



PSOJ Economic Policy Framework

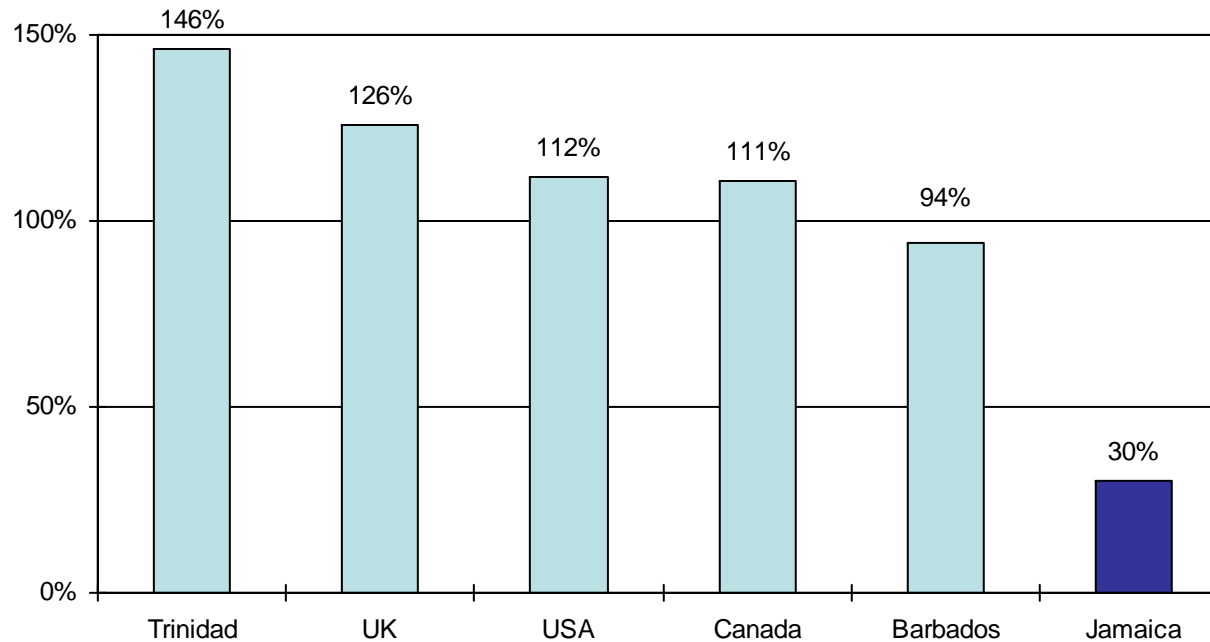
January 2010

Introduction

Jamaica's quality of life has not changed very much in the last four decades

Over the last 40 years, our GDP per person has grown by only 30%. During this period, the quality of life in most of our major trading partners has doubled.

Growth in Real GDP per person, %
(1968 to 2008)



Source: World Development Indicators, World Bank

Introduction

- The **PSOJ's mission** is to effectively advocate for the implementation of public policy that enables **strong, sustainable private sector led economic growth, job creation and development**.
- In fulfilling this mission, the PSOJ seeks to **formulate and promote a macro economic policy framework** which we believe will achieve high rates of sustained economic growth and employment.
- This document is meant to **clearly and concisely outline the PSOJ's economic policy framework** to its members, other private sector groups, its counterparties in the public sector and the wider public.
- Following the distribution of this framework, the PSOJ will subsequently distribute **individual position papers which will provide more details on the recommendations** presented in this document.
- The **framework is not a laundry list** nor an all encompassing inventory of every policy the PSOJ supports. The **framework is a realistic set of policy recommendations** which recognizes the constraints imposed on policy makers by limited resources.

Introduction (cont'd)

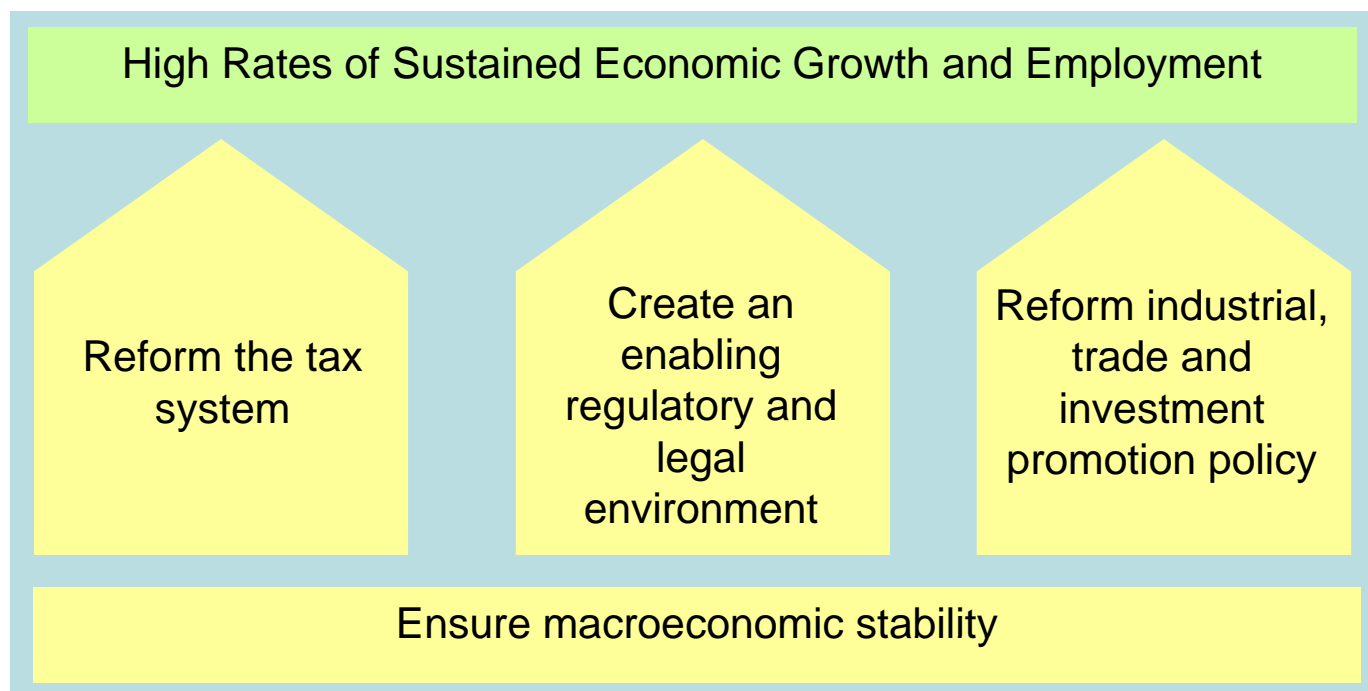
- The **framework is in large part based on the tremendous body of economic research** conducted by the private sector, the public sector, academia and multilaterals.
- In recognition of the PSOJ's commitment to the social partnership process, the **framework is informed by ongoing discussions in the Partnership for Transformation.**
- Given the PSOJ's recent adoption of Vision 2030 as its own long term vision for Jamaica, the **framework has been designed where possible, to illustrate the PSOJ's views of policies contained in Vision 2030's medium term programme.**
- **The framework has been designed in the context of an IMF programme.** The PSOJ believes that **the vast majority of its recommendations would be beneficial to economic growth and employment regardless of an IMF programme.**

Introduction (cont'd)

- **The framework is focused on economic policy. As a result of this focus, it excludes specific recommendations on other vital aspects of national development including crime, education and environmental policy.** While the PSOJ recognises the impact of these issues on economic growth, they are not the focus of this document. The PSOJ has committees that work exclusively on these areas that will distribute similar position papers on these areas.
- **The PSOJ believes that the framework outlined in this document can produce high levels of sustained economic growth and job creation** which will ultimately improve Jamaicans' standard of living. We are committed to working with the GOJ and other stakeholders to ensure its successful implementation.

The PSOJ Economic Framework

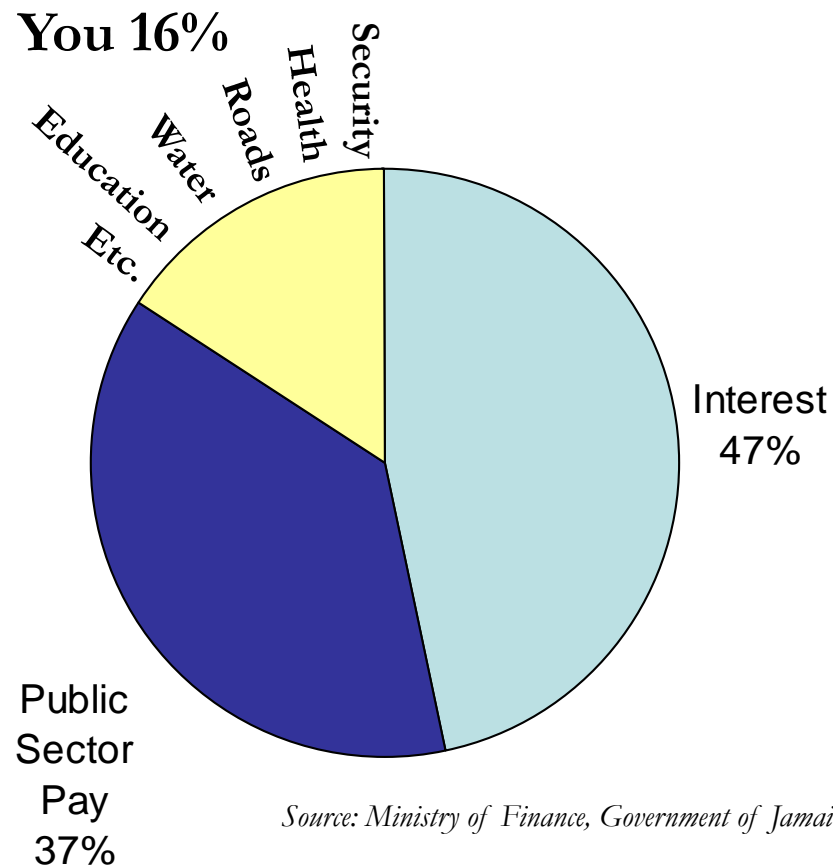
The PSOJ's Economic Framework is a realistic set of policies that can produce high rates of sustained economic growth and job creation and ultimately improve the standard of living of the Jamaican people.



Ensure Macroeconomic Stability

Jamaica has deep economic imbalances

84% of every dollar the Government spends goes to interest and public sector pay, leaving just 16% for everything else.



Source: Ministry of Finance, Government of Jamaica, 09/10 Supplementary Budget

Why the Government has to borrow to pay its bills

If the Government were to do nothing else but collect taxes and use those taxes to just pay interest and public sector wages and pensions, it would still not have enough money.

2009/2010 Supplementary Budget, JAD billions

Taxes	278.3
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Interest	(175.2)
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Public sector wages	(126.6)
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Public sector pensions	(14.2)
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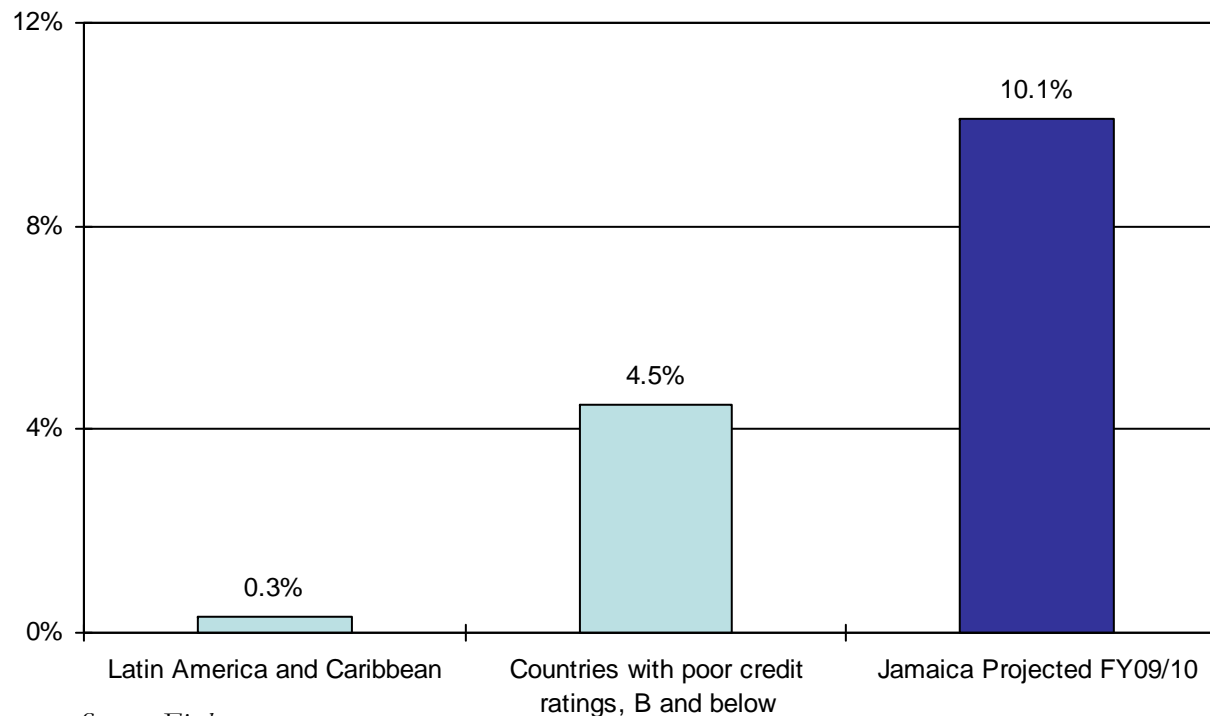
What's left for you	=	(37.8)
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Source: Ministry of Finance, Government of Jamaica, 09/10 Supplementary Budget

We are living way beyond our means

Jamaica overspends twice as much as the region and some of the most cash strapped countries in the world. This year the Government will spend \$95 billion more than its earns.

Overspending, % of economy



Source: Fitch

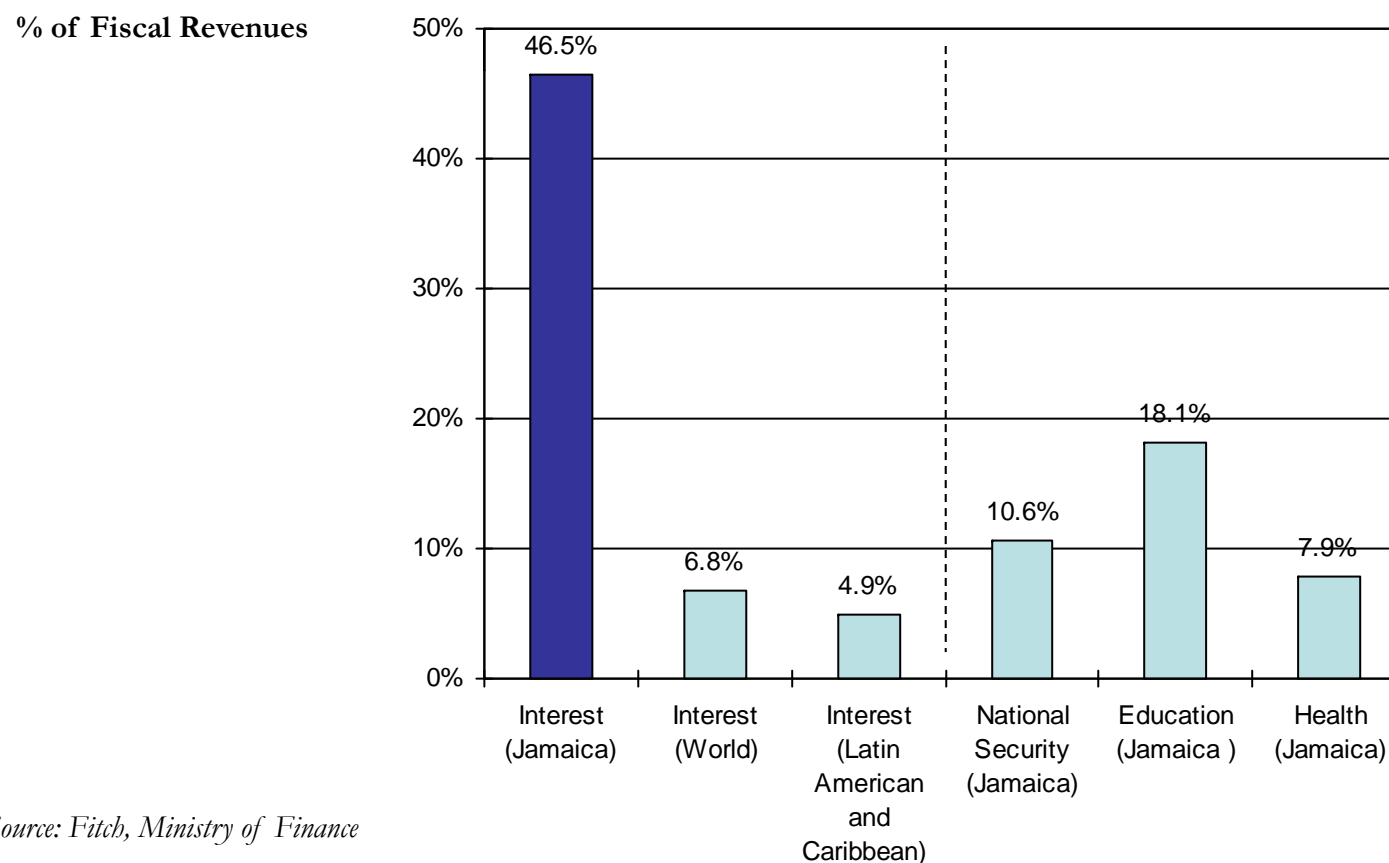
By any measure, our debt is crippling

We have one of the highest levels of debt in world. Our debt is larger than our economy and 4 times as much as the taxes we collect.
This is 3 times as bad as the region.

	Jamaica	Latin America and Caribbean	World Ranking
Debt to GDP	137%	32%	3 rd worst
Debt to Taxes	432%	163%	2 nd worst

The cost of our debt is even larger, and more painful

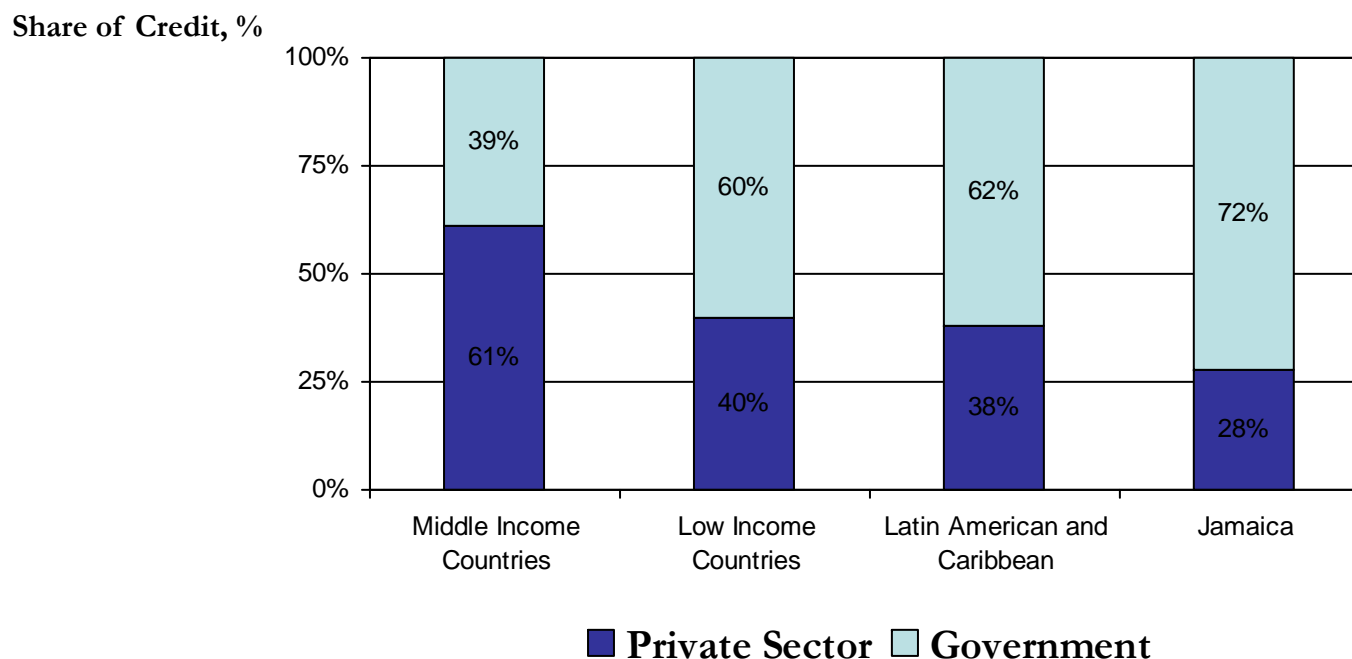
Our interest costs are the highest in the world. Our interest payments far exceed the amount the Government spends on crime, education and health...combined.



Source: Fitch, Ministry of Finance

It's crowded for businesses, especially small and medium sized business

There is only so much money to go around. The Government borrows so much that there is little left over for business. The problem is even worse for small and medium size companies. This leads to higher interest rates and eventually less jobs.



Source: World Development Indicators, World Bank

The size of our public sector pay bill leaves little for critical programmes

We pay people \$140 billion and spend only \$60 billion on programmes.

2009/2010 Supplementary Budget, JAD billions

Public sector		126.6
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Public sector pensions		14.2
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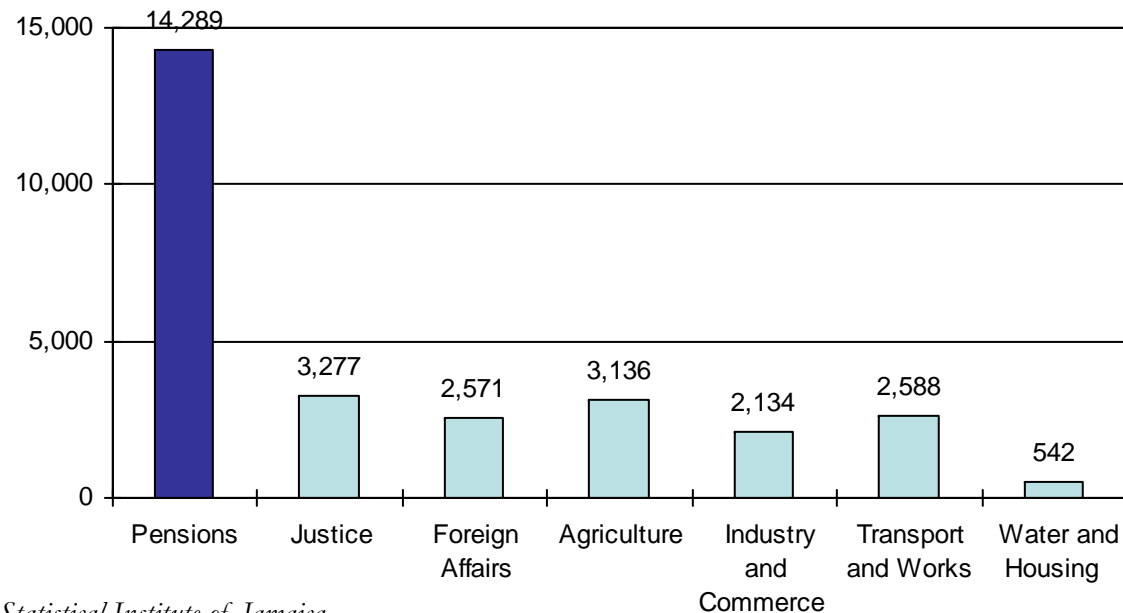
Total public sector pay	=	140.8
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Total recurrent programmes	=	60.0
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Public sector pensions alone are huge, and unfunded

The amount we spend to pay the pensions of public sector workers, is larger than the recurrent amounts we spend on the ministries of agriculture, justice, foreign affairs, commerce, water, housing and works...combined.

2009/2010 Budget Allocations, JAD Millions



Source: Ministry of Finance, Statistical Institute of Jamaica

Ensure Macroeconomic Stability

Ensuring macroeconomic stability is a necessary but insufficient component for achieving high rates of economic growth and employment

- The fiscal deficit and the debt represent the largest medium-term risk to Jamaica's economic stability
- Furthermore, the size of the fiscal deficit constrains growth and employment by creating high rates of taxation, low capital investment and the crowding out of private investment
- Absent a change in Jamaica's fiscal and debt profile, other policies alone are unlikely to improve Jamaica's growth trajectory

Macroeconomic stability can be achieved by meaningful reductions in the two largest areas of expenditure – debt servicing and public sector wages – and by reforming the budgetary process itself

Ensure Macroeconomic Stability (cont'd)

Improve debt management

- Reengage the financial sector in a debt management programme to lower interest rates
 - Target an ongoing process rather than a merely transactional approach
 - Focus on tenor and currency mix in addition to interest rates
- Enact fiscal responsibility legislation, through a consultative process with stakeholders
- Implement the Central Treasury Management System
- Increase the use of low cost multilateral funding

Lower interest expenses

- Lower interest rates on new instruments aggressively in the short term
 - In the long term, lower interest rates will be a function of lower fiscal deficits
- Make interest rate movements more predictable and transparent by setting rates at prescribed monthly meetings of a Monetary Policy Committee and releasing minutes publicly

Ensure Macroeconomic Stability (cont'd)

Lower public sector wage and pension expenses

- Rationalise the size of the public sector wage bill, through a holistic review of the role and size of Government
 - Right sizing of public sector workforce, and
 - Eliminations of overlapping functions
 - Efficient delivery of public services
- Assess positions upon retirement of existing personnel, phase out if necessary
- Restrain wage growth
- Conduct independent job performance evaluations and base compensation plans on performance
- Reduce legacy leave entitlements, for example departmental leave
- Conduct analysis of the size of unfunded pension obligations
- Require public sector employees to contribute to pension plans

Ensure Macroeconomic Stability (cont'd)

Continue divestment programme

- Complete existing divestment processes
- Divest all commercial assets not critical to the delivery of public service
- Pursue public listings in addition to asset sale processes
- Move selected public bodies and agencies off-budget
- Outsource or divest delivery of selected public services

Maintain a stable, orderly foreign exchange market

- Maintain competitiveness by targeting a real exchange rate based on inflation and currency basket of trading partners

Ensure Macroeconomic Stability (cont'd)

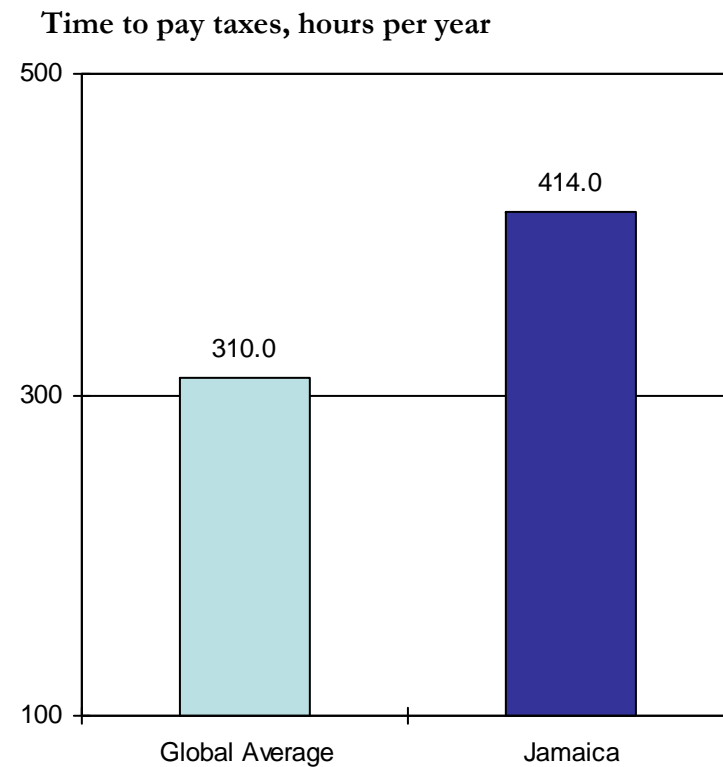
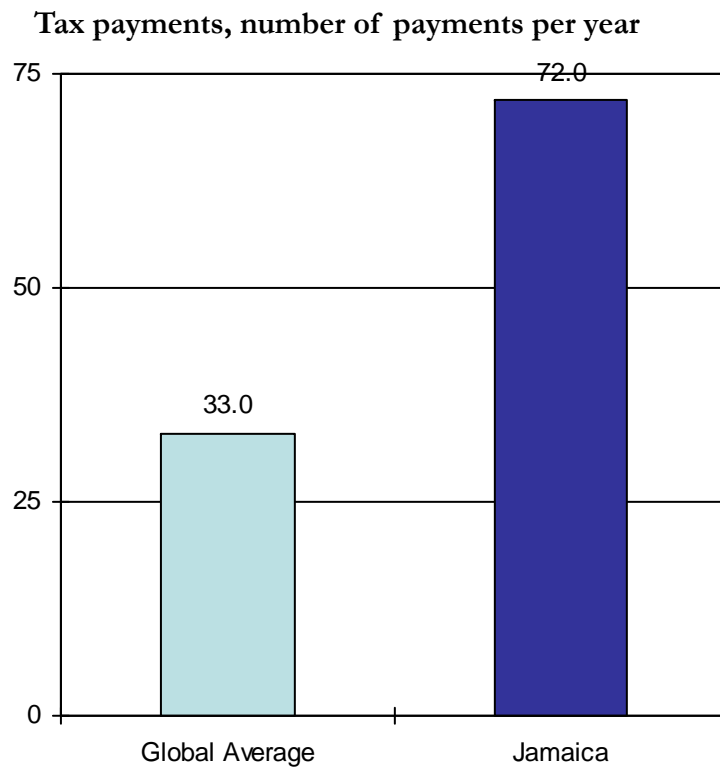
Reform the budget process

- Present consolidated budgets which include statutory bodies in addition to the central government
- Coordinate budgeting across the public sector
- Construct multi-year budgets
- Demonstrate link between budget measures with medium and long-term planning objectives
- Consult with the private sector and other stakeholders through the various phases of the budget process

Reform the Tax System

It's hard to pay taxes

The average business spends the equivalent of 17 days paying its taxes and has to make 72 separate payments.

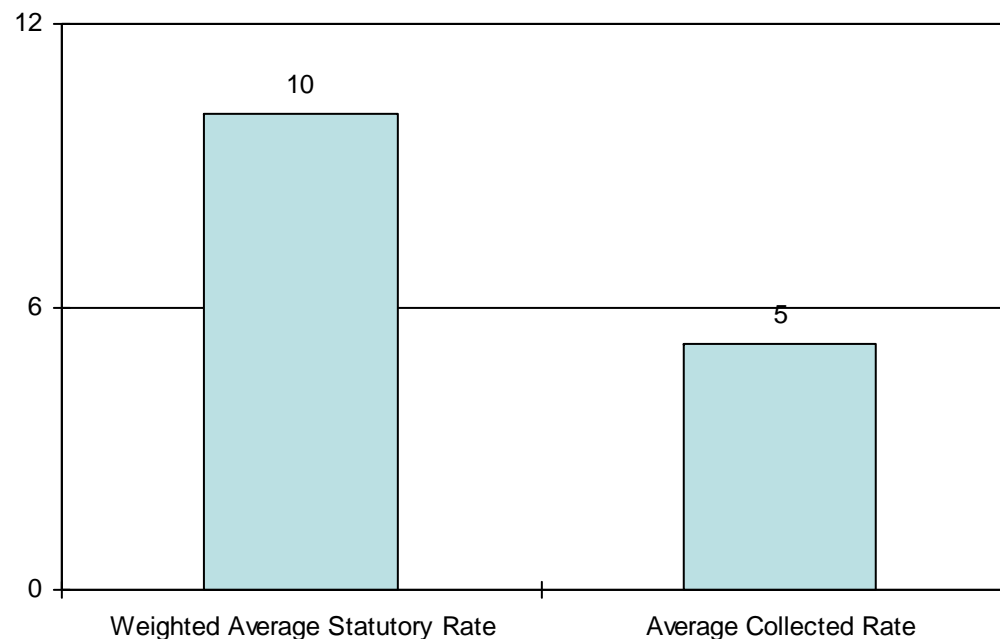


Source: Doing Business Report 2010, World Bank

Our tax system is complex, inefficient and unfair

While the average rate of import duties on the books is 10%, the average collected rate is only 5% since people take advantage of exemptions and other loopholes. We are losing revenues, favouring selected importers and leaving ourselves open to corruption.

Tariff Rates, 2004



Source: *Taxation Issues in the Jamaican External Trade Sector*, Georgia State University, August 2004

Reform the Tax System

The inefficiency, complexity and inequity of Jamaica's tax system acts as a major impediment to private sector led economic growth and job creation

- The current tax regime has evolved on a piecemeal basis and in some instances in response to short-term needs or sector interests. It lacks the level of cohesion, consistency and balance offered by a competitive tax framework.
- Burdensome regulations and administrative procedures impair business operations and incentivize activities in the informal economy
- Tax preferences afforded to selected activities (and uncompetitive provisions faced by those not so favoured) can lead to suboptimal and inequitable allocation of capital.

Tax reform should be comprehensive and seek to implement a cohesive, integrated tax policy and administrative framework that is:

- Characterized by efficiency, equity, transparency, certainty and competitive rates
- Designed to facilitate compliance
- Designed to promote economic growth and revenue generation

Reform the Tax System (cont'd)

Implement a competitive general tax regime

- Implement a general tax regime with internationally competitive direct and indirect tax rates
- Eliminate uncompetitive provisions and burdensome administrative requirements

Reform incentives

- Phase-out tax preferences in tandem with a phased-in implementation of competitive general tax regime
- Compile all waivers and concessions granted to date, codify those consistent with overall tax policy and administration framework and revoke all others
- Implement incentives and a regulatory framework to encourage and support:
 - Public/private partnerships;
 - Seed/venture capital;
 - Training, research and development;
 - Urban renewal and rural development

Reform the Tax System (cont'd)

Reform corporate income tax

- Lower the corporate income tax rate to 25% in the short-term
- Lower corporate income tax further in the medium-term in response to:
 - Increased tax compliance levels
 - Achievement of agreed revenue targets

Reform personal income tax and payroll taxes

- Increase the personal income tax threshold further to remove low-income tax payers from the income tax net
- Consolidate and harmonize the payroll tax regime to incorporate:
 - Reduction in rates
 - Ease of administration
 - Reform of the National Insurance Scheme (NIS)
 - Reform of redundancy rules/insurance coverage

Reform the Tax System (cont'd)

Lower GCT rates and broaden the tax base

- Reduce the standard rate of GCT and eliminate non-standard rates
- Impose GCT at the standard rate on all goods and services with limited exceptions
- Retain zero-rating/exemption on certain services e.g. education, healthcare, life assurance, residential property rentals, water, (in line with international best practice). Apply to electricity above an agreed consumption threshold
- Advance social welfare objectives through targeted expenditure programmes, not exemptions
- Phase out tax preferences in conjunction with implementation of reform

Simplify and reduce importation duties & charges

- Implement a flat rate of customs duty (with limited exceptions)
- Abolish multitude of fees/charges: custom user fee, environmental levy and standard compliance fee. Replace with an Advance Tax Credit payable at the port and which is fully recoverable by compliant taxpayers and can offset income tax

Reform the Tax System (cont'd)

Enact other tax policy reforms

- Reform the special consumption tax regime
- Introduce various enhancements to transfer tax and stamp duty regime
- Integrate transfer tax and stamp reliefs for reconstructions and amalgamations. Introduce relief for intra-group transfers
- Reform and enhance property tax regime

Reform tax administration

- Implement a series of structural and operational reforms designed to enhance the function of the Jamaica Tax Administration
- Review IT platform and systems to ensure efficient integrated operational capability
- Publish ministerial waivers above a de minimis limit
- Use a Unified Tax Return
- Stagger tax filing deadlines for companies

Reform the Tax System (cont'd)

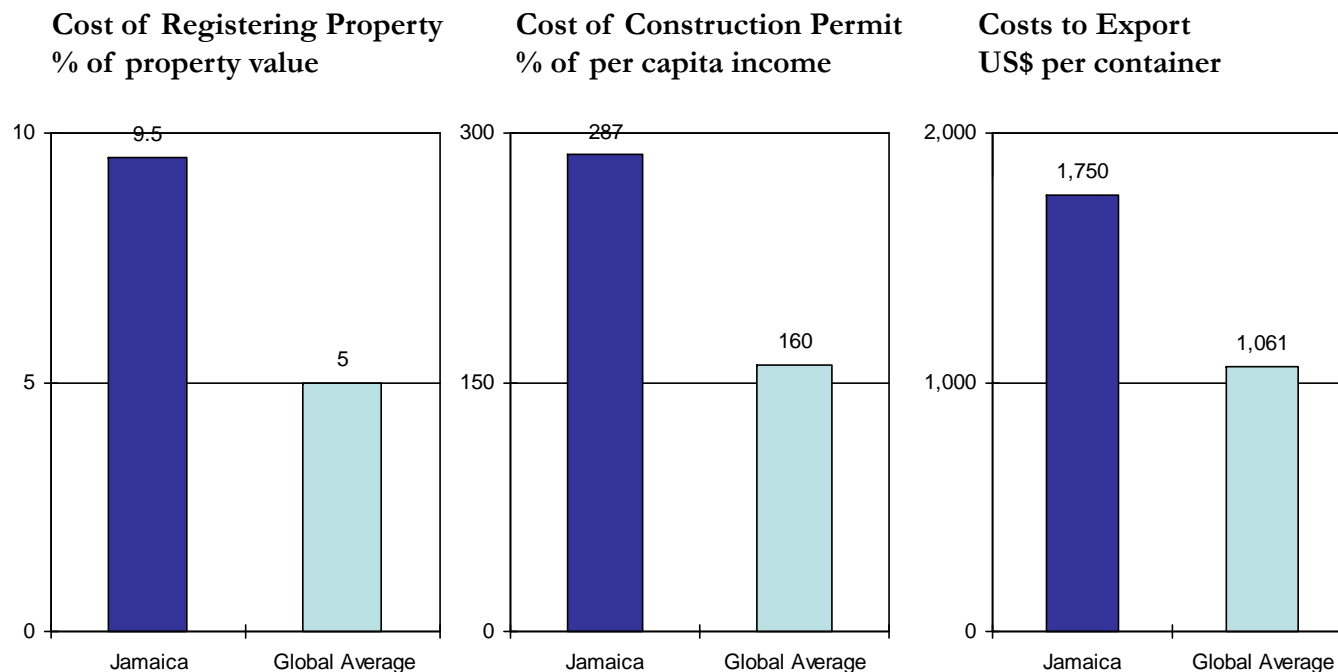
Reform tax administration (cont'd)

- Overhaul interest/penalties regime and rules relating to assessments, objections and appeals to encourage compliance, particularly among the informal sector
- Impose tougher non-financial penalties for non-compliance including the imposition of custodial sentences for tax fraud
- Implement detailed reforms in relation to investigations, audit, collection and enforcement processes
- Review procedures at Jamaica Customs in order to streamline customs clearance processes and minimize opportunities for evasion

Create and Enabling Legal and Regulatory Environment

It's cumbersome and expensive to do business

Regulatory and legal systems, make it difficult and expensive for businesses to operate and create jobs. In Jamaica, it's 50% more expensive to register property, get a construction permit and export a container than in the average country



Create an Enabling Legal and Regulatory Environment

The inefficiency and complexity of Jamaica's legal and regulatory systems are major impediments to private sector led economic growth and job creation

- Cumbersome and antiquated regulatory and bureaucratic systems increase the cost of doing business
- Ad hoc and opaque processes have led to complex and inefficient webs of laws and regulations that deter investment
- Current, legal and regulatory environment increases the costs of formality and contributes to the size and rate of growth of the informal sector

An enabling legal and regulatory environment can be achieved by comprehensive reform of regulatory and bureaucratic processes and the implementation of reforms designed to increase access to capital

Create an Enabling Legal and Regulatory Environment (cont'd)

Implement Comprehensive Regulatory and Bureaucratic Process Reform

- Implement sunset provisions for regulations
- Implement Alternative Commercial Dispute Resolution legislation
- Amend bankruptcy law
- Target reductions in key metrics including time, cost and number of procedures required to:
 - Register businesses
 - Resolve commercial conflicts
 - Hire and terminate employees

Create an Enabling Legal and Regulatory Environment (cont'd)

Increase Access to Capital

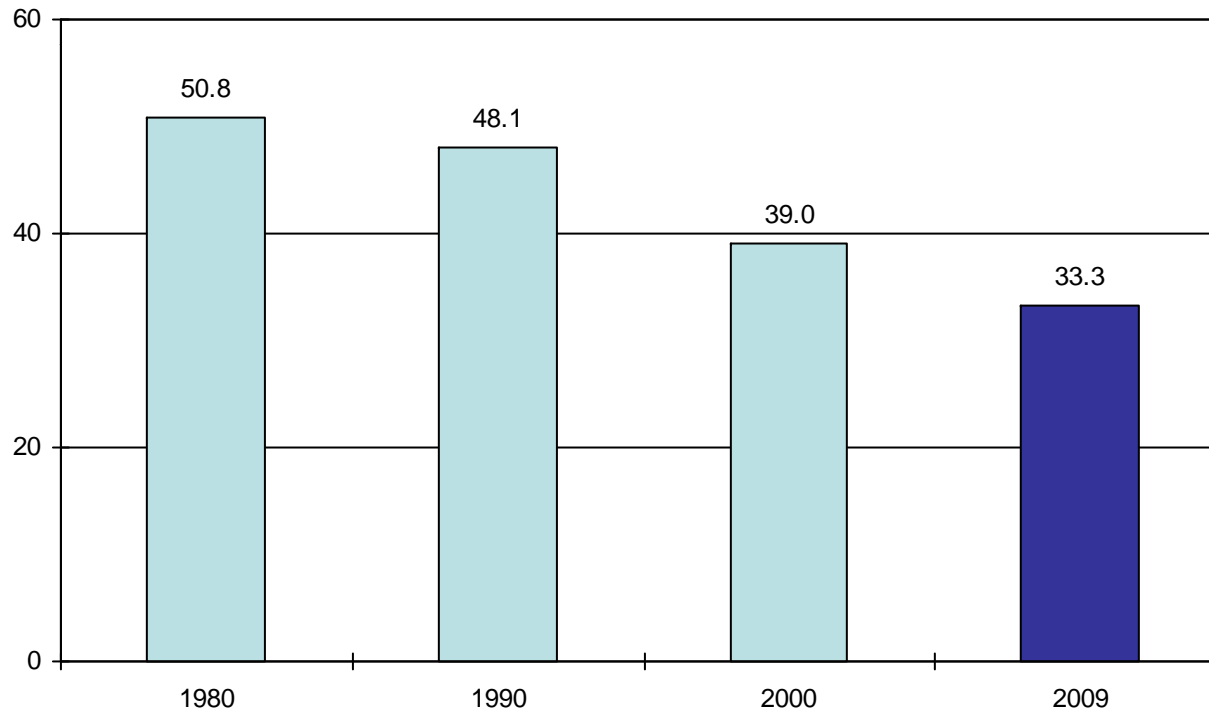
- Reform collateral framework
- Implement credit bureau legislation
- Reform land titling
- Lower capital requirement regulations on non-GOJ assets

Reform Industrial, Trade and Investment Promotion Policy

We export a lot less than we did before

Exports have declined dramatically from 50% of our economy in 1980, to 30% of our economy in 2009.

Exports, % of GDP

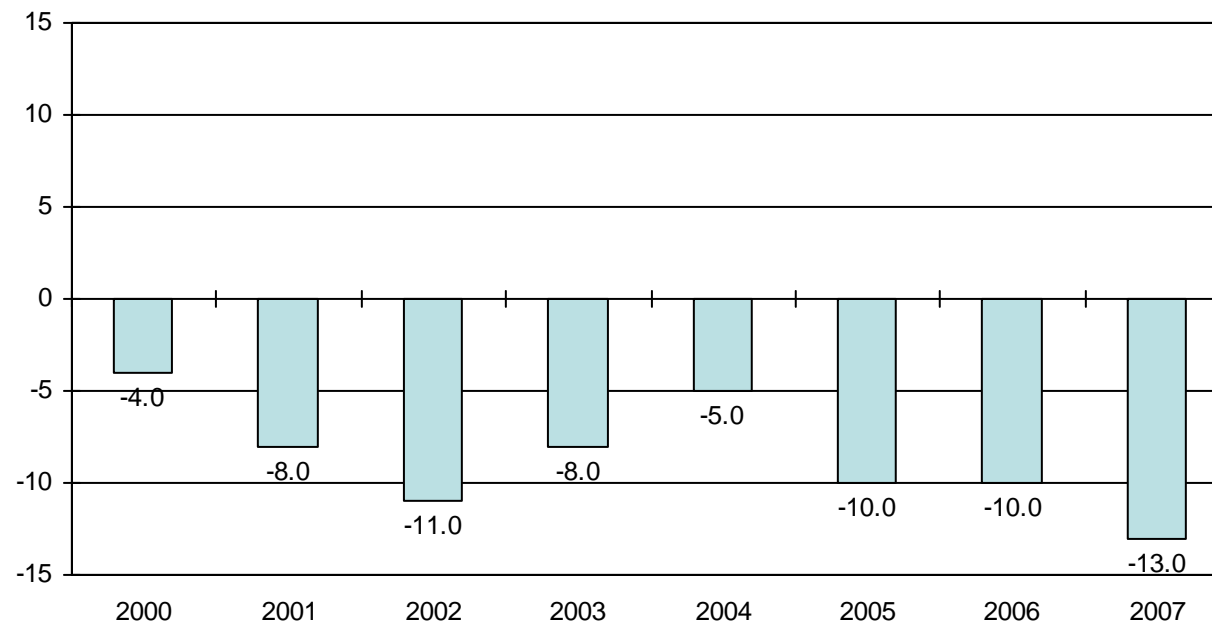


Source: Economist Intelligence Unit

We are a debtor to the world

We import more than we export, even including services like tourism as exports. That difference has ballooned in the last decade. The last time we exported more than we imported was 1994.

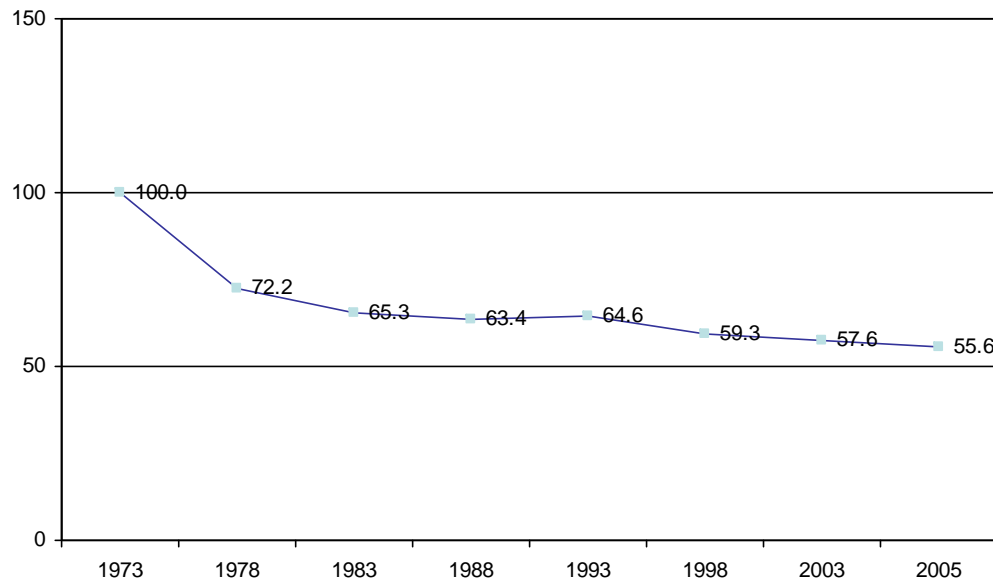
Current account deficit, % of GDP



Productivity is a big reason why we export less

Our total productivity, including both labour and capital investments, have declined by an average of 1.8% per year since the early 1970s. This during a period that saw the fastest rate of innovation in human history including the spread of the personal computer and the Internet.

Total Factor Productivity
(Index=100 in 1973)

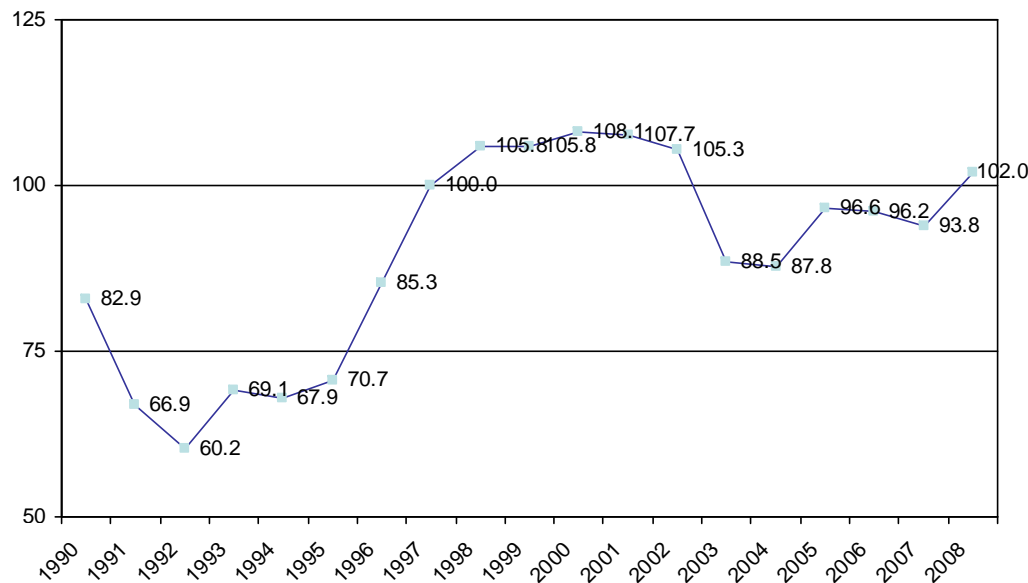


Source: Jamaica Productivity Summary Report, 1972-2007

Exchange rate policy has made us less competitive

Our exchange rate has actually strengthened against the USD, when inflation is considered. This has made it harder for our exports to compete with goods and services made in our countries.

Real Exchange Rate, CPI Based
(Index=100 in 1997)



Reform Industrial, Trade and Investment Promotion Policy

Jamaica's inability to increase the technical capacity of its exports has limited its economic growth

- For decades Jamaica has seen little change in its export basket
- At the same time, exports have declined as a share of GDP
- The technical intensity or value added of Jamaica's exports is declining
- While FDI has been high, it has almost exclusively taken place in mature industries
- As a result, total factor productivity in Jamaica is declining
- The inability to create emerging export sectors is a constraint to high levels of economic growth and employment

The underdevelopment of MSME's has limited economic growth, employment and innovation

Reformed industrial, trade and investment promotion policy should be pro active, targeted, firm centric and coordinated at the highest levels of government

Such a policy can maximize economic growth and employment if it focused on high value added exports, critical industries and the development of MSMEs

Reform Industrial, Trade and Investment Promotion Policy

Reinvigorate Industrial Policy

- Target high value added export sectors with sustainable competitive advantages
 - Value added segments of mature sectors such as Tourism, Agriculture and Manufacturing
 - Emerging Sectors such as ICT
 - Copyright Sectors such as Sports and Entertainment
- Facilitate linkages of large capital investments to domestic firms including MSMEs

Reform Industrial, Trade and Investment Promotion Policy

Reform Investment Promotion

- Make investment promotion pro active and firm centric
- Supervise and coordinate investment promotion at Cabinet level and with involvement of industry representatives
- Resist financial incentives as opposed to infrastructure and training incentives and subsidies
- Align training with needs of prospective investors
- Increase the number and capacity of overseas investment promotion missions in key regions
- Leverage “Brand Jamaica”

Reform Industrial, Trade and Investment Promotion Policy (cont'd)

Target MSMEs

- Expand micro, small and medium enterprises lines of credit available through local Development Finance Institutions (eg EXIM, DBJ)
- Develop mutual guarantee fund
- Stimulate venture capital and other equity financing markets for MSMEs
- Establish business incubator for micro and small enterprises
- Implement national programmes for training and mentoring of entrepreneurs

Reform Industrial, Trade and Investment Promotion Policy (cont'd)

Reform Trade Policy

- Challenge clear violations of trade agreements and impose countervailing tariffs
- Allow all stakeholders to play an active role in establishing negotiating priorities and objectives through meaningful consultations
- Tap donor funded trade capacity-building programmes to assist companies in reaping the full benefits of export opportunities
- Negotiate trade adjustment assistance to help employees and businesses who have been displaced by the implementation of trade agreements
- Commence USA Caricom trade negotiations
- Strengthen and fully implement freedom of labour in Caricom
- Establish a trade database to support effective trade negotiations

Reform Industrial, Trade and Investment Promotion Policy (cont'd)

Lower Energy Costs

- Implement a competitive legal and regulatory framework for generation and distribution
- Phase out existing high cost supply with mandatory deadlines
- Diversify energy supply by investing in required infrastructure for natural gas and other cost effective fuel sources and setting mandatory targets for renewable capacity
- Preserve Petrocaribe