GOVERNMENT OF JAMAICA

FISCAL POLICY PAPER FY 2015/16

INTERIM REPORT

29th September 2015

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PART 1: FISCAL RESPONSIBILITY STATEMENT

INTRODUCTION

The Financial Administration and Audit (FAA) (Amendment) Act 2014 provides for the adoption of enhanced fiscal rules that entails establishment of a budget calendar. This calendar requires that the annual Estimates of Revenue and Expenditure, and the accompanying Fiscal Policy Paper (FPP), be tabled simultaneously in February of each year, to allow for passage of the budget prior to the start of the fiscal year to which those estimates relate. FY 2015/16 marked the inaugural year for the simultaneous tabling of the Estimates of Revenue and Expenditure. This profound change in the budget preparation and approval process has provided Parliamentarians with more information to aid decision-making. This new approach is also expected to enrich the quality of Parliamentary deliberations and debate on Jamaica'sbudget.

The enhanced fiscal rules also require the Minister to table in both Houses of Parliament, an Interim FPP within six months of the passage of the Appropriation Act for the financial year to which the relevant Estimates of Revenue and Expenditure relate. In addition to the matters set out in the Third Schedule of the FAA Act, the Interim FPP shall 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 2015/16 was passed in March 2015 thereby requiring the tabling of the Interim FPP by September 2015.

The FAA (Amendment) Act 2014 also requires 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. This interim FPP has been prepared and is being tabled to support the issue of the Budget Call within the time required and to enhance active debate and participation among Parliamentarians in the management of the public finances of Jamaica and the performance of the economy.

At the time of tabling the last FPP in February 2015, the International Monetary Fund (IMF) had favourably concluded seven quarterly reviews of the Extended Fund Facility (EFF) to Jamaica. Since the seventh review, Jamaica has met almost all structural benchmarks and quantitative targets for the March 2015 review andall for the June 2015 review. The nominal value of the primary surplus at end-March 2015 was marginally missed however the IMF Board concluded the review, thereby making it nine (9) successful reviews under the EFF. Total drawdowns under the EFF following the March 2015 successful review amounted to US$625.4mn.

Jamaica's commitment to the Economic Reform Programme (ERP) remains strong and the Government of Jamaica (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 the stabilizing effect of the reduction in the debt stock, faster economic growth, job creation and an overall better quality of life for Jamaicans.

ECONOMIC REVIEW AND OUTLOOK

While the GOJ has made significant progress during the first two and a half years of the ERP, much remains to be done and the GOJ remains committed to staying the course. Notably, inflation is the lowest it has been in almost 50 years, the Net International Reserves (NIR) are strong, the budget is near balance and the debt/GDP ratio is firmly on a downward trajectory.

Primary objectives under the ERP include:

- Central Government annual Primary Surplus of 7.5% of GDP from FY 2013/14 – 2016/17;
- Debt/GDP ratio of 96% by end FY 2019/20;
- Average Real GDP Growth of 2-3%;
- Wage/GDP of 9% by FY 2016/17; and
- Maintaining a floor on Social Spending in the Budget.

The ERP remains on track with the successful passage of all nine IMF EFF reviews. Highlights of the progress so far and future expectations include:

- Debt/GDP (EFF definition) declined from 145.3% in March 2013 to 137.4%as at March 2015. Debt/GDP is projected to end March 2016 at 120.8% of GDP, a 16.6 percentage point reduction over the previous year, due largely to the PetroCaribe debt buy-back transaction executed during the year;

- The Central Government Primary Surplus increased from 3.1% in FY 2011/12 to 7.6% of GDP in FY 2013/14 and registered 7.5% in FY 2014/15, which is to be maintained through to FY 2016/17. Thereafter the primary surplus is programmed at 7.0% of GDP over the medium term;

- Central Government generated a fiscal surplus of 0.1% of GDP in FY 2013/14 (the first surplus since FY 1995/96). Similar to what obtained in FY 2014/15, Central Government operations are projected to be near balance in FY 2015/16 with incremental surpluses over the medium term;

- The overall Public Sector generated a surplus of 0.4 % of GDP in FY 2014/15, with near balance expected for FY 2015/16 and surpluses over the medium term;

- The Current Account deficit of the Balance of Payments (BOP) declined from 13.4% of GDP in FY 2011/12 to 7.0% in FY 2014/15.Of note, the country recorded a Current Account surplus (US$39.4mn) for the March quarter of 2015, the first since 2004. A Current Account deficit of 2.8% of GDP is forecast for FY 2015/16 and it is expected to remain close to 3.0% over the medium term;

- Real GDP growth under the current EFF has averaged 0.6% (FY 2013/14 & FY 2014/15), despite the drought. Real growth is projected at 1.4% for FY 2015/16 and is expected to pick up from FY 2016/17 onward, averaging 2.0% -3.0% per annum;

- Wage/GDP ratio has trended downwards from 11.0% in FY 2012/13 to 10.2% in FY 2014/15 and is targeted to reach 9% by the end of FY 2016/17;

- The Jamaica dollar has depreciated against the US dollar, since the start of the ERP, by an average of 12.0% per annum. With the narrowing of the inflation differential between Jamaica and itstrading partners, the Jamaica dollar has gained competitiveness;

- Inflation fell to 4.0% in March 2015, the lowest rate in 48 years. Prudent and complementary monetary and fiscal policies will serve to maintain inflation at low single digits through FY 2015/16 and over the medium term;

- NIR increased from US$884.3mn at end-March 2013 to US$2,535.4mn at end-August 2015;

- The Debt Service/Tax Revenue ratio has fallen from 85.9% in FY 2011/12 to 57.1% in FY 2014/15. Accordingly, an increased proportion of GOJ's fiscal resources is available to support priority social programmes;

- The average unemployment rate has fallen from 15.2% in 2013 to 13.7% in 2014. The unemployment rate of 13.2% at April 2015 represents a decline from 13.6% in April 2014;

- Following the strong implementation and successes of the ERP, both Standard and Poor's and Moody's rating agencies upgraded Jamaica's credit rating in June 2015;

- Jamaica moved up 27 places from 85 to 58 out of 189 countries in the World Bank's "*Doing Business 2015"* report.

Notable Fiscal Developments

At end-August 2015, both the Central Government Primary Surplus and Fiscal Deficit performed better than budgeted.Provisional data indicate that Central Government operations to August 2015 generated a fiscal deficit of $23,747.4mn, compared to the targeted deficit of $33,396.0mn. The Primary Surplus amounted to $32,794.9mn, which was considerably better than the $27,822.2mn targeted. The better fiscal performance was driven by lower than budgeted expenditure outweighing a minor shortfall in revenue and grants. Total expenditure at end-August was $10,979.5mn (5.3%) less than budgeted, due mainly to lower spending on interest payments and capital programmes. Revenue and grants fell short of budget by $1,330.9mn (0.8%) largely as a result of lower than expected grants and non-tax revenue receipts. This shortfall in grants and non-tax revenue outweighed the higher than programmed tax collections. Fiscal operations remain on track to meet the established targets for September 2015.

Despite the noteworthy performance of fiscal operations thus far, there are emerging challenges, on both the revenue and expenditure fronts, that have to be addressed to ensure continuous progress on the economic programme.

On the revenue side, Tax Revenue will be impacted by (i) the later than anticipated implementation of transfer pricing rules; (ii) lower than expected yields from major audit operations and (iii) adjustment to the announced Environment Levy on domestic production and the six-month delay in its implementation. As a result, Tax Revenue is projected to fall short of budget by $2,032.7mn (0.5%). In addition, sluggish performance by Non-tax Revenue over the first half of the year, coupled with lower aluminium prices negatively impacting revenue from the Bauxite/Alumina sector, are expected to contribute to the overall shortfall in Revenue and Grants of $5,131.4mn (1.1%).

With respect to Expenditure, the main challenge arises from the 2015/17 wage settlements. The GOJ signed Heads of Agreements with the Jamaica Confederation of Trade Unions (JCTU) and the Jamaica Teachers' Association (JTA) in August 2015. The GOJ will seek to complete negotiations for new wage agreements with the remaining public sector groups during the third fiscal quarter.In order to maintain the social consensus underpinning the reform programme of the country, foster industrial harmony with workers and ensure the continued efficient operation of the public service, the GOJ adjusted its initial wage/benefit offer to public servants from 3% and 2% in years one and two respectively, to 4% and 3% on basic pay. In addition, some allowances were adjusted above the rates on basic pay.

Based on agreements signed thus far and offers that have been made, the GOJ will be required to find an additional $6,832.0mn to fund the higher wage payments, as well as $2,500.0mn to cover the agreed adjustment in travelling costs (motor vehicle upkeep, mileage and commuting allowances). The expected additional expenses associated with the wage and benefit settlements (agreed and proposed) is therefore $9,332.0mn.

The combination of the higher expenditure demands and the projected shortfall in Revenue and Grants will generate a shortfall in the projected Primary Surplus relative to target of $14,463.3mn (0.9% of GDP). Current estimates for a lower than anticipated nominal GDP (both inflation and real growth being less than projected) will reduce the nominal Primary Surplus equivalent to 7.5% of GDP by $1,720.0mn, from $126,727.6mn to $125,007.6mn. Consequently, the shortfall on attaining the 7.5% Primary Surplus is reduced to $12,743.4mn (0.8% of GDP).

The GOJ has identified a number of actionsto close this fiscal gap, as follows:

- additional financial distributions from self-financing public bodies of $1,500.0mn;
- transfers to the Consolidated Fund from Executive Agencies of$1,000.0mn;
- payment of new rates for travelling to commence in December 2015, with arrears from April – November 2015 ($1,706.7mn) to be paid in April 2016; and
- expenditure adjustment measures of $8,536.6mn, equivalent to 0.5% of GDP.

These adjustments, if required, will be included in Supplementary Estimates to be tabled in Parliament later in the calendar year.

Public Debt Developments

Jamaica's total public debt (GOJ definition) stood at $2,050,109.8mn at the end of July 2015. This represented a 0.4% increase over the $2,041,693.7mn at March 2015. The increase in the stock over the four-month period was attributable to the impact of depreciation of the Jamaica dollar, as loan receipts over the period were outweighed by redemptions.

The Petro-Caribe Debt Buy-Back

In March2013, prior to securing an agreement with the IMF, the public debt (EFF-defined) stood at 145.3% of GDP. This included Jamaica's obligations under the PetroCaribe Energy Cooperation Agreement, executed in 2005 with Venezuela. This level of debt represented an untenable position as the country was devoting too much of its limited resources to service debt and a priority objective of the ERP/EFF is to reduce the debt to sustainable levels. An agreement reached between the governments of Jamaica and Venezuela regarding buyback of Jamaica's stock of the PetroCaribe Energy Cooperation Agreement debt as at the end of December 2014 represented an avenue toward achievement of this objective. In keeping with the Agreement, the GOJ bought back the December 2014 outstanding debt for US$1,500.0mn, utilizing funds raised under a US$2,000.0mn issue on the ICM comprising (i) a 13-year bond with equal repayments in 2026, 2027and 2028 at 6.75% and (ii) a 30 year bullet bond at 7.875 percent. The buyback essentially replaced, at a reduced face value, debt with a flat repayment schedule throughout its remaining life, with international bonds with back-loaded repayments.

The effects of the transaction on Jamaica are outlined below:

- Firstly, there is an immediate reduction in the EFF defined debt-to-GDP ratio (down approximately 10 percentage points).
- Secondly, the overall fiscal savings from the buyback are positive-estimated to be in excess of US$250.0mn in Net Present Value (NPV) terms (or 2.1% of GDP). Essentially, the financial effect of the principal discount more than outweighs the higher interest rate on a smaller stock of debt.

- Thirdly, with the reduction in the debt-to-GDP (EFF) ratio and the expected improvement in Jamaica's risk profile going forward, Jamaica is expected to be even more attractive to domestic and external investors.
- Fourthly, the Central Government, by purchasing the debt owed to PDVSA Petróleo S.A for which the PetroCaribe Development Fund (PCDF) has the mandate to repay, is now the creditor to whom the PetroCaribe Development Fund is now obliged to pay the debt. This situation allowed for the set-off of US$1,714.3mn owed by Central Government to the PCDF against the US$2,922.2mn that became due to the Central Government as a result of the buyback transaction. The remaining US$1,207.9mn will be amortized by the PCDF to the Central Government over 10 years and the outstanding balance at each point in time will accrue interest at 1.5%. The principal payments from PCDF will allow the Government to further reduce the stock of debt over the medium term.

The transaction has occurred during the year of the tenth anniversary of the signing of the PetroCaribe Energy Cooperation Agreement. The PetroCaribe Energy Cooperation Agreement remains in place as does the strong Venezuela/Jamaica relationship that has existed over the years.

NOTABLE ECONOMIC REFORMS

Buoyed by the successes so far under the ERP, the GOJ will continue to undertake a number of profound reforms that will serve to bolster sustainability, transform the Jamaican economy and provide the impetus for private sector-led growth.

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

- Tax Reform;
- Public Financial Management Reform;
- Public Sector Reform (Transformation);
- Financial Sector Reform; and
- Growth Enhancing Reform.

CONCLUSION

Notwithstanding the challenges, the GOJ remains firmly committed to staying the course and meeting the objectives of theERP. To this end, the GOJ continues to robustly implement the requisite reforms that are paving the way to facilitate meaningful and sustained economic growth. The upgrade of Jamaica's sovereign ratings by Standard and Poor's and Moody's and the raising of US$2,000.0mn on the ICM in July 2015, at record low coupons are positive indicators of the return of confidence to the Jamaica economy. The buy-back of the PetroCaribe Energy Cooperation Agreement debt has provided an additional impetus toward reducing the country's stock of debt. The GOJ is encouraged by the recent 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 the 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 social well-being thereby allowing the citizens to realize the vision of making **Jamaica, the place of choice to live, work, raise families and do business.**

Peter D. Phillips, PhD., MP

Minister of Finance and Planning

September 29, 2015

PART 2: MACROECONOMIC FRAMEWORK

FY 2015/16 – Update

Real Sector Developments

The Jamaican economy grew by 0.2% during FY 2014/15, following growth of 1.0% in FY 2013/14. The Goods Producing Industry contracted by 1.5% while the Services Industry grew by 0.6%. The low growth outturn for FY 2014/15 was reflective of the negative impact onthe Agriculture, Forestry & Fishing sectorof the severe drought conditions that affected the island. Hotels and Restaurants within the Services Industry was the main contributor to growth during the fiscal year with growth in tourism reflecting increased stopover arrivals as well as increased tourist spending.

Real GDP growth for the first quarter of FY 2015/16 is estimated at 0.8% relative to the corresponding quarter of FY 2014/15 with both the Goods Producing Industries and Services Industries growing at a similar pace. With the exception of Manufacture, all groups within the Goods Producing Industry are estimated to have experienced growth, led mainly by growth rates of 3.6% in Mining & Quarrying and 1.4% in Construction. Of note, growth of 0.5% is estimated for Agriculture, Forestry & Fishing following three consecutive quarters of decline. The rebound in Agriculture, Forestry & Fishing largely reflects an estimated increase of 12.1% in traditional export crops (sugar cane, banana, coffee) and an estimated 5.8% increase in animal farming. Other agricultural crops (legumes, fruits, potatoes) continue to be negatively impacted by drought conditions.

The main growth drivers in the Services Industry were Hotels and Restaurants, Transport, Storage & Communication and Real Estate, Renting & Business Activities which are estimated to have grown by 2.0%, 1.3% and 1.0%, respectively. Of note, tourism continues to benefit from increased stopover arrivals and increased tourist spending

The major factors contributing to the positive performance of the economy for the June 2015 quarter included:

- Improved external demand and higher prices for some export crops;
- Increased global demand for alumina which motivated increased output levels from both the Windalco Ewarton and the Jamalco plants;
- Expansion in global trade which contributed to the increase in cargo volume handled at Jamaica's Ports;
- Increased expenditure on road, telecommunications and energy infrastructures; and
- Increased stopover visitors and cruise passenger arrivals and increased tourist spending.

The positive performance of the economy is expected to continue during the September 2015 quarter, with real GDP projected to grow within the range of 1.0% to 2.0%. This improved performance is predicated on the following:

- Continued strengthening of the global economy;
- Improvements in domestic economic activities particularly in areas of Construction, Mining, Tourism and Real Estate, Renting & Business Activities;
- Improvements in investor confidence linked to stronger growth expectations in the domestic economy and improved investment opportunities.

Protracted drought conditions and possible weather hazards relating to the 2015 hurricane season present the main downside risks to the performance of the economy.

Overall, growth projection for FY 2015/16 has been reduced to 1.4%, from the 1.6% reported in the FY 2015/16 FPP and is based on a 2.3% projected growth in the Goods Producing Industry and 1.1% in the Services Industry.

Table 2A:

Quarterly Real Value Added Growth (% change*) in Industries for the First Quarter of FY 2014/15 and FY 2015/16

	Apr-Jun 2014	Apr-Jun 2015
GOODS PRODUCING INDUSTRY	6.9	0.7
Agriculture, Forestry & Fishing	16.9	0.5
Mining & Quarrying	-0.3	3.6
Manufacture	5.0	-0.5
of which: Food, Beverages & Tobacco	4.7	0.5
Other Manufacturing	5.5	-2.0
Construction	1.7	1.4
SERVICES INDUSTRY	0.5	0.7
Electricity & Water Supply	-1.6	0.9
Transport, Storage & Communication	0.6	1.3
Wholesale & Retail Trade; Repair & Installation of Machinery	0.2	0.4
Finance & Insurance Services	0.6	0.6
Real Estate, Renting & Business Activities	0.5	1.0
Producers of Government Services	-0.2	-0.2
Hotels and Restaurants	2.4	2.0
Other Services	1.2	1.2
Less Financial Intermediation Services Indirectly Measured (FISIM)	-1.4	-0.5
TOTAL GDP AT BASIC PRICES	2.0	0.8

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

Labour Market Developments

The April 2015 Labour Force Survey conducted by the Statistical Institute of Jamaica (STATIN) reported a labour force comprising 1,301,100 persons, which represents a reduction of 10,000 persons (0.8%) from the April 2014 number and a reduction of 19,700 persons (1.5%) from the January 2015 level. This reduction, relative to April 2014, occurred as the male labour force decreased by 3,400 persons (0.5%) and the female labour force decreased by 6,600 persons (1.1%).

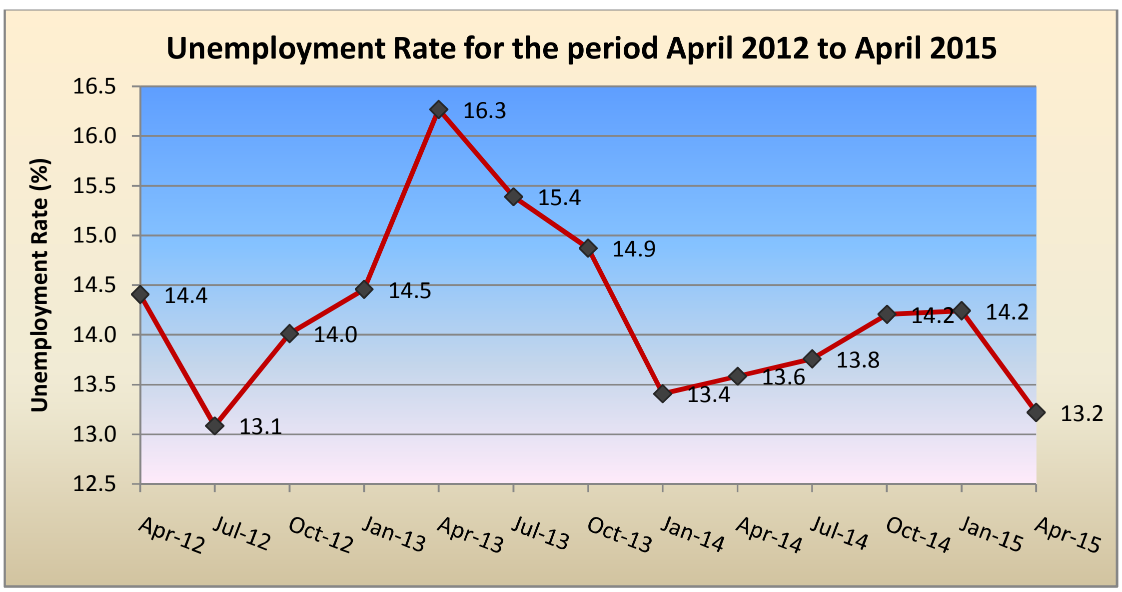
The unemployment rate reported for April 2015 was 13.2%, 0.4 percentage point lower than the 13.6% reported for April 2014 and 1.0 percentage point lower than the 14.2% reported for January 2015. The male unemployment rate was 10.3% while the female unemployment rate was 16.8%. The unemployment rate among youths (14 – 24 years) continues to be higher than other groups, and was reported at 33.2% in April 2015, a 0.4 percentage point reduction from the 33.6% reported for April 2014.

The April 2015 Survey reported an employed labour force of 1,129,100 persons (86.8%).The employed labour force decreased by 3,900 persons (0.3%) when compared to the April 2014 report and by 3,600 persons (0.3%) when compared to the January 2015 report. The industry group 'Hotels and Restaurant Services' recorded the largest increase in employment at 9,300 persons (12.0%) followed by the industry group 'Real Estate, Renting and Business Activities' which increased by 9,000 persons (12.9%). The industry groups reporting the largest declines when compared to the April 2014 report were 'Agriculture, Hunting, Forestry & Fishing' and 'Wholesale & Retail, Repair of Motor Vehicle & Equipment', with reductions of 7,100 persons (3.5%) and 6,700 persons (2.9%), respectively.

The number of persons outside the labour force in April 2015 was 784,900 or 28.8% of the total population. This represents an increase of 15,000 persons when compared to 769,900 persons in April 2014. The April 2015 survey showed more persons leaving the labour force for reasons such as to attend school full-time, to stay home with dependents or they simply did not want to work.

With economic growth expected to pick up over the next year and medium term, this augurs well for creation of more jobs, reduced unemployment and greater fiscal revenue for the GOJ.

Figure 1: Unemployment Rate April 2012 to April 2015



Monetary Developments

The Bank of Jamaica (BOJ) lowered the rate on the 30-day Certificate of Deposit (CD) by 25 basis points during the first quarter of FY 2015/16, moving its signal rate from 5.75% to 5.50%. This adjustment was primarily informed by the moderation in the rate of inflation, which was largely attributed to a combination of the fall in oil prices, fiscal consolidation and other economic reforms. The signal rate was further lowered by 25 basis points in August 2015 to 5.25%, within the context of international oil prices remaining relatively low and the continued reduction in inflation expectations.

In addition to the policy actions taken, the BOJ also reduced the interest rates at which it provides liquidity to deposit taking institutions (DTIs). The rate on the Standing Liquidity Facility (SLF), an overnight lending facility for banks, was lowered from the 9.50% it was at the end of March 2015 to 8.75% by the end of June 2015, and further reduced to 8.00% in August 2015. Similarly, the rate on bi-monthly repurchase operations (BRO) and the excess funds rate (EFR) were reduced from 9.00% and 11.55% to 8.25% and 10.80% respectively, during the June 2015 quarter. Despite the interest rate reductions, Jamaica Dollar liquidity in the financial system was relatively tight during the first quarter of FY 2015/16, largely due to the maturity of several repurchase agreements that BOJ issued as well as operations by the GOJ that resulted in net absorption of liquidity. The maturity of some fixed and variable rate Certificate of Deposits (CDs) issued by BOJ contributed to a net injection of J$13.1bn through the operations of the central bank. However, the absorption of J$19.8bn through the operations of the Government, which primarily reflected tax receipts, more than offset BOJ's injection of liquidity into the financial system.

The monetary base at the end of June 2015 was J$104.5bn, reflecting an increase of J$8.5bn (8.9%) over the base of J$95.9bn at the end of June 2014. Contributing to this expansion were increases in net currency issues and commercial banks cash reserves of J$5.9bn and J$2.9bn, respectively. On the contrary, the current accounts of commercial banks recorded a decline of J$298.5mn at the end of June 2015 relative to June 2014.

Inflation

The All Jamaica 'All Divisions' Consumer Price Index (CPI) rose by 4.0% during FY 2014/15, representing a historic low, with deflation (0.6%) recorded for the March 2015 quarter. The FY 2014/15 inflation outturn was 4.3 percentage points lower than the 8.3% recorded for FY 2013/14. The main divisions contributing to the fiscal year outturn were 'Food and Non-Alcoholic Beverages' (7.9%), 'Alcoholic Beverages and Tobacco' (6.2%), and 'Miscellaneous Goods and Services' (6.4%). The division 'Housing, Water, Electricity, Gas and other Fuels', which declined by 9.5%, was the only division recording a decline for FY 2014/15 and reflected lower prices for electricity due to lower cost of crude oil, as well as a fall in the rates for water and sewage.

Inflation for the first quarter of FY 2015/16 was 1.2%, 0.4 percentage points higher than the 0.8% recorded for the corresponding quarter of FY 2014/15. The inflation outturn was due mainly to increases in the divisions 'Food and Non-Alcoholic Beverages' (1.4%), 'Alcoholic Beverages and Tobacco' (2.6%), 'Transport' (2.2%) and 'Miscellaneous Goods and Services' (1.4%). Increases in these divisions reflect the continued impact of the current drought conditions on domestic crop production, increases in crude oil prices and an increase in the Special Consumption Tax (SCT) on petrol by $7 per litre which became effective in March 2015.

The inflation rate for August 2015 was 0.8%, 0.3 percentage point lower than the August 2014 rate. The August 2015 rate was largely influenced by a 2.1% 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. The upward movement of the August 2015 index was however offset by a 2.3% reduction in 'Housing, Water, Electricity, Gas and Other Fuels' which resulted from lower electricity prices. The fiscal year to August 2015 inflation was 2.8%, while the rate for calendar year (CY) 2015 to August was 2.2%.

Exchange Rate

At the end of the first quarter of FY 2015/16, the weighted average selling rate of the US Dollar was J$116.98 = US$1.00, reflecting year-over-year depreciation of 4.3% compared to depreciation of 10.7% the previous fiscal year. Contributing to the slower pace of depreciation in the first quarter of FY 2015/16 was the relatively tight Jamaica Dollar liquidity in the financial system. Additionally, foreign exchange demand pressures were weakened as a result of net sales of US$84.9mn towards the end of the quarter.

The weighted average selling rate of the US Dollar at the end of August 2015 was J$117.86 = US$1.00, compared to J$112.74 = US$1.00 at the end of August 2014. This reflects an annual depreciation of 4.5%. The pace of depreciation however, is much slower than the 10.4% annual depreciation at the corresponding point in 2014.

External Sector Developments

There was a positive balance (surplus) of US$39.4mn recorded on the Current Account for the fourth quarter of FY 2014/15 (Table 2B). This surplus represents the first since the fourth quarter of FY2003/04, and reflected an improvement of US$149.5mn compared to the corresponding quarter of FY 2013/14. The positive outturn for the quarter emanated from the Goods and Services sub-accounts which improved by US$82.0mn and US$81.8mn respectively. The lower deficit on the Goods sub-account mainly reflected a reduction in Mineral Fuel imports of US$221.3mn, in light of continued low international oil prices, and food imports of US$30.5mn, notwithstanding offsetting increases in imports of Manufactured Goods and Chemicals of US$22.7mn and US$22.6mn, respectively. The decline in imports was partly offset by the US$82.8mn reduction in exports, which primarily reflected lower outturns for non-traditional export goods, particularly Mineral Fuel (down US$48.6mn). With regards to the improvement in the Services sub-account, this was mainly due to a US$61.5mn and US$47.9mn increase in net Transport and net Travel Services flows, respectively. On the other hand, Insurance & Pensions services inflows declined by US$13.9mn.

Despite growth of 2.5% in private remittances for the period January to March 2015, the Secondary Income sub-account deteriorated by US$11.7mn, largely resulting from lower official grant inflows. For the quarter, the Primary Income sub-account recorded a marginal deterioration of US$2.7mn, attributed mainly to the impact of lower Net Investment Income flows.

The Capital Account balance improved by US$8.7mn, recording a surplus of US$9.3mn for the March 2015 quarter compared to a surplus of US$0.6mn for the corresponding quarter of 2014. The combined balance on the Capital Account and the Current Account yielded a net lending balance of US$48.7mn, representing a change of US$$158.2mn compared to the net borrowing balance of US$109.5mn for the March 2014 quarter.

The Financial Account balance for the fourth quarter of FY2014/15 showed a net borrowing position of US$189.7mn, decreasing by US$337.0mn relative to the net borrowing balance of US$526.7mn for the corresponding quarter of FY 2013/14. The balance on the Financial Account reflects the impact of net financial inflows through Portfolio Investments, Direct Investments and Other Investments of US$149.7mn, US$148.3mn and US$105.5mn respectively. Official and private inflows were more than sufficient to finance the activities related to the Capital and Current accounts, resulting in a US$215.9mn increase in the stock of Reserve Assets for the quarter.

For FY 2014/15 overall, the Current Account balance recorded a deficit of US$961.2mn (7% of GDP), improving by US$204.3mn relative the deficit of US$1,165.5mn (8.3% of GDP) recorded for the previous fiscal year. This outturn extended the positive trend of successive improvements since FY 2011/12. With the exception of the Primary Income sub-account, all other sub-accounts contributed to the improvement in the Current Account for FY 2014/15. The Goods and Services and Secondary Income sub-accounts improved by US$250.3mn and US$24.2mn respectively, while the Primary Income sub-account worsened by US$70.2mn.

The Goods balance recorded a deficit which was US$114.5mn lower than that recorded for FY 2013/14, resulting from a larger reduction in imports compared to exports. Goods imports declined by US$244.7mn, primarily reflecting reduced importation of Mineral Fuel and Food, while exports of goods declined by US$130.2mn, mainly due to the reduction in export of Mineral Fuel, Machinery and Transport Goods. The Services sub-account reflected an improvement of US$135.8mn relative to FY 2013/14, largely due to the contribution of Travel Services.

The surplus on the Capital Account of US$17.7mn for FY 2014/15, an improvement of US$11.9mn relative to the previous fiscal year, together with the deficit on the Current account, yielded a net borrowing position of US$943.4mn for the fiscal year. This represented a change in the borrowing balance of US$216.2mn, compared to FY2013/14.

Inflows through Portfolio Investment instruments of US$599.5mn, Direct Investment activities of US$577.47mn, Financial Derivatives of US$118.9mn and Other Investments of US$153.5mn contributed to the balance on the Financial Account which recorded a net borrowing position of US$808.2mn. This borrowing balance was US$1,015.0mn lower than that for FY2013/14.

Inflows from official and private sources were more than sufficient to finance the balance on the Current and Capital Accounts. As a result, Reserve Assets expanded by US$641.1mn for FY 2014/15.

The BOP information for the first quarter of FY 2015/16 is not yet available. Nevertheless, the NIR at the end of August 2015 amounted to US$2,535.4mn. This represents an increase of US$413.9mn (19.5%) compared to the level of the NIR at the end of August 2014.

Table 2B: Balance of Payments for the Final Quarter of FY 2014/15
January - March 2015

Balance of Payments (US$MN)	FY 2013/14 January - March	FY 2014/15 Janaury - March	Change
Current Account Balance	**-110.1**	**39.4**	**149.5**
Credits	1,868.7	1,857.7	-11.0
Debits	1,978.8	1,818.3	-160.5
Goods & Services	-618.0	-454.1	163.9
Credits	1,192.4	1,155.9	-36.6
Debits	1,810.5	1,610.0	-200.5
Goods	-852.2	-770.1	82.0
Exports	418.6	335.8	-82.8
Imports	1,270.8	1,105.9	-164.8
Services	234.1	316.0	81.9
Credits	773.9	820.1	46.2
Debits	539.7	504.1	-35.6
Primary Income	-47.9	-50.6	-2.7
Credits	67.5	99.8	32.3
Debits	115.3	150.3	35.0
Secondary Income	555.8	544.1	-11.7
Credits	608.8	602.1	-6.7
Debits	53.0	58.0	5.0
Capital Account	**0.6**	**9.3**	**8.7**
Credits	0.6	9.3	8.7
Debits	0.0	0.0	0.0
Net lending (+) / net borrowing (-) (balance from current and capital account)	**-109.5**	**48.7**	**158.2**
Financial Account Net lending (+) / net borrowing (-) (balance from financial account)	**-526.7**	**-189.7**	**337.0**
Direct Investment	-127.1	-148.3	-21.2
Net acquisition of financial assets	0.2	-1.0	-1.2
Net incurrence of liabilities	127.3	147.3	20.0
Portfolio Investments	-19.6	-149.7	-130.1
Net acquisition of financial assets	64.2	403.0	338.8
Net incurrence of liabilities	83.8	552.7	469.0
Financial derivatives	-61.3	-2.0	59.2
Net acquisition of financial assets	-67.1	-12.2	54.9
Net incurrence of liabilities	-5.8	-10.1	-4.3
Other Investments	-549.8	-105.5	444.3
Net acquisition of financial assets	-390.2	-249.5	140.6
Net incurrence of liabilities	159.6	-144.0	-303.6
Reserve Assets	231.0	215.9	
Net Errors and Omissions	**-417.2**	**-238.4**	

Source: BOJ

Macroeconomic Outlook - FY 2015/16 to 2019/20

Global Growth

The IMF's World Economic Outlook (WEO) Update for July 9, 2015 reported a projected global growth rate of 3.3% which is marginally lower than the 3.4% reported for 2014. This projected growth reflects a slowdown in emerging market and developing economies and a gradual uptick in growth for advanced economies. Global growth for the first quarter of 2015 was lower than the initial forecast (April 2015 WEO) and reflected an unexpected output contraction in the United States, with spill-over to Canada and Mexico, while growth in output and domestic demand in emerging market and developing economies weakened.

International Commodity Prices

Commodity prices continue to fall led by the decline in crude oil prices. This decline in oil prices is chiefly driven by supply and demand conditions as crude oil supply from both Organization of Petroleum Exporting Countries (OPEC) and non-OPEC countries continue to increase well ahead of demand. Lower crude prices will reduce inflationary pressure and external vulnerabilities for oil importing countries. However, over the medium term, oil price is projected to rebound to an average (WTI) of US$59/barrel (Table 2C).

In addition, most metal and agricultural prices continue to fall as supplies continue to outstrip growth in global demand.Agricultural commodities such as soybean meal and maze/corn are critical imports for Jamaica as they are used in the production of animal feeds. Currently the IMF is projecting a reduction in the prices of these commodities, owing largely to supply outstripping demand. The average price of coffee, one of Jamaica's major exports, is projected to decline in 2015. It is also expected that there will be a reduction in the average price for aluminium owing largely to weak demand in China. The movement in commodity prices will influence Jamaica's current account and inflation rate. GOJ revenue is also expected to be affected and projected revenue from the bauxite sector has been reduced relative to previous forecasts.

Interest Rates

The July 2015 WEO Update reported an increase in long-term sovereign bond yields for the United States and the Euro area (excluding Greece) since April 2015. This increase primarily reflects higher inflation expectations resulting from a higher than expected rebound in oil prices since the second quarter of 2015. Bond yields and risk premiums in emerging market economies have also increased in line with yields in advanced economies.

The Domestic Economy

The medium term outlook for the macro-economy is generally positive, as indicated by the projections outlined in the Medium Term Macroeconomic Profile (Table 2C). This assessment is predicated on the steadfast implementation of the ERP by the GOJ. Evidence is now emerging of a modest economic recovery, with growth in real GDP for the last two fiscal years. Although mostly subdued in the last couple of years, economic growth over the medium term is expected to improve with the successful implementation of the Growth Agenda. Strategic growth inducement projects in agriculture, energy, tourism, Information & Communication Technology (ICT) and Business Process Outsourcing (BPO) are also expected to boost the economy. Upside risks to the projections include better than anticipated improvement in the global economy, particularly for Jamaica's main trading partners as well as continued and increased investor confidence. The reverse presents downside risks, which also include weather hazards.

Growth of 1.4% and 2.0% is projected for FY 2015/16 and FY 2016/17 respectively. The growth momentum is expected to continue into the medium term, with forecast of annual average growth of 2.5%.Inflation is forecast at 6.4% for FY 2016/17 and is expected to remain moderate in the medium term at an annual average of 5.5%. The deficit on the Current Account is projected to improve to 2.8% of GDP for FY 2015/16 then to rise modestly and stabilize at 3.6% over the medium term. This modest increase is linked to the forecast rise in oil prices. The NIR is nevertheless forecast to remain strong and gross reserves are expected to continue to exceed twenty (20) weeks of import of goods and services.

Table 2C: Medium Term Macroeconomic Pofile

Macroeconomic Variables	Fiscal Years							
	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Proj.	2016/17 Proj.	2017/18 Proj.	2018/19 Proj.	2019/20 Proj.
Nominal GDP (J$bn)	1,336.6	1,462.8	1,563.1	1,651.3	1,785.8	1,930.9	2,086.1	2,251.1
Nominal GDP growth rate(%)	6.2	9.4	6.9	5.6	8.1	8.1	8.0	7.9
Real GDP growth rate (%)	-0.8	1.0	0.2	1.4	2.0	2.5	2.5	2.7
Inflation: Annual Pt to Pt (%)	9.1	8.3	4.0	6.4	5.5	5.5	5.0	5.0
Interest Rates:								
30-day repo rate (end-period)	5.75	5.75	5.75					
180-day Treasure Bill (end-period)	6.22	9.11	7.00					
180-day Treasure Bill (average)	6.60	7.89	7.86					
Average Selling Exchange Rate (J$=US$1)	91.17	103.87	113.07					
NIR (US$mn)	884.3	1,303.7	2,293.7	2,601.7	2,905.3	3,033.7	2,954.9	2,568.4
Gross International Reserves (In weeks of imports)	12.2	14.8	20.8	23.1	25.6	25.6	23.7	20.4
Current Account (%GDP)	-10.0	-8.3	-7.0	-2.8	-3.7	-3.6	-3.6	-3.7
Oil Prices (WTI) (Average US$/barrell)	92.1	99.1	81.2	53.4	59.7	59.7	59.7	59.7

Source: GOJ/BOJ

Part 3: FISCAL MANAGEMENT STRATEGY

BACKGROUND

FY2015/16 represents the third year of the four-year EFF arrangement between the GOJ and the IMF, thus signifying the Government's progress beyond the mid-way point of implementing its ERP. Accordingly, as an operational instrument to reducing the public debt ratio to 96% of GDP by the end of FY2019/20, fiscal policies for FY 2015/16 are geared towards maintaining the Central Government Primary Surplus at 7.5% of GDP, equivalent to $126,727.5mn with the fiscal deficit programmed at 0.3% of GDP or $4,886.9mn.

In conformity with the requirements of the enhanced fiscal rules, the Fiscal Management Strategy will focus on:

(a) The outturn for FY 2014/15;

(b) The performance for the April – August 2015 period;

(c) Projections to the end of FY 2015/16; and

(d) Projections for FY 2016/17 – FY 2019/20.

The FY2015/16 budget was tabled in February 2015 and as such was predicated on estimated figures for FY 2014/15. These estimated figures for FY 2014/15 were comprised of actual data up to December 2014 and estimated figures for the remainder of the fiscal year. Revenue & Grants for FY2015/16 are projected at$458,101.1mn representing 27.1% of GDP, a 0.6 percentage point increase over the estimated 26.5% in FY 2014/15. This amount represents a nominal increase of 9.6% over the estimates for FY2014/15 (Table 3A – estimated receipts for FY 2014/15). Tax Revenue of $411,882.3mn is estimated to account for 89.9% of total Revenue & Grants.The forecast of Tax Revenue represents an increase of 9.4% or $34,005.1mn over estimated collections in FY 2014/15, about a third of which ($10,350.0mn) is expected to flow from the implementation of new revenue measures in FY 2015/16 designed to support aprimary surplus of 7.5% of GDP.

Excluding the new revenue measures, Tax Revenue was projected to grow by 6.3% over the estimated receipts for FY 2014/15, marking a deceleration from the 7.9% growth in FY 2014/15. Additionally, increased compliance activity by TAJ and JCA is expected to bolster Tax Revenue flows by $12,323.4mn, equivalent to 0.7% of GDP. However, a number of factors will contribute to the lower baseline Tax Revenue growth in FY 2015/16. Such factors include an expected contraction in the FY 2015/16 Government's wage bill which will reduce PAYE and Education Tax, as well as an increase in the Personal Income Tax threshold which is estimated to lower PAYE by 0.2% of GDP.

Table 3A: FY 2015/16 Revenue Forecasts vs. FY 2014/15 Est. ($mn)

	2014/15est	2015/16	% change
Revenue & Grants	417,826.3	458,101.1	9.6
Tax Revenue	377,877.2	411,882.3	9.4
Non-Tax Revenue	34,207.0	30,961.3	-9.5
Bauxite Levy	17.9	4,779.7	26,597.7
Capital Revenue	1178.9	938.8	-20.4
Grants	4,545.2	9,539.0	109.9

Source: MOFP

Non-tax Revenue for FY 2015/16 is projected at $30,961.3mn, a reduction of 9.5% from the estimated outturn for FY 2014/15. This estimate for Non-tax Revenue amounts to 1.8% of GDP, compared to estimated 2.2% of GDP in FY 2014/15. The projected decline is primarily due to:

(a) the JCA becoming a full-fledged executive agency- thus retaining $5,160.0mn of the Customs Administration Fee (CAF), which is mirrored in a corresponding reduction in budget allocations from the Consolidated Fund to the JCA resulting in a virtual neutral effect on the primary balance; and

(b) a reduction in programmed distribution/dividends from self-financing public bodies from $2,366.0mn in FY 2014/15 to $1,247.0mn in FY 2015/16.

Bauxite Levy receipts to be transferred to the Consolidated Fund were projected at $4,779.7mn in FY 2015/16. This significant projected inflow arises largely from the expiration of the Interim Fiscal Regime, which will allow for full levy payment.

With respect to Capital Revenue forecasts of $938.8mn for FY 2015/16, this marks a 20.4% reduction in expected collections compared to FY 2014/15. The forecast includes royalties from bauxite mining of $733.8mn, a 37.9% increase over FY 2014/15 estimates. On the other hand, Grants are forecast to reach $9,539.0mn in FY 2015/16, more than double the FY 2014/15 figure. The primary factor behind the budgeted increase is the expected higher budget support inflow from the European Union (EU) from Euro 18.2mn to Euro 29.2mn.

Total Expenditure for FY 2015/16 is projected at $462,988.1mn, comprising Recurrent Expenditure of $432,579.1mn and Capital Expenditure of $30,409.0mn. Non-Debt (Primary) Expenditure is budgeted at $331,373.7mn, with the recurrent portion amounting to $300,964.7mn and $30,409.0mn allocated to Capital Programmes. Interest Payments were budgeted to increase by 2.2% over the estimate for FY 2014/15 to $131,614.3mn of which Domestic Interest cost was estimated to fall to $75,234.3mn and External Interest cost projected to rise to $56,380.1mn. Total Debt Service was projected at $310,193.9mn, 48.8% of the budget, compared to over 60% prior to the first debt exchange.

CENTRAL GOVERNMENT PERFORMANCE: FY 2014/15 OUTTURN

Subsequent to the budget being tabled in February 2015, the outturn for FY 2014/15 showed some variances from the estimated figures that were reflected in the February2015 FPP. The Primary Surplus which was estimated at $121,334.9mn ended the fiscal year at $117,241.8mn (Table 3B), due mainly to lower than estimated revenue outweighing reductions in Expenditure. On the other hand, the Fiscal Deficit was lower than estimated, amounting to $7,270.8mn, compared to the estimate of $7,446.0mn, due to much lower Interest Payments. Despite falling short of the nominal target, the primary surplus outturn met the 7.5% of GDP anchor in the EFF, as influenced by lower inflation and real economic growth, the nominal GDP ended up below the programmed level.

Table 3B FY 2014/15 PERFORMANCE

(in millions of Jamaica dollars)

Item		Orig. Budget Apr - March	Feb 2015 Est Apr - March	Actual Apr - March
Revenue & Grants		**427,888.6**	**417,826.2**	**411,715.9**
	Tax Revenue	384,286.0	377,877.2	370,877.5
Expenditure		**439,282.7**	**425,272.3**	**418,986.8**
	Interest	132,669.1	128,780.9	124,512.7
	Capital	34,628.2	25,807.9	23,019.0
Fiscal Balance (Surp+/Def -)		**-11,394.1**	**-7,446.1**	**-7,270.9**
Primary Balance (Surp+/Def -)		**121,275.0**	**121,334.9**	**117,241.8**

Source: MOFP

Revenue and Grants

Actual collections for Revenue and Grants for FY 2014/15 totalled $411,716.0mn, a shortfall of $16,172.5mn, or 3.8% below the originally budgeted amount, with Tax Revenue and Grants being the main contributors to the shortfall. Tax Revenue totalled $370,877.5mn, which was $13,408.5mn or 3.5% below the targeted amount. This was as a result of the higher than budgeted collections in PAYE and Withholding Tax on Interest, being outweighed by shortfalls mainly in Corporate Taxes, GCT and Customs Duty.

Revenue and Grants receipts for FY 2014/15 were estimated at $417,826.3mn in the February 2015 FPP, a shortfall of $10,062.3mn (2.4%) against the budgeted amount. Of this amount, Tax Revenue was estimated at $377,877.2mn, representing a shortfall of $6,408.8mn

(1.7%) against the target. Thus, actual Tax Revenue collections for FY 2014/15 were $6,999.7mn less than the amount estimated in February 2015. The main items that contributed to the fallout were Corporate Taxes and SCT (Local), which were below the amounts estimated by $3,822.2mn and $1,721.7mn, respectively.

Actual collections for the other revenue categories were broadly in line with the amounts estimated in the February 2015 FPP.

Expenditure

Actual Expenditure for FY 2014/15 was $418,986.8mn, a reduction of $20,295.8mn (4.6%) below the original budget. The most significant reduction was in Capital Programmes, which at $23,019.0mn was $11,609.2mn (33.5%) less than originally budgeted. Interest Payments also fell below budget by $8,156.4mn (6.1%) with both External and Domestic Interest cost falling below budget. Recurrent Programmes exceeded budget by $2,415.5mn (2.2%) but this was more than offset by a $2,945.8mn reduction in Wages and Salaries.

Compared to the estimates as reflected in the February 2015 FPP, Total Expenditure fell by $6,285.5mn, with the bulk of the reduction ($4,268.2mn) coming from lower Interest Payments.

Impact of FY 2014/15 Outturn on FY 2015/16 Budget

The variance between the estimated (Table 3A) and actual figures for FY 2014/15 has altered the growth rates for the FY 2015/16 budget. The lower Revenue and Grants outturn for FY 2014/15 have resulted in generally larger increases being projected for FY 2015/16 (Table 3C). Thus Revenue and Grants are projected to grow by 11.3% over FY 2014/15, with Tax Revenue budgeted to increase by 11.1%, rather than 9.4%, as reported in February 2015. The result of this is that a greater effort will be required by the tax collection authorities to achieve the collection targets for FY 2015/16 and adhere to the primary surplus requirement of the economic programme.

Table 3C: FY 2015/16 Revenue Forecast vs. FY 2014/15 Act. ($mn)

	2014/15act	2015/16	% Change
Revenue & Grants	411,715.9	458,101.1	11.3
Tax Revenue	370,877.5	411,882.3	11.1
Non-Tax Revenue	34,311.5	30,961.3	-9.8
Bauxite Levy	0.0	4,779.7	----
Capital Revenue	1,509.2	938.8	-37.8
Grants	5,017.8	9,539.0	90.1

CENTRAL GOVERNMENT PERFORMANCE: APRIL – AUGUST

For the period April-August 2015, provisional data indicate that Central Government operations generated a Fiscal Deficit of $23,747.4mn, which was $9,648.6mn, or 28.9%, less than the $33,396.0mn budgeted. This improvement in the Fiscal Deficit was largely the result of lower than budgeted Expenditure, as Revenue & Grants were slightly lower than targeted. The Fiscal Deficit for the period April-August 2015, improved by $500.0mn over that registered for the corresponding period in 2014. Influencing the reduction in the Fiscal Deficit over the review period was a 13.3% increase in Revenue & Grants outweighing an 11.2% increase in Expenditure.

The Primary Balance was significantly higher than budgeted, registering a surplus of $32,794.9mn, an increase of $4,972.7mn or 17.9% over the budgeted level. The positive performance of the Primary Balance, relative to budget, is attributed to lower than budgeted Non-Debt Expenditure, given that Revenue & Grants were marginally behind target. The Primary Surplus for the review period improved by 17.1% over the corresponding period of 2014 (Appendix A1).

Revenue and Grants Outturn

Revenues & Grants for the April-August 2015 period amounted to $170,592.8mn, which was just $1,330.9mn (0.8%) less than budgeted. This slightly lower than budgeted performance was due mainly to shortfalls in all the other revenue categories off setting higher collections in Tax Revenue. Despite the shortfall against budget, Revenues & Grants increased by 13.3% over the comparable period last year, representing a real increase of about 9%.

Tax Revenue

Tax receipts totalled $158,806.4mn, a $22,245.6mn (16.3%) increase over collections for the similar period last year. Major tax types influencing this increase are shown in Table 3D.

<u>Table 3D: Notable Tax Revenue Performances</u>

Tax Type	**Increase over prior year (J$mn)**	**Increase over prior year (%)**
GCT Local	7,048.3	30.5
SCT Imports	4,704.9	42.2
GCT Imports	3,692.6	16.2
Other Companies	2,611.8	39.4
SCT Local	1,648.7	41.8
Custom Duty	807.3	7.5

Source: MOFP

In addition to increasing over last year, Tax Revenue exceeded the amount budgeted by $1,663.7mn (1.1%). All the major components of Tax Revenue shared in the above-budgeted collections: Income & Profits, Production & Consumption and International Trade.

Income & Profits

Income & Profit taxes registered an inflow of $43,594.5mn, 4.7% higher than the budgeted amount and 8.4% above the comparable period in 2014. The chief contributor to this buoyant performance was Other Companies (Corporate Taxes), which totalled $9,244.4mn, thereby surpassing budget and the similar period last year by $1,995.2mn (27.5%) and $2,611.8mn (39.4%), respectively.

Corporate Taxes have benefitted from improved compliance activity, as reflected in a significantly higher collection of arrears. This improved performance over the review period is very encouraging, as Corporate Taxes was the main under-performer in FY 2014/15, on the back of uncertainty regarding the effects of the Fiscal Incentive Regime when it was introduced in January 2014. With the regime now fully operational, Corporate Taxes have seen a rebound from the low base in 2014 and inflows have normalized.

Collections from Other Individuals (Self-employed) also experienced significantly better performance over the review period with collections of $1,585.4mn exceeding the amount budgeted and the receipts in FY 2014/15 by $354.5mn (28.8%) and $576.4mn (57.1%), respectively. Increased collection of arrears contributed largely to this improved performance.

Following the outstanding performance of PAYE in FY 2014/15 collections appear to have normalized in FY 2015/16. Collections exceeded budget by 5.8%in FY 2014/15, buoyed by targeted compliance initiatives, including having the Accountant General's Department paying over statutory deductions directly to the TAJ for more Ministries, Departments and Agencies (MDAs). Accordingly, PAYE receipts for the review period in FY 2015/16 of $28,452.5mn were broadly on track with expectations, registering a 2.4% increase over the comparable period last year, while being just 1.9% below budget.

The only tax type within the Income and Profit Tax category that registered a notable decline or shortfall was Tax on Dividend, which fell below budget and receipts in the comparable period in FY 2014/15 by $381.8mn (47.4%) and $419.4mn (49.7%), respectively. This was due to lower overall dividends declared by corporations.

Production & Consumption

The inflows from Production & Consumption amounted to $54,883.9mn, which was broadly in line with budget, falling short by a mere 0.8%. Collections were however $9,530.7mn (or 21.0%) more than for the April – August 2014 period. The outstanding performers were GCT and SCT.

GCT collections of $30,138.5mn were 1.5% above budget, and, increased by $7,048.4mn (30.5%) over the comparable period in FY 2014/15. Factors contributing to this notable increase were:

(i) significantly less payment of refunds in FY 2015/16;
(ii) improved compliance as reflected in part by considerably higher collection of arrears; and
(iii) payment of GCT by GOJ MDAs - this measure was introduced in mid-2014 so there was minimal collection in the April-August 2014 period.

SCT inflows for the April – August 2015 period of $5,589.1mn were 10.6% more than budgeted. These inflows registered a considerable $1,648.8mn (41.8%) increase over the similar period last year. Contributing to the positive performance of SCT was the $7.00 per litre increase in the specific SCT rate on petrol and the replacement of the 1.0% petroleum cess with a specific SCT of $2.00 per litre, as part of the new revenue measures implemented in March 2015. Increased inflows from alcohol also contributed considerably to the higher SCT collections.

Two tax types that contributed to the shortfall in Production & Consumption Taxes were the Environmental Levy and Minimum Business Tax (MBT). An amount of $215.6mn was budgeted for Environmental Levy on domestic production however no collections were recorded due to a post-budget policy change. The implementation date was pushed back from April 1, 2015 to June 1, 2015, with payments not expected to materialize until the end of September 2015. The MBT registered a shortfall of $127.7mn (35.4%). However it is expected that this gap in collections will be at least narrowed when the next scheduled payments are made in September 2015.

International Trade

International Trade taxes amounted to $60,328.0mn, which were marginally ahead of budget by 0.2%, as higher collections from GCT, SCT and the Environmental Levy negated shortfalls in Customs Duty, Stamp Duty and Travel Tax. Overall, collections increased by $9,339.8mn (18.3%) over the similar period last year, with GCT, SCT and Customs Duty being the main contributors to the increase.

The buoyancy in GCT and Customs Duty, which increased by $3,692.6mn (16.2%) and $807.3mn (7.5%), respectively, was due largely to higher import values for telecommunications machines and instruments, motor vehicles and consumer appliances.

With respect to SCT, receipts totalled $15,861.4mn, for a $4,704.9mn (42.2%) increase over the same period last year. Collections on petroleum and petroleum products increased by $3,558.8mn over the comparable period for 2014 due largely to the upward adjustment in the specific SCT rates, thereby contributing about 75% of the increase in the SCT.

Of note the Environmental Levy increased by 16.8% to $1,241.7mn, influenced by the levy now being applicable to goods coming from CARICOM, a measure introduced in April 2015.

Other Revenue

While Tax Revenue performed well relative to budget for the April-August 2015 period the other revenue categories all showed shortfalls, led by Non-tax and Grants. Non-tax Revenue of $7,619.0mn fell short of the budgeted amount by $1,388.7mn (15.4%) due mainly to less than anticipated miscellaneous revenue from MDAs. Grant receipts totalled $2,871.8mn, a shortfall of $1,085.2mn (27.4%), largely as a result of slower than expected project implementation.

Expenditure

Expenditure totalled $194,340.2mn for the April – August 2015 period, which was $10,979.5mn (5.3%) below the level budgeted with both Recurrent and Capital Expenditure being lower.

The lower spending during the review period resulted mainly from a combination of significant saving in Interest costs, slower than planned execution of some investment projects and lower spending on Wages & Salaries. The latter two factors contributed to Non-debt (primary) Expenditure of $137,797.9mn being $6,307.3mn (4.4%) less than the amount budgeted for the review period.

Despite the reduced primary expenditure relative to budget, the GOJ maintained 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 $6,811.9mn, which was well ahead of the EFF indicative target floor of $4,500.0mn. Additionally, the GOJ has also complied with the performance criterion under the EFF of no accumulation in Central Government expenditure arrears (over 90-days). In fact, the expenditure (over 90-days) arrears declined by $616.3mn during the April – June 2015 quarter.

Recurrent Expenditure

Recurrent Expenditure during the review period amounted to $182,241.8mn, $6,768.8mn (or 3.6%) below budget, with Domestic Interest payments and Wages & Salaries being the main items contributing to the lower spending. Compared to the similar period in FY 2014/15, Recurrent Expenditure during the review period was $16,900.0mn (10.2%) higher, with Recurrent Programmes and Interest payments contributing to the increase, as Wages & Salaries declined marginally.

Recurrent Programmes

Spending on Recurrent Programmes amounted to $57,841.5mn, an increase of just 2.4% over the amount budgeted. This level of spending was $13,640.6mn higher than the comparable period last year. However, the requirements for the April – August 2015 review period included, inter alia:

- payments for purchase of a Hedge, to protect against the impact of higher oil prices;
- significantly higher allocations to the Ministry of Health to address some critical needs of the sector;
- higher payments for pensions; and
- the paying down of some of the arrears.

Wages & Salaries

Wages & Salaries for the April – August 2015 period of $67,858.0mn was $3452.3mn (4.8%) 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. The GOJ had expected to conclude negotiations and commence payments for new settlements with unions representing public sector workers for the 2015-17 contract periods within the first four months of the current fiscal year. The later than expected settlements have resulted in lower than planned spending on Wages & Salaries during the review period. The programmed amounts have however been shifted to later in FY 2015/16.

Interest Payments

Interest costs totalled $56,542.3mn, a reduction of $4,675.9mn (7.6%) against the budgeted amount. While Domestic Interest costs were broadly on track with the amount budgeted, External Interest fell by $4,888.9mn (17.9%). The reduced External Interest payments resulted mainly from lower debt raising expenses (associated with the later than expected raising of funds on the International Capital Market (ICM) during the review period. The raising of funds on the ICM occurred a bit later than planned thus the debt raising expenses have been shifted to later in the fiscal year.

Capital Expenditure

Expenditure on Capital Programmes totalled $12,098.4mn, which was $4,210.7mn (25.8%) less than the amount budgeted. The lower level of spending on Capital Programmes was due largely to slower than anticipated execution of some capital projects. Notwithstanding the lower than planned spending, Capital Expenditure increased $2,644.2mn (28.0%) over the comparable period last year. This increased capital outlay bodes well for the government's thrust toward providing the enabling environment to support higher levels of economic growth.

Financing

With a Fiscal Deficit of $23,747.4mn and Amortization payments of $249,707.2mn (inclusive of the buy-back of the PetroCaribe debt), the financing requirement for the review period was $273,454.3mn. The GOJ financed this by borrowing $260,680.4mn during the April-August period, with the remaining $12,773.9mn financed by utilizing cash balances available at the start of the fiscal year.

Loans from external sources amounted to $254,880.3mn, an increase of $195,676.3mn over the amount budgeted. This increase arose largely from raising on the ICM in July 2015 of (i) an additional U$250.0mnfor budgetary obligations and (ii) US$1,500.0mn to execute the PetroCaribe debt buy-back transaction.

Domestic Loan Receipts of $5,800.1mn were $13,912.8mn 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 (GOJ definition) stood at $2,050,109.8mn at the end of July 2015 (Table 3E). This represented a 0.4% increase over the $2,041,693.7mn at March 2015. The increase in the stock over the four-month period was mainly attributable to depreciation of the Jamaica dollar vis-à-vis the US dollar and other currencies.

Table 3E: Total Debt Stock

	Mar 2015	July 2015
(J$mn)		
Domestic	1,054,911.1	857,433.4
External	986,782.6	1,192,676.4
TOTAL	**2,041,693.8**	**2,050,109.8**

Source: MOFP

The domestic debt stood at $857,433.4mn at the end of July 2015, which was 18.7% lower than the $1,054,911.1mn registered at the end of March 2015.

With respect to the stock of public and publicly-guaranteed external debt this rose to $1,192,676.4 (US$10,157.2mn) at the end of July 2015, representing an increase of 18.4% over the stock at the end of March 2015.

Consequent on the raising of US$2,000.0mn, which was partly utilized to buyback debt from Venezuela (*Fiscal Responsibility Statement*), the composition of the public debt stock shifted, with the external increasing by 18.4% and the domestic declining by 18.7%. Additionally, the depreciation in the value of the Jamaica dollar over the April to July 2015 period contributed to the increase in the external debt stock, as the US dollar value of the external debt increased by 2.9% relative to the level at end-March 2015.

PUBLIC BODIES

For FY 2014/15 the group of 65 Self-financing Public Bodies' (SFPBs) performance met the annual target under the EFF. The Overall Balance for the group was a surplus of $13,749.3mn compared with the targeted surplus of $297.6mn, resulting in a positive variance of $13,451.8mn. Of note, $7,354.5mn or 55.0% of the variance is accounted for by under-expenditure on Capital Programmes. The February 2015 FPP indicated that the group of SFPBs estimated an Overall Balance surplus of over $3,200.0mn for the period. However, the actual performance of the group was significantly better than this estimate. The public bodies (PBs) mainly responsible for the improved results were the National Housing Trust (NHT) with positive variance of $5,816.8mn, Wigton Windfarm Limited (WWL) with positive variance of $2,197.4mn, National Insurance Fund (NIF) with positive variance of$1,826.7mn, PetroCaribe Development Fund (PDF) with positive variance of $ 1,586.7mn and the Jamaica Civil Aviation Authoritywith a positive variance of $ 1,280.4mn.

Self-Financing Public Bodies - FY 2015/16

The Overall Balance of the group of SFPBs, whose budgets were included in the Public Bodies Estimates of Revenue and Expenditure approved by Parliament in March 2015,is projected at a surplus of $7,875.0mn for FY 2015/16. Current revenues are forecast at $404,621.0mn from which a current balance surplus of $52,974.0mn is expected. The group is projecting expenditure on infrastructure/investments of $58,611.0mn in comparison to the estimated $47,240.0mn for FY 2014/15. Net flows from PBs to Central Government are projected at $18,849.0mn, as $39,415.0mn is budgeted as Transfers to Central Government while Transfers from Central Government reflect $20,565.0mn. The flows from PBs to Central Government include SCT from Petrojam, corporate taxes, grants to support special programmes as well as financial distributions (dividends).

First Quarter Performance - June 2015

The PBs' performance for the first quarter surpassed the target, with an Overall Balance surplus of $11,687.4mn compared with the targeted deficit of $5,238.9mn, resulting in a positive variance of $16,926.4mn (Table 3F). Both the Selected Public Bodies (SPBs) and the Other Public Bodies (OPBs) reported significant favourable variances, with the SPBs returning a net inflow of $4,294.6mn, $11,487.5mn better than expected, while the OPBs improved on their target inflow of $1,953.9mn by $5,438.9mn. For the SPBs, Petrojam Limited and NHT were the main contributors to the positive performance, with favourable variances of $7,081.5mn and $2,455.4mn, respectively. The National Water Commission (NWC) and the Port Authority of Jamaica (PAJ) also reported large positive variances. Wigton Windfarm Limited (WWL) and PetroCaribe Development Fund (PDF) were the most significant contributors to the OPBs position. Notably, NWC's and WWL's positive variances were mainly on account of under-expenditure on their Capital Programmes, while for the other PBs mentioned, the outcomes were achieved largely from improved operating results.

Table 3F: Public Bodies Performance June 2015

			Projected	Actual	Proj vs Actual
				J$m	
	PUBLIC BODIES		Jun-15	Jun-15	Variance
Statement 'A' Flow of Funds					
1	Current Revenue		101,245.40	97,216.28	(4,029.12)
2	Current Expenses		(88,075.82)	(80,440.45)	7,635.37
3	**Current Balance**		**13,169.58**	**16,775.83**	**3,606.25**
4	Adjustments		(1,672.22)	1,945.63	3,617.85
		Change in Accounts Receivable/Payable	(7,310.64)	(4,032.63)	3,278.01
		Items not requiring outlay of cash:	0.00	0.00	-
		Depreciation	3,990.60	3,638.14	(352.46)
		Other Non-Cash Items	1,642.12	2,415.40	773.28
		Prior Year Adjustment	5.70	(75.28)	(80.98)
5	**Operating Balance**		**11,497.37**	**18,721.47**	**7,224.10**
6	**Capital Account**		**(11,890.78)**	**(1,574.01)**	**10,316.77**
		Revenue	4,073.74	4,120.83	47.09
		Expenditure	(14,631.88)	(7,974.88)	6,657.00
		Investment	(765.76)	(359.51)	406.25
		Change in Inventory	(566.88)	2,639.55	3,206.43
7	Transfers from Government		4,493.74	3,000.76	(1,492.98)
		Loans	3,757.20	2,431.57	(1,325.63)
		Equity	-	-	-
		On-Lending	-	-	-
		Other	736.54	569.19	(167.35)
8	Transfers to Government		(9,339.30)	(8,460.84)	878.45
		Dividend	(482.04)	0.00	482.04
		Loan Repayments	-	-	-
		Corporate Taxes	(221.00)	(321.46)	(100.46)
		Other	(8,636.26)	(8,139.38)	496.87
9	**OVERALL BALANCE (5+6+7+8)**		**(5,238.97)**	**11,687.38**	**16,926.35**
10	**FINANCING (11+15)**		**5,238.97**	**(11,687.36)**	**(16,926.34)**
* 10a	Total		535.04	382.27	(152.77)
		Capital Revenue	64.04	82.27	18.23
		Loans	-	-	-
		Equity	471.00	300.00	(171.00)
		On-Lending	-	-	-
		Loan Repayments	-	-	-
11	Total Foreign (12+13+14)		19,448.27	(1,023.80)	(20,472.06)
12	Government Guaranteed Loans		146.70	(665.49)	(812.19)
		Disbursement	644.00	132.49	(511.51)
		Amortization	(497.30)	(797.98)	(300.68)
13	Direct Loans		19,311.92	(412.29)	(19,724.21)
		Long Term:	14,952.36	(312.83)	(15,265.19)
		Disbursement	20,950.35	4,183.58	(16,766.77)
		Amortisation	(5,997.99)	(4,496.40)	1,501.59
		Short Term:	-	-	-
		Change in Trade Credits	4,359.56	(99.46)	(4,459.02)
14	Change in Deposits Abroad		(10.35)	53.98	64.33
15	Total Domestic (16+17+18)		(14,744.33)	(11,045.84)	3,698.50
16	Banking System		961.34	(7,450.27)	(8,411.60)
		Loans (Change)	548.61	186.71	(361.90)
		Overdraft (Change)	39.65	(291.79)	(331.44)
		Deposits (Change)	373.07	(7,345.19)	(7,718.26)
17	Non-Banks (Change)		(838.96)	(988.85)	(149.89)
18	Other (Change)		(14,866.71)	(2,606.72)	12,259.99

FISCAL OUTLOOK

Government's economic programme remains on track to satisfy the key objectives of debt reduction and growth enhancement. With all the quantitative performance criteria and structural benchmarks met for the June 2015 review, the GOJ is confident that all targets will be met for September 2015.

Fiscal operations have performed well up to August 2015, largely aided by expenditure containment, as Revenue and Grants were slightly behind target, despite Tax Revenue running ahead of target. Some of the budgeted Tax Revenue initiatives will however occur later than planned and accordingly, the GOJ expects a shortfall in receipts for the remainder of the fiscal year. The anticipated shortfall in Revenue and Grants amounts to $5,131.4mn (1.1%), with Tax Revenue projected to be $2,032.7mn (0.5%) less than target. These reduced revenue figures have taken into consideration administrative and operational efforts that the TAJ and JCA will be taking to boost collections.

In an effort to maintain the social consensus of the economic reform of the country, foster industrial harmony with workers and ensure the continued efficient operation of the public service, the GOJ has had to adjust its initial wage/benefit offer to public servants. Based on agreements signed thus far and offers that have been made, the GOJ will be required to find an additional $6,832.0mn to fund the higher wage payments, as well as $2,500.0mn to cover the agreed adjustment in travelling costs (motor vehicle upkeep, mileage and commuting allowances). Thus, the additional expenses to be incurred associated with the wage and benefit settlements (agreed and proposed) amount to $9,332.0mn.

The combination of the projected $5,131.4mn Revenue and Grants shortfall and additional expenditure requirement of $9,332.mn has created a gap on the primary surplus of $14,463.3mn and robust fiscal measures will be adopted to close this gap in order to meet the 7.5% primary surplus that is a critical anchor of the economic programme. Of note, with nominal GDP projected to be less than budgeted discussions with the IMF have elicited an agreement to adjust the nominal targetof the Primary Surplus from $126,727.6mn to $125,007.6mn, which currently represents 7.5% of GDP. This adjustment reduces the gap on the primary surplus by $1,720.0mn. As a result, the required fiscal measures to attain the 7.5% primary surplus target amount to $12,743.4mn (0.8% of GDP).

Within this context, the GOJ has identified a number of active measures to close the fiscal gap, as follows:

- additional financial distributions from self-financing public bodies of $1,500.0mn;
- transfers to the Consolidated Funds from Executive Agencies - $1,000.0mn;
- payment of new rates for travelling to commence in December 2015, with arrears from April – November 2015 (- $1,706.7mn) to be paid in April 2016); and
- expenditure adjustment measures of $8,536.6mn, equivalent to 0.5% of GDP.

These adjustments, if required, will be included in Supplementary Estimates to be tabled in Parliament later in the calendar year.

Central Government Operations

Revenue and Grants - FY 2015/16

Revenue and Grants for FY 2015/16 are passively estimated at $452,970.0mn, a shortfall of $5,131.4mn (1.1%) against target. Tax revenue is projected at $409,849.9mn, which is $2,032.7mn (0.5%) below the targeted amount. Non-tax and Capital Revenue are expected to be in line with budget for the remainder of the fiscal year thereby falling short for FY 2015/16 while Grant inflows are projected to recover in tandem with higher Capital Expenditure and thus be broadly on track with budget. Due to unforeseen market developments such as lower aluminium prices, Bauxite Levy, which was running 22.7% behind budget up to August 2015, is expected to remain below target, with projections of a 30.4% shortfall for FY 2015/16.

The identified measures mentioned above to assist in closing the fiscal gap are expected to result in a $2,500.0mn increase in Non-tax Revenue. Accordingly, Revenue and Grants for FY 2015/16 are projected to fall short of target by $2,631.4mn (0.6%) against target (Table A3 in Appendix I)

Notwithstanding the projected shortfall for FY 2015/16, theprojection for Revenue and Grants is $43,754.0mn (10.6%) above collections in FY 2014/15. This projected growth is predicated largely on a $38,972.4mn (10.5%) increase in tax revenue.

Expenditure - FY 2015/16

Central Government expenditure (excluding amortization) for FY 2015/16 is passively projected at $473,991.9mn, which is $11,003.9mn more than the originally budgeted amount. Non-debt (primary) expenditure is projected to increase by $9,331.9mn due to the agreed compensation settlements and offers to the various public sector groups. In particular, Wages and Salaries at $171,127.7mn are projected to increase by $5,898.3mn, or 3.6%, arising from the higher than programmed wage settlements.Interest payments are currently estimated at $133,286.3mn, an increase of $1,671.9mn (1.3%) over budget. The increase is due mainly to cost associated with raising the US$2,000.0mn on the ICM to finance the PetroCaribe debt buy-back operation (US$1,500.0mn) and Central Government expenditure obligations.

Based on the identified active revenue and expenditure measures to close the fiscal gap and meet the agreed primary surplus target, Non-debt (primary expenditure) is expected to be reduced (in net terms) by $911.3mn relative to the amount originally programmed. The reduction will be in Recurrent Programmes, which are now projected at $128,925.7mn, $6,809.6mn (5.0%) below budget.

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 $27,200.0mn, 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 (Jamaica definition) is expected to end FY 2015/16 at $2,020,838.7mn or 122.4% of GDP. This compares to $2,041,693.8mn or 130.6% of GDP at end FY 2014/15. The domestic debt at the end of FY 2015/16 is projected at $796,248.6mn or 48.2% of GDP. This represents a decrease of 24.5% from the previous fiscal year's domestic debt which stood at $1,054,911.1mn or 67.5% of GDP.

The stock of public and publicly guaranteed external debt is projected to end FY 2015/16 at $1,224,590.1mn, or 74.2% of GDP. This represents anincrease over the 63.1% of GDP recorded in FY 2014/15.

Public Bodies

Prospects for the Remainder of FY 2015-16and the Medium Term

Expectations are that the SFPBs will meet the target of $7,875.3mnfor the fiscal year. The large positive variance at end-June is likely to decline in the remaining quarters due mainly to expectations that: capital expenditure programmes will get closer to budget; Petrojam's large surplus will be tempered and that there will be a general moderation of larger surpluses. WWL is expected to show the largest increase in capital expenditure as its expansion project gathers momentum.

While the NWC's capital expenditure is expected to get closer to the budgeted level, the current drought is expected to impact negatively on its operating performance. The Clarendon Alumina Production Limited (CAP) has a fairly high risk of under-performance as it continues to experience high cost of production and low selling prices. Despite these challenges however, some PBs are expected to perform better than budget and therefore mitigate the negative expectations mentioned above. Under the Medium Term Programme, the group of self-financing PBs is expected to generate at least a zero Overall Balance for the ensuing fiscal years. From all indications this target is expected to be met.

FY 2016/17 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 2016/17includes, inter alia:

- Real GDP growthof 2.0%;
- Inflation rate of 5.5%;
- Oil price (WTI) average of US$59.70 per barrel; and
- Core imports increasing by 5.7% relative to estimates for FY 2015/16.

Revenue & Grants are projected to decline from 27.6% of GDP in FY 2015/16 to 26.2% in FY 2016/17, (and further to 25.7% in FY 2019/20) 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, 2016;
- Lower Withholding Tax due to reduced interest costs and continuation of the policy to systematically reduce 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 2015/16 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 2016/17 Budget assumes Recurrent Programmes, at $136,433.2mn will be kept at the FY 2015/16 level, in real terms (grow by expected inflation). The medium term fiscal profile presented in Tables A4 and A5 reflects holding Recurrent Programmes constant in real terms. Spending on Capital Projects at $37,172.2mn (2.1% of GDP) is projected to increase notably over the 2015/16 level (1.8% of GDP), predicated on space created by containing the wage bill to 9% of GDP by March 2017. Capital expenditure is projected to increase over the medium term toward 2.5% 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 in the short to medium term. Simultaneously, social spending for youth employment, poor relief, children homes and places of safety and PATH will be protected.

Interest payments are projected to fall from 8.1% of GDP in FY 2015/16to 7.6% of GDP in FY 2016/17, 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%.

The GOJ's economic programme 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 2016/17 are for non-debt (primary) expenditure of $334,327.9mn, consisting of $297,155.7mn for Recurrent and $37,172.2mn for the Capital budget. Revenue and Grants are forecast at $468,292.4mn for FY 2016/17. Achievement of this targeted Primary Surplus of 7.5% of GDP for FY 2016/17 ($133,964.5mn) 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, 2015, is based on these aggregate fiscal figures. Nevertheless, should the ongoing administrative efforts of the TAJ and JCA indicate that revenue could perform better than the current forecasts showthe GOJ will appropriately increase spending on Capital Programmes to provide further support to the economic growth agenda, whilst adhering to the 7.5% of GDP Primary Surplus target.

Appendix I

Table A1: CENTRAL GOVERNMENT SUMMARY ACCOUNTS
FY 2015/16

(in millions of Jamaica dollars)

Item	Prov Apr - Aug	Budget Apr - Aug	Diff	Diff %	FY 14/15 Apr - Aug	Diff	Diff %
Revenue & Grants	**170,592.8**	**171,923.7**	**-1,330.9**	**-0.8%**	**150,548.6**	**20,044.2**	**13.3%**
Tax Revenue	158,806.4	157,142.7	1,663.7	1.1%	136,560.8	22,245.6	16.3%
Non-Tax Revenue	7,619.0	9,007.7	-1,388.7	-15.4%	10,795.6	-3,176.6	-29.4%
Bauxite Levy	1,080.6	1,398.0	-317.4	0.0%	0.0	1,080.6	_
Capital Revenue	215.0	418.3	-203.3	-48.6%	801.4	-586.4	-73.2%
Grants	2,871.8	3,957.0	-1,085.2	-27.4%	2,390.8	481.0	20.1%
Expenditure	**194,340.2**	**205,319.7**	**-10,979.5**	**-5.3%**	**174,796.0**	**19,544.2**	**11.2%**
Recurrent Expenditure	182,241.8	189,010.6	-6,768.8	-3.6%	165,341.8	16,900.0	10.2%
Programmes	57,841.5	56,482.1	1,359.4	2.4%	44,201.0	13,640.5	30.9%
Wages & Salaries	67,858.0	71,310.3	-3,452.3	-4.8%	68,876.4	-1,018.4	-1.5%
Interest	56,542.3	61,218.2	-4,675.9	-7.6%	52,264.4	4,277.9	8.2%
Domestic	34,074.6	33,861.6	213.0	0.6%	33,799.3	275.3	0.8%
External	22,467.7	27,356.6	-4,888.9	-17.9%	18,465.1	4,002.6	21.7%
Capital Expenditure	12,098.4	16,309.1	-4,210.7	-25.8%	9,454.2	2,644.2	28.0%
Capital Programmes	12,098.4	16,309.1	-4,210.7	-25.8%	9,454.2	2,644.2	28.0%
Fiscal Balance (Surplus + / Deficit -)	**-23,747.4**	**-33,396.0**	**9,648.6**	**-28.9%**	**-24,247.4**	**500.0**	**-2.1%**
Loan Receipts	**260,680.4**	**78,916.9**	**181,763.5**	**230.3%**	**114,520.4**	**146,160.0**	**127.6%**
Domestic	5,800.1	19,712.9	-13,912.8	-70.6%	14,053.4	-8,253.3	-58.7%
External	254,880.3	59,204.0	195,676.3	330.5%	100,467.0	154,413.3	153.7%
Project Loans	4,924.8	6,599.4	-1,674.6	-25.4%	2,749.8	2,175.0	79.1%
Other	249,955.5	52,604.6	197,350.9	375.2%	97,717.2	152,238.3	-
Amortization	**249,707.2**	**69,026.0**	**180,681.2**	**261.8%**	**26,657.8**	**223,049.4**	**836.7%**
Domestic	8,113.0	8,325.2	-212.2	-2.5%	13,974.2	1,257.8	9.0%
External	241,594.2	60,700.8	180,893.4	298.0%	12,683.6	2,631.1	20.7%
Overall Balance (Surplus + / Deficit -)	**-12,774.2**	**-23,505.1**	**10,730.9**	- **45.7%**	**63,615.2**	- **76,389.4**	**-120.1%**
Primary Balance (Surplus + / Deficit -)	**32,794.9**	**27,822.2**	**4,972.7**	**17.9%**	**28,017.0**	**4,777.9**	**17.1%**

Source: MoFP

Appendix I

Table A2: DETAILS OF REVENUE
FY 2015/16

(in millions of Jamaica dollars)

Item		Prov. Apr - Aug	Budget Apr - Aug	Diff	Diff %	FY 14/15 Apr - Aug	Diff	Diff %
Revenue & Grants		**170,592.8**	**171,923.7**	**-1,330.9**	**-0.8%**	**150,548.6**	**20,044.2**	**13.3%**
Tax Revenue		***158,806.4***	***157,142.7***	**1,663.7**	**1.1%**	***136,560.8***	**22,245.6**	**16.3%**
	Income and profits	43,594.5	41,627.1	1,967.4	4.7%	40,219.4	3,375.1	8.4%
	Bauxite/alumina	0.0	0.0	0.0	0.0%	0.0	0.0	_
	Other companies	9,244.4	7,249.2	1,995.2	27.5%	6,632.6	2,611.8	39.4%
	PAYE	28,452.5	29,001.7	-549.2	-1.9%	27,787.6	664.9	2.4%
	Tax on dividend	423.9	805.7	-381.8	-47.4%	843.3	-419.4	-49.7%
	Other individuals	1,585.4	1,230.9	354.5	28.8%	1,009.0	576.4	57.1%
	Tax on interest	3,888.3	3,339.6	548.7	16.4%	3,946.9	-58.6	-1.5%
	Production and consumption	54,883.9	55,335.3	-451.4	-0.8%	45,353.2	9,530.7	21.0%
	MBT	233.3	361.0	-127.7	-35.4%	298.1	-64.8	-21.7%
	SCT	5,589.1	5,053.7	535.4	10.6%	3,940.3	1,648.8	41.8%
	Environmental Levy	0.0	215.6	-215.6	-100.0%	0.0	0.0	_
	Motor vehicle licenses	1,205.2	1,115.4	89.8	8.1%	1,106.6	98.6	8.9%
	Other licenses	152.4	156.3	-3.9	-2.5%	146.9	5.5	3.7%
	Betting, gaming and lottery	1,197.1	1,278.0	-80.9	-6.3%	1,080.4	116.7	10.8%
	Accommodation Tax	882.7	983.2	-100.5	-10.2%	841.0	41.7	5.0%
	Education Tax	8,492.2	8,572.1	-79.9	-0.9%	7,955.2	537.0	6.8%
	Telephone Call Tax	2,335.0	3,053.3	-718.3	-23.5%	2,196.1	138.9	6.3%
	Contractors levy	313.4	380.3	-66.9	-17.6%	353.2	-39.8	-11.3%
	GCT (Local)	30,138.5	29,691.7	446.8	1.5%	23,090.1	7,048.4	30.5%
	Stamp Duty (Local)	4,345.0	4,474.7	-129.7	-2.9%	4,345.3	-0.3	0.0%
	International Trade	60,328.0	60,180.3	147.7	0.2%	50,988.2	9,339.8	18.3%
	Custom Duty	11,552.8	12,508.0	-955.2	-7.6%	10,745.5	807.3	7.5%
	Stamp Duty	710.8	869.3	-158.5	-18.2%	796.4	-85.6	-10.7%
	Travel Tax	4,461.7	4,660.6	-198.9	-4.3%	4,419.9	41.8	0.9%
	GCT (Imports)	26,499.6	25,927.2	572.4	2.2%	22,807.0	3,692.6	16.2%
	SCT (imports)	15,861.4	15,293.4	568.0	3.7%	11,156.5	4,704.9	42.2%
	Environmental Levy	1,241.7	921.8	319.9	34.7%	1,062.9	178.8	16.8%
Non-Tax Revenue		***7,619.0***	***9,007.7***	**-1,388.7**	**-15.4%**	***10,795.6***	**-3,176.6**	**-29.4%**
Bauxite Levy		***1,080.6***	***1,398.0***	**-317.4**	**0.0%**	***0.0***	**1,080.6**	_
Capital Revenue		***215.0***	***418.3***	**-203.3**	**-48.6%**	***801.4***	**-586.4**	**-73.2%**
Grants		***2,871.8***	***3,957.0***	**-1,085.2**	**-27.4%**	***2,390.8***	**481.0**	**20.1%**

Source: MoFP

Appendix I

Table A3: CENTRAL GOVERNMENT SUMMARY ACCOUNTS

FY 2015/16
(in millions of Jamaica dollars)

Item	Prov Apr - March	Budget Apr - March	Diff	Diff %	FY 14/15 Apr - March	Diff	Diff %
Revenue & Grants	**455,470.0**	**458,101.4**	**-2,631.4**	**-0.6%**	**411,716.0**	**43,754.0**	**10.6%**
Tax Revenue	409,849.9	411,882.6	-2,032.7	-0.5%	370,877.5	38,972.4	10.5%
Non-Tax Revenue	32,144.8	30,961.3	1,183.5	3.8%	34,311.5	-2,166.7	-6.3%
Bauxite Levy	3,326.3	4,779.7	-1,453.4	-30.4%	0.0	3,326.3	_
Capital Revenue	797.7	938.8	-141.1	-15.0%	1,509.2	-711.5	-47.1%
Grants	9,351.2	9,539.0	-187.8	-2.0%	5,017.8	4,333.4	86.4%
Expenditure	**463,748.8**	**462,988.2**	**760.6**	**0.2%**	**418,986.8**	**44,762.0**	**10.7%**
Recurrent Expenditure	433,339.7	432,579.1	760.6	0.2%	395,967.8	37,371.9	9.4%
Programmes	128,925.7	135,735.3	-6,809.6	-5.0%	112,696.6	16,229.1	14.4%
Wages & Salaries	171,127.7	165,229.4	5,898.3	3.6%	158,758.6	12,369.1	7.8%
Interest	133,286.3	131,614.4	1,671.9	1.3%	124,512.6	8,773.7	7.0%
Domestic	73,699.8	75,234.3	-1,534.5	-2.0%	76,052.1	-2,352.3	-3.1%
External	59,586.5	56,380.1	3,206.4	5.7%	48,460.5	11,126.0	23.0%
Capital Expenditure	30,409.1	30,409.1	0.0	0.0%	23,019.0	7,390.1	32.1%
Capital Programmes	30,409.1	30,409.1	0.0	0.0%	23,019.0	7,390.1	32.1%
Fiscal Balance (Surplus + / Deficit -)	**-8,278.8**	**-4,886.8**	**-3,392.0**	**69.4%**	**-7,270.8**	**-1,008.0**	**13.9%**
Loan Receipts	**289,748.0**	**128,930.6**	**160,817.4**	**124.7%**	**168,705.9**	**121,042.1**	**71.7%**
Domestic	13,987.7	56,338.3	-42,350.6	-75.2%	39,247.9	-25,260.2	-64.4%
External	275,760.3	72,592.3	203,168.0	279.9%	129,458.0	146,302.3	113.0%
Project Loans	10,514.9	10,917.9	-403.0	-3.7%	12,968.4	-2,453.5	-18.9%
Other	265,245.4	61,674.4	203,571.0	330.1%	116,489.6	148,755.8	127.7%
Amortization	**362,283.6**	**178,579.6**	**183,704.0**	**102.9%**	**87,794.4**	**274,489.2**	**312.7%**
Domestic	87,292.2	83,443.3	3,848.9	4.6%	29,752.5	57,539.7	193.4%
External	274,991.4	95,136.3	179,855.1	189.0%	58,041.9	216,949.5	373.8%
Overall Balance (Surplus + / Deficit -)	**-80,814.4**	**-54,535.8**	**-26,278.6**	**48.2%**	**73,640.7**	**-154,455.1**	**-209.7%**
Primary Balance (Surplus + / Deficit -)	**125,007.5**	**126,727.6**	**-1,720.1**	**-1.4%**	**117,241.8**	**7,765.7**	**6.6%**

Source: MoFP

Appendix I

TABLE A4: CENTRAL GOVERNMENT SUMMARY ACCOUNTS (% GDP)

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Revenue & Grants	**27.1%**	**26.3%**	**27.6%**	**26.2%**	**25.5%**	**25.4%**	**25.7%**
Tax Revenue	23.5%	23.7%	24.8%	24.0%	23.9%	23.8%	24.1%
Non-Tax Revenue	2.8%	2.2%	1.9%	1.7%	1.1%	1.2%	1.3%
Bauxite Levy	0.1%	0.0%	0.2%	0.2%	0.2%	0.2%	0.2%
Capital Revenue	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Grants	0.7%	0.3%	0.6%	0.3%	0.3%	0.2%	0.1%
Expenditure	**27.0%**	**26.8%**	**28.1%**	**26.3%**	**25.7%**	**24.0%**	**24.5%**
Recurrent Expenditure	24.5%	25.3%	26.2%	24.2%	23.7%	21.8%	22.0%
Programmes	6.3%	7.2%	7.8%	7.6%	7.5%	7.2%	7.2%
Wages & Salaries	10.7%	10.2%	10.4%	9.0%	9.0%	9.0%	9.0%
Interest	7.5%	8.0%	8.1%	7.6%	7.2%	5.6%	5.8%
Domestic	4.7%	4.9%	4.5%	3.5%	3.5%	2.5%	3.0%
External	2.8%	3.1%	3.6%	4.1%	3.7%	3.1%	2.8%
Capital Expenditure	2.5%	1.5%	1.8%	2.1%	2.0%	2.2%	2.5%
Fiscal Balance (Surp+/Def-)	**0.1%**	**-0.5%**	**-0.5%**	**-0.1%**	**-0.2%**	**1.4%**	**1.2%**
Loan Receipts	**6.4%**	**10.8%**	**17.5%**	**3.0%**	**11.5%**	**6.0%**	**7.2%**
Domestic	2.7%	2.5%	0.8%	1.0%	4.3%	1.5%	2.8%
External	3.7%	8.3%	16.7%	2.0%	7.2%	4.5%	4.5%
Divestment/Other	0.0%	0.0%	0.7%	0.8%	0.8%	0.7%	0.7%
Amortization	**7.3%**	**5.6%**	**21.9%**	**3.7%**	**12.1%**	**8.1%**	**9.2%**
Domestic	5.2%	1.9%	5.3%	1.2%	4.9%	3.6%	4.7%
External	2.1%	3.7%	16.7%	2.5%	7.2%	4.5%	4.5%
Overall Balance (Surp+/Def-)	**-0.8%**	**4.7%**	**-4.2%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Primary Balance (Surp+/Def-)	**7.6%**	**7.5%**	**7.6%**	**7.5%**	**7.0%**	**7.0%**	**7.0%**
GDP	1,462,800.0	1,563,100.0	1,651,300.0	1,785,800.0	1,930,900.0	2,086,100.0	2,251,100.0
TOTAL PAYMENTS	**34.3%**	**32.4%**	**50.0%**	**30.0%**	**37.8%**	**32.1%**	**33.6%**

Source: MoFP

Appendix I

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

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Revenue & Grants	**396,979.4**	**411,715.9**	**455,470.0**	**468,292.4**	**493,120.6**	**529,791.4**	**577,871.3**
Tax Revenue	343,836.1	370,877.5	409,849.9	428,635.0	461,254.0	495,796.4	541,521.8
Non-Tax Revenue	41,047.1	34,311.5	32,144.8	29,538.0	21,038.6	24,548.4	28,426.3
Bauxite Levy	1,009.5	0.0	3,326.3	3,105.2	3,384.4	3,689.3	4,016.7
Capital Revenue	658.1	1,509.2	797.7	798.5	818.4	838.9	861.5
Grants	10,428.5	5,017.8	9,351.2	6,215.7	6,625.2	4,918.4	3,045.0
Expenditure	**395,241.8**	**418,986.8**	**463,748.6**	**469,810.6**	**496,137.6**	**501,163.9**	**550,795.9**
Recurrent Expenditure	358,252.9	395,967.8	433,339.5	432,638.4	457,077.0	455,802.0	495,628.6
Programmes	91,971.7	112,696.6	128,925.7	136,433.2	144,389.4	150,380.8	162,325.2
Wages & Salaries	156,361.7	158,758.6	171,127.5	160,722.5	174,069.2	187,633.6	202,396.9
Interest	109,919.5	124,512.7	133,286.4	135,482.7	138,618.3	117,787.6	130,906.5
Domestic	68,728.9	76,052.1	73,699.8	63,075.1	67,205.3	52,586.8	67,161.6
External	41,190.6	48,460.5	59,586.5	72,407.6	71,413.1	65,200.8	63,744.9
Capital Expenditure	36,988.8	23,019.0	30,409.1	37,172.2	39,060.6	45,361.9	55,167.3
Fiscal Balance (Surp+/Def-)	**1,737.6**	**-7,270.9**	**-8,278.7**	**-1,518.2**	**-3,016.9**	**28,627.5**	**27,075.4**
Loan Receipts	**93,527.5**	**168,705.9**	**289,748.0**	**53,443.0**	**221,990.6**	**124,471.4**	**163,155.8**
Domestic	40,119.9	39,247.9	13,987.7	17,194.9	83,004.9	30,693.4	62,304.0
External	53,407.6	129,458.0	275,760.3	36,248.1	138,985.7	93,778.0	100,851.8
Divestment/Other	**0.0**	**0.0**	**11,750.0**	**13,801.3**	**14,556.9**	**15,355.8**	**16,184.6**
Amortization	**106,640.2**	**87,794.4**	**362,283.6**	**65,726.0**	**233,530.6**	**168,454.7**	**206,415.7**
Domestic	76,604.4	29,752.5	87,292.2	20,741.3	94,544.9	74,676.7	105,563.9
External	30,035.8	58,041.9	274,991.4	44,984.7	138,985.7	93,778.0	100,851.8
Overall Balance (Surp+/Def-)	**-11,375.0**	**73,640.6**	**-69,064.2**	**0.0**	**0.0**	**0.0**	**0.0**
Primary Balance (Surp+/Def-)	**111,657.1**	**117,241.8**	**125,007.7**	**133,964.5**	**135,601.4**	**146,415.1**	**157,981.9**
TOTAL PAYMENTS	**501,881.9**	**506,781.2**	**826,032.2**	**535,536.6**	**729,668.1**	**669,618.5**	**757,211.6**

Source: MoFP

Appendix II

FISCAL RISKS

The February 2015 FPP, outlined a number of key fiscal risks and associated strategies to mitigate them. This report will provide a brief update on some of the key fiscal risks being monitored by the MOFP/GOJ. A more detailed report will be provided in the FPP to be tabled in February 2016.

Wage Settlements

In the February 2015 FPP, it was stated that the outcome of the wage negotiations was uncertain thereby introducing an element of risk to the wage bill and the wider fiscal programme. To mitigate that risk, the GOJ included a contingency provision for wage increase in the FY 2015/16 budget. In August 2015, the GOJ signed new Heads of Agreements with the JCTU and JTA and made offers to the other groups that are yet to sign. However the estimated costs associated with the settlements and offers have exceeded the contingency provision by $7,500.0mn. With the materialization of this fiscal risk, the GOJ has had to reduce budgetary provision in other areas in order to stay within the agreed 7.5% of GDP Primary Surplus.

Natural Disasters

Jamaica is quite susceptible to natural disasters, mainly hurricanes (tropical cyclones), excess rainfall, earthquake and drought. One mechanism that Jamaica has used to manage losses from catastrophic events is the Caribbean Catastrophe Risk Insurance Facility (CCRIF).The CCRIF facility that Jamaica has been using only provided coverage for hurricanes/tropical cyclones (TC) and earthquakes (EQ) - TC/EQ of a predefined magnitude. For FY 2015/16, Jamaica, after careful risk assessment, expanded the coverage to include excess rainfall.

Adverse Movements in Key Macro-economic Variables

Bauxite/Alumina Prices

Lower than anticipated world aluminium prices are resulting in reduced collections from the Bauxite Levy. Largely due to the lower aluminium prices, current estimates are for Bauxite Levy inflows for FY 2015/16 to fall $1,453.2mn (30.4%) below the budgeted amount. This expected reduced revenue intake will also lead to a cut in primary expenditure to ensure the primary surplus target is adhered to.

Public Private Partnerships (PPP)

The GOJ recognizes that PPP projects have the potential to impose significant fiscal risks if not appropriately designed and financed. Against this backdrop, the risks associated with PPPs need to be recognized and prudently managed. The enhanced fiscal rules require that all PPPs be continually assessed by the MOFP and that they be included in the Public Sector Investment Programme (PSIP) and subject to standards set out in the Public Investment Management System (PIMS). The February 2015 FPP mentioned some PPP transactions that were in progress and an update is provided below.

Kingston Container Terminal

On April 7, 2014 the Port Authority of Jamaica executed a thirty (30)-year Concession Agreement with Kingston Freeport Terminal Limited to finance, expand, operate, maintain and transfer the Kingston Container Terminal. The capital works will be executed in two phases. Phase 1 works will approximate US$400 million of which US$250 million is proposed to be a loan. The remaining US$150 million is expected to be a combination of internally generated funds and equity. The Concessionaire is in the process of concluding the financing arrangement.

Norman Manley International Airport

Five bidders were pre-qualified and invited to participate in the Request for Proposals for a long-term concessionaire in the aviation sector to operate, finance, develop and maintain the Norman Manley International Airport. The final date for submission of the bids is November 23, 2015 and the bids will be opened on December 1, 2015.

The Jamaica LED Street Lighting Retrofit Project

Although the replacement of street lights with LED bulbs was originally conceptualized as a PPP project, the GOJ received the assistance of the IDB for an Options Analysis to be undertaken. This was to ascertain the most cost effective implementation modality. The analysis was recently completed and the project was subsequently submitted to the Energy Sector Enterprise Team for execution.

Update on Technical Assistance (TA)

The FPP also noted that the GOJ was receiving technical assistance (TA) from both the IDB and World Bank to better identify and manage fiscal risks.

With respect to the TA from the World Bank, a project is being developed between the MOFP and the World Bank to prepare a national disaster risk financing and insurance (DRFI) strategy. To accomplish this, the project aims, in the short-term, to strengthen the GOJ's understanding of its fiscal exposure to disaster losses and the country's overall financial disaster risk profile. The project will encompass: (i) a detailed review of existing funds; (ii) an assessment of the fiscal rule; (iii) a post-disaster budget appropriation; and (iv) a historical fiscal loss calculation. The strategy itself would therefore be informed by an analysis of post-disaster expenditure and a review of government explicit contingent liability (both direct and indirect) to disasters, to allow estimation of additional short-term financial expenditure by the GOJ. The analytical outputs of these activities will collectively contribute to the definition of a cost-effective sovereign DRFI strategy for Jamaica.

The Bank has since commenced work on an initial diagnosis of different components of disaster risk financing in Jamaica and building the team to work in Jamaica. Within this context, it has engaged the services of a consultant to research, collate and assist in building a catalogue of historic post disaster losses and government expenditure. This data will enable the building of a more informed natural disaster risk profile for Jamaica and ultimately help in quantifying the GOJ's contingent liabilities. Additionally, the Bank has engaged a Public Financial Management Consultant to:

(i) assess, in terms of budgetary impact, the post disaster losses and expenditure contained in the data catalogue;
(ii) review external post-disaster aid inflows,
(iii) review budgetary processes surrounding natural disaster response, and
(iv) assist in quantifying the GOJ's contingent liabilities.

The objective of the consultancy being supported by the IDB is to support the GOJ in better identifying, evaluating, quantifying and reporting its main fiscal risks for better public financial and fiscal management and economic planning. This consultancy is due for completion by end-September 2015. The results of this consultancy will provide valuable inputs to enhance the Fiscal Risks Statement in the FPP as of February 2016.

Appendix III

TAX REFORM

Comprehensive tax reform to support economic growth and employment creationremains a critical component of GOJ's ERP. 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 Government implemented tax measures in the FY 2015/16 budget with the aim of enhancing the revenue flows. These included:

(i) Broadening of the base for the Environmental Levy which now includes domestic goods and CARICOM imports. Another base-broadening measure was the application of GCT on electricity for residential customers with usage above 350 KwH. Usage above this amount now attracts GCT of 16.5 per cent.

(ii) An increase in the SCT on cigarettes to $12.0 per stick (up by J$1.5 per stick).

(iii) The personal income tax threshold is to be increased to J$592,800 per year, effective January 2016. This is being done as a means of lightening the burden on employees with incomes below that level and will lead to approximately 9,000 additional persons falling off the income tax role.

The GOJ recently tabled legislation to address the issue of transfer pricing. All indicators point to the new legislation being passed by October 2015. Currently, the TAJ (with technical assistance from the Organization for Economic Cooperation and Development (OECD) is working on improving its capacity to successfully administer the new law when it is implemented.

Presently, technical assistance is been provided from the IMF's Fiscal Affairs Division (FAD) to assess the impact of the 2013 tax reforms. The team is also expected to review the tax regime and identify any additional priority areas that would benefit from further tax reform. The review is expected to be completed in the next fiscal year.

Going forward a number of important initiatives will continue, as outlined below:

- Ongoing implementation of TAJ's National Compliance Plan (NCP) for 2015/16, which details risk management strategies aimed at addressing tax compliance risks such as those surrounding filing, payment and registration. Work continues on the execution of this 2015/16 NCP. In order to ensure successful Programmes Unit monitoring, the present draft FY 2015/16 Operations Plans for TAJ offices (Large Taxpayer Office (LTO), Revenue Service Centres (RSCs) and Large, Medium and Small Tax Offices) will be transferred into a new planning template and merged with a new reporting template by end-September 2015. The new reporting template is currently under development. With regards to arrears management and objections, execution strategies and detailed expected outputs consistent with the NCP are expected by end-September 2015.

- The inclusion of transfer pricing compliance risk treatment strategies in the TAJ National Compliance Plan (NCP), Programmes Plan and LTO Operations Plan for FY2016/17 will allow for the application of the new transfer pricing law to tax returns for Assessment Year 2015.

- With respect to staffing of the TAJ as a Semi-Autonomous Revenue Authority (SARA), completion is expected by end-March 2016. In this regard:

  (i) Those reporting directly to the Commissioner General and the Deputy Commissioners will be recruited by end-September 2015;
  (ii) Hiring for key areas such as Finance and Accounts, Human Resources (HR), Strategic Services and Customer Care Centreare scheduled for completion by October 31, 2015; and
  (iii) The phased transitioning of all remaining staff to SARA is to be completed by March 31, 2016.

  With the aid of the Caribbean Regional Technical Assistance Centre (CARTAC), management and HR training will be conducted during the rest of 2015 to support the SARA implementation.

- Complementing technical assistance from the IMF, key performance indicators of the effectiveness and efficiency of the tax system (from the TAJ NCP) will be fully executed by end-November 2015.

- Further capacity building, with technical assistance from the OECD, will improve TAJ's ability to effectively administer the new transfer pricing law (on implementation) and the asset base erosion and profit shifting (BEPS)rules developed by the OECD BEPS project.

- Staff training for MOFP and TAJ technical staff on the 3-year OECD training and sensitization programme, which began in June 2015, will continue in November 2015 for the same staff. This technical assistance is not restricted to staff training but also includes the sensitization and education of taxpayers and their accountants most likely to be affected, beginning in September 2015.

- A Fiscal Impacts Report following up on the entity-by-entity review of all grandfathered tax incentives will be generated by December 31, 2015. This will include a review of Yearof Assessment 2014 company income tax returns as well as the essential compliance actions required toassess the fiscal impact, beyond 2020, of the ongoing grandfathering of the fiscal tax incentives legislation, which became effective on January 1, 2014.

- The Revenue Administration Cooperation and Information Sharing Memorandum of Understanding (MOU), signed in March 2015 will be implemented by September 30, 2015. This MOU comprises undertaking joint analysis, risk profiling and forensic data mining activities focusing on high compliance risk importers and the commencement of multiple joint tax and customs compliance operations.

- Jamaica Customs Agency (JCA) anticipates the attainment of its annual performance indicators and targets, including *inter-alia* customs clearance and post-clearance audits, as specified in the JCA Corporate Strategic Plan 2015–2018.

- GOJ continues to implement tax and custom automation operations, to include:

  (i) Phase 1 of the Enterprise Content Management (ECM) system processes and the linking of these processes to RAiS case-actioning and reporting components by end December 2015. The ECM system processes comprise the (a) electronic imaging and data capture of paper-based tax returns and (b) electronic imaging of other paper documents, including inter alia, taxpayer letters and certified copies of certificates.

  (ii) Implementation of the full function production version of the ASYCUDA-World integrated customs softwarepackage for the entire country by March 2016

  (iii) Phase 2 of the RAiS (GENTAX) integrated tax software package, for all major tax types by end-December 2015, with the stamp duty and transfer tax slated to be added at a later date.

Appendix IV

PUBLIC FINANCIAL MANAGEMENT REFORM

Working along with the development partners, the GOJ is currently executing its updated public financial management reform action plan. In this regard:

- The criteria for determining which entities would be excluded from the fiscal rules have been completed, as well as the associated regulations. In the meantime, sensitization programmes are planned for the third quarter in FY 2015/16.
- A Procurement Act is expected to be passed in September 2015 to be followed by the piloting of the Electronic Tendering System in five entities. The IDB will also assist with the completion of a new procurement manual by January 2016.
- The MOFP will enhance its macro-fiscal capacity with the support of technical assistance from the IMF. This process will include, among other things:

    - Fortifying the Fiscal Risks Statement in the Fiscal Policy Paper;
    - Documenting methodology and processes for the efficient production of key outputs and continuous effective management of data sets and information;
    - Re-organizing and reclassifying functions and positions as well as recruiting additional qualified staff for the re-organized Fiscal Policy Management Unit (FPMU) by March 2016; and
    - Continuing hands-on output-based training for the members of the FPMU.

- The transfer of responsibility for the management of GOJ's banking arrangements from the MOFP to the Accountant General's Department (AGD) will occur by the end of September 2015.
- GOJ continues expansion of the coverage and functionality of the central treasury management system (CTMS) which will among other things see increased direct payments through the TSA via the CTMS, and, by November 2015, the management of all funds under the AGD's direct control through the General Ledger of the CTMS. Also, by December 2015, all salaries of Central Government's civil servants will be paid through the TSA. The AGD will be sufficiently strengthened to assume responsibility for further development and management of the CTMS.
- With IMF assistance, the GOJ will conclude a service level agreement with the BOJ for BOJ-supplied banking services, by end-September 2015.
- Modernization of the AGD systems and processes is ongoing, with an expected March 2016 completion date. This will include a Treasury Modernization plan (to be finalized by November 2015), establishment of a Cash Management Unit and transferring the cash management function from FPMU to AGD (by end-September 2015) and a new cash forecasting model (to be operational by end-October 2015). The AGD will also assume responsibility for maintenance and ongoing revisions of the Chart of Accounts, which were prepared in April 2014 and will be utilized for the FY 2016/17 budget.

Appendix V

PUBLIC SECTOR REFORM

The GOJ remains fully committed to improving the efficiency, quality and cost effectiveness of the public sector**.** To this end, a number of initiatives outlined in the action plan for public sector transformation will be undertaken, including the following:

(i) The GOJ will implement shared services across Central Government beginning with legal services, with support from Justice Canada;
(ii) The merged Forensic Laboratory and the Legal Medicine Unit is expected to be operational by September 2015;
(iii) The organizational structure for the merging of the Betting, Gaming and Lotteries Commission (BGLC) with the Jamaica Racing Commission (JRC) is to be completed by end- September 2015. The merger is expected to be completed by May 2016;
(iv) Legislation and regulatory changes to allow for the formation of the Jamaica Agricultural Commodities Regulatory Authority (JACRA), from the merger of commodities boards (for cocoa, coffee and coconut) and the regulatory functions of the Export Division of Ministry of Agriculture pertaining to spices, is expected to be completed by end-February 2016. Completion of the merger is expected during 2016;
(v) GOJ expects to identify a selected bidder in September 2015 to enable the divestment of Petroleum Company of Jamaica Limited, Petcom; and
(vi) The GOJ finalized the Request for Proposal (RFP) for the Asset Management Shared Services software in August 2015. A contract with the successful vendor should be in place by April 2016.

GOJ has concluded wage negotiations with the JCTU and the JTA for the FY 2015/17 period. Negotiations continue with the outstanding groups and these are expected to be concluded during the third quarter of FY 2015/16.

Examination of the FY 2015/16 budget for further areas of possible cost rationalization and areas for improved efficiency is underway. The new public pension system is expected to be effective at the start of FY 2016/17 with the required pension legislation amendments expected to be tabled by end-November 2015.

The GOJ is making progress with implementation of the human resources software system (the HCMES system, including Payroll). The design stage will begin in October 2015 and implementation is expected to commence for the first two entities in November 2015. The first stage of implementation is expected to conclude by end-August 2016.

With regards to public bodies, the following activities are being undertaken:

(i) In an effort to increase transparency, completion of the annual reports for self-financing public bodies (excluding PetroCaribe and Petrojam) is expected by December 2015;

(ii) Further strengthening of the monitoring of budget-funded public bodies to include (a) enforcing the six-month time limit for submission of their financial statements to the Auditor General and (b) enhancing the capacity of the Auditor General's office for more frequent and in-depth reviews of these financial statements;

(iii) An assessment (with IMF Technical Assistance scheduled for end-September 2015) will be conducted to evaluate the extent for reintegrating some public bodies into Central Government, and,maintaining an arms-length relationship between the other public bodies and Central Government in alignment with international best practices.

Appendix VI

FINANCIAL SECTOR REFORM

The GOJ will continue to enhance the framework for financial supervision as outlined below:

(i) 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 in September 2015 alongside updates to existing regulations for licensed deposit taking institutions. Implementation of components of the Act, such as the code of conduct concerning consumers and agent banking, will continue.

(ii) For the securities industry, GOJ will develop a strategy by October 2015 to introduce and improve prudential standards. The GOJ is also committed to bringing the retail repo portfolios of the industry and of individual firms to systematically safe and prudentially manageable levels. In this regard, a minimum transaction size for retail repos has been set, with plans for a gradual increase up to J$1,000,000 by end-December 2015.

(iii) Further steps will be taken to further strengthen depositor protection and investor compensation across financial institutions by end-December 2015.

The GOJ continues to provide less risky business models for investing to securities dealers. In this regard, the investment cap for CIS in foreign assets was raised to 15% in June 2015 with a further increase to 25% expected by December 2015. Similarly, to protect the interest of retail repo consumers, there has been a conversion of retail repos to the trust-based framework.

Legislative provisions to be tabled in June 2016 will be proposed to support the national crisis management plan and the resolution framework for the banking and securities sectors.

A Green Paper examining amendments to the BOJ Act, for enhancing BOJ governance and autonomy will be tabled in October 2015. Amendments that vest the BOJ with overall responsibility for financial stability were tabled in July 2015 and are expected to become effective on November 1, 2015.

Appendix VII

GROWTH-ENHANCING REFORM

The GOJ has been actively pursuing strategies that promote economic growth through improvements to the business climate. Further actions for continued improvements include:

- The Application Management and Data Automation system (AMANDA), which allows the Government to track approval of construction permits, has been implemented in all 14 parish councils and relevant agencies. GOJ also commitsto take action to automate the work processes within the Government Electrical Regulator (GER) and to obtain AMANDA software to restructure electrical installations procedures. The adoption of this AMANDA system is expected to be completed by end 2015/16 with IDB assistance.

- Reforms to the Development Applications Process (DAP), following the approval by Cabinet in December 2014 are to be implemented within two years. These reforms will remove large sized project applications from the ambit of the relevant Parish Council sending them instead to a joint technical team which will result in a faster, more streamlined approvals process. Meanwhile, the National Building Act is expected to become effective by December 2015 to provide the regulatory framework for the acceptance of certification from licensed professionals.

- LAMP services are to be expanded to north-western parishes and additional titles are to be issued for the remainder of FY 2015/16. Under this programme, as of July 2015, 249 new titles have been issued for this fiscal year.

- With the assistance of the IDB, an on-line system for business registration will be piloted by December 2015 and be in place by April 2016. The aim of this system is to reduce the turn-around time for applications to two business days.

- The GOJ's goal of providing a complete trade and logistics solution for the country is on track. The plan to establish a Port Community System (PCS) to electronically integrate and streamline export and import procedures is one component. Correspondingly, the ASYCUDA World Customs Management System acquired by the JCA, will support integrated processes/procedures and the National Single Window with assistance from the private sector for functions that are not covered under ASYCUDA. The project to provide this complete trade and logistics solutionis expected to be completed by mid-2016.

- In a bid to increase small business access to credit, the Development Bank of Jamaica (DBJ) will provide funding to MSMEs in 2015/16 and the Mobile Money for Microfinance initiative will be fully rolled out in 2015. The government continues to develop other areas of reform to improve MSME's access to capital and to reduce their cost of funding, to include *inter alia*, the provision of support for MSME capacity development programmes and the establishment of a venture capital eco-system. Further, the Ministry of Industry, Investment and Commerce (MIIC) has been leading an initiative to improve access to capital by MSMEs, which is focused immediately on the restructuring and repositioning of three of its agencies, namely, the Jamaica Business Development Corporation (JBDC), Micro-Investment Development Agency (MIDA) and the Self Start Fund (SSF). This initiative includes the amalgamation of the three Boards into a single Board of Director and the development of an implementation plan by a Task Force that was appointed by the Minister. The plan calls for the agencies to work in integrated fashion to improve the effectiveness of delivery a suite of products and services, including strengthening of business development and advisory services, rigorous risk-management services, a broader range of financing options (micro-venture funding, a suite of new lending products). This initiative by the MIIC is also looking at creative and innovative ways to mobilize funding for the MSME sector, and, promoting the institutionalization of the Secured Transactions Regime (through facilitating the development of secondary market for collateral assets and the valuation of intellectual property).

- Under the Agro Parks Initiative, nine agro-parks are already operational with negotiations continuing to establish at least five more in FY 2015/16. An IDB-financed consultancy to prepare a sustainability framework for the existing Agro Parks and criteria for selection of new parks is currently underway. The results of this consultancy are expected by end-September 2015.

- A national strategic plan for the BPO industry was approved by Cabinet in March 2015 and implementation started in April 2015.

Labour Market Reform

Another important growth-enhancing reform being undertaken relates to Labour market reforms, entailing the formation of a Labour Market Reform Commission and Secretariat on April 1, 2015. The Commission will review policies and practices related to labour reform and provide the Government with recommendations by April 2016.

Logistics Hub

- A 30-year concession agreement was signed with a private consortium in early April 2015, regarding the privatization of Kingston Container Terminal (KCT). Work is expected to begin in 2016 with the dredging of the access channel to the Kingston Harbour and the KCT basin. The transfer of the operating control to the concessionaire is expected to take place shortly after financial close of the transaction. The concessionaire is expected to invest approximately US$625.0mn over two phases of the concession, with the possibility of a third phase to be negotiated.

- The privatization of the Norman Manley International Airport (NMIA) and the Caymanas Special Economic Zone (SEZ) is ongoing. For the NMIA, the selection of a preferred bidder is expected by December 2015 and handover is expected in August 2016. With assistance from the World Bank a feasibility study is expected to commence on the Caymanas SEZ by the end of 2015.

- China Harbour Engineering Company (CHEC) has started technical feasibility studies for the development of a transshipment port and industrial and commercial zones in the Portland Bight area. The project will be executed in phases with the first phase projected to be completed in the last quarter of 2016.

Electricity Cost

The reduction of the cost of electricity is vital to improving the competitiveness of Jamaican businesses. In this regard, a revised Electricity Act was tabled in Parliament in January 2015 and is expected to become effective in September 2015.

To achieve considerable cost savings the Electricity Sector Enterprise Team (ESET) anticipates replacing current (oil-fired) generation capacity with gas, coal and ethane-fired plants. Next steps will include the conversion of the Bogue power station from oil to gas by April 2016. In addition, the GOJ has approved the construction of Jamaica's first natural gas-fired power plant, a 190MW facility to be built and operated by JPS, and to be completed by 2017. Several renewable energy projects are also under way.

The GOJ will also seek to ensure that all public entities meet their financial obligations in a timely manner.

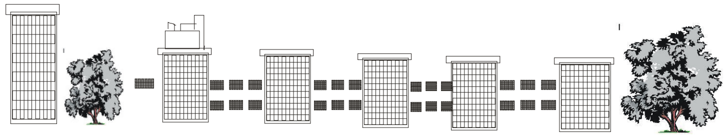
Special Economic Zones

The GOJ is seeking to replace the existing Export Free Zones by the creation of a new regime for special economic zones (SEZs). This initiative aims to attract new economic activities to Jamaica, including logistics. It will support the provision of physical and human infrastructure as well as a competitive regulatory regime, and exploit synergies. Backward linkages to the rest of the economy will be key to maximizing their broader positive economic impact.

Legislation governing the tax and customs regimes will be amended to work in harmony with the SEZ legislation. Provisions governing the tax regime that will be part of the SEZ legislation will be tabled by end-October 2015 consistent with criteria to help safeguard the integrity of the tax system and avoid tax leakage.

Further administrative procedures will be critical for the successful implementation of the SEZ tax regime, for example, inventory management systems and post clearance audits.

The legislative framework supporting enhanced trade facilitation practices by the JCA, asarticulated in phase III of the Customs Act, is being harmonized with the SEZ legislation and treaty obligations, with World Bank and CARTAC assistance.



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Printed by the Ministry of Finance and Planning