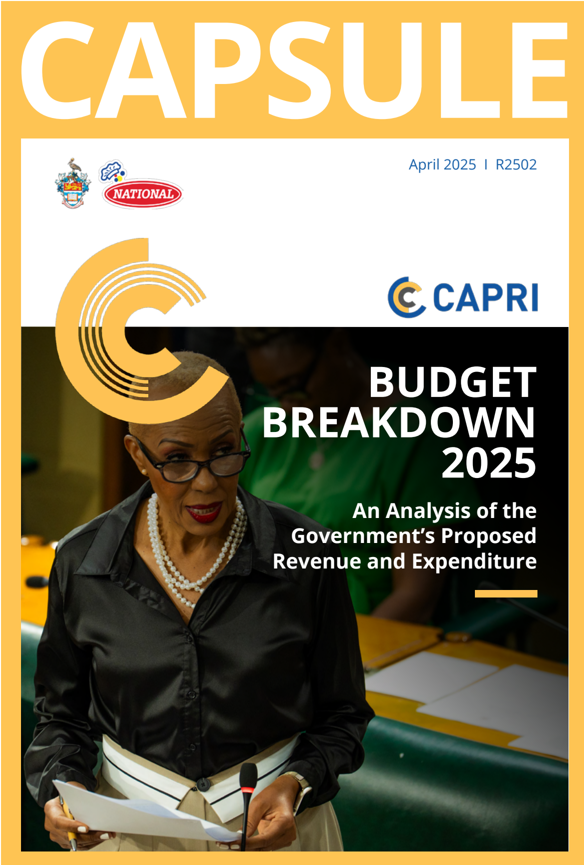
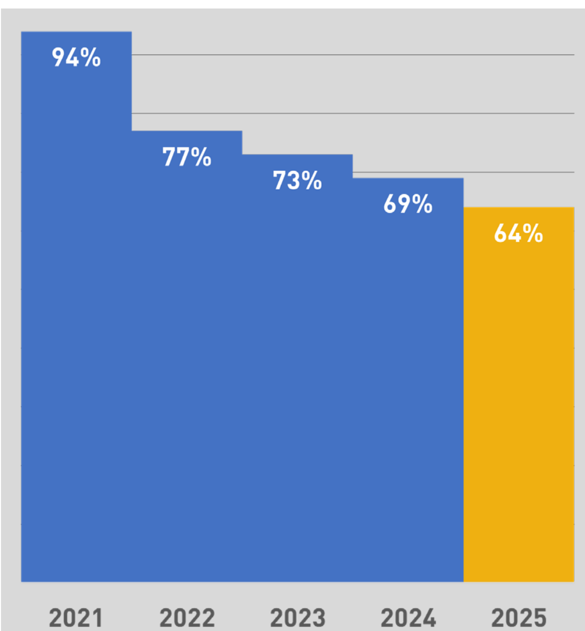


Jamaica's public debt is set to continue on its downward trend

A Debt to GDP Ratio



This report analyses Jamaica's budget for the fiscal year 2025/26, aiming to uncover the development policies and priorities implicit within the numbers. The objective is to distil the key takeaways and significant trends of the current budget, thereby enhancing the public's understanding of how their tax dollars are managed by the government.

The value of money changes over time due to inflation, which affects its purchasing power. To account for this, nominal amounts from previous years are adjusted upwards to reflect how much it would cost now to procure the same amount of goods and services.

Credibility and Sustainability

The credibility of a budget is determined by whether the revenue and expenditure projections are realistic. Jamaica's 2025/26 budget is premised on economic growth of 2.2 percent and inflation of 5.3 percent. These projections align with estimates from the International Monetary Fund and the World Bank, which both anticipate GDP growth of approximately 2 percent, and is consistent with the Bank of Jamaica's forecast of 1 to 3 percent. Newly established macroeconomic stability also supports the assumption of some amount of economic growth. The central bank's inflation target is in the range of 4 to 6 percent, so the government's assumption of 5.3 percent is consistent with that. Jamaica's budget for the fiscal year 2025 is thus deemed credible.

The economy's resilience further lends to the budget's credibility. The country's fiscal responsibility framework, along with its independent central bank, provides a guardrail against unrealistic revenue estimates and politically directed monetary policy. Despite ongoing vulnerabilities due to economic risks and natural or climate-related hazards, a comprehensive strategy involving financial instruments and policies is in place. The strategy serves to mitigate these risks, including various funds dedicated to disaster relief, insurance mechanisms against catastrophes, strategic financial arrangements with international institutions, ample import coverage, and a sustainably low debt level.

Continued, programmed debt reduction underlies the sustainability of the country's fiscal management (Figure A). Down from 147 percent in 2012, debt/GDP is expected to drop to 64 percent by the end of the 2025/26 fiscal year (Figure A).

Nevertheless, the budget faces several risks. Chief among them are global economic uncertainties, including potential disruptions to global supply chains, inflationary pressures from foreign policy decisions in major trading partners, and the continued vulnerability to natural and climate-related disasters. Between 1994 and 2020, Jamaica experienced 15 tropical storms, causing damage of some US$719 million.

To mitigate such risks, the Jamaican government has established a National Natural Disaster Risk Financing Policy (NNDRFP), which adopts a risk-layered approach to disaster financing. This policy, alongside a robust debt management strategy focused on local currency obligations, enhances fiscal sustainability.

Shifts and Trends

The most prominent and concerning trend in the 2025/26 budget is the continued shift from indirect taxes (which are levied on consumption, production, and imports) to direct taxes (those on personal and corporate income). In five years, the share of revenue derived from direct taxes will have increased from 24 to 31 percent (Figure B).

The underlying cause of this shift is the erosion of the purchasing power of the income tax threshold, the annual level of income below which income tax is not taken. The threshold which had been at $1.5 million since 2018, was bumped up in 2024/25 to $1.7 million, which was inadequate to recover the inflationary erosion of the previous six years. Furthermore, the reliance on income taxes in an economy in which income is easily hidden introduces the "horizontal" inequity of having equal income-earners paying vastly different taxes depending on whether they are formally employed or not.
The question of whether to increase the threshold further requires grappling with a

trade-off. Only 30 percent of those who are compliant currently earn above the threshold. Further increases, therefore, benefit only the wealthiest tercile, which does not seem consistent with equity. However, such a move would reduce the tax liability of that tercile to bring it more into line with those who are evading taxes entirely, thereby reducing that dimension of inequity.

The revenue intake for 2025/26 is projected to decrease by 3 percent in inflation-adjusted terms to J$1.1 trillion, representing the first revenue contraction since the pandemic. This decline is primarily due to a decrease in non-tax revenue following the conclusion of a one-off securitisation and sale transaction involving the Norman Manley International Airport.

Expenditure is divided into four main categories: National Security, Social Services, Economic Development, and Public Administration. The largest share of the budget is allocated to social services, particularly education and healthcare. Expenditure on Administration will have grown by 29 percent over two years as a result of the implementation of the public sector pay reform and increases. All other functional categories receive a reduced allocation to accommodate the pay reform as well the expected reduction in revenue.

Capital expenditure, which cuts across all functional categories, will decline by 3 percent in 2025/26 to $63 billion. This trend reflects the completion of several infrastructure projects.

Policies and Programmes

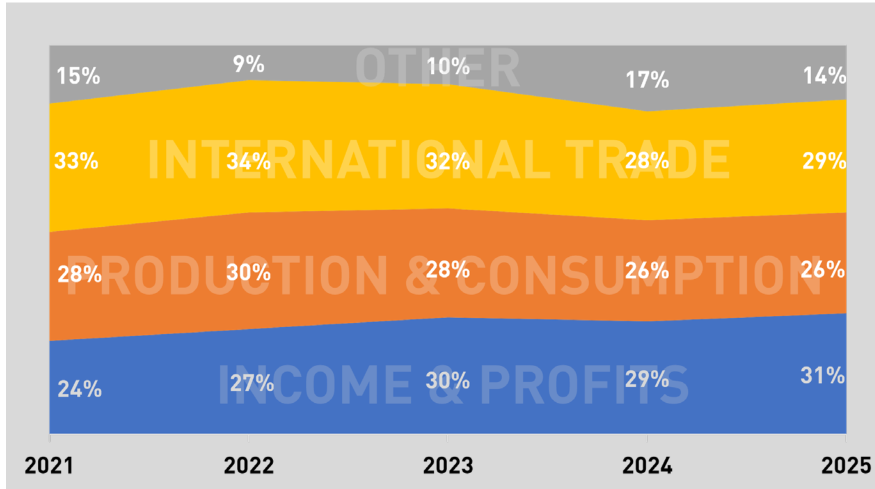
The **Solidarity Programme** is a social assistance initiative designed to provide one-time cash transfers of between $20,000 and $50,000 to individuals not enrolled in existing welfare programmes. While well-targeted, the programme's scale and design are limited by its one-time nature. Its principal benefit may lie in helping individuals obtain vital documents such as birth certificates and national IDs, thereby improving access to other welfare programmes.

NHT Lending Reforms aim to improve access to homeownership by increasing loan limits and reducing service charges for lower-income contributors. However, these reforms fall short of effectively addressing issues related to informality, which prevents many low-income earners from benefiting from the NHT's offerings.

A **revision to the Income Tax Relief Act** was promised. The original act was passed in 2013 with the intention of encouraging foreign direct investment in large scale projects, but has failed to encourage any. The revision promises to correct the flaws underlying the failure of the original act. The problem with tax breaks is that any relief from one business's obligation to pay for its use of public infrastructure and public services necessarily imposes that cost on all other businesses, thereby impinging on their own viability.

The share of revenue from income taxes keeps rising

Share of Revenue by Source



Recommendations

1. **Continue to make debt reduction the focus of fiscal management.** While debt/GDP at 60 percent is held as an "acceptable" threshold, in an increasingly volatile and unpredictable world, both naturally and geopolitically, the vulnerability of a small economy demands a thick layer of resilience that calls for a lower level.

2. **Halt or reverse the trend of the tax burden shifting towards income taxes.** The share of tax revenue due to direct taxes has risen by seven percentage points over five years. To mitigate the inequity between those in and out of the tax net, the government should continue to raise the income tax threshold at least in line with inflation.

3. **Reduce the reliance on tax incentives as an economic growth strategy.** Reduced tax obligations for one sector implies higher taxes than otherwise would be necessary for others. Further, such programmes tend to lead to demands by others for tax breaks, leading to the tax burden falling on fewer and fewer economic activities. Finally, for long term sustainability, businesses should cover all their costs, including external ones provided by the state and paid for by taxation.

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