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## BUDGET MEMORANDUM 2006/07

## FOREWORD

Fiscal year 2005/06 was another challenging one, which underscored, *inter alia,* the vulnerability of the island to natural disasters, international commodity shocks such as soaring oil prices, as well as other adverse exogenous factors. Although some sectors of the economy recovered from the devastation wrought by Hurricane Ivan in September 2004, the 2005 hurricane season, which was the most active on record, brought unprecedented levels of rainfall that were primarily associated with Hurricanes Dennis, Emily, Rita and Wilma. These events resulted in serious flooding and wind-related damage in many parts of the island and the consequential need to rehabilitate critical infrastructure placed tremendous strain on the tight expenditure budget.

The unfavourable developments stymied efforts to contain Government spending, while at the same time, revenue inflows fell below expectations. Other negative effects included the deviation from programmed inflation levels and moderation in the rate of economic growth. The combined impact of these difficulties is that the balanced budget target was not achieved. However, the Government remains fully committed to fiscal discipline and will continue to pursue the objective of further deficit reduction in 2006/07. Positive signs during the fourth quarter of fiscal year 2005/06, which saw inflation trending downwards, higher growth and stronger revenue performance, augur well for the attainment of that goal.

The budget and fiscal strategy for the coming year is therefore designed within a medium term economic programme that is aimed at consolidating past gains and maintaining macro-economic stability, through prudent debt management, continued lowering of interest rates, inflation reduction, revenue enhancement, efficient resource management and the facilitation of investment and growth. The implementation of a successor agreement to the Memorandum of Understanding between the Government and the Trade Unions is also being pursued to support the expenditure containment strategy. Notwithstanding the fiscal pressures, every effort is being made to ensure that budgetary allocations are appropriately aligned with the Government's strategic and policy priorities.

It is my hope that this publication will facilitate better understanding of the budget by public officials, analysts, the business sector, the international financial community and the public at large.

**Colin Bullock**
**Financial Secretary**

# MACROECONOMIC OVERVIEW

FY 2005/06 presented a number of challenges for the Government, which threatened achievement of the macroeconomic programme. The macroeconomic programme for 2005/06 had, at its core, economic growth of 3.6%, a balanced budget, single digit inflation of 9.0% and a reduction in the debt/GDP ratio to 125.7%.

Challenges to the macroeconomic programme included the effects of the most active hurricane season on record and unprecedented increases in oil prices. These factors were major contributors to the deviation of the macroeconomic indicators from programme, with economic growth for FY 2005/06 currently estimated at 1.9%, fiscal operations recording a deficit of 3.3%, double-digit inflation of 11.4% and the debt/GDP ratio declining to 131.5%.

## FISCAL OPERATIONS

Disruptions in economic activity arising from the active hurricane season, non-implementation of some of the revenue measures included in the budget, implementation of revenue measures later than programmed and adjustments to the proposed revenue measures that reduced the programmed inflow resulted in a fiscal deficit of $21,039.9mn or 3.3% of GDP. Revenues recorded a shortfall of $17,795.6mn or 8.7% relative to budget. Higher than programmed expenditure contributed $3,244.3mn to the deviation on the fiscal balance. A primary surplus of 10.4% of GDP, 3.4 percentage points below the targeted 13.8%, was recorded.

## MONETARY DEVELOPMENTS

During the first quarter of FY 2005/06 the Central Bank adjusted interest rates on its repurchase instruments downward within the context of buoyant foreign exchange inflows, relative stability in the foreign exchange and money markets, and a steady build-up in the net international reserves (NIR). Reductions in the repo rates influenced the market determined Treasury Bill rates, with rates on the benchmark 6-month Treasury Bill declining from 13.46% in March 2005 to 12.88% in June.

However, post-June 2005 the Central Bank was actively engaged in foreign exchange market interventions at discrete intervals to ensure the preservation of orderly trading conditions and the maintenance of relative exchange rate stability. As a result of these timely foreign currency market interventions, the NIR, which stood at US$2,156.8mn in June 2005, declined to US$2,117.5mn in August, while the selling rate of the Jamaica dollar depreciated by 1.7% to J$62.89=US$1.00 by end-September 2005 from J$61.84=US$1.00 at end-June 2005. As a consequence of the activity in the foreign exchange market alongside rising inflation, the average interest rate on six-month Treasury Bill instruments increased marginally to 13.15% in September 2005.

Pressures in the foreign currency market persisted through December 2005 and into 2006. However, despite a US$38.5mn net decline through foreign currency market interventions between

August and October 2005, the NIR recorded a strong position at end-March of US$2,078.1mn. The Jamaica dollar exchange rate however, reflected a 2.6% depreciation at end-December 2005 relative to end-September 2005, while the average interest rate on the six-month Treasury Bill instrument edged upward to 13.55% in December 2005.

Relative calm was restored in the foreign exchange market as monthly inflation slowed, foreign currency inflows from tourism increased and the country raised US$250mn from a Eurobond issue in late February 2006. This contributed to a gradual reduction in the Treasury Bill rate on six-month instruments to 13.18% by March. Over the fiscal year the exchange rate of the Jamaica dollar depreciated by 5.9%.

***Inflation***

The impact of the active hurricane season on domestic agriculture, high international oil prices and the transmission effects of other adverse weather related phenomena on domestic prices generated an 11.4% inflation rate for FY 2005/06. Although the programmed single-digit inflation was not achieved, the outturn compares favourably with the 13.2% recorded for FY 2004/05. Inflation of 12.9% for calendar year (CY) 2005 also compares favourably with the 13.7% recorded in CY 2004.

Inflationary pressures emerged during the June 2005 quarter with the occurrence of a number of drought-related bush fires, followed by a period of sustained rainfall that adversely impacted agricultural output. Also contributing to the inflationary pressures was international oil price volatility and the pass-through effect of revenue enhancement measures, specifically the General Consumption Tax (GCT) increase and the transfer of zero-rated items to tax-exempt status.

A 9.2% increase in “Food and Drink” prices contributed to inflation in FY 2005/06. Consequent on the weather related dislocations to agricultural output, prices within the ‘starchy foods’ sub-group rose by 31.8% in the April to October 2005 period. With the advent of improved weather conditions, agricultural supplies improved leading to a moderation in the pace of inflation. The increase in agricultural supplies resulted in an overall price decline of 17.5% within the ‘starchy foods’ sub-group for the year. However, there was a countervailing 14.6% increase in the “Fuel and Other Household Supplies” group that primarily reflected the pass-through effects of higher prices associated with continued volatility in the international oil market. This was the major exogenous impulse for the year.

There was relatively low imported inflation. Average inflation of Jamaica’s main international trading partners is estimated at 2.1% for the 12-month period to January 2006, an increase on the 1.7% average inflation recorded for the corresponding period of

2004. In the Euro area over the 12-month period to February 2006, consumer prices increased by 2.3% compared to the 2.1% recorded for the corresponding period of 2004.

## EXTERNAL DEVELOPMENTS

### *Balance of Payments*

Provisional data indicates that the current account deficit of the balance of payments widened by US$369.3mn to US$844.2mn for the April-December period of FY 2005/06 relative to the corresponding nine-month period of FY 2004/05. Contributing to this deficit position are expansions in the deficits on both the goods and income accounts of US$462.0mn and US$51.0mn respectively. These deficits were only partly countered by increases of US$75.0mn and US$68.7mn in net receipts from services and current transfers, respectively.

The deterioration in the goods account was precipitated by a US$555.2mn expansion in spending on imports arising mainly from higher oil prices. Import spending increased for all categories, with the exception of free zone and animal and vegetable oil purchases. An increase of US$93.2mn in export earnings could not offset the increase in import spending. Within the major traditional exports category, alumina and bauxite earnings increased by US$95.2mn (15.5%) and US$16.8mn (29.8%) respectively, relative to earnings over the corresponding period of the previous year as a result of higher output and prices. This however was partly countered by a US$58.4mn or 55.9% decline in earnings from free zone exports. The higher deficit on the income account resulted mainly from a US$24.3mn growth in net investment income outflows.

The higher surplus on the services account was due mainly to a US$9.2mn reduction in the deficit on the other services sub-account and a US$117.1mn increase in net travel receipts. The net travel receipts reflected an increase in average expenditure per visitor per day, and a decrease in the expenditure of Jamaicans traveling overseas. The improved current transfers position was largely influenced by a US$117.9mn increase in net private inflows (remittances).

Within the financial account, respective net inflows of US$647.7mn and US$390.5mn from private and official investments were more than sufficient to finance both the current and capital account deficits, and consequently facilitated an increase of US$185.8mn in net international reserves.

### *External Trade*

The trade deficit widened by US$462.0mn to US$1984.4mn during the first nine months of FY 2005/06 relative to the comparable period of FY 2004/05. This deterioration in the trade deficit was due to a US$555.2mn increase in imports arising from higher oil prices and post-hurricane relief and rehabilitation imports, which was only partly offset by a US$93.2mn increase in export earnings.

*Exports*

All export groups, with the exception of crude materials and re-exports, contributed to the increase in export earnings for the April to December 2005 period. The value of traditional exports improved by 8.9% to US$862.2mn, mainly as a result of higher earnings (US$769.4mn) from the mining sector. However, within the traditional exports sub-sector, both agriculture and manufacturing earnings declined as activities in these sectors were adversely affected by the adverse weather conditions experienced throughout the year. Increases of US$1.7mn (2.6%) and US$64.0mn (64.8%) in earnings from food and 'other exports' contributed to an improvement in the performance of the non-traditional exports group, while earnings from re-exports declined by US$1.2mn (5.2%).

*Imports*

Import spending of US$3,263.3mn for the April-December period of FY 2005/06 represented growth of US$476.3mn (15.9%) relative to the same period of FY 2004/05. Higher import expenditure levels over the period are associated with the significant increase in international oil prices, as well as an increase in food and miscellaneous manufactured goods import requirements. Oil import spending increased by 54.5% to US$1,059.6mn, while the cost of food and miscellaneous manufactured goods imports increased by 17.5% to US$463.2mn and 13.4% to US$370.4mn, respectively. Increased importation of foodstuff and manufactured goods was necessary following the dislocation of productive capacity.

***Tourism***

Visitor arrivals over the first half of the fiscal year were negatively affected by the active hurricane season. However, early restoration of tourist facilities, increased airlift and a sustained marketing campaign over the second half of the year resulted in an overall increase of 3.3% in visitor arrivals during FY 2005/06 relative to FY 2004/05. Significant hurricane induced infrastructure damage in Cancun, Mexico also contributed to the overall increase in visitors to Jamaica, which represented an alternate tourist destination.

Total visitor arrivals in FY 2005/06 is estimated at 2,687,428 persons, reflecting a 1.5% increase in stopover visitors and a 5.6% increase in cruise arrivals over FY 2004/05. Estimated earnings from the tourism sector for the FY to December 2005 is US$1,114.2mn, a 5.7% improvement over the corresponding period of 2004.

***International Commodity Prices***

Jamaica earns foreign currency from a number of commodities, including coffee, bananas, sugar, and aluminium. On the other hand, Jamaica spends foreign currency on soybean meal, maize/corn, wheat, and petroleum. These commodities are priced in the international market and domestic prices are therefore influenced by the international market prices.

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 meat is heavily weighted in the basket of goods and services (Consumer Price Index) and movements in the prices of inputs for poultry feed impact inflation in Jamaica. Crude oil prices are also critical as it affects every aspect of the production process in Jamaica, 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 declined by 4.4% moving from an average of US$1.58 per kilogram (kg) in FY 2004/05 to US$1.51/kg in FY 2005/06. For FY 2005/06, coffee prices increased by 24.9% over FY 2004/05, moving from an average of US$2.01/kg to US$2.51/kg (prices are for the Arabica variety and 95% of the beans grown in Jamaica are of this variety). While Jamaica has a niche market in Japan for the coffee it produces (85% of coffee grown is supplied to the Japanese market), the remainder is sold on the world market.

Domestic sugar prices (EU) in FY 2005/06 decreased by 2.4% over FY 2004/05, while world sugar prices moved upward by 46.1% from US18.20 cents/kg in FY 2004/05 to US26.59 cents/kg in FY 2005/06.

The price of aluminium increased by 14.0% from US$1,781.43/mt in FY 2004/05 period to US$2,030.73/mt in FY2005/06.

***Import Prices***

The average price of soybean meal decreased by 3.6% from US$216.03/mt in FY 2004/05 to US$208.38/mt in FY 2005/06, while average maize/corn prices declined by 4.8% to US$100.42/mt from US$105.43/mt in FY 2004/05. There was a 2.7% increase in the average price of wheat, which moved from US$153.70/mt in FY 2004/05 to US$157.90/mt in FY 2005/06. Average crude oil prices increased by 38.3% in FY 2005/06 relative to FY 2004/05, moving to US$57.07/barrel from US$41.26/barrel.

Among the factors that contributed to the rise in oil prices were production losses due to the effects of Hurricane Katrina which left widespread damage to the oil producing and drilling operations in the Gulf of Mexico, increased demand due to winter weather conditions in Europe and America, a decision by the Organization of Petroleum Exporting Countries (OPEC) not to raise quotas, the insurgency in Iraq along with the continued sabotage of the Iraqi oil infrastructure, and the potential for conflict between the U.S.A. and Iran arising from Iran's nuclear programme.

## REAL SECTOR DEVELOPMENTS

### *GDP Performance*

The economy is estimated to have grown by 1.9% in real terms in FY 2005/06, with the goods producing and services sectors increasing by 2.0% and 1.5% respectively, relative to FY 2004/05. Severe weather conditions are mainly responsible for the lower than projected growth. Despite the impact of the adverse weather conditions on agriculture, the sector recorded growth of 5.2%. The construction sector grew by 3.6% and mining by 2.0%. Buoyant levels of investment flows geared toward increasing output capacity and efficiency in mining, hotel, road, air and transhipment ports, as well as to general infrastructure were the main stimuli behind growth in the construction and mining sectors. In the services sector, growth was mainly spurred by strong performances in the distributive trade, miscellaneous services (where most tourism activity is captured), electricity and water, real estate and transport sub-sectors.

### *Mining*

Data for the period April through February of FY 2005/06 suggest that activity in the mining sector was constrained by the effects of the adverse weather condition, protracted wage claim issues and physical plant capacity constraints. On a positive note however, the industry continued to operate in an international environment characterized by favourable market demand and price conditions, which facilitated increased levels of output and export.

Consequently, total bauxite and crude bauxite production of 12,861,110 metric tonnes and 3,681,800 metric tonnes represented increases of 5.9% and 19.4% respectively for the eleven month period, relative to output levels recorded over the corresponding period of the last fiscal year. Crude bauxite exports improved by 20.0% to 3,670,034 metric tonnes. Alumina output and exports improved by 1.0% and 5.0% to 3,691,760 metric tonnes and 3,820,880 metric tonnes, respectively.

### *Manufacturing*

The manufacturing sector performed reasonably well during the April to December 2005 period. Within the food-processing group higher levels of output were achieved in all the sub-sectors, with the exception of edible fats, sugar and molasses, which declined by 8.8%, 23.6% and 22.6% respectively. In the beverages and alcohol sub group, output increases were recorded for rum and alcohol (8.5%) and stout (5.0%), while declines occurred in output of beer (2.8%), carbonated beverages (7.5%) and cigarettes (31.3%), The decline in cigarette output is directly related to the relocation of the industry’s production base to Trinidad during the year.

Within the chemicals and chemical products sub group, performances were subdued, with only the paint (5.1%) and detergent (1.6%) sub-groups recording increased output, while all other sub-groups declined. In the plastic and rubber products sub grouping, the production of boots and other plastic products fell by 2.2% and 31.8% respectively. Cement production increased by only 1.1%, and this was reflective of significant downtime associated with the adverse weather conditions and the damage to access road infrastructure and quarries vital for inputs in the cement production processes. The closure of the Petrojam oil refinery due to an explosion in October 2004 essentially resulted in no production at the plant for almost half of FY 2005/06.

***Agriculture***

Preliminary data indicates that the Agricultural Production Index (API) increased by 1.8% during the period April through December 2005 relative to the corresponding nine-month period of FY 2004/05. This growth in the agricultural sector occurred despite the setbacks arising from the active hurricane season that affected crop output, as well as production in the fisheries and livestock sub sectors. Export agriculture declined by 17.4%, while domestic crop output increased by 6.1% over the nine-month period. A 3.4% growth in output was recorded for the livestock sub-sector, while the fisheries sub-group registered a 9.2% decline in output over the nine-month period.

## OUTLOOK

The easing of inflationary pressures during the March 2006 quarter augurs well for inflation containment measures aimed at achieving single digit inflation in FY 2006/07. Domestic inflation containment policies will be complimented by the efforts to reduce inflationary pressures in the US economy evident by the Federal Reserve increasing interest rates to 4.75% on March 28, 2006. The Federal Reserve has raised short-term interest rates 15 times since mid-2004 and financial market analysts are anticipating another increase at the next scheduled policy meeting in May 2006.

The Peoples Republic of China (China) was recently ranked as the world's fourth largest economy, overtaking France and Britain, following an announcement of robust economic growth of 9.9% in 2005. China's growth has been fuelled by booming investment and active consumer spending, with GDP rising to US$2.3trillion in CY 2005. Growth in the Chinese economy is anticipated to benefit Jamaica's mining and tourist sectors over the medium term. Infrastructure developments in China and a strong demand for aluminium have positively impacted the Jamaica mining industry. China's interest in infrastructure development in Jamaica, including the construction of the Greenfield stadium in Trelawny for World Cup Cricket 2007, will also contribute to growth in Jamaica.

High energy importation costs will be a strong limiting factor to domestic growth enhancing initiatives, with world market prices for crude oil, petroleum products, and natural gas projected to remain high over CY 2006 in the context of tight international supplies and hurricane-induced supply losses. Recovery in crude oil production and refinery output in the aftermath of Hurricanes Katrina and Rita continues in the Gulf of Mexico, but it appears unlikely that complete recovery will occur before the end of the second quarter of CY 2006.

Oil prices have recently moved above US$70/barrel, mainly due to diplomatic tensions between the West and Iran over Tehran's nuclear ambitions, the potential for conflict between the U.S and Venezuela, continuing insurgency in Iraq, sabotage of the Iraqi oil infrastructure and supply disruptions in Nigeria. As long as these issues persist, analysts believe it will be difficult for prices to fall appreciably, unless there is a significant decline in demand, which is not anticipated. In the short-term, oil prices could rise above US$75/barrel with Light Sweet crude futures rising to US$70.40/barrel on the New York Mercantile Exchange, while Brent crude oil futures registered US$71.46/barrel. In the Gulf of Mexico, production continues to be limited by the damage sustained over the 2005 hurricane season. The prospect of another active hurricane season during 2006 raises the potential for additional oil related shocks.

Of concern for Jamaica over the medium term is the direction of domestic prices as they relate to costs for imported commodity inputs for the vital animal husbandry sub-sector. Among the main market price trigger mechanisms are: (a) the 2007 US farm bill, with early reports indicating a scaling back in support payments and possibly replacing the marketing loan rates with counter-cyclical payments, (b) the impact of Asian rust on US and South American soybean production (Asian soybean rust is a fungal disease carried in wind-borne spores that can decimate soybean plants within a month if left untreated), (c) the trans-fat issue, which may lead to reduced usage of hydrogenated oil, (d) the rate of expansion in the South American soybean farm belt, (e) the rapid growth in import demand for Chinese commodities and (f) rising fuel prices and freight rates which increase the transport cost of soybeans.

During the second half of FY 2005/06 the Jamaican economy experienced some positives that are supportive of growth in FY 2006/07, including higher foreign investment inflows, low monthly and quarterly inflation, steadily declining interest rates, strong NIR and relative exchange rate stability. The economy continues to benefit from higher levels of investment in hotel construction, in road and communication infrastructure, as well as in expansions to airports and trans-shipment terminals. These developments have underscored the need to review and refocus educational requirements of the Jamaican labour force in order to meet the employment opportunities emerging from these growth sectors. The outlook is, however, cautioned by the threats posed from the forecast for the 2006 hurricane season and the ongoing tensions surrounding oil production that could negatively impact domestic market stability and the macroeconomic programme.

# Chapter 1

# CENTRAL GOVERNMENT BUDGET PERFORMANCE

## FISCAL YEAR 2005/06

## OVERVIEW

The FY 2005/06 budget represented an integral component of the medium term framework that programmed for a recovery of the economy from the damage sustained as a result of Hurricane Ivan in September 2004. Despite the setback to the fiscal programme in FY 2004/05 the Government of Jamaica (GOJ) remained committed to balancing the budget in FY 2005/06 and running surpluses thereafter. The FY 2005/06 balanced budget profile included administrative measures as well as a tax package that was based on the recommendations of the tax reform study commissioned by the GOJ in 2003. The revenue enhancement measures were to be augmented by prudent expenditure management practices. The fiscal profile was designed to maintain a very high primary surplus aimed at sustaining the reduction in the debt/GDP ratio in FY 2005/06 and over the medium term.

The budget was consistent with the articulated macroeconomic programme, which had among its primary goals, acceleration of the economic growth momentum, a return to single digit inflation, a reduction in domestic interest rates, relative stability in the foreign exchange market and maintenance of adequate foreign reserves.

Expenditure in FY 2005/06 was budgeted to increase by 2.5% over FY 2004/05 to $204,479.8mn comprising 187,203.9mn for recurrent expenditure and $17,276.0mn for spending on capital projects. The provision for the recurrent budget represented a reduction of 0.6% from the FY 2004/05 level, due mainly to nominal declines in domestic interest and wages & salaries costs. The capital budget provision was 55.6% above FY 2004/05 actual expenditure, due in part to allocations for deferred financing arrangements, the Education Reform Project (ETP), support to Air Jamaica and Cricket World Cup 2007.

Revenue and Grants were projected to increase by 18.3% to $204,479.8mn with approximately 88.0% to be received from tax revenue. Compared to collections in FY 2004/05, tax revenue was budgeted to increase by 19.3%, primarily as a result of the elasticity of the tax system, the new tax package and implementation of a number of administrative measures. The administrative measures, with an estimated revenue yield of 1.5% of GDP, included a proactive arrears collection plan and enactment of legislation to foster continued improvement in tax administration and greater compliance.

Fiscal performance for the first quarter was benign with the fiscal deficit being slightly higher than programmed, as both revenue and expenditure were broadly on track with budget. However the advent of the most active hurricane season on record, with 2 major hurricanes as early as July 2005, severely impacted the fiscal operations leading to a deviation from the programmed path. The hurricanes had an adverse impact on economic activity resulting in lower than anticipated revenue inflows, particularly tax revenue, while necessitating additional expenditure.

The adverse impact of the hurricanes, accompanied by soaring oil prices, delays in implementing the programmed administrative measures, implementation of revenue measures later than programmed and adjustments to the proposed revenue measures that reduced the programmed inflow of the proposed tax package were central to the Governments acknowledgement in January 2006 that the balanced budget would not be achieved.

Provisional figures indicate that Central Government operations generated a fiscal deficit of $21,039.9mn or 3.3% of GDP for FY 2005/06. Although higher than programmed, the 2005/06 fiscal deficit represents a notable improvement on the 4.9% recorded in FY 2004/05. Expenditure of $207,724.1mn was $3,244.3mn, or 1.6% more than budgeted. Revenue and Grants totaled $186,684.2mn, a shortfall of $17,795.6mn, or 8.7%. The primary surplus (revenue and grants less non-debt expenditure) also fell below target. Provisional data indicates a primary surplus of $67,255.7mn, or 10.4% of GDP, compared to the target of 13.8% of GDP.

## NOTABLE FISCAL DEVELOPMENTS

### *New Tax Measures*

The report on tax reform, submitted by the Tax Policy Review Committee in November 2004, highlighted a number of deficiencies in Jamaica's tax system and recommended policy changes to address these. The GOJ recognizes that there are significant challenges to implementing the proposed changes to the tax system all at once and that some of the proposals require further study to determine their feasibility and effectiveness. In light of this recognition, the GOJ decided to implement the reform on a phased basis while simultaneously evaluating the impact of the measures implemented. Within the context of a wider fiscal programme with a firm commitment to improve the tax system and balance the budget, the proposed new tax measures encompassed a mix of relief to taxpayers and revenue gain to the Government. The measures, with estimated revenue yield of $9,455.0mn, were:

| | | |
|---|---|---|
| Increase Income Tax Threshold | | -1,500.0 |
| Standard GCT Rate at 16.5% | | 5,748.0 |
| Existing standard rate | 5,364.0 | |
| Building supplies | 384.0 | |
| Transfer Zero-rated to Exempt | | 3,600.0 |
| Increase GCT Threshold | | -20.0 |
| Increase SCT on Cigarettes | | 320.0 |

| | |
|---|---|
| Decrease Property Transfer Tax on Death with an amnesty | 300.0 |
| New Tax Regime for Tourism Sector | 607.0 |
| Gross Profit Tax on Gaming | 300.0 |

The measures did not have the anticipated success and the revenue yield was less than budgeted. This was due to a combination of some of the measures not being implemented, late imposition of some measures and adjustment to some measures. Among the measures affected were the new tax regime for the tourism sector, the gross profit tax on gaming and increasing the income tax threshold, which also included a component for rolling some tax-exempt allowances into the tax base.

***Addendum to Public Sector Memorandum of Understanding (MOU)***

Against the background of rising inflation and concomitant pressure from public sector unions, the Government agreed to the payment of an interim allowance (MOU allowance) and a moratorium on staff loans to maintain industrial harmony and keep the public sector MOU intact. The MOU allowance was initially effective over the period September 19, 2005 to March 31, 2006, when the MOU expired. It should be noted however, that a one-month extension of the MOU allowance to end-April 2006 has been granted as negotiations between the JCTU and GOJ for a successor MOU are ongoing. The additional cost of the allowance to the 2005/06 wage bill was $1,668.0mn.

## BUDGET OUTTURN

First quarter fiscal operations generated a fiscal deficit that was marginally higher than budgeted, however, operations over the remainder of the year proved to be rather challenging. Challenges emerged from non-implementation of some of the revenue measures included in the budget, delays in implementing the programmed administrative measures, implementation of revenue measures later than programmed and adjustments to the proposed revenue measures that reduced the programmed inflow as well as the effect of the active hurricane season and the unprecedented increase in oil prices on the economy. Arising from the challenges performance in the second and third quarters deviated significantly from budget. Fourth quarter performance improved significantly over that of the second and third quarters, but remained below budget.

The impact of the challenges was most significant on the revenue performance. Revenue and grants, which fell 8.7% below budget, were only 8.0% above the previous year, a real decline of approximately 3.5%. Concurrent with the revenue shortfall, expenditure exceeded budget by 1.6%. The combination of the lower revenue inflows and higher than programmed expenditure resulted in a deficit of $21,039.9mn, or 3.3% of GDP rather than the programmed balanced budget.

The primary surplus was also behind target as the $67,255.7mn generated was $20,323.3mn or 23.2% less than programmed. This level of primary surplus is equivalent to 10.4% of GDP, down from the 12.0% the previous fiscal year. Although not achieving the programmed level the primary surplus of 10.4% of GDP represents a significant fiscal achievement representing one of the highest in the world.

***Revenue and Grants***

Revenue and grant receipts amounted to $186,684.2mn, a shortfall of $17,795.6mn, or 8.7% against budget. Non-tax revenue, bauxite levy and capital revenue surpassed target, assisting in cushioning the effect of the significant shortfalls on tax revenue and grants. Total collections of revenue and grants were $13,885.9mn (8.0%) higher than in FY 2004/05, with tax revenue accounting for 87.0% of the increase.

***Tax Revenue***

Tax revenue of $162,575.9mn, was $16,940.3mn or 9.4% below the amount budgeted as all categories - Income & Profit, Environmental Levy, Production & Consumption and International Trade registered shortfalls. The items chiefly responsible for the tax shortfall in absolute terms were GCT(Local and Imports), SCT(Local), PAYE and Tax on Interest. Tax revenue performance was affected by, inter alia:

- the active hurricane season which impacted economic growth
- changes to, and delays in, implementation of some tax measures, and
- an apparent reduction in consumer demand that was reflected in consumption taxes.

While tax performance was generally weak during FY 2005/06, the performance over the second half of the year improved significantly relative to the first half of the fiscal year. Collections from April – October were 11.3% less than budget and only 5.2% greater than the corresponding period of FY 2004/05. However, collections from November – March improved significantly, increasing by 11.3% over the corresponding period of the previous fiscal although falling 7.2% below budget. Factors influencing this improved performance include:

- Implementation of an Accounts Receivable Conversion (ARC) project in October. The project which targeted $5,000.0mn in revenue between November and March, achieved actual collections of $5,635.4mn;
- Recovery of the economy over the second half of the year – economic growth was much stronger over the second half compared to the first half of the year and this contributed to improved revenue flows; and
- A significant slowdown in inflation since November 2005, which served to temper the erosion of purchasing power and boost consumer demand buoying

revenue inflows. Inflation from April 2005 and October 2005 was 10.9%, compared to 0.5% for November 2005 to March 2006.

Compared to the previous fiscal year, tax revenue increased by 8.0% in FY 2005/06, representing a real decline of about 3.5%. Most items registered nominal increases but collections from Tax on Interest, PAYE, SCT(Local) and Stamp Duty (Local) were lower than in FY 2004/05.

*Income & Profit Taxes*

Receipts from Income and Profit taxes amounted to $66,492.7mn, which was $2,271.2mn, or 3.3% below target. All items, with the exception of Other Companies (Corporate Income Tax), registered shortfalls, with PAYE and Tax on Interest being the most significant contributors, falling behind target by $1,842.9mn (5.1%), and $1,663.2mn (10.8%), respectively.

With respect to PAYE, the increase in Government wage payments arising from the MOU allowance boosted collections. However this was outweighed by other factors, chief among which were the following:

- The budget included amounts to be derived from administrative measures geared toward improving compliance and boosting the collection of arrears, but the programme got off to a late start and did not have the success envisaged;
- Higher revenue loss from increasing the income tax threshold than the tax measure had originally projected, due in part to partial implementation of the measure as the proposal to remove tax-exempt status from some allowances was not implemented.

Notwithstanding the shortfall against the budget, income and profit tax collections increased 5.8% over the previous year. Bauxite/Alumina and Other Companies contributed most significantly to the increase. Other Companies, which surpassed budget by $1,981.1mn (15.2%), registered a $4,742.8mn, or 46.2% increase over FY 2004/05. This buoyancy arose from a combination of higher profits as well as the impact of the ARC project. Almost half the increase is attributable to the ARC project, which realized $2,275.3mn in this category. Collections from Bauxite/Alumina companies of $887.8mn increased by $698.2mn. The factors behind this increase include:

- a low tax base in FY 2004/05 due to the recovery of taxes overpaid in the previous year and the provision of tax credit to a company in 2004/05. The improvement in 2005/06 therefore represents a recovery from the low base in the previous year, and
- higher prices and output that led to improved profitability of the sector resulting in higher taxes.

The performance of these items was however dampened by an 8.6% decline in Tax on Interest and a 2.2% reduction in PAYE. The lower receipt from Tax on Interest was due to the significant reduction in domestic interest payments while the decline in PAYE emanated mainly from lower GOJ wage payments (FY 2004/05 had receipts for statutory deduction arrears) and the increase in the income tax threshold.

***Environmental Levy***

The requisite legislation for implementation of the environmental levy is not yet in place as discussions regarding the process for implementation continue between the Ministries of Environment and Finance and Planning. The budget had forecast collections of $192.0mn. However with the legislation not yet in place, there were no receipts from the levy.

*Production and Consumption Taxes*

Production and Consumption taxes experienced a significant shortfall during the year as collections of $50,100.2mn fell $12,037.6mn (19.4%) below budget. GCT and SCT were largely responsible for the shortfall.

GCT receipts of $29,436.0mn were $7,243.1mn, or 19.7% less than budgeted. The budget forecast for GCT included substantial amounts to be gained from new tax measures as well as from administrative measures through a programme to improve compliance and collect arrears. However some aspects of the proposed new measures were delayed and/or adjusted thereby resulting in some revenue loss. In addition the administrative programme did not get underway until the third fiscal quarter in the form of the ARC project. As a result the revenue realized was much less than anticipated. Other factors that influenced the shortfall included the removal of GCT from computers and slower than expected economic growth, partly due to the adverse weather conditions. There is also some indication of sluggishness in consumption of taxable items against the background of the higher inflation, which eroded purchasing power given that several households were operating on fixed nominal incomes.

Despite the overall shortfall during the year, the performance in the final fiscal quarter demonstrated some improvement. GCT collections from April to December fell short of target by 20.3%, but between January and March the shortfall was 18.4%. The improvement in performance in the last quarter is evident when compared to the previous fiscal year. For the fiscal year to December, GCT was 11.6% higher than the corresponding period in FY 2004/05, but collections during the last quarter represented a 32.9% increase over the corresponding period of the previous year. The ARC project, as well as the recovery in the economy over the last two quarters contributed to the improved performance between January and March 2006, compared to the April to December period. Overall, GCT receipts increased 17.2% over FY 2004/05, a real increase of approximately 6.0%.

With respect to SCT, collections amounted to $3,238.9mn, $4,165.8mn (56.3%) below target and $1,219.4mn (27.4%) less than for the similar period last year. The shortfall was mainly influenced by lower than anticipated collections from Petrojam. As a result of an explosion in October 2004 the Petrojam refinery was closed over the first half of the fiscal year and SCT collections were therefore much lower than programmed as Petrojam continued to import refined petroleum. Lower than budgeted SCT collections under production and consumption taxes were partly countered by higher than programmed SCT receipts under international trade taxes. The closure of Carreras' cigarette manufacturing operations in Jamaica also negatively impacted SCT collections.

Stamp Duty was slightly ahead of target with collections of $7,380.6mn representing $29.7mn more than budget, due mainly to two factors:

- Implementation of a strategy to assess the taxes due as quickly as possible after documents are received from the taxpayer – the enhanced assessment rate has led to improved collections; and
- Increased receipts arising from the amnesty granted for transfer tax on death.

Stamp Duty receipts were $713.6mn, or 8.8% lower than the previous fiscal year. This decline relates to a number of large one-time receipts in FY 2004/05, most notably, collections from the sale of Alumina Partners of Jamaica (ALPART) and the Jamaica Grande Hotel.

*International Trade Taxes*

Collections from the International Trade category totalled $45,983.0mn, which were 5.0% below budget with GCT being the main contributor to the shortfall. GCT collections of $19,124.3mn were $4,174.1mn less than target. The factors impacting GCT (Local) outlined above, also affected GCT (Imports).

Custom Duty and Stamp Duty were broadly in line with budget while SCT surpassed target. Of note, Travel Tax exceeded budget by 8.2% and was 73.6% higher than for the previous fiscal year. This buoyancy in Travel Tax was due to increased collections from Air Jamaica arising from the Government assumption of control of the national airline in December 2004.

With respect to SCT, collections of $8,358.6mn exceeded budget by $1,698.3mn, due to higher than expected importation of refined petroleum. However this was inadequate to offset the shortfall in the Production and Consumption category.

Collections of overall SCT (Local and Imports) for FY 2005/06 were 30.8% behind budget and 21% less than the previous fiscal year. Lower collections from petroleum contributed most significantly to the shortfall with SCT on petroleum declining by 12.8%. SCT on alcohol and cigarettes increased by 6.0%. In response to the substantial increase in the price of fuel and influenced by the campaign for conservation and the promotion of the use of 87-Octane fuel, it appears that some motorists have switched to the cheaper fuel. However, the 87-Octane fuel attracts a lower tax rate. The lower volume and lower tax rate have resulted in reduced SCT receipts from the petroleum sector.

***Non-tax Revenue***

Non-tax revenue performed remarkably well with total collections of $11,802.4mn surpassing target by $1,871.7mn, or 18.8%. The 2% Customs User Fee (CUF) contributed approximately 42.0% to total non-tax revenue receipts and was largely responsible for the over-performance. Collections from the CUF were $786.3mn, or 19.0% more than budgeted as a result of higher import value, mainly from petroleum, due to the significant increase in the price of oil. There were also higher than budgeted receipts from interest and dividend income, as well as postal revenue.

Compared to FY 2004/05, non-tax revenue increased by 20.1% with the CUF accounting for approximately 39.0% of this increase.

***Bauxite Levy***

The bauxite/alumina sector in FY 2005/06 showed significant growth with total bauxite output increasing by 5.2% and the London Metal Exchange (LME) price for aluminium increasing by 12.8% over the previous year. This improvement in output and price resulted in bauxite levy receipts of $3,124.6mn surpassing collections in FY 2004/05 by $645.5mn, or 26.0%.

Compared to the amount budgeted, bauxite levy inflows were 4.3% better, due mainly to a 13.5% increase in the LME price for aluminium negating an 8.1% shortfall in total bauxite output.

### *Capital Revenue*

Capital revenue totaled $8,464.1mn, an increase of $637.5mn over budget. The increased inflows arose from higher than expected receipts from the Financial Institutions Services (FIS) and loan repayments. Included in the total capital revenue collections is the programmed $5,000.0mn from the National Housing Trust (NHT) for the Education Transformation Project (ETP).

### *Grants*

Grant receipts amounted to $717.2mn, a shortfall against the budget of $3,492.4mn. This shortfall arose from two main factors:

- Only Euro2.9mn of the budgeted Euro11mn from the European Union (EU) for Support to the Economic Reform Programme (SERP111) was received. The remainder is programmed for FY 2006/07; and
- Delay in implementation of several projects due to, inter alia, adverse weather conditions;

The inflows were $3,502.8mn (83.0%) less than for the previous fiscal year. However collections in FY 2004/05 included one-time inflows of $2,993.0mn from the EU for reconstruction activity arising from Hurricane Ivan and for SERP.

## EXPENDITURE

Total expenditure of $207,724.1mn, for FY 2005/06, was 1.6% higher than budgeted. This marginal increase occurred as in nominal terms a 10.4% reduction in capital expenditure was outweighed by a 2.7% increase in recurrent expenditure. The increase above budget occurred in the last fiscal quarter due to unforeseen obligatory expenses, as expenditure remained behind budget for the first three quarters of the year. The level of spending during FY 2005/06 was only 4.1% higher than for the previous fiscal year, which represents a significant decline in real terms. It is important to note that in comparison to the last three fiscal years, interest cost and wages and salaries constituted a smaller share of total expenditure whereas a greater share was devoted to the general operations of Government (recurrent programmes) as well as infrastructure spending (capital projects). The share of total expenditure devoted to interest and wages and salaries in FY 2005/06 amounted to 42.5% and 30.4%, respectively, compared to an average of 45.8% and 33.4%, respectively, between 2002/03 and 2004/05.

### *Recurrent Expenditure*

Recurrent expenditure totaled $192,250.0mn, which was $5,046.1mn, or 2.7% more than budget with higher spending on recurrent programmes, wages & salaries and domestic interest costs accounting for the increase. This level of recurrent spending was a marginal increase of 2.1% over FY 2004/05, which represents a considerable decline in real terms and is indicative of Government's commitment to contain expenditure, reduce the fiscal deficit and improve the debt ratios.

*Programmes*

Spending on recurrent programmes of $40,846.3mn was 6.8% more than the amount budgeted and 27.3% above the previous fiscal year. While there was lower expenditure in some areas, this was offset by increased spending on other items including, inter alia:

- allocation for the registration and re-verification of voters exercise;
- arrears on mileage to traveling officers;
- additional subvention to local government to cover arrears on street lighting;
- provision for Hurricane Ivan relief;
- higher utility costs – increased rates and petrol costs; and
- increased pension payments.

*Wages and Salaries*

Expenditure on wages & salaries for FY 2005/06 was programmed to fall by $2,130.0mn as the FY 2004/05 wage costs included one-time payments of statutory deduction arrears of $3,631.4mn. For the first half of FY 2005/06, wages and salaries remained consistently below budget due mainly to lower than programmed cost of back pay to some health sector professionals for the 2002/04 (pre-MOU) contract period. However the MOU Addendum resulted in additional costs of $1,668.0mn. Salary payments for new police recruits also contributed to additional costs. Wage and salary payments exceeded budget by $1,721.3mn or 2.8%. Notwithstanding this expected payment, wages and salaries remained below the FY 2004/05 level.

*Interest Payments*

Interest cost of $88,295.7mn was broadly on track with budget, exceeding the budget by only 0.8%. Whereas notable savings were realized from lower external payments this was offset by slightly higher domestic payments. Faster than programmed reduction in domestic interest rates and slower than anticipated exchange rate depreciation during the first half of 2005 contributed to lower than budgeted domestic interest cost for the first half of FY 2005/06. However with rising inflation in mid-2005 and attendant exchange rate pressures the reduction in interest rates was halted. This development, coupled with increased domestic borrowing to finance a larger fiscal deficit, led to higher than programmed interest payments for the second half of FY 2005/06. As a result, domestic interest payments of $65,394.6mn increased over budget by 1.5%. Nevertheless, it must be noted that this interest cost represented a decline of $7,248.2mn (10%) from the FY 2004/05 level, which is reflective of the significant reduction in interest rate over the past year.

External interest payments totaled $22,901.0mn, a reduction of $279.6mn (1.2%) against the budget. The lower costs arose from, inter alia, debt forgiveness from the United Kingdom and slower than anticipated depreciation in the value of the Jamaica dollar. Compared to last fiscal year, external payments rose 13.7%, due in part to the depreciation in the value of the Jamaica dollar, as well as a larger debt stock.

***Capital Expenditure***

Total capital expenditure of $15,474.1mn was $1,801.9mn below budget. The lower capital expenditure was partly the result of:

- corrective measures taken by the GOJ to contain expenditure in light of the revenue fallout and the commitment to getting as close as possible to the fiscal targets;
- adverse weather conditions characterized by the very active hurricane season which delayed several projects; and
- a later than anticipated start to the ETP, resulting in a much lower level of spending. The remaining expenditure obligation on the ETP has been carried forward to FY 2006/07.

Despite being lower than budgeted, capital spending was $4,708.3mn, or 43.7% higher than in the previous fiscal year. This increase largely represents expenditure associated with deferred financing arrangements, support to Air Jamaica, Cricket World Cup 2007 and ETP.

## LOAN RECEIPTS

In light of the need to finance a larger fiscal deficit, Government's borrowing requirement exceeded budget in FY 2005/06. Loan inflows totalled $184,708.9mn, consisting of $130,920.4mn domestic and $53,788.5mn external, an increase of $42,032.8mn over budget. This increase over budget however included $16,250.0mn (US$250 mn Eurobond) that was raised on the international capital market in February 2006 specifically to finance FY 2006/07.

Thus with respect to loans raised to finance FY 2005/06 operations, the excess over budget was $25,782.8mn. Of this amount $2,862.1mn was from external sources while $22,920.7mn was raised on the domestic market. The increase in the intake for external loans arose from the GOJ accepting an additional US$50.0mn in response to overwhelming demand from the international market. The higher domestic loan inflows resulted chiefly from the need to finance the larger than programmed deficit.

## AMORTIZATION

Amortization payments of $139,971.2mn fell below budget by $2,705.0mn as slightly higher external payments were outweighed by lower domestic payments. External payments of $33,116.7mn exceeded budget by $795.2mn (2.5%), due in part to higher than projected exchange rates on multicurrency loans. On the other hand lower than projected contingencies contributed to domestic payments being $3,500.1mn (3.2%) less than budgeted. Additionally, domestic amortization was impacted by the payment of short-term debt raised during the year, as well as the prepayment of FINSAC Local Registered Stocks (LRS). However, these were offset by the rollover of some payments. relative exchange rate stability. The economy continues to benefit from higher levels of investment in hotel construction, in road and communication infrastructure, as well as in expansions to airports and trans-shipment terminals. These developments have underscored the need to review and refocus educational requirements of the Jamaican labour force in order to meet the employment opportunities emerging from these growth sectors. The outlook is, however, cautioned by the threats posed from the forecast for the 2006 hurricane season and the ongoing tensions surrounding oil production that could negatively impact domestic market stability and the macroeconomic programme.

# Chapter 2

## *CENTRAL GOVERNMENT BUDGET FISCAL YEAR 2006/07*

### OVERVIEW

The FY 2006/07 Budget was formulated within the medium term framework outlined below:

| | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|---|---|---|---|---|
| Real GDP Growth (%) | 0.4 | 1.9 | 3.0 | 3.0 |
| Inflation Rate (%) | 13.2 | 11.4 | 10.0 | 9.0 |
| Exchange Rate (avg) | 61.58 | 63.47 | constant real effective rate | |

Within the context of the medium term framework, Cabinet approved an Expenditure Budget of $358,192.7mn, which was tabled in Parliament on April 12, 2006. The salient features of the budget are presented below. As in previous years, debt servicing accounts for the largest portion of the budget.

### *DEBT SERVICING*

Total debt servicing is projected at $210,000.8mn or 59% of the budget. This compares to $224,507.5mn or 65% for FY 2005/06. The breakout of the debt servicing is as follows:

| | 2006/07<br>$mn | 2005/06<br>$mn |
|---|---|---|
| Interest payments | 92,420.32 | 84,710.291 |
| Amortization | 117,580.521 | 139,797.166 |
| **Total** | **210,000.842** | **224,507.457** |

Total debt servicing for FY 2006/07 reflects a reduction of 6.5% below the 2005/06 outturn.

#### *DOMESTIC DEBT SERVICE*

#### *Interest*

A total of $66,337.4mn has been allocated for interest payments on domestic debt. This reflects an increase of 6.7% over the outturn for the previous year. The level of increase results mainly from a provision for interest due on instruments issued to cover of Bank of Jamaica losses.

***Amortization***

The programmed domestic amortization is $101,009.7mn, which represents a 7.0% reduction below the outturn for FY 2005/06.

## External Debt Service

***Interest***

An amount of $26,082.9mn has been allocated for interest payments on external debt. This compares with the outturn of 22,536.8mn for FY 2005/06, an increase of 15.7%. This increase is due mainly to the higher stock of debt outstanding in the bond component of the debt portfolio.

***Amortization***

The external amortization provision of $16,570.8mn is $22,216.6mn below the outturn for 2005/06. This reduction is attributable to the fact that there will be no bullet payments in relation to Jamaica's Global Bonds for 2006/07.

***WAGES AND SALARIES***

Central Government wages and salaries are projected at $72,763.9mn, equivalent to 9.8% of GDP. This is a sharp reduction from the over 12% of GDP that obtained about three years ago. Education, Health and National Security account for 65.0% of the wage bill. The estimated wage bill is inclusive of a block provision to be paid under a potential successor MOU.

## EDUCATION SERVICES

Education Affairs and Services have been allocated $40,725.9mn to undertake recurrent and capital projects. This represents 11.4% of the total Budget and 27.5% of the total non-debt budget.

## Recurrent

An amount of $35,114.4mn of the education services budget has been provided for recurrent expenses. This is a 7.0% increase over the 2005/06 expenditure. The bulk of the allocation has been distributed as follows:

- Early Childhood Education - $1,469.6m or 4.0% of the education budget

- Primary Education - $11,367.3m or 32.3% of the education budget.

- Secondary Education - $9,473.9mn or approximately 27.0% of the education budget.

For 2006/07, $104.7mn has been allocated towards the Secondary Enhancement Programme, which provides support to newly upgraded high schools in order to build comparable standards with traditional high schools.

Tertiary Education has been allocated $6,838.4mn or 19.5% of the education budget. The provision to the University of the West Indies is about $5,000.0mn, a 16.0% increase over the 2005/06 provision of $4,317.8mn. This represents the government of Jamaica's full contribution to the University of the West Indies for FY 2006/2007. Included in this figure is approximately $630.0mn for the teaching component being offered by the University Hospital of the West Indies (UHWI);

Included under this programme is an allocation of $120.0mn to refund teachers up to 50% of their tuition fees. Only teachers who upgrade their qualifications without accessing study leave, on a part time basis, would qualify for a refund.

Three new Activities have been introduced under the recurrent head of estimates for this year. These are:

- High School Equivalency Programme (HSEP) - $17.0mn. The HSEP is a new programme to offer high school certification to persons who left the school system prematurely, or did not acquire the skills and competences necessary to benefit from the learning opportunities in their earlier years;
- Management Information Systems - $26.2mn. This entails full integration of appropriate technology into the ministry's operations.
- Operation Phoenix - $12.1mn. This allocation will allow for the establishment of 3 additional youth centres across the island, as well as the employment of an additional 18 youth empowerment officers.

***Capital A (GOJ Funded Projects)***

***Education Transformation Project (ETP)***

The ETP has been repositioned as a programme under the Ministry of Education and Youth. The allocation of $3,600mn represents the balance of the National Housing Trust (NHT) funds, which were not spent during FY 2005/06. The provision is broken down by sub-activities as follows:

- Curriculum, Teaching and Learning Support - $100.0mn;

- Behaviour Transformation - $100.0mn;

- Governance and Management to improving management systems in schools - $160.5mn;

- Communication - $40.0mn;

- Stakeholder Participation to facilitate partnerships in a structured manner, examine parental support, and encourage volunteerism - $10.0mn;

- Information and Communication Technology - $300.0mn;
- Nutrition Programmes to fund nutritional support to students - $196.5mn;

- Facilities and infrastructure to facilitate the rehabilitation and upgrading of schools, space rationalization of primary and secondary facilities and improving the aesthetics of the physical plant - $2,641.9mn;

- Administration of operational support to the programme - $67.0mn

Other Capital A Programmes include:

- **Early Childhood Education**

An amount of $870.0mn is provided for the allocation of a special maintenance grant of approximately $30.0mn to each of 29 infant schools;

- **Primary Education**

The sum of $25.0mn is allocated for a special maintenance grant for primary schools;

- *SECONDARY EDUCATION*

An allocation of $8.0mn has been made for a special maintenance grant;

- **Technical/Vocational Education**

An amount of $0.7mn is provided for the allocation of a special maintenance grant;

- **Special Education**

$2.3mn is allocated for the provision of the special maintenance grant;

- *TEACHERS EDUCATION AND TRAINING*

$122.8mn is allocated to this activity to fund the Distance Bachelor of Education (B.Ed.) Programme under which teachers are upgraded to the degree level;

- **Deferred Financing**

  The Northwest Jamaica Schools Project - $350.4mn
  UDC/WIHCON St. Catherine Schools Project - $638.5mn

**Capital B – Multilateral/Bilateral Projects**

The 2006/07 allocation represents funding for five projects, three of which are ongoing, one that is almost complete and one new project. The Ministry has placed focus on the development of its early childhood and primary education programmes and has allocated 61.9% of the Capital B provision to these areas. The bulk of the allocation of $175.1mn or 21% is for the acquisition of technical services aimed primarily at improving literacy and numeracy and for the educational reform process.

Included among the allocation is $378.0mn, of which 46.0% is for civil works under the Primary Education Support Project (PESP), The Enhancement Of Basic Schools Project, and the Reform Of Secondary Education Project (ROSE) Phase 2.

A provision of $1.9mn has been made to complete the New Horizons For Primary Schools project. The ongoing projects are:

- Primary Education Support Project (IDB) - $374.0mn
- Reform Of Secondary Education Project- (ROSE 2) (IBRD) - $312.0mn
- Enhancement of Basic Schools (CDB) - $120.0mn

The new project to be undertaken is the Improved Education of Targeted Youth of which $12.1mn has been allocated. This is a US$17.3mn USAID grant-funded project to be implemented over 5 years. The amount provided in the budget represents GOJ's contribution to fund three mathematics and literacy professionals, other support staff and to execute workshops.

***National Youth Service***

This programme has been allocated $497.9mn and comprises 3 components, namely the Corps Programme, The Jamaica Values and Attitudes Programme (JAMVAT) and the International Youth Exchange Programme. Funding for the proposed revised programme will be based on joint financing, which will include budgetary support, HEART Trust/NTA and the Private Sector, through the National Youth Service (NYS) Foundation. The allocation for stipend is estimated at $333.0mn. The JAMVAT programme is provided with $100.0mn under this Activity.

## *DEFENCE AFFAIRS, PUBLIC ORDER and SAFETY SERVICES*

THESE FUNCTIONS HAVE BEEN ALLOCATED A NET PROVISION OF $23,454.6MN, THROUGH THE MINISTRIES OF NATIONAL SECURITY AND JUSTICE. THIS REPRESENTS 6.6% OF THE

TOTAL BUDGET AND 15.8 % OF THE NON-DEBT BUDGET. IF THE APPROPRIATIONS IN AID (A.I.A) IS ADDED TO THIS FIGURE THEN, THERE WILL BE GROSS ALLOCATION OF $24,015.5MN. OF THE NET ALLOCATION, $20,718.6MN RELATES TO RECURRENT PROGRAMMES AND $2,734.0MN TO IMPLEMENT CAPITAL PROJECTS.

**Recurrent**

The allocations with respect to the Ministry of National security (MNS) are listed below:

- *Defence (JDF)*

  The JDF has been allocated $3,747.7mn or 18.1% of the total recurrent budget for this ministry;

- Police

  The Police sub-function has been allocated a total of $12,152.9mn or 65.0% of the total MNS and Departments' recurrent budget;

- Correctional Services

  An allocation of $2,550.0mn has been provided for the Department of Correctional Services (DCS).

**Ministry of Justice**

The Ministry of Justice and its Departments have been allocated a total of $2,231.2mn for recurrent expenditure, which includes an amount of $75.5mn for justice reform.

**Capital A**

The 2006/2007 proposed allocation for the MNS Capital A Head is $1,508.0mn. This amount is to provide for:

- The purchase of a Motorola Analog network, Digital Radio Network and Digital Microwave Network for the Jamaica Constabulary Force (JCF) - $721.5mn;
- Payment for the automated palm and fingerprint system and integrated ballistic information system - $353.5m;
- Purchase of patrol boats for the JCF - $331.5mn; and
- Insurance charges relating to the purchase of the helicopters for the JDF - $93.5mn.

**Capital B projects**

There are 3 projects under this Head namely:

- Improving Governance Through Citizen Security and Participation - $140.0mn
- Purchase of Surveillance Vessels for the JDF - $20.0mn
- Project 9223- Citizen Security And Justice Project - $197.6mn

## *MINISTRY OF HOUSING, TRANSPORT AND WORKS*

For FY 2006/2007 some of the main activities under this Ministry will include works to be implemented under the following portfolios:

### Housing

- Commence the construction of 3 open-market projects at 62 Lady Musgrave Road, White Water & Mineral Heights;
- Complete the draft National Housing Policy;
- Complete 13 schemes comprising 3,076 housing solutions under operation pride;
- CONTINUE THE IMPLEMENTATION OF 16 PROJECTS COMPRISING 4,563 HOUSING SOLUTIONS UNDER THE JOINT VENTURE PROGRAMME;
- Commence 6 new projects comprising 1,619 housing solutions under the private sector facilitation programme

### Water

- Enacting the Water and Sewerage Act;
- Amending the Water Resources and Flood Control Acts;
- Completing 28 water supply projects island wide
- COMPLETING 3 SEWAGE TREATMENT PROJECTS;
- CONTINUING THE CONSTRUCTION WORKS ON THE PORT ANTONIO WATER SUPPLY, SEWERAGE AND DRAINAGE PROJECT;
- Continuing construction on the Milk River, Shettlewood, Christiana/Spauldings, Hope Bay/St. Margaret's Bay Water Supply Projects

### Transport and Works

This portfolio will continue:

- Maintaining the island's public road system to acceptable standards;
- Reducing congestion and allowing for the more efficient flow of traffic;
- Improving accessibility to farming communities, so as to facilitate the efficient transporting of farm products;
- improving drainage in the road network and implementing other flood control measures, to protect lives and property, in the event of flooding;
- continuing and strengthening the programme of bridge replacement and maintenance and introducing a new programme of bridge rehabilitation;
- operating an efficient equipment management scheme;
- developing and maintaining a national traffic management system;
- maintenance of Government office buildings and other structures;
- regulation of transport services by Marine, Air and Land (which includes Rail Transport).

## Capital Projects

The allocation for capital projects amounts to $7,549.0mn. The major projects to be implemented are:

**Major Rural Water Supply (EEC) - $610.0mn**

The objectives of the project are to improve the standard of living (poverty reduction) in the rural areas of Jamaica, through the establishment of sustainable water supply systems; and to bring about an improvement in the quantity and quality of water supply to the targeted communities, and environs of Shettlewood, Christiana/Spaldings, Hope Bay/St. Margaret's Bay and Milk River.

**Rural Water Supply Project (IDB) - $250.0mn**

The aim of the project is to improve the sanitary and health conditions in Jamaica by increasing coverage of potable water and sanitation services in poor rural areas. It is expected that the project will benefit approximately 18,750 persons upon completion.

**Port Antonio Water, Sewerage and Drainage - $120.0mn**

This project sets out to rehabilitate and expand the water supply and distribution system in Port Antonio; and improve the existing drainage system and the introduction of a new central wastewater collection and treatment system in Port Antonio.

***Kingston Metropolitan Area (KMA) Water Supply - $1,135.2mn***

The objective of this project is to provide an improved water supply system to the KMA (including South East St. Catherine, Kingston & St. Andrew) to keep pace with the rapid industrial and housing developments in these areas.

***National Road Services Improvement - $179.2mn***

This project aims to promote the creation of a self-sustainable system for the provision of safe and reliable national road network and to strengthen the core activities of planning, programming and budgeting for the road sector and maintenance design and construction of roads within the national network under the auspices of the National Works Agency (NWA).

*Flood Damage Rehabilitation (CDB) - $213.8mn*

This project seeks to restore the flood-damaged roads on the network to a condition for normal maintenance and to a pre- flood condition.

*The Northern Coastal Highway Improvement - $2,235.6mn*

The objectives of this project are to develop infrastructure along Jamaica's north coast; improve vehicular and pedestrian safety; reduce overall transportation costs and alleviate congestion along the corridor, by eliminating standing water on the driving surfaces; and improve the sight distances by flattening of curves and removal of roadside obstacles. The proposed length of the roadway is approximately 268 km and is divided into 3 segments.

The allocation for 2006/07 is to undertake the following activities:

- **Segment 1** to provide retention payments to contractors and landowners for land acquisition;

- **Segment 2A** to construct 13.4 km of 4-lanes with 4.2m median from Montego Bay to Sea Castle Hotel and 13.2km of 2-lanes with 2.44m shoulders and two vehicular underpasses from Sea Castle to Greenside; complete land acquisition; complete relocation/removal of utility poles; complete resettlement and complete 95% construction of highway;
- **Segment 2** to continue utilities relocation/removal and laying of pipeline; acquisition of all parcels of land; resolution of outstanding resettlements of householders; and the completion of highway construction from Greenside to Ocho Rios; and

- **Segment 3** to award construction contract, complete 20% of the works and complete the land acquisition from Ocho Rios to Port Antonio;

*Road Rehabilitation Project (Kuwait) - $206.7m*;

UNDER THIS PROJECT 274 KM OF ROAD SECTIONS IN 12 PARISHES ARE TO BE REHABILITATED. THE ALLOCATION FOR 2006/07 IS TO COMPLETE FINAL PAYMENTS ON ALL CONTRACTS AND COMMENCE DESIGNS AND SURVEYS FOR OTHER IDENTIFIED ROADS TO BE REHABILITATED.

*Halfway Tree Transportation Centre - $250.0mn*

This allocation has been provided for the continued construction the Transportation Centre.

*Improvement of Air Navigation Facilities - $100.0mn*

This allocation is for construction of a new control tower at the Donald Sangster International Airport.

## *HEALTH SERVICES*

The function Health Affairs and Services (MOH and Departments) has been allocated $15,587.4mn or 4.4% of the overall budget. In terms of the non-debt component of the budget, this allocation represents 11.0% and comprises recurrent expenditure of $15,012.6mn and capital expenditure of $574.9mn. This allocation (excluding $100m that is to be paid over to the National Health Fund (NHF)) represents an increase of approximately 8.5% over the revised estimates 2005/2006. When fee collections of $1,630.0mn and Appropriations in Aid (AIA) of $536.4mn are factored in, the MOH and Departments will have $16.159.9mn (net of outstanding $1,494.0mn statutory deductions and $100.0mn for NHF) to cover its expenses.

An amount of $13,412.9mn (net of statutory deductions of $531.6mn and inclusive of $11,782.9mn from the budget, of which $1,630.0m is for fees) has been allocated for delivery of health services through the four Regional Health Authorities. These Authorities provide a comprehensive range of health services at the primary, secondary and tertiary levels.

$1,826.0mn (net of statutory deductions arrears of $962.6mn) of the recurrent budget for the health services has been allocated to the University Hospital of the West Indies. This amount represents approximately 68% of the estimated operating cost of the hospital to be financed through the MOH's budget.

### Capital Projects

The major capital projects under the MOH are as follows:

- GOJ/IBRD HIV/AIDS Prevention and Control Project - $250.0mn
- GOJ/GLOBAL FUND Treatment Prevention and Control Programme in Jamaica - $269.0mn

*GOJ/IBRD HIV/AIDS Prevention and Control Project (IBRD)*

This project supports selected activities of Jamaica's National HIV/AIDS strategic plan. In so doing the project is to assist GOJ in curbing the spread of HIV epidemic; improving treatment, care and support for people living with HIV/AIDS and strengthening Jamaica's capacity to respond to the epidemic.

### *Global Fund Treatment Prevention and Control Programme*

The purpose of this project is to strengthen the multi-sector national response to prevent and address the HIV/AIDS epidemic in Jamaica. This is done through scaling-up efforts to provide antiretroviral drugs to both children and adults living with HIV/AIDS. The project is also geared to complete and implement policies and legislative framework specially addressing stigma and discrimination aimed at persons living with HIV/AIDS.

### *National Health Fund (NHF)*

The NHF plans to continue its major thrust to inform access to benefits and to increase significantly its public information output to keep the general public informed about the benefits and activities during the year.

The organization intends to spend approximately:

- $334.0mn on Individual Benefits. This is designed to assist Jamaican residents in meeting the cost of prescribed medication for specific illnesses;

- $122.0mn on Jamaica Drug for the Elderly Programme (JADEP), which is designed to assist Jamaicans over 60 years old in meeting the cost for prescribed drugs for specific illnesses; and

- $1,230.0mn on Institutional Benefits which includes the upgrading of public pharmacies, purchase of equipment for hospital, research, training and support for Healthy Life-style Programmes administered by the Health Ministry.

### *TOURISM*

The Tourism, Entertainment and Culture Ministry has been allocated a total of $3,577.6mn. This amount represents 2.4% of the non-debt budget.

### Recurrent

An amount of $3,437.5mn has been allocated to cover the main areas as follows:

- Art and Culture which has been allocated an amount of $588.6mn;
- $2,485.1mn through the Jamaica Tourist Board (JTB). Of this amount, $1,166.8mn is for overseas marketing and $94m for preparation for the World cup Cricket 2007;
- Tourism Product Development Company (TPDCO) has been allocated $243.9mn.

### Capital Projects

In terms of the capital projects $140.1mn has been allocated to fund the following main projects:

- TPDCO - $77.5mn;
- Jamaica Reservations - $22.1mn; and
- Devon House - $16.0mn for undertake upgrading works.

***OTHER PROGRAMMES/PROJECTS***

Other noteworthy allocations in the budget include:

- Development of Sport and recreational Facilities funded by the Venezuelan Investment Fund (VIF) - 300.0mn;
- Sabina Park Development for World Cup Cricket 2007 - $2,081.4mn;
- Grant to Air Jamaica - $1,496.9mn;
- Jamaica Social Investment Fund - $982.0mn;
- Greenfield Stadium for World Cup Cricket 2007 - $2,005.6mn;
- Production Incentives to Small Farmers - $86.5mn;
- Construction and Improvement to Court Houses at Morant Bay, Falmouth, Balaclava, Santa Cruz, Montego Bay, Mandeville, Coroners/Traffic Court, Judicial Complex at Supreme Court - $391m;
- Sligoville Sports Complex - $248m;
- Social Safety Net Project to provide cash benefits to approximately 236,000 eligible beneficiaries - $1,100.00m;
- Eradication of Screw Worm **-** $125m**;**
- Agricultural Support Services Project to enhance and the quality and delivery of agricultural support services mainly through improving extension, marketing and research services, upgrading existing systems for safeguarding animals and plant health - $170.00m;
- Banana Support project to promote sustainable development in the traditional banana growing areas of Jamaica **-** $91.0m;
- Land Administration Management Project to promote the efficient administration and management, and to rationalize the allocation and use of land and resources in an integrated and sustainable manner by implementing critical aspects of the National land Policy of Jamaica - $140.787m;
- National Irrigation Plan to increase the agricultural production and farmers incomes through improved irrigation management and rural employment in the long term. This will see the piloting f 3 projects from the National Irrigation Plan at Pedro Plains and Hounslow in St. Elizabeth and Seven Rivers in St. James. Also, the promotion and formulation of Water User's Associations at Colbeck, New Forest, Yallahs, Essex Valley and St Dorothy to serve 1,000 farmers - $239.0m;
- Flood Damage Rehabilitation funded by the EU to rehabilitate 65 km of flood damaged parochial roads with farming activities in 6 parishes – namely St Ann, Manchester, Clarendon, St Catherine, St Thomas and St Elizabeth - $115.0m

## FINANCING FY 2006/07 BUDGET

The Government's target for FY 2006/07 is for a fiscal deficit of 2.5% of GDP, equivalent to $18,395.1mn. The FY 2006/07 budget of $358,192.7mn reflects above-the-line expenditure of $240,612.2mn and amortization payments of $117,580.5mn. This expenditure outlay requires revenue & grants of $222,217.0mn to achieve the deficit target of 2.5% of GDP.

### Revenue and Grants

The projected revenue and grants for FY 2006/07 of $222,217.0mn represents an increase of 19.0% over FY 2005/06 and is broken down as follows:

| | 2005/06 | 2006/07 | Chang e |
|---|---|---|---|
| | (in billions of dollars) | | (%) |
| **REVENUE & GRANTS** | **186,684.2** | **222,217.0** | **19.0** |
| Tax Revenue | 162,575.9 | 195,033.9 | 20.0 |
| Non-tax Revenue | 11,802.4 | 12,809.8 | 8.5 |
| Bauxite Levy | 3,124.6 | 3,902.0 | 24.9 |
| Capital Revenue | 8,464.1 | 6,778.3 | -19.9 |
| Grants | 717.2 | 3,692.9 | 414.9 |

The estimate for FY 2006/07 is 30.3% of GDP, up from the 29.0% in the previous year.

#### *Tax Revenue*

Tax revenue, which comprises about 87% to total revenue, is forecasted to grow by 20% over the previous fiscal year. This estimate for FY 2006/07 is 26.6% of GDP, up from 25.2% in FY 2005/06. The expected buoyancy in the economy, to be augmented by aggressive revenue enhancement measures, underpins the projected growth. The economy is expected to rebound from the setback in 2005, which augurs well for increased tax intake. The revenue enhancement measures will reflect a menu of administrative and legislative initiatives geared toward improving the tax system, reducing the incidence of non-compliance and boosting collections.

### Administrative/Compliance Measures

Achievement of the programmed fiscal deficit of 2.5% of GDP in 2006/07 will require the tax authorities to adopt an aggressive approach toward increasing tax revenue collections. To this end, Tax Administration will be undertaking special projects aimed at:

(i) auditing and assessing companies which are believed to have understated their liabilities for major taxes,; and

(ii) collection, through a concerted and carefully managed programme, of a significant portion of the large portfolio of tax arrears, which is known to exist on taxpayer accounts.

*Forensic and Other Large Audits*

The audit coverage of large firms, has up to now been extremely inadequate, partly because empowering legislation is weak in some areas (for example, in the financial sector), and also because the skills of the tax auditors have been in a process of development.

The tax administration has secured technical assistance to enhance skills and to provide guidance on audits, beginning in April 2006. Although the entire audit process will take some time, it is nevertheless envisaged that some collections will result from the special audit effort during FY 2006/07.

*Arrears Collections*

The collection of taxpayer arrears is one of the most challenging aspects of the work of any tax administration. Significant tax arrears are known to exist in Jamaica, but prior to FY 2004/05, efforts to collect them have not been very successful. During the second half of 2005/06 the tax administration designed and implemented a project aimed at collecting $5,000.0mn of these arrears.

The programme involved a special collections group of just about 100 officers who were exposed to special training in arrears collections and in reconciling taxpayer accounts on the tax administration computerized systems. The group was divided into four teams covering the four tax administration regions in the island, and produced weekly collections reports for a project coordinator in the office of the Director General, Tax Administration, who gave overall managerial direction to the project. During the five-month period from November to March, the project collected a total of $5,635.4mn in arrears of company and individual income taxes, PAYE, education tax and general consumption tax

The management and administrative arrangements of the collection exercise, which proved successful on this special project, are now being implemented as part of the general compliance process within the Inland Revenue Department.

These measures, alongside the elasticity of the tax system should ensure achievement of the targeted $195,033.9mn in tax revenue.

**Non-tax Revenue**

Non-tax revenue is projected at $12,809.8mn, 8.5% above collections in FY 2005/06. The estimate for non-tax revenue amounts to 1.7% of GDP, which is marginally below the 1.8% in 2005/06. This estimate includes receipts from the sale of a fourth cellular licence.

**Bauxite Levy**

The bauxite/alumina industry is expected to remain quite buoyant in FY 2006/07, which should result in significant levy inflows. Projections are for a 25% increase in levy receipts over FY 2005/06 to $3,902.0mn. Underlying these estimates is further growth in bauxite production and world aluminium prices.

**Capital Revenue**

Capital revenue estimates of $6,778.3mn are $1,685.8mn (20%) less than collections in the previous fiscal year. The collections in FY 2005/06 were buoyed by the one-off inflow of $5,000.0mn, or 0.8% of GDP from the NHT for the Education Transformation Project (ETP). While the baseline capital revenue is budgeted to increase over FY 2005/06, this increase is expected to be partly negated by a reduction in inflows from the Financial Institutions Services (FIS). The lower collections from FIS are due to the fact that most of the assets under its control have already been disposed of. The forecast for capital revenue also include expected inflows from the divestment of Government's shares in Jamaica Public Service Company Limited (JPSCo).

Grants

The FY 2006/07 estimates for grants include $2,807.4mn for capital projects and Euro11 million from the European Union for Support to the Economic Reform Project (SERP) III. This forecast for grants represents a 415% increase over receipts in FY 2005/06. Inflows in FY 2005/06 were impacted by the slower than budgeted implementation of capital projects and lower than anticipated receipts for SERP III. The forecasts for FY 2006/07 reflect a recovery from the FY 2005/06 fallout. The major grant inflows budgeted for capital projects are as follows:

| | $m |
|---|---|
| Northern Coastal Highway (EU) | 719.3 |
| Major Rural Water Supply (EU) | 550.0 |
| Scale Up of Jamaica's HIV/AIDS Treatment (Global Fund) | 275.1 |
| Sligoville Stadium (China) | 248.0 |

## Loan Receipts

The revenue forecast outlined above of $222,217.0mn and the $358,192.7mn expenditure budget approved by Parliament leaves a financing gap of $135,975.7mn. In February 2006 the GOJ raised US$250mn, which amounts to $16,250.0mn, on the international capital market as part of the financing plan for the FY 2006/07 budget. Accounting for this pre-financing receipt leaves a gap of $119,725.7mn, which will be covered by loan receipts. The estimate is for external loans of $7,845.3mn from multilateral/bilateral sources that are associated with capital projects. Domestic borrowing of $111,880.5mn will be utilized to finance the deficit and amortization. The fact that there are no "bullet" external amortization payments in 2006/07 makes the case for minimal external borrowing during the year. This forecast for domestic loans represents a reduction from the $130,920.4mn raised in FY 2005/06 and bodes well for reductions in interest rates in 2006/07.

# Chapter 3

## PUBLIC SECTOR ENTITIES

### OVERVIEW

Public Bodies, which comprise statutory bodies, agencies and government companies, are vehicles of public policy. Their roles are essential to the achievement of government's objective in stimulating economic growth, promoting development and improving the welfare of the population.

Some Public Bodies facilitate government's involvement in commercial activities in agriculture, mining, utilities, banking, and transport. Others perform regulatory and/or developmental functions to create the environment for markets to develop.

By virtue of the large amounts of human, physical and financial capital which they control, Public Bodies are increasingly being charged with responsibilities for executing government's infrastructural development programmes. Projections to the end of March 2007 indicate that self-financing Public Bodies will have gross total assets of $502,777mn compared to $359,468mn at end-March 2006. The human capital of Public Bodies is estimated at 19,173 persons at the end of March 2007, up from 18,569 at March 2006.

The Ministry of Finance and Planning (MOFP), in collaboration with the respective Portfolio Ministries, develops policies and monitors adherence to guidelines to ensure acceptable financial management practices within the Public Bodies sub-sector.

### Contributions by Public Bodies

The group of twelve (12) Selected Public Bodies is expected to generate current revenue of approximately $125,000mn in FY 2006/07, up from $115,000mn in FY 2005/06. This group is also expected to transfer to Central Government approximately $5,000mn in the form of corporate taxes and grants. In addition, over $27,000mn will be spent on Public Sector infrastructural projects.

The Airports Authority of Jamaica (AAJ) will incur capital expenditure of $3,082mn. Of this amount $2,900mn will be spent on Phase 1A of the Norman Manley International Airport (NMIA) expansion. This project is being undertaken within the context of a 20-year developmental plan, which envisages the creation of a modern international airport infrastructure. Timely completion of Phase 1A is critical to Jamaica's hosting of Cricket World Cup 2007. Major works will include renovation and expansion of the existing departure concourse, realignment of the access road and installation of a road surface water drainage system.

The National Housing Trust (NHT) will incur net capital expenditure of $9,358mn of which $2,740mn is budgeted for the Inner City Housing project, and $2,529mn for open market solutions. The Trust will also be engaged in a Joint Mortgage Financing programme with building societies at a cost of $1,770mn that will benefit 2,289 contributors.

The Port Authority of Jamaica (PAJ) is forging ahead with Phase V of the expansion of the Kingston Container Terminal (KCT) and will spend $5,500mn on civil works and equipment.

Petrojam Limited operates the only petroleum refinery in Jamaica, processing crude oil into various finished products including liquefied petroleum gas, auto diesel oil, turbo fuel, heavy fuel oil, asphalt, and unleaded gasoline. A significant portion of Petrojam's capital expenditure budget is allocated to a planned upgrade of the refinery. The refinery upgrade is critical to the future viability of Petrojam and the security of supply in sufficient quantities to satisfy the nation's energy needs.

The Urban Development Corporation's (UDC) capital programme is expected to cost $3,579mn. A major component of this programme comprises work to be executed on behalf of government ministries and agencies at a cost of $1,737mn. Of this amount, $788mn is earmarked for expenditure in the North Western Schools Programme and $387mn for construction of the Montego Bay Sports Complex. The balance of $1,483mn will be spent on the construction of three housing development projects, which are to be financed from internally generated funds and loans from the NHT.

The National Water Commission's (NWC) estimated capital expenditure of $2,606mn is primarily earmarked for major infrastructure projects. These include the Kingston Metropolitan Area (KMA) and Major Rural Water Supply projects, Port Antonio Wastewater and Sanitation projects and the Martha Brae to Harmony Hall Water Supply project.

### Corporate Governance

The MOFP, in collaboration with other Portfolio Ministries, is seeking to improve the quality of governance among Public Bodies. The Public Bodies Management and Accountability (PBMA) Act 2001, provides the statutory authority and is the primary vehicle through which this objective is being pursued.

The PBMA Act creates a comprehensive framework, which facilitates proper oversight of Public Bodies. A number of far-reaching provisions have enhanced the capacity of the MOFP and Portfolio Ministries to monitor and exercise financial control over public entities, thereby improving adherence to government's procedures and reducing the prospect of profligacy. In this regard, the legislation:

- promotes greater scrutiny of the operations of Public Bodies;
- prescribes higher standards of accountability for directors and senior management;

- improves reporting to Portfolio Ministries and Parliament for more effective monitoring;
- enhances oversight by external auditors and audit committees;
- constrains activities which could expose the government, as owner, to significant financial and other risks and
- provides for strict sanctions for breaches and non-compliance.

In March 2003, the Act was amended to expand the definition of a Public Body to include statutory bodies. Further amendments to the Act are currently being sought to enhance the effectiveness of the Act by, inter alia:

- expanding the coverage of entities which are subject to the Act;
- strengthening the provisions with respect to equity investments by Public Bodies to reduce the government's potential exposure to financial risks;
- expanding the Act through the transfer of provisions related to the financial control of Public Bodies from the Financial Administration and Audit (FAA) Act, in furtherance of the objective to make the PBMA Act the umbrella legislation encompassing all financial provisions applicable to this segment of the public sector and
- strengthening the rules governing directors, external auditors and audit committees in the exercise of their oversight responsibilities.

Consultations are currently being held with stakeholders on regulations pertaining to a Dividend/Financial Distribution Policy and the principles governing the acquisition of shares.

**Accrual Accounting/IPSAS**

The number of Public Bodies that prepare financial statements using the International Financial Reporting Standards (IFRS) is increasing. The IFRSs have been adopted by the Institute of Chartered Accountants of Jamaica (ICAJ) as the standards approved for use in Jamaica. The Public Sector Committee of the ICAJ is continuing its review of the International Public Sector Accounting Standards (IPSAS) to determine the extent to which they could be adopted in their present form. Adoption of the international standards by Public Bodies is expected to allow for better comparability resulting from harmonization in the presentation of financial statements.

The pilot project for conversion of the Central Government's Ministries, Departments and Agencies (MDA's) from cash to the accrual basis of accounting, is behind schedule. A decision has been taken to establish a separate project infrastructure in order to complete the conversion by 2012 in keeping with the objectives of the *Public Sector Modernization Vision and Strategy 2002-2012*.

## Rationalization and Restructuring

The following were achieved under the rationalization/restructuring programme in FY 2005/06:

- Discussions towards privatization of one entity - Farm Machinery Centre – were at an advanced stage in March 2006;
- Cabinet approved privatization of sugar lands and the Devon House property by way of lease arrangements and
- The Small Enterprise Development Company was removed from the Companies Register.

The National Investment Bank of Jamaica (NIBJ) will continue its efforts to privatize the following entities, among others:

- Caymanas Track Limited;
- Cotton Polyester Textile Company Limited;
- Jamaica Railway Corporation; and
- Vehicle Inspection Services Limited.

## Sustainable Development Strategy

There has been an increasing awareness within the public sector of the necessity to plan for sustainable development, particularly as it relates to the integration of environmental protection into the decision making processes with a view to meeting the needs of present and future generations.

Towards the end of FY 2005/06, the MOFP began collaborating with the former Ministry of Land and the Environment, to increase environmental awareness among Public Bodies. Beginning in FY 2006/07, Public Bodies are required to identify environmental protection strategies in their corporate plans. The MOFP will monitor performance against the plans. In addition, the Ministry will facilitate workshops with a view to raising awareness and performance levels to 100% over the next three years.

# Chapter 4

## REVIEW OF SELECTED PROJECTS

The Government of Jamaica, during FY 2006/07, will continue to implement projects aimed at reducing poverty and crime, improving health care, education and infrastructure and boosting agriculture. Below is a brief overview of the projects that will be continued during FY 2006/07.

### SOCIAL SECTOR

### Education

***Primary Education Support Programme***

The main objective of this programme continues to be facilitation of improvements in the primary education system through the effective implementation of a revised Primary School Curriculum and National Assessment Standards in all primary schools. The programme, which should have been completed in December 2005 has been extended for another 3 years to December 2008. This extension is to facilitate the completion of ongoing activities.

Major achievements under the programme include:

- the training of 8,542 teachers to deliver the Revised Primary Curriculum to Grades 1-6;
- training of 445 principals under the Principals' Diploma Programme and 6 persons in Psychometric Testing;
- commencement of management training for 168 managers; and
- commencement of auditing programmes for 30 persons.

Construction activity is almost complete for schools in Phase II of the Primary Education Support Programme. These schools are Lucea Primary, Chester Castle All-Age, Red Hills All-Age, and Sheffield All-Age.

The following activities will be undertaken in FY 2006/07:

- completion of the development of Literacy Intervention Materials;
- training of 330 principals under the local diploma training project;
- training of persons in 200 schools to implement the mentorship programme;

- completion of the delivery of Supplementary Readers;
- community-based intervention in 100 pilot schools to ameliorate absenteeism and
- completion of construction of three schools in Phase I of the programme (Gordon Town, Bromley and Guy's Hill).

***Enhancement of Basic Schools***

This project is designed to improve the well being of children attending basic schools by enhancing the learning environment and raising the level of teacher performance. The project is now in its fourth year of implementation.

Renovation of the Manchester Resource Centre is 90% complete and the architectural drawings for schools in package 2 (Fern Grove Basic School - St. Ann, Shortwood Infant - Kingston and St. Mary Resource Centre, Highgate – St. Mary) are 90% complete.

It is anticipated that increased activities will be undertaken in FY 2006/07, including:

- renovation work to the Hope Village Basic School and construction of the Yallahs and DRB Grant Basic Schools;
- completion of pre-construction work on 4 basic schools, 1 infant department and 4 resource centres; and
- procurement of indoor and play equipment for 3 basic schools.

***Reform of Secondary Education (ROSE II)***

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

Improvements in secondary education under this project include:

- printing and distribution of 300 school improvement manuals;
- completion of training for 396 persons in school improvement planning;
- training of 208 teachers in the ROSE I Curriculum; and
- placing of 406 students in independent schools.

Other notable achievements include the completion of designs for 2 school sites, and land surveys for 6 – Annotto Bay High (Expansion), Mile Gully High (Replacement), Paul Bogle High (Expansion), Riverdale High (New), Lewisville High (Expansion), and Discovery Bay High (New).

The activities to be undertaken during FY 2006/07 include:

- printing and distribution of diagnostic tools;
- provision of tuition for 406 students in independent schools;
- completion of the extension to Annotto Bay Secondary School and commencement of extension to Paul Bogle High; and
- procurement of furniture for Annotto Bay Secondary School.

**Health**

***HIV/AIDS Prevention and Control Programme***

The objective of this programme is to strengthen the multi-sector national response to prevent and address the HIV/AIDS epidemic in Jamaica. This will be achieved through:

- provision of antiretroviral drugs to both children and adults living with HIV/AIDS; and
- promotion of safer sex practices, including abstinence, especially among sub-populations and marginalized groups who tend to be most vulnerable.

During the period April to February of FY 2005/06, 991 persons were tested for HIV under this programme. In addition, 18 treatment sites were equipped with adherence counselors and 2,916 condoms and lubricants were distributed.

During FY 2006/07, the programme expects to test 62,100 persons for HIV/AIDS, to distribute10,000 condoms and lubricants and to reach 1,200,000 people through campaigns. Twelve treatment centres are also to be equipped with adherence counselors.

***Jamaica Social Investment Fund (JSIF)***

The JSIF's mandate is to assist in improving the living standards of the poor and vulnerable, by increasing access to vital social services. This is to be accomplished through:

- the establishment of an efficient, demand- driven and complementary mechanism to deliver basic services and infrastructure to the poor;
- mobilization and channeling of resources to the areas of social assistance and basic social and economic infrastructure; and
- empowering communities through participation.

At January 2006, JSIF had approved 858 projects valued at $4.4bn. Of these projects, 597 have been completed. The projects cover the areas of education, infrastructure, water supply and healthcare. Of the total amount spent, $197.0mn was spent for community organizational development and social services including organizational strengthening, conflict resolution, skills training and career guidance, while $2,346.0mn was provided for programmes geared towards youth development (e.g.) training and counseling.

In FY 2006/07, JSIF will continue to implement a community development project that focuses on development through increased involvement of poor depressed communities.

***Citizens Security and Justice***

The objectives of the Citizens Security and Justice Programme are:

- to reduce the incidence of crime and violence;
- to strengthen crime management capabilities; and
- to improve the delivery of judicial services.

Training in Risk and Skills Assessment for staff of the Victim Support Unit has been completed. Other achievements under this programme include:

- Establishment of 9 Community Action Committees;
- Completion of 10 Rapid Impact projects with work in progress in two communities - Grants Pen and Mountain View;
- Award of contracts for the renovation of the Cross Roads, Denham Town and Kingston Central Police Stations.
- Renovation of the Tower Hill Multi-purpose Centre and completion of architectural drawings for renovation of the Fletchers Land and Cassia Park Multi-purpose Centres.
- Training of fifteen communities (inclusive of Kencot, Rockfort, Southside/Tel Aviv, Allman Town, Mountain View, Waterhouse, Fletchers Land and Tower Hill) in dispute resolution, skills management and drug abuse prevention.
- Introduction of the Peace Management Initiative in 9 communities in St. James where 50 residents were trained in conflict resolution.
- Commencement of the Parish Crime Prevention Programme and the Safe Schools Project in addition to establishment of the National Consultative Committee on Crime and Violence.

The Citizens Security and Justice programme will continue in FY 2006/07 with the expected completion of the design for the Criminal Transition Centre. Other initiatives to be undertaken include:

- refurbishing of the reception areas of Kingston Central, Cross Roads and Denham Town Police Stations; and
- provision of assorted furniture to 13 multi-purpose centers, inclusive of Waterhouse and Drewsland.

In FY 2006/07 the Violence Prevention Services will be expanded such that:

- 1,500 primary school pupils will receive homework assistance;
- 550 primary school pupils will receive GSAT tuition;
- 400 residents will receive CXC tuition;
- 750 youths will receive life-skills education;
- 6 mediation clinics will be established;
- 725 students from 2 secondary schools will be educated in conflict resolution; and
- 70 teachers will be trained to deliver conflict resolution education to students.

***Information and Communication Technology***

This project is geared towards increasing the use of Information and Communication Technology (ICT) in the private and public sectors. It is to be implemented under 4 components:

- Strengthening of the Ministry of Commerce, Science and Technology (MCST);
- E-Government – Provision of hardware, software and consulting services to all 7 Fiscal Agencies in order to facilitate online transactions with businesses and citizens;
- Community Outreach –establishment of 75-100 Community Access Points or Tele-Centres in mostly rural areas to provide access to the internet;
- Human Capital Development - providing ICT training to over 100 students from Jamaica and the rest of the Caribbean.

Significant interest has been expressed in this project and US$400,000 has so far been allocated for purchasing of equipment to facilitate the E-Government component.

The Trade Board Information System (TBIS) import module was piloted in July 2005. By February 2006, 6,785 applications for motor vehicle import licenses had been processed electronically with over $17.0mn in license fees collected. In addition, 368 community licenses, for which $597,300 in fees was paid, were processed over this period. An on-line facility has also been introduced to 7 car dealers and one community importer.

The MCST in partnership with Cable and Wireless Jamaica has installed 4 computers in each revenue centre in downtown Kingston and Constant Spring. These computers are to facilitate online payment of taxes and are also available for interested persons to access other on-line services.

The Spanish Town Revenue Office is next in line to be equipped under this programme, with further plans to equip the revenue centres in Montego Bay, May Pen, St. Ann's Bay and Port Maria.

Other activities to be undertaken in FY 2006/07 include:

- ICT training for MCST Staff and related Agencies;
- Acquisition of equipment to facilitate E-Government;
- Initiation of Phase II on-line tax collection for GCT, SCT, Education Tax and PAYE;
- ICT training programme for legislators and the judiciary; and
- Delivery of online help facilities to support E-government on-line services.

## AGRICULTURE

### *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.

Implementation of the project is behind schedule due to the slow take-up of loans by small farmers. This has forced the cancellation of US$3.0mn of the credit component, and a reduction of the targeted hectares from 2,833 to 1,556. The implementation period has been extended by 15 months from December 31, 2005 to March 31, 2007 in an effort to achieve the revised target.

At February 2006, 45 loans totaling $142.9mn had been approved to support the replanting of 611.3 hectares. In addition, there were 5,556 farm visits and 1,027 demonstrations showing lining, mound construction, planting of plants, slug control, fertilizer application and pest control.

Activities related to technical and research services will continue in FY 2006/07.

## INFRASTRUCTURE

***Northern Jamaica Development (NJD)***

The NJD project was designed to improve the road infrastructure from Negril to Port Antonio. Segment I of the highway from Negril to Montego Bay is complete. With respect to Segment II from Montego Bay to Ocho Rios, this has been re-scoped and the 27 kilometres from Montego Bay to Greenside in Trelawny will now include the dualization of the corridor from the Sangster International Airport to Rose Hall. Relocation of all the affected JPSCo. and Cable and Wireless poles and wires is 90% complete.

A construction contract has been signed and work on this segment will be undertaken over an 18-month period. The 2 lanes of carriageway along the corridor as well as 50% of the four-lane portion of the road are scheduled for completion in March 2007, before the start of Cricket World Cup 2007.

Segment III of the project will stretch from Ocho Rios to Fair Prospect and the consultants have completed the redesign/rescoping of work. The relocation of utility poles has been completed and land acquisition is in progress.

It is anticipated that a construction contract will be awarded in FY 2006/07 and that 20% of construction work will be completed during the year.

# Chapter 5

## DEBT AND CAPITAL MARKET DEVELOPMENTS

### INTRODUCTION

Debt management in FY 2005/06 continued to be guided by the medium-term *Debt Management Strategy*, with the main focus on ensuring that overall borrowing requirements are met at minimum cost, while pursuing strategies to ensure that the debt progresses to sustainable levels.

The Government achieved some measure of success in its stated objectives, despite (i) the challenges of higher than projected inflation, which contributed to the reluctance among domestic investors to accept long-term securities; and (ii) the requirements for additional financing to meet the revenue shortfall arising mainly from the impact of an unusually active hurricane season.

By the beginning of the third quarter of the fiscal year, the Government had satisfied its objective of securing the planned external financing for the fiscal year. As a result of prevailing favourable market conditions, strong demand and low long-term interest rates, in February 2006, the Government pre-funded its FY 2006/07 external borrowing requirement, tapping the markets for a 30-year bond. This was Jamaica's longest dated and lowest coupon Eurobond.

On the domestic side, the Government achieved measured success in the issuance of longer-term securities by issuing 3.5% of new debt securities with maturities of 20 to 30 years. The rate of growth of the domestic debt at 7.4% in FY 2005/06 was slower than the 7.6% growth in FY 2004/05, continuing the downward trend since FY 2001/02.

During the fiscal year, Moody's Investors Service (Moody's) and Standard and Poor's (S&P) each re-affirmed their "B1" and "B" foreign currency credit ratings for Jamaica. They both maintained their "Stable" outlook. Of significance, in May 2005, Jamaica made its final debt payment to the International Monetary Fund, thereby ending almost three decades of indebtedness with that institution.

At the end of March 2006, total public debt stood at $847.3bn or 131.5% of GDP. This included the pre-funded amount of US$250mn or 2.5% of GDP. The increase in the total debt was 11.5% above the stock of $759.7bn recorded at the end of March 2005.

The main factors contributing to the increase in FY 2005/06 were:

- The issuance of Local Registered Stock (LRS) to the Bank of Jamaica (BOJ) representing capitalized interest on securities issued for BOJ losses and BOJ/FINSAC LRS;

- The assumption of obligations in respect of the Jamaica UrbanTransit Company (JUTC) and the National Water Commission (NWC);
- The issuance of Government Guarantees mainly in
- support of the financial restructuring by the national airline, Air Jamaica Limited; and
- The additional borrowing from the international capital markets due to strong demand and favourable market condition

## DOMESTIC DEBT

### PERFORMANCE SUMMARY

Domestic debt operations were conducted in an environment of relative stability in interest rate movements and in the foreign exchange market. Faced with an environment of higher than projected inflation, which contributed to expectations for higher interest rates, investors demonstrated a reluctance for securities at the longer end of the curve. However, the Government was able to achieve measured success in the issuance of longer-term securities, evidenced by securities with tenures of 20 to 30 years.

### Stock Composition

At the end of March 2006, the stock of domestic debt stood at $482,712.5mn, representing an increase of $33,464.9mn or 7.4% over the stock at the end of FY 2004/05. The growth rate of the domestic debt stock has shown a significant decline over the last five years, moving from 39.6% in FY 2001/02 to 14.0% in FY 2003/04, 7.6% in FY 2004/05 and 7.4% in FY 2005/06.

The increase in the domestic debt stock was attributable to:

- The issuance of securities to BOJ for capitalized interest on BOJ losses and BOJ/FINSAC LRS;
- Financing of the additional requirements for the fiscal operations; and
- Assumption of debts in respect of JUTC and the NWC.

**Stock of Central Government Domestic Debt**
***FY 2004/05 – FY 2005/06***
**($mn)**

| | FY 2004/05 | (%) | FY 2005/06 | (%) |
|---|---|---|---|---|
| LRS | 218,412.6 | 48.6 | 235,632.7 | 48.8 |
| Debentures | 128,974.2 | 28.7 | 155,905.6 | 32.3 |
| Treasury Bills | 4,050.0 | 0.9 | 3,800.0 | 0.8 |
| US$ Indexed Bonds | 37,189.7 | 8.3 | 25,575.1 | 5.3 |
| US$ Denominated Bonds | 47,533.3 | 10.6 | 51,163.7 | 10.6 |
| Comm. Bank Loans & Other | 13,087.8 | 2.9 | 10,635.5 | 2.2 |
| **Total** | **449,247.6** | **100.0** | **482,712.5** | **100.0** |

At the end of the fiscal year, LRS and Investment Debentures, the Government's medium to long-term debt instruments, represented approximately 81.1% of the domestic debt stock compared with 77.3% at the end of March 2005 and 73.9% at the end of March 2004. The stock of Investment Debentures increased by $26,931.4mn or 20.9% over the level recorded at the end of FY 2004/05. The stock of LRS increased by $17,220.1mn or 7.9%. However, LRS at 48.8% still account for the largest share of the domestic debt stock.

There was significant success in reducing the foreign currency exposure of the domestic debt. At the end of FY 2005/06, the stock of US$ Denominated Bonds and US$ Indexed Bonds stood at $76,738.8mn or 15.9% of the domestic debt. This represents a reduction from the 18.9% recorded at the end of FY 2004/05 and 23.2% at the end of FY 2003/04.

***Debt Raising***

Gross new domestic debt issued during FY 2005/06 amounted to $137,112.2mn, compared with original budgeted financing of $112,699.7mn. This represented a $24,412.5mn or 21.7% increase over the planned borrowing for the year.

Of the total new debt issued, $131,447.4mn or 95.9% was raised for budgetary commitments and $5,664.8mn or 4.1% for non-budgetary purposes. Debt issued for non-budgetary purposes related to the assumption of contingent liabilities in respect of JUTC and NWC, and for capitalized interest on securities issued for BOJ losses and BOJ/FINSAC liabilities.

## Holdings

Merchant banks, trust companies and brokers continued to be the main holders of Government securities. Their holdings increased from 32.6% at the end of FY 2004/05 to 33.7% at the end of FY 2005/06. The second largest holder was commercial banks accounting for 15.6%. This represented a reduction from 16.6% at the end of FY 2004/05. Holdings by the BOJ decreased from 19.3% to 17.8% at the end of FY 2005/06. Holdings by insurance companies and pension funds, including the National Insurance Fund, increased from 20.4% to 22.3% at the end of March 2006.

## Maturity Profile

The Government was successful in extending the maturity profile of the domestic debt. Of the new domestic debt issued in FY 2005/06, 43.4% had maturities of up to 5 years, down from 71.5% in FY 2004/05. Of this, 16.3% is due to mature in 1 to 3 years, while 27.1% will mature in 3 to 5 years. Issues with maturities of over 5 years accounted for 56.6% of new issues compared to 28.5% in FY 2004/05. Those with maturities between 5 and 10 years saw a significant increase from 21.2% in FY 2004/05 to 35.7% in FY 2005/06. While the market still displayed greater preference for medium-term instruments, the Government succeeded in issuing 3.5% of new debt with maturities of 20 to 30 years.

Of the total domestic debt outstanding at the end of FY 2005/06, 71.9% had maturities of up to 5 years, compared with 74.4% at the end of FY 2004/05. Of this category, 44.7% is due to mature in 1 to 3 years, while 27.2% will mature in 3 to 5 years. Some 12.2% of the outstanding domestic debt had maturities of 10 years and over, up from 10.3% at the end of FY 2004/05.

***New Debt***

**By Original Maturities**
**(%)**

| Years to Maturity | FY 2004/05 | FY 2005/06 |
|---|---|---|
| *<1 & up to 3 yrs* | 51.1 | 16.3 |
| *3–5 yrs* | 20.4 | 27.1 |
| *5–10 yrs* | 21.2 | 35.7 |
| *10–20 yrs* | 5.6 | 17.4 |
| *>20 yrs* | 1.7 | 3.5 |
| **Total** | **100.0** | **100.0** |

## Interest Rate Structure

Market conditions in FY 2005/06 were not conducive to increasing the share of fixed-rate debt which declined to 47.0% at the end of March 2006, down from 58.6% at the end of March 2005.

Of the new domestic debt issued during the fiscal year, 35.9% was contracted on a fixed-rate basis while 64.1% was contracted on a variable-rate basis. Of the total outstanding domestic debt at the end of March 2006, 47.0% had been contracted on a fixed-rate basis compared with 58.6% at the end of March 2005, and 58.2% at the end of March 2004.

**Domestic Debt Interest Rate Structure**
**FY 2003/04 – FY 2005/06**
**(%)**

| | March 2004 | March 2005 | March 2006 |
|---|---|---|---|
| Fixed Rate Debt | 58.2 | 58.6 | 47.0 |
| Variable Rate Debt | 41.7 | 41.4 | 53.0 |

| | | | |
|---|---|---|---|
| Non-Interest Bearing Debt | 0.1 | 0.0 | 0.0 |
| **Domestic Debt** | **100.0** | **100.0** | **100.0** |

### Interest Rates

Domestic interest rates were relatively stable during FY 2005/06, fluctuating within a narrow band. In addition to the monthly issuance of the benchmark 6-month Treasury Bill, the Government has since August 2005, been issuing 3-month Treasury Bills on a monthly basis to appropriately re-price all new securities with quarterly interest payments.

At the end of March 2005, the average yield rate on the 6-month Treasury Bill was 13.46%, moving to 13.18% at the end of March 2006 with a high of 13.55% and a low of 12.88%. The 3-month Treasury Bill average yield rate moved from a low of 12.78% in August 2005 to a high of 13.34% in December to end at 13.16% at the end of March 2006.

The rates on Bank of Jamaica 180-day, 270-day and 360-day Reverse Repurchase Agreements moved from 13.45%, 14.00% and 14.50%, respectively, at the end of March 2005, to settle at 13.00%, 13.25% and 13.60%, respectively, at the end of March 2006.

### Domestic Debt Indicators

At the end of the FY 2005/06, the Domestic Debt-to-GDP ratio was 74.9% compared with 81.7% at the end of FY 2004/05. Domestic interest payments accounted for 40.2% of tax revenue and 34.0% of recurrent expenditure at the end of FY 2005/06, compared with 48.3% and 38.6%, respectively, at the end of FY 2004/05.

## EXTERNAL DEBT

### Performance Summary

During FY 2005/06, the Government satisfied its objectives of securing adequate external financing, extending the maturity structure and widening the investor base of the external debt portfolio. In addition, based on strong demand and favourable market conditions, in February 2006, the Government was able to pre-fund its FY 2006/07 external borrowing, issuing a 30-year Eurobond.

During the fiscal year, Jamaica's sovereign credit ratings were re-affirmed by Moody's Investors Service (Moody's) and Standard and Poor's (S&P). In May 2005, Jamaica achieved a significant milestone by concluding its almost three decades of indebtedness with the International Monetary Fund, with the final repayment of outstanding debt obligations to that institution.

## STOCK

At the end of March 2006, the stock of public and publicly guaranteed external debt stood at $364,637.4mn (US$5,567.4mn), including the pre-funded amount of US$250mn. The External Debt-to-GDP was 56.6%. The external debt increased by $54,185.8mn or 17.5% compared to the level at the end of March 2005. In US$ terms, the external debt increased by 10.4%.

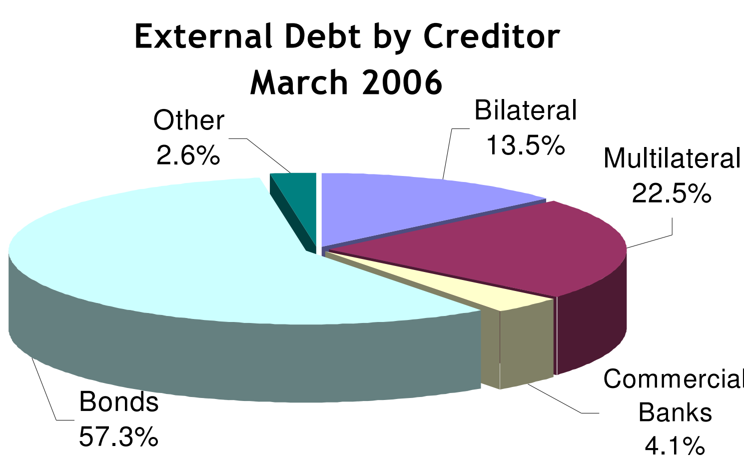
This increase was due largely to:

- The issuance of bonds in the international capital markets which exceeded gross amortization for the fiscal year;
- Disbursements on new and existing loans for infrastructural development, including loans for the multi-purpose stadium in Trelawny and the Half-Way-Tree Transportation Centre; and
- Government Guarantees mainly in support of the financial restructuring of the debt portfolio of Air Jamaica Ltd. and for the NWC.

## Creditor Composition

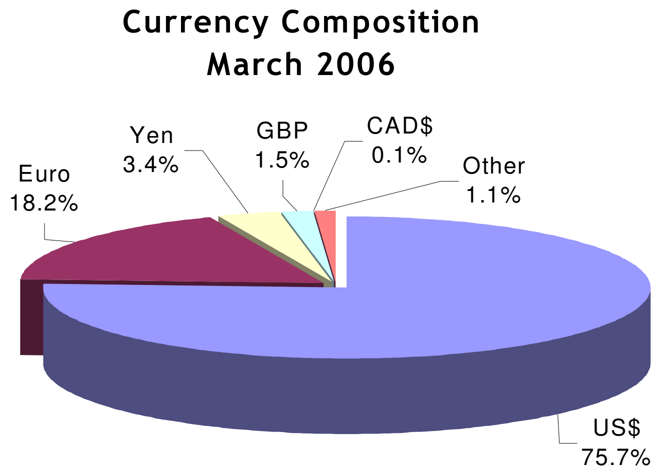
As Jamaica continued to successfully access the international capital markets, eurobonds maintained the position as the predominant source of funding. At the end of FY 2005/06, eurobonds accounted for 57.3% of the external debt stock, compared to 46.8% at the end of FY 2004/05. Loans from commercial banks marginally decreased from 4.6% at the end of FY 2004/05 to 4.1% at the end of FY 2005/06. The decline reflected the net repayments to commercial banks.

The share of loans from official creditors, comprising multilateral and bilateral sources, has declined steadily over the past 10 years. At the end of March 2006, loans from official creditors accounted for 36.0% of the external debt compared to 43.7% at the end of March 2005



**Currency Composition**

The US$ maintained its position as the predominant currency in which external loans are denominated. At the end of FY 2005/06, 75.7% of the external debt was denominated in US$, compared with 70.7% at the end of FY 2004/05. The Euro remained the second largest currency component of the external debt portfolio, representing 18.2% of the stock.




**Interest Rate Structure**

The proportion of fixed-rate external debt steadily increased, thereby insulating the portfolio from adverse interest-rate movements. This is in keeping with the objectives of the *Debt Management Strategy* to increase the share of fixed rate debt in the portfolio.

**External Debt Interest Rate Structure**
**FY 2003/04 – FY 2005/06**
**(%)**

| | March 2004 | March 2005 | March 2006 |
|---|---|---|---|
| Fixed-Rate Debt | 72.3 | 76.2 | 77.4 |
| Variable-Rate Debt | 27.7 | 23.8 | 22.6 |
| **Total** | **100.0** | **100.0** | **100.0** |

Of the external debt outstanding at the end of FY 2005/06, 77.4% had been contracted on a fixed-rate basis while 22.6% had been contracted on a variable-rate basis.

This compared with 76.2% fixed-rate and 23.8% variable-rate at the end of FY 2004/05.

### Maturity Structure

The external debt portfolio has historically been predominantly long-term debt. In FY 2005/06, the issuance of longer dated bonds, and in particular, the recent issue of a 30-year eurobond in the international capital markets, coupled with concessional loans from bilateral creditors bearing tenors in excess of 15 years, positively impacted the maturity profile of the external debt.

Of the total external debt outstanding at the end of FY 2005/06, 17.1% had maturities of up to 5 years, compared with 22.8% at the end of FY 2004/05; 34.6% had maturities of 5-10 years up from 32.6% in FY 2004/05; and 48.3% had maturities in excess of 10 years, up from 44.6% in FY 2004/05.

### Debt Forgiveness

The Government of the United Kingdom has over the years extended assistance to the Government of Jamaica in the form of debt relief. This covered principal and interest payments falling due on eligible loans during the fiscal year. Under the renewed Commonwealth Debt Initiative (CDI), Jamaica received debt forgiveness amounting to £6.3mn during FY 2005/06. This amount comprised £3.4mn for Overseas Development Assistance loans from the United Kingdom Government and £2.9mn for Commonwealth Development Corporation loans. The debt relief was granted against the background of macro-economic and social targets established in the Medium-Term Socio-Economic Policy Framework (MTF) which was prepared by the Government of Jamaica in collaboration with Jamaica's Development Partners. Three criteria were established as the basis for assessment. These are poverty reduction, respect for human rights and a commitment to strengthening financial management and accountability.

### External Debt Indicators

At the end of FY 2005/06, the External Debt-to-GDP ratio remained relatively flat at 56.6% compared to 56.5% at the end of FY 2004/05. Debt service as a percentage of export of goods and services was 14.3% at the end of FY 2005/06, compared with 13.8% at the end of FY 2004/05. The debt service ratio remained within the internationally accepted benchmark of 20%.

### International Capital Markets And Developments

For most of FY 2005/06, Jamaica's eurobonds outperformed those of other emerging markets. The impressive trading levels of the Government's eurobonds were sustained during the fiscal year, despite periods of volatility in the markets.

Investors demonstrated their confidence in Jamaica and its credit story, evidenced by the favourable response and overwhelming demand for Jamaica's eurobonds during the fiscal year. In June 2005, the Government successfully issued a US$300mn 9.00% bond due 2015. The initial offer was for US$200mn however, due to overwhelming demand, this was upsized to US$300mn. The issue attracted mainly institutional investors in the U.S. and Europe. The Order Book represented the widest geographical distribution and variety of investors for any bond issue. Bear, Stearns & Co. Inc. was the lead manager for the transaction. In October 2005, the Government issued a US$250mn 9.25% bond due 2025. The sole lead manager of this transaction was Morgan Stanley.

In February 2006, the Government pre-funded its FY 2006/07 external borrowing requirement, issuing its landmark 30-year US$250M 8.5% Eurobond in the international capital markets. Deutsche Bank Securities was the lead manager for the transaction**.**

During the fiscal year, Jamaica's credit ratings were re-affirmed by the rating agencies Moody's and S&P. In May 2005, Moody's maintained Jamaica's long-term foreign currency credit rating of "B1" and its domestic currency credit rating of "Ba2". The outlook remained "Stable". In January 2006, S&P re-affirmed its "B" long and short-term sovereign credit ratings on Jamaica. The outlook remained "Stable". The ratings were supported by the Government's ongoing commitment to fiscal discipline and debt reduction, amidst external shocks.

## DEBT STRATEGY FY 2006/07

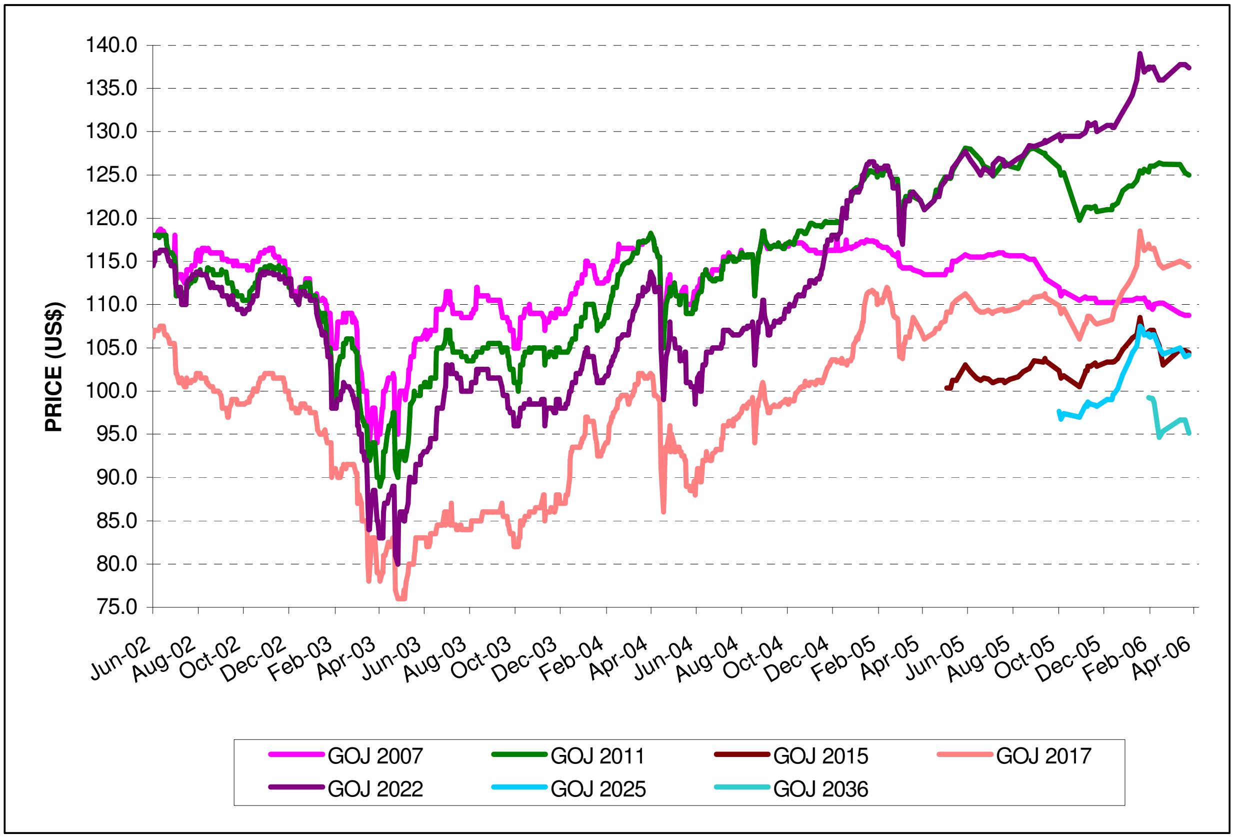
Debt management in FY 2006/07 will continue to be guided by the fundamental strategic objective of the Government's medium-term *Debt Management Strategy* of lowering the cost of borrowing, subject to the containment of risks within acceptable levels. Risk management will continue to be a critical tool in Government's *Debt Management Strategy* in FY 2006/07 and beyond.
Within the context of the medium-term strategy aimed at achieving a sustainable level of indebtedness, the *Debt Management Strategy* in FY 2006/07 will continue to seek to:

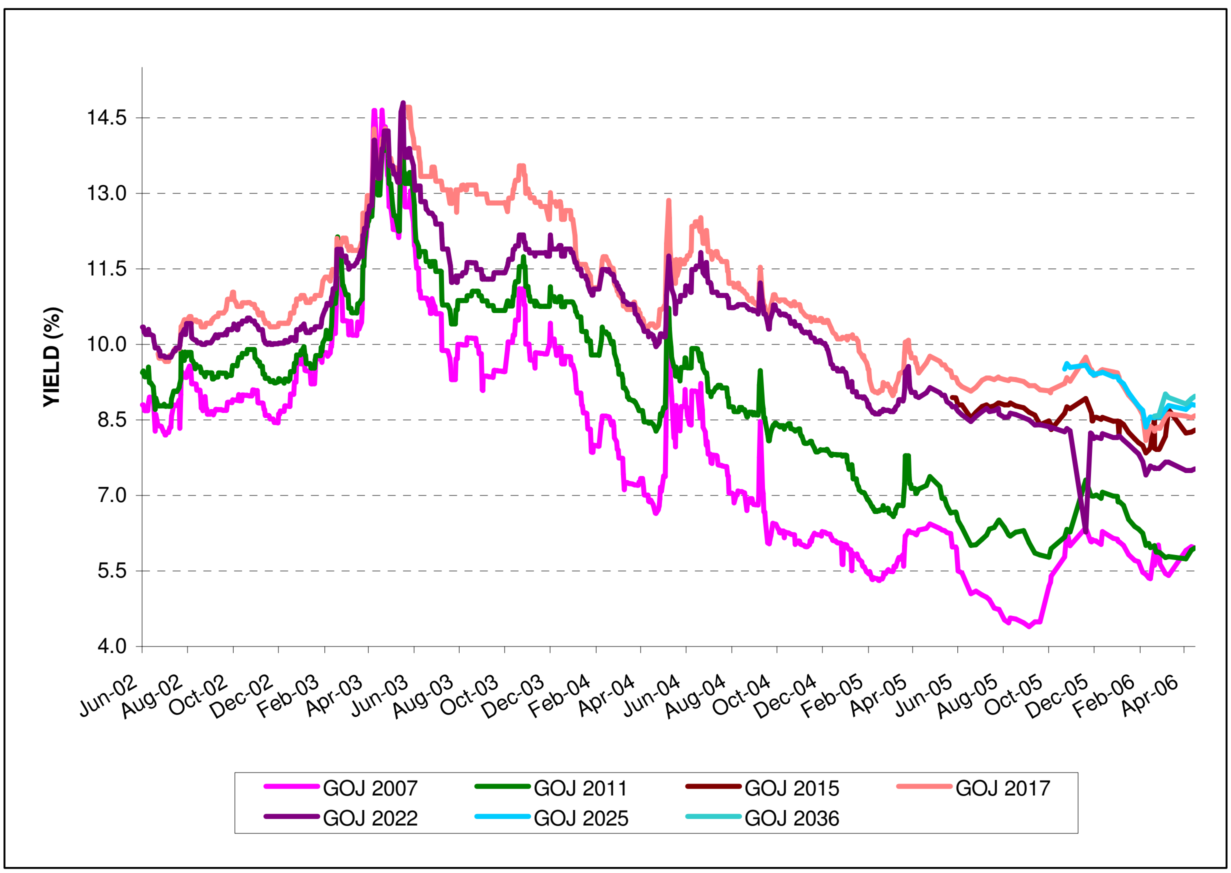
- Maintain an appropriate mix of fixed-rate and floating-rate debt to further diversify and minimize interest-rate risk;
- Extend and smooth the maturity profile of the debt to better manage refinancing risk;
- Minimize foreign currency exposure of the domestic debt portfolio;
- Increase the use of the auction mechanism for issuance of domestic securities; and
- Increase the transparency and predictability of debt issuance and operations.

### Medium Term Target

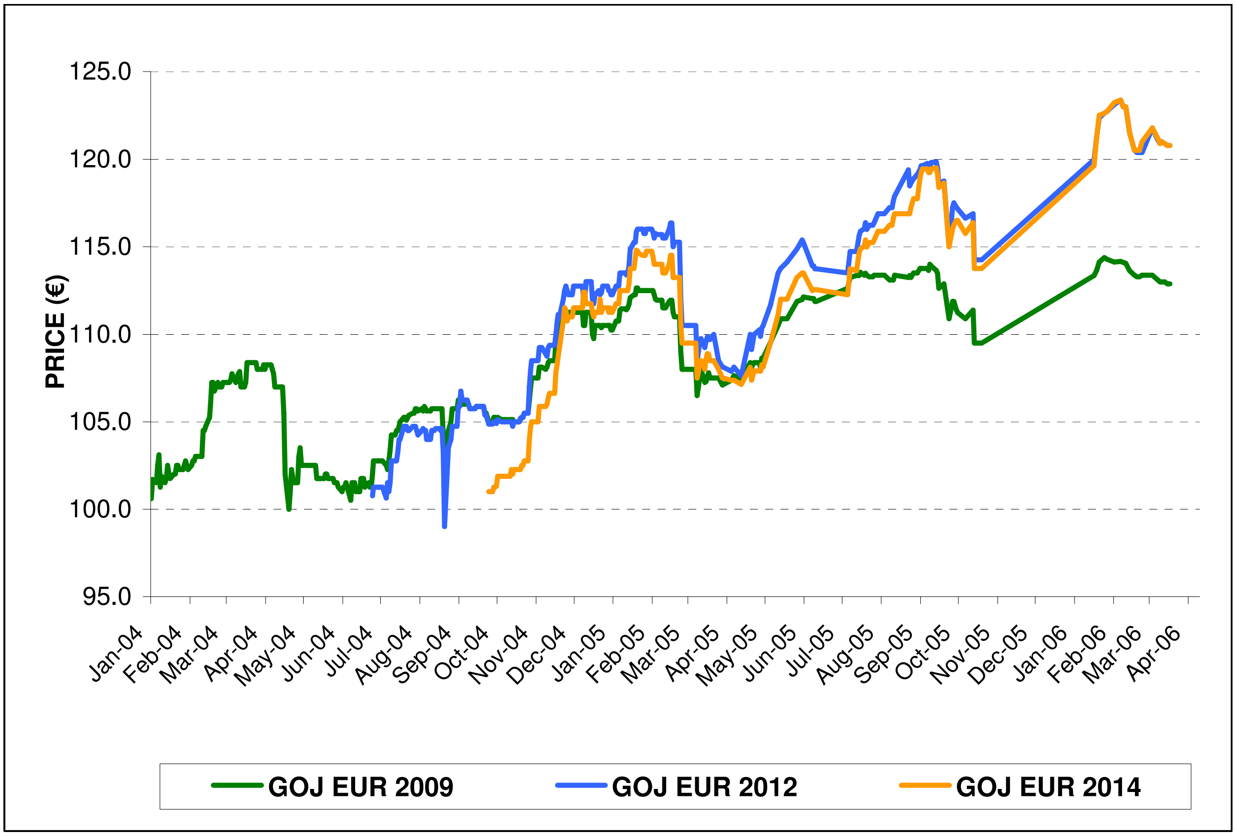
The Debt-to-GDP ratio has been on a consistently downward path since FY 2002/03 and is projected to continue its decline over the medium-term. The Government remains committed to prudent fiscal management and improving the debt dynamics.

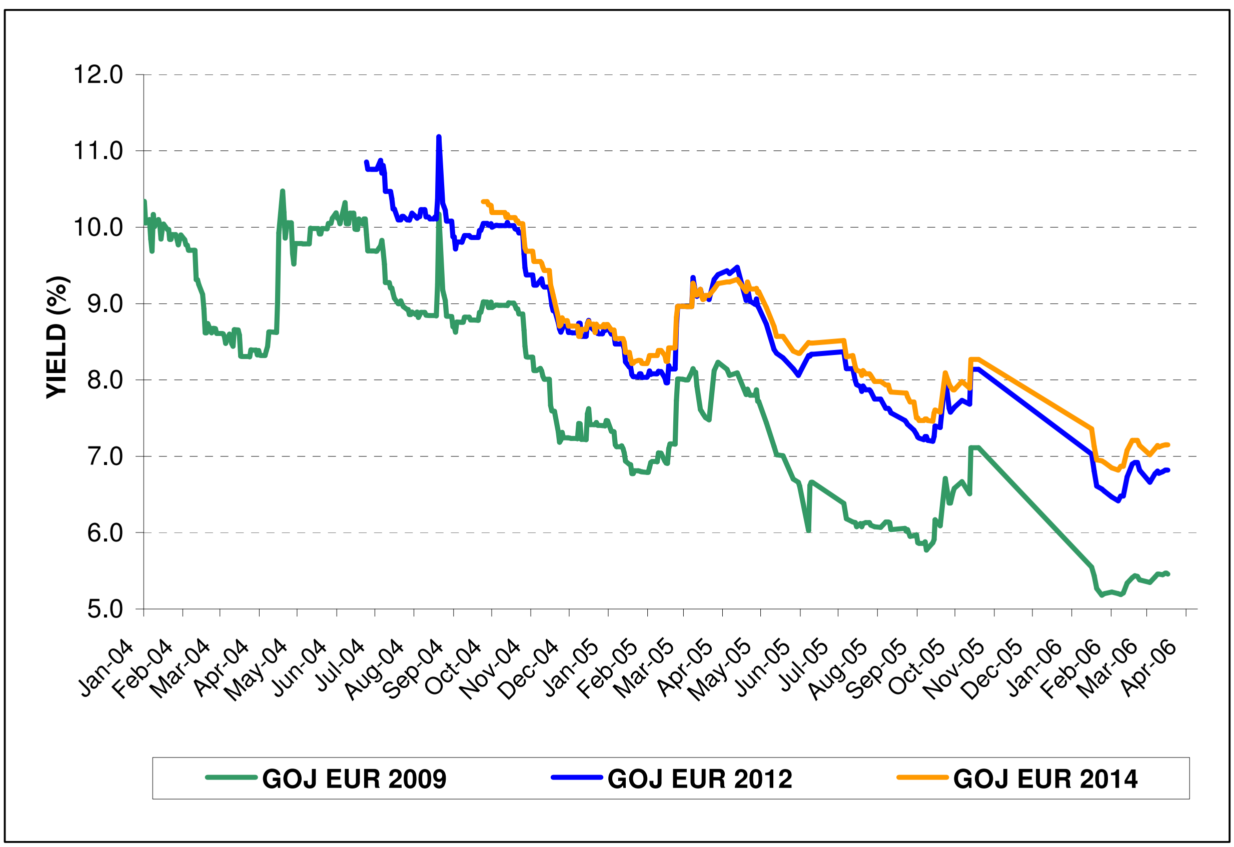
## TRADING LEVELS OF GOJ US$ GLOBAL BONDS



## TRADING LEVELS OF GOJ EURO-DENOMINATED BONDS

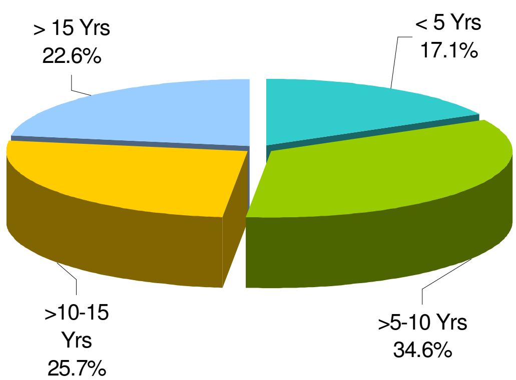


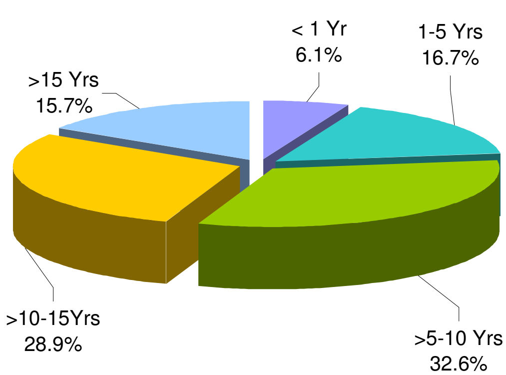
# MATURITY PROFILE OF THE DEBT
## (Remaining Maturity)

### External Debt

#### March 2006

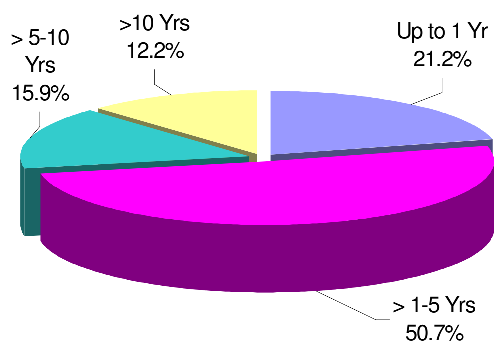



#### March 2005

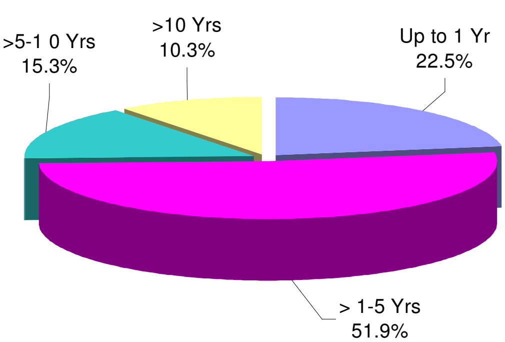



### Domestic Debt

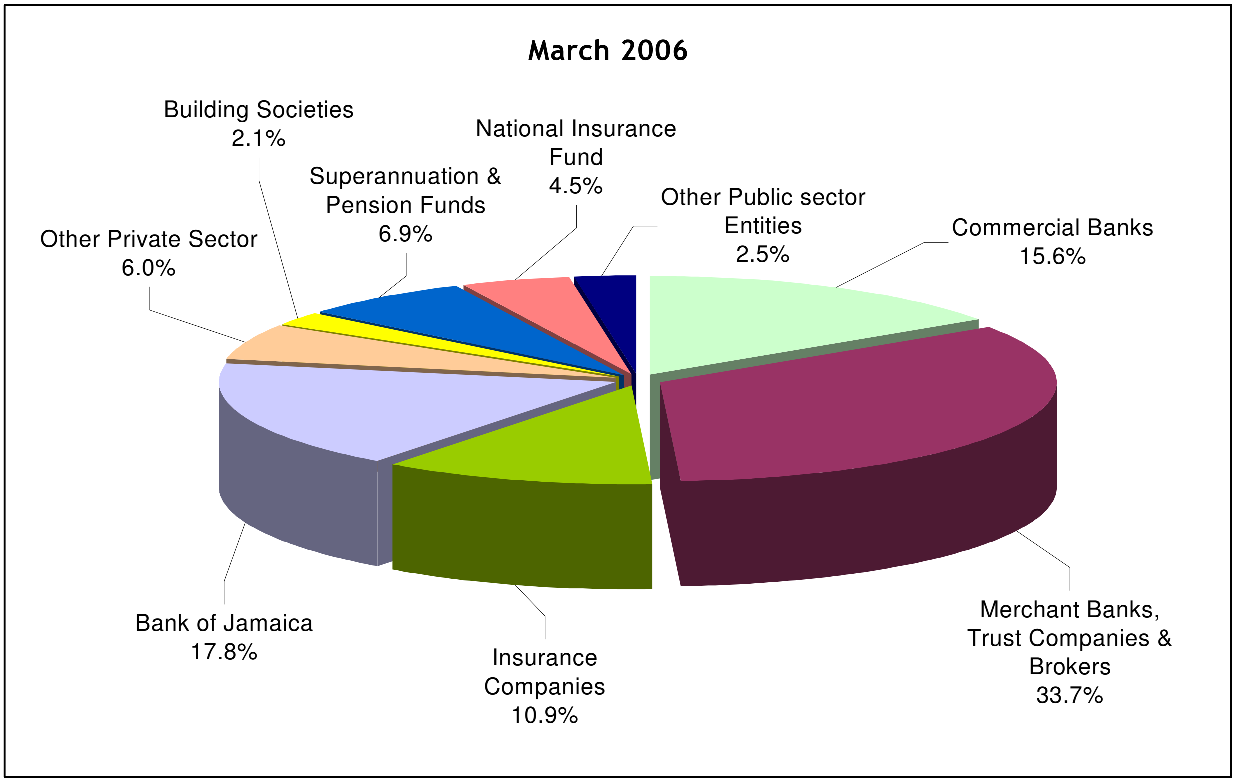
#### March 2006

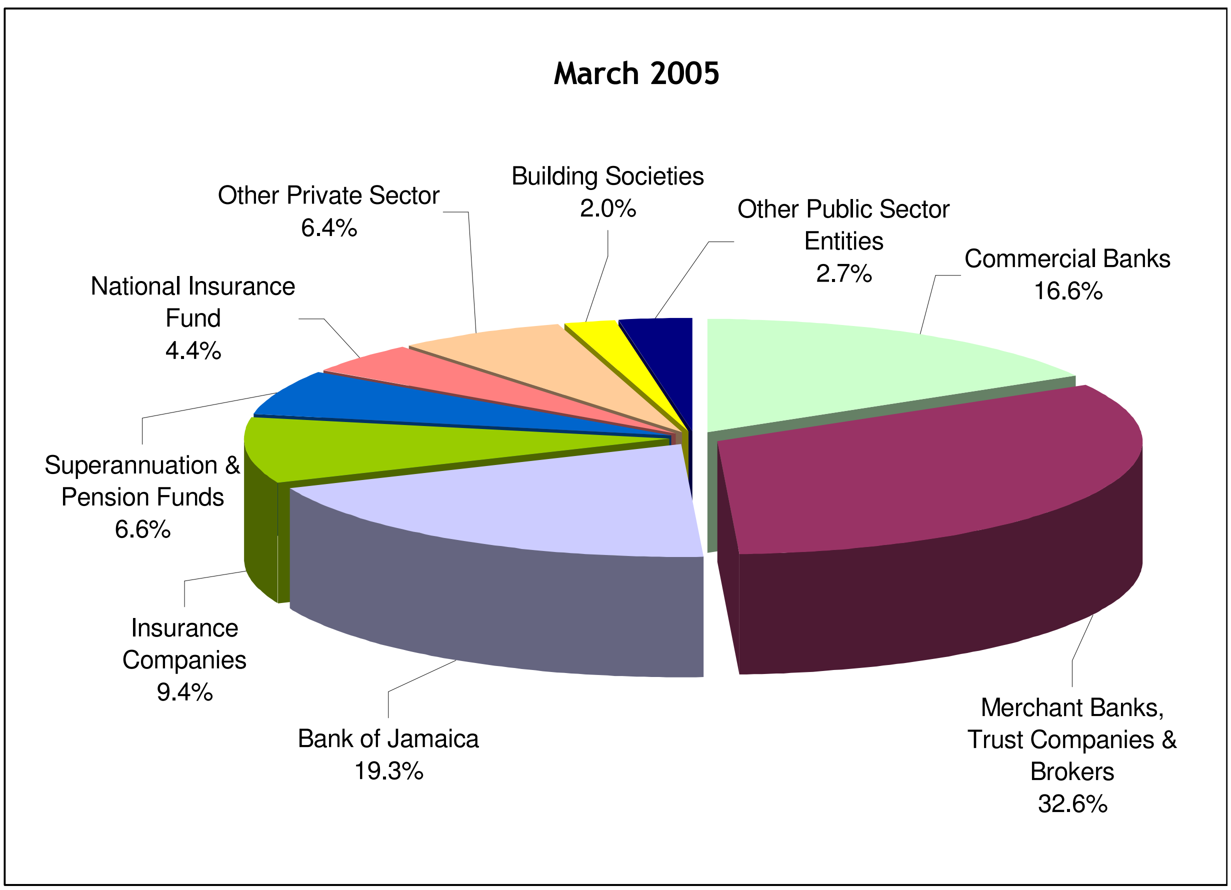



#### March 2005



## HOLDINGS OF GOJ REGISTERED SECURITIES

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# Appendix 1

## PUBLIC SERVICE ESTABLISHMENT PROGRAMME

Public Sector employment policies are supported by human resource management strategies geared towards the delivery of efficient and cost effective public services. The policies are implemented through the Public Service Establishment Programme (PSEP), which encompasses wages and industrial relations policies, employee benefits programmes, public sector employment and pensions administration.

Performance management is a critical tool to ensure cost effective delivery of public services. In this regard with the Performance Management Appraisal System (PMAS) now implemented in a number of Ministries, Departments and Agencies (MDAs), improvement in performance and productivity in the public sector remains the primary focus of the PSEP. One of the outcomes of PMAS is the establishment of performance related pay. Consequently, annual increments and seniority allowances are now tied to specific performance criteria as outlined in PMAS. Other elements of performance pay will be introduced in FY 2006/07.

***Memorandum of Understanding***

The Memorandum of Understanding (MOU), which was signed between the Government of Jamaica (GoJ) and the Jamaica Confederation of Trade Unions (JCTU), faced a number of challenges, particularly in relation to the economic targets that were outlined in the agreement. Achievement of these targets was affected by the impact of increasing oil prices and the

ravages of the hurricanes in 2004 and 2005. The hurricanes had an adverse impact on agricultural output, which led to higher than anticipated inflation. Notwithstanding these adverse realities there were several positive outcomes, including:

- a spirit of cooperation – a harmonious industrial relations climate and greater collaboration

- between public sector unions and the GoJ;

- development of public sector employees – training commitments for the education and health sectors, as well as the fire services was largely achieved. In addition, the summer skills training programme was successful and was positively received by the participants;

- wage restraint – the wage bill was stabilized at approximately $60 billion for FY 2004/05 and 2005/06;

- expenditure restraint – 18 entities have achieved cost savings totaling $49.3 million.

These outcomes were achieved through the vigilance of the Monitoring and Evaluation Committee of the MOU and the Post Operations Committee, which preceded the MOU and was subsequently adopted by the MOU.

In response to the shocks which occurred in FY 2004/05 and 2005/06, that resulted in higher than programmed inflation, the payment of an interim (MOU) allowance and a moratorium on staff loans were agreed and implemented in the third quarter of FY 2005/06. A successor MOU is being negotiated for the two (2) year period 2006/08.

***Public Sector Employment***

The employment population in the public sector stood at approximately 95,000 or 10% of the country's employed labour force. Of the 95,000 employees approximately 80,000 are paid directly from the Budget.

The Civil Service Establishment (General) Order, 2005 recorded 40,530 posts in the Central Civil Service (including the Police). This represents a slight reduction from the 40,800 posts published in the 2004 Civil Service Establishment (General) Order.

***Employee Benefits***

In FY 2005/06 employee benefits – which include loans, grants, health insurance and staff transportation – cost the Government $2.8 billion**.** There has been an increased awareness of, or need for, Public Sector Employee Benefits based on the number of applications for loans. While there were a significant number of applications for motor vehicle loans, the majority of requests came from persons seeking miscellaneous loans for tuition fees payable to tertiary institutions. This arose from the recognition by public officers of the need to pursue higher education for advancement in their careers and the achievement of greater efficiency in performing their jobs. The total number of applications approved for motor vehicle loans was 494 at a cost of $212.4 million while 728 miscellaneous loans were approved at a cost of $25.5 million.

In addition to the above benefits, over 300 civil servants who have served for twenty-five (25) years were recognized and awarded medals and certificates at the long service award ceremony held in November 2005.

***Pensions***

Pension costs for retired public officers increased by 18% from $6.7 billion in FY 2004/05 to approximately $7.9 billion in FY 2005/06. This was mainly due to an increase in the number of pensioners, to approximately 22,000 as at February 2006. In addition, there was a revision of the pension benefits, which cost approximately $250 million.

In FY 2005/06 the Retiring Allowances (Parish Councilors) Act and the Amendment to the Pensions (Prime Minister) Act were passed. The Parish Councilors Act introduced pensions for Parish Councilors while the Prime Minister's Act legislated previous Cabinet Decisions.

A review of the pension arrangement for public officers is now being undertaken. Proposals arising from the review will be evaluated for consideration in FY 2006/2007.

### *Industrial Relations/Public Sector Wages*

During FY 2004/05 and 2005/06 the Public Sector MOU was in effect and contained conditionalities that governed wages and wage negotiations. Under these guidelines, negotiations were concluded with the Jamaica Medical Doctors Association for the 2002/04 contract period and the five (5) police groups: the Jamaica Police Federation, the Jamaica Police Officers Association, the Island Special Constabulary Force Association (Rank & File), the Island Special Constabulary Force Officers Association and the United District Constables Association in respect of the contract period 2004/06. With regard to the Judicial and Legal Officers, a wage increase that was due from 2003 was also settled. Retroactive payments for the legal groups will be made in FY 2006/07. The Ministry of Finance & Planning (MOFP) has also been expeditiously pursuing the issue of addressing outstanding items of agreement from past negotiations.

In an effort to increase awareness amongst stakeholders of the benefits of good industrial relations practices, the MOFP, in collaboration with the JCTU, convened a workshop on Grievance/Disputes/Discipline and Labour/Management Relations over a two (2) day period. Fifty-eight participants drawn from a wide cross section of Human Resource Management and Industrial Relations practitioners in the Public Service attended.

The MOFP led and provided technical advice at a number of hearings at conciliation meetings at the Ministry of Labour and Social Security (MLSS) and at arbitration proceedings at the Industrial Disputes Tribunal (IDT). During FY 2005/06 there were two (2) reported cases of wage-related industrial action within the Public Sector.

To date the MOFP has received six (6) claims from Central and Local Government groups for the 2006/08 contract period and four (4) claims from bargaining units within Parastatal Bodies. The request for salary increases range from 25 % to 40% per annum. The Ministry anticipates an influx of claims at the beginning of FY 2006/07 after the expiration of the current MOU. There are no outstanding claims from the pre- MOU period as these issues were settled within the parameters agreed to in the MOU.

Negotiations for the 2006/08 contract period are being conducted within the parameters of a successor MOU. The MOU kept the wage bill flat in FY 2005/06. The contributions of Public Sector/Groups to the wage bill are outlined below:

<u>**Contribution of Sectors to Wage Bill (2005/2006)**</u>

| Sectors/Groups | % of workforce | % of wage bill |
|---|---|---|
| Security | 14.2% | 14.9% |
| Education | 31.6% | 41.2% |
| Health | 7.3% | 14.4% |
| Legal & Judiciary | 0.3% | 1.3% |
| Statutory Bodies | 8.4% | 3.2% |
| Fire & Correctional Services | 4.0% | 3.7% |
| Parliamentarians, Mayors & Councilors | 0.3% | 0.7% |
| Local Government Administrative & Weekly Paid | 15.6% | 5.6% |
| Civil Service Administrative | 18.3% | 15.0% |

# Appendix 2

## PUBLIC SECTOR REFORM

The *Public Sector Modernization Vision and Strategy 2002-2012* was tabled in Parliament in September 2002, with implementation of the programme commencing in FY 2003/04. FY 2005/06 therefore represents the third year of implementation. Over the three-year period the reform programme has made significant achievements, which are highlighted in the annual reports available on line at http://www.cabinet.gov.jm/doc-archive.asp.

During FY 2005/06 the eight themes of the reform programme were tackled under four broad headings:

- Customer Service/ Service Delivery and the Establishment of Performance Based Institutions
- Resource Management Accountability, Policy Development and Corporate Planning
- Human Resource and Change Management
- Information and Communication Technology

***Customer Service/Service Delivery and the Establishment of Performance Based Institutions***

Following on the success of the World Bank funded Public Sector Modernization Programme (PSMP) 1996-2003 in establishing a number of executive agencies across the public sector, the Public Sector Reform Unit (PSRU) is currently facilitating the establishment of additional performance based institutions (PBIs) throughout Government. These institutions will take the form of executive agencies, policy-focused Ministries and other entities operating under the principles of executive agencies, though not having similar legal identity.

Transformation of these entities is on a phased basis and includes:

- the transformation of Ministries to focus on policy development, strategic planning and management of outputs and outcomes - services - delivered by the entities within their portfolio; and
- the transformation of Departments, Divisions and Agencies to more efficiently and effectively deliver services to their customers.

In FY 2005/06 the following Ministries and Agencies were the focus of transformation:

- The Ministry of Transport and Works was the first to be transformed into a PBI, in this case, a policy-focused Ministry. This means that the Ministry's focus will now be primarily on policy development, monitoring and evaluation and setting standards for the performance and evaluation of its agencies. However, there is still one outstanding aspect of the modernization of the Ministry, which is the delegation of compensation and staffing functions from the Ministry of Finance and Planning (MoFP). Work is presently being done by the PSRU, the MoFP and the Office of the Services Commission (OSC) to establish the framework within which this authority will be delegated. The working group was scheduled to complete the framework for approval by March 2006.

- The Ministry of National Security has been identified as the next to be transformed into a policy-focused Ministry. The Modernization Plan, Medium Term Financing Plan and Framework Documents have been completed for the Ministry and implementation is scheduled to take place over the next two years ending in FY 2007/8.

- The Scheme of Management has been completed for the Immigration, Citizenship and Passport Services Division (ICPSD) towards the transformation of this entity into an executive agency. The implementation of the modernization plan for ICPSD is also scheduled to take place within fiscal years 2006/07 and 2007/08.

- The Firearm Licensing Authority is a new entity being established by the Ministry of National Security with the leadership of the PSRU, and while it will not be legally defined as an executive agency, it is being established to operate as a PBI. The organizational structure and business processes have been developed and the Authority is on target to be established and staffed by April 2006.

- The PSRU team has also been involved in the transformation of the Forestry Department into an executive agency. The prior options and strategic reviews for the agency have been completed and the modernization plan is being developed by the team. The Scheme of Management will be completed by the second quarter of FY 2006/07.

- While transformation into a PBI is not scheduled to occur in the Jamaica Fire Brigade within the next three years, during FY 2005/06 the PSRU commissioned an assessment of the entity towards its immediate improvement. Based on the critical nature of the organization to disaster management and mitigation, it was necessary to identify a number of key actions that would allow the Fire Services to operate more effectively. The assessment was completed and the recommendations reviewed within the Ministry of Local Government, Community Development and Sport. Implementation of the recommendations for improvement of the Fire Services is slated to begin in FY 2006/07.

- Through the establishment of the Education Transformation Team (ETT) in March 2005, activities towards the modernization of the education sector in general and more specifically the Ministry of Education, Youth and Culture have commenced. The ETT, which was established to implement the recommendations of the Task Force on

Education Reform, has developed a three-year implementation plan for the transformation exercise. Technical assistance has also been retained to conduct the strategic review of the Ministry and its transformation to a PBI. This transformation exercise will include the establishment of a number of regional bodies including the National Educational Quality Assurance Authority (NEQAA) and Regional Education Authorities (REAs). As part of the overall reform effort there has been significant collaboration with the Office for National Reconstruction (ONR) to refurbish more than 125 schools across the island and manage approximately J$750M in related contract payments.

While work is being carried out to transform the operations of a number of key organizations, there is also a need to develop the performance standards which will be used to guide the operations of these entities and evaluate them once they have been established as PBIs. To this end, there has been a review of the Customer Service Improvement Programme implemented within Ministries and Agencies across the public sector to develop more than 90 Citizens' Charters. An impact assessment was conducted on the programme during FY 2005/06, and is currently being analyzed for necessary action to be taken. Additionally customer service surveys for key Government entities such as the Jamaica Customs have been reviewed and will be used to establish minimum customer service standards and inform the monitoring and evaluation framework being developed for modernized entities. Work is currently being undertaken to conduct a review of existing executive agencies and develop an instrument for ongoing 'holistic' performance monitoring and evaluation.

***Resource Management & Accountability, Policy Development and Corporate Planning***

Under this component of the reform, systems and procedures necessary for improved decision making and resource management across government have been developed. A key element of this component has been the development of a prioritization process that will allow for the identification of Government priorities for policy development and implementation as well as programme and project funding. The Capital Projects, Policies and Programmes Prioritization System has been developed and was approved by Cabinet during the first quarter of FY 2005/06. Further work has since been carried out to ensure that the system will be fully operational to inform the planning and budgeting process for FY 2007/2008.

The transition of the Government's financial management system from cash based to accrual accounting continues to be an important aspect of the reform programme. To this end, funding has been identified for the continued evaluation and development of the FINMAN system, as well as the development and institutionalization of related training. Pilot implementation of the system has occurred in the Ministries of Finance and Planning, and Transport and Works, as well as the Office of the Services Commission. The experiences of these entities are currently being evaluated by the MoFP to inform further rollout of the system to an additional 6 entities during FY 2006/07.

As part of the bid to improve decision-making processes within Government, to make them more participatory and evidence-based, minimum rules have been established for conducting consultations. The Consultation Code was introduced in all Ministries and training provided for persons identified as Consultation Liaison Officers, responsible for monitoring and coordinating consultation exercises within their Ministries. In addition to 50 persons being trained as liaison officers, training was developed by the Management Institute for National Development (MIND) for the provision of the course *Governance through Consultation*, which was delivered for the first time in November 2005.

The Sustainable Development Task Force reconvened in 2005 with responsibility for coordinating the development of a National Sustainable Development Framework. The task force has approved the proposal and the accompanying work plan for development of the framework to be submitted to the international development partners for funding. The framework is being developed to chart the path for national development in a manner that integrates policy with strategic and spatial planning, infusing the principles and practices of sustainable development principles into all levels of decision-making. This will mean rationalizing existing policy and planning roles and ensuring that the appropriate institutions and policies to effect national sustainable development are in place.

The Jamaica Social Policy Evaluation Project (JASPEV), which was originally scheduled to end in June 2005, has been extended for another 18 months and is now scheduled to close in December 2006. There has been general agreement that the work done to date has been invaluable and that further efforts should be made to institutionalize the lessons and best practices emerging from the project. Work is being done to ensure the establishment of synergies between the project outputs and the public sector reform agenda. This has been evident in the work done with the Customer Service Improvement Programme, the Capital Projects Programmes and Policies Prioritization Programme, and the establishment of an inter-ministerial committee of technical experts to oversee the policy reform process across Government to ensure that reform is in keeping with the principles and lessons learnt from the JASPEV project.

***Human Resource and Change Management***

This component of the public sector reform agenda is aimed at ensuring that the framework is in place for effective management and development of the Government's human resources and the overall regeneration of the Public Service.

To accomplish this, a review of critical Human Resource Management business processes of Government began in 2003 and was completed during FY 2005/06. Once the business processes have been reviewed and reengineered as necessary, and systems requirements established, a Human Resource Information Management System will be identified for use across all central government entities. This is expected to take place no later than December 2006 with an initial pilot implementation in the Ministry of Finance and Planning and the Cabinet Office.

Additionally, Ministries and Agencies are being supported to reorganize their Human Resource Management Departments to better equip them to discharge their functions. A proposed organizational structure has been developed for the human resource management units and has been reviewed and approved in principle by the Human Resource Management Steering Committee of the Permanent Secretaries' Board. This will be submitted to Cabinet for final approval and implementation of the new structures in FY 2006/07.

Since 2004, the Government has been developing and implementing a new Performance Management and Appraisal System (PMAS) for the Public Sector. During FY 2005/06 the system was fully implemented in five Ministries, the evaluations of which will be used to inform the further implementation of the system across all Ministries, as well as ten Departments of Government, during FY 2006/07. The non-pilot Ministries have received training and are currently developing their output focused job descriptions and attendant work-plans. The PMAS Manual has been developed and is being disseminated to all Ministries and Departments. Additionally, a PMAS employee's handbook has been drafted and is being reviewed for dissemination in FY 2006/07.

In a follow-up to the previous year's programme, the Public Sector Employee Training Programme was conducted for a second year, in keeping with the GoJ/JCTU Memorandum of Understanding, which provided for constraints with respect to public sector wages and salaries over the period of the MOU.

The Government conducted a programme of skills enhancement for some categories of public sector employees. In the second year that it was delivered, the programme trained more than 1,800 employees in 11 parishes between June and September 2005.

In keeping with the aim to regenerate the public service and in response to a call from the Prime Minister, an Ethics and Values Framework was developed by the Cabinet Office, which includes a code of conduct for public servants as well as the terms of reference for Ethics Monitors within each Ministry.

Through the Employee Assistance Programme (EAP) managed by the Cabinet Office, counselors across the public service have been working closely with the Dispute Resolution Foundation to mediate civil cases in an effort to prevent cases from going to the formal court system and potentially adding to the backlog.

### Information and Communication Technology

During FY 2005/06, the Government embarked on a programme to improve information and communication technology across the public sector. To accomplish this, the following initiatives were undertaken:

- **Effective Financial Management**

***Procurement of software***

The FINMAN software was procured for implementation in the MoFP and Ministry of Transport and Works (MTW), to support the piloting of accrual accounting in both ministries.

***Implementation of Upgraded System***
The FINMAN system was installed in the MTW, MoFP and three Revenue Departments. The system has been installed in the Financial Investigation Division, Offices of the Services Commission and Ministry of Education, Youth and Culture, where it is being piloted for project accounts.

- **E-government Initiatives**

***Implementation of Tax Portal (Pilot Phase)***
The GoJ is well on the way to providing Jamaicans with on-line access to tax payment services through the Jamaica Tax Administration Payment Portal. Through this site, citizens and businesses can pay their property tax, betting tax, GCT/SCT demand notices, as well as traffic tickets. The site provides users with access to a number of forms, which can be printed and completed.

***Trade Board Information System (TBIS)***
JAMPRO now has an e-registration system for exporters called *jexporter*. On this site exporters are able to complete/ renew their registration, register products, request letters of authorization, update business information and pay registration fees. The import component was also implemented in FY 2005/06 and application for import licenses can be completed online. Payments are facilitated through an agreement with the National Commercial Bank.

## Appendix 3

## DEVELOPMENTS IN THE FINANCIAL SECTOR

### Introduction

FY 2005/06 was marked by intensified efforts at strengthening the regulatory and legislative framework of the financial sector. The legislative process with respect to several pieces of legislation was advanced. The Financial Investigations Division actively pursued its mandate to deter and investigate alleged breaches of relevant Acts that govern the financial sector, while the Financial Institutions Services Limited continued its role in facilitating the resolution of residual issues of the Financial Sector Adjustment Company.

### Pensions Legislation

The Regulations addressing areas of investment, governance, registration, licensing and reporting, were passed by the Lower House. However, the passage of these Regulations by the Senate was delayed because of concerns raised by industry stakeholders during the deliberations of a Select Committee. The concerns raised relate to the requirements of the Act and its Regulations, the proposed fees, offences and penalties. To address the concerns, amendments to the Regulations and the Principal Act were proposed. The Regulations were subsequently modified and accepted by the Senate.

The stakeholders also raised the issue of removing the criminal liabilities under the Act. These are to be replaced with civil liabilities. The Act will therefore be amended to remove criminal liabilities whilst appropriate civil liabilities will be included, following further research.

Phase II of the Pensions Reform initiative began during FY 2005/06 with the issuing of drafting instructions to the Office of the Chief Parliamentary Counsel for further amendments to the Pensions Superannuation Funds and Retirement Schemes Act. Areas to be incorporated in the legislation being drafted include:

- Mandatory vesting;
- Locking in;
- Portability of pension rights;
- Indexation of pensions.

Work will continue in these areas and it is hoped that the legislation will be in place by the end of FY 2006/07.

## Credit Reporting Legislation

The Credit Reporting Legislation is intended to provide the supervisory framework to facilitate the establishment of a Credit Bureau. The Credit Reporting Bill has benefited from extensive review by major stakeholders and is now in its third draft. The Ministry of Finance & Planning is awaiting the final draft to facilitate tabling in Parliament early in FY 2006/07.

## Amendment to the Industrial and Provident Societies Act

The second draft of the Industrial and Provident Societies (Amendment) Bill was circulated to key stakeholders for comments. Issues of concern were discussed and addressed in the second draft of the Bill.

This Bill seeks to, *inter alia*:

- enhance the regulatory framework for the supervision of Industrial and Provident Societies;

- transfer the supervisory duties of Industrial and Provident societies from the Registrar of Companies to the Registrar of Cooperatives in order to improve supervisory and regulatory standards;

- restrict the use of the name or title of People's Cooperative Bank;

- increase the fines for breaches of the Act to more realistic levels.

## Financial Services Commission (Amendment) Act

This Bill was drafted and circulated to stakeholders for comments and is being re-drafted by the Office of the Parliamentary Counsel based on amendments that have been proposed. This piece of legislation seeks to extend a fixed penalty regime for certain violations, and it also seeks to increase the regulatory powers of authorized officers of the Commission to include the examination and investigation of the affairs of applicants for licensing and registration.

## The Money Laundering (Amendment) Bill

Work on the Amendments to the Money Laundering Act have been aborted and replaced by the incorporation of anti-money laundering provisions in the Proceeds of Crime Bill. This will lead to a more comprehensive anti-money laundering regime that is consistent with international best practice. The Proceeds of Crime Bill was tabled in Parliament by the Minister of National Security and is currently being discussed by a Joint Select Committee of Parliament. It should be noted that the passage of the Proceeds of Crime Bill will repeal the Money Laundering Act.

### The Financial Investigations Division (FID) Bill

The FID Bill was tabled in the Houses of Parliament and referred to a Joint Select Committee of Parliament. Discussions are far advanced and the Financial Investigations Division expects to be provided with the requisite authority to effectively carry out its mandate with respect to investigating, prosecuting and monitoring activities under various acts in the new financial year. The Money Laundering Act and the Acts governing revenue are among those addressed by the FID bill.

### Other Developments

Other improvements to the regulatory framework include**:**

- The regulatory regime for Money Transfer and Remittance Agents and Agencies came into effect in July 2005. The regime, which is administered by the Bank of Jamaica makes provisions to:

  (a) circumscribe the remittance services that are permitted;
  (b) prescribe the record-keeping obligations of remittance companies and their sub-agents;
  (c) establish location criteria;
  (d) prescribe the accounting operational requirements for remittance companies;
  (e) establish parameters within which conversion activities will be permitted;
  (f) set procedures with respect to reporting obligations, change of ownership, fit and proper criteria, display of licence, and regulatory sanctions for non-compliance, among other issues.

- With respect to the securities industry, guidelines for issuers of securities were provided. These guidelines outline the requirements for registering with the Financial Services Commission, in respect of dealing in securities. The requirements are geared towards protecting investors by promoting full and fair disclosure of information.

### Financial Investigations Division (FID)

During FY 2005/06 the FID continued to carry out its mandate of dealing with matters relating to economic and financial crimes, including fraud, breaches against revenue statutes and money laundering. The Division pursued a programme to educate financial institutions on the provisions of the Money Laundering Act and their roles and responsibilities under the Act.

Jamaica obtained its first Money Laundering conviction and received favourable ratings on its anti-money laundering framework during the Mutual Evaluation Exercise conducted by the Caribbean Financial Action Task Force, a regional affiliate of the Financial Action Task Force.

The FID continued to work closely with the Jamaica Constabulary Force, particularly the Counter Narcotics and Major Crime Investigations Task Force and the Contraband Enforcement Team of the Jamaica Customs Department. As a result of increased monitoring, interdiction and prosecution of persons involved in the trans-national movement of cash through the ports (air and sea), approximately US$605,000 was seized. The division was also involved in investigating allegations of corruption in the Revenue Service.

### Financial Institutions Services Limited (FIS)

During FY 2005/06, FIS continued to deal with residual divestment, prosecutorial, liquidation and other issues.

A number of commercial properties were disposed of, including the Oxford Manor in Kingston, the Sunshine Village in Negril and the Baywest Centre in Montego Bay, netting over $300mn.

Additionally, FIS received approximately US$4.4mn for its share of collections from loans sold to Jamaican Redevelopment Foundation (JRF). Efforts will continue to dispose of the government's remaining interest in these loans.

The forensic and prosecutorial functions are still being carried out and FIS continues to work closely with its external attorneys on proceedings against persons deemed to have been responsible for losses suffered by some of the failed financial institutions. This work involves co-ordinating and assisting in the conduct of investigations into suspected fraudulent activities committed by these entities prior to the intervention of FINSAC. In this regard, the UK Privy Council handed down a judgment of approximately $3bn against the Century Financial Entities. The trial against the Eagle Financial Network is complete and the judge's ruling is being awaited, while the Blaise trial commenced in February 2006. The liquidation of the dormant companies under FIS control is almost complete, with fewer than ten companies remaining to be liquidated. It is expected that the few remaining assets will be divested during FY 2006/07 and thereafter the primary residual activity will be that of coordinating outstanding litigation with external lawyers.

### Outlook

During FY 2006/07 efforts will be directed at:

- expediting the process for the amendment of the Pensions (Superannuation Funds and Retirement Schemes) Act, 2004 to address Phase II of the Reform;
- improving the legislative and institutional framework as it relates to preventing financial crimes, through the enactment of the FID Bill and the implementation of an electronic reporting system;

- the legislative process for Credit Reporting Legislation; and
- proceeding with work on the institutional strengthening of the Financial Regulation Division.

# Appendix 4

## TAX ADMINISTRATION

### FY 2005/06 Review

Fiscal year 2005/06 was a challenging year for tax administration. Although the year commenced on a positive note with higher than budgeted collections in April 2005, the rest of the year, with the exception of March 2006, was characterized by monthly tax revenue shortfalls. Among the factors contributing to the 2005/06 below programme revenue performance were:

- The non-implementation of some of the revenue measures included in the budget;
- Implementation of revenue measures later than programmed;
- Adjustments to proposed revenue measures that reduced the programmed inflow;
- The impact of adverse weather conditions experienced throughout the year on the economy; and
- The impact of the higher than anticipated oil prices on economic activity and growth.

Administrative measures programmed for implementation at the start of the fiscal year did not commence until the third quarter. These measures contributed to a significant improvement in collections during the fourth quarter. The administrative measures included a special collection project aimed at assisting collections through targeting arrears. This Accounts Receivable Conversion (ARC) Project targeted $5.0bn in arrears and at end-March 2006 is estimated to have collected $5.6bn. Other measures included:

- An estate tax amnesty that targeted approximately $300.0mn in arrears, which was surpassed by end-February 2006;

- A 33.0% increase in Customs compliance audits leading to a 6.0% increase in Customs compliance collections.

With respect to service delivery, a Customer Service Satisfaction Survey conducted in July 2005 indicated that 46.0% of respondents considered the service fair while 36.9% considered the service good. Transactions processing time was identified as an area of dissatisfaction across all Departments. As a result of the survey short and long-term strategies have been and are being put in place to ensure that service standards improve to the desired levels.

To address high volume areas that impact processing time the Automated Motor Vehicle System (AMVS)-Online that is currently operating in May Pen will be extended to all Collectorates, while the E-manifest system is being implemented at Customs. In March 2006 Electronic Deposit Boxes were installed for secure and receipted deposit of tax returns and cheques at the six (6) largest collectorates.

The AMVS–Online being piloted at the May Pen Collectorate represents an enhancement of the current AMVS. AMVS–Online will facilitate computer generated (previously hand written) Motor Vehicle Registration Certificates (MVRC) and other documents. Extension of AMVS-Online to the other Collectorates commenced in March and is programmed for completion in six months. The system will provide all tax departments with the necessary motor vehicle information required from a vehicle's point of entry to its disposal.

Significant improvements have been achieved in service delivery time, with respect to Stamp Duty and Transfer Tax, where the number of documents processed within seven days increased from 51% to 79%. Re-engineering of processes at Stamp Duty and Transfer Tax will continue throughout FY 2006/07.

Several initiatives were undertaken to leverage the use of information technology for greater service efficiency in an effort to ensure improved information and communication for both internal and external customers.

Collaboration in the sharing of critical information continued with partners (at least 9 Agencies). For example, collaboration with the Electoral Office of Jamaica (EOJ) involves Tax Administration providing the EOJ with TRN information while the EOJ provides Tax Administration with a list of their deceased electors, which is used to update the TRN system.

The online TCC system was implemented during the third quarter of FY 2005/06. Online applications following the launch of the system was limited and the turnaround time of 24 hours was not met due to slow responses from partners. During the fourth quarter the service improved significantly with most transactions completed within the targeted time. The facility is being advertised with a view to increasing its utilization.

A wireless Point of Sale system for payment of motor vehicle fitness and Driver's Licence fees was implemented in February 2006 at the Swallowfield Examination Depot. Taxpayers can use this system to pay for these transactions with a credit or debit card.

**FY 2006/07 Programme**

Tax Administration has embarked on a highly focused and connected strategic plan (FY 2006-2009), with the main components to be implemented during FY 2006/07. The plan is based on a universally accepted conceptual model that recognizes three distinct yet interconnected principles of tax administration:

- Taxpayer Service;
- Public Education; and
- Tax Compliance and Enforcement.

## Taxpayer Service

Under Taxpayer Service, significant initiatives are being undertaken to better facilitate and satisfy the needs of taxpayers and customers. Branding of the Tax Administration Programme is expected to result in improved, more consistent and reliable service to taxpayers through:

- Documentation of standardized procedures that will be made available to staff on-line at Customs locations, collectorates and other service locations;
- Standardization of non-prescribed forms used at service points;
- Improved service environment, layout and signs with a high degree of standardization at similar service locations, and ultimately, uniform colour schemes throughout tax administration service locations;
- Increased availability of electronic transactions, alternate payment methods and use of third party collections;
- A Tax Administration logo to unify the constituent departments and show a single "tax administration" face to taxpayers, on forms, websites and in public communication;
- Continuous improvement in customer service through staff training, greater involvement of the taxpayers in determining service strategies, constant monitoring of service standards and appointment of staff members as "brand ambassadors" at all service locations;
- Simplification of forms and tax laws.

## Public Education

With respect to Public Education, the following activities will be pursued:

- More creative and effective use of the print, radio and television media;
- Outreach Programmes to professional and social organizations;
- Further development of online and telephone (Tax Help) assistance;
- Semi-annual press conferences by the Director General to keep the media and public informed of what is happening in tax administration.

## Tax Compliance and Enforcement

The issue of compliance in Jamaica remains a very challenging one in that the current self-assessment system places the onus on citizens to voluntarily comply with the laws and regulations governing the payment of taxes, duties, fees and contributions.

Tax Administration will pursue specific strategies to enhance the compliance rate. These strategies will be targeted at various segments of the population as follows:

| Target Population | General Strategy |
|---|---|
| Those who willingly and consistently comply. | Encourage continued compliance by making it easier to comply. |
| Those who try to willingly and consistently comply but do not always succeed. | Provide assistance in such a way that they always succeed. |
| Those who do not want to comply but do so when pursued. | Deter any non-compliance through more effective methods and earlier detection, including bringing persons into the tax system. |
| Those who have decided not to comply. | Utilize all powers under the law to enforce compliance. |

The salient features of the Overall Compliance Programme are:

- The Compliance Model outlined above, tailored to local conditions, will be consistently, appropriately and fairly applied;
- For each strategy listed above, specific programmes have been identified and adopted by the relevant Departments;
- The continued development of the computerized tax administration system will allow for better identification of target populations and provide the tools for sustained detection of non-compliance;
- To support enforcement activities Tax Administration will seek appropriate legal changes;
- The training of compliance staff has already started and will be intensified following restructuring and re-engineering of enforcement procedures and activities. Greater access to accurate on-line payment and arrears data will greatly assist reforms in the area of compliance;

- The role of taxpayer auditing as a compliance support activity will be reinforced so that there is greater collaboration between the two areas;

- Auditing staff are being exposed to higher levels of training to better equip them to handle the more complex and sophisticated environment in which larger domestic (especially financial) and international organizations now operate;

- To support the new thrust, the Director General's Office will continue to engage in research and data analyses and maintain an integrative perspective on the administration of taxes to support and facilitate the work of the executing Departments.

**Organizational Repositioning and Focus**

In terms of meeting the overall objective of collecting the taxes due to the Government of Jamaica, three major contributing objectives have been identified:

- Improved compliance through use of the Compliance Model with its service and enforcement components;

- Improved Information and Communication Technologies through which Tax Administration will leverage technologies to better support its tasks;

- Improved organization and management to provide the human and organizational systems, procedures, knowledge, skills and attitudes to successfully plan, execute and control the various programmes.

The role and contribution of each Tax Department (and the interrelationships among Departments) have been specifically identified with each of Tax Administration's major objectives. Connectivity has also been provided to Fiscal Services Limited, the Information Technology service provider and custodian of Tax Administration's databases.

# 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.