GOVERNMENT OF JAMAICA

FISCAL POLICY PAPER
FY 2011/12

28th April 2011

TABLE OF CONTENTS

PART 1 FISCAL RESPONSIBILITY STATEMENT

Over the past two decades, the world has seen bouts of financial crises, most notably: Mexico in 1995; South-East Asia in 1997; Russia in 1998; and, more recently, the United States in 2008. Each crisis had a major contagion effect and devastated several economies directly and indirectly. The crises confirmed that public debt constitutes one of the main sources of risk to economic growth and employment. Empirical evidence points to a negative correlation between economic growth rates and public debt accumulation. When the dimension of expectations in a globalized world is added, it brings into sharp focus the need to sustain consistent and credible fiscal policies over time. The necessity of dealing with financial volatility in capital markets has compelled most economies, mainly emerging and developing economies, to embrace credibility through the adoption of measures aimed at strengthening the macroeconomic fundamentals.

Jamaica's recent history is not an exception in such a global context. In the mid 1990s, Jamaica experienced a major financial sector crisis that added approximately 40% of GDP to the public debt, following the Government's intervention to rescue the sector. Over the years, due to the country's dependence on external trade, where Jamaica remains a price-taker for a variety of primary commodities, the trade balance has been significantly affected by international crises. With the Income Account of the Balance Of Payments (BOP) experiencing significant outflows related to high interest payments, the Capital & Financial Account has had to provide that counter-balance through investment inflows. However, in the context of an international financial crisis, capital markets become even more risk averse and the volatility to exogenous shocks increases, as investors doubt the ability of countries to pay their debts. Consequently, the maintenance of equilibrium in the BOP requires a strong commitment to profound macroeconomic and fiscal policies, anchored by structural enhancements.
The Medium Term Economic Program (MTEP), against which the International Monetary Fund (IMF) approved a 27-month Stand-By Arrangement in February 2010, represents the most recent effort of Jamaica along this track.

Under the MTEP, in order to ensure sustainability of fiscal operations, measures towards increasing revenue and reducing expenditures have been undertaken, as well as a voluntary debt exchange program, the Jamaica Debt Exchange (JDX). These inescapable measures were the starting point for a definitive and structural change to public financing in Jamaica, which were augmented by the approval of a Fiscal Responsibility Framework (FRF), enacted through amendments to the Financial Administration and Audit (FAA) Act and the Public Bodies Management and Accountability (PBMA) Act, in March 2010.

Responsibility in fiscal management requires a structural change which presupposes well-planned and transparent actions to minimize risks and correct deviations, which may affect the sustainability of public finances over time. This responsibility entails strict adherence to targets and involves continuous monitoring of fiscal events and timely reporting of fiscal decisions and outcomes. The underlying theme is that indebtedness, in its many forms, represents the transfer of the responsibility for financing expenditure incurred at the current time, to the future.
Within this context, the policy decisions we take now as a Government, will not only be reflective of the immediate impact but will have due regard to the financial implications or burden for future generations.

Simply put, structural change refers to a long-term, widespread reform in the general mode of operation of the Government, especially as it relates to the management of public finances. There is therefore the recognition that the historical pattern whereby both high Central Government fiscal deficits and the recurrent assumption of contingent and direct liabilities of public bodies, financed by public debt, and an increasing tax burden is unsustainable. These alternatives have proved to be undesirable and have limited the country´s economic and social development. As such, the Government's broad strategic priorities from FY 2011/12 and through the medium term are **economic growth, job creation and competitiveness,** underpinned by crime reduction, tax reform and public sector transformation. These priority areas complement our commitment to balancing the fiscal accounts over time (by March 2016), as a necessary condition toward creating more fiscal space for investments, mainly in the areas of national security, health, education and infrastructure. This focus will help us as a country, to provide the impetus for economic growth, poverty reduction and improvement in human welfare. This focus will help us to make ***Jamaica, the place of choice to live, work, raise families, and do business.***

The Fiscal Responsibility Framework, as incorporated under Section 48B (2) of the FAA Act, states that "*upon presentation of the annual Estimates of Revenue and Expenditure, the Minister must lay before both Houses of Parliament, a Fiscal Policy Paper setting out, in accordance with this section – (a) Macroeconomic Framework (b) a Fiscal Responsibility Statement; and (c) a Fiscal Management Strategy*." In the attached Fiscal Management Strategy (FMS), are targets for the Central Government fiscal balance, primary balance, domestic and external debt, as well as guarantees for FY 2011/12 – FY 2013/14 (The fiscal accounts are compiled on a cash accounting basis. They are prepared to be consistent with the IMF Government Finance Statistics (GFS) and accordingly treat receipts from divestment of assets "below the line", that is divestment receipts are not recorded as revenue). While the PBMA presents no explicit ceilings on the overall balances of public bodies, their budgets will be closely monitored to ensure that their deficits do not increase over the medium term and, consequently, threaten the debt targets. In fact, since FY 2010/11, the level of scrutiny applied to public bodies has been broadly in line with that of the Central Government. In March 2010, the PBMA Act was amended to require that the budgets of public bodies be approved by Parliament. This heralded a profound move by the Government toward fiscal consolidation.

The Central Government primary balance registered surpluses of 6.1% of GDP and 4.4% of GDP in FY 2009⁄10 and FY 2010⁄11, respectively. Fiscal balances for those same years were -10.9% and -6.1% of GDP, while the total debt stood at 129.3% and 128.3%, respectively. For FY 2011/12 – FY 2013/14, the targeted primary surplus are 5.2%, 5.4% and 5.8%, respectively.

The Government of Jamaica (GOJ) is undauntingly committed to reducing the debt to GDP ratio and maintaining it at no more than 60% of GDP as a long-term fiscal objective. However, the relatively low level of discretionary expenditure does not allow for such a sizeable adjustment to be made at this time. Thus, this long-term fiscal ideal must be reflected through a more feasible outcome in the short to medium term. Accordingly, we consider it prudent to follow a five (5) year path of adjustment to reduce the debt from the current 128.3% of GDP to achieve 100% of GDP or less by FY 2015⁄16, as indicated in the FAA Act.

Adherence to this trajectory, for the debt/GDP ratio, is essential to maintaining the downward trend in interest rates, enabling the resumption of economic growth and ensuring price stability. Thus, the debt targets that are established are those that support the enabling conditions for sustainable economic growth, while maintaining the current policy of fiscal discipline that seeks to eliminate Central Government deficits within another five years. In light of this objective, the primary surplus targets for the FY 2011/12 - FY 2015/16 period are higher, when compared to the results obtained in recent fiscal years (Table 1A). Correspondingly, the path is for progressively lower Central Government fiscal deficits toward a zero balance by FY 2015/16.

The fiscal targets will be aggressively pursued to demonstrate the Government's unyielding commitment to fiscal adjustment in a manner that the country has not seen for a long time. Thus, the targets proposed over the medium term represent continuity in the structural fiscal adjustment process, which has already begun.

Table 1A: Medium Term Fiscal & Debt Targets

(J$mn)	Act 2009/10	Prov 2010/11	Proj 2011/12	Proj 2012/13	Proj 2013/14	Proj 2014/15	Proj 2015/16
Revenue & Grants	**300,200.1**	**314,558.5**	**350,783.7**	**358,481.8**	**389,482.1**	**415,836.0**	**446,784.6**
Expenditure	**421,458.5**	**388,767.9**	**412,461.8**	**423,576.6**	**436,221.7**	**453,373.5**	**465,393.7**
Cent Govt Fiscal Balance	**-121,258.4**	**-74,209.4**	**-61,678.1**	**-65,094.8**	**-46,739.6**	**-37,537.5**	**-18,609.2**
Cent Govt Primary Balance	**67,457.2**	**54,145.2**	**69,405.8**	**63,835.7**	**80,526.7**	**92,964.0**	**106,878.9**
Domestic Debt	758,700.4	809,370.0	868,232.5	916,409.7	960,073.4	1,003,909.4	1,031,740.5
External Debt	676,055.4	760,998.3	771,270.0	822,363.2	829,108.3	789,620.8	758,066.9
Total Debt	**1,434,755.8**	**1,570,368.3**	**1,639,502.5**	**1,738,772.9**	**1,789,181.8**	**1,793,530.2**	**1,789,807.5**
(% GDP)							
Revenue & Grants	**27.1**	**25.7**	**26.3**	**24.7**	**24.7**	**24.1**	**23.7**
Expenditure	**38.0**	**31.8**	**30.9**	**29.2**	**27.7**	**26.3**	**24.7**
Cent Govt Fiscal Balance	**-10.9**	**-6.1**	**-4.6**	**-4.5**	**-3.0**	**-2.2**	**-1.0**
Cent Govt Primary Balance	**6.1**	**4.4**	**5.2**	**4.4**	**5.1**	**5.4**	**5.7**
Domestic Debt	68.4	66.1	65.0	63.2	60.9	58.1	54.8
External Debt	60.9	62.2	57.8	56.7	52.6	45.7	40.3
Total Debt	**129.3**	**128.3**	**122.8**	**119.8**	**113.5**	**103.9**	**95.1**
Debt Ceiling							**100%**
Fiscal Balance Ceiling							**0**

Against the backdrop of the Government's broad strategic priorities and the macroeconomic assumptions outlined in the Macroeconomic Framework, we have developed passive estimates of revenue and expenditure to generate the medium term fiscal profile depicted in Table IB.

The passive profile indicates a gap on the Central Government fiscal balance equivalent to 1% of GDP. This medium term fiscal profile reflects a trend reduction in the wages/GDP ratio to the 9% ceiling by FY 2015/16. It thus entails: Central Government employment levels remaining unchanged over the period; continued payment of annual performance increments of 2.5%; and implementation of the health sector reclassification. With these considerations, public sector wage increases over the medium term would be limited to single digit levels to ensure the 9% of GDP wage ceiling is not breached.

Table IB Fiscal Indicator (%GDP)	Act 2009/10	Prov 2010/11	Proj 2011/12	Proj 2012/13	Proj 2013/14	Proj 2014/15	Proj 2015/16
Target Fiscal Balance	-10.0	-6.5	-4.6	-3.5	-2.3	-1.2	0.0
Est. Fiscal Balance	-10.9	-6.1	-4.6	-4.5	-3.0	-2.2	-1.0
Fiscal Balance Gap	0.9	-0.4	0.0	1.0	0.7	1.0	1.0

The GOJ, nevertheless, stands willing and able to pay higher wage increases depending on the following circumstances:

(a) if we are able to attain higher than projected economic growth; and/or
(b) the levels of savings realized from implementation of Public Sector Transformation.

In light of the fiscal consolidation path, to which we are committed, we will be adopting a menu of revenue and expenditure measures, designed to close the fiscal gap and ensure achievement of our key fiscal targets. These measures, which are outlined in more detail in the FMS, include:

- Tax reform (both policy and administration) designed to promote stable and predictable levels of revenue and maintain the integrity of the tax system by minimizing special incentives, concessions and exemptions;
- Pension reform – implementation of a contributory pension scheme so as to partly transfer the cost of financing retirement benefits from the taxpayer to the ultimate beneficiary;
- Public Sector transformation – to generate efficiencies and contain the wage bill;
- Better management and closer monitoring of expenditure through effective use of the Project Prioritization Tool, implementation of the FRF and enforcement of sanctions; and
- Continuous assessment and management of fiscal risks and contingent liabilities.

These measures, which are critical to us meeting our fiscal objectives, are founded on the principles of sound fiscal management in that they will have the effect of delivering lasting benefits by: reducing and eventually eliminating fiscal deficits; reducing the debt burden on the citizens; and supporting adequate levels of national savings. Further, these outcomes will generate adequate levels of revenue to facilitate proper maintenance of the GOJ's physical assets and facilitate moderation of cyclical fluctuations in economic activity, as appropriate.

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

The FY 2011/12 Central Government budget includes contingency provisions to cover:

(i) interest payments of $10,369.5mn;
(ii) amortization (principal) payments of $9,045.9mn;
(iii) payment of salary arrears (backpay) of $4,600mn, inclusive of $2,500mn for teachers arising from the Industrial Disputes Tribunal award;
(iv) electricity arrears and price adjustments of $1,152mn;
(v) natural disasters of $1,500mn; and
(vi) other liabilities amounting to $1,038.5mn.

On the revenue side, the GOJ intends to eliminate the stock of outstanding withholding tax refunds (over 90 days) over the medium term. Within this context, the fiscal profile programs payment of withholding tax refunds at a rate of approximately $1,000mn monthly in FY 2011/12 and at an increased rate thereafter until the stock is eliminated.

The fiscal risks assessment also indicates, in advance, additional compensation measures that will be adopted in case the fiscal risks convert into expenditures, thus preserving the integrity of the medium term fiscal programme.

The maintenance of a responsible fiscal policy in respect of revenue and expenditure is essential for the achievement of the annual fiscal and debt targets and the ceilings established in the FAA Act. Thus, it is of utmost importance that revenue and expenditure measures which have deleterious fiscal effects are not adopted without the implementation of offsetting measures.

Decisions to incur obligatory expenditures ahead of the budget being approved, for example expenditure associated with employment of staff, have been a notable source of fiscal risks for some time now. The risk is especially amplified if the effects of such decisions will cover several fiscal years into the future. We will be quite vigilant to minimize such occurrences. In this regard, Regulations have been drafted and approved by Cabinet for further presentation, consideration and passage by Parliament to, firstly, mitigate against these occurrences and, secondly, impose sanctions for any such breach of these Regulations. Ministries, Departments and Agencies will need to recognize that the FRF represents a major game changer with respect to public financial management practices and in light of our firm commitment to achieve the fiscal and debt targets any decision to incur additional expenditure can only be accommodated through imposition of expenditure cuts in other areas, or the raising of revenue.

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

It is worthwhile to emphasize that both the fiscal deficit and the public debt will depend directly on the macroeconomic assumptions considered. Simulations have been conducted on the trajectory of the debt, which show that the targets are sustainable in the long run, based on the forecasts for economic growth, interest and exchange rates as well as the expected prices of some primary commodities. It is also important to emphasize that the macroeconomic forecasts are not commitments of the economic policy and, accordingly, they may change over time. However, in so far as there are deviations in macroeconomic variables, these will invariably affect fiscal outcomes and influence countercyclical fiscal policy.

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

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

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

Conclusion

The potential macroeconomic, financial and exogenous risks the country faces, underscore the need for structural change which will benefit Jamaica's future. The challenge that lies before us is our greatest ally for implementing the necessary structural changes. In this Fiscal Responsibility Statement, I hereby declare that, in pursuing the policy objectives of the Government, I will adhere to the principles of prudent fiscal management and seek to manage financial risks accordingly. In so doing, I hereby attest to the reliability, accuracy and completeness of the information contained in this Fiscal Policy Paper and its compliance with fiscal responsibility principles.

Audley Shaw, MP
Minister of Finance and the public Service
April 28, 2011

PART 2 MACRO-ECONOMIC FRAMEWORK

Overview of Macro-economic Developments FY 2009/10 – 2010/11

Background

The Government of Jamaica's (GOJ) macroeconomic programme for FY 2009/10 and FY 2010/11 was framed within the context of the Medium Term Framework FY 2007/08 – FY 2010/11. This framework focused on creating an environment that would engender sustainable growth in the medium-term. The major objectives of the macroeconomic programme for FY 2009/10, which were continued into FY 2010/11, were:

- to improve fiscal and debt indicators;
- to facilitate broad based industry growth with a focus on restoration of higher output levels in the Agriculture, Forestry & Fishing industry;
- to maintain a conservative monetary policy;
- to create additional capacity primarily in the manufacturing and export sectors; and
- to maintain adequate international reserve cover.

Table 2A – Jamaica: Summary Economic Performance

	Unit	2009/10	2010/11
Real GDP Growth Rates	%	**-2.5**	**-0.7**
Inflation Annual (point to p0int)	%	**13.3**	**7.8**
Base Money Growth	%	**8.6**	**2.1**
Balance of Payments			
Current Account/GDP	%	-7.7	-7.7
Net International Reserves (NIR)	US$mn	1,751.9	2,553.2
Gross Reserves	US$mn	2,414.4	3,434.7
Gross Reserves (Goods & Services Imports)	Weeks	18.8	22.8
Fiscal Accounts			
Central Gov't Fiscal Balance	% GDP	-10.9	-6.1
Central Gov't Primary Balance	% GDP	6.1	4.4
Public Bodies Overall Balance	% GDP	1.0	-0.8
Debt Stock	% GDP	129.3	128.3

The GOJ highlighted five pillars that would constitute the focal points around which a competitive macroeconomic environment would be facilitated. These were:

- the application of a strong, disciplined approach to fiscal and debt management;

- a reform of the tax system to allow for improved efficiency and the creation of a business friendly environment;
- the reduction of bureaucracy;
- the achievement of higher levels of local and foreign investment than the levels attained over the past 5–10 years; and
- the development of alternative energy sources alongside increased energy conservation.

International Monetary Fund (IMF) Stand-By Arrangement

As the global financial crisis that emerged in 2008 intensified, Jamaica's vulnerability to changes in the external economic environment was increasingly evident. A visible demonstration of this vulnerability was the deterioration in foreign exchange inflows as a result of:

(i) reduced earnings from the bauxite/alumina sub-industry;
(ii) declining remittance and tourism inflows; and
(iii) a fall-off in capital inflows.

Faced with a potential Balance of Payments problem and in an effort to mitigate a possible fall in international reserves, the GOJ decided, during FY 2009/10, to initiate negotiations with the IMF for a Stand-By Arrangement (SBA). A SBA with the IMF would also aid in bridging the Government's financial gap through its catalytic influence on other multilateral loan inflows. Funds from these multilaterals would: support the reform agenda in the public sector; aid in the provision of economic and social infrastructure; and assist the government in funding a range of programmes to improve human development.

Discussions with the IMF concluded with an indication by the Fund that consideration of Jamaica's programme by the Board would be conditional on the prior execution by the GOJ of a number of the proposed actions. The required prior actions were:

- implementation of tax measures to yield approximately 2.0 % of GDP;
- implementation of a liability management programme aimed at reducing interest costs and extending the maturity profile such that principal repayments over the successive two fiscal years would be significantly reduced; and
- demonstration of concrete progress with respect to liquidation or divestment of the national carrier, Air Jamaica.

The liability management programme characterized as the Jamaica Debt Exchange (JDX) was launched on January 14, 2010 as an essential element of the GOJ's debt management strategy, and in compliance with meeting the IMF prior action condition. Most of the new tax measures became effective on January 1, 2010 and progress was made with respect to divestment of Air Jamaica with the identification of Caribbean Airlines as the likely purchaser. Based on the successful achievement of the three prior actions, Jamaica's programme was submitted to the Board of Governors of the IMF which approved the country's application for a 27 month US$1.27bn Stand By Arrangement on February 4, 2010. Subsequent to the approval, the first tranche of US$640mn was disbursed.

There was continued improvement in many of the key macroeconomic indicators up to the end of FY 2010/11. Inflation and market-determined interest rates trended downwards, the net international reserves (NIR) remained strong and despite continued weakness in the real economy, all the quantitative targets in the IMF Stand-By Arrangement (IMF-SBA) up to September 2010 were met. A review of the December 2010 and March 2011 quantitative targets and structural benchmarks will be conducted by the IMF in the first quarter of FY 2011/12.

Real Sector Developments

The Jamaican economy contracted by 2.5 % during FY 2009/10 (Table 2B). Although better than previously projected, this performance represented a worsening of economic conditions relative to FY 2008/09. Weak global and domestic aggregate demand resulted in a contraction in the production of goods and services locally.

Real value added for the Goods Producing Industry declined by 8.4 %, with lower production in all industries, except Agriculture, Forestry & Fishing which grew by 12.9%. Mining & Quarrying recorded the largest decline of 54.7 %, attributable to the closure of three alumina plants as a result of the decline in global demand. With respect to the Services Industry, real value added fell by 0.4 % with the largest declines emanating from Transport, Storage & Communication and Wholesale & Retail Trade, Repairs and Installation of Machinery (WRTRIM). The decline in the Services Industry was however tempered by increases of 4.1 % and 2.2 % in real value added for the Hotels & Restaurant; and Electricity & Water Supply industries, respectively.

Table 2B: Real Value Added by Industry at Constant (2003) Prices (%)

	2009/10	2010/11
Goods Producing Industry	**-8.4**	**0.2**
Agriculture, Forestry & Fishing	12.9	0.3
Mining & Quarrying	-54.7	22.2
Manufacture	-4.2	-2.4
Construction	-5.4	-1.7
Services Industry	**-0.4**	**-1.4**
Electricity & Water Supply	2.2	-4.0
Transport, Storage & Communication	-1.4	-2.6
Wholesale & Retail Trade; Repair and Installation of Machinery	-2.2	-1.6
Finance & Insurance Services	0.1	-3.5
Real Estate, Renting & Business Activities	-0.7	-0.9
Producers of Government Services	-0.3	-0.1
Hotels & Restaurants	4.1	2.8
Other Services	0.3	-0.5
Less Financial Intermediation Services Indirectly Measured (FISIM)	0.2	-6.5
Total GDP at Basic Prices	**-2.5**	**-0.7**

FY 2010/11 Projected Performance[1]

The Jamaican economy contracted by 1.2% in calendar year 2010 with declines of 1.7% and 1.5% for the Goods Producing and Services industries, respectively. For FY 2010/11, the Jamaican economy is estimated to have declined by 0.7 % (Table 2B), as a decline of 1.4 % for the Services industry is expected to outweigh marginal growth of 0.2 % in the Goods Producing industry. This contraction represents a slowing in the pace of decline compared with FY 2009/10 when the economy declined by 2.5 %. The estimated outturn for FY 2010/11 is based on a contraction in the first three quarters of the fiscal year and a projected moderate increase in the final quarter of the fiscal year.

Domestic demand throughout 2010 remained weak due mainly to the prolonged adverse impact of the global economic crisis on the purchasing power of individuals. Economic activity was also constrained by:

- drought conditions which impacted some industries during April - June 2010;
- security operations in sections of Kingston and St. Catherine in May 2010; and
- the passage of Tropical Storm Nicole during the last week of September 2010.

Most industries are estimated to record declines in FY 2010/11, with Electricity & Water Supply, Finance & Insurance Services and Transport, Storage & Communication, projected to record the strongest contraction. The Mining & Quarrying industry is estimated to register the strongest growth due to increased crude bauxite production coupled with higher alumina output associated with the reopening of West Indies Alumina Company's (WINDALCO) Ewarton alumina plant. Hotels & Restaurants and Agriculture, Forestry & Fishing are also estimated to register notable performance.

The estimated growth of 0.8 % during January - March 2011 represents the first quarterly increase since the September 2007 quarter. Most industries are expected to register higher value added during this final quarter of the fiscal year with the strongest expansion projected for the Mining & Quarrying industry.

Labour Market Developments

In 2009, the labour market began to experience the effects of the global economic downturn. The downturn which had begun to affect the economy in late 2008, intensified in 2009, with a slowing of demand for goods and services both locally and internationally. This was evident in the closure of the operations of two of the country's alumina producers, WINDALCO and Alumina Partners of Jamaica (Alpart), as the global demand for alumina plummeted. This, along with downsizing in other areas of the economy, resulted in thousands of jobs lossed. As a result of the job losses in Mining and Quarrying, employment in this sub-industry, which has traditionally been one of the least labour-intensive, fell by 42.9 %. However, of the 15 sub-industries, five experienced an increase in employment. The most notable among these was the labour-intensive sub-industry of Agriculture, Hunting, Forestry & Fishing, which recorded a 4.8 % increase. Overall, the employed labour force experienced a decline of 3.1 % to 1,126,100 due to declines in employment in both the

[1] FY 2010/11 real GDP figures are based on official April-December 2010 figures from STATIN and January 2011 – March 2011 estimates from PIOJ.

Goods Producing Industry (by 3.4 %) and the Services Industry (by 3.0 %). The average unemployment rate increased by 0.8 percentage point to 11.4 %, the highest since 2004, while the youth unemployment rate increased by 1.2 percentage points to 27.1 %, the highest since 2003.

The Labour Force Survey[2] indicated that the unemployment rate,[3] as at October 2010, was 12.0 %, which was 0.4 percentage point higher than in both October 2009 and July 2010. The Male Unemployment Rate stood at 9.0 % while the Female Unemployment Rate was 15.7 %. The employed labour force declined by 21,200 persons and 18,200 persons compared with October 2009 and July 2010, respectively. The outturn largely reflected the lagged impact of the global economic crisis as well as the impact of Tropical Storm Nicole, particularly on Agriculture. The Unemployed Labour Force amounted to 148 900. This was 3,200 persons more than in October 2009 and 3, 000 persons more than in July 2010.

The total number of employed persons as at October 2010 was 1,091,000, a decline of 21,200 persons relative to October 2009. This largely reflected lower employment levels in Construction & Installation (down 10,100), Agriculture, Hunting, Forestry & Fishing (down 7,700 persons), Health & Social Work (down 4,600 persons), Hotels & Restaurants (down 3,300 persons) and Wholesale & Retail Trade (down 2,400 persons). The contraction in employment in these industries was tempered by the increased employment recorded for Public Administration & Defence (up 4,000 persons); Real Estate, Renting & Business Activities (up 6,800 persons) and Education (up 3,600 persons).

Monetary Developments

For FY 2009/10, the monetary base expanded by 8.6 %, relative to an expansion of 21.0 % for FY 2008/09. The expansion in base money largely reflected an increase in the Bank of Jamaica's (BOJ) holdings of Government securities as well as a net increase in the NIR.

Monetary conditions remained weak during FY 2010/11. The credit and housing markets were weak and real spending is estimated to have declined as both households and businesses faced challenges, as reflected in the level of non-performing loans in the banking sector and increased use of credit. The weakness in real economic activity was reflected in the trends in monetary aggregates. Money supply grew by an estimated 1.7 % during FY 2010/11 compared to programmed growth of 13.9 %, largely reflecting slower growth in domestic deposits and demand for currency, alongside a decline in foreign currency deposits. At the same time, base money grew by just 2.1 % in FY 2010/11, compared to the 4.8 % programmed.

In the context of an improved outlook for inflation, positive trends in the financial markets and weak aggregate demand conditions, the BOJ continued to ease monetary policy during FY 2010/11. At end-March 2011, the 30-day interest rate on its open market operations instrument was 6.75 % relative to 10.0 % at end-March 2010. The BOJ also reduced the cash reserve and liquid assets requirements on Jamaica Dollar prescribed liabilities by two percentage points at the beginning of

[2] The Labour Force Survey conducted by STATIN consists of individuals 14 years and older who were "employed in any form of economic activity for one hour or more during the survey reference week", and persons who "although they had no job, were looking for work, or wanted and were willing to accept work during the reference week".
[3] The Unemployment Rate includes all persons "Looking for Work, Wanting Work and Available for Work".

the September quarter to 12.0% and 26.0%, respectively. Against this background, market interest rates also declined steadily with the yield on the benchmark 180-day Treasury Bill falling to 6.7 % in March 2011 from 10.49 % in March 2010. Notable declines were also registered for yields on 3-month and 1-month Treasury Bills. The decline in yields was also influenced by buoyant Jamaica Dollar liquidity as well as a strong demand for short-term instruments. Longer-term rates, as reflected in the secondary market indicative yields on medium-term GOJ Benchmark Investment Notes, also declined reflecting continued positive investor perception about the macroeconomic outlook.

Inflation

The point-to-point inflation rate for calendar year 2009 was 10.2%, a substantial reduction on the 16.8% recorded in calendar year 2008. This slowdown in prices mainly resulted from increased domestic agricultural supplies, especially ground provisions, as well as the impact of weakened consumer demand and a relatively stable exchange rate. However, some pick-up in the pace of inflation occurred in the March 2010 quarter consequent on the direct and pass-through effects of revenue-enhancing measures as well as from the effects of severe drought conditions that affected agricultural output. Additionally, the overall improved global economic activities acted as a stimulus for higher prices for oil and imported food resulting in the point-to-point inflation rate for FY 2009/10 recording 13.3%.

Inflation in FY 2010/11 was recorded at 7.8%, within the target range of 7.5% - 9.5%. The decline in the rate of general price increases during the first half of FY 2010/11 was driven by relatively lower imported commodity prices, weak consumer demand as well as an appreciation in the value of the Jamaica dollar. At end-March 2011, the exchange rate was US$1=J$85.75, compared to US$1=J$89.51 at end-March 2010.

Weather-related disruptions to domestic agricultural crop output coupled with increased imported oil and grain prices facilitated an inflation upturn in the December quarter. However, increased supplies of agricultural produce were instrumental in the 1.1% and 1.8% declines in the heavily weighted "Food and Non-Alcoholic Beverages" group in January and February, respectively.

The main contributors to inflation in FY 2010/11 were: 'Food & Non-Alcoholic Beverages' (7.4%); 'Alcoholic Beverages & Tobacco' (6.0%); 'Housing, Water, Electricity, Gas and Other Fuels' (10.5%); and 'Transport' (12.8%). Following negative inflation rates of 0.2% and 0.4% in January and February 2011 respectively, there was a 1.1% surge in prices consequent on the increased cost of oil on the international market which led to increased utility rates by 4.1% in March 2011.

External Sector Developments

For FY 2009/10, there was a current account deficit of US$759.2 million, an improvement of US$1,686.5 million relative to the preceding fiscal year. The improvement in the current account emanated primarily from the goods sub-account. For the goods sub-account, there was a deficit of US$3,073.3 million, an improvement of US$1,406.3 million relative to the corresponding period of FY 2008/09. This resulted from a reduction of US$2,314.2 million in imports, which was partially offset by a decline of US$907.9 million in exports. The decline in imports was mainly influenced by a US$1,358.3 million reduction in Mineral Fuel imports. Lower export earnings stemmed from the decline in alumina exports of US$706.2 million. Within the financial account, net private and official inflows sufficiently financed the current account deficit for FY 2009/10, thus resulting in a NIR increase.

The current account deficit for April-December 2010 stood at US$947.1mn, a deterioration of US$35.3mn when compared with the deficit for the corresponding nine-month period in 2009. This current account position resulted mainly from the performance in the goods sub-account.

The goods account recorded a deficit of US$2,565.4mn, which represented a deterioration of US$218.9mn relative to the same nine-month period of the previous year. This resulted from an increase of US$182.4mn in imports as well as a US$36.5mn decline in export earnings. Higher spending on imports was mainly due to US$98.8mn and US$48.1mn in mineral fuel and food importation, while the decline in export earnings resulted primarily from a US$138.6mn increase in the exportation of chemicals.

There was a US$17.9mn increase in the surplus on the services account largely due to higher levels of tourist expenditure. The decline in net income outflows emanated primarily from reduced profits remitted by foreign direct investment companies and interest payments on official external debt, while current transfers increased by US$105.5mn to US$1,536.4mn as a result of an increase in net private and official transfers.

Official and private inflows were more than sufficient to finance the current account deficit, thus resulting in a US$419.5mn increase in the NIR during April-December 2010.

For FY 2010/11, the current account deficit is estimated to widen to 8.9% of GDP, up from 7.7% in FY 2009/10. The worsened position stemmed primarily from a deterioration in the goods sub-account and, to a lesser extent, a widening of the income sub-account. The deterioration in the goods sub-account largely reflected increased imports related to higher commodity prices, particularly oil. This increase in imports fully offset the improvement in exports related to increases in alumina and non-traditional exports. The estimated widening on the income sub-account reflects higher imputed profit remittances associated with the recovery in the bauxite sector.

The surplus on the services sub-account is estimated to have increased in FY 2010/11, largely reflecting growth in net travel receipts. The surplus on the current transfer sub-account also improved relative to FY 2009/10, reflecting the gradual recovery of private remittance flows. Net private and official inflows were more than adequate to finance the estimated deficit on the current account, resulting in the NIR increasing to US$2,553.2 million at end-March 2011. Correspondingly, the BOJ's gross reserves represented 22.8 weeks of goods and services imports at end March 2011, more than double the international benchmark of 12.0 weeks.

During FY 2010/11, conditions in the foreign exchange market were generally favourable, despite intermittent demand pressures that engendered brief episodes of exchange rate depreciation. As a consequence, the value of the Jamaica Dollar appreciated against the US$ dollar by 4.3% between end-March 2010 and end-March 2011. This compares favourably with 0.8% depreciation for the previous fiscal year. The general appreciation in the exchange rate primarily reflected increased investor preference for Jamaica Dollar instruments, evidenced by an expansion in net private capital inflows during the course of the fiscal year. The appreciation in the value of the Jamaica dollar however contributed to a loss in external competitiveness of about 5% in FY 2010/11.

Macro-economic Outlook FY 2011/12 – 2013/14

Table 2C depicts the key macroeconomic assumptions that will inform the development of the estimates of revenue and expenditure, and, by extension, the debt trajectory over the medium term. Changes in fiscal policies do, however, tend to impact economic variables, for instance any tax policy changes adopted over the medium term could impact inflation, real economic activities, interest and exchange rates, as well as other economic variables. Increases (decreases) in tax rates or tax bases for example could lead to higher (lower) inflation which could then have spillover effects on other economic variables such as growth, exchange rate and interest rates. Within this context it is important to note that the macroeconomic profile shown in Table 2C assumes that the medium term macroeconomic programme would not be impaired by any changes in the GOJ's fiscal policy, particularly in relation to tax and expenditure policies.

The outlook for the Jamaican economy is positive. Whereas real GDP is estimated to have contracted by approximately 0.7% for FY 2010/11, growth of 1.6%, 2.3% and 1.9% is forecasted for FY 2011/12, FY 2012/13, and FY 2013/14, respectively. This improved performance in domestic economic activity is predicated on recovery in the global economy, particularly the USA, as the recession is expected to end in 2011.

Table 2C: Medium Term Macroeconomic Profile

MACROECONOMIC VARIABLES	2009/10 ACTUAL	2010/11 PROV	2011/12 EST	2012/13 PROJ	2013/14 PROJ
GDP (J$Bn)	1,109.6	1,224.0	1,334.7	1,450.8	1,576.0
GDP (US$Bn)	12.4	14.1			
Real GDP growth rate (%)	-2.5	-0.7	1.6	2.3	1.9
Nominal GDP growth rate (%)	8	10.3	9	8.7	8.6
Inflation (%) Annual Pt to Pt	13.3	7.8	7	6.5	6.5
Interest Rates					
30-day repo rate (eop)	10	6.75			
180-day repo rate (avg)	17.1	8.31			
180-day Treasury Bill (avg)	17	8.1			
3-Month LIBOR (avg)	0.49	0.35			
6-Month LIBOR (avg)	0.85	0.53			
Federal Funds Rate (avg)	0.25	0.25			
Avg. Exch. Rate (US$1=J$)	89.28	86.51			
Gross Res (wks of G & Serv Imports)	18.8	22.8	20.0	19.4	17.4
NIR Passive (US$mn)	1,751.9	2,553.2	2,000.1	2,075.1	2,113.4
Current Account (% GDP)	-7.7	-7.7	-8.9	-11.4	-11.5
Oil Prices (WTI) (avg. US$/barrel)	69.1	83.4	103.7		

Source: GOJ/BOJ

Over the medium term, the global economy is projected to grow on average by 4.0%, which is slower than the almost 5% growth experienced in 2010. The forecast for slower global growth in the medium term mainly reflects the expected impact of fiscal consolidation in many advanced countries, monetary tightening in some emerging economies and the fallout in the Japanese economy.

Jamaica: Projected Real Sector Performance FY 2011/12 to FY 2013/14

The Jamaican economy is projected to grow within the range of 1.5% - 2.5% over the medium term (FY 2011/12 – FY 2013/14). Table 4 provides point estimates of growth for the various sectors.

Table 2D: Projected Change in Value Added by Industry at Constant (2003) Prices

INDUSTRY	2011/12	2012/13	2013/14
Goods Producing Industry	**4.0%**	**5.0%**	**3.0%**
Agriculture, Forestry & Fishing	3.3%	3.5%	3.4%
Mining & Quarrying	31.6%	29.9%	10.5%
Manufacture	0.2%	0.6%	0.8%
Construction	1.2%	2.0%	1.6%
Services Industry	**0.9%**	**1.4%**	**1.5%**
Electricity & Water Supply	2.6%	1.6%	1.4%
Wholesale & Retail Trade; Repairs and Installation of Machinery	0.5%	1.5%	1.4%
Hotels and Restaurants	3.2%	4.0%	3.5%
Transport, Storage & Communication	1.6%	2.0%	2.8%
Finance & Insurance Services	1.0%	1.6%	2.0%
Real Estate, Renting & Business Activities	0.5%	1.2%	1.8%
Producers of Government Services	-0.1%	-0.5%	-1.0%
Other Services	0.2%	1.0%	1.0%
Less Financial Intermediation Services Indirectly Measured	0.8%	1.2%	1.2%
Total Value Added at Basic Prices	**1.6%**	**2.3%**	**1.9%**

FY2011/12 Projected Performance

The Jamaican economy is projected to record real GDP growth of 1.6% during FY 2011/12 (Table 2D), following three consecutive fiscal years of contraction. This improved performance is predicated on developments in both the international and domestic economy. The country is expected to benefit from continued recovery in the global economy, specifically with Jamaica's main trading partners showing signs of improvement. World Output is projected to grow by 4.4% during 2011 with the USA, Jamaica's main trading partner expected to expand by 2.8 %[4]. This augurs well for exports, primarily tourism, bauxite/alumina as well as for increased inflows from remittances. Domestically, aggregate demand is expected to show signs of improvement during the fiscal year, as both business and consumer confidence, which had started to increase during FY 2010/11, is expected to continue increasing during FY 2011/12. This is expected to translate into increased demand for goods and services.

The Mining & Quarrying industry is projected to register the strongest growth of 31.6% and is attributable mainly to the expected reopening of WINDALCO's Kirkvine plant during the second half of 2011. The Hotels and Restaurants industry is expected to register continued strong growth, largely influenced by economic recovery in the USA, Jamaica's main tourist market, while Agriculture, Forestry & Fishing, and Electricity & Water are expected to register notable growth. Downside risks to the projected growth outturn for the economy are:

- higher international commodity prices, particularly crude oil;
- slower than expected global growth, in particular for the USA, Jamaica's main trading partner; and
- adverse weather conditions.

On the other hand, upside risks to the growth forecast include stronger than projected growth in the Construction industry reflecting a greater impact of increased capital expenditure on growth from such activities as the Jamaica Development Infrastructure Project (JDIP), as well as faster than currently projected global economic growth.

Projected Performance FY 2012/13

The point estimate for FY 2012/13 is for growth of 2.3 % (Table 2D). The Mining & Quarrying and Hotels & Restaurants industries are expected to be the main drivers of growth during FY 2012/13, influenced by continued global growth. Higher real value added for the Hotels & Restaurants and Transport Storage & communication are associated with projected increases in total visitor arrival and growth in merchandise trade volumes. The projection for Mining & Quarrying is based on planned production figures from the Jamaica Bauxite Institute which assumes that Alpart, the largest alumina plant will re-open during the second quarter of FY 2012/13. This development would result in the Mining & Quarrying industry benefiting from output from all four alumina plants. However, there are presently no firm negotiations regarding the plant re-opening. Therefore, if the Alpart plant does not re-open then the point estimate for FY 2012/13 would be a 1.7 % growth instead of the 2.3 %.

[4] *"World Economic Outlook",* IMF 2010

Projected Performance FY 2013/14

The Jamaican economy is projected to expand by 1.9 % during FY 2013/14 with Mining & Quarrying and Hotels & Restaurants being the main growth drivers. The Hotels & Restaurants industry is expected to be influenced by continued growth in the main source markets, increased diversification of the tourism product and increased visitors from new source markets. The assumption underpinning the Mining & Quarrying industry is that FY 2013/14 will mark the first fiscal year since FY 2008/09 that all four alumina plants will be open for the entire year.

Jamaica: Projected Monetary & External Sector FY 2011/12 to FY 2013/14

Annual point- to-point inflation is expected to subside further to 7.0% in FY 2011/12 and remain stable at between 5.5% and 7.5% through to FY 2013/14. Most of the inflation in FY 2011/12 should occur within the first half of the year against the backdrop of the forecast for increased prices for international commodities. The risks to the inflation forecast are balanced. Upside risks include adverse weather shocks, such as an active hurricane season and higher than anticipated international commodity prices, in particular oil, wheat, corn and soya (Box A).

Box A: International Commodity Prices

Jamaica remains a price taker for a variety of internationally traded primary commodities (Table 2E) such as alumina, coffee, cocoa and sugar which are important foreign exchange earners for Jamaica. At the same time, Jamaica spends considerable amounts of foreign exchange on commodities such as oil, soybean, corn/maize and wheat.

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

Over the medium term, the pace of global economic recovery will exert an upward impact on oil demand while the current unrest in the Middle East is also expected to fuel pressure for further increases in the near term. Against this background the average price of oil is projected to increase by 25% in FY 2011/12 over the previous fiscal year. The price of wheat is expected to increase marginally in FY 2011/12 and it is assumed that the price will remain fairly stable over the medium term. This forecast is predicated on the positive outlook for production in the major wheat producing countries, as well as higher stockpiles in the USA. With respect to the price of corn, this is expected to increase by just over 40% in FY 2011/12 due to: continuing increased demand for animal feeds in China; increased demand for ethanol as an alternative fuel to oil; and the anticipation that demand will increase later in the year as Japan rebuilds its food stock. The price of soya is estimated to increase in FY 2011/12, reflecting growth in demand, particularly from China, however the forecast of high inventories in Brazil and China is expected to restrict the price increase to about 8%.

The downside risks to inflation in Jamaica include further appreciation in the exchange rate and greater than anticipated contraction in economic activity.

Table 2E: International Commodity Prices

Commodity	Unit	Avg. Prices Apr-Mar 2009/10	Avg. Prices Apr-Mar 2010/11	% Change
Cocoa	Cents per Kg.	335.23	342.82	2.3
Coffee, Arabica	Cents per Kg.	357.55	517.86	44.8
Soybean meal	$/mt	387.15	388.17	0.3
Maize/Corn	$/mt	179.67	235.66	31.2
Wheat, US, HRW	$/mt	233.89	251.95	7.7
Sugar, EU, domestic	Cents per Kg.	63.35	62.15	-1.9
Sugar, World	Cents per Kg.	50.58	54.36	7.5
Aluminum	US$/Tonne	2038.86	2462.95	20.8
Crude Oil	US$ per Barrel	69.10	83.40	20.7

Source: IMF & GOJ

During FY 2011/12, the current account deficit should widen relative to FY 2010/11. Other key indicators of the health of the macro-economy should continue to improve, particularly the reduction in fiscal dominance that has enhanced the flexibility of monetary policy. Against this background, the longer-term prospects for single digit inflation remain positive and the BOJ should be able to continue the process of conservative policy easing. Growth in monetary aggregates, in FY 2011/12 and over the medium term, should closely mirror the expected expansion in nominal GDP and the easier credit conditions emanating from the sustained reductions in interest rates over the past year.

The BOJ will also continue its focus on the preservation of financial system stability. Within this context, various initiatives have been implemented, and, will be pursued, to enhance the resilience of the domestic financial system. These initiatives, including the enactment of Credit Reporting Legislation and establishment of Credit Bureaux, are focused on engendering a culture of risk management within financial institutions, which would facilitate effective crisis prevention and resolution.

PART 3 FISCAL MANAGEMENT STRATEGY

Overview of Fiscal Operations FY 2009/10 – FY 2010/11

Background

Following seven consecutive years of Central Government Budget surpluses, the fiscal accounts deteriorated, into persistent budget deficits, beginning in FY 1996/97. These deficits were largely precipitated by the financial sector crisis of the mid to late 1990s and aggravated by several weather related shocks – hurricanes, floods and drought, and more recently, the global economic meltdown in 2009. The cost to the Central Government of the 1990s financial sector intervention, in terms of the shock to the debt stock, amounted to approximately 40% of GDP, with significant attendant increases in debt servicing costs. Consequently, the fiscal accounts moved from a surplus of 3.3% of GDP in FY 1995/96 to a deficit of 7.3% of GDP in FY 1996/97, and have essentially remained in deficit since then.

Active fiscal measures, including increasing consumption taxes, mainly General Consumption Tax (GCT) and Special Consumption Tax (SCT) and profound expenditure containment initiatives, such as three (3) Memoranda of Understandings (MOUs) with public sector unions and divestment of 'debt creating' public bodies, facilitated a reduction in the fiscal deficit to 4.9% by FY 2007/08. However, the onset of the global economic meltdown in 2008 alongside weather related shocks induced adverse fiscal effects, resulting in a spike in the fiscal deficit to 10.9% by FY 2009/10. Interest costs, in particular, jumped from 11.1% of GDP in FY 2007/08 to 17.0% of GDP by FY 2009/10.

Central Government Operations

The fiscal programme for FY 2009/10 was geared towards containing the fiscal deficit to approximately -5.5% of GDP, down from -7.3% of GDP in FY 2008/09, as a precursor towards a sustained reduction in the Debt/GDP ratio over the medium term. However, faced with significant shortfalls in revenue, largely as a result of the global economic downturn, and increased expenditure outlay (mainly higher debt servicing costs), the fiscal deficit target was revised to 8.7% of GDP in September 2009.

As the economic/fiscal position continued to deteriorate, worsened by the fallout in employment and consumption as well as an unsustainable Debt/GDP level, fallouts in the external accounts and closure of the international capital markets, the Government of Jamaica (GOJ) entered into negotiations with the IMF which culminated in the approval of a 27-month Stand By Arrangement (SBA) in February 2010. The primary balance, the main quantitative target for the Central Government in the SBA, was set at $66,900.0mn. The fiscal deficit was programmed at J$106,697.8mn, or 9.6% of GDP.

Central Government Operations generated a fiscal deficit of $121,258.4mn, or 10.9% of GDP, which was higher than programmed under the SBA. A significant contributor to the higher fiscal deficit was the payment of accrued interest, arising from the Jamaica Debt Exchange (JDX) programme. While the JDX, with the associated accrued interest payments led to a spike in interest costs in FY 2009/10, it resulted in lower costs for the following fiscal year, which bodes well for improving the debt dynamics over the medium term. Notably, a primary surplus of $67,457.2mn was generated, thereby bettering the target agreed to in the SBA by $557.2mn. This level of primary surplus was equivalent to 6.1% of GDP, which was significantly above the 4.9% recorded in FY 2008/09.

It is important to note that during FY 2009/10, in an effort to close the gaps in fiscal operations and bolster fiscal consolidation thrusts, the Government undertook some critical fiscal initiatives, which supported the negotiations towards securing IMF approval of the SBA (Box 1). These notable fiscal developments include:

- Implementation of three tax packages; the first in April 2009, with an estimated yield of $18,131.0mn, the second during the September 2009 Supplementary Budget, with an expected yield of $1,709.0mn and the third in December 2009, with an expected yield of $21,532.0mn annually;
- Containment, on the expenditure side, in the form of a wage freeze in FY 2009/10 which was extended for another two-year period FY2010/12. Annualized savings from the wage freeze is estimated at $9,700.0mn;
- Implementation of a voluntary debt exchange programme termed the 'Jamaica Debt Exchange' (JDX) in January 2010, which involved the Government of Jamaica offering to exchange $701.4bn of its outstanding domestic debt securities (excluding Treasury bills) issued in the local market for new lower interest rate, longer maturity notes. The initiative had a 99.2% participation rate and is estimated to have saved the GOJ approximately $40,000.0mn in interest payments in FY 2010/11; and
- Passage of legislation in March 2010 to introduce a Fiscal Responsibility Framework (FRF).

Box 1: Major Elements of the IMF SBA

- Reform of the public sector to substantially reduce the large budget deficit, streamline expenditure and divest loss-making entities
- Structural reform of tax policy and administration to enhance collection & efficiency
- Public Debt Exchange to secure fiscal savings by exchanging high cost debt for new instruments with lower coupons and longer maturities
- Legislative and regulatory reforms to reduce systemic risks to the financial system and strengthen the overall resilience of the economy to shocks
- Enhancement of the social safety net to protect the poor
- Three-year public sector wage freeze (2009/10 – 2011/12)
- Spreading of salary arrears over the medium term (4 years)
- Divestment of Air Jamaica & state-run sugar factories
- Fiscal Responsibility Framework legislation to improve budget planning & public financial management
- A system of Centralized Treasury Management to better manage cash balances

The FY 2010/11 Budget was formulated against the background of a very challenging previous FY 2009/10 and also within the context of the Government's Medium Term Economic Programme (MTEP) as embedded in the SBA.

The Budget for FY 2010/11 amounted to $503,970.4mn, with an 'above the line' expenditure of $407,136.4mn and amortization payments of $96,834.3mn. The fiscal deficit was programmed at $80,854.3mn (6.5% GDP) along with a primary surplus of $61,295.1mn (4.9 % GDP). Debt servicing was significantly reduced for FY 2010/11 compared to the previous fiscal year and constituted 47.4 percent of the FY 2010/11 Budget. This was largely attributable to the JDX, which was executed during the first two months of CY 2010.

At the time of approval of the SBA (Feb 4, 2010), the JDX was still in the process of being executed. Accordingly, the full impact of the JDX on the fiscal accounts, inter alia, was not yet determined. Against this background, the fiscal parameters in the SBA for FY 2010/11, were indicative targets, subject to revision at the May 2010 SBA review.

The review of the performance criteria under the SBA revealed that the Government satisfied all the quantitative targets as at March 2010 and subsequently drew down US$640.0mn from the IMF in accordance with the 'Arrangement'. The May 2010 review also made a notable downward adjustment to the primary surplus target of the Central Government from $83,300.0mn to $65,900.0mn.

During the course of the fiscal year, some adverse developments necessitated further adjustments to some of the fiscal targets under the SBA, which was done at the August 2010 review. The factors that negatively impacted the fiscal targets included: (i) the West Kingston incursion (ii) the appreciation of the Jamaica dollar and (iii) the faster than expected fall in domestic interest rates (in the aftermath of JDX) – reduced revenue flows from withholding tax on interest. The Central Government's primary surplus target for FY 2010/11 was, thus, further adjusted downwards to $60,689.3mn, to take account of these unforeseen adverse developments.

The GOJ comfortably met all three quantitative targets through to September 2010. The Central Government's primary surplus outperformed the SBA target by $2,406.0mn or 12.7% (Table 3). Of note, though not a performance criterion, the fiscal deficit for the first half of FY 2010/11 was lower than programmed under the SBA by $3,731.0mn or 7.8%. In addition, the end-September structural benchmarks were broadly on track however bottlenecks slowed the pace of drafting of some legislation.

In September 2010, the fiscal accounts were dealt another significant blow with the onslaught of Tropical Storm Nicole, which caused severe damage to the country's infrastructure, necessitating additional spending of $2,458.0mn in FY 2010/11. This act of nature culminated in another revision to the primary surplus target in the SBA to $57,641.8mn.

Table 3: Central Government Summary Accounts FY 2010/11
(in millions of Jamaica dollars)

Item	Prov Apr-Sept	Budget Apr-Sept	Diff	Diff %	SBA Apr-Sept
Operating Revenue	**148,726.4**	**151,863.4**	**-3,137.1**	**-2.1**	**149,462.3**
Tax Revenue	130,839.1	130,191.1	648.0	0.5	130,350.2
Non-Tax Revenue	11,011.4	11,504.1	-492.7	-4.3	11,226.5
Bauxite Levy	18.6	290.9	-272.3	-93.6	18.0
Capital Revenue	1,718.3	1,758.5	-40.2	-2.3	1,745.1
Grants	5,139.0	8,118.8	-5,490.9	-35.2	6,122.5
Operating Expenditure	**192,372.3**	**201,135.2**	**-8,763.0**	**-4.4**	**196,839.2**
Recurrent Expenditure	165,455.6	168,244.0	-2,788.4	-1.7	167,095.7
Programmes	36,797.2	35,204.7	1,592.5	4.5	36,301.5
Wages & Salaries	63,645.5	65,120.1	-1,474.6	-2.3	64,456.2
Interest	65,013.0	67,919.3	-2,906.3	-4.3	66,338.0
Domestic	44,956.8	45,611.9	-655.1	-1.4	45,300.0
External	20,056.2	22,307.4	-2,251.2	-10.1	21,038.0
Capital Expenditure	26,916.7	32,891.2	-5,974.6	-18.2	29,743.5
Fiscal Balance (Surplus + / Deficit -)	**-43,645.9**	**-49,271.8**	**5,625.9**	**-11.4**	**-47,376.9**
Loan Receipts	**112,486.6**	**104,110.3**	**8,376.2**	**8.0**	**116,030.1**
Domestic	81,665.6	76,857.3	4,808.3	6.3	85,840.1
External	30,821.0	27,253.0	3,568.0	13.1	30,190.0
Divestment proceeds	**0.0**	**0.0**	**0.0**	**-**	**0.0**
Amortization	**68,025.0**	**68,141.1**	**-116.0**	**-0.2**	**68,653.2**
Domestic	56,555.0	55,866.9	688.1	1.2	56,374.6
External	11,470.0	12,274.2	-804.2	-6.6	12,278.6
Overall Balance (Surplus + / Deficit -)	**815.6**	**-13,302.6**	**14,118.2**	**-106.1**	**0.1**
Primary Balance (Surplus + / Deficit -)	**21,367.1**	**18,647.5**	**2,719.6**	**14.6**	**18,961.1**

The approval, by the IMF, of revisions to the primary surplus target had to be augmented by decisive steps taken by the GOJ to address spending overruns; through implementation of offsetting cuts in spending, new revenue measures along with ‘stepped up’ compliance and improved expenditure control management. Unbudgeted spending (expenditures that were not originally programmed but were subsequently undertaken through the Supplementary Estimates) during FY 2010/11 included:

(i) the purchase of buses for the Jamaica Urban Transit Company (JUTC) representing 0.15% of GDP;
(ii) the purchase of other goods and services (0.3% of GDP);
(iii) the costs associated with the State of Emergency in May-July (0.1% of GDP);
(iv) the payment of salary and allowances to certain public sector workers (0.2% of GDP) inclusive of the Industrial Disputes Tribunal’s (IDT) ruling regarding the payment of a portion of arrears ($500.0mn) to teachers;

(v) the absorption by GOJ of Clarendon Alumina Production's losses amounting to 0.4% of GDP, as the entity was not divested as planned; and
(vi) the partial absorption of costs associated with economic fallout stemming from the State of Emergency.

Table 3A: Central Government Summary Accounts FY 2010/11
(*in millions of Jamaica dollars*)

Item	Prov 2010/11	Budget Apr-Mar	Diff	Diff %	SBA Apr-Mar
Operating Revenue	314,558.5	326,282.1	-11,723.6	-3.6	325286.4
Tax Revenue	279,874.2	287,211.3	-7,337.2	-2.6	286978.1
Non-Tax Revenue	20,473.9	20,018.0	456.0	2.3	20035.27
Bauxite Levy	421.1	728.9	-307.8	-42.2	521.88
Capital Revenue	3,664.5	2,708.2	956.3	35.3	4764.773
Grants	10,124.8	15,615.7	-5,490.9	-35.2	12986.37
Operating Expenditure	388,768.0	407,136.4	-18,368.4	-4.5	404044.6
Recurrent Expenditure	333,173.8	343,929.9	-10,756.1	-3.1	342071.7
Programmes	76,917.9	74,121.0	2,796.9	3.8	76494.6
Wages & Salaries	127,901.3	127,659.6	241.7	0.2	129177.1
Interest	128,354.7	142,149.4	-13,794.7	-9.7	136400
Domestic	88,049.5	95,092.6	-7,043.1	-7.4	94900
External	40,305.2	47,056.8	-6,751.6	-14.3	41499.97
Capital Expenditure	55,594.1	63,206.4	-7,612.3	-12.0	61972.89
Fiscal Balance (Surplus + / Deficit -)	-74,209.5	-80,854.3	6,644.8	-8.2	-78758.16
Loan Receipts	212,968.9	176,288.5	36,680.4	20.8	173209.9
Domestic	122,478.7	117,971.6	4,507.1	3.8	99784
External	90,490.2	58,317.0	32,173.2	55.2	73425.89
Divestment proceeds	1,482.5	0.0	1,482.5		0
Amortization	102,157.5	96,834.3	5,323.2	5.5	96460.96
Domestic	79,393.5	69,701.4	9,692.1	13.9	70759.56
External	22,764.0	27,132.9	-4,368.9	-16.1	25701.4
Overall Balance (Surplus + / Deficit -)	38,084.4	-1,400.0	39,484.4	-2820.3	-2009.239
Primary Balance (Surplus + / Deficit -)	54,145.2	61,295.1	-7,149.9	-11.7	57641.8

In December 2010, the GOJ implemented certain offsetting measures, amounting to 0.8% of GDP, in order to close the fiscal gap that had emerged from the above-mentioned expenditures. These measures included:
(i) postponing certain capital projects (0.3% of GDP);
(ii) reducing recurrent expenditures, on the purchase of goods and services (0.1% of GDP);
(iii) reducing the issuance of discretionary waivers and introducing differential tax rates on alcoholic beverages based on alcoholic content (0.1% of GDP);
(iv) strengthening Tax Administration's efforts, with special focus on PAYE, to enforce compliance (0.1% of GDP); and
(vi) transferring funds from some public bodies (0.2% of GDP).

For FY 2010/11, Central Government Operations generated a fiscal deficit of $74,209.5mn, or 6.1% of GDP. This fiscal deficit outturn (Table 3A) is much better than the Budgeted deficit of $80,854.3mn or 6.5% of GDP. The improvement in the fiscal deficit, relative to budget, resulted mainly from a lowering of expenditure in light of the shortfall in 'Revenue and Grants' or 'Operating Revenue'. The fiscal deficit of 6.1% of GDP represents a considerable improvement over the 10.9% deficit recorded for FY 2009/10. The improvement emanated from the expenditure side of the budget, which fell to 31.8% of GDP, from 38.0% in FY 2009/10. 'Revenue and Grants' on the other hand declined from 27.1% of GDP in FY 2009/10 to 25.7% of GDP in FY 2010/11.

Notably, the primary surplus of $54,145.2mn fell below the revised target agreed to in the SBA of $57,641.8mn by $3,496.6mn or 6.1%. In comparison to the original Budget, the primary surplus outturn was lower by $7,149.9mn or 11.7%. This level of primary surplus is equivalent to 4.4% of GDP, a reduction from the 6.1% of GDP recorded in the previous fiscal year.

Operating Revenue

The FY 2010/11 Budget profile had programmed a revenue growth of 8.7% over the previous fiscal year. The growth in revenue was predicated on:

(1) the elasticity of the tax system;

(2) an aggressive revenue enhancement programme by the Tax Authority; and

(3) the full year impact of the December 2009 tax measures, which was expected to yield revenue equivalent to 1.7% of GDP in FY 2010/11.

Revenue performance, in FY 2010/11, was impaired by the decline in the domestic economy, occasioned by the sluggish global financial and economic recovery (including events in Europe that threatened economic recovery in the economies of developed countries), coupled with rising oil and other commodities prices. Growth in 'nominal income' was below projections, as the lower than anticipated domestic activity impacted the collections of Income & Profits and Production & Consumption taxes. Of note, the appreciation in the exchange rate and faster than programmed reductions in domestic interest rates, led to lower revenue intake, particularly International Trade Taxes and Withholding Tax on Interest, respectively.

Collections underperformed relative to Budget, with total revenue and grants of $314,558.5mn falling below Budget by $11,723.6mn, or 3.6%. Tax Revenue (2.6%), Bauxite Levy (42.2%) and Grants (35.2%) fell below Budget, while Non-tax Revenue (2.3%) and Capital Revenue (35.3%) surpassed the amount originally budgeted.

Tax Revenue

With respect to Tax Revenue, collections of $279,874.2mn were $7,337.2mn or 2.6% below the amount budgeted (Table 3b). The shortfall was influenced by lower collections from most items. Income and Profits taxes continued to be the largest tax category, accounting for 37.6% of total taxes in the FY 2010/11.

Receipts from the Income and Profits tax category amounted to $105,118.7mn, which was $9,758.6mn, or 8.5% below Budget, with PAYE, Tax on Interest and Other Companies (corporate) taxes being the most significant contributors to the shortfall. The PAYE receipts of $51,552.6mn fell below Budget by $5,576.1mn (9.8%), partly due to job losses and lower than expected inflows from the progressive tax on incomes exceeding $5.0mn.

These two factors, however, only partially explain the shortfall and indications are that there was an increase in the incidence of non-compliance. Accordingly, beginning in FY 2011/12 and over the medium term, special emphasis will be placed on PAYE in an effort to reduce evasion and increase compliance. With respect to Tax on Interest, there was a $3,245.9mn (17.6%) shortfall when compared to Budget, due mainly to lower than budgeted interest payments by the GOJ, higher than anticipated refunds and faster than programmed reductions in interest rates within the economy. Corporate taxes at $32,480.9mn fell 3.5% below budget due largely to the decline in economic activity.

Production and Consumption tax receipts of $78,571.4mn were broadly in line with Budget, falling short by just 1.6%, as over-performance in some items (Education Tax and Stamp Duty) was generally offset by shortfalls on the other items.

Receipts from the International Trade category totalled $94,144.0mn, which were 4.4% above Budget, with most of the sub-categories registering higher collections than originally budgeted. Collections increased over FY 2009/10 by 26.4% mainly as a result of revenue enhancing measures, which were introduced in the fourth quarter of FY 2009/10.

Additionally, collections were buoyed by improved administrative efforts aimed at ‘plugging’ leakages, including under invoicing. Of note, the Environmental Levy of $2,040.1mn fell 11.6% below Budget, due to lower than programmed imports as well as the appreciation in the value of the Jamaica dollar.

Other Revenue

Non-tax Revenue performed slightly above expectations with total collections of $20,473.9mn exceeding Budget by 2.3%, as receipts from departmental and miscellaneous revenues were primarily responsible for the over-performance. Capital Revenue receipts registered a $956.3mn (35.3%) increase over Budget due to a higher than expected transfer from a public body, namely Financial Institution Services. Receipts from the Bauxite Levy were however $307.8m, or 42.2% less than Budget, due to the later than expected re-opening of a bauxite/alumina plant and concessions granted to encourage restart of production.

Grants

Grant receipts amounted to $10,124.8mn, a shortfall of $5,490.9mn (35.2%) against Budget. This shortfall was due mainly to the delay in programmed proceeds from the European Union (EU), coupled with the appreciation of the Jamaica dollar against the Euro. In addition, the lower than planned GOJ capital spending led to delays in disbursement of planned inflows. The delayed disbursement reflected in FY 2010/11 will however be rescheduled into the following fiscal year.

Table 3B: Details of Revenue FY 2010/11
(*in millions of Jamaica dollars*)

	Prov. Apr-Mar	Budget Apr-Mar	Diff	Diff %	SBA Apr-Mar
Revenue & Grants	**314,558.5**	**326,282.1**	**-11,723.6**	**-3.6**	**325,286.4**
Tax Revenue	**279,874.2**	**287,211.3**	**-7,337.2**	**-2.6**	**286,978.1**
Income and profits	105,118.7	114,877.3	-9,758.6	-8.5	112,316.9
Bauxite/alumina	866.3	981.6	-115.3	-11.7	1,171.9
Other companies	32,480.9	33,657.3	-1,176.5	-3.5	33,412.3
PAYE	51,552.6	57,128.7	-5,576.1	-9.8	54,297.1
Tax on dividend	1,032.3	620.4	411.8	66.4	931.5
Other individuals	4,001.8	4,058.5	-56.7	-1.4	4,272.6
Tax on interest	15,184.9	18,430.8	-3,245.9	-17.6	18,231.5
Environmental Levy	2,040.1	2,306.5	-266.5	-11.6	2,315.7
Production and consumption	78,571.4	79,823.8	-1,252.3	-1.6	81,334.5
SCT	8,647.9	9,613.2	-965.3	-10.0	8,746.6
Motor vehicle licenses	1,782.7	1,974.8	-192.1	-9.7	1,890.1
Other licenses	265.5	510.5	-245.0	-48.0	313.8
Betting, gaming and lottery	1,532.8	1,675.8	-143.0	-8.5	1,656.5
Education Tax	13,096.5	12,399.0	697.5	5.6	12,508.9
Contractors levy	793.6	851.2	-57.6	-6.8	855.4
GCT (Local)	46,389.9	46,787.0	-397.1	-0.8	49,376.8
Stamp Duty (Local)	6,062.4	6,012.3	50.2	0.8	5,986.5
International Trade	94,144.0	90,203.7	3,940.2	4.4	91,010.9
Custom Duty	20,487.7	23,747.9	-3,260.2	-13.7	24,125.9
Stamp Duty	1,393.2	1,373.7	19.5	1.4	1,348.7
Travel Tax	3,930.6	2,550.6	1,380.0	54.1	2,894.6
GCT (Imports)	38,520.6	31,244.0	7,276.6	23.3	32,417.5
SCT (imports)	29,811.8	31,287.4	-1,475.6	-4.7	30,224.2
Non-Tax Revenue	**20,473.9**	**20,018.0**	**456.0**	**2.3**	**20,035.3**
Bauxite Levy	**421.1**	**728.9**	**-307.8**	**-42.2**	**521.8**
Capital Revenue	**3,664.5**	**2,708.2**	**956.3**	**35.3**	**4,764.8**
Grants	**10,124.8**	**15,615.7**	**-5,490.9**	**-35.2**	**12,986.4**

Expenditure

Total spending for FY 2010/11 of $388,768.0mn was $18,368.4mn or 4.5% less than originally budgeted (Table 3a), with both Recurrent and Capital Expenditure being lower. Compared to FY 2009/10, total spending during FY 2010/11 decreased by 7.8%, roughly the same in real terms.

Recurrent Expenditure

Recurrent Expenditure totalled $333,173.8mn, a reduction of $10,756.1mn or 3.1% below the original Budget. The main contributor to the reduction was lower than programmed Interest payments. This level of Recurrent Expenditure represented a decrease of 13.9%, compared to FY 2009/10, a real decrease of over 21.7%.

Spending on *Recurrent Programmes* (goods and services) of $76,917.9mn was $2,796.9mn (3.8%) more than the amount budgeted and 6.7 % more than the previous fiscal year. The higher spending on *Recurrent Programmes* in FY 2010/11 stemmed from, inter alia, the costs associated with Tropical Storm Nicole, the civil disturbances during May 2010 and higher than anticipated pension payments.

Expenditure on *Wages & Salaries,* for FY 2010/11, was programmed to increase mainly as a result of retroactive payments (back-pay) to certain groups of public sector workers with outstanding contractual obligations relating to contracts predating the wage freeze, which commenced in April 2009. The aforementioned resulted in *Wages and Salaries* at $127,901.3mn being in line with budget, deviating by only 0.2%.

Interest Payments of $128,354.7mn was $13,794.7mn (9.7%) below Budget, with both external and domestic *Interest Payments,* being less than budgeted. When compared to the previous fiscal year, *Interest Payments*, decreased by 32.0% with domestic and external interest payments decreasing by 39.2% and 8.1%, respectively.

Lower domestic *Interest Payments* resulted from, inter alia, the success of the JDX programme, which saw extended maturity payments coupled with lower than projected interest rates, the appreciation in the value of the Jamaican dollar and lower than budgeted contingency payments. At the same time, savings from lower external interest payments emanated from the greater than anticipated appreciation in the exchange rate, lower than anticipated loan raising expenses and a reduction in international interest rates, mainly on multilateral loans.
Interest costs as a proportion of GDP decreased significantly to 10.5% relative to 17.0% recorded in FY 2009/10. As a share of total expenditure, *Interest Payments* stood at 33.0% in FY 2010/11 compared to 44.8% in FY 2009/10. In addition, while *Interest Payments* consumed 71.0% of tax revenue in FY 2009/10, this figure plummeted in FY 2010/11 to 45.8% of tax revenue. Interest costs as a proportion of total revenue in FY 2010/11 amounted to 40.8%, compared to 62.9% in FY 2009/10, and an average of 49.5% for the last three years. This favourable trend of declining interest costs to total revenue is expected to continue throughout the medium term.

Capital Expenditure

Expenditure on Capital Programmes of $55,594.1mn was $7,612.3mn (12.0%) below Budget. The lower capital expenditure was mainly as a result of the GOJ’s attempt to contain spending in the face of lower than budgeted revenue. Despite the reduction against Budget, Capital spending was nevertheless, 61.5% higher than in FY 2009/10. Costs associated with the divestment of Air Jamaica was chiefly responsible for the increase in FY 2010/11 relative to FY 2009/10. When Air Jamaica divestments costs are excluded, capital spending stood at $37,637.32mn, an increase of $3,223.3mn, or 9.4% (close to 2% in real terms) relative to the previous fiscal year.

Financing

The Central Government financed the fiscal deficit of $74,209.5mn through net borrowing of $110,811.4mn (loans of $212,968.9mn less amortization payments of $102,157.5mn) and divestment receipts of $1,482.5mn, resulting in an overall (balance) cash surplus of $38,084.4mn for FY 2010/11. Gross loan receipts totaled $212,968.9mn; a 20.8% increase over the amount originally budgeted and comprised domestic receipts of $122,478.7mn and loans from external sources of $90,490.2mn. The additional loan inflows included the US$400.0mn raised on the international capital market to pre-finance payment obligations due in FY 2011/12.

Public Bodies Operations: FY 2010/11

Public Bodies, defined as statutory bodies, authorities or government companies constitute a significant element of the overall public sector. The functions carried out by Public Bodies cover a wide spectrum of activities including developmental, regulatory and commercial. Despite the diversity, Public Bodies are instruments of public policy and therefore operate either as facilitators or direct actors in the process of development and growth of the economy.

The estimated[5] Overall Balance (OB) performance of the public bodies for 2010-11 was a deficit of $9,890.2mn, which is a $2,009.8mn or 17.0% better than the targeted deficit of $11,900.0mn. This performance reflects the composite of both groups of public bodies, namely nineteen Selected Public Bodies (SPBs) and forty-seven Other Public Bodies (OPBs). The SPBs reported an OB deficit of $10,092.8mn, which compared favourably with the target of $11,900.0mn; while the OPBs returned a surplus OB of $202.7mn against a zero target. These calculations are based on the 1986 Government Finance Statistics (GFS) method, which were modified by the International Monetary Fund (IMF) representatives in 2009. The modified IMF version is the basis on which the targets in Standby Arrangement were set and will be the basis of this analysis.

Public Bodies that had a significant impact on the outturn for FY 2010/11 were Clarendon Alumina Productions Limited (CAP), National Housing Trust (NHT), Petrojam and the Road Maintenance Fund (RMF). Summary information on these entities is provided below.

CAP

The financial position of CAP continued to deteriorate, with increases in production costs (fuel, caustic, bauxite) outpacing revenue over the past 5 years. The company has therefore incurred losses consistently over the period contributing to an accumulated deficit totalling US$189.9mn and working capital deficit of US$51.6mn at March 31, 2011.

Given its financial difficulties, the Company therefore remained unable to service its debt obligations adequately (*exclusive of liabilities to Alcoa*). GOJ had anticipated that the company would have been privatized during the year. This target was not achieved; hence debt used to finance capital expenditure and ongoing losses totalled approximately US$400.0 mn at March 31, 2011. The GOJ has therefore had to honour debt servicing cost of US$17.0mn relating to the CAP

[5] The Estimated Overall Balance for 2010-11 does not reflect a final performance for the year. This figure is comprised of actual data for at a portion of the year (mainly to December 2010) and projection to the end of March 2011. The actual performance will be tabulated in May when the final returns will be made.

2021 (US$200.0mn) Bond during the period. Additionally approval was granted for CAP to access advances (short-term loans) totalling US$55.0mn to honour an obligation with the joint venture partner Alcoa, in respect of operating expenses.

Net loss before GOJ grant is estimated at US$95.8mn versus budget of $66.0mn. The overrun on production cost was influenced by variances in bauxite, caustic, labour, fuel, repairs and maintenance material. These overruns were represented by a mix of price and efficiency variances, indicating possible deficiencies in cost management, production processes and the quality and blend of raw materials (bauxite and caustic).

CAP incurred an overall balance deficit of US$46.0mn versus a budgeted surplus of US$28.9mn. This outturn was mainly on account of un-programmed payment against arrears to Jamalco.

NHT

NHT estimates that at the end of FY 2010/11 it will realise a net surplus of $1,657.2mn, from income and expenditure of $8,681.5mn and $7,024.4mn respectively. The estimated surplus represents an improvement of $622.2mn on the $1,034.9mn surplus budgeted to March 31, 2011. Contributing to this increase is the estimated improvement of $807.4mn in revenue, due largely to improved miscellaneous income of $1,424.8mn compared to $921.0mn. This resulted from increased deposits collected for scheme units to be sold and penalty charges.

The NHT had projected $25,148.9mn for its capital expenditure programme; 97.0% of which relates to the provision of housing. However, this target was revised to $20,148.9mn in order to accommodate increased expenditure by the RMF. The NHT is expecting to close FY 2010/11 with expenditure of $21,353.7mn and capital revenues of $21,515.9mn, which will be adequate to finance its capital programme.

The Trust is also estimating a surplus Overall Balance of $2,279.0mn; an improvement of $5,279.2mn on the deficit of $2,979.5mn budgeted to March 2011. This improvement is largely attributable to the reduced capital expenditure of $21,353.7mn compared to budgeted expenditure of $25,148.9mn.

Petrojam

The operations of Petrojam continue to be impacted by the occurrences in the global petroleum industry. Based on the geo-political events in the first quarter of calendar year 2011, gross margins strengthened due mainly to strong market conditions that pushed product prices significantly above that of crude. Average selling price of US$91.17 per barrel surpassed the budget of US$80.12 per barrel. Consequently, net profit before tax of $3,205.0mn is estimated, compared with budget of $1,733.0mn.

An Overall Balance deficit of $2,124.0mn is estimated for the year, an improvement of $2,925.0mn on the budgeted deficit of $5,049.0mn. The main contributors to this performance are:

- Improvement in gross margin from 5.43% to 6.82%. Consequently, the estimated current balance of $26,766.0mn is ahead of budget by $4,722.0mn or 21.0%.

- Net outflow of $2,118.0mn in accounts receivable/payable; this compares favourably with the budgeted decline of $3,108.0mn.
- Capital expenditure shortfall of $1,367.0mn. The under expenditure on capital projects relates to general delays, human resource constraints and feeder projects to the Refinery Upgrade Programme that were deferred pending the decision on the way forward. Only $934.0mn or 41.0% is expected to be spent from a total of $2,302.0mn.

Notably, Petrojam had sought approval to access additional financing support during quarter ended December 31, 2010 arising from the change to a calendar year basis governing the PetroCaribe Agreement. This was shifted from a July to June basis, which at end August resulted in Petrojam exhausting its volume allocation for 2010. With the exhaustion of supply quota, products were supplied by PDVSA[6] to Petrojam on a strict commercial basis with a credit period of 20 days, compared to credit period of 90 days under the PetroCaribe Agreement. This situation was normalized by March 31, 2011, on the return to the original conditions per the Agreement.

RMF

RMF estimates that it will end FY 2010/11 incurring an Overall Balance deficit of $4,458.5mn compared to the original deficit balance of $46.9mn. This significant deterioration relates to projects under the Jamaica Development Infrastructure Programme (JDIP), which were not included in the original budget, but were subsequently approved in the First Supplementary Estimates.

Notably JDIP expenses are included in operating (current) revenue for the RMF given that the Fund does not own the assets, (roads, bridges and road fixtures) being upgraded. Therefore total expenditure of $6,934.6mn will reflect an increase of $5,992.7mn compared to the original budgeted expenditure. It is envisioned that US$60mn will be spent on the first year of the project (October 2010 to March 2011). Notably of the China loan amount of US$51.0mn (85.0%), only US$36.0mn (J$3,096.0mn) was recorded as being utilized at the end of January 2011.

Operating income of $2,069.7mn should reflect an increase of $1,313.7mn. However this will not adequately support the significant increase in current expenses of $5,992.7mn, hence the net deficit of $4,864.9mn.

RMF expects to collect $738.5mn from motor vehicle licenses and $1,293.5mn from the fuel cess. Fuel cess collected during the year was used to service debt and fund part of the GOJ's contribution of US$9.0mn to the JDIP.

[6] Petroleos de Venezuela

Table 3C: Summary of Outturn for FY 2010/11

Public Bodies (Selected & Others) IMF Version Statement 'A' Flow of Funds	SPBs Estimated 2010/11	OPBs Estimated 2010/11	TOTAL PBs 2010/11
1. Current Revenue	**249,849.2**	**43,743.9**	**293,593.0**
2. Current Expenses	**-229,830.5**	**-39,172.7**	**-269,003.1**
3. Current Balance	**20,018.7**	**4,571.2**	**24,589.9**
4. Adjustments	8,082.0	1,579.9	9,661.9
Change in Accounts	0.0	0.0	0.0
Receivable/Payable	-1,654.3	1,099.2	-555.0
Items not requiring outlay of cash:	0.0	0.0	0.0
Depreciation	8,531.5	813.0	9,344.5
Other Non-Cash Items	67.3	-292.5	-225.2
Prior Year Adjustment	1,137.5	-16.9	1,120.6
5. Operating Balance	28,100.7	6,151.1	34,251.8
6. Capital Account	-32,902.6	-4,636.1	-37,538.8
Revenue	21,516.0	0.0	21,516.0
Expenditure	-51,175.6	-3,222.2	-54,397.9
Investment	-438.6	-28.6	-467.2
Change in Inventory	-2,804.4	-1,385.3	-4,189.7
7. Transfers from Government	18,043.3	125.0	18,168.3
Loans	0.0		0.0
Equity	0.0	0.0	0.0
On-Lending	0.0	0.0	0.0
Other	18,043.3	125.0	18,168.3
8. Transfers to Government	-23,334.2	-1,437.3	-24,771.5
Dividend	-58.7	-574.9	-633.5
Loan Repayments	0.0		0.0
Corporate Taxes	-124.6	-94.0	-218.6
Other	-23,151.0	-768.4	-23,919.4
9. OVERALL BALANCE (5+6+7+8)	**-10,092.8**	**202.7**	**-9,890.2**
10. FINANCING (11+15)	**10,092.8**	**-202.7**	**9,890.2**
10a. Total	321.3	27.7	349.0
Capital Revenue (except NHT)	622.4	27.7	650.1
Loans	0.0	48.0	48.0
Equity	0.0	0.0	0.0
On-Lending	0.0	0.0	0.0
Loan Repayments	-301.1	-48.0	-349.1
11. Total Foreign (12+13+14)	11,000.9	22,965.4	33,966.4
12. Government Guaranteed Loans	3,658.0	4,794.7	8,452.7
Disbursement	7,136.8	4,794.7	11,931.5
Amortization	-3,478.8	0.0	-3,478.8
13. Direct Loans	7,368.6	18,170.7	25,539.4
Long Term:	3,621.2	18,170.7	21,792.0
Disbursement	7,965.2	18,238.2	26,203.4
Amortisation	-4,344.0	-67.4	-4,411.4
Short Term:	3,747.4	0.0	3,747.4
Change in Trade Credits	3,747.4	0.0	3,747.4
14. Change in Deposits Abroad	-25.7	0.0	-25.7
15. Total Domestic (16+17+18)	-1,229.4	-23,195.8	-24,425.2
16. Banking System	3,363.0	1,064.3	4,427.3
Loans (Change)	-2,413.2	13.0	-2,400.2
Overdraft (Change)	3,851.9	-8.1	3,843.7
Deposits (Change)	1,924.3	1,059.4	2,983.7
17. Non-Banks (Change)	-381.3	-87.3	-468.6
18. Other (Change)	-4,211.1	-24,172.8	-28,383.9

** Items reclassified as financing by the IMF and therefore shown below the line*

Public Debt Stock

Jamaica's total public debt stood at $1,570,368.3mn or 128.3% of GDP at the end of FY 2010/11 (Table 3D). This represented a 9.5% increase over the $1,434,755.8mn or 129.3% of GDP at the end of FY 2009/10. The stock movement during the course of FY 2010/11 was mainly attributable to:

- Financing of the fiscal deficit;
- Raising of the US$400.0mn on the International Capital Markets to pre-finance repayment obligations that fall due in FY 2011/12;
- Receiving disbursements from the IMF;
- Assuming debts of the Sugar Company of Jamaica (SCJ); and
- Issuing of securities to BOJ for capitalized interest on former FINSAC Bonds.

Table 3D: Total Debt Stock

	2009/10	2010/11
(J$mn)		
Domestic	758,700.40	809,370.00
External	676,055.40	760,998.30
TOTAL	**1,434,755.80**	**1,570,368.30**
(% GDP)		
Domestic	68.4	66.1
External	60.9	62.2
TOTAL	**129.3**	**128.3**

The domestic debt stood at $809,370.0mn or 66.1% of GDP at the end of FY 2010/11, which was 6.7% higher than the $758,700.4mn registered at the end of FY 2009/10. In addition, explicit domestic guarantees amounted to $26,403.4mn or 2.2% of GDP at the end of FY 2010/11.

With respect to the stock of public and publicly-guaranteed external debt, this rose to $760,998.3mn (US$8,874.8mn) or 62.2% of GDP at the end of FY 2010/11, representing an increase of 12.5% over the stock at the end of FY 2009/10. A significant contributor to this increase was the raising of US$400.0mn on the International Capital Markets to pre-finance the repayment of the US$400.0mn Bond, due in May 2011.

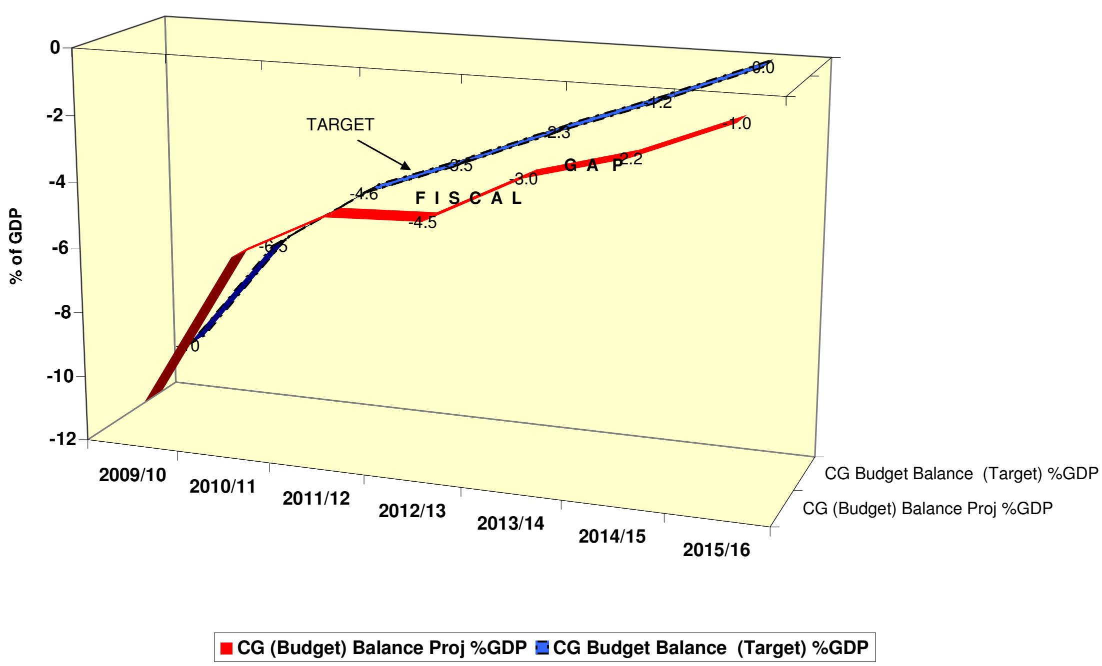
The Government's Medium Term Fiscal Strategy

The Government's medium term fiscal strategy is formulated to support the overarching goal of sustainable economic growth. The aim of the fiscal strategy is to reduce, then eliminate the fiscal deficit and concomitantly reduce the public debt and maintain it at sustainable levels. This strategy is to be anchored by prudent expenditure management practices and adoption of a more simple, equitable, and fair tax system that will elastically generate adequate revenue to facilitate the efficient provision of public goods by the State. Balancing the budget and lowering debt service costs provide choices as well as increased fiscal space to better enable the country to handle future 'shocks', the ongoing pressure for better public sector remuneration as well as social and infrastructure development.

Notwithstanding the challenges in the global and local economy, the medium-term policies, embodied in this Fiscal Management Strategy (FMS), will:

- strengthen the economic foundation for a vibrant and competitive economy through strong fiscal discipline and debt reduction and reform of the tax system;
- build sound economic infrastructure including public transportation system, air and marine transport, digital broadcasting network, and water supply and sanitation systems;
- improve the quality of governance through effective public sector management.
- support efforts to build on previous strategies in crime prevention and reduction, and pursue new crime fighting technologies; and
- improve education and training outcomes with special focus on early childhood development.

FIG 1: CG Budget Balance (Proj) Vz CG Budget Balance (Target)



Over the medium term, the Central Government deficit is passively projected to decline (see figure 1) from 6.1% of GDP in FY 2010/11 to 1.0% of GDP in FY 2015/16. This passive fiscal profile was developed against the backdrop of the Government's broad strategic priorities and the macroeconomic assumptions, as outlined in the Macroeconomic Framework. The passive profile indicates a gap on the Central Government fiscal balance equivalent to about 1.0% of GDP. This profile reflects a trend reduction in the wages/GDP ratio to the 9.0% ceiling by FY 2015/16, which entails: Central Government employment levels remaining unchanged over the period; continued payment of annual performance increments of 2.5%; and implementation of the health sector reclassification. With these considerations, public sector wage increases over the medium term would be limited to levels that will ensure that the 9.0% of GDP ceiling by March 2016 is not breached. Given the Government's firm commitment to eliminating the fiscal deficit by March 2016, a menu of revenue and expenditure measures, designed to close the fiscal gap and ensure achievement of key fiscal targets, will be pursued.

Table 3E: Central Government Summary Accounts
(*in millions of Jamaica dollars*)

Item	Prov. 2010/11	Est. 2011/12	Proj. 2012/13	Proj. 2013/14	Proj. 2014/15	Proj. 2015/16
Revenue & Grants	**314,558.5**	**350,783.7**	**358,481.8**	**389,482.1**	**415,836.0**	**446,784.6**
Tax Revenue	279,874.2	308,357.1	321,746.7	355,253.6	378,414.6	406,962.8
Non-Tax Revenue	20,473.9	18,079.8	20,044.1	20,837.8	23,026.2	24,375.8
Bauxite Levy	421.1	1,786.1	2,818.9	2,970.4	3,077.4	3,154.4
Capital Revenue	3,664.5	9,182.4	1,295.3	1,412.5	1,535.4	1,667.9
Grants	10,124.8	13,378.3	12,576.8	9,007.8	9,782.5	10,623.7
Expenditure	**388,767.9**	**412,461.8**	**423,576.6**	**436,221.7**	**453,373.5**	**465,393.7**
Recurrent Expenditure	333,173.8	352,046.4	373,566.9	382,961.4	396,651.3	405,268.2
Programmes	76,917.9	87,215.1	92,884.0	98,921.5	104,856.8	111,148.2
Wages & Salaries	127,901.3	133,747.5	151,752.4	156,773.6	161,293.0	168,631.9
Interest	128,354.7	131,083.9	128,930.5	127,266.3	130,501.5	125,488.1
Domestic	88,049.5	88,610.0	82,020.2	80,858.3	81,615.3	79,016.2
External	40,305.2	42,473.9	46,910.3	46,408.0	48,886.2	46,471.9
Capital Expenditure	55,594.1	60,415.4	50,009.7	53,260.3	56,722.3	60,125.6
Fiscal Balance	**-74,209.4**	**-61,678.1**	**-65,094.8**	**-46,739.6**	**-37,537.5**	**-18,609.2**
Loan Receipts	**212,968.9**	**140,778.2**	**216,376.1**	**155,079.6**	**166,240.7**	**152,343.5**
External	90,490.2	43,775.4	71,835.7	33,348.7	44,522.1	53,792.2
Domestic	122,478.7	97,002.8	144,540.4	121,730.9	121,718.6	98,551.3
Divestment proceeds	**1,482.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Amortization	**102,157.5**	**132,259.5**	**151,281.3**	**108,340.0**	**128,703.2**	**133,734.3**
External	22764.0	66,228.5	53,452.8	26,274.4	44,522.1	53,792.2
Domestic	79,393.5	66,031.0	97,828.5	82,065.6	84,181.1	79,942.1
Overall Balance	***38,084.5***	***-53,159.3***	***0.0***	***0.0***	***0.0***	***0.0***
Primary Balance	***54,145.2***	***69,405.8***	***63,835.7***	***80,526.7***	***92,964.0***	***106,878.9***
Target Fiscal Balance	***-79,560.1***	***-61,397.4***	***-50,778.4***	***-36,248.4***	***-20,722.6***	***0.0***
Target Primary Balance	***57528.05***	***69405.81***	***78343.8***	***91408.93***	***110520.3***	***126064.9***
Gap on Fiscal Balance	***-5,350.6***	***280.6***	***14,316.4***	***10,491.3***	***16,814.9***	***18,609.2***
Gap on Primary Balance	***3,382.8***	***0.0***	***14,508.1***	***10,882.2***	***17,556.4***	***19,185.9***

FY 2011/12 Budget – Central Government

For FY 2011/12, the Central Government's target is a primary balance of 5.2% of GDP, equivalent to $69,405.8mn and a fiscal deficit 4.6% of GDP ($61,397.4mn). Revenue and grants are projected at $350,783.7mn with "above-the-line" expenditure of $412,461.8mn.

Revenue and grants

The revenue and grants projection for FY 2011/12 is 26.3% of GDP, compared to 25.7% in FY 2010/11. Tax revenue of $308,357.1mn, which accounts for about 88% of total revenue, is budgeted to grow by 10.2% over collections in FY 2010/11. This amount includes divestment legacy costs of $5,969.3mn associated with tax arrears owed to GOJ by Air Jamaica and the Sugar Corporation of Jamaica (SCJ). When these amounts are excluded, tax revenue is projected to grow by 8.1%, relative to the 5.3% growth in FY 2010/11. This 8.1% growth is underpinned by the projected 1.5% real growth in this fiscal year relative to the 0.70% contraction in economic activity that was experienced in FY 2010/11. A breakout of the revenue and grants for the FY 2011/12 budget is depicted in Table 3F

Table 3F: FY 2011/12 Revenue Forecast

	2010/11	2011/12	% Change
Revenue & Grants	**314,558.5**	**350,783.7**	**11.5**
Tax Revenue	279,874.2	308,357.1	**10.2**
Non-Tax Revenue	20,473.9	18,079.8	**-11.7**
Bauxite Levy	421.1	1,786.1	**324.1**
Capital Revenue	3,664.5	9,182.4	**150.6**
Grants	10,124.8	13,378.3	**32.1**

Non-tax revenue is projected at $18,079.8mn, which is $2,394.1mn (11.7%) below collections in FY 2010/11. The estimates for non-tax revenue amounts to 1.4% of GDP relative to the 1.7% recorded in FY 2010/11. Receipts in FY 2010/11 were however bolstered by one-off inflows of profits from BOJ that amounted to $4,000.0mn.

With respect to bauxite levy, the downturn in the bauxite/alumina industry that carried over from FY2009/10 into FY 2010/11, occasioned largely by the fallout in global demand, as well as higher input costs, is expected to be reversed in FY 2011/12. It is anticipated that the industry will continue to experience some recovery in production and exports as a result of plans to re-open WINDLACO's plant in Kirkvine in mid 2011, which will translate into significantly increased levy inflows over FY 2010/11.

Capital revenue estimates of $9,182.4mn are $5,517.9mn more than collections in the previous fiscal year and are due primarily to the repayment of on-lent loans amounting to $7,990.7mn by the Development Bank of Jamaica (DBJ).

The forecast for Grants amounts to $13,378.3mn. This represents a 32.1% increase over receipts in FY 2010/11 and includes significant amounts to be received from the EU for budgetary support.

Grant receipts in FY 2010/11 were significantly below budget (35.2%) due to lower than expected EU flows and slower than anticipated spending on capital projects.
Expenditure

For FY 2011/12, the Central Government's budgeted expenditure amounts to $412,461.8mn, comprising $352,046.4mn for recurrent and $60,415.4mn for capital programmes. Budgeted amortization payments amount to $132,259.4mn. The expenditure of $412,461.8mn represents a 5.9% increase over provisional spending in FY 2010/11. The level of spending projected for FY 2011/12 amounts to 30.9% of GDP, compared to 31.8% in FY 2010/11. Expenditure on Capital Programmes is budgeted to increase by 8.7%, with recurrent spending projected to be 5.4% higher than in FY 2010/11.

Interest cost of $131,083.9mn is budgeted to increase by just 2.1% over the previous year. Interest cost as a per cent of GDP, is estimated to fall to 9.8% in FY 2011/12 compared to 10.5% in FY 2010/11, largely reflecting the impact of favourable interest and exchange rates.

With respect to wages and salaries, this is projected budgeted at $133,747.5mn or 10.0% of GDP, compared to 10.4% of GDP in FY 2010/11. The provision in the FY 2011/12 budget represents a nominal increase of 4.6%, reflective of the continuation of the wage freeze. Included in the provision are the following:

- $3,220mn for a 2.5% performance increments;
- $4,600mn for backpay (retroactive payments), which includes $2,500mn for teachers arising from the Industrial Disputes Tribunal (IDT) ruling, $1,400mn for general allowances and $700m for other adjustments to selected public sector groups;
- $2,000mn for recruitment of police officers and correctional officers for the Metcalf Street Facility;
- $750mn for firemen; and
- $500m for the recruitment of Cuban health personnel.

Recurrent Programmes are budgeted at $87,215.1mn, a 12.3% increase over the previous fiscal year. A major contributor to this higher provision, is a $5,197.5mn (31%) increase in the amount to cover pension payments.

Budgeted spending on Capital Programmes of $60,415.4mn is 8.7% more than the provisional expenditure in FY 2010/11. Some of the significant provisions within the Capital Programme are:

- $7,240 mn for divestment legacy payments for Air Jamaica $4,560mn and Sugar Company of Jamaica (SCJ) $2,680mn;
- $2,190mn for JUTC Buses;
- $3,540mn for Regional and International Subscription Fees;
- $1,300mn for Population Census.

Financing
The Central Government's borrowing requirement for FY 2011/12 totals $140,778.2mn. This amount is required to finance the deficit of $61,678.0mn and cover amortization payments of

$132,259.4mn, leaving a gap of $53,159.3mn. This gap will be covered by external loan receipts of US$400mn raised on the international capital market in February 2011 to liquidate a maturity of similar value in May 2011, as well as from cash balances carried over from FY 2010/11.

Of the budgeted loan receipts, $97,002.8mn is programmed to be raised from the domestic market. The remainder of $43,775.4mn is to be raised from external sources, in the form of investment loans from various multilateral and bilateral donors, as well as policy based/development policy loans from international financial institutions, namely the IDB, World Bank and Caribbean Development Bank (CDB). The borrowing profile for FY 2011/12 represents a 33.9% decrease in gross receipts over the previous fiscal year.

FY 2011/12 Budget – *Public Bodies*

Public Bodies continue to play a critical role in stimulating economic activity and promoting development. Given the size of some Public Bodies and the diverse nature of activities they undertake across various sectors of the economy, their contribution to development at both the macro- and micro-economic levels has over the years been significant.

Of the 195 Public Bodies currently on register, 90 or 46.2% are characterized as self-financing. Summarized corporate plans and budgets of sixty-six (66) of these self-financing Public Bodies are contained in the Jamaica Public Bodies Estimates of Revenue and Expenditure.

The Estimates of Revenue and Expenditure of Public Bodies for the year ending March 2012, project that the sixty-six (66) Public Bodies should have combined total assets of $834,652.0mn (FY 2010/11: $766,390.0mn) and a labour force of approximately 13,413 persons. With the utilization of these resources, the group is expecting to generate total revenues of $347,436.0mn from which profits before tax of $28,240.0mn will be derived and $24,472.0mn transferred to Government as corporate and other taxes.

The Public Bodies' significant contribution to economic growth and development is expected to continue in FY 2011/12. Over the years Public Bodies have assumed a critical role in the country's infrastructural development programme. The Public Bodies spending is cast under the aegis of the Stand-By Agreement with the IMF, which entails the containment of the overall balance of the public sector and concomitant growth in the debt stock as a main thrust. Total expenditure on infrastructure is budgeted at $65,000.0mn, up from the $60,000.0mn, estimated at the close of FY 2010/11.

In FY 2011/12, the Government's stated priority for economic and infrastructure development covers three main sectors namely water, roads and housing. Four (4) self-financing public bodies (The National Water Commission, The Road Maintenance Fund, The National Housing Trust and the Housing Agency of Jamaica) operate in these sectors and will expend approximately $50,000.0mn or 75.0% of the total Public Bodies capital expenditure.

NWC's strategic focus is to improve the quality of life through expanded access to potable water and wastewater services**.** Capital expenditure totalling $10,300.0mn will be undertaken by NWC. This includes disbursement of funds totalling $4,213.5mn on the Jamaica Water Supply

Improvement Project (JWSIP) which is expected to improve system capability, reliability and operating efficiency levels at the NWC. The major elements of the JWSIP include:

- replacement of the old Rio Cobre pipeline;
- rehabilitation of the Constant Spring and Seaview Water Treatment plants/networks to improve plant capacity and enhance supply reliability; and
- construction of a new pipeline from Ferry to Red Hills, new wells at Halls Green and the implementation of a number of rural water supply projects in various parishes to expand rural water supply coverage.

Other major projects are scheduled to be executed under the Kingston Metropolitan Area Water Supply project at a cost of $870.0mn and the Kingston Water and Sanitation Project on which $1,152.0mn is scheduled to be spent. A number of smaller water and sewerage infrastructure projects will also be undertaken and will involve replacement and improvement of pipelines and leaky tanks as well as expansion of water supply systems, island wide.

In 2009, the Government saw the need to undertake a major infrastructure programme that would enhance the quality of life of citizens by stimulating economic development. This included significant improvement and upgrading of the island’s road network. Out of this the JDIP was established, representing a major undertaking of the GOJ, through an agency of the Ministry of Transport and Works.

The JDIP which is a five (5) year programme, commenced in October 2010 and is scheduled to end in 2015. The Project will be executed by the China Harbour Engineering Company Limited (CHEC) with the RMF as the facilitator. The National Works Agency receives 5.0% of the JDIP expenses each year to monitor the works undertaken by CHEC.

The JDIP is expected to be undertaken at a cost of US$400.0mn over the five year period. Financing for the project was achieved by a mutual partnership arrangement between the GOJ and the Government of China. This involves the China Export Import Bank (China EXIM) providing 85.0% or US$340.0mn and the GOJ providing 15.0% or US$60.0mn of the total costs. Funds from the China EXIM Bank are being provided under a Preferential Buyer’s Credit Loan Programme, to be drawn down over the five years. Repayments will be made over 10 years commencing in 2015.

The RMF plans to utilize several modalities to improve and extend the life of road surfaces, and in this regard has embarked on a Micro-surface Road Sealing Programme at a cost of $154.0mn. The use of this technology is expected to extend the life, of the road surface by approximately five years. RMF plans to apply this process to over 211,450 square metres of roads in selected parishes. The Programme is to undertake 588 projects across the island during the 5 year period. In order to maximize the use of the limited resources, the RMF, in collaboration with the NWA will seek to employ new technologies to enhance the process.

The NHT’s mission is the provision of quality, affordable housing solutions for the Jamaican population. During FY 2011/12, the Trust plans to spend approximately $26,363.0mn on capital expenditure.

The planned level of housing expenditure is expected to contribute to the following major deliverables/outcomes:

- Disbursement of $16,257.2mn under the daily intake and joint finance mortgage programmes
- Financing of 815 units under the Interim Financed Programme
- Commence construction of 2,367 units and serviced lots under the Joint Venture and other NHT projects; and
- Financing of 183 units under the small contractors programme

Of the total capital expenditure budget**,** $12,166.6mn has been earmarked to provide benefits to qualified contributors. These benefits include build on own land, open market loans, house lot loans and construction loans. The NHT will also spend approximately $5,932.0mn to complete its general projects, consisting of scheme units and serviced lots.

The Housing Agency of Jamaica will secure funding of approximately $4,609.0mn which will facilitate construction of 4,202 housing solution starts and the delivery of 4,094 solutions. HAJ expects to dominate the low income housing market.

Table 3G: Summary of Financial Forecast for FY 2011/12

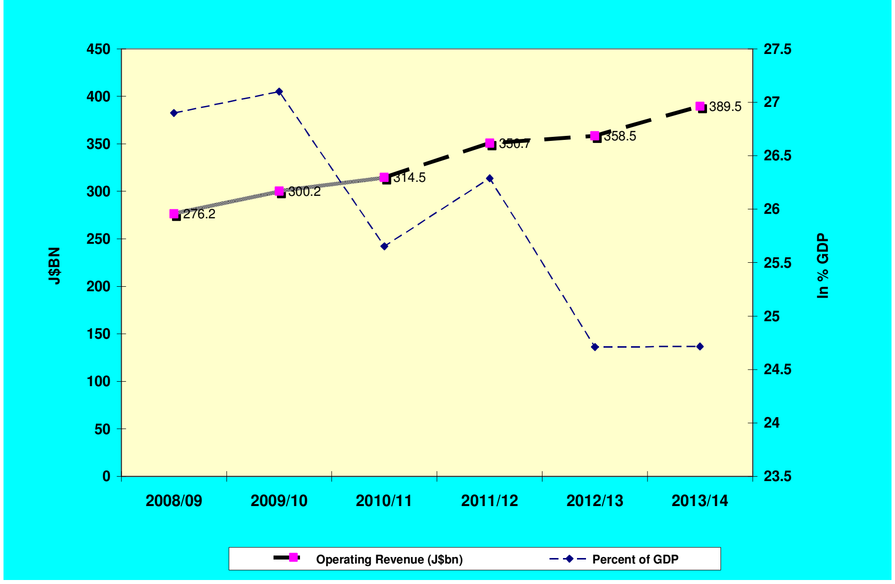
Public Bodies (Selected & Others) IMF Version Statement 'A' Flow of Funds	SPBs Projected 2011/12	OPBs Projected 2011/12	TOTAL PBs 2011/12
1. Current Revenue	**298,151.5**	**49,284.4**	**347,435.9**
2. Current Expenses	**-272,664.3**	**-45,454.5**	**-318,118.9**
3. Current Balance	**25,487.2**	**3,829.9**	**29,317.1**
4. Adjustments	14,126.8	-442.1	13,684.8
Change in Accounts	0.0	0.0	0.0
Receivable/Payable	1,813.4	-799.2	1,014.2
Items not requiring outlay of cash:	0.0	0.0	0.0
Depreciation	7,626.7	855.8	8,482.6
Other Non-Cash Items	4,686.6	-498.6	4,188.0
Prior Year Adjustment	0.0	0.0	0.0
5. Operating Balance	39,614.0	3,387.8	43,001.8
6. Capital Account	-29,039.9	-4,962.4	-34,002.3
Revenue	23,176.3	0.0	23,176.3
Expenditure	-51,109.5	-5,040.2	-56,149.7
Investment	-1,061.8	2.4	-1,059.4
Change in Inventory	-45.0	75.4	30.4
7. Transfers from Government	6,789.2	897.0	7,686.2
Loans	0.0	0.0	0.0
Equity	0.0	0.0	0.0
On-Lending	0.0	0.0	0.0
Other	6,789.2	897.0	7,686.2
8. Transfers to Government	-22,363.4	-2,244.0	-24,607.4
Dividend	-55.7	-79.4	-135.0
Loan Repayments	0.0	0.0	0.0
Corporate Taxes	-416.3	-134.9	-551.2
Other	-21,891.5	-2,029.7	-23,921.2
9. OVERALL BALANCE (5+6+7+8)	**-5,000.1**	**-2,921.5**	**-7,921.7**
10. FINANCING (11+15)	**5,000.1**	**2,921.5**	**7,921.7**
10a. Total	1,150.9	923.8	
Capital Revenue (except NHT)	1,150.9	923.8	2,074.7
Loans	0.0	0.0	0.0
Equity	0.0	0.0	0.0
On-Lending	0.0	0.0	0.0
Loan Repayments	0.0	0.0	0.0
11. Total Foreign (12+13+14)	-18,544.8	55,738.2	37,193.3
12. Government Guaranteed Loans	-22,551.1	7,824.7	-14,726.4
Disbursement	3,696.5	7,824.7	11,521.2
Amortization	-26,247.6	0.0	-26,247.6
13. Direct Loans	4,104.2	47,913.5	52,017.8
Long Term:	2,983.3	47,913.5	50,896.8
Disbursement	8,074.4	47,913.5	55,987.9
Amortisation	-5,091.1	0.0	-5,091.1
Short Term:	1,120.9	0.0	1,120.9
Change in Trade Credits	1,120.9	0.0	1,120.9
14. Change in Deposits Abroad	-98.0	0.0	-98.0
15. Total Domestic (16+17+18)	22,394.1	-53,740.5	-31,346.4
16. Banking System	-3,286.3	224.4	-3,061.9
Loans (Change)	2,910.0	-221.1	2,688.9
Overdraft (Change)	-168.9	-0.1	-169.0
Deposits (Change)	-6,027.4	445.6	-5,581.8
17. Non-Banks (Change)	-27.3	464.0	436.7
18. Other (Change)	25,707.7	-54,428.6	-28,720.9

** Items reclassified as financing by the IMF and therefore shown below the line*

Medium Term Revenue Strategy

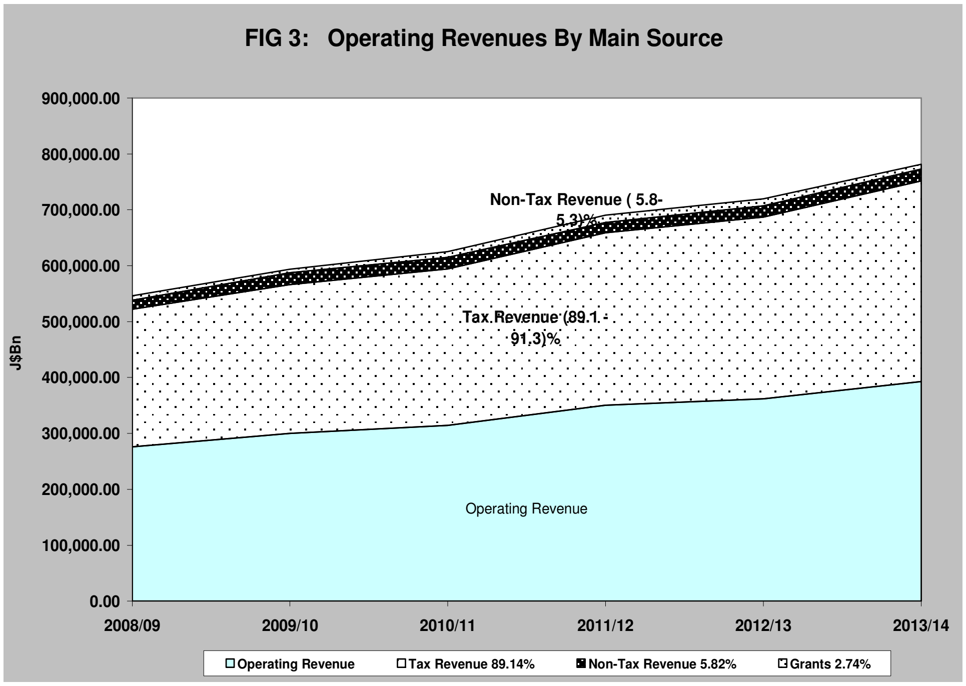
Over the medium term, Operating Revenue is passively projected to increase, on average, by 7.0% per annum.

FIG 2: OPERATING REVENUES 2008-2014



In terms of the breakout of the sources of Operating Revenue, the largest single source is 'Tax Revenue' which over the medium term is expected to account for approximately 90.0% of all revenue sources. The next largest source of revenue is 'Non-Tax Revenue' which is expected to continue accounting for approximately 5.0% of total revenue sources (see fig 3 below).

Other sources of revenue include 'Grants' which accounts for 2.0% of total operating revenue, 'Bauxite Levy' and 'Capital Revenue' account for the remaining 3.0%.



Strategic Framework

During FY 2009/10 three tax packages were implemented. These tax packages aggregated were expected to yield annualized revenue equivalent to 4% of GDP. Notwithstanding these measures, the tax/GDP ratio fell from 24% in FY 2008/09 to 22.9% at the end of FY 2010/11, and, is expected to remain relatively flat in FY 2011/12.

In FY 2010/11, the GOJ took a decision not to impose any new revenue positive tax measures until it has reviewed a tax reform proposal from the IDB. Following its review of the proposal, the GOJ has decided to pursue a reform strategy that is informed by more updated information, including but not limited to impact assessments, and consultations on the impact of some of the proposals on the socially vulnerable.

The GOJ is committed to implementing tax reform in an incremental way to achieve the objectives of:

- simplicity, equity, and broadening of the base;
- improved compliance;
- growth and competitiveness arising from policy certainty and confidence in the economy; and
- meeting the revenue demands of the budget while maintaining macroeconomic and social stability.

Within this context the GOJ intends to pursue a rolling medium term (3 years) tax policy framework. This framework would have the effect of instilling discipline in the promulgation of tax policy in Jamaica. The strategy to be pursued is such that changes in the tax code would be implemented over a three-year period and be renewed or amended subject to review. With respect to income tax, any changes would be implemented on a calendar year basis (January 1 of the requisite year) to allow for smooth transition.

Additionally, prior to any changes to tax rates and bases, there would be a pre-implementation (grace) period, to sensitize the public to such changes so that taxpayers can make the requisite adjustments.

Features of the Tax Policy Framework

The GOJ is mindful of the fact that achieving its fiscal and debt targets, as specified in Section 48C of the FAA Act, will be challenging without reducing non-compliance, broadening the tax base and robust economic growth. This is particularly critical against the backdrop that the passive forecasts indicate a fiscal gap of 2% of GDP, over the medium term. The tax policy framework will be guided by the following principles:

- Revenue adequacy – to protect the revenue base;
- Economic growth, efficiency and competitiveness;
- Enhanced compliance and convenience;
- Credibility of the forecast;
- Reform of the Discretionary Waivers Regime – a more transparent, targeted and justified system of discretionary waivers that aim to limit the amount granted;
- Sustainability, predictability & certainty of the tax regime.

Tax Policy Reform Options

The general thrust of the reform measures will be in the direction of reduction of rates, broadening of the base and simplicity of the tax system. Within this context the GOJ has developed some general and specific reform proposals, which will be subject to broad based-consultations, discussions and debate. The GOJ has not yet decided on the measures it will be adopting over the medium term, as these will be informed by the consultations. Notable exceptions however include proposals to:

- reduce the Common External Tariff (CET) payable on motorcars;
- condense and simplify the tariff lines for motor vehicles
- revise stamp duty and transfer tax on securities, and estates;
- revise import duty structure on motor vehicles; and
- amendment to the GCT Act with respect to the application of interest on tax liability.

Tax Administration Reform

Tax Administration (TA) was strengthened during FY 2010/11 under a reform project to address chronic weaknesses and inefficiencies in tax and customs administrations. The major objectives of the reform project are:

- To improve the institutional protocols for administering customs duties and domestic taxes;
- To adopt a risk based customer-centric business model; and
- To modernize and re-engineer the operational and managerial processes and mechanisms.

Major deliverables under the project include the establishment of a Semi-Autonomous Revenue Authority (SARA) by April 2012 and the transformation of Customs Department into an Executive Agency (EA) by April 2013. The strategic plan for Tax Administration over the medium term (FY 2011/12 – FY 2013/14) entails strategies that will make the new organization a more efficient and effective tax administration. Going forward tax administration will have an increased role to play in ensuring that the taxes due are collected, thereby contributing to the GOJ adhering to its fiscal and debt targets. In light of this, the strategic focus of the tax administrators will involve a number of initiatives (continuing and new) aimed at improved service, education and revenue collections. These initiatives will include:

- expanding the e-filing and e-payment portal service and enhancing the Tax Reminder System;
- introduction of '*Third Party Collection'* for non-core tax-types;
- implementation of taxpayers self-service and electronic service delivery;
- expansion of the Customer Care Centre, which is the central point of taxpayer contact for information and education;
- segmenting taxpayers into categories based on size, product/service offering and tax type, so as to improve compliance monitoring; and
- phased introduction of compulsory tax filing.

Medium Term Expenditure Strategy

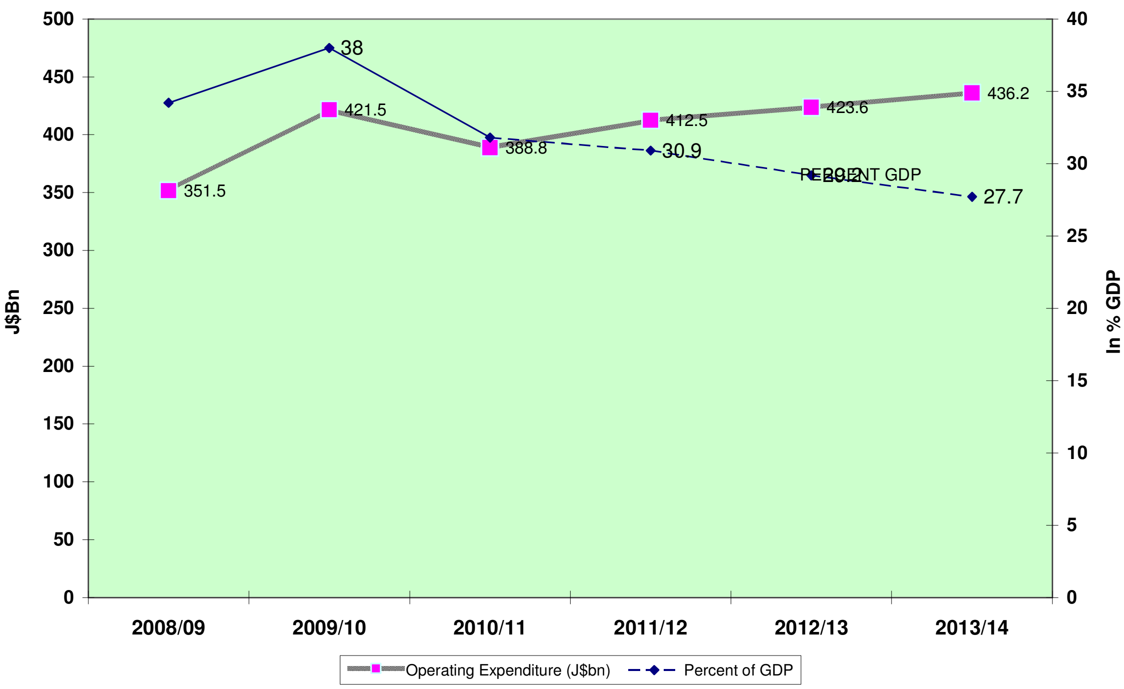
Expenditure containment will be a key aspect of the FMS for improving the fiscal position over the medium term and beyond. The major components of 'Operating expenditure' include 'Recurrent Programmes', 'Wages & Salaries', 'Interest' and 'Capital Expenditure'.

The two key components which need particular focus are 'Wages & Salaries' and 'Interest', which together account for about 65% of overall expenditure. Over the medium term, total 'Operating Expenditure' is forecast to increase by an average of 4.0% (FY 2011/12-FY 2013/14), following the decline of 7.6% in FY 2010/11 compared to FY 2009/10 (when total 'operating expenditure' increased by 19.9%). This is a measure of the commitment to containment in Operating Expenditure. Appendix II provides more details on the indicative medium term expenditure on a ministry basis and by economic classification.

Table 3H: Medium Term Fiscal & Debt Targets

(J$mn)	Act 2009/10	Prov 2010/11	Proj 2011/12	Proj 2012/13	Proj 2013/14	Proj 2014/15	Proj 2015/16
Revenue & Grants	**300,200.1**	**314,558.5**	**350,783.7**	**358,481.8**	**389,482.1**	**415,836.0**	**446,784.6**
Expenditure	**421,458.5**	**388,767.9**	**412,461.8**	**423,576.6**	**436,221.7**	**453,373.5**	**465,393.7**
Cent Govt Fiscal Balance	**-121,258.4**	**-74,209.4**	**-61,678.1**	**-65,094.8**	**-46,739.6**	**-37,537.5**	**-18,609.2**
Cent Govt Primary Balance	**67,457.2**	**54,145.2**	**69,405.8**	**63,835.7**	**80,526.7**	**92,964.0**	**106,878.9**
Domestic Debt	758,700.4	809,370.0	868,232.5	916,409.7	960,073.4	1,003,909.4	1,031,740.5
External Debt	676,055.4	760,998.3	771,270.0	822,363.2	829,108.3	789,620.8	758,066.9
Total Debt	**1,434,755.8**	**1,570,368.3**	1,639,502.5	1,738,772.9	1,789,181.8	1,793,530.2	1,789,807.5
(% GDP)							
Revenue & Grants	**27.1**	**25.7**	**26.3**	**24.7**	**24.7**	**24.1**	**23.7**
Expenditure	**38.0**	**31.8**	**30.9**	**29.2**	**27.7**	**26.3**	**24.7**
Cent Govt Fiscal Balance	**-10.9**	**-6.1**	**-4.6**	**-4.5**	**-3.0**	**-2.2**	**-1.0**
Cent Govt Primary Balance	**6.1**	**4.4**	**5.2**	**4.4**	**5.1**	**5.4**	**5.7**
Domestic Debt	68.4	66.1	65.0	63.2	60.9	58.1	54.8
External Debt	60.9	62.2	57.8	56.7	52.6	45.7	40.3
Total Debt	**129.3**	**128.3**	**122.8**	**119.8**	**113.5**	**103.9**	**95.1**
Debt Ceiling							**100%**
Fiscal Balance Ceiling							**0**

FIG 4: OPERATING EXPENDITURE: 2008-2014



The trend reduction in total 'operating expenses' as a per cent of GDP over the medium term is based upon (a) the wage bill not exceeding 9.0% of GDP by FY 2015/16 (b) favourable interest and exchange rates applicable to the public debt and (c) a passive assumption that the non-debt, non-wage component of the budget will be maintained in real terms (grow by inflation). The wage bill (see below) is projected to increase at a moderate rate over the medium term, with amounts built in for back pay/retroactive salaries.

Interest Cost

Interest costs, as a percent of GDP, are forecast to decline over the medium term, reflecting favourable projected interest rates and lower public debt growth as a result of the thrust towards a balanced budget. For FY 2010/11, interest cost represented 10.5% of GDP and is forecasted to decline from 9.8% of GDP in FY 2011/12 to 6.7% of GDP in FY 2015/16. Arising from the significant increase (50.6%) in interest cost to the Budget in FY 2009/10, the advent of the JDX contributed to a 32.0% reduction in the interest cost for FY 2010/11 and thereafter the forecast is for the interest cost to the Budget, to be contained, consistent with lower interest rates and lower growth in the debt stock per annum over the medium term.

Wages & Salaries

The wage bill for FY 2011/12 is projected to be $133,747.5mn or 10.0% of GDP. There is an outstanding wage adjustment of 7.0% due from FY 2009/10 however, the fiscal profile reflects a continuation of the government's policy of a wage freeze through to March 2012. A number of options are being looked at, but the bottom line is that some consensus as to how to handle the arrears will have to be forged between GOJ and the unions representing the public sector workers.

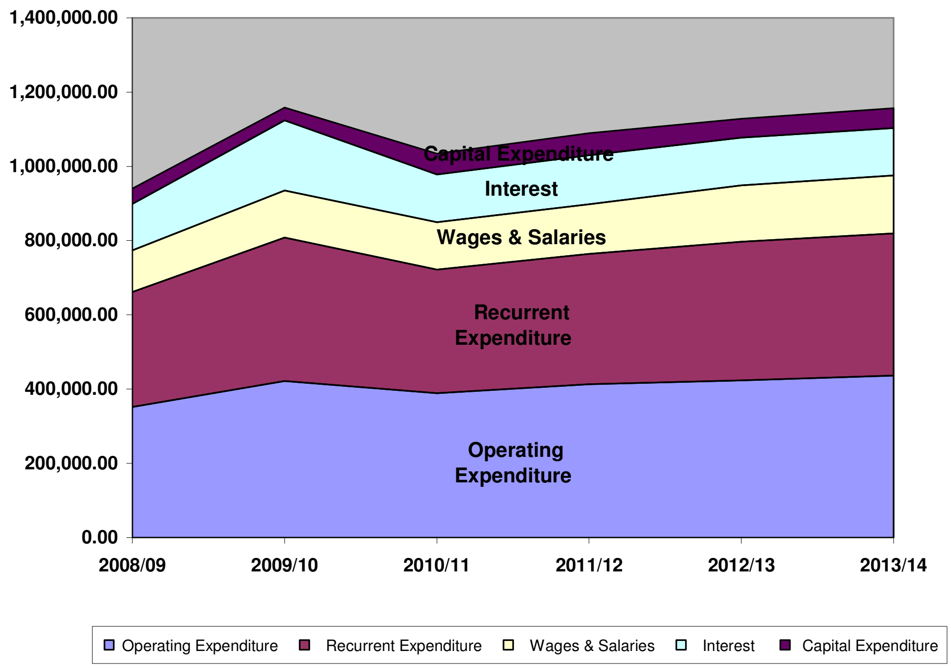
Table 3I: Wage Bill to GDP Ratio

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Wage Bill (J$bn)	127.9	133.7	151.7	156.7	161.2	168.6
%GDP	10.4	10.0	10.5	9.9	9.3	9.0
GDP ($bn)	1,224.0	1,334.7	1,450.8	1,576.0	1,726.9	1,881.6

With the requirement for the Wage/GDP ratio not to exceed 9.0% of GDP, by FY 2015/16, it is critical that containment in wage increases be followed as outlined under the FMS to ensure that the target is achieved. The GOJ, nevertheless, stands willing and able to pay higher wage increases if the economy is able to attain higher than projected economic growth or if considerable savings can be realized from implementation of Public Sector Transformation.

Over the medium term, the structure of operating expenditure will shift somewhat within and between subcategories. The major slice of the total Operating Expenditure will continue to be the 'Recurrent', but its share is forecast to increase from 85.6% in FY 2010/11 to 87.7% in FY 2013/14.

FIG 5: Operating Expenditure By Economic Classification 2008-2014



Consequently, the share of capital expenditure is forecast to decline gradually by about 2.0% over the medium term. It should be noted however that, capital expenditure, by the Public Bodies, will continue to play a significant role in infrastructure development in the economy.

Within 'Recurrent' expenditure, the line item 'Programmes' is forecast to remain flat over the medium term (approximately 22.0%), whilst 'Wages & Salaries' is forecast to account for a higher share of total operating expenditure, moving from 32.4% in FY 2010/11 to 35.2% in FY 2013/14.

Pension Reform

Pension cost has been budgeted at $21, 900mn for FY 2011/12, up from $16,700mn, in FY 2010/11, representing an increase of 31%. The rate of increase in pension payments is a cause for concern as the provision in the FY 2011/12 budget represents 10% of the non-debt recurrent budget, compared to 8% in the previous year. Currently, public officers' pension is a direct charge on the budget and if not properly monitored and managed, could derail the fiscal consolidation efforts and crowd out social spending. With this in mind, the GOJ intends to reform the current pension arrangement and is currently exploring mechanisms for the introduction of a contributory pension scheme, which would lessen the pressure on the public finances and create fiscal space for the provision of public goods.

Medium Term Expenditure Framework (MTEF) & Project Prioritization System

The government's expenditure management strategy seeks to instill fiscal discipline, strategic allocation of resources and efficiency and effectiveness in the allocation and utilization of public resources in the delivery of public services. Central to the strategy is the linking of the planning and budgeting processes. The achievement of this objective is being pursued through the implementation of a Medium Term Expenditure Framework (MTEF) approach to budget formulation, which when fully instituted, will see a shift in budgeting from a short-term annual exercise to a medium term policy oriented process. Under this system, the medium term three year aggregate resource forecast and expenditure framework set out in the fiscal management strategy will be the context within which the budgets of ministries, departments and agencies (MDAs) are developed.

In FY 2010/11, MTEF budget preparation process and the Project Prioritization System were approved for piloting in the six largest sector ministries of Transport & Works, Health, Education, National Security, Agriculture & Land and Finance & the Public Service. The MTEF when fully implemented will incorporate the following within central government's budgeting process:

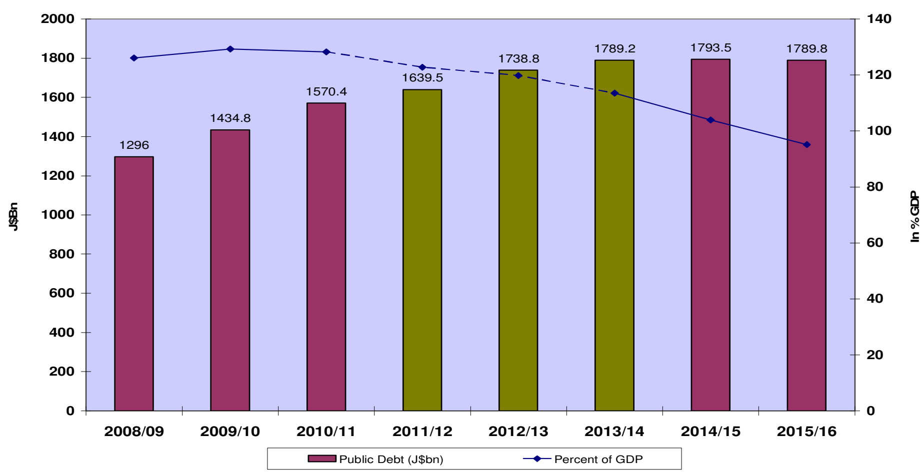
1) The fiscal and macro-economic framework as outlined in the Fiscal Policy Paper (FPP);
2) A Strategic Policy Framework consisting of a national strategy supported by sector strategies. These sector strategies will link the strategic objectives and priorities of the government with costed sector expenditure plans;
3) An Expenditure Framework consisting of Baseline/Forward Spending Estimates (FSEs), representing the expenditure required to continue implementation of existing programmes and those for which commitments have already been made;
4) Clearly identified new spending proposals for which approval is contingent on the availability of fiscal space;
5) Updating of the Baseline/FSEs, including the identification of cost savings from efficiencies in service delivery or reduction/discontinuation of programmes in order to provide 'Fiscal Space' for new spending;
6) The setting of medium term ceilings which are binding for the budget year and indicative for the outer years which will form the starting point of the following year's budget process and will be adhered to by both policymakers and spending MDAs;
7) A strategic phase of budget preparation in which Cabinet will consider and approve:
    - the FPP, in particular, the medium term Macroeconomic Framework and Fiscal Management Strategy;
    - the expenditure ceilings for the budget year and indicative ceilings for the two following years;
    - the forward consequences of the policies under implementation;
    - the high level priority policies and allocation of fiscal space to new priorities as required; and
    - the allocation of funding for "New Initiatives".

The MTEF budgeting process incorporates an Investment Prioritization System, which provides a framework through which investment projects are ranked for budgetary support resulting in the synchronization of expenditure with the government's most critical priorities. Criteria for prioritizing capital projects, developed within the context of the priority national outcomes and sectoral strategies stated in the "Vision 2030 Jamaica National Development Plan 2009", and the accompanying "Medium Term Socio-economic Policy Framework 2009-2012", are used to objectively and equitably select projects which will bring the highest social and economic benefits.

Public Debt Trajectory

Controlling the growth in public debt is critical to 'crowding in' the private sector to spur economic growth and enable businesses to be more viable, through more affordable financing costs. Additionally, the projected path of interest rates over the medium term bodes well for the serviceability of the public debt which is targeted (see fig 7) to be less than 100% of GDP by FY 2015/16. Critical to managing the growth of the public debt will be the management of contingent liabilities (a fiscal risk) over the medium term. Publicly guaranteed external debt is projected at US$37.8mn for FY 2011/12 and this figure is expected to increase by an average of US$20mn per annum over the medium term. Total public debt is projected to increase over the medium term (FY 2010/11-FY 2015/16) by 15.1%. This significant slowing in the projected rate of growth of the public debt stock partly reflects the programmed reduction in the fiscal deficit over the medium term.

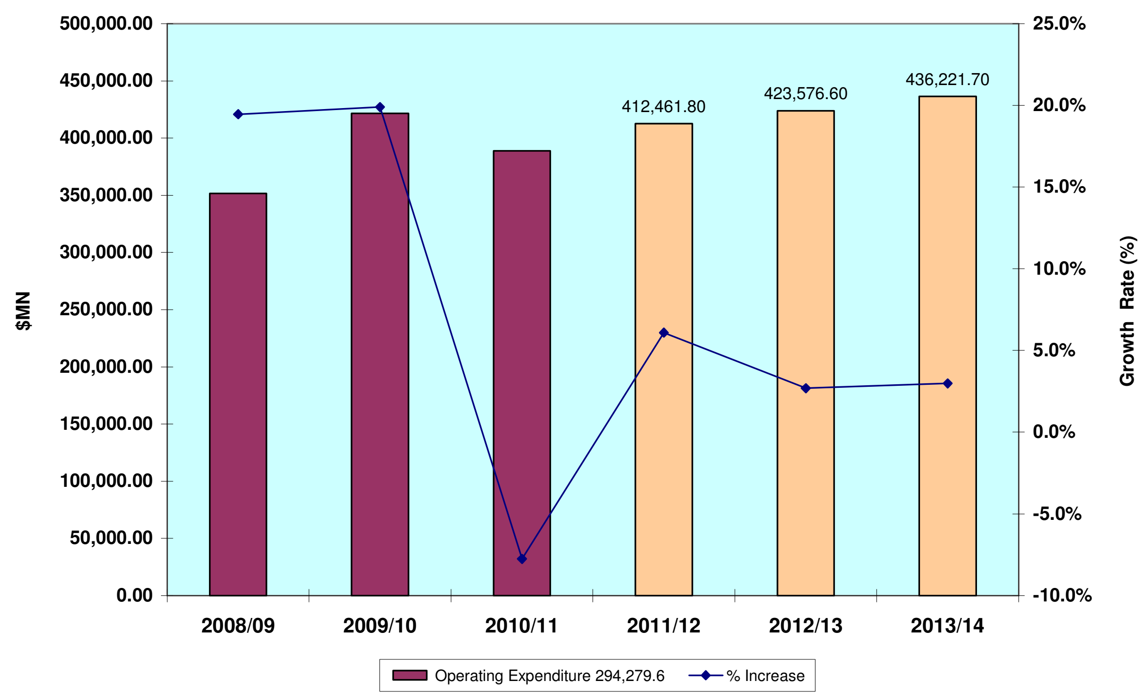
FIG 7: PUBLIC DEBT MEDIUM TERM



III. Fiscal Discipline, Risks & Challenges

Controlling the growth in 'Operating Expenditure', will have tangible benefits for the economy, as 'fiscal surprises' create uncertainty, and with it, adverse consequences for planned investments. Under the aegis of the new Fiscal Responsibility Framework, the Government aims to underline its commitment to fiscal discipline through the prudent and sustainable use of public resources. 'Operating Expenditure' in FY 2010/11, declined not just against Budget, but also against 'Operating Expenditure' for FY 2009/10, a decline of $32.1bn or 7.6% This reflects in part, the slow recovery in the economy as well as the GOJ's resolve to contain expenditure, in the face of sluggish revenue performance. Accordingly, the growth rate (nominal) of total (above-the-line) Operating expenditure is programmed to increase by about 3% over the medium term, consistent with wage containment and a lower interest burden.

Fig 6. Operating Expenditure Growth Rates



Wage containment, is expected to continue through the medium term. Interest costs (as %GDP) are forecast to remain at low single-digit levels, over the medium term, consistent with the Government's Fiscal Management Strategy of reductions in the fiscal deficit and the achievement of a balanced Budget, by FY 2015/16.

Both wages and interest costs have been the main drivers behind the growth rates in 'Operating Expenditure' in previous years. For FYs 2008/09 and 2009/10, 'Operating Expenditure' grew by 19.5% and 19.9% respectively, with ,public sector salaries accounting for the lion's share of the growth in expenditure in FY 2008/09, whereas interest costs surged in FY 2009/10, increasing by $63.4bn or 50.6%.

Fiscal discipline starts with expenditure (including tax expenditures) and no fiscal consolidation effort can be successful, without expenditure containment, consistent with less reliance on debt to close financing gaps.

Once fiscal deficits are eliminated, the public debt stock can be reduced in an orderly and sustained manner, thus simultaneously 'crowding in' the private sector and also allowing GOJ to focus on some of its core functions such as social protection programmes (eg. PATH) and infrastructure maintenance and development, at minimal cost to the economy. Underpinned by this commitment to eliminate the fiscal deficit by March 2016, the public debt trajectory is expected to move in the right direction, in terms of the debt/GDP ratio, with a forecast debt/GDP ratio of 95.1% by FY 2015/16.

Fiscal Risks

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

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

Key Fiscal Risks & Strategies to Mitigate

Wages and Salaries have been 'frozen' since FY 2009/10. Negotiations continue to take place between the GOJ and the unions representing public sector workers regarding an implementation date for payment of the outstanding 7.0% wage increase. There is also the issue of the wage and salary arrears, covering the period (2009-2012) for public sector workers as well as pending obligations related to the "reclassification" of health sector workers.

The GOJ has been in discussions with the unions about how to treat with the outstanding 7% wage settlement from FY 2009/10. A number of options have been explored but no consensus has been arrived at. The GOJ has been honouring its obligations to the Jamaica Teachers Association (JTA) consistent with the IDT Ruling and will discharge these obligations by FY 2013/14. These JTA arrears have been factored in the FMS.

Box 2: Sources of Fiscal Risks

- Judicial Awards
- Other Entities Debt Assumption
- Tax Expenditure (Discretionary)
- Guarantees which represents a risk:
    - Interest
    - Amortization

- Arrears/Pending Obligations:
    - Wages & Salaries
    - Other Expenditure Arrears
    - Tax Refund Arrears
- Financial Assistance to Public Bodies
- Public Private Partnership
- Other Fiscal Risks:
    - Impact of lower real GDP on revenues
    - Impact of adverse interest, inflation & exchange rate

- Revenue yields less than expected
- Natural Disasters
- Government Policy Changes

Given the existing three year wage freeze, the FY 2011/12 Budget has no provision for the (7.0%) increase, for which the public sector unions are demanding payment. However, should payment of increases to salary be brought forward to FY 2011/12, it would mean that appropriate adjustments would have to be made to the programmed budget, to maintain consistency with the goals of the FMS.

Going forward, the GOJ intends to manage this risk (salary arrears) through implementation of a compensation negotiation cycle, as required under the FRF. The GOJ through the MOFPS has already commenced discussions with unions representing public sector workers on this issue.

The compensation negotiation cycle mechanism is intended to establish timeliness within the bargaining process and improve predictability of the outcome of wage negotiation costs and consequently eliminate the accumulation of arrears. In this regard, time frames for the commencement and completion of negotiations are to be established.

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

Natural disasters occur and often cause significant damage to infrastructure as well as unanticipated costs to the Budget. One of the main fiscal risks to the Budget (climatic risks) materialized in late September 2010. Tropical Storm Nicole caused loss of life and significant damage to road and other infrastructure across the country.

The extensive damage by the storm was estimated at the time to be J$20,000mn (1.7% of GDP). As a result of this shock and the emergence of other unbudgeted spending, the FY 2010/11 Budget was adjusted (within the context of the IMF's SBA targets. Beginning in FY 2011/12, the GOJ has set aside an amount of $1,500mn or 0.1% GDP in the Budget to meet this type of risk. Over the medium term, the GOJ intends to increase the amount in the Budget to 0.2% of GDP, to cover risk from natural disasters. It should be noted that the GOJ also manages this risk through premium payments to Caribbean Catastrophic Regional Insurance Fund (CCRIF), an insurance facility that covers severe damage due to natural disasters.

Going forward, Jamaica and its regional partners will be seeking to secure changes to the World Bank sponsored CCRIF, with a view to including damage to infrastructure caused by flooding (as measured by rainfall quantities).

Adverse movements in key macro-economic variables, such as inflation, reduce the impact (purchasing power) of the expenditure budget, particularly the recurrent expenditure. In order to manage this risk over the medium term, the forecasted inflation over the period is "built in" to the medium term expenditure budget estimates.

Tax expenditures (*discretionary*) are a significant fiscal risk and in recognition of this, the GOJ has sought to 'overhaul' the system of waivers. The GOJ will be tabling a 'Tax Expenditures Statement' which will detail the waivers, exemptions and other revenues foregone in calendar year 2009. Going forward, the GOJ expects to go further, with the introduction of ceilings on discretionary waivers to be approved by Parliament.

Arrears over 90 days will be closely monitored to ensure there is no accumulation, consistent with the IMF (SBA). The GOJ will however be aiming over the medium term to manage its arrears such that they will only fall into the traditionally recognized 30-day period.

Lower real GDP outturns have adverse impacts on the revenues and the GOJ, stands ready to make adjustments to the expenditure budget that are consistent with the goals of the FMS. In addition, lower revenue yields, due to other factors would also be met with appropriate adjustments to the expenditure budget, as far as possible.

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

Going forward, the GOJ intends to manage fiscal risks appropriately and will be putting in place the necessary safeguards to ensure this objective is met. To this end a number of measures have been developed to enforce fiscal discipline and enhance fiscal management, which are now before

Parliament for debate and approval. Most notably among these measures are the requirements for an accounting officer to:

- obtain the written assessment and recommendations of the Financial Secretary before taking any step to implement a change that is likely to have adverse budgetary implications for the financial year that is current and for the medium term; or submitting any proposal to the Cabinet for any such change.
- develop a 3-year business plan which shall be consistent with expenditure ceilings set by the MOF and shall consolidate the plans of departments, agencies and on-budget public bodies for that portfolio ministry;
- submit, in the case of excess or supplementary expenditure, a request for such excess to the Financial Secretary detailing - the rationale for the excess and why it was not anticipated at the time of the budget, the expected expenditure for the next two years associated with this excess and any corrective action that would minimize the excess.

Additionally, a menu of sanctions has been developed for non-compliance with these measures.

There are also a number of proposed legislative changes to the PBMA that have been developed to seek to better manage risks within the public bodies. Public bodies have been a major source of debt creation for a number of years and accordingly it is very important that guarantees and other contingent liabilities involving public bodies be properly managed. Against that background , a notable proposed change is that the Minister of Finance shall not give his approval for any borrowing by a public body if he is not satisfied that the proposed borrowing is consistent with the debt reduction target specified in the FAA Act. This is a critical signal of the importance the GOJ places on managing risks, particularly that of contingent liabilities.

TABLE IA: FY 2011/12 Industry Assumptions

Industry	
Goods Producing Industry	
Agriculture, Forestry & Fishing	Increased Domestic and Export Crop production due to increased demand. Higher value added is also reflective of recovery from TS Nicole and drought conditions which occurred in the previous fiscal year. Growth will be facilitated by increased use of technology and best practices (Greenhouses, Irrigation and the Agriculture Production and Productivity Programme)
Mining & Quarrying	Higher alumina and crude bauxite production influenced by strong demand in China, Europe and North America. Strong alumina growth also associated with the expected reopening of WINDALCo's Kirkvine plant in the second half of 2011.
Manufacturing	Increased domestic and global demand primarily for beverages and processed food. Increased activity in the Construction, Mining & Quarrying and Agriculture industries should spur demand for manufactured products which are inputs into these industries.
Construction	Growth in infrastructural activity primarily road construction and repairs. General improvement in the economy would also influence an increase in the building construction component of the industry.
Services Industry	
Electricity & Water Supply	This industry will benefit from increased economic activity which will result in increased demand for electricity. Growth in the industry also reflects recovery from drought conditions which prevailed during some months of the previous fiscal year.
Wholesale & Retail Trade; Repairs and Installation of Machinery	Increased domestic demand linked to higher economic activity which will spur growth in this industry. Increased activity specifically in the Agriculture, Manufacturing and Construction industries should also result in higher value added.
Hotels and Restaurants	Higher economic growth in our main source market (USA), other traditional markets as well as increased marketing in new areas will result in increased stopovers. The restaurant component of the industry should also register growth, reflecting recovery from the decline registered in the previous fiscal year.
Transport, Storage & Communication	Water transport will be influenced by increased cargo movement associated with increased Mining & Quarrying activity linked to the reopening of the Kirkvine plant; general growth in merchandise trade volumes; and growth in cruise ship arrivals. Air transport will be positively influenced by increased passenger movement consistent with the projected increase in stopovers.
Finance & Insurance Services	Increased economic activity within an environment of improved investor and business confidence and low interest rates should increase the demand for loans and advances.
Real Estate, Renting & Business Activities	A rise in demand consistent with projected recovery in the economy.
Producers of Government Services	Continued fiscal consolidation
Other Services	Growth in this industry will be strongly influenced by increased tourism related activities as well as increased demand for personal services
Less Financial Intermediation Services Indirectly Measured	Growth in the provision of financial services consistent with the projected higher demand for business services.

TABLE IB: FY 2012/13 Industry Assumptions

Industry	
Goods Producing Industry	
Agriculture, Forestry & Fishing	Increased demand, mainly associated with a projected increase in the share of domestic production supplying the tourism sector. Supply side: increased utilization of technology (Greenhouses, Irrigation, etc) and best practices (Agriculture Production & Productivity Programme).
Mining & Quarrying	Growth in demand from Emerging Markets (mainly China), North America and Europe. Supply side: The reopening of Alpart, Jamaica's largest Alumina plant, and increased capacity utilization at other alumina plants.
Manufacture	Increased domestic and international demand. Supply side: This will be mainly facilitated by increased capacity utilization.
Construction	Increased infrastructural activities associated with roads, bridges, and residential construction, associated with a relatively low interest rate environment and higher income. Supply side: This will be mainly facilitated by increased capacity utilization
Services Industry	
Electricity & Water Supply	Increased economic activities and rising stock of houses. Supply side: increase capacity utilization and expansion in capacity
Wholesale & Retail Trade; Repairs and Installation of Machinery	Increased demand associated with growth in economic activities. Supply side: increased domestic production and increase in imports
Hotels and Restaurants	Increased visitor arrivals due to expansion in major markets (North America and Europe) and new markets (Emerging Markets). Supply side: expansion in attractions and port (sea and air) facilities
Transport, Storage & Communication	Increased passenger movement associated with the tourism sector and expansion in cargo movement associated with the Mining industry and increase in exports and imports. Supply side: Expansion in port facilities and continued modernization of Jamaica's communication sub-industry.
Finance & Insurance Services	Increase in economic activities associated with lower interest rate environment. Supply side: continued expansion in products provided and medium (internet, mobile, etc) of banking services.
Real Estate, Renting & Business Activities	Increased demand associated with higher economic activities.
Producers of Government Services	Continued Fiscal Consolidation
Other Services	Increased demand associated with Recreation, Cultural and Sporting Activities and growth in private education. Supply Side: expansion in education services (courses, etc); increased media activities associated with Brand Jamaica (Jamaica's Athletes (2012 Olympic, artiste, etc).
Less Financial Intermediation Services Indirectly Measured	Associated with increase in financial services provided to facilitate business activities.

Table IC: FY 2013/14 Industry Assumptions

Industry	
Goods Producing Industry	
Agriculture, Forestry & Fishing	Increased use of technology (greenhouses, irrigation, etc) and best practices to take advantage of increased demand associated with increased per capita income and increased demand from the hotel industry
Mining & Quarrying	Increase capacity utilization, especially at the Windalco and Alpart plants, associated with increased demand for alumina on the global market
Manufacture	Increased capacity utilization in response to increased demand locally and overseas
Construction	Increased demand associated with increase in per capita income and lower interest rates
Services Industry	
Electricity & Water Supply	Increased demand associated with increase in the housing stock and production levels.
Wholesale & Retail Trade; Repairs and Installation of Machinery	Increased demand associated with higher per capita income and increased employment, facilitated by increase in production and increase in imports
Hotels and Restaurants	Increased demand associated with improvement in Jamaica's main source market, in addition to increased diversification of the tourism product.
Transport, Storage & Communication	Increased production associated with increased demand for services associated with increase in trade (travel and cargo), and increased demand for new communication services to facilitate businesses and personal activities
Finance & Insurance Services	Increased demand for loans associated with increase in economic activity, lower interest rates and new financial services. The industry will also benefit from the improvement in credit risk analysis associated with the credit bureau, which will make it easier to facilitate loans to other industries
Real Estate, Renting & Business Activities	Increased production associated with increase in business services activities, partly due to tax reform that makes it easier to do business
Producers of Government Services	Continued fiscal consolidation by the Government of Jamaica, especially as it relates to public sector transformation
Other Services	Continued demand for tourism related activities education, health care entertainment and sporting services.
Less Financial Intermediation Services Indirectly Measured	Continued utilization of financial services by other industries

Appendix II: Medium Term Expenditure Profile

Heads	Revised 2009/2010	Revised 2010/2011	Estimates of Expenditure 2011/2012	Projected 2012/2013	Projected 2013/2014	Projected 2014/2015
His Excellency the Governor-General & Staff	97,912	92,912	100,492	109,121	114,683	120,364
Houses of Parliament	616,313	666,545	645,342	701,884	736,852	772,713
Office of the Public Defender	63,243	88,898	73,425	79,406	83,685	88,015
Contractor General	179,158	188,950	198,672	214,500	226,315	238,227
Auditor General	305,378	297,938	337,613	366,130	385,131	404,479
Office of the Services Commissions	135,838	142,412	144,773	157,601	165,350	173,316
Office of the Children's Advocate	50,597	59,253	75,435	81,665	86,005	90,406
INDECOM	-	37,934	200,000	216,243	227,931	239,752
Office of the Prime Minister	5,169,458	5,150,158	5,187,367	5,636,455	5,921,131	6,212,371
Office of the Cabinet	424,231	444,245	480,649	522,877	548,845	575,490
Office PM Local Government	7,345,061	6,766,213	7,133,721	7,716,698	8,131,205	8,550,830
Ministry of Tourism	2,595,215	2,106,249	2,163,105	2,332,218	2,462,999	2,594,467
Ministry of Finance and the Public Service	26,498,820	28,588,504	35,240,017	37,711,397	40,030,669	42,329,079
Tax Administration Jamaica	-	-	4,114,699	4,455,953	4,691,717	4,930,997
Ministry of National Security	36,907,735	38,923,807	41,127,042	45,006,475	47,220,727	49,530,767
Ministry of Justice	2,974,466	3,382,007	3,891,729	4,217,548	4,438,503	4,663,130
Ministry of Foreign Affairs & Foreign Trade	2,319,508	2,570,272	2,594,423	2,800,764	2,955,290	3,111,036
Ministry of Labour and Social Security	1,752,093	1,881,833	1,715,543	1,863,403	1,957,989	2,054,671
Ministry of Education	72,133,426	71,294,169	70,021,494	76,078,243	79,998,239	83,978,843
Ministry of Health	29,927,164	33,702,938	33,464,445	42,120,371	44,319,522	46,556,509
Ministry of Youth, Sport and Culture	2,163,258	1,874,177	1,897,087	2,059,951	2,164,974	2,272,242
Ministry of Agriculture and Fisheries	2,983,075	3,104,829	3,428,071	3,720,533	3,911,532	4,106,382
Ministry of Industry, Investment & Commerce	1,662,542	1,720,294	1,800,415	1,950,461	2,053,137	2,157,434
Ministry of Energy and Mining	400,028	405,827	409,976	444,080	467,503	491,287
Ministry of Water and Housing	522,762	546,272	591,093	640,637	674,159	708,244
Ministry of Transport and Works	1,924,240	1,853,122	1,750,132	1,894,614	1,995,336	2,097,478
Back Pay	**-**	**-**	**4,600,000**	**4,192,800**	**2,500,000**	**-**
Contingency Provision for price adjustments and expenditure arrears	**-**	**-**	**1,690,512**	**1,800,395**	**1,917,421**	**2,032,466**
Grand Total Recurrent	**199,151,521**	**205,889,758**	**220,962,573**	**244,636,470**	**255,695,134**	**266,149,996**

Table (IIA): Non-Debt Recurrent Expenditure 2009/2010 – 2014/2015 (J$'000)

Table (IIB): Economic Classification
Non-Debt Recurrent Expenditure 2009/10 – 2014/15 (J$'000)

Object Classification	**Expenditure 2009/10**	**Revised Estimates 2010/11**	**Estimates of Expenditure 2011/12**	**Projected Expenditure 2012/13**	**Projected Expenditure 2013/14**	**Projected Expenditure 2014/15**
Wages and Salaries	**124,817,182**	**127,378,022**	**133,747,484**	**151,752,400**	**156,773,600**	**161,293,170**
Recurrent Programmes	**74,334,339**	**78,511,736**	**87,215,089**	**92,884,070**	**98,921,534**	**104,856,826**
Of which:						
Travel Expenses	9,827,193	9,357,286	9,513,393	10,131,764	10,790,328	11,437,748
Retirement Benefits	15,383,898	17,415,401	22,743,860	24,222,211	25,796,655	27,344,454
Rental of Property Machinery and Equipment	1,944,860	2,251,706	2,320,449	2,471,278	2,631,911	2,789,826
Public Utility Services	7,112,524	6,883,718	6,642,249	7,073,995	7,533,805	7,985,833
Purchases of Goods and Other Services	17,194,242	19,880,535	22,160,268	23,600,685	25,134,730	26,642,814
Grants and Contributions	21,905,614	22,063,822	21,040,641	22,408,283	23,864,821	25,296,710
Purchases of Equipment (Capital Goods)	291,696	432,112	800,798	852,850	908,285	962,782
Others	674,312	227,156	302,919	322,609	343,578	364,193
Contingencies	-	-	1,690,512	1,800,395	1,917,421	2,032,466
Total Recurrent	**199,151,521**	**205,889,758**	**220,962,573**	**244,636,470**	**255,695,134**	**266,149,996**

Table (IIC): Medium Term Capital Profile 2009/10 – 2014/2015 (J$'000)

	Revised Estimates 2009/10	**Revised Estimates 2010/11**	**Estimates of Expenditure 2011/12**	**Projected 2012/13**	**Projected 2013/14**	**Projected 2014/15**
Office of the Prime Minister	**3,124,026**	2,452,544	5,688,653	4,388,653	5,673,915	6,014,350
Office of the Cabinet		39,405	100,595	326,976	1,701,725	6,851,325
Office of the Prime Minister (Local Government)	**138,451**	503,000	597,812	597,812	636,670	674,870
Ministry of Finance and Public Service	**10,830,896**	**19,706,216**	15,090,262	4,000,000	5,000,000	5,300,000
Ministry of National Security	**534,152**	860,200	677,230	721,250	768,131	814,219
Ministry of Justice	**172,000**	145,000	439,669	468,247	498,684	528,605
Ministry of Foreign Affairs and Foreign Trade					200,000	
Ministry of Labour and Social Security		20,000				
Ministry of Education	**1,907,594**	737,791	464,234	494,409	1,500,000	1,590,000
Ministry of Health	**127,383**	261,391	182,709	194,585	1,000,000	1,060,000
Ministry of Youth, Sport and Culture	**66,657**	12,000	64,087	68,253	200,000	212,000
Ministry of Agriculture and Fisheries	**399,589**	421,840	269,992	296,991	1,000,000	1,060,000
Ministry of Industry, Investment and Commerce	**24,500**	5,000			-	
Ministry of Energy and Mining	**100,011**	190,000	1,320,000	1,000,000	5,246,000	1,000,000
Ministry of Water and Housing	**280,000**	329,100	580,000	580,000	1,500,000	2,500,000
Ministry of Transport and Works	**1,570,267**	9,742,382	4,143,452	1,198,350	1,276,243	1,352,817
Contingency for Natural Disasters			1,500,000	2,901,600	3,152,000	3,341,120
Total Capital A	**19,275,526**	**35,425,869**	**31,118,695**	**17,237,127**	**29,353,368**	**32,299,306**
Multilateral/Bilateral Projects						
Office of the Prime Minister	2,930,617	6,687,064	4,870,891	2,556,314	1,752,070	4,500,000
Office of the Cabinet	**231,917**	345,077	371,905	354,467	344,500	
Ministry of Finance and Public Service			549,926	1,130,212	1,218,000	1,320,000
Ministry of National Security	**1,071,313**	890,031	1,250,109	1,188,000	839,000	1,500,000
Ministry of Justice	**3,180**	12,000	449,035	754,742	485,000	
Ministry of Foreign Affairs and Foreign Trade	**4,901**	54,164	93,250	429,701	-	
Ministry of Labour and Social Security	**3,000,000**	3,826,985	4,182,474	4,050,339	5,090,272	4,770,000
Ministry of Education	**768,380**	1,149,081	2,726,490	2,392,593	1,223,852	698,464
Ministry of Health	**1,037,627**	1,275,162	1,323,998	1,642,423	1,072,490	1,532,713
Ministry of Youth, Sport and Culture	**14,851**	156,546	257,214	108,000		300,000
Ministry of Agriculture and Fisheries	**2,727,189**	2,249,440	3,799,286	3,490,603	2,807,836	3,781,943
Ministry of Industry, Investment and Commerce	**56,320**	43,122	74,096	7,185	-	
Ministry of Energy and Mining	**1,473**	51,851	280,940	645,000	825,600	784,120
Ministry of Water and Housing	**925,207**	1,746,750	2,443,472	4,374,769	2,929,198	1,554,254
Ministry of Transport and Works	**2,758,067**	6,588,790	6,623,635	9,648,225	5,319,114	3,681,500
Total Multilateral/Bilateral Programmes	**15,531,042**	**25,076,063**	**29,296,721**	**32,772,573**	**23,906,932**	**24,422,994**
Total Capital	**34,806,568**	**60,501,932**	**60,415,416**	**50,009,700**	**53,260,300**	**56,722,300**

Appendix III: Improved Financial Management

The Central Treasury Management System

Cabinet on May 18, 2009 approved the implementation of a Central Treasury Management System (CTMS) geared towards improving the Central Government's financial management and budget processes by creating greater efficiencies. The decision recognizes that the current system of managing public funds has proven to be inefficient over the years, thus resulting in Ministries, Departments and Agencies as well as other public entities having to bear higher than necessary financing costs.

The CTMS is expected to significantly improve Government's ability to manage scarce financial resources and also to significantly reduce the need to approach the domestic financial market for financing and thereby reduce domestic debt generation and debt financing costs. The Minister of Finance in his presentation to Parliament on January 19, 2010 made the following statement:-

> *The CTMS will establish a Treasury Single Account (TSA) to improve cash management. The government plans to consolidate all general government cash resources in the TSA. All funds, including special funds, owned by general government entities and held in financial institutions would be transferred to the TSA and those accounts would then be closed over time."*

The Central Treasury Management System (CTMS) is programmed to have a phased implementation, beginning in FY 2011/12, with a few pilot Ministries, Departments and Agencies (MDAs). This phased rollout will, to a large extent, is dependent on the Accountant General's Department being appropriately equipped to operate the new system. A concept paper has already been produced and preliminary aspects of implementation are currently underway.

Further Amendments to the Fiscal Responsibility Framework

The GOJ has proposed further amendments to the Fiscal Responsibility Framework (FRF) beyond those approved by Parliament in March 2010, including Regulations. The proposed Amendments to the FAA and PBMA Acts have been presented to Parliament for approval, to be followed by accompanying Regulations. It is expected that both the amendments to the FAA and PBMA Acts, along with the accompanying Regulations, will be passed in both Houses of Parliament during the first quarter of FY 2011/12. The FRF will serve as a major and significant change to transform how the public sector operates, and concretize fundamental shifts in the country's financial management framework.