



ANY REPLY OR SUBSEQUENT REFERENCE SHOULD BE ADDRESSED TO THE
FINANCIAL SECRETARY AND THE FOLLOWING REFERENCE NUMBER QUOTED:-

Telephone No. 82-28600-18
Website: <http://www.mof.gov.jm>
Email: info@mof.gov.jm

**MINISTRY OF FINANCE AND THE PLANNING
30 NATIONAL HEROES CIRCLE
P.O. BOX 512
KINGSTON
JAMAICA**

January 16, 2014

POLICY LETTER

JAMAICA: FISCAL STRUCTURAL PROGRAMME FOR ECONOMIC GROWTH

Mr. Luis Alberto Moreno
President
Inter-American Development Bank
Washington, D.C.

Dear President Moreno,

Jamaica has commenced a journey toward sustainable growth through the implementation of fiscal, monetary and structural adjustments aimed at establishing fiscal and debt sustainability as well as creating a facilitating environment for the operation of businesses and the reduction of poverty. Jamaica welcomes the technical and financial support of the Inter-American Development Bank as the country progresses along this journey.

The fiscal, monetary and structural adjustments being undertaken have been developed within the context of an Extended Fund Facility (EFF) Arrangement with the International Monetary Fund (IMF) which envisages actions across all four sectors (fiscal, monetary, real and external) of the economy.

The Fiscal Structural Programme for Economic Growth being pursued with the Inter-American Development Bank is comprised of elements of the fiscal and structural adjustments of the EFF supported medium term economic programme.

I. Actions Associated with the Fiscal Structural Programme for Economic Growth

The Fiscal Structural Programme for Economic Growth is comprised of five components: (i) supporting macroeconomic stability; (ii) strengthening tax policy and administration; (iii) rationalizing expenditure; (iv) ensuring sustainability of the national pension scheme and (v) implementing additional fiscal rules.

Component I: Macroeconomic Stability.

Unsustainability of the fiscal and debt operations have been identified as major sources of risks to macroeconomic stability in Jamaica. Therefore, by targeting the establishment of fiscal and debt sustainability, the Fiscal Structural Programme will ensure the maintenance of macroeconomic stability in the country.

Implementation of the medium term economic programme seeks to generate an annual growth rate of 2.0% by fiscal year 2016/17, representing a gradual annual improvement over the decline of 0.7% recorded in fiscal year 2012/13. Inflation is expected to decline to around 8.5% by 2016/17 representing a reduction on the 9.1% recorded in 2012/13 as well as on the estimated 10.0% for 2013/14 which reflects the impact of tax adjustments on prices.

Fiscal adjustments continue to target achievement of a balance on the Central Government operations by end-2015/16 through the actions undertaken in the areas of tax reform, expenditure containment and debt restructuring. The debt stock is expected to decline to at least 96% of GDP by 2019/20 primarily as a result of the National Debt Exchange undertaken in February 2013.

Component II: Strengthening Tax Policy and Administration

Pursuing the objectives of the medium term economic programme involves a comprehensive reform of tax policy and strengthening of tax administration. The tax policy reform is being undertaken in stages and recent actions involved:

1. The drafting, tabling and enactment of fiscal incentives Bills which seek to eliminate existing sector based incentive programmes, while transitioning to a generally competitive business tax regime, with provision for generalized incentives for employment and capital investment within a rules-based, non-discretionary system;
2. The drafting, tabling and enactment of a Charities Bill;
3. Increasing the number of professional staff in the Large Taxpayer Office from 90 to 120; and
4. Issuing instructions for mandatory e-filing by all large taxpayers, and all employers with 20 or more employees.

Introduction of the Fiscal Incentives (Miscellaneous Provisions) Act 2013, the Income Tax Relief (Large Scale Projects and Pioneer Industries) Act 2013, and the Charities Act 2013, as well as the Customs Tariff (Revision) (Amendment) (No. 2) Resolution 2013 and the Customs Tariff (Revision) (Amendment) (No. 3) Resolution 2013, effectively replaces the general discretionary tax waiver and sectoral tax incentive regime that previously obtained, by a rules-based and standardized system of fiscal incentives consistent with the fiscal policy framework for Jamaica, thereby eliminating the granting of new categories of ministerial discretionary waivers.

Strengthening tax policy and administration will continue across the medium term with further simplification and base broadening of tax policy, increased provision of e-payment systems, and continued enforcement of the provisions of the tax laws.

Further broadening of the tax base will include the establishment of a Minimum Business Tax in line with the country's commitment under the IMF's EFF Arrangement for effectiveness of the initial phase of the comprehensive reform of the tax system by the start of fiscal year 2014/15. The expected impact of the MBT will be included in the 2014/15 revenue estimates. The initial phase of the comprehensive tax reform to be effected by FY 2014/15 will also include applicability of the relevant General Consumption Tax Rates to Government purchases of goods and services which will be reflected in the 2014/15 estimates of expenditure and revenue estimates.

Component III: Rationalization of Expenditure

Central to the establishment of fiscal sustainability and the creation of a facilitatory environment for growth is the rationalization of Government expenditure. In an effort to optimize the impact of Government expenditure the Central Government has taken the following actions:

1. Implementation of a policy of no Central Government salary increases through fiscal year 2014/15. This policy will limit the proportion of spending on salaries as a percent of GDP thereby enabling achievement of the legislated fiscal target of 9.0% for wages/GDP by 2015/16;
2. 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
3. Continued pursuit of enhancing public financial management within Public Bodies through adherence to requirements under the Public Bodies Management and Accountability (PBMA) Act.

Component IV: Ensuring Sustainability of the National Insurance Scheme

Jamaica is cognizant of the need to ensure social protection for all citizens alongside the pursuit of economic growth. One element of the country's social protection is the National Insurance Scheme. To ensure adequacy and sustainability, the Scheme is being reviewed with a view towards introducing reforms to adjust contribution rates, adjust pension benefits and increase coverage. The review is expected to utilize a similar process as was undertaken for the Central Government pension reform, with wide scale consultation utilizing a Green Paper prior to final reform through a White Paper. The reform is also expected to involve an upgrade of the NIS management information system.

Component V: Implementation of Additional Fiscal Rules

In March 2010 Jamaica formally introduced a Fiscal Responsibility Framework that included three quantitative fiscal rules (a debt rule, an expenditure rule and a budget balance rule). Introduction of the Fiscal Responsibility Framework was achieved through amendments to the existing Financial Administration and Audit (FAA) Act and the Public Bodies Management and Accountability Act which already provided a substantive framework for fiscal responsibility.

To reinforce the current efforts to achieve fiscal sustainability the Government is examining the adoption of additional fiscal rules. To this end, consultations have been ongoing with the International Monetary Fund to identify additional fiscal rules for Jamaica. These consultations have resulted in the preparation of a concept paper that recommends the adoption of further debt and budget balance rules, the introduction of an automatic correction mechanism and an escape clause that may only be activated by Parliament. The country remains in consultation with the International Monetary Fund on the fiscal rules, as it pursues the process toward legislation of additional fiscal rules.

II. Financing

The medium term economic programme currently being pursued by Jamaica involves the achievement of annual primary surpluses equivalent to 7.5% of GDP. The 2013/14 budget developed to achieve this target required loan financing equivalent to US\$1.0 billion. Through the Fiscal Structural Programme for Economic Growth, Jamaica requests, from the Inter-American Development Bank, support of at least US\$80.0 million under the first operation.

III. Jamaica's Commitment and Recent Developments

Jamaica is almost one year into implementation of the International Monetary Fund supported medium term economic programme, having commenced the actual EFF programme with the implementation of prior actions at the start of calendar year 2013. Progress under the EFF programme to date has been satisfactory with the IMF Board approving both the first and second reviews. The second review was approved on December 18, 2013 alongside the acceptance of the supplementary Memorandum of Economic and Financial Policies (MEFP) submitted by Jamaica. The supplementary MEFP includes an update of the quantitative criteria through September 2014 as well as a more detailed outline of the comprehensive tax reform.

Performance under the medium term economic programme continues to be strong with: real GDP for the September 2013 quarter recorded at 0.5% reflecting an improvement on the prior six quarters of contraction; and point to point inflation at November 2013 at 10.2%. For FY 2013/14 real GDP is projected at 0.8%, while inflation is projected to be just below 10.0%.

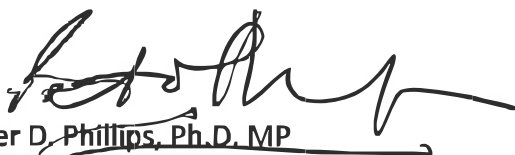
The external situation has improved as the current account deficit to September 2013 narrowed relative to the September 2012 period. The current account deficit is projected at 10.0% of GDP for fiscal year 2013/14, compared to 12.5% in fiscal year 2012/13. The Net International Reserves (NIR) achieved a 12-month high of US\$1,052.8 million at end-December 2013.

Fiscal performance has remained resilient throughout FY 2013/14, with Central Government primary surplus and fiscal deficit recording better than programmed performance up to November 2013 and the key primary surplus target of 7.5% of GDP for the fiscal year is expected to be met.

Jamaica continues to pursue achievement of sustained growth with implementation of the commitments indicated in the EFF programme which encompasses the conditions included in the Fiscal Structural Programme for Economic Growth.

Jamaica appreciates the support of the Inter-American Development Bank that will be provided through this three-operation programmatic loan and looks forward to mutually beneficial collaboration with the Bank with respect to implementation of the country's medium term economic programme.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Peter D. Phillips', with a long horizontal flourish extending to the right.

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