GOVERNMENT OF JAMAICA

FISCAL POLICY PAPER FY 2013/14

18th April 2013

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PART 1

FISCAL RESPONSIBILITY STATEMENT

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.

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.

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.

Further, Regulations developed to support the FAA Act require 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.

The Interim Report was tabled in Parliament on February 12, 2013 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. In the Interim Report it was pointed out that against the backdrop of the significant revenue shortfall, the primary surplus estimate for FY 2012/13 was reduced to 5.2% of GDP, compared to the initial target of 6.0% of GDP. The fiscal deficit for FY 2012/13 was also estimated to increase to 4.4% of GDP, up from the original projection of 3.8% of GDP. In light of the deviation from the original fiscal targets in FY 2012/13, the GOJ took appropriate fiscal measures to lift the primary surplus to a higher level of 7.5% of GDP annually from FY 2013/14 and over the medium term. The fiscal measures being undertaken are mainly revenue enhancement initiatives, wage restraint and other expenditure containment activities. The expanded fiscal effort is complemented by the National Debt Exchange (NDX) and average real economic growth of about 2.0% over the medium term.

Jamaica continues to face major social and economic challenges, as demonstrated by anemic growth in national output, high fiscal deficits, large current account deficits, unsustainable public debt, growing unemployment and rising poverty levels. At October 2012, unemployment stood at 13.7%, compared to 12.8% at October 2011. At the end of FY 2012/13, the public debt stock was estimated at 134.1% of GDP, real economic growth was estimated at -0.4%, Central Government registered a fiscal deficit of 4.0% of GDP and a primary surplus of 5.3% of GDP, the current account of the Balance of Payment (BOP) was 12.8% of GDP and the Net International Reserves (NIR) was US$884.3mn (Gross Reserves equivalent to 11.7 weeks of imports of goods and services). Given the unfavourable social and economic outcomes, the Government has moved aggressively to pursue fiscal and economic reforms to stimulate growth and arrest the adverse debt dynamics.

For a number of years, Jamaica has been caught in a high debt-low growth cycle, occasioned by persistent fiscal deficits, long-standing structural impediments to competitiveness and low resilience to macroeconomic shocks and natural hazards. It is the intention of the Government to break this cycle through increasing competitiveness. For a small open economy like Jamaica, enhanced competitiveness is vital to generating robust economic growth. Enhanced competitiveness will require strong institutions, solid infrastructure, economic resilience and strong human capital.

Empirical evidence points to a negative correlation between economic growth rates and public debt accumulation. When the dimension of expectations in a globalized world is added, it brings into sharp focus the need to sustain consistent and credible fiscal policies over time. The necessity of dealing with financial volatility in capital markets has compelled most economies, mainly emerging and developing economies, to embrace credibility through the adoption of measures aimed at strengthening the macroeconomic and fiscal fundamentals anchored by structural enhancements. Within this context, the GOJ has developed a sound and credible economic programme, with the support of the International Monetary Fund (IMF).

Extended Fund Facility Arrangement with IMF

Jamaica's deep indebtedness is an ever-present obstacle to meaningful real economic growth. Servicing the large stock of debt crowds out fiscal resources that could otherwise provide the GOJ with investment options, allow for expansion of social services and lower nominal tax rates. The existence of this huge debt burden places the need to reduce it at the top of the list of objectives in economic and social planning. Jamaica needs to urgently reverse the debt accumulation process, reduce the stock of debt and accelerate economic growth in an effort to among other things make the debt less burdensome. Against this backdrop, Jamaica's economic programme, for which it has sought a four-year Extended Fund Facility (EFF) arrangement in the amount of about SDR 615.0mn (US$958.0mn) with the IMF, and for which it has sought the support of other development partners, rests on three main pillars:

- Profound fiscal consolidation to halt and reverse the debt accumulation process;
- Debt service reduction through liability management initiatives (this includes the National Debt Exchange that was completed in March 2013);and

- Measures to enhance the competitiveness of Jamaican products thus facilitating faster economic growth.

The 4-year EFF involves prior actions, quantitative targets and structural benchmarks, including;

- Passage of the Public Debt Management Act by Parliament;
- Reform of tax policy and tax administration to enhance revenue collection & efficiency;
- Wage Restraint Agreement with unions representing at least 70.0% of public sector workers;
- National Debt Exchange (NDX) to secure fiscal savings by exchanging high cost debt for new instruments with lower coupons and longer maturities;
- An average primary surplus of 7.5% of GDP over the life of the EFF;
- Debt/GDP ratio of 96.0% by FY 2019/20;
- Legislative and regulatory reforms to reduce systemic risks to the budget and financial system and to strengthen the overall resilience of the economy; and
- Enhancement of the social safety net to protect the poor and vulnerable.

Jamaica completed all the requisite prior actions as well as a set of actions which were initially identified as structural benchmarks for end-March 2013. With the progress made on these fronts, the IMF Management will submit the Programme to the Board of the Fund, with the expectation that the Board will approve the EFF arrangement by the end of April 2013. Approval by the IMF Board of an EFF for Jamaica should provide for:

- Increased foreign exchange flows that will boost the country's international reserves;
- Access to cheaper and more financing from other multilateral institutions such as the World Bank and IDB, each of which has, subject to Board approval, preliminarily allocated financial support of US$510.0mn to Jamaica over the 4-year life of the EFF;
- A confidence boost to the Jamaican economy from the additional foreign exchange flows and endorsement of the IMF and other multilaterals; and
- More timely implementation of strong and credible fiscal adjustment to put the public debt on a clear downward path and for a more efficient public sector and economy.

Strong Commitment to Fiscal Responsibility

In the FPP tabled in Parliament on May 24, 2012, I reaffirmed the GOJ's unequivocal commitment to fiscal responsibility and prudence and to act quickly and decisively. I remain resolute on this stance of profound fiscal prudence. The path to recovery cannot be built on large fiscal deficits and growing debt. Debt service payments impede the capital investments necessary to drive growth, and, impose a vicious stranglehold on our economy. We have taken some strong and deliberate actions to start the process of recovery. The medium term economic programme which the GOJ agreed with the IMF Management 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 presentation of the FY 2012/13 budget in May 2012, when a fiscal effort equivalent to 3.0% of GDP was undertaken (1.6 % from expenditure containment and 1.4% from new revenue measures) to deliver a Central Government primary balance of 6.0% of GDP and a fiscal deficit of 3.8% of GDP. Government's commitment toward profound fiscal consolidation was further

bolstered during the last fiscal quarter of FY 2012/13 when additional revenue and wage restraint measures, alongside the NDX were implemented.
Responsibility in fiscal management requires a structural change which presupposes well-planned and transparent actions to minimize risks and correct deviations, which may affect the sustainability of public finances over time. This responsibility entails strict adherence to targets and involves continuous monitoring of fiscal events and timely reporting of fiscal decisions and outcomes. The underlying theme is that indebtedness, in its many forms, represents the transfer of the responsibility for financing expenditure incurred during the current period, to the future.

Within this context, the policy decisions we take now as a Government, will not only be reflective of the immediate impact but will have due regard to the financial implications or burden for future generations. We recognize that the historical pattern whereby both high Central Government fiscal deficits and the recurrent assumption of contingent and direct liabilities of public bodies, financed by public debt and an increasing tax burden, is unsustainable. These alternatives have proved to be undesirable and have limited the country´s economic and social development. As such, the **Government's broad strategic priorities** from FY 2013/14 and through the medium term **are economic growth, price stability, job creation and poverty reduction,** underpinned by tight expenditure management, tax reform, pension reform, public sector transformation and reduction in corruption and waste.

These priority areas complement our commitment to balancing the fiscal accounts by March 2016, as a necessary condition toward reducing the debt to sustainable levels, generating adequate levels of national saving and for creating more fiscal space for the pursuit of public investment to support economic growth, poverty reduction and improvement in human welfare. This focus will help us as a country to provide the enabling environment for improving the quality of life. This focus will help us to make ***Jamaica, the place of choice to live, work, raise families and do business.***

In the attached Fiscal Management Strategy (FMS), are targets for the Central Government fiscal balance, primary balance, domestic and external debt, as well as guaranteed debt for FY 2013/14 – 2016/17. (The fiscal accounts are compiled on a cash accounting basis. They are prepared to be consistent with the IMF Government Finance Statistics (GFS) and accordingly treat receipts from divestment of assets "below the line", that is divestment receipts are not recorded as revenue). While the PBMA presents no explicit ceilings on the overall balances of public bodies, their budgets will be closely monitored to ensure that their deficits do not increase over the medium term and, consequently, threaten the debt targets. In fact, since FY 2010/11, the level of Parliamentary scrutiny applied to public bodies has been broadly in line with that of the Central Government. In March 2010, the PBMA Act was amended to require that the budgets of public bodies be approved by Parliament. This heralded a profound move toward fiscal consolidation.

Economic Programme - Fiscal Outcome and Outlook

In maintaining the focus of making Jamaica, the place of choice to live, work, raise families and do business**,** the objectives of the GOJ's economic programme are to:

- Reduce the public debt/GDP ratio;
- Improve fiscal performance, discipline and accountability;

- Increase real GDP growth rate; and
- Maintain financial stability.

***Strategies to reduce public debt/GDP ratio include*:**

- Engaging in active and enhanced debt management operations – NDX completed in March 2013;
- Seeking lower cost multilateral & bilateral funding;
- Raising and sustaining the Central Government primary surplus at 7.5% GDP over the medium term;
- Improving risk management, including maintaining an appropriate mix of fixed and variable rate debt instruments.

To improve fiscal performance, discipline and accountability the GOJ has been undertaking and will seek to further strengthen strategies devoted toward:

- *Comprehensive Tax Reform to improve efficiency, equity and revenue adequacy through*:
  (a) Further simplification of the tax system;
  (b) Widening of the tax base & reduction of rates where feasible;
  (c) Significant reduction of tax waivers;
  (d) Providing more autonomy to Tax Departments, namely Tax Administration Jamaica (TAJ) & Jamaica Customs Department. Effective April 1, 2013 Jamaica Customs Department was transformed into an Executive Agency and in March 2013 Parliament passed legislation to establish the TAJ as a Semi-Autonomous Revenue Agency (SARA).

- *Expenditure Containment strategies being pursued include*:
  (i) Wage Restraint (9.0% of GDP legal ceiling by March 2016). In March 2013, the GOJ signed wage restraint agreements with unions representing public sector workers. Further details on the agreements are provided in the attached FMS.
  (ii) Better internal control and more efficient use of resources.

Strategies to Increase Real GDP Growth Rate include the following:

- Targeting high-impact investment programmes that will create employment opportunities
- Targeting key investment sectors such as tourism, infrastructure, ICT, energy and agriculture;
- Enhancing the use of Jamaica's competitive advantages, example political stability, close proximity to key shipping ports (Panama Canal), English-speaking workforce, free movement of capital and robust telecoms infrastructure;
- Enhancing access to credit;
- Simplifying business processes; and
- Engaging in more Public Private Partnership (PPP) arrangements.

***The GOJ will bolster its strategies to maintain financial stability through*:**

- Maintaining inflation at single digit levels;
- Conducting monetary policy within a managed floating exchange rate regime;

- Increasing and maintaining international reserves at or above the international benchmark of 12 weeks of imports of goods and services;
- Strengthening the financial system by ensuring the Bank of Jamaica (BOJ) and the Financial Services Commission (FSC) have adequate regulatory powers.

The GOJ is undauntingly committed to reducing the debt to GDP ratio and maintaining it at no more than 60.0% of GDP as a long-term fiscal objective. However, the relatively low level of discretionary expenditure does not allow for such a sizeable adjustment to be made at this time. Thus, this long-term fiscal ideal must be reflected through a more feasible outcome in the short to medium term. Accordingly, the Government considers it prudent to follow a 3-year path of adjustment to reduce the debt from the current estimated 134.7% of GDP to achieve 100.0% of GDP or less by FY 2015/16, as legislated in the FAA Act. Based on current estimates, indications are that this target is unlikely to be met. Current forecasts show the total debt amounting to 112.1% of GDP by the end of FY 2015/16. Accordingly, if this projected path for the stock of debt were to hold, the GOJ will consider amendments to the FAA Act to adjust the fiscal year for attainment of the 100.0% Debt /GDP ratio.

Adherence to this trajectory, for the debt/GDP ratio, is essential to maintaining a favourable trend in interest rates, enabling the resumption of economic growth with job creation and ensuring price stability. Thus, the debt targets that are established are those that support the enabling conditions for sustainable economic growth, while maintaining the current policy of fiscal discipline that seeks to eliminate Central Government deficits within three years. In light of this objective, the primary surplus targets for the FY 2013/14 - FY 2016/17 period are higher, when compared to the results obtained in recent fiscal years. Correspondingly, the path is for progressively lower Central Government fiscal deficits toward a balanced budget by FY 2015/16.

The Central Government operations registered primary balance surpluses of 3.1% of GDP and 5.3% of GDP in FY 2011/12 and FY 2012/13, respectively. The fiscal deficit for both those years was 6.4% and 4.0% of GDP respectively. For the total debt stock, this moved from 131.5% at the end of FY 2011/12 to an estimated 134.1% of GDP at the end of FY 2012/13.

Against the backdrop of the Government's broad strategic priorities, the macroeconomic assumptions outlined in the Macroeconomic Framework and the fiscal actions taken to enable attainment of the legislated fiscal targets, estimates of revenue and expenditure have been developed to generate the medium term fiscal profile depicted in Table 1A.

The medium term fiscal profile reflects a trend reduction in the Wages/GDP ratio to the 9.0% ceiling by FY 2015/16. It entails:

- no increase in Central Government employment levels;
- payment of annual performance increments of 2.5%;
- phased implementation of the health sector reclassification starting in FY 2013/14;
- implementation of the agreement signed with unions for no increase in wage rates through to 2014/15 and a one-off annual payment of $25,000 to each public sector worker for each year of the 2012-2015 contract periods.

- adopting a policy of job attrition involving - removal of posts that have been vacant for a number of years from the Civil Service Establishment; and only filling posts that are deemed critical.

In keeping with the commitment to reform the current tax system, based on the principles of equity, simplicity, transparency and efficiency, the GOJ implemented a revenue positive reform package in June 2012 that was initially designed to yield $19,360.0mn in FY 2012/13 (1.4% of GDP). Following consultations with various stakeholders, some adjustments were made to the revenue package resulting in a reduction in the estimated yield to $16,590.0mn (1.2% GDP). In an effort to bolster the fiscal consolidation thrust and elevate the primary surplus to the required 7.5% of GDP, another revenue package predicated on the need to ensure revenue adequacy and sufficiency was implemented in March/April 2013. The package was estimated to yield incremental revenue of $15,900.0mn (1.1% of GDP in FY 2013/14) and details were provided in the Interim Report tabled on February 12, 2013. The attached FMS provides more information on revenue performance, including the new measures implemented during FY 2012/13.

In addition to these measures, it is important to note that The Public Bodies (Financial Distribution) Regulations 2012, passed by both Houses of Parliament in March 2012, provides for the distribution of profit or surplus from public bodies to the Consolidated Fund to support the government's fiscal consolidation thrust. For FY 2012/13, an amount of $2,262.9mn was distributed to the Consolidated Fund. Programmed transfers from public bodies to the Consolidated Fund for FY 2013/14 amounts to $11,956.0mn, inclusive of $11,400.0mn from the National Housing Trust (NHT) that was approved by Parliament in February 2013. The programmed transfer from the NHT of $11,400.0mn annually is for a period of 4 fiscal years through to FY 2016/17.

Following the decision of the GOJ to implement these revenue measures, understandably, concerns were raised by stakeholders with respect to: the likely effect on businesses and consumers; the ability of the Government to obtain the desired revenue intake; and the impact on the wider economy. The GOJ is fully aware of the genuine concerns of all stakeholders and has been engaged in frank and profound consultations with them. Arising from these consultations and within the context of fairness, equity and the need for fiscal prudence, the GOJ has decided to make further adjustments to the tax policy measures. The adjustments including the fiscal implications, for which further details are provided in a Ministry Paper to be tabled on April 18, 2013, are summarized in Table 1.

Table 1: Revenue Measures

Rate adjustment	Revenue Yield
Reduction in the transshipment rate from $3,500 to $1,000	($80.0mn)
Reduction in the CAF on all terrain vehicle (ATV), Jet Skis, Go Carts for the tourist sector from $55,000 to $27,500	($20.0mn)
50% discount and the processing fees payable by charities	($20.0mn)
Reduction in rate of CAF on ethanol to be used in the export sector from $1 per litre to $0.02 per litre	($130.0mn)
Discount in CAF to manufacturers	($213.0mn)
Adjustment to Crude Oil Rate	$350.0mn
Unified Entry processing fee for Approved Economic Operators (AEO) and Non AEO)	$83.0mn
Less than container load (LCL) to be charged per piece on commercial imports	$40.0mn
Item specific CAF on meat (excluding poultry)	$40.0mn
Net Revenue Effect	**$50.0mn**

In addition to the measures depicted in Table 1, which relate to transactions at Jamaica Customs, the GOJ will also seek to amend the GCT Act to introduce zero-rating of the supply of electricity, effective September 1, 2013. The estimated revenue loss from this measure is $1,440.0mn annually and the GOJ will undertake other revenue enhancing options to offset this expected revenue fallout.

The policy measures for FY 2013/14 are expected to be adequate to achieve the legislated medium term fiscal targets. These measures, which are critical to meeting the stated fiscal objectives, are founded on the principles of sound fiscal management in that they will have the effect of delivering lasting benefits by: reducing and eventually eliminating fiscal deficits; reducing the debt burden on the citizens; and supporting adequate levels of national savings. Further, these measures should generate adequate levels of revenue to facilitate proper maintenance of the GOJ's physical assets and facilitate moderation of cyclical fluctuations in economic activity, as appropriate. Nevertheless, should there be any unforeseen fallout in programmed revenue and/or increased expenditure requirements, the GOJ stands ready to make the necessary adjustments and take the requisite measures to correct any fiscal imbalance that may emerge.

Table 1A: Medium Term Fiscal & Debt Indicators

	Act.	Prov.	Budget	Proj	Proj	Proj
(J$mn)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Revenue & Grants	322,149.8	344,668.4	407,160.3	443,602.7	492,663.8	543,069.6
of which Tax Revenue	*289,882.2*	*319,764.9*	*360,517.6*	*397,155.6*	*447,986.4*	*495,084.8*
Expenditure	403,122.2	399,278.9	415,206.1	450,420.7	492,640.7	537,412.3
of which Wages & Salaries	*139,556.9*	*147,381.8*	*157,253.3*	*158,627.6*	*166,933.1*	*183,287.6*
of which Interest	*120,635.0*	*126,937.7*	*119,566.8*	*131,917.6*	*148,009.5*	*140,762.4*
Cent Govt Fiscal Balance	**-80,972.4**	**-54,610.4**	**-8,045.8**	**-6,818.0**	**23.1**	**5,657.4**
Cent Govt Primary Balance	**39,662.6**	**72,327.2**	**111,520.9**	**125,099.5**	**148,032.6**	**146,419.8**
Domestic Debt	912,642.3	1,008,348.5	989,270.4	1,003,666.6	1,004,525.4	1,000,866.4
External Debt	749,627.6	804,286.4	900,441.5	980,382.0	1,062,692.3	1,142,269.2
Total Debt	**1,662,269.9**	**1,812,634.9**	**1,889,711.9**	**1,984,048.6**	**2,067,217.7**	**2,143,135.6**
(% GDP)						
Revenue & Grants	25.5%	25.5%	27.3%	26.7%	26.7%	26.5%
of which Tax Revenue	*22.9%*	*23.7%*	*24.2%*	*23.9%*	*24.3%*	*24.2%*
Expenditure	31.9%	29.5%	27.8%	27.2%	26.7%	26.3%
of which Wages & Salaries	11.0%	10.9%	10.5%	9.6%	9.0%	9.0%
of which Interest	9.5%	9.4%	8.0%	8.0%	8.0%	6.9%
Cent Govt Fiscal Balance	**-6.4%**	**-4.0%**	**-0.5%**	**-0.4%**	**0.0%**	**0.3%**
Cent Govt Primary Balance	**3.1%**	**5.3%**	**7.5%**	**7.5%**	**8.0%**	**7.2%**
Domestic Debt	72.2	74.6	66.3	60.5	54.4	48.9
External Debt	59.3	59.5	60.4	59.1	57.6	55.8
Total Debt	**131.5**	**134.1**	**126.7**	**119.6**	**112.0**	**104.7**
Debt Ceiling					**100%**	**100%**
Fiscal Balance Ceiling					**0**	**0**
Wage Ceiling					**9**	**9**

The priorities, objectives and policies enunciated in this Fiscal Responsibility Statement are consistent with those in other GOJ documents and in the programme agreed with the IMF Staff for submission to the IMF Board for approval. It is important however to note some variances with respect to definitions and presentations, as follows:

(i) The total debt shown in Table 1A and the remainder of this FPP is derived from the definition in Section 48A of the FAA Act – "*total debt means the stock of public debt directly contracted by the Government and Government guaranteed external debt.*" The stock of debt reported by the IMF includes guaranteed domestic debt and debt incurred by the PetroCaribe Development Fund. The debt incurred by the PetroCaribe Development Fund is not a direct debt of the GOJ and so is not covered by the definition in the FAA Act. As a result of the difference in coverage, the total debt at the end of FY 2012/13 as presented in this FPP is about 12.0% of GDP less than that reported by the IMF.

(ii) The revenue and grant figures for FY 2011/12 and FY 2012/13 in this FPP represent actual collections by revenue departments/agencies. However, the revenue data contained in the Financial Statements and Revenue Estimates represent transfer from the revenue departments/agencies to the Consolidated Fund. Transfers to the Consolidated Fund may differ from actual revenue collections because of a lag between receipt of revenue and the physical transfer of such revenue to the Consolidated Fund. The fiscal and primary balances shown in Table 1A and the remainder of the FPP are compiled based on actual revenue collections.

(iii) The expenditure outturn for FY 2012/13 shown in Table 1A and upon which fiscal and primary balances are computed is based on actual cash expenditure for the fiscal year. These differ from those shown in the Financial Statements & Revenue Estimates and the Estimates of Expenditure, which reflect figures from the First Supplementary Estimates. In particular, not all the amounts provided for in the First Supplementary Estimates were spent thus actual expenditure for FY 2012/13 as reported in the Fiscal Responsibility Statement was less than the amount allocated. The First Supplementary Estimates for FY 2012/13 tabled on February 12, 2013 did not incorporate the significantly reduced debt service charge that emanated from the National Debt Exchange (NDX) which was executed in February 2013. An outcome of the NDX was that actual debt service payments for FY 2012/13 were considerably less than the allocation for debt service costs in the First Supplementary Estimates (Table 1B).

Fiscal Risks

Beyond the revenue and expenditure estimates, and their comparison with the previous year's results, the FMS also includes a Fiscal Risk assessment, which evaluates contingent liabilities and other risks that may affect the fiscal accounts but due to the uncertainty as to their actual occurrence, are not budgeted. The various contingent liabilities presented may also contribute to an increase in the debt stock. Thus, although the medium term fiscal programme contemplates and requires an elimination of Central Government budget deficit and reduction in the Debt/GDP and Wages/GDP ratios, these efforts could be thwarted if contingent liabilities and other fiscal risks are not properly managed.

Table 1B: Expenditure Summary

	FY2012/13			FY 2013/14
(in J$mn)	Orig Budget	Rev Budget	Outturn	Orig Budget
Non-Debt	277,715.1	276,640.4	272,341.2	295,639.3
Recurrent	238,221.7	238,247.2	234,583.3	250,937.5
Capital	39,493.4	38,393.2	37,757.9	44,701.8
Debt- Service	334,703.7	325,890.8	218,235.9	225,247.2
Interest	136,533.5	129,486.4	127,067.4	119,566.8
Amortization	198,170.2	196,404.4	91,168.5	105,680.4
TOTAL	**612,418.8**	**602,531.2**	**490,577.1**	**520,886.6**

The FY 2013/14 Central Government budget includes contingency provisions as follows:

(i) interest payments of $5,926.4mn;
(ii) amortization (principal) payments on guaranteed loans of $4,370.4mn;
(iii) $17,121.0mn, for
  (a) public sector wage restraint 2012-2015 agreement for $3,320.0mn;
  (b) salary arrears (backpay) of $9,565.4mn, inclusive of $8,000.0mn for the scheduled 7.0% one-off payment in FY 2013/14 and $1,565.4mn for teachers' reclassification, arising from the 2009 Industrial Disputes Tribunal award;
  (c) $2,300.0mn for health sector reclassification;
  (d) $1,000.6mn in new rates and backpay for Education Officers and West Indies Group of University Teachers (WIGUT) in accordance with Heads of Agreements signed with both groups in 2012;
  (e) $335.0mn for recruitment of security and health personnel;
  (f) $200.0mn for outstanding wage settlements for some groups; and
  (g) $400.0mn for other arrears.

On the revenue side, the GOJ intends to eliminate the stock of outstanding withholding tax refunds (over 90 days) over the next five years. Within this context, the medium-term fiscal profile programmes payment of withholding tax refunds at a rate of approximately $900.0mn monthly from FY 2013/14.

The maintenance of a responsible fiscal policy in respect of revenue and expenditure is essential for the achievement of the annual fiscal and debt targets and the ceilings established in the FAA Act. Thus, it is of utmost importance that revenue and expenditure measures which have deleterious fiscal effects are not adopted without the implementation of offsetting measures. Decisions to incur obligatory expenditures ahead of the budget being approved, such as expenditure associated with employment of staff, have been a notable source of fiscal risks for some time now. The risk is especially amplified if the effects of such decisions will cover several fiscal years into the future. We will be quite vigilant to minimize such occurrences. In this regard, Regulations were approved by Parliament in March 2012 to, firstly, mitigate these occurrences and secondly, impose sanctions for any such breach of these Regulations. Ministries, Departments and Agencies will need to recognize that the FRF represents a major game changer with respect to public financial management practices and in light of our firm commitment to achieve the fiscal and debt targets any decision to incur additional expenditure can only be accommodated through imposition of expenditure cuts in other areas, or the raising of revenue.

Similarly, any granting or broadening of tax incentives or benefits resulting in tax breaks will, of necessity, be accompanied by an estimate of the budgetary/financial impact in the fiscal year it becomes effective and in subsequent years, as well as by compensating measures. This is important, as provision of such tax breaks could result in a reduction in tax revenue, thereby jeopardizing the achievement of fiscal targets and, by extension, development of the country.

It is worthwhile to emphasize that both the fiscal deficit and the public debt will depend directly on the macroeconomic assumptions considered, such as: inflation, exchange and interest rates; external and domestic demand; and the price of oil and other key commodities. Simulations have been conducted on the trajectory of the debt, which show that the targets are sustainable in the medium term, based on the larger primary surplus targeted, as well as the forecasts for economic growth, inflation, interest and exchange rates. It is also important to emphasize that the macroeconomic forecasts are not commitments of the economic policy and, accordingly, they may change over time. However, in so far as there are deviations in macroeconomic variables, these will invariably affect fiscal outcomes and influence countercyclical fiscal policy.

Fiscal Responsibility with Flexibility

Whereas the FRF´s main concern is fiscal equilibrium over time, it is desirable that it allows for flexibility for special situations in order to provide the necessary adjustments to economic cycles. The preservation of fiscal equilibrium is not incompatible with cyclical fluctuations in economic activity and disruptions related to national security, national emergency, or other occurrences that are severe in their impact on the economy. The FRF allows for adjustments to targets, with the approval of Parliament, under the aforementioned circumstances. Positive economic growth creates a condition for revenue buoyancy. This makes it easier to achieve the fiscal and debt targets, and, at the same time, creates less of a demand by the citizens on the Government. During a recession, however, there are pressures for the State to provide fiscal stimuli and engage in expansionary fiscal policy. Reconciling economic growth and fiscal balance is not only desirable, it is necessary for the very survival of the fiscal operations.

The propositions presented here are consistent with the novel conceptual framework of the FRF, with respect to the control of public debt and the requirement for public sector solvency. The international experience has demonstrated that countries facing similar problems like ours have gained credibility by adopting a well-designed FRF, underpinned by transparency and fiscal rules, and espousing the following fundamental principles to which we sincerely commit:

- prevention of high and recurrent fiscal deficits, by striking the balance between the citizen's aspirations towards public expenditures and the resources available for financing them;
- targeting of public debt at prudent levels, compatible with revenues and public assets, while providing a safety margin to absorb the effects of contingent liabilities and other fiscal risks;
- adoption of a reasonable tax burden and a stable tax policy;
- preservation of public assets, including their proper maintenance, at a level compatible with the role assigned to the State; and
- transparency in the production and dissemination of documents concerning the budget, its execution and accounting.

Conclusion

The administration fully understands the tight fiscal situation that the global economic crisis imposes on all of us. The Government has a responsibility to ensure a safe and stable environment that will allow individuals to use their talents to create wealth. Such an environment requires a responsible Government, not a profligate one burdening the population with debt and taxes. This is why maintaining the momentum on tax and public sector reforms, intensifying efforts toward divestment of some public sector assets, accelerating the growth agenda and moderating the growth in the cost of government are so critical for the future. These measures are important not just for meeting targets established under the country's economic programme with the IMF but more importantly for our own and best interests.

In this Fiscal Responsibility Statement, I hereby declare that, in pursuing the policy objectives of the Government, I will adhere to the principles of prudent fiscal management and seek to manage financial risks accordingly. In so doing, I hereby attest to the reliability, accuracy and completeness of the information contained in this Fiscal Policy Paper and its compliance with fiscal responsibility principles.

Peter D. Phillips, PhD, MP
Minister of Finance and Planning
April 18, 2013

Part 2

MACROECONOMIC FRAMEWORK

Overview of Macroeconomic Developments FY 2012/13

Background

In reviewing Jamaica's macroeconomic performance during FY 2012/13, focus is on developments in the real sector, labour market, monetary sector and external sector. Table 2A below summarizes Jamaica's macroeconomic performance for FY 2011/12 – FY 2012/13.

Table 2A: Summary Economic Performance

	Unit	FY 2011/12	FY 2012/13
Real GDP Growth Rates	%	0.9	-0.4
Inflation Annual (Pt to Pt)	%	7.3	9.1
Broad Money (M3) Growth [1]	%	8.9	2.8
Exchange Rate (avg)	J$=US$1	86.37	91.16
Treasury Bill (avg 6-month)	%	6.52	6.77
Current Account/GDP	%	-14.1	-12.8
Net International Reserves (NIR)	US$mn	1,777.20	884.3
Gross Reserves (Goods & Services Imports)	weeks	17.3	11.7
Fiscal Accounts			
Cent. Gov't Fiscal Balance	%GDP	-6.4	-4.0
Cent. Gov't Primary Balance	%GDP	3.1	5.3
Public Bodies Overall Balance	%GDP	0.0	-0.7
Debt Stock	%GDP	131.5	134.1

The overall macroeconomic environment remains fragile with anemic growth, sustained high unemployment rates, high levels of public debt, fiscal constraints, increasing inflation rates as well as external imbalances. As such, the Jamaican government has embarked on a comprehensive economic programme aimed at significantly raising the rate of real GDP and per capita income growth over the medium term (FY 2013/14 – FY 2016/17). It is underpinned by the understanding that fiscal and debt sustainability are necessary conditions for macroeconomic stability and economic growth. In particular, a sharp reduction in the debt burden will be conducive to higher private sector led growth as government frees up more of the available domestic resources. Additionally, in this environment, government spending can be directed toward the catalytic development of infrastructure to support growth.

The GOJ's growth agenda will be driven by:

[1] Figure for FY2012/13 is at end February 2013

- Time bound fiscal consolidation, supported by fundamental fiscal and monetary policy reforms aimed at creating a stable, predictable and resilient macroeconomic environment conducive to high levels of long term foreign and domestic investment;
- Time bound structural reforms aimed at significantly strengthening Jamaica's external competitiveness and generating higher levels of factor productivity;
- Catalytic and strategic private/public investments; and
- Social stability.

Real Sector Developments

FY 2012/13 Estimated Performance[2]

Real Gross Domestic Product (GDP) contracted by an estimated 0.4% during FY 2012/13, with the Goods Producing and Services Industries declining by 1.6% and 0.1%, respectively. The economy's performance reflected the impact of international and domestic developments, among which were:

a. Weak global environment which resulted in a sluggish demand for Jamaican goods and services;

b. Weak domestic demand fuelled by uncertainty about short-term economic prospects;

c. Adverse weather conditions, namely drought conditions during July-September, and the passage of Hurricane Sandy in October.

All Goods Producing industries with the exception of Agriculture, Forestry & Fishing, declined. The Mining & Quarrying Industry recorded the largest absolute decline (9.4%), due to lower bauxite and alumina production arising from a slowdown in global industrial production. Lower output of the Construction Industry, reflected the impact of a decline in residential and non-residential projects as well as a fall-off in civil engineering activities. For the Manufacturing Industry lower real value added resulted from reduced demand both locally and abroad.

Contraction in the Services Industry was pushed mainly by declines in the Electricity & Water Supply and Transport, Storage & Communication Industries. Within the Electricity & Water Supply Industry, there was a decline in both water production and electricity generation, associated, in part, with the passage of Hurricane Sandy. Additionally, water production was affected by plant downtime due to electrical and mechanical disruptions as well as drought conditions, while electricity generation contracted due to technical difficulties and plant closure for maintenance. The downturn in the Transport, Storage & Communication Industry was the result of contraction in the Transport & Storage component as Communication was estimated to have increased.

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[2]FY 2012/13 real GDP figures are based on official April – December 2012 figures from STATIN and January-March 2012 estimates from the PIOJ.

Table 2B: Change in Real Value Added by Industry at Constant (2007) Prices (%)

	FY 2011/12	FY 2012/13 p
Goods Producing Industry	**3.3**	**-1.6**
Agriculture, Forestry & Fishing	8.0	.10
Mining & Quarrying	8.7	-9.4
Manufacture	1.9	-0.7
of which: Food, Beverages & Tobacco	2.5	-0.4
Other Manufacturing	1.1	-1.0
Construction	-0.8	-1.7
Services Industry	**0.0**	**-0.1**
Electricity & Water Supply	1.3	-0.5
Transport, Storage & Communication	-1.9	-0.7
Wholesale & Retail Trade; Repair and Installation of Machinery	0.8	0.3
Finance & Insurance Services	0.0	0.2
Real Estate, Renting & Business Activities	-0.3	-0.2
Producers of Government Services	0.0	-0.4
Hotels & Restaurants	1.0	0.9
Other Services	-0.4	0.0
Less Financial Intermediation Services Indirectly Measured (FISIM)	-2.6	-2.2
Total GDP at Basic Prices	**0.9**	**-0.4**

p – projection

Labour Market Developments

The Statistical Institute of Jamaica's (STATIN) October 2012 Labour Force Survey shows that the Total Labour Force comprised 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 levels 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 youth (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% recorded 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 FY 2012/13, the Bank of Jamaica maintained its policy rate, the interest rate on its 30-day Certificate of Deposit (CD), at 6.25% and the rate on its overnight instrument was also kept at 0.25%. In addition, the cash reserve and liquid assets requirement were also maintained at 12.0% and 26.0%, respectively. However, during the third quarter of FY 2012/13, there was evidence of excess liquidity conditions as well as increased uncertainties in the financial markets related to anxieties regarding the content and timing of an agreement with the International Monetary Fund (IMF). As such, the Bank issued three variable rate instruments to Primary Dealers and commercial banks between 31 October 2012 and 05 November 2012 to support its liquidity management operations.

Overall, for the fiscal year to December 2012, the monetary base expanded by $14.0bn or 16.7% relative to the expansion of $12.8bn or 16.2% recorded for the corresponding period of FY 2011/12. This expansion was reflected in increases of $2.0bn and $961.3mn in commercial banks' cash reserve and current account, respectively, as well as net currency issue of $1.0bn or 20.6%. The main sources of the expanded monetary base were net unwinding of Open Market Operation (OMO) instruments of $63.9bn, and net drawdown of $9.9bn in Central Government balances at the Central Bank. Net International Reserves (NIR) declined by $58.2bn or US$651.5mn, and largely reflected debt payments of US$511.5mn.

Inflation

For FY 2012/13, inflation was 9.1% relative to 7.3% for FY 2011/12. Inflation rate for CY 2012 was 8.0% relative to the 6.0% outturn for CY 2011.

The upward movement in the 'All Division' Consumer Price Index (CPI) for March 2013 to 197.7 reflects the effects of the on-going depreciation of the Jamaica dollar on prices, given Jamaica's high dependence on imported goods. The main divisions of the CPI which contributed to the 9.1% inflation outturn for FY 2012/13 were:

(i) Food and Non-Alcoholic Beverages: The 14.8% upward movement in the index for 'Food and Non-Alcoholic Beverages' recorded the highest increase for the fiscal year, highlighting the impact of Hurricane Sandy on the Agriculture Industry, as well as the seasonality in the supplies of agriculture 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) Clothing and Footwear: The index for 'Clothing and Footwear' recorded the second highest increase of 12.8% for the fiscal year;

(iii) Furnishing, Household Equipment and Routine Household Maintenance: This index increased by 10.0% reflecting mainly seasonal increases in some areas of spending; and

(iv) 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 fiscal year was lower than anticipated due mainly to delays in the implementation of some of the new measures. In addition, the effect on inflation occasioned by the devaluation 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 March 2013, the average selling rate of the US dollar increased to J$91.16 from J$86.37=US$1 at end-March 2012, representing a 5.5% depreciation for FY 2012/13. 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 half 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 2013/14 to 2016/17

The Medium Term Macroeconomic Profile outlined in Table 2C depicts the key macroeconomic assumptions that informed the development of the estimates of revenue and expenditure, and, by extension, the debt trajectory over the medium term (FY 2013/14 – FY 2016/17). 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.

Table 2C: Medium Term Macroeconomic Profile

Macroeconomic Variables	Fiscal Years						
	2010/11 Actual	**2011/12 Prov.**	**2012/13 Est.**	**2013/14 Proj.**	**2014/15 Proj.**	**2015/16 Proj.**	**2016/17 Proj.**
Nominal GDP (J$bn)	1,171.9	1,263.3	1,352.0	1,492.0	1,659.0	1,845.0	2,046.0
Nominal GDP growth rate (%)	7.3	7.8	7.0	10.4	11.2	11.2	10.9
Real GDP growth rate (%)	-0.7	0.9	-0.4	0.8	1.4	1.8	2.2
Inflation: Annual Pt to Pt (%)	7.8	7.3	9.1	10.2	9.2	8.8	8.2
Interest Rates:							
30-day repo rate (eop)	6.75	6.25	6.25				
180-day repo rate (avg)	8.31	6.50	6.50				
180-day Treasury Bill (avg)	8.15	6.50	7.50				
Avg. Exch. Rate (J$=US$1.00)	86.51	86.37	91.16				
Current Account (%GDP)	-9.0	-14.1	-12.8	-10.6	-9.5	-7.5	-6.4
Oil Prices (WTI) (avg. US$/barrel)	83.4	97.3	91.8	95.1	95.7	95.7	95.7

Source: GOJ/BOJ

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 estimated to have contracted by approximately 0.4% in FY 2012/13, compared to the 0.9% for FY 2011/12. Growth is however expected to recover in the 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 for FY 2012/13 is 9.1%, significantly better than the 12.6% expected at the start of the year. The 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 estimated to have recorded a deficit of 12.6% of GDP in FY 2012/13 relative to the 14.1% recorded in FY 2011/12. It is expected to improve over the medium term given expectations of lower imports of consumer goods and raw materials associated with the programmed restraint in public expenditure and the GDP growth profile. The current account deficit is expected to decline to under 7.7% of GDP by FY 2016/17.

The Commodities Market

The risks to the inflation forecast are balanced. Upside risks include adverse weather shocks, such as an active hurricane season and higher than anticipated international commodity prices, in particular oil, wheat, corn and soybean (Box A). The downside risks to inflation in Jamaica include appreciation in the exchange rate and greater than anticipated contraction in economic activity.

Box A: International Commodity Prices

Jamaica remains a price taker for a variety of internationally traded primary commodities (Table 5) such as alumina, coffee, cocoa and sugar which are important foreign exchange earners for Jamaica. At the same time, Jamaica spends considerable amounts of foreign exchange on commodities such as oil, soybean, corn/maize and wheat.

The prices of soybean meal and maize/corn are of critical importance to Jamaica as these are some of the main inputs in animal feed, especially poultry feed. Poultry (chicken meat) is heavily weighted in the Consumer Price Index (CPI) basket and movements in the prices of inputs for poultry feed impact inflation in Jamaica. Crude oil prices are also critical as it affects every aspect of the production process in Jamaica, mainly via electricity costs and gas at the pumps. When the dimension of adverse foreign exchange rate movements is added, it brings into sharp focus the need to sustain relative stability in the foreign exchange market.

The IMF's Primary Commodities Price Index (PCPI) remained relatively flat during 2011, fell during the second quarter of 2012, and then increased in the third quarter of 2012. The PCPI is a weighted average of prices for 51 primary commodities, grouped into three main categories: energy, industrial inputs (mainly base metals), and edibles (of which food is the main component). Energy and base metal prices declined by approximately 30.0% and 20.0%, respectively, during the second quarter of 2012. Energy prices rebounded sharply during the third quarter of 2012 by about 13.0%, while metal prices leveled off. Food prices remained relatively flat for the first half of 2012, but have increased by about 10.0% since then. Grain and soybean prices rose sharply, offsetting the weakness in seafood, sugar and vegetable oil prices.

Table 2D: International Commodity Prices

Commodity	Unit	Avg. Prices Apr-Mar 2011/12	Avg. Prices Apr-Mar 2012/13	% Change
Cocoa	Cents per Kg.	272.81	234.40	-14.1
Coffee, Arabica	Cents per Kg.	569.75	376.14	-34.0
Soybean meal	$/mt	370.63	496.33	33.9
Maize/Corn	$/mt	290.46	305.27	5.1
Wheat, US, HRW	$/mt	303.29	323.90	6.8
Sugar, EU, domestic	Cents per Kg.	58.38	57.93	-0.8
Sugar, World	Cents per Kg.	55.20	44.21	-19.9
Crude Oil	US$ per Barrel	97.28	92.02	-5.4
Aluminum	US$/Tonne	2320.06	1977.72	-14.8

Source: IMF Primary Commodity Prices

Food prices are expected to remain high over the short-term as a result of supply constraints, but is expected to subside over the medium term in the absence of any major supply and trade disruptions. Oil prices are also expected to decline over the medium term to less than US$100.00 per barrel. Metal prices are expected to rebound in light of expected pick-up in economic activity by the fourth quarter of 2013 and the impact of possible stimulus measures in China.

Jamaica: Projected Real Sector Performance FY 2013/14 to FY 2015/16

For the medium term (FY 2013/14 – FY 2015/16) the performance of the Jamaican economy will be influenced by developments in the international and domestic markets. The projections are predicated on, among other factors:

1. Favourable weather conditions i.e. no major hurricane or severe drought conditions;
2. Improvement in the pace of global economic recovery;
3. Favourable commodity prices;
4. Stability in the macro economy; and
5. Realization/Implementation of targeted investment projects.

FY 2013/14 Projected Performance

The Jamaican economy is expected to expand by 0.8% during FY 2013/14, due to increased value added of the Goods Producing and Services industries. This is predicated on improved conditions in both the international and domestic environments. Growth is anticipated for the global economy, particularly for Jamaica's main trading partners. This will augur well for the demand for Jamaican export industries, particularly Mining & Quarrying, Manufacture and Hotels & Restaurants. Increased global industrial production is expected to fuel growth in the production of bauxite and alumina as capacity utilization within the industry rises. Growth in Hotels & Restaurants reflects the anticipated increase in tourist arrivals from both traditional and non-traditional markets. Expected contributors to the increase include the introduction of new cruise ships, additional airlifts and the expansion of room capacity through the construction of new hotels. Additionally the Agriculture, Forestry & Fishing industry is expected to grow in response to higher domestic and global demand with the increased use of technology and best practices.

Domestic macroeconomic conditions are expected to be boosted by, among other factors, the impact of the signing of an agreement with the International Monetary Fund. This will engender an increase in market confidence, facilitate the stability of the Jamaica dollar thus stimulating investments and increased consumer demand. The environment is expected to be characterised by price stability, prudent fiscal management with a primary surplus of 7.5% of GDP accompanied by a more business friendly environment through continued progress in the implementation of several business reforms as well as expectations of increased FDI inflows.

FY 2014/15 Projected Performance

The projected 1.4% increase in real value added for FY 2014/15 is predicated on the Goods Producing and Services industries increasing by 2.6% and 0.9%, respectively. All industries are projected to record increases in value added with the exception of Producers of Government Services (down 0.5%) – due mainly to fiscal consolidation. Mining & Quarrying is anticipated to increase by 4.0% in part due to: increased capacity utilization at the Noranda Bauxite Plant and Windalco's Ewarton and Jamalco alumina plants; and a general uptick in global demand for alumina. The Agriculture, Forestry & Fishing Industry is projected to improve by 3.5% due to increased use of technology (greenhouse, irrigation, etc) and best practices to capitalize on higher levels of domestic and global demand. Higher demand is as a result of: i) the expansion in the number of agro parks and ii) expected real depreciation of the Jamaica dollar, which could make Jamaican products relatively cheaper in the global market. The 3.5% increase in Construction activities is based on higher demand associated with i) lower interest rates; and ii) increased FDI associated with Hotel construction and the Building of an electrical Generation Plant. The increased demand both locally and globally is expected to generate a 0.7% increase in output from the Manufacturing Industry.

The higher overall increase for the Services Industry is expected to result from higher value added from all industries with the exception of Producers of Government Services. Growth in the Hotels & Restaurants Industry reflects the anticipated influence of continued diversification of the tourism market which would result in an increase in tourist arrivals. Increased activity in the Electricity & Water Supply Industry is predicated on an expansion in domestic economic activities and a higher housing stock. The Transport, Storage & Communication and Wholesale & Retail Trade; Repair & Installation of Machinery Industries will also benefit from an expansion in economic activities which is expected to result in: (i) increased demand for transport services associated with higher exports and tourist arrivals; and (ii) an expansion in distributive services due to growth in consumer demand.

Table 2E: Projected Change in Value Added by Industry at Constant (2007) Prices (%)

	Fiscal Years			
	2012/13	**2013/14**	**2014/15**	**2015/16**
Goods Producing Industry	**-1.6**	**1.9**	**2.6**	**2.8**
Agriculture, Forestry & Fishing	0.1	3.0	3.5	3.7
Mining & Quarrying	-9.4	3.5	4.0	4.5
Manufacture				
of which: Food, Beverages &	-0.7	0.1	0.7	1.0
Tobacco	-0.4	-0.2	0.5	0.8
Other Manufacturing	-1.0	0.4	1.0	1.2
Construction	-1.7	2.5	3.5	3.5
Services Industry	**-0.1**	**0.1**	**0.9**	**1.4**
Electricity & Water Supply	-0.5	1.5	1.7	2.5
Transport, Storage & Communication	-0.7	0.0	1.2	2.0
Wholesale & Retail Trade; Repair and Installation of Machinery	0.3	0.5	0.6	1.0
Finance & Insurance Services	0.2	-2.5	1.0	1.7
Real Estate, Renting & Business Activities	-0.2	0.2	1.0	1.2
Producers of Government Services	-0.4	-0.5	-0.5	-0.5
Hotels & Restaurants	0.9	2.0	3.5	4.5
Other Services	0.0	2.0	1.6	2.0
Less Financial Intermediation Services Indirectly Measured (FISIM)	-2.2	-6.5	-1.0	1.0
Total GDP at Basic Prices	**-0.4**	**0.8**	**1.4**	**1.8**

Source: STATIN and PIOJ

FY 2015/16 Projected Performance

For FY2015/16 the Jamaican economy is projected to grow by 1.8%. This performance is predicated on the Goods Producing Industry improving by 2.8% and the Services Industry growing by 1.4%. The performance of the Goods Producing Industry is expected to be spurred by increased activities by all industries in particular the Mining & Quarrying and Construction Industries. Mining & Quarrying is projected to grow by 4.5% as a result of the projected continued increase in global demand for alumina. The anticipated 2.5% growth in the Construction Industry is based on programmed increase in hotel rooms construction as well as continued infrastructure works particularly roads, housing developments and the 360 megawatt electricity plant by the Jamaica Public Service. The performance of Agriculture, Forestry & Fishing will continue to be positively impacted with the further development of agro parks which are expected to act as a fillip to production as the programme continues to develop a market led and sustainable agriculture industry which enhances the level of production through the clustering of activities.

The projected growth in the Services Industry is predicated on higher value added by all sub-industries with the exception of Producers of Government Services. The 0.5% decline in the Producers of Government Services is based on the constraints on public sector wages and salaries. The anticipated increase in visitor arrivals as a result of the thrust toward further diversification of source markets as well as increased rooms is expected to generate a 4.5% increase in value added for Hotels & Restaurants. The increased activity in tourism and mining as well as increased competition in the telecommunication sector is projected to be the main stimuli for the 2.0% increase in the Transport, Storage & Communication Industry. The 2.5% higher value added for Electricity and Water is expected to arise from increased consumption of electricity due to reduced cost, based on increased efficiency by the electricity providers along with the general increase in economic activities.

Table 2F: Employed Labour force by Industry, (`000)

	2011				2012				
	January	**July**	**October**	**Annual Average**	**January**	**April**	**July**	**October**	**Annual Average**
I GOODS PRODUCING INDUSTRY	**369.4**	**349.6**	**359.9**	**359.6**	**356.3**	**356.7**	**361.1**	**352.5**	**356.7**
Agriculture, Hunting, Forestry & Fishing	194.9	191.1	191.1	192.4	192.4	196.3	196.4	200.4	196.4
Mining & Quarrying	4.9	3.7	4.2	4.3	5.1	3.7	4.5	6.0	4.8
Manufacturing	82.1	68.6	73.7	74.8	82.2	75.7	74.9	67.3	75.0
Construction	87.5	86.2	90.9	88.2	76.6	81.0	85.3	78.8	80.4
II SERVICES INDUSTRY	**734.5**	**731.9**	**728.2**	**731.5**	**724.1**	**722.0**	**731.0**	**732.7**	**727.5**
Electricity, Gas & Water Supply	8.7	7.9	8.3	8.3	8.2	6.5	8.0	8.1	7.7
Wholesale & Retail, Repair of Motor Vehicle & Equipment	229.8	201.0	226.7	219.2	224.6	214.4	214.6	217.8	217.9
Hotels & Restaurant Services	69.9	80.3	74.1	74.8	71.1	73.7	81.7	79.3	76.5
Transport, Storage & Communications	69.9	76.4	70.7	72.3	72.6	70.7	75.1	72.7	72.8
Financial Intermediation	27.1	25.3	23.4	25.3	26.2	30.5	23.4	23.4	25.9
Real Estate, Renting & Business Activities	55.2	66.5	55.3	59.0	56.6	56.9	58.7	56.6	57.2
Public Administration & Defence; Compulsory Social Security	52.6	56.7	58.1	55.8	54.7	61.7	58.7	58.1	58.3
Education	71.9	69.5	68.6	70.0	68.1	65.5	68.5	73.0	68.8
Health & Social Work	25.8	30.8	29.7	28.8	29.3	27.1	28.8	25.6	27.7
Other Community, Social and Personal Service Activities	61.5	58.8	57.2	59.2	53.4	55.6	59.1	63.9	58.0
Private Households with Employed Persons	62.1	58.7	56.1	59.0	59.3	59.4	54.4	54.2	56.8
III INDUSTRY NOT SPECIFIED	2.6	2.8	1.7	2.4	3.0	2.6	2.6	3.0	2.8
TOTAL	**1, 106.5**	**1, 084.3**	**1, 089.8**	**1, 093.5**	**1,083.4**	**1,081.3**	**1,094.7**	**1,088.2**	**1086.9**

Source: STATIN

PART 3

FISCAL MANAGEMENT STRATEGY

OVERVIEW OF FISCAL OPERATIONS FY 2012/13

CENTRAL GOVERNMENT OPERATIONS

The Central Government budget for FY 2012/13 was formulated within the context of the GOJ's firm commitment to: eliminate the fiscal deficit, reduce the Debt/GDP ratio to no more than 100.0% and reduce the Wages/GDP to no more than 9.0% by March 2016. 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" expenditure (excluding amortization payments) at $412,258.0mn.

The expenditure estimates were prepared along the following guidelines:

i. All programme/activities/projects were reviewed to ensure that expenditures which were no longer necessary were eliminated;

ii. The cost of operations were reviewed to ensure that services are being provided at the lowest possible cost while maintaining quality and quantity;

iii. No expansion in services were to be accommodated without the prior approval of Cabinet;

iv. In order to ensure transparency in Government's operations, all financial resources received (from any source) are to be channelled through the budget of the receiving Ministry, Department or Agency (MDA);

v. All income earned from fees, charges or miscellaneous receipts are to be declared and either paid into the Consolidated Fund or utilised with the approval of the Financial Secretary, as Appropriations–in– Aid, to offset operating expenses;

vi. All expenditures, irrespective of source of funding, must receive parliamentary approval (that is, must be reflected in the Estimates of Expenditure);

vii. Enforcement of the Virement Policy in order to control the extent to which budgeted funds can be transferred across selected objects of expenditure. This was necessary to prevent Virement from being used to change the characteristics of the budget approved by Parliament.

The revenue and grants projection for FY 2012/13 represented 25.9% of GDP, compared to 24.8% in FY 2011/12. Tax revenue of $335,625.1mn, was budgeted to grow by 15.8% over collections in

FY 2011/12. The estimates for tax revenue included an amount of $16,590.1mn (originally tabled to be $19,360.0mn but later revised following consultations with stakeholders), attributable to new revenue measures implemented as part of the tax reform. The $2,770.0mn reduction in the expected intake from new tax measures was to be made up from intensified compliance activity. The Fiscal Management Strategy tabled on May 24, 2012, had indicated that the budgeted tax revenue figure included $6,800.0mn from compliance measures. Consequently, with the downward revision to the new tax measures, budgeted amounts to be gained from compliance effort was increased to $9,570.0mn. Excluding the compliance and new revenue measures, tax revenue was projected to grow by 6.7%, which is slightly less than the 7.3% projected growth in nominal income.

Fiscal performance remained positive for the first half of FY 2012/13. Central Government operations generated a fiscal deficit of $30,563.8mn, compared to the targeted deficit of $35,430.7mn. The primary surplus of $30,694.7mn was 4.8% better than targeted and 60.7% better than the $19,096.3mn generated over the similar period last year, while the fiscal deficit improved by 25.7% over the $41,159.3mn for the April to September period of 2011.

However, at end-December 2012, both the primary surplus and fiscal deficit went off track relative to the budget. The negative deviation from target emanated mainly from the shortfall in revenue and grants, as expenditure was well below the amount budgeted. The revenue shortfall continued through to the end of the fiscal year. 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.

Against the backdrop of the significant tax revenue shortfall recorded up to December 2012, the Tax Administration Jamaica (TAJ) and Customs Department 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 yielded positive results, the outcome was not sufficient to reverse the revenue shortfall that obtained up to the end of December 2012.

The deviation in the Central Government operations required considerable focus on both revenue and expenditure measures to bring the fiscal accounts back on track to achieve the legislated targets and to conclude the negotiations with the International Monetary Fund (IMF). Within that context, the First Supplementary Estimates were tabled and subsequently passed by Parliament in February 2013. The FY 2012/13 expenditure (net of amortization) in the Supplementary Estimates reflected a 1.9% reduction on the approved budget, with interest payments accounting for the bulk (1.7%) of the reduction. Accompanying the expenditure reduction were broad-based revenue measures, some of which were implemented on March 1, 2013 and the remainder on April 1, 2013. These measures which are supplemented by an annual transfer of $11,400.0mn from the National Housing Trust to the Central Government for the next 4 years were detailed in the Interim Fiscal Policy Paper and are summarized in Table 3A below.

Table 3A: SUMMARY OF REVENUE MEASURES

	Revenue Impact J$ (billion)
Include the Telephone Call Tax (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%	0.8
Impose a surtax of 5.0% 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 percentage points for employees	2.8
Apply a Customs Administration Fee (CAF) on all imports (except for the Charitable Organizations and 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***

The Supplementary Estimates reflected a reduction in the primary surplus for FY 2012/13 to 5.2% of GDP, compared to the original target of 6.0% of GDP while the fiscal deficit was revised to 4.4% of GDP, compared to the original projection of 3.8% of GDP.

Provisional data indicates that Central Government operations generated a primary surplus of $72,327.2mn (Table 3B), or 5.3% of GDP for FY 2012/13, falling below the target agreed with the IMF Staff of $70,340.0mn (5.2% of GDP). The fiscal deficit of $54,610.4mn (4.0% GDP) was however better than the $58,867.6mn (4.4% GDP) agreed with the IMF Staff. The better fiscal performance was mainly due to lower than programmed expenditure (1.6%) outweighing revenue shortfall (0.7%).

Compared to the approved budget (6.0% GDP), the primary surplus (5.3% GDP) was lower than budgeted by $11,231.1mn. The fiscal deficit of $54,610.4mn was $1,634.9mn higher than the approved budget. Despite the deviation from the approved budget, the 5.3% of GDP provisional primary surplus outturn for FY 2012/13 represented a notable increase over the 3.1% of GDP in

FY 2011/12. The provisional fiscal deficit of 4.0% of GDP also represented a significant improvement over the 6.4% in FY 2011/12 and 11.1% of GDP in FY 2009/10.

The fiscal deficit for FY 2011/12 was reported as 6.2% of GDP in the FPP tabled on May 24, 2012. However, subsequent to the tabling of the FPP, there was a downward revision to the GDP for FY 2011/12 as economic growth was lower than the preliminary estimate. With the lower GDP figure, the fiscal deficit for FY 2011/12 rose to 6.4%. The revised GDP also impacted other key fiscal variables, notably the Wages/GDP ratio increased from the 10.7% previously reported to 11.0% and the debt stock rose by 3.5 percentage points to 131.5% of GDP. The implication of the lower GDP figure is that a stronger fiscal effort is required to deliver the legislated targets.

Table 3B: Central Government Summary Accounts FY 2012/13 (J$mn)

FY 2012/13

(in millions of Jamaica dollars)

Item		Prov Apr - Mar	Budget Apr - Mar	Diff	Diff %	FY 11/12 Apr - Mar	Diff	Diff %
Revenue & Grants		**344,668.5**	**361,282.5**	**-16,614.0**	**-4.6%**	**322,149.8**	**22,518.7**	**7.0%**
	Tax Revenue	319,764.9	335,625.1	-15,860.2	-4.7%	289,882.2	29,882.7	10.3%
	Non-Tax Revenue	18,783.6	18,555.2	228.4	1.2%	16,709.2	2,074.4	12.4%
	Bauxite Levy	1,163.7	1,681.3	-517.6	-30.8%	1,524.5	-360.8	-23.7%
	Capital Revenue	1,015.8	1,008.9	6.9	0.7%	10,585.1	-9,569.3	-90.4%
	Grants	3,940.5	4,412.0	-471.5	-10.7%	3,448.8	491.7	14.3%
Expenditure		**399,278.9**	**414,258.0**	**-14,979.1**	**-3.6%**	**403,122.2**	**-3,843.3**	**-1.0%**
	Recurrent Expenditure	361,521.0	374,765.0	-13,244.0	-3.5%	349,891.3	11,629.7	3.3%
	Programmes	87,201.5	92,160.7	-4,959.2	-5.4%	89,699.4	-2,497.9	-2.8%
	Wages & Salaries	147,381.8	146,070.4	1,311.4	0.9%	139,556.9	7,824.9	5.6%
	Interest	126,937.7	136,533.8	-9,596.1	-7.0%	120,635.0	6,302.7	5.2%
	Domestic	87,729.1	90,080.9	-2,351.8	-2.6%	81,547.9	6,181.2	7.6%
	External	39,208.6	46,453.0	-7,244.4	-15.6%	39,087.1	121.5	0.3%
	Capital Expenditure	37,757.9	39,493.0	-1,735.1	-4.4%	53,230.9	-15,473.0	-29.1%
Fiscal Balance (Surp+/ Def-)		**-54,610.4**	**-52,975.5**	**-1,634.9**	**3.1%**	**-80,972.4**	**26,362.0**	**-32.6%**
Loan Receipts		**147,093.0**	**251,145.8**	**-104,052.8**	**-41.4%**	**163,520.5**	**-16,427.5**	**-10.0%**
	Domestic	134,070.2	141,806.9	-7,736.7	-5.5%	142,752.5	-8,682.3	-6.1%
	External	13,022.8	109,338.9	-96,316.1	-88.1%	20,768.1	-7,745.3	-37.3%
	Project Loans	13,022.8	13,113.8	-91.0	-0.7%	9,241.9	3,780.9	40.9%
	Other	0.0	96,225.1	-96,225.1	-100.0%	11,526.2	-11,526.2	-100.0%
Amortization		**88,329.8**	**198,170.2**	**-109,840.4**	**-55.4%**	**128,373.2**	**-40,043.4**	**-31.2%**
	Domestic	37,094.8	124,612.9	-83,519.3	-67.0%	67,820.2	-30,725.4	-45.3%
	External	51,235.0	73,557.4	-22,322.4	-30.3%	60,553.0	-9,318.0	-15.4%
Overall Balance (Surp+/Def-)		**4,152.8**	**0.0**	**4,152.7**	**-**	**-45,825.0**	**49,977.8**	**-109.1%**
Primary Balance (Surp+/Def-)		**72,327.3**	**83,558.3**	**-11,231.0**	**-13.4%**	**39,662.6**	**32,664.7**	**82.4%**

Revenue and Grants

Revenue collections underperformed in FY 2012/13 relative to the approved budget with total revenue and grants of $344,668.4mn falling below the amount budgeted by $16,614.0mn, or 4.6%. Of note, revenue and grants increased nominally by 7.0% over receipts in FY 2011/12, a real decline of about 2.0%. Tax Revenue (4.7%), Bauxite Levy (30.8%) and Grants (10.7%) all fell below budget. On the other hand, Non-tax Revenue and Capital Revenue surpassed the approved budget amounts 1.2% and 0.7%, respectively.

Tax Revenue

With respect to Tax Revenue, collections of $319,764.9mn were $15,860.2mn or 4.7% below the amount budgeted (Table 3C). The shortfall was influenced by lower collections from most items.

Table 3C: Central Government Revenue Details FY 2012/13 (J$mn)

DETAILS OF REVENUE

FY 2012/13

Item	Prov. Apr-Mar	Budget Apr-Mar	Diff	Diff %	FY 11/12 Apr-Mar	Diff	Diff %
Revenue & Grants	**344,668.4**	**361,282.5**	**-16,614.1**	**-4.6%**	**322,149.8**	**22,518.6**	**7.0%**
Tax Revenue	**319,764.9**	**335,625.1**	**-15,860.2**	**-4.7%**	**289,882.2**	**29,882.7**	**10.3%**
Income and profits	115,877.1	123,249.3	-7,372.2	-6.0%	106,422.8	9,454.3	8.9%
Bauxite/alumina	0.0	79.9	-79.9	-100.0%	1.3	-1.3	-97.5%
Other companies	35,798.0	38,485.7	-2,687.7	-7.0%	29,035.2	6,762.8	23.3%
PAYE	60,876.3	65,887.4	-5,011.1	-7.6%	60,164.8	711.5	1.2%
Tax on dividend	1,664.2	1,164.3	499.9	42.9%	805.9	858.3	106.5%
Other individuals	4,022.4	4,924.7	-902.3	-18.3%	3,786.5	235.9	6.2%
Tax on interest	13,516.2	12,707.3	808.9	6.4%	12,629.1	887.1	7.0%
Environmental Levy	2,122.1	2,387.7	-265.6	-11.1%	2,318.9	-196.8	-8.5%
Production and consumption	96,459.9	96,554.7	-94.7	-0.1%	84,628.9	11,831.0	14.0%
SCT	12,457.3	9,992.1	2,465.2	24.7%	9,238.1	3,219.2	34.8%
Motor vehicle licenses	2,184.2	2,343.6	-159.4	-6.8%	1,737.7	446.5	25.7%
Other licenses	342.9	405.2	-62.3	-15.4%	377.8	-34.8	-9.2%
Betting, gaming and lottery	1,915.0	2,134.9	-219.9	-10.3%	1,640.8	274.2	16.7%
Accommodation Tax	610.2	828.0	-217.8	-26.3%	0.0	610.2	-
Education Tax	15,038.7	15,542.6	-503.9	-3.2%	14,995.7	43.0	0.3%
Telephone Call Tax	3,822.5	4,250.0	-427.5	-10.1%	0.0	3,822.5	-
Contractors levy	1,293.4	1,276.9	16.5	1.3%	1,171.1	122.3	10.4%
GCT (Local)	50,897.1	53,042.1	-2,145.0	-4.0%	47,973.2	2,923.9	6.1%
Stamp Duty (Local)	7,898.6	6,739.4	1,159.2	17.2%	7,494.5	404.1	5.4%
International Trade	105,305.7	113,433.4	-8,127.7	-7.2%	96,511.6	8,794.1	9.1%
Custom Duty	24,413.7	26,486.2	-2,072.5	-7.8%	20,769.1	3,644.6	17.5%
Stamp Duty	1,672.2	1,752.8	-80.6	-4.6%	1,470.4	201.8	13.7%
Travel Tax	5,396.6	6,160.0	-763.4	-12.4%	5,086.8	309.8	6.1%
GCT (Imports)	45,501.2	47,940.6	-2,439.4	-5.1%	41,684.8	3,816.4	9.2%
SCT (imports)	28,322.0	31,093.7	-2,771.7	-8.9%	27,500.5	821.5	3.0%
Non-Tax Revenue	**18,783.6**	**18,555.2**	**228.4**	**1.2%**	**16,709.2**	**2,074.4**	**12.4%**
Bauxite Levy	**1,163.7**	**1,681.3**	**-517.6**	**-30.8%**	**1,524.5**	**-360.8**	**-23.7%**
Capital Revenue	**1,015.8**	**1,008.9**	**6.9**	**0.7%**	**10,585.1**	**-9,569.3**	**-90.4%**
Grants	**3,940.5**	**4,412.0**	**-471.5**	**-10.7%**	**3,448.8**	**491.7**	**14.3%**

The main items contributing to the lower than budgeted tax revenue performance were PAYE ($5,011.1mn), SCT Imports ($2,771.7mn), Other Companies/Corporate Income Tax (2,687.7mn), GCT Imports ($2,439.4mn) and GCT Local ($2,145.0mn). The significant shortfall arose largely as a result of:

- significantly 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 (Table 3D);
- lower than programmed inflation;
- underperformance of some of the new measures implemented in 2012;
- non-implementation of some of the new measures announced in 2012.

Table 3D: Performance of Selected Macroeconomic Indicators

Performance of Selected Macroeconomic Indicators		
FY 2012/13	Budget	Prov. Estimate
Real GDP Growth (%)	1.0	-0.4
Inflation (%) point to point	12.6	9.1
Core Imports (% change)	-0.9	-1.3
Oil Price (WTI) (avg US$/barrel)	98.8	91.8

Income and Profits

Receipts from the Income and Profits tax category amounted to $115,877.1mn, which was $7,372.2mn, or 6.0% below Budget. All items, with the exception of Tax on Interest and Tax on Dividend registered shortfalls, with PAYE, Other Companies/Corporate, and Other Individuals/self employed being the significant contributors to the unfavourable performance of this category, while there was no receipt from Bauxite/Alumina companies. The underperformance of PAYE emanated from less than programmed inflows from compliance activity and higher unemployment (unemployment was 13.7% at October 2013 compared to 12.7% at October 2012). Corporate taxes performed well below expectations as receipts of $35,798.0mn deviated from target by $2,687.7mn (7.0%) largely as a result of lower than targeted flows from administrative efforts and weaker than anticipated base revenue growth arising from the contraction in the economy. Other Individuals/self employed was forecast to increase by $1,138.2mn (30.1%) over collection in FY 2011/12, based on the proposed introduction of a Minimum Business Tax (MBT), for which $660.0mn was budgeted, and improvement in compliance. However the MBT was not implemented as scheduled due to technical issues and was therefore a main contributor to the $902.3mn (18.3%) shortfall in collections for the category.

With respect to Tax on Dividend, there was a $499.9mn (42.9%) increase over budget, due mainly to companies declaring more dividends than anticipated.

Despite the significant shortfall against budget, Income and Profit taxes surpassed collections for the previous year by 8.9%, an increase that was broadly in line with inflation for FY 2012/13. Corporate taxes, buoyed by a significant increase in the collection of arrears, as well as modification of the Asset Tax regime through a 0.2% levy on total assets of financial institutions, and introduction of a 5.0% withholding tax on dividends paid to residents, contributed most significantly to the increase in Income and Profit taxes.

Production and Consumption

Production and Consumption tax receipts of $96,459.9mn were in line with budget, as the under-performance in some items (primarily GCT and Education Tax) were negated by better than targeted performances from other items (mainly SCT and Stamp Duty). GCT was expected to benefit from stepped-up compliance/audit action on large establishments in select industries. However collections from those activities fell below expectations. As a result, GCT receipts of $50,897.1mn were $2,145.0mn (4.0%) less than budgeted. Collections were also affected by lower than budgeted economic growth and inflation. It is important to note that with March 31, 2013 falling on a weekend and the following day being a public holiday, the due date for GCT payment was extended to April 2, 2013. This therefore contributed to the GCT shortfall for FY 2012/13.

The Education Tax, which fell short of budget by $503.9mn, was impacted by the same factors that resulted in lower PAYE collections (lower than anticipated employment and compliance).

Within the Production and Consumption tax category, the two new taxes that were introduced underperformed relative to target. Collections from the Telephone Call Tax (TCT) amounted to $3,822.5mn, a shortfall of $427.5mn below budget, while the hotel Accommodation Tax of $610.2mn was $217.8mn less than the amount budgeted. The extension of the due date for payment of these taxes to April 2, 2013, which impacted GCT collections, also affected the outturn for these two new taxes.

SCT amounted to $12,457.3mn, an increase of $3,219.2mn (34.8%) over last year and $2,465.2mn (24.7%) over budget. The higher inflows from SCT were largely due to increased production of petroleum products, which contributed about 55.0% to the above budget performance. With respect to Stamp Duty, collections were expected to decline in FY 2012/13 as receipts in FY 2011/12 benefited from the transfer of Jamaica Public Service Company (JPS Co) shares by Marubeni. Collections however increased by 5.4% thereby surpassing budget by $1,159.2mn (17.2%) due to significant receipts from the transfer of several high-valued properties during FY 2012/13.

International Trade

Receipts from the International Trade category at $105, 305.7mn was $8,127.7mn (7.2%) below budget with all sub-categories registering shortfalls relative to budget. Collections were largely affected by a sharper than budgeted reduction in imports and slower than expected depreciation in the value of the Jamaica dollar during the first half of the fiscal year. SCT collections of $28,322.0mn fell $2,771.7mn (8.9%) below budget mainly as a result of lower than projected importation of refined petroleum products. The shortfall was however compensated for with increased refining/production of petroleum products, as noted above. GCT and Custom Duty collections fell below budget by $2,439.4mn (5.1%) and $2,072.5mn (7.85), respectively. Collections from Travel Tax amounted to $5,396.6mn, a shortfall of $763.4mn. Contributing most significantly to this shortfall is the Air Passenger Levy introduced in September 2012, with provisional data indicating a shortfall of close to $900.0mn. The Customs Department will however be moving aggressively against airlines that are delinquent in remitting taxes due to the GOJ.

Despite the registered shortfall against budget, collections from International Trade taxes increased over FY 2011/12 by $8,794.1mn (9.1%), mainly as a result of new revenue measures and the depreciation in the value of the Jamaica dollar.

The Environmental Levy totaled $2,122.1mn, a shortfall of $265.6mn or 11.1% against the budget, due mainly to the same factors that impacted the other International Trade taxes.

Other Revenue

Non-tax revenue performed above expectations with total collections of $18,783.6mn being $228.4mn, or 1.2% better than budget. This improved performance occurred despite the Customs User Fee (CUF) which contributed approximately 41.0% to total non-tax revenue collections, falling $556.0mn (6.7%) below budget. Similar to the Environmental Levy, the CUF was impacted by the same factors that impacted International Trade taxes. Inflows from other departmental and miscellaneous revenues, particularly from the Ministry of National Security and its departments, were mainly responsible for the over-performance on Non-tax Revenue.

Capital revenue receipts totaled $1,008.9mn, which was $6.9mn above budget. Collections were however $9,569.3mn below the previous fiscal year, which was buoyed by one-off loan repayment receipts from the Development Bank of Jamaica (DBJ).

Bauxite Levy receipts of $1,163.7mn fell below budget by $517.6mn (30.8%) and against FY 2011/12 by $360.8mn (23.7%). The shortfall relative to budget was due in part to the waiver of levy payments for a bauxite/alumina plant for the second half of the fiscal year and lower levels of production than programmed. Lower than anticipated aluminium prices on the London Metal Exchange (LME) also contributed to the reduction in Bauxite Levy inflows.

Grants

Grant receipts amounted to $3,940.5mn, a shortfall of $471.5mn (10.7%) against budget. This shortfall reflected slower than planned execution of capital spending.

Expenditure

Total expenditure of $399,278.9mn, was $14,979.1mn (3.6%) below the amount budgeted and $3,843.3mn (1.0%) less than in FY 2011/12. This containment in spending demonstrates strong fiscal prudence in the face of adverse revenue outturn. The reduction in expenditure from last year's level emanated from higher recurrent expenses being offset by a significant decline in capital expenditure.

Recurrent Expenditure

Recurrent expenditure totaled $361,521.0mn, an increase of $11,629.6mn (3.3%) over last year, mainly due to higher payments for wages & salaries and interest costs. This amount was however $13,244.0mn (3.5%) less than the amount budgeted, with Recurrent Programmes and Interest payments accounting for the lower than budgeted expenditure.

Recurrent Programmes

Spending on Recurrent Programmes of $87,201.5mn was $4,959.3mn (5.4%) below the amount budgeted and $2,497.9mn (2.8%) less than the previous fiscal year. The higher spending on recurrent programmes in FY 2011/12 stemmed in part from the costs associated with the holding of General and Local Government elections. The execution of the budget for Recurrent Programmes in FY 2012/13 demonstrates the Government's ongoing efforts at fiscal consolidation resulting in lower housekeeping expenses.

Wages and Salaries

Expenditure on Wages and Salaries totaled $147,381.8mn, which was broadly in line with budget, increasing by just 0.9%. Compared to last year, spending on Wages and Salaries increased $7,824.9mn (5.6%) due mainly to backpay associated with the 7.0% wage adjustment. The 7.0% backpay, which was paid in May 2012 and October 2012, amounted to $8,139.0mn. Expenditure on wages and salaries also include $1,565mn representing the cost of the second tranche of reclassification arrears paid to teachers. For FY 2012/13, the Wages/GDP ratio was 10.9%, slightly down from the 11.0% in FY 2011/12. Recent agreements signed with unions representing public sector workers (more details in Appendix IV) were tailored to ensure the FRF ceiling on wages of 9% of GDP is attained.

Interest Payments

Interest Payments totaled $126,937.7mn, a reduction of $9,596.2mn on the approved budget and reflecting savings on both domestic and external costs. The fall in interest costs reflected a $2,351.8mn reduction in domestic payments with external payments being $7,244.4mn lower than budgeted. The fall in domestic payments was partly attributed to lower than projected amounts raised from the issue of GOJ securities in the domestic market. The lower external interest costs resulted mainly from a reduced amount spent against a contingency provision for liability management and the more favourable than anticipated exchange rates during the first half of the year.

Interest costs as a proportion of GDP decreased marginally to 9.4%, relative to 9.5% registered in FY 2011/12. As a share of total expenditure (less amortization), Interest Payments increased marginally to 31.8% in FY 2012/13 compared to 29.9% in FY 2011/12. Interest payments to tax revenue ratio trended downwards in FY 2012/13, representing 39.7% of tax revenue compared to 41.6% in FY 2011/12. As a proportion of total revenue, Interest costs fell to 36.8% in FY 2012/13 compared to 37.4% in FY 2011/12, and an average of 47.0% for the last three years. This favourable trend of declining interest costs to total revenue will be boosted by the interest saving arising from the National Debt Exchange (NDX) and is expected to continue through the medium term.

Capital Expenditure

Spending on Capital Programmes of $37,757.9mn was $1,735.1mn (4.4%) below budget. This reflected restraint in Government spending against the backdrop of lower than budgeted revenue, as well as a slower pace of project implementation. There was notable under expenditure reflected under the multilateral/bilateral projects. As in previous years, these projects have experienced significant under-execution due to slower than programmed implementation of project activities. Issues identified as being responsible for the slower than programmed implementation of these projects include:

- 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).

The under-expenditure in some areas facilitated absorption of additional expenditure, including $2,838.0mn**,** related to the passage of Hurricane Sandy, as well as, other new obligations which emerged during the fiscal year, including:

- National Transport Cooperative Society interim judgment award for $370.4mn
- Students' Loan Bureau financing gap of $350.0mn

- Motor vehicles for security forces at $267.0mn.

Capital expenditure for FY 2012/13 declined by $15,230.9mn (29.1%) 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).

Financing

The Central Government financed the FY 2012/13 fiscal deficit of $54,610.4mn through net borrowing of $58,763.2mn (loans of $147,093.0mn less amortization payments of $88,329.8mn) resulting in an overall surplus of $4,152.8mn.

Amortization payments of $88,329.8mn were $109,840.4mn less than the amount budgeted. This reflected lower outlay for both domestic and external payments. Domestic and external amortization payments were less than budget by $87,518.1mn and $22,322.3mn, respectively. The FY 2012/13 budget included a provision in external amortization for a liability management programme, however, this was not executed and was therefore a main contributor to the lower outturn. With respect to domestic amortization, the reduction relative to budget was primarily due to the execution of the NDX in February 2013.

Gross loan receipts of $147,093.0mn were 41.4% less than the amount originally budgeted and comprised: domestic receipts of $134,070.2mn and loans from external sources of $13,022.8mn. The lower than anticipated external loan receipts resulted from the non-receipt of programmed policy loans from multilateral institutions related in part to the delay in obtaining an agreement with the IMF on an Extended Fund Facility (EFF) for Jamaica.

Public Debt Stock

Jamaica's total public debt stood at $1,812,634.9mn or 134.1% of GDP at the end of FY 2012/13 (Table 3E). This represented a 9.5% increase over the $1,662,269.9mn or 131.5% of GDP at the end of FY 2011/12. The increase in the stock during the course of FY 2012/13 was mainly attributable to:

- Financing of the fiscal deficit;
- Depreciation of the Jamaica dollar vis-à-vis the US dollar and other currencies, which accounted for about 46% of the increase in the stock;

Table 3E: Total Debt Stock

	2011/12	2012/13
(J$mn)		
Domestic	912,642.3	1,008,348.5
External	749,627.6	804,286.4
TOTAL	**1,662,269.9**	**1,812,634.9**
(% GDP)		
Domestic	72.2	74.6
External	59.3	59.5
TOTAL	**131.5**	**134.1**

The domestic debt stood at $1,008, 348.5mn or 74.6% of GDP at the end of FY 2012/13, which was 10.5% higher than the $912,642.3mn registered at the end of FY 2011/12. In addition, explicit domestic guarantees were estimated at $31,897.2mn (2.4% of GDP) at end March 2013, up from $26,559.4mn or 2.1% of GDP at the end of FY 2011/12.

With respect to the stock of public and publicly-guaranteed external debt, this increased to $804,286.4mn or 59.5% of GDP at the end of FY 2012/13, representing an increase of 7.3% over the stock at the end of FY 2011/12. The significant contributor to this increase was the depreciation in the value of the Jamaica dollar. In US$ terms the stock declined by 4.6% from US$8,586.8mn to US$8,133.4mn. The stock of publicly-guaranteed external debt at the end of March 2013 was estimated at $128,855.7mn or 9.5% of GDP, compared to $122,390.3mn (9.7% of GDP) at end- March 2012.

1. Domestic debt accounts for about 55.0% of the total debt. Domestic and external bonds account for about 49.0% and 20.0% of total debt, respectively (Table 3F).

Table 3F: Stock of Debt at end March 2013 by Creditor Category

Domestic loans	J$mn	% total debt
Bonds	891,956.1	49.2
Treasury bills	4,000.0	0.2
Loans	112,392.6	6.2
Total Domestic	***1,008,348.7***	***55.6***
External Loans		
Bonds	361,330.4	19.9
Bilateral	79,261.5	4.4
Multilateral	318,880.7	17.6
IMF	*82,483.9*	*4.6*
IDB	*124,112.4*	*6.8*
IBRD	*63,915.0*	*3.5*
Other	*48,369.4*	*2.7*
Private creditors	44,814.0	2.5
Total External	***804,286.7***	***44.4***
Total Debt	**1,812,635.3**	**100.0**

Public Bodies Operations - FY 2012/13

Public Bodies, defined as statutory bodies, authorities or government companies, continue to play a critical role in stimulating economic activity and promoting development. Their functions cover a wide spectrum of activities including developmental, regulatory, social and commercial. Given the size of some Public Bodies and the diverse nature of activities they undertake across various sectors of the economy, their contribution to development at both the macro- and micro-economic levels has, over the years, been significant.

Of the 195 active Public Bodies currently on register, 90 or 46.2% are characterized as self-financing. Summarized corporate plans and budgets of sixty-five (65) of these self-financing Public Bodies are contained herein.

The Overall Balance of the group of Public Bodies as approved by Parliament at the beginning of FY 2012/13 was a deficit of $10,365.4mn. Contributing to this balance were the Selected Public Bodies (SPBs) and the Other Public Bodies (OPBs) which had budgeted deficits of $4,003.7mn and $6,361.7mn respectively. The estimated performance of the Public Bodies is an Overall Balance deficit of $9,639.3mn, which reflects a $726.1mn or 7.0% improvement on the year's target. These estimates capture actual positions for various Public Bodies for periods ranging from eight to eleven months and forecast for the remainder of the year. The Public Bodies that have significant variances from budget include: National Housing Trust (NHT) with a positive variance of $6,196.0mn, Clarendon Alumina Production Ltd. (CAP) with a negative variance of $4,703.0mn, PetroCaribe Development Fund with a negative variance of $3,635.0mn and the Road Maintenance Fund (RMF) with a negative variance of $2,694.0mn.

With the Government's continued focus on three sectors namely water, roads and housing to spur economic and infrastructure development, the expenditure by four (4) self-financing Public Bodies in these sectors was forecast at approximately $58,000.0mn or 78.0% of the total capital expenditure of the group. The Public Bodies are: NHT, Housing Agency of Jamaica (HAJ), RMF and the National Water Commission (NWC). Their estimated performance for the year is an expenditure of $43,542.0mn, representing 75.0% of the budgeted amount. All four Public Bodies reflected shortfalls which ranged from 15.0% to 46.0% of budget, with the largest being the NWC.

The estimated performance of the Public Bodies is shown in the table below, followed by some performance highlights:

Public Bodies *Summary of Estimated Outturn for Financial Year 2012/13*
(Selected & Other)

		SPBs Estimated 2012/13	OPBs Estimated 2012/13	TOTAL PBs 2012/13
		J$m		
Statement 'A' Flow of Funds				
1	Current Revenue	309,886.90	56,712.29	366,599.19
2	Current Expenses	(300,733.82)	(55,478.40)	(356,212.22)
3	Current Balance	9,153.08	1,233.89	10,386.96
4	Adjustments	9,908.62	(6,779.52)	3,129.10
	Change in Accounts	0.00	0.00	0.00
	Receivable/Payable	(9,290.71)	(9,664.28)	(18,954.99)
	Items not requiring outlay of cash:	0.00	0.00	0.00
	Depreciation	9,069.70	946.07	10,015.77
	Other Non-Cash Items	10,129.64	1,937.99	12,067.63
	Prior Year Adjustment	0.00	0.69	0.69
5	Operating Balance	19,061.70	(5,545.64)	13,516.06
6	Capital Account	(7,893.95)	(1,381.68)	(9,275.62)
	Revenue	24,671.63	6.51	24,678.14
	Expenditure	(38,165.95)	(1,313.45)	(39,479.40)
	Investment	(339.69)	(65.72)	(405.41)
	Change in Inventory	5,940.07	(9.02)	5,931.05
7	Transfers from Government	12,795.10	3,282.56	16,077.66
	Loans	0.00	0.00	0.00
	Equity	0.00	0.00	0.00
	On-Lending	0.00	0.00	0.00
	Other	12,795.10	3,282.56	16,077.66
8	Transfers to Government	(25,524.40)	(4,432.98)	(29,957.38)
	Dividend	(1,616.35)	(646.56)	(2,262.91)
	Loan Repayments	0.00	(16.30)	(16.30)
	Corporate Taxes	(4,343.72)	(146.97)	(4,490.69)
	Other	(19,564.33)	(3,623.15)	(23,187.48)
9	OVERALL BALANCE (5+6+7+8)	(1,561.55)	(8,077.73)	(9,639.28)
10	FINANCING (11+15)	1,561.54	8,077.73	9,639.26
* 10a	Total	2,173.43	(274.84)	1,898.59
	Capital Revenue	2,173.43	45.15	2,218.58
	Loans	0.00	0.01	0.01
	Equity	0.00	0.00	0.00
	On-Lending	0.00	0.00	0.00
	Loan Repayments	0.00	(320.00)	(320.00)
11	Total Foreign (12+13+14)	13,020.93	61,106.18	74,127.11
12	Government Guaranteed Loans	2,191.48	14,117.96	16,309.44
	Disbursement	5,686.63	14,117.96	19,804.59
	Amortization	(3,495.15)	0.00	(3,495.15)
13	Direct Loans	10,866.10	46,988.22	57,854.32
	Long Term:	4,657.78	46,988.22	51,646.00
	Disbursement	14,653.99	48,711.67	63,365.66
	Amortisation	(9,996.21)	(1,723.45)	(11,719.66)
	Short Term:	6,208.32	0.00	6,208.32
	Change in Trade Credits	6,208.32	0.00	6,208.32
14	Change in Deposits Abroad	(36.65)	0.00	(36.65)
15	Total Domestic (16+17+18)	4,037.50	(52,753.61)	(48,716.11)
16	Banking System	6,223.47	(1,960.20)	4,263.27
	Loans (Change)	(83.74)	12.55	(71.19)
	Overdraft (Change)	(184.44)	(2.58)	(187.02)
	Deposits (Change)	6,491.65	(1,970.17)	4,521.48
17	Non-Banks (Change)	(1,090.20)	870.87	(219.32)
18	Other (Change)	(1,095.78)	(51,664.28)	(52,760.06)

HIGHLIGHTS

National Housing Trust (NHT)

During FY 2012/13 the NHT continued to provide affordable housing solutions for Jamaicans. Expenditure on housing is estimated at $22,434.0mn, representing 88.0% of the budgeted amount. The primary segment of Non-Homeowners Loan was almost fully utilized with expenditure totaling $15,740.0mn which represented 95.0% of the amount allocated. Shortfalls were mainly in the Interim and Other Projects categories.

NHT's improvement in Overall Balance is attributable to increased operational results, higher collections of capital revenues and savings resulting from a shortfall on its capital expenditure programme.

Airports Authority of Jamaica (AAJ)

AAJ is estimated to have spent $572.2mn on its capital programme for FY 2012/13. This represents a shortfall of $206.9mn when compared to the $779.1mn budgeted. The decline in expenditure resulted directly from the delayed implementation of planned works under the 20-year Capital Development Programme (CDP) at the Norman Manley International Airport. Expenditure under Phase 1B of the project was budgeted at $513.1mn, however, only $290.23mn of this amount is estimated to have been expended during the year. Accounting for approximately 81% of the variance is deferral of the planned improvement to the chilled water distribution line.

The estimates suggest that AAJ closed FY 2012/13 with an overall balance surplus of $475.5mn. This compares favourably to the budgeted surplus of $13.7mn and indicates a considerable improvement by $461.8mn in AAJ's flow of funds. The improvement is attributed primarily to an estimated enhancement of $356.8mn in AAJ's current balance performance (due chiefly to increased income generation), which was further supported by a shortfall of $206.9mn in capital related expenditure.

Clarendon Alumina Production (CAP)

Despite Government's intention to divest its 45.0% interest in Jamalco, negotiations toward the divestment of CAP were not concluded during FY 2012/13. Consequently, support provided by GOJ to assist with debt service obligations and to honour shortfalls on operations in respect of CAP's 45.0% shareholding in Jamalco, amounted to approximately US$35.0mn for the year.

Despite an improvement of US$38/metric tonne in alumina sale prices, overall revenue performance fell below budget as sales volume was less than target by 107,225 metric tonnes. The production shortfall was due to technical difficulties encountered at the plant, which affected capacity and power. CAP's financial viability is impacted negatively as production costs continue to outpace revenues.

PetroCaribe Development Fund (PDF)

The PDF continues to register robust growth in its asset portfolio. The estimated net assets at the end of March 2013, is $233,058.67mn, which represents a 27.0% improvement on the previous year. PDF's debt servicing obligations to Venezuela are being met promptly and the Fund continues to provide low cost funding for some strategic infrastructure projects.

The Fund provided grants to the Jamaica Emergency Employment Programme (JEEP) in the amount of $799.2mn, $30.0mn was provided to the Downtown Redevelopment Project via the Jamaica Social investment Fund (JSIF) and $86.0mn for the renovation of the Simon Bolivar Centre in collaboration with the Urban Development Corporation (UDC). Disbursements to the Ministry of Science, Technology, Energy and Mining for the LNG project in FY 2012/13 amounted to approximately $261.0mn.

MEDIUM TERM FISCAL PROGRAMME

The Government's medium term fiscal programme is formulated to support the overarching goal of sustainable economic growth. The aim of the fiscal strategy is to first reduce, then eliminate the fiscal deficit and concomitantly reduce the public debt and maintain it at sustainable levels. This strategy is to be anchored by prudent expenditure management practices and adoption of a simplified, equitable, and fair tax system that will elastically generate adequate revenue to facilitate the efficient provision of public goods and services by the State. Balancing the budget and lowering debt service costs provide choices as well as increased fiscal space to strengthen the resilience of the country to handle natural disasters and other shocks and to respond positively to ongoing pressure for improvement in the provision of public goods as well as social and infrastructure development.

The GOJ remains committed to eliminating the Central Government fiscal deficit and reduce the Debt/GDP ratio in line with the legislated ceiling in the FRF. Consistent with this commitment the Central Government primary surplus has been programmed to increase from the 5.3% of GDP in FY 2012/13 to 7.5% by FY 2013/14 and remain at that level for at least another 3 years (Table 3G). The overall balance of the public bodies is programmed to improve to a deficit of 0.1% of GDP in FY 2013/14 and to remain in balance over the medium term.

The GOJ has implemented a number of measures to raise the Central Government primary surplus to 7.5% of GDP. The fiscal measures undertaken are mainly revenue enhancement initiatives, wage restraint and other expenditure containment activities. The expanded fiscal effort was also complemented by the National Debt Exchange (NDX). A number of structural fiscal reforms will also be undertaken over the medium term to support improvement in fiscal operations and debt sustainability.

Revenue Strategy

Within the context of the need to bolster fiscal resources in order to increase the primary surplus and facilitate a sustainable reduction in the debt, and to enhance the economic growth prospects of the country, the GOJ has become more targeted in its revenue efforts. Accordingly, the approach of broadening the indirect taxation base and providing for increased rules to aid compliance has been at the core of the revenue measures being developed and implemented.

To complement the revenue raising measures approved in June 2012 and the additional measures implemented in March 2013 and April 2013 (Table 3A), and within the context of the broader tax reform, the GOJ is taking 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. Some key policy, administrative and legislative reform actions to be undertaken to augment the various new tax measures approved in FY 2012/13 are summarized below. Further details on the strategies to improve the administration of taxes in Jamaica are provided in Appendix V.

Waiver Reform - Elimination/Reduction of Discretionary Waivers

A distinction is 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 a 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 of GOJ legal obligations, these were sub-categorized as international treaties, existing GOJ projects (as of the start of the IMF arrangement period) and existing 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 $80mn.

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. This $10mn cap is within the $80mn cap mentioned above.

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 Ministry of Finance 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 first met in January 2013 and has begun discussions on the requisite issues.

Other Tax Reform initiatives include, inter alia:

- The enactment of legislation for introduction of a write-off policy for tax arrears, including interest, penalty and charges;
- The enactment of legislation to establish Tax Administration Jamaica (TAJ) as a semi-autonomous revenue agency (SARA);
- Transformation of Jamaica Customs Department into an Executive Agency effective April 1, 2013;
- Proposed legislation to provide TAJ with access to third party information;
- Phased implementation of mandatory filing of tax returns;
- Improving the resources of the Large Taxpayer Office (LTO); and
- Within the context a broader tax reform that aims to broaden the tax base, a phased reduction of statutory tax rates where feasible.

Expenditure Strategy

Expenditure containment will be a key aspect of the Fiscal Management Strategy for improving the fiscal position over the medium term and beyond. Reflecting this expenditure containment stance of fiscal policy, Central Government primary expenditure is expected to fall by 3.0 percentage points of GDP, from 22.3% in FY 2011/12 to 19.4% by FY 2016/17, underpinned by the reduction in wages toward the legislated 9.0 per cent of GDP ceiling by March 2016 and the reduction in interest costs emanating from the NDX. Total expenditure by Central Government is programmed to decline to 26.3% of GDP in FY 2016/17, compared to 31.9% in FY 2011/12. To support the Government's growth agenda, capital expenditure by the Central Government is programmed to increase to an average 3.5% over the medium term. This planned increase in Central Government capital expenditure will be augmented by continued robust capital spending by public bodies.

In undertaking the requisite fiscal consolidation efforts and simultaneously implementing the supporting structural reforms, the GOJ remains cognizant of the impact on the poor and vulnerable in the society. Within this context the GOJ will, over the medium term, seek to rationalize expenditure through enhanced targeting of social spending. The GOJ will thus establish a floor on specified social protection programmes. The floor will be set at the FY 2012/13 spending level, in real terms. The social protection programme will include: conditional cash transfers for children and the elderly; youth employment programmes; poor relief programmes; school feeding programme; basic school subsidy; basic education including early childhood, primary and secondary education; assistance to persons with disabilities and targeted components of primary health care.

Wage Issues

During FY 2012/13, the GOJ maintained it's policy stance toward wage restraint with the signing of no-increase agreements for the 2010/12 contract period with the Jamaica Confederation of Trade Unions (JCTU) and other groups representing public sector workers on May 31, 2012 and later with the Police Groups on October 12, 2012. Other agreements were also signed with:

- the West Indies Group of University Teachers (WIGUT) in December 2012 for an 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 installments over a 4-year period;

- the Jamaica Association of Education Officers on December 19, 2012, 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 the GOJ concluded and signed agreements with unions representing 82% of public sector workers in March 2013. These agreements exceeded the 70% threshold established as a prior action deliverable for an IMF Programme. The parties to the agreement committed to, among other things, no increase in wage rates for the period 2012-2015. The agreements also include a one-off payment of $25,000.0 per annum, to be paid in August 2013, 2014 and 2015, for the 2012 – 2015 contract period to all employees in the Central and Local Government and public bodies. The annual cost of this agreement for the Central Government is estimated at $2,781.2mn (0.2% GDP). The wage restraint policy and associated agreements with unions will contribute toward the GOJ meeting the 9% of wage ceiling by March 2016, as well as annual targets of 10.6% and 9.7% of GDP for FY 2013/14 and FY 2014/15, respectively.

The GOJ also took decisions to include steps to control the size of the public sector through the elimination of some posts and an attrition programme. Against this backdrop, in September 2012, the GOJ removed 3,000 posts from the Civil Service Establishment and eliminated another 3,000 posts in the wider public sector during the second half of FY 2012/13. In addition to not filling another 1,000 positions that will become vacant due to natural attrition during FY

2013/14, the GOJ commits to no net hiring of workers over the medium term and that only critical vacancies will be filled.

Capital Expenditure

To support the growth agenda and social protection objectives, the Central Government spending on capital projects is programmed to increase from the 2.8% of GDP outturn in FY 2012/13, to an average of 3.5% of GDP over the medium term. The GOJ aims to maximize the impact of the programmed increase in capital spending on growth and within this context will introduce a 5-year public sector investment programme (PSIP) commencing in FY 2013/14. The PSIP will guide all capital investment by the Central Government and public bodies through efficiency criteria and alignment with growth and equity objectives of the State.

Recurrent Programmes

Over the medium term, spending on recurrent programmes is expected to average about 6.3% of GDP, slightly less than the 6.4% outturn in FY 2012/13. The containment in recurrent spending will be supported through the GOJ's commitment to undertake the necessary initiatives to improve the efficiency, quality and cost effectiveness of the public sector. Special focus will be directed toward the provision of health care and education in order to generate greater efficiency and cost containment.

The current pension system will also be reformed over the medium term to contain pension costs, which has become a significant cost to the Central Government's budget. A Joint Select Committee of Parliament deliberated on the Green Paper on Pension Reform. The Joint Select Committee made certain recommendations for changes to the current system. Among the recommendations are:

- A proposed change to the retirement age from 60 to 65;
- Introduction of an employees contribution of 5%;
- Use of the average salary for the last five years to compute pension, rather than the salary in the final year of employment as currently obtains;
- Continuation of the option to receive a portion of the pension as a 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 Ministry of Finance and Planning (MOFP) is in the process of preparing a White Paper, which is expected to be submitted to Cabinet within the first quarter of FY 2013/14. The MOFP is receiving technical support from the World Bank to undertake the simulation of various reform proposals.

TABLE 3G: CENTRAL GOVERNMENT SUMMARY ACCOUNTS (% GDP)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Revenue & Grants	**25.5%**	**25.5%**	**27.3%**	**26.7%**	**26.7%**	**26.5%**
Tax Revenue	22.9%	23.7%	24.2%	23.9%	24.3%	24.2%
Non-Tax Revenue	1.3%	1.4%	2.3%	1.9%	1.8%	1.8%
Bauxite Levy	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%
Capital Revenue	0.8%	0.1%	0.1%	0.1%	0.1%	0.1%
Grants	0.3%	0.3%	0.6%	0.5%	0.2%	0.2%
Expenditure	**31.9%**	**29.5%**	**27.8%**	**27.2%**	**26.7%**	**26.3%**
Recurrent Expenditure	27.7%	26.7%	24.8%	23.8%	23.3%	22.1%
Programmes	7.1%	6.4%	6.3%	6.3%	6.3%	6.3%
Wages & Salaries	11.0%	10.9%	10.5%	9.6%	9.0%	9.0%
Interest	9.5%	9.4%	8.0%	8.0%	8.0%	6.9%
Domestic	6.5%	6.5%	5.1%	4.9%	4.9%	3.9%
Foreign	3.1%	2.9%	3.0%	3.0%	3.1%	3.0%
Capital Expenditure	4.2%	2.8%	3.0%	3.4%	3.4%	4.2%
Fiscal Balance (Surp+/Def-)	**-6.4%**	**-4.0%**	**-0.5%**	**-0.4%**	**0.0%**	**0.3%**
Loan Receipts	**12.9%**	**10.9%**	**6.9%**	**4.9%**	**12.2%**	**3.2%**
External	1.6%	1.0%	6.0%	4.0%	5.4%	1.9%
Domestic	11.3%	9.9%	0.9%	0.9%	6.8%	1.3%
Divestment	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Amortization	**10.2%**	**6.5%**	**7.1%**	**4.5%**	**12.2%**	**3.5%**
External	4.8%	3.8%	2.0%	3.1%	4.8%	1.9%
Domestic	5.4%	2.7%	5.1%	1.4%	7.4%	1.6%
Overall Balance (Surp+/Def-)	**-3.6%**	**0.3%**	**-0.7%**	**0.0%**	**0.0%**	**0.0%**
Primary Balance(Surp+/Def-)	**3.1%**	**5.3%**	**7.5%**	**7.5%**	**8.0%**	**7.2%**
GDP	1,263,310.0	1,352,000.0	1,492,000.0	1,659,000.0	1,845,000.0	2,046,000.0

TABLE 3H: CENTRAL GOVERNMENT SUMMARY ACCOUNTS (J$mn)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Revenue & Grants	**322,149.8**	**344,668.4**	**407,160.3**	**443,602.7**	**492,663.8**	**543,069.6**
Tax Revenue	289,882.2	319,764.9	360,517.6	397,155.6	447,986.4	495,084.8
Non-Tax Revenue	16,709.2	18,783.6	34,553.2	32,316.5	33,999.6	36,498.7
Bauxite Levy	1,524.5	1,163.7	1,540.2	3,870.1	4,332.0	4,779.0
Capital Revenue	10,585.1	1,015.8	1,127.0	1,742.4	1,745.5	1,729.7
Grants	3,448.8	3,940.5	9,422.3	8,518.1	4,600.2	4,977.4
Expenditure	**403,122.2**	**399,278.9**	**415,206.1**	**450,420.7**	**492,640.7**	**537,412.3**
Recurrent Expenditure	349,891.3	361,521.0	370,504.3	394,715.4	430,792.0	452,399.0
Programmes	89,699.4	87,201.5	93,684.2	104,170.3	115,849.4	128,349.0
Wages & Salaries	139,556.9	147,381.8	157,253.3	158,627.6	166,933.1	183,287.6
Interest	120,635.0	126,937.7	119,566.8	131,917.6	148,009.5	140,762.4
Domestic	81,547.9	87,729.1	75,523.1	81,320.0	90,720.0	79,549.0
Foreign	39,087.1	39,208.6	44,043.6	50,597.6	57,289.5	61,213.4
Capital Expenditure	53,230.9	37,757.9	44,701.8	55,705.3	61,848.8	85,013.3
Fiscal Balance (Surp+/Def-)	**-80,972.4**	**-54,610.4**	**-8,045.8**	**-6,818.0**	**23.1**	**5,657.4**
Loan Receipts	**163,520.5**	**147,093.0**	**103,279.6**	**81,759.6**	**224,816.5**	**66,461.4**
External	20,768.1	13,022.8	89,502.1	66,719.2	99,121.1	39,201.7
Domestic	142,752.5	134,070.2	13,777.5	15,040.4	125,695.4	27,259.6
Divestment	0.0					
Amortization	**128,373.2**	**88,329.8**	**105,680.4**	**74,941.5**	**224,839.6**	**72,118.7**
External	60,553.0	51,235.0	29,293.0	51,826.1	88,662.6	39,201.7
Domestic	67,820.2	37,094.8	76,387.4	23,115.4	136,177.0	32,917.0
Overall Balance (Surp+/Def-)	**-45,825.0**	**4,152.8**	**-10,446.6**	**0.0**	**0.0**	**0.0**
Primary Balance(Surp+/Def-)	**39,662.6**	**72,327.2**	**111,520.9**	**125,099.5**	**148,032.6**	**146,419.8**

FY 2013/14 BUDGET – CENTRAL GOVERNMENT

The Central Government's target for FY 2013/14 is a primary surplus of 7.5% of GDP, equivalent to $111,521.0mn and a fiscal deficit of 0.5% of GDP ($8,045.8mn). Revenue and grant inflows are projected at $407,160.3mn with "above-the-line" expenditure at $415,206.1mn.

Revenue and Grants

The revenue and grants projection for FY 2013/14 represents 27.3% of GDP, a 1.8 percentage point increase over the 25.5% in FY 2012/13. Tax revenue of $360,517.6mn is estimated to account for 88.5% of total revenue and grants, down from 92% in FY 2012/13.

Tax revenue is budgeted to increase by 12.7% ($40,752.7mn) over collections in FY 2012/13.

The estimate for tax revenue includes an amount of $11,298.8mn (0.8% of GDP) attributable to revenue measures implemented on March 1 2013 and April 1, 2013, as part of the tax reform to support fiscal consolidation. The revenue measures that were approved in February 2013, included:

(i) $3,400.0mn to be gained from property tax adjustments that will go to the local authorities. The impact of this measure on the Central Government operations is reflected through a reduction in subvention to the Ministry of Local Government;

(ii) $1,200.0mn from the supplanting of the CUF with a CAF, which is reflected in Non-tax revenue.

Excluding the new revenue measures, tax revenue is projected to grow by 9.6%, relative to the 10.3% growth in FY 2012/13. A breakout of the revenue and grants for the FY 2013/14 budget is depicted in Table 3I.

Table 3I: FY 2013/14 Revenue Forecast

	2012/13	2013/14	% Change
Revenue & Grants	**344,668.4**	**407,160.3**	**18.1**
Tax Revenue	319,764.9	360,517.6	12.7
Non-Tax Revenue	18,783.6	34,553.2	84.0
Bauxite Levy	1,163.7	1,540.2	32.4
Capital Revenue:	1,015.8	1,127.0	11.0
Grants	3,940.5	9,422.3	139.1

Tax revenue performance for FY 2013/14 is expected to be positively impacted by the full-year effect of the measures implemented in 2012. In addition, stepped up compliance activity by TAJ and Jamaica Customs are expected to bolster tax revenue flows by about 0.8% of GDP. A return to positive economic growth and upward movements in other macroeconomic variables will also serve to buoy tax revenue flows.

Non-tax revenue is projected at $34,553.2mn, which is $15,769.6mn (84.0%) above collections in FY 2012/13. This estimate for non-tax revenue amounts to 2.3% of GDP, compared to 1.4% of GDP in FY 2012/13. The most significant contributor to this expected increase is a programmed transfer of $11,400.0mn from the NHT to the Consolidated Fund. Non-tax revenue in FY 2013/14 is also expected to be bolstered by increased receipts from the telecommunications sector.

With respect to Bauxite Levy, receipts are projected at $1,540.2mn in FY 2013/14, an increase of 32.4% over FY 2012/13. This projection reflects the expected increase in domestic output in the bauxite/alumina sector, as well as the depreciation in the value of the Jamaica dollar.

Capital revenue estimates of $1,127.0mn for FY 2013/14 are 11% higher than collections in FY 2012/13. This programmed increase is influenced by anticipated higher inflows of royalties from bauxite mining, consequent on the expected increased production.

The forecast for Grants amounts to $9,422.3mn, a 139.1% increase over receipts in FY 2012/13. Contributing most significantly to the projected increase is an estimated $5,550.4mn in budget support from the European Union (EU). The delay in concluding negotiations for an EFF with the IMF and thereby positively impacting macroeconomic sustainability contributed to a delay in disbursements from the EU. The expected approval of an EFF by the IMF Board before the end of April 2013 should facilitate the unlocking of disbursements in FY 2013/14.

Expenditure

The FY 2013/14 Estimates Of Expenditure provide for Gross Expenditure of $536,968.0mn with $520,886.5mn to be funded through the Consolidated Fund and approximately $16,000.0mn through Appropriations in Aid (AIA) generated from service charges, financing from public bodies and other miscellaneous fees and charges.

The medium term plan programmes the Central Government primary surplus target at 7.5% of GDP as well as a balanced budget in FY 2015/16. The contribution of expenditure towards the achievement of these targets is embodied in the FY 2013/14 expenditure profile with total expenditure, net of Appropriations-in-Aid, of $520,886.6mn. This is comprised of above-the-line expenditure of $415,206.2mn and amortization payments of $105,680.4mn. Consistent with previous years, debt-servicing, at $225,247.2mn, accounts for the largest portion of the overall budget - 43.24%, followed by education services $78,449.3mn (15%), national security services $44,224.4mn (9.3%) and health services $33,947.1mn (6.5%). Salient features of the FY 2013/14 budget are presented below.

Debt Servicing

Total debt servicing for FY 2013/14 is projected at $225,247.2mn, or 43.2% of the net budget. This compares to $325,890.8mn, or 54.1%, for FY 2012/13 revised estimates (the revised estimates reflect the Supplementary Estimates of Expenditure tabled in February and differs from the outturn at end March 2013). The breakout of the debt service as tabled in Parliament on April 4, 2013 is as follows:

Projected debt service for FY 2013/14 shows a decrease of $100,643.6mn, or 44.7%, when compared with the FY 2012/13 revised estimates. This decrease is mainly due to the effects of the National Debt Exchange initiative.

Non-Debt Budget

Total non-debt expenditure budget, net of AIA, of $295,639.3mn is 57% of the total net budget up from the $276,640.4mn or 46% allocated in FY 2012/13. Of this amount wages and salaries account for $157,253.6 million or 53.2 % of non-debt expenditure and 30.2% of total expenditure.

Allocation for Wages and Salaries representing 10.6% of GDP is programmed to achieve the legislated Wage to GDP target of 9% by FY 2015/16. Included in the provision is $15,419.3mn under the category of contingencies to meet salary arrears for various public sector groups; new rates and retroactive payments for Education Officers and teaching staff of the University of the West Indies (WIGUT); new rates for reclassified health- sector workers; as well as the $25,000 one-off sum to be paid to each public officer under the 2012/2015 Heads of Agreement.

The budgetary allocation for recurrent programmes represents a reduction in real terms. Notwithstanding, the GOJ has maintained its support for a number of social programmes including the School Feeding Programme, the Indoor and Outdoor Poor Relief programme, Subsidy to Basic Schools, Rehabilitation Grants, drugs and medical supplies for vulnerable groups, grants to Children's Homes, Places of Safety, youth employment and other social intervention programmes. The provision for pensions and retiring benefits has been increased by $1,300.0mn

Targeted Social Spending

Notwithstanding the resource constraints, protection of the vulnerable and at risk population has been safeguarded through targeted social spending. These include:

- Social Welfare programmes in the Ministry of Labour and Social Security provided by rehabilitation grants, assistance to the disabled, PATH conditional cash grants, have been allocated $6,498mn, including a 15% increase in the cash grants to PATH beneficiaries, payment of which will commence in August 2013; allocations have been made to support the introduction of bursaries to tertiary level student beneficiaries and to commence a pilot programme for the provision of bus fares to PATH students;
- Over $800mn has been allocated for poor relief services with approximately $780mn provided in grants to assist the Parish Councils with the cost of administration, operations and maintenance of the infirmaries and the provision of financial assistance to the registered poor;
- The School Feeding Programme administered by the Ministry of Education has been allocated $3,944mn, an increase of $373mn or 10% over the previous year (adjusted in line with inflation); the subsidy to Basic School children has moved to $1,315mn, the first increase in 4 years;
- The Youth and Children at Risk Programmes have been allocated approximately $3,500mn including an increase in the grants provided to children's homes, places of safety and foster care, the national youth service programme, refurbishing of children's homes, completion of Youth Development Centres;
- The Citizen Security and Justice Programme in the Ministry of National Security has been allocated $1,100mn to continue the intervention activities in communities plagued by crime and violence;
- The Jamaica Social Investment Fund (Office of the Prime Minister) has been allocated $1,852mn to continue ongoing work within the most vulnerable communities by providing resources to assist communities in improving their social, economic and physical infrastructure.

Non-Debt Capital Budget

Gross capital spending by MDAs in FY 2013/2014 is projected at $49,502.8mn. Of this, $44,721.8mn will be funded through the Consolidated Fund and the balance through AIA. The amount to be funded from the Consolidated Fund in FY 2013/14 represents an increase of $6,300mn over the provision in the revised estimates for FY 2012/13.

About $26,288mn or 53% of gross capital expenditure will be utilized to execute projects funded with multilateral/bilateral support through loans and grants along with GOJ counterpart funds, while $18,400mn will be spent on projects funded from local resources only.

The largest share of the capital budget has been allocated to the Ministry of Transport, Works and Housing. For FY 2013/14, gross capital expenditure allocated to this ministry amounts to $17,800mn or 40% of the overall gross capital budget. Of this amount, $14,360mn is programmed to be spent through the Ministry and the National Works Agency, $1,450mn through the Housing Agency of Jamaica, $1,300mn through the Road Maintenance Fund from the Fuel Cess and $586 mn from the Petrocaribe Development Fund.

Financing

The Central Government's borrowing requirement for FY 2013/14 amounts to $103,279.6mn. This amount is required to finance the deficit of $8,045.8mn and cover amortization payments of $105,680.4mn, leaving an overall deficit of $10,446.6mn. The overall deficit will be financed by the use of cash balances from the previous fiscal year. Of the budgeted loan receipts, $13,777.5mn is programmed to be raised from the domestic market. The remainder of $89,502.1mn is to be raised from external sources, in the form of policy based/development policy loans from international financial institutions, project loans and other sources. The borrowing need for FY 2013/14 represents a 29.8% reduction in gross receipts compared to FY 2012/13 mainly due to the significant programmed reduction in the fiscal deficit from 4.0% of GDP to 0.5% of GDP.

PUBLIC DEBT TRAJECTORY

Controlling the growth in public debt (through prudent fiscal management) is critical to 'crowding in' the private sector to spur economic growth and enable businesses to be more viable, through more affordable financing costs.

Critical to managing the growth of the public debt will be the management of contingent liabilities (a fiscal risk) over the medium term and the Public Debt Management Act sets ceilings on guarantees. The stock of publicly-guaranteed external debt at the end of March 2013 was estimated at $128,855.7mn or 9.5% of GDP, compared to $ $122,390.3mn (9.7% of GDP) at end-March 2012.

Total public debt is projected to decline over the medium term from the estimated 134.1% at the end of FY 2012/13 to 112.0% of GDP by the end of FY 2015/16. The fiscal consolidation effort, with the expected outcome of an elimination of the fiscal deficit by March 2016, is a key contributor to the projected decline in the debt stock.

In the FY 2012/13 Fiscal Policy Paper (FPP), the projected outturn for the Debt /GDP ratio was 104.2 %. It was noted that simulations conducted on the trajectory of the debt showed that the 100% of GDP target by FY 2015/16 was attainable, once the reported fiscal gap of 2.9% of GDP was closed. Current forecasts indicate a closure of the fiscal gap by FY 2015/16 however the projected debt stock shows an increase from the 104.2% reported in the previous FPP to 112.0% of GDP by March 2016. Unfavourable movements in the exchange rate is a major contributor to this change in the debt profile, as while the US$ value of the debt stock has declined there is an increase in the J$ value, thereby pushing up the Debt/GDP ratio. The lower than anticipated growth rate has also contributed to the slower than programmed adjustment. Given the likelihood that the Debt/GDP target of no more than 100% by FY 2015/16 may not be achieved, the GOJ will pay very close attention to fiscal and debt developments throughout FY 2013/14 and the medium term and if necessary will seek to amend the FAA Act to revise the timeline for achieving the desired debt ceiling.

FY 2013/14 BUDGET – PUBLIC BODIES

The Overall Balance of the group of Public Bodies is budgeted at $1,366.2mn. Expenditure by Public Bodies on infrastructure/investments for FY 2013/14 is budgeted at $55,351.0mn. This compares with an estimated $39,892.0mn for FY 2012/13. When project expenditure by the Road Maintenance Fund is added to these figures the total increases to $61,727.0mn (FY 2012/13 estimate: $51,879.0mn). Approximately $41,899.0mn or 68.0% of the total capital/investment outlay will be spent by four Public Bodies in the housing, water and roads sectors. The Public Bodies that will undertake this expenditure are: National Housing Trust (NHT) - $23,116.0mn, Housing Agency of Jamaica (HAJ) - $2,407.0mn, National Water Commission (NWC) - $10,000.0mn and the Road Maintenance Fund (RMF) - $6,500.0mn. Significant amounts will also be spent on port development and the logistics hub. However, these projects will largely be undertaken under the Public-Private-Partnership modality hence the programme costs are not reflected in the budgets of the Public Bodies.

The following programmes to be undertaken by Public Bodies are expected to contribute significantly to economic development in the short to medium term.

PORT DEVELOPMENT/EXPANSION

Port Authority of Jamaica

The completion of the expansion of the Panama Canal in 2015 is expected to result in a considerable shift in container traffic from the West Coast/Intermodal Route of the United States to the all-water route through the Panama Canal. The expanded Canal will facilitate the passage of ultra large vessels with the capacity of 12,000 Twenty Foot Equivalent Units (TEUs), up from the current capacity of 4,400 TEUs. Given Jamaica's geographical location along the trade route coming out of the Panama Canal, the country is poised to benefit immensely from the opening of the expanded Canal.

In order for Jamaica to benefit from increased volumes that are expected to traverse the Panama Canal, considerable investment in the port infrastructure will be required. These include increased depth of the access channel and berth to accommodate larger vessels, increased container storage area and more sophisticated container handling equipment. Given the significant cost associated with these investments and the financial constraints of the Government, PAJ in collaboration with the Government appointed Enterprise Team and the Development Bank of Jamaica, will be seeking to facilitate the needed port investment by way of a Public Private Partnership (PPP). Accordingly, activities for the budget year will be focused on identifying a private partner and the establishment of a regulatory framework necessary to support activities of the PAJ and the private investor.

It is anticipated that expansion of the Kingston Container Terminal (KCT) will result in increased investment in Jamaica, and the expanded operations will contribute significantly to Jamaica's economic development through job creation and an overall increase in Government revenues.

Logistics Hub

The Government's policy directive to establish Jamaica as the Logistics Hub of the Americas and the fourth major node in the global supply chain is expected to be a major driver of economic growth over the medium to long term. The establishment of the hub will require significant investments in the sea and air ports, as well as Jamaica's industrial infrastructure and will involve a wide cross-section of public and private sector interest. Among the investments which are slated to commence during the budget year are the development of the Caymanas Economic Zone (CEZ) and the establishment of a Port Community System.

The CEZ and other Projects being Undertaken by the Factories Corporation of Jamaica

The Factories Corporation of Jamaica (FCJ) plans to undertake a number of strategic projects over the next three years which are expected to be a catalyst for economic growth and job creation. FCJ will be pursuing the implementation of key projects by way of a PPP and intends to expend $37.0mn to facilitate preliminary works, including the surveying and the subdivision of lots for the following projects:

- The Caymanas Economic Zone - this development will be designated a special economic zone, offering a comprehensive product range for the various industry clusters - distribution centres and regional headquarters for multi-national corporations, aerospace to marine, clean technology, biomedical, research and development, electronics, informatics, manufacturing and logistics industries among others. The project is scheduled for completion in two phases.

  The first phase consisting of 200 acres is targeted to commence by the end of the first quarter of FY 2013/14. Upon its completion the CEZ will be the Caribbean region's first science and industrial park and regional hub for industrial research and development. The CEZ will establish a platform for a knowledge driven economy through the generation of viable industries and the creation of job opportunities for highly skilled citizens of Jamaica.

- The Naggo Head ICT Informatics Centre. This project will entail the design and construction of 750,000 square feet of building space in phases, specifically for the expansion of Information and Communication Technology (ICT)/Business Process Outsourcing (BPO) activities. FCJ is in the process of selecting a joint venture partner for Naggo Head and the first phase of development of land for 100,000 square feet of building space is targeted for completion by September 2014.

Port Community System

To enhance the efficiency of business processes in the shipping industry, PAJ, in partnership with the Jamaica Customs Department, will seek to implement a Port Community System (PCS) by way of a Public Private Partnership (PPP). This electronic platform will connect the multiple systems operated by organisations at the sea and air ports and will facilitate an overall improvement in trading practices and the cost of doing business in Jamaica. Phase 1 of this programme, to facilitate the paperless processing of transshipment activities is scheduled to be undertaken in FY 2013/14 under a PPP arrangement.

HOUSING

National Housing Trust

The NHT remains committed to making housing solutions more affordable, particularly for persons in the lowest income bands and will disburse approximately $23,115.8mn on construction and mortgage financing during the year. This should result in the creation of 7,596 loans, 2,524 housing starts and 3,375 completions during the year. It is expected that the greatest portion of this expenditure, $18,643.1mn, will be disbursed under the daily intake[3] programme.

Housing Agency of Jamaica Limited

The Housing Agency of Jamaica Limited (HAJ) will be refocusing on the lower and lower-middle income housing segment. It is noted that the housing industry is currently unable to satisfy over 50.0% of housing demand. There is a large unsatisfied lower-middle income segment due to the industry's reluctance or inability to develop a viable offer to this segment, and herein lies the opportunity for the HAJ.

In achieving these objectives, emphasis will be placed on developing the expertise in low income housing development building system and project management. In response to customer need, HAJ plans to design a new business model which will foster the implementation of two distinct market segments:

1. Lower-middle income market

[3] Includes Build on Own Land, Construction Loan, Open Market and Home Improvement Loans

This will consist of starter units with customizable finishing which will allow a tiered pricing strategy.

2. Base of the Pyramid Segment

   Flexible development platform which combines low price point units and localized development using a combination of technical services and sweat equity.

To achieve these objectives the HAJ expects to spend approx $2,300.0mn on three major developments, namely, Whitehall Phase 3 - Westmoreland, Belle Aire 3 – St Ann and Mona - St Andrew.

Housing construction by the Jamaica Mortgage Bank

The Jamaica Mortgage Bank (JMB) will continue the provision of affordable housing solutions. Accordingly, the Bank will provide financing (for residential construction and infrastructure development) to the primary mortgage market and plans to commit a total of $1,000.0mn to facilitate the development of 450 housing units under 11 projects throughout the Island. Of the total commitments, $815.0mn is slated for disbursement during FY 2013/14.

ROADS

National Road Operating and Constructing Company (NROCC)

NROCC will continue to be engaged in the expansion of the road network across the island. Consistent with this plan, a Concession Agreement was signed on June 21, 2012 between NROCC and the Jamaica North-South Highway Company Limited (JNSHC). On that date also an Implementation Agreement was signed among the Government of Jamaica, NROCC, JNSHC and China Harbour Engineering Company Limited (CHEC) for the North-South Highway Project in Jamaica.

JNSHC (the Developer) is a special purpose vehicle established by CHEC to undertake the completion of the Mount Rosser By-Pass and the development of the highway from Caymans to Ocho Rios. Construction work on this leg is expected to re-commence in April 2013 and is scheduled to continue for twelve (12) months. Not only will the construction of the Caymanas to Ocho Rios leg provide easy access through the interior but it is also expected to lead to the growth of industries and communities along that corridor over the medium term, in a similar way to the developments which emanated from the first phase of the Highway 2000.

JNSHC will invest approximately US$601.0mn to complete the North-South Link over a three (3) year period. Financing should be provided by loans from the China Development Bank (US$457.0mn) and equity financing from JNSHC/CHEC (US$144.0mn). Importantly, the GOJ will assume no financial obligations/liabilities for the completion of this project. However, NROCC as Grantor is responsible for the acquisition of all parcels of lands as well as the re-location of utilities along the alignment.

Road Maintenance Fund

The Road Maintenance Fund has been the implementing agency for the Jamaica Development Infrastructure Programme (JDIP). The JDIP is geared towards the rehabilitation of roads, drains, retaining walls and the construction of prioritized bridges across Jamaica.

The JDIP is scheduled to be completed by June 2013, estimating a total expenditure of $4,650.0mn (US$50.0mn), approximately 45.0% less than the estimated expenses of $10,368.0mn at end of FY 2012/13. The focus will be on completing the major projects – Westmoreland, Cassia Park and Queensborough bridges – which are currently in progress. The Fund has committed a total project cost of $6,272.0mn.

WATER

National Water Commission

The NWC will continue the implementation of selected capital works that are expected to reduce the current level of non-revenue water (NRW) from 70.0% to 64.0%, enhance income and contain operating costs. The projects are also forecast to improve, extend and restore water and sewerage supply services island-wide.

Capital projects valued at $10,000.0mn are expected to be implemented by NWC. This is inclusive of Category B works selected under the Jamaica Water Supply Improvement Project (JSWIP) at a cost of $2,380.0mn and will complete the full range of sub-projects proposed under the US$211.0mn project. Major project components earmarked for implementation are as under:-

- Construction of a new pipeline from Ferry to Red Hills to improve supply to the Red Hills area;
- Improvements to the Forrest Hills supply network to replace old mains and reduce leakage;
- Rehabilitation of the Bogue Water Treatment Plant;
- Execution of intake works at the Great River and Martha Brae Water Treatment Plants;
- Implementation of a number of rural water supply projects in various parishes in an effort to increase supply coverage;
- Construction of irrigation facilities to ensure treatment of effluent from the Soapberry Sewerage Treatment Plant to supplement irrigation water in the Rio Cobre Canal.

Funds totalling $2,300.0mn are also scheduled to be disbursed on the KMA-IDB Water Supply Improvement Project; the project proposes an increase in supply reliability as well as secure and sustained extraction of ground water. This will be facilitated through pipeline works being extended from Ferry to Forrest Hills, Old Harbour and general reduction in NRW in the KSA area.

FINANCE

Development Bank of Jamaica (DBJ)

During FY 2013/14 DBJ intends to pursue strategies to facilitate and promote economic growth and national development. The enabling initiatives will include:-

- The expansion of access to credit and equity for the micro, small and medium enterprises (MSME) through additional distribution channels, credit guarantees, and capacity building;
- The development of the micro finance, as well as the small and medium enterprise (SME) sectors in order to spur economic growth from the bottom up; and
- The facilitation of the privatization of Government assets

Within the context of broadening access to finance for SMEs the DBJ will this year focus on the implementation of a venture capital programme in Jamaica. This is expected to include the development and implementation of three (3) main projects, namely:

- the development of a suitable ecosystem for the creation of a viable venture capital industry;
- the development of a national integrated Business Incubator (BI) system which can deliver a high level of graduate business success; and
- the establishment of a Venture Capital Fund in partnership with the private sector to provide capital for start-ups and established businesses.

Table 1 Loan Commitments and Disbursements 2013/14

	Loan Commitments		**Loan Disbursements**	
Type of Loan	**Domestic Currency (J$)**	**Foreign Currency**	**Domestic Currency (J$)**	**Foreign Currency**
AFI s	1,638.7	US$6.6	1,688.7	US$7.70
PCBs	801.3		833.6	US$20.0
Direct Lending	648.0	US$23.9	621.0	
Micro Finance	450.6		450.6	
Total	**3,538.7**	**US$30.5**	**3,594.0**	**US$27.7**

DBJ projects $12,024.5mn in investments, an increase of $563.2mn over the $11,461.3mn estimated to March 31, 2013. Table 1 shows that total loan commitments should comprise $3,538.7mn and US$30.5mn in domestic and foreign currency respectively. Meanwhile, local and foreign currency disbursement should total $3,594.0mn and US$27.7mn, representing overall increases of J$462.3mn and US$0.4mn respectively. The distribution of the loan products and services will be channeled through Approved Financial Institutions (AFIs) wholesale funding, as well as direct lending to large projects and MSMEs. DBJ expects that investments in the various sectors inclusive of agriculture, tourism, agro processing, manufacturing, and mining and quarrying sectors will create and maintain a total of 6,050 jobs.

Export Import (EXIM) Bank of Jamaica

The EXIM Bank will continue to provide trade financing for the importation of raw materials, trade credit insurance, as well as facilitate credit facilities for the export sector. Focus will also continue on the growth of the small and medium enterprises. Particularly, the Bank has identified selected objectives to be undertaken during FY 2013/14. These include but are not limited to, developing and promoting innovative and competitively priced loan products/services to meet the needs of the Bank's target market and building strong relationships with stakeholders. Of particular note, EXIM plans to continue its engagement of new and emerging businesses in the northern and western region through increased presence in those areas. EX-IM anticipates that its efforts will result in an increase of $608.0mn to $8,980.0mn (foreign - foreign currency equivalent of $4,846.0mn; local – $4,133.0mn) in loans to its target customers.

Public Bodies *Summary of Financial Forecasts for Financial Year 2013/14*
(Selected & Other)

	J$m SPBs Projected 2013/14	OPBs Projected 2013/14	TOTAL PBs 2013/14
Statement 'A' Flow of Funds			
1 Current Revenue	302,407.06	61,497.68	363,904.74
2 Current Expenses	(284,577.50)	(54,693.11)	(339,270.60)
3 Current Balance	17,829.56	6,804.57	24,634.13
4 Adjustments	16,573.76	6,137.19	22,710.95
Change in Accounts	0.00	0.00	0.00
Receivable/Payable	760.99	3,035.65	3,796.63
Items not requiring outlay of cash:	0.00	0.00	0.00
Depreciation	10,596.30	1,091.99	11,688.29
Other Non-Cash Items	5,216.47	2,009.54	7,226.02
Prior Year Adjustment	0.00	0.01	0.01
5 Operating Balance	34,403.32	12,941.77	47,345.08
6 Capital Account	(23,384.43)	(4,302.63)	(27,687.06)
Revenue	25,437.40	34.89	25,472.29
Expenditure	(50,589.44)	(3,473.87)	(54,063.31)
Investment	(625.25)	(656.95)	(1,282.20)
Change in Inventory	2,392.86	(206.69)	2,186.17
7 Transfers from Government	8,681.70	5,459.21	14,140.91
Loans	0.00	0.00	0.00
Equity	0.00	0.00	0.00
On-Lending	0.00	0.00	0.00
Other	8,681.70	5,459.21	14,140.91
8 Transfers to Government	(31,439.42)	(3,725.72)	(35,165.14)
Dividend	(334.24)	(259.61)	(593.85)
Loan Repayments	0.00	0.00	0.00
Corporate Taxes	(1,340.29)	(158.44)	(1,498.73)
Other	(29,764.89)	(3,307.68)	(33,072.57)
9 OVERALL BALANCE (5+6+7+8)	(11,738.83)	10,372.62	(1,366.21)
10 FINANCING (10a +11+15)	11,738.83	(10,372.61)	1,366.22
10a Total	5,091.31	(54.96)	5,036.35
Capital Revenue	5,091.31	216.50	5,307.81
Loans	0.00	20.00	20.00
Equity	0.00	0.00	0.00
On-Lending	0.00	0.00	0.00
Loan Repayments	0.00	(291.46)	(291.46)
11 Total Foreign (12+13+14)	2,365.23	40,823.20	43,188.43
12 Government Guaranteed Loans	(3,656.05)	5,209.56	1,553.51
Disbursement	0.00	5,209.56	5,209.56
Amortization	(3,656.05)	0.00	(3,656.05)
13 Direct Loans	6,008.56	35,613.64	41,622.20
Long Term:	6,079.44	35,613.64	41,693.08
Disbursement	17,876.11	38,624.75	56,500.86
Amortisation	(11,796.67)	(3,011.11)	(14,807.78)
Short Term:	(70.88)	0.00	(70.88)
Change in Trade Credits	(70.88)	0.00	(70.88)
14 Change in Deposits Abroad	12.72	0.00	12.72
15 Total Domestic (16+17+18)	4,282.30	(51,140.85)	(46,858.56)
16 Banking System	(3,803.42)	(3,510.43)	(7,313.85)
Loans (Change)	(46.14)	(418.46)	(464.60)
Overdraft (Change)	(410.58)	(16.31)	(426.89)
Deposits (Change)	(3,346.70)	(3,075.66)	(6,422.36)
17 Non-Banks (Change)	560.22	(277.94)	282.28
18 Other (Change)	7,525.51	(47,352.48)	(39,826.97)

Fiscal Discipline, Risks & Challenges

Sustained fiscal discipline promotes macroeconomic stability and underpins growth, particularly in small, open, developing countries. There may be some debate as to what constitutes an optimal fiscal stance over the 'long-run' but little, if any, as to the importance in ensuring that a sustainable fiscal stance persists. The sustainability of any fiscal stance may be derailed or strengthened by external factors, while the structural features of the economy may influence its vulnerability to collapse. Additionally, a country's fiscal history – level of public debt, inflation and fiscal management can act as a drag on fiscal performance and will influence the type of fiscal stance that is adopted.

Under the aegis of the Fiscal Responsibility Framework, for which the regulations were passed in April 2012, the Government seeks to demonstrate its commitment to fiscal discipline through the prudent and sustainable use of public resources. Non debt expenditure in FY 2012/13, declined to 20.1% of GDP from 22.3% of GDP in FY 2011/12. This reflects GOJ's resolve to contain expenditure, in the face of sluggish revenue performance. Accordingly, non-debt expenditure is programmed to decline further over the medium term to 18.7% of GDP by FY 2015/16, consistent with wage containment and better management of fiscal resources.

Wage containment, buttressed by the recently signed agreements with unions representing public sector workers, is expected to continue throughout the medium term and the 9% of GDP ceiling by March 2015 is expected to be met. Interest costs (as %GDP) are forecast to decline to lower single-digit levels over the medium term, consequent on the NDX which reduced the effective interest rates on GOJ debt, and, consistent with the GOJ undertaking strong fiscal action to reduce and eventually eliminate the fiscal deficit by FY 2015/16.

Fiscal discipline starts with expenditure (including tax expenditures) and no fiscal consolidation effort can be successful, without expenditure containment and/or revenue enhancement, consistent with less reliance on debt to close financing gaps. Once fiscal deficits are eliminated, the public debt stock can be reduced in an orderly and sustained manner, thus simultaneously 'crowding in' the private sector and also allowing GOJ to focus on some of its core functions such as social protection programmes (eg. PATH) and infrastructure maintenance and development at minimal cost to the economy.

Fiscal Risks

There is usually an element of judgment surrounding the medium term assumptions that are made in preparing the fiscal forecasts. The risks to the forecasts are inherently greater for the latter years within the medium term programme. To provide a more comprehensive picture of the fiscal position also requires the disclosure of, and strategies to deal with, the various fiscal risks that may lead to a material difference between the forecasts and the actual outturn. This includes issues such as new policies the Government may implement or consider as well as sensitivity around key assumptions (example economic conditions).

Fiscal risks can emanate from a wide range of sources, some of which have been encapsulated in Box 2. These fiscal risks have the potential to derail the Fiscal Management Strategy (FMS) that has been outlined and as such the GOJ is and will continue to be proactive, with respect to the management of these fiscal risks.

The maintenance of a responsible fiscal policy in respect of revenue and expenditure is essential for the achievement of the annual fiscal and debt targets and the ceilings established in the FAA Act. Thus, it is of utmost importance that revenue and expenditure measures which have deleterious fiscal effects are not adopted without the implementation of offsetting measures. Decisions to incur obligatory expenditures ahead of the Budget being approved, is a notable source of fiscal risk and has been so for some time now. This risk is especially amplified if the effects of such decisions will cover several fiscal years into the future.

Key Fiscal Risks & Strategies to Mitigate

Wages and Salaries

In the last FPP tabled on May 24, 2012, it was stated that the FMS assumed that an agreement would be struck with the public sector unions for the implementation of a three (3) year wage-negotiation cycle, for the 2012-2015 contract periods and that the agreement would be consistent with meeting the 9% of GDP wage ceiling. The FPP also made reference to risks associated with '*Wage anomalies'* for some groups of public sector workers and that the FY 2012/13 Budget made no provisions for payments that could arise from those anomalies.

However, most of these risks have been significantly curtailed and eliminated. The signing of Heads of Agreements with unions representing public sector workers, firstly in May 2012 for the contract period 2010/12, and, in March 2013 for the contract period 2012/15, has greatly reduced the risk element associated with wages by enhancing the predictability of the wage bill over the medium term. Nevertheless, there is still an element of risk, as the agreements place certain performance measures on the GOJ in terms of, inter alia, economic performance. Significant deviation from programmed macroeconomic indicators could threaten the sustainability of the industrial harmony embedded in the agreements. The GOJ however remains unyieldingly committed to deliver on its targets and will maintain constant dialogue with unions through the Monitoring Committee.

With respect to wage anomalies, some of these matters were addressed during FY 2012/13. A notable anomaly was that which existed between teachers and education officers and this was successfully resolved through a Heads of Agreements signed between the GOJ and education officers on December 19, 2012.

Box 1: Sources of Fiscal Risks

- Judicial Awards
- Wage anomalies
- Un-Budgeted Obligatory Expenditures
- Other Entities Debt Assumption
- Tax Expenditure (Discretionary)
- Guarantees which represents a risk:
  - Interest
  - Amortization
- Arrears/Pending Obligations:
  - Wages & Salaries
  - Other Expenditure Arrears
  - Tax Refund Arrears
- Financial Assistance to Public Bodies
- Public Private Partnership
- Other Fiscal Risks:
  - Impact of lower GDP on revenues
  - Impact of adverse interest, inflation & exchange rate
- Revenue yields less than expected
- Natural Disasters
- Government Policy Changes

Other Entities debt assumptions can and do present a "clear and present danger" to the goals of the FMS. Whereas the GOJ is clear that guarantees (contingent liabilities) and its other commitments must be honoured, these contingent liabilities that are of a material risk to the targets will necessitate certain steps being taken to keep the fiscal profile on a credible path.

Natural disasters occur and often cause significant damage to infrastructure as well as unanticipated costs to the Budget. One of the main fiscal risks to the Budget (climatic risks) materialized in late October, 2012 when Hurricane Sandy caused loss of lives and significant damage to road and other infrastructure across the country with associated fiscal costs. The cost associated with repairs after Hurricane Sandy was accommodated through reallocation within the overall budget envelope. Risks associated with natural disasters are partly managed through the Caribbean Catastrophic Regional Insurance Fund (CCRIF), an insurance facility that covers severe damage from certain natural disasters, including hurricane.

Adverse movements in key macro-economic variables, such as inflation, reduce the impact (purchasing power) of the expenditure budget, particularly the recurrent expenditure. In order to manage this risk over the medium term, the forecast inflation over the period is "built in" to the medium term expenditure budget estimates. Lower than forecast economic growth would also have the effect of contracting the revenue base. Faster economic growth may not necessarily increase revenue inflow to the government if the growing sectors are not adequately and appropriately taxed. To minimize this risk to the budget the GOJ will be undertaking profound tax reform by significantly reducing tax waivers, exemptions and incentives to broaden the tax base and improve the elasticity of the tax system.

Tax expenditures (*discretionary*) are a significant fiscal risk and in recognition of this, the GOJ has sought to 'overhaul' the system of waivers. The GOJ will be tabling a 'Tax Expenditures Statement' which will detail the waivers, exemptions and other revenues foregone in calendar year 2011. The GOJ, as part of its tax reform programme, significantly curtailed discretionary waivers in FY 2012/13. Nevertheless, this is still an area of material risk to the revenue yields forecasted. Any granting or broadening of tax incentives or benefits resulting in tax breaks will, of necessity be accompanied by an estimate of the budgetary/financial impact in the fiscal year it becomes effective and in subsequent years, as well as by compensating measures. This is important, as the provision of such tax breaks result in a reduction in tax revenue, thereby jeopardizing the achievement of fiscal targets and, by extension, development of the country.

Arrears over 90 days will be closely monitored to ensure there is no accumulation. The GOJ intends to eliminate the stock of outstanding withholding tax refunds (over 90 days) over the next five years. Within this context, the medium-term fiscal profile programmes payment of withholding tax refunds at a rate of approximately $900.0mn monthly from FY 2013/14. The GOJ will however be aiming over the medium term to manage its arrears such that they will only fall into the traditionally recognized 30-day period.

Lower GDP outturns can have adverse impacts on the revenues and the GOJ stands ready to make adjustments to the expenditure budget consistent with the goals of the FMS. In addition, lower revenue yields, due to other factors would also be met with appropriate adjustments to the expenditure budget, as far as is possible. Changes in GDP also affect the fiscal, debt and other economic ratios. In FY 2012/13, the Debt/GDP for FY 2011/12 was revised from 128.0% up to 131.6%, consequent on a downward revision of GDP. The downward revision to the GDP series has also adversely affected the Wages/GDP ratio. In the FY 2012/13 FPP, Wages/GDP for FY 2011/12 was stated as 10.7% however the downward revision to the GDP pushed up the ratio to 11.0%.

Changes in Government policy may become necessary, in response to changes in economic conditions, however, where these policy changes lead to an adverse material impact on either revenue or expenditure, then the GOJ will take the necessary "compensating measures" to ensure that the FMS maintains its integrity.

Going forward, the GOJ intends to manage fiscal risks appropriately and will be putting in place the necessary safeguards to ensure this objective is met. To this end, the *Financial Administration and Audit (Fiscal Responsibility Framework) Regulations, 2012* and the Public Bodies (Financial Distribution) Regulations, 2012 were passed into law in April 2012. With these regulations now passed, public officers who breach the provisions outlined in the Fiscal Responsibility Framework legislations can now be sanctioned for non-compliance.

Appendix I - Medium Term Expenditure Profile

Table IA - Non-Debt Recurrent Expenditure 2011/2012 - 2016/2017

$'000

Heads	Actual 2011/2012	Actual 2012/2013	Estimates of Expenditure 2013/2014	Projected 2014/2015	Projected 2015/2016	Projected 2016/2017
His Excellency the Governor-General	114,952	154,475	172,559	188,434	205,017	221,828
Houses of Parliament	701,929	762,380	743,941	812,384	883,873	956,351
Office of the Public Defender	68,557	76,561	76,098	83,099	90,412	97,825
Office of the Contractor-General	208,712	227,584	232,723	254,134	276,497	299,170
Auditor General	329,179	346,598	352,528	384,961	418,837	453,182
Office of the Services Commissions	151,414	163,702	159,386	174,050	189,366	204,894
Office of the Children's Advocate	71,608	84,078	99,309	108,445	117,989	127,664
INDECOM	236,710	280,000	333,960	364,684	396,777	429,312
Office of the Prime Minister	2,285,476	1,638,066	1,815,927	1,982,992	2,157,496	2,334,410
Office of the Cabinet	668,264	525,423	560,739	612,327	666,212	720,841
Ministry of Tourism and Entertainment	2,080,954	1,531,488	1,541,222	1,683,014	1,831,120	1,981,272
OPM (Local Government) (Outgoing Head)	3,923,939		-	-	-	-
Ministry of Finance and Planning	28,121,032	31,191,459	36,305,955	39,646,103	43,134,960	46,672,027
Tax Administration Department	4,300,384	4,525,808	4,362,709	4,764,078	5,183,317	5,608,349
Ministry of National Security	44,440,159	47,084,287	44,785,569	48,905,841	53,209,555	57,572,739
Ministry of Justice	5,508,302	4,019,695	4,204,160	4,590,943	4,994,946	5,404,531
Ministry of Foreign Affairs and Foreign Trade	2,538,401	2,696,293	2,968,182	3,241,255	3,526,485	3,815,657
Ministry of Labour and Social Security	1,968,181	2,277,788	2,212,427	2,415,970	2,628,576	2,844,119
Ministry of Education	75,741,557	79,155,517	76,202,135	83,212,731	90,535,452	97,959,359
Ministry of Health	34,355,491	33,615,874	33,312,802	36,377,580	39,578,807	42,824,269
Ministry of Youth and Culture	3,526,268	3,126,396	3,429,896	3,745,446	4,075,046	4,409,199
Ministry of Agriculture and Fisheries	3,217,355	3,343,130	3,206,526	3,501,526	3,809,661	4,122,053
Ministry of Industry, Investment and Commerce	1,786,954	1,682,363	1,683,148	1,837,998	1,999,741	2,163,720
Ministry of Science, Technology, Energy and Mining	3,255,608	3,445,619	3,450,867	3,768,347	4,099,961	4,436,158
Ministry of Water, Environment and Housing (Outgoing Head)	615,171	-	-	-	-	-
Ministry of Housing, Environment, Water and Local Government (Outgoing Head)	1,968,093	-	-	-	-	-
Ministry of Transport, Works and Housing	1,871,097	2,295,285	2,211,919	2,415,416	2,627,972	2,843,466
Ministry of Water, Land, Environment and Climate Change	1,428,952	2,284,495	2,331,477	2,545,973	2,770,018	2,997,160
Ministry of Local Government and Community Development	3,771,656	8,048,993	7,060,366	7,709,920	8,388,393	9,076,241
Contingencies			17,121,000	7,447,949	4,961,216	11,033,931
GRAND TOTAL RECURRENT	**229,256,355**	**234,583,357**	**250,937,530**	**262,775,600**	**282,757,700**	**311,609,727**

Table IB - Economic Classification
Non-Debt Recurrent Expenditure 2011/2012 - 2016/2017
$'000

Oject Classification	Actual 2011/2012	Actual 2012/2013	Estimates of Expenditure 2013/2014	Projected 2014/2015	Projected 2015/2016	Projected 2016/2017
Wages and Salaries	**139,556,923**	**147,381,845**	**157,253,356**	**158,627,612**	**166,933,123**	**183,287,634**
Recurrent Programmes (of which:)	**89,699,432**	**87,201,512**	**93,684,174**	**104,147,988**	**115,824,577**	**128,322,093**
Travel Expenses and Subsistence	9,591,169	10,886,961	10,474,273	11,437,906	12,444,442	13,464,886
Retirement Benefits	22,388,446	24,951,587	26,256,365	30,539,166	33,226,612	38,951,095
Rental of Property, Machinery and Equipment	2,384,103	2,653,268	2,715,457	2,965,279	3,226,224	3,490,774
Public Utility Services	7,821,111	6,341,169	6,337,099	6,920,112	7,529,082	8,146,467
Purchases of Other Goods and Services	21,944,004	17,143,978	21,645,618	23,637,015	25,717,072	27,825,872
Grants and Contributions	24,163,994	24,193,632	24,859,536	27,146,613	29,535,515	31,957,428
Purchases of Equipment (Capital Goods)	775,950	800,337	831,701	908,217	988,141	1,069,168
Others	630,655	230,580	218,850	238,984	260,015	281,336
Contingencies			345,275	354,695	2,897,474	3,135,067
TOTAL RECURRENT	**229,256,355**	**234,583,357**	**250,937,530**	**262,775,600**	**282,757,700**	**311,609,727**

Table IC - Medium Term Capital Profile 2011/2012 - 2016/2017
$'000

Heads	Actual 2011/2012	Actual 2012/2013	Estimates of Expenditure 2013/2014	Projected 2014/2015	Projected 2015/2016	Projected 2016/2017
Office of the Prime Minister	3,211,729	1,079,580	1,067,304	1,165,496	1,268,060	1,372,041
Office of the Cabinet	131,255	30,000	1,000	1,092	1,188	1,286
OPM (Local Government)	215,832	-		-	-	-
Ministry of Finance and Planning	15,067,001	1,481,266	6,138,530	3,823,718	7,160,205	9,960,287
Ministry of National Security	930,830	856,511	1,956,381	2,136,368	4,324,368	6,678,967
Ministry of Justice	327,454	223,500	300,000	327,600	2,356,429	3,549,656
Ministry of Labour and Social Security	449,234	650,000		-	-	-
Ministry of Education		497,217	516,530	564,051	2,613,687	2,928,010
Ministry of Health	141,384	10,000	20,000	21,840	23,762	25,710
Ministry of Youth and Culture	43,337	336,065	85,000	92,820	100,988	109,269
Ministry of Agriculture and Fisheries	234,765	1,984,351	2,256,518	2,464,118	2,680,960	2,900,799
Ministry of Industry, Investment and Commerce	25,559	35,000	113,630	124,084	135,003	146,074
Ministry of Science, Technology, Energy and Mining	1,307,408	606,856	627,207	684,910	745,182	806,287
Ministry of Water, Environment and Housing	297,829	-		-	-	-
Ministry of Housing, Environment, Water and Local Government	214,331	-		-	-	-
Ministry of Transport, Works and Housing	6,375,751	5,625,918	4,553,189	4,972,082	6,181,744	9,188,647
Ministry of Water, Land, Environment and Climate Change	162,572	377,331	401,580	438,525	477,116	516,239
Ministry of Local Government and Community Development	142,683	495,000	375,915	410,499	446,623	483,246
Contingencies						
GRAND TOTAL CAPITAL A	**29,278,954**	**14,288,595**	**18,412,784**	**17,227,203**	**28,515,315**	**38,666,516**
Office of the Prime Minister	2,896,087	1,851,869	1,885,335	1,400,073	1,464,427	914,397
Office of the Cabinet	286,285	203,210	168,180			
Ministry of Tourism and Entertainment		-	11,753	73,444	57,555	-
Ministry of Finance and Planning	307,134	367,307	1,122,811	2,651,984	2,764,662	4,836,700
Ministry of National Security	1,485,840	1,199,357	1,482,476	1,307,840	1,466,760	3,300,000
Ministry of Justice	70,986	205,526	230,000	614,328	383,218	55,000
Ministry of Foreign Affairs and Foreign Trade	26,708	43,000	134,172	300,000	-	-
Ministry of Labour and Social Security	3,900,332	3,742,605	4,887,152	5,305,007	5,256,966	7,853,944
Ministry of Education	1,220,727	1,711,094	1,730,686	2,174,233	985,207	743,579
Ministry of Health	1,348,675	1,613,035	614,370	1,303,000	1,041,550	2,643,500
Ministry of Youth and Culture	281,160	255,961	248,864	130,000	-	-
Ministry of Agriculture and Fisheries	3,311,131	1,326,251	622,573	941,361	579,894	280,000
Ministry of Industry, Investment and Commerce	66,197	1,044				
Ministry of Science, Technology, Energy and Mining	92,685	381,260	636,353	959,513	969,000	860,000
Ministry of Water, Environment and Housing	1,522,463					
Ministry of Transport, Works and Housing	6,717,345	9,146,808	11,267,911	18,812,380	16,349,132	22,553,296
Ministry of Water, Land, Environment and Climate Change	330,888	1,379,223	1,065,904	2,494,749	1,991,286	2,273,021
Ministry of Local Government and Community Development	87,335	41,786	180,506	32,485	48,528	60,747
GRAND TOTAL CAPITAL B	**23,951,978**	**23,469,336**	**26,289,046**	**38,500,397**	**33,358,185**	**46,374,184**
TOTAL CAPITAL	**53,230,932**	**37,757,931**	**44,701,830**	**55,727,600**	**61,873,500**	**85,040,700**

Appendix II

Improved Financial Management

Summary Report on the Status of Central Treasury Management System (CTMS) Implementation

The CTMS project encompasses: (i) an upgrade of the existing accounting package (FinMan) utilized throughout all 30 Ministries, Departments and Agencies (MDAs); and (ii) the development of a Treasury Management Module (TMM) for the Accountant General's Department.

The pilot phase was completed in March 2013 and entailed the implementation of the basic information system of the CTMS in four (4) Central Government Ministries, Departments and Agencies (MDAs); Ministry of Finance & Planning (MOFP); Accountant General's Department (AGD); Ministry of Education (MOE); and the Ministry of Transport and Works (MTW). The target is to have all MDAs migrate to the basic CTMS platform by March 31, 2014.

The required ICT infrastructure is largely in place to accommodate migration of all remaining MDAs. Although the procurement of new equipment for connectivity (firewalls, routers & switches) has been delayed, an interim solution (equipment rental) is in place to ensure that the GOJ achieves the stated implementation schedule.

Administrative and business process adjustments continue alongside automation at the AGD and the new modus operandi of centralized payments by the AGD. The adjustments in business processes and procedures are based on a number of factors including the operation/user manuals related to the CTMS software and the amended legislative framework. In addition, through continued technical assistance from the Inter-American Development Bank (IADB), the implementation, particularly as it relates to the AGD, will be enhanced through the work of a Business Process specialist/consultant who began work in April 2013 to lead the organizational design and work flows at the AGD.

The required legislative framework has been put in place. Specifically:

I. The **Financial Administration and Audit (FAA) Act has been amended** to establish the CTMS;

II. **Financial Management Regulation (related to above FAA Act) was effected on April 12, 2011 to facilitate the establishment of the Treasury Single Account (TSA)** as well as to recognize the use of electronic statements for reconciliation of bank accounts.

III. **Operation Manuals** for the FinMan and the TMM have been prepared;

IV. A **Revenue Classification Circular** has been approved and circulated; and

V. **A Memoranda of Understanding** has been signed with the Bank of Jamaica regarding the use of the BOJ's payments systems.

It is likely that the above list will be enhanced and other changes made to the legislative framework as progress is made through the different stages of implementation of the CTMS. The support areas of **security** and **business continuity** continue to be areas of focus

An awareness and communication campaign is being conducted as part of the Change Management process. A significant effort is being made to inform both internal and external stakeholders. As at end-March 2013:

a. A Web page was established and is being populated with information on the project;

b. Over 61 presentations have been made to various groups throughout MDAs;

c. Direct training sessions on the use of the upgraded FinMan were conducted with the pilot MDAs - facilitated by the user manuals which were provided. However the training programme has been expanded and a "train the trainer" strategy has been adopted. Targeted (Permanent Secretaries and Principal Finance Officers) training/awareness sessions are also being conducted.

Appendix III

FINANCIAL SECTOR DEVELOPMENTS

Introduction

During FY 2012/13, there was further advancement of the effort to improve the regulatory framework to ensure stability of the financial sector in keeping with international best practice. The Financial Investigations Division (FID) sought to improve its performance in leading the fight against money laundering, financing of terrorism and other financial crimes. The Financial Institution Services (FIS) continued to attend to residual matters in the effort to wind down the operations of the Financial Sector Adjustment Company (FINSAC).

Private Pensions Legislation

The proposed amendments to the Pensions (Superannuation Funds and Retirement Schemes) Act seek to deal with issues of investment manager fees and harmonization of contribution limits with the Income Tax Act. The proposed amendments were approved by Cabinet in FY 2012/13. Accordingly, the Ministry of Finance and Planning (MOFP) issued the necessary drafting instructions to the Chief Parliamentary Counsel (CPC). The draft Bill was received and this was circulated to stakeholders for comments. With the necessary consensus from stakeholders, the CPC was instructed to finalize the Bill for submission to the Legislation Committee of Cabinet.

Insurance (Amendment) Act

The proposed amendment to the Insurance Act seeks to provide for the harmonization of certain provisions with other financial sector legislation. Cabinet approved the issuing of drafting instructions for the Insurance (Amendment) Act and the MoFP is in the process of issuing drafting instructions to the CPC to reflect that decision.

Proposed Amendments to the Securities Act

In FY 2012/13 Cabinet approved proposed amendments to the Securities Act. The necessary drafting instructions were issued to the CPC, who has since submitted a draft discussion Bill to the MOFP. The amendment to the Securities Act seeks to enhance the framework for the regulation of the securities industry to combat the establishment and proliferation of unregulated financial organizations among other things.

Bank of Jamaica (Amendment) Act

The first draft of the Bill was received from the CPC and circulated to the Bank of Jamaica (BOJ) for comments. Subsequent to the MOFP's receipt and review of comments from BOJ, the CPC was instructed to redraft the Bill. The proposed amendments to the Bank of Jamaica Act seek to give the BOJ institutional responsibility for the stability of Jamaica's financial system.

Omnibus Legislation

The Omnibus Bill seeks to merge the provisions of the Banking Act, Financial Institutions Act and the Bank of Jamaica (Building Societies) Regulations into one piece of Legislation and for amendments to existing provisions to enhance the supervision of deposit taking institutions. The BOJ published a Discussion Paper to solicit comments from stakeholders. The MOFP has submitted its comments on the Discussion Paper. Once this process is finalized and comments received, further instructions will be issued to the CPC subject to Cabinet's approval.

Micro Credit Legislation

The MOFP has prepared a draft Cabinet Submission for the enactment of a Micro Credit Act to provide for the licensing and regulation of privately-owned money lending institutions. The MOFP is currently revising the draft Cabinet Submission to incorporate the comments of stakeholders prior to submission to the Cabinet. The new regulatory framework being proposed aims to address the deficiencies inherent in the operations of the industry; provide for improvement in the monitoring of the industry, transparency, protection of consumers and reduction in risks of the industry being used as a vehicle to facilitate money laundering.

Financial Investigations Division

Subsequent to Jamaica's application for membership in the Egmont Group being denied in 2012, the FID has prepared a proposed amendment to the FID Act to enhance Jamaica's prospect of gaining membership to the Egmont Group. Consequently, the MOFP sought and received the approval of the Cabinet for drafting instructions to be issued to the CPC. The draft Bill, which was approved by the Legislation Committee of Cabinet, will be tabled in Parliament once Cabinet approves it. The Egmont Group provides a forum for financial intelligence units around the world to improve cooperation in the fight against money laundering and terrorism financing. Membership in the Egmont Group would greatly improve Jamaica's reputation in fighting against money laundering and terrorism financing in the international community.

Activities of the Financial Institutions Services Limited

During FY 2012/13, the FIS continued with the winding up of residual activities on behalf of FINSAC including selling remaining properties and other sundry assets under its control.

For the review period, the FIS reported net collections from loans sold to the Jamaican Redevelopment Foundation (JRF) totalling US$6.1mn, from which FINSAC received US$3.0mn for its share. This brings to US$76.8mn the total collected by FINSAC since the loans were sold to JRF, including initial deposit of US$23mn.

FINSAC continued to interface with Fund Managers (Guardian Life Limited) and Actuaries (Eckler) with a view to winding-up the Mutual Life Pension Schemes. The final resolution of the schemes is yet to be achieved as some additional information required from Guardian Life Limited has been unduly delayed.

Proposed Areas of Focus for FY 2013/14

For the FY 2013/14, efforts will concentrate on the following:

- The amendment of the Securities Act to enhance the framework for the regulation of the industry in order to combat the establishment of Unregulated Financial Organizations (UFOs);
- The amendment of the Bank of Jamaica Act to give the institutional responsibility for the stability of the financial sector to the BOJ;
- The enactment of the Omnibus Legislation for the harmonization of provisions of the institutions supervised by the BOJ;
- Amendments to Pensions (Superannuation Funds and Retirement Schemes) Act to address issues such as vesting portability and indexation.
- The FID gaining membership in the Egmont Group;
- Increasing cooperation and collaboration with the FID and law enforcement bodies leading to the sharing of information and integrated financial crimes investigations;
- The divestment of the remaining assets under FIS's control;
- Settling the issues in dispute arising from the sale of the loan portfolio of JRF; and
- Finalizing and resolving outstanding pension-related and litigation matters.

Appendix IV

PUBLIC SERVICE ESTABLISHMENT

Establishment Control

During the FY 2012/13 three (3) publications under the Civil Service Establishment (CSE) Act were tabled and approved in Parliament as follows:

1. The Civil Service Establishment (General) (Amendment) Order 2012.
2. The Civil Service Establishment (General) (Amendment) (No. 2) Order 2012
3. The Civil Service Establishment (General) Order 2012.

In July 2012, a project to remove vacant posts from the CSE Order was started. It operated in two phases: July - September and October - December. A total of 5,998 posts were abolished in this exercise. The number of established posts in the Civil Service now stands at 36,637, which is 12.5% less than the FY 2011/12 total of 41,890.

The main Establishment Control activities for the FY 2013/14 will include:

- Finalising the Civil Service Establishment (G) (A) Order 2013
- Updating the establishment database for Central Government, Educational Institutions, Parish Councils, Executive Agencies, Self Financing and Non-Self Financing Public Bodies in compliance with the Ministry of Finance and Planning Circular #32.

Pension Administration and Superannuation

Public Sector Pension Reform

Cognizant that the current pension arrangement for public servants is complex and has become fiscally unsustainable and that reform is a critical element for the achievement of the country's macro-economic objectives of growth and development, activities relating to the reform of the public sector pension system were advanced during FY 2012/13.

Noted among these activities were the following:

White Paper

- The completion of the deliberations of Green Paper No. 2-2011 entitled "Options for Reform of the Public Sector Pension System" by the Joint Select Committee of Parliament in September 2012.

- The tabling and debate of the Report of the Joint Select Committee on Public Sector Pension Reform in November, 2012.

- The preparation of the White Paper in March 2013. The White Paper will seek to present a position that is consistent with aspects of the Report by the Joint Select Committee taking into account the current fiscal realities. It is expected to be submitted to Cabinet within the 1st quarter of FY 2013/14.

Business Process Re-engineering

- The completion of the consultancy for the re-engineering of the present pension administration system resulted in the development of a new business process. The new business process will include the electronic delivery of information as well as the calculation of pension benefits. This new process will reduce the cost of pension administration and facilitate the gathering of data so that reliable projections and adequate allocations can be made for pension payments in each budget cycle. It is expected that it will be implemented over a two year period.

Establishment of Earnings Database

- The completion of the documentation to facilitate the commencement of the tender process. This activity was slightly delayed due to its highly technical nature, which required extensive consultation and review to ensure that the most appropriate system will be developed to keep track of career histories. It is expected that during FY 2013/14 the consultant to develop the database will be selected and the redesigned process implemented.

Legal Analysis

- The completion of Phase II of the Legal Analysis Consultancy. The combined results of Phases I and II of the Consultancy will be submitted to Cabinet as part of the White Paper dealing with Public Sector Pension Reform. This is with a view to receiving approval for the enactment of an Omnibus Pension Legislation that will harmonize the pension provisions in each group. Where necessary, peculiarities for each group will be retained in this legislation.

Retiring Allowances (Legislative Service) Amendment Act

A Bill to provide for the amendment of the Retiring Allowances (Legislative Service) Act was passed in the House of Parliament in February 2013. The amendment will allow service as a Parish Councillor to be taken into account in determining a Legislator's retiring allowance.

Increase to Pensioners

In accordance with Cabinet Decision No. 31/91 dated July 8, 1991, it was agreed that regular annual pension increases should be instituted in an effort to address the plight of pensioners occasioned by the escalation in the cost of living. Consequently, in FY 2012/13, $500mn was provided to grant increases to pensioners, including spouses and dependents of deceased public servants.

The increases were applicable to pensioners who:

- retired no later than January 1, 2010;
- were not less than fifty-five (55) years of age at June 30, 2012;
- retired on the ground of ill health regardless of their age as at June 30, 2012; and
- are in receipt of a widows/widowers and dependents pension which commenced prior to July 1, 2012.

Of the total 32,420 pensioners, 26,763 were eligible for the increases. The increases granted ranged from $1,250.00 per month to $3,000.00 per month.

Industrial Relations

FY 2012/13 involved the continuation of the GOJ's economic policy for a wage freeze with the signing of the 2010/12 agreements with the Jamaica Confederation of Trade Unions (JCTU) and other groups representing public sector workers on May 31, 2012 and later with the Police Groups on October 12, 2012.

During FY 2012/13, 23 claims were received for the contract period 2012-2014. These included 16 claims from Central Government and 7 from Parastatal Agencies. This culminated with an agreement between unions representing 82% of public sector workers and the GOJ signed on March 6, 2013. The Jamaica Teachers' Association also signed an agreement on March 12, 2013. These agreements exceeded the 70% threshold established as a prior action deliverables for an IMF Agreement. The parties committed to, among other things, a wage restraint for the period 2012-2015.

During FY 2012/13, one of two outstanding wage negotiations was concluded, making a total of 34 settlements out of the 35 claims received for the contract period 2008-2010. The negotiation with the outstanding group, the Association of Government Medical Consultants has been referred to the Industrial Disputes Tribunal for a ruling. There were two reported cases of industrial action in the public sector which resulted in less than 1% of man hours lost. These incidents were related to conditions of work. Despite these incidents the level of industrial harmony was maintained above 98%.

A *Grievance Policy for the Public Sector* has been developed and the manual is being distributed to Ministries, Departments and Agencies (MDAs) and Public Bodies.

Post Operations Committee (POC)

This committee remains in place to control employment in the public sector with a view to managing the wage bill in keeping with the medium term economic target of 9% of GDP by March 2016. The committee will also work to ensure that there will be no net hiring of workers over the medium term and that only critical vacancies are filled.

Appendix V

TAX ADMINISTRATION PROGRAMME

Tax Administration Jamaica

Tax Administration Jamaica (TAJ) was established on April 1, 2011 under the Revenue Administration (Amendment) Act 2011 and began operating in its current form on May 1, 2011. TAJ is a consolidation of the former Inland Revenue Department (IRD), Taxpayer Audit and Assessment Department (TAAD) and Tax Administration Services Department (TASD). The primary goal of TAJ is to collect domestic taxes and fees payable in accordance with the law and to do this in such a manner that will sustain confidence in the tax system and its administration.

Operating Environment

TAJ currently operates within a low tax compliance environment. This is evidenced by the poor filing and payment compliance rates.

The stock of tax receivables is increasing and as at December 31, 2012, $258,000mn was outstanding, inclusive of interest (56%), penalty and surcharge (17%) and principal (27%). The outstanding principal is broken down as: returned tax (10%) audit (13%) and estimated assessments (4%). The average rate of on-time payments is 23% and 58% for PAYE and GCT, respectively. The high level of late payment has contributed to the large stock of tax arrears.

Over the medium term FY 2013/14 to FY 2015/16, TAJ intends to build on and strengthen initiatives that begun in previous years to improve compliance management across the full spectrum of compliance, namely: registration, filing, payment and reporting. New activities will also be employed, as TAJ responds to the emerging and changing compliance landscape which was identified through an analysis of threats and opportunities.

The programme aims to improve compliance among the potential existing base of:

- Unregistered Taxpayers;
- Taxpayers who are registered but are not filing regularly;
- Taxpayers who file but do not pay; and
- Taxpayers who are filing but are under-reporting income.

Focus will be on reviewing potential areas of high non-compliance among large taxpayers, high-wealth individuals, unregistered entities, and stop-filers. An essential aspect of the operational plan will be performance reviews, measures to manage the programme implementation and assess the results at the Revenue Service Centres (RSC).

The four major strategies that will be employed to improve voluntary compliance are:

- Continued improvement and use of a risk management system for selection of taxpayer entities for audit examinations, identifying and registering new taxpayers, and prioritizing tax arrears for collection and areas for taxpayer education intervention;
- Review and update the arrears management framework aimed at increasing the collection of tax arrears and removing from the inventory arrears deemed to be uncollectible;
- Develop specific initiatives based on taxpayer segment; and
- Improve service delivery and customer satisfaction and increase available service channels, inclusive of e-services.

Strategic Direction

TAJ's strategic direction focuses primarily on two objectives: (1) Improving voluntary compliance and (2) Modernizing the organization.

Objective 1: Continuously improve voluntary compliance through service, education and enforcement programmes

The analysis of the tax environment reveals unsatisfactory levels of compliance among taxpayers. This has prompted Tax Administration to define and segment its taxpayers and to further determine the respective size and distribution of the segments based on the following criteria:

Large – taxpayers with an annual income greater than $1,000mn.

Medium – taxpayers with an annual income equaling $500mn and less than $1,000mn

Small – taxpayers with an annual income of $100mn and less than $500mn

Micro – taxpayers with an annual income less than $100mn.

The large business segment is inclusive of large government agencies. The primary area of risk for the private sector element of this group is accurate reporting, whilst for the statutory bodies, it is timely reporting and payment. Medium, Small, Micro Enterprises (MSME) compliance risk falls primarily in the areas of registration, filing and payment. Given the contribution of micro businesses (12.7%) to total revenue collection, due attention will be given to this segment to bolster compliance.

Improving Registration Compliance

The strategic direction for widening the tax net includes:

Utilization of Enhanced Access to Information Legislation

It is anticipated that recommendations for legislative enhancements submitted during FY 2012/13 will be effective within the FY 2013/14. The access to more third party information will greatly enhance the data mining capacity of the Forensic Data-mining & Intelligence Unit (FDIU) by providing relevant data to identify individuals outside the tax net.

Partnering with Business Associations

TAJ will continue to establish partnerships with reputable business, trade and professional associations who have a shared interest in ensuring that their legitimate members can compete on a level playing field. The TAJ will also work with various business associations to develop sector specific mechanisms to ensure compliance within the sector.

Phased Introduction of Mandatory filing

PAYE professionals will be required to file Income Tax returns. Those in the Medical, Legal and Accounting professions will be included in the first phase. Letters have already been sent to the relevant associations and where non-compliance is established, the necessary compliance mechanism will be initiated. Over time, other professional groups will be required to file until eventually all persons earning income will be required to file. Integral to this will be the introduction of mandatory e-filing for specific segments and tax types.

Mandatory Filing Phases for PAYE employees

The PAYE professionals required to file on a phased basis are:

- **Phase 1:** Medical Doctors (all categories); Attorneys; Accountants (Registered Public Accountants); Company Directors;
- **Phase 2:** Engineers (all categories); Architects; Surveyors (all categories); Valuators (real estate); Actuaries; Pilots; Tertiary level academia personnel
- **Phase 3:** All PAYE Employees

The professional groups named, include those employed both in the private and public sector.

Establishing a system for tax credits to individuals filing returns, based on provision of information on persons paid for services.

As an incentive to file a tax return, it will be recommended that a system for tax credits be established for specific expenses (e.g. medical, home improvement) whereby to make a claim, the Invoice Number, Taxpayer Registration Number (TRN), name and amount paid must be disclosed. Only where the supplier of the service is verified as having issued that invoice will a refund be paid. This will make it unattractive to do business with persons outside the net and will eventually force them to register.

GCT returns to include schedule of details of invoices, both sales and purchases, and filed electronically.

With detailed information for all transactions, both sales and purchases, very useful data will be available for the data-mining unit to identify persons outside the net. Acknowledging that non-compliance is sometimes due to ignorance, an enhanced public education campaign will be rolled out to support the compliance mechanisms herein mentioned. There will be constant reminders on taxpayer obligations and rights and how each tax type operates.

Improving Filing and Payment Compliance

Refining the risk management system

The risk assessment model will be refined and utilized for prioritizing selection of taxpayer entities for filing and payment compliance intervention. Taxpayers will be appropriately segmented and programmes developed to target each group with specific actions.

Implementation of the Tax Arrears Write Off Policy

It is anticipated that the legal framework for the tax arrears write off policy will be in place at the start of FY 2013/14. The administrative mechanism will be fine-tuned as needed. With the gradual write off of uncollectible arrears, the cases for focus will be greatly narrowed and misleading statistics re potential recoverable amounts adjusted.

Aggressive promotion of e-services

A public awareness campaign supported by individual assistance will be launched. Filing centres with kiosks to facilitate e-filing are to be established in at least 4 Revenue Service Centres. At these locations, taxpayers will be able to file and pay online, with personal assistance on hand at all times.

Mandatory TCC for requirement for licensing with professional bodies

TAJ will continue to advocate for the legislation of mandatory Tax Compliance Certification (TCC) by all professionals who are applying to be registered/licensed by their respective professional bodies.

Publicizing delinquent taxpayers

For matters brought before the Court for failure to file and pay, lists will be published in the print media and on TAJ's website. This will serve as a deterrent to being non-compliant.

Improving Reporting Compliance

The highest risk for revenue loss from inaccurate reporting is in the large taxpayer segment. To this end, the auditing capabilities of the Large Taxpayer Office (LTO) will be enhanced through the assignment of additional resources, human and otherwise, and the continued training of audit staff across all segments.

Taxpayer Education and Customer Service

TAJ will provide targeted assistance to professionals who will be required to file tax returns, even where they are on the PAYE system. Their rights and obligations will be clearly communicated in planned sessions developed specifically for the grouping. All fields of practice in the medical profession will benefit from this educational activity.

The TAJ will establish 'filing centres' across the island to facilitate persons using our e-portal to do transactions. There will be locations within specific Revenue Service Centres where kiosks will be provided, along with trained personnel to assist in e-payments and e-filing. The Service Centres planned for the establishment of these kiosks are: St. Andrew, Kingston, May Pen and Montego Bay.

Promotion of e-services will target high volume transactions, such as, Property Taxes and Traffic Ticket payments. Additionally, all large entities will be mandated to file all their obligations on-line.

Each Revenue Service Centre will host Expos/Seminars based on the needs of the locality. This will be done in the banking hall or in tents outside the facility or at any other appropriate location.

The TAJ's school-based educational programme will be bolstered through collaboration with the Ministry of Education. The intent is to ensure inclusion of education on taxation in the school curriculum.

Improvement in the quality of taxpayer enquiry services will be done through application of the Client Relationship Management system at the Customer Care Centre (CCC) across the tax offices. Accurate and consistent responses will thus be received for similar queries.

A special Public Relations (PR) campaign will be launched aimed at reducing tolerance of the shadow economy and to build a positive tax culture. The negative effects of tax evasion and the role of taxes in providing public services will be emphasized.

OBJECTIVE 2: Modernization of the Organization (personnel, processes, technology, physical infrastructure)

Tax Administration Jamaica (TAJ) will continue with its modernization programme which focuses on business process re-engineering, enhancing communication and information technology, simplifying the tax system and improving infrastructure.

Continuation of Tax Administration Reform

Amendments to the Revenue Administration Act, establishing a unified "Tax Administration Jamaica", as a department of the Ministry of Finance, came into effect on May 1, 2011. This constituted the first phase of the structural transformation of the Tax Administration. For the second phase, the transformation of the tax administration into a Semi-autonomous Revenue Authority (SARA), further legislative proposals were passed in March 2013.

The reform of tax policies and tax laws can only be of limited effect if these efforts are not complemented and supported by tax administration reform. The perception persists, in particular among members of the private sector that, despite the reforms to-date, the tax system remains unfriendly, and unresponsive and that there is still little traction or appetite for fundamental reform. As a consequence, system inefficiencies undermine government's call for voluntary compliance and the tax system continues to be an obstacle to the smooth conduct of business.

The principal objective of this change of governance model is, to provide support through the intervention of a board of management comprising technically qualified representatives from both the Government and Civil Society, for the continued modernization and improvement of the operations of the tax administration.

Information Technology

A major component of the reorganization effort is the intended acquisition of a new computerized tax administration system, which will make for more efficient, complete, reliable and accurate processing of taxpayer transactions and the maintenance of taxpayer accounts. The system will also provide a platform to allow taxpayers restricted access to their accounts. Based on the redesigned tax processes, work on the request for proposals (RFP) document for this system has been completed and the next step is to invite proposals from suppliers. Considerable effort is also being made to correct the numerous errors in the present system in preparation for migration to the proposed system. Work is also being done in the design and building of an IT system for such administrative areas as human resources management, facilities and inventory management and records management.

TAJ will continue to develop an online self-serve concept by placing more services on-line, thereby adding to the 7 types now available as well as increase the payment instruments from only credit cards to debit card and bank transfers. Further expansion will see the introduction of other services such as, application for refund, reporting of problems by taxpayers, submission of applications for employment and enhancing the functionality of the website, such as online application for TCC.

Enablement of e-Tax Services

As an ongoing activity, TAJ will expand the e-filing and e-payment portal and enhance and expand the Tax Reminder System. The introduction of Third Party Collection through the open tender process will be pursued once the legal impediments have been removed.

Enterprise Risk Management

TAJ has established an Enterprise Risk Management Unit, which is primarily responsible for collecting and analyzing the departments risk information and developing and implementing strategies to build and improve the department's risk management infrastructure (culture, experience and processes - technological and manual).

TAJ has also established a Risk Management Committee and a risk champion with oversight responsibility of the department's risks information. A risk management policy guided by the regional SEMCAR (Supporting Economic Management in the Caribbean) Risk Management Policy Framework was developed and is being used to implement and guide risk management in TAJ. This policy outlines the framework within which the department will be managing risks.

Jamaica Customs

Strategic Objectives for FY 2013-2014 and the Medium Term

The Jamaica Customs (JC) was designated an Executive Agency effective April 1, 2013, by Ministerial Order 2013 in accordance with the Executive Agency (EA) Act 2002.
The Agency's strategic objectives and strategies for FY 2013/14 and over the medium term are:

1. **To detect and assess the illegal import and export of prohibited and restricted goods**

The strategies to be employed include:

- Properly vet entries;
- Increasing secondary examinations;
- Monitoring arrears records;
- Reducing the cost of collecting revenue; and
- Developing systems to improve the detection and prevention of prohibited and restricted goods.

2. **To prevent and detect the illegal import and export of prohibited and restricted goods.**

In undertaking this objective, the JCD will**:**

- Review and amend the Customs Act and Regulations in order to align legislation with current best practices;
- Review and amend legislation to curtail the importation of illegal and prohibited goods; and
- Identify simple, fair and standardized procedures and legislation that will foster compliance and will not be arduous to travellers and businesses.

3. **To facilitate the movement of legitimate goods and persons across Jamaica's borders.**

The strategies to be employed will include:

- Continued communication of customer charter standards both internally and externally in order to promote compliance,;
- Developing and acquiring systems that will improve the detection and prevention of prohibited and restricted goods;
- Conducting workshops in effort to achieve top-quality customer service delivery;
- Focusing on reducing the time it takes to clear goods and passengers; and

- Broadcasting information through conducting client awareness surveys.

4. To encourage voluntary compliance, through the simplification and standardization of systems and procedures and implementation of effective deterrents.

The key strategies will involve**:**

- Updating, simplifying and standardizing systems, procedures and legislation;
- Monitoring and analyzing the number of finalized prosecutions (against number of prosecutions taken to court); and
- Ongoing public education through the various media, such as, workshops, meetings, public forum, expos, print and electronic media.

5. To streamline core business processes through the effective use of technology.

The main strategies to achieve this objective are as follows**:**

- The E-Manifest system will be implemented in private bonded warehouses;
- ICT projects for core computerization and support activities will be planned, developed and implemented; and
- A Customs system will be acquired and implemented for departments.

6. To develop and maintain a team of motivated, professional and competent staff.

The strategies to be employed include**:**

- The filling of vacancies, especially for critical jobs;
- Developing and implementing Staff Satisfaction Surveys;
- Aligning of a Performance Management System with a Performance Recognition Scheme;
- Identifying and implementing training development intervention for each level of staff; and
- Monitoring of performance management processes.

Appendix VI

REVIEW OF SELECTED CAPITAL PROJECTS

The Government of Jamaica will receive assistance from its Multilateral/Bilateral partners to execute these projects and programmes in FY 2013/14.

SOCIAL SECTOR

Support for the Social Safety Net

Social Protection Project (IBRD)

The Programme of Advancement Through Health and Education (PATH) offers assistance in the form of grants to two (2) categories of beneficiaries: (i) children/students ages 0 – 19 years and (ii) adult poor including the disabled, elderly, pregnant and lactating mothers and the destitute. The Steps-to-Work (StW) programme is an initiative which targets working age members of PATH eligible households for referral to relevant support services to enable them to seek and retain employment.

PATH is funded with the assistance of two (2) loans: (a) US$40.0mn from the World Bank; US$32.0mn of this, which supported cash transfers to beneficiaries, ended in October 2012 and (b) US$30.0mn from the Inter-American Development Bank (IDB) (agreement signed in December 2012); US$20.0mn of which will be used to support the cash transfer component. The GOJ's contribution to the programme for FY 2013/2014 is $3,240mn. Additionally, US$0.452mn from grant assistance of US$0.572mn received from the IDB will be used in FY 2013/2014 to support activities to improve the livelihood of the elderly and persons living with disabilities (PWDs).

During FY 2012/13, the number of registered beneficiaries with PATH increased from 390,000 to 412,000, which is 14% above the base target of 360,000 beneficiaries. Grant payments to beneficiaries amounted to $3.7bn and included bonus payments ranging from $15,000 to $50,000 depending on the level of education being pursued. The Pilot of the StW Programme resulted in remedial education and training of 8,806 participants islandwide and entrepreneurial grants provided to 563 clients at a cost of $40.0mn

In commemoration of the 10th Anniversary of PATH, 17 scholarships were awarded to PATH students who had matriculated to accredited tertiary institutions. At a cost of $16.5M, the scholarships awarded were for study in the following areas: Medicine (6), Law (4), Nursing (2), Business Administration (1), Special Chemistry (1), Pure and Applied Science (1) and Arts (1). Activities to be undertaken during FY 2013/14 include:

- Provision of 120 housing units to PATH families;
- Provision of 1,000 Entrepreneurship Grants to Steps to Work clients;

- Provision of skills training and remedial education to Steps to Work clients: 525 farmers, 120 Low Literacy clients, and 500 Youth;

Social and Economic Inclusion of Persons with Disabilities

The purpose of this project is: to enhance employability of poor disabled persons (between 18–36 years old) and improve their chances to become economically sustainable and escape poverty; to develop skills of approximately 300 poor persons with disabilities, who benefit from the conditional cash transfer PATH programme; to strengthen service delivery for poor disabled children with special educational needs; and to provide technical assistance to the Early Stimulation programme to improve the service provided to 600 disabled children 0 to 6 years old. A budgetary allocation of $35.00m is made for FY 2013/14 to undertake the following activities.

- Contract Non-Government Organisations (NGOs) to participate in delivering services to the disabled population;
- Implement early stimulation strategies to prepare children with disabilities from PATH households for schools;
- Procure learning aids to help children to improve their learning.

Integrated Social Protection and Labour Programme - (IDB)

Implementation of this project is a continuation of the Government of Jamaica's effort to provide social protection for the most vulnerable. The project will provide assistance in the form of cash grants to two categories of beneficiaries: (i) children/students ages 0-19 years and (ii) pregnant and lactating mothers. The GOJ will continue to provide support and assistance to the adult poor including the disabled, elderly and destitute.

The programme will also support modernization of the school feeding programme, the strengthening of PATH and improving labour market outcomes. Activities to be undertaken during FY 2013/14 include:

- On-going registration of persons to the PATH Programme;
- Payment of PATH grants to approximately 400,000 beneficiaries;
- Payment of post secondary grants to 2,500 PATH students;
- Introduction of bursaries for tertiary level students;
- Introduction of bus fare assistance to PATH students;
- Renovation of the Early Stimulation Programme Child Development Centre;
- Development of a National Employment Training Policy;
- Development of a School Feeding Policy.

Jamaica Social Investment Fund (JSIF)

JSIF was established in 1996 to spearhead a number of projects aimed at alleviating the social and economic needs at the community level. The components of the project are:

(i) Inner City Basic Services (ICBS) – IBRD

The Project seeks to improve the quality of life in twelve inner-city communities through improved access to basic infrastructure, enhanced community capacity and improvement in public safety.

During FY 2012/13, three integrated infrastructure sub-projects (water, sanitation, drainage and road works) were completed at Lauriston, Central Village and Knollis in the parish of St. Catherine. Phase 1 of constructing a main drain in Flanker, St. James was completed. Six road rehabilitation packages were completed and an additional seven were substantially complete. Mediation and conflict resolution workshops were conducted in 12 communities and after school homework programmes were also implemented in those 12 communities. The Project is scheduled to conclude in December 2013 and implementation of the following will be undertaken in the FY 2013/14**:**

- Construction of mobile communities security and mediation centers in four ICBSP communities
- Completion of land tenure regularization activities in Flanker, St. James
- Completion of five storm water drains
- Completion of Federal Gardens Sewer rectification
- Completion of Federal Gardens landscape and multipurpose hard court at the community centre
- Completion of three community centres: Central Village; Bucknor; and Knollis

(ii) Community Investment Programme – (CDB)

The objective of the programme is to improve the socio-economic conditions in poor rural communities by increasing access to basic social and economic infrastructure, social services and organizational strengthening interventions.

During FY 2012/13, four sub-projects were completed under the Economic Infrastructure Component of the Agreement: Hayfield Road and Water Rehabilitation – St. Thomas (2.0 km); Water Wheel to Pleasant Hill Road Rehabilitation – Westmoreland (2.0 km) Bottom Coleyville Road Rehabilitation – Manchester (1.6 km) Green Bottom Road Rehabilitation - Manchester (1.7km). Six sub-projects were completed under the Social Infrastructure Component. Four were educational sub-projects; Freemans Hall Infant and Primary Sanitation – Trelawny, Sawyers Primary School Sanitation – Trelawny, Wakefield Primary Rehabilitation – Trelawny, Wilsons Run All Age School Sanitation – Trelawny; one was a water supply project; Bellevue Water Supply Completion – Portland; and one was a health project; Sandy Bay Health Centre Rehabilitation – Hanover.

Twenty four sub-projects are scheduled to be implemented during FY 2013/14 these include:

- Rehabilitation of six educational facilities including two basic, two primary, one All Age and one Special Education school.
- Implementation of four sanitation sub-projects
- Implementation of one water supply sub-projects

- Implementation of nine road rehabilitation sub-projects
- Implementation of thirteen complementary social services sub-projects.

Rural Economic Development Initiative

The Project Development Objective (PDO) is to improve market access for micro and small-scale rural agricultural producers and tourism product and service providers by linking the rural enterprises of agricultural producers and tourism product and service providers to markets.

During FY 2012/13 thirty-two sub-projects commenced implementation (22- agricultural, 7- tourism and 3- capacity building). The agricultural sub-projects were in the areas of beekeeping, greenhouse installation, pig rearing and crop production. The tourism projects focused on the areas of marketing, management and installation of critical infrastructure.

Fifty three (53) sub-projects are scheduled to be implemented during FY 2013/14, including:

- Implementation of eighteen agricultural sub-projects (in the areas of greenhouse installation, irrigation system installation, pig rearing, facilities upgrade, poultry rearing and agro-processing)
- Implementation of eight tourism sub-projects (in the areas of trail development, community based tourism, and Heritage tourism)
- Implementation of eleven technical assistance and capacity building sub-projects
- Implementation of twenty irrigation schemes

(iii) Basic Needs Trust Fund (BNTF) – CDB Grant

Two projects under the Basic Needs Trust Fund of the CDB are being implemented by the JSIF and seek to reduce the vulnerability of the poor using gender sensitive, participatory and environmentally sustainable approaches to expand the stock of basic infrastructure, improve the human resource base through skills development and strengthen the community organisations.

Basic Needs Trust Fund Six (BNTF6)

During FY 2012/13, rehabilitation works on the following sub-projects were completed Five - ***Water and Sanitation***; seven – E***ducation*** (including primary, basic and infant); one - ***Production related infrastructure*** (Rocky Point Market in Clarendon); one- roadway (2.4km) and one-bridge- ***Access (roadways, bridge and drain);*** and one health centre in Mavis Bank. The following activities will be undertaken in FY 2013/14:

- Construction of eight (8) sub-projects
- Implementation of eight (8) organisational strengthening projects
- improvement of water supply systems in three rural communities
- Completion of construction of one market

Basic Needs Trust Fund Seven (BNTF7)

This is a new project, which will commence implementation in FY 2013/14. The following activities will be undertaken during the FY 2013/14:

- Refurbishing of the Esher Primary School sanitation facilities to provide access for the physically challenged;
- Organisational strengthening activities;
- Rehabilitation and expansion of Black River Primary and Infant School

(iv) Community Crime and Violence Prevention Project – (Japan/World Bank)

The Project is funded by a grant of US$2.65mn from the Japan Social Development Fund and administered by the World Bank. The Project seeks to reduce the incidence of crime and violence in twelve targeted inner city communities. In that regard, during FY 2012/13, ten summer camps were held which benefited 730 at-risk youth and provided activity based programmes that focused on career guidance, self esteem building, conflict resolution and sexual reproductive health education. During FY 2013/14, sixteen intervention sub-programmes will be carried out in the targeted communities.

(v) Poverty Reduction Programme II

During the FY 2012/13 – four educational civil works sub-projects were completed.

The project is scheduled to end December 2013 and is scheduled to complete the following activities:

- Rehabilitation works on six schools; three basic and three primary schools.
- Implementation of three sanitation projects
- Rehabilitation of one hostel.
- Execution of a capacity building study

Primary Education Support Project (PESP)

The project is designed to:

- Contribute to the improved performance, efficiency and equity of the primary education system through the effective implementation of the Revised Primary Curriculum and the national assessment standards in all primary schools.
- Provide 5,175 additional primary school places by replacing 5 schools, extending 5 and constructing 2 new schools.

The 5 replacement and 5 extended schools were completed between FY 2007/2008 and FY 2010/2011. Construction of one of the two new schools, Red Hills Road Primary, is in progress. In FY 2012/13, 81.0% of construction works at Red Hills Road Primary School was completed.

During FY 2013/14, approximately 19% of the works outstanding on the Red Hills Road Primary School will be completed.

Education System Transformation Programme

The general objective of the Programme is to support the education transformation process, including both institutional and policy changes and to build the capacity of the key agencies established to support the national Education System Transformation Programme (ESTP). The investment component will also provide some support to the MOE's policy to expand compulsory education from age 16 to 18 by providing approximately 2,100 additional secondary school spaces.

During FY 2012/13, the following was done:

- Conducted 304 school inspections
- Trained 93 School Inspectors.
- Continued the Teacher Registration process with 23,400 entries currently on-line.
- Developed a Code of Conduct for Teachers.
- Developed Master Training Plan and Teaching Standards.
- Conducted training of Principals and Teachers.
- Finalized Jamaica Teaching Council (JTC) discussion bill. Revised draft with Chief Parliamentary Counsel (CPC).
- Seventy-five percent completion of Teacher Management Information System.
- Fifty percent completion of construction of Cedar Grove High School.

Activities to be undertaken during FY 2013/14 include:

- At least 150 school inspections
- Finalization of activities for accreditation of Inspector Training by the University Council of Jamaica.
- Commencement of activities for Implementation of an electronic system to support inspections
- Completion of the construction of Cedar Grove High School
- Extension to 3 existing schools

SECURITY and JUSTICE

Citizens Security and Justice Programme (CSJP)

The Government of Jamaica secured a Loan of US$21.0mn from the IDB to assist in the implementation of strategic intervention programmes to reduce crime and violence in twenty-eight (28) vulnerable communities by addressing identified individuals, family and community risk factors. The Department for International Development (DFID) provided a grant of US$12.7mn to expand the reach of the Programme to twenty-two (22) additional communities bringing to fifty (50), the total number of communities benefiting from the programme.
During FY 2012/13, the following was undertaken:

- Provision of tuition support to 1,377 students (903 females and 474 males);
- Summer employment provided for 329 students (132 males, 197 females);
- Placed 288 persons in Employment Internship Programmes (6 months each);
- Vocational skills training delivered to 1,002 persons (495 males and 507 females);
- Pre-vocational skills training delivered to 309 persons (168 males and 141 females);
- 484 persons benefited from on-the-job training (457 males and 27 females);
- Administrative support provided to 13 Community Action Committees;
- Restorative Justice centres established in ten (10) communities and the RJ programme piloted in all ten.

The activities that will be undertaken during FY 2013/14 include:

- Provision of tuition support for 900 students and vocational skills training for 1,315 students;
- Provision of on-the-job training for 605 persons.
- Providision of administrative support to 35 Community Action Committees;
- Completion of 7 small infrastructure projects;
- Projects to build community buy-in for the programme in new communities;
- Renovation of 7 multi-purpose centres;
- Conduct sensitization workshops for 72 community stakeholders;
- Training of 3,000 police officers to deliver Restorative Justice;

IMPROVED REVENUE COLLECTION

Promote, Renew, Invigorate, Develop and Energize (PRIDE) Jamaica

This four year project is designed to reduce/eliminate administrative barriers and improve the policy framework to establish an improved business operating environment to support growth. The project was previously financed by USAID. The GOJ has committed a total sum of US$1.7m to be provided over two FYs beginning 2013/14, to support continuation of the programme's implementation for a further 18 months.

PRIDE Jamaica involves strengthening of the Tax Administration Jamaica (TAJ) and the Jamaica Customs Department and has focused primarily on tax policy and administration, customs policy and administration, legislative process and licensing. The continuation in activities is aimed at increasing revenues.

The activities to be undertaken during FY 2013/14 include:

- Continue project management support to implement the Tax Administration Reform program;

- Continue project management support to implement the Jamaica Customs Modernization Program;

Fiscal Administration Modernization Programme

The objective of the Programme is to support the Government of Jamaica in achieving a sustainable fiscal position by strengthening the Ministry of Finance and Planning's institutional capacity to effectively (i) improve customs and inland tax collections; and (ii) manage debt and Government payment operations.

During FY 2012/13, the following was achieved:

- Commenced procurement of the Documentation Management System and Integrated Tax Administration System for Tax Administration Jamaica.
- Approval of Customs Department as an Executive Agency.
- Commenced procurement of the risk management system and document management system for the Customs Department
- Acquisition of 120 personal computers, four (4) servers and an Enterprise Backup and storage solution for customs.
- Piloting of the Central Treasury Management System in the Ministry of Finance and Planning, Account General's Department. Ministry of Education and the National Works Agency.

Activities to be undertaken during FY 2013/14 include:

- Commencement of implementation of a Documentation Management System (DMS) and a new Integrated Tax System (ITS);
- Acquisition of software for the establishment of Risk Management System;
- Commencement of implementation of full electronic Commercial Importer Data/Capture System;
- Commencement of implementation of HR management IT System;
- Procure software and hardware for internal web-site for customs staff;
- Commencement of consultancy to develop Requirements Definition for the new Integrated Financial Management Information System (IFMIS);
- Acquisition of a Database Management System (DBMS) - Informix System.

COMMUNITY RENEWAL

Community Renewal Programme (CRP)

This programme is expected to support the transformation of Jamaica's most volatile and vulnerable communities through the coordination and appropriate targeting of existing socio-economic projects intended to meet the identified area of need within these communities.

The CRP will target 100 volatile and vulnerable communities across five parishes and will be implemented on a phased basis over a ten year period.

During the FY 2012/13, three primary projects were identified for a pilot roll out plan under the Majesty Gardens Renewal project, Seaview Gardens Lifestyles Commercial Centre project and the Kingston Lifestyle Centre project. The pilot was conducted in the Majesty Gardens community and activities undertaken were:

- Completion of 46 apartment units by the NHT;
- Establishment of a Majesty Gardens Community Development Committee
- Strengthening of parenting groups through RISE Life Management interventions including literacy training;
- Tertiary level support to five (5) students under the PRPII scholarship programme and CSJP II;
- Commencement of gang demobilization interventions by the Peace Management Initiative (PMI);
- Hosting of consultations and conducting assessments to explore receptivity was undertaken in the other two communities.

The activities envisaged for the FY 2013/14 include:

- Full implementation of the CRP in 19 targeted communities as piloted in Majesty Gardens ;
- Development of a coordination framework for the CRP and its partners; and
- Conducting surveys in the 19 communities to gather baseline data for the programme.

Youth Development Programme

In 2008, the Government of Jamaica (GOJ) secured a loan from the IDB in the sum of US$11.0mn to facilitate the transition of unattached youth to adulthood and the world of work through training, on-the-job experience, information dissemination and labour intermediation services. The project provides support to education and training programmes offered by the National Youth Service (NYS), the Jamaica Foundation for Lifelong Learning (JFLL) and the Career Advancement Programme (CAP).

Achievements for FY 2012/13:

- Completed IT audit for Youth Information Centres (YICs) and audit of Youth Development Programme (YDP) financials for 2009/10 and 2010/11.
- Developed Electronic Programmatic Inventory and GAP analysis.
- Continued support to Career Advancement Programme

The following activities will be undertaken during FY 2013/2014. Complete**:**

- Development of system for corporate outreach; Construction of two NYS facilities/YICs (Clarendon & St. Catherine); Development, monitoring and evaluation framework for NYS programmes;

- Design of operational model for YICS and commence pilot in two YICS; Revision of the National Youth Policy.

HEALTH

HIV/AIDS Prevention and Control Project

External funding to support the National HIV/AIDS Prevention and Control programme has been significantly reduced for FY 2013/14. Only $69.0mn from the Global Fund remains to be spent in the fiscal year and disbursement from the US$10.0mn loan from the IBRD ended in March 2013. External funding for the fiscal year will be provided from: a new Global Fund Grant of US$5.0mm over three fiscal years to assist in the provision of ***Antiretroviral (***ARV) drugs and treatment monitoring services, while the GOJ transitions from this funding arrangement to a new source of funding; and funds from a USAID grant of US$26.20mn which expires in September 2014.

The Government of Jamaica being cognizant of the importance of sustaining the gains made in the reduction of the HIV prevalence rate in Jamaica, in collaboration with its international partners, allocated **$346.0mn** in the Ministry of Health's recurrent budget to assist in the purchasing of ARV drugs for persons requiring the drugs.

Details of the two projects supporting the HIV/AIDS programme for FY 2013/14 are as follows:

Consolidating existing gains while scaling up to provide Universal Access to HIV treatments, care and prevention services with emphasis on special vulnerable populations (Global Fund – Round 7)

The objective of the project is to strengthen the multi-sector response to prevent and address the HIV/AIDS epidemic in Jamaica. Through consolidating existing gains, while scaling up to:

1. Reduce the transmission of new HIV infections and mitigate the impact of the HIV epidemic.
2. Provide universal access to Anti-retroviral (ARV) treatment, care and support.
3. Protect fundamental human rights and empower Jamaican people to make healthy choices.

During FY **2012/13**, the following were achieved:

- 3,661 service deliverers trained in HIV prevention
- 3,994 polymerase chain reaction (PCR) test conducted
- 75% of sex workers received an HIV test in the last 12 months and received the results
- 697 inmates reached in all adult correctional institutions through HIV intervention programmes
- 453 children reached with ARV drugs
- 9,680 adults reached with ARV drugs
- 81.0% of persons living with HIV /AIDS on ARV reported at least 90.0% adherence

- 5,658 adolescents (aged10-14) reached with HIV prevention message and interventions in out-of-school setting
- 22,218 youth (aged15-24) reached with HIV prevention message and interventions in out-of-school setting
- 8,134,456 condoms distributed
- 965 teachers trained in HFLE life-skills and taught it in the last year
- 437,577 students reached through life-skills based health and family life interventions in schools

Transitional Funding Mechanism (TFM) Global Fund

The grant agreement between the Government of Jamaica and the Global Fund for this project is scheduled to be signed during FY 2013/14.

The objective of the project is to provide a mechanism for the funding of antiretroviral drugs and treatment monitoring services while the GOJ transitions from the funding provided by the Global Fund Round 7 Grant to another source of funding.

Activities to be undertaken during FY 2013/14 include: training of service deliverers in HIV/AIDS prevention; provision of anti-retroviral treatment and monitoring

Programme for Reduction of Maternal and Child Mortality (PROMAC) in Jamaica (EU)

The grant agreement between the Government of Jamaica and the European Development Fund for this project is scheduled to be signed during the FY 2013/14.
The objectives of the project are to:

- Improve the newborn care and emergency obstetric care of six hospitals.
- Improve the quality of Primary Health Care services and referral systems to ensure adequate management of high risk pregnant women.
- Improve the clinical knowledge and skill of health workers.
- Improve the health seeking behaviour of targeted population and the effectiveness of civil society.

Activities to be undertaken during FY 2013/14 include:

- Preparation of High Density Units (HDU) designs for 6 hospitals
- Local training of nurses and doctors in neonatology
- Joint training programmes established between UWI and overseas universities to commence September 2013
- Signing of contract with Technical Assistance Team (TAT) for project management

ENERGY EFFICIENCY and SECURITY

In an effort to curtail the country's increasing energy bill, the Government of Jamaica secured two loans for improving energy efficiency and security: (i) US$20.0mn from the IDB and (ii) US$15.0mn from the IBRD.

Energy Efficiency and Conservation Programme (IDB)

The Programme seeks to enhance energy efficiency and energy conservation potential through the design and implementation of cost saving energy efficiency and energy conservation measures in the public sector. During FY 2011/12, the project execution unit was established and a steering committee established. The investment plan to retrofit public sector facilities was completed.

The following activities were accomplished during FY 2012/13:

- Development of energy efficiency and conservation guidelines for the public sector;
- Engagement of Communication and PR Consultant to promulgate the behaviour change;
- Establishment of a database for the benchmarking and monitoring of energy consumption by each public sector entity;
- Commencement of installation of 3,497.08sq.m. of Cool Roof Solution at the OPM;
- Completion of installation of 3,058.48 sq. m. of solar film at the OPM, DBJ, NHT - Head Office, IRD - Constant Spring, CAA & BSJ;

In FY 2013/14, the following activities will be carried out:

- Commencement of the replacement of inefficient lighting and air conditioning systems in selected public sector buildings;
- Continuation of the insulation of selected public sector buildings to reduce energy consumption by their air conditioning systems

Energy Security Efficiency Enhancement Project (IBRD)

The Project started in August 2011 and will promote private sector investment in energy efficient and renewable energy projects and the implementation of fuel diversification through the development of the gas strategy and fuel switching.

The following activities were accomplished during FY 2012/13:

- Evaluation of 480MW bid from Jamaica Public Service Company Limited (JPS) completed. JPS awarded rights to construct 360 MW combine cycle power plant;
- Firm selected to conduct pre-feasibility and feasibility studies of 5 small hydro sites;
- Loans totalling approximately $70.0mn disbursed by the DBJ.

During FY 2013/14, the following will be carried out:

- Development of the legal and regulatory framework for the LNG sector;
- Feasibility assessment of establishing hydro electric power plants on five rivers in Jamaica;
- Development of the Electric Power Sector Policy and Modernisation of the Electricity Lighting Act;
- Grid Impact Analysis and Assessment for Increased Penetration of Renewable Energy into the Jamaica Electricity Grid;
- Commencement of expansion of testing chambers at Bureau of Standards (BSJ).

AGRICULTURE

Agriculture Competitiveness Programme

The project is being financed from a loan of US$15.0mn from the IDB. The Programme seeks to increase the competitiveness in the agricultural sector by improving the capacity of small and medium-sized farmers to access national and international markets. The Ago-Investment Corporation (AIC) is the executing agency for the Project.

The following activities were accomplished during FY 2012/13:

- Ten marketing negotiation & skills workshops held for producers organisations;
- Six of ten cluster sensitization and formation workshop formed.
- Food Safety policy approved by Cabinet and implementation plan being developed by National Agricultural Health & Food Safety Committee
- Performance evaluation report on Food safety prepared;
- Equipment for the Codex / Food Safety Secretariat Office procured;

The activities that will be undertaken during FY 2013/14 include:

- A study of domestic/export market opportunities, capacity building and market linkages;
- Engagement of national & international consultants to conduct Farmer Field School (FFS) on product and post harvest technology;
- Preparation of training materials on marketing, market information and agribusiness for all relevant Extension Officers;
- Expansion of Laboratory at the Cornwall Regional Hospital;

Sugar Transformation Project

The Sugar Transformation Project represents phase II of the Jamaica Country Strategy for the Adaptation of the Sugar Industry 2006-2020 (JCS II). The project is funded by the Government of Jamaica and the European Union (EU) and is scheduled to end March 2015. Under JCS II the Government of Jamaica provides funding for the development of sugar dependent areas (SDAs), by improving the socio-economic conditions of residents and creating an environment where income generation is possible. The level of development is measured by set indicators which when achieved, will trigger the release of pre-determined sums from the EU into the consolidated fund. The objectives of this project are to:

- Develop a sustainable private sector-led sugar cane industry by 2015; and
- Coordinate the smooth and effective implementation of the Jamaica country Strategy for the adaptation of the Sugar industry 2006-2020.

The following activities were accomplished during FY 2012/13:

- Capitalisation of Cane Expansion Fund now at J$1.5bn
- Disbursement of loans valued at $270.0mn for cane replanting/equipment procurement
- Award of six contracts with a combined value of J$637.3mn to install infrastructure (roads, sewerage etc) on barracks relocation sites.
- Grants of over J$300.0mn to 17 schools, 3 clinics and several sporting facilities to upgrade different types of facilities in the Sugar Development Areas
- Expenditure of $23.9 million to restructure the Cane Farmers Association.

The activities that will be undertaken during FY 2013/14 include:

- Rehabilitation of specific rural cane roads and continued cleaning of regional drains in the St Thomas and Westmoreland Sugar Dependent Areas;
- Relocation of some residents of the sugar estates barracks in St Thomas, Trelawny, Westmoreland and Clarendon to new housing settlements;
- Support of improvements to social, economic and environmental infrastructure in seven (7) Sugar Dependent Area;
- Continued provision of support to the Cane Expansion Fund.

INFRASTRUCTURE

Transportation Infrastructure Rehabilitation Programme

On October 10, 2008, the Government of Jamaica and the IDB signed a Loan Agreement in the sum of US$50.0mn for the rehabilitation of vital sections of the primary road network which were damaged by the passage of recent tropical storm systems.

During FY 2012/13, the Hope River Bridge protective/bunding works was completed; the resurfacing of the Scotts Cove to Ferris Cross section was 28.0% complete; Phase 1 and 2 of the river training works in Yallahs, St Thomas was complete; the resurfacing of Red Hills, Santa Maria was 98.0% complete; the feasibility study of the Southern Coastal Highway was 40% complete; and the Roselle revetment works (St Thomas) was 60.0% complete.
During FY 2013/14, the following activities will be undertaken:

Commencement of the Harbour View Revetment works and achievement of 30.0% completion; rehabilitation of the Stellar Road intersection; completion of Revetment works at Roselle in St. Thomas; completion of the Red Hills to Santa Maria resurfacing works contract; Resurfacing of the Belmont to Ferris Cross Road (Westmoreland); Scotts Cove to Belmont (Westmoreland) and the Bog Walk to Sligoville Road section (St Andrew); completion of the Feasibility study on the southern highway corridor; and completion of the Master Drainage Plan for select flood prone areas along the major road network.

Palisadoes Shoreline and Rehabilitation Works

Works being executed under this project are financed from a Loan of US$58.1mn from the People's Republic of China to carry out revetment works on the Palisadoes Peninsula to protect the Kingston Harbour from storm surges while reducing the susceptibility of the corridor to flooding. During FY 2012/13 construction was completed for: revetments 1 & 2; road rehabilitation works; relocation of the necessary utility poles. Activities to be undertaken during FY 2013/14 include: installation of a 6.0 km water pipeline; complete dunes and mangroves restoration works,

Jamaica Economical Housing Project

On February 3, 2010, the Governments of the People's Republic of China and Jamaica signed the concessional loan in the sum of RMB Yuan 487,000,000 (approx. US$62.7mn) for the provision of affordable housing solutions to low income earners and workers in the tourism industry.

During FY 2012/13, construction commenced on infrastructural works: 150 serviced lots in Belle Air I and 260 in Belle Air II; 1,320 new; and upgraded housing solutions in Belle Air I, Belle Air II and Mt. Edgecombe IV in St. Ann:

The allocation of $1,454.0mn is to continue implementation of ongoing infrastructure works in accordance with the plan of providing 2,084 new and upgraded housing solutions in Bell Air I, Bell Air II, Bell Air III and Mount Edgecombe in St Ann.

Major Infrastructure Development Programme (MIDP)

On January 19, 2013 the Government of Jamaica and the People's Republic of China signed a conditional loan agreement in the sum of US$300.0mn to continue the improvement of the island's road network in order to enhance the quality of life of the citizens of Jamaica, and to stimulate economic development. Activities to be undertaken during F/Y 2013/14 include:

- The award of contracts for rehabilitation of six main roads, achieving 80% completion: Windsor – Seamans Valley to Moore Town (Portland); Chovey to Claremont (St Mary);Riley to Glasgow (Hanover); Silver Spring to Green Island (Hanover); Mandeville to Spur Tree via Swaby's Hope (Manchester); and May Pen to Hayes (Clarendon)

- Contracts for the reconstruction of four bridges to achieve 80.0% completion: Vanity Fair Bridge (St Mary);Latium Bridge (St James) Jacob River Bridge (Clarendon)

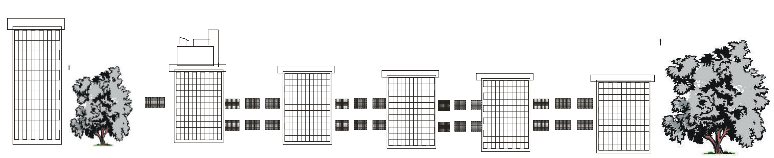
Kingston Metropolitan Area (KMA) Water Supply Project

The Kingston Metropolitan Area (KMA) Water Supply Project has been under implementation since 2002. A loan of US$60.48mn secured from the Japan Bank for International Co-operation was fully utilized by the end of FY 2009/2010. The outstanding works are being funded by the GOJ counterpart funds.

The objective of the project is to provide improved water supply service to the Kingston Metropolitan area (Kingston & St. Andrew and South East St. Catherine) to keep pace with the rapid industrial and housing developments in the areas. During FY 2012/2013 the following installation of 11.2km of the 12.7 km of pipeline targeted for installation under Lot 2B Civil works will be undertaken. Activities to be undertaken during FY 2013/14 include:

- **Completion of the construction of the civil works (pipe laying) for lot 2B - new source developments works for South East St. Catherine, which will facilitate the commissioning of lot 2A**

- **New source development works (rehabilitation of pumping station and construction of steel reservoir) for South East St. Catherine to achieve sufficient yield from the Rio Cobre water supply source.**



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