Jamaica Memorandum on the Budget 2007/08

12th April 2007

Ministry of Finance and Planning

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FOREWORD

The performance of Jamaica's main economic indicators for FY 2006/07 was generally positive. Growth in key sectors of the economy accelerated alongside a further decline in the unemployment rate. The pace of inflation slowed, and there was a steady reduction in interest rates. Jamaica's foreign reserves remained buoyant throughout the year, the exchange rate remained relatively stable and the current account deficit on the balance of payments narrowed.

Central Government operations during the first eight months of the fiscal year generated fiscal balances within monthly targets. Expenditure challenges posed by higher wages & salaries and interest costs, however, as well as less than budgeted tax revenue, contributed to a widening of the fiscal deficit in December. Notwithstanding the fiscal pressures that developed in the fourth quarter, the Debt/GDP ratio stood at 130.4% at the end of FY 2006/07, relative to 131.8% recorded at the end of FY 2005/06 while the primary surplus, though less than FY 2005/06, still remains one of the highest in the world.

Tax administration initiatives continued to yield positive results. Revenue collections in FY 2006/07 exceeded the previous year's intake by 15.8%, but fell short of the budgeted expectation by 3.5%. The increase over FY 2005/06 represents a real increase of 9.0%. A lower than targeted inflation outturn, although a positive development, led to nominal GDP growing less than programmed and also affected tax revenue performance.

The fiscal developments in FY 2006/07 have necessitated a revision of the medium term performance path as prudent management requires postponement of the planned achievement of a balanced budget in FY 2007/08. There is no doubt that the imperative will be to re-affirm the fiscal consolidation towards achieving a balanced budget in the near term with surpluses thereafter. This entails a realistic attempt at increasing the momentum of expenditure containment, significant revenue growth, and reduction in the Debt/GDP ratio.

For the current year, much emphasis has been placed on the development and implementation of the Government's debt management strategy. A prudent and effective borrowing and cash management programme has been designed to take advantage of opportunity afforded by liquidity and positive conditions in both domestic and international capital markets.

Sustaining the generally positive macroeconomic trends is crucially dependent on further enhancing revenue performance, and the quality of expenditure and debt management to firmly re-establish our commitment to eliminating the fiscal deficit and easing the burden of public debt.

Colin Bullock
Financial Secretary

MACROECONOMIC OVERVIEW

The macroeconomic programme for FY 2006/07 had at its' core a fiscal deficit target of 2.5% of Gross Domestic Product (GDP), real GDP growth of 3-4% and inflation in the range of 9-11%. The programme also embodied the maintenance of adequate net international reserves and the continued reduction of domestic interest rates. Within this framework the maintenance of high primary surpluses on Central Government operations was programmed to support a reduction path for debt/GDP over the medium term. Prudently administered fiscal and monetary policy actions in FY 2006/07 continued to be supportive of an enabling environment characterized by sufficient foreign currency reserves, declining interest rates, an acceleration of the growth momentum and a return to single digit inflation.

FISCAL DEVELOPMENTS

Provisional figures indicate a fiscal deficit of $37,476.0mn or 5.3% of GDP for FY 2006/07, as compared to the targeted deficit of 2.5% of GDP. Expenditure of $249,101.0mn was $8,488.8mn, or 3.5% higher than budgeted, while revenue and grants of $211,625.0mn represented a shortfall of $10,591.7mn, or 4.8% lower than targeted. The primary surplus, recorded at $60,341.9mn or 8.5% of GDP was also below budget, which had anticipated an outturn of 10.1%. The higher than budgeted increase in expenditure was due to a $13,872.0mn increase in recurrent expenditure that outweighed a $5,383.1mn reduction in capital expenditure. Adverse deviations from budget of $5,897.0mn (8.1%) and $5,397.6mn (5.8%) on wages & salaries and interest costs, respectively, contributed to the higher than budgeted recurrent expenditure.

MONETARY DEVELOPMENTS

Prudently administered monetary policies that ensured order and relative stability in the money and foreign exchange markets, low imported inflation from Jamaica's main industrialized trading partners' economies and adequate agricultural supplies were key elements in the containment of inflationary impulses in FY 2006/07. The macroeconomic environment was characterized by steady declines in interest rates, a deceleration in the pace of inflation, buoyant net international reserves (NIR) and accelerated growth in key sectors of the economy.

The monetary authorities removed the 270 and 365-day instruments from their menu of open market offerings (April 18), removed the Special Deposit requirement for commercial banks and other licensed financial institutions (May 1) and reduced rates on open market instruments for the first time in 12 months on May 12, 2006. Interest rates on the Central Bank's benchmark 180-day instrument decreased from 13.18% in March 2006 to 11.65% in March 2007. The Central Bank's actions reinforced the steady declines in interest rates of the Government's 6-month Treasury bill, which declined to 11.65% in March 2007 from 13.18% in March 2006.

The Central Bank intervened in the foreign currency market throughout the year, particularly in the latter half, to address increased foreign currency demand that placed pressure on the exchange rate. Arising from the demand pressure the Jamaica dollar which exchanged at J$65.49/US$1 at end-March 2006 depreciated by 3.4% to exchange at J$67.80/US$1 at end March 2007. This depreciation was within the level programmed for the year and with lower than programmed inflation relative stability was maintained in the real effective exchange rate.

Despite the interventions in the foreign currency market net international reserves (NIR) remained strong at US$2,329.3mn at end-March 2007, a 12.1% increase over the US$2,078.1mn at end-March 2006.

Inflation

Lower international oil prices, adequate agricultural supplies and operations in the foreign currency and money markets contributed to a sharp decline in inflation during FY 2006/07. Point to point inflation for FY 2006/07 was recorded at 6.6%, a 4.8 percentage point reduction on the 11.4% recorded for FY 2005/06.

Domestic inflation was assisted somewhat by relatively low imported inflation from Jamaica's main industrialized trading partners (US, UK and Canada), where average inflation was estimated at 1.6% for the 12-month period to January 2007, slightly below the 1.8% average inflation recorded for the corresponding period of 2006. Meanwhile, in the euro area over the 12-month period to January 2007, consumer prices increased by an estimated 1.9%, compared to 2.3% recorded for the previous 12-month period.

EXTERNAL DEVELOPMENTS

Balance of Payments

Provisional data for April to December 2006 indicates a current account deficit of US$841.4mn, a US$68.6mn improvement relative to the deficit recorded for the corresponding period of FY 2005/06. Increases in the surpluses on the services account (US$159.4mn) and the current transfers account (US$137.3mn) contributed to the reduction in the current account deficit that also benefited from a marginal US$0.7mn reduction in the deficit on the income account. These positive contributors were however offset by an increase of US$228.8mn in the deficit in the merchandise trade account (using fob values for imports).

Higher stopover and cruise passenger arrivals over the review period resulted in a US$241.8mn growth in net travel receipts and a higher surplus on the services account. The transfers account benefited from a US$121.3mn increase in remittance inflows, while a contraction in net investment income by US$11.2mn was associated with an increased outflow of profits from direct investment companies as well as GoJ external debt payments.

Deterioration in the merchandise trade deficit resulted from a US$537.6mn increase in imports, which was only partially offset by a US$308.8mn growth in exports. Increased fuel import costs, as well as higher machinery & transport import prices were the main factors behind the growth in import spending. With the exception of free zone exports all categories of exports increased. The growth in major traditional export earnings arose mainly from alumina and bauxite exports, as the mining sector continued to benefit from higher international prices reflective of the high demand for the ore particularly from China. Increased earnings from sugar and banana exports were attributable to higher export volumes and prices, while increased non-traditional export earnings were mainly due to higher export volumes and prices for coffee and rum.

Within the financial account, official inflows of US$594.8mn, and private investment inflows of US$482.9mn financed the current account deficit and contributed to a build-up of US$239.6mn in the net international reserves.

External Trade

A trade deficit of US$2,760.5mn was recorded for the April to December 2006 period representing a US$305.1mn widening of the trade deficit compared to the same period of the previous year. This deterioration was due mainly to higher import spending that was only partially offset by an improvement in export earnings. Imports (CIF) increased by US$613.8mn or 16.4% largely as a result of the higher import spending on fuel and machinery & transport equipment, which outweighed the US$308.8mn or 24.1% improvement in export (fob) earnings.

For CY 2006, the trade deficit widened by 14.1% to US$467.1mn as a result of the combined effects of a US$452.9mn (27.2%) increase in export earnings being offset by a US$920.0mn (18.9%) increase in imports.

Exports

Total export earnings for the April–December review period in FY 2006/07 amounted to US$1,591.8mn, which represents an increase of US$308.8mn (24.1%) relative to the corresponding period in FY 2005/06. All export groups, with the exception of free zone exports, recorded higher earnings. Non-traditional export values increased by US$191.9mn (68.5%) to U$$472.2mn, as a result of higher exports of refined fuel, waste & scrap metal and ethanol. Similarly, the value of major traditional exports improved by US$101.7mn (12.2%) mainly as a result of increased mining output and increased prices for alumina and bauxite in the international marketplace that redounded from continued strong demand out of China to satisfy their infrastructure, automobile manufacturing and aircraft construction requirements. During the nine-month period under review, the export value of other traditional exports increased by US$15.5mn (35.0%) to US$59.9mn as higher earnings were derived from coffee, rum, cocoa and citrus exports. However, there was a US$40.5mn (11.9%) reduction in the value of free zone exports.

Imports

Total spending on imports amounted to US$4,352.3mn for the April-December period of FY 2006/07, which represented a US$613.8mn (16.4%) growth relative to the corresponding period of FY 2005/06. This increased level of spending was dominated by a US$200.9mn or 19.0% increase in spending on oil imports to US$1,260.5mn, while import costs for machinery & transport equipment, chemicals and manufactured goods also increased by US$206.3mn (or 31%) to US$872.3mn, by US$97.2mn (or 22.8%) to US$524.1mn and by US$71.0mn (or 14.9%) to US$549.1mn respectively. Food, crude materials and animal & vegetable oils import values declined relative to the corresponding period of FY 2005/06.

Tourism

Total visitor arrivals to the island over the 11-month period April 2006 to February 2007 is estimated at 2,702,057 persons, a 14.2% increase relative to the corresponding period of FY 2005/06. Contributing to the increase were an 11.3% growth in stopover arrivals and an 18.1% growth in cruise passenger arrivals. Estimated cumulative spending by visitors for the eleven-month period of FY 2006/07 amounted to US$1,887.9mn, which was 23.1% above the level of earnings over the corresponding period of FY 2005/06.

Total visitor arrivals in CY 2006 amounted to 3,015,358 persons, an increase of 15.3% on the level of arrivals in CY 2005. This occurred as a result of 13.5% and 17.7% increases in stopover and cruise passenger arrivals, respectively. Estimated cumulative spending by visitors to the island for CY 2006 amounted to US$1,411.1mn, a 24.8% improvement on the estimated US$1,130.8mn earned during CY 2005.

The growth in visitor arrivals over the review period was accommodated by the increased room stock that has resulted from heightened levels of investment in hotel construction and development as well as more diversified tourism product offering. The growth was influenced by the strong marketing campaign in overseas travel markets which has assisted in encouraging increased visits by mega-liners to cruise ship destinations in Ocho Rios, Montego Bay, and increasingly but to a lesser extent Port Antonio.

International Commodity prices

Jamaica remains a price taker for a variety of tradeables that impact the domestic economy. Commodities such as alumina, coffee, cocoa and sugar are important foreign exchange earners for Jamaica. At the same time Jamaica expends considerable amounts of foreign exchange on commodities such as oil, soybean, corn/maize and wheat.

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

Export Prices

Cocoa prices moved to an average of US165.5 cents/kilogram (c/kg) in FY 2006/07, representing a 9.3% increase relative to the US151.4 c/kg average price for FY 2005/06. Coffee prices (Arabica variety, which comprises 95% of the beans grown in Jamaica) increased marginally by 0.5% relative to FY 2005/06, moving from an average of US251.0 c/kg to US252.3 c/kg. Sugar prices in the EU increased by 5.2% when average prices for FY 2006/07 are compared to prices in the previous year. World sugar prices also moved upward by 9.0% to US29.0 c/kg in FY 2006/07 from US26.6 c/kg in FY 2005/06.

The price of aluminium increased by 31.3% to US$2,666.9/metric tonne (mt) in FY 2006/07 from US$2,030.7/mt for FY 2005/06, and despite the 4.5% decline in output, relatively higher international market prices for alumina ensured healthier hard currency returns for Jamaica during FY 2006/07 relative to earnings in FY 2005/06.

Import Prices

The average price of soybean meal declined 2.4% to US$203.4/mt for the April 2006 to March 2007 period relative to US$208.4/mt for FY 2005/06, while conversely, maize/corn prices increased by 37.5% to US$138.0/mt during FY 2006/07 from US$100.4/mt for FY 2005/06. The high corn prices were driven primarily by the increasing demand for corn in the production of ethanol in the US. Jamaica imports about 300,000 tonnes of corn per year to manufacture animal feed. There was also an increase of 25.3% in the price of wheat as this commodity's price moved from US$157.9/mt in FY 2005/06 to US$197.9/mt for FY 2005/06.

Crude oil prices increased during the April 2006 to March 2007 period, on average, by 12.1% over April 2005-March 2006, moving from US$57.7/barrel to US$64.7/barrel. Among the major factors that contributed to this rise in oil prices were continuing tensions in the Middle East, disruptions to oil pipelines in Nigeria, supply uncertainties in Venezuela, as well as an Organization of Petroleum Exporting Countries (OPEC) decision not to raise quotas and very little space capacity.

REAL SECTOR DEVELOPMENTS

GDP Performance

The economy grew in real terms by 2.5% in CY 2006, while it was estimated to have grown by 2.5% during FY 2006/07, with both the goods producing and services sectors recording growth, as macroeconomic conditions remained generally upbeat. The economic growth momentum continued in the context of a strong rebound in agricultural output, ongoing expansion work in air and trans-shipment ports, as well as massive investments in the tourism industry. The growth performance was underpinned by higher output from agriculture, miscellaneous, transport, storage & communication and distributive trade sectors.

For the nine-month period of FY 2006/07 to December, the goods-producing sector recorded modest growth as a result of output declines of 2.5% and 1.2% in the manufacturing and construction sectors, respectively. However, this was offset by growth in agriculture (13.6%) and mining (2.6%). The output fall-out in the manufacturing sector was mainly due to a 6.6% decline in the beverages & tobacco sub-sector attributable to the closure and relocation of manufacturing operations previously undertaken by the Cigarette Company of Jamaica (CCJ) to Trinidad in December 2005 and a falloff in domestic consumption of rum & alcohol (15.9%) and carbonated beverages (2.5%). This fall off in domestic market demand occurred as major players in the alcoholic and non-alcoholic beverages market cited a gradual shift, especially among more health & fitness conscious middle-aged consumers, toward drinking bottled water and other fruit-based beverages. In the construction industry, activities were severely constrained by the cement shortage, induced by quality/standard – related supply challenges at the sole cement manufacturing plant over the first half of the year. Real GDP for the mining sector increased as normalcy was restored to the industry after a protracted episode of labour unrest, which adversely affected operations. Agricultural output grew by 13.6% in the context of a strong rebound in output from both export and domestic agriculture.

Meanwhile, growth in value added within the services sector was strongly influenced by:

- the miscellaneous sub-sector which grew by 10.7%; within which was a vibrant 13.5% growth in the hotels, restaurants & clubs sub-categories;
- transport, storage & communication (up 5.3%); and
- distributive trade (up 1.7%), real estate & business services (up 2.3%) and financial services (up 1.4%).

Real GDP for the economy during the March 2007 quarter grew by an estimated 2.9% relative to the corresponding period of 2006. Growth emanated from both the goods producing and services sectors, which increased by 3.9% and 2.2%, respectively, as all sub-sectors recorded growth. The main contributors to growth in the quarter were agriculture (6.0%), transport, storage & communication (2.8%), mining (4.7%), electricity (4.0%) and distributive trade (1.2%). The 5.0% growth in the construction sector represents a strong turnaround in the fortunes from the problems that beset the industry for most of 2006.

Mining

Production in the mining industry continued to be positively impacted by increased international market demand and prices for bauxite and alumina, largely driven by vibrant economic growth in China and India. During the April-December 2006 review period, mining activities were somewhat constrained by the hangover effects of a protracted period of labour unrest, which affected operations within two alumina plants during the April to September 2006 period.

Despite some minor bauxite processing difficulties encountered at discrete intervals, there were respective 13.7% and 14.1% improvements in crude bauxite production and exports, which served to somewhat ameliorate the effects of dislocations to alumina processing. An injection of capital to upgrade mining equipment and improve internal business operations at St. Ann Bauxite facilitated increased bauxite production. Concomitantly, while alumina production increased by 1.8% to 3,756,548 metric tones, exports declined by 2.7% to 3,716,647 metric tonnes. Significant factors that affected alumina exports were protracted periods of labour unrest and shipping schedule delays.

Manufacturing

Data from the PIOJ for the April-December review period indicate a mixed overall output performance in the food processing sub-group relative to the corresponding nine-month period in 2005. Increases in poultry meat, animal feeds, molasses, edible oils and edible fats, were offset by production declines in condensed milk (32.0%), flour (6.3%), cornmeal (12.2%) and dairy products (23.0%), respectively. These decreases in production were influenced by the combined effects of adverse weather conditions, including episodes of heavy rainfall and drought, which, along with high imported input and production costs, negatively impacted the animal husbandry industry during the period under review.

Within the beverages and tobacco sub group, all categories registered declines, with the exception of stout. Despite the usual heightened seasonal demand during summer and for traditional Christmas celebrations, overall output of carbonated and alcoholic beverage declined as a result of the market’s general movement toward healthier lifestyles and the emergence of varied other offerings of imported and local fruit and water beverage supplements.

The chemicals and chemical products sub-group recorded increases in the output of detergent (5.4%), sulphuric acid (4.5%), aluminium sulphate (1.8%), sulphonic acid (3.2%) and salt (3.3%), while the output of fertilizer and paint declined by 23.0% and 2.0%, respectively. The decline in output of aluminium sulphate (used in the treatment of water) was due in part to drought conditions in the September quarter, while increased export demand was a significant factor behind the relatively higher output of sulphuric acid. Cement production declined by

6.9%, as the plant underwent a period of severe cement shortages, which curtailed activities in the construction industry for most of the year.

In light of the fact that there was a complete shutdown at the Petrojam refinery for an extended period of time in the aftermath of an explosion in October 2004, output in 2005 was understandably lower than normal, as production of fuel and other petroleum derivates only resumed in a limited way at the refinery in July 2005. It is against this background therefore that output for 2006 was comparatively higher for petroleum and its derivates.

Agriculture

Preliminary data from the PIOJ indicate that the Agricultural Production Index (API) increased by 14.1% during the period April through December 2006 relative to the corresponding nine-month period of FY 2005/06. Agricultural output rebounded from the effects of hurricanes and drought conditions in 2005 with output of export and domestic crops increasing by 36.6% and 14.7% respectively. Fisheries also increased by 49.8% in the review period. However, livestock output declined by 6.3% mainly due to the negative impact of the adverse weather conditions and high imported input costs.

OUTLOOK

The preservation of a stable macroeconomic environment provided the necessary platform for the expansion in the Jamaican economy in FY 2006/07 and growth should continue in FY 2007/08 providing there are no weather-related dislocations or further international oil price upheavals. This positive outlook is predicated on increased output from all sectors, especially in the context of the timely restoration of adequate cement output from the Caribbean Cement Company together with augmented imported supplies for construction to support road, hotel, air and seaport infrastructure expansion projects. Steady improvements in agricultural output and buoyant tourist arrivals and expenditure are also expected.

Fiscal operations in FY 2006/07 deviated from the programmed medium term path, however, the Government remains committed to the achievement of fiscal surpluses that will enable reduction of the stock of debt and the creation of additional fiscal space to address, among others, issues in the priority areas of education, health and security. Enhancing revenue receipts alongside ensuring efficiency in expenditures will therefore continue as core activities of the Government within the context of maintaining the macroeconomic stability achieved to date.

GOJ Treasury bill rates continue to decline, albeit slowly, and are currently at their lowest levels in about 20 years. If interest rate reductions continue GOJ should enjoy some relief on debt service costs during FY 2007/08 and beyond. This is an essential factor toward ensuring that the Government's stated commitment to reducing and eliminating the fiscal deficit comes to fruition.

Jamaica's economic performance and inflation remain inextricably linked to the omnipresent threat posed by international oil price instability, given the high oil import dependence of the domestic economy. As such, near term inflation containment and economic growth prospects can turn on developments in the Middle East as well as disruptions to oil facilities in Nigeria and supply uncertainties in Venezuela. Oil industry analysts warn that oil prices could climb higher as these geopolitical tensions escalate amidst concerns about the adequacy of supplies to meet increased world demand. In this context, however, many Organization of Petroleum Exporting Countries (OPEC) members do not want to risk exacerbating the situation by cutting output.

Barring any unforeseen exogenous shocks, including weather-related and record high movements in oil prices, the current macroeconomic fundamentals of single-digit inflation, declining interest rates, relative stability in the foreign exchange market, buoyant NIR and economic expansion present a strong foundation for achieving sustainable growth along with the potential to ameliorate Jamaica's debt profile. With vibrant remittance, private capital and tourism inflows, improving export performances, heightened investment in airport and transshipment facilities and growth in agriculture, mining and construction, the economy is well positioned for accelerated growth in FY 2007/08 and over the medium term.

Chapter 1

CENTRAL GOVERNMENT BUDGET PERFORMANCE

FISCAL YEAR 2006/07

OVERVIEW

Central Government budget 2006/07 was formulated within a medium-term framework that sought to promote real GDP growth, lower inflation and interest rates and foreign exchange market stability. The FY 2006/07 budget profile included expenditure containment measures and significant revenue growth, to be driven largely by aggressive revenue enhancement measures. These measures include a menu of administrative initiatives geared towards improving the tax system, reducing the incidence of non-compliance and boosting collections.

Revenue and Grants were projected to increase by 19.0% to $222,216.7mn with tax revenue contributing approximately 88.0%. In FY 2006/07, tax revenue was budgeted to increase by 20.0%, primarily as a result of the menu of administrative measures and the elasticity of the tax system. The administrative measures, with an estimated revenue yield of 2.7% of GDP, included the continuation of the arrears collection plan that commenced in November 2005 as well as continued efficiency improvement in tax administration.

Expenditure was budgeted to increase by 15.8% over FY 2005/06 to $240,612.1mn comprising $211,727.1mn for recurrent expenditure, and $28,885.0mn for spending on capital projects. The provision for the recurrent budget represented a nominal increase of 10.1%, but no change in real terms. Included in the recurrent budget was a contingency provision of $8,888.2mn to cover wage increases under the anticipated successor Memorandum of Understanding (MOU II) agreement with public sector unions. The capital budget provision was 86.7% above the actual FY 2005/06 expenditure, due in part to increased allocations for Cricket World Cup (CWC) 2007 and the Education Transformation Project (ETP).

This fiscal profile was designed to sustain the reduction in the Debt/GDP ratio in FY 2006/07 and over the medium term. The Central Government borrowing requirement was projected to fall by $64,983.1mn (35.2%) over the previous year, due to a combination of:

- the reduction in the fiscal deficit;
- significantly lower amortization payments; and
- the raising of US$250mn (J$16,250.0mn) on the international capital market in FY 2005/06 to financing external amortization due in FY 2006/07.

Fiscal performance to November 2006 was better than budgeted with the fiscal deficit being 5.4% less than programmed, as lower than programmed expenditure compensated for the shortfall in revenue. However the payment of outstanding wage settlements in December at higher than programmed levels as well as higher than projected interest costs resulted in a

reversal of the trend up to November 2006. The higher than projected wage settlement occurred within the context of fostering industrial harmony in an effort to preserve the consolidation gains of previous years and maintain the social fabric of the country.

Provisional figures indicate that Central Government operations generated a fiscal deficit of $38,283.7mn or 5.4% of GDP for FY 2006/07. The fiscal deficit represents a deterioration on the 3.3% recorded for FY 2005/06. Expenditure of $249,101.0mn was $8,488.8mn, or 3.5% more than budget. Revenue and Grants of $210,817.2mn represented a shortfall of $11,399.5mn, or 5.1% against the original budget target. The primary surplus (revenue and grants less non-debt expenditure) was also lower than programmed. Provisional figures indicate a primary surplus of $59,534.2mn, or 8.4% of GDP, compared to the target of 10.1% of GDP.

FISCAL DEVELOPMENTS

New Tax Measures

New tax measures announced for FY 2006/07 represented revenue negative measures expected to result in a revenue loss of $296.0mn as indicated below:

- Effective June 1, 2006 funeral service packages of $100,000.00 and below became exempt from GCT. The revenue loss was estimated at $149.0mn;
- Effective June 1, 2006 GCT on agricultural inputs reverted to the zero-rated status. Loss of revenue from this change was estimated at $147.0mn.

New Public Sector Memorandum of Understanding (MOUII)

Building on the spirit of cooperation and collaboration generated under the inaugural Memorandum of Understanding signed in 2004 the GOJ and the Jamaica Confederation of Trade Unions (JCTU) agreed to a successor Memorandum of Understanding (MOUII) to govern among other things, wage agreements for the two year contract period 2006/08 and the development of public sector employees. The new agreement, signed on May 30, 2006, was affected by the initial non-participation of one union and two staff associations. MOUII essentially provides for a 20% wage increase over the two-year period April 2006 to March 2008, with 15% in the first year and 5% in the second year.

BUDGET OUTTURN

Central Government operations generated a fiscal deficit that was marginally better than budgeted over the first eight months of the fiscal year. However challenges emerged over the remainder of the year with the advent of higher than projected recurrent expenditure (wages, interest costs and programmes expenditure) resulting in expenditure recorded at 3.5% higher than budgeted. The challenge was further compounded by lower than anticipated revenue inflows. The combination of lower than programmed revenue inflows and higher than budgeted expenditure resulted in a fiscal deficit of $38,283.7mn, or 5.4% of GDP. This compares unfavourably to the budgeted deficit of $18,395.4mn or equivalent to 2.5% of GDP.

The primary surplus was also lower than programmed with the $59,534.2mn generated being $14,490.7mn or 19.6% below target. This level of primary surplus is equivalent to 8.4% of GDP, a reduction on the 10.5% of the previous fiscal year. Despite this reduction, Jamaica's primary surplus remains one of the highest in the world and is indicative of the country's commitment to fiscal discipline.

Revenue and Grants

Revenue performance in FY2006/07 has been generally positive with collections surpassing the previous fiscal year by $24,133.0mn, or 12.9%, a real increase of about 7%. This real increase occurred within the context of no revenue positive measures and the cancellation of plans to divest GOJ's 20% stake in the Jamaica Public Services Company Limited, (JPSCo). Tax revenue increased over last year by $25,723.6mn, or 15.8%. Notwithstanding this strong performance when compared to the previous fiscal year, provisional figures indicate revenue and grants fell $11,399.5mn (5.1%) short of the 2006/07 target with tax revenue falling short by $6,734.2mn, or 3.5%.

Tax Revenue

Tax revenue totaled $188,299.5mn, which was $6,734.2mn or 3.5% below the amount budgeted as a result of two of the three categories, Income & Profit and Production & Consumption registering shortfalls. The items chiefly responsible for the tax shortfall in absolute terms were GCT (Local), Other Companies (Corporate taxes) and PAYE. Tax revenue performance was affected by, inter alia:

- lower base revenue collections as growth in nominal (GDP) income was less than budgeted – a decline in construction sector growth and the significant reduction in inflation led to nominal GDP growing at a slower rate than projected; and,
- lower than projected receipts from administrative measures.

Compared to the previous fiscal year, tax revenue increased by 15.8% in FY 2006/07, representing a real increase of about 9.0%. All items registered nominal increases, with the exception of Tax on dividends.

Income & Profit Taxes

Receipts from Income and Profit taxes amounted to $76,321.1mn, which was $4,356.4mn, or 5.4% below target. All items with the exception of Tax on Interest and Bauxite/Alumina tax registered shortfalls, with Other Companies and PAYE being the most significant contributors, falling behind target by $3,218.4mn (16.0%), and $2,444.2mn (5.6%), respectively.

With respect to Other Companies the budget included a significant amount to be gained from administrative measures. However, collections were less than programmed.

The shortfall in PAYE occurred despite an increase in Government wage payments in excess of what was budgeted for MOUII as this was outweighed by other factors, such as the fact that collections from administrative measures geared toward improving compliance and boosting the collection of arrears fell below the targeted amount.

Tax on Interest was the main positive performer in this category, exceeding the budget by $1,499.5mn or 11.6% due to increased collections from government securities, as well as from private financial institutions.

Notwithstanding the shortfall against the budget, income and profit tax collections increased by $9,828.5mn, or 14.8% over the previous year. PAYE and Other Companies contributed most significantly to this positive performance, increasing by $6,412.9mn (18.6%) and $1,856.2mn (12.4%), respectively. This buoyancy arose from a combination of higher nominal income, in particular wage income, as well as the impact of an Accounts Receivable Conversion (ARC) programme undertaken by Tax Administration. Approximately 60% of the increase in income and profit taxes was accounted for by the ARC programme, which collected $10,502.0mn, compared to $4,742.7mn in FY 2005/06.

Production and Consumption Taxes

Production and Consumption tax receipts of $58,403.0mn were short of target by $3,674.1mn or 5.9%. GCT (Local), Education Tax and SCT were largely responsible for the shortfall in absolute terms.

Receipts from the GCT amounted to $33,306.0mn, which were $3,234.2mn, or 8.9% less than budgeted. The budget forecast for GCT included amounts to be gained from administrative measures through a programme to improve compliance and collect arrears. However the revenue realized was much less than anticipated. Other factors that influenced the shortfall included the changes to the GCT regime with respect to the importation of motor vehicles (importers were required as of September 1 2006 to pay the full amount of GCT payable at Customs) as well as lower than projected nominal GDP growth (influenced by lower inflation outturn).

Nevertheless, GCT was 13.1% higher than in FY 2005/06, a real increase of about 7%. The positive performance is underpinned by the real GDP growth, buttressed by an increase in households' purchasing power arising from the increase in wage income.

With respect to Education tax, collections amounted to $9,209.2mn, $532.4mn (5.5%) below target and $1,852.2mn (25.2%) more than for the corresponding period of the previous year. The increase above 2005/06 arose chiefly from higher wage payments as well as increased collections from the ARC programme.

SCT collections of $4,042.8mn were $293.3mn (6.8%) below target and $803.8mn (24.8%) more than in FY 2005/06. The shortfall was mainly influenced by lower than expected collections from the state-owned refinery, as the anticipated increase in returns from Petrojam was not realized. The reduction on the production side was however fully compensated for through higher collections from the importation of refined petroleum products.

Within the category, Contractors Levy, Stamp Duty (local) and Other Licenses were ahead of target. Collections of $834.9mn from the Contractors Levy exceeded budget by $258.4mn while Stamp Duty collections of $8,623.9mn were $223.7mn higher than budget. Receipts from Other Licenses totalled $276.5mn, or $72.8mn more than the budget.

When compared to collections from the previous fiscal year, Production and Consumption Taxes were $8,302.8mn (16.6%) higher with GCT (Local), Education Tax and Stamp Duty being the main items showing significant increases. Collections from the ARC programme accounted for almost 40% of the increase over 2005/06.

International Trade Taxes

Collections under the International Trade category totaled $53,575.3mn, which were 2.5% above budget with SCT and GCT mainly responsible for the positive outturn. SCT collections of $9,212.1mn were $1,032.0mn above target, while the collections for GCT stood at $24,333.1mn or $621.6mn above budget. The change in the motor vehicle regime that impacted GCT (Local) boosted collections from GCT (Imports). Collections of overall GCT (Local and Imports) for FY 2006/07, though 4.3% behind budget, surpassed the previous fiscal year by 18.7%.

With respect to SCT, collections of $$9,212.1mn exceeded budget by $1,032.0mn, due to higher than expected importation of refined petroleum products, which compensated for the shortfall in the Production and Consumption category. SCT collections were 10.2% higher than collections for FY 2005/06.

Compared to the previous fiscal year, all items within the International Trade category registered increases in FY 2006/07, due in part to higher imports, depreciation in the value of the Jamaica dollar and efficiency improvements at Customs.

Non-tax Revenue

Non-tax revenue performed well with total collections of $14,048.5mn surpassing target by $1,238.7mn, or 9.7%. While the 2% Customs User Fee (CUF) contributed approximately 41% to total non-tax revenue receipts, interest income and departmental revenues were largely responsible for the over-performance. Collections from the CUF were $301.4mn, or 5.5% more than budgeted as a result of higher import value, mainly from petroleum due to the significant increase in the price of oil.

Compared to FY 2005/06, non-tax revenue increased by 19.0% with the CUF and interest income together accounting for approximately 85.0% of the increase.

Bauxite Levy

The bauxite/alumina sector showed considerable improvement in FY 2006/07 with total bauxite output estimated to have increased by 7%% and the London Metal Exchange (LME) price for aluminium increasing by about 27% over the previous year. This improvement in output and price resulted in bauxite levy receipts of $4,169.9mn surpassing collections in FY 2005/06 by $1,045.3mn, or 33.5%.

Compared to the amount budgeted, bauxite levy inflows were 3.2% better, due mainly to higher than anticipated prices and output.

Capital Revenue

Capital revenue totaled $3,193.3mn, a shortfall of $3,585.0mn relative to the budget. The unfavourable outturn arose mainly from Mirant's decision to sell its 80% stake in the Jamaica Public Service Company (JPSCo) which resulted in the GOJ opting not to sell its 20% share in the company. Collections were also affected by lower than expected receipts from royalties and loan repayments.

In comparison to the previous year, Capital revenue decreased by $5,270.9mn as collections in FY 2005/06 included a one-off contribution of $5,000mn from the National Housing Trust (NHT) for the Education Transformation Project (ETP). In addition, receipts from the Financial Institutions Services were lower in FY 2006/07 than in the previous year.

Grants

Grant receipts amounted to $1,813.8mn, a shortfall against the budget of $1,879.1mn. This shortfall is consistent with the lower capital expenditure outlay due to the slower than anticipated implementation of some projects. The inflows during the review period were however $1,096.6mn higher than for the previous fiscal year, which is reflective of the increase in capital expenditure over FY 2005/06.

EXPENDITURE

Total expenditure for FY 2006/07 of $249,101.0mn was 3.5% higher than budgeted. This higher than programmed outturn occurred as an 18.6% reduction in capital expenditure was outweighed by a 6.6% increase in recurrent expenditure. The additional expenditure occurred as a result of higher than programmed non-discretionary expenses (mainly wages and interest costs) in the second half of the year. Spending during FY 2006/07 at 19.9% higher than in the previous fiscal year represents a real increase of approximately 13.0%.

It is important to note that in comparison to the last three fiscal years, capital projects (infrastructure spending) constituted a greater share of total expenditure whereas a smaller share of expenditure was devoted to recurrent payments. The share of total expenditure devoted to capital projects in FY 2006/07 was recorded at 6.3%, compared to an average of 3.1% over the three year period 2003/06. This is an important development as the GOJ seeks to address the infrastructural needs of the country in line with long-term economic development goals.

Recurrent Expenditure

Recurrent expenditure totaled $225,599.1mn, which was $13,872.0mn, or 6.6% more than budget due largely to higher spending on wages and domestic interest. This level of recurrent spending represented an increase of 17.3% over FY 2005/06.

Programmes

Spending on recurrent programmes of $49,120.3mn was 5.5% more than the amount budgeted and 20.3% above the previous fiscal year. Major areas of increased recurrent expenditure were, inter alia:

- fixed traveling allowances (motor vehicle upkeep and commuting allowances were last increased in 2000);
- pension payments;
- allocation for voter registration;
- solid waste management, arising from shortfall in property tax collections;
- allocation to education, including subvention to schools.

Wages and Salaries

Expenditure on wages & salaries for FY 2006/07 was programmed to increase mainly as a result of the MOU II agreement between the GOJ and the unions representing public sector workers. For the first eight months of FY 2006/07, wages and salaries remained consistently below budget (2.4% lower than planned from April - November) due mainly to the later than anticipated settlement and payment of new rates to some public sector workers. The GOJ had programmed for new wage and salary payments in the first fiscal quarter. However, the settlement for some groups, notably the larger groups of teachers, nurses, doctors and police occurred later than anticipated. Consequently, new compensation rates for these groups were paid later than budgeted resulting in lower wage costs up to November and higher costs from December 2006 forward.

The increases granted under MOU II were more than the contingency provision in the budget and this occurred in a context of the GOJ seeking to promote industrial peace and maintain economic and social stability. This was especially so with respect to four large public sector groups of nurses, teachers, police and doctors, who remained quite militant in their efforts for increases above the MOU II provisions.

Other factors that contributed to the higher than programmed wage payments were: arrears of statutory deductions; locum tenens in schools (payment to replacement teachers while other teachers are on leave); revision to tailoring/meal/location allowances and service pay to police.

As a consequence of these developments, the second half of the year saw wage costs increasing by $6,969.7mn above budget resulting in wage and salary payments for the year exceeding budget by $5,897mn and recording an increase of $15,552.8mn (24.6%) over payments in FY 2005/06.

Interest Payments
Interest cost of $97,817.9mn was $5,397.6mn, or 5.8% above budget. Domestic payments were 7.5% above budget while external payments remained broadly on track with target, increasing by only 1.7%. Compared to last fiscal year, external payments rose 15.8%. The higher costs arose from, inter alia, higher than anticipated depreciation in the value of the Jamaica dollar and a higher than programmed increase in the external debt stock.

The higher than budgeted increase in domestic interest payments were due to:

- the increase in the domestic debt stock arising from the larger fiscal deficit and higher amortization payments;
- accommodation of the market demand for variable rate instruments with more frequent (quarterly vis-à-vis semi-annual) coupons especially during the first half of the fiscal;
- assumption of debt liabilities of public sector entities.

Interest cost as a proportion of GDP declined to 13.8% compared to an average of 16.1% over the last three fiscal years. As a share of total expenditure interest payments stood at 26.4% in FY 2006/07 compared to an average of 28.5% between 2003/04 and 2005/06. With respect to consumption of fiscal resources, there has been a trend decline in the interest payments/revenue ratio. Interest costs consumed 46.2% of total revenue in FY 2006/07, compared to 47.3% in 2005/06 and an average of 53.1% over the last three years. This is a very positive trend, as it creates more fiscal space for the provision of public goods.

Capital Expenditure

Total capital expenditure of $23,501.9mn was $5,383.1mn 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 shortfall and its commitment to getting as close as possible to its fiscal targets; and
- Lower than anticipated spending on some projects, including the ETP. The remaining expenditure obligation on the ETP has been carried forward to FY 2007/08.

Despite being lower than budgeted, capital spending was $8,027.8mn, or 51.9% higher than in the previous fiscal year. Influencing this significant increase were, inter alia, expenditures associated with: Cricket World Cup 2007, the Northern Jamaica Development (North Coast Highway) project, the Programme of Advancement Through Health and Education (PATH) and Jamaica's participation in the Catastrophic Risk Insurance Facility.

LOAN RECEIPTS

In light of the need to finance a higher than programmed fiscal deficit, Government's borrowing requirement for FY 2006/07 exceeded budget. Loan inflows totaled $161,448.8mn, consisting of $128,948.9mn for domestic and $32,499.9mn for external, an increase of $41,723.0mn over budget.

The increase in external loan receipts over budget included $23,368.5mn (US$350.0mn Eurobond) that was raised on the international capital market in March 2007 to provide partial financing for FY 2007/08. Excluding the pre-funding of FY 2007/08 indicates that external loan receipts utilized for FY 2006/07 operations were $9,131.4mn or 16.4% higher than budgeted.

With respect to domestic loans, funds raised exceeded budget by $17,068.4mn primarily as a result of the need to finance the higher fiscal deficit and amortization payments.

AMORTIZATION

Amortization payments of $122,049.7mn exceeded budget by $4,469.2mn with external payments being broadly on target and domestic payments increasing above budget. External payments of $16,934.3mn exceeded budget by just $363.4mn (2.2%), due largely to higher than projected exchange rates on multicurrency loans.

With respect to domestic amortization, payments of $105,115.5mn were $4,105.8mn (4.1%) greater than projected. This increase occurred as a result of:

- the recording of roll-overs from 2005/06 (also reflected in loan receipts) as recommended by the Auditor General. Prior to this, GOJ recorded only the amounts physically paid out from the Consolidated Fund;
- RBTT exercising an option for early retirement of a security valued at $3,500.0mn.

Chapter 2

CENTRAL GOVERNMENT BUDGET

FISCAL YEAR 2007/08

OVERVIEW

The FY 2007/08 Budget was developed within a medium term framework formulated around the following assumptions:

	2006/07	2007/08	2008/09	2009/10
Real GDP Growth (%)	2.5	3.0	3.5	4.0
Inflation Rate (%)	6.6	7.0	6.0	5.0
Exchange Rate (avg.)	66.51	constant real effective rate		

Within the context of this medium term framework an expenditure budget of $380,364.7mn was tabled in parliament on March 29, 2007. The FY 2007/08 budget reflects above-the-line expenditure of $278,181.0mn and amortization payments of $102,183.7mn. As in previous years, debt-service accounts for the largest portion of the budget, followed by education services. The targeted fiscal deficit for FY 2007/08 is 4.5% of gdp ($35,089.3mn), which requires revenue & grants of $243,091.7mn.

The salient features of the budget are presented below.

DEBT SERVICING

Total debt service for the fiscal year is projected at $203.7bn or 53.5% of the budget. This compares to $219.6bn or 59.0% for FY 2006/07. The breakout of the debt service is as follows:

	2006/07 $bn	2007/08 $bn
Interest payments	97.1	101.5
Amortization	122.5	102.2
TOTAL	**219.6**	**203.7**

Total debt service for FY 2007/08 shows a reduction of $15.9bn or 7.2% on the FY 2006/07 outturn.

DOMESTIC DEBT SERVICE

Interest

A total of $70.5bn has been allocated for interest payments on domestic debt. This reflects a marginal increase of $231.0mn or 0.3% over the outturn for FY 2006/07.

Amortization

The programmed domestic amortization is $68.7bn, which represents a $36.3bn or 34.6% reduction below the outturn for FY 2006/07. The reduction results from a lower volume of debt reaching maturity in FY 2007/08 relative to FY 2006/07.

EXTERNAL DEBT SERVICE

Interest

An amount of $31.0bn has been allocated for interest payments on external debt. This is an increase of $4.2bn or 15.6% over the outturn for FY 2006/07. This increase for external interest payments is due to exchange rate movements and the increase in the external debt stock.

Amortization

The external debt amortization provision of $33.4bn is $16.0bn or 91.3% above the outturn for FY 2006/07. This increase is attributable to the fact that there were no bullet payments on Jamaica's global bonds in FY 2006/07 whereas FY 2007/08 contains a bullet payment of US$225.0mn.

RECURRENT EXPENDITURE

The overall recurrent expenditure increased from $224.6bn in FY 2006/07 to $239.3bn in FY 2007/08, representing an increase $14.9bn or 6.6%. Interest charges are expected to move from $97.1bn in FY 2006/07 to $101.5bn in FY 2007/08, an increase of 4.6%. Non-debt recurrent expenditure is budgeted to grow by 8.1% to $137.8bn in FY 2007/08.

Non-Debt (Wages & Salaries and Programmes)

The main projected contributors to the increase in the non-debt recurrent expenditure include:

- Wages and salaries of $88.7bn, which represents an average salary increase of 6.5% as well as the impact of reclassifications and restructuring which took place during FY 2006/07 and which are expected to come on stream in FY 2007/08;

- The implementation of the second year of the new travel rates amounting to $838.0mn, which represents a 19.0% increase over FY 2006/07. The previous increase was in FY 2000/01;

- A provision of $241.0mn to meet the cost for Catastrophe Risk Insurance, a facility which will provide the country with some certainty of funds to assist in the recovery effort in the aftermath of a hurricane or earthquake related natural disaster;

- The PATH Feeding Programme which is a new component under the School Feeding Programme to provide students under PATH with lunch free of cost. This aspect of the PATH Programme was adopted to encourage and facilitate regular attendance, which is one of the conditionalities for funding of the programme. The provision of approximately $450.0mn in the FY 2007/08 budget is intended to assist approximately 40,500 students with lunch;

- Student Assistance for Secondary and Technical High Schools which has been increased by $118.3mn to $1.2bn**.** This increase is due to the additional spaces that have been provided through the Educational Transformation Project;

- Increase in Utilities Grant to schools by $118.0mn to $418.0mn. This represents the additional requirements for the new high schools that have been expanded and constructed over the past two years;

- $500.0mn for the expenses of holding of General Elections;

- $366.1mn for registration of voters.

CAPITAL EXPENDITURE

The projected capital expenditure for FY 2007/08 is $141.1bn of which $102.2bn is amortization and $38.9bn is for capital programmes.

Within the projection of $38.9bn are some critical one-shot payments amounting to $13.9bn that have been carried forward from previous years and which are now being formally recorded as expenditure, in accordance with the recommendations of the Auditor General. The remainder of $25.0bn represents actual current expenditure on projects to be undertaken by Ministries.

EDUCATION SERVICES

The function Education Affairs and Services has been allocated $5.7bn to undertake capital projects. This represents 14.9% of the total non-debt capital budget. The largest allocation under the capital budget of the Ministry of Education and Youth is for the Education Transformation Project. The allocation of $2.3bn represents the balance of the $5.0bn provided by the National Housing Trust in FY 2005/06.

CAPITAL B - MULTILATERAL/BILATERAL PROJECTS

For FY 2007/08**,** $1.3bn has been allocated to Education Services under the Capital B Programme**.** This allocation represents funding for 6 projects, 4 of which are ongoing and 2 new. The new projects are:

- *Absenteeism in Jamaica's Primary Schools* - funded under the Japan Technical Corporation Programme and
- *The Jamaica Early Childhood Development* - a human resource development project for which funding is being provided by the IBRD and the Japanese Government.

The Ministry of Education has focused on the development of its Early Childhood and Primary Education programmes to which it has allocated 74.5% of the FY 2007/08 Capital B provision. The bulk of the allocation of $520.6mn (40.6%) is provided for land and structures and civil works to provide school places under the Primary Education Support Project (PESP), the Enhancement of Basic Schools Project, and the Reform of Secondary Education Project (Rose II).

Other Projects/Programmes

Within the Office of the Prime Minister there are a number of projects aimed at the development of sports and related facilities. A provision of $668.0mn has been made for the following sport and recreational facilities:

- Port Maria Civic Centre Phase 11
- Montego Bay Sports Complex Phase 111 (Phase 3)
- Stadium East Practice Field
- GC Foster College seating / football field
- Montego Bay Convention Centre
- Simon Bolivar Cultural Centre

An allocation of $827.2mn has been provided under the Office of The Cabinet for the Public Sector Modernization Project, inclusive of $245.4mn to account for prior year expenditure. The objectives of the project are for institutional strengthening of the public sector reform unit; modernization of key ministries; establishment of new executive agencies and performance based institutions; modernization of the Cabinet Office; and implementation of the performance management and appraisal system (PMAS) government wide.

The government gave a commitment under MOU II to provide a Tertiary Assistance Loan of $500.0mn over 2 years to public officers. The allocation for FY 2007/08 is $250.0mn, which has been provided under the Ministry of Finance and Planning.

Under the Ministry of National Security Capital B, The Citizen Security and Justice Programme has been allocated $864.9mn, which includes Consolidated Fund Payments of $203.9mn for prior year expenditure. The major objective of the project is to support the Crime Management and Justice Programme to reduce the level of crime and violence, primarily through preventative interventions.

Another major project under the Ministry of National Security is "Improving Governance Through Citizen Security And Participation", which has been allocated $140.0mn. The objective of this project is to assist the government of Jamaica to address the challenges of democracy and good governance by continuing to build on programmes under the previous strategy to strengthen civil society; improve community-police relations (replicating the Grants Pen Model in similar communities); and strengthen the rule of law, including targeting the crisis of crime and poverty in inner-city communities.

MINISTRY OF JUSTICE

Approximately $286.9mn has been provided under the Ministry of Justice Capital A for the construction and improvement of court houses. The provision is to facilitate the following:

- Construction of a courthouse in Morant Bay (following recent destruction by fire of the historically significant original), undertake architectural work for Mandeville and repairs to Montego Bay Resident Magistrates' Courts.
- Upgrading of plumbing and electrical works for the Resident Magistrates' Courts in Montego Bay, Yallahs, Savanna-la-Mar and Black River.
- Refurbishing of Resident Magistrates' Courts in Spaldings, May Pen, Coroners/Traffic Courts, Director of Public Prosecutions.
- Extension of Supreme Court at Barry Street and Court of Appeal.
- Provision of Prosecuting Attorney System (PAS) software to improve case management in the RM Courts, Office of the DPP as well as the purchase of jury management software.

Social Security

Approximately $1.5bn has been provided for the Social Safety Net – Programme Of Advancement Through Health And Education (PATH) project. This is the major contributor to the Ministry's Public Assistance Programme. The Ministry, through the project will be making monthly payments to approximately 236,000 eligible beneficiaries during FY 2007/08.

- The Child Assistance Grant targets poor children (age 0-17) years who comply with preset conditions which include at least 85% school attendance and regular visits to health clinics. The project is expected to raise the health status and immunization rates among children age 0-6 and increase school attendance and learning outcomes among poor school children age 6-17**.**
- The Adult Assistance programme is primarily to finance conditional grants to poor pregnant women and lactating mothers, elderly poor over 65 years, poor disabled and destitute adults under 65 eligible under the program and who comply with the preset conditions. These include regular health clinic visits by the adult beneficiaries.

For FY 2007/08 major targets for the programme will include:

- Making payments to approximately 236,000 eligible beneficiaries;
- Improving the operating process within PATH;
- Identifying beneficiaries whose economic conditions have improved and no longer qualify for PATH – recertification exercise;
- Overhauling the existing application software and developing new modules for the complete automation of PATH's operations- MIS development;
- Improving the networking and computer infrastructure in the parish offices;

- Facilitating the efficient and more secure packaging of cheques by automation within the process.

***Ministry of Housing, Transport, Water and Works*.**

For FY 2007/2008 a number of critical projects will be undertaken by the Ministry of Housing, Transport, Water and Works, including:

Water Supply Schemes totaling $300.0mn in various rural communities;

Emergency repairs to roads - The allocation of $1.7bn will be used to complete works under the Special Flood Damage Programme (previously funded from the Petro Caribe Funding facility (PCF)) and to facilitate new works under the emergency repairs programme;

- Flood Damage Rehabilitation (Cleaning Of Gullies) - Approximately $111.0mn has been allocated for the cleaning of gullies island-wide ahead of the rainy season;
- Bridge Development & Construction - This project has been allocated $966.0mn to upgrade, restore and maintain main, secondary and tertiary road bridges to an acceptable condition and for the replacement of those which have completed their useful lives. Approximately $266.0mn has been allocated under the R.A. Murray Bridge Programme in respect of the Milk River; Black River; Gordon Town and Angels bridges. In addition, under the Mabey and Johnson Bridge Programme, some $600mn out of a total $700mn has been allocated to cover several bridges across the island;

- Jamaica Highway Maintenance Project - Approximately $50.0mn will be used to facilitate improvement along Spanish Town road, from the Three-Miles intersection to Darling Street. The anticipated completion date for the civil works is October 2007;

- HWT Transport Centre – a provision of $200.0mn has been made to meet expenses emanating from the ongoing construction of the transport centre. The centre is slated for completion in October 2007.

Capital B Projects

There are 9 projects to be covered under the Capital B allocation as follows:

- Major Rural Water Supply
- Rural Water Supply
- Port Antonio Water, Sewerage And Drainage
- Kingston Metropolitan Area Water Supply
- Flood Damage Rehabilitation (CDB)
- National Road Services Improvement
- Northern Jamaica Development
- Road Rehabilitation Project (Kuwait)
- Washington Boulevard Corridor Widening

The Ministry of Transport and Works has placed emphasis on the completion of the Northern Jamaica Development Project (NJDP) to facilitate the movement of goods & services across the island, in an efficient manner. The NJDP has accounted for 60.6% of the budgetary provision, while water supply and sanitation projects were given a considerable allocation, of 23.8% of the budgetary allocation for FY 2007/2008.

The allocation for the Northern Coastal Highway Improvement is $3.5bn. The project is divided into 4 segments totaling 268.3 kilometres as follows:

- Segment 1: Negril To Montego Bay (71.5 kilometres) which has been completed;
- Segment 2a: Section 1 of Segment 2 Montego Bay, St. James to Greenside Trelawny (27.4 km) with allocation of $1.6bn;
- Segment 2: Sections 2, 3 & 4 of Segment 2 Greenside, Trelawny to Ocho Rios, St Ann (69.4 km) with an allocation of $587.0mn;
- Segment 3: Ocho Rios, St. Ann to Port Antonio, Portland (100 km). This segment has been allocated $1.3bn.

The main project to be undertaken by the Ministry of Local Government and Environment Under Capital B is the Flood Damage Rehabilitation Project (EU Grant) at an estimated cost of $100.0mn. This project was originally to rehabilitate 65.0 km of flood damaged parochial roads with farming activities in 6 parishes and to rehabilitate 20.0 km of flood damaged farm roads in 5 parishes. This was supposed to be a one-year project; however subsequent disasters and resultant damage to roads prevented this project from being completed.

Subsequent grants from the EU have allowed the project to be 'rolled over' into succeeding financial years.

FINANCING FY 2007/08 BUDGET

The Central Government target for FY 2007/08 is a fiscal deficit of 4.5% of GDP, equivalent to $35,089.3mn. With above-the-line expenditure of $278,181.0mn achievement of the deficit target of 4.5% of GDP requires revenue & grants of $243,091.7mn.

Revenue and Grants

Projected revenue and grants for FY 2007/08 amount to $241,391.7mn, which represents an increase of 14.1% over FY 2006/07 and is comprised of:

	2006/07	**2007/08**	**Change**
	(in billions of dollars)		**(%)**
REVENUE & GRANTS	*211,625.0*	*241,391.7*	*14.1*
Tax Revenue	188,299.5	215,930.2	14.7
Non-tax Revenue	14,048.5	14,340.6	2.1
Bauxite Levy	4,169.9	4,268.2	2.4
Capital Revenue	3,293.3	3,562.4	8.2
Grants	1,813.8	3,290.2	81.4

This estimate for FY 2007/08 is 31.2% of GDP, up from 29.9% in the previous year.

TAX REVENUE

Tax revenue, which comprises close to 90% of total revenue, is budgeted to grow by 14.7% over the previous fiscal year. This estimate for FY 2007/08 is 27.9% of GDP, up from 26.6% in FY 2006/07 and is underpinned by expected buoyancy in the economy alongside aggressive revenue enhancement measures. The economy is expected to continue the growth momentum of the previous fiscal year, which augurs well for increased tax collections. The revenue enhancement measures will reflect a menu of administrative/compliance initiatives geared toward improving the tax system, reducing the incidence of non-compliance and boosting collections.

Administrative/Compliance Measures

In an effort to achieve the programmed fiscal deficit of 4.5% of GDP in FY 2007/08, Tax Administration will be adopting an aggressive approach toward increasing revenue collections. To this end, Tax Administration will be undertaking special projects aimed at:

(i) forensic and large case audits;
(ii) collection, through continuation of a concerted and carefully managed programme, of a significant portion of the large portfolio of tax arrears, which exists on taxpayer accounts; and,
(iii) improvement in operational efficiency of Tax Departments.

Non-tax Revenue

Non-tax revenue is projected at $14,340.6mn, 2.1% above collections in FY 2007/08. The estimate for non-tax revenue amounts to 1.9% of GDP, which is marginally below the 2.0% in 2006/07. This slight reduction emanates partly from policy changes, which allow some Executive Agencies to retain 100% of miscellaneous receipts, compared to the previous situation under which these agencies were required to transfer 50% of their receipts to the Consolidated fund. Concurrently, there is a corresponding reduction in outlays to these agencies from the Central Governments' budget.

Bauxite Levy

The buoyancy in the bauxite/alumina industry is expected to continue into FY 2007/08, albeit at a lower level than in the previous fiscal year. Projections are for a 2.4% increase in levy receipts to $4,268.2mn. Underlying these estimates is further growth in bauxite production and world aluminium prices.

Capital Revenue

Capital revenue is budgeted at $3,562.4mn, 8.2% more than collections in the previous fiscal year. The forecast includes an increase in royalties from the bauxite/alumina industry and higher loan repayments. However these increases are expected to be partly offset by a reduction in receipts from the Financial Institutions Services (FIS) as most of the assets under the control of FIS have already been divested.

Grants

The FY 2007/08 estimate for Grants amounts to $3,290.2mn. This forecast represents an 81.4% increase over receipts in FY 2006/07. Grant receipts in FY 2006/07 fell significantly short of budget due to slower than anticipated spending on capital projects. The forecast for FY 2007/08 thus reflects a recovery from the FY 2006/07 fallout.

The major grant inflows budgeted for capital projects are:

	$mn
Northern Jamaica Development (Northern Coastal Highway)	979.3
Banana Support	474.9
Public Sector Modernization	445.8
Scale Up of Jamaica's HIV/AIDS Treatment (Global Fund)	417.7

Revenue Measures

In light of the agreed expenditure and the passive forecast for revenue and grants, relative to a targeted deficit of 4.5% of GDP a fiscal gap of $1,700.0mn or 0.2% of GDP exists. To close the gap, a tax package of this amount has been identified and will be implemented to enhance the revenue flows.

Loan Receipts

The passive revenue forecast outlined above of $241,391.7mn, measures of $1,700.0mn and the $380,364.7mn expenditure budget approved by Parliament leaves a financing gap of $137,273.0mn. This is to be financed by the US$350mn already raised on the international capital market by the GOJ in March 2007 as part of the financing plan for FY 2007/08 and new loan receipts are estimated at $113,847.5mn.

The raising of funds in FY 2006/07 to finance FY 2007/08 external amortization has contributed to a lower external borrowing requirement during FY 2007/08. The forecast is for external loans of $17,233.1mn, which includes $6,805.8mn from multilateral/bilateral sources for capital projects, and the equivalent of $10,427.3mn from the international capital market. Domestic borrowing is programmed at $96,614.4mn. This forecast for domestic loans represents a considerable reduction from the $128,948.9mn raised in FY 2006/07 and should assist in supporting the downward interest rate path.

Chapter 3

PUBLIC SECTOR ENTITIES

OVERVIEW

Public Bodies consisting of statutory bodies, government companies and agencies are integral to the execution of government's policies. By providing capital and technology to strategic areas, they stimulate economic growth and development through capital formation and employment generation.

At the end of FY 2006/07, there were 156 active entities on the Public Bodies Register. Given the size of some Public Bodies and the diverse nature of activities they undertake across various sectors of the economy, their contribution to development at both the macro- and micro-economic levels has over the years been significant.

Approximately 40% of Public Bodies are fully or partly funded from the Consolidated Fund, while the remainder finance their operations from internally generated funds. A total of sixty-five (65) of these Public Bodies are subject to rigorous monitoring by the Ministry of Finance and Planning (MOFP). The MOFP's programme of intensive monitoring which covers finance, operations and governance, is to be extended to the remaining Public Bodies during FY 2007/08. Work is currently underway to strengthen the Ministry's capacity to undertake the increased monitoring.

Transparency and accountability will be enhanced as the MOFP works alongside portfolio Ministries to increase the Public Bodies' levels of compliance with the requirements under the Public Bodies Management and Accountability (PBMA) Act.

The Public Bodies' Estimates of Revenue and Expenditure for the year ending March 31, 2008 incorporates draft corporate plans and budgets for sixty (60) self-financing Public Bodies. These entities are expected to have total assets of approximately \$121,000 million and generate revenue of over \$225,000 million (2006/07: \$210,000). The sixty entities employ a total of 18,783 persons at a cost of \$22,750.10 million.

Contribution by Public Bodies

Public Bodies continue to play a critical role in the development of the country's physical infrastructure. Over the past five (5) years, expenditure on infrastructural development by five (5) Public Bodies was in excess of \$78,000 million. Specifically, this expenditure has been to improve and expand capacity at air and sea ports, increase quantity and quality of the nation's housing stock, improve water and sewerage facilities, among others. This group, which is comprised of the National Housing Trust (NHT), the Port Authority of Jamaica (PAJ), the Airports Authority of Jamaica (AAJ), the National Water Commission (NWC) and the Urban Development Corporation (UDC), is expected to spend \$31,118.85 million on infrastructural works in 2007/08.

The provision of funding for the expansion of the island's housing stock has been a major achievement of the NHT. For the five years to 2006/07, the NHT has spent in excess of

$37,850 million in providing 26,685 housing benefits. A total of 120,000 housing benefits have been provided since inception of the NHT.

The forecast for 2007/08 is for the NHT to spend approximately $17,230 million on the provision of 6,600 housing benefits - an increase of 28% on the estimated outlay of $13,430 million and provision of 6,284 benefits in 2006/07. The Inner-City Housing Project (ICHP) being implemented by the NHT is contributing to the renewal and improvement of the quality of life in inner-city communities. The project will cost in excess of $5,000 million and will allow the NHT to deliver over 1,800 benefits. In FY 2007/08, the NHT expects to deliver 344 units in Denham Town and 248 units at 231 Spanish Town Road.

The PAJ is currently implementing Phase V of the Port Development Programme which began in FY 1995/96. Through this programme, it has succeeded in upgrading and repositioning the Kingston Trans-shipment Terminal, which now ranks third in the Caribbean/Latin American region and fifty-fifth (55th) in the world's top one-hundred container ports.

PAJ expects to complete Phase V of the expansion and development programme during FY 2008/09. Targets for FY 2007/08 include:

- increasing container handling capacity by 0.3 million twenty-foot equivalent units (TEU) to 2.5 million TEUs;
- installing four additional ship to shore gantry cranes with ability to lift two containers simultaneously; and
- paving an additional nine (9) hectares of container yard space.

Projections are for approximately $5,400 million to be spent in FY 2007/08 on the continued development of the port facilities ($6,700 million spent in 2006/07). The PAJ has spent $18,200 million on its capital programme over the last five years.

The AAJ is in the process of implementing a 20-year capital development programme at the Norman Manley International Airport. This programme is scheduled for implementation in three (3) phases at a total cost of US$139 million of which Phase 1A, which is currently being executed, is projected to cost US$98 million. The major deliverables in Phase 1A include construction of:

- a new three-level departures building which will be integrated with the existing ticketing concourse;
- a new two-level passenger pier which will enable the separation of arriving and departing passengers;
- four passenger boarding bridges, among other features.

The new building is slated for completion in October 2007. The AAJ projects capital expenditure of $2,937 million for FY 2007/08, a marginal increase on the estimated

$2,844 million for FY 2006/07. The amount expended by the AAJ over the last five years is approximately $5,200 million.

The NWC is responsible for the provision of water and sewerage facilities for the island. Its capital development programme is principally driven by the Water Sector Policy and is aimed at increasing the capacity and adequacy of facilities to provide universal access to potable water by 2010. Major projects completed within the last ten years include the Negril, Ocho Rios and Montego Bay Sewerage projects. This is in addition to the Lucea Great River and the Martha-Brae to Braco Water Supply projects on which US$75 million have been spent.

Major projects to be undertaken in FY 2007/08, include the Martha-Brae/Duncans to Runaway Bay phase of the North Western Parishes Water Supply Improvement Project and the Kingston Metropolitan Area Water Supply project. These will facilitate commercial and residential developments on the north coast and in the Kingston Metropolitan Region. Total capital expenditure is projected at $2,674.97 million for FY 2007/08. The NWC has spent approximately $6,000 million on major capital projects over the last five years.

The UDC has been involved in planning, managing and implementing projects on behalf of GOJ and its agencies/departments since its inception with the objective being, to stimulate urban renewal and economic growth. Projects undertaken over the last five years include the North Western Schools Programme, dredging of the Sandy-Gully and dualisation of the Howard Cooke Boulevard. Total capital expenditure over the last five years amounts to $9,988 million.

For FY 2007/08, the UDC plans to spend $2,188.98 million on its capital programme. Major projects will include construction of:

- the Montego Bay Sports Complex Phase 111;
- the Port Maria Civic Centre – Phase 11;
- the Simon Bolivar Cultural Centre.

Corporate Governance

The governance framework, within which the Public Bodies operate, was changed significantly with the passing of the PBMA Act, 2001 and subsequent amendment in 2003. The Act seeks to improve corporate governance in Public Bodies by increasing transparency in organizational systems and accountability of directors and managers. Amendments currently under consideration will further enhance the provisions for good governance and also seek to synchronize the Act with the Companies' Act 2004, on divergent issues.

The MOFP notes two significant achievements arising from the implementation of the Act. The corporate planning function and the use of Audit Committees has gained wider acceptance among Public Bodies, as effective management tools. Directors are more cognizant of the need for proper planning and the establishment of performance criteria as a prerequisite for (1) effectiveness in the achievement of their mandates and (2) holding managers accountable for results.

Since 2003 the MOFP has focussed efforts on increasing the level of awareness of the provisions of the Act. It has conducted numerous seminars with directors and senior management of Public Bodies and has partnered with the Management Institute of National Development (MIND) and other training institutions in the delivery of courses on governance. These efforts have served to clarify the provisions in the Act.

During FY 2007/08, the MOFP will commence development of a Code of Conduct for directors and will take steps to improve timeliness of presentation of annual reports to Parliament.

Accrual Accounting/IPSAS

Central Government Ministries, Departments and some Public Bodies prepare financial statements on a cash/modified cash accounting basis. It is expected that the public sector will complete the conversion to accrual accounting in keeping with the Government's thrust articulated in the Public Sector Modernization-Vision and Strategy: 2002 – 2012.

The conversion will facilitate higher levels of transparency in public sector financial reporting as well as the use of International Public Sector Accounting Standards (IPSAS). The presentation of financial statements under these standards will facilitate greater levels of transparency and comparability of financial information.

The Public Sector Committee of the Institute of Chartered Accountants of Jamaica (ICAJ) is expected to conclude its review of IPSAS during FY 2007/08 after which Government is expected to formulate policy for their adoption. Public bodies that do not operate as business enterprises and rely on Government funding to meet operational needs will be required to prepare financial statements using IPSAS.

Rationalization and Restructuring

Government will continue to rationalize/restructure Public Bodies for greater efficiency and effectiveness in the delivery of services to the public. Activities accomplished during FY 2006/07 include the following:

- Merger of the assets and functions of the National Investment Bank of Jamaica Limited (NIBJ) with those of the Development Bank of Jamaica Limited (DBJ) with effect from September 1, 2006;
- Removal of Container Services Limited (CSL) and Small Industries Finance Corporation (SIFCo), from the Companies Register;
- Divestment of National Rums of Jamaica (NRJ) and its subsidiaries Long Pond Distillers Ltd. and Clarendon Distillers Ltd. into majority private ownership. The National Sugar Company Limited continues to hold 33 1/3% of the shareholding in NRJ.

The MOFP will continue efforts to wind up and remove inactive entities from the Companies Register. Included in the list of Public Bodies under consideration are:

Caribbean Housing Finance Corporation (CHFC), National Housing Corporation (NHC), Jamaica Development Bank, Forest Industries Development Company (FIDCo) and Coffee Industry Development Company (CIDCo).

Financially challenged Public Bodies continue to impact the central government's budget, negatively. This has resulted in the MOFP having to engage four (4) entities in financial restructuring programmes including debt forgiveness during 2006/07. The MOFP recognizes however, that for financial restructuring to be effective, it is usually necessary to combine it with managerial and operational restructuring. Restructuring activities of this nature are currently underway at Air Jamaica Ltd., Jamaica Urban Transit Company Ltd. (JUTC), Sugar Company of Jamaica (SCJ) and Wallenford Coffee Company Limited.

In addition, the MOFP will seek to impose stringent conditionalities on Public Bodies seeking grants or loans from the Government.

Sustainable Development Strategy

In FY 2006/07, the MOFP began sensitizing Public Bodies of the need to identify and incorporate sustainable development strategies in their corporate plans. The MOFP will take further steps in FY 2007/08 to increase environmental awareness and the extent to which these are practised in Public Bodies. Expectations are that staff will be trained in identifying and developing environmental protection measures, including pollution prevention, waste disposal and energy efficiency and conservation.

Chapter 4

REVIEW OF SELECTED PROJECTS

The Government in conjunction with the Multilateral/Bilateral Lending Agencies will continue to finance projects aimed at improving the social (education, health and national security) and agricultural sectors and infrastructure network. A brief review of some of the projects that are currently being implemented is presented below.

SOCIAL SECTOR

Education

Reform of Secondary Education
(ROSE II)

The ROSE project was designed to improve the quality of secondary education, through reform, capacity building and continued infrastructure development.

At February 2007, the following had been achieved:

- 396 school personnel have been trained in School Improvement Planning;
- 99 School Improvement Plans have been completed;
- 208 teachers trained in the ROSE I curriculum;
- Land survey has been completed for 6 school sites, namely: Annotto Bay High, Mile Gully High, Lewisville High, Discovery Bay High, Paul Bogle High and Riverdale High;
- 10,000 copies of Foundation Books have been printed and distributed;
- 414 Guidance Counselors have been trained.

The programme will continue in FY 2007/08 with the following activities:

- complete implementation of the School Improvement Plans in 70 schools;
- 300 sets of Diagnostic Tools in Language Arts and Mathematics will be printed and distributed in 450 schools;
- 480 secondary school teachers (Grades 7-9) will be trained in the use of Diagnostic Tools;
- Construction/extension work will be completed on the Paul Bogle High School.

Primary Education Support Programme

The major objective of this programme is to improve the primary education system through the revised primary curriculum and National Assessment Standards in all primary schools.

Significant achievements made under this programme are listed below:

- At end-February 2007 training had been conducted in 800 primary schools island-wide for teachers to master the new integrated teaching modules;
- 34,000 copies of Supplementary Readers were distributed to 800 schools;

- The Strategic Plan for the tertiary sector was completed along with the Rationalization Plan for the Reform of Teacher Education;
- 293 college-trained principals received training in School Management and Leadership under the Principal's Diploma Programme;
- Construction work is underway on three schools in Phase I: Gordon Town, Bromley and Guy's Hill while commencement of work on three others (Hellshire, Mayfield and Christiana-Leased) is awaiting approval from the National Contracts Committee.

Implementation of the programme will continue in FY 2007/08 with the continuation of activities already underway alongside new activities to come on stream. The activities in FY 2007/08 will include:

- Preparation of materials for the training of Curriculum Implementation teams in Regions 4 and 5;
- Complete preparation and piloting of instructional materials for Literacy Programme 1 – 3;
- Training of teachers and literacy liaisons to use materials and implement programmes in schools by September 2007;
- Develop improved systems for the administration of the GSAT examination and the registration and placement of GSAT students;
- Implement revised standards for the GSAT, revise existing standards for the Revised Primary Curriculum and develop new ones for Social Studies, Language Arts, Mathematics, among others, at Grades 1 – 3;
- Complete construction of 3 schools in Phase I: Gordon Town, Bromley and Guys Hill. Commence construction of three others in Phase I: Mayfield, Hellshire, Christiana-Leased and four schools in Phase 2: Mansfield, Lucea, Chester Castle and Sheffield.
- Continue implementation of the network infrastructure - Education Management Information System (EMIS) Intranet;
- Complete activities on the plan for tertiary institutions including rationalization of teachers colleges and site-based training in Regions 4 and 5.
- Continue community-based intervention activities in 100 pilot schools.

Health

HIV/AIDS Prevention and Control Programme

The major objective of this programme is to assist in the prevention and control of AIDS and other sexually transmitted infections (STI). The programme is implemented under three components:

Component 1: Improve knowledge about HIV/AIDS and access to preventative measures leading to behavioural changes. Interventions focus on high prevalence groups, on the newborn and the young (below age 24). This component also supports interventions seeking to reduce the AIDS stigma.

Component 2: Expansion of diagnostic treatment, counseling and care. This component focuses on adequate provision of drugs for infections and STI in health facilities and the expansion of home and hospice care.

Component 3: Improved national capacity to tackle the HIV/AIDS epidemic. This component includes interventions that aim to improve diagnostic capacity, quality and efficiency of service delivery sites.

Implementation of the programme commenced in 2003 and has led to an increased awareness of the HIV/AIDS epidemic. Several training and sensitization workshops have been held and condoms distributed. Among the significant outcomes of this programme are the following:

- The Prevention of Mother to Child Transmission Programme has been a success, with significant "buy in" by all stakeholders and notable results in reducing the transmission of HIV from mother to child;
- The National Policy on Blood is in the final drafting process. This policy addresses the following areas: testing, storage and transportation of blood and blood components;
- The infrastructure of the National Public Health laboratory has been strengthened through improvements done by way of additional electrical works, networking and cabling, procurement of computers, equipment and supplies;
- Five sites have been identified for rehabilitation/construction works: St. Jago, Mandeville and St. Ann's Bay Health Centres and Cornwall Regional and Savanna-la-mar Hospitals.

Activities in FY 2007/08 will include consolidation of those already underway along with the implementation of a Laboratory Information System.

Social Safety Net (PATH)

This programme was designed to assist the poor and most vulnerable in the society and has a target population of 236,000 persons.

As of February 2007, 230,000 persons have benefited. The level of assistance has been increased from $400 to $530 per beneficiary per month. A pilot alternative beneficiary payment method using the "keycard cash" is also underway.

The program will continue in FY 2007/08 with the automation of the payment process to facilitate the fast and secure packaging of cheques. The keycard cash payment will also be expanded.

Jamaica Social Investment Fund (JSIF)

JSIF is an entity established to assist in addressing the needs of the most vulnerable groups in the society through:

- Establishing an efficient, demand driven and complementary mechanism to deliver basic services and infrastructure to the poor;

- Channeling resources to the areas of social assistance and basic infrastructure for productive activities;

- Reducing sub-standard conditions in communities identified for priority treatment.

In February 2006 the Government successfully negotiated a US$29.3 million loan with the World Bank for the Inner City Basic Services Project. The objective of this project is to improve access to basic services (clean/potable water, sanitation, road infrastructure, solid waste management and related community based services) in targeted underserved inner-city communities. JSIF was selected as the implementation agency for this project based on its track record in project implementation.

Implementation of the project commenced in June 2006 with a prioritization exercise. A total of 12 inner-city communities were identified in the parishes of Kingston, St Andrew, St. Catherine, Clarendon and St. James.

The activities to be undertaken in FY 2007/08 include:

- The construction and rehabilitation of recreational facilities, installation of community garbage receptacles and replacement of zinc fencing;

- An integrated network infrastructure in project areas for water, sanitation, drainage and tertiary roads;

- Installation of streetlights;

- Refurbishing/construction of community centres;

- Earmarking of funds for Alternative Livelihood, Skills Training, Family Support Services and Mediation and Conflict Resolution.

National Security

Citizens Security and Justice

The objectives of the Citizens Security and Justice programme are:

- to strengthen crime management capabilities;
- to prevent and reduce violence in crime prone areas;
- to improve the delivery of judicial services.

The project has been progressing satisfactorily and a Crime Prevention Programme Coordinator has been employed. Under this programme computer equipment and software have been provided to the

Ministry of National Security and the Narcotics Unit of the Jamaica Constabulary Force. Other activities under this programme are outlined below:

- Implementation of a Management Information System (MIS) linking the courts, the Department of Corrections and the JCF is in progress. Tender for the delivery and installation of this hardware/software network was signed in March 2006. The MIS will address, among others, the Traffic Ticketing system, Modules for the Offender Management System, the Parole System and the Juvenile System;
- The Criminal Justice System has had 51 persons trained in the Board of Visitors Programme while 14 Investigators were trained in the Police Public Complaints Authority and 5 social Workers were employed to the Victim Support Unit;
- Land survey and drawings have been completed for the Transformation Centre at the Tamarind Farm Adult Correctional Facility;
- The Family Court on Duke Street has been refurbished;
- Ten projects have been completed under the Community Actions Programme while projects are in progress in the Allman Town, Rockfort and Grants Pen communities;
- Renovation of the reception areas at the Cross Roads and Kingston Central police Station is 90% complete;
- The renovation of the Tower Hill multi-purpose centre is completed, while work is ongoing on centres in Fletcher's Land, Cassia Park, Denham Town and August Town.

Several other activities have been undertaken to assist Inner City Communities inclusive of Conflict Resolution Training, Life Skills training, homework programme, Caribbean Examinations Council (CXC) Mathematics and English classes, parenting programmes as well as drug abuse prevention and treatment.

FY 2007/08 will see a consolidation of the above activities. Three projects now in progress under the Community Action Programme (Allman Town, Rockfort and Grants Pen) will be completed during FY 2007/08. Also slated for completion are:

- Renovation works on the Community Multi-purposes Centres in Fletcher's Land, Cassia Park, Denham Town, Drewsland and August Town along with the reception areas at Cross Roads and Kingston Central Police Stations;
- Implementation of the Traffic Ticketing system by June 2007, the Records Management System and Computer Aided Dispatch by February 2008, Human Resource Management by February 2008 and the Jail Management System by February 2008.

AGRICULTURE

Agricultural Support Services

This project is geared towards enhancing the quality of agricultural research, upgrading the existing system for safeguarding animal and plant health and stimulating agri-business development in rural areas.

Significant strides have been made in assisting farmers to revitalize the agricultural sector through the project as follows:

- Approximately $48mn was spent on refurbishing agricultural research stations at Bodles and Montpelier;

- Establishment of a Plant Surveillance and Pest Response System (PHS & PRS). This is a web-based system for pro-active surveillance of pest and disease incidence in Jamaica;

- Two hundred and sixty one (261) farmers were trained in the areas of Farm Budget Planning, Pumpkin Production, Hot Pepper Disease Management and Irrigation Management;
- A Plant Quarantine Office was constructed at the Montego Bay Port and the fumigation centre at the Export Complex was refurbished;

- The pilot project under the National Livestock Identification Programme was completed;

- Thirty-six officers have been trained in Aquatic and Avian Medicine, Chromatography, Carcass Disposal and Biotoxin;

- Twenty-four projects totaling $420mn were approved and are at various stages of implementation. These projects are aimed at enhancing the competitiveness of the agricultural sector.

- Consolidation and completion of these projects and activities are expected in FY 2007/08.

INFRASTRUCTURE

Northern Jamaica Development (NJD)

The Northern Jamaica Development project was designed to improve the road infrastructure from Negril to Port Antonio. The NJD project commenced in April 1997 is now scheduled to conclude by December 31, 2008.

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

Segment II which was re-scoped consists of 70 km from Greenside to Ocho Rios. At February 2007, work was 98% complete. All bridge structures are in place and the 70 km of highway between Greenside and Ocho Rios has been completed. All utility poles and wires have been relocated. Outstanding activities including curbs and channel, concrete channels and road signage are slated for completion by March 31, 2007.

With respect to Segment III from Ocho Rios to Port Antonio the overall physical progress of the work at February 2007 is approximately 16% complete. It is anticipated that by March 2008, construction work will be 85% complete.

The major activities to be undertaken in FY 2007/08 include:

- Paving of an additional 72 km of roadway to complete a total of 82 km of road;

- Completing construction of 7 new bridges;
- Rehabilitation of 16 existing bridges;
- Completing relocation of utility poles and wires.

It is anticipated that by March 2008, construction work on Segment III will be 85% complete.

Chapter 5

DEBT AND CAPITAL MARKET DEVELOPMENTS

INTRODUCTION

Debt Management in FY 2006/07, within the context of an improved macro-economic environment, successfully achieved its objective of raising adequate levels of financing to satisfy budgetary requirements at minimum cost.

The domestic debt borrowing programme was essentially completed by the end of the third quarter of the fiscal year. This achievement was facilitated by the raising of funds in the international capital market at the end of FY 2005/06 to finance external amortization due in FY 2006/07.

Some measure of success was achieved in FY 2006/07 in the Government's Debt Management Strategy with continued containment of the growth rate of the domestic debt (which has shown marginal decreases over the past three fiscal years); achievement of reduced borrowing costs; reduction of the level of foreign exchange risk in the domestic debt stock and the extension and smoothing of the maturity profile of the domestic debt portfolio by the issuance of debt securities with tenures of twenty to thirty years.

During FY 2006/07, favourable market conditions combined with improvements in key macro-economic indicators contributed to positive market sentiments from investors.

The international capital markets were successfully tapped in March 2007 with the issue of Jamaica's longest dated, lowest coupon, largest US$-denominated and first amortized bond by the Government. The bond carries a coupon of 8.0% p.a. and will be amortized over the last three years of the tenure, with final maturity in March 2039. Due to overwhelming demand for the issue, the original size of US$250mn was upsized to US$350mn. The bond, issued at a discount, has since traded in the secondary market at and above par.

During FY 2006/07, Jamaica's external bonds performed well when compared with those of other emerging market issuers and sustained their premium trading levels despite periods of volatility in the markets.

During the fiscal year Jamaica's credit ratings were reviewed by the rating agencies Moody's Investors Service (Moody's), Standard and Poor's (S&P) and Fitch Ratings (Fitch). Moody's re-affirmed Jamaica's long-term foreign currency credit rating of "B1", its long-term local currency rating of "Ba2" and maintained its "Stable" outlook for Jamaica. S&P also re-affirmed Jamaica's long-term foreign currency rating of "B" and maintained its "Stable" outlook. Fitch conducted its inaugural sovereign rating of Jamaica and assigned a foreign and local currency issuer default rating of "B+" and a "Stable" outlook.

At end-March 2007, total public debt stood at $923.1bn or 130.4% of GDP compared with 131.8% at the end of March 2006. Domestic interest payments for FY 2006/07 accounted for 37.9% of tax revenue and 31.6% of recurrent expenditure, compared with 40.2% and 34.0%, respectively, for FY 2005/06. External debt service as a percentage of exports of goods and services declined to 9.4% at end 2006/07 from 14.3% at the end of 2005/06. The current debt service ratio has remained within the internationally accepted benchmark of less than 20%.

Total debt at end-March 2007 had increased by 9.0% (or 3.4% of GDP) over the stock of $847.3bn recorded at end-March 2006. This increase includes the US$350mn raised to finance FY 2007/08.

The main factors contributing to the increase were:

- The issue of government securities to cover BOJ losses and the capitalization of interest on former FINSAC Bonds;
- The assumption of contingent obligations in respect of the Sugar Company of Jamaica;
- The issuance of a US$350mn bond in the international capital markets to finance FY 2007/08; and
- Increase in Government guarantees mainly in support of the financial restructuring of the debt portfolio of Clarendon Alumina Production Ltd. and for the purchase of equipment by the Port Authority of Jamaica for the Fifth Phase Expansion Programme of the Kingston Container Terminal.

DOMESTIC DEBT

PERFORMANCE SUMMARY

During FY 2006/07, the Government continued its management of the domestic debt within the framework prescribed by the debt management strategy. Efforts were made to finance the budget at minimum borrowing costs, maintain an appropriate mix of fixed-rate and floating-rate debt to minimize interest-rate risk; minimize foreign currency exposure of the domestic debt portfolio; issue debt securities at the long end of the yield curve to better manage refinancing risk; increase transparency and predictability in debt issuance and increase the use of the auction mechanism for issuance of domestic securities.

The Government was able to achieve and maintain, through sound fiscal and monetary policies, a relatively stable foreign exchange market, and an improved macro-economy, thereby facilitating implementation of its debt management strategy. The Government was successful in extending the maturity profile of the debt, as 41.0% of new debt issued during the period had maturities in excess of ten years and up to thirty years. There was measured success in containing the growth rate of the domestic debt and in obtaining lower cost funding. There was success in minimizing borrowing costs, facilitated by the reduction in interest rates. The average yield on the benchmark 6-month Treasury Bill instrument moved from 13.18% p.a. at the beginning of the period, to close the financial year at 11.65% p.a., the lowest in over twenty years. The stock of foreign currency debt in the portfolio was reduced, thereby decreasing the level of foreign currency exposure.

Stock Composition

At the end of March 2007, the stock of domestic debt stood at $513,930.8mn or 72.6% of GDP, down from 75.1% of GDP at the close of FY 2005/06. The debt stock had increased by $31,218.2mn or 6.5% over the stock at the end of FY 2005/06, and compared favourably with the previous increases of 7.5% at the end of FY 2005/06 over end of FY 2004/05 and 7.6% at the end of FY 2004/05 over end of FY 2003/04. The Government has had measured success in containing the growth of the domestic debt, with the rate of increase declining marginally over the past three fiscal years.

The increase in the debt stock was attributable to:

- Financing of the budget deficit;
- The issue of government securities to cover BOJ losses and the capitalization of interest on former FINSAC Bonds; and
- The assumption of contingent obligations in respect of the Sugar Company of Jamaica.

At the end of the fiscal year 2006/07, Local Registered Stock (LRS) and Debentures, the Government's medium to long-term debt instruments, represented approximately 83.2% of total debt compared with 81.1% at end- March 2006 and 77.3% at end-March 2005.

US$-denominated and US$-indexed issues accounted for 14.5% of total debt at end- March 2007 compared with 15.9% at the end- March 2006 and 18.8% at end-March 2005. Treasury Bills, the Government's short-term instrument, Commercial Bank Loans and Other debt accounted for the remaining 2.3% compared with 3.0% at end-March 2006, and 3.9% at end-March 2005. These debt ratios all indicate improvements in the debt statistics reflecting longer maturities and lower foreign currency exposure.

Over the review period, market expectations continued to reflect increased demand for long-term instruments with variable rates, and to a lesser extent, short-term fixed rate securities, over long-term fixed-rate instruments. The proportion of Local Registered Stock (LRS), at 44.1%, remained the largest component of the domestic debt stock, although it decreased significantly by 4.9% during the period. This component of the debt as a share of the stock continued the downward trend that emerged over the previous four fiscal years. The stock of LRS declined from 48.8% at end-March 2006, to 44.1% at end-March 2007.
The Investment Bonds/Debentures category accounted for a significant portion of the increase in the debt stock at the end of FY 2006/07, increasing by $44,771.2mn or 28.7% over end-March 2006. At end-March 2007, it represented 39.1% of the stock compared with 32.3% at the end-March 2006.

Structure of Domestic Public Debt
2005/2006 - 2006/2007
(J$mn)

	F/Y 2005/06	%	F/Y 2006/07	%
LRS	235,632.7	48.8	226.631.1	44.1
Debentures	155,905.6	32.3	200,676.8	39.1
Treasury Bills	3,800.00	0.8	4,200.00	0.8
US$ Indexed Bonds	25,575.1	5.3	24,588.9	4.8
US$ Denominated Bonds	51,163.5	10.6	49,993.7	9.7
Commercial Bank Loans & Other	10,635.6	2.2	7,840.4	1.5
Total Domestic Debt	**482,712.5**	**100.0**	**513,930.8**	**100.0**

There was some success in reducing the stock of foreign currency debt in the domestic debt portfolio. At the end of FY 2006/07, the stock of US$-denominated bonds and US$-indexed Bonds stood at $74,582.60mn or 14.5% of the total debt stock. This represented a $2,156.2mn or 2.8% reduction, compared with the total of $76,738.9mn at end-March 2006. The stock of domestic debt is projected to increase by 8.0% to $554,799.3mn at the end of FY 2007/08.

Holdings

Merchant banks, trust companies and brokers remained the main holders of government securities. Their holdings increased from 33.7% of the total stock outstanding at the end of FY 2005/06 to 38.0% at the end of FY 2006/07. Commercial banks were the second largest holder accounting for 15.3%. The Bank of Jamaica's holdings decreased from 17.8% at the end of FY 2005/06 to 14.8% at the end of FY 2006/07. Holdings by insurance companies and pension funds, including the National Insurance Fund, increased from 22.3% to 22.9%.

Maturity Profile

During FY 2006/07, consistent with the debt management strategy objective of reducing refinancing risk over the medium-term, the Government was successful in extending the maturity structure of the domestic debt, and issued 41% of its new debt securities with maturities over ten years.

Of the domestic debt issued in FY 2006/07, a significant 37.6% was issued with maturities between 10 and up to 20 years, compared with 17.4% in FY 2005/06. The Government also successfully issued 3.4% of new debt securities with 20 to 30 years maturity.

Debt issues with maturities between 5 and 10 years saw a marginal increase from 35.2% in FY 2005/06 to 36.1% in FY 2006/07. In addition, of the total debt issued, 22.9% will mature within 5 years, a notable improvement when compared with 43.4% in FY 2005/06 and 71.5% in FY 2004/05. Within this period, 8.4% will mature in 1-3 years and 14.5% in 3-5 years.

Of the total domestic debt outstanding at the end of FY 2006/07, 44.3% had maturities of 5 years and over, a significant improvement over the 28.1% at the end of FY 2005/06, and 55.7% had maturities of up to 5 years, compared with 71.9% in FY 2005/06. Within the 1-5 year category, 13.1% is due to mature within a year, 25.4% in 1-3 years while 17.2% will mature in 3-5 years.

Maturity Structure of New Debt By Original Maturities
(J$mn %)

Years to Maturity	F/Y 2004/05	F/Y 2005/06	F/Y 2006/07
<1 & up to 5 yrs	**81.1**	**43.4**	**22.9**
of which <1 & up to 3 yrs		*16.3*	*8.4*
of which 3-5 yrs		*27.1*	*14.5*
5-10 yrs	**12.2**	**35.7**	**36.1**
10 – 20 yrs	**6.3**	**17.4**	**37.6**
20 – 30 yrs	**0.4**	**3.5**	**3.4**
Total	**100.0**	**100.0**	**100.0**

Debt Raising

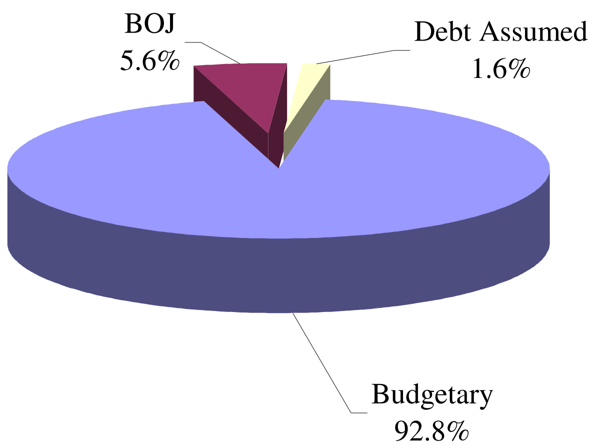
Gross new debt issued during FY 2006/07 amounted to $125,919.6mn, compared with a projected $111,880.5mn and $9,700mn for budgetary and non-budgetary financing, respectively.

Of the total new issuance, $116,830.1mn or 92.8% was raised for budgetary financing, and $9,089.4mn or 7.2% for non-budgetary purposes. Relative to projections these represented an increase of $5,140.1mn or 4.6% in budgetary financing, and a decrease of $610.0mn or 6.3% in non-budgetary financing, respectively.

In keeping with the debt management strategy, $109,029.6mn or 86.6% was issued through the market mechanism, while $16,890.0mn or 13.4% represented non-market issues. Of the non-market issues, $9,089.4mn or 7.2% was in respect of the assumption of contingent obligations for SCJ, the issue of Government securities to cover BOJ losses and the capitalization of interest on previously issued securities to BOJ for former FINSAC Bonds and BOJ losses.

A total of $35,683.7mn or 28.3% was issued as fixed rate, and $89,866.9mn or 71.4% as variable rate debt.

New Domestic Debt
April 2006-March 2007



Interest Rate Structure

During FY 2006/07, the Government continued to be guided by the debt management strategy objective of increasing the ratio of fixed rate debt. Although market demand for variable-rate instruments did not allow for the achievement of this objective the Government was able to reduce its re-pricing risk in the short-term as a result of the declining interest rate path.

Of the new domestic debt issued during the fiscal year, 71.4% was contracted at variable rates of interest, 28.3% was contracted at fixed rates, and 0.3% was non-interest bearing.

At the end of March 2007, the fixed-rate debt as a percentage of total domestic debt had moved to 40.0% down from 47.0% at the end of March 2006, and 58.0% at the end of March 2005.

Total Domestic Debt Interest Rate Composition
March 2005 – March 2007
(%)

	March 2005	**March 2006**	**March 2007**
Fixed Rate	58.0	47.0	40.0
Variable Rate	41.9	53.0	59.9
Non Interest-Bearing	0.1	0.0	0.1
Total Debt	**100.0**	**100.0**	**100.0**

Interest Rates

Domestic interest rates were relatively stable during FY 2006/07, fluctuating within a narrow band, but maintaining a consistent decline in keeping with the Government's debt management strategy. Relative stability in the foreign exchange market and improved macroeconomic performance during the period, contributed to a steady reduction in these rates.

Coupon rates on Bank of Jamaica Reverse Repurchase Agreements (REPOs) were decreased on three occasions during the review period, the latest reduction taking place on December 22, 2006 with a 30 basis point reduction across-the-board. The Bank of Jamaica discontinued the use of the 270-day and 360-day instruments in May 2006. The signal REPO rates on the 30-day and 180-day instruments, declined from 12.60% p.a. and 13.00% p.a., respectively, at end-March 2006, to 11.65% p.a. and 11.85% p.a. respectively, at end-March 2007.

Average yields on the six-month Treasury Bill decreased from 13.18% p.a. at the end of March 2006 to 11.65% p.a. at the end of March 2007, the lowest in over twenty years. The average yield on the three-month Treasury Bill also followed a similar path moving from 13.16% p.a. at end-March 2006, to 11.55% p.a. at the end of March 2007.

The Weighted Average Interest Rate on the domestic debt portfolio at the end of the review period was 14.22% p.a. for J$ instruments and 9.84% p.a. for US$-denominated instruments. These compared with 15.16% p.a. and 10.17% p.a. for J$ and US$ denominated instruments, respectively, at the end of FY 2005/06.

Domestic Debt Indicators

At the end of FY 2006/07, domestic debt as a percentage of GDP was 72.6% compared with 75.1% at the end of FY 2005/06. Domestic interest payments for FY 2006/07 accounted for 37.9% of tax revenue and 31.6% of recurrent expenditure, compared with 40.2% and 34.0%, respectively, for FY 2005/06.

EXTERNAL DEBT

PERFORMANCE SUMMARY

The external debt financing programme for FY 2006/07 was consistent with the debt management strategy. The Government satisfied its objectives of securing adequate external financing, extending the US$ yield curve and widening its investor base. In March 2007, the Government raised US$350 million of its external borrowing requirement for FY 2007/08.

During the year, the Government maintained its policy of transparency and predictability. In June 2006 the documents filed with the United States Securities and Exchange Commission were updated as part of the requirement for the Schedule B Shelf Registration Programme. In keeping with the Government's medium-term external borrowing programme the amount placed on the "Shelf" was replenished to US$700 million. The Government therefore positioned itself to take advantage of favourable market conditions. International investors were kept informed on economic developments through quarterly investors' conference calls and a non-deal roadshow in major European cities.

STOCK

At the end of March 2007, the stock of public and publicly guaranteed external debt was US$6,035.3mn or $409,196.1mn, representing 57.8% of GDP. The external debt increased by US$467.9mn or 8.4% compared with the level at the end of March 2006. In J$ terms, the external debt increased by $44,558.7mn or 12.2%.

This rate of growth was slower than the 17.5% recorded in FY 2005/06. The growth was largely attributable to:

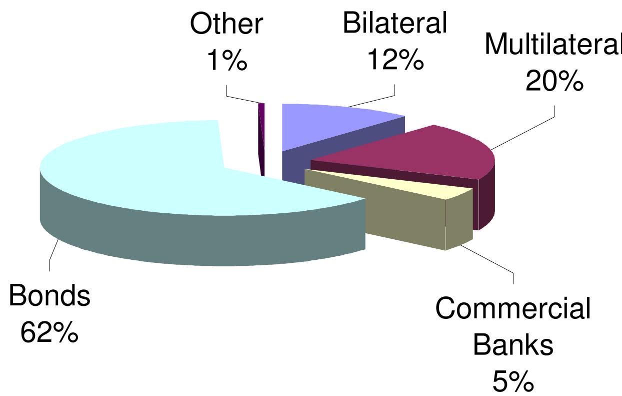
- The issuance of a US$350mn bond in the international capital markets to finance FY 2007/08;
- Increase in Government guarantees mainly in support of the financial restructuring of the debt portfolio of Clarendon Alumina Production Ltd. and for the purchase of equipment by the Port Authority of Jamaica for the Fifth Phase Expansion Programme at the Kingston Container Terminal; and
- Adverse movements of the Euro vis-à-vis the US$ and the US$ vis-à-vis the J$.

Creditor Composition

Private creditors assumed the position as the predominant source of funding reflecting Jamaica's continued access to the international capital markets. Eurobond issues in the international capital markets represented a significant component of the external debt stock, accounting for 62.0%, at the end of FY 2006/07 compared with 57.3% at the end of FY 2005/06. At the end of March 2007, loans from official creditors – multilateral and bilateral sources - accounted for 32.0% of the external debt portfolio compared with 36.0% at end-March 2006, and 43.7% at end-March 2005.

Loans from commercial banks as a percentage of the external debt increased from 4.1% at the end of FY 2005/06 to 5.0% at the end of FY 2006/07. The increase was due primarily to the use of suppliers' credits for the purchase of goods and services.

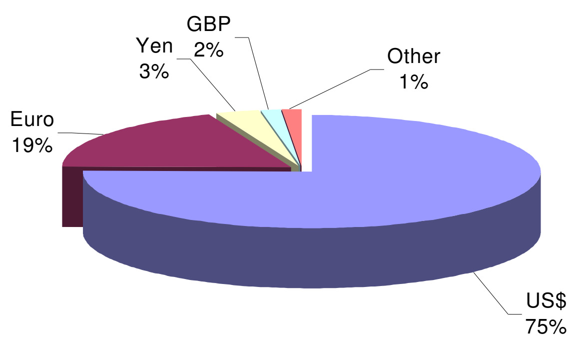
External Debt by Creditor
March 2007



CURRENCY COMPOSITION

The external debt portfolio is mainly comprised of the major convertible currencies. The US$ remained the primary currency in which external loans were denominated at the end of FY 2006/07. The proportion of US$-denominated debt in the external debt portfolio remained flat at 75.3% compared with 75.7% at the end of FY 2005/06. The Euro maintained its position as the second largest currency component of the external debt, increasing to 18.8% at the end of FY 2006/07 from 18.2% at the end of FY 2005/06.

Currency Composition
March 2007



INTEREST RATE STRUCTURE

Over the years, consistent with the debt management strategy objective of maintaining an appropriate mix of fixed rate and floating rate debt, a significant proportion of the external debt has been contracted on a fixed rate basis. Of the external debt outstanding at the end of FY 2006/07, 78.9% was contracted on a fixed rate basis while 21.1% was contracted on a variable rate basis, thereby insulating the portfolio from adverse interest rate movements.

External Interest Rate Structure
FY 2004/05-FY 2006/07
%

	FY 2004/05	FY 2005/06	FY 2006/07
Fixed-Rate	76.2	77.4	78.9
Variable Rate	23.8	22.6	21.1
TOTAL	100.0	100.0	100.0

MATURITY STRUCTURE

The external debt portfolio has remained predominantly long-term. The maturity profile of the external debt is positively skewed towards longer maturities due to the issuance of longer dated bonds in the international capital markets coupled with the concessional nature of the majority of the official debt. This effectively reduces potential refinancing risk of the portfolio. Of the total external debt outstanding at the end of FY 2006/07, 51.9% had maturities in excess of 10 years, compared with 48.3% at the end of FY 2005/06; 26.3% had maturities of 5-10 years down from 34.6% in FY 2005/06; and 21.8% had maturities of up to 5 years, compared with 17.1% in FY 2005/06.

DEBT FORGIVENESS

During FY 2006/07, the Government of the United Kingdom provided debt forgiveness to the value of £5.6mn under the renewed Commonwealth Debt Initiative (CDI). This amount covered principal and interest payments falling due on eligible loans from the United Kingdom Government Overseas Development Assistance (ODA) Programme and the Commonwealth Development Corporation (CDC). Of the amount forgiven, £2.9mn was in respect of ODA loans and £2.7mn represented payments due to CDC.

Jamaica was granted this debt forgiveness based on mutually agreed targets established in the Medium-Term Socio Economic Policy Framework set by the Government of Jamaica in collaboration with its development partners. The three main criteria used as benchmarks for eligibility were poverty reduction, respect for human rights and a commitment to strengthen financial management and accountability.

External Debt Indicators

Debt service as a percentage of exports of goods and services declined to 9.4% from 14.3% during FY 2005/06. The current debt service ratio remained within the internationally accepted benchmark of less than 20%. At the end of FY 2006/07, external debt as a percentage of GDP was 57.8% compared with 56.7% at the end of FY 2005/06.

INTERNATIONAL CAPITAL MARKETS AND DEVELOPMENTS

During FY 2006/07, favourable market conditions, combined with improvements in key macro-economic indicators, contributed to positive market sentiments from investors.

The international capital markets were successfully tapped in March 2007 with the issue of Jamaica's longest dated, lowest coupon, largest US$-denominated and first amortized bond by the Government. The bond carries a coupon of 8.0% p.a. and will be amortized over the last three years of the tenure, with final maturity in March 2039. Due to overwhelming demand for the issue, the original size of US$250 million was increased to US$350 million. The bond has since traded in the secondary market at premium levels. Citicorp was the sole lead- manager for the transaction**.**

During FY 2006/07, Jamaica's bonds performed well when compared with those of other emerging market issuers and sustained their high trading levels despite periods of volatility in the markets.

During the fiscal year, Jamaica's credit ratings were reviewed by the rating agencies Moody's Investors Service (Moody's), Standard and Poor's (S&P) and Fitch Ratings (Fitch). Moody's re-affirmed Jamaica's long-term foreign currency credit rating of "B1", its long-term local currency rating of "Ba2" and maintained its "Stable" outlook for Jamaica. S&P also re-affirmed Jamaica's long-term foreign currency rating of "B" and maintained its "Stable" outlook. Fitch conducted its inaugural sovereign rating of Jamaica and assigned a foreign and local currency issuer default rating of "B+" and a "Stable" outlook. The ratings were supported by the country's political stability, the Government's willingness to pay its debts and its on-going impressive commitment to fiscal discipline despite exogenous shocks.

DEBT MANAGEMENT STRATEGY FY 2007/08

Debt management in FY 2007/08 will continue to focus on the strategic objective of the Government's medium-term *Debt Management Strategy* of containment of the Government's exposure to risk within acceptable levels. Emphasis will be placed on liability management aimed at reducing long-term financing costs and maintaining a sustainable level of risk.

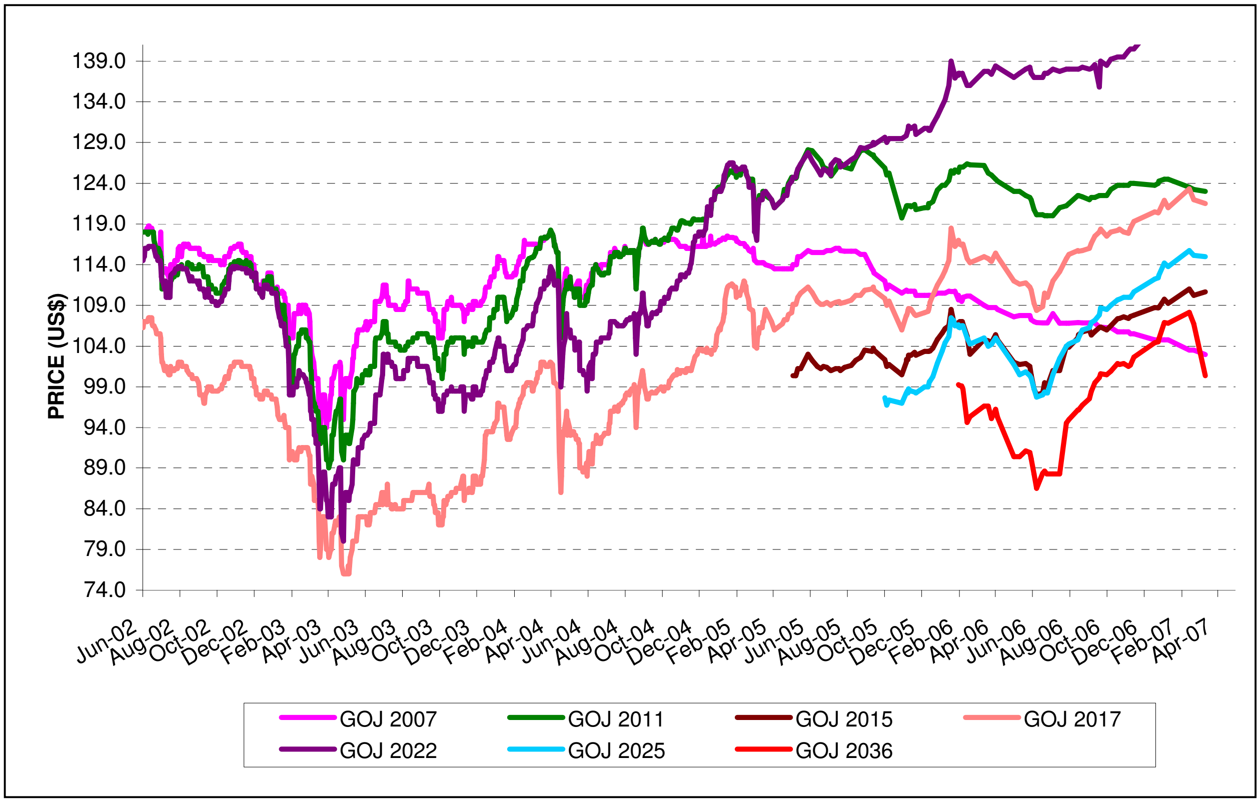
In addition, the *Debt Management Strategy* will continue to seek to:

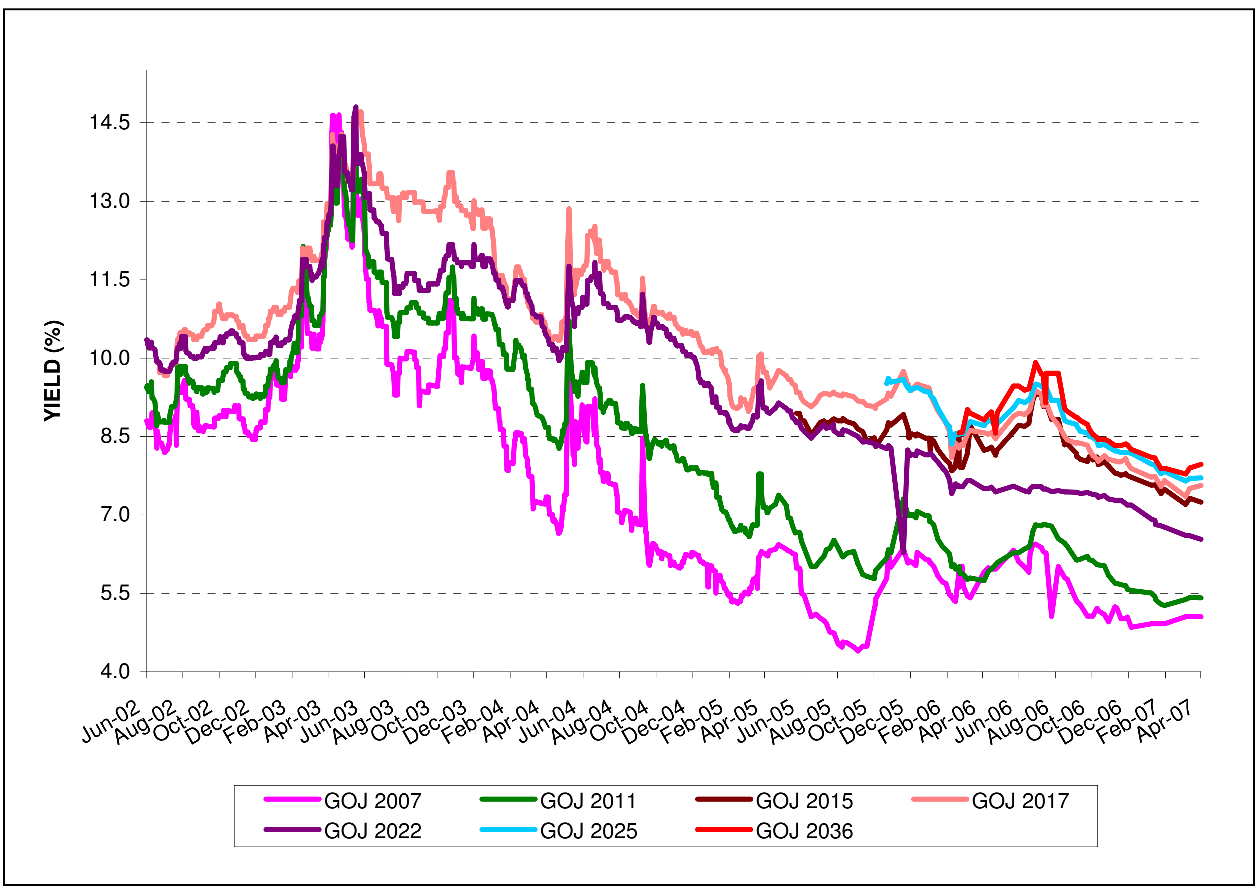
- Maintain an appropriate mix of fixed-rate and floating-rate debt to further diversify and minimize interest-rate risk;
- Extend and smooth the maturity profile of the debt to better manage refinancing risk;
- Minimize foreign currency exposure of the domestic debt portfolio;
- Increase the use of the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

Medium-term Target

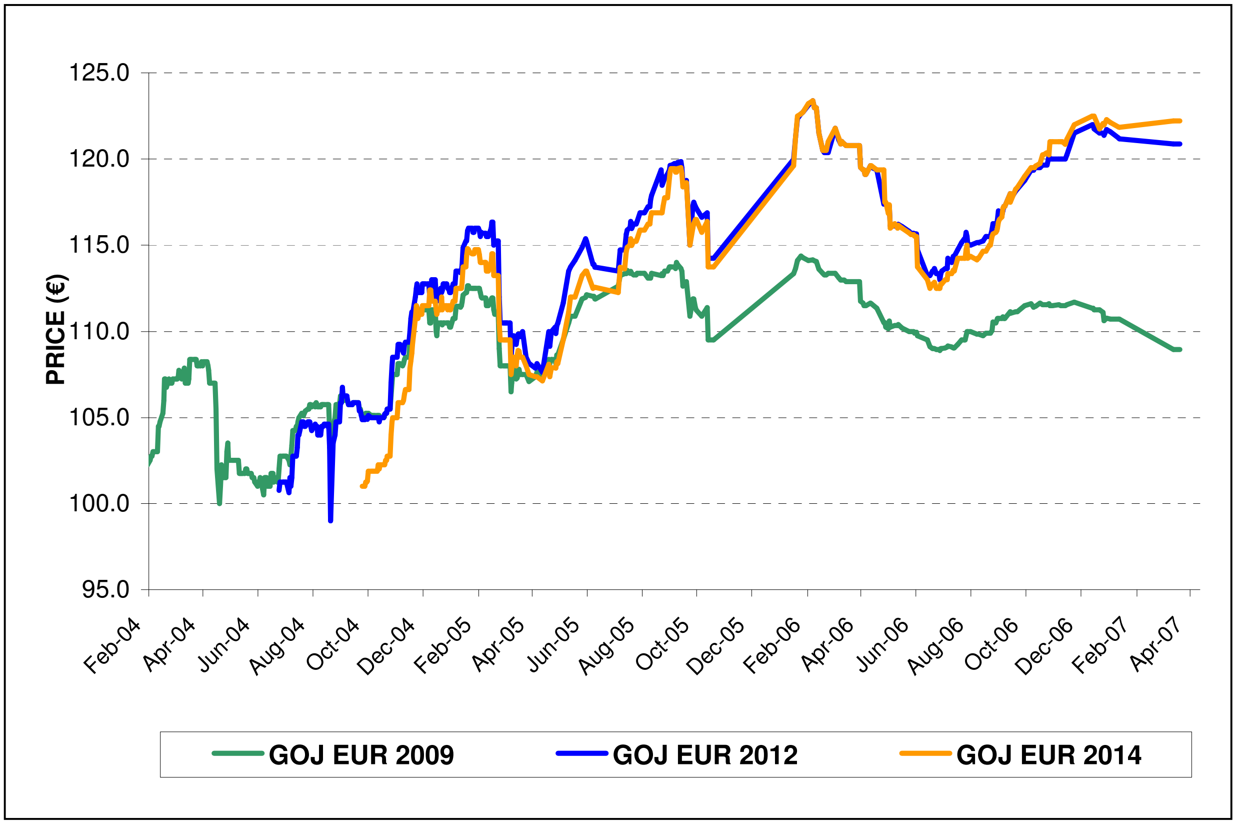
Risk management will continue to be a critical tool in the Government's *Debt Management Strategy*. Special focus will be placed on liability management. This will seek to reduce the interest cost of the debt portfolio by either or a combination of replacing short-term debt with long-term maturities; prepayment of high-cost debt; and replacing high-interest-rate debt with lower interest-rate debt.

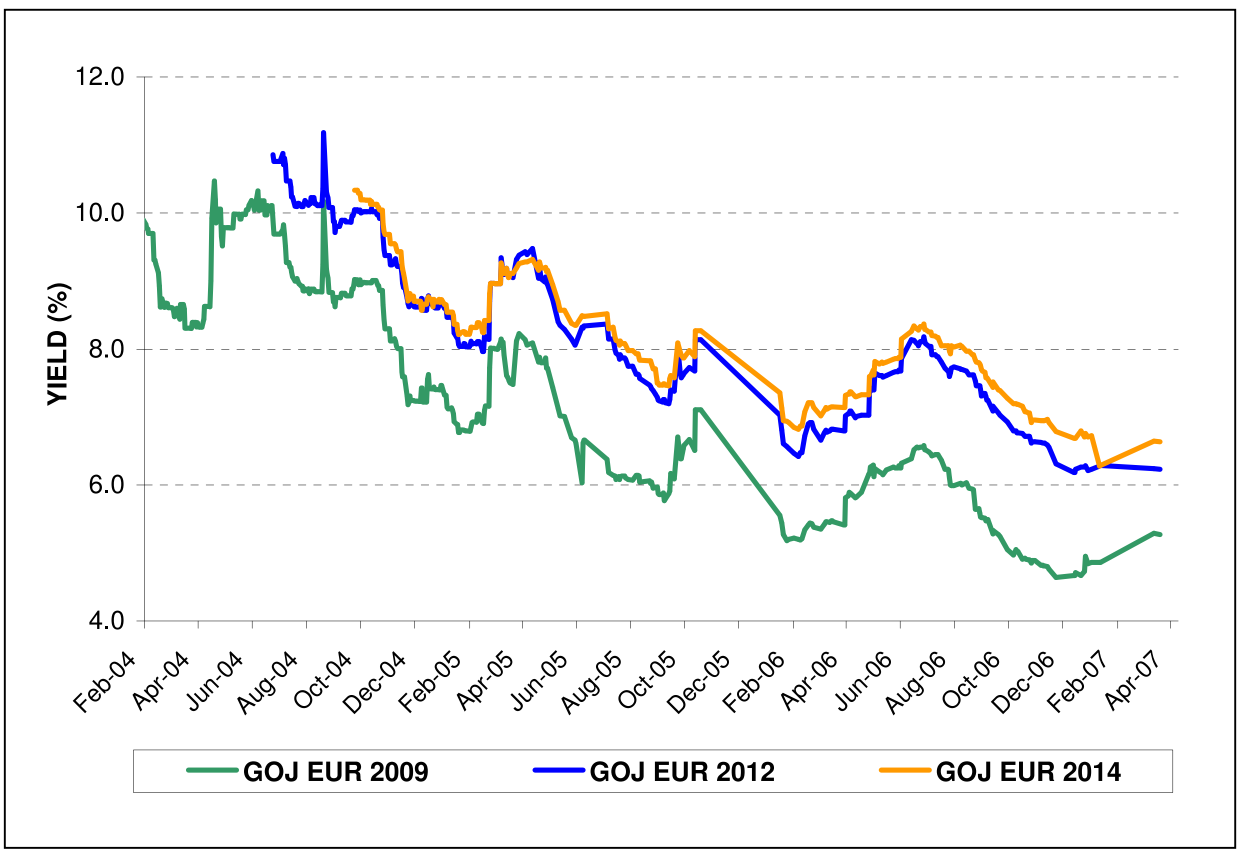
TRADING LEVELS OF GOJ US$ GLOBAL BONDS





TRADING LEVELS OF GOJ EURO-DENOMINATED BONDS

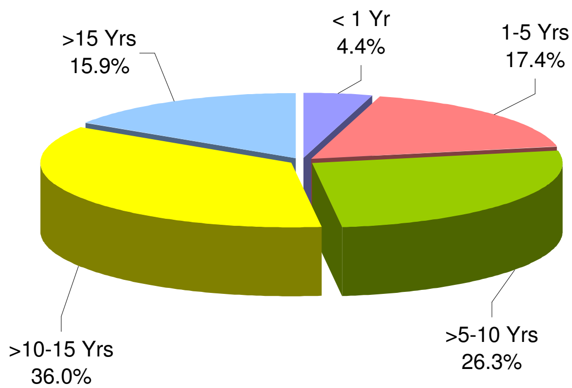




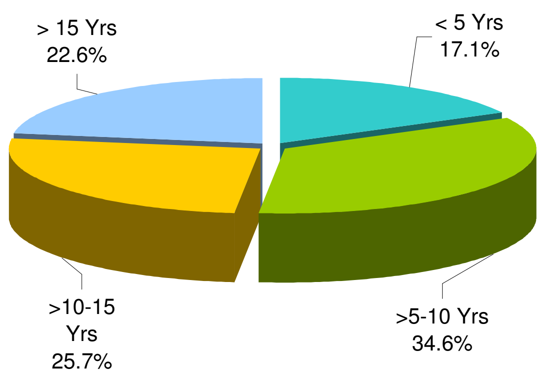
MATURITY PROFILE OF THE DEBT
(Remaining Maturity)

External Debt

March 2007

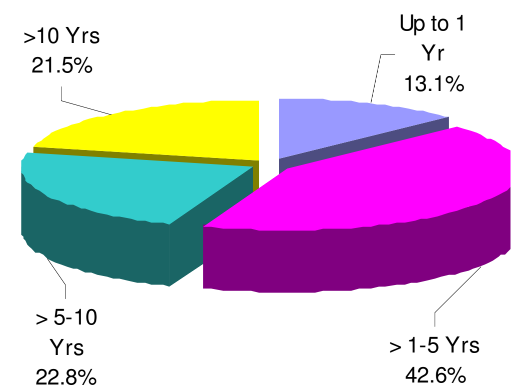


March 2006

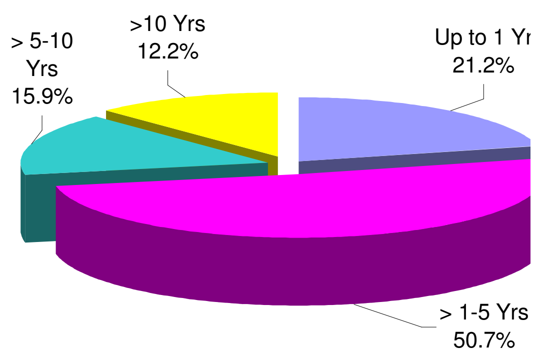


Domestic Debt

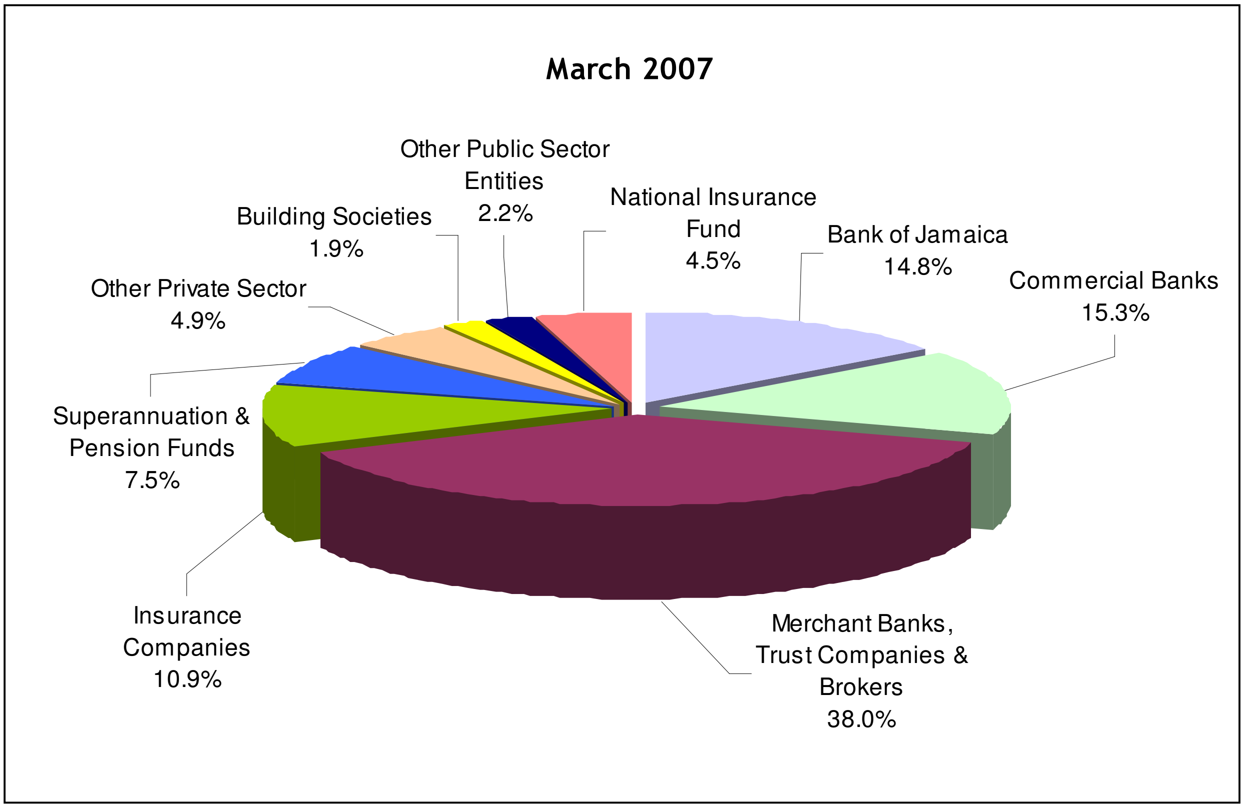
March 2007

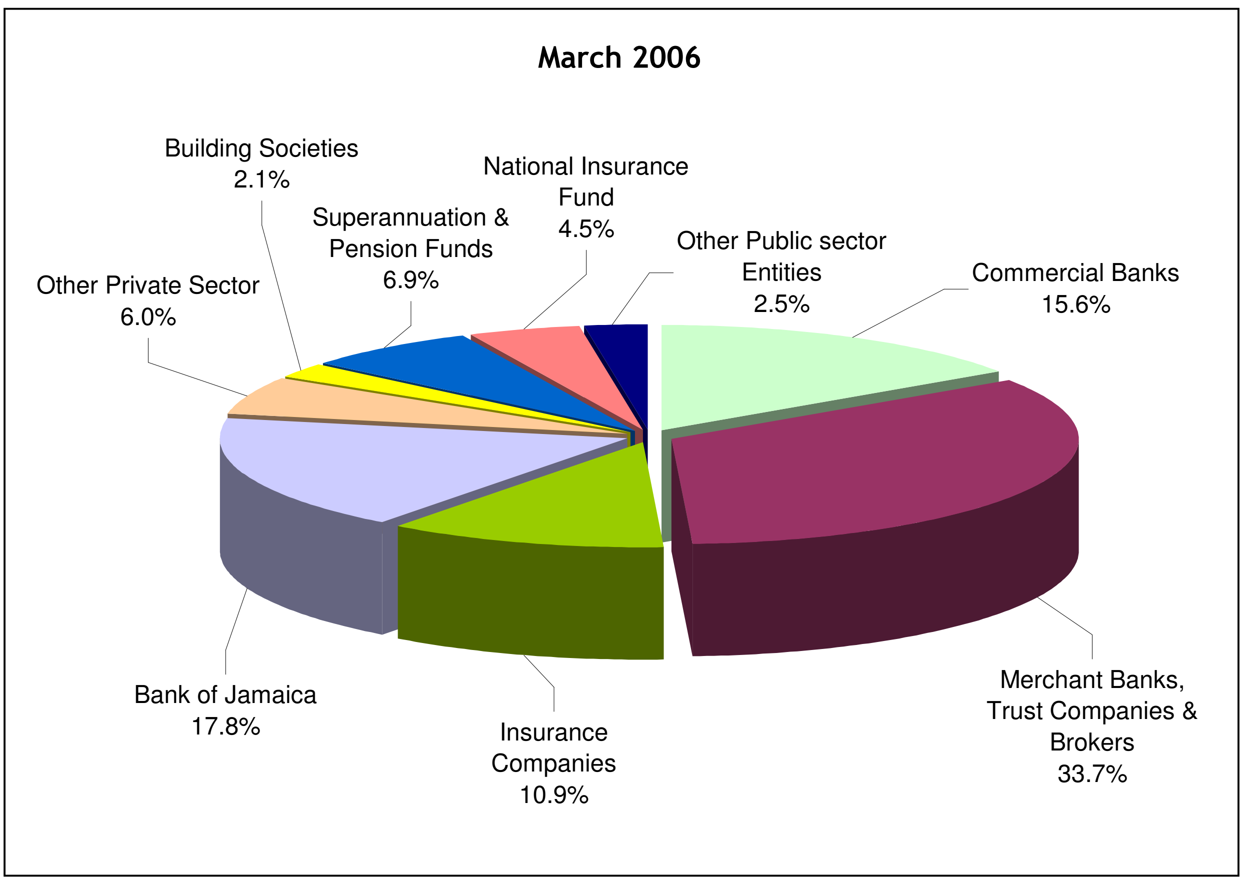


March 2006



HOLDINGS OF GOJ REGISTERED SECURITIES





Appendix 1

PUBLIC SERVICE ESTABLISHMENT PROGRAMME

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

Memorandum of Understanding

A successor Memorandum of Understanding (MOU II) was signed between the Government of Jamaica (GOJ) and the Jamaica Confederation of Trade Unions (JCTU). MOU II reaffirmed the general principles, which underpinned the initial MOU including an element of the overall strategy for sustained economic growth, as well as significant attention to the development of Public Sector employees. Although MOU II was affected by the initial non-participation of one union and two staff associations, a number of positive outcomes were achieved. These included:

- a spirit of cooperation – greater collaboration between public sector unions and GoJ; a programme to sensitize public sector workers on the role and functions of the Memorandum of Understanding; and, exploring opportunities to assist the public sector worker to purchase a house;
- the development of public sector employees - public sector staff interchange programme and a tertiary education loan scheme;
- wage restraint –increases were broadly within specific parameters; and
- continuation of expenditure restraint objectives

These outcomes were facilitated by the work 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.

Public Sector Employment

During FY 2006/2007, three (3) Civil Service Establishment Orders, (2 Amendments and 1 General) were produced. The Civil Service Establishment (General) Order 2006 (which includes the Jamaica Constabulary Force) showed the number of posts in Ministries and Departments at 40,502, a slight reduction from the 40,844 listed in the 2005 General Order. The Order reflected the changes, which took place in the establishments of Ministries and Departments. Some posts were created and posts that were no longer needed, for a number of reasons, were abolished. The current 40,502 posts is the net effect of those changes.

The main factors leading to the need for additional posts were:

- establishment of the new High Commission in South Africa;
- setting up of the new Convalescent Home for the Police;
- modernization of the Ministry of National Security (which is continuing);
- creation of the Anti-Doping Unit in the Office of the Prime Minister;
- additional demands for the Witness Protection Programme;

- restructuring of the Work Permit Unit of the Ministry of Labour; and
- the provision of civilian staff for the Island Special Constabulary Force (I.S.C.F).

The employed population in the public sector stood at approximately 95,000 persons at the end of March 2007. The public sector workforce is comprised of teachers, health service professionals, security, correctional and fire services personnel, administrative/technical staff in the central civil service, local government employees and employees of statutory bodies and other government agencies. Of the 95,000 employed approximately 85,000 are paid directly from the Budget.

Currently, censuses are being conducted in the public sector to ascertain the true employment and post status. Censuses in Ministries and Departments were completed in late 2006 while the educational institutions census is now in progress. Thereafter post and employment census will be conducted within statutory bodies.

Employee Benefits

For FY 2006/07 special benefits such as grants, health insurance, staff transportation and staff loans, cost the government $2.5bn. Under the tertiary assistance programme that commenced in September 2006 under MOU II, 473 loans have been approved up to February 2007, amounting to just over $0.051bn. Other benefits provided included computer loans to police officers and other civil servants and an increase in education grants to employees.

Pensions

Pension costs increased by 17.7% from $7.9bn in FY 2005/06 to approximately $9.3bn in FY 2006/07. This resulted mainly from an increase in the number of pensioners to 23,000 as at February 2007. It should also be noted that there was the annual increase to pension benefits at a cost of $0.3bn.

In FY 2006/07 amendments (with implications for pensions) to the Constabulary Force Act and the Constables (Special) Act were promulgated. The amendment to the Constabulary Force Act will allow for the linking of service in the Island Special Constabulary Force to service in the Jamaica Constabulary Force, while the amendment to the Constables (Special) Act will give a member the option of retiring after 30 years service.

A review of the pension arrangement for public officers is currently underway and proposals arising from the review will be considered during FY 2007/2008.

Industrial Relations/Public Sector Wages

A second Public Sector Memorandum of Understanding (MOU II) was signed on May 30, 2006 providing new parameters to govern wages and wage negotiations for the contract period 2006-2008. Within these parameters, negotiations were concluded with nineteen (19) of thirty (30) bargaining units within Central & Local Government inclusive of the Jamaica Civil Service Association (JCSA), the Nurses Association of Jamaica, Jamaica Medical Doctors Association, the Association of Medical Consultants, two from the Correctional Services and the five 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.

The Ministry of Finance and Planning (MOFP) led and provided technical advice at a number of conciliation hearings at the Ministry of Labour and Social Security and at the Industrial Disputes Tribunal (I.D.T.). During FY 2006/07, there were nine (9) reported cases of industrial action within the Public Sector.

The MOFP continued its awareness programme amongst stakeholders on the benefits of good industrial relations practices inclusive of a two-day workshop on Grievance/Disputes/Discipline and Labour Management Relations. The workshop was convened in collaboration with the Jamaica Confederation of Trade Union (JCTU). Participants were drawn from a wide cross section of Human Resources Management and Industrial Relations practitioners in the Public Service.

For the 2006/2008-contract period twenty (20) claims were received from Central & Local Government groups and forty (40) claims from bargaining units within Parastatal Bodies. The requests for salary increases ranged from 25% to 80%. Settlements total approximately 65% for Central & Local Government groups and 50% for Parastatal Groups. It is anticipated that all claims will be settled by the end of calendar year 2007.

Wage and salary payments for FY 2006/07 were recorded at $78.6bn. This is 24.6% higher than payments in 2005/06. The increase includes wage settlements, reclassifications and the filling of vacancies. Based on wage settlements for the 2006/08 contract period, increments and reclassifications, wage and salary payments in 2007/08 are projected at $88.5bn.

Contribution of Sectors to Wage Bill (2006/2007)

Sector/Groups	% of workforce	% of wage bill
Security	14.2%	15.5%
Education	31.6%	40.8%
Health	7.3%	14.3%
Legal & Judiciary	0.3%	1.2%
Statutory Bodies	8.4%	3.2%
Fire & Correctional Services	4.0%	4.0%
Parliamentarians, Mayors & Councillors	0.3%	0.7%
Local Government Administrative & Weekly Paid	15.6%	5.6%
Civil Service Administrative	18.3%	14.7%

Appendix 2

PUBLIC SECTOR REFORM

With implementation in FY 2003/04, the Public Sector Modernisation Vision and Strategy 2002-2012 has completed its fourth year. Within this time the reform programme has made significant achievements as highlighted in annual reports, which are available online at http://www.cabinet.gov.jm/doc-archive.asp.

During FY 2006/07 the Public Sector Reform Unit (PSRU) approached the modernisation of the Public Sector through five key components:

1. Establishment of Effective and Efficient Customer Oriented Business Processes in Selected Ministries, Departments and Agencies (MDAs);
2. Strengthening of the Strategic Planning and Budgeting Systems;
3. Strengthening of the Financial Management Systems;
4. Strengthening of the Information Management and Communication Technology Infrastructure; and
5. Strengthening of the Human Resource Management Systems.

Establishment of Effective and Efficient Customer Oriented Business Processes in Selected (MDAs)

Following on the successes of the World Bank funded Public Sector Modernisation Programme (PSMP) 1996-2003 in establishing a number of executive agencies across the Public Sector, the PSRU is presently undertaking the establishment of additional performance based institutions (PBIs) throughout Government. These PBIs are in the form of executive agencies, policy-focused Ministries and other entities operating under the principles of executive agencies, though dissimilar in legal status.
The transformation of these entities is scheduled on a phased basis and includes:

- the transformation of Ministries to focus on policy development, strategic planning and management of outputs with outcomes, that is, services delivered by the entities within their portfolio; and
- the transformation of the departments, divisions and agencies to more efficiently and effectively deliver services to their customers.

During FY 2006/07, implementation of Modernisation Plans commenced in two (2) entities – the Ministry of National Security and the Immigration, Citizenship and Passport Services Division. An additional five (5) Modernisation Plans were developed for various MDAs, namely, the Forestry Department, Fisheries Division, Ministry of Education and Youth, Cabinet Office and Island Traffic Authority. A brief description of the work that the PSRU has been doing to transform these MDAs into PBIs is presented below.

a. The Ministry of National Security, which is critical to the achievement of the Government's national strategic goals both directly and indirectly, is currently implementing plans towards its transformation into a policy-focused Ministry. Implementation of the Ministry's Modernisation Plans commenced in earnest in October 2006, and is scheduled to be completed by March 2008. Recruitment has commenced in line with the new structure of the Ministry, and in FY 2007/08 the new organisational structure will be fully operational.

b. Along with the Ministry of National Security, the Scheme of Management is being implemented for the ***Immigration, Citizenship and Passport Services Division*** (ICPSD). This former division of the Ministry of National Security will be transformed into the Passport Immigration and Citizenship Agency (PICA), the tenth (10th) Executive Agency to be established. Recruited is currently underway for the top officers of the organisation, including the Chief Executive Officer (CEO). The new PICA will be fully operational as an Executive Agency by March 2008.

c. The Ministry of Justice was previously twinned with National Security before they were separated in 2001. Given the identified shortcomings of the justice system, and as the two portfolios operate interdependently, the improvements being pursued in the Ministry of National Security should be complemented by improvements in the Justice Ministry. In October 2006 the PSRU with the technical support of the Canadian Bar Association commenced a Strategic Review of the Justice Sector, which is expected to be completed early in FY 2007/08. It is anticipated that plans will emerge from this Strategic Review to transform the Ministry and Court system to operate more efficiently and transparently.

d. The ***Forestry Department and Fisheries Division*** of the Ministry of Agriculture and Land are also slated to become Executive Agencies, numbers eleven (11) and twelve (12) respectively, within a year of the appointment of their CEOs, which is on schedule to occur in the first quarter of FY 2007/08. The Modernisation Plans for both entities are in the process of being finalised.

e. Modernisation Plans have been developed for the ***Island Traffic Authority*** in the Ministry of Housing, Transport, Water and Works and pre-implementation activities have been initiated. The current plan is to transform the Authority into the thirteenth (13^{th}) Executive Agency with provisions made for the vehicle inspection operations to be housed in a Statutory Corporation.

f. The ***Ministry of Education and Youth*** has been specifically addressed through the Strategic Review of the Ministry which has been completed, and for which implementation of the Modernisation Plans has been initiated. This modernisation of the education sector has commenced through the establishment of the Education Transformation Team (ETT) in March 2005.

g. The ***Cabinet Office*** was identified as a prime candidate for modernisation, being the organisation responsible for advising on the coordination of Government policy, monitoring and implementation of Cabinet Decisions, leading the modernisation of Government and providing strategic direction to the development and management of the Civil Service. During FY 2006/07 a strategic review of the organisation was conducted and Modernisation Plans developed. Preliminary activities towards implementation of the modernisation plans have commenced.

h. In addition to the creation of new PBIs, work has also been completed in the ***Ministry of Health*** towards transforming it into a policy ministry. This included conducting critical change management activities, as well as, reviewing and rationalising of the organisational relationships.

Critical business processes have also been addressed through working closely with the Ministries of Agriculture, Health, Industry and Commerce to rationalise and streamline the inspection requirements for goods imported through the country's ports. Arrangements are far advanced towards the establishment of a food inspection one-stop shop at the Kingston Wharves, which is scheduled to be opened to the public in FY 2007/08.

While work is being carried out to transform the operations of a number of key organisations, there is 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. Work is currently being undertaken to conduct a review of existing executive agencies to ensure continued relevance to the service needs of the citizenry, to derive greater efficiency, economy, and effectiveness from their operations and to develop an instrument for ongoing, 'holistic' performance monitoring and evaluation.

During FY 2006/07, twelve (12) new ***Citizens' Charters*** were developed**,** making a total of 103 charters developed since the inception of the programme. In a move to ensure that service standards remain relevant and to ensure sustainability of the programme, MDAs are being encouraged to:

- revise existing charters;
- ensure full dissemination of Charters throughout their organisations; and
- commence Service Standards Self-evaluations.

The MDAs continued their focus and commitment to improving their service performance. To ensure continuous improvement, relevance and convergence to best practices. Work was initiated with major direct interface service providers such as the Jamaica Constabulary Force (JCF) and the Regional Health Authorities (RHAs) and their related hospitals, with a view to enhancing service capability and strengthening the current ***Complaints Management System*** by monitoring the timeframes for the resolution of issues.

Preparation for the fourth (4^{th}) staging of the ***Public Sector Customer Service Competition*** has also commenced, with all MDAs being encouraged to surpass their standards and service delivery in a move towards realising the vision of "Government at Your Service".

Strengthening of the Strategic Planning and Budgeting Systems

This component of PSRU activities is geared towards establishing the systems and procedures necessary for improved decision-making and resource management across government. A key element of this component has been the continued development of a *prioritisation process* that will allow for the identification of Government priorities *for policy development and implementation, as well as programme and project funding*. The establishment of the Planning and Budgeting Network was a significant achievement under this component and the Network has proposed a set of criteria and weightings to be applied to the prioritisation of projects and programmes for FY 2007/08.

The ***Jamaica Social Policy Evaluation Project*** **(JASPEV)** which was originally extended to December 2006 has been extended for six (6) months and is now scheduled to end in June 2007. During FY 2006/07, much focus was placed on identifying aspects of the project to be institutionalised. To this end, a sustainability workshop was held in September 2006 with stakeholders involved in all areas of the project to identify areas for institutionalisation and propose how that institutionalisation should be effected. Numerous suggestions emerged from the workshop. In the last quarter of the fiscal year the output teams worked on the proposal for the extension period, focusing on the implementation of strategies for the institutionalisation of the lessons, practices and products emerging from the project over the past five (5) years.

Strengthening of the Financial Management Systems

Support for the transition of the Government's financial management system from cash-based to accrual accounting continued in FY 2006/07**.** To this end, the Inter-American Development Bank was engaged in the execution of a results-based management project which will help to further strengthen the capacity of the existing FINMAN system being piloted in the Ministry of Housing, Transport, Water and Works and the Ministry of Finance and Planning by providing the necessary training, legislative review and systems integration to facilitate the institutionalisation of the system and roll-out to the rest of the public sector. Further work under the IDB-funded project will also see the development of a framework for the integration of the Government's strategic planning and financial management systems in an effort to create stronger linkages between policy priorities and budgetary expenditures.

Strengthening of the Information Management and Communication Technology Infrastructure

This component of the reform agenda in FY 2006/07 was focused mainly on the development of systems and tools within the PSRU to effectively carry out the reform. A number of systems have been designed for use in the PSRU, including a Project Monitoring System, a Consultants' database and a Users' forum for the Cabinet Office website, in addition to identifying and meeting the equipment needs of the Unit and implementing the network infrastructure for the Cabinet Office.

Focus has been placed on the development of user requirements for the National Registration System (NRS) of the Public Sector and supporting capacity building of the project office. Work is also being carried out to ensure that the infrastructure will be in place to accommodate the various Government-wide systems that are being planned for implementation, such as the NRS, FINMAN, and the soon to be acquired Human Resource Management Information System (HRMIS), through the implementation of a Government wide area network (WAN). The project team working on the establishment of the WAN has conducted regional research and submitted recommendations for proceeding with the development of Gov-Net.

Strengthening of the Human Resource Management Systems

The Human Resource Management Systems component 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, all critical HR Management/Business Processes of Government have been reviewed. This exercise, the first phase of which began in 2003, was completed in FY 2006/07, with a plan developed to guide the implementation of the newly re-engineered business processes. The next step in the process will be the development of systems requirements for an HR information management system to be used across all central government entities. Additionally, a model HR structure has been developed and is being implemented in all Ministries to ensure they have the capacity to more effectively carry out required HR functions.

Since 2004, the Government has been developing and implementing a new ***Performance Management and Appraisal System*** (PMAS) for the Public Sector. The system has been developed and fully implemented in six entities and has been introduced in all Ministries. During FY 2006/07, evaluations were conducted of PMAS implementation in five of the pilot Ministries. The results of these evaluations are being used to improve the operation of the system in those Ministries and inform the continued implementation of the system in all other Ministries and the two Departments targeted for implementation in FY 2007/08. The PMAS Manual and Employee Handbook have been developed and disseminated to all Ministries and Departments.

In a follow-up to the previous year's programme, the Government implemented the ***Public Sector Employee Training Programme*** for a third year in accordance with the signing of the second GoJ/JCTU Memorandum of Understanding (MOU). Under the aegis of MOU II, training opportunities have been extended to include all levels of public sector employees in vocational skills training and 'institutional capacity building'. This extension of the programme has provided opportunity for some persons at higher levels of the organisational structures to participate in work related training such as stress management, writing skills, and conflict resolution which should directly contribute to improved job performance. As part of the implementation of the ***Ethics and Values Framework*** developed in FY 2005/06, ethics training was made available through MIND to more than thirty (30) ethics monitors across the Public Sector.

Appendix 3

DEVELOPMENTS IN THE FINANCIAL SECTOR

INTRODUCTION

During FY 2006/07, the Ministry of Finance and Planning (MOFP), in tandem with the regulatory authorities, continued its efforts to ensure effective regulation of the financial sector. In this regard, activities were concentrated on improving the legislative framework of various segments of the sector and strengthening the institutional structure of the sector. The Financial Investigations Division of the MOFP continued to carry out its mandate of dealing with matters relating to financial crimes, including fraud, breaches of revenue statutes and money laundering while the Financial Institutions Services (FIS) continued with winding down operations on behalf of the Financial Sector Adjustment Company (FINSAC).

Improved Legislative Framework

Pension Reform

Extensive consultations were held during FY 2006/07 with representatives from the private pension industry on issues to be dealt with under Phase II of the Pension Reform initiative, as well as the amendment to the Income Tax Act, which are to be consistent with the Pensions (Superannuation Fund and Retirement Schemes) Act. Some of the issues that were dealt with included:

- Vesting
- Locking-in
- Portability
- Distribution of surplus
- Indexation

To give effect to the decisions reached at the deliberations, additional drafting instructions have been issued to the Office of the Chief Parliamentary Counsel (CPC) to allow for further amendments to the Pensions (Superannuation Funds and Retirement Schemes) Act, existing regulations and the enactment of new regulations.

The draft Income Tax (Amendment) Bill was also re-drafted to reflect the decisions taken during the discussions relating to the harmonization of the Income Tax act with the Pensions (Superannuation Funds and Retirement Schemes) Act, 2004 and associated regulations.

In September 2006, the Financial Services Commission (FSC) began the mandatory licensing and registration of all superannuation funds, retirement schemes and pension service providers. Registration has been ongoing and at February 2007, 19 administrators and 18 investment managers have been approved. However, the receipt of a large number of incomplete applications is hampering the approval process.

It is expected that the relevant pieces of legislation to complete Phase II of the reform will be in place by the end of FY 2007/08.

Reform of the National Payments System

During FY 2006/07, the Bank of Jamaica (BOJ) initiated steps to reform the National Payments System in Jamaica. Consequently, the National Payments Council was established along with various working groups. Following extensive consultations and deliberations with stakeholders and experts in the field, instructions were issued to the CPC for the drafting of new legislation to provide for, *inter alia:*

(i) the regulation and operation of a National Payments System
(ii) the BOJ to have regulatory oversight of the system
(iii) the establishment of a Central Securities Depository (CSD) for fixed income securities (principally securities issued by the Government of Jamaica and BOJ) to be operated by BOJ. The depository will allow for the immobilization of those securities and for the electronic trading and settlement of all fixed income traded securities.

Credit Reporting Legislation

Efforts continued during FY 2006/07 for the strengthening of Jamaica's regulatory and institutional landscape to provide the supervisory framework for a credit-reporting bureau. After several re-drafts, based on consultations with stakeholders, including the Jamaica Bankers Association, the Credit Reporting Bill was considered by the Legislation Committee and approved for submission to Cabinet for tabling in the Houses of Parliament. In giving its approval, the committee mandated that the Bill should be tabled with the accompanying Regulations. The FSC, the institution charged with the responsibility of supervising these types of institutions, is presently developing the guidelines that will inform those Regulations.

Bank of Jamaica (Credit Union) Regulations

Regulations aimed at bringing credit unions under the full regulatory and supervisory ambit of the BOJ are currently being finalized, after extensive discussions with stakeholders.

Money Laundering legislation

The Proceeds of Crime Act was enacted during FY 2006/07. This enactment means that anti-money laundering provisions, which are an important element of this Act, will come in force as soon as it is gazetted and the Money Laundering Act of 1992 is repealed. This critical piece of legislation, seeks to improve Jamaica's capability to combat money laundering by:

- broadening the reporting duty of financial institutions;
- increasing the scope of the offence of money laundering;
- defining designated non-financial institutions;
- enhancing investigative capabilities;
- reducing the threshold for reporting to US$15,000.

During the FY 2006/07 insurance brokers and insurance intermediaries, were designated as financial institutions for the purposes of money laundering legislation. In addition to insurance companies, this designation places anti-money laundering obligations on insurance brokers and insurance intermediaries, which are important participants in the insurance sector.

Other Legislative Actions

During the period under review, the legislative process with respect to several pieces of legislation was advanced. The Industrial and Provident Societies Act was considered and approved by Legislation Committee, the Financial Investigations Division Bill was comprehensively reviewed and is being re-drafted so that it will be consistent with the Proceeds of Crime Act and the Amendment to the Financial Services Commission Act is being reviewed.

Further progress was made in enhancing the regulatory capabilities of the FSC during FY 2006/07. Through the support of the Caribbean Development Bank and the Inter-American Development Bank, the processes associated with the enhancement of the following areas continued:

- Legal/ Regulatory/Attorney/ Enforcement;
- Training of staff in the analysis and administration of Private Pensions;
- Corporate Governance;
- Computerization of the Commission – through the implementation of a Regulatory Management and Executive Information Systems;
- Pensions - preparation of policies and procedural manuals.

The Financial Regulations Division of the MOFP proceeded with work to facilitate the institutional strengthening of the division. The division is charged with the responsibility of developing the policy framework for the effective regulation of the financial sector and the prevention of money laundering and financing of terrorism.

Financial Investigations Division (FID)

During FY 2006/07, the FID continued to work closely with the Jamaica Constabulary Force, particularly, the Counter Narcotics and Major Crimes Investigations Task Force and the Contraband Enforcement Team of the Customs department. These law enforcement efforts resulted in the seizure and forfeiture of approximately US$1.8mn and US$1.4mn, respectively.

Investigations into breaches of the Customs and GCT Acts continued although on a lesser scale than normal. The results of these efforts were:

- 91 surveillance exercises;
- 4 search warrants;
- the referral of 19 cases to the Taxpayer Audit and Assessment Department;
- the conduct of 73 secondary examinations;
- the completion of 9 cases with an approximate value of $186mn.

The FID also continued to carry out its mandate of protecting the integrity of the financial sector and revenue services. The division received 94,112 Threshold and Suspicious Transaction reports, conducted background checks on applicants for licensees from the BOJ and intensified their efforts in the investigation of alleged corrupt revenue officers.

The division welcomes the passage of the Proceeds of Crime legislation, as this will enhance its investigative capabilities to combat money laundering. The FID has also been designated the Asset Recovery Agency (ARA) under the Proceeds of Crime Act. This designation means that the FID will be responsible for investigating and recovering criminal assets and proceeds from unlawful conduct, including the forfeiture of property.

Financial Institutions Services Limited

The Financial Institutions Services Limited continued with the winding up of residual activities on behalf of FINSAC during FY 2006/07 as well as undertaking the residual tasks associated with Blaise financial entities and Century financial entities.

With respect to divestment, proceeds for the review period netted over J$30mn. It is expected that sales will improve during the next financial year with properties valued at approximately J$450mn to be sold. Additionally, FIS received approximately US$5.7mn for its share of collections from loans sold to Redevelopment Foundation. It should be noted that since January 2002, FIS has received US$44mn from this activity, including the initial down payment of US$23mn.

The staff and files of FIS's forensic unit were transferred to the FID. Prosecutorial work continued with external attorneys, primarily the Attorney General's Chambers, on proceedings against persons deemed to be responsible for losses suffered by some of the failed financial institutions.

Following the Privy Council's judgment against Mr. Donovan Crawford for his management of the Century's financial entities, FIS received funds from the sale of properties listed in Mr. Crawford's affidavit. Efforts are continuing to sell the remaining properties via private treaty.

The trial against the Eagle Financial Network is now complete and a judgment of J$1bn, including interest, was handed down against the principal director and two of his companies. Efforts are underway to sell the assets involved in order to reduce the judgment.

In June 2006, the case against the directors of the Blaise Financial Entities was settled out of court. The directors have agreed to transfer all their assets to FIS, with the exception of one of their companies. As a result of the judgments in favour of the FIS, properties with a value of $400mn have come under FIS's control. Accordingly, additional time will be required to dispose of them and it is hoped that most will be divested during FY 2007/08.

The liquidation of dormant companies under FIS's control is almost complete. It is anticipated that the remaining companies will be liquidated during FY 2007/08 and thereafter the primary residual activity will be the coordination of outstanding litigation issues with the external lawyers.

Planned Activities

During FY 2007/08, efforts will concentrate on:

- completing Phase II of the Pension Reform Initiative;
- facilitating the enactment of Credit Reporting Legislation;
- developing legislation to provide for the regulation and operation of a National Payment System and the creation of a central securities depository;
- developing a structure, funding and operating procedures for the Asset Recovery Agency;
- implementing an electronic reporting system;
- training the staff of FID and the reporting entities on their new roles and responsibilities under the Proceeds of Crime Act;
- divesting/disposing of assets under FIS's control.

Appendix 4

TAX ADMINISTRATION

FY 2006/07 REVIEW

Fiscal year 2006/07 represented the first year of the strategic plan for the period FY 2006/07 - FY 2008/09. The plan was conceptualized within the framework of a three-pronged tax compliance model focussed on implementing balanced programmes for service, education and enforcement. Achieving the tax revenue target in FY 2006/07 represented a challenge for Tax Administration. Actual tax revenue collections represent 96% of the target, a 5 percentage point improvement on the 91% of target collected in FY 2005/06. This appendix provides a summary of the performance of Tax Administration against the deliverables identified in the operational plan.

Improved Compliance

Taxpayer Service

The main thrust of this programme was influenced by a Branding Project aimed at improving and ensuring provision of a consistent and reliable service to tax payers. Achievements to February 2007 include:

- Development of standardized procedural manuals for two of four tax departments and dissemination on-line to staff at Customs, Collectorates and other service locations;
- Standardization of the service environment, layout and signs with nine (9) of twenty-eight (28) Collectorates repainted in uniform colours. A standard office layout document has been developed with implementation at one location to date;
- Expansion of the functionality of the Automated Motor Vehicle System (AMVS) to incorporate the ability to produce computer generated registration certificates (previously hand written and subject to transcription errors). This is now available at twenty-four (24) of the twenty-eight (28) Collectorates;
- Modifications made to the processing of passengers within Customs at both international airports resulting in at least 80% of passengers being processed within 3½ minutes, down from 10 minutes previously.

Public Education

Through a calculated move to enhance its marketing programme with a mix of increased advertising and direct contact, Tax Administration increased its visibility to the public during FY 2006/07. Despite various challenges, Tax Administration was able to enhance and diversify its marketing programme through a partnership arrangement with the Banking Association, which complemented its educational programmes. Public education programmes were expanded through:

- A six-month advertising programme launched in October 2006 to promote monthly GCT and PAYE payments which contributed to an overall improvement in these payments;

- An advertising campaign launched in the last fiscal quarter to promote the "March 15" Income Tax deadline, complementing public relations and taxpayer education activities;
- Partnering with media houses to develop and publish a series of informational articles in the press. Tax Administration received support from the Jamaica Information Service (JIS) in producing and airing television features promoting new services;
- Use of public education activities, such as expos, publications and seminars targeting specific segments of taxpayers with information about various aspects of paying taxes; and
- Expansion of the School's Tax Education Programme (STEP) that targets high school and tertiary level students through partnership with RJR in their weekly "*Radiocation*" promotion, which allows for additional exposure through live broadcasts from schools across the island.

Enforcement

Overall compliance results indicate that there was an 18.9% increase in income tax (PAYE, Company, Individual) returns filed for the fiscal year to February, compared to the same period in FY 2005/06. Activities in this area included:

- Operationalization of an outbound call centre – Tax Administration Call Centre (TACC) operating as a current accounts management unit focusing on accounts in the first month of delinquency was implemented;
- Identification of an estimated tax liability of $2.0bn from 1,148 taxpayer audits;
- Estimated tax yield of $3.0bn arising from 1,803 best judgement assessments of non-filers;
- Registration of approximately 13,281 new taxpayers up to end-February 2007 compared with 7,670 during the previous fiscal year;
- Imposition of $40.0mn in duties/sanctions for Customs breaches; and
- A 226% increase in customs compliance and valuation audits with forty-nine (49) cases audited in FY 2006/07 compared with fifteen (15) in the previous year, resulting in the collection of approximately $68.0mn in additional duties. Amounts outstanding to be collected from audits completed are $387.0mn. A collection schedule is in place and is being monitored to ensure timely payment.

Improved Information and Communication Technology

Tax Administration is reviewing its technological capacity to ensure that the information and communication technology (ICT) systems exist to provide accurate and timely information flows internally and externally. Several core computerization projects were undertaken in FY 2006/07 with the following achievements:

- The AMVS was rolled out to 24 of 28 locations;
- A contract for upgrading the drivers license system was finalized;
- Implementation of ICTAS Release 5 - most modules identified were implemented allowing for better adherence to business rules;
- Equipment to upgrade the technical infrastructure for e-Government was purchased and agreement for the supply of re-engineering of e-government processes obtained;
- A data warehouse proto type (data mart) was developed for the collection and storage of data to assist in business intelligence. This project will be a primary focus for FY 2007/08; and

- The electronic manifest system for Customs was implemented at the APM Terminals (Berth 11) and partially at Kingston Wharves (Birth 6). Phased implementation of a single administration document (C87), the new import/export entry form for Customs commenced.

The upgrading of the wide area network was delayed due to procurement issues and will be addressed in FY 2007/08.

Improved Organization and Management

During FY 2006/07 emphasis was placed on specialized training for staff especially those in critical areas of management, compliance and forensic audits. This was executed through assistance from tax affiliated organizations such as the Caribbean Regional Technical Assistance Centre (CARTAC) and Revenue Canada.

PLANNED ACTIVITIES FY 2007/08

Over the medium term the strategic plan seeks to identify resources and programmes necessary to enhance the overall performance of Tax Administration inclusive of achieving the collection target.

Rigorous risk management and efficiency focus will be paramount in achieving the target for FY 2007/08 while building public value for stakeholders. Whereas Tax Administration will continue pursuing its Road Map programme, selected areas have been highlighted under the strategic objective "Improve Compliance" to ensure that additional tax revenue for FY 2007/08 is achieved through Tax Administration's special strategies and improvement programmes.

Improved Compliance

Tax Administration will continue its strategy to increase voluntary compliance through its balanced programmes in service delivery, education and enforcement.
Other targets under the general compliance programme include:

- A 5.0% broadening of the tax base;
- A 3.0% increase in audit coverage;
- A 15.0% increase in customer satisfaction rating; and
- Improved levels of taxpayer awareness.

Improved Information and Communication Processes

The key broad outputs identified for FY 2007/08 are:

- A 5.0% increase in IT standardization;
- A 90.0% automated customer support systems;
- A 5-second response time in accessing information on the systems; and
- System reliability of 99%.

To improve the information processes, a business intelligence system called TABIS – Tax Administration Business Intelligence System – will be developed and implemented as a means to achieve significant increases in revenue collection and efficiency. The key objectives of the system are:

1. To provide the tax administration with a business intelligence solution to enhance its decision making process using cross-reference taxpayer information gleaned from the transactional processing systems;
2. To provide a single point of access to integrated taxpayer information gathered from across Tax Administration;
3. To provide cross-reference to external data sources thereby enhancing the administration's ability to widen the tax net through new taxpayer identification;
4. To provide business intelligence in support of revenue enhancement measures aimed at known taxpayers who have operations outside of the current purview of Tax Administration; and
5. To reduce the need for Fiscal Services Limited (FSL) development and operational resource involvement in the development and delivery of integrated management information system and ad hoc reports. This is expected to have a direct impact on the turn-around time for system changes or new features that must be done by FSL.

The TABIS is not intended to replace the many transactional processing systems operated by the various tax departments. These processing systems are updated daily with transactions from business functions such as registration, collections, compliance, audit and refund, to name a few. The data warehouse is not a real time integration of the various transactional processing systems, but provides the opportunity for the combination of historical data from databases across the entire tax administration system as well as data external to these organizations.

The goal is therefore to provide a decision support system that will utilize trend analysis, ratio comparisons, ranking, and other analytical tools to aid Tax Administration in its strategic and tactical planning activities.

This will be supported by an upgrade to the information technology infrastructure to ensure the facilitation of timely and complete information across Tax Administration. The expansion of the wide area network that did not materialize for FY 2006/07 will be undertaken during FY 2007/08. This will significantly improve the response time for users of the business systems especially during peak periods such as the middle and the end of a month. In addition, it will support the roll out of the intranet and the wider deployment of the administration's document management system.

The core business systems of the Administration – ICTAS, Customs Automated Entry System (CASE) and the Stamp Office Information System will continue to be upgraded and integrated to better serve the organization in its delivery of service to its clients.

Under the ICT project funded by the Inter-American Development Bank the E-Government project involves: (a) putting a number of fiscal agencies on-line; and (b) web enabling the operations of key trade agencies. The main objective of the E-Government component is to reduce transaction costs incurred by citizens and businesses when they deal with Government. Systems will be put in place to permit on-line transactions on a phased basis starting with the General Consumption Tax, Special Consumption Tax and Income Tax. Passing of the e-transaction legislation is expected to support and accelerate the implementation of this project.

Improved Organization and Management

Tax Administration will continue the drive to offer training that enhances performance and establishes a desire for excellence. The development of professional and technical competences will enable staff to deliver superior quality and results-oriented output to stakeholders whilst simultaneously bolstering revenue collection. The areas of focus are:

- Forensic or large case auditors;
- Equipping the senior management cadre with modern management techniques;
- Development of revenue forecasting skills; and
- Leadership and development training for executive managers.

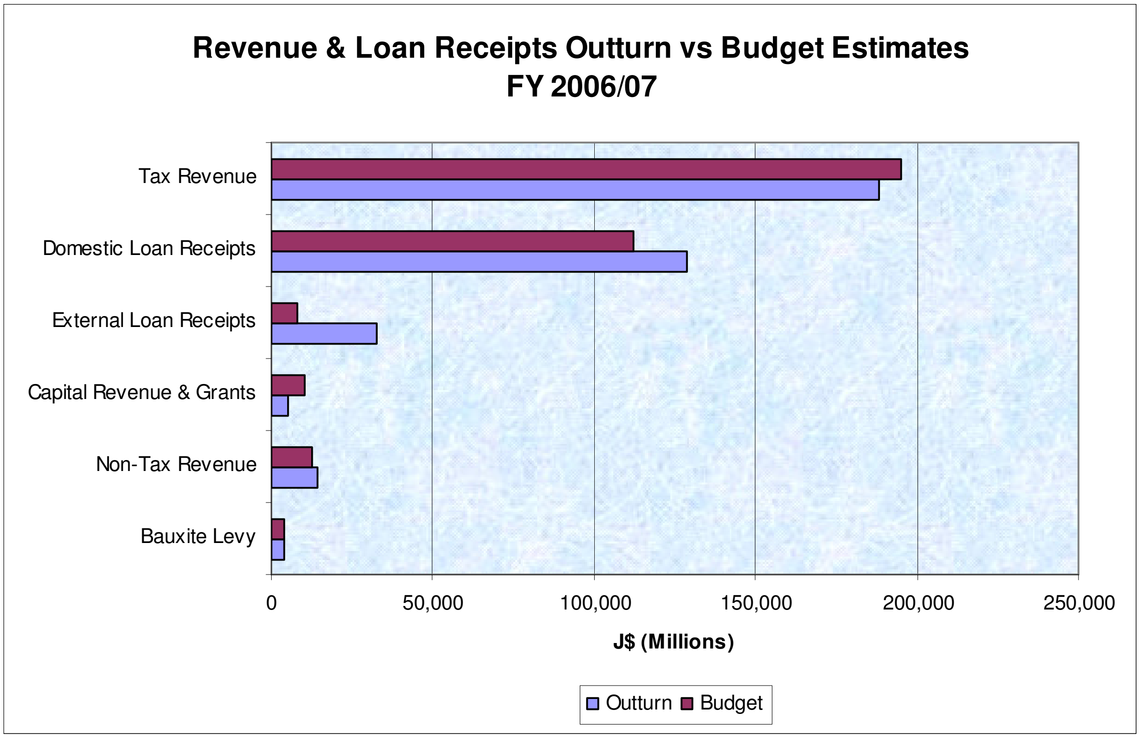
During FY 2006/07 a joint team from the International Monetary Fund (IMF) and CARTAC conducted a diagnostic review of Tax Administration. A report on the review and recommendations has been submitted and discussions are in progress on some aspects of the report. Approval for implementation of those operational procedures that can be adjusted immediately has been obtained from the Ministry of Finance and Planning.

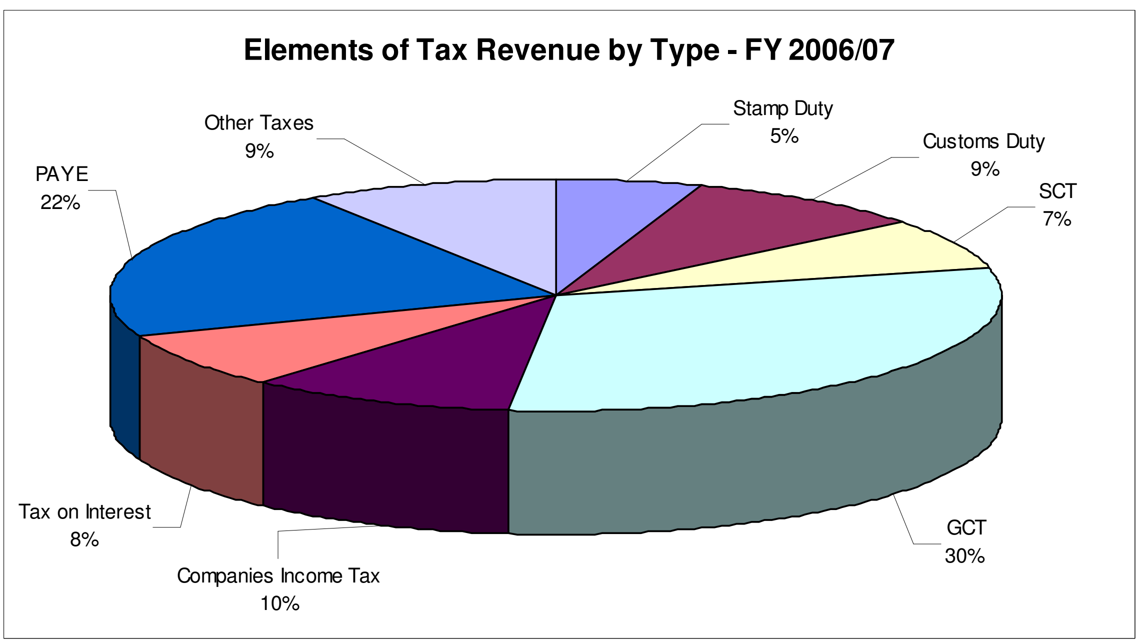
Branding activities for FY 2007/08 will see the project taking on its most ambitious aspect to date – people services. During the year aspects of the project that focus on internal service delivery and its effect will be institutionalized. Areas of focus will be:

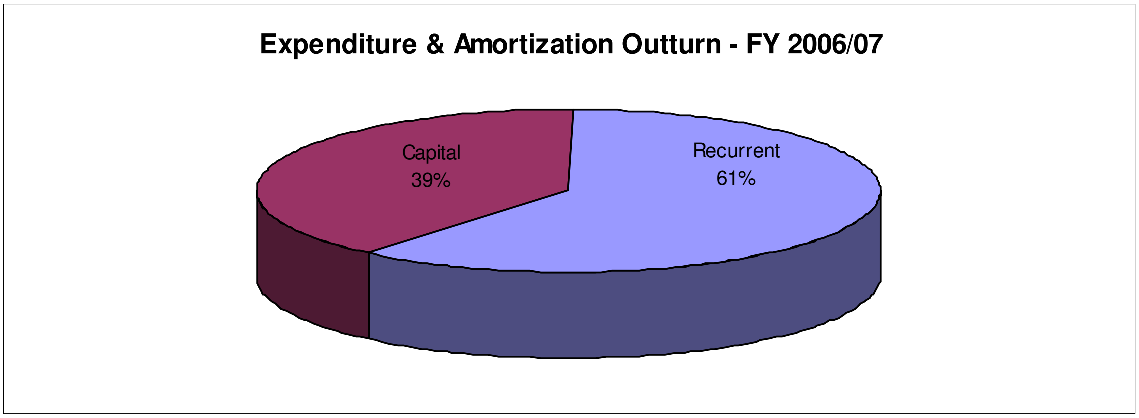
- Completing the Standardization of Documents Projects to include:
  - Forms, Manuals & Procedures;
  - Operational Manuals and their impact.
- The Intranet:
  - As a facilitatory tool, the Intranet and its ability to provide the organization with immediate access to manuals, forms, and critical information and its possible impact on key personnel and human resource issues;
  - Expanded intranet access is being addressed.
- The Brand Ambassadors Programme
  - Increasing the numbers and their visibility across the Administration.

CHARTS

2007/2008 JAMAICA BUDGET
Revenue & Loan Receipts Outturn - FY 2006/07

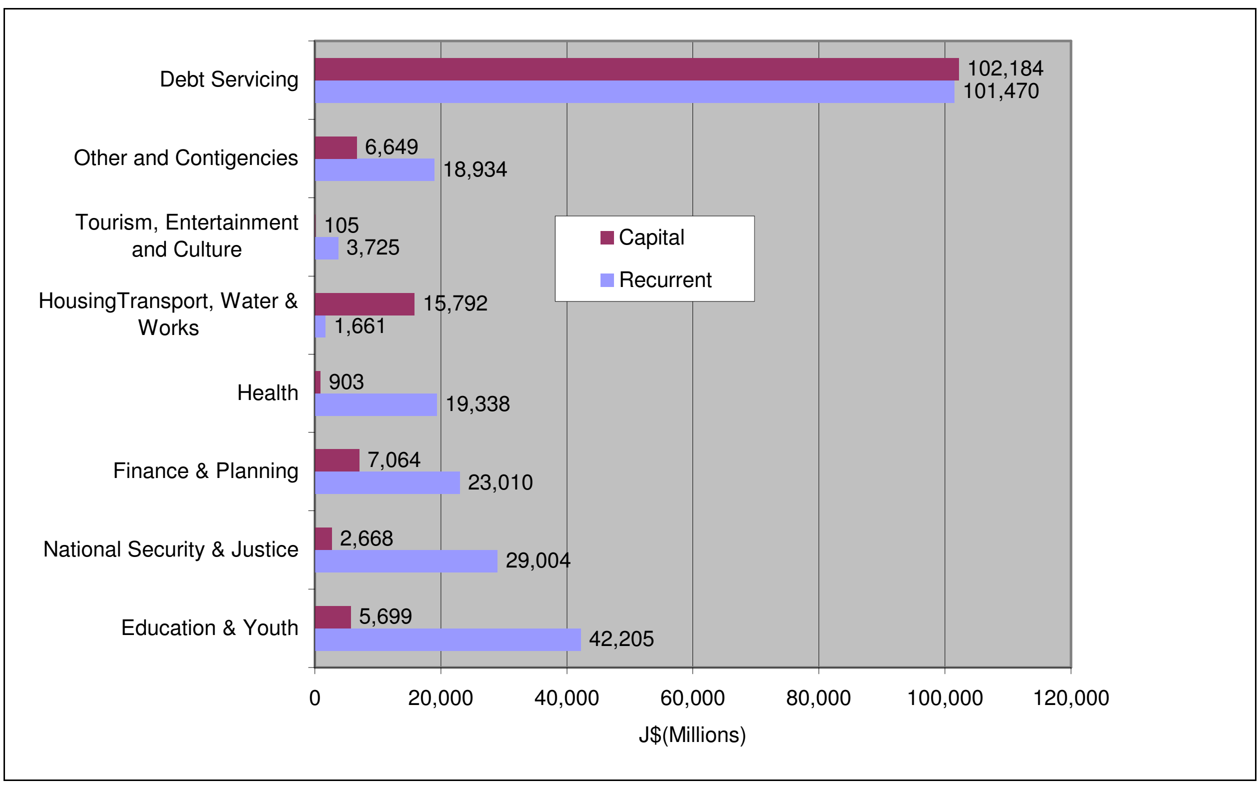




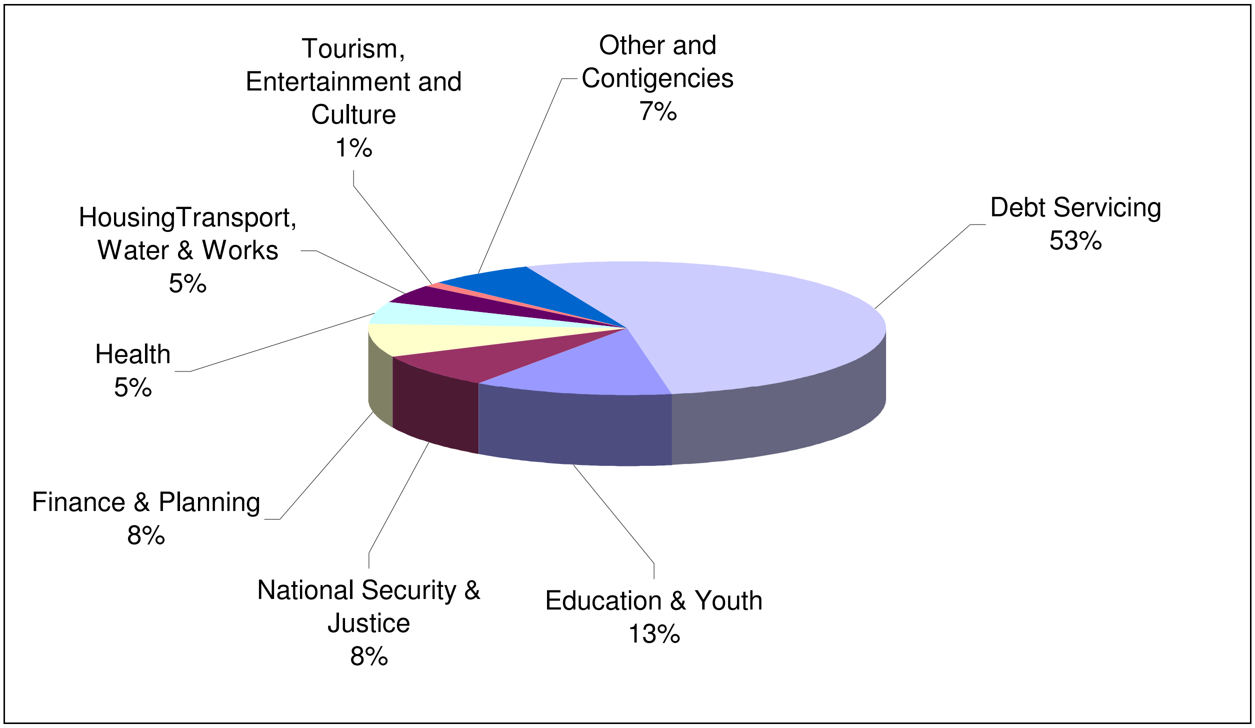


2007/2008 Jamaica Budget
Estimates (Gross) by Selected Ministry Groups – Part 1

TOTAL

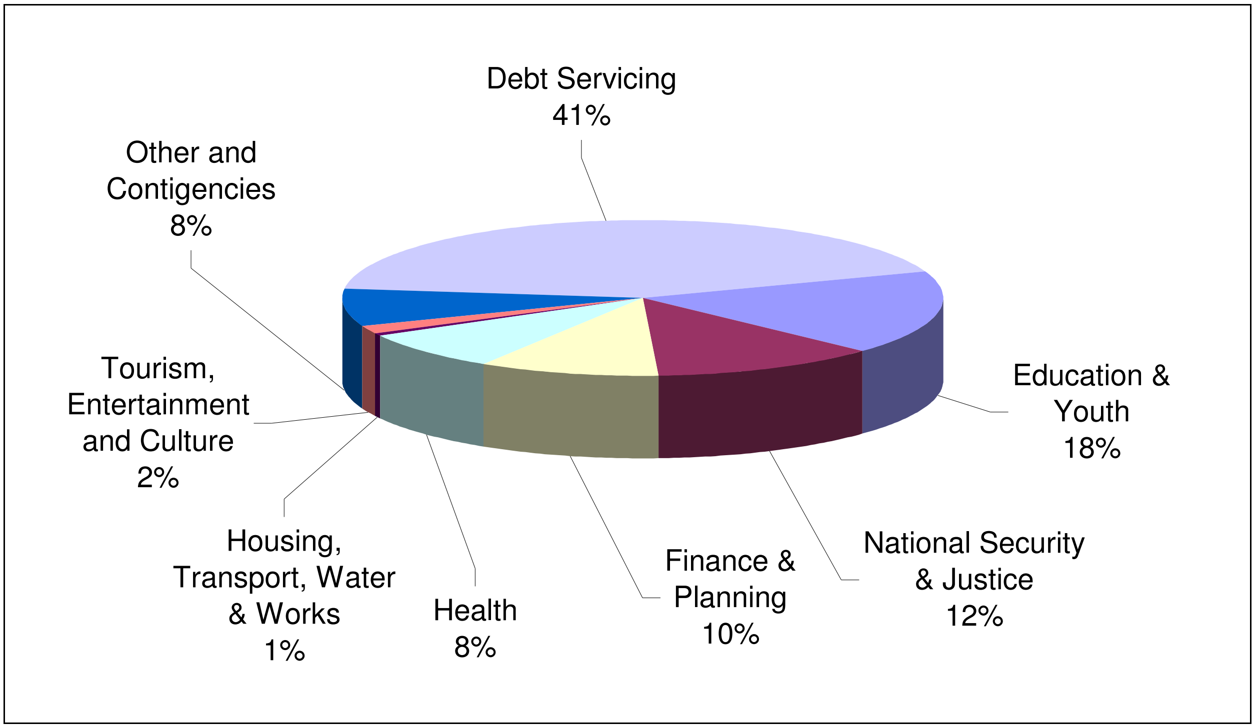


RECURRENT & CAPITAL

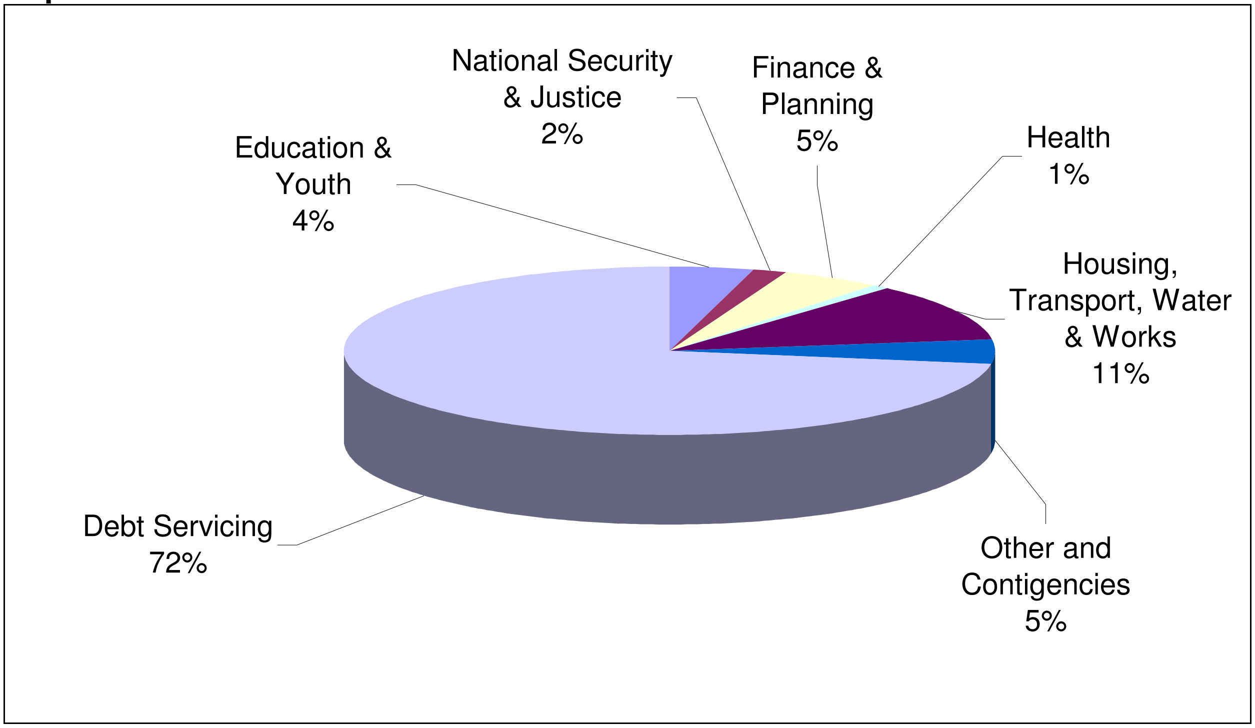


2007/2008 Jamaica Budget
Estimates (Gross) by Selected Ministry Groups – Part 2

Recurrent

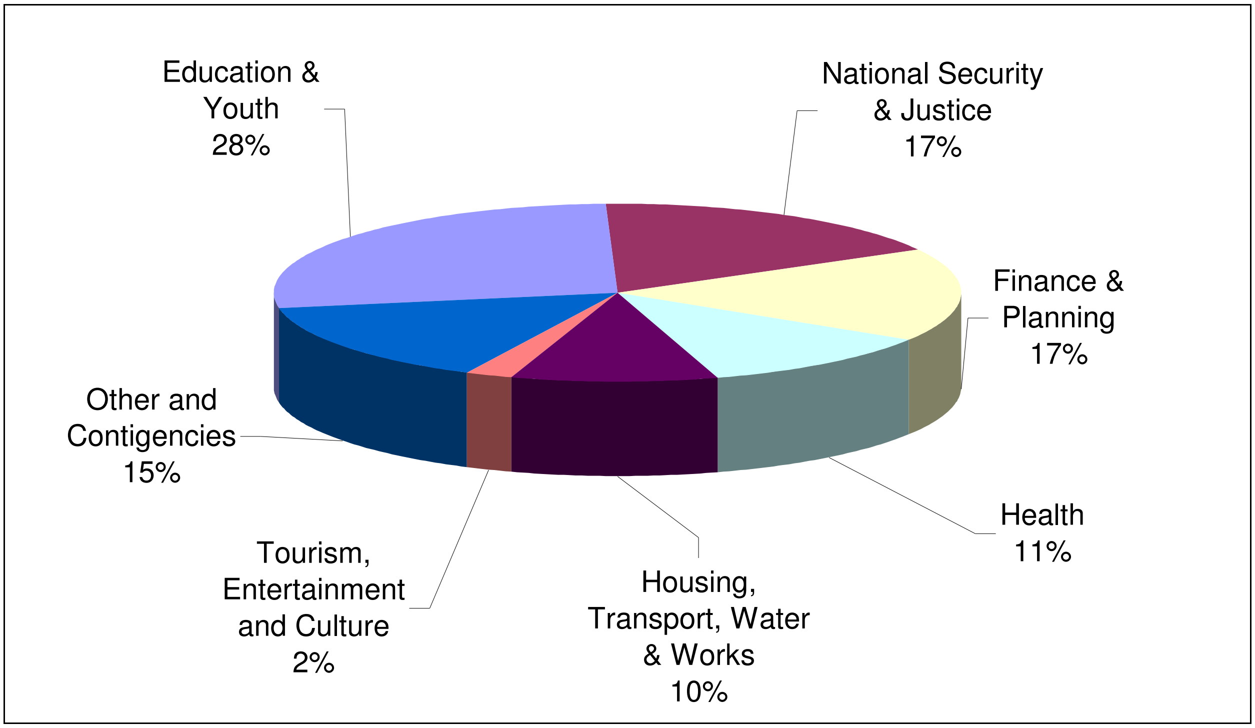


Capital



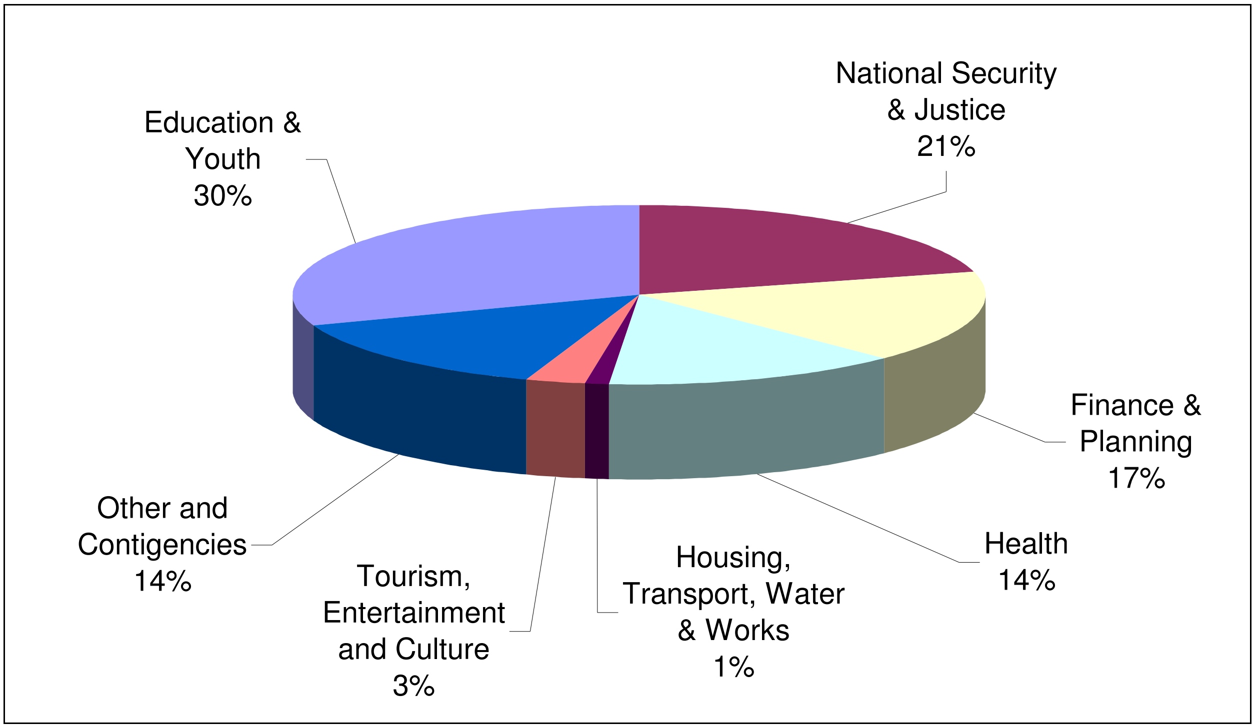
2007/2008 Jamaica Budget
Estimates (Net of Debt) by Selected Ministry Groups – Part 1

Recurrent & Capital



2007/2008 Jamaica Budget
Estimates (Net of Debt) by Selected Ministry Groups – Part 2

Recurrent



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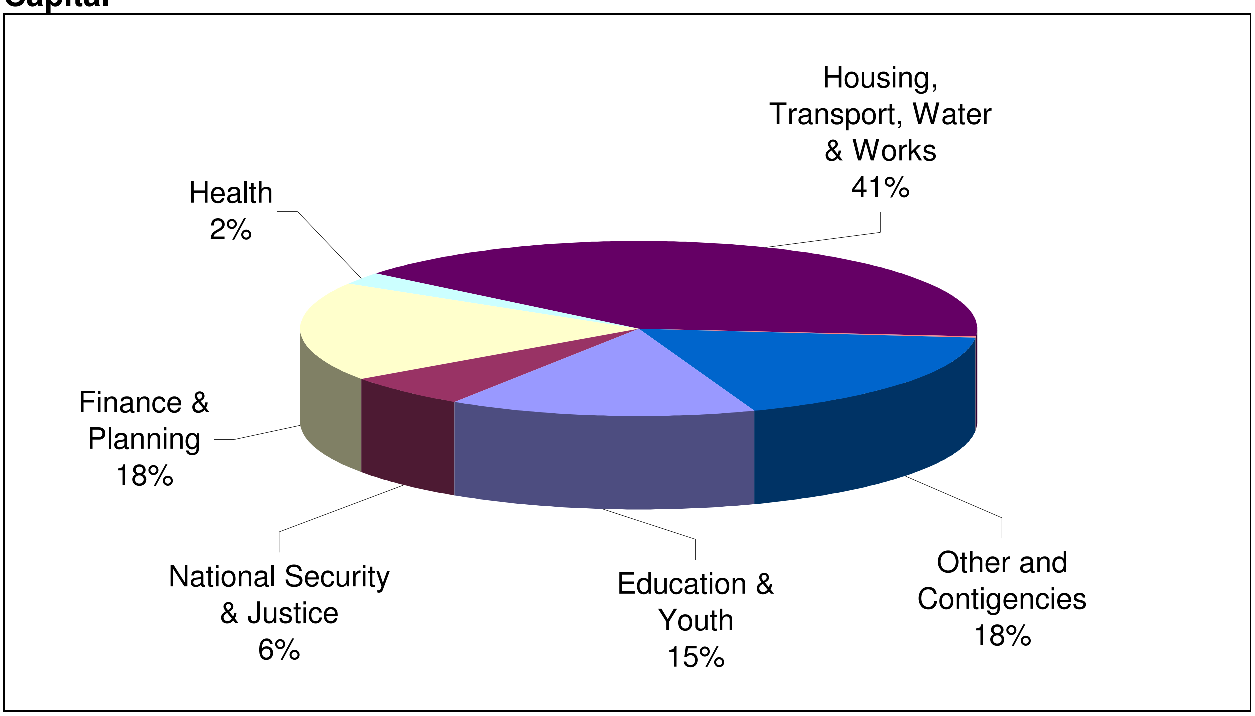

GLOSSARY

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.