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# Implications of Jamaica's 2017/18 Budget

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# Overview

- The 2017/18 budget was crafted within the framework of a three year International Monetary Fund (IMF) backed Extended Fund Facility (EFF) which is set to expire in April 2017.

- On November-15-2016, Jamaica and the IMF reached a new agreement. The IMF approved a $1.64 billion loan facility for Jamaica which is intended to act as insurance to support the country's ongoing reform agenda to tackle poverty, create Jobs, improve living standards and alleviate the burden on the lower strata of income earners in the population.

- The new three Stand-By Arrangement (SBA) is intended to be treated as precautionary and its use will only be in the event of an unanticipated external shock that affects the balance of payments.



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# Why a New Stand By Arrangement With the IMF?

- The call for the new SBA with the IMF was driven by the local private sector. It was felt that the expertise and knowledge provided by the IMF was good in helping the country in areas where weaknesses existed .

- Effectively, migration, wage restraint and a freeze in employment over the years has hurt the public sector in terms of their ability to offer competitive wages and consequently the need for additional expertise. Further, it was felt that the debt situation had become so chronic that there was need for an ongoing oversight body to keep the fiscal numbers and finances in check.

- The IMF was also needed to restrain the government from making the similar mistakes of the past which may have focused on political expediency rather than fiscal prudence.

# The Current Context

- The budget has to be structured bearing in mind certain key **medium term targets** as agreed by the GOJ and supported by the IMF.

- Debt/GDP at a ceiling of 96% by fiscal year 2019/20.
- Govt. Wages/GDP at 9% by 2018/19 and maintained at this level.
- Fiscal Surplus between 0.4% to 1% from 2018/19 to 2020/21
- Real GDP Growth of approximately 2 to 3 per cent from 2017/18 onwards.
- A primary surplus of 7% of GDP consistently.
- NIR in the region of US$3.3 to US$4.3 billion over the medium term.

# The Current Context (Cont'd)

| Jamaica-Selected Economic Indicators | 2012 | 2013 | 2014 | 2015 | 2016 E | 2017f | 2018f |
|---|---|---|---|---|---|---|---|
| **ECONOMIC INDICATORS (% )** | | | | | | | |
| Real GDP growth | -0.6 | 0.5 | 0.7 | 1 | 1.3 | 1.5 | 1.7 |
| Real investment growth | -5 | 5.5 | 3 | -5.9 | 1.3 | 1.5 | 1.7 |
| Unemployment rate | 13.9 | 15.3 | 14.2 | 13.5 | 12.8 | 12.2 | 12.2 |
| **EXTERNAL INDICATORS (% )** | | | | | | | |
| Net FDI/GDP | 2.8 | 3.6 | 4.2 | 5.7 | 4.6 | 4.5 | 4.3 |
| **Current account balance/GDP** | **-11.1** | **-9.2** | **-8.1** | **-2.3** | **-2.5** | **-2.4** | **-2.2** |
| Gross external financing needs/CARs plus usable reserves | 110.4 | 115.6 | 120.6 | 106.5 | 98 | 106.6 | 99.1 |
| **Net International Reserves (NIR--'US$ Bill)** | **1.009** | **1.047** | **2.00** | **2.45** | **2.719** | **3.0** | **3.4** |
| Reserves in Weeks of Goods & Services Imports | 12.49 | 12.76 | 18.41 | 23.45 | 22.27 | 27.2 | 28.9 |
| **FISCAL INDICATORS (% , General government)** | | | | | | | |
| Primary balance/GDP | 5.7 | 8.1 | 7.8 | 7.4 | 7.2 | 7.2 | 7.2 |
| **Balance/GDP** | **-3.9** | **0.4** | **-0.3** | **-0.1** | **-0.7** | **-0.9** | **0.4** |
| Interest Burden (Int/Rev.) | 36.5 | 27.4 | 30 | 27.4 | 28.5 | 25.5 | 25.1 |
| **Debt/GDP** | **145.1** | **139.8** | **136.8** | **120.4** | **118.9** | **111.2** | **108.5** |
| **MONETARY INDICATORS (% )** | | | | | | | |
| CPI growth | 6.9 | 9.3 | 8.3 | 3.7 | 5.2 | 4.5 | 5 |
| Exchange rate, year-end (LC/$) | 92.56 | 106.05 | 114.39 | 120.03 | 128.44 | ------- | ------- |
| **% -age Depreciation** | **6.9%** | **14.6%** | **7.9%** | **4.9%** | **7.0%** | **-------** | **-------** |

***Source: IMF, CapitalIQ (S&P), JMMBIR***

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# Budget 2017/18

| Item | Expected 2016/17 | Budget 2017/18 | diff | % |
|---|---|---|---|---|
| ***Revenue & Grants*** | **494,801.6** | **526,345.4** | **31,543.8** | **6.4%** |
| Tax Revenue | 451,712.8 | 478,930.6 | 27,217.8 | 6.0% |
| Non-Tax Revenue | 2121.6 | 40,703.6 | 38,582.0 | 1818.5% |
| Bauxite Levy | 34,633.0 | 131.0 | -34,502.0 | -99.6% |
| Capital Revenue | 521.8 | 2,228.1 | 1,706.3 | 327.0% |
| Grants | 5,812.3 | 4,352.1 | -1,460.2 | -25.1% |
| ***Expenditure*** | **507,224.7** | **543,056.3** | **35,831.6** | **7.1%** |
| Recurrent Expenditure | 462,423.1 | 493,773.8 | 31,350.7 | 6.8% |
| Programmes | 143,467.9 | 162,736.2 | 19,268.3 | 13.4% |
| Compensation | 179,933.6 | 193,184.7 | 13,251.1 | 7.4% |
| *of which back-pay* | | | | |
| Interest | 139,021.6 | 137,852.9 | -1,168.7 | -0.8% |
| Domestic | 62,561.6 | 62,903.4 | 341.8 | 0.5% |
| External | 76,460.0 | 74,949.5 | -1,510.5 | -2.0% |
| Capital Expenditure | 44,801.6 | 49,282.5 | 4,480.9 | 10.0% |
| Capital Programmes | 44,801.6 | 49,282.5 | 4,480.9 | 10.0% |
| ***Fiscal Balance (Surplus + / L*** | **-12,423.1** | **-16,710.9** | **-4,287.8** | **34.5%** |
| Estimated Nominal GDP | 1,757,500.0 | 1,883,800.0 | 126,300.0 | 7.2% |
| **Fiscal Deficit as a %-age** | **-0.7%** | **-0.9%** | | |

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# Budget 2017/18

- ✓ One of the major policy actions taken by the government this fiscal year is the implementation of **Phase 2 of the Personal Income Tax reform** which was a promise made in the last general election.
- ✓ More popularly, it is the increase the annual income tax (PAYE) threshold to $1.5 million which is projected to cost approximately J$14 Billion.
- ✓ To offset the impact of raising the income tax (PAYE) threshold and to make the policy actions **revenue neutral**, the government then had to implement approximately J$14 billion in new taxes.



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# Tax Revenue Measures Budget 2017/18

✓Recall that the government has a medium term framework agreement with the IMF to bring down the debt/GDP ratio. The strategy entails running initially a marginal fiscal deficit and then graduating to running a fiscal surplus; simultaneously growing the Nominal GDP to bring down the ratio.

| Central Government Tax Summary 2017/18 | Revenue Yield ($Bn) |
|---|---|
| **Special Consumption Tax:** | |
| Increase Excise on Pure Alcohol | 0.403 |
| increase excise on Tobacco Products | 0.826 |
| Increase in Special SCT on Fuels | 7.459 |
| **General Consumption Tax:** | |
| GCT on Group Health Insurance | 1.884 |
| Reduce the threshold for the application of GCT on the consumption of electricity | 1.498 |
| **Other Taxes** | |
| Increase Motor Vehicle license and Fees by 20% | 0.464 |
| Re-impose Withholding tax on General Insurance Premium paid by Jamaica's Residents to non-residents at rate of 15% | 0.99 |
| **Sub total** | **13.524** |



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# Revenue Measures 2017/18

- Additional Revenue measures are then needed to ensure that the primary balance target of 7% of GDP is achieved. Consequently the government has tapped the NHT again, withdrawing approximately J$11 billion.

- The increase in property taxes via valuations on unimproved land has been targeted to aid the municipal councils or local government.

- This puts the total revenue measures at approximately **J$28.9 billion**.

| Other Tax and Revenue Measures | Revenue Yield ($Bn) |
|---|---|
| Increase in property tax | 4.0 |
| NHT suppport to central Government | 11.4 |
| **Sub total** | **15.4** |



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# Implications

- There is a thrust on the part of the GOJ to realign the tax system towards consumption based taxes. The rationale for this is that it is estimated that the informal economy is valued at around 40% of GDP.

- Consequently persons and entities on which personal income and corporate taxes are levied pay a disproportionate share of their income as taxes compared to persons and corporates that fall outside the tax net.

- Consumption taxes capture a broader pool of taxpayers and are much harder to evade and avoid. In Jamaica's case, two of the main consumption taxes are the GCT (levied on most goods and services) and SCT (levied on motor vehicle imports, fuels, alcohol and tobacco based products).



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# Implications

- These are two of the most efficient tax types - they are levied at source, easy to collect and account for close to 40% of total tax intake.

- Therefore the increase in the SCT is targeted at capturing those that do not pay their fair share of the burden.

- Hence one of the **key implications** of this budget is that a greater portion of those persons who had been evading taxes in the past will be forced to pay/accept a greater share of the burden.



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# Implications

- The problem that the government and the society faces is that an increase in consumption taxes also affects the poor many of whom the increase in the income tax threshold does not help.
- Why? Because their income was originally too low to reach the income tax threshold. This includes sugar workers, workers in the tourism industry, some workers in the BPO sector and the unemployed.
- Lower income earners also tend to pay a disproportionately larger share of their income in taxes relative to higher income individuals. In Jamaica's case, the GCT in particular was found to be regressive for the lowest 30% of income earners.



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# Implications of the 2017/18 Budget

- In an attempt to offset the impact of the move to more consumption taxes the government has increased benefits in the form of transfer payments and/or subsidies to the poor.

- Therefore increases in **PATH** (a total of $11.5 billion has been allocated which is a $3.7 billion [47.2% increase] and other social programmes are being used to minimise the impact of increased consumption taxes on this group. Increases in bus-fares on public passenger vehicles/JUTC that may result from higher fuel prices are also likely to be kept at a minimum to help to mitigate the negative impact.

- Another **key implication** therefore of this budget is an increase in the benefits to the poor via PATH.



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# Implications of the 2017/18 Budget

- ✓ The tax measures should have a one-off impact on inflation. Following the imposition of similar tax measures last fiscal year, the inflation rate increased on a monthly basis by around 0.2% -0.4% and then tapered off.

- ✓ It is our view that the new tax measures will push inflation upward by around 0.8% – 1.5% % in FY 2017-18.

- ✓ Hence another **implication** of the recent budget is the impact that it should have on domestic inflation.



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# Conclusion

- ✓ This budget is tight and within the general framework of reducing the debt over time. A fiscal deficit target of 0.9% of GDP keeps the budget tight and if GDP growth comes in at the targeted 2% to 3% then the debt should decline.
- ✓ While PAYE individuals have been given a break, the tax package is actually revenue neutral which ensures that there should be very little fiscal slippage.
- ✓ The areas that have been taxed are areas that tend to be relatively inelastic and consequently should provide the necessary revenue inflows.



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# END