EXAMINATION OF THE COMPONENTS OF THE FISCAL POLICY PAPER INTERIM REPORT, WHICH WAS LAID BEFORE THE HOUSES OF PARLIAMENT ON SEPTEMBER 24, 2019

INDEPENDENT AUDITOR'S REPORT
THE AUDITOR GENERAL OF JAMAICA
FINANCIAL YEAR 2019/20

AUDITOR GENERAL'S DEPARTMENT
accountability | transparency | efficiency | integrity

Vision Statement

"A better country through effective audit scrutiny"

The Auditor General is appointed by the Governor General and is required by the Constitution, Financial Administration and Audit Act, other sundry acts and letters of engagement, to conduct audits at least once per year of the accounts, financial transactions, operations and financial statements of central government ministries and departments, local government agencies, statutory bodies and government companies. The Auditor General is also required, under the FAA Act, to review the Fiscal Policy Paper, and other provisions of the Fiscal Responsibility Framework.

The Department is headed by the Auditor General, Pamela Monroe Ellis, who submits her reports to the Speaker of the House of Representatives in accordance with Section 122 of the Constitution of Jamaica and Section 29 of the Financial Administration and Audit Act.

This report has been prepared by the Auditor General's Department of Jamaica for presentation to the House of Representatives.

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Auditor General's Comments

1. I have examined the components of the Fiscal Policy Paper (FPP) FY2019/20 Interim Report, laid before the Houses of Parliament on September 24, 2019, in accordance with the FAA Act. The report met the requirements of the Third Schedule and included the minimum content under the Fiscal Responsibility Statement (FRS), Macroeconomic Framework and Fiscal Management Strategy (FMS).

My Responsibility

2. Section 48B (6) of the FAA Act requires the Auditor General to examine the components of the Fiscal Policy Paper and provide a report to the Houses of Parliament indicating whether: -

a) the conventions and assumptions underlying the preparation of the Fiscal Policy Paper comply with the principles of prudent fiscal management specified in Section 48D;

An important principle of prudent fiscal management is that the budget must be based on a realistic macroeconomic framework. Therefore, I reviewed the FY2018/19 outturn for the macroeconomic indicators relative to the targets outlined in the February FY2018/19 FPP, as well as the revised forecast for FY2019/20 and the medium-term, to identify any material deviation or factors that warranted the change in the revenue forecasts. I also reviewed the Report to identify risks that materialised or emerging risks, given that prudent fiscal management requires that the supplementary and medium-term estimates of expenditure, be based on reasonable revenue projections.

i. Regarding the macroeconomic indicators, I found that for FY2018/19, the outturn relative to forecast, for real GDP and inflation were in line with expectations. Whereas nominal GDP exceeded forecast, this outturn could be largely explained by the stronger than expected growth for Mining and Quarrying and the transmission effects on income. The FY2018/19 FPP identified the key macroeconomic risks to *economic growth, commodity prices, interest rates* and *exchange rates*. However, for FY2018/19, there was no adverse impact on revenues. Instead, interest costs benefitted from lower than anticipated interest rates while, the slight depreciation of the Jamaica Dollar had a positive impact on revenues from imported goods.

ii. The February FPP FY2019/20 forecasted lower real economic growth for FY2019/20 and two years thereafter, underpinned by the temporary closure of the JISCO Alpart Plant. However, the Interim FPP further reduced the real GDP growth for FY2019/20, but increased the growth forecast for FY2021/22. The maintenance of lower projected tax revenues until FY2022/23, suggested a conservative approach by the Ministry. This is prudent given the adverse implications of lower than expected nominal GDP growth, which would also affect the achievement of the legislated public debt to GDP and wage to GDP targets. With respect to other macroeconomic indicators identified, inflation rate and oil prices, no explanations were provided for the reduction in forecasts beyond FY2019/20.

b) **the reasons given, pursuant to subsection (5) (d) (ii) are reasonable having regard to the circumstances;**

In my previous reviews of the FPP, I had recommended that the Ministry conform with the requirements of the Financial Administration and Audit (FAA) Act by reviewing the fiscal outturn against the original budget. I wish to acknowledge that this requirement has been met. Accordingly, I reviewed the Central Government outturn for FY2018/19 and for April to July 2019 relative to the respective budgets outlined in the February 2019/20 FPP.

i. Whereas in most cases the reasons provided for deviations from target were reasonable, in a few instances, the provision of additional information would have enabled greater clarity and transparency regarding performance. For example, the Interim FPP pointed to increased tax compliance by indicating the change in the stock of arrears; however, no information was provided on budgeted arrears, to clarify the extent of the tax compliance effort.

ii. In addition, greater clarity was required regarding the performance of PAYE. The Interim FPP indicated that the projection for PAYE was 'made on the basis of the 2017/18 budgeted inflows, however the end of year actual outturn was moderately higher' and that 'the lower base contributed to the deviation in outturn'. However, it was not clear whether actual data that would have been available prior to end-FY2017/18 were incorporated to improve the quality of the FY2018/19 forecast. The Ministry subsequently clarified that the expected outturn for FY 2017/18, used as the base for FY 2018/19 would have included actuals up to December 2017 and projections to end March 2018.

c) **pursuant to my application of criteria prescribed pursuant to regulations made under Section 50 (1), there are public bodies that do not form part of the specified public sector, and identifying those bodies (if any) which in the preceding financial year formed part of the specified public sector;**

My obligation under Section 50 (1) of the FAA Act is to certify that a public body carries out functions that are of a commercial nature. The Act requires that the Minister, no later than August 31, in every third year, provide the Auditor General with a list of public bodies that the Minister wishes the Auditor General to consider for certification. It was anticipated that a list would be provided by August 31, 2019; however, up to the time of this report, none had been received from the Ministry of Finance.

Ministry's Response:
The Ministry is aware of this requirement and notes that the August 31, 2019 timeline was missed. The updated list is being compiled and will be sent for review by the Auditor General.

d) a public private partnership involves only minimal contingent liabilities

In accordance with the FAA Act, I am required to assess whether 'a public private partnership involves only minimal contingent liabilities accruing to the Government'. The February FPP FY2019/20 indicated that a public private partnership (PPP) arrangement for the Normal Manley International Airport, had been approved by Cabinet and commercial closure was achieved with the signing of a 25-year Concession Agreement. Financial close is however, not expected until the end of the third quarter of FY2019/20 after which, I will undertake an assessment for minimal contingent liability in accordance with my responsibilities under the FAA Act.

My Recommendation

3. The Ministry should consider reporting on the performance of tax arrears collected relative to the budget as this could further enhance transparency of the compliance and administrative efforts.

Pamela Monroe Ellis, FCCA, FCA
Auditor General

Executive Summary

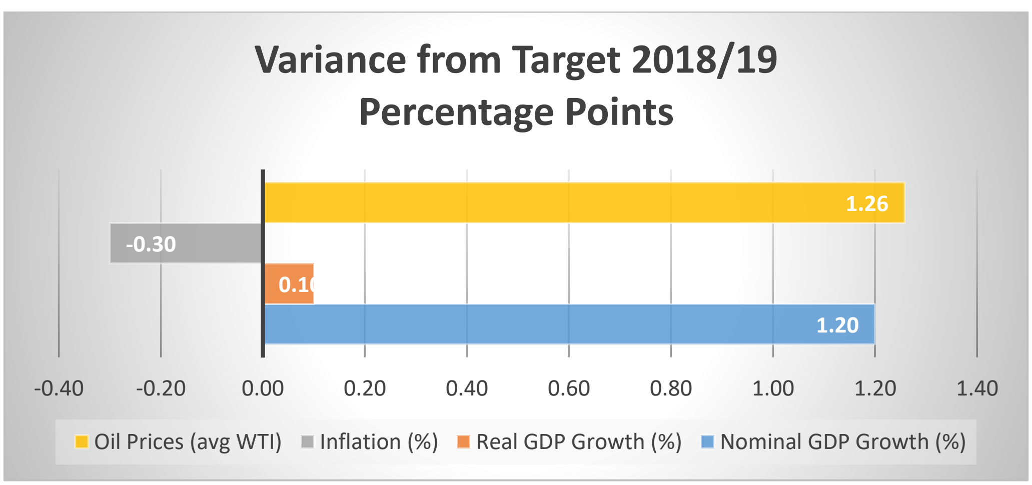
4. My review of the FPP Interim report was based on the requirements stated in Section 48B (6) of the FAA Act and therefore, I did not evaluate the merits of the Finance Minister's Fiscal Management Strategy. In conducting my assessment, I adhered to the standards issued by the International Association of Supreme Audit Institutions and International Standard on Assurance Engagement (ISAE) 3000 – *Assurance Engagements Other than Audits or Reviews of Historical Information* issued by the International Auditing and Assurance Standards Board.

5. The FY2019/20 Interim FPP provided a comparison of the FY2018/19 outturn relative to the budget outlined in the February FPP FY2018/19, in compliance with the FAA Act and the Auditor General's recommendation reiterated in the February FY2019/20 FPP as well as a comparison of the outturn for April to July 2019/20 with the budget.

What I found

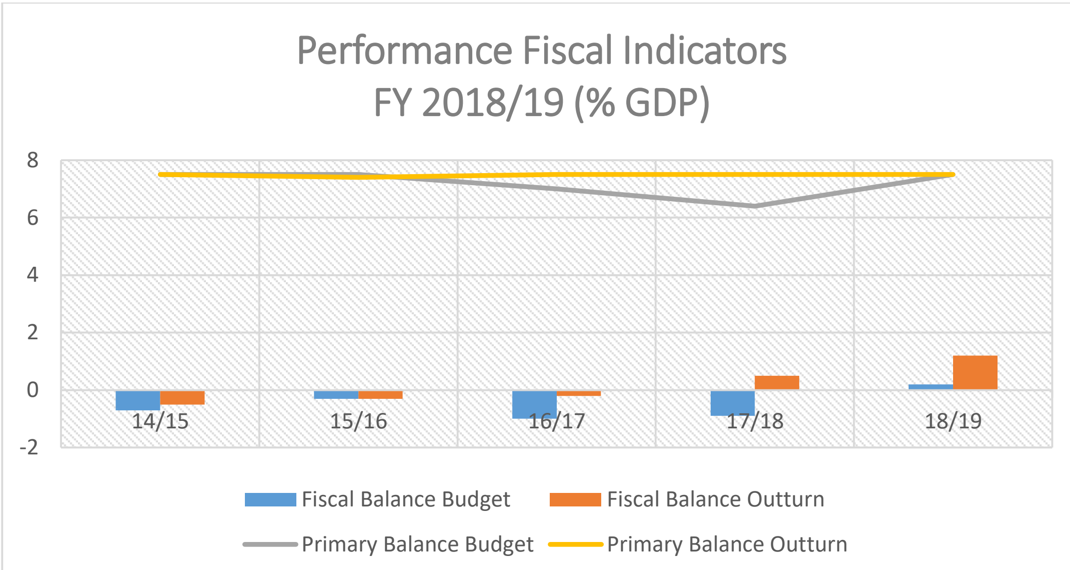
Performance - FY2018/19

6. I compared the outturns for key macroeconomic indicators that underpinned the revenue target and found that for FY2018/19, the outturn for real GDP and inflation were in line with expectations, whereas nominal GDP exceeded expectations. This was not surprising given stronger growth of Mining and Quarrying and the transmission effect on income that could not have been anticipated. The February 2018/19 FPP had forecasted a 25 per cent change in value added from this sector, whereas the actual outturn reported in the FY2019/20 Interim FPP was 27 per cent.



7. With respect to the FY2018/19 outturn, there was no adverse impact on revenues from the risks identified in the February FY2018/19 FPP. In particular, interest costs were less than budgeted given

lower than expected interest rates and tax revenues from imported goods were higher, consequent the depreciation of the Jamaica Dollar. Against that background, the fiscal outturn for FY2018/19 exceeded budget, given stronger than anticipated revenues, while the primary balance was in line with target.



8. However, while the explanations for variances in the outturn for FY2018/19 from budget were generally reasonable, there were instances where the over and underperformance of specific revenue categories were attributed to deficiencies in the base used to derived the budget. For example, the Interim FPP stated that for FY2018/19, the greater than expected collections for PAYE was due to the fact that "the projection for PAYE was made on the basis of the 2017/18 budgeted inflows and that "the lower base contributed to the deviation in outturn". This explanation was also advanced for the deviation in PAYE receipts from budget for the period April to July 2019. However, it was not clear whether actual data that would have been available prior to end-FY2017/18 were incorporated to improve the quality of the FY2018/19 forecast.

9. The Interim FPP also pointed to increased tax compliance and provided information on the change in the stock of arrears. However, no information on budgeted arrears was provided to clarify the extent of the tax compliance effort.

Fiscal Risks - FY2019/20

10. The Fiscal Risk Statement outlined several key macroeconomic developments subsequent to the tabling of the February FPP FY2019/20, that pose a risk to fiscal performance. In particular, the February 2019/20 FPP indicated that the baseline forecast for growth carried the assumption that production at the Alpart plant could be disrupted for three months with a risk of closure for six months. The February FPP indicated that if this risk materialises, real GDP could fall to 1.3 per cent for FY2019/20 instead of the baseline forecast of 1.5 per cent, with a further decline for two years to FY2021/22. Although the Interim FPP further reduced the real GDP growth to 0.7 per cent for FY2019/20, the rate was revised upwards for FY2021/22. However, the revenue target was revised downwards to FY2022/23, suggesting a conservative approach by the Ministry. Of note, a lower than expected nominal GDP growth could also threaten the primary balance target and the achievement of legislated targets, in particular, the public debt to GDP and wage to GDP targets.

11. The Fiscal Risk Statement highlighted the continued monitoring of state-owned enterprises (SOEs), that have often been a source of contingent liability for the GOJ. In a context where Clarendon Alumina Production has been experiencing operational challenges primarily due to depressed alumina prices, an assessment of the risk to the public debt target would have been pertinent. Further, given that the Government provided fiscal support approximately twice the amount planned, we expected greater detail regarding GOJ support in the current fiscal year, as well as the strategies employed to mitigate further impact on the fiscal accounts.

Performance against Fiscal Framework

12. I reviewed the fiscal outturn and projections in the context of the Fiscal Responsibility Framework (FRF) which were amended in 2014 to include the new Fiscal Rule that sets a floor on the overall balance of the covered public sector[1], to bring the debt ratio down to 60 per cent of GDP or below by FY2025/26. The FRF also includes an escape clause and automatic correction mechanism, whereby annual deviations are stored in a notional account. When the cumulative deviations in the notional account exceeds a threshold, annual adjustments are required to get back on track with the Fiscal Rule. The Ministry indicated a fiscal surplus for FY2018/19 and for the April to July 2019 period; however, in the event that the variance is negative, an adjustment to the notional account[2] would be expected.

Fiscal Targets

FISCAL BALANCE	DEBT RATIO	WAGES RATIO	ORIGINAL BUDGET & SUPPLEMENTARY ESTIMATES	NOTIONAL ACCOUNT
				
To attain a fiscal balance as a percentage of Gross Domestic Product, as at the end of the financial year ending March 31, 2018 and thereafter, that allows the requirement specified in paragraph (b) to be achieved, and to be maintained or improved thereafter, and the fiscal balance to be attained shall be computed in accordance with the Fifth Schedule.	**To reduce the public debt to sixty per cent or less of Gross Domestic Product by the end of the financial year ending March 31, 2026, and maintain or improve the ratio thereafter.**	**To reduce the ratio of wages paid by the Government as a proportion of the Gross Domestic Product to 9 per cent or less by the end of the financial year ending March 31, 2019 and maintain or improve the ratio thereafter [FAA (Amendment) Act 2016].**	**To ensure that neither the Appropriation Act nor any Supplementary Estimates of Revenue and Expenditure for any financial year will cause any negative deviations from the fiscal balance to be attained pursuant to paragraph (a).**	**To ensure that no deviation is recorded in the notional account until the fiscal accounts for the financial year in question have been finalised.**

Key:

On track	Target at risk	Keep in View
		

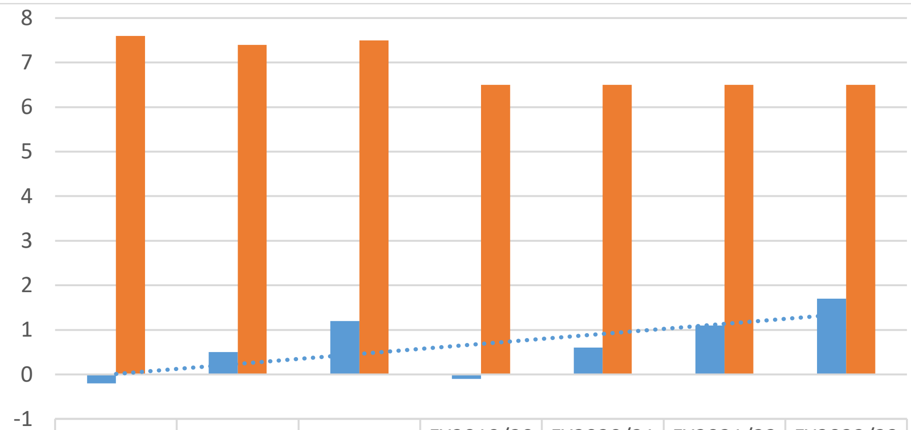
[1] Central Government and other public entities included in the specified public sector as defined in the FAA Act.
[2] The FAA (amendment 2014) Act defines notional account as "an account in which the cumulative deviations (whether negative or positive) from targeted fiscal balances are recorded."

The Fiscal Management Strategy

Fiscal and Primary Balance

13. The February 2019/20 FPP had indicated a primary balance target of 7.0 per cent of GDP, with a corresponding fiscal surplus of 0.7 per cent; the operational instruments utilized to attain a Public Debt of no more than 60.0 per cent of GDP by the end of FY2025/26. The subsequent downward revision to the Primary balance target to 6.5 per cent of GDP for FY2019/20 and the medium-term, as agreed with the IMF to allow for additional fiscal space, resulted in a corresponding downward revision to the fiscal balance target to negative 0.1 per cent of GDP for the current period **(Figure 1)**.

Figure 1: Fiscal and Primary Balance (% of GDP)



	FY 2016/17	FY2017/18	FY2018/19	FY2019/20 Proj.	FY2020/21 Proj.	FY2021/22 Proj.	FY2022/23 Proj.
Fiscal Balance	-0.2	0.5	1.2	-0.1	0.6	1.1	1.7
Primary Balance	7.6	7.4	7.5	6.5	6.5	6.5	6.5

Source: MOFPS

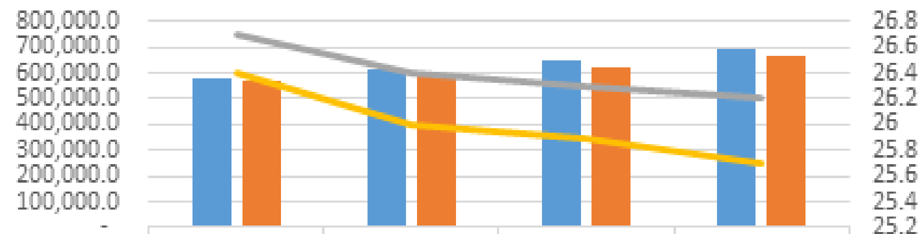
14. The attainment and maintenance of the Fiscal and Primary balance targets are dependent on prudent fiscal management, underpinned by credible macroeconomic assumptions and the identification and management of fiscal risks. This is particularly important based, on the established correlation between nominal GDP growth and tax revenue and the potential adverse impact on the primary balance, in the absence of adjustments to expenditure.

Tax Revenue

15. The Interim FPP provided a revised target for Tax Revenue for FY2019/20 at 26.4 per cent of GDP, in line with the outturn for FY2018/19, but lower than the projection of 26.7 per cent in the FPP February 2019 Report. The projection for Tax Revenue for FY2019/20 was also revised downward to $570.0 billion relative to original budget of $575.7 billion (**Figure 2)**. This was predicated on nominal GDP growth of 4.9 per cent compared to 6.0 per cent in the Interim FPP, and incorporated the expected

closure of the Alpart Plant for two years as opposed to the three months initially envisaged. With the expected lower economic growth, tax revenues would be negatively impacted for the remainder of FY2019/20 and the medium-term, and is likely to be seen in the *Income & Profits* and *International Trade*.

Figure 2: Tax Revenue (J$ million)



	FY2019/20 Proj.	FY2020/21 Proj.	FY2021/22 Proj.	FY2022/23 Proj.
Tax Revenue (Feb FPP)	575,710.5	612,185.9	651,910.3	693,337.7
Tax Revenue (Interim FPP)	570,008.3	591,077.0	625,047.9	666,223.1
Tax Revenue % of GDP (Feb FPP)	26.7	26.4	26.3	26.2
Tax Revenue % of GDP (Interim FPP)	26.4	26	25.9	25.7

Tax Revenue (Feb FPP)   Tax Revenue (Interim FPP)
Tax Revenue % of GDP (Feb FPP)   Tax Revenue % of GDP (Interim FPP)

Source: MoFPS

16. Tax Revenue for the April to July 2019 period amounted to $179.8 billion, surpassing budget by $3.7 billion or 2.1 per cent. In our February 2019/20 FPP review, it was suggested that the provision of information on tax arrears would have assisted in confirming the value of Tax Revenue related to compliance and administration. Although the Interim FPP indicated tax performance relative to budget, reference was only made to arrears collection relative to the previous year. The report stated that the stock of arrears decreased by 12.3 per cent from $148.5 billion at the start of the FY2019/20 to $131.8 billion as at end July 2019, representing a $16.7 billion decline. In addition, arrears collection for the April to July 2019 period was $6.3 billion. The Ministry did not provide an explanation for the remaining $10.4 billion.

Grants and Capital Revenue

17. For FY2019/20, Grant receipts were budgeted to be 46.6 per cent lower than the outturn for FY2018/19, primarily due to lower expected inflows from the European Union (EU). However, the provision of details regarding the factors influencing the lower expected Grant inflows from the EU would have enhanced transparency and enabled greater insight to fiscal performance. Grant receipts were further revised downward from $5.6 billion to $5.0 billion (11.3 per cent) for FY2019/20, but no explanation was provided for this revision. Of note, for the April to July 2019 period, Grant inflows

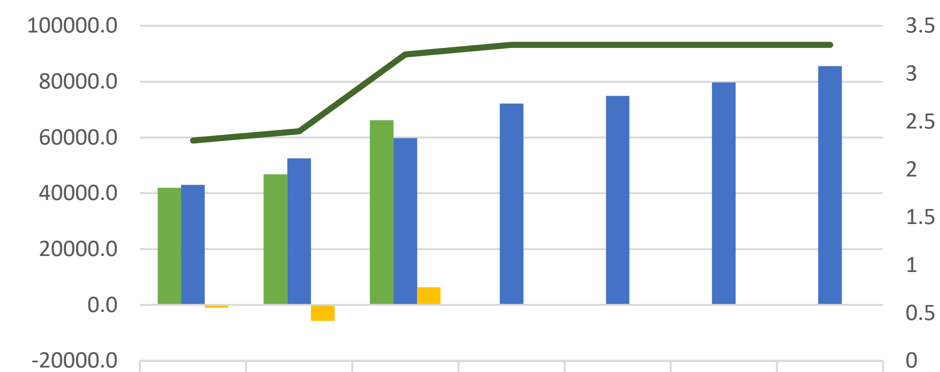
were $2.0 billion, or 7.3 per cent lower than the budget based on slower than budgeted implementation of grant-related projects.

18. Similarly, Capital Revenue was revised downwards from $3.1 billion to $1.1 billion (68.3 per cent) with no explanation was provided for the downward revision. Further, the interim FPP did not provide an explanation for the lower outturn by 22.3 per cent for Capital Revenue relative budget, for the April to July 2019 period.

Capital Expenditure

19. The FPP February 2019 Report projected Capital Expenditure of $72.1 billion for FY2019/20 (**Figure 3**). Although the Interim FPP revised the primary balance target downwards to 6.5 per cent from 7.0 per cent of GDP, creating additional fiscal space, Capital Expenditure remained unchanged. Further, Capital Expenditure for April to July 2019 was $15.6 billion, $4.2 billion (21.4 per cent) below budget. The Ministry noted that timing issues related to programmed project activities contributed to the lower spending in this category, where the South Coast Highway Improvement Project (SCHIP) accounted for over 50 per cent of the variance.

Figure 3: Capital Expenditure (J$ million)



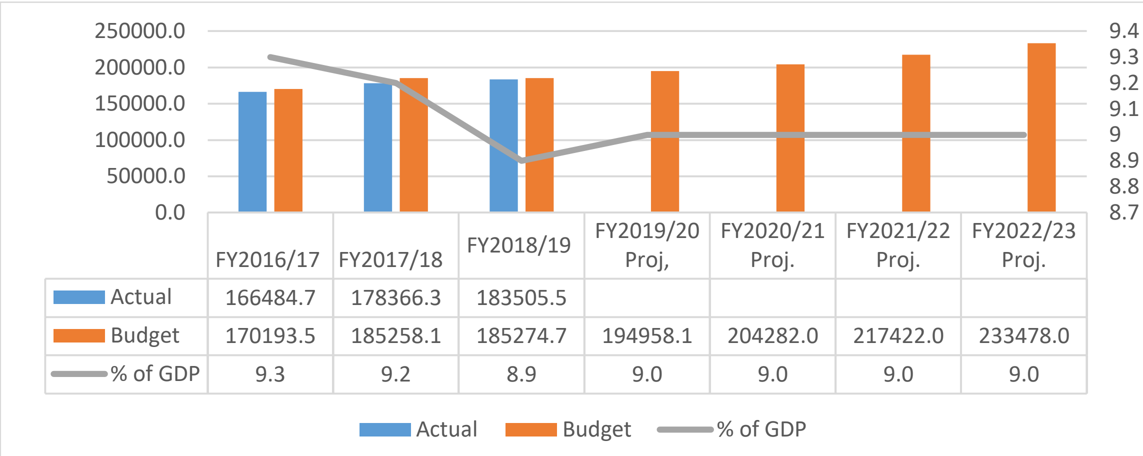
	FY2016/17	FY2017/18	FY2018/19	FY2019/20 Proj.	FY2020/21 Proj.	FY2021/22 Proj.	FY2022/23 Proj.
Actual	41955.3	46806.1	66204.3				
Budget	43000.8	52541.5	59825.1	72110.6	74903.4	79721.4	85608.6
Deviation from Budget	-1045.5	-5735.4	6379.2				
% of GDP (Actual/Budget)	2.3	2.4	3.2	3.3	3.3	3.3	3.3

Source: MoFPS

Wages & Salaries

20. The Interim FPP FY2019/20 projected Wages & Salaries to increase to 9.0 per cent of GDP by end-March 2020 from the 8.9 per cent recorded at the end of FY2018/19, in line with the legislated target of 9.0 per cent set out in section 48C (c) of the FAA Act[3]. For FY2019/20, Wages & Salaries are projected to be $195.0 billion, which accords with the new wage agreement (**Figure 4**). However, the Ministry stated in the Fiscal Risk Statement that wage negotiations for the 2017/2021 period are still ongoing for a few public sector groups. In addition, the expected two-year closure of the JISCO Alpart plant would impact growth for the remainder of the fiscal year and the medium-term. If these risks materialize and nominal GDP is lower, the achievement of the legislated target could pose a challenge.

Figure 4: Wages & Salaries (J$ million)



	FY2016/17	FY2017/18	FY2018/19	FY2019/20 Proj,	FY2020/21 Proj.	FY2021/22 Proj.	FY2022/23 Proj.
Actual	166484.7	178366.3	183505.5				
Budget	170193.5	185258.1	185274.7	194958.1	204282.0	217422.0	233478.0
% of GDP	9.3	9.2	8.9	9.0	9.0	9.0	9.0

Source: MoFPS

21. Wages & Salaries for the April to July 2019 period accounted for 34.0 per cent of total expenditure compared to the original budget of 32.7 per cent but was below the average of 34.3 per cent for the April to July period of the past five years (**Table 1**). Even with a trend decline in Wages & Salaries for April to July over the last five years, the category has continued to command the largest share of the Expenditure budget since FY2014/15, highlighting the importance to public financial management, of the Government's targeted realignment of this expenditure item.

[3] Amended in 2016

Table 1: Wages & Salaries - April to July Performance

Outturn April to July	Budget FY2019/20	FY2019/20	FY2018/19	FY2017/18	FY2016/17	FY2015/16	FY2014/15
Wages & Salaries (J$mn)	65,324.8	66,163.9	61,274.2	58,354.1	54,295.5	53,087.8	53,409.0
Wages &Salaries/Total Expenditure (%)	32.7	34.0	32.5	34.5	32.4	34.5	38.2
Wages & Salaries/Non-Debt Expenditure (%)	42.3	43.3	41.6	46.5	46.3	48.8	55.4

Source: MoFPS

Public Debt

22. Public Debt at end FY2018/19 was 94.4 per cent of GDP, reflecting a 1.8 percentage point reduction relative to budget and 2.0 percentage point when compared to estimates in the February FPP (**Table 2**). This reflected a continued downward trend in the public debt towards the targeted Public Debt to GDP ratio of 60 per cent by FY2025/26. The FMS did not include an updated projection of the public debt stock for end FY2019/20, despite its liability management exercise and greater than expected project loan receipts.

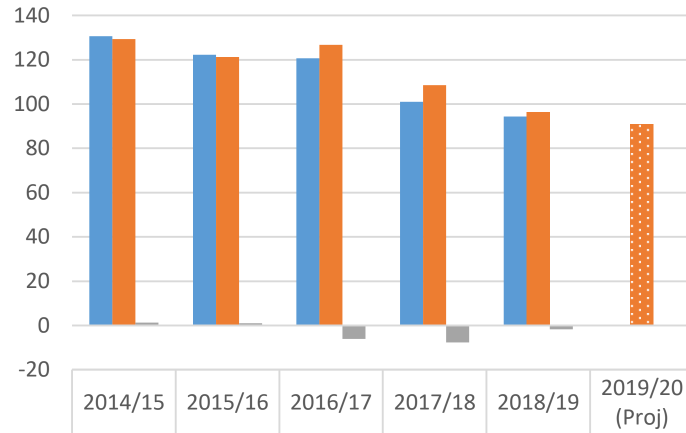
Table 2: Debt/GDP (J$ Million)

Fiscal Year	2019/20*	2018/19	2017/18	2016/17	2015/16
Total Debt	1,959,443.70	1,938,013.50	1,952,148.70	2,159,937.10	2,068,759.10
Debt to GDP Ratio %	90.9	94.4	101.0	120.7	122.3

*February FPP projection

23. The FMS indicated that at end July 2019 Public Debt was $2,002.3 billion, representing a 3.3 per cent increase relative to end March 2019. This increase was attributed entirely to depreciation of the Jamaica Dollar relative to its US dollar counterpart, in a context where there were net repayments on the Domestic Debt and US-dollar Foreign Debt stock during the period (**Figure 5**). The Foreign currency component of Central Government debt stood at 62.8 per cent at end July 2019. The First Supplementary Estimates for FY2019/20 included an additional $40 billion allocated for debt repayments, reflecting opportunistic Liability Management operations. which should aid the achievement of this target.

Figure 5: Debt/GDP - Budget vs Actual

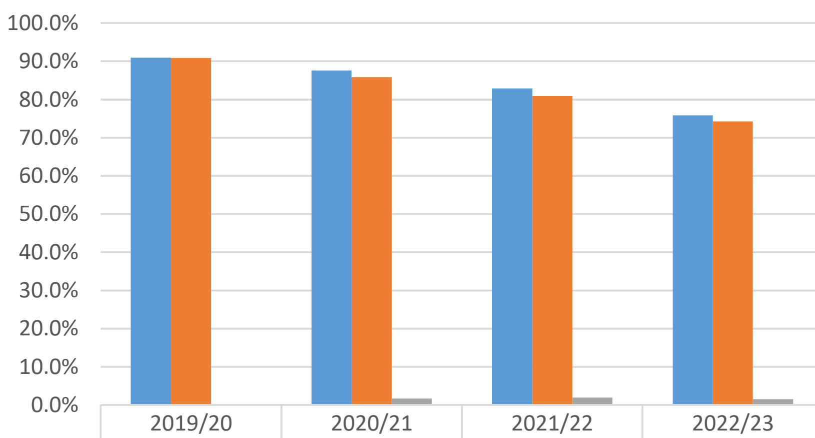


	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20 (Proj)
Actual Debt to GDP%	130.6	122.3	120.7	101	94.4	
Budgeted Debt to GDP %	129.3	121.3	126.7	108.6	96.2	90.9
Variance	1.3	1.0	-6.0	-7.6	-1.8	

Source: MoFPS

24. The Interim FPP presented a more conservative nominal GDP forecast for the medium term relative to the February FPP based on developments related to the JISCO Alpart Plant disruption. The revised forecasts for nominal GDP growth, contributed to a slower targeted reduction towards the Public Debt to GDP target compared to the February FY2019/20 FPP (**Figure 6**).

Figure 6: Public Debt to GDP (February FPP vs Interim FPP)



	2019/20	2020/21	2021/22	2022/23
Interim FPP	90.9%	87.6%	82.9%	75.9%
February FPP	90.9%	85.9%	80.9%	74.3%
Variance	0.0%	1.7%	2.0%	1.6%

Source: MoFPS

Fiscal Risk Assessment

25. The management of fiscal risks is critical to fiscal performance and the containment of the public debt. The Fiscal Risk Statement only presented an update of the risks outlined in the February FY2019/20 FPP and did not identify any new risks.

26. In particular, the Interim FPP noted lower economic growth prospects for the fiscal year and medium-term due to the shutdown period of the JISCO Alpart plant for scheduled upgrades, moving to a likely two years from the expected 3 months. Lower economic growth could result in further shortfall in revenues given the correlation between nominal growth and revenue collections. While not mentioned, the achievement of legislated targets could be threatened by lower than projected economic growth.

27. It was noted in the Fiscal Risk Statement that exchange rate depreciation of 9.76 per cent was recorded during the fiscal year to August 2019. While tax revenues are bolstered by such occurrences, there is an adverse impact from exchange rate depreciation on debt servicing costs. Further, the Fiscal Risk Statement reported higher prevailing average crude oil prices of US$58.46 per barrel for the fiscal year to date relative to the average price of US$54.92 projected when the FY2019/20 budget was prepared. While above average oil prices present an upside risk for revenues via SCT collections, there are also negative implications for GOJ's expenditure. Notwithstanding, questions remain regarding the Ministry's use of the West Texas Intermediate (WTI) crude oil prices to forecast SCT collections, given that SCT is levied on finished petroleum products only.

28. The Fiscal Risk Statement highlighted the transfer by GOJ of $2.0 billion to the Contingencies Fund at end FY2018/19 following an upward adjustment of the ceiling to $10.0 billion as part of efforts to improve the resilience of the fiscal budget to the impact from natural disasters. The GOJ also renewed its CCRIF-SPC[4] policy in June 2019 for tropical cyclone, earthquake and excess rainfall while maintaining the National Disaster Fund capitalized at $550.0 million and a contingent line of credit with the IDB of US$285.0 million. The availability of these financing sources has placed the GOJ in a position to respond effectively to natural disasters up to a medium severity, albeit not taking reconstruction efforts into consideration.

29. The Interim FPP indicated an estimate of US$685 million for emergency losses in the event of high severity disasters. Based on identified funding, there would be a financing gap of US$173.0 million. According to the Fiscal Risk Statement, this deficiency has prompted the move by GOJ to develop a catastrophe bond, in partnership with the World Bank, for issuance on the international capital market. In addition, a commitment of US$5.0 million was secured from USAID for its disaster risk finance initiative in July 2019. However, with no outlined timeline for the issuance of the catastrophe bond or

[4] CCRIF-SPC means Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company.

estimation of expected investor appetite, the GOJ still has a challenge to effectively responding to major natural disasters without serious fiscal set-back.

State Owned Enterprises

30. The Fiscal Risk Statement noted the continued monitoring of state-owned enterprises (SOEs), which have often been a source of contingent liability for the GOJ. Whereas updates were provided on several major SOEs that have historically generated contingent liabilities, other notable entities were not discussed. For instance, there was reference to the operations of Clarendon Alumina Production, in a context where the entity has been experiencing operational challenges primarily due to depressed alumina prices. Given nearly twice the planned financial support for JUTC in FY2018/19, greater detail was expected regarding GOJ support in FY2019/20, as well as the strategies employed to mitigate the impact on the fiscal accounts.

Reasonableness of the Deviation of the Fiscal Indicators

31. Subsection (5)(d)(ii) of the FAA Act requires that the Minister compares the outcome of the fiscal indicators with the targets for the previous financial year, and give the reasons for any deviations. Further, Section 48B(6) of the FAA Act requires that the Auditor General indicates whether the reasons given pursuant to subsection (5)(d)(ii) are reasonable having regard to the circumstances.

32. In this section, I have reviewed the explanations provided for the period April to July 2019 as provided in the Interim FPP FY2019/20. In making a determination of reasonableness of the explanations provided by the Minister of Finance, the following were undertaken:
    a. A review of the macroeconomic framework provided in the Interim Report in context of Budget Assumptions indicated in the FPP FY2019/20 February 2019;
    b. A review of risks in the FY2019/20 Fiscal Policy Paper and Debt Management Strategy to determine if any has materialized or were excluded from initial projections analysis of supplementary information; and
    c. A review of emerging risks discussed in the Interim Report;
    d. confirmation where possible, of the Minister’s explanations with observed data for FY2019/20 (April to July 2019).

33. My comments on variances provided in **Table 3** relate only to material issues pertaining to information provided in the Interim FPP FY2019/20 and by the MoFPS.

Table 3: Comments on the Explanation for the Fiscal Deviations for April-July 2019 relative to Budget ($J millions)

Key Tax Types	Provisional	Budget	Deviation from budget	Deviation from budget (%)	GOJ's Explanation Stated in FPP FY2019/20 Interim	Audit Comments	Ministry's Response
Tax Revenue	$179,812.6	$176,061.6	$3,751.0	2.1			
Income & Profits	$41,121.7	$42,100.3	-$978.6	-2.3	Fell below budget primarily due to lower than anticipated collections from PAYE.		
Other Companies	$14,136.9	$13,967.9	$169.0	1.2	Broadly in line with projections		
PAYE	$19,827.9	$21,128.7	-$1,300.7	-6.2	The shortfall partially reflected lower than projected inflows from the payment of arrears; plus, the estimated base which underpinned the PAYE forecast turned out to be higher than the actual PAYE collections from FY2018/19.		
Tax on Interest	$5,160.3	$5,277.4	-$117.2	-2.2	Impacted by the current low interest rate environment.	Reasonable. Interest rates trended downward during the period.	
Production & Consumption	$65,309.7	$63,320.7	$1,989.0	3.1			
GCT (local)	$36,622.3	$35,930.9	$691.5	1.9	Inflows driven by higher than anticipated arrears collection.		
Other Licenses	$751.6	$446.8	$304.7	68.2	This was due to higher than expected flows being recorded for telecommunication licenses.	Actual data not provided to support explanation	

Key Tax Types	Provisional	Budget	Deviation from budget	Deviation from budget (%)	GOJ's Explanation Stated in FPP FY2019/20 Interim	Audit Comments	Ministry's Response
Betting, Gaming and Lottery	$2,057.5	$1,781.3	$276.2	15.5	Taxes collected on betting is expected to growth at a similar pace as the growth of the economy. However, this growth is much higher than estimated growth of the economy.	No specific explanation provided.	Taxes collected from the BGL sector would have continued to show improvement as the gaming apps are now on client 's phones and tablets making it easier to play.
Telephone Call Tax	$1,312.0	$737.2	$574.8	78.0	Increased collections are attributable to a higher than anticipated increase in the total number of minutes being spent on telephone calls.	Information provided was insufficient to verify the Ministry's explanation.	
Contractors Levy	$781.0	$907.2	$126.2	-13.9	This is in line with the contraction of construction in real terms (1.0%) for the April to June quarter of 2019.	This is supported by the contraction of the construction component in the real sector.	
International Trade	$73,381.2	$70,640.5	$2,740.7	3.9	Over-performance was mainly as a result of the higher CIF values of goods being imported over the April to July period, the slight depreciation of the Jamaican currency, as well as well as continued improvement in overall efficiency.		
GCT (imports)	$31,049.9	$30,618.3	$431.6	1.4	Benefited from the higher than anticipated growth in	Reasonable, given that GCT is also	

Key Tax Types	Provisional	Budget	Deviation from budget	Deviation from budget (%)	GOJ's Explanation Stated in FPP FY2019/20 Interim	Audit Comments	Ministry's Response
					the value of the imports (i.e. the CIF value)	levied on the value of imports.	
SCT (Imports)	$17,482.3	$16,561.3	$921.0	5.6	This was attributable to higher than anticipated inflows from petroleum products, specifically crude oil imports for the refinery.	Budgeted vs. actual information on the volume / value of petroleum products not provided to validate assertion. SCT on crude is zero rated.	Excluding crude oil imports.
Customs Duty	$15,076.0	$14,437.8	$638.3	4.4	Benefited from the higher than anticipated growth in the value of the imports (i.e. the CIF value)	Reasonable as custom duties are levied on the value of imports.	
Stamp Duty	$971.8	$767.4	$204.4	26.6	Receipts with CIF values above and below J$5,500.0 grew above expectations.		
Travel Tax	$7,559.4	$7,089.6	$469.8	6.6	Foreign national arrivals were higher than anticipated with growth of 7.8%, non-resident Jamaican arrivals also grew by 19.1%.	Reasonable. Stop-over arrivals for April to July grew by 8.5%	
Non-Tax Revenue	$19,427.3	$18,838.3	$589.1	3.1	Broadly in line with budget.		
Capital Revenue	$813.3	$1,046.9	-$233.6	-22.3		No explanation in seen in Interim FPP.	
Grants	$2,011.5	$2,169.1	-$157.6	-7.3	Associated with lower than budgeted implementation of grant related projects.	Reasonable, given that grant support relate some capital projects.	