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# OFFICE OF THE PRIME MINISTER

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**NATIONAL BROADCAST BY HON. BRUCE GOLDING, PRIME MINISTER**

**Wednesday January 13, 2010**

In recent broadcasts, I have spoken about the problems facing us as a country, problems that have been so terribly aggravated by the global recession but problems which existed and had accumulated long before the recession.

Every year for many years, we have been spending more than we earn. Every year, we have to borrow to make up the difference, so, each year, the debt gets bigger and bigger and each year we have to set aside more money to pay the interest on that debt.

As I told you last month, for the last 10 years, all of the taxes we collect have had to be used to service that debt. So, before we can pay one teacher or nurse or policeman, before we can patch one pothole, before we can put one bottle of medicine in our hospitals or provide one school lunch for a needy child, we have to borrow more money, piling up the debt even further and the cost of servicing that debt even higher.

We have had to raise taxes to narrow that gap. I know how hard this is on you, especially the poor and low-wage workers who struggle every day to make ends

meet, the middle class who work hard to achieve the standard of living they deserve. But without those additional taxes, we would have to start shutting down schools and hospitals because we wouldn't have the money to keep them going.

As necessary and unavoidable as these additional taxes are at this time, we can't tax our way out of our problems. There has been a loud cry for the burden that must be borne at this time to be shared more equitably. That is why we withdrew the tax measures announced on December 15<sup>th</sup> and replaced them with a package that was more evenly spread.

There was a call for us to impose a special tax on the interest income earned by the banks and other financial institutions from government bonds. Holders of government bonds have made huge profits because of the high interest rates that the government has to pay – some as high as 28%. The cost of these bonds is a big burden on the government's budget. It is costing the government \$182 billion this fiscal year to pay the interest alone on these bonds.

We can't blame the banks. It is government's heavy borrowing that has resulted in the banks reaping so much income from government. It is the government's continuing fiscal deficits that cause the interest on those bonds to be so high – among the highest in the world!

When the call was made to "tax the banks", I pointed out that that wasn't the way to address the problem. It would have raised some money to help the government to meet the burden of interest payments but it wouldn't reduce the burden itself.

What is more, it would have kept interest rates high forcing government to borrow more to meet those payments. High interest rates and heavy government borrowing are a big part of what is stifling the economy. Let me explain this.

There are businesses and individuals who want to start or expand a business. They have good, sensible ideas that would create jobs and increase production but they don't have the money to get going, so they need to borrow. But when interest rates are high, they can't borrow because the business cannot afford to pay those high interest rates; they would not be able to compete.

High interest rates hurt us in another way. There are some businesses and individuals who have money that they need to invest; they don't need to borrow. But when interest rates are so high and government is hunting so much money to borrow, it suits them better to invest that money in government bonds rather than in a business that would create jobs. So, the youngster leaving school who might have been able to get one of those jobs finds himself on the scrapheap of unemployment.

The strategy, therefore, must be to reduce interest rates so that the burden on the budget can be eased, so that the government doesn't have to borrow so much money to meet those payments, so that more businesses and individuals will find it possible to borrow and invest, do business and create jobs.

For several months, Minister Audley Shaw and his technical team along with advisors from Citi Corps of New York have been working on a new debt management strategy that would see a reduction in interest rates and a reduction in the cost of interest payments. We have completed that work and tomorrow we will launch a Debt Exchange Programme that is a critical part of an economic programme designed to steer the economy out of the recession and into a new era of opportunity for sustained growth.

Let me explain how this programme will work and then I will say something about the Medium Term Economic Programme of which it is such an integral part.

There are \$700 billion of domestic government bonds. This is more than a half of the country's total debt. These bonds carry varying interest rates ranging up

to 28%. As I said before, it is costing us \$182 billion to pay the interest on these bonds.

Tomorrow, we will formally invite the holders of these bonds to exchange them for new bonds that will carry much lower interest rates and extended maturities. The offer will be open until January 26<sup>th</sup> and the actual exchange transaction must be completed by February 16<sup>th</sup>. The principal amount of these bonds will be fully honoured. There will be no “haircut”. In other words, someone who tenders a \$100 bond will receive in return a new \$100 bond but at a lower interest rate and an extended maturity date.

Those financial institutions that participate fully in the programme will be assured of the support of the Government in any adjustment that they need to make. We have the full support of the IMF, World Bank and IDB and a special fund will be established to assist those financial institutions to ensure financial system stability.

I have spent the last few days briefing the key stakeholders – leaders in the financial sector, the members of the Opposition, trade unions, private sector leaders as well as the media.

I have asked the financial institutions for their full support. Tonight, I ask for the support of the individual bondholders – the businessman, individual investor, the pensioner who have invested in these bonds. You have earned good returns on these bonds up to now. Tonight, I am asking you to share the burden that must be borne at this critical juncture in our journey through this unprecedented period of crisis. The interest rate you will earn on the new bonds is still better than can be earned anywhere else in the world but your acceptance of these new bonds will make a huge contribution to a brighter future in which Jamaica will have another chance to position itself among the fast-growing emerging economies of the world.

I am encouraged and strengthened by the firm commitments that have already been made to the programme by some of the major bondholders. I thank them for their bold effort; I thank them for their significant investment in Jamaica's future. I urge all institutions and bondholders to join us in this national effort. On the success of this venture depends the approval of our programme by the IMF and the funding that has already been authorized by the IDB and World Bank. We cannot afford to fail.

Are there downside risks? Yes, there are. Rating agencies could possibly further downgrade our bonds because by their very nature they react unfavourably to any change in the terms of those bonds, even if they are voluntarily executed. That may be the price we must pay to do what we must do. Other countries like Turkey, Uruguay and Argentina have pursued not dissimilar strategies and before long they not only recovered but surpassed their best previous ratings.

Of significance is the fact that this Debt Exchange Programme applies only to our local debt. It does not affect our external debt which is far less burdensome in terms of its interest rates.

This Debt Exchange Programme cannot and does not stand alone. It is part – a critical part – of a much more elaborate programme to correct the long-standing, systemic weaknesses in our fiscal and economic management that have prevented us from moving forward, from growing even in times of global economic boom when almost every other country was growing.

The current crisis has forced us to turn to the IMF and the other multilateral institutions for help. This is vitally necessary to plug the hole resulting from the drop in foreign exchange flows and the fall-off in our revenues. Without that help, the exchange rate would fly through the roof and the cost of living would go on fast rapid; without that help, we would not be able to meet our bills – essential government services would have to be shut down. It would lead to a catastrophe that is beyond description. The IMF, World Bank, IDB and

Caribbean Development Bank have collaborated to provide us with US\$2.4 billion over the next 27 months. A half of that will be released over the next few months once the IMF programme is approved. This will ensure that the dollar remains stable, that inflation is kept low, that the new lower interest rate regime that will emerge after the Debt Exchange is sustained over the long term and that those rates will go down even further.

What are the critical elements of this programme?

We must control our expenditure; we must cut our cloth to fit our suit. The Debt Exchange Programme will save us \$40 billion a year in expenditure. The public sector wage bill will be frozen over the next two years. We have made provisions for retroactive payments due to teachers and the reclassification of nurses and other health sector workers but these cannot be paid at one time; they will have to be spread over the next few years.

The Public Sector Transformation Unit is working vigorously on the programme to reduce the size and cost of government and we will start implementing these changes in the new financial year. Some agencies and departments will be merged, cost management centres identified, responsibility and authority more closely aligned and performance targets and measurement established to ensure greater efficiency at lower cost.

Travel expenses, purchases of goods and services, utility bills must all be reduced to specified levels.

Ministries and agencies will be required to report on a monthly basis all outstanding bills and commitments so there is no build up in arrears that can eventually throw the budget out of line.

Waivers will be drastically curtailed. All existing incentives will be reviewed and where they are no longer necessary, they will be withdrawn.

The Central Treasury Management System will be established to bring all of government's financial resources under central management to ensure better utilization. Would you believe that many times the government is borrowing money at 20-odd per cent when it has huge sums of money sitting down somewhere, sometimes earning little or no interest?

Implementation of the Tax Administration Programme will be accelerated. No, I don't mean more GCT or more gas tax. You have had enough of those! I did already indicate that adjustments will be made in property taxes because they are woefully outdated. Some persons, for example, living on expensive property, are paying little more than a pittance for property tax. All property tax collections go to fund local services such as solid waste management and street lighting and what is being collected now is insufficient to pay those bills so we have to find money out of the budget to pay JPSCo and the Solid Waste Management Authority. We cannot do that anymore so, come April 1<sup>st</sup>, adjustments will be made to ensure that those monies can be found. The level of adjustments will be tempered by an aggressive drive to collect property tax from those who have not been paying. We are going to get tough. We will use our powers to advertise for sale those properties whose owners refuse to pay their tax.

There are some user fees that will have to be adjusted. I give you an example. There are certain documents that have to be stamped at the Courts Office for which the fees are as low as 20 cents! That was set from the days when 20 cents was two shillings. Those will have to be adjusted to something sensible.

The main focus of the Tax Administration Programme will be enforcement and collection. People who owe taxes must pay their taxes! It is more TAXES we want – not more TAXATION!

Fiscal burdens that have worn down the budget will be removed.

We have improved efficiencies at the JUTC but bus fares will have to be increased to reduce the losses even further and lessen the burden on the budget.

We expect, shortly, to conclude the sale of Air Jamaica which incurred losses last year of \$9 billion. We are negotiating the sale of our shares in Clarendon Alumina Production to remove the burden of production losses caused by the forward-sale contract of 2005 which is costing us almost \$1 billion per month!

We are seeking to refinance Highway 2000 from which we earn no revenue but which is costing us almost \$3 billion in annual interest payments.

We are still optimistic that we will be successful in divesting the rest of the sugar factories and estates because, let it be clear, the government will not be able to cover any more losses in the sugar industry and I have given clear instructions that no such request will be entertained by the Ministry of Finance.

We have appointed an enterprise team to proceed with the privatization of the Norman Manley airport.

We are pursuing real, live options to finance the new Petrojam refinery in a way that will require no financial contribution or guarantee from the government since we will not be in a position to do so. Discussions with our Venezuelan partners and possible sources of finance are being actively pursued and a joint Jamaica/Venezuelan team is to travel to Japan shortly in that regard.

We are negotiating to sell our shares in JPSCo so that we can pay down some of our debt.

Many other public assets that are not essential to government's core functions will be sold as soon as the market can absorb them. We want a leaner government structure that is able to direct all its energies and resources to performing properly the essential functions of government.

Some of you will ask: “Have we not heard this before?” Yes, you have but this time it is different. It is different because under the IMF agreement, we won’t be left on our own. We will have to meet rigid performance tests dealing with, among other things, the fiscal deficit, inflation, debt levels and debt-to-GDP ratio. These tests will also include implementation of agreed policy and legislative measures.

We have agreed to an intensive and extensive programme of monitoring and surveillance. There is data that we will have to transmit on a daily, weekly, fortnightly and monthly basis. We will be subjected to quarterly performance tests with the first scheduled for March 31<sup>st</sup>. We are required to introduce legislation to establish a Fiscal Responsibility Framework in which we will have to present our targets to Parliament and will be held accountable for our performance in relation to those targets. So, it is not just the IMF that will be monitoring our performance; the Opposition, the media and the public at large will also be able to measure our performance. It is a “belt and braces” approach because, make no mistake, we can’t afford to deviate from this programme; we can’t afford to slip back into the ways of the past. Slackness, skylarking and failure are no longer options that are open to Jamaica.

I know that these harsh economic times weigh heavily on the very poor and vulnerable. Their pain cannot be ignored nor can they be left to wait until the economy recovers. Last year, we increased the provisions for social safety net programmes such as PATH and the School Feeding Programme. Despite the fiscal constraints, we will be increasing those provisions even further in the coming budget. NIS pensioners, too, will not be left out.

What will all this do for Jamaica? What will this do for you? What hope does it bring and what opportunities does it offer?

The benefits are many; the possibilities endless.

Once we curtail expenses and reduce the cost of servicing our debt, we will not have to borrow so much anymore. Once we don't have to borrow so much anymore, our debt will come down so more money will be freed up to spend on improving education and health services, fixing roads, providing better water supplies. Once we don't have to borrow so much anymore, interest rates will come down even more and the money will start chasing businesses and individuals to encourage them to start or expand businesses, creating new jobs, increasing production, expanding exports and earning more foreign exchange.....because money can't remain idle; it has to find work to do. For too long, money has been busy chasing government paper. It must now get busy chasing investments, financing growth and creating jobs.

Low interest rates, low inflation, a stable exchange rate, improved public sector management and efficiency will create the kind of environment that has long existed in places like Singapore and South Korea where investment, production and job creation are the only game in town – not helping government to pay its mounting bills.

We are preparing for that new environment, preparing to fast-track that transformation.

A number of significant new projects are scheduled to come on stream in the course of this year. Tenders for the financing and build-out of the new LNG facility that will bring cheaper electricity to the country are due to be returned by mid-February. The alumina industry that accounts for 50% of our exports is seeing positive signs of recovery and the reopening of at least one of our plants this year as well as new investments is being actively pursued.

We expect to conclude the Casino legislation by next month and the Harmony Cove project involving several billion US dollars of new investment is expected to move into high gear. The new Falmouth Port is on schedule and should start receiving the new generation of mega-ships early next year.

This new, stable, strongly-supported and carefully monitored investment-friendly environment will enable us to approach the investment market with new confidence and demonstrate that Jamaica is not only anxious for business....we are ready to do business.

But it is not just the large investors that it will be able to excite. It will enable micro, small and medium-sized businesses to flourish and the government will continue to do its part in providing the support and facilities they need to get into the fast lane.

There are development applications that are awaiting approval. We have done well to speed up the processing of these applications within the 90 day timeline I had set but in an effort to hasten the start-up of these projects, I have assigned Minister Daryl Vaz to fast-track the process and ensure that all projects currently awaiting approval or subject to appeal are considered and determined within the next 30 days.

There are businesses that have plans for expansion or new investments. We want these to be brought forward as quickly as possible and I have assigned my Special Advisor, Chris Zacca, to assist those businesses that may be encountering difficulties to do with government bureaucracy or regulation, to work with them to get those projects moving.

In another three weeks I will be going to China where I hope to conclude agreements on a number of projects that will have significant impact on the economy. Later this year, I will be visiting the Gulf States for high-level discussions on a number of major investments that we have been pursuing.

The way forward is exciting. It will not be without its challenges but if we make this fundamental shift in how we conduct our business, we will meet those challenges and we will be victorious. The pain of the present will give way to the promise of a brighter and more secure future. The burdens that I have had to ask you to share will become lighter until they are no longer burdens at all.

A young man from my constituency explained it far better than I can. He said it is like we are pushing a broken-down bus up a steep hill. We have to call on every muscle in our body. There are times when it threatens to roll back on us. There are times when we feel we can't push any more. But if all the passengers lend a hand, we will push that bus up that hill and when we get to the brow of the hill, we will find that pushing the bus becomes easier and it will gather enough speed that it will be able to start the engine. After that, we will have to run fast to catch up with it.

This is our task. This is our challenge. This is our hope.

As I close this broadcast, our thoughts must also be on the people of Haiti who have been devastated by the most severe earthquake in more than 200 years. I have today ordered the Jamaica Defence Force to assemble a contingent which will leave for Haiti tonight to assist in its recovery efforts. It includes engineers, logistic personnel and some emergency medical personnel. We will be sending with them as much emergency supplies as their vessel is able to carry and I thank the members of the private sector who have responded so generously in assisting us to amass these supplies. On Friday, we will be sending a larger team of doctors, nurses and support personnel to assist the people of Haiti at this time.

God has been so good to us. We are less than 300 miles from Haiti and their disaster could well have been ours. But even as we give thanks for His mercies, we must reach out to the Haitian people who have lost their loved ones, their homes, the little that they had and must now face an even more dismal and worrying future.

Tomorrow, I will fly to Port-au-Prince along with the Chief of Defence Staff, representatives of ODPEM and the Ministry of Health to determine what further assistance we can offer in conjunction with our international partners and to assure President Preval of our support in this time of catastrophic distress. The Leader of the Opposition will be accompanying me on that trip.

I urge all Jamaicans who can afford to do so to contribute to the fund that has been established to assist the recovery efforts of the people of Haiti, a people who have long borne more distress than any people should have to bear.

May God bless Jamaica. May He continue to bless the people of Jamaica and may his rescuing arms surround the people of Haiti in their moment of despair.

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