YTD results show fiscal metrics ahead of plan

Newly released fiscal data for the four months April to July 2013 showed the primary and fiscal balances outperforming relative to budget by J$4.7 billion and J$6.1 billion respectively. The outturn resulted principally from a J$5.4 billion shortfall in total expenditure reflecting under-spends in all categories (see figure 1). Total revenue outstripped its target by J$679.2 million owing to stronger than planned growth in tax revenues. The outperformance in tax revenue is driven chiefly by Tax on interest (over by J$1.2Bn), SCT local (over by J$1.2Bn) and Travel Tax (above by J$1.7Bn). On the other hand, the main underperformers were PAYE (under by J$1.2Bn), SCT imports (lower by J$1.1Bn) and Custom Duty (below by J$686.1Mn). Fiscal year-to-date, the growth in tax revenue jumped to 11.7% yoy, up from 9.5% the previous month and also higher than the budgeted 10.9% and the 9.7% for the equivalent period a year ago.

Main fiscal targets likely to be anchored for Test 2

For the next IMF assessment, central government is required to accumulate by September-end, a minimum tax balance of J$150.7 billion and a primary surplus of no less than J$38.2 billion. This tax floor represents an annual growth rate of 2.1%. In our view, the government is likely to comfortably reach this mark given that year-to-date, tax revenue is growing at a +11.7% pace and the fact that the rate for the test period has consistently remained above 2.8% in more than a decade. We also expect similar result for the primary surplus given our outlook for a stronger than targeted growth in tax revenue in addition to the government’s ability to juggle expenditure levels. For the fiscal year, we maintain our forecast for the primary surplus to rise to 6.4% of GDP from 5.3% of GDP in FY 12/13 and for the fiscal deficit to fall to a low 1.6% of GDP from the 4.0% of GDP a year earlier. However, central government debt to GDP ratio could remain relatively high at 135.6% (134.1% of GDP in FY 12/13).

Remittances posted a strong gain in May but risk lies ahead

Total remittance inflows for May 2013 advanced by 8.9% yoy (or US$14.9Mn) to post its second monthly gain for 2013 after inflows rose 2.9% in January. This also represented the fastest pace since August 2011. Consequently, the calendar year-to-date total reached J$854.1 million, up 0.3% or US$2.5 million relative to the corresponding period of 2012. Our projection calls for remittances to advance by 0.5% to US$2.05 billion for 2013. However, a possible war between US and Syria presents considerable downside risk to forecast as global oil prices could spike, adversely impacting households’ budget in remitting countries.
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