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BUDGET BREAKDOWN 2025

An Analysis of the Government's Proposed Revenue and Expenditure

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Caribbean Policy Research Institute (CAPRI)
Kingston, Jamaica

Researcher: Priya Alexander
Research Assistant: Andrew Nelson
Research Supervisor: Damien King

Table of CONTENTS

Figures

Acronyms

CCL	Contingency Line of Credit
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CCRIF-SPC	Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company
FAA	Financial Administration and Audit Act
GCT	General Consumption Tax
GDP	Gross Domestic Product
GOJ	Government of Jamaica
HEART TRUST	Human Employment and Resource Training Trust
IMF	International Monetary Fund
JDF	Jamaica Defence Force
JCF	Jamaica Constabulary Force
MAAC	Maritime, Air, and Cyber Command
MOFPS	Ministry of Finance and the Public Service
NHT	National Housing Trust
NIR	Net International Reserves
NNDRF	National Natural Disaster Reserve Fund
NNDRFP	National Natural Disaster Risk Financing Policy
OECD	Organization for Economic Co-operation and Development
PATH	Programme of Advancement through Health and Education
PAYE	Pay As You Earn
PIOJ	Planning Institute of Jamaica
PLL	Precautionary and Liquidity Line
PPE	Purchasing Power Equivalent
PSIP	Primary and Secondary School Infrastructure Programme
RSF	Resilience and Sustainability Facility
UIS	Unemployment Insurance Scheme
VAT	Value Added Tax

Executive Summary

The government has promulgated a credible and sustainable budget consistent with long run stability and growth

This report analyses Jamaica's budget for the fiscal year 2025/26, aiming to uncover the development policies and priorities implicit within the numbers put forward. It achieves this by going beyond the headline figures to explain the underlying trends and shifts in priorities. 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, dollar amounts from previous years are adjusted upwards to reflect how much it would cost now to procure the same amount of goods and services. This process ensures that comparisons of budgetary figures across different years are not distorted by inflation. These adjusted amounts are known as "purchasing power equivalent" (PPE) dollars. By using PPE dollars, we can compare the actual volume of goods and services procured in different years on a like-for-like basis. This adjustment allows for a clearer understanding of changes in budget allocations.

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 also aligned there. 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.

The country's fiscal responsibility framework, along with its independent central bank, provides a guardrail against unrealistic revenue estimates and politically directed monetary policy.

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 of Jamaica to natural and climate-related disasters. Between 1994 and 2020, Jamaica experienced 15 tropical cyclone events, causing damages of over US$719 million. The 2024 Hurricane Beryl alone resulted in damage costs amounting to J$11.8 billion (0.2 percent of GDP).

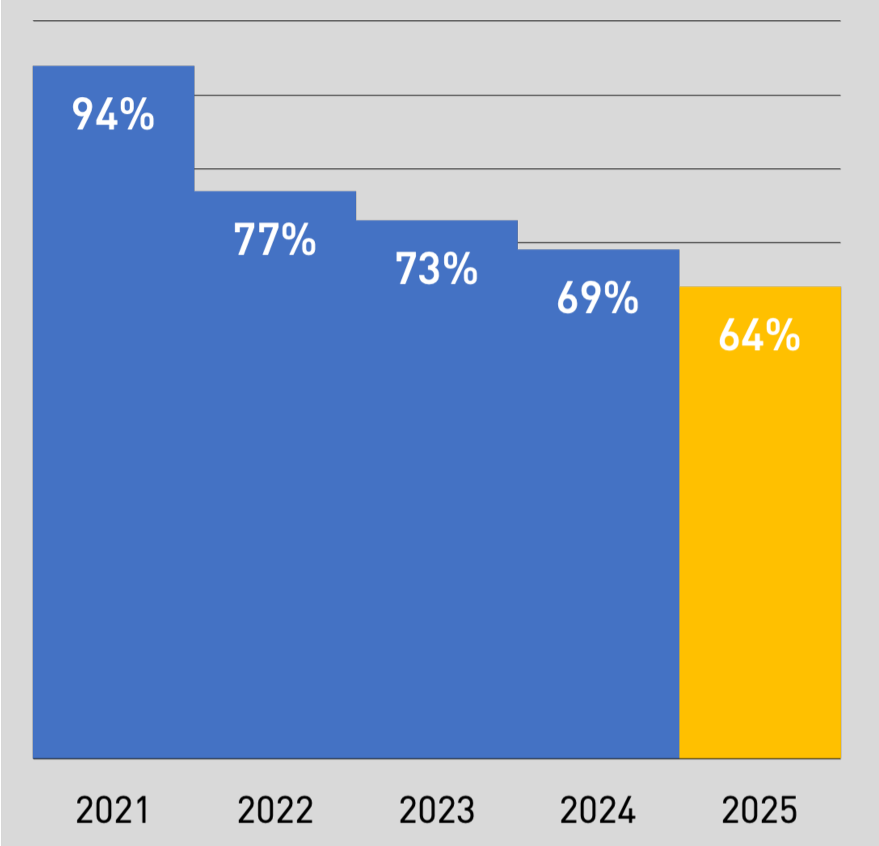
To mitigate such risks, the Jamaican government has established a National Natural Disaster Risk Financing Policy (NNDRFP), which adopts a risk-layered approach to disaster financing. This policy, alongside a robust debt management strategy focused on local currency obligations, enhances fiscal sustainability.

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).

Jamaica's debt is to continue on its downward trend.

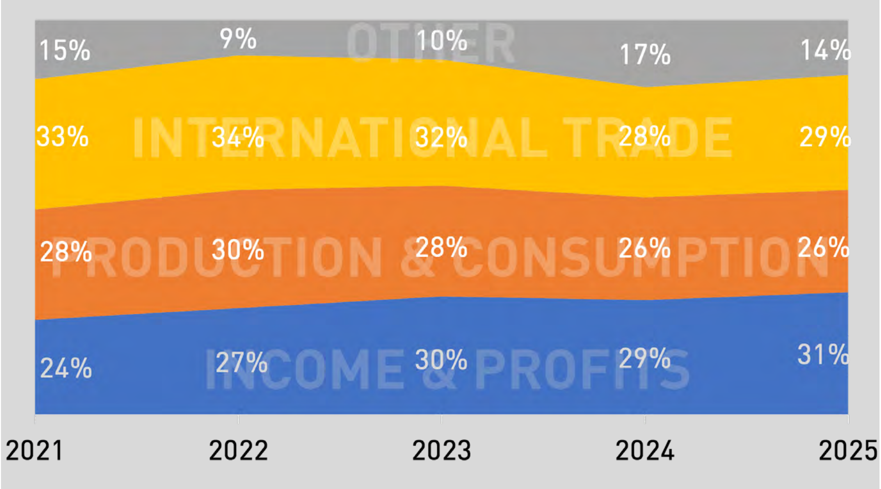
A Debt to GDP Ratio



Source: Ministry of Finance and the Public Service, various years.

The share of revenue from personal and corporate income taxes continues to increase.

B Share of Revenue by Source



Source: Ministry of Finance and the Public Service, various years.

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.

New Policy Proposals

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.

Recommendations

1

Continue to make debt reduction the focus of fiscal management – The debt to GDP ratio is expected to fall to 60 percent of GDP by the end of the next fiscal year. While that level is held as a threshold below which public debt is not deemed to be an outsized risk, in an increasingly volatile and unpredictable world, both naturally and geopolitically, the vulnerability of a small economy demands a thick layer of resilience. Debt levels need to be lower than 60 percent to have that cushion.

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. With over half the working population outside the income tax net, income taxes are iniquitous. Consistent with their already announced annual rises in the income tax threshold, the government should continue to raise it at least roughly 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. Compelling reasons have to be found to justify why one sector or set of participants in a sector should "subsidise" 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 be made to cover all their costs, including external ones provided by the state. That is what taxes do.

1 Introduction

CAPRI's Budget Breakdown provides an informed analysis and perspective on the Jamaican government's budget for the new fiscal year.

CAPRI's Budget Breakdown provides an informed analysis and perspective on the Jamaican government's budget for the new fiscal year. The national budget comprises the government's expenditure estimates (projections of the amount of money that the government intends to spend throughout the course of the upcoming fiscal year) and revenue estimates (predictions about the amount of money that will be raised during the fiscal year). It is presented for parliamentary approval prior to the start of each fiscal year (April 1 to March 31). The budget is prepared by the Ministry of Finance and the Public Service and ostensibly reflects the government's development policies and priorities.

This report analyses Jamaica's budget for the fiscal year April 2025 to March 2026, aiming to uncover the development policies and priorities implicit within the numbers put forward. It achieves this by going beyond the headline figures to explain the underlying trends and shifts in priorities. The objective is to distil the key takeaways and significant trends of the current budget, thereby enhancing public understanding of how their tax dollars are managed by the government.

Two adjustments are necessary to accurately identify and understand the significant trends within the new budget. The first is an adjustment for inflation.

The value of money changes over time due to inflation, which affects its purchasing power. To account for this, dollar amounts from previous years are adjusted upwards to reflect how much it would cost now to procure the same amount of goods and services. This process ensures that comparisons of budgetary figures across different years are not distorted by inflation. These adjusted amounts are known as "purchasing power equivalent" (PPE) dollars. By using PPE dollars, we can compare the actual volume of goods and services procured in different years on a like-for-like basis. This adjustment allows for a clearer understanding of changes in budget allocations.

The second adjustment involves amortization, which is the repayment of debt principal. Similar to how loan receipts are not considered "revenue," repayments of loan principal are also not counted as "expenditure." This approach prevents double-counting of spending: it ensures that money is not recorded both in the year it is expended or received and again in the year it is financed or repaid. This adjustment keeps the assessment of revenues and expenditures clear and accurate.

Having made these necessary adjustments, the report will assess the credibility and sustainability of the budget, review major trends and shifts, and evaluate the new policy proposals. We now take these in turn.

Amortisation (repayment of debt principal) and loan receipts are excluded from expenditure and revenue, respectively, to prevent double-counting of spending: it ensures that money is not recorded both in the year it is expended or received and again in the year it is financed or repaid.

2 Credibility and Sustainability

The 2025 budget is explicitly premised on economic growth of 2.2%, inflation of 5.3%, and a current account balance of 0.2%

A credible budget is one where the projected revenues and expenditures are likely to be realised. If a budget lacks credibility, evaluating its revenue proposals is not practical, as they are unlikely to materialise. Once a budget's credibility is confirmed, it is useful to explore the implications of proposed expenditures beyond the current budget cycle to understand their potential long-term effects. Sustainability of the budget refers to the long-term consequences of its revenue and expenditure plans, including their impacts on public debt and overall macroeconomic performance, extending past the immediate fiscal period. Here we assess both the credibility and the sustainability of the budget for the current fiscal year.

Credibility

The government's estimates in the budget are based on assumptions regarding GDP growth, inflation, and current account balance (the difference between the value of exports plus net remittances and imports plus other recurrent payments). The 2025 budget is explicitly premised on economic growth of 2.2 percent, inflation of 5.3 percent, and a current account balance of 0.2 percent.[1]

On the basis of the recently achieved macroeconomic stability, manifested in Jamaica's record of fiscal balance, moderate public debt, low inflation, exchange rate stability, and high net international reserves (the central bank's stock of foreign exchange), the potential for economic expansion justifies at least the 2.2 percent assumption for growth. This is not withstanding that the country has not experienced growth to that level in decades. However, the current propitious, macroeconomic conditions have also not obtained in decades.

One indicator of a budget's credibility is whether the government's expectations are consistent with those of independent evaluators. The macroeconomic projections set out by the government align with forecasts from other authoritative sources. The International Monetary Fund (IMF) and the World Bank, independently of each other, both forecast a GDP growth of around 2 percent for 2025, consistent with the Bank of Jamaica's projection that GDP will grow in the range of 1 to 3 percent.[2] This consensus among trusted authorities, along with the strong macroeconomic foundation, serves as good support for the government's projections being reasonable and reliable, thereby supporting the budget's credibility.

The Bank of Jamaica also expects inflation to stabilise at around 5 percent, within a target range of 4-6 percent, while the current account balance as a percentage of GDP is expected to average a surplus of 1 percent over the medium term. [3] This is predicated on continued improvements in Jamaica's trade balance. Commodity prices, including fuel, are projected to decline over the medium term.[4]

Fiscal outcomes are influenced by a variety of risks, notably those associated with economic growth and natural disasters, which could impact the economy. Key risks to Jamaica's economic growth include spill-over effects from the global economy. The global economy is projected to grow by 3.3 percent in 2025, marginally higher than the 3.2 percent estimated for 2024. The risks to global growth in the short to medium term are skewed to the downside, predicated primarily on elevated policy uncertainty. In particular, the implementation of economic policies in the United States aimed at shielding the country from foreign competition, through increased tariffs on imported goods, could escalate trade tensions, leading to decreased investment, reduced market efficiency, and distorted trade flows. This could also disrupt global supply chains, ultimately affecting economic growth in the short and medium term.

Additionally, inflationary pressures emanating from these policies could influence central banks to tighten monetary policy by increasing interest rates which, in turn, would exacerbate fiscal risks.[5] Given the dependence on the economic health of its main trading partners, it is crucial for the Jamaican government to continuously

A credible budget is one where there is a strong likelihood that the projected revenues and expenditures are likely to be realised.

monitor global economic developments. This vigilance is key for assessing and mitigating potential risks that could derail Jamaica's fiscal stability.

Jamaica is vulnerable to a range of natural and climate-related hazards, including geological and hydrometeorological events such as earthquakes and hurricanes. These disasters harm the livelihoods of Jamaicans and have implications for the country's economic and fiscal stability.[6] Natural disasters have historically caused extensive economic damage in Jamaica. From 1994 to 2020, there were 15 tropical cyclone events that impacted Jamaica, amounting to damage costs of US$719 million. More extreme climate-related events, Hurricanes Ivan (2004) and Dean (2007), caused damages of US$580 million and US$329 million each (8 and 3 percent of GDP, respectively). Tropical storm Nicole (2010) was an important reminder of a persisting vulnerability to natural disasters, causing damages of US$239 million (2 percent of GDP).[7] This susceptibility underscores the importance of robust disaster preparedness and response strategies to mitigate the impact of such events on Jamaica's fiscal health and economic trajectory.

The government has been implementing strategies to reduce and manage the fiscal risks associated with climate change.[8] It has also carried out reforms that strengthen the country's physical and fiscal resilience against natural disasters. These include a range of natural disaster risk financing policies and funds, lines of credit, catastrophe bonds, liquidity lines, and facilities.[9] (See Box: the Resilience Stack)

The Resilience Stack

The National Natural Disaster Risk Financing Policy (NNDRFP) was established in the fiscal year 2023/24. This policy proposes a risk-layered approach to disaster risk financing in order to mitigate the fiscal impacts of natural disasters. Risk layering involves establishing adequate funds and reserves to retain the costs associated with high frequency, low severity events such as floods or heavy rainfall, and transferring risks related to low frequency, high severity events such as major hurricanes and earthquakes, through insurance facilities.[10]

There are four pools of funds that the country can access in the event of a disaster of a specified magnitude. These are the National Disaster Fund, which was capitalized at $500 million; the Contingency Fund, which was capitalised at about $5.1 billion at the beginning of the 2024/25 fiscal year; the Inter-American Development Bank (IDB) Contingent Line of Credit (CCL), which amounts to US$385 million, and National Natural Disaster Reserve Fund (NNDRF), which was allocated $1 billion to be operationalized during the fiscal year 2024/25.[11] Altogether, these represent a fiscal cushion of approximately 6 percent of the budget.

Existing catastrophe bonds and insurance facilities will be renewed. In 2024, the government launched a new Catastrophe (CAT) bond, following the maturity of Jamaica's first CAT Bond. The instrument provides up to US$150 million in financial protection against financial losses associated with tropical cyclones for a period of three and a half years, or four hurricane seasons. Pay-outs to Jamaica will be triggered if a named storm event meets the parametric criteria for location and severity in accordance with the terms of the bond.[12]

In July 2024, the southern coastal areas of Jamaica experienced major damage from Hurricane Beryl. The total expenditure impact of the hurricane for the fiscal year 2024/25 was approximately $11.8 billion, arising from emergency response and recovery costs. The macroeconomic impact of the hurricane for the fiscal year was a contraction of 0.2 percent in real GDP growth. The fiscal impact of the hurricane was mitigated by the triggering of a pay-out under the Tropical Cyclone and Excess Rainfall policies (J$2.6 billion, or US$16.6 million and J$1.6 billion, or US$10.3 million, respectively) with the Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF). Additionally, financial resources were utilized from the Contingencies Fund and the National Disaster Fund to assist in financing the emergency response and recovery efforts.[13]

During the fiscal year 2025/26, the government intends to renew the existing insurance policy with the Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF-SPC). The policy provides financial protection against tropical cyclone, earthquake, and excess rainfall events. Total coverage under the fiscal year 2024/25 policy amounts to US$210 million.[14]

In addition to the government's resilience stack, the high level of net international reserves (NIR) and the moderate debt to GDP ratio allow room for the government to borrow if the need arises. The NIR are at US$5.4 billion, equivalent to some 29 weeks of import cover.[15] Jamaica's ratio of government debt to total annual production in the economy also stands at approximately 69 percent at the end of fiscal year 2024/25, the lowest level in over two decades, and is projected to fall to 64 percent at the end of fiscal year 2025/2026.[16] Further, the debt management strategy continues to focus on realigning the debt portfolio in favour of local currency obligations and, consequently, further mitigating foreign exchange risk. These facts support the proposition that resilience to external shocks is being built into fiscal management.

Jamaica's budget for the fiscal year 2025 is credible. The government's macroeconomic projections are in line with a stable macroeconomic platform and with those of other major agencies. Furthermore, 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, Jamaica has enhanced its resilience. This has been achieved through a comprehensive strategy involving financial instruments and policies designed 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.

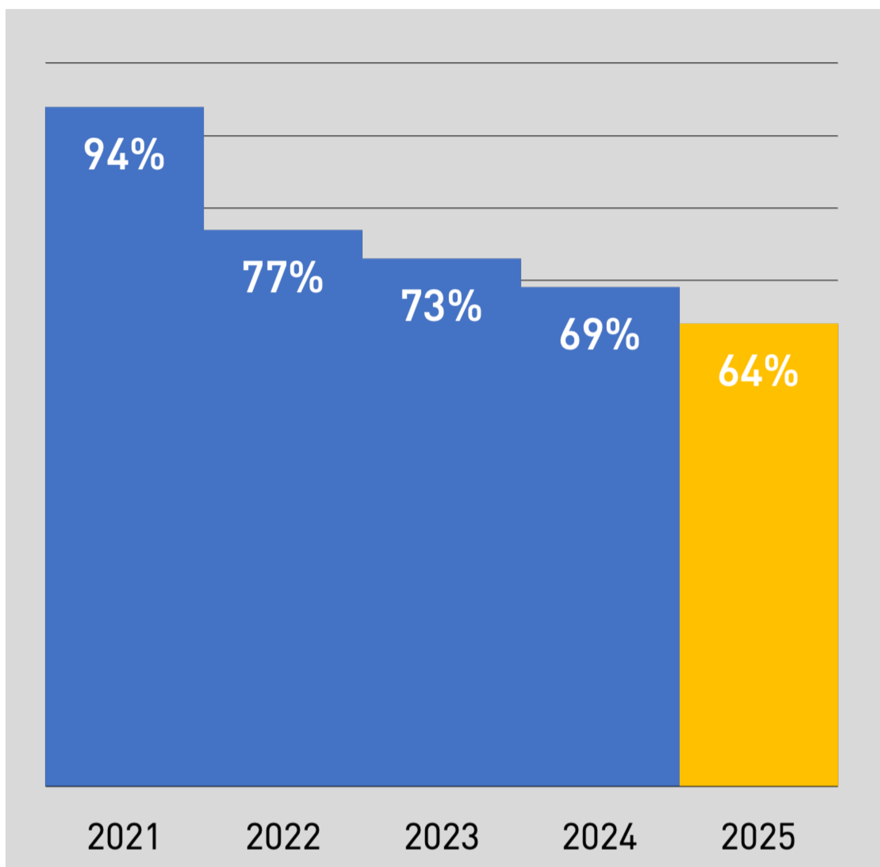
Sustainability

A budget must promote fiscal and economic sustainability. This requires evaluating not only the amounts spent or earned in the budget year, but also their projected changes over time. The level of recurrent expenditure, especially the implications for debt servicing costs, warrants specific attention. The higher the proportion of government revenue going to debt repayment, the fewer the available funds for education, healthcare, and other public services. High debt costs also limit the government's capacity to invest in infrastructure, which is vital for supporting economic growth.[17]

Jamaica has maintained a sustainable fiscal position with the core objective of debt reduction over the past decade. The country's debt-to-GDP ratio is on a downward trajectory and is projected to decrease to 64 percent by the end of the fiscal year 2025/26 (Figure 1), with a target of 60 percent or less by 2027, as mandated by the Financial Administration and Audit (FAA) Act.[18] As a result, the portion of the budget spent on interest payments has also decreased, falling from 19 percent of total expenditures in 2021 to 16 percent in 2025 (Figure 1). The continuation of this gradual debt reduction, achieved without imposing significant additional taxes, further underscores the fiscal sustainability of this year's budget.

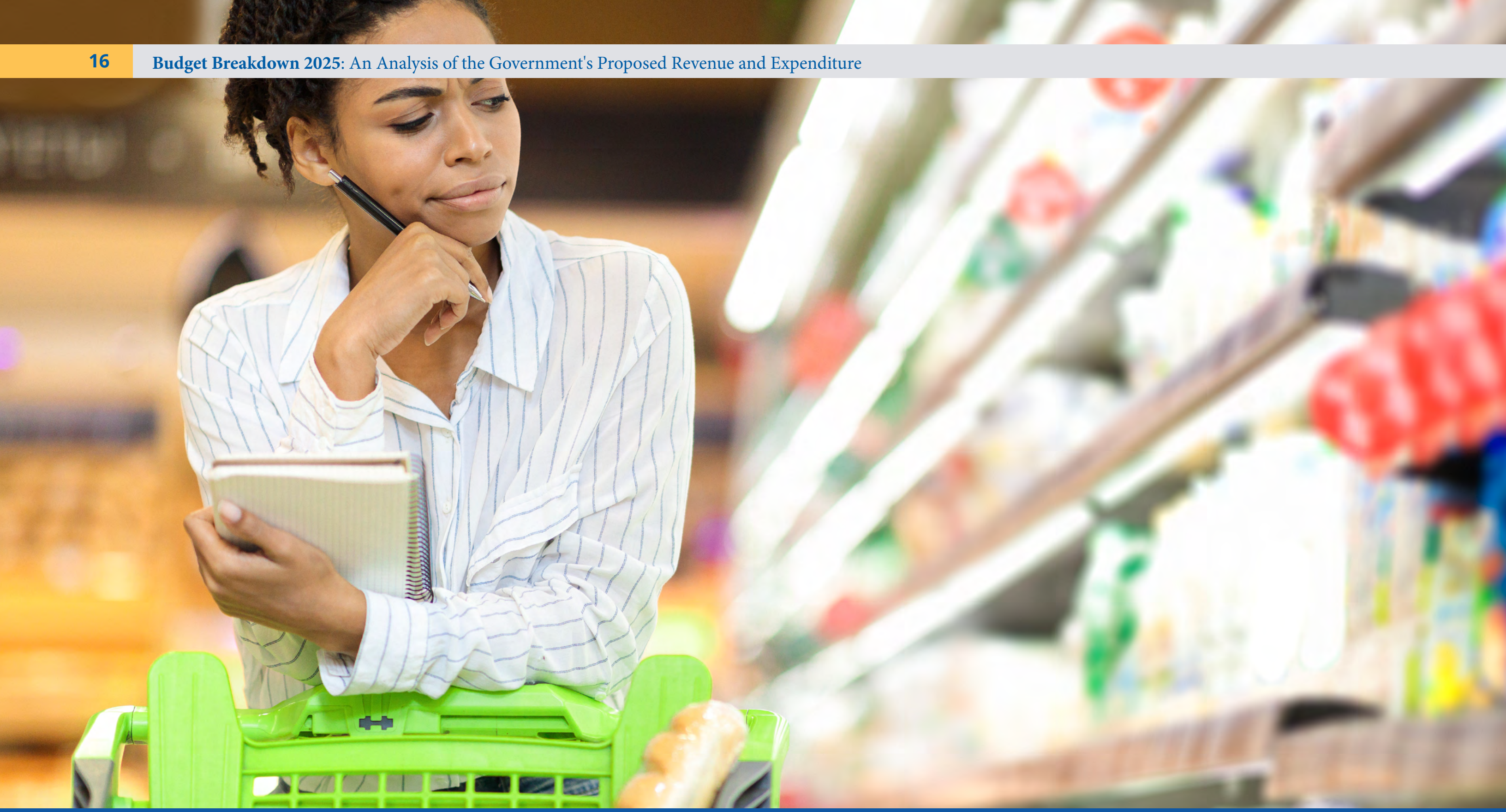
Jamaica's public debt is to continue on its downward trend.

Debt-to-GDP Ratio



Source: Ministry of Finance and the Public Service, various years.

Jamaica's ratio of government debt to GDP stands at approximately 69% percent at the end of 2024, and it is projected to lower to 64% at the end of 2025.



3 Shifts and Trends

Government revenue (which excludes loan receipts) is projected to contract by **3%** to **$1.1t** in this fiscal year.

Revenue

The headline event of the 2025/26 fiscal budget is the continued shift from indirect taxes to direct taxes. Direct taxes, as a share of revenue, has increased by almost a third over the last five years. There is also a projected 3 percent decrease in revenue in real (purchasing power) terms. In the following sections, we will examine these changes, compare the budget's allocations with the actual revenues and expenditures from the previous fiscal year, and highlight the key shifts and trends significant to this budget cycle.

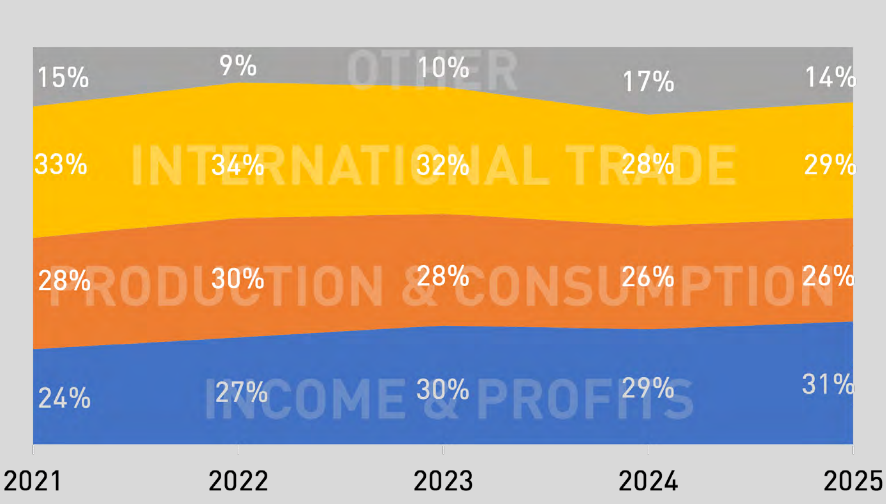
Direct and Indirect Taxes

The new budget proposes to continue a recent trend of shifting the burden of taxation from indirect to direct sources. Taxes may be raised "directly" from citizens, by taxing their incomes (either as individuals or corporate entities), or "indirectly" by taxing instead their activities such as production, consumption, or importation. Determining what share of revenue is derived from direct versus indirect taxes is a key decision in fiscal management. Which is more suitable depends on the characteristics of the particular economy and the capacity of the tax administration.

Jamaica is undergoing a secular shift from indirect taxes to direct taxes. Over the last five years, the share of revenue deriving from direct taxes has increased by almost a third, from 24 to 31 percent, whereas the share of revenue deriving from indirect taxes has decreased from 28 percent to 26 percent (Figure 2). The 2025 projection for direct taxes is $340 billion, representing, adjusting for inflation, a 55 percent increase from 2021.

The share of revenue from personal and corporate income taxes continues to increase.

2 Share of Revenue by Source



Source: Ministry of Finance and the Public Service, various years.

At the current level of the threshold at $1.7 million only some 30 percent of the employed labour force are above it.

Jamaica is undergoing a shift from indirect taxes to direct taxes; Over the last five years, the share of revenue deriving from direct taxes has increased by almost a third, from **24%** to **31%**, whereas the share of revenue deriving from indirect taxes has decreased from **28%** to **26%**.

This increased reliance on direct taxes is problematic because, in the context of an economy with a high share of informal activity, putting taxes on earned income is less efficient than taxing people indirectly, due to the prevalence of evasion. GCT and import duties (indirect taxes) have fewer points of collection and the transactions are more exposed, so those taxes have a lower rate of evasion.

Further, and as discussed in Budget Breakdown 2024, while income taxes are "vertically" equitable (higher income earners pay a higher share), they are simultaneously "horizontally" iniquitous (some at the same level of income pay no taxes at all). Those with formal jobs, who are on the automatic deduction PAYE (pay as you earn) system, pay all income taxes and obligations. However, professionals, own-account workers, and those informally employed easily skirt the income tax obligation. And many of those are earning income equal to or even greater than those on PAYE. Thus, many earning comparable incomes are paying vastly different amounts of taxes.

A contributor to the trend that has shifted the burden of taxation from direct to indirect taxes is the erosion of the purchasing power of the income tax threshold. That threshold refers to the level of income below which income tax is not incurred. In the 2024/25 fiscal year, annual income that accumulates to $1.8 million or less incurs no income tax liability. Income tax is paid only on an individual's income that is greater than that threshold. The threshold was dramatically raised to $1.5 million ($2.3 million in today's purchasing power) in 2018. Since then, inflation has eroded the purchasing power of that threshold, which has resulted in persons of lower income, in terms of purchasing power, being drawn into the income tax net as their salaries rise with inflation, which has accounted for the increased share of income coming from direct (income) taxes. (See Box: the Income Tax Threshold)

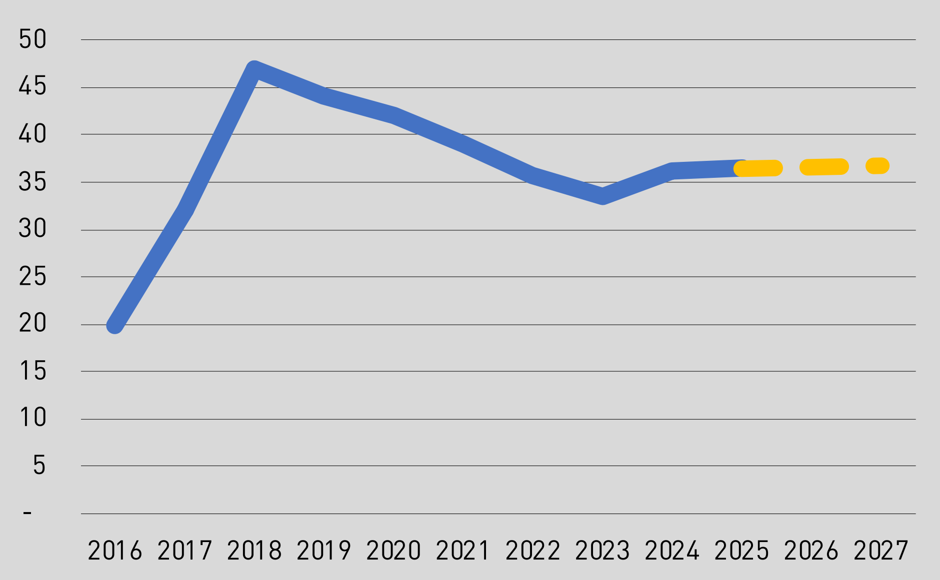
The Income Tax Threshold

In 2016, the income tax threshold was $589,000 dollars, which is $1 million if expressed in terms of current purchasing power. To express this another way, someone earning the threshold at that time could, if they spent their entire income on food, buy 20 box lunches a week. Fulfilling an election promise, the then-new government increased it, over the subsequent two years, to $1.5 million (or $2.3 million in current purchasing power). That amount could purchase 47 box lunches each week.

Since then, up to when the threshold was raised last year, inflation has eroded its purchasing power (Figure 3). By 2023, the threshold earner could afford only 33 lunches. The adjustment in 2024 increased it modestly, and the projected $1m per year increase will just allow it to keep pace with rising prices.

After its initial doubling, the income tax threshold has been steadily eroded by inflation up until last year.

3 Income Tax Threshold (in Purchasing Power Equivalent)



Source: Ministry of Finance and the Public Service, various years.

The purpose of having an income tax threshold, or any income tax structure in which higher earners pay a higher rate of income tax (referred to as "progressive"), is the pursuit of equity. In the context of income taxes, equity is considered to be achieved when higher earners pay, not just more in taxation in absolute terms, but rather pay a higher proportion of their income in taxes.

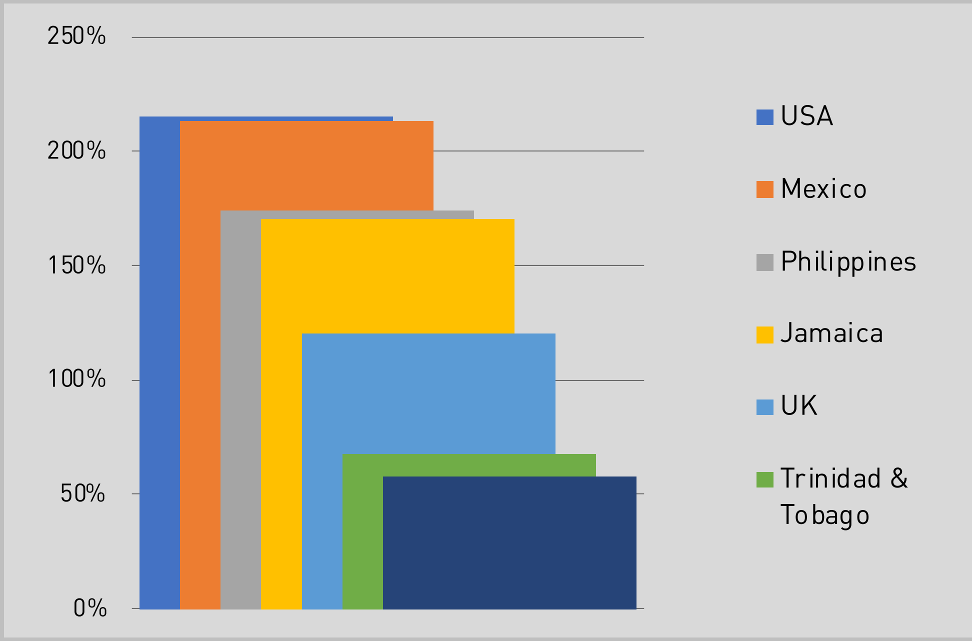
What is the right level of the income tax threshold? It is a complex question to answer because the considerations are conflicting. At the current level of the threshold at $1.7m, only some 30 percent of the employed labour force are above it. That means that further increases in the threshold will be of benefit to only that upper portion of the income ladder. And therefore if it is financed in a way that draws on the resources of broader economy, it will be "regressive" change, shifting income from lower to higher earners. This argues against further increases.

The point about equity articulated above is labelled as "vertical" equity since it considers only those that are within a segment differing only by their level of income. "Horizontal" equity is also a factor. This refers the extent to which those at the same level of income end up paying different amounts of taxes. With widespread income tax evasion in Jamaica, the very existence of an income tax introduces horizontal inequity into the tax structure. Out of an employed labour force of 1.4m, only half of those are on the income tax rolls (whether above or below the threshold). This consideration would imply that a higher threshold, that is, removing more persons from the income tax liability, will reduce horizontal inequity.

International comparisons are not generally helpful because Jamaica has only two income tax brackets (zero below the threshold and 25 percent above it) whereas most countries have multiple brackets. Using for comparison a somewhat arbitrary list of countries but selected to be representative of both developed and developing ones, Jamaica falls in the middle ranked by the income level at which the tax liability reaches 25 percent of income – the rate that applies above Jamaica's threshold (Figure 4).

Jamaica's income tax threshold falls in the middle of countries at which incomes reach the 25% tax bracket.

4 Income (Relative to GDP per Capita) at which Earners are Taxed at 25%



Source: Capri calculation from Wikipedia data.

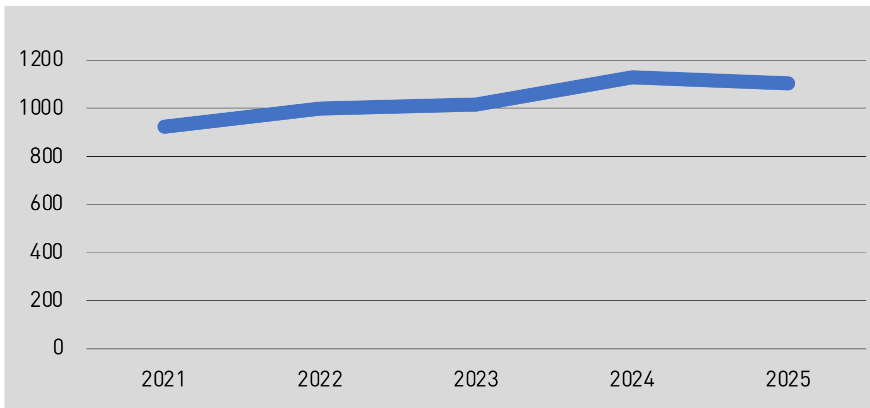
Increased reliance on direct taxes is problematic because, in the context of an economy with a high share of informal activity, income taxes are less efficient than indirect taxes due to the prevalence of evasion. GCT and import duties (indirect taxes) have fewer points of collection and so have a lower rate of evasion.

Revenue Decrease

Government revenue (which excludes loan receipts) is expected to be lower in purchasing power in this fiscal year than the last fiscal year. This is the first time this has happened since the pandemic. It is programmed to fall by 3 percent to $1.10 trillion from $1.13 trillion, inflation adjusted (Figure 5). Revenue from taxes is approximately flat so the entire reduction in the total inflow is due to a projected 20 percent decrease in non-tax revenue in 2025.

Government revenue is budgeted to dip after years of increases.

5 Revenue, Adjusted for Inflation (PPE$b)



Source: Ministry of Finance and the Public Service, various years.

This substantial decrease in non-tax revenue in 2025 is due to the previous year's non-tax intake being unusually high because of a one-off securitization transaction. In 2024/25, the government secured US$480 million through the securitisation of assets belonging to the Norman Manley International Airport (NMIA). This means that the government had grouped together expected revenue sources over the next 12 years that are due to the NMIA and converted it into a bond, which is the security. This security is then sold to investors in the international capital markets. Under the transaction, the investors have the right to collect revenue from the persons who owe it to the NMIA for the next 12 years, while the government will get cash for selling them. It is an exchange of money expected in the future in order to get money in the present of an equivalent value.[19]

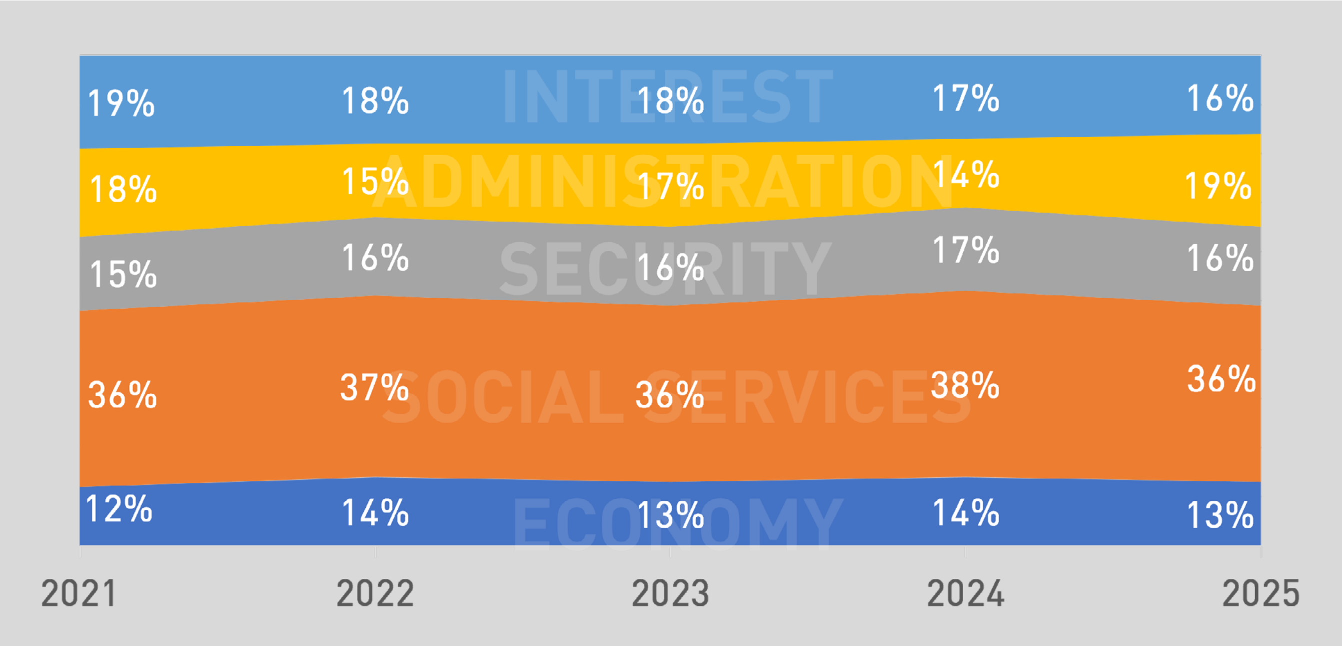
Since the revenue reduction is due to a one-off adjustment, it is not meaningful in terms of what to expect going forward. We can expect the trend growth in real revenue to resume in the coming years, barring an economic catastrophe.

Expenditure

One notable development on the expenditure side is the completion of the implementation of the public sector salary increases promulgated two years ago. The budgeted allocation for "Economic and Fiscal Management" under the Functional Classification of Expenditure, General Public Services, has increased by 28 percent, adjusted for inflation, over the expenditure for that category two years prior. This explains why the "Administration" share of public expenditure is projected to increase over those same two years from 17 percent to 19 percent (Figure 6). As a result, the share of expenditure devoted to other functional categories (security, social services, and the economy) as well as the purchasing power allocation, is projected to decrease.

The share of expenditure from all other categories decreases to make way for the public sector salary increases.

6 Distribution of Expenditure Across Functional Categories



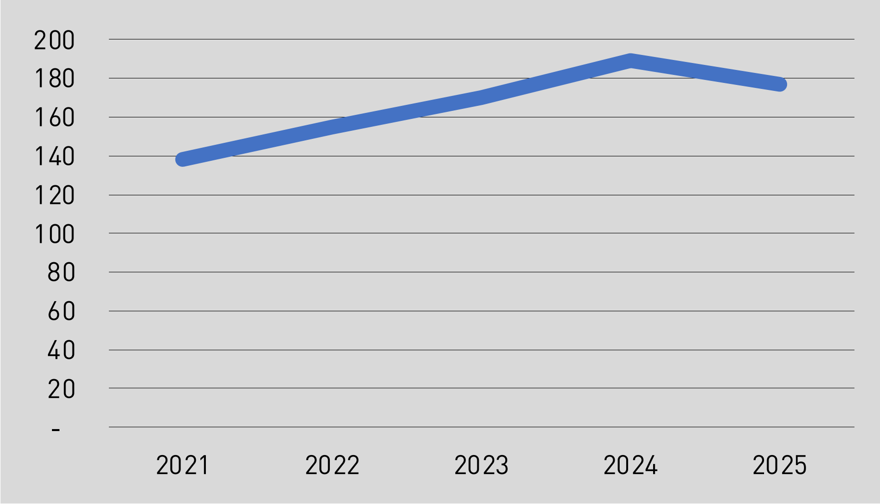
Source: Ministry of Finance and the Public Service, various years.

National Security

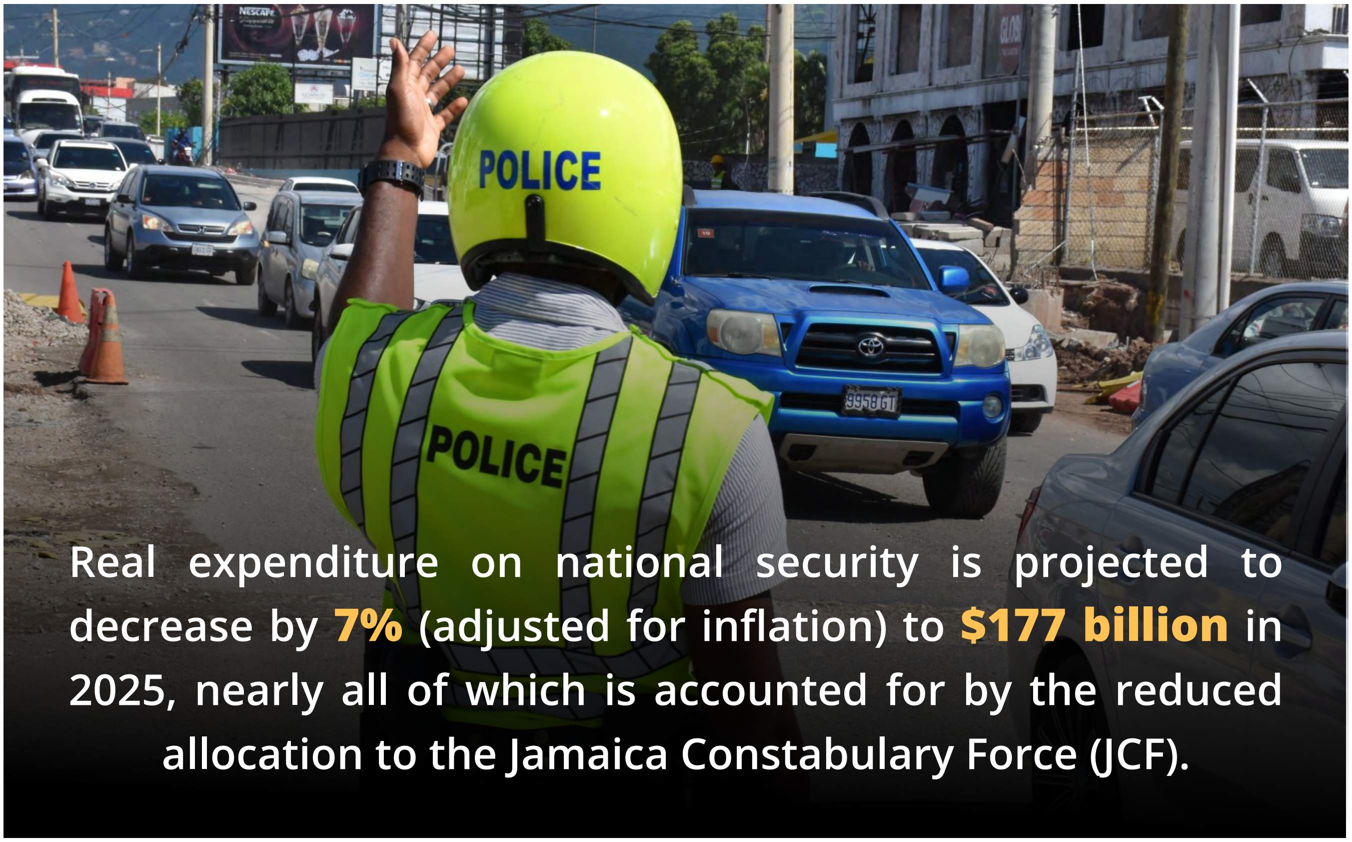
Spending on security is expected to decrease after years of steadily increasing. From 2021 to 2024, expenditure on national security increased substantially by 37 percent, even after accounting for inflation (Figure 7). Much of that was overdue equipment upgrades and acquisitions.[20] These included offshore patrol vessels, Bushmaster vehicles, troop carriers, ambulance variants, service helicopters, and patrol aircrafts, which are big ticket items.

Expenditure on security is budgeted to dip after years of increases.

7 Expenditure on National Security, Adjusted for Inflation (PPE$b)



Source: Ministry of Finance and the Public Service, various years.



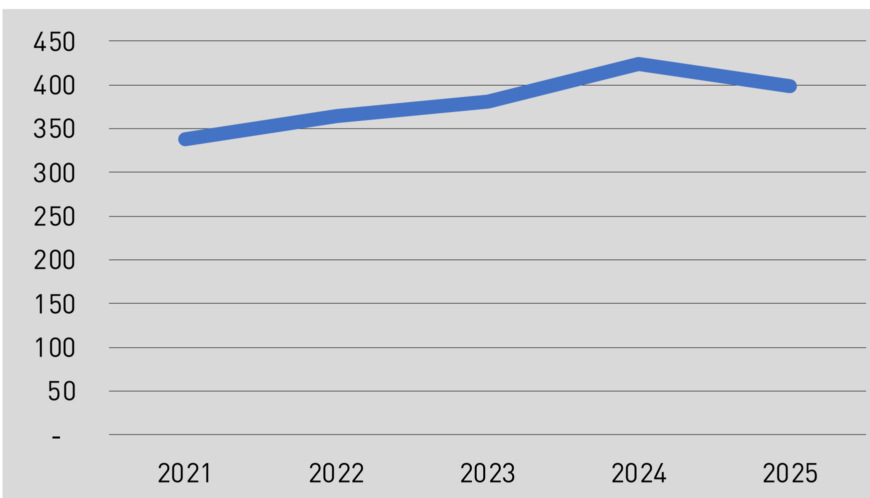
In 2025, real expenditure on national security is projected to decrease by 7 percent to $177 billion, nearly all of which is accounted for by the reduced allocation to the Jamaica Constabulary Force (JCF). Several capital projects are coming to a close, as planned, resulting in a smaller budgeted allocations than years prior. Among these capital investments were the Security Strengthening Project to enhance the efficiency and effectiveness of the JCF, and the construction of police divisional headquarters in Westmoreland and St Catherine North.[21] The changes in allocations to other areas of national security – the JDF, the justice system, and correctional services – were negligible.

Social Services

Spending on social services is by far the largest functional category in the budget absorbing more than a third of total expenditure. Adjusted for purchasing power, social spending is projected to decrease by 6 percent, to $399 billion, after gradually and steadily increasing in preceding years (Figure 8).

Expenditure on social services is projected to dip after steady annual increases.

Expenditure on Social Services, Adjusted for Inflation (PPE$b)



Source: Ministry of Finance and the Public Service, various years.

In 2025, the total allocation for social services contains a 12 percent cut to the education budget, in purchasing power terms, but negligible increases/decreases in other categories. This expenditure cut will be reflected in the following areas: Education Administration, Primary Education, Secondary Education, and Tertiary Education.[22]

Economy

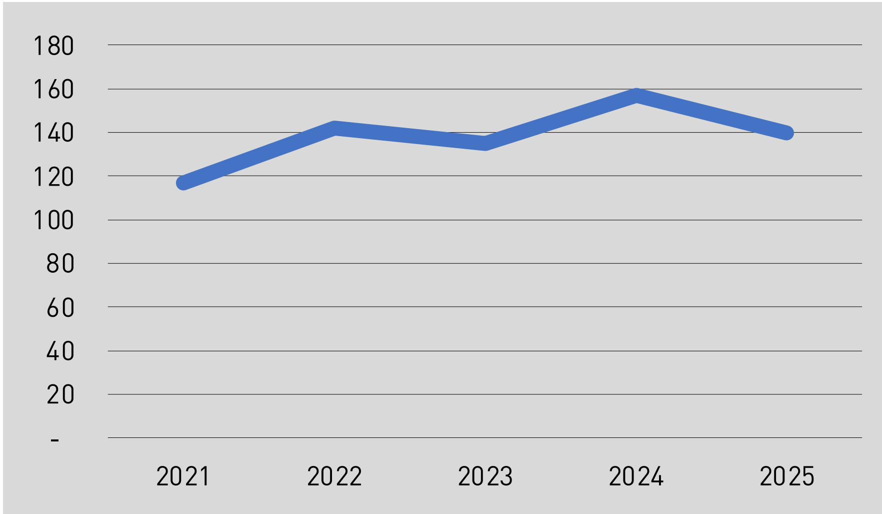
Expenditure related to the country's economic activities (manufacturing, agriculture, tourism, finance, construction, distribution, and so on) along with that on environmental protection and conservation, are classified under the "economy" as a functional category. The allocation to expenditure related to the economy is expected to see an 11 percent decline in 2025, down to $140 billion from $157 billion (Figure 9). This decrease is due to a reduction in the allocation of funds for two of the major road infrastructure projects, the Southern Coastal Highway Improvement Project and the Montego Bay Perimeter Road Project.[23] In previous years (2021 and 2023), there were increases (16 to 21 percent) in the expenditure on the economy, in areas of industry and commerce, and transportation and communication; these were most likely cases of one-off investments rather than ongoing maintenance costs.

Administration

"Administration" refers to the back office and overhead spending of government.[24] For the 2025/26 fiscal year, there is a projected 27 percent increase in real expenditure, to $203 billion. While expenditure in the other functional categories of (national security, social services, economy), are all projected to decrease, public administration is projected to get an increase in expenditure in the fiscal year 2025/26 (Figure 10).

Expenditure on the economy has fluctuated in recent years.

9 Expenditure on the Economy, Adjusted for Inflation (PPE$b)

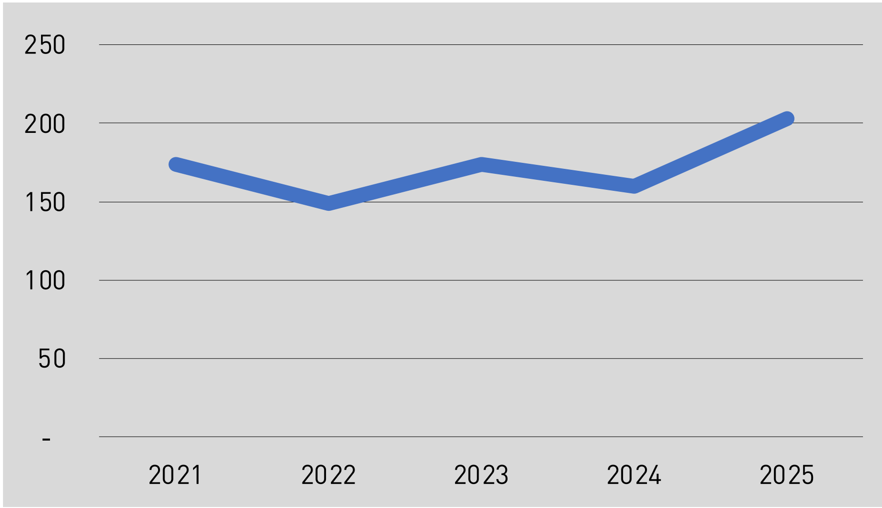


Source: Ministry of Finance and the Public Service, various years.

"Administration" refers to the back office and overhead spending of government.

The allocation to public administration has increased due to public sector salary increases.

10 Expenditure on the Public Administration, Adjusted for Inflation (PPE$b)



Source: Ministry of Finance and the Public Service, various years.

For 2025/26, expenditure for public administration is 19 percent of total expenditure, which is five percentage points more than it was since the new compensation structure for the public sector and the associated salary increases were implemented. This continued increase in the allocation of funds to public administration includes new rates of pay for several groups including medical consultants, parish judges and Probation/ Aftercare officers; and back pay due to medical consultants and the judiciary. The allocation, through a Supplementary Budget, includes a contingency of approximately $33 billion provided under the Ministry of Finance and the Public Service for further distribution across Ministries, Departments, and Agencies of Government (MDAs) once definitive calculations in respect of the requirements for the fiscal year 2025/26 by each MDA are identified.[25]

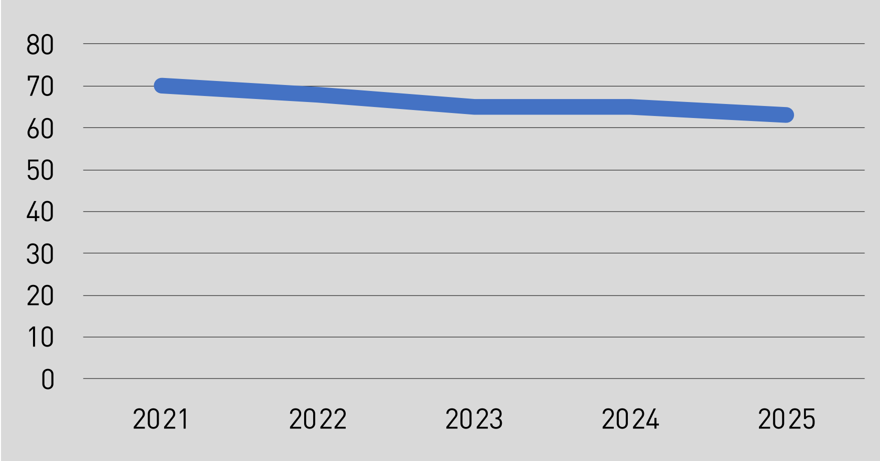
The salary increases necessarily result in a larger share of public funds going to Administration, and therefore to some level of budgetary reallocation away from the security, social services, and economic functions, following years of increases in those areas.

Capital Expenditure

The capital expenditure budget cuts across all the functional categories, referring to spending within those functions on fixed assets such as public buildings, transportation networks, and infrastructure. Its defining characteristic is that the assets procured are intended to last many years. The 2025 budget continues a downward trend for capital expenditure after a year of minimal growth. There is a projected 3 percent decline in capital expenditure in 2025, to $63 billion from $65 billion (Figure 11). The majority of this $63 billion will fund major infrastructure projects that were already underway and had slower-than-planned progress in the previous fiscal year.[26]

Capital expenditure will continue a downward trend after a year of minimal growth.

11 Capital Expenditure, Adjusted for Inflation (PPE$b)



Source: Ministry of Finance and the Public Service, various years.

The capital expenditure budget cuts across all the functional categories, referring to spending within those functions on fixed assets such as public buildings, transportation networks, and infrastructure.

4 Policies and Programmes

The maximum Smart Energy Loan, which facilitates the installation of solar energy generation at a home, has been increased from **$1.5m** to **$2.5m**.

The annual budget presentation by the Prime Minister is traditionally when the administration's major new policy proposals are announced. In this section, we analyse those with implications for the fiscal budget.

The Solidarity Programme

The Solidarity Programme is a new social assistance initiative that aims to provide a one-time cash transfer of $20,000 to $50,000 to individuals who are not enrolled in any existing social welfare programmes. In addition to offering immediate financial relief, the programme seeks to facilitate access to birth certificates and national IDs for those lacking these documents. The initiative also aims to serve as an entry point to the wider social safety net, with eligible beneficiaries being referred by the Ministry of Labour and Social Security for possible enrolment in the established programmes such as PATH and the NIS. It is projected to cost $1 billion and will be administered through the online portal previously used for the emergency cash transfer programme during the COVID-19 pandemic. Additionally, Members of Parliament will be asked to identify eligible beneficiaries within their constituencies.

In principle, the programme is well-placed to reach its intended target group. Given that eligibility may be verified through cross-checks with databases from PATH, NIS, and other welfare programmes, it is unlikely that persons outside the target group will benefit. This mitigates the concern that the involvement of Members of Parliament in the selection process may introduce favouritism and corruption, since those selected will still have to go through eligibility checks. In fact, leveraging the reach of Members of Parliament may help surface eligible individuals who would otherwise remain disconnected from formal outreach efforts. From an equity perspective, the Solidarity Programme adheres to the redistributive principles of transferring funds from those with higher income to those most in need. However, the one-time nature of the transfer limits its redistributive capacity.

Despite its strengths in targeting and equity, the programme's potential efficiency is constrained by its scale and design. While unconditional cash transfers are among the most efficient tools for addressing poverty, the $20,000 one-time grant is unlikely to shift recipients above the poverty threshold or lead to lasting improvements in well-being. The programme's main value may lie in facilitating access to birth certificates and IDs, and in serving as a referral point into other forms of support through other initiatives.

The Solidarity Programme is a new social assistance initiative that aims to provide a one-time cash transfer of $20,000 to 50,000 to individuals who are not enrolled in any existing social welfare programmes.

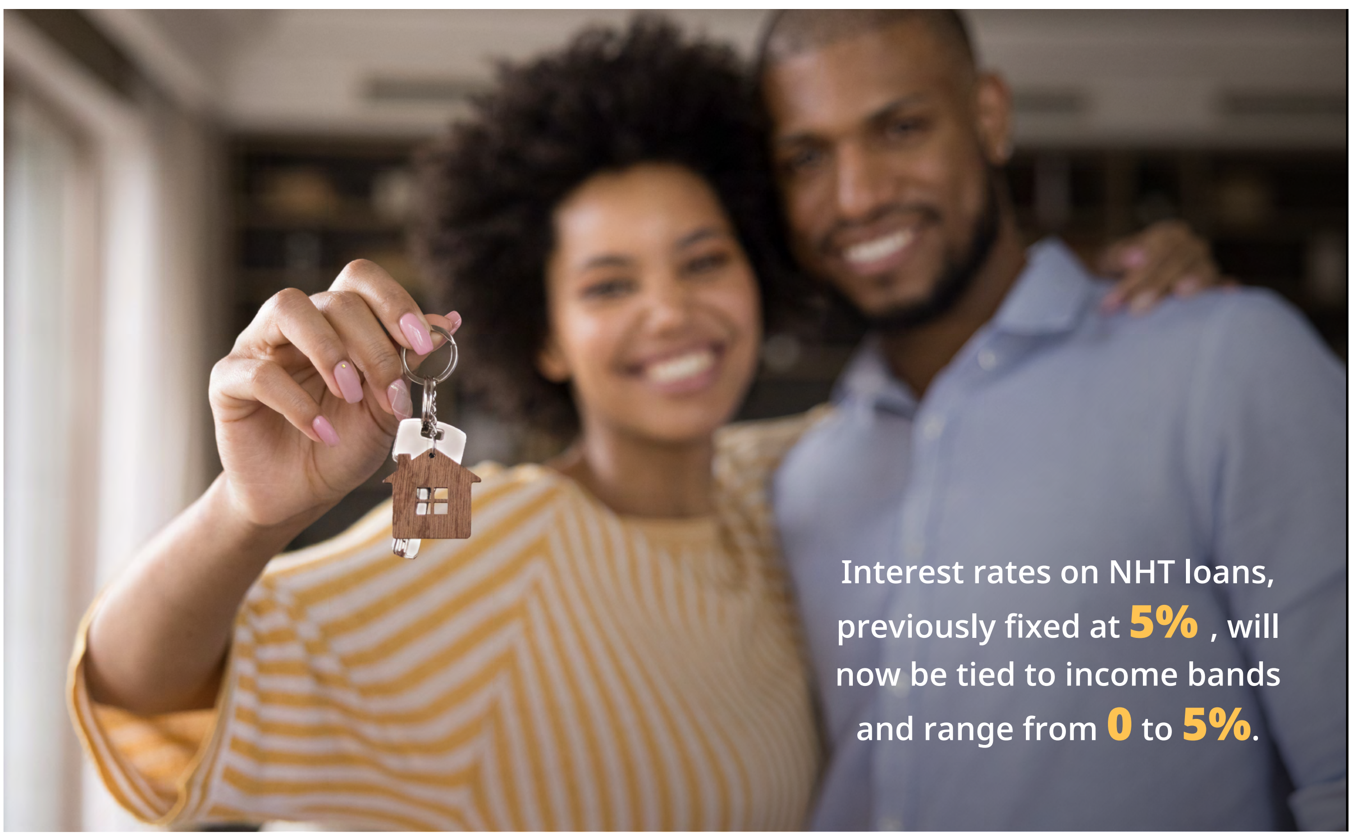
Notwithstanding those benefits, the creation of a new initiative, rather than reforming or expanding existing programmes, raises questions about duplication and opportunity cost. The funds allocated to the Solidarity Programme might have yielded greater long-term impact if directed instead toward addressing the issues of established safety nets. For example, PATH's effectiveness continues to be limited by its use of conditionalities, which impose administrative costs and reduce accessibility. Reforming PATH by removing those conditions would result in improved targeting and efficiency, while freeing up resources to support a broader population more sustainably.

The use of the existing pandemic cash transfer portal for application and distribution for this new programme is likely to keep administrative costs low, particularly since the system was previously deployed at scale during the pandemic. However, this digital approach may inadvertently exclude individuals without internet access or digital literacy, particularly in rural areas or among the elderly, groups that the programme specifically aims to reach. The Ministry of Labour and Social Security may also face additional administrative burdens, especially if a large number of Solidarity Programme beneficiaries are eligible for referral into longer-term support schemes.

NHT Lending Reforms

The government has announced a host of changes to the NHT's lending policies, aimed at improving access to homeownership for low and middle-income contributors. The loan limit for individual mortgagors has been increased from $7.5 million to $9 million, with proportional increases for co-applicants: from $15 million to $17 million for two applicants, and from $21 million to $23 million for three. For contributors purchasing units priced at $14 million or less, the NHT will offer financing of up to $12 million, subject to availability. Loan limits for construction have also been raised, while the wait time for home improvement loans has been reduced from ten to seven years.

In addition to increasing borrowing capacity, the NHT has introduced several measures aimed at reducing upfront homeownership costs. For open market purchases at or below $14 million, contributors earning less than $30,000 per week will see the required deposit fall from five to two percent. Service charges will also be reduced from 2 percent to zero for those earning up to $30,000, and from 5 to 2 percent for those earning between $30,000 and $42,000. For higher earners, the service charge remains at 5 percent. Interest rates on NHT loans, previously fixed at 5 percent, will now be tied to income bands and range from 0 to 5 percent. The maximum Smart Energy Loan, which facilitates the installation of solar energy generation at a home, has been increased from $1.5 million to $2.5 million.



Though these measures support the aim of improving housing availability for NHT contributors, they fall short of the total reform needed to improve the NHT's targeting and equity. Given that the lending reforms are still tied to formal qualification for mortgages, they will likely not be adequate in supporting many low-income earners who are constrained by informal employment and the immediate pressures of day-to-day consumption. Though income-based interest rates and targeted deposit requirement reductions are steps that improve the institution's targeting, the NHT could come closer to achieving its mandate by reserving subsidies only for the poorest contributors. The NHT has the capacity to implement the proposed changes, as they are incremental and fall within the scope of its existing operations.

Revised Income Tax Relief Act

The finance minister announced the government's intention to revise the Income Tax Relief (Large-Scale Projects and Pioneer Industries) Act. That act was passed in 2013 with the intention of encouraging foreign direct investment in large scale projects. It remains unclear if there was ever any new investment that took advantage of those incentives. The promulgation of a revised act is intended to correct its weaknesses, including supporting regulations, with the intention of more successfully attracting investment.

This measure raises two concerns. The general problem with tax breaks is that accounting for businesses' external costs, that is, its use of public infrastructure and public services, is an inherent cost of a business (and individual) being located in a country, and thereby must be paid for by someone. To any extent that some businesses are relieved of that obligation, then it necessarily increases the burden on other businesses and individuals who are left to pay for it. In other words, every tax break is a subsidy to one business that has to paid for by everyone else. No case has been made for why other businesses or individuals should bear that burden.

The second concern is whether tax obligations are the binding constraint to investment in Jamaica. In the presence of a tight labour market overall, a shortage of skilled labour, concerns about crime and violence (justified or not), and the uncertainty in the US economy resulting from unpredictable economic policy, and without empirical evidence showing such, there is no rational basis on which to presume that tax incentives will actually attract large scale foreign investment.

5 Conclusion

Although the Solidarity Programme is well-targeted and aligned with redistributive principles, its effectiveness is limited by its scale and one-time nature, making it unlikely to create lasting poverty alleviation.

The 2025 budget is explicitly premised on economic growth of 2.2 percent, inflation of 5.3 percent, and a current account balance of 0.2 percent. This budget can be said to be credible because the government's macroeconomic projections are in line with those reported by independent organisations such as the IMF and the World Bank. Besides being credible, this budget is fiscally sustainable as it is consistent with continued public debt reduction. Jamaica's debt to GDP ratio, which was 147 percent at its peak, is on a downward trajectory and is projected to decrease to 64 percent by the end of this fiscal year 2025/26.

There are several major shifts and trends reflected in this budget. First, there is a continued shift from indirect taxes to direct taxes. Over the last five years, the share of revenue deriving from direct taxes has increased by almost a third, from 24 to 31 percent, whereas the share of revenue deriving from indirect taxes has decreased from 28 percent to 26 percent. Second, there is a projected 3 percent contraction in government revenue to $1.1 trillion (adjusted for inflation), reversing the recent trend of continual increases. This is due to the previous year's non-tax intake being unusually high because of a one-off securitization transaction. Thirdly, there is a projected increase in the cost of public administration by more than a quarter, to $203 billion (adjusted for inflation), due to the new compensation structure for the public sector and the associated salary increases. There is also a contraction (in purchasing power terms) in the budgets allocated to security, social services, and the economy from last year, after years of expansion in the years prior. This is due to some of the previous years' expenditures going towards one-off projects and investments. The last major shift is the projected 3 percent decrease in capital expenditure (spending on infrastructure and other fixed asset acquisition) in this fiscal year 2025/26, after a year of minimal growth. This will fund most of the major infrastructure projects that were already underway and had slower-than-planned progress in the previous fiscal year.

The new budget has been accompanied by three relatively minor social policy initiatives. These are the Solidarity Programme, the NHT Lending Reforms, and the Revised Income Tax Relief Act. The Solidarity Programme is a new social assistance initiative providing a one-time cash transfer of $20,000 to $50,000 to individuals not enrolled in existing welfare programmes, while also facilitating access to birth certificates, national IDs, and potential entry into other social safety nets. Although well-targeted and aligned with redistributive principles, its effectiveness is limited by its scale and one-time nature, making it unlikely to create lasting poverty alleviation. The government has also increased NHT loan limits, reduced deposit and service charge requirements for lower-income earners, and introduced income-based interest rates to improve access to homeownership. While these measures enhance affordability, they fall short of the more comprehensive reforms needed to improve the NHT's targeting and equity, as many low-income earners in informal employment may still struggle to qualify, and subsidies could be better targeted to only the poorest contributors. In addition to this, the government plans to revise the Income Tax Relief Act to better attract large-scale foreign investment, though it is unclear if the original incentives were ever effective. Further, this raises concerns about shifting tax burdens onto other businesses and individuals, as well as whether tax breaks truly address Jamaica's investment challenges, given issues such as labour shortages, crime, and global economic uncertainty.

The government plans to revise the Income Tax Relief Act to better attract large-scale foreign investment, though it is unclear if there was ever any new investment that took advantage of those incentives.

Recommendations

Jamaica's record of responsible fiscal management over the last 12 years is remarkable and rightfully widely lauded. It has put the country on a stable foundation upon which has been built sound monetary policy, exchange rate stability, good treasury management, and improved public service delivery, all of which support a greater level of investment and a higher standard of living. With that background, we make the following recommendations.

1

Continue to make debt reduction the focus of fiscal management – The debt to GDP ratio is expected to fall to 60 percent by the end of the next fiscal year. While that level is held as a threshold below which public debt is not deemed to be a outsized risk, in an increasingly volatile and unpredictable world, both naturally and geopolitically, the vulnerability of a small economy demands a thick layer of resilience. Debt levels need to be lower than 60 percent to have that cushion. And while interest payments of 16 percent of revenue is big improvement compared to the 50 percent that once obtained, it remains too large a chunk of revenue that could be going towards improved public services and welfare. So further debt reduction is required.

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. With over half the working population outside the income tax net, income taxes are horizontally iniquitous. Consistent with their already announced annual rises in the income tax threshold, the government should continue to raise it at least roughly 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. Compelling reasons have to be found to justify why one sector should "subsidise" another. 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 be forced to cover all their costs, including external ones provided by the state. That is what taxes do.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Endnotes

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22 MOFPS, "GOJ Fiscal Policy Paper FY 2025/26."

23 MOFPS, "GOJ Fiscal Policy Paper FY 2025/26."

24 Administration includes the following categories: Economic and Management, Foreign Affairs, Public Debt Management, and Other General Public Services.

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The Caribbean Policy Research Institute (CAPRI) is a not-for-profit, public policy think tank dedicated to the production and dissemination of impartial, evidence-based knowledge to inform economic, governance, sustainable and social policy decision-making in Jamaica and the wider Caribbean.

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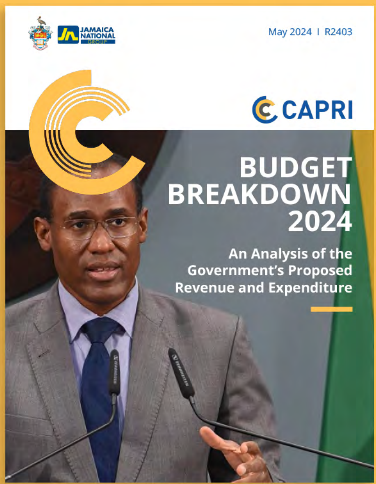

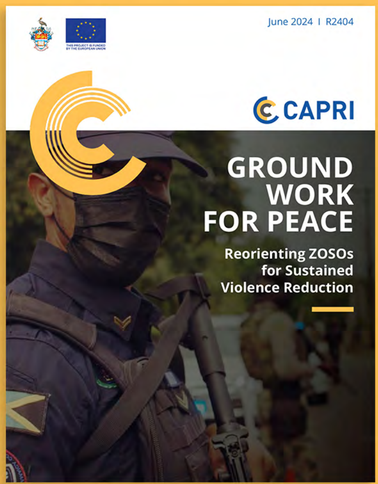

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Notes

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An Analysis of the
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