



**Revenue and Expenditure Estimates for  
Fiscal Year 2017/18**

**Wednesday, April 26, 2017**

**Prime Minister and Minister for Finance, Economic Growth, Job  
Creation, External Affairs and the Public Service**

**Honourable Allen M. Chastanet**

**BUDGET 2017/2018**

## ***SUMMARY OF 2016-2017 BUDGET PERFORMANCE***

There was a marked improvement in the fiscal position of central government, which was reflected in a narrowing of the fiscal deficit from a target of 3.2 percent of GDP in the budget to an estimated 1.4 percent of GDP. This performance was attributed to a reduction of \$123.3 million in total expenditure from a target of **\$1.426 billion to \$1.302 billion** for the year. Total Revenue and Grants also declined by \$56.45 million to reach \$1.107 billion. Based on these developments, the primary surplus improved significantly to reach 2.3 percent of GDP compared to the forecast of 1.0 percent of GDP in the 2016-17 budget.

### **Revenues and Grants**

At \$1.107 billion, total revenues and grants fell short of the approved estimates by \$56.45 million or 5%, primarily as a result of lower grant receipts recorded for the fiscal year. Recurrent revenue increased marginally by 4 million dollars or 0.4% of the approved estimates. Tax revenue recorded a \$13.1 million surplus over its target of \$945.7 billion. This reflected robust performance in collections from Income Tax collections from Corporations, Excise Tax on Imports, Import Duty and Property Tax. Collections from the non-tax revenue category stood at \$91.9 million, falling short by \$8.2 million or 8.3 percent compared to the projection for the FY2016-17. The under-performance in this category was primarily as a result of the lower than anticipated receipts from the CIP which was partly offset by the receipt of the payout from the Catastrophic Risk Insurance Facility (CCRIF). There was a similar decline in grant receipts as the amounts expected from donor agencies did not materialize. Madame Speaker, it is worth noting that the increase in recurrent revenue was offset by a 44.8% shortfall in grant receipts resulting from lower than anticipated disbursements from donor agencies and friendly governments.

## **EXPENDITURE**

### **Recurrent Expenditure**

Preliminary data, reveals that recurrent expenditure is estimated to have recorded an outturn of \$1.088 billion which is equivalent to 98.9 percent of the approved budget. Spending on all major categories remained broadly in line with the estimates except for Goods and Services which exceeded the budgeted amount by \$1.8 million. In the case of Wages and Salaries, the total outlay on personnel expenses was in line with the budget, although expenditure on pension obligations exceeded the approved estimates by \$8 million. Spending on Transfers was lower than budgeted resulting in saving of \$10 million, of which \$3.3 million was applied to settle outstanding liabilities to the OECS (PPS) Drug Service for medical supplies. Total interest payments on public debt is estimated to have amounted to \$165.7 million which was \$4.7 million below the projection for the year. This was primarily as a result of a lower level of disbursements being made on some loans from multilateral and bilateral agencies.

### **Capital Expenditure**

Capital spending was again seriously affected by the delay in receipt of some grant funds as well as delays in implementation of capital projects for various reasons. Overall, capital expenditure is estimated to have achieved a utilization rate of 65.9 percent of resources allocated in the 2016-17 budget. At \$214.9 million, capital expenditure was below the budget by \$111.1 million and \$41.9 million lower than the outturn for the corresponding period in 2015-16.

## ***2017-18 BUDGET FORECAST***

The 2017-18 budget forecasts a modest improvement in revenue growth and an expanded capital programme in support of stimulating economic activity. The Budget proposes

expenditure amounting to \$1.513 billion dollars inclusive of refunds and principal repayment of \$124.5million. At this level, the budget targets a Primary Deficit of 1.1 percent of GDP and an Overall Deficit of 4.7 percent of GDP. Total expenditure excluding refunds and principal repayments is estimated at \$1.379 billion, while, total revenue and grants are projected at \$1.158 billion. When taken together, this results in a projected Overall Deficit of \$220.9 million, equivalent to 4.7 percent of GDP. To this figure, a further \$124.5 million for principal repayments is added to arrive at the Total Financing Needs of \$345.4 million.

<b>Comparative Summary of Budget Estimates, FY 2017/2018</b>				
<b>(EC\$million)</b>				
	<b>Actual</b>	<b>Approve</b>	<b>Preliminary</b>	<b>Draft</b>
	<b>Outturn</b>	<b>Estimate</b>	<b>Outturn</b>	<b>Budget</b>
	<b>2015/2016</b>	<b>2016/201</b>	<b>2016/2017</b>	<b>2017/2018</b>
<b>Total Revenue and Grants (\$m)</b>	1030.5	1164.2	1107.7	<b>1158.1</b>
<b>Total Expenditure (\$m)</b>	1158.5	1293.0	1170.6	<b>1379.0</b>
<b>Primary Balance(\$m)</b>	29.9	41.6	102.8	<b>-50.8</b>
<b>As % of GDP</b>	0.7%	1.0%	2.3%	<b>-1.1%</b>
<b>Overall Surplus/(Deficit) (\$m)</b>	(127.7)	(128.8)	(62.9)	<b>(220.9)</b>
<b>As % of GDP</b>	-2.9%	-3.2%	-1.4%	<b>-4.7%</b>
<b>Principal Repayment (\$m)</b>	118.5	123.3	122.2	<b>124.5</b>
<b>Financing Requirement (\$m)</b>	246.2	252.1	185.1	<b>345.4</b>
<b>GDP in current market prices</b>	4,464.8	4,018.6	4,546.12	<b>4,722.1</b>

The financing needs will be met from the following sources:

- Disbursement of \$84.7 million from Loans already contracted with our bilateral and multi-lateral development partners to fund part of our capital expenditure Program; and
  - \$50 million in Treasury bills and
  - \$208 million from bonds.

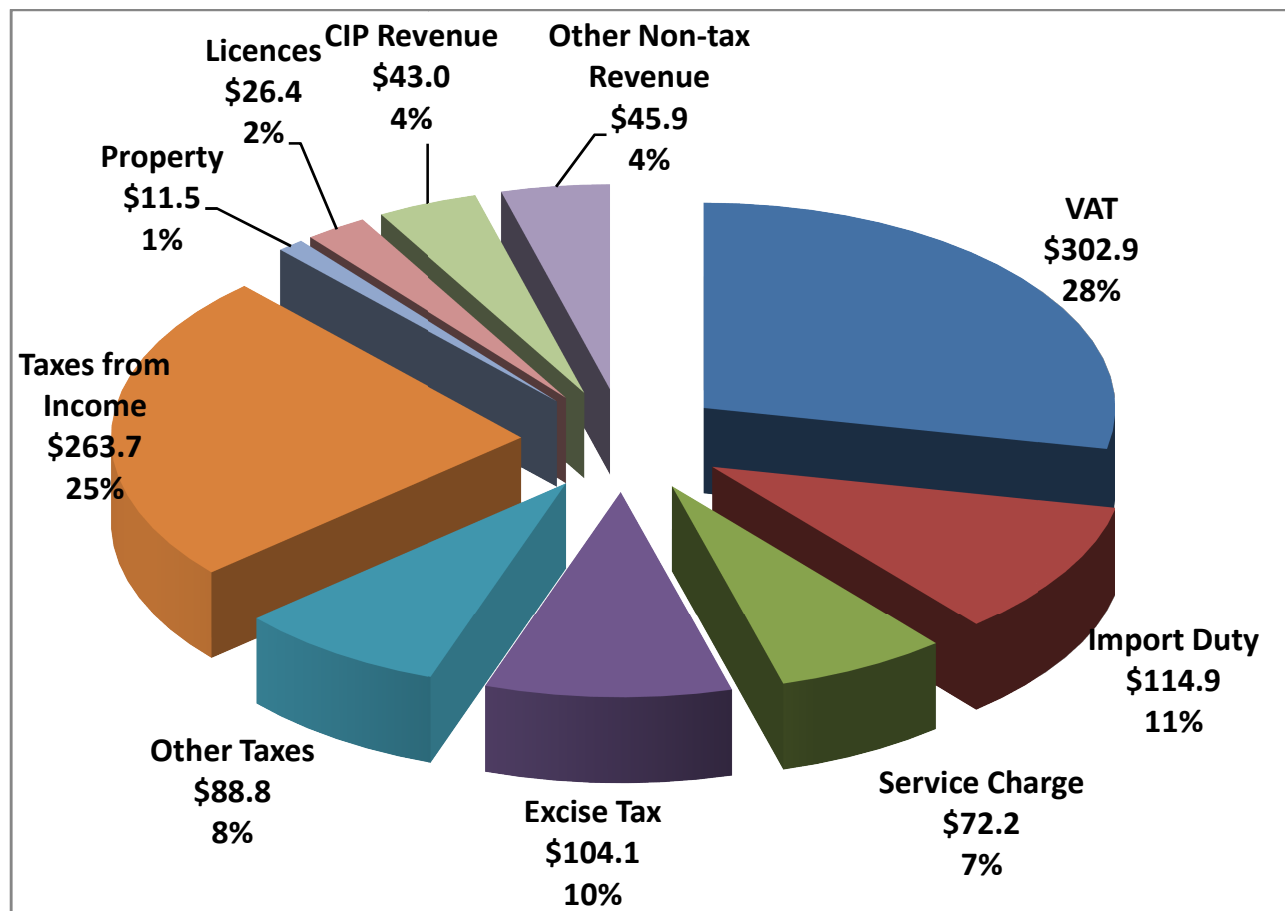
## **ESTIMATES OF REVENUE 2017-18**

The draft estimates projects total revenue and grants at \$1.158 billion, representing an increase of \$50.4 million over the preliminary outturn for the FY 2016-17, of which some \$25.5 million is attributed to the projected increase in grants receipts.

### **Recurrent Revenue 2017-18**

Inflows from recurrent revenue are projected to increase by \$22.1 million to reach **\$1.073 billion** for the fiscal year. This represents an increase of 2.1 percent over the Revised Estimates or outturn for the preceding year. The increase stems from the impact of the revenue enhancement measures, efficiencies in tax collections from the main tax sources, a more robust performance from Citizenship by Investment Programme as well as the anticipated improvement in economic activity for the FY 2017-18. The following illustrates the relative contributions by revenue/tax type.

**Chart 1: Sources of Government's \$1.073 billion in Recurrent Revenue in FY 2017/18**



The total projected recurrent revenue for 2017-18 comprises of tax revenue in the amount of **\$958.0 million** or 89.3 percent of Total Revenue and **\$115.4 million** in Non-tax Revenue or 10.7 percent of total revenue. Tax Revenue is forecast to increase marginally in comparison to the outturn for the FY 2016-17 while non tax revenue is expected to increase by 25 percent (or \$23.5 million) compared to the Revised Estimate for 2016-17.

The following table presents the itemized analysis of expected revenue outcome for 2017-18, compared to 2016-17 revised estimates/outturn.

<b>Table 1: Major Revenue Earners for the fiscal year 2017-18</b>			
<b>Major Revenue Lines</b>	<b>Preliminary Outturn</b>	<b>Estimates 2017-18</b>	<b>Percentage Change</b>
<b>Income Tax-Individuals</b>	106.1	104.8	-1.2%
<b>income Tax-Corporations</b>	99.0	89.6	-9.5%
<b>Income Tax Arrears</b>	24.3	26.3	8.5%
<b>Income Tax -Withholdings</b>	39.2	42.9	9.6%
<b>VAT</b>	336.5	302.9	-10.0%
<b>Import Duty</b>	113.6	114.9	1.1%
<b>Service Charge</b>	71.4	72.2	1.0%
<b>Excise Tax</b>	87.4	104.1	19.2%
<b>Property Tax</b>	12.0	11.5	-4.4%
<b>Other Taxes</b>	69.4	88.8	27.9%
<b>Tax Revenue</b>	<b>958.9</b>	<b>958.0</b>	<b>-0.1%</b>
<b>Licenses</b>	30.7	26.4	-13.9%
<b>CIP Revenue</b>	5.9	43.0	624.6%
<b>Other Non-Tax Revenue</b>	55.2	45.9	-16.9%
<b>Non-Tax Revenue</b>	<b>91.9</b>	<b>115.4</b>	<b>25.6%</b>

The forecasts for the major items are explained as follows:

#### **Taxes on Income and Profits:**

Taxes on income and profits are projected to amount to **\$263.74** million, up by **\$8.3m** or 13.6percent above the approved estimates for 2016-17. This is mainly attributed to the expected increase in revenues from corporation tax resulting from improved corporate profitability. The projection for the main items under this category is as follows:

#### **Income tax – corporations - \$89.6 million**

The revenue from income tax from corporations is expected to generate \$89.6 million

for the FY 2017-18 representing a 13.6 percent increase above the budgeted amount in 2016-17 but a 9.5 percent decrease compared to the outturn for 2016-17 (the 2016-17 performance included an amount carried over from 2015-16 due to an extension of time being given to a major company).

#### **Income Tax – Individuals – \$104.8 million**

Revenue from Income tax – Individuals has been maintained at just slightly under the level achieved in 2016-17. At 104.8 million, the projection reflects a 1.3% decrease in comparison to the 2016-17 outturn.

#### **Income Tax – Arrears - \$42 million**

Income tax arrears is projected at 42.9 million, up by 3.8 million from an outturn of \$39.2 last financial year. The tax amnesty program is expected to positively influence the revenue outcome for this line.

#### **Taxes on International Trade Transactions:**

Taxes on international trade (custom duties) are projected to grow by 5.8 percent to reach \$463.7 million in 2017-18, up from \$446.3 million in 2016-17. This revenue category accounts for 43.2 percent of recurrent revenue and is expected to benefit from the impact of revenue enhancement measures to be implemented during the course of the fiscal year. The revenue enhancement measures programmed in the budget are expected to yield an additional \$34 million of which 7 million is earmarked for the Tourism Authority and \$12 million for the establishment of a Sinking Fund. Of the total amount to be collected from taxes on international trade transaction, \$114.8 million is expected to come from Import Duty, \$72.2 million from Service charge, \$104.2 million from Excise Tax and \$28 million from Airport Tax. VAT from international trade transactions (Customs VAT) is projected to yield **\$139.2 million** in 2017-18, representing a drop of \$27.8 million or 17 percent compared to the 2016-17 budget estimate.



### Taxes on Domestic Sales

Taxes on domestic goods and services are expected to generate \$219.1 million in revenue, down by \$22.0 million or 9.1 percent compared to the approved estimates for FY 2016-17. The decline is attributed to the 2.5% reduction in VAT. Value Added Tax (IRD) from domestic sales and services is projected to decrease by \$25.3 million or 13.4 percent to reach \$163.6 million in 2017-18. Receipts from this source account for 74.7% of revenue from this category.

### Non-Tax Revenue

The 2017-18 budget proposal forecasts non-tax revenues totaling \$115.4 million, a 25.6 percent increase from the \$91.9 million collected in 2016-17. The main contributor to the increase is the inflow from the Citizenship by Investment Programme (CIP). The following are the major components of non-tax revenues and their expected performances in the 2017-18 budget proposal as compared to year-end 2016-17 figures:

#### **Licenses**

Receipts from licenses are projected to generate a total of **\$26.4 million**, reflecting a decrease of \$4.3 million or 14 percent below the revised estimates for the previous financial year. The decrease is influenced by the reduction in motor vehicle registration license fees and the usual decline occurring after the spike at the end of the triennium for driver's license.

#### **Fees, Fines and Forfeitures**

Revenue from fees, fines and forfeitures is expected to yield an additional \$38.6 million to reach **\$73.6 million** for the new fiscal year. At this level, the projection represents a 41.1 percent increase over the outturn for FY 2016-17 and is influenced by the higher revenue intake anticipated from the CIP fees as well as increased inflows from in-transit fees from higher cruise arrivals ((708,217 passengers).

### **Citizenship by Investment fee – \$43 million**

The receipts from this programme is the main item anticipated under the fees, fines and forfeitures category and are expected to amount to \$43 **million**. Although receipts from this revenue line performed below expectation in 2016-17, it is anticipated that the program will yield an additional \$37 million as the number of applicants to the programme are expected to increase in line with the recent changes made to the Programme.

### **Capital Revenue**

Inflows of capital revenue from sale of assets are projected to be lower than in the previous budget when some \$25 million was included for the sale of lands in Choiseul (Sable Wicha). In the 2017-18 budget estimates capital revenue of 7.4 million is projected from the sale of assets (use of a revolving fund established as part of the Shelter Development Project and PROUD).

### **Grants**

Total grant disbursements in the FY 2017-18 are projected to decline by \$9.8 million or 10.1 percent compared to the approved estimates of 97.2 million for the FY 2016-17. A total of \$87.4 million is anticipated, which constitutes 7.5% of the total resources to fund the budget and it is expected to finance 24.1 percent of the government's capital programme.

## **EXPENDITURE PROJECTION**

The 2017-18 Budget Estimates proposes an increase of \$87.4 million or 6.1 percent above the approved estimates for 2016/17 to reach \$1.513 billion. Relative to the preliminary outturn for 2016-2017, the proposed budget reflects an increase of \$210.7 million or 16.2 percent.

## **Recurrent Expenditure**

Of the 1.513 billion being proposed as total expenditure, \$1.151 billion or 76.1 percent is allocated to meet recurrent expenses, up by \$51.2 million or 4.7percent over the approved estimates for the preceding year. When compared to the 2016-2017 preliminary outturn, the outlay for 2017-18 represent an increase of \$63.5 million or 5.8 percent. The increase reflects significant upwards adjustments to cater for increases in wages and salaries, transfers and goods and services.

### ***Wages & Salaries***

Wages and Salaries are projected to increase by 2.8 percent from the 2016-17 approved estimates of \$476.9 to \$490.1 million for the new fiscal year to cater for additional expenses relating to retiring benefits, salary increments (promotions etc.). A sum of 81.9 million has been allocated for retiring benefits compared to 74.9 million in the 2016/17 budget. When compared to the preliminary outturn for 2016-17 the projected outlay for wages and salaries represents a 2.9 percent increase. The total allocation for wages and salaries accounts for 32.4 percent of total expenditure and 45.7 percent of recurrent revenue.

### ***Debt Service***

A sum of \$294.6million has been allocated for debt service payments consisting of interest payment of \$170.4 million, principal repayment of \$112.5 million and sinking fund contributions of \$12 million. The projection represents a marginal increase relative to the 2016-2017 revised estimates and accounts for 25.6 percent of budgeted recurrent expenditure for 2017-18. Principal Repayments are forecasted to decrease by \$10.8 million as some loans/notes were fully amortized at the end the last fiscal year. Of the \$112.5 million allocated for principal repayments, \$80.5 million is to cover the amortization of external debt and \$31.96 million is for domestic debt. Interest provision

has been maintained at the same level as 2016/17 as interest costs are expected to increase by \$4.4 million or 2.7% over the outturn for last year, to reach a total of \$170.1 million. Of the total amount allocated for interest payments, 76.5 percent is to service interest payments on T-bills, treasury notes and bonds. A provisional sum of \$7.4 million is budgeted to cover interest charges on new debt to be contracted during 2017-18.

### ***Transfers***

The budgetary provision for transfer payments has been increased by 8.0 percent or \$10.5 million to a total of \$141.8 million. The increase is primarily as a result of the additional provision included for the operations of St. Lucia Events Corporation (\$12 million for summer festival), St. Lucia Social Development Fund, SSDF (1.0 million for Hope, Koudemain St. Lucie and Step UP) and the St. Lucia Solid Waste Management Authority(300,000).These increase were offset by the reduction in the allocation for subsidies to the Supply Warehouse as it is anticipated that with the reduction in the purchase price for some of the commodities, financial support from the central government may not be required.

The allocation to the St. Lucia Tourism Authority was increased by \$1.6 million to a total of \$10.6 million, \$5.6 million of which is to cover administrative expenses a decrease of \$3.3 million when compared \$8.9 million in the previous year. Please note that the outstanding liabilities of the former Tourist Board stands at approximately \$10 million for which a provisional amount of \$5 million has been included in the allocation for this fiscal year.

### **Goods & Services**

With respect to Goods and Services, the government is proposing an allocation of \$198.4 million under Good and Services to cover the cost of essential supplies, rental, utilities and other services required for its operations. The budgeted amount represents an increase of 13.4 percent or \$26.7 million increase compared to the revised estimates for

the preceding year. The increased allocation is primarily attributed to, among other things, additional provision made for increased coverage under the Catastrophic Risk Insurance (\$3 million), professional and consultancy services (\$3 million), Operating and maintenance (\$14 million for road maintenance), supplies – (\$3 million of which \$2.3 million is allocated for medical supplies), rental of office space(\$1.7m). Previously \$1.04 million was allocated to acquire supplies for road rehabilitation and to complement the provision in the capital budget.

A contingency provision of \$3 million is included in the recurrent budget to cater for unforeseen and urgent expenditures during the next fiscal year.

### **Capital Expenditure**

With respect to development expenditures, the government has allocated \$362.1 million to its capital program in the new fiscal year. The proposed capital budget represents a \$36.2 million or 11.1 percent increase over last year's approved estimates. The 2017-18 capital budget demonstrates the government's commitment to growing the economy by investing more heavily in the economic services sector which includes the agricultural sector (109% increase), infrastructure (39% increase in addition to \$14 million in Recurrent), housing (110 % increase) and Tourism (33% increase).

<b>Sector</b>	<b>2017-18 Draft Budget</b>	<b>2016-17 Approved Estimates</b>	<b>Percentage Change</b>
Agriculture	49,270,520	23,602,128	109%
Infrastructure	60,769,702	43,816,742	39%
Tourism	33,628,250	25,214,110	33%
Housing	25,544,397	12,182,648	110%

The allocation to social services accounts for 20percent of the capital budget.

Of the total amount allocated for capital expenditure, 15 percent will be funded using domestic resources amounting to \$54.9 million, 24percent will be funded by use of grant funds in the amount of \$87.4 million while the balance of \$219.8 million will be funded from loans and bonds.

