GOVERNMENT OF JAMAICA

FISCAL POLICY PAPER FY 2012/13

24th May 2012

TABLE OF CONTENTS

PART 1 FISCAL RESPONSIBILITY STATEMENT

Introduction

The international community is currently faced with a deepening of the uncertainty about the global economy and the fate of the capital markets. This uncertainty has negative consequences for small middle income countries like Jamaica. Of particular concern is the increasing phenomenon of jobless growth. Major economies are experiencing difficulties in creating new jobs as consumers no longer have the purchasing power to buy the goods and services at the level required to maintain economic recovery.

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.

Due to Jamaica's dependence on external trade, where it 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, *inter alia*, high external debt service, the Capital & Financial Account has had to provide that counter-balance through investment inflows. However, within the context of the global economic challenges, capital markets have become even more risk averse and the volatility to exogenous shocks has increased, 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.

Jamaica faces major social and economic challenges, as demonstrated by anemic growth in national output, high national debt, growing unemployment and rising poverty levels. At end-December 2011, unemployment stood at 12.6%. At the end of FY 2011/12, the public debt stock stood at 128% of GDP, real economic growth was estimated at 1.2%, Central Government registered a fiscal deficit of 6.2% of GDP and the current account of the BOP was 12.8% of GDP. Against the backdrop of these unfavourable social and economic outcomes, it is a matter of urgency that Jamaica moves aggressively to pursue fiscal and economic reforms to stimulate growth and arrest the adverse debt dynamics.

Under the aegis of the Fiscal Responsibility Framework (FRF), the Minister of Finance tabled the inaugural Fiscal Policy Paper (FPP) in Parliament on April 28, 2011. The FPP was audited by the Auditor General in accordance with the legal requirements of the Financial Administration and Audit (FAA) Act. In the inaugural FPP, the Minister expressly enunciated the Government of Jamaica's (GOJ's) commitment and strategy to achieve the legislated fiscal targets/ceilings, by March 2016. The legislated targets are:

- Fiscal balance of 0% of GDP;
- Debt/GDP of 100%; and
- Wages/GDP of 9%.

Stand-By Arrangement (SBA) Ends

The GOJ, through the FPP, presented a medium term macroeconomic framework and forecasts of revenue and expenditure up to FY 2015/16, within the context of the Stand-By Arrangement (SBA) agreed with the International Monetary Fund (IMF) in 2010. The FPP indicated that there was a gap on the fiscal balance of 1% of GDP and proposed plans to close the gap. The proposed policy actions to close the identified gap, included tax reform, pension reform, wage restraint and other expenditure containment measures.

The SBA was considered to be central to economic recovery from the global recession and building confidence in Jamaica. There was a national consensus that Jamaica should have a programme, as it was considered that the global risks were too great and the impediments to growth too severe, for Jamaica the country to go it alone. The SBA was essentially a fiscal consolidation programme designed to reduce the fiscal deficit and ultimately the debt/GDP, thereby creating fiscal space in the future for the Jamaican economy to get out of the slow growth trap it has been in for decades. The 27-month agreement, scheduled to run until end-May 2012, was in essence a compact between the GOJ and people on the one hand, and the IMF on the other. To facilitate an agreement with the Fund, the GOJ undertook the Jamaica Debt Exchange (JDX) - a process of burden sharing by bond holders, as a prior action. The GOJ committed under the SBA to wage restraint in the public sector; profound reforms involving the public sector, pension and taxes; and divestment of loss making enterprises. The GOJ also committed to a firm policy of fiscal prudence and restraint.

The SBA involved quarterly performance reviews of quantitative targets and structural benchmarks. The first three reviews, for March, June and September 2010 were successfully completed. However, mounting fiscal challenges during FY 2011/12, in particular, higher than programmed wage costs, revenue shortfall, and difficulties in divesting the GOJ's shares in Clarendon Alumina Production Limited (CAP), threatened the sustainability of the programme. This led to a suspension and eventual cancellation of the remaining quarterly reviews by the IMF.

New Administration Commits to Fiscal Responsibility

On January 5, 2012, a new administration led by the People's National Party took the reins of government following a resounding mandate in General Elections held on December 29, 2011. As the new Minister of Finance, I reaffirm this administration's unequivocal commitment to fiscal responsibility and prudence and to act quickly and decisively. The path to recovery cannot be built on large fiscal deficits and growing debt. Debt service payments impede the capital investments necessary to drive growth, and impose a vicious stranglehold on our economy. We will have to take some deliberate action to start the process of recovery. The main plank of the immediate overall strategy is to negotiate a new arrangement with the IMF. This is vital if we are to access the critical multilateral and bilateral funding support that we need. It is also vital for our engagement with the international capital market.

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 during the current period, 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. We recognize 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 2012/13 and through the medium term **are economic growth, price stability, job creation and poverty reduction,** underpinned by tight expenditure management, tax reform, pension reform, public sector transformation and reduction in corruption and waste.

These priority areas complement our commitment to balancing the fiscal accounts over time (by March 2016), as a necessary condition toward reducing the debt to sustainable levels and for 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 enabling environment for improving the quality of life. 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 2012/13 – FY 2015/16 (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 Public Bodies Management and Accountability (PBMA) Act 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.

Fiscal Outcome and Outlook

The Central Government operations registered primary balance surpluses of 4.5% of GDP and 3.1% of GDP in FY 2010/11 and FY 2011/12, respectively. The fiscal deficit for both those years was 6.2% of GDP, while the total debt stood at 131.6% and 128%, respectively. For FY 2012/13 – FY 2015/16, the targeted primary surpluses are 6.0%, 6.5%, 7.3%, and 8.0%, respectively.

The 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 4-year path of adjustment to reduce the debt from the current 128% of GDP to achieve 100% of GDP or less by FY 2015/16, as legislated 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 with job creation 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 four years. In light of this objective, the primary surplus targets for the FY 2012/13 - FY 2015/16 period are higher, when compared to the results obtained in recent fiscal years. Correspondingly, the path is for progressively lower Central Government fiscal deficits toward a balanced budget by FY 2015/16.

Against the backdrop of the Government's broad strategic priorities, the macroeconomic assumptions outlined in the Macroeconomic Framework and the Estimates of Expenditure for FY 2012/13, tabled in Parliament on May 10, 2012, we have developed estimates of revenue and expenditure to generate the medium term fiscal balance profile depicted in Table 1A. The fiscal profile indicates a gap on the Central Government fiscal balance equivalent to 2.1% of GDP in FY 2012/13, which rises to 2.9% of GDP by FY 2015/16.

Table 1A: Fiscal Balance (%GDP)	2010/11(Act)	2011/12(Prov)	2012/13	2013/14	2014/15	2015/16
Target Fiscal Balance	-6.5%	-4.6%	-3.8%	-2.7%	-1.5%	0.0%
Est. Fiscal Balance	-6.2%	-6.2%	-5.9%	-5.0%	-4.0%	-2.9%
Fiscal Balance Gap	-0.3%	1.6%	2.1%	2.3%	2.5%	2.9%

The medium term fiscal profile reflects a trend reduction in the Wages/GDP ratio to the 9% ceiling by FY 2015/16. It entails:

- No increase in Central Government employment levels;
- payment of annual performance increments of 2.5%; and
- phased implementation of the health sector reclassification.

The profile also involves a period of wage restraint, specifically, reflecting wage adjustment of 0% for FY 2010/11 – 2011/12. Whereas no formal agreement to this end has been signed with unions representing public sector workers, the GOJ remains confident that the country's interest will be placed as a priority by the unions and the workers they represent in an effort to pilot the fiscal programme onto a sustainable path. With these considerations, public sector wage increases over the medium term, from FY 2012/13 onward, will be limited to levels that ensure the wage ceiling of 9% of GDP by March 2016 is achieved. The GOJ's willingness and ability to pay higher nominal wage increases, without breaching the ceiling, will be dependent on the following circumstances:

(a) if higher than projected economic growth is attained; and/or
(b) the level of savings realized from job attrition.

Importantly, the GOJ is committed to adopting a policy of job attrition involving:

(i) removal of posts that have been vacant for a number of years from the Civil Service Establishment; and
(ii) only filling posts that are deemed critical.

In keeping with the GOJ's commitment to reform the current tax system, based on the principles of equity, simplicity, transparency and efficiency, the GOJ has designed a revenue positive reform package for implementation in FY 2012/13. The reform package represents a comprehensive tool to address the inefficiencies within the taxation system and therefore focuses on amendments to the major tax types. Of note, the reform package is also predicated on the need to ensure revenue adequacy and sufficiency. The package will include the following proposed changes effective June 1, 2012, unless otherwise stated, designed to yield incremental revenue of 1.4% of GDP in FY 2012/13 (annualized yield of 1.8% of GDP):

- *Imposition of Tax on dividends payable to residents at 5%;*
- *Reform of the General Consumption Tax (GCT) through: (i)broadening of the base (ii) a 1 percentage point reduction in the standard GCT rate to 16.5% (iii) applying the standard 16.5% GCT rate to electricity while increasing the threshold to 300kWh;*
- *Reform of Taxation of the Tourism Sector with a dual system – (i) 10 % GCT to apply to all expenses, except gratuity and (ii) introduction of a room tax effective September 1, 2012;*
- *Reform of the Corporate Income Tax (CIT), effective January 1, 2013 – 33 1/3% remains for regulated companies (those regulated by the Financial Services Commission, Office of Utilities Regulation, Bank of Jamaica, and Ministry of Finance), 25% for unregulated companies and 30% for building societies.*
- *Introduce a Minimum Income Tax at a flat rate of $60,000 effective January 1, 2013;*
- *Reform of the Personal Income Tax by increasing the general personal income tax threshold to $507,312 effective January 1, 2013;*
- *Reform of Trade Taxes through a 10 percentage points (average) increase in CET on selected goods;*
- *Increase in motor vehicle licenses, registration fees and plates by 50%;*
- *Increase tax rate on winnings from betting from 15% to 20%;*
- *Modification of Asset Tax Regime through a new tax levied at 0.2% of total assets*;
- *Levy a specific SCT on overproof rum;*
- *Impose SCT on denatured ethanol for use in blending of petroleum products;*
- *Modify the alcohol regime for tourism;*
- *Modify the termination charge for telephone calls;*
- *Curtailment of Discretionary Waivers.*

These policy measures will be complemented by an aggressive compliance programme, focusing on legislative and administrative measures designed to yield an additional $6,800mn in FY 2012/13.

In addition to these measures, it is important to note that The Public Bodies (Financial Distribution) Regulations 2012, passed by both Houses of Parliament in April 2012, provides for the distribution of profit or surplus from public bodies to the Consolidated Fund. For FY 2012/13, an amount of $2,500mn is budgeted to be distributed to the Consolidated Fund.

The new policy measures for FY 2012/13 outlined above will not be adequate to achieve the legislated medium term fiscal targets. A fiscal gap of 1.1% of GDP in FY 2015/16 (Table 1B) remains after implementation of these measures. Accordingly, and in light of the fiscal consolidation path to which we are committed, the GOJ will be pursuing other fiscal measures to close this 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, as well as improving compliance;
- Financial distribution/dividends from public enterprises;
- Pension reform – implementation of a contributory pension scheme in order to partly transfer the cost of financing retirement benefits from the taxpayer to the ultimate beneficiary;
- Public Sector transformation – to generate efficiencies and contain wages;
- Better management 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, including 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.

Table 1B: Medium Term Fiscal & Debt Indicators

	Act.	Prov.	Budget	Proj	Proj	Proj
(J$mn)	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Revenue & Grants	314,558.5	322,149.8	361,282.9	395,103.9	423,861.4	458,003.6
Expenditure	388,767.9	403,122.2	414,258.0	440,697.4	461,662.0	478,801.3
Cent Govt Fiscal Balance	**-74,209.4**	**-80,972.4**	**-52,975.5**	**-45,593.6**	**-37,800.6**	**-20,797.6**
Cent Govt Primary Balance	**54,145.2**	**39,662.6**	**83,558.4**	**95,350.2**	**110,329.8**	**127,659.8**
Domestic Debt	809,370.0	912,642.3	939,767.7	1,010,404.0	1,018,837.8	1,036,005.4
External Debt	760,998.3	749,631.1	877,134.9	907,219.3	885,223.2	895,938.6
Total Debt	**1,570,368.3**	**1,662,273.4**	**1,816,902.6**	**1,917,623.3**	**1,904,061.0**	**1,931,944.0**
(% GDP)						
Revenue & Grants	26.4	24.8	25.9	25.8	25.2	24.7
Expenditure	32.6	31.0	29.7	28.8	27.5	25.8
Cent Govt Fiscal Balance	**-6.2**	**-6.2**	**-3.8**	**-3.0**	**-2.2**	**-1.1**
Cent Govt Primary Balance	**4.5**	**3.1**	**6.0**	**6.2**	**6.6**	**6.9**
Domestic Debt	67.8	70.3	67.5	66.1	60.6	55.9
External Debt	63.8	57.7	63.0	59.3	52.7	48.3
Total Debt	**131.6**	**128.0**	**130.5**	**125.4**	**113.3**	**104.2**
Debt Ceiling						**100%**
Fiscal Balance Ceiling						**0**

Fiscal Risks

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 medium term fiscal programme contemplates and requires an elimination of Central Government budget deficit and reduction in the Debt/GDP and Wages/GDP ratios, these efforts could be thwarted if contingent liabilities and other fiscal risks are not properly managed.

The FY 2012/13 Central Government budget includes contingency provisions to cover:

(i) interest payments of $7,157.6mn;
(ii) amortization (principal) payments of $4,694.6mn;
(iii) salary arrears (backpay) of $9,510.6mn, inclusive of $7,611.3mn for the scheduled 7% one-off payment in FY 2012/13 and $1,899.3mn for teachers' reclassification, arising from the Industrial Disputes Tribunal award.

Whereas the FY 2011/12 original budget had included a contingency provision of $1,500mn for natural disasters, the FY 2012/13 instead makes provision for disaster mitigation of $2,900mn. In addition to this provision, the Catastrophic Risk Insurance Fund (CRIF) provides some insurance coverage against natural disasters.

On the revenue side, the GOJ intends to eliminate the stock of outstanding withholding tax refunds (over 90 days) over the next five years. Within this context, the medium-term fiscal profile programmes payment of withholding tax refunds at a rate of approximately $1,300mn monthly from FY 2012/13.

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 were approved by Parliament in April 2012 to, firstly, mitigate 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, such as: inflation, exchange and interest rates; external and domestic demand; and the price of oil and other key commodities. Simulations have been conducted on the trajectory of the debt, which show that the targets are sustainable in the medium term, based on the targeted primary surplus, as well as forecasts for economic growth, inflation, interest and exchange rates. 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.

Fiscal Responsibility with Flexibility

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 related to national security, national emergency, or other occurrences that are severe in their impact on the economy**. **The FRF allows for adjustments to targets, with the approval of Parliament, under the aforementioned circumstances**. 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 gained credibility by adopting a well-designed FRF, underpinned by transparency and fiscal rules, and espousing the following fundamental principles to which we sincerely commit:

- 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; and
- transparency in the production and dissemination of documents concerning the budget, its execution and accounting.

Conclusion

The administration fully understands the tight fiscal situation that the global economic crisis imposes on all of us. The Government has a responsibility to ensure a safe and stable environment that will allow individuals to use their talents to create wealth. Such an environment requires a responsible government, not a profligate one burdening the population with debt and taxes. This is why tax and pension reforms, divestment, and moderating the growth in the cost of government are so critical for the future. These measures are important not just for settling with the IMF but more importantly for our own and best interest.

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.

Peter D. Phillips, PhD, MP

Minister of Finance and Planning

May 24, 2012

Part 2 MACRO-ECONOMIC FRAMEWORK

Overview of Macroeconomic Developments FY 2010/11 - FY 2011/12

Background

In reviewing Jamaica's macroeconomic performance during FY 2011/12, focus is on developments in the real sector, labour market, monetary sector and external sector. Table 2A below summarizes Jamaica's macroeconomic performance for FY 2010/11 – FY 2011/12.

Table 2A: Jamaica: Summary Economic Performance

	Unit	FY 2010/11	FY 2011/12
Real GDP Growth Rates[1]	%	-0.6	1.3
Inflation Annual (Pt to Pt)	%	7.8	7.3
Broad Money (M3) Growth	%	8.3	8.9
Exchange Rate (avg.)	J$=US$1	86.51	86.35
Treasury Bill (avg. 6-month)	%	8.12	6.52
Current Account/GDP	%	-8.9	-12.8
Net International Reserves (NIR)	US$mn	2,553.20	1,777.20
Gross Reserves (Goods & Services Imports)	weeks	23.3	17.3
Fiscal Accounts**:**			
Cent. Gov't Fiscal Balance	%GDP	-6.2	-6.2
Cent. Gov't Primary Balance	%GDP	4.5	3.1
Public Bodies Overall Balance	%GDP	0.2	-0.2
Debt Stock	%GDP	131.6	128

Source: GOJ/BOJ

The overall macroeconomic environment remained relatively stable throughout FY 2011/12, with real GDP growing by 1.3% following three consecutive years of economic decline. This was well within the 1.0% - 2.0% growth target for the fiscal year. With the exception of Finance and Insurance Services and Other Services, all sectors were estimated to have grown during the fiscal year.

Despite the relatively stable economic environment, Jamaica still faces severe economic challenges demonstrated by contractions in national output, significantly lower foreign direct investments, growing national debt, rising unemployment and widening levels of poverty. This is further compounded by the continued instability in the global economy. As such, the GOJ is committed to pursuing a credible macroeconomic programme over the medium term, which places emphasis on economic stability and growth through credible and achievable macroeconomic targets. The macroeconomic programme will take into account the following:

- A clear realistic path for the improvement of the main debt ratios, based on tight expenditure management;
- A more efficient and equitable tax system;
- Reduced corruption and waste; and

[1] Constant price estimates using base year of 2007.

- Increased support and economic cooperation from international partners.

Real Sector Developments

FY 2010/11 Performance

Real Gross Domestic Product (GDP) for the Jamaican economy contracted by 0.6% during FY 2010/11 (Table 2B), reflecting the prolonged effects of the global economic and financial crisis. The lower output was also associated with subdued domestic consumer demand due to increased unemployment and reductions in real income.

The Goods Producing Industry expanded by an estimated 0.8%, with Agriculture, Forestry & Fishing (up 1.8%) and Mining & Quarrying (up 23.0%) contributing positively to this out-turn. The Manufacturing and Construction industries continued to decline with reductions of 3.0 per cent and 0.8 per cent, respectively.

Table 2B: Change in Real Value Added by Industry at Constant (2007) Prices (%)

	FY 2010/11	**FY 2011/12 p**
Goods Producing Industry	**0.8**	**3.7**
Agriculture, Forestry & Fishing	1.8	8.3
Mining & Quarrying	23.0	9.2
Manufacture	-3.0	1.7
of which: Food, Beverages & Tobacco	0.7	2.2
Other Manufacturing	-6.9	1.0
Construction	-0.8	0.7
Services Industry	**-1.7**	**0.2**
Electricity & Water Supply	-3.7	1.2
Transport, Storage & Communication	-2.8	-0.3
Wholesale & Retail Trade; Repair and Installation of Machinery	-2.5	0.3
Finance & Insurance Services		
Real Estate, Renting & Business Activities	-4.1	-0.6
Producers of Government Services	-0.9	0.6
Hotels & Restaurants	-0.1	-0.1
Other Services	2.7	1.1
	-1.0	0.0
Less Financial Intermediation Services Indirectly Measured (FISIM)		
	-11.6	-4.1
Total GDP at Basic Prices		
	-0.6	**1.2**

p – projection

For the Services industry, real value added fell by 1.7%. The largest declines were recorded for Finance & Insurance Services (down 4.1%) and Electricity & Water Supply (down 3.7%). The decline in the Services Industry was however offset by increases in the Hotels & Restaurants industry (up 2.7%) and was the only industry estimated to have recorded an increase in value added during the review period.

FY 2011/12 Estimated Performance[2]

Real GDP for the Jamaican economy is estimated to have grown by 1.2% during FY 2011/12. Growth was influenced by continued recovery in the global economy and the associated increased demand for Jamaican goods and services. Additionally, growth was also facilitated by improved weather conditions. The increase in value added emanated mainly from the Goods Producing Industry which grew by an estimated 1.1%. Real value added for the Services Industry increased by 0.1%.

Within the Goods Producing Industry, all sectors were estimated to have grown, with the largest increases recorded for Agriculture, Forestry & Fishing and Mining & Quarrying. The 8.3% expansion in the Agriculture, Forestry & Fishing industry reflected improved weather conditions and increased replanting efforts subsequent to the passage of Tropical Storm Nicole in 2010.With respect to Mining & Quarrying increased output was due to higher international demand for alumina and aluminum, and the associated reopening of WINDALCO's Ewarton Plant in June, 2010.

Growth in the Services Industry was driven largely by Electricity & Water Supply and Hotels & Restaurants. For Hotels & Restaurants, output was influenced by higher real value added in the Restaurants component of the industry, reflective of increased consumer demand.

Labour Market Developments 2011

During 2011 the average employed labour force contracted by 1,400 persons (0.1%) to 1,093,500, while the average unemployment rate increased by 0.2 percentage point to 12.6%. The Agriculture, Hunting, Forestry & Fishing sub-industry recorded the largest decline in employment, down 29,300 persons (13.2%). Employment in the Goods Producing Industry declined by 29,700 persons (7.6%) to 359,600, while the Services Industry recorded an increase in annual average employment of 29,600 persons (4.2%). The Services Industry continued to account for the majority of employment (66.9% of the employed labour force). The number of employed males declined by 0.1% to 621,900 and accounted for 56.9% of the labour force and the female employed labour force declined by 0.2% to 471 600. There was an increase in the number of persons employed in the public sector by 3.7% to 143,200. Conversely, employment declined in the private sector by 0.7% to 948,000. Females continued to comprise the majority of workers in the public sector at 60.6%.

Employment in the Goods Producing Industry declined by 7.6% to 359,600, while employment in the Services Industry increased by 4.0% to 733,900. The Services Industry accounted for 66.9% of total employment. Within the Goods Producing Industry, employment decreased in two sub-industries: Agriculture, Hunting, Forestry & Fishing by 13.2% (29 300 persons) to 192 400 and Construction & Installation by 1.6% (1 400 persons) to 88 200. Employment increased in Mining and Quarrying by 13.2 % (500 persons) to 4,300 and Manufacturing by 0.8% (600 persons) to 74,800.

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[2] FY 2011/12 real GDP figures are based on official April – December 2011 figures from STATIN and January – March 2012 estimates from the PIOJ.

In the Services Industry, employment increased in 10 of the 11 sub-industries. Among the sub-industries that experienced an increase were: Electricity, Gas & Water Supply by 23.9% (1,600 persons) to 8 300; Real Estate Renting and Business Activities by 13.5% (7,000 persons) to 59,000; and Other Community, Social and Personal Services Activities by 9.0% (4,900 persons) to 59 200. Transport, Storage & Communications experienced a decline of 2.7% (2,000 persons) to 72,300. Employment in Wholesale & Retail, Repair of Motor Vehicles & Equipment industry accounted for 20.0% of the total labour force and was the largest employer of labour, followed by Agriculture, Hunting, Forestry & Fishing industry which accounted for 17.6%. The Construction industry remained the third largest employer, accounting for 8.1% of employment.

The January 2012 Labour Force Survey conducted by the Statistical Institute of Jamaica revealed that the unemployment rate for January 2012 was 14.1%, 1.2 percentage points higher than the 12.9% reported for January 2011. Male unemployment rate was 10.5% while female unemployment rate was 18.3%. The employed labour force declined by 23,100 persons (2.1%) and 5,500 persons (0.5%) compared with the reports for January 2011 and October 2011 respectively. Of note, between January 2011 and January 2012, employment in the construction industry decreased by 10,900 persons (12.5%).

Monetary Developments

During FY 2011/12, the Bank of Jamaica maintained its monetary policy stance given the favourable inflation rate trends, consistent with the Bank's expectations, stability in the foreign exchange market and heightened uncertainties regarding the domestic and international environment. Externally, these uncertainties surrounded the non-resolution of the European financial market crises and slower growth in the US economy. On the domestic side, these concerns were heightened toward the end of 2011 in the context of delays in the quarterly reviews of the Stand-By Arrangement by the International Monetary Fund (IMF) alongside the General Elections in December 2011. In this context, the Bank maintained the interest rate payable on its 30-day Certificate of Deposit at 6.25% following the easing of its monetary policy stance on two occasions during the September 2011 quarter. Specifically, on 04 July, the interest rate was reduced to 6.50% and a further lowering to 6.25% on 30 September.

The monetary base expanded by $4,777.5mn (6.1%) for FY 2011/12 relative to the 2.1% expansion recorded for FY 2010/11. This growth largely reflected a $3,344.7mn or 6.6% increase in net currency issue as well as a $2,352.9mn or 8.6% increase in commercial banks' cash reserves. The impact of these transactions was partially offset by a $920.1mn or 82.6% decline in commercial banks' current account. The main sources of the expansion in the monetary base were net drawdown of $37,300mn in Central Government deposits at the bank and net unwinding of $32,100mn in Open Market Operations securities. Net International Reserves declined by US$776.0mn to US$1,777.2mn.

Inflation

Inflation was contained at 7.3% in FY 2011/12 relative to a 7.8% outturn recorded in FY 2010/11 and was within the target range of 6.0% - 8.0%. During this period, the "Food, Non-Alcoholic Beverages" and "Housing, Water, Electricity, Gas and Other Fuels" divisions recorded the largest increases of 9.9% and 8.4% respectively. The first two quarters of FY 2011/12 recorded the highest quarterly movements of 2.0% and 2.2% respectively. In the third quarter there was a decline to 1.3% followed by a 0.5 percentage point increase for the fourth quarter of the fiscal year. Inflation for CY 2011 was also lower at 6.0% relative to the 11.8% recorded for CY 2010.

The declines in inflation rates for both fiscal and calendar years resulted mainly from weak domestic demand, increased supplies of some domestic agricultural produce, the absence of bad weather conditions such as flooding, drought and hurricanes throughout 2011 and relative exchange rate stability. At end-March 2012, the exchange rate was J$87.30=US$1, compared to J$85.75=J$1 at end-March 2011. Conversely, inflationary impulses were generated from higher prices for processed food and energy, associated with the increase in the cost of crude oil. Price increases recorded in the "Food and Non-Alcoholic Beverages" and "Housing, Water, Electricity, Gas and Other Fuels" stemmed from the effects of imported oil price volatilities and the subsequent impact on utility rates, transportation and food costs.

External sector developments

For the first three quarters of FY 2011/12, the current account recorded a deficit of US$1,734.5mn, which represented a deterioration of US$832.9mn relative to the corresponding period in FY 2010/11. The deterioration in the current account emanated form all sub-accounts except the current transfer sub-account.

The goods sub-account recorded a deficit of US$3,289.4, which represented a deterioration of US$723.7 relative to the corresponding nine-month period of FY 2010/11. This resulted from an increase of US$967.8mn in imports, which was partly offset by a US$244.1mn increase in exports. Higher import spending was mainly due to a US$636.0mn increase in mineral fuel, while the increase in exports primarily resulted from a US$134.0mn increase in alumina exports.

There was a US$93.6mn reduction in the service sub-account balance. This decline emanated primarily from an increase in freight cost. There was also a US$25.0mn reduction in the income sub-account which resulted primarily from a US$39.7mn decline in compensation inflows form Jamaican residents working abroad.

The current transfer sub-account increased by US$9.4mn to US$1,550.5mn relative to the corresponding period in FY 2010/11. This increase primarily resulted from a US$105.6mn increase in net private transfers. Flows from official and private sources were however insufficient to finance the current account deficit, resulting in a US$587.0 reduction in NIR during the review period.

For FY 2011/12, the current account deficit is estimated to have widened to 12.8% of GDP. This deterioration largely reflects the impact of higher prices for crude oil and gains on the international market. Higher crude prices mainly resulted form uncertainties surrounding the impasse between Iran and Western nations, while grains prices reflected the impact of adverse weather conditions in major producing countries. The NIR declined to approximately US$1,777.2mn from US$2,553.2mn in FY 2010/11, stemming from Government debt payments and sales to the market. At end-March 2012, the BOJ's gross reserves were estimated at17.3 weeks of goods and services imports, representing a reduction from the 22.8 weeks reported for FY 2010/11.

Macro-economic Outlook FY 2012/13 to 2015/16

The Medium Term Macroeconomic Profile outlined in 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 (FY 2012/13 – FY 2015/16). 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.

Jamaica: Projected Monetary & External Sector Performance FY 2012/13 to FY 2015/16

The macroeconomic framework is therefore based on sharp upfront fiscal adjustment which is expected to result in a slightly lower growth rate of about 1.0% for FY 2012/13. Growth is however expected to recover in the subsequent years, with forecasts of 1.3%, 1.9% and 2.0% for FY 2013/14, FY 2014/15 and FY 2015/16 respectively. It is also expected that the inflation rate will increase to just under 13% in FY 2012/13, largely reflecting the impact of the revenue measures. Specifically, it is expected that inflation will accelerate in the June and September quarters, reflecting the impact of the Government's tax measures as well as higher prices for international crude oil and grains. It is expected that inflation will abate in the December 2012 and March 2013 quarters in the context of the compression in aggregate demand and as the impact of these factors subside. During the March 2013 quarter, there is expected to be a moderating impact from a slower rate of depreciation in the foreign exchange market reflecting the effect of the seasonal increase in private capital flows. Given the compression in aggregate demand, the inflation surge in FY 2012/13 will be temporary.

Table 2C: Medium Term Macroeconomic Profile

	Fiscal Years					
Macroeconomic Variables	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**
	Actual	**Prov.**	**Est.**	**Proj.**	**Proj.**	**Proj.**
Nominal GDP (J$bn)	1,193.00	1,298.40	1,392.60	1,529.30	1,680.40	1,853.50
Nominal GDP growth rate (%)	7.8	8.8	7.3	9.8	9.9	10.3
Real GDP growth rate (%)	-0.6	1.2	1.0	1.3	1.9	2.0
Inflation: Annual Pt to Pt (%)	7.8	7.3	12.6	7.0	7.0	7.0
Interest Rates:						
30-day repo rate (eop)	6.75	6.25				
180-day repo rate (avg)	8.31	6.50				
180-day Treasury Bill (avg)	8.15	6.50				
3-Month LIBOR (avg)	0.36	0.39				
6-Month LIBOR (avg)	0.53	0.58				
Avg. Exch. Rate (J$=US$1.00)	86.51	86.35				
Gross Reserves (weeks of Goods & Services Imports)	22.8	17.3	16.6	14.9	14.4	15.4
NIR (US$mn)	2,553.2	1,777.2	1,780.3	1952.4	2,259.6	2,453.9
Current Account (%GDP)	-8.9	-12.8	-12.4	-12.6	-9.3	-6.1
Oil Prices (WTI) (avg. US$/barrel)	83.4	97.3	98.8	99.0	99.0	99.0

Source: GOJ/BOJ

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.

Table 2D: International Commodity Prices

Commodity	Unit	Avg. Prices Apr - Mar 2010/11	Avg. Prices Apr - Mar 2011/12	% Change
Cocoa	Cents per Kg.	314.25	272.81	-13.2
Coffee, Arabica	Cents per Kg.	474.70	568.56	19.8
Soybean meal	$/mt	355.82	370.63	4.2
Maize/Corn	$/mt	216.02	290.46	34.5
Wheat, US, HRW	$/mt	257.35	303.29	17.9
Sugar, EU, domestic	Cents per Kg.	56.97	58.38	2.5
Sugar, world	Cents per Kg.	49.83	55.20	10.8
Crude Oil	US$ per Barrel	84.71	99.18	17.1
Aluminum	US$/Tonne	2,257.71	2,320.06	2.8

With the exception of crude oil prices, international commodity prices, while still high, largely declined during much of 2011. The main factors which resulted in the overall declines in commodity prices in 2011 were: (i) uncertainty about near-term global economic prospects; (ii) lower growth than expected in emerging and developing economies as well as the slow down in the Chinese real estate market; and (iii) doubts about the continued sustainability of the boom in commodity prices which started a decade ago, given that the high prices have begun to elicit supply responses, especially for some major grains and base metals. As it relates to crude oil, price increases resulted from increased geopolitical risks and other supply setbacks.

Overall, it is expected that international commodity prices will remain broadly unchanged given the constrained global economic environment. However, if global growth is stronger than expected, then cyclical commodity prices may pick up

The expected improved performance in domestic economic activity is predicated on recovery in the global economy, particularly the USA and emerging markets. In addition, the expected re-opening of Alpart in FY 2013/14 provides significant growth impetus over the medium term. The downside risks to the medium term macroeconomic profile include: a delay or abandonment of plans to reopen the alumina plants; higher than anticipated international commodity prices; slower than expected global economic growth; and adverse weather conditions. On the upside, growth could be better than forecast due to faster global economic recovery and favourable weather conditions.

Jamaica: Projected Real Sector Performance FY 2012/13 to FY 2014/15

The Jamaican economy is projected to grow within the range of 1.0% - 2.0% over the medium term (FY 2012/13 – FY 2014/15). Table 2D provides point estimates of growth for various sectors.

Table 2E: Projected Change in Value Added by Industry at Constant (2007) Prices (%)

	Fiscal Years		
	2012/13	**2013/14**	**2014/15**
Goods Producing Industry	**1.5**	**1.9**	**2.4**
Agriculture, Forestry & Fishing	2.5	2.5	2.5
Mining & Quarrying	1.8	2.7	2.4
Manufacture			
of which: Food, Beverages & Tobacco	0.3	**1.0**	1.0
Other Manufacturing	0.3	1.5	1.5
Construction	2.0	2.0	3.5
Services Industry	**0.7**	**1.0**	**1.7**
Electricity & Water Supply	3.1	1.0	1.5
Transport, Storage & Communication	0.8	1.2	2.0
Wholesale & Retail Trade; Repair and Installation of Machinery	0.5	0.7	1.0
Finance & Insurance Services	-0.5	1.0	2.5
Real Estate, Renting & Business Activities	0.5	1.0	1.5
Producers of Government Services	-0.4	-0.3	-0.3
Hotels & Restaurants	4.0	4.8	6.6
Other Services	1.0	1.0	1.5
Less Financial Intermediation Services Indirectly Measured (FISIM)	-1.0	0.5	0.7
Total GDP at Basic Prices	**1.0**	**1.3**	**1.9**

FY 2012/13 Projected Performance

The Jamaican economy is projected to grow by 1.0% in FY 2012/13. This is predicated on developments in both the international and domestic economies. The global economy is projected to grow by 3.5%, led by the output of Emerging Markets and Developing Economies. The economy of the United States of America, Jamaica's leading trade partner, is expected to grow by 1.8%. This expansion in output should facilitate an increase in demand for Jamaican goods and services. Furthermore, the expected improvements in income should facilitate an increase in remittance inflows.

Within the domestic sphere, improvements in key macroeconomic indicators are expected to facilitate an increase in economic activities. Low interest rates, stable inflation and exchange rates are expected to facilitate an increase in consumer and business confidence and ultimately demand. It is also expected that the economy will benefit from activities associated with the London 2012 Olympics and the Jamaica 50 Celebrations. These factors augur well for higher production of goods and services.

It is projected that growth for the year will be influenced by increased output of both the Goods Producing and Services Industries. The Agriculture, Forestry & Fishing industry is projected to register growth of 2.5%, predicated on increased production associated with an uptake in demand and improved utilization of technology. The Construction & Installation industry is expected to benefit from road works associated with the Jamaica Development Infrastructure Project as well as a rebound in residential construction. Growth in the Hotels & Restaurants industry is based on the expectation of an increase in stopover visitor arrivals and cruise passenger arrivals. When combined, these industries are projected to contribute 0.5 percentage point to economic growth.

FY 2013/14 Projected Performance

For FY 2013/14, real GDP is projected to increase by 1.3%. Growth is expected to emanate primarily from the Mining & Quarrying and Hotels & Restaurants industries. The growth in Mining & Quarrying is predicated on increased production of bauxite and alumina associated with an expectation of increased international demand. This is based on the operation of two alumina plants and one crude bauxite production company. An additional upside risk associated with this projection however is the reopening of the Alpart Alumina Plant during FY2013/14, this development would add 0.5 percentage point to GDP growth, resulting in a growth of 1.8% instead of 1.3%. With respect to the Hotels & Restaurants industry, growth is expected to be influenced by:

1. Expected optimism in the North American economic outlook;
2. Revived investment interest in the rooms to come on stream;
3. Expected increase in airlifts from Latin America, Central and Eastern Europe, as well as the traditional gateways in North America.

FY 2014/15 Projected Performance

Jamaica’s real economic growth for FY 2014/15 is being projected at 1.9%. The Hotels & Restaurants industry is expected to be a key contributor to this out-turn due to continued expansion into non-traditional markets and increased visitors expected from existing source markets. Economic growth is also expected to be significantly influenced by increased value added of the Mining & Quarrying industry. It is important to note that if the Alpart Alumina Plant reopens, in the latter half of 2013, this would add 0.9 percentage point to GDP growth, resulting in an overall real GDP change of 2.9%. Key downside risks to these projections include:

- Continued weakness in the pace of global economic recovery;
- Impact of reform (tax, public sector, pension) measures on demand;
- Sharp increases in commodity prices;
- Above average incidence and intensity of natural disasters.

Table 2E: Employed Labour force by Industry, (`000)

	2010					2011			
	January	April	July	October	Annual Average	January	July	October	Annual Average
I GOODS PRODUCING INDUSTRY	**383.1**	**396.4**	**394.2**	**383.6**	**389.3**	**369.4**	**349.6**	**359.9**	**359.6**
Agriculture, Hunting, Forestry & Fishing	219.8	224.5	222.3	220.2	221.7	194.9	191.1	191.1	192.4
Mining & Quarrying	4.2	3.0	3.8	4.2	3.8	4.9	3.7	4.2	4.3
Manufacturing	72.4	76.0	74.5	74.0	74.2	82.1	68.6	73.7	74.8
Construction	86.7	92.9	93.6	85.2	89.6	87.5	86.2	90.9	88.2
II SERVICES INDUSTRY	**704.5**	**687.1**	**711.1**	**704.9**	**701.9**	**734.5**	**731.9**	**728.2**	**731.5**
Electricity, Gas & Water Supply	6.5	6.6	6.7	7.0	6.7	8.7	7.9	8.3	8.3
Wholesale & Retail, Repair of Motor Vehicle & Equipment	212.7	205.0	217.9	209.8	211.4	229.8	201.0	226.7	219.2
Hotels & Restaurant Services	72.8	79.0	72.4	73.4	74.4	69.9	80.3	74.1	74.8
Transport, Storage & Communications	74.1	72.0	80.2	71.0	74.3	69.9	76.4	70.7	72.3
Financial Intermediation	22.2	23.8	26.1	25.1	24.3	27.1	25.3	23.4	25.3
Real Estate, Renting & Business Activities	47.6	52.1	55.4	52.7	52.0	55.2	66.5	55.3	59.0
Public Administration & Defence;									
Compulsory Social Security	56.1	51.1	55.5	55.8	54.6	52.6	56.7	58.1	55.8
Education	66.9	66.5	57.7	73.6	66.2	71.9	69.5	68.6	70.0
Health & Social Work	26.7	22.5	26.8	25.3	25.3	25.8	30.8	29.7	28.8
Other Community, Social and Personal									
Service Activities	58.3	49.1	54.6	55.1	54.3	61.5	58.8	57.2	59.2
Private Households with Employed Persons	60.6	59.4	57.8	56.1	58.5	62.1	58.7	56.1	59.0
III INDUSTRY NOT SPECIFIED	4.0	4.2	4.0	2.6	3.7	2.6	2.8	1.7	2.4
TOTAL	**1 091.6**	**1 087.7**	**1 109.3**	**1 091.1**	**1 094.9**	**1 106.5**	**1 084.3**	**1 089.8**	**1 093.5**

PART 3 FISCAL MANAGEMENT STRATEGY

Overview of Fiscal Operations FY 2011/12

Central Government Operations

The FY 2011/12 Budget was formulated against the background of a very challenging previous FY 2010/11 and also within the context of the Government's Medium Term Economic Programme (MTEP).

The Budget for FY 2011/12 amounted to $544,721.24mn, with an 'above the line' expenditure of $412,461.8mn and amortization payments of $132,259.4mn. The fiscal deficit was programmed at $61,819.8mn (4.6% GDP) along with a primary surplus of $69,264.0mn (5.2% GDP). Debt servicing was 14.2% higher for FY 2011/12 compared to the previous fiscal year and constituted 48.3 percent of the FY 2011/12 Budget. This was largely attributable to the higher external amortization resulting from the maturity of Euro 400mn.

During the course of the fiscal year, some adverse developments necessitated adjustments to some of the fiscal targets. The factors that negatively impacted the fiscal targets included: lower than programmed revenue and grants resulting in part from lower than programmed inflows from administrative efforts; reduced grant flows from the European Union (EU); payment of a 7% increase to public sector employees; slower than anticipated depreciation of the Jamaica dollar; and faster than expected fall in domestic interest rates which reduced revenue flows from tax on interest.

The Central Government's estimated primary surplus for FY 2011/12 was thus adjusted downwards to $39,144.7mn, to take account of these unforeseen adverse developments. Notable unprogrammed expenditures that were not originally budgeted but were subsequently undertaken through the Supplementary Estimates during FY 2011/12 included:

(i) an increase of $7,600mn to make the 7% wage increase;
(ii) amounts for the holding of General and Local Elections -$2,100mn;
(iii) Central Government expenditure arrears of approximately $11,298mn (0.9% of GDP), inclusive of payments for the Jamaica Development Infrastructure Programme (JDIP) and cost associated with the operations of Clarendon Alumina Production (CAP).

Table 3A: Central Government Summary Accounts FY 2011/12
(in millions of Jamaica $)

Item	Prov Apr-Mar	Budget Apr-Mar	Diff	Diff %	FY10/11 Apr-Mar	Diff	Diff %
Operating Revenue	**322,149.8**	**350,641.9**	**-28,492.1**	**-8.1%**	**314,558.5**	**7,591.3**	**2.4%**
Tax Revenue	289,882.2	308,215.3	-18,333.1	-5.9%	279,874.2	10,008.0	3.6%
Non-Tax Revenue	16,709.2	18,079.8	-1,370.6	-7.6%	20,473.9	-3,764.8	-18.4%
Bauxite Levy	1,524.5	1,786.1	-261.6	-14.6%	421.1	1,103.4	262.0%
Capital Revenue	10,585.1	9,182.4	1,402.7	15.3%	3,664.5	6,920.6	188.9%
Grants	3,448.8	13,378.3	-9,929.5	-74.2%	10,124.8	-6,676.0	-65.9%
Operating Expenditure	**403,122.2**	**412,461.8**	**-9,339.6**	**-2.3%**	**388,768.0**	**14,354.2**	**3.7%**
Recurrent Expenditure	349,891.3	352,046.4	-2,155.1	-0.6%	333,173.8	16,717.5	5.0%
Programmes	89,699.4	87,215.1	2,484.3	2.8%	76,917.9	12,781.5	16.6%
Wages & Salaries	139,556.9	133,747.5	5,809.5	4.3%	127,901.3	11,655.7	9.1%
Interest	120,635.0	131,083.9	-10,448.9	-8.0%	128,354.7	-7,719.6	-6.0%
Domestic	81,547.9	88,610.0	-7,062.1	-8.0%	88,049.5	-6,501.6	-7.4%
External	39,087.1	42,473.9	-3,386.8	-8.0%	40,305.2	-1,218.1	-3.0%
Capital Expenditure	53,230.9	60,415.4	-7,184.5	-11.9%	55,594.1	-2,363.2	-4.3%
Fiscal Balance (Surplus + / Deficit -)	**-80,972.4**	**-61,819.9**	**-19,152.5**	**31.0%**	**-74,209.5**	**-6,762.9**	**9.1%**
Loan Receipts	**163,520.5**	**140,778.2**	**22,742.4**	**16.2%**	**212,968.9**	**-49,448.4**	**-23.2%**
Domestic	142,752.5	97,002.8	45,749.7	47.2%	122,478.7	20,273.7	16.6%
External	20,768.1	43,775.4	-23,007.3	-52.6%	90,490.2	-69,722.1	-77.0%
Amortization	**128,373.2**	**132,259.4**	**-3,886.2**	**-2.9%**	**102,157.5**	**26,215.7**	**25.7%**
Domestic	67,820.2	66,031.0	1,789.2	2.7%	79,393.5	-11,573.3	-14.6%
External	60,553.0	66,228.5	-5,675.5	-8.6%	22,764.0	37,789.0	166.0%
Overall Balance (Surplus + / Deficit -)	**-45,825.0**	**-53,301.1**	**7,476.1**	**-14.0%**	**36,602.0**	**-82,427.0**	**-225.2%**
Primary Balance (Surplus + / Deficit -)	**39,662.6**	**69,264.0**	**-29,601.4**	**-42.7%**	**54,145.2**	**-14,482.6**	**-26.7%**

For FY 2011/12, Central Government Operations generated a fiscal deficit of $80,972.4mn, or 6.2% of GDP, as against the budgeted deficit of $61,819.9mn or 4.6% of GDP. The deterioration in the fiscal deficit, relative to budget, resulted mainly from the shortfall in ‘Revenue and Grants’ or ‘Operating Revenue’. The fiscal deficit of 6.2% of GDP was the same as the deficit outturn recorded for FY 2010/11. This deficit outturn was largely influenced by the performance of revenue and grants, which fell from 26.4% of GDP in FY 2010/11 to 24.9% of GDP.

Notably, the primary surplus of $39.662.6mn was above the revised target (Third Supplementary Estimates) of $39,144.7mn by $517.9mn or 2.6%. In comparison to the original budget, the primary surplus outturn was however lower than originally budgeted by $29,601.4mn or 42.7%.

This level of primary surplus is equivalent to 3.1% of GDP, compared to the 4.5% of GDP registered in the previous fiscal year.

Operating Revenue

The FY 2011/12 Budget profile programmed revenue growth of 11.5% over the previous fiscal year. The growth in revenue was predicated on:

(1) The elasticity of the tax system; and
(2) Continuation of an aggressive revenue enhancement programme by the Tax Authorities.

Revenue collections underperformed in FY 2011/12 relative to the target with total revenue and grants of $322,149.8mn falling below the amount budgeted by $28,492.1mn, or 8.1%. All categories of receipts, with the exception of Capital revenue (15.3%), performed below target. Of note, revenue and grants increased nominally by only 2.4% over receipts in FY 2010/11, a real decline of about 5.0%. Tax Revenue (5.9%), Grants (74.2%) Bauxite Levy (14.6%) and Non-tax Revenue (7.6%) fell below Budget, while Capital Revenue (15.3%) surpassed the amount originally budgeted.

Revenue performance was impaired by the lower than programmed flows from international trade taxes, occasioned by the slower than anticipated depreciation in the FX rate coupled with lower import value of consumer goods and lower than projected receipts from administrative efforts. Growth in 'nominal GDP' was below projections thereby negatively impacting the collections of Income & Profits and Production & Consumption taxes. Of note, the faster than programmed reductions in domestic interest rates led to lower revenue intake on Tax on Interest.

Tax Revenue

With respect to Tax Revenue, collections of $289,882.2mn were $18,333.1mn or 5.9% below the amount budgeted (Table 3B). The shortfall was influenced by lower collections from most items.

Receipts from the Income and Profits tax category amounted to $106,422.8mn, which was $5,848.9mn, or 5.2% below Budget. All items, with the exception of PAYE and Bauxite/alumina taxes, registered shortfalls, with Other Companies, Tax on Interest and Other Individuals being the significant contributors to the unfavourable performance of this category. Corporate taxes performed well below expectations as receipts of $29,035.2mn deviated from target by $6,477.2mn (18.2%) partly as a result of lower than targeted flows from administrative efforts and weaker than anticipated base revenue growth. Indications are that there was an increase in the incidence of non-compliance. Accordingly, throughout FY 2012/13 and over the medium term, renewed emphasis will be placed on the continued strengthening of administrative capacity in an effort to limit evasion and increase compliance.

With respect to Tax on Interest, there was a $2,284.1mn (15.3%) shortfall when compared to budget, due mainly to lower than anticipated interest incomes occasioned largely by a faster than anticipated decline in interest rates within the economy.
Production and Consumption tax receipts of $84,628.9mn were $3,973.5mn (4.5%) below budget, as the under-performance in some items (primarily GCT) outweighed the better than targeted performances on other items.

Table 3B: Details of Revenue FY 2011/12

(in millions of Jamaica dollars)

Item	**Prov. Apr-Mar**	**Budget Apr-Mar**	**Diff**	**Diff %**	**FY10/11 Apr-Mar**	**Diff**	**Diff %**
Revenue & Grants	**322,149.8**	**350,641.9**	**-28,492.1**	**-8.1%**	**314,558.5**	**7,591.3**	**2.4%**
Tax Revenue	**289,882.2**	**308,215.3**	**-18,333.1**	**-5.9%**	**279,874.2**	**10,008.0**	**3.6%**
Income and profits	106,422.8	112,271.8	-5,848.9	-5.2%	105,118.7	1,304.1	1.2%
Bauxite/alumina	1.3	0.0	1.3	-	866.3	-865.0	-99.9%
Other companies	29,035.2	35,512.4	-6,477.2	-18.2%	32,480.9	-3,445.6	-10.6%
PAYE	60,164.8	55,838.7	4,326.1	7.7%	51,552.6	8,612.3	16.7%
Tax on dividend	805.9	1,125.7	-319.8	-28.4%	1,032.3	-226.4	-21.9%
Other individuals	3,786.5	4,881.8	-1,095.3	-22.4%	4,001.8	-215.3	-5.4%
Tax on interest	12,629.1	14,913.2	-2,284.1	-15.3%	15,184.9	-2,555.8	-16.8%
Environmental Levy	2,318.9	2,203.0	115.9	5.3%	2,040.1	278.8	13.7%
Production and consumption	84,628.9	88,602.5	-3,973.5	-4.5%	78,571.4	6,057.5	7.7%
SCT	9,238.1	9,597.6	-359.5	-3.7%	8,647.9	590.2	6.8%
Motor vehicle licenses	1,737.7	1,944.0	-206.3	-10.6%	1,782.7	-45.0	-2.5%
Other licenses	377.8	289.5	88.2	30.5%	265.5	112.2	42.3%
Betting, gaming and lottery	1,640.8	1,671.5	-30.7	-1.8%	1,532.8	108.0	7.0%
Education Tax	14,995.7	14,465.6	530.1	3.7%	13,096.5	1,899.2	14.5%
Contractors levy	1,171.1	924.8	246.3	26.6%	793.6	377.5	47.6%
GCT (Local)	47,973.2	52,861.1	-4,887.8	-9.2%	46,389.9	1,583.3	3.4%
Stamp Duty (Local)	7,494.5	6,848.4	646.1	9.4%	6,062.4	1,432.0	23.6%
International Trade	96,511.6	105,138.1	-8,626.5	-8.2%	94,144.0	2,367.6	2.5%
Custom Duty	20,769.1	24,424.0	-3,654.9	-15.0%	20,487.7	281.4	1.4%
Stamp Duty	1,470.4	1,504.5	-34.1	-2.3%	1,393.2	77.1	5.5%
Travel Tax	5,086.8	5,044.6	42.2	0.8%	3,930.6	1,156.2	29.4%
GCT (Imports)	41,684.8	43,597.1	-1,912.3	-4.4%	38,520.6	3,164.2	8.2%
SCT (imports)	27,500.5	30,567.9	-3,067.4	-10.0%	29,811.8	-2,311.3	-7.8%
Non-Tax Revenue	**16,709.2**	**18,079.8**	**-1,370.6**	**-7.6%**	**20,473.9**	**-3,764.8**	**-18.4%**
Bauxite Levy	**1,524.5**	**1,786.1**	**-261.6**	**-14.6%**	**421.1**	**1,103.4**	**262.0%**
Capital Revenue	**10,585.1**	**9,182.4**	**1,402.7**	**15.3%**	**3,664.5**	**6,920.6**	**188.9%**
Grants	**3,448.8**	**13,378.3**	**-9,929.5**	**-74.2%**	**10,124.8**	**-6,676.0**	**-65.9%**

Receipts from the International Trade category totaled $96,511.6mn, which were $8,626.5mn (8.2%) below budget. All sub-categories of taxes with the exception of Travel Tax registered shortfalls relative to the budget. Collections increased over FY 2010/11 by 2.5%, mainly as a result of one off inflows associated with legacy payments for Air Jamaica.

Other Revenue

Non-tax revenue performed below expectations with total collections of $16,709.2mn being below target by $1,370.6mn, or 7.6%. Receipts from the Customs User Fee (CUF) were primarily responsible for the under-performance compared to budget. The 2% CUF contributed approximately 46.5% to total non-tax revenue collections. CUF receipts of $7,770.3mn were $755.6mn (8.9%) below target partly as a result of the slower than expected depreciation of the Jamaica Dollar. Receipts from departmental and miscellaneous revenues were also below projections.

Capital revenue receipts totaled $10,585.1mn, an excess of $1,402.7mn (15.3%) relative to budget, due to collections from loan repayments being $1,229.3mn higher than budgeted. The higher than projected increase in capital revenue was attributable mainly to a payment from the Development Bank of Jamaica (DBJ).

Bauxite Levy receipts of $1,524.5mn fell below Budget by $261.6mn (14.6%). The out-turn versus budget was due to lower than projected flows from mining operations, as output was below target, as well as to the slower than anticipated depreciation of the Jamaican currency.

Grants

Grant receipts amounted to $3,448.8mn, a shortfall of $9,929.5mn (74.2%) against budget. This shortfall was due mainly to the delay in programmed proceeds from the European Union (EU) as these flows were linked to successful reviews of the GOJ/IMF SBA programme. In addition, the lower than planned GOJ capital spending led to delays in the disbursement of planned inflows.

Expenditure

Total spending for FY 2011/12 of $403,122.2mn was $9,339.6mn (2.3%) less than originally budgeted with both Recurrent Expenditure (0.6%) and Capital Expenditure (11.9%) being reduced below original budget. Compared to FY 2010/11, total spending during FY 2011/12 increased by 3.7%, representing a 4.6% decrease in real terms.

Recurrent Expenditure

Recurrent Expenditure totalled $349,891.3mn, a reduction of $2,155.1mn or 0.6% below the original budget. The main contributor to the reduction was lower than programmed interest payments, as spending on recurrent programmes and wages and salaries exceeded budget. This level of recurrent expenditure represented an increase of 5.0% over FY 2010/11, a real decrease of approximately 2.3%.

Spending on Recurrent Programmes (goods and services) of $89,699.4mn was $2,484.3mn (2.8%) more than the amount budgeted and 16.6% more than the previous fiscal year. The higher spending on recurrent programmes in FY 2011/12 stemmed in part from the costs associated with the holding of General and Local Government elections.

Expenditure on Wages & Salaries for FY 2011/12 was programmed to increase mainly as a result of retroactive payments (back-pay) due to certain groups of public sector workers, performance based increments, and the recruitment of police and correctional officers. However, the unprogrammed payment of the 7.0% increase to public sector workers resulted in Wages and Salaries of $139,556.9mn being $5,809.5mn (4.3%) above Budget.

Interest Payments of $120,635.0mn was $10,448.9mn (8.0%) below budget, with both domestic and external interest payments being less than budgeted. When compared to the previous fiscal year, interest payments decreased by 6.0% with domestic and external interest payments decreasing by 7.4% and 3.0%, respectively. Lower domestic Interest Payments resulted from, inter alia, lower than anticipated interest rates, the slower than anticipated depreciation in the value of the Jamaica dollar, later than anticipated assumption of debt and lower than budgeted contingency payments. At the same time, savings from lower external interest payments emanated from the slower than anticipated depreciation in the value of the Jamaica dollar and lower than anticipated loan raising expenses.

Interest costs as a proportion of GDP decreased significantly to 9.3%, relative to 10.8% recorded in FY 2010/11. As a share of total expenditure (less amortization), Interest Payments stood at 29.9% in FY 2011/12 compared to 33.0% in FY 2010/11. Interest payments to tax revenue ratio trended downwards in FY 2011/12, representing 41.6% of tax revenue compared to 45.9% in FY 2010/11. As a proportion of total revenue, Interest costs amounted to 37.4% in FY 2011/12 compared to 40.8% in FY 2010/11, and an average of 49.7% for the last three years. This favourable trend of declining interest costs to total revenue is expected to continue through the medium term.

Capital Expenditure

Expenditure on Capital Programmes of $53,230.9mn was $7,184.5mn (11.9%) 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. Capital spending was also $2,363.2mn (4.3%) lower than in FY 2010/11. However when one-off payments are removed from FY 2011/12 (legacy payments) and FY 2010/11 (Air Jamaica divestment), capital expenditure increased by $1,816.9mn (4.6%).

Financing

The Central Government financed the FY 2011/12 fiscal deficit of $80,972.4mn through net borrowing of $35,147.3mn (loans of $163,520.5mn less amortization payments of $128,373.2mn), and utilization of cash balances of $45,825.0mn for FY 2011/12. Gross loan receipts of $163,520.5mn were 24.9% more than the amount originally budgeted and comprised: domestic receipts of $142,752.5mn and loans from external sources of $20,768.1mn. The lower than anticipated external loan receipts resulted from the non-receipt of programmed Policy Based Loans (PBLs) that have been delayed as a result of the issues relating to macro-economy and the SBA with the IMF. This resulted in the borrowing of a higher than programmed loan amount from domestic sources.

Public Debt Stock

Jamaica's total public debt stood at $1,662.3bn or 128.0% of GDP at the end of FY 2011/12 (Table 3D). This represented a 5.9% increase over the $1,570.4mn or 131.6% of GDP at the end of FY 2010/11. The increase in the stock during the course of FY 2010/11 was mainly attributable to:

- Financing of the fiscal deficit;
- Depreciation of the Jamaican dollar vis-à-vis the US dollar and other currencies;
- Assuming debts of the Air Jamaica which accounted for 18.5% of the increase; and
- Issuing of securities to BOJ for capitalized interest on former FINSAC Bonds.

Table 3D: Total Debt Stock

	2010/11	2011/12
(J$mn)		
Domestic	809,370.0	912,642.3
External	760,998.3	749,631.1
TOTAL	**1,570,368.3**	**1,662,273.4**
(% GDP)		
Domestic	67.8	70.3
External	63.8	57.7
TOTAL	**131.6**	**128.0**

The domestic debt stood at $912,642.3mn or 70.3% of GDP at the end of FY 2011/12, which was 12.8% higher than the $809,370.3mn registered at the end of FY 2010/11. In addition, explicit domestic guarantees amounted to $26,559.4mn or 2.0% of GDP at the end of FY 2011/12.

With respect to the stock of public and publicly-guaranteed external debt, this declined to $749,631.1mn (US$8,586.8mn) or 57.7% of GDP at the end of FY 2011/12, representing an increase of 12.5% over the stock at the end of FY 2010/11. A significant contributor to this decrease was the repayment of US$400.0mn in May 2011.

Public Bodies Operations - FY 2011/12

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 were included in the Jamaica Public Bodies Estimates of Revenue and Expenditure for FY 2011/12.

The combined Overall Balance for these public bodies, as originally approved, was a deficit of $7,921.7mn, with both the Selected Public Bodies (SPBs) and the Other Public Bodies (OPBs) forecasting deficits of $5,000.1mn and $2,921.5mn respectively. The budget was amended to a deficit of $10,370.9mn (SPBs: -$8,720.1mn, OPBs: -$1,650.8mn) in August 2011 with the approval of the First Supplementary Estimates, primarily to include the Clarendon Alumina Production Limited (CAP) which was excluded from the original budget. There were two subsequent amendments made to the Estimates during the fiscal year to take account of other impacts, such as the increased expenditure of approximately $5,700.0mn under the Jamaica Development Improvement Programme (JDIP) and further amendments to CAP's estimates, as it was then evident that divestment would not be realised and the Government had to settle the entity's outstanding arrears to Alcoa of US$60.5mn. The final Overall Balance for the Public Bodies for the year, as approved in the Third Supplementary Estimates, is a deficit of $10,253.6mn (SPBs: -$2,887.2mn, OPBs: -$7366.3mn).

In FY 2011/12, the Government's stated priority for economic and infrastructure development covered three main sectors namely water, roads and housing. Four (4) self-financing public bodies (The National Water Commission (NWC), The Road Maintenance Fund (RMF), The National Housing Trust (NHT) and the Housing Agency of Jamaica (HAJ)) operate in these sectors and were expected to expend approximately $50,072.0mn or 75.0% of the total Public Bodies capital expenditure for the year. The estimated performances of these four entities were on target with a reported expenditure of $50,026.0mn. However, the composition of the expenditure varied from the budget as both the NWC and HAJ had funding challenges which resulted in lower levels of expenditure while the RMF doubled its share. The NHT's expenditure was marginally below budget.

The estimated performance of the Public Bodies for FY 2011/12 is an Overall Balance surplus of $12.9mn, which compares favourably with the revised target for the year of $10,370.9mn. This performance was driven mainly by the NWC and Petrojam which reported positive variances of $4,179.5mn and $2,807.6mn respectively. NWC's outturn was impacted mainly by the late loan approvals which affected the timeliness of resource availability to implement its capital programme, while Petrojam operations are highly susceptible to the vagaries of the market and issues related to the timing of supplies and payments. The estimated outturn of the Public Bodies for FY 2011/12 is shown in the table below.

Highlights

Clarendon Alumina Production (CAP)

During FY 2011/12 the government continued negotiations toward the divestment of the 45% shareholding held by CAP in the Jamalco operations. Given that the divestment was not completed as anticipated the GOJ provided approximately US$87.0mn to settle debt service obligations on the CAP 2012 Bond as well as to honour shortfall on operations in respect of CAP's 45% shareholding in Jamalco.

Notably production costs (*driven mainly by cost of fuel, caustic*) which averaged US$363/tonne for FY 2011/12 continued to outpace revenue inflows, which averaged US$259/tonne.

National Road Operating Construction Company (NROCC)

NROCC's improved outturn was influenced largely by the refinancing of the BANDES Euro 204mn bond. This was in two parts: short –term which was completed in June 2011, then issue of a longer term bond in November 2011.

Cabinet by way of Decision No. 22/10 dated June 7, 2010, approved a refinancing transaction for bonds in the amount €204,386,447.

In keeping with the decision the interim refinancing of the bonds was completed, resulting in:

a. Early repayment of an existing loan from BANDES to the Development Bank of Jamaica in the amount of €204.38mn that was onlent to NROCC;
b. Unwinding of the €/ US$ cross currency derivative (swap) held with Citibank N.A. that was used to hedge the Euro exposure of the loan into US$, for which a conditional GOJ Guarantee was issued in the amount of up to US$79.0mn;
c. In addition NROCC realised cash inflows of approximately US$26.0mn used to finance the Sandy Bay to Glenmuir/May Pen leg of Highway 2000.

The interim bond was replaced by a longer term bond issued November 2011 for US$294.0mn

Airports Authority of Jamaica (AAJ)

During FY 2011/12, the 20-year Capital Development Programme (CDP) at the Norman Manley International Airport continued to be the main capital related focus for the AAJ Group. At the end of the period, construction works under Phase 1A of the CDP were practically completed. However, planned works related to Phase 1B will be undertaken during FY 2012/13. Acquisition with respect to other fixed asset was also deferred. Accordingly, only $523.1mn was expended for capital costs, compared to the budget of $735.7mn.

Notwithstanding a decline of $169.1mn aeronautical revenue, AAJ was still able to realize a surplus of $290.7mn on its operations, as efforts to increase non-aeronautical revenues (such as space rental and concession/shop income) impacted income positively. It is expected that cost saving strategies implemented during FY 2011/12 will be beneficial to the Authority's operations in ensuing years.

Port Authority of Jamaica (PAJ)

The Port Authority of Jamaica continues to make a significant contribution to the Jamaican economy, through the pursuit of its regulatory and developmental roles. While the Falmouth Cruise Ship Pier was officially opened and accommodated its first mega liner in March 2011, the construction of the Pier was completed during FY 2011/12. The full operation of the Pier is expected to continue to impact favourably on economic development in the Town of Falmouth and the country as a whole.

National Water Commission (NWC)

For FY 2011/12 the NWC implemented just over 50% of the capital expenditure programme planned for the year.

Delays were experienced in finalising financing arrangements for the flagship Jamaica Water Supply Improvement Projects (JSWIP). These have now been surmounted and the project is expected to move unimpeded from here on. The achievement record for the year shows:

- Jamaica Water Supply Improvement Project ($2,812.8mn);
- Harbour View sewerage treatment plant ($203.8mn);
- The Kingston Water and Sanitation Project (water supply rehabilitation and infrastructure works) accounted for $457.5mn;
- Externally funded projects totalled $134.0mn; and
- Kingston Metropolitan Area/JABIC project was $127.6mn of the amount expended.

PetroCaribe Development Fund

The PetroCaribe Development Fund continued to report a strong performance during the financial year in terms of its asset growth and surplus. As a result it continued to meet debt servicing obligations to Venezuela promptly and provided low cost funding for some strategic infrastructure projects.

In keeping with the spirit of the PetroCaribe Agreement, grant expenses amounting to $591.0mn are estimated at March 2012, slightly above the $500.0mn provision. A total of $255.0mn was disbursed to the Liquefied Natural Gas (LNG) project and Jamaica Social Investment Fund (JSIF) projects. The amounts disbursed through JSIF were specifically used to finance urban renewal activities.

In keeping with its mandate the Fund made commitments and provided loans to the Student Loans Bureau, Ex-IM Bank, Airports Authority of Jamaica and the Montego Bay Freezone in keeping with the Vision 2030. Additionally, the Fund provided financing totaling US$230.0mn to retire/re-finance domestic debt, in accordance with its objective to provide support as required.

Development Bank of Jamaica (DBJ)

For the financial year DBJ facilitated some J$8.4bn in investments in Jamaica from their loans and privatization programmes. This is 27.5% higher than the target of $6.6bn. As a result of lending activities, DBJ facilitated the creation of 2074 new jobs, almost three times the target for FY 2011/12.

The DBJ has achieved and continues to develop initiatives, products and progammes geared towards job creation, facilitating investments to contribute to economic development.

Major achievements include:

Facilitation of Credit

- Total number of loans approved: 6385
- Total value of commitments: $4.8bn
- Total loans disbursed: $4.4bn
- Interest Rate Range: 7.0% - 9.5%
- Total loans approved and disbursed to Micro Finance Institutions in FY 2011/12: $491.0mn

Since inception of this line in 2009, $1.094bn has been committed and disbursed. Micro, Small and Medium-Sized Enterprises (MSME) loans in general approved for 2012 was J$1,127.0mn, comprising Approved Financial Institutions- J$176.0mn, National People's Co-operative Bank - J$460.0mn and Micro Finance Institutions J$491.0mn.

Students' Loan Bureau (SLB)

The SLB also experienced funding challenges in FY 2011/12 but the Ministry of Finance took the steps necessary to provide the resources to facilitate full financing of the disbursements required for the FY 2011/12 academic year. Tuition disbursements for FY 2012/13 are estimated at $3,700mn . The projected funding from collections and loan proceeds is inadequate to satisfy the estimated demand therefore various measures are being pursued to address the shortfall.

The business model currently being used by the SLB is not sustainable. As such, a comprehensive review is to be done to provide the basis for the necessary corrective action to ensure sustainability of the Revolving Fund. Even ahead of the completion of this review however, the Ministry of Finance is seeking to amend the Students Loan Fund Act, to strengthen SLB's capacity to collect through enforcement of salary deduction orders. This is intended to address the high level of delinquency, (26%) at March 2012.

Other strategies that will be pursued include the possibility of accessing grant funding, locally and internationally. Notwithstanding the challenges, the loan rate will be reduced to the reducing balance in the 2012/13 financial year.

Public Bodies *Summary of Estimated Outturn for Financial Year 2011/12*

(Selected & Other)

J$m

Statement 'A' Flow of Funds	SPBs Estimated 2011/12	OPBs Estimated 2011/12	TOTAL PBs 2011/12
1 Current Revenue	293,807.36	50,126.31	343,933.66
2 Current Expenses	(272,776.31)	(53,736.84)	(326,513.15)
3 Current Balance	21,031.05	(3,610.53)	17,420.52
4 Adjustments	10,943.71	(37.95)	10,905.76
Change in Accounts	0.00	0.00	0.00
Receivable/Payable	6,283.58	(1,716.20)	4,567.38
Items not requiring outlay of cash:	0.00	0.00	0.00
Depreciation	9,062.27	893.70	9,955.96
Other Non-Cash Items	(3,770.22)	784.78	(2,985.44)
Prior Year Adjustment	(631.91)	(0.23)	(632.14)
5 Operating Balance	31,974.76	(3,648.47)	28,326.28
6 Capital Account	(16,017.16)	(1,465.34)	(17,482.50)
Revenue	23,458.69	0.00	23,458.69
Expenditure	(38,771.13)	(1,841.94)	(40,613.06)
Investment	17.15	(273.83)	(256.68)
Change in Inventory	(721.87)	650.43	(71.45)
7 Transfers from Government	9,826.27	3,744.16	13,570.43
Loans	0.00	0.00	0.00
Equity	0.00	0.00	0.00
On-Lending	0.00	0.00	0.00
Other	9,826.27	3,744.16	13,570.43
8 Transfers to Government	(21,640.01)	(2,761.28)	(24,401.30)
Dividend	(25.00)	(58.52)	(83.52)
Loan Repayments	0.00	0.00	0.00
Corporate Taxes	(1,978.59)	(173.20)	(2,151.79)
Other	(19,636.42)	(2,529.56)	(22,165.98)
9 OVERALL BALANCE (5+6+7+8)	4,143.85	(4,130.94)	12.92
10 FINANCING (11+15)	(4,143.85)	4,130.94	(12.91)
11 Total Foreign (12+13+14)	(12,191.42)	57.80	(12,133.62)
12 Government Guaranteed Loans	(20,678.57)	57.80	(20,620.77)
Disbursement	1,581.02	0.00	1,581.02
Amortization	(22,259.59)	0.00	(22,259.59)
13 Direct Loans	8,675.37	0.00	8,675.37
Long Term:	4,313.21	0.00	4,313.21
Disbursement	9,207.51	62,651.95	71,859.46
Amortisation	(4,894.30)	14,052.63	9,158.33
Short Term:	4,363.66	14,052.63	18,416.29
Change in Trade Credits	4,362.16	0.00	4,362.16
14 Change in Deposits Abroad	(188.22)	48,599.32	48,411.10
15 Total Domestic (16+17+18)	6,997.88	48,599.32	55,597.20
16 Banking System	(12,583.44)	49,529.95	36,946.52
Loans (Change)	76.40	(930.63)	(854.23)
Overdraft (Change)	(701.19)	0.00	(701.19)
Deposits (Change)	(11,958.65)	0.00	(11,958.65)
17 Non-Banks (Change)	732.88	0.00	732.88
18 Other (Change)	18,848.43	(58,578.81)	(39,730.38)

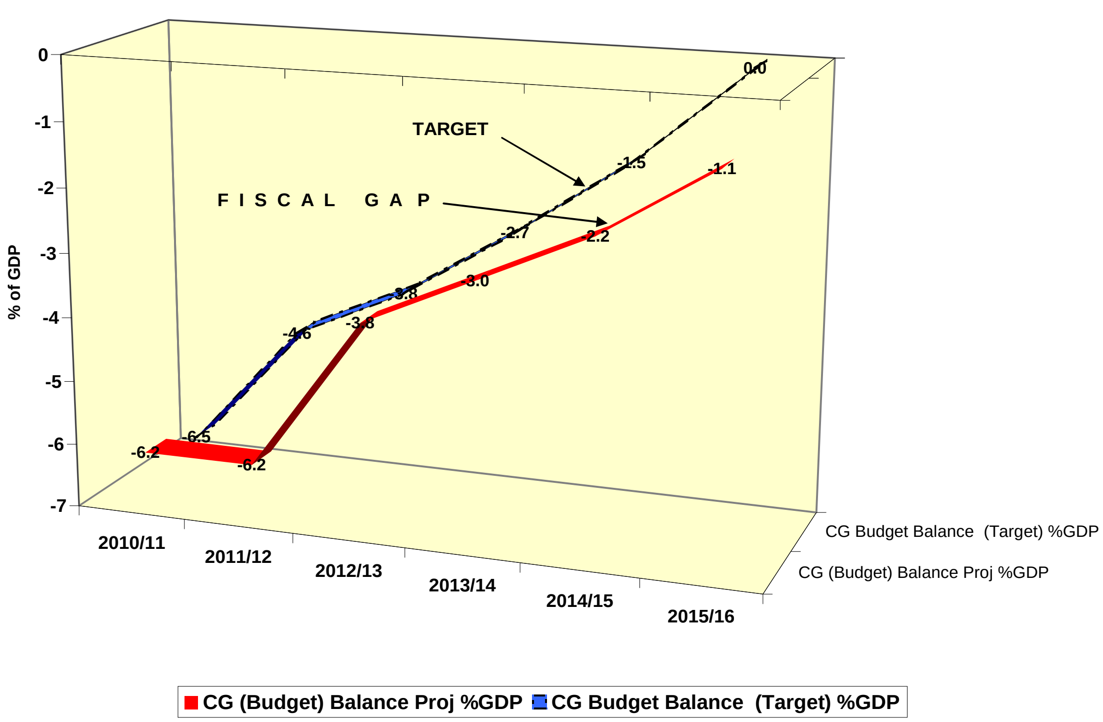
The Government's Medium Term Fiscal Strategy

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 first 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 simplified, equitable, and fair tax system that will elastically generate adequate revenue to facilitate the efficient provision of public goods and services 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, debt reduction and reform of the tax system;
- build sound economic infrastructure including public transportation systems, air and marine transport, a digital broadcasting network, and water supply and sanitation systems;
- improve the quality of governance through effective public sector management; and
- support efforts to build on previous strategies in crime prevention and reduction, 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)



Against the backdrop of the Government's broad strategic priorities, the macroeconomic assumptions outlined in the Macroeconomic Framework and the Estimates of Expenditure for FY 2012/13, tabled in Parliament on May 10, 2012, the MOFP has developed estimates of revenue and expenditure to generate the medium term fiscal profile. The fiscal profile indicates a gap on the targeted Central Government fiscal balance equivalent to 2.1% of GDP in FY 2012/13, which rises to 2.9% of GDP by FY 2015/16. In line with Government's firm commitment to eliminate the fiscal deficit by FY 2015/16, significant, corrective, upfront revenue measures of approximately 2.1% of GDP have been identified for implementation in FY 2012/13. These measures are projected to improve the primary balance to a surplus of 6.0% of GDP in FY 2012/13. The primary surplus is projected to gradually rise to 6.9% of GDP by FY 2015/16, while the fiscal balance is projected at a deficit of 1.1% by FY 2015/16. Over the medium term, further measures will be taken as necessary to close the remaining fiscal gap and ensure achievement of the key fiscal targets.

Table 3E: CENTRAL GOVERNMENT SUMMARY ACCOUNTS

(in % of GDP)

Item	Act 2010/11	Prov 2011/12	Proj 2012/13	Proj 2013/14	Proj 2014/15	Proj 2015/16
Revenue & Grants	**26.4**	**24.8**	**25.9**	**25.8**	**25.2**	**24.7**
Tax Revenue	**23.5**	**22.3**	**24.1**	**23.8**	**23.5**	**23.1**
Non-Tax Revenue	**1.7**	**1.3**	**1.3**	**1.4**	**1.1**	**1.1**
Bauxite Levy	**0.0**	**0.1**	**0.1**	**0.2**	**0.2**	**0.2**
Capital Revenue	**0.3**	**0.8**	**0.1**	**0.1**	**0.1**	**0.1**
Grants	**0.8**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Expenditure	**32.6**	**31.0**	**29.7**	**28.8**	**27.5**	**25.8**
Recurrent Expenditure	**27.9**	**26.9**	**26.9**	**25.9**	**24.6**	**23.1**
Programmes	**6.4**	**6.9**	**6.6**	**6.4**	**6.2**	**6.0**
Wages & Salaries	**10.7**	**10.7**	**10.5**	**10.3**	**9.6**	**9.0**
Interest	**10.8**	**9.3**	**9.8**	**9.2**	**8.8**	**8.0**
Domestic	**7.4**	**6.3**	**6.5**	**6.0**	**5.7**	**5.3**
External	**3.4**	**3.0**	**3.3**	**3.2**	**3.1**	**2.7**
Capital Expenditure	**4.7**	**4.1**	**2.8**	**2.9**	**2.8**	**2.8**
Fiscal Balance (Surplus + / Deficit -)	**-6.2**	**-6.2**	**-3.8**	**-3.0**	**-2.2**	**-1.1**
Loan Receipts	**17.9**	**12.6**	**18.0**	**13.6**	**10.8**	**9.5**
External	**7.6**	**1.6**	**7.9**	**3.0**	**3.2**	**2.0**
Domestic	**10.3**	**11.0**	**10.2**	**10.6**	**7.6**	**7.6**
Divestment	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Amortization	**8.6**	**9.9**	**14.2**	**10.6**	**8.5**	**8.4**
External	**1.9**	**4.7**	**5.3**	**1.8**	**3.0**	**3.2**
Domestic	**6.7**	**5.2**	**8.9**	**8.8**	**5.6**	**5.1**
Overall Balance (Surplus + / Deficit -)	**3.2**	**-3.5**	**0.0**	**0.0**	**0.0**	**0.0**
Primary Balance (Surplus +/Deficit -)	**4.5**	**3.1**	**6.0**	**6.2**	**6.6**	**6.9**
Target Fiscal Balance	**-6.5**	**-4.6**	**-3.8**	**-2.7**	**-1.5**	**0.0**
Target Primary Balance	**4.8**	**5.0**	**6.0**	**6.5**	**7.3**	**8.0**
Gap on Fiscal Balance	**-0.3**	**1.6**	**0.0**	**0.3**	**0.7**	**1.1**
Gap on Primary Balance	**0.3**	**1.9**	**0.0**	**0.3**	**0.7**	**1.1**

FY 2012/13 Budget – Central Government

The Central Government's target for FY 2012/13 is a primary surplus of 6.0% of GDP, equivalent to $83,558.4mn and a fiscal deficit of 3.8% of GDP ($52,975.5mn). Revenue and grant inflows are projected at $361,282.5mn with "above-the-line" expenditures at $412,258.0mn.

Revenue and Grants

The revenue and grants projection for FY 2012/13 represents 25.9% of GDP, compared to 24.8% in FY 2011/12. Tax revenue of $335,625.1mn, which accounts for about 92.9% of total revenue, is budgeted to grow by 15.8% over collections in FY 2011/12. The estimates for Tax revenue includes an amount of $19,360mn, attributable to revenue measures to be implemented as part of the tax reform. The revenue measures are set out in a Ministry Paper to be tabled in the Parliament alongside this Fiscal Management Strategy. Excluding the revenue measures, tax revenue is projected to grow by 9.1%, relative to the 3.6% growth in FY 2011/12. A breakout of the revenue and grants for the FY 2012/13 budget is depicted in Table 3F.

Table 3F: FY 2012/13 Revenue Forecast

	2011/12	2012/13	% Change
Revenue & Grants	322,149.8	361,282.5	12.1
Tax Revenue	289,882.2	335,625.1	15.8
Non-Tax Revenue	16,709.2	18,555.2	11.0
Bauxite Levy	1,524.5	1,681.4	10.3
Capital Revenue:	10,585.1	1,008.9	-90.5
of which Loan Repayment	9,876.8	466.1	
Grants	3,448.8	4,412.0	27.9

Non-tax revenue is projected at $18,555.2mn, which is $1,846.0mn (11.0%) above collections in FY 2011/12. The estimates for non-tax revenue amounts to 1.3% of GDP, the same as that registered in FY 2011/12. Receipts in FY 2012/13 are to be bolstered by the financial distribution of $2,500.0mn from public bodies.

With respect to Bauxite levy, receipts have been projected at $1,681.4mn in FY 2012/13, an increase of $156.9mn or 10.3% over FY 2011/12. This projection reflects the on-going volatilities in the global aluminum industry, and buoyant demand in the face of sub-profit prices per metric tonne of alumina. On the local side production is expected to remain flat as WINDLACO's plant in Kirkvine is not expected to reopen. It is expected that Alpart should reopen by end 2013 and resume production in 2014. An important risk to the revenues is that persistent low prices for alumina, in the context of rising oil prices, could precipitate closure of the Ewarton plant.

Capital revenue estimates of $1,008.9mn for FY 2012/13 are $9,576.2mn less than collections in the previous fiscal year, which included repayment of on-lent loans amounting to $9,678.4mn from the Development Bank of Jamaica (DBJ).

The forecast for Grants amounts to $4,412.0mn. This represents a 27.9% increase over receipts in FY 2011/12. It is to be noted that significant amounts were not received from the EU for budgetary support, in FY 2011/12 mainly due to delays in the SBA reviews.

Expenditure

For FY 2012/13, the Central Government's budgeted expenditure amounts to $414,258.0mn, comprising $374,764.6mn for recurrent and $39,493.4mn for capital programmes. Budgeted amortization payments amount to $198,170.2mn. The expenditure of $414,258.0mn represents a 2.7% increase over provisional spending in FY 2011/12, reflecting the "tight fiscal stance" of the Budget. The level of spending projected for FY 2012/13 amounts to 29.7% of GDP, compared to 31.1% in FY 2011/12. Expenditure on Capital Programmes is budgeted to be 25.8% lower, with recurrent spending projected to be 7.1% higher than in FY 2011/12.

Interest cost of $136,533.9mn represents an increase of 13.1% over the previous year. Interest cost as a per cent of GDP, is estimated to be 9.8% in FY 2012/13 compared to 9.3% in FY 2011/12, largely due to the higher debt stock.

With respect to wages and salaries, this is budgeted at $146,860.1mn or 10.5% of GDP, compared to 10.7% of GDP in FY 2011/12. The provision in the FY 2012/13 Budget represents a nominal increase of 5.2%, reflective of:

- $9,510.6mn, comprised of $7,611.3mn for the scheduled installments of the 7% one-off payment and $1,899.3mn for teachers reclassification, arising from the Industrial Disputes Tribunal award; and
- $577.60mn for security forces recruitment.

Recurrent Programmes are budgeted at $91,370.8mn, a slight 1.9% increase over the previous fiscal year, reflecting the GOJ's cost containment stance.

Budgeted spending on Capital Programmes of $39,493.4mn is 25.8% less than the provisional expenditure in FY 2011/12. Some of the significant provisions within the Capital Programme are:

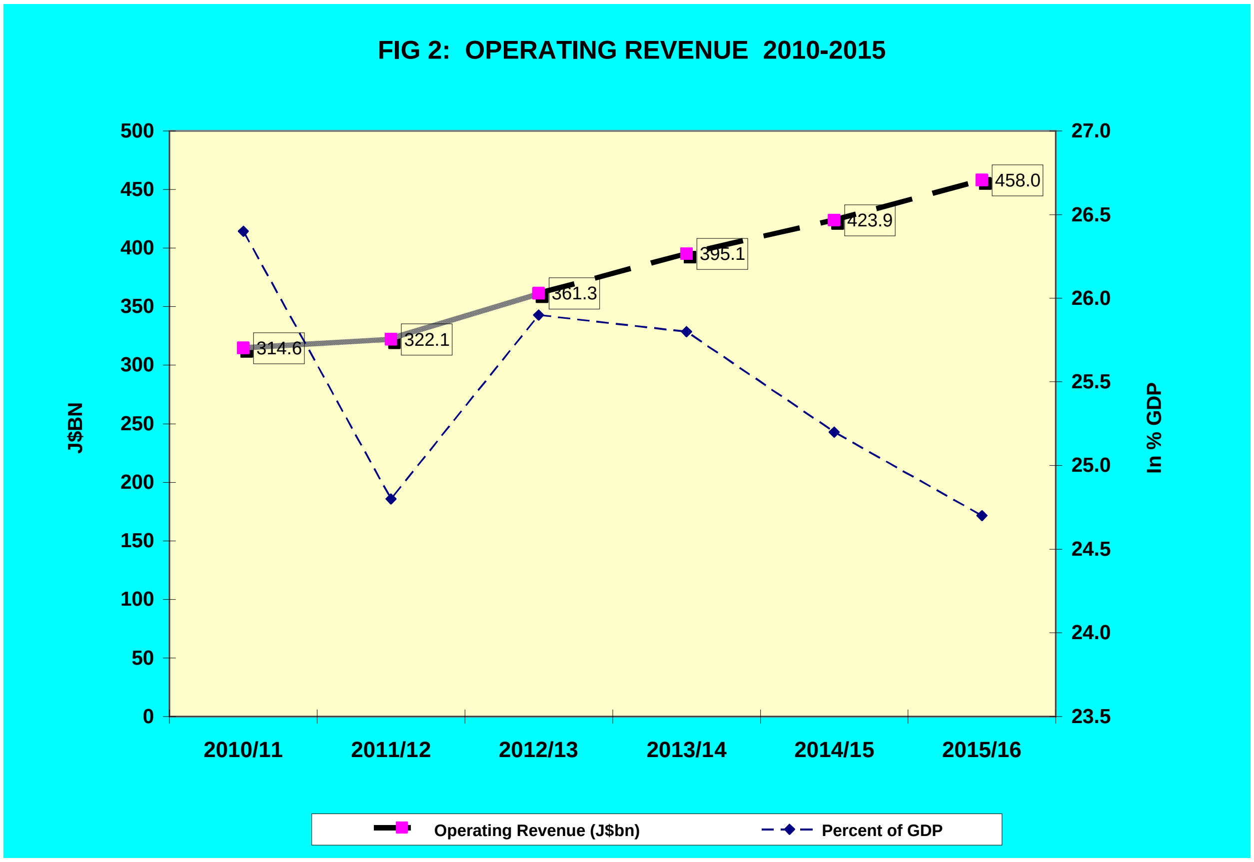
- $1,800 mn for Sugar Company of Jamaica (SCJ) Transformation Project
- $2,500mn for JUTC Buses;
- $4,027.6 mn for PATH programme;
- $1,870.0mn for Palisadoes Shoreline and Road Project; and
- $1,342.5mn for Transportation Infrastructure Réhabilitation Project

Financing

The Central Government's borrowing requirement for FY 2012/13 totals $251,145.7mn. This amount is required to finance the deficit of $52,975.5mn and cover amortization payments of $198,170.4mn. Of the budgeted loan receipts, $141,806.8mn is programmed to be raised from the domestic market. The remainder of $109,338.9mn is to be raised from external sources, in the form of policy based/development policy loans from international financial institutions, project loans and international capital market bonds. The borrowing profile for FY 2012/13 represents a 53.6% expected increase in gross receipts over the previous fiscal year.

Medium Term Revenue Strategy

Over the medium term, Operating Revenue is passively projected to increase, on average, by 8.7 % per annum.

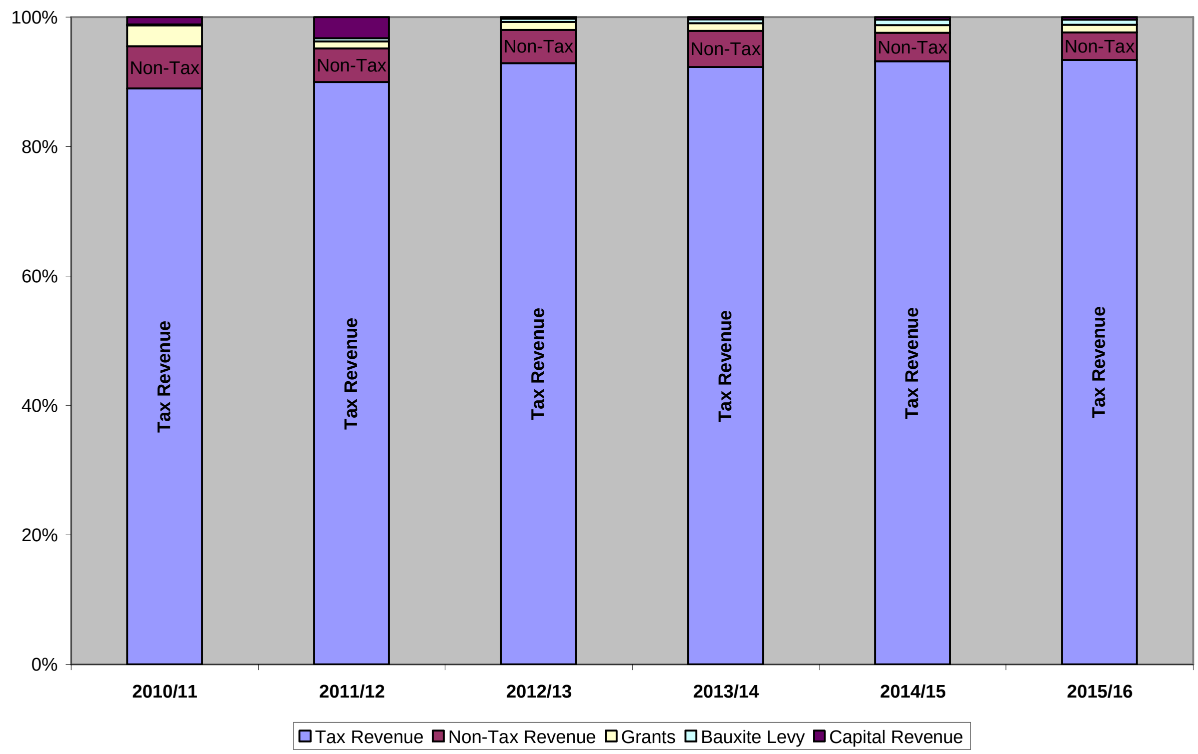


With the tax measures of $19,360mn, compliance measures of $6,800mn along with distributions in profits from public bodies of $2,500mn, Operating Revenue is projected to increase on average by 10.5% over the medium term. Based on the gap (active) of 1.1% of GDP, additional measures will be developed and implemented to ensure a balanced budget by FY 2015/16.

In terms of the breakout of Operating Revenue by source, the largest single source is ‘Tax Revenue’ which over the medium term is expected to account for approximately 93.0% 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 (Fig 3).

Other sources of revenue include ‘Grants’ which accounts for approximately 1.2% of total operating revenue, ‘Bauxite Levy’ and ‘Capital Revenue’ account for the remaining 0.8%.

FIG 3: Operating Revenue By Main Source: 2010-2015



Strategic Framework

Operating Revenue in FY 2011/12 was 24.8% of GDP as compared to a projected 26.3% of GDP when the FPP was tabled in April 2011. During FY 2012/13 the Government will implement its Tax reform programme aimed at achieving 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.

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. 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 Package

In keeping with GOJ commitment to reform the current tax system, based on the principles of equity, simplicity, transparency and efficiency, the GOJ has designed a reform package. The reform package represents a comprehensive tool to address the inefficiencies within the taxation system and therefore focuses on amendments to major tax types. Of note, the reform package is predicated on the need to ensure revenue adequacy and sufficiency. The package will include the following proposed measures with changes effective June 1, 2012, unless otherwise stated and are designed to yield incremental revenue of 1.4% of GDP or $19,360bn in FY 2012/13 (annualized yield of 1.8 % of GDP). The measures are summarized below and further details are outlined in a separate Ministry Paper.

- Imposition of Tax on dividends payable to residents at 5%;
- Reform of the General Consumption Tax (GCT) through: (i)broadening of the base (ii) a 1 percentage point reduction in the standard GCT rate to 16.5% (iii) applying the standard 16.5% GCT rate to electricity while increasing the threshold to 300kWh;
- Reform of Taxation of the Tourism Sector with a dual system – (i) 10 % GCT to apply to all expenses, except gratuity and (ii) introduction of a room tax effective September 1, 2012;
- Reform of the Corporate Income Tax (CIT), effective January 1, 2013 – 33 1/3% remains for regulated companies (those regulated by the Financial Services Commission, Office of Utilities Regulation, Bank of Jamaica, and Ministry of Finance), 25% for unregulated companies and 30% for building societies.
- Introduce a Minimum Income Tax at a flat rate of $60,000 effective January 1, 2013 applicable to all registered companies and self-employed persons;
- Reform of the Personal Income Tax by increasing the general personal income tax threshold to $507,312 effective January 1, 2013;
- Reform of Trade Taxes through a 10 percentage points (average) increase in CET on selected goods;
- Increase in motor vehicle licenses, registration fees and plates by 50%;
- Increase tax rate on winnings from betting from 15% to 20%;
- Modification of Asset Tax Regime through a new tax levied at 0.2% of total assets;
- Levy a specific SCT on overproof rum;
- Impose SCT on denatured ethanol for use in blending of petroleum products;
- Modify the alcohol regime for tourism;
- Modify the termination charge for telephone calls;
- Curtailment of Discretionary Waivers.

These policy measures will be complemented by an aggressive compliance programme, focusing on legislative and administrative measures designed to yield an additional $6,800.0mn in FY 2012/13.

In addition to these measures, The Public Bodies (Financial Distribution) Regulations 2012, passed by both Houses of Parliament in March 2012, provides for the distribution of profit or surplus from public bodies to the Consolidated Fund. For FY 2012/13, the Consolidated Fund is expected to receive an amount of $2,500mn in financial distributions from public bodies.

The new policy measures for FY 2012/13 outlined above will not be adequate to achieve the legislated medium term fiscal targets. A fiscal gap of 1.1% of GDP in FY 2015/16 remains after implementation of these measures. Accordingly, and in light of the GOJ's commitment to a fiscal consolidation path, other fiscal measures will be pursued to close this gap and ensure achievement of the key fiscal targets. A menu of additional measures to be pursued includes:

- Further 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, as well as improving compliance;
- Financial distribution/dividends from public enterprises;
- Pension reform – implementation of a contributory pension scheme in order to partly transfer the cost of financing retirement benefits from the taxpayer to the ultimate beneficiary;
- Public Sector transformation – to generate efficiencies and contain wages;
- Better management 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, including contingent liabilities.

Tax Administration Reform

Tax Administration (TA) was strengthened in FY 2011/12 as the operations of the Inland Revenue Department (IRD), Taxpayer Audit and Assessment Department (TAAD) and the Tax Administration Services Departments (TASD) were consolidated to form a single Department called Tax Administration Jamaica (TAJ) with effect from April 1, 2011. This consolidation of operations, a goal of the reform project, was done via the Revenue Administration (Amendment) Act 2011.

The TAJ will continue with its modernization programme which focuses on business process re-engineering, enhancing communication and information technology, simplifying the tax system and improving the tax infrastructure. The strategic plan for Tax Administration Jamaica over the medium term (FY 2011/12 – FY 2013/14) entails strategies that will make the new organization more efficient and effective. Going forward, TAJ will have an increased role to play in ensuring that the taxes due are collected, thereby contributing to the GOJ adherence to its fiscal and debt targets.

Several options to support enhanced revenue collections have been identified. Substantively, these require institutional stakeholders working collaboratively through the use of administrative measures to increase revenue returns and payments. Administrative measures currently being implemented or pursued include:

- Implementation of an interim automated waiver system;
- Increased and prioritized audits of large taxpayers groups [eg. petroleum, telecommunications]. In this regard, procurement of technical assistance – through EU

financing is already far advanced. This support will seek to strengthen domestic taxpayer audits specifically in the financial sector. It will also contribute to ongoing tax administration reform efforts that include building compliance management capacity and skills of the Tax Administration Jamaica (TAJ) staff, particularly in the more complex economic sectors.

- Preparation of a debt write-off policy for interest, penalty and surcharge arrears;
- Institutionalisation of inter-departmental partnerships to improve intelligence gathering and joint audits.
- Introduction of a compulsory filing programme. Under this national filing programme all residents of Jamaica will be required to file an annual income tax return on their world income once the aggregate is above the threshold. Non-residents will also be required to file returns for all income earned in Jamaica.

Medium Term Expenditure Strategy

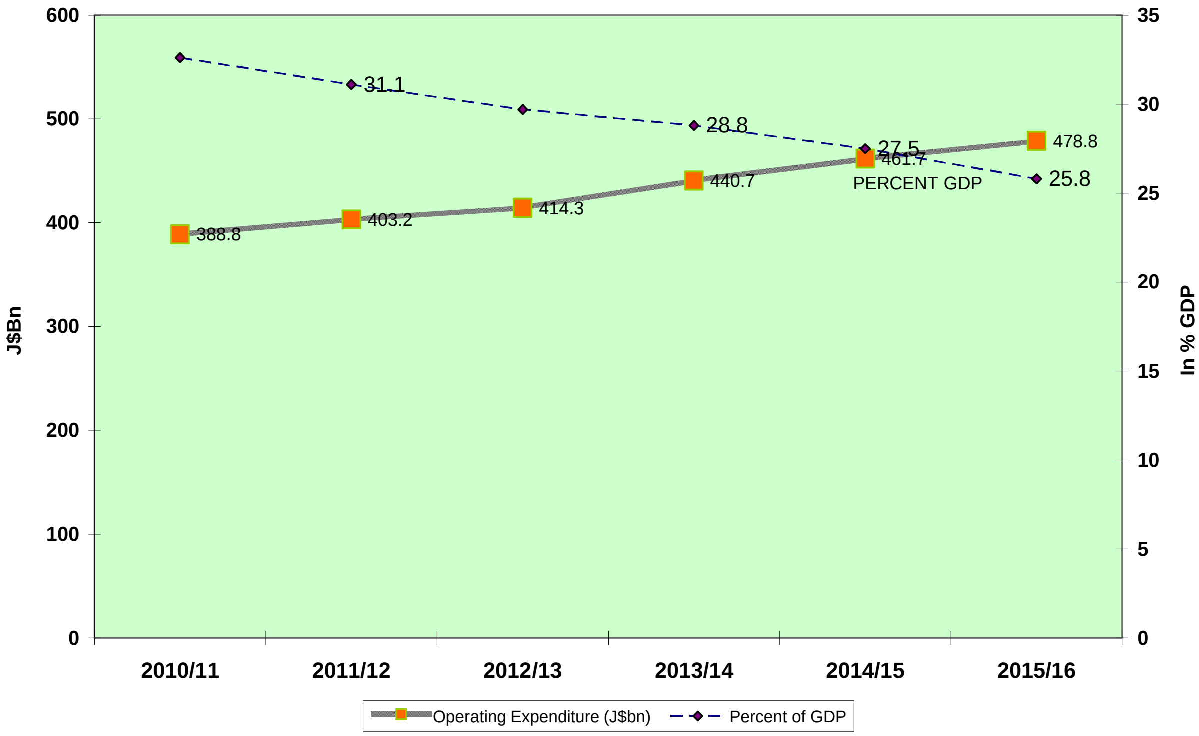
Expenditure containment will be a key aspect of the FMS for improving the fiscal position over the medium term and beyond. The major components of 'Operating expenditure' include 'Recurrent Programmes', 'Wages & Salaries', 'Interest' and 'Capital Expenditure'.

Reflecting this expenditure containment stance of fiscal policy, primary expenditure is expected to fall by 4.0 percentage points of GDP, from 21.8% in FY 2011/12 to 17.8% by FY 2015/16, underpinned by the reduction in wages toward the legislated 9.0 per cent of GDP ceiling. Within the context of the articulated medium term economic plan, which programmes a Central Government primary surplus of 6.0 per cent of GDP for FY 2012/13, the required non-debt (primary) expenditure amounts to $277,724.2 million (19.9 per cent GDP), comprising $238,256.3 million (17.1 per cent GDP) for Recurrent and $39,493.4 million (2.8 per cent GDP) for the Capital Budget.

Table 3G: Medium Term Fiscal & Debt Indicators

	Act	Proj	Proj	Proj	Proj	Proj
(J$mn)	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Revenue & Grants	314,558.5	322,149.8	361,282.5	395,103.9	423,861.4	458,003.6
Expenditure	388,767.9	403,191.6	414,258.0	440,699.3	461,664.0	478,803.5
Cent Govt Fiscal Balance	-74,209.4	-81,041.8	-52,975.5	-45,595.5	-37,802.7	-20,799.8
Cent Govt Primary Balance	54,145.2	39,662.6	83,558.4	95,348.3	110,327.8	127,657.5
Domestic Debt	809,370.0	912,642.3	939,767.7	1,010,404.0	1,018,837.8	1,036,005.4
External Debt	760,998.3	749,63115	877,134.9	907,219.3	885,223.2	895,938.6
Total Debt	1,570,368.3	1,662,273.4	1,816,902.6	1,917,623.3	1,904061.0	1,931,944.0
(% GDP) *Revenue & Grants*	26.4	24.8	25.9	25.8	25.2	24.7
Expenditure	32.6	31.1	29.7	28.8	27.5	25.8
Cent Govt Fiscal Balance	-6.2	-6.2	-3.8	-3.0	-2.2	-1.1
Cent Govt Primary Balance	4.5	3.1	6.0	6.2	6.6	6.9
Domestic Debt	67.8	70.3	67.5	66.1	60.6	55.9
External Debt	63.8	57.7	63.0	59.3	52.7	48.3
Total Debt	131.6	128.0	130.5	125.4	113.3	104.2
Debt Ceiling						100%
Fiscal Balance Ceiling						0

FIG 4: OPERATING EXPENDITURE: 2010-2015



The FY 2012/13 budget estimates have been prepared along the following guidelines:

i. All programme/activities/projects were reviewed to ensure that expenditures which are no longer necessary are eliminated;
ii. The cost of operations were reviewed to ensure that services are being provided at the lowest possible cost while maintaining quality and quantity;
iii. No expansion in services will be accommodated without the prior approval of Cabinet;
iv. In order to ensure transparency in government's operations, all financial resources received (from any source) are to be channelled through the budget of the receiving Ministry, Department or Agency (MDA);
v. All income earned from fees, charges or miscellaneous receipts are to be declared and either paid into the Consolidated Fund or utilised with the approval of the Financial Secretary, as Appropriations–in– Aid, to offset operating expenses;
vi. All expenditures, irrespective of source of funding, must receive parliamentary approval (that is, must be reflected in the Estimates of Expenditure);
vii. A revised Virement Policy is to take effect by June 01, 2012 and will control the extent to which budgeted funds can be transferred across selected objects of expenditure. This is necessary to prevent Virement from being used to change the characteristics of the budget approved by Parliament.

Central Government spending on capital programmes will average 2.8 per cent of GDP over the medium term. This is within a context, however, wherein spending on capital projects by public bodies has been historically higher than that by the Central Government. Capital spending by public bodies will average about 4.0 per cent of GDP. The following considerations have been factored into developing the Central Government capital programme:

i. Proposed spending on capital programmes will be constrained by MDAs implementation capacity, as well as the procurement status of the contracting process;
ii. All projects are being reviewed by the Ministry of Finance and Planning (MOFP) to determine their continued relevance in achieving national development goals and their alignment to current policy priorities.
iii. The MOFP has instructed MDAs to apply the established Prioritization Criteria to determine their capital expenditure profile.

Recurrent Programmes are expected to decline gradually from 6.9 % of GDP in FY 2011/12 to 6.0 % in FY 2015/16**.** Simultaneously, the medium term fiscal profile envisages significant wage restraint resulting in wages falling from 10.7 per cent of GDP in FY 2011/12 to meet the required 9.0 per cent of GDP by FY 2015/16. The improvement in the fiscal position will result in a reduction in the Government's borrowing requirement thereby maintaining the favourable interest rate path. Over the medium term, total 'Operating Expenditure' is forecast to increase by an average of 4.7% (FY 2011/12-FY 2015/16). Growth in 'Operating Expenditure' in FY 2012/13 is a mere 2.7% in nominal terms over FY 2011/12 where "Operating Expenditure' increased by 3.7%. In real terms, the GOJ will be spending less in FY 2012/13 and this is a measure of the GOJ's resolve to practice fiscal prudence. Appendix I provides more details on the indicative medium term expenditure on a ministry basis and by economic classification.

Wage Restraint

The GOJ expects to shortly conclude discussions with unions representing public sector workers to arrive at an agreement that will result in a reduction in the Wage/GDP ratio over the medium term**.** Through the established process of negotiations between the GOJ and public sector unions, it is expected that an agreement will be concluded between the GOJ and these groups and that the national interest will prevail thereby allowing for the requisite wage containment. The medium term profile sees Wages/GDP falling from 10.7 per cent in FY 2011/12 to the legislated 9.0 per cent of GDP by FY 2015/16. This profile for the wage bill is underpinned by:

- Wage restraint covering the period FY 2010/11 – 2011/12;
- Wage increases consistent with the 9% of GDP target for FY 2015/16;
- Phased implementation of the health sector reclassification;
- No increase in the size of the public sector.

These assumptions underpinning the wage bill forecasts are consistent with the 9% of GDP ceiling established under the FAA Act.

Table 3H: Wage Bill to GDP Ratio

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Wage Bill (J$bn)	127.9	139.6	146.9	157.2	161.0	167.2
%GDP	10.7	10.7	10.5	10.3	9.6	9.0
GDP ($bn)	1,193.0	1,298.4	1,392.6	1,529.3	1,680.4	1,853.5

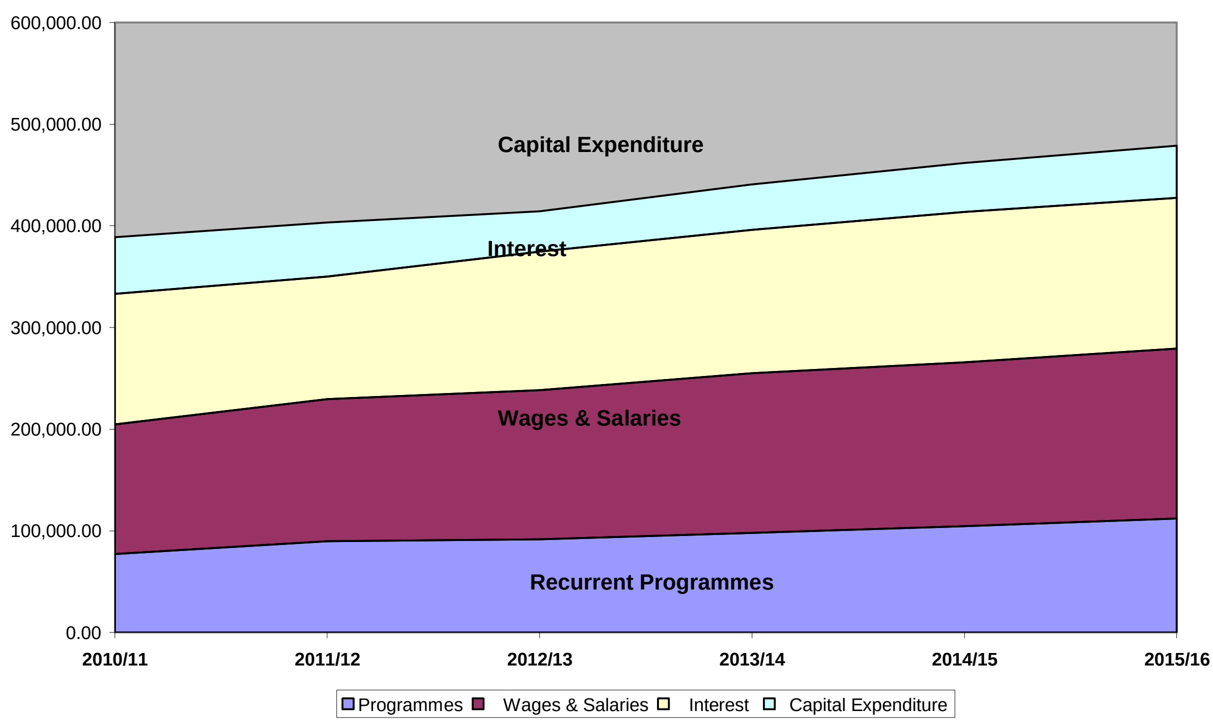
Whereas the impact has not yet been quantified and hence is not reflected in the fiscal numbers, the GOJ also intends to undertake the following activities, which will serve to further contain the wage bill:

- adopting a policy of job attrition involving removal of posts that have been vacant for a number of years from the Civil Service Establishment and only filling posts that are deemed critical;
- MDAs have been instructed by the MOFP to put appropriate measures/arrangements in place to ensure that officers can proceed on vacation leave at the appropriate time, in order to control and minimize payment-in-lieu of vacation leave;
- The MOFP has instructed MDAs to put appropriate measures/arrangements in place to control expenditure on overtime especially in areas where services are not normally provided beyond normal working hours.

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 2011/12, interest cost was 9.3% of GDP and is forecast to rise to 9.8% of GDP in FY 2012/13 before declining gradually to 8.0% of GDP in FY 2015/16. Interest costs are projected to increase by 13.1% in FY 2012/13, as against a decline of 6.0% for FY 2011/12, due largely to the growth in the debt stock by $91.0bn or 5.8%. Thereafter the forecast is for the interest cost to be contained, growing at low single digit rates, consistent with lower interest rates and lower growth in the debt stock per annum over the medium term on account of the fiscal consolidation programme being undertaken by the GOJ.

Fig 5. Operating Expenditure By Economic Classification: 2010-2015



Operating Expenditure Structure

Over the medium term, the structure of operating expenditure will shift somewhat within and between sub-categories. The major slices of the 'above-the-line' Operating Expenditure in FY 2012/13 continue to be the recurrent categories 'Wages & Salaries' and 'Interest', both accounting for 35.5% and 33.0% respectively, while 'Recurrent Programmes' accounts for 22.1%. Capital expenditure represents 9.5% of the 'above-the-line' Operating Expenditure and is forecast to rise gradually to 10.7% by FY 2015/16.

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. In FY 2011/12, the capital expenditures of the Selected Public Bodies (SPB-$38,771.1mn) and Other Public Bodies (OPB-$1,841.9mn), was approximately 3% of GDP. For FY 2012/13, the combined capital expenditure of these public bodies is projected to be $55,942.1mn or 4.0% of GDP.

Within the recurrent budget, 'Recurrent Programmes' is forecast to increase its share over the medium term by 1.2 percentage points from 22.1% in FY 2012/13 while the share of 'Interest' will fall by 2.0 percentage points to 30.9% in FY 2015/16. Wages & Salaries' is forecast to account for a reduced share falling by 0.6 percentage points, from 35.7% in FY 2012/13 to 34.8% in FY 2015/16.

Pension Reform

A Green Paper on Pension Reform is now being deliberated at a Joint Select Committee of Parliament. The various stakeholder groups have been making presentations to the Committee in response to the proposals set out in the Green Paper. The Green Paper proposes the following:

(i) a re-engineered pensions administration and computerized data base;
(ii) reform options for contributors/funded pension plans; and
(iii) harmonization of pensions legislation.

The reform options are designed to reduce the long term cost impact of pension on the budget. However, the impact of the pension reform has not yet been quantified and thus the expected reduction has not been factored into the medium term fiscal profile.

Other Expenditure Containment Measures

The GOJ, through the MOFP, will be taking a stringent approach to the management of expenditure as it seeks to meet or perform within the budget ceilings as approved by Parliament. A number of additional expenditure containment measures have been developed and includes the following;

- Strict enforcement of the provisions of the proposed Regulations under the Fiscal Responsibility Framework, including the sanctions;
- A review of the system of funding public healthcare vis-a-vis rationalization measures to improve efficiency and cost reductions where possible;

- Closer monitoring and enhanced oversight of GOJ expenditure, by the MOFP. This will include a requirement for MDAs to submit alongside their proposed budgets, details of existing and proposed new contracts for all contracts for the provision of goods and services including contracts for the rental of property, machinery and equipment, as well as for consultants/contract officers;
- Each MDA is required to develop a credible Conservation Programme which will lead to the achievement of a 10% reduction in electricity consumption by the end of FY 2012/13;
- Rationalization of the use of telephone services to reduce overall costs.

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.

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.

New projects submitted for budgetary support in the FY 2012/13 Capital B Estimates of Expenditure utilized the *Project Prioritization System* as follows*:*

1. The existing prioritization criteria, developed in 2010 within the context of the priority national outcomes and sector strategies in the “Vision 2030 Jamaica National Development Plan 2009,” the “Medium Term Socio-Economic Policy Framework 2009-2012,” the commitments under the then Stand-By Arrangement with the IMF, and the Fiscal Responsibility Framework were reviewed to determine alignment with current development objectives. The current criteria are as follows:

    - Security and safety;
    - Stable macro economy;
    - Strong economic infrastructure;
    - Energy security and efficiency;
    - World class education and training; and
    - Effective governance.
    -

    Two new criteria were added to take account of current national policy directions:

    - Social protection, and
    - Hazard risk reduction and climate change adaptation

2. The criteria were found to be congruent with the following policy priorities for FY 2012/13 as articulated by the Cabinet:

    1. Fiscal prudence and pursuit of a credible macro-economic programme;
    2. Economic growth and job creation;
    3. Improved security and safety; and
    4. Human capital development and effective social protection.

Recommendations for budgetary allocation to ongoing and new projects supported by the rankings achieved were presented and approved by Cabinet.

Public Debt Trajectory

Controlling the growth in public debt (through prudent fiscal management) is critical to ‘crowding in’ the private sector to spur economic growth and enable businesses to be more viable, through more affordable financing costs.

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$1,468.3mn for FY 2012/13 and this figure is expected to increase by an average of US$41.0mn per annum over the medium term.

At the end of FY 2011/12 the stock of public debt amounted to $1,662.3 billion or 128% of Gross Domestic Product (GDP). This compares to $1,570.4 billion or a debt-to-GDP ratio of 131.6% at end FY 2010/11. The domestic debt at the end of FY 2011/12 stood at $912,642.3mn or 70.3% of GDP, representing an increase of 12.8% over the previous fiscal year's domestic debt which stood at $809,369.9mn or 66.1% of GDP.

The increase in the debt stock was due mainly to the following:

- Financing of a larger fiscal deficit on Central Government operations;
- Assuming of debts related to Air Jamaica, which accounted for 18.5% of the increase;
- Issuing securities to Bank of Jamaica in respect of capitalized interest on former FINSAC bonds, which represented 2.0% of the increase; and
- Depreciation of the Jamaica dollar vis-à-vis the United States dollar and other currencies.

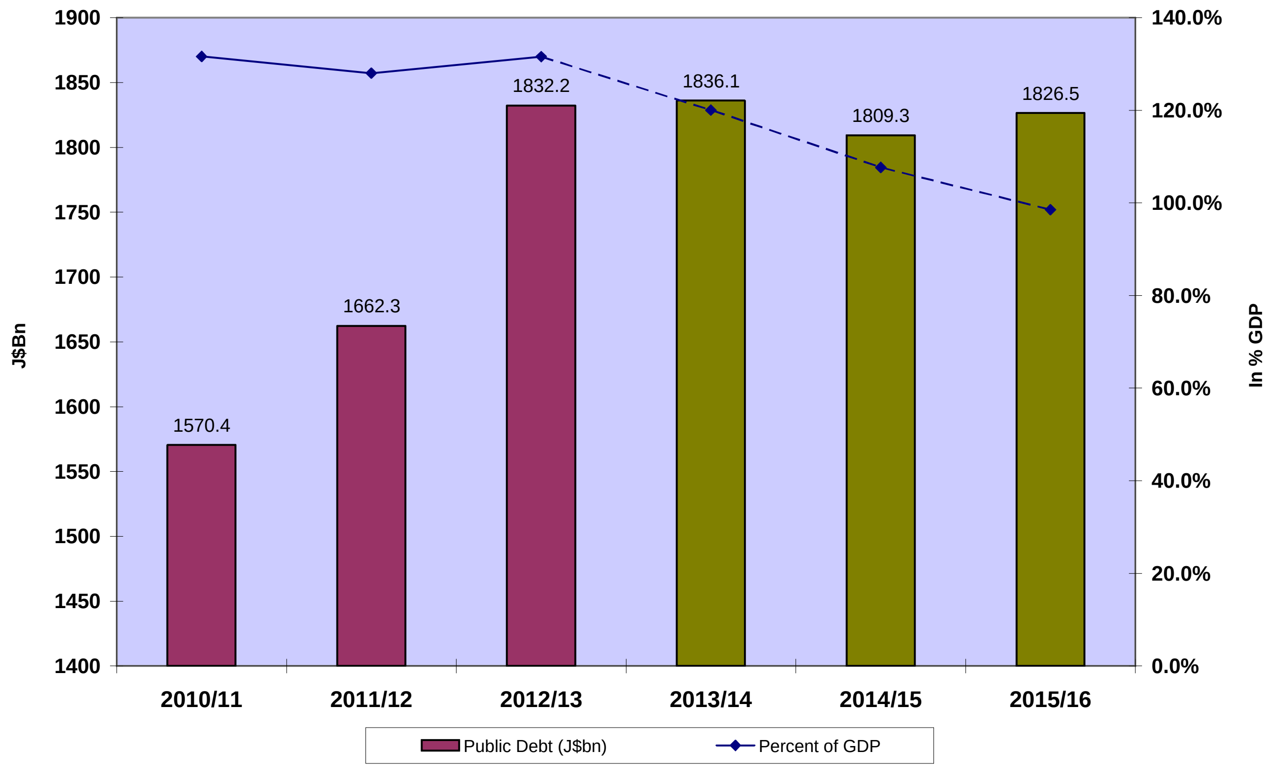
On the external side, at the end of FY 2011/12, Jamaica's external debt stood at US$8,586.8mn or 57.7% of GDP, a decrease of 3.2% in US$ terms or 1.5% in J$ terms, when compared to the previous fiscal year, which recorded US$8,874.8mn or 63.8% of GDP. This is the first decrease since FY 1999/00. The decrease in the external debt stock over the previous fiscal year was due mainly to:

- Repayment of a US$400mn bond due May 2011; and
- Cross-currency changes vis-à-vis the Jamaica dollar and the US currency.

Total public debt is projected to increase over the medium term (FY 2011/12-FY 2015/16) by approximately 10.0%. 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.

Simulations have been conducted on the trajectory of the debt, which show that the targets are sustainable in the medium term, based on the targeted primary surplus, as well as forecasts for economic growth, inflation, interest and exchange rates. It is to be noted that FY 2015/16 has a projected outturn of 104.2 % of GDP, however once the fiscal gap is closed, the Debt/GDP target will be met or executed.

FIG 7: PUBLIC DEBT MEDIUM TERM



FY 2012/13 Budget – Public Bodies

Total assets of the group of sixty-five (65) Public Bodies contained in the Estimates of Revenue & Expenditure of Public Bodies are projected at $917,313.0mn (FY 2011/12 (est.): $831,787.0mn). The combined employment level is expected to be 12,965 persons (FY 2011/12: 12,706). With the utilisation of these resources, the group is expecting to generate total revenues of $362,365.0mn from which profits before tax of $8,237.0mn will be derived. Amounts to be transferred to the Government of Jamaica (GOJ) by way of corporate and other taxes are projected at $19,165.0mn and over $990.0mn in financial distributions (dividends). The budgeted Overall Balance for the Public Bodies is a deficit of $6,365.4mn. Summary projection for the Public Bodies for FY 2012/13 is shown in the table below.

The Public Bodies' contribution to economic growth and development has been significant over the years and this trend is expected to continue in FY 2012/13. Expenditure on infrastructure and other capital projects is programmed at approximately $74,855.0mn for the financial year (FY 2011/12: $60,743.0mn). Of note, this includes $17,300.0mn (FY 2011/12: $17,673mn) to be spent on roads, bridges, etc. by The Road Maintenance Fund, not reflected in capital account.

The expenditure by four (4) self-financing Public Bodies in the critical sectors of housing, roads and water is projected at approximately $58,000.0mn or 78% of the total capital expenditure. The Public Bodies are: National Housing Trust (NHT), Housing Agency of Jamaica (HAJ), Road Maintenance Fund (RMF) and the National Water Commission (NWC). The following are highlights of their programmes:

The **NHT** plans to expend approximately $25,469.0mn on its capital programme for FY 2012/13 in support of its mandate to provide quality affordable housing solutions for Jamaicans.

Key deliverables projected for the year include the following:

- Disbursement of 9,172 new loans to beneficiaries
- Completion of 2,819 units
- Construction to commence on 2,247 units.

The NHT aims to reduce the real cost of delivering housing solutions to its beneficiaries, as such the use of alternative building materials which will be more competitively priced without compromising quality is being examined. There are also plans to explore partnerships with local donor agencies to construct low income housing. To encourage acceptance and use of alternative building materials, the Trust will stage low cost housing competitions. The NHT also plans to increase the provision of grants and subsidies to $3,173.0mn, which will benefit contributors in the lowest income band.

The **HAJ,** with its objective to rebrand and reposition the organization in the housing industry, seeks to satisfy the demand for shelter, primarily in the low income market. Projections for the year assume achievement of the following key targets:

- Housing Solutions Starts - 6,837
- Housing Solutions Delivery from 20 schemes – 4,263
- Finalized Sales – 1,797

The projected expenditure for the FY 2012/13 is $2,698.4mn. This includes fourteen projects in different stages of development in several parishes. In order to address some of the financing issues, HAJ has entered into Private-Public-Partnership arrangements with developers/contractors for the construction of housing developments island-wide; these are expected to commence during the 2012/13 financial year.

The mandate of the **RMF** is to overhaul, upgrade and improve the main and parochial road network across the island. The Fund implements projects/activities in two main areas:

- Routine Maintenance Programme - aimed primarily at road infrastructure maintenance; and
- The Jamaica Development Infrastructure Programme (JDIP) - geared towards the rehabilitation of roads, drains, retaining walls and the construction of prioritized bridges across Jamaica.

RMF plans to undertake 585 projects, under the two project areas at a cost of over $17,300.0mn**.**

NWC embarked upon a programme of transformation in FY 2011/12 aimed at addressing existing challenges. In line with the new strategic direction, NWC plans to undertake on-going capital projects aimed at improving, extending and restoring water and sewerage services in various parts of the country. The primary objectives of the projects include: (a) improving operational efficiencies and optimizing production volumes and consistency; (b) developing and expanding water supply systems to extend service to other areas.

Capital projects are scheduled to be implemented by the Commission in FY 2012/13 at a cost of $10,744.0mn. The list includes:

- Components of the Jamaica Water Supply Improvement Project (JWSIP), costing $2,066.0mn is aimed at addressing the medium to long term problems of access to potable water in the Kingston Metropolitan Area (KMA), Stony Hill and other areas.
- KMA–Inter-American Development Bank (IDB) Water Supply Improvement Projects costing $2,816.4mn.
- KMA- Japan International Cooperation Agency (JICA) Water Supply Project valued at $902.0mn. This project has been contributing significantly to improving the availability, reliability and quality of the water supply services in St. Catherine.
- The Kingston Water and Sanitation (KWS) Project costing $1,266.0mn. Key components include rehabilitation of Mona and Hope water treatment plants, rehabilitation of water supply facilities and construction of the new Darling Street pumping station.

Table 3I: PBs (Selected & Other) ***Summary of Financial Forecasts for Financial Year 2012/13***

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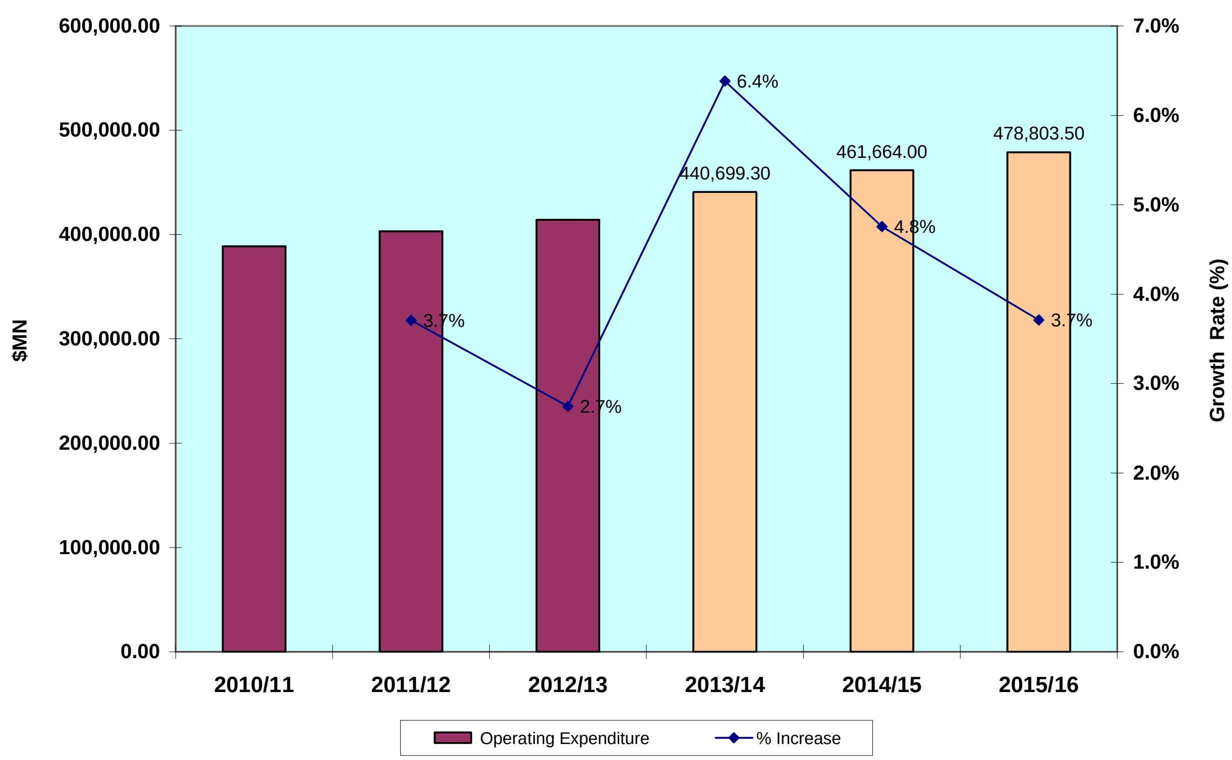
Statement 'A' Flow of Funds	**SPBs Projected 2012/13**	**OPBs Projected 2012/13**	**TOTAL PBs 2012/13**
1 Current Revenue	301,487.48	60,877.81	362,365.29
2 Current Expenses	(288,458.48)	(65,669.32)	(354,127.80)
3 Current Balance	13,029.00	(4,791.51)	8,237.49
4 Adjustments	25,187.30	5,135.55	30,322.86
Change in Accounts	0.00	0.00	0.00
Receivable/Payable	10,281.89	3,450.98	13,732.87
Items not requiring outlay of cash:	0.00	0.00	0.00
Depreciation	9,608.34	1,006.45	10,614.78
Other Non-Cash Items	5,075.56	678.13	5,753.69
Prior Year Adjustment	221.52	0.00	221.52
5 Operating Balance	38,216.30	344.04	38,560.35
6 Capital Account	(29,263.28)	(4,648.88)	(33,912.16)
Revenue	24,401.07	0.00	24,401.07
Expenditure	(52,645.84)	(3,296.23)	(55,942.06)
Investment	161.83	(1,505.95)	(1,344.12)
Change in Inventory	(1,180.34)	153.29	(1,027.05)
7 Transfers from Government	11,317.31	2,684.48	14,001.79
Loans	0.00	0.00	0.00
Equity	0.00	0.00	0.00
On-Lending	0.00	0.00	0.00
Other	11,317.31	2,684.48	14,001.79
8 Transfers to Government	(20,274.03)	(4,741.33)	(25,015.36)
Dividend	(560.94)	(429.89)	(990.83)
Loan Repayments	0.00	0.00	0.00
Corporate Taxes	(2,143.70)	(151.89)	(2,295.59)
Other	(17,569.39)	(4,159.55)	(21,728.94)
9 OVERALL BALANCE (5+6+7+8)	(3.69)	(6,361.69)	(6,365.37)
10 FINANCING (11+15)	3.69	6,361.69	6,365.38
11 Total Foreign (12+13+14)	(2,670.15)	508.76	(2,161.39)
12 Government Guaranteed Loans	(6,260.90)	688.76	(5,572.14)
Disbursement	0.00	0.00	0.00
Amortization	(6,260.90)	0.00	(6,260.90)
13 Direct Loans	3,430.73	0.00	3,430.73
Long Term:	2,321.13	(180.00)	2,141.13
Disbursement	5,385.98	58,749.61	64,135.59
Amortisation	(3,064.85)	12,399.18	9,334.33
Short Term:	1,245.32	12,399.18	13,644.50
Change in Trade Credits	1,109.60	0.00	1,109.60
14 Change in Deposits Abroad	160.02	46,350.43	46,510.45
15 Total Domestic (16+17+18)	312.17	46,350.43	46,662.60
16 Banking System	756.38	48,325.24	49,081.62
Loans (Change)	(50.27)	(1,974.81)	(2,025.08)
Overdraft (Change)	(273.31)	0.00	(273.31)
Deposits (Change)	1,079.96	0.00	1,079.96
17 Non-Banks (Change)	1,198.47	0.00	1,198.47
18 Other (Change)	(1,642.67)	(52,896.68)	(54,539.35)

III. Fiscal Discipline, Risks & Challenges

Sustained fiscal discipline promotes macroeconomic stability and underpins growth, particularly in small, open, developing countries. There may be some debate as to what constitutes an optimal fiscal stance over the 'long-run' but little, if any, as to the importance in ensuring that a sustainable fiscal stance persists. The sustainability of any fiscal stance may be derailed or strengthened by external factors, while the structural features of the economy may influence its vulnerability to collapse. Additionally, a country's fiscal history – level of public debt, inflation and fiscal management can act as a drag on fiscal performance and will influence the type of fiscal stance that is adopted.

Under the aegis of the Fiscal Responsibility Framework, for which the regulations were passed in April 2012, the Government seeks to demonstrate its commitment to fiscal discipline through the prudent and sustainable use of public resources. 'Operating Expenditure' in FY 2011/12, declined by 2.2 % or $9.3bn against Budget, but was higher than the 'Operating Expenditure' for FY 2010/11, by $14.4bn or 3.7% This reflects 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 4.7%, on average 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 throughout the medium term. Interest costs (as %GDP) are forecast to remain at 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.

Fiscal discipline starts with expenditure (including tax expenditures) and no fiscal consolidation effort can be successful, without expenditure containment and/or revenue enhancement, 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.

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.

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, is a notable source of fiscal risk and has been so for some time now. This risk is especially amplified if the effects of such decisions will cover several fiscal years into the future.

Key Fiscal Risks & Strategies to Mitigate

Wages and Salaries: The Strategy assumes a period of wage restraint (2010-2012) and that through the established process of negotiations between the GOJ and workers, the national interest will prevail thereby allowing for the requisite wage containment. Wage increases over the medium term will be consistent with meeting the legislated 9% of GDP target. The GOJ is also committed to not increasing the size of the public sector workforce and will be adopting a policy of job attrition.

In FY 2011/12, the GOJ decided to implement the 7% salary increase for public sector workers, with effect from April 2011 and to make a one-off payment equivalent for the two years, 2009-2011. This is to be paid in five (5) equal installments over the three year period, FY 2012/13-FY 2014/15. These payments have been included in the medium term forecasts. As is required under the FRF, appropriate expenditure adjustments were undertaken in FY 2011/12 to accommodate the increased salary payments.

The Strategy also assumes that an agreement will be struck with the public sector unions for the implementation of a three (3) year wage-negotiation cycle, for the 2012-2015 contract periods. There are however, some risks associated with '*Wage anomalies'* for some groups of public sector workers. The FY 2012/13 Budget has made no provisions for these amounts, however, should payment arise from these 'Wage *anomalies'* in FY 2012/13, it would mean that appropriate adjustments would have to be made to the programmed budget, to maintain consistency with the goals of the FMS.

Box 2: Sources of Fiscal Risks

- Judicial Awards
- Wage anomalies
- Pension anomalies
- Un-Budgeted Obligatory Expenditures
- Other Entities Debt Assumption
- Tax Expenditure (Discretionary)
- Guarantees which represent 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 GDP on revenues
    - Impact of adverse interest, inflation & exchange Rate
- Revenue yields less than expected
- Natural Disasters
- Government Policy Changes

Pension anomalies for a particular group of public sector workers is an area of risk to the FY 2012/13 expenditure as well as the medium term expenditure budget as it has implications for increased pensions cost for the Budget.

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.

Beginning in FY 2011/12, the GOJ had set aside an amount of $1,500mn or 0.1% GDP in the Budget to meet this type of risk. However, the FY 2012/13 Budget instead makes a provision of $2,900mn or 0.2% of GDP, for disaster mitigation. Additionally, the GOJ manages this risk through the Caribbean Catastrophic Regional Insurance Fund (CCRIF), an insurance facility that covers severe damage due to natural disasters.

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 2011. The GOJ, as part of its tax reform programme, will in FY 2012/13 begin to significantly curtail discretionary waivers. Nevertheless, this is still an area of material risk to the revenue yields forecasted. 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 the provision of such tax breaks result in a reduction in tax revenue, thereby jeopardizing the achievement of fiscal targets and, by extension, development of the country.

Arrears over 90 days will be closely monitored to ensure there is no accumulation. The GOJ intends to eliminate the stock of outstanding withholding tax refunds (over 90 days) over the next five years. Within this context, the medium-term fiscal profile programmes payment of withholding tax refunds at a rate of approximately $1,300mn monthly from FY 2012/13. 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 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 GDP also affect the fiscal, debt and other economic ratios. During FY 2011/12, the Debt/GDP for FY 2010/11 was revised from 128.3% up to 131.6%, consequent on a downward revision of GDP. The downward revision to the GDP series has also adversely affected the Wages/GDP ratio. In the FY 2011/12 FPP, Wages/GDP for FY 2010/11 was 10.4% however the downward revision to the GDP pushed up the ratio to 10.7%.

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, the *Financial Administration and Audit (Fiscal Responsibility Framework) Regulations, 2012* and the Public Bodies (Financial Distribution) Regulations, 2012 were passed into law in April 2012. With these regulations now passed, public officers who breach the provisions outlined in the Fiscal Responsibility Framework legislations can now be sanctioned for non-compliance.

Appendix I - Medium Term Expenditure Profile

Table IA - Non-Debt Recurrent Expenditure 2010/2011 - 2015/2016

J$'000

Heads	Revised 2010/2011	Revised 2011/2012	Estimates of Expenditure 2012/2013	Projected 2013/2014	Projected 2014/2015	Projected 2015/2016
His Excellency the Governor-General	92,912	114,952	121,637	129,142	134,503	141,296
Houses of Parliament	666,545	701,929	712,782	756,761	788,174	827,984
Office of the Public Defender	88,898	68,557	76,561	81,285	84,659	88,935
Office of the Contractor-General	188,950	208,712	209,695	222,633	231,875	243,587
Auditor General	297,938	329,179	346,598	367,983	383,258	402,616
Office of the Services Commissions	142,412	151,414	148,592	157,760	164,309	172,608
Office of the Children's Advocate	59,253	71,608	84,078	89,266	92,971	97,667
INDECOM	37,934	236,710	288,000	305,770	318,462	334,548
Office of the Prime Minister	2,798,672	2,285,476	1,637,956	1,739,018	1,811,205	1,902,688
Office of the Cabinet	444,245	668,264	514,896	546,665	569,357	598,115
Ministry of Tourism and Entertainment	2,106,249	2,080,954	1,517,514	1,611,145	1,678,023	1,762,780
OPM (Local Government) (Outgoing Head)	6,766,213	3,923,939		-	-	-
Ministry of Finance and Planning	28,588,504	30,429,460	34,741,754	36,885,320	38,416,430	40,356,844
Tax Administration Department		4,300,384	4,201,779	4,461,029	4,646,206	4,880,886
Ministry of National Security	38,923,807	44,440,159	44,092,563	46,813,074	48,756,285	51,218,965
Ministry of Justice	3,382,007	5,508,302	3,691,314	3,919,068	4,081,749	4,287,918
Ministry of Foreign Affairs and Foreign Trade	2,570,272	2,538,401	2,609,102	2,770,084	2,885,070	3,030,795
Ministry of Labour and Social Security	1,881,833	1,968,181	2,136,426	2,268,243	2,362,398	2,481,723
Ministry of Education	71,294,169	75,741,557	73,828,972	78,384,220	81,637,949	85,761,481
Ministry of Health	32,136,991	34,355,491	32,191,905	34,178,146	35,596,880	37,394,879
Ministry of Youth and Culture	3,440,124	3,526,268	3,025,179	3,211,833	3,345,156	3,514,120
Ministry of Agriculture and Fisheries	2,769,328	3,217,355	3,113,086	3,305,163	3,442,361	3,616,234
Ministry of Industry, Investment and Commerce	1,720,294	1,786,954	1,603,835	1,702,792	1,773,474	1,863,053
Ministry of Science, Technology, Energy and Mining	1,888,202	3,255,608	3,465,024	3,678,816	3,831,524	4,025,054
Ministry of Water, Environment and Housing (Outgoing Head)	546,272	615,171		-	-	-
Ministry of Housing, Environment, Water and Local Government (Outgoing Head)		1,968,093		-	-	-
Ministry of Transport, Works and Housing	1,853,122	1,871,097	2,180,408	2,314,939	2,411,032	2,532,814
Ministry of Water, Land, Environment and Climate Change	1,204,612	1,428,952	2,138,355	2,270,292	2,364,531	2,483,964
Ministry of Local Government and Community Development	-	3,771,656	7,514,316	7,977,949	8,309,114	8,728,807
Contingency			12,038,803	14,849,206	15,525,547	16,352,339
GRAND TOTAL RECURRENT	**205,889,758**	**231,564,783**	**238,231,130**	**254,997,600**	**265,642,500**	**279,102,700**

Table IB - Economic Classification
Non-Debt Recurrent Expenditure 2010/2011 - 2015/2016
J$'000

Object Classification	Revised 2010/2011	Revised 2011/2012	Estimates of Expenditure 2012/2013	Projected 2013/2014	Projected 2014/2015	Projected 2015/2016
Wages and Salaries	**127,378,022**	**139,589,992**	**146,861,767**	**157,230,904**	**161,032,161**	**167,169,590**
Recurrent Programmes (of which:)	**78,511,736**	**91,974,791**	**91,369,364**	**97,766,696**	**104,610,339**	**111,933,110**
Travel Expenses and Subsistence	9,357,286	9,591,169	9,633,882	10,308,254	11,029,832	11,801,920
Retirement Benefits	17,415,401	22,388,446	24,937,887	26,683,539	28,551,387	30,549,984
Rental of Property, Machinery and Equipment	2,251,706	2,351,034	2,545,241	2,723,408	2,914,046	3,118,030
Public Utility Services	6,883,718	7,821,111	6,258,491	6,696,585	7,165,346	7,666,921
Purchases of Other Goods and Services	19,880,535	24,252,432	21,631,258	23,145,446	24,765,627	26,499,221
Grants and Contributions	22,063,822	24,163,994	23,482,086	25,125,832	26,884,640	28,766,565
Purchases of Equipment (Capital Goods)	432,112	775,950	771,215	825,200	882,964	944,772
Others	227,156	630,655	160,943	172,209	184,264	219,762
Contingencies			1,948,361	2,086,223	2,232,233	2,365,936
TOTAL RECURRENT	**205,889,758**	**231,564,783**	**238,231,131**	**254,997,600**	**265,642,500**	**279,102,700**

Table IC - Medium Term Capital Profile 2010/2011 - 2015/2016

J$'000

Heads	Revised 2010/2011	Revised 2011/2012	Estimates of Expenditure 2012/2013	Projected 2013/2014	Projected 2014/2015	Projected 2015/2016
Office of the Prime Minister	2,452,544	3,211,729	1,056,740	1,130,712	1,209,862	1,294,552
Office of the Cabinet	39,405	131,255	30,000	32,100	34,347	36,751
OPM (Local Government)	503,000	215,832	-			
Ministry of Finance and Planning	19,706,216	17,936,314	868,267	7,208,892	11,257,423	12,045,443
Ministry of National Security	860,200	930,830	588,910	550,714	998,415	408,604
Ministry of Justice	145,000	327,454	100,000	107,000	114,490	122,504
Ministry of Labour and Social Security	20,000					
Ministry of Education	737,791	449,234	293,263	143,327	146,144	500,000
Ministry of Health	261,391	141,384	10,000	50,000	300,000	300,000
Ministry of Youth and Culture	12,000	43,337	316,065	17,109	31,342	33,379
Ministry of Agriculture and Fisheries	421,840	234,765	2,174,351	2,480,014	2,396,884	2,564,666
Ministry of Industry, Investment and Commerce	5,000	25,559	10,000	10,700	11,449	12,250
Ministry of Science, Technology, Energy and Mining	190,000	1,307,408	1,556,019	150,000	150,000	150,000
Ministry of Water, Environment and Housing	329,100	297,829	-			
Ministry of Housing, Environment, Water and Local Government	-	214,331	-			
Ministry of Transport, Works and Housing	9,742,382	6,375,751	5,798,838	4,069,282	4,912,535	5,991,870
Ministry of Water, Land, Environment and Climate Change	-	162,572	351,998	225,836	241,645	258,560
Ministry of Local Government and Community Development	-	142,683	386,000	378,893	452,396	484,064
Contingency for Natural Disaster				3,739,280	6,919,222	7,922,936
GRAND TOTAL CAPITAL A	**35,425,869**	**32,148,267**	**13,540,451**	**20,293,859**	**29,176,153**	**32,125,579**
Office of the Prime Minister	6,687,064	2,896,087	1,946,210	1,924,700	1,464,603	1,567,125
Office of the Cabinet	345,077	286,285	251,765	344,500	368,615	394,418
Ministry of Finance and Planning	-	307,134	690,185	1,827,186	2,252,931	2,428,021
Ministry of National Security	890,031	1,485,840	1,276,499	1,681,231	1,021,673	1,100,000
Ministry of Justice	12,000	70,986	333,439	607,524	507,328	542,841
Ministry of Foreign Affairs and Foreign Trade	54,164	26,708	91,545	535,000	300,000	321,000
Ministry of Labour and Social Security	3,826,985	3,900,332	4,176,405	4,036,692	4,100,000	4,200,000
Ministry of Education	1,149,081	1,220,727	2,027,430	1,819,527	1,222,634	523,894
Ministry of Health	1,275,162	1,348,675	1,310,636	759,490	552,391	591,058
Ministry of Youth and Culture	156,546	281,160	385,961	128,000	136,960	146,547
Ministry of Agriculture and Fisheries	2,249,440	3,311,131	1,606,254	697,635	289,659	350,000
Ministry of Industry, Investment and Commerce	43,122	66,197	1,044			
Ministry of Science, Technology, Energy and Mining	51,851	92,685	1,048,180	1,018,087	893,995	956,575
Ministry of Water, Environment and Housing	1,746,750	1,522,463	-			
Ministry of Transport, Works and Housing	6,588,790	6,717,345	9,119,378	8,141,215	5,148,414	5,508,803
Ministry of Water, Land, Environment and Climate Change	-	330,888	1,536,230	842,467	347,695	372,034
Ministry of Local Government and Community Development	-	87,335	151,786	100,887	107,949	115,506
GRAND TOTAL CAPITAL B	**25,076,063**	**23,951,978**	**25,952,947**	**24,464,141**	**18,714,847**	**19,117,822**
TOTAL CAPITAL	**60,501,932**	**56,100,245**	**39,493,398**	**44,758,000**	**47,891,000**	**51,243,400**

Appendix II: Improved Financial Management

Summary Report on the Status of Central Treasury Management System (CTMS) Implementation

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1. **The basic Information System has been coded and released to GOJ by the Developer (RMP)**. The CTMS project encompasses: (i) an upgrade of the existing accounting package (FinMan) utilized throughout all 30 Ministries, Departments and Agencies (MDAs); and (ii) the development of a Treasury Management Module (TMM) for the Accountant General's Department (AGD).

2. **Testing of the basic system is ongoing** and entails: (i) Quality Assurance Testing (QAT) and User Acceptance Testing (UATs). The FinMan is further along the testing process with at least two rounds of QATs and UATs conducted, while the TMM is going through a first round of QAT testing (QATs are conducted before UATS). It is expected that the testing process will be completed within the first quarter of FY 2012/13.

3. **Progress has also been made in establishing the required ICT Infrastructure.** Communication links (Business VPNs) established among the host of the primary server (Fiscal Services Limited (FSL), the AGD (first Pilot), the MOFP and the Bank of Jamaica (BOJ) - the payment agent. Subject to the completion of relevant interface (software compatibility, security issues) among the above-mentioned locations and the completion of the testing process, a basic system (CTMS) will be in place to conduct an end-to-end "dry run". *However, the decision has been taken to proceed with the implementation of the FinMan in the Pilot MDAs, while the testing of the TMM continue.*

4. **Administrative and Business Process adjustments continue to facilitate automation**. Even without an operational information system, *an early benefit flowing from the ongoing implementation of the CTMS stemmed from the centralization of the release of salaries, utilities and debt service payments- which allowed for a reduction in the lead time for the funding of payment accounts.* This became possible due to adjustments in the business procedures at the AGD and facilitated by the BOJ.

5. **The required Legislative Framework has been put in place**. Specifically:

    I. the **Financial Administration and Audit (FAA) Act has been amended** to establish the CTMS;

    II. **Financial Management Regulation (related to above FAA Act) was effected on April 12, 2011 to facilitate the establishment of the Treasury Single Account (TSA)** as well as to recognize the use of electronic statements for reconciliation of bank accounts.

    III. An **Operation Manuals** for the FinMan and the TMM have been prepared; and,

    IV. A **Revenue Classification Circular** has been approved and circulated.

It is likely that the above list will be enhanced and other changes made to the legislative framework as progress is made through the different stages of implementation of the CTMS.

5. The following **Support Areas** are being worked on currently:

    a. **Security**: consideration for example to: a) provide for multi-factor authorization and, 2) full-time availability during business days.

    b. **Business Continuity**: Back-up and Recovery - including making provision for reversing transactions and recovering corrupted data.

6. **Awareness and Communication campaign being conducted as part of the Change Management process**. A significant effort is being made to inform both internal and external stakeholders. As at end-March 2012:

    a. A *Web page* has been established and is being populated with information on the project;

    b. Over *57 presentations* have been made to various groups throughout MDAs;

    c. Direct *training sessions on the use of the upgraded FinMan* were conducted with the Pilot MDAs - facilitated by the User Manuals which were provided.

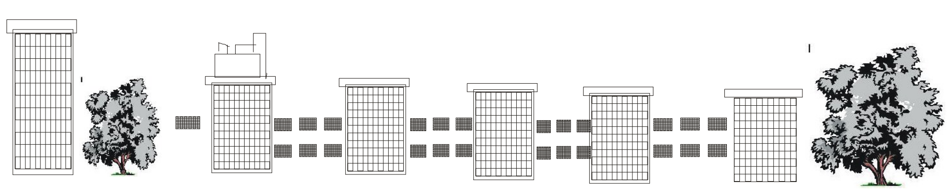
7. **Additional ICT Readiness/Support Systems** related tasks being undertaken are as follows:

    a. **Revenue Consolidation** – FSL is currently developing a Revenue Consolidation Module to aggregate revenue flows from principal revenue receiving agencies. *This (revenue module) would be required whether or not the current TMM is adopted or a new treasury management system is purchased off the shelf.*

    b. In addition, FSL is working on a **Cashiering System** and a module/database to facilitate the storage and update of **Suppliers' Information.** *Both initiatives will support the TMM.*

    c. **Consolidation of Payroll Packages** – a number of payroll packages are currently utilized across MDAs. However, significant efficiencies and cost reduction can be achieved by having a universal payroll package across the MDAs. The Financial Systems Unit in MOFP is conducting a comparative analysis of the packages being utilized now to drive/inform the decision process.

    d. **Bank Account Closure Project** – Ideally, as a pre-requisite to the establishment of the TSA, all bank accounts operated by MDAs should be closed to facilitate effective operation of the TSA. That is, the AGD would be the owner of all government accounts and be in charge of managing GOJ aggregated cash funds. The first step identified was to complete an inventory of all government bank accounts that are dormant or inactive.



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