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**JAMAICA**

March 24, 2015

# POLICY LETTER

## JAMAICA: FISCAL STRUCTURAL PROGRAMME FOR ECONOMIC GROWTH

Mr. Luis Alberto Moreno
President
Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 20577
United States of America

Dear President Moreno,

Jamaica's economic reform programme which commenced in 2012 continues to be implemented within the context of an International Monetary Fund Extended Fund Facility. Major objectives of the economic reform programme are the establishment of fiscal and debt sustainability, the facilitation of growth and the reduction of poverty.

The Inter-American Development Bank has contributed to the ongoing implementation of the economic reform programme through provision of US$80 million in January 2014 under Operation One of the Fiscal Structural Programme for Economic Growth (FSPEG) Policy Based Loan. The FSPEG focuses on five (5) component areas of the economic reform programme:

a. Supporting macroeconomic stability;
b. Strengthening tax policy and administration;
c. Rationalizing expenditure;
d. Ensuring sustainability of the national pension scheme; and
e. Implementing additional fiscal rules.

Under Operation Two of the FSPEG additional actions embodied in the economic reform programme have been undertaken within the five (5) components of the programme:

### Component I: Macroeconomic Stability

Maintenance of macroeconomic stability continues to be pursued through the facilitation of growth enhancing activities and fiscal consolidation efforts that target continued reductions in the debt to GDP ratio.

Growth in fiscal year 2013/14 recorded 0.9%, a 1.6 percentage point improvement on the negative 0.7% recorded in 2012/13. Inflation for 2013/14 was 8.3%, a decline over the 9.1% in 2012/13 and the fiscal operations recorded a surplus of 0.1%, reflecting an improvement over the deficit of 4.1% generated in 2012/13. Fiscal operations generated a primary surplus of 7.6% of GDP in 2013/14, surpassing the targeted 7.5% by 0.1 percentage point. The external sector continued to improve as reflected by the declining Balance of Payments current account deficit which was recorded at 10.5% of GDP in 2013/14, down from 12.6% in 2012/13. These developments contributed to a debt stock equivalent to 133.3% of GDP in 2013/14 which reflected a 1.9 percentage point reduction on the 2012/13 debt/GDP ratio.

Attainment of an annual growth rate of at least 2.0% by fiscal year 2016/17 remains a target of the economic reform programme, alongside low annual inflation which is anticipated to be in the vicinity of 6.5% in 2016/17. Fiscal operations target a balance on Central Government operations in fiscal year 2017/18 and a debt-to-GDP of 60% by 2025/26 in line with the fiscal responsibility framework.

## Component II: Strengthening Tax Policy and Administration

Strengthening tax policy and administration continues to be a priority objective of the economic reform programme and under the second operation of the FSPEG the following actions are among those being undertaken:

a. The provisions of the Fiscal Incentives Act and the Charities Act are applied in the operations of the tax authorities;
b. Tariff rates and caps are applied as legislated under the Customs Tariff Amendment Resolutions;
c. The minimum business tax is operational;
d. The 50% cap on claims for tax losses is being observed;
e. Relevant GCT rates have been made applicable to Government purchases;
f. A Bill to harmonize and strengthen provisions for the collection of outstanding arrears was tabled;
g. Mandatory e-filing is operational for large taxpayers and the e-payment options have been expanded.

## Component III: Rationalization of Expenditure

Rationalization of Central Government expenditure has continued over fiscal year 2014/15 with maintenance/implementation of the following:

a. The policy of no Central Government salary increase during fiscal year 2014/15 has been adhered to, however, given lower than anticipated growth for the fiscal year to date it is unlikely that the 9.7% of GDP targeted for 2014/15 will be achieved. The Government in consultation with the International Monetary Fund will therefore adjust the target date for achieving wage and salary payments equivalent to 9.0% of GDP to fiscal year 2016/17;

b. Continued rationalization of the Public Bodies through efforts to divest, merge or wind-up public bodies as relevant to limit Government operations to the provision of core public services and goods. The Jamaica Racing Commission (JRC) and the Betting Gaming and Lotteries Commission (BGLC) were merged in October 2014; and
c. Submission of annual reports by self-financing public bodies within the statutory time period was achieved by 32% of these public bodies.

## Component IV: Ensuring Sustainability of the National Insurance Scheme

The National Insurance Scheme (NIS) established in 1966 is currently under review to determine among other things how to adjust contribution rates, pension benefits and coverage.

A stakeholder working group for the reform of the National Insurance Scheme has been established. The group includes representatives of the Ministry of Labour and Social Security, the Ministry of Finance and Planning, the Planning Institute of Jamaica, as well as employee and employer representatives.

An actuarial analysis of the scheme has been completed and a Green Paper has been developed and submitted to the Cabinet Office. The Cabinet has also approved the issue of drafting instructions to prepare a Bill to amend the Act to require an actuarial analysis of the NIS every three years rather than every five years. The actuarial analysis of the NIS has been tabled in Parliament and published on the website of the Ministry of Labour and Social Security.

## Component V: Implementation of Additional Fiscal Rules

In March 2014 the fiscal responsibility framework of the country was enhanced with the approval by Parliament of amendments to the Financial Administration and Audit Act and the Public Bodies Management and Accountability Act. Among the elements addressed by the amendments were:

a. The introduction of a debt-to-GDP target of 60% by the end of fiscal year 2025/26.
b. Establishment of an automatic correction mechanism that allows for systematic adjustments to deviations from targets on the basis of the deviation magnitude as a percent of GDP; and
c. Introduction of an escape clause that may be triggered by any of four events that have a fiscal impact equivalent to at least 1.5% of GDP.

Further amendments to the FAA and PBMA Acts as well as regulations for both Acts were approved in January 2015. Both, the March 2014 and the January 2015 amendments, were developed in consultation with the International Monetary Fund.

The Government's 2014/15 operations have been pursued within the context of the amended legislation.

## Financing

Under the EFF the Central Government is required to generate annual primary surpluses equivalent to 7.5% of GDP. The 2015/16 budget that generates this surplus requires loan financing equivalent to US$1.1 billion. Through the Fiscal Structural Programme for Economic Growth, Jamaica requests, from the Inter-American Development Bank, support of at least US$100.0 million under this Second Operation.

## Jamaica's Commitment

The IMF has completed six quarterly reviews of the EFF to Jamaica, with completion of the seventh review expected by end-March 2015. Performance under the EFF continues to be strong and the GOJ has reaffirmed its commitment to the economic reform programme through the recent tabling of the 2015/16 budget documents that demonstrate the country's intent to continue to pursue the economic programme as outlined in the EFF Memorandum of Economic and Financial Policies (MEFP).

The upgrade of Jamaica's credit outlook from stable to positive by Standard and Poor's in September 2014 and the raising of US$800 million on the International Capital Market in July 2014 provide some positive indicators that confidence has returned to the economy. This indication is further supported by: the most recent Survey of Consumer and Business Confidence which showed increases in both the consumer and business indices; and the World Bank's Doing Business Index which improved Jamaica's rank from 89 to 58 out of 189 countries.

Jamaica welcomes the support of the Inter-American Development Bank provided through this three-operation programmatic loan and will continue implementation of the economic reform programme as it pursues the long term objectives of sustained growth and development.

Yours sincerely,

Peter D. Phillips, Ph.D. MP
Minister of Finance and Planning