GOVERNMENT OF JAMAICA

FISCAL POLICY PAPER FY 2017/18

INTERIM REPORT

26th September 2017

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PART 1: FISCAL RESPONSIBILITY STATEMENT

INTRODUCTION

Amendments to the Financial Administration and Audit (FAA) and the Public Bodies Management and Accountability (PBMA) Acts in March 2014 enabled the Government of Jamaica's (GOJ) adoption of the enhanced fiscal rules. These enhanced rules require that the annual Estimates of Revenue and Expenditure and the accompanying Fiscal Policy Paper (FPP), be tabled simultaneously in February of each year, commencing February 2015, to allow for the approval of the budget prior to the start of the new fiscal year to which those estimates relate. This change to the budget preparation and approval process provides Parliamentarians with more time and more information to guide decision making. This early approval of the budget has now occurred twice, since the adoption of the enhanced fiscal rules as it relates to the new budget calendar. The call for parliamentary elections in February 2016 had prevented the tabling of the budget in February of last year.

The FY 2017/18 Estimates of Revenue and Expenditure, as well as the annual FPP, were tabled, as required under the enhanced rules, on February 9, 2017 and this allowed the approval of the budget by both Houses of Parliament on March 31, 2017. Under the enhanced fiscal rules, the Minister is also required to table in both Houses of Parliament, an Interim FPP within six months of the passage of the Appropriation Act for the financial year to which the relevant Estimates of Revenue and Expenditure relate. The tabling of this Interim FPP satisfies that timeline.

The FAA Act also requires that the Interim FPP include:

(a) The economic outturn of the previous financial year;

(b) The performance of the first quarter of the financial year;

(c) Projections to the end of the current financial year; and

(d) Projections for the succeeding financial year and the medium term.

The Minister with responsibility for Finance, under The FAA (Amendment) Act 2014, is also required to, by September 30 in each financial year, issue to accounting officers in MDAs, the Budget Call containing the economic and fiscal parameters which will govern the preparation of the Annual Estimates of Revenue and Expenditure for the next financial year and the medium term. This Interim FPP has been prepared and is being tabled to support the issue of the Budget Call within the requisite timeline and to facilitate robust debate and participation among Parliamentarians, entrusted with oversight in the management of the public finances of Jamaica and the performance of the economy.

With respect to the country's performance under the precautionary Stand-By Arrangement (PSBA) with the International Monetary Fund, the first review was conducted in February 2017 where all structural benchmarks and all (but one) quantitative targets for the December 2016 review were met. A second review was conducted in early September 2017, which covers the 6-month period to June 2017 and the IMF team's assessment is that the GOJ has satisfied all structural benchmarks and quantitative targets. Program implementation is characterized as strong by the IMF team, as evidenced by the strong over performance in the tax revenues and the stock of non-borrowed NIR.

The Government of Jamaica's commitment to economic reform and growth remains strong. The Government continues to maintain fiscal discipline and will ensure that all quantitative performance criteria and structural benchmarks are met going forward.

ECONOMIC UPDATE AND OUTLOOK

Over the past four years, the Government has been steadfastly implementing its economic reform program, now supported under the new PSBA. Growth, in real terms, continues unabated, with the country now recording nine (9) consecutive quarters of real growth. For the FY 2016/17, real output expanded by 1.3% and is programmed to be approximately 2.0% in the current FY. Much, however, remains to be done and the GOJ remains committed to staying the course. Inflation continued along a declining path, with CY 2016 recording an outturn of 1.7 per cent, lower than the 3.7% recorded in CY 2015. Net International Reserves (NIR) remains strong, the budget is in near balance and the debt/GDP ratio is firmly on a downward trajectory.

Primary objectives of the economic reform program include:

- Maintaining a Central Government annual Primary Surplus of 7.0% of GDP across the medium term;
- Achieving a Debt/GDP ratio of 96% or less by end FY 2019/20;
- Achieving average real GDP Growth of 2-3%;
- Attaining a Wage/GDP ratio of 9% by FY 2018/19; and
- Maintaining adequate funding of Social expenditures through adhering to a floor on social spending.

The economic reform program remains on track with the successful completion of the second review under the precautionary SBA with the IMF. Key highlights of the progress so far and future expectations include:

- The Central Government's Primary Surplus target of 7.0% was exceeded in FY 2016/17 with an outturn of 7.6% of GDP. This performance was driven by a combination of strong revenue collections ($8.6bn or 1.8% higher than budget) and lower total expenditure ($5.0bn or 1.0% less than budget). The primary balance target for FY 2017/18 and beyond remains at 7.0% of GDP;

- Central Government generated a marginally lower fiscal deficit in FY 2016/17 (0.2% of GDP) as compared to FY 2015/16 (0.3% of GDP). The original Budget which was approved in March 2017 had programmed a fiscal deficit of 0.3% of GDP. With the additional expenditures being absorbed via a First Supplementary Budget, predicated on the robust performance of the revenues so far and projections to end FY, the revised projection is for a fiscal deficit of 0.4% of GDP. For FY 2018/19-2020/21, incremental surpluses are projected to occur;

- The overall Public Sector generated a surplus of 1.6% of GDP in FY 2015/16, and a surplus of 1.8% of GDP in FY 2016/17. Surpluses on the overall balance are expected to obtain across the medium term;

- The Current Account deficit of the Balance of Payments (BOP) declined from 10.4% of GDP in FY 2012/13 to 2.5% in FY 2016/17. The projected Current Account deficit for FY 2017/18 is 2.4% of GDP, and is expected to subsequently average around 1.4% over the medium term;

- Real GDP growth has averaged 0.8%, over the last three fiscal years (FY 2014/15 - FY 2016/17), despite the adverse effect of drought. Real growth was projected at 2.3% for FY 2017/18 and is still on track to achieve approximately 2.0% for the FY. Growth is forecasted to average 2.0% - 3.0% per annum over the medium term;

- Wage/GDP ratio has trended downwards from 10.0% in FY 2015/16 to 9.5% projected in FY 2017/18. The GOJ intends to achieve the targeted 9.0% by the end of FY 2018/19;

- Since the start of the economic reform, the Jamaica dollar has depreciated against the US dollar, resulting in the recovery of competitiveness. The narrowing of the inflation differential between Jamaica and its trading partners has also contributed to an improvement in competitiveness; evidenced by a slowing in the pace of depreciation and a strong NIR.

- Inflation remained relatively low in FY 2016/17, with an outturn of 4.1%. Prudent and complementary monetary and fiscal policies, relatively low oil prices as well as favourable weather to support agricultural output, will serve to maintain inflation at moderate single digit rates through FY 2017/18 and over the medium term;

- The NIR remains in a strong position, increasing from US$884.3mn at end-March 2013 to US$3,671.7mn at end-August 2017;

- The Debt Service/Tax Revenue ratio rose to 113.7% in FY 2015/16, due to the Petrocaribe Energy Cooperation Agreement buyback transaction. The ratio fell to 46.9% in FY 2016/17. Accordingly, an increased proportion of GOJ's fiscal resources is available to support priority social programmes;

- The average unemployment rate fell three years consecutively to reach 13.2% in 2016, after peaking at 15.3% in 2013. The employed labour force of 1,204,800 persons reported by STATIN in its April 2017 Labour Force Survey is a record high for Jamaica. The unemployment rate of 12.2% reported in that survey is 1.5 percentage points lower than the rate recorded in April 2016 and is the lowest rate recorded since October 2010;

- According to the survey of business and consumer confidence which is conducted by Jamaica Consumer Board, both consumer and business confidence remained very high in the second quarter of 2017, despite a decline in the indices by 3.0% and 3.2%, respectively relative to the second quarter of 2016.

Notable Fiscal Developments

For FY April-to-July 2017, both the Central Government's Primary Surplus and Fiscal Deficit performed better than budgeted. Provisional data indicate that Central Government operations to end-July 2017 generated a fiscal deficit of $5,978.8mn, compared to the targeted deficit of $18,748.1mn. The Primary Surplus amounted to $38,565.1mn, which was significantly better (32.9%) than the $29,010.5mn targeted. This favourable fiscal performance was driven, in part, by lower than programmed expenditure as well a positive performance from all categories of Revenue and Grants, except Capital Revenue and Bauxite Levy, which had a shortfall of $48.7mn and $3.5mn, respectively.

Revenue & Grants was ahead of budget by $5,902.2mn or 3.7 percent. This very positive performance was driven mainly by Tax Revenue which was $5,451.2mn better than budget, followed by Grants and Non-Tax Revenue, which were $448.8mn and $54.4mn better than budget respectively. This strong performance overall reflects the impact of the revenue measures announced in February as well as continued improvements in tax administration.

Total expenditure (net of amortization) during the first four (4) months of this FY, was $6,867.2mn (3.8%) less than programmed, due mainly to lower spending on recurrent (programmes and interest payments) and capital programmes which outweighed the higher expenditure on Compensation. Capital expenditure of $9,301.1mn was $827.6mn or 8.2 percent less than programmed. Going forward it is expected that all components of non-debt expenditure, except capital, will be ahead of the budget due to increases in expenditure, details of which will be provided in the First Supplementary Budget to be tabled later this fiscal year. These higher expenditures are to be financed from the increased fiscal space attributed to the strong tax revenue flows. Fiscal operations remain on track to meet the established targets for December 2017 and March 2018.

Fiscal Rules

As it relates to the Specified Debt of the Consolidated Public Sector, the MOFPS has already implemented this new metric (April 2017) with updates provided monthly along with existing (CGO) fiscal data. In the upcoming Annual FPP, the ministry will commence presenting and reporting on, the appropriate fiscal balance that is deemed consistent with the achievement of the 60% or less debt/GDP target by FY 2025/26. Any deviation from the fiscal balance target would then be recorded in the “Notional Account”.

Public Debt Developments

On April 1, 2017, a new definition for Jamaica’s total public debt became effective. The new definition extends the coverage and reports on the consolidated debt of the Specified Public Sector net of cross-holdings and excludes the debt of the Bank of Jamaica. At the end of June 2017 the total Specified Public Sector Debt stood at $1,963,442.01mn; down from $2,017,999.2mn at the end of April 2017.

Liability Management

The Government of Jamaica, in August 2017, executed a liability management transaction, in the International Capital Markets. The liability management action included the execution of a tender for cash of high coupon Global bonds, the issue of new bonds through the re-opening of the 2028 and 2045 bonds and the early redemption of the domestic US$ denominated Benchmark Investment Bonds 2020A and 2020B. The external liability management actions have resulted in (i) an extension of the maturity profile; and (ii) a reduction of the near term refinancing risk.

CONCLUSION

The Government of Jamaica remains fully committed to fiscal discipline and is resolved to take whatever prudent policy actions are needed to reduce the debt of the specified public sector to or below 60% of GDP by FY 2025/26. The fiscal programme developed for FY 2017/18 and the medium term are anchored around debt reduction and facilitating economic expansion. The fiscal accounts are in near balance, thanks to strong, buoyant tax revenue flows which have continued the trend observed since FY 2016/17, where the primary balance outperforms the targets. These resources have allowed to GOJ to strategically pay down the debt through timely liability management operations. With a "steadied approach" and focus on closing the remaining tax loopholes, as the gradual transition from direct to indirect taxation takes place, the burden of taxation on the salaried worker will be further reduced. As the GOJ ramps up its growth agenda, prudent monitoring and execution of the expenditure budget will be crucial. The efficient execution of the budget, in tandem with buoyant tax revenue flows, places the GOJ firmly on a path to meeting its fiscal and debt targets for the current FY and the medium term. This augurs well for keeping both consumer and business confidence at high levels. Unemployment, at 12.2 percent (April 2017), a reduction of 1.5 percentage points when compared to April 2016, is at its lowest point since 2011, with employment expanding faster than the growth in the labour force.

The GOJ is cognizant that there are downside risks and some of these risks have been detailed in Appendix 2. Hurricanes Irma and Maria have battered our CARICOM neighbours and serve as a reminder, that one of these events could devastate our economy. This is an opportune time for the GOJ to redouble its efforts to get out of the stranglehold of debt, freeing up fiscal space needed to address infrastructure development and facilitate increased social welfare among the country's vulnerable citizens. **Jamaica will then be (2030): the place of choice to live, work, raise families and do business.**

Audley Shaw, MP
Minister of Finance and the Public Service
September 26, 2017

PART 2: MACROECONOMIC FRAMEWORK

Real Sector Developments

FY 2016/17 - Update

The Jamaican economy performed positively during FY 2016/17, with real GDP growth of 1.3%. This outturn reflects acceleration in the rate of growth in real GDP when compared to the previous two fiscal years, and extended the recent trend of successive economic improvements which has been observed since FY 2013/14 (Table 2A). In fact, the growth in real GDP for FY 2016/17 is the largest economic expansion recorded for Jamaica since FY 2006/07 and, to some extent, demonstrates the positive impact of the comprehensive reforms which the Government of Jamaica has been undertaking under the economic reform programme.

The economic performance for the fiscal year was underpinned by growth in both the goods producing and services industries. The sectors which recorded the most significant growth included Agriculture, Forestry & Fishing and Manufacturing, within the goods industry and Electricity & Water Supply and Hotels & Restaurants, within the services industry. The growth in Agriculture, Forestry & Fishing was facilitated by favourable weather conditions as well as the forging of stronger linkages with other sectors. Manufacturing was boosted by higher levels of production of petroleum products and increased food processing. The continued rise in the number of tourists visiting the country accounted primarily for the performance of Hotels & Restaurants, while stronger demand for electricity due to the pick-up in the economy and increased levels of rainfall were the main contributing factors to the positive outturn for Electricity & Water Supply.

FY 2017/18 – First Quarter Estimated Performance

Real GDP is estimated to have grown by 0.3% during the first quarter of FY 2017/18. This reflects a slow-down in the rate of growth in the economy, when compared to the 1.5% expansion for the corresponding quarter of the previous fiscal year. The outturn however, was slightly higher than the 0.1% growth in real GDP for the January to March quarter of FY 2016/17. The performance for the review quarter was driven by improvements in the Services Industry, as the Goods Producing Industry is estimated to have contracted. Within the Goods Producing Industry, there was a significant contraction in Agriculture, Forestry and Fishing as well as in Mining and Quarrying. Although growth was estimated in Manufacturing and Construction, it was insufficient to offset these declines. The contraction in the Agriculture, Forestry & Fishing Industry mainly reflected declines in production of legumes, fruits and vegetables as well as in the traditional export crops, particularly sugar cane and cocoa. The industry was negatively affected by heavy rainfall in the month of May which resulted in widespread flooding. Weather-related downturns in production of crude bauxite and alumina contributed largely to the contraction in Mining and Quarrying. The Manufacturing Industry was driven mainly by increased production of petroleum and chemical products as well as higher levels of food processing. Expansion in the Construction Industry reflected increased construction activities by the National Works Agency (NWA) and Port Authority of Jamaica (PAJ), in addition to a larger number of residential developments undertaken by the National Housing Trust (NHT) and private developers.

Growth in the Services Industry was primarily driven by tourist-related activities, with Hotels and Restaurants estimated to have demonstrated the largest growth within the industry. This performance was supported by a 6.5% increase in visitor arrivals for the period over the number of visitors during the corresponding quarter of FY 2016/17. Noteworthy contribution to the expansion in Services also emanated from the components: Finance & Insurance Services and Other Services.

FY 2017/18 – Second quarter and fiscal year Outlook

The economic outlook for the second quarter of the FY 2017/18 is generally positive. Real GDP is projected to grow within the range of 1.0% to 2.0%, predicated on expected improvements in the performance of both the Goods Producing and Services Industries. This is expected to be supported by increased economic activities primarily in the areas of mining and quarrying, construction and tourism as well as continued strengthening of the global economy.

Weather-related shocks associated with the current hurricane season, which could negatively affect Jamaica directly or through the impact on some of the country's trading partners, pose the main downside risks to the projected improvement in the economy in the second quarter of the fiscal year.

The outlook for the full fiscal year ending March 2018 remains positive, despite the downward revision of the projected growth in real GDP to 1.7% from the 2.3% reported in the February 2017 publication of the FY 2017/18 Fiscal Policy Paper. This forecasted expansion reflects growth in Manufacture, Electricity & Water Supply, Hotels & Restaurants as well as Agriculture, Forestry & Fishing. The recovery in these major industries as well as the materialization of several initiatives relating to the growth agenda are expected to fuel the growth in the economy, supported by increased investor confidence and investment activities. The Jamaican economy is also expected to benefit from improvements in external competitiveness derived from the structural and macroeconomic reforms which have been carried out by the Government.

Table 2A

INDUSTRY	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2016/17:Q1	FY 2017/18:Q1
GOODS PRODUCING INDUSTRY	3.1	-1.6	1.7	3.4	3.8	-2.5
Agriculture, Forestry & Fishing	7.0	-5.4	1.6	10.8	8.9	-8.5
Mining & Quarrying	7.6	-0.8	0.3	-5.5	-1.9	-10.5
Manufacture	-0.2	-1.5	2.8	2.4	2.1	2.4
Construction	2.1	1.7	0.9	0.6	2.1	1.5
SERVICES INDUSTRY	0.2	0.7	0.8	0.6	0.9	1.2
Electricity & Water Supply	-1.1	-2.0	3.4	2.5	5.0	0.3
Transport, Storage & Communication	0.3	0.7	1.1	0.6	0.9	0.5
Wholesale & Retail Trade; Repair & Installation of Machinery	-0.1	0.4	0.6	0.2	0.5	0.5
Finance & Insurance Services	0.4	0.8	1.0	1.1	1.4	1.5
Real Estate, Renting & Business Activities	0.4	0.5	0.6	0.5	0.6	0.5
Producers of Government Services	-0.2	-0.2	-0.1	-0.1	-0.2	0.0
Hotels and Restaurants	1.8	4.0	1.5	1.7	1.3	8.0
Other Services	0.5	1.7	1.0	0.8	1.0	1.5
Less Financial Intermediation Services Indirectly Measured (FISIM)	-0.2	-0.9	1.3	1.4	1.6	1.6
TOTAL GDP AT BASIC PRICES	0.9	0.2	1.0	1.3	1.5	0.3

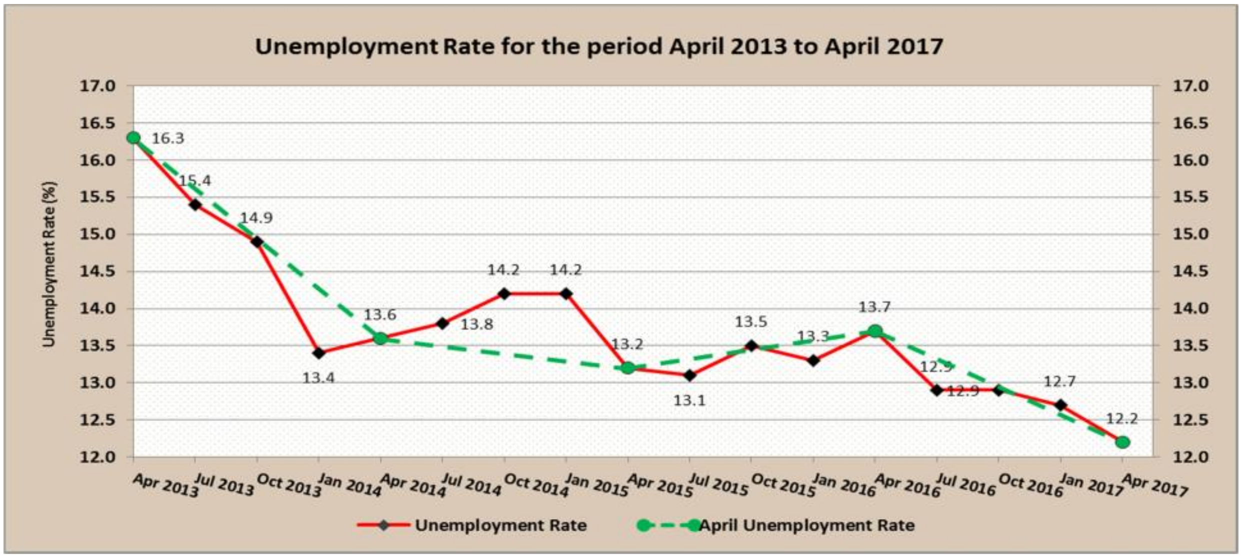
Source: STATIN/PIOJ

Labour Market Developments

The labour market continues to show improvements, with further declines in the unemployment rate. This improvement is reflective of the "pick-up" in the economy generally, and supported by continued efforts to enhance the business environment, thereby increasing investments and job creation.

According to the April 2017 Labour Force Survey which was conducted by the Statistical Institute of Jamaica (STATIN), the unemployment rate fell by 1.5 percentage points to 12.2% compared to April 2016. This rate of unemployment is the lowest recorded since October 2011. Whereas the unemployment rate for males increased from 9.0% to 9.5%, the unemployment rate for females decreased from 17.0% to 15.3%. The unemployment rate for youths aged between fourteen and twenty-four years was 28.9% in April 2017. This represented a decrease of 3.1 percentage points relative to the unemployment rate for this group at the similar time last year. Within this age group, male unemployment decreased by 1.3 percentage points moving to 25.6% while for females it fell 5.4 percentage points to 33.2%. Despite the total labour force growing by 1.3% relative to April 2016, representing an additional 17,700 persons, the reduction in the unemployment rate is mostly explained by the increase in the number of persons employed over the period which exceeded the addition to the labour force. Total employment rose by 35,800 persons or 3.0%, reflecting an increase of 10,700 employed males (1.6% rise) and 25,100 employed females (4.9% rise).

Figure 2(i): Unemployment Rate April 2013 to April 2017



Source: STATIN

The Industry groups that led the improvement in employment are ‘Real Estate Renting & Business Activities’ and ‘Agriculture, Hunting, Forestry & Fishing’ which recorded increases of 9,700 persons (12.8%) and 6,700 persons (3.3%), respectively. The level of employment for the period was however offset by moderate reductions in other industries, most notably ‘Manufacturing’ which experienced a decline of 2,600 persons (3.2%).

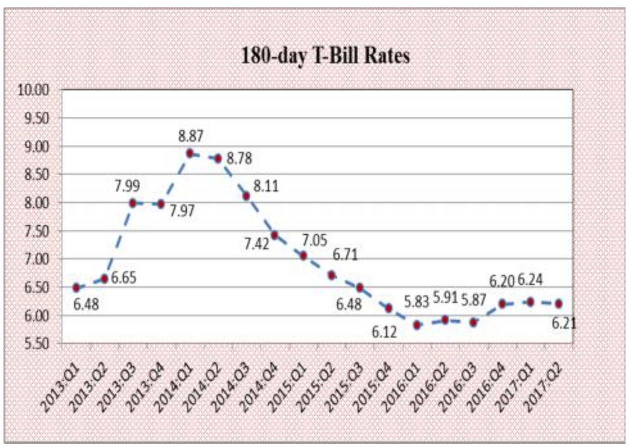
Monetary Developments

The signal rate on the Bank of Jamaica’s (BOJ) 30-day Certificate of Deposit (CD) was reduced by 25 basis points in April 2017, moving to 4.75% from 5.0%. The policy action was motivated by the BOJ’s assessment that the inflation rate for FY 2017/18 will be within their inflation target of 4.0% to 6.0%. In addition, the Government’s continued commitment to fiscal consolidation under the Precautionary SBA supported this move.

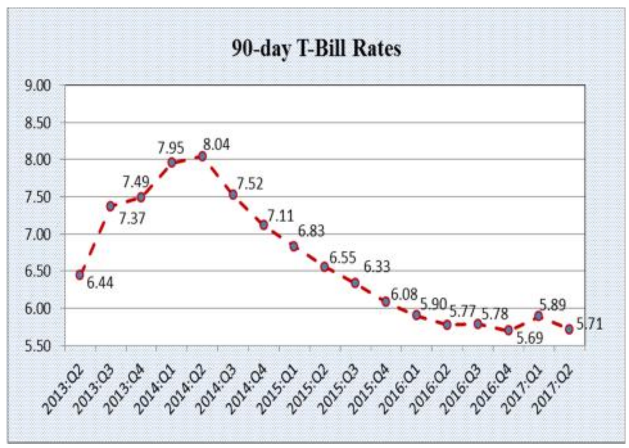
In alignment with its more accommodative monetary stance, BOJ also lowered the interest rates on its standing liquidity facility (SLF) by 25 basis points to 6.25%, thereby maintaining the interest rate corridor at 3.0 percentage points between the overnight lending and deposit facilities. In a move to reduce the incentive to hold foreign currency liabilities, the BOJ increased the foreign currency reserve requirement ratio during the quarter by 1.0 percentage point to 15.0%. As a result of a combination of actions from the BOJ and the GOJ, there were improvements in the liquidity conditions during the June 2017 quarter resulting in a net injection of $0.9bn, comprising $13.2bn net absorption from the BOJ's operations and $14.1bn from the GOJ's operations. The increased domestic currency liquidity contributed to a decline in the yields on both the 90-day and 180-day tenor of the GOJ T-Bills (Figure 2ii) for the first quarter of FY 2017/18. The lower rates were also influenced by the reduction in the BOJ's policy rate.

Relative to the quarter ending June 2016, the monetary base increased by $26.3bn (21.8%) to $147.0bn at end-June 2017. This expansion largely reflected increases of 14.9% and 34.5% in the currency stock and commercial bank cash reserves, respectively. For the 12-month period to June 2017, Net International Reserves (NIR) increased by $74.1bn (US$351.7mn). At the end-August 2017, the stock of NIR amounted to US$3.7bn while Gross Reserves stood at US$4.2 billion, equivalent to 26.8 weeks of goods and services imports.

Figure 2(ii): T-Bill Rates



Source: BOJ



Source: BOJ

Inflation

The All Jamaica 'All Divisions' Consumer Price Index increased from 233.1 at the end of August 2016 to 243.4 at the end of August 2017, representing a twelve-month inflation rate of 4.4%. Relative to the 1.8% recorded for the twelve-month period up to end-August 2016, this inflation rate is 2.6 percentage points higher.

The largest increases over the period were registered by the divisions: 'Housing, Water, Electricity, Gas and Other Fuels', 'Food and Non-Alcoholic Beverages' and 'Alcoholic Beverages and Tobacco'. The uptick in inflation partly reflected the impact of higher energy, transport and domestic agricultural prices.

Data from STATIN indicates that the inflation rate for August 2017 was 0.3%. The CPI index for the division 'Recreation and Culture' recorded the highest movement, followed by the increase in the index for 'Food and Non-Alcoholic Beverages'. The index for 'Recreation and Culture' was influenced mainly by increased prices for books and other school equipment, while increases within the 'Food and Non-Alcoholic Beverages' division was due mainly to an upward movement for the group 'Food'. This group was mainly impacted by an in the sub-group 'Vegetable and Starchy Foods' due to higher prices for produce such as cabbage, potato and yam. The only division to record a decline in its index was 'Housing, Water, Electricity, Gas and Other Fuels'. Although there was an upward movement in the index for the group 'Water Supply and Miscellaneous Services Related to the Dwelling', the increase was tempered by a fall in the index for 'Electricity, Gas and Other Fuels'.

Inflation for the calendar year up to end-August 2017 was 3.0 per cent, and 2.0% for the fiscal year to end-August 2017.

Table 2B

All Jamaica 'All Divisions' and Division Indices and Movements
(Base period December 2006 = 100)

	Jun 2016 Index	Aug 2016 Index	Dec 2016 Index	Mar 2017 Index	Jun 2017 Index	Jul 2017 Index	Aug 2017 Index	Monthly % change for Aug 2017	FY 17/18: Q1 (% change)	Annual % change at Jun 2017	Annual % change at Aug 2017	FY 17/18 to Aug 2017 (% change)	CY 2017 to Aug 2017 (% change)
ALL DIVISIONS - ALL ITEMS	231.0	233.1	236.3	238.7	241.2	242.7	243.4	0.3	1.1	4.4	4.4	2.0	3.0
1 Food and Non-Alcoholic Beverages	287.1	288.9	294.0	296.2	300.0	303.6	305.5	0.6	1.3	4.5	5.8	3.1	3.9
2 Alcoholic Beverages and Tobacco	291.7	292.9	294.7	296.5	304.1	305.2	306.4	0.4	2.6	4.2	4.6	3.4	4.0
3 Clothing and Footwear	233.4	233.7	234.8	235.7	236.6	236.8	237.4	0.2	0.4	1.4	1.6	0.7	1.1
4 Housing, Water, Electricity, Gas and Other Fuels	205.1	214.5	220.2	230.1	230.3	229.5	228.4	-0.5	0.1	12.3	6.5	-0.8	3.7
5 Furnishings, Household Equipment and Routine Household Maintenance	230.6	231.3	232.8	233.7	234.7	234.9	235.1	0.1	0.4	1.8	1.6	0.6	1.0
6 Health	143.8	144.4	145.5	145.9	146.3	146.4	146.7	0.2	0.3	1.7	1.6	0.5	0.8
7 Transport	202.6	202.5	202.9	202.6	207.4	208.0	207.9	0.0	2.4	2.4	2.7	2.6	2.5
8 Communication	66.9	66.9	66.9	66.9	66.9	66.9	66.9	0.0	0.0	0.0	0.0	0.0	0.0
9 Recreation and Culture	184.1	186.0	186.7	187.2	188.8	188.9	191.3	1.3	0.8	2.6	2.9	2.2	2.5
10 Education	182.6	182.6	190.3	190.3	190.3	190.3	190.3	0.0	0.0	4.2	4.2	0.0	0.0
11 Restaurants and Accommodation Services	190.5	190.5	190.8	191.1	193.7	193.8	193.9	0.1	1.4	1.7	1.8	1.5	1.6
12 Miscellaneous Goods and Services	224.8	225.7	227.8	229.7	230.5	230.9	231.0	0.1	0.3	2.5	2.4	0.6	1.4

Source: STATIN

Exchange Rate

At the end of August 2017, the weighted average selling rate of the US Dollar was J$129.65 = US$1.00, compared to J$127.57 = US$1.00 at the end of August 2016. This 1.6% rate of depreciation was significantly slower than the 8.2% annual depreciation at the similar point last year. The weighted average selling rate of the US Dollar was J$128.62 = US$1.00 at the end of the first quarter of FY 2017/18, reflecting an annual depreciation of 1.8% compared to 8.0% at the end of the corresponding period of the previous fiscal year.

The deceleration in the pace of depreciation is attributable, in part, to lower inflationary pressures given the reduction in the inflation differential between the United States and Jamaica. Accounting primarily for the decline in the inflation gap between the two countries is the relatively low inflation environment which has characterized the Jamaican economy in recent times. Also contributing to the slower pace of depreciation is the foreign currency liquidity support that is provided by the Bank of Jamaica during periods of increased demand pressures.

External Sector Developments

The Current Account balance worsened for FY 2016/17 when compared with the previous fiscal year (Table 2C), bringing a halt to the declining trend since FY 2012/13. As a percent of GDP, the Current Account Deficit increased from 1.9% in FY 2015/16 to 2.5% in FY 2016/17. With the exception of the Secondary Income sub-account, the balance on all the sub-accounts deteriorated. Despite a modest increase in exports, the Goods and Services sub-account worsened marginally as a result of a larger increase in imports. The increase in exports of goods largely reflected higher receipts for Beverages & Tobacco as well as for Mineral Fuel and Food, while the increase in imports mainly reflected higher importation of Machinery & Transport Goods. The improvement in the Secondary Income account is primarily attributable to higher private transfers associated with an increase in remittance inflows. The deficit on the Primary Income sub-account mainly reflected interest payments to non-residents on GOJ Global bonds as well as repatriation of profits by foreign firms. The Capital Account also worsened, and together with the deficit on the current account yielded a net borrowing balance on the Capital and Current Account.

The Financial Account recorded a net borrowing balance, comprising mainly of a build-up of Direct Investment and Other Investment liabilities. This was partially offset by an increase in Net Portfolio Investments resulting from an increase in resident holdings of portfolio investment assets abroad and a net reduction in the incurrence of portfolio investment liabilities.

Flows from official and private sources were more than sufficient to finance the net deficit on the Current and Capital Accounts. As a result, the BOJ's gross reserves increased by US$152.2mn to US$3.3bn at the end of FY 2016/17.

Table 2C

Balance of Payments for FY 2016/17

Balance of Payments (US$MN)	FY 2015/16	FY 2016/17	Change
Current Account Balance	**-281.8**	**-350.8**	**-69.0**
Credits	7169.1	7442.0	272.9
Debits	7450.9	7792.8	341.9
Goods & Services	-2120.4	-2126.3	-5.9
Credits	4291.5	4481.7	190.2
Debits	6411.9	6608.0	196.1
Goods	-3090.9	-3180.1	-89.2
Exports	1179.3	1228.6	49.3
Imports	4270.1	4408.7	138.6
Services	970.5	1053.8	83.3
Credits	3112.3	3253.1	140.9
Debits	2141.7	2199.3	57.5
Primary Income	-489.7	-626.8	-137.1
Credits	308.7	316.5	7.8
Debits	798.4	943.3	144.9
Secondary Income	2328.3	2402.3	74.0
Credits	2568.9	2643.8	74.9
Debits	240.6	241.5	0.9
Capital Account	**1457.5**	**31.9**	**-1425.6**
Credits	1457.5	31.9	-1425.6
Debits	0.0	0.0	0.0
Net lending (+) / net borrowing (-) (balance from current and capital account)	**1175.7**	**-318.9**	**-1494.6**
Financial Account	**1175.7**	**-318.9**	**-1494.6**
Net lending (+) / net borrowing (-) (balance from financial account)	**503.0**	**-166.7**	**-669.7**
Direct Investment	-967.6	-598.0	369.6
Net acquisition of financial assets	8.9	258.5	249.7
Net incurrence of liabilities	976.5	856.5	-119.9
Portfolio Investments	-1206.8	11.2	1217.9
Net acquisition of financial assets	276.6	398.9	122.4
Net incurrence of liabilities	1483.3	387.8	-1095.6
Financial derivatives	27.9	44.8	16.9
Net acquisition of financial assets	17.2	16.2	-1.0
Net incurrence of liabilities	-10.7	-28.5	-17.9
Other Investments	2444.9	-54.3	-2499.1
Net acquisition of financial assets	-81.9	-132.0	-50.1
Net incurrence of liabilities	-2526.8	-77.8	2449.0
Reserve Assets	204.6	429.6	
Net Errors and Omissions	-672.7	152.2	

Source: BOJ

Macroeconomic Outlook - FY 2017/18 to 2020/21

The macroeconomic outlook is positive, with expected acceleration in economic activity over the medium term. The projections for key macroeconomic variables over the next four fiscal years are presented in Table 2D.

Table 2D

Medium Term Macroeconomic Profile

Macroeconomic Variables	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Proj.	2018/19 Proj.	2019/20 Proj.	2020/21 Proj.
Nominal GDP (J$bn)	1,568.0	1,687.4	1,782.7	1,892.6	2,044.2	2,197.3	2,360.8
Nominal GDP growth rate(%)	7.3	7.6	5.6	6.2	8.0	7.5	7.4
Real GDP growth rate (%)	0.2	1.0	1.3	1.7	2.7	2.3	2.5
Inflation: Annual Pt to Pt (%)	4.0	3.0	4.1	4.6	5.0	5.0	5.0
Interest Rates:							
30-day repo rate (end-period)	5.75	5.25	5.0				
180-day Treasure Bill (end-period)	7.00	5.83	5.8				
180-day Treasure Bill (average)	7.05	6.29	6.81				
Average Selling Exchange Rate (J$=US$1)	113.07	118.76	127.14				
NIR (US$mn)	2,293.7	2,415.5	2,748.3	3,082.3	3,329.7	3,814.1	3,814.1
Gross International Reserves (In weeks of imports)	20.8	22.4	24.5	26.2	29.0	31.2	31.2
Current Account (%GDP)	-7.0	-1.9	-2.5	-2.4	-1.3	-1.7	-1.3
Oil Prices (WTI) (Average US$/barrell)	81.2	45.0	47.9	48.0	49.9	52.1	53.4

Source: STATIN/BOJ/PIOJ

These forecasts are predicated on the existing stable macroeconomic environment, in addition to the execution of several growth inducing initiatives which are expected to foster growth in real GDP in the short term and provide support in accelerating the pace of economic expansion further into the medium term. Improvements in the main components of the both the Goods Producing and Services industries are anticipated to be the driver of the growth in the economy. The acquisition of the Alpart alumina refinery by Jiuquan Iron and Steel Company (JISCO) and the attendant increase in production of crude bauxite and refined alumina that is projected will provide additional fillip to economic growth. This expansion in the economy is expected to be facilitated by continued improvements in the economies of Jamaica's major trading partners. Additionally, the positive trends in business and consumer confidence and improvements in the labour market are anticipated to continue into the medium term, and provide further support. The reduction in external vulnerabilities coupled with the existing three-year precautionary Stand-By Arrangement with the IMF will serve to further strengthen investor confidence and increase the scope of investment activities within the economy.

There are however, downside risks to the medium-term projections. These include weaker external demand arising from slower than expected global growth and Jamaica's vulnerability to adverse weather hazards.

The average growth in real GDP for the four year period between FY 2017/18 and FY 2020/21 is projected to be 2.3%. A slight increase in the inflation rate is expected for FY 2017/18, followed by stabilization around the 5.0% mark for the three fiscal years thereafter. The current account deficit as a percentage of GDP is projected to remain relatively low, averaging about 1.7% between FY 2017/18 and FY 2020/21.

PART 3: FISCAL MANAGEMENT STRATEGY

Background

The Government of Jamaica remains fully committed to fiscal discipline and is resolved to take whatever prudent policy actions are needed to reduce the debt of the specified public sector to or below 60% of GDP by FY 2025/26. The fiscal programme developed for FY 2017/18 and the medium term are anchored around debt reduction and facilitating economic expansion. The operationalization of the Enhanced Fiscal Rules will ensure that fiscal discipline, transparency and the credibility of the government is preserved for years to come. The new 3-year precautionary Stand-By Arrangement (PSBA) will also provide an additional safeguard against economic shocks as well as provide support for the government's growth and job creation agenda.

Tax Revenue collections for the first four (4) months of the FY has been significantly ahead of the Budget and this has facilitated the strategic utilization of these additional resources to meet flood damage repairs, fight crime and reduce outstanding domestic obligations.

The Fiscal Management Strategy provides the following reports:

- A summary of the FY 2017/18 Budget;
- An assessment of FY 2016/17 performance;
- A review of the Central Government's Performance: April-July 2017;
- The implication of these developments on the FY 2017/18 Outturn; and
- A revised Medium Term Outlook.

Expenditure Budget FY 2017/18

As part of the overall fiscal strategy, the GOJ will strive for efficiency in budget execution. The Expenditure Budget for FY 2017/18 (excluding Amortization) was $543,056.3mn, equivalent to 28.8% of GDP. The increase in expenditure relative to the last fiscal year is generally in line with the projected growth in revenues.

The Recurrent Programmes budget of $162,736.2mn is 8.6% of GDP, up by 0.6% over FY 2016/17. The allocation includes an increase in: tuition grants to secondary schools; the school feeding programme; and the reverification exercise to be carried out by Electoral Office of Jamaica (EOJ). Compensation of Employees of $193,184.8mn comprises Wages and Salaries of $179,525.8mn (9.5% of GDP) and Employers' Contribution of $13,659.0mn (0.7% of GDP). Compensation of Employees includes amounts for salary increases consistent with the government's parameters, arrears payments and employers' contribution.

Interest obligations of $137,852.9mn (7.3% of GDP) is the only expenditure item expected to fall as a percentage of GDP (down by 0.5% over FY 2016/17) for both the Domestic and External payments. Domestic Interest payments were budgeted at $62,903.4mn (down 0.2% of GDP over FY 2016/17) and External Interest payments at $79,949.5mn (down 0.3% of GDP over FY 2016/17). Capital Expenditure, which is a driver for economic growth and job creation, is programmed to increase by over 17.0% (see Table 3E) over last year's outturn and amounted to 2.6% of GDP.

Revenue & Grants Budget FY 2017/18

The FY 2017/18 budget was tabled in February 2017 and was predicated upon the estimated figures for FY 2016/17. Revenue & Grants for FY 2017/18 were projected at $537,069.4mn which reflected an 8.5% increase over the estimated outturn for FY 2016/17 (Table 3A). The forecast of Tax Revenue represents an increase of 5.9% or $26,541.8mn over estimated collections in FY 2016/17.

Table 3A: FY 2017/18 Revenue Forecast vs. FY 2016/17 Est. ($mn)

	2016/17 est	2017/18	% Change
Revenue & Grants	**494,801.6**	**537,069.4**	**8.5%**
Tax Revenue	451,712.8	478,254.6	5.9%
Non-Tax Revenue	34,633.0	52,103.6	50.4%
Bauxite Levy	2,121.6	131.0	-93.8%
Capital Revenue	521.8	2,228.1	327.0%
Grants	5,812.3	4,352.1	-25.1%
Expenditure	**507,224.7**	**543,056.3**	**7.1%**
Recurrent Non-Interest	323,401.5	355,921.0	10.1%
Recurrent Interest	139,021.6	137,852.9	-0.8%
Capital Expenditure	44,801.6	49,282.5	10.0%

Source: MoFPS

In the February 2017 Budget, Non-tax Revenue for FY 2017/18 was projected at $52,103.6mn, a 50.4% increase over the estimated outturn for FY 2016/17. This estimate for Non-tax Revenue represents 2.8% of GDP, compared to the estimated 1.7% of GDP in FY 2016/17. Capital Revenue forecasted for FY 2017/18 was $2,228.1mn, increasing substantially over the $521.8mn estimated for FY 2016/17. The Grants forecast represents a 25.1% reduction for FY 2017/18 when compared to the estimate for FY 2016/17.

Bauxite Levy is projected to decline substantially in FY 2017/18 due to the Government's decision to enter into a profit-sharing arrangement as part of a temporary bauxite levy regime modification for the sector. The implementation of this modified regime lowered the forecast levy by 93.8%. A partial offset is expected to come from profit-sharing.

Table 3B: Changes since February FPP

	Budget with Measures	Budget Estimates in FPP 2017/18
Revenue & Grant	537,069.4	526,345.4
Tax Revenue	478,254.6	478,930.6
Non-Tax Revenue	52,103.6	40,703.6
Fiscal Balance	-5,986.9	-16,710.8
Primary Balance	131,866.0	121,142.0

Source: MoFPS

The fiscal profile since the tabling of the FPP has been modified to include the passing of the revenue measures, the de-earmarking of three (3) public bodies and the new legislation for continued budgetary support from the National Housing Trust. The new tax measures are intended to be revenue neutral as they offset the revenue loss associated with the second tranche of the PIT reform. As such, Tax Revenue was now budgeted at $478,254.6mn. Non-Tax Revenue has increased by $11,400mn to include the NHT transfer. The net effect of the revisions is an improved fiscal balance and a higher primary balance.

Central Government Performance: FY 2016/17 Outturn

The full year FY 2016/17 outturn reflected some differences when compared to the estimates reported in the Fiscal Policy Paper FY 2017/18. Notably, there was an improvement in the fiscal balance when compared to both the budget and the provisional estimates in the FPP. With Revenue & Grants higher and Expenditures lower than programmed, the actual fiscal balance was $8,946.9mn better than the estimated fiscal balance for FY 2016/17 and was $13,588.2mn better than budget. The fiscal and the primary balance recorded their best outcome in four (4) years.

The Primary Surplus, ended the fiscal year at $135,880.0mn (Table 3C) and was $12,818.1mn higher than budget, attributable to the over-performance in Tax Revenue and lower than programmed Expenditure. Under the current IMF agreement, the Government of Jamaica had targeted a primary surplus of $124,789.4mn equivalent to 7.0% of GDP for FY 2016/17. The actual primary balance surpassed the target by $11,090.6mn, or 8.9%.

Net budget financing represent the government's borrowing requirement to finance the fiscal deficit and other operations. For 2016/17, actual net new financing needs were 17.2% and 34.5% less than the budget and the estimates presented in the February 2017 FPP respectively. Debt Service continued to decline, attributable to the government's decision to execute opportunistic liability management operations. The outturn was 4.4% less than originally budgeted and 1.9% higher than the estimated debt service in the February 2017 FPP. Amortization (principal) payments were also lower than planned due to the impact of the slow-down in the exchange rate depreciation.

Table 3C: FY 2016/17 Performance (in millions of Jamaica dollars)

	Budget	Feb 2017 FPP Est.	Actual	Diff between Budget and Actual	Diff between FPP Est. and Actual
Revenue & Grants	**491,265.0**	**494,801.6**	**499,879.9**	**1.8%**	**1.0%**
Tax Revenue	445,161.6	451,712.8	458,323.4	**3.0%**	**1.5%**
Expenditure	**508,329.4**	**507,224.7**	**503,356.1**	**-1.0%**	**-0.8%**
Recurrent Non-Interest	323,401.5	323,401.5	322,044.6	**-0.4%**	**-0.4%**
Interest	140,126.3	139,021.6	139,356.2	**-0.5%**	**0.2%**
Capital	44,801.6	44,801.6	41,955.3	**-6.4%**	**-6.4%**
Fiscal Balance	**-17,064.4**	**-12,423.1**	**-3,476.2**	**-79.6%**	**-72.0%**
Net New Financing	**17,441.4**	**22,057.6**	**14,437.1**	**-17.2%**	**-34.5%**
Other New Financing	-377.0	-9,634.5	-10,960.9	**2807.4%**	**13.8%**
Debt Service	**224,540.8**	**218,881.1**	**214,745.9**	**-4.4%**	**-1.9%**
Interest	140,126.3	139,021.6	139,356.2	**-0.5%**	**0.2%**
Principal	84,414.5	79,859.5	75,389.7	**-10.7%**	**-5.6%**
Overall Balance	**14,916.2**	**24,239.3**	**25,565.7**	**71.4%**	**5.5%**
Primary Balance	**123,061.9**	**126,598.5**	**135,880.0**	**10.4%**	**7.3%**

Source: MoFPS

Table 3D: FY 2016/17 Performance as percentage of GDP[1]

	Budget	Feb 2017 FPP Est.	Actual	Diff between Budget and Actual	Diff between FPP Est. and Actual
Revenue & Grants	**28.5%**	**28.2%**	**28.0%**	**-0.5%**	**-0.2%**
Tax Revenue	25.8%	25.7%	25.7%	**-0.1%**	**0.0%**
Expenditure	**29.4%**	**28.9%**	**28.2%**	**-1.2%**	**-0.7%**
Recurrent Non-Interest	18.7%	18.4%	18.1%	**-0.6%**	**-0.3%**
Interest	8.1%	7.9%	7.8%	**-0.3%**	**-0.1%**
Capital	2.6%	2.5%	2.4%	**-0.2%**	**-0.1%**
Fiscal Balance	**-1.0%**	**-0.7%**	**-0.2%**	**0.8%**	**0.5%**
Net New Financing	**1.0%**	**1.3%**	**0.8%**	**-0.2%**	**-0.5%**
Other New Financing	0.0%	-0.5%	-0.6%	**-0.6%**	**-0.1%**
Debt Service	**13.0%**	**12.5%**	**12.0%**	**-1.0%**	**-0.5%**
Interest	8.1%	7.9%	7.8%	**-0.3%**	**-0.1%**
Principal	4.9%	4.5%	4.2%	**-0.7%**	**-0.3%**
Overall Balance	**0.9%**	**1.4%**	**1.4%**	**0.5%**	**0.0%**
Primary Balance	**7.1%**	**7.2%**	**7.6%**	**0.5%**	**0.4%**
GDP	1,726,400	1,757,500	1,782,705	3.3%	1.4%
Inflation	5.5%	4.1%	4.1%	-25.5%	0.0%

Source: MoFPS

[1] With the exception of inflation

Revenue & Grants

For FY 2016/17, Revenue & Grants aggregated to $499,879.9mn, with an $8,614.9mn and $5,078.3mn over performance when compared to the budget and estimate in the February 2017 FPP respectively. This over performance of Revenue & Grants is attributable to Tax Revenue, with an outturn that was $13,161.8mn or 3.0% ahead of the budget. The better than budgeted performance in Tax Revenue was partly due to improved economic activities evidenced by the growth in real GDP. Corporate Tax, Special Consumption Tax, Minimum Business Tax and Stamp Duty (local) were the most notable over-performers under Tax Revenue. However, there were some offsetting under-performers, notably Environmental Levy and Telephone Tax.

Notwithstanding the upward revision in revenue collections, Revenues & Grants as a ratio to GDP declined on account of the even larger upward revisions in the GDP estimate. Revenues & Grants as a ratio to GDP was 0.5 percentage points less than budget (Table 3D).

Expenditure

The expenditure outturn for FY 2016/17 was $503,356.1mn, representing an under-execution of $4,973.3mn (or 1.0%) when compared to the budget and $3,868.6mn (or 0.8%) when compared to the estimate in the February 2017 FPP. The shortfall in expenditures originated largely from the capital expenditure component which fell below budget by$2,846.3mn (6.4%). The under-performance of Capital Expenditure was as a result of delays in procurement, which adversely affected the pace of execution of capital projects. Inflation was another determinant of the shortfall in Expenditure, which was originally projected to be 5.5%; however, it actualized at 4.1%. The lower than anticipated inflation would also have allowed for reduced levels of spending in nominal terms without affecting the level of spending in constant price terms.

Recurrent Expenditure was lower than budget by 0.5%. Of note, Interest payments were slightly lower than forecast, due to downward revisions in external interest and an upward revision in domestic interest which together had an offsetting effect on interest payment. As a breakout, Domestic Interest Payments were above by 1.7% and External Interest Payments below by 2.3% and collectively 0.5% less than budgeted. The lower than planned external interest is explained at least in part by the stronger than expected Jamaica dollar vis-à-vis the US dollar.

Impact of FY 2016/17 Outturn on FY 2017/18 Budget

The better than expected fiscal performance provided a momentum to the forecast for FY 2017/18. The variance between the estimated (Table 3A) and actual figures for FY 2016/17 (Table 3E) has altered the projected growth rates for the FY 2017/18 budget. Relative to the actual outturn for FY 2016/17, Revenue & Grants collections are expected to grow by 7.4% as opposed to the 8.5% projected using the estimates for FY 2016/17 provided in the February 2017

FPP. Non-Tax Revenue is projected to grow by 54.4% instead of the 50.4%. Despite the downward revision to the projected growth rate in Revenues and Grants, the revenue agencies will continue to implement key administrative reform actions that will enhance compliance.

Table 3E: FY 2017/18 Revenue Forecast vs. FY 2016/17 Act. ($mn)

	2016/17act	2017/18 Budget	% Δ between Act. & Budget
Revenue & Grants	**499,879.9**	**537,069.4**	**7.4%**
Tax Revenue	458,323.4	478,254.6	**4.3%**
Non-Tax Revenue	33,754.1	52,103.6	**54.4%**
Bauxite Levy	1,940.9	131.0	**-93.3%**
Capital Revenue	568.6	2,228.1	**291.9%**
Grants	5,292.8	4,352.1	**-17.8%**
Expenditure	**503,356.1**	**543,056.3**	**7.9%**
Recurrent Non-Interest	322,044.6	355,920.9	**10.5%**
Recurrent Interest	139,356.2	137,852.9	**-1.1%**
Capital Expenditure	41,955.3	49,282.5	**17.5%**

Source: MoFPS

Expenditures originally estimated to grow by 7.1% over FY 2017/18 are now projected to grow by 7.9%. Capital Expenditure has a growth rate of 17.5%; up from the 10.0% projected using the FY 2016/17 estimates in the February FPP. This significant upward revision to the capital forecast was as a result of the under-execution of the capital budget for FY 2016/17, which is now a priority under its growth agenda initiative.

Central Government Performance: April-July 2017

The pattern of fiscal over-performance was sustained during the first four months of FY 2017/18. The outturn for both the fiscal and primary balances was much better than planned. This performance was driven by the greater than budgeted inflows from Revenue & Grants and the under-execution of expenditure, particularly on the recurrent side. Notably, capital expenditure has performed creditably against the budget for the period. The primary balance amounted to $38,565.1mn, with a surplus of $9,554.6mn over budget. Similarly, the overall fiscal deficit amounted to $5,978.8mn compared to the budgeted deficit of $18,748.1mn.

Revenue & Grants Outturn

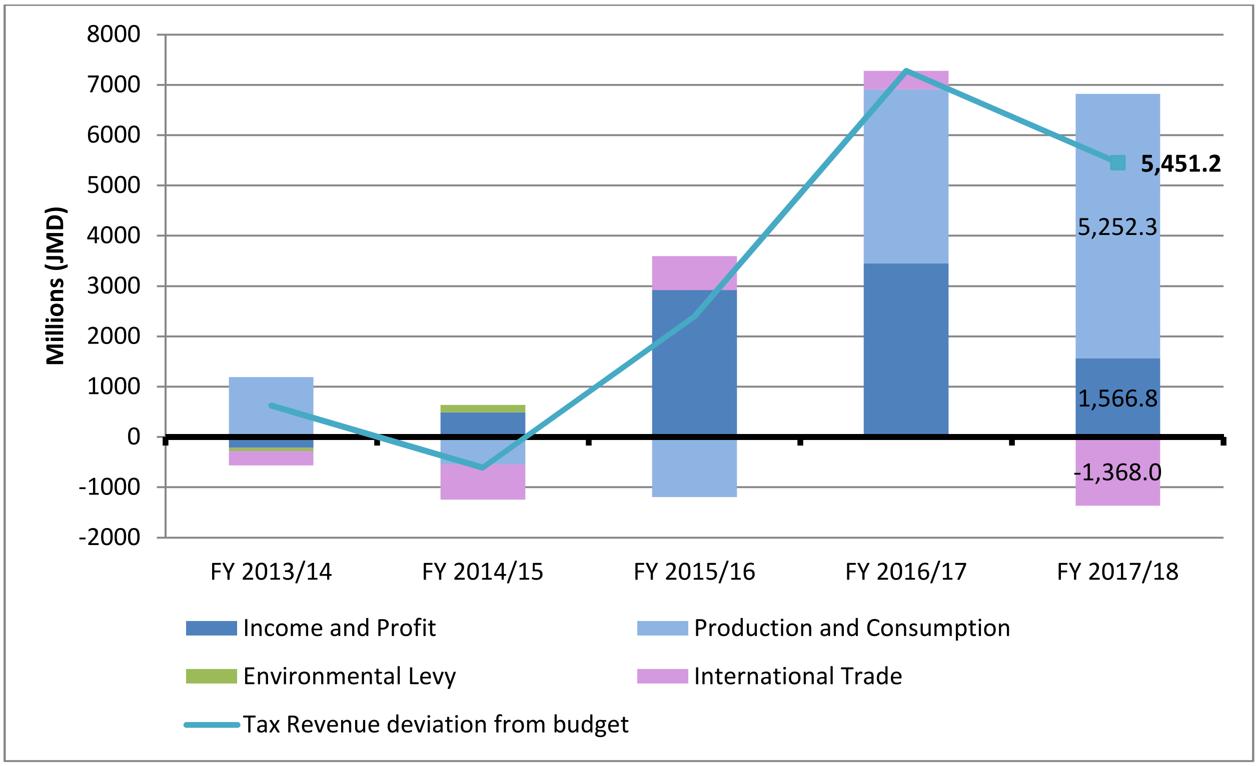
The provisional data for Revenue & Grants indicate an outturn of $166,214.2mn for the April-July period of this year. This was 8.1% above the prior year corresponding period and $5,902.2mn above the budgeted amount. This outturn continued to be driven by the Tax Revenue performance with collections being 3.7% (or $5,451.2mn) higher than budget.

Grant inflows also posted better-than-budgeted increases of 32.3% (or $448.8mn) whereas Non-Tax Revenue was broadly in line with the forecast. Bauxite Levy and Capital Revenue were both below budget by 2.7% and 15.9%, respectively.

Tax Revenue

Tax Revenue's strong performance continued into the first four months of FY 2017/18. Tax Revenue collections amounted to $153,626.6mn, up $11,008.3mn or 7.7% from last year and $5,451.2mn (or 3.7%) higher than budget. This performance can be attributed to the approved revenue measures announced in February 2017 and the continued strengthening of administrative procedures.

Figure 3A: April-July Tax Revenue Deviations from FY 2013/14-FY 2017/18



*Note that Environmental Levy was subsumed into Production & Consumption and International Trade category after FY 2014/15

Source: MoFPS

Taxes from Production & Consumption and Income & Profit outperformed the International Trade taxes for the review period (see Figure 3A). Specifically, the Production and Consumption category saw the highest increase over the budget. This over performance in Production and Consumption continued from FY 2016/17and mirrors the pick-up in the real sector. Likewise, Income and Profit (for the last three years) have been realizing positive outturns, reflecting increased profitability among companies.

All the major tax types performed well relative to both the budget and in comparison to last year's outturn. Special Consumption Tax (SCT) Imports was one of two tax items (in Table 3F) which was both below the budget and last year's collection. Additionally, SCT Import contributed negatively (52.2%) to the deviation of the tax against budget. PAYE was the other tax that was below budget (4.6%) and last year's collection (31.6%). Similarly, Table 3F shows year-over-year double digit increases in General Consumption Tax (GCT) and SCT Local.

Table 3F: Performance of Major Tax Types in the first 4 months of FY 2017/18

Tax Type	Shares of Tax Revenue Collected	Deviation from budget projection (%)	Change over prior year (%)	% Contribution to deviation relative to budget
Custom Duty	7.8	4.2	5.4	9.0
Education tax	5.6	9.7	13.8	14.1
GCT Imports	16.6	-0.4	8.9	-2.0
GCT Local	18.7	2.2	12.5	11.4
Other Companies	8.6	33.6	36.1	60.6
PAYE	11.1	-4.6	-31.6	-15.0
SCT Imports	9.0	-17.1	-4.4	-52.2
SCT Local	7.4	43.9	102.0	63.3

Source: MoFPS

Income & Profit

There were some variations in the performance of the components of Income & Profit taxes. The collection of the Income & Profit category amounted to $34,548.7mn. Corporate Taxes (Other Companies) was the main driver of the over performance for the category. Corporate Taxes accounted for $13,139.2mn of the collections, and this amount was $3,303.8mn or 33.6% higher than budget. Similarly, Corporate Taxes have also performed well in comparison to the corresponding period in FY 2016/17, with collections being $3,483.5mn or 36.1% higher this fiscal year.

The increase in revenue from Companies is due in part to improved compliance, increased profitability of the companies and growth in the number of tax paying companies. Concomitantly with Corporate Tax, Minimum Business Tax performed well against budget recording a 36.6% (or $103.7mn) increase in collections.

On the other hand, there were some offsetting weaknesses in Tax on dividends, Tax on Interest and PAYE. Tax on Dividends recorded a shortfall of $119.4mn (or 23.6%) vis-à-vis the budget and collections were $40.3mn (or 9.4%) lower than last year. This lowered collection was due to lower dividend payout. The $810.1mn (or 21.0%) shortfall in Tax on Interest was attributable largely to higher refunds.

PAYE taxes did not perform as expected, despite the increase in employment for the review period. The Tax Authorities are examining this matter. The level of remuneration associated with the increase in employment may well be a factor, as the majority may well be below the personal income tax threshold and therefore would not have been subject to PAYE. Also of note is the substantial decrease in PAYE revenues in comparison to the April to July 2016 period, which is directly linked to the second phase of increases in the income tax threshold.

Production & Consumption

For the April-July 2017 period, the Production & Consumption category which mirrors closely the movements in the real sector, performed well in relation to budget and last year's collections. Collections amounted to $59,504.5mn which was 9.7% higher than budget and 20.9% higher than last year. While the above-budgeted performance was shared among many components, SCT was the main contributor with collections of $3,451.4mn above budget.

Special Consumption Tax recorded significant increases: collections were more than twice those in the corresponding period last year (an increase of 102.0%) and 43.9% higher than budget. A major contributor to the increased collections relative to last fiscal year was the implementation of revenue measures with respect to tobacco & tobacco products, fuel and alcoholic beverages. These measures are expected to yield $8.7bn for FY 2017/18. The over performance of SCT relative to budget is partly attributable to greater than projected production at the local petroleum refinery.

This increased local production of petroleum also partially explains the large rise in the Environment Levy (local) of 14.4% (or $29.7mn) above forecast, as the, Environmental Levy is paid on the sale of all locally manufactured goods as well as goods imported into the country. With the increase in local production, the locally collected Environmental Levy would also increase.

Education tax rose 13.8 % year-on-year: collections were $768.5mn or 9.7% above budget, reflecting the higher levels of employment and personal income.

The collection from Contractors Levy exceeded the budget by 63.5% (or $260mn), reflecting the strong growth of (residential & commercial) construction activity. Quarry Tax on the other hand, did not perform as expected, as collections fell well short (64.0%) of its target. The adverse weather conditions which resulted in widespread flooding were a major factor in this under-performance.

International Trade

International Trade was the only tax category that performed below budget. The taxes collectively amounted to $59,573.3mn which was $1,368.0mn below budget. The main contributor to the shortfall was SCT (Imports), however growth and above budgeted performance in the travel tax component provided a significant albeit partial offset.

The shortfall in SCT (Imports) was due to a few factors. There has been a notable shift in preferences for cars with smaller engine capacity possibly due to their mileage efficiency and affordability. There has also been evidence of increased importation & distribution of illegal cigarettes. Lower than anticipated imports of refined petroleum products were another factor, although as noted above, there was an offset in SCT (Local) tax collections.

Travel Tax performed better than expected. Collections amounted to $6,532.4mn representing an over-performance of $1,083.6 or 19.9%. For the period, the GOJ has been aggressively advertising Jamaica as a "*first choice destination for visitors*" and as such tourist arrivals have been higher than estimated along with the full impact from the higher travel tax announced last year now bearing fruit.

Other Revenue

Receipts from Non-Tax Revenues were in line with projections. Collections totalled $10,363.6mn, which was 39.5% above last year. This amount included Customs Administration Fee (CAF) collected, distributions from the public bodies and revenues from the Ministries, Departments and Agencies (MDAs). Similarly, the $127.5mn collected for Bauxite Levy was broadly in line with the expected flows for the period. However, they were down 88.8% from last year, reflecting the aforementioned change in the levy regime for this industry.

Grant flows over-performed, with receipts up 32.3% from last year and $448.8mn (or 32.3%) above plans. Capital Revenue fell short of the budget by $48.7mn, due to decline in loan repayment flows to the GOJ.

Expenditure

The total spending of the GOJ from April to July 2017 period was $172,192.9mn. This aggregate was $6,867.2mn (or 3.8%) under the budgeted amount, with both the Recurrent and Capital Expenditures coming in below budget by 3.6% and 8.2%, respectively. This under execution is explained in part by the significantly lower than planned interest payments (both domestic and external), lower than anticipated transfers to the MDAs and the slower than anticipated capital projects execution. Non-debt (primary) Expenditure of $127,649.1mn was $3,652.4mn or 2.8% less than the budget. It must be noted that social spending was preserved to protect the vulnerable members of the society. The budget allocation for social spending was increased by 47.0% in FY 2017/18 in relation to FY 2016/17 allocation.

Recurrent Expenditure

Recurrent Expenditure, which accounts for 94.6% of the total expenditure, amounted to $162,891.9mn, equivalent to 33.0% of the total allocation for the fiscal year. Programmes and Interest Payments are both below their respective budget amounts whilst Compensation of Employees was 2.4% over the budgeted amount. Notwithstanding this lower spending relative to budget, expenditure for the period grew by $4,515.0mn (2.7%) over the similar period last year.

Programmes

Recurrent Programmes for the review period amounted to $54,302.7mn. Spending in this category constituted, among other things:

- Utility payments of approximately $2.0bn;
- Caribbean Catastrophe Risk Insurance Facility (CCRIF) payment of $795.7mn; and
- Pension payments of approximately $8.0bn.

Programme spending was $5,695.2mn higher than the corresponding period in 2016.

Compensation of Employees

Compensation of Employees amounted to $64,045.3mn, which was $1,485.8mn or 2.4% higher than budget. Of the amount, $792.2mn was utilized for payments of retroactive salary. Wages and Salaries accounted for $59,354.1mn of the total compensation, while the remainder represents employer's contributions. Wages and Salaries was the main driver of the over performance, due to higher than programmed arrears.

Interest Payments

Interest Payment totalled $44,543.9mn and was below the estimate by $3,214.8mn or 6.7%. Interest payment was also $5,763.2mn (or 11.5%) lower than April to July 2016 period. The lower than planned spending on Interest payments was partly due to a delay in debt management operations as well as a stronger JMD:USD exchange rate than had been envisaged.

Capital Expenditure

Capital expenditure has performed relatively well against budget, with a 91.8% execution rate achieved for the review period. This has occurred on the heels of successive years of major under execution of the capital appropriation. This year, special efforts were made to improve the rate of execution. Major projects being executed are:

- Islandwide Flood Damage Mitigation Project
- Rural Road Rehabilitation Project in Clarendon
- Energy Efficiency and Conservation Programme

- Sugar Transformation Programme under the Ministry of Agriculture

With the expectation of full implementation by the end of the year, capital expenditure is expected to realize a 17.5% higher outturn than in FY 2016/17, which supports the agenda of increased growth and development in the country.

Financing

The lower than anticipated fiscal deficit of $5,978.8mn coupled with the lower Amortization payments of $106,529.6mn reduced the total gross financing requirement to $112,508.4mn for the April to July period this year. The remaining financing need was financed through new loans amounting to $55,974.7mn and cash balances that were accumulated during FY 2016/17.

Loan Receipts of $55,974.7mn were $32,133.5mn or 36.5% lower than anticipated. This was most evident in External Loan receipts due to a disbursement of $8,961.3mn instead of the previously planned $39,534.0mn from the World Bank. This was partly offset by project loan disbursements, which were above budget (by 40.8%) due to faster than planned execution of some projects. Domestic Loan Receipts were also below budget by $3,441.3mn due to adjustments in scheduled domestic issuances. Amortization payments, which totaled $106,529.6mn, were also lower than budget by $6,212.9mn.

Public Debt

Jamaica's stock of public debt was reported at $2,017,999.2mn at end-March 2017, representing a reduction of $50,760.0mn or 2.5% over the $2,068,759.2mn recorded at end-March 2016.

In keeping with international best practice, and in the context of the application of the legislated fiscal rules, the GOJ saw the need to improve the coverage of the public sector debt stock. Therefore, on April 1, 2017, a new definition for Public Debt became effective. The new definition identifies Public Debt as the consolidated debt of the Specified Public Sector (SPS) net of any crossholdings except those of the Bank of Jamaica. The Specified Public Sector consists of the Public Sector, excluding any public body certified by the Auditor General as primarily carrying out functions that are of a commercial nature. The public sector by definition comprises the central government and public (financial and non-financial) corporations. This therefore means all analysis done on Jamaica's public debt as of April 1, 2017 will be done under the new debt definition.

The new fiscal year saw a steady decline in the public debt stock from the $2,017,999.2mn recorded at end-March 2017 to $1,963,442.0mn at end-June. The decrease in the debt stock is attributable to the government's liability management exercises as well as the repayment of debt using cash balances accumulated in the previous fiscal year. During FY 2016/17, the GOJ accumulated excess funds which were earmarked for debt repayment in the following fiscal year. The materialization of these payments resulted in a decline in the debt stock. Also, the growth of the debt portfolio was mitigated by the slower rate of depreciation of the Jamaica dollar.

Table 3G: Total Public Debt Stock (J$mn)

	17-Mar	17-Jun
Central Government Debt	**1,992,536.2**	**1,939,682.4**
External Debt Stock (J$)	1,144,030.3	1,119,711.6
Domestic Debt Stock (J$)	848,505.9	819,970.8
Net Public Bodies Debt	**25,463.0**	**23,759.5**
Total Debt Stock (J$)	**2,017,999.2**	**1,963,442.0**
End of Period Exchange Rate: J$ / US$1	128.67	128.62

Source: MoFPS

The significant lowering of the Central Government Debt stock was due mainly to the repayment of a matured NDX note in the amount of $64,487.9mn while tapping the market for $21,675.5mn. The external debt stock started the fiscal year at $1,144,030.3mn and has declined by 2.1% to report an end-June position of $1,119,711.6mn. This reduction is attributable to the government's continued execution of opportunistic liability management operations as well as the lower than anticipated exchange rate.

Net Public Bodies Debt that was recently included in the new public debt definition is calculated as the debt accumulated by the public bodies net of their financial assets, netting out government securities held by public bodies. Net Public Bodies Debt started the fiscal year at $25,463.0mn and has declined by 6.7% to $23,759.5mn by June 2017.

Self-Financing Public Bodies

FY 2017/18

The Overall Balance[2], as approved by the Parliament, of the group of SFPBs is projected at a surplus of $2,512.4mn for FY 2017/18 as well as a Current Balance surplus of $71,731.6mn. Meanwhile, there should be a net transfer to the Government of Jamaica (GOJ) totalling $39,933.6mn resulting from transfers to and from GOJ of $56,944.0mn and $17,010.5mn respectively. Flows to GOJ include Special Consumption Tax from PetroJam Limited, corporate taxes, grants to support special programmes as well as dividends.

[2] The Overall Balance reflects the financing of a PB; increase in use of credit or cash is represented by surplus or reduced use of credit or cash by a deficit.

SFPBs' Performance – Quarter 1 (three months to June 30, 2017)

Table 1 shows that as at June 30, 2017, the group of SFPBs reported an Overall Balance surplus of $3,960.4mn, relative to the targeted deficit of $1,455.9mn. The positive variance resulted chiefly as the National Housing Trust (NHT), the Airports Authority of Jamaica (AAJ), National Water Commission (NWC) and the Port Authority of Jamaica (PAJ) reflected better than budgeted performance. However, the impact of these was offset partially and mainly by the shortfall of $3,923.7mn recorded by Petrojam Limited.

NHT's improved performance resulted as the necessary amendment of the NHT Act to facilitate special distribution to the Consolidated Fund was effected in August 2017. Meanwhile, AAJ received increased concession fees from the operators of the Sangster International Airport given the higher activity level. Further, capital expenditure for NWC and PAJ were delayed.

Table 3H: SFPBs Performance for the Three (3) Months to June 2017

				Projected	Actual	Proj vs Actual
	PUBLIC BODIES - (SPBs & OPBs)			Jun-17	Jun-17	Variance
Statement 'A' Flow of Funds						
1	Current Revenue			99,074.53	97,623.10	(1,451.43)
2	Current Expenses			(82,013.62)	(73,688.00)	8,325.62
3	**Current Balance**			**17,060.91**	**23,935.10**	**6,874.19**
4	Adjustments			2,056.91	(5,738.43)	(7,795.34)
		Change in Accounts Receivable/Payable		(2,791.15)	(6,899.06)	(4,107.91)
		Items not requiring outlay of cash:		0.00	0.00	-
		Depreciation		3,463.45	3,381.81	(81.65)
		Other Non-Cash Items		1,384.61	(2,221.18)	(3,605.78)
		Prior Year Adjustment		0.00	0.00	-
5	**Operating Balance**			**19,117.82**	**18,196.66**	**(921.15)**
6	**Capital Account**			**(9,678.68)**	**(5,297.06)**	**4,381.62**
		Revenue		4,727.45	4,759.18	31.73
		Expenditure		(13,525.26)	(8,374.75)	5,150.50
		Investment		(511.95)	(71.65)	440.30
		Change in Inventory		(368.92)	(1,609.84)	(1,240.92)
7	Transfers from Government			2,591.48	4,216.70	1,625.22
		Loans		-	(0.75)	(0.75)
		Equity		-	-	-
		On-Lending		-	-	-
		Other		2,591.48	4,217.46	1,625.98
8	Transfers to Government			(13,486.52)	(13,155.94)	330.58
		Dividend		(3,558.28)	0.00	3,558.28
		Loan Repayments		(0.03)	-	0.03
		Corporate Taxes		(422.01)	(313.56)	108.44
		Other		(9,506.20)	(12,842.37)	(3,336.17)
9	**OVERALL BALANCE (5+6+7+8)**			**(1,455.90)**	**3,960.37**	**5,416.27**
10	**FINANCING (11+15)**			**1,455.90**	**(3,960.37)**	**(5,416.27)**
* 10a	Total			(795.37)	32.28	827.65
		Capital Revenue		115.88	32.28	(83.60)
		Loans		-	-	-
		Equity		-	-	-
		On-Lending		-	-	-
		Loan Repayments		(911.25)	-	911.25
11	Total Foreign (12+13+14)			(8,444.27)	4,451.74	12,896.01
12	Government Guaranteed Loans			(9,264.31)	(1,643.14)	7,621.17
		Disbursement		1,147.84	0.00	(1,147.84)
		Amortization		(10,412.15)	(1,643.14)	8,769.01
13	Direct Loans			833.88	5,407.70	4,573.82
		Long Term:		(2,645.07)	(932.98)	1,712.09
			Disbursement	1,346.58	0.00	(1,346.58)
			Amortisation	(3,991.65)	(932.98)	3,058.67
		Short Term:		-	-	-
			Change in Trade Credits	3,478.95	6,340.69	2,861.74
14	Change in Deposits Abroad			(13.84)	687.18	701.02
15	Total Domestic (16+17+18)			10,695.54	(8,444.39)	(19,139.93)
16	Banking System			7,014.83	(1,567.66)	(8,582.49)
		Loans (Change)		10,117.85	6.63	(10,111.22)
		Overdraft (Change)		(101.37)	73.72	175.09
		Deposits (Change)		(3,001.65)	(1,648.01)	1,353.64
17	Non-Banks (Change)			(121.71)	(2,543.18)	(2,421.47)
18	Other (Change)			3,802.42	(4,333.56)	(8,135.98)

Source: MoFPS

Fiscal Outlook

The Government's economic programme remains on track to satisfy the broad objectives of economic growth and debt reduction, underpinned by fiscal prudence and macroeconomic stability. The GOJ has satisfied all the quantitative and structural benchmarks under the second review of the precautionary Stand-By Arrangement (PSBA), signaling its continued commitment.

Fiscal operations for the first four (4) months of FY 2017/18 have been quite robust, particularly Revenue and Grants which was ahead of budget by $5902.2mn or 3.7%. Total expenditure (net of amortization), on the other hand, has been less than programmed due to a number of factors, including the slow execution of both the recurrent and capital budget in July. As the year progresses, it is expected that the pace of spending by the MDAs, will minimize variances, particularly for capital programmes. Since passage of the Budget in March 2017, additional expenditure pressures have emerged, to which the GOJ has had to respond. The additional expenditure is on the recurrent side of the budget and arises from the flood damage from the April-May 2017 excess rainfall, the coordinated response to the level of crime in the country and higher interest costs.

The crime level is inimical to economic growth and the society at large and the GOJ enacted legislation which allows for areas in the country to be declared "Zones of Special Operations" or ZOSO. Details on the costs of these and other additional spending will be outlined when the Supplementary Budget is tabled later this year.

Higher domestic interest costs outweigh lower external interest costs resulting in interest payments being higher by $2,244.2mn. The higher domestic interest costs are due to liability management operations. Accordingly the total Recurrent Expenditure is expected to increase by $7,180.1mn or 1.5%.

Wage Negotiations: The GOJ has received a number of claims from unions representing public sector workers and discussions have commenced with several unions. The Government will continue to meet and negotiate with the various unions to arrive at a settlement. The fiscal outturn to March is predicated on the Government and unions arriving at a settlement consistent with the fiscal parameters.

Central Government Operations

Revenue & Grants – FY 2017/18

Revenue & Grants for FY 2017/18 is currently estimated at $542,433.2mn, representing a surplus of $5,363.7mn or 1.0% over budget. This outturn is driven by the projected Tax Revenue of $481,504.9mn, which is ahead of budget by $3,250.3mn or 0.7%. Non-Tax Revenue and Grants are also expected to surpass their targets, while Bauxite Levy and Capital Revenue on the other hand are forecast to fall short of budget. Within Tax revenue, Income and Profits is projected to be ahead of the Budget by $5,502.5mn or 4.5%, more than compensating for projected shortfalls in Production & Consumption ($816.8mn below budget or 0.5%) and International Trade taxes($1,435.1mn or 0.7% below budget).

Expenditure - FY 2017/18

Central Government expenditure (excluding amortization) for FY 2017/18 is now projected to end the FY at $550,236.4mn. At the end of July 2017, total expenditure (above the line) stood at $172,192.9mn. For the remainder of the FY, the pace of budget execution is expected to increase thus eliminating the lower spending, relative to budget, recorded during the first four months.

Due to the improved GDP outlook for FY 2017/18, a higher nominal GDP has now been estimated and the nominal primary balance target has therefore moved from $131,866.0mn to $132,294mn which is equivalent to 7.0% of GDP. The revised fiscal profile which takes account of the additional expenditures (to be detailed in the Supplementary Budget) and the updated revenue forecast enables the GOJ to meet its fiscal targets.

Interest payments are currently estimated at $140,097.1mn which is $2,244.2mn or 1.6% higher than budget. Amortization payments are anticipated to be 38.0% (or $65,536.4mn) higher than originally budgeted due to liability management actions. Loan Receipts of $219,117.1mn (or 37.3% higher than budget) are projected, largely to cover the increased amortization.

Public Debt

The public debt stock under the Government of Jamaica's new public debt definition is expected to end FY 2017/18 at $2,027,815.6mn or 107.1% of GDP. Central Government Domestic Debt is projected at $751,029.9mn or 39.7% of GDP. Central Government External Debt is projected to end FY 2017/18 at $1,238,143.9mn or 65.4% of GDP.

Public Bodies: Prospects for remainder of FY 2017/18

At June 30, 2017, the Self Financing Public Bodies recorded an Overall Balance surplus of $3,960.4mn, with the most significant contributors being the National Housing Trust and Airports Authority of Jamaica. Given this first quarter outturn, expectations are that the Group will likely exceed the targeted Overall Balance surplus of $2,512.4mn for the fiscal year. The main contributors to the projected over performance are expected to be the National Water

Commission, Port Authority of Jamaica and the Airports Authority of Jamaica due to expected lower than programmed implementation of capital expenditure.

FY 2017/18 and the Medium Term Fiscal Profile

An updated medium term macroeconomic profile (see Table 2D) alongside a set of existing fiscal policy priorities inclusive of; a primary balance of 7% of GDP, Wage/GDP of 9% and Debt/GDP of 60% by FY 2025/26, facilitated the development of a revised medium term fiscal profile depicted in Table A4 and A5 in Appendix 1. The macroeconomic forecast for FY 2018/19 includes, inter alia:

- Real Growth of 2.7%
- Inflation rate of 5.0%
- Oil price (WTI) average of US$49.9 per barrel; and
- Core Imports increasing by 4.2% relative to FY 2017/18.

Revenue & Grants as a percent of GDP are forecast to fall by 0.9% from 28.7% in FY 2017/18 to 27.8% in FY 2018/19 and thereafter to remain flat at approximately 27.8% through to FY 2020/21. Tax Revenue is forecast to be at a stable 24.6% of GDP over the medium term and the case is similar for Non-Tax Revenue. One of the key factors expected to contribute to the stable path for Non-Tax Revenue collections is continuation of the special financial distributions from the NHT as per the FY 2017/18 amendments. Over the medium term Non-Tax Revenue is also expected to reflect additional receipts as a result of better compliance as it relates to the timeliness of surrender of proceeds, collected by MDAs, to the Accountant General's Department (AGD) as well as future sales of cellular/telecoms licences and additional revenues from de-earmarked or reintegrated public bodies.

The Tax Revenue forecast over the medium term indicates that PAYE and Education Tax (in per cent of GDP) will be gradually declining and stable respectively due to the contraction and subsequent stabilization of the Central Government's Wage Bill within the 9% of GDP ceiling from FY 2018/19. The continued expansion in private sector employment, as the growth momentum climbs, should help to stabilize income based taxes, particularly Education Tax.

The expenditure profile to FY 2020/21, demonstrates fiscal prudence as well as a strategic shift away from recurrent expenditure towards increased allocations (as a percent of GDP) for growth enhancing and socially strengthening capital expenditure. Over the medium term, recurrent spending on programmes is forecast to average 7.7% of GDP while the wage bill is projected to achieve the 9.0% of GDP requirement by FY 2018/19 and be maintained thereafter. The GOJ remains positive that settlements can still be arrived at which do not lead to deviation from the fiscal targets. Therefore, every effort will be made to work harmoniously with the public sector unions to ensure this favourable outcome.

Interest payments are forecast to decline from 7.8% of GDP in FY 2016/17 to 5.5% of GDP by FY 2020/21. Capital expenditure, consistent with the growth agenda is forecast to increase from 2.4% of GDP in FY 2016/17 to 2.6% in FY 2017/18 and thereafter to 3.8% of GDP by FY 2020/21.

By September 30, 2017, the Budget Call will be made to MDAs based on the aggregate fiscal figures proposed for FY 2018/19. Should there be an improvement in the forecast for Revenue and Grants, the ceilings for the primary expenditure could be increased consistent with the attainment of the fiscal target. The medium term profile, as presented, assumes that any fiscal gaps will be closed by requisite fiscal measures.

APPENDIX I
FISCAL TABLES

Table A1: Central Government Summary Accounts
FY 2017/18

(in millions of Jamaica dollars)

Item	Prov Apr - July	Budget Apr - July	Diff	Diff %	FY 16/17 Apr - July	Diff	Diff %
Revenue & Grants	**166,214.2**	**160,312.0**	**5,902.2**	**3.7%**	**153,801.4**	**12,412.7**	**8.1%**
Tax Revenue	153,626.6	148,175.4	5,451.2	3.7%	142,618.2	11,008.3	7.7%
Non-Tax Revenue	10,363.6	10,309.2	54.4	0.5%	7,430.0	2,933.7	39.5%
Bauxite Levy	127.5	131.0	-3.5	-2.7%	1,135.3	-1,007.8	-88.8%
Capital Revenue	258.3	307.0	-48.7	-15.9%	126.4	131.9	104.4%
Grants	1,838.2	1,389.4	448.8	32.3%	2,491.5	-653.3	-26.2%
Expenditure	**172,192.9**	**179,060.1**	**-6,867.2**	**-3.8%**	**167,678.0**	**4,515.0**	**2.7%**
Recurrent Expenditure	162,891.9	168,931.4	-6,039.6	-3.6%	157,243.1	5,648.8	3.6%
Programmes	54,302.7	58,613.3	-4,310.6	-7.4%	48,607.5	5,695.2	11.7%
Compensation of Employees	64,045.3	62,559.5	1,485.8	2.4%	58,328.4	5,716.8	9.8%
Wages & Salaries	59,354.1	57,731.1	1,623.0	2.8%	54,295.5	5,058.6	9.3%
Employers Contribution	4,691.2	4,828.4	-137.2	-2.8%	4,032.9	658.3	16.3%
Interest	44,543.9	47,758.7	-3,214.8	-6.7%	50,307.1	-5,763.2	-11.5%
Domestic	19,108.4	19,212.5	-104.1	-0.5%	18,334.4	774.0	4.2%
External	25,435.5	28,546.1	-3,110.6	-10.9%	31,972.7	-6,537.2	-20.4%
Capital Expenditure	9,301.1	10,128.7	-827.6	-8.2%	10,434.9	-1,133.8	-10.9%
Capital Programmes	9,301.1	10,128.7	-827.6	-8.2%	10,434.9	-1,133.8	-10.9%
Fiscal Balance (Surplus + / Deficit -)	**-5,978.8**	**-18,748.1**	**12,769.3**	**-68.1%**	**-13,876.5**	**7,897.8**	**-56.9%**
Loan Receipts	**55,974.7**	**88,108.2**	**-32,133.5**	**-36.5%**	**14,950.4**	**41,024.3**	**274.4%**
Domestic	40,524.3	43,965.6	-3,441.3	-7.8%	11,024.6	29,499.6	267.6%
External	15,450.4	44,142.6	-28,692.2	-65.0%	3,925.7	11,524.7	293.6%
Project Loans	6,489.1	4,608.6	1,880.5	40.8%	3,925.7	2,563.3	65.3%
Other	8,961.3	39,534.0	-30,572.7	-77.3%	0.0	8,961.3	-
Divestment Proceeds/Other	11,400.1	11,701.3	-301.2	-2.6%	14,604.7	-3,204.7	-21.9%
Amortization	**106,529.6**	**112,742.5**	**-6,212.9**	**-5.5%**	**23,208.5**	**83,321.1**	**359.0%**
Domestic	68,939.4	72,427.0	-3,487.6	-4.8%	5,024.2	63,915.1	1272.1%
External	37,590.2	40,315.5	-2,725.3	-6.8%	18,184.2	19,406.0	106.7%
Overall Balance (Surplus + / Deficit -)	**-45,133.6**	**-31,681.1**	**-13,452.5**	**42.5%**	**-7,529.9**	**-37,603.7**	**499.4%**
Primary Balance (Surplus + / Deficit -)	**38,565.1**	**29,010.5**	**9,554.6**	**32.9%**	**36,430.6**	**2,134.5**	**5.9%**

Source: MoFPS

Table A2: Details of Revenue
FY 2017/18

(in millions of Jamaica dollars)

Item	Prov. Apr - July	Budget Apr - July	Diff	Diff %	FY 16/17 Apr - July	Diff	Diff %
Revenue & Grants	**166,214.2**	**160,312.0**	**5,902.2**	**3.7%**	**153,801.4**	**12,412.7**	**8.1%**
Tax Revenue	**153,626.6**	**148,175.4**	**5,451.2**	**3.7%**	**142,618.2**	**11,008.3**	**7.7%**
Income and profits	34,548.7	32,981.9	1,566.8	4.8%	38,699.2	-4,150.5	-10.7%
Bauxite/alumina	0.0	0.0	0.0	0.0%	0.0	0.0	-
Companies	13,139.2	9,835.4	3,303.8	33.6%	9,655.7	3,483.5	36.1%
PAYE	17,007.2	17,825.7	-818.5	-4.6%	24,858.8	-7,851.6	-31.6%
Tax on dividend	386.1	505.5	-119.4	-23.6%	426.3	-40.3	-9.4%
Individuals	970.7	959.6	11.1	1.2%	1,069.6	-98.9	-9.3%
Tax on interest	3,045.6	3,855.7	-810.1	-21.0%	2,688.7	356.9	13.3%
Production and consumption	59,504.5	54,252.2	5,252.3	9.7%	49,202.2	10,302.3	20.9%
Min Business Tax	387.0	283.3	103.7	36.6%	256.5	130.5	50.9%
SCT	11,320.1	7,868.7	3,451.4	43.9%	5,603.3	5,716.7	102.0%
Environmental Levy	235.6	205.9	29.7	14.4%	164.8	70.8	0.0%
Motor vehicle licenses	1,248.3	1,182.0	66.3	5.6%	1,019.7	228.6	22.4%
Other licenses	310.1	263.3	46.8	17.8%	163.2	146.8	90.0%
Quarry Tax	6.7	18.6	-11.9	-64.0%	0.0	6.7	0.0%
Betting, gaming and lottery	1,029.0	995.6	33.4	3.4%	899.8	129.2	14.4%
Accomodation Tax	865.0	839.6	25.4	3.0%	794.7	70.2	8.8%
Education Tax	8,675.5	7,907.0	768.5	9.7%	7,623.1	1,052.4	13.8%
Telephone Call Tax	1,346.3	1,405.5	-59.2	-4.2%	1,567.3	-221.0	-14.1%
Contractors levy	670.7	410.3	260.4	63.5%	389.2	281.5	72.3%
GCT (Local)	28,750.6	28,130.7	619.9	2.2%	25,566.1	3,184.5	12.5%
Stamp Duty (Local)	4,659.7	4,741.7	-82.0	-1.7%	5,154.3	-494.6	-9.6%
International Trade	59,573.3	60,941.3	-1,368.0	-2.2%	54,716.8	4,856.5	8.9%
Custom Duty	12,059.5	11,569.8	489.7	4.2%	11,446.2	613.3	5.4%
Stamp Duty	750.3	711.6	38.7	5.4%	668.8	81.5	12.2%
Travel Tax	6,532.4	5,448.8	1,083.6	19.9%	3,883.5	2,648.9	68.2%
GCT (Imports)	25,477.4	25,589.0	-111.6	-0.4%	23,385.9	2,091.5	8.9%
SCT (imports)	13,799.5	16,642.3	-2,842.8	-17.1%	14,441.5	-642.0	-4.4%
Environmental Levy	954.2	979.8	-25.6	-2.6%	891.0	63.2	7.1%
Non-Tax Revenue	**10,363.6**	**10,309.2**	**54.4**	**0.5%**	**7,430.0**	**2,933.7**	**39.5%**
Bauxite Levy	**127.5**	**131.0**	**-3.5**	**-2.7%**	**1,135.3**	**-1,007.8**	**-88.8%**
Capital Revenue	**258.3**	**307.0**	**-48.7**	**-15.9%**	**126.4**	**131.9**	**104.4%**
Grants	**1,838.2**	**1,389.4**	**448.8**	**32.3%**	**2,491.5**	**-653.3**	**-26.2%**

Source: MoFPS

Table A3: Central Government Summary Accounts
FY 2017/18

(in millions of Jamaica dollars)

Item	Prov Apr - March	Budget Apr - March	Diff	Diff %	FY 16/17 Apr - March	Diff	Diff %
Revenue & Grants	**542,433.2**	**537,069.4**	**5,363.7**	**1.0%**	**499,879.9**	**42,553.3**	**8.5%**
Tax Revenue	481,504.9	478,254.6	3,250.3	0.7%	458,323.4	23,181.5	5.1%
Non-Tax Revenue	54,101.8	52,103.6	1,998.2	3.8%	33,754.1	20,347.8	60.3%
Bauxite Levy	127.5	131.0	-3.5	-2.7%	1,940.9	-1,813.4	-93.4%
Capital Revenue	1,919.3	2,228.1	-308.8	-13.9%	568.6	1,350.7	237.5%
Grants	4,779.6	4,352.1	427.4	9.8%	5,292.8	-513.3	-9.7%
Expenditure	**550,236.4**	**543,056.3**	**7,180.1**	**1.3%**	**503,356.1**	**46,880.3**	**9.3%**
Recurrent Expenditure	500,953.9	493,773.8	7,180.1	1.5%	461,400.8	39,553.1	8.6%
Programmes	167,649.9	162,736.2	4,913.7	3.0%	142,976.4	24,673.5	17.3%
Compensation of Employees	193,206.9	193,184.8	22.1	0.0%	179,068.1	14,138.8	7.9%
Wages & Salaries	179,546.4	179,525.8	20.6	0.0%	166,484.7	13,061.7	7.8%
Employers Contribution	13,660.5	13,659.0	1.6	0.0%	12,583.4	1,077.1	8.6%
Interest	140,097.1	137,852.9	2,244.2	1.6%	139,356.2	740.9	0.5%
Domestic	66,561.0	62,903.4	3,657.7	5.8%	63,544.0	3,017.1	4.7%
External	73,536.1	74,949.5	-1,413.4	-1.9%	75,812.2	-2,276.1	-3.0%
Capital Expenditure	49,282.5	49,282.5	0.0	0.0%	41,955.3	7,327.2	17.5%
Capital Programmes	49,282.5	49,282.5	0.0	0.0%	41,955.3	7,327.2	17.5%
Fiscal Balance (Surplus + / Deficit -)	**-7,803.3**	**-5,986.9**	**-1,816.4**	**30.3%**	**-3,476.2**	**-4,327.1**	**124.5%**
Loan Receipts	**219,117.1**	**159,612.0**	**59,505.1**	**37.3%**	**89,826.8**	**129,290.2**	**143.9%**
Domestic	72,698.8	89,000.0	-16,301.2	-18.3%	55,544.1	17,154.7	30.9%
External	146,418.3	70,612.0	75,806.3	107.4%	34,282.8	112,135.5	327.1%
Project Loans	17,969.8	18,774.2	-804.4	-4.3%	15,147.8	2,822.0	18.6%
Other	128,448.5	51,837.8	76,610.7	147.8%	19,135.0	109,313.5	571.3%
Divestment Proceeds/Other	**11,400.1**	**11,701.3**	**-301.2**	**-2.6%**	**14,604.7**	**-3,204.7**	**-21.9%**
Amortization	**238,084.5**	**172,548.1**	**65,536.4**	**38.0%**	**75,389.7**	**162,694.8**	**215.8%**
Domestic	170,978.4	102,448.2	68,530.2	66.9%	29,709.8	141,268.6	475.5%
External	67,106.1	70,099.9	-2,993.8	-4.3%	45,679.9	21,426.2	46.9%
Overall Balance (Surplus + / Deficit -)	**-15,370.6**	**-7,221.6**	**-8,149.0**	**112.8%**	**25,565.7**	**-40,936.3**	**-160.1%**
Primary Balance (Surplus + / Deficit -)	**132,293.9**	**131,866.0**	**427.9**	**0.3%**	**135,880.0**	**-3,586.1**	**-2.6%**

Source: MoFPS

Table A4: Central Government Summary Accounts (% GDP)

Item	Act 2015/16	Act 2016/17	Proj 2017/18	Proj 2018/19	Proj 2019/20	Proj 2020/21
Revenue & Grants	**27.0%**	**28.0%**	**28.7%**	**27.8%**	**27.9%**	**27.8%**
Tax Revenue	24.4%	25.7%	25.4%	24.6%	24.6%	24.6%
Non-Tax Revenue	2.1%	1.9%	2.9%	2.8%	2.9%	2.9%
Bauxite Levy	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%
Capital Revenue	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%
Grants	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%
Expenditure	**27.3%**	**28.2%**	**29.1%**	**27.1%**	**26.8%**	**26.3%**
Recurrent Expenditure	25.4%	25.9%	26.5%	24.1%	23.0%	22.5%
Programmes	7.9%	8.0%	8.9%	8.2%	7.5%	7.4%
Compensation of Employees	10.0%	10.0%	10.2%	9.6%	9.6%	9.6%
Wages & Salaries	10.0%	9.3%	9.5%	9.0%	9.0%	9.0%
Employers Contribution		0.7%	0.7%	0.7%	0.6%	0.6%
Interest	7.4%	7.8%	7.4%	6.3%	5.9%	5.5%
Domestic	4.2%	3.6%	3.5%	3.0%	2.8%	2.6%
Foreign	3.2%	4.3%	3.9%	3.3%	3.1%	2.9%
Capital Expenditure	1.9%	2.4%	2.6%	3.0%	3.8%	3.8%
Capital Programmes	1.9%	2.4%	2.6%	3.0%	3.8%	3.8%
Fiscal Balance (Surplus + / Deficit -)	**-0.3%**	**-0.2%**	**-0.4%**	**0.7%**	**1.1%**	**1.5%**
Loan Receipts	**17.7%**	**5.0%**	**11.6%**	**5.3%**	**4.1%**	**4.5%**
Domestic	1.7%	3.1%	3.8%	4.0%	3.1%	3.0%
External	16.0%	1.9%	7.7%	1.2%	1.0%	1.5%
Divestment/Other	**0.4%**	**0.8%**	**0.6%**	**0.6%**	**0.5%**	**0.5%**
Amortization	**20.3%**	**4.2%**	**12.6%**	**6.6%**	**5.6%**	**6.5%**
Domestic	4.6%	1.7%	9.0%	3.7%	3.0%	4.5%
External	15.7%	2.6%	3.5%	2.8%	2.7%	2.0%
Overall Balance (Surplus + / Deficit -)	**-2.5%**	**1.4%**	**-0.8%**	**0.0%**	**0.1%**	**0.0%**
Primary Balance	**7.2%**	**7.6%**	**7.0%**	**7.0%**	**7.0%**	**7.0%**
GDP	1,687,385.2	1,782,705.2	1,892,612.1	2,044,174.6	2,197,268.2	2,360,816.1
TOTAL PAYMENTS	**47.6%**	**32.5%**	**41.7%**	**33.6%**	**32.4%**	**32.8%**

Source: MoFPS

Table A5: Central Government Summary Accounts (J$mn)

Item	Act 2015/16	Act 2016/17	Proj 2017/18	Proj 2018/19	Proj 2019/20	Proj 2020/21
Revenue & Grants	**455,835.8**	**499,879.9**	**542,433.2**	**568,267.5**	**613,100.4**	**657,063.4**
Tax Revenue	411,854.0	458,323.4	481,504.9	502,876.7	541,116.6	580,305.0
Non-Tax Revenue	35,748.6	33,754.1	54,101.8	58,062.4	64,331.9	68,662.3
Bauxite Levy	2,116.9	1,940.9	127.5	0.0	0.0	0.0
Capital Revenue	652.7	568.6	1,919.3	2,410.0	2,606.9	2,819.8
Grants	5,463.6	5,292.8	4,779.6	4,918.4	5,045.0	5,276.4
Expenditure	**460,719.4**	**503,356.1**	**550,236.4**	**553,151.0**	**588,700.1**	**621,098.8**
Recurrent Expenditure	427,972.1	461,400.8	500,953.9	492,756.6	505,279.4	531,122.3
Programmes	133,505.2	142,976.4	167,649.9	167,172.3	164,175.8	174,940.0
Compensation of Employees	168,787.4	179,068.1	193,206.9	196,873.8	210,924.2	226,346.3
Wages & Salaries	168,787.4	166,484.7	179,546.4	182,953.7	196,656.1	211,293.4
Employers Contribution		12,583.4	13,660.5	13,920.1	14,268.1	15,052.8
Interest	125,679.5	139,356.2	140,097.1	128,710.5	130,179.4	129,836.1
Domestic	71,391.3	63,544.0	66,561.0	60,809.8	62,266.8	61,967.4
External	54,288.3	75,812.2	73,536.1	67,900.7	67,912.6	67,868.6
Capital Expenditure	32,747.3	41,955.3	49,282.5	60,394.4	83,420.7	89,976.5
Capital Programmes	32,747.3	41,955.3	49,282.5	60,394.4	83,420.7	89,976.5
Fiscal Balance (Surplus + / Deficit -)	**-4,883.7**	**-3,476.2**	**-7,803.3**	**15,116.5**	**24,400.3**	**35,964.6**
Loan Receipts	**298,600.5**	**89,826.8**	**219,117.1**	**107,418.6**	**89,587.1**	**106,314.6**
Domestic	29,004.3	55,544.1	72,698.8	82,291.9	67,363.1	70,816.6
External	269,596.2	34,282.8	146,418.3	25,126.7	22,224.0	35,497.9
Divestment/Other	**6,071.2**	**14,604.7**	**11,400.1**	**11,400.1**	**11,400.1**	**11,400.1**
Amortization	**342,725.9**	**75,389.7**	**238,084.5**	**133,935.1**	**123,830.6**	**152,574.4**
Domestic	77,718.9	29,709.8	170,978.4	76,619.2	65,173.4	105,752.8
External	265,007.1	45,679.9	67,106.1	57,315.8	58,657.2	46,821.6
Overall Balance (Surplus + / Deficit -)	**-42,937.9**	**25,565.7**	**-15,370.6**	**0.0**	**1,557.0**	**1,104.9**
Primary Balance (Surplus +/Deficit -)	**120,795.9**	**135,880.0**	**132,293.9**	**143,827.0**	**154,579.7**	**165,800.7**
TOTAL PAYMENTS	**803,445.3**	**578,745.8**	**788,320.9**	**687,086.1**	**712,530.7**	**773,673.2**

Source: MoFPS

Appendix II

FISCAL RISK STATEMENT

The February 2017 publication of the annual FPP included a Fiscal Risk Statement which outlined the GOJ's exposure to fiscal risks originating from various sources such as macroeconomic assumptions used in preparing the FY 2017/18 budget and medium-term projections, public debt dynamics, the operations of state owned enterprises as well as Public-Private Partnerships (PPPs) and contingent liabilities. This report provides a brief update on some of the risks identified.

Jamaica's macroeconomic conditions are steadily improving with nine (9) consecutive quarters of real growth supported by an uptick in domestic economic conditions driven mainly by agriculture, construction and tourism. The unemployment rate continues to decline, business and consumer confidence are at an all-time high and inflation at an all-time low. This improvement is expected to continue during FY 2017/18 as domestic conditions continue to strengthen alongside growth in the global economy. However, the GOJ is aware that this positive domestic outlook can quickly be reversed without strong intervention to tackle crime, and is therefore taking steps to do so.

Natural Disasters

Jamaica's location makes it quite susceptible to natural disasters such as hurricanes, earthquakes, above average rainfall resulting in flooding, and drought. These natural disasters often cause significant damage to public and private infrastructure resulting in unexpected costs to the budget. As such, the GOJ tries to mitigate the potential losses from these catastrophic events through its insurance policy with the Caribbean Catastrophic Risk Insurance Facility Segregated Portfolio Company (CCRIF SPC). The Government has renewed its coverage for the 2017/18 policy year for Tropical Cyclone (TC), Earthquake (EQ), and Excess Rainfall (XSR) at a premium of US$6.1mn (including discount). The GOJ's decision to renew its policies with CCRIF was necessary taking into consideration the current hurricane season which is described as the most disruptive since 2005 and Jamaica's increasing exposure to natural disasters due to climate change.

For the 2017/18 policy year, CCRIF has developed two (2) special features in relation to the TC and EQ policies, the Reinstatement of Sum Insured Cover and the Aggregate Deductible Cover (ADC). In celebration of its 10th anniversary, CCRIF has made these features available to member countries at no additional cost. These features will allow member countries to access coverage beyond the limits of their existing policies and are designed to supplement the existing TC and EQ policy structures. Under specific scenarios, these features will provide payouts where the main policy would not provide coverage.

In addition, the GOJ continues to set aside a contingency reserve of around 1% of GDP to help to deal with unforeseen circumstances, including natural disasters and other expenses or revenue shocks.

Disaster Risk Finance Technical Assistance (DRFTA)

The GOJ continues to receive technical assistance (TA) from the World Bank (WB) under the Disaster Risk Financing Technical Assistance programme (DRFTA) to better identify and manage fiscal risks associated with natural disasters. A report has been prepared which proposes to the GOJ potential considerations for the formulation of country-specific comprehensive disaster risk finance (DRF) strategy to be based on the assessment of the legislative, financial management, fiscal and insurance market environment in Jamaica. It is envisioned that this report will be used as a planning tool used to develop a comprehensive DRF strategy that would equip the MOFPS with information and instruments to manage contingent liabilities posed by natural disasters. The options for consideration are presented in **Table 1** and form a basis that can be used by the GOJ in the development of a comprehensive strategy.

These recommendations would allow the Government to access between to US $152.0mn and $313.0mn[3] in immediate liquidity to finance post-disaster expenditures, as well as begin on long term reconstruction with minimal delays. Fiscal risk analysis shows that this would allow the Government to finance its contingent liabilities from a flood or hurricane event with a 20-year return period with its own funds without reallocation or further indebtedness, other than drawing down on a contingent financing mechanism. The combination of reserves, emergency financing from Catastrophe Deferred Drawdown Option (CAT-DDO), and parametric insurance offers a cost-effective strategy. With the addition of indemnity insurance for public assets, coverage could be even more effective. Reserves and/or annual budget allocation are efficient to finance recurrent low severity events like localized floods, storms, or landslides. Lines of contingent credit like CAT-DDOs are more cost-effective than risk transfer solutions for the intermediate layers of risk like tropical storms and low intensity hurricanes. Catastrophe risk transfer solutions like parametric insurance have proven to be cost-efficient against high risk layers like a major hurricane or earthquake.

The Government could support the establishment of a disaster risk insurance program for key public assets in partnership with the private insurance industry. Most of the public assets, including critical assets such as hospitals and schools, are not currently insured against natural disasters. The first step in designing a catastrophe insurance program for public assets would involve a national inventory of public assets. Undertaking an inventory has an additional application of informing the national cadaster and property tax records. Standardized terms and conditions for the property insurance policies would be developed, which would assist public managers in identifying their risk exposure and their insurance needs. The program could also

[3] Based on current CCRIF parameters, and a range of recommended values for NDF and CAT-DDO

structure a national insurance portfolio of public assets and be then places on the private (re)insurance market. A national property catastrophe insurance program for public assets would create economies of scale and diversification benefits, thus lower reinsurance premiums.

Table 1: Strategy Options for disaster risk finance in Jamaica

Timeframe	Instrument and Strategy Options for disaster risk finance
	Sovereign Protection
Short term	1. Streamline and institutionalize a damage and loss data collection and reporting system across ministries for all severities of events.
Short Term	2. Streamline reporting of disaster relief, recovery and response expenditures
	a. Use the current Program 005 for Disaster Management uniformly consistently in in the Revised Chart of Accounts to more accurately track post-disaster spending.
	b. Review Treasury General Ledger (TGL) to facilitate use of country systems by international development partners
Short/Medium term	3. Develop an inventory of public assets
	a. Review the legal definition of contingent liabilities,
	b. Integrate explicit contingent liabilities in budgetary planning process based on potential losses to natural disasters.
	c. Apply rule for accounting of contingent liabilities based on IPSAS standard
Short term	4. Codify or approve a disaster risk finance strategy
	a. Prepare a Manual for post-disaster financing to accurately capture the actors, the systems, the various sources of financing, the process to disburse funds and budget execution.
Short term	5. Increase contingency reserves to between USD 50 and 100 M through the National Disaster Fund (NDF)
	a. Establish safeguards to ensure appropriate funds in NDF and appropriate fund management
	b. Conduct an audit of the NDF to ensure that all funds for short-term disaster financing have been transferred to the NDF
	c. Establish or re-establish a mechanism for the rapid disbursement of financing of post-disaster expenses through Regulation 7 of the FAA
Short term	6. Engage external development partners in establishing contingent financing arrangements or CAT-DDO of at least USD 100 to 150 M
Medium Term	7. Establish a robust catastrophe risk insurance program for public assets and parastatals
Medium Term	8. Enhance management of implicit contingent liabilities related to social protection
LongTerm	9. Explore diaspora bond and catastrophe bond markets
	Private Insurance Market
Medium Term	10. Enhance availability, penetration and affordability of private and residential catastrophe insurance, for example trough public private partnership and micro insurance schemes for example through the Livelihood Protection Program (LPP)
Medium Term	11. Enhance data sharing on agricultural insurance and develop more robust and affordable products for smallholder farmers.

Wage Settlement

The previous Heads of Agreement (HOA) with unions representing public sector workers ended on March 31, 2017. The new round of wage negotiations for the FY 2017/19 contract period is off to a late start and to date, the GOJ has not been able to settle with any of the groups.

The FY 2017/18 budget included a contingency provision for wage adjustment, which takes into consideration the 9% wage/GDP target to be achieved by end-FY 2018/19. The final wage settlement rates could exceed the contingency provisions thus highlighting the risk to the expenditure budget and the overall fiscal programme. This therefore needs to be clearly communicated to the various public sector groups during this current round of negotiations.

Public Bodies with Arrears

The GOJ is cognisant that debt issued by public bodies (PBs) can pose a serious fiscal risk whether or not there is an explicit Government guarantee. GOJ also recognises that it is imperative for the arrears, particularly of large PBs, to be managed and monitored closely. In the 4th quarter of FY 2016/17 the GOJ on-lent US$27 million to the Clarendon Alumina Partners (CAP) to settle its arrears to the Jamalco Plant. In recognition of these risks, the Government has:

a. Undertaken to contain the domestic arrears of seven (7) large public bodies by establishing a ceiling ($6,400 million) on the accumulation of new debts in these entities. These public bodies are CAP, National Water Commission, Housing Agency of Jamaica, the Jamaica Urban Transit Company Limited, National Health Fund, National Road Operating and Construction Company Limited and the Urban Development Corporation.
b. Established a contractual repayment schedule with CAP; full repayment is expected by June 2019.

Public Private Partnerships (PPPs)

The Government recognises that PPPs have the potential to impose significant fiscal risks if not appropriately designed and financed. Therefore, the risks associated with PPPs are actively monitored by the GOJ. The following provides an update on the status of PPPs since the FPP was published in February.

PPPs In progress

The following PPP transactions are currently in progress:

Norman Manley International Airport (NMIA) - In June 2017, the Government of Jamaica (GOJ) approved eight firms for prequalification to participate in the bidding process for the

NMIA PPP transaction. The proposed investors are in the process of undertaking the necessary due diligence. Efforts are underway to enable the hosting of a bidder's conference on before the end of the second quarter.

Jamaica Railway Corporation (JRC) - The GOJ is now in receipt of a revised Draft Business Plan from Herzog. The updated Memorandum of Understanding has not yet been executed, however, it is anticipated that this will be undertaken by the end of August 2017.

Schools Solar Energy - The final Business Case and Procurement Plan were approved by the Enterprise Team on August 3, 2017. The National Education Trust/Ministry of Education is in the process of completing the necessary activities in order to obtain Cabinet approval to proceed to Phase 2 (transaction phase).

Projects being assessed for possible Development as PPPs

The consultants have undertaken a feasibility study for the Caymanas Special Economic Zone (CSEZ) and have submitted an inception report to the Enterprise Team for review. The World Bank has provided funding for the consultancy by way of a Public Private Infrastructure Advisory Facility.

Other PPP projects are in the assessment phase including the Milk River Hotel & Spa Bath Fountain Hotel and Spa, National Solid Waste Management Authority, Mandeville Municipal Commercial Hub and water projects including the Northern Parishes Water Supply and the Rio Cobre Water Treatment Plant.

Appendix III

Tax Administration Jamaica Update

Tax Administration Jamaica (TAJ) has commenced implementation of its FY 2017/18 strategic plan and to this extent has seen benefits, as the revenues continue to outperform targets and prior year collections. As at end-July 2017, collections were 7.8% above target and 8.3% above prior year collections. With the implementation of the Revenue Administration Information System (RAiS), taxpayers continue to benefit from the ease of online services provided and TAJ has strengthened its capabilities to better identify delinquent taxpayers for appropriate action. Outreach programmes have been revised to better communicate with the taxpayers and the public in general, and additional provision has been made for taxpayers *e*-filing – with the expansion of kiosks in tax offices. A robust enforcement programme focusing on specific sectors, supported by strengthened legislation, gave new thrust to actions against non-compliant taxpayers.

1. Continuously improving voluntary compliance

Over the period April-July 2017, TAJ has seen improvements in its voluntary compliance metrics, with upticks in taxpayer registration; on-time payment rate; and audits conducted. A total of seventeen (17) compliance risk programmes (i.e. 2 Registration; 4 Audit; 5 compliance; 6 Taxpayer Service and Education) were developed and distributed for implementation, and are at varying stages of execution.

Programme execution has resulted in six thousand, five hundred and six (6,506) new taxpayers registered; audit yield of $552M from six thousand, three hundred and fifteen (6,315) taxpayers investigated under the PAYE Threshold Abuse Programme; and on-time payment rates increased to 97% from 86.5%. These initiatives were supported by a special registration programme aimed at identifying delinquent taxpayers from a listing of (28,808) companies which were removed from the register of the Companies Office of Jamaica. Eight thousand, three hundred and forty three (8,343) matches were confirmed with TAJ's database and one thousand, six hundred and sixty nine (1,669) of these cases were identified as stop filers. Further analysis continues to determine the tax status of the remaining businesses. Special enforcement activities have recovered $101.7M from chronic delinquent taxpayers and tax evaders, and four (4) cases of tax fraud have been referred for prosecution.

Transfer Pricing: To accommodate the implementation of a transfer pricing (TP) regime during FY 2017/18, documents related to audit processes and procedures and a transfer pricing roadmap focusing on specified sectors/taxpayers/issues were developed. The Authority received technical assistance from the Organization of Economic Co-operation and Development (OECD) in the preparation of these documents; the top twenty five (25) taxpayers who would be involved in transfer pricing were identified and those with transfer pricing issues selected for audit. To date four (4) of those taxpayers have been targeted for transfer pricing audits, of which activities have commenced for two (2) of the four (4) companies.

2. Engendering a customer centric organization

TAJ continues to strengthen the scope and access of taxpayer services, partnership management, products and services. This entails customer centric compliance programmes being developed and implemented, including a corporate social responsibility programme. To date, the level of customer satisfaction for the first quarter was 76.0% based on a weighted average calculation, which allowed clients to rate the level of service received as either Excellent, Good, Fair or Poor. There was an expansion of the mix of established print and radio features aimed at promoting the main services and policies highlighted or implemented during the period. This expansion saw the increases in the number of stakeholder engagements, press releases issued, as well as the use of social media, as part of the strategy to increase TAJ's visibility.

A customer feedback management system was developed and following feedback, the taxpayer service training module is being enhanced to close gaps identified from the analysis of the results.

In keeping with the intent to implement a corporate social responsibility programme, a framework/policy is being developed to guide execution. Implementation of the programme is slated for end in the second quarter of the fiscal year.

3. Institutional strengthening of the organization (i.e. processes, technology & physical infrastructure):

Internal controls and processes are being implemented via TAJ's Enterprise Risk Management (ERM) framework. The Business Continuity Management Plan (BCMP) has been strengthened to include a testing schedule – which is being developed to coordinate the testing of critical recovery time objectives in the BCMP, testing the requisite sub-plans and strengthening resilience assurance for the organization to respond to critical threats. The High Level Implementation Matrix is intended to provide costing details of response services and other areas that would allow the organization to implement and access services for responses to threats. These costs are to be determined by key business units, and are presently being estimated based on continued discussions.

The RAiS has been fully deployed and the project has fully transitioned into a production support phase with a major focus on configuring and testing business requirements, as the system is enhanced to better serve taxpayers, promoting ease of use and added security features. During August 2017, an eService enhancement was made to the appearance of the user interface. Additionally, how the user interacts with several system options was also enhanced. These included an Updated Account Window and an Updated Payment Window. New features added included: Account Settings Window; Period Window; Manage Payments and Returns function.

The Enterprise Content Management (ECM) project continued implementation into FY 2017/18, with the project schedule of activities and work packages being advanced. The project will be implemented in two (2) phases. Phase 1 comprises Returns Processing; TRN and Motor Vehicle Titles.

Work on the Human Capital Management Enterprise System (HCMES) (now MyHR+) continues as TAJ is in the process of updating all active employee records into the system to meet the implementation schedule for November 2017, with the first payroll run in September 2017. To date, 95% of records have been updated.

For FY 2017/18, TAJ is undertaking three (3) major physical infrastructure projects namely: the completion of the Donald Sangster Building (48% completion), the completion of the Falmouth Tax Office (75% completion) and the renovation of office space for the Large Taxpayer Office (layout from Consultant being reviewed).

4. Building human capital synergies:

To strengthen staff empowerment to allow for efficient and effective execution of duties while being responsive to a changing environment, a major initiative to develop and implement a competency framework for all TAJ's mission critical positions has commenced. Currently, 166 competency assessments have been conducted in areas including senior management. For the remainder of FY 2017/18, TAJ aims to complete competency assessments for the Taxpayer Service positions and the Skills Gap for both Compliance and Taxpayer Service. A training programme spanning all staff levels was developed, and is being implemented with quarterly training schedules being submitted to staff.

TAJ has commenced the development of a robust succession planning programme, and has already identified possible candidates for the Executive Level.

5. **Corporate governance and culture enhanced:**

In an effort to establish a new organizational philosophy that is reflective of its new semi-autonomous revenue authority status, TAJ has undertaken several strategic initiatives such as the development and implementation of a change management programme, and development of organization rules and governance framework.

At the end of July 2017, 60% of the change management programme has been developed, with an implementation target date for the 30th of September 2017. The organizational rules and governance framework is to be implemented in the third quarter of the current fiscal year.

Semi-Autonomous Revenue Authority (SARA) branding and guiding principles are to be communicated to TAJ staff throughout FY 2017/18; currently existing documents are being reviewed.

APPENDIX IV

Developments in the Financial Sector

Introduction

During the review period, the MOFPS continued its commitment to maintaining stability in the financial sector as it proceeded with its efforts to improve the legislative framework and strengthen institutional capacity to supervise financial institutions. The Financial Investigations Division (FID) continued to actively pursue its mandate of dealing with matters relating to financial crimes, including money laundering; while the Financial Sector Adjustment Company (FINSAC) Limited continued its winding down operations. Accordingly, the following are highlights:

Public Sector Pension Reform

The Pensions (Public Service) Bill was passed in the Lower House in April 2017. Subsequently, the Senate started its debate on the Pensions Bill in June 2017. The accompanying Regulations will be finalized once the Bill is passed in the Houses of Parliament to ensure consistency. Due to setbacks in debating the Bill in Parliament, the implementation date for the Reformed Public Sector Pension Scheme will be revised to a later date.

Banking Services Act (BSA)

The FRD received the first draft of the Banking Services (Capital Adequacy) Regulations and Banking Services (Financial Holding Companies) (Licence Application) Rules from the Office of the Chief Parliamentary Counsel (CPC) in July 2017, which was forwarded to the Bank of Jamaica for comments. Once all the comments are received from the key stakeholders, they will be compiled and further drafting instructions will be issued to the CPC to revise them. The Regulations on capital adequacy imposes capital adequacy requirements on both a consolidated and solo basis and will repeal and replace the existing Capital Adequacy Regulations, 2015.

Private Sector Pensions Reform

The Pensions (Superannuation Funds & Retirement Schemes) Bill is still being reviewed by key stakeholders. The FRD is awaiting the comments of the key stakeholders on the Bill to amend the Pensions (Superannuation Funds & Retirement Schemes) Act. The next step is to compile the comments received, and issue further drafting instructions to the Chief Parliamentary Counsel to revise the Bill.

Insurance (Amendment) Act

Cabinet's approval was sought and received in May 2017 to amend the Insurance Act in order to facilitate the creation of a micro-insurance legislative framework. Subsequently, drafting instructions were prepared and issued to the CPC. The first draft of the Insurance Amendment Bill was received from CPC in July 2017 and was circulated to the Financial Services Commission (FSC) for comments. The Ministry is awaiting the feedback of the FSC on the Bill. The proposed amendment to the Insurance Act will pave the way for regulations to be developed to regulate the industry.

Proposed Microcredit Act

The FRD received the 3rd draft of the Microcredit Bill from the Chief Parliamentary Counsel in February 2017, which was circulated to the key stakeholders for their review and comments. Having received the feedback of the relevant stakeholders, the comments were compiled and additional drafting instructions were issued to the CPC in May 2017 to revise the Microcredit Bill. The FRD is awaiting the revised draft Bill from CPC. The proposed new Act will provide for the licensing and regulation of small privately-owned money lending institutions in an effort to address the deficiencies inherent in the operations of the industry. It will also promote greater transparency, protection of consumers and reduction in risks or elimination of the industry being used as a vehicle to facilitate money laundering.

National Financial Inclusion Strategy (NFIS)

The National Financial Inclusion Council (NFIC) was established on March 29, 2017, with its inaugural meeting. The National Financial Inclusion Strategy was also launched on March 29, 2017. The NFIC is responsible for the implementation of the National Financial Inclusion Strategy, which was approved by Cabinet in May 2016. The NFIS is intended to create an environment in which underserved Jamaican citizens and micro, small and medium-sized enterprises (MSMEs) are given the relevant knowledge and access to financial products and services, which would enable them to save, invest and build economic wealth. The focus of the NFIS will be on the following priority areas: MSME and agriculture finance, housing finance, consumer protection and financial literacy and retail payment system.

Proposal for the enhancement of the Resolution Framework for Financial Institutions

The Consultation Paper proposing a special resolution regime (SRR) for financial institutions was completed by the inter-agency technical working group of the Financial Regulatory Committee with the technical assistance of the International Monetary Fund. The Consultation Paper was subsequently released for public feedback on February 28, 2017 and the resulting feedback was taken into consideration in drafting the Cabinet Submission. The Cabinet Submission was forwarded to the Cabinet in July 2017 for its approval of the policy proposal. The next step is to prepare and issue drafting instructions to the CPC to draft the relevant Bill.

The proposed special resolution regime for financial institutions will provide a framework for the orderly resolution of distressed financial institutions in order to protect financial stability whilst minimizing the recourse to public funds. The proposed SRR legislation will be in keeping with international best practices promoted by the Financial Stability Board in its guidance document "Key *Attributes of Effective Resolution Regimes for Financial Institutions*".

Proposed Credit Union (Special Provisions) Act

The Cabinet Submission was prepared and submitted to the Cabinet in April 2017 for its approval of the proposal for the enactment of legislation to facilitate the supervision of credit unions by the Bank of Jamaica. The Cabinet approved the Policy in May 2017. Subsequently, drafting instructions were prepared and submitted to the CPC. The FRD received a preliminary draft of the Bill in July 2017.

Financial Sector Adjustment Company Ltd and Financial Institutions Services Ltd

During the review period, FINSAC Limited continued with the winding up of residual activities including selling remaining properties under its control. The following are some of its key achievements:-

- The audited financial statements for the year ended March 2017 for FIS and FINSAC were completed and submitted to the Ministry of Finance in July 2017 and the Annual General Meeting is scheduled to be held on September 8, 2017.

- FINSAC continued its efforts to sell remaining properties under its control. No FINSAC-controlled property was sold during the financial year to March 2017, but an agreement was reached to sell the Mutual Life Warehouse Complex at Osbourne Road, Kingston 10. Some challenges with the certificates of title delayed the sale which is now expected to be concluded by October 31, 2017.
- Since the start of the new financial year, FIS has received acceptable offers on three of the four ½ acre lots at Drax Hall, St. Ann and sale of these are proceeding, with completion expected to be achieved by October 31, 2017.

- An acceptable offer was received for the 16-acre beach-front property at Culloden, Westmoreland owned by the subsidiary, Ciboney Group Limited. An attorney has been engaged to represent the vendor in this sale, which is expected to be completed by December 31, 2017.

- Sale of shares owned by Mutual Life in two listed companies is anticipated to yield approximately \$20.0mn during the current financial year. Listed shares also valued at approximately \$20.0mn owned by dissolved companies will be transferred to the Accountant General during the year, as *bona vacantia*.

- A settlement was agreed in 2013 in respect to a property in St. Lucia which was owned by International Hotels (St. Lucia) Limited (IHSL - jointly owned by Superclubs and Mutual Life) and compulsorily acquired by the Government of St. Lucia in 2008. The settlement resulted in FINSAC getting 10 bonds each with face value of US\$400,000 payable half yearly with interest at 6% p.a. To date eight (8) payments totaling US\$3.8mn including interest due up to April 2017 have been received. Two (2) payments remain and are due in October 2017 and April 2018, together totalling US\$836,000.

- FINSAC continued efforts to resolve the following pension-related matters with Guardian Life Limited (GLL) and the Actuaries (Eckler):-

    - **Jamaica Mutual Life Staff Superannuation Fund** - The final reports prepared by GLL were submitted to the Financial Services Commission in July 2016. At a meeting held at the FSC, also involving GLL, Eckler and FINSAC in July 2017, feedback received from FSC suggested that a further submission is needed before FINSAC may close its files on this scheme. This will be done by year-end. In addition, GLL is to increase efforts to make contact with deferred beneficiaries to ensure Certificates are issued to them.

- **Eagle Merchant Bank Pension Scheme –** Payment of the remaining surplus of approx. $226.0mn to FINSAC was made by GLL in 12 equal monthly instalments of approx. $19.0mn each, ending July 2017. FINSAC will shortly close its files after receiving final correspondence from GLL on this matter.

- **Scheme for the Jamaica Mutual Properties Limited -** Distribution of surplus to the beneficiaries commenced June 2015. Efforts continue to locate remaining beneficiaries to facilitate completion of the pay-out.

- The following are the status reports of the main litigation matters being pursued in the Courts by or against FINSAC and its affiliated entities. They are at various stages of the litigation process and include the following:

- FINSAC is the ultimate defendant in a matter relating to a former customer of the now defunct Eagle Commercial Bank which sued the bank for withdrawal of $15.0mn from its account and the purported loss of business/profit. A decision was handed down in 2014 in favour of the claimant requiring repayment of the amount, plus interest compounded monthly since 1992, and costs. The monthly compounding puts the liability at $6.7mn at December 31, 2016. FINSAC appealed the decision on various grounds and the appeal was heard in late 2016. A decision is still pending but FINSAC believes it has a reasonable chance of success and hence, based on legal advice received has maintained a provision of $3.8bn in its accounts. In 2015, FINSAC calculated the amount payable on the simple interest basis to be $29.0mn, and this was paid to the claimant. It is anticipated that any further payments should not exceed $100.0mn, including costs.

- During the financial year to March 2017, FIS was successful in selling five (5) of the remaining Crawford-owned/related properties relating to the Privy Council judgment handed down against Donovan Crawford in 2005 in the Century litigation, which netted $18.0mn. The sale of another property was completed in July 2017 netting $8.0mn. There are two (2) properties remaining to be sold which should net approximately $4.0mn.

- Following judgment which was handed down in May 2006 against Dr. Paul Chen Young in favour of FINSAC in the Eagle litigation, Dr. Chen Young appealed the judgment and also brought a suit of bias claiming undue influence at the trial. Both matters were heard in late 2013 and the decisions are still pending. It should be noted that if an adverse decision is handed down, FINSAC would be required to refund its share of the net proceeds of US$855,000 it received in 2015 from the sale of the Grenada Crescent building.

  In February 2017, Dr. Chen Young brought an action in the Miami-Dade County Court claiming US$3.0mn for wrongful injunction resulting from action commenced by FINSAC in April 2007 in attempts to collect on the judgment in the Jamaican court. FINSAC has engaged an attorney in Miami and based on legal advice received believes the matter can be successfully defended.

- Judgment was granted to the Workers Bank terminating the claim against it for storage fees for equipment stored on its behalf because the claimant had not complied with various court orders regarding filing of necessary documents on time or at all. The claimant is now trying to have the matter re-listed, but this will be resisted by the defendant.

Financial Investigations Division

During the period under review, the FID continued to pursue its mandates under the Financial Investigations Division Act and the Proceeds of Crimes Act. Some notable achievements include:

- Issue of draft Guidance relating to Suspicious Transaction Reporting for consultation with reporting entities under the Proceeds of Crimes Act;

- Carried out significant joint operations with the Major Organized Crime and Anti-Corruption Agency (MOCA) and the Office of the Contractor General relating to parish council officials in central Jamaica leading to the restraint of over $220.0mn in cash and assets;

- Secured an important conviction in the corruption case of Dr. Jeptha Ford in collaboration with MOCA;

- Securing amendments to the Proceeds of Crimes Act to facilitate easier disposal of forfeited assets;

- Securing Cabinet approval of revised procedures for the sale of forfeited properties and for related matters involving the sharing of assets with partner jurisdictions;

- The FID in collaboration with the Ministry of Foreign Affairs and Foreign Trade sought to have tabled in Parliament Ministerial Orders under the Terrorism Prevention Act to designate certain Non-Financial Businesses as reporting entities under that statute;

- Continued work on the roll-out of the go AML software which is in the testing phase with a pilot group of financial institutions using the reporting platform to test for areas of difficulty or weakness;

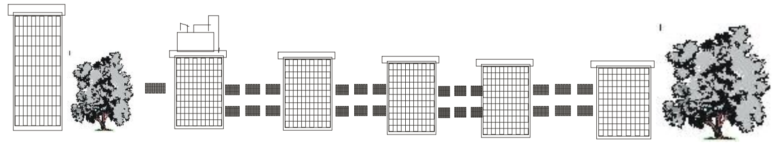
- Cash seizure and forfeiture values for the period April 1, 2017 to August 24, 2017:

    - Cash Seizure figures JAD 35,475,498.58
    - Cash Forfeiture figures JAD 26,173,810.51

Proposed Areas of Focus for Fiscal Year 2017/18

- Continuing to assist in the public sector pension reform;
- The second phase of private sector pension reform to address issues such as vesting, portability and indexation;
- The amendment of the Insurance Act to facilitate the creation of a microinsurance legislative framework;
- The enactment of the Microcredit Bill to provide for the licensing and regulation of small privately-owned money lending institutions;
- Facilitating the development of Regulations for financial holding companies and consolidated supervision under the Banking Services Act;
- Assisting in the implementation of the Action Plan of the National Financial Inclusion Strategy;
- Assisting in the various stages of the legislative process to develop appropriate legislation for the enhancement of the resolution framework for financial institutions;
- The continued divestment of the remaining assets under FINSAC's control;
- Finalizing and resolving outstanding pensions and litigation matters for FINSAC;
- Engaging with the Ministry on the appropriate structure for the FID as a part of the Ministry's transformational programme;
- Working with the MNS and MOJ on the development of regulations to implement an Asset Recovery Incentivisation Scheme to allow the proceeds of forfeited assets to be used for the benefit of the justice system;

- Development of a National Risk Assessment on ML and TF in conjunction with other national stakeholders using the World Bank Assessment Tool;
- Pressing for the passage of procedural rules for POCA and other required legislative amendments;
- Facilitating industry outreach including by the issue of Guidance to improve the quality of reporting from reporting entities, including those sectors that are viewed as over-reporting and those that are under-reporting;
- Making more use of facilities to share information with foreign and domestic counterparts and law enforcement. This includes making better use of the FIU's Egmont connections, the greater use of Mutual Legal Assistance Requests for investigations and the development of more formal information-sharing arrangements with domestic regulators and law enforcement bodies;
- Participation in the MOFPS' Strategic transformation Programme and the Prior Options Review Exercise, with a view to ascertaining and implementing the appropriate structure and resourcing of the FID.



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