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January 20, 2020

POLICY LETTER

JAMAICA: ECONOMIC RESILIENCE DEVELOPMENT POLICY FINANCING LOAN

Mr. David Malpass
President
World Bank Group
1818 H Street NW
Washington, D.C. 20433
United States of America

Dear Mr. Malpass,

The Government of Jamaica (GOJ) continues to strive towards sustained economic growth and job creation through strict adherence to the tenets of fiscal prudence supported by macroeconomic stabilisation and the reduction of the debt-to-Gross Domestic Product (GDP) ratio. The downward trajectory of the debt-to-GDP ratio has been attributed to Jamaica's improved fiscal performance and strong macroeconomic fundamentals. The demonstration of strong ownership of the country's economic reform programme across stakeholders and the continued commitment to public accountability, through the Economic Programme Oversight Committee, have been the hallmarks of Jamaica's approach to the implementation of sound fiscal and monetary policy reforms and the successful completion of the supporting Precautionary Stand-By Arrangement (PSBA) with the International Monetary Fund (IMF).

Jamaica has made considerable gains through the economic reforms which have been executed to date. The continued commitment to the Economic Reform Programme (ERP) in tandem with fiscal prudence and discipline will assist in safeguarding Jamaica's macroeconomic stability, as the Government pursues the ongoing reduction of the public debt and economic expansion over the medium to long term. While it pursues these objectives, the GOJ remains cognizant of Jamaica's vulnerability to natural disasters and the eminent fiscal risks which have the potential to erode the gains realized from the economic reforms. The Government is therefore steadfast in its commitment to create a resilient economy; it is within this context that discussions have ensued between the GOJ and the World Bank regarding the Jamaica: Economic Resilience Development Policy Financing (DPF) Loan Series. This collaboration with the World Bank signals the Government's commitment to maintaining and accelerating the recent gains in fiscal

management and sustainable inclusive growth, while protecting the poor and vulnerable, as the loan builds on the continuous policy reform discussions between the GOJ and the World Bank. The DPF supports the Government's reforms to improve fiscal sustainability and inclusion, as well as enhance fiscal and financial resilience against natural disaster risk and improve the investment climate for sustainable growth. These reforms are consistent with *Vision 2030 Jamaica - National Development Plan*, which articulates Jamaica's long term development strategies aimed at empowering Jamaicans to achieve their full potential and building a Jamaican society that is secure, cohesive and just.

Macroeconomic Framework

During FY 2018/19, the Government realized gains from improved fiscal performance which were maintained through continued macroeconomic stability, anchored by sound fiscal and monetary reforms, under the PSBA with the IMF. Real growth accelerated over the last three fiscal years (FY 2016/17 – FY 2018/19), averaging 1.4 percent which compares favourably with the preceding three (3) years when real growth averaged 1.1 percent. A growth rate of 1.9 percent in FY 2018/19 was the highest since FY 2006/07, when a growth rate of 3.0 percent was recorded. It is against this background of strong economic performance that the GOJ's fiscal programme which was crafted for FY 2019/20 continues to be anchored by the objectives of debt reduction and economic expansion. Investor and consumer confidence indicators are also positive and improving. The economic outlook remains positive and growth is projected to increase over the medium term to over 2.0 percent by FY 2022/23. Inflation continues to be low and stable over the last few years with the outturn for FY 2018/19 recorded at 3.4 percent. A marginal increase in the inflation rate to 4.8 percent is estimated for FY 2019/20 and is expected to remain below 5.0 percent over the medium term. Net International Reserves (NIR) remain in a strong position at US\$3,162.5 million at end-December 2019 which is estimated to be 22.9 weeks of goods and services imports.

The Government has also succeeded in its pursuit of fiscal consolidation and debt reduction. For FY 2018/19, there was an over-achievement of the primary surplus target of 7.0 percent of GDP with an outturn of 7.5 percent of GDP. This, along with the execution of proactive debt management strategies, has contributed to the reduction in the debt stock. At end FY 2018/19 the debt-to-GDP ratio was 94.4 percent, down from 145.3 percent of GDP in FY 2012/13. The debt-to-GDP ratio is expected to continue its downward trajectory and is on track to meet the legislated debt-to-GDP target of 60.0 percent or less by end FY 2025/26, as stipulated in the Fiscal Responsibility Law. Given successive years of primary balance over-performance and the earlier than programmed achievement of the debt-to-GDP target of 96.0 percent by FY 2019/20, the primary surplus target was reduced to 6.5 percent of GDP. The lowering of the primary balance target allows for an increase in expenditure which will include capital spending. Further, there were adjustments to distortionary financial taxes which were aimed at promoting growth by lowering business costs. The reduction in the primary surplus target to 6.5 percent will not compromise the attainment of the legislated debt-to-GDP target of 60.0 percent over the medium term.

Jamaica's achievement of sustained progress in macroeconomic stability and the strengthening of external liquidity, which has resulted in improved ability to withstand external shocks, has not gone unnoticed. In September 2019, Standard and Poor's Ratings Agency (S&P), upgraded the GOJ's long-term foreign and local currency rating to "B+" from "B" and affirmed the 'B' rating on the short-term foreign and local currency sovereign credit ratings. The outlook remains "stable". The outlook was affirmed based on the Government's willingness to maintain robust primary fiscal surpluses, which will support a gradual reduction in debt and interest burden. The improved ratings by the S&P is a recognition of the gains Jamaica has made under the ERP and underscores the importance of Jamaica's commitment to sustain the reforms into the post IMF Programme period.

Reforms

Strengthening Fiscal Sustainability and Inclusion. Jamaica has made substantial progress since embarking on the ERP supported by the IMF Extended Fund Facility (EFF) and subsequently the PSBA. The conclusion of the most recent arrangement with the IMF will herald an era of greater economic independence for Jamaica, with the need for continued fiscal prudence. To secure the gains, the GOJ is dedicated to implementing measures to strengthen Jamaica's Fiscal Responsibility Framework. In this regard, in August 2019, the Cabinet approved the recommended design of a Fiscal Council, which will be operationally independent and financially autonomous. The Fiscal Council which is forecasted to be operational in 2020 is expected to deepen accountability and promote transparency, as it assumes the role of monitoring the Government's compliance with the legislated Fiscal Rules. The Fiscal Council will seek to further institutionalise economic independence by strengthening Jamaica's Fiscal Responsibility Framework through its mandate to inform the public on the soundness and sustainability of Jamaica's fiscal positions. It is proposed that the Council will focus on specific areas, assessing the reasonableness of macroeconomic and fiscal forecasts presented in the annual and interim Fiscal Policy Paper, monitoring adherence to the Fiscal Rule provisions in the Fiscal Responsibility Law (FRL) and assessing the consistency of the fiscal balance trajectory with the FRL, and the medium and long-term debt sustainability.

The GOJ is also working to improve the overall governance, efficiency and accountability of the public sector. In June 2018, Cabinet approved a plan to rationalise the public sector through the closure, divestment or reintegration of public bodies into line ministries as part of efforts to ensure greater efficiency and effectiveness in public-sector service delivery, reduce costs, and improve governance. A total of forty-seven (47) public bodies are estimated to be closed, merged or reintegrated into line ministries by FY 2023/24, including six (6) in FY 2019/20 and another eighteen (18) in FY 2020/21. A range of measures to mitigate potential adverse social implications of this reform, including the retraining and reintegration of staff in other functional areas of government have been deployed.

While the Country remains committed to fiscal discipline, the Government has actively taken steps to ensure the protection of the poor and vulnerable through a number of initiatives. In June 2019, the benefit size of the Programme of Advancement through Health and Education (PATH), the Country's flagship non-contributory cash transfer and largest poverty-targeted social safety net programme, was increased ranging from 13.9 percent to 23.1 percent within the differentiated payment schemes. A Community Engagement Series (CES) utilising public education fairs within remote communities was also implemented in August 2018, to increase awareness of the PATH and other social safety net programmes. The aim is to increase the beneficiary incidence among rural households in the PATH. The National Insurance Scheme (NIS) is another social protection measure utilised by the GOJ. The NIS is a compulsory contributory funded social security scheme which covers all employed persons and offers protection to its contributors and their families against loss of income arising from injury on the job, incapacity, retirement and/ or death of the insured. The Government is therefore cognizant of the importance of improved fiscal sustainability and the adequacy of the NIS in order to improve its effectiveness and longevity and has initiated reforms centered on improving levels of contribution. In January 2019, the minimum contribution for voluntary contributors was increased from J\$100 to J\$150 per week and will be increased to J\$250 by January 2021. The contribution rate to the NIS was increased in April 2019 from 5.0 percent to 5.5 percent with a further planned increase to 6.0 percent by April 2020. The contribution rate will remain at 6.0 percent through to 2022.

Enhancing Fiscal and Financial Resilience against Natural Disaster Risks. The GOJ has been taking steps to mitigate the fiscal risk of natural disasters. The development of a Disaster Risk Financing Policy for which Cabinet gave its approval in November 2018, has commenced. The Government has been pursuing a strategy that provides layers of protection which includes, *inter alia*, accumulating fiscal savings in the Contingencies Fund, provided for in the Constitution, only to be used in the event of natural disasters. To this end, the Government passed the Financial Administration and Audit (Contingencies Fund) Resolution in March 2019, which raised the ceiling of the Contingency Fund in the Financial Administration and Audit Act, from J\$100 million to J\$10 billion. Another of the Government's disaster risk financing initiatives is the development of the National Natural Disaster Reserve Fund. This Fund is to be structured as a sub-account of the Contingencies Fund, earmarked for use in the eventuality of natural disasters, with its own rules of accumulation and use. Work to develop the Fund's operationalisation framework is ongoing and the Fund is projected to be operational in FY 2020/21. In March 2019, J\$2 billion was transferred to the Contingencies Fund to specifically provide for the possibility of a natural disaster. The Government intends to supplement this amount with further transfers in future years. The GOJ is also exploring options to strengthen the local insurance market to enable access to cost-effective disaster risk insurance. In parallel, work is advancing to amend the Public Private Partnership (PPP) Policy to transfer contingent liabilities generated by natural disasters through insurance policies. The reconstruction, rehabilitation and repair phase of natural disasters requires timeliness, transparency and accountability in an effort to safeguard against further financial losses. The Government has issued guidelines to Ministries, Departments and Agencies advising of the instruments

and disbursement modalities which are available to the GOJ for financing post-disaster expenditure in the event of a natural disaster.

Improving Investment Climate for Sustainable Growth. To improve the quality of Jamaica's built environment, given the increased threats of natural and man-made disasters and their risk to fiscal stability and economic growth, Parliament passed the Building Act of 2018 which came into effect on January 15, 2019. The Act establishes a National Building Code for Jamaica which is expected to ensure safety in the built environment, enhance amenities and promote sustainable development. Critical reforms will include increased monitoring of building works, increased compliance with standards, a reduction in terms of the time and costs associated with obtaining building permits, clarity of the process and predictability for investors.

To improve Jamaica's competitiveness by creating an environment which facilitates trade and promotes greater ease of doing business, the GOJ has tabled a Bill entitled "The Customs Act, 2019" in the House of Representatives on June 25, 2019. The new legislation is expected to modernize customs procedures and increase efficiency and predictability. This will result in border processes becoming more streamlined, timely, cost-effective, and transparent, while promoting future business opportunities for Jamaica, especially in the areas of shipping, logistics and international trade.

The GOJ has identified land titling as another key area of focus in improving Jamaica's investment climate. To improve property rights protection and facilitate land markets, the GOJ has merged the National Land Agency and the Land Administration and Management Programme. Additionally, to increase efficiency and cost-effectiveness in land titling, the Government, under the systematic titling programme, is advanced in the process of drafting amendments to the Registration of Titles Act and the Registration of Titles, Cadastral Mapping and Tenure Clarification (Special Provisions) Act and has also issued the Registration of Titles, Cadastral Mapping and Tenure Clarification (Special Provisions) (Fees) (Amendment) Order, 2019 to reduce the fees for land titling transactions. Having registered title to land will increase property rights protection and the ease by which land can be transferred and used as security. This impacts positively on investments, entrepreneurship, productivity and growth. These reforms should contribute to an increase in the number of land titles issued annually.

To further promote investment, the Government has promulgated the Fisheries Act, 2018 which came into effect on May 31, 2019 and aims to maximize the fisheries industry's potential to contribute to Jamaica's economic growth. The Act seeks to provide for and promote the effective management and sustainable development of fisheries and aquaculture through, *inter alia*, increased measures to tackle poaching and unregulated fishing in Jamaican waters and to facilitate the establishment of a proper licensing authority, equipped with the requisite provisions and safeguards that will ensure transparency.

Conclusion

Jamaica's economic performance reaffirms the GOJ's commitment to fostering a stable macroeconomy, enabling business environment and strong economic infrastructure in tandem with the Country's national development outcomes. The World Bank Group's Economic Resilience Development Policy Financing operation provides support to strong GOJ initiatives which are geared towards securing the recent gains and sustaining the implementation of reforms which are necessary for the maintenance of fiscal and macroeconomic stability and the generation of growth.

The GOJ hereby requests the first loan of the DPF operation in the amount of US\$70 million for FY 2019/2020.

The Government reiterates its commitment to the Programme and wishes to express its appreciation to the World Bank for this collaboration.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Nigel Clarke', is written over a faint, light blue circular watermark or stamp.

Nigel Clarke, DPhil, MP
Minister of Finance and the Public Service