

**HMFPS BUDGET
PRESENTATION 2021/22**

MARCH 9, 2021

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1.0 Opening Remarks

1.1 Salutations & Expressions of Gratitude

Mr. Speaker, I begin by thanking Almighty God, from whom all blessings flow. Great is thy faithfulness. Great is thy mercy and thy loving kindness.

Madam Speaker, I could not have possibly made it through this year without the support of family, friends and colleagues.

Due to the restrictions caused by COVID-19 there are actually no guests in the gallery today, a most unusual site for a day like today.

To those watching on social media, on cable, on television and to the diaspora overseas thank you for tuning in.

Usually, the Executive of the St Andrew North Western constituency would be here. Today like everyone else, due to the pandemic, they watch from home. I wish to thank them, along with the Councillors of the Constituency, for their steadfast support and for working with me to advance the interests of the citizens of North West St Andrew under these highly unusual times.

Madam Speaker, to my parliamentary colleagues, many of whom would have wanted to be here today, but who have had to stay home to keep the numbers in this small space consistent with what is healthy and safe, I thank you for your support and encouragement. To the new parliamentarians, you have added such energy and vibrancy to this House over the past six months. Thank you. I thank the staff of the House of Parliament on whom I rely and who are so gracious in the performance of their duties, "Covid or no Covid".

Madam Speaker, the Prime Minister of Jamaica has been an exemplary leader during this year of crisis. He has been courageous, empathetic and wise. I thank him for his leadership, counsel, advice and support. Under the most excruciatingly difficult and challenging circumstances, brought on by the pandemic, he has been unshakeable. Thank God we have Andrew Michael Holness as our prime minister.

Madam Speaker, I thank my Cabinet colleagues for their support and for a working environment, characterized by teamwork, cohesiveness and shared vision. We have had to make tough decisions this past year, and our deliberations have regularly gone into the night with Jamaica's best interest as our North Star.

Jamaica benefits from a first class team at the Ministry of Finance, and I thank them for their dedication and commitment. I thank the Financial Secretary Darlene Morrison and her team at the Ministry as well as my advisory staff. I also thank the administrative and ancillary staff in my office and the security staff assigned to me who always go beyond the call of duty. I thank our new Minister of State, Hon. Marsha Smith, for jumping in the deep end working towards Jamaica's recovery.

I also would like to thank the Board, management and staff of the Bank of Jamaica (BOJ), Planning Institute of Jamaica (PIOJ) critical institutions that play a key role in Jamaica's economy who have had a challenge task this year, marked by uncertainty.

Again Mr Speaker, most of all I would like to thank my family, who now share me with North West St Andrew and by extension Jamaica. To my brothers and sister, thank you. To my wife and children, thank you for your love and support. You help me maintain balance and perspective and without you I could not do what I do. I am indebted to my parents, the late Justice Neville Clarke and Mrs. Mary Clarke, for imparting values I cherish in our upbringing.

1.2 Opening Remarks

This past year has been one of the most difficult and challenging years on record for Jamaica, for Jamaicans, and for all of humanity.

The coronavirus, a living organism incapable of life on its own, has sought hosts in the human population at great damage to our health, and with the skillful ability to hop, unnoticeably, from one human to another through respiratory activity.

Up to yesterday, over 117 million persons around the world, including nearly 27,000 Jamaicans, have contracted the virus, which has caused severe illness, hospitalization and death around the world. Over 2.6 million people have died, including 454 Jamaicans, making this most devastating pandemic in over 100 years.

Madam Speaker, I pause to express solidarity with all the individuals and families who have been impacted by this deadly disease, with those who have lost loved ones, those still in hospital, and with others in isolation.

In March and April of last year, governments around the world moved swiftly to curtail the spread of the coronavirus by restricting movement of people. Airports and seaports around the world were shut for weeks and months and borders were sealed. Travel restrictions were imposed and many still remain in effect today. School has been interrupted for much of the past year and life as knew it has been completely upended and disrupted.

Over the past 12 months, many have been unable to attend the funerals of close associates due to gathering limits. Others have had to restrict the attendance of loved ones for their most treasured celebrations: weddings, the traditional Christmas dinner and special family occasions.

We have had to adapt to a radically changed environment and some have found it difficult to adapt as fast or as comfortably as others.

And just when normality seemed to be gradually returning, the Government found it necessary to impose restrictive measures over a three-week period as COVID-19 case volume mounted, hospitalisations surged to worrying levels, and intensive care capacity approached its breaking point.

As Prime Minister Andrew Holness has said, these decisions are never easy and will always be difficult. There are always those who suffer far more than others and those who pay a steep, often painful, price. On behalf of the Government of Jamaica, I want to take this opportunity while opening the budget debate to say that this Government does not take these decisions lightly, and they often involve many hours of wrenching, agonizing debate. I want to use this opportunity publicly to let the people of Jamaica know that we hear you, we understand your concerns, we share your pain, and we will remain steadfast in our commitment to act in the best interests of all Jamaicans as we seek to balance the objectives of protecting both lives and livelihoods.

Madam Speaker, the toll on mental health caused by isolation and social distancing, especially for the elderly and school aged children is as yet, unaccounted for and the lost school time among global student populations will likely have an impact into the future.

If that were not enough, the effects of these and other measures ushered in a companion calamity: a full-blown global economic crisis.

This global economic crisis only invites comparison with the global economic conditions during the world wars:

The economic crisis caused by the COVID-19 pandemic is, by far, the worst global economic crisis since World War II.

Hundreds of millions of people have lost jobs and the global economy has been decimated.

The economic impact of the pandemic in Jamaica has led to an economic decline without parallel in Jamaica's history.

Make no mistake, Madam Speaker, this economic crisis is a dangerous one. Uncertainties abound and risks are high. For one, future measures introduced by the government, or prolonged extension of existing measures, to control the spread of the virus could have an impact on budgetary projections.

The good news is that vaccines arrived yesterday and the vaccination program will begin tomorrow. And, by the end of 2021/22 the Ministry of Health and Wellness anticipates that our population will reach herd immunity from the coronavirus.

Furthermore, Jamaica's main trading partners are advanced in their own vaccination programmes and could complete vaccination of their populations by the end of the first or second quarter of fiscal year 2021/22.

Though it is often darkest right before dawn, from all we can see, it certainly looks like we are about to enter the phase of the health crisis that can be described as the beginning of the end.

For the economic crisis, however, we may only be at the end of the beginning.

Our objectives and our goals are to have a faster economic recovery than we have ever had before and to recover stronger than before.

We will achieve this through disciplined policy choices, prioritizing within priorities, maintaining a keen awareness of risk, and by modernizing our economy.

To do so, it is important that we first consider the impact of the COVID-19 pandemic, thus far, on the Jamaican economy.

2.0 Economic Impact of the COVID-19 Pandemic

The economic impact of the COVID-19 pandemic on Jamaica can be expressed in a staggering set of numbers that boggle the mind.

2.1 Growth

The PIOJ expects the economy to contract by approximately 12% this fiscal year ending March 31, 2021.

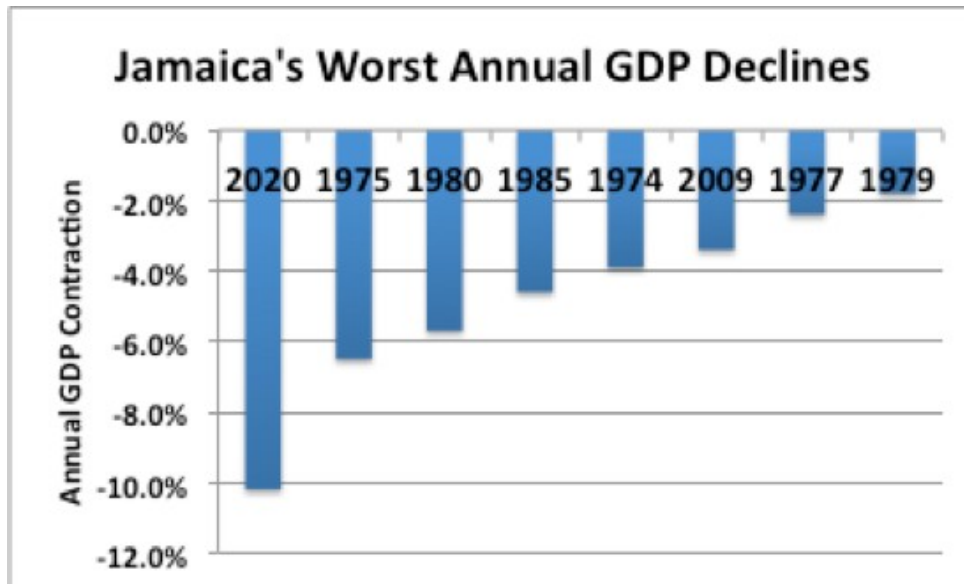
This is, by far, the worst economic contraction in Jamaica's history. No previous economic decline comes even close.

For calendar year 2020, that is, January to December 2020, the economy is expected to contract by 10% as compared with the prior period of January to December 2019.

The closest comparisons were the decline of 6.5% in 1975, 5.7% in 1980, 4.6% in 1985, 3.9% in 1974 and 3.2% in 2009.

None of these was remotely close to the economic contraction we all lived through in 2020.

Figure 1: Jamaica's Worst Annual GDP Declines



Note: (i) Calendar year GDP declines (ii) The GDP decline for calendar year 2020 is a PIOJ estimate.

Source: PIOJ

The economic decline in 2020/21 was driven by a massive 70% contraction in the tourist industry.

With the exception of the construction sector, which PIOJ expects to show modest growth for 2020/21, all sectors of the economy have declined during the 2020/21 fiscal year.

During April to June 2020, construction declined by 14.5% but grew by 7% in the July to September 2020 quarter, and is forecasted by PIOJ to grow by 6.2% in the October to December 2020 quarter.

Yes, Madam Speaker, the construction sector is growing despite the COVID-19 pandemic. This growth is a reflection of the belief of those builders and developers that this, too, shall pass, and that there is a brighter future ahead for Jamaica.

It is also a reflection, Madam Speaker, of the importance of good policy.

- For example, central bank modernization, inclusive of the policy shift to inflation targeting, provided the space for interest rates to be reduced 10 times to record lows, which allowed these builders and developers the ability to access the capital needed, at attractive prices, to fuel construction.
- In addition, the reduction and abolishment of transaction taxes on real estate under this Government provided a further fillip to development.

So even the pandemic could not blunt the impact of good and disciplined policy in this regard.

2.1.1 Company and Business Name Registrations

In the biggest economic crisis in nearly 80 years, where the economy declined in a way no Jamaica has ever experienced before now, we had the largest number of new company registrations and new business registrations in our history.

Between 2014 and 2019, new company and new business registrations had consistently increased each year with the steadily improving economic and business climate.

The number of new company formations for each month in 2020/21 was greater than the number of new company formations in the corresponding month of the previous year with the exception of April when we were on lockdown.

And in total, despite the pandemic, more new companies and more new businesses were registered than the previous year and more than at any time in our history.

Now clearly this, by itself, is not an indicator of current economic activity but it is an indicator of intentions and of possibilities. And it is a great thing that more companies are being formed than at any time in the past.

Madam Speaker, our policies of abolishing Minimum Business Tax and abolishing the Asset Tax and going in the opposite direction of providing a Tax Credit to micro and small business and providing benefits to registered entities is increasing formalization and strengthening the institutional fabric of our country.

Figure 2 - New Company Registrations 2010 - 2020

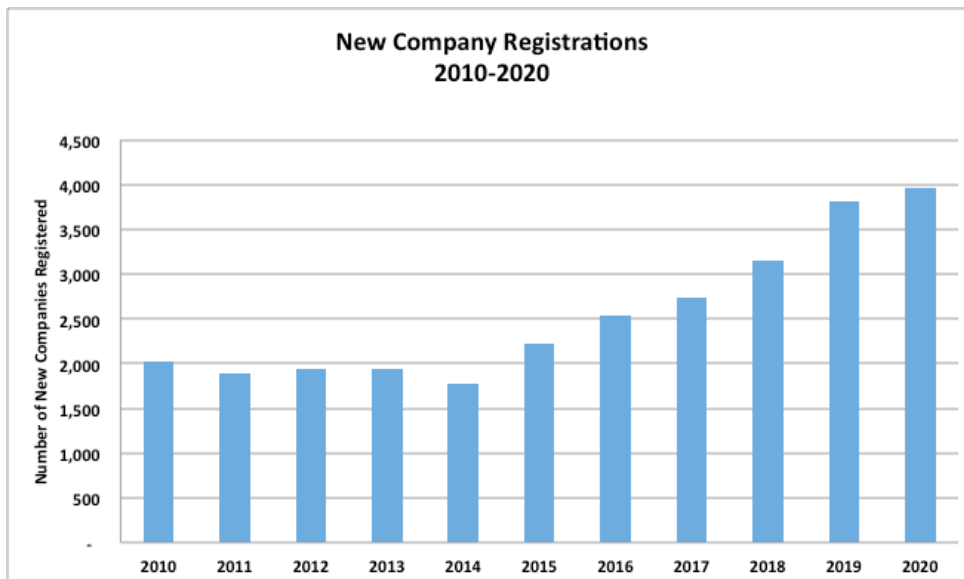
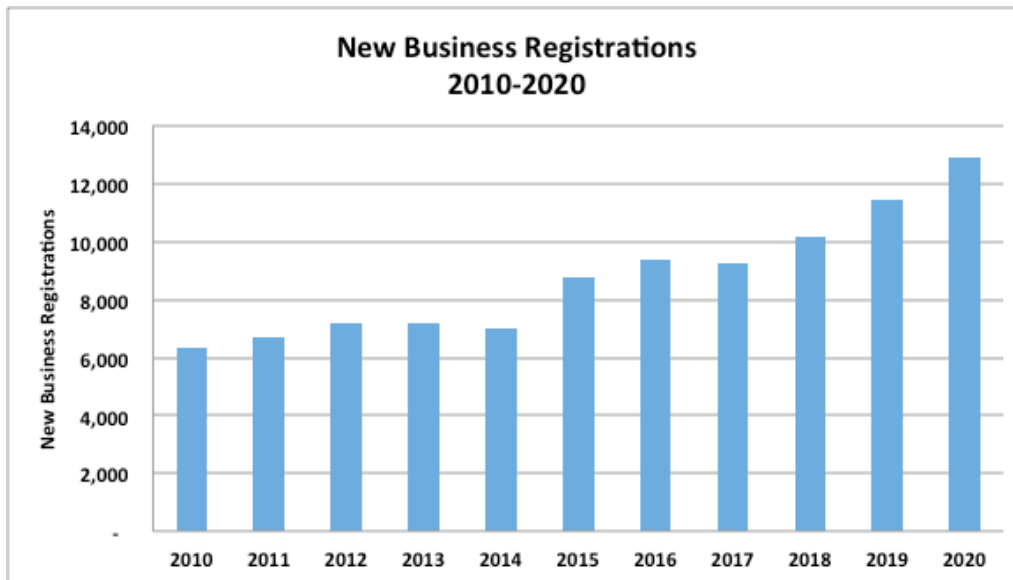


Figure 3 - New Business Registrations 2010 - 2020

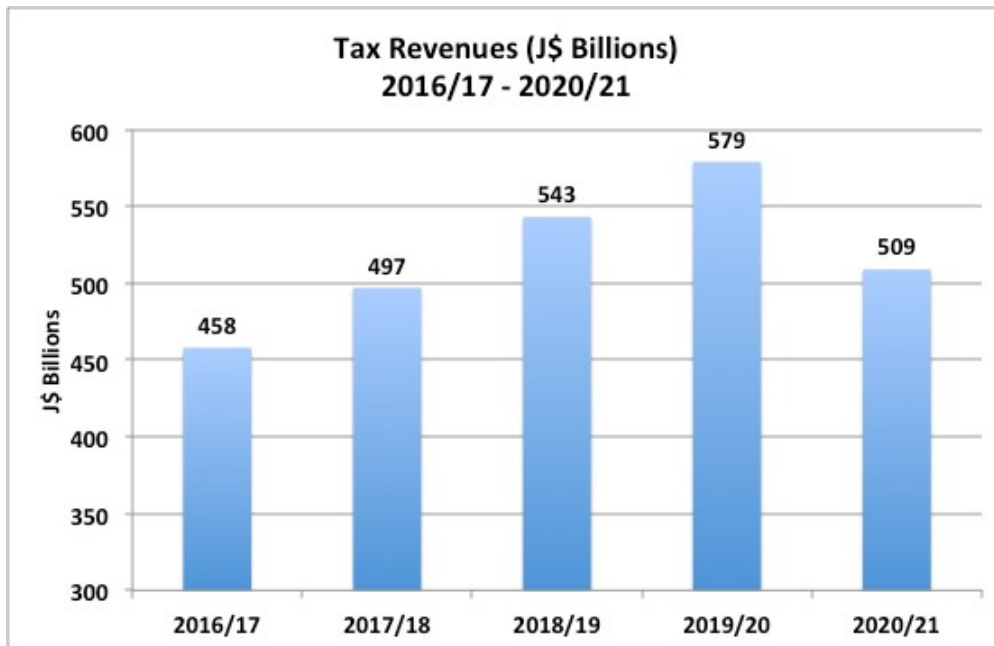


2.2 Government Revenues & Expenditure

Madam Speaker, even after factoring in inflation, Government Revenues are expected to decline by \$70 billion or 12% in this fiscal year 2020/21 as compared with the previous year.

Yet, the Government continued with the provision of goods and services even as expenditures also increased by a **net** amount of \$24 billion on account of the COVID-19 pandemic.

Figure 4 - Tax Revenues 2016/17 – 2020/21 (J\$Billions)



Note: 2016/17 – 2019/20 are actual. 2020/21 is projected

Source: Ministry of Finance and the Public Service

However, direct COVID-19 related expenditures far exceeded this amount and, as a result, we had to reallocate programmed expenditure, mostly capital expenditure, in Supplementary Budgets during the year.

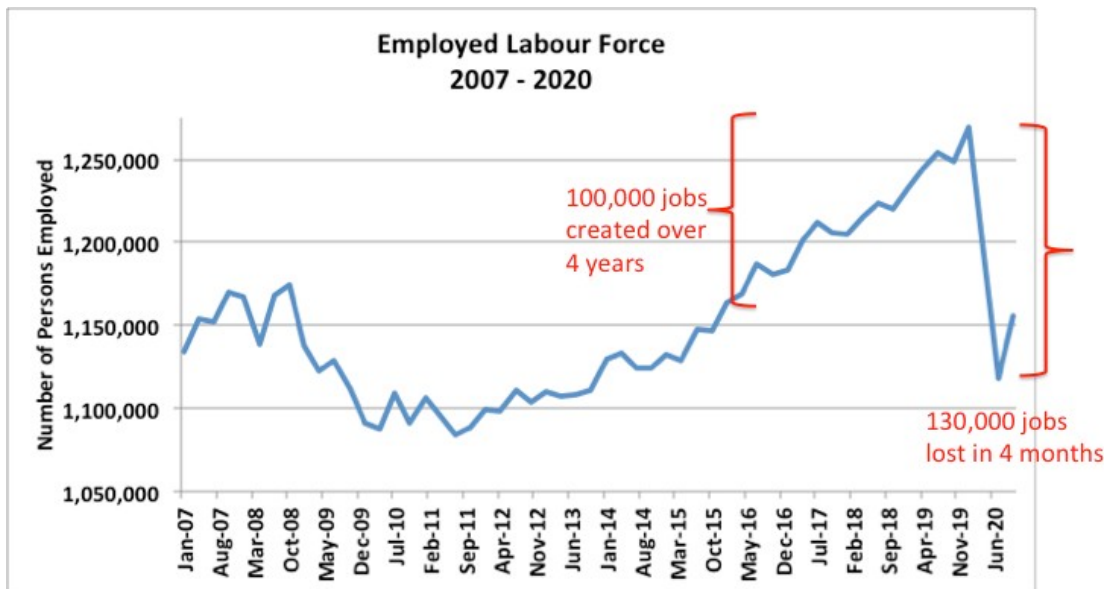
Inclusive of the amount spent in the Third Supplementary Estimates of 2019/20, the central government spent approximately \$40 billion responding to the impact of the COVID-19 pandemic consisting of the CARE Programme, health expenditure, support of Public Bodies affected by the Pandemic and incremental compensation expenditure, in particular in health and security.

This \$40 billion does not include the COVID-19 expenditures for programmes implemented by the National Housing Trust, the Student Loan Bureau, and other public bodies to help cushion the pandemic's impact.

2.3 Jobs

Madam Speaker, it took four years, between 2016 and 2020, for the Jamaican economy to add 100,000 jobs to the Jamaican economy and in the first four months of the COVID pandemic over 130,000 jobs were lost.

Figure 5 - Employed Labour Force 2007 - 2020



Source: STATIN

The Jamaicans who lost jobs in the pandemic could fill every seat in the national stadium four times over. That is, it would take four national stadia to seat every one of the COVID-19 unemployed.

When we talk about economic recovery we are talking about eventually getting every single one of those Jamaicans back in a job. That is our goal and our mission.

Madam Speaker, Jamaica experienced the lowest level of unemployment in Jamaica's history of 7.2% in only October 2019 just four months before the onset of the COVID-19 pandemic and the unemployment rate was 7.3% in January 2020.

By July 2020 the rate of unemployment jumped to 12.7%.

The good news is that the unemployment rate has improved and as at October 2020 it was 10.7%. It is still way too high, Madam Speaker, but we are headed in the right direction.

2.4 Foreign Exchange Inflows from Tourism

Madam Speaker, as you know, Jamaica's two largest sources of foreign exchange are tourism and remittances.

COVID-19 has decimated Jamaica's foreign exchange inflows from tourism. And again, there is no parallel in Jamaica's history for what has occurred.

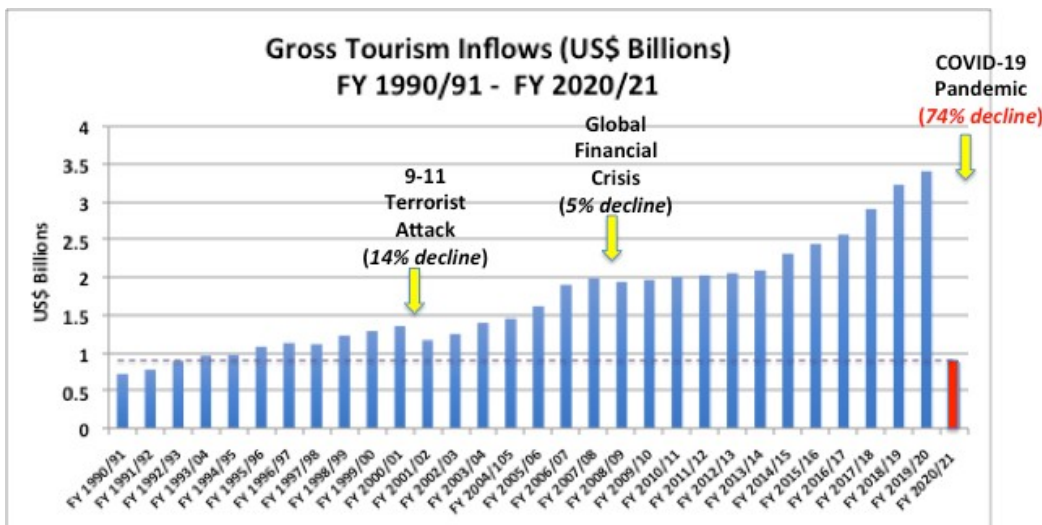
During the 9-11 terrorist attacks tourism earnings declined by 14%.

In the global financial crisis, tourism earnings declined by 5%.

Madam Speaker, as a result of the COVID-19 pandemic, Jamaica's foreign exchange inflows from tourism are projected to fall by 74% or US\$2.5 billion in 2020/21.

In 2019/20 we earned US\$3.4 billion from tourism but in 2020/21 we are expected to earn only US\$874 million or approximately one quarter of 2019/20 earnings.

Figure 6 - Gross Tourism Inflows 1990/91 - 2020/21



Source: BOJ

The last time our foreign exchange inflows were this low was approximately thirty (30) years ago in 1992/93.

We will have no choice Madam Speaker than to recover our foreign exchange inflows such that we surpass levels attained previously. Again, that is our goal and our mission as our goal is to recover faster and stronger.

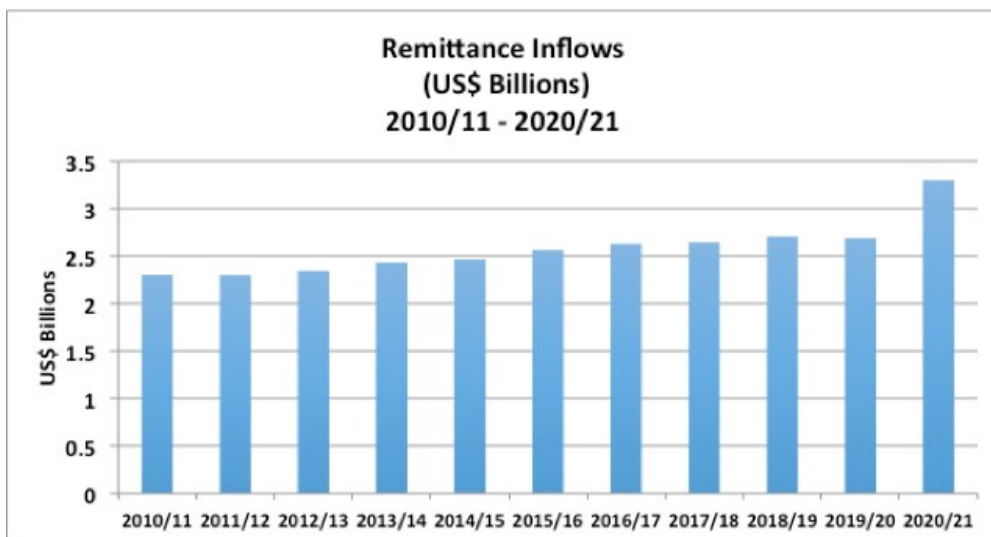
2.5 Foreign Exchange Inflows - Remittances

There is a silver lining, Madam Speaker. Jamaica's diaspora rose to the occasion, and although they face their own COVID-19 related challenges faithful Jamaicans abroad sent US\$600 million **more** to their family members and friends in Jamaica, which is 23% more than the previous year.

I have reviewed 30 years of remittance data, Madam Speaker, and never before have remittances increased by US\$600 million in a single year nor by 23% in a single year.

Madam Speaker, on behalf of all Jamaicans, I would like to use this opportunity to both recognize and thank all those kind, considerate, and caring members of the larger Jamaican family in the United States, Canada, the United Kingdom, the Caribbean, and throughout the world who never forget their loved ones in the country of their birth, and who stepped up to embrace the command outlined in the Holy Book that we should not forget to do good and share with others.

Figure 7 - Remittance Inflows 2010/11 - 2020/21



Source: BOJ

I should point out quickly that *some* of this increase in remittances might actually be an unintended consequence of the COVID-19 pandemic. Because many members of the Diaspora who are used to travelling to Jamaica and putting money in the hands of their loved ones directly were not able to do so, many chose to send money through traditional channels, which get captured in the formal balance of payments statistics.

However the money comes, Madam Speaker, we are grateful for it.

2.6 Foreign Exchange Outflows – Imports

On the basis of the available data to September 2020, the Bank of Jamaica estimates that outflows related to merchandise imports fell by close to US\$1.4 billion for the fiscal year, which served to offset some of the effects of the fall in inflows from the tourism sector.

The fall in imports was impacted by the related reduction in oil prices and the contraction in GDP. Some of the import reduction also reflected lower demand for certain products like imported food and manufactured goods by the tourism sector due to hotel closures and significantly lower occupancy levels.

2.7 Current Account Deficit

As a result of these factors, the Bank of Jamaica estimates the current account deficit at only 1.7% of GDP 2020/21, an extremely small increase from the current account deficit of 1.6% of GDP in 2019/20.

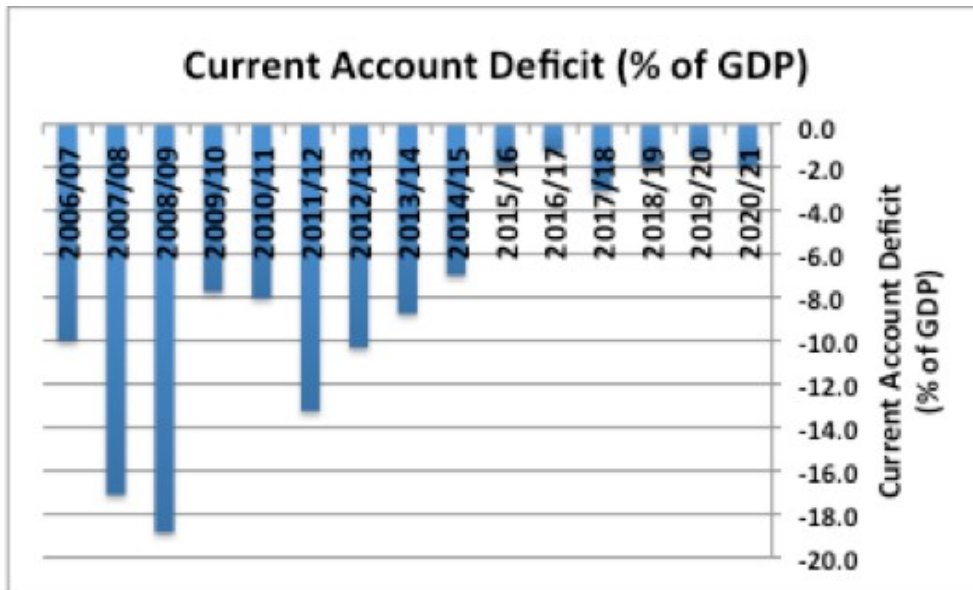
This is a remarkable achievement for Jamaica, Madam Speaker.

The current account deficit is our foreign exchange deficit with the rest of the world before you add foreign direct investment.

So we have had the worst economic crisis in our history where tourism revenues fall by US\$2.5 billion and the current account has remained well within the bands of sustainability.

Prior to this experience no one would have thought that Jamaica could have withstood a US\$2.5 billion collapse in tourism receipts while retaining macro-economic stability.

Figure 8 - Current Account Deficit 2006/07 - 2020/21



Source: BOJ

However, Madam Speaker, an upside risk that could result from strong growth this year is that our imports could recover faster than tourism inflows, which would exert pressures on our current account.

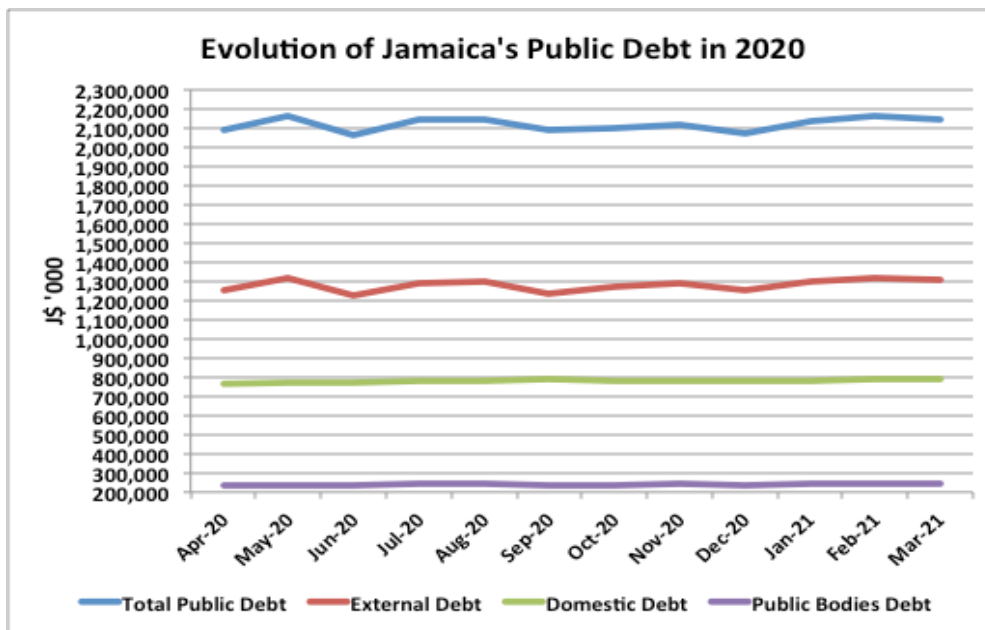
2.8 Debt

Over the past few years, this Government has pursued a prudent policy of building up our cash reserves to pay down debt. Because of these decisions, we opened the 2020/21 fiscal year with cash reserves of approximately \$90 billion, or more than 4% of GDP.

As a result, when the COVID-19 pandemic came we were able to finance a 3.5% fiscal deficit without materially increasing nominal debt.

To put it more simply, Madam Speaker, though we have endured the most massive economic shock in our history, our nominal debt remained flat during the year.

Figure 9 – Levels of Jamaica’s Public Debt during 2020



Note: April '20 – Jan '21 are actual. Feb '21 and Mar '21 are projected

Source: Debt Management Unit, MOFPS

Madam Speaker, few countries can report similarly.

In fact, the stock of foreign currency denominated debt decreased during the fiscal year.

The Central Government lent Clarendon Alumina Partners (CAP) US\$140 million to repay a loan obligation due to the Noble Group, which has lowered CAP's interest costs. This also allowed CAP to renegotiate its marketing agreement with Noble, improving the pricing it receives for alumina.

We also swapped US\$50 million of IDB US\$ denominated debt into J\$ debt in an innovative transaction pioneered by the IDB.

Both of these transactions contributed to a lowering of the nominal US\$ denominated debt during the fiscal year 2020/21.

This compares with previous economic crises Madam Speaker, where nominal US\$ debt increased during the crisis.

This time around, in the worst economic crisis in our history, nominal US\$ debt actually decreased.

2.9 Credit Rating

Notwithstanding the historically savage nature of this COVID-19 economic shock, Jamaica has maintained its international credit rating.

Early in the crisis, we took the initiative to contact the credit rating agencies and provided them with an assessment of the crisis, the principles that would ground our response, and our actions.

The credit rating agencies have thus far maintained Jamaica's credit rating in the worst crisis in our history as compared with the credit rating downgrades of other countries.

The highest credit ratings that Jamaica has had in 20 years from Standard & Poor's and in 14 years from Fitch has thus far been maintained though we have experienced the worst economic crisis in our history.

Madam Speaker, your trajectory, your direction, and where you are going is just as important as your position at a particular point in time.

We may be down, but the agencies know, before long, we shall rise again. That is our goal and mission.

Figure 10 - S&P Sovereign Credit Rating Changes in Latin America & the Caribbean during 2020

S&P: Sovereign Credit Rating Changes in the Latin America & Caribbean in 2020

Country	Rating as of January 2020	Rating at February 2021	Rating Change
	Rating	Rating	Rating Action
Argentina	CCC-	CCC+	Upgrade
Aruba	BBB+	BBB+	Rating Retained
Bahamas	BB+	BB	Downgrade
Barbados	B-	B-	Rating Retained
Belize	B-	CC	Downgrade
Bermuda	A+	A+	Rating Retained
Bolivia	BB-	B+	Downgrade
Brazil	BB-	BB-	Rating Retained
Chile	A+	A+	Rating Retained
Colombia	BBB	BBB-	Downgrade
Costa Rica	B+	B	Downgrade
Curacao	BBB+	BBB	Downgrade
Dominican Republic	BB-	BB-	Rating Retained
Ecuador	B-	B-	Upgrade
El Salvador	B-	B-	Rating Retained
Honduras	BB-	BB-	Rating Retained
Jamaica	B+	B+	Rating Retained
Mexico	BBB+	BBB	Downgrade
Montserrat	BBB-	BBB-	Rating Retained
Nicaragua	B-	B-	Rating Retained
Paraguay	BB	BB	Rating Retained
Peru	BBB+	BBB+	Rating Retained
Saint Helena	BBB-	BBB-	Rating Retained
St. Helena	BBB-	BBB-	Rating Retained
Suriname	B	SD	Downgrade
Trinidad and Tobago	BBB	BBB-	Downgrade
Turks and Caicos Islands	BBB+	BBB+	Rating Retained
Uruguay	BBB	BBB	Rating Retained
Venezuela	SD	SD	Rating Retained

Note: For Jamaica and 10 other countries S&P's outlook was revised downwards which lead to a rating downgrade in the future if conditions do not improve.

Source: S&P Sovereign Credit Rating history as at February 26, 2021

Figure 11 - Fitch sovereign credit rating for Latin America & the Caribbean during 2020

Fitch: Sovereign Credit Rating Changes in the Latin America and the Caribbean in 2020

Country	Rating as of January 2020	Rating at February 2021	Changes
	Rating	Rating	Rating Action
Argentina	CC	CCC	Upgrade
Aruba	BBB-	BB	Downgrade
Bolivia	B+	B	Downgrade
Brazil	BB-	BB-	Rating Retained
Chile	A	A	Upgrade
Colombia	BBB	BBB-	Downgrade
Costa Rica	B+	B	Downgrade
Dominican Republic	BB-	BB-	Rating Retained
Ecuador	B-	B-	Upgrade
El Salvador	B-	B-	Rating Retained
Guatemala	BB	BB-	Downgrade
Jamaica	B+	B+	Rating Retained
Mexico	BBB	BBB-	Downgrade
Nicaragua	B-	B-	Rating Retained
Panama	BBB	BBB-	Downgrade
Peru	BBB+	BBB+	Rating Retained
Suriname	CCC	C	Downgrade
Uruguay	BBB-	BBB-	Rating Retained

Note: For Jamaica and 5 other countries Fitch's outlook was revised downwards which could lead to a rating downgrade in the future if conditions do not improve.

Source: Fitch Sovereign Credit Rating history as at February 26, 2021

Now, the risk of downgrade remains. Our debt is at 110% of GDP, which introduces more risks. One rating firm expressed the view that if growth does not materialize this year at levels above our long-term average, they would consider downgrading.

We shall see.

3.0 Jamaica's Economic Buffers

Due to Jamaica's policy discipline we entered this economic crisis with substantial buffers.

3.1 Cash Reserves

Due to fiscal over-performance – that is when you manage revenue and expenditure cycles to achieve better fiscal outcomes than what you planned – we were able to accumulate cash reserves over time, and particularly over the four years prior to the pandemic.

Due to the reintegration of public bodies into parent ministries we were able to harvest surplus cash. For example, when we reintegrated the Petroleum Corporation of Jamaica (PCJ) into the Ministry of Science, Energy, and Technology, approximately \$6 billion went into the consolidated fund. I will remind you that PCJ's existence as a holding company was justified when it had 13 subsidiaries to oversee. By 2020, however, PCJ only had one subsidiary, having divested, closed, or privatized all the others and so its existence as an umbrella holding company could not easily be justified. It took courage and leadership to make that decision and I salute the then Minister, Hon. Fayval Williams for taking that bold step.

Resources in excess \$25 billion were added to the Consolidated Fund as a result of the privatization of Wigton Windfarm and TransJamaica Highway, inclusive of the refinancing of the former's debt, which retired obligations to the Government.

I announced with great enthusiasm last year that we had accumulated significant cash resources that would be used to prepay debt in the amount of 4% of GDP which would have reduced our debt ratio to the mid-eighties¹ creating much needed fiscal space going forward.

Well, COVID-19 intervened and we did not get to do that. But there is a proverb that says "preparation is better than good luck."

With close to \$90 billion of cash resources, which resulted from thoughtful policy choices, thank God, we were better prepared for this crisis.

My fellow Jamaicans, policy matters and good policy matters even more.

Good policies expand opportunities and provide flexibility when we need to respond to crises.

But good policies require that we think about tomorrow as well as today.

¹ Prior to the measures in March 2020, including closure of airports, cruise terminals and sealing of borders, which precipitated a sharp decline in Q4 2020 economic output, Jamaica's debt ratio was projected to be 92% at the end of March 2020.

3.2 Disaster Contingency Funds

For the two fiscal years prior to the pandemic we tucked away more resources in the Contingencies Fund than has been placed there in 30 years cumulatively. In fact for 30 years, the Contingencies Fund only had \$100 million.

In the two years prior to the pandemic, we added \$4 billion to the Contingencies Fund, which was only to be drawn down in the event of a disaster.

Madam Speaker, when the economy was locked down in the first quarter of the fiscal year, job losses were mounting and we needed to get the Covid-19 Allocation of Resources for Employees (CARE) Programme payments out, under emergency conditions, we were able to draw down on this Contingencies Fund.

My fellow Jamaicans, policy matters and good policy matters even more.

Good policies expand opportunities and provide flexibility when we need to respond to crisis.

Good policies pay dividends Madam Speaker.

But good policies require that we think about tomorrow as well as today.

We remain committed to making policy decisions that allow us to prepare for unexpected shocks and disasters. That is our goal and our mission as we aim to recover faster and stronger.

3.3 Foreign Exchange Reserves

Our foreign exchange reserves, which the Bank of Jamaica manages on our behalf, are what provide the assurance to the suppliers of goods, services and credit to Jamaica that Jamaican firms can pay their external bills when they come due.

If we had little or no foreign exchange reserves, businesses would not be able to purchase overseas raw material, intermediate or finished goods and we would live a deprived existence.

Just prior to this crisis, our foreign exchange reserves were in the region of their highest levels in history.

For a long time prior to this, however, a significant stock of our foreign exchange reserves were borrowed from investors in the form of certificates of deposits owing to these investors.

Between 2016 and 2019, we increased our non-borrowed reserves by US\$1 billion, which put us in a good position when the crisis hit.

Now, Madam Speaker, suppose we had buckled under the pressure, and deviated from policy and it ended up that the central bank spent its precious reserves when there was

hollering and shouting in 2018 and 2019, as we transitioned to exchange rate flexibility and inflation targeting. What would have happened to us under these COVID-19 circumstances when our earnings from tourism have collapsed by US\$2.5 billion dollars? Where would we be now?

Our foreign exchange reserves belong to all Jamaicans.

And our foreign exchange reserves do not exist to achieve a particular exchange rate level but to protect us in times when our normal inflows of foreign exchange have been interrupted.

My fellow Jamaicans, policy matters, good policy matters even more and the discipline to stick to good policy when the going gets rough is priceless and pays huge dividends.

3.4 Low debt relative to our history

After seven years of sacrifice, across two administrations, our debt-to-GDP ratio was at its lowest level in 20 years.

Although our nominal debt remained flat, due to the significant decrease in our GDP, because of COVID-19, Jamaica's debt-to-GDP ratio jumped a staggering 16 points, from 94% to a projected 110%.

Importantly, however, because of our policy decisions, Jamaica was able to absorb and accommodate this dizzying increase in our debt ratio without an interruption of macro-economic stability.

My fellow Jamaicans, policy matters and good policy matters even more and the discipline to stick to good policy when the going gets rough pays big dividends for Jamaica.

Good policies expand opportunities and provide flexibility when we need to respond to crisis.

4.0 Economic Policy Response to the COVID-19 Pandemic

Madam Speaker, the COVID-19 pandemic was confirmed to have arrived on our shores on the afternoon of last year's budget presentation. That is on March 10, 2020. We have since had to absorb the economic impact and respond to the crisis.

From the very outset, in my closing budget presentation last year, also in March 2020, I set out the principles that would guide our response.

We sought to maintain the previously elusive macro-economic stability for which the Jamaican people have sacrificed so much, provide social economic and social support to households and businesses, and also to finance the health response.

4.1 Stimulus

Madam Speaker, we launched a \$25 billion stimulus consisting of three key pillars:

- First, a reduction in the rate of GCT from 16.5% to 15% which returned \$14 billion to Jamaican consumers. In the middle of the crisis – we engaged in a counter-cyclical action of reducing taxes.
- Second, the implementation of an MSME Tax Credit that reduced the tax bill of micro, small, and medium sized businesses, returning \$1 billion to them at a time when they desperately needed it.
- And third, a \$10 billion fiscal contingency which was later used to seed the CARE Programme and the health response, to which additional funds were later added.

4.2 IMF's Rapid Finance Facility

Along with 100 other countries around the world we applied for access to the IMF's Rapid Fund Facility and were approved for the maximum amount of 100% of our quota or US\$500 million in a matter of weeks. Madam Speaker, that US\$500 million sits in the Bank of Jamaica as an extra layer of insulation.

4.3 Suspension of Fiscal Rules

Due to the fiscal deviation caused by the crisis, which was in excess of 4% of GDP in magnitude, with the support of the Opposition, we suspended our fiscal rules, which enabled us to run a fiscal deficit of 3.5% of GDP as opposed to the pre-pandemic targeted surplus of 0.5% of GDP.

4.4 Central Bank Liquidity Support

The Bank of Jamaica stepped in with unprecedented liquidity support to financial institutions, pumping more than \$50 billion into financial markets. This in turn provided stability in capital markets and allowed for financial institutions to offer forbearance to their clients.

4.5 CARE Programme

The Government of Jamaica responded with the \$20 billion CARE Programme which quickly became the largest social programme in Jamaica's history.

The Programme was conceptualized, developed and launched in only a few weeks and was a collaborative effort across ministries, departments, and agencies.

We had our first COVID-19 case on March 10 and we announced the CARE Programme in my closing budget presentation two weeks later on March 24.

In particular I would like to recognize the hard-working and dedicated ladies and gentlemen of several agencies and departments.

- **First, the committed and dedicated staff at the Ministry of Finance and the Public Service** who coordinated the CARE Programme.
- **Second, e-GOV Jamaica**, who developed and managed the portal. The young men and women there worked weekends and did not sleep in order to launch on time, maintain the application, respond to queries and to update as required.
- **Third, the Accountant General's Department** who administered the payments. We had challenges with the number of persons without bank accounts and those with accounts that were invalid at the time of applying, and the Department worked hard to address and overcome those challenges.
- **Fourth, Tax Administration Jamaica**, who played a critical role in validating applicants.
- **Fifth, I must personally recognize Mr. John Thompson**, the project manager, who was a calm, organized and dedicated leader.

This core team worked with the Ministry of Local Government, the Ministry of Transport and Mining, the Ministry of Tourism, the Ministry of Education, the Ministry of Industry, Commerce Agriculture and Fisheries as it then was, the Ministry of Culture, Gender, Entertainment and Sport, the Ministry of Labour and Social Security and the EXIM Bank in the delivery of the CARE Programme.

I would like to recognize and thank them all.

We also need to recognize the remittance companies, in particular Western Union and Lasco Moneygram who accepted much less than their usual fee to handle huge volumes of transactions. We had some hitches, which we were able to resolve.

Madam Speaker, on behalf of the people of Jamaica, I have to also thank the Auditor General's Department ("AGD"). The AGD provided the service of audit assurance which was important to the success.

Madam Speaker, in the execution of the CARE Programme, we did something novel.

We asked the Auditor General to perform concurrent audits of the We CARE programme. That is to audit while the programme was being executed and BEFORE each batch of payments was made.

So applications for each We CARE grant type were validated, and then processed and batched for payment, subject to audit. Prior to the files being transferred to the Accountant General's Department for payment, the Auditor General's Department, which had access to the system and all of its data, audited the eligibility, validation, and other processes and produced reports allowing for any errors to be identified and corrected prior to payment. Those reports were tabled in Parliament for the people's representatives to review and ask questions and for the world to see.

This had the effect of slowing down payments as we had to process grant types one at a time, compassionate grant, general grant, small business grant, SET Cash Grant, BEST Cash grant, and so on, and also within grant types, batch 1, batch 2 etc..

This caused some delays and some backlash but the transparency of this process, and the openness of the programme to the highest level of immediate scrutiny, provided the public confidence that allowed the programme to scale to \$20 billion.

In this programme, similarly situated Jamaicans had equal access to Government benefits, which, importantly, did not depend on race, class, gender or political affiliation.

Your CARE benefit did not depend on who you voted for. Your CARE benefits did not depend on whether you were PNP, JLP or No P. If you were eligible, and your identity could be established and you met the criteria you could receive this benefit from the Government.

There was no paperwork, no human interface. You applied online or on your mobile phone, tablet or computer and eventually you collected your benefit from the Jamaican State at the remittance company or the bank.

In the end over 440,000 Jamaicans were able to benefit from one of a number of CARE grants through the We CARE digital portal.

Madam Speaker, I will be the first to admit that it was not perfect. There were glitches that we had to overcome and areas that could be improved.

However, Madam Speaker, there are some powerful lessons in the experience of the CARE Programme that I would like to share. These are by no means exhaustive:

- (1) Digital means of processing and delivery offer the opportunity for quick, efficient, rules-based, and scalable programmes. As the Prime Minister is on record saying, we must make the transition to a fully digital society. The potential benefits to Jamaica and Jamaicans are huge. This is our goal and our mission.
- (2) The Member of Parliament and local government Councillors have a legitimate and important role to play in assisting the citizen to navigate the State bureaucracy to access benefits offered by the State. Without the role of Members of Parliament, supported by Councillors, who helped to sign people up, and made representation on their behalf when there were problems, the programme would not have reached as many persons, despite the convenience of the digital platform, and it would not have been as successful. The key is to ensure that the Member of Parliament and Councillor cannot unduly influence the results. A digital solution, which is auditable and rules base helps achieve this.
- (3) Openness and transparency in the use of public resources, and open, transparent and equitable processes for the distribution of the resources of the State, ultimately empower the State to do more for the people. It is a virtuous cycle.

Madam Speaker, since that time we have moved with alacrity to

- deepen transparency in monetary policy with the passage of central bank modernization legislation;
- deepen fiscal transparency with the passage of the independent fiscal commission legislation;
- deepen transparency around the execution of the Government of Jamaica's public investment programme with the launch of the Public Investment Map; and
- deepen openness in the public policy formation process with the launch of the Open Government initiative.

I will have more to say about these in a moment. But it is important to make the connection. We are institutionalising transparency in policy execution and applying transparent principles in the use of public resources.

We remain committed to making policy decisions that provide greater openness, transparency, and fairness in the distribution of government resources. That is our goal and our mission as we aim to recover faster and stronger than before.

5.0 Lessons Learned from the Economic Crisis

Madam Speaker, when we learn, we grow. So it is always good to distill the “lessons learned” from our significant or important experiences. This is true at the level of the individual and it is also true at the level of the country.

For a young nation experiencing a painful economic shock of historic proportions, it is useful to take stock and distill some of the main economic lessons thus far.

5.1 The Lesson of Buffers – Never leave the cupboard empty

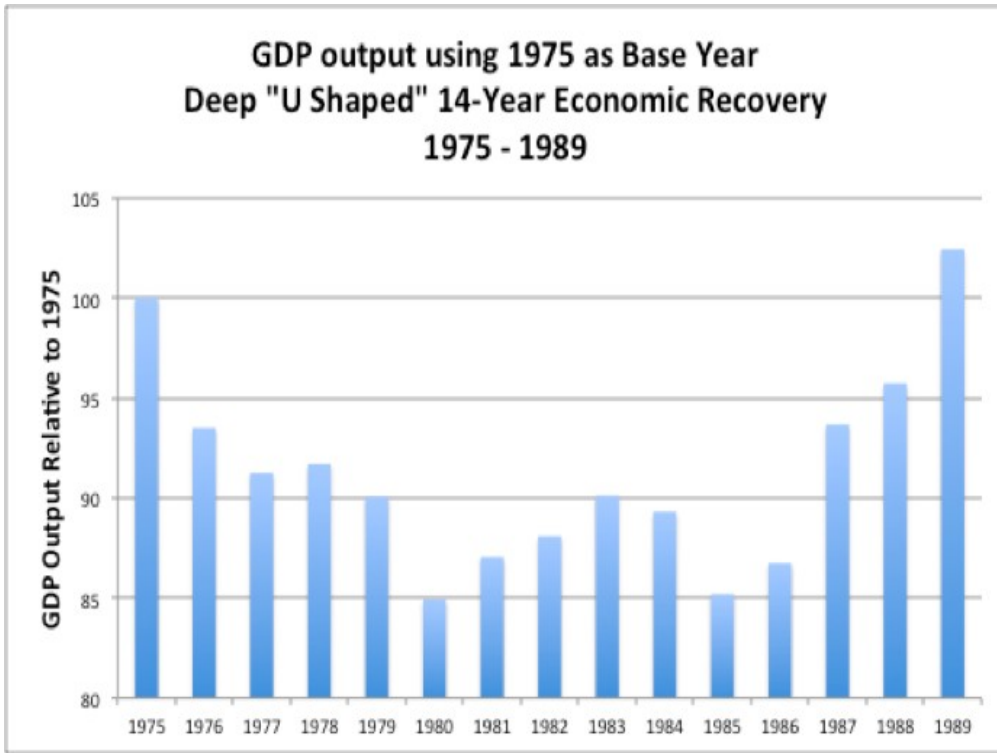
One lesson, at the policy level, is the importance of having buffers that result from an awareness of risk. Economic shocks happen. Sometimes, huge economic shocks happen. From time to time we experience economic shocks arising from commodity price volatility, geopolitical tension, social tensions, natural disaster and yes epidemics and pandemics. Sometimes, unfortunately, we experience more than one of these shocks at the same time.

As a small, open, developing and relatively undiversified economy, Jamaica is particularly vulnerable to a variety of economic shocks. This is our reality.

What has happened to us in the past is that economic shocks have set us back years, even decades.

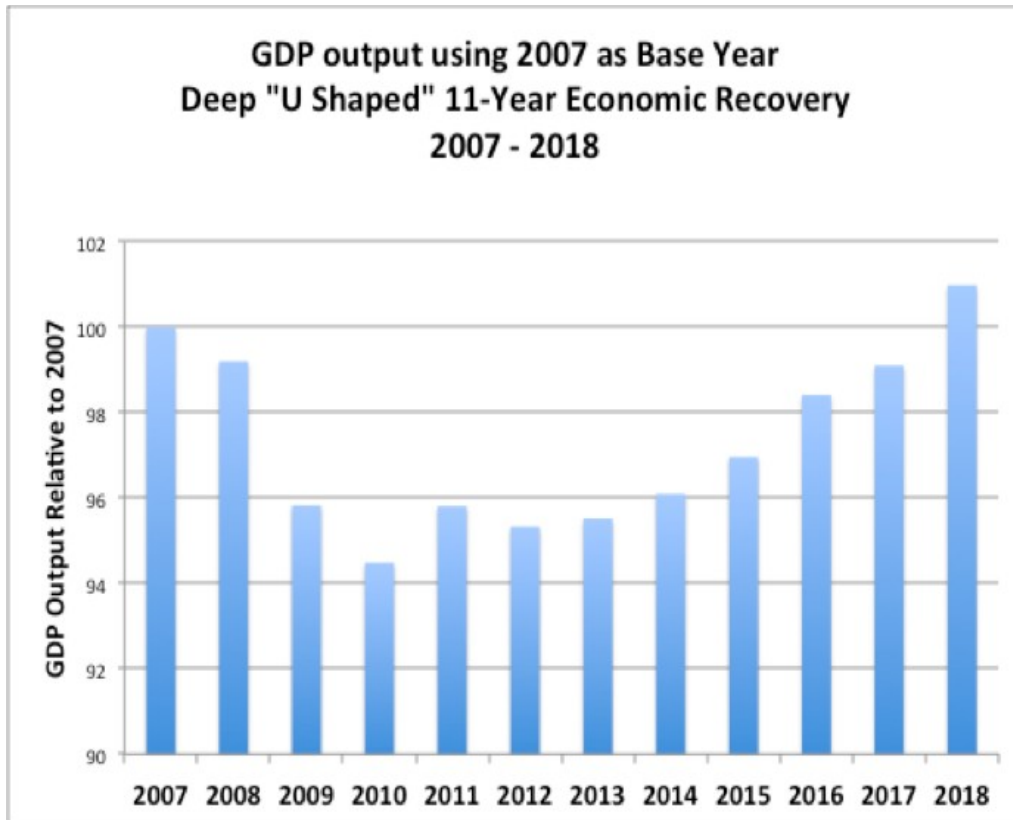
The economic shock in 1970’s led to 6 years of economic decline between 1974 and 1980 and it took us 14 years to recover to pre-crisis levels of economic output.

Figure 12 - Deep "U Shaped" 14-Year Economic Recovery 1975 - 1989



Source: COVID-19 Economic Recovery Task Force Report, 2020

The economic shock arising from the global financial crisis 2008/2009 led to 3 years of economic decline, where the economy contracted for 11 out of 12 quarters and it took us 10 years to recover to pre-crisis levels of economic output.



Source: COVID-19 Economic Recovery Task Force Report, 2020

Our recoveries have taken too long. They have fit on a generational timescale. We are determined to change that. That is our goal and our mission.

The biggest hurdle on our development path since independence has been that, as compared with more successful economies, our periods of economic expansion have been too short, while our experiences of economic declines have been too long.

Proverbially, moving two steps forwards, and one step back.

If you move two steps forward and one step back, it takes you three times as long to reach your destination.

Its like building a house, and you lay three bricks, and two slip off, and you lay three bricks and two slip off again. If every time you lay three bricks, two slip off, the house nah go finish for now.

What you want to do is build the house brick, by brick, by brick, steadily, brick by brick.

When you build the house steadily brick by brick, rain or shine, brick by brick by brick, the resources become available to sustain the levels of social investment that can counter the decay and erosion of Jamaica's social fabric.

Madam Speaker, our biggest challenge is to fundamentally change our approach.

The economic cycle of expansion and decline is an eternal condition of humankind. We will always have periods of economic decline.

But we want the periods of economic decline and recovery to be shorter and shorter, with our periods of our economic expansion longer and longer.

That is, we want to ensure we have quick economic recoveries.

We have made it our mission from the very outset of this crisis to defy our history and, relative to this history, to have the quickest recovery from our worst economic crisis.

So how do we ensure that our economic expansions last longer and our declines are shorter?

First, our policies must incorporate the reality of the economic risks we face. We must ensure that we are always adequately prepared.

For the foreseeable future we will remain vulnerable to the economic impact of commodity price shocks, geopolitical tensions, and natural disaster events. We must ensure that we always have buffers.

We should never, ever, have the cupboard empty.

Second, we must continue to prioritise and preserve macro-economic stability. That is, policies and institutions that are consistent with low inflation, adequate foreign exchange reserves, financial sector stability, and debt sustainability.

We remain committed to these objectives of providing a buffer for the future through the pursuit of good policy. That is our goal and mission as we aim to recover faster and quicker than before.

5.2 The Lesson of Agency – We can shape the future we want

The most powerful lesson is that through disciplined policy choices, and effective implementation, we have the capacity to bring into reality the Jamaica we want.

The most powerful lesson is that we have agency, we are, in fact, in control of our destiny.

Jamaica's history includes hundreds of years of colonization and domination. Through the persistent forces of history we sometimes subtly adopt, embrace, internalize and pass on an identity where our existential frame is a world where *things happen to us*: A just so it go. A just suh di ting set.

That is, we sometimes act as if we are not in control of our destiny. As is there are forces at work that are too big for us to confront.

Marcus Garvey did not think like that. Norman Manley did not think like that. Alexander Bustamante never thought like that. Neither did any of our National Heroes.

And it was Jesus himself who warned us with the parable of the talents. Jesus rejected the man in the parable who was given one talent, but who lacked vision and was too afraid and thought he could not transform his environment.

So far, we have weathered this crisis better than others in the past, though it's the worst economic crisis in our history, not by magic, but because of the policy choices we as an independent people have made.

With that as my reference, and in the spirit of the parable I referred to you, I say to my fellow Jamaicans that, with God's help, and with disciplined policy choice, we, as a nation, can bend the future to our will.

We can win. And we will win.

That is our goal and our mission.

6.0 Modernising Institutions and the Institutional Framework

Madam Speaker, we are modernizing our economy brick by brick, which will make our recovery more resilient.

We are modernizing and building our institutional framework with greater transparency in monetary policymaking, fiscal policymaking, and public investment execution that will empower the State to deliver more for the people of Jamaica.

While our peers are scrambling to finance budgets, we have been looking ahead to build and strengthen institutions that safeguard our economic stability, lengthen the economic cycle, and shorten periods of economic recovery.

6.1 Modernisation of Central Bank

During the year we passed the Bank of Jamaica Amendment Act that paves the way for the modernization of our central bank.

This legislation benefited from, and was strengthened by, the deliberations of a Joint Select Committee of both Houses of Parliament consisting of Government members and Opposition members.

We met on weekends, as required, with some “stunting” drama on at least one occasion, but we got the job done. I would like to again thank and recognize the contribution of the members of the Joint Select Committee.

Some highlights of the Act:

- Full-fledged inflation targeting will be the clear mandate of the central bank. Given our torturous history of high, runaway inflation, we have empowered a well-resourced institution to keep inflation low, stable, and predictable.
- The Act strengthens the capitalization, governance, transparency and accountability of the central bank.
- Anticipating passage of the Act, we injected \$20 billion of permanent capital into the central bank in 2018 which allows the Bank of Jamaica to be compliant with the capital standards of the Act.
- This will be the first public institution in Jamaica with staggered board appointments such that the entire board cannot be replaced in a single political administration thereby providing long-term institutional stability.
- Responsibility for monetary policy decisions is devolved to a monetary policy committee that incorporates views of external participants.

- Minutes of the meetings of these decision makers will be made public in a revolutionary nod to policy transparency.
- For the first time, the Governor will account to the people of Jamaica in the Parliament through regular appearances before the Standing Finance Committee.
- The Government will no longer be able to, on the whim of the Minister of Finance, borrow money from the central bank through the printing of money. The Minister will have to do so transparently, seeking affirmative consent of the House, and only in national emergencies.

Critically important, the Act removes the power of the Minister of Finance to give the Central Bank directions on monetary policy.

We are serious about the role and objectives of our Central Bank, which is one of the institutional guardians of our economic independence.

We are giving the Central Bank a job to do, we are empowering the Central Bank to get the job done, we are giving them the independence to do so, and providing the framework for parliamentarians to, on behalf of the people, hold them to account on the achievement of these objectives.

I have the pleasure of announcing today that I will be taking steps to bring the Bank of Jamaica Amendment Act into effect on April 16, 2021 and, as of that date, the BOJ will be an independent central bank, accountable to the Parliament.

So, my fellow Jamaicans, consistent with our desire for longer economic cycles with longer periods of economic expansion and shorter periods of economic contractions, we are decoupling the monetary policy cycle from the political cycle.

With price stability being the central bank's objective now and into the future, with the central bank having the power and independence to pursue that objective, with transparency and accountability, households, businesses and investors will make more longer-term decisions and more longer term commitments. This will deepen financial markets, make a wider pool of products available, increase financial inclusion, broaden opportunity and strengthen our economy.

6.2 Independent Fiscal Commission

Madam Speaker, we passed the legislation to create an Independent Fiscal Commission. The Independent Fiscal Commission will be the guardian and interpreter of Jamaica's fiscal rules and will further institutionalize fiscal responsibility long into the future.

The Independent Fiscal Commission will deepen transparency of fiscal policy, fiscal parameters, fiscal risks, and fiscal outcomes, and this will serve to increase the incentives for fiscal responsibility and raise the cost of fiscal violations.

We recognize the European Union and the Inter-American Development Bank (IDB) who funded the Canadian consulting firm who assisted us with the policy development, as well as Justice Canada who assisted with the legislation.

6.3 Public Investment Map

With the assistance of the IDB, we are the first country in CARICOM to launch a Public Investment Map that provides easy to access, up-to-date, online information on the progress, or lack thereof, of public investment projects on the government's capital budget. The platform gives citizens the opportunity to search for projects based on sector, parish, and county and provides the opportunity for feedback on projects of interest.

Citizens will be able to upload photographs, to compliment, criticize, or comment. They will be able to view how much has been spent to date and to see whether the project is ahead of or behind schedule as well as the name of the contractor or contractors.

As we aim to programme larger and larger capital budgets as the economy recovers it is important that the public has the means to track the progress of these expenditures and to be able to satisfy themselves that we are getting value for money.

Greater transparency in the execution of Jamaica's public investment projects, will further incentivize policymakers, civil servants, and private sector contractors to ensure the best possible outcomes, consistent with policy and contractual objectives.

6.4 Open Government Partnership

Having signaled its intention to join the Open Government Partnership, or OGP, in 2016, we formally launched the engagement chapter of Jamaica's Open Government Partnership in January 2021.

The OGP is a forum of over 70 countries whose governments are committed to being more open, transparent, accountable and responsive to citizens.

Jamaicans will benefit from the OGP through better access to information on the performance of government ministries and agencies, and on matters of public interest; greater transparency on the allocation and expenditure of public resources; strengthened anti-corruption mechanisms; and greater opportunities for citizens to participate in the determination of government priorities and the monitoring of outcomes.

Jamaica's first OGP National Action Plan is under development in collaboration with civil society and is expected to be completed by July.

6.5 Disaster Risk Financing

Natural disaster risk is a risk with which we must contend and prepare for as natural disasters have the potential to destabilize our economy. This is why I am such a keen proponent of having a comprehensive disaster risk financing strategy in order to reduce the fiscal risks of natural disaster.

The fiscal risk of natural disaster comes into sharper focus given the historic shock delivered by the COVID-19 pandemic. We certainly cannot afford to leave ourselves completely exposed to the fiscal risk of natural disasters especially during a time that we are recovering from the COVID-19 pandemic.

I announced earlier that Jamaica received its first ever payout from the Caribbean Catastrophe Reinsurance Facility (CCRIF) in December in an amount of \$500 million as a result of the damage caused by hurricanes Eta and Zeta.

While we would rather not have had these tropical storms it is good to know that our disaster risk financing strategy is working.

The World Bank is working with Jamaica to issue a three-year Catastrophe bond (“CAT bond”) to allow Jamaica to transfer some of our hurricane risk to international capital markets in time for the 2021 hurricane season.

The CAT bond solution has been underpinned by analytical work and the design and preparation of the instrument has been ongoing since early 2020. However, on the advice of the World Bank, the market placement was put on hold in 2020 due to the onset of the COVID-19 pandemic as the pandemic induced significant price volatility in CAT Bond pricing.

With continued technical advice from the World Bank and grant funding provided by the governments of the United States, Canada, the United Kingdom and Germany (the latter two through their funding of the Global Risk Financing Facility or GRIF), Jamaica is all set to tap the international capital markets for the issuance of the very first catastrophe bond ever issued by any Caribbean government.

Under the CAT bond Jamaica will pay annual premiums, funded by grants from the GRIF Facility, USAID and Canada over three years. In the event of a hurricane, above a particular threshold, in any of those three years, the bond will pay out the principal amount to Jamaica.

To ensure any CAT bond pay-outs will be spent in a matter consistent with the objective of mitigating the impact of natural disasters, CAT bond pay outs will flow to the National Disaster Risk Fund, to be created out of the Contingencies Fund through an amendment to the Financial Administration and Audit Act and subject to the advice of the Attorney General’s chambers.

The World Bank is providing technical assistance on the utilization, accumulation, and investment management of the amounts in the National Disaster Risk Fund and the institutional setup of the fund.

Good and disciplined policy implies that we think about tomorrow as well as today. I will provide further updates as we progress with the CAT bond.

7.0 Modernising Legislative Framework

7.1 Microcredit Bill

We recently passed the Microcredit Bill during the year, Madam Speaker. The Bill brings the microcredit sector, the same day loan, the payday loan and similar businesses under the regulatory supervision of the Bank of Jamaica. This will ensure that these services operate within an environment of transparency and accountability and that the operations of these services are not used to facilitate financial crimes.

Under the Bill, all providers of Microcredit services, as defined under the Act, will be required to be appropriately licensed.

Importantly, the Microcredit Act introduces consumer protection provisions for the Jamaican consumer.

Many Jamaicans take out loans with payday loan providers, same day loan providers and other microcredit institutions. With the passage of the Microcredit Act, the government is protecting all of these borrowers.

The microcredit act makes it an offence for any payday lender, same day lender or any other microcredit institution to employ intimidation, violence, or threats of violence in collection activities.

Microcredit institutions will also be required to disclose the effective annual interest rate, inclusive of all fees and charges, irrespective of whether the payment frequency is daily, weekly, or monthly. This will allow the Jamaican consumer to compare loans from different providers, with different payment frequencies, and make informed decisions.

We are modernizing Jamaica's economic legislative framework.

7.2 Credit Union (Special Provisions) Bill

Madam Speaker, as at December 2020, there were 25 credit unions operating in Jamaica with combined assets of \$137.4 billion or 6.9% of GDP, and with a membership in excess of 1 million Jamaicans. These facts make the credit union sector systemically important to financial system stability.

This year, we intend to fully bring the credit union sector under the supervision and regulation of the central bank.

The vital importance of the formal supervisory role of the BOJ was on display this year when the central bank, in the context of the pandemic, found it necessary to also make liquidity available to the credit union sector.

The BOJ is in a stronger position to be the lender of last resort if it exercises a supervisory function with respect to credit unions and is familiar with the detailed financial operations of entities.

In addition, under central bank supervision, savings within the credit union sector would be insured under Jamaica's deposit insurance scheme.

Furthermore, oversight of all deposit-taking institutions (DTIs), including credit unions, by one regulator, limits fragmentation of supervision of DTIs and enhances the continued safety and soundness of Jamaica's financial system as the evolution of risk across the deposit taking sector can be better monitored.

Madam Speaker, we have vested the Bank of Jamaica with the responsibility for overall financial system stability. Again we have to be consistent. If the BOJ is responsible for overall financial system stability then we cannot continue to have a major deposit-taking sector sitting outside of its supervisory reach.

For these and other reasons, we will introduce a framework that brings the operations of credit unions fully under the BOJ's prudential supervisory regime and which will cover, among other things, licensing, capital, reserves, risk management (including AML/CFT risks), prohibited business as well as remedial and intervention processes.

We will achieve this by carving out credit unions from the operations of the Co-operative Societies Act and creating a stand-alone statute for the regulation of credit unions. Therefore, the legislative process requires the passage of two companion pieces of legislation:

- a) the Credit Unions (Special Provisions) Bill; and
- b) the Co-operative Societies (amendment) Bill

We hope to complete both bills during the upcoming fiscal year.

Madam Speaker, we are modernizing Jamaica's economic legislative framework.

That is our goal and our mission.

7.3 Repeal and Replacement of the Customs Act

Jamaica is an open economy that depends heavily on the trade of goods and services. A vast majority of economic activity in Jamaica has some nexus with an airport or a cargo terminal or a cruise port. As a result, trade in goods and services represents in excess of 70% of GDP.

As such, Madam Speaker, the Act to Repeal and Replace the Customs Act, tabled by this government is critical to economic recovery and to recovering stronger.

This Act replaces the 1945 Customs Act and modernizes many steps, procedures, and requirements to be consistent with 21st century commerce. The law also makes many aspects of the logistics business easier, more efficient, and more competitive.

Passage of this Act is therefore likely to incentivize increased investment in this growing and crucial sector.

The Bill benefited from extensive consultation prior to tabling and I hope for efficient deliberations by the Joint Select Committee.

With the eventual passage of the Act to Repeal and Replace the Customs Act, Jamaica will recover even stronger.

We remain committed to modernizing Jamaica's economic legislative framework.

That is our goal and our mission.

Madam Speaker, we are embracing reform with ambition as we aim to recover faster and recover stronger.

8.0 Modernising Payment System - Central Bank Digital Currency

Consistent with the COVID-19 Economic Recovery Taskforce Report, the Government of Jamaica views the accelerated transition of Jamaica to a digital society and economy as vital to our economic recovery and to recovering stronger than before.

The Government's digital strategy spans many ministries of government. Today I will speak to the Government's digital strategy with respect to the economy.

The delivery of grants through the CARE Programme exposed the vast number of Jamaicans who remain unbanked. They either do not have a bank account or the one they have is not functional.

The government is concerned about the size of the unbanked population. Access to financial services is essential to improving productivity and well being. There are individual benefits and there are also spillovers benefits to the society as well.

With recent innovations in technology it is possible to introduce alternatives to cash that are cheaper, more secure, more efficient and that offer the prospect of increasing competition in the provision of financial services and of greatly increasing the financial inclusion in our society.

It is the policy of the Government of Jamaica to introduce a Central Bank Digital Currency (CBDC), which has been conceptualized by the Bank of Jamaica, which is leading its implementation.

CBDC is a digital form of central bank issued currency, which is legal tender. It is not to be confused with crypto-currency, which is privately issued and not backed by a regulatory authority. CBDC is fully backed by the Central Bank in Jamaica, and, as with Jamaican dollars, the legislative underpinnings of CBDC will be the Bank of Jamaica Act.

As legal tender, CBDC can be exchanged on a one to one basis with physical cash. Households and businesses will be able to use CBDC to make payments and store value at no cost.

The Bank of Jamaica will issue CBDC to deposit-taking institutions (DTIs) and authorized Payment Service Providers as now obtains.

Deposit Taking Institutions, authorised Payment Service Providers, and Telecom providers will on-board unbanked customers.

Agents will have the ability to on-board customers that request a digital transaction account using their mobile device.

Customers can top-up their account with CBDC through authorised agents or smart ABMs.

Customers can do business using CBDC phone-to-phone with merchants.

This will bring the benefits of financial inclusion to tens of thousands of Jamaicans.

- You are going to be able to pay for sky juice with your phone that she can use to purchase snacks from a snack vendor on the way home.
- The pan chicken man will be able to get paid with digital currency on his phone that he will be able to use to buy school books at the store.
- The potential exists for the NIS pensioner to not have to join a long line at the post office. She will be able to receive her NIS pension on her phone and use it to buy goods as she pleases.

With the Central Bank Digital Currency, more people will be included in the financial system. It will allow for more innovation in the financial services and will provide the foundation for the digital transformation of the economy.

The CBDC will be piloted this year and the pilot is expected to end in December 2021 with roll-out of the CBDC in early 2022.

Operationalizing CBDC will require some amendments to the Bank of Jamaica Act to give the Bank of Jamaica the sole right to issue digital currency as legal tender which is the same position the BOJ has with respect to Jamaican notes and coins.

Madam Speaker, we are serious about economic recovery. The prime minister set up the COVID-19 Economic Task Force with thoughtful intent and we are moving assiduously to implement the recommendations.

By transitioning to a digital society, Jamaica will recover stronger.

Madam Speaker, we are modernizing the Jamaican economy.

Madam Speaker, the introduction of central bank digital currency is about embracing reform with ambition as we aim to recover faster and recover stronger.

9.0 Modernising the Tax System

Madam Speaker, in any society, the tax system is a powerful tool of policy that shapes investment and consumption choices as well as outcomes. The tax system also provides revenues for the government which are necessary for the delivery of public services and the development of the country.

9.1 Large Scale and Pioneer Industry Act

We will be seeking to operationalize the Large Industry Scale Projects and Pioneer Industry incentive framework with amendments to the Act and passage of the relevant regulations that are necessary to for the Act to serve the purpose of attracting large-scale investments.

The original bill was passed in 2014 but has never been used.

Now more than ever we need to attract large-scale investments, each worth billions of United States dollars.

But, ideally, any inducements that are available to attract these large scale and pioneering investments must be rules-based, must be available openly and equally to all who can meet the criteria, must be measurable and must be transparent.

With the eventual passage of the Amended Large Scale and Pioneer Industry Act, Jamaica we will attract large-scale investment in Jamaica, and Jamaica will recover stronger.

9.2 Changing the Due Date for Annual Income Tax Returns and Payment

Madam Speaker, the last twelve months have reminded us that we can **plan**, but we cannot always **predict**. We have to live with a certain amount of uncertainty. So Madam Speaker, this puts pressure on us as leaders and indeed as a country, to do an even better job to exercise control over the things we can.

Madam Speaker, we have some important work to do with our income tax regime.

Currently the Income Tax Act requires that any returns for any calendar year of assessment will be delivered on or before the 15th day of March in the year following such year of assessment.

Each return of income – the form that the taxpayers submit to the government – requires the taxpayer to include a statement of the tax chargeable on that income under the Income Tax Act and to indicate how much (if any) of that tax remains unpaid.

The Act further requires that the tax so indicated as unpaid is due on the 15th day of March in the year following the assessment.

The current March 15 due date places the collection of a substantial portion of the annual income tax into the very last two weeks of the fiscal year. As much as 50% of annual income tax revenue is collected in the last two weeks of March as a result of this rule, making the last month of the fiscal year the highest tax yielding month of the year.

This reality places the Government at a disadvantage in terms of managing the fiscal operations to ensure that fiscal targets are met as by this time the budgeted expenditure should have been disbursed, however, the possibility exists that the revenue collected in March may be lower than anticipated, thereby resulting in failure to achieve the fiscal balance target.

This has always been sub-optimal. And it has always been a source of risk in Jamaica's fiscal management. This is a problem for Jamaica, but we can fix it.

In the United States the fiscal year begins on October 1, and income taxes are due by April 15, in the middle of the year, not in the last month.

In Canada the fiscal year like ours begins on April 1, and income taxes are due by April 30, the first month of the fiscal year, not in the last month.

In the United Kingdom the fiscal year begins on April 6, and income taxes are due by January 31, in the middle of the fiscal year, not in the last month.

It does not make, and has never made, practical sense for the date of filing of income tax in Jamaica to be 15 days before Jamaica's fiscal year ends.

Madam Speaker, we all know that the keys to the barn door are considerably less useful after the horse has already bolted.

Subject to further consultations, to improve the effectiveness of fiscal operations, the Government intends to make the bold but practical step of changing the annual income tax return and collection date from March 15 of each year to April 15.

Madam Speaker, this change is not just good for the planning of the government's finances. The change will also provide taxpayers with an additional month to prepare their tax return and to make the required payment. It is extra time for taxpayers to organize themselves to achieve tax compliance.

For the Government, it will mean that the Revenue Authority will now collect the highest 50% of annual income tax revenue in the very first month of its fiscal year.

This will enhance fiscal responsibility, Madam Speaker.

It will give the Government the ability to take any corrective action that may be required across the remaining 11 months of the fiscal year should revenues associated with the filing deadline of income tax fall below target. This will greatly improve fiscal management and the ability of the Government to meet its annual fiscal balance target.

Simple change. Powerful impact. Policy matters, Madam Speaker, and good policy matters even more.

We are modernizing the Jamaican economy, which will lead to a stronger recovery.

I will have more to say about this after further consultations

9.3 Relocation of Corporate Entities from other Jurisdictions

Madam Speaker, historically a significant number of Jamaican corporate entities have strategically migrated corporate head offices, corporate functions or incorporated holding companies in other jurisdictions outside of Jamaica in order to maximize shareholder benefits by way of what has been described as tax efficiency. In doing so, these businesses did what businesses do which is to operate within the existing legal framework to maximize shareholder value.

The tax advantages prevailing in some of these offshore jurisdictions provided ample justification for the migration of corporate entities to other jurisdictions, including some of our Caribbean neighbours.

Following the 2008 global financial crisis, however, G20 countries – some of the richest economies in the world – began to focus on revenue loss in their own jurisdictions as a result of G20 domiciled taxpayers leveraging what these offshore entities had on offer. This brought about the Inclusive Framework, which includes over 137 countries and jurisdictions, and the Base Erosion and Profit Shifting (BEPS) initiative. There are lessons that developing countries such as Jamaica can learn from this experience. Some of the ideas and principles that are good for the G20 can also be wise and prudent for Jamaica.

The BEPS initiative resulted in many offshore jurisdictions being peer reviewed and most were declared to be conducting harmful tax practices. The peer review reports reflect that the profits reported in these offshore jurisdictions were inconsistent with the economic activity being conducted. This resulted in major legislative reform being recommended by the Inclusive Framework and adopted by the offshore jurisdictions. This reform has largely resulted in the evaporation of tax advantages and the initial justification for the migrating of corporate entities no longer exists.

We want these companies or the activities or both to Come Back Home to our shores, Madam Speaker.

The objective of this Reverse Corporate Inversion initiative is to have these parent companies relocate to Jamaica, thus broadening the tax base and strengthening our economy. However, we are aware that other jurisdictions are competing for the same entities looking for a new home, and Jamaica wants to ensure that there are no intractable barriers to those who wish to return.

There is therefore need for a detailed review of the rules, regulations, and costs associated with companies desirous of relocating to Jamaica to ensure that we are competitive on this front. In conducting this review of our laws and administrative processes, we must be guided by international best practices on business facilitation as well as the guidelines on harmful tax practices promulgated by the Inclusive Framework as well as the Organization for Economic Cooperation and Development, or OECD .

Jamaica must therefore find a way to encourage the return of these entities within the scope of international best practices and without any negative economic implications.

There is an existing working group looking at venture capital and private equity. I will ask them to also examine these issues as well and make recommendations to the Ministry of Finance and the Public Service.

Madam Speaker, the world is changing when it comes to taxation. Jamaica cannot stand still. It is not in our interest to stand still. The key now is to plan for the change and to make the change be fair to our businesses, while preserving our revenue base and adhering to current global principles of tax compliance.

9.4 Revision of the Income Tax Act

Madam Speaker, the Income Tax Act has been in existence from 1954 and is largely based on the UK Income Tax Act of 1952.

Since then the UK repealed and replaced their principal income tax legislation in 1988 with the passage of the Income and Corporation Taxes Act of 1988. Twenty years later, the UK again repealed and replaced the primary tax act with the Income Tax Act of 2007 and the Corporation Tax Act of 2010.

While Britain has reimagined, upgraded, and modernized its income tax regime several times over, we in Jamaica have been stuck with a pre-independence income tax law that will soon be 70 years old and has not been modernised over the years, yet remains the base law for income tax in Jamaica.

Amendments have been made. However, these have been ad hoc and characterized by a reactionary approach to policy development, resulting in overlapping provisions and general incoherence in the Act.

One of the issues we face Madam Speaker, is that we have entered into a range of international treaties over many years to try to boost trade and make Jamaica attractive for global investment. Some of these were done on a piecemeal basis, sometimes without reference to the wider principles of a sustainable tax policy.

With the passage of time, there is now little or no codification of Jamaica's overall international tax policy, resulting in a dissonance between what is enshrined in these treaties, what is provided for in the Act, and what is necessary to protect our tax base. Often the amendments have to play "catch up" with the treaties.

The world is a fundamentally different place today than it was in 1954. For Jamaica to be competitive to investment and talent we must have a modern income tax regime that also protects Jamaica's tax base.

Madam Speaker, we are on a mission to modernize the Jamaica economy. Globalisation, the plethora of international trade agreements, international tax treaties, the drive for foreign direct investment, and the increased mobility of funds provide even greater impetus for us to modernize the Income Tax Act.

This process will begin this year. It will be a multi-year process. However, there is no better time to begin than at this economic trough.

Madam Speaker, we will embrace reform with ambition as we aim to recover faster and recover stronger.

9.5 Casino Gaming Legislation

There are a number of multinational enterprises that are interested in investing to build large hotels that are enabled with casino gaming activities.

We intend to amend the Casino Gaming Legislation to be compatible with this interest and thereafter to launch a Request for Proposals that will eventually, but not immediately, lead to large hospitality investments in Jamaica.

With the eventual passage of the amendments to Casino Gaming legislation, Jamaica will recover stronger.

10.0 Modernising the Public Sector

The recent COVID-19 pandemic has brought into sharper focus, the need to have a public sector that is more responsive, efficient and effective. The reality is, the public sector touches every citizen in some way, shape or form and so it must be able to anticipate and meet, if not exceed the expectations of citizens.

10.1 Shared Corporate Services

I am pleased to advise this Honourable House that 10 years after it was first proposed in the master rationalisation plan, under the Bruce Golding administration, and when the Hon. Audley Shaw was Minister of Finance and the Public Service, we have commenced the introduction of shared corporate services in the public sector as a way of improving the operations of government. This is historic in the Government of Jamaica. We have commenced the pilot with internal audit and subsequently human resource management.

This will support realisation of economies of scale by consolidating the execution of administrative functions in Ministries, Departments and Agencies under one entity. This will not only save the government operational costs but also better use information and communication technology so that public sector employees can focus on the core functions, resulting in much higher levels of external customer service.

The GOJ will introduce shared corporate services in seven areas: human resource management, finance and accounts, asset management, procurement, information and communication technology, internal audit and public relations and communication.

10.2 Rationalisation of Public Bodies

We have rationalised 40 public entities since the start of the rationalisation project in 2017. At the start of the project, we had 190 public bodies and we are now at 150, with the plan to further streamline through mergers, closures, divestments, and integration into parent ministries. I should note, Madam Speaker, that the general function of the entity does not go away, but rather the service is delivered in a more efficient and cost effective way.

10.3 Human Resource Management Transformation

We are transforming human resource management because we recognise its vital importance to how we attract, manage, and retain employees. In this regard Madam Speaker, plans are well advanced for the implementation of a new model of HR for the public sector. Simultaneously, we are introducing MyHR+, an integrated HR and payroll system, to better manage employee data and the wage bill. Thirty-six ministries, departments, and agencies are now using MyHR+ and our goal is that by 2024, 85 public sector entities will be brought onto MyHR+.

10.4 Public Sector Efficiency and ICT

The implementation of a GOJ ICT infrastructure (GovNet) has commenced and 50 government entities have been identified for phase 1 of the project and we are working closely with the portfolio Ministry with respect to planning and execution, Minister Vaz will speak more on that when he makes his contribution.

We have also implemented a modern web-based work permit system at the Ministry of Labour and Social Security, upgraded the ICT infrastructure at the Child Protection and Family Services Agency, and acquired and implemented a new client relationship management system at the Passport, Immigration and Citizenship Agency.

We are modernizing our public sector technology infrastructure to improve efficiency, reduce costs, and improve service delivery to the Jamaican people.

That is our goal and mission, as we recover stronger together.

10.5 Public Sector Compensation Review

The final pillar of the public sector transformation programme deals with public sector compensation. It is widely known that the compensation system in the public sector has evolved into a complex one with a wide variety of salary scales derived from the use of several different job evaluation methodologies. The current structure has resulted in both real and perceived inequities, and also created ad hoc incremental costs to pay for different groups to address these inequities.

In 2017, the Ministry of Finance and the Public Service review of public sector compensation found that there was a proliferation of allowances — 185 to be exact — designed to supplement salaries. This resulted in allowances representing between 30% to 60% of the total compensation package of various groups.

Such a compensation structure is unwieldy and complex, creating enormous uncertainty regarding both the wage bill and the government's fiscal programme. It also has pension implications for public sector employees as pension entitlements would often be calculated on a small fraction of the employee's emoluments.

In December 2019 the GOJ contracted with international consulting partners Ernst and Young ("EY") to work with us to establish a more rational, fair, and sustainable compensation system. In December 2020, the Transformation Implementation Unit along with international consulting partners EY, submitted a proposal. Among the key recommendations were:

1. **A single, common factor-based job evaluation system which** will provide a consistent basis for comparison of jobs across the public service.
2. **Moving to a common pay grading structure** where all jobs throughout the core civil service, agencies, education (Teaching Service) and protective services will be aligned to a single set of bands.

3. **Proposals for the introduction of pay for performance** in order to recognize and reward high performance and excellent performers.
4. **Rationalisation and consolidation of allowances into basic pay, where possible** resulting in a simpler, more transparent approach to total compensation.

These proposals are the outputs of an extensive review of the 325 salary scales and job grades and 185 allowances; an evaluation of approximately 500 benchmark jobs; and many interviews with job holders and a wage survey of compensation in the Private and Public Sectors.

We are seeking to develop a compensation system that is based on four key principles:

- It should be simple and easily understood;
- It should be consistent, with equitable application and transparency across the public service;
- It recognises and rewards performance; and
- It is sustainable, meaning that it is affordable, manageable, defensible, and supports the realisation of our strategic goals.

Madam Speaker, I have advised this Honourable House, that due to fiscal pressures brought on by the COVID-19 pandemic, we are delaying implementation of the compensation review to fiscal year 2022/23.

We recognise that there have been various attempts to deal with compensation in the public sector – many starts and stops as the fiscal position of government was unable to sustain previous attempts at implementation of a compensation system.

I would like to take this opportunity to publicly express our appreciation and gratitude for the public sector workers for the many compromises and sacrifices they have made over the years to provide the country with the space to manage our fiscal issues.

We anticipate that as we enter into discussions with our employee representatives regarding compensation, there will be a general understanding among public sector workers and unions that, given the imperatives before us at this time, the Government can only accommodate modest wage increases as we seek to address the public health situation and so we plan to begin implementation of the Compensation Review in 2022.

Madam Speaker, we will embrace reform with ambition as we aim to recover faster and recover stronger.

11.0 Marcus Garvey Scholarships

Last year we launched the Marcus Garvey Graduate Scholarship for Public Sector Employees which is the largest scholarship programme in Jamaican history with a budget of \$1 billion.

The Marcus Garvey Scholarship will offer high-potential Jamaicans in the Public Sector the opportunity to obtain a graduate degree from competitive, appropriately accredited universities in areas that are aligned with the national goals and strategic objectives of Jamaica.

The programme constitutes the base of a pipeline of GOJ Human Capital Development initiatives that will nurture the development of future senior leaders and executives in the public sector.

The Marcus Garvey Scholarship Programme will enable the development of a public sector-wide talent resource pool, with 30 scholarships a year over a period of five years in various subject matters including public sector governance, health, education, the built environment and economics.

The period for the submission of applications for the first 30 scholarships was September 1, 2020 to October 5, 2020.

The Secretariat received applications from 185 public sector workers. A blind peer review process is near completion after which the Selection Committee chaired by His Excellency the Governor General will interview shortlisted applicants and select the final awardees.

We remain committed to investing in the technical capacity and experience of the public sector. That is our goal and mission as we prepare Jamaica to recover stronger.

12.0 Students' Loan Bureau

Madam Speaker, during the fiscal year, we increased the moratorium on the starting date for repayment of student loans from 6 months to 14 months after graduation, reflecting our commitment providing greater flexibility and breathing room to our students.

During the 2020/21 fiscal year the Students' Loan Bureau ("SLB") received almost 14,000 applications for student loans, an increase of 5% over the prior year.

Madam Speaker, I am pleased to report to this Honourable House that of all those who applied to the Students' Loan Bureau for a loan to finance their tertiary studies, the vast majority, or 98%, were approved.

In addition to extending the time period for starting repayment of loans from 6 months to 14 months, we have also taken several other steps to reduce the financial burden on our students.

Over the past five years, for example, we lowered interest rates on student loans from as high as 12% to as low as 4% for some loans, and we are also forgiving portions of loans for persons working for registered charities.

All of these measures were designed to improve accessibility.

One hurdle that creates a disproportionate barrier to access for lower income families is the need to find two guarantors in order to qualify for a student loan.

Madam Speaker, it is in the public interest that the goal of accessibility be balanced by sustainability. The requirement of two guarantors was implemented to enhance the prospect of loan repayment, thereby supporting sustainability.

Madam Speaker, effective April 1, we will remove the need for two guarantors for student loans and will instead require only one guarantor for student loans.

13.0 The Government's 2021/22 Budget

Madam Speaker, crafting the budget for this year has been extremely challenging.

My fellow Jamaicans, I stand before you today humbled by the severity of the crisis.

We are not alone in this global fight against the pandemic, and we are not alone in how we respond to our domestic needs.

Every country in the world is going through a similar struggle and making painful choices. I have spent the last few months thinking this budget through in every possible angle.

The Government's revenues increase and decrease along with the size of our annual economic output.

Due to the pandemic, the economy declined dramatically this fiscal year. It has not yet recovered.

As a result, the resources available to the Government of Jamaica remain subdued and seriously constrained.

13.1 Fiscal Pressures from COVID-19

Yet, our expenses remain with us and COVID-19 related expenditures add to the pressure.

Because of COVID-19, our healthcare costs have increased significantly. More drugs have been required, more personal protective equipment is necessary, and more employees have been added, including more community health aides. In addition, increased hours and utilisation of clinics and hospitals leads to an increased usage of security, canteen, cleaning, and other services.

Complicating matters even more, traditional sources of revenues for public bodies, particularly associated with tourism, have been affected and we have to support these public bodies that provide critical services from the coffers of the central government.

- For example, the Passport, Immigration and Citizens Agency normally sustains its operations on the basis of fees related to passports and international travel. Travel has dramatically reduced and so their revenues are down and they have needed central government support.
- The revenues from the Dunn's River attraction has traditionally provided a critical source of finance for the UDC. Obviously, revenue from that source has fallen and the UDC has had to seek support from central government.
- Some of the National Water Commission's largest customers are the hotels, which now operate on very low occupancies compared with pre-pandemic levels.

Their revenues have been affected and they have had to seek additional support from the central government.

And so on.

With limited resources, therefore, prioritization is critically important. When resources are severely limited, we have to prioritise within those priorities.

Remember too, our objective is to have shorter periods of decline, quicker economic recoveries, and longer periods of economic expansion.

Inclusive of this quarter ending March 31, 2021, where PIOJ expects a 10% contraction in the economy, we are anticipating at least five consecutive quarters of economic decline.

While we are not in control of all the variables, it is important that economic recovery begin in the upcoming fiscal year starting this upcoming April to June quarter. But this depends critically on the evolution of the virus, the public's compliance with the measures, and whether any new measures are required to combat the virus.

Our budget, within the severe limitations placed by the COVID-19 pandemic, and in the context of the uncertainties and risks we face, tries to align with the objective of a quick, stable, and sustained economic recovery.

As I have remarked before, we have to see the environment for what it is. We are in the midst of a viciously dangerous economic crisis, brought on by an equally crippling pandemic, and the wrong policy choices could prolong and deepen its effects.

On the positive side, however, the path out of this crisis is clear but it is a very narrow path. Meaning, we can't do everything, we have to prioritize and even prioritize within priorities, and we have to be very strategic and deliberate in what we do.

13.2 Priorities for Recovery

Our priorities for recovery include:

- We need to ensure that we make adequate provisions to finance the procurement, storage, distribution and application of the vaccines required to reach herd immunity, with respect to the coronavirus.
- We need to ensure that we bolster social support to assist the vulnerable persons and those who are most affected by the pandemic.
- We need to continue to finance the provision of the public goods and services on which our society and economy depends.
- We need to be able to finance an infrastructure programme that can boost economic activity.

- We need to be able to provide support to small businesses
- We need to maintain and preserve macro-economic stability in the economy

14.0 The Government's 2021/22 Budget Expenditure Budget

For the FY 2021/22 fiscal year, the Central Government plans to spend a total of \$830.8 billion, comprised of:

Non-Debt Expenditure	\$541.3 billion
Debt Service Expenditure	\$272.2 billion
Loans to Public Bodies	\$ 17.3 billion
TOTAL	\$830.8 billion

14.1 Central Government Non Debt Expenditure

The programmed Central Government Non-Debt Expenditure for FY 2021/22 of \$541.3 billion reflects an increase of \$23 billion or 4.4% relative to the FY 2020/21 Non-Debt Third Supplementary Estimate of \$518.3 billion.

The Central Government's Non-Debt Expenditure consists of

Recurrent Expenditure	\$487.1 billion
Capital Expenditure	\$ 54.2 billion

In turn, Recurrent Expenditure is comprised of expenditure for the compensation of public sector employees as well as Recurrent Programme Expenditure.

14.1.1 Compensation of Employees

Compensation of Employees accounts for \$239.2 billion or 49.1% of the Recurrent Expenditure Budget inclusive of \$7.7 billion towards the expected adjustment in public sector wages during FY 2021/22 and \$1.8 billion to settle arrears in Employers Contribution to the National Housing Trust.

14.1.1 Recurrent Programmes

Recurrent Programme allocation of \$247.8 billion accounts for 50.9% of total Recurrent Expenditure and reflects a nominal increase of \$6.4 billion or 2.6% above the Revised Estimates for FY 2020/21.

Notwithstanding the fiscal challenges, the government continues to prioritise expenditure to support the delivery of services to Jamaicans.

14.2 Education

Madam Speaker, pandemic or no pandemic, we continue to allocate the largest share of our budget, outside of interest, to education.

\$114 billion is allocated to education in the upcoming fiscal year.

As such, education expenditure will represent approximately 21% of non-debt expenditure.

Every one in five dollars of non-debt expenditure will go to education.

That is prioritization by the Jamaican State.

Expressed another way, this year, Jamaica will spend close to 6% of GDP on education.

Madam Speaker, that is far more than Singapore spends on Education. They spend approximately 3% of GDP.

Madam Speaker, that is far higher than our peer group of countries – the upper middle income countries of the world – spend on education, which is approximately 4% of GDP

Madam Speaker, even in the worst health crisis in 100 years, Jamaica continues to place education as its number one priority expenditure.

Under the leadership of the Minister of Education, the Hon. Fayval Williams, by the end of this school year, i.e. June 2021 the Government of Jamaica will have distributed a total of 122,831 digital devices distributed to PATH students and non-PATH needy families at a cost of approximately, \$3.9 billion. This includes an amount of \$805 million allocated in the fiscal year beginning on April 1.

Madam Speaker, a few years ago the Government approached our multilateral partners to assist us with a public expenditure review with respect to our education expenditure to help us optimize this allocation and get better education outcomes from education expenditure. We await that review.

This Government remains committed to placing the education of our young people as a central priority with adequate funding and support. That is our goal and mission as we recover stronger.

14.3 Social Spending

Madam Speaker, we continue to prioritise social spending which is executed across various ministries.

\$14.5 billion is being allocated to the PATH Programme, the GOJ's conditional cash transfer programme targeting vulnerable households within the population.

Of this amount:

- **\$8.5 billion** is being allocated to the Ministry of Labour and Social Security (MLSS) to support the PATH cash grant which, prior to this year, was executed under the MLSS's Capital Budget. These activities, which were previously implemented under a public investment project supported by loan funds from multilateral institutions, have now been institutionalised within the recurrent operations of the MLSS and are now being solely funded by the Government of Jamaica. The provision under the MLSS' Recurrent Budget will continue to support persons in vulnerable groups – the elderly, disabled, pregnant and lactating women and children attending schools – through cash transfers, post-secondary and tertiary education grants, and on the job training.
- **\$6.0 billion** is allocated under the Ministry of Education Youth and Information for the PATH School Feeding Programme (\$5.6 billion) and the PATH Rural School Transportation Programme (\$0.4 billion).

In addition Madam Speaker,

\$1.1 billion is being allocated under the Ministry of Education, Youth and Information to support *other* student nutrition programmes providing Breakfast and Cooked Lunches which are carried out through Nutrition Products Ltd and school canteens;

\$0.8 billion is provided under the Ministry of Labour and Social Security to facilitate implementation of a Social Pension Programme for the Elderly, a new social intervention program, originally scheduled for last year but which had to be delayed as the registration programme would not have been possible.

That is a total of **\$16.4 billion** on social support, Madam Speaker, before considering the additional social spending under JSIF and under the **SERVE Jamaica Programme**, which I will discuss.

This Government remains committed to social protection and support of the most vulnerable in our society. That is our goal and mission as we recover faster and stronger.

14.4 Other Recurrent Programme Expenditure

Madam Speaker we have to prioritise fiscal strategies designed to counter the risk of natural disasters. As such,

\$2.3 billion has been allocated to support natural disaster risk management within the Central Government. This is made up of:

- **\$1.1 billion** for issue of Catastrophe Bonds (Cat-Bonds) (funded by grants).
- **\$1.0 billion** to meet premium payments to the Caribbean Catastrophe Risk Insurance Facility (CCRIF); and

- **\$200 million** to be transferred to the Contingencies Fund in keeping the requirements of the Financial Administration and Audit (Amendment) Act 2014, Third Schedule, Section 4.

In addition:

- **\$50.0 million** is allocated to the National Disaster Fund managed by the Ministry of Local Government and Rural Development.

\$8.8 billion has been allocated to the Ministry of Health and Wellness to acquire pharmaceuticals and medical supplies for the users of health facilities in the four (4) Regional Health Authorities. This is in addition to amounts to be allocated under the **SERVE Jamaica Programme**.

\$2.9 billion has been allocated to the Ministry of Finance and the Public Service, representing a grant to the Local Government Municipal Corporations to cover the annual cost of Street Lights;

\$1.0 billion has been allocated to the Statistical Institute to carry out preparatory activities for undertaking a National Census in 2022. The last census was completed in 2011. We were scheduled to carry out the census in 2021 but the necessary planning that would have ordinarily occurred in 2020 was interrupted.

\$700 million has been allocated to provide an increase in benefits to existing Government pensioners.

14.5 Capital Expenditure

Capital Expenditure in the new fiscal year 2021/22 is programmed at \$54.2 billion. At first glance one may be tempted to compare it with the \$52 billion programmed in the Third Supplementary Estimate for this fiscal year 2020/21. However, to do so would be to erroneously compare “apples and oranges”.

The \$52 billion for this 2020/21 fiscal year includes \$8.5 billion in PATH expenditure that has always been included on the capital side of the budget for historical reasons already alluded to, but which has been transferred to the recurrent budget for 2021/22, and is therefore not in the capital budget for the upcoming fiscal year.

Adjusting for this, an “apples and apples” comparison, the capital budget has moved from effectively \$43.5 billion to \$54.2 billion, an increase of 20%.

Madam Speaker, in effect, we are increasing the capital budget by 20% – even in the face of the unprecedented economic decline that we have faced – because we are prioritizing economic recovery.

Madam Speaker, when in the past has Jamaica ever faced a major economic crisis and responded by effectively increasing programmed capital expenditure?

It has not happened in prior crises and for reasons that are well understood.

To be clear, Madam Speaker, this increase in the capital budget would not have been even remotely possible without the one-off dividend from the Bank of Jamaica.

Much of the capital spend is included in the **SERVE Jamaica Programme** which I will also detail later. Other capital expenditure programmed, outside of SERVE Jamaica, includes:

- **\$2.3 billion** to support implementation of the National Identification System (NIDS) including work to complete digitization of birth certificates. Economic recovery will benefit from an acceleration of digital transformation of our economy. This is a priority.
- **\$1.3 billion** to support agricultural projects including \$905.0 million to support irrigation of arable lands in the Essex Valley area of St Elizabeth, Amity Hall and Bridge Pen in St Catherine, and Parnassus in Clarendon;
- **\$3.4 billion** for Jamaica Social Investment Fund (JSIF) managed projects;
- **\$2.7 billion** to the Ministry of Health and Wellness including \$1.3 billion to continue works on the Redevelopment of the Cornwall Regional Hospital;
- **\$3.2 billion** to continue implementation of public sector transformation projects including: modernisation of the Bureau of Standards; supporting the implementation of ISO management system standards in select ministries, departments, and agencies; supporting the rationalisation of public bodies; implementing a new work permit system in the Ministry of Labour and Social Security; and completion of the expansion of Government of Jamaica's fibre optic network access across the Kingston Metropolitan area;
- **\$6.5 billion** to projects within the Ministry of National Security, including allocations for infrastructural works, new construction, and completion of several major projects such as Phase II the Jamaica Defence Force's Burk Barracks in Western Jamaica;
- **\$2.1 billion** to support the build-out of Government of Jamaica's cyber-security capabilities and the procurement of coastal surveillance equipment to improve border security;
- **\$1.2 billion** to projects within the Ministry of Education Youth and Information including \$800 million for the Primary and Secondary infrastructure programme which is designed to provide additional classrooms and other amenities to facilitate elimination of the shift system and overcrowding at 17 high and primary schools;

\$1.9 billion to make final payments on (30) fire (pumper) trucks being procured by the Government of Jamaica through the Ministry of Local Government and Rural Development. Madam Speaker, even with the pandemic, there will be no delay in the delivery of fire trucks.

15.0 BOJ Dividend

Madam Speaker, last year good policy delivered \$90 billion of opening cash resources, at the right time, which assisted us greatly in financing the response to the pandemic, even as Government revenues declined, without needing to borrow.

Madam Speaker, this year, again, good policy is delivering a \$33 billion dividend from the Bank of Jamaica, straight into the consolidated fund in the first week in April.

This could not come at a better time.

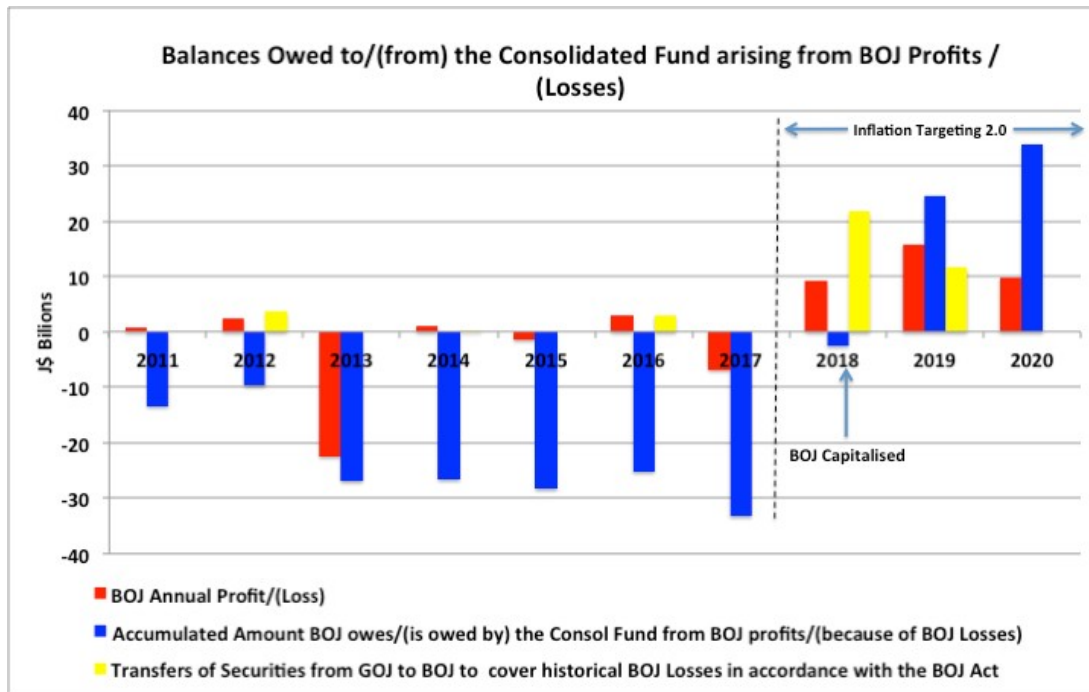
Rarely are the fruits of right and appropriate policy as powerfully evident, in as short a time period.

My fellow Jamaicans, policy matters and good policy matters even more.

Good policies expand opportunities and provide flexibility when we need to respond to crises. But we need to have the courage and discipline to pursue good policy.

Without this historic dividend, unprecedented in size as a single payment, this year's budgetary process would have been an even more difficult exercise.

Figure 13 - Balances Owed to/(from) the Consolidated Fund arising from BOJ Profits/(Losses)



Source: BOJ Audited Financial Statements, 2011 - 2020

Central Banks are designed to be profitable and in countries that pursue good policies, sustainable and prudent policies, central banks are indeed profitable. And they return these profits to taxpayers through dividends to the treasury or consolidated fund.

The dividends can then be used to fund social support, finance infrastructure development and support other worthy initiatives through an open and transparent budgetary process where everyone can see where the resources are going and which groups are benefiting.

When policy is pursued that results in central bank losses, that taxpayers are called upon to fund, we know who bears the costs – you the people - but the question of who actually benefits is not usually transparent.

So, examples of central bank dividend distributions include:

- The Bank of England routinely pays dividends of 500 million pounds sterling annually to Her Majesty's Treasury for the period 2010 - 2019
- The Canadian central bank has paid dividends that averaged \$1 billion Canadian dollars annually in respect of the ten years 2010 - 2019
- The Australian central bank has paid dividends that averaged over \$2 billion Australian dollars annually for the period 2010-2019
- The Federal Reserve in the United States pays dividends every year to the US Treasury and these dividends have averaged US\$75 billion per year over the period 2010 -2019

What about Jamaica?

Over the period between 2010 and 2017, the Central Bank paid \$0 dividends to the taxpayers of Jamaica who fund its operations, because it made huge losses.

Some of the BOJ's losses were as a result of the JDX and NDX debt exchanges, but were also due to foreign exchange losses from excessive intervention in the FX markets.

So over the 2010 to 2017 period, the taxpayers of this country were called on to support the BOJ in the amount of over \$31 billion because of losses it incurred over that period.

Now, you cannot hold an institution accountable if they are not provided with the resources specified and detailed by law. The law says when the BOJ makes a loss, the Government must cover that loss with taxpayer resources.

But that did not happen. The BOJ just had an IOU on its balance sheet for this amount. An IOU that they could not trade, they could not repo. It represented a dead asset.

We rectified this in 2018 and 2019 by transferring the securities required by law to cover the cumulative losses BOJ made over the previous decade. This was particularly important in preparation for central bank independence and with renewed focus on the central bank's new mandate, central bank governance and central bank accountability.

Prior to this the BOJ was fighting with one hand tied behind its back.

Madam Speaker, the BOJ capital was stated as J\$2 million in the original 1960 Bank of Jamaica Act. In 1976, the BOJ's capital was doubled to J\$4 million. And, Madam Speaker, BOJ's capital remained at the same paltry figure of J\$4 million over the 42 years between 1976 and 2018.

That's like asking a man to paint a house without a paintbrush.

So we also injected \$20 billion of permanent capital – which is capital that cannot be removed - into the BOJ in 2018 to empower the BOJ to fulfill its mandate.

And we made a deliberate shift in monetary policy towards inflation targeting which began in earnest in 2018, and away from the previous policy where a preoccupation with the exchange rate biased policy towards excessive interventions, which ultimately had a hidden and non-transparent fiscal cost.

Inflation targeting has now been given the force of law with the BOJ Amendment Act, chiseled and passed with bipartisan support.

These series of steps has led to a reversal of fortunes for the BOJ. They were able to reduce interest rates 10 times since 2018. And after incurring a loss of \$6.8 billion in 2017, the BOJ made a profit of \$9.1 billion in 2018, \$15.8 billion in 2019 and \$9.9 billion in 2020. The vast majority (80%) of these profits were from ordinary operations. Only about 20% arises from realized foreign exchange gains.

By law, these profits are to be distributed to the consolidated fund for the benefit of the Jamaican people. And there could hardly be a better time.

By the end of 2019, however, due to the restoration of its profitability, this changed and instead of the Government owing the Bank money, the Bank owed the Government money.

We had the \$90 billion cash resources for 2020/21 and we suspended the fiscal rules but the future remained unpredictable. We knew we would need to make a big push to fund the recovery effort in 2021/22, and revenues would be short and so we therefore, timed the payment of the BOJ dividends for this upcoming fiscal year.

Good policy, Madam Speaker, cannot only consider today, it has to also consider tomorrow.

At the end of calendar year 2020, the balance owing to the GOJ increased further with profits made during the year. The amount BOJ is required by law to distribute to the Consolidated Fund, as confirmed by the BOJ auditors, is now three years of profits that total \$33 billion.

Good policy, Madam Speaker, pays dividends, literally and figuratively.

Madam Speaker, it is important to note that this distribution does not represent recurring revenue. This dividend is an accumulation of three years of profits.

Furthermore, going forward, when the BOJ Amendment Act comes into force, the dividend regime will be updated. BOJ dividends will not be paid if its capital at the end of their financial year (December) is less than 5% of monetary liabilities even if it makes a profit during that year. If its capital is between 5% and 8% of monetary liabilities the dividend will be 25% of profits and when capital is in excess of monetary liabilities the dividend will represent 100% of profits.

The Central Bank is projected to have its capital be 5% of monetary liabilities during this calendar year 2021.

16.0 The SERVE Jamaica Programme

The one-off BOJ dividend of \$33 billion will facilitate a \$60 billion **Social and Economic Recovery and Vaccine Programme for Jamaica**, known as the **SERVE Jamaica Programme**.

As I list the allocation of these resources just think about the impact of the dividends of good policy.

The **\$60 billion SERVE Jamaica Programme** will consist of the following elements:

- **\$10.5 billion** in special resources for the Ministry of Health including:
 - **\$6 billion** for the procurement, storage, distribution and administration of vaccines;
 - **\$1 billion** for Personal Protective Equipment, or PPE's,
 - **\$1 billion** for drugs and reagents,
 - **\$2 billion** for regional health authorities to pay arrears to suppliers, and
 - **\$500 million** for other COVID-19 related expenditure.

We have put the funding aside under the **SERVE Jamaica Programme** to make the attainment of herd immunity in a single fiscal year fiscally feasible, and these funds will be transferred in the first week of April.

In addition to healthcare and vaccines, another critical part of the **SERVE Jamaica Programme** is the upgrading of our physical infrastructure islandwide. As such, we have allocated:

- **\$31.1 billion** to an infrastructure programme to drive jobs and economic activity, improve productivity, and strengthen resilience consisting of:
 - **\$17.7 billion** allocated to the Southern Coastal Highway Improvement Project (SCHIP) under the Ministry of Economic Growth and Job Creation. This allocation will allow infrastructural improvements on roadways between Harbour View and Yallahs and for construction of the new Toll Road between May Pen in Clarendon and Williamsfield in Manchester to continue.

All economic activity requires transportation. By making transportation of people and goods more efficient we improve the productivity of our economy. The improved access provided by the project will also open up eastern Jamaica for new housing, commercial and industrial development. The alignment in Manchester will open up mineral rich land to the possibility of mining. All of the aggregate required will be locally supplied and will require transportation providing trucking opportunities.

The highway is linked to a loan. However, because we have fiscal balance constraint, without adequate fiscal space created by the BOJ dividend, this discretionary spend could not have been accommodated anywhere near this magnitude.

- **\$8 billion** is allocated to a special public investment infrastructure programme to improve productivity and increase resilience with the installation of drains, water, wastewater and sewer infrastructure, as well as the widening and dualisation of major thoroughfares, the construction of sidewalks, and other related road upgrading, all of which opens up more areas for development. This is captured in the Contingency Provision for the Public Investment Management System.
- **\$3.7 billion** is allocated to secondary roads, repairing roads across Jamaica.
- **\$1.2 billion** for the Montego Bay Bypass; and
- **\$0.5 billion** for construction of new police divisional headquarters in Westmoreland and new forensic pathology suite

Madam Speaker, I am pleased to inform this Honourable House that this will be the largest programme allocation to physical infrastructure tabled by any Government of Jamaica in budget history. And, importantly, this is pure infrastructure spend, not merely capital expenditure which can take many forms. We are building highways, we are building bridges, we are widening major thoroughfares, we are installing drains, water, wastewater infrastructure and we are repairing secondary roads and we will be creating jobs, jobs, jobs.

We expect the infrastructure component of the **SERVE Jamaica Programme** to generate thousands of construction jobs to help us recover stronger.

In addition to healthcare and infrastructure, the **SERVE Jamaica Programme** is also focused on promoting economic activity and growth in order to generate employment. As such:

- **\$5 billion** is targeted financing for businesses.

Madam Speaker, the COVID-19 Economic Recovery Task Force recommended that we accelerate the digital transition of the economy. Our economy recovery becomes more robust and more resilient and our economy becomes more efficient when our micro, small and medium sized businesses, or MSMEs adopt digital solutions.

These solutions can include:

- Installation of e-commerce capabilities where MSME's can sell their products and services online;
- cross-border e-commerce where MSME's can sell overseas, earning foreign exchange;

- digital ordering for food service and retail businesses so that physical presence is not required; and
- facilitation of online payments.

The Development Bank of Jamaica (DBJ) has an existing programme that provides a \$200,000 grant to qualifying MSME's for them to invest in this digital transition. Madam Speaker, under the **SERVE Jamaica programme** the GOJ will provide:

- **\$1 billion** to the DBJ so that MSME's that qualify for the Go Digital grant will also be eligible for up to \$800,000 in 2% interest loans to be used to support the digital transition.

This will facilitate and enable MSME's to display and show their products digitally online, allowing the customer to interact with the product, make a decision about whether to purchase the product, purchase the product, and then have the product delivered through existing or digital channels.

- **\$2 billion** to seed two equity funds exclusively focused on providing equity financing to MSME's in Jamaica.

Equity is permanent capital and by increasing the availability of institutional forms of equity capital we improve the ability of MSME's to grow and flourish.

Madam Speaker, the DBJ will issue a call for proposals for fund managers who can raise additional investor funds and the DBJ will invest alongside these other institutional investors.

- **\$2 billion** for lending to MSME's.

The **SERVE Jamaica Programme** also includes:

- **\$1.7 billion** for Production Incentives to farmers and continued rehabilitation of roads in rural farming communities to boost recovery in the agricultural sector;
- **\$1.8 billion** to expand WiFi and broadband in schools, communities, and town centres, in particular in rural areas through the Ministry of Science, Energy and Technology.
- **\$8.1 billion** in targeted social support above and beyond the **\$16.4 billion** already announced. **\$6 billion** of this amount is captured under the Ministry of Finance and Public Service. While our spend on economic recovery will positively impact social recovery through the employment channel, at this time, we have to also make allocations where social benefit is a primary objective and where possible, our environment is improved as a result.

In addition, Madam Speaker, the **SERVE Jamaica Programme** will provide:

- **\$300 million** to the Ministry of Local Government and Rural Development for *Paint the City* an innovative initiative that will beautify and upgrade select town centres across Jamaica, generating thousands of temporary jobs while also improving our environment.

Paint the City will engage thousands of youths . . .

- in painting murals in 21 communities in Kingston in areas of high historical and cultural value that have high levels of visibility as confirmed by the Kingston and St. Andrew Corporation (KSAC);
- beautifying rural town centres, including installing perimeter fencing, cleaning beaches up, rehabilitating sidewalks rehabilitation, and cleaning drains;
- upgrading community parks; and
- other community improvement projects.

Minister Desmond McKenzie will tell you all about this programme in his presentation.

Madam Speaker, the **SERVE Jamaica Programme** will also provide:

- **\$200 million** to the National Works Agency for river training activity, which will employ Jamaicans in rural Jamaica in necessary disaster mitigation work, protecting lives and livelihoods. They will be involved in removing silt and other material from sections of selected rivers, installing gabion basket retaining walls and related activities to improve the water flow and reduce the probability of flooding.

Thousands of Jamaicans in rural Jamaica will be temporarily employed in these activities. Madam Speaker. Minister Warmington will provide the details on this programme and on the rivers and communities.

- **\$160 million** to the Ministry of Local Government and Rural Development, above and beyond customary allocations, for the additional support of the destitute, indigent, and infirmed through Poor Relief.

Madam Speaker, We CARED in 2020/21 and We CARE in 2021/22. This amount also includes **\$6m** in grants for persons working in burials, cremations and building of vaults for the funeral industry who are being affected by the current ban.

- **\$50 million** to the Ministry of Culture, Gender, Entertainment and Sport to provide further support to those in the entertainment and sporting fields, who continue to be hard hit by the pandemic.

Madam Speaker, We CARED in 2020/21 and We CARE in 2021/22.

- **\$189 million** in additional COVID-19 related support to the Constituency Development Fund towards digital devices in collaboration with e-Learning. After the appropriate process, initiated by the Member of Parliament constituents would be provided with vouchers by e-Learning that can be used to purchase digital devices at approved vendors. We expect to provide 9,450 devices – to persons in need who do not already have a digital device - through this special COVID-19 digital device allocation to the CDF.

Madam Speaker, We CARED in 2020/21 and We CARE in 2021/22.

- **\$140 million** to the Ministry of Local Government and Rural Development for Municipal Corporations to provide digital devices in collaboration with e-Learning. After the appropriate process, initiated by the Councillor constituents would be provided with vouchers by e-Learning that can be used to purchase digital devices at approved vendors. We expect to provide an additional 7,000 devices through this special COVID-19 digital device allocation.

Madam Speaker, We CARED in 2020/21 and We CARE in 2021/22

- **\$40 million** to the Ministry of Labour and Social Security for COVID-19 grants for the disabled community.

Madam Speaker, We CARED in 2020/21 and We CARE in 2021/22.

- **\$75 million** for 5,000 contract carriage operators who paid license fees in 2020/21. Madam Speaker, the full amount of their road license fees for 2021/22 will be paid by the Government, provided that they paid this fee in 2020/21. Madam Speaker they would have paid road license fees to the government in 2020/21 and would have had little or no business due to the pandemic.
- **\$75 million** for 15,000 route taxis who paid license fees in 2020/21. Madam Speaker, the Government will pay 1/3 of the license fee on behalf of every route taxi that was duly licensed and paid up in 2020/21. Due to the work-from-home measures, they have reduced little business.
- **\$1.5 billion** in other social programs to be announced by the prime minister that will benefit thousands more.
- **\$1.0 billion** in loans to support ministries, departments and agencies including the Urban Development Corporation and the Montego Bay Metro and Port Security Corporation.

Madam Speaker, the **SERVE Jamaica Programme** will also provide:

- **\$3 billion** for continuation of the CARE Programme's SET Cash unemployment support grants that support those who earned below the income tax threshold and have been unemployed as a result of the COVID-19 pandemic from all sectors; and the CARE Programme's BEST Cash grants that support tourism employment for the quarter April to June 2021.

We expect 50,000 Jamaicans to benefit from these grants.

Madam Speaker, We CARED in 2020/21 and We CARE in 2021/22.

Madam Speaker, this will make a combined 12 months of unemployment support by direct transfers for 50,000 Jamaicans, which is unprecedented in Jamaica's history.

By June we expect Jamaica's vulnerable population to be vaccinated, we expect North American and UK population to be substantially vaccinated and we expect increased economic activity as a result.

Madam Speaker, the **SERVE Jamaica Programme** will also provide:

- **\$1.0 billion** in loans to support ministries, departments and agencies including the Urban Development Corporation and the Montego Bay Metro and Port Security Corporation.

Madam Speaker, with our unprecedented \$31 billion infrastructure spend, thousands of jobs will be created for young people.

With our *Paint the City* and *River Training* programmes to improve the environment and increase resilience we will be creating thousands more temporary jobs mostly for young people.

Madam Speaker, we have to have something for those who may not be able to go out to the worksite because they "are up in age".

Madam Speaker, as soon as the conditions allow, under the **SERVE Jamaica Programme** we will roll out a **Conditional Cash Transfer for the Vaccinated (CCTV)** sub-programme for all persons:

- aged 60 and over;
- who are not in receipt of a paycheck or a pension greater than \$1.5m per annum, as evidenced by the records at Tax Administration Jamaica; and
- who have been vaccinated as evidenced by the records at the Ministry of Health.

Madam Speaker, there is public interest in ensuring that the vulnerable, older population is vaccinated. We also want to ensure that older persons who cannot take up the work

opportunities that will become available under the **SERVE Jamaica Programme**, and who otherwise have no formal income or that income is below the threshold, receive a grant.

Madam Speaker, we expect in excess of 100,000 Jamaicans to benefit from this **CCTV programme**.

Madam Speaker, We CARED in 2020/21 and We CARE in 2021/22.

Details on the timing of this and other grants will come soon.

This is a grand total of almost \$60 billion dedicated to our Social and Economic Recovery and Vaccines for Jamaica – the **SERVE Jamaica Programme**.

Though we have been hard hit by the pandemic, we dug deep and we will deliver for the Jamaican people.

These expenditures on social and economic recovery and vaccines would not have been possible without the one-off policy dividend from the Bank of Jamaica.

Good policy matters, Madam Speaker.

Madam Speaker, I wish we could upsize the **SERVE Jamaica Programme** to \$100 billion or \$200 billion but that is not feasible without increasing our already high debt and introducing the certain risk of instability.

This Government remains committed to putting in place programmes and providing the resources that will promote our health and safety, build up our infrastructure, facilitate economic growth, and create jobs.

That is our goal and mission as we recover stronger.

17.0 Debt Service

I want to spend a few moments on debt. And as is my style, I will be brutally frank with the Jamaican people.

Around the world, debt-to-GDP ratios have increased considerably as a result of the pandemic. Most countries have had no choice but to borrow more money. They did not have the cash resources and the policy flexibility we have had here in Jamaica. In addition, GDP has been eroded around the world.

Countries around the world are often grouped into high income, middle income, and low income.

Debt-to-GDP ratios have also increased in high income countries. Even the United States' debt-to-GDP ratio has increased substantially to 100%. However, these countries are much more diversified, with more robust economies, and with a great stock of wealth, all of which makes them much less vulnerable to risk and external shocks.

A category five hurricane may imperil Miami, but it will not derail the United States. Alumina prices tanking may affect Louisiana, but it won't even register in Washington State.

Lower income countries have experienced large increases in debt ratios too, but they can benefit from multilateral debt suspension initiatives extended to the poorest countries in the world.

Let me be the first to tell you that it is very likely that middle income countries with high debt ratios as a result of the pandemic will be faced with one of two options: restructure their debts or reduce their debts through consolidation.

When you see it happen around the world, remember I mentioned it here first.

In this crisis, every country is pretty much on its own. There is no money sloshing around from bilateral creditors or donors because these creditors are also engulfed in the same crisis.

Now Jamaica has already had two debt restructurings in the last decade, which were extremely costly in many ways, and we cannot afford a third.

We cannot take any chances with our debt perched at 110% of GDP. With the vast range of vulnerabilities and risks that we face, any one of these could push us over the edge:

- Too much rainfall has regularly sent our economy sinking;
- Drought, or too *little* rainfall, regularly depresses economic output;
- Tropical cyclones or hurricanes have flattened our economy in the past;

- Commodity price volatility – oil, bauxite, alumina, grains, soyabeans – have wreaked havoc on our economy and lives in recent time;
- Terrorist action elsewhere has in the past has had a devastating impact on travel and our tourist industry;
- Geopolitical tension and social strife can create instability in our society;
- Sanctions against countries and firms which operate in Jamaica and contribute to our economy have had harmful consequences in the country.

Any one or more of these variables, all of which are outside of our control, can set us back before we have the chance to recover. And this is before you consider the risks associated with the potential evolution of the coronavirus into more deadly and resistant strains.

We are far more resilient today than we were ten years ago, but we still remain a small, open economy with multiple vulnerabilities.

Our policies must take account of the reality of risks we face. We cannot empty the cupboard.

My fellow Jamaicans, we have to take responsibility for our vulnerabilities.

We have to think for tomorrow as well as today.

At a minimum, we have to ensure that we cover our interest costs, which constitute a major component of our non-discretionary expenditure, from our own revenue. This means we have to reserve \$125 billion of our revenue in order to avoid having to borrow to pay our interest, which is a deadly and vicious cycle.

With the approval of Parliament, we suspended the fiscal rules and this requirement for the fiscal year 2020/21, and we were greatly aided by a substantial opening cash balance, which averted the need to borrow to pay interest.

Without the benefit of this opening cash cushion, we have to use the proceeds of our revenues to pay our interest bills. Borrowing to pay interest, given our elevated debt levels, and vulnerabilities, could quickly put us on an unsustainable path once again, with adverse implications for jobs, investment, interest rates, inflation and other economic variables, seriously complicating our recovery efforts.

Nobody wants that, or should want that. That would mean bringing years and years of the tremendous sacrifices of the Jamaican people from 2013 to 2019 to naught.

That will not happen under my watch, Madam Speaker. With God's help, not under my watch.

We will pursue the responsible path, prioritise our expenditure to achieve social and economic recovery in the quickest possible time.

18.0 Revenue Measures