EXAMINATION OF THE COMPONENTS OF THE FISCAL POLICY PAPER FY2021/22 INTERIM REPORT, WHICH WAS LAID BEFORE THE HOUSES OF PARLIAMENT ON SEPTEMBER 28, 2021

INDEPENDENT AUDITOR'S REPORT
THE AUDITOR GENERAL OF JAMAICA
FINANCIAL YEAR 2021/22

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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Table of Contents

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Auditor General's Comments

1. I have examined the components of the Fiscal Policy Paper (FPP) FY2021/22 Interim Report, laid before the Houses of Parliament on September 28, 2021, in accordance with Financial Administration and Audit (FAA) Act. The Report met the requirements under 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:**
Prudent fiscal management requires expenditure be based on reasonable revenue projections underpinned by credible macroeconomic assumptions. This necessitates a realistic assessment of risks and appropriate risk mitigating measures to enable the achievement of the broader policy objectives, particularly, the revised debt target of 60 per cent of GDP by end-FY2027/28. I found the conventions and assumptions underlying preparation of the Interim FPP to be largely compliant with the requirements of the FAA Act, although risk mitigating measures were not indicated for all risks identified. For example, the report identified that higher than projected economic growth positively impacted revenue collection to July 2021, but that sustained recovery was dependent on Government's vaccination programme to mitigate the economic, health, and fiscal risks related to the COVID-19 pandemic. However, there was no mention of measures to mitigate the downside risk to revenues from lower economic growth, based on a less successful vaccination programme. Additionally, the Interim FPP stated that the accommodative US monetary policy stance had translated into lower rates for GOJ external variable rate debt given the link to the 3-month US LIBOR but did not identify measures to mitigate the risks from a possible US rate increase in response to expansionary infrastructure spending. Nonetheless, the Interim FPP acknowledged inflationary and exchange rate risks and indicated possible upward adjustment to the BOJ policy rate to moderate inflation expectations, as well as continued use of the BOJ Foreign Exchange and Intervention Tool to address temporary market imbalances.

b) **the reasons given, pursuant to subsection (5) (d) (ii) are reasonable having regard to the circumstances:**
   i) I reviewed the Central Government outturn for FY2020/21 relative to the First Supplementary Estimates, in a context where it represented a revision of the Budget that was tabled in the February FY2020/21 FPP, to incorporate the impact of COVID-19. Whereas the FAA Act requires a comparison of outturn against Original Budget, the deviation from the required

practice was accepted having regard to the circumstances. For the FY2020/21, I found the explanations for the deviations of outturn from target, to be mostly reasonable. In this regard, it was indisputable that the tighter COVID-19 containment measures adversely impacted demand and by extension, GCT collections. Similarly, lower SCT (local) and SCT (imports) were consistent with lower international trade volumes for fuel and cigarettes as well as lower production levels at Petrojam. The attribution of higher than budgeted Grant inflows for FY2020/21 to higher inflows including backlog receipts from the European Union, accorded with the shortfall reported relative to budget, for FY2019/20. While the Interim FPP reflected significantly smaller deviations relative to the Third Supplementary Estimates, this was not surprising given that the estimates would have **i**ncorporated actual outturns to-date, new appropriations as well as changes to appropriations.

ii) The Interim FPP indicated an overperformance in Revenue and Grants for April to July 2021 relative to budget, reflected in Tax revenue, Grants and Capital Revenue. I found the explanations provided for these positive deviations from budget to be reasonable considering the circumstances. For example, a disaggregation of Tax Revenue revealed better than budgeted performance for *Production and Consumption* and *International Trade* tax receipts. This was attributed to a relaxation of COVID-19 containment measures, higher volumes of imports and visitor arrivals, reflected in GCT, Customs Duty and Travel tax receipts, respectively. Additionally, significant inflows from telecommunication licences were identified as responsible for the higher inflows from 'Other licences' while better than budgeted Grant inflows were credited to inflows from the International Bank for Reconstruction and Development (IBRD) to finance the catastrophe bond premium. Of note, the explanations for higher than budgeted receipts among these tax categories were consistent with the 12.9 per cent estimated GDP growth by the Planning Institute of Jamaica (PIOJ) as indicated in Table 2A of the FY2021/22 Interim FPP.

However, the Interim report attributed the better than budgeted inflows from *Income and Profit* to 'Tax on Interest' receipts but did not expound on the reasons or contributing factors for the increase in tax on interest. In the context of the prevailing low interest rate, a more precise explanation of the overperformance of this tax category, would have enabled greater transparency and clarity. In addition, explanations for the above-budget revenue collection from sub-categories such as Betting, Game and Lottery (24.2 per cent) and Telephone Call Tax (44.3 per cent) could have provided some clarity on performance in the context where the Interim FPP reported COVID-19 induced disruptions in employment and other activity. The Ministry of Finance and the Public Service (MoFPS) subsequently provided explanations for major variations of indicators, which were not explained in the Interim FPP, as shown in **Table 4**.

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:**

Under Section 48B(6)(c) of the FAA Act, pursuant to Regulations made under section 50(1) of the Act, I am required to certify that a public body carries out functions that are of a commercial nature, where the Minister, no later than August 31, in every third year, provides a list of public bodies to consider for certification. However, the Minister did not provide a list at the scheduled submission in August 2019 as no public bodies met the required criteria. Accordingly, there was no requirement for the Auditor General to carry out an assessment during FY2021/22.

d) **a public private partnership involves only minimal contingent liabilities**

The FAA Act requires the Auditor General to assess whether 'a public private partnership (PPP) involves only minimal contingent liability accruing to the Government'. However, the FY2021/22 Interim FPP did not identify any new PPP arrangement for assessment of minimal contingent liability. The Report indicated that the operators of the two major international airports had submitted claims for relief under the force majeure clause of the PPP agreement, given the continued negative impact of the COVID-19 pandemic on international travel. Further, on December 14, 2020, the Cabinet approved the claims and appointed a negotiating team to assess further proposals by the concessionaires to facilitate economic recovery and long-term sustainability. However, there was no reference in the Fiscal Risk Statement, regarding the size of the claim, funding arrangements or implication for the Public Debt.

My Recommendation

3. As indicated in my previous reviews, the Ministry should consider reporting on the performance of tax arrears collected relative to the budget as this could provide greater transparency in terms of explaining revenue performance.

4. Considering the ongoing effects of the COVID-19 pandemic on economic activity and travel, the Fiscal Policy Paper should include a more robust assessment of the risks from existing PPPs to the fiscal targets and the debt dynamics.

Pamela Monroe Ellis, FCCA, FCA
Auditor General

Executive Summary

5. I reviewed the FY2021/22 Fiscal Policy Paper Interim Report based on the requirements stated in Section 48B (6) of the FAA Act. Accordingly, 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.

6. The FY2021/22 Interim FPP provided a comparison of the FY2020/21 outturn relative to the First Supplementary Budget given that it represented a revision of the Budget that was tabled February 2020, to incorporate the impact of COVID-19. Although the FAA Act requires a comparison with Original, the deviation from the practices was accepted, having regard to the circumstances. The Report also provided a comparison of the outturn for April to July 2021/22 relative to budget for the period.

The Suspension of the Fiscal Rules

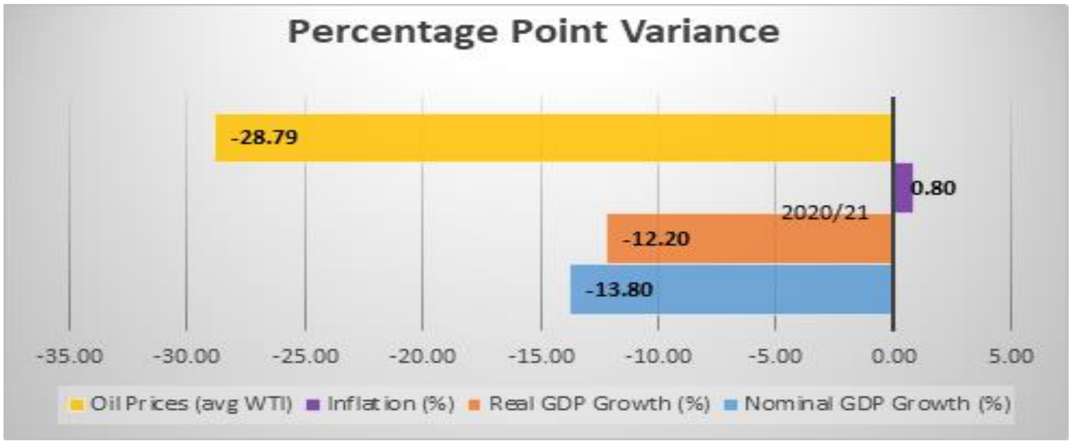
7. The FY2021/22 FPP Interim Report reaffirmed the Government's (GOJ) commitment to achievement of Debt target of 60 per cent of GDP by end-FY2027/28. This is against the background where the GOJ tabled an amendment to the FAA Act in May 2020 to extend the Legislative Debt target from March 2026 to March 2028 and passed a resolution in Parliament for suspension of the fiscal rules.

What I found

Performance - FY2020/21 and April - July FY2021/22

8. I reviewed the outturns for key macroeconomic indicators that underpinned revenues for FY2020/21. Whereas inflation marginally exceeded target, there were significant deviations from target in respect of nominal and real GDP, as well as oil prices.

Figure 1: Variance from Target FY2020/21



Source: AuGD Analysis

9. I also compared the revised medium-term forecasts provided in the FY2021/22 Interim FPP with the original projections outlined in the February FY2020/21 FPP. Given the corresponding relationship between energy demand and output levels, I found the upward revisions to the FY2021/22 oil t and GDP forecasts to be consistent. However, for medium-term, the factors influencing the direction of the forecast revisions were not evident.

Variations in Macroeconomic Indicators: Original Forecasts in Feb FPP FY2021/22 vs. Revised Forecasts in Interim FPP FY2021/22					
	Actual	Revised Forecast			
	2020/21	2021/22	2022/23	2023/24	2024/25
Nominal GDP Growth (%)	-13.8	3.7	-2.8	-0.4	-0.2
Real GDP Growth (%)	-12.2	3.8	-3.1	-0.3	-3.0
Inflation (%)	0.8	1.4	0.0	0.0	0.0
Oil Prices (avg WTI) (USD)	-28.8	33.9	13.3	5.2	5.2

Source: MoFPS

10. For FY2020/21, the Interim FPP indicated that the Jamaican economy was negatively impacted by the effects of the coronavirus pandemic resulting in real GDP contraction of 11 per cent. This contrasted with projected growth of 1.2 per cent indicated in the February FY2020/21 FPP. The revised estimates for nominal and real GDP growth for FY2020/21 presented in the FY2021/22 FPP tabled in February 2021, were for negative growth of 8.2 per cent and 11.6 per cent respectively, based on the onset of the COVID-19 pandemic in March 2020. Given the established relationship with taxes and nominal GDP, the significantly lower than targeted economic activity would arguably explain the 14.1 per cent underperformance in tax revenue for FY2020/21, in a context

where the FY2021/22 FPP has indicated buoyancy estimates of 1.3 per cent, for the period FY2010/11 to FY2019/20.

11. The FY2021/22 Interim FPP did not provide explanations for some of the deviations in the categories of revenue from target for April-July FY2021/22. Nonetheless, I found the explanations provided for the 20.7 per cent overperformance of international trade taxes to be reasonable. Higher GCT (imports) and customs duty receipts were attributed to higher volumes of imports, consistent with the upturn in economic activity. Additionally, the Report indicated that the 8.2 per cent greater than budgeted SCT (local) receipts were driven by relatively higher output levels at Petrojam, while 'Other Licence' reflected significant inflows in July 2021, from licence through the Spectrum Management Authority. Larger than budgeted Grant inflows for April to July 2021, were attributed to inflows from the International Bank of Reconstruction and Development (IBRD), to finance the catastrophe bond premium. On the other hand, the Interim report attributed the better than budgeted inflows from *Income and Profit* to 'Tax on Interest' receipts but did not expound on the reasons or contributing factors for the increase in tax on interest. In the context of the prevailing low interest rate, a more precise explanation, would have enabled greater transparency and clarity regarding the factors influencing the overperformance of this tax category. No explanation was provided for the performance of Capital Revenue relative to target.

12. The Interim FPP did not indicate any new public-private partnerships (PPP) for the Auditor General's assessment of minimal contingent liability but informed that the operators of the two major international airports had submitted claims for relief under the force majeure clause of the PPP agreement, given the continued negative impact of the COVID-19 pandemic on international travel. It further stated that on December 14, 2020, Cabinet approved the claims and had appointed a negotiating team to assess further proposals by the concessionaires to facilitate economic recovery and long-term sustainability. However, in a context of Jamaica's commitment to achieving the revised debt to GDP target of 60 per cent by end-FY2027/28, we expected some indication in the Fiscal Risk Statement of the magnitude of the of the size of the claim, source of funding and implication for the public debt stock.

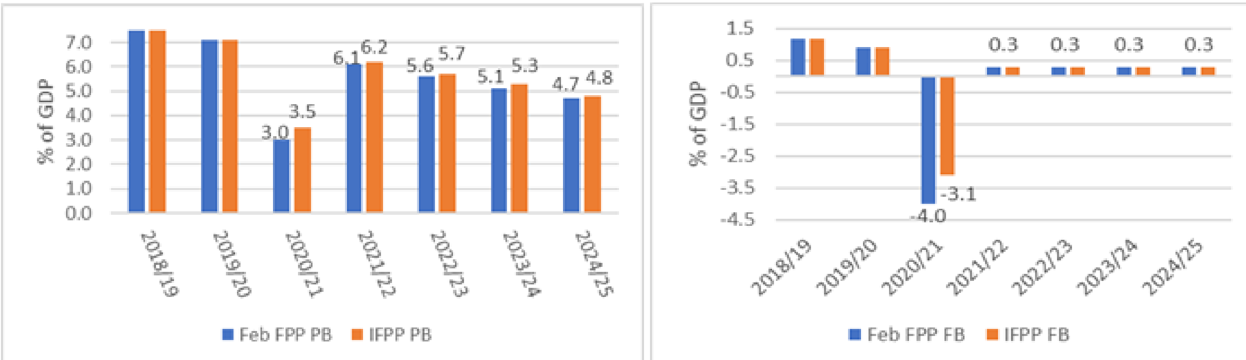
The Fiscal Management Strategy

Primary and Fiscal Balance

13. The easing of COVID-19 measures during the April to July 2021 period was credited for the improvement of the Primary and Fiscal balances relative to their respective budgets. The provisional outturns showed that Primary Balance was 223.2 per cent above budget, whereas the Fiscal balance exceeded budget by 85.1 per cent. The First Supplementary Budget FY2021/22 which was tabled alongside the Interim FPP proposed an increase in spending of $36.5 billion, financed

by the projected higher revenues. In this context, the Interim FPP stated that continued economic recovery was dependent on continued effectiveness of the COVID-19 vaccination programme. However, given the established relationship between tax revenue and nominal GDP, we had expected the Interim FPP to articulate measures to mitigate the downside risks to GDP and tax revenue.

Figure 2: Primary and Fiscal Balance (% of GDP) – Original vs Revised



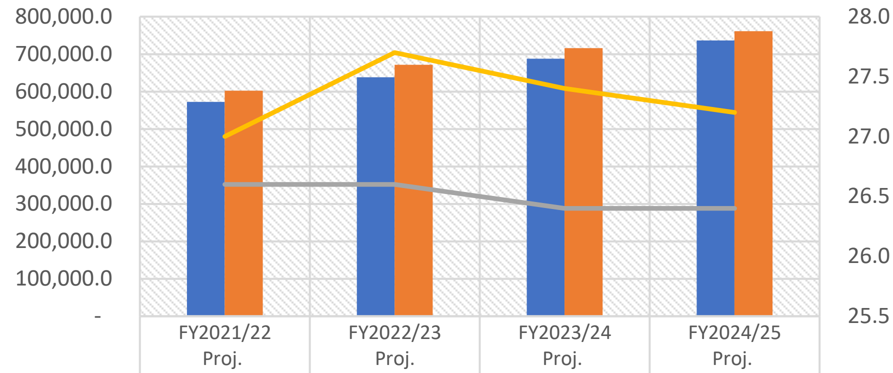
Source: MoFPS

14. The Interim FPP maintained the Fiscal Surplus of 0.3 per cent of GDP presented in the February 2021 FPP, while the Primary Surplus as a percentage of GDP showed a slight uptick for FY2021/22 to FY2024/25 (**Figure 2**). This contrasts with the lower growth projections for FY2022/23 to FY2024/25 in the macroeconomic framework. While the February FY2021/22 Fiscal Risk Statement indicated that historically, GDP growth has generally fallen short of projections, it was not clear if the current forecast incorporated all identified risks such that over the medium-term there would be a narrowing of the gap between outturn and forecast.

Tax Revenue

15. Interim FPP showed a revised target of 27.0 per cent of GDP for Tax Revenue for FY2021/22, relative to the outturn of 26.0 per cent of GDP for FY2020/21 and above the projection of 26.6 per cent reflected in the February 2021 FPP **(Figure 3)**. The revised projections to the medium-term, indicated gradual economic recovery, which underpinned improved employment levels and increased external demand, based on a relaxation of strict measures to manage the spread of the COVID-19 disease.

Figure 3: Tax Revenue (% of GDP)

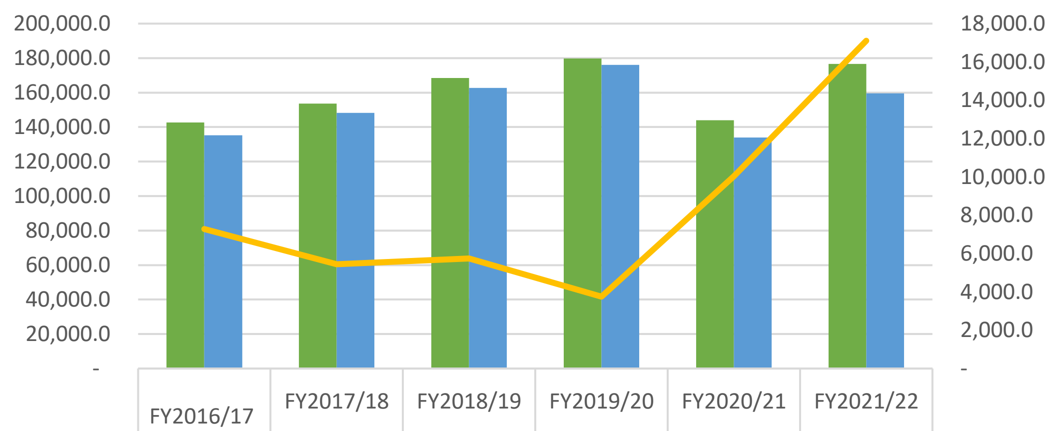


	FY2021/22 Proj.	FY2022/23 Proj.	FY2023/24 Proj.	FY2024/25 Proj.
Tax Revenue (Feb FPP)	572,461.2	638,468.1	687,958.5	736,692.3
Tax Revenue (Interim FPP)	602,187.9	671,479.7	715,742.9	761,099.5
Tax Revenue % of GDP (Feb FPP)	26.6	26.6	26.4	26.4
Tax Revenue % of GDP (Interim FPP)	27.0	27.7	27.4	27.2

Source: MoFPS

16. Given the ongoing COVID-19 pandemic and threats of new and more infectious variants, the Fiscal Rick Statement could have provided an indication of measures to mitigate the downside risk to fiscal performance over the medium-term, consistent with prudent fiscal management.

Figure 4: April to July Tax Revenue (J$ million)



	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21	FY2021/22
Tax Revenue Actual	142,618.2	153,626.6	168,407.1	179,812.6	143,922.7	176,667.1
Tax Revenue Budget	135,340.3	148,175.4	162,658.1	176,061.6	133,883.9	159,560.1
Variance	7,277.9	5,451.2	5,749.0	3,751.0	10,038.8	17,107.0

Source: MoFPS

17. Tax Revenue for the April to July 2021 period amounted to $176.7 billion, surpassing budget by $17.1 billion or 10.7 per cent. This outturn was $32.7 billion or 22.8 per cent above the outturn for similar period of FY2020/21 (**Figure 4).** The Interim FPP indicated that the greater than expected

performance was reflected in the main sub-categories of *International Trade, Income and Profits and Production and Consumption*. The positive outturn in these categories coincided with the relaxations of COVID-19 containment measures, the reopening of the tourism industry, higher imports and expansion in Construction and Agriculture, Forestry and Fishing as reflected in Table 2A in the Interim FPP FY2021/22. We considered these explanations to be reasonable, given the circumstances.

18. The Interim report attributed the better than budgeted inflows from *Income and Profit* to 'Tax on Interest' receipts. In the context of the prevailing low interest rate environment and objectives of transparency and clarity, the Interim FPP should have provided a more precise explanation for the above-budgeted performance of Tax on Interest.

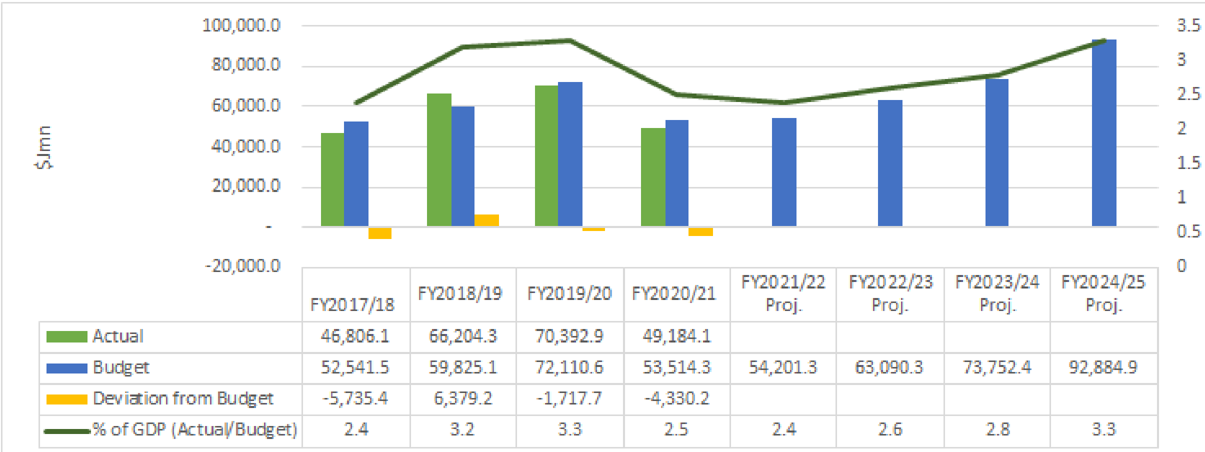
Grants and Capital Revenue

19. Grants receipts for April to July FY2021/22 were $1.7 billion or 124.6 per cent above budget, with the increase largely due to inflows of US$13.4 million in July 2021 under the Global Risk Financing Facility Grant Agreement between Jamaica and the International Bank for Reconstruction and Development to finance the catastrophe bond premium. This higher than targeted performance represented an improvement relative to the April to July FY2020/21 outturn. Similarly Capital Revenue of $778.2 million was recorded although no inflows were projected for the period for July 2021. We considered the explanation for the deviations in Grants to be reasonable; however, no explanation was given for the unplanned receipt of Capital Revenue.

Capital Expenditure

20. Outturn for Capital Expenditure for FY2020/21 was $49.2 billion, which was in line with the First Supplementary Budget. Capital Expenditure for FY2020/21 was the lowest since FY2017/18 as funds were reallocated to manage the fallout from the pandemic. In addition, the Interim FPP states that the lower than planned capital spending reflected slower than programmed pace of project execution. The Interim FPP projects Capital Expenditure of $54.2 billion for FY2021/22, keeping the same set of projections for the medium term as set out in the February FPP. The Ministry states in the Interim FPP that this projection includes a provision for the continued execution of the Southern Coastal Highway Improvement Project. However, in a context where the budget is predicated on strong revenue performance, the risk to capital spending over the medium-term is significant, if COVID-19 containment is less effective than anticipated.

Figure 5: Capital Expenditure (J$ million)



Source: MOFPS

21. Capital Expenditure for April to July 2021 was $20.8 billion, $2.0 billion (8.9 per cent) below budget. The Ministry states that this under performance was due to a slower than planned pace of project execution. For April to July 2021, Capital expenditure as a percentage of total expenditure at 9.0 per cent was the highest since the similar period in FY2018/19 and above the average of 7.2 per cent for the same period of the last five years but was below the budgeted percentage of 9.6 per cent. (**Table 1**).

Table 1: Capital Expenditure April to July (J$ million)

Outturn April to July	Budget 2021/22	2021/22	2020/21	2019/20	2018/19	2017/18	2016/17
Capital Expenditure	22,826.9	20,795.3	15,525.7	15,602.2	17,390.2	9,301.1	10,434.9
Capital Expenditure/ Total Expenditure (%)	9.6	9.0	7.3	8.0	9.2	5.4	6.2

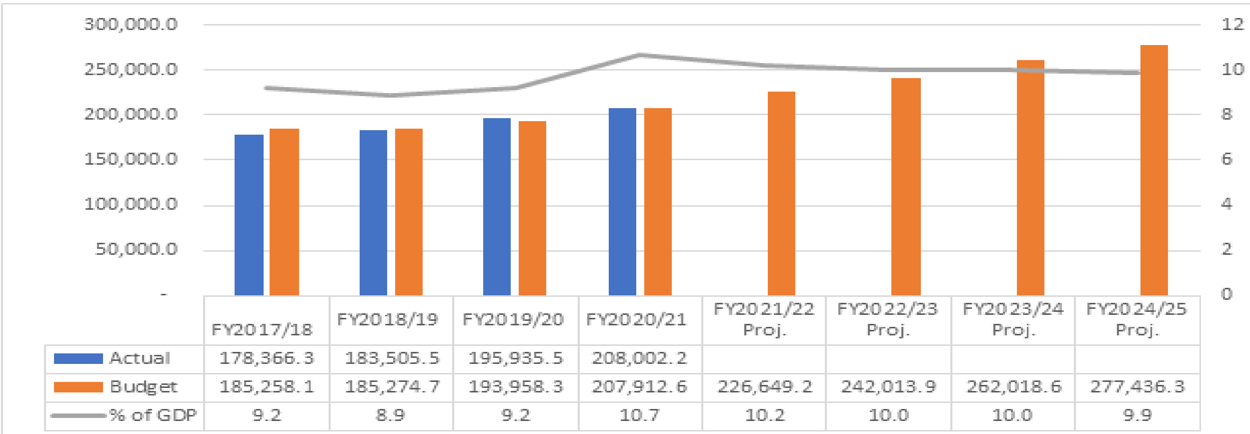
Source: AuGD analysis of MOFPS data

Wages & Salaries

22. Wages and Salaries outturn for FY2020/21 was $208.0 billion, $3.0 billion (1.5 per cent) above the 1st Supplementary budget or 10.7 per cent of GDP. Further, the Interim FPP FY2021/22 projects Wages & Salaries to increase to $226.6 billion or 10.2 per cent of GDP, outside of the legislated target of 9.0 per cent and remain outside for the medium term (**Figure 6**). This was broadly in line with the projections made in the February FPP FY2021/22, given the suspension of the fiscal rules. Notably, the wage to GDP target remains a part of the fiscal rule, as this target was not suspended, unlike debt to GDP and fiscal balance targets, in keeping with the legislation. The Fiscal Risk Statement did not address this risk, despite outstanding wage settlement for some groups as well

as the uncertainty regarding implementation of the recommendations in the compensation review.

Figure 6: Wages & Salaries (J$ million)



Source: MOFPS

23. Wages & Salaries for the April to July 2021 period was $71.0 billion accounting for 30.9 per cent of total expenditure compared to the budget of 30.6 per cent but was below the average of 33.0 per cent for the April to July period of the past five years (**Table 2**). This line item was also below budget by $1.5 billion (2.0 per cent) which the Interim FPP attributed to delays in finalizing wage negotiations for FY2021/22. As it relates to the percentage of non-debt expenditure, the April to July outturn of 37.9 per cent was the lowest over the six-year period but was marginally above the budgeted percentage of 36.9 per cent.

Table 2: Wages and Salaries April to July (J$ million)

Outturn April to July	Budget 2021/22	2021/22	2020/21	2019/20	2018/19	2017/18	2016/17
Wages and Salaries	72,504.4	71,019.8	69,005.1	66,163.9	61,274.2	58,354.1	54,295.5
Wages and Salaries/ Total Expenditure (%)	30.6	30.9	32.4	34.0	32.5	33.9	32.4
Wages and Salaries/ Non-Debt-Expenditure (%)	36.9	37.9	40.0	43.3	41.6	46.5	46.3

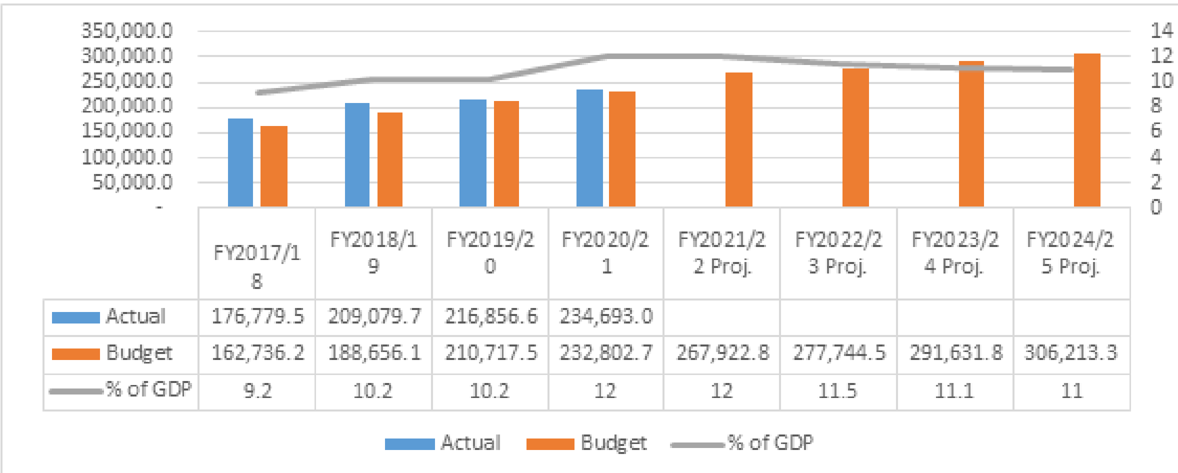
Source: AuGD analysis of MOFPS data

Recurrent Programmes

24. For FY2020/21, Recurrent Programme was $234.7 billion, $1.9 billion or 0.8 per cent above the Original Budget and $2.2 billion or 0.9 per cent below the First Supplementary Budget. The FPP February 2021 had projected Programmes of $247.8 billion for FY2021/22 (11.5 per cent of GDP).

However, the Interim FPP has projected an outturn of $267.9 billion (12 per cent of GDP), based on increased spending including allocations to the Ministry of Health and Wellness (MOHW) to acquire pharmaceuticals and medical supplies to be used in the fight against COVID-19. The Interim FPP projects programmes as a percentage of GDP to marginally decline over the medium term ending at 11 per cent in FY2024/25, just above pre COVID-19 levels (**Figure 7**).

Figure 7: Programmes (J$ million)



Source: MoFPS

25. Programme expenditure for April to July 2021 was $94.2 billion, $6.1 billion (6.5 per cent) below budget which the Ministry attributes to delayed procurement. However, programmes commanded the largest share of expenditure for the April to July 2021 period (**Table 3**). The outturn was also the highest over the six-year period since FY2016/17 and showed an increase of 5.7 per cent over the $83.3 billion recorded for the corresponding period in FY2020/21.

Table 3: Programmes April to July (J$ million)

Outturn April to July	**Budget 2021/22**	**2021/22**	**2020/21**	**2019/20**	**2018/19**	**2017/18**	**2016/17**
Programmes	94234.4	88,082.5	83,317.8	65,208.6	62,610.0	54,302.7	48,607.5
Programmes/Total Expenditure (%)	39.7%	38.3%	39.2	33.5	33.2	31.5	29.0

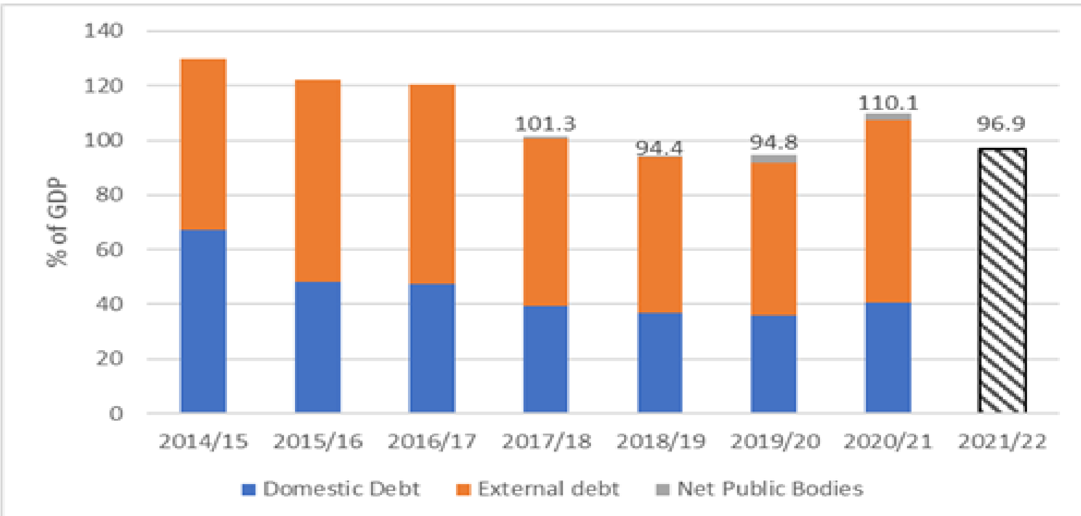
Source: MoFPS

Public Debt

26. The Public Debt stock as a percentage of GDP for FY2020/21 was estimated at 109.7 per cent, down from the 110.1 per cent presented in the February FPP. This downward revision occurred in line with the revised economic growth rates, a $12.7 billion reduction in the External Debt and a $2.1 billion fall in Public Bodies debt. Domestic Debt stock however, increased by $7.9 billion in keeping

with GOJ strategy to reduce the portfolio's exposure to foreign currency risk. FY2020/21 debt stock increased by 14.9 per cent relative to FY2019/20, representing the second consecutive year of increase in the debt stock since FY2014/15 (**Figure 8**). Notwithstanding the increase in the debt for FY2020/21, the debt as a percentage of GDP is projected to fall in FY2021/22 to 96.9 per cent, a 12.8 percentage point decrease relative to FY2020/21 outturn. The Interim FPP did not provide an updated Medium-Term debt trajectory, therefore no conclusion can be made regarding the evolution of the debt stock based on the revised macroeconomic framework.

Figure 7: Debt (% of GDP) from FY2014/15 to FY2021/22



Source: MoFPS

Fiscal Risk Assessment

27. The Fiscal Risk Statement (FRS) acknowledged risks associated with the depreciation of the exchange rate and the inflation outturn of 6.1 per cent, which was outside of the targeted band. The FRS identified BOJ's foreign exchange market intervention and adjustment to policy rate as mitigating measures to quell foreign exchange market pressures and rising inflation expectations. No mention was made of the risk mitigating strategies for unexpected fallouts in economic growth, notwithstanding the established link between nominal GDP and tax revenue. It is important that the FRS identify evaluate, quantify, and provide the appropriate risk mitigating strategies consistent with prudent fiscal management in order to achieve the policy objectives. This in a context where the FPP FY2021/22 indicated an observed tendency over the years for economic growth to fall short of projections.

28. According to the Interim FPP, projections for global oil prices have been revised upward by 51.4 per cent indicating a sizeable adjustment to the conditions that GOJ housekeeping expenditure was predicated. The February 2021 FPP highlighted risk mitigating strategies such as the buffer

provided by the SCT and the GOJ Energy Efficiency and Conservation Programme (EECP) and Energy Management and Efficiency Project (EMEP). However, no update was provided on the progress of the EECP and the EMEP or an estimate of the expected savings from these projects within the context of the higher commodity prices.

29. The FRS highlighted the issuance of a Catastrophe Bond as the latest initiative in the GOJ multi-layered approach to improve financial protection in the event of natural disasters. The Report noted that the bond was issued under the World Bank's "Capital at Risk" Notes programme, which is used to transfer natural disaster and other risks from sponsoring countries to the capital market. To further bolster the disaster risk financing strategy of GOJ the FRS indicated that a natural disaster contingency policy will be submitted for review by October 2021.

State Owned Enterprises

30. The Interim FPP highlighted that the performance of the Self-financing Public Bodies (SFPBs), was significantly worse than budgeted. As of June 2021, there was an Overall Balance deficit of $367.4 million compared with a budget surplus of $7,564.7 million, a difference of $7,932.1 million. This Overall Balance deficit figure is projected to continue for the remainder of FY2021/22. The impact of the COVID-19 continues to be a contributing factor noted for the performance of some of the entities. The unfavourable results underscore the fiscal risks to the government and although continued monitoring was noted, no specific risk mitigating strategy was mentioned.

31. The Fiscal Risk Statement indicated that the Government established a ceiling of $6,400 million in support of selected public bodies for the purpose of arrears and liabilities. Seven large public bodies were identified, namely: Clarendon Alumina Production Limited (CAP), National Water Commission (NWC), Housing Agency of Jamaica Limited (HAJL), Jamaica Urban Transit Company Limited (JUTC), National Health Fund (NHF), National Road Operating and Constructing Company Limited (NROCC), and Urban Development Corporation (UDC). Given that the total domestic arrears were already $5,480.52 million as of June 2021, the established ceiling for these public bodies is in jeopardy of being exceeded by the end of FY2021/22. Besides closely monitoring these public bodies, the Interim FPP did not indicated what actions would be taken should the ceiling be exceeded, suggesting that operations and activities will continue along the same path in the face of the growing uncertainty for the entities, and fiscal risk to the Government.

Public Private Partnerships

32. The Interim FPP states that the operators of the two major international airports, PAC Kingston Airport Limited and MBJ Airports Limited have submitted claims for relief under the concession agreements, given the continued negative impact of the Covid 19 pandemic on international travel. These claims were subsequently approved by Cabinet which has appointed a negotiating team to

assess further proposals from these concessionaires with a view to "facilitate economic recovery and long-term sustainability given the ongoing impact of the pandemic on the operations of the airports". However, the Interim FPP did not quantify the size of these losses or claims from the concessionaires and whether an assessment was done to measure the potential impact on the fiscal accounts and the public debt stock.

33. We noted in the Interim FPP in its report on the Jamaica Customs Agency that passenger arrivals for the April to July period increased by approximately 758 per cent when compared to the similar period in 2020. This was the result of the reopening of the country's borders and the subsequent corresponding increase in traffic. Nonetheless, given the continued impact of the pandemic and the attendant uncertainty, continued, effective monitoring will be critical. The Interim FPP states that the Kingston Container Terminal (KCT) operations for which we assessed the PPP in 2017 has not been significantly impacted by the pandemic to warrant a force majeure claim.

34. The Interim FPP further states that TransJamaica Highway, operator of the East West leg of Highway 2000 has submitted a notice of claim for revenue losses; however, these claims would be subject to further assessment. The FRS indicated a clause in the North South Highway concession agreement that allows for an extension of the agreement to facilitate the recovery of losses incurred. The extent of the losses impacting these concessionaires has however not been quantified as the primary cause, the COVID-19 pandemic, is still in effect. We noted that the public body with responsibility for the two highway concession agreements is the National Road Operating and Constructing Company (NROCC), which is one of seven large public bodies with significant domestic arrears, which the Interim FPP states are closely monitored to manage potential fiscal risks.

35. The Jamaica Ship Registry PPP to be executed through the Maritime Authority of Jamaica is a Users-Pay PPP and as such will be assessed by the Auditor General for minimal contingent liability. However, no mention was made of the Registry in the Interim FPP.

Reasonableness of the Deviation of the Fiscal Indicators

36. 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.

37. In this section, I have reviewed the explanations provided for the period April to July 2021 as provided in the Interim FPP FY2021/22. In making a determination of reasonableness of the explanations provided by the Minister of Finance, the following were undertaken:

i. A review of the macroeconomic framework provided in the Interim Report in context of Budget Assumptions indicated in the February FPP FY2021/22.
ii. A review of emerging risks discussed in the Interim Report.
iii. confirmation where possible, of the Minister's explanations with observed data for FY2021/22 (April to July 2021).

38. My comments on variances provided in **Table 4** relate only to material issues pertaining to information provided in the Interim FPP FY2021/22 and by the MoFPS.

39. I note that the explanations provided by the Minister for the deviation of fiscal indicators were reasonable in most instances as the economy benefitted from the reduction in COVID-19 containment measures for the review period. However, the Interim FPP did not provide an explanation for the above-budgeted performance of Tax on Interest in the context of the low interest rate environment. In addition, no explanation was provided for the above-budgeted revenue recorded for Betting, Game and Lottery (24.2 per cent) and Telephone Call Tax (44.3 per cent) nor the shortfall in Non-Tax Revenue (-4.9 per cent).

Table 3: Comments on the Explanation for the Fiscal Deviations for April - July 2021 relative to Budget

Key Tax Types	Provisional	Budget	Deviation from Budget	Deviation from Budget (%)	GOJ's Explanation Stated in FPP FY2020/21 Interim	Audit Comments	Ministry's Response
Tax Revenue	**176,667.1**	**159,560.1**	**17,107.0**	**10.7%**	Mainly due to the above-budget performance of International Trade, along with positive contributions from Income and Profits as well as Production and Consumption.		
Income & Profits	44,981.5	43,964.2	1,017.2	2.3%			
Other Companies	13,806.8	13,856.1	(49.4)	-0.4%			
PAYE	23,229.7	23,579.3	(349.6)	-1.5%			
Tax on Interest	6,076.8	4,599.6	1,477.3	32.1%	No explanation provided		Tax on interest's better than budget performance was mainly influenced by higher inflows from private sector sources.
Production & Consumption	65,417.3	60,671.4	4,745.9	7.8%			
GCT (local)	32,533.5	32,403.0	130.5	0.4%			
SCT (Local)	11,362.1	10,502.2	859.9	8.2%	Benefited from relatively high production levels at the Petrojam refinery.	Explanation provided in the Interim FPP was reasonable.	
Other Licenses	2,119.7	1,068.2	1,051.5	98.4%	Other Licenses recorded inflows of $2,119.7mn, which was $1,051.5mn or 98.4% above	Explanation provided in the Interim FPP was reasonable.	

Key Tax Types	Provisional	Budget	Deviation from Budget	Deviation from Budget (%)	GOJ's Explanation Stated in FPP FY2020/21 Interim	Audit Comments	Ministry's Response
					target, largely due to a significant inflow from Telecommunication Licences, through Spectrum Management Authority, in July 2021.		
Betting, Gaming and Lottery	2,598.6	2,091.6	507.0	24.2%	No explanation provided		The better than budgeted performance for Betting, Gaming and Lottery was influenced by the wider variety of gaming options as well as being able to participate using smart phones, increased participation in major sporting events.
Telephone Call Tax	1,199.4	831.2	368.2	44.3%	No explanation provided		A gradual return to normalcy would have caused a positive impact on this tax, particularly medium and small enterprises as well as the tourism sector as international travel increased
Stamp Duty (Local)	2,051.05	1,431.8	619.6	43.3%	No explanation provided		Stamp duty collections reflect the continued buoyancy

Key Tax Types	Provisional	Budget	Deviation from Budget	Deviation from Budget (%)	GOJ's Explanation Stated in FPP FY2020/21 Interim	Audit Comments	Ministry's Response
							of the real estate market.
International Trade	66,268.3	54,924.4	11,343.9	20.7%	No explanation provided		Higher volumes of imports were the main drivers of international trade.
GCT (imports)	30,707.0	25,377.1	5,329.9	21.0%	The performance of GCT (Imports) and Custom Duty reflected higher volumes of imports, consistent with the upturn in the economy among other factors.	Explanation provided in the Interim FPP was reasonable.	
SCT (Imports)	13,629.1	13,613.9	15.2	0.1%			
Customs Duty	15,349.6	12,514.0	2,835.6	*22.7%*	The performance of GCT (Imports) and Custom Duty reflected higher volumes of imports, consistent with the upturn in the economy among other factors.	Explanation provided in the Interim FPP was reasonable.	
Stamp Duty	855.0	677.6	177.5	26.2%	No explanation provided		Stamp duty's performance reflects the higher volumes for imports
Travel Tax	4,353.8	1,687.5	2,666.3	158.0%	The increase in Travel Tax was mainly attributable to higher than projected visitor arrivals.	Explanation provided in the Interim FPP was reasonable.	
Non-Tax Revenue	45,010.4	47,341.2	(2,330.8)	-4.9%			

Key Tax Types	Provisional	Budget	Deviation from Budget	Deviation from Budget (%)	GOJ's Explanation Stated in FPP FY2020/21 Interim	Audit Comments	Ministry's Response
Capital Revenue	778.2	0.0	778.2		No explanation provided		
Grants	3,075.7	1,369.3	1,706.4	124.6%	Inflow of US$13.365mn in July 2021 under the Global Risk Financing Facility Grant Agreement between Jamaica and the International Bank for Reconstruction and Development to finance the catastrophe bond premium.	Explanation provided in the Interim FPP was reasonable.	