***SOVEREIGN*: Jamaica**

Primary Budget Surplus, High Salary in an Environment of Low Capital Execution: Growth and Credit Rating

Summary

The government of Jamaica has presented a budget aimed at lowering the national debt by increasing the primary balance surplus. However, the slow pace of capital deployment remains a concern, particularly in an environment where public infrastructure is either strained or insufficient. Additionally, spending on wages and salaries poses a structural risk to the fiscal profile. Despite two decades of fiscal adjustments, real GDP growth remains subdued, which will hinder increases in per capita GDP and the country's ability to achieve an investment-grade credit rating in the future.

The Budget

Table 1 Abridged Budget Numbers, FY2025/26 vs. FY 2024/25

	FY 2024/25	FY 2025/26	Diff	%
Revenues	1,076,686.1	1,096,083.1	**19,397.0**	**1.8**
Tax Revenue	869,957.8	949,493.9	79,536.1	9.1
Non-Tax	174,017.2	139,816.4	(34,200.8)	(19.7)
Expenditure	**1,068,652.5**	**1,095,302.8**	**26,650.3**	**2.5**
Recurrent	1,006,916.3	1,032,707.2	25,790.9	2.6
Compensation to Employees	453,871.3	495,799.4	41,928.1	9.2
Wages and Salaries	378,213.2	424,684.6	46,471.4	12.3
Interest	182,346.8	177,532.5	(4,814.3)	(2.6)
Capital	61,736.2	62,595.6	859.4	1.4
Fiscal balance	**8,033.6**	**780.3**	**(7,253.3)**	**(90.3)**
Other Inflows (Inc' PCDF)	**15,545.8**	**4,946.0**	**(10,599.8)**	**(68.2)**
Other Outflows		**2,000.0**	**2,000.0**	
Loans	**251,440.4**	**158,441.9**	**(92,998.5)**	**(37.0)**
Amortisation	**317,370.4**	**162,746.2**	**(154,624.2)**	**(48.7)**
Primary Balance	**190,380.4**	**178,312.8**	**(12,067.6)**	**(6.3)**
Overall balance	**(42,350.6)**	**(578.0)**	**41,772.6**	**(98.6)**
Overall Payments	**1,386,022.9**	**1,260,049.0**	**(125,973.9)**	**(9.1)**

Sources: The Ministry of Finance and JMMBIR
The numbers are based on the Medium Term Fiscal Policy Paper

The Government of Jamaica (GOJ) presented the Budget for FY 2025/26 in Parliament in mid-February and the Minister of Finance, Fayfal Williams, delivered her maiden budget presentation in mid-March. As is customary, we have analyzed the budget and its potential implications beyond the current fiscal year. This time around, we looking at the budget numbers from the perspective of how they will influence growth and more broadly Jamaica's sovereign credit rating.

Overall, the GOJ plans to spend $1,260 billion, which is $126 billion or 9.1% lower than the estimated spending for FY 2024/25. This decrease in spending is primarily due to lower amortization, as annual debt maturities are unevenly distributed.

In terms of "above the line" spending, the GOJ intends to allocate $1,095.3 billion, representing an increase of $26.7 billion (2.5%) compared to the previous fiscal year. However, in real terms, spending has decreased by $25.5 billion (2.4%). Recurrent expenditure constitutes the majority of the budget, amounting to $1,032.7 billion, which is 94.3% of overall above-the-line spending. This reflects an increase of $25.8 billion (2.6%) from the previous year.

Among recurrent spending, compensation for employees remains the largest item at $495.8 billion, an increase of $41.9 billion (9.2%) over the prior year fiscal year, accounting for 12.2% of GDP. Interest payments total $177.5 billion, down $4.8 billion (2.6%) from the previous fiscal year. Spending on capital programmes increased to $62.6 billion, a rise of $859.4 million (1.4%) compared to FY 2024/25, representing 1.8% of GDP.

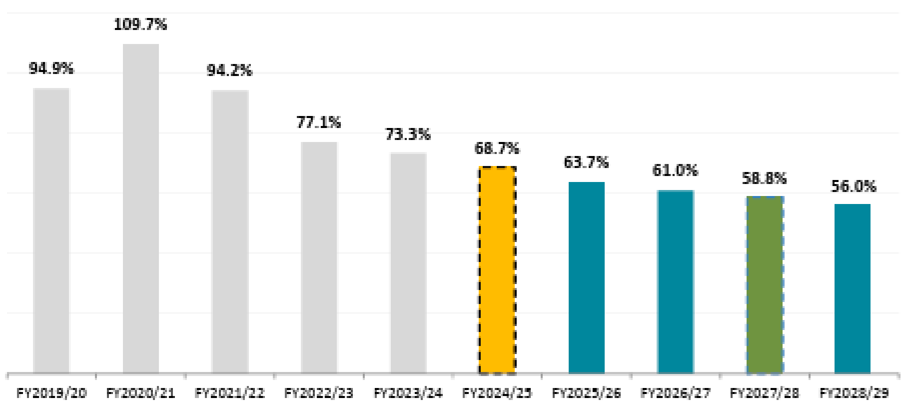
On the revenue side, the GOJ plans to raise a total of $1,096.1 billion, an increase of $19.4 billion (1.8%) from the prior year, which amounts to 31.5% of GDP. Tax revenues make up the largest portion, totaling $969.5 billion (29.7% of GDP and 86.6% of total revenues), an increase of $79.5 billion (9.1%). Non-tax revenue is projected at $139.8 billion (12.8% of total revenues), a decrease of $34.2 billion (19.7%) compared to the previous year.

The budget is expected to result in a fiscal surplus of $780.3 million (0.1% of GDP) and a primary balance surplus of $178.3 billion (5.1% of GDP). With amortization set at $162.7 billion and other outflows at $2.0 billion, the anticipated loan receipts of $158.4 billion and other inflows of $4.9 billion, along with revenue receipts, are insufficient to fully cover overall spending. This results in an overall deficit of $580 million, which is likely to be covered by resources carried over in the Consolidated Fund.

Dissecting the Budget Numbers

Based on the revenue profile, we believe that the target is likely to be met given the expected growth trajectory of the economy and the elimination of one-off revenue items. Closer examination shows that tax revenue is expected to expand by 9.1% while nominal GDP is expected to rise 8.9%. Tax buoyancy– revenue growth to GDP growth- is around one (1). We do not anticipate any structural shift in the economy to cause revenues to fall. The measures implemented by the Tax Administration Jamaica and Jamaica Customs aimed at mitigating revenue losses are expected to yield sustained positive outcomes. Within this context, the tax revenue target appears reasonable. The compounded average growth rate of Non-Tax Revenue over the past 5 years is around 2.0%. In FY 2024/25, the GOJ received $24.0 billion from the Airports Authority of Jamaica being proceeds collected from a bond issued that will use future revenue flows from its concession agreement at the Norman Manley International Airport to service the obligation. Eliminating this one-off item from FY 2024/25 Non-tax revenue stream, the growth rate in FY 2025/26 is relatively flat.

Figure 1: Debt to GDP Path



Source: The Ministry of Finance & Planning

With debt to GDP firmly on a downward path, we expect interest payments to continue to trend lower as a percentage of revenues, moving from 16.9% FY 2024/25 to 16.2% in 2025/26. The metric is expected to continue to fall over the medium term. However, we have great concern regarding the elevated compensation and low capital outlay relative to GDP.

Recall one of the tenets of the International Monetary Fund (IMF) agreement with Jamaica was to lower wages and salaries to 9% of GDP. The figure is based on rigorous research by the and what is deemed appropriate for the government to sustainably meet its obligation to provide public goods and create sufficient space in the fiscal accounts to counter shocks. There are considerable concerns regarding the efficacy of substantial expenditures on public sector wages and salaries, particularly in the context of the limited fiscal capacity to absorb shocks using internal resources. Nevertheless, the Government of Jamaica has established relationships with creditors and insurance entities that enable access to funds during catastrophic events. This was evidenced in the aftermath of Hurricane Beryl, where the financial resources available to the government from these sources facilitated a return to normalcy within a few weeks following the devastation caused by its passage along the south coast of the island.

We had anticipated that capital spending would accelerate over the medium term as outlined in the FY 2024/25 Budget document. In our discussions regarding the budget last year, we pointed out that the construction sector in Jamaica faces challenges in executing large-scale projects. Furthermore, the limited capacity of public oversight bodies to effectively monitor these undertakings may hinder the successful implementation of the planned initiatives. Owing to these constraints and revenue shortfall relative to budget, capital spending was cut nearly 25% to $61.7 billion (1.9% of GDP) during the fiscal year. In the current budget, capital spending increases marginally to $62.6 billion (1.8% of GDP) with little change over the medium term.

With the population and productivity in decline, the low levels of capital spending by the GOJ do not bode well for the country's future growth prospect. The situation is compounded by the low level of human capital and other structural hindrances that limit the mobilization of private capital.

Table 2: Jamaica Sovereign Credit Rating Changes

Agency	Rating	Outlook	Date
Fitch	BB-	Psitive	21-Feb-25
S&P	BB-	Positive	24-Sep-24
Fitch	BB-	Positive	5-Mar-24
Moody's	B1	Positive	18-Oct-23
S&P	BB-	Stable	13-Sep-23
Fitch	B+	Positive	7-Mar-23
S&P	B+	Stable	4-Oct-21
Fitch	B+	Stable	19-Mar-21
S&P	B+	Negative	16-Apr-20
Fitch	B+	Stable	10-Apr-20
Moody's	B+	Stable	11-Dec-19
S&P	B+	Stable	27-Sep-19

Beyond the Budget: The Path to Achieving Investment Grade – Is It Feasible?

Jamaica has made significant progress over the past decade in reorganizing its macro-fiscal metrics, resulting in several rating upgrades (see Table 2). Currently ranked below investment grade, we delve into some of the macro-fiscal requirements needed for the sovereign to achieve this status and the potential timeline that it would take to get there. We have identified a few key variables that influence the rating process. These variables are by no means exhaustive nor do they completely explain the sovereign's credit rating.

Growth: Regarding the GDP growth rate, from 2013 to 2023, the economy grew at an annualized rate of 0.8%. By excluding the impact of COVID-19 during 2020-2022, we find an annual average growth rate of approximately 1%. Achieving a sustainable growth rate of 2% will be extremely challenging, given the structural composition of the economy. Five sectors—Agriculture, Tourism, Manufacturing, Distributive Trade, and Transportation & Telecommunications—accounted for more than 60% of the growth during this period. A closer examination of these sectors reveals significant underinvestment in both physical and human capital, leading to a sustain decline in productivity. **In this context, we do not believe the necessary elements are currently in place to support a sustained growth rate of 2% or higher.**

Per capita GDP: The overall expansion of the economy and less volatile US dollar exchange rate contribute to a steady increase in US dollar per capita GDP. In the decade leading up to 2023, per capita GDP grew at a compound annual growth rate (CAGR) of 1.3%, reaching just over US$9,000. **If this growth rate continues into the future, it will take at least 60 years for per capita GDP to reach US$20,000.**

Interest Payments to Revenue: Additionally, the ratio of interest payments to revenue has dramatically decreased from over 30% prior to 2010 to the current 16.2%. The pace of this reduction averages 0.7% per annum over the last several years. **If this trend continues, the interest-to-GDP ratio is expected to drop to 10% within the next seven years**.

Table 2: Selected Variables That Influence Credit Rating (S&P)

	BBB- Average	Jamaica
GDP growth rate	2.9%	< 2%
Per Capita GDP	US$20,100	US$9,000
Revenue to GDP*	21.2%	31.0%
Interest to Revenue	8.4%	16.2%
Debt to GDP	55.0%	68.7%
Current Account surplus	-1.4%	1.2%
Current Account Receivables/GDP	55%	55.4

Sources: Standard and Poor's (S&P) Global and JMMBIR

Based on our assessment, we anticipate potential rating upgrades in the future; however, achieving an investment grade will be challenging. This is primarily due to the low growth rate, which significantly impacts the increase in per capita GDP. Per capita income is a crucial indicator of a country's capacity to implement austerity measures on its population to meet debt obligations during economic downturns. It also reflects the resilience of households and businesses in adapting to difficult economic conditions. Given the current structure of the economy, the composition of human and fiscal capital, the decline in productivity and the population size, we do not expect any significant improvement in GDP growth in the long term.

Conclusion

The establishment of a framework conducive to increasing investments in social and physical capital is becoming increasingly evident, but a high sustainable growth rate remains elusive. While a sustainable fiscal profile, encompassing the management of interest payments and the reduction of debt, is a necessary prerequisite for promoting enhanced growth, it is insufficient. Notably, the annualised real GDP growth rate over the past decade was 0.8% or 0.3% higher than the decade before, despite the presence of a more stable macro-fiscal environment. Excluding 2020- 2022 (The pandemic and the recovery period), the annual average real GDP growth rate climbed to 1.2%, 0.6% more than the prior decade. To achieve higher and sustainable growth, improvements in other economic and social metrics are essential, including investments in human and physical capital, ensuring banking sector stability, and minimizing bureaucracy and corruption. Although these factors are not exhaustive, they account for a significant proportion of the growth outcomes observed in high-growth countries.

Moving forward, economic growth will predominantly depend on the private sector. Despite the government's efforts to foster a framework that supports increased private sector involvement, there has yet to be a noteworthy inflow of investments across multiple sectors. Instead, capital continues to be directed toward areas where risks and returns are distorted by tax incentives, or where large corporations exercise near-monopolistic power. Consequently, government policy has not enabled an efficient distribution of capital, resulting in overinvestment in certain sectors, such as tourism, while simultaneously leading to underinvestment in others, notably agriculture and agro-processing.

As a result, growth is anticipated to remain modest over the next decade, which will yield only a marginal increase in per capita GDP. This scenario will unfold within the context of a decrease in debt ratios, specifically the ratios of interest payments to revenues and debt-to-GDP, which may enhance Jamaica's credit rating. Nonetheless, the constraints on per capita GDP and other indicators, including the external balances, will challenge Jamaica's pursuit of the desired investment grade rating during this timeframe.

The budget should be regarded as a strategic framework for planned expenditures and the mechanisms necessary to finance these expenditures. It should be understood as more than merely reconciling spending and funding. The basis of the budget is to, among other things, improve human and physical capital, thus establishing the foundation for higher sustained growth rate and the adequate provision of public goods. In its current form, this budget does not comprehensively address these issues. Nevertheless, it effectively advances the objective of achieving debt sustainability.

Sources:

S&P Global
Bloomberg

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