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**THE IMPACT OF TRADE LIBERALIZATION ON
GOVERNMENT FINANCES IN JAMAICA**

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EXECUTIVE SUMMARY AND MAIN FINDINGS

The objective of this study is to examine the effects of trade liberalization and the fluctuations of commodity prices and income from services on public finance in Jamaica. The assessment is divided into two main periods: (a) the 1980-90 period and (b) the 1991-99 period. The first of these two periods is the phase leading up to the liberalization programmes and the second phase includes the period where most of the major liberalization activities took place. The main initiatives taken from 1991 were:

- The implementation of the various phases of the Common External Tariff (CET);
- The elimination of the Jamaica Commodity Trading Company (JCTC) which was a public monopoly importer of commodities;
- The implementation of the General Consumption Tax (GCT) and Special Consumption Taxes;
- The revision of the Motor Vehicle Import Policy to facilitate the importation of new vehicles.

It is important to note that the liberalization process had started in Jamaica prior to 1991 (as early as 1980) with other initiatives, such as:

1. Movement from a fixed to a market determined exchange rate;
2. Removal of items requiring import or export licences from the “Restricted Goods List”;
3. The removal of import licences and quotas;
4. Introduction of the Tariff Reform Programme to reduce the bureaucracy that acted as an impediment to international trade.

For each of the two periods mentioned above, this report examines the following issues:

- Prevailing macroeconomic conditions;
- Trade and fiscal reforms;
- The importance of trade tax revenues;

- Administrative costs of trade taxation;
- Quotas and other non-tariff barriers;
- New taxes to compensate for losses of revenue due to liberalization;
- Tariff reduction scheduling;
- The extent to which there is a dependence on commodity export revenues and revenues from the export of services;
- The effect of commodity and services booms/busts on government revenues and expenditures;
- The volatility of government finances and fluctuations of commodity prices and revenues from services.

Main findings

1980-90: Macroeconomic conditions

In 1980-81, the new Jamaica Labour Party (JLP) Government determined that deregulation and structural adjustment of the Jamaican economy were the policy means by which additional exports, particularly to hard currency countries, would be achieved. The Government was committed to tight fiscal and monetary policies, including proposals to strengthen fiscal control on a day-to-day basis. However, the objective of reducing the fiscal deficit was not achieved as the deficit increased from \$702.4 million in 1979-80 to \$1.039 billion in 1980-81. It is worth noting that the budget deficit fell from then onwards and that surpluses were registered in 1987, 1989 and 1990. There was an intervening large budget deficit of \$1.18 billion in 1988 caused mainly by the effects of: (a) Hurricane Gilbert; and (b) pre-election spending.

GDP performance: The sluggish performance of the economy in the first half of the 1980s, when real GDP growth fell from 4 per cent in 1981 to 1985, was attributed to the impact of the poor performance of the international economy on bauxite/alumina and tourism. The International Monetary Fund (IMF) guided Structural Adjustment Programme also dampened aggregate demand and GDP growth. Positive growth returned in the second half of the 1980s.

Inflation: Inflation fluctuated during the 1980s, starting from 28.2 per cent in 1980, falling to 6.5 per cent in 1982 and returning to 27.8 per cent in 1984. After falling to less than 10 per cent in 1987-88, it was measured at 22 per cent in 1990. Trends in exchange rate movement and monetary expansion showed strong correlation with inflationary trends.

Exchange rate: The exchange rate is a variable that receives more attention in Jamaica than any other macroeconomic variable. This is probably reflective of the import dependency of the economy and the shortage of foreign exchange that the country has faced

since the 1970s. The exchange rate was fixed at J\$1.78=US\$1 from 1980-84 but depreciated continuously to reach J\$7.18=US\$1 in 1990.

Interest rates and money supply: Interest rates increased dramatically during the 1980s; the average T-Bill rate was 9.97 per cent in 1980, but reached 26.21 per cent in 1990 mainly because of the tighter demand management strategy, implemented by the government. However, it is interesting to note that monetary growth (M1) moved from 6 per cent in 1980 to 27 per cent in 1990.

Fiscal performance: The government budget was in deficit up to 1986, then recorded surpluses in 1987 and 1989-90, which reflected the impact of tight fiscal measures on the expenditure side and tax reforms.

National Debt: Both the domestic and external debt increased significantly during the 1980-90 period. Domestic debt was J\$2.44 billion in 1980 and J\$9.97 billion in 1990, while the external debt had increased from US\$1.8 billion in 1980 to US\$4.12 billion by 1990. The debt service ratio rose from 17 per cent in 1980 to 31.5 per cent in 1990.

Other macroeconomic variables: Both gross national savings and gross capital formation increased significantly during the 1980's. Unemployment fell significantly during the period from a measured 27.4 per cent in 1980 to 15.4 per cent in 1990.¹

1991-98: Macroeconomic conditions

In 1991 the Jamaica Government deepened the structural adjustment process and several major liberalization initiatives were introduced including: the implementation of the CET, the elimination of subsidies, the introduction of the GCT, the liberalization of exchange control, wide-scale removal of price controls, and the acceleration of the privatization process. While undertaking these reforms, a tight demand management programme was retained.

GDP performance: The economy grew marginally in 1991 and continued to grow slowly until 1995. However, the economy has recorded negative growth in each year from 1996-98. The Government has come under major criticism for continuing with its "stabilization model" because it is thought that growth is being sacrificed on the altar of so-called stability.

Inflation: The major liberalization initiatives certainly impacted the inflation rate in 1991 when it soared to 80.2 per cent.² Inflation fell in every year since 1991 and reached 7.9 per cent in 1998; the Government identifies this as one of their greatest achievements and maintains that this provides the basis for growth.

Exchange rate: The exchange rate has continued to be one of the focal points in the economy. It depreciated from J\$7.18=US\$1 in 1990 to J\$12.85=US\$1 in 1991 as a result of all the liberalization initiatives and the resultant speculation against the currency. The rapid depreciation trend continued until 1994 when the exchange rate reached J\$33.35=US\$1. It

¹ There was no information to suggest that this substantial change was due to different measurement approaches, etc.

² Note that this is point to point inflation.

stabilized after this point and averaged J\$36.68=US\$1 in 1998. Since the beginning of 1999, the depreciation trend has picked up and the rate is now J\$39.10=US\$1.

Interest rates and money supply: Interest rates continued their meteoric rise since 1991 with the average T-Bill rate reaching 43 per cent in 1994 before “oscillating” its way back to 25.7 per cent by 1998. Money supply (M1) growth reached 97 per cent in 1991 but fell steadily to reach 5.9 per cent in 1998 – in line with the Government’s commitment to control inflation and maintain rates comparable to those experienced by major trading partners.

Fiscal performance: The Government budget remained in surplus from 1991 to 1993 but since then it moved into massive deficits.

National Debt: The external debt position improved during the 1991 to 1996 period and has risen slightly since then. However, there has been a remarkable substitution of domestic debt for external debt leading to the domestic debt increasing from just over J\$10 billion in 1991 to over J\$121 billion in 1998. As a result of the fall in the external debt component, the debt service ratio fell from 26.7 per cent in 1991 to 16.8 per cent in 1997.

Other macroeconomic variables: Both gross national savings and gross capital formation increased between 1991 and 1998, while unemployment remained stable at about 15.4 per cent during the period.

The financial sector fallout

Perhaps the most dramatic occurrence of the 1991-1998 period has been the collapse of the indigenous banking sector. After recording record growth rates up to 1995, 1996 saw the start of a major fallout in the indigenous segment of the financial sector.³ Apart from Trafalgar Commercial Bank, a very new and small indigenous commercial bank, the Government has taken full or partial control of all the others which have either been closed down, merged or are in serious liquidity crises. The Government has set up an entity called Financial Sector Adjustment Company (FINSAC) to manage and restructure the assets and liabilities of these failed institutions. Foreign Banks⁴ adopted a more conservative strategy and managed to survive with healthy profits and expanded customer bases.

1980-90: Trade and tariff reforms

The new JLP Government of 1980 was determined to deregulate the Jamaican economy, given that the web of import licensing and quotas in operation since the 1970s did not

³ In 1995 there were eight indigenous commercial banks operating in Jamaica – National Commercial Bank (NCB), Mutual Security Bank (MSB), Citizens Bank (CB), Workers Bank (WB), Century National Bank (CNB), Eagle Commercial Bank (ECB), Island Victoria Bank (IVB) and Trafalgar Commercial Bank (TCB). Since then NCB and MSB merged and have run into trouble requiring massive Government support; CNB was closed down; CB, WSLB, ECB, and IVB have been merged into a single bank called Union Bank of Jamaica.

⁴ Foreign banks operating in Jamaica are Bank of Nova Scotia, CIBC, and Citibank.

solve the problem of a chronic shortage of foreign exchange. They embarked on a series of initiatives, including the following:

1. Between 1982 and 1984, some 180 items were removed from the Restricted Imports List;
2. In 1984 import licensing and quota requirements were removed on all but a small number (76) of items, for strategic, social and economic reasons – to be replaced by tariffs. CARICOM imports were exempt from these additional duties as in July 1984, CARICOM governments decided that additional tariffs should be imposed on third country imports as a means of encouraging intraregional trade;
3. In 1987 the Government implemented a four-year trade reform programme aimed at reducing the bureaucratic obstacles to international trade by simplifying the duty system and its administration, increasing transparency of the regime, and reducing scope for discretionary actions in granting quotas;
4. The rules governing the importation of motor cars were relaxed with the implementation of the Motor Vehicle Importation Policy in July 1990;
5. In continuing the Tariff and Trade Reform Programme, in January 1990, Jamaica proposed to remove quantitative restrictions on imported agricultural produce and replace the then current system of protective additional stamp duties with aggregate tariffs.

1991-98: Trade and tariff reforms

Trade and tariff reforms continued and the following initiatives were implemented during the 1991-99 period:

1. In 1991, Phase I of the CET was implemented;
2. The public import monopoly of the JCTC was eliminated in 1991, thus ending a practice of excessively constraining imports of some goods, like automobiles, and using monopoly profits to subsidize imports of agricultural commodities;
3. On 22 October 1991, the GCT was introduced. The GCT is a value-added tax levied on goods and services, at that time the rate was 10 per cent. It was then increased to 12.5 per cent and has been at 15 per cent for the last three years;
4. There were also changes in the Motor Vehicle Import Policy in 1992, allowing the rate on used cars to be generally lower than on new ones;

5. Phase I of CET reductions was implemented on 1 April 1993;
6. Phase II of CET reductions was implemented on 1 January 1995;
7. Phase IV was slated to be introduced on 1 January 1998, but due to problems with synchronizing the structure of the CET with the Harmonized Commodity Description and Coding System, Jamaica had to delay the implementation;
8. The Final Phase of CET reductions was implemented on 1 January 1999 (moving straight from Phase II to IV).

The importance of trade tax revenues, 1980-98

During the 1980-90 period, international trade taxes accounted for between 24-29 per cent of total tax revenues, which is a significant percentage. These taxes accounted for 18-23 per cent of total government revenues and 4.8-8.1 per cent of GDP, which underscores their importance.

The importance of international trade taxes did not decline after the implementation of the major liberalization programme. In 1997 these taxes accounted for 30 per cent, 26 per cent and 8 per cent of total tax revenues, total government revenue and GDP, respectively.

Though not accounting for as great a percentage of government revenues as in the Organization of Eastern Caribbean States (OECS) countries or Belize (before it implemented the CET in 1996), these taxes have proved to be much more important to Jamaica than to Trinidad and Tobago, Barbados and Guyana.

Administrative costs of international trade taxes

Throughout the 1980-98 period, these costs have never exceeded 6 per cent of international trade tax revenues and averaged 3 per cent for the period 1980-90 and 2 per cent for the 1991-98 period. This does not mean that these costs are insignificant in terms of their absolute dollar value but they are minimal compared to the revenue generated.

Liberalization of quotas and other non-tariff barriers and the impact on imports

The removal of quotas and non-tariff barriers would definitely have made it easier to import and thereby reduce the transactions and other costs associated with doing so. However, these quotas were replaced by tariffs which, in addition to a tighter demand management policy and severe exchange rate depreciation, worked to dampen imports at least in the short run. During the 1982-86 period when quotas and licences were being removed, the

United States dollar (US\$) value of imports declined. However, the US\$ value of imports increased between 1987-90.

Most of the process of removing quotas and licences had taken place by 1990 so there would be no additional impact on import expected after this. In 1989-90, export procedures were also simplified in the areas of certification, documentation, and export licences. Only 17 items remain on the Restricted Export List. There were no cases where export taxes are charged; the levy charged to bauxite companies is a production-based charge.

New measures adopted to compensate for losses due to liberalization

During the 1980-90 phase when the preparatory work for liberalization was being carried out and some aspects implemented, the Government tried several new revenue-generating measures. These included the following:

- Application of ad valorem excise duty rates in order to collect more as prices rose;
- The introduction of a campaign to collect tax arrears;
- The improvement in the effectiveness of the tax collection mechanism;
- The reforming of personal and corporate income taxes to simplifying the computation as well as broaden the tax base; and
- The reduction of subsidies.

In the 1991-98 period, the major new measure adopted was the introduction of the GCT. The GCT is levied on imports after duties have been charged; it has therefore been very effective in compensating for the reduction in tariff rates and other liberalization initiatives. Other new initiatives that have been implemented include:

- The use of special consumption taxes on highly demand inelastic items such as petroleum products, cigarettes and alcohol;
- Special taxes on the financial sector;
- The establishment of Tax Courts to encourage greater compliance; and
- The introduction of a Tax Registration Number (TRN) to broaden the tax base.

Tax compliance and the informal sector

The following factors suggest that compliance is still relatively low and that the informal sector is relatively large:

- Less than 50 per cent of Jamaican adults have a TRN, which suggests that many are still in the informal sector;
- Less than 20 per cent of firms in the wholesale and retail sector paid GCT in 1998. This suggests a low compliance rate and a large informal element;
- There are approximately 950,000 employed workers in Jamaica but in 1998 only 350,000 paid income tax. Once again this suggests a low compliance rate and a strong informal sector element.

Fiscal dependency on commodity export revenues and export of services

In this section of the analysis, an attempt has been made to estimate the importance of Jamaica's main export commodities and services to government revenue. The main non-agricultural export commodity is bauxite/alumina, the other major export commodities are agricultural, namely, sugar, bananas, coffee, cocoa, citrus, and pimento. The main service export is tourism.

The analysis showed that:

- There has been a strong fiscal dependence on the bauxite/alumina industry whose net foreign exchange earnings accounted for 9 per cent, 7 per cent, and 6 per cent of Jamaica's foreign exchange earnings in 1980-85, 1986-91, and 1992-97, respectively. Since 1980, the fiscal dependence on this industry has declined to the extent that total levies and taxes only accounted for 5.5 per cent of total government revenue in 1998 compared to 33.7 per cent in 1980. However, this industry is still very important to the country's fiscal position;
- Sugar is the most significant of the agricultural products, with the value of exports ranging between 1.5-2.7 per cent of GDP since 1980. It has been estimated that the industry has contributed between 1-2 per cent of total tax revenue since 1980, which has not changed despite fluctuations in the price of sugar over the years;
- The export earnings from other agricultural export products have typically accounted for less than 1 per cent of GDP and taxes have accounted for much less than 1 per cent of total tax revenues;

- As expected, the analysis shows that tourism has been a very important industry to the Jamaican economy. Tourism expenditure averaged 15 per cent of GDP in 1980-90 and 23 per cent from 1991-97. In terms of tourism's importance to government revenue, it is estimated that tourism accounted for an average of 9 per cent of total tax revenue in 1980-90 and 13 per cent from 1991-98.

The findings of this study reveal that international trade taxes are very important to the government's revenue. In addition, the study has shown that liberalization of the economy did not have a negative impact on government revenue because as tariff rates fell, imports increased and more duty was collected. Furthermore, the GCT, introduced in 1991 (and charged on imports after duty), more than compensated for any losses in revenue due to lower tariff rates.

The study also shows that tourism and bauxite/alumina are very important contributors to GDP and government revenue. Agricultural export products individually do not account for significant proportions of GDP or government revenue, but in aggregate are quite important.

INTRODUCTION

The objective of this study is to examine the effects of trade liberalization and the fluctuations of commodity prices and income from services on public finance in Jamaica and is structured as follows:

- Introduction
- Macroeconomic conditions 1980-90
- Trade and fiscal reforms 1980-90
- The importance of trade tax revenues 1980-90
- Liberalization quotas and other non-tariff barriers and their effect on imports 1980-90
- New measures adopted to compensate for losses due to liberalization 1980-90
- Macroeconomic conditions 1991-99
- Trade and fiscal reforms 1991-98
- The importance of trade tax revenues 1991-98
- Liberalization quotas and other non-tariff barriers and their effect on imports 1991-98
- New measures adopted to compensate for losses due to liberalization 1991-98
- Tax compliance and the informal sector
- Administrative costs of international trade taxes 1980-98
- The impact of export commodity prices and income from service exports on government revenue 1980-98

MACROECONOMIC CONDITIONS 1980-90

The macroeconomic conditions facing the new Jamaica Labour Party of 1980 were those inherited from the Michael Manley-led People's National Party which ruled throughout most of the 1970s. Real GDP declined by 18.3 per cent during the 1973-80 period. Due to the restrictions on imports, the volume of consumer and consumer-related imports contracted. The average rate of inflation was 27.1 per cent for the 1973-80 period. The new Government faced a shortage of foreign exchange and a serious fiscal deficit. The shortage of foreign exchange was exacerbated by the outgoing Government's decision to discontinue negotiations with the IMF. The economic position was made worse by the following factors:

- A general lack of confidence in the economy among investors;
- Industrial unrest and lost production;
- The effect of pre-election violence; and
- The impact of Hurricane Allen.

In the 1980-81 period, the Government was committed to tight fiscal and monetary policy including proposals to strengthen fiscal control on a day-to-day basis. However, the objective of reducing the fiscal deficit was not achieved as the deficit increased from \$702.4 million in 1979-80 to \$1.039 billion in 1980-81. It is worth noting that the budget deficit fell from then onwards and that surpluses were registered in 1987, 1989 and 1990. There was an intervening large budget deficit of \$1.18 billion in 1988, which was attributable mainly to reconstruction undertaken in the aftermath of Hurricane Gilbert and to pre-election spending.

Some of the revenue side measures used by the Government to reduce the deficit included:

- The introduction of measures to increase the efficiency and effectiveness of tax collection;
- The use of ad valorem taxes to increase revenues in line with prices;
- The maintaining of the local price of petroleum products despite falling world oil prices;
- The collection of arrears;
- The imposition of additional stamp duties; and
- The introduction of taxes on interest income.

On the expenditure side, measures included:

- Reducing the share of expenditure on social and community services;
- Reduction in expenditure on the capital account;
- Debt rescheduling;
- Reducing the size and cost of central government administrative operations;
- Reducing subsidies on basic food items;
- Reducing subsidies to public enterprises.

Main macroeconomic highlights

Real GDP growth fell from close to 4 per cent in 1981 to –4 per cent in 1985. This sluggish performance in GDP was attributed to the poor performance in the international economy, which hit the bauxite/alumina industry particularly hard. The sector registered a negative growth rate of 30 per cent during the 1981-82 period and continued to perform poorly into 1985. The performance of the tourism sector was not very strong during the first half of the decade. However, the value of non-bauxite domestic production increased. The requirements of agreements with the IMF and The Structural Adjustment Programme funded by World Bank Loans were thought by some to have reduced aggregate demand and affected GDP adversely up to 1985. Others thought these agreements provided the stabilization required as a precursor to growth⁵.

IMF and World Bank programmes and policy responses 1980-84

After breaking off negotiations with the IMF in 1980 for a one-year stand-by facility, Jamaica negotiated a three-year Extended Fund Facility (EFF) Agreement with the IMF, in 1981, to support a three-year Economic Recovery Programme. Jamaica met the performance criteria in 1982 after the first year of the EFF Agreement and new targets were established. On the fiscal side the main targets were:

- A reduction of the overall deficit and progress towards a surplus on the current account by the end of fiscal year 1983-84;
- A reduction of net credit to the public sector from the domestic banking system.

Apart from the tight monitoring and control of government spending and the more efficient application of the tax collection mechanism, it was necessary for the Government to

⁵ Macroeconomic stability is necessary for the resumption of growth in the economy.

maintain adequate inflows of foreign loans in the wake of the downturn in the bauxite/alumina sector, which had previously provided over 50 per cent of foreign exchange earnings.⁶

In late 1983, the EFF Agreement with the IMF was suspended because of Jamaica's failure to meet certain performance criteria relative to its net international reserves (NIRs) and net domestic credit. The accelerated decline of the bauxite/alumina sector and the global economic recession (with developed countries becoming more protectionist) were considered to be the main factors behind these results. In 1984, the Government was forced to introduce more stringent adjustment measures with the focus on:

- Reducing the balance of payments deficit of US\$289M, which had risen to 11.9 per cent of GDP; and
- Reducing the fiscal deficit which had risen to close to 17.7 per cent of GDP.

In order to achieve these objectives, tighter fiscal and monetary policies were introduced. In addition, the exchange rate policy was shifted from a fixed to a market-determined rate.

To support these fiscal and monetary policy measures, structural adjustment measures relating to production and employment were stepped up. Structural Adjustment Loans were provided by the World Bank to support these initiatives, aimed at increasing the number of export-oriented activities in agriculture and industry and to deregulate the economy.

By the end of 1984 the economy had responded positively to the policy initiatives and the fiscal deficit had fallen from 17.7 per cent to 7.2 per cent of GDP and the balance of payments position had reversed from a deficit of US\$289M to a surplus of US\$225M. The exchange rate depreciated significantly during the year, and real GDP growth was slightly negative.

From 1985-1990, real GDP growth returned to being positive with a high of over 5 per cent in 1987. During the 1985-1990 period, factors affecting growth positively included: buoyancy in tourism and significant declines in the price of oil. However, growth was dampened to some extent by floods in 1986 and Hurricane Gilbert in 1988.

Inflation 1980-1990

In the 1980-82 period, inflation fell from 29 per cent to 6.5 per cent but returned to the 1980 levels in 1984 and 1985. The inflation rate was influenced by a significant depreciation of the Jamaican currency from J\$1.78=US\$1 in 1980-83 to J\$3.94=US\$1 and US\$1=J\$5.56 in 1984 and 1985, respectively. The Money Supply (M1) increased gradually between 1980 to 1984 but increased dramatically between 1984 and 1985, which was correlated with the increased inflation in these years.

Inflation was in single digits in 1987-88 but reached 22 per cent in 1990. The Money Supply continued to increase over the period and nearly tripled between 1985 and 1990. The exchange rate remained quite stable between 1985 and 1989 but depreciated by nearly 25 per

⁶ The analysis of the bauxite/alumina sector later in this report outlines how the fiscal dependency on the sector has changed since 1980.

cent between 1989 and 1990, which was about the same time that inflation increased once again. The six-month T-Bill rate was 9.97 per cent in 1980, ranged between 12-20 per cent between 1983 and 1989, but rose to over 26 per cent in 1990 as the authorities tried to protect the exchange rate.

The fiscal balance which was in deficit up to 1986 turned positive in 1987 in response to favourable movements in oil prices, the tax reform programme and the control of government spending. A large deficit was reported again in 1988, mainly attributable to the impact of Hurricane Gilbert and pre-election spending as the JLP Government tried to get its third consecutive term in office (which it failed to do). There were fiscal surpluses in 1989 and 1990 as the tight fiscal measures of the mid-1980s were resumed, with the implementation of measures such as the continued improvement in public expenditure management and the elimination of price intervention and subsidies.

In terms of real GDP and inflation, macroeconomic performance at the beginning of the 1980s was very similar to values at the end (see table below), despite fluctuations during the period. However, during the period other macroeconomic indicators changed as a result of significant currency depreciation. The money supply growth rate increased dramatically, interest rates and public debt increased significantly and the fiscal deficit was eliminated and replaced with a large surplus. In addition, unemployment fell dramatically over the period, from 27.4 per cent in 1980 to 25 per cent in 1985 and then to 5.4 per cent in 1990.⁷

Variable	1980	1985	1990
Real GDP growth	3.7%	-4.5%	3.8%
Inflation	29.0%	23.4%	29.8%
Unemployment rate	27.4%	25.0%	15.4%
Exchange rate	J\$1.78=US\$1	J\$5.56=US\$1	J\$7.18=US\$1
Money Supply Growth	6%	42.4%	27.0%
T-Bill Rate	9.97%	19.0%	26.21%
Fiscal deficit	(J\$205m)	(J\$648m)	J\$2,377m
Foreign Debt Service/Export Ratio	17.0%	18.8%	31.5%
Domestic Debt	J\$2.44b	J\$6.73b	J\$9.97b
Gross Capital Formation	J\$747.5m	J\$2,803m	J\$8,506.5m
Gross National Savings	J\$476m	J\$1,491m	J\$5,241.6m
External Debt	US\$1.8b	US\$3.4b	US\$4.12b

Sources: Statistical Institute of Jamaica data (1980-90), Planning Institute of Jamaica – Economic and Social Survey of Jamaica (1980-90), Bank of Jamaica Statistical Digest (1980-90)

⁷ Source: Statistical Institute of Jamaica

It can be observed, however, that the external debt service ratio increased from 17 per cent at the beginning of the 1980s, to 18.8 per cent in 1985 and 31.5 per cent in 1990; this was in response to an increase in the external debt from US\$1.8b in 1980 to US\$4.12b in 1990. The domestic debt profile also changed significantly over the period, increasing from J\$2.44b in 1980, to J\$6.73b in 1985 and J\$9.97b in 1990.

Gross capital formation increased significantly over the period 1980-1990. It moved from US\$420m in 1980 to US\$1,185m in 1990. Gross national savings increased from US\$30m in 1980 to US\$75m in 1985, and US\$400m in 1990.

TRADE AND FISCAL REFORMS IN JAMAICA 1980-90

Background

For many years Jamaica maintained an import licensing system, tight quota restrictions and high tariff rates. From as early as the mid-1950s, Jamaica embarked on a massive programme of industrialization, particularly in the area of manufacturing. By 1972, it could be said that the country had created an industrial base, which was assisted in great measure by the inflow of foreign investment. Industrial and agricultural production increased, assisted by “import substitution” strategies including substantial protection of manufacturing through quantitative restrictions.

Falling levels of foreign investment and the oil crisis of 1973 put immense pressure on the country's balance of payments. As a result, by 1974, several items were added to the Restricted Import List, partly with the view of saving foreign exchange and partly with the view of encouraging increased import substitution production. By 1975, all items, including CARICOM goods, with the exception of some 19 groups were placed under import licensing. Import quotas were established for virtually all sector categories from the mid-1970s.

The system of import licensing and quotas did not correct the basic problem that emerged in the mid-1970s - that of insufficient foreign inflows. The system sought to redistribute available foreign exchange, whereas the problem lay in finding ways to increase inflows of foreign exchange. It was this reality that prompted the private sector and the international financial institutions to point out that the import licensing system as a protective device was counter-productive and provided disincentives for the manufacturing and agricultural sectors.

There was a lot of disenchantment with the import quota systems, especially from the private sector. They advocated the abandonment of import licensing and quotas, and their replacement by a system of tariffs to protect the local industries. The new Government of 1980 faced the challenge of liberalizing an economy that had become increasingly protectionist. This had to be achieved while rekindling growth and eliminating fiscal deficits.

Change in industrial policy: The process of deregulation

In 1981, the new JLP Government determined that deregulation and structural adjustment of the Jamaican economy were the policy means by which additional exports, particularly, to hard currency countries, would be achieved. Furthermore, the policy of pure import substitution would be replaced by export orientation, through the achievement of efficiency and greater competitiveness in the world market. Studies were conducted in the manufacturing sector to determine its competitiveness. Three major factors emerged:

- Obsolete and under utilized installed machinery and equipment;
- Inability to compete because of an unfavourable exchange rate;
- Excessive protectionism in the domestic market.

To deal with the obsolete machinery, agreements were reached with the World Bank, and a Structural Adjustment Loan and Rehabilitation Fund was established to assist in funding producers to update or replace machinery and equipment.

To deal with the unfavourable exchange rate, a formalized parallel market was introduced in 1983, whereby each commercial bank determined its own rate on a daily basis.

Phased removal of items from the Restricted List of Imports

To deal with excessive protectionism, there would be a phased removal of the vast majority of the items from the Restricted List of Imports between 1982 to 1987. Between 1982 and 1984, some 180 items were removed from the Restricted List. The Government, however, had committed that deregulation of imports would be accompanied by additional tariff imposition, removal of import licensing and quantitative restrictions to maintain a measure of protection for the domestic industry. This tariff imposition was to have been based on a detailed “Comparative and Incentive Study” of local manufacturing which, however, would not be ready before the end of 1985.

Imposing tariffs on imports at this stage arose out of the delay in obtaining scientifically derived information as a guide to arrive at the efficient levels of tariffs required to adequately provide both protection for local manufacturers and incentives to exporters to hard currency markets. This, in addition to the impending removal of 60 additional items from import licensing, was likely to create some difficulties and dislocations. Additionally, because of the fall in expected total revenue from the downturn in mining revenues, it was critical that the Government created new ways to derive equivalent revenues.

In 1984, the Government decided to accelerate the deregulation programme, by almost totally removing import licensing and quota requirements, except for a small number (76) of items, for strategic, social and economic reasons, and to impose additional tariffs immediately.⁸

In early 1985, in order to reduce the fiscal deficit, Government announced an imposition of additional Stamp Duty as follows:

- 10 per cent extra on Imported Raw Materials which makes the duty 16 per cent;
- 20 per cent extra on Capital Goods, which sums the duty to 30 per cent; and
- 30 per cent extra on consumer goods which brings that up to 40 per cent.

CARICOM imports were exempt from these additional duties, as in July 1984 CARICOM Governments decided that additional tariffs should be imposed on third country imports, as a means of encouraging intraregional trade.

Exporters to the hard currency areas were exempted from the 16 per cent stamp duty payable on raw material imports. CARICOM exporters were not eligible for such an exemption. In order to rationalize the importation of motor vehicles into the country, a cess of J\$4,000 was imposed on each unit imported by returning residents.

The above discussion shows that the liberalization of the economy, in conjunction with the protracted decline in the international bauxite/alumina industry contributed to a shortfall in revenue. As a result it can be seen that the Government was forced to impose additional stamp duties in order to generate additional revenue. In fact, customs revenues increased from J\$4.1 billion in 1985 to \$5.96 billion in 1996, a 43 per cent increase, which suggests that that these additional stamp duties are likely to have had an effect.⁹

⁸ The items remaining on the list included fish products, dairy products, maize, rice, animal and vegetable fats, preparations of meat and fish, inorganic chemicals and metals, pharmaceutical products, oil seeds and oleaginous fruit, cannabis and coca leaf, gums and resins, explosives and pyrotechnic products, wood and articles of wood, boilers and certain machinery, vehicles other than railway rolling stock, ships and boats, arms and ammunition.

⁹ The fact that these additional stamp duties are likely to have had an effect is supported by the finding that customs revenue only increased by 6% in the year prior to their imposition (1984) and increased by only 0.3% in 1986.

Average tariffs (%), by economic sector, 1985 – 91

The table below shows the average level of tariffs on various sectors in the economy between 1985 - 1991.

Sector	1985	1987	1989	1991
Whole Economy	N/A	N/A	49.9	20.3
Agriculture	N/A	N/A	53	24.4
Mining	N/A	N/A	43.5	9.6
Manufacturing	N/A	N/A	49.8	20.2
Consumer Goods	10 - 60	40 - 103	58	29.5
Intermediate Goods	5 - 54	16 - 68	50.5	13.4
Capital Goods	10 - 60	30 - 89	24.9	12.1

Source: World Bank Report No. 12702-Jm. A strategy for growth and poverty reduction in Jamaica. Country Economic Memo, 12 April 1998

As seen above, tariffs were high and varied drastically even within the same sector. Not only were there high tariffs, but there existed a wide array of non-tariff barriers, complex customs procedures as well as a large number of exceptions to the general rule.

The Tariff and Trade Reform Programme

In 1987, the Government implemented a four-year trade reform programme, the Tariff and Trade Reform Programme. First, the reform aimed at reducing the bureaucratic obstacles to international trade by simplifying the duty system and its administration, increasing transparency of the regime, and reducing scope for discretionary actions in granting quotas. Both lowering the rates and improving the administration were expected to reduce smuggling, which was estimated to cost the Government considerable revenue. The second goal of the programme was to reduce the overall level of tariffs and rationalize the structure of protection by reducing the widely dispersed rates.

In continuing the Tariff and Trade Reform Programme, in January 1990, Jamaica proposed to remove quantitative restrictions on imported agricultural produce and replace the then current system of protective additional stamp duties with aggregate tariffs. Over the next four years, these tariffs would be phased to levels that would equate them with those under the Common External Tariff (CET).

Jamaica also saw the rules governing the importation of motor cars being relaxed with the implementation of the Motor Vehicle Importation Policy in July 1990. This policy allowed open importation of motor vehicles provided that the C.I.F. value, as well as the relevant duty, were deposited in hard currency at the Bank of Jamaica.

Comprehensive Tax Reform Programme

It is worth noting that in 1987 the Government also started the implementation of a Comprehensive Tax Reform Programme. The Government was faced continually with the challenge of increasing its revenue while liberalizing the economy and facing adverse commodity prices. The Comprehensive Tax Reform was an initiative to deal with this challenge. The programme was guided by four main principles:

1. Neutrality – does not retard the operation of the market economy and having flat rates with few exemptions/allowances;
2. Equitable – protecting low income earners and improving the horizontal equity of the system;
3. Revenue buoyancy – tax revenue must move in proportion with nominal GDP growth;
4. Simple – can be easily administered.

The first phase was the implementation of the simplified income tax calculation of a flat rate over the threshold level, the second phase involved the increase of property tax and improved systems for its collection. The third phase involved the streamlining of Corporate Income tax. The change in the indirect tax structure would be implemented later in the form of the GCT. The comprehensive reform included aspects relevant to individual income tax, income tax administration, corporate income tax, property tax, and indirect tax structure.

There was a 27 per cent increase in income tax revenue in 1985/86 when it was implemented but given that income tax collections have increased significantly in every year since 1980, it is difficult to determine the impact of the reform. There was also a significant, but above trend, increase in property tax revenues in 1986/87, the year that it was implemented.

THE IMPORTANCE OF TRADE TAX REVENUES 1980-90

In this section there will be an assessment of the importance of international trade tax revenues by assessing their value as a percentage of total revenues, total tax revenues and GDP.¹⁰ The tables below show these results (and dollar values) for the 1980-90 period, that is, the period prior to when major trade liberalization initiatives were implemented.

¹⁰ Another comparison that would be useful would be with other countries within the region as well as with major industrial nations.

Government revenues in Jamaica, 1980-90

Year	Total Tax Revenue (JS)	Total Gov't Revenue (JS)	Customs Duties (JS)	International Trade Tax Revenues (JS) ¹¹
1980	834,200,000	1,068,200,000	61,634,878	232,160,000
1981	1,150,000,000	1,554,600,000	110,717,644	311,540,000
1982	1,395,500,000	1,736,700,000	116,000,000	370,100,000
1983	1,717,600,000	1,937,700,000	139,993,560	418,620,000
1984	2,009,000,000	2,623,100,000	163,080,000	533,920,000
1985	2,699,300,000	3,668,500,000	272,203,096	666,380,000
1986	3,758,300,000	4,397,800,000	246,900,000	1,003,860,000
1987	4,306,900,000	5,385,700,000	366,265,828	1,159,840,000
1988	4,901,600,000	6,020,300,000	531,000,000	1,406,060,000
1989	6,364,100,000	8,304,200,000	750,700,000	1,804,840,000
1990	7,809,000,000	9,588,200,000	781,700,000	1,896,520,000

Source: Ministry of Finance and Planning and Planning Institute of Jamaica

International Trade Taxes as a percentage of total tax revenue and GDP in 1980-90

Year	International Trade Tax Revenue as % Total Tax Revenue	International Trade Tax Revenue as % Total Gov't Revenue	International Trade Tax Revenue as % GDP
1980	28%	22%	4.9%
1981	27%	20%	5.9%
1982	27%	21%	6.3%
1983	24%	22%	6.1%
1984	27%	20%	5.7%
1985	25%	18%	5.9%
1986	27%	23%	7.5%
1987	27%	22%	7.2%
1988	29%	23%	7.5%
1989	28%	22%	8.1%
1990	24%	20%	6.2%

Source: Ministry of Finance and Planning and Planning Institute of Jamaica

During the 1980-90 period, international trade taxes included: customs duty, stamp duty, consumption duty, and travel tax. It can be seen that the dollar value of these taxes increased in every year. These taxes accounted for a low of 24 per cent and a high of 29 per cent of total tax revenues. This shows that international trade taxes accounted for a significant proportion of tax revenues. They also accounted for between 18-23 per cent of total government revenues and 4.9-8.1 per cent of GDP.

¹¹ International Trade Tax Revenues up to 1990 included customs duties, stamp duties, consumption duties and travel tax.

The table below compares the importance of international trade taxes in Jamaica with other countries in the region.

International trade taxes as a percentage of total tax revenue and GDP in 1990

Year	International Trade Tax Revenue as % Total Tax Revenue	International Trade Tax Revenue as % GDP
Antigua & Barbuda	63%	11.6%
Argentina	17.7%	1.5%
Barbados	13.2%	4.0%
Belize	51.8%	16.0%
Costa Rica	28.2%	3.9%
Dominica	60.7%	14.6%
Guyana	14.2%	5.2%
Haiti	19.4%	1.7%
Mexico	8.4%	1.0%
St. Lucia	60.4%	13.3%
Trinidad & Tobago	9.9%	2.2%
Jamaica	24%	6.2%

Source: ECLAC estimates based on National Data (except for Jamaican estimate)

It can be seen that international trade taxes were more important in the OECS countries and Belize than in Jamaica. In the larger CARICOM countries (Barbados, Guyana and Trinidad and Tobago), the percentage of total tax revenues accounted for by international trade taxes is lower than Jamaica. Apart from Costa Rica and the OECS countries, in 1990, Jamaican Government revenues were more dependent on international trade taxes than the other countries presented in the above table.

It is worth noting that while liberalization measures were being undertaken in Jamaica, the nominal dollar value of international trade tax revenues kept on rising. They always remained in the narrow band of 24-29 per cent of GDP (with no particular trend) and 4.9-8.1 per cent of GDP (with a slight tendency to show a rising trend). Liberalization cannot be shown to have been detrimental to collections of international trade tax revenues in Jamaica during the 1980-90 period.

LIBERALIZATION OF QUOTAS AND OTHER NON-TARIFF BARRIERS AND THEIR EFFECT ON IMPORTS 1980-90

As was discussed earlier, Jamaica implemented a vast protectionist web of quotas and licences in the 1970s to protect its balance of payments. In 1974, following the oil crisis in the previous year, several more items were added to the Restricted List. Only 19 product groupings were excluded from import licensing by 1975. Import quotas were established for nearly all sector categories and all items from the mid-1970s. However, the shortage of foreign exchange was not alleviated by these restrictions.

The dismantling of the Restricted List started in 1982, by 1984, 180 items had been removed. Quotas and import licences were replaced by tariffs. This would have had the impact of making it easier, but not necessarily cheaper, to import. Delays in obtaining licences were a major problem for most people wishing to import and those responsible for issuing licences were very powerful. However, after their replacement with tariffs, the power of those assessing the duties increased.

In terms of the impact on imports, the table below shows that the Jamaican dollar value of imports fell between 1981-82 -this would have had some negative impact on government revenue. From 1982-84 there was a cumulative increase of 74 per cent in the Jamaican dollar value of imports, which would have resulted in increased government revenues. It would appear as if the economy responded to the reduction in protection. However, these figures are somewhat illusory because when the value of imports was converted to US\$ (by the Statistical Institute of Jamaica), it was found that it declined in every year between 1982-86. This reflected, to some extent, the significant devaluation of the exchange rate and the tight demand management initiatives that took place during that period. However, there is no doubt that the nominal value of import customs duties increased over the period.

Year	Total Imports (JS000)	Growth of imports (measured in JS)	Growth of imports (measured in US\$)	Exchange Rate (JS/US\$)
1980	2,086,646	19%	17%	1.78
1981	2,623,368	26%	25%	1.78
1982	2,460,309	-6%	-6%	1.78
1983	2,840,991	15%	-7%	1.78
1984	4,509,548	59%	-8%	3.94
1985	6,146,681	36%	-3%	5.56
1986	5,322,392	-13%	-15%	5.48
1987	6,790,513	28%	27%	5.49
1988	7,983,235	18%	17%	5.49
1989	10,668,320	34%	29%	5.75
1990	13,923,246	31%	31%	7.18

Source: Statistical Institute of Jamaica

From the data presented in the above table, it is not clear to what extent the removal of quotas and licences affected the level of imports in the 1982-85 period. It must be noted that certain items, mainly agricultural products, were put back on the List in order to afford

protection to certain local industries over a longer period of time. By the end of 1985, there were 210 items on the Restricted Imports List¹¹.

It can be seen that from 1987 to 1990, imports increased by an average of over 25 per cent per annum reflecting the reduced protection and greater availability of foreign exchange.

The simplifying of export procedures

In 1989-90, new procedures were implemented to simplify the cumbersome administrative procedures faced by exporters. New procedures were introduced in the areas of certification, documentation and export licences¹¹.

To facilitate certification, a customs officer was placed at JAMPRO (the Export Promotion Agency) to issue certificates and authorize customs export documentation. In terms of documentation, a one-stop documentation shop was set up at JAMPRO with new forms compatible with international requirements and needing fewer copies.

With respect to export licences and procedures, the requirement that exporters of products on the restricted list should apply for licences on a shipment-by-shipment basis was thought to be unnecessary. Twenty products were removed from the restricted list and, where licenses were required, these would be issued quarterly rather than by shipment. There are currently 17 items on the restricted export list.

Apart from these procedural obstacles to exports, there were no export taxes.

It is worth noting that exports increased by 45 per cent between 1989 and 1990 following the simplification of procedures. This compares to an increase of 18 per cent in the previous year, however, given the number of changes that were taking place in the economy at the same time, it is not possible to attribute these increases to the simplification of procedures.

¹¹ The items on the restricted export list are: ammunition, crocodiles, crocodile eggs, eggs, antique furniture, gold bullion or semi-manufactured gold, ores – (minerals and metal including bauxite, alumina, gypsum), paintings (antique), pimento, plasma, sugar, wood (only lignum vitae and log wood), petroleum products, motor vehicles, live animals, jewelry, shells.

NEW MEASURES ADOPTED TO FINANCE THE BUDGET AND TO COMPENSATE FOR LOSSES DUE TO LIBERALIZATION 1980-90

1980-81

- Financing support of \$401m from the Central Bank
- Heavy borrowing from local bank and non-bank sources to the tune of \$250m
- Borrowing from overseas sources (this was made more difficult by a break-off of negotiations with the IMF for a one-year stand-by facility)
- Rescheduling of foreign debt

1982-83

- Introduction of measures to increase the efficiency of the tax collection mechanism
- Increased local and foreign borrowing
- Application of ad valorem excise duty rates which allowed for price increases to impact positively on revenue collections

1984-85

- Collection of tax arrears
- Increased use of foreign debt relative to local debt
- Tighter control of expenditure
- Improvements in tax administration
- Increases in the rates of duty on petroleum products
- Fiscal drag/inflation impact on revenues
- Imposition of additional stamp duties and the removal of quotas and revocation of import licences.

1986-89

- The completion of the reform of the personal income tax – beyond a threshold of \$8,580 per annum the tax rate would be 33.3 per cent with all allowances that were previously not taxed coming into the tax net
- Applying the same income tax rate to interest income to be withheld at source (pensioners and persons below income threshold were exempted)
- Completion of tax reform programme and the continued overhaul of the quota system to be replaced by a system of tariffs
- Increased fiscal control over the Bank of Jamaica and Public Sector Enterprises
- Increase in property taxes
- Replacement of previous two-tier rate structure for corporate income tax with a lower single tax rate of 33.3 per cent (same as income tax rate). Dividends paid to shareholders also attracted the rate of 33.3 per cent
- Surtax of 33.3 per cent of profits repatriated by foreign branches
- Introduction of tax on the total income of life insurance companies after deducting allowable expenses.

1990

- 50 per cent increase in consumption duties on select consumer goods
- An increase in sales tax on motor vehicles with ratings above 1000cc
- Continued reduction of subsidies on basic food items imported by the JCTC
- An increase in the price of foods imported by the JCTC
- Increases in contributions to the National Insurance Fund
- Divestment of some government-owned hotels and other assets.

1991-1999 PERIOD
MACROECONOMIC CONDITIONS 1991-1999

The economy grew marginally by 0.2 per cent in 1991, which was down from the 3.8 per cent growth in 1990. Major domestic policy changes and adverse external conditions were thought to be the cause of the economic performance. Jamaica deepened its structural adjustment process in 1991 with the following initiatives:

- Liberalization of exchange control
- Acceleration of the privatization process
- Removal of price controls on all but three items (transportation, sugar and kerosene)
- Elimination of subsidies, the reform of the tax system with the introduction of the General Consumption Tax (GCT)
- Introduction of the Common External Tariff (CET); and
- Further deregulation of various aspects of the economy.

While taking these extensive reforms, the Government maintained a tight demand management programme, which sought to bring the domestic and external sectors of the economy into equilibrium. The main objective of the economic reform process was to sustain an annual growth rate of a minimum of 3 per cent.

In 1991, the 0.2 per cent growth was led by the service sectors, including financial services, tourism and real estate. Mining also grew by 5.8 per cent, while construction and agriculture grew only marginally. Both the manufacturing and distribution sectors declined by 4.5 per cent and 5.1 per cent, respectively.

The reforms undertaken certainly affected the economy with the US\$/J\$ exchange rate depreciating by 61 per cent. This contributed to the 80.2 per cent (point to point) inflation during the year. In addition, National International Reserves (NIRs) dropped by US\$54.1m. The performance of the economy was also hampered by recession in major trading partners such as the United States, Canada and the United Kingdom.

A major objective for 1991 was to reduce the fiscal deficit from 1.4 per cent of GDP in 1990. This was surpassed when a surplus of over 3 per cent of GDP was recorded in 1991. The public sector borrowing requirement was 0.6 per cent of GDP. In order to enhance revenues, there were improvements in tax administration, the re-introduction of a special consumption tax on fuels and the application of a special one-off tax on the assets of commercial banks. In addition, collections from import duties grew substantially as a result of the depreciation of the currency.

Speculation against the Jamaican dollar prevented investment from increasing in response to an easing of monetary policy through lower T-Bill and other rates on government instruments in the earlier part of the year. M1 and M2 grew by 95.3 per cent and 54.6 per cent, respectively; which would have also fuelled inflation. The continued depreciation of the dollar resulted in a reversal in the interest rate policy and T-Bill rates reached 35.1 per cent by the end of the year.

The depreciation of the currency enhanced Jamaica's export competitiveness and in 1991 the current account balance improved, however a 20 per cent fall in the international price of bauxite prevented Jamaica from reaping the expected gains.

1992 was a year of consolidation after instability in 1991. GDP grew by 1.2 per cent in 1992, inflation slowed to 40.2 per cent compared to 80.2 per cent in 1991, NIR improved, the exchange rate settled at US\$1=J\$23.1, and there was a surplus on the current account of the balance of payments.

The consolidation process continued in 1993 as inflation slowed further to 30.1 per cent, GDP growth was at a modest 1.4 per cent, M1 increased by over 40 per cent. The exchange rate moved to J\$25.68=US\$1 reflecting a deceleration in the rate of depreciation compared to the previous three years, the fiscal position remained in surplus.

In 1994-95 real GDP continued to grow slowly, inflation trended down slowly but remained over 20 per cent. The exchange rate depreciated to US\$1=J\$33.35 in 1994 and further to US\$1=J\$35.54 in 1995, while M1 continued to grow at around 25 per cent and the fiscal position returned to deficit from which it has not yet emerged.

From 1996, the inflation rate has trended downwards and was at 7.9 per cent in 1998. However, the tight monetary policies required to achieve this lower inflation and greater stability of the exchange rate has contributed to the negative growth rate of the economy over the 1996-98 period. The tight monetary policy was reflected in T-Bill rates which, despite trending downwards, averaged over 28 per cent during the period while M1 growth averaged less than 10 per cent. The exchange rate also stabilized and remained between US\$1=J\$35-37 throughout the period. In 1999, the exchange rate started to depreciate again and is now in the vicinity of US\$1=J\$39.5. As mentioned earlier, the fiscal position was still in deficit in 1998 as was the current account of the balance of payments.

Sectoral contribution to real GDP (1991-98)

The table below outlines the contribution to real GDP of each major sector from 1991 to 1998. The following main observations can be made:

- The agricultural sector's contribution was within the 6.2-8.4 per cent range, peaking in 1996 but falling back since (results of drought and unfavourable weather during the 1997-98 period).
- The contribution of the mining and quarrying sector remained in the 8.5-10.1 per cent range and, if anything, has shown signs of increasing its contribution.

- The distributive trade sector has been consistently the largest contributor followed closely by manufacturing. While the distributive trade shows signs of increasing, the manufacturing sector has shown the opposite.
- Electricity and water has remained one of the smallest sectors, but has increased gradually throughout the period from 4.3 per cent to 5.5 per cent, reflecting the upgrading of service in the sector over the last few years.
- Construction and installation has shown steady signs of decline in terms of its contribution over the period, reflecting the tight economic conditions and protracted period of high interest rates.
- The transportation, communication and storage sector has shown the most growth, increasing from 9.8 per cent in 1991 to 15.8 per cent in 1998. It is now the third largest contributor to real GDP. This is reflective of the more liberal policies towards the importation of vehicles since 1991 as well as the expansion of telecommunications service since Cable and Wireless Limited took over the operations of the major local provider of telecommunications services in the early 1990s. This sector shows signs that it will continue to grow.
- The financing and insurance sector, which at one time was the third largest in terms of contribution but is now fourth, peaked at 15.5 per cent in 1994-95 at the height of the boom in this sector, has since fallen back to 12.2 per cent as a result of the fallout discussed earlier.
- The real estate and business services sector has remained within the 7.6-8.8 per cent range and has shown signs of growth over the period.
- Producers of government services sector has remained within the 6.6-7.1 per cent range and has shown a slight negative trend in terms of contribution.
- Miscellaneous services, which includes hotels and restaurants, has remained within the 4.0-4.4 per cent range and has shown a slight positive growth trend over the period.

Percentage contribution to real GDP by industrial sector, 1991-98

Industrial Sector	1991	1992	1993	1994	1995	1996	1997	1998
Agriculture	6.2	6.9	7.4	7.9	8	8.4	7.3	7.3
Mining and Quarrying	9.2	8.8	8.7	9.2	8.5	9.3	9.8	10.1
Manufacture	19.4	19.5	18.8	18.7	18.4	18.1	17.9	17.3
Electricity & Water	4.3	4.4	4.4	4.4	4.5	4.8	5.2	5.5
Construction and Installation	9.8	9.7	9.5	8.8	9.4	9	8.9	8.4
Distributive Trade	19.8	20.5	21	21.1	21.7	22.4	23.1	22.9
Transportation, Communication and Storage	9.8	10.2	11	11.4	12.4	13.7	14.8	15.8
Financing and Insurance Services	11	11.7	10.8	15.8	15.5	14.7	12.3	12.2
Real Estate and Business Services	7.6	7.9	8	8.3	8.7	8.9	8.8	8.8
Producers of Government Services	7.1	7	6.8	6.7	6.6	6.7	6.9	6.7
Miscellaneous Services	4	4	4.1	4.1	4.1	4.2	4.3	4.4
Household & Private Non-Profit Institutions	0.7	0.6	0.5	0.6	0.6	0.6	0.5	0.5
Less Imputed Bank Service Charge	8.8	11.1	11.2	17	18.6	20.9	19.8	20.1
Total GDP at Constant Prices	100	100	100	100	100	100	100	100

Source: Statistical Institute of Jamaica.

Summary

The 1991-98 period started with great instability in response to a myriad of policy and structural reforms in the economy. The period ended with great stability but a protracted negative growth trend. The following table summarizes the position of the main macroeconomic variables at the beginning of the period compared to the end.

Variable	1991	1998
Real GDP growth	0.7%	-0.6%
Inflation	80.2%	7.9%
Unemployment rate	15.4%	15.5%
Exchange rate	J\$12.85=US\$1	J\$36.68=US\$1
Money Supply Growth	97%	5.9%
T-Bill Rate	25.6%	25.7%
Fiscal deficit	J\$1.587B	(J\$18.49B)
Foreign Debt Service/Export Ratio	26.7%	16.8% (1997)
Domestic Debt	J\$10B	J\$121B
External Debt	US\$3.87B	US\$3.3B
Gross Capital Formation	J\$12,055.4M	J\$70,575.3M (1996 figure)
Gross National Savings	J\$8,117.5M	J\$55,610.3M (1996 figure)

Source: Statistical Institute of Jamaica, Economic and Social Survey of Jamaica, Bank of Jamaica and Ministry of Finance.

In a nutshell, the above table shows that between 1991-98:

- Real GDP growth moved from being slightly positive to slightly negative;
- Price stability was attained as inflation fell from 80.2 per cent to 7.9 per cent;
- Money supply growth slowed dramatically;
- The T-Bill rate was about the same;
- The fiscal deficit deteriorated significantly;
- Total external debt and the foreign debt service ratio fell while domestic debt increased dramatically, reflecting a substitution of domestic debt for local debt;
- The unemployment rate remained stable at around 15.5 per cent;
- The exchange rate depreciated by close to 200 per cent;
- Gross capital formation increased from J\$12b (US\$938m) in 1991 to J\$70.6b (US\$1,906m) in 1996. In US\$ terms this represents a doubling of gross capital formation when comparing 1991 with 1996;
- Gross national savings increased from J\$8,118m (US\$374m) in 1991 to J\$55,610m (US\$1,093m) in 1996. In terms of US\$ this represents close to a tripling when comparing 1991 with 1996.

For 1998, despite an overall negative growth in most agricultural subsectors and all manufacturing activities, there was significant positive growth in the basic services of electricity, water and transportation. The hotels, restaurants and clubs subsectors also showed positive growth. However, there was a continued decline in the financial, real estate and government services sectors.

During 1998, in order to soften the impact of the tight macroeconomic framework, the Government implemented some complementary measures to support growth in output. These included: (a) lower cost loans to exporters through the EXIM Bank; (b) lower cost loans to entities qualifying through the development banks; and (c) reducing the cash reserve requirement by 4 per cent (from 25 per cent to 21 per cent) in an effort to induce commercial banks to reduce lending rates.

The major success for the authorities in 1998 was the achievement of price and exchange rate stability.

TRADE AND FISCAL REFORMS IN JAMAICA 1991-98

The public import monopoly of the JCTC was eliminated in 1991, thus ending a practice of excessively constraining imports of some goods, like automobiles, and using monopoly profits to subsidize imports of agricultural commodities. Eliminating such import subsidies has helped farmers, many of whom are poor and produce for the domestic market. Import licenses were abolished, except for a few items such as pharmaceutical drugs and firearms. Refined sugar imports were liberalized, subject to a variable levy; and raw sugar imports, if any, required a license. Remaining licenses included items such as motor cars.

Export licenses were largely phased out but still applied to some 25 items, mostly for protecting endangered species.

Introduction of the General Consumption Tax (GCT) and the Special Consumption Tax (SCT)

On 22 October 1991 the GCT was introduced. The GCT is a value-added tax levied on goods and services. At that time the rate was 10 per cent. The GCT was intended to simplify the existing tax structure by replacing eight indirect taxes with a single tax category.¹² The principal objectives of this tax were to shift the burden of taxation from production to consumption and to widen the tax base. The GCT was very important in the Government's quest to retain revenue while further liberalizing the economy with the introduction of the phased reduction of tariffs under the CET. Liberalizing the economy with the reduction of tariff rates would have had a major impact on government revenue if a compensating tax was not put in place. It is, therefore, no surprise that the CET and GCT were both introduced in the same year.

The Special Consumption Tax was introduced as well. It was a tax to be levied on petroleum products, cigarettes, spirits/beer, wine and alcoholic beverages produced by fermentation, cigars, cheroots, cigarillos, smoking and other manufactured tobacco and snuff; and these items attracted a rate in excess of the 10 per cent charged as GCT. A one-time Bank Cess was also applied on commercial banks equivalent to 0.5 per cent of the bank's total asset. All these special taxes were put in place to bolster revenue and maintain the fiscal surplus registered in 1990 – this objective was in fact achieved.

The Common External Tariff

Jamaica has participated and has led the process of reforming CARICOM's CET. The CET was implemented in 1991. The CET arose out of the perceived need of CARICOM countries to strengthen their international competitiveness in the face of reforms that sought to create new areas of trade and economic strength across the globe. The CET was identified as one of the principal instruments through which CARICOM could respond effectively to these global challenges.

¹² See footnote 18 for list of taxes replaced

Scheduled tariffs for Jamaica for 1990 - 1993 was 0-45 per cent. The reductions agreed upon in October 1992 and implemented in Jamaica in April 1993 brought the tariffs down to a range of 5-30 per cent. Most stamp duties were abolished, and the rest were scheduled for future removal. There were also changes in the Motor Vehicle Import Policy in 1992, allowing the rate on used cars to be generally lower than on new ones.

The planned four-phased reduction of tariff schedule for the CET

The table below outlines the planned four-phased reduction of tariffs under the CET.

Phase	Period of Application	Implementation Period	Basic Rate Structure
I	1.1.93 - 31.12.94	1.1.93 - 1.17.93	0/5% to 30/35%
II	1.1.95 - 31.12.96	1.1.95 - 1.7.95	0/5% to 25/30%
II	1.1.97 - 31.12.97	1.1.97 - 1.7.97	0/5 to 20/25%
IV	1.1.98 onwards	1.1.98 - 1.7.98	0/5% to 20%

Source: Economic and Social Survey and Government of Jamaica Ministry of Trade papers.

Specific aims of the revision were to achieve a tariff rate structure that would induce low production costs, engender efficiency, safeguard sensitive areas of production and encourage new areas of production in the Common Market. The basic approach that was adopted by CARICOM towards achieving a tariff structure appropriate to these objectives required, in the first place, the classification of commodities according to their principal economic or socio-economic functions and origin. Commensurate rates of duty were then assigned to commodities in accordance with such classification.

Jamaica implemented Phase I on 1 April 1993 and Phase II on 1 January 1995. In implementing Phases I and II, however, Jamaica moved ahead of other Caribbean countries, opting for a 'fast track' approach. Jamaica chose a 30 per cent basic rate for Phase I and a 25 per cent basic rate for Phase II instead of an available 30/35 per cent and 25/35 per cent, respectively, and eventually a zero rate instead of an available 0/5 per cent rate for non-competing inputs.

This fast track approach indicated that Jamaica's next round of downward tariff rate movements would be to implement Phase IV - the Final Phase - of the agreed schedule of tariff rate reductions. In Phase IV, barring exceptions arising from revenue considerations and protection for agriculture, the basic maximum tariff rate would be the agreed on rate of 20 per cent.

Phase IV was slated to be introduced on 1 January 1998 but due to problems with synchronizing the structure of the CET with the Harmonized Commodity Description and Coding System, Jamaica had to delay the implementation. Jamaica implemented the Final Phase on 1 January 1999.

It is difficult to assess the size or direction of the impact of the CET on government revenues because customs duty and total international trade taxes increased in every year prior to its implementation and continued to increase afterwards. This all happened in a highly inflationary environment, with a depreciating currency, in which expectations were driving importers to change their purchasing decisions. In addition, GCT was imposed on imports to replace consumption duty and other levies that were in place. It is clear, however, that in nominal terms the international trade taxes increased after the implementation of the CET and the GCT.

The following table sets out the basic and special Tariff Rates of Phases I, II and IV of the revised CET for commodities classified in accordance with economic or socio-economic category.

Commodity Category	Rates For Phase I	Rates For Phase II	Rates for Phase IV
1. Non-competing Intermediate Inputs	Free] with	Free] with	Free] with
2. Non-competing Primary Inputs	Free] certain	Free] certain	Free] certain
3. Non-competing capital inputs	5%] exceptions	5%] exceptions	5%] exceptions
4. Competing Primary Inputs	20%	15%	10%
5. Competing Intermediate Inputs	25%	20%	15%
6. Competing Capital Goods	20%	15%	10%
7. Selected Exports	20%	15%	10%
8. Agro-industry	30%	25%	20%
9. Garments	30%	25%	20%
10. General manufactures	30%	25%	20%
11. Non-competing final goods	25%	25%	20%
12. Safety	Free	Free	Free
13. Cost of Living	0 - 20%	0 - 20%	0 - 20%
14. Socio-economic & socio cultural	0 - 20%	0 - 20%	0 - 20%
15. Agriculture	40%	40%	40%
16. Agricultural Inputs	Free	Free	Free

Source: Economic and Social Survey and Government of Jamaica Ministry of Trade papers.

These basic revised rates, by regional consent do not apply to selected categories of goods which, traditionally, are recognized as a significant source of revenue earners and in respect of which member States (mainly the less developed countries) are allowed to apply national rates of duty in excess of the agreed CET rates. Alcoholic beverages, tobacco products, jewelry, precious stones, clocks and watches, cameras, firearms and explosives and motor cars are principal examples of such goods, where tariffs are in excess of basic CET rates and do not follow the downward movements of basic tariff rates through Phases I to IV.

In contrast, there are specified goods in respect of which, although competing rates have been assigned to encourage regional production, member States are allowed to apply lower rates of duty in their respective national tariffs on the basis of the special interest of the particular member State.

Efficiency of tariffs

The overall tariff reduction with CARICOM was estimated to be revenue neutral, with increased volumes and elimination of zero rates making up for the losses from the reduction in higher rates. However, according to sources at the Ministry of Planning and Finance in Jamaica, the estimated loss in revenue due to moving from Phase II to Phase IV was **J\$500 million**.

The Tax Administration Reform Programme

As outlined in this report, so far, there has been progress made in recent years in effecting reform of the taxation system, however, tax evasion and avoidance continues to be a problem, which apart from anything else violates the principle of fiscal equity. With this in mind, in 1994 the Government entered a loan agreement with the World Bank to finance the Tax Administration Reform Project (TAXARP). The main objectives of the project were to improve the efficiency and effectiveness of the tax administration.¹³ Some of the main changes in the reform included the creation of revenue departments determined by function instead of tax type.

The restructured tax administration consists of the following departments/organizations:

1. Revenue Protection Department;
2. Tax Administration Services Department;
3. Taxpayer Appeals Department;
4. Taxpayer Audit and Assessment Department;
5. Inland Revenue Department Customs Department;
6. Fiscal Services (EDP) Limited.

The Revenue Protection Department is responsible for all internal security and independent internal audit and will have three basic functions:

- Investigation of customs duty and other tax fraud in conjunction with the Tax Audit and Assessment Department;
- Investigation of employee corruption and non-employee attempts to corrupt;
- Internal audit, to determine that programmes and operations are being conducted efficiently and effectively in accordance with law and policy.

¹³ Efficiency meaning the level of performance of tax administration activities in terms of costs and productivity and effectiveness meaning the level of taxpayer compliance.

Tax Administration Services Department carries out the common services now being carried out by the Revenue Board, including:

- Taxpayer information and education programmes;
- Legal services;
- Training programmes; and
- Proper management and procurement functions.

Tax Appeals Department has the main function of providing an independent appeal process to settle disputes between taxpayers and the Revenue Departments. The intention is to resolve tax controversies without the need for litigation, wherever possible.

Taxpayer Audit and Assessment carries out all functions related to examination and investigation of tax submissions, returns or declarations in order to assess the proper amount or detect and punish tax crimes.

Inland Revenue Department collects taxes and plays the leading role in providing a taxpayer service. A one-stop service concept will be developed and implemented.

Customs Department continues to assess and collect taxes at ports of entry and provide statistics to the relevant authorities.

Fiscal Services continues to provide electronic data processing services.

It is intended through administration-wide training programmes (being currently conducted) to upgrade the skills and qualifications of staff to operate in the new reformed system.

THE IMPORTANCE OF TRADE TAX REVENUES 1991-98

Jamaica implemented the first phase of the CET in 1991, which would have been expected to have some impact on international trade tax revenues. However, as stated earlier, it is not clear exactly what was the impact attributable to the CET because the lower duties would have attracted more imports (given the availability of foreign exchange and aggregate demand), but the concomitant introduction of the GCT on imports (including GCT on duties) would increase the effective level of duty. In fact, the data in the table below reveal that international trade tax revenues (in Jamaican dollars) have increased significantly since the reforms of 1991, however much of this would have been attributable to price inflation and currency depreciation.

Government revenues in Jamaica 1991-97

Year	Total Tax Revenue (J\$)	Total Gov't Revenue (J\$)	Customs Duties (J\$)	International Trade Tax Revenues (J\$) ¹⁴
1991	11,469,000,000	14,496,400,000	1,529,700,000	2,675,200,000
1992	18,786,000,000	21,029,400,000	2,631,500,000	4,682,000,000
1993	29,110,800,000	34,330,140,000	3,926,900,000	8,247,100,000
1994	37,986,600,000	68,383,500,000	4,147,400,000	9,925,000,000
1995	35,666,500,000	41,631,000,000	5,961,600,000	15,427,800,000
1996	40,740,500,000	45,549,000,000	5,977,600,000	16,006,200,000
1997	59,224,200,000	66,425,700,000	6,677,100,000	17,513,100,000

Source: Economic and Social Survey of Jamaica 1980-98

Year	International Trade Revenue as % Total Tax Revenue	International Trade Revenue as % Total Govt. Revenue	International Trade Revenue as % GDP
1991	23%	18%	6.0%
1992	25%	22%	6.4%
1993	28%	24%	8.5%
1994	26%	15%	7.6%
1995	43%	37%	9.5%
1996	39%	35%	8.7%
1997	30%	26%	8.0%

Source: Calculated on the basis of data taken from Economic and Social Survey of Jamaica, various sources.

International Trade Taxes as percentage of total tax revenue and GDP in 1997

Year	International Trade Tax Revenue as % Total Tax Revenue	International Trade Tax Revenue as % GDP
Antigua & Barbuda	66.7%	11.9%
Argentina	7.4%	0.9%
Barbados	10.5%	3.6%
Belize	29.4%	8.7%
Costa Rica	14.1%	2.4%
Dominica	53.7%	13.2%
Guyana	10.1% (1996 figure)	4.0% (1996 figure)
Haiti	21.8%	2.0%
Mexico	5.9%	0.6%
St. Lucia	57.9%	12.7%
Trinidad & Tobago	7.4%	1.6%
Jamaica	30.2%	5.8%

Source: ECLAC estimates based on National Data (except for Jamaican estimate)

¹⁴ International trade tax revenues for the 1991-98 period include customs duties, GCT, travel tax and stamp duties. The gap between international trade tax revenues and customs duties was over J\$10 billion in 1997, reflecting the importance of GCT given that stamp duties and travel tax (though on the increase) are relatively small. It is worth noting that since 1994/95, GCT has been the largest single component of international trade tax revenues.

The above table reveals that Jamaica still has a relatively high dependence on international trade taxes compared with the other larger CARICOM economies. International trade taxes are still as important in the OECS countries as they were in 1990. Since Belize implemented the CET in 1996, the importance of international trade taxes declined noticeably – Belize replaced international trade taxes with a VAT. It is interesting to note that for Jamaica, international trade taxes accounted for a higher percentage of total taxes in 1997 than in 1990 prior to the major liberalization initiatives – this is mainly due to the additional GCT collected on imports.

LIBERALIZATION OF QUOTAS AND OTHER NON-TARIFF BARRIERS AND THEIR EFFECT ON IMPORTS 1991-98

In terms of quotas and import licences, most of these had been eliminated during the restructuring that took place between 1980-90. In 1991 the liberalization of the exchange rate helped to reduce another barrier to trade.

In 1998, two main policy initiatives were taken which affected imports. These were:

1. A change in the motor vehicle policy wherein the maximum age of imported vehicles was reduced from eight to five years for commercial vehicles and seven to four years for all other vehicles. In addition, the CET on imported vehicles was increased;
2. The introduction of more stringent penalties for importers who violated quality standards. The import monitoring and standards enforcement capability of the Bureau of Standards was strengthened and new anti-dumping legislation was introduced. These measures were implemented in response to complaints by local producers that their market share was being eroded by the importation of inferior products.

At this stage, it is difficult to assess whether these policy initiatives have had any significant impact on imports.

NEW TAX MEASURES ADOPTED TO FINANCE THE BUDGET AND COMPENSATE FOR LOSSES DUE TO LIBERALIZATION 1991-99

1991

- Implementation of the GCT on goods and services at a rate of 10 per cent - this tax replaced eight other taxes¹⁵ and was intended to shift the burden of taxes from production to consumption and widen the tax base.
- Special consumption tax was introduced on petroleum products, cigarettes, spirits and beer, wines and alcoholic beverages produced by fermentation, cigars, cheroots and other manufactured tobacco and snuff.
- A one-off Bank Cess of 0.5 per cent of a bank's total assets.
- Improvements in the efficiency of the tax collection mechanism, especially the restructuring of the Customs and Excise Department.

1992-93

- Increased tax rates on the importation of telecommunications equipment, travel for all passengers, cigarettes, private use of public vehicles and the cost of stamping legal documents.
- Expansion and intensification of the audit programme of the Revenue Protection Division (RPD).
- Establishment of Tax Courts to enforce and encourage greater tax compliance.
- The rate of personal income tax was reduced from 33.3 per cent to 25 per cent and the threshold increased.

1994-95

- Amendments to the levies on pre-tax profit of financial institutions.
- A change in the method of computing GCT on motor vehicle imports.
- Removal of import duty on raw materials.
- GCT rate was increased by 2.5 per cent.

¹⁵ The taxes replaced by the GCT were: 1) Consumption Duties, 2) Excise Duties (some), 3) Retail Sales Tax, 4) Entertainment Tax, 5) Telephone Tax, 6) Tax de sejour, 7) CARICOM Duties, 8) Additional Stamp Duties (some).

1996-98

- Introduction of a Tax Compliance Programme.
- Introduction of the Tax Registration Number (TRN) to broaden the tax base.
- Increase in Special Consumption Tax on petroleum products and cigarettes.
- Increase in CET applicable to motor cars.
- Taxation of benefits arising from concessionary rates of interest on loans granted to employees in the financial sector.
- Increase in travel tax.
- Increased user fees in Post and Telecommunications and Immigration and Passport Services.
- Implementation of a 15 per cent withholding tax on interest on all financial instruments.

ADMINISTRATIVE COSTS OF INTERNATIONAL TRADE TAXES 1991-98

The administrative costs of customs are mainly associated with the enforcement of customs and internal revenue laws and other related activities. The Ministry of Finance and Planning's data is broken into three main subheadings:

1. General administration;
2. Assessment and collection of customs duties in the main ports of entry;
3. Assessment and collection of excise taxes.

General administration entails:

- Administering, interpreting and implementing various taxation laws and international tax agreements;
- Initiating and making recommendations to the Ministry of Finance and Planning relevant to the formulation of tax policies under the Customs Act, Consumption Duty Act, Excise Duty Act, Entertainment Act, and the Betting, Gaming and Lotteries Act, etc;

- Providing centralized services, such as registry, accounting, financial administration, personnel management (including training) and stores management;
- Collecting basic statistical data for the Department of Statistics (undertaken by a staff of 135 officers and employees headed by the Collector General).

Assessment and collection of customs duties in the main ports of entry entails:

- Processing of all import and export entries and the assessment of duties;
- The physical examination of imports;
- The collection of revenues, such as import duty, sales tax and consumption duty;
- Collaborating with other government agencies in the enforcement of laws relating to commerce, health and quarantine;
- Enforcement of all customs laws and regulations and surveillance over the activities of all vessels entering and leaving the island;
- The prevention of smuggling;
- The collection of statistical data.

Assessment and collection of excise taxes entails:

- Issuing of licenses to manufacturers of excisable goods;
- Inspection of factories;
- Detection of illicit manufacture and transaction of excisable goods;
- Assessing and collecting excise taxes;
- Reviewing the system of taxation controls and collection in order to make policy;
- Recommendations to the Ministry of Finance.

The table below shows trends in customs expenditure (and revenue) over the 1980-98 period.

Customs expenditure and revenue 1980-98

Year	Customs Expenditure (JS)	Customs Revenue (JS)	Customs Expenditure as % of Customs Revenue	Customs Expenditure as % of International Trade Tax Revenues
1980 -1981	1,860,233	61,634,878	3%	1%
1981 -1982	10,947,814	110,717,644	10%	4%
1982 -1983	10,402,000	116,000,000	9%	3%
1983 -1984	10,000,000	139,993,560	7%	2%
1984 -1985	16,339,000	163,080,000	10%	3%
1985 -1986	18,311,000	272,203,096	7%	3%
1986 -1987	63,605,500	193,883,887	33%	6%
1987 -1988	56,324,000	366,265,828	15%	5%
1988 -1989	49,757,500	531,000,000	9%	4%
1989 -1990	41,544,000	750,700,000	6%	2%
1990 -1991	47,564,000	781,700,000	6%	3%
1991 -1992	83,088,000	1,529,700,000	5%	3%
1992 -1993	62,221,000	2,631,500,000	2%	1%
1993 -1994	66,529,000	3,926,900,000	2%	1%
1994 -1995	235,695,000	4,147,400,000	6%	2%
1995 -1996	178,232,000	5,961,600,000	3%	1%
1996 -1997	212,746,000	5,977,600,000	4%	1%
1997 -1998	293,544,000	6,677,100,000	4%	2%

Source: Ministry of Finance and Planning

The above table shows the estimated administrative costs of international trade taxation. In general these costs have increased over the years but have tended to account for a smaller percentage of customs duty collected over time. In the 1980-90 period administrative costs averaged 10 per cent of customs duty collections, while they averaged only 4 per cent in the 1991-98 period. It must be noted that customs expenditure as a percentage of total international trade taxes has ranged from 1-6 per cent since 1980, with an average of 3 per cent.

The data shows that administrative costs increased in the 1986-88 period. The movement towards the tax reform programme and the continued overhaul of the quota regime and its replacement by a system of tariffs characterized this period.

The above analysis basically reveals that after the tariff and trade reforms, the cost of collecting each dollar of revenue has fallen. This reflects some improvement in efficiency. The analysis also shows that the cost of collecting each dollar of international trade tax revenues is about \$0.03, which seems quite a profitable operation.

THE INFORMAL SECTOR AND TAX COMPLIANCE

The analysis to date has outlined the fact that the Government has been trying for many years to improve the efficiency and effectiveness of the tax collection mechanism by numerous initiatives including: the introduction of the Tax Registration Number (TRN); Tax Courts; collection of tax arrears; etc. However, the following list of factors suggest that compliance is still relatively low and that the informal sector is relatively large:

- Close to 1.5 million adults live in Jamaica but less than 50 per cent of them have a TRN – this would suggest that they evade taxes to some extent and many could be considered part of the informal sector;
- There are about 59,000 firms in the wholesale and retail sector but only about 9,200 paid in GCT 1998. This suggests less than a 20 per cent compliance rate and a large informal element. The strong informal sector element is supported by the fact that only about 4,000 of these 59,000 companies are registered;
- There are approximately 950,000 employed workers in Jamaica but in 1998 only 350,000 paid income tax. Once again this suggests a low compliance rate and a strong informal sector element.

The above facts indicate clearly why the Government is making efforts to broaden the tax base and increase tax compliance in Jamaica.

THE IMPACT OF THE EXPORT OF COMMODITIES PRICES AND SERVICES ON GOVERNMENT REVENUES 1980-98

Bauxite/alumina industry

The analysis in this section examines the extent to which Jamaica is dependent on foreign exchange earnings and tax revenues from the bauxite/alumina sector. In doing so the analysis will demonstrate how boom and bust cycles in this industry have affected Government revenues and foreign exchange inflows.

When net receipts from the industry are converted and expressed in J\$, it can be seen (from table below) that they accounted for as much as 12 per cent of GDP in 1980 and 5 per cent in 1993 and 1997. The years in which the average price of alumina fell dramatically tended to be correlated with the years when net receipts fell significantly.

Fiscal dependency on the bauxite/alumina industry

Year	Gross Earnings US\$M	Net Receipts US\$M	Average Alumina Price US\$/metric ton	Levy & tax US\$M	Levy & Tax as % tax revenue	Levy & Tax as % Total Gov't revenue	Net Receipts as % GDP
1980	735.8	329.7	187.7	202.3	43.2%	33.7%	12%
1981	759.7	316.6	215.7	193.0	29.9%	22.1%	11%
1982	513.8	285.7	213.1	135.5	17.3%	13.9%	9%
1983	423.8	250.8	178.6	121.3	12.6%	11.1%	6%
1984	443.5	239.9	182.1	116.4	22.8%	17.5%	10%
1985	290.2	141.9	166.8	66.3	13.7%	10.0%	7%
1986	309.2	175.6	147.5	72.1	10.5%	9.0%	7%
1987	336.5	217.8	140.9	96.5	12.3%	9.8%	7%
1988	417.2	235.8	179.6	52.5	5.9%	4.8%	7%
1989	579.4	291.7	271.1	110.4	10.0%	7.6%	8%
1990	731.2	270.8	277.9	106.8	9.8%	8.0%	6%
1991	656.7	251.3	219.8	108.8	12.2%	9.6%	7%
1992	560.4	190.7	175.9	71.4	8.7%	7.8%	6%
1993	522.0	202.8	170.1	67.2	5.9%	5.0%	5%
1994	617.9	227.5	167.8	65.6	5.8%	3.2%	6%
1995	708.5	299.7	202.1	84.2	8.4%	7.2%	7%
1996	688.9	332.6	200.6	69.6	6.3%	5.7%	7%
1997	733.0	335.5	204.6	69.3	4.2%	3.7%	5%
1998	684.8	337.2	188.6	82.3	6.1%	5.5%	

Source: Economic and Social Survey of Jamaica 1980-98

In general, net receipts from bauxite/alumina have accounted for a smaller percentage of GDP since 1980. The table below shows how the average percentage of GDP has declined from 9 per cent to 6 per cent over the 1980-97 period.

Year	Average of Net Foreign Exchange Earnings as a % GDP
1980-85	9%
1986-91	7%
1992-97	6%

It can be seen from the information presented above that in the early 1980s there was a strong fiscal dependence on bauxite levies and taxes. In 1980, levies and taxes on the bauxite industry amounted to 33.7 per cent of total Government revenues.¹⁶ However, by 1998 this had fallen to 5.5 per cent (it was 3.7 per cent in 1997). The figures above show clearly that the amount of levies and taxes collected has fallen in absolute terms over time – in 1997 it was

¹⁶ It should be noted that bauxite levy collections are treated as non-tax revenue so ratios are a percentage of total revenue and not total tax revenue. However, over time it makes little difference because the gap between tax revenues and total revenues closes.

just over one third of the 1980 value in US\$. This decline in levies and tax collections contributed directly to the Government fiscal deficits experienced in 1988 and since 1994.

Government earnings from the bauxite/alumina industry have certainly oscillated since 1980. However, the long run trend shows that there has been a decline. Bauxite earnings are definitely important to Government revenue; in order to substitute for declining revenues from the industry, the Government has been forced to raise funds through local and external borrowing as well as through other forms of taxation.

Agricultural export products

Sugar industry

The sugar industry has been the most significant agricultural industry in terms of its contribution to export earnings and GDP. Despite some ups and downs, the US\$ value of sugar exports has increased steadily since 1982. As shown in the table below, the average annual value of exports increased from US\$66,906,000 in the 1982-90 period to US\$93,553,000 in the 1991-98 period.

Exports of sugar averaged 2.2 per cent of GDP in both the 1982-90 and 1991-98 periods, which shows a steadiness in the industry's contribution to GDP.

The movement of US\$ farm gate prices (1987-98) shows some cyclical behaviour with prices rising and falling from time to time, however, on the whole, the trend in prices has been increasing.

Year	Sugar Exports US\$000	Sugar Exports (J\$)	Sugar Exports as % GDP	Estimated sugar tax as % Total Tax	Farm gate sugar price -US\$/tonne
1982	49,101	87,399,780	1.5%	1%	N/A
1983	57,286	101,969,080	1.5%	1%	N/A
1984	66,032	260,166,080	2.8%	2%	N/A
1985	49,795	276,860,200	2.5%	2%	N/A
1986	63,678	348,955,440	2.6%	1%	N/A
1987	73,800	405,162,000	2.5%	1%	265
1988	91,853	504,272,970	2.7%	2%	281
1989	64,839	372,824,250	1.7%	1%	258
1990	85,767	615,807,060	2.0%	1%	281
1991	87,440	1,123,604,000	2.5%	1%	214
1992	82,535	1,899,130,350	2.6%	2%	284
1993	98,578	2,531,483,040	2.6%	1%	275
1994	75,650	2,522,927,500	1.9%	1%	444
1995	98,480	3,499,979,200	2.2%	1%	510
1996	109,710	4,061,464,200	2.2%	1%	553
1997	100,653	3,581,233,740	1.6%	1%	483
1998	95,378	3,498,465,040		1%	454

Source: Economic and Social Survey of Jamaica 1980-98

In terms of the sugar industry's contribution to tax revenue, it was assumed that total tax receipts from the industry, in terms of corporate and income taxes, was 15 per cent of export revenues. Using these assumptions, it was estimated that the industry accounted for an average of 1.3 per cent of total tax revenue in both the 1982-90 and 1991-98 periods.

Banana industry

The banana industry has been a significant industry in terms of its contribution to export earnings, employment and GDP. As with sugar there has been some oscillation in export earnings, however the US\$ value of banana exports has increased steadily since 1982. As shown in the table below, the average annual value of exports increased from US\$13,082,000 in the 1982-90 period to US\$41,800,000 in the 1991-98 period.

Exports of banana averaged 0.4 per cent of GDP in the 1982-90 period and 1 per cent in the 1991-98, which shows an increase in contribution of the industry to GDP.

The movement of US\$ farm gate prices (1987-98) has fluctuated from a low of US\$383 per tonne in 1992 to US\$565 per tonne in 1995. These price fluctuations have not affected the economy in a major way given that the economy is not heavily dependent on bananas in terms of earnings.

Year	Banana Exports US\$000	Banana Exports J\$	Banana Exports as % GDP	Estimated Tax Receipts from Bananas as % Total Tax	Farm gate banana price (US\$/tonne)
1982	4,681	8,332,180	0.14%	0.09%	N/A
1983	6,783	12,073,740	0.18%	0.11%	N/A
1984	1,509	5,945,460	0.06%	0.04%	N/A
1985	4,167	23,168,520	0.21%	0.13%	N/A
1986	9,100	49,868,000	0.37%	0.20%	N/A
1987	18,909	103,810,410	0.65%	0.36%	522
1988	15,735	86,385,150	0.46%	0.26%	486
1989	19,260	110,745,000	0.50%	0.26%	406
1990	37,591	269,903,380	0.88%	0.52%	522
1991	45,100	579,535,000	1.29%	0.76%	548
1992	39,560	910,275,600	1.24%	0.73%	383
1993	35,887	921,578,160	0.95%	0.47%	428
1994	43,560	1,452,726,000	1.12%	0.57%	510
1995	48,190	1,712,672,600	1.05%	0.72%	565
1996	44,100	1,632,582,000	0.88%	0.60%	481
1997	45,000	1,601,100,000	0.73%	0.41%	497
1998	33,000	1,210,440,000		0.37%	-

Source: Economic and Social Survey of Jamaica 1980-98

In terms of the banana industry's contribution to tax revenue, it was assumed that total tax receipts from the industry, in terms of corporate and income taxes, was 15 per cent of export revenues in each year. Using these assumptions, it was estimated that the industry accounted for an average of 0.2 per cent of total tax revenue in the 1982-90 period and 0.6 per cent in the 1991-98 period.

Coffee industry

The coffee industry has been an important contributor to export earnings and GDP. As with sugar there has been some fluctuation in export earnings, however, the US\$ value of coffee exports has increased steadily since 1982. As shown in the table below, the average annual value of exports increased from US\$8,258,000 in the 1982-90 period to US\$21,734,000 in the 1991-98 period.

Exports of coffee averaged 0.3 per cent of GDP in the 1982-90 period and 0.5 per cent in the 1991-98 which shows an increase in contribution of the industry to GDP.

The movement of US\$ farm gate prices of Blue Mountain Coffee (1987-98) has varied within a narrow range from a low of US\$1,305 per tonne in 1990 to a high of US\$1,709 per tonne in 1992. These price fluctuations have not affected the economy in a major way.

Year	Coffee Exports US\$000	Coffee Exports J\$	Coffee Exports as % GDP	Estimated Tax Receipts from Coffee as % Total Tax	Farm gate Blue Mtn coffee price (US\$/tonne)
1982	7,331	13,049,180	0.22%	0.14%	N/A
1983	8,104	14,425,120	0.21%	0.13%	N/A
1984	8,681	34,203,140	0.37%	0.26%	N/A
1985	7,517	41,794,520	0.37%	0.23%	N/A
1986	7,027	38,507,960	0.29%	0.15%	N/A
1987	8,310	45,621,900	0.29%	0.16%	1,707
1988	9,220	50,617,800	0.27%	0.15%	1,633
1989	9,478	54,498,500	0.25%	0.13%	1,527
1990	8,651	62,114,180	0.20%	0.12%	1,305
1991	11,817	151,848,450	0.34%	0.20%	1,350
1992	16,201	372,785,010	0.51%	0.30%	1,709
1993	19,494	500,605,920	0.51%	0.26%	1,444
1994	15,317	510,821,950	0.39%	0.20%	1,499
1995	28,132	999,811,280	0.62%	0.42%	1,594
1996	33,472	1,239,133,440	0.67%	0.46%	1,531
1997	32,398	1,152,720,840	0.52%	0.29%	1,593
1998	17,039	624,990,520		0.19%	1,664

Source: Economic and Social Survey of Jamaica 1980-98

In terms of the coffee industry's contribution to tax revenue, it was assumed that total tax receipts from the industry, in terms of corporate and income taxes, was 15 per cent of export revenues in each year. Using these assumptions, it was estimated that the industry

accounted for an average of 0.2 per cent of total tax revenue in the 1982-90 period and 0.3 per cent in the 1991-98 period.

Cocoa industry

The cocoa industry has been a contributor to export earnings and GDP. As with other agricultural export products, there have been fluctuations in export earnings. However, based on the data presented in the table below, the average annual value of exports of cocoa decreased from US\$3,762,000 in the 1982-90 period to US\$2,254,000 in the 1991-98 period. This suggests that the cocoa industry has declined.

Exports of cocoa averaged 0.13 per cent of GDP in the 1982-90 period and 0.6 per cent in the 1991-98, which shows a decrease in contribution of the industry to GDP.

The movement of US\$ farm gate prices of cocoa (1987-98) has varied widely from a low of US\$194 per tonne in 1994 to a high of US\$523 per tonne in 1992.

Year	Cocoa Exports US\$000	Cocoa Exports J\$	Cocoa Exports as % GDP	Estimated Tax Receipts from Cocoa as % Total Tax	Farm gate cocoa price (US\$/tonne)
1982	2,925	5,206,500	0.09%	0.06%	N/A
1983	4,047	7,203,660	0.10%	0.06%	N/A
1984	3,961	15,606,340	0.17%	0.12%	N/A
1985	4,490	24,964,400	0.22%	0.14%	N/A
1986	5,281	28,939,880	0.22%	0.12%	N/A
1987	4,634	25,440,660	0.16%	0.09%	523
1988	3,352	18,402,480	0.10%	0.06%	523
1989	1,822	10,476,500	0.05%	0.02%	311
1990	3,348	24,038,640	0.08%	0.05%	381
1991	2,234	28,706,900	0.06%	0.04%	228
1992	2,506	57,663,060	0.08%	0.05%	314
1993	1,849	47,482,320	0.05%	0.02%	234
1994	2,916	97,248,600	0.07%	0.04%	198
1995	2,703	96,064,620	0.06%	0.04%	236
1996	2,050	75,891,000	0.04%	0.03%	281
1997	1,972	70,163,760	0.03%	0.02%	315
1998	1,803	66,134,040		0.02%	349

Source: Economic and Social Survey of Jamaica 1980-98

In terms of the cocoa industry's contribution to tax revenue, it was assumed that total tax receipts from the industry, in terms of corporate and income taxes, was 15 per cent of export revenues in each year. Using these assumptions, it was estimated that the industry accounted for an average of 0.08 per cent of total tax revenue in the 1982-90 period and 0.03 per cent in the 1991-98 period. On the whole, this export product has had a declining impact on the GDP and tax revenues since 1982.

Citrus industry

The citrus industry has been a contributor to export earnings and GDP over the years. There have been fluctuations in export earnings. Based on the data presented in the table below, the average annual value of exports of citrus increased from US\$2,400,000 in the 1982-90 period to US\$3,882,000 in the 1991-98 period.

Exports of citrus averaged 0.08 per cent of GDP in the 1982-90 period and 0.09 per cent in 1991-98, which shows a marginal increase in contribution of the industry to GDP.

The movement of US\$ farm gate prices of citrus (1987-98) has varied widely from a low of US\$601 per tonne in 1993 to a high of US\$1,716 per tonne in 1992.

Year	Citrus Exports US\$000	Citrus Exports J\$	Citrus Exports as % of GDP	Estimated Tax Receipts from Citrus as % Total Tax	Farm gate citrus price (US\$/tonne)
1982	1,334	2,374,520	0.04%	0.03%	N/A
1983	1,132	2,014,960	0.03%	0.02%	N/A
1984	1,152	4,538,880	0.05%	0.03%	N/A
1985	1,609	8,946,040	0.08%	0.05%	N/A
1986	2,029	11,118,920	0.08%	0.04%	N/A
1987	2,608	14,317,920	0.09%	0.05%	1,245
1988	4,563	25,050,870	0.13%	0.08%	1,385
1989	2,495	14,346,250	0.06%	0.03%	1,741
1990	4,674	33,559,320	0.11%	0.06%	1,627
1991	3,304	42,456,400	0.09%	0.06%	1,716
1992	4,651	107,019,510	0.15%	0.09%	1,339
1993	3,492	89,674,560	0.09%	0.05%	601
1994	2,713	90,478,550	0.07%	0.04%	925
1995	3,287	116,819,980	0.07%	0.05%	1,117
1996	5,693	210,754,860	0.11%	0.08%	1,489
1997	4,091	145,557,780	0.07%	0.04%	
1998	3,828	140,411,040		0.04%	

Source: Economic and Social Survey of Jamaica 1980-98

In terms of the citrus industry's contribution to tax revenue, it was assumed that total tax receipts from the industry, in terms of corporate and income taxes, was 15 per cent of export revenues in each year. Using these assumptions, it was estimated that the industry accounted for an average of 0.04 per cent of total tax revenue in the 1982-90 period and 0.05 per cent in the 1991-98 period.

Pimento industry

The pimento industry has been quite an important contributor to export earnings and GDP over the years. There have been fluctuations in export earnings. Based on the data presented in the table below, the average annual value of exports of pimento decreased from US\$5,659,000 in the 1982-90 period to US\$4,474,000 in the 1991-98 period.

Exports of pimento averaged 0.19 per cent of GDP in the 1982-90 period and 0.10 per cent in the 1991-98, which shows a decrease in contribution of the industry to GDP. However, it should be noted that pimento has consistently contributed more to GDP than citrus and other more prominent products.

The movement of US\$ farm gate prices of pimento (1987-98) has varied widely from a low of US\$892 per tonne in 1991 to a high of US\$1,716 per tonne in 1992. This reflects that there are serious cycle changes in the industry.

Year	Pimento Exports US\$000	Pimento Exports J\$	Pimento Exports as% GDP	Estimated Tax Receipts from Pimento as % Total Tax	Farm gate Pimento price (US\$/tonne)
1982	4,638	8,255,640	0.14%	0.09%	N/A
1983	7,247	12,899,660	0.19%	0.11%	N/A
1984	6,566	25,870,040	0.28%	0.19%	N/A
1985	6,745	37,502,200	0.33%	0.21%	N/A
1986	5,427	29,739,960	0.22%	0.12%	N/A
1987	4,919	27,005,310	0.17%	0.09%	1,466
1988	5,138	28,207,620	0.15%	0.09%	1,606
1989	4,590	26,392,500	0.12%	0.06%	1,591
1990	5,660	40,638,800	0.13%	0.08%	1,336
1991	3,543	45,527,550	0.10%	0.06%	892
1992	4,479	103,061,790	0.14%	0.08%	1,006
1993	3,805	97,712,400	0.10%	0.05%	901
1994	4,496	149,941,600	0.12%	0.06%	826
1995	4,947	175,816,380	0.11%	0.07%	961
1996	3,869	143,230,380	0.08%	0.05%	983
1997	4,837	172,100,460	0.08%	0.04%	1,270
1998	5,817	213,367,560		0.07%	1,382

Source: Economic and Social Survey of Jamaica 1980-98

In terms of the pimento industry's contribution to tax revenue, it was assumed that total tax receipts from the industry, in terms of corporate and income taxes, was 15 per cent of export revenues in each year. Using these assumptions, it was estimated that the industry accounted for an average of 0.12 per cent of total tax revenue in the 1982-90 period and 0.06 per cent in the 1991-98 period. On the whole, this export product has become less important in terms of its impact on GDP and tax revenues since 1982.

Service exports: Tourism industry

The table below shows that expenditure by tourists in US\$ has risen steadily, but substantially, since 1980. As a percentage of GDP, tourism expenditure has risen from a low of 9.0 per cent in 1980 to 26.7 per cent in 1992 and falling back to 18.2 per cent by 1997. There is no doubt that tourism is a significant contributor to the Jamaican economy.

Actual tax receipts from the tourism industry could not be obtained. However, it is assumed that 15 per cent of all tourism expenditure is collected in taxes (GCT and income taxes paid by tourism sector workers). Using these assumptions, results in estimates of tourism related taxes amounting to an average of 11 per cent of total tax revenues since 1980. However the average for the 1980-90 period was 9 per cent, and for the 1991-98 period 13 per cent, showing that tourism has made a greater contribution to total tax revenue in more recent years.

Year	Tourism Expenditure J\$	Tourism Expenditure US\$	Tourism Expenditure as % GDP	Estimated Tax Receipts from Tourism as % Total Tax
1980	428,400,000	240,674,157	9.0%	7.7%
1981	508,300,000	285,561,798	9.7%	6.6%
1982	599,000,000	336,516,854	10.3%	6.4%
1983	785,400,000	441,235,955	11.4%	6.9%
1984	1,594,200,000	404,619,289	17.0%	11.9%
1985	2,175,400,000	391,258,993	19.4%	12.1%
1986	2,807,000,000	512,226,277	21.0%	11.2%
1987	3,263,000,000	594,353,370	20.4%	11.4%
1988	2,894,200,000	527,176,685	15.4%	8.9%
1989	3,464,000,000	602,434,783	15.6%	8.2%
1990	5,338,900,000	743,579,387	17.5%	10.3%
1991	9,402,300,000	731,696,498	20.9%	12.3%
1992	19,564,000,000	850,239,027	26.7%	15.6%
1993	23,859,900,000	929,123,832	24.5%	12.3%
1994	30,669,300,000	919,619,190	23.6%	12.1%
1995	37,940,600,000	1,067,546,427	23.3%	16.0%
1996	40,278,600,000	1,088,022,690	21.8%	14.8%
1997	40,039,700,000	1,125,342,889	18.2%	10.1%
1998	43,780,500,000	1,193,579,607		13.4%

Source: Bank of Jamaica Statistical Digests 1980-99

Jamaica is fortunate to have not experienced any great cyclical downturns in its tourism since 1980. As a result, it has proven to be a very stable, significant and increasing contributor to the economy and to Government revenues.

CONCLUSION

This paper has shown the linkages between liberalization and commodity price and income fluctuations on the revenues of the Jamaican Government since 1980. It is quite clear that in the 1980s, the bauxite/alumina industry accounted for the major share of government revenues. The decline in the bauxite/alumina industry and the international economic recession of the early to mid-1980s had a severe negative impact on the Jamaican economy and on government revenues. During this period tight demand management and structural adjustment initiatives were put in place and the economy went through a period of negative growth, fiscal deficits, depreciating exchange rate and high inflation. Real GDP growth picked up towards the end of the 1980s and remained positive until 1996, since then it has been negative.

In order to strengthen its revenue position, the Government has undertaken (and is still undertaking) major tax administration and structural reforms. These reforms seem to have had some positive effect as revenues seem to have responded positively, however, compliance is still not at the level desired by the Government – hence the continued reforms.

There is a heavy dependence on international trade tax revenues as it has accounted for close to 30 per cent of total tax revenues over the years. What is interesting is that the contribution of international trade taxes to total tax revenues did not decline after the liberalization of the economy, as the Government replaced quotas and licensing with duties. When duties were reduced to comply with the CET, the GCT was introduced and more than compensated for any potential loss of revenue. The GCT has become the largest component of international trade taxes and of total tax revenues.

On the whole, the analysis has shown that liberalization and commodity prices and income have had impacts on Government revenues over the years, but the Government has responded throughout by introducing new measures in order to protect its revenue position.

STATISTICAL ANNEX

MACROECONOMIC VARIABLES

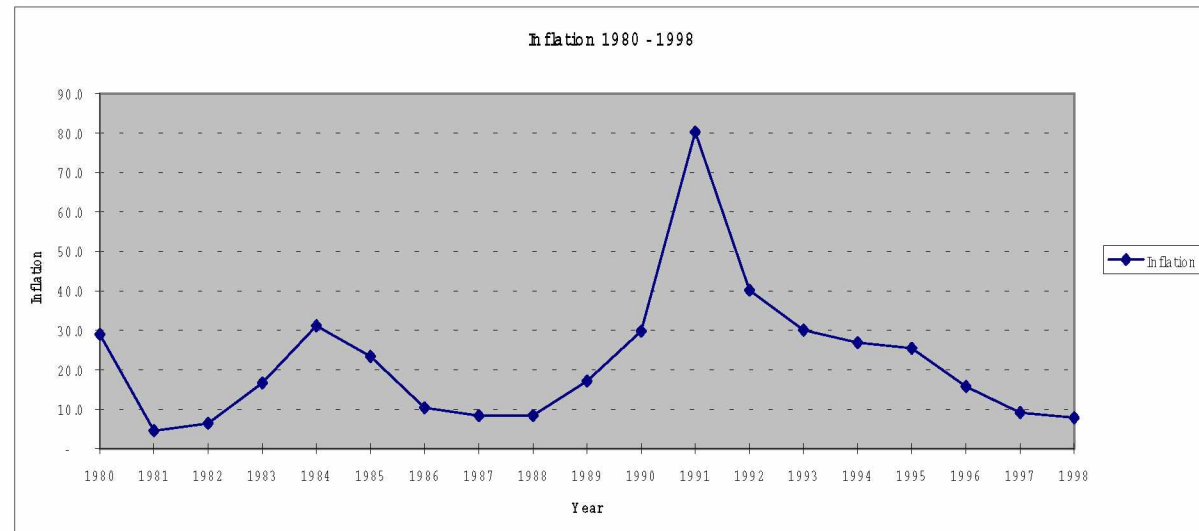
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
GDP (000)	1,829,320	1,897,400	1,892,830	1,931,380	1,923,840	1,837,000	1,876,500	1,983,400	2,012,570	2,103,950
Inflation (%)	28.2	11.9	6.5	11.3	27.8	26.0	14.8	6.7	8.3	14.3
Growth Rate (%)							1.20	7.70	2.90	6.80
MS (000)	647,400	687,100	699,300	730,600	850,200	1,210,400	1,667,600	1,874,800	2,908,800	2,739,400
Exchange Rate (J\$ per US\$)	1.78	1.78	1.78	1.78	3.94	5.56	5.48	5.49	5.49	5.75
Total Tax Revenue (000)	834,200	1,150,000	1,395,500	1,717,600	2,009,000	2,699,300	3,758,300	4,306,900	4,901,600	6,364,100
Total Revenue (000)	1,068,200	1,554,600	1,736,700	1,937,700	2,623,100	3,668,500	4,397,800	5,385,700	6,020,300	8,304,200
Total Export Revenue	1,675,582	1,718,728	1,328,108	1,363,671	2,675,758	2,958,815	3,096,714	3,781,146	4,710,082	5,548,974
Fiscal Budget Surplus/Deficit				(812,700)	(588,700)	(647,600)	(294,000)	(363,000)	(1,179,800)	654,900
Overall Surplus/deficit (-)				(1,421,500)	(988,700)	(1,318,600)	(1,276,000)	(626,400)	(2,705,100)	(2,652,600)
Commodity Export Revenue (Tax)										
	1990	1991	1992	1993	1994	1995	1996	1997	1998	
GDP (000)	17,359,200	17,486,900	17,737,100	17,990,500	18,200,000	18,300,000	18,100,000	17,700,000	17,600,000	
Inflation (%)	22.0	51.0	77.3	22.1	35.1	19.9	26.4	9.7	8.7	
Growth Rate (%)	5.50	0.70	1.40	1.40	0.80	0.70	(1.40)	(2.10)	(0.70)	
MS (000)	3,486,300	6,867,100	10,283,600	14,398,200	17,896,700	23,227,700	28,500	28,600	30,300	
Exchange Rate (J\$ per US\$)	7.18	12.85	23.01	25.68	33.35	35.54	37.02	35.58	36.68	
Total Tax Revenue (000)	7,809,000	11,469,000	18,786,000	29,110,800	37,986,600	35,666,500	40,740,500	59,224,200	49,099,700	
Total Revenue (000)	9,588,200	14,496,400	21,029,400	34,330,140	68,383,500	41,631,000	45,549,000	66,425,700	54,588,500	
Total Export Revenue	8,050,790	12,286,550	23,616,567	26,011,628						
Fiscal Budget Surplus/Deficit	2,377,000	1,448,200	2,145,500	2,185,000	(2,085,100)	(1,335,400)	(16,707,800)	(19,962,400)	(18,492,400)	
Overall Surplus/deficit (-)	1,556,300	2,926,400	(5,841,700)	783,100	214,140	(5,173,900)	(1,400,800)	(6,693,400)	1,009,900	

Source: Statistical Institute of Jamaica

INFLATION

Year	Inflation
1980	29.0
1981	4.6
1982	6.5
1983	16.7
1984	31.2
1985	23.4
1986	10.4
1987	8.4
1988	8.5
1989	17.2
1990	29.8
1991	80.2
1992	40.2
1993	30.1
1994	26.9
1995	25.5
1996	15.8
1997	9.2
1998	7.9

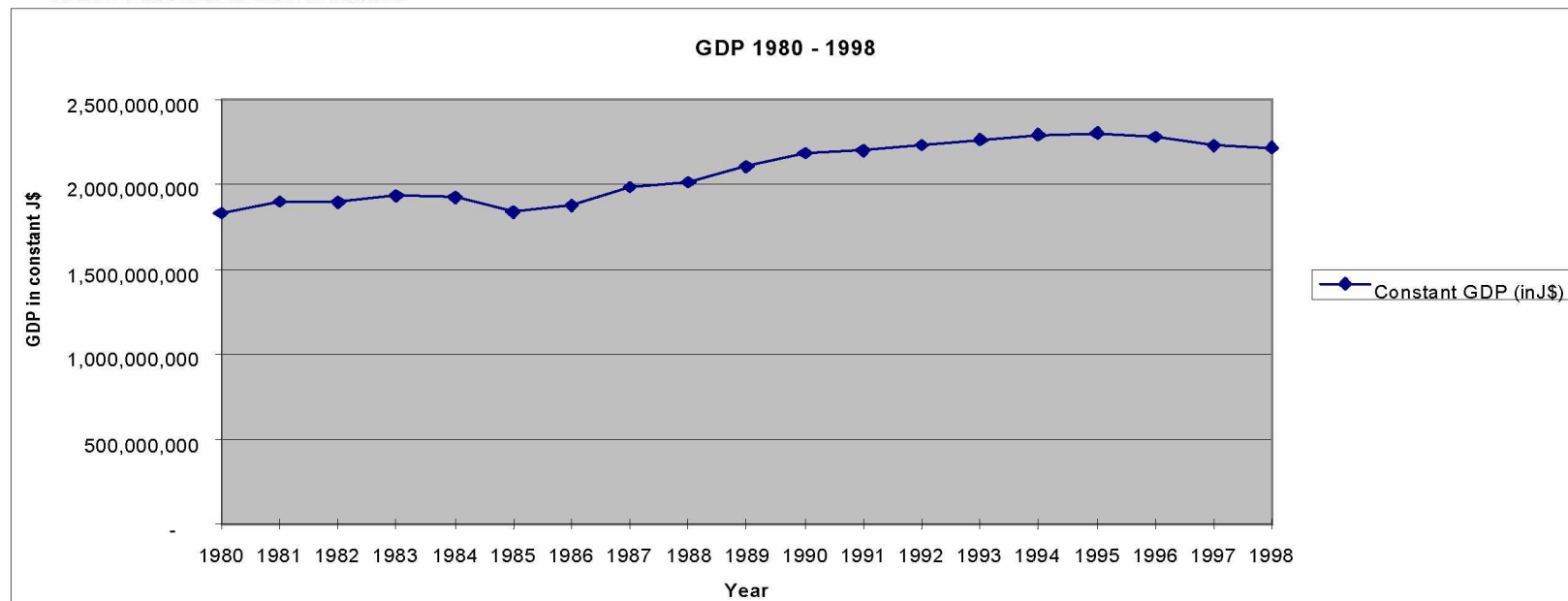
Source: Statistical Institute of Jamaica



GDP

Year	Constant GDP (inJ\$)	GDP in Current Prices (J\$)
1980	1,829,320,000	4,750,070,000
1981	1,897,400,000	5,267,200,000
1982	1,892,830,000	5,841,900,000
1983	1,931,380,000	6,897,000,000
1984	1,923,840,000	9,358,400,000
1985	1,837,000,000	11,202,600,000
1986	1,876,500,000	13,388,500,000
1987	1,983,400,000	16,002,110,000
1988	2,012,570,000	18,748,040,000
1989	2,103,950,000	22,224,120,000
1990	2,184,120,000	30,517,600,000
1991	2,200,187,107	44,905,700,000
1992	2,231,667,061	73,230,700,000
1993	2,263,549,637	97,511,600,000
1994	2,289,908,752	130,055,200,000
1995	2,302,490,668	162,568,700,000
1996	2,277,326,835	184,530,000,000
1997	2,226,999,170	220,074,000,000
1998	2,214,417,254	

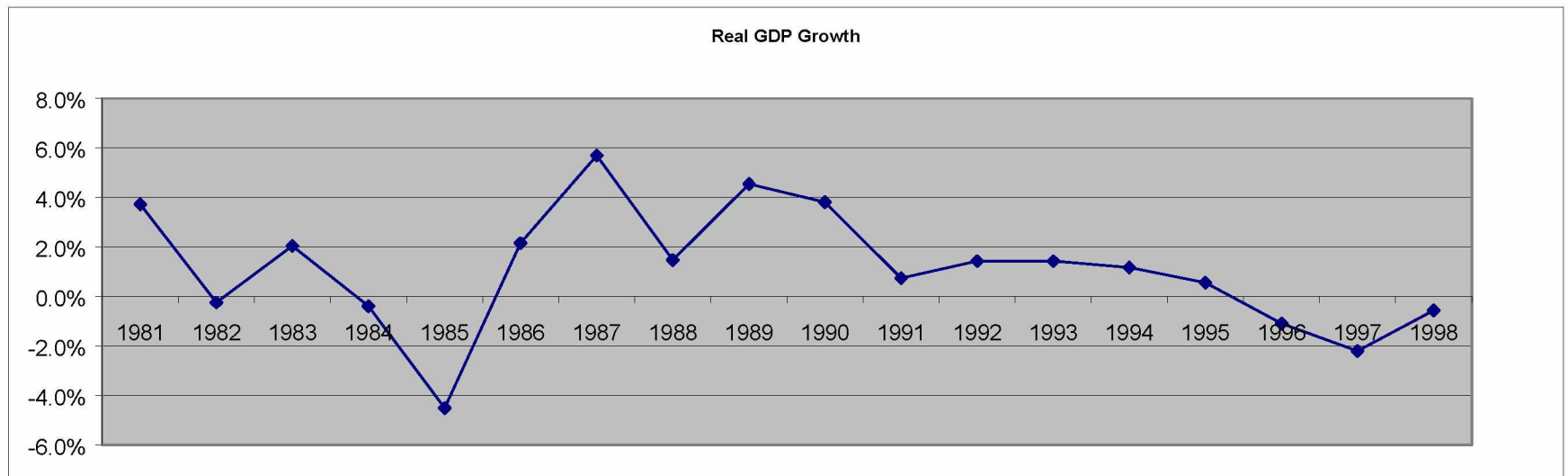
Source: Statistical Institute of Jamaica



GROWTH RATE

1981	3.7%
1982	-0.2%
1983	2.0%
1984	-0.4%
1985	-4.5%
1986	2.2%
1987	5.7%
1988	1.5%
1989	4.5%
1990	3.8%
1991	0.7%
1992	1.4%
1993	1.4%
1994	1.2%
1995	0.5%
1996	-1.1%
1997	-2.2%
1998	-0.6%

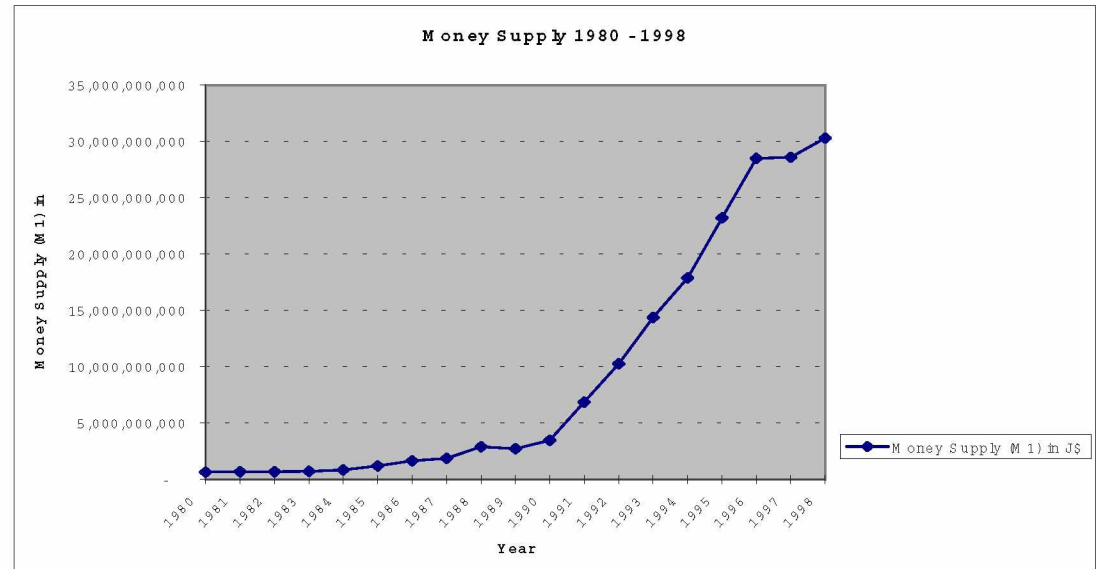
Source: Planning Inst. Of Jamaica



MONEY SUPPLY

Year	Money Supply (M1) in J\$	Ms Growth
1980	647,400,000	
1981	687,100,000	6.1%
1982	699,300,000	1.8%
1983	730,600,000	4.5%
1984	850,200,000	16.4%
1985	1,210,400,000	42.4%
1986	1,667,600,000	37.8%
1987	1,874,800,000	12.4%
1988	2,908,800,000	55.2%
1989	2,739,400,000	-5.8%
1990	3,486,300,000	27.3%
1991	6,867,100,000	97.0%
1992	10,283,600,000	49.8%
1993	14,398,200,000	40.0%
1994	17,896,700,000	24.3%
1995	23,227,700,000	29.8%
1996	28,500,000,000	22.7%
1997	28,600,000,000	0.4%
1998	30,300,000,000	5.9%

Source: Statistical Institute of Jamaica



TREASURY BILL RATES 1980-1999

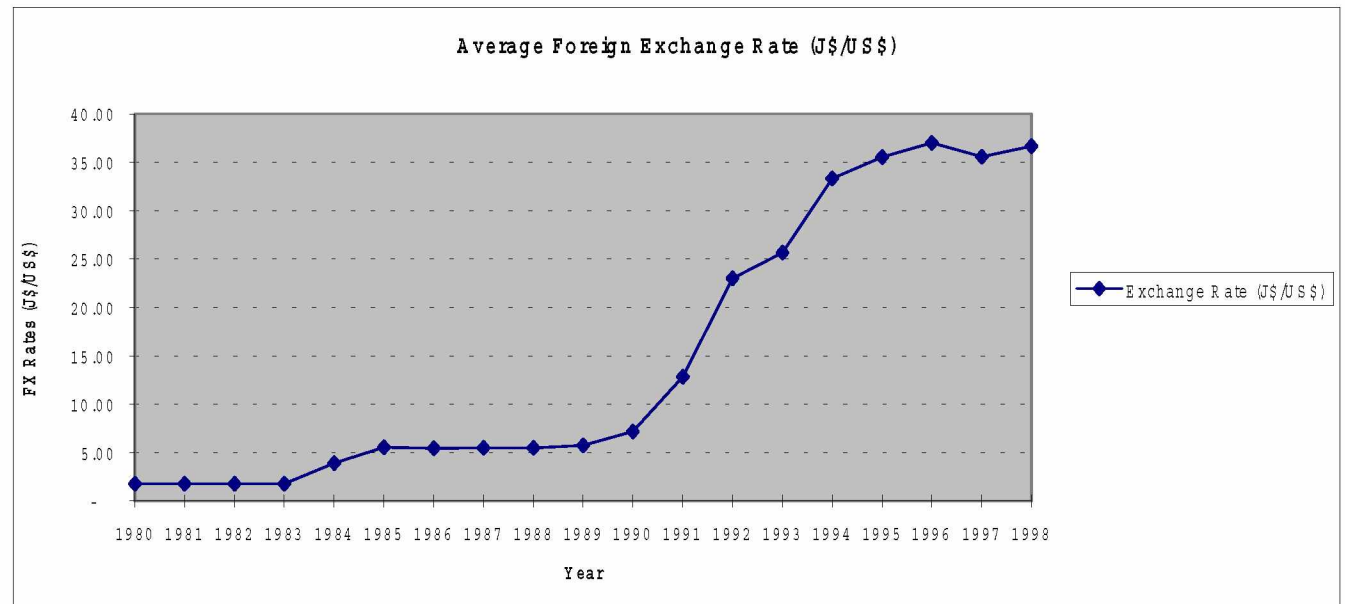
YEAR	T-BILL RATE
1980	10.0%
1981	9.8%
1982	8.6%
1983	12.4%
1984	13.3%
1985	19.0%
1986	20.9%
1987	18.2%
1988	18.5%
1989	19.1%
1990	26.2%
1991	25.6%
1992	34.4%
1993	28.9%
1994	43.0%
1995	27.7%
1996	38.0%
1997	21.1%
1998	25.7%

Source: International Financial Statistics

EXCHANGE RATE

	Rate (J\$/US\$)
1980	1.78
1981	1.78
1982	1.78
1983	1.78
1984	3.94
1985	5.56
1986	5.48
1987	5.49
1988	5.49
1989	5.75
1990	7.18
1991	12.85
1992	23.01
1993	25.68
1994	33.35
1995	35.54
1996	37.02
1997	35.58
1998	36.68

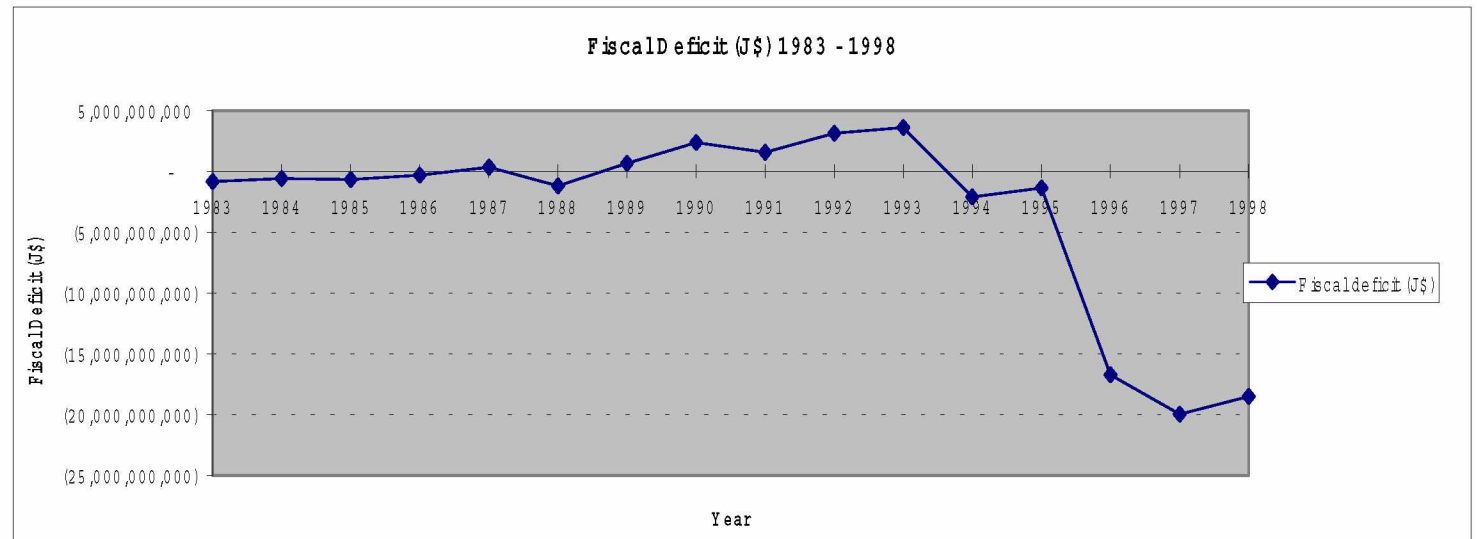
Source: Statistical
Institute of Jamaica



FISCAL DEFICIT

Year	Fiscal deficit (J\$)
1980	(1,039,900,000)
1981	(916,700,000)
1982	(1,009,600,000)
1983	(812,700,000)
1984	(588,700,000)
1985	(647,600,000)
1986	(294,000,000)
1987	363,000,000
1988	(1,179,800,000)
1989	654,900,000
1990	2,377,000,000
1991	1,586,600,000
1992	3,147,200,000
1993	3,610,900,000
1994	(2,085,100,000)
1995	(1,335,400,000)
1996	(16,707,800,000)
1997	(19,962,400,000)
1998	(18,492,400,000)

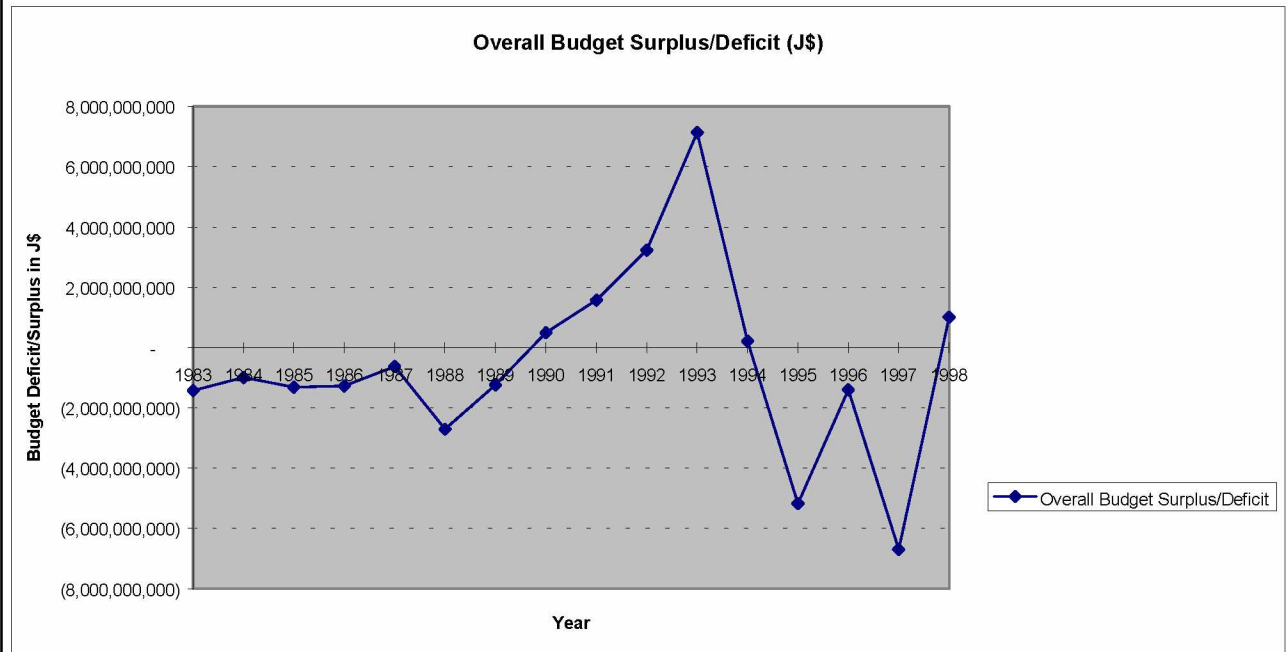
Source: Statistical
Institute of Jamaica



OVERALL DEFICIT

Year	Overall Budget Surplus/Deficit
1983	(1,421,500,000)
1984	(988,700,000)
1985	(1,318,600,000)
1986	(1,276,000,000)
1987	(626,400,000)
1988	(2,705,100,000)
1989	(1,237,200,000)
1990	495,000,000
1991	1,578,800,000
1992	3,232,500,000
1993	7,131,700,000
1994	214,140,000
1995	(5,173,900,000)
1996	(1,400,800,000)
1997	(6,693,400,000)
1998	1,009,900,000

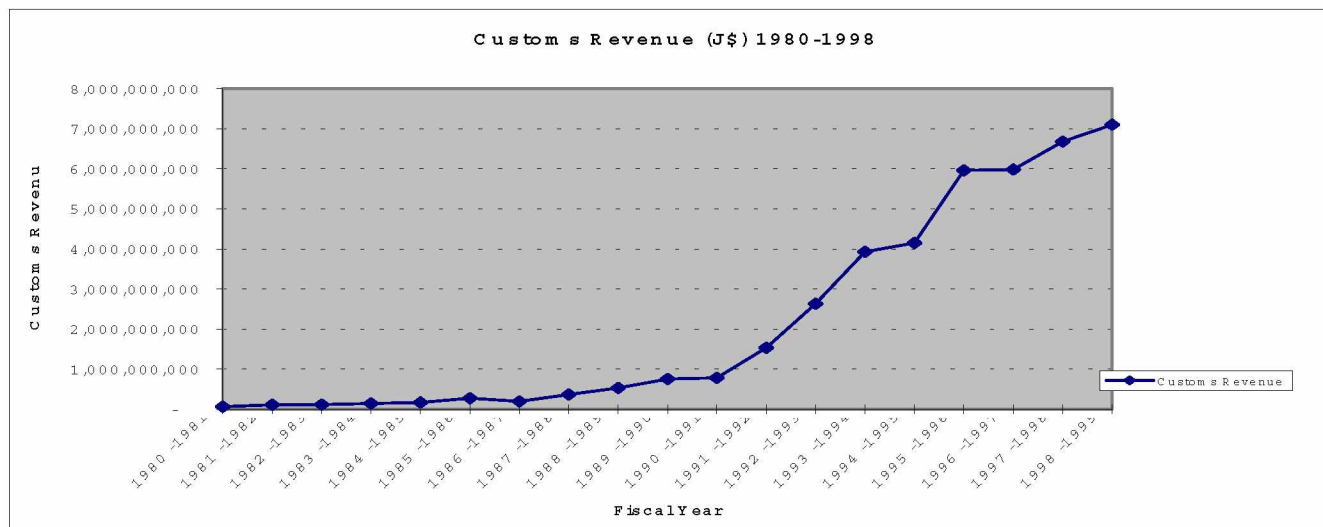
Source: Statistical Inst. Of Jamaica



CUSTOMS REVENUE

Year	Customs Revenue J\$)
1980 -1981	61,634,878
1981 -1982	110,717,644
1982 -1983	116,000,000
1983 -1984	139,993,560
1984 -1985	163,080,000
1985 -1986	272,203,096
1986 -1987	193,883,887
1987 -1988	366,265,828
1988 -1989	531,000,000
1989 -1990	750,700,000
1990 -1991	781,700,000
1991 -1992	1,529,700,000
1992 -1993	2,631,500,000
1993 -1994	3,926,900,000
1994 -1995	4,147,400,000
1995 -1996	5,961,600,000
1996 -1997	5,977,600,000
1997 -1998	6,677,100,000
1998 -1999	7,098,300,000

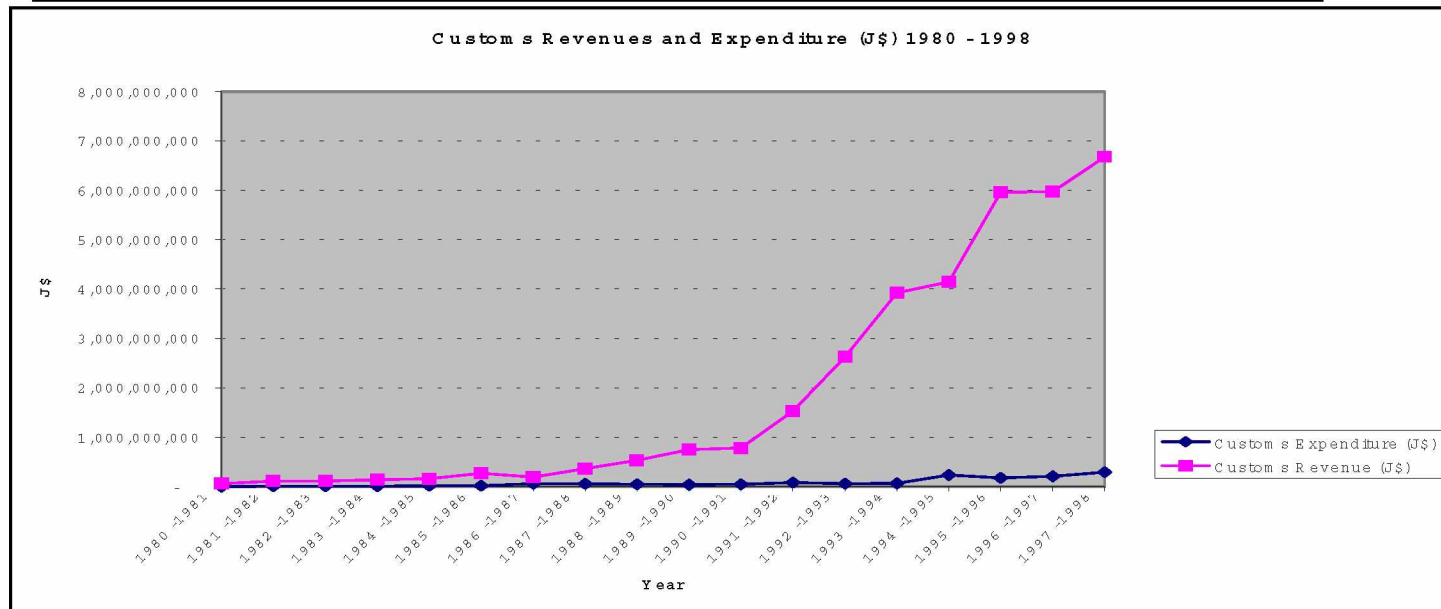
Source: Statistical Inst. Of Jamaica



CUSTOMS EXPENDITURE

Year	Customs Expenditure (J\$)	Customs Revenue (J\$)	Customs Exp. As % of Customs Revenue	International Trade Tax Revenues (J\$)	Customs Exp. As % of International Trade Tax Rev.
1980 -1981	1,860,233	61,634,878	3%	232,160,000	1%
1981 -1982	10,947,814	110,717,644	10%	311,540,000	4%
1982 -1983	10,402,000	116,000,000	9%	370,100,000	3%
1983 -1984	10,000,000	139,993,560	7%	418,620,000	2%
1984 -1985	16,339,000	163,080,000	10%	533,920,000	3%
1985 -1986	18,311,000	272,203,096	7%	666,380,000	3%
1986 -1987	63,605,500	193,883,887	33%	1,003,860,000	6%
1987 -1988	56,324,000	366,265,828	15%	1,159,840,000	5%
1988 -1989	49,757,500	531,000,000	9%	1,406,060,000	4%
1989 -1990	41,544,000	750,700,000	6%	1,804,840,000	2%
1990 -1991	47,564,000	781,700,000	6%	1,896,520,000	3%
1991 -1992	83,088,000	1,529,700,000	5%	2,675,200,000	3%
1992 -1993	62,221,000	2,631,500,000	2%	4,682,000,000	1%
1993 -1994	66,529,000	3,926,900,000	2%	8,247,100,000	1%
1994 -1995	235,695,000	4,147,400,000	6%	9,925,000,000	2%
1995 -1996	178,232,000	5,961,600,000	3%	15,427,800,000	1%
1996 -1997	212,746,000	5,977,600,000	4%	16,006,200,000	1%
1997 -1998	293,544,000	6,677,100,000	4%	17,513,100,000	2%

Source: Ministry of Finance



DEBT

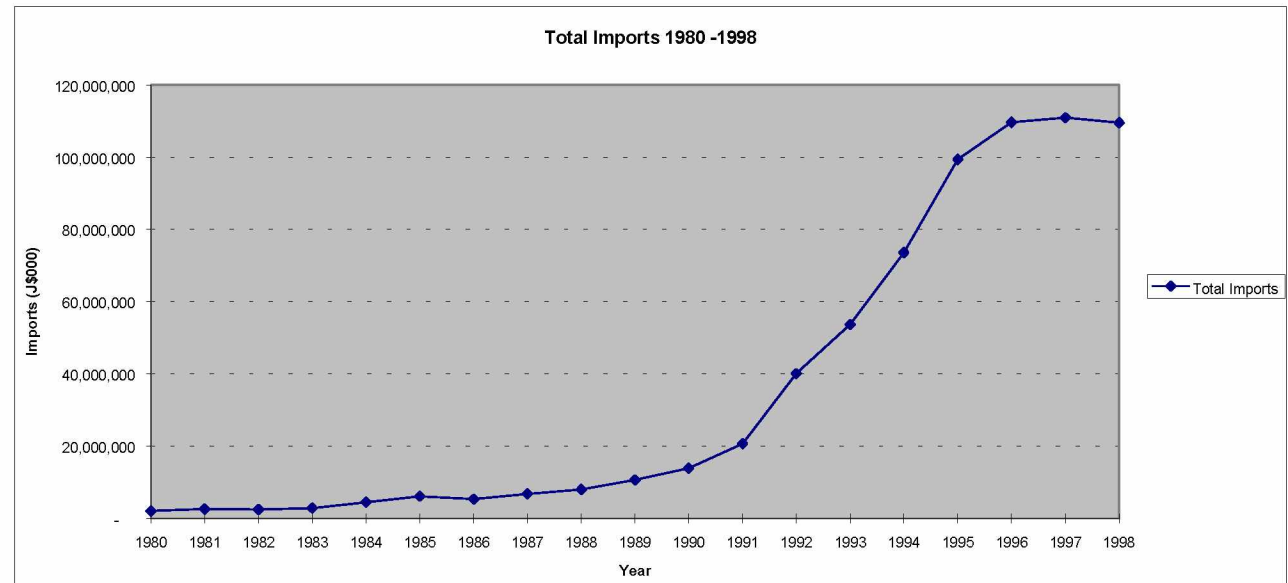
Year	Total External Debt (US\$)	Total Domestic Debt (J\$)	Total External Debt Service (US\$)	Debt/Service Exports	Total Debt/ GDP
1980	1,866,800,000	2,443,000,000	280,000,000		
1981	2,293,100,000	3,209,600,000			
1982	2,739,900,000	3,551,200,000			
1983	3,266,900,000	4,398,700,000			
1984	3,266,600,000	6,006,100,000			
1985	3,499,000,000	6,734,200,000			
1986	3,524,000,000	6,457,400,000			
1987	4,013,400,000	8,417,200,000	750,000,000		
1988	4,001,800,000	9,851,400,000	736,000,000		
1989	4,035,000,000	9,637,100,000	643,000,000		
1990	4,169,200,000	9,968,100,000	663,770,000	29.0%	144%
1991	3,874,300,000	10,195,400,000	606,800,000	26.7%	203%
1992	3,678,000,000	19,025,100,000	637,880,000	27.1%	137%
1993	3,687,200,000	24,390,000,000	542,120,000	22.6%	148%
1994	3,611,700,000	53,083,310,000	536,040,000	20.0%	132%
1995	3,402,500,000	60,203,450,000	592,560,000	18.8%	119%
1996	3,170,300,000	90,075,890,000	597,470,000	18.0%	94%
1997	3,223,100,000	101,351,160,000	523,070,000	16.8%	95%
1998	3,306,400,000	121,014,640,000			

Source: Statistical Institute of Jamaica

IMPORTS

1980	2,086,646	19%
1981	2,623,368	26%
1982	2,460,309	-6%
1983	2,840,991	15%
1984	4,509,548	59%
1985	6,146,681	36%
1986	5,322,392	-13%
1987	6,790,513	28%
1988	7,983,235	18%
1989	10,668,320	34%
1990	13,923,246	31%
1991	20,699,114	49%
1992	40,141,454	94%
1993	53,737,277	34%
1994	73,631,276	37%
1995	99,418,252	35%
1996	109,686,625	10%
1997	110,931,821	1%
1998	109,536,668	-1%

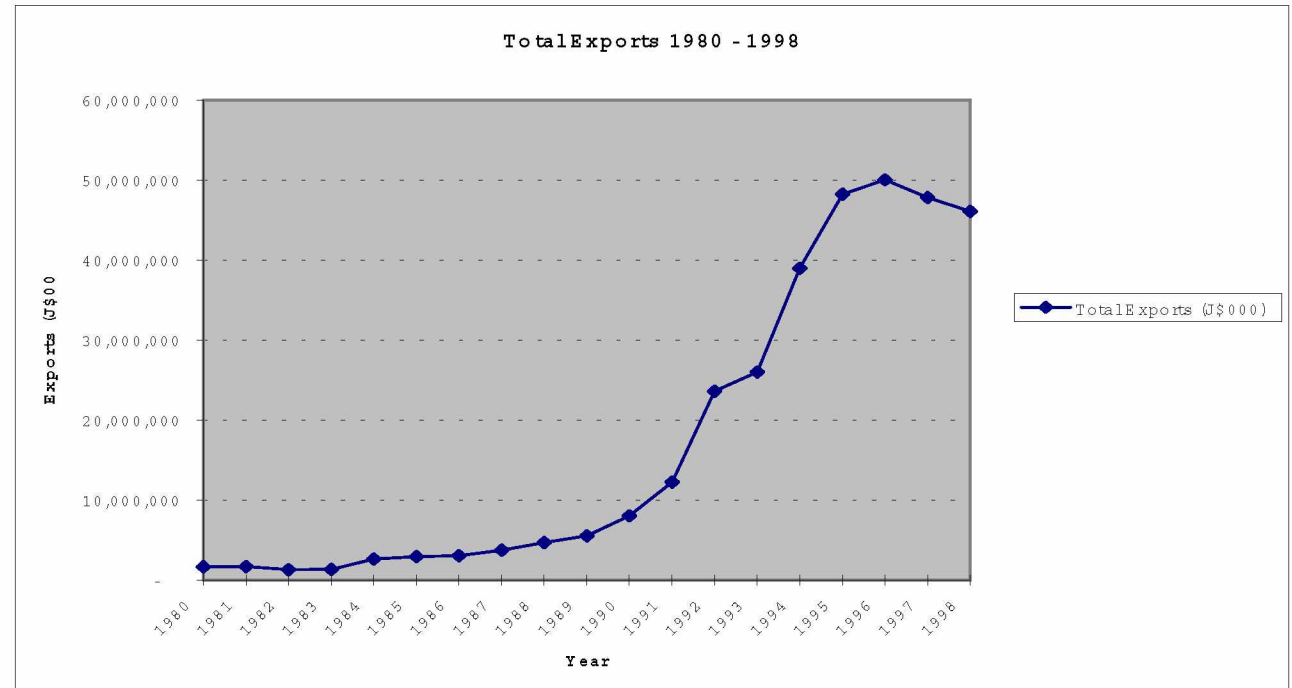
Source: Statistical Institute of
Jamaica



EXPORTS

1980	1,675,582
1981	1,718,728
1982	1,328,108
1983	1,363,671
1984	2,675,758
1985	2,958,815
1986	3,096,714
1987	3,781,146
1988	4,710,082
1989	5,548,974
1990	8,050,790
1991	12,286,550
1992	23,616,567
1993	26,011,628
1994	38,971,834
1995	48,255,048
1996	50,022,986
1997	47,817,308
1998	46,099,229

Source: Statistical Inst. Of Jamaica



UNEMPLOYMENT

YEAR	UNEMPLOYMENT RATE
1980	27.4%
1981	26.0%
1982	27.6%
1983	26.4%
1984	25.0%
1985	25.0%
1986	23.6%
1987	21.0%
1988	18.9%
1989	18.0%
1990	15.4%
1991	15.4%
1992	15.7%
1993	16.3%
1994	15.4%
1995	16.2%
1996	16.0%
1997	16.5%
1998	15.5%

Source: Statistical Institute of Jamaica