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POLICY LETTER

JAMAICA: FISCAL STRUCTURAL PROGRAMME FOR ECONOMIC GROWTH – THIRD OPERATION

Mr. Luis Alberto Moreno
President
Inter-American Development Bank
1300 New York Avenue, N. W.
Washington, D.C. 205771
United States of America

Dear President Moreno,

The Government of Jamaica (GOJ) has targeted economic growth and job creation as priority objectives and is committed to continuing implementation of the Economic Reform Programme (ERP). The ERP incorporates the actions required to generate sustained economic growth as well as the most favourable conditions which will underpin the long-term development of Jamaica.

The Government reiterates its unwavering commitment to continued strengthening of the fiscal responsibility framework and taking decisive actions in managing fiscal risks. A critical pillar of the immediate overall strategy is the continued adherence to the commitments under the Extended Fund Facility (EFF) with the International Monetary Fund (IMF) which is now in its fourth and final year of execution. Jamaica has to date had thirteen (13) successful quarterly reviews under the EFF reflecting the strategic nature of the partnership arrangement and evidenced by the positive outcome of the significant effort that has been made toward achieving sustainable growth and development of the country.

The GOJ recognizes and appreciates the support of the Inter-American Development Bank (IDB) through its provision of budgetary support under the three (3) tiered Programmatic Series of

the Fiscal Structural Programme for Economic Growth (FISPEG) Policy Based Loan (PBL) Operation.

The Government's Interim Report on the Fiscal Policy Paper FY 2016/17, tabled in the House of Representatives on September 28, 2016, highlighted the GOJ's priority objectives through the medium term of: i) growing the economy, ii) facilitating meaningful job creation and iii) increasing labour force productivity.

Actions to achieve these objectives include efficient public expenditure management, implementation of critical elements of tax reform as well as pension reform and public sector transformation. These actions will contribute to increased macroeconomic stability, a sustainable debt reduction trajectory, enhanced investor confidence and an improved business climate that will attract new investments. The positive impact of the actions will be evidenced by a reduction in poverty levels and improved standards of living, which are integral to the establishment of a solid foundation for sustained economic growth and development and building on that foundation over time.

The IDB has supported the implementation of the ERP through the provision of US\$80.0 million in February 2014 for the First Operation of the FISPEG, followed by US\$130.0 million in August 2015 for the Second Operation. The GOJ anticipates the Bank's continued support in its consideration of budgetary support for the Third and Final Operation in the Series.

Components of the Third and Final Operation (FISPEG III)

Having established the requisite legislative and regulatory framework over the period of execution of the First and Second Operations, the GOJ will demonstrate its firm commitment to the reform agenda in the execution of the Third and Final Operation by the maintenance and enforcement of the policy actions contained in the five (5) Components of the Policy Matrix for the FISPEG III, namely:

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

Component I: Macroeconomic Stability

Maintenance of Jamaica's macroeconomic stability continues to be pursued through the facilitation of growth enhancing activities and continued fiscal consolidation that target sustained reduction in the country's Debt to GDP ratio. The Debt to GDP ratio has been reduced from 145.1% at the end of FY 2012/13 to 120.3% at the end of FY 2015/16. The rate of inflation has trended down from 4.0% for FY 2014/15 to a historic low of 3.0% for FY 2015/16 in the context of lower world oil prices. The Current Account deficit of the Balance of Payments (BOP) declined from 8.1% of GDP in FY 2013/14 to 1.8% of GDP in FY 2015/16 and is expected to average 4.6% over the medium term. The Net International Reserves (NIR) remained robust having increased from US\$884.3 million at the end of FY 2012/13 to US\$2,449.6 million at the end of FY 2015/16 which represents the value of thirty-four (34) weeks of imports. Both Standard and Poor's and Moody's Rating Agencies upgraded Jamaica's credit rating during 2015. These were followed by a credit rating upgrade by Fitch Rating Agency in February 2016. These indicators are further reinforced by Jamaica's improved ranking in the World Bank Doing Business Report 2016 which moved from seventy-one (71) to sixty-four (64) out of one hundred and eighty-nine (189) countries as at June 2016 and reflects the boost in investor confidence in the Jamaican economy.

Component II: Strengthening Tax Policy and Administration

Strengthening tax policy and administration continues to be one of the priority objectives of the Government and recent actions captured under the Policy Matrix for the Third Operation, which have been fully implemented are:

- The provisions of the Fiscal Incentives Act and the Charities Act are being applied in the operations of the tax authorities;
- Tariff rates and caps are being applied as legislated under the Customs Tariff Amendment Resolutions;
- The Minimum Business Tax approved in June 2015 is effective;
- The 50% cap on claims for tax losses is being observed;
- Relevant GCT rates have been made applicable to Government purchases; and
- Mandatory e-filing is operational for large taxpayers and e-payment options have been expanded.

Component III: Rationalization of Expenditure

The Fiscal Year 2015/16 saw the continued rationalization of Central Government expenditure with the maintenance and/or implementation of the following:

- The Government remains committed to reducing its wage to GDP ratio to 9.0%. The wage to GDP ratio has been trending downwards and was recorded at 10.3% at the end of FY 2015/16. The GOJ is in the process of adjusting the target date for achieving the Wage to GDP ratio of 9.0% to fiscal year 2018/19;
- 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; and
- Increased compliance in the submission of annual reports by self-financing Public Bodies within the statutory time period.

Component IV: Ensuring Sustainability of the National Insurance Scheme

The Reform of the National Insurance Scheme (NIS) to determine among other things how to adjust contribution rates, pension benefits and coverage is in progress. The following activities have been undertaken in that regard:

- The NIS Reform Committee was established in November 2015 and submitted a Position Paper to Cabinet which was approved on October 10, 2016 which outlined recommendations on preferred options for the NIS reform;
- A Bill to amend the Act to require an actuarial analysis of the NIS every three (3) years rather than every five (5) years was tabled in the House of Representatives on July 19, 2016 and approved by the Parliament in September 2016; and
- Key modules of the NIS Management Information System (MIS) were operationalized in April 2016 and assessed by the independent consultant engaged by the IDB for that purpose.

Component V: Implementation of Additional Fiscal Rules

The GOJ has demonstrated its commitment to the continued effectiveness of the fiscal rules by:

- The simultaneous tabling of the Estimates of Revenue and Expenditure in Parliament; and

- The examination by the Auditor General of the Fiscal Policy Paper and the submission of a report to both Houses of Parliament within two weeks of the Paper being laid before the Lower House of Parliament.

Jamaica's Commitment

Following the completion of the 13th review in September 2016, the IMF Team indicated that Jamaica had met all quantitative performance targets for the June 2016 Quarter and that the structural benchmarks were well in train. The GOJ and the IMF have since reached a Staff-Level Agreement on a new economic programme and the GOJ has indicated that the Agreement is expected to be approved as a 'Precautionary Agreement'.

Jamaica's policy implementation under the ERP has been consistently strong over the life of the programme. The Government remains fully committed to continued strident implementation of the objectives under the EFF supported Programme.

Comprehensive tax reform is extremely important to Jamaica's reform efforts. The focus is being placed by the Government on broadening the tax base and building an efficient and equitable tax system that supports economic growth and development. The announced changes to the Personal Income Tax (PIT) represents a first-step in the effort to move from direct taxes towards indirect taxes.

The achievement of the aforementioned policy objectives gives credence to the Government's intentions and the GOJ hereby reiterates its commitment to the Programme as presented and welcomes the continued support of the Bank under the Third and Final Operation of the FISPEG Series.

This revised Policy Letter is issued further to the Bank's letter dated October 25, 2016 and reflects updated data and developments which **supersedes** the previously issued Policy Letter of July 20, 2016.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Audley Shaw', with a stylized flourish at the end.

Audley Shaw, CD, MP

Minister of Finance and the Public Service

