GOVERNMENT OF JAMAICA

FISCAL POLICY PAPER FY 2012/13 – Interim Report

12th February 2013

FISCAL POLICY PAPER – INTERIM REPORT

INTRODUCTION

The Financial Administration and Audit (FAA) (Amendment) Act, 2010, requires that upon presentation of the annual Estimates of Revenue and Expenditure, the Minister shall lay before both Houses of Parliament, a Fiscal Policy Paper (FPP) setting out,

(a) a Macroeconomic Framework;

(b) a Fiscal Responsibility Statement; and

(c) a Fiscal Management Strategy.

The FAA Act also requires the Minister to lay before each House of Parliament, at least twice in each financial year, a report on the performance of the economy, the public finances of Jamaica and the actions taken under the Fiscal Management Strategy. On May 24, 2012, the Minister duly complied with the requirements of the FAA Act by laying the FPP in Parliament. The Auditor General, as is required under the FAA Act, examined the components of the FPP and provided a report to the House.

Further, Regulations developed to support the FAA Act requires the Minister to table before each House of Parliament, an Interim Report that shall:

(a) focus primarily on the mid-year outturn, the implications for the remainder of the financial year and the medium term;

(b) provide information which will inform discussions relating to the ensuing financial year while providing a preliminary and indicative view of that year's estimates of revenue and expenditure; and

(c) notwithstanding the foregoing, present expenditure data at a relatively aggregate level.

This interim report is being presented to Parliament to satisfy this requirement and provide for active debate and participation in the management of the public finances of Jamaica and the performance of the economy.

The FPP tabled on May 24, 2012 stated that the Central Government budget for FY 2012/13 was formulated within the context of the Government of Jamaica's (GOJ) commitment to eliminate the fiscal deficit, reduce the Debt/GDP ratio to 100% and reduce the Wages/GDP to 9% by March 2016. The GOJ implemented significant corrective fiscal measures, including revenue enhancing measures of 1.2% of GDP (1.4% of GDP annualized) and considerable expenditure containment, including wage restraint during FY 2012/13. These measures were designed to increase the primary surplus to 6.0% of GDP ($83,558.4mn), up from 3.1% in FY 2011/12 and to reduce the fiscal deficit to 3.8% of GDP ($52,975.5mn), down from the 6.2% in the previous year.

At end-December 2012, both the primary surplus and fiscal deficit were off track relative to the amount budgeted. The deviation from target emanated mainly from the shortfall in revenue and grants as expenditure was well below the amount budgeted. The economic contraction in 2012, along with deviation in some of the main macroeconomic indicators from projections (such as inflation and imports) and lower than expected collections from the administrative/compliance programme, contributed to the underperformance in revenue. The revenue shortfall is expected to continue through to March 2013 and as a result the primary surplus for FY 2012/13 is currently estimated to fall to 5.2% of GDP, compared to the targeted 6% of GDP.

Fiscal consolidation is critical to debt sustainability over the medium term. In light of the deviation from fiscal targets in FY 2012/13, focus is required on both revenue and expenditure measures to bring the fiscal accounts back on track with the legislated targets and to conclude the negotiations with the International Monetary Fund (IMF). It is within this context that the First Supplementary Estimates tabled in Parliament on February 5, 2013 and the Ministry Papers focussing on measures to improve the tax system and buoy revenue flows were developed.

Consistent with the goals of Vision 2030, the Jamaican Government during the current fiscal year embarked on a comprehensive economic programme aimed at significantly raising the rate of real GDP and per capita income growth over the medium term. Fiscal consolidation is a clear and critical ingredient to ensure macroeconomic stability. In this regard, the successful conclusion to negotiations with the International Monetary Fund (IMF) will form a critical pillar in realising this objective of the GOJ's Medium Term Economic Programme. To this end, the Government remains committed to pursuing and successfully completing a credible medium term programme. The Government will ensure that any risks to completing the programme will be militated against by taking the appropriate policy actions. The Government's budget for FY 2013/14 and the following years will be developed, presented and executed within this context of profound fiscal responsibility.

Peter D. Phillips, PhD, MP

Minister of Finance and Planning

February 12, 2013

MACRO-ECONOMIC FRAMEWORK

FY2012/13 – Update

Real Sector Developments

Real Gross Domestic Product (GDP) for the Jamaican economy contracted by 0.2% during the June 2012 quarter when compared to the June 2011 quarter, followed by a contraction of 0.6% during the September 2012 quarter when compared with the corresponding quarter of 2011. The contraction in September represents the third consecutive quarter of decline and reflects the impact of a slowing in the pace of global growth as well as weak domestic demand. This performance reflected declines in the Goods Producing industry, which fell by 0.1% and 2.4% during the June 2012 and September 2012 quarters respectively. For the Services industry, real value added fell by 0.2% during the June 2012 quarter and remained flat during the September 2012 quarter.

Overall, for the first nine months of the 2012 calendar year, real GDP declined by 0.3% when compared with the corresponding period of 2011. The Goods Producing and Services industries fell by 0.9% and 0.2% respectively. The Mining & Quarrying, Construction and Transport, Storage & Communication industries recorded the largest declines, and collectively accounted for a 0.9 percentage point reduction in GDP.

The economic performance for the January-September 2012 period reflected the impact of:

- sluggish external demand associated with the slow pace of global economic recovery;
- weak domestic demand driven by high unemployment levels;
- a combination of industry specific factors such as the audit of Jamaica Development Infrastructure Programme (JDIP), which adversely impacted non-residential construction as well as the closure of the Petrojam refinery for one month thus negatively affecting output of the Manufacturing industry.

Labour Market Developments

The Statistical Institute of Jamaica (STATIN) October 2012 Labour Force Survey shows that the Total Labour Force was 1,261,100 persons, an increase of 12,600 persons (1.0%) when compared to the total reported for October 2011. This represents an increase of 500 persons (0.04%) since January 2012.

The October 2012 report shows that a total of 1,088,200 persons (86.3%) were employed. This comprised 617,600 males and 470,600 females. The employed labour force decreased by 700 persons (0.06%) and increased by 4,800 persons (0.4%) compared with the reports for October 2011 and January 2012, respectively. The industry group ‘Agriculture, Hunting, Forestry and Fishing’ increased by 9,400 persons (4.9%) at the end of October 2012 over the figure reported for October 2011, while the industry group ‘Construction’ decreased by 12,100 persons (13.3%) over the same period.

The October 2012 Labour Force Survey revealed an unemployment rate of 13.7%, 0.9 percentage points higher than the 12.8% reported for October 2011 but 0.4 percentage points lower than the 14.1% reported for January 2012. The male unemployment rate was 10.2% while the female unemployment rate was 17.9%. The unemployment rate among youths (14 – 24 years) continues to be higher than other groups, accounting for 35.3% in October 2012, 4.2 percentage points higher than the 31.1% reported for October 2011.

The number of persons outside the labour force in October 2012 was 750,300 persons or 27.7% of the total population. This represents a reduction of 10,400 persons (1.4%) from the number reported in October 2011.

Monetary Developments

During the first half of FY 2012/13, the Bank of Jamaica (BOJ) maintained its monetary policy stance. This occurred in the context of concerns of continued uncertainties surrounding the timing of an agreement with the International Monetary Fund (IMF), concerns about international commodity prices, and the possible impact of recent tax measures. The Bank was also concerned about the pass-through effects of the recent depreciation in the exchange rate to inflation. The concerns about inflation were however, tempered by persistently weak domestic demand. This resulted in the Bank's decision to maintain its policy rate, the interest rate on its 30-day Certificate of Deposit (CD), at 6.35 % and the rate on its overnight instrument was also kept at 0.25 %, for the first half of FY 2012/13. In addition, the cash reserve and liquid assets requirement were also maintained at 12.0 % and 26.0 %, respectively.

Overall, for the fiscal year to September, the monetary base expanded by $1.5bn or 1.8 %, $640.7mn (0.8%) during the June 2012 quarter and $856.5mn (1.0%) during the September 2012 quarter. This expansion was largely reflected in a $1.0bn increase in commercial banks' local currency cash reserve, net currency issue of $342.1mn or 0.6%, as well as a marginal increase of $138.5mn in the commercial banks' current accounts. The main sources of the expanded monetary base were net unwinding on Open Market Operation (OMO) instruments of $40.8bn, and net drawdown of $3.3bn in Central Government balances at the Bank. This contributed to the decline of US$519.3mn or $46.4bn in Net International Reserves (NIR).

Inflation

Inflation reported for the June 2012, September 2012 and December 2012 quarters were 1.5%, 2.1% and 2.5% respectively compared to 2.0%, 2.2% and 1.3% reported for the corresponding quarters of 2011.

The upward movement in the 'All Division' Consumer Price Index for December 2012 to 192.5 saw Jamaica's inflation moving upwards to 8.0% for CY 2012 relative to the 6.0% recorded for CY 2011, and 6.2% for the fiscal year-to-date period relative to the 5.5% recorded for the corresponding period of FY 2011/12.

The main divisions of the CPI which contributed to the 6.2% inflation outturn since the start of FY 2012/13 included:

(i) The 12.4% upward movement in the index for 'Food and Non-Alcoholic Beverages' recorded the highest increase for the fiscal year-to-date, highlighting the impact of Hurricane Sandy on the Agriculture Industry, as well as the seasonality in the supplies of agricultural products. In addition, increases in grain prices, largely reflecting drought conditions in some major grain-producing states in the USA, contributed to inflation within the ‘Food and Non-Alcoholic Beverages’ division.

(ii) The index for ‘Clothing and Footwear’ division recorded the second highest increase of 9.2% for the fiscal year-to-date and the index for ‘Furnishing, Household Equipment and Routine Household Maintenance’ increased by 7.3% reflecting mainly seasonal increases in some areas of spending.

(iii) Significant declines in communication costs and a reduction in average crude oil prices helped to offset the impact of the other factors on inflation. The index for the division ‘Communication’ recorded the only decline, moving down by 39.4%.

The pass-through effect of tax measures on the inflation outturn for the 9-month period was lower than anticipated due mainly to weaker domestic demand and adjustments to the originally proposed tax measures. In addition, the effect on inflation occasioned by the depreciation of the domestic currency was lower than anticipated and has largely been restricted to the direct impact of exchange rate movements on the cost of energy.

Exchange Rate

At the end of the December 2012 quarter, the average selling rate of the US dollar increased to J$91.54 = US$1 from J$86.95 = US$1 at end-March 2012, representing a 5.3% depreciation over the first three quarters of FY 2012/13. The movement in the rate for the review period reflected depreciations of 1.0%, 2.0% and 2.2% in the June 2012, September 2012 and December 2012 quarters respectively. This depreciation resulted in part from weak private capital inflows associated with investor uncertainty regarding:

(i) The sustainability of Jamaica’s fiscal and macroeconomic profile;
(ii) The timing of an agreement with the International Monetary Fund on the country’s macroeconomic programme;
(iii) The trajectory of the BOJ’s NIR; and
(iv) The increased pace of depreciation relative to the last two fiscal years.

External Sector Developments

For the first two quarters of FY 2012/13, the Current Account recorded a deficit of US$918.0mn, which represents an improvement of US$105.9mn relative to the corresponding period in FY 2011/12. This improvement in the Current Account emanated from the Income sub-account.

The goods sub-account recorded a deficit of US$2,108.6mn, which represents a deterioration of US$12.6mn relative to the corresponding period of FY 2011/12. This resulted from a decline in imports of US$28.8mn when compared to the corresponding period of FY 2011/12 and was primarily driven by reductions in mineral fuel imports. In addition, declines in exports by US$41.3mn compared to the corresponding period of FY 2011/12, resulted primarily from reductions in alumina exports.

There was a US$21.3mn reduction in the Services sub-account balance which primarily resulted from an increase in freight cost, while the income sub-account balance improved by US$166.1mn, which resulted primarily from declines in profits remitted by foreign direct investment companies. In addition, the Current Transfers sub-account balance reduced by US$26.3mn relative to the corresponding period in FY 2011/12. Flows from official and private sources were insufficient to finance the current account deficit. Consequently, the NIR declined by US$472.6mn during the review period.

Macroeconomic Outlook FY 2012/13 to 2015/16

The Medium Term Macroeconomic Profile outlined in Table 1 depicts the key macroeconomic assumptions that will inform the development of the estimates of revenue and expenditure, and, by extension, the debt trajectory over the medium term (FY 2012/13 – FY 2015/16). Changes in fiscal policies do, however, tend to impact economic variables, for instance any tax policy changes adopted over the medium term could impact inflation, real economic activities, interest and exchange rates, as well as other economic variables. Increases (decreases) in tax rates or tax bases for example could lead to higher (lower) inflation which could then have spill-over effects on other economic variables such as growth, exchange rate and interest rates.

Following the sharp upfront fiscal adjustment (3% of GDP) that was a feature of the FY 2012/13 budget, coupled with investor uncertainty surrounding the timing of a new economic programme with the IMF, the domestic economy is expected to contract by approximately 0.3% in FY 2012/13, compared to the 0.9% expansion in FY 2011/12. Growth is however expected to recover in subsequent years, with forecasts of 0.8%, 1.4%, 1.8% and 2.2% for FY 2013/14, FY 2014/15, FY 2015/16 and FY 2016/17, respectively.

Inflation rate has been revised downwards to 8.8% for FY 2012/13 from the 12.6% estimated in the May 2012 report. Inflation rate is projected to peak at 10.2% in FY 2013/14 then decline gradually to 8.2% by FY 2016/17.

The current account balance is expected to improve over the medium term. It is expected to record a deficit 12.6 % of GDP in FY 2012/13 relative to the 14.1 % recorded in FY 2011/12. This projected improvement in the current account balance over the medium term reflects expectations of slower growth in imports of consumer goods and raw materials associated with the proposed restraint in public expenditure and the relatively moderate increase in GDP growth. The current account deficit is expected to decline to approximately 7.7% of GDP by FY 2016/17.

Table 1: Medium Term Macroeconomic Profile

Macroeconomic Variables	Fiscal Years						
	2010/11 Actual	2011/12 Actual	2012/13 Est.	2013/14 Proj.	2014/15 Proj.	2015/16 Proj.	2016/17 Proj.
Nominal GDP (J$bn)	1,171.9	1,263.3	1,352.0	1,492.0	1,659.0	1,845.0	2,046.0
Nominal GDP growth rate (%)	7.3	7.8	7.0	10.4	11.2	11.2	10.9
Real GDP growth rate (%)	-0.7	0.9	-0.3	0.8	1.4	1.8	2.2
Inflation: Annual Pt to Pt (%)	7.8	7.3	8.8	10.2	9.2	8.8	8.2
Interest Rates:							
30-day repo rate (eop)	6.75	6.25	6.25				
180-day repo rate (avg)	8.31	6.50	6.5				
180-day Treasury Bill (avg)	8.15	6.50	6.7				
Avg. Exch. Rate (J$=US$1.00)	86.51	86.37	92.50				
Current Account (%GDP)	-9.0	-14.1	-12.6	-13.3	-13.4	-11.9	-7.7
Oil Prices (WTI) (avg. US$/barrel)	83.4	97.3	91.8	95.1	95.7	95.7	95.7

Source: GOJ/BOJ

FISCAL MANAGEMENT STRATEGY

FY2012/13 – UPDATE

Background

The Central Government budget for FY 2012/13 was formulated within the context of the Government's firm commitment to, by March 2016:

- eliminate the fiscal deficit;
- reduce the Debt/GDP ratio to no more than 100%; and
- reduce the Wages/GDP to no more than 9%.

The FY 2012/13 budget targeted a primary surplus of 6.0% of GDP, equivalent to $83,558.4mn and a fiscal deficit of 3.8% of GDP ($52,975.5mn). Revenue and grant inflows were projected at $361,282.5mn with "above-the-line" expenditures (excluding amortization payments) at $412,258.0mn.

The revenue and grants projection for FY 2012/13 represents 25.9% of GDP, compared to 24.8% in FY 2011/12. Tax revenue of $335,625.1mn, is budgeted to grow by 15.8% over collections in FY 2011/12. The estimates for tax revenue include an amount of $16,590.1mn (originally tabled to be $19,360mn but was later revised following consultations with stakeholders), attributable to new revenue measures implemented as part of the tax reform. Excluding the new revenue measures, tax revenue was projected to grow by 10.1%, relative to the 3.6% growth in FY 2011/12.

Central Government Performance: April – December

Provisional data indicate that Central Government operations generated a fiscal deficit of $47,191.2mn for the fiscal year to December, compared to the targeted deficit of $45,425.8mn. The primary surplus amounted to $39,084.5mn, which was 14.7% less than the $45,811.2mn budgeted. The primary surplus to December 2012 was 47.1% better than for the similar period last year, while the fiscal deficit improved by 16.3% over the $56,369.9mn generated for the April to December period in 2011.

Of note, there has been a general improvement in the fiscal deficit over the last 4 years, as depicted in Table 2.

Total expenditure for the fiscal year to December 2012, of $287,618.4mn, was 4.3% below the amount budgeted and approximately equivalent to that for the similar period last year, demonstrating strong fiscal prudence in the face of adverse revenue outturn.

Table 2: Central Government Operations Apr – Dec				
(in J$mn)				
	2012/13	**2011/12**	**2010/11**	**2009/10**
Revenue & Grants	**240,427.2**	**231,370.2**	**223,941.1**	**207,564.0**
Tax Revenue	224,991.1	206,269.9	196,355.7	185,876.0
Expenditure	**287,618.4**	**287,740.1**	**279,266.4**	**303,854.0**
Recurrent	***265,101.0***	***251,917.9***	***239,143.5***	***280,134.2***
Programmes	66,038.0	63,292.5	55,017.3	52,509.5
Wages & Salaries	112,787.3	105,680.4	96,480.9	94,866.9
Interest	86,275.7	82,945.0	87,645.4	132,757.8
Capital	***22,517.4***	***35,822.2***	***40,122.9***	***23,719.8***
Fiscal Balance	**-47,191.2**	**-56,369.9**	**-55,325.3**	**-96,290.1**
Primary Balance	**39,084.5**	**26,575.1**	**32,320.1**	**36,467.8**
(in % change)				
Revenue & Grants	**3.9%**	**3.3%**	**7.9%**	**5.7%**
Tax Revenue	9.1%	5.0%	5.6%	5.4%
Expenditure	**-0.0%**	**3.0%**	**-8.1%**	**20.0%**
Recurrent	***5.2%***	***5.3%***	***-14.6%***	***20.5%***
Programmes	4.3%	15.0%	4.8%	-3.2%
Wages & Salaries	6.7%	9.5%	1.7%	13.9%
Interest	4.0%	-5.4%	-34.0%	39.7%
Capital	-37.1%	-10.7%	69.2%	14.2%
Fiscal Balance	**-16.3%**	**1.9%**	**-42.5%**	**69.3%**
Primary Balance	**47.1%**	**-17.8%**	**-11.4%**	**-4.4%**

This flat expenditure profile emanated from higher recurrent expenses being negated by a corresponding decline in capital expenditure. Spending on capital programmes to December 2012 fell by $13,304.8mn (37.1%) relative to last fiscal year. The capital expenditure for FY 2011/12 however included significant one-off divestment legacy payments for Air Jamaica and Sugar Company of Jamaica Ltd (SCJ). Recurrent expenditure increased by 5.2% over last year, mainly due to higher payments for wages & salaries arising from backpay associated with the 7% wage adjustment. The 7% backpay, which were paid in May 2012 and October 2012, amounted to $8,139.0mn. Expenditure on wages and salaries also include $1,899.0mn representing the cost of the second tranche of reclassification arrears paid to teachers.

For the period April-December 2012, Revenue and Grants totalled $240,427.2mn, a shortfall of $14,539.4mn (5.7%) against budget. Of this total, tax revenue collection amounted to $224,991.1mn, which was 4.9% below the target of $236,577.8mn and represents a 9.1%

($18,721.2mn) increase over the prior year's collection. Major tax types influencing this increase are shown in Table 3.

Table 3: Notable Tax Performances

Tax Type	Increase over prior year (J$mn)	% increase
Company Income Tax	$3,651.8	22.8
GCT Local	$2,990.1	8.5
GCT Imports	$2,384.0	7.5
Custom Duty	$2,135.4	13.4
SCT Local	$1,977.4	29.2
SCT Imports	$1,388.2	6.9

These increases were off-set by reductions in a few tax types, notably Travel Tax (down $323.4mn), Environmental Levy (down $215.6mn) and Stamp Duty Local (down $114.9mn). Collections in FY 2011/12 were however bolstered by some extraordinary/one-off receipts such as:

- Travel Tax receipts included divestment legacy payments for Air Jamaica amounting to $1,200mn;
- Stamp Duty (Local) benefited from the transfer of JPSCo shares by Marubeni;

Overall, tax revenue collections fell short of budget by $11,586.7mn or 4.9% for the April – December period of 2012. The main items contributing to the less than budgeted performance were PAYE ($2,251.7mn), SCT Imports ($2,105.6mn), Other Companies (1,943.9mn) and GCT Imports ($1,862.0mn). The significant shortfall arose largely from:

- lower than budgeted collections from the administrative/compliance component of the overall tax programme;
- slower than programmed growth in imports;
- weaker economic growth which adversely impacted the revenue base; and
- lower than programmed inflation.

Public Bodies

FY 2012/13 performance and projections for the Medium Term

The approved financial forecast for the 65 self-financing public bodies (PBs), that is, 17 Selected Public Bodies (SPBs) and 48 Other Public Bodies (OPBs), indicates that the group is expected to return a negative Overall Balance of $10,365.38 million, comprising negative Overall Balances of $4,003.7mn and $6,361.7mn for the SPBs and the OPBs, respectively. These balances were predicated on the group achieving total current revenues of $362,365.3mn and capital expenditure of $55,942.1mn.

Preliminary results for the period ending December 2012 indicate that the group has registered a negative Overall Balance of $6,770.8mn, which represents an improvement of $2,888.7mn on the targeted amount of -$9,659.5mn. The SPBs and OPBs recorded positive variances of $1,266.9mn and $1,621.8mn, respectively.

For the SPBs, PetroJam reported a negative variance of $3,286.2mn on its targeted deficit Overall Balance of $1,832.6mn. However this was mitigated by the performances of the National Housing Trust (NHT) and the Port Authority of Jamaica (PAJ) which reflected positive variances of $2,389.3mn and $1,759.6mn, respectively. Price variance and timing issues relative to delivery and payment for supplies were the main causes of PetroJam’s level of performance, while capital expenditure for both NHT and PAJ were behind schedule.

The most significant contributor to the OPBs positive variance is the performance of the Factories Corporation of Jamaica (FCJ) whose capital programme has not gone as planned, resulting in savings of over $1,000mn.

Indications are that the performance of the group of PBs should end FY 2012/13 in line with budget. Of note, two public bodies have the potential to cause significant variances around the target, namely Petrojam and Clarendon Alumina Production Limited (CAP). The volatile nature of Petrojam's performance could impact the outturn in either direction. It was also projected that CAP would have been divested by the end of FY 2012/13, but negotiation have not yet been concluded.

The group of public bodies are forecast to improve their performance in the medium term, returning a breakeven Overall Balance for 2013/14 and at least maintaining this balance for the following 3 years.

Public Debt

Jamaica’s total public debt stood at $1,762,811.1mn or an estimated 132.9% of GDP at the end of December 2012 (Table 4). This represented a 6% increase over the $1,662,270.0mn or 131.6% of GDP at March 2012. The increase in the stock over the nine-month period was mainly attributable to:

- Financing of the fiscal deficit; and
- Depreciation of the Jamaica dollar vis-à-vis the US dollar and other currencies.

Table 4: Total Debt Stock

	Mar 2012	Dec 2012
(J$mn)		
Domestic	912,642.3	995,230.9
External	749,627.6	767,580.2
TOTAL	**1,662,270.0**	**1,762,811.1**
(% GDP)		
Domestic	72.2	75.1
External	59.3	57.9
TOTAL	**131.6**	**132.9**

The domestic debt stood at $995,230.9mn or an estimated 75.1% of GDP at the end of December 2012, which was 9% higher than the $912,642.3mn registered at the end of March 2012. In addition, explicit domestic guarantees amounted to $28,992.1mn (2.2% of GDP) at the end of December 2012, compared to $26,559.4mn or 2.0% of GDP at March 2012.

With respect to the stock of public and publicly-guaranteed external debt, this rose to $767,580.2mn (US$8,255.5mn) or an estimated 57.9% of GDP at the end of December 2012, representing an increase of 2.4% over the stock at the end of March 2012. A significant contributor to this increase was the depreciation in the value of the Jamaica dollar over the April to December 2012 period, as the US$ value of the external debt fell by 4% relatively to the level at March 2012.

FISCAL OUTLOOK

First Supplementary Estimates

Against the backdrop of the significant tax revenue shortfall recorded up to December 2012, the Tax Administration Jamaica (TAJ) and Customs Department have stepped up their administrative and operational activities, in an effort to keep collections in line with budget for the remainder of the year. However, while these actions are expected to yield positive results, they will not be sufficient to reverse the revenue shortfall that obtained up to the end of December 2012.

The deviation in the Central Government operations requires considerable focus on both revenue and expenditure measures to bring the fiscal accounts back on track with the legislated targets and to conclude the negotiations with the International Monetary Fund (IMF). Against this backdrop, the First Supplementary Estimates, focusing on expenditure restraint, were tabled in Parliament on February 5, 2013. These Supplementary Estimates are being accompanied by broad-based revenue measures, which will be tabled in Parliament on February 12, 2013.

The Supplementary Estimates reflect a reduction in the primary surplus for FY 2012/13 to an estimated 5.2% of GDP, compared to the targeted 6% of GDP. Despite the deviation from target for FY 2012/13, the estimated primary surplus outturn represents a notable increase over the 3.1% of GDP in FY 2011/12. The fiscal deficit is now estimated at 4.4% of GDP, compared to the original projection of 3.8% of GDP. This estimated fiscal deficit of 4.4% of GDP however represents a significant improvement over the 6.4% in FY 2011/12 and 11.1% of GDP in FY 2009/10.

Revenue and Grants - FY 2012/13

Revenue and Grants for FY 2012/13 are currently estimated to fall **$**14,703.5mn (4.1%) below budget to $346,579.0mn, with tax revenue projected at $323,315.8mn, a shortfall of $12,309.3mn (3.7%) against budget. This estimate for Revenue & Grants is **$**24,429.1mn (7.6%) above the previous fiscal year. Tax revenue is projected to increase by $33,433.6mn (11.5%) over collections in FY 2011/12. The most significant contributor to this increase in tax revenue is the new measures that were implemented during FY 2012/13, with estimated yield of $16,590mn. The increase in Revenue & Grants is the main contributor to the significant (76%) improvement in the primary surplus over that in FY 2011/12.

Expenditure - FY 2012/13

Central Government expenditure (excluding amortization) for FY 2012/13 has been revised to $406,126.9mn, which is $8,131.1mn less than the original budget. This reduction is due largely to a combination of under expenditure but also from the deliberate policy of reprioritizing programmed activities to accommodate new expenditure. Lower interest payments are primarily responsible for the reduced overall expenditure. Interest payments of $129,486.4mn are $7,047.5mn (5.2%) below budget. The reduction in interest costs is largely due to:

- lower than projected amounts raised from the issue of Government of Jamaica securities in the domestic market; and

- savings resulting from more favourable exchange rates applicable during the first half of the fiscal year.

Non-debt (primary) recurrent expenditure is in line with the amount originally programmed, as a marginal increase in wages and salaries ($1,537.6mn or 1.1%) is offset by lower recurrent programmes ($1,529.2mn or 1.7%). Expenditure on wages and salaries includes backpay of $9,602.9mn relating to:

- $1,899mn, representing the second tranche of back pay from the reclassification of teachers which was paid in July 2012; and

- $7,611mn representing the first two of the agreed five-tranche payment of the 7% wage increase to public sector employees, related to the 2009/2010 contract period, which was paid in May 2012 and October 2012, as programmed.

These amounts for backpay are not incremental to the overall budget as provision was made in the Contingency Allocation within the Ministry of Finance and Planning's (MOFP) recurrent budget. The First Supplementary Estimates 2012/13 is simply facilitating transfer of these amounts from the MOFP to the relevant Ministry, Department and Agencies (MDAs).

Expenditure on capital programme has been revised downward to $38,400.9mn, which is $1,092.1mn (2.8%) less than the amount originally budgeted. Contributing to the reduced capital spending is significant under expenditure reflected under the multilateral/bilateral projects. As in previous years, these projects have generated significant savings due to slower than programmed implementation of project activities. For FY 2012/13, net under-expenditure of approximately $2,460mn has been realized, with major reductions coming from projects in the following ministries:

- Science, Technology and Mining - $661mn
- Education - $304mn
- Finance and Planning - $322mn
- Justice -$127mn
- Labour and Social Security (PATH) - $433mn
- Water, Land, Environment - $157m
- Agriculture and Fisheries - $157m
- Local Government - $ 110m

The following issues have been identified as being responsible for the slower than programmed implementation of these projects:

- Delays in meeting conditions precedent to first disbursement of donor funds;

- Non compliance with donor agency's disbursement criteria;

- Poorly designed projects;
- Weak executing capacities in some MDAs; and
- Low levels of beneficiary compliance with conditions for grant disbursement (PATH).

Given the importance of some of these projects to the country's development and growth objectives as well as the costs associated with delayed implementation, the MOFP will undertaking a comprehensive review of the multilateral/bilateral projects currently on the GOJ's budget to identify those which have suffered from chronic delays over the years so that the appropriate corrective measures can be put in place for the FY 2013/14 budget.

These areas of reduction in the budget facilitated absorption of additional expenditure, including $2,838mn**,** related to the passage of Hurricane Sandy, as well as, other new obligations which emerged during the financial year such as:

National Transport Cooperative Society interim judgement award	$370.4mn
Students' Loan Bureau financing gap	$350mn
Motor Vehicles for security forces	$267mn

Medium Term Fiscal Profile

The medium term fiscal profile presented in the FPP tabled in Parliament on May 24, 2012, targeted an average Central Government primary balance of 7% of GDP over the medium term, rising from 6% of GDP in FY 2012/13 to 8% by FY 2015/16. This profile was determined to be consistent with the legislated requirement of a Debt/GDP ratio of 100 by March 2016.

The medium term economic programme which is currently being negotiated with the IMF has fiscal consolidation as one of its main pillars toward reducing the debt to sustainable levels. A significant step in the process of fiscal consolidation was taken with the FY 2012/13 budget when fiscal effort of 3% of GDP was undertaken (1.6 % from expenditure containment and 1.4% from new revenue measures) to deliver a Central Government primary balance of 6% of GDP and a fiscal deficit of 3.8% of GDP.

As indicated in the discussions under the First Supplementary Estimates, the current estimates are for a primary surplus of 5.2% of GDP, rather than the targeted 6% of GDP. In light of the slippage in the current fiscal year, and fearing that this is likely to introduce doubt as to the credibility of future targets, appropriate measures are now required to lift the primary surplus to a higher level. In congruence with the enhanced fiscal consolidation effort the GOJ has agreed, as a critical ingredient of the programme being negotiated with the IMF, to undertake upfront measures to raise the primary surplus to an average of 7.5% of GDP annually over the medium term. The medium term fiscal profile is depicted in Table 5. This expanded fiscal effort is deemed to be consistent with the GOJ delivering on its FRF public debt ceiling of 100% of GDP by March 2016.

The higher Central Government primary balance target of 7.5% of GDP for FY 2013/2014 ($111,156.3mn) will require additional fiscal effort. The GOJ has examined the various stages of capital projects, assessed the recurrent needs for FY 2013/14 and engaged unions representing public sector unions to arrive at a wage settlement that would involve considerable wage restraint. Based on these active expenditure initiatives, the MOFP has established ceilings on the non-debt (primary) expenditure, consisting of $252,281.6mn for recurrent and $41,038.3mn for the capital budget for FY 2013/14. Juxtaposing these expenditure ceilings against the passive forecast for revenue and grants generates a primary surplus gap of $27,298mn (1.8% of GDP). The measures being proposed to close this gap include new revenue measures of $15,898mn and $11,400mn in financial distribution from the National Housing Trust (NHT).

TABLE 5a: CENTRAL GOVERNMENT SUMMARY ACCOUNTS (% GDP)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Revenue & Grants	**316,041.4**	**322,149.8**	**347,260.4**	**404,476.2**	**447,273.8**	**493,865.7**	**540,710.9**
Tax Revenue	279,874.2	289,882.2	323,939.1	360,120.6	401,196.2	444,827.5	490,257.9
Non-Tax Revenue	20,473.9	16,709.2	18,076.6	30,772.0	32,506.2	34,456.3	38,248.7
Bauxite Levy	421.1	1,524.5	1,215.1	2,475.3	3,870.1	4,332.0	4,779.0
Capital Revenue	5,147.4	10,585.1	818.8	1,284.9	1,728.4	1,730.1	1,712.5
Grants	10,124.8	3,448.8	3,210.7	9,823.6	7,972.8	8,519.9	5,712.8
Expenditure	**388,768.0**	**403,122.2**	**406,218.7**	**413,667.4**	**455,849.1**	**493,044.0**	**535,307.5**
Recurrent Expenditure	333,173.8	349,891.3	367,817.8	372,629.1	399,217.4	427,063.0	453,138.3
Programmes	76,917.9	89,699.4	90,631.6	93,987.8	104,507.9	116,224.8	125,755.3
Wages & Salaries	127,901.3	139,556.9	147,608.0	158,293.8	161,260.1	166,535.3	183,347.8
Interest	128,354.7	120,635.0	129,578.2	120,347.5	133,449.5	144,302.8	144,035.3
Domestic	88,049.5	81,547.9	86,310.1	75,284.2	82,851.9	87,013.3	82,821.8
Foreign	40,305.2	39,087.1	43,268.1	45,063.3	50,597.6	57,289.5	61,213.4
Capital Expenditure	55,594.1	53,230.9	38,400.9	41,038.3	56,631.7	65,981.0	82,169.2
Fiscal Balance (Surp+/Def-)	**-72,726.6**	**-80,972.4**	**-58,958.3**	**-9,191.2**	**-8,575.3**	**821.8**	**5,403.4**
Loan Receipts	**212,968.9**	**163,520.5**	**242,688.8**	**76,457.5**	**96,844.0**	**159,517.2**	**47,027.9**
External	90,490.2	20,768.1	11,885.4	67,638.5	66,719.2	99,121.1	39,201.7
Domestic	122,478.7	142,752.5	230,803.4	8,819.0	30,124.8	60,396.1	7,826.2
Divestment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	**102,157.5**	**128,373.2**	**197,549.7**	**67,266.3**	**88,268.7**	**160,339.0**	**52,431.3**
External	22,764.0	60,553.0	71,185.1	29,887.8	51,826.1	88,662.6	39,201.7
Domestic	79,393.5	67,820.2	126,364.6	37,378.5	36,442.6	71,676.4	13,229.6
Overall Balance (Surp+/Def-)	**38,084.9**	**-45,825.0**	**-13,819.3**	**0.0**	**0.0**	**0.0**	**0.0**
Primary Balance(Surp+/Def-)	**55,628.1**	**39,662.6**	**70,619.9**	**111,156.3**	**124,874.2**	**145,124.6**	**149,438.7**

TABLE 5b: CENTRAL GOVERNMENT SUMMARY ACCOUNTS (% GDP)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Revenue & Grants	**26.5%**	**25.5%**	**25.7%**	**27.1%**	**27.0%**	**26.8%**	**26.4%**
Tax Revenue	23.5%	22.9%	24.0%	24.1%	24.2%	24.1%	24.0%
Non-Tax Revenue	1.7%	1.3%	1.3%	2.1%	2.0%	1.9%	1.9%
Bauxite Levy	0.0%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%
Capital Revenue	0.4%	0.8%	0.1%	0.1%	0.1%	0.1%	0.1%
Grants	0.8%	0.3%	0.2%	0.7%	0.5%	0.5%	0.3%
Expenditure	**32.6%**	**31.9%**	**30.0%**	**27.7%**	**27.5%**	**26.7%**	**26.2%**
Recurrent Expenditure	27.9%	27.7%	27.2%	25.0%	24.1%	23.1%	22.1%
Programmes	6.4%	7.1%	6.7%	6.3%	6.3%	6.3%	6.1%
Wages & Salaries	10.7%	11.0%	10.9%	10.6%	9.7%	9.0%	9.0%
Interest	10.8%	9.5%	9.6%	8.1%	8.0%	7.8%	7.0%
Domestic	7.4%	6.5%	6.4%	5.0%	5.0%	4.7%	4.0%
Foreign	3.4%	3.1%	3.2%	3.0%	3.0%	3.1%	3.0%
Capital Expenditure	4.7%	4.2%	2.8%	2.8%	3.4%	3.6%	4.0%
Fiscal Balance (Surp+/Def-)	**-6.1%**	**-6.4%**	**-4.4%**	**-0.6%**	**-0.5%**	**0.0%**	**0.3%**
Loan Receipts	**17.9%**	**12.9%**	**18.0%**	**5.1%**	**5.8%**	**8.6%**	**2.3%**
External	7.6%	1.6%	0.9%	5.9%	4.0%	5.4%	1.9%
Domestic	10.3%	11.3%	17.1%	-0.8%	1.8%	3.3%	0.4%
Divestment	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Amortization	**8.6%**	**10.2%**	**14.6%**	**4.5%**	**5.3%**	**8.7%**	**2.6%**
External	1.9%	4.8%	5.3%	2.0%	3.1%	4.8%	1.9%
Domestic	6.7%	5.4%	9.3%	2.5%	2.2%	3.9%	0.6%
Overall Balance (Surp+/Def-)	**3.2%**	**-3.6%**	**-1.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Primary Balance(Surp+/Def-)	**4.7%**	**3.1%**	**5.2%**	**7.5%**	**7.5%**	**7.9%**	**7.3%**
GDP	1,193,000.0	1,263,310.0	1,352,000.0	1,492,000.0	1,659,000.0	1,845,000.0	2,046,000.0

Revenue Reform Measures

Within the context of the need to generate more resources to increase the primary surplus and foster a faster reduction in the debt, and to enhance the economic growth prospects of the country, the GOJ has become more targeted in its revenue efforts and therefore the approach of broadening the indirect taxation base and providing for increased rules to aid compliance measures has been at the core of the revenue proposals that have been developed. These measures are summarized below and further details are presented in Ministry Paper to be tabled on February 12, 2013.

<u>General Consumption Tax (GCT) Measures</u>

1) Inclusion of the Telephone Calls Tax (TCT) as part of the GCT Base – *to be implemented March 1, 2013*

2) Inclusion of all fees and taxes paid at the ports (Environmental Levy and CUF/CAF) as part of the GCT Base - *to be implemented March 1, 2013*

3) Amend the GCT Act to ensure that Telecommunication providers account for GCT on the face value of prepaid vouchers/airtime - *to be implemented March 1, 2013*

Income Tax Measures

4) Increase the tax on Dividends payable to Residents to from 5.0% to 15.0% - *to be implemented April 1, 2013*

5) Imposition of a Surtax of 5.0% on the Taxable Income of Large "unregulated companies" - *to be implemented April 1, 2013*

6) Increase the Education Tax rate by 0.5 percentage and 0.25 percentage points for employers and employees respectively, up from the current rate of 2% - *to be implemented April 1, 2013*

International Trade (Border) Tax Measures

7) Application of a Customs Administration Fee (CAF) on all imports (except for Charitable Organizations, Bauxite Sector and Petroleum imports) - the proposal is for the CAF supplant the Customs User Fee (CUF) and the other fees being applied at Jamaica Customs - *to be implemented April 1, 2013*

Other Revenue Enhancement Initiatives (including Compliance measures)

8) Increase the local Stamp Duty Rate and Transfer Tax (on properties) by one percentage point to 4% and 5% respectively - *to be implemented April 1, 2013*

9) Increase in the applicable fees, gross profit tax for the Betting, Gaming and Lotteries sector - *to be implemented April 1, 2013*

10) Reform of the Property Tax Rate Regime and initiate measure to increase low property tax compliance rate –the proposal is to increase the tax rate from the existing 0.75% to a variable rate of 1.5% and 2% of the unimproved values. The proposal is that there be retention of the flat rate of $1,000 on the unimproved values up to $100,000 and increase the tax rate from the existing 0.75% to 1.5% of the unimproved values on values in excess of the proposed $100,000 threshold up to $1,000,000 and thereafter 2% on the remaining values which would be in excess of $1,000,000. *This is to be implemented April 1, 2013.*

11) Introduce "Transfer Pricing" Rules and Thin Capitalization Rules

12) Financial Distribution from the NHT of $11.4bn to the Consolidated Fund

Table 6: SUMMARY OF REVENUE MEASURES

	Revenue Impact J$ (billion)
Include the TCT as part of the GCT base.	1.3
Include all fees and taxes paid at the port (Environmental Levy and CUF/CAF) as part of the GCT base.	1.5
Telecom providers should account for GCT on the face value of prepaid vouchers/airtime.	0.20
Amendment to the fee structure and gross profit tax for Betting Gaming and Lotteries sector	1.5
Increase the tax on dividend to 15.0 per cent	0.8
Impose a surtax of 5.0 per cent on "Large Unregulated Companies" (Definition as per corporate income tax disaggregation)	1.2
Increase the Education Tax rate by 0.5 percentage points for employers and 0.25% for employees	2.8
Apply a Customs Administration Fee (CAF) on all imports (except for the Charitable Organizations, Bauxite Sector).	1.20
Increase the Stamp Duty and Transfer Tax rates (for properties) up from the current 3.0% and 4.0% rates respectively.	2.0
Initiate measures to increase the relatively low property tax compliance rate and reform the property tax regime.	3.4
Introduce "Transfer Pricing Rules" and 'Thin Capitalization Rules"	N/A
TOTAL	***15.9***

To complement the revenue raising measures outlined above, and within the context of the broader tax reform, the GOJ will take decisive steps to stem the pervasiveness of tax incentives and exemptions. Accordingly, the GOJ is committed to significantly reducing discretionary waivers and other forms of tax expenditures. The GOJ will be undertaking tax reform focused on reduction of tax expenditures, both statutory and discretionary, and, the removal of distortions throughout the various tax types. The main policy, administrative and legislative reform actions to be undertaken to augment the new tax measures outlined above are summarized as follows:

Waiver Reform - Elimination/Reduction of Discretionary Waivers

A distinction to be made among three (3) broad categories of discretionary waivers, namely those granted in respect of:

- Charities and charitable purposes
- Legal obligations, and
- Others.

A specific regime is to be developed and implemented for the treatment of charities – firstly by way of amendments to the Revenue Administration Act (RAA) and later by way of the Charities Act. An annual cap, equal to the last three (3) years estimated at $3,000mn, to be applied on a monthly basis, until the passage of the Charities Act.

In respect to GOJ legal obligations, these were namely sub-categorized as international treaties, existing GOJ projects (as of the start of the arrangement period) and sector specific arrangements which have been and continue to be implemented by way of letter or contract. As an interim regime, these arrangements will continue however they will be subject to a de-facto monthly cap of $70mn.

For all other discretionary waivers that do not belong to the category of charities and legal obligations, there will be a small *de minimis* allowance for new discretionary waivers limited to $10mn per month.

Total discretionary waivers, excluding charities, will thus be subjected to a total cap of $80mn per month**.** The caps are not annualized, and therefore unused portions will remain as such, as they cannot be "rolled" into the amounts for the subsequent month.

Development of rule-based regime for Charities and Charitable donations via the enactment of a Charities Act

The GOJ will seek to harmonize the tax laws to address the treatment of charities as well as enact a Charities Act. The requisite amendments will, inter alia, seek to:

- Define Charitable purposes;
- Clearly define what a charity is for tax purposes;
- Define and outline the tax treatment for donations to charities (i.e. whether in money or in kind);
- Outline the tax treatment according to each tax type;
- Remove ministerial discretion to grant tax waivers to charitable institutions and for charitable purposes; and
- Outline the administrative process to be followed by Tax Administration Jamaica (TAJ).

The Charities Act will provide a comprehensive regulatory framework for charities. It is expected that the legislation will provide for the registration process as well as the transparency rules/guidelines in order to ensure that Charities are not used as vehicles for money-laundering and terrorist financing.

Development of a performance based approach to the granting of incentives via introduction of Omnibus Tax Incentive

The GOJ, with the technical assistance of the Inter-American Development Bank (IDB) will enact an Omnibus Tax Incentive Legislation during FY 2013/14. The intent of the Act is to eliminate ministerial discretionary powers in the granting or validating of tax relief, and will put in place a transparent regime for tax incentives. Pivotal to the new incentive regime would be the limiting of tax incentives and accordingly it is expected that any new tax incentives will be implemented administratively through a rule-based mechanism without ministerial discretion. Incentives are to be pegged to macroeconomic indicators and are to be performance based. In addition, any incentives provided will be published promptly for the general public knowledge. The MOFP will issue directives that no new or renewed waiver category or other tax incentive will be approved, and no amendment to existing legislation which could generate further tax expenditures, will be undertaken until the passage and coming into effect of the new Omnibus Incentive Legislation. In order to guide the expeditious development of the regime, an Incentive Working Group (IWG) has been formed with representation from key stakeholders. The working group initially met in January 2013 to begin the requisite deliberations.

Pension Reform

The FPP tabled on May 24, 2013 stated that a Joint Select Committee of Parliament was deliberating on the Green Paper on Pension Reform. The Joint Select Committee has completed its deliberations and made certain recommendations for changes to the current system. Among the recommendations are:

- A proposed change to the retirement age from 60 to 65;
- Employees contribution of 5%;
- The salary to be used in computation of pension is the average of the last 5 years, rather than the salary in the final year of employment as currently obtains;
- Continuation of optional payment of Lump Sum; and
- Cessation of contributions by civil servants to the Family Benefit Scheme (formerly Widows and Orphans Fund).

Following the deliberations of the Joint Select Committee, the MOFP is now in the process of preparing the White Paper, which should be ready before the end of the current fiscal year. The MOFP is receiving technical support from the World Bank to undertake the simulation of various reform proposals.

Wage Issues/Settlements

In its continuing thrust toward wage restraint, the GOJ was able to arrive at settlements with a number of public sector groups during FY 2012/13, including:

- Heads of Agreement signed on May 31, 2012 with the Jamaica Confederation of Trade Unions (JCTU) and other groups representing public sector workers –

agreement involved, inter alia, the foregoing of wage increase for the period April 1, 2010 – March 31, 2012;

- An agreement with the West Indies Group of University Teachers (WIGUT) in December 2012 for the GOJ to honour the outstanding obligation of the 5% salary increase covering the period August 1, 2010 – March 31, 2013. The agreement involved commencement of new rates in April 2013 and payment of backpay to be made in equal instalments over a 4-year period;

- Heads of Agreement signed on December 19, 2012 with the Jamaica Association of Education Officers, regarding the re-alignment of education officers with teachers, following the reclassification of the teachers group effective April 1, 2007. The agreement involved : (i) commencement of new rates in April 2013 (ii) education officers foregoing 2 years of backpay from 2007 – 2009 and (iii) backpay to be made in 3 tranches – June 2013, December 2013 and December 2014.

In addition to these agreements, the GOJ has been taking decisive steps to control the size of the public sector through the elimination of some posts and an attrition programme. In September 2012, the GOJ removed 3,000 posts from the Civil Service Establishment and will eliminate another 3,000 posts in the wider public sector by the end of FY 2012/13. In addition, the GOJ does not intend to fill another 1,000 positions that will become vacant due to natural attrition during FY 2013/14.

The GOJ recognizes that a clear strategy must be formulated and adopted to reduce the Wages/GDP from the current level of 11% to the legislated ceiling of 9% by March 2016. As a prior condition toward finalizing an economic programme with the IMF, an agreement is to be reached with unions representing at least 70% of government workers on foregoing wage increases for FY 2012/13 and limiting wage increases to over the period FY 2013/14 – FY 2015/16 to levels that will ensure the wage ceiling under the FRF is not breached. Within this context, the GOJ has engaged unions representing public sector workers, as partners, in active discussions toward an agreement that will satisfy the prior action for conclusion of an economic programme with the IMF and an agreement that will be consistent with meeting the legislated Wages/GDP ratio of 9% by March 2016. Discussions are far advanced and an agreement between the GOJ and unions, as partners, is expected before the end of FY 2012/13.

Table 6: Wage Bill to GDP Ratio

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Wage Bill (J$bn)	127.9	139.6	147.6	158.3	161.3	166.5
%GDP	10.7	11.0	10.9	10.6	9.7	9.0
GDP ($bn)	1,193.0	1,263.3	1,352.6	1,492.3	1,659.4	1,845.5

Public Debt

The stock of public debt is expected to end FY 2012/13 at $1,813,688.5mn or 134.1% of GDP. This compares to $1,662,270.0mn or a debt-to-GDP ratio of 131.6% at end FY 2011/12. The domestic debt at the end of FY 2012/13 is projected at $996,549.5mn or 73.7%

of GDP. This represents an increase of 9.2% over the previous fiscal year's domestic debt which stood at $912,642.3mn or 72.3% of GDP.

The increase in the debt stock was due mainly to the following:

- Financing of the fiscal deficit on Central Government operations;
- Depreciation of the Jamaica dollar vis-à-vis the United States dollar and other currencies.

The stock of public and publicly guaranteed external debt is projected to end FY 2012/13 at $817,138.6mn, or 60.4% of GDP. This represents a slight increase over the 59.4% of GDP for FY 2011/12. The main factor behind the increase was the depreciation in the value of the Jamaica dollar, as the US$ value of the external debt stock is projected to fall by 3%.

Conclusion of the economic programme being negotiated with the IMF also requires a clear plan of action to directly reduce the debt via negotiations with existing creditors along several lines. This plan of action, along with the elevated primary surplus will contribute to meeting the legislated debt ceiling under the FRF of 100% of GDP. Within this context, a debt exchange offer, the National Debt Exchange (NDX), designed to reduce the debt by about 8% of GDP by FY 2019/20 and which will generate savings through lower interest cost of approximately $17,000mn per year, has been developed. Details of the plan of action are outlined in the National Debt Exchange document, which will be launched on February 12, 2013. The NDX is an arrangement through which bond holders will submit their holdings of certain bonds denominated in both Jamaica and US$ for new benchmark bonds with the same principal amount but in most cases with a longer maturity and lower coupon.

Total public debt is projected to decrease over the medium term toward 100% of GDP by FY 2015/16, in conformity with the FRF ceiling. This reduction in the Debt/GDP ratio reflects the programmed increase in the primary surplus and attendant reduction in the fiscal deficit over the medium term, aided by the execution of the NDX.

CENTRAL GOVERNMENT SUMMARY ACCOUNTS - Fiscal Monitoring Table

FY 2012/13

(in millions of Jamaica dollars)

Item	Prov Apr-Dec	Budget Apr-Dec	Diff	Diff %	FY 11/12 Apr - Dec	Diff	Diff %
Revenue & Grants	**240,427.2**	**254,966.6**	**-14,539.4**	**-5.7%**	**231,370.2**	**9,057.0**	**3.9%**
Tax Revenue	224,991.1	236,577.8	-11,586.7	-4.9%	206,269.9	18,721.2	9.1%
Non-Tax Revenue	12,259.1	12,868.8	-609.8	-4.7%	12,127.5	131.6	1.1%
Bauxite Levy	882.7	1,236.9	-354.2	-28.6%	1,169.1	-286.5	-24.5%
Capital Revenue	672.5	710.0	-37.5	-5.3%	8,493.1	-7,820.6	-92.1%
Grants	1,621.8	3,573.0	-1,951.2	-54.6%	3,310.5	-1,688.7	-51.0%
Expenditure	**287,618.4**	**300,392.4**	**-12,774.0**	**-4.3%**	**287,740.1**	**-121.7**	**0.0%**
Recurrent Expenditure	265,101.0	272,761.1	-7,660.1	-2.8%	251,917.9	13,183.1	5.2%
Programmes	66,038.0	69,173.7	-3,135.8	-4.5%	63,292.5	2,745.4	4.3%
Wages & Salaries	112,787.3	112,350.3	437.0	0.4%	105,680.4	7,106.9	6.7%
of which back-pay	9,602.9	9,510.6	92.3	1.0%	3,342.0	6,260.9	187.3%
Interest	86,275.7	91,237.0	-4,961.3	-5.4%	82,945.0	3,330.7	4.0%
Domestic	53,411.1	56,174.1	-2,763.0	-4.9%	49,967.1	3,444.0	6.9%
External	32,864.6	35,062.9	-2,198.3	-6.3%	32,977.9	-113.3	-0.3%
Fiscal Balance (Surplus + / Deficit -)	**-47,191.2**	**-45,425.8**	**-1,765.4**	**3.9%**	**-56,369.9**	**9,178.7**	**-16.3%**
Loan Receipts	**101,694.6**	**143,285.3**	**-41,590.6**	**-29.0%**	**112,165.4**	**-10,470.7**	**-9.3%**
Domestic	95,100.2	104,547.6	-9,447.3	-9.0%	93,572.4	1,527.8	1.6%
External	6,594.4	38,737.7	-32,143.3	-83.0%	18,593.0	-11,998.6	-64.5%
Project Loans	6,594.4	10,293.7	-3,699.3	-35.9%	7,066.8	-472.4	-6.7%
Other	0.0	28,444.0	-28,444.0	-100.0%	11,526.2	-11,526.2	-100.0%
Amortization	**68,552.1**	**70,692.8**	**-2,140.7**	**-3.0%**	**80,437.2**	**-11,885.1**	**-14.8%**
Domestic	25,918.2	26,037.4	-119.2	-0.5%	28,195.7	-2,277.5	-8.1%
External	42,633.9	44,655.5	-2,021.6	-4.5%	52,241.6	-9,607.6	-18.4%
Overall Balance (Surplus + / Deficit -)	**-14,048.7**	**27,166.6**	**41,215.3**	**151.7%**	**-24,641.8**	**10,593.0**	**-43.0%**
Primary Balance (Surplus + / Deficit -)	**39,084.5**	**45,811.2**	**-6,726.7**	**-14.7%**	**26,575.1**	**12,509.4**	**47.1%**

DETAILS OF REVENUE FY 2012/13

(in millions of Jamaica dollars)

Item	Prov. Apr-Dec	Budget Apr-Dec	Diff	Diff %	FY 11/12 Apr - Dec	Diff	Diff %
Revenue & Grants	**240,427.2**	**254,966.6**	**-14,539.4**	**-5.7%**	**231,370.2**	**9,057.0**	**3.9%**
Tax Revenue	**224,991.1**	**236,577.8**	**-11,586.7**	**-4.9%**	**206,269.9**	**18,721.2**	**9.1%**
Income and profits	74,441.8	79,101.9	-4,660.1	-5.9%	69,344.3	5,097.5	7.4%
Bauxite/alumina	0.0	57.3	-57.3	-99.9%	0.1	-0.1	-64.5%
Other companies	19,685.0	21,628.9	-1,943.9	-9.0%	16,033.1	3,651.8	22.8%
PAYE	44,754.2	47,005.9	-2,251.7	-4.8%	44,281.8	472.4	1.1%
Tax on dividend	996.8	849.2	147.7	17.4%	723.0	273.8	37.9%
Other individuals	1,601.7	2,396.7	-795.0	-33.2%	1,710.1	-108.4	-6.3%
Tax on interest	7,404.2	7,163.9	240.3	3.4%	6,596.2	808.0	12.2%
Environmental Levy	1,523.2	1,777.4	-254.1	-14.3%	1,738.8	-215.6	-12.4%
Production and consumption	70,473.3	71,173.3	-700.0	-1.0%	62,382.5	8,090.8	13.0%
SCT	8,741.5	7,636.6	1,104.9	14.5%	6,764.1	1,977.4	29.2%
Motor vehicle licenses	1,767.7	1,728.7	39.0	2.3%	1,294.7	472.9	36.5%
Other licenses	241.0	302.1	-61.1	-20.2%	268.6	-27.6	-10.3%
Betting, gaming and lottery	1,415.5	1,602.2	-186.7	-11.7%	1,163.0	252.5	21.7%
Accommodation Tax	265.2	375.9	-110.7	-29.5%	0.0	265.2	-
Education Tax	10,870.0	11,385.8	-515.8	-4.5%	10,963.3	-93.3	-0.9%
Telephone and Telex	2,342.1	2,654.8	-312.7	-11.8%	0.0	2,342.1	-
Contractors levy	955.1	940.9	14.2	1.5%	928.7	26.4	2.8%
GCT (Local)	38,157.8	39,405.2	-1,247.5	-3.2%	35,167.7	2,990.1	8.5%
Stamp Duty (Local)	5,717.4	5,141.0	576.4	11.2%	5,832.4	-114.9	-2.0%
International Trade	78,552.8	84,525.3	-5,972.5	-7.1%	72,804.3	5,748.5	7.9%
Custom Duty	18,047.3	19,741.8	-1,694.5	-8.6%	15,911.9	2,135.4	13.4%
Stamp Duty	1,212.9	1,283.7	-70.8	-5.5%	1,048.6	164.3	15.7%
Travel Tax	3,835.1	4,074.8	-239.7	-5.9%	4,158.5	-323.4	-7.8%
GCT (Imports)	34,079.5	35,941.4	-1,862.0	-5.2%	31,695.5	2,384.0	7.5%
SCT (imports)	21,378.0	23,483.5	-2,105.6	-9.0%	19,989.8	1,388.2	6.9%
Non-Tax Revenue	**12,259.1**	**12,868.8**	**-609.8**	**-4.7%**	**12,127.5**	**131.6**	**1.1%**
Bauxite Levy	**882.7**	**1,236.9**	**-354.2**	**-28.6%**	**1,169.1**	**-286.5**	**-24.5%**
Capital Revenue	**672.5**	**710.0**	**-37.5**	**-5.3%**	**8,493.1**	**-7,820.6**	**-92.1%**
Grants	**1,621.8**	**3,573.0**	**-1,951.2**	**-54.6%**	**3,310.5**	**-1,688.7**	**-51.0%**

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