# GOVERNMENT OF JAMAICA

# FISCAL POLICY PAPER
# FY 2014/15

## INTERIM REPORT

**30th September 2014**

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# PART 1: FISCAL RESPONSIBILITY STATEMENT

## INTRODUCTION

The Financial Administration and Audit (FAA) (Amendment) Act, 2014, which provides for enhanced fiscal rules, requires that within six months of the passage of the Appropriation Act for the financial year to which the relevant Estimates of Revenue and Expenditure relate, the Minister shall cause to be tabled in both Houses of Parliament, a Fiscal Policy Paper (FPP) which shall, in addition to the matters set out in the Third Schedule of the Act, include:

(a) The economic outturn of the previous financial year;

(b) The performance of the first quarter of the financial year;

(c) Projections to the end of the current financial year; and

(d) Projections for the succeeding financial year and the medium term.

The Appropriation Act for FY 2014/15 was passed in May 2014 thereby requiring the tabling of the FPP by November 2014.

The enhanced fiscal rules, as embedded in the FAA (Amendment) Act 2014, also require the Minister to, before September 30 in each financial year, issue to accounting officers, the Budget Call containing the economic and fiscal parameters which will govern the preparation of the Estimates of Revenue and Expenditure for the succeeding financial year and the medium term. The interim FPP has been prepared to support the issue of the Budget Call within the time required.

This interim FPP being presented to Parliament is expected to facilitate Parliamentarians active debate and participation in the management of the public finances of Jamaica and the performance of the economy.

The FPP tabled on April 17, 2014 stated that "*just over a year ago, Jamaica was precariously positioned, facing major social and economic challenges, as demonstrated by anemic growth in national output, high fiscal deficits, large current account deficits, unsustainable public debt, growing unemployment and rising poverty levels.*" The FPP noted however that Jamaica currently has a medium term economic programme with the main objective being debt sustainability through fiscal consolidation and the creation of enabling conditions to generate meaningful economic growth, following the IMF approved four-year Extended Fund Facility (EFF) for Jamaica on May 1, 2013. At the time of tabling the FPP, the IMF had favourably concluded three quarterly reviews of the EFF to Jamaica thereby enabling four (4) drawdowns for a total disbursement of US$345.8mn. Since the start of FY 2014/15, Jamaica has met all the performance criteria and structural benchmarks for the March 2014 and June 2014 review dates, making it five (5) successful reviews under the EFF.

Jamaica's commitment to the economic reform programme (ERP) remains unwavering and the GOJ expects to continue on the track of satisfying all quantitative performance criteria and structural benchmarks under the EFF. The ERP is expected to deliver lasting benefits to the country through reduction in the debt stock and debt servicing costs, faster economic growth, job creation and an overall better quality of life for Jamaicans.

## ECONOMIC HIGHLIGHTS

### Real Sector

Despite a challenging environment, economic performance during FY 2013/14and the first quarter of FY 2014/15 has been encouraging and mainly positive. The economy returned to growth during the September 2013 quarter, which continued through the rest of that fiscal year. As a result, the economy registered real growth of 0.9% in FY 2013/14 supported by growth in tourism, mining and agriculture. For the June 2014 quarter, real GDP is estimated to have expanded by 1.2%, bolsteredby growth in agriculture, construction and tourism. For FY 2014/15, real economic growth is currently projected at 1.1%, which is slightly less than the 1.4% projected at the time of the budget, with the impact of drought conditions on agriculture being the main factor behind the lower growth estimate. Over the medium term, the economy is forecast to grow at an average of 2% per annum.

### Inflation

Inflation for FY 2013/14 was 8.3%, which was in line with the estimated 8.1% reported in the April 2014 FPP and a notable reduction from the 9.1% in FY 2012/13. For the April to July period of the current fiscal year, inflation reached 2.2%, mainly driven by the pass-through of depreciation of the Jamaica dollar into domestic prices, increased cost for crude oil and the impact of drought conditions on domestic food prices, particularly in July. Inflation is expected to remain within the band of 7% - 9% for FY 2014/15 and FY 2015/16, with trend reduction expected over the medium term.

### External Sector

The external situation has improved significantly with the current account deficit at 8.4% of GDP for FY 2013/14, compared to 10.6% in FY 2012/13. The current account deficit is projected to fall further to 6.6% of GDP by March 2015 with a further reduction to 4.9% of GDP forecast by March 2018. Net International Reserves (NIR) stood at US$1,370mn by end-June 2014 and surpassed the target in the EFF. The NIR rose to US$2,124.3 mm at end-August 2014, largely reflecting official flows to the Central Government, including a US$800mn external bond issued in July 2014. NIR is expected to reach US$1,893mn by end-March 2015 due to programmed inflows from multilateral institutions and improvements in net private capital flows.

### Labour Market

The April 2014 Labour Force Survey indicated that the unemployment rate fell to 13.6% compared to the April 2013 unemployment rate of 16.3%. The unemployment rate for males declined from 12.0% to10.4%, while the unemployment rate for females fell from 21.3% to 17.4%. Among youths aged 14 – 24 years, the unemployment rate decreased from 38.5% in April 2013 to 33.6% in April 2014.

**Fiscal Sector**

Fiscal performance was quite resilient during FY 2013/14 with all the quantitative performance criteria and indicative targets for March 2014 under the EFF met or surpassed, except for the tax revenue.

Central Government operations generated a primary surplus of $111,657.1mn (7.6% of GDP) and a fiscal surplus of $1,737.6mn (0.1% of GDP) for FY 2013/14. In the April 2014 FPP, the group of public bodies (PBs) reported an estimated Overall Balance deficit of $9,522.47mn for FY 2013/14. However, the actual performance of the group was significantly better than this estimate. The PBs mainly responsible for the improved results were the National Housing Trust (NHT), CAP, Port Authority of Jamaica (PAJ), Petrojam and the National Insurance Fund (NIF).

For the first quarter of the current fiscal year, all the structural benchmarks, quantitative performance criteria and indicative targets were met.

At end-July 2014, both the Central Government primary surplus and fiscal deficit were better than budgeted. Provisional data indicate that Central Government operations to July2014 generated a fiscal deficit of $17,971.9mn, compared to the targeted deficit of $23,099.5mn. The primary surplus amounted to $25,348.7mn, which was 16.3% better than the $21,790.4mn targeted. The better fiscal performance was due to lower than budgeted expenditure outweighing the shortfall in revenue and grants. Total expenditure at end-July was $7,690.2mn (5.2%) less than budgeted, due mainly to lower spending on capital programmes and interest payments. Revenue and grants fell short of budget by $2,562.5mn (2.1%) largely as a result of a delay in grant receipts, which were received in August 2014.

Tax Administration Jamaica (TAJ) and Jamaica Customs Agency (JCA) will be stepping up their compliance activities to keep collections at least in line with budget for the remainder of the year. As a contingency strategy however, the GOJ has identified expenditure restraint measures which will serve to ensure that the primary surplus remains on track with the programmed 7.5% of GDP target in the EFF in case the yields from compliance activities are not sufficient to reverse the revenue shortfall. The GOJ will also commence negotiations for a new wage agreementwith public sector unions during the third fiscal quarter.

The PBs' performance fell below the budgeted level for the first quarter. The Overall Balance for the group was a deficit of $4,609.4mn compared with the targeted deficit of $2,300.0mn, resulting in a negative variance of $2,309.4mn. Both the Selected Public Bodies (SPBs) and the Other Public Bodies (OPBs) reported significant variances, with the SPBs returning an Overall Balance deficit of $11,289.5mn, $6,394.9mn larger than expected, while the OPBs improved on their target by $4,085.4mn. The higher than budgeted Overall Balance deficit for the group of PBs was offset by the significantly better performance of the Central Government.

Despite challenges being experienced by some of the PBs, expectations are that the surplus Overall Balance target of $297mn for FY 2014/15 will be met. Under the medium term economic programme, the group of PBs is also slated to return at least a zero Overall Balance for the ensuing fiscal year. PBs that are currently experiencing challenges that may impact their outturn includes Petrojam, the National Water Commission (NWC), WigtonWindfarm Limited and Clarendon Alumina Productions (CAP). Despite the challenges however, some

PBs are expected to perform better than budget and therefore mitigate the negative impacts of those facing challenges.

The GOJ is cognizant of the risk posed to the economic programme by the challenging wage situation and inefficiencies within the public sector. Within this context, the GOJ will, inter alia, be:

- moving to address some long-standing human resource issues of the health sector, including rationalizing the practice regarding employment and deployment of doctors, in order to, among other things, reduce the huge over-time bill associated with the current process as well as address the identified non-payment of staff deductions to the relevant institutions. Addressing this area of expenditure within the next six months is critical to meeting the EFF targets;
- reviewing the divestment strategy with the intent of identifying and putting more public bodies on the divestment block; and
- revisiting the property tax arrangement with local authorities in an attempt to alleviate some of the current challenges being experienced with street lighting and solid waste management.

## NOTABLE ECONOMIC REFORMS

The GOJ continues to undertake a number of profound reforms that are expected to go a far way in bolstering fiscal and debt sustainability, transforming the Jamaican economy and providing an impetus for lasting economic growth. In particular, the GOJ, in collaboration with development partners, has developed an action plan for public sector transformation that encompasses:

(i) the introduction of shared corporate services;
(ii) the reallocation, merger, abolition and divestment/privatization of departments and agencies;
(iii) outsourcing of services;
(iv) strengthening control systems and accountability; and
(v) aligning remuneration with job requirements.

Implementation of this action plan is expected to assist in containing GOJ expenditure, including wages and salaries.

The key economic reforms being undertaken, for which details are provided in the Appendices include:

- Enhanced Fiscal Rules;
- Tax Reform;
- Public Financial Management Reform;
- Public Sector Reform;
- Financial Sector Reform; and
- Growth Enhancing Reform

## CONCLUSION

The GOJ remains unyieldingly committed to meeting the objectives of its economic programme. To this end, the GOJ will continue to implement the requisite reforms to facilitate meaningful and sustainable economic growth. The upgrade of Jamaica's outlook from stable to positive by Standard and Poor's in September 2014 and raising of US$800mn on the international capital market in July 2014 provide some positive indicators that confidence is returning to the economy. The GOJ is encouraged by the trend reduction in the unemployment rate, as well as the return to positive, albeit low, economic growth. Nevertheless, the GOJ remains confident that the benefits of its strategy will become increasingly evident over time, as a more stable macroeconomic environment, a credible return to debt sustainability and an improved business climate will attract new investments and result in durable job creation and increased prosperity thereby allowing the citizens to realize the vision of making **Jamaica, the place of choice to live, work, raise family and do business.**

Peter D. Phillips, PhD., MP

Minister of Finance and Planning

September 30, 2014

# PART 2: MACROECONOMIC FRAMEWORK

## FY 2014/15 – Update

### Real Sector Developments

The Jamaican economy experienced real Gross Domestic Product (GDP) growth of 1.6% for the March 2014 quarter, which contributed to the 0.9% growth recorded for FY 2013/14. The Goods Producing Industry accounted for the larger share of increased economic activities, expanding by 3.1%, with growth recorded for all sub-industries except Manufacture. The Services Industry grew by 0.2%.

During the first quarter of FY 2014/15 real GDP grew by 1.2% relative to the corresponding quarter of FY 2013/14. This performance represented the fourth consecutive quarter of economic growth and reflects a gradual improvement in the economy which endured several quarterly contractions in the aftermath of the 2008 global economic meltdown. The Goods Producing Industry grew by 3.6%, supported mainly by the 12.5% expansion in Agriculture and the 1.0% increase in construction. This offset declines in Mining & Quarrying of 0.6% and Manufacturing of 0.3%. There was also growth in the Service Industry of 0.5%, resulting mainly from expansion in the Hotels & Restaurants and Transport, Storage & Communication sub-industries of 2.7% and 1.3%, respectively (Table 2A).

The major factors contributing to the positive performance of the economy for the June 2014 quarter included:

- A rebound from the effects of Hurricane Sandy which negatively impacted production during the first quarter of the 2013/14 fiscal year;
- Improvement in output from Agro-Parks;
- Increased expenditure on road, telecommunications and energy infrastructures; and
- Increased stopover visitors and cruise passenger arrivals.

The positive performance of the economy is expected to continue during the September 2014 quarter, although attenuated, with projected real GDP growth within the range of 0.0% to 1.0%. This is predicated mainly on the implementation of capital projects that are expected to induce growth and the continuation of global economic recovery. Protracted drought conditions and possible weather hazards relating to the 2014 hurricane season present the main downside risks to the performance of the economy.

Overall, growth projection for FY 2014/15 has been reduced to 1.1%, from the 1.4% reported in the FY 2014/15 FPP and is based on a 1.9% projected growth in the Goods Producing Industry and 0.8% in the Services Industry.

**Table 2A:**

**Quarterly Real Value Added Growth (% change*) in Industries for the First Quarter of FY 2013/14 and FY 2014/15**

| | Apr-Jun 2013 | Apr-Jun 2014 |
|---|---|---|
| **GOODS PRODUCING INDUSTRY** | -0.7 | 3.6 |
| Agriculture, Forestry & Fishing | -6.5 | 12.5 |
| Mining & Quarrying | 5.2 | -0.6 |
| Manufacture | 0.4 | -0.3 |
| Construction | 2.2 | 1 |
| **SERVICES INDUSTRY** | -0.1 | 0.5 |
| Electricity & Water Supply | -2 | -1.6 |
| Transport, Storage & Communication | -0.7 | 1.3 |
| Wholesale & Retail Trade; Repair & Installation of Machinery | -0.5 | 0.3 |
| Finance & Insurance Services | 0.5 | 0.2 |
| Real Estate, Renting & Business Services | 0.3 | 0.2 |
| Government Services | -0.3 | -0.2 |
| Hotels & Restaurants | 0.7 | 2.7 |
| Other Services | 1 | 1 |
| **REAL GDP GROWTH** | -0.1 | 1.2 |

*This represents the growth rate of each quarter over the corresponding quarter of the previous year. *Source: PIOJ*

## Labour Market Developments

The January 2014 Labour Force Survey conducted by the Statistical Institute of Jamaica (STATIN) revealed an improvement in the unemployment rate, falling from 14.9% in October 2013 to 13.4%. This represented the third consecutive decline recorded. Based on the Survey, there were 19,800 (1.8%) more employed persons in January 2014 than there were in October 2013. The Total Labour Force did not grow significantly, increasing by 700 persons to 1,305,500 in January 2014 compared to 1,304,800 in October 2013.Notably, the unemployment rate among youth aged 14-24 years was down 4.4%, declining from 37.7% in October 2013 to 33.3% in January 2014. Within this age group, the male unemployment rate fell 3.8% from 31.4% to 27.6%, while the female unemployment rate fell 5.1% from 46.2% to 41.1%.

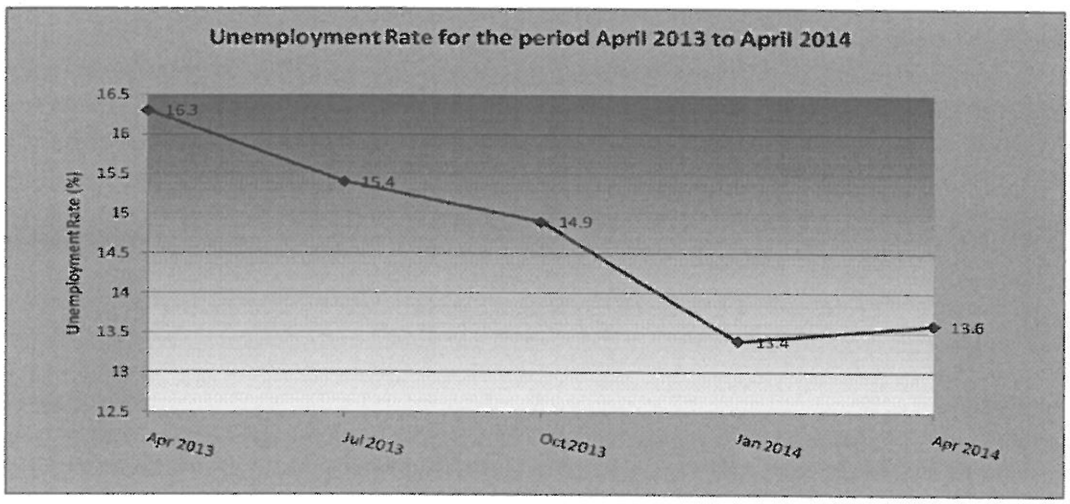
More recently, STATIN released the main findings of the April 2014 Labour Force Survey. It indicated that the Total Labour Force comprised 1,311,100 persons, falling by 11,300 persons (0.9%) when compared to the 1,322,400 recorded for April 2013. Of the Total Labour Force, there were 1,133,000 employed persons and 178,000 persons who were unemployed. The 13.6% unemployment rate for April 2014 reflected an improvement of 2.7% when compared to the April 2013 unemployment rate of 16.3%. However, relative to the preceding three consecutive declines in the unemployment rate recorded for July 2013, October 2013 and January 2014 respectively, the unemployment rate for April 2014 deviated marginally from this downward trend.

According to the April 2014 Labour Force Survey, the unemployment rate for males declined from 12.0% to10.4%, while the unemployment rate for females fell from 21.3% to 17.4%. Among youth aged 14 – 24 years, the unemployment rate decreased from 38.5% in April 2013 to 33.6% in April 2014. The unemployment rate for males and females within this age group was 26.2% and 43.9% respectively.

The number of persons classified as being outside the labour force increased by 16,200 persons, from 753,700 in April 2013 to 769,900 in April 2014.

Figure 2 illustrates the labour market trend between April 2013 and April 2014.

**Figure 2: Unemployment Rate April 2013 to April 2014**




## Monetary Developments

The signal rate of the Bank of Jamaica (BOJ), the rate on the 30-day Certificate of Deposit (CD), was maintained at 5.75% during the first quarter of FY 2014/15 and has remained unchanged since the final quarter of FY 2012/13. The policy stance of BOJ has been predicated on the underlying weakness in domestic demand, and in the context of the EFF, was consistent with the objective of meeting the programmed target for the NIR.

During the June 2014 quarter, the liquidity in the financial system improved. The BOJ's purchases of Variable Rate Government of Jamaica securities and its involvement with Primary Dealers through Repurchase Agreements resulted in an injection of $23.1bn into the system. However, this was partly offset by the $10.7bn that was absorbed through the bank's Open Market Operations (OMO) and its intervention in the foreign exchange market. Consequently, the net impact was an injection of $12.4bn into the financial system.

Relative to the quarter ending June 2013, the monetary base increased by $5.7bn (6.3%) from $90,221.8bn to $95,944.5bn at the end of June 2014. Over the period, there were net currency issues of $4.3bn and increases in commercial banks cash reserves and current account by $573.3mn and $811.7mn, respectively.

*Inflation*

The All Jamaica 'All Divisions' Consumer Price Index (CPI) rose by 8.3% during FY 2013/14, with inflation for the final fiscal quarter contributing 1.7% to the increase. Increases mainly in the divisions: 'Housing, Water, Electricity, Gas and Other Fuels' (3.8%), 'Food and Non-Alcoholic Beverages' (1.0%) and 'Miscellaneous Goods and Services' (2.6%) accounted for the inflation during the quarter. These increases were driven primarily by higher costs for international crude oil, the upward movement in corn prices globally, the national minimum wage increase in January 2014 and the continued depreciation of the domestic currency over the quarter. Compared to the 9.1% outturn for FY 2012/13 however, inflation for FY 2013/14 was down 0.8 percentage point.

Inflation for April 2014 was -0.3%, reflecting the lowest inflation rate since July 2012 when there was an equivalent outturn, followed by rates of 1.0% and 0.1% for May 2014 and June 2014, respectively. Overall, inflation for the first quarter of FY 2014/15 was 0.8%, reflecting a decline of 0.3 percentage point relative to the corresponding quarter of FY 2013/14. A 1.6% increase in the 'Food and Non-Alcoholic Beverages' division was the main contributor to the inflation for the first quarter of FY 2014/15, accounting for about 78.0% of the overall outturn.

The inflation rate for July 2014 was 1.4%, and largely reflected: (i) a 2.0% increase in 'Food and Non-Alcoholic Beverages' with 'Vegetables and Starchy Foods' being the largest contributor to the rise in prices, highlighting the impact of drought conditions affecting the island; and (ii) a 2.2% increase in 'Housing, Water, Electricity, Gas and Other Fuels' with increases in electricity cost being the main contributor. Overall, the FY 2014/15 to July inflation was 2.2%, while the rate for calendar year (CY) 2014 to July was 3.9%. These rates compare to increases in the CPI for the corresponding period of FY 2013/14 and CY 2013 of 1.6% and 4.4%, respectively.

***Exchange Rate***

The monthly average exchange rate at the end of July 2014 wasJ$112.66 to US$1.00, reflecting a depreciation of 3.2% since the beginning of FY 2014/15 when the rate was J$109.21 to US$1.00. In light of the improvement in external competitiveness however, the rate of depreciation of the local currency has slowed when compared to the 4.1% depreciation of the Jamaica dollar during the corresponding period of FY 2013/14. The diminishing pace of depreciation is expected to be sustained in the short to medium term with further decline anticipated in net demand for foreign currency to satisfy balance of payments current account transactions.

**External Sector Developments**

The Current Account recorded a deficit of US$100.6mn for the final quarter of FY 2013/14, the second lowest outturn since 2007 (see Table 2B). This represented an improvement of US$300.6mn when compared to the corresponding quarter of FY 2012/13. All sub-accounts contributed to the improvement. The Goods sub-account improved by US$168.8mn, recording a deficit of US$900.6mn for the quarter ending March 2014 compared to the US$1,069.5mn deficit for the quarter ending March 2013. This resulted from a US$280.7mn decline in imports, particularly in Chemical and Mineral Fuels imports, and an offsetting decline in exports of US$111.8mn. Chemicals and crude material recorded the most significant reduction in exports.

The Services sub-account recorded a US$30.5mn increase, primarily due to improvements in transportation and travel services of US$33.0mn and US$18.0mn respectively. The Primary Income and Secondary Income sub-accounts increased by US$61.2mn and US$40.0mn respectively.

Although the Capital Account deteriorated by US$13.1mn, it recorded a surplus of US$4.3mn down from US$17.4mn for the March 2013 quarter. The balance on the Capital Account together with that on the Current accounted yielded a net borrowing position of US$96.3mn. This represented a reduction of US$287.5mn, compared to the US$383.9 net borrowing position for the March 2013 quarter.

The balance on the Financial Account reflected a net borrowing position of US$185.8mn for the final quarter of FY 2013/14, an increase of US$210.9mn relative to the corresponding quarter of FY 2012/13. Inflows were more than sufficient to offset outflows and as a result there was an increase of US$231.0mn in Reserve Assets.

Overall, the preliminary estimate of the balance on the Current Account for the 2013/14 fiscal year is a deficit of US$1,477.0mn (10.5% of GDP). This reflected an improvement of US$369.0mn when compared to the deficit of US$1,846.0mn (12.6% of GDP) for the 2012/13 fiscal year.

At the end of July 2014 the Net International Reserves stood at US$2,181.53mn and reflected a contribution of US$800.0mn arising from the Government of Jamaica's successful return to the international bond market earlier in the month.

## Table 2B: Balance of Payments for the Final Quarter of FY 2013/14
## January - March 2014

| Balance of Payments (US$MN) | FY 2012/13 January - March | FY 2013/14 Janaury - March | Change |
|---|---|---|---|
| **Current Account Balance** | **-401.2** | **-100.6** | **300.6** |
| *Credits* | 1862.2 | 1784.3 | -77.9 |
| *Debits* | 2263.4 | 1885.0 | -378.5 |
| Goods & Services | -830.3 | -631.0 | 199.4 |
| *Credits* | 1231.8 | 1118.2 | -113.6 |
| *Debits* | 2062.1 | 1749.2 | -313.0 |
| Goods | -1069.5 | -900.6 | 168.8 |
| *Exports* | 476.2 | 364.4 | -111.8 |
| *Imports* | 1545.7 | 1265.0 | -280.7 |
| Services | 239.1 | 269.7 | 30.5 |
| *Credits* | 755.6 | 753.8 | -1.8 |
| *Debits* | 516.4 | 484.1 | -32.3 |
| Primary Income | -89.2 | -28.0 | 61.2 |
| *Credits* | 50.3 | 54.0 | 3.7 |
| *Debits* | 139.5 | 82.0 | -57.6 |
| Secondary Income | 518.3 | 558.3 | 40.0 |
| *Credits* | 580.1 | 612.1 | 32.1 |
| *Debits* | 61.8 | 53.8 | -7.9 |
| **Capital Account** | **17.4** | **4.3** | **-13.1** |
| *Credits* | 17.4 | 4.3 | -13.1 |
| *Debits* | 0.0 | 0.0 | 0.0 |
| **Net lending (+) / net borrowing (-) (balance from current and capital account)** | **-383.9** | **-96.3** | **287.5** |
| **Financial Account Net lending (+) / net borrowing (-) (balance from financial account)** | **25.1** | **-185.8** | **-210.9** |
| Direct Investment | -79.5 | -167.5 | -88.0 |
| *Net acquisition of financial assets* | 32.7 | 0.2 | -32.5 |
| *Net incurrence of liabilities* | 112.2 | 167.7 | 55.5 |
| Portfolio Investments | 95.0 | -133.5 | -228.5 |
| *Net acquisition of financial assets* | -15.0 | -2.8 | 12.2 |
| *Net incurrence of liabilities* | -110.1 | 130.7 | 240.7 |
| Financial derivatives | -65.2 | -61.3 | 3.9 |
| *Net acquisition of financial assets* | -74.5 | -67.1 | 7.4 |
| *Net incurrence of liabilities* | -9.3 | -5.8 | 3.5 |
| Other Investments | 337.5 | -54.6 | -392.2 |
| *Net acquisition of financial assets* | 293.3 | 58.1 | -235.2 |
| *Net incurrence of liabilities* | -44.3 | 112.7 | 157.0 |
| Reserve Assets | -262.8 | 231.0 | |
| Net Errors and Omissions | 408.9 | -89.5 | |

*Source: BOJ*

## Macroeconomic Outlook FY 2014/15 to 2017/18

The medium term macroeconomic outlook reflects optimism in the performance of the Jamaican economy as revealed by the projections outlined in the Medium Term Macroeconomic Profile (Table 2C). This expectation of continued economic improvement is based on the enhanced environment for growth created mainly through: (i) the implementation of several structural reforms under the four-year EFF and (ii) favourable external conditions due to global economic recovery from the 2008 recession. Coupled with sustained practice of fiscal discipline and the execution of specific growth inducement strategies which include, among others, engagement in public-private partnerships to establish special economic zones (SEZs), these efforts are expected to increase economic activities that will spur growth. However, there are downside risks, including slower than anticipated recovery from the recession, primarily by Jamaica's major trading partners and adverse weather conditions associated with natural hazards.

The projection is for growth of 1.1%, 1.7%, 2.1% and 3.0 for FY 2014/15, FY 2015/16, FY 2016/17 and FY 2017/18, respectively. Additionally, the downward inflation trajectory is expected to continue with the levels for FY 2014/15, FY 2015/16, FY 2016/17 and FY 2017/18 forecast at8.1%, 7.8%, 7.5% and 7.1% respectively. The improvement in external competitiveness is expected to positively impact the current account balance with the deficit projected to decline to 4.9% of GDP by FY 2017/18.

**Table 2C: Medium Term Macroeconomic Pofile**

| Macroeconomic Variables | Fiscal Years | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2011/12 Actual | 2012/13 Actual | 2013/14 Actual | 2014/15 Proj. | 2015/16 Proj. | 2016/17 Proj. | 2017/18 Proj. |
| Nominal GDP (J$bn) | 1,261.5 | 1,340.3 | 1,459.8 | 1,594.0 | 1,751.9 | 1,922.3 | 2,123.0 |
| Nominal GDP growth rate(%) | 7.5 | 6.1 | 8.9 | 9.2 | 9.9 | 9.7 | 10.4 |
| Real GDP growth rate (%) | 0.9 | -0.7 | 0.9 | 1.1 | 1.7 | 2.1 | 3.0 |
| Inflation: Annual Pt to Pt (%) | 7.3 | 9.1 | 8.3 | 8.1 | 7.8 | 7.5 | 7.1 |
| Interest Rates: | | | | | | | |
| 30-day repo rate (end-period) | 6.25 | 5.75 | 5.75 | | | | |
| 180-day Treasure Bill (end-period) | 6.47 | 6.22 | 9.11 | | | | |
| 180-day Treasure Bill (average) | 6.50 | 6.60 | 7.87 | | | | |
| Average Selling Exchange Rate (J$=US$1) | 86.37 | 91.17 | 103.87 | | | | |
| NIR (US$mn) | 1,777.0 | 884.0 | 1,304.0 | 1,893.0 | 1,811.0 | 1,907.0 | 2,067.0 |
| Gross International Reserves (In weeks of imports) | 17.1 | 11.5 | 14.7 | 17.1 | 17.6 | 19.4 | 20.2 |
| Current Account (%GDP) | -13.5 | -10.6 | -8.4 | -6.6 | -5.3 | -5.1 | -4.9 |
| Oil Prices (WTI) (Average US$/barrell) | 97.3 | 92.1 | 99.1 | 100.4 | 98.1 | 98.1 | 98.1 |

*Source: GOJ/BOJ*

# PART3: FISCAL MANAGEMENT STRATEGY

## BACKGROUND

The FY 2014/15 Budget was developed in harmony with the objectives of the medium term economic programme. The focus, therefore, was on strategies geared at maintaining the primary surplus at 7.5% of GDP, equivalent to $121,275.0mn, as an operational instrument for achieving the objective of reducing the debt and maintaining it at sustainable levels. The fiscal deficit was programmed at $11,394.1mn, or 0.7% of GDP.

Crafting the FY 2014/15 budget was quite challenging as considerable efforts were made to contain expenditure at levels consistent with the expected revenue inflows to deliver the required fiscal targets. Ministries, Departments and Agencies (MDAs) were thus apprised of the need to further improve efficiencies in their operations.

### Expenditure

The Central Government expenditure for FY 2014/15 (excluding Amortization) was budgeted at $439,282.6mn, or 27.2% of GDP, with $404,654.5mn (25.0% GDP) allocated for Recurrent spending and $34,628.2mn (2.1% GDP) for Capital spending.

The Non-debt (primary) expenditure budget totalled $306,613.5mn, comprising Wages and Salaries of $161,704.3mn, Recurrent Programmes of $110,281.1mn and Capital Programmes of $34,628.1mn. This provision for primary expenditure represented an increase of 7.4% over the outturn for FY 2013/14 in nominal terms. However in real terms, primary expenditure was budgeted to fall to 19.0% of GDP in FY 2014/15, down from 19.3% in the previous fiscal year.

Notwithstanding the tightening of primary expenditure, the GOJ kept its commitment to:

- Unions representing public sector workers by making provisions to honour all obligations for which agreements exist;
- The most vulnerable segments of the population by protecting social spending; and
- Public sector pensioners by providing an annual increase.

On the issue of social protection, an allocation of $22,563.0mn was made for the menu of social programmes, consistent with the established floor to maintain the real level of social spending.

The allocation for Wages and Salaries of $161,704.3mn represented the largest share of the non-debt expenditure budget accounting for 52.7%, a marginal reduction from the 54.8% in FY 2013/14. This provision amounted to 10.0% of GDP, down from 10.6% of GDP in FY

2013/14. In addition to the usual adjustments for performance increments, the budget for Wages and Salaries included a contingency provision of $13,000.0mn to cover agreements and commitments to various public sector groups.

The budgetary allocation for Recurrent Programmes amounted to $110,281.1mn, representing an increase of 17.4% over the outturn for FY 2013/14. Included in the allocation were, inter alia:

i) A provision of $6,000.0mn to meet GCT on purchases by MDAs;

ii) Provision for the annual pension increases;

iii) Amounts to pay down arrears to suppliers of goods and services; and

iv) Transfers from Capital Programmes for activities that were previously reported as capital spending, including recurring maintenance and non-investment type expenditure.

Excluding the $6,000.0mn allocation for the payment of GCT by the Central Government, the budgeted allocation maintainedRecurrent Programmes at the 6.4% of GDP as obtained in FY 2013/14.

The provision for Capital Programmes of $34,628.1mn represented a marked reduction in the capital budget due in part to the transfer of recurring maintenance, non-capital and one-off type expenditure to the Recurrent Budget of the respective MDAs. This transfer contributed to overall Capital Programmes for FY 2014/15 falling to 2.1% of GDP, compared to the outturn of 2.4% of GDP for FY 2013/14.

Interest payments were budgeted to increase by 20.7% over FY 2013/14 to $132,669.1mn (8.1% of GDP), with Domestic and External interest costs budgeted to rise to $81,242.6mn (18.2%) and $51,426.5mn (24.9%), respectively. On the external side, increased borrowing from multilateral institutions, depreciation in the value of the Jamaica dollar, a provision for a Liability Management exercise and projected cost from expected new international capital market bonds were the factors mainly responsible for the budgeted increase. With respect to Domestic Interest payments, higher domestic interest rates, increased provision for guaranteed loans and the depreciation in the value of the Jamaica dollar were largely behind the projected rise in costs.

**Revenue and Grants**

The budgeted Revenue and Grants for FY 2014/15 of $427,888.5mn (26.5% of GDP), represented a 0.4 percentage point reduction from the 26.9% in FY 2013/14.

Tax revenue was budgeted to increase by 11.8% ($40,449.8mn) over collections in FY 2013/14. This forecast included an amount of $6,652mn (0.4% of GDP) attributable to new revenue measures being implemented in FY 2014/15 as part of the policy thrust to bolster fiscal consolidation. Excluding the new revenue measures, tax revenue was projected to grow by 9.8%, compared to the 7.5% growth in FY 2013/14. A breakout of the revenue and grants budgeted for FY 2014/15 is depicted in Table3A.

**Table 3A: FY 2014/15 Revenue Forecast**

| | 2013/14 | 2014/15 | % Change |
|---|---|---|---|
| **Revenue & Grants** | **397,178.2** | **427,888.5** | **7.7** |
| Tax Revenue | 343,836.1 | 384,286.0 | 11.8 |
| Non-tax Revenue | 41,047.1 | 34,186.4 | -16.7 |
| Bauxite Levy | 1,009.5 | 17.9 | -98.2 |
| Capital Revenue | 658.1 | 753.3 | 14.5 |
| Grants | 10,627.4 | 8,644.9 | -18.7 |

Source: MOFP

The tax revenue collections in FY 2014/15 were projected to be positively impacted by stepped up compliance activities by TAJ and JCA. These compliance activities were forecast to bolster tax revenue flows by $6,892.8mn, or 0.4% of GDP. The budgeted increase in tax revenue was also predicated on a projected 9.6% growth in nominal income in FY 2014/15, as well as adjustments in other macroeconomic variables.

Non-tax revenue was projected at $34,186.4mn, or 2.1% of GDP, compared to 2.8% of GDP in FY 2013/14. The decline stemmed from the fact that there were significant one-off flows in FY 2013/14, particularly the earlier renewal of licenses by two telecommunication companies. The projected Non-tax revenue for FY 2014/15 also includes: Programmed transfer of $11,400.0mn from the NHT to the Consolidated Fund; Payment from the telecommunication companies toward the renewed licenses anddividend distributions from public bodies of $891.2mn.

With respect to the Bauxite Levy, transfers to the Consolidated Fund were forecast to decline to $17.9mn in FY 2014/15 due to the Jamaica Bauxite Mining Limited/WINDALCO Settlement Agreement, wherein proceeds from the bauxite levy will be used to clear the GOJ's (CAP's) obligations, to WINDALCO, over a period of 2 1/2 years. The budgeted transfer to the Consolidated Fund of $17.9mn represents the expected balance of Bauxite Levy flows after covering the obligations to WINDALCO.

Capital revenue for FY 2014/15 was forecast to increase by 14.5% over collections inFY 2013/14, partly due to increased royalties from bauxite mining.

The forecast for Grants of $8,644.9mn represented an 18.7% reduction relative to receipts in FY 2013/14 due mainly to the expected reduction in budget support flows from the European Union (EU).

## CENTRAL GOVERNMENT PERFORMANCE: APRIL – JULY

Provisional data indicate that Central Government operations for the April to July period of FY 2014/15 generated a fiscal deficit of $17,971.9mn, compared to the targeted deficit of $23,099.5mn. The primary surplus amounted to $25,348.7mn, which was 16.3% better than the $21,790.4mn targeted. The primary surplus for the first four months of FY 2013/14 was $288.3mn higher than for the similar period last year, while the fiscal deficit was larger by $12,159.1mn, due mainly to increased interest costs.

### Expenditure

Total expenditure for the April – July period amounted to $139,730.5mn, which was $7,690.2mn, or 5.2% below the level budgeted. Recurrent and capital expenditure were $3,516.8mn (2.6%) and $4,173.4mn (34.8%), respectively, less than budgeted.

The lower spending during the review period resulted mainly from a combination of significant saving in interest costs, lower than programmed recurrent demands from MDAs and slower than planned execution of some investment projects. The latter two factors contributed to Non-debt (primary) expenditure of $96,409.8mn being $6,120.9mn (6.0%) less than the amount originally programmed.

Notwithstanding the lower primary expenditure relative to budget, the GOJ was able to maintain its commitment to protect specified social spending, consistent with the requirement under the EFF. Spending in these social areas for the April to June period totalled $4,700mn, which was ahead of the EFF indicative target floor of $4,200mn. Additionally, the GOJ has also complied with the performance criterion under the EFF of no accumulation in expenditure arrears (over 90-days) of the Central Government. The expenditure (over 90-days) arrears declined by just under $200mn during the April – June 2014 quarter.

#### *Recurrent Expenditure*

Recurrent Expenditure totalled $131,927.4mn, which was $3,516.8mn (2.6%) less than budget, with all the main categories being below budget. Compared to the similar period last Fiscal year, Recurrent Expenditure increased by $18,817.8mn (16.6%), with Interest payments and Recurrent Programmes contributing to the increase, as Wages and Salaries registered a marginal decline.

*Recurrent Programmes*

Spending on Recurrent Programmes of $35,197.7mn was 2.0% less than the amount budgeted. The lower spending was due to continuing fiscal consolidation efforts which have served to contain housekeeping expenses, as well as below programmed requests from MDAs. Compared to the similar period last fiscal year, Recurrent Programmes rose by $6,433.2mn (22.4%) arising partly from higher costs for travelling, pension, purchase of goods and service and utilities, including payments associated with reducing arrears.

*Wages and Salaries*

Wages and Salaries for the review period in FY 2014/15 totalled $53,409.1mn, which was $1,210.9mn (2.2%) less than the amount budgeted. Contributing to the lower spending is the fact that some of the budgeted payments have been shifted to later in the fiscal year. Of note, spending on Wages and Salaries declined by 0.1% relative to the similar period last year, representing a significant real contraction in the wage bill.

*Interest Payments*

Interest costs of $43,320.6mn was $1,569.3mn (3.5%) less than the amount budgeted with saving reflected on both the domestic and external side. Domestic Interest payments totalled $25,965.0mn, which was $965.6mn or 3.6% lower than budget while External Interest payments of $17,355.6mn, fell $603.6mn (3.4%) below budget.

### *Capital Expenditure*

Spending on Capital programmes of $7,803.0mn was $4,173.4mn (34.8%) behind the amount budgeted and $3,494.3mn (30.9%) less than for the corresponding period in FY 2013/14. The lower capital spending was due largely to slower than anticipated execution of some capital projects.

## Revenue and Grants

For the April – July period of 2014, Revenue and Grants totalled $121,758.6mn, a shortfall of $2,562.5mn (2.1%) against the target. Of this total, tax revenue collection amounted to $111,616.0mn, which was broadly in line with target, falling short by just $611.1mn (0.5%).

### *Tax Revenue*

Tax receipts increased $3,127.2mn (2.9%) over collections for the similar period last year. Major tax types influencing this increase are shown in Table 3B.

**Table 3B: Notable Tax Performances**

| Tax Type | Increase over prior year (J$mn) | Increase over prior year % |
|---|---|---|
| GCT Imports | $2,258.7 | 13.9 |
| PAYE | $1,733.7 | 8.5 |
| Withholding Tax on Int | $1,058.0 | 74.4 |
| Education Tax | $664.1 | 11.6 |
| Custom Duty | $408.8 | 4.9 |
| Tax on Dividend | $332.0 | 66.3 |

Source: MOFP

The increase in GCT Imports(13.9%) was due mainly to the depreciation in the value of the Jamaica dollar, the new measure which entails GOJ paying GCT on the purchase of goods and services and improved compliance. PAYE has benefited from the increase in employment and improved compliance from employers being able to claim Employment Tax Credit (ETC) provided they file and pay on time. With respect toWithholding Tax on Interest (up $1,058.0mn), higher interest payments was largely responsible for the increase, while similar to the PAYE, Education Tax benefited from increased employment.An increase in the rate for Tax on Dividendfrom 5.0% to 15.0%effective April 2013was announced during the last quarter of FY 2012/13. In response to the announcement, companies declared dividends earlier than anticipated (in 2012/13), thereby resulting in low collections in FY 2013/14. The notable increase (66.3%) during the review period in 2014/15 was due to that lower base in 2013/14.

Notwithstanding these increases, a number of tax types registered reductions compared to the similar period last year, most notably GCT (Local), which declined by $2,268.7mn (10.9%) and Other Companies (Corporate Taxes), which fell by $989.5mn (13.6%), as a number of large companies have reported lower payments than the prior year. In light of this, the Large Taxpayer Office (LTO) of TAJ will be focussing on these entities for more stringent monitoring and audits where deemed necessary.

Overall, tax revenue collections were 99.5% of target, falling short by only $611.1mn. The main items contributing to the lower than budgeted receipts were Other Companies (Corporate Taxes)- short $1,888.5mn, GCT (Local)- short $1,604.3mn, GCT (Imports) - short $477.1mn and SCT (Imports)- short $445.2mn.

The shortfall in Other Companies was attributable to prepayment of taxes by a large taxpayer in March 2014 and lower declaration by several companies possibly due to anticipated benefits from the Fiscal Incentive Regime which was introduced in January 2014.

On the other hand, Tax on Interest (up $1,559.4mn), PAYE (up$770.7mn), and SCT (Local) (up $722.3mn) registered notable increases over budget. The increase in Tax on Interest was due partly to lower than budgeted payment of refunds during the review period, while as was mentioned earlier, PAYE benefited from increased employment and better compliance emanating from the ETC. Increased intake from SCT (Local) reflected higher than programmed refinery activity by PETROJAM, which offset the shortfall that was registered on the importation side.

### *Other Revenue*

Non-tax revenue totalled $9,210.0mn, which was $300.9mn (3.4%) higher than the amount budgeted and 4.9% more than the corresponding period last year. The Customs Administration Fee (CAF) accounted for approximately 40.0% of this over-performance.Collections from the CAF totalled $3,819.3mn, an increase of $118.6mn (3.2%) over the amount budgeted.Also contributing to the increased Non-tax revenue intake was higher than programmed miscellaneous receipts from MDAs.

Capital revenue receipts totalled $323.9mn, which was $102.4mn (46.3%) above budget. Higher than budgeted collections from royalties from the bauxite/alumina sector contributed most significantly to the increase.

Grant receipts for the review period of $608.7mn fell $2,354.8mn below the budgeted amount. The shortfall in Grants receipts was due to the delay in programmed budget support inflows from the European Union (EU), as well as lower disbursement for investment projects that stemmed from the slower than planned execution of capital spending. The delayed inflows from the EU were however received in August 2014.

### Financing

The generation of a lower than programmed fiscal deficit, alongsideAmortization payments being in line with budget ($313.7mn or 1.7% less), would have reduced the Central Government's borrowing requirement during the April – July 2014 period. However, Loan Receipts for the period totalled $107,210.9mn, which was $62,399.5mn more than budgeted.

Loans from external sources amounted to $99,875.7mn, $66,920.8mn higher than budget. This increase arose largely from (i) unprogrammed receipts of US$70mn from the IMF for budgetary support and (ii) US$800mn raised on the capital market, compared to the US$250mn budgeted, as the GOJ took advantage of the very favourable response from the market to pre-finance obligations due later this fiscal year as well as next fiscal year. Loans from bilateral/multilateral agencies for capital programmes were $ 2,107.9mn (48.7%) less than budgeted due to the slower pace of project execution.

Domestic Loan Receipts of $7,335.2mn were $4,521.3mn below budget, as with the better than programmed fiscal deficit, and, additional external receipts, the GOJ borrowing needs from the domestic market were less than initially planned.

## PUBLIC DEBT

Jamaica's total public debt stood at $2,061,407.6mn at the end of July 2014 (Table 3C). This represented a 5.9% increase over the $1,946,005.0mn at March 2014. The increase in the stock over the four-month period was mainly attributable to:

- Capital market debt raising (US$800mn);
- Budget support inflows from the IMF (US$70mn);
- Depreciation of the Jamaica dollar vis-à-vis the US dollar and other currencies; and
- Financing of the fiscal deficit.

**Table 3C: Total Debt Stock**

| | Mar 2014 | July 2014 |
|---|---|---|
| *(J$mn)* | | |
| Domestic | 1,024,515.2 | 1,032,939.7 |
| External | 921,489.8 | 1,028,467.9 |
| **TOTAL** | **1,946,005.0** | **2,061,407.6** |

Source: MOFP

The domestic debt stood at $1,032,939.7mn at the end of July 2014, which was 0.8% higher than the $1,024,515.2mn registered at the end of March 2014.

With respect to the stock of public and publicly-guaranteed external debt this rose to $1,028,467.9mn (US$9,113.6mn) at the end of July 2014, representing an increase of 8.4% over the stock at the end of March 2014. A significant contributor to this 8.4% increase was the issuance of a global bond in the amount of US$800.0 to assist with financing the budget in FY 2014/15 and pre-financing for FY 2015/16. Additionally, the depreciation in the value of the Jamaica dollar over the April to July 2014 period contributed to the increase in the external debt stock, as the US dollar value of the debt increased by 2.9% relative to the level at end-March 2014.

## PUBLIC BODIES

For FY 2013/14 the group of 65 Self-financing Public Bodies (SFPBs) reported an actual Overall Balance surplus performance of $179.2mn against a budgeted deficit of $1,366.3mn. Some of the PBs experienced adverse operational issues that affected their performance, chief among these were CAP and Petrojam. The April 2014 FPP indicated that the group of PBs estimated an Overall Balance deficit of $9,522.4mn for FY 2013/14. However, the actual performance of the group was significantly better than this estimate. The PBs mainly responsible for the improved results were the National Housing Trust (NHT) at $2,660.0mn, CAP at $2,156.0mn, Port Authority of Jamaica (PAJ) at $1,001.0mn, Petrojamat $920.0mn and the National Insurance Fund (NIF)at $786.0mn.

**Self-Financing Public Bodies - FY 2014/15**

The Overall Balance of the group of sixty-five Self-financing Public Bodies, whose budgets were included in the Public Bodies Estimates of Revenue and Expenditure approved by Parliament in April 2014,is projected at a surplus of $297.6mn for FY 2014/15. Contributing to this balance are the Selected Public Bodies (SPBs) and the Other Public Bodies (OPBs) which projected a deficit of $10,000.2mn and a surplus $10,297.9mn respectively. Revenue is forecast at $437,675.0mn from which a current balance surplus of $35,492.0mn is expected. The group is projecting expenditure on infrastructure/investments of $52,327.0mn in comparison to the $41,185.0mn for FY 2013/14.

***First Quarter Performance - June 2014***

The PBs' performance was worse than the budgeted outturn for the first quarter. The Overall Balance for the group was a deficit of $4,609.4mn compared with the targeted deficit of $2,300.0mn, resulting in a negative variance of $2,309.4mn. Both the Selected Public Bodies (SPBs) and the Other Public Bodies (OPBs) reported significant variances, with the SPBs returning a deficit Overall Balance of $11,289.5mn, $6,394.8mn worse than expected, while the OPBs improved on their target by $4,085.4mn. Notably, the largest contributor to the PBs negative variance was the net change in receivables/payables which was $8,740.4mn worse than the targeted deficit of $1,542.9mn. However the fallout was mitigated by savings of $6,833.4mn on capital expenditure as the budgeted $15,342.9mn was underutilized.

Petrojam Limited was the main contributor to the shortfall for the SPBs (and PBs), as it reported a negative variance of $9,650.2mn. However, large positive variances by NHT and CAP served to reduce the negative effect of Petrojam's out-turn.

For the OPBs, the Petrocaribe Development Fund (PDF) reported the largest positive variance of $1,101.8mn. It was supported by the Jamaica Civil Aviation Authority (CAA), the Road Maintenance Fund (RMF) and the Universal Services Fund (USF). The table below highlights the PBs performance against target for the first quarter of FY 2014/15.

**Public Bodies**
**Y-T-D Comparison**

**ACTUAL JUNE 2014**

J$m

| PUBLIC BODIES - (SPBs & OPBs)<br>Statement 'A' Flow of Funds | Projected<br>Jun-14 | Actual<br>Jun-14 | Proj vs Actual<br>Variance |
|---|---|---|---|
| 1 Current Revenue | 106,363.47 | 111,150.10 | 4,786.63 |
| 2 Current Expenses | (100,158.00) | (99,775.84) | 382.16 |
| 3 Current Balance | 6,205.46 | 11,374.26 | 5,168.79 |
| 4 Adjustments | 3,261.16 | (1,004.31) | (4,265.47) |
| Change in Accounts | - | - | - |
| Receivable/Payable | (1,542.90) | (10,283.37) | (8,740.46) |
| Items not requiring outlay of cash: | 0.00 | 0.00 | - |
| Depreciation | 3,555.89 | 3,576.46 | 20.57 |
| Other Non-Cash Items | 1,244.24 | 5,597.22 | 4,352.98 |
| Prior Year Adjustment | 3.94 | 105.38 | 101.44 |
| 5 Operating Balance | 9,466.63 | 10,369.94 | 903.32 |
| 6 Capital Account | (7,596.58) | (8,092.11) | (495.54) |
| Revenue | 7,178.78 | 3,335.93 | (3,842.85) |
| Expenditure | (15,342.93) | (8,509.45) | 6,833.48 |
| Investment | (29.82) | (44.44) | (14.62) |
| Change in Inventory | 597.39 | (2,874.15) | (3,471.54) |
| 7 Transfers from Government | 6,068.69 | 2,972.62 | (3,096.08) |
| Loans | - | - | - |
| Equity | - | - | - |
| On-Lending | - | - | - |
| Other | 6,068.69 | 2,972.62 | (3,096.08) |
| 8 Transfers to Government | (10,238.74) | (9,859.86) | 378.89 |
| Dividend | (103.32) | 0.00 | 103.32 |
| Loan Repayments | - | - | - |
| Corporate Taxes | (141.75) | (77.55) | 64.20 |
| Other | (9,993.67) | (9,782.31) | 211.36 |
| **9 OVERALL BALANCE (5+6+7+8)** | **(2,300.00)** | **(4,609.41)** | **(2,309.41)** |
| **10 FINANCING (11+15)** | **2,300.00** | **4,609.41** | **2,309.41** |
| * 10a Total | 1,060.90 | 112.59 | (948.31) |
| Capital Revenue | 1060.90 | 112.59 | (948.31) |
| Loans | - | - | - |
| Equity | - | - | - |
| On-Lending | - | - | - |
| Loan Repayments | - | - | - |
| 11 Total Foreign (12+13+14) | 17,332.68 | 33,462.77 | 16,130.09 |
| 12 Government Guaranteed Loans | (8.57) | (391.05) | (382.48) |
| Disbursement | 727.09 | 0.00 | (727.09) |
| Amortization | (735.66) | (391.05) | 344.61 |
| 13 Direct Loans | 17,349.88 | 33,960.40 | 16,610.52 |
| Long Term: | 16,766.73 | 21,443.67 | 4,676.94 |
| Disbursement | 19,239.11 | 25,485.77 | 6,246.66 |
| Amortisation | (2,472.38) | (4,042.10) | (1,569.72) |
| Short Term: | - | - | - |
| Change in Trade Credits | 583.15 | 12,516.73 | 11,933.58 |
| 14 Change in Deposits Abroad | (8.63) | (106.57) | (97.94) |
| 15 Total Domestic (16+17+18) | (16,093.58) | (28,965.95) | (12,872.37) |
| 16 Banking System | (10,059.33) | (7,720.58) | 2,338.75 |
| Loans (Change) | 263.51 | 416.23 | 152.72 |
| Overdraft (Change) | (104.90) | (25.66) | 79.24 |
| Deposits (Change) | (10,217.94) | (8,111.15) | 2,106.79 |
| 17 Non-Banks (Change) | 831.24 | (1,586.60) | (2,417.84) |
| 18 Other (Change) | (6,865.49) | (19,658.77) | (12,793.27) |

## FISCAL OUTLOOK

In light of the tax revenue shortfall registered up to July 2014, and preliminary August figures showing further fallout, TAJ and JCA will be stepping up their administrative and operational activities, details of which are outlined in Appendix III, in an effort to at least keep collections in line with budget for the remainder of the year and to boost the prospects for improved revenue performance in FY 2015/16 and the medium term. However, while these actions are anticipated to yield positive results, they may not be sufficient to reverse the revenue shortfall up to the end of August 2014. Within this context, the GOJ has identified expenditure adjustment measures of $5,500mn, equivalent to 0.3% of GDP, which will serve to ensure that the primary surplus remains on track with the programmed 7.5% of GDP target in the EFF. These adjustments, if required, will be reflected in Supplementary Estimates to be tabled in Parliament in the third quarter of FY 2014/15for approval. With these expenditure adjustments, the fiscal deficit could end the fiscal year at 0.8% of GDP, a slight deviation from the 0.7% of GDP budgeted due to increases in interest payments arising from, inter alia, the US$800mn international capital market bond.

### Central Government Operations

### Revenue and Grants - FY 2014/15

Revenue and Grants for FY 2014/15are currently estimated at $422,461.8mn, a shortfallof $5,426.8mn (1.3%) against target (Table A3 in Appendix I). Tax revenue is projected at $377,775.4mn representing a $6,510.6mn (1.7%) reduction below the amount originally budgeted. The main tax items that are expected to fall short of budget are GCT (Local), Corporate Taxes, GCT (Imports) and SCT (Local). Simultaneously, Withholding Tax on Interest, PAYE and Travel Tax are projected to surpass target for FY 2014/15. Non-tax and Capital Revenue are also expected to exceed target.

The estimate for Revenue & Grants is $25,482.4mn (6.4%) above collections in FY 2013/14. This estimated performance is predicated on a $33,939.3mn (9.9%) increase in tax revenue outweighing programmed and expected declines in the other revenue and grants.

### Expenditure - FY 2014/15

Central Government expenditure (excluding amortization) for FY 2014/15is now estimated at $436,688.0mn, which is $2,594.7mn less than the originally budgeted amount. This reduction is due largely to a combination of, a strategic adjustment to Recurrent Programmes and Capital expenditure in light of the projected revenue shortfall and slower than expected execution of some projects.

Non-debt (primary) expenditure is expected to be reduced by $5,475.9mn relative to the amount originally programmed, mainly to ensure adherence to established fiscal targets. The bulk of the reduction is on the capital side of the budget ($3,999.3mn or 11.5%), with reduction in Recurrent Programmes projected at $2,209.0mn (2.0%). Wages and Salaries at $162,436.8mn are estimated to be broadly in line with budget, with a slight increase of 0.5%.

Interest payments are currently estimated at $135,550.2mn, an increase of $2,881.1mn (2.2%) over budget. The increase is due mainly to cost associated with raising an additional US$350mn on the international capital market to pre-finance obligations due in FY 2015/16, as well as interest payments arising from execution of the liability management programme.

It is important to note that notwithstanding the reduction in overall expenditure relative to budget, the GOJ has maintained its commitment to protect specified social spending, as contained in the EFF. Spending in these social areas is projected at $22,563.0mn, which is in keeping with commitment to protect this area of expenditure. In addition, the GOJ will continue to comply with the performance criterion under the EFF of not increasing the expenditure arrears (over-90 days) of the Central Government.

## Public Debt

The stock of public debt is expected to end FY 2014/15 at $2,067,382.8mn or 127.9% of GDP. This compares to $1,946,005.0mn or a debt-to-GDP ratio of 131.9% at end FY 2013/14. The domestic debt at the end of FY 2014/15 is projected at $1,062,390.7mn or 65.7% of GDP. This represents a decrease of 3.7% over the previous fiscal year's domestic debt which stood at $1,024,515.2mn or 69.4% of GDP.

The expected increase in the total debt stock (J$) will be due mainly to the depreciation in the value of the Jamaica dollar vis-à-vis the United States dollar and other currencies, with financing of the fiscal deficit of the Central Government accounting for a minor proportion of the increase.

The stock of public and publicly guaranteed external debt is projected to end FY 2014/15 at $1,004,992.1mn, or 62.2% of GDP. This represents a slight decrease over the 62.5% of GDP recorded in FY 2013/14. The nominal stock is projected to increase year-over-year by 9.5%. The main factor behind the projected increase is the depreciation in the value of the Jamaica dollar, as the US$ value of the external debt stock is projected to increase by 0.7%.

## Public Bodies

***Prospects for the Remainder of FY 2014-15***

Despite challenges being experienced by some of the PBs, expectations are that the surplus Overall Balance target of $297.0mn for FY 2014/15 will be met. Under the Medium Term Programme, the group of self-financing PBs is also slated to return at least a zero Overall Balance for the ensuing fiscal year.

PBs that are currently experiencing challenges that may impact their outturn include Petrojam, the National Water Commission (NWC), WigtonWindfarm Limited and CAP. Petrojam has been experiencing difficulties with the timing of its purchases and payments and their impact on the Overall Balance. In addition there are issues with the timely collection of its receivables especially from the power companies (JPSCo and Jamaica Energy Partners). Wigton has budgeted major capital expansion to increase its energy production however the project is now behind schedule and may not progress to the point originally anticipated by March 2015. Meanwhile, CAP and the NWC can be seen as PBs with a fairly high risk of underperformance. NWC does not have a good track record in the implementation of its capital programme and the collection of its receivables, although marginal improvement in the former is expected in this fiscal year, while CAP continues to experience high cost of production and low selling prices. Despite the challenges however, some PBs will perform better than budget and therefore mitigate the negative impacts mentioned above.

## FY 2015/16 and the Medium Term Fiscal Profile

Against the backdrop of the medium term macroeconomic framework outlined in Table 2C, and, based on existing fiscal policies, inter alia, the medium term fiscal profile depicted in Tables A4 and A5 in Appendix 1 was developed. The macroeconomic forecast for FY 2015/16 includes, inter alia:

- Real GDP growthof 1.7%;
- Inflation rate of 7.8%;
- Oil price (WTI) average of US$98.1 per barrel; and
- Core imports increasing by only 0.5% relative to estimates for FY 2014/15.

Revenue & Grants are projected to decline from 26.5% of GDP in FY 2014/15 to 25.1% in FY 2015/16, (and further to 24.4% in FY 2017/18) reflecting, inter alia:

- Reduced PAYE and Education Tax from the contraction of the wage bill (by 1% of GDP);
- Reduction in PAYE due to the programmed increase in the personal income tax threshold effective January 1, 2015;
- Lower Withholding Tax due to reduced interest costs and continuing the policy of paying down the outstanding refunds;
- Some of the tax types, including a significant portion of the SCT, are fixed rates (not advalorem) and accordingly will not grow in line with nominal GDP, with the result that these taxes will show a declining ratio in proportion to GDP;
- Lower Non-tax revenue, as FY 2014/15 collections are expected to be buoyed by significant amounts in one-off payment for telecoms licences; and
- Reduced budget support grants from the EU.

On the expenditure side, the FY 2015/16 Budget assumes Recurrent Programmes, at $120,515.0mn will be kept at the FY 2014/15 level, in real terms (grow by expected inflation). Spending on Capital Projects at $33,735.9mn is projected to remain at the 2014 level, in % of GDP. The Public Sector Investment Programme (PSIP) will be prioritized to include projects which will most significantly contribute to the achievement of the GOJ's priority objectives. Simultaneously, protected social spending for youth employment, poor relief, children homes and places of safety and PATH will be preserved.

Interest payments are projected to fall from 8.5% of GDP in FY 2014/15 to 7.5% of GDP in FY 2015/16, with further reductions expected over the medium term against the backdrop of the reduction in the fiscal deficit and return to a surplus over the medium term, and, the trend decline in the Debt/GDP ratio toward the FY 2019/20 target of 96% as reflected in the EFF.

Achieving the 9% of GDP legislated wage ceiling by March 2016is an important challenge that must be met through the contribution of all stakeholders. The required wage cost to achieve this target is $158,310.0mn. There are a few outstanding settlements that are awaiting judicial and other decisions which could impact the wage bill. In addition, negotiations with unions representing public sector workers for new wage agreements covering the period FY 2015/16 – 2016/17, will commence in the third fiscal quarter. The GOJ will work harmoniously with public sector groups to ensure that these discussions and the settlements and schedule of payments arising from these decisions will be consistent with attainment of the legislated wage ceiling of 9% of GDP by March 2016. The implementation of the action plan for public sector transformation is also expected to have a positive impact on the fiscal programme.

The GOJ's economic programme that is embedded in the EFF, establishes a requirement for a Central Government primary surplus of 7.5% of GDP from FY 2013/14 through the medium term (FY 2016/17). Current estimates for FY 2015/16 are for non-debt (primary) expenditure of $312,560.9mn, consisting of $278,825.0mn for Recurrent and $33,735.9mn for the Capital budget. Revenue and Grants are forecast at $444,489.4mn for FY 2015/16. Achievement of the targeted primary surplus of 7.5% of GDP for FY 2015/16 ($131,925.0mn) and beyond is largely predicated on revenue performing as projected and adherence to the expenditure ceilings. The Budget Call, which will be delivered to MDAs by September 30, 2014, is based on these aggregate fiscal figures. Nevertheless, should the ongoing tax reform efforts indicate that revenue could perform better than the current forecasts show, the GOJ will appropriately increase primary expenditure, while still adhering to the 7.5% of GDP primary surplus target, in particular spending on Capital Programmes so as to provide further support to the economic growth agenda.

# Appendix I

***Table A1: CENTRAL GOVERNMENT SUMMARY ACCOUNTS***
***FY 2014/15***

*(in millions of Jamaica dollars)*

| Item | | Prov Apr - July | Budget Apr - July | Diff | Diff % | FY 13/14 Apr - July | Diff | Diff % |
|---|---|---|---|---|---|---|---|---|
| **Revenue & Grants** | | **121,758.6** | **124,321.1** | **-2,562.5** | **-2.1%** | **118,594.2** | **3,164.4** | **2.7%** |
| | Tax Revenue | 111,616.0 | 112,227.1 | -611.1 | -0.5% | 108,488.8 | 3,127.2 | 2.9% |
| | Non-Tax Revenue | 9,210.0 | 8,909.1 | 300.9 | 3.4% | 8,776.2 | 433.7 | 4.9% |
| | Bauxite Levy | 0.0 | 0.0 | 0.0 | 0.0 | 395.5 | -395.5 | -100.0% |
| | Capital Revenue | 323.9 | 221.4 | 102.4 | 46.3% | 282.9 | 40.9 | 14.5% |
| | Grants | 608.7 | 2,963.5 | -2,354.8 | -79.5% | 650.7 | -42.0 | -6.4% |
| **Expenditure** | | **139,730.5** | **147,420.6** | **-7,690.2** | **-5.2%** | **124,407.0** | **15,323.5** | **12.3%** |
| | Recurrent Expenditure | 131,927.4 | 135,444.2 | -3,516.8 | -2.6% | 113,109.6 | 18,817.8 | 16.6% |
| | Programmes | 35,197.7 | 35,934.3 | -736.6 | -2.0% | 28,764.5 | 6,433.2 | 22.4% |
| | Wages & Salaries | 53,409.1 | 54,620.0 | -1,210.9 | -2.2% | 53,471.9 | -62.8 | -0.1% |
| | Interest | 43,320.6 | 44,889.9 | -1,569.3 | -3.5% | 30,873.2 | 12,447.4 | 40.3% |
| | Domestic | 25,965.0 | 26,930.6 | -965.6 | -3.6% | 16,239.6 | 9,725.4 | 59.9% |
| | External | 17,355.6 | 17,959.3 | -603.6 | -3.4% | 14,633.6 | 2,722.0 | 18.6% |
| | Capital Expenditure | 7,803.0 | 11,976.4 | -4,173.4 | -34.8% | 11,297.3 | -3,494.3 | -30.9% |
| | Capital Programmes | 7,803.0 | 11,976.4 | -4,173.4 | -34.8% | 11,297.3 | -3,494.3 | -30.9% |
| **Fiscal Balance (Surplus + / Deficit -)** | | **-17,971.9** | **-23,099.5** | **5,127.6** | **-22.2%** | **-5,812.8** | **12,159.1** | **209.2%** |
| **Loan Receipts** | | **107,210.9** | **44,811.4** | **62,399.5** | **139.2%** | **17,000.5** | **90,210.4** | **530.6%** |
| | Domestic | 7,335.2 | 11,856.5 | -4,521.3 | -38.1% | 4,425.0 | 2,910.2 | 65.8% |
| | External | 99,875.7 | 32,954.9 | 66,920.8 | 203.1% | 12,575.5 | 87,300.3 | 694.2% |
| | Project Loans | 2,217.0 | 4,324.9 | -2,107.9 | -48.7% | 3,858.8 | -1,641.7 | -42.5% |
| | Other | 97,658.7 | 28,630.0 | 69,028.7 | 241.1% | 8,716.7 | 88,942.0 | 1020.4% |
| **Amortization** | | **18,175.9** | **18,489.5** | **-313.7** | **-1.7%** | **14,287.1** | **3,888.8** | **27.2%** |
| | Domestic | 6,907.9 | 7,400.6 | -492.7 | -6.7% | 5,650.1 | 1,257.8 | 22.3% |
| | External | 11,268.0 | 11,088.9 | 179.1 | 1.6% | 8,636.9 | 2,631.1 | 30.5% |
| **Overall Balance (Surplus + / Deficit -)** | | **71,063.2** | **3,222.4** | **67,840.8** | **2105.3%** | **-3,099.3** | **74,162.5** | **2392.9%** |
| **Primary Balance (Surplus + / Deficit -)** | | **25,348.7** | **21,790.4** | **3,558.4** | **16.3%** | **25,060.4** | **288.3** | **1.2%** |

Source: MoFP

*Table A2: DETAILS OF REVENUE*

*FY 2014/15*

*(in millions of Jamaica dollars)*

| Item | Prov. Apr - July | Budget Apr - July | Diff | Diff % | FY 13/14 Apr - July | Diff | Diff % |
|---|---|---|---|---|---|---|---|
| **Revenue & Grants** | **121,758.6** | **124,321.1** | **-2,562.5** | **-2.1%** | **118,594.2** | **3,164.4** | **2.7%** |
| **Tax Revenue** | **111,616.0** | **112,227.1** | **-611.1** | **-0.5%** | **108,488.8** | **3,127.2** | **2.9%** |
| Income and profits | 32,680.1 | 32,191.3 | 488.8 | 1.5% | 30,529.0 | 2,151.0 | 7.0% |
| Bauxite/alumina | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other companies | 6,302.8 | 8,191.4 | -1,888.5 | -23.1% | 7,292.3 | -989.5 | -13.6% |
| PAYE | 22,178.6 | 21,408.0 | 770.7 | 3.6% | 20,445.0 | 1,733.7 | 8.5% |
| Tax on dividend | 832.6 | 686.5 | 146.1 | 21.3% | 500.7 | 332.0 | 66.3% |
| Other individuals | 886.3 | 985.2 | -98.9 | -10.0% | 869.4 | 16.9 | 1.9% |
| Tax on interest | 2,479.7 | 920.2 | 1,559.4 | 169.5% | 1,421.6 | 1,058.0 | 74.4% |
| Environmental Levy | 844.0 | 695.8 | 148.3 | 21.3% | 586.5 | 257.5 | 43.9% |
| Production and consumption | 38,249.9 | 38,797.0 | -547.1 | -1.4% | 39,968.1 | -1,718.2 | -4.3% |
| Min Business Tax (MBT) | 278.0 | 300.0 | -22.0 | -7.3% | 0.0 | 278.0 | 0.0 |
| SCT (Local) | 4,261.9 | 3,539.6 | 722.3 | 20.4% | 4,353.7 | -91.8 | -2.1% |
| Motor vehicle licenses | 912.9 | 850.1 | 62.8 | 7.4% | 891.4 | 21.5 | 2.4% |
| Other licenses | 131.1 | 125.0 | 6.0 | 4.8% | 134.8 | -3.8 | -2.8% |
| Betting, gaming and lottery | 872.7 | 1,071.5 | -198.9 | -18.6% | 797.6 | 75.1 | 9.4% |
| Accommodation Tax | 718.4 | 668.9 | 49.4 | 7.4% | 654.2 | 64.2 | 9.8% |
| Education Tax | 6,396.7 | 6,102.7 | 294.0 | 4.8% | 5,732.6 | 664.1 | 11.6% |
| Telephone Call Tax | 2,067.9 | 2,249.5 | -181.6 | -8.1% | 2,219.6 | -151.7 | -6.8% |
| Contractors levy | 284.9 | 312.5 | -27.5 | -8.8% | 340.2 | -55.2 | -16.2% |
| GCT (Local) | 18,618.2 | 20,222.6 | -1,604.3 | -7.9% | 20,886.9 | -2,268.7 | -10.9% |
| Stamp Duty (Local) | 3,707.2 | 3,354.6 | 352.6 | 10.5% | 3,957.1 | -249.9 | -6.3% |
| International Trade | 39,842.1 | 40,543.1 | -701.1 | -1.7% | 37,405.2 | 2,436.9 | 6.5% |
| Custom Duty | 8,768.8 | 8,860.0 | -91.2 | -1.0% | 8,359.9 | 408.8 | 4.9% |
| Stamp Duty | 661.5 | 647.9 | 13.7 | 2.1% | 576.2 | 85.4 | 14.8% |
| Travel Tax | 3,490.8 | 3,192.1 | 298.7 | 9.4% | 3,744.8 | -253.9 | -6.8% |
| GCT (Imports) | 18,556.1 | 19,033.2 | -477.1 | -2.5% | 16,297.4 | 2,258.7 | 13.9% |
| SCT (imports) | 8,364.9 | 8,810.1 | -445.2 | -5.1% | 8,427.0 | -62.1 | -0.7% |
| **Non-Tax Revenue** | **9,210.0** | **8,909.1** | **300.9** | **3.4%** | **8,776.2** | **433.7** | **4.9%** |
| **Bauxite Levy** | **0.0** | **0.0** | **0.0** | **0.0** | **395.5** | **-395.5** | **-100.0%** |
| **Capital Revenue** | **323.9** | **221.4** | **102.4** | **46.3%** | **282.9** | **40.9** | **14.5%** |
| **Grants** | **608.7** | **2,963.5** | **-2,354.8** | **-79.5%** | **650.7** | **-42.0** | **-6.4%** |

Source: MoFP

***Table A3: CENTRAL GOVERNMENT SUMMARY ACCOUNTS***

***FY 2014/15***

*(in millions of Jamaica dollars)*

| Item | Prov Apr - March | Budget Apr - March | Diff | Diff % | FY 13/14 Apr - March | Diff | Diff % |
|---|---|---|---|---|---|---|---|
| **Revenue & Grants** | **422,461.8** | **427,888.6** | **-5,426.8** | **-1.3%** | **396,979.4** | **25,482.4** | **6.4%** |
| Tax Revenue | 377,775.4 | 384,286.0 | -6,510.6 | -1.7% | 343,836.1 | 33,939.3 | 9.9% |
| Non-Tax Revenue | 35,217.1 | 34,186.5 | 1,030.6 | 3.0% | 41,047.1 | -5,830.0 | -14.2% |
| Bauxite Levy | 17.9 | 17.9 | 0.0 | 0.0% | 1,009.5 | -991.6 | -98.2% |
| Capital Revenue | 808.6 | 753.3 | 55.3 | 7.3% | 658.1 | 150.5 | 22.9% |
| Grants | 8,642.8 | 8,644.9 | -2.1 | 0.0% | 10,428.5 | -1,785.7 | -17.1% |
| **Expenditure** | **436,688.0** | **439,282.7** | **-2,594.7** | **-0.6%** | **395,241.8** | **41,446.2** | **10.5%** |
| Recurrent Expenditure | 406,059.1 | 404,654.5 | 1,404.6 | 0.3% | 358,252.9 | 47,806.2 | 13.3% |
| Programmes | 108,072.1 | 110,281.1 | -2,209.0 | -2.0% | 91,971.7 | 16,100.4 | 17.5% |
| Wages & Salaries | 162,436.8 | 161,704.3 | 732.5 | 0.5% | 156,361.7 | 6,075.1 | 3.9% |
| Interest | 135,550.2 | 132,669.1 | 2,881.1 | 2.2% | 109,919.5 | 25,630.7 | 23.3% |
| Domestic | 79,698.7 | 81,242.6 | -1,543.9 | -1.9% | 68,728.9 | 10,969.8 | 16.0% |
| External | 55,851.5 | 51,426.5 | 4,425.0 | 8.6% | 41,190.6 | 14,660.9 | 35.6% |
| Capital Expenditure | 30,628.9 | 34,628.2 | -3,999.3 | -11.5% | 36,988.8 | -6,359.9 | -17.2% |
| Capital Programmes | 30,628.9 | 34,628.2 | -3,999.3 | -11.5% | 36,988.8 | -6,359.9 | -17.2% |
| **Fiscal Balance (Surplus + / Deficit -)** | **-14,226.2** | **-11,394.1** | **-2,832.1** | **24.9%** | **1,737.6** | **-15,963.8** | **-918.7%** |
| **Loan Receipts** | **168,804.5** | **110,894.5** | **57,910.0** | **52.2%** | **93,527.5** | **75,277.0** | **80.5%** |
| Domestic | 42,577.1 | 56,280.6 | -13,703.5 | -24.3% | 40,119.9 | 2,457.2 | 6.1% |
| External | 126,227.4 | 54,613.9 | 71,613.5 | 131.1% | 53,407.6 | 72,819.8 | 136.3% |
| Project Loans | 11,805.2 | 12,814.1 | -1,008.9 | -7.9% | 9,614.1 | 2,191.1 | 22.8% |
| Other | 114,422.2 | 41,799.8 | 72,622.4 | 173.7% | 43,793.5 | 70,628.7 | 161.3% |
| **Amortization** | **117,568.8** | **100,775.3** | **16,793.5** | **16.7%** | **106,640.2** | **10,928.6** | **10.2%** |
| Domestic | 26,718.8 | 24,234.7 | 2,484.1 | 10.3% | 76,604.4 | -49,885.6 | -65.1% |
| External | 90,850.0 | 76,540.6 | 14,309.4 | 18.7% | 38,228.9 | 52,621.1 | 137.6% |
| **Overall Balance (Surplus + / Deficit -)** | **37,009.5** | **-1,274.9** | **38,284.4** | **-3002.9%** | **-11,375.0** | **48,384.5** | **-425.4%** |
| **Primary Balance (Surplus + / Deficit -)** | **121,324.0** | **121,275.0** | **49.0** | **0.0%** | **111,657.1** | **9,666.9** | **8.7%** |

Source: MoFP

*TABLE A4: CENTRAL GOVERNMENT SUMMARY ACCOUNTS (% GDP)*

| | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|---|
| **Revenue & Grants** | **25.8%** | **27.2%** | **26.5%** | **25.1%** | **25.0%** | **24.4%** |
| Tax Revenue | 23.9% | 23.6% | 23.7% | 22.9% | 23.0% | 23.0% |
| Non-Tax Revenue | 1.4% | 2.8% | 2.2% | 1.8% | 1.7% | 1.1% |
| Bauxite Levy | 0.1% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% |
| Capital Revenue | 0.1% | 0.0% | 0.1% | 0.0% | 0.0% | 0.0% |
| Grants | 0.3% | 0.7% | 0.5% | 0.4% | 0.3% | 0.3% |
| **Expenditure** | **29.8%** | **27.0%** | **27.3%** | **25.3%** | **23.9%** | **22.8%** |
| Recurrent Expenditure | 27.0% | 24.5% | 25.4% | 23.4% | 22.0% | 20.9% |
| Programmes | 6.5% | 6.3% | 6.8% | 6.9% | 6.7% | 6.5% |
| Wages & Salaries | 11.0% | 10.7% | 10.1% | 9.0% | 9.0% | 9.0% |
| Interest | 9.5% | 7.5% | 8.5% | 7.5% | 6.3% | 5.4% |
| Domestic | 6.5% | 4.7% | 5.0% | 4.3% | 3.5% | 3.0% |
| Foreign | 2.9% | 2.8% | 3.5% | 3.2% | 2.8% | 2.4% |
| Capital Expenditure | 2.8% | 2.5% | 1.9% | 1.9% | 1.9% | 1.9% |
| **Fiscal Balance (Surp+/Def-)** | **-4.0%** | **0.2%** | **-0.8%** | **-0.2%** | **1.1%** | **1.6%** |
| **Loan Receipts** | **10.8%** | **6.4%** | **10.6%** | **8.5%** | **2.4%** | **10.0%** |
| External | 10.0% | 2.7% | 2.7% | 2.6% | 0.1% | 3.2% |
| Domestic | 0.8% | 3.7% | 7.9% | 5.9% | 2.3% | 6.8% |
| Divestment | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| **Amortization** | **6.6%** | **7.3%** | **7.4%** | **10.6%** | **3.6%** | **11.6%** |
| External | 2.8% | 5.2% | 1.7% | 4.7% | 1.3% | 4.8% |
| Domestic | 3.8% | 2.1% | 5.7% | 5.9% | 2.3% | 6.8% |
| **Overall Balance (Surp+/Def-)** | **0.2%** | **-0.7%** | **2.4%** | **-2.3%** | **-0.1%** | **0.0%** |
| **Primary Balance(Surp+/Def-)** | **5.4%** | **7.6%** | **7.6%** | **7.5%** | **7.5%** | **7.0%** |
| GDP | 1,340,300.0 | 1,459,800.0 | 1,594,000.0 | 1,759,000.0 | 1,937,000.0 | 2,129,000.0 |

Source: MoFP

*TABLE A5: CENTRAL GOVERNMENT SUMMARY ACCOUNTS (J$mn)*

| | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|---|---|
| **Revenue & Grants** | **344,677.8** | **396,979.3** | **422,461.8** | **444,489.4** | **487,010.2** | **519,756.7** |
| Tax Revenue | 319,764.9 | 343,836.1 | 377,775.4 | 403,302.3 | 446,473.5 | 489,106.3 |
| Non-Tax Revenue | 18,765.1 | 41,047.1 | 35,217.1 | 32,088.3 | 33,761.3 | 23,260.5 |
| Bauxite Levy | 1,163.7 | 1,009.5 | 17.9 | 486.9 | 520.5 | 564.3 |
| Capital Revenue | 1,015.8 | 658.1 | 808.6 | 829.9 | 819.7 | 1,004.5 |
| Grants | 3,968.3 | 10,428.5 | 8,642.8 | 7,782.0 | 5,435.2 | 5,821.1 |
| **Expenditure** | **399,278.9** | **395,241.7** | **436,688.0** | **444,124.0** | **463,235.8** | **485,125.9** |
| Recurrent Expenditure | 361,521.0 | 358,252.9 | 406,059.1 | 410,388.1 | 426,086.0 | 444,293.7 |
| Programmes | 87,201.5 | 91,971.7 | 108,072.1 | 120,515.0 | 129,553.6 | 138,751.9 |
| Wages & Salaries | 147,381.8 | 156,361.7 | 162,436.8 | 158,310.0 | 174,998.3 | 191,123.2 |
| Interest | 126,937.7 | 109,919.5 | 135,550.2 | 131,563.1 | 121,534.1 | 114,418.6 |
| Domestic | 87,729.1 | 68,728.9 | 79,698.7 | 75,790.6 | 67,359.3 | 64,174.0 |
| Foreign | 39,208.6 | 41,190.6 | 55,851.5 | 55,772.5 | 54,174.8 | 50,244.6 |
| Capital Expenditure | 37,757.9 | 36,988.8 | 30,628.9 | 33,735.9 | 37,149.8 | 40,832.2 |
| **Fiscal Balance (Surp+/Def-)** | **-54,601.1** | **1,737.6** | **-14,226.2** | **365.4** | **23,774.4** | **34,630.8** |
| **Loan Receipts** | **144,347.1** | **93,527.5** | **168,804.4** | **148,371.2** | **46,499.7** | **212,038.8** |
| External | 10,276.9 | 53,407.6 | 126,227.3 | 103,429.6 | 44,263.6 | 144,777.1 |
| Domestic | 134,070.2 | 40,119.9 | 42,577.1 | 44,941.6 | 2,236.1 | 67,261.7 |
| Divestment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Amortization** | **88,329.8** | **106,640.2** | **117,568.8** | **185,745.9** | **70,274.2** | **246,669.6** |
| External | 51,235.0 | 30,035.8 | 90,850.0 | 103,429.6 | 44,263.6 | 144,777.1 |
| Domestic | 37,094.8 | 76,604.4 | 26,718.8 | 82,316.3 | 26,010.6 | 101,892.5 |
| **Overall Balance (Surp+/Def-)** | **1,416.2** | **-11,375.1** | **37,009.4** | **-37,009.3** | **-0.1** | **0.0** |
| **Primary Balance(Surp+/Def-)** | **72,336.6** | **111,657.1** | **121,324.0** | **131,928.5** | **145,308.5** | **149,049.4** |

Source: MoFP

# Appendix II

## ENHANCED FISCAL RULES

In March 2014, Parliament approved amendments to the FAA and PBMA Acts to introduce enhanced fiscal rules aimed at improving fiscal transparency and locking in the gains of fiscal consolidation. The April 2014 FPP provided a detailed description of the enhanced fiscal rules. Regulations to support the enhanced fiscal rules are currently being developed and these are expected to be approved by Parliament in October 2014. The Regulations will include, inter alia, classification rules for determining which public bodies would be deemed commercial and, on that basis, could be excluded from the specified public sector (coverage of the fiscal rule). The exclusion criteria encompass a number of indicators consistent with fiscal and managerial independence, including pricingpolicy, independence of human resource policy, financial standards, and transparency and governance.

Some of the important elements to support effective implementation of the fiscal rules, including those which will form part of the FY 2015/16 budget are as follows:

- The GOJ will develop mechanisms to closely monitor possible fiscal costs and contingencies associated with possible Public-Private-Partnerships (PPPs). Of note, the MOFP will be enhancing its capacity to: (i) analyze PPP contracts, which includes the proper identification of direct fiscal impacts and valuation of contingent obligations to ensure consistency with the fiscal rules; (ii) disclose fiscal risks (both explicit and implicit); and (iii) review value-for-money decisions. A database of PPP projects will be established by end-October 2014.

- The capacity of the Auditor General's Department (AGD) will be enhanced to allow it to continue its independent audit of the FPP and assessment of the proper treatment of PPPs, as well as for applying and interpreting the criteria for determining which public bodies can be excluded from the specified public sector, under the fiscal rule, starting in FY 2017/18. To undertake this expanded role, the AGD will be provided with increased resources to allow for recruitment of additional experts in public finance and economics.

- To enhance the credibility of the fiscal rules and support wider public financial management reform,the GOJ intends to strengthen the sanctions regime. Within this context, the GOJ will continue to consult with the IMF in undertaking a comprehensive review of the sanctions and enforcement regimes so as to have a more streamlined process in place by July 2015.

- The risk assessment which has been a feature of the annual FPP since inception, will be strengthened. Accordingly, the FY 2015/16 FPP to be tabled in February 2015 will include a comprehensive and clear fiscal risk statement, covering all significant contingent liabilities including those related to commercial public bodies and PPPs. The IDB is already providing technical assistance to support this effort.

# Appendix III

## TAX REFORM

Comprehensive tax reform to support economic growth and employment creationremains a critical component of GOJ's economic reform programme. The reform is being done by simplifying the system, reducing economic distortions, eliminating ministerial discretion in the granting of incentives, broadening the tax base and reducing rates. The reformed system is expected to result in a significant reduction in the cost of compliance. The main elements of the reform are outlined below.

- The Minimum Business Tax (MBT) which was initially announced in FY2012/13 was implemented in FY 2014/15, with payments of $30,000.0 due from registered businesses in June and September of each year ($60,000 due each fiscal year).

- A first phase in the amalgamation of statutory payroll deductions was completed by finalizing and gazetting the SO3 form in March 2014 while annual returns of the SO4 form are to be completed by end-December 2014.

- Amendments to theGeneral Consumption Tax (GCT) Act were tabled in June 2014 and approved by Parliament in September 2014. The main objectives of the amendment to the GCT Act are to broaden the tax base and eliminate the zero rating of government purchases. The salient elements of the amendment include:

  (i) Broadening the application of GCT and SCT on motor vehicles, including by curtailing the availability of a reduced rate of SCT on selected motor vehicle imports by limiting the CIF value to US$35,000 afforded to pickup trucks used for agricultural activity;

  (ii) Elimination of the exempt status of electricity for independent private power producers;

  (iii)Elimination of the zero-rating of government purchases, which commenced on June 1, 2014;

  (iv)Extension of the GCT to imported services other than electricity, business processing, tourist accommodations and imports by the bauxite/alumina subsector.

- Within the context of the Fiscal Incentive (Omnibus) Legislation introduced in January 2014, a transition by entities with grandfathered incentives to the new regime will be critical to achieving the expected reduction in tax expenditures. Accordingly, the GOJ will conduct an entity by entity review of all entities with grandfathered incentives and of their regime by end-FY2014/15. The GOJ has requested Technical Assistance from the IDB for this review.

- The study on the scope for imposing GCT on petroleum products versus the existing SCT, within the context of no net increase in petroleum taxation is far advanced. The conclusions of this study will inform decisions regarding any adjustment to the existing petroleum tax structure in FY2015/16.

- The GOJ will continue to assess the need for further reduction in tax expenditure over the medium term within the context of revenue needs and the fiscal impact of the recent and ongoing reforms. Furthermore, a convergence of personal and corporate income tax rates to a uniform standard rate is also envisaged over the medium term, subject to availability of fiscal space and the attainment of revenue targets. In addition, property tax reformis expected to be ready for implementation by the start of FY2015/16.

- The GOJ continues to proceed with reforms to strengthen the capacity of TAJ and JCA. These include (i) improvement to the accounting and financial systems, through the introduction of ACCPAC (Accrual Accounting System) in March 2014 for the JCA, and in September 2014 for the TAJ (inventory and asset management components only) and (ii) adoption by Parliament in September 2014 of the Tax Collection (Miscellaneous Provisions) Act, 2014 and the Tax Penalties (Harmonization) Act, 2014 (formerly referred to as the Revenue Administration Act and the Tax Collection Act) to strengthen the powers of TAJ and JCA to collect outstanding arrears. The amendments include powers to seize and sell taxpayers' property, harmonization of penalties and fines where appropriate and the introduction of mandatory income tax filing for every business.

- Other measures to strengthen administration at TAJ and JCA include:

  (i) Ongoing discussions with banks to increase the number of banks that accept the use of Real Time Gross Settlement (RTGS) as an alternative channel for the payment of duties and taxes on commercial imports;

  (ii) Improving large taxpayer administration through: (a) increasing the number of staff by a further 50 auditors by March 2015, (b) increasing the number of audits completed in the LargeTaxpayers Office (LTO) by 100% in FY 2014/15 over FY 2013/14, and (c) achieving 95% take up rate of e-filing and e-payment in the LTO by March 2015.

  (iii) Enacting amendments to the Customs Act to facilitate implementation of ASYCUDA World and trade facilitation by end-September 2014, with a comprehensive overhaul of the Customs Act to be tabled by June 2015.

- The GOJ also intends to prepare, with the support of technical assistance from the IMF, an estimate of the revenue compliance gap for the GCT by February 2015, to provide a basis for measuring the impact of administrative reforms. In addition, new revenue productivity indicators that measure the effectiveness and efficiency of the tax system are proposed for introduction by November 2015. The proposed coverage for the indicators include compliance gaps for all major taxes, as well as e-filing, non-filing, audit coverage, objection, and appeals results, arrears collection, collectible and disputed debts, refund processing, and customs clearance and customs post-clearance audits.

# Appendix IV

## PUBLIC FINANCIAL MANAGEMENT REFORM

The GOJ remains strongly committed to implementing reforms to public financial management, in collaboration with its development partners. Against this backdrop, the GOJ continues to robustly implement its action plan for public financial management reform. Some of the key initiatives are noted below.

- The MOFP will enhance its macro-fiscal capacity with the support of technical assistance from the IMF. This process will include, inter alia:

  (i) A strengthening of coordination among the MOFP, BOJ and the PIOJ to improve the development and review of macro-fiscal projections and policies and the monitoring of macro-fiscal outcomes.

  (ii) A re-organization and rationalization of the functions of the Fiscal Policy Management Unit (FPMU) to strengthen work activities in relation to modeling, forecasting, impact and sensitivity analysis. This process will include the transfer of cash management function currently handled by the FPMU to the Accountant General Department by June 2015. The enhanced work activities of the FPMU will require recruitment of additional qualified staff for the unit.

  **(iii)** Capacity building through regular visits of an IMF-supported peripatetic advisor to deliver training for technical and analytical work.

- The GOJ intends to expand and improve the use of the Treasury Single Account (TSA) at the Bank of Jamaica through closure of imprest and various transit accounts and inclusion of a wider range of agencies and on-budget public bodies in the TSA. The IMF will provide technical assistance to aid in the development of a plan for further expansion of the TSA by December 2014. Further, the GOJ will increase direct payments through the TSA using the Central Treasury Management System (CTMS), including payment of salaries. Of note, the CTMShas been strengthened by including modules for the tracking of expenditures and a reporting module has been implemented. A CTMS development strategy will be prepared by March 2015.

- The adjusted Chart of Accounts, which was first prepared in April 2014, is undergoing further revisions with a view to implement it by November 2014. In addition, the GOJ's initial plans to introduce an IFMIS by FY 2016/17 will be re-evaluated in consultation with technical assistance providers.

- With respect to procurement, the GOJ will strengthen the efficiency and quality of the procurement process thereby improving the ease of doing business and reducing associated costs. The GOJ began publishing a Public Procurement Page in the print media in December 2013. Additional initiatives to be undertaken include:

- Implementation of the Electronic Tendering System in four pilot entities during the current fiscal year;

- Amendment of the Procurement Act (tabled July 2014) by January 2015;

- Preparation of a new procurement manual by March 2015, with IDB assistance.

- The improved Public Investment Management System (PIMS) is supported by a high-level Public Investment Management Committee (PIMC) that was established in August 2014 and a web-based public investment management information system, Phase 1 of which became operational in July 2014. Additionally a Public Sector Investment Policy (PSIP) Paper was approved by Cabinet in September 2014.

- The GOJ has also developed a robust work plan to strengthen budget preparation and presentation in line with best practices. Among the key elements of the plan are the following:

    - issuing of the budget call by end-September each year, to allow for the tabling and passage of the budget no later than end-March, starting with the FY 2015/16 Budget;and
    - strengthening the policy to limit the use of Virements - approved by Cabinet in July 2014.
    - These two elements of the budget preparation, presentation and execution process represent important reforms to underpin the enhanced fiscal rules, which will be further anchored in Regulations to be presented to Parliament in October 2014.

# Appendix V

## PUBLIC SECTOR REFORM

The GOJ remains fully committed to improving the efficiency, quality and cost effectiveness of the public sector. The Fiscal Responsibility Framework, through the FAA Act, establishes a ceiling on the wage bill of 9% of GDP by March 2016. Discussions on a new wage agreement for the next negotiation period starting in April 2015 will commence in October 2014 and the GOJ will work harmoniously with unions representing public sector workers to ensure that all agreements signed and implemented are in line with satisfying the legislated requirement.

In September 2014, the GOJ, in close cooperation with development partners, completed an action plan for public sector transformation that encompasses:

- (vi) the introduction of shared corporate services;
- (vii) the reallocation, merger, abolition and divestment/privatization of departments and agencies;
- (viii) outsourcing of services;
- (ix) strengthening control systems and accountability; and
- (x) aligning remuneration with job requirements, following thereview of public sector employment and remuneration that was completed in March 2014.

Following the removal of 3,000 civil service posts in 2012 and an additional 3,000 posts in the wider public sector early in 2013, another 1,000 posts that became vacant by the end of 2013 were not filled. The reduction in the size of the public sector will continue over the short to medium term through the elimination of some posts and natural attrition, as the filling of vacant positions will be constrained as needed.

The GOJ is making good progress with the procurement of a human resources software system (the HCMES system) and the vendor is expected to be contracted by November 2014. A dedicated project management team will be in place by October 2014 and a project plan will be prepared by December 2014 in order to ensure a timely start to implementation of the system for the wider public sector. The start of the implementation of the HCMES/Payroll system for the first entity, e-Gov Jamaica Limited, is expected by January 2015 while implementation for the remaining five entities (including TAJ and JCA) in phase one of the project is expected to commence in February 2015.

Further reform is also underway for public bodies. In order to enhance transparency, the annual reports (including audited statements) for public bodies are to be completed within six months of the end of the fiscal year (to be achieved by end-2014 for self-financing public bodies and by December 2015 for other public bodies). To strengthen the monitoring of public bodies, a time limit will be enforced for submission of the relevant financial statements to the Auditor General.

# Appendix VI

## FINANCIAL SECTOR REFORM

The GOJ has been taking important steps to mitigate the risks inherent in the country's highly interconnected financial system. A Banking Services Act that harmonizes the prudential standards across deposit takers, facilitates consolidated supervision of financial conglomerates, strengthens the corrective, sanctioning and resolution regime, and ensures that the BOJ has operational independence for supervision was approved by Parliament in June 2014. The Act will take effect by June 2015 following finalization of subsidiary legislation. Technical assistance to develop a comprehensive strategy for crisis management and resolution frameworks centred on the securities and banking sectors has been requested from the IMF. A stakeholder consultation process on this strategy is scheduled to start by January 2015. In addition, the regulatory and supervisory framework for non-bank financial institutions will also be strengthened with IMF technical assistance.

In December 2013 a timetable was published for raising the cap for Collective Investment Schemes (CIS) on investments in foreign assets from 5% of assets to at least 25% by end-2015, with a first step effective as of July 1, 2014. This cap will be removed by end-2016 unless unforeseen circumstances indicate that a reassessment is required. Notably, the BOJ, representatives of regulated entities in the insurance and pensions sectors, and the FSC have been consulting, with the aim of establishing the scope and extent to which current limits on permissible investments in foreign assets can be lifted over time. The BOJ, in collaboration with the FSC, will prepare a paper for discussion with the industry by March 2015.

The GOJ has also been implementing measures to protect the interest of retail repo clients. Within this context, the GOJ, in consultation with IMF staff, will be establishing a distinct treatment for retail repo clients in the legal and regulatory framework in order to protect their interests prior to, and in the event of, insolvency of a securities dealer. This process will entail establishing a Trust to hold the underlying securities on the clients' behalf during the term of the retail repo. The Trust arrangement is intended to ensure that funds and securities flow in accordance with the terms of the retail repo agreement, and the Trust will be responsible for the custody of the securities underlying retail repo transactions. The transaction structure for the trust-based frameworkwill be finalized by September 2014andthe legal and regulatory framework to support this framework will be in place by end-December 2014. The transition of retail repos to the trust-based framework will be finalized by end-June 2015 taking into account evolving market conditions and ensuring financial stability. As an interim step, a pilot will commence by end-February 2015 and the transition to the trust-based framework will start by April 2015.

Over the medium term, a gradual tightening of prudential standards in line with best international practice will facilitate fundamental reform of the securities dealers sector. Accordingly, a strategy for the gradual tightening of prudential standardswill be in place by November 2014.

# Appendix VII

## GROWTH-ENHANCING REFORMS

The GOJ has been actively pursuing actions to promote economic growth through improvement to the business climate. The National Competitiveness Council, established to improve the business climate, has identified a number of key reforms, addressing the most critical constraints facing the private sector. In collaboration with the World Bank, the GOJ is addressing investment climate issues pertaining to approval of construction permits, trading across borders, business registration, and paying taxes.

- The tracking system (AMANDA) will allow the GOJ to track approval of construction permits across all parish councils in Jamaica. Implementation of the system has started in nine parishes, as well as in four agencies and the system is expected to be implemented in all parish councils by December 2014. A Concept Paper has been developed to revise and standardize the fee structure for application fees.

- With support from the IDB, land titling is being expanded under the Land Administration and Management Programme (LAMP). Under this programme, approximately 3,000 new titles were issued between 2011 and 2013 and another 1,000 new titles are expected to be issued in FY 2014/15.

- Legislation to create a secured interest in personal property was passed in Parliament in December 2013. In addition, actions toward Parliamentary passage of an Insolvency Act have proceeded as planned, with passage occurring in September 2014 and supporting Regulations expected to be in place by October 2014.

- During the current fiscal year, a multi-purpose registration instrument designed to streamline the business registration was introduced. In addition, an on-line system for business registration will be in place by end-February 2015.

- The GOJ has prepared a programme of reforms to enable improvements to the Development Applications Process (DAP), including provisions to fast-track lower-risk and smaller projects. A Memorandum of Understanding between the Local Planning Authorities (LPAs) and the National Environment and Planning Agency (NEPA) will be effected to facilitate this Joint Technical Team (JTT) for the review, assessment and monitoring of development applications. The established JTT, which would include NEPA, National Works Agency (NWA) and the relevant parish councils, will handle applications for projects above certain thresholds while smaller projects will be handled by the parish councils. The improvements to the DAP will enable the facilitation of developers' submissions of preliminary, outline or detailed applications to the relevant LPAs. The new process is expected to be in place by the end of 2014 and should result in a faster, more streamlined approvals process.

- The GOJ is taking urgent action to reduce the time associated with the application and delivery of electricity permits by the Government Electricity Inspectorate (GEI) and the time for installation by the power company. These actions include the automation of the work processes within the GEI and the acquisition of technology to streamline procedures for scheduling, inspecting, approving and certifying electrical installations. The adoption of the technology application is expected to be completed by April 2016.

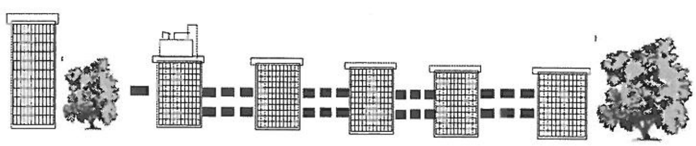
- Plans are well underway for establishment of a Port Community System (PCS) to electronically integrate and streamline export and import procedures. The National Contracts Commission (NCC) has given approval for a limited retender utilizing a refined RFP with the two pre-qualified bidders to facilitate more effective alignment of the system capabilities with Jamaica's competitive needs. With the JCA acquisition of ASYCUDA World Customs Management System, an independent assessment of both the PCS and ASYCUDA is expected to be completed in September 2014, which will inform further important steps in the process.

- A Special Economic Zone (SEZ) Act is expected to be passed by October 2015 that will ensure compatibility with WTO requirements. The SEZ Act will be informed by a Green Paper to be completed in September 2014and a White Paper that is expected by the end of FY 2014/15.

Strategic investments to establish Jamaica as a logistics hub are underway. The 2015 expansion of the Panama Canal will create opportunities to establish Jamaica as a logistics hub. Several projects to support this initiative are underway, including: (1) phased development of a transshipment port and industrial and commercial zones in the Portland Bight area by China Harbour Engineering Company (CHEC), for which a final Framework Agreement was signed in August 2014. Of note, CHEC has started a technical feasibility study, which is a prerequisite for determining the construction methodology and obtaining the terms of reference from NEPA; (2) privatization of the Kingston Container Terminal; and (3) privatization of the Norman Manley International Airport.

A number of initiatives to achieve fuel-source diversification, facilitate energy conservation, liberalize the electricity market and reduce the cost of energy have been identified by the Electricity Sector Enterprise Team (ESET). The ESET, which was established following the suspension of procurement efforts for a 381megawatt plant, commenced preparation of an action plan for creating a viable model for the sector and to manage the procurement process for additional generation capacity, in July 2014. The ESET reported in September 2014 that the Jamaica Public Service Co Limited (JPSCo), JAMALCO and Alumina Partners (Alpart) submitted proposals to build, own and operate new power generation and feedstock facilities, supplying electrical power to the national grid. The proposal put forward by the JPS looks at a conversion, by 2015, of the Bogue Power Station in Montego Bay to burn gas and replacement of the existing 292 megawatt HFoil power plants at Old Harbour and Hunts Bay with a 190MW gas turbine plant, fuelled with liquid natural gas. Alpart proposes to develop a new gas facility in 2017 to be facilitated by a 138kv interconnection line to tie into the system. Following this, it is expected that Jamalco will be on stream with a low sulphur coal fired co-generation facility. Overall, it is expected that by 2018, Jamaica will see a reduction of at least 30 per cent in fuel cost.

Another important growth-enhancing reformbeing undertaken relates to Labour market reforms, entailing the establishment of flexible work arrangements. Legislation enabling flexible work arrangements was passed in September 2014.



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