Economic and Fiscal Assessment Report

Independent Fiscal Commission

Jamaica, West Indies

Table of Contents

1.0 Preface

The preparation and tabling of the Independent Fiscal Commission's ***Economic & Fiscal Assessment Report*** (EFAR) is provided for in the *Independent Fiscal Commission Act, 2021 (IFC Act)* and the *Financial Administration and Audit Act* (*FAA Act*). This inaugural EFAR is prepared pursuant to Section 15(2), sub-section (1) of the *Independent Fiscal Commission Act* which requires that the report:

(a) provide an assessment of the macroeconomic and fiscal forecasts

(b) present an evaluation as to whether the Government's announced policies are consistent with the fiscal rules, principles and targets set out in Part VII of the Financial Administration and Audit Act; and

(c) include an assessment of medium and long-term debt sustainability.

Overall, the EFAR is based on a review of, *inter alia,* the suite of budget documents that were simultaneously tabled for fiscal year 2025/2026, including the ***Fiscal Policy Paper*** (FPP), ***Medium-Term Debt Management Strategy*** (MTDS), ***Estimates of Expenditure 2025/2026***, ***Revenue Estimates 2025/*****2026**, ***Public Sector Consolidated Estimates of Expenditure***, ***Tax Expenditure Statement*** **2025** and the ***Jamaica Public Bodies*** report.

The EFAR is structured as follows:

1. Macroeconomic Outcomes Assessment
2. Fiscal and Debt Performance Assessment
3. Analysis of Budget Assumptions
4. Assessment of Macro-Fiscal Risks
5. Public Financial Management (PFM) Principles within the Context of the Fiscal Responsibility Framework
6. Considerations to strengthen Fiscal Sustainability/Resilience.

The EFAR focuses largely on the FPP, which is a comprehensive document providing broad and deep macroeconomic and fiscal coverage. In its review, the IFC will examine whether the minimum requirements of the FPP are satisfied and if the budget is prepared and presented in accordance with the Fiscal Responsibility Framework (FRF) as outlined in the *FAA Act* and the FAA Regulations. This includes assessing whether *material* deviations from the original budget (more than 10.0 percent or 0.2 percent of GDP as required by the FRF) are reasonably explained; opining on the credibility of the budget assumptions; and assessing the level of coverage within the context of the FRF. Electronic access to this report is provided *via* the Independent Fiscal Commission's website at **https://www.ifc.gov.jm** .

2.0 Background to the Independent Fiscal Commission

The Independent Fiscal Commission (IFC) was established by the *Independent Fiscal Commission Act,* 2021 to promote sound fiscal policy and fiscal management to sustain fiscal discipline. The IFC arose out of the Government of Jamaica's desire to have a domestic fit-for-purpose institution that supplants the independent economic and fiscal review/analysis provided by multilateral agencies such as the International Monetary Fund (IMF), as well as, the domestic monitoring, ownership and reporting embodied by the then Economic Programme Oversight Committee (EPOC) and the Auditor General's Department, all of which have contributed to Jamaica's internationally recognized fiscal transformation. In sum, the IFC will serve as the guardian and interpreter of Jamaica's fiscal rules. The IFC is, therefore, mandated to:

(i) Provide the public with an informed and independent opinion on the soundness and sustainability of Jamaica's fiscal position and policies in keeping with the Fiscal Responsibility Framework as set out in the *FAA Act.*

(ii) Indicate whether the conventions and assumptions underlying the preparation of the FPP comply with the principles of prudent fiscal management.

(iii) Monitor adherence to the Fiscal Responsibility Framework by:

   a. reporting on fiscal outcomes relative to targets.

   b. assessing and determining the fiscal impact of shocks that could trigger suspension of the fiscal rules.

   c. determining if corrective measures are sufficient to return fiscal balances to target and, if they are not, provide an estimate of the size of the additional measures that may be required.

(iv) Assess the consistency of the fiscal balance path, including the fiscal rules, and

(v) Conduct independent forecasts and analyses of the macroeconomic and fiscal position of Jamaica.

The functions of the IFC are discharged through the Fiscal Commissioner, assisted by a cadre of technical and support staff. The IFC's operations took effect on January 1, 2025.

3.0 Disclaimer

In keeping with Section 15 of the *IFC Act*, the ***Economic and Fiscal Assessment Report*** (EFAR):

- presents an assessment of the macroeconomic and fiscal outcomes and forecasts
- provides an evaluation as to whether the Government's announced policies are consistent with the fiscal rules, principles and targets set out in Part VII of the *FAA Act*
- includes an assessment of medium-term and long-term debt sustainability.

Given capacity constraints at this early stage of its operation, this first report will neither incorporate an assessment of medium-term and long-term debt sustainability that goes beyond compliance with the fiscal rule *nor* include an assessment of debt sustainability based on stress testing interest and exchange rate assumptions, debt composition, as well as economic and fiscal risks, similar to the IMF's debt sustainability analysis (DSA).

Furthermore, the opinions expressed hereafter are subject to the availability of data and information, in the absence of which, the Commission will not be able to make a full assessment. For instance, the IFC is unable to do a rigorous fiscal assessment on the Specified Public Sector (SPS) as the Government does not report on the SPS (except for the Debt Stock and the Public Sector Investment Programme) in accordance with the *fiscal rules*. Accordingly, these opinions should be treated as preliminary and are subject to revision as fiscal developments arise.

4.0 The Fiscal Commissioner's Opinion

I have examined *inter alia* the components of the Government of Jamaica's budget, with special emphasis on the ***Fiscal Policy Paper*** (FPP) for the Fiscal Year (FY) 2025/26 that was laid before the Houses of Parliament by the Honourable Minister of Finance and the Public Service on February 13, 2025, in accordance with the *FAA Act* and the *IFC Act*. My findings based on a review of the documents, are as follows**:**

- Jamaica's fiscal position and policy is sustainable. The legislated Debt-to-GDP target of 60 percent or less by FY 2027/28 is expected to be met.
- Overall, the macroeconomic and fiscal projections are reasonable and achievable. However, downside risks to the growth projections are significant, given current geopolitical uncertainties and potential for hydrological shocks (e.g. Hurricane). In addition, the heavy reliance on, and the potential for fallout in tax revenue inflows, during the last two weeks of March, raise the risk for fiscal deviation with minimal opportunity for in-year adjustments.
- The Government has shown a willingness and capacity to make fiscal adjustments when faced with shocks in order to meet fiscal targets and have implemented several measures to mitigate the impact of natural disasters through various disaster-risk financing instruments and the strengthening of the Public Investment Management System to bolster resilience.
- All expenditure categories for the Central Government are budgeted to decline relative to GDP in 2025/26, except Wages and Salaries, which remains elevated and presents a source of fiscal risk if not anchored to growth in the economy.

There are also some weaknesses in the budgetary process that demonstrate non-compliance with the Fiscal Responsibility Framework:

- While the Government tables consolidated expenditure estimates for the public sector and provides information and analysis of the debt for the Specified Public Sector, there is no presentation of the fiscal balance for the Specified Public Sector, for example. Jamaica's fiscal rules directly link the fiscal balance of the Specified Public Sector to the public debt. An absence of such important information restricts a more rigorous analysis of Jamaica's consolidated fiscal position.

- Revenue measures historically are announced *after* the tabling (rather than simultaneously) of the primary budgetary documents and following Parliament's approval of budgeted expenditures. This approach only allows for a partial assessment of Jamaica's fiscal position by the Parliament and the IFC prior to the Minister's opening of the Budget Debate and does not comply with the Third Schedule of the *FAA Act* (which requires the FPP to outline *details as to revenue policy and administration, including planned changes to taxation and other revenues)*.
- There are no established Compensation Negotiation cycles that align with the budgetary cycle as required under the *FAA Act* Part VII 48H, leading to a potential for unplanned in-year adjustments to fiscal parameters, which present a source of fiscal risk.

In this regard, the Government of Jamaica should give consideration to:

- addressing the weaknesses identified in the budgetary process to comply with the Fiscal Responsibility Framework by:
    - Presenting a fiscal profile for the ***Specified Public Sector*** with focus on *inter alia Revenue*, *Expenditure*, *Fiscal Balance*, *Primary Balance* and *Public Debt*
    - Tabling revenue measures *simultaneously* with the other budgetary documents and incorporating the measures in the FPP.
    - Establishing clear compensation negotiations cycles that align with the budget process.
    - Re-introducing a fiscal rule for Wages & Salaries.
- accelerate the implementation of the Public Sector Transformation to improve the efficiency of provision of public goods/services and
- Strengthen fiscal resilience by addressing:
    - The risk associated with potential revenue fallout in the last fiscal quarter by shifting the deadline for filing annual income tax returns from March to a month in the first quarter (April – June) of the fiscal year.
    - the update of the System of National Accounts (SNA) to the 2008 SNA – For a more comprehensive measure of the Jamaican economy and a more rigorous analysis of the economy (Short-term considerations)

- the level of informality, which negatively impact macroeconomic and fiscal indicators, including revenue and economic growth (medium-long term consideration)
- climate risk challenges that have negatively impacted macroeconomic and fiscal outcomes (medium-long term consideration).
- weaknesses in project management that slow the pace of execution of public investment, with negative implications for fiscal and macroeconomic outcomes (medium-long term consideration).

Courtney H. Williams (Mr.),

Fiscal Commissioner

5.0 Macro-Fiscal Assessment

A sustainable fiscal strategy that supports fiscal discipline is underpinned by robust macroeconomic and fiscal projections. It allows policymakers to plan and adjust policy levers to achieve designed macroeconomic outcomes such as macroeconomic stability, which is a necessary, *albeit* insufficient condition for sustained economic growth and poverty reduction. Macroeconomic stability improves the investment climate for stakeholders and strengthens resource allocation within and across sectors (Ames et. al, 2001).

5.1 Macroeconomic Outcomes Assessment

Developments in the macro economy have implications for the fiscal accounts, as GDP and selected components (e.g. Profits, Wages {Income approach} consumption and imports {Expenditure approach}) represent the tax base of an economy and therefore determines overall government revenue. Other macroeconomic indicators such as the inflation rate, interest rate and exchange rate will have implications for the magnitude of government revenue, expenditure and debt. The sustainable and balanced interactions among the real sector (e.g. GDP and employment), monetary sector (e.g. money supply and prices), external sector (e.g. exchange rate, imports, current account balance) and fiscal sector (e.g. government revenue and expenditure) create a stable macroeconomic system (**Appendix I** for details on the interactions).

The macroeconomic outlook for FY 2024/25 remains mixed: as while the real GDP is projected to contract, Jamaica's relatively low unemployment rate and inflation rate, as well as high Net International Reserves (NIR) and projected current account surplus are indicative of strong macroeconomic fundamentals.

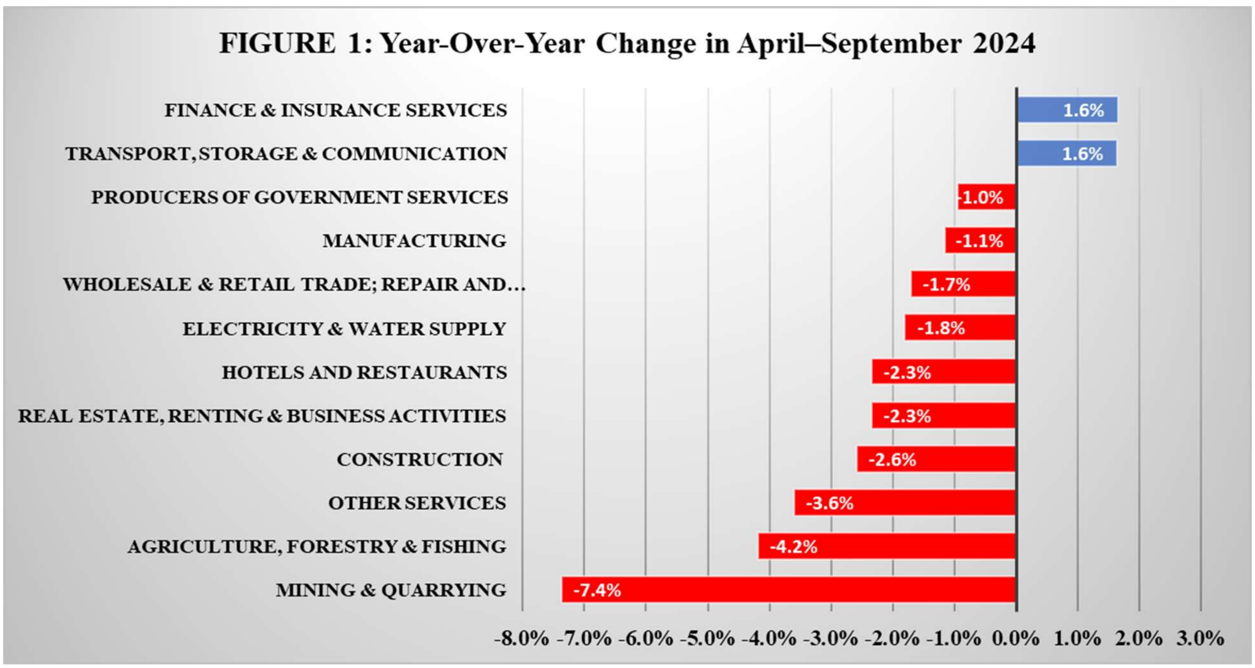
5.1.1 Real GDP

Based on the latest official data from the Statistical Institute of Jamaica (STATIN), the Jamaican economy contracted by 1.6 percent during the first half of FY 2024/25 (April–September 2024) relative to the corresponding period in FY 2023/24 (April–September 2023). This represented the first contraction in the first half of a fiscal year since April–September 2020 (down 14.5 percent), when Jamaica and the global economy were negatively impacted by the COVID-19 pandemic.

The contraction experienced during the April–September 2024 period was mainly in the July–September 2024 quarter when the economy declined by 3.5 percent, primarily as a result of the impact of Hurricane Beryl, which more than offset the relatively low growth of 0.3 percent in the

April–June 2024 quarter. Hurricane Beryl caused serious damage to infrastructure (including transport, energy and telecommunication facilities), which resulted in disruption of the provision of goods and services and in turn, led to a cancellation and re-scheduling of economic activities.

All industries declined, except for *Finance & Insurance Services* and *Transport, Storage & Communication* industries, which both grew by 1.6 percent for April–September 2024 period relative to the corresponding period of FY 2023/24. The largest declines were recorded for *Mining & Quarrying*; *Agriculture, Forestry & Fishing*; and *Other Services* industries (**Figure 1**).



Source: Statistical Institute of Jamaica.

Preliminary estimates by the Planning Institute of Jamaica (PIOJ) for the October–December 2024 quarter (as presented on February 19, 2025) showed that the Jamaican economy contracted by 1.8 percent relative to the corresponding quarter of 2023; the second successive year-over-year decline in a quarter. According to the PIOJ, this reduction was primarily due to the lagged impact of Hurricane Beryl, Tropical Storm Rafael, and plant downtime in some industries, which disrupted production. If this estimate is confirmed when STATIN releases the official outturn, the Jamaican economy would have contracted by 1.7 percent for the first nine months of the 2024/2025 fiscal year.

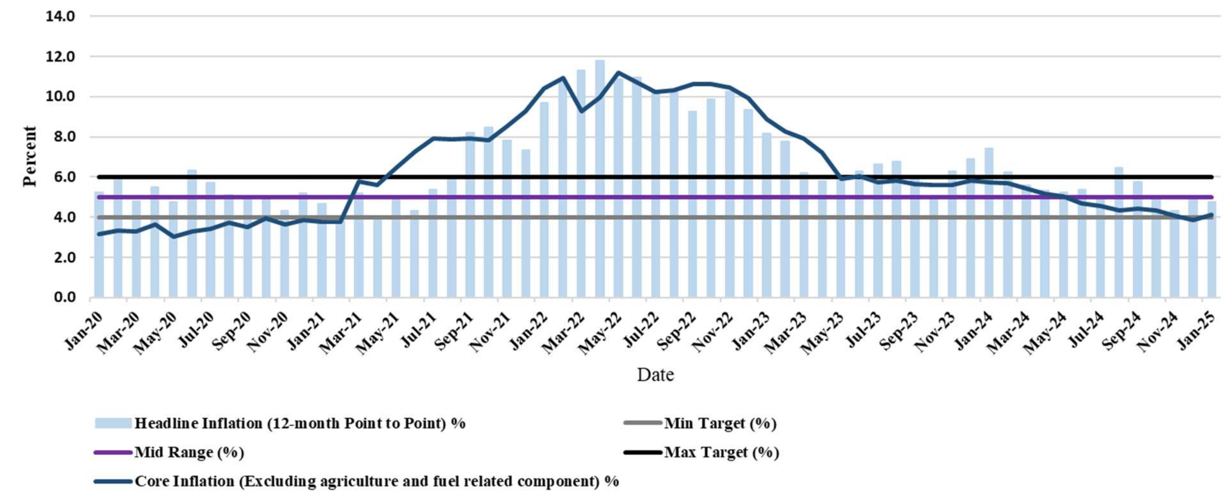
To realize a decline of 0.7 percent for FY 2024/25 as presented in the FPP, the Jamaican economy would have to grow by 2.2 percent in January–March 2025. It is the IFC's view that this out-turn is unlikely given the ongoing impacts of Hurricane Beryl and Tropical Storm Rafael, in addition to preliminary data announced at the PIOJ's February 2025 press briefing, which reported contractions in Alumina Production by 6.2 percent and preliminary airport arrivals by 1.0 percent in January 2025 relative to January 2024. **It is the IFC's view that the projected decline in real GDP of 0.7 percent as presented in the FPP is unlikely to materialize. The IFC projects real GDP growth for FY 2024/25 in the range of -0.9 percent and -1.5 percent, compared to the initial projection of 1.8 percent growth in the FPP for FY 2024/25.**

The Statistical Institute of Jamaica's *Labour Force Survey* for October 2024 revealed that 1,417,000 persons were employed, resulting in an unemployment rate of 3.5 percent. Of the employed labour force, 22,900 persons were deemed "Time Related Under-Employed". The overall labour force participation rate was 68.1 percent while Male and Female labour force participation rates were 74.5 percent and 61.9 percent, respectively.

5.1.2 Inflation

As at January 2025, Jamaica's 12-month point-to-point inflation rate was 4.7 percent despite price shocks associated with hydrological events (Hurricane Beryl and Tropical Storm Rafael) and is expected to remain within the Bank of Jamaica's target range of 4.0 percent–6.0 percent over the medium-term (**Figure 2**). This is predicated on recent trends that have revealed a general fall in inflation globally, especially for Jamaica's main trading partner; the United States of America, as well as a reduction in inflation expectations locally as reported by the BOJ's *Inflation Expectations Survey* for December 2024 due in part to monetary policy interventions. **It is the IFC's view that the projected inflation of 5.6 percent** (as presented in the FPP for FY 2024/25) **is** reasonable**.**

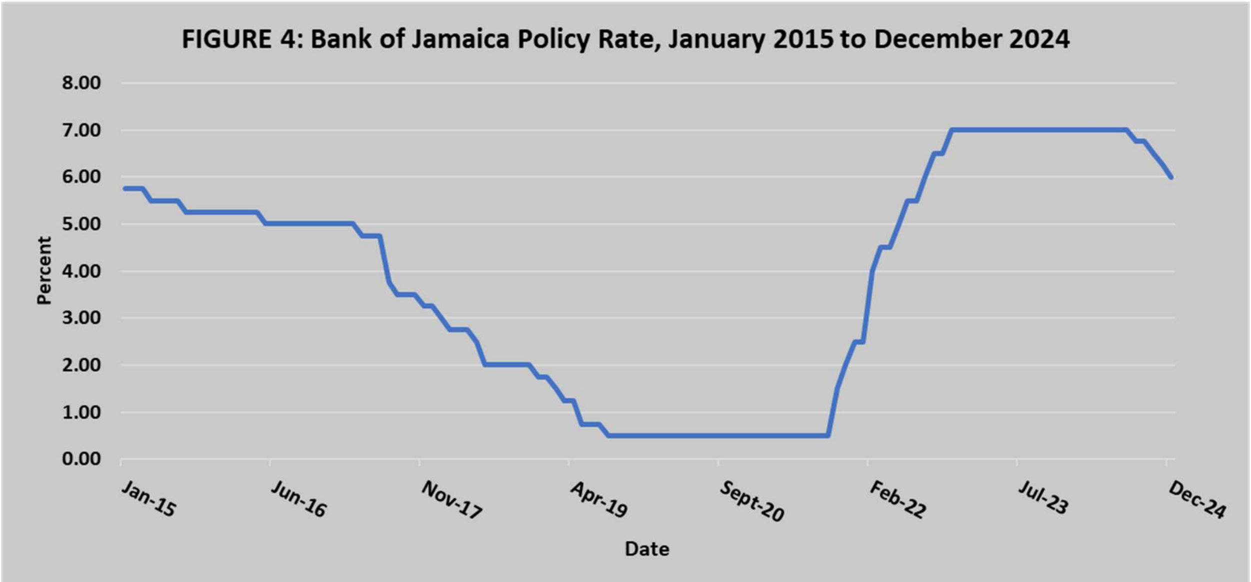
FIGURE 2: Jamaica's Inflation Rate, January 2020–January 2025



Source: Statistical Institute of Jamaica and Bank of Jamaica.

5.1.3 Interest Rate

The Bank of Jamaica reduced its policy rate by 1.0 percentage point to 6.0 percent during the fiscal year. This was done by four incremental adjustments of 0.25 percentage points during the second and third quarters of the fiscal year (**Figure 4**). The policy rate was held at 6.0 percent by the Monetary Policy Committee after meetings on 18th and 19th of February 2025, citing increased uncertainty relating to economic policies of Jamaica's main trading partner and recent domestic macroeconomic data. The IFC notes that lending rates have not fallen in tandem with the policy rate as some financial institutions adopt a cautious approach.



Source: Bank of Jamaica.

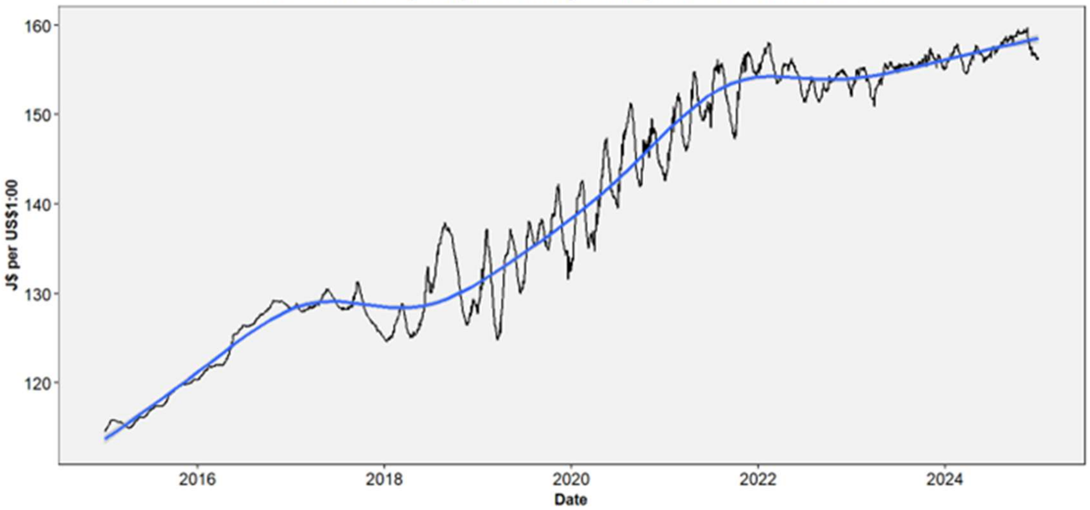
5.1.4 External Sector Development

Jamaica's exchange rate remained relatively stable since the start of the fiscal year (**Figure 3**). The exchange rate ended 2024 at J$156.42 per US$1 compared with J$155.47 per US$1 on March 28, 2024.

At the end of January 2025, Jamaica's Net International Reserves (NIR) stood at US$5,501.5 million; an increase of US$364.2 million relative to the end of the previous fiscal year (March 2024) and US$822.4 million when compared with January 2024. The growth in the NIR relative to the previous fiscal year was due to an increase in Total Foreign Assets by US$319.0 million and a contraction in Total Foreign Liabilities by US$45.2 million.

Total Foreign Assets (Gross International Reserves) at the end of January 2025 was estimated to be equivalent of 28.9 weeks of Goods & Services' Imports compared with 26.4 weeks in March 2024. The Gross International Reserves remain significantly above the international reserve adequacy benchmark of 12 weeks of imports of goods and services and the Assessing Reserve Adequacy metric for FY 2024/25.

FIGURE 3: J$ Daily Weighted Average Selling rate for US$1:00 2015-2024



Source: Bank of Jamaica

Jamaica recorded a current account surplus of US$148.0 million in the first quarter of FY 2024/25 (April–June 2024), which was US$74.2 million lower than the similar period in FY 2023/24. The reduction in the current account surplus reflected a widening of the deficits on the Goods & Services Account by US$55.9 million to US$649.6 million (partly reflected a contraction in tourist receipts) and the Primary Income Account by US$27.3 million to US$77.2 million. This outweighed the expansion in the surplus on the Secondary Income Account by US$9.0 million to US$874.8 million.

5.2 Fiscal and Debt Performance Assessment

Entrenching fiscal and debt sustainability is critical for the efficient functioning of government and creating a sound macroeconomic environment. The absence of this sustainability leads to a relatively high-interest rate environment, which crowds out private investment and leads to lower growth and higher poverty levels. It is therefore critical that the hard-won gains from the fiscal consolidation programmes that started over a decade ago continue to be strengthened and entrenched. **Box 1** summarises budgetary outturns for the Central Government, April to December 2024.

Box 1: *Central Govt. Summary Outturns for April-December 2024 Relative to Original Budget*

Revenue and Grants surpassed Budget by **3.1 percent**.

Tax Revenue fell below Budget by **0.3 percent**.

Non-Tax Revenue exceeded Budget by **23.3 percent**.

Expenditure surpassed Budget by **0.8 percent**.

Recurrent Expenditure exceeded Budget by **2.2 percent**.

Wages and Salaries surpassed Budget by **1.1 percent**.

Interest exceeded Budget by **2.0 percent**.

Fiscal Balance below Budget by **37.5 percent**.

Primary Balance higher than Budget by **21.5 percent**.

5.2.1 Fiscal Balance and Primary Balance

At the end of the April – December 2024 period, the **Fiscal Balance** (i.e. Revenue & Grants *minus* Expenditure) stood at a deficit of $26.4 billion, which was lower than originally budgeted. The **Primary Balance** (i.e. Fiscal Balance excluding Interest expenditure) of $104.5 billion was higher than originally targeted. The greater-than-expected outturn was primarily due to a higher than budgeted Non-Tax Revenue largely as a result of a higher-than-expected securitization of revenue inflow due from the Norman Manley International Airport (NMIA).

A fiscal surplus of $8.0 billion (0.3 percent of GDP) is projected for the end of fiscal year 2024/2025; and a primary surplus of $190.4 billion (6.0 percent of GDP). To achieve these targets, the GOJ will need to achieve fiscal balance and primary balance surpluses of $34.5 billion and $85.9 billion, respectively, in the January–March 2025 quarter **The IFC assesses the projected fiscal balance and primary balance surpluses to be achievable**.

Achieving, and even bettering the fiscal targets bodes well for the Government sustaining the debt reduction path. Moreover, continuing to lower the public debt-to-GDP ratio will create fiscal space for growth-enhancing spending.

5.2.2 Revenue and Grants

Overall ***Revenue & Grants*** for the period April – December 2024 surpassed the original budgeted amount by $22.1 billion or 3.1 percent to total $738.6 billion. At the end of fiscal year 2024/25, Revenue & Grants are projected to be $1.1 trillion; higher than the Original Budget by $43.1 billion.

Tax Revenue for April – December 2024 performed broadly in line with budget, after reflecting a shortfall of $2.1 billion or 0.3 percent. The FPP reported that this slight shortfall partly reflected the negative effect of hydro-meteorological events during the second half of 2024 and a lower-than-projected impact of implemented revenue measures. Nevertheless, the IFC notes that revenue foregone from selected new tax measures was less than budgeted (for example, the Reverse Income Tax Credit where $11.4 billion was originally forecasted but only a reported $7.0 billion was actually foregone at the end of December 2024). Had the actual revenue foregone been in line with budgeted, Tax Revenue would have experienced a greater shortfall.

The IFC notes the FPP's reported improvements in compliance initiatives and their impact on the corporate income tax. At the same time, there was a reported $28.7 billion increase in the stock of arrears to $259.6 billion. **The IFC welcomes the efforts that are being undertaken to reduce arrears, including the *Special Arrears Settlement Programme* initiative. Notwithstanding, frequent tax forgiveness could adversely affect voluntary tax compliance in the long term.**

At the end of fiscal year 2024/2025, Tax Revenue is projected to be $897.0 billion; falling below the Original Budget by $2.3 billion. A significant portion of these collections are expected in the last two weeks of March when final income tax returns are due, which is achievable. This nevertheless is a notable fiscal risk as any material fallout during this period, with little to no opportunity for adjustments, could jeopardize achievement of the fiscal targets for fiscal year 2024/25, with spillover implications for the upcoming fiscal year. To minimize this risk going forward, the government should give due consideration to adjusting the timeline for filing of tax returns, specifically, shifting the due date from the last month of the fiscal year to a month in the first quarter.

Non-Tax Revenue for the period April – December 2024 exceeded the original targeted amount by $23.8 billion (or 23.3 percent). This **higher**-than-expected performance was largely due to a higher-than-anticipated inflow from the securitization of revenue due from the NMIA. However, the excess realized from the securitization transaction – about $50 billion - far exceeds the Non-Tax Revenue overperformance. **The IFC does not have sufficient information at this time to adequately assess the reported overperformance of Non-Tax Revenue.** At the end of fiscal year 2024/25, Non-Tax Revenue is projected at $174.0 billion; higher than the Original Budget by $45.2 billion (or 35.1 percent).

Grants for the review period April – December 2024, totalled $4.4 billion, thus surpassing the original budgeted sum by $743.9 million or 20.1 percent, due to higher-than-projected inflows from the Caribbean Development Bank (CDB), as reported in the Interim FPP.

Overall, the IFC found the explanations for the deviations in ***Revenues and Grants*** for the period April – December 2024 to be only partially reasonable having regard to the circumstances. **However, the IFC notes that the actual revenue foregone from selected new tax measures as the Reverse Income Tax Credit, was less than budgeted, which had the effect of reducing the overall shortfall in tax revenue.**

5.2.3 Expenditure

Above-the-line **Expenditure** (i.e. excluding amortization) for the period April – December 2024 totalled $765.0 billion or 0.8 percent higher than the original budgeted amount. ***Recurrent Expenditure*** accounted for $728.3 billion (or 95.2 percent of total expenditure), 2.2 percent above budget and reflected higher-than-originally-budgeted spending on Programmes and Interest payments.

At the end of fiscal year 2024/25, Expenditure is projected to rise to $1.1 trillion; surpassing the Original Budget by $44.9 billion (or 4.4 percent), with Recurrent Expenditure of approximately $1.0 trillion (i.e. higher by $63.2 billion relative to the original budget) and Capital Expenditure of $61.7 billion (lower by $18.3 billion relative to the original budget). The increase in Recurrent Expenditure reflected higher Compensation of Employees of $11.8 billion (higher by 2.7 percent relative to the original budget). On the other hand, the downward revision of Capital Expenditure mirrored a slower-than-planned execution of several public sector investment projects.

5.2.3.1 Recurrent Programmes

For the period April – December 2024, recurrent Programmes expenditure totalled $265.9 billion; exceeding the budgeted amount by $13.6 billion due mainly to higher spending on Government's post-Hurricane Beryl response. At the end of fiscal year 2024/25, recurrent Programmes expenditure is projected to settle at $370.7 billion; higher than the Original Budget by $42.8 billion.

5.2.3.2 Compensation of Employees

Compensation of Employees (Wages & Salaries plus Employers Contributions) for the period April – December 2024 totalled roughly $332.4 billion and was in-line with the original projection. The overall Compensation of Employees included salary increases related to the final phase of the public sector compensation restructuring programme. At the end of the review period, **Wages & Salaries** totalled $315.1 billion thus higher by roughly $3.3 billion above the original budgeted amount. Wages & Salaries expenditure is projected to reach $424.7 billion at the end of fiscal year 2024/25; outpacing the Original Budget by $10.5 billion.

5.2.3.3 Interest Cost

Total Interest payments of $130.9 billion at the end of December 2024 surpassed the original projection by 2.0 percent. **While Domestic interest** expenditure of $56.3 billion exceeded budget by 5.6 percent, **External interest** payments were broadly in line with budget based on a marginal under-spend of 0.5 percent. Interest expenditure is projected at $182.3 billion at the end of fiscal year 2024/25; exceeding the Original Budget by $8.5 billion. The movement in interest cost seems to align with the debt strategy that aims to raise the share of domestic debt in the public debt stock.

5.2.3.4 Capital Expenditure

For the period April – December 2024, **Capital Expenditure** totalled $36.7 billion (4.8 percent of the total expenditure); a decline of $9.5 billion (20.5 percent) from the originally projected amount. The FPP reported that this shortfall was due to a slower-than-programmed pace of execution of several planned public sector investment projects. By the end of fiscal year 2024/25, Capital Expenditure is programmed at $61.7 billion thus falling below the Original Budget by $18.3 billion or 22.8 percent. **The IFC suggests that going forward, the Government should take steps to alleviate the impediments, including capacity constraints within Ministries, Departments and Agencies, to secure full utilization of the capital budget allocation in a fiscal year given its potential contribution to economic growth.**

5.2.4 Public Debt

The stock of **Public Debt**[1] outstanding for **the Specified Public Sector** at the end of December 2024 stood at $2.2 trillion; down 1.5 percent from December 2023. **Central Government debt** at the end of December 2024 was approximately $2.2 trillion (i.e. a decline of 0.2 percent relative to the amount recorded in December 2023) and was driven mainly by a fall in the external marketable securities portfolio. The debt-to-GDP ratio is projected to fall to 68.7 percent at the end of fiscal year 2024/25, down 4.7 percentage points from the level at the end of the previous fiscal year.

[1] According to page 5 of the *Medium-Term Debt-Management Strategy, FY 20025/26-FY 2028/29*, "*public debt*" is defined as the "consolidated debt of the Specified Public Sector i.e. Central Government debt plus the debt of Self-Financing Public Bodies (SFBS) net of any cross holdings". The *Medium-Term Debt-Management Strategy* document goes on further to state that a 100 basis points (or one percentage point) rise in the Bank of Jamaica's benchmark interest rate (i.e. the policy rate) is estimated to increase domestic interest cost by roughly $902.6 million (see Ministry of Finance and the Public Service (2025b, p. 33).

Table 1: Summary of Explanations for Major Fiscal Deviations from Original Budget - April to December 2024						
REVENUE						
	$J Million					
Tax Item	**Provisional**	**Original Budget**	**Difference**	**Difference (%)**	**Explanation for Deviation**	**IFC Comments**
Total Tax Revenue	**608,303.6**	**610,371.3**	**-2,067.7**	**-0.3**	**Negative impact of hydro-meteorological events during the second half of 2024 and a lower than-projected impact of implemented revenue measures.**	**Explanation is incomplete. The actual revenue foregone from selected new revenue measures (for example, the Reverse Income Tax Credit) was less than programmed and partly offset the fallout from the economic contraction.**
Income and Profits	**186,578.7**	**177,855.9**	**8,722.8**	**4.9**		
Other Companies	51,661.2	45,891.9	5,769.3	12.6	Improvements in compliance initiatives.	Explanation is reasonable.
Tax on Dividend	2,644.8	3,682.2	-1,037.4	-28.2	Year-over-year decline in dividends per share for ordinary shares.	Explanation is reasonable.
Tax on Interest	27,266.8	25,640.7	1,626.1	6.3	Increase reflected strong growth in local currency deposits.	Information provided by the Ministry not adequate to determine reasonableness
Production and Consumption	**195,166.6**	**204,413.4**	**-9,246.8**	**-4.5**		
SCT (Local)	14,193.1	16,794.4	-2,601.3	-15.5	Reduced production of petroleum products due to plant maintenance.	Explanation is reasonable.

Environmental Levy (Local)	731.1	639.7	91.4	14.3	No explanation provided.	
Quarry Tax	195.0	51.7	143.3	277.2	No explanation provided.	
Betting, Gaming and Lottery	6,210.5	7,282.2	-1,071.7	-14.7	Disruptions to power supplies and telecommunication networks from Hurricane Beryl.	Explanation is reasonable
Accommodation Tax	2,486.7	2,913.1	-426.4	-14.6	Lower-than-projected average exchange rate and tourist arrivals.	Information provided by the Ministry not adequate to determine reasonableness
Telephone Call Tax	2,001.2	2,339.3	-338.1	-14.5	Disruptions to power supplies and telecommunication networks from Hurricane Beryl.	Explanation is reasonable.
Stamp Duty (Local)	5,799.4	6,267.1	-467.7	-7.5	Downturn in the *Real Estate, Renting and Business* sector.	Explanation is reasonable.
International Trade	**226,558.3**	**228,102.0**	**-1,543.7**	**-0.7**		
Travel Tax	20,798.4	25,698.2	-4,899.8	-19.1	Lower-than-projected average exchange rate and tourist arrivals.	Information provided by the Ministry not adequate to determine reasonableness
Environmental Levy (Imports)	4,116.8	4,361.9	-245.1	-5.6	No explanation provided.	
NON-TAX REVENUE	**125,812.7**	**102,011.7**	**23,801.0**	**23.3**	**Higher-than-anticipated inflows from the securitization of revenue due from**	**Some unstated contributing factors to Non-Tax Revenue mitigated against the reported over-performance of the actual inflows from the securitization of revenue**

					the Norman Manley International Airport.	**from NMIA. $25.1 billion was budgeted and approximately $75 billion (i.e. US$480 million) was collected. Further explanation is warranted to explain the overall deviation of only $23.8 billion.**
GRANTS	**4,442.9**	**3,699.0**	**743.9**	**20.1**	**Higher than projected inflows from the Caribbean Development Bank (CDB)**	**Explanation appears reasonable.**
EXPENDITURE						
	$J Million					
Tax Item	**Provisional**	**Original Budget**	**Difference**	**Difference (%)**	**Explanation for Deviation**	**IFC Comments**
Recurrent Expenditure	**728,299.3**	**712,645.8**	**15,653.5**	**2.2**		
Programmes	**264,951.1**	**251,392.2**	**13,558.9**	**5.4**	Increased spending for post-Hurricane Beryl response.	Explanation is reasonable.
Wages and Salaries	**315,125.1**	**311,793.9**	**3,331.2**	**1.1**	Included salary increases related to the final phase of the public sector compensation restructure	Explanation is reasonable.
Interest	**130,938.1**	**128,343.7**	**2,594.4**	**2.0**	Domestic interest of $56.3 billion exceeded budget by 5.4 percent.	Information provided by the Ministry not adequate to determine reasonableness.
Capital Expenditure	**36,708.1**	**46,199.4**	**-9,491.3**	**-20.5**	**Slower-than-programmed pace of execution of**	**Information provided by the Ministry not adequate to determine reasonableness, but urgent steps must**

					several planned public sector investment projects.	**be taken to address the longstanding related capacity issues including procurement-related bottlenecks within MDAs. Need to explain why the pace of execution is slower-than programmed.**

Source: Compiled by the Independent Fiscal Commission based on data in the Ministry’s FPP 2025/2026 (Part 3, Page 7).

5.3 Analysis of the Budget Assumptions

The Budget is used by the public sector, private sector, households, and other stakeholders as a critical planning instrument to make important decisions. In this regard, the budget must be credible. It is crucial that stakeholders view the budget presented as one that will be executed consistent with its original forecast, and that the macroeconomic and fiscal assumptions underlying the budget, are achievable.

5.3.1 Macroeconomic Assumptions

In line with its mandate to opine on the credibility of the Budget, the IFC reviews the Medium-Term Macroeconomic Profile, as presented by Table 2G in the Fiscal Policy Paper FY 2025/26 and assesses the likelihood of Jamaica achieving these targets (**Table 2**).

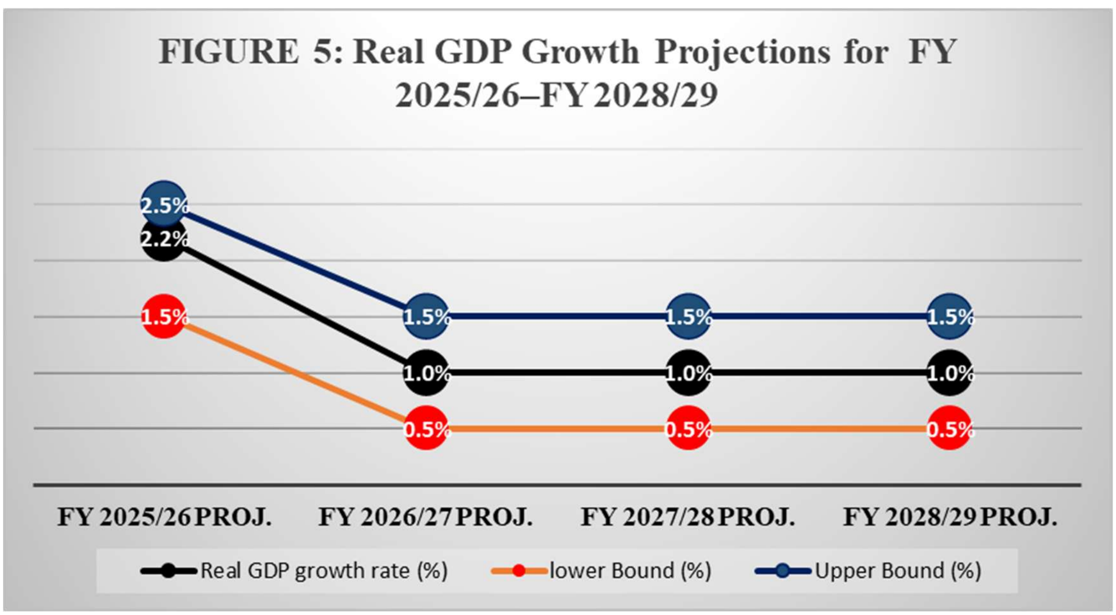
Table 2: ***Medium-Term Macroeconomic Profile***

Macroeconomic Variable:	FY 2023/24 Act.	FY 2024/25 Est.	FY 2025/26 Proj.	FY 2026/27 Proj.	FY 2027/28 Proj.	FY 2028/29 Proj.
Nominal GDP (J$ bn)	3,029.1	3,198.8	3,482.4	3,719.0	3,944.0	4,182.6
Nominal GDP growth rate (%)	10.0	5.6	8.9	6.8	6.1	6.1
Real GDP growth rate (%)	1.9	-0.7	2.2	1.0	1.0	1.0
Inflation: Annual Pt to Pt (%)	5.6	5.6	5.3	5.0	5.0	5.0
Interest Rates:						
180-day Treasury Bill (end-period)	8.1					
90-day Treasury Bill (end-period)	8.0					
Average Selling Exchange Rate (J$=US$1)	155.6					
NIR (US$ mn)	5137.3	5878.4	5789.6	6136.7	6668	7122.9
Current Account (%GDP)	3.1	1.6	0.2	0.7	0.7	0.8
Oil Prices (WTRI) (Average US$ barrel)	77.8	75.3	78.2	80.2	80.0	80.0

Sources: Ministry of Finance and the Public Service, BOJ and Statin.

5.3.1.1 Real GDP

The FPP projects real GDP to increase in FY 2025/26 by 2.2 percent and thereafter rise by 1.0 percent from FY 2026/27 to FY 2028/29. Specifically, the projected increase in FY 2025/26 is against the background of a recovery from the negative impact of several hydrological shocks (e.g. Hurricane Beryl and Tropical Storm Rafael) in FY 2024/25; continued growth in Jamaica's main trading partner; and a projected 70.1 percent increase in the public sector investment programme (PSIP). This is to be facilitated by increased capacity within the Hotel & Restaurants and Manufacturing industries. Of note, the IMF projects that Jamaica's real GDP will grow by 1.7 percent in FY 2025/26 and 1.6 percent thereafter up to FY 2028/29 (IMF, 2024). The real GDP growth rates in the FPP are consistent with the IFC's internal forecasts **(Figure 5)**. **However, it should be noted that geopolitical tensions and hydrological shocks may constrain Jamaica's growth outlook.**



Source: IFC compilation.

5.3.1.2 Inflation Rate

The inflation rate is projected to be 5.3 percent in FY 2025/26, falling to 5.0 percent from FY 2026/27 to FY 2028/29. **It is the IFC's view that this profile is reasonable and achievable**, given the general fall in interest rates globally and assuming that the Bank of Jamaica continues to be successful in achieving the inflation rate target of 4.0–6.0 percent set by the Minister of Finance

& Public Service for FY 2024/25 to FY 2026/27. However, the IFC notes that in the latest BOJ Monetary Policy Committee decision released in February 2025, the BOJ highlighted that inflation risks were skewed to the upside, due in part to potential economic policy changes in large economies that may have implications for current account flows, inflation expectations, and hydrological shocks.

5.3.2 Fiscal Assumptions

Attention is placed on the upcoming fiscal year 2025/2026 and the built-in fiscal assumptions that were reflected in the medium-term profile.

For fiscal year 2025/2026, overall ***Revenue & Grants*** is projected at $1.1 trillion; representing a 1.8 percent rise (or $19.4 billion) above the estimated outturn for fiscal year 2024/2025 (**Table 3a and Table 3b**). Tax Revenue as a share of GDP (the "**tax ratio**") is projected to fall to 27.3 percent at the end of fiscal year 2025/2026 and remain relatively flat thereafter; averaging 27.2 percent over the medium-term (**Figure 6**). On this trajectory, tax revenue would be relatively buoyant (tax revenue growing at approximately the same rate as nominal GDP) up to the end of fiscal year 2028/2029.

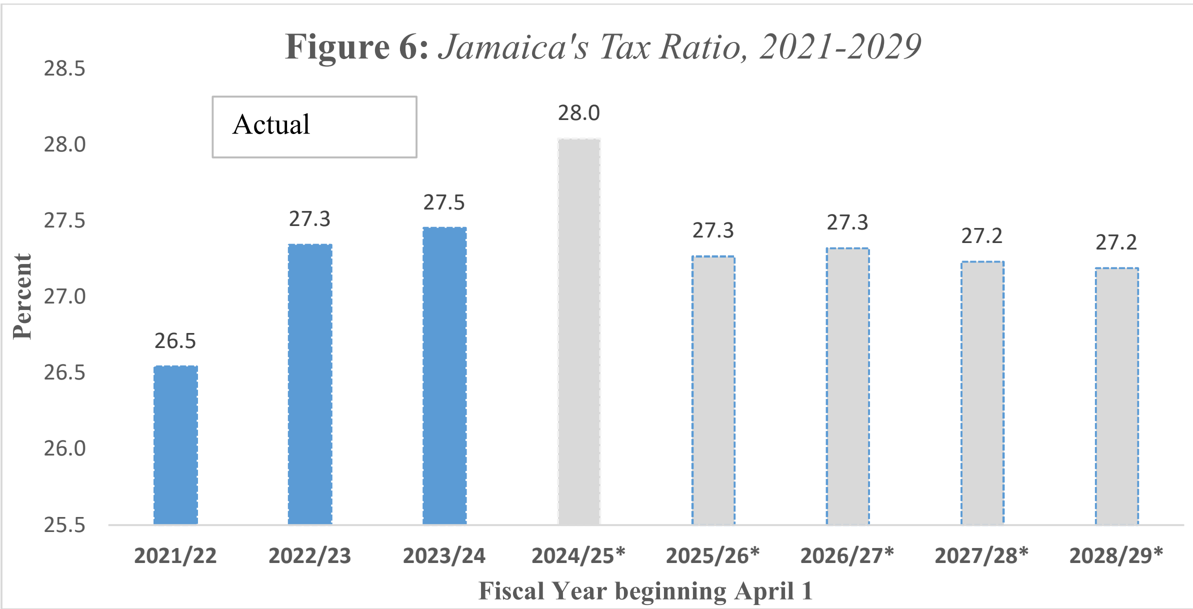
Table 3a: Comparison of Key Macro Fiscal Variables: 2024/25 versus 2025/26						
	$J Million					
		Supplementary Estimates:				
	Original 2024/25	1st and 2nd	3rd	Original vs 3rd	2025/26	2025/26 vs 3rd
Total Revenue	**1,033,594.6**	**1,073,771.4**	**1,076,686.1**	**43,091.5**	**1,096,083.1**	**19,397.0**
Tax Revenue	924,376.3	905,059.3	896,957.8	**-27,418.5**	949,493.9	52,536.1
Non-tax Revenue	103,701.1	162,091.8	174,017.2	**70,316.1**	139,816.4	-34,200.8
Total Expenditure	**1,023,725.1**	**1,064,083.0**	**1,068,652.5**	**44,927.4**	**1,095,302.8**	**26,650.3**
Recurrent Progammes	327,848.7	359,116.9	371,062.7	**43,214.0**	359,375.3	-11,687.4
Wages and Salaries	414,197.8	424,509.1	424,343.8	**10,146.0**	463,431.5	39,087.7
Interest	173,828.7	183,394.0	182,346.8	**8,518.1**	177,532.5	-4,814.3
Capital expenditure	80,000.0	67,900.0	61,736.2	**-18,263.8**	62,595.6	859.4
Fiscal Balance	**9,869.5**	**9,688.4**	**8,033.5**	**-1,836.0**	**780.3**	**-7,253.2**
Primary Balance	**183,698.2**	**193,082.4**	**190,380.4**	**6,682.2**	**178,312.9**	**-12,067.5**
SPS Balance						
Debt-to-GDP (%)	**68.7**	**68.7**	**68.7**	**0.0**	**63.7**	**-5.0**
Real GDP Growth (%)	**1.8**	**-0.2**	**-0.7**	**-2.5**	**2.2**	**2.9**
Inflation (%)	**5.8**	**4.5**	**5.6**	**-0.2**	**5.3**	**-0.3**
Exchange Rate ($J to US $1)	**154.95**	**158.03**	**156.42**	**1.5**		
NIR (US $ Million)	**4,781.1**	**5,415.7**	**5,878.4**	**1,097.3**	**5,789.6**	**-88.8**

Notes: Some of the respective line items include other sub-components that are not shown in the table. SPS and NIR means "Specified Public Sector" and Net International Reserve, respectively.
Sources: Compiled by the IFC using data obtained from the MOFPS, BOJ and Statin.

Table 3b: Deviations between Budget Estimates - 2024/25 to 2025/26						
			Original vs 1st & 2nd	2nd vs 3rd	Original vs 3rd	3rd vs 2025/26
Total Revenue			**3.9**	**0.3**	**4.2**	**1.8**
Tax Revenue			**-2.1**	**-0.9**	**-3.0**	**5.9**
Non-tax Revenue			**56.3**	**7.4**	**67.8**	**-19.7**
Total Expenditure			**3.9**	**0.4**	**4.4**	**2.5**
Recurrent Progammes			**9.5**	**3.3**	**13.2**	**-3.1**
Wages and Salaries			**2.5**	**0.0**	**2.4**	**9.2**
Interest			**5.5**	**-0.6**	**4.9**	**-2.6**
Capital expenditure			**-15.1**	**-9.1**	**-22.8**	**1.4**
Fiscal Balance			**-1.8**	**-17.1**	**-18.6**	**-90.3**
Primary Balance			**5.1**	**-1.4**	**3.6**	**-6.3**
SPS Balance						
Debt-to-GDP (%)			**0.0**	**0.0**	**0.0**	**-5.0**
Real GDP Growth (%)			**-2.0**	**0.5**	**-138.9**	**2.9**
Inflation (%)			**-1.3**	**1.1**	**-3.4**	**-0.3**
Exchange Rate ($J to US $1)			**2.0**	**-1.0**	**0.9**	
NIR (US $ Million)			**13.3**	**8.5**	**23.0**	**-1.5**

Notes: Some of the respective line items include other sub-components that are not shown in the table. SPS and NIR means "Specified Public Sector" and Net International Reserve, respectively.
Sources: Compiled by the IFC using data obtained from the MOFPS, BOJ and Statin.

Notwithstanding this implied buoyancy, the overall tax ratio is projected to rise to 28.0 percent at the end of 2024/25 despite a sizeable tax giveback (including estimated potential revenue-foregone of $11.4 billion and $2.4 billion *via* the Reverse Income Tax Credit and Standardizing Jamaica's GCT Treatment on Raw Foodstuff as outlined in the *Revenue Measures for Financial Year 2024/2025* document). The surge in the tax ratio in fiscal year 2024/25 may be an exceptional outcome, given the projected fall in 2025/26 and plateauing over the medium term. To this end, and looking ahead, the IFC will undertake a deeper assessment of what underlies the historical and projected tax ratio trajectory. The average (and median) tax ratio for the overall fiscal period 2021-2029 is estimated at 27.3 percent.



Note: * means Projected for that fiscal year.

Source: Compiled by the Independent Fiscal Commission using data from the MoFPS.

General Consumption Tax Collection-Efficiency

Given the medium-term trajectory for the tax ratio, the IFC examined the performance of the country's major tax type, General Consumption Tax (GCT); the value added tax (VAT), which is the major single source of revenue (accounting for 34.0 percent of total tax revenue at the end of 2023/2024). Government reported that as part of the medium-term fiscal programme, Tax Administration Jamaica will inter alia focus on improving voluntary tax compliance. In this vein, the IFC found it relevant to estimate Jamaica's VAT C-Efficiency ratio[2] over an extended period. The calculations and explanations behind the ratio are presented in **Appendix II**.

A GCT C-Efficiency ratio of 0.72 at the end of the 2019/2020 fiscal year meant that approximately *28 percent of* the country's *potential VAT revenue was uncollected in 2019/2020; down from forty-*

[2] The VAT C-Efficiency is computed by dividing total VAT revenue by the product of the standard VAT rate and final consumption expenditure.

six percent in 1996/1997. Computation of the GCT C-Efficiency ratio[3] for a time horizon after 2019/2020 was however impossible due to a lack of required data i.e. actual final consumption expenditure. **In this vein, the IFC would welcome provision of the necessary resources to enable the Statistical Institute of Jamaica to accelerate the resumption of and subsequent release of its *National Income and Product* (NIP) publication (with *inter alia* final consumption expenditure data for the year 2020 and beyond).**

Expenditure at the end of 2025/2026 is projected at $1.1 trillion, exceeding the amount programmed for the entire fiscal year 2024/2025. Central Government "Non-Debt Expenditure" is programmed at $917.8 million with **Recurrent Expenditure** and **Capital Expenditure** of $855.2 billion (93.2 percent) and $62.6 billion (6.8 percent) for 2025/2026. The IFC concludes that over the medium-term, Recurrent Expenditure as a share of total Non-Debt Expenditure is projected to decline; moving to 92.2 percent and 91.6 percent in 2026/2027 and 2028/2029, respectively. On the other hand, Capital Expenditure as a share of total Non-Debt Expenditure is programmed to rise overall during the medium-term, moving to 7.8 percent, 8.5 percent and 8.4 percent in 2026/2027, 2027/2028 and 2028/2029, respectively. **The IFC welcomes the projected rise in capital expenditure's share of Non-Debt Expenditure, given its potential contribution to economic growth.**

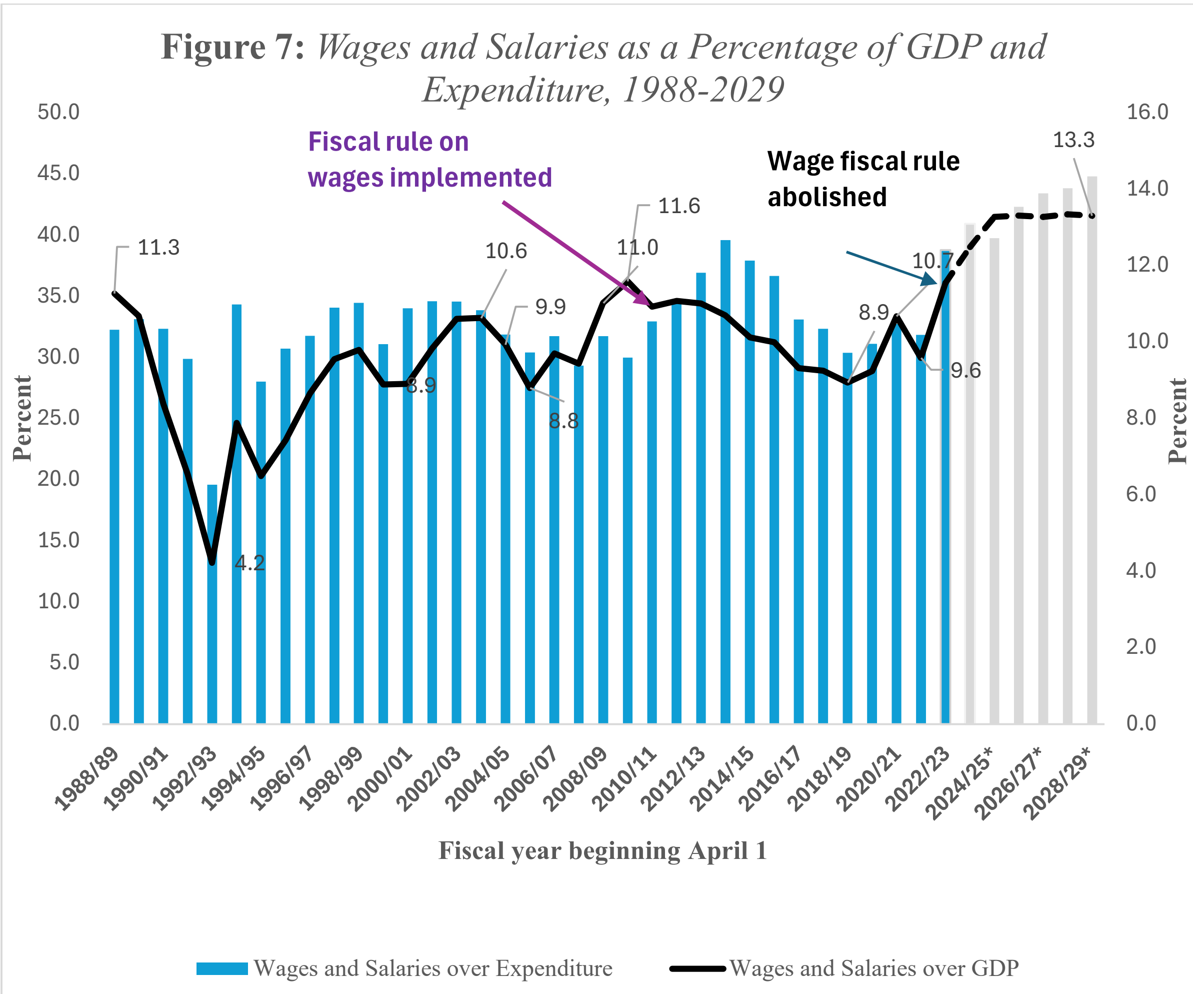
Despite the fact that capital expenditure as a share of GDP is programmed to be relatively low and is expected to remain flat over the medium-term (i.e. inching up to 2.0 percent in 2026/2027 and 2.2 percent in both 2027/2028 and 2028/2029 up from the 1.8 percent programmed for 2025/2026), more resources are projected for allocation to capital expenditure. **As such, the IFC is concerned that capacity constraints remain that will hinder the execution of public investment projects within the relevant fiscal year, including continued procurement challenges.**

Compensation of Employees

For 2025/2026, Compensation of Employees is programmed at $495.8 billion, comprising new rates of pay for several groups as well as retroactive payments due to medical consultants and the judiciary. ***Wages and Salaries*** is projected to rise by $38.7 billion to $463.4 billion (50.5 percent of Central Government Non-Debt Expenditure), compared to $424.7 billion estimated to be spent

[3] As the resources and capacity of the Independent Fiscal Commission expand over time, the aspiration is to examine efficiency ratios for other major tax types, data permitting.

in fiscal year 2024/2025. Wages and Salaries as a share of GDP is projected to end 2025/2026 at 13.3 percent and remain unchanged throughout the medium-term.



Notes: * means projected for that fiscal year. The "fiscal rule" for Wages and Salaries was implemented in 2010/2011 but abolished in 2022/2023.

Source: Compiled by the Independent Fiscal Commission using data from the MoFPS.

Based on the foregoing, the medium-term trajectory is for a flat Wages and Salaries-to-GDP ratio, at an elevated 13.3 percent (see **Figure 7**). However, Wages and Salaries as a percentage of GDP (or Expenditure) has been on an upward trajectory in recent years. **The IFC is therefore** putting forward the following for consideration: **that a "fiscal rule"[4] on wages and salaries be re-introduced in order to hold wages and salaries expenditure in check. Furthermore, as it relates to public sector transformation programme, urgent steps should be taken to accelerate the other areas targeted for transformation, including shared services and outsourcing selected services, thereby complementing the overall compensation restructuring exercise.**

The IFC has is also concerned that wage negotiations do not currently follow an established negotiation cycle. Specifically, the FPP mentioned that the Compensation of Employees allocation includes a $33.0 billion contingency for "*further distribution across MDAs (through a Supplementary Budget) once definitive calculations in respect of the requirements for FY 2025/26 by each MDA is identified"*. **Section 48H** of the *FAA Act* provides for Government to develop Compensation/Negotiation cycles for the public sector to allow for completion of all wage negotiations and settlements *in time* for the tabling of the annual Budget. At this point in time, the annual Budget has been tabled but the wage settlements are yet to be completed. As such, **the IFC notes that a legal requirement of the *FAA Act* relating to wage settlements is therefore not being adhered to. Compliance would bring more order to the Budget process, reduce a fiscal risk and assist the Government to better budget for compensation of employees' expenditures over the medium-term.**

Fiscal Balance and Primary Balance

The 2025/2026 fiscal year's Central Government Budget is programmed to achieve a fiscal balance and primary balance that will jointly ensure the achievement of the legislative debt-to-GDP ratio of 60.0 percent or less. Specifically, for 2025/2026, Government programmes a fiscal surplus of $0.8 billion (0.02 percent of GDP) followed by deficits equivalent to 0.9 percent of GDP, 0.9 percent of GDP and 0.1 percent of GDP in 2026/2027, 2027/2028 and 2028/2029, respectively. The *minimum* fiscal balance for the Specified Public Sector required over the medium-term to meet the legislated debt-to-GDP target has been computed as a deficit of 1.3 percent of GDP.

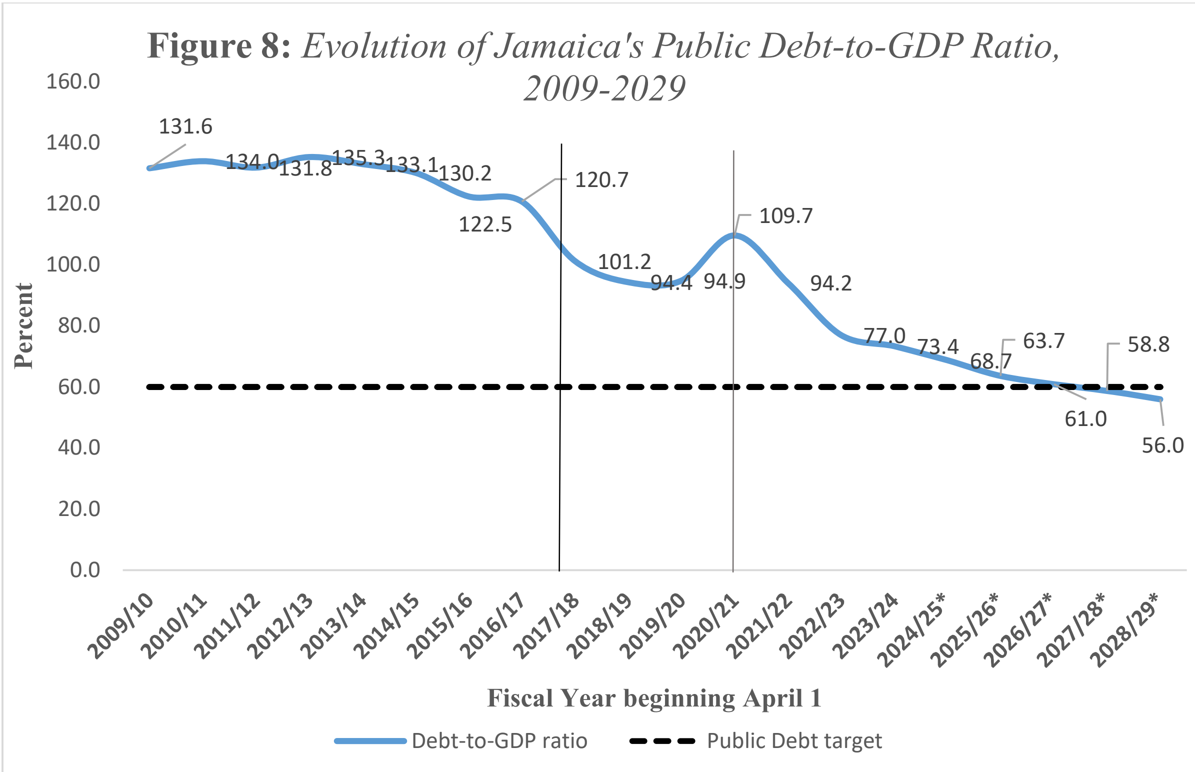
[4] According to the IMF, a "fiscal rule" is essentially a long-term constraint on fiscal policy through numerical limits on budgetary aggregates. For example, fiscal rules in the Jamaican context include the 60.0 percent of GDP or less "debt rule" and the previous "wage rule" of 9.0 percent of GDP or less.

Additionally, it is projected that a primary balance surplus equivalent to 5.1 percent of GDP will be registered at the end of 2025/2026 and that is programmed to fall to 3.7 percent in 2028/2029; resulting in an average projected primary surplus of approximately 3.4 percent over the three-year period.

The *FAA Act* (Amendment) 2014 provides a **formula** outlining how the Government should determine the annual Fiscal Balance for the Specified Public Sector to be maintained that is *consistent* with the 60.0 percent of GDP public debt target (**Section 48C(1)(a)** of the *FAA Act)*. **The projected Central Government Fiscal Deficit for 2025/2026 and beyond (as shown in the Medium-Term Fiscal Profile table) implies that the set of public bodies in the Specified Public Sector may generate small deficits of around 0.3 percent of GDP to ensure that the legislated public debt-to-GDP target of 60.0 percent or less by fiscal year 2027/2028 is met**.

Public Debt

The FPP enunciates that prudential management of the public debt stock is crucial to keep the debt-to-GDP ratio on its current downward trajectory over the medium-term. For the fiscal year 2025/2026, it is projected that debt-to-GDP ratio will fall to 63.7 percent and decelerate over the medium-term with the legislative target of 60.0 percent or less, expected to be met in 2027/2028. Specifically, the Government stated that over the medium-term, its debt management strategy will continue to focus on realigning the debt portfolio in favour of local currency debt thus further mitigating foreign currency risk. **The desired impact of the debt strategy over recent years, is successful when the IFC examined the evolution of the debt-to-GDP ratio since 2009/2010** (**Figure 8**). In that fiscal year, the debt-to-GDP ratio stood at 131.6 percent before starting to moderate in 2011/2012 and then rising to 109.7 percent (due partly to the effects of the COVID-19 pandemic) in 2020/2021 before gradually declining to 73.4 percent at the end of 2023/2024.



Notes: * means projected for that fiscal year. Vertical lines represent fiscal years in which the definition of the "public debt" was changed and when the COVID-19 pandemic affected Jamaica, respectively.

Source: Compiled by the Independent Fiscal Commission using data from the MoFPS.

5.4 Assessment of Macro–Fiscal Risks

Macroeconomic and fiscal projections are based on the latest data available and therefore are subject to both downside risks and upside potential, which may lead to a revision in outlook. Therefore, it is important that potential risks are identified and managed (through risk avoidance, mitigation, transfer or acceptance).

5.4.1 Macroeconomic Risks

Sensitivity analyses for the macroeconomic risks (inflation, GDP, interest rates, commodity prices and the exchange rate) appear sound and are adequately covered in the Fiscal Policy Paper. The identified risks highlight the importance of building economic resilience, especially in light of the increased geopolitical uncertainties, which may have significant implications for external demand and imported inflation, if materialised. These and other risks are documented in **Table 4**.

Table 4: Macroeconomic Risks	
Macroeconomic Risk	**Source**
Lower than expected Economic Growth	1. Lower than expected External Demand as a result of: a) Slower growth in Jamaica's main trading partners from increased geopolitical uncertainty. 2. Lower Domestic Demand as a result of: a) Lower than anticipated growth in employment levels; b) Lower than expected private investment given geopolitical uncertainty; c) Higher than expected interest rates which discourage investment and consumption; d) Slower than anticipated implementation of public investment projects. 3. Supply side shocks as a result of: a) Impact of natural hazards on the ability of firms to produce goods and services; b) Higher than expected plant downtime associated with aged equipment; c) Supply chain challenges that constraint production and investment.
Higher than expected Inflation	1. Higher than expected commodity prices (e.g. oil and grain) 2. Larger than expected depreciation of the Jamaica dollar. 3. Natural Hazards – e.g. drought and flooding, leading to higher food prices. 4. Limited Labour supply which places upward pressures on wages and prices
Higher than expected depreciation	1. Higher than expected local inflation. 2. Increased demand for foreign exchange given geopolitical uncertainty. 3. Lower than expected foreign exchange inflows, as a result of lower receipts from remittances and exports 4. Higher than expected foreign interest rates
Higher Interest rates	1. Higher inflation rates locally 2. Higher interest rates in main trading partners that constrain the pace of monetary easing locally. 3. Higher than expected depreciation of the Jamaica dollar.

Source: IFC compilation.

5.4.2 Fiscal Risks

This *Economic and Fiscal Assessment Report* opines that the coverage given to the range of fiscal risks in the FPP was sufficiently wide. Provisions for minimising these risks especially those of a climatic nature, are comprehensive. Despite this overall assessment, given the currency of wage settlements considering the compensation restructuring for 2022-2025, the explanations for wage-related risks were inadequate. To mitigate the risk of an uncontrolled rise in wages and salaries, Government should consider re-introducing a fiscal rule on wages. The appropriate anchor (GDP or tax revenue or productivity growth) to use, however, should be determined by Government with sufficient justification. This rule should also be complemented by provisions guarding against the uncontrolled rise in public sector personnel on the establishment or the proliferation of fixed-term contracts (FTC), both of which could contribute to an overall rise in the public sector wage bill.

Going forward, the FPP should also delineate a precise and all-encompassing definition for what constitutes the wage bill and how it intends to deal with the potential risk of an uncontrolled rise in the wage bill. Despite mentioning that the previous system presented fiscal risks due to its complexity, the Government going forward should state how these risks have been mitigated under the new system, what additional risks the new system might introduce and what potential risks will remain with on-going wage negotiations. For this reason, **the IFC opines that the Government should give consideration to expediting the development of a new Performance Management System (PMS), which will allow for an easier and more accurate linking of output to productivity in the public sector**.

Finally, the FPP provided some details on the public sector transformation programme. **The IFC reiterates that steps should be taken to accelerate other areas of public sector transformation (e.g. shared services, outsourcing selected services, etc.) that were initially expected to accompany the restructuring of compensation**. Quickening the pace of progress on these areas could potentially mitigate fiscal risks by providing for increased savings to the government through efficiency gains.

5.5 Analysis of the Public Bodies

The group of self-financing public bodies (SFPBs) is projected to achieve an overall balance surplus of $50.9 billion at the end of March 2025; higher than the initial $34.4 billion projected surplus for the fiscal year. This higher-than-anticipated balance is mainly due to a $49.6 billion reduction in current expenses by the group relative to the original budget. The FPP reported that the estimated $16.4 billion surplus was primarily due to an improvement in the overall balances of four public bodies relative to their originally budgeted sums i.e. the National Housing Trust (NHT), the Urban Development Corporation, *Petrojam* Limited and the National Water Commission. The IFC notes that the improvement in the NHT's projected surplus was due to slower than planned execution of its housing projects and an improvement in the collection of mortgage repayments, with delays in construction activities contributing to a $15.3 billion underspend stemming predominantly from delays in the execution of its *Guaranteed Purchase Programme*.

The IFC is concerned about the adverse implications for growth from the delayed activities by the NHT in 2024/25 but welcomes the NHT's intention to significantly scale up construction in the coming years. At the same time, **the IFC cautions against over-ambition amid local capacity constraints**. In this vein, the approximately 50 percent increase in NHT's planned capital expenditure for 2025/26 - about 75 percent of the Central Government capital budget - appears ambitious.

6.0 Public Financial Management Principles and the Fiscal Responsibility Framework

Robust fiscal policy actions have prudently steered public debt on a downward trajectory. The debt remaining on track toward the legislated target in the aftermath of recent weather-related shocks that forced the real economy into contraction, underscores Jamaica's fiscal resilience. Adherence to fiscal responsibility, transparency and accountability alongside prudent management of macroeconomic and fiscal risks, are vital to sustain the debt reduction path. In this regard, the fiscal ecosystem would benefit from further strengthening as enunciated below.

The IFC is concerned that the Budget presentation/approval process is somewhat *disjointed* rather than in line with a consolidated approach. Specifically, the FPP makes discrete presentations on the Central Government and the Public Bodies. However, Jamaica's fiscal rules provide for a consolidated presentation on the "Specified Public Sector" i.e. the Central Government plus all Public Bodies excluding the Bank of Jamaica and Jamaica Mortgage Bank, which are exempt from the fiscal rules (as certified by the Auditor General). As such, the FPP should present information for the *Specific Public Sector*. **In particular, the Government should give due consideration to reporting on the fiscal balance and primary balance for the Specified Public Sector in the Fiscal Policy Paper, in addition to the total debt.**

Contrary to the requirement of the *FAA Act* – Section 48B Third Schedule 2. (b) that a minimum content of the FPP is for provision of "details as to revenue policy and administration, including planned changes to taxation and other revenues", the Ministry Paper relating specifically to Revenue Measures is currently tabled in March, after the other budget documents are tabled, and subsequent to the Parliament's Standing Finance Committee's approval of the Expenditure. **The IFC notes that this legal requirement does not currently obtain and should be redressed going forward.**

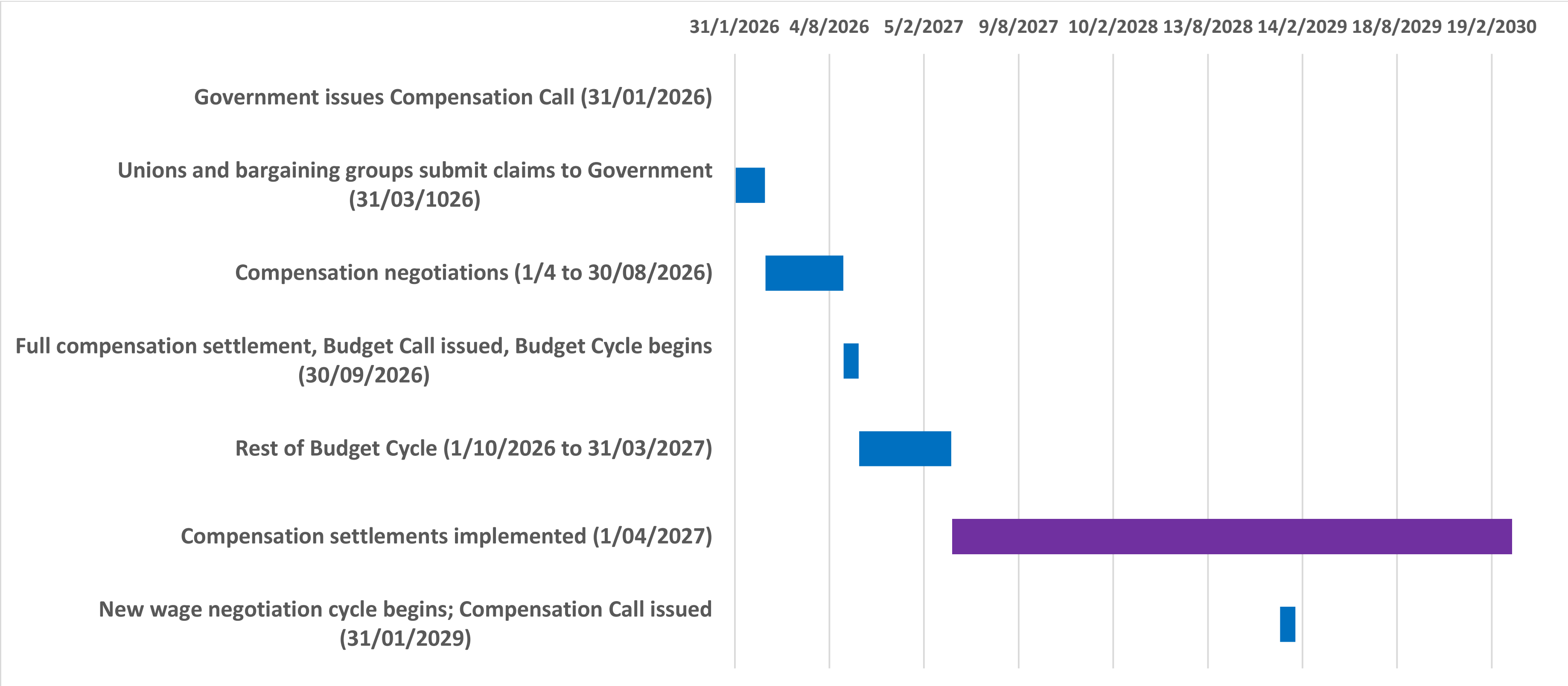
Additionally, **Section 48H** of the *FAA Act* provides for Government to develop ***Compensation/Negotiation*** cycles for the public sector to allow for the completion of all wage negotiations and settlements in time for the tabling of the annual Budget. **The IFC notes that this**

legal requirement is not being adhered to and a new round of negotiations for the period commencing April 1, 2025, is set to commence soon.

The Government should give consideration to commencing the negotiation cycle 14 months prior to the start of the period for which the new compensation agreement takes effect. Using the 2027-2030 wage cycle as an example (**Figure 9**), this would mean that the new compensation agreement period begins on April 1, 2027. Consequently, the negotiation cycle for that period would begin on January 31, 2026, and conclude by September 2026. As such, **the Government should give consideration to extending the compensation period to three years instead of the traditional two-year-period**. The rationale for these changes includes:

- The increased stability of Jamaica's macroeconomic variables over the last decade, this has lessened their volatility over time and as such, the economic parameters within which these negotiations take place are now more predictable.
- Wage discussions should now be shorter in duration with the elimination of several allowances which have been subsumed into basic pay and the settlement of which, generally had tended to prolong negotiations in the past.
- Given that the Budget Call is issued in September, the conclusion of wage negotiations coinciding with that point in time augurs well for greater effectiveness in planning for publication of the interim FPP in September that sets parameters for the upcoming budget year and the medium-term, as well as for unions/bargaining groups.
- Completing wage settlements in time for budget preparation brings greater certainty to the budget structure, reduces the risk associated with under budgeting and deviations in the fiscal accounts, and supports industrial harmony.

Figure 9: *Illustrative Compensation Negotiation Cycle, 2026-2029*



Source: IFC Compilation.

7.0 Considerations to Strengthen Fiscal Sustainability/Resilience

To mitigate the likelihood of the materialisation of the fiscal risks identified, and to build fiscal resilience, it is the view of the Independent Fiscal Commission that the Government should consider the following measures outlined in **Table 5**.

Table 5: Fiscal Commission's Issues for Considerations to Strengthen Fiscal Resilience/Sustainability.

Issue	Considerations	Expected Impact(s)	Desired Timeline
Jamaica is among a number of countries that is still using the 1993 *System of National Accounts* (SNA) and not the 2008 SNA (latest SNA). The 2008 SNA has further specification of scope of transactions including the production boundary.	• Consider the Updating of the Systems of National Accounts (SNA) to the 2008 SNA.	1. Improved alignment with other official statistics to inform policy making	Short-Term
Relatively high informality has constrained revenue growth and therefore GOJ ability to provide public goods and services to support economic growth	• Consider addressing the issue of informality.	1. Higher Tax Revenue 2. Improved Fiscal Balance 3. Lower Borrowing and Public Debt	Medium to Long- Term.
Fiscal uncertainty associated with annual income tax return occurring in the last month of the fiscal year.	• Consider shifting the due date for annual income tax return from March to the first quarter of the fiscal year to reduce fiscal uncertainty towards the end of the fiscal year.	1. Reduce Tax revenue risk	Medium-Term
Climate risk challenges that have negatively impacted macroeconomic and fiscal outcomes.	• Consider the building of resilience in the natural and built environment.	1. Lower the impact of natural disaster on economic growth 2. Improve resilience and productivity in Agriculture industry 3. Reduce the risk of higher headline inflation by stabilizing the supply chain.	Medium to Long Term
Jamaica has challenges with project design and implementation, which have	• Consider addressing gaps in project management across	1. Increase the efficiency of converting public funds into public goods	Medium to Long- Term

led to inefficiencies in converting public funds into public goods and services and hinder productivity	Ministries, Departments & Agencies.	and services (reduce expenditure – less wastage) 2. Increase the productivity of public goods and services on economic growth 3. Higher productivity 4. Higher revenue 5. Improved fiscal Balance 6. Lower borrowing and Public Debt	
Wage & Salary negotiations in the public sector are usually protracted and increase fiscal uncertainty.	• Consider introducing a public sector wage negotiation cycle that is aligned with the budget process • Consider reintroducing an expenditure rule for Wages & Salaries.	1. Increase predictability in public sector wages and fiscal operations and therefore improve allocation of public expenditure	Medium-Term
Revenue measures announced after (rather than simultaneously) the tabling of the primary budgetary documents and following Parliament's approval of budgeted expenditures.	Consider the tabling the Ministry Paper relating specifically to Revenue Measures simultaneously with the other budget documents and incorporate the measures in the FPP.	1. Brings more order to the budget process. 2. Better projections of revenue and expenditure over the medium-term.	Short-Term

8.0 References

Ames, B., Brown, W., Devarajan, S., & Izquierdo, A. (2001). *Macroeconomic Policy and Poverty Reduction*. International Monetary Fund and the World Bank. Available at: <https://www.imf.org/external/pubs/ft/exrp/macropol/eng/#ft2> [Accessed February 26, 2025].

Davoodi, H., Elger, P., Fotiou, A., Garcia-Macia, D., Lagerborg, A., Lam, R. and Pillai., S. (2022). "*Fiscal Councils Dataset: The 2021 Update*", International Monetary Fund, Washington, D.C.

International Monetary Fund (2024). "Jamaica: Third Reviews Under the Arrangement Under the Precautionary and Liquidity Line and the Arrangement Under the Resilience and Sustainability Facility-Press Release and Staff Report", *IMF Staff Country Reports* 2024, 277, Western Hemisphere Dept.: Available at: <https://doi.org/10.5089/9798400287893.002> [Accessed February 17, 2025].

***Selected Tabled Budget Documents**:*

Ministry of Finance and the Public Service (2025a). *Fiscal Policy Paper FY 2025/26*, Government of Jamaica, February 13. Available at: <https://www.mof.gov.jm/wp-content/uploads/FPP-2025-As-Presented.pdf> [Accessed February 19, 2025].

Ministry of Finance and the Public Service (2025b). *Medium-Term Debt Strategy: FY 2025/26 – FY 2028/29*, Government of Jamaica, February 13. Available at: <https://www.mof.gov.jm/wp-content/uploads/MTDS2025-26-2028-29-final-copy.pdf > [Accessed February 19, 2025].

Ministry of Finance and the Public Service (2025c). *Estimates of Expenditure 2025/2026: For Financial Year Ending 31st March 2026*, Government of Jamaica, February 13. Available at: <https://www.mof.gov.jm/wp-content/uploads/2025-2026-Estimates-of-Expenditure.pdf> [Accessed February 19, 2025].

Ministry of Finance and the Public Service (2025d). *Jamaica Public Bodies: Estimates of Revenue and Expenditure for the Year Ending March 2026*, Government of Jamaica, February 13, 2025. Available at: <https://www.mof.gov.jm/wp-content/uploads/Jamaica-Public-Bodies-Estimates-of-Revenue-and-Expenditure-2025-26-As-P._.pdf> [Accessed February 20, 2025].

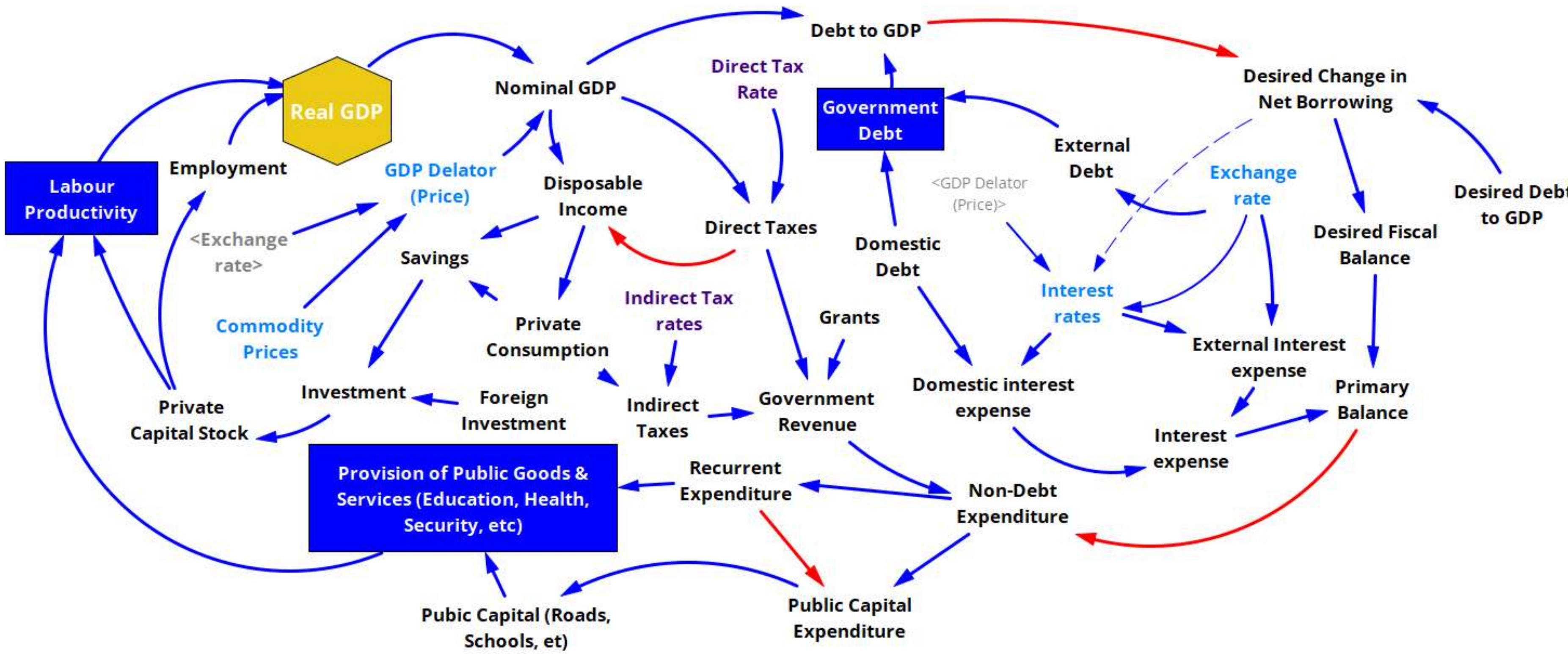
Ministry of Finance and the Public Service (2025e). *Tax Expenditure Statement 2025* Government of Jamaica, February 13. Available at: <https://www.mof.gov.jm/wp-content/uploads/Tax-Expenditure-Statement-2025.pdf> [Accessed February 24, 2025].

Ministry of Finance and the Public Service (2024a). *Revenue Measures for Financial Year 2024/2025*, March 12. Available at: <https://www.mof.gov.jm/wp-content/uploads/Revenue-Measures.pdf> [Accessed March 12, 2024].

Ministry of Finance and the Public Service (2024b). *Amendment to Ministry Paper #11/24: Entitled Revenue Measures for Financial Year 2024/2025*, March 26. Available at: <https://www.mof.gov.jm/wp-content/uploads/Amended-Revenue-Measures-26-March-2024.pdf> [Accessed March 26, 2024].

Appendices

Appendix I: Causal Loop Diagram of Jamaica's Macro-Fiscal Dynamics



Source: Independent Fiscal Commission compilation.

The Causal Loop Diagram of Jamaica's Macro-Fiscal Dynamics illustrates the interaction between the real sector (GDP) and the fiscal sector (government revenue and expenditure). This diagram helps to understand how various economic factors influence each other.

Government Revenue and Expenditure

Government Revenue

To provide public goods and services (such as transportation, education, and security services), governments need to collect revenue through taxes. The tax base of a country is usually determined by the size of its economy as measured by its GDP. Taxes can be generally categorized into two types: direct taxes and indirect taxes (with the latter being relatively *less harmful* to growth)

- **Direct taxes** are paid on income, wealth, and property. Examples include Pay as You Earn (PAYE) paid by employees on their salaries and Corporate Income Tax (CIT) paid by firms on their profits.
- **Indirect taxes** are levied on goods and services. For instance, after individuals and firms pay taxes on their income, they purchase goods and services from firms, which are subject to taxes like value-added tax (General Consumption Tax). These taxes are classified as indirect because they are not paid directly by the person purchasing the product but by the firm selling the product.

After securing its revenue, a government needs to determine how much public goods and services it can sustainably afford to provide (non-debt expenditure) while paying back loans borrowed in the past (amortization) with interest (interest expense) to its creditors (Debt Servicing). If debt grows faster than government revenue, it suggests that government policy is on an unsustainable path. Since government revenue is mainly determined by the overall tax base (GDP), it is important that government debt does not grow faster than GDP. Otherwise, creditors will deem the country as too risky and be less likely to lend it money.

To prevent debt from growing uncontrollably, many governments have turned to fiscal rules i.e. legislative numerical rules that constrain budgetary aggregates (see Davoodi et al., 2022).

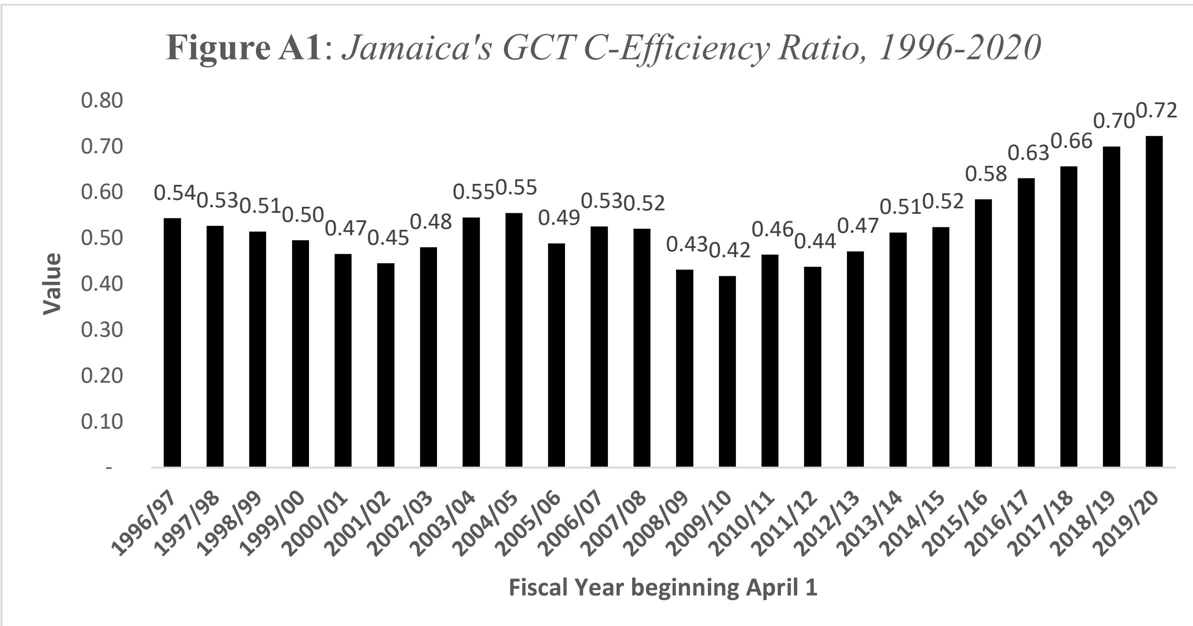
One of these rules is a "*debt rule*", usually stated as a debt-to-GDP target that the country aims to achieve. For example, Jamaica has a debt-to-GDP fiscal rule that guides its fiscal and debt management strategy, **legislated** to achieve a debt-to-GDP ratio of 60 percent or lower by the end of FY 2027/28.

To achieve the debt-to-GDP target, Government needs to consider the current debt-to-GDP ratio and factors that will influence changes in the debt stock and GDP. Given macroeconomic assumptions about growth, exchange rates, interest rates (domestic and external), and inflation (domestic and external) Government sets the debt-sustainable fiscal balance. Fiscal balance represents the difference between Revenue & Grants and Government expenditure (excluding amortization). The Fiscal Balance (Government Revenue & Grants – Government Expenditure) excluding Interest Expense are used to determine the Primary Balance. The Primary Balance is an important indicator of the health of the fiscal account, as it indicates whether government revenue & grants are sufficient to meet its current obligations.

The Government then decides how to allocate the non-debt expenditure to provide public goods and services. Allocation must consider the size and average wage of the public sector labour force (Compensation of Employees), which has implications for how much resources are available to fund government programs (e.g., social welfare, maintenance and purchase of goods and services) and capital expenditure (e.g., building roads, schools, hospitals, etc.). **Each component of non-debt expenditure works together to create an enabling environment for productivity and economic growth. If correctly calibrated, it can create a virtuous cycle where the provision of public goods & services (education, health, security, etc.) leads to increased productivity and higher economic growth. Higher economic growth generates higher taxes, which means more resources will be available to strengthen the country's infrastructure (capital expenditure), institutions (programs), and pay public sector workers to further improve the provision of public goods & services.** Conversely, incorrectly calibrating the allocation of resources between non-debt expenditures can constrain productivity and economic growth, which in turn constrains government revenue and the resources allocated to pay workers, build schools, and provide services to meet the needs of citizens.

Appendix II: GCT Collection-Efficiency

As outlined earlier, the VAT collection efficiency ratio (or C-Efficiency) is a measure that is widely used to evaluate the effectiveness of a value added tax system is. This ratio[5] was first developed by the International Monetary Fund and is the most popularly used measure to gauge VAT performance.



Source: IFC estimation.

Overall, the IFC's findings are encouraging as there was a noticeable improvement in the GCT collection-efficiency over several years of Government administering the Jamaican value added tax. The GCT became relatively more efficient as time progressed. For the entire period 1996-2020, Jamaica's GCT C-Efficiency ratio improved overall, climbing to 0.72 in 2019/2020, up from 0.54 in 1996/1997 (**Table A1**).

[5] Note that the ratio typically lies between a range of 0 and 1, where a value close to 1 indicates that the country's VAT is being uniformly applied to a broad tax base with effective tax collection (OECD, 2012, p. 110) i.e. *Consumption Tax Trends 2012: VAT/GST and Excise Rates, Trends and Administration Issues*. Generally, the VAT C-Efficiency ratio measures the difference between actual VAT revenue collected and revenue that could be garnered if the VAT was levied on the entire potential tax base. Giesecke and Tran (2012, p. 1867) describe it as the ratio of the actual value added tax receipts to potential VAT revenue with full compliance (see "A General Framework for Measuring VAT Compliance rates", *Applied Economics*, Vol. 44, No. 15, pp. 1867-1889).