth unemployment continues to be a difficulty which needs to be addressed.

POVERTY

1. The 2002 the SLC indicated that there was a national increase in the poverty level, moving from 16.8% in 2001 to 18.2% in 2002.
2. The preliminary tables which are available to me demonstrate that this increase is mainly related to the parishes most affected by floods e.g. Portland, St. Thomas, St. Ann and Clarendon.

3. On the other hand, the parish of St. Mary is an interesting case – it shows more than 55% reduction in poverty between 1998 and 2002 – from 38.2% to 16.8% - that is below the national average.
4. This reduction was partly due to the result of the significant increase in the level of public investment in that parish following the 1998 survey.
5. All the major trends that the SLC monitors (health, education, housing etc.) remained stable for the 2002 survey. The implication of this finding is that the policy thrust, focusing on the elderly, on health care reform, pension reform and improving the social safety net are the correct ones.
6. In terms of the increase in poverty levels, as indicated by the SLC, I urge that we do not draw too many conclusions based on the one year change but to look at the data for the next survey to see whether the impact of the floods would have been reversed.

7. What is incontestable is that if we look at the trend from 1992 to 2002, there is a steady long term decline of poverty but the challenge is to maintain that trend even whilst we make the necessary adjustments to the economy.

BALANCE OF PAYMENTS

1. Major developments of the BOP in 2002 were:
 - a) the merchandise trade deficit of US\$1,795 million an increase of US\$176 million over the previous year.
 - b) A surplus of US\$295 million in the service account, a reduction of US\$87 million compared to the previous year.
 - c) An increase in the deficit in the current account which grew to US\$940 million and a decrease in the NIR of US\$240 million.

2. Total export earnings decreased by \$110 million due mainly to the decrease in earnings from traditional merchandise.
3. In terms of the imports, general merchandise imports grew by \$45 million with increases in consumer goods of \$72 million – motor cars, durable goods and food imports.
4. Capital goods imports increased by \$33 million, mainly telecommunications equipment.
5. There was a contraction of \$110 million in net earnings from travel. The causes of this reduction are interesting – part was reduced spending by visitors to Jamaica of some US\$58 million but of greater significance was increased spending by Jamaicans travelling overseas, of about the same amount.

RESERVES/FOREIGN EXCHANGE MARKET

1. During the calendar year the NIR fell by \$238 million to \$1.6 billion. By the end of March it had decreased further to \$1.3 billion representing 22.5 weeks of imports. The reduction for

calendar year was due to lower inflows of foreign exchange as well as the intervention by the BOJ in the foreign exchange market.

2. The main reasons for the reduction between December and March in the NIR was that the BOJ utilized reserves to make payments for the GOJ Euro Bond which matured in February.

TOURISM

1. The tourism sector has been faced with many challenges including the plight of the major airlines in the U.S., which impacted negatively on the travel trade internationally.
2. In the Caribbean region there was a decline in stopover arrivals of more than 7% in 2002. Some countries actually recorded a double-digit decline.
3. Jamaica saw some fallout in that stopover arrivals were down less than 1%, although earnings were eroded by weak market conditions which required discounting.

4. January/February combined saw a revival in stopover visitors with an increase of 12%, although March arrivals slipped to a 0.3% increase, reflecting international events.
5. Despite the March outturn, the first quarter, January to March reflects a 7.2% increase over 2002.
6. Cruise arrivals - January through March- were up 45%. This significant improvement reflects increased calls from new ships as well as arrivals of larger vessels.
7. Immediately after the war broke out in Iraq, bookings slowed down. Indications are that things have now bottomed out and bookings are stabilizing.
8. The JTB is hard at work mapping out a strategy to return the momentum experienced in the first three months of the year.

9. The new Board is presently studying a draft of a report commissioned to review the organization. The major objective is to utilize modern practices and technology to make significant savings in administering expenses thereby allowing the reallocation of more resources into marketing and promotion.

C: THE CURRENT STATE OF PUBLIC FINANCES

TRENDS OVER THE PAST FIVE YEARS

1. It is important for us in assessing where we are today to look at the trends in terms of the fiscal over the past five years.
2. We were able to contract the fiscal deficit over the fiscal years 1997/98 to 1999/00. That trend should have led to a surplus and hence debt reduction by the recently concluded fiscal year 02/03.
3. It should be recalled that one of the major reasons we were able to address the problems in the financial sector was due to these positive developments in the fiscal accounts. Were this not so, there would have been total collapse given the cost of the intervention which has now been assessed to have cost in excess of 40% of GDP.
4. Whilst I will not dwell on it today, the formal assumption of the FINSAC debt as part of MOF's debt stock and the associated debt

servicing costs have been the major causal factor of the twin problems we face.

5. There were several major setbacks in fiscal year 2001/02 which reversed the positive trends which had obtained in the previous two years, these included
 - (i) the significant fall out as a result of September 11
 - (ii) the formal assumption of the debt service charges on the FINSAC debt, and
 - (iii) increased expenditure related to tourism promotion, flood relief and rehabilitation and decreased inflows from the travel trade.

6. In terms of the outturn for fiscal year 02/03, I have already indicated that the target established in the SMP of a deficit of 4.4% of GDP was not achieved. However, compared to the passive outcome of 8.4%, which was projected in December 2002 if no action were taken, we have already given a clear indication of a

willingness to take corrective measures. This has resulted in the reduction of the deficit to 7.7% of GDP for 02/03.

7. For observers at home and abroad, let me repeat that rather than the 8.4% deficit which seemed likely in December, we have reduced it to 7.7% of GDP.
8. Not surprising the debt statistics demonstrate a similar deviation from the target. The debt to GDP ratio at the end of March 2003 stood at 151.8% of GDP which is not only higher than the original target but is judged by all to be a clear indicator of the need for decisive remedial action.
9. Even whilst we accept the need for remedial action this deviation has not occurred in a vacuum. It has been caused by a sluggish world economy, adverse movement in commodity prices, prices for imported oil up and that for bauxite/alumina down. On the domestic front there have been the impact on production by four major floods within a 12-month period as well as the cost of

rehabilitation, and finally there have been wage increases, including retroactive payments.

10. We could spend a great deal of time debating what could have been done differently to avert the negative developments in both the size of the deficit as well as the related increase in debt stock and debt to GDP ratio. No doubt this will be the focal point of some of the contributions in this budget debate. However, while this may be an interesting exercise, the reality is that there is need now for corrective action. The drive for corrective action emanates both domestically and internationally.

11. From the international perspective, whilst Jamaica's external debt, compared to inflows (earnings, remittances and investments) and our reserve levels still provides positive ratios, the fact that our foreign exchange system is totally liberalized means that creditors no longer focus solely on external debt but look at the overall debt stock. The reason is that it is quite easy to convert domestic resources to foreign exchange, thus putting pressure on the exchange rate and the NIR.

12. Our external creditors, and rightly so, have placed a great deal of focus in terms of the ability of the revenue stream to sustain our debt servicing needs over the medium term unless corrective action is taken. There is a second issue and it relates to a generally unfavourable view of emerging markets particularly given the uncertainty which characterizes world economic developments. In time of uncertainty, investors in the industrialized, capital-rich countries become increasingly inward looking.
13. It is not that countries such as Jamaica cannot obtain credit but within the present environment, this is increasingly difficult and at a high cost.
14. On the local scene, our domestic creditors are themselves becoming concerned and it is an open secret that they are awaiting this presentation to see what specific steps will be taken to ensure a predictable source of additional revenue inflows to facilitate debt servicing.

15. However, whilst our creditors domestic and external are important, the improvement in the fiscal situation in the medium term will also redound to the benefit of the majority of ordinary citizens. The extent to which debt servicing consumes a larger percentage of total expenditure is the same extent to which the Government is hampered in addressing the needs of the most deprived members of the population.

16. Consider the present budget for fiscal year 03/04. Debt servicing takes up 65% of total expenditure and the total capital budget net of amortization will consume less than \$9 billion or 3.4% of total expenditure. What this means is that our future ability to address real needs in the economy is being constrained by the extent to which debt servicing is consuming a larger and larger percentage of the expenditure budget.

17. If there is one thing on which all 60 members of the Honourable House should be united is that this trend cannot be continued. Simply put, the imperative for strong fiscal action is something on which we all agree.

18. This need for strong corrective action is not restricted to Central Government operations. Part of the problem relates to statutory bodies and government-owned companies which have become a financial burden on the Ministry of Finance. The NWC and the JUTC are two examples which will be required to put their fiscal house in order with immediate effect.
19. This is the day many of our creditors have been waiting for when the clear signal has to be given of the recognition to reduce the fiscal deficit and to reduce the ratio of the total public debt as a percentage of GDP.
20. Whilst creditors both domestic and external, closely monitor the debt and deficit to GDP ratios, perhaps the indicator which is most closely scrutinized, is what is termed the “primary balance”.
21. **Definition** – The primary balance is the difference between revenues and non-debt expenditure. Hence it gives everyone, the analyst/creditor and the ordinary observer, a clear picture as to

whether a country is “splurging” or whether it seeks to demonstrate fiscal responsibility in expenditure patterns. For ease of comparison across countries, the primary balance is usually considered as a percentage of GDP.

22. Jamaica has had a remarkable record in terms of recording high primary balances in the recent past. In fact, over the three-year period 99/00, 00/01, 01/02 the country recorded an average primary balance of 12% of GDP. This was an unequalled record amongst member countries of the IMF.
23. Not surprisingly, last year 02/03 the primary balances fell to 8% of GDP.
24. There has been a clear signal from our external creditors and the rating agencies that whilst there are several indicators of interest, a special eye is being kept on our performance with regard to the primary balance. Not just for 03/04, but also for the medium term. In fact, it is no secret that it will be impossible for us to achieve the target of eliminating the fiscal deficit by fiscal year 05/06 unless

we return the primary balance, as a percentage of GDP, to near or around the levels of the recent past.

25. Whilst these expectations are high, we are confident that they can be realized as we have done it in the past. Perhaps the only difference is that our behaviour and our performance will be more closely monitored this time around than ever before.

D: THE MEDIUM-TERM FRAMEWORK

1. Several years ago when this Administration completed its last Extended Fund Facility (EFF) with the IMF we decided that, despite having no borrowing relationship with that institution, we would seek to develop and adhere to our own medium-term macro-economic targets.
2. As such, each year in my budget presentation, apart from identifying targets for the fiscal year, we would also present targets for the following two years – in other words a three-year programme. It was because of that approach why it was a relatively straightforward matter for us to develop a programme three years ago, which was endorsed by the IMF staff and became the SMP. That SMP was the basis on which the World Bank, the IDB and the CDB provided us with loans totalling US\$325 million to assist in the resolution of the problems in the banking sector.
3. I wish to briefly speak to two issues. One, the fact that we do not always make the targets which we have established and second,

our future relationship with the multilateral creditors given a recent decision taken by the IMF about SMP's, in general.

4. In terms of the targets, I have heard comments made of the fact that over the years, several have been missed. Whilst such comments are useful for scoring political points, it really does not do justice to the complexity of trying to manage a small open economy where there are factors totally outside of the control of any government, which can, and do, radically change the performance of various economic sectors.

5. We have our own recent experiences where the performance in bauxite and tourism or even in domestic agriculture can be radically changed by factors over which one has no control. However, even if we were to look at the major economies of the world, the divergence between actual performance and targets is nothing unique to Jamaica, and in recent years there have been virtually quarterly revisions by the US Government of its economic performance targets as unexpected changes take place in the macro economy.

6. Nonetheless, we keep aiming to do better and as we have been able to demonstrate in several areas, that of inflation control being one prominent example, our local technicians have the capability which we can rank with performances anywhere else internationally.

7. Let me now turn to the issue of the decision by the IMF to terminate the use of the Staff Monitored Programme. Mr Speaker, if I may, I should indicate that the Staff Monitored Programme grew out of the recognition by the IMF that there were several member countries in good standing, which had no need to enter into borrowing arrangements with the institution, but wished to have the IMF staff give a formal public assessment of their macro economic programme.

8. Such programmes were not IMF programmes **per se** but were designed by the individual countries, assessed by the IMF staff and judged to be technically sound. These programmes did not have to be approved by the IMF Board and there were no formal “tests”

which the country had to pass. In any event, there could be no punishment for failure as there were no loans associated with the programmes.

9. I do not wish to go into the details of the deliberations at the IMF Board about the usefulness/validity of the SMP. However, there are some observers who feel that the decision of the Board to discontinue use of this programme was due to the fact that SMPs excluded members of the Board from actual participation in assessing the performance of countries (the interaction was between staff members and the Governments of the individual countries).

10. It was within this context that the decision was taken to terminate the SMP as an official programme of the fund. Unfortunately, and rather surprisingly, this decision to terminate SMPs was taken even before any new programme to replace it was developed. I have had occasion to say before, and I wish to repeat today, that the IMF's decision to end the SMP as an official programme of the Fund had nothing to do with the Jamaican case. I know we think

that we are “broad” internationally, but in this case we were not the causal factor.

11. That aside, the fact still remains that there is a place for a programme such as the SMP whereby a non-borrowing member of the Fund could have an assessment by the Fund of its macro-economic programme. This is of benefit in a variety of ways. In our instance it has assisted us not only in terms of the loans from the World Bank, the IDB, and the CDB – our normal multilateral partners but also in terms of bilateral partners who would wish to have some definitive assessment of our macro-economic programme from the IMF.

12. The Government of Jamaica is indeed concerned about the decision to terminate SMP programmes prior to the development of an adequate replacement and I would like to indicate to this Honourable House that we are seeking to be involved in the dialogue with other countries and with the Fund itself in terms of an adequate replacement. We naturally, have a vested interest.

13. In fact immediately after the conclusion of this debate, I will be visiting Washington to meet with the multi-laterals. High on the agenda of issues, which I intend to discuss with the officials of the Fund are possible alternatives to the SMP.
14. In terms of the medium-term programme for the period fiscal year 03/04, 04/05 and 05/06, let me begin by repeating the outturn in major areas for 02/03. For GDP for the fiscal year there was GDP growth of 1.7%; inflation for the fiscal year was 6.2% - the seventh consecutive year where inflation has been below 10%; the fiscal deficit as a percentage of GDP was 7.7% and the debt to GDP ratio was 151.8%.
15. The targets for the medium-term have been laid out but I wish to draw particular attention to the three which are of greatest importance. The first relates to the reduction and then elimination of the fiscal deficit within a three-year period.
16. The target for this fiscal year 03/04 is to bring the deficit down from 7.7% of GDP to between 5% and 6% of GDP. This is a

major undertaking but as I have indicated before, it is one which the country must achieve, not only to restore credibility with our creditors, but also to put the Government in the position to respond more fully to the real needs of the country.

17. I believe that attainment of this target, regardless of the domestic developments, regardless of international uncertainties, will be the signal test by which the country will be judged domestically and internationally. We cannot afford to fail in this endeavour.
18. The second critical target to which I wish to draw special attention relates to the debt to GDP ratio. As at March 31, this ratio was 151.8% of GDP. Although this ratio is unacceptably high, it is far from being the worst we have experienced. In fact, over the five-year period, 1983-1987, the lowest point for this ratio was 167.7% (1987). The highest was 216% in 1985.
19. There has been a great deal of debate about the need to “cap the debt”. This Administration agrees with the notion of “capping the debt”, but let us be clear as to what we mean precisely. To cap the

debt can have two interpretations – either to cap it in absolute terms in billions of Jamaican dollars or otherwise to cap it as a percentage of GDP. There are many persons who endorse “capping the debt” without clarifying which is meant.

20. Let me make the Administration’s position clear - it is not possible for us to cap the debt in terms of the stock of debt. To begin, the stock of debt exists and unless we can find ways of paying down that debt immediately there is bound to be an increase in the actual stock of debt until we have eliminated the deficit.
21. As can be seen even the task of reducing the deficit from 7.7% to between 5% and 6% of GDP is a formidable challenge and as long as you have a deficit it means that the stock of debt will increase. Therefore, let us focus on containing and then reducing the debt as a percentage of GDP. If that is what is meant by those who make this recommendation, then there is nothing which divides us.
22. In terms of specific targets, devaluation has increased the stock of debt, expressed in J\$ and for FY 03/04, the best we can do is to

hold the ratio stable. However, in 04/05 and 05/06 we project reductions, leading to a ratio of 123% at the end of the medium-term..

23. The third major indicator by which the country will be judged is the primary surplus. As I have mentioned before in the presentation, Jamaica has earned positive assessments from the multilaterals, the bilaterals and private sector creditors by having maintained a high primary surplus averaging approximately 12% over a three year period.
24. In order to attain the fiscal targets leading to a balanced budget in 05/06 and to reduce the debt to GDP ratio a similar performance, in terms of the primary surplus is needed. That we have done it in the past is a clear indication that we can do it again. We have therefore targeted primary surpluses of 12% or above for each year of the medium-term programme.
25. The medium-term framework is not simply a collection of numbers which have been put together in a matrix in order to impress

creditors. It represents a technical programme built around our present situation, our best assumptions as to changes in critical variables, as well as explicit policy positions.

26. It is very rare that all assumptions will hold. No one can speak with any certainty about the weather, oil prices, the travel trade, or the spread of disease. Any of the above can create chaos in critical economic sectors thus neutralizing the best laid plans.

27. Despite all the above, we have prepared this medium-term framework which is being presented now and will be presented to our creditors as our blue print for emerging from this difficult situation.

E: THE FINANCIAL SYSTEM

1. I have decided to include in my presentation, a short review of the state of the financial system, as questions about its overall health have surfaced on various occasions in recent months.
2. The three main bodies responsible for monitoring and regulating the financial sector are the Central Bank (the BOJ), the Financial Services Commission, and the JDIC.
3. The Central Bank's area of authority relates to the deposit-taking institutions, including the credit unions.
4. The JDIC's role is providing insurance protection for depositors who are clients of the institutions regulated by the BOJ. Overall, this sector is utilizing international standards for regularly focusing on a range of indicators meeting the standards demanded through the Basle convention.

5. At present, there are twenty deposit-taking institutions, down from thirty-five in 1998. These institutions have assets of over \$340 billion, approximately 85% of GDP.
6. Further, we have sought international assessments of the regulatory capabilities, and the IMF has indicated that in almost all areas, the standards are equal to those anywhere in the world and we are working to bringing the rest up to required international standards.
7. As regards the JDIC, as at February 28, it had balances of over \$760 million, 39% over the amount of a year ago. Its operations have also been assessed by external institutions and judged to be equal to counterpart agencies anywhere else in the world. Naturally our hope is that we will never need to find out how it operates in a time of actual crisis.
8. I now turn to the operations of the Financial Services Commission, which is charged with regulating and supervising all the financial institutions, which are not involved in deposit-taking. These include

60 securities dealers, 7 life insurance companies, 14 general insurance companies.

9. Let us speak frankly here, and indicate that it is about the securities dealers that most questions have been posed in recent months.

10. The range of institutions which fall under the umbrella “Securities Dealers” is large, as there is great latitude in terms of the instruments used in offering investment options to the public. Hence, for example, a Securities Dealer can simply facilitate the purchase of a government bond by a client for which he is paid a fee. On the other hand, the client’s resources can be utilized to purchase a certificate of participation in an instrument in which the dealer has invested.

11. The critical distinction between the “Securities Dealers” and deposit-taking institutions, is that, on the one hand, deposit-taking institutions guarantee depositors a specific level of interest on the principal placed with the institution, backed by the JDIC, up to a maximum of \$300,000. On the other hand, clients operating through a Security Dealer may have the opportunity to make higher returns but have no

such guarantee either by the Government, through the JDIC, or by their dealer.

12. It is important that this distinction be made and this has been part of my charge to the securities industry and the JDIC. It is imperative that their public education programme should give priority to the establishment of this distinction in the minds of the investing and saving public. Whilst there has been some improvement, it is still too much of a common viewpoint held by members of the investing public that funds placed with firms licensed as securities dealers are “on deposit”.

13. Having made that distinction, let me provide some reassurance to clients of the securities dealers and supervised by the FSC. The fact is that, on an average, in excess of 80% of the investments made, using the resources under their control are in GOJ paper. In other words, the investors who are clients of the securities dealers are creditors to the GOJ and the people of Jamaica.

14. The fact is of critical importance and marks a significant distinction in terms of the assets of the Securities Dealers, compared to those of the banks which failed during the mid 1990s. In the latter cases, many of their assets were in terms of real estate or investments in farms and hotels, the values of which were far below that of the associated liabilities.

15. So in this present situation, whilst there are areas where there is need for improvement in the regulations governing the activities of securities dealers, there is a fundamental difference in the concerns which we may have at present, as opposed to those which existed in relation to the banking sector in the mid 90's.

16. It is also important for me to state that there is constant dialogue and communication between the regulatory authorities and members of the trade. Hence I have insisted that the relevant officials improve the information and data flow as these relate to the sector in general, as well as each licensee, to ensure that we are never caught by surprise.

17. In addition, the areas where there is need for tightened regulation have been precisely identified and the industry has been informed. The work programme on which the FSC has embarked is to do a complete assessment of each firm and, on a case by case basis, work out a programme of compliance within a specific time frame.

18. Finally, I wish to assure the public that whilst in certain instances there could be liquidity pressure on a particular institution, this is a problem which can be easily dealt with, and in the rare instances where this has occurred, it has been addressed by the institutions.

19. Pension Reform –
There is one outstanding aspect of the responsibilities of the FSC which will be addressed in the legislative year. It relates to the Pension Reform and the associated legislation.

20. Very few persons are aware that there is no specific pension legislation in Jamaica. Rather, pensions management is treated under the Income Tax Law.

21. There is general agreement on the way forward, including portability, registration of pension fund managers, etc. However, whilst most parties have agreed to vesting, there is still not unanimous endorsement from all trade unions.

22. We have expended a great deal of time and effort attempting to achieve this unanimous endorsement. To date, we have not been successful and so we have decided to proceed with the legislation without “vesting”, and then seek to bring all on board in as short a timeframe as possible.

23. The “vesting” issue is an integral part of any fundamental pension reform. My goal is that within the legislative year we will first pass the legislation without vesting, then as soon as an accommodation has been reached on that issue, the appropriate amendments be made.

F: THE EXPENDITURE BUDGET

1. The Estimates of Expenditure were tabled two weeks ago and it has received extensive analysis in the public media and in the sittings of the Standing Finance Committee. The reactions to the size of the budget have been mixed and at times contradictory. On the one hand, there are those, including some local and external creditors, who have argued that the projected level of expenditure was greater than expected and the Government should have sharpened the knife to a greater extent reducing the increase for 03/04 either compared to the Supplementary or to the original estimates presented a year ago.
2. At the same time, virtually every single Minister at Standing Finance Committee was bombarded with questions suggesting that the allocations contained in the Estimates were inadequate.
3. Let us look briefly at the budget. Debt servicing – amortization and interest payments will consume approximately 65% of total expenditure. This leaves 35% to deal with wages, salaries, running

the ministries and the capital budget. If we operate on the assumption, which all Governments of Jamaica have adhered to, that the debt must be paid and I am certain all our creditors wish to ensure that this tradition is preserved, then any cuts should be related to that 35% of the expenditure which is not related to debt.

4. Let us probe a little more deeply. Of that 35% remaining, after debt, the capital budget consumes \$9 billion or 3.4%. No one, I repeat no one, in this House would dare to suggest that this is adequate. In fact, it is because of the inadequacy of the allocation in recent years why the deferred financing mechanism has been utilized to supplement that which is taken on board in the budget in this fiscal year.

5. So we now turn to the recurrent budget and here we are faced with a reality. Interest payments account for a half of total recurrent expenditure and the big three ministries - Education, Health and National Security consume 30%. This means that only 20% of the total recurrent expenditure has to take care of everything else.

6. I turn to those who demand a smaller budget and ask how do we compress expenditure in these three ministries without undermining all efforts at improving the social conditions of our people?

7. I am not for one moment claiming that there are not efficiency gains to be made and this is an issue to which I will return. However, we run the risk of taking a superficial view of the problem, unless we disaggregate what is indeed contained in the budget.

8. On various occasions I have heard persons argue that the cutting of the expenditure is not a difficult problem. They say “*look at any well run firm, this is what decision-makers do as a matter of course.*” This comparison of the Prime Minister to the CEO of a company and hence charged with taking identical responsibilities for a major firm is acceptable up to a point.

9. However, how should we treat the school system if revenues fall off in a particular year? How should we treat the police force, how

should we treat the health system? Should we simply slash expenditure in areas which are already under-funded?

10. But there is yet another issue which must be faced by all of us, but especially those who urge greater fiscal austerity particularly in terms of wages and salaries. There are those who opine, sometimes from capitals abroad, that we should enforce drastic cuts or freezes in the wages of public sector employees. The basic suggestion is that the average government employee is an under-qualified paper pusher. This stereotype is simply not true. They do not face what successive Governments have faced - the brain-drain whereby our most skilled professionals can simply make a logical choice and give up on low-paying jobs.
11. So even whilst accepting the imperatives of increased efficiency in providing services for which Government is responsible, we must also indicate that reduction of expenditure on wages and salaries cannot be carried out without recognizing that professionals have options - not simply whether to work with Government or the private sector in Jamaica, but whether to remain in Jamaica at all.

This is not theoretical musing. The recruitment of our health professionals over many decades and our teaching professionals in more recent years is practical proof of this.

12. I now turn to a brief discussion of the allocation of an overwhelming percentage of the budget to debt servicing. Clearly, as I have stated before, this is not sustainable as it undermines the country's credit worthiness. Hence the tightness of this year's budget.
13. However, even as we all agree to focus on debt, whether through normal loans and credit lines or through deferred financing, we should not pretend that this debt has brought no positives. It is through debt that we have modernized our hospitals - whether it is the Kingston Public, the Mandeville, St Ann's Bay, May Pen or Cornwall Regional.
14. It is debt, now in excess of J\$10 billion, which has provided the KMA with a modern civilized transportation system. It was this debt which financed the dualization of Hope Road; it was debt

which has brought about improvements to the North Coast Highway, to Mount Rosser, to Washington Boulevard and to Trafalgar Road. It was this debt which has brought about modern water and sewage systems for Negril, for Montego Bay and for Ocho Rios.

15. So even as we take steps to reduce the debt to GDP ratio and to reduce the deficit, let us not pretend that these debts were incurred to buy fighter planes or to carry out extravagant acts.
16. Let me now turn to certain special aspects of the expenditure budget identifying particular areas which are geared toward improving the socio-economic standing of those at or near to the bottom of the economic ladder or providing support for increased output and production.
17. For obvious reasons there is very little scope in the budget for financing major new incentive programmes for the productive sector. However, we have closely examined those areas where the resources which are available can have the maximum positive

impact in terms of output, employment and reduction in the cost of living.

18. Support for the agricultural sector can reap those benefits – not just in theory. Recent results in terms of movements in the CPI confirm this; e.g. over the period January through March, despite significant depreciation of the currency, which under normal circumstances would have impacted negatively on the CPI, the recovery in domestic agriculture has contributed greatly to reduced food prices and hence the moderate inflation for the first three months of 2003. We need to give further impetus to this sector.
19. We have included some additional resources in the budget and also have earmarked sums from the DBJ totalling approximately \$300 million for various initiatives to facilitate expansion in the agricultural sector. I wish to highlight a new production rebate scheme.
20. We propose to refund up to 30% of the investment cost of farmers who meet agreed production targets under an agreed set of criteria.

21. The refund will be paid over to farmers after performance is certified by RADA and a special management committee made up of persons from DBJ, PIOJ and the Ministries of Agriculture and Finance.
22. The main objective of this scheme is to quickly resuscitate output from cocoa, ginger, tree crops as well as livestock for which there are ready markets.
23. There are several areas of expenditure which represent concrete examples of the continuing commitment to addressing the need to improve physical and social infrastructure thus raising the standard of living of the inhabitants of the country. This afternoon I will focus on two – the PATH programme and the soon to be implemented National Health Fund. As regards the PATH programme we accept that there are some teething pains still to be overcome, but there can be no question that the focus is right and should lead to a more coordinated response to the need for assistance by the most deprived in the society.

24. The programme links benefits to desired behavioural changes and it is one which we have developed with the assistance of the World Bank and the IDB. Whilst we will be accessing loan funds from the multilateral institutions in the first instance, after the initial four-year period the GOJ will assume full responsibility for financing the programme.
25. When fully operational, the PATH programme will provide benefits to approximately 240,000 persons each year. I have heard many justified complaints in terms of the coverage of the programme and the adequacy of the amounts being provided to families.
26. Such complaints and comments are to be expected, but let us not use them to halt implementation of what is undeniably a major advance in the social welfare programmes. Let us all, as persons concerned about the welfare of our constituents, share our thoughts on how this programme, which can alleviate the poverty of nearly 10% of the population can be improved.

27. The National Health Fund –

Let me begin by paying tribute, stick-to-itiveness and tenacity of my colleague who pushed, prodded and persisted until this Fund has become a reality.

28. The Fund will assist individuals in meeting the high cost of filling prescriptions for a range of chronic illnesses. It will also provide assistance for primary health care.

29. It is estimated that up to 750,000 persons who suffer from one or more of the chronic illnesses will benefit from the NHF. There will also be a health promotion and production fund with allocations for immunization and health education programmes which focus on promoting healthy lifestyles.

30. Financing for the Fund will come through the imposition of a 23% excise tax on tobacco consumption. This additional revenue from the excise tax will go straight to the Fund. Furthermore, there will be a specific charge on the Consolidated Fund of \$450 million and

a re-configuration of payments into the National Insurance Scheme providing \$800 million during this first year.

31. Registration for NHF individual benefits will commence on April 28 and benefits can be accessed some time in June.
32. Two additional points must be made. The first is that the successful implementation of this Fund will be a major achievement, not only by Jamaican standards, but internationally. There are very few countries regardless of how wealthy, which have solved the problem of providing some measure of health insurance to its general populace.
33. For example, one-fifth of the US population has no health insurance protection at all. Therefore, it is in the interest of all of us to collaborate to make this Fund operate successfully.
34. The second point is that whilst there are many who are not in a position to make their full financial contribution to keep this Fund going, we cannot allow those who are able to, to benefit without

making a contribution. Hence those who register for the programme will be required to have a valid TRN and we will be putting in place arrangements to ensure speedy processing of applications for the TRN.

35. We need to collect the data on beneficiaries. No one will be prevented from participating, but we need to have full information on all beneficiaries just as in the case of the NHT and the NIS.

36. **Efficiency and Cost Containment**

Earlier on, I made the point that whilst the analogy of running the Government being no different from running a large firm cannot be generally applied. I wish to assure this House and the public at large, that clear steps are being taken to increase efficiency levels in the public service. Simply put, we need to ensure that we are receiving “more bang for each buck”.

37. Whilst we are not where we wish to be, the fact is that we have made significant progress as there has been improved service coming from the public sector with the establishment of Executive

Agencies which have been forced to maximize their revenues and improve their service to the public.

38. Much attention has been focussed on the significant increases which were granted to civil servants last year and the logical and correct question is what will be given in return to justify moving the remuneration of this group of workers close to that which obtains in the market.
39. The truth is that significant concessions have been made in terms of leave entitlement and in terms of performance related increments and promotions. All new entrants into the Civil Service are being employed with drastically reduced leave entitlements and a clear acceptance that additional increments and promotions are related to their performance evaluation.
40. For those who have been employed for longer periods, performance based promotions will first be introduced on a pilot basis in six ministries/departments – Ministry of Finance and Planning, Office of the Prime Minister, Cabinet Office, Office of

the Services Commissions, Ministry of Transport & Works and Ministry of Local Government. It will be extended service-wide by April 2004.

41. There have been further concessions made by the workers in terms of the reduction of departmental leave, the number of days leave which can be accumulated and the elimination of payment for leave not taken. In the latter case, it is estimated that this will save the Government approximately \$1 billion in the first year.
42. There are many who may argue that these changes, although welcomed, are not enough. However, I wish to place on record my appreciation for the level of cooperation which has been offered by the Executive of the Jamaica Civil Service Association in making this move towards a more efficient and accountable public service.
43. Let me now turn briefly to discuss the ongoing negotiations with the JTA who represent the majority of our 23,000 teachers. The review, which was jointly commissioned by the Government and

the JTA, establishing the links between teachers and their Civil Service counterparts has been completed. The issue is no longer about the monetary adjustments which are needed. The increases proposed by the report and accepted by Cabinet are significant. However, given the overall objective of greater accountability and consistency between the conditions of service which obtain in the “market”, we feel that it is imperative that there are clear signs that there are changes which are taking place in those areas also.

44. Simply put, alignment with the market is not just about salaries and the whole exercise would have missed the major objective were we to sign an agreement which eliminates reference to performance-based pay and reduced leave entitlement, simply in order to achieve industrial peace.
45. Notwithstanding the above, we have not doubt that the GOJ and the JTA will soon have a mutually acceptable resolution.
46. I have indicated that the degrees of freedom, which face the Government in terms of the expenditure budget are limited.

Nonetheless, in any bureaucracy this large, there is always scope for savings through cost cuts and each dollar saved provides an opportunity for either reducing the debt or spending on a programme which has been squeezed.

47. Toward this objective I have decided to establish a two-man Task Force who will report directly to me with specific recommendations on how best practices employed in the private sector can be utilized to trim expenditure levels in Government. This Task Force will have access to full information on procurement procedures etc. It will comprise Mr Chris Bicknell the CEO of Tank Weld and Mr Patrick Hylton, former Managing Director of FINSAC.

48. The total non-debt expenditure is approximately \$90 billion. I have given this Task Force a minimum target of a one percent saving for the fiscal year. If this is achieved, this will be a significant step on the way to greater efficiency.

49. There are additional steps being taken to improve efficiency. Work is far advanced in respect of a further round of rationalization via closures, mergers, sharing of corporate services.
50. Whilst I will not provide full details here, I will give a specific example from my own ministry. Members will recall that the present institution, the Development Bank of Jamaica, represents a merger of the Agricultural Credit Bank (ACB) and the National Development Bank of Jamaica (NDB). These two institutions which formerly employed 120 persons, were merged to form the Development Bank of Jamaica (DBJ). The DBJ, with an expanded loan portfolio now employs only 70 persons.
51. We intend to go even further. Members would be aware that in October responsibility for the NIBJ was given to me by the Prime Minister. I have asked Professor Alvin Wint of the UWI, who was responsible for the study leading to the merger of the ACB and the NDB, to advise me how to proceed with a merger of the DBJ and the NIBJ.

52. I expect to have his report by the end of April and will be following up on his recommendations immediately thereafter.

53. Privatization of several state entities still remained on the agenda. I wish to assure this House and the public that there is no lack of will by Government and whilst I have heard the advice of the private sector to privatize and divest, very few offers have been forthcoming and in several instances, when they are forthcoming the proposals do not have the wherewithal.

G: FINANCING THE BUDGET

1. The Estimates of Expenditure as approved by the Standing Finance Committee projects spending of \$261.3 billion. We have all accepted that the reduction and then the elimination of the fiscal deficit are objectives which must be attained.
2. We therefore now need to look at projected revenue flows in order to assess what additional action needs to be taken to meet that critical target – a deficit of 5-6% of GDP.
3. On a passive scenario, we project tax revenues and grants totaling \$132 billion of which \$122.5 billion will represent tax revenues. The projected growth in revenues is consistent with the pattern over the last several years. If we add to this total of \$132 billion, loan receipts of \$116 billion we have a total of \$248 billion. That leaves a financing gap of \$13 billion.
4. Obviously that gap cannot be closed by more borrowing, as that will exacerbate our existing problem of a deficit which is too large. Hence, in order to attain the fiscal deficit of 5-6% we

need a revenue package of just over 3% of GDP or \$13 billion, to close the financing gap.

5. In seeking to generate this additional revenue totaling \$13 billion we have had to examine a menu of options.
6. The first major area of increased revenue is aimed at pulling into the tax net those individuals/firms who, in one way or another, are avoiding payments which are due. Such individuals/firms by their actions are creating unfair competition with those who routinely pay their taxes.
7. A recent study has demonstrated that the informal economy is at least 40% of the formal economy – that is those who pay their taxes. Put another way, of the real economy only 70% of activities are included in the tax net.
8. All are agreed that we must seek to bring this additional 30% into the tax net. The obvious question is how? We know that in several cases importers have no interface with the tax

authorities after goods leave the ports. A measure which will be implemented is a prepayment of income tax due by all importers. A 4% cess will be charged at the ports on all imports, including capital goods and raw materials. This cess will be treated as credit against income tax when the importers have filed his/her income tax returns.

9. The exemption from this cess will be applicable when goods are being imported by government, diplomats, international organizations and individual passengers up to the allowance of US\$500.
10. From the perspective of the importer who systematically files returns, this cess would have minimal impact, only in so far as it affects his cash flow. The only persons who will have a net loss, compared to their present situation, will be those who have not been making income tax payments. If these wish to claim for that credit, then it may represent their introduction to the tax system.

11. We estimate that there will be a net gain of approximately \$3.4 billion from this measure.
12. I now turn to two areas where special services for the population are being partly funded from the Consolidated Fund and for which additional revenues are needed.
13. Members will recall that the revenue gained from property taxes is specifically allocated to Solid Waste Management Bodies, for fire fighting services and streetlighting. As I have indicated to this House earlier this year, the projected collection from property taxes in fiscal year 2003/04 will only be able to fund approximately 50% of the cost of providing these services.
14. In terms of Solid Waste Management, an area which is of growing concern is that of disposing of plastic packaging material. 12% of the municipal waste generated in Jamaica is comprised of such material with 50% of this figure attributed to PET containers.

15. One only has to drive through both urban and rural Jamaica to see the extent to which such material litters the landscape. Such waste has serious environmental consequences, not just in Jamaica but internationally. In fact, almost all other CARICOM countries have imposed an environmental levy on such containers ranging from \$8.40 per container in St. Vincent to \$2.50 in Guyana.
16. It is being proposed that the environmental levy of J\$2.00 per kilogram be placed on containers which are imported, manufactured and are distributed in Jamaica.
17. The proceeds from this levy will go towards off setting the cost of clearing up the tonnes of waste created by these materials.
18. I have already spoken of the proposed coverage of the National Health Fund (NHF). A programme which has been welcomed by everyone. Again, the Consolidated Fund is expected to make a contribution to finance the Fund this year of approximately \$450 million. In order to bolster inflows into the

Consolidated Fund there will be an increase in the SCT rates on alcoholic beverages.

19. The environment levy will raise \$190 million and the increase on the SCT on alcoholic beverages just under \$450 million.
20. Let me at this point indicate that we have received several submissions from the tourist sector concerning the SCT levied on certain high priced foods and alcoholic beverages. We have heard you. I have asked authorities to initiate immediate consultations with the sector.
21. I will provide a definitive statement on the relief when I close this Debate on the 30th.
22. Adjustment on the Age Limits on the Importation of Motor Vehicles. I now turn to duties related to motor vehicles and we intend to address this matter with an objective of rationalizing the duty structure on specified vehicles.

23. As it may be known since March of this year as per the WTO agreement the valuation on motor vehicles is based on the transaction valuation as opposed to the Blue Book reference prices. This has implied a significant drop in custom duties. The decision has been taken to lower the age limit on vehicles which are being imported. For returning residents the new age limit will be 5 years and for the other individual dealers the maximum age will be three years for cars and for vans, and trucks 4 years. This measure will reap approximately \$180 million.
24. The third area for increased revenue from motor vehicle importation relates to those persons who benefit from special duty concession. At present specified public officers are allowed to import vehicles on a concessionary rate of 20% if the vehicle has a maximum value of US\$30,000 FOB. We propose to reduce this limit for concessionary vehicle importation to US\$25,000 CIF. This is projected to yield \$250 million.

25. The duty regime on motor vehicles has been in place for an extended period, penalizing vehicles with a CC rating of over 3,000 CC but making special allowances for trucks, pick-ups. However, over time vehicles which are ostensibly meant for the farm are now being designed such that there is very little difference between them and luxury Sedans. This duty regime is being restructured and will reduce the taxes on cars with CC ratings in excess of 3,000 to 180%, and increase that on full size luxury pick-ups to the same level. These changes would bring about increased revenues of \$600 million.
26. I now turn to three areas which will have some direct impact on the business sector. The first relates to the increase in the added stamp duty levied on goods imported by in-bond merchants. It will be moved from 6% to 15%. It is expected to yield \$85 million.
27. The second area relates to the assets tax levied on companies registered under the Company Act, and societies registered under the Industrial and Provident Society Act. The prescribed

rates are being increased as indicated in the Ministry Paper and should yield approximately \$85 million.

28. The final area relates to the removal of credit bonus shares issued.
29. Over the years the Administration has attempted to find ways to facilitate companies faced with the high cost of loan financing. Two special steps worthy of note were taken. One was the amendment of the Income Tax Act to allow the companies which issued bonus shares from its accounting profit to receive a tax credit of up to 25% of its income tax liability.
30. Many companies, both foreign and local have used this facility to reduce their tax liability by the issuing of bonus shares. However, at the same time the tax on dividends paid by public companies has been eliminated even whilst these companies enjoy the credit for bonus shares issued. The loss of revenues from the tax on dividends has been significant. In fiscal year

1999/00, this tax brought in \$1.2 million, equivalent to 0.4% of GDP.

31. The revenues cannot continue to afford both concessions and hence the credit for bonus share issues will be eliminated. The removal of this credit is projected to yield \$550 million.
32. I turn to the final area which is the GCT. There has been so much discussion about the Administration's plans to increase this area of taxation. In fact, there are many persons who have advocated the abolition of income tax and the increase of the GCT even up to a level of 25%.
33. This Administration has viewed with amazement such a proposal, as there is the failure to recognize that those at the bottom of the income ladder consume virtually all their income. Hence, an increase of that magnitude in the GCT impacts most of those who can least afford it.

34. However, it is useful for us to reassess the present structure of GCT as well as the items to which it applies.

35. Members of the House will recall that during the fiscal year 1995/96 the standard rate for the GCT was increased from 12.5% to 15%. However, in an effort to reduce the burden on the poor, certain items were placed on the zero-rated and exemption list. This action served to narrow the base of the tax and has also made the system more complex. Over time, through lobbying there has been an expansion of the list of zero rated and exempt items. That has resulted in the system becoming very cumbersome, complex and difficult to manage.

36. To simplify the system and to broaden the base, some items previously zero-rated and exempt will be included but with certain vital exceptions. These include raw materials, capital goods, imports by the diplomatic service, importation by government, food items, water, electricity and schoolbooks.

37. Let me repeat. The rate of GCT remains at 15% and although certain items are being removed from the exempt and zero-rated list. Raw materials, capital goods, food items which are presently exempt, schoolbooks, school bags, school uniforms will remain exempted. However, the standard rate of 15% will remain.
38. This broadening of the base is projected to reap an additional \$8.5 billion.
39. In total, the measures will increase revenue inflows by approximately \$13.8 billion, thus closing the financial gap and will put us in a position to achieve the target of a deficit of 5-6% of GDP.
40. Equally, important this level of additional revenue inflows will provide a primary surplus of 12.2% of GDP.

H: CONCLUSION

1. Mr Speaker, Hon colleagues, as I indicated at the beginning this was indeed a difficult budget to put together. On the expenditure side, we have a budget dominated by debt servicing with the result being that virtually all sector ministries have been allocated resources significantly below their expectations.
2. At the same time, we are faced with the imperative of reducing the fiscal deficit to a level which will give our creditors, domestic and external, the basis for confidence in the economy and the society. We feel that a deficit target of between 5% and 6% of GDP for the fiscal year and a primary surplus in excess of 12%, facilitated by a credible revenue programme, will provide the reassurance needed.
3. This adjustment, which is unavoidable, is taking place in the context of an international scenario which is hostile in every sense. There is a slowdown in the world economy and in particular, in the national economies of our major trading partners; there is a drastic fall out in the travel trade as reflected in the critical financial state

of virtually all the major airlines and at the same time, no one can fully determine what will be the consequences of the war in Iraq or the possible continued spread of the SARS epidemic.

4. This is against the background of a difficult 2002 with floods, the lingering after effects of the 9/11 attacks on the US, increases in world oil prices and a reduction in the price of bauxite/alumina.
5. Those are the bald facts. A further fact which we must acknowledge is that we are essentially on our own. There are no major donors waiting and willing to bridge the financing gap which I have outlined. In any event, even if there were some institution/country willing to assist us for one year, the elimination of the deficit is not a one-shot activity. Rather it requires a sustained programme over the medium-term to increase revenue and contain costs.
6. I have not sought to sugar-coat the problems which we face, as there is no point in so doing. However, whilst the problems are difficult, we have faced more difficult ones and we have overcome.

The severe problems which threatened to wreck the financial sector in the mid 90s, represent a case in point. There were many, at home and abroad, who felt that we would not have survived.

7. We are confident that the measures which I have just announced, will allow us to maintain the confidence of our creditors which, in turn, will result in a return of stability to the foreign exchange and capital markets.
8. However, the programme cannot just be seen as one advanced by the Administration on its own. The financial markets are looking for any disruption which would undermine our claim that we are presenting a credible financial programme in a context of social stability.
9. If, as a society, we refuse to accept that adjustments must be made, our creditors will simply walk away leaving the country without the wherewithal to meet its obligations. This is not theory, we have seen it happen in many other countries, most recently Argentina.

10. The fact is that despite the rhetoric which would seem to separate various contributors to the debate, there can be no disagreement that there is a need to reduce and then eliminate the budget deficit. Whilst we all acknowledge that in the long run, expanding the economy is the only sustained answer, in the short and medium-term, we must demonstrate the willingness to take the actions needed.
11. I have deliberately refrained from embellishing these closing remarks with anything which would smack of partisan rhetoric because the objective reality is that we do have a national problem which has to be treated in a serious and analytic way.
12. For those observers who feel that the budget should have been smaller, I respect your opinions. However, we sincerely believe that we have presented an expenditure budget, which represents the minimum which could be allocated to the various sector ministries, once debt servicing is taken care of.

13. We know that our creditors are demanding a significant effort in reducing the fiscal deficit; that is non-negotiable and we have responded. We feel that the revenue measures, which have been announced, will allocate the burden in an equitable way.
14. At the same time, we have preserved and expanded the safety net aimed at protecting the most deprived in the society.
15. We have put in place measures to increase efficiency and accountability. It is a long journey but we have taken several steps.
16. Mr Speaker, we make no claim that we have found the perfect combination of programmes and revenue measures, but I will say that we have given it our best effort. We are confident that the package can succeed if we work together in the interest of our country. And it will surely fail if we pull in different directions.
17. The world is watching us.