Moving in the Right Direction…..Will We Get There?

Following the $15.9Bn tax package which was implemented in February of this year as part of prior actions for the Extended Fund Facility (EFF) with the International Monetary Fund (IMF), the Finance Minister announced in his budget presentation today that there will be no new taxes for the FY2013/14.

Instead, the Minister outlined that the $520.8Bn budget this fiscal year, will be funded primarily by government revenues and loan receipts.

With no new taxes, the government expects to fund the $520.8Bn budget for the current fiscal year as is summarized in the table below:

Funding Sources (J$Bn)		Expenditure	
Tax Revenues	$360.5	Recurrent	$370.5
Non-Tax Revenues	$36.1	Capital Expenditure	$150.3
Capital Revenue	$1.1	**Total Expenditure**	**$520.8**
Grants	$9.4		
Total Government Revenues	**$407.1**		
Loan Receipts	**$103.3**		
Cash Drawdown	**$10.4**		
Total Receipts	**$520.8**		

Cutting Expenditure

The government has taken the first step toward fiscal consolidation in the recent budget presentation, a move which is necessary to achieve a balanced budget and debt to GDP ratio of 100% by 2015/16. Of note, the planned expenditure of $520.8Bn for the current year is 14% below that of FY2012/13, mainly reflecting cost savings from interest payments as a result of the National Debt Exchange (NDX). Restrictions have also been placed on growth in wages and salaries, which accounts for 53% of non-debt expenditure, through the implementation of public sector wage restraints. Despite these restraints, wages and salaries currently account for 10.6% of GDP and will need to be reduced to 9% by 2015/16 in accordance with the IMF agreement. While the government is seemingly avoiding having to lay off workers, continued stagnation or contraction in economic activity could mean that it may have no choice but to reduce the size of the public sector.

Low Interest Rates

Maintaining the low interest rate environment is important in achieving the fiscal target as the interest cost savings from the NDX must be realized. The Bank of Jamaica in February reduced rate on the 30-day CD by 50bps to 5.75%. However, T-bill rates inched up in the March auction. The government announced that it will borrow only $13Bn from domestic market this year, while repayments will total $76Bn. This means there will be net inflows of $63Bn in the current year. The reduced borrowing requirement, the expected approval of the EFF on May 1, as well as an ease in pressure in the foreign exchange market should help to maintain the low interest rates environment in the current year. With

GOJ's reduced presence in the domestic capital markets, this should provide an opportunity for companies to raise debt at a cheaper cost. At the same time, banks and other financial institutions which have traditionally relied on government debt for investment will need to find alternate investment assets. This may however provide an opportunity to reduce their GOJ exposure by diversifying their investment assets.

Extracting Taxes from a Weak Economy

The main challenge the government will face is raising $360Bn in tax revenues in the context of a weak economy. Last year, the government struggled to meet its tax revenue target even amidst a $19.4Bn tax package. For the fiscal year to February, tax revenues were 4.8% below budget with PAYE receipts, GCT on local goods, custom duty, GCT and SCT on imports being the major contributors to the underperformance. It will be equally difficult this year given the expected increase in unemployment levels and depressed demand for goods and services which will further weaken economic activity and tax receipts.

Importantly, the Minister highlighted the government's growth agenda for the current fiscal year. In an effort to boost economic activity, the government will set out to:

- Promote the investment in businesses by streamlining the business registration process to a single "super form". This is expected to reduce 'red-tape' in establishing businesses thereby **fostering a better business environment**.

- Continue to **pursue the privatization of Kingston Container Terminal, Norman Manley Airport, Jamaica Railway Corporation and Caymanas Track Limited.** These entities either fall outside the scope of the government's core responsibilities and or are underperforming. As such, their divestment should improve efficiency and shore up fiscal coffers.

- Completion of the logistics hub to leverage the expansion of the Panama Canal which is due to be completed in 2015. Through investments in sea and air ports along with the country's industrial infrastructure, it is anticipated that **Jamaica will be established as a Logistics Hub by the mid-2016** to take advantage of inflows from trade shipment.

- Use US$20Mn from the Development Bank of Jamaica (DBJ) to construct Information and Communication Technology (ICT) centres across the island which is estimated to directly and indirectly create over 7,000 - 8,000 through training and human development.

- Create an environment for further investment in tourism which accounts for approximately 10% of GDP through Integrated Resort developments. The construction of these developments is anticipated to appeal to a wider tourism market due to the all-encompassing nature of these facilities which include hotels, restaurants, shopping, convention space, as well as casinos. Further, large scale construction of high end suites by hotel chain RIU and the takeover and renovation of several hotel properties will augur well for the expansion of this key employment and GDP driver.

- Embark on Public Sector Transformation to promote growth through improved efficiency, greater human index and foster better competitiveness.