FOREWORD

This Budget Memorandum provides a brief review of the 2004/05 fiscal year and a guide to the structure, composition and financing of the Budget for fiscal year 2005/06, highlighting allocations for priority Government programmes and projects. In contributing to an understanding of the important budget process, the Budget Memorandum also discusses current issues such as key economic indicators, debt management, revenue administration and financial sector developments.

Fiscal year 2004/05 was undoubtedly one of the most challenging for the Government with respect to resource management. The fiscal constraints were exacerbated by hurricanes Charley and Ivan, which created severe dislocations in many sectors of the economy. Nevertheless, in the aftermath of such a devastating hurricane season, every effort has been made to restore normalcy to the economic and social life of the country and to recoup the macro-economic gains achieved during fiscal year 2003/04 and up to August 2004 of fiscal year 2004/05. These efforts have begun to bear fruit and will be intensified during the new fiscal year.

The 2005/06 Budget was developed within the context of the Government's strategic objective to achieve fiscal balance by year-end, as well as to accelerate the medium term economic recovery programme, while prioritizing limited funds for critical areas such as education, health and national security. The Budget was also designed around the recently completed Tax Policy Review, positive economic indicators and continued implementation of the Memorandum of Understanding agreed with the trade unions in February 2004. Achievement of fiscal and monetary targets such as a balanced budget, a return to single digit inflation, reduction in the debt to GDP ratio, continued decline in interest rates and stability in the foreign exchange market, are important factors for sustained economic growth and development.

Although challenges still lie ahead, I am optimistic that the economy will rebound during 2005/06.

Shirley Tyndall
Financial Secretary

MACROECONOMIC OVERVIEW

Overview

The Government remains committed to achieving a balanced budget by the end of FY 2005/06 in order to provide the impetus for sustainable economic growth and to promote the generation of fiscal surpluses over the medium-term. The medium-term strategy was formulated around a targeted reduction of the fiscal deficit from the 5.5% of GDP recorded in FY 2003/04, to 3-4% of GDP in FY 2004/05, to a balanced budget in FY 2005/06. The 2004/05 macroeconomic programme targeted real GDP growth of 2.5%, inflation of 9.0%, foreign exchange and money market stability, and average interest rates of 14.0%.

Five months into the fiscal year the economy was on track to achieve the targeted levels for all the macroeconomic indicators. However, the arrival of Hurricane Ivan on September 10, 2004 disrupted the economy's momentum and derailed several indicators – real GDP, inflation and the fiscal deficit. The hurricane negatively impacted agricultural output, tourism and physical infrastructure thereby slowing the economic growth momentum of the pre-Ivan period. The negative impact of the Hurricane on the economy led to a revision of the fiscal deficit target to 4.4% and the inflation target to 11.3%.

Within the context of the dislocations occasioned by Ivan, real GDP growth for FY 2004/05 is estimated at 0.8%, inflation is recorded at 13.2%, and the fiscal deficit at 4.8%. Despite the hurricane, stability was maintained in the foreign exchange and money markets with the nominal exchange rate experiencing a marginal 0.9% depreciation from J$61.01:US$1.00 to J$61.53:US$1.00 and the 6-month Treasury bill interest rate averaging 14.68%. The NIR recorded a positive change increasing by US$0.3bn to US$1.9bn.

Although several of the 2004/05 macroeconomic targets were not met, the Jamaican economy performed fairly well given the domestic dislocations arising from the hurricane and the international influence of high, unstable oil prices arising from tension in the Middle East and problems in Nigeria and Venezuela. Relatively low interest and inflation rates in the US and Euro area, China's increased demand for alumina, and declining domestic interest rates provide the environment for positioning the economy for external competitiveness gains that will stimulate sustainable production-led economic growth over the medium term.

Fiscal Operations

Fiscal operations during FY 2004/05 generated a fiscal deficit of $26.9bn or 4.8% of GDP, 0.8 percentage points higher than the outer limit of the original target range of 3.0-4.0% and 0.4 percentage points above the revised target of 4.4%. This outturn is, however, an improvement on the deficit of 5.5% recorded for FY 2003/04.

A major contributor to the higher than programmed deficit was the impact of Hurricane Ivan on both the revenue and expenditure sides of the budget. The adverse impact of the hurricane on economic growth translated into lower revenue inflows while the need for reconstruction

of public buildings and infrastructure as well as the provision of assistance to citizens affected by the hurricane translated into higher expenditure levels.
During the year the Government and the International Monetary Fund (IMF) entered into an Intensified Surveillance arrangement, which is essentially a semi-annual review and assessment of Jamaica's economic programme by the IMF. The Intensified Surveillance arrangement replaces the Staff Monitored Programme, the former monitoring programme of IMF.

The tax policy review that commenced in FY 2003/04 was concluded during FY 2004/05. The report highlighted eight main areas of deficiency and provided a number of recommendations to improve the efficiency and equity of the system. These are summarized in Chapter 1.

Monetary Developments
Improvements in the money and foreign exchange market conditions in FY 2004/05 provided the base for gradual reductions of the reverse repurchase (repo) interest rates over the year. The Central Bank reduced interest rates on the full spectrum of reverse repurchase instruments on seven occasions during the financial year. This action was consistent with the steady foreign currency inflows from tourism, mining, remittances and the Government's loan raising activities in the international capital markets.

The reduction in the repo rates influenced the market determined Treasury bill rates, with the 6-month Treasury bill rate declining from 15.6% in March 2004 to 13.5% in March 2005. The average 6-month Treasury bill rate declined from 23.5% in 2003/04 to 14.7% in 2004/05. The reductions in the repo rates are outlined below:

Instrument	March 2005	March 2004
30-days	12.95%	14.85%
60-days	13.10%	15.00%
90-days	13.20%	15.10%
120-days	13.30%	15.50%
180-days	13.45%	16.00%
270-days	14.00%	16.95%
365-days	14.50%	17.95%

The stability in the foreign exchange market attained during the latter half of FY 2003/04 was maintained throughout FY 2004/05 as evidenced by the marginal 0.9% depreciation of the currency from J$61.01 per US$1.00 at end-March 2004 to J$61.53 per US$1.00 at end-March 2005. Contributing to the stability of the foreign exchange market over the year was the steady build-up in NIR from US$1,568.6mn to US$1,831.1mn. Increased earnings in the tourism and mining sectors, in addition to the Government's successful loan raising activities on the international capital markets facilitated the build-up in NIR.

Inflation

The devastating impact of Hurricane Ivan on domestic agriculture, the higher international oil prices and the transmission effect of both these elements to domestic prices generated a 13.2% inflation rate for the fiscal year. Although the targeted single digit inflation was not achieved, the outturn compares favourably with the 16.8% recorded for FY 2003/04. Inflation for calendar year (CY) 2004 was 13.7%, which also compares favourably with the 14.1% recorded for CY 2003.

Over the first half of the fiscal year the stable financial market conditions enabled the containment of inflation to 4.8%, on track to achieve the annual target of 9.0% despite higher than anticipated oil prices. The effect of Hurricane Ivan on the agricultural sector during the second half of the year, combined with the increased oil prices, accelerated the rate of price changes generating an inflation rate of 8.0% for this period. Average monthly inflation for the second half of the year was 1.3% compared to 0.8% for the first half of the year. The heavily weighted 'Food and Drink' category of the CPI was the main contributor to the increase in the average monthly inflation in the latter half of the year. The increase in the 'Food and Drink' category was due largely to a significant reduction in the supply of ground provisions as a result of hurricane damage and the associated increase in prices. The categories 'Fuels and Other Household Supplies' and 'Housing and Other Housing Expenses' were the other main contributors to the accelerated monthly inflation of the second half of the year.

Inflation in the economies of our main industrialized trading partners, with the exception of Japan, averaged 2.1% for the 12-month period to February 2005. In Japan, a deflationary (-0.3%) spiral maintained its tight grip on the economy. This 'international' inflation environment reduced the negative impact of imported inflationary influences on the domestic economy during FY 2004/05.

External Developments

Balance of Payments

Provisional data on the balance of payments for April to November 2004 indicates a widening of the current account deficit by US$105.5mn to US$598.5mn relative to the corresponding period of FY 2003/04. Contributing to the deterioration in the current account were a US$64.4mn increase in the deficit on the income account, a US$59.8mn expansion in the deficit on the merchandise account and a US$67.2mn reduction in the surplus on the services account. These adverse movements were partially offset by a US$67.2mn increase in the surplus on the current transfers account.

The deterioration in the merchandise trade deficit resulted from a US$137.1mn increase in imports, which was only partially offset by a US$77.3mn growth in exports. Increases of US$72.5mn on manufactured goods, US$27.5mn on miscellaneous manufactured goods and US$25.2mn on food imports were the main contributors to the higher level of import spending. With the exception of free zone exports all categories of exports increased. The growth in traditional export earnings arose mainly from alumina and sugar exports. Alumina exports benefited from higher international prices reflecting the strong demand for the ore particularly from China. Increased earnings from sugar exports were due to higher export volumes. Increases in non-traditional export earnings were mainly attributable to increased exports of coffee and rum.

The reduction in the surplus on the services account was due to a US$17.0mn contraction in net travel receipts, as well as transportation outflows. The decline in net travel receipts is indicative of an increase in expenditure by Jamaicans travelling abroad, which was only partially offset by travel receipts from visitors.

The deficit on the income account increased by US$64.4mn to US$409.1mn as a result of higher investment income outflows while the improved current transfers position was influenced by a US$67.7mn increase in private inflows (remittances).

Within the financial account, official inflows of US$256.2mn, representing the Government's loan raising activity on the international capital market during the year and US$587.3mn in private investment inflows financed the current account deficit and contributed to a build-up of US$247.4mn in the net international reserves.

External Trade

A trade deficit of US$1,711.3mn was recorded for April to November 2004 indicating a US$116.7mn widening of the trade deficit. This deterioration in the trade deficit was due mainly to a higher level of importation that was only partially offset by an improvement in export earnings. Imports increased by US$203.3mn or 8.5% largely as a result of the post-hurricane relief, rehabilitation and reconstruction efforts and significantly outweighed the US$86.6mn or 10.7% improvement in export earnings.

Over the eleven month period of January to November 2004 the trade deficit improved by US$25.3mn as a result of the combined effects of a US$177.4mn (16.0%) increase in export earnings to US$1,283.0mn and a US$152.0mn (4.5%) increase in imports to US$3,373.8mn.

Tourism

Over the period April 2004 through February 2005, total visitor arrivals declined marginally by 0.1% to 2,243,175 persons. Contributing to the decline was a 5.3% decrease in cruise passenger arrivals that outweighed a 4.1% increase in stopovers. The decline in cruise passenger arrivals was due to the rerouting of cruise passengers to other destinations. An aggressive post-hurricane marketing campaign assisted a rebound in stopover arrivals in the December 2004 quarter as indicated by a return to normal visitor arrival levels in the winter tourist season.

Preliminary estimates put gross tourist expenditure at US$1,000.3mn for April to December 2004, which represents a 1.2% decline over the corresponding nine-month period of FY 2003/04.

In CY 2004, visitor arrivals totaled 2,514,559 persons, with gross receipts from tourist arrivals for CY 2004 amounting to US$1,365.5mn, which was 1.1% above earnings in CY 2003. Total arrivals increased by 1.3% above the levels recorded in 2003 as stopover arrivals improved by 4.8%. However, there was an offsetting 2.9% decline in cruise passenger arrivals.

Production

Mining

During the fiscal year bauxite production and export were severely impaired as a direct result of the forced closure of mining and export loading facilities during and for some time after the passage of Hurricane Ivan. The hurricane left loading infrastructure facilities at both Alcoa and Port Kaiser either damaged or disabled. Recovery in the mining industry was swift with a return to the robust pre-hurricane levels of output and exports achieved during the fiscal year.

Alumina output and export increased by 2.2% and 7.3% to 3,339,764 metric tonnes and 3,180,674 metric tonnes respectively over the corresponding eleven-month period of FY 2003/04. Higher international market demand for the ore facilitated the increased levels of output and export. Crude bauxite output, however fell by 3.3% as a result of downtime arising from the sodden terrain. Bauxite exports fared slightly better with a 0.2% improvement to 3,270,598 metric tones.

Manufacturing

The manufacturing sector performed reasonably well during the April to December 2004 period. Within the food-processing category higher levels of output were achieved for poultry meat (3.0%), condensed milk (5.9%), edible fats (8.3%), sugar (2.6%) and dairy products (31.2%), while declines were recorded for edible oils (7.5%), cornmeal (8.2%) and molasses (7.9%). In the beverages and alcohol sub group, output increases ranging from 1.7% to 12.3% occurred in all categories, with only carbonated beverages declining by 2.0%.

Within the chemicals and chemical products sub group, all areas recorded increased output including fertilizer (1.7%), detergent (12.0%), sulphuric acid (11.7%), aluminium sulphate (12.4%), sulphonic acid (14.6%) and salt (5.5%) while paint production declined by 0.6%. In the plastic and rubber products sub grouping, the production of boots fell by 0.5%, while other plastic products increased by 1.1%. Cement production increased by 30.6% as a result of the reconstruction and rehabilitation of residential and commercial buildings, hotels and general infrastructure.

An explosion at the Petrojam oil refinery in October 2004 caused severe damage to pipelines, storage facilities and vessels, and adversely affected operations as it necessitated a closure of the plant. As a result of the closure, the petroleum products sub-group recorded production declines in all categories of petroleum and petroleum product derivatives during the review period.

Agriculture

Preliminary data indicates that the Agricultural Production Index (API) declined by 13.6% during the period April through December 2004 relative to the corresponding period of FY 2003/04. This decline in the agricultural sector is a consequence of the devastating effects of Hurricane Ivan on crop output, as well as on production in the fisheries and livestock sub sectors. Production levels for both domestic and export crop were severely affected with respective declines of 18.6% and 20.2% being recorded for the nine-month period. A 2.0% decline in output was recorded for the livestock sub sector while the fisheries sub group registered a 6.0% increase in output over the nine-month period. Although adversely affected by the hurricane the fisheries sub group was quick to recover, achieving normal output levels during the fiscal year.

International Commodity Prices

International Commodity Price Review

This section examines selected international commodity prices[1] that impact on domestic prices in Jamaica as well as commodities from which Jamaica earns foreign exchange.

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

Export Prices

Cocoa prices moved to US164.6 cents per kilogram (kg) for the April to December 2004 period which represented a 1.5% increase relative to the US162.3 cents/kg price for the period April to December 2003. Coffee prices[2] increased by 26.7% over April-December 2003, moving from US141.3 cents/kg to US179.0 cents/kg. Although Jamaica has a niche market for the coffee it produces (85% of coffee grown is supplied to the Japanese), the remainder is sold on the world market.

Sugar prices in the EU increased by 10.3% when prices for the period April- December 2004 are compared to prices for the similar period in the previous year. For the period under review, world sugar prices moved upward by 16.9% to US17.1cents/kg in the April-December 2004 period from US14.6cents/kg for the similar period in 2003.

The price of aluminium increased from US$1,444.8 per metric tonne (mt) for the April to December 2003 period to US$1,741.2/mt for the similar period in 2004, representing an increase of 20.5%, while alumina exports for the review period were 3.5% higher than export levels recorded in the corresponding period in 2003.

[1] These are cocoa, coffee, bananas, sugar, aluminium, soybean meal, maize/corn, wheat, and petroleum prices.
[2] Prices are for the variety Arabica. 95% of the beans grown in Jamaica are of this variety.

Import Prices

The price of soybean meal increased from US$218.4/mt for the April to December 2003 period to US$225.7/mt for the similar period of 2004, representing an increase of 3.3%. Maize/corn prices increased from US$105.2/mt for April through December 2003 to US$112.0/mt for the similar period in 2004, representing an increase of 6.4%.

Similarly, there was an increase of 6.8% in the price of wheat as this commodity's price moved from US$145.7/mt for the period April through December 2003 to US$155.6/mt for the similar period of 2004.

Crude oil prices for the April-December 2004 period increased by 42.1% over April-December 2003, moving from US$28.1/barrel to US$42.1/barrel. Among the factors that contributed to this rise in oil prices were the unexpected harsh winter weather conditions in Europe and North America as well as the Organization of Petroleum Exporting Countries (OPEC) decision not to raise quotas.

This section examines the relationship between world market prices and imported inputs when these input prices are converted to Jamaican dollars at the prevailing rate of exchange. The average exchange rate moved from J$59.53:US$1.00 at end-December 2003 to J$61.57:US$1.00 at end-December 2004, a depreciation of 3.3%. Crude oil prices in US dollars recorded a 42.1% rise over the nine-month period. However, when prices are converted to Jamaica dollars the increase in crude oil prices for the period was 47.0%.

The price of soybean meal increased by 3.3% over the review period in US$ prices. However, when converted to Jamaica dollars, this increase was 6.9%. There was an 11.5% increase in the J$ price of maize/corn for the period under review compared to an increase of 6.4% in the US$ price for the commodity. While the US$ price of wheat increased by 6.8% for the April–December 2004 period, when converted to Jamaica dollars the price of wheat increased by 10.4%.

International Commodity Price Outlook

World soybean production for CY 2005 is projected at a record 229 metric tonnes (mt), an increase of 39mt over the record output of 2004, despite Brazil's (currently the world's second largest producer) projection of a reduction in production as a result of dry weather conditions. The expected reduction in Brazilian soybean output has induced an increase in the world market price which combined with an increase in wheat prices has helped to bolster support for the corn (maize) market.

With respect to the oil markets, as in 2004, the primary factor behind the price increases is crude oil costs. High world oil demand will continue to support crude oil prices and increase competition for gasoline imports. Oil prices are likely to be sensitive to any incremental oil market tightness. Average crude oil price for the first quarter of 2005 was US$49.77/barrel, approximately US$14.50/barrel higher than in the first quarter of 2004. Oil prices reached a record high of US$58.28 on April 4, 2005 before retreating to $53.85/barrel on April 8, 2005. The record oil price followed a report by Goldman Sachs the previous week suggesting the oil market had entered what it called a "super spike" cycle, which could see crude prices as high as $105/barrel. Average crude oil prices are projected to remain above $50/barrel for the rest of 2005 and 2006.

Several factors have contributed to the recent high crude oil prices and are likely to keep prices at or near present highs.

First, worldwide petroleum demand growth is projected to remain robust, despite high oil prices, but is likely to moderate in response to slower growth in Chinese consumption, which exceeded 1mn/barrels per day (bpd) in 2004. Projections for 2005 and 2006 call for worldwide growth averaging 2.2mn bpd, or 2.6% per year, down from the 3.4% growth in 2004. Chinese demand is projected to moderate to an average of 650 thousand bpd annually in 2005 and 2006.

Second, the expected growth in non-OPEC supplies is not anticipated to accommodate worldwide demand growth. Third, worldwide spare crude oil production capacity has recently diminished and is projected to remain low. Finally, geo-political risks, such as the continued insurgency in Iraq and political unrest in Nigeria and Venezuela, are expected to keep the uncertainty premium high.

Outlook

With resolution of the adverse impact of Hurricane Ivan underway, the Jamaican economy in FY 2005/06 is poised to achieve lower inflation, higher growth and continued reduction in interest rates while maintaining stability in the foreign exchange market. In addition the Government remains committed to achieving a balanced budget. Achievement of these macroeconomic goals will provide the necessary foundation for sustainable economic growth.

Strong investor interest in Jamaica's tourism product increases the prospects for positive economic outcomes for the industry. Spanish and Colombian hotel interests have endorsed the island's tourism product through expressed intentions to invest in the construction of new hotels in St. Ann, Montego Bay, Negril and Hanover. Cruise lines have returned with additional port calls and increased airlift by major airlines out of the US and European markets. Harsh weather conditions in North America and Europe have heightened the expectations for vibrant growth in visitor arrivals during the island's current winter tourist season. The strengthened Euro and pound sterling have also lent credence to the upbeat outlook and with the planned hotel expansions will significantly augment the industry's capacity and performance over the next three years. The tourism product supported by the vibrancy and diversity of the country, close geographical proximity to and increased airlift from the US and European markets, the relative stability of the Caribbean area post 9/11, and the relative strength of the UK and Euro currencies is poised for continued growth in FY 2005/06.

The fall-out in productive capacity due to the effects of Hurricane Ivan negatively impacted the balance of payments through deterioration in the current account deficit. Prospects for growth are however encouraging, as the deterioration in the current account was due to increased import requirements of raw material, and capital goods to be utilized in reconstruction activities. Nonetheless, higher consumer goods imports and declining traditional and non-traditional agricultural exports also contributed to the deterioration. Mining sector exports have subsequently rebounded, and improvement in the current account is anticipated to arise from higher levels of private capital inflows associated with increased remittance flows and reinsurance settlements. Additionally, relatively higher net receipts from an increase in tourist arrivals, is expected during the current winter season.

In the US, the Federal Reserve (Fed) increased the federal funds rate by a quarter percentage point to 2.75% at its latest meeting in March 2005. This represents a 1.75 percentage point increase over the 1.0% rate at March 2004. The Fed based their assessment on the need to maintain the policy to gradually raise borrowing costs to levels sufficient to stave off inflationary pressures. Implementation of the policy took the form of gradual increases in the funds rates, to balance the economic risks between slower growth and rising prices. The Fed in taking the policy action also indicated that although "longer-term inflationary expectations remain well contained, pressures on inflation have picked up in recent months and pricing power is more evident." The US inflation outlook had previously been shaped by the direction of oil prices, which the Fed noted had not yet significantly impacted on consumer prices.

In the Jamaican context, the direction toward more restrictive monetary policies by the Fed co-existing with a harmonious J$ exchange rate environment, should facilitate the maintenance of a low inflation environment in the near to medium term. However, the gradually increasing US interest rates could provide challenges for the domestic financial market. Given the dominant focus of the international lending institutions on the current and ongoing financial needs of Southern Asia following the recent devastation from the earthquake-triggered tsunamis, Jamaica's ability to attract concessionary loans from these institutions will be challenging.

The prolonged period of drought affecting agricultural communities since the start of 2005 has adversely impacted domestic agricultural supplies such that the supply to the hotel and restaurant/catering industries is significantly below demand. This reduced agricultural supply raises the specter of higher food prices and the attendant inflationary consequences. This could result in a worsening of the merchandise trade account of the balance of payments due to the influence of lower agricultural exports and higher compensatory food and raw material imports to satisfy domestic demand.

Planned expansions in mining and tourism facilities, as well as a rebound in the construction and manufacturing sectors are expected to positively impact economic growth. During the recent China-Caribbean business meetings, Chinese officials expressed interest in setting up a new alumina plant in St. Ann, Jamaica, where a previously untapped area of bauxite was identified that could supply China's demand for alumina.

Medium to long-term prospects remain upbeat in the mining sector with Jamalco and Alcoa expanding production capacity.

Heightened construction activities around residential, commercial, hotel and general infrastructure reconstruction and rehabilitation efforts represent the fulcrum for near term growth in the sector.

Despite the impediments of high operational costs, hurricane-related dislocations and recent problems associated with raw material supply shortages, the manufacturing sector anticipates a rebound driven by new investments in technology. The sectors efforts are geared towards generating efficiencies and growth.

CHAPTER 1CENTRAL GOVERNMENT BUDGET PERFORMANCE FISCAL YEAR 2004/05

Overview

The FY 2004/05 budget was formulated within a medium term framework that sought to build on the improvements in the fiscal accounts in FY 2003/04 in an effort to achieve elimination of the fiscal deficit by FY 2005/06. The fiscal programme relied heavily on administrative and legislative measures to buoy revenue collections. These measures included reviews of the legal tax framework, the administrative procedures and the organizational structure as well as the development of a comprehensive arrears collection plan and improvement of the information system. Prudent expenditure management practices would augment the robust revenue effort. The fiscal programme was designed to facilitate a moderate reduction in the debt/GDP ratio in FY 2004/05, as a precursor to a more rapid and sustainable reduction over the medium term.

The FY 2004/05 budget was consistent with Jamaica's overall macroeconomic programme, which had as its primary goals: a return to single digit inflation, relative stability in the foreign exchange market, maintenance of adequate foreign reserves, lowering of domestic interest rates and acceleration of the economic growth momentum. For FY 2004/05 the Central Government targeted a fiscal deficit of $20,288.8mn or 3.7% of GDP, a significant reduction from the $27,297.8mn or 5.5% of GDP recorded for the previous fiscal year. The primary surplus was also expected to improve significantly to 13.7% of GDP, up from 12.3% in FY 2003/04.

Expenditure was budgeted to increase by 9.7% over FY 2003/04 to $196,012.5mn. This comprised $187,551.2mn for recurrent expenditure and $8,461.3mn for spending on capital projects, with $304.5mn allocated for payments to the IMF. The higher expenditure obligation was due largely to a 9.2% increase in interest expenditure and a 4.2% increase in wages and salaries. Of the recurrent expenditure budget, $28,229.7mn was allocated to programmes, $63,020.7mn to wages and salaries and J$96,300.9mn for interest payments.

Revenue and Grants were projected to grow by 16% to $175,723.7mn with approximately 89% to be received from tax revenue. The FY 2004/05 budget programmed a 15.5% increase in tax revenue, primarily as a result of the elasticity of the tax system alongside administrative and legislative measures. Also included in the budget were anticipated proceeds of $1,884.7mn from the Financial Institutions Services (FIS), the bulk of which were expected from the divestment of assets under the control of FIS.

Fiscal operations were broadly in line with budget for the first five months of the fiscal year. At end-August 2004 Central Government operations had generated a fiscal deficit of $21,672.6mn, which was just 1.6% higher than budgeted, as both revenue and expenditure were essentially on target. However, the unscheduled visit of Hurricane Ivan in September imposed significant challenges on fiscal operations throughout the remainder of the fiscal year. The hurricane had an adverse impact on revenue performance, particularly tax revenue, while necessitating additional expenditure. Tax revenue collections from the proposed administrative and legislative measures were also below expectations. The revenue shortfall, alongside increased expenditure resulted in the fiscal deficit deviating from its programmed path.

An assessment of the economic impact of Hurricane Ivan on the Jamaican economy alongside the widening deficit informed the Government's decision to revise the fiscal deficit target upward. In December 2004 the GOJ tabled the First Supplementary Estimates, which revised the fiscal deficit target to $24,614.9mn or 4.4% of GDP.

Provisional data indicate that Central Government operations generated a fiscal deficit of $26,888.3mn, or 4.8% of GDP, a minor deviation from the revised deficit target of 4.4% of GDP. However this represents a deviation of $6,599.6mn from the original target of $20,288.8mn (3.7% of GDP). The larger fiscal deficit arose from the combination of a $3,475.3mn increase in expenditure and a $3,124.3mn shortfall in revenue. With respect to the higher than budgeted expenditure, this was largely driven by increased spending in the areas of recurrent programmes and capital programmes. These were partly countered, however, by a significant reduction in interest costs. On the revenue side, the shortfall was mainly with respect to tax revenue, which outweighed increases in most of the other revenue areas.

The primary surplus amounted to $65,895.8mn, which was 13.3% less than the amount originally budgeted and 6.2% less than the revised target. This level of primary surplus at 11.8% of GDP remains one of the highest in the world and underscores the enormity of the fiscal consolidation efforts being undertaken by the Government of Jamaica (GOJ).

Fiscal Developments

IMF Intensified Surveillance

In 2004 the GOJ and the IMF entered into an Intensified Surveillance arrangement, as a replacement monitoring arrangement for the Staff Monitored Programme (SMP). Under the Intensified Surveillance, the IMF conducts semi-annual assessments of Jamaica's economic programme. The first such assessment was conducted in November 2004, with the IMF reporting creditable achievements of the Government's economic programme. The next assessment is scheduled for April 2005.

Tax Policy Review

The Tax Policy Review Committee established in June 2003 to undertake a comprehensive review of the tax system, submitted its report to the GOJ in November 2004. The report highlights eight main deficiencies in the tax system. These are outlined below:

- Weak tax administration;
- Inadequacy of revenues to cover payment obligations;
- Ad hoc tax system;
- Narrow tax base;

- Problems with tax incentives;
- Horizontal inequities;
- Overly complicated tax system;
- Efficiency costs too high.

In light of these findings and driven by the principles of economic efficiency and equity, the Committee recommended a re-engineering of the tax system away from direct taxation toward more indirect methods of taxation. The main recommendations for revenue neutral reform are:

- Eliminate all zero rates under the GCT, except for exports;
- Raise the standard GCT rate by 1% to 16%;
- Reduce GCT exemptions;
- Abolish stamp duty and apply transfer tax at a reduced rate of 5% only to real property;
- A flat 1% rate for property tax with a $300,000 threshold;
- Increase personal income tax threshold by 129% to $275,184;
- Abolish allowances, accommodation relief and preferential treatment of gratuities;
- Eliminate education tax;
- Eliminate HEART contribution;
- Revise tax on motor vehicles;
- Adjust SCT specific rates to 1999 levels and index these to inflation;
- Apply GCT to motor fuels;
- Harmonize the corporate and individual income tax rates at 25%;
- Introduce a capital gains tax on the disposal of securities; and
- Create a social fund to assist the poorest 40% of the population.

Revision of Fiscal Targets
An assessment of the economic impact of Hurricane Ivan on the Jamaican economy informed the Government's decision to revise the fiscal deficit target upward.

The First Supplementary Estimates tabled in December 2004 revised the Approved Budget target of 3.7% of GDP upward to 4.4% of GDP. Contributing to the additional 0.7 percentage points of the deficit was a $3,823.1mn, or 2% increase in expenditure and a $503mn, or 0.3% shortfall in revenue and grants. These changes also impacted the primary surplus target, which was revised downward from 13.7% to 12.4% of GDP.

Budget Outturn

Fiscal operations were severely challenged in FY2004/05, particularly in the aftermath of Hurricane Ivan when tax revenue fell sharply. At end-August expenditure was contained below budget by 0.7% while revenue and grants were 1.4% less than programmed. This combination placed both the fiscal deficit and primary surplus in line with budget.

However, the impact of Hurricane Ivan on the economy derailed the programmed fiscal operations by negatively affecting revenue, particularly tax revenue, and necessitating additional expenditure, which resulted in an increase in the fiscal deficit. To counter this adverse impact, a number of revenue enhancement measures were activated, resulting in a rebound in revenue collections and the generation of a fiscal surplus of $2,598.0mn in the March 2005 quarter of the fiscal year.

Central Government operations during FY 2004/05 generated a fiscal deficit of $26,888.3mn, or 4.8% of GDP, a minor deviation from the revised deficit target of 4.4% of GDP. The deficit outturn is $6,599.6mn greater than the original target of $20,288.8mn (3.7% of GDP). Contributing to the higher than programmed deficit were a $3,124.3mn revenue and grant shortfall and a $3,475.3mn expenditure overrun. These deviations from programme also impacted the primary surplus, which at $65,895.8mn was 13.3% less than budgeted. The primary surplus recorded represents 11.8% of GDP, which by international standards is very high.

The fiscal deficit was financed by net loan inflows of $19,938.0mn resulting in an overall deficit of $6,950.4mn that was financed by resources carried over from FY 2003/04. These resources are essentially revenue and loan inflows received toward the end of the previous fiscal year.

Revenue And Grants

Revenue and grant receipts totaled $172,599.5mn, a shortfall of $3,124.3mn, or 1.8% against the budget. Tax revenue receipts that were $5,153.1mn below budget and grant inflows that were short by $304.9mn were responsible for the revenue shortfall. Non-tax revenue, bauxite levy and capital revenue were higher than budgeted and cushioned the effect of the tax revenue shortfall. Revenue and grant collections were 14.0% higher than that of the previous fiscal year, representing a real increase of approximately 2%.

Tax Revenue

At $150,481.6mn, tax revenue collections were short of budget by $5,153.1mn or 3.3%. This underperformance was largely driven by shortfalls in the Income & Profit category and the Production and Consumption category, which each fell short of target by 4.8%. Lower than programmed receipts from most items in these two categories contributed to the shortfall as a result of the effects of Hurricane Ivan on the economy, as well as the fact that the programmed improvement in tax inflows from the planned legislative and administrative measures did not meet expectations. Receipts from the category of International Trade exceeded budget by 1.6%.

The main tax items that registered shortfalls against the budget were SCT (Local), Other Companies (corporate profit taxes), Tax on Interest and Bauxite/Alumina income tax. PAYE, Stamp Duty (Local) and SCT (Imports) all surpassed the targeted levels.

Despite the lower than expected tax inflows, collections were 14.8% higher than that of the previous fiscal year. This increase is slightly ahead of the average annual increase of the last five years. The full year impact of the tax measures implemented in FY 2003/04 contributed to the above average increase.

Income and Profit Taxes
Receipts from the income and profit tax category totaled $62,872.1mn, which is $3,193.9mn, or 4.8% less than the amount budgeted. All items with the exception of PAYE, registered shortfalls, with Other Companies, Tax on Interest and Bauxite/Alumina income tax contributing most significantly to the deviation. Notwithstanding the shortfall against the budget, income and profit tax collections increased by 15.9% over FY 2003/04.

Collections from Other Companies of $10,273.9mn fell 16.3% below budget. This shortfall emanated in part from the adverse impact of the hurricane on the operations of several companies. Additionally, the arrears collection programme has not achieved targeted levels. The receipts represent a 10.8% increase on collections for the previous fiscal year, which in real terms is a marginal decline.

Bauxite/Alumina income tax totaled $189.6mn, a significant 88.2% short of target. The shortfall was mainly due to three factors: the carry forward of more losses than had been estimated; the recovery of taxes overpaid in 2003 by one company; and the provision of tax credit to one company for investment.

With respect to Tax on Interest, the total receipts of $15,041.2mn were 10.8% below budget due mainly to lower interest payments and higher than anticipated tax refunds.

PAYE remained quite buoyant throughout the fiscal year, continuing the trend that has been quite evident over the last five years. Total collections for FY 2004/05 of $35,342.5mn surpassed budget by $2,347.3mn, or 7.1% and were 28.7% above the previous fiscal year. PAYE has grown at an annual average of 20% for the past five years. This buoyancy is due to significant efforts by the tax authorities to improve compliance, including the establishment of special teams to focus on the collection of outstanding PAYE.

Environmental Levy
The requisite administrative processes for implementation of the environmental levy is not yet in place therefore there were no levy receipts during the year. Discussions on the issue are continuing between the Ministries of Land and Environment and Finance and Planning. It is expected that the levy will be implemented in FY 2005/06.

Production and Consumption Taxes
Production and Consumption taxes of $46,951.9mn fell $2,389.3mn, or 4.8% below the budget. SCT (local) and GCT (local) were largely responsible for the shortfall. Receipts from the GCT amounted to $25,122.7mn, which were 2.6% less than budgeted. The lower GCT collections arose from the delay in enactment of certain legislative and administrative changes to improve compliance.

SCT collections totaled $4,458.3mn, a shortfall of 40.6% against the budget and a decline of 20.6% below last fiscal year due mainly to a reduction in petroleum refining by Petrojam. The refinery operated below optimal levels for most of the fiscal year due initially to the partial closure of the refinery in the summer to facilitate routine maintenance operations and then to an explosion at the refinery in October that shut down operations for the remainder of the fiscal year.

Also registering a significant shortfall was Betting, Gaming & Lotteries (BGL). Receipts from BGL of $1,034.1mn fell 35.7% below target and 5.5% behind collections for the previous fiscal year. The programmed increase in formal lottery activity following the change in the tax structure with the establishment of a threshold on winnings has not materialized hence the decline in collections.

Despite the shortfall within the Production and Consumption tax category, Stamp Duty collections of $8,094.9mn were significantly above target. Stamp duty showed considerable buoyancy, increasing over budget and the previous fiscal year by 38.7% and 66.2% respectively. The sale of several high-value companies, including Alumina Partners of Jamaica (Alpart) and the Jamaica Grande Hotel, contributed to this buoyancy.

International Trade Taxes

Taxes from the International Trade category amounted to $40,657.6mn, which was 1.6% above budget and 14.2% ahead of last year. Custom Duty, Stamp Duty and GCT were on track with budget. Travel tax receipts of $1,162.3mn, however, registered a substantial shortfall of 25.0% against the budget, due to Air Jamaica's non-remittance of a significant portion of the collections.

The major contributor to the over-performance of International Trade taxes was SCT. Collections from SCT totaled $7,858.5mn, a 16.9% increase over budget. This was due largely to an increase in the importation of refined petroleum by Petrojam consequent on the closure of the Petrojam refinery.

Non-tax Revenue

Non-tax revenue was essentially on target, as total collections of $9,824.5mn were just 0.4% above budget. The Customs User Fee (CUF) contributed approximately 43.0% of the total non-tax revenue receipts. Collections for the CUF were $140.3mn, or 3.2% less than budgeted, however, this shortfall was offset by higher than programmed inflows for other items in the category.

Compared to the previous fiscal year, non-tax revenue receipts increased by 8.6% with the CUF accounting for approximately 24.0% of this increase.

Bauxite Levy

Output of the bauxite/alumina sector experienced significant growth during the first half of the fiscal year, a continuation of the trend of the past few years. This growth, alongside higher alumina prices contributed to bauxite levy receipts of $1,330.2mn for the April to

September period. This represented 13.4% more than budgeted and a 23.5% increase over the comparable period of FY 2003/04.

However, on September 10, 2004 the momentum established during the first part of the year was disrupted by Hurricane Ivan and the excellent performance recorded during the first part of the fiscal year was halted. Bauxite levy receipts of $1,148.9mn for the second half of the year fell 2.8% below budget. The strong performance in the April to September period more than offset the latter shortfall resulting in an above budget performance. Bauxite levy receipts of $2,479.1mn for the fiscal year surpassed the target by 5.3% and represented a 16.0% increase over the previous fiscal year.

Capital Revenue

Capital revenue collections totaled $5,793.2mn, which was $2,173.4mn more than budgeted. The surge in collections resulted largely from an unprogrammed $2,083.2mn increase in proceeds from FIS. The budget had programmed inflows of $1,884.7mn from FIS, however the amount received was $3,967.9mn.

Compared to the previous fiscal year, capital revenue collections were $2,803.6mn lower. This reduction stemmed mainly from a $2,924.5mn decline in FIS receipts.

Grants

Grant receipts of $4,021.2mn were $304.9mn less than budgeted as inflows from the European Union (EU) were $565.0mn below target. The budget had programmed grants of $3,558.0mn from the EU, however, the amount received totaled $2,993.0mn. The budgeted amount from the EU included $1,600.0mn for rehabilitation with respect to the 2002 floods, however this was redirected to address reconstruction activity arising from Hurricane Ivan. The Budgeted amount of $1,600.0mn was increased to $2,090.5mn (Euro25mn). This increase was however offset by the non-realization of $800mn, which had been budgeted for the Northern Jamaica Development Programme 111. Inflow of the EU grant funding for this project is now expected in FY 2005/06.

In addition to the shortfall in receipts from the EU, delays and suspension of some capital projects also resulted in lower grant inflows. The shortfall in these areas was partly offset by United Kingdom and the Netherlands debt forgiveness of $337.5mn and $406.3mn respectively.

Expenditure

Total expenditure, excluding amortization, was $199,487.8mn, of which 94.4% was allocated to recurrent programmmes and 5.6% to capital programmes. The proportion of total expenditure allocated to the recurrent items was slightly ahead of the 93.1% average for the last five years but it is a notable reduction on the 96.9% of FY 2003/04. Total expenditure for FY 2004/05 was 1.8% above budget as both recurrent and capital expenditure were ahead of the amounts originally budgeted. The increase in expenditure during FY 2004/05 was largely driven by higher capital expenditure unlike previous years, which saw recurrent spending being the main contributor to the increases in expenditure. The increase in expenditure above budget occurred in the final quarter of the fiscal year as a result of unexpected obligations, as both recurrent and capital expenditure remained below budget up to the end of the third quarter.

Recurrent

Recurrent expenditure totaled $188,382.0mn, which was a marginal 0.4% above the amount budgeted, as significantly lower interest costs were slightly outweighed by increased spending on recurrent programmes and wages & salaries. This level of recurrent spending was 8.7% above last fiscal year, reflecting a notable real contraction. This outcome is a demonstration of the GOJ's continued strategy of maintaining the tight reins on expenditure as part of a robust fiscal consolidation plan.

Programmes

Spending on recurrent programmes was $32,081.0mn, an increase of $3,851.3mn or 13.6% above the budget and 30.3% over FY 2003/04. While spending in some areas was contained there were some unprogrammed obligations that fuelled the increased expenditure. The main areas that contributed to the higher spending included, inter alia:

- Increase in pensions payments – increased rates and payment of arrears;
- Additional utility costs – increase in utility rates and the price of oil;
- Increase in traveling expenses – higher mileage rates to traveling officers and increased cost of petrol;
- Additional subvention to local government for street lights and solid waste management to cover the property tax shortfall; and
- Hurricane Ivan relief costs.

Wages & Salaries

Wages & salaries totaled $63,516.8mn, which was $496.1mn, or 0.8% above the amount budgeted. The Memorandum of Understanding for the Public Sector has assisted in containing wages and salaries. The main factor contributing to the increase was the payment of an additional $631.4mn of statutory deduction arrears. The budget included statutory deduction arrears of $3,000mn but the actual amount paid was $3,631.4mn. It must be noted, however, that this additional amount for statutory deduction had no impact on the fiscal deficit since Government's revenue increased by a corresponding amount.

Spending on wages and salaries increased $3,053.6mn or 5.1% above the previous fiscal year due principally to the one-off payment of $3,631.4mn in arrears for statutory deductions. Accordingly, wage and salary payments are projected to fall in FY 2005/06.

Interest

Interest payments of $92,784.2mn were considerably less than the budgeted amount of $96,300.9mn as both external and domestic interest costs were below budget. For FY 2004/05 interest payments constituted 46.5% of total expenditure, compared to 49.3% the previous year. Interest costs consumed 53.8% of Central Government revenue, a notable reduction from the 58.2% in FY 2003/04. In light of the programmed nominal decline in interest costs, the proportion of revenue devoted to interest payments is expected to fall to approximately 43% in FY 2005/06 with further reductions anticipated over the medium term. This trend augurs well for increases in social sector allocation.

The budgetary provision for external interest costs was $22,609.2mn. Actual payments amounted to $20,141.3mn, a reduction of $2,467.9mn. The lower external payments arose from three main factors:

- Lower than projected interest rates, which had a positive effect on variable rate loans;
- Slower than anticipated exchange rate depreciation; and
- The issuance of Euro denominated bonds, in the international capital market, that attract interest payment on an annual basis rather than a semi-annual basis.

External interest was 20.5% higher than the previous year due mainly to the increase in the stock of debt, in particular, the Eurobond portfolio that attracts a higher rate than multilateral loans.

With respect to domestic interest payments, the amount paid was $1,048.8mn or 1.4% less than budget due largely to:

(i) Lower than budgeted domestic borrowing and
(ii) Slower exchange rate depreciation re indexed and US$ bonds

The lower than budgeted domestic borrowing occurred against the backdrop of a more favourable external capital market environment that facilitated an increase in external loans in place of a portion of the planned domestic borrowing.

Capital

Capital expenditure totaled $11,105.9mn, an increase of $2,644.6mn over the budget. Of this total expenditure, $10,765.8mn relates to spending on capital projects, an increase of $2,609.0mn over budget, with payments to the IMF#1 Account accounting for the remaining $340.0mn. The additional spending on capital projects included, inter alia:

- Hurricane Ivan rehabilitation;
- Allocation to Cricket 2007 – represents a portion of the costs of preparation for hosting World Cup Cricket in 2007;
- Provision of support to Air Jamaica for the January to March 2005 period - this amount was utilized by Air Jamaica to cover a portion of its outstanding tax liability;
- Amounts provided to Development Bank of Jamaica (DBJ) in relation to foreign exchange losses on loans guaranteed by GOJ – this had no impact on the deficit as DBJ paid over a corresponding amount to GOJ as loan repayment;
- Amounts due to contractors for outstanding bills.

The level of spending on capital projects in FY 2004/05 was a substantial $6,123.6mn, or 131.9% increase over the previous fiscal year. The higher spending on projects reflected

GOJ's efforts to quicken the pace of project implementation and execution and to clear its outstanding obligations in light of the improving fiscal position.

Payments to the IMF#1 Account surpassed the target by $35.6mn, or 11.7% due to the revaluation of the SDR against the Jamaica dollar. At the end of FY 2004/05 Jamaica made its final payment to the IMF clearing all loan obligations.

Loan Receipts

The larger than budgeted fiscal deficit would normally have led to an increase in Government's borrowing requirement. However, loan receipts of $149,691.7mn fell $2,738.2mn below budget as Government financed a significant portion of the deficit by use of cash balances carried over from the previous fiscal year. Of the total loan inflows, $38,680.0mn was from external sources while $111,011.6mn was raised on the domestic market.

External loan receipts surpassed budget by $7,949.5mn due mainly to the Government increasing its intake in the favourable, international capital market. This higher inflow from the external market coupled with lower amortization payments allowed the Government to reduce its demand on the domestic market by $2,560.4mn. The reduced domestic loan raising activity facilitated a reduction in interest rates.

Amortization

Amortization payments totaled $129,753.7mn and were 1.8% below budget. External payments of $30,178.7mn were on target while domestic payments amounted to $99,575.0mn, a reduction of 2.5% against the budget. The lower than programmed domestic amortization resulted largely from some investors rolling over maturing debt into new debt instruments.

CHAPTER 2 CENTRAL GOVERNMENT BUDGET FISCAL YEAR 2005/06

Overview

The 2005/06 Budget amounts to $347.2bn and is allocated between Recurrent and Capital expenditure as follows:- recurrent expenditure at $187.2bn and capital expenditure at $160.0bn.

This Budget is an increase of $18.9bn or 5.8% over the 2004/05 Revised Budgets. The table below compares the main elements of the 2005/06 Budget with the 2004/05 Revised Budget.

	Approved 2005/06		**Revised 2004/05**		**Variance**
Recurrent	**$bn**	**% of Total**	**$bn**	**% of Total**	**$bn**
Wages and Salaries	61.4	33.0	63.5	34.0	-2.1
Programmes	38.2	20.0	32.7	17.0	5.5
Interest	87.6	47.0	93.6	49.0	-6.0
Total Recurrent	**187.2**	**100.0**	**189.8**	**100.0**	**-2.6**
Capital					
Programmes	17.3	11.0	11.2	8.0	6.1
Amortization	142.6	89.0	127.2	92.0	15.4
Total Capital	**159.9**	**100.0**	**138.4**	**100.0**	**21.5**
Grand Total	**347.1**		**328.2**		**18.9**

The major areas of expenditure continue to be debt Servicing, education services, security services and health services.

Debt Servicing

Debt servicing amounts to $230.3bn or 66.3% of the total budget. This compares with $220.8bn or 67.3% of the FY 2004/05 revised budget. The comparative breakout of the debt servicing allocation is as follows:

	Budget 2005/06	**Revised 2004/05**
Interest	87.6bn	93.6bn
Amortization	142.7bn	127.2bn
Total	230.3bn	220.8bn

Domestic Debt Servicing

Interest
A total of $64,398.4mn has been allocated for domestic interest payments as compared with $72,537.4mn in the FY 2004/05 revised estimates, a decrease of $8,139.0mn. The two main factors contributing to the decline are:

- projected lowering of interest rates and
- lower volume of new debt issues due to the balanced budget profile for FY 2005/06.

Amortization
The programmed domestic amortization is $110,354.6mn, which represents an increase of 12.5% over the allocation of $98,079.5mn for 2004/05 revised estimates. This increase results mainly from:

- a larger volume of debt reaching maturity and
- the provision for contingent liabilities.

External Debt Servicing

Interest
The allocation for interest payments on external debt amounts to $23,180.6mn. This compares with $21,098.9mn in the FY 2004/05 revised budget, an increase of $2,081.7mn or 9.9%. The main reasons for the increase are:

- the provision for interest payments on international capital market bonds is 13.1% higher than in FY 2004/05 and is due mainly to the first payments on the two euro-denominated bonds issued in 2004/05.
- projected payments for new bonds to be issued in 2005/06.

Amortization
Amortization of the external debt is budgeted at $32,321.6mn, which is $3,190.8mn higher than the revised allocation of $29,130.8mn for FY 2004/05. This increase results partly from the US$250.0mn 10.875% bond issued in 1998 that will mature in June 2005.

Education
The Ministry of Education, Youth and Culture has been allocated a total of $37.9bn to undertake recurrent and capital programmes. This accounts for 10.9% of the total 2005/06 budget or 32.5% of the total non-debt budget. This is an increase of $6.9bn or 22% over the 2004/05 revised estimates of. As in previous years, outside of debt servicing, the education function has been allocated the largest percentage of the 2005/06 budget. Included in this provision is $4.8bn for activities associated with the recommendations of the Task Force on Education Reform. The Task Force on Education Reform was established in 2004 to prepare and present an action plan consistent with the vision for the creation of a world-class

education system, which will enhance the human capital and produce the skills necessary for Jamaican citizens to be globally competitive.

Recurrent

An amount of $34.0bn has been provided for recurrent expenses of the Ministry of Education, Youth and Culture. Of this amount, activities related to the recommendations of the Task Force on Education Reform have been allocated $3.263bn for the following programmes:

- Literacy intervention – literacy and remediation strategies - $63.6mn;
- Early Childhood Education – for Governance and management strategies and the reform of educational management, Early Childhood Commission, literacy and remediation strategies, and nutritional grants to Basic schools -$126.2mn;
- Primary Education – to provide for literacy coordinators to be appointed from existing staff in primary and all-age schools - $107.0mn;
- Secondary Education – student assistance for beneficiaries under the PATH - $400.0mn;
- Common Education Services – Governance and management to train board members and chairmen - $20.4mn;
- Library Services - $780.1mn;
- Students Nutrition (includes $400mn for PATH beneficiaries) - $1,652.8mn;
- Youth Development Programme - support for the JAMVATprogramme - $113.4mn

The major areas of expenditure (non Task Force Reform) are:

- Early Childhood Education for which $1.2bn has been allocated. Programmes to be undertaken include the continued upgrading of Resource Centres, the full integration of Day Care into the Early Childhood Programme and the training and certifying of Basic School Teachers through the National Council on Technical and Vocational Education and Training (NCTVET) courses.
- The sum of $10.1bn is allocated to Primary Education. For 2005/06, activities will include continuing the implementation and monitoring of the revised primary curriculum and providing literacy remedial programmes for students in grades 4, 5 and 6.
- Secondary education has been allocated $8.6bn. The main focus of the secondary education programme is the implementation of the Universal Secondary Education programme, which aims to provide 5 full years of secondary education for all students entering Grade 7 as of September 2004. For 2005/06, $70.0mn has been allocated to the Secondary Enhancement programme to provide support to newly upgraded high schools in order to build comparable standards with traditional high schools.
- An amount of $5.9bn has been allocated to Tertiary Education. The major allocation of $4.3bn is to the University of the West Indies, which represents the Government of Jamaica's full contribution to the institution.
- Technical/Vocational Education has been allocated $1.1bn.

Capital A
The allocation of $3,434.8mn includes $1,366.5mn to service the deferred financing facility for the 17 schools under the Northwestern Schools Project, as well as $638.4mn related to promissory notes issued for the construction of 11 schools under the UDC/WICHON St. Catherine's School Project.

There is also an allocation of $1,429.0mn related to recommendations of the Task Force on Education Reform to undertake projects at the Early Childhood, Primary, Secondary, Technical/Vocational level, as well as for Special Education. The remainder of the allocation is for maintenance of buildings, provision of furniture and equipment to selected schools and for teacher education and training.

Capital B

The allocation of $491.9mn in 2005/06 represents funding for six (6) projects, four (4) of which are ongoing and two (2) completed. The completed projects are the Improvement and Expansion of Primary Education Project – Phase II and The Social Sector Development Project.

The Capital B provision also includes $82mn related to recommendations of the Task Force on Education. An allocation of $252.0mn or 51% of the ministry's Capital B budget has been allocated to Primary Education, with $175.0mn to secondary schools and $55.0mn to basic schools.

The four ongoing projects are:

- New Horizons for Primary Schools which comes to an end in September 2005 and for which $11.0mn is allocated;

- Primary Education Support Project for which $240.0mn is allocated and which ends in December 2005;

- Reform of Secondary Education Project (ROSE Phase 2) with an allocation of $175.0mn;

- Enhancement of Basic Schools for which $55.0mn has been allocated.

Security And Justice Services
When combined, these services have been allocated $20.2bn (gross), which represent 5.8% of the total budget and 17.3% of the non-debt budget. Of this allocation, $19.0bn relates to recurrent programmes and $1.2bn has been allocated to capital projects. This shows an increase of $2.56bn or 14% over the 2004/05 revised budget.

Recurrent

Ministry of National Security (MNS)
In respect of the Ministry of National Security and its departments and agencies, an amount of $17,019.5mn has been allocated for the following services:

- JDF - $3,513.6mn
- Electoral Office - $745.8mn
- Ministry activities - $ 927.7mn
- Police Department - $9,500.0mn
- Correctional Services Dept - $2,332.4mn

Ministry of Justice
This Ministry and its departments have been allocated $1,995.9mn for recurrent expenditure.

Capital
A total of $1,199.4mn has been allocated for capital expenditure in respect of the Ministries of National Security and Justice. The major components are:

Ministry of National Security

- acquisition of motor vehicles, telecommunications equipment and improvements to police stations - $221.1mn;
- repairs to buildings, aircrafts and ships for the military - $42.0mn;
- Citizens Security and Justice Project - $197.6mn;
- Payment for two JDF surveillance vessels - $354.8mn.

Ministry of Justice
An amount of $247.0mn has been allocated, the components of which are:

- the construction/improvement of Court Houses - $217.0mn
- Citizens Security and Justice Project $10.0mn
- Purchase of cars for judges $20.0mn

Health Services
The amount of $14.06bn (gross) or 4% of the overall gross Budget has been allocated to the Ministry of Health and its departments for capital and recurrent programmes. In terms of non-debt expenditure, this allocation represents 11.8% of the total budget net of debt. The 2005/06 estimates when compared to the 2004/05 revised estimates $13.6bn (net of the arrears in statutory deductions of $2.5bn) shows an increase of 3%.

Recurrent

The allocation to the Regional Health Authorities is $10.2bn (including the UHWI) or approximately 89% of the Ministry of Health's recurrent budget for 2005/06. The Southeast region, comprising the parishes of St. Catherine, Kingston & St. Andrew and St. Thomas continues to be allocated the largest share, followed by the Western region, comprising the parishes of Trelawny, St. James, Westmoreland and Hanover. The 2005/06 provision also includes:

- $662.0mn for pharmaceuticals and medical supplies for hospitals and health centres (included in the amounts allocated to the regions);
- $1.7bn for the University Hospital – The Hospital is financed by contributing West Indian Territories. Currently, 91% of the institution's budget is met by Government of Jamaica (GOJ) with the remaining 9% being funded by other territories;
- $165.0mn for training of health professionals.

It is projected that fees amounting to $1.45bn will be collected. This is approximately $196.0mn above the amount projected for 2004/05. The significant increase over the 2004/05 estimates results from the increase in fees charged for services offered at the various health facilities. This amount will supplement the budgetted allocation to provide for the operations of health facilities.

Capital Projects

A total of $583.8mn has been allocated to capital projects under the Ministry of Health. The major projects are all related to the prevention and control of HIV/AIDS, namely:

Capital B

Jamaica HIV/AIDS Prevention and Control project - $90.0mn;

- AIDS/STD - $97.0mn;
- HIV/AIDS Treatment Prevention and Control Programme in Jamaica (Global Fund) $221.5mn. This project will be financed through a Global Fund grant and is in its second year of implementation;
- Enhanced Caribbean Response to HIV/AIDS - $104.8mn.

Other Programmes/Projects

Other significant allocations in the 2005/06 budget relate to water and road projects.

Water Supplies

A total of $1,213.3mn has been provided in the 2005/06 Budget for water supplies of which $56.3mn relates to recurrent expenditure and $697mn to capital projects.

Capital A

For FY 2005/06 $87.0mn is provided to complete the construction of the Roaring River/Darliston Water Supply treatment plant, which is expected to hold 2 million gallons of water, as well as, to begin the installation of pipes for water distribution. The upgrading of this water supply scheme will benefit over 10,000 residents in Savannah-la Mar and surrounding areas. The project is scheduled for completion in June 2006. In addition, $50mn has been allocated to the Rapid Response Water project to assist with the distribution of potable water to schools, churches, parish councils and areas that are experiencing severe drought conditions.

Capital B

An allocation of $400.0mn has been provided under the Ministry's Capital B budget. The projects involved are:

- Major Rural Water Supply $23.0mn
- Kingston Metropolitan Area (KMA) Water Supply Project $62.0mn
- National Irrigation Plan $70.0mn
- Rural Water Supply Project $141.0mn
- Port Antonio Water, Sewerage and Drainage Project $81.0mn
- Kingston Water and Sanitation Project $23.0mn

Road Projects

A total of $5,716.6mn has been provided in the 2005/06 Budget for Transport and Works of which $1,747.6mn relates to recurrent expenditure and $3,969.0mn to capital projects.

For the Capital A budget the largest allocation of $1,813.7mn relates to maintenance of roads. The amount represents the amount required for servicing the portion of the financing agreement under the Deferred Financing Facility that falls due in fiscal year 2005/06.

The Deferred Financing Facility in respect of $567.1mn was tabled in a Ministry Paper No. 20 dated April 15, 2004 in Parliament. The current provision has been updated to include the Sandy Gully Dredging /Dualization of Howard Cooke Boulevard/Alice Eldermire Drive. The list of roads and the amounts due (totaling $1,813.7mn) are provided below:

- Washington Boulevard/Mandela Highway - $61.3mn
- Trafalgar Road/Old Harbour/Mount Rosser - $54.0mn
- Traffic Management and North Coast Highway - $451.8mn
- Dredging of Sandy Gully/Dualization of Howard Cooke Boulevard/Alice Eldermire Drive -$1,246.6mn

With the increase in the number of motor vehicles on the roads, the problem of congestion on the road network is a major focal point. Several roads have been widened to add capacity to urban centres with particular emphasis on the corporate areas.

The following are the main projects being implemented under the Capital B Head:

Northern Jamaica Development Programme - $1,744.2mn

- *Segment I (Negril to Montego Bay) - $50.0mn*
  Construction of road surface is 100% complete. The funds provided are to effect payment of outstanding land acquisition.

- *Segment II (Montego Bay to Ocho Rios) - $1,294.5mn*
  The funds provided are for land acquisition, completion of some resettlement solutions and to continue the civil works.

- *Segment III (Ocho Rios to Fair Prospect) - $410.7mn*
  This section is funded with grant assistance from the European Union (EU). Consultants have completed the redesign/rescoping of works and the project hinges on the completion of the land acquisition, resettlement and relocation of utility installation.

National Road Services Improvement Programme - $200mn
The programme will continue to further promote the development of an improved road maintenance system to prevent the rapid deterioration of the islands road network. In addition to budgetary and external resources, the project is financed by one-third of the motor vehicle license fees.

Financing the 2005/06 Budget

With the balanced budget commitment firmly intact, the expenditure outlay of $204,479.8mn will be fully matched by corresponding inflows of revenue and grants. Accordingly, the balanced budget profile would result in gross borrowings being undertaken for the purpose of retiring maturing debt.

<u>Revenue and Grants</u>
Passive forecasts indicate revenue and grants for FY 2005/06 of $195,124.8mn, with tax revenue contributing about 87% of this total. This estimate for revenue and grants represents an increase of 13.1% over FY 2004/05, which is just below the 14% annual average growth rate over the past five years. The breakdown of the projected revenue and grants is as follows:

- Tax Revenue - $170,161.2mn
- Non-tax Revenue - $9,930.7mn
- Bauxite Levy - $2,996.6mn
- Capital Revenue - $7,826.7mn
- Grants - $4,209.6mn

Tax Revenue

Tax revenue is projected to grow by 13.1% over the actual collections for FY 2004/05. The estimated growth is underpinned by the expected buoyancy in the economy as well as revenue enhancing measures. These measures will include a proactive administrative and legislative programme geared toward improving tax collections. The tax estimate for FY 2005/06 is about 26.8% of GDP, compared to 27.0% in the previous fiscal year. Over the medium term tax revenue as a percent of GDP is expected to remain just above 27.0% of GDP.

Non-tax Revenue

Non-tax revenue of $9,930.7mn is forecast to increase marginally above the previous fiscal year. The estimate for non-tax revenue amounts to 1.6% of GDP, which is expected to be maintained over the medium term.

Bauxite Levy

The bauxite/alumina industry is expected to remain buoyant in FY 2005/06, which should result in significant levy inflows. It is projected that there will be a 20.9% increase in levy receipts over FY 2004/05, which would amount to $2,996.6mn.

Capital Revenue

Capital revenue estimate of $7,826.7mn includes projected receipts of about $4,800mn from the National Housing Trust (NHT) for the Education Reform programme. Collections are also expected to be enhanced by loan repayments, as well as inflows from the Financial Institution Services (FIS). In FY 2004/05 $4,013.0mn was received from FIS, however contributions are expected to fall considerably in FY 2005/06 as a significant portion of assets held by FIS has already been divested.

Grants

The forecast of $4,209.6mn for grants includes $2,566.1mn from multilateral/bilateral agencies for capital projects, in addition to €11mn from the European Union for Support to the Economic Reform Programme (SERP) III and Sterling 6mn in debt forgiveness from the UK Government. Grant inflows in FY 2005/06 are projected at 0.7% of GDP, the same as for the previous fiscal year.

Loan Receipts

Total loan receipts for FY 2005/06 is estimated at $142,676.1mn, which will be undertaken for the purpose of paying maturing debt. Based on the fiscal profile, the domestic borrowing requirement is expected to fall by 2.7% to $107,999.7mn in FY 2005/06. This decrease should assist in supporting the downward interest rate path.

With respect to the external capital market, the policy of borrowing in this market to cover gross amortization payments will be maintained. The target international capital market borrowing for FY 2005/06 is US$500.0mn.

In light of the agreed expenditure and the passive forecast for revenue and grants, a fiscal gap of $9,355.0mn exists. To close this gap and deliver the balanced budget objective an additional tax package of this amount has been identified and will be implemented to enhance the revenue flows.

CHAPTER 3 PUBLIC SECTOR ENTITIES

Overview

Public Bodies, which comprise statutory bodies, statutory authorities and Government owned companies, are integrally involved in stimulating economic growth and supporting Government's sustainable development goals for the country. Given the size of some Public Bodies and the diverse nature of activities they undertake across various sectors of the economy, their contribution to development at both the macro- and micro-economic levels has over the years been significant.

The Government is aware of the potential for additional value to be derived from its investment in Public Bodies and has been seeking to improve governance structures within the sector in its quest for sustainable economic development. In a general way, this is expected to bolster confidence of local and foreign investors, strengthen market discipline and improve business transparency through enhanced disclosure.

Government's vision outlined in the *Public Sector Modernization Vision and Strategy 2002-2012*, is that the financial, physical and human resources over which it has control will be managed within a framework that affords transparency, equity, best value for money and accountability. In pursuing this vision the Ministry of Finance and Planning is cognizant of the need for Public Bodies to contribute to the targeted elimination of the budget deficit, the development of transparent, fair and equitable systems that limit the scope for corrupt practices and for Boards of Directors to take due care in discharging their fiduciary responsibilities.

Contributions by Public Bodies

The Estimates of Revenue and Expenditure of Public Bodies for the 2005/06 fiscal year indicates the significant resources under management by fifty-two (52) self-financing Public Bodies. Total human and physical capital employed within the group is expected to be 16,578 persons and $182.8bn respectively at the end of the year. Of the physical capital employed, investment in new projects and assets is expected to exceed $24.0bn. With these resources the group will generate revenues in excess of $120.0bn from which surpluses/profits before tax of approximately $18.5bn will be derived and over $7.0bn will be transferred to Government in the form of corporate and other taxes.

In addition to the financial contributions, Public Bodies are integrally involved in the design and implementation of physical infrastructure programmes. Five entities, namely the National Housing Trust (NHT), National Water Commission (NWC), the Port Authority of Jamaica (PAJ), Airports Authority of Jamaica (AAJ) and the Urban Development Corporation (UDC) will account for approximately $14.0bn of expenditure for the year. The NHT's expenditure includes $1.3bn for the Inner City Housing Programme (ICHP).

The NWC's capital expenditure of $2.5bn is substantially earmarked for the Martha Brae to Harmony Hall and Port Antonio Water Supply projects. The PAJ's capital programme of $1.7bn will be directed at projects that will expand berthing space and increase its cargo handling capacity. PAJ has in recent years been focusing attention on the expansion of the Kingston Container Terminal in its continued effort to position the port of Kingston as the leading transshipment hub in the Latin America and Caribbean region.

AAJ plans to spend $2.0bn on its capital programmes, 93% of which will be spent on phase 1 of the expansion project at the Norman Manley International Airport. The UDC's capital programme is expected to cost $2.2bn of which the major component is work to be executed on behalf of Government Ministries, Agencies and Departments at a cost of $1.3bn. Of this amount $0.9bn is earmarked for expenditure in the North Western Schools Programme and $0.3bn for construction of the Montego Bay Sports Complex.

The HEART Trust/NTA, National Health Fund (NHF), and the Culture, Health, Arts, Sports and Education Fund (C.H.A.S.E) will contribute to social development. The HEART Trust will complete transition to a new business model and will introduce new modalities that will make training and certification more accessible to working age Jamaicans. The NHF through the individual, institutional and other programmes will reduce the burden of health care while C.H.A.S.E.'s programmes will be more broad-based: $200mn will be spent on sports development, $126mn on education, $100mn on health among other areas.

Transparency and Accountability

Government has legislated higher principles of corporate governance through the enactment of the Public Bodies Management and Accountability (PBMA) Act and the Companies Act 2004 by virtue of which entities in both the public and private sectors are required to comply with international best practices.

The PBMA Act requires among other things, the establishment of properly functioning audit committees in all Public Bodies, the use of corporate planning as a management tool and presentation of annual reports to Parliament within four (4) months of each year-end. For the most part, self-financing public bodies have responded positively to these requirements; 65% have established audit committees, approximately 90% prepared corporate plans for FY 2005/06 and there is agreement between Public Bodies and their auditors for annual reports to be brought up-to-date. The Ministry is cognizant of the need for full compliance and will therefore be intensifying its programme of education by way of seminars and workshops throughout the year.

Financial statements of Public Bodies for FY 2003/04 represent the first set of accounts to be audited under the International Financial Reporting Standards (IFRS) that Jamaica adopted in 2002. At least thirty-four (34) Public Bodies have prepared financial statements that are IFRS-compliant. Adoption of and compliance with the IFRS ensure that Public Bodies are kept abreast of international standards thus allowing for greater comparability resulting from harmonisation in the presentation of financial statements.

The adoption of the International Public Sector Accounting Standards (IPSAS) will represent a further advance towards greater comparability of financial information across jurisdictions. For Central Government Ministries, Departments and Agencies, the adoption of IPSAS is being facilitated by the move to accrual accounting, which is being implemented throughout the public sector on a phased basis. All Public Bodies, other than Government Business Enterprises (GBEs), will be required to adopt IPSAS. A Public Body classified as a GBE, must have all of the following characteristics:

- Be an entity with the power to contract in its own name;
- Have been assigned the financial and operational authority to carry on a business;
- Sell goods and services, in the normal course of its business, to other entities achieving full cost recovery;
- Not be reliant on continued Government funding to be a going concern; and
- Be controlled by a public sector entity.

Regulations of the PBMA Act

The Ministry of Finance and Planning will increase the pace at which regulations are developed in support of the Act. A draft Dividend Policy developed in FY 2004/05, takes the form of regulations and aims to clarify Government's expectations with respect to the returns from its ownership of and investment in Public Bodies. It seeks also to establish a transparent and coherent framework, which should guide Boards of Directors, and facilitate greater accountability for the financial performance of their respective entities.

Rationalization and restructuring

Under the Public Sector Rationalization Programme (PSRP) the Ministry of Finance and Planning continues to work with the Cabinet Office to eliminate functional redundancy and improve efficiency and effectiveness in the operations of Public Bodies. Further to last year's closure of Container Services Limited (CSL) and Metropolitan Management Transport Holdings Limited (MMTH), CSL has been placed in members' voluntary winding-up, and MMTH is being prepared for similar action.

The following activities were completed during the year:

Operations divested:
- Rio Grande Tours Limited
- Jamaica Unit Trust Services Limited

Organizations restructured:
- Jamaica Tourist Board
- Tourism Product Development Company Limited
- Coffee Industry Board

Operations closed and functions merged with other public sector entities:
- Jamaica Vacations Limited
- River Rafting Authority

Based on the significant work in progress, several entities will be restructured and/or refocused during FY 2005/06.

The Ministry has also taken steps to wind-up Public Bodies that have been inactive. Achievements during the year are as follows:

Public bodies struck from Companies Register and First Notices published in the Jamaica Gazette:

- Premier Investments Corporations
- Small Industries Finance Company Limited

Property and shareholdings transferred to active entities to facilitate winding-up:

- Small Enterprises Development Corporation (assets transferred to Development Bank of Jamaica Limited)
- West Indies Sugar Company Limited
- Clarendon Sugar Company Limited
- Waterwell Engineering Construction Limited
- National Sugar Farms Limited
- Frome Monymusk Land Company

The shares of the inactive sugar entities were transferred to Sugar Company of Jamaica Holdings Limited.

CHAPTER 4 REVIEW OF SELECTED PROJECTS

Introduction

During FY 2004/05 the projects loan portfolio was reviewed within the context of the targeted balanced budget for FY 2005/06 and to create an achievable implementation profile given the availability of funding. Arising from the review, US$50 million of the project loan portfolio was cancelled and the implementation period for some projects was extended.

Below is a brief review of projects currently being implemented.

Social Sector

Education

Primary Education Support Programme

The objective of this programme is to facilitate improvement in the primary education system through implementation of a revised Primary School Curriculum and national assessment standards in all primary schools.

Under the programme twelve (12) schools are to be constructed at a rate of 3 schools per year.

Fifteen Information Technology (IT) pilot schools have been established and training in IT is underway.

Thirty-three fellowships have been awarded to teachers' college lecturers and 207 principals have been trained under the Principals' Diploma Programme.

Revision of the teachers' college primary school curriculum has been completed and a mid-term project evaluation has been done. Trainers in Regions 2 and 3 will be instructed in the use of the Revised Primary Curriculum in FY 2005/06.

Grade 3 Tests and Sample Assessments for Grades 1 and 4 will be developed during the fiscal year. A study of automation of the GSAT registration and placement process will also be completed during FY 2005/06.

Construction activity for Phase II schools is 90% complete with Red Hills All-Age, Sheffield All-Age, Chester Castle All-Age and Lucea Primary benefiting. Construction activity for at least two (2) schools in Phase I will commence in FY2005/06.

The primary education support programme is scheduled to conclude in 2010.

Reform of Secondary Education

The second phase of the reform of the secondary education system (ROSE II) commenced in FY 2003/04 with a loan of US$39.8 million from the International Bank for Reconstruction and Development (IBRD).

The major objective of this project is to improve the quality of secondary education, through reform, capacity building and continued infrastructure development.

Since its inception three hundred (300) school improvement manuals have been printed, two hundred and eight teachers have been trained in the ROSE curriculum and school improvement plans have been submitted for all ninety-nine (99) schools.

Land surveys have been completed for six schools: Annotto Bay High (Expansion), Mile Gully High (Replacement), Paul Bogle High (Expansion), Riverdale High (New), Lewisville High (Expansion), and Discovery Bay High (New).

The following activities will be undertaken during FY2005/06:

- Continued implementation of the improvement plans.
- Printing of 5,000 copies of Guidance Counseling manuals.
- Provision of tuition for 360 students in Independent schools.
- Construction work on one school.

Health

HIV/AIDS Prevention and Control Programme

The objectives of this programme are three fold:

- To reduce the spread of HIV.
- To improve the treatment, care and support of persons living with HIV.
- To strengthen the country’s capacity to deal with the disease.

Since implementation in 2003, there has been an increased awareness nationally of HIV/AIDS. Several sensitization and training workshops have been held. Thirty-five nurses from blood collecting centres have been trained in blood donor screening and diagnostic capacity and service delivery has been improved. A National Training Centre and regional treatment centres have been established and furniture for the National Public Health Laboratory has been procured. The programme has facilitated an improvement in the treatment, care and support of people living with HIV/AIDS. The Mother-to-Child Transmission Prevention Programme Services is now available to 90% of antenatal clinic attendees. Guidelines have been developed for the treatment and care of persons living with HIV/AIDS. Regional treatment centres have been identified in each of the four regions. Training has been provided to health care workers and anti-retroviral drugs have been administered to approximately 900 people.

The following activities will be undertaken during FY2005/06:

- Distribution of two million condoms at various intervention sites.
- Provision of waste disposal supplies for 52 health facilities.
- Establishment and maintenance of a surveillance system and programme.
- Comprehensive treatment and counseling for 40,000 STD patients.
- Provision of ARV medication and replacement feeding for 6 months for 200 HIV positive mothers and newborn babies.
- Counseling of 50,000 inner city persons.
- Utilization of four (4) HIV/AIDS Media Awareness Campaigns to reach 450,000 adults.

Social Safety Net

The Social Safety Net Programme is now in its fourth year of implementation. It was designed to assist the poor and most vulnerable in the Society.

Two major components of the program are:

- Child Assistance Grants
- Social Assistance Grants for Adults

Child Assistance Grants

These grants will finance direct costs to keep children from poor backgrounds in school. This benefit will be conditional on regular health clinic visits for children age 0-6 years not enrolled in school as well as on attendance for children 6–17 years. Payments will be made bi-monthly with health and educational compliance checks at least three times per year.

Social Assistance Grants to Adults

These grants will be made to the elderly poor over 65 years old, poor pregnant/lactating mothers and poor disabled and destitute adults less than 65 years.

To date $286 million has been spent under the programme benefiting 178,869 persons. The target of 236,000 beneficiaries is expected to be achieved during FY 2005/06.

Jamaica Social Investment Fund (JSIF)

The JSIF mandate is to assist in addressing the needs of the most vulnerable groups in the society through:

- Provision of resources in the areas of basic social and economic infrastructure.
- Building capacity to manage and sustain community based programmes aimed at social development.

Since its inception in 1996, JSIF has approved a total of 753 projects amounting to $3.5 billion. These projects include construction, rehabilitation, expansion and equipping of schools, building of community centres, rehabilitation of roads, construction of water supply facilities and organizational strengthening.

At January 2005, 504 of the approved projects valued at $1.8 billion had been completed. Some 85,000 persons have so far benefited.

JSIF is currently implementing a National Community Development project designed to assist communities in the most under-served areas by providing basic services and temporary employment opportunities. It is anticipated that there will be increased community involvement, as community groups will now be expected to drive the development process. Projections are for 352 projects to be completed this fiscal year.

Citizens Security And Justice

The objectives of the Citizens Security and Justice programme, which is entering its third year of operation, are:

- Prevention / reduction of violence.
- Strengthening of crime management capabilities.
- Improving the delivery of judicial services.

Training has commenced for staff in the Kingston and St. Andrew (KSA) Family Courts. This group included Judges, Clerks of Court, Court Administrators and Police Officers. Work is also in progress on refurbishing of a building for relocation of the KSA Court.Computers and other office equipment have been purchased for the KSA and St. James regional courts and office furniture for KSA are being procured.

Activities are also in progress under the Community Actions component with the mobilization of communities, building of cohesion and improvement in Community-Police relations.

The Kingston Restoration Company (KRC) is providing educational programmes in Denham Town, Hannah Town and Waterhouse – through the Homework Assistance Programme that was delivered to 240 primary school children; CXC extra classes in Mathematics and English delivered to 150 High school students; and remedial education and training for 150 youths and adults.

The Addiction Alert Organization began its Drug Prevention/Youth Empowerment Programme in May 2003 and has so far assisted 120 persons across Drewsland, Tower Hill and Waterhouse.

Peace and Love in Schools (PALS) commenced implementation in Denham Town and Tower Hill, with training in Conflict Resolution.

Architectural drawings have been completed for three Police Stations: Kingston Central, Cross Roads and Denham Town. Renovation work on these stations will be completed in FY 2005/06.

Other activities to be undertaken this fiscal year include an extension of the Community Action component (the Homework Assistance programme, CXC and Remedial classes, Addiction Alert, PALS and Conflict/Dispute Resolution) to the inner city areas of Allman Town, Ambrook Lane, Cassia Park, Kencot, Mountain View, Portmore, Rockfort and Southside/Tel-a-Viv.

Agriculture

Agricultural Support Services

Government has been assisting farmers to revitalize the agricultural sector since the devastation caused by Hurricane Ivan.

The Agricultural Support Programme continues to enhance the quality of agricultural research, upgrade the existing system for safeguarding animal and plant health and stimulate agri-business development in rural areas.

The project, which was started in 2001, has progressed satisfactorily. Among its achievements are:

- The completion of a marketing plan for Jamaica's ornamental fish.
- Production of 100 copies of the Jamaica Red Poll Herd Book.
- Completion and printing of booklets on grades and standards for yam, onion, callaloo and peas.
- Production of 100 copies of the Handbook on Scotch-Bonnet Peppers.
- Construction and completion of Research Greenhouses and a Goat Pen at Bodles.
- Installation of Montpelier Irrigation System.
- Completion of Phase I of the rehabilitation of domestic wells at Bodles.

This fiscal year will see the completion of the rehabilitation of Phase II of the distribution system for Bodles. Work will also be undertaken on the Piggery Unit at Bodles – repairing rearing pens for weaners and constructing new farrowing pens.

There will also be a continuation of improvement work at the research stations at Orange River, Bodles and Montpelier, in order to increase the efficiency, productivity and competitiveness of local farmers in crop and livestock production.

Citrus Replanting

The Citrus Replanting project was designed to prevent the decline of the citrus industry, threatened by the Citrus Tristeza Virus (CTV), by replanting 2,833 hectares of groves over a five-year period effective January 2001.

Implementation continues to be behind schedule due in part to the slow take-up of loans by small farmers. This has forced the Government to cancel US$3 million of the credit component. The targeted hectares of 2,833 have consequently been reduced to 1,556 hectares.

At February 2005, 88 farm plans had been prepared; 4,280 citrus farms visited and 2,300 copies of five extension booklets produced; 380,792 certified plants have been removed from the 12 registered nurseries. An all island survey of asphid has been completed and 11 field trials established.

Plant Pathology and Agronomy will continue research in their respective fields. Pathology will complete the citrus and viroids survey and the shoot-tip grafting of local clones. Agronomy will apply fertilizer to 11 trail plots and collect data on the soil and leaf nutrients level.
Public education will continue in the form of public forums, news releases, demonstration sessions, field days and twenty (20) workshops.

Eighteen nurseries will be registered and visited on a monthly basis to monitor production for certified planting materials.

Infrastructure

Parish Infrastructure Development Programme (PIDP)

The primary objective of the PIDP is to improve the capacity of Local Government to deliver basic services and maintain Parish Infrastructure in a sustainable manner within the context of Local Government Reform. To achieve this objective, the PIDP was designed among other things to:

- Strengthen the financial viability and institutional capacity of the Parish Councils to carry out their responsibilities.

- Finance the rehabilitation of basic priority infrastructure in the parishes, thereby fostering economic development.

In keeping with the Government's objective of a balanced budget, this project has been reviewed resulting in an extension of the implementation period, which is now expected to conclude in 2006.

To date, 69 packages consisting of 189 km of roads have been repaired in various parishes islandwide. Four administrative buildings: - Kingston & St. Andrew Corporation, Hanover and St. James have been refurbished, while the Office of the Manchester Parish Council is in its final stage of construction.

Thirteen pickup trucks have been provided to the parish councils and four hundred (400) computers have been installed. The companion local area networks (LANs) in parish council buildings have also been installed and 405 staff members from the local authorities and the Ministry of Local Government have received computer training.

Refurbishing of the Browns Town Market will be completed this fiscal year as will construction of the Office of the Manchester Parish Council. Rehabilitation work will commence on the roads for which contracts were signed last year – in Hanover, Westmoreland, St. Mary, Portland and St. Thomas.

Capacity building activities will also continue in the areas of Parish Administration and Management.

Northern Jamaica Development

The Northern Jamaica Development project was designed to significantly improve the infrastructure from Negril to Port Antonio.

Segment I of the Highway – Negril to Montego Bay – has been completed.

Segment II – Montego Bay to Ocho Rios –is behind schedule and is projected to incur cost overruns. Three hundred and twenty six (326) parcels of land in sections 2, 3 and 4 have been secured and negotiations are in place to secure the remaining land in section 1.

Construction work will be started on Segment III - Ocho Rios to Fair Prospect in Portland - this fiscal year.

CHAPTER 5 DEBT AND CAPITAL MARKET DEVELOPMENTS

INTRODUCTION

The improving fiscal performance and macroeconomic climate contributed to a favourable environment for effective debt management in FY 2004/05. In the domestic market, interest rates continued their downward trend and the foreign exchange market was relatively stable. Externally, the financing environment was characterized by slower than expected increases in international interest rates, an improving global economy and increased investor confidence. The developments locally and internationally facilitated Jamaica's successful execution of its external borrowing programme in the international capital markets early in the fiscal year. Jamaica's improving fiscal and macroeconomic performance was recognized by Standard & Poor's with the upgrading of Jamaica's credit rating outlook in December 2004 from "Negative" to "Stable".

Debt management in FY 2004/05 continued to be guided by the Government's medium-term *Debt Management Strategy* which is designed to return the public debt to sustainable levels, while ensuring that the overall borrowing requirements are met at minimum cost and consistent with a prudent degree of risk.

In FY 2004/05, the *Debt Management Strategy* sought to maintain a prudent debt structure by maintaining an appropriate mix of fixed-rate and floating-rate debt to further diversify and minimize interest-rate risk, extending and smoothing the maturity profile of the debt to better manage refinancing risk; and continuing to increase the transparency and predictability of debt issuance. Modest progress was made in implementing the Strategy during the year. There was a marked reduction in the foreign currency exposure of the domestic debt portfolio; new domestic debt issuances saw an increase in securities with maturities of over 5 years and up to 10 years; Jamaica established a liquid euro-curve with the issuance of 8-year and 10-year euro-denominated bonds; and the domestic and international markets were kept informed and updated through regular releases of debt-related information and macroeconomic developments.

At the end of March 2005, the stock of public sector debt stood at $759,699.2mn. This represented a 9.5% increase over the stock of $693,886.8mn recorded at the end of March 2004.

The main factors accounting for the increase in FY 2004/05 were:

- The net issuance of eurobonds in the international capital markets;
- Revaluation and parity changes in respect of multilateral debts;
- The issuance of securities to the Bank of Jamaica (BOJ) representing capitalization of accrued interest on BOJ/FINSAC Local Registered Stocks (LRS); and
- The assumption of contingent liabilities on behalf of public sector entities and in respect of deferred financing arrangements following the completion of a number of infrastructure development projects; and of obligations relating to the Government's support to the UWI/UHWI.

The 9.5% rate of growth in the total debt was slower than the 15.4% increase recorded in FY 2003/04 over FY 2002/03. The Debt-to-GDP ratio improved from 140.0% for FY 2003/04 to 136.6% for FY 2004/05.

DOMESTIC DEBT

Performance Summary

During FY 2004/05, the Government continued its management of the domestic debt within the framework of the *Debt Management Strategy*. Emphasis was placed on containing the growth rate of the stock in an environment of reduced interest rates.

Improvements in the macro-economy, relative stability in the foreign exchange market and overall improvement in market conditions contributed to a reduction in interest rates. There was moderate success in the issuance of medium to long-term securities as investors demonstrated a preference for securities at the shorter end of the curve. This reflected, *inter alia*, securities dealers' continuing adjustments to prudential regulations and investors' cautious approach in the context of higher than projected inflation. The Government continued its policy of increased transparency and predictability in debt issuance, including the publication of quarterly financial requirements.

Stock

At the end of March 2005, the stock of domestic debt stood at $449,247.6mn or 80.8% of GDP, an increase of $31,676.3mn or 7.6% over the stock at the end of March 2004.

The increase was attributable to:

- The issue to BOJ of securities representing capitalization of accrued interest on BOJ/FINSAC LRS.
- The assumption of contingent liabilities on behalf of public sector entities and in respect of deferred financing arrangements following the completion of a number of infrastructure development projects; and of obligations relating to the Government's support to the UWI/UHWI.

Domestic debt as a percentage of GDP improved from 84.3% for FY 2003/04 to 80.8% for FY 2004/05.

Gross new domestic debt issued during FY 2004/05 amounted to $142,587.7mn, an increase of 8.5% over FY 2003/04. Of the total new issues, $124,438.4mn or 87.3% was raised for budgetary commitments. This was 2.3% higher than the projected budgeted financing requirement of $121,699.9mn as a result of the higher than projected deficit. Non-budgetary issues amounted to $18,149.3mn or 12.7% of gross new domestic debt.

Structure of Central Government Domestic Debt
FY 2003/04 – FY 2004/05
(J$mn)

	FY 2003/04	**Share (%)**	**FY 2004/05**	**Share (%)**
LRS	220,819.2	52.9	218,412.6	48.6
Debentures	86,844.5	20.8	128,974.2	28.7
Treasury Bills	3,750.0	0.9	4,050.0	0.9
US$ Indexed Bonds	51,515.5	12.3	37,189.7	8.3
US$ Denominated Bonds	45,312.6	10.9	47,533.3	10.6
Commercial Bank Loans & Other	9,329.5	2.2	13,087.8	2.9
Total	**417,571.3**	**100.0**	**449,247.6**	**100.0**

At the end of FY 2004/05, LRS, the Government's medium- to long-term debt instrument, represented 48.6% of total domestic debt, compared with 52.9% at the end of March 2004. Concomitant with the reduction in the share of LRS and the market's demonstrated preference for shorter-term securities, there was an increase in the share of Investment Debentures from 20.8% at the end of March 2004 to 28.7% at the end of March 2005. US$-denominated and US$-Indexed bonds accounted for 18.9%, a reduction from 23.2% at the end of March 2004, reflecting the Government's efforts to reduce the foreign exchange risk of the domestic debt.

The category comprising merchant banks, trust companies and brokers had the single largest holding of Government securities. Holdings by these institutions increased from 29.5% at the end of FY 2003/04 to 32.6% at the end of FY 2004/05. The holdings by commercial banks continued the downward trend from 22.2% at the end of FY 2003/04 to 16.6% at the end of FY 2004/05. The holdings of public sector bodies including the BOJ increased from 25.9% to 26.4%.

Maturity Profile

Despite the favourable market conditions in FY 2004/05, there was only moderate success in extending the maturity profile of the domestic debt. This was due in part to securities dealers continued adjustments to prudential regulations and investors' cautious approach in the context of higher than projected inflation. The market displayed an appetite for short to medium-term instruments and this was reflected in the altered share of the respective components of the debt stock.

Of total new domestic debt issued in FY 2004/05, 75.7% had maturities of up to 5 years, down from 94.3% in FY 2003/04. Issues with maturities of over 5 years accounted for 24.3% compared to 5.7% in FY 2003/04. Of these, issues with maturities between 5 and 10 years increased significantly from 1.5% in FY 2003/04 to 16.5% in FY 2004/05.

Of the total domestic debt outstanding at the end of FY 2004/05, 74.4% had maturities of up to 5 years compared with 73.1% at end of FY 2003/04; 15.3% had maturities of between 5 and 10 years, up from 14.0%; while 10.3% had maturities of 10 years and over, down from 12.8% at the end of FY 2003/04.

Interest Rate Structure

The Government remained guided by the *Debt Management Strategy* objective of increasing the share of fixed rate debt. Of the new domestic debt issued during the fiscal year, 73.6% was contracted at fixed rates while 26.4% was contracted at variable rates.

Domestic Debt Interest Rate Structure
March 2002 – March 2005
(%)

	End March 2002	End March 2003	End March 2004	End March 2005
Fixed Rate Debt	43.2	48.4	58.2	58.6
Variable Rate Debt	55.9	51.6	41.7	41.4
Non-Interest Bearing Debt	0.8	0.0	0.1	0.0
Total	**100.0**	**100.0**	**100.0**	**100.0**

Of the total domestic debt outstanding at the end of March 2005, 58.6% was contracted on a fixed rate basis, compared with 58.2% at the end of March 2004 and 48.4% at the end of March 2003. Government's success over the years in increasing the share of fixed rate debt in the domestic portfolio has reduced the sensitivity of the portfolio to interest rate volatility.

Interest Rates

Domestic interest rates continued on a declining path in FY 2004/05. Improved fiscal and macroeconomic performance, relative stability in the foreign exchange market and close collaboration between the fiscal and monetary authorities contributed to the consistent reduction in interest rates over the period. The rates on Bank of Jamaica 180-day, 270-day and 360-day Reverse Repurchase Agreements declined from 16.00%, 16.95% and 17.95%, respectively, at the end of March 2004, to 13.45%, 14.00% and 14.50%, respectively, at the end of March 2005. The six-month Treasury Bill average yield rate also declined from 15.57% at the end of March 2004 to 13.46% at the end of March 2005.

Domestic Debt Indicators

At the end of the fy 2004/05, domestic debt as a percentage of GDP was 80.8% compared with 84.3% at the end of fy 2003/04. Domestic interest payments accounted for 48.3% of tax revenue and 38.6% of recurrent expenditure, compared with 54.5% and 41.2%, respectively, at the end of March 2004.

EXTERNAL DEBT

Performance Summary

The improvements in the macro-economy, more favourable international financial markets conditions and increased investor confidence in Jamaica allowed the Government to successfully execute its external borrowing programme within the first seven months of the fiscal year. The Government was able to extend its euro-yield curve and widened its investor base by issuing 8-year and 10-year euro-denominated issues. The Government took advantage of the competitive cost of long-term external financing and substituted a portion of its domestic funding needs with external borrowings.

In April 2004, US$125mn was raised through the re-opening of the existing US$300mn 10.625% bonds due 2017. In July 2004, €200mn 11% bonds due 2012 were raised in the international capital markets. Based on the impressive demand, the Government was able to increase the size of the issue from €100mn to €200mn. As a result of the overwhelming demand from institutional and retail investors, the Government again successfully tapped the Euro markets in October 2004 and raised €150mn 10.50% bonds due 2014. With each successive issue, the Government achieved more competitive pricing and lower yields.

During the year, the Government maintained its policy of transparency and predictability. The documents filed with the United States Securities and Exchange Commission as part of the requirement for the Schedule B Shelf Registration Programme were updated. The amount placed on the "Shelf" under the Programme was replenished to US$700mn, in keeping with the Government's medium-term external borrowing programme. Between FY 2001/02 when the "Shelf" was established, and FY 2002/03, US$300mn was drawn down from the "Shelf". The Government kept international investors informed on financial and economic developments through quarterly investors' conference calls and a road show in the major European cities.

Stock

At the end of March 2005, the stock of public and publicly guaranteed external debt stood at $310,451.6mn (US$5,044.4mn) or 55.8% of GDP. This represented an increase of 12.4% compared to that at the end of March 2004. In US$ terms, the external debt increased by 11.4%. The increase in the external debt stock was due primarily to:

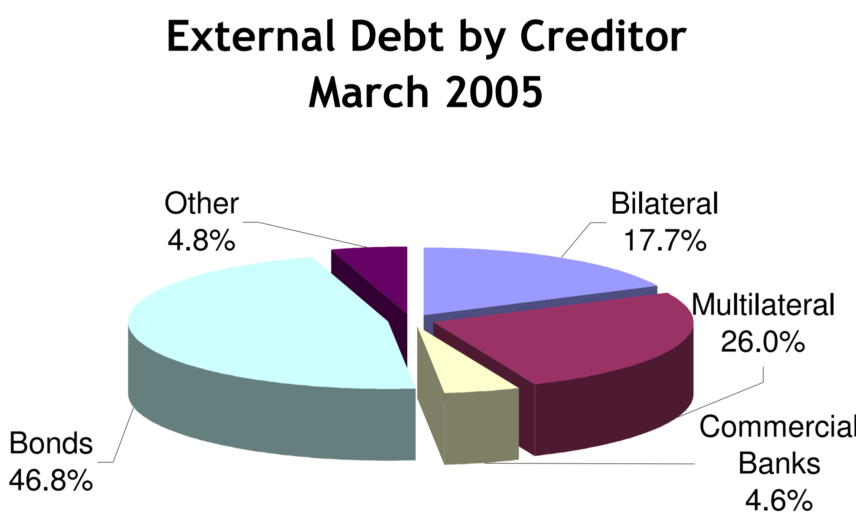
- The issuance of bonds on the international capital markets which exceeded gross amortization for the fiscal year; and
- Revaluation and parity changes in respect of some multilateral debts.

Creditor Composition

The structure of the external debt portfolio has changed, reflecting the combined effects of increased issuance in the international capital markets and the reduction in available resources from official sources (multilateral and bilateral creditors).

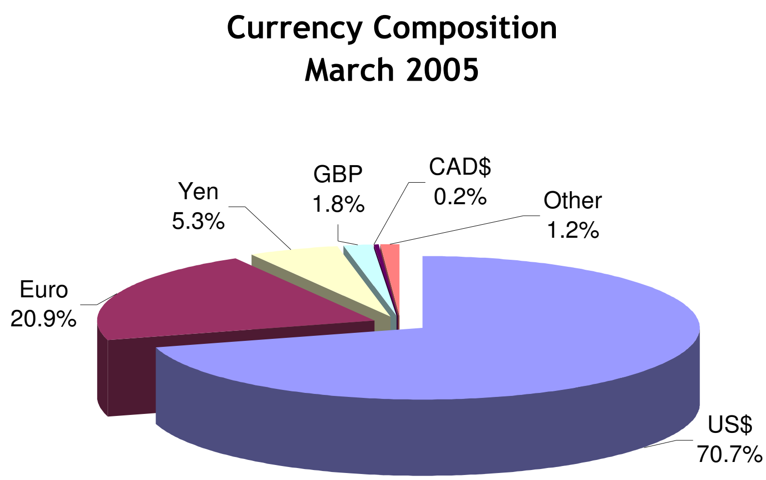
At the end of March 2005**,** eurobonds issued in the international capital markets comprised the major share of external debt stock, accounting for 46.8%. This compared with 43.8% of the stock at the end of FY 2003/04. Loans from official creditor sources accounted for 43.7% of the external debt at the end of FY 2004/05 compared with 47.0% at the end of FY 2003/04. Jamaica has been making net repayment of loans from official sources and as a result, the share of loans from official creditors declined steadily over the past 10 years, except in FY 2002/03 when the major disbursements of loans for the financial sector reform programme were received.

Loans from commercial banks as a percentage of the external debt stock increased from 3.6% at the end of FY 2003/04 to 4.6% at the end of FY 2004/05. The increase was due primarily to disbursements of loans for the purchase of patrol vessels, and for the rural bridges programme.



Currency Composition

The US$ remains the predominant currency in which Jamaica's external debt is denominated. At the end of FY 2004/05, 70.7% of the external debt was denominated in US$, compared with 72.7% at the end of FY 2003/04. With the increased issuance in the euro-markets during FY 2004/05, the Euro's share has increased to 20.9% up from 17.3% at the end of FY 2003/04.



Interest Rate Structure

At the end of March 2005, 76.2% of the external debt had been contracted on a fixed rate basis compared with 72.3% at the end of March 2004. The variable rate component of the external portfolio stood at 23.8% at the end of March 2005, down from 27.7% at the end of March 2004. This characteristic has helped to insulate the external debt from adverse interest rate movements.

External Debt Interest Rate Structure
March 2002 – March 2005
(%)

	End March 2002	End March 2003	End March 2004	End March 2005
Fixed Rate Debt	74.0	71.1	72.3	76.2
Variable Rate Debt	26.0	28.9	27.7	23.8
Total	**100.0**	**100.0**	**100.0**	**100.0**

Maturity Structure

The external debt portfolio remains predominantly long-term debt. At the end of FY 2004/05, 44.6% of the external debt was due to mature in 10 years or more; 32.6% between 5 and 10 years and 22.8% in under 5 years. With the 8-year and 10-year euro-denominated bonds issued in FY 2004/05, the Government accessed the traditionally longest part of the euro-curve, establishing a liquid euro-denominated yield curve.

Debt Forgiveness

Jamaica has been the recipient of debt forgiveness from its bilateral creditors under various debt initiatives. During FY 2004/05, the Government of the United Kingdom provided debt forgiveness to the value of £9.4mn under the renewed Commonwealth Debt Initiative (CDI). This amount covered principal and interest payments amounting to £3.5mn due on eligible loans from the Government of the United Kingdom and £2.9mn due on eligible loans from the Commonwealth Development Corporation (CDC). The remaining £3.0mn represents a reimbursement of payments made to CDC during FY 2003/04. These funds were used to assist the Government in addressing growth and poverty reduction projects.

The Netherlands Government provided debt relief in the amount of €5.1mn representing principal and interest payments due on eligible loans in calendar year 2004.

The United States Government also provided cash flow relief amounting to US$6.5mn by way of a debt for nature swap under its Tropical Forest Conservation Act Programme. Under this programme, Jamaica is permitted to utilize debt payments to the United States Department of Agriculture to the establishment of endowed trust funds to finance the protection of tropical forests and other environmentally significant areas.

International Capital Markets Development

Jamaica’s improving fiscal and macroeconomic developments resulted in an improved credit story. This, combined with increased investor confidence enabled the Government to successfully execute its international capital market transactions in FY 2004/05.

In April 2004, the existing US$300mn 10.625% bonds due 2017 were re-opened and an additional US$125mn raised, increasing the face value of this bond to US$425mn. Bear Stearns Inc. was the lead manager for the transaction.

In July 2004, the Government approached the markets for €100mn and increasing the size of the issue to €200mn due to overwhelming demand. As a result of the continued strong demand from institutional and retail investors, the Government again successfully tapped the Euro markets in October 2004 and raised €150mn 10.50% bonds due 2014, its longest dated euro-denominated bonds. With each successive issue, the Government achieved more competitive pricing and lower yields. The joint-lead managers for both euro transactions were Deutsche Bank and Commerzbank Securities.

During FY 2004/05, Jamaica's eurobonds generally traded at or above par. The favourable trading levels of the bonds demonstrated investor confidence in Jamaica and the Jamaican credit story.

In December 2004, Standard & Poor's upgraded the outlook on Jamaica's local and foreign currency sovereign credit ratings from "Negative" to "Stable" and maintained its "B" rating for long-term local and foreign currency debt. Jamaica's improving fiscal and external liquidity situation, ongoing commitment to fiscal austerity and stronger growth prospects have supported the improved ratings. Moody's maintained its B1/Stable outlook ratings for Jamaica's long-term local and foreign currency ratings.

DEBT MANAGEMENT STRATEGY FY 2005/06

The primary objective of the Government's medium-term *Debt Management Strategy* has been to reduce the debt to sustainable levels, keep borrowing costs low while minimising risk. In FY 2005/06, the Government will continue to pursue strategies and policies consistent with the medium-term objectives of:-

- Maintaining a prudent debt structure;
- Further diversifying the debt portfolio;
- Using market mechanisms for domestic debt issuance;
- Promoting and building a liquid and efficient market for Government securities; and
- Increasing transparency and predictability.

Within this context, the *Debt Management Strategy* for FY 2005/06 will seek to:-

- Maintain an appropriate mix of fixed-rate and floating-rate debt to further diversify and minimize interest-rate risk;
- Extend and smooth the maturity profile of the debt to better manage refinancing risk; and
- Continue to increase transparency and predictability of debt issuance.

MEDIUM TERM TARGET

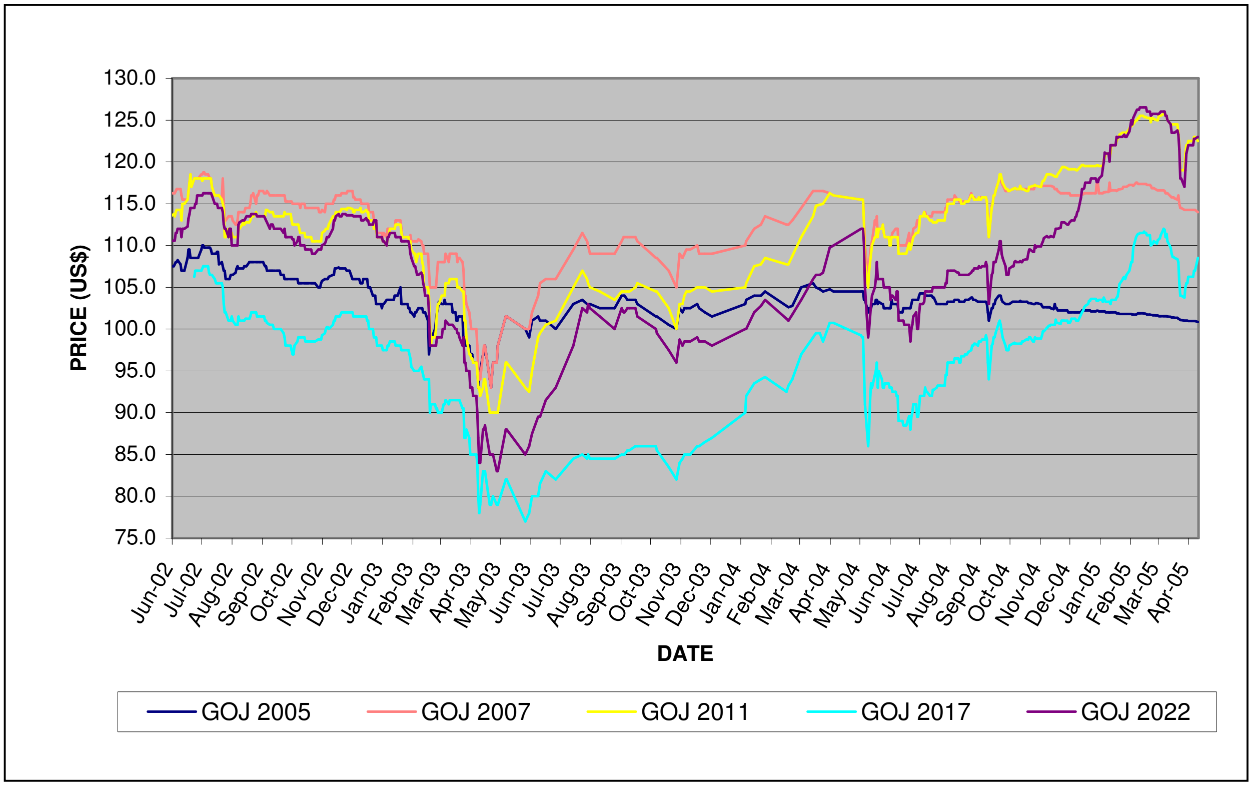
The balancing of the budget in FY 2005/06 and the generation of surpluses thereafter will result in reduced borrowing by the Government and hence a reduction in the debt burden. Continued improvements in the macro-economy will also contribute to the further lowering of interest rate and consequently, reducing debt servicing costs. With the balancing of the budget and an improved macro-economic environment, the Debt-to-GDP ratio will continue to decline over the medium-term.

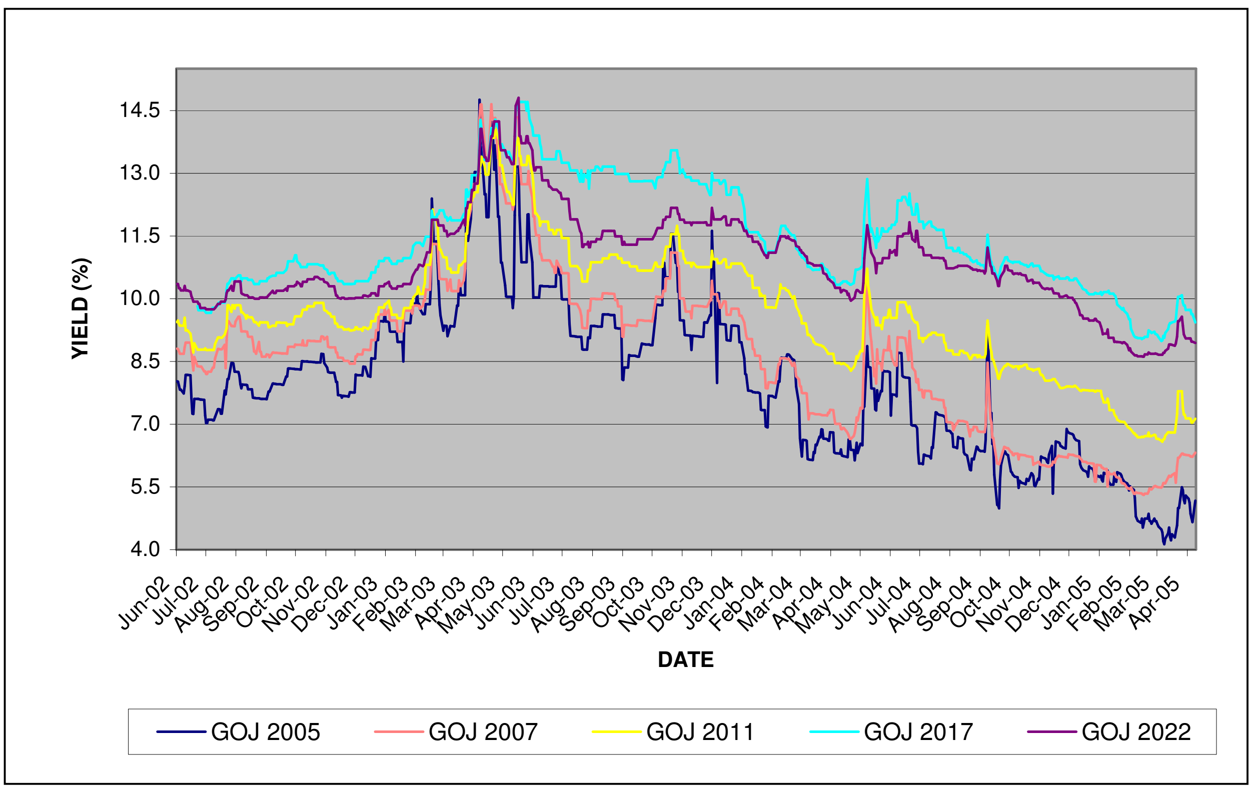
PROFILE OF THE STOCK OF PUBLIC DEBT
(J$ millions)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05*
DOMESTIC DEBT	**57,675.0**	**85,181.2**	**101,540.2**	**139,203.7**	**175,322.7**	**215,084.1**	**300,201.5**	**366,158.1**	**417,571.3**	**449,247.6**
Percentage of total debt	29.8%	43.4%	46.3%	53.1%	56.8%	56.5%	60.4%	60.9%	60.2%	59.1%
Local Registered Stocks	40,215.4	61,587.0	75,873.2	105,121.4	126,009.3	159,734.8	212,110.0	240,923.0	220,819.2	218,412.6
Treasury Bills	9,655.0	11,016.2	11,650.0	10,450.0	9,550.0	6,950.0	4,250.0	2,950.0	3,750.0	4,050.0
Investment Debentures	n/a	3,240.1	6,778.9	12,843.1	23,958.5	27,499.5	32,399.3	41,189.6	86,844.5	128,974.2
US$-Indexed Bonds	n/a	n/a	n/a	n/a	2,897.4	7,723.2	20,751.6	42,315.6	51,515.5	37,189.7
US$-Denominated Bonds	n/a	2,609.0	2,309.7	4,357.2	9,639.0	9,707.6	25,571.1	30,579.3	45,312.6	47,533.3
Commercial Bank Loans	4,957.7	4,027.4	3,088.5	1,716.1	2,487.4	2,466.1	3,527.2	6,322.6	7,450.1	12,219.3
Other	2,846.9	2,701.6	1,839.9	4,715.9	781.1	1,002.9	1,592.2	1,878.0	1,879.4	868.5
EXTERNAL DEBT	**136,168.5**	**111,183.2**	**117,674.7**	**123,099.3**	**133,365.1**	**165,556.7**	**196,881.2**	**235,083.2**	**276,315.4**	**310,451.6**
Percentage of total debt	70.2%	56.6%	53.7%	46.9%	43.2%	43.5%	39.6%	39.1%	39.8%	40.9%
Bilateral	72,567.1	60,099.5	53,356.8	54,358.4	55,870.9	52,598.2	49,903.4	56,316.2	59,744.0	54,970.9
Multilateral	48,066.4	37,383.6	41,208.2	40,607.8	43,044.3	50,798.4	53,796.0	69,115.4	70,273.7	80,736.3
IBRD	15,442.5	9,928.0	14,462.0	13,436.3	15,677.8	18,899.2	21,015.1	26,999.2	26,852.9	26,087.2
IDB	17,899.3	16,656.1	16,726.3	17,129.5	17,786.5	21,878.0	22,773.8	29,884.6	30,060.8	38,981.8
CDB	3,573.4	3,006.6	2,697.4	2,738.9	2,696.5	3,659.4	3,448.4	4,761.3	5,498.2	7,148.3
EEC	2,973.9	2,630.6	3,014.3	3,165.8	3,050.9	3,185.7	4,048.8	5,349.1	6,370.7	7,051.7
Other	8,177.3	5,162.3	4,308.2	4,137.3	3,832.6	3,176.1	2,510.0	2,121.2	1,491.1	1,467.3
Bonds	n/a	3,502.0	10,953.0	21,054.0	27,143.2	45,942.7	78,664.1	90,691.6	120,908.4	145,422.5
Other	15,535.0	10,198.1	12,156.7	7,079.1	7,306.7	16,217.3	14,517.7	18,960.0	25,389.3	29,321.9
TOTAL DEBT	**193,843.3**	**196,364.4**	**219,214.9**	**262,303.0**	**308,687.8**	**380,640.8**	**497,082.6**	**601,241.3**	**693,886.7**	**759,699.2**

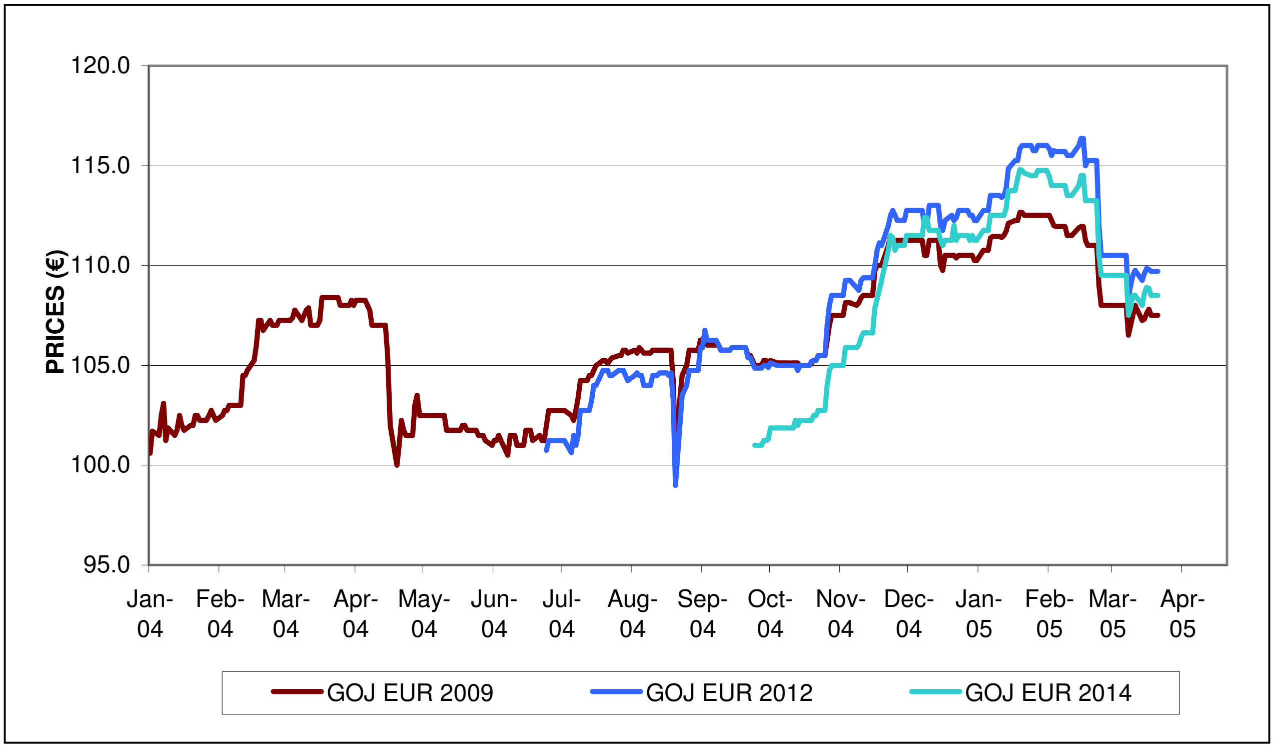
n/a - Not Applicable
* Provisional

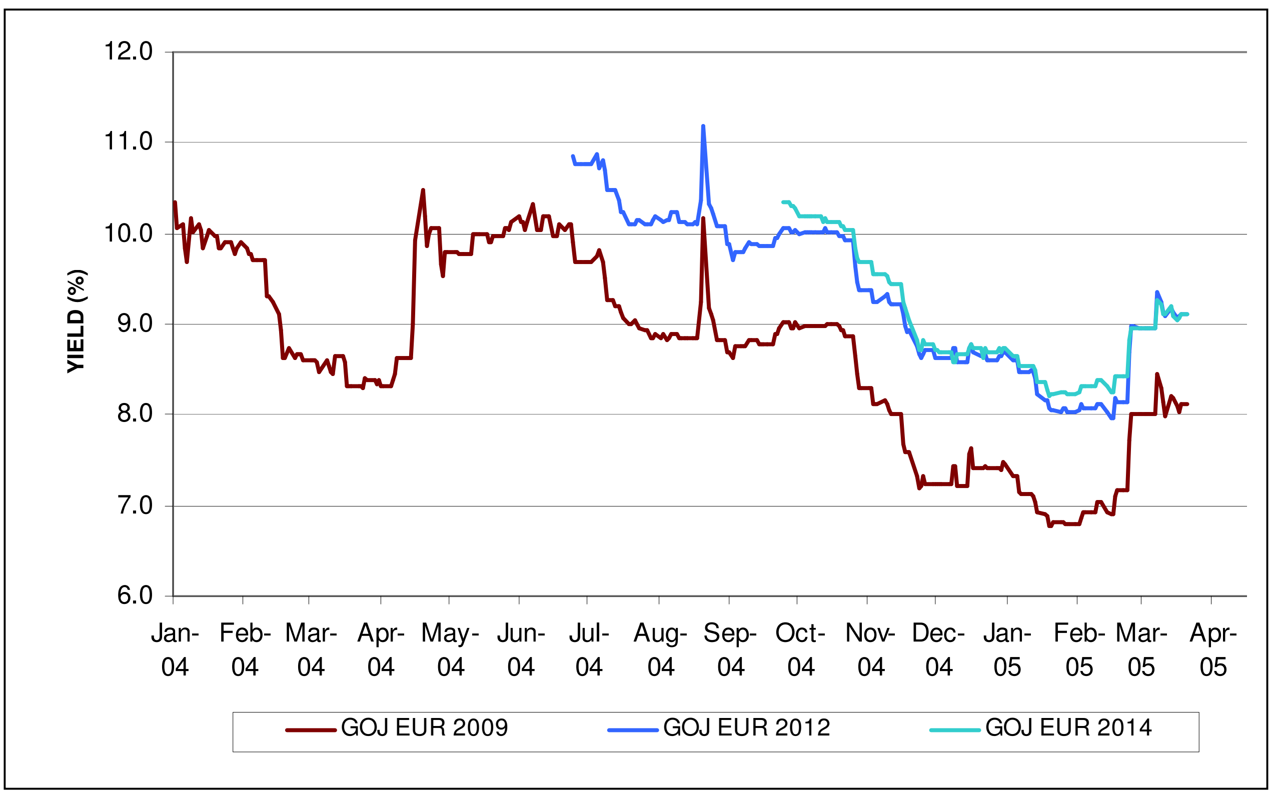
TRADING LEVELS OF GOJ US$ EUROBONDS





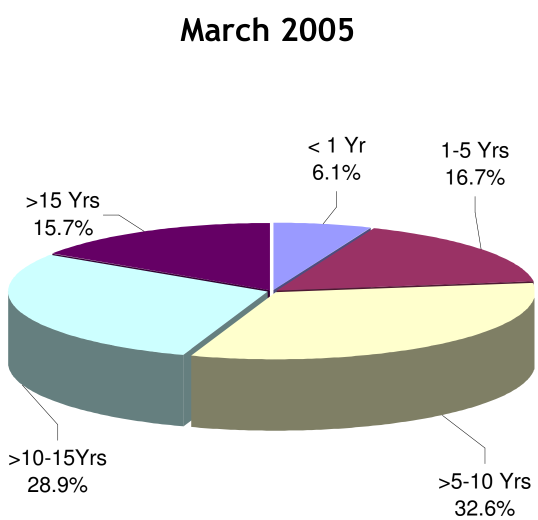
TRADING LEVELS OF GOJ EURO-DENOMINATED BONDS

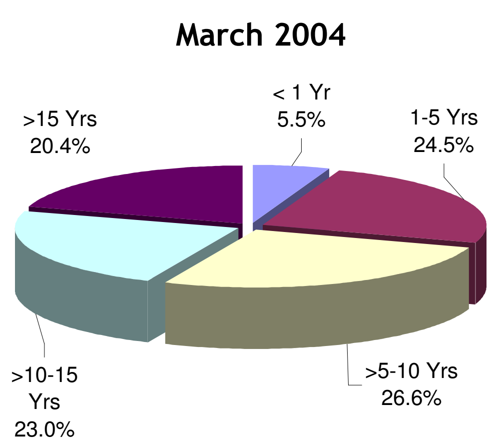




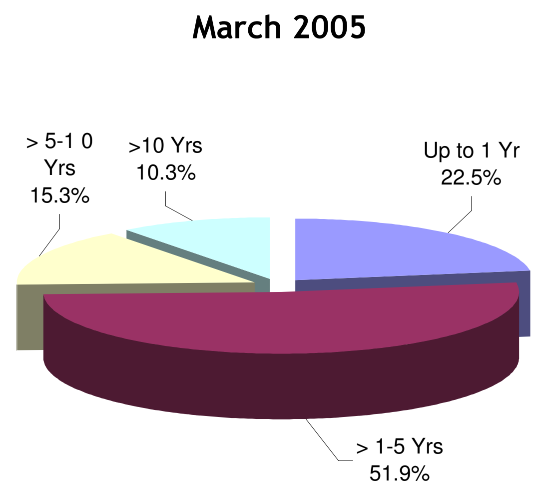
MATURITY PROFILE OF THE DEBT
(Remaining Maturity)

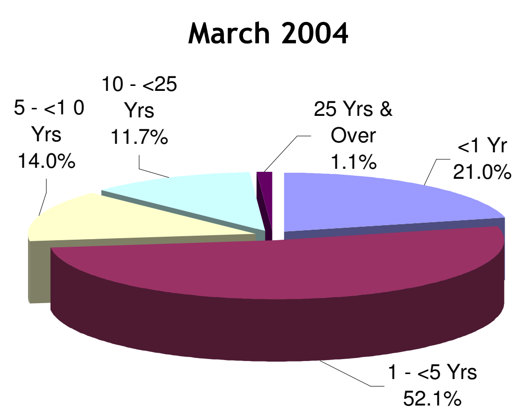
External Debt



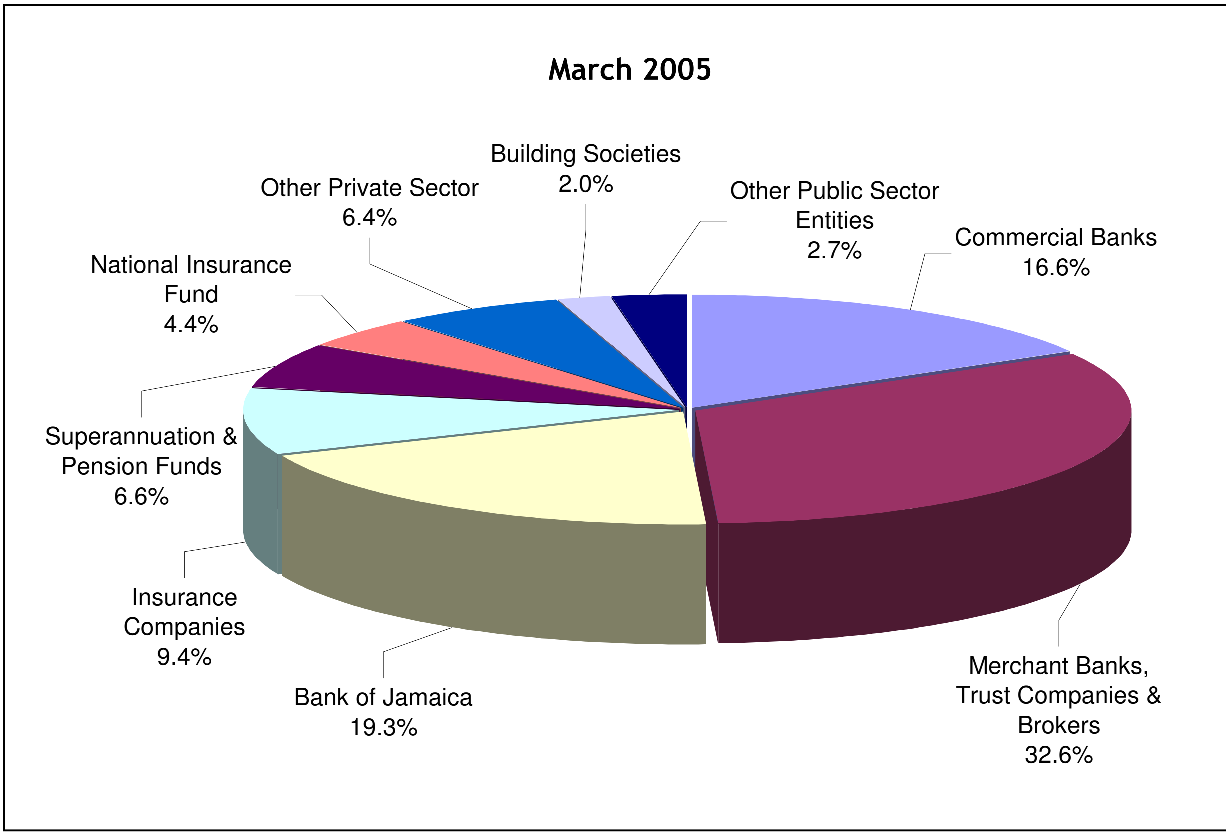


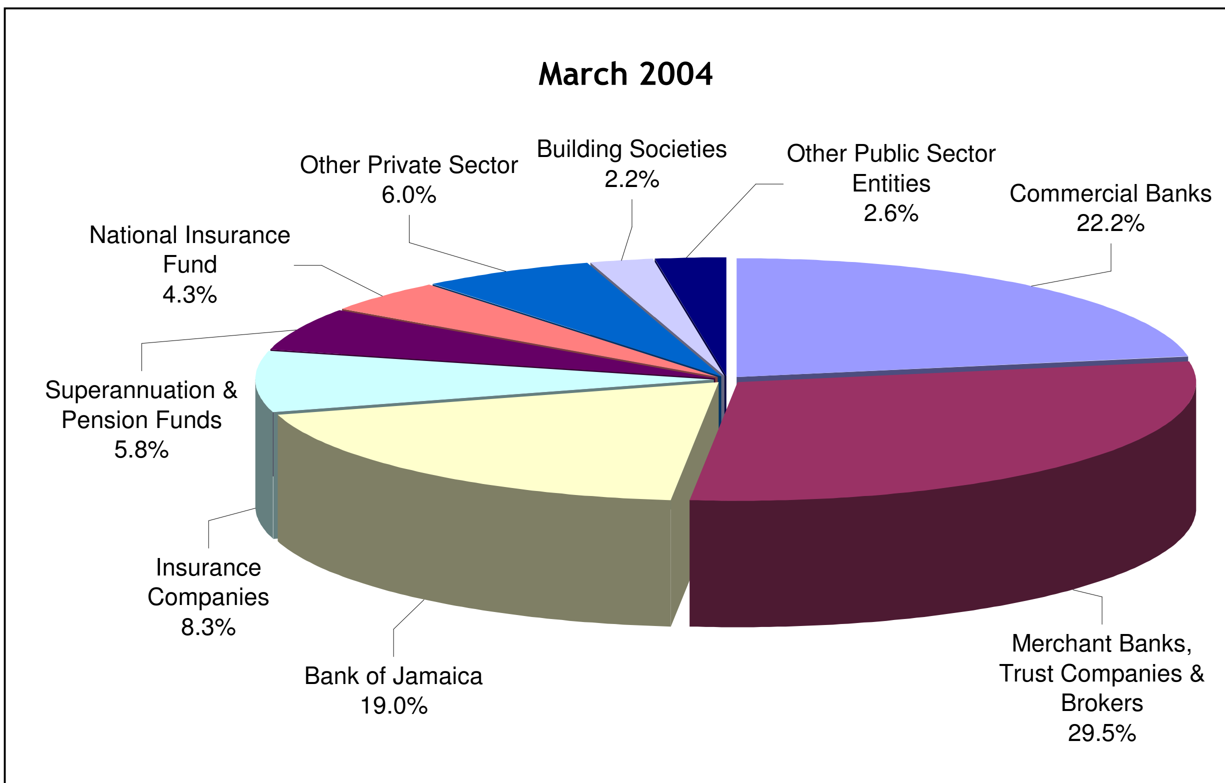
Domestic Debt





HOLDINGS OF GOJ REGISTERED SECURITIES





APPENDIX 1 PUBLIC SECTOR ESTABLISHMENT

Public Sector Conditions of Service

Conditions of service for public sector employees were developed around human resource management policies aimed at, among other things, cost effective public services. The Public Sector Conditions of Service Programme outputs relate to pay, benefits, industrial relations, tracking of the Government's wage bill and pensions administration.

Performance Management Appraisal System (PMAS)

This system was driven by various elements of the on-going public sector reform agenda. Implementation of the performance management appraisal system in various Ministries, Departments and Agencies (MDAs) has focused on improving performance and productivity in the public sector. Under the PMAS there is a closer link between pay and performance.

Staff Orders

Revision of Staff Orders for the Public Service and dissemination of the revised Orders in August 2004 represent another aspect of the public sector reform programme.

The new Staff Orders address current labour market trends such as more flexible work arrangements, incorporate the ethics of modern human resource practices and recognize diversity issues.

It is geared towards greater effectiveness in public administration and improved employee relations.

Memorandum of Understanding

In the continuing effort to achieve cost effective public services the Memorandum of Understanding (MOU) signed between the unions representing public sector employees and the Government has been the mandate for employment, wages, and other cost containment strategies. While the MOU has faced challenges a number of positive outcomes have occurred:

- Greater collaboration with public sector unions;
- Settled industrial relations environment;
- Training of over 1,000 employees in skills applicable to the current labour market; and
- Stabilization of the wage bill, which has contributed to the reduction in the fiscal deficit.

The mechanisms established through the Monitoring and Evaluation Committee of the MOU and the Post Operations Committee have been instrumental in achieving these outcomes.

With an employment population of approximately 95,000 or 10% of the national employed labour force, the Government is the largest employer. The public sector workforce is comprised of teachers, health service employees, security, correctional and fire services personnel, administrative/technical staff in the central civil service, local government employees and employees of statutory bodies and other government agencies. Of the 95,000 employees approximately 80,000 are paid directly from the Budget. The Civil Service Establishment (General) Order, 2004 indicates that during the fiscal year there were 40,800 posts in the central civil service (including the Police), which represents a reduction of 1,200 over the previous year.

Employee Benefits

In FY 2004/05 employee benefits such as health insurance, loan/grant schemes and the staff transportation system cost the Government $2.5bn. It is worthy of note that 372 civil servants with over 25 years' service were presented with Long Service Medals and Certificates in November 2004.

With regard to pensions for ex-public servants, the bill has moved from $5.3bn in FY 2003/04 to $6.1bn in FY 2004/05, a 15% increase. The increase is due to an increase in the number of pensioners and an upward revision of pensions by $0.2bn. There are currently approximately 20,000 pensioners.

During FY 2005/06 in an effort to refocus human resource management programmes in the public sector, the conditions of service elements of the Staff Orders and policies relating to employee benefits will be transferred to the Public Sector Reform Unit in the Office of the Cabinet. The direct wage costs aspects of human resource management policies which include industrial relations, special benefits, compensation, establishment control and pensions will be retained by the Ministry of Finance and Planning.

The main objectives for FY 2005/06 are to maintain the terms and standards agreed in the MOU and develop a wages policy to address the post MOU period. Work will also be undertaken on the structuring of staff benefits programmes to satisfy staff needs within affordable limits. The development of rational pay policies and the enhancement of industrial relations harmony are also priority areas. The size of the public sector workforce will be the subject of further analyses to ensure optimization of staff complements. Pensions will also undergo procedural and legislative review to ensure that public sector superannuation arrangements are rational and sustainable.

Public Sector Wages

The MOU signed on February 16, 2004 between the Government and the Jamaica Confederation of Trade Unions called for, among other things, wage restraint during the two year period, 2004/06.

Prior to the signing of the MOU it was projected that the wage bill would have grown by at least $7.5bn from a projected wage bill of $57.1bn. In the first year of the MOU, 2004/05, the wage bill grew by $1.5bn and is projected at $58.6bn for that period. The growth represented primarily the payment of normal salary increments to the approximately 80,000 public sector employees paid by the Central Government. It is projected that the 2005/06 wage bill will grow by approximately $1.5bn. Again, this represents primarily the payment of normal increments to public sector employees. (The wage bill for a given period will differ from wage payments during that period as other elements such as retroactive salary are captured in wage payments).

The MOU kept the wage bill fairly flat in FY 2004/05 and this trend is expected to continue in FY 2005/06. All groups, with the exception of the Junior Doctors, the Judiciary, and the Legal Officers, have settled wage contracts up to March 31, 2004. The Fire Services, Correctional Services, Meteorological Officers among others settled their wage contracts for the period April 1, 2002 – March 31, 2004 in FY 2004/05. Sector contributions to the wage bill are outlined below.

Contribution of Sectors to Wage Bill

		Percent of Wagebill	
Sectors/Groups	**% of workforce**	**2003/04**	**2004/05**
Security	14.18%	15.01%	14.85%
Education	31.55%	41.02%	41.18%
Health	7.30%	14.18%	14.38%
Legal & Judiciary	0.29%	1.24%	1.26%
Statutory Bodies	8.44%	1.41%	1.43%
Fire & Correctional Services	4.00%	3.65%	3.70%
Parliamentarians, Mayors & Councilors	0.33%	0.74%	0.73%
Local Government Administrative & Weekly Paid	15.64%	5.73%	5.67%
Civil Service Administrative	18.29%	15.28%	15.12%
Sundries, Meal & Taxi		1.75%	1.69%

APPENDIX 2 PUBLIC SECTOR REFORM 2004/05

The current public sector reform programme is in its second (calendar) year of the Joint CIDA/DFID Agreement and progress compared to the agreed targets has been satisfactory. Indications are that all outputs of the programme are likely to be met.

The programme and implementation strategies are strongly linked to the Medium Term Socio-Economic Policy Framework (MTSEPF). The programme is geared toward supporting achievement of the MTSEPF targets by developing institutional capacity and improving effectiveness and efficiency within the public sector via the creation of performance based institutions (PBI's).

The major areas of the Public Sector Modernization Programme (PSMP) mirror the priority programmes as outlined in the MTSEPF, with the primary focus being on the transformation of the security, education and agriculture sectors, improvement of financial management systems and implementation of the provisions of the GOJ/JCTU Memorandum of Understanding (MOU).

Implementation of the GOJ/JCTU MOU: **Public Sector Employee Training Programme**

As a first phase towards fulfilling the government's mandate under the GOJ/JCTU MOU, a "Summer Training Programme" was implemented, beginning on July 26, 2004. It placed considerable emphasis on the training of employees in categories that have not traditionally been major beneficiaries of training initiatives. These categories were considered the most affected by the wage restraint instituted under the MOU.

The programme has benefited 1,109 employees of the Central Government and the Western, Southern and South-Eastern Regional Health Authorities, and the feedback from them has been overwhelmingly positive.

Fifteen (15) training institutions were involved in the delivery of 60 courses, including vocational subjects and a range of information technology training.

Considerable interest continues to be expressed by staff in accessing the on-going programme. Many employees have spoken of their delight at being able to earn immediate additional income by putting their newly acquired skills to use. Some who are near retirement have indicated that they are now less fearful about the future as they now have the capacity to supplement their pensions.

The First Phase of the Summer Training Programme has been a resounding success. It has been characterized as one of the most valuable and tangible benefits so far to accrue to the public sector workforce within the ambit of the MOU.

The next training programme (Phase II) will be rolled out in FY 2005/06 to 3,500 workers who have not yet benefited. The lessons learned during the pilot phase will be incorporated into the Phase II implementation process.

Creation of Performance Based Institutions (PBIs) and Executive Agencies
The modernization process started in a number of new Ministries and Agencies, among them:

Ministry of National Security (MNS) and Immigration Citizenship and Passport Services Division (ICPSD)

- Technical assistance has been identified to transform the MNS and the ICPSD into performance-based institutions; Cabinet approved the contract at its meeting on March 14, 2005.
- Establishment of the Firearm Licence Authority is proceeding.

Ministry of Education, Youth & Culture

- A Transformation Team & Advisory Board has been established to implement the recommendations of the Task force.
- Preliminary studies and consultations have commenced to allow for early implementation of key recommendations.
- Collaboration with HEART/NTA and international agencies is ongoing.

Ministry of Agriculture

- Agreement on the modernization process achieved.
- Terms of Reference approved by the Permanent Secretary.
- Proposals for the transformation of the Ministry are to be invited within the current financial year.

Forestry Department

- First phase - the Prior Options review, as a first step toward an Executive Agency status, has been completed. The next phase will be started by end March 2005.

Island Traffic Authority

- Preliminary discussions are progressing with the parent Ministry toward the preparation of a business plan for the Island Traffic Authority.

Jamaica Fire Brigade

- A consulting firm has been selected to develop and implement a strategic modernization programme for the Jamaica Fire Brigade.

Customer Service

Citizen's Charter Programme

To date, 65 Citizen's Charters have been completed. All 65 entities have instituted simple-to-use and easily accessible complaint mechanisms for customers to utilize as deemed necessary. All agencies have been sensitized to the Customer Service Programme and encourage customer feedback through the use of customer suggestion boxes.
Several agencies conduct customer service surveys/outreach sessions at least once per year.

These include:
- *Administrator General's Department*
- *Airports Authority of Jamaica*
- *Tax Administration / Inland Revenue Department*
- *Management Institute for National Development*
- *Office of Utilities Regulation*
- *Registrar General's Department* (local and international)

Impact assessments are commissioned by Cabinet Office to assess levels of satisfaction of citizens with Government services.

Toll-free lines have been instituted in several agencies to facilitate customer feedback, these include:

Cabinet Office, NWC, AGD, JCF, IRD, JIS, NEPA, NIS, NWA, MOEYC, MOH, MLSS, MWH, MTW.

Easier access to services offered by Government entities through the Government section (Blue Pages) of the telephone directory - Government Pages in the telephone directory were reviewed in collaboration with Cable and Wireless Ja. Ltd. and Ministries. The revised and user-friendly version of the Blue Pages was published in the 2005 telephone directory.

Alternative Service Delivery Options

Alternative service delivery options have been instituted in several GOJ entities:

Inland Revenue/Tax Administration
- Credit/Debit card payments accepted.
- Depository boxes in use for some payments.
- Customer payments for certain high-volume transactions now accepted on-line.
- Bill being drafted for utilization of third party payment agencies (proposal for payments through banks, bill payment agencies, etc.).
- Temporary taxpayer service sites established in community centres, churches, courthouses, police stations island-wide to assist small business operators, professionals and self-employed persons to complete and file tax returns.

Accountant General
- Drop-off box provided for deposit of Life Certificates.

Postal Corporation
- Private letterboxes at housing schemes. The first housing scheme - Long Mountain Scheme in October 2004.

Management Institute for National Development (MIND)
- MIND on-line course offered enabling students to complete Associate Degrees in Management Studies via the Internet.

Office of the Registrar of Companies
- Customers able to view information and conduct transactions on-line.

Registrar General's Department
- Applications processing expanded via Mobile Unit.
- Certificates produced by the Department delivered via courier service.
- Further decentralized services - opened 3 new regional offices in the parishes of Portland, Westmoreland and St. Elizabeth.

National Land Agency
- Title and other property information available on-line.

Customs Department
- Payments for dutiable imports (commercial and non-commercial) on-line.

Implementation of the Performance Management and Appraisal System (PMAS)
Five Pilot Ministries implemented the PMAS in FY 2004/05. By July 1, 2004, the PMAS was implemented in the following entities:

- The Office of the Prime Minister
- Cabinet Office
- Office of the Services Commission
- Ministry of Finance and Planning
- Ministry of Transport and Works.

A guideline PMAS Manual has been produced to inform staff of expectations of the new system. All remaining Ministries will implement the PMAS in FY 2005/06.

Implementation of Accrual Accounting

Phased implementation of the accrual accounting system commenced in 2005 in the Ministry of Transport and Works, Office of the Services Commission, Ministry of Finance and Planning, Taxpayer Audit and Assessment Department, Tax Administration Services Department and Taxpayer Appeals Department.

Relevant courses at MIND have been reviewed and updated to allow for institutionalization of training in the system.

A Draft Training Manual has been produced and is being reviewed for finalization as an input in the training and capacity building programme for accounting sections of Ministries and Departments.

APPENDIX 3 DEVELOPMENTS IN THE FINANCIAL SECTOR

Introduction

During FY 2004/05, the Ministry continued to work with its regulatory bodies to ensure effective regulation of financial institutions by improving the legislative framework and strengthening the institutions responsible for supervising the financial sector. In addition, the Financial Institutions Services (FIS) continued to work on resolving residual issues of the Financial Sector Adjustment Company (FINSAC).

Legislative Framework

Enactment of the Pensions (Superannuation Funds and Retirement Schemes) Act, 2004 occurred during the review period. This Act is a critical piece of legislation that along with the associated Regulations will facilitate the supervision of private pension funds by the Financial Services Commission (FSC).

The FSC will be responsible for the general administration of the Act, which includes provisions for the licensing and registration of Approved Superannuation Funds, Approved Retirement Schemes, and pension service providers.

The Regulations, which are also an important element of the first phase of the pension reform initiative, will cover the areas of investment, governance, registration, licensing and reporting. The Investment and Governance Regulations set out investment limits and governance practices for superannuation funds and retirement schemes. Additionally, the Registration, Licensing and Reporting Regulations set out the necessary requirements for the registration, licensing and reporting of superannuation funds, retirement schemes and pension service providers.

In respect of phase two of the pension reform initiative, the Public Education Pensions Technical Expert (PEPTE) conducted seminars on the technical issues related to the Pensions Act with relevant stakeholders. In addition, efforts are underway to draft the appropriate legislation to deal with the issues of mandatory vesting, portability of pensions rights, and indexation of pensions, among other issues.

During FY 2004/05, the Bank of Jamaica Act, the Financial Services Commission Act, the Banking Act, the Financial Institutions Act, and the Building Societies Act were tabled and passed in the Houses of Parliament.

The amendments to the financial legislation sought to enhance the legislative and regulatory framework of the sector with respect to preventing money laundering, and among other issues to provide for the sharing of information with regulatory agencies both domestically and internationally.

Efforts were also made to improve Jamaica's capability to combat money laundering. As a result the Money Laundering (Amendment) Bill and the Financial Investigations Division Bill have been tabled in the Lower House. The Money Laundering (Amendment) Bill seeks to deal with issues such as:

- Expanding the duty of financial institutions to report certain transactions;
- Incorporating new elements in respect of the offences of money laundering;
- Inserting new provisions to deal with designated non-financial institutions;
- Enhancing investigation capabilities with respect to money laundering.

The enactment of the Financial Investigations Division Bill, will give the Division the appropriate statutory authority to carry out its mandate effectively and provide the legal framework for the operations of the Division. The Financial Investigations Division's mandate is to investigate, prosecute and monitor activities under various Acts including the Money Laundering Act and the Acts governing revenue.

Financial Institutions Services Limited

During FY 2004/05, the Financial Institutions Services Limited (FIS) continued to deal with a number of residual divestment, prosecutorial, liquidation and other activities.

FIS completed the divestment of Jamaica Mutual Life Assurance Society 's 55.17% shareholding in Jamaica Unit Trust Services Limited. These shares, along with the Jamaica Development Bank's/GOJ's 37.56% interest, were sold to the Capital & Credit Group, with FIS receiving net proceeds of $123.5mn.

Dyoll Life Limited is to be wound up by FIS, as it ceased operations with the sale of its insurance book of business. The proceeds of sale from real estate in the Drax Hall development will be applied towards payment to FIS for Preference Shares.
FIS also completed the divestment of the 8.6% shareholding controlled by Financial Institutions Services Limited and the Jamaica Mutual Life Assurance Society in Independent Radio Company Limited. The shares were sold to The Gleaner Company for $3.8mn.

During FY 2004/05, a concerted effort was made to divest the remaining commercial properties in the FIS portfolio. Sales activity for the period yielded $176.2mn, while the sale of artwork generated $15.23mn.

In addition, a total of US$2.9mn was disbursed to FIS during the period April 2004 to January 2005, in respect of FIS interest in the non-performing loan portfolio, which was sold to Jamaican Redevelopment Foundation, Inc. FIS will continue to monitor these debt collections.

FIS has also continued to implement the necessary procedures regarding the liquidation of the dormant companies that fall under its control and to monitor companies that are to revert to their original owners.

The Records Management Centre, which will serve as an archive for all records of FINSAC and FIS, has been completed.

FIS is in its final phase of existence and will continue to resolve a number of residual issues, including asset disposal, insurance, property management and other transactions relating to operating entities, liquidation, monitoring of debt collection and outstanding litigation.

The Way Forward

During FY 2005/2006 efforts will be concentrated on:

- Expediting the process to provide statutory recognition to the Financial Investigations Division. Providing statutory recognition to the Financial Investigations Division is expected to give it the requisite power to carry out its mandate effectively.

- Improving the legislative framework to enhance the fight against money laundering.

- Finalizing phase two of the pensions reform initiative, which will develop the legislative framework for the pension industry.

APPENDIX 4 TAX ADMINISTRATION

Introduction

One of the main challenges to the continuity and sustainability of the activities initiated under the Tax Administration Reform Project continues to be that of effecting cultural changes within the organization and developing new attitudes with respect to the role of management.

With implementation of the performance management system in FY 2004/05, managers have assumed a broader spectrum of duties with on-going coaching and training sessions for managers and supervisors supporting the process.

The tax departments achieved most of their objectives for FY 2004/05 despite tight expenditure control, severe revenue constraints and the adverse impact of Hurricane Ivan.

An additional 94,316 Taxpayer Registration Numbers (TRNs) were issued during the year, bringing the total to 1,480,124. During the year Citizens Charters were developed by the departments to establish customer service standards and to sensitize the public to these standards. The Citizens Charters were published on the Tax Administration website on March 31, 2005.

During FY 2004/05 Tax Administration continued its drive to increase efficiency while facilitating the ease with which the citizenry is able to meet statutory obligations.

Improved Legal Activities

The mandate of the Legal Services for FY 2004/05 was to facilitate collections. At least 70% recovery of revenue from cases in the Resident Magistrates Courts and a 40% increase in successful settlements and prosecutions was targeted. Civil litigation cases before the courts increased by 53% while the number of orders made increased by 50%. Collection of outstanding transfer taxes netted approximately $29.3mn. Collections from the other taxes continued with the Courts ruling in favour of the revenue departments in a number of cases. Collections from criminal litigation matters, however, are not yet forthcoming. Over the year twenty-two criminal litigation cases were pursued and most are expected to be in Court during FY 2005/06. The Legal Services Advisory Unit received and provided advice on 214 matters, 39% of which were with respect to Stamp Duty and Transfer Tax. The Legislation Unit worked on 46 instruments (e.g. notices, bills, orders, etc.) of which 54% related to legislation to be administered by the Tax Payer Audit and Assessment Department (TAAD).

Improved Public Awareness

An intensified marketing and public relations programme during the year increased public awareness of taxpayers' rights and responsibilities as well as the host of services offered by the various tax departments. A number of new strategic partnerships were forged with key stakeholders in the private and public sectors, while established partnerships were maintained.

These alliances were used as vehicles to inform and educate sector groups and also provided a platform to distribute tax literature and to host tax fora.

The expansion of the media landscape also afforded a greater opportunity to disseminate tax information and promote services. Emphasis was placed more on electronic advertising rather than print advertising as a cost benefit analysis indicated that use of the electronic media provided a larger audience from a wider cross section of the population. In FY 2004/05 a 10% increase in the number of media placements with respect to interviews arranged and press releases issued was recorded. The intensified marketing and public relations programme resulted in greater public awareness and improved compliance levels.

Improved Management of Compliance

- ***Restructuring of IRD's Compliance Section***

Significant structural changes will be made during FY 2005/06 to the Compliance Section of the Inland Revenue Department, primarily to streamline operations. Currently, the 28 collectorates across the island have differing structures that neither promote uniformity, efficiency or effectiveness nor allow for the appropriate control or direction of operations. The structural change will see the creation of five (5) Centralized Compliance Centers that will allow for greater control of staffing, training, planning, budgeting, monitoring and organizing as well as a reduction in operational expenses.

The restructured Compliance Centres will have three distinct sections - Accounts Receivable, Non-filing and Accounts Reconciliation. The Accounts Receivable and Non-filing Units will employ office and field investigations teams, while Accounts Reconciliation will be comprised of office staff. Accounts Receivable will employ complex case officers to address the more complex and sensitive cases. Training of staff within Compliance Centres will be critical to the success of the restructuring.

Work has started on 2 of the 5 centralized offices, which will be located in May Pen (pilot office), Montego Bay (pilot office), King Street, Constant Spring and St. Ann's Bay. Work on the pilot offices is expected to conclude by the end of FY 2006/07.

During FY 2004/05 efforts were made to address a lack of appropriate deterrents within the legislation. This involved the submission of nine (9) pieces of legislation to Cabinet for approval, all of which are now with the Legal Services Section for drafting. It is anticipated that these pieces of legislation will be available for implementation during FY 2005/06.

A Time Management System designed for and implemented in the Compliance Section on December 1, 2004, has been running quite smoothly and will be extended to the Taxpayer Services Section with minor revisions.

- ***Valuation Intelligence & Risk Management System (VIRMS)***

The Valuation, Intelligence & Risk Management System (VIRMS) was implemented at Customs in July 2003 to assist in the verification of values of imports and the identification and analyzing of risks and potential risks associated with such imports. Since its implementation, the Risk Management Module has been fully operational resulting in the identification of one hundred and sixty seven (167) breaches. A number of these have been addressed and finalized, increasing revenues by $56.9mn up to February 2005, which is $23.1mn over the same period in the last financial year. This addition to revenue far exceeds the $7.4mn cost for maintenance of the system.

The valuation database is populated with price reference records that are currently used by the Valuation Unit to verify the prices of imports. The number of records entered into the system this year increased by 40% over last year.

It is anticipated that VIRMS will be integrated with the Cargo Processing System (CPS) in order to realize its full benefits, including increases in revenues and penalties. The CPS involves the electronic filing of C78 Entries by Customs Brokers to the Customs System, the electronic processing of these C78 entries by Customs and the electronic filing of manifests for vessels and aircraft. The network infrastructure at Customs work sites island-wide should be ready to accommodate the integration in FY 2005/06.

- ***Audits and Assessments***

The main emphasis for FY 2004/05 was the broadening of the tax base via use of the integrated approach to audits and best judgment assessment (BJA) programme. The integrated approach involved the auditing of at least two (2) major tax types. The audit procedure concentrated on the current year with adjustments to previous years where necessary.

Under the BJA programme professionals, barbers, hairdressers, plumbers, mechanics, real estate agents, manufacturers, wholesalers, retailers, transport operators, food and beverage traders were targeted. Six thousand, three hundred and thirty eight (6,383) taxpayers were assessed resulting in a net tax gain of $4.3bn. Audits, with emphasis on the integrated approach, netted one thousand, one hundred and twenty two (1,122) taxpayers and a tax gain of $1.2bn.

Sixty percent of the auditors concentrated on BJAs and widening of the tax base by bringing into the net 3,518 new taxpayers. The remaining 40% of auditors concentrated on audits. Two new, large case audit teams were established focusing on very large companies and financial institutions. A total of fifty-nine cases were examined.

During FY 2005/06 there will be continued broadening of the tax base via BJAs - computerized and manual. The ratio of auditors for audit to auditors for BJAs will be revised to 70% audit and 30% BJAs as a result of the computerization of the estimated assessment function under the Integrated Computerized Tax Administration System (ICTAS). In an effort to increase coverage the audit plan will focus on 50% single tax audit and 50% integrated.

Use of Technology to Improve Tax Administration

The Integrated Computerized Tax Administration System (ICTAS) has benefited from significant remedial work during the last year. There were measurable improvements in the subsystems listed below that will assist tax administration to more efficiently identify and monitor taxpayer activities:

- Taxpayer Registration Number
- Taxpayer and Revenue Accounting (including Refund)
- Automatic Compliance and Assessment
- Returns Processing (Data Entry System)
- Tax Compliance Certificate (TCC)

Further enhancements to the system include:

- Development of a new version of the TRN system for the processing of new TRNs. The security of the system has been improved thereby allowing greater access and seamless interface to the database by third party agencies such as the Registrar General, NHT and HEART.

- Adjustments to the Tax Refund processing sub-system to reduce the current processing time.

Remedial work will be carried out on the programs for Classification (Audit Selection), Compliance, Electronic Filing, Case Tracking functions and Tax Administration Business Intelligence System.

- ***E-payment Portal for Inland Revenue***

In November 2004, Tax Administration successfully launched an e-payment portal (www.taxadministration-online.gov.jm) to facilitate the payment of a select number of tax types, namely Property Tax, General Consumption Tax, Traffic Tickets, Hotel Licence Fees, Betting & Gaming Taxes and Petrol Station Fees. This payment option was well received by the clientele but further promotion is required to increase the number of transactions utilizing this channel. This facility represents a win/win situation for both the taxpayer and tax administration, as payments via the portal are less costly for both parties. It should be noted that this pilot is a precursor of the much larger e-government project that will cover a greater number of tax types and the filing of tax returns online. These projects will only be fully implemented when the Electronic Transactions Act is passed.

- ***One Stop Tax Compliance Certificate***

Persons can now apply for their TCC by completing their application on-line and submitting it via the Tax Administration web site. Currently, payment information is provided by HEART, NHT and NIS. NHT and HEART are at an advanced stage with respect to the electronic provision of compliance status however NIS is not yet at this stage.

- ***Automated Motor Vehicle System (AMVS)***

The online AMVS will automate and print motor vehicle registration certificates at the cashier. The first phase of implementation to update records of commercial and PPV plates was completed, however, deployment of the system has been delayed.

- ***Third Party Collection Agency***

The Act authorizing Third Party Bill Payment Agencies to collect taxes is currently being drafted. In anticipation of its passing, changes are now being made to the systems to facilitate and manage this channel for payment. The use of these agencies will give tax administration a greater number of collection points and longer opening hours thereby aiding voluntary compliance. This method of tax collection will remove some taxpayers from the Collectorates' banking halls, especially at peak periods and will assist in the provision of better customer service. The first phase of the implementation will involve collection for Property Taxes and Traffic Tickets.

Interactive Voice Response (IVR) - (Using the telephone to pay tax)

The integration of the back-end systems for the payment of Property Tax and Traffic Tickets using an IVR front end has been developed and tested. The application will be implemented as soon as contractual arrangements are concluded with a telecommunication provider.

C78 Electronic Entry Lodgement System

Changes have been made to the C78 Electronic Entry Lodgement System (Broker application) to reflect the capture of import licenses from the Trade Board and the release to brokers.

Jamaica Trade Point Portal

An internet trade facilitation portal where exporters and importers can perform transactions online in a seamless manner with several trade-related agencies has been launched. The processes that can be done online are:

- Registration of Consignees and Exporters;
- Online payment for duties and fees by credit cards;
- Online C82 and C78 submissions;
- Request export certificates;
- Request to import motor vehicles;
- Request for commodity licences.

GLOSSARY

Amortization
Amortization refers to principal repayments on loans. These repayments reduce the borrowed money by portions, which are usually fixed amounts expressed as a percentage of the whole. Most of the domestic debt has a bullet repayment - the entire principal is repaid at maturity rather than gradually over the term of the loan.

Auction
An auction is a system by which securities are bought and sold on a competitive bidding process. The auctions are conducted on a multiple-price-bidding basis, which means that the successful investor will receive stocks at the price he bids.

Benchmark Issues
Issues of securities that are sufficiently large and actively traded, such that their prices serve as reference for other issues of similar maturities.

Budgeting, Performance
Performance budgeting relates input factors such as expenditures for man-hours and materials to measured outputs. These output measures and their relationship to inputs may take various forms. By compiling such measures, then comparing them with those of similar activities and studying their movements over time, the efficiency and the effectiveness of activities can be assessed.

Budgeting, Programme
Programme budgeting focuses on the prioritization and productivity of expenditure. The allocations for expenditure are cast in terms of programmes, activities and projects and presents a breakdown of the financial allocation according to specific purposes and objectives.

Capital 'A'
Capital 'A' projects are funded solely from local sources.

Capital 'B'
Capital 'B' projects are at least partially funded from foreign sources - grants and/or loans from multilateral/bilateral institutions.

Commonwealth Debt Initiative
A programme of the Government of the United Kingdom launched in 1997 to cancel the debt of poor to middle-income Commonwealth countries that are committed to international development targets.

Consolidated Fund
The Consolidated Fund is the principal Government account to which all Government revenues must be deposited and from which expenditure, via warrants, is withdrawn.

Contingent Liabilities
The potential obligations of the Government, as guarantor, having provided a form of security to the lender for a loan or credit facility on behalf of a public sector entity.

Debt Service Payments
Debt service payments cover interest charges on a loan. Some sources also include amortization under debt service payments. These payments liquidate the accrued interest (and loan obligations if amortization is included).

Eurobond
A bond underwritten by international investors and sold in countries other than the country of the currency in which the issue is
denominated. Jamaica issued a five-year, US$200mn Eurobond in July 1997, its first ever.

Executive Agencies
An Executive Agency is a Government entity, which focuses primarily on service delivery with a resource orientated approach to governance. In exchange for delegated managerial autonomy, the Chief Executive Officer (CEO) is held accountable for achieving stated results economically, efficiently and effectively.

Expenditure, Statutory
Statutory expenditure refers to those expenditures provided for in the Budget, which receive their authority from the Constitution. These expenditures are regarded as statutory obligations and therefore do not require prior approval of Parliament; for example, debt servicing, pension payments and the salaries of certain public officers such as the Auditor General and Judges of the Court of Appeal.

Expenditure, Voted
Voted expenditure refers to those expenditures provided for in the Budget, which require Parliamentary approval and include expenditure for normal housekeeping expenses and project implementation.

FINSAC
The Financial Sector Adjustment Company (FINSAC) was created by Government in January 1997 to manage the intervention and rehabilitation of the financial sector. FINSAC is also responsible for disposal of the assets acquired during the process.

FIS
The Financial Institutions Services Limited (FIS) was incorporated in September 1995. The company was established to take over the operations, assets and liabilities of Blaise Trust Company and Merchant Bank Limited, Blaise Building Society and Consolidated Holdings Limited. FIS also took over the operations, assets and prescribed liabilities of Century National Bank Limited, Century National Building Society and Century National Merchant Bank and Trust Company Limited.

FMIS
The Financial Management Information System (FMIS) is an accounting and information management system, which encompasses all activities related to the management of Government expenditure. The FMIS comprises accounting procedures and regulations within the framework of Programme Format Budgeting and Accounting. The scope of the FMIS includes the accounting and reporting activities of line ministries as well as the centralized functions of the Ministry of Finance and Planning and its agencies involved in managing the Consolidated Fund.

HRMIS
The Human Resource Management Information System (HRMIS) is a database system designed to assist Government to manage the civil service by providing proficient automated records management systems. The system enables personnel managers and central agencies such as the Office of the Prime Minister to make effective personnel decisions.

Inflation-Indexed Bonds
Inflation-Indexed bonds are securities with the principal linked to the Consumer Price Index. The principal changes with inflation, guaranteeing the investor that the real purchasing power of the investment will keep pace with the rate of inflation. Although deflation can cause the principal to decline, at maturity the investor will receive the higher of the inflation-adjusted principal or the principal amount of the bonds on the date of the original issue.

Local Registered Stock (LRS)
The term refers to medium and long term debt instruments issued by Government. LRS is issued both to finance Government operations and to support macroeconomic and monetary objectives. Since October 1999, LRS has been offered to the market using the auction system.

Par
Par is the nominal or face value of a security. A bond being issued at par, for example at $100, is worth the same $100 at maturity.

Project Loan
The term refers to loans, which fund capital development activities. The term capital refers to lasting systems, institutions and physical structures. Project loans are typically funded from foreign sources by bilateral/multilateral institutions.

Public Debt Charges / Public Debt
Public debt refers to the loan obligations of Central Government. The obligations of Government entities are also included if such entities are unable to meet their obligations. The entities, however, are then indebted to the Central Government. Public debt charges are interest payments on the loan obligations and include related incidental expenses such as service fees, late payment penalties and commitment fees.

Schedule B/Shelf Registration Statement

A facility with the US Securities Exchange Commission, which allows for the registration of securities intended to be issued in the future.

Sovereign Rating
A sovereign rating is an assessment of the default risk for medium and/or long-term debt obligations issued by a national Government (denominated in foreign currency), either in its own name or with its guarantee. Ratings are produced by independent agencies (Moody's Investors Service, Standard & Poors and others). The ratings provide a guide for investment risk to capital market investors.

Treasury Bill
Treasury Bills are instruments designed to provide Government with short-term financing to meet temporary cash needs arising from fluctuations in cash revenue. Treasury Bills are no longer limited in use to this strict interpretation. They are now being used by Government as a tool in its open market operations for liquidity management.

US Dollar Indexed Bonds
Interest and principal are protected from adverse changes in the exchange rate as adjustments are made for movements in Jamaica dollar vis-à-vis the US dollar. Interest payments are made on a fixed rate basis on the exchange rate adjusted principal. The index for measuring the applicable rate of exchange has been the 10-day moving average selling rate as published by the Bank of Jamaica 10 days prior to the respective due dates. Interest and principal are generally payable in Jamaica dollars. US Dollar Indexed Bonds were introduced in July 1999.

Warrants
A warrant is a written authority over the signatures of the Minister of Finance and the Financial Secretary authorizing the Accountant General to transfer from the Consolidated Fund Account to the various accounts listed, the amount stated in the warrants. There are two broad categories of warrants: Statutory and General. Statutory warrants are for expenditure, which is provided for by law and does not require the approval of Parliament e.g. Public Debt. General warrants relate to expenditure of a general nature as approved by Parliament. General warrants are broken down into Capital and Recurrent. Normally, recurrent warrants are issued at the beginning of each month. Capital warrants are issued at the beginning of each quarter.

Yield Curve
A line graph showing the interest rates at specific points in time by plotting the yields of all securities with the same risk but with maturities ranging from the shortest to the longest available. The resulting curve shows if short-term interest rates are higher or lower than long-term interest rates.