



**ADDRESS BY  
PRIME MINISTER OF JAMAICA  
HON. BRUCE GOLDING  
TO PSOJ CHAIRMAN'S CLUB FORUM  
TUESDAY, AUGUST 11, 2009**

I am glad for this opportunity to address a number of critical issues that I know weigh heavily on your minds as they do on mine.

There is none of us in this room who does not appreciate the severity of the problems facing the economy and the impact it is having on the life of virtually everyone. These difficulties have been sharply aggravated by the global crisis but they have existed for a long time and have got progressively worse over time.

Last week's downgrade by Standard & Poor's, unwarranted though we contend it is, is merely a symptom, not a further cause, of our problems. I say "unwarranted" because of the basis on which the decision to downgrade was made. S & P based its decision on:

- (a) deterioration in our fiscal accounts;
- (b) weak debt profile; and
- (c) possibility that the government may engage in a "distress debt exchange" with its creditors

In March, S & P had warned of the possibility of a further downgrade unless a number of conditions obtained:

- (1) fiscal tightening
- (2) timely disbursement of official financing
- (3) avoidance of any further increases in interest rates
- (4) maintenance of domestic confidence
- (5) exchange rate stability

How have we fared?

- We have secured timely disbursement of funds from the multilateral agencies. Our re-engagement with the IMF which will allow us to access US\$300M of SDRs and up to US\$1.2B in standby loans is a clear indication that adequate external financing will be available through the medium term.
- We have not only avoided further increases in interest rates but within recent weeks interest rates have started to come down.
- Prior to the downgrade market confidence was strengthening as reflected in the narrowing of bond yields.
- We have enjoyed relative stability in the exchange rate since February and the NIR has been constant.
- The rate of inflation has declined to less than 9% over the past 12 months.

We have been taking action toward fiscal tightening. Preliminary figures up to the end of July indicate that budgetary expenditure net of amortization) was J\$18B below what was programmed. We will have to tighten even further.....much further because our revenues for the same period were J\$10B below target. We have remained firm that the budget cannot afford the 7% wage increases which were scheduled for this fiscal year. We are now combing through the budget, line by line, because

further drastic cuts will have to be made. These will be reflected in the Supplementary Estimates that will be tabled in Parliament in September. Tough decisions will have to be made. Tough decisions will be made.

Given these realities, it is understandable that several financial analysts – local and foreign, including JP Morgan and Oppenheimer & Co. – have expressed surprise at the S & P downgrade, terming it as premature. Some have argued that it reflects, at least in part, the aggressive stance now being taken by S & P and other rating agencies following the battering they received from several authorities including the US government for their culpability in the recent financial meltdown in the US. Last Wednesday, the Senate Banking Committee began hearings on a Bill to more tightly regulate the conduct of rating agencies.

There is no point in arguing with a rating agency. Markets are impatient of arguments. We do have problems.....serious problems.....and we must confront them head-on. The downgrade will have an unwanted impact on our already precarious position. It tends to have a self-fulfilling effect. Already, there has been some reaction in the financial markets. There have been portfolio shifts by some holders of GoJ global bonds which have resulted in a fall in bond prices. There may be some margin calls but we don't expect these to be significant and the BoJ stands ready to provide liquidity support as it did during the period of falling prices last September should this again become necessary.

Based on discussions we have had with S & P since the downgrade was announced, it is clear that the primary factor was what is referred to as the fear of “selective default” or “distress debt exchange”.

Jamaica has never defaulted on its debt. There is absolutely no chance of Jamaica defaulting on its debt. Not only are we one of a very few countries where the prior claim on budgetary expenditure of debt service

and repayment are guaranteed by an entrenched provision in our Constitution but the government of Jamaica – this one and all those that have preceded it – has never flinched in making any and all necessary adjustments to ensure that we meet our debt obligations.

The concern that has constrained S & P stems from its interpretation of a set of options that were being explored by some market players and were put forward for consideration by the government. On their own initiative and out of a genuine desire to assist the country through this crisis knowing that interest payments constitute the largest chunk of the budget, they floated an idea whereby some existing bonds would be replaced by new, lower-yielding instruments with longer maturities. At all times, it was clearly understood that this could only be done on a voluntary basis and that it would entail no loss in the net present value of the bonds. The government welcomed the idea and engaged a specialist legal adviser to guide the discussions.

We recognized from the outset that the issue involved complexities that had to be carefully examined.

Firstly, the market for government securities relies on confidence rooted in the inviolability of financial contracts and even if the alteration is by mutual agreement, the residual effect on the market and the perception of bondholders were always an issue of concern.

Secondly, government bonds are the counterpart to pools of savings which belong to many investors including small savers. Intermediaries do not have unqualified authority to make decisions on their behalf relating to the terms of and expected returns on their investments.

Thirdly, some of these instruments have terms that are directly linked to the securities held by the intermediaries, such as banks and investment houses, whose balance sheets are structured on the terms of these instruments. The government could not support any initiative that would impair those balance sheets.

It is for these reasons that whenever the issue has been raised publicly, in and out of Parliament, I have been at pains to point out that while the government was engaged in discussing the proposal it would never contemplate any reconfiguration of existing debt obligations unless this was fully accepted by those who own the debt.

It is said that a good deed never goes unpunished. I am grateful to those in the financial community who came forward with this idea. They are prepared to put the country first. However, those who have invested in government instruments can be assured that the government has no intention and has never had any intention of interfering with the terms of their investment. Your money is your money and you lend it to the government on terms that you choose. The government will always respect your choice.

Many of the factors that have impacted negatively on our economy are beyond our control. The sharp decline in bauxite/alumina earnings and remittance flows, together totalling some US\$1B, and their impact on revenues, the shutdown of the capital markets and the drying up of foreign direct investment are not occurrences we had any power to avoid. How we respond to these setbacks is, however, our call, our duty. And how we make the policy adjustments to overcome these setbacks and reduce our vulnerability to these shocks and carve a path to sustained growth is our imperative.

We are where we are not primarily because of the global crisis but because of the choices we have made – choosing the easiest way rather than the best way, doing what is easy and convenient rather than what may be painful but necessary.

The government that I head is determined to provide the leadership no matter how much political capital must be risked. But the government cannot do this job alone. It can only succeed through collective, collaborative action involving a broad partnership. That is not easy to achieve. Conflicting interests are difficult to harmonize but our choice is either to survive and flourish together or struggle and perish separately. It is this spirit that drives the Social Partnership in which the government, opposition, private sector and trade unions are engaged, seeking to forge a broad alliance for the good of Jamaica.

Our hopes cannot materialize overnight. The economy is going to contract this year and into next year. That cannot be avoided. Those who demand the miracle of growth amidst the debacle of the global recession do not understand the real world and the realities of the real world.

Our focus at this time must be to make the adjustments now to pave the way for growth when the conditions for growth return. Those adjustments have to begin on the fiscal side so that an improved monetary environment can be created in which capital is induced to go in search of projects rather than government instruments. Only then will the sun rise again on the real economy.

Adjustments will have to be made in the real economy too, strengthening the appetite for real investments, creating a new culture that supports entrepreneurship and developing the tools for serious risk analysis and commercial lending. These adjustments cannot be decreed or even led by government but by persons like yourselves whose calling and instinct are

to identify opportunities, assess risks and make investment decisions. Those conditions have not prevailed in a sustained way for a long time. Creating those conditions is what the starkness of our present circumstances requires.

The government must make the first move. The medium term economic programme which will support an IMF programme will set out clear strategies and targets to address our fiscal deformity, eliminating the fiscal deficit and achieving a fiscal surplus by 2015, benchmarking public sector wage costs to no more than 9% of GDP, reducing interest costs to less than 10% of GDP, restructuring government departments to reduce costs and improve efficiency.

As a society, we tend to talk more and act less. In our present circumstances, taking action is not an optional endeavour. We either make the right things happen or allow the wrong things to happen to us. I am clear in my own mind about two things. Firstly, my own credibility and political future are on the line....this line, at this time. Secondly, despite our contentiousness as a people and the discord with which we so often allow ourselves to be consumed, there are a vast number of people with the commitment to Jamaica to roll up their sleeves and work shoulder to shoulder to get the job done. I number you among them and will continue to rely on your support and partnership.

The tide in the affairs of men is now at our bow.

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