EXAMINATION OF THE COMPONENTS OF THE FISCAL POLICY PAPER FY2022/23 INTERIM REPORT WHICH WAS LAID IN THE HOUSES OF PARLIAMENT ON SEPTEMBER 27, 2022

INDEPENDENT AUDITOR'S REPORT
AUDITOR GENERAL'S DEPARTMENT OF JAMAICA
FY2022/2023

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 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 have examined the components of the Fiscal Policy Paper (FPP) FY2022/23 Interim Report, laid before the Houses of Parliament on 2022, September 27, in accordance with 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. My review was conducted with adherence to 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.

My Responsibility

3. 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: -

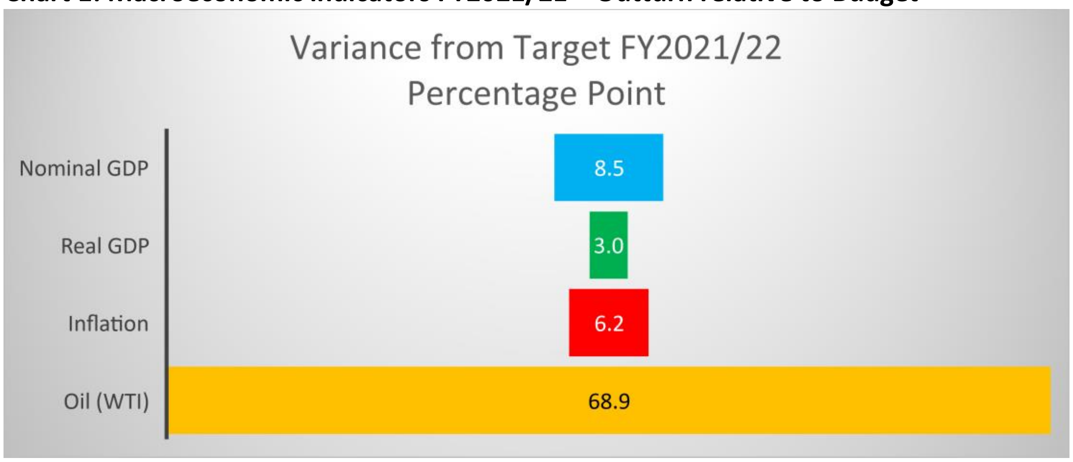
a) the conventions and assumptions underlying the preparation of the Fiscal Policy Paper comply with the principles of prudent fiscal management specified in Section 48D:

i) I found that the conventions and assumptions underlying the preparation of the FPP FY2022/23 Interim Report, complied with the principles of prudent fiscal management. Given the upward adjustment to the macroeconomic forecasts for FY2022/23, I reviewed the Fiscal Risk Statement (FRS) to ascertain whether any of the risks identified in the February FY2022/23 Fiscal Policy Paper had materialised and if new risks were identified. This, given that expenditure should be based on reasonable revenue projections, underpinned by credible macroeconomic assumptions and where risks are identified, appropriate risk-mitigating measures are required to enable the achievement of the revised debt target of 60 per cent of GDP by end-FY2027/28.

ii) The FRS identified that higher than targeted inflation in the last quarter of FY2021/22 had influenced the Bank of Jamaica (BOJ) to increase its policy rate by 150 basis points in the first half of FY2022/23 to address rising domestic inflation. The increasing risk to debt service costs was also acknowledged, but the impact was mitigated by the GOJ's debt management strategy that features the issuance of mainly fixed-rate debt. Additionally, improvements in foreign currency liquidity via Bank of Jamaica's Foreign Exchange Intervention & Trading tool, had positively impacted the external debt stock and debt servicing costs in Jamaica Dollar terms. The upward adjustment in the real GDP forecast to 4.1 per cent (6.8 per cent nominal) from 3.5 per cent has positive implications for the achievement of the 60 per cent debt/GDP target by FY2027/28.

iii) The report identified downside risks to include adverse weather conditions, plant downtime in mining and manufacturing and slower than expected growth in the economies of Jamaica's main trading partners. The report also highlighted risks to lower GDP growth and the Budget from natural disasters and inefficient public bodies, reiterating the risk mitigating strategies identified in previous FPPs, including issuance of the Catastrophe Bond insurance and Public Bodies rationalisation programme. Despite an increase in the projection for the oil price to $102.64/bbl. relative to US$67.5/bbl. in the FY2022/23 February FPP, based on the materialisation of oil price risks up to end-August, no risk mitigating strategies were identified.

Chart 1: Macroeconomic indicators FY2021/21 – Outturn relative to Budget



FY2021/22	Nominal GDP	Real GDP	Inflation	Oil (WTI)	Oil % change
Original target	10.60	5.20	5.10	45.60	
Actual	19.1	8.2	11.3	77.0	
Variance	8.5	3.0	6.2	31.4	68.9

Source: MoFPS

iv) The outturn for the FY2021/22 macroeconomic indicators varied marginally from targets, except for oil price, which was significant. Further, the macroeconomic forecasts for the medium-term provided in the FY2022/23 Interim FPP also reflected marginal revisions relative to the forecasts indicated in February FY2022/23 FPP, except for the oil price forecasts which reflect large increases, albeit at a declining rate (**Chart 1 and Table 1**).

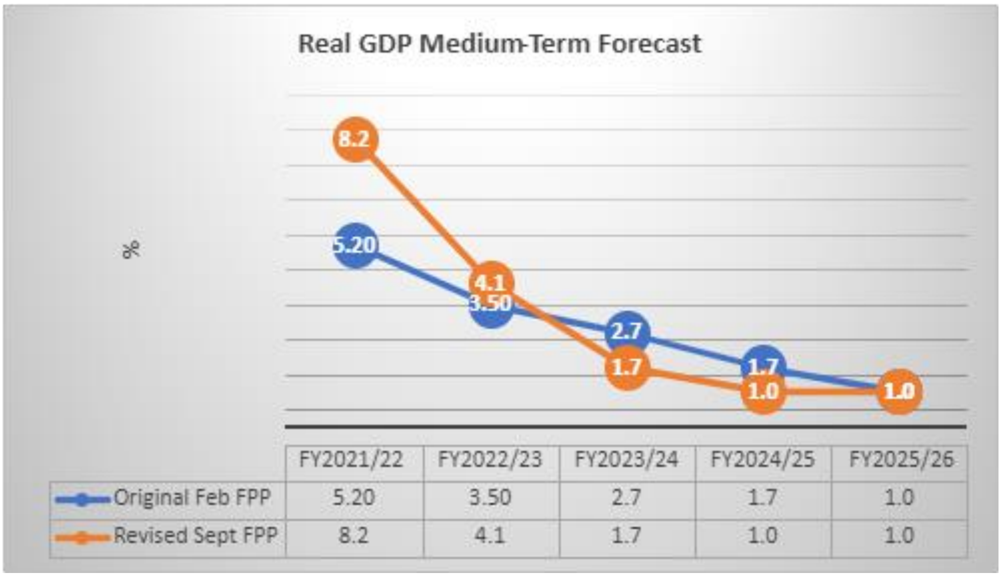
Table 1: Macroeconomic Indicators

Macroeconomic Indicators	**Actual**	**FPP Feb 2022 vs Interim FPP Sept 2022 Forecast Variance**			
	2021/22	2022/23	2023/24	2024/25	2025/26
Nominal GDP Growth (%)	19.1	4.3	0.7	-0.8	-0.1
Real GDP Growth (%)	8.2	0.6	-1.0	-0.7	0.0
Inflation (%)	11.3	1.6	0.2	0.0	0.0
Oil Prices (Avg WTI) (USD)	77.0	35.1	30.8	19.5	11.2

Source: MoFPS

v) The revised forecasts for real and nominal GDP indicate slower growth over the medium-term, stabilising between FY2024/25 and FY2025/26, while reflecting the corresponding relationship between output levels and energy demand (reflected in the oil price forecasts). The trajectory for GDP is consistent with anticipated global economic recovery following the Covid-19 pandemic, with the spill over effects reflected in the Jamaican economy (**Chart 2**).

Chart 2: Real GDP Medium-term forecast



Source: MoFPS

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

vi) The FAA Act requires comparison of actual outturn with original budget; however, the FY2022/23 FPP Interim Report only analysed actual outturn for FY2021/22 relative to the revised budget. Nonetheless, the underlying drivers of performance would have been the same and where explanations were provided for the deviations from target for FY2021/22, I found these to be reasonable. For example, for FY2021/22 the Interim Report highlighted that the main contributor to the overperformance of Tax Revenue was Income & Profits, reflected in higher receipts from Other Companies (Corporate Tax) due to stronger economic growth relative to the previous year; PAYE collections benefitted from improved labour market conditions and Tax on Interest was better than budgeted due to lower refunds. On the other hand, SCT (local) recorded the highest nominal shortfall, attributable to lower production at Petrojam. Most of the reasons advanced for Tax Revenue performance were verifiable from the Real Sector discussions presented in the Macroeconomic Framework. However, for Tax on Interest, the value of refunds payments was not verifiable as this information was not presented in the Interim Report. The Report highlighted that

Bauxite levy, Capital Revenue and Grants overperformed, relative to budget, whereas Non-Tax Revenue underperformed; however, no reasons were advanced for these deviations from budget.

vii) For the period April to July 2022/23, I also found the reasons advanced for the deviations from budget to be reasonable. The Report highlighted that Tax and Non-Tax revenue both overperformed relative to budget, with Tax Revenue performance reflected mainly International Trade taxes with positive contributions from *Income and Profits* and *Production and Consumption*. In all instances, the rebound in economic activity was the underlying major contributor to tax performance particularly for *Other Companies*, with PAYE receipts benefitting from an increase in the labour force. The performance of *Tax on Interest* reflected the impact of higher than projected interest rates due to the increases in BOJ policy rates. Regarding Non-Tax revenue, it was noted that higher than programmed receipts from de-earmarked entities, the Tourism Enhancement Fund and Jamaica Civil Aviation Authority, were the main contributors. No reasons were advanced for underperformance relative to budget in respect of Grants or for the absence of Capital revenue inflows.

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:

viii) 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. Regulations 14 (1), states that "For the purposes of Part VII of the Act, the Auditor General shall, in accordance with this Regulation, certify that a public body carries out functions that are of a commercial nature if the Auditor General is satisfied that the public body meets the criteria that are set out in the Schedule." Paragraph 3 states that, "upon receiving a list and the financial statements and annual reports under paragraph (2), the Auditor General shall –

a) no later than September 30 in the year in which the list is received, make a decision on whether or not to certify any of the listed public bodies under paragraph 1 [of Regulations 14]; and
b) notify the Minster of that decision."

ix) Certification of a public body as not being part of the specified public sector shall take effect on April 1 of the date following the year of the Auditor General's decision under paragraph (3) to certify to public body.

x) On August 22, 2022, the Minister responsible for Finance requested that I assess the operations of Jamaica Mortgage Bank and the Bank of Jamaica to determine whether these entities carry out functions primarily of commercial nature and hence meet the criteria for certification as not being part of the specified public sector. The criteria for certification of public bodies as not being part of the Specified Public Sector are contained in the schedule to Regulations 14 (1) and consist of four standards[1]: -

- Fiscal Independence,
- Independence of Human Resource Decision-making,
- Financial Standards, and
- Transparency and Governance.

xi) In this regard, I conducted my assessment in accordance with the Financial Administration and Audit (Fiscal Responsibility Framework) Regulations. 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. To conduct my assessment, I utilised the annual reports and audited financial statements provided by the Minister of Finance and where necessary, consulted other pertinent published documentation.

xii) My assessment confirmed that both the Jamaica Mortgage Bank (JMB) Limited and the Bank of Jamaica (BOJ) carry out functions primarily of a commercial nature and met the required criteria under Regulations 14(2) of the FAA (FRF) Regulations for not being part of the Specified Public Sector. I submitted my certification for JMB Limited and BOJ to the Minister of Finance on September 29, 2022. The Report will be submitted to Parliament alongside the Review of the Interim FPP September 2022.

d) a public private partnership involves only minimal contingent liabilities

xiii) The FAA Act requires the Auditor General to assess whether 'a public private partnership (PPP) involves only minimal contingent liability accruing to the Government'. The FY2022/23 Interim FPP did not identify any new PPP arrangement for assessment of minimal contingent liability and identified the five user-pays PPP currently in operation. Whereas the February FPP FY2022/23 indicated that the Maritime Authority of Jamaica was pursuing a PPP for the management, operation and promotion of the Jamaica Ship Registry, the Interim Report made no reference.

xiv) The February 2022 FPP indicated that Force Majeure claims were made by four of five user pays PPPs based on the impact of Covid-19 on their operations. The Interim FPP noted that the claims are to be reviewed and that the Cabinet gave approval for the claims and subsequently appointed a negotiating team to assess proposals by the concessionaires to facilitate economic recovery and

[1] The four standards are outlined in the Appendices.

long-term sustainability. Given the potential payout, this could increase the fiscal risk to the Government and may have implications for the trajectory of the Public Debt stock.

My Recommendation

4. The Ministry should consider including in the Interim FPP the comparison for the full year's fiscal outturn against the original budget, instead of the revised budget, which would already reflect eventualities during the year. Further, the Interim FPP should also include a revised debt trajectory to FY2027/28 for completeness.

Pamela Monroe Ellis, FCCA, FCA
Auditor General

The Fiscal Management Strategy

5. The FAA Act requires comparison of actual outturn with original budget; however, the FY2022/23 FPP Interim Report only analysed actual outturn for FY2021/22 relative to the revised budget. Nonetheless, the underlying drivers of performance would have been the same and where explanations were provided for the deviations from target for FY2021/22, these were found to be reasonable.

MOFPS Response: We do concede that there was no formal analysis in the text. At the least we provided a comparative in table form (Tables 3A & 3B) between the actual and the original budget.

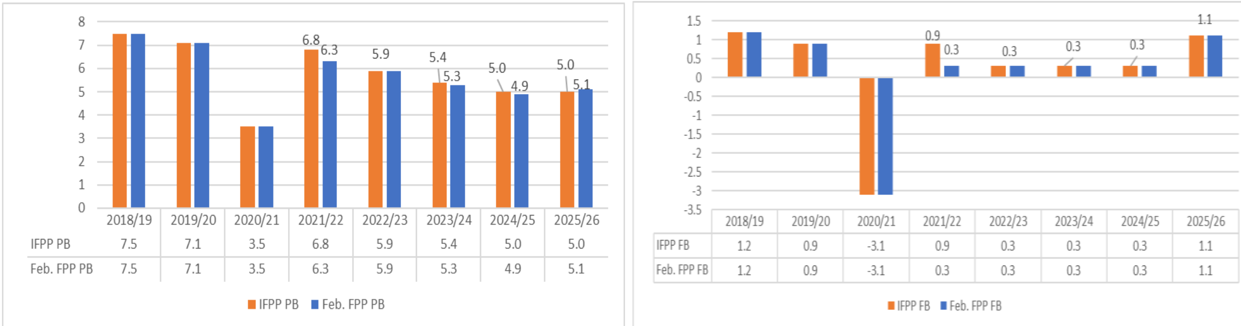
Primary and Fiscal Balance

6. The Interim Fiscal Policy Paper ascribes the positive fiscal performance to the continued recovery of the Jamaican economy. The Primary and Fiscal balances both outperformed their respective target for FY2021/22[2] and the April to July 2022 period. In FY2021/22[3], we noted the return of the Fiscal balance to a positive outturn of $21.3 billion relative to the negative $60.5 billion generated for FY2020/21, at the height of the pandemic. Similarly, the Primary balance in FY2021/22 increased by 131.1 per cent relative to FY2020/21. For FY2022/23, real growth projection was adjusted upwards by 0.6 percentage points due to faster than projected pace of increase in economic activities during the first quarter of the fiscal year. Over the medium-term, the Fiscal balance was maintained at 0.3 per cent of GDP increasing to 1.1 per cent in FY2025/26, while the Primary Balance was adjusted up by 0.1 percentage point over the medium-term in line with the revised macroeconomic projection (**Chart 3**).

[2] The provisional outturn presented in the Interim Fiscal Policy Paper was not consistent across the Tables (i.e., Table 3A and Table A4). Specifically, the Non-Tax Revenue did not match. Furthermore, Tax Revenue from the 'Central Government Monthly Fiscal Monitoring Table' does not match the numbers presented in the IFPP 2022. This has resulted inconsistency of the Fiscal and Primary balances.

[3] Using Table A4 provisional outturn

Chart 3: Primary and Fiscal Balance (% of GDP) – Original vs Revised

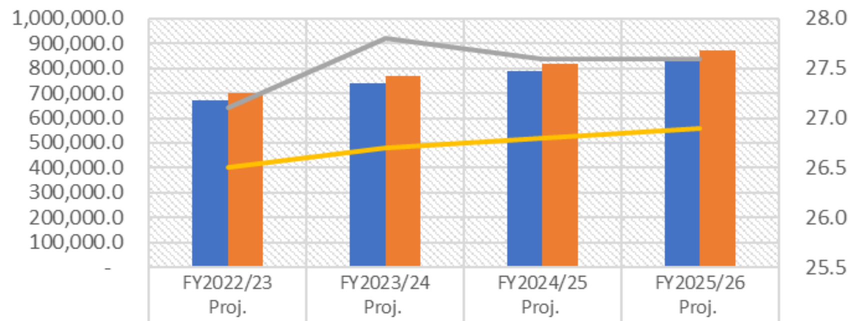


Source: MoFPS

Tax Revenue

7. The Interim FPP revised Tax Revenue for FY2022/23 downward to 26.5 per cent of GDP relative to the FPP February 2022, which was lower than the outturn of 26.6 per cent for FY2021/22. However, Tax Revenue projections for FY2022/23 was forecasted upwards to $702.2 billion relative to Original Budget of $671.5 billion **(Chart 4)**. This was predicated on the upward revision of the nominal GDP growth to 14.0 per cent relative to 9.7 per cent in the February FPP and consistent with strong first quarter fiscal operation, signaling economic recovery from the COVID-19 pandemic **(Chart 5**). The positive outlook was forecasted for FY2022/23 and the medium term, albeit with consideration to global risks associated with prevailing uncertainties attributed to the Russia/Ukraine war and high inflation fuelled by supply chain inefficiencies. Notwithstanding this, the projected growth of 4.1 per cent for FY2022/23 with gradual deceleration to 1.7 percent in 2024/25, was considered reasonable in the context wherein IMF World Economic Outlook July 2022 projected global growth of 3.2 per cent in Calendar Year 2022 and moderated to 2.9 in Calendar Year 2023. However, with downward growth projection for advanced economies including major trading partners such as US, further fallouts including global inflationary pressure could negatively impact local economy and thwart growth projections.

Chart 4: Tax Revenue (% of GDP)

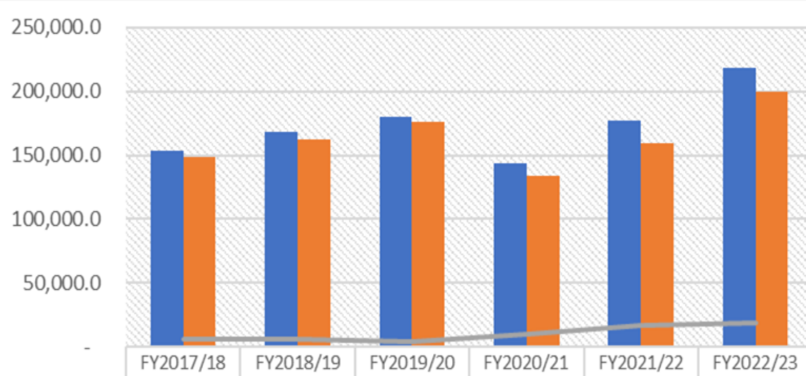


	FY2022/23 Proj.	FY2023/24 Proj.	FY2024/25 Proj.	FY2025/26 Proj.
Tax Revenue (Feb FPP)	671,536.1	741,671.0	786,932.7	834,424.0
Tax Revenue (Interim FPP)	702,213.4	768,488.2	818,185.9	869,726.3
Tax Revenue % of GDP (Feb FPP)	27.1	27.8	27.6	27.6
Tax Revenue % of GDP (Interim FPP)	26.5	26.7	26.8	26.9

Source: MoFPS

8. Tax Revenue for the April to July 2022 was $18.7 billion or 9.3 per cent above budget and reflected a 23.9 per cent increase over FY2021/22 outturn. This outturn was underpinned by greater than targeted performances in the categories of *International Trade* (by $9,926.2 million or 12.5 per cent), *Income and Profits* (by $6,480.4 million or 13.8 per cent), and *Production and Consumption* (by $2,272.6 million or 3.1 per cent). The gain in Tax Revenue was attributed to general improvements in economic conditions from withdrawal of Disaster Risk Order. Consequently, I considered the explanation for the deviations reasonable given the positive impact to the GDP growth rate of 4.8 per cent[4] for the first quarter of FY2022/23.

Chart 5: April to July Tax Revenue (J$ million)



	FY2017/18	FY2018/19	FY2019/20	FY2020/21	FY2021/22	FY2022/23
Tax Revenue Actual	153,626.6	168,407.1	179,812.6	143,922.7	176,667.1	218,885.5
Tax Revenue Budget	148,175.4	162,658.1	176,061.6	133,883.9	159,560.1	200,206.2
Variance	5,451.2	5,749.0	3,751.0	10,038.8	17,107.0	18,679.3

Source: MoFPS

[4] FY2022/23 April to June GDP data published by STATIN

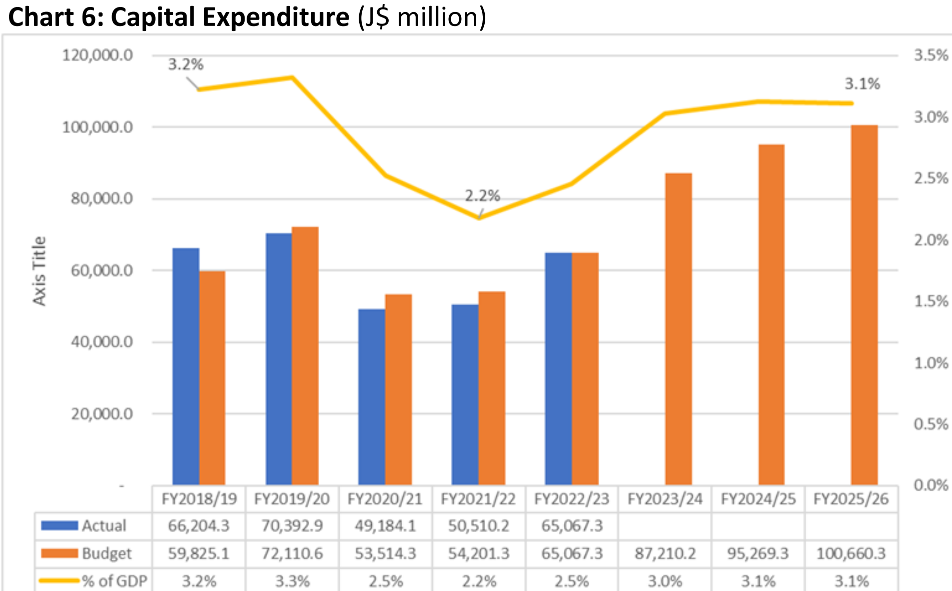
Grants and Capital Revenue

9. For April to July 2022, Grants fell short of budget by $217.3 million (14.1 per cent), while Capital Revenue had no collections against a budget of $72.5 million. The underperformance in both categories continued from FY2021/22 which recorded below targeted collections of $3,152.0 million or 29.2 per cent and $234.9 million or 20.6 per cent respectively. However, no explanation was given for the deviations in both categories.

Capital Expenditure

10. Capital spending for FY2021/22 amounted to $50,510.2 million, generating a shortfall of $3,691.1 million. The Interim FPP highlighted that the Capital Expenditure was in part used to fund the activities of Programme for Advancement through Health and Education (PATH) as well as, the execution of the South Coast Highway Improvement Project. No explanation was provided for the shortfall. The outturn for Capital expenditure for FY2021/22 is equivalent to 2.2 per cent of GDP, the lowest percentage since FY2015/16. We noted that over the medium-term, the Capital Expenditure is expected to return to an average of 3.1 per cent of GDP, relatively in line with pre-pandemic levels (**Chart 6**).

Chart 6: Capital Expenditure (J$ million)



Source: MOFPS

11. Capital Expenditure for April to July was $16,440.5 million, $732.1 million or 4.3 per cent lower than budget (**Table 2**). The shortfall in Capital Expenditure contributed to the decline in the Construction Sector performance in the first quarter of FY2022/23. The Macroeconomic

Framework attributed the decline in the construction sector to the lower spending on civil engineering activities undertaken by the National Works Agency and decreased expenditure on the South Coastal Highway Improvement project (SCHIP).

Table 2: Capital Expenditure April to July (J$ million)

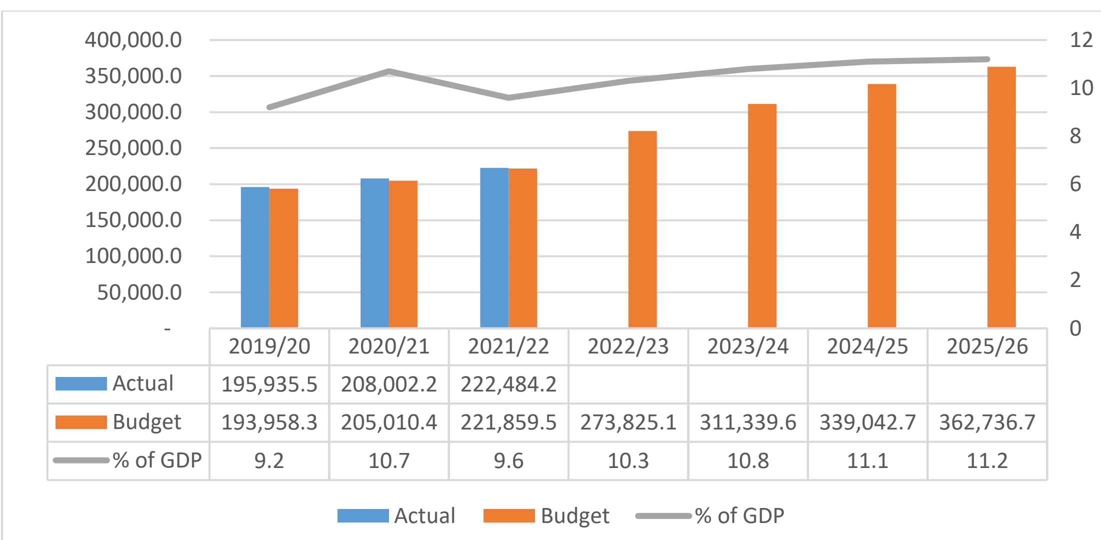
Outturn April to July	Original Budget	2022/23	2021/22	2020/21	2019/20	2018/19
Capital Expenditure	17,172.5	16,440.5	20,795.3	15,525.7	15,602.2	17,390.2
Capital Expenditure/Total Expenditure (%)	7.2	7.0	9.0	7.3	8.0	9.2

Source: AuGD analysis of MoFPS data

Wages & Salaries

12. Wages and Salaries outturn for FY2021/22 was $222,484.2 million, $624.7 million marginally above the original budget or 9.6 per cent of GDP. The Interim FPP projects Wages & Salaries to significantly increase to $273,825.1 million or 10.3 per cent of GDP, outside of the legislated target of 9.0 per cent and trending further away over the medium-term **(Chart 7)**. In light of the anticipated compensation review, which is likely to significantly change the wage structure, the Ministry had previously stated that a legislated amendment would be necessary. However, no timeline was indicated in the Interim FPP. Of note, based on adjustments arising from the compensation review, Wages & Salaries will account for the largest proportion of total expenditure over the medium-term.

Chart 7: Wages & Salaries (J$ million)



Source: MOFPS

13. Wages & Salaries for the April to July 2022 period was $82,921.4 million accounting for 35.1 per cent of total expenditure compared to the budget of 34.9 per cent and averaged 32.7 per cent for the April to July periods of the past five years (**Table 3**). This line item was largely in line with the budgeted figure of $82,986.9 million. Of note, the Wages & Salaries as a per cent of non-debt expenditure for the April to July outturn was 43.3 per cent, 5.4 percentage point higher than the corresponding period at 37.9 per cent.

Table 3: Wages and Salaries April to July (J$ million)

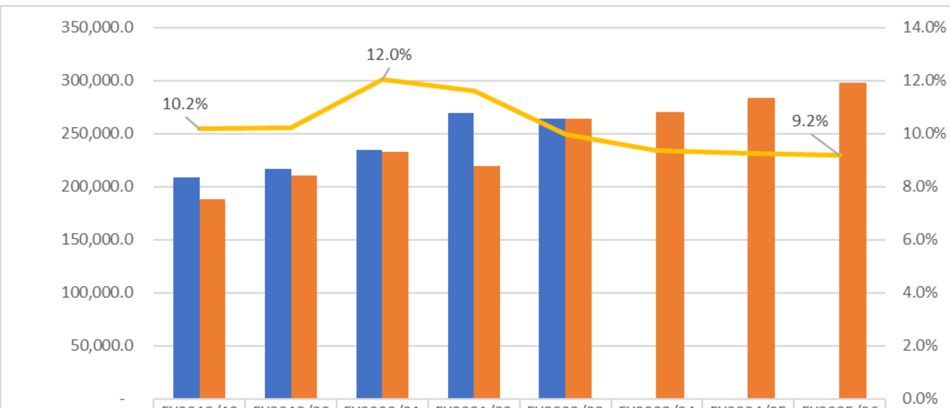
Outturn April to July	Budget 2022/23	Prov. 2022/23	2021/22	2020/21	2019/20	2018/19	2017/18
Wages & Salaries	82,986.9	82,921.4	71,019.8	69,005.1	66,163.9	61,274.2	58,354.1
Wages & Salaries/ Total Expenditure (%)	34.9	35.1	30.9	32.4	34.0	32.5	33.9
Wages & Salaries/ Non-Debt-Expenditure (%)	42.9	43.3	37.9	40.0	43.3	41.6	46.5

Source: AuGD analysis of MOFPS data

Recurrent Programmes

14. Recurrent Programmes Expenditure for FY2021/22 of $269,586.5 million, exceeded the Original Budget by $50,415.3 million or 23.0 per cent and is equivalent to 11.6 per cent of GDP **(Chart 8)**. We noted from the IFPP, that the increase spending under Recurrent Programmes was to facilitate additional spending toward COVID-related expenses and increase social assistance, among other things.

Chart 8: Programmes (J$ million)



	FY2018/19	FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26
Actual	209,079.7	216,856.6	234,693.0	269,586.5	264,226.0			
Budget	188,656.1	210,717.5	232,802.7	219,171.2	264,226.0	269,377.4	282,846.3	296,988.6
% of GDP	10.2%	10.2%	12.0%	11.6%	10.0%	9.4%	9.3%	9.2%

Source: MoFPS

15. Programmes spending over the medium-term is projected to contract to a low of 9.2 per cent of GDP in FY2025/26, averaging 9.3 per cent and down 0.3 percentage from February 2022 FPP projection. The reduction relates in part, to the reallocation of compensation-related allowance to the 'Compensation of Employee' category and revised macroeconomic projection.

Table 4: Programmes (J$ million)

Outturn April to July	Budget 2022/23	2022/23	2021/22	2020/21	2019/20	2018/19
Recurrent Programmes	86,613.6	86,050.2	88,082.5	83,317.8	65,208.6	62,610.0
Recurrent Expenditure/ Total Expenditure (%)	36.4	36.4	38.3	39.2	33.5	33.2

Source: MoFPS

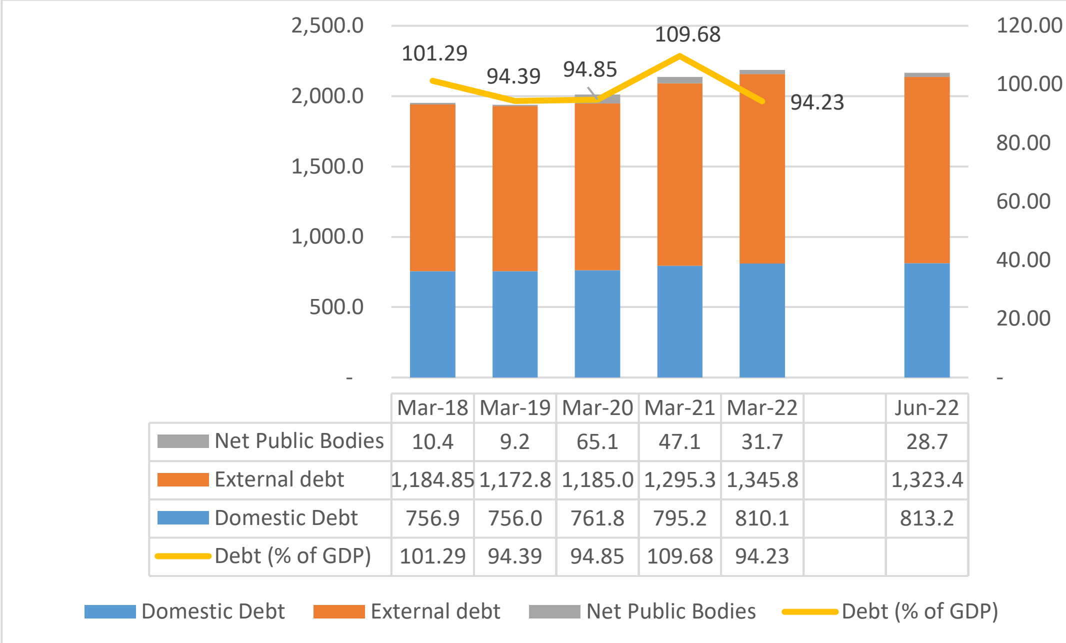
16. For the April to July 2022 period, Recurrent Programme totalled $86,050.2 million, and was $563.4 million (0.7 per cent) below the budget (**Table 4**). We noted the upward revision to Recurrent Programmes for FY2022/23 when compared to the estimates presented in February 2022, in light of the high inflationary environment which will have an impact on the general housekeeping expenses.

Public Debt

17. The Interim Fiscal Policy Paper indicated that at end-March FY2021/22, the Public Debt Stock as a percentage of GDP was 94.2 per cent (**Chart 9**). The Debt to GDP ratio was revised downwards by 2.1 percentage points when compared to the estimate presented in the February 2022 FPP, consistent with the improved economic growth for FY2021/22. Total Debt as a percentage of GDP was also reduced by 15.5 percentage point from the 109.7 per cent in FY2020/21.

18. For the three consecutive years to end-March 2022, the Debt Stock has increased, but decline in June 2022 due largely to the reduction in central government external debt given the appreciation of the Jamaica dollar vis-à-vis the US dollar. Of note, the Interim FPP did not provide a trajectory for the Public Debt for FY2022/23 and the medium-term, in line with the legislative target.

Chart 9: Debt (% of GDP) from March 2018 to June 2022



	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22		Jun-22
Net Public Bodies	10.4	9.2	65.1	47.1	31.7		28.7
External debt	1,184.85	1,172.8	1,185.0	1,295.3	1,345.8		1,323.4
Domestic Debt	756.9	756.0	761.8	795.2	810.1		813.2
Debt (% of GDP)	101.29	94.39	94.85	109.68	94.23		

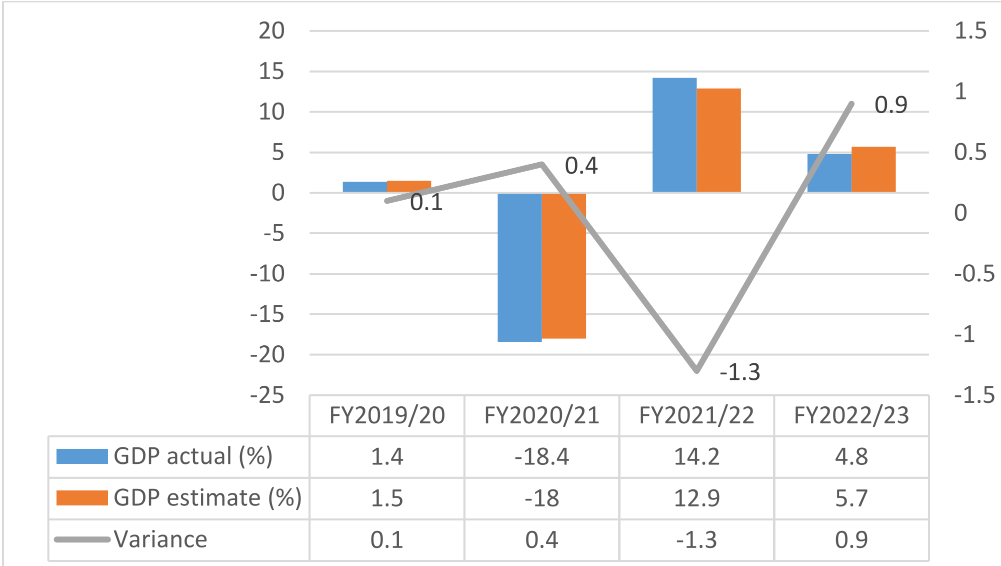
Source: MoFPS

Fiscal Risk Assessment

19. The Fiscal Risk Statement (FRS) provided an update on the main macro-fiscal risks outlined in the February FPP FY2022/23. We noted that the FRS highlighted the estimate of 5.7 per cent in real GDP as the driver for above-target tax revenue; however, the outturn for the quarter was 0.9 percentage point below the estimate at 4.8 per cent.[5] Further, we note that apart from FY2021/22 the quarterly estimate included in the FRS for the period FY2019/20 to FY2022/23 has been positively skewed (**Chart 10**). The Report highlighted the downside risk of slower than expected growth in the economies of Jamaica's main trading partners.

[5] Quarterly Gross Domestic Product April – June 2022 Volume 21 Number 2, Statistical Institute of Jamaica.

Chart 10: Real GDP Estimate and Outturn FY2019/20 to FY2022/23 Q1 Point-to-Point



	FY2019/20	FY2020/21	FY2021/22	FY2022/23
GDP actual (%)	1.4	-18.4	14.2	4.8
GDP estimate (%)	1.5	-18	12.9	5.7
Variance	0.1	0.4	-1.3	0.9

Source: AuGD analysis

20. Point-to-point inflation has waned slightly since the February 2022 FPP Report falling from 10.7 per cent in February 2022 to 10.2 in July 2022. Nevertheless, the FRS revised the fiscal year projection upwards to 6.8 per cent from 5.0 per cent given the stronger-than-expected growth in domestic demand and higher-than-anticipated international commodity prices. The upward revision is in line with global inflation projections as food prices and energy prices remain inflated due to supply shortages.[6] The FRS did not provide an update on the effect of inflation on the inflation-linked debt and interest payments. The interest rate increased due to monetary policy actions taken by the Central Bank. However, the FRS indicated that the Government's exposure to interest rate risk is reduced, given that the GOJ's strategy is to issue mainly fixed-rate debt instruments.

21. The National Natural Disaster Risk Financing Policy to guide the GOJ's risk-layered approach to disaster financing was approved by parliament for tabling as a Green Paper after which public consultations will begin. This policy will accompany GOJ's multi-layered disaster risk financing facilities which include the Catastrophe (Cat) Bond, Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF-SPC) insurance policy, a Contingent Credit Line with the Inter-American Development Bank (IDB) and the GOJ National Disaster Fund (NDF).

[6] World Economic Outlook Update July 2022, International Monetary Fund.

State Owned Enterprises

22. The Interim FPP highlighted overall improved performance of the Self-financing Public Bodies (SFPBs), which demonstrated the continued recovery from the negative impact of the COVID-19 pandemic. For the April to June 2022 quarter, public bodies realised a higher than budgeted Current Balance of $15,147.3 million and net of the effects for the non-cash transactions, this resulted in a higher than budgeted Operating Balance of $13,841.1 million.

23. The Fiscal Risk Statement indicated that the Government continues to monitor the arrears and liabilities of seven large public bodies, 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). Having an established ceiling for the arrears of $6,400 million, the Interim FPP indicated that the total domestic arrears for these public bodies already totalled $6,011.7 million as at August 31, 2022. Given the likelihood of the ceiling being exceeded by the end of the fiscal year, the Interim FPP did not indicate any course of action for the Government or any of these public bodies to mitigate the fiscal risk.

Public Private Partnerships

24. Similar to the February 2022 FPP, 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 review the proposals submitted by the concessionaires for economic recovery and long-term sustainability. Given the potential payout, this could increase the fiscal risk to the Government and may have implications for the trajectory of the Public Debt stock.

25. The Interim FPP further states that TransJamaica Highway, operator of the East West leg of Highway 2000 has submitted a notice of claim under the "applicable Change in Law" provision of the concession agreement arising from the implication of the Disaster Risk Management Act. Subsequent to initial claims, and subject to further assessment, the Interim FPP indicated that the claims are likely to increase further given the date on which the DRMA was withdrawn.

26. The February FPP made mention of the Jamaica Ship Registry PPP, noting that request for proposal was issued, but the bids received were deemed non-responsive. The interim Report (September 2022) did not provide status on the Jamaica Ship Registry PPP, which is a User-Pay PPP, to be

executed through the Maritime Authority of Jamaica, and as such will be assessed by the Auditor General for minimal contingent liability.

Reasonableness of the Deviation of the Fiscal Indicators

27. 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.

28. In this section, I have reviewed the explanations provided for the period April to July 2022 as provided in the Interim FPP FY2022/23. 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 FY2022/23.
    ii. A review of emerging risks discussed in the Interim Report.
    iii. Confirmation where possible, of the Minister's explanations with observed data for FY2022/23 (April to July 2022).

29. My comments on variances provided in **Table 5** relate only to material issues pertaining to information provided in the Interim FPP FY2022/23 and by the MoFPS.

30. The explanations provided for the deviations in Central Government Performance for April-July 2022 were reasonable in some instances against the background of growth in all industries except 'Mining and Quarrying' and 'Construction', which resulted in real GDP of 4.8 per cent recorded for the first quarter of FY2022/23.[7] I noted, however, that the FPP did not include an explanation for the above-budget performance of Tax on Dividend (159.3 per cent), Motor Vehicles Licenses (16.0 per cent) , Other Licenses (17.1 per cent), Quarry Tax (-39.0 per cent), Accommodation (59.9 per cent), Stamp Duty (Local) (22.3 per cent), Stamp duty (23.3 per cent), and Environmental Levy (35.5 per cent).

[7] Quarterly Gross Domestic Product April – June 2022 Volume 21 Number 2, Statistical Institute of Jamaica

Table 5: Comments on the Explanation for the Fiscal Deviations for April - July 2022 relative to Budget

Key Tax Types	Provisional	Budget	Deviation from Budget	Deviation from Budget (%)	GOJ's Explanation Stated in FPP FY2022/23 Interim	Audit Comments	Ministry's Response
Revenue & Grants	236,104.3	214,444.9	21,659.4	10.1			
Tax Revenue	218,885.5	200,206.2	18,679.3	9.3			
Income and Profits	53,470.2	46,989.8	6,480.4	13.8	This performance was attributable to above-budget inflows from PAYE (higher by $2,940.4 mn or 11.2%)	Explanation provided in the Interim FPP was reasonable.	
Other Companies	14,104.3	12,843.2	1,261.1	9.8	Higher-than-budget collection attributable to increased company profits arising from the continued upsurge in economic activities.	Explanation provided in the Interim FPP was reasonable.	
PAYE	29,118.8	26,178.3	2,940.4	11.2	The positive PAYE performance reflected improvements in the labour market, with the employed labour force in the first quarter of FY 2022/23 increasing by approximately 63,300 persons compared to the last quarter of the previous financial year.	Explanation provided in the Interim FPP was reasonable.	
Tax on Interest	7,470.8	6,105.6	1,365.3	22.4	The performance mainly reflects the impact of higher than projected market interest rates.	Explanation provided in the Interim FPP was reasonable.	
Tax on Dividend	1,332.6	514.0	818.6	159.3	No explanation provided.		A significant unexpected payment was received in July.
Production & Consumption	75,823.9	73,551.2	2,272.6	3.1			

Key Tax Types	Provisional	Budget	Deviation from Budget	Deviation from Budget (%)	GOJ's Explanation Stated in FPP FY2022/23 Interim	Audit Comments	Ministry's Response
SCT (Local)	8,720.7	11,019.3	(2,298.6)	-20.9	This resulted from lower-than-expected production at Petrojam, due to plant downtime during the review period and coincides with the higher than projected importation of petroleum products.	Explanation provided in the Interim FPP was reasonable.	
Motor Vehicle License	2,203.2	1,899.3	303.9	16.0	No explanation provided.		Significant boost due to higher than projected new M/V registrations.
Other Licenses	1,003.1	856.9	146.2	17.1	No explanation provided.		Rebound in economic activity helped to drive collections.
Quarry Tax	13.7	22.4	(8.8)	-39.0	No explanation provided.		
Accommodation Tax	1,064.8	665.9	398.9	59.9	No explanation provided		Significant improvements in visitor arrivals.
Contractors Levy	933.6	846.5	87.1	10.3	No explanation provided.	The above-budget performance in Contractors Levy for the period is not consistent with slowdown in capital expenditure.	Arrears collections of $111mn helped to boost collections.
GCT (Local)	42,513.4	40,483.3	2,030.1	5.0	Collections boosted by higher consumption associated with improvements in employment as well as by increased economic activities generally.	Explanation provided in the Interim FPP was reasonable.	
Stamp Duty (Local)	2,606.9	2,132.1	474.8	22.3	No explanation provided.		A combination of increased real estate transactions as well as

Key Tax Types	Provisional	Budget	Deviation from Budget	Deviation from Budget (%)	GOJ's Explanation Stated in FPP FY2022/23 Interim	Audit Comments	Ministry's Response
							higher valuations of properties.
International Trade	89,591.4	79,665.2	9,926.2	12.5	No explanation provided.		Full reopening of the economy.
Custom Duty	19,527.6	18,094.3	1,433.3	7.9	The performance of GCT (Imports) and Custom Duty reflected higher than projected CIF value of imports.	Explanation provided in the Interim FPP was reasonable.	
Stamp Duty	1,237.9	1,003.9	233.9	23.3	No explanation provided.		
Travel Tax	7,989.6	4,945.6	3,044.0	61.6	Travel Tax was driven by higher than projected visitor arrivals.	Explanation provided in the Interim FPP was reasonable.	
GCT (Imports)	37,445.8	35,577.0	1,868.8	5.3			
SCT (Imports)	21,488.2	18,639.9	2,848.3	15.3	Above-budget collections largely reflected higher than anticipated import value of goods including petroleum products and motor vehicles.	Explanation provided in the Interim FPP was reasonable.	
Environmental Levy	1,902.3	1,404.3	497.9	35.5	No explanation provided.		
Non-Tax Revenue	15,494.8	12,225.5	3,269.3	26.7	Inflows largely reflecting higher than programmed receipts from the de-earmarked entities: Tourism Enhancement Fund (TEF) and Jamaica Civil Aviation Authority.	Explanation provided in the Interim FPP was reasonable.	
Capital Revenue	0.0	72.5	(72.5)	-100.0	No explanation provided.		Delays in expected collections.

Key Tax Types	Provisional	Budget	Deviation from Budget	Deviation from Budget (%)	GOJ's Explanation Stated in FPP FY2022/23 Interim	Audit Comments	Ministry's Response
Grants	1,319.6	1,536.9	(217.3)	-14.1	No explanation provided.		Delays in inflows due to timing.
Other Inflows (incl PCDF)	2,231.8	1,834.8	396.9	21.6	No explanation provided.		