EXAMINATION OF THE COMPONENTS OF THE FISCAL POLICY PAPER FY2022/23, WHICH WAS LAID BEFORE THE HOUSES OF PARLIAMENT ON FEBRUARY 10, 2022

INDEPENDENT AUDITOR'S REPORT
THE AUDITOR GENERAL OF JAMAICA
FINANCIAL YEAR 2022/23

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 Opinion

1. I examined the components of the Fiscal Policy Paper (FPP), which was laid before the Houses of Parliament on 2022, February 10, in accordance with the Financial Administration and Audit (FAA) Act. The report met the requirements of the Third Schedule and included the minimum content under the Fiscal Responsibility Statement, Macroeconomic Framework and Fiscal Management Strategy.

2. 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.

Performance against Fiscal Framework

3. In May 2020, the GOJ tabled an amendment to the FAA Act to extend the legislated Debt to GDP target of 60 per cent or below from March 2026 to March 2028 and passed a resolution in Parliament for the suspension of fiscal rules, given the expected adverse economic impact of the COVID-19 pandemic. No reference was made to a suspension of the legislated Wage to GDP target at the time of the Fiscal Rule suspension. The projected Wage to GDP target for FY2022/23 is 10.9 per cent and is expected to increase to 11.5 per cent by FY2025/26, remaining above the legislated target of 9.0 per cent of GDP. The Ministry has indicated that the Wage to GDP legislative target is being considered for review.

My Responsibility

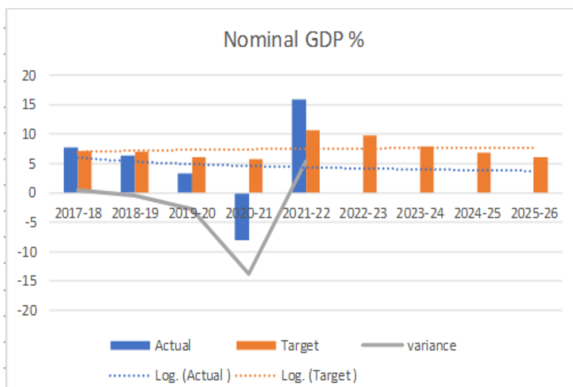
4. Section 48B (6) of the FAA Act requires the Auditor General to examine the components of the Fiscal Policy Paper (FPP) within two weeks after the FPP is laid before both Houses of Parliament, and provide a report to the Houses indicating whether: -

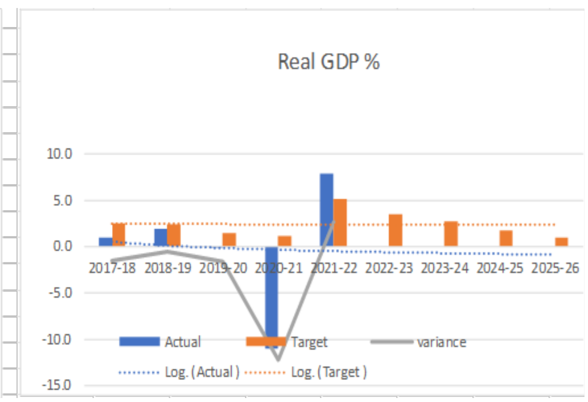
   a. **the conventions and assumptions underlying the preparation of the Fiscal Policy Paper comply with the principles of prudent fiscal management specified in Section 48D:**

   The Fiscal Responsibility Statement (FRS) informed that Government remains focused on ensuring that Jamaica meets its debt target for FY2027/28; also, in pursuing the policy objectives, the GOJ remains committed to the principles of prudent fiscal management and the management of the fiscal risks. Consistent with the principles of prudent fiscal management, I reviewed the Fiscal Policy Paper to determine whether the revenue projections for FY2022/23 and the medium-term, were based on realistic macroeconomic assumptions. In addition, that risks which could undermine the achievement of the targets were identified and evaluated in a timely manner, such that appropriate risk mitigating measures can be determined.

The FPP FY2022/23 indicated that nominal GDP is expected to grow by 9.7 per cent for FY2022/23, which represents an increase relative to growth of 8.8 per cent, forecasted in the FPP FY2021/22 Interim Report tabled in September 2021, reducing steadily to 6.1 per cent by FY2025/26. Real GDP is forecasted to grow by 3.5 per cent for FY2022/23 compared to projected growth of 3.1 per cent in the said Interim report, with the rate reducing to 1.0 per cent by FY2025/26. Of note, the FPP FY2022/23 highlighted that the IMF's January 2022 World Economic Outlook Update projected global growth for 2022 of 4.4 per cent, reflecting moderation from 5.9 per cent in 2021. The USA, Jamaica's main trading partner was projected to grow by 4.0 per cent, 1.2 percentage point lower relative to the October 2021 outlook. Given the moderated growth forecast, it is unclear, the basis for the upward adjustment to Jamaica's growth projections relative to the Interim FPP tabled five months prior.

A review of the outturns for nominal GDP over the past five years, revealed that for FY2017/18 and FY2018/19, the variance from target was only 0.5 percentage point. However, the variances from target for FY2019/20 and FY2020/21, widened to negative 2.7 per cent and 13.7 per cent, respectively, based on the adverse economic impact of COVID-19; underscoring the importance of timely identification and evaluation of risks to inform mitigating strategies.





The FPP FY2022/23 identified various sources of fiscal risks including those which may result in sharp deviations in the macroeconomic assumption and in most instances, strategies were outlined to mitigate the impact on fiscal expenditure. On the revenue side, the Fiscal Responsibility Statement (FRS) highlighted that the Jamaican economy was in recovery mode, and an important factor to stimulate the process, was the avoidance of new revenue measures that may result in "withdrawals". The FPP also revealed that Tax Administration Jamaica would continue to pursue its taxpayer compliance risk level and optimize domestic tax collections in support of economic growth and development.

The FPP noted that the COVID–19 pandemic negatively impacted the operations of several Public Bodies (PBs) contributing to cash flow insufficiency, with five primary entities being affected. Although the operations of some entities had started to rebound, recovery for others might take longer and they could experience greater fall-out in their operations, requiring further Central Government support. However, Government would manage and monitor entities with significant payment arrears and ensure they are settled within certain parameters; also PBs may be encouraged to settle within negotiated terms and/or seek to negotiate payment schedules. The FRS also acknowledged risks emanating from public-private partnerships, noting that of the five (5) commercial/user-pays concession agreements in operation, four (4) had submitted claims or notice of their intent to claim under the provisions of the respective concession agreements due to the impact of the COVID-19 pandemic.

Based on my review of the Fiscal Policy Paper (FPP) FY2022/23, I am reasonably assured that the FPP preparation complied with the conventions and assumptions of prudent fiscal management and the enhanced fiscal rules.

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

The FPP FY2022/23 reported on Central Government's performance for April – December 2021 relative to Original Budget, in accordance with the requirements of the FAA Act. In most instances, I found the reasons advanced for deviations in the revenue from Budget, to be reasonable having regard to the circumstances. The Fiscal Management Strategy (FMS) attributed higher than budgeted inflows from *International Trade* to better than budgeted Travel Tax collections due to robust visitor arrivals following the relaxation of travel restrictions worldwide. Above-budget collections from the other components largely reflected the higher than anticipated import value of goods, partly the result of higher than projected average exchange rate for the period.

Below budget performance of the *Income and Profit* tax category for April – December 2021, mainly reflected the under-performance of PAYE collections which occurred despite improvements in the labour market. The FPP indicated that the increase in employment was largely concentrated among individuals earning at or below the income tax threshold of $1.5 million, thereby implying that the many of the newly employed would not have been liable for income tax. Additionally, collections were affected by the late settlement of public sector wage negotiations while settlements for some public sector groups remained outstanding at end-December 2021. While the explanation for the deviations appeared reasonable, no evidence was provided to support the assertions.

The FPP posited that underperformance of *Production and Consumption* tax receipts relative to budget was attributed to the disruption in economic activity, due primarily to the restrictions imposed during the second quarter of the fiscal year to limit the spread of COVID-19 which affected production and by extension, GCT collections. According to the FMS, SCT (Local) was also impacted by the containment measures, as well as lower production at the local refinery which was closed for maintenance in October 2021.

The underperformance of Non-Tax Revenue relative to budget was attributed to delays in the verification process for sums received, however, no detail was provided. The explanation for Capital Revenue was reasonable based on the receipt by Central Government of loan repayment from Public Bodies. However, further information could have been provided for receipts not budgeted for. The FPP indicated that the better than budgeted performance for Grants was largely due to inflows of US$13.4 million from the Global Risk Financing Facility Grant Agreement which financed the catastrophe bond premium. This level of inflows was not fully determined at the time of budget preparation. Similarly, there was a significant receipt for Bauxite Levy in November 2021 from WINDALCO for which the timing was not expected.

Although greater clarity could be provided by the Ministry for the deviations in some instances, most explanations were considered to be reasonable given the fluctuations in domestic economic activity and external factors, in the context of the COVID-19 pandemic.

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 FAA Act requires the Minister, no later than August 31, in every third year, to provide the Auditor General with a list of public bodies that the Minister wishes the Auditor General to consider for certification. However, since the Minister's notification on October 18, 2019, that no public body met the requirement. The next notification from the Minister would be due by August 2022.

d. a public private partnership involves only minimal contingent liabilities.

The Fiscal Policy Paper FY2022/23 informed that five (5) user-pays concession agreements were currently in operation, namely the Norman Manley International Airport (NMIA), Kingston Container Terminal (KCT), Sangster International Airport, the North-South Highway, and the Highway 2000 East-West. The FPP identified that the Jamaica Ship Registry PPP, through the Maritime Authority of Jamaica, deemed a "user pays" PPP is being reviewed by the Ministry, and is expected to be assessed by the Auditor General for minimal contingent liability.

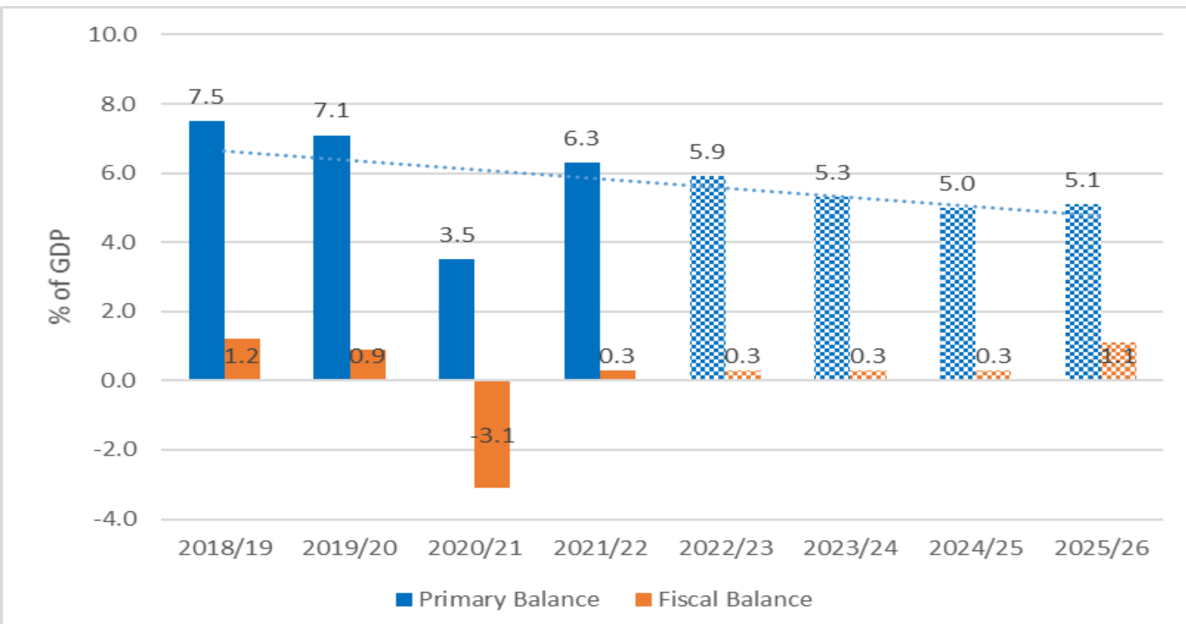
Pamela Monroe Ellis, FCCA, FCA
Auditor General

The Fiscal Management Strategy

Primary and Fiscal Balance

7. For April to December 2021, the primary balance was $23.1 billion or 38.6 per cent above target whereas the fiscal balance was better than target by $17.3 billion or 65.7 per cent. The performance of both indicators reflected the impact of better than budgeted revenue and lower expenditure relative to budget. For FY2021/22, Primary and Fiscal balance estimates of 6.3 and 0.3 per cent of GDP are relatively unchanged from the estimates presented in the 2021 Interim Fiscal Policy Paper (IFPP). This was as a result of improved growth relative to projection. The stability in the Primary and Fiscal balances was reflected in the increased budgeted expenditure, specifically on recurrent programmes and interest payments, utilising the higher than budgeted revenue generated. The FPP has acknowledged that buffers generated in the past provided a cushion that facilitated timely response to the needs of the health sector amidst the COVID-19 pandemic.

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



Source: MoFPS

8. For FY2022/23, the Primary and Fiscal Balance targets as a per cent of GDP are estimated to be 5.9 and 0.3, respectively (**Figure 1**). The Primary balance is estimated to fall by 0.4 percentage points relative to FY2021/22 while the Fiscal Balance is being maintained at 0.3 per cent throughout the medium-term, ending at 1.1 per cent of GDP in FY2025/26. Primary Balance as a percentage of GDP is estimated to average 5.3 percent over the medium-term.

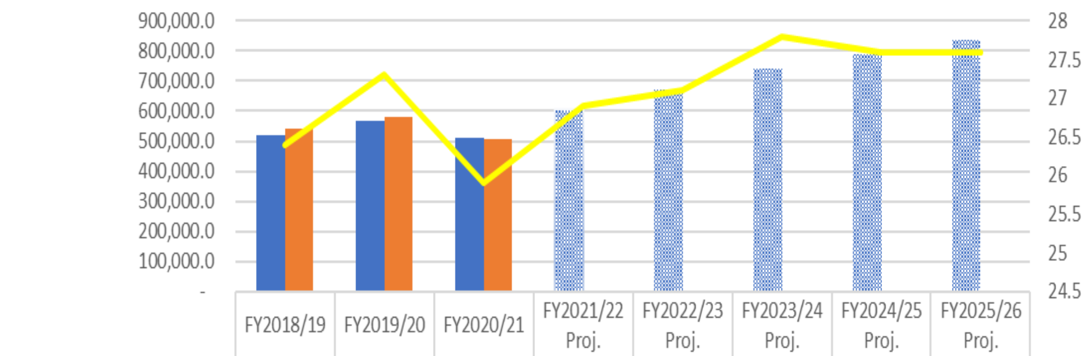
Tax Revenue

9. Tax Revenue for the period April to December 2021 exceeded the target by $19.2 billion or 4.8 per cent and above collections for the corresponding period of FY2020/21 by 20.1 per cent as well as higher than receipts for the pre-pandemic April to December 2019 period by 0.3 per cent. The positive performance relative to budget was underpinned by higher than projected receipts from *International Trade* which exceeded budget by $23.8 billion (16.3 per cent). The FPP indicated that the strongest component was Travel Tax exceeding budget by $7.2 billion due to robust visitor's arrival from the relaxation of travel restrictions worldwide. Higher than anticipated exchange rate also contributed to increase in value of imports for the other components. This positive deviation is reasonable in the context where global trends are indicative as countries implement strategies including vaccine mandates, allowing for movements in economic activities and international travel. The economic growth is projected to continue in an upward trajectory to year-end signalling commitment to recovery from COVID-19 pandemic which is forecasted for year-end FY2022/23. Of note, as per request, the Ministry provided information on tax arrears and refunds as at January 31, 2022, which showed a net transfer to taxpayers, underscoring the creditable performance of Tax Revenue based on economic activities.

10. The FPP reported that *Income and Profits* underperformed relative to budget by $834.7 million (0.8 per cent), attributable to the lower than expected of PAYE collections by 2.2 per cent despite positive movements in the labour market. The FPP suggested that this may have been due to a concentration on individuals earning below the income tax threshold of $1.5 million. While this assertion may be reasonable, no evidence was provided to substantiate this explanation. The below target *Production and Consumption* collection of $3.8 billion (2.6 per cent) was attributed to disruption in economic activity and to lower local refinery production, primarily due to restrictions imposed during the second quarter of the fiscal year to limit the spread of COVID-19. These factors adversely impacted flow of GCT (Local) and SCT (Local), which were lower than budget by 5.1 and 10.3 per cent respectively. Having regard to the circumstances of lower economic activity during the period, the explanations provided for the deviations were not unreasonable.

11. For the FY2022/23, the FPP projected Revenue and Grants at 30.3 per cent of GDP, which represents a 1.5 percentage decline relative to the estimated outturn for FY2021/22. The ratio is however projected to increase to 30.7 per cent in FY2023/24 and remaining flat at 30.3 per cent thereafter to FY2025/26. A higher Tax Revenue to GDP ratio of 27.1 per cent is projected for FY2022/23, increasing to 27.8 per cent in FY2023/24 and levelling off at 27.6 per cent in FY2025/26 (**Figure 2**). There was also a further indication of recovery in the context where the Tax Revenue to nominal GDP ratio reflected a sharper increase and is forecasted to average 27.8 per cent for the medium-term.

Figure 2: Tax Revenue (% of GDP)



	FY2018/19	FY2019/20	FY2020/21	FY2021/22 Proj.	FY2022/23 Proj.	FY2023/24 Proj.	FY2024/25 Proj.	FY2025/26 Proj.
Budgeted Tax Revenue	518,435.2	565,878.3	510,051.0	606,239.6	671,536.6	741,671.0	786,932.7	834,424.0
Actual Tax Revenue	542,919.4	579,397.0	505,686.7					
% (GDP)	26.4	27.3	25.9	26.9	27.1	27.8	27.6	27.6

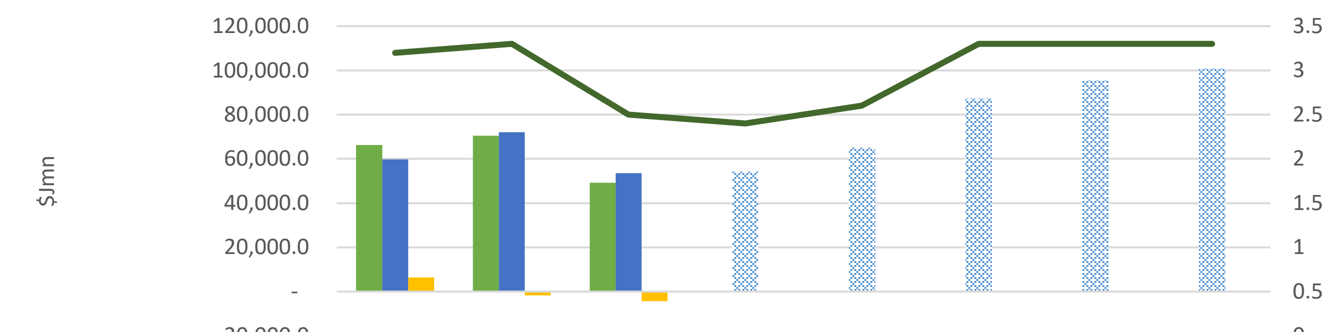
Source: MoFPS

12. Notwithstanding this, Jamaica's economic growth projection is subjected to global risks. According to IMF World Economic Outlook January 2022 these include the emergence of new COVID-19 variants which could prolong the pandemic and induce renewed economic disruptions. Supply chain disruptions may continue, energy price volatility, and localized wage pressures, mean uncertainty around inflation is also high. The WEO's moderated its global growth projection to 4.4 per cent for 2022 from 5.9 per cent in 2021. For the USA, Jamaica's leading trading, the growth projection for 2022 was reduced to 4.0 per cent, down by 1.2 percentage point. Consequently, a similar moderation in Jamaica's growth projection for FY2022/23 relative to forecast of 8.8 per cent indicated in the Interim FPP would have been prudent.

Capital Expenditure

13. Capital Expenditure for April to December 2021 was $8.0 billion (18.7 per cent) less than originally budgeted. According to the FPP, this was attributed to the slower than programmed pace of project execution for several of the programmed projects. Notwithstanding, the FPP FY2022/23 indicated that Capital Expenditure for the entire fiscal year FY2021/22 would be $54.2 billion (9.9 per cent of GDP), in line with Original Budget. The FPP projects Capital Expenditure to increase gradually from $65.0 billion (2.6 per cent of GDP) in FY2022/23 to $100.7 billion (3.3 per cent of GDP) to the end of the medium-term in FY2025/26. As a percentage of GDP, this would be in line with pre-pandemic forecasted proportion of expenditure (**Figure 3**). The FPP states that for FY2022/23 approximately $21.0 billion has been allocated for the South Coast Highway Improvement Project (SCHIP) and $4.9 billion for the Montego Bay Perimeter Road as well as a contingency provision of $5.3 billion to support Public Investment pipeline projects which are at an advanced stage in the appraisal process.

Figure 3: Capital Expenditure (J$ million)

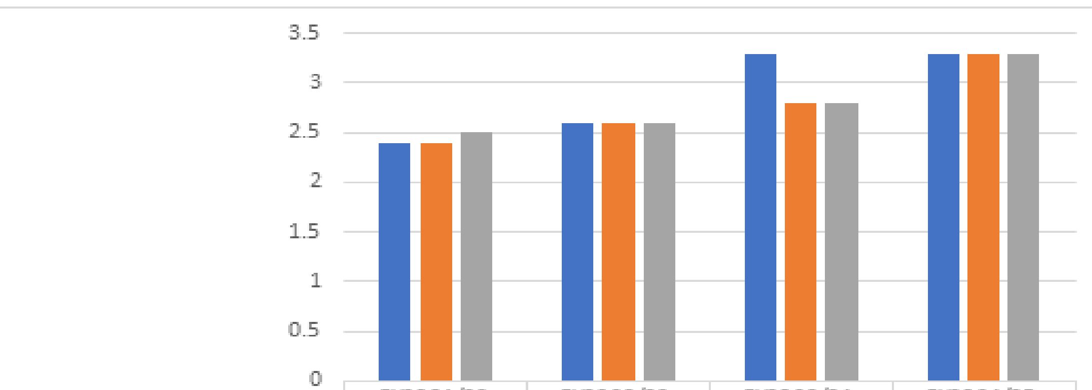


	2018/19	2019/20	2020/21	2021/22 Estimate.	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.
Actual	66,204.3	70,392.9	49,184.1					
Budget	59,825.1	72,110.6	53,514.3	54,201.3	65,067.3	87,210.2	95,269.3	100,660.3
Deviation from Budget	6,379.2	-1,717.7	-4,330.2					
% of GDP (Act/Budg)	3.2	3.3	2.5	2.4	2.6	3.3	3.3	3.3

Source: MoFPS

14. This increase in Capital Expenditure coincides with the projected recovery in the medium-term from the effects of the COVID-19 pandemic with higher projections when compared to those contained in the Interim FPP FY2021/22 (**Figure 4**). However, if the impact of the pandemic persists through the medium-term, then a further downward revision would be expected to accommodate shifting priorities, similar to what obtained in the past. As a percentage of GDP, Capital Expenditure is projected at 3.3 per cent for the last three years of the medium-term, in line with the forecast indicated in FPP FY2020/21 prior to the onset of COVID-19.

Figure 4: Capital Expenditure % of GDP (Interim FPP's FY2021/22 vs FPP FY2022/23)



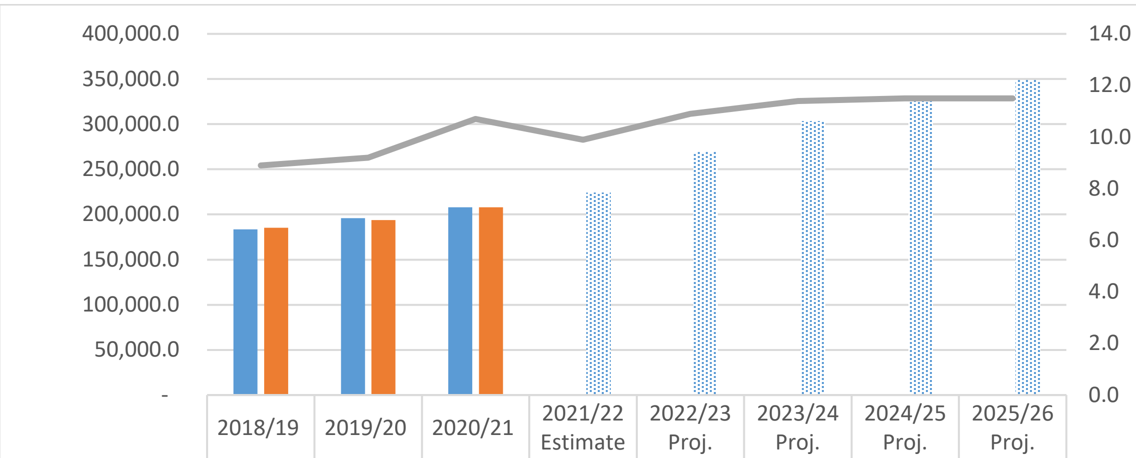
	FY2021/22	FY2022/23	FY2023/24	FY2024/25
February FPP FY2022/23	2.4	2.6	3.3	3.3
Interim FPP FY2021/22	2.4	2.6	2.8	3.3
February FPP FY2021/22	2.5	2.6	2.8	3.3

Source: MOFPS

Wages & Salaries

15. For April to December FY2021/22, Wages and Salaries marginally exceeded original budget by $439.8 million (0.3 per cent) which the FPP states was attributable to the payment of salary increases for FY2021/22 at levels above that originally budgeted. The FPP estimates Wages and Salaries to be $223.8 billion (9.9 per cent of GDP), exceeding the FY2021/22 full year original budget by $1.9 billion. Accordingly, this line item is projected at $268.8 billion (10.9 per cent of GDP) for FY2022/23, which continues to be outside the legislated target of 9 per cent (**Figure 5**). The Fiscal Risk Statement (FRS) in the FPP did not explicitly address the risk of being outside the target, only stating that there are outstanding wage settlements for some groups. The FPP, as in previous years, indicates in the FRS that the public wage bill can pose a risk to government expenditure if wage settlements exceed budget and/or not concluded in time for budget. The Ministry has indicated that the Wage to GDP legislative target is being considered for review.

Figure 5: Wages & Salaries (J$ million)

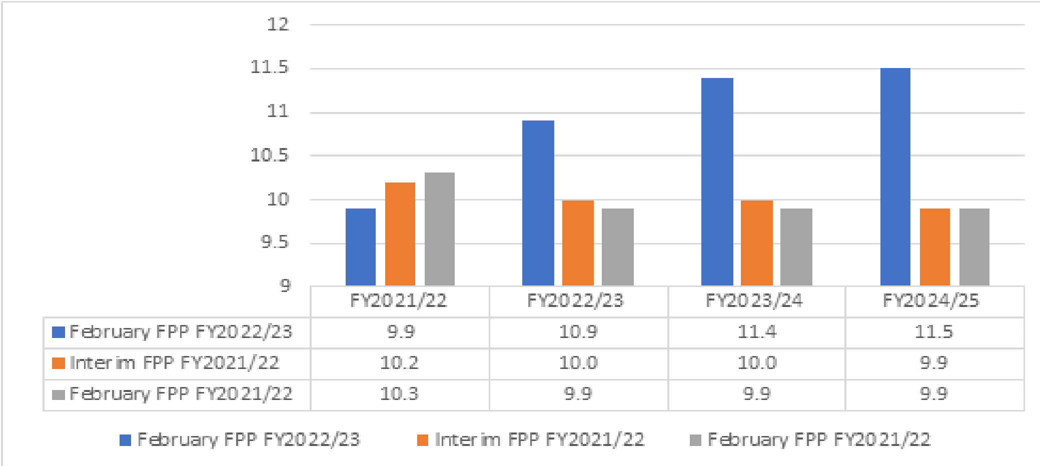


	2018/19	2019/20	2020/21	2021/22 Estimate	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.
Actual	183,505.	195,935.	208,002.					
Budget	185,274.	193,958.	207,912.	223,789.	268,825.	303,339.	329,042.	348,785.
% of GDP	8.9	9.2	10.7	9.9	10.9	11.4	11.5	11.5

Source: MoFPS

16. A comparison of the Wage to GDP projections contained in the FPP FY2022/23 indicates higher projections for the medium-term up to FY2024/25 (**Figure 6**). Of note, all projections are outside the legislated target of 9.0 per cent, and average 11.3 per cent of GDP up to FY2024/25 in the FPP versus an average of 10.0 per cent for both FPP's for FY2021/22. The FPP indicates that based on the new public sector compensation structure which will be implemented in FY2022/23, some reallocation from Programmes to Compensation of Employees expenditure line item will take place. In addition, this in the context where the FPP FY2022/23 projects a decline in nominal GDP growth projections in the medium-term when compared to the FPP FY2021/22.

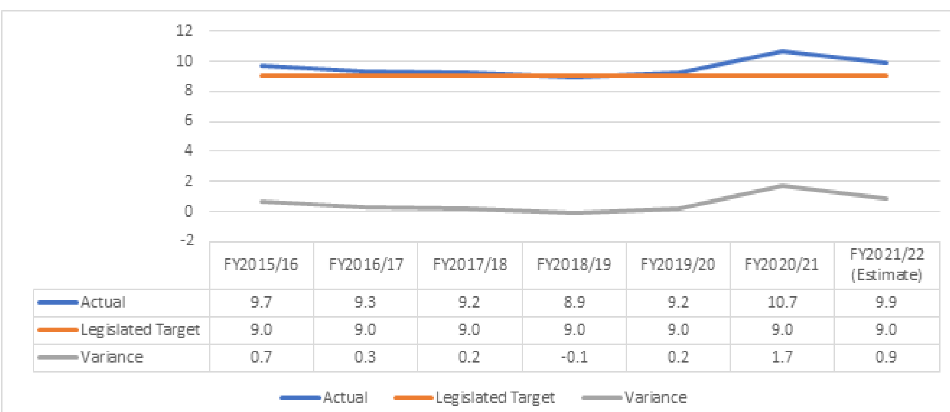
Figure 6: Wages as a percentage of GDP (FPP's Comparison)



Source: MoFPS

17. The Wage to GDP target was expected to be at 9.0 per cent by FY2015/16 and maintained thereafter; however, the target was only met once in FY2018/19 with the variances increasing thereafter (**Figure 7**). The new compensation structure which the FPP states will aid in simplifying public sector compensation, while establishing greater internal equity and improving competitiveness, may bring about some level of transparency and predictability to the public sector wage structure. These inefficiencies over the years have impacted the fiscal position, preventing the execution of proper fiscal planning.

Figure 7: Wages to GDP (%) Actual vs Legislated Target FY2015/16 to FY2021/22*



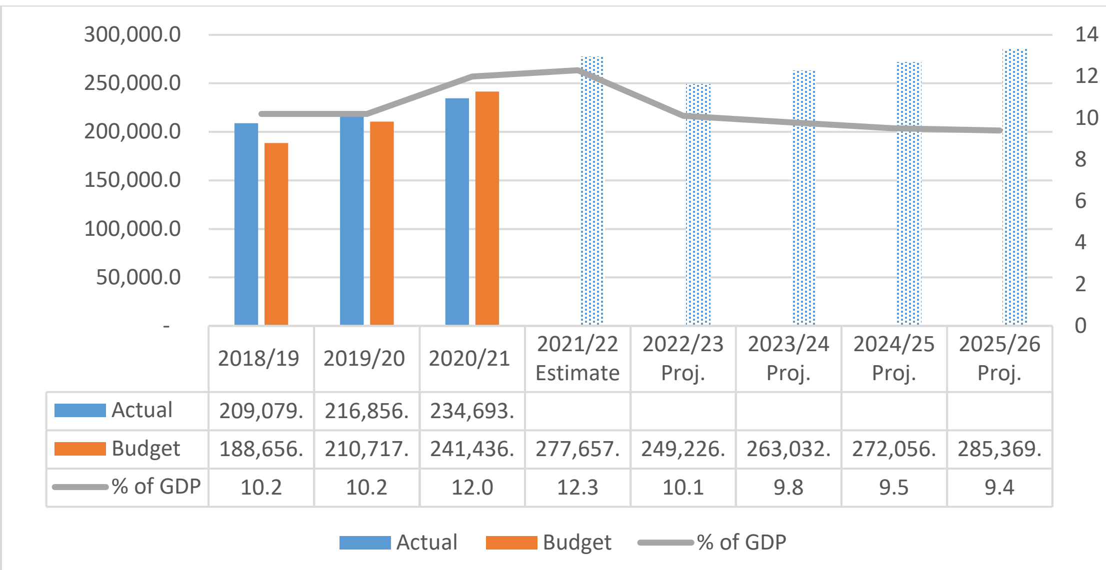
Source: MOFPS

* Estimates for FY2021/22

Programmes

18. Programme expenditure for April to December 2021 was below the original budget by $1.2 billion (0.6 per cent) which the FPP attributes to under-execution of planned expenditure by Ministries, Departments and Agencies (MDAs). The FPP estimates Recurrent Programmes to be $277.7 billion at end FY2021/22 (12.3 per cent of GDP) declining to $249.2 billion in FY2022/23 (10.1 per cent of GDP) and as a percentage of GDP gradually decline over the medium-term ending at 9.4 per cent in FY2025/26 (**Figure 8**). The projected decline between FY2021/22 and FY2022/23 reflects the reallocation of compensation-related allowances to the category Compensation of Employees. In addition, given the thrust towards recovery from the COVID-19 pandemic which had seen additional support to the Ministry of Health and Wellness (MoHW) and social intervention programmes in FY2020/21 and FY2022/23, the medium-term forecast also reflects a realigning of expenditure towards Capital Expenditure.

Figure 8: Programmes (J$ million)



	2018/19	2019/20	2020/21	2021/22 Estimate	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.
Actual	209,079.	216,856.	234,693.					
Budget	188,656.	210,717.	241,436.	277,657.	249,226.	263,032.	272,056.	285,369.
% of GDP	10.2	10.2	12.0	12.3	10.1	9.8	9.5	9.4

Source: MoFPS

Public Debt

19. The FY2021/22 Debt Stock of $2,174.2 billion is estimated to increase by 1.7 per cent relative to FY2020/21 outturn (**Table 1**). Domestic debt increased by $25.4 billion which exceeded the decrease in External debt of $13.6 billion. In the February 2021 FPP, the debt stock was budgeted to be $2,168.5 billion but has been revised upwards to $2,174.2 billion, an increase of $5.7 billion.

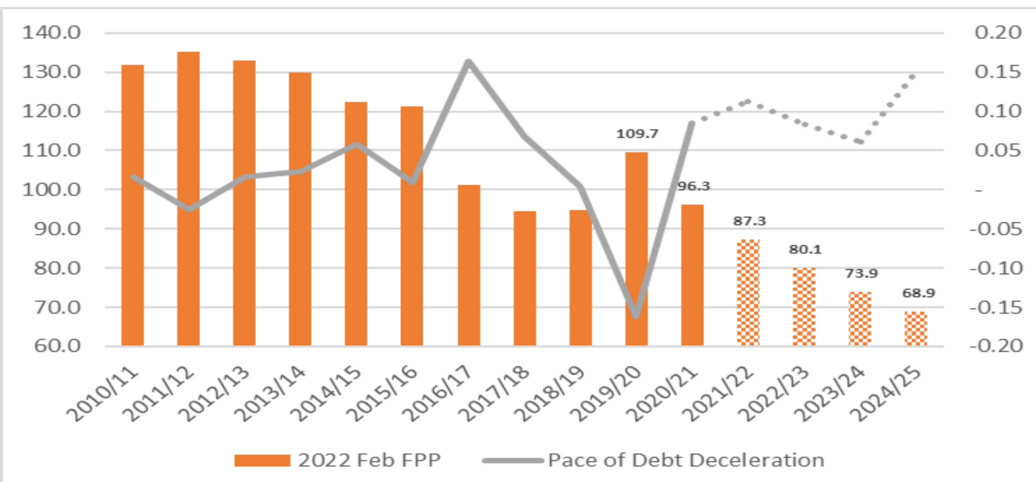
Table 1: Medium Debt Target (% of GDP)

FY	2022/23	2021/22	2020/21	2019/20	2018/19
Debt Stock	2,162.0	2,174.2	2,137.6	2,011.9	1,938.0
% change	-0.6%	1.7%	5.9%	3.7%	-0.7%

Source: MoFPS

20. Total Public Sector Debt as a percentage of GDP is projected to decline to 96.3 per cent at end FY2021/22 down from 109.7 per cent in FY2020/21 (**Figure 9**). The downward revision in the debt ratio was due to higher than projected GDP growth which exceeded the increase in the debt stock. The medium-term forecast for the Debt to GDP ratio reflects a continual downward trajectory consistent with the achievement of the legislative target of 60 per cent or lower, by FY2027/28. It is observed that the pace of reduction in the debt ratio is projected to accelerate over the medium-term. The uncertainty surrounding the on-going threat from COVID-19 presents a heightened risk to the achievement of the debt target.

Figure 9: Medium-Term Debt (% of GDP)



Source: MoFPS

Fiscal Risk Assessment

21. As Jamaica navigates the rebound from the fallout associated with the COVID-19 pandemic the execution of fiscal policy in support of enhancing and sustaining growth is imperative to achieve the legislated debt target for FY2027/28. The Financial Risk Statement (FRS) noted GOJ's assessment of the macroeconomic, contingent liabilities and other risks considered in the preparation of the FY2022/23 budget.

22. Central to the success of the fiscal projections and fiscal targets is the attainment of programmed economic growth. The FRS highlighted a general positive bias in the estimates for nominal and real

GDP. On average, growth has fallen below estimates by 1.66 per cent for the period FY2016/17 to FY2020/21. With tax buoyancy estimated at 1.3, the potential effect, if a similar shortfall were to materialise, would result in a decline that is less than the estimated decline in Tax Revenue in the shock scenario included in the assessment suggesting reasonable consideration of this risk. Several projects outlined throughout the FPP also address structural obstacles such as financial inclusion (Central Bank Digital Currency) and crime (Security Strengthening Project), among others, which the IMF has previously identified as hindering productivity and growth[1]. GOJ commenced reforms to both the Tax Administration of Jamaica and Jamaica Customs Agency to improve the tax environment. Investments in digitisation, reduction in processing times at customs and improved tax compliance will likely enhance the business environment to support economic growth and to reap the associated benefits. The FRS also acknowledges the projected slowdown in growth in Jamaica's major trading partner, the United States. However, while GOJ commits to monitoring developments to gauge possible spill-over effects no specific risk mitigating strategy was proffered.

23. Oil prices have surged due to the reopening of the global economy. The FRS notes a high forecast error of US$27.7/bbl between the projected average prices for FY2021/22 and the actual outturn at end December 2021. GOJ outlines two strategies to mitigate the risk of oil price shocks, the buffer provided in the SCT on petroleum and petroleum-based products and the Energy Efficiency and Conservation Programme (EECP) and Energy Management and Efficiency Project (EMEP). The Sectoral Presentation from the Minister of Science, Energy, and Technology (MSET) for FY 2020/21 reported that the EECP produced savings of J$376.4 million in 28 of the 46 government facilities which received energy efficient retrofitting. The remaining 18 facilities showed an increase in electricity consumption costing approximately J$246.5 million. Additionally, the EMEP has underperformed since its launch in FY2018/19.

State Owned Enterprises

24. The FPP FY2022/23 indicated that there has been improvement in the operating balance of the group of self-financing public bodies (SFPBs), which is estimated to be a surplus for FY2021/22. This is on account of a rebound from the impact of the COVID-19 pandemic. The overall balance is however, estimated to be a deficit of $5,900.41 million for FY2021/22, compared with the budgeted deficit of $148.82 million. Of note the overall balances for FY2019/20 and FY2020/21 were deficits of $1,786.05 million and $1,632.05 million respectively.

25. Although some SFPBs carry positive balances, the fiscal risk posed by public bodies continues to be significant, as several entities continue to be loss-making and/or carry unsustainable obligations. The FPP identified several avenues where the fiscal risk may be manifested, for example, where

[1] IMF Article IV Consultation 2018, https://www.imf.org/en/Publications/CR/Issues/2018/04/16/Jamaica-2018-Article-IV-Consultation-Third-Review-Under-the-Stand-By-Arrangement-and-Request-45801

these entities are unable to service debt, whether government guaranteed or otherwise, covering the operating expenses or satisfy their investment needs. Consequently, the government has had to provide unplanned support in the form of grants, loans, debt settlements, as well as receiving lower revenue transfers from some entities.

26. The FPP attributed the COVID-19 pandemic era to the cash flow concerns in several public bodies and has resulted in the GOJ providing financial support. However, there is also the recognition that some SFPBs exhibit more sustained financial and operational constraints, which requires ongoing GOJ support over the years. One of the avenues impacting fiscal risk from public bodies is with the build-up of arrears. The FPP identified seven public bodies where the GOJ is monitoring their arrears and has established a ceiling of $6,400.00 million. Of note, the FPP did not provide a comprehensive disclosure of financial support by the GOJ vis-a-vis to the full extent of the exposures by the applicable entities.

Public Private Partnerships

27. The FPP states that there are currently five (5) user-pays concession agreements in operation. The Norman Manley International Airport (NMIA), Kingston Container Terminal (KCT), Sangster International Airport, the North-South Highway, and the Highway 2000 East-West. Given the impact of the COVID-19 pandemic, four of the existing concessionaires have submitted claims or notice of their intent to claim under the provisions of the respective concession agreements. Given the thrust for recovery from the continued impact of the COVID-19 pandemic, it is critical that these claims be adequately assessed to mitigate any risk accruing to the fiscal position.

28. The FPP states that three PPP transactions are currently in progress, the Rio Cobre Water Treatment Plant in Content, St. Catherine through the National Water Commission, the Schools Energy Efficiency and solar project and the Jamaica Ship Registry PPP through the Maritime Authority of Jamaica which is deemed to be a “user pays” PPP. The Rio Cobre and Schools Energy PPP’s, the two “Government Pays” PPP’s, are executing activities to facilitate financial closure. The Jamaica Ship Registry PPP, which will be assessed by the Auditor General for minimal contingent liability, is currently being reviewed to determine the way forward, the FPP states.

Reasonableness of the Deviation of the Fiscal Indicators

29. Subsection (5)(d)(ii) of the FAA Act requires that the Minister compares the outcomes 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.

30. In this section, I have reviewed the explanations provided for April to December 2021 as provided in the FPP FY2022/23. In determining the reasonableness of the explanations provided by the Minister of Finance, the following were undertaken:
    a. A review of the macroeconomic assumptions provided in the Interim Report indicated vis-à-vis the assumptions indicated in the FPP FY2022/23 February 2022;
    b. A review of emerging risks discussed in the FPP FY2022/23 and Debt Management Strategy to determine if any risks has materialized or were excluded from initial projections analysis of supplementary information; and
    c. Confirmation, where possible, of the Minister's explanations with observed data for FY2021/22 (April to December 2021).

31. My comments on variances provided in **Table 2** relate only to material issues presented in the FPP FY2022/23 and by the Ministry of Finance and the Public Service (MoFPS).

32. The explanations provided by the Ministry for the deviations in most instances were reasonable and reflected the fluctuations in economic activity due in part to external factors including a fall in visitor arrival and containment measures to mitigate the spread of the COVID-19 virus.

Table 2: Comments on the Explanation for the Fiscal Deviations for April - December 2021 relative to Budget

	Provisional	**Budget**					
Item	**April – Dec**	**April - Dec**	***Diff***	**Diff %**	**GOJ's Explanation Stated in FPP FY2022/23**	**Audit Comments**	**Ministry's Response**
Revenue & Grants	**492,223.4**	**476,722.7**	**15,500.7**	**3.3%**			
Tax Revenue	416,057.1	396,863.7	*19,193.4*	4.8%			
Income & Profits	**103,305.7**	**104,140.4**	**-834.7**	***-0.8%***			
Other Companies	34,051.3	34,016.3	35.0	0.1%			
PAYE	52,194.7	53,372.4	-1,177.7	-2.2%	PAYE was lower than budget…suggesting that the increase in employment was largely concentrated among individuals earning at or below the income tax threshold of $1.5mn. Collections were also affected by the late settlement of public sector wage negotiations which delayed the expected payment of salary increases for a large proportion of the sector to December 2021.	No evidence was provided to support the assertions.	**This inference was drawn from the last 2 Labour Market reports by STATIN.**
Tax on Interest	12,898.4	12,625.8	272.6	2.2%	Tax on Interest was…above target, benefiting from high Domestic Interest payments relative to budget.	Explanation provided in the FPP was reasonable.	
Tax on Dividend	1,717.6	1,670.9	46.7	2.8%			
Production & Consumption	**143,448.0**	**147,208.4**	**-3,760.5**	**-2.6%**			
GCT (Local)	76,140.0	80,254.6	*-4,114.6*	-5.1%	Lower GCT (Local) collections reflected the disruption in economic activity, primarily due to the restrictions imposed during the second quarter of the fiscal year to limit the spread of COVID-19.	Explanation provided in the FPP was reasonable.	

Item	Provisional April – Dec	Budget April - Dec	*Diff*	Diff %	GOJ's Explanation Stated in FPP FY2022/23	Audit Comments	Ministry's Response
Quarry Tax	57.1	47.8	9.3	19.5%		Explanation not provided.	**The performance is linked to the robust Construction Sector**
Other Licenses	2,704.7	1,816.9	887.9	48.9%	The performance of Other Licences largely reflected higher than projected receipts from Spectrum Management Authority.	Explanation provided in the FPP was reasonable.	
SCT (local)	21,289.4	23,739.8	-2,450.4	-10.3%	SCT (Local) was also impacted by the containment measures, as well as lower production at the local refinery which was closed for maintenance in October 2021.	Explanation provided in the FPP was reasonable.	
Accommodation Tax	1,527.4	472.6	1,054.8	223.2%	Accommodation Tax benefitted from the vibrant activity within the tourism sector.	Explanation provided in the FPP was reasonable.	
Stamp Duty (Local)	4,474.3	3,628.5	*845.7*	23.3%		Explanation not Provided	**This was attributable to the strong activity in the real estate market.**
International Trade	**169,303.5**	**145,514.9**	**23,788.6**	***16.3%***	Above-budget collections…reflected higher than anticipated import value of goods including energy commodities and motor vehicle parts and accessories. Higher than projected average exchange rate for the period also contribute to an increase in the overall value of imports.	Explanation provided in the FPP was reasonable.	
Stamp Duty	2,274.0	1,667.7	606.3	36.4%			

	Provisional	Budget					
Item	**April – Dec**	**April - Dec**	***Diff***	**Diff %**	**GOJ's Explanation Stated in FPP FY2022/23**	**Audit Comments**	**Ministry's Response**
Travel Tax	10,858.0	3,580.0	7,278.0	203.3%	Travel tax collections posted the strongest performance relative to budget, due to robust visitor arrivals following the relaxation of travel restrictions worldwide.	Explanation provided in the FPP was reasonable.	
SCT (Imports)	40,531.1	35,801.6	4,729.5	13.2%			
GCT (imports)	74,951.5	67,452.5	7,499.0	11.%			
Environmental Levy	3,308.6	2,675.7	633.0	23.7%			
Non-Tax Revenue	**67,918.3**	**76,336.3**	**-8,418.0**	**-11.0%**	The main contributor to the shortfall was the sub-category miscellaneous receipts, which are largely made up of fees received and transferred by Ministries, Departments and Agencies (MDAs). The under-performance occurred within the context of delays in the verification process for sums received.	Explanation provided in the FPP was reasonable.	
Bauxite Levy	**2,155.4**	**0.0**	**2,155.4**	**-**	Bauxite levy…represents an outstanding payment by WINDALCO.	Explanation provided in the FPP was reasonable.	
Capital Revenue	**875.8**	**0**	**875.8**	-	Capital Revenue inflows…reflect principal payments relating to loans disbursed by the Central Government to Public Bodies.	Explanation provided in the FPP was reasonable.	
Grants	**5,216.8**	**3,522.6**	**1,694.2**	**48.1%**	Grants were higher than projected…largely due to the inflow of US$13.4mn in July 2021 under the Global Risk Financing Facility Grant Agreement between Jamaica and the International Bank for Reconstruction and Development	Explanation provided in the FPP was reasonable.	

	Provisional	Budget					
Item	**April – Dec**	**April - Dec**	***Diff***	**Diff %**	**GOJ's Explanation Stated in FPP FY2022/23**	**Audit Comments**	**Ministry's Response**
					to finance the catastrophe bond premium.		
Capital Expenditure	**34,893.1**	**42,916.5**	**-8,023.3**	**-18.7%**	Capital Expenditure fell short of budget due to slower than programmed pace of project execution for several of the programmed projects.	Explanation provided in the FPP was reasonable.	
Other Inflows (incl PCDF)	**2,366.3**	**2,177.1**	**189.1**	**8.7%**			
Other Outflows	**15,067.9**	**15,446.7**	**-378.8**	**-2.5%**			
Total Debt (As at end – December 2021)	**2,072,505.7**				Total Central Government external debt increased 8.8% relative to end-December 2020 and 4.9% relative to end-March 2021. Overall, increases were mainly due to valuation effects associated with depreciation of the Jamaican dollar. The overall increase in the external portfolio reflected increases in the stock of outstanding global bonds as well as the stock of external loans outstanding in Jamaica dollar terms.	Explanation provided in the FPP was reasonable.	
Central Govt Domestic	776,483.2						
Central Govt External	1,248,629.9						
Net Public Bodies	47,392.7						