

MID-YEAR FISCAL UPDATE

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Note:

- See Table 1 for a Statement of Cashflows
- The Statement of Cashflows excludes the VAT Government pays to itself. Therefore there is no VAT expense. VAT revenue excludes a similar amount.

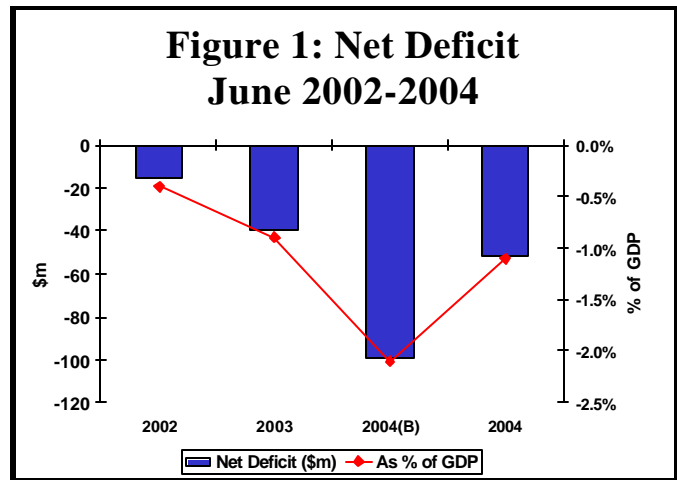
MID-YEAR DEFICIT AT 1.1 % OF GDP

Central Government net deficit for the six-months ending 30 June 2004 stood at \$52.4 million equivalent to 1.1 percent of GDP. In comparison the forecast for the period was \$99.5 million or 2.1 percent of GDP.

The better than expected performance was largely due to buoyant operating receipts - \$499.9 million was collected against budgetary expectations of \$465.6 million.

Total expenditure including commitments stood at \$552.7 million in comparison to the forecast of \$565.3 million. The bulk of this underspending occurred in capital transfer payments and interest payments.

Year-end net deficit is expected to remain within the targeted level of 3.5% of GDP. This is despite seeking Parliamentary approval in April 2004 to incur additional expenditure of \$11.9 million.



This expenditure was for the purpose of flood relief (\$9.0 million); a state funeral (\$1.3 million); and Legislature expenses (\$1.6 million).

It is expected that buoyant revenue collections will continue to the end of the year and therefore negate the need to incur additional borrowing.

Government savings which is the excess of operating receipts over operating expenditures was a surplus of

\$19.0 million. This was an improvement over the forecast where a deficit of \$18.9 million was expected. The improvement is again due to buoyant operating receipts.

REVENUE EXCEEDS EXPECTATIONS

Total Revenue for the period under review stood at \$500.5 million against a forecast of \$465.8 million. This variance emanates from direct taxes, indirect taxes and dividends.

A total of \$144.4 million was

collected in direct taxes. Of this, \$84.3 million was personal or income taxes, 9 percent above budgetary expectations and 14 percent above receipts in the same period in 2003.

This is in line with improved

labour market conditions and a slight increase in private sector wages.

The top marginal income tax rate was decreased from 32 to 31 percent this year but the impact is expected to be marginal. (continued)

REVENUE EXCEEDS EXPECTATIONS

(CONTINUED FROM OVERLEAF)

Another major component of direct taxes is company tax. Although slightly below budgetary expectations, significant variations are not expected for year-end collections.

Indirect taxes consists of fiscal, excise, and export duties and VAT. Fiscal and excise collections have surpassed expectations for the period under review, by 7 and 23 percent respectively.

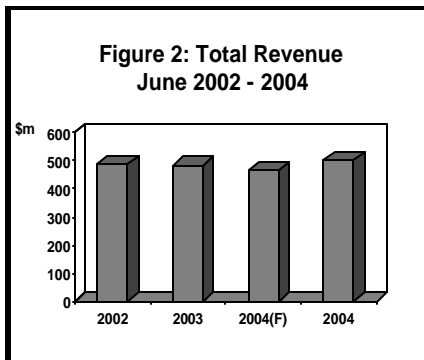
VAT receipts are slightly below forecast, due to lower than expected collections of Import VAT. As Import VAT collections are congruent

with Fiscal Duty, this performance may be due more to an optimistic forecast than anything else.

Other operating receipts, which is a collection of grant in aid, interest and divi-

dends, fees and charges and other miscellaneous receipts is about 15 percent above budgetary expectations.

This positive variance emanates largely from dividends and grants in aid.



Investing receipts consists of the sales of assets and the repayment of loans. Of the latter, \$0.6 million was received for the period under review. There have been no asset sales to date.

“Total expenditure...2 percent below budgetary expectations.”

MIXED PERFORMANCES UNDER EXPENDITURE

Expenditure data reported here also includes \$44.0 million in commitments.

Total expenditure for the period under review stood at \$552.9 million, 6 percent above spending in the corresponding period in 2003 and 2 percent below budgetary expectations.

The largest component of expenditure, personnel stood at \$241.5 million, slightly above the forecast of \$239.7 million. The culprits behind this overspending were the Ministries of Home Affairs, Education and Health.

Operating transfer payments include pensions, grants, subsidies and other transfers. This expenditure item stood at \$94.4 million within the budgetary forecast of \$96.6 million. Pension payments to civil servants on the Government pension scheme totaled \$17.3 mil-

lion.

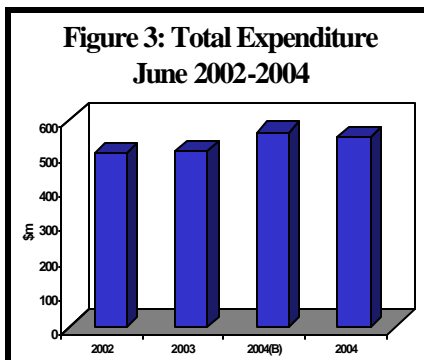
Supplies and consumables cover maintenance expenses, the purchase of goods and services and travels and communication expenses. Spending under this allocation amounted to \$73.5 million, about 10 percent above budgetary expectations. The bulk of this overspending emanates from the purchase of goods and services by the Ministry of Health.

The purchase of outputs refers to special expendi-

tures unique to ministries and departments. Spending totaled \$13.2 million, on par with budgetary expectations. Interest costs were below forecast by about 15 percent.

Investing or capital expenditure stood at \$71.8 million for the period under review. This was 11 percent below forecast.

The largest component of capital expenditures are the purchases of assets. This amounted to \$45.1 million, slightly below budgetary expectations.



Capital transfer payments are grants and transfers made for capital purposes. Disbursements for the period under review stood at \$26.5 million, 22 percent below expectations.

TABLE 1: STATEMENT OF CASHFLOWS
AS AT 30 JUNE 2004
(\$m)

	June 2002	June 2003	June 2004(B)	June 2004
OPERATING CASHFLOW				
Receipts				
Direct taxes	122.15	129.62	128.70	144.40
<i>Corporate taxes</i>	58.69	62.82	64.49	61.40
<i>Personal taxes</i>	71.55	73.65	76.99	84.26
Indirect taxes	196.96	270.37	269.16	277.57
<i>Fiscal duty</i>	71.80	87.94	90.42	97.04
<i>Excise duty</i>	29.38	29.55	29.25	36.11
<i>Export duty</i>	0.00	5.40	2.44	2.83
<i>VAT (Net)</i>	94.94	146.03	145.50	140.53
Fees, Fines & Charges	30.16	26.35	21.23	21.79
Grants in aid	0.16	0.79	1.73	3.01
Interest & Dividends	38.96	23.89	13.72	22.98
Other	31.86	32.27	31.07	30.14
Total operating receipts	420.25	483.30	465.61	499.89
	101.14	83.30	67.75	77.92
Payments				
Personnel	233.64	223.13	239.73	241.51
Transfer payments	83.12	87.27	96.56	94.41
Supplies and consumables	60.61	55.94	66.67	73.46
Purchase of outputs	11.27	10.71	13.24	13.41
Interest paid	51.95	55.92	67.67	58.04
Other operating payments	0.04	0.03	0.60	0.27
Total operating payments	440.63	432.99	484.47	481.09
Government Savings	(20.38)	50.30	(18.86)	18.79
<i>as a % of GDP</i>	<i>-0.5%</i>	<i>1.1%</i>	<i>-0.4%</i>	<i>0.4%</i>
INVESTING CASHFLOW				
Receipts				
Sale of government companies	64.54	0.00	0.00	0.00
Repayment of loans	4.00	0.18	0.20	0.57
Total investing receipts	68.54	0.18	0.20	0.57
Payments				
Loans	5.90	0.69	0.16	0.16
Transfer Payments	20.24	31.46	34.34	26.51
Purchase of physical non-current assets	37.45	58.37	46.36	45.11
Total investing payments	63.59	90.52	80.86	71.78
Net Investing Cashflow	4.95	(90.34)	(80.66)	(71.21)
<i>as a % of GDP</i>	<i>0.1%</i>	<i>-2.0%</i>	<i>-1.7%</i>	<i>-1.5%</i>

GFSM2001

The Ministry of Finance and National Planning is pursuing an alternative presentation of the financial accounts of Government.

This alternative method is known as GFSM2001. The method aims to enhance transparency in the presentation of statistics and revolves around the concept of **Net Worth**.

In its full form, GFSM2001 reports on an accrual basis and covers central government, extra budgetary accounts, local governments and all public corporations. Two major statements under the GFSM2001 are the Statement of Government Operations and a Balance Sheet.

To begin with, Government records financial data on a cash basis and has little knowledge of the value of its assets, although steps are

being taken to shift to an accrual system and measure Government assets. In the interim, only a Statement of Government Operations [see Annex 2] on a cash basis can be constructed.

In terms of revenue, there is a slightly different classification. Transactions such as the repayment of loans or the sale of assets, which were previously classified as "investing receipts", are now transactions in financial assets.

For expenses, the broad classification under the Statement of Cashflows [Table 1] is maintained, however, capital expenditure such as the capital construction and the purchase of assets is no longer an expense but the acquisition of non-financial assets that ultimately adds to the stock of assets in the balance

sheet.

In addition, capital transfers, that is grants and transfers for capital purposes are now simply classified as expenses.

In addition to budgetary accounts, the Statement of Government operations also includes extrabudgetary accounts such as the revolving and contingencies fund account.

Under the GFSM2001, central Government borrowed a net of \$21.8 million to finance its operations. It incurred net liabilities of \$12.6 million and reduced the value of its assets by \$9.2 million to fund this borrowing.

Table 2 outlines a Statement of Government Operations. Reconciliation between this Statement and Table 1 is

*"...GFSM2001
revolves around the
concept of Net
Worth..."*

Table 2: Statement of Government Operations

(\$m)	2003			2004		
	Budget	Extra-budgetary	Total	Budget	Extra-budgetary	Total
Transactions affecting Net Worth						
1 Revenue	519.82	-	519.82	542.51	-	542.51
11 Taxes	436.52	-	436.52	464.59	-	464.59
12 Social contributions	-	-	-	-	-	-
13 Grants	0.79	-	0.79	3.01	-	3.01
14 Other revenue	82.51	-	82.51	74.91	-	74.91
						-
2 Expenses	478.58	62.05	540.63	517.96	13.26	531.21
21 Compensation of Employees	220.64	-	220.64	240.50	-	240.50
22 Use of Goods and Services	59.42	-	59.42	64.01	-	64.01
24 Interest	55.94	-	55.94	58.31	-	58.31
26 Grants	94.01	-	94.01	96.85	-	96.85
27 Social Benefits	17.61	-	17.61	17.35	-	17.35
28 Other Expenses	30.95	62.05	93.00	40.94	13.26	54.19
						-
Net Operating Balance	41.24	(62.05)	(20.80)	24.56	(13.26)	11.30
Transactions in Non-Financial Assets						
31 Net Acquisition of Nonfinancial Assets	48.11		48.11	33.08	-	33.08
311 Fixed Assets	48.11	-	48.11	33.08	-	33.08
Net Lending/(Borrowing)	(6.87)	(62.05)	(68.91)	(8.52)	(13.26)	(21.78)

